

HISTORY AND DEFINITIONS OF THE FORMATION OF THE ISLAMIC FINANCIAL SYSTEM

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Annotation. In this article, the process of formation of the Islamic financial system, its historical roots, stages of development, and main definitions are analyzed from a scientific and theoretical perspective. Also, the emergence of Islamic financial institutions, early financial practices, the views of medieval Muslim economists, and the factors that influenced the formation of modern Islamic banks were analyzed. The article provides a scientific explanation of the development processes of the Islamic financial system in the world and Uzbekistan, the main definitions and terms.

Keywords. Islamic finance, interest rate prohibition, Sharia principles, Islamic banking, financial history, risk sharing, halal financial operations, murabaha, mudaraba, Muslim economic thought, Islamic economics, financial ethics.

Introduction. In the world economic system, in recent decades, the sphere of Islamic finance has been developing rapidly and is becoming one of the important components of global financial markets. Islamic finance is considered as an important tool for diversifying the investment climate, ensuring financial stability, and increasing economic activity not only in Muslim countries but also in countries with developed economies. The popularity of this system stems primarily from its fundamental principles based on Sharia, such as justice, honesty, risk sharing, and the prohibition of interest. These principles ensure the ethical conduct of financial operations and harmonize the interests and responsibilities of economic entities.

The process of formation of the Islamic financial system has deep historical roots, and its conceptual foundations are reflected in the verses of the Quran, the Sunnah of the Prophet Muhammad (pbuh), jurisprudential sources, and the scientific views of Muslim economists. Islamic scholars put forward rules and norms related to economic relations such as trade, partnership, risk sharing, property rights, and fair treatment, which later created the theoretical foundation of Islamic economics. These rules played an important role in the economic development of the medieval East and directly influenced the formation of modern Islamic financial institutions.

Today, such financial instruments as Islamic banks, sukuk (Islamic bonds), takaful (Islamic insurance), and investment funds are widely used in the global financial system. In particular, in recent years, a number of initiatives have been implemented in the Republic of Uzbekistan to develop the Islamic financial system. This serves to expand the coverage of financial services in the country, attract investment flows, and strengthen economic stability.

Literature review. The Islamic financial system is one of the directions that forms the basis of extensive scientific research today. Scientific sources devoted to the formation, theoretical foundations, and practical mechanisms of this field have been deeply studied by both Eastern and Western scholars. Analysis of the literature shows that the history of the formation of Islamic finance has developed on the basis of centuries-old economic and practical traditions,

relying on the Quran, Sunnah, and jurisprudential heritage.

First of all, the Quran clearly defines the boundaries of halal and haram economic relations, strictly prohibits interest (riba), and implements norms such as justice, honesty, and protection from betrayal into economic life, which form the main foundation of the Islamic financial system [1]. The initial formation of Islamic economic thought is reflected in the views of scholars such as Imam Abu Hanifa [3], Imam Shafi'i, Al-Ghazali [4], Ibn Khaldun [5] on economics, trade, property relations, partnership, and moral norms. In particular, Ibn Khaldun's work "Muqaddima" made a great contribution to the development of Islamic economics with its theoretical ideas about economic processes, labor, value, property, and the development of society.

In the development of research on modern Islamic finance, the scientific works of such scholars as M.Chapra [6], U.Siddiki [8], M.Khan [8], T.Usmani [7] are of particular importance. M. Chapra interprets the basic principles of Islamic economics in harmony with the principles of moral and economic balance and theoretically substantiates the role of Islamic finance in improving the well-being of society. T. Usmani analyzed in detail the mechanisms of Islamic banks in accordance with Sharia law, including the legal and economic foundations of financial instruments such as murabaha, mudaraba, musharaka, ijara and sukuk.

Western scholars have also paid attention to the rapid development of the Islamic financial market and studied its place in the global financial system. For example, R. Wilson [10] scientifically studied the integration of Islamic financial institutions with international markets, risk management strategies, and potential in global investments. Al-Gamal [9] compared the economic principles and practices in Islamic finance and evaluated the effectiveness of financial activities based on Sharia.

Also, Uzbek scientists pay special attention to the study of issues of the Islamic financial system. Researchers such as O.Melikov [10], I.Yuldasheva [10], and Kh.Tillayev [11] studied the need to develop Islamic financial institutions in the country, the formation of a legal framework, and the adaptation of Sharia principles to the national economy. Their research serves to scientifically substantiate the formation and development prospects of the Islamic financial market in Uzbekistan.

Based on the opinions of the above scholars, it can be said that the Islamic financial system is a global financial system formed as a result of the combination of centuries-old historical traditions, rich jurisprudential heritage, modern legal mechanisms, and economic needs. Existing scientific literature highlights the importance of Islamic finance not only as a religious-legal system, but also as a system that ensures economic, social, and financial stability.

