

CURRENT TRENDS IN THE BANKING AND FINANCIAL SYSTEM OF UZBEKISTAN AND THE INVOLVEMENT OF ISLAMIC FINANCE INSTRUMENTS IN IT

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ABSTRACT

This article explores the possibilities of introducing instruments of Islamic finance in the banking and financial system, statistical analysis, indicators of the banking and financial system of Uzbekistan, scientific and theoretical views of foreign scientists in the introduction of instruments of Islamic finance. On the basis of the analysis, the introduction of instruments of Islamic Finance revealed problems and proposed directions for their elimination.

Keywords: banking, finance, Islamic finance, instrument, practice, capital, investment, entrepreneurship, portfolio, credit, services, efficiency, reform, cost, income, percentage.

1. INTRODUCTION

Developing the economy on the basis of reforming and liberalizing the banking system, which is one of the important links of market relations, organizing the activities of local banks that meet the requirements of the international banking system, and further improving their activities are considered urgent tasks of the day. Without a well-developed banking system and banking activities, the society cannot make healthy progress.

Effective management of the economy requires studying the activities of banks, which are its important subjects, and knowing their working methods, functions and operations. In the practice of international banking, the minimum amount of authorized capital of a bank is 5 million. The amount is around USD. Therefore, in order to make the bank's capital sufficient according to international standards, 5 mln. It should be formed in the amount of USD.

Credit investment is an important means of increasing financial deposits among entrepreneurs, citizens and other organizations. The goal of any commercial bank's credit policy is usually the following: increase in the volume of credit deposits, rational diversification of high-risk operations, a sharp increase in the volume of medium and long-term credit deposits and their effectiveness. will be directed to ride.

Commercial banks strive to increase the size of the loan portfolio by issuing loans. This will allow the bank to develop in the financial sector and increase financial reforms. Commercial banks strive to diversify their loan portfolio in order to reduce risk and interlink network phenomena. This makes it possible to spread the risk and reduce the overall level of risk by lending in several areas.

Banks are interested in medium and long-term loans because they are important for credit quality and bank efficiency. Increasing the volume of medium and long-term loans creates an additional opportunity for the bank to ensure the continuous development of financial structures.

2. ANALYSIS OF LITERATURE

G.F. Gresh thinks that Islamic banking and finance is growing in Central Asia. Since the collapse of the Soviet Union and the formation of new nation-states in 1991, Muslim republics in the region have witnessed a significant increase in Islamic financial institutions. In addition, Islamic banking and finance is seen by Islamic scholars as an innovative way to form an economic bloc with other Islamic countries outside the region. One of the keys to access to global markets is to sponsor national and regional socio-economic development and liberal economic reforms.

A.Sharipov and N.Yuldashev's shows that Uzbekistan, with its population and traditional Islamic roots, is perhaps one of the most promising markets for Islamic financing in Central Asia. But it is worth saying that until recently, the field and business of banking and financial services in Uzbekistan was limited to understanding and explaining Islamic finance. The natural and growing demand for Islamic financial instruments in Uzbekistan differs from the lack of a regulatory platform to accommodate Islamic finance and sharia-compliant investments. Uzbekistan is a secular state with a predominantly Islamic population and argues that any reform associated with the adoption of sharia-based principles can serve as the basis for the development of the banking and financial sphere.

J. Imamnazarov Islamic banking system means a banking system in which all financial activities are carried out on the basis of Islamic laws. It has the same goals and operations as ordinary banks, that is, it is to facilitate the flow of money

within the economy in order to strengthen economic activity. However, unlike conventional banks, the principles of Islamic banking management are to ensure fairness in any transaction and business transaction, while sharing risks and benefits among the parties. The success of Islamic financial institutions is now attracting the attention of many traditional banks.

A. S. Tursunov studied commercial banks and Islamic banks have common and specific characteristics according to their functions. The main objective in a commercial bank is to increase profits, while in an Islamic bank, it is to increase profits while strictly following the rules of Shariah. The main difference between Islamic banks and conventional banks is that in conventional banks money is sold and income is earned over the counter, while in Islamic banks goods are sold and income is earned.

B.A. Malik thinks that Islam is not just a religion, but a rationalization of general norms of behavior beyond the content of faith. Economics, politics, social aspects and religion are closely related to each other and affirms a holistic approach to life. In keeping with the holistic approach of the Islamic faith, a person agrees to define the dictates of Islamic law. It is stated that this contract applies to economic and financial affairs.

