

ISLAMIC BANKING IN UZBEKISTAN: REVIEW OF THE ISLAMIC BANKING MARKET OF THE OIC MEMBER STATES AND ISLAMIC BANKS AS A NEW OPPORTUNITY FOR THE ECONOMIC DEVELOPMENT OF THE COUNTRY

Botirkhuja Juraev

Researcher,

Namangan State University

Abstract: The high growth rates of Islamic finance and its ability to emerge from economic crises without losses have increased interest in it. The advantages of the alternative financial system were demonstrated by the fact that growth rates were recorded during the 2008 economic crisis and pandemic. In this system, priority is given to a mechanism based on real assets and operating in accordance with Sharia requirements for risk management. The article analyzes the growing role and size of Islamic banks in the global financial system, which is becoming a base system in some leading countries. Due to the ongoing economic reforms and the policy of openness in the country, the establishment of such institutions has become a topical issue. There are also proposals on the benefits of introducing Islamic banks in Uzbekistan.

Key words: Islamic finance, Islamic banks, economic growth, sukuk, takoful, islamic windows, islamic deposits, central bank, murobaha.

INTRODUCTION

In recent decades, Islamic finance has evolved from a separate type of service to a network with a large global reach. The Islamic financial model is based on the principles of the Shari'a, such as the distribution of profits and losses, the prohibition on interest and the decision and decision, and financing on the basis of real assets. Islamic banking, the largest network in the industry, conducts a wide range of financial operations, and even during the pandemic, Islamic banking has shown growth, accounting for more than 50% of the traditional banking system market in some leading countries.

The principles of interest-free financial intermediation, in which the concept of trade and profit-loss distribution existed in the Islamic economy, were put into practice from theory. In Islam, financial activity involves not only debt-based financing (such as murababa), but also equity participation in financing (e.g., muzaraba and musharaka). Adherence to the requirements of Sharia - the Islamic principle of profit and loss distribution is a unique feature of Islamic banking and finance.

In this review, we analyze the position of Islamic banks in the global financial markets, the steady growth of Islamic banking and the strong position of countries in the banking system, according to international organizations and official sources of foreign countries. Conclusions were made on the research conducted in this area and proposals were made on what to do to introduce Islamic banks in Uzbekistan.

Literature review.

If we look at Islamic finance as a new system of our time, we will surely find that Islamic banking is one of its most comprehensive components. There is a growing body of research in Islamic finance and banking. Foreign scholars Chazi et al. [1], Gazdar and co-authors [2], Hachiha and Ben Amar [3] analyzed the impact of the development of Islamic banking on the growth of other sectors, the link between oil trade, economic growth and economic growth variability in the Gulf countries, and Islamic finance and the impact of financing by Islamic banks on the growth of the Malaysian economy. The study found that the absolute and relative size of most Islamic banks had a positive impact on the growth of the industrial sector, which in turn stimulated economic growth.

Scientists from the CIS countries I.A. Zaripov [4], E.P. Ermakova [5] and A.Yu. Juravlyov [6] conclude that Islamic banking and finance will establish an interest-free form of customer service; a system of profit and loss participation, which replaces the traditional interest, attracts a large segment of the population to the country's financial system; raises savings standards and promotes entrepreneurial activity in Islamic countries. While Malaysia is one of the world's leading countries in the field of Islamic finance, it is one of the first countries in the world to introduce a dual banking system, in which Islamic banks operate in parallel with traditional banks. In this country as well as the Shariah-compliant deposit insurance mechanism, which was one of the first to

introduce sovereign and corporate sukuk, and which formed the interstate Islamic investment platform.

Over the past five years, scientific research on Islamic finance and banking has been increasing in Uzbekistan. The works of S.Khoron, E.Baydaulet, R.Beckin on Islamic economy, finance and banking system have been translated into Uzbek and published.