Main Part. The formation of the Islamic financial system dates back to the early days of Islam. The Quran and Sunnah establish a number of norms regarding economic relations, which require the organization of financial activity based on the principles of honesty, justice, mutual benefit, and responsibility. These principles later laid a solid foundation for the formation of Islamic economic thought. In particular, the strict prohibition of interest (ribo), the promotion of transparent trade, the inviolability of property rights, and economic relations based on mutual partnership have defined the main directions of Islamic financial practice in historical processes.

The first forms of the Islamic financial system emerged during the time of Muhammad (pbuh), and economic transactions of that time were mainly based on trade, partnership (musharaka), trust management (mudaraba), lease, zakat, charity, and waqf systems. In these relations, such requirements as fair exchange, risk sharing, the absence of excessive uncertainty

(garar), and staying away from forbidden activities were used as the main criteria. For example, partnership agreements such as mudaraba and musharaka ensured the participation of both parties in benefits and risks. This later became the criteria for the activities of modern Islamic banks.

In the Middle Ages, the economic views of Muslim scholars constitute an important stage in the theoretical development of Islamic finance. Ibn Khaldun, analyzing the significance of trade, the place of the concepts of value and labor in the economic system, substantiated the influence of economic stability on the development of society. Al-Ghazali, putting ethical criteria first in economic transactions, interpreted honesty, responsibility, and the interests of society as an integral part of financial relations. These scientific views served as an important theoretical basis for the formation of the principles of Islamic finance.

The modern Islamic financial system began to develop rapidly from the second half of the 20th century. Mit Ghamr Savings Bank, established in Egypt in 1963, is recognized as the first Islamic bank. In subsequent periods, the activities of Islamic financial institutions expanded in Saudi Arabia, the UAE, Malaysia, Pakistan, and other Muslim countries. By the end of the 20th century, major institutions governing the international Islamic financial system were established - Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB), and Islamic Development Bank (IsDB). These institutions developed international standards for Islamic financial products and contributed to the systematic development of the market.

The activities of Islamic banks are carried out through financial instruments that comply with Sharia law. For example, murabaha is the sale of goods with a markup and deferred payment, which is one of the most common operations of Islamic banks. Mudaraba refers to a partnership relationship based on a share of profit between an investor and a manager. Musharaka is based on two or more parties investing capital in a common project and sharing profits and losses. Lease is a Sharia-compliant form of leasing where payment is made in exchange for the right to use the leased asset. Sukuk, unlike traditional bonds, is an investment instrument based on real assets. These tools ensure that Islamic finance is directly linked to the real economy and protect it from speculation and excessive risks.

Currently, Islamic finance has been formed as an important part of the global economic system, and Islamic banks and financial institutions operate in more than 80 countries around the world. Especially in countries such as Malaysia, Indonesia, Turkey, Saudi Arabia, and the UAE, the Islamic finance market accounts for up to 20-40 percent of the gross financial sector. In Western countries - Great Britain, Germany, USA, France - the demand for Islamic banks and the sukuk market is growing year by year.

In recent years, large-scale reforms have been carried out in the Republic of Uzbekistan to develop the Islamic financial system. In cooperation with the Islamic Development Bank, financial projects have been launched, the regulatory framework for Islamic finance is being gradually formed, and the demand for Islamic financial services is growing. There are initiatives to create a legal framework for the activities of Islamic banks in the country, to create a sukuk market, and to introduce an Islamic insurance system - takaful. These processes contribute to the diversification of the national economy, the improvement of the investment climate, and the expansion of financial services.

In general, the Islamic financial system consists of a combination of historical, legal, ethical, and economic principles and offers a development model based on stability, justice, and a real economy in the modern global economy. A deep study of the history of its formation has

important scientific and practical significance for understanding the relevance of this system today, improving national and international economic policy.

Conclusion. The Islamic financial system has a long historical development process, and its formation began with the economic norms and principles established on the basis of Islam. The principles of honesty, justice, the prohibition of interest, risk sharing, and maintaining a balance of interests, as outlined in the Quran and Sunnah, form the theoretical and practical basis of this system. The economic views of medieval Muslim economists, in particular Ibn Khaldun, Al-Ghazali, and other scholars, served as an important theoretical foundation for the development of Islamic finance.

The modern Islamic financial system began to form in the second half of the 20th century and today is becoming an important component of global financial markets. Islamic banks, financial instruments such as sukuk, takaful, mudaraba and musharaka are widely used in the global economy as a fair, real asset-based and speculation-free financial model. The expansion of this system enriches the investment climate not only in Muslim countries but also in Western economies.

In Uzbekistan, consistent reforms are being carried out to create a solid legal framework for the development of the Islamic financial system and to establish the activities of Islamic banks and financial institutions. The expansion of this area in the country is important for economic diversification, increasing the level of access to financial services, and attracting international investment.

In conclusion, the Islamic financial system offers a unique approach to the global financial system as a model based on justice, stability, and the real economy. A deep study of the history of its formation and theoretical foundations creates an important scientific basis for scientific and practical research aimed at improving economic policy, creating new investment mechanisms, and strengthening global financial stability.

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