
The Practice of Lending to Construction Companies by Commercial Banks in Uzbekistan

Bakhrom Sultanov

Tashkent State University of Economics, Independent Researcher

Abstract: The article analyzes the practice of lending to construction companies by commercial banks in Uzbekistan, shows the existing successes in this regard, as well as problems, and develops recommendations for their elimination.

Key words: construction companies, residential construction companies, commercial banks, lending, loans, mortgage.

In recent years, the rapid development of the economy of Uzbekistan, the regular growth of its population, as well as the recognition of the country's achievements and successes by the international community, are leading to an increase in the demand and need for the construction of social, economic and entrepreneurial infrastructure facilities, and residential buildings for the population. This, of course, affects the development of construction companies, and in turn, has created a need for the state to support the development of construction companies. Therefore, in recent years, the state has paid great attention to the development of the lending system of construction companies by commercial banks.

Table 1 shows the information on commercial bank loans by economic sectors in the last 3 years (as of February 1). As can be seen from Table 1, over the last 3 years, commercial bank total loans and loans by economic sectors have had a tendency to increase. This is a sign that the role of commercial bank loans for the development of economic sectors in the country is high. If you look at the indicators in the table, loans to individuals have achieved a very high growth (115.3%), followed by loans to agriculture (32.2%), loans to construction have been in third place (28.9%). The fact that the loans to individuals have achieved such a high level of growth indicates that in recent years, the system of providing microloans without collateral has been developed in the country, in which, along with banks with state shares, private banks are actively involved.

It is not for nothing that the growth in the loans to construction sector is among the Top 3. This is the result of the attention given by the state in recent years, which can be seen in:

Firstly, the adoption of the following regulatory and legal acts for the development of the construction industry in the country:

- the Decree of the President of the Republic of Uzbekistan dated April 2, 2018 No. DP - 5392 "On measures to radically improve the public administration system in the construction sector" [2] and the Resolution of the President of the Republic of Uzbekistan dated April 2, 2018 No. RP - 3646 "On organizing the activities of the Ministry of Construction and Housing and Communal Services of the Republic of Uzbekistan" [3]: by these acts important steps have been taken to improve the construction sector;

Table 1. Information on commercial bank loans by economic sectors [1]

Indicator name	February 1, 2022		February 1, 2023		February 1, 2024		Growth in %
	billion UZS	% of total	billion UZS	% of total	billion UZS	% of total	
Total loans	324139	100%	391109	100%	469600	100%	44.8%
Industry	115761	35.7%	125579	32.1%	138435	29%	19.5%
Agriculture	35210	10.9%	42994	11%	46548	10%	32.2%
Construction	9380	2.9%	10383	2.7%	12091	3%	28.9%
Trade & public catering	26818	8.3%	28639	7%	32250	7%	20.2%
Transport & communication	27866	8.6%	29970	7.7%	34388	7%	23.4%
Logistics supply & sales	3588	1.1%	3916	1%	4022	1%	12.1%
Housing & community services	2140	0.7%	1882	0.5%	2294	0.5%	7.1%
Individuals	69605	21,5%	102234	26%	149894	32%	115.3%
Other sectors	33770	10.4%	45513	11.6%	49678	11%	47.1%

