APPROACHES TO ENHANCING THE FINANCING SYSTEM FOR HOUSING PROVISION TO THE POPULATION

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Abstract

This article explores approaches to improving the housing finance system in Uzbekistan. In the context of the country's active socio-economic development and the growing demand for housing, special attention is given to the creation of effective financing mechanisms that ensure housing affordability for different social groups. The study examines modern tools of mortgage lending, public-private partnerships, and the role of commercial banks and microfinance institutions in supporting housing programs. The paper also proposes directions for the development of long-term and sustainable housing finance, taking into account the specific features of the national economy and demographic trends.

Keywords: housing construction, financing, mortgage, public-private partnership, affordable housing, investments, banking system, Uzbekistan.

Аннотация

В данной статье рассматриваются подходы к совершенствованию системы финансирования жилищного строительства в Узбекистане. В условиях активного социально-экономического развития страны и роста потребности населения в жилье особое внимание уделяется созданию эффективных механизмов финансирования, обеспечивающих доступность жилья для различных социальных групп. Исследуются современные инструменты ипотечного кредитования, государственно-частного партнёрства, а также роль коммерческих банков и микрофинансовых институтов в обеспечении жилищных программ. Предлагаются направления

по развитию долгосрочного и устойчивого финансирования жилищного сектора с учётом особенностей национальной экономики и демографических тенденций.

Ключевые слова: жилищное строительство, финансирование, ипотека, государственно-частное партнёрство, доступное жильё, инвестиции, банковская система, Узбекистан.

Introduction

The provision of adequate and affordable housing remains one of the most pressing socio-economic challenges for Uzbekistan in the twenty-first century. Rapid demographic growth, urbanization, and increasing internal migration to major cities have resulted in a growing need for new housing units and more efficient housing finance mechanisms. Access to long-term, affordable mortgage financing has therefore become a cornerstone of both social policy and economic development in the country. For many households, the cost of housing remains far beyond the limits of annual income, and the creation of a sustainable, inclusive housing finance system is now a national priority.

Over the past decade, Uzbekistan has embarked on an ambitious reform agenda aimed at liberalizing its economy, strengthening the banking sector, and developing capital markets. Within this broader framework, the housing sector has attracted special attention from the government, as it plays a vital role in improving living standards and stimulating domestic demand. The government's *Comprehensive Program for Housing Construction and Mortgage Market Development* seeks to expand credit accessibility, diversify funding sources, and reduce the fiscal burden of subsidies. Nonetheless, the existing system of housing finance still faces multiple challenges related to the availability of long-term funding, the affordability of down payments, the concentration of loans in certain regions, and the high debt burden on borrowers.

To understand the current situation, it is important to analyze empirical data reflecting the scale and structure of Uzbekistan's housing finance system. According to the Central Bank of Uzbekistan, the total volume of mortgage loans issued in 2024 reached 17.1 trillion Uzbek soums, representing an increase of approximately 1.5 percent compared with the previous year. As of January 1, 2025, the outstanding balance of mortgage loans amounted to 67.7 trillion soums, showing a 16 percent year-on-year growth. The share of mortgage loans in the total loan portfolio of the banking system stood at 12.7 percent, while mortgage loans constituted around 5.7 percent of the national gross domestic product. These figures demonstrate the growing significance of the housing finance sector within Uzbekistan's economy, though they also reveal its modest size compared to more developed financial systems.

The institutional composition of mortgage financing in Uzbekistan remains relatively concentrated. About 56 percent of mortgage loans are funded through centralized government resources, 35 percent by commercial banks' own funds, and only 9 percent through refinancing mechanisms such as the Uzbekistan Mortgage Refinancing Company (UzMRC). In 2023, UzMRC refinanced mortgage loans worth approximately 3.3 trillion soums, equivalent to 5.8 percent of total outstanding mortgages. This limited secondary market activity highlights the need for greater development of capital market instruments to provide long-term liquidity to lenders. Furthermore, the share of state-subsidized mortgages remains high: in 2024, nearly one-quarter of all new mortgage loans were subsidized by the state, totaling 4.1 trillion soums. While such programs have helped expand access to housing finance for lower-income groups, they also create fiscal pressure and distort market incentives for private lenders.

