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INSTITUTIONAL MECHANISMS FOR THE DEVELOPMENT OF THE ISLAMIC BANKING SYSTEM IN UZBEKISTAN AND DIRECTIONS FOR ENSURING FINANCIAL STABILITY

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Abstract: This article comprehensively examines the institutional mechanisms for the establishment and development of the Islamic banking system in Uzbekistan, the possibilities for its integration into the national financial system, and its role in ensuring financial stability. The study investigates the theoretical and economic foundations of Islamic banking, regulatory models developed through international experience, Shariah-compliant financing instruments, prudential supervision mechanisms, and the development characteristics of institutional infrastructure. Furthermore, the legal, economic, organizational, and technological factors influencing the introduction of Islamic financial services into Uzbekistan's banking system are systematically examined.

The research conducts a comparative analysis of Islamic banking regulatory practices in Malaysia, Bahrain, Indonesia, and other countries and proposes an institutional governance model adapted to Uzbekistan's national conditions. A conceptual approach is developed to assess financial stability by integrating capital adequacy, liquidity, asset quality, profitability, risk diversification, and Shariah compliance indicators. Based on the research findings, scientific and practical recommendations are proposed for the gradual development of Islamic banking in Uzbekistan, strengthening the legal foundations of a dual banking system, establishing specialized liquidity management instruments, enhancing institutional supervision, and expanding financial inclusion.

Keywords: Islamic banking system, institutional mechanisms, financial stability, Islamic finance, Shariah governance, sukuk, murabaha, musharakah, mudarabah, liquidity risk, prudential supervision, financial inclusion.

I. Introduction

Structural transformations in the global financial system, the diversification of demand for financial services, and the growing need to channel investment resources efficiently into the real economy have contributed to the development of alternative banking models. In particular, the Islamic banking system differs from conventional banking in that financial operations are organized around real economic assets, trade transactions, investment partnerships, and risk-sharing principles. In this model, interest-based financing is replaced by trade, leasing, and partnership contracts. Consequently, additional opportunities emerge for directing financial resources toward manufacturing, entrepreneurship, infrastructure, and the service sector.

In international practice, Islamic banking is increasingly regarded not merely as a form of financial activity based on religious principles but also as an institutional model that facilitates the

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diversification of financial intermediation, investment attraction, and financial inclusion. The experiences of Malaysia, Bahrain, Saudi Arabia, Indonesia, and other countries demonstrate that the development of Islamic banking is closely associated with effective legislation, prudential supervision, Shariah governance, liquidity management instruments, and the availability of qualified professionals. Nevertheless, Islamic banks remain exposed to credit, market, liquidity, operational, and Shariah non-compliance risks. Therefore, the financial stability of this system must be ensured through a robust institutional governance framework.

In Uzbekistan, diversifying banking and financial services, attracting investment resources into the economy, expanding financing opportunities for small and medium-sized enterprises, and improving access to financial services remain important economic priorities. In this context, the development of Islamic banking may create additional institutional opportunities to strengthen the competitiveness of the national banking system, introduce innovative financial products, and expand cooperation with foreign investors.

However, introducing Islamic banking cannot be limited to offering new financial products. This process requires adapting banking legislation, establishing Shariah compliance supervision, harmonizing accounting and auditing standards, defining the legal status of deposit and investment accounts, ensuring tax neutrality, and developing central bank mechanisms for liquidity support. The coordination of these institutional components is essential for ensuring the long-term financial stability of Islamic banking.

The objective of this research is to systematically analyze the institutional factors influencing the development of Islamic banking in Uzbekistan, compare international practices with national conditions, and scientifically substantiate an integrated governance mechanism aimed at ensuring financial stability.

The main research objectives include examining the institutional foundations of Islamic banking, identifying existing opportunities and constraints within the national banking system, comparatively evaluating foreign regulatory models, systematizing financial stability indicators, and developing a phased strategy for Islamic banking development in Uzbekistan.

Research hypothesis (H1): The coordinated development of the legal framework, Shariah governance, prudential supervision, and liquidity infrastructure has a positive effect on the financial stability of Islamic banks.

