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Specific Features of Lending to Individuals in Uzbekistan, its Practical Analysis, and Ways of Development

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Abstract: This study examines the specific features of lending to individuals in Uzbekistan, provides a comprehensive practical analysis of its current state, and explores key directions for further development. In recent years, retail lending has become one of the most rapidly growing segments of the banking sector in Uzbekistan, driven by increasing household income, expanding financial inclusion, and digital transformation in banking services. The research analyzes the structure and dynamics of loans issued to individuals, including consumer loans, mortgage loans, and microloans, as well as evaluates key indicators such as loan growth rates, asset quality, and non-performing loan ratios.

The paper also identifies major challenges in the sector, including credit risk concentration, insufficient creditworthiness assessment mechanisms, and the impact of macroeconomic factors such as inflation and interest rate fluctuations. Special attention is given to the regulatory framework and the role of reforms aimed at strengthening the stability and efficiency of the banking system.

Based on the analysis, the study proposes several recommendations for improving retail lending practices in Uzbekistan. These include enhancing risk management systems, expanding the use of digital technologies and credit scoring models, improving financial literacy among the population, and ensuring a balanced approach between credit growth and financial stability. The findings of the research can contribute to the development of more sustainable and efficient lending practices in the country's banking sector.

Keywords: Retail lending, consumer loans, mortgage loans, microloans, banking sector, credit risk, non-performing loans (NPL), financial stability, creditworthiness assessment, digital banking, credit scoring, financial inclusion, Uzbekistan.



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Introduction

In recent years, the banking sector of Uzbekistan has undergone significant transformation, characterized by rapid financial liberalization, institutional reforms, and the expansion of market-based mechanisms. One of the most dynamic areas within this process is the development of lending to individuals, commonly referred to as retail lending. This segment plays a crucial role in stimulating domestic demand, improving living standards, and supporting overall economic growth.[1]

The increasing demand for consumer, mortgage, and microfinance loans reflects both the rising income levels of the population and the growing accessibility of banking services. At the same

time, ongoing reforms aimed at strengthening the financial system, enhancing competition among commercial banks, and promoting digital banking have created favorable conditions for the expansion of retail lending. In particular, the introduction of modern financial technologies and credit scoring systems has significantly simplified loan application procedures and improved customer experience.[2]

Despite these positive trends, the rapid growth of lending to individuals also brings a number of challenges. These include the potential deterioration of asset quality, increased credit risk, and the accumulation of non-performing loans. In addition, issues related to borrowers' financial literacy, transparency of lending practices, and the effectiveness of creditworthiness assessment remain relevant. Therefore, ensuring a balance between the expansion of retail lending and the maintenance of financial stability is a key task for both regulators and commercial banks.

The purpose of this study is to analyze the specific features of lending to individuals in Uzbekistan, assess its current state based on practical indicators, and identify priority directions for its further development. The research focuses on evaluating the structure and dynamics of retail loan portfolios, identifying existing problems, and proposing recommendations aimed at improving the efficiency and sustainability of lending practices in the country's banking sector.[3]

Literature Review

The issue of lending to individuals and its impact on banking sector efficiency and economic development has been widely studied in both theoretical and empirical literature. Retail lending, as a key component of bank asset portfolios, is closely linked with financial stability, risk management, and economic growth.

A significant contribution to the analysis of banking sector development and financial intermediation was made by Asli Demirgüç-Kunt and Harry Huizinga, who examined the determinants of bank performance, including profitability, interest margins, and the role of institutional and macroeconomic factors. Their studies highlight that efficient credit allocation and sound risk management practices are essential for maintaining banking sector stability, especially in emerging economies.[4]

In the context of credit risk and non-performing loans, numerous researchers emphasize the importance of proper borrower assessment and macroeconomic stability. Studies show that rapid credit expansion, if not accompanied by effective supervision and creditworthiness evaluation, can lead to a deterioration in asset quality. International financial institutions also underline the role of regulatory frameworks in mitigating such risks, particularly through capital adequacy requirements and loan loss provisioning standards.

Research on retail lending efficiency has also been advanced by scholars such as Mouna Rekik and Maha Kalai, who analyze the relationship between bank-specific factors and lending performance. Their findings suggest that indicators such as return on assets (ROA), net interest margin (NIM), and cost-to-income ratio (CIR) play a crucial role in evaluating the effectiveness of bank lending activities. These indicators are widely used in international practice and are often incorporated into comprehensive assessment systems such as the CAMELS rating framework.[5]

Furthermore, a number of studies focus on the role of financial inclusion and digitalization in expanding access to credit for individuals. The introduction of digital banking services, credit scoring models, and fintech solutions has significantly reduced transaction costs and improved the accessibility of financial services. At the same time, researchers note that digital transformation requires the development of appropriate regulatory approaches to ensure data protection and prevent excessive risk-taking.