The structure of demand and borrower profiles provide further insight into the system's sustainability. Surveys conducted by the Central Bank and local research institutes indicate that approximately 40 percent of borrowers spend more than half of their monthly income on debt repayments, while the average debt-to-income ratio among mortgage holders is around 65 percent. Such figures are relatively high by international standards and imply significant household vulnerability to interest-rate or income shocks. Furthermore, 74.5 percent of respondents who wish to buy a house report difficulties in paying the required down payment or keeping up with interest payments. These affordability constraints limit the expansion of the housing market to middle- and low-income households, despite the overall growth of mortgage lending.

Another structural issue lies in the regional concentration of housing finance. The majority of mortgage loans are concentrated in the capital and several economically advanced regions. During the first half of 2024, the Tashkent region alone accounted for nearly 3 trillion soums in new mortgage disbursements, representing roughly one-third of the national total. In contrast, rural and less-developed areas received relatively limited financing, which reflects both supply-side constraints in banking outreach and demand-side limitations related to income levels and collateral valuation. Consequently, the housing finance system, though expanding, remains geographically uneven and fails to meet the broader objective of inclusive housing access.

The housing stock itself has been growing rapidly. According to the State Committee on Statistics, the total residential area in Uzbekistan reached 703.8 million square meters as of January 2025, a 30-percent increase compared to 2021. Construction activity has also intensified, with real construction volumes rising by over 10 percent in 2025 relative to the previous year. From January to August 2025 alone, private citizens invested more than 35 trillion soums in self-construction of homes. Despite this impressive progress, the scale of demand continues to exceed supply, particularly in urban areas where population growth and migration are concentrated.

At the same time, the rapid pace of construction has raised new challenges related to urban infrastructure, quality control, and sustainability. Many new residential areas still lack adequate access to public services, transport, and utilities, which limits their livability and long-term value. Moreover, a significant share of new construction takes place through individual initiatives rather than organized developers, resulting in uneven standards and inefficiencies in land use. Addressing these challenges requires comprehensive urban planning, stronger coordination between local authorities and private developers, and the integration of green building technologies to ensure that future housing growth remains both inclusive and environmentally sustainable.

The data summarized in the following table provide an overview of the main quantitative indicators of Uzbekistan's housing finance system during 2021–2025, highlighting key trends in loan volume, funding composition, and affordability.

Table 1.

Key Indicators of the Housing Finance System in Uzbekistan (2021–2025)

Indicator	**2021**	**2022**	**2023**	**2024**	**2025 (est.)**
Total mortgage loans issued (trillion UZS)	10.4	13.8	16.8	17.1	18.5
Outstanding mortgage loan balance (trillion UZS)	39.5	50.6	58.3	67.7	74.0
Mortgage loans as % of GDP	3.8	4.7	5.6	5.7	5.9
Share of subsidized mortgages (%)	32	28	26	24	22
Share funded by government sources (%)	63	60	58	56	52
Average debt-to-income ratio of borrowers (%)	60	62	64	65	66

Indicator	2021	2022	2023	2024	2025 (est.)
Share of borrowers spending >50% of income on loan payments (%)	37	38	39	40	41
Share of mortgages refinanced through UzMRC (%)	2.1	3.5	5.8	6.3	7.0
Average mortgage interest rate (%)	18.0	17.5	16.8	16.3	15.9

Sources: Central Bank of Uzbekistan (CBU), UzMRC, Ministry of Economy and Finance, Invexi 2025 Market Review.

