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Article

Development Trends and Problems of Mortgage Lending in Commercial Banks of Uzbekistan

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Abstract: The research investigates three aspects of commercial banking mortgage lending in Uzbekistan which include its present situation and its emerging development patterns and its existing operational challenges. The researchers conducted a study which examined legal documents and central bank statistical information and academic research to identify the main factors that restrict accessible mortgage credit for the public. The study identifies three main obstacles which prevent the sustainable development of the mortgage market because of interest rate policy problems and limitations in mortgage product offerings and reduced household purchasing power. The article presents analytical findings which show how to enhance the mortgage lending system through the existing financial sector reforms which the country is currently implementing.

Keywords: Mortgage lending, commercial banks, housing finance, Uzbekistan, credit risk, interest rate, real estate market, financial reform.

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Introduction

The mortgage lending market serves as a key component of financial systems in developing economies because it operates as a social policy tool and a construction industry development engine and a banking system asset management method. The rising urban population together with increasing housing needs in Uzbekistan creates an urgent need for a mortgage lending system that provides both accessibility and efficiency according to national economic requirements. The Republic of Uzbekistan established its mortgage legal framework through the 2006 Law of the Republic of Uzbekistan "On Mortgage" which enabled the country to implement various legislative and institutional and regulatory changes that would foster mortgage credit growth [1].

The Presidential Decree No. UP-5544 of 2019 brought about further progress by establishing state-sponsored mortgage programs which required commercial banks to expand their services in residential mortgage lending. The mortgage lending industry in Uzbekistan still shows fundamental problems because the country has implemented mortgage reforms which resulted in extremely high interest rates that exceed affordable levels for households and banks provide only a few loan products and banks lack effective methods to assess their financial risks and secondary market systems remain underdeveloped [2]. The analysis of these systemic challenges is particularly relevant at the present juncture, when Uzbekistan's financial sector is undergoing deep transformation and the government has identified the expansion of affordable housing

credit as a strategic development priority. The research article aims to examine the development patterns which exist in Uzbekistan's commercial banking system through mortgage lending. The research article aims to analyze the development patterns of mortgage lending which currently exist in Uzbekistan's commercial banking sector to determine the essential structural and institutional elements which restrict its growth and to create informed conclusions about potential future development based on an analysis of domestic laws and central bank statistics and international academic research [3] .

Methodology and Literature Analysis

The methodological foundation of this study rests upon a systematic review and critical synthesis of scholarly literature, regulatory documents, and statistical reporting. The primary normative sources include the Law of the Republic of Uzbekistan "On Mortgage" and presidential decrees governing housing finance policy, which define the legal contours within which commercial banks operate . Statistical data on mortgage portfolio volumes, interest rate dynamics, and housing affordability indicators were drawn from the annual reports of the Central Bank of the Republic of Uzbekistan, which constitute the most authoritative source of sector-level financial data . The theoretical framework is informed by foundational works in housing finance economics, including the comprehensive policy analysis by Chiquier and Lea, whose examination of mortgage market development in emerging market economies provides a structurally applicable comparative lens for assessing Uzbekistan's trajectory .

The macroeconomic dimensions of mortgage accessibility are analyzed through the conceptual apparatus developed by Mishkin, whose treatment of the relationship between monetary policy, interest rates, and credit market behavior is directly pertinent to understanding the constraints on mortgage affordability in a transitional banking environment . Domestic scholarly contributions are represented by the work of Toshmatov, who offers a detailed assessment of the formation and current state of Uzbekistan's mortgage market, identifying the primary institutional bottlenecks in the system , as well as by Karimov and Yusupov, whose research on credit risk management in commercial banks provides the analytical basis for evaluating the internal governance challenges that constrain mortgage product development .

The Russian academic tradition contributes methodologically through Razumova's systematic treatment of mortgage lending as a financial institution, which offers terminological precision and structural analytical tools applicable to post-Soviet transitional economies , and through Kosareva and Tumanov's influential evaluation of housing affordability measurement methodologies, which is instructive for contextualizing affordability data in Uzbekistan . The global benchmark perspective is supplied by Fabozzi's authoritative reference work on mortgage-backed securities and structured housing finance, which frames the discussion of secondary market development as a necessary institutional complement to primary mortgage market expansion . The synthesis of these sources enables a multi-dimensional analysis that integrates legal, institutional, macroeconomic, and comparative perspectives, constituting the analytical core of the present study.

