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International Experience in Enhancing the Efficiency of Asset Management in Commercial Banks

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Abstract: This paper conducts a detailed summary of international experiences to improve asset management efficiency in commercial banks, with special focus on the functions as well as influences of NPLs on bank asset quality. The research tries to identify how different proportions of problem loans in the structure of a loan portfolio will influence commercial banks' main indicators: liquidity, profitability, and the overall financial health. High level of non-performing loans is mentioned as one of the key impediments for an efficient asset management and influences banks' lending capability, credit risk condition and confidences in the banking system. The study analyses the direct and indirect consequences of a growing share of problem loans in bank balance sheet which negatively influences capital adequacy, income generation and risk development. Particular interest focuses on the connection between asset quality deterioration and financial system stability, especially in times of economic distress. The article highlights that mismanagement of bank assets can aggravate systemic risks and restrain sustainable economic growth. In addition, the research examines successful global practices and policies introduced by developed and emerging economies to manage non-performing loans.

Keywords: Commercial Banks, Assets, Liquidity, Profitability, Problem Loans, Capital, Financial Stability

Citation: Avlakulovich K. M. International Experience in Enhancing the Efficiency of Asset Management in Commercial Banks. American Journal of Economics and Business Management 2026, 9(1), 172-175.

Received: 28th Nov 2025

Revised: 10th Dec 2025

Accepted: 25th Dec 2025

Published: 12th Jan 2026



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1. Introduction

The banking system is a central part of the country's economy, and its safety and efficiency are vital for the financial growth of the nation. The quality and the quantity of banks assets, in particular share of NPLs, has strong implications on banks health as well as real economic environment [1].

The non-performing loans collect in the assets lists of banks and their increase doesn't just lead to drops of the bank earnings but it also a threat to financial system stability [2]. High attention to this problem is paid in decrees and orders of the President of the Republic of Uzbekistan on the modernization of the financial system and solving problems in the banking system [3]. For instance, Presidential Decree No. PF-601 of January 28, 2022 "On the Strategy for the Development of New Uzbekistan for 2022-2026" includes a set of measures to lower the level NPLs and to improve rating categories on bank's assets. This decree also prescribes the strategic directions of the re-enforcement of banking system and abolition of problem loans [4].

Rising level of non-performing in Uzbek banks indicates the urgency for reforms focused on shoring up banking system stability. The first major objective is to assess the

impact of commercial banks' non-performing loans (NPL) share on bank assets and suggest policies for efficient asset management [5]. The hypothesis of this study is there, an increasing share of non-performing loans degrades quality of bank assets which influence negatively the level of their liquidity as well as profitability.

Literature review

There are many scholars to make these on non-performing loans (NPLs) abroad bank asset at home study. Joseph Stiglitz and Andrew Weiss examined the problem of credit rationing and bad debt in the presence of asymmetric information in credit market "Credit Rationing in Markets with Imperfect Information". Financial crises, including problem loans: Carmen Reinhart and Kenneth Rogoff examined the impact of financial crises, including problem loans on the economy in their book "This Time is Different: Eight Centuries of Financial Folly." Thorsten Beck, Asli Demirgüç-Kunt and Ross Levine investigated the effect of supervision and regulation on bank stability and for non-performing loans [6].

Gerard Caprio and Daniela Klingebiel did alot of good work on banking crises and sour loans and how they affected banks.

The result of these studies helps to better understand the problem debt at commercial bank and develop different approach how to manage it [7].

Uzbek economists including R.Makhmudov, investigated the reasons for bad loan formation in commercial banks and its nature. Z. Olkarova and B. Boev considered problems of credit portfolio management and non-performing loans in the banking system [8].

The manner of the efficient credit portfolio management by commercial banks has been studied by A. Azlarova. Sh. Z. Abdullaeva analyzed the risks of banking and crediting. Of these researchers and their contributions contribute to the full understandings for non-performing in commercial banks and worksable ways of managing that.

2. Methodology

This paper uses econometric modeling techniques to analyze empirically and investigate the extent to which non-performing loans (NPLs) affect of bank assets. The method for conducting this research is based on systemic reasoning, examining causal relationships concerning the impact of problem loans on the banking system. The effects of the non-performing loans on bank assets are tested based on regression analysis and time series method.

The paper analyses international experience in impaired loans resolution in different countries, and the best practices are determined through comparative analysis. The study also examines the legal and regulatory framework for non-performing loans in the banking system and discusses their implementation efficacy.

Guided by the study findings, evidence-based recommendations are made to improve banking technology resilience and minimize NPLs.

3. Results and Discussion

Non-performing loans (NPLs) are the loans on which the earlier loan repayments have not been made or there are uncertainties in repayment. Unpaid loan that interest or the principle has not been paid for over 90 days as being non-performing loans is common practice [9].

Meanwhile, share of the NPLs in banking system gradually increases and such a fact threatens financial stability since it also worsens bank assets quality and leads to liquidity problem [10].

The primary assets of commercial banks are loans. The higher the level of non-performing loans, the lower is the quality of bank assets and may have impact on negative aspects as well as those mentioned:

Liquidity risk: When the number of non-performing loans grow, the flow of bank funds decreases and it becomes unable to pay obligations and falls into a liquidity trap [11].

Reduced profitability: Bank's profit also falls because of delayed payment or non-payment of interest that constitutes the major earning on loans [12].

Capital shortage: Finite finances make it hard to fund, so the banks need more bankrolls [13].

Depressed investment: A relatively high level of non-performing loans in commercial banks will reduce the ability of issuing new loan, thus restraining economic development [14]. The accumulation of problem debt is caused by multiple factors that threaten the solvency of the banking system. Macroeconomic instability is one of the main factors [15].

4. Conclusion

Non-performing loans are caused by a variety of factors. First, important ones are the lack of macro economic stability: inflation; a significant level of exchange rate instability; increasing unemployment. Therefore, inadequacies in credit system of commercial banks, failure to value borrower's credit worthiness and the absence of pre-loan risk identification are the second factor existing in problem loan arising.

Third, the lack of legal system in credit market, such as inefficient legal debt collection mechanism causes these problems more serious.

In order to ensure the stability of the banking system and reduce non-performing debt, the following solutions can be offered:

Safeguarding lending guidelines: The commercial banks should have a more stringent risks assessment in the process of loan extension and create measures that would evaluate the borrowers' creditworthiness. The lending standards need to be tightened, the collateral requirements increased.

Non-performing debt restructuring: Refinance opportunities need to be established to remove the burden of the debt on the farmer. To promote these features, effective approaches could involve allowing for longer payment timelines, reducing interest rates or offering other financial assistance.

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