

Maulana Advances in Inclusive Education

Vol. 2 No. 1 2026

ISSN: 3105-0107

Website : https://maulanapress.com/index.php/maulana

Prospects for Developing the Islamic Banking System in Uzbekistan and Its Economic Efficiency: A Mixed-Methods and Scenario-Based Assessment

Muzaffar T. N.*[1]

[1]Master's Student, Master of Business Administration (Global Business)
Lincoln University College, Malaysia

Article information

DOI : xxx

*Correspondence :
Muzaffartuyginov@gmail.com

Submission Track

Submission : August 30, 2026
Final Review : September 15, 2026
Accepted : October 30, 2026
Available online : November 20, 2026

Keywords

Islamic banking; Uzbekistan; dual banking system; economic efficiency; financial inclusion; Shariah governance

This is an open access article under the CC BY-NC license
https://creativecommons.org/licenses/by-nc/4.0/

Abstract

Uzbekistan enacted a dedicated Islamic Banking Law (No. ZRU-1126) on 27 March 2026, creating a dual banking system in which Shariah-compliant institutions may operate alongside conventional banks. This study assesses the development prospects of Islamic banking in Uzbekistan and the economic efficiency that can realistically be expected from it. A three-stage mixed-methods design is applied: (i) a purposive synthesis of the international empirical literature on the efficiency, stability, and growth effects of Islamic banking; (ii) a legal-institutional assessment of the new regulatory architecture; and (iii) a transparent scenario model anchored in Central Bank of Uzbekistan data as of 1 October 2026, which projects Islamic banking assets, newly mobilised funds, and real-sector financing to 2030 under conservative, baseline, and accelerated paths. Under the stated assumptions, Islamic banking assets could reach UZS 8.8 trillion, UZS 35.3 trillion, and UZS 88.2 trillion by 2030 (0.5%, 2.0%, and 5.0% of banking assets, respectively), of which UZS 2.6 trillion to UZS 52.9 trillion would represent newly mobilised resources that were previously outside the formal banking system. The synthesis shows that Islamic banks are neither uniformly more nor less efficient than conventional peers; outcomes depend on scale, Shariah governance quality, product standardisation, and the availability of liquidity instruments. The findings suggest that the economic efficiency of Islamic banking in Uzbekistan will depend less on the passage of the law than on the speed of standard-setting, the development of sukuk and other liquidity-management instruments, and the capacity of the regulator. A sequenced policy agenda for 2026–2030 is proposed.

INTRODUCTION

1.1. Background and motivation

Islamic finance has evolved from a niche religious alternative into a globally significant segment of the financial system. The Islamic Financial Services Board estimates that the global Islamic financial services industry held approximately USD 3.4 trillion in assets at the end of 2022, with banking accounting for the dominant share of the total [1]. This expansion has been driven not only by demand from Muslim-majority

economies but also by the interest of regulators in diversifying funding sources, deepening capital markets, and reaching population groups that conventional banking has historically served poorly. For policymakers in emerging economies, the central question is therefore no longer whether Islamic banking can exist alongside conventional banking, but under which institutional conditions it generates measurable economic value.

Financial inclusion is one of the most frequently cited arguments for introducing Islamic banking. The Global Findex database reported that roughly 1.7 billion adults worldwide remained without an account at a financial institution in 2017 [2], and part of this exclusion is voluntary, reflecting religious objections to interest-based products. Mohieldin et al. argue that Islamic finance, through risk-sharing contracts, microfinance, and social-finance instruments, can extend access to the voluntarily excluded and to small enterprises that lack conventional collateral [3]. If this channel is operative, the economic benefit of Islamic banking is not merely a redistribution of existing deposits between institutions; it is the mobilisation of new resources into productive use.

Uzbekistan has recently moved from preparation to implementation. Regulatory groundwork began in April 2022, when a law on non-bank credit organisations permitted microfinance organisations to offer Islamic financing, and by early 2026 Islamic financing in the country had reached about UZS 22 billion [4]. On 27 March 2026, the President signed Law No. ZRU-1126, "On amendments and additions to certain legislative acts of the Republic of Uzbekistan aimed at introducing Islamic banking", which entered into force in late June 2026 [5], [6]. The law introduces a dual banking model, authorises the Central Bank to approve Islamic finance standards and to license Islamic banking activities, establishes an Islamic Finance Council under the Central Bank, requires an annual external Islamic finance audit, and extends deposit-guarantee mechanisms to banks providing Islamic services [6], [5]. The conventional system into which Islamic banking will be introduced is large and growing: as of 1 October 2026, total assets of Uzbekistan's 35 commercial banks reached UZS 1,044.8 trillion, and banks without state ownership accounted for 39.2% of assets [7]. This combination of a very small Islamic base and a large, expanding conventional system makes Uzbekistan an informative case for studying the early-stage economics of Islamic banking.