3. RESEARCH METHODOLOGY

The methods of analysis, synthesis and economic analysis were used to illuminate our research work. The analysis revealed the possibilities of introducing Islamic financial instruments in the banking and financial system of our country, the problems in this regard and a number of other problems related to the sector. Using the methods of data analysis and statistical analysis, an attempt was made to reveal the importance of introducing Islamic financial instruments in the banking and financial system. As a result, problems were identified, scientifically based proposals were given and scientifically based conclusions were reached. The banking and financial system of our country was studied as an object of research.

4. ANALYSIS AND RESULTS

The main goal of commercial banks is to ensure financial efficiency. They strive to improve efficiency through efficient management of lending processes, fulfillment and other technology support. Commercial banks seek to make lending more efficient for the financial structure by strengthening the financial system's network connectivity, automating loan requests and repayments, or offering specialized services. The change in the share of commercial banks' loan deposits by industry (in percent) is described. And the largest growth was for individuals 47 percent, housing and communal services 24 percent, and construction and transport and communication 18 and 16 percent, respectively. As noted above, this situation is considered positive and serves to improve the country's financial reforms.

It is known that a number of indicators are taken into account when analyzing the level of profitability of the banking system. For example, interest and non-interest income, interest and non-interest expenses. To define the above expressions, capital gains are income received for the use of funds or their equivalents. Also, interest income includes the amount of any discount, premium or amortization of the difference between the original book value of the debt securities or loans and their amortization amount.

Interest expenses include expenses for demand deposit accounts, time deposits, payments to the Central Bank and other commercial banks, as well as expenses for repayable loans. In general, interest expense is the sum of interest accrued on all liabilities. Non-interest expenses include commission expenses and expenses for services (for example, bank advertising or conducting events), losses from negative changes in foreign exchange rates, investments, etc. Also, some scientists describe costs directly related to bank operations - operational costs. At this point, it is appropriate to analyze the profitability indicators of the banking system. The table below shows the state of this industry in 2023-2024 (Table 1).

Table-1 Bank system profitability indicators (in billion soums).

Income and expenses of the banking system	01.01.2023-y.	01.01.2024-y.
Interest income	61 728	86 679
Interest-free income	33 182	42 054
Interest expenses	37 566	57 683
Interest-free expenses	11 812	13 273
Net profit (loss) before tax	12 579	15 155
Income tax expenses	2 587	2 775
Net profit (loss)	9 993	12 380

In recent years, there have been many changes in the banking system and the financial sector. In 2023 (as of January 1), the banking system of our country had a net profit of 9 trillion 993 billion soums, and in the same period of 2024 with a net profit of 12 trillion 380 billion soums. Financial policy, changes in the financial situation, legislation and other factors increase the profitability of banks.

In 2024, the factor that led to a large increase in profitability indicators of banks is also economic development. If economic indicators in our country grow, people will be able to transfer large amounts of money. This creates an opportunity for banks to attract more financial resources.

Figure 1 below shows the value of total assets, total loans, as well as total deposits and total capital of Uzbekistan's commercial banks (in billion soums) as of January 1, 2023. According to him, during this period, the total bank assets amounted to 556 trillion 746 billion soums, and the credit deposits amounted to 390 trillion 49 billion soums, the total deposits amounted to 216 trillion 738 billion soums, and the total capital amounted to 79 trillion 656 billion soums.

