

Ways to Improve Problem Loan Management in Uzbek Banks

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Abstract: This scientific work analyzes the problem loans that arise in commercial banks of Uzbekistan and measures to eliminate them. Problem loans are debts that are not repaid on time or are not recoverable, which can negatively affect the activities of banks. The work examines the causes of problem loans, their economic and financial impact, as well as the methods and strategies used by commercial banks to solve this problem. In particular, effective loan repayment mechanisms, legal and financial measures against borrowers, new technologies for loan repayment, and support mechanisms provided by the state are studied. Innovative methods proposed to reduce and eliminate problem loans, the role of the state, and credit risk management strategies are scientifically analyzed.

Key words: Uzbekistan, commercial banks, problem loans, credit risks, remedial measures, loan repayment, financial analysis, borrowers, state support, innovative methods, credit management.



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INTRODUCTION

As one of the fastest growing economies in the world, Uzbekistan's credit system has also undergone significant changes in recent years. The banking system and financial sector are adapting to changing conditions, creating new opportunities and maximizing the use of available resources. However, problems arising in the lending process, in particular, non-performing loans (NPLs), can pose a significant threat to banks and the economy as a whole.

Non-performing loans, especially in developing economies, cause many financial problems and negatively affect economic stability. In the conditions of Uzbekistan, a comprehensive approach and various measures are needed to solve these problems. This article analyzes the causes of non-performing loans, their impact on the economy, and the strategies proposed to eliminate them.

As the economy of Uzbekistan develops, the credit activities of commercial banks are also expanding. However, among the loans issued by banks, sometimes non-repayable or overdue debts increase, which manifest themselves in the form of non-performing loans. Problem loans

can threaten the financial stability of banks, reduce the quality of their loan portfolios, and undermine the credibility of the system.

RESEARCH METHOD AND METHODOLOGY

Problem loans are loans that have been lent to banks but have not been repaid on time or have encountered difficulties in repaying. Such loans, in turn, arise under the influence of several factors:

Purposeful decisions and economic conditions: The economy of Uzbekistan is volatile, and inflation rates, exchange rates, and other macroeconomic factors increase risks for banks. These changes make it difficult for borrowers to make payments.

First of all, poor market analysis: Banks' failure to properly analyze the risks of loans before granting loans leads to problem loans. This includes errors such as weak credit analysis and incorrect assessment of the borrower's financial condition.

Problems in the operation of enterprises: Many small and medium-sized businesses are facing problems in their activities, which may make it difficult for them to repay their debts.

International financial crises: Financial crises and economic turbulence around the world are also affecting the banking system of Uzbekistan, leading to delays in repaying loans.

Before preventing problem loans, it is appropriate to dwell on the concept of credit policy.

A bank's credit policy is a document that determines the measures and methods to be taken by the bank's management to manage the risks arising in the lending process and provides instructions for the effective management of the credit portfolio by the bank's management and employees. The credit policy must clearly indicate and define the goals of the bank's credit activities. The credit policy of commercial banks is developed as a separate document and approved by the bank's Board.

Each bank must develop and implement its own credit policy. Responsibility for the development and implementation of the credit policy lies with the members of the bank's Board and Management, other bank officials.

The nature of the credit policy is determined by the composition of the bank's credit portfolio, the economy of the region in which the bank operates. The bank must take these factors into account when forming a credit strategy and preparing an appropriate credit policy.

The bank's credit policy must be reviewed and approved by the bank's Board at least once a year, by February 1 of the relevant year, to ensure its compliance with the current bank strategy and economic situation.

The credit policy differs in content and structure depending on the types of bank activities. This section identifies a list of general issues that must be reflected in the credit policy, regardless of the status of the bank and its location.

In this regard, the scope and form of loans issued in the areas of credit policy, the ratio between short-term and long-term loans, the process of analyzing financial information, the loan portfolio, and measures to ensure the return of funds should be reflected.

The objectives of any credit policy are usually: to ensure high returns to shareholders from long-term investments, to maintain liquidity, to diversify risk, to ensure consistency of policies and measures, to comply with laws and regulatory documents, to meet the region's need for credit.

The strategic directions of lending are determined and approved by the bank's Board of Directors.

The credit policy determines the procedure for making decisions on lending and limiting the amount of credit for each of the credit officers involved in the lending process, depending on their

position and powers. The powers of all persons responsible for lending are recorded in the credit policy.

The frequency of meetings of the credit committee and its reporting to the bank's management bodies should also be determined in the credit policy.

RESEARCH RESULTS AND DISCUSSION

The credit policy should include requirements for determining and monitoring the level of credit accumulation by various lending indicators (types of credit, economic sectors, geographical regions, etc.). The credit policy should establish requirements for the preparation of relevant reports that are regularly submitted to management.

The loan repayment period should be determined based on a thorough assessment of the primary and secondary sources of its repayment. The credit policy should consist of acceptable repayment schedules for various categories and types of loans from the point of view of management.

