

CREDIT RISK MANAGEMENT AND PROFITABILITY IN
COMMERCIAL BANKS OF UZBEKISTAN

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Abstract: Ensuring the liquidity and financial stability of banks directly depends on the quality of the loan portfolio, since in the structure of the assets of commercial banks of Uzbekistan loans occupy the highest balance. In turn, improving the quality of the credit portfolio of banks creates the need to improve the practice of managing credit risk. The article identified current problems associated with improving the practice of managing credit risk in the activities of commercial banks and developed scientific proposals aimed at solving them.

Key words: loan, loan portfolio, commercial bank, Reserve, interest rate, credit risk, basic rate, devaluation, interest income, inflation.

Аннотация: Поскольку в структуре активов коммерческих банков Узбекистана наибольший вес занимают кредиты, от качества кредитного портфеля напрямую зависит обеспечение ликвидности и финансовой устойчивости банков. В свою очередь, повышение качества кредитного портфеля банков порождает необходимость совершенствования практики управления кредитным риском. В статье выявлены актуальные проблемы, связанные с совершенствованием практики управления кредитным риском в деятельности коммерческих банков, разработаны научные предложения, направленные на их решение.

Ключевые слова: кредит, кредитный портфель, коммерческий банк, резерв, процентная ставка, кредитный риск, основная ставка, девальвация, процентный доход, инфляция.

Annotatsiya: Banklarning likvidligi va moliyaviy barqarorligini ta'minlash bevosita kredit portfelining sifatiga bog'liq, chunki O'zbekiston tijorat banklari aktivlari tarkibida kreditlar eng yuqori balansni egallaydi. O'z navbatida, banklarning kredit portfeli sifatini oshirish kredit risklarini boshqarish amaliyotini takomillashtirish zaruratini tug'diradi. Maqolada tijorat banklari faoliyatida kredit risklarini boshqarish amaliyotini takomillashtirish bilan bog'liq dolzarb muammolar aniqlandi va ularni hal etishga qaratilgan ilmiy takliflar ishlab chiqildi.

Kalit so'zlar: kredit, kredit portfeli, tijorat banki, zaxira, foiz stavkasi, kredit xavfi, asosiy stavka, devalvatsiya, foiz daromadi, inflyatsiya.

INTRODUCTION

Approved by the decree of the president of the Republic of Uzbekistan dated May 12, 2020 No. PF-5992

In the decree "on the strategy for the reform of the banking system of the Republic of Uzbekistan for 2020-2025", it is necessary to improve the quality of credit portfolio and risk management, improve lending volumes

following moderate growth has been identified as priorities for reforming the Republican Banking System [1].

This makes the issue of improving credit risk management practices relevant.

LITERATURE REVIEW

N. Sokolinskaya believes that careful monitoring of risks, the formation of a volume of quality credit collection, having a good database for managing the lending process are the main aspects of ensuring the quality content of the loan [2].

J. Sinkey concludes that the analysis of the cash flow of the receiving customer plays an important role in assessing the level of credit risk in the activities of commercial banks. His cash flow analysis asked the following topical questions

should allow you to find the answer:

- is the customer's Net Profit enough to pay off the current portion of his long-term debts?

how much money does the company receive exactly?

- how does the company finance its operations?

- what behavior of the management or what external influences determine the current state of the Company [3].

I. Yudina concluded that the profitability of the assets of commercial banks in developing countries directly depends on the level of credit risk and received loans in foreign currency as a result of depreciation of the national currency

the inability of customers to repay the loan leads to an increase in the level of credit risk [4].

V. Usoskin believes that the bank's income from loans is directly related to risk management depending on their loan portfolio to all the main types of risks: liquidity risk, interest risk, credit risk [5].

A. Mian and A. Safi concludes that household opportunities to control their own risks are significantly more limited than those of firms. This meant that loans to households could be made at the right time increases the likelihood of Non-Return [6].

F. According to kholmamatov, commercial banks on loans to improve the quality of the loan portfolio in order to improve the methodology of forming reserves to compensate for possible losses the following criteria for real assessment of the quality of loans and the organization of reserves for them were proposed: from 1 to 10 percent on substandard loans; from 11 to 25 percent on unsatisfactory loans; from 26 to 50

percent on dubious loans; from 100 percent on desperate loans [7].

