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THE LENDING SYSTEM IN COMMERCIAL BANKS AND THE CAUSES OF NON-PERFORMING LOANS

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Abstract: The rapid growth of the country's economy is ensured by the mobilization of all available opportunities and the consistent continuation of the strategy of reforms that have paid off. In particular, in recent years, as a result of the implementation of consistent and targeted measures aimed at further strengthening the capitalization, liquidity and resource base of banks, as well as further increasing their investment activity, the weight of banks' assets has been increasing year by year. Due to the increase in the volume of loans granted by banks of our republic to legal entities and individuals, and the fact that bank loans constitute the main part of bank assets, the presence of problem loans in the loan portfolio of banks is becoming noticeable. It has a negative impact on ensuring the stability of the country's banking system, that is, the circulation of bank funds, and the timely fulfillment of bank obligations to its clients. Losses from problem loans are not only reflected in losses directly related to the return of loans and non-payment of interest.

Key words: consumer credit, credit history, solvency, lending system.

Annotatsiya: Mamlakat iqtisodiyotining jadal o'sishi barcha mavjud imkoniyatlarni safarbar qilish va o'z samarasini bergan islohotlar strategiyasining izchil davom ettirilishi bilan ta'minlanadi. Xususan, so'nggi yillarda banklarning kapitallashuvi, likvidligi va resurs bazasini yanada mustahkamlash, shuningdek, ularning investitsiya faolligini yanada oshirishga qaratilgan izchil va maqsadli chora-tadbirlarning amalga oshirilishi natijasida banklar aktivlarining salmog'i yildan-yilga ortib bormoqda. Respublikamiz banklari tomonidan yuridik va jismoniy shaxslarga berilgan kreditlar hajmining ortishi va bank kreditlari bank aktivlarining asosiy qismini tashkil etishi tufayli banklarning kredit portfelida muammoli kreditlarning mavjudligi sezilarli darajada oshmoqda. Bu mamlakat bank tizimining barqarorligini, ya'ni bank mablag'larining aylanishini va bankning mijozlar oldidagi majburiyatlarini o'z vaqtida bajarishini ta'minlashga salbiy ta'sir ko'rsatmoqda. Muammoli kreditlardan kelib chiqadigan zararlardan nafaqat kreditlarning qaytarilishi va foizlarni to'lamaslik bilan bevosita bog'liq zararlarda aks etadi.

Kalit so'zlar: iste'mol krediti, kredit tarixi, to'lovga qodirlik, kreditlash tizimi.

Аннотация: Быстрый рост экономики страны обеспечивается мобилизацией всех имеющихся возможностей и последовательным продолжением стратегии реформ, которые принесли свои плоды. В частности, в последние годы, в результате реализации последовательных и целенаправленных мер, направленных на дальнейшее укрепление капитализации, ликвидности и ресурсной базы банков, а также на дальнейшее наращивание их инвестиционной активности, вес активов банков ежегодно увеличивается. В связи с ростом объема кредитов, выданных банками нашей республики юридическим и физическим лицам, и тем фактом, что банковские кредиты составляют основную часть активов банков, становится заметным наличие проблемных кредитов в кредитном портфеле банков. Это негативно сказывается на обеспечении стабильности банковской системы страны, то есть на обращении банковских средств и своевременном исполнении банковских обязательств перед клиентами. Убытки от проблемных кредитов отражаются не только в убытках, непосредственно связанных с возвратом кредитов и невыплатой процентов.

Ключевые слова: потребительский кредит, кредитная история, платежеспособность, система кредитования.

INTRODUCTION

The current stage of development of the banking system of Uzbekistan is characterized by the intensification of the processes of development of banking business by separate structures. Despite the certain advantages of segments of widely demanded banking services over specialized banking services, universal banks are increasingly trying to expand the scope of specialized services. Specialized credit organizations are characterized by the fact that they perform a limited range of operations and do it with high quality and with a relatively low risk of banking activities. The increasing strengthening of the resource base of commercial banks of the Republic of Uzbekistan allows them to increase the amount of their assets and loans.[1] In addition, the liquidity and solvency of banks at the required level also serve to expand their lending opportunities. "Credit Policy" is the foundation of the process of managing documentary loans. "Credit Policy" developed by a commercial bank and recorded in writing is one of the effective ways to rationally manage loans. This document determines the standards and parameters of the bank's lending activities. These established standards and parameters should be used as a guide by bank employees responsible for lending, documenting and managing loans. The credit policy determines the behavior of bank management members, legislators, strategic decision-makers and internal and external auditors. In the transition period of credit management in the bank, in conditions of reduced state influence on financial markets, commercial banks should sharply intensify the development of their own internal policies.

