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DIFFERENT ASPECTS OF TRADITIONAL AND ISLAMIC BANKING SYSTEMS IN MODERN FINANCIAL RELATIONS

Abdukhamid Bektemirov

Associate Professor of the Samarkand Institute of Economics and Service,
Doctor of Philosophy in Economics

Bekzod Gadoev

Student of the Samarkand Institute of Economics and Service

ABSTRACT

The article analyzes the features and characteristics of the Islamic banking system, which is widely popular today, compared to traditional commercial banks, and examines its importance in economic development.

Keywords: *traditional banks, islamic banking, monetary relations, islamic finance, inflation, percentage, risk, profit, loss.*

INTRODUCTION.

At the current stage of global development, the service sector is increasingly developing and becoming a locomotive sector of the global economy. Currently, the service sector accounts for an average of 60 %¹ of the world's gross domestic product. The increasing development of the service sector on a global scale indicates that people's need for services is increasing. In particular, we can cite as evidence that the level of demand for financial services is increasing year by year.

Today, new concepts and mechanisms are being widely implemented in the provision of financial services. One such system of financial relations is Islamic finance. According to our opinions, it is necessary to study this concept in financial relations and the peculiarities of traditional finance, their characteristics and their importance in ensuring the well-being of society. Here, let's dwell on the meaning of the concept of Islamic banking. "Islamic banking (Islamic finance) is a banking or financing activity that conforms to Sharia (Islamic law) and its practical application through the development of Islamic economics."²

¹ <https://www.statista.com>

² https://uz.wikipedia.org/wiki/Isлом_bank_ishlari_va_moliyasi

The main difference between the Islamic bank and the traditional banks is that it is based on Sharia rules. That is, the business approach of Islamic banks is developed in accordance with the principles of Sharia. They are Sharia-compliant institutions that do not accept riba (interest) in carrying out financial transactions. They are engaged in ensuring compliance with Sharia in the implementation of financing, following the principles of risk and profit sharing and carrying out financial transactions in accordance with Islamic laws. Traditional banking activity is aimed at earning money through interest, and it is not based on Sharia rules, but is regulated by the rules of the existing banking system in the country. Commercial banks are institutions that provide financing through interest during financial transactions. Their main goal is to study financing, improve investments, loans and other financial services.

Methodology

In the study, Islamic and traditional banking systems were comparatively analyzed using the methods of scientific abstraction, observation, comparison, and analysis, and their specific features were studied. Profitability levels of these banking systems were justified in ensuring the welfare of the society.

Analysis and results

Today, the importance of Islamic finance as an alternative to the world financial system is increasing, and the level of influence of Islamic banks is increasing. Here, let's look at the main differences between Islamic and conventional banking systems below (Table 1).

Table 1
The main differences between Islamic and traditional commercial banks

No		Traditional banks	Islamic banks
1.	Money	a product with a trade value and a source of exchange	medium of exchange.
2.	Percent	Depending on the term and purpose of the credit, interest is determined. The loan and its interest are collected in a strict order.	There is no concept of interest in the financing process.
3.	Risk	Loss sharing does not apply.	If the enterprise suffered a loss, the losses can be distributed.
4.	Effect on inflation	Goods and services are not available during the appropriation process. An expansion of money can cause inflation.	Goods and services are available at the time of fund transfer. Because money is not expanding, inflation does not occur.
5.	Source of income	Interest from loans is the main source of income	Profit from trade is the main source of income

CONCLUSION

Based on the above information, we can say that Islamic and traditional banking systems differ not only in their operational process, but also in their ideological views. Although traditional financial relations and the banking system have gained great importance in the life of our society until today, the growing popularity of Islamic financial relations and the development of the Islamic banking system create the basis for the formation of an inclusive monetary policy in the global financial market. This, in turn, leads to the development of a stable and balanced financial market that meets various financial and economic needs and supports ethical standards.

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