The conceptual and empirical background to this question can be summarised as follows. The theoretical foundations of Islamic banking rest on the prohibition of interest (riba), the avoidance of excessive uncertainty in contracts (gharar), the prohibition of speculative gambling-like transactions (maysir), and a strong preference for financing that is linked to real assets and shared risk [8]. Historical accounts trace the transition from conceptual proposals to operating institutions over the last five decades and document the diversity of national models [9]. These principles produce operational differences from conventional banking, summarised in Table 1, that matter for efficiency analysis because they alter the cost structure, the risk profile, and the governance burden of the institution.

Table 1. Operational differences between conventional and Islamic banking (compiled from [8]).

Dimension	Conventional banking	Islamic banking
Return on funds	Interest charged on loans and paid on deposits	Profit, mark-up, or rent linked to a real transaction or shared outcome
Risk allocation	Credit risk largely borne by the lender; borrower bears repayment obligation	Risk-sharing in profit-and-loss contracts (Mudaraba, Musharaka)
Asset linkage	Credit may be unsecured or used for any lawful purpose	Financing tied to identifiable assets, goods, or services
Contract uncertainty	Tolerated within general contract law	Excessive uncertainty (gharar) and speculation (maysir) prohibited
Permitted activities	Any lawful sector	Sectors such as alcohol and gambling excluded
Governance	Board, regulator, and external audit	Additional Shariah board and Shariah audit layer
Liquidity tools	Treasury bills, repo, interbank lending	Sukuk, commodity Murabaha, Shariah-compliant interbank placements

The link between financial development and economic growth provides the macroeconomic rationale for expecting efficiency gains. Levine's survey concludes that well-functioning financial systems ease external financing constraints and improve resource allocation, and that these effects are economically meaningful [10]. Imam and Kpodar examine the determinants of Islamic banking expansion and find that factors such as income level, the share of the Muslim population, and the broader institutional environment are associated with the speed of its development [11]. This evidence implies that the legal and institutional design of the Islamic banking framework is not a technical detail but a primary determinant of outcomes.

Empirical comparisons of Islamic and conventional banks have produced nuanced results. Beck et al. analyse banks across many countries and report that Islamic banks tend to have higher intermediation ratios, better asset quality, and stronger capitalisation, but are on average less cost-effective than conventional banks [12]. Čihák and Hesse find that the relationship between Islamic status and financial strength depends on bank size: small Islamic banks tend to be financially stronger than small commercial banks, whereas large Islamic banks tend to be weaker than large commercial banks [13]. Johnes et al. use data envelopment analysis for 2004–2009 and show that conventional banks appear more efficient in gross terms, but the gap becomes small once differences in bank characteristics and operating environment are taken into account [14]. These studies jointly indicate that scale and environment, rather than religious status alone, drive efficiency differentials.

Evidence on risk and crisis resilience is similarly conditional. Abedifar et al. report that credit and insolvency risk in Islamic banks differ from conventional banks in ways that depend on bank size and on the religiosity of the home market [15]. Hasan and Dridi find that, during the global financial crisis, credit and asset growth in Islamic banks was more resilient than in conventional banks, even though profitability outcomes were more mixed [16]. Kayed and Hassan argue that the asset-backed and risk-sharing features of Islamic finance can reduce the transmission of financial excesses, provided that practice remains faithful to the underlying principles rather than replicating conventional products in Islamic form [17]. Taken together, the literature supports a cautious view: Islamic banking can contribute to stability and inclusion, but efficiency

is not automatic.

1.2. Research gap, objectives, and hypotheses

Most existing studies rely on cross-country samples of mature Islamic banking markets. Little is known about the early-stage economics of Islamic banking in a transition economy where the legal framework has only just been enacted, the Islamic sector is almost non-existent in terms of market share, and the conventional banking system remains dominated by state-owned institutions. Moreover, the Uzbek framework is new enough that no multi-year bank-level data exist, which prevents conventional econometric evaluation and calls for an approach that combines evidence synthesis, legal-institutional analysis, and transparent scenario modelling.

