

WAYS TO IMPROVE THE QUALITY OF THE LOAN PORTFOLIO IN COMMERCIAL BANKS OF UZBEKISTAN

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Annotation: The paper deals with the concept of problem loans in the loan portfolio of banks, the quality of the loan portfolio, analysis of problem loans of commercial banks of the Republic of Uzbekistan. Moreover, the article presents the proposals for improving the management of problem loans in banks.

Keywords: commercial bank, assets, loan portfolio, loan portfolio quality, reserves, problem loans (NPL).

1. INTRODUCTION

Increasing the effectiveness of the banking system of the Republic of Uzbekistan is related to the active participation of banks in lending to the real sector of the economy. However, commercial banks of our country face several difficulties and problems in lending activities. Especially today, the presence of problem assets among loans, which make up the main part of the income-generating assets of commercial banks, is noticeable.

As banks mainly use the borrowed funds as loans, it is necessary to determine in advance the issue of not only obtaining income, but also the full recovery of the funds from the “borrower”. Because the bank, as the owner of the investment, does not sell the investment, but the right to use the investment with certain conditions and additional interest.

2. THEORETICAL ASPECTS

At the moment, the concept of “problem asset” is being used much more than before in scientific-theoretical and practitioner circles in Uzbekistan and is causing discussions. This is certainly not for nothing, because today the share of problem assets in the credit portfolio of the country’s banking system is a much higher percentage.

As the President of the Republic of Uzbekistan, Sh. M. Mirziyoyev, stated, “it is necessary to expand the capabilities of banks to return problem loans, and to collect them, banks, debtor enterprises, companies and associations, regional leaders should work together.”

There are several definitions of problem assets in the scientific literature. In some literature, risky credit investments in the activity of commercial banks are defined as investments in the form of problem assets, while in some literature, problem assets are defined as a loan that the bank has doubts about its object, subject and provision. Also, if the given loan has non-performing collateral and the value of this collateral is less than the outstanding debt, then this loan is considered a non-performing asset.

Problem assets are assets which quality is classified as “unsatisfactory”, “doubtful” and “hopeless”. In its economic essence, problem assets are the result of the actual manifestation of credit risks, that is, the consequence of not being able to properly manage credit risks.

3. ANALYSIS AND RESULTS

Problem assets do not occur all at once, but their elements begin to appear gradually during the lending process. Problem assets also occur as a result of a lack of continuous monitoring.

Problem assets can have different causes. According to the World Bank, 67% of losses are caused by internal factors in the occurrence of problem assets of banks. This indicator is only 33% according to external factors.

Table 1. Factors affecting the origin of problem assets

Influencing factors	Exposure rate (%)
Internal factors	67%
Lack of collateral	22%
Incorrect evaluation of information in the study of credit order	21%
Weakness of operational control and failure to detect early warning signs in time and not to take appropriate measures on them	18%
Low quality of collateral	5%
Inability to obtain the collateral specified in the contract	1%
External factors	33%
Bankruptcy of the company	12%
Require creditors to repay the debt	11%
Loss of the company's position in the market and internal social problems	6%
Theft, fraud	4%

Some of them may be related to the activity of the debtor client, and others to the activity of the bank.

Problem assets usually occur when the borrower does not have enough cash to repay the loan. In some cases, they may also occur when the client does not want to pay the loan when there are funds in the account. When there is a possibility of non-performing assets, banks create mandatory reserves to cover possible losses.

In the activity of banks, the total amount of overdue debts is measured by the NPL (from the word "Non-performing loan").

We will consider the dynamics of problem loans in the credit portfolio of commercial banks in the Republic of Uzbekistan.

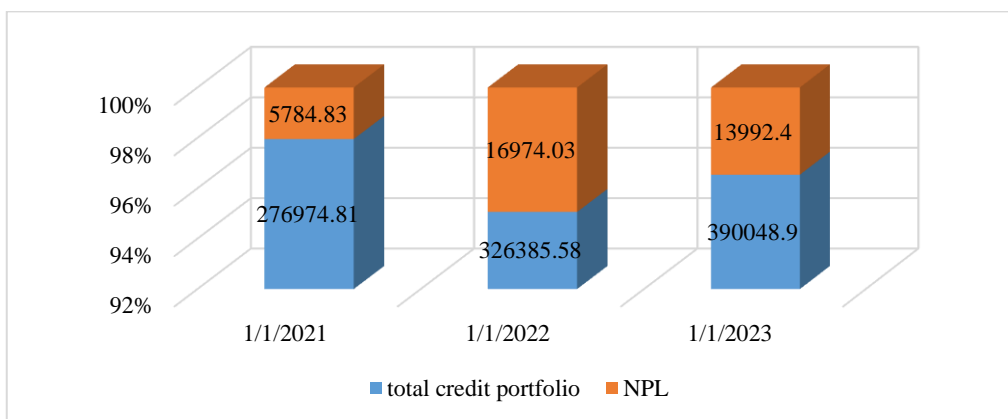


Fig. 1. NPL of commercial banks of the Republic of Uzbekistan in 2020-2022 (in billion soums)

From the data of Fig. 1, it can be seen that the share of problem loans in the loan portfolio of commercial banks was 2.09% as of January 1, 2021, and as of January 1, 2022, this indicator increased by 3.11 points and amounted to 5.2%. The loan portfolio of commercial banks increased by 117.84% in 2021 compared to 2020. As of January 1, 2021, the amount of non-performing loans in the credit portfolio of commercial banks was 5,784.83 billion soums, and as of January 1, 2022, this figure reached 16,974.03 billion soums.

It is known that the quality of bank loans is one of the important indicators describing the state of the banking system and the economy as a whole. According to international experts, an increase in the share of problem assets in the gross loan portfolio from 10-15% indicates a systemic crisis in the banking sector.

It is worth noting that the share of problem assets in the gross assets of the commercial banks of Uzbekistan decreased by 1.6 percentage points as of January 1, 2023 compared to the beginning of 2022, and the share of NPL in the credit portfolio of commercial banks was 3.6 percent. This is a positive situation. Because problem assets do not bring income to the bank.

4. CONCLUSIONS

In conclusion, it should be said that it is appropriate for commercial banks to pay special attention to the quality of the loan portfolio, to implement the following measures in the management of problem loans:

- it is necessary to further improve lending operations based on the study of the credit history of potential borrowers. In this case, it is necessary to establish a practice of granting loans at a lower interest rate to individuals/legal entities with a positive credit history than to borrowers with a negative credit history and without a credit history, or to reduce the collateral requirement;
- it is necessary to identify the credit risk, problem assets in advance and study its modern methods, establish a mechanism of utilization and train experienced specialists;
- constant monitoring of the correctness of the information provided by commercial banks in order to ensure the impartiality of the established financial indicators;
- based on the experience of advanced countries, through the development of the financial market, organizing the issuance of securities representing debt obligations on problem assets;
- it is necessary to improve the system of payment of wages according to the work and qualifications of employees.

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