



OPPORTUNITIES FOR DEVELOPING ISLAMIC FINANCE IN UZBEKISTAN: EVIDENCE, LEGAL PATHWAYS, AND MARKET DESIGN

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Abstract

This article analyzes the adoption of the new Law on the Implementation of Islamic Finance in Uzbekistan and the potential for implementing the Islamic financial system in Uzbekistan through this law. The analysis is based primarily on official data from the World Bank and the International Monetary Fund, the structure of the banking sector, and international Islamic finance indicators. The analysis explores the high latent demand and potential for financial inclusion among the population, the development of a national regulatory framework that includes Sharia-compliant governance and tax incentives, and the potential for developing a sukuk market based on the experience of the existing conventional bond market.

Keywords: Islamic finance, Uzbekistan financial system, shariah-compliant banking, sukuk market development, financial inclusion, green sukuk, sustainable finance, islamic capital markets, regulatory framework, shariah governance, macroeconomic reforms, banking sector development.

Introduction

Islamic financial instruments are increasingly gaining importance as reliable and efficient financial tools and are being considered as alternative mechanisms for financing investment projects. By 2024, global Islamic finance assets reached USD 5.98 trillion, representing a 21% year-on-year growth, according to the Islamic Finance Development Report 2025 (IFDI), prepared in partnership with the Islamic Corporation for the Development of the Private Sector. Parallel datasets confirm strong momentum, although definitions differ: the Islamic Financial Services Board estimates the Islamic financial services industry at USD 3.88 trillion in 2024, reflecting a narrower scope and a different compilation methodology. Despite measurement differences, both perspectives converge on two strategic points: the continued expansion of Islamic banking and sukuk, and the importance of developing deeper capital markets-particularly liquid and benchmark sukuk-to support systemic resilience.

Based on the analyzed data, the introduction of Islamic finance in Uzbekistan is also a matter of significant importance. The country is undergoing rapid economic and institutional reforms, while macroeconomic indicators-despite elevated external uncertainty-demonstrate strong growth and improving nominal stability. In its concluding statement in April 2026, the International Monetary Fund reported real GDP growth of 7.7% in 2025, a decline in unemployment to 4.8%, and a reduction in inflation to 7.3% by the end of 2025 (from 9.8% a year earlier). These factors are critical for Islamic finance, as the successful functioning of Islamic banking and sukuk markets requires credible



macroeconomic policies and predictable inflation trajectories, stable sovereign and regulatory institutions, and a pipeline of real-sector projects suitable for asset-based or risk-sharing financing. Until recently, the primary constraint for Uzbekistan was legal in nature: Islamic finance was recognized as a strategic opportunity but lacked a comprehensive regulatory framework. A 2023 report by the Organization for Economic Co-operation and Development on financing the green transition explicitly noted the absence of a regulatory framework for Islamic finance at that time, while also highlighting demand potential and the relevance of green sukuk as an additional financing instrument. This barrier has now been substantially reduced with the adoption Law of the Republic Uzbekistan №1126. The law stipulates the expansion of access to financial services and the introduction of new banking products aligned with international Islamic finance standards, directly linking these reforms to the gradual implementation of Islamic banking services, the reduction of the shadow economy, and the attraction of targeted foreign investment. As of mid-April 2026, the law has been adopted but has not yet entered into force; its effective date is June 29, 2026, implying a transition period for secondary regulation and market preparation.

Opportunities extend beyond the banking sector. Uzbekistan has demonstrated practical capital market capabilities through repeated issuances of sovereign international bonds with diversified currencies and maturities, as well as explicit alignment with sustainable development goals and green finance frameworks. In February 2025, Uzbekistan issued approximately USD 1.5 billion in sovereign international bonds across tranches in US dollars, euros, and Uzbek soums, with reported oversubscription and transparent allocation of proceeds, including financing aligned with green development objectives and reporting in accordance with international standards and independent verification. In October 2023, the country issued its first green sovereign Eurobonds, which reportedly attracted interest from over 30 international investors. This experience is directly applicable to sukuk issuance-particularly in terms of investor communication, allocation reporting, external verification processes, and fund management-although sukuk structures require additional design elements, including asset structuring, special purpose vehicles, and Sharia-compliant governance frameworks.

Methods

This study applies a mixed-method research design combining document analysis, comparative financial instrument mapping, and structured risk assessment. The approach is intentionally policy-oriented, reflecting the applied nature of Islamic finance market-building.

First, a legal institutional gap analysis mapped Law of the Republic Uzbekistan №1126 provisions to the functional requirements of Islamic finance ecosystems (Shariah governance, licensing, product scope, tax neutrality, safety nets). Second, a comparative instrument analysis contrasted sukuk versus conventional bonds across structural, legal, risk, and investor dimensions using standard definitions and authoritative references (AAOIFI and World Bank). Third, a market readiness scorecard assessed Uzbekistan's preparedness across seven pillars (regulation, Shariah governance, financial infrastructure, sovereign benchmark capacity, investor base, project pipeline, and human capital). The scoring is qualitative but evidence-anchored to the cited diagnostics.



