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### CURRENT STATE OF MORTGAGE LENDING IN THE BANKING SYSTEM OF UZBEKISTAN

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#### Abstract

Mortgage lending plays a crucial role in the development of the national economy, improvement of living standards, and expansion of the construction sector. In Uzbekistan, the mortgage lending system has undergone significant reforms in recent years due to the implementation of large-scale socio-economic transformations aimed at modernizing the banking sector and ensuring affordable housing for the population. The development of mortgage lending has become one of the priority directions of state economic policy, especially in the context of increasing urbanization, population growth, and rising demand for residential property. This article analyzes the current state of mortgage lending in the banking system of Uzbekistan, examines the legal and institutional framework of mortgage financing, evaluates the activities of commercial banks in providing mortgage loans, and identifies the main challenges and prospects for further development of the sector.

**Keywords:** Mortgage lending, banking system, commercial banks, housing finance, Uzbekistan, mortgage market, financial reforms, affordable housing, state support, interest rates, housing policy, mortgage loans, banking sector, economic development, financial stability.



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### **Introduction**

The banking system is one of the most important sectors of any national economy because it ensures the circulation of financial resources, supports investment activity, and stimulates economic growth. In modern economic conditions, mortgage lending occupies a special place within the banking system due to its direct influence on housing construction, employment, social stability, and improvement of citizens' living conditions. Mortgage loans enable individuals and families to acquire residential property by distributing the cost of housing over a long repayment period. As a result, mortgage lending serves not only as a financial instrument but also as an effective mechanism for solving social and economic problems.

In Uzbekistan, the development of the mortgage lending system has become increasingly important over the past decade. Rapid population growth, urban expansion, internal migration, and rising living standards have significantly increased the demand for affordable housing. The government of Uzbekistan has identified housing construction and mortgage financing as strategic priorities within the framework of national economic reforms. Numerous legislative acts, state programs, and institutional mechanisms have been introduced to improve the accessibility and effectiveness of mortgage lending services.

The modernization of the Uzbek banking system after independence created favorable conditions for the expansion of financial services, including mortgage financing. Initially, mortgage lending in Uzbekistan remained limited because of weak financial infrastructure, insufficient long-term resources, low household incomes, and underdeveloped real estate markets. However, beginning from the mid-2010s, the government initiated comprehensive reforms aimed at liberalizing the economy, strengthening the private sector, attracting foreign investment, and



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increasing financial inclusion. These reforms significantly accelerated the growth of mortgage lending operations in the country.

### **Material and methods**

One of the most important factors influencing the development of mortgage lending in Uzbekistan is state support. The government actively participates in financing housing construction programs, subsidizing mortgage interest rates, and providing social housing for low-income families. State-owned commercial banks continue to dominate the mortgage market, although private banks are gradually increasing their participation. The establishment of special institutions and mechanisms for refinancing mortgage loans has also contributed to the expansion of the mortgage market[1].

Mortgage lending is closely connected with the construction industry, which is considered one of the leading sectors of the Uzbek economy. Increased mortgage financing stimulates housing construction, creates employment opportunities, supports related industries such as cement, metallurgy, and transportation, and contributes to overall economic growth. Therefore, the improvement of mortgage lending mechanisms has both economic and social significance.

At the same time, the mortgage lending system of Uzbekistan still faces several challenges. These include relatively high interest rates, inflationary pressures, currency risks, insufficient long-term funding sources, regional disparities in housing development, and limited financial literacy among the population. Furthermore, the rapid expansion of mortgage lending may create risks for financial stability if proper risk management mechanisms are not implemented. Consequently, there is a need for balanced policies that ensure sustainable growth of the mortgage market while maintaining macroeconomic stability.



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The purpose of this article is to analyze the current state of mortgage lending in the banking system of Uzbekistan, identify major achievements and existing problems, and determine prospects for future development. The article also evaluates the impact of mortgage lending on economic modernization and social welfare. The study is based on the analysis of legislative documents, banking practices, state housing programs, and economic indicators related to mortgage financing in Uzbekistan[3].