- the Resolution of the President of the Republic of Uzbekistan dated February 5, 2020 No. RP - 4586 “On measures to radically improve the quality of construction and installation works and improve the control system in construction” [4], the Decree of the President of the Republic of Uzbekistan dated March 13, 2020 No. DP - 5963 “On additional measures to deepen reforms in the construction industry of the Republic of Uzbekistan” [5] and the Decree of the President of the Republic of Uzbekistan dated November 20, 2020 No. DP – 6119 “On approval of the strategy for modernization, accelerated and innovative development of the construction industry of the Republic of Uzbekistan for 2021 – 2025” [6]: by these acts great attention has been paid to the elimination of existing shortcomings and the implementation of strategic measures;
- the Resolution of the President of the Republic of Uzbekistan dated September 20, 2019 No. RP - 4464 “On measures for the widespread introduction of information and communication technologies in the construction sector” [7]: it began providing a wide range of opportunities to users of its services through the digitization of the construction sector;
- the Law “On approval of the Urban Planning Code of the Republic of Uzbekistan” which was adopted in a new edition On May 23 [8], 2021: it established the principles for the development of a new procedure for the active participation of companies working in the construction industry in urban construction;
- the Resolution of the President of the Republic of Uzbekistan dated October 24, 2016 No. RP – 2639 “On the program for the construction of affordable residential buildings according to updated standard projects in rural areas for 2017 – 2021” [9] and the Decree of the President of the Republic of Uzbekistan dated November 14, 2018 No. DP – 5577 “On additional measures to improve state regulation in the construction sector” [10]: by these acts customs and tax benefits have been introduced for construction companies, and this became an important impetus for the development of this industry.

Secondly, the adoption of the following regulatory and legal acts for the development of the practice of lending to construction companies by commercial banks in the country:

- the Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. DP – 5992 “On the strategy for reforming the banking system of the Republic of Uzbekistan for 2020 – 2025” [11]: by this Decree attention has been paid to the organization of commercial banks’ activities in accordance with international requirements;
- the Decree of the President of the Republic of Uzbekistan dated April 13, 2023 No. DP - 51 “On measures to implement the program for providing housing to the population through

mortgage loans based on market principles for 2023” [12]: by this Decree the main focus has been made on commercial bank loans to construction companies;

- the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated December 26, 2023 No. 684 “On measures for the implementation of the program “140 advanced industrial enterprises’ and the introduction of “the industrial mortgage” system” [13]: by this Resolution the “industrial mortgage” system has been introduced in our country from January 1, 2024.

We would like to note that the sharp increase in the population of Uzbekistan is causing a high level of demand and need for residential construction companies. As a result of this, commercial banks have begun to pay special attention to the issue of lending residential construction companies. It is no exaggeration to say that the Decree of the President of the Republic of Uzbekistan dated April 13, 2023 No. DP - 51 has been an important step in this regard. According to this Decree, loans at 14 percent rate for up to 18 months have been allocated to residential construction companies for the construction of multi – apartment houses. It is known that in the past, residential construction companies could mortgage the house after the roof was closed, and get a loan. This Decree has given construction companies the right to mortgage houses under construction from floor to floor and receive a loan for each floor.

Figure 1 shows the amount of commercial bank loans to construction companies for the construction of multi – apartment houses in 2020-2023.