These data reveal a pattern of gradual but steady expansion of the mortgage market, accompanied by an improvement in refinancing mechanisms and a slow reduction in the share of direct state funding. However, the persistence of high household indebtedness and the modest level of private-sector participation indicate that the system has yet to achieve full financial sustainability. The relative stability of mortgage interest rates and the modest decline in subsidized loans suggest that market mechanisms are beginning to play a greater role, yet structural constraints remain significant.

The central problem confronting Uzbekistan's housing finance system is the absence of deep and diversified sources of long-term funding. The banking system relies largely on short-term deposits, making it difficult to finance long-term loans without maturity mismatches. In addition, the underdeveloped capital market limits the ability of financial institutions to securitize or refinance their mortgage portfolios. The Uzbekistan Mortgage Refinancing Company was established precisely to address this issue, yet its scale remains limited compared with the potential size of the mortgage market. Expanding the role of such institutions, attracting foreign investors, and developing mortgage-backed securities could provide the necessary depth and liquidity for sustainable growth.

Another important consideration is the affordability of housing for low- and middle-income families. Although the government has introduced numerous programs to support these groups, the continued rise in construction costs and urban land prices poses a significant challenge. Policies aimed at increasing supply, promoting efficient land use, and incentivizing developers to build affordable housing are essential complements to financial reforms. In this context, public-private partnerships (PPPs) can play a vital role by combining public support with private investment and management efficiency.

Finally, enhancing financial literacy among potential borrowers and improving credit risk management practices among lenders are crucial for the stability of the system. Many borrowers enter mortgage contracts without fully understanding the long-term implications of interest rate changes or payment defaults. Strengthening regulatory oversight, expanding borrower education programs, and developing credit bureaus can contribute to a more transparent and resilient housing finance environment.

In conclusion, Uzbekistan stands at a pivotal stage in the evolution of its housing finance system. The impressive growth in mortgage lending and construction activity demonstrates the country's economic dynamism and policy commitment to improving living conditions. Yet, the persistence of high borrower indebtedness, uneven regional access, and reliance on state funding indicate that substantial reforms are still required. The next sections of this study will explore in detail the theoretical foundations of housing finance, analyze comparative international experiences, and propose specific policy measures to strengthen the efficiency, inclusiveness, and sustainability of Uzbekistan's housing finance system.

Conclusion

Uzbekistan has made significant progress in developing its housing finance system, expanding mortgage lending, and improving access to housing for citizens. Over recent years, the volume of mortgage loans and housing construction has grown rapidly, supported by both government initiatives and private banks. However, the system still relies heavily on state funding and subsidies, while private capital market participation remains limited. Many borrowers face high debt burdens, and regional disparities in access to housing finance persist.

To ensure long-term sustainability, Uzbekistan must further diversify funding sources, strengthen mortgage refinancing mechanisms, and promote private investment through instruments such as mortgage-backed securities and public-private partnerships. At the same time, improving affordability through efficient construction, transparent subsidy programs, and better credit risk management is essential. A more balanced, market-oriented, and inclusive housing finance system will not only improve living standards but also contribute to stable economic growth and social development across the country.

Recommendations

1. **Diversify Funding Sources and Strengthen the Mortgage Refinancing System.** Uzbekistan should expand long-term funding for mortgage lending by developing capital market instruments such as mortgage-backed securities and housing bonds. Strengthening the role of the Uzbekistan Mortgage Refinancing Company (UzMRC) will improve liquidity for banks and attract both domestic and foreign investors.

2. **Enhance Housing Affordability and Regional Equity** The government should promote affordable housing construction in all regions by supporting public-private partnerships (PPPs), providing targeted subsidies for low-income families, and reducing construction and land costs through efficient urban planning and digital permitting systems.

3. **Improve Financial Literacy and Risk Management** Financial institutions and regulators should expand programs to educate citizens about mortgage terms and responsibilities. At the same time, banks must improve borrower assessment, credit scoring, and risk monitoring to ensure responsible lending and prevent over-indebtedness.

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