



IN COUNTRIES WITH A ISLAMIC FINANCIAL SYSTEM

ANALYSIS OF ISLAMIC FINANCE

SHOKHBOZBEK ADKHAMJONOV

Abstract. *The purpose of this article is to develop proposals and recommendations aimed at the formation and development of Islamic finance in Uzbekistan based on the study of best practices of countries with developed Islamic finance. At the same time, the article highlights the unique aspects of the Islamic financial system, studying the world experience in this direction, and developing proposals and recommendations for its implementation in national financial practice.*

Keywords: *Islamic finance, traditional finance, Islamic capital market, Dualistic financial system, Islamic banks.*

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Introduction.

In recent years, many countries have preferred a dualistic financial system in the development of their financial system. This is done in parallel with the traditional financial system and Islamic finance. The Islamic financial network is one of the fastest growing sectors in the world. The development of this network is urgent for countries where the majority of the population is Muslim. Therefore, it is important to attract the funds of existing banks, investment funds and companies whose activities are based on Islamic financing in Muslim countries in order to support the socio-economic development of Uzbekistan and the private sector. For this, it is necessary to look at our national financial system with a new approach, that is, it is important and urgent to research the issue of introducing partnership-based financing mechanisms along with traditional financing mechanisms. In our country, we can see discussions on the introduction and development of Islamic finance. For example, see the decision of the President of the Republic of Uzbekistan " On measures to further expand and deepen cooperation with the Islamic Development Bank Group and Arab Coordination Group Funds" dated March 5, 2019 PQ-4224 we can reach [1]. With this decision, the main direction



and tasks were determined, which are: modernization of energy, road transport, communal infrastructure, housing construction, development of the banking and financial system and small and private business sector, health care and for the implementation of projects on the improvement of educational systems and other areas of comprehensive development of the republic's industries and regions, including the Islamic Corporation for the Development of the Private Sector, the International Islamic Trade and Finance Corporation, Investment and Export Credit Insurance attract financial resources from the Islamic Corporation, the Islamic Research and Education Institute, as well as the Arab Coordination Group Funds; introduction of the foundations of Islamic financing in the banking sector, joint development and implementation of public-private partnership mechanisms, including support programs through the establishment of endowment funds, and implementation in Uzbekistan; commercial banks of the republic set tasks such as supporting investment projects of business entities, actively attracting Islamic financial resources and products to strengthen their export opportunities. Based on this, it can be considered that efforts to introduce the Islamic financial system into the economy of Uzbekistan have begun.

Literature Review

Islamic finance has been widely studied by world scientists and financial institutions, and the level of study is increasing. In particular, Mahdi and Abbas [2] focused on the fact that Islamic banking has been developing on a large scale in the last thirty years. This was explained by the increasing number of banks and branches and the amount of invested capital. Nagayev et al.[3] noted in their research that Sharia-compliant shares have become an important competitive instrument for traditional capital and fixed income markets. Interest in Islamic stock market indices increased significantly after the 2008 global financial crisis. In his article, Kalimullinay

[4] studies the development of the Islamic finance market in Russia, its regulation and main obstacles, infrastructure development, geographical coverage, existing market participants and its product range, market size and forecast, as well as new initiatives and Islamic financial institutions and products are believed to serve to increase market opportunities. Gambeeva and Medvedeva [5] in their scientific articles discuss the foundations and trends of the development of the Islamic financial system, the principles of Islamic financial institutions, as well as the financial instruments used in the Islamic financial system, and compare the characteristics of Islamic and traditional banks. who analyzed In our previous scientific works, it was stated that sukuk - Islamic securities, which were introduced as a new instrument for the world financial system in the 21st century, have been developing rapidly in recent years, and have shown a growth trend even during the global financial and economic crisis and the COVID-19 pandemic. done The article analyzes the development of sukuk during 2001-2020. The statistical indicators of the countries of Malaysia and Turkey in this regard were studied separately [6].

Melikov Otabek Makhmadaminovich says so. In conclusion, everyone has the right to use financial services based on their beliefs, and we live in an age where alternative solutions to



traditional financial services have been created around the world. That is, Islamic finance services are based on Sharia rules and do not involve riba. Also, as a result of the conducted research, we can see that the assets of Islamic finance are increasing year by year.

Research methodology

The article includes scientific abstraction, descriptive statistics, expert evaluation, grouping, dynamic analysis methods were used some research methods such as induction, deduction, analysis, comparison and others in this article.

Analysis and results

Today, the role of Islamic finance in the rapidly developing financial system is gaining importance. It can be added that nowadays not only Muslim countries, but also non-Muslim countries are showing interest in it, and we can see that they are applying it to their financial system. According to Investormonitoring, the global Islamic finance industry is worth about \$4 trillion. In fact, according to the report, this figure will rise to \$6 trillion by 2026. In 2021, Islamic banking will account for nearly 70 percent of global Islamic finance assets. The second largest segment is sukuk (Shariah-compliant debt capital market instruments), accounting for 18%, with Islamic funds in third place, accounting for approximately 4%.