II. Research methodology

The study employs a systematic approach, comparative institutional analysis, economic and statistical assessment, logical generalization, regulatory and legal analysis, scenario modeling, and conceptual methods based on expert evaluation.

The systematic approach is used to identify the relationships among the legal, financial, organizational, and supervisory components of Islamic banking. Comparative analysis makes it possible to evaluate institutional models developed in foreign countries and determine their applicability to Uzbekistan.

The information base of the research includes publicly available materials from the Central Bank of the Republic of Uzbekistan, national regulatory and legal documents, and scientific and methodological publications issued by the IFSB, AAOIFI, the Islamic Development Bank Group, the World Bank, and the International Monetary Fund.

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To assess financial stability, the study identifies several key indicators, including capital adequacy, liquidity, non-performing financing, profitability, and Shariah compliance. Based on their economic characteristics and interrelationships, a conceptual model explaining the influence of institutional governance on financial stability is developed.

The following functional relationship forms the methodological foundation of the study:

FS = f (IR, SG, PR, LM, RD, HC)

FS — financial stability of the Islamic banking system;

IR — quality of institutional and legal regulation;

SG — effectiveness of Shariah governance;

PR — level of prudential regulation;

LM — liquidity management capacity;

RD — degree of risk diversification;

HC — human capital and professional competence.

This model is theoretical and conceptual in nature. Its parameters should be empirically estimated in subsequent studies using bank-level statistical data and time-series observations.

The scenario calculations presented in the analysis should not be interpreted as actual banking observations. Instead, they represent hypothetical modeling results intended to illustrate the functioning of the proposed mechanisms.

III. Results and discussion

3.1. Current state and institutional foundations of islamic banking development in Uzbekistan

The development of Islamic banking in Uzbekistan is entering a new institutional stage. In particular, Law No. ZRU-1126, adopted on March 27, 2026, established the legal foundations for conducting Islamic banking activities. The law entered into force on June 29, 2026, creating a regulatory framework for licensing Islamic banking activities, conducting Islamic financial operations, regulating investment deposits, and establishing Islamic finance councils within banks.

The economic significance of this legal reform lies in the establishment of regulatory conditions for Islamic financing mechanisms to operate alongside conventional banking services in Uzbekistan. However, the creation of a legal framework does not mean that a fully developed Islamic banking system has already been established.

According to information published by the Central Bank in August 2026, 12 microfinance institutions offering Shariah-compliant products were operating in the country. In addition, a national roadmap for the development of Islamic finance for 2026–2030, comprising 39 measures, had been developed and approved.

Table 1

Institutional status and priority areas for islamic banking development in Uzbekistan

Institutional area	Status in 2026	Required improvements
Legal regulation	A specialized legal framework has entered into force	Full practical implementation of secondary regulations
Licensing	A legal basis exists for Islamic banks and Islamic banking windows	Development of effective licensing and monitoring practices
Shariah governance	A two-tier governance structure is envisaged	Strengthening independent assessment and auditing mechanisms

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Institutional area	Status in 2026	Required improvements
Liquidity management	Specialized instruments are under development	Establishment of a market for liquid Islamic financial assets
Financial services	Islamic microfinance services are available	Expansion of Islamic banking products
Human resource development	International cooperation has been established	Expansion of certification and practical professional training
Capital market	Legislative development concerning sukuk is ongoing	Establishment of issuance and secondary-market infrastructure

Source: Compiled by the author based on materials from the Central Bank of the Republic of Uzbekistan and national legislation.

The findings presented in Table 1 indicate that the initial institutional foundations for Islamic banking development have been established in Uzbekistan. Nevertheless, effective implementation requires further coordination among legal, financial, and organizational mechanisms. In particular, the development of liquidity management instruments, capital market infrastructure, and Shariah auditing is essential for financial stability.

