ISLAMIC FINANCE IN UZBEKISTAN: NEW LEGAL FRAMEWORK AND BUSINESS OPPORTUNITIES

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Abstract. *This article analyses the Islamic finance legal framework established in Uzbekistan in 2026, including bank licensing, corporate governance, taxation, professional qualifications and international standards. Rules already in force are clearly distinguished from initiatives that remain at the project or announced-program stage. The paper also assesses emerging opportunities and key market constraints for banks, microfinance institutions, investors and professional service providers.*

Keywords: *Islamic finance, Islamic banking, microfinance, sukuk, takaful, AAOIFI, licensing, taxation, internal audit, investment.*

METHODOLOGY

The study is based on normative-legal analysis, an institutional approach, and descriptive analysis of official statistical data. The sources used include official materials from LexUZ, the Central Bank of the Republic of Uzbekistan, the President of the Republic of Uzbekistan, and AAOIFI. Norms that have already entered into legal force were assessed separately from initiatives that are still under discussion or whose implementation has only been announced.

INTRODUCTION

For some time, Islamic finance in Uzbekistan developed mainly through microfinance services, individual projects of international financial institutions, and initiatives of market participants. The year 2026 marked a new stage for this direction: a legal definition of Islamic banking activity, the type of licence, governance bodies, the tax approach, and the requirements for specialists were all consolidated in national legislation.

Law No. O’RQ-1126 was adopted on 27 March 2026 and entered into force on 29 June 2026, three months after its official publication . The Law introduced amendments to the Central Bank Law, the Civil Code, the Law “On Banks and Banking Activity,” the Tax Code, and legislation on state duties, licensing, public procurement, and deposit protection . For this reason, the reform should be assessed not merely as the introduction of “interest-free lending,” but as a complex institutional change covering banking law, taxation, corporate governance, accounting, and oversight.

NEW LEGAL FRAMEWORK: WHAT IS ALREADY IN FORCE?

In the legislation, “Islamic banking activity” is defined as banking activity carried out in accordance with the legislation on banks and banking activity and with Islamic finance standards . The list of banking operations was expanded to include profit-sharing-based financing and the raising of investment deposits, asset management on an agency basis, the sale of goods on deferred payment (murabaha), financing on a prepayment basis (salam), participation through partnership or in charter capital, and Islamic leasing (ijara) with a right to purchase the property .

Importantly, the Law introduced a separate Islamic banking licence. Banking activity may be carried out on the basis of an ordinary banking licence and/or a licence granting the right to carry out Islamic banking activity; licences are issued without a time limit . This provision creates a legal avenue both for establishing a full-fledged Islamic bank and for an existing bank to launch an Islamic line of business, provided it obtains the relevant licence and sets up a separate governance system. However, the Law’s entry into force does not mean that banks have automatically begun Islamic operations. Each bank must obtain a Central Bank licence, prepare its internal systems, and meet the qualification requirements.

By Resolution No. 19/2 of the Central Bank Board dated 23 June 2026, amendments were made to the existing licensing regulation; the document was registered with the state registry under No. 3252-7 on 20 July 2026 and entered into force on the date of its official publication . This means it is not an entirely new, standalone regulation, but a new edition of Regulation No. 3252 “On the Procedure and Conditions for Licensing Banking Activity,” adapted to Islamic banking activity .

CORPORATE GOVERNANCE AND THE OVERSIGHT SYSTEM

The name of an Islamic banking product, or an Arabic term used in a contract, does not by itself guarantee compliance with the standards. For this reason, the Law and the licensing procedure require a multi-tier governance model. A bank carrying out Islamic banking activity must have a Shariah (Islamic finance) board consisting of at least three members . The board reviews contracts, internal documents, and reports, issues opinions on the compliance of operations with the standards, assists the bank’s management in implementing risk and internal control systems, and submits a report to the general meeting of shareholders at least once a year .

During the licensing process, a bank must submit draft regulations on the Islamic finance board, a dedicated Islamic finance unit, and internal audit for Islamic finance . It must also establish a shariah-compliance policy, a procedure for purifying non-compliant income and directing it to charitable purposes, transparency measures, and an external audit procedure . Beyond product development, these requirements mean that banks must rebuild their compliance, legal, accounting, risk management, and audit functions as a single integrated system.

AAOIFI CERTIFICATIONS AND THE LABOUR MARKET

The new regime significantly increases demand for qualified specialists. The person responsible for Islamic banking activity must hold a higher education degree in finance, economics, or Islamic finance and, apart from certain educational or academic-degree exemptions, must hold one of the AAOIFI certifications: CIPA, CSAA, CPSS, CPAAGE, or CSE . At least one member of the Islamic finance board must already hold the relevant AAOIFI certification, and from 1 July 2027, subject to specified exemptions, this requirement will apply to all board members .

The Central Bank’s accession to AAOIFI as a regulatory member on 27 May 2026 created an institutional channel for integrating the standards into the national supervisory system . Prior to that, the Central Bank had joined the Islamic Financial Services Board (IFSB) on 23 December 2024 . The two tracks complement each other: AAOIFI focuses more on contracts, accounting, audit, governance, and ethical standards, while IFSB focuses on prudential supervision, risk, and financial stability.

An agreement to translate the AAOIFI standards into Uzbek was signed on 17 May 2026 and officially announced on 10 June . The project covers 61 standards, approximately 1,200 pages, and the translation is planned to be completed within roughly six months . This means that an official Uzbek edition of the standards is not yet a finished product, but a project currently under way.