This study therefore pursues three objectives: (i) to characterise the regulatory and market baseline for Islamic banking in Uzbekistan; (ii) to synthesise international evidence on the determinants of Islamic banking efficiency and to translate it into expectations for Uzbekistan; and (iii) to quantify, through scenario analysis, the potential size of the Islamic banking sector by 2030 and its economic contribution through fund mobilisation and real-sector financing. Three working hypotheses guide the analysis. H1: the new legal framework is sufficient to enable market entry but leaves enforceability and standardisation risks that may limit early efficiency. H2: efficiency parity with conventional banks is attainable only after a minimum scale is reached. H3: the net economic gain depends primarily on funding additionality, that is, on the share of Islamic funding that is newly mobilised rather than transferred from conventional banks.

METHODOLOGY

2.1. Research design

A sequential mixed-methods design was adopted, combining qualitative synthesis with quantitative scenario modelling. The first stage is a purposive synthesis of academic studies and institutional reports. Sources were selected for their relevance to efficiency, stability, inclusion, and growth, for methodological diversity (cross-country panel studies, data envelopment analyses, and theoretical treatments), and for their influence in the field. The second stage is a legal-institutional assessment of Law No. ZRU-1126 and related official and professional commentary, structured around licensing, governance, taxation, enforceability, and consumer protection. The third stage is a deterministic scenario model that connects the regulatory and market baseline to projected outcomes. The overall analytical logic is summarised in Fig. 1, which links the legal foundation to institutional models, instruments, transmission channels, and outcomes, and shows the constraints that condition the whole system.

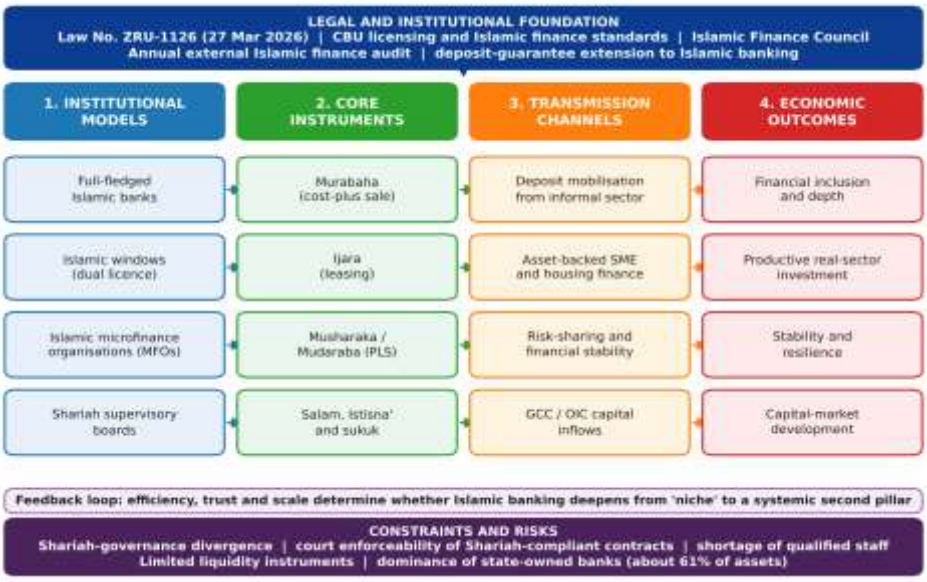

Fig. 1. Analytical framework linking the Islamic banking law to institutional models, instruments, transmission channels, economic outcomes, and constraints in Uzbekistan (author's elaboration).

2.2. Data and sources

Quantitative anchors for the model are taken from the Central Bank of Uzbekistan data as reported for 1 October 2026: total commercial bank assets of UZS 1,044.8 trillion, a net loan portfolio of UZS 638.1 trillion (61.1% of assets), investments and securities of UZS 155.6 trillion, equity capital of UZS 152.9 trillion, and a non-state bank share of 39.2% of assets [7]. The current scale of Islamic financing (about UZS 22 billion, provided mainly by microfinance organisations) is taken from Central Bank statements reported in the national press [4]. Legal and institutional information is drawn from the text and professional analyses of Law No. ZRU-1126 [5], [6], [18]. Because the Islamic banking sector has existed in its current legal form for only a few months, bank-level efficiency data for Uzbekistan do not yet exist, and the study consequently does not claim empirical estimation of Uzbek Islamic banks' cost or profit efficiency.

