

Mechanisms for Subsidizing Mortgage Loans Allocated to Young Families in Uzbekistan and Their Effectiveness

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Abstract: This article analyzes the mechanisms of subsidizing mortgage loans allocated to young families in Uzbekistan. It examines the essence and effectiveness of government policies aimed at expanding young families' opportunities to purchase housing through subsidies. Furthermore, the study explores the socio-economic impact of the mortgage loan subsidy system and evaluates the results of the measures implemented. The article focuses on defining the role of mortgage loans and subsidies in meeting the housing needs of young families.

Key words: young families, mortgage loan, subsidy mechanism, housing, government policy, socio-economic effectiveness.



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In recent years, the huge works carried out in connection with the provision of comfortable and convenient housing for the population, improvement of the infrastructure around the housing estates have a strong impact on the mood and worldview of people, and their quality of life.

In this regard, Decree No. PF-60 of the President of the Republic of Uzbekistan dated January 28, 2022 "On the new development strategy of Uzbekistan for 2022-2026", PQ-3620 dated March 23, 2018¹ "On additional measures to increase the popularity of banking services". This article serves to a certain extent in the implementation of the important tasks specified in the decisions of the Address of the President of the Republic of Uzbekistan to the Oliy Majlis, the heads of the Central Bank of Uzbekistan, the Republic of Karakalpakstan, the regions and the city of Tashkent were assigned the task of providing families with difficult living conditions with affordable housing on the basis of preferential loans this year².

Today, the level of urbanization of our country is 35.5 percent, and if necessary, measures are not

¹ Decree of the President of the Republic of Uzbekistan dated January 28, 2022 "On the new development strategy of Uzbekistan for 2022-2026" No. PF-60. <https://lex.uz/docs/5841063>

² Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. PF-4947 "On the strategy of actions for the further development of the Republic of Uzbekistan".

taken from now, this indicator may decrease in the near future. In this regard, we believe that the center of attention should be the comprehensive development of cities and towns located in the regions, not only the capital cities and regional centers³.

However, during the period when the world financial and economic crisis was at its peak, the large-scale intervention of the states in the economy was primarily aimed at eliminating the liquidity of the banking and financial system, mortgage loans, and the fact that little attention was paid to the sectors of the real sector of the economy, production, small business and entrepreneurship had a negative impact on the situation.

The above circumstances require a deep scientific analysis of ways to identify and eliminate problems in mortgage loans by commercial banks and to develop a system of subsidizing mortgage loans allocated to young families in Uzbekistan.

Analysis of literature on the topic

In economic literature and in practice, the term "mortgage" is used in several senses. This term is mainly defined as "real estate collateral" and "real estate secured bank loan debt".

For example, "Mortgage (translated from Greek means "pledge") is a loan under the pledge of real estate or land"⁴.

Some legal Russian scholars usually try to explain the term "mortgage" in two ways. According to them, "mortgage" is a legal relationship and "mortgage" is a security. "Mortgage" in the form of a legal relationship is a form of pledging immovable property for the purpose of obtaining a mortgage loan.

"Mortgage"-in the form of a security, it is understood as a debt instrument in the hands of the real estate holder (creditor) and it has the right to freely trade in the financial market⁵.

In this case, the mortgage is a form of obligation for the debtor's property, in which the real estate remains at the disposal of the owner (debtor), and the creditor has the right to recover his debt only if the debtor does not fulfill his obligations.

From the above, it can be noted that a mortgage is a pledge of a real estate object, in which the pledged property is not handed over to the creditor, but remains at the debtor's disposal, and he has the opportunity to use this property permanently.

Ipoteka (from the Greek word "pledge" and "deposit" means pledging land or other immovable property in order to obtain a money loan-mortgage loan (loan against contribution).

A mortgage loan is a long-term loan allocated for the purpose of purchasing, rebuilding or repairing real estate, buildings and constructions, and land areas as collateral⁶.

So mortgage is by definition a long-term bank loan related to real estate. It will always be related to real estate⁷.

In general, a mortgage loan is a long-term bank loan granted by banks for the purchase or

³ Address of the President of the Republic of Uzbekistan to the Oliy Majlis on the most important priority tasks for 2019.

⁴ Zharkovskaya. E.P. Banking: Proc. – M.: OMEGA-L, 2008 – 476 p.

⁵ Address of the President of the Republic of Uzbekistan to the Oliy Majlis on the most important priority tasks for 2019.