LITERATURE REVIEW

Commercial banks play an important role in the modern economy in the effective distribution of financial resources, the development of entrepreneurship and meeting the needs of the population. One of their main areas of activity is the lending system. Through the lending system, banks attract resources from entities with excess funds and provide them to clients in need of funds. This process not only accelerates the circulation of money in the economy, but also stimulates investment processes. The conducted analysis showed that:[2]

Types of loans - short and long-term loans, mortgages, consumer loans, car loans, overdrafts are widely used in commercial banks in Uzbekistan.

Loan portfolio size - in recent years, the volume of loans allocated to support small businesses and entrepreneurship has been increasing.

Problem loans - a certain part of the total loan portfolio falls into the category of "illegal" or "problem" loans due to difficulties in repayment. To prevent this, the risk management system in banks is being strengthened.

Digitalization - electronic platforms (mobile applications, online applications) are being introduced to speed up lending processes. A central feature in the literature is that Uzbekistan's banking system has been historically dominated by state ownership and policy influence, which affects credit allocation, pricing, and risk appetite. World Bank materials describe a highly concentrated sector where state-owned banks held the bulk of assets/credit (especially pre-reform years), and reforms aim at restructuring/privatization and stronger governance. Literature-review angle: frame Uzbekistan's lending system as a transition from policy-led credit toward more commercial, risk-based lending, with reforms shaping credit standards and portfolio quality. In Uzbekistan, the "standard" bank lending cycle in the academic/regulatory discussion mirrors international practice:[3]

- Credit analysis (cash-flow, leverage, sector risk, FX exposure)
- Collateral assessment (pledge/guarantee; valuation; enforceability)
- Credit approval (limits, concentration controls)
- Pricing (risk premium, maturity, currency)
- Disbursement & covenanting
- Monitoring (early warning indicators)
- Restructuring / recovery / write-off

Recent NPL level (use as context, not the whole story)

For a concrete baseline, the Central Bank published bank-by-bank NPL information as of January 1, 2025, showing total loan portfolio and NPL share

Later financial stability communications also report NPL shares in the banking system (e.g., CBU indicators for 2025).

RESEARCH METHODOLOGY

This study employs a quantitative explanatory research design, complemented by qualitative institutional analysis, to examine how features of the lending system in Uzbekistan's commercial banks influence the formation of non-performing loans.

The research is based on:

Panel data analysis of commercial banks operating in Uzbekistan

Descriptive and econometric methods to identify key determinants of NPLs

Institutional analysis of regulatory and policy-related lending practices

Such a mixed methodological approach allows the study to capture both numerical relationships and systemic institutional factors, which is particularly important in a transition economy with strong state involvement in banking.[4]

Table 1. Independent Variables (Bank-Specific Factors)

Variable	Proxy	Expected Effect
Credit growth	Annual loan growth (%)	Positive
Capital adequacy	CAR (%)	Negative
Profitability	ROA / ROE	Negative
Bank size	Log of total assets	Ambiguous
Loan concentration	Share of top sectors (%)	Positive
State ownership	Dummy (1 = state-owned)	Positive

Macroeconomic Control Variables

Variable	Measurement
GDP growth	Annual real GDP growth (%)
Inflation	CPI (%)
Exchange rate volatility	Annual change (%)
Interest rate	Average lending rate