2.3. Scenario model

The model projects total banking assets, Islamic banking assets, newly mobilised funds, and real-sector financing for 2026–2030. Total banking assets are projected with a constant nominal growth rate g, set at 14% per year. This is below the 20.5% year-on-year growth recorded in October 2026 [7] and reflects the expected moderation of nominal growth as the system matures. Total assets in year t are given by Eq. (1), where TA_0 is UZS 1,044.8 trillion and 2026 is the base year.

$$TA(t) = TA_0 \times (1+g)^{t-2026} \quad (1)$$

The Islamic share of banking assets follows a convex ramp that reflects the sequence of licensing, product approval, and customer acquisition: the share is close to zero in 2026 and rises toward a terminal share s(2030) in 2030, as in Eq. (2). Islamic banking assets IA(t) are the product of this share and projected total assets, as in Eq. (3).

$$s(t) = s(2030) \times \left(\frac{t-2026}{4}\right)^2 \quad (2)$$

$$IA(t) = s(t) \times TA(t) \quad (3)$$

Newly mobilised funds MF(t) are defined as the portion of Islamic funding that does not originate from deposits that would otherwise have remained with conventional banks. This portion is governed by the additionality parameter α, as in Eq. (4). Real-sector financing RF(t) is obtained by applying to Islamic assets the same net-loan-to-assets ratio $\varphi = 61.1\%$ observed in the conventional system [7], as in Eq. (5). The projected total loan portfolio is grown at 13% per year, consistent with recent expansion [7], so that the relative weight of Islamic financing can be expressed as a share of total lending.

$$MF(t) = \alpha \times IA(t) \quad (4)$$

$$RF(t) = \varphi \times IA(t) \quad (5)$$

Three scenarios were specified. The conservative scenario assumes slow licensing, limited product range, and weak public awareness (s(2030) = 0.5%, α = 30%). The baseline scenario assumes that several licences are issued within two years, that at least one Islamic window operates in a large bank, and that standard products become widely available (s(2030) = 2.0%, α = 45%). The accelerated scenario assumes rapid entry of full-fledged Islamic banks, active foreign participation, and a functioning sukuk market (s(2030) = 5.0%, α = 60%). A two-way sensitivity analysis varies s(2030) from 0.5% to 6% and α from 15% to 75%. All values are expressed in nominal UZS; conversions to US dollars use a rounded illustrative rate of UZS 12,500 per USD held constant. The share and additionality parameters are analytical assumptions, not estimates, and they should be interpreted as a structured way to explore what the new framework could deliver rather than as forecasts.

RESULTS

3.1. Regulatory and market baseline

The legal assessment indicates that Law No. ZRU-1126 provides the core elements required for market entry. It introduces comprehensive amendments to the Civil Code, the Tax Code, the Law on the Central Bank, and the Law on Banks and Banking Activities, and it establishes a dual banking system with two licensing models: full-fledged Islamic banks operating exclusively under an Islamic licence, and Islamic windows within conventional banks [18]. The Central Bank gains authority to approve Islamic finance standards and to issue, renew, and revoke licences, banks licensed for Islamic activities may conduct conventional and Islamic operations simultaneously, and an annual external Islamic finance audit is mandatory [5], [6]. The extension of deposit guarantees to Islamic banking is particularly relevant for retail confidence, because it places Islamic depositors on an equal protection footing with conventional ones.

The same assessment identifies residual risks. Professional commentary notes that courts could prioritise classical civil-law doctrines over specialised Islamic finance standards when assessing the validity or enforcement of Shariah-compliant contracts, which creates legal uncertainty for early transactions [18]. The market baseline also matters. State-owned banks hold roughly 60.8% of system assets (the complement of the 39.2% non-state share), and the twelve largest banks control 78.7% of assets [7]. This concentration implies that early Islamic banking growth will depend heavily on the strategies of a limited number of institutions, particularly through Islamic windows. Central Bank statements also indicate that Islamic financing remains marginal today, at about UZS 22 billion, and that policy plans foresee at least one Islamic window in a

commercial bank in 2026 and up to two fully fledged Islamic banks over 2026–2030 [4]. Relative to total bank assets of UZS 1,044.8 trillion, the present Islamic segment is therefore far below one-thousandth of one percent, which means that all projected expansion is effectively greenfield growth.

3.2. Synthesis of evidence on efficiency and its implications

The synthesis yields four consistent regularities. First, cost efficiency is typically lower in Islamic banks than in conventional banks in the raw data, mainly because of smaller scale, the additional compliance layer, and more complex transaction structures such as multi-step sales and leasing contracts [12], [14]. Second, the efficiency gap narrows or disappears when scale and operating environment are controlled for, which implies that the main challenge is attaining minimum efficient scale rather than any intrinsic inefficiency [14], [13]. Third, asset quality and capitalisation tend to be favourable, particularly in smaller institutions, and credit growth tends to be resilient in downturns, which supports the stability argument [12], [16], [15]. Fourth, long-term benefits depend on authenticity of practice, since products that replicate conventional lending in Islamic form may bring compliance costs without delivering risk-sharing benefits [17], [8].