⁶ Zhukov E.T. Long-term mortgage lending. Practical guide. Moscow: Book Laboratory. 2009. 93 p.

⁷ Asaul A.N., Ivanov S.N., Stravoitov M.K. Real estate economics. Textbook for universities. -3rd ed. corrected. St. Petersburg: ANO IPEV. 2009. 304 p.

construction of immovable property based on real estate collateral.

In our republic, in civil-legal relations, the term mortgage is understood as a pledge of land, buildings and structures, as well as other immovable properties. In the broadest and most comprehensive sense, the mortgage includes the market of mortgage bonds in addition to the mortgage loan as a bank loan.

In order to comprehensively support the development and competitiveness of the housing market, the task of providing loans to enterprises producing modern and high-demand construction materials has become important for enterprises producing construction materials, which are widespread in our republic.

At the same time, currently, in connection with the implementation of the Decree of the President of the Republic of Uzbekistan No. PF-5106 dated July 5, 2017 "On improving the effectiveness of the state policy on youth and supporting the activities of the Youth Union of Uzbekistan", as well as improve their housing and household conditions by providing long-term preferential mortgage loans to young families, the work of providing housing to young families in the republic has been intensified⁸.

This can be seen in the example of laws, decrees and decisions adopted during the past years. In particular, in connection with the implementation of the Decree No. PF-5106 of July 5, 2017 of the President of the Republic of Uzbekistan "On improving the effectiveness of state policy on youth and supporting the activities of the Youth Union of Uzbekistan", as well as long-term support for young families who actively participate in the social life of the country and set a special example To build houses for young families in order to further improve their housing and living conditions by providing preferential mortgage loans. Decree of the President of the Republic of Uzbekistan "On the program for the construction of affordable houses according to updated model projects in rural areas in 2017 - 2021" dated October 21, 2016. - No. 2639 and "On measures to implement the program for the construction and reconstruction of affordable multi-apartment housing in cities in 2017-2020" are implemented in accordance with the procedure and at the expense of the funds provided by the decisions No. PQ-2660 of November 22, 2016⁹.

It will also lead to the development of service industries, enterprises producing building materials and housing construction, as well as financial institutions. In fact, the creation of favorable conditions for improving the practice of mortgage lending in the Republic of Uzbekistan has led to a significant increase in the volume of mortgage loans issued by commercial banks in recent years. In turn, the importance of mortgage loans in social support and improvement of living conditions of the population has a special place.

But today's experience shows that it is well known from international experience that the unlimited issuance of mortgage loans can lead to a crisis not only of commercial banks, but also of other financial institutions.

Research methodology

In the implementation of scientific work, in the development of mortgage loans to young families on the basis of subsidy conditions, interviews with scientists and representatives of the field, analysis of their written and oral opinions, expert evaluation, observation of processes, systematic approach to economic events and processes, comparative analysis with the author's experiences conclusions, proposals and recommendations are given in the relevant areas.

⁸ Zharkovskaya. E.P. Banking: Proc. – M.: OMEGA-L, 2008 – 476 p.

⁹ Zvyagintsev V. Problems and prospects of mortgage lending in Russia. M.: Laboratory Books : Laboratory Book. 2010. 35 p.

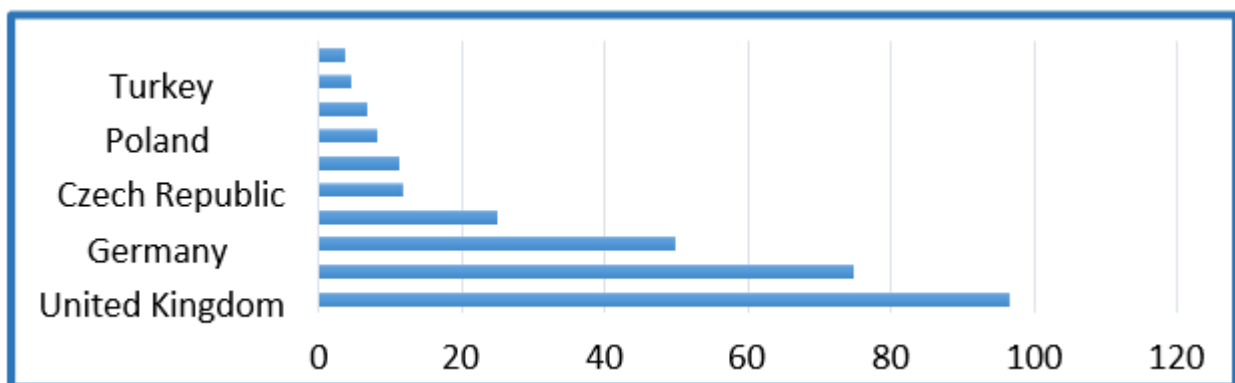
Analysis and results

Today, commercial banks provide services to individuals, lending for various purposes is an important source of income for commercial banks. This creates the basis for the expansion and widespread introduction of banking services.