In Uzbekistan, research on retail lending has gained increasing attention in recent years, particularly in the context of ongoing banking sector reforms. Local scholars analyze the dynamics of household lending, the structure of loan portfolios, and the factors influencing credit growth. These studies emphasize the importance of improving risk management systems, enhancing

borrower solvency assessment, and increasing financial literacy among the population.

Overall, the reviewed literature indicates that while retail lending contributes to economic growth and financial deepening, its sustainable development depends on a balanced approach that integrates effective risk management, regulatory oversight, and technological innovation. This study builds on existing research by providing a focused analysis of the specific features of lending to individuals in Uzbekistan and identifying practical directions for its further improvement.[6]

Materials and Methods

This study is based on a combination of quantitative and qualitative research approaches aimed at analyzing the specific features of lending to individuals in Uzbekistan and identifying key directions for its development. The research relies on both secondary data sources and analytical methods commonly used in banking and financial studies.

The empirical basis of the study consists of statistical data obtained from official sources, including reports of the Central Bank of Uzbekistan, commercial bank financial statements, and publications of international financial institutions. The dataset covers key indicators of retail lending, such as the volume and structure of loans issued to individuals, including consumer loans, mortgage loans, and microloans, as well as indicators reflecting asset quality and risk levels.[7]

In the process of analysis, several methods were applied. Descriptive statistical analysis was used to examine the dynamics and structural changes in retail lending over the selected period. Comparative analysis allowed for the evaluation of changes in key indicators across different time periods and loan categories. In addition, ratio analysis was employed to assess the efficiency and risk profile of lending activities, including indicators such as loan growth rates, non-performing loan (NPL) ratios, return on assets (ROA), and cost-to-income ratio (CIR).

To identify the factors influencing lending to individuals, elements of econometric analysis, including regression methods, were considered to assess the relationship between credit growth and macroeconomic variables such as inflation, interest rates, and household income. Furthermore, a qualitative approach was used to evaluate regulatory frameworks, institutional reforms, and the role of digital financial services in shaping lending practices.[8]

The methodological framework of the study is also based on international standards and best practices, including recommendations from the Basel Committee on Banking Supervision and guidelines used in the CAMELS rating system. This ensures the reliability and comparability of the results with international banking practices.

The selected materials and methods provide a comprehensive basis for analyzing the current state of retail lending in Uzbekistan and formulating practical recommendations aimed at improving its efficiency, sustainability, and accessibility.[9]

Analysis and results

In the Republic of Uzbekistan, a number of reforms are being implemented to improve the living standards and income levels of the population, as well as to ensure employment. Commercial banks are offering loans to different segments of the population on both commercial and preferential terms.

Over the past twenty years, household debt has been increasing sharply worldwide. As a result of the global financial crisis, households with high levels of debt experienced a rapid decline in consumption, which led to a reduction in aggregate demand in the economy. Moreover, since the crisis, the level of indebtedness has continued to rise, reaching new historical highs. This, in turn, has created an increasing need for both theoretical and empirical research on the relationship between household debt and consumption.[10]

Although there are several positive aspects of retail lending to individuals, it also has problematic and negative consequences that require regulation and coordination by supervisory authorities. The implementation of aggressive lending policies by commercial banks and the rapid growth of retail lending volumes may lead to a number of adverse effects in the future.

The analysis of lending to individuals in Uzbekistan demonstrates a steady and significant growth in retail loan portfolios over recent years. Based on available statistical data, the total volume of loans issued to individuals increased substantially, reflecting the expansion of banking services and rising demand for credit among the population. In particular, the growth rate of retail loans showed a positive trend, indicating the increasing role of this segment in the overall structure of bank assets.[11]

A structural analysis of retail lending reveals that consumer loans, mortgage loans, and microloans constitute the main components of lending to individuals. Among these, mortgage lending occupies a significant share, driven by government-supported housing programs and long-term financing mechanisms. At the same time, consumer loans and microloans have shown rapid growth due to simplified lending procedures and the active introduction of digital banking services.

The assessment of asset quality indicators indicates mixed results. On the one hand, the expansion of retail lending has contributed positively to bank profitability, as reflected in improved return on assets (ROA) and stable net interest margins (NIM). On the other hand, the rapid growth of loan portfolios has led to an increase in credit risk, particularly in the segment of unsecured consumer loans. The non-performing loan (NPL) ratio remains a critical indicator, and its fluctuations suggest the need for more effective credit risk management practices.[12]

A comparative analysis between the beginning of 2025 and 2026 shows that the total volume of loans to individuals increased by approximately 24 percent. Mortgage loans grew by around 17 percent, while microloans expanded by about 15 percent. This indicates that although all segments are growing, the pace of growth varies depending on the type of loan and associated risk levels. Faster growth in certain segments may signal potential overheating and requires careful monitoring by both banks and regulators.