For Uzbekistan, these regularities translate into specific expectations. The Islamic segment is starting from a very small base, so a cost disadvantage in the first years is likely, particularly for new full-fledged institutions that must build Shariah governance, product approval, and audit functions from scratch. Islamic windows within large banks could mitigate this problem through shared infrastructure, although they face risks of fund commingling and weaker Shariah governance. Because the regulator is responsible for approving standards, the speed and clarity of standard-setting will determine whether institutions can scale products without repeated rulings. Finally, the stability benefits documented in the literature depend on the extent to which asset-backed and risk-sharing contracts are actually used, and this will in turn depend on legal enforceability and tax neutrality.

3.3. Scenario projections

Table 2 reports the model results. In the conservative scenario, Islamic banking assets reach UZS 8.8 trillion in 2030, equivalent to roughly USD 0.7 billion at the illustrative rate and 0.5% of projected banking assets of UZS 1,764.6 trillion. In the baseline scenario, assets reach UZS 35.3 trillion (about USD 2.8 billion), and in the accelerated scenario they reach UZS 88.2 trillion (about USD 7.1 billion). The corresponding volumes of newly mobilised funds are UZS 2.6 trillion, UZS 15.9 trillion, and UZS 52.9 trillion. Real-sector financing generated by the Islamic segment amounts to UZS 5.4 trillion, UZS 21.6 trillion, and UZS 53.9 trillion, which represent 0.52%, 2.07%, and 5.18% of the projected total loan portfolio of UZS 1,040.4 trillion in 2030.

Table 2. Scenario assumptions and results for 2030 (author's calculations based on [7]).

Indicator	Conservative	Baseline	Accelerated
Islamic share of banking assets, s(2030)	0.5%	2.0%	5.0%

Funding additionality, α	30%	45%	60%
Projected total banking assets (UZS trn)	1,764.6	1,764.6	1,764.6
Islamic banking assets (UZS trn)	8.8	35.3	88.2
Islamic banking assets (USD bn)	0.7	2.8	7.1
Newly mobilised funds (UZS trn)	2.6	15.9	52.9
Real-sector financing (UZS trn)	5.4	21.6	53.9
Share of projected total loans (%)	0.52	2.07	5.18

Fig. 2 shows the trajectories and scenario outcomes. Because of the convex ramp, most growth occurs in the final two years in every scenario: in the baseline scenario, only about 4% of the 2030 Islamic asset stock is accumulated by 2027, and about 49% by 2029. This pattern has an important implication for evaluation. Assessments made during the first two years after the law enters into force are likely to show small volumes and weak efficiency indicators even if the long-run trajectory is favourable, so early performance metrics should not be interpreted as evidence of failure.

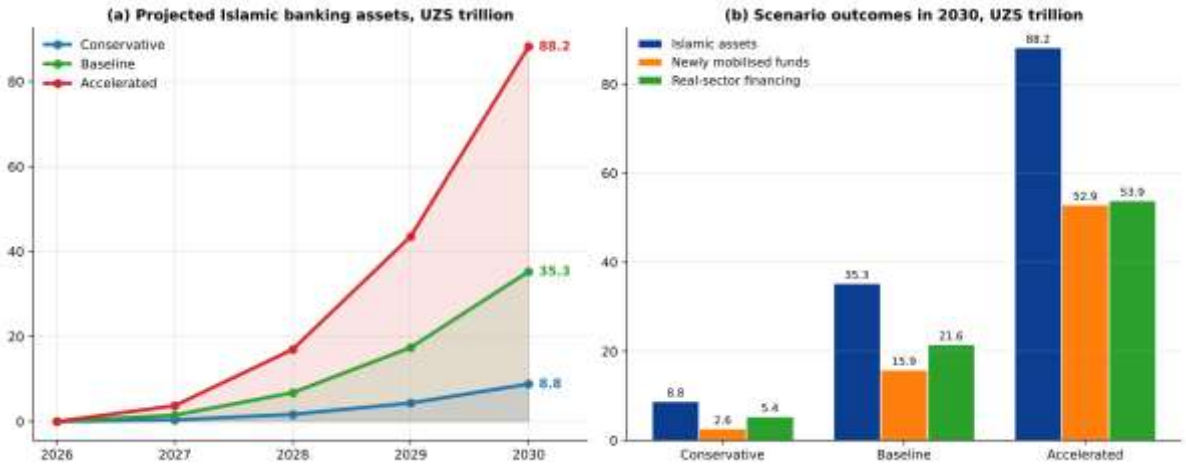

Fig. 2. Scenario trajectories of Islamic banking assets, 2026–2030, and scenario outcomes in 2030 (author's calculations based on [7]).

