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Analyzing the Role of Government in Regulating the Unstructured Monetary Market and Its Impact on Economic Security in the Islamic World

Hamed Kaviani¹, * Mohammad Reza Vajaq², Vali Rostami³

1. PhD in Public Law, Department of Public and International Law, Faculty of Law, Theology and Sciences, Political Science and Research Branch, Islamic Azad University, Tehran, Iran.
2. Associate Professor, Department of Public and International Law, Faculty of Law and Political Science, Allameh Tabatabaei University, Tehran, Iran
3. Department of Public and International Law, Faculty of Law and Political Science, University of Tehran, Tehran, Iran

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Abstract

In many Islamic countries, the unregulated monetary market has emerged as a structural challenge to financial governance, contributing to economic instability, social unrest, and security vulnerabilities. The proliferation of unauthorized credit institutions operating outside formal regulatory frameworks has undermined monetary and banking policies, eroded public trust in financial systems, and exposed governments to systemic risks. This paper investigates the legal and policy dimensions of state intervention in organizing the unregulated monetary market, with a particular focus on its implications for financial transparency, institutional integrity, and economic security across the Islamic world. The central research question asks: how can governments utilize legal instruments and regulatory mechanisms to design an effective model for controlling and guiding informal monetary markets, thereby

Mohammad Reza Vajaq, Ph.D.

Address: Associate Professor, Department of Public and International Law, Faculty of Law and Political Science, Allameh Tabatabaei University, Tehran, Iran.

E-mail: mrezavijeh@atu.ac.ir

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mitigating the risks posed by unauthorized financial actors and preventing future crises? The hypothesis posits that comprehensive regulation and robust oversight—especially by central monetary authorities such as central banks—can play a decisive role in reducing the hazards of informal financial activity and enhancing the health and transparency of Islamic financial systems. Using a descriptive-analytical methodology and drawing on domestic and international legal sources, this study proposes a framework for optimal regulatory design tailored to the monetary landscape of Islamic countries.

The monetary market is a cornerstone of economic systems, serving as a conduit for resource allocation, inflation control, and macroeconomic stability. However, in many Islamic nations, informal monetary markets—operating outside legal and institutional boundaries—have become a source of disruption. These markets attract public deposits through unauthorized credit institutions that promise high returns without regulatory oversight. In developing Islamic countries, weak legal structures and inadequate supervisory mechanisms have enabled these institutions to flourish. Their unchecked growth not only distorts monetary policy but also forces governments to intervene during crises, often at substantial fiscal cost. This dynamic undermines public confidence in formal financial institutions and exacerbates systemic vulnerabilities. Legally, the absence of a precise definition for informal monetary markets, coupled with regulatory gaps and ineffective enforcement, has contributed to their expansion. Despite legislative efforts such as Iran's 2004 Law on Organizing the Unregulated Monetary Market and various five-year development plans, existing frameworks have failed to address the complexity of the issue. At the geopolitical level, financial instability caused by unauthorized institutions can weaken regional economic security and increase susceptibility to global shocks. Thus, legal and policy responses to informal monetary markets are not merely domestic imperatives but strategic priorities for the Islamic world.

This study highlights the multifaceted impact of unregulated monetary markets on economic governance and public welfare. The legal analysis reveals that the lack of a coherent framework for identifying and supervising unauthorized financial institutions has facilitated the unchecked growth of informal markets. In many countries, legislative ambiguities, institutional fragmentation, and weak enforcement mechanisms have rendered policy efforts ineffective. Comparative analysis with other jurisdictions shows that successful regulation of informal financial activity requires independent supervisory bodies, advanced technological tools, and access to reliable financial data. Islamic countries, particularly those in the developing category, face structural

and institutional limitations that hinder effective oversight. Addressing these challenges demands political commitment, regional cooperation, and investment in regulatory infrastructure. Economically, unauthorized financial institutions disrupt formal capital mobilization, increase systemic risk, and diminish the capacity of governments to implement stabilization policies. By diverting substantial liquidity from formal banking channels, these entities contribute to financial volatility and heighten economic exposure during crises.

The security implications of informal monetary markets are equally significant. As public trust in formal financial systems declines, crisis-prone behaviors such as sudden deposit withdrawals and capital flight to informal sectors intensify. This trend can lead to rising poverty, reduced investment, and widening social inequalities. From a financial governance perspective, the role of the state in establishing effective oversight mechanisms, drafting transparent legislation, and enforcing regulations is critical. Government intervention must go beyond reactive measures and embrace proactive regulatory design. This includes building anticipatory systems, strengthening supervisory capacities, and formulating sustainable policies capable of continuously identifying, monitoring, and guiding informal financial activity. Emerging technologies such as Regulatory Technology (RegTech) offer promising tools for enhancing oversight. By leveraging data analytics, artificial intelligence, and automation, RegTech can facilitate real-time monitoring of illicit financial behavior and enable early detection of potential crises. Governments must invest in these technologies to modernize their regulatory capabilities and ensure adaptive resilience.

Keywords: Law, government, unorganized monetary market, economic security, Islamic world.