Results

The IFDI 2025 report estimates that global Islamic finance assets will reach US\$5.98 trillion in 2024, growing by 21% year-on-year. The IFDI 2024 report projects assets of US\$4.9 trillion in 2023 (+11%), indicating accelerated growth in 2024. Meanwhile, ICD/LSEG reports highlight the growing scale of sukuk markets: the total outstanding sukuk exceeded US\$1 trillion in 2024, and total sukuk issuance reached US\$254.3 billion. These figures highlight Uzbekistan's potential: even a small market share would represent a significant capital influx and diversification, allowing it to avoid dominant banking intermediation.

However, global data also reveals concentrated structures and recurring constraints. The Financial Stability Board of India's (IFSB) 2025 report emphasizes that Islamic finance remains structurally concentrated in the banking sector, and underdeveloped capital markets limited issuance volumes of benchmark securities and secondary market liquidity limit the usefulness of sukuk for liquidity management and price discovery. This is important for Uzbekistan: without targeted issuance programs aimed at "market formation" and supporting regulations (including listing, special purpose vehicles, and tax neutrality), sukuk may remain sporadic and expensive rather than systemic instruments.

A key practical opportunity for Uzbekistan lies in expanding its sovereign financing toolkit (and, subsequently, corporate financing) through the combined use of conventional bonds and sukuk instruments. These structural differences are not merely cultural; they extend to legal documentation, asset requirements, disclosure standards, accounting treatment, and insolvency/liquidation frameworks.

The Accounting and Auditing Organization for Islamic Financial Institutions defines investment sukuk as certificates of equal value representing undivided ownership shares in tangible assets, usufructs, or services, emphasizing true ownership and conditions for tradability. Similarly, the World Bank characterizes sukuk as proportional ownership rights in underlying assets and/or income streams, distinguishing them from purely interest-based debt instruments.

These definitions imply that a sukuk regime in Uzbekistan must establish clear mechanisms for asset transfer (either through true sale or beneficial ownership structures), define the roles of special purpose vehicles (SPVs), ensure the protection of investor rights, and incorporate robust Sharia-compliant governance frameworks.



Table 1. Sukuk versus conventional bonds: key structural and regulatory differences

Dimension	Sukuk (Shariah-compliant certificates)	Conventional bonds
Legal nature	Ownership-based claims linked to underlying assets/transactions; structured to avoid riba (interest)	Debt obligation; issuer promises interest and principal
Return mechanism	Asset/transaction-generated cash flows (lease rentals, sale margins, profit-sharing); often periodic distributions	Coupon interest (fixed or floating)
Underlying requirement	Typically requires identifiable assets, usufruct, or project cashflows; often issued via SPV	No asset linkage required; general credit claim
Governance	Must comply with Shariah standards; requires Shariah governance (board/council) and ongoing compliance review	Financial and legal compliance only
Risk profile	Depends on structure (asset-based vs asset-backed); often combines credit risk with structure and asset performance risks	Primarily credit risk and interest-rate risk
Documentation complexity	Higher: Shariah opinions, multi-contract structures (e.g., ijara, wakala, murabaha), SPV, asset transfer	Standard debt documentation
Tax sensitivity	Vulnerable to “multiple taxation” if asset transfers are taxed; requires tax neutrality provisions	Clear tax treatment in most systems
Typical investor base	Islamic investors + ethical/ESG investors (esp. green sukuk) + conventional investors when structured competitively	Broad conventional investor base
Regulatory infrastructure needs	Shariah governance framework; SPV and securitization rules; Shariah audit; sukuk listing rules	Standard securities regulation and listing rules

This comparative model explains why Uzbekistan's institutional and tax provisions are an important step towards creating a market, but not sufficient in themselves: a practical sukuk market also requires clarity in securities legislation regarding special project companies (SPVs), asset transfers, information disclosure, and investor protection.

Uzbekistan's banking system is large compared to its capital market and remains heavily influenced by the state. As of April 1, 2024, the total assets of the banking system amounted to 665,657 billion soums, while state-owned banks accounted for 67% of assets and 70% of loans. This structure creates both opportunities and challenges. On the one hand, large state-owned banks can act as "anchor issuers" and distribution platforms for Islamic products. On the other hand, government dominance can reduce



competition and innovation, and if government lending persists, it can increase contingent liabilities and credit distortions.

The consolidated balance sheet of commercial banks also indicates a rapid increase in bank liabilities and activity in the field of securities issuance. In the period from March 1, 2024 to March 1, 2025, total assets increased from 648,617 to 780,232 billion soums (+20%), and the volume of securities issued more than doubled from 13,309 to 29,018 billion soums (+118%). This dynamic indicates a growing understanding of securities-based financing, an encouraging sign for future sukuk, provided a legal, sharia, and investment infrastructure is in place.

