



# APPLYING THE MURABAHA CONTRACT IN UZBEKISTAN FOR PURCHASING HOUSING: LEGAL AND FINANCIAL ASPECTS OF ISLAMIC MORTGAGE

**A.A. Yo'ldoshbekov**

*Lecturer at the Department of Business Law  
Tashkent State University of Law*

**Email:** [anvarbekyuldashbekov07@gmail.com](mailto:anvarbekyuldashbekov07@gmail.com)

*Phone number: +99899852-63-03*

<b>Article history:</b>	<b>Abstract:</b>
<p><b>Received:</b> 20<sup>th</sup> April 2025 <b>Accepted:</b> 14<sup>th</sup> May 2025</p>	<p>This article examines the prospects of implementing Islamic mortgage instruments in Uzbekistan, with a particular focus on the Murabaha contract. Given the widespread public avoidance of interest-based financial products, the study highlights the legal, economic, and practical relevance of introducing a Sharia-compliant alternative to traditional mortgage financing. The Murabaha model is analyzed in detail, outlining its operational structure, key conditions under Islamic jurisprudence, and its application in various jurisdictions such as Bahrain, Malaysia, and Russia.</p> <p>The article also addresses legal challenges within Uzbekistan's current banking regulations and offers recommendations for adapting the legal framework to accommodate Islamic finance. The study concludes that Murabaha-based Islamic mortgage financing has strong potential to contribute to financial inclusion and diversification in Uzbekistan, provided appropriate legislative measures are adopted.</p>

**Keywords:** Islamic finance, Murabaha contract, Sharia-compliant mortgage, interest-free banking, Islamic banking law, mortgage financing, financial regulation, Central Bank, comparative finance

In recent years, the issue of introducing and developing an Islamic finance system in Uzbekistan has become one of the most pressing topics. Due to the fact that a significant portion of the population avoids financial services based on interest, the ability to make wide use of the traditional mortgage system is limited. Therefore, the establishment and practical implementation of a mortgage system based on Islamic financing principles is of particular importance.

One of the main forms of Islamic mortgage — the Murabaha contract[1] — offers a transparent and interest-free alternative mechanism for financing home ownership. According to this model, a bank or financial institution purchases a home for the client and sells it back to the client in installments at a predetermined profit margin. In this process, instead of interest rates, financing is carried out based on a pre-agreed price and payment terms.

This article analyzes the legal, economic, and practical aspects of introducing the Islamic mortgage system in Uzbekistan. Furthermore, it highlights the advantages and practical applications of purchasing residential property through Murabaha in accordance with Islamic financing principles. The findings of this study may serve as a foundation for developing future initiatives in Islamic mortgage financing.

Most Islamic banks and financial institutions use the Murabaha transaction as a key Islamic financing instrument. As a result, the term "Murabaha" has become one of the most frequently used terms in contemporary banking practice. However, the original meaning of the term differs significantly from its modern application.

"Murabaha" is a fiqhi (Islamic jurisprudential) concept and refers to a type of sales contract. It has no inherent connection to financing. When a seller agrees to sell a certain product to the buyer by adding a profit margin to its cost price, such a transaction is called a Murabaha sale. The essence of a Murabaha transaction lies in the seller clearly disclosing both the cost price and the profit margin to the buyer. This margin can be a fixed monetary amount (e.g., fifty thousand soums) or a percentage (e.g., 20%)[2].

The key feature distinguishing a Murabaha contract from an interest-based loan is the principle of transparency. That is, the seller must explicitly and openly disclose the cost price and the additional profit to the buyer. According to Islamic finance principles, this transparency must be maintained under all circumstances. If this condition is not met, the Murabaha transaction is deemed invalid from the perspective of Sharia law.



Under the terms of a Murabaha contract, one party — typically the bank — purchases a specified commodity using its own funds but in the name of the buyer, based on the buyer's order. The buyer provides the bank with information regarding the price of the commodity, its availability on the market, and other relevant data. The bank has the right to verify all such information submitted by the buyer. The Murabaha contract comes into force once the bank acquires the commodity ordered by the buyer from a third party. In accordance with Islamic jurisprudence, the main condition for concluding a Murabaha contract and transferring ownership rights to the subject matter of the contract is that the seller (in this case, the bank) must acquire actual ownership of the specified commodity.

Once the Murabaha contract is in effect, the bank sells the product to the client at a profit margin (markup), allowing for payment by installments. The amount of the profit margin depends on market conditions and is typically linked to the London Interbank Offered Rate (LIBOR)[3]. The transfer of ownership rights to the goods purchased by the bank may be carried out at the beginning of the installment period, depending on the agreement concluded between the bank and the client.

Furthermore, an essential condition of a Murabaha transaction is that the goods must be purchased from an independent third party. A transaction based on a contract for repurchase from the customer is contrary to Sharia law and is not permissible. Such an arrangement would essentially render the Murabaha transaction indistinguishable from an interest-bearing loan. Therefore, for a Murabaha transaction to comply with Sharia law, the asset must be acquired in the real market from a third party and only thereafter sold to the buyer.

