

THE MODERN STATE OF CREDITING PRACTICES OF COMMERCIAL BANKS OF THE REPUBLIC OF UZBEKISTAN

¹Kholmammatov Farhodjon Kubaevich, ²Qayimova Zumrad Abdullayevna, ³Soliyeva Gulbahor Axmadjanovna, ⁴Karimova Ranoxon Makhmudovna

¹PhD, Department of Banking, Tashkent Institute of Finance, Tashkent, Uzbekistan.

²Senior Lecturer, Department of Economics, Bukhara State University, Bukhara, Uzbekistan.

³PhD, Department of Marketing, Namangan Engineering-Technology Institute, Namangan, Uzbekistan.

⁴Senior Lecturer, Department of Marketing, Namangan Engineering-Technology Institute, Namangan, Uzbekistan.

E-mail : moukhs_kh@mail.ru

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Abstract

This article describes the specifics of the organization of credit operations, one of the main active operations of commercial banks, analyzes the dynamics of crediting, industry dynamics and diversification of bank crediting, provides a qualitative analysis of loans, identifies problems with crediting and proposes to reduce them.

Keywords: Loan portfolio, credit risk, diversification, bank assets, interest rate, problem loans, reserves, network limits, credit mechanism, profitability, income.

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INTRODUCTION

Organization, implementation, control and monitoring of credit operations in commercial banks is a complex multi-stage process. Effective crediting at banks is based primarily on an in-depth analysis of factors affecting crediting.

Assessing and managing the risk of the loan portfolio while effectively managing the bank's crediting activities is the most important task for the bank, allowing the least risk and providing the highest profitability - the main goal of the loan portfolio management process.

The Bank's credit policy is a document that defines the measures and methods that should be taken by the bank's management in managing the risk arising in the lending process, and provides guidance to the bank's management and employees on the effective management of the loan portfolio.

MATERIALS AND METHODS

The main objective of the research is to analyze the dynamics of crediting practices of commercial banks, identify factors affecting crediting activities, study the current status of crediting activities and develop scientific and practical proposals and recommendations based on their analysis. The theoretical and methodological basis of this article is an analysis of general economic literature and scientific articles, a study of economists on factors affecting the crediting activities of commercial banks, conclusions, suggestions and recommendations based on a systematic approach. The article uses grouping methods, structural, comparative, factor analysis and financial ratios.

RESULT AND DISCUSSION

Reforms in the banking system of Uzbekistan in recent years are aimed at fulfilling the tasks set out in documents on the development of the financial and banking system of the country, and as a result, there is a high growth trend in bank assets and loans.

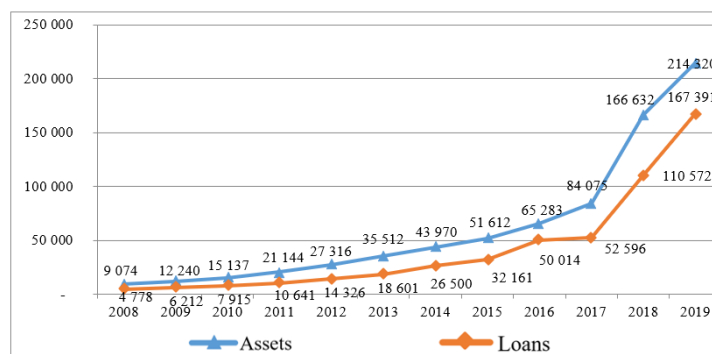


Figure 1. Dynamics of growth of assets and loans of commercial banks, billion soums. (at the beginning of the year)
Source: Prepared on the basis of www.cbu.uz (official website of the Central Bank of the Republic of Uzbekistan)

If we analyze the assets of Uzbek banks and the dynamics of loans issued by them, the volume of crediting has increased 35 times over the past eleven years. The main reason for this is the

growing attention to investment processes in the country along with the growth of banking assets. Over this period, the bank's assets increased 23.6 times. The rapid growth of bank loans has

played an important role in the growth of the country's economy. At the same time, the quality of loans issued by banks in recent years has changed for the better.

The increase in bank loans and their quality will also affect the financial condition of the banking system, increasing the income of banks and improving their financial performance.

During 2017–2019, the growth rate of bank assets and loans was slightly higher. Especially in October 2017, there was a significant increase. In particular, Decree of the President of the Republic of Uzbekistan No. PF-5177 dated September 2, 2017

“On Priority Measures for the Liberalization of the Currency Policy”, PQ-3272 dated September 13, 2017 “On Measures to Further Improve the Monetary Policy” Resolution No. PQ-3270 dated September 12, 2017 “On measures to further develop and increase the stability of the banking system of the republic” allowed to improve and improve the financial condition of commercial banks.