SPECIAL TAX RULES: NOT A PREFERENCE, BUT AN ATTEMPT AT NEUTRALITY

Law No. O’RQ-1126 introduced a special chapter into the Tax Code entitled “Specific Features of Taxation of Islamic Finance Operations” . Its main purpose is to reduce the risk of the same transaction being taxed multiple times because the goods or the asset pass through the bank’s name in Islamic transactions, and to create tax conditions broadly equal to those of conventional financing.

Certain operations were exempted from VAT: specific services related to Islamic securities, trust-management-based services, the positive difference between Islamic lease (ijara) payments and the purchase price of the asset, and the mark-up on goods sold under Islamic financing . Income received by an individual from funds provided to a bank or microfinance organisation on an agency, trust-management, or partnership basis was exempted from personal income tax . Penalties collected for late payments and directed to charity are recognised as a deductible expense for profit tax purposes .

However, these rules do not mean that Islamic finance operations are exempt from all taxes. Where the special chapter does not provide otherwise, the general rules of the Tax Code apply . For example, a bank or microfinance organisation that leases real estate under an Islamic lease is recognised as the payer of property and land tax . Thus, the essence of the reform lies not in a blanket tax exemption, but in creating a special approach suited to the transaction structure that reduces the burden of repeated taxation.

THE MARKET’S CURRENT PERFORMANCE INDICATOR: MICROFINANCE

While banking legislation is being updated, Islamic microfinancing is already showing growth as a practical segment. In the first quarter of 2026, the volume of Islamic financing services provided by microfinance organisations reached 11.2 billion so’m, almost eight times higher than the corresponding period of 2025 . Of this volume, 7.7 billion so’m, or 69%, came from murabaha, 2.1 billion so’m, or 19%, from mudaraba, and 1.4 billion so’m, or 12%, from Islamic lease (ijara) .

This growth indicates the existence of demand, but the market is still small and highly concentrated geographically. Of the services provided in the first quarter, 10.6 billion so’m, or 94%, were provided in the city of Tashkent . For this reason, the next task is not simply to increase volume, but to improve product quality, consumer protection, regional coverage, and the diversification of funding sources.

PLANNED INITIATIVES

It is necessary to distinguish sovereign sukuk and the 2026–2030 roadmap from the law and licensing rules already in force. At the Fifth Tashkent International Investment Forum on 17 June 2026, the President announced that a sovereign Islamic bond - sukuk - programme would be launched . This does not mean that sukuk have already been issued or that investor funds have been raised. For issuance, an asset base, legal structure, special purpose vehicle, tax and accounting arrangements, rating, investor documentation, and capital-market infrastructure still need to be prepared .

On 27 April–1 May 2026, the Central Bank and IFSB discussed a draft "roadmap" for developing Uzbekistan's national Islamic finance industry for 2026–2030 . It addressed banking, capital markets, takaful, personnel training, and institutional capacity . At this stage, this is not yet an approved state programme, but should be assessed as a project still being developed.

NEW OPPORTUNITIES FOR BUSINESS

The main opportunity for banks is to offer asset-based trade and lease, partnership, investment deposit, and agency products in a lawful and regulated form. This can create alternative solutions for financing production equipment, transport, real estate, raw materials, and trade turnover. Microfinance organisations, for their part, have the opportunity to bring simple, small-scale products to the regions for small businesses and individual entrepreneurs.

If the sukuk programme is implemented, the state and, later, corporate issuers may gain access to a new investor base for long-term infrastructure and investment projects. There is market potential in takaful, but the roadmap discussions and certain provisions in the Tax Code do not mean that a fully-fledged insurance market has already been launched; separate prudential, licensing, and accounting rules are still required .

For fintech companies, an opportunity arises to create technological solutions for digital contracting processes, asset tracking, payment schedules, investment accounts, and shariah-compliance monitoring. This is an analytical opportunity arising from the legal reforms, and its implementation must strictly comply with data protection, cybersecurity, and consumer-rights requirements.

One of the segments with the fastest potential growth is education and professional services. Banks will need AAOIFI-certified executives and board members, product-structuring lawyers, accountants, internal and external auditors, and risk and compliance specialists . The Uzbek translation of the standards may improve the quality of local training programmes and consulting, but alongside the translation, practical guidance, model contracts, and regulatory clarifications are also needed .

ISSUES TO BE ADDRESSED

The first issue is the quantity and quality of personnel. The certification requirement should not become merely a document-collection exercise, but should be linked to real practical competence. The second issue is the population's financial literacy. Islamic finance is not "free money" or automatically a cheaper product than conventional credit; the sale price, lease payment, profit distribution, asset risk, and obligations must be clearly explained.

The third issue is the alignment of international standards with national legislation. What matters is not the mechanical transposition of AAOIFI and IFSB standards, but their adaptation to local civil, tax, banking, and judicial practice. The fourth issue is accounting and audit. Without a consistent accounting policy for asset recognition on the bank's balance sheet, profit recognition, investment accounts, non-compliant income, and charitable funds, comparison and oversight across products will remain difficult.

CONCLUSION AND A 3–5 YEAR OUTLOOK

In 2026, Uzbekistan created the most important precondition for Islamic finance - legal recognition and the foundations of licensing and taxation. Over the next three to five years, market development will be determined less by the number of documents than by their practical implementation. The most realistic scenario is a gradual rollout: first, licensed products and dedicated Islamic lines at individual banks, growth in microfinance volumes, and the formation of a base of standards and personnel, followed later by the expansion of sukuk and takaful infrastructure.

The potential for rapid growth is high, but so is the risk of losing public trust. A gap between a product's name and its economic substance, weak audit, or misleading advertising could slow the market down. Conversely, if strong Islamic finance boards, independent audit, clear tax practice, open disclosure, and qualified personnel are ensured, Islamic finance could become an important direction that broadens financial inclusion, diversifies investment, and enhances Uzbekistan's attractiveness as a regional financial centre.

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