In a Murabaha sales contract, the client requests the bank to purchase a specific product on his behalf. The bank then purchases the product, determines its price and profit margin, and concludes a contract with the client. Payment is usually made in installments. In this process, a predetermined fee is charged instead of interest (*riba*), which makes this form of credit legally permissible in Islamic countries.

Islamic banks are prohibited from charging interest because, according to religious teachings, money is merely a medium of exchange and does not possess intrinsic value. Therefore, to continue their day-to-day operations, banks charge a set profit margin.

Although many perceive this as another form of interest, the fundamental difference lies in the structure of the transaction. In a Murabaha sales contract, the

bank first purchases the asset and then resells it to the client at a marked-up price. This type of transaction is considered *halal* or permissible under Islamic Sharia. In 2023, the Murabaha financing method was employed in Bahrain, Malaysia, Indonesia, Saudi Arabia, Bangladesh, and Pakistan. Other smaller countries also rely on this financial structure while offering additional financing options. In 2022, over 65% of wholesale Islamic banks in Bahrain utilized Murabaha contracts.

Rent-to-own agreements, which resemble some aspects of Murabaha, are widespread in the United States. These contracts offer an alternative for prospective homeowners who lack sufficient funds for an initial down payment. Under this system, a lease agreement is executed that grants the tenant an option to purchase the property within a specified period. Typically, a portion of the lease payment is non-refundable and accumulates toward the future down payment.

In 2011, Kazakhstan adopted a special law on Islamic finance operations. This law facilitates the regulation of Islamic banking transactions, including Murabaha contracts. Moreover, Murabaha agreements between banks and clients may be executed within the framework of the Civil Code and the Law on Banking Activities.

Russian scholar R.I. Bekkin, in his work "Islam, the Economic Model, and the Modern Era," presents the following statistics: despite the efforts of Sharia academies, councils, and central banks in several Muslim countries, attempts to significantly reduce the use of Murabaha have not been successful. For example, in 2001–2002, 62.3% of operations conducted by the Islamic Development Bank were based on the Murabaha mechanism. By the late 1990s, Murabaha accounted for 96% of total assets in Islamic banks in Bahrain and 85% in the UAE. One of the lowest rates was recorded in Malaysia — 18%.[4]

The Murabaha mechanism has also been used by a Russian bank. In August 2006, Globex Bank announced that it had raised 20 million USD from Dubai Islamic Bank — one of the oldest Islamic banks in the world — through a Murabaha transaction. Later, it was revealed that Globex was not the first bank to explore Islamic financing. Earlier, experts from Alfa-Bank[5] had studied the possibility of entering the Islamic capital market but concluded that the mechanisms for allocating funds used by Islamic banks were not economically viable for them. One of the main drawbacks noted was the lengthy period required to formalize such transactions.

In the context of Uzbekistan, certain legal constraints may arise in applying the Murabaha



contract. Under existing legislation, banks are primarily permitted to engage in lending activities and are not authorized to carry out trading operations or the purchase and resale of assets. Since Murabaha is based on the bank acquiring an asset and then selling it to the client at a profit, this could conflict with current regulatory requirements governing banking activities.

Possible legal adaptation measures may include:

- Implementing Murabaha contracts through specially created commercial entities or Islamic financial instruments to avoid the issue of banks holding assets on their balance sheets.
- Drafting a special law regulating Islamic banking activities or a Law on Islamic Finance, which would provide a clear legal foundation for Murabaha transactions.
- Adoption by the Central Bank of the Republic of Uzbekistan of specific regulations or normative legal acts governing Murabaha contracts.

#### REFERENCES

1. **Usmani, M. Taqi.** *An Introduction to Islamic Finance*. Karachi: Idaratul Ma'arif, 2002.
2. **Ayub, Muhammad.** *Understanding Islamic Finance*. Chichester: John Wiley & Sons, 2007.
3. **El-Gamal, Mahmoud A.** *Islamic Finance: Law, Economics, and Practice*. Cambridge University Press, 2006.
4. **Bekkin, R.I.** *Islam i ekonomicheskaya model' i vremya*. Moscow: Institute of Oriental Studies, 2011.
5. **Islamic Financial Services Board (IFSB).** *Guiding Principles on Sharia Governance Systems for Institutions Offering Islamic Financial Services*. IFSB-10, 2009.
6. **Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).** *Shari'ah Standards*. Bahrain: AAOIFI, latest edition.
7. **Islamic Development Bank (IsDB).** *Annual Report 2002*. Jeddah: IsDB.
8. **Central Bank of Bahrain.** *Islamic Banking Statistics Report 2022*.
9. **Ali, Salman Syed.** "Islamic Mortgages: Concepts and Practices." *Islamic Research and Training Institute (IRTI) Working Paper Series*, 2009.
10. **Shari'ah Advisory Council of Bank Negara Malaysia.** *Compilation of Shariah Resolutions in Islamic Finance*. Kuala Lumpur: BNM, 2010.