Diversification of the loan portfolio of the bank is one of the most important areas for ensuring the effectiveness of commercial banks in a market economy.

Table 1 Distribution of commercial bank loans by sector

Sectors	01.01.2015		01.01.2016		01.01.2017		01.01.2018		01.01.2019	
	amount	%	amount	%	amount	%	amount	%	amount	%
Industry	14122	44%	18002	36%	18334	35%	45223	41%	66690	40%
Agriculture	2034	6%	2247	4%	3033	6%	4742	4%	9422	6%
Transport and communication	3835	12%	8925	18%	7149	14%	16205	15%	20913	12%
Construction industry	1083	3%	1559	3%	2218	4%	3424	3%	5880	4%
Trade and General Services	2341	7%	2817	6%	4072	8%	5246	5%	10786	6%
Development of material and technical support	470	1%	506	1%	652	1%	472	0%	2746	2%
Housing and communal services	308	1%	379	1%	456	1%	996	1%	1821	1%
Individuals	5593	17%	7463	15%	10172	19%	14438	13%	24427	15%
Other areas	2375	7%	8115	16%	6511	12%	19827	18%	24705	15%

Source: Prepared on the basis of www.cbu.uz (official website of the Central Bank of the Republic of Uzbekistan)

As a result of the ongoing reforms in the country, the banking system is trying to minimize the risks associated with the activities of sectors of the economy. However, the share of industry remains significantly higher during the period under review. As of January 1, 2015, it was 44.0 percent, while as of January 1, 2019, it decreased by 4.0 percentage and amounted to 40.0 percent.

This indicates an increase in credit risk in the banking system. According to international experts, it is recommended that the maximum amount of loans allocated to one sector or industry should not exceed 25 percent. The amount of loans allocated to industry in the banking system of the country is 1.5 times higher than international standards.

The share of commercial banks with a state share in the banking system of the country is very high, averaging 90%.

The 6 largest commercial banks in the country account for 79% of total loans. In particular, TIF National Bank accounts for 27% of total loans, Sanoatqirishbank - 16%, Asaka Bank - 15%, Ipoteka Bank - 10%, Qishloq Qurilish Bank and Agrobank - 5%. This reduces the pure competitive environment in the interbank credit market and has a negative impact on other banks. In addition, this situation increases the level of credit risk in the banking system.

The main goal of loan portfolio diversification is to reduce risk and increase profitability by operating in several areas. Rational diversification also increases the universality and independence of banks, as the level of dependence on banking, industry or customer decreases. This provides an opportunity to cover losses from one sector with income (profit) from another and does not

significantly affect the activities or financial condition of the bank.

The analysis and evaluation of credit investments is carried out through a number of indicators. One of the main such indicators is the loans expansion ratio.

This ratio represents the relationship between loans and assets, how much of the assets are directed to loans. It is determined by the following formula:

$$LEa = \frac{Lc}{Anet};$$

In this case

Lc – is the total amount of loans issued;

Anet – the sum of assets.

If this coefficient is equal to:

- the credit policy of the bank is aggressive if the coefficient of credit activity exceeds 0.60;
- the credit policy of the bank is optimal if the coefficient of credit activity is in the range of 0.50-0.60;
- If the coefficient of credit activity is less than 0.50, the credit policy of the bank is considered conservative.

It is seen that the coefficient of credit activity of credit investments of commercial banks increases in proportion to the growth in loan volume. Over the past three years, this ratio has grown from 0.62 to 0.77 in the country's banking system. Thus, the criteria for the coefficient of credit activity of commercial

banks show that the country's commercial banks pursue an aggressive credit policy. It also shows that the negative impact of credit risk on the overall risk level of commercial banks is high.

Improving the efficiency of the country's banking system is associated with the active participation of banks in lending to the real sector of the economy. However, commercial banks in Uzbekistan face a number of difficulties and problems in carrying

out lending activities. Especially today, the presence of problem loans is becoming increasingly visible among loans, which make up the bulk of the income-generating assets of commercial banks.

Bad loans are essentially non-performing loans and are classified as "unsatisfactory", "doubtful" and "hopeless" in accordance with the current agreement.