Furthermore, the expansion of Islamic banking may contribute to a more competitive environment within the national banking system. The introduction of alternative financial products could create additional financing opportunities for different population groups and business entities. However, stronger competition may also generate new challenges associated with attracting financial resources, maintaining profitability, and managing financial risks.

3.2. International experience in islamic banking development and institutional opportunities for Uzbekistan

Examining international experience is particularly important for developing Islamic banking in Uzbekistan because institutional arrangements differ across countries depending on national legislation, banking supervision, and the level of financial market development.

Malaysia's experience demonstrates that Islamic banking development is characterized by the integration of central bank supervision, Shariah governance, and Islamic capital markets. Considerable attention is devoted not only to banking regulation but also to the development of sukuk markets, Islamic investment instruments, and diversified financial services. An important lesson for Uzbekistan is the possibility of developing Islamic banking as an integral component of the national financial system rather than as an isolated financial segment.

Bahrain's experience is distinguished by international standardization and the development of financial infrastructure. The presence of international standard-setting institutions, such as AAOIFI, contributes to the standardization of Islamic financial transactions and improves the comparability of financial reporting. This approach may provide a methodological foundation for harmonizing Shariah standards with national legislation and increasing transparency in Uzbekistan's banking sector.

In Indonesia, Islamic banking development is closely associated with financial inclusion, small business financing, and the expansion of digital banking services. The country's experience highlights the importance of digital technologies, mobile banking, and financial literacy programs in improving public access to Islamic financial products.

Table 2

International institutional models of islamic banking governance

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Country	Institutional model	Main advantage	Potential application in Uzbekistan
Malaysia	Integrated dual banking system	Developed banking and capital market infrastructure	Harmonization of Islamic and conventional banking activities
Bahrain	Regulation based on international standards	Shariah standards and financial reporting systems	Standardization and independent auditing
Indonesia	Inclusive and digital financing model	Financial inclusion and small business coverage	Development of digital Islamic banking services
Saudi Arabia	Banking system with extensive Islamic financing	Widespread application of Islamic financing instruments	Expansion of Islamic financial products
United Arab Emirates	Model integrated with international financial centers	Access to international capital and investment flows	Attraction of foreign investors

Source: Author's comparative synthesis based on international Islamic finance practices.

The comparative analysis suggests that Uzbekistan should develop an integrated institutional model adapted to national conditions rather than fully replicate a single foreign model.

Such a model could incorporate Malaysia's experience in banking supervision and capital markets, Bahrain's standardization practices, and Indonesia's mechanisms for financial inclusion and digital transformation.

However, the effectiveness of transferring international practices depends on the domestic institutional environment. The composition of banking assets, the level of capital market development, financial literacy, digital infrastructure, and professional competence must be considered when adapting foreign models.

3.3. Improving institutional mechanisms for islamic banking development

The effective functioning of Islamic banking depends on the coordinated operation of interconnected institutional mechanisms. These mechanisms can be classified into legal regulation, Shariah governance, prudential supervision, financial infrastructure, corporate governance, and human capital development.

First, the legal regulatory mechanism forms the institutional foundation of Islamic banking. It encompasses bank licensing, defining the legal status of Islamic financial contracts, protecting customer rights, and supervising banking operations. Although the adoption of specialized legislation in Uzbekistan represents an important milestone, its effectiveness depends on the clarity of implementing regulations and legal enforcement procedures.

Second, the Shariah governance mechanism ensures that Islamic banking operations comply with established financial and Shariah standards. This system requires a clear distribution of responsibilities among bank-level Islamic finance councils, internal compliance functions, independent auditors, and central regulatory authorities. Uncertainty in Shariah governance may negatively affect the legal reliability of financial products and customer confidence in the banking system.

Third, the prudential supervision mechanism encompasses capital adequacy, liquidity, asset quality, and risk management. The adaptation of international IFSB standards and Basel banking

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supervision principles is particularly important in this regard. Investment accounts and profit-sharing arrangements specific to Islamic banks require specialized methodological approaches to risk assessment.

Fourth, the development of financial infrastructure is essential for supporting the daily operations of Islamic banks. This includes establishing Shariah-compliant short-term liquidity instruments, interbank financing mechanisms, sukuk markets, settlement systems, and digital financial platforms.

