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Article

The Need to Improve The Efficiency of The Mortgage Lending Process in Uzbekistan

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Abstract: This study explores the necessity of enhancing the efficiency of the mortgage lending process in Uzbekistan. It highlights the importance of adopting internationally recognized mortgage lending practices while maintaining the country's national context. The research analyzes current reforms, demographic trends, and government support measures aimed at improving access to housing finance. Particular attention is given to preferential mortgage programs for low-income households and first-time buyers, as well as the role of subsidies and refinancing mechanisms in expanding housing affordability. Based on a review of theoretical and practical approaches, the article proposes recommendations to strengthen the mortgage lending system and ensure its sustainable development in Uzbekistan.

Keywords: Mortgage Loans, Mortgage Object, Subsidy, Mortgage Lending Market

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1. Introduction

Uzbekistan is implementing a set of measures to effectively organize reforms in the housing sector, further develop the mortgage lending market and widely introduce mechanisms for refinancing mortgage loans [1]. In particular, mortgage loans, especially preferential ones for low-income families and first-time home buyers under government programs, contribute to the growth of demand for housing, as they allow more people to purchase housing. For example, low interest rates and government guarantees significantly increase housing affordability [2], [3].

Literature Review

In a market economy, the banking system plays an important role as a stable financial system that creates opportunities for the optimal use of bank loans. Countries with such a financial system are more resistant to economic risks and achieve economic development easier and faster. Mortgage loans, being an integral part of banking activities, contribute to the formation of a stable social environment in the country. The scientists conducted research on mortgage lending and presented relevant scientific findings and practical recommendations [4].

American economists Chris J. Barltrop and Diana McNaughton admit that the main factor in the growth of mortgage loans is the cost of loans. This trend is observed not only in the United States but globally. Today, the concept of the full cost of credit has developed in practice, which means that The borrower is informed of the total cost of the loan before applying for a mortgage loan. This is the amount of the principal debt, interest on the loan, and expenses associated with obtaining it.

According to Russian scientist G. Panova, the main features of a mortgage are manifested in the relationship between the creditor and the debtor, based on the pledge of real estate [5]. Earlier, he put forward the idea that the participants in these relationships are, on the one hand, a bank or credit institution, and on the other, a debtor or a third party guaranteeing the return of the loan by pledging their real estate.

In the scientific work of the Uzbek scientist I. Alimardonov, the issues of mortgage lending practice of the republic's banks are studied. According to his conclusion, it is advisable to introduce a two-tier mortgage lending system in Uzbekistan [6]. The basis of this conclusion of I. Alimardonov is the guarantee of return of mortgage securities issued by the Government of Uzbekistan, and the mechanism of refinancing of funds of commercial banks intended for mortgage lending, by special mortgage agencies [7].

2. Materials and Methods

The main part

The first steps in organizing the mortgage lending process in Uzbekistan were made in the Law of the Republic of Uzbekistan No. 736-XII "On Collateral", adopted on December 9, 1992, and the Law of the Republic of Uzbekistan No. Law of the Republic of Uzbekistan-58 "On Mortgage", adopted on October 4, 2006. The development of these laws served not only the state regulation of the mortgage lending process, but also the improvement of public life. The laws defined the rights and responsibilities of stakeholders in mortgage lending process, lending conditions, and the concept of collateral.

On May 6, 2005, Resolution No. DP-69 of the President of the Republic of Uzbekistan "On measures to organize the activities of the Mortgage Lending Support Fund" was adopted. The resolution set a number of tasks, including the development of organizational and technical measures to ensure housing conditions, the formation of consulting and information employment in the field of housing construction, and the improvement of mechanisms for providing a land plot for individual housing construction. The Decree of the President of the Republic of Uzbekistan dated April 30, 2024 No. PF-70 "On additional measures to improve the mechanisms for providing mortgage loans and improving the housing conditions of the population in 2024" introduced the practice of providing mortgage loans from June 1, 2024, at the expense of the Ministry of Economy and Finance to citizens included in the poverty reduction program and in need of improving their housing conditions.

3. Results and Discussion

In Investing household savings in housing increases demand for it. Growing real incomes of the population increases demand for loans and expands opportunities to obtain them [8], [9]. This stimulates banks and financial institutions to provide loans for the purchase of housing, which, in turn, stimulates growth in the housing market.

Table 1. The basic factors that determine the demand and the price.

Economic factors	Demographic factors	Government policy factors	Infrastructure and amenities
✓ Revenues ✓ Employment ✓ Interest rates ✓ Economic growth ✓ Inflation	✓ Population growth ✓ Urbanization ✓ Population structure	✓ Housing programs ✓ Land use ✓ Foreign investment ✓ Permanent registration procedure	✓ Availability of basic services ✓ Transport and communication ✓ Educational and health institutions

In Uzbekistan, the population increased by 7.7 million people from 2010 to 2023, which is an average annual increase of 590 thousand people, or 1.8%. This, in turn, led to a further increase in the need for housing. Table 1 data show that in the period from 2000 to 2023, the number of births in our country consistently exceeded the number of deaths, which indicates a natural population increase. Natural population change has been increasing significantly over the years, especially in recent years, indicating an increase in the proportion of young people. This demographic trend is a positive indicator for the housing market, as the increase in the number of young people, especially first-time home buyers, ultimately increases the demand for new homes [11], [12].

Table 2. Population growth dynamics in Uzbekistan between 2010 and 2023.