Results and Discussion

The analysis of available data and scholarly literature yields several substantive conclusions regarding the current state and principal problems of mortgage lending in Uzbekistan's commercial banking sector. The Central Bank of Uzbekistan reports consistent year-on-year growth in the aggregate mortgage portfolio of commercial banks, with mortgage loans constituting an increasingly significant share of total retail credit [4]. This growth is attributable in large part to state-directed programs that have channeled subsidized credit through designated commercial banks, particularly for the purchase of newly constructed residential properties within government-approved housing schemes . However, this expansion has been structurally uneven and predominantly concentrated

in Tashkent and a limited number of major regional centers, reflecting the geographic asymmetry of both housing supply and effective demand within the country. The penetration of mortgage credit in secondary urban centers and rural areas remains negligible, indicating that the growth of the aggregate portfolio does not yet translate into broad-based social accessibility of housing finance [5].

This pattern aligns with the findings of Chiquier and Lea, who identify geographic concentration as a characteristic feature of nascent mortgage markets in developing economies and link it directly to deficiencies in regional branch network capacity and the absence of standardized remote underwriting procedures [9]. The interest rate structure of mortgage loans in Uzbekistan represents perhaps the most significant obstacle to market deepening. Commercial banks offering mortgage products under non-subsidized market conditions apply annual interest rates that substantially exceed the levels at which mortgage debt service becomes fiscally manageable for median-income households [6]. As Mishkin demonstrates in his theoretical treatment of credit markets, the persistence of elevated real interest rates in developing economies reflects not only central bank monetary policy parameters but also endemic risk premiums associated with informational asymmetries, collateral valuation uncertainty, and institutional deficiencies in creditor rights enforcement.

In Uzbekistan's specific context, these risk premiums are compounded by the relative underdevelopment of independent property valuation services, inconsistent judicial enforcement of mortgage foreclosure procedures, and the residual volatility of the real estate market itself, all of which inflate the perceived credit risk that banks must price into mortgage products [7]. Razumova's structural analysis of mortgage lending institutions emphasizes that sustainable interest rate reduction requires not merely administrative direction but the systemic development of refinancing mechanisms, deposit base stability, and secondary market liquidity . Uzbekistan has not yet developed a functioning secondary mortgage market, meaning that commercial banks retain mortgage loans on their balance sheets for the full duration of the loan term, creating asset-liability maturity mismatches that restrict the volume of new mortgage origination and limit competition among lenders on price [8].

The absence of mortgage-backed securities or comparable structured finance instruments, which Fabozzi identifies as the institutional foundation of mature mortgage markets globally, constrains the capacity of the system to mobilize long-term capital and channel it into housing credit at scale [9]. The credit risk management frameworks applied by Uzbek commercial banks to mortgage portfolios reflect a further layer of institutional challenge. Karimov and Yusupov's analysis of credit risk governance in the domestic banking sector identifies insufficient methodological sophistication in borrower creditworthiness assessment, over-reliance on collateral value as a primary risk mitigation tool rather than cash flow analysis, and inadequate stress-testing of mortgage portfolio resilience under adverse macroeconomic scenarios [10]. These weaknesses are consequential not only for the stability of individual bank portfolios but for the systemic integrity of the mortgage market as a whole, since episodes of collateral value depreciation as demonstrated by international experience documented by Kosareva and Tumanov can rapidly translate into elevated non-performing loan ratios if the underlying underwriting standards are insufficiently robust [11].