Figure 1 illustrates the integrated institutional mechanism for the development of Islamic banking in Uzbekistan. The model emphasizes the role of government regulation, international financial standards, and institutional cooperation. It highlights the importance of establishing a transparent and effective financial governance framework. The proposed mechanism aims to strengthen financial stability, expand investment opportunities, and support the sustainable development of the national banking system.

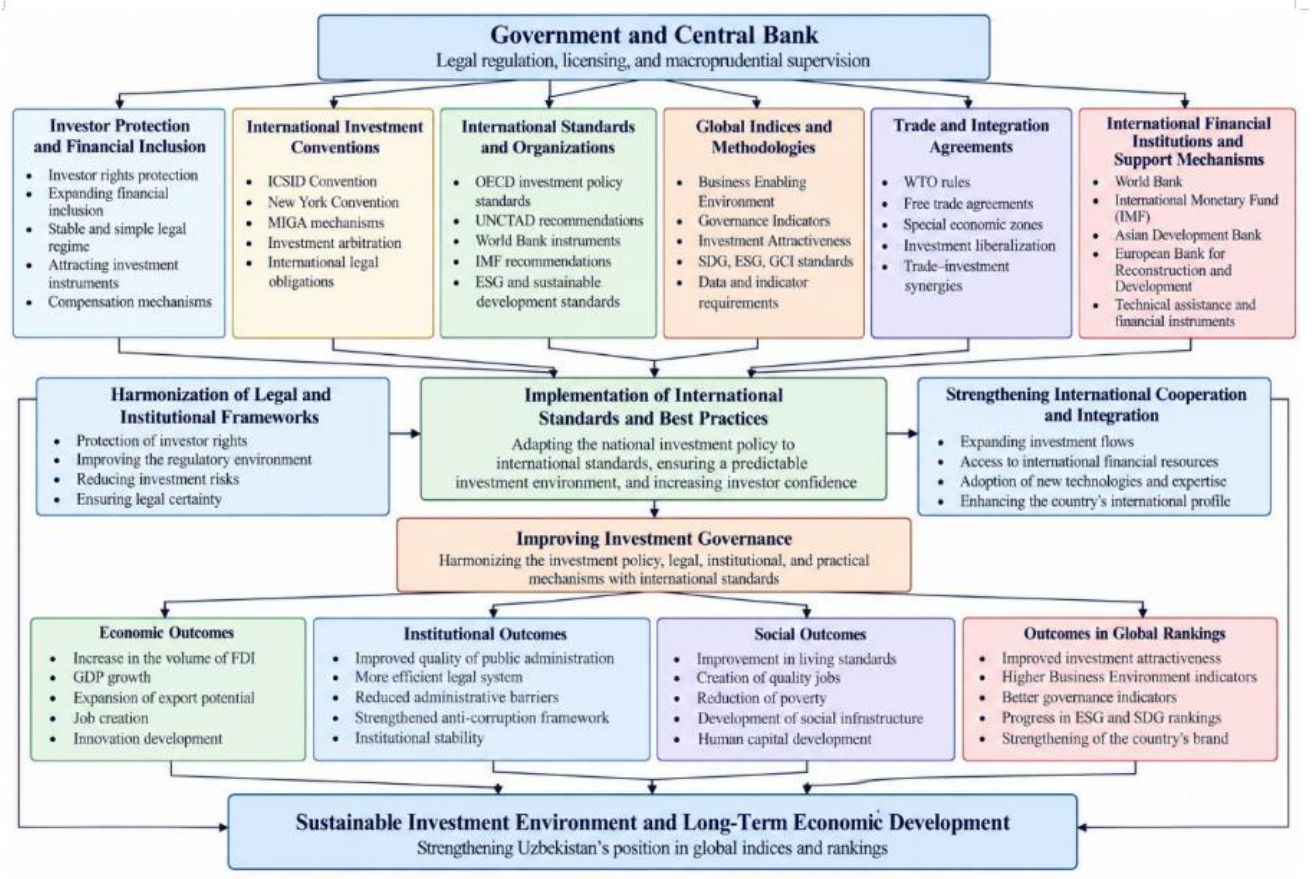


Figure 1. Integrated institutional mechanism for islamic banking development

As illustrated in Figure 1, the integrated institutional mechanism is based on the interaction of regulatory, organizational, financial, and international institutional factors. Government and Central Bank supervision provides the foundation for effective legal regulation, licensing, and macroprudential oversight, while international standards and financial institutions contribute to the