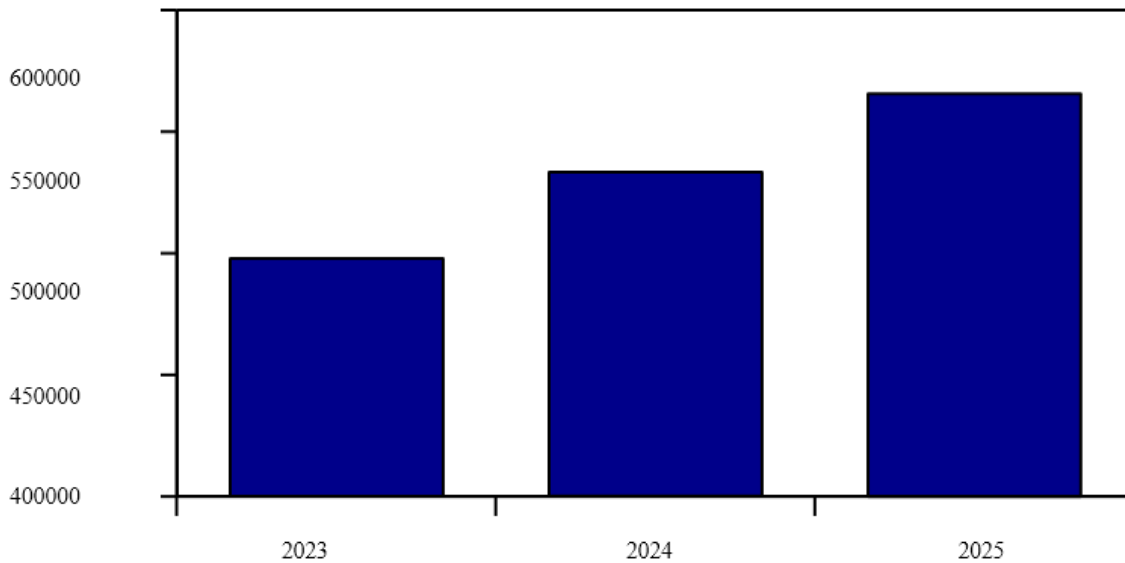
ANALYSIS AND RESULTS

In a market economy, the lending system of commercial banks is one of the main mechanisms of economic stability. This article provides a scientific analysis of lending processes in the banking system of Uzbekistan based on statistical indicators.

Table 2. Assets and loan portfolio of commercial banks (billion soums)[5]

Year	Loan portfolio (billion soums)	Total assets (billion soums)
2023	498 000	750 000
2024	533 121	785 000
2025	565 568	829 768

Currently, in the banking system of Uzbekistan, about 70% of bank income comes from loans. This shows how important loans are for commercial banks. Since loans are important for commercial banks, the correct organization of the loan portfolio for commercial banks is an even more important issue. First, let's talk about what a loan portfolio is, the loan portfolio is the sum of balance sheet accounts for all loans, all funds allocated by banks to the assets of companies established on the basis of production enterprises, as well as the amount of leasing services provided for a period of at least three years.



Pic.1. Growth of loan portfolio (billion soums)[6]

The emergence of problem assets, including problem loans, can lead to the following negative situations:

- loss of confidence in the bank by depositors, investors and other clients and a decline in the bank's reputation;

- increased administrative costs of the bank due to the need for special attention and control by the credit departments of commercial banks;

- freezing of profitable assets of commercial banks;

- increased dissatisfaction with the bank's qualified personnel as a result of a decrease in material incentives due to a decrease in the volume of profit from credit operations;

- a decrease in the bank's income in the event of the creation of a reserve against possible losses on problem assets, a decrease in other indicators that play an important role in banking activities, etc. Much attention is paid to preventing problems that may arise in various situations with the quality of assets that make up the income of commercial banks and finding solutions to these problems. In solving this issue, it is important to first of all manage and analyze the essence, characteristics of problem assets in relation to the risk and nature inherent in modern market economy entities, as well as improve their accounting and auditing practices. [7]

Today, the main reasons for the transformation of assets into problems in commercial banks include the following:

- failure to conduct preliminary monitoring of the applicant for a loan (leasing), with the main focus on the character of the client, his position among business partners, experience, as well as failure to study the state of the property planned to be pledged, and failure to closely familiarize himself with the client's activities;

- failure to conduct a complete and qualitative analysis of the client's financial situation due to the lack of sufficient knowledge and skills in analyzing the financial statements of enterprises;

- failure to thoroughly study the client's credit history;

- the quality of the credit collateral is not assessed in a manner that takes into account the future value of the assets provided in relation to the term of the loan and the interest rate, liquid assets are not pledged, or the guarantor's financial statements are not analyzed in relation to the amount of the guarantee provided;

- the client's loan and interest payment schedules are not formalized in credit agreements in proportion to the business plan.

CONCLUSION AND SUGGESTIONS

In general, the emergence of problem loans does not depend only on credit risk. After all, the presence of currency risk, market risk, interest rate risk and a number of other risks and the inability to correctly assess them affect the emergence of problem loans. The role and impact of risks are taken as a basis in studying the economic content of problem loans. The main part of the credit risk arising in commercial banks is inextricably linked to the possibility of a decline in demand for products in a certain sector of the country and production. Typically, a reliable credit risk management system is a prerequisite for a healthy banking system. Because bank

credit risk must be distributed among a large number of debtors. Especially during the period of liberalization of economic relations, it is extremely necessary to address the issue of diversifying the credit portfolio. To eliminate problem loans, banks should mainly carry out the following work:

- take measures to extend the loan term (prolongation);
- require additional collateral;
- take measures to repay the loan on the property pledged as collateral or a third party guarantee;

The following can also be proposed as an additional proposal. The right to sell the property pledged as collateral by the pledgee (bank) independently (without a court decision) by auction or to receive it on the bank's balance sheet should be included as an additional clause in the pledge agreement.

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