The credit policy should determine the maximum terms for granting loans. This policy should also include the procedure for granting types of loans in which the principal amount of the loan is returned at the end of the loan repayment period and when the initial loan repayment period is extended.

The credit policy should include measures to ensure timely payment of payments, return of funds and collection of debt on loans granted.

The bank's credit policy should include requirements for the financial statements of individuals and legal entities, both at the stage of granting credit and at the stages of subsequent monitoring. The requirements for auditing financial statements, submitting cash flow statements and other information should be clearly stated. It should also be noted that the information required by banks should be presented in accordance with the National Accounting Standards (NAS).

The credit policy should detail the measures for analyzing the financial condition of potential borrowers to determine their creditworthiness (liquidity, coverage, autonomy coefficients, capitalization level, collateral expertise, etc.). The bank should clearly define the criteria for assessing borrowers' creditworthiness and the methodology for assessing them.

Requirements for collateral:

The credit policy should include limits on the maximum amount of loans granted on the basis of collateral of certain types of valuables (real estate, cars, etc.) and determine the procedures for drawing up a set of credit documents for each type of secured loan. The bank's credit policy should specify that collateral lending should not be the only basis for crediting at the time of its issuance, which is considered the source of repayment of the loan (with the exception of loans secured by cash or short-term government bonds (treasury bills)).

The credit policy should include requirements for the subject of collateral and the ratio of the loan to the value of the collateral, depending on the type of collateral. The collateral must be carefully valued and its market value must be clearly stated to cover any losses that may arise in the event of its sale.

The document should specify the circumstances in which the collateral is valued by an independent appraiser and an internal bank appraiser. The methods for valuing different categories of collateral should be detailed. The policy should include specific requirements for the inclusion of borrowers' down payments in the repayment of loans for real estate, production equipment, and consumer loans.

Requirements for credit monitoring

The credit policy should clearly state the credit classification system. Credit officers should report to management all known adverse changes in the credit portfolio. Early detection of deterioration in the condition of borrowers or collateral is essential to reduce potential losses.

The credit policy should include a clear definition of the concept of "default" for all categories of loans, criteria for not accruing interest, as well as requirements for relevant reports to the bank's Management Board and Council. The reports should detail the deterioration, the causes of hidden losses, and recovery plans.

The policy should require consistent, phased measures to repay loans. Management should develop measures to write off loans in accordance with the requirements established by the Central Bank.

The credit policy should include the factors used in determining the interest rates set for various loans and borrowers. This should include, at a minimum, an assessment of the cost of resources, expected loan servicing costs, brokerage fees, administrative expenses, reserves against possible losses, and the bank's margin.

The credit policy should include limits on loans to related parties that are consistent with the requirements of the Central Bank.

The credit policy should specify the procedure and measures for approving and restoring loans to related parties in order to reduce or eliminate any possibility of entering into transactions with related parties.

The policy should identify the officials responsible for periodically assessing the bank's credit portfolio and establish the objectives of the bank's internal credit analysis, which is necessary to determine the quality of the credit portfolio and identify problem loans so that adjustments can be made with minimal losses.

The objectives of the analysis, along with determining the quality of credit, are to assess the quality of credit management, including ensuring compliance with the approved credit policy and the procedure for issuing credit documents, financial analysis, registration and assessment of collateral, distribution of lending authorities, compliance with legislative standards.

The credit policy should determine the type and frequency of reports submitted by banking services and divisions to the bank's Management Board and Council on various aspects of lending and containing other information related to the quality of the credit portfolio and credit portfolio management.

Reports should be tailored to different levels of management and detailed to assess risks across branches and the bank as a whole, depending on the lending instruments and areas.

We know that problem loans pose a great risk to banks. Therefore, banks use various methods and mechanisms to eliminate this problem. They include the following main measures:

Credit risk management: Banks must conduct a thorough risk analysis before granting loans. Working with customers who have a high probability of repaying the loan, regularly checking their financial condition, reduces the bank's risk.

Loan repayment activities: Banks can conclude agreements with their customers to postpone or extend the term of payments to repay problem loans. In this case, it is important to provide financial assistance to customers and create opportunities for them to repay.

Mutual agreements and penalty mechanisms: If the borrower is unable to repay the loan, banks can take legal measures. This may, for example, be aimed at repaying the loan through the sale of the borrower's property or other payment methods.

Use of innovative technologies: Today, banks are using modern technologies, such as big data, artificial intelligence and blockchain technologies, to manage credit risks. These technologies help make credit analysis more effective.

The role of the state: In Uzbekistan, the state offers various support mechanisms to solve problems related to problem loans. For example, state subsidies for loan repayment or the possibility of covering part of the loans can help banks.

CONCLUSION

Problem loans in commercial banks in Uzbekistan can threaten the soundness and stability of the system. Therefore, it is important for banks to identify, analyze and effectively manage problem loans. Modern methods used by banks and support provided by the state, as well as credit risk management strategies, help stabilize the financial system of Uzbekistan. The reduction and elimination of problem loans can be effectively implemented on the basis of mutual trust and full cooperation between banks and borrowers.

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