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harmonization of national banking practices with globally recognized principles. The institutional framework incorporates investor protection, international financial conventions, regulatory standards, financial market integration, and cooperation with international financial organizations. These components facilitate the improvement of legal and institutional frameworks, strengthen financial transparency, reduce investment risks, and enhance confidence in the banking sector. Furthermore, the implementation of internationally recognized standards supports the development of Islamic financial instruments, improves corporate governance, and creates favorable conditions for attracting domestic and foreign investment. The interaction of these mechanisms generates multidimensional outcomes, including economic growth, institutional efficiency, financial inclusion, employment opportunities, and improvements in the country's international competitiveness. In particular, the development of Islamic banking can contribute to the diversification of financial services, the expansion of alternative financing mechanisms, and the mobilization of investment resources for productive economic activities. Consequently, the proposed integrated institutional mechanism provides a conceptual foundation for strengthening financial stability, improving the investment environment, and promoting the long-term sustainable development of Uzbekistan's financial system.

The distinguishing feature of the proposed model is that Islamic banking development is viewed not as a collection of separate institutional measures but as a unified governance system. The legal and supervisory environment established by the government and the Central Bank is interconnected with Shariah governance, financial risk management, and liquidity management at the banking level.

Implementing this mechanism may reduce institutional inconsistencies that could arise during Islamic banking development. In particular, unified interpretations of financial product standards, clearly defined responsibilities of Shariah councils, and harmonized prudential requirements may reduce operational costs and strengthen customer confidence.

3.4. Economic mechanisms for ensuring financial stability in islamic banks

Financial stability in Islamic banking refers to a bank’s ability to fulfill its obligations on time, maintain sufficient capital, manage asset quality, and withstand external economic shocks.

Ensuring financial stability requires considering conventional banking indicators alongside the specific risks associated with Islamic financial contracts.

One of the primary financial stability indicators is the capital adequacy ratio:

$$CAR = (K / RWA) \times 100\%$$

Where: K — regulatory capital; RWA — risk-weighted assets.

For example, suppose an Islamic bank has regulatory capital of UZS 150 billion and risk-weighted assets of UZS 1,000 billion:

$$CAR = (150 / 1000) \times 100 = 15\%$$

This result indicates that the bank’s capital adequacy ratio is 15%. However, determining whether this ratio satisfies prudential requirements requires consideration of the bank’s capital structure, investment accounts, and applicable regulatory standards.

The second important indicator is the liquidity coverage ratio:

$$LCR = (HQLA / NCO_{30}) \times 100\%$$

Where: HQLA — high-quality liquid assets; NCO_{30} — expected net cash outflows over a 30-day stress period.

Assuming high-quality liquid assets amount to UZS 240 billion and net cash outflows over 30 days equal UZS 200 billion:

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$$LCR = (240 / 200) \times 100 = 120\%$$

The result indicates that the bank has sufficient calculated liquid assets to cover the projected net cash outflows under the assumed stress scenario.

However, the composition of high-quality liquid assets in Islamic banks must also satisfy Shariah compliance requirements. Therefore, the availability of sukuk and other suitable instruments is particularly important.

The third indicator is the non-performing financing ratio:

$$NPF = (Fproblem / Ftotal) \times 100\%$$

Where: Fproblem — non-performing financing; Ftotal — total financing portfolio.

If non-performing financing amounts to UZS 45 billion and the total financing portfolio equals UZS 900 billion:

$$NPF = (45 / 900) \times 100 = 5\%$$

This result indicates that 5% of the financing portfolio is classified as non-performing.

