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ANALYSIS OF THE EVOLUTION OF THE ISLAMIC BANKING SYSTEM AND ITS TENDENCY OF DEVELOPMENT

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Abstract. This scientific article provides a detailed overview of the history of the Islamic banking system and trends in its development. A study on this topic examines the views expressed regarding the Islamic banking system and its principles. The author also gives conclusions and suggestions on the organization of Islamic banking in Uzbekistan.

Keywords: Islamic banking, Islamic finance, mudaraba, musharaka, traditional lending, Islamic windows, sukuk, rent, salam

Introduction

Despite the fact that Islam is the majority religion, the Islamic financial sector in Uzbekistan is still relatively undeveloped compared to its Central Asian neighbors, although the country has great potential for development. This has been acknowledged by experts from major international financial institutions (Islamic Development Bank Group, International Finance Corporation, Asian Development Bank, etc.).

In this regard, the President of the Republic of Uzbekistan Sh. Mirziyoyev in his Address to the Oliy Majlis on December 29, 2020 said, “It is time to create a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Development Bank and other international financial institutions will be involved in this.”

As a result of the international downturn in the banking and financial system and the need to radically improve the infrastructure of the financial market, the attention of the investment finance community to the Islamic form of financing has increased significantly.

Literature review

As a result of research on this topic, it is possible to analyze the definitions of Islamic banking given by scholars, in particular, Beckin [2], Bashir, Hassan [3], and make the following definition of Islamic banking services and Islamic banking.

Islamic banking services are a set of banking services provided to individuals and legal entities on the basis of Islamic Sharia, organized in the form of a separate department or branch under commercial banks.

In his research, Bashir Hassan described the Islamic bank as "a commercial organization that opens and maintains bank accounts, makes payments, attracts deposits, finances individuals and legal entities, and provides other banking services
in accordance with Islamic law." Sharia (Islamic law) requires that these operations be legal. That is, it finances production projects that are safe for society as permitted by Sharia and prohibits the payment or receipt of interest on any transactions [3].

Studying the opinions of the above scholars, we conclude that Islamic banking is a commercial organization that serves customers based on the principles of Sharia.

**Research methodology**

In the study of the evolution of the Islamic banking system in the scientific work through interviews with scholars and experts, analysis of their written and oral opinions, expert evaluation, process observation, systematic approach to economic events and processes, comparative analysis with the author's experience and recommendations are given.

**Analysis and results**

The history of the development of Islamic banking dates back to 1963, when the world's first Islamic bank, Mit Gamr, was established in Egypt. The Muslim Hajj Foundation Corporation will start its work in Malaysia in September this year. Later, in 1975, a group of Muslims in Halifax (Canada) introduced the first product on the market called an “Islamic mortgage” and the Islamic Bank of Dubai was established. Importantly, the Islamic Development Bank (IDB) was officially opened in Jeddah, Saudi Arabia this year at the initiative of Muslim countries. The Islamic Republic of Pakistan has also begun the process of Islamizing its banking system (Figure 1).

This development gradually began to spread to European countries as well. In 1978, in Geneva, Prince Faisal ibn Abdulaziz Saud of Saudi Arabia established the first Islamic financial structure in the West in the form of a joint stock company, Islamic Banking System International Holding. In 1981, the statutory fund of Prince Faisal amounted to 1 billion. He founded the Islamic Finance House, which consists of US dollars. The head office of the established financial group was opened in Geneva.

From the above data, it can be seen that the Islamic finance system began to develop in Western countries in the late 70s and early 80s. This development is still ongoing and is being discussed by the general public. Not only Muslim-majority countries but also Western countries are trying to take the lead in this area. An example of this is the statement of the Prime Minister of the United Kingdom at the World Islamic Economic Forum on the development of London as a global Islamic financial center (October 2013).
Figure 1. The evolution of the development of Islamic banking [4]

Figure 1 shows the evolution of the Islamic banking system. It can be seen from the data that the development of the Islamic banking system is conditionally divided into four stages, which characterize the period of development of the system. The first stage covered the years 1950-1970, during which the fundamental structure of the Islamic bank was formed. The first Islamic banks were established. The second phase covered the 1970s and 1980s, during which time Islamic banks spread across the country. Islamic banking has been established in countries such as the UAE, Kuwait, Malaysia and Egypt.

As a result of the development of Islamic banks, increasing customer confidence, the total assets of the World Islamic Bank system is growing from year to year. In particular, in 2012, 1305.0 billion. The figure is expected to reach $ 1993 billion by 2019. (in the U.S. dollar) (Figure 2).
According to Citi Bank, today more than 300 Islamic banks and more than 200 Islamic windows operate in 67 countries around the world. The total capital of Islamic banks has exceeded $2.5 trillion.11 Islamic banks are developed in the following countries: Iran, Kuwait, Malaysia, Saudi Arabia, United Arab Emirates, Turkey, Bangladesh, Pakistan. Islamic banks also operate in the United States, Canada, the United Kingdom, Germany, France, Italy, Ireland, Leixemburg and other countries. The fairness of the credit system of Islamic banks, the distribution of not only the profits but also the losses between the bank and the customer, has aroused great interest among members of religions other than Islam [5].

From Central Asian countries, Kazakhstan, Kyrgyzstan and Tajikistan have successfully completed the process of launching Islamic banking services and achieved positive trends. Islamic finance is booming in Europe, and many European economists see the use of Islamic banking services as a lucrative opportunity to start a new business. The first attempt at Islamic banking in the Western world took place in Luxembourg in 1978, and an international holding institution of the Islamic banking system was established. That same year, Al-Baraka was founded in the United Kingdom. In 1983, the International Islamic Bank was established in Denmark.
It has been found that the leading countries of the world have started to incorporate the principles of Islamic banking and finance into their legislation since the 70s of the last century. It should be noted that the "Islamic windows" in many major advanced banks of the world (ABN Amro, Bank of America, Barclays Plc., BNP-Paribas, Chase Manhattan, Citibank, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Lloyds Bank, Societe Generale, UBS, etc.) and provide all types of Islamic banking services that are a complete alternative to traditional banking products.

**Conclusion and recommendation**

In conclusion, the Islamic financial services sector will be an important factor, foundation and prospects for the bright future of Uzbekistan, which will increase the interest of foreign investors in the country, which reflects the deep roots of Islam in its culture, and the government will take full advantage of it.

Based on the above information, we believe that the comprehensive introduction of the Islamic financial services industry in Uzbekistan will open the following opportunities for the country:

- increase and diversify foreign investment;
- creation of an environment of fair and transparent competition in the banking sector and the opportunity to diversify the assets of the banking system;
- Ensuring maximum participation of free funds at the disposal of the population and business in the development of the economy;
- development and diversification of the capital market in the country;
- creating many new jobs;
- increase the activity of the financial market by increasing the financial literacy of the population;
- Coordination and modernization of infrastructure in the country through the development of the Islamic financial services industry;
- establishment of new financial institutions;
- Contribute to the implementation of the state program to combat poverty;
- Development of a training program in a new direction.

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