Sh. Abdullayeva concluded that according to the results of the deversification of the loan portfolio by sources of resources, it is necessary to take into account the high level of centralized loans in the credit portfolio of some commercial banks, and to give relief to banks on these loans, in some cases obtained from them it would be advisable to take measures such as tax exemption of income [8].

ANALYSIS AND RESULTS

One of the important indicators that characterize the level of credit risk in the activities of commercial banks is the share of problematic loans in the loan portfolio.

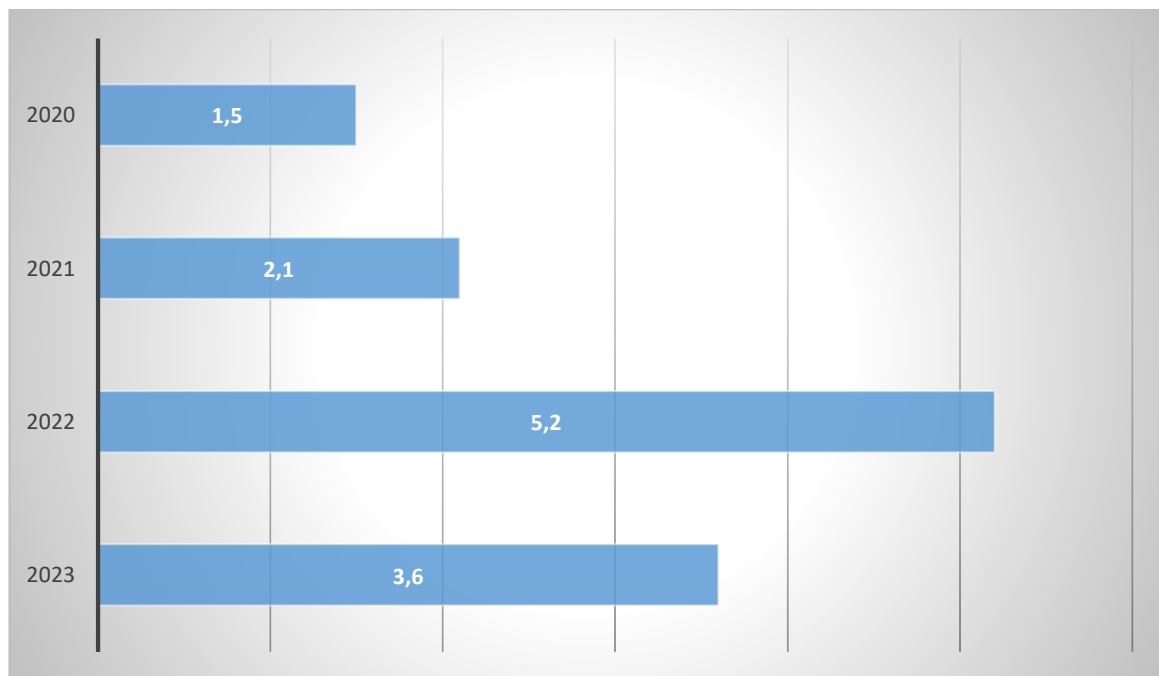


Figure 1: Figure 1: share of problematic loans in the total volume of loans of commercial banks of the Republic of Uzbekistan, in percentage.

Figure 1 data shows that the share of problematic loans in the credit portfolio of commercial banks of our republic was relatively high in 2019-2022. This figure was particularly high in 2021.

It should be noted that in the volume of problematic loans of commercial banks of the Republic, the problematic loans of state banks occupy a high salute. This is explained by the fact that loans issued under state programs, but not returned, were not returned to commercial banks.

As of January 1, 2022, the share of troubled loans in commercial banks of the Republic of Uzbekistan in total loans amounted to 5.2 percent, while in the people's bank this figure was 19.7 percent.

According to the methodology proposed by the experts of the International Bank for reconstruction and development, if the share of problem loans in the loan portfolio

does not exceed 3.0 percent, then the level of overdue debt