Although this indicator provides an important signal of credit risk, a comprehensive assessment also requires examining portfolio composition, collateral quality, provisions for expected losses, and the dynamics of non-performing assets.

Table 3

Indicators for assessing financial stability in islamic banking

Indicator	Economic interpretation	Contribution to financial stability
CAR	Ratio of capital to risk-weighted assets	Capacity to absorb financial losses
LCR	Short-term liquidity buffer	Ability to meet obligations during stress
NSFR	Availability of stable long-term funding	Balance between asset and liability maturities
NPF	Share of non-performing financing	Asset quality and credit risk
ROA	Return on assets	Efficiency of resource utilization
ROE	Return on equity	Profitability of shareholders' capital
Shariah compliance	Compliance of operations with established standards	Reduction of legal and reputational risks
Diversification	Distribution of assets across sectors and customers	Reduction of concentration risk

Source: Compiled by the author based on IFSB prudential indicators and banking supervision methodologies.

The comprehensive analysis of these indicators demonstrates that financial stability in Islamic banking cannot be adequately assessed using a single indicator. A bank with high capital adequacy may still experience liquidity shortages, while a bank with strong asset quality may face operational or Shariah non-compliance risks. Therefore, these indicators should be monitored through an integrated financial stability assessment framework.

3.5. The impact of islamic financing instruments on financial stability

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The economic performance of Islamic banking largely depends on the composition of the financing instruments employed.

Murabaha, ijarah, musharakah, mudarabah, and other Islamic contracts affect bank profitability, risk exposure, and liquidity in different ways. Murabaha is based on the purchase of an asset by the bank and its subsequent sale to the customer at an agreed markup. This instrument enables the bank to determine its expected contractual income in advance. However, it also creates risks associated with customer default, the legal status of the asset, and operational expenses.

Ijarah is based on granting the right to use an asset for a specified period. Under this arrangement, the bank generates income through lease payments. Nevertheless, asset depreciation, maintenance responsibilities, ownership-related obligations, and delayed lease payments may affect financial performance.

Partnership-based instruments, such as musharakah and mudarabah, allow profits and risks to be allocated according to contractual arrangements. These instruments may contribute to entrepreneurship development but also involve challenges related to project monitoring, information asymmetry, and the assessment of management performance.

Table 4

Economic characteristics of islamic financing instruments

Instrument	Source of income	Main risk	Financial stability mechanism
Murabaha	Trade markup	Payment and counterparty risk	Customer assessment, collateral, and monitoring
Ijarah	Lease payments	Asset and payment risk	Insurance/takaful and asset monitoring
Musharakah	Partnership profits	Business and investment risk	Project evaluation and governance supervision
Mudarabah	Contractually agreed share of profits	Information asymmetry and agency risk	Auditing, transparent reporting, and monitoring
Sukuk	Returns from underlying assets or projects	Market, issuer, and liquidity risks	Diversification and secondary-market development
Salam	Advance payment for future delivery	Delivery and price risk	Contractual safeguards and collateral monitoring

Source: Developed by the author based on the contractual characteristics of Islamic financing.

As shown in Table 4, each Islamic financing instrument has a distinct risk profile. Therefore, maintaining a balanced portfolio composition is important for Islamic banks. Excessive reliance on murabaha may increase exposure to specific counterparty and payment risks. Conversely, a rapid increase in partnership-based financing may raise monitoring costs and investment risks.

In Uzbekistan, the diversification of Islamic financing instruments should reflect the economic characteristics of individual sectors. For example, ijarah may be applied to financing industrial

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equipment and vehicles, murabaha to trade transactions and working capital needs, and musharakah or mudarabah to investment projects where the relevant contractual conditions can be satisfied.