Mortgage lending is a system of long-term financing in which real estate property serves as collateral for a loan. The borrower receives financial resources from a bank or other financial institution to purchase, construct, or renovate residential property, while the lender obtains legal rights to the property in case of non-payment. Mortgage lending represents one of the most effective instruments for increasing home ownership and improving social welfare.

Economists define mortgage lending as a mechanism that transforms long-term savings into investments in residential property. This process contributes to economic development because it stimulates construction activity, creates jobs, and increases demand for building materials and infrastructure services. Mortgage lending also facilitates capital accumulation and financial market development.

The effectiveness of a mortgage system depends on several factors, including macroeconomic stability, banking sector development, legal protection of property rights, availability of long-term financial resources, and affordability of housing. Countries with developed mortgage systems usually possess efficient financial institutions, transparent legal frameworks, and stable monetary policies. Mortgage lending performs several important economic and social functions. First, it improves access to housing by allowing citizens to purchase property



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without paying the entire cost immediately. Second, it stimulates economic growth through increased construction and investment activity. Third, it contributes to financial market development by expanding banking operations and attracting long-term capital. Fourth, mortgage lending promotes social stability by improving living conditions and reducing housing shortages[4].

### **Discussion and results**

There are different models of mortgage lending used around the world. The traditional European model is based on specialized mortgage banks that issue long-term housing loans funded through mortgage bonds. The American model relies on secondary mortgage markets, where mortgage loans are securitized and sold to investors. Some countries use state-supported systems in which the government subsidizes mortgage interest rates or directly finances housing programs.

Uzbekistan's mortgage lending system combines elements of state-supported financing and commercial banking activities. The government plays a central role in regulating the market, supporting construction projects, and providing subsidies to socially vulnerable groups. Commercial banks act as the main providers of mortgage loans, while state institutions coordinate housing policy and refinancing mechanisms.

The development of mortgage lending in Uzbekistan is closely connected with the transformation of the national banking system. After gaining independence in 1991, Uzbekistan inherited a centrally planned financial system characterized by state monopoly and limited market mechanisms. During the early years of independence, banking reforms focused on establishing commercial banks,



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introducing national currency, and creating legal foundations for financial activities.

The banking sector of Uzbekistan consists of the Central Bank, commercial banks, microfinance institutions, and other financial organizations. The Central Bank of Uzbekistan is responsible for monetary policy, banking regulation, inflation control, and supervision of financial institutions. Commercial banks provide various financial services, including deposits, loans, payment operations, and mortgage financing.

Over the past decade, the Uzbek banking system has experienced substantial modernization. Economic liberalization policies introduced after 2016 accelerated banking reforms aimed at increasing transparency, improving competition, digitalizing financial services, and reducing state dominance in the sector. These reforms created favorable conditions for expanding mortgage lending activities[5].

State-owned banks continue to occupy a dominant position in the banking sector. Large banks such as the National Bank of Uzbekistan, Asaka Bank, Agrobank, Ipoteka Bank, and others play a major role in financing housing construction and providing mortgage loans. At the same time, private banks and foreign financial institutions are gradually increasing their participation in the mortgage market.

Digital transformation has become an important trend in the Uzbek banking system. Online banking platforms, electronic payment systems, and digital loan applications have improved access to financial services. Digitalization also enhances transparency and operational efficiency in mortgage lending processes. International financial institutions such as the World Bank, Asian Development Bank, Islamic Development Bank, and European Bank for Reconstruction and Development actively cooperate with Uzbekistan in supporting banking reforms



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and housing finance development. Their financial and technical assistance contributes to institutional modernization and expansion of mortgage financing opportunities.

The legal framework regulating mortgage lending in Uzbekistan includes constitutional provisions, civil legislation, banking laws, and special нормативные acts related to housing finance. The Constitution guarantees citizens' rights to private property and housing, creating a legal basis for mortgage relations.

The Civil Code of Uzbekistan establishes general principles governing credit agreements, collateral rights, and property transactions. The Law "On Mortgage" regulates legal relations arising from the use of immovable property as collateral for loan obligations. Additional legislative acts determine procedures for state registration of property rights, foreclosure mechanisms, and banking supervision. The government has adopted several programs aimed at improving housing affordability and supporting mortgage lending. These programs focus on increasing residential construction, subsidizing mortgage interest rates, and supporting young families and low-income citizens[6].