Table 2 Qualitative classification of the loan portfolio of commercial banks, in percent (at the beginning of the year)

Years	Total loans	Standard loans	Substandard loans	Unsatisfactory loans	Doubtful loans	Hopeless loans
2008	100	71,70	12,56	11,16	3,29	1,28
2009	100	78,65	10,24	5,23	3,62	2,27
2010	100	86,27	8,58	3,77	1,09	0,30
2011	100	90,39	5,62	2,83	0,88	0,28
2012	100	92,05	4,89	0,85	1,87	0,34
2013	100	93,49	3,46	1,44	0,64	0,97
2014	100	96,49	2,13	0,58	0,23	0,57
2015	100	93,54	4,37	0,76	0,80	0,54
2016	100	92,94	5,60	0,65	0,49	0,32
2017	100	89,51	9,75	0,32	0,23	0,20
2018	100	90,65	8,15	0,67	0,23	0,30
2019	100	92,11	6,61	0,66	0,27	0,35

Source: Prepared on the basis of the official website of the Central Bank of the Republic of Uzbekistan

If we analyze the qualitative classification of bank loans in the country, then in 2008 71.7% of the total loans fell to the category of standard loans, and by 2019 this figure reached 92.11%. As of January 1, 2019, the balance of non-performing loans in the loan portfolio of commercial banks amounted to 2.1 trillion soums. The share of loans in total loans amounted to 1.3%. Recently, in order to improve the quality of bank loan portfolios, the Central Bank, along with commercial banks, regularly conducts a

complete inventory of its loan portfolios and, as a result, reclassifies assets for identified problem loans.

An increase in the volume of these loans and an increase in their share in the total amount of loans will have a direct negative impact on the economic situation of banks, financial indicators, and credit potential. In addition, given the fact that a reserve will be organized for them, the freezing of resources and a decrease in the efficiency of their use will be organized.

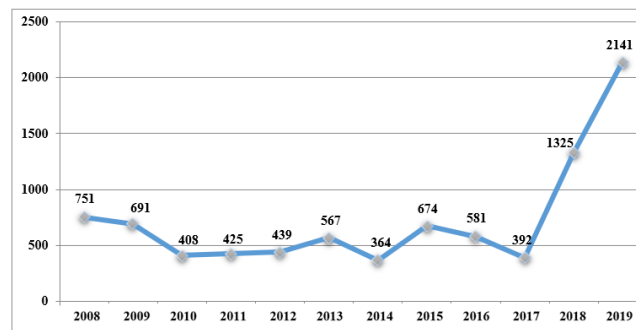


Figure 2. Dynamics of changes in problem loans in the banking system of Uzbekistan, in billion soums (at the beginning of the year)

Source: Prepared on the basis of www.cbu.uz (official website of the Central Bank of the Republic of Uzbekistan)

If we analyze the volume of bad loans in the banking system of the republic in 2008-2019, we will see a sharp increase in recent years. In particular, in 2018 it grew by 3.4 times compared to the previous year and amounted to 1.3 trillion soums, in 2019 increased by 60% compared to 2018 and amounted to 2.1 trillion soums. This situation can be negatively assessed in the banking system. In 2008-2009, the volume of problem loans was extremely high, amounting to 751 billion soums and 691 billion soums.

The change in this indicator was mainly due to two factors:

1. Transfer of classified loans from one category to another. At the same time, the volume of reserves created by loan categories will change accordingly.
2. Increase or decrease in the volume of inactive loans.

This means an increase or decrease in the volume of problem loans of a general nature without changing the category of loans.

Problems can be affected by banks taking loans off the balance sheet or refusing problem loans.

CONCLUSION

As a result of the analysis of factors affecting the crediting practice of commercial banks, the following conclusions were drawn:

- according to the analysis, the level of diversification of credit investments of commercial banks is low;
- a high share of banks with a state share in credit investments of commercial banks;
- It was established that the bank does not use modern methods to prevent and reduce the credit risk.

ACKNOWLEDGEMENTS

The following proposals have been developed to improve crediting practices for commercial banks:

- banks should ensure the optimal level of diversification of the loan portfolio by setting a limit on loans issued by commercial banks of one industry and one industry, based on international best practices and strict adherence to this limit;
- further increase the level of diversification of the loan portfolio of the bank, in particular, due to an increase in the volume of retail loans to individuals;
- it is necessary to reduce the state share in commercial banks with a state share through IPO and SPO and sell them in full;
- Creation of an effective system of credit risk management in banks based on modern mechanisms.

In practice, the implementation of these proposals will help to improve crediting practices in commercial banks, identify factors affecting it, effectively manage credit risk, reduce problem loans in banks and improve the quality of the bank's loan portfolio.

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