3.6. Scenario-based assessment of financial stability in islamic banking

Hypothetical scenario modeling was employed to assess the relationship between Islamic banking development and financial stability. Three scenarios were developed using capital adequacy, liquidity coverage, non-performing financing, return on assets, and asset growth indicators. The first scenario represents conservative development. Under this scenario, financing expands relatively slowly, substantial liquidity reserves are maintained, and risk limitation remains a priority. The second scenario represents balanced development, focusing on maintaining an appropriate relationship among bank assets, capital, and liquidity. The third scenario represents accelerated development, characterized by rapid expansion of the financing portfolio, potentially accompanied by greater pressure on capital and liquidity.

Table 5

Hypothetical financial stability scenarios for an islamic bank

Indicator	Conservative scenario	Balanced scenario	Accelerated growth scenario
CAR, %	18	16	13
LCR, %	140	125	105
NPF, %	3	4	7
ROA, %	1.4	1.8	2.1
Asset growth, %	8	15	25

Note: All figures are hypothetical values selected for modeling purposes and do not represent actual statistical results of banks operating in Uzbekistan. Financial indicators across development scenarios — capital adequacy and non-performing financing ratios, %. Hypothetical model.

Scenario chart data

Scenario	CAR (%)	NPF (%)
Conservative	18	3
Balanced	16	4
Accelerated	13	7

The scenario analysis indicates that accelerated development may increase asset profitability while simultaneously reducing capital adequacy and liquidity. In the hypothetical accelerated growth scenario, ROA reaches 2.1%, while CAR decreases to 13% and NPF rises to 7%. These results illustrate the importance of coordinating growth objectives with financial stability requirements. Under the balanced scenario, CAR reaches 16%, LCR equals 125%, and NPF remains at 4%. This hypothetical combination reflects higher asset growth than the conservative scenario and lower risk exposure than the accelerated growth scenario.

However, these values should not be interpreted as universally optimal targets for actual banks. Such conclusions require evaluation based on individual business models, asset composition, and applicable prudential regulations. The findings suggest that Uzbekistan should prioritize risk-adjusted sustainable growth rather than maximizing the expansion of Islamic banking assets.

3.7. Development of an integrated financial stability index for islamic banking

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One of the methodological contributions of the research is the proposed use of an integrated index to comprehensively assess the financial stability of Islamic banks.

The index is expressed as follows:

$$IFSI = \Sigma_{i=1}^{n} w_i Z_i$$

Where: IFSI — Integrated Financial Stability Index; w_i — weight assigned to indicator i; Z_i — normalized value of indicator i.

The sum of the weights must satisfy the following condition:

$$\Sigma_{i=1}^{n} w_i = 1$$

Five principal indicators are proposed for calculating the index: capital adequacy, liquidity, asset quality, profitability, and Shariah compliance.

Table 6

Proposed structure of the integrated financial stability index

Indicator	Weight	Assessment criterion
Capital adequacy	0.25	Capacity of capital to absorb risks
Liquidity	0.25	Ability to meet short-term obligations
Asset quality	0.20	Level of non-performing financing
Profitability	0.15	Financial performance of banking operations
Shariah compliance	0.15	Compliance of operations and governance with established standards
Total	1.00	

Source: Author's conceptual proposal. The weights have not been validated through expert surveys or statistical testing.

Under this approach, indicators are normalized to values between 0 and 1. For positive indicators, higher normalized values represent better performance. For negative indicators, such as the non-performing financing ratio, lower raw values should correspond to higher normalized scores. For example, assume that a hypothetical bank has the following normalized scores: Capital adequacy — 0.80; Liquidity — 0.75; Asset quality — 0.85; Profitability — 0.70; Shariah compliance — 0.90.

The index is calculated as follows:

$$IFSI = 0.25(0.80) + 0.25(0.75) + 0.20(0.85) + 0.15(0.70) + 0.15(0.90)$$

$$IFSI = 0.7975$$

Thus, the hypothetical bank's Integrated Financial Stability Index equals 0.7975, corresponding to 79.75% on the selected scoring scale. However, this value does not indicate that the bank has a 79.75% probability of remaining financially stable or that it automatically complies with regulatory requirements. Interpretation of the index requires threshold calibration using historical banking data and stress-testing results. The scientific and practical advantage of this index is its ability to combine financial and non-financial factors within a unified assessment framework. In particular, incorporating Shariah compliance alongside conventional banking indicators allows the model to reflect the distinctive institutional characteristics of Islamic banking.