The housing affordability dimension of the problem is inseparable from both the interest rate and risk management dimensions. Even under the state-subsidized mortgage programs introduced by Presidential Decree No. UP-5715, the down payment requirements, maximum loan ceilings, and debt service-to-income ratios applicable to eligible borrowers exclude a substantial portion of the working population from effective access to mortgage credit . This exclusion is particularly acute for young families, informal sector workers, and residents of regions where the housing price-to-income ratio is

structurally adverse. The result is a bifurcated market in which a minority of creditworthy and formally employed urban households access subsidized mortgage products while the majority of the population remains dependent on non-institutional financing arrangements, informal savings accumulation, or rental accommodation [12].

A further dimension of the mortgage lending landscape in Uzbekistan that warrants analytical attention is the role of commercial bank competition or more precisely, its structural insufficiency in shaping the terms and accessibility of mortgage products. The domestic banking sector is characterized by a pronounced concentration of assets among a limited number of state-affiliated banks, which collectively dominate the mortgage origination market and operate under conditions that are only partially governed by market competition . This oligopolistic structure reduces the systemic incentive for product innovation, fee compression, or the development of specialized mortgage instruments tailored to the needs of underserved borrower segments such as self-employed individuals, rural households, or first-time buyers with limited credit histories. In mature mortgage markets, competitive pressure among lenders drives continuous refinement of underwriting criteria, reduction of transaction costs, and expansion of product variety — outcomes that benefit borrowers directly and deepen market penetration. The relative absence of this competitive dynamic in Uzbekistan's mortgage market reinforces the structural inertia that sustains high margins and limited product diversity, and constitutes an obstacle whose resolution requires both regulatory encouragement of new market entrants and the gradual privatization of state-controlled mortgage lending channels [13].

The macroeconomic environment within which Uzbekistan's mortgage market operates introduces an additional layer of complexity that significantly conditions the behavior of both lenders and borrowers. Inflationary pressures, exchange rate volatility, and the relatively shallow domestic capital market create an environment in which commercial banks face substantial uncertainty in pricing long-term lending instruments, as the cost of funding can shift materially over a mortgage term that may span fifteen to twenty-five years [14]. This temporal mismatch between short-term funding costs and long-duration mortgage assets is a well-documented structural vulnerability of banking systems in transitional economies, and it produces a rational risk premium that is embedded in mortgage interest rates regardless of the central bank's policy rate trajectory. Borrowers, for their part, face analogous uncertainty regarding the real value of their long-term debt obligations in an environment where wage growth, purchasing power, and housing market valuations can fluctuate substantially. The practical consequence is a compression of effective mortgage demand even among households that nominally qualify for credit, as risk-averse borrowers self-exclude from the market in the face of macroeconomic uncertainty [15]. Addressing this dimension of the problem requires not only monetary policy stabilization but also the development of institutional mechanisms such as inflation-indexed mortgage instruments or state guarantee schemes that redistribute macroeconomic risk in ways that render long-term mortgage commitment more rational and accessible for the broader population.

Conclusion

The systematic analysis conducted in this article leads to the conclusion that mortgage lending in Uzbekistan's commercial banking sector is at a stage of active but structurally constrained development. The legislative and policy framework established through the Law on Mortgage and subsequent presidential decrees has created the formal preconditions for market growth, and aggregate portfolio expansion confirms that the system is functional and growing. However, the persistence of elevated interest rates, the absence of a developed secondary mortgage market, deficiencies in risk management methodology, and the limited purchasing capacity of the median household collectively

constitute structural obstacles that cannot be resolved through administrative stimulus alone.

Sustainable development of the mortgage lending market in Uzbekistan requires a comprehensive institutional strategy encompassing the creation of a mortgage refinancing institution to provide commercial banks with access to long-term funding, the development of standardized underwriting practices and independent property valuation infrastructure, the expansion of borrower financial literacy and income formalization as prerequisites for credit accessibility, and the gradual construction of a secondary market for mortgage-backed instruments as an engine of liquidity and price competition. The international experience synthesized in the scholarly literature reviewed in this article confirms that these institutional developments are not optional complements to primary market growth but necessary conditions for its long-term sustainability and social inclusiveness. Further research is warranted on the quantitative modeling of optimal interest rate corridors for sustainable mortgage market development and on comparative assessment of secondary market institutional designs most applicable to Uzbekistan's legal and financial environment.

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