According to a survey conducted by Uzbek scientists J.Imomnazarov and S.Abrorov [7], representatives of 12 commercial banks (44.4%) say that the opening of Islamic banks will lead to diversification of investments, the possibility of providing interest-free loans to entrepreneurs, attracting investment from Muslim countries. The population's confidence in banks will increase, the funds of the population and entrepreneurs will be used to finance "halal" (ie, Sharia-permitted) projects, healthy competition between banks will increase, and the knowledge of the population and banking professionals about Islamic finance will increase.

S.Abrorov [8] also conducted practical research on the importance of sukuk in reaching a new stage of development of the country, its role in attracting investment and its contribution to economic growth.

Uzbek scholars Ayupov R.Kh. [9] and others argue that only the application of the principle of complete waiver of interest in the Islamic banking system in the modern economy can prevent an uncontrolled increase in the money supply.

Research Medology. The article developed recommendations and conclusions using scientific observation, visual statistics, comparison, grouping, analysis.

MAIN BODY

Analysis and discussion of results.

The development phase of the Islamic banking system can be considered to have begun with the establishment of the Mit Gamr Savings Bank in 1963, there are speculations that in the mid-1940s there were attempts to establish an interest-free lending bank in Malaysia, but this attempt was not successful enough. We can say that the establishment of a number of Islamic banks in 1975, in particular, international organizations such as the Islamic Development Bank, was a new stage in the development of such financial institutions.

The Islamic financial services industry also showed high rates in 2019 and achieved a record growth of 14.4% over the previous year and its volume increased to \$ 2.875 trillion, driven by growth in three sectors of industry, namely Islamic banking, Islamic funds and the Islamic capital market. It is clear that the share of sukuk in the Islamic financial market is growing, which is not in vain, of course. Even the fact that sovereign sukuk are issued in countries like the United Kingdom indicates that such securities are recognized even in the western world.

Islamic finance accounts for 69.3% of the assets of the Islamic finance industry and grew by 14.2% in 2019, reaching \$ 1.993 trillion.

Table 1
Distribution of Global Islamic Finance Assets (2019)

Banks	Size (US\$ billion)	Share of Islamic Finanse Assets	No. Of Institutions/ Instruments
Islamic Banking	1,993	69%	526
Sukuk	538	19%	3,420
Other IFIs	153	5%	645
Islamic Funds	140	5%	1,749
Takaful	51	2%	336

In Morocco, where Islamic finance is less developed and "partnership banking" introduced in 2017, Islamic banking is expanding. Since its inception, Islamic banking assets in Morocco have grown by an average of 120% annually [11]. Despite the fact that the legislation in this country was adopted late compared to other leading countries, it is noteworthy that such a high growth rate of Islamic banks. Similarly, in 2019, the Philippines passed a new law on Islamic banking, according to which domestic and foreign banks will be able to open banking branches in accordance with Sharia law. The main goal of establishing a dual banking system in a country with a small Muslim population is to increase the number of financially active citizens and create a favorable environment for tourists and foreign investors.

he ratio of Islamic banking assets to gross national product (GNP) in countries where Islamic banks have existed for a long time also remains high. In particular, the assets of Islamic banks in Bahrain amounted to 111% of the country's GDP. This figure is 79% in Iran, 37% in Kuwait, 31% in Qatar and 24% in the UAE [12]. Given the fact that all countries, except Bahrain, have a GDP of hundreds of billions of dollars, it is not difficult to imagine the scale of these figures (GDP in Kuwait and Qatar - more than \$ 200 billion, in the UAE - \$ 600 billion, in Iran - more than \$ 1 trillion) [13].

The growing need of followers of Islam for Sharia-compliant banking services has given a serious impetus to the development of Islamic banking in countries such as Saudi Arabia, Malaysia, the UAE, Morocco, and Bahrain. Every Islamic banking institution is based on the observance of Sharia, however, there are differences in the application of Sharia principles in many countries, particularly in the Middle East and Southeast Asia. Recently, the central banks and regulators of many countries have officially started adopting the standards of the AAOIFI (Organization of Accounting and Auditing of Islamic Financial Institutions), which helps them to comply with Sharia norms.