At the sovereign level, Uzbekistan has demonstrated advanced capital market practices and transparency. The issue of sovereign bonds in 2025 amounted to about 1.5 billion US dollars in equivalent, distributed in tranches in US dollars, euros and soums, with high demand (orders totaling 4.2 billion US dollars) and clear commitments to allocate funds. It is noteworthy that the government indicated that the euro-denominated bonds were issued under the SDG financing program with a "green" designation, with reporting that meets international standards and an independent assessment.

Table 2. Selected indicators of Uzbekistan’s financial readiness relevant to Islamic finance

Indicator	Evidence from official sources	Implication for Islamic finance
State-owned banks’ share	67% of banking assets; 70% of loans (Apr 2024)	Potential anchor issuers and scale, but requires governance reforms to improve efficiency and risk pricing
Growth of issued securities (banks)	Issued securities +118% (Mar 2024→Mar 2025)	Growing familiarity with capital-market funding; can be adapted to sukuk structures
Sovereign market access	~\$1.5bn equiv issuance; strong order book; multi-currency tranches	Credible capacity for future sovereign sukuk issuance (hard-currency and local-currency)
Thematic bond experience	Green/SDG bonds with reporting and external assessment routines	Directly transferable to green sukuk (allocation reporting, impact metrics, verification)
Macro momentum (2025)	GDP growth 7.7%; inflation 7.3% end-2025; deficit 2.1% GDP	Supports investor confidence and local-currency product development if disinflation continues

Discussion

First, the law defines Islamic banking as a regulated area, not a set of specialized products. The establishment of the Central Bank's Islamic Finance Board, tasked with developing Islamic finance standards and supporting regulation and dispute resolution, provides a mechanism for developing consistent national standards. This is consistent with international experience: jurisdictions with



clearer Shariah governance mechanisms tend to experience fewer "interpretative disputes," which otherwise prolong product approval timelines and legal uncertainty.

Second, it enshrines Shariah governance within banks through bank Islamic finance boards with clear responsibilities for ensuring compliance, approving contracts/documents, and supporting risk management and internal controls. This is not merely symbolic. The AAOIFI guidelines on sukuk emphasize that Shariah supervisory boards should not only certify structures but also review contracts and oversee implementation to ensure ongoing compliance. The new governance model in Uzbekistan is fully consistent with this principle, but will only be successful if the boards have real experience, independence, and operational authority.

International data confirms the strategic sequencing of sukuk markets: sovereign bond issuance is often used to determine pricing criteria and liquidity management. The IFSB's 2025 Stability Report emphasizes the importance of regular local currency sukuk issuance to establish benchmark yield curves and support liquidity management, while cautioning that small markets and individual structures reduce the overall utility of sukuk.

Uzbekistan is well positioned to implement a similar sequencing strategy, as it already issues sovereign bonds and reports on thematic instruments. The government's 2025 international bond issuance demonstrates institutional maturity in investor marketing, multi-tranche structuring, and fund distribution, with public reporting and external valuation. These procedures could reduce the cost of sukuk training.

Based on these findings, the following practical roadmap can be formulated.

Uzbekistan should expand its legal framework to explicitly cover sukuk. The inclusion of "Islamic securities (certificates)" in tax provisions is a useful guide, but the securities legal framework should address special purpose vehicle (SPV) regimes, asset transfer/recognition of beneficial ownership, investor protection, and listing rules. The OECD's previous recommendation to consolidate and simplify the legal framework governing the financial system and adopt a consolidated capital markets law remains relevant for the functioning of the sukuk market. Institutional Actions (2026–2028). Uzbekistan should prioritize building capacity in Shariah governance and risk management in Islamic finance. While a central bank and banking boards exist in law, their effectiveness will depend on the qualifications of their academics, independence, conflict-of-interest management, and the publication of standards and decisions. International cooperation with standard-setting organizations is also consistent with global practice, where AAOIFI standards have been adopted in many jurisdictions.

Conclusion

Uzbekistan now has a credible foundation to build an Islamic finance ecosystem. The law's intent is explicit: expand financial services, introduce Islamic banking aligned with international standards, reduce the shadow economy, and attract foreign investment. It establishes a national Shariah governance architecture through a central bank Islamic Finance Council that develops standards and supports regulation and dispute resolution and mandates bank-level Islamic finance councils and organizational arrangements (specialized units, internal audit, separate accounting) as conditions for



licensing. It also introduces tax features explicitly addressing Islamic finance operations and recognizes “Islamic securities (certificates)” in VAT exemptions while deposit protection reforms already reference Islamic banking licenses and investment deposit contracts supporting trust in new products.

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