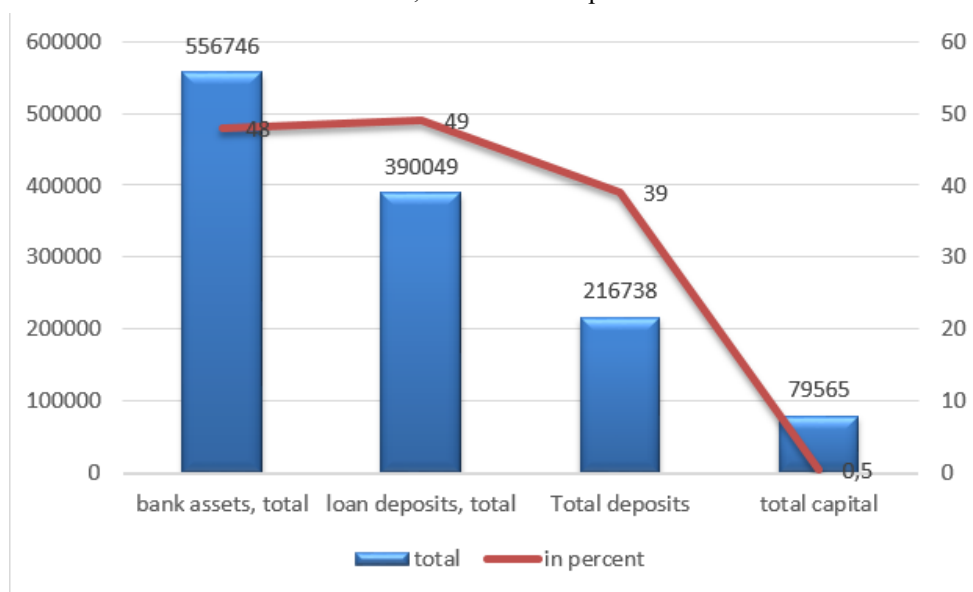


Figure 1. Main indicators of banking system activity in 2023 (in billion soums).

Compared to 2023, there was a decrease in growth in 2024 compared to the previous period. In 2024, bank assets in our country increased by 45% compared to the previous period, and in 2023, this indicator was 48%. As of January 1, 2024, total credit deposits increased by 49% compared to last year, and in 2023, a 49% increase was observed in this sector.

Commercial banks, like other economic entities, must have a certain amount of funds, that is, resources, to ensure their economic and commercial activities. In the modern requirements of economic development, the problem of organizing bank resources is of the first rank for the smooth operation of the bank. It can be explained in this way, that is, with the transition of the economy to the market model, the state monopoly in banking will be terminated, the nature of bank resources will change in a positive direction during the formation of a two-tier banking system.

In addition, the scale of the bank's activity, which is determined by the object of its asset operations, depends on the size and quantity of the resources they deploy, the sum of the funds involved. Such a situation creates competition between banks for attracting resources.

One of the main tasks of the bank is to attract as much free funds as possible and invest them in other optimal assets that bring profit. It is known that the minimum amount of authorized capital of banks is determined in order to protect banks from various risks. Because the bigger the bank's authorized fund, the more its resources are.

Currently, there are about 1,400 Islamic financial institutions in more than 80 countries worldwide, and according to the International Monetary Fund, Islamic financial institutions have played an important role in the banking system in the last 10 years. showed. It is noteworthy that Islamic financial institutions exist not only in Muslim countries, but also in European countries, countries where the Muslim community is a minority, such as Canada, the Philippines, and Singapore.

The global Islamic finance industry has proven to be growing steadily in 2020. In the first year of the pandemic, its total assets increased by 14%, but the following year it showed an even greater 17% increase, pushing its assets in character to US\$4 trillion, above pre-Covid levels.

In connection with the introduction of this trend in Uzbekistan, a step has already been taken, and at the annual summit of the Islamic Development Bank held in Tashkent in September 2021, the "Economic Empowerment Fund" was

established. The initial capital of the fund is 100 million US dollars, 35 million US dollars will be financed by the Government of Uzbekistan, 20 million US dollars by IDB, and the remaining 45 million US dollars will be financed by Saudi investors. After the successful completion of the test phase, the amount of the initial fund is planned to be gradually increased to 500 million USD.

Within the framework of the “Obod qishloq” program, a loan agreement of 200 million US dollars was concluded for the modernization of the rural infrastructure of the Republic of Karakalpakstan, Khorezm, Bukhara and Navoi regions. In addition, the International Islamic Trade Finance Corporation and Trustbank reached an agreement to open a trade finance line worth 15 million US dollars.

In addition, an 80 million US dollar loan agreement was signed to support the project for the development of oncology services in Uzbekistan. It was agreed that the Islamic Development Bank will allocate a technical assistance grant to support the development of the legal framework of Islamic banking and finance in Uzbekistan.

The client is treated on the basis of terms of murabahah, salam, rent, exception, mudarabah and musharakah. Since these theories are widely covered in the first chapter of the study, it can be said that the principle of partnership and profit sharing of Islamic banks, and the fact that traditional banks establish financial relations only on the basis of interest, on the contrary, is the most general definition given for both banking systems.