3.4. Sensitivity analysis

Fig. 3 presents the sensitivity of newly mobilised funds in 2030 to the terminal Islamic share and funding additionality. The outcome ranges from UZS 1.3 trillion at the lowest combination (0.5% share, 15% additionality) to UZS 79.4 trillion at the highest (6% share, 75% additionality). The structure of the heat map reveals that the two parameters are multiplicative: doubling additionality has the same effect on mobilised funds as doubling the market share. This has a practical implication, because policy can influence both parameters but through different instruments. Market share is shaped by licensing speed, product availability, and distribution, whereas additionality is shaped by trust, religious-compliance credibility, and the ability to reach customers who currently hold cash or informal savings. For example, the baseline outcome of UZS 15.9 trillion could be matched either by an accelerated share with only about 18% additionality or by a modest share with substantially higher additionality, which illustrates that credibility with the voluntarily excluded can compensate for slower institutional growth.

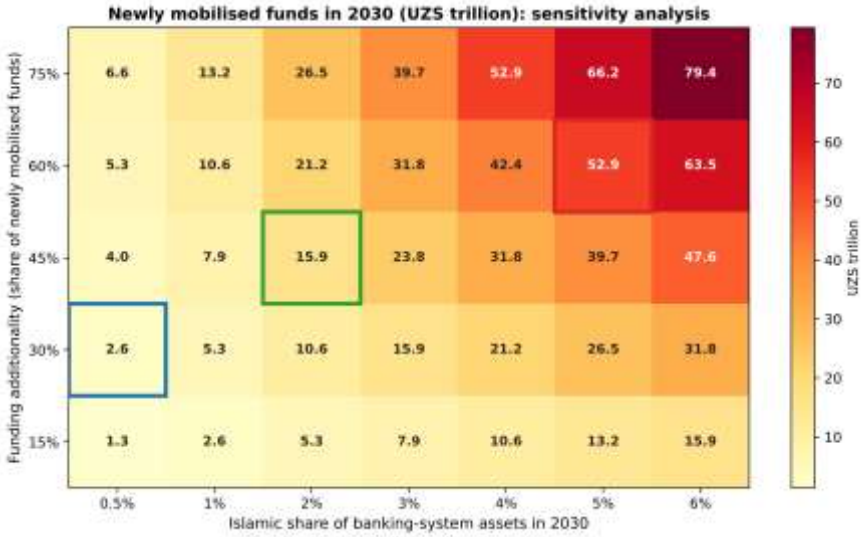

Fig. 3. Sensitivity of newly mobilised funds in 2030 to the Islamic asset share and funding additionality; outlined cells mark the conservative (blue), baseline (green), and accelerated (red) scenarios.

DISCUSSION

4.1. Interpretation of the findings

The results support the three working hypotheses with appropriate qualification. Regarding H1, the legal architecture is comprehensive on entry conditions, supervision, audit, and deposit protection, which is consistent with an intention to align Uzbekistan with international Islamic finance standards [18]. However, the possibility that courts could favour general civil-law principles over specialised standards means that enforceability remains the weakest link [18]. In practice, an early dispute over a murabaha or ijara contract could set an influential precedent, so a deliberate strategy of standard contract templates and judicial awareness training would reduce this risk at low cost.

Regarding H2, the literature indicates that efficiency parity depends on scale [12], [14], [13], and the scenarios show that scale will be reached late in the period and only under favourable conditions. In the conservative scenario, Islamic financing remains around half of one percent of projected lending in 2030, a level at which duplicating Shariah governance, audit, and product development costs across several small institutions would be likely to keep unit costs above those of conventional peers. In contrast, the baseline scenario yields Islamic assets of UZS 35.3 trillion, which is above the UZS 30 trillion asset level that currently characterises the twelve largest conventional banks [7], and the accelerated scenario yields more than twice that level; either outcome would permit scale economies. The implication is that licensing policy should balance competition and viability: too many small licensees may fragment a small market, whereas an overly restrictive approach may delay learning and standard-setting.

Regarding H3, the economic value of Islamic banking lies mainly in additionality. If most Islamic deposits were simply transferred from conventional banks, the system would experience a redistribution of funding with little net gain and potentially higher aggregate compliance costs. If, however, a substantial share represents savings that would otherwise remain outside the banking system, the gain consists of additional

intermediation capacity that supports lending to the real sector. Central Bank officials have described Islamic finance as a channel for drawing capital from the informal economy into the formal banking system [18], and the legal analysis presents the attraction of funds from the informal economy and from investors in countries of the Organisation of Islamic Cooperation as an explicit objective of the reform [19]. The scenario results suggest that this objective, rather than market share alone, should be the primary performance criterion.

