

## FINANCING METHODS USED BY THE POPULATION FOR FINANCING HOUSING AND THEIR DIVERSIFICATION

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### **Abstract:**

Currently, the real estate market in our country, in particular, the housing and mortgage markets, has high growth rates. In the real estate market, it is important to offer financing methods that are convenient and affordable for the population to effectively meet their demand for housing. In this regard, the main goal of the research is to study the sources and methods of financing and to develop recommendations for improvement.

In this thesis, the main financing methods and the indicators related to them, which are currently used by the population in financing housing in Uzbekistan, are analyzed. The analysis materials given in the thesis were also considered in terms of regions. After analyzing the current trends, the necessary conclusions and recommendations are made.

**Keywords:** housing finance, population preference, mortgages, loans, installment payment, Islamic finance, alternative financing, murabahah, diminishing musharakah, istisna, financial lease, ijara.

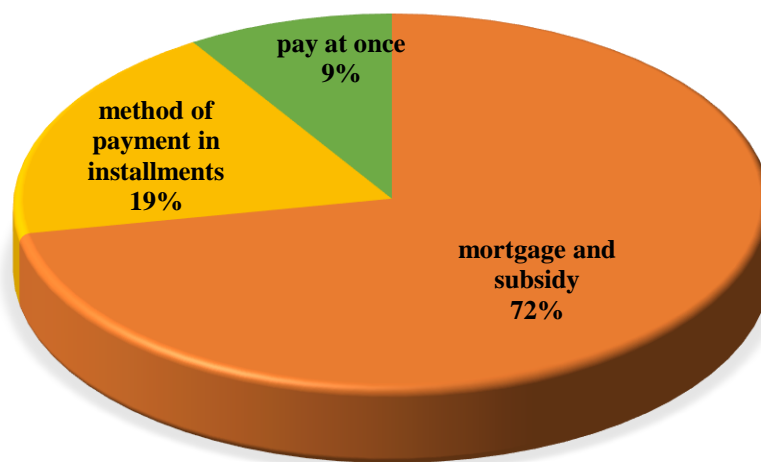
Housing finance in Uzbekistan has been developing rapidly in recent years. The volume of financial resources allocated to this sector by many banks and financial organizations also has a growing tendency. The constant growth of the population and the increase in the income and economic opportunities of the population are the reasons for the increase in the volume of demand in the field of housing finance. One of the main tasks of financial organizations is to offer convenient, cheap and simplified financing methods for different layers of the population based on their financial capabilities and literacy. Housing financing by the population is currently carried out on the basis of mortgage loans and subsidies, installment payments, investment contracts and lump sum payments.

A total of 5,455 people across the republic participated in the survey conducted by the Institute of Macroeconomic and Regional Studies to assess the population's demand for housing. From the point of view of statistics and probability, the number of respondents should be at least 384 people for a 95% confidence level and 5% margin of error for a population of 36 million. Taking into account that about 5,500 people from all regions of the republic participated in the household survey, the margin of error of the survey results at the 95% confidence level is

approximately 1.32% [4].

The expansion of mortgage and subsidy opportunities will greatly help the majority of the population to buy a home. 72% of respondents said that they prefer a mortgage and subsidy, 19% prefer to pay in installments, while only 9% of respondents said that they can pay all at once.

The ratio of the number of mortgage loans to the number of housing sales contracts shows the level of use of mortgage loans or own funds by the population in purchasing real estate.



**Figure 1. Population preference in housing finance (2023) [1]**

The number of mortgage loans allocated to individuals in 2020-2023 and the number of notarial actions performed by individuals on the purchase and sale of residences show that, on average, every fifth person who buys a house in Tashkent city and Tashkent region applying for mortgage loans, in Surkhandarya region, the Republic of Karakalpakstan, Kashkadarya and Khorezm regions, about half of housing sales are financed by mortgage loans.

This shows that residents in Tashkent city and Tashkent region mainly use their own funds to buy housing, and in Surkhandarya region, the Republic of Karakalpakstan, Kashkadarya and Khorezm regions, mortgage loans are an important source of financing.