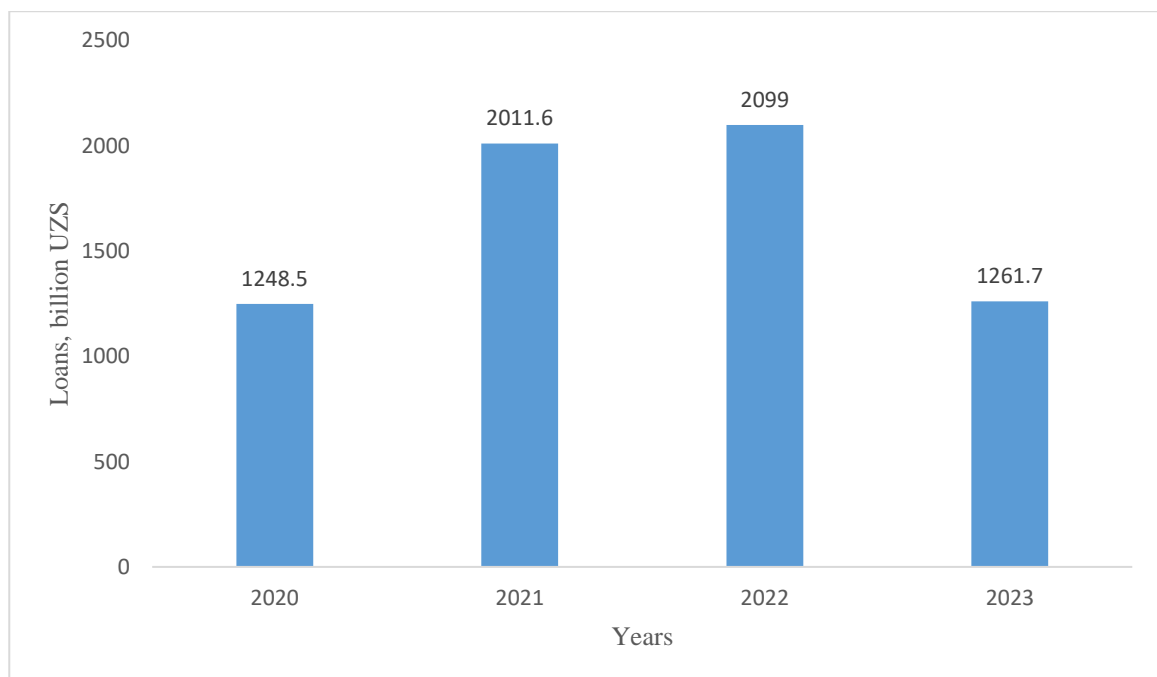


Figure 1. Commercial bank loans to construction companies for the construction of multi – apartment houses in 2020 – 2023, billion UZS [14]

Figure 1 shows that the amount of loans for the construction of multi – apartment houses has increased over the period 2020 - 2022, but in 2023 this amount has decreased. The main reasons for this can be seen in the following:

- As one of the main reasons why the electrical and heating systems could not withstand enough in the anomalous cold weather in Uzbekistan in the winter of 2023, some multi – apartment houses in the urban areas, especially in the city of Tashkent, were not built according to the established requirements. This led to a temporary stoppage of the construction works for the inspection of the houses built and under construction. Naturally, this also affected the decrease in the amount of loans to residential construction companies;
- In 2023, several times, one of the main reasons for the high level of air pollution in the city of Tashkent was the fact that many multi – apartment houses were built at the expense of

reducing green areas in the city. As a result, the permission to construction companies to build houses was temporarily suspended. This also led to a certain reduction in the amount of commercial bank loans;

- If you pay attention to the data in Table 1, as of February 1, 2024, there has been observed a high growth in almost all indicators. This means that before commercial banks there is also a need to allocate loans for many other projects. In addition, the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated December 26, 2023 No. 684 has begun to introduce the “industrial mortgage” system in our country from January 1, 2024. This, in turn, led to the fact that commercial bank loans began to be directed not only to residential construction companies, but also to construction companies that build industrial facilities.

Indeed, the introduction of an industrial mortgage in our country was an important step in the development of the practice of lending to construction companies by commercial banks. Industrial mortgage is understood as the offer by commercial banks to entrepreneurs in the form of a “ready – made business” with a proposal to purchase buildings on the basis of a long - term mortgage loan, with the building itself as a pledge. In other words, a home mortgage allows people to obtain house with a long – term loan, while an industrial mortgage allows companies to obtain industrial facilities with a long – term loan. This leads to the development of lending practices for the construction of industrial facilities by commercial banks, as a result of which wide opportunities also arise before construction companies.