4.2. Policy implications

The evidence synthesis and scenario results converge on a sequenced policy agenda, summarised in Table 3. In the first phase, the priority is to remove uncertainty: publishing Islamic finance standards, standardising core contracts, and clarifying tax and civil-law treatment so that Shariah-compliant transactions are neither advantaged nor disadvantaged relative to conventional equivalents. In the second phase, the priority is to build scale and liquidity, mainly by encouraging a limited number of well-capitalised Islamic windows and full-fledged banks and by developing instruments for liquidity management, including sukuk. In the third phase, the emphasis shifts to deepening: SME financing, housing finance, and regional distribution, with performance measured by additionality and real-sector impact rather than by deposit share alone.

Table 3. Sequenced policy agenda for Islamic banking development, 2026–2030 (author's elaboration based on [18], [4]).

Phase	Priority actions	Lead actor	Efficiency channel
2026–2027: Foundation	Publish Islamic finance standards; standard contract templates; clarify civil-law and tax treatment; judicial awareness training	Central Bank; Ministry of Justice; Islamic Finance Council	Lower legal and compliance uncertainty
2027–2028: Scale and liquidity	Licence a limited number of viable Islamic windows and full-fledged banks; develop sukuk and Shariah-compliant liquidity tools	Central Bank; Ministry of Finance; banks	Scale economies; liquidity management
2029–2030: Deepening	Expand SME and housing finance; regional distribution; Islamic finance disclosure and additionality reporting	Banks; regulators; development partners	Higher additionality; real-sector impact

Two cross-cutting measures merit emphasis. The first is a disclosure framework requiring Islamic banks and windows to report Shariah-compliant income, the composition of Islamic assets by contract type, and the share of funding from new depositors. Such data would allow the Central Bank and researchers to measure additionality directly, which is the parameter to which the scenario results are most sensitive. The second is human-capital development, because the success of Shariah governance depends on a sufficient pool of professionals who combine jurisprudential and financial competence, and international partnerships are likely to be necessary during the initial years.

4.3. Limitations and directions for future research

Several limitations should be acknowledged. First, the scenario model is deterministic and relies on stated assumptions about growth, market share, additionality, and the loan-to-asset ratio; it does not estimate

behavioural responses, and its outputs should not be read as predictions. Second, the model treats Islamic assets as having the same net-loan-to-assets ratio as the conventional system, whereas the structure of Islamic balance sheets may differ because of liquidity-management constraints. Third, the literature synthesis is purposive rather than a formal systematic review, and the available studies are drawn from markets that differ from Uzbekistan in institutional maturity. Fourth, efficiency is analysed through the literature and scenario outputs rather than through estimated frontiers because no bank-level data for Uzbek Islamic banks exist yet.

Future research should therefore proceed along three lines. As soon as several licensed institutions have reported for at least two years, stochastic frontier or data envelopment analyses should be used to estimate cost and profit efficiency and to compare Islamic windows with full-fledged banks. Household and enterprise surveys should be used to measure demand and the share of potential customers that are voluntarily excluded, which would provide an empirical basis for the additionality parameter. Finally, stress-testing and macro-financial linkages, including the interaction between Islamic banking and the sovereign sukuk market, deserve dedicated analysis.

CONCLUSION

This study assessed the development prospects and the economic efficiency of Islamic banking in Uzbekistan following the enactment of Law No. ZRU-1126 in March 2026. The legal-institutional assessment shows that the framework offers a coherent basis for a dual banking system, with Central Bank standard-setting, an Islamic Finance Council, mandatory external audit, and deposit protection, although the enforceability of Shariah-compliant contracts remains a concern. The synthesis of international evidence indicates that Islamic banks are not inherently less efficient; cost disadvantages are largely associated with scale and environment, while asset quality, capitalisation, and credit resilience are generally favourable. The scenario analysis suggests that Islamic banking assets could reach between UZS 8.8 trillion and UZS 88.2 trillion by 2030, and that between UZS 2.6 trillion and UZS 52.9 trillion could represent newly mobilised funds, depending on licensing speed, product availability, and the credibility of the framework.

The principal conclusion is that the economic efficiency of Islamic banking in Uzbekistan will be determined by implementation quality rather than by legislation alone. Three priorities follow: reducing legal and standardisation uncertainty in the first phase, building scale and liquidity instruments in the second, and measuring and maximising funding additionality throughout. If these priorities are met, Islamic banking can function as a genuine second pillar of the financial system that widens inclusion and channels additional resources into real-sector financing. If they are not, it risks remaining a small, high-cost niche that redistributes existing deposits. The framework presented here and the explicit assumptions of the scenario model are intended to provide a basis for monitoring and for the empirical evaluation that will become possible as data accumulate.