The Islamic banking sector consists of commercial, wholesale and other forms of banking, and while its share in the Islamic finance industry has declined in 2019 compared to 2014 due to the growth of the Islamic capital market, particularly sukuk and Islamic funds, it has grown at an average annual rate of 6.7%. This was due to a significant increase in assets in the Gulf Arab states, increasing competitiveness in the region, strengthening its market position and the merger of Islamic banks with the goal of achieving efficiency, attracting stable deposits.

The Islamic banking sector is trying to expand its services, which can be seen in the merger of Islamic banks, a key factor in the Gulf markets. The merger of Qatar International Bank with Barva Bank has created the third largest bank in the country. The merger of the Islamic Bank of Dubai in the UAE with Nur Bank has created one of the largest Islamic banks in the world, operating in accordance with Sharia law, with a turnover of \$ 75 billion. Similarly, the merger of Abu Dhabi Union National Commercial Bank and Al-Hilal Bank created another banking center in the UAE with a turnover of \$ 115 billion, making it the third largest lender in the country. The new organization, Al-Hilal, plans to take advantage of the bank's strengths in the market, and its share of the country's total credit market is 21% [15].

Bahrain has also taken a number of positive steps in this regard. The Islamic Bank of Bahrain has accepted the offer of the National Bank of Bahrain in order to fully meet the demand for Islamic banking services in the country. Thus, the National Bank increased its share in Sharia-compliant debt from 29% to 78.8% [16].

Kuwait Finance House, one of the largest Islamic financial institutions in Kuwait, is located in Egypt, Libya, Iraq, Kuwait and Ahl United United Bank in Bahrain, which owns shares in banks in Oman, has agreed to buy [17].