In conclusion, in Uzbekistan, great attention is paid to the development of lending practices of construction companies by commercial banks. In this regard, there are also some problems that are waiting to be solved, the positive elimination of which will lead to the further development of lending practice:

- Lending to construction companies is carried out mainly by commercial banks with a state share, while private commercial banks are practically inactive in this matter. Increasing the activity of private commercial banks will develop lending practices and create more opportunities for construction companies. For this, it is important to support the creation of more private commercial banks in the country, which will strengthen the competition between commercial banks. This naturally leads to a desire by them to cover projects as many as possible, including lending to construction companies;
- As we mentioned above, today the majority of commercial banks in our country are quite active in the primary and secondary real estate market, the share of which mainly corresponds to houses. In other words, long - term mortgage loans are issued almost exclusively for the purchase of houses. This naturally leads to an increase in the number of construction companies engaged in housing construction or residential construction companies. However, in addition, there is another great opportunity for construction companies in the country, which is manifested in the implementation of the construction of industrial facilities. Commercial banks have a great role in creating such an opportunity, and for this, they should provide long-term mortgage loans to entrepreneurs for the purchase of industrial objects, i.e. industrial mortgages, as well as long - term mortgage loans to citizens for the purchase of houses;
- To ensure fairness and transparency in the practice of lending to construction companies by commercial banks, it is necessary to form a system of ranking of construction companies and develop lending based on this system. This naturally makes a worthy contribution to the further development of lending practices.

In general, the development of the practice of lending to construction companies by commercial banks in Uzbekistan is of great interest not only for commercial banks and construction companies themselves, but also for other economic sectors and the population. After all, houses and buildings are needed by everyone, indicating that construction companies occupy a special place in the country’s economy.

LITERATURE

1. The official website of the Central Bank of the Republic of Uzbekistan. www.cbu.uz Information on commercial bank loans by economic sectors. 27 February 2023 / 27 February 2024.
2. The Decree of the President of the Republic of Uzbekistan dated April 2, 2018 No. DP - 5392 “On measures to radically improve the public administration system in the construction sector”. www.lex.uz
3. The Resolution of the President of the Republic of Uzbekistan dated April 2, 2018 No. RP - 3646 “On organizing the activities of the Ministry of Construction and Housing and Communal Services of the Republic of Uzbekistan” www.lex.uz
4. The Resolution of the President of the Republic of Uzbekistan dated February 5, 2020 No. RP - 4586 “On measures to radically improve the quality of construction and installation works and improve the control system in construction” www.lex.uz
5. The Decree of the President of the Republic of Uzbekistan dated March 13, 2020 No. DP - 5963 “On additional measures to deepen reforms in the construction industry of the Republic of Uzbekistan” www.lex.uz
6. The Decree of the President of the Republic of Uzbekistan dated November 20, 2020 No. DP – 6119 “On approval of the strategy for modernization, accelerated and innovative development of the construction industry of the Republic of Uzbekistan for 2021 – 2025” www.lex.uz
7. The Resolution of the President of the Republic of Uzbekistan dated September 20, 2019 No. RP - 4464 “On measures for the widespread introduction of information and communication technologies in the construction sector” www.lex.uz
8. The Law “On approval of the Urban Planning Code of the Republic of Uzbekistan” which was adopted in a new edition On May 23, 2021. www.lex.uz
9. The Resolution of the President of the Republic of Uzbekistan dated October 24, 2016 No. RP – 2639 “On the program for the construction of affordable residential buildings according to updated standard projects in rural areas for 2017 – 2021”. www.lex.uz
10. The Decree of the President of the Republic of Uzbekistan dated November 14, 2018 No. DP – 5577 “On additional measures to improve state regulation in the construction sector” www.lex.uz
11. The Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. DP – 5992 “On the strategy for reforming the banking system of the Republic of Uzbekistan for 2020 – 2025” www.lex.uz
12. The decree of the President of the Republic of Uzbekistan dated April 13, 2023 No. DP - 51 “On measures to implement the program for providing housing to the population through mortgage loans based on market principles for 2023” www.lex.uz
13. The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated December 26, 2023 No. 684 “On measures for the implementation of the program “140 advanced industrial enterprises” and the introduction of “the industrial mortgage” system” www.lex.uz
14. The official website of the Central Bank of the Republic of Uzbekistan. www.cbu.uz Mortgage report 2022 / 2023.