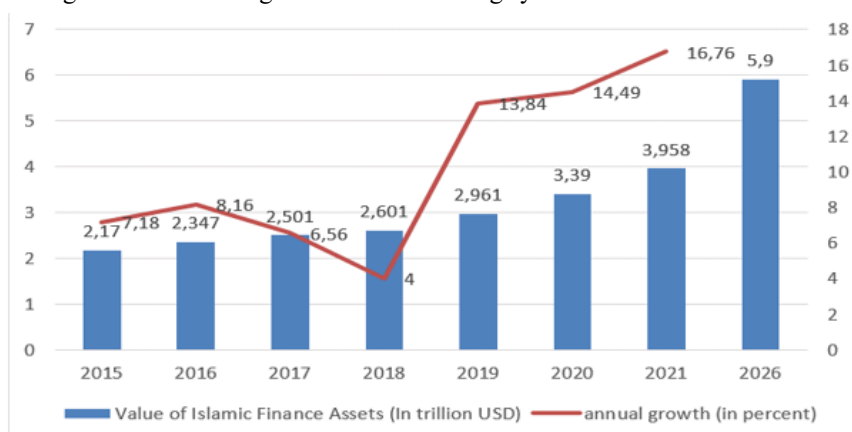


Figure 2. Global Islamic Finance Asset Value (USD Trillions) 2015-2021 (2026 Forecast)

Figure 2 shows the growth trend of Islamic finance assets worldwide from 2015 to 2021, excluding the figure in 2018, where only growth was achieved. Also, after 2019, even during the pandemic, it was not less than 10 percent annually. Analyst economists' forecasts for 2026 indicate that the annual growth of assets in the world of Islamic finance will reach 5.9 trillion US dollars by that time.

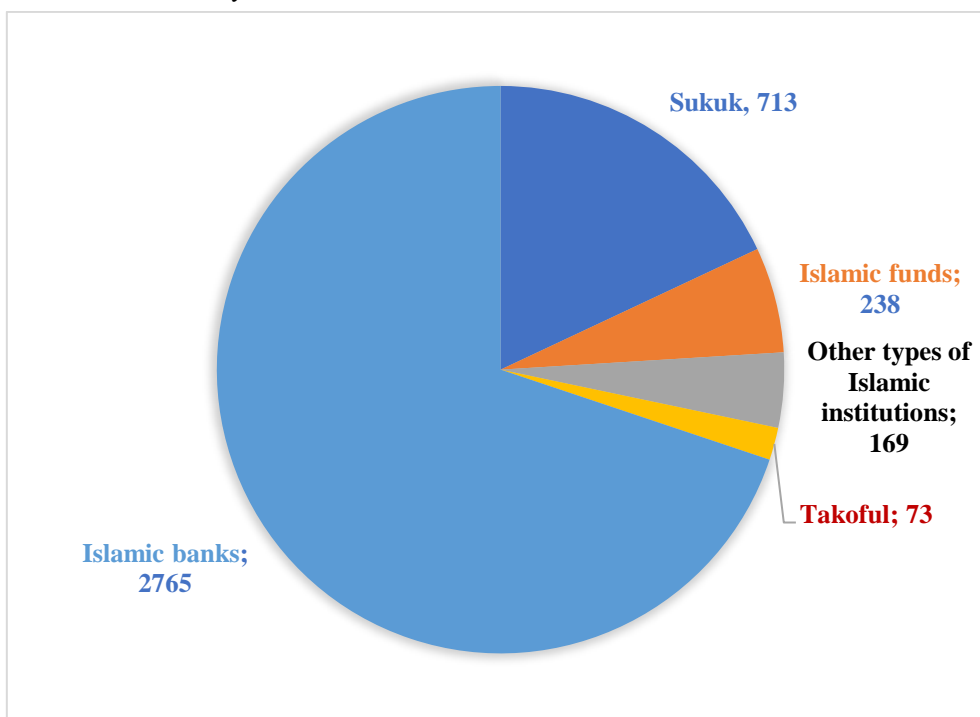


Figure 3. Global Islamic Finance Asset Value in 2021 (USD Billion)

Figure 3 shows that the largest share of Islamic finance assets worldwide - 2 trillion 765 billion (USD) belongs to Islamic banks, and 713 billion (USD) to Islamic bonds - sukuk, 238 billion (USD) to Islamic funds, 169 billion (US\$) are described as assets of other Islamic financial institutions and 73 billion (US\$) of takaful - Islamic insurance industry assets.