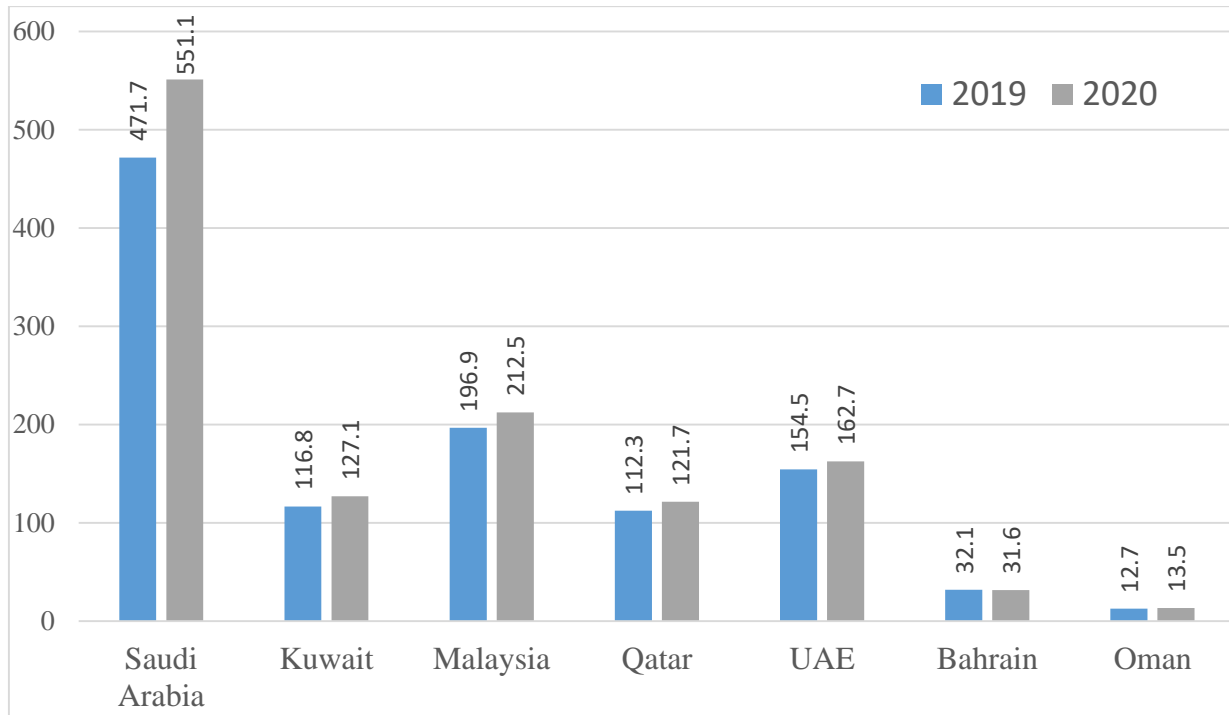


Figure 1: Islamic Banking Annual Assets for Select Economies (US\$ billion, 2019-2020)[18]

Sharia-compliant assets make up a significant portion of banking assets in the Gulf Arab states. In addition, 45.2% of the total volume of Islamic banking operations in the world falls on this region. Saudi Arabia leads the region in assets of Islamic banks - 551.1 billion US dollars, followed by the United Arab Emirates - 162.7 billion US dollars, Kuwait - 127.1 billion US dollars and Qatar - 121.7 billion US dollars. Even in countries such as Bahrain and Oman, the assets of Islamic banks are \$ 31.6 billion and \$ 13.5 billion, respectively, which means that if the legal framework for Islamic banking in our country is created, high performance can be achieved quickly.

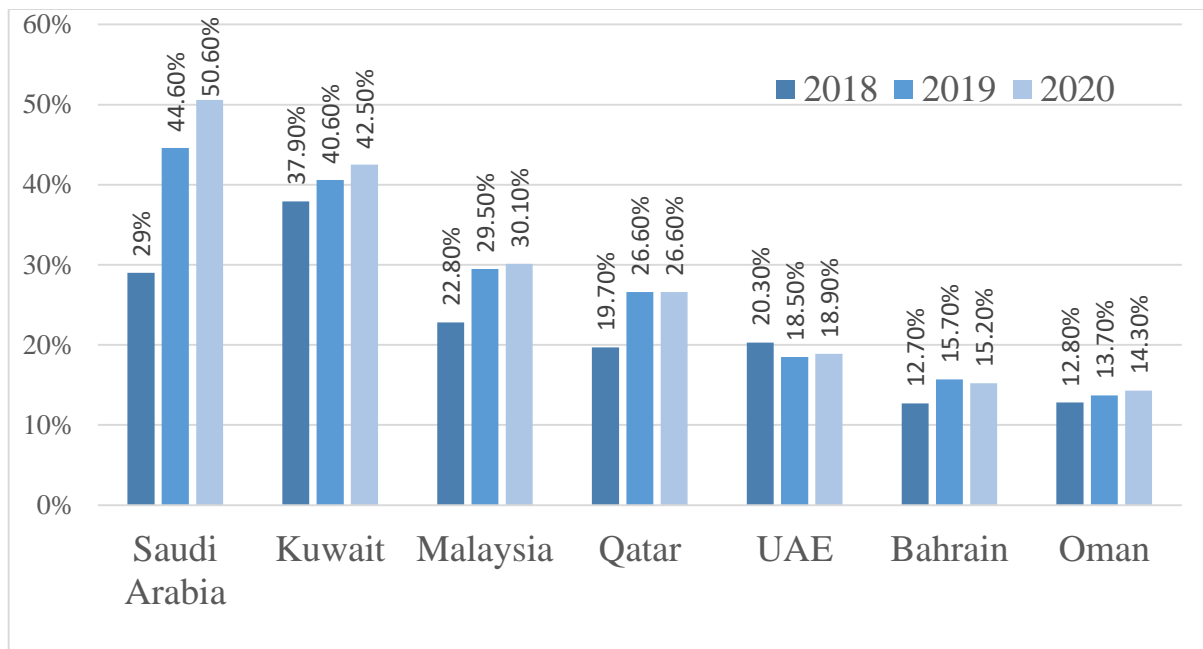


Figure 2: Share of Islamic Banking Assets of Total Banking Assets in Select Economies (2018-2020) [19].