It can be seen that negative situations have occurred in the practice of lending to individuals, especially mortgage lending, by commercial banks. Due to the decrease in the number of banks with mortgage lending practices and the reduction of mortgage lending in the current situation, the volume of mortgage lending to individuals has decreased.

Based on the analysis of foreign practice indicators of lending to individuals, we can see that this factor is of great importance.

Figure 1. The share of loans allocated to individuals in different countries of the world in GDP in 2022, in percent¹⁰



From the data of Figure 1, we can see that the share of loans to individuals in the country's GDP is high in developed countries, reaching 100 percent. In the rest of the countries, loans allocated to the population make up a quarter or more of GDP. What is the meaning and importance of this indicator?

In our opinion, through lending to the population in these countries, it serves to satisfy their various needs and, most importantly, to increase the realization of production and service organizations. The main goal is to turn the needs of the population into demand through bank loans, and as a result, it will lead to an increase in the volume of production and construction works in the country. The level of this indicator may be relatively low in the banking system of developing countries. The reason is the development of the banking system of these countries and the coverage of the credit system.

One of the important principles of the transition to market relations in the Republic of Uzbekistan is the implementation of a strong social policy. Demographic statistics show that the population of the republic is growing steadily. Therefore, one of the most urgent economic problems today is meeting the growing housing needs of the population. Currently, a state housing program has been developed in the republic.

The program included a set of measures aimed at ensuring the stable and continuous operation of the country's financial and economic, budget, banking and credit system, providing support to the real sector of the economy and enterprises, and providing social support to the population.

Mortgage loans are the most in-demand line of banking services. This is confirmed by many regulatory legal documents, such as the Law of the Republic of Uzbekistan "On Mortgages", the

¹⁰ Retail Banker International foreign SMI.

"Regulation on granting mortgage loans for construction, reconstruction and purchase of housing", approved by the decision of the Cabinet of Ministers. A mortgage loan is usually secured against real estate.

It is known that the granting of consumer and mortgage loans creates wide opportunities for the population to purchase consumer goods produced in the republic. Mortgage loans increase the level of housing provision for young families and other categories of population. All this is aimed at supporting young families materially and mentally, creating stable sources of income and improving their living and household conditions. Loans intended for young families not only allow them to pay less interest, but also allow them to improve their financial situation during the specified grace period.

Table 1. Distribution of commercial bank loans by sector in the Republic of Uzbekistan¹¹

Years	2014	2015	2016	2017	2018	2019	2020	2021
By amounts, trillion sum								
Allocated loans	34,5	42,7	53,4	110,6	167,4	210,1	275,3	324,7
By branches, in percent								
Industry	44	36	35	41	40	35	37	36
Agriculture	6	4	6	4	6	8	10	11
Transport and communication	12	18	14	15	12	11	10	9
Construction industry	3	3	4	3	4	3	3	3
Trade and general service	7	6	8	5	6	7	7	8
Material and technical support	1	1	1	-	2	2	1	1
Housing and communal services	1	1	1	1	1	1	1	1
Other sectors	26	31	31	31	29	33	31	31
Total:	100	100	100	100	100	100	100	100

If we analyze the credit investments of commercial banks of our country this year, the highest percentage, i.e. 36%, corresponds to the industrial sector, besides, the industrial sector has a higher percentage compared to other sectors. We can observe that agriculture and transport and communication sectors fluctuated around 9-11 percent on average over the years. Material and technical support and housing and communal networks correspond to only 1%, which indicates that this direction is not sufficiently developed. In these periods, the share of industry in the structure of sectors to which credit investments are directed is significantly high (Table 1).

But the analysis of recent years shows that the population's demand for housing is increasing sharply. The price index has risen almost tenfold. The current situation increased the population's demand for bank loans.

This, of course, did not escape the leadership of the Central Bank of the Government of the Republic of Uzbekistan and commercial banks. The Law of the Republic of Uzbekistan "On Mortgages" was adopted in order to stabilize the situation in the housing market and satisfy the population's demand for bank loans.