**Table 2 In 2020-2023, the ratio of the number of mortgage loans allocated to individuals to the number of notarial actions performed by individuals on the purchase and sale of residences (%)**

Areas	2020	2021	2022	2023	Average indicator
Surkhandarya	75	48	44	35	50
Kashkadarya	86	37	34	32	47
Karakalpakstan	70	41	36	38	46
Khorezm	65	40	40	35	45
Jizzakh	67	33	42	33	44
Syr Darya	51	34	33	33	38
Navoi	37	29	40	40	37
Namangan	56	34	31	24	36
Samarkand	54	31	34	25	36
Bukhara	49	29	29	24	33
Andijan	37	29	34	26	32
Ferghana	39	31	30	24	31
Tashkent	26	18	20	19	21

It should be noted that in 2020-2023, the role of mortgage loans in purchasing housing decreased. For example, in 2020, the ratio of the number of mortgage loans to the number of housing transactions in the Surkhandarya region was 75%, but this indicator decreased to 48% in 2021, 44% in 2022, and 35% in 2023. This indicates that people are increasingly using their own funds as a source of financing for housing purchases.

Also, 46% of the participants mentioned difficulties in forming the initial installment payments, and 20% of the participants mentioned difficulties in paying the monthly payments of the loan as the main problem of the mortgage loan. This once again shows that it is necessary to introduce a subsidy payment system to cover a part of the initial contribution and interest payments by the state for those who do not have a high income and need to improve their housing conditions.

Currently, there is an opportunity to offer new alternative financing methods for the segment of the population that does not use mortgage loans for housing financing.

The results of a study conducted by the Chamber of Commerce and Industry with the UNDP showed that 38% of the business representatives and 56% of the individuals who participated in the survey do not take loans from traditional banks because of their religious beliefs. In this way, there is a demand for financial organizations that follow the rules of Islam. According to the assessment of the Ministry of Investments and Foreign Trade, the introduction of Islamic finance will add 100 million to the budget. dollar benefits [9].

**Table 3 Alternatives to traditional financing methods in housing financing [3]**

Traditional	Islamic finance
Financing on the basis of installment payments	Taqsit, Musovama, (Tavliya)
Financing on the basis of an investment contract	Istisna
Mortgage loans	Murabahah
Financial lease	Ijara muntahiya bittamlik
Not available	Diminishing musharakah
Not available	Financing a rental agreement (service) by deferring payment

According to the Qardus publication, the Islamic financial sector is currently growing by 15% to 25% per year, and the total value of Islamic financial institutions worldwide is 2.7 trillion. manages assets in excess of USD. Currently, the three countries where Islamic finance is best established are Saudi Arabia, Iran, and Malaysia, which account for 66% of the global market [10]. It is necessary to analyze the types of Islamic mortgage services offered by these countries and study the prospects of using the most optimal of them in the financial system of our country.

Although traditional and Islamic financial systems currently use different methods and contracts to finance housing, there are a number of similarities in their financial mechanisms. After analyzing the housing market in Uzbekistan and the current state of its financing, it can be said that there is a high demand for housing in the republic. The high prices of property objects in the housing market are developing not only as a result of the natural need of the population for housing, but also as a result of the use of housing objects as an investment. Mortgage loans are one of the most popular ways to finance housing. The main reason for this is the ease of registration and payment procedure for residents. Improving housing financing requires a review and analysis of existing financing methods and the introduction of alternative financing methods. Current practices require that most of the population's income be directed to housing and a period of long-term indebtedness. In the process of housing financing, it is advisable to use different methods of housing financing in order to avoid situations where the population cannot satisfy their primary needs and social needs, so that the amount of monthly payments does not exceed 50% of the monthly salary, and to reduce the payment years. Creating a market of financing instruments that are more convenient, cheaper and, most importantly, reliable than mortgage loans for housing financing, would greatly contribute to increasing the level of housing provision among the population.

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