



**EXPANDING BANKING PRODUCTS THROUGH THE
INTRODUCTION OF ISLAMIC BANKING INSTRUMENTS: EVIDENCE
FROM UZBEKISTAN**

Xo‘jayorov To‘lanboy

Master’s student at the Banking and Finance Academy of the Republic of Uzbekistan

***Abstract.** This article examines the prospects for expanding banking products through the introduction of Islamic banking instruments in Uzbekistan. The study combines theoretical analysis, comparative review of international experience, and assessment of the current condition of Uzbekistan’s banking system. The paper analyzes the economic essence of Islamic banking products, their role in product diversification, and their practical relevance for transition economies. Particular attention is paid to official banking statistics of Uzbekistan, including assets, net loans, deposits, capital, financial stability indicators, digital banking infrastructure, and microfinance sector dynamics. The findings show that Uzbekistan has a sufficient institutional and financial base for the phased introduction of Islamic banking products. The results indicate that Islamic instruments can contribute to the diversification of bank portfolios, the expansion of the resource base, stronger links between finance and the real sector, and improved financial inclusion. The study concludes that the most realistic approach for Uzbekistan is a gradual model based on Islamic windows, microfinance institutions, digital channels, and a strengthening regulatory framework.*

***Keywords:** Islamic banking, Islamic banking products, banking product diversification, murabaha, ijarah, musharaka, banking system, financial inclusion, microfinance, digital banking, transition economies, Uzbekistan*

Introduction



The relevance of introducing Islamic banking products has increased as banking systems seek more diversified, inclusive, and asset-linked financial instruments. Globally, Islamic finance reached about USD 3.88 trillion in assets in 2024, with Islamic banking accounting for the dominant share of the industry and showing one of the fastest growth rates within global finance. For Uzbekistan, this issue is especially timely because the national banking system has expanded rapidly: as of January 1, 2026, total banking assets amounted to UZS 924,763 billion, deposits to UZS 417,258 billion, and total capital to UZS 135,339 billion. Deposits grew by 35% year over year, indicating a broadening funding base for new financial products. At the same time, Uzbekistan has begun forming a legal basis for Islamic finance, first through microfinance regulation and then through broader legislative changes for Islamic banking activity. Against this background, the introduction of Islamic banking instruments is not only a religious or niche-market issue; it is a strategic question of product diversification, financial inclusion, and institutional modernization within Uzbekistan's banking system.

Literature Review

Recent literature treats Islamic banking not as a marginal religious practice, but as a viable alternative model of financial intermediation. Tokmakov (2023) shows that Islamic banking products can be viewed as an element of diversification and as an alternative to conventional banking products, especially in markets seeking new niches and funding structures. Yartseva and Sander (2024) emphasize that Islamic banking is distinguished by its ethical foundations and its relevance beyond exclusively Muslim clients, which increases its attractiveness in contemporary financial markets. Danchenko (2015) argues that the spread of



Islamic banking products in the global market is associated with their social orientation and their capacity to finance production, housing, and socially significant projects. Mamedov and Stelmakh (2024) add that Islamic banks support small and medium-sized enterprises, invest in real assets, and increasingly expand through digital channels, making them relevant for both growth and resilience. Together, these studies suggest that the introduction of Islamic banking instruments can influence product structure, market depth, and the inclusiveness of banking systems in transition economies.

Methodology

This study uses a mixed descriptive-analytical approach. First, it reviews academic literature on Islamic banking products, diversification, and transition-economy experience. Second, it analyzes official statistical and regulatory data for Uzbekistan's banking system, including aggregate banking balance-sheet indicators, financial stability metrics, digital banking infrastructure, and microfinance sector data. Third, it compares Uzbekistan's institutional trajectory with selected transition-economy experiences, particularly Russia, Kazakhstan, and Kyrgyzstan. The analysis focuses on four dimensions: banking system scale, funding base, prudential stability, and market infrastructure. These variables are used to assess whether Islamic banking products could realistically broaden the composition of banking products in Uzbekistan. The study relies primarily on official Central Bank of Uzbekistan materials, legal documents, and recent international Islamic finance statistics.

Results



The empirical evidence indicates that Uzbekistan has a sufficient financial and institutional base for the phased introduction of Islamic banking products. As of January 1, 2026, the national banking system reported UZS 924,763 billion in assets, UZS 587,039 billion in net loans, UZS 417,258 billion in deposits, and UZS 135,339 billion in total capital. Year over year, assets grew by 20%, net loans by 14%, deposits by 35%, and capital by 18%. These figures imply that the system is large enough to absorb new instruments without destabilizing its core structure.

A first practical result is that Islamic banking products could reduce the excessive concentration of bank portfolios in conventional lending. Net loans account for a high share of total banking assets, which suggests limited product diversification. Islamic instruments such as murabaha, ijarah, and diminishing musharaka could gradually reshape part of this portfolio from purely interest-based lending to asset-linked and transaction-based financing. This would not eliminate conventional credit, but it would broaden the structure of banking products and create additional financing channels for trade, equipment, housing, and SME activity.

A second result concerns the funding side of the banking system. Deposits rose by 35% over the year, significantly faster than assets and loans. This matters because Islamic banking requires not only financing products but also Shariah-compliant liability-side instruments such as investment accounts and non-interest-based deposit structures. A growing resource base means that the banking system has room to introduce such instruments without relying exclusively on balance-sheet reallocation.



A third result relates to prudential readiness. In the first half of 2025, Uzbekistan's banking system reported a capital adequacy ratio of 17.4%, LCR of 195%, NSFR of 117%, ROE of 10.8%, and ROA of 2.0%. The non-performing loan ratio stood at around 3.0% by early 2026. These indicators suggest that the banking system has a sufficient capital and liquidity buffer to pilot new products. From a policy perspective, that lowers the institutional risk of introducing Islamic instruments through limited windows, pilot programs, or bank-level product lines.