We can see the differences between Islamic banking and conventional banking in the table below.

Activities of traditional banks	Activities of Islamic banks
Money is a commodity other than a medium of exchange and store of value. Therefore, it can be sold and rented out at a higher price than its nominal value.	Money is not a commodity, but it is used as a medium of exchange and a store of value. Therefore, it cannot be sold or rented at a price higher than its nominal value.
Time value is the basis for calculating interest on capital.	Income from the sale of goods or the provision of services is the basis for profit.
Interest is charged even if the organization suffers a loss using bank funds. Therefore, it is not based on profit and loss sharing.	Islamic banking operates on the basis of profit and loss sharing. If the entrepreneur suffered a loss, the bank distributes this loss depending on the financing method used (Mudarabah, Musharaka).



An agreement on the exchange of goods and services is not concluded in the provision of cash, financing or financing of working capital.	When distributing funds under Murabaha, Salam and Istisna contracts, contracts for the exchange of goods and services must be fulfilled.
Traditional banks take money to inflation used as incoming goods.	Islamic banking seeks to connect with real sectors of the economic system using trade-related activities. Because money is tied to real assets, it directly contributes to economic development.
A traditional bank focuses on lending points.	A traditional bank focuses on lending points.
Traditional banks are only financial criteria works based on.	Islamic banks are based on ethical criteria in investment.
The activity of traditional banks is based on the human factor (mainly the theories of capitalism).	The activities of Islamic banks are based on the rules of Islamic Sharia.
An investor or lender trades or guarantees a return on a predetermined interest rate.	Islamic banks confirm the distribution of risk between the owner of the capital and the investor
Confirms profit maximization based on derivatives trading.	Although there are restrictions imposed by Islam, it is aimed at maximizing profit.
There is no zakat system.	In the modern Islamic banking system, Islamic banks are seen as units that serve to become "Zakat collection centers".
They lend money and get it back with interest. Money is a commodity and a motivator.	There is participation cooperation. Understanding the enterprise is essential.
The system can charge extra money to those who don't make regular payments (for example, fines or increased interest).	Islamic banks have no right to demand additional money apart from compensation. At the discretion of the bank, there is also a cash discount for early payments.



Often the interest of the bank comes first and there is no objective of commensurate capital growth.	Human interests are paramount and growth is equity oriented.
Appraisal of the project does not require much effort as the income from the advance/loan is fixed. Therefore, the risks can be transferred to another party in a certain sense.	Because there is profit and loss sharing, more attention should be paid to the application and evaluation of projects in Islamic banking.
Traditional banks pay more attention to the reliability of their clients.	They are to the financial possibilities of the projects draws attention.
The parties in the relationship are defined as creditors and borrowers.	Relationships in Islamic banking are defined as partners, investors, traders, buyers and sellers.
All traditional banks put on them must guarantee deposits.	Islamic banks guarantee money deposited in personal accounts but do not guarantee mudaraba investments because they share the other party's losses.

Overall , the Islamic financial banking sector grew by 17 percent to US\$2.8 trillion. Sukuk, the second-largest sector by assets , is expected to grow 14% to US\$713 billion in 2021. More than 560 banks around the world adhere to Islamic principles, and the growth of Islamic financial assets is expected to reach \$5.9 trillion by 2026. New issuance rose 9 percent to a record \$202.1 billion.

Malaysia has US\$650 billion (RM2.95 trillion) in Islamic banking assets, ranking first after Iran and second only to Saudi Arabia. There are 38 banks operating in the country with windows offering fully Islamic or Islamic financial products. We can consider Australia, Sri Lanka, Afghanistan, Bangladesh and Pakistan as the most developed Islamic finance countries in the Asia-Pacific region.



Figure 1. Islamic finance market growth forecast in the Middle East

The size of the Middle East Islamic finance market is estimated at \$2 trillion in 2024 and is expected to reach \$2.57 trillion by 2029.

Takaful, Sukuk and Islamic funds are among the leading Islamic financial products in the Asia-Pacific region. Bangladesh, Malaysia, Maldives, Mauritius and Indonesia have leading positions. Malaysia and Indonesia are among the top countries with sukuk worth \$279 billion and \$84 billion last year, respectively. These trends represent an established and ever-expanding Islamic finance market in the Asia-Pacific region.



Figure 2. Malaysia and Indonesia's share of Sukuk is in percent



The London Stock Exchange is a popular venue for international sukuk listings, having raised US\$50 billion through 68 sukuk issuances as of May 2023. Islamic Development Bank is among the companies that have used such services from the exchange. The size of the UK Islamic finance market is estimated at \$7.5 billion in 2024 and It is expected to reach \$8.74 billion by 2029.