These data indicate a significant presence and distribution of assets in the Islamic finance sector. The largest share of assets belongs to Islamic banks, followed by sukuk (Islamic bonds), Islamic funds and other financial institutions. Takaful, which refers to Islamic insurance, has a smaller but still significant portion of assets. This distribution underscores the diversity and growth of Islamic finance as a viable alternative to traditional financial systems that can meet the needs of Muslim investors worldwide.

As a proof of the above points, in Figure 4 below, it will be possible to understand that today the largest part of Islamic finance, i.e. 70 percent, belongs to Islamic banks, and the next share corresponds to 18 percent to Islamic bonds. Other areas that have grown rapidly in recent years, takaful and other financial industries, account for less than 10 percent of all Islamic finance, as shown in the figure below.

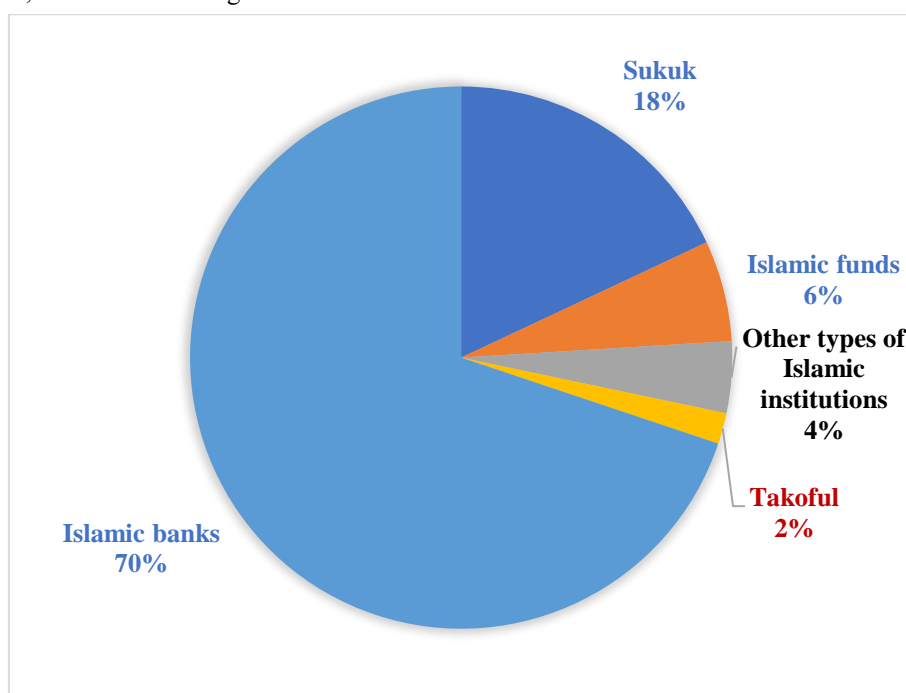


Figure 4. Global Islamic Finance Asset Value in 2021 (Percentage)

From the second half of the last century, information about Islamic banks began to be given to the general public, and Islamic financial institutions managed on the basis of Islamic rules became widely popular since those times. This new system, which is an alternative to the traditional banking system with a rich history, is still only developing and its assets are only growing..

5. CONCLUSIONS AND SUGGESTIONS

In conclusion, in order to continue this trend in Uzbekistan, it is necessary to introduce Islamic windows. In many cases, the Islamic window is established in countries where there is no Islamic financial system or legislation on Islamic finance. Because the Islamic window offers a limited number of services and products based on the existing laws and legal framework of a given country as a product of a structural unit of a traditional bank.

Full-fledged Islamic banking services and products are usually provided after the development of relevant laws in that country. For this reason, it would be appropriate to aim for the following goals from the organization of Islamic windows:

- To study the level of demand for Islamic financial services in the country;
- Offering Islamic financial services based on existing infrastructure (buildings, staff, etc.) in banks without additional costs;
- By studying and deeply analyzing the activities of established Islamic branches, making practical suggestions regarding the development of the law on Islamic finance and banking in the country;
- To increase their participation in the country's economy by increasing the financial literacy of the population and representatives of the private sector;
- Development of future development strategies of banks based on the analysis of the results of the Islamic window.

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