

PROSPECTS FOR INTRODUCING ISLAMIC BANKING PRODUCTS IN COMMERCIAL BANKS OF UZBEKISTAN

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Abstract

This article analyzes the prospects for introducing Islamic banking products in the commercial banks of Uzbekistan through the lens of global experience and ongoing economic and legal reforms. The author explores the history of the Islamic financial system and the specific characteristics of its core instruments, such as murabaha, musharaka, and ijarah. Based on survey results among the population and entrepreneurs of Uzbekistan, the study evaluates the actual demand for Islamic financial services and potential economic efficiency indicators. Furthermore, the article discusses the legal framework established by the 2026 legislation, the operation of "Islamic windows," existing implementation challenges, and strategic solutions for successful integration.

Keywords

Islamic finance, riba, murabaha, musharaka, Islamic window, Central Bank, financial inclusion, sukuk, Islamic Finance Council, economic resilience.

The global landscape of Islamic finance has evolved dramatically since its nascent stages in the mid-20th century, positioning it as a resilient and rapidly expanding alternative to conventional banking systems. Scholars like E.T. Kadyrov and Zh.K. Majidov have astutely observed that, despite the theoretical appeal of participatory financing models such as musharaka—where banks share profits and risks with clients—Islamic banks' asset portfolios predominantly feature short-term trade financing through murabaha contracts. In these arrangements, banks profit via transparent service premiums rather than interest, aligning with Sharia prohibitions on riba. This pragmatic shift underscores a broader reality: Islamic finance often prioritizes accessible, low-risk instruments to meet market demands, even as it aspires to more equitable profit-sharing paradigms. Complementing this, R.A. Musaev and Yu.D. Magomedova have analyzed the globalization-driven growth of Islamic financial institutions, highlighting their adaptability amid economic volatility. Economist I.A. Zaripov further notes the sector's steady expansion worldwide, introducing concepts like "capital efficiency" to supplant traditional notions of money's time value, thereby reframing productivity around ethical asset utilization. Rafik Yunus Al-Misri encapsulates these principles by delineating Islamic finance's core traits: its asset-backed nature, stringent restrictions on impermissible

activities (e.g., gambling or alcohol), and emphasis on capital and entrepreneurship as intertwined production factors. These foundational characteristics not only differentiate Islamic banking from its conventional counterparts but also render it particularly suited to regions with strong religious adherence, such as Uzbekistan, where cultural and faith-based preferences increasingly intersect with economic policy.

Historically, Islamic banking traces its practical origins to the early 1960s, with Egypt's inaugural Islamic Savings Bank in 1963 marking a tentative milestone—though it faltered due to operational and regulatory hurdles. Momentum built in the 1970s, catalyzed by the Organization of Islamic Cooperation's 1974 resolution to found the Islamic Development Bank for Sharia-compliant funding of socioeconomic initiatives. This era saw landmarks like Dubai Islamic Bank's 1975 launch and Bahrain's pioneering full-fledged Islamic bank in 1979. Today, these institutions underpin economies across Muslim-majority nations, where banks serve pivotal roles akin to global norms but operate sans interest, favoring profit-and-loss sharing or asset trades. Malaysia leads with the highest number of Islamic banks and a 21.8% share of total assets among top players, trailed by Saudi Arabia (19.5%), the UAE (14.1%), Kuwait (11.4%), and Qatar (11%). Profit dynamics reveal Saudi Arabia's dominance at 34.3%, followed by Qatar (16.4%), the UAE (12%), and Malaysia (11.8%). Notably, Asia hosts 42 of the world's 100 largest Islamic banks, commanding 100% of the assets of the top 29 yet yielding only 16% of net profits—a disparity hinting at scale efficiencies versus profitability optimization challenges. Such patterns illuminate Islamic banking's dual promise: massive asset mobilization coupled with variable returns, often constrained by conservative risk appetites.

In Uzbekistan, these global dynamics resonate profoundly, fueled by a populace whose financial behaviors are deeply influenced by Islamic tenets. A 2020 United Nations Development Program survey—encompassing 27 commercial banks, 2,235 entrepreneurs, and 4,938 individuals—revealed stark preferences: 38% of businesses and 55% of individuals shun conventional loans citing religious convictions against *riba*. Even more compelling, 61% of entrepreneurs and 75% of individuals expressed eagerness for Islamic financial services if introduced, with 47% of businesses and 55% of people willing to pay premium fees to uphold faith-aligned transactions. This latent demand signals not merely a niche market but a transformative opportunity to formalize the shadow economy, enhance financial inclusion, and draw an estimated \$10 billion in investments and deposits. Observations from similar emerging markets, like Indonesia and Bangladesh, suggest that such enthusiasm can propel rapid adoption, provided infrastructure aligns with Sharia standards.

Transitioning from discourse to deed, Uzbekistan's prospects crystallized with Islamic banking's official legalization on March 27, 2026, via presidential amendments effective June 29, 2026. This legislative pivot, under President Shavkat Mirziyoyev, establishes a robust framework defining operations, licensing, and taxation while birthing a five-member Islamic Finance Council under the Central Bank to enforce Sharia compliance and standards. Over ten commercial banks are gearing up for "Islamic windows"—segregated service arms—with the inaugural one slated for 2026. Mandates require at least three state-owned banks to integrate by 2030, alongside two fully specialized Islamic banks by then. Authorized products mirror global best practices: *murabaha* for markup-based installment sales; *ijarah* for leasing with buyout options; *mudaraba* and *musharaka* for profit-sharing ventures; *salam* and *istisna* for prepaid agricultural or construction financing; and *sukuk* for tradable securities. Tax incentives bolster

viability, exempting VAT on murabaha markups and equating ijarah payments to conventional leases, ensuring competitive parity.

Yet, implementation demands nuanced observation of Uzbekistan's unique context. Financial inclusion stands to surge, targeting the 20-38% religiously averse to *riba*, while channeling shadow funds into formal channels—a strategy echoed in Malaysia's dual banking model, where Islamic assets now rival conventional ones. Economic ripple effects could amplify GDP contributions from underserved sectors like agriculture and SMEs, fostering entrepreneurship per Islamic ideals. Nonetheless, challenges loom large. A dearth of Sharia-savvy professionals necessitates capacity-building, perhaps via partnerships with Malaysian or UAE institutions, as human capital gaps have historically stymied nascent systems like Egypt's 1963 experiment. Public awareness remains tepid; products like *salam* (forward agricultural contracts) or *istisna* (manufacturing prepayments) require demystification through campaigns, lest adoption falter. Conventional banks grapple with dual-accounting rigors—separating Islamic from *riba*-tainted streams—mirroring early Bahrain hurdles, resolvable via tech upgrades and council oversight.

Broader observations reveal Islamic banking's potential to catalyze Uzbekistan's modernization. By embedding ethical finance, it aligns with national visions of inclusive growth, potentially elevating Central Asia's role in global Islamic markets. Success hinges on iterative refinement: pilot "windows" could test murabaha uptake among exporters, while *sukuk* issuances fund infrastructure. If navigated adeptly, Uzbekistan might emulate Qatar's profit prowess or Malaysia's asset scale, yielding not just economic gains but a model for faith-infused resilience amid globalization. As Zaripov posits, this "capital efficiency" ethos could redefine productivity, ensuring sustained prosperity rooted in Sharia harmony.

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