REFERENCES

[1] Islamic Financial Services Board, *Islamic Financial Services Industry Stability Report 2023*. Kuala Lumpur, Malaysia: IFSB, 2023.

[2] A. Demirgüç-Kunt, L. Klapper, D. Singer, S. Ansar, and J. Hess, *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*. Washington, DC, USA: World Bank, 2018.

[3] M. Mohieldin, Z. Iqbal, A. Rostom, and X. Fu, "The role of Islamic finance in enhancing financial inclusion in Organization of Islamic Cooperation (OIC) countries," *Islamic Economic Studies*, vol. 20, no. 2, pp. 55–120, 2012.

[4] "Islamic financing in Uzbekistan hits UZS 22 billion in early 2026 as Central Bank advances Islamic banking reforms," *Kun.uz*, Tashkent, Uzbekistan, Jun. 16, 2026. [Online]. Available: https://kun.uz/en/news/2026/06/16/islamic-financing-in-uzbekistan-hits-uzs-22-billion-in-early-2026-as-central-bank-advances-islamic-b-b48cd8

[5] "Uzbekistan adopts law to introduce Islamic banking," *UzDaily*, Tashkent, Uzbekistan, Law No. ZRU-1126, Mar. 27, 2026. [Online]. Available: https://uzdaily.ru/en/uzbekistan-adopts-law-to-introduce-islamic-banking/

[6] KPMG, "Uzbekistan: Law introducing Islamic banking enacted," *KPMG TaxNewsFlash*, May 26, 2026. [Online]. Available: https://kpmg.com/us/en/taxnewsflash/news/2026/05/uzbekistan-law-introducing-islamic-banking-enacted.html

[7] "Uzbekistan's commercial bank assets rise 20.5% in 2026," *UzDaily*, Tashkent, Uzbekistan, Oct. 2026. [Online]. Available: https://www.uzdaily.uz/en/uzbekistans-commercial-bank-assets-rise-205-in-2026/

[8] Z. Iqbal and A. Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*, 2nd ed. Chichester, U.K.: Wiley, 2011.

[9] M. Iqbal and P. Molyneux, *Thirty Years of Islamic Banking: History, Performance and Prospects*. Basingstoke, U.K.: Palgrave Macmillan, 2005.

[10] R. Levine, "Finance and growth: Theory and evidence," in *Handbook of Economic Growth*, vol. 1A, P. Aghion and S. N. Durlauf, Eds. Amsterdam, The Netherlands: Elsevier, 2005, pp. 865–934.

[11] P. Imam and K. Kpodar, "Islamic banking: How has it expanded?" *Emerging Markets Finance Trade*, vol. 52, no. 1, pp. 112–137, 2016.

[12] T. Beck, A. Demirgüç-Kunt, and O. Merrouche, "Islamic vs. conventional banking: Business model, efficiency and stability," *J. Bank. Finance*, vol. 37, no. 2, pp. 433–447, Feb. 2013.

[13] M. Čihák and H. Hesse, "Islamic banks and financial stability: An empirical analysis," *J. Financial Services Res.*, vol. 38, no. 2–3, pp. 95–113, 2010.

[14] J. Johnes, M. Izzeldin, and V. Pappas, "A comparison of performance of Islamic and conventional banks 2004–2009," *J. Econ. Behav. Organ.*, vol. 103, pp. S93–S107, Jul. 2014.

[15] P. Abedifar, P. Molyneux, and A. Tarazi, "Risk in Islamic banking," *Rev. Finance*, vol. 17, no. 6, pp. 2035–2096, 2013.

[16] M. Hasan and J. Dridi, "The effects of the global crisis on Islamic and conventional banks: A comparative study," *J. Int. Commerce, Econ. Policy*, vol. 2, no. 2, pp. 163–200, 2011.

[17] R. N. Kayed and M. K. Hassan, "The global financial crisis and Islamic finance," *Thunderbird Int. Bus. Rev.*, vol. 53, no. 5, pp. 551–564, 2011.

[18] Kinstellar, "Uzbekistan introduces a legislative framework for Islamic banking," Kinstellar Legal Update, Apr. 2026. [Online]. Available: https://kinstellar.com/news-and-insights/detail/4227/uzbekistan-introduces-a-legislative-framework-for-islamic-banking

[19] E. Burkhan and T. Muzaffar, "Bridging Traditional and Modern Management in Uzbekistan's Cultural Sectors," *Menejment va Mehnat Munosabatlari Onlayn Ilmiy Jurnali*, vol. 1, no. 1, pp. 17–21, 2024.