A fourth result is linked to digital and retail infrastructure. As of January 1, 2025, Uzbekistan had 52.9 million remote banking users, 61.99 million bank cards, 426,225 payment terminals, and 29,909 ATMs and infokiosks. This is highly relevant because Islamic banking products do not need to be introduced only through branch-based models. They can be distributed through mobile banking, online onboarding, digital installment structures, and remote contract servicing. In practical terms, this lowers product rollout costs and broadens potential outreach.

A fifth result concerns the microfinance segment, which appears to be the most realistic entry point for Islamic finance in Uzbekistan. As of August 1, 2025, microfinance organizations had UZS 9,467.4 billion in total assets, UZS 8,665.1 billion in net loans, and UZS 2,830.2 billion in total capital. Total assets grew by 55.1%, net loans by 55.6%, liabilities by 64.2%, and total capital by 37.3% year over year. Since Uzbekistan already approved rules for Islamic financing services in microfinance institutions, this segment is institutionally and operationally suited for products such as micro-murabaha, micro-ijarah, and salam-based financing.

The international evidence reinforces these findings. In Pakistan, Islamic banking already accounts for 19.0% of banking assets and 23.2% of deposits, while



product structures are led by diminishing musharaka (44.8%), istisna (15.5%), and murabaha (13.6%). In Kyrgyzstan, Islamic financing grew from KGS 9.03 billion in 2024 to KGS 18.1 billion by November 30, 2025, demonstrating that transition economies can scale Islamic products relatively quickly from a low base. These cases suggest that Uzbekistan is likely to see the earliest expansion in retail, SME, housing, and microfinance-oriented products rather than in complex capital-market instruments.

Table 1. Selected Indicators Supporting the Introduction of Islamic Banking Products in Uzbekistan

Indicator	Date / period	Value	Analytical implication
Total banking assets	01.01 .2026	UZS 924,763 bn	Large enough system to absorb new products
Net loans	01.01 .2026	UZS 587,039 bn	High loan concentration creates need for diversification
Deposits	01.01 .2026	UZS 417,258 bn	Expanding funding base for new liability-side products
Capital	01.01 .2026	UZS 135,339 bn	Adequate institutional capacity
Asset growth	2026/ 2025	20%	Banking system is expanding
Deposit growth	2026/ 2025	35%	Resource base is widening rapidly



CAR	H1 2025	17.4 %	Prudential buffer exists
LCR	H1 2025	195%	Strong liquidity position
NSFR	H1 2025	117%	Stable medium-term funding
NPL ratio	01.01 .2026	3.0%	Credit quality remains manageable
Remote banking users	01.01 .2025	52.9 million	High digital outreach potential
MFO total assets	01.08 .2025	UZS 9,467.4 bn	Strong platform for Islamic microfinance
MFO net loans	01.08 .2025	UZS 8,665.1 bn	Active lending segment for pilot Islamic products



Figure 1. Growth Rates of Key Banking Indicators in Uzbekistan

Discussion

The findings show that the introduction of Islamic banking products in Uzbekistan should be interpreted not as a symbolic institutional reform, but as a practical strategy for broadening the structure of banking services. The strongest analytical signal comes from the mismatch between the size of the banking system and the narrowness of its dominant product structure: loans occupy a central place in bank assets, while alternative financing formats remain underdeveloped. In this context, Islamic banking products offer a realistic mechanism for restructuring part of the product mix without disrupting the existing banking framework.



A second important implication is that Uzbekistan appears better positioned for a phased introduction than many transition economies were at the start of their own experiments. Russia began with a geographically limited pilot; Kazakhstan still demonstrates strong untapped demand potential; Kyrgyzstan has shown that growth can be fast once an institutional basis exists. Uzbekistan differs in one crucial respect: it already combines legal reform, strong digital penetration, and an expanding microfinance sector. This combination lowers rollout costs and increases the feasibility of testing Islamic products first in narrow segments before broader system-wide expansion.

At the same time, the results also imply clear sequencing. The most realistic near-term products are not complex profit-and-loss sharing instruments, but operationally simpler and market-tested contracts such as murabaha and ijarah. The international experience reviewed in the literature and results sections suggests that transition economies adopt Islamic finance most successfully when they start with trade- and asset-based instruments and only later move toward deeper capital-market and interbank structures. For Uzbekistan, this means that the first measurable impact will likely appear in microfinance, SME financing, retail equipment purchases, and housing-related products rather than in sukuk or full-scale Islamic investment banking.

Conclusion

This study concludes that Uzbekistan has both the institutional and economic prerequisites to begin expanding its banking product structure through the introduction of Islamic banking instruments. The country's banking system is sufficiently large, deposit growth is strong, prudential indicators remain stable, and



digital service infrastructure is highly developed. In addition, the microfinance sector provides a realistic operational base for testing Shariah-compliant financing products before wider banking-sector rollout. International evidence from Pakistan, Kyrgyzstan, Russia, and Kazakhstan further suggests that Islamic banking products are most effective in transition settings when introduced gradually, supported by legal adaptation, institutional oversight, and product standardization. Therefore, the main analytical conclusion of this article is that Islamic banking in Uzbekistan should not be viewed as a separate niche system, but as a practical and scalable mechanism for product diversification, improved financial inclusion, and stronger links between finance and the real sector. Its successful development will depend on sequencing, regulatory consistency, and reliable statistical monitoring rather than on rapid institutional expansion alone.

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