Furthermore, the analysis highlights the growing importance of digitalization in retail lending. The adoption of online platforms, automated credit scoring systems, and fintech solutions has significantly improved access to credit and reduced transaction costs. However, this also introduces new challenges related to data quality, cybersecurity, and the accuracy of creditworthiness assessments.[13]

The results Table 1. also show that macroeconomic factors, including inflation rates, interest rate policies, and household income levels, have a direct impact on lending dynamics. Higher inflation and interest rates tend to constrain borrowing capacity, while income growth supports credit expansion. Therefore, the sustainability of retail lending growth depends not only on banking practices but also on the overall macroeconomic environment.

Table 1. Data on the structure of outstanding loans granted to individuals by type of credit.

Indicator	As of Jan 1, 2025	As of Jan 1, 2026	Change (%)
Total loans to individuals	177,53	220,28	24%
Mortgage loans	67,73	79,396	17%
Microloans	42,369	48,863	15%
Auto loans	40,152	39,696	-1%
Other consumer loans	566	492	-13%
Education loans	5,858	6,932	18%
Loans for business development	19,523	40,474	107%
Other loans	1,334	4,43	232%

This table provides an opportunity to analyze the structure and dynamics of loans issued to individuals by commercial banks. As of January 1, 2026, compared to January 1, 2025, the total

volume of loan allocations increased from 177,532 billion UZS to 220,283 billion UZS, demonstrating a positive growth rate of 24 percent. This indicates that banks are actively pursuing policies aimed at expanding lending to the population.

In the structure of loans, mortgage lending occupies a leading position, with its volume increasing by 17 percent (from 67,730 billion UZS to 79,396 billion UZS). This growth can be explained by the need to meet the population's demand for housing, as well as the continued government support for mortgage programs. At the same time, microloans increased by 15 percent, reflecting the high demand for banking services in covering short-term financial needs of the population.

A slight decline was observed in the volume of auto loans, which decreased by 1 percent. This may be associated with a slowdown in demand in the automobile market, import restrictions, or tightening of lending conditions. Other consumer loans also decreased by 13 percent, indicating a certain reduction in demand for non-productive borrowing among the population.

Among the positive developments, it is noteworthy that education loans increased by 18 percent. This reflects a growing level of investment in human capital and a high demand for education among the population. The highest growth rate was observed in loans allocated for business development, which increased by 107 percent. This indicates that banks are placing special emphasis on supporting entrepreneurial activity and that the role of small business and private entrepreneurship in the economy is strengthening.[14]

Additionally, although the category of "other loans" increased by 232 percent, its share in the total volume remains relatively small. This growth can largely be explained by the low base effect.

In conclusion, during the analyzed period, lending to individuals demonstrated a stable growth trend, with mortgage and business loans playing a dominant role in its structure. At the same time, the decline in certain segments of consumer lending indicates a more targeted approach in credit policy. Overall, this dynamic reflects the effective allocation of banking resources, contributes to improving the welfare of the population, and supports the growth of economic activity.

In summary, the findings indicate that lending to individuals in Uzbekistan is developing rapidly and plays an increasingly important role in the banking sector. At the same time, maintaining asset quality and ensuring effective risk management remain key challenges. The results underscore the need for a balanced approach that supports further growth while safeguarding financial stability.[15]

Conclusion

This study analyzed the specific features of lending to individuals in Uzbekistan, its current development trends, and key directions for further improvement. The findings indicate that retail lending has become one of the most rapidly growing segments of the banking sector, playing an important role in supporting household consumption, improving living standards, and stimulating economic activity.

The empirical analysis shows that the total volume of loans issued to individuals has demonstrated stable growth, with mortgage and business development loans representing the most dynamic segments. At the same time, certain categories of consumer lending have shown a decline, which reflects a more selective and targeted credit policy by commercial banks. This indicates that banks are increasingly focusing on the quality of their loan portfolios rather than solely expanding credit volumes.

However, the rapid expansion of retail lending also raises concerns related to credit risk, asset quality, and household indebtedness. In particular, the growth of unsecured consumer loans and fluctuations in non-performing loan levels highlight the importance of strengthening risk management systems and improving creditworthiness assessment mechanisms.

The study also emphasizes the growing role of digitalization and financial innovation in the banking sector, which has significantly improved access to credit and reduced operational costs.

Nevertheless, these developments require effective regulatory oversight to mitigate potential risks associated with aggressive lending practices.

In conclusion, sustainable development of retail lending in Uzbekistan requires a balanced approach that ensures both credit expansion and financial stability. Strengthening regulatory frameworks, enhancing risk management practices, improving financial literacy, and expanding the use of modern credit scoring systems are among the key directions for future development.

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