The Ministry of Economy and Finance, the Central Bank, and the Ministry of Construction play important roles in coordinating mortgage policy. Commercial banks implement mortgage lending operations under regulatory supervision of the Central Bank.

An important institutional development was the establishment of mechanisms for refinancing mortgage loans. Refinancing institutions help commercial banks attract long-term resources necessary for providing affordable mortgage loans. This contributes to increased liquidity and sustainability of mortgage financing operations.



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The legal framework has gradually improved in response to economic reforms and international standards. Simplification of property registration procedures, digitalization of cadastral systems, and improvement of foreclosure regulations have strengthened the institutional environment for mortgage lending.

The mortgage lending market in Uzbekistan has expanded significantly in recent years. Increased state support, economic reforms, urbanization, and rising housing demand contributed to the growth of mortgage financing operations. Thousands of families receive mortgage loans annually to purchase newly constructed apartments and private houses.

Commercial banks provide mortgage loans for purchasing, constructing, and renovating residential property. Loan conditions vary depending on the bank, borrower income, and participation in state-supported programs. Mortgage loans are generally issued for long repayment periods ranging from 10 to 20 years.

One of the key features of Uzbekistan's mortgage market is strong state involvement. Government-supported mortgage programs provide subsidized interest rates for socially vulnerable groups, including young families, women, and low-income households. Such programs aim to increase housing affordability and reduce social inequality[3].

The volume of housing construction in Uzbekistan has increased substantially due to expanded mortgage financing. Large residential complexes are being constructed in urban and rural areas, contributing to modernization of infrastructure and improvement of living standards.

Interest rates remain one of the major issues in the mortgage market. Although state subsidies reduce borrowing costs for certain groups, market-based mortgage rates are still relatively high because of inflation and monetary policy conditions.



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High interest rates limit accessibility of mortgage loans for middle-income households.

Inflation significantly affects mortgage lending operations. Rising construction costs, currency fluctuations, and general price increases reduce affordability of housing and increase financial risks for borrowers and banks. Therefore, macroeconomic stability remains essential for sustainable mortgage market development.

Another important trend is the gradual increase of private sector participation in housing construction and mortgage financing. Private developers and non-state banks are becoming more active in the market, increasing competition and improving service quality.

Regional disparities continue to exist in mortgage lending development. Urban centers such as Tashkent, Samarkand, Bukhara, and Namangan experience higher levels of housing construction and mortgage activity compared to remote rural regions. Differences in income levels, infrastructure development, and banking accessibility influence regional mortgage market dynamics.

Commercial banks are the main institutions responsible for providing mortgage loans in Uzbekistan. They mobilize financial resources, evaluate borrower solvency, manage credit risks, and finance residential construction projects.

State-owned banks dominate the mortgage lending sector because they possess larger financial resources and receive government support. These banks participate actively in state housing programs and provide subsidized loans to eligible citizens.

Private commercial banks are gradually increasing their role in mortgage financing by offering innovative products, digital services, and flexible loan



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conditions. Competition among banks contributes to improved customer service and expansion of financial accessibility.

Banks evaluate mortgage applicants based on income levels, employment stability, credit history, and collateral value. Risk assessment procedures are important for ensuring financial stability and preventing non-performing loans[5].

The profitability of mortgage lending depends on interest rate policies, refinancing opportunities, inflation dynamics, and loan repayment discipline. Long-term mortgage operations require stable funding sources and effective liquidity management.

Digital banking technologies have simplified mortgage application procedures. Many banks now provide online consultations, electronic document submission, and digital payment systems. These innovations reduce administrative costs and improve customer convenience.

Commercial banks also cooperate with construction companies and government agencies to implement housing projects. Integrated cooperation mechanisms facilitate efficient financing and timely completion of residential construction.

State housing programs play a crucial role in the development of mortgage lending in Uzbekistan. The government considers housing accessibility a key component of social policy and economic modernization.