Regions	Birth and Death Rates			
	Birth (thousand people)	**Death (thousand people)**	**Natural growth (thousand people)**	**Change, in percent**
All	**9 718,90**	**2 022,40**	**7 696,50**	**26,4**
Samarkand r.	1 183,3	212,4	970,9	29,7
Kashkadarya r.	1 027,9	164,5	863,4	31,7
Andijan r.	915,3	193,4	721,9	27,0
Fergana r.	1 051,7	225,8	825,9	25,6
Surkhandarya r.	845,1	137,4	707,7	32,5
Namangan r.	833,6	159,4	674,3	28,3
Tashkent r.	780,5	211,5	568,9	21,5
Khorezm r.	511	106,4	404,6	25,3
Republic of Karakalpakstan	514,1	110,7	403,4	24,0
Tashkent city	616,3	218,2	398,1	17,3
Bukhara r.	503	106,7	396,3	23,5
Jizzakh r.	418,8	70,1	348,7	29,9
Navoi r.	276,7	56,1	220,6	25,3
Sirdarya r.	241,5	49,8	191,7	26,4

Since 2019, a state subsidy program has supported low-income households in need of improving their housing conditions has been in effect to reimburse the down payment and part of the interest on a loan for the purchase of housing under state mortgage loans or part of the interest on a loan for the construction and reconstruction of individual housing under programs adopted by the state [13]. In particular, a separate program was approved that provides for the distribution of subsidies by region, based on the decrees of the President of the Republic of Uzbekistan dated November 28, 2019 No. DP-5886, dated March 11, 2021 No. UP-6186, dated December 9, 2021 No. DP -33 and dated April 13, 2023 No. DP -51, in Table 2. The Regulation "On the procedure for paying subsidies to citizens for the purchase of housing or construction and reconstruction of individual housing", approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated March 25, 2020 No. 182, establishes criteria for identifying citizens with low incomes in need of improving their housing conditions, as well as the procedure for calculating and paying subsidies [14], [15].

As a result of rising housing prices in the central regions, the population may choose suburbs rather than city centers. This will stimulate the construction of new residential complexes in areas close to the centers and the development of infrastructure in the suburbs. In 2023, real per capita income in all regions of the republic increased by 2.7 times on average compared to 2017, and by 8.9 times compared to 2010. In regions with relatively high incomes, the population will have the opportunity to earn more by investing their funds in real estate. This, in turn, will increase activity in the real estate market and stimulate new construction projects. It should be emphasized that the population's demand for mortgage loans to purchase housing is growing from year to year, a striking example of which is the volume of mortgage loans issued in recent years.

Table 3. Data on mortgage loans issued in the country in 2017-2023.

Years	Amount of allocated loans, trillion soums	Share in the country's GDP, percent
2017	2,6	0,8
2018	4,6	1,1
2019	8,0	1,5
2020	9,1	1,5
2021	9,8	1,3
2022	14,4	1,6
2023	16,9	1,6

From the data provided it follows that the growth in demand for mortgage loans in our country in recent years indicates a consistent policy of commercial banks in the field of mortgage lending. In addition, we see the result of using the resources provided to commercial banks by the Ministry of Economy and Finance and the Mortgage Refinancing Company, see Table 3.

Analyzing the number of clients who received mortgage loans, we see that in 2021, 59,570 clients received mortgage loans, in 2022 - 70,913, in 2023 - 68,395, and in January-October 2024, mortgage loans were provided to 47,568 clients. Housing is one of the main factors determining a person's standard of living. The real estate market, as one of the important sectors directly affecting the development of the national economy, has a significant impact on various social and economic processes in society. Housing not only provides people with shelter and protection, but also satisfies basic needs such as property rights, personal security and financial stability. In addition, buying a home is an important step in the life of every person for various reasons: for some, it means starting a new family or improving existing living conditions, for others, it is an investment, creating a source of income or leaving a legacy for future generations. From this point of view, the analysis of the real estate and mortgage lending market is important for a broader understanding of the population's demand for housing. Also in 2023, 265.5 thousand (an average of 22.1 thousand per month) housing purchase and sale transactions were made in the republic, which is 6.1% more than in 2022 (250.3 thousand). The number of housing purchase and sale transactions in 2022 increased by 9.8% compared to 2021 (228.1 thousand). In 2021, this figure was 15% (in 2020, 198.4 thousand housing purchase and sale agreements were concluded). These indicators indicate a steady increase in the number of housing purchase and sale transactions over the past 3 years.

One of the main directions of economic policy pursued by the government in recent years is to meet the housing needs of the population by providing them with affordable mortgage loans.

4. Conclusion

The analysis of the mortgage lending process in Uzbekistan shows that, despite significant progress in housing finance reforms, further improvements are needed to enhance efficiency and accessibility. Government initiatives, including preferential programs, subsidies, and refinancing mechanisms, have contributed to increasing housing affordability and stimulating demand in the mortgage market. At the same time, demographic growth and rising household incomes continue to create strong pressure on housing demand, requiring sustainable financing solutions. To achieve long-term development, Uzbekistan should strengthen the institutional framework of mortgage lending, ensure transparency in loan allocation, and expand the use of international best practices adapted to national conditions. Enhancing the role of mortgage refinancing companies, improving risk management in commercial banks, and introducing innovative financial instruments will allow for greater stability in the housing finance system. Ultimately, improving the efficiency of mortgage lending will not only support the housing needs of the population but also contribute to the country's overall economic growth and social well-being.

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