According to the diagram, Islamic banks have strengthened their position in the country's banking system in the region, the share of Islamic banks in the banking market in countries such as Kuwait, Malaysia and Qatar has increased by more than 25%, and in Saudi Arabia Islamic banks account for more than 50% which confirms that Islamic banking has become a systemically important sector in these countries.

As of 2019, the number of Islamic banks operating worldwide has reached 526 [20]. The global Islamic banking market is highly competitive, consisting of a large number of major international Islamic banks. The leading banks in this field are the Islamic Bank of Dubai, the House of Finance of Kuwait, the Islamic Bank of Qatar and the Islamic Bank of Abu Dhabi, Al-Rajhi Bank. Saudi Arabia, a leading country in Islamic finance, currently has 16 Islamic banks but this figure is lower in number than Islamic banks in Malaysia and the UAE, whose market share is not that large. If we follow the course of events, we will see that the new regional centers of the Islamic banking market are recovering, and in megacities such as Kuala Lumpur and Abu Dhabi, the capitalization of not only traditional financial institutions, but also alternative financing institutions continues at a steady pace.

Assets of the world's 100 largest Islamic banks grew by an average of 8% in 2019, higher than the 100 largest banks in the Middle East (5.3% growth) and the 500 largest banks in the Asia-Pacific region (5.6% growth). [21]. This is primarily due to the low cost of the deposit base for financing, on the other hand, the total assets of Islamic banks in Malaysia, Kuwait, UAE, Qatar and Saudi Arabia account for 79% of the total assets of the world's 100 largest Islamic banks. There are also opinions among experts that the development of Islamic banks in the Middle East is directly related to high oil prices, but in our opinion, the recent volatile oil prices have not had a significant impact on the performance of Islamic banks. We believe that the high rates in the mentioned countries are directly related to the religious factor, moreover, in Western countries with a small Muslim population, in particular, the effective operation of more than 20 Islamic banks in the UK is inextricably linked to the unique operating principles of Sharia banks.

Table 2.

Largest Islamic Banks in GCC (US\$ billion, 2020) [22]

Bank	Country	Assets	Deposits	Net Loans
Al Rajhi	Saudi Arabia	126.58	103.31	85.24
Dubai Islamic	UAE	78.18	55.60	53.11
Kuwait Finance House	Kuwait	70.74	50.39	35.36
Alinma	Saudi Arabia	42.36	32.25	30.02
Abu Dhabi Islamic	UAE	34.51	27.34	22.58
Al Baraka Banking Group	Bahrain	28.25	7.51	2.85
Al Jazira	Saudi Arabia	24.86	18.36	14.57
Dukhan Bank (Barwa Bank)	Qatar	23.30	1.96	15.80
Bank Boubyan	Kuwait	21.18	16.80	15.87
Sharjah Islamic Bank	UAE	14.47	9.07	2.11

In 2019, the share of total assets of Islamic banks in the Gulf countries accounted for 62.3% of the total assets of the 100 largest Islamic banks worldwide. The profitability, asset quality, capital adequacy and high liquidity of the 4 largest banks in Saudi Arabia have made the country a leader in the region. The country has 18.7% of the assets of the world's 100 largest Islamic banks, and Al-Rajhi Bank is the world's largest Islamic bank. The bank increased its share of assets from \$ 103.7 billion in 2019 to \$ 126.6 billion in 2020, with an annual growth rate of 22.1%. The figures of Islamic banks, such as the Islamic Bank of Dubai, the Kuwait Finance House, and Alinma Bank, also shown in the table, are large-scale for Islamic banks, serving a large number of customers and serving as base banks in the country's banking system.