Affordable housing programs are designed to support low-income families, young couples, women, and socially vulnerable citizens. These programs provide subsidized mortgage rates, reduced down payment requirements, and extended repayment periods.



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The government allocates budget funds to finance infrastructure development for new residential areas. Roads, utilities, schools, and healthcare facilities are constructed together with housing projects to create modern living environments. Special attention is paid to rural housing development. Rural construction programs aim to improve living conditions outside major cities and reduce migration pressures on urban centers. Mortgage loans for rural housing are often provided under favorable conditions.

State subsidies reduce the financial burden on borrowers and stimulate demand for residential property. However, large-scale subsidies also create fiscal challenges and require careful budget management[6].

Housing programs contribute not only to social welfare but also to economic growth. Construction activity stimulates demand for labor, building materials, transportation, and engineering services, generating multiplier effects throughout the economy.

Despite significant progress, the mortgage lending system of Uzbekistan faces several serious challenges. One of the main problems is high inflation, which increases construction costs and mortgage interest rates. Inflation reduces purchasing power and complicates long-term financial planning for borrowers. Limited availability of long-term financial resources is another important issue. Commercial banks often rely on short-term deposits, which creates liquidity risks in long-term mortgage operations. Development of capital markets and refinancing mechanisms is necessary to solve this problem.

Housing affordability remains limited for many citizens due to relatively low income levels compared to housing prices. Even with state subsidies, mortgage payments may exceed affordable income ratios for middle- and low-income households.



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Currency risks also affect the mortgage market. Exchange rate fluctuations influence construction material prices and overall economic stability. Although most mortgage loans are issued in national currency, macroeconomic volatility still impacts financial conditions.

Regional inequality in housing development and banking accessibility creates imbalances in mortgage market growth. Rural regions often lack sufficient banking infrastructure and investment opportunities[4].

Another challenge involves legal and bureaucratic procedures related to property registration, collateral evaluation, and construction permits. Although reforms have simplified many processes, administrative barriers still exist in some areas. Financial literacy among the population remains relatively low. Many citizens have limited understanding of mortgage conditions, interest calculations, and financial planning. Educational programs are necessary to improve responsible borrowing practices.

Rapid expansion of mortgage lending may also increase risks for banking stability if credit standards are weakened. Therefore, effective banking supervision and prudent risk management remain essential. The future development of mortgage lending in Uzbekistan depends on continued economic reforms, financial sector modernization, and macroeconomic stability. The government aims to further expand housing accessibility and increase private sector participation in the mortgage market.

Digital transformation is expected to play an increasingly important role in mortgage financing. Artificial intelligence, online banking, electronic identification systems, and digital property registration can significantly improve efficiency and transparency.



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### **Conclusion**

Mortgage lending has become one of the most important components of the banking system and socio-economic development of Uzbekistan. Comprehensive reforms implemented in recent years significantly expanded access to housing finance, stimulated construction activity, and improved living conditions for thousands of citizens. The government's active participation through subsidized programs, legal reforms, and institutional modernization has created favorable conditions for mortgage market growth.

Commercial banks play a central role in providing mortgage loans and financing residential construction projects. State-owned banks continue to dominate the market, although private financial institutions are gradually increasing their participation. Digitalization and modernization of banking services contribute to greater efficiency and accessibility of mortgage operations.

The expansion of mortgage lending has positive effects on economic growth, employment, urban development, and social welfare. Housing construction stimulates numerous related industries and creates multiplier effects throughout the national economy. Mortgage financing also promotes financial market development and investment activity.

Nevertheless, several challenges remain unresolved. High inflation, relatively expensive borrowing costs, limited long-term funding sources, regional disparities, and insufficient financial literacy continue to constrain mortgage market development. Effective macroeconomic management, banking supervision, and institutional reforms are necessary to ensure sustainable growth of the sector.

Future prospects for mortgage lending in Uzbekistan are generally positive. Continued economic liberalization, digital transformation, development of



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refinancing mechanisms, and increased private sector participation can significantly strengthen the mortgage system. At the same time, social support programs should remain an important component of housing policy to ensure affordability for vulnerable population groups.

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