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IV. Discussion

The analysis demonstrates that a complex institutional relationship exists between Islamic banking development and financial stability. In particular, the coordination of legal regulation, Shariah governance, prudential supervision, and financial infrastructure is essential for the sustainable functioning of the banking system. At the same time, the distinctive contractual mechanisms of Islamic banking do not automatically eliminate financial risks.

On the contrary, the complexity of Islamic financial operations requires more sophisticated risk management and corporate governance systems. An important feature of the integrated institutional model proposed in this study is its ability to connect legal and organizational mechanisms with financial stability indicators. This approach enables Islamic banking development to be evaluated not merely through the number of financial products or the expansion of banking assets but also through capital adequacy, liquidity, asset quality, and institutional compliance. The scenario modeling results illustrate that rapid growth in banking assets does not necessarily translate into stronger financial stability. In the hypothetical calculations, accelerated growth is associated with higher profitability but also with declining capital adequacy and liquidity and an increasing share of non-performing financing.

Therefore, risk-adjusted growth strategies should be prioritized in developing Islamic banking in Uzbekistan. One of the methodological contributions of the research is the justification for incorporating Shariah compliance as a separate factor in financial stability assessments. This factor may influence reputational stability, customer confidence, and the institutional reliability of financial contracts. Nevertheless, the research has certain limitations. In particular, the parameters of the proposed integrated index and scenario models have not been estimated using empirical bank-level data. Consequently, the results should be interpreted as conceptual findings and hypothetical modeling outcomes. Future research should empirically evaluate the effectiveness of the proposed mechanisms using financial statements, customer surveys, international panel datasets, and econometric models.

V. Conclusion and recommendations

The research findings indicate that the development of Islamic banking in Uzbekistan represents an important institutional opportunity to diversify the national financial system, attract investment resources, and expand access to financial services. The establishment of the legal foundations for Islamic banking in 2026 marked an important stage in this process. However, the long-term effectiveness of the system depends on the coordinated development of regulatory mechanisms, Shariah governance, prudential supervision, liquidity infrastructure, and human capital.

The study proposes an integrated institutional model for Islamic banking development. Within this model, regulatory measures implemented by the government and the Central Bank are linked to risk management, Shariah governance, and financial infrastructure at the banking level. Furthermore, a conceptual integrated index combining capital adequacy, liquidity, asset quality, profitability, and Shariah compliance is developed to assess financial stability.

Based on the research findings, the following scientific and practical recommendations are proposed:

1. Improving institutional regulation. Develop secondary regulations governing Islamic banking in accordance with international standards and ensure legal clarity in licensing and supervisory procedures.

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2. Enhancing Shariah governance effectiveness. Coordinate the activities of central and bank-level Islamic finance councils, strengthen independent Shariah auditing, and develop standardized reporting systems.

3. Establishing liquidity management infrastructure. Strengthen banks' payment capacity through the development of Shariah-compliant short-term financial instruments, interbank liquidity mechanisms, and sukuk markets.

4. Digitalizing financial stability monitoring. Develop an integrated monitoring system based on capital adequacy, liquidity, non-performing financing, profitability, and Shariah compliance indicators.

5. Diversifying financial services and investment instruments. Apply appropriate Islamic financing contracts to support small and medium-sized enterprises, manufacturing, services, and infrastructure projects based on economic feasibility.

6. Developing human capital. Establish a continuous professional training system in Islamic finance, banking supervision, risk management, Shariah auditing, and digital financial services.

Overall, the priority for Islamic banking development in Uzbekistan should not be the rapid expansion of banking assets but the establishment of a long-term development model based on effective institutional governance and financial stability. Such an approach may strengthen the competitiveness of the national banking system, improve the efficient allocation of financial resources, and stimulate investment activity.

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