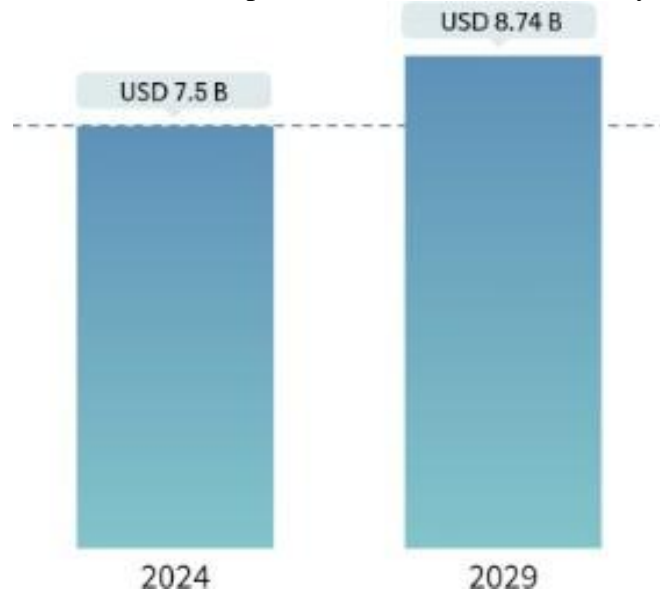


Figure 3. Islamic finance forecast for the coming period

The UK is a relatively minor player in global Islamic banking assets. However, the UK is a major player in Europe , accounting for 85% of all Islamic banking assets in Europe and having the largest Islamic banking assets in Europe (excluding Turkey). The UK has seen rapid growth in Islamic finance over the past decade as the government has been very active in promoting and promoting the sector.

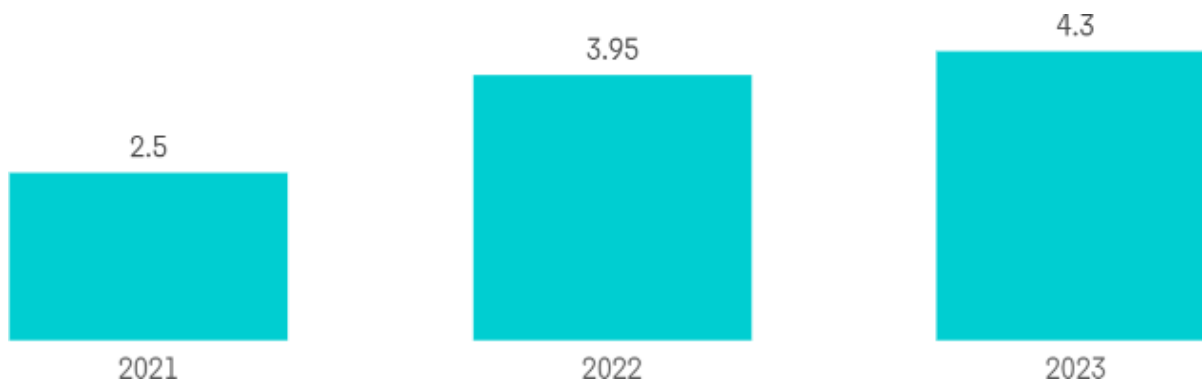


Figure 4. Islamic Finance Growth Snapshot (in USD)



The creation of technology-based Sharia-compliant banks is increasing in both Western and Islamic jurisdictions . Especially in regions such as Central Asia, where countries are undergoing economic modernization, fintech companies are playing an important role in providing consumers and investors with the digital tools they need to effectively manage their money . With more investment going into these Islamic fintech companies, we can see the sector grow.

Conclusions

Today, Islamic finance is considered to be of great importance in the world financial system. Today, this system is used effectively in non-Muslim countries. This requires a more in-depth study of Islamic finance. Several conclusions can be drawn from the results of the study. The dualistic system has justified itself in many countries and has created opportunities for effective use of the financial system by developing a competitive environment in the financial system. If Islamic finance is put into practice, a big change is possible in our financial system, that is, if this system works in parallel with traditional finance, there will be competition

between two financial systems in the country, and unique opportunities will open up in the economy. In the analysis of the above indicators, no low results were observed in the last five years. It should be noted that in 2020, even in the conditions of the pandemic, the results of Islamic finance did not fall and recorded high indicators. After that, the countries with less Muslim population are also following the path of forming a dualistic system by introducing Islamic finance into their financial policy. If we introduce this system, it will be possible to further increase foreign investment potential by attracting foreign investments from Islamic countries and countries with a large Muslim population. In addition, since the majority of our population is Muslim, it can greatly contribute to the development of the domestic investment environment. Therefore, it is important to attract the funds of existing banks, investment funds and companies whose activities are based on Islamic financing in Muslim countries in order to support the socio-economic development of Uzbekistan and the private sector. Having studied the financial system of the countries studied in our analysis, we believe that it is appropriate to introduce a dualistic system in our country, involving Islamic finance together with traditional finance.



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