¹¹ Source: <http://cbu.uz//> - prepared by the author based on information from the official website of the Central Bank of the Republic of Uzbekistan.

Credit deposits of commercial banks are sufficiently diversified, and the risks associated with the activity of economic sectors in the banking system of the republic are formed at a moderate level.

The increasing demand of the population for housing and the implementation of measures aimed at providing them with housing caused an increase in the volume of mortgage loans. As of 2022, the balance of mortgage loans is 35.8 trillion. Amounted to sums and increased by 26.8% (7.5 trillion sums) compared to the corresponding period of 2021, while mortgage loans allocated in this period increased by 7.4% or 671.8 billion sums compared to the corresponding period of the previous year. Increased to 9.8 trillion sums. amounted to sum¹².

Today, mortgage loans are provided by many banks, such as "Ipoteka Bank", TIF "Milliy Bank", "Kishloq Qurilish Bank", "Asaka Bank", "Khalq Bank", "Uzsanoatkurilish Bank". It should be said that each bank has several mortgage loan programs, and the applicant can choose the one that suits him. Mortgage loan terms offered by banks cover the period from 10 to 15 years. Grace periods are from 12 to 36 months. The down payment should not be less than 25 percent. In addition, interest rates may vary depending on the amount of the down payment. That is, the larger the initial payment, the lower the interest rate. The loan amount is up to 2500-3000 times the EKI.

In addition, in 2020-2025, according to the "Affordable Housing" program, about 50,000 multi-family houses are planned to be built in our country. The amount of the initial payment under this program is expected to drop to 12.5%. Interest will remain at the level of the refinancing rate of the Central Bank (currently - 14%).

One more thing should not be forgotten that, like any financial and credit organization, a bank is a commercial organization. It primarily aims to generate income through loans for various purposes.

It should be noted that at the same time, the government of our Republic considers the mortgage credit system as an important means of satisfying the population's demand for residential buildings and accelerating construction works in the regions.

Conclusions and suggestions

The results of the research carried out in the course of the conducted scientific research showed that there are a number of urgent problems in the improvement of the mechanism of subsidization in the practice of mortgage lending in our country, and the main ones, in our opinion, are as follows:

Incompleteness of some legal bases of mortgage lending practice regarding property pledge and its sale by commercial banks.

The following can be added to the negative aspects of the mortgage today:

- the height of the interest rate. Average interest rates on national currency bank loans in Uzbekistan As of June 1, the annual average interest rate on all loans was 19.8 percent, and on May 1 it was 19.7 percent.

The rate of short-term loans increased to 19.5% (it was 19.1% in April), while the rate of long-term loans remained the same — 19.8%¹³.

- the initial payment is 25%;
- in addition, if the payer took a loan and failed to pay it, he will have to pay a considerable amount of fines;

¹² Law of the Republic of Uzbekistan "On Mortgage", 2006.11.09.

¹³ Annual report of the Central Bank of the Republic of Uzbekistan. 2022 year.

➤ mortgages force many families to live economically.

These are the main disadvantages of this type of lending. But there is another aspect that is important - this is moral pressure, a sense of indebtedness. Therefore, it is recommended to think carefully before taking such a step.

It is necessary to further improve the legal base and infrastructure in order to develop mortgage credit in our republic, to reduce the financial risk of its participants and to facilitate the ownership of housing by citizens.

Providing a youth home to young families consists of three stages: the first stage is the construction of the youth home, the second is the selection of candidates, and the third stage is the conclusion of an agreement between the selected young families and the bank and the contracting organization, that is, the stage of formalization of documents.

At the present time, the scientists of our republic are expressing their opinions about the expediency of creating a two-tier system of mortgage lending. But the perfect vision of the two-tier lending system has not yet been developed. In general, the two-tier mortgage lending system envisages the creation of a special fund for the refinancing of mortgage loans at the state level. The goal of the fund is to create such a mortgage lending mechanism, which on the one hand allows to set the interest rates of mortgage loans at a comfortable level for the population; secondly, it should allow attracting long-term resources to the mortgage lending process.

The level of credit risk of banks is high due to the fact that most of the individuals receiving loans from the banks of our republic, that is, bank clients, do not have a credit history.

In the conditions of the growing demand of the population for housing and the improvement of its living conditions, it increases the demand of citizens to borrow long-term funds from the financial market for the purchase of housing at interest rates that satisfy them. The mortgage lending system of banks allows to satisfy this demand.

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