In addition to the Persian Gulf, Islamic banks are concentrated mainly in the Middle East and North Africa and several countries in Southeast Asia. Malaysia is also the largest market in terms of assets of Islamic banks in the world, in 2019 it will account for 22.7% of the total assets of the world's 100 largest Islamic banks. [24]. 16 Islamic banks in the country have joined the ranks of the 100 largest Islamic banks in the world, and 6 have joined the ranks of the 20 largest Islamic banks. However, the return on assets of Islamic banks in Malaysia was 0.8%, and Saudi Arabia recorded a much lower rate than that of Islamic banks (2.0%). Another Islamic country in Southeast Asia, Indonesia, has 13 Islamic banks on its list of the world's 100 Islamic banks, accounting for 2.4% of total assets. Despite having a large Muslim population, this figure is not as significant for Indonesia. The fastest-growing Islamic banks were recorded outside the Persian Gulf and Southeast Asia, particularly in Morocco.

Table 3.
Largest Islamic Banks Outside GCC (US\$ billion, 2020) [25]

Bank	Country	Assets	Deposits	Net Loans
Maybank Islamic	Malaysia	60.80	39.37	48.51
AmBank Islamic	Malaysia	40.30	26.91	25.24
CIMB Islamic Bank	Malaysia	27.74	23.02	20.18
Bank Rakyat**	Malaysia	26.82	20.77	18.08
RHB Islamic Bank	Malaysia	18.28	12.96	14.35
Bank Islam Malaysia	Malaysia	17.78	12.17	13.02
Public Islamic Bank	Malaysia	17.05	14.73	12.90
Islamic Bank Bangladesh**	Bangladesh	15.54	12.84	-
MBSB Bank**	Malaysia	11.80	6.21	7.94
Hong Leong Islamic Bank	Malaysia	9.71	8.05	7.08

Due to the good demographic situation in the country, a favorable regulatory environment and the availability of support for the requirements of prudential banking, Islamic banks are created on an equal footing with traditional banks. Islamic banks, which use this alternative form of financing, have become widespread not only in Muslim countries, but also in leading Western countries, and continue to operate successfully. Islamic banks have become a leading driver of the Islamic financial services industry.

CONCLUSIONS AND SUGGESTIONS

Based on the above analysis, if Islamic banks in Uzbekistan achieve 5% of the loan portfolio of traditional banks in the first 3 years [26] (USD 44.4 billion at the rate of January 1, 2022) in the first 3 years, it means that the country has created a system of mobilization. . In our opinion, Islamic banks make a positive contribution to economic development due to the following factors:

- First of all, Muslims cannot invest their money in traditional banks due to usury, garar and maysir, and they cannot borrow money from traditional banks;
- The establishment of Islamic banks will serve to attract financial resources of Muslims, who make up about 90% of the country's population, to the banking system and to meet financial needs through the use of Islamic banking services;
- The establishment of Islamic banks will increase competition in the banking sector through alternatives and have a positive impact on the efficiency of financial services;
- Traditional banks can also provide certain banking services to their customers by opening "Islamic windows";
- The establishment of Islamic banks will create an incentive to attract funds from the world's leading financial institutions, such as the Islamic Development Bank, as well as investors.
- Based on the above, we make the following proposals for the establishment of Islamic banks:
- The efforts of the Central Bank to establish the Islamic non-banking sector are not fully effective, given that the above analysis shows that the Islamic banking sector accounts for about 70% of the Islamic financial market, this initiative will reduce the effectiveness of the alternative financial market. it is very necessary to establish;
- As a legal basis for the establishment of Islamic banks, it is necessary to adopt a separate law "On the activities of Islamic banks" and implement a dual banking system, such as the Malaysian experience;

- It is necessary to take measures to strengthen the deposit base of Islamic banks by giving depositors of Islamic banks the right not to provide sources of deposits;
- The Central Bank should be given the authority to regulate Islamic banks and the Department for Regulation of Islamic Banks should be established;
- Also, taking into account the fact that the practice of Islamic banks must be in accordance with Sharia, to establish a Council under the department, consisting of reputable scholars, to develop Sharia standards of practice;
- Carrying out extensive explanatory work on the activities of Islamic banks among the population through the media.

REFERENCES

1. Chazi A., Mirzaei, A., Zantout, Z. and Azad, A.S. (2020), "Does the size of Islamic banking matter for industry growth: international evidence", *Applied Economics*, Vol. 52 No. 4, pp. 361-374, doi: 10.108 0/00036846.2019.1645288. [Journal].
2. Gazdar K., Hassan, M.K., Safa, M.F. and Grassa, R. (2019), "Oil price volatility, Islamic financial development and economic growth in Gulf cooperation council (GCC) countries", *Borsa Istanbul Review*, Vol. 19 No. 3, pp. 197-206. [Journal].
3. Hachicha N. and Ben Amar, A. (2015), "Does Islamic bank financing contribute to economic growth? The Malaysian case", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 8 No. 3, pp. 349-368. [Journal].
4. И.А.Зарипов. Исламское банковское дело: история развития. "Международные банковские операции" 2006, N 4. [Journal].
5. Ермакова Е.П. Исламский банкинг в Малайзии // Труды Института государства и права РАН. 2017. Том 12. № 5. С. [Journal].
6. Журавлёв А. Ю. Исламский банкинг / А. Ю. Журавлёв — «Садра» 2017 — (Экономика и право (Садра)) .
7. С.Абборов Ж.Имомназаров. Ислом молияси: Ўзбекистон учун янги имкониятлар. Иқтисодиёт ва таълим / 2021 йил, 4-сон .
8. С.Абборов. Жаҳон мамлакатларида сукук бозори ривожланишининг таҳлили . Иқтисодиёт ва таълим / 2021 йил, 5-сон.
9. Аюпов Р.Х. Болтабоева Г.Р. "Ислом банкиги ва унинг имкониятлари" Т.: ТМИ 2010. -107 б. .
10. ICD-Refinitiv Islamic Finance Development Indicator
11. Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
12. Islamic Banking Act passed in the Philippines", *ZICO Law*, November 25, 2019
- 13 . [https://ru.wikipedia.org/wiki/Список_стран_по_ВВП_\(ППС\)](https://ru.wikipedia.org/wiki/Список_стран_по_ВВП_(ППС))
14. Safest Islamic Banks In The GCC", *Global Finance*, November 12, 2020
15. "GCC banks consolidate as oil prices remain flat", *The Banker*, March 9, 2020
- 16 . "National Bank of Bahrain to acquire 78.8% stake in Bahrain Islamic Bank", *NS Banking*, January 20, 2020
17. "Virus May Force Kuwait Finance and AUB to Reassess Merger", *Bloomberg*, May 3, 020
18. Saudi Central Bank, Kamco Invest, Bank Negara Malaysia, Qatar Central Bank, Central Bank of UAE, Central Bank of Bahrain, Central Bank of Oman
19. Saudi Central Bank, Kamco Invest, Bank Negara Malaysia, Qatar Central Bank, Central Bank of UAE, Central Bank of Bahrain, Central Bank of Oman
20. Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
21. Largest Islamic Banks 2019", *The Asian Banker*
22. Company Financial Reports, Annual Reports
23. Company Financial Reports.
24. "The Largest Islamic Banks Rankings 2019", *The Asian Banker*
25. Company Financial Reports, Annual Reports Note: **Data as of September 2020 (Q3 2020)
26. <https://cbu.uz/upload/medialibrary/9c4/Markaziy-bankning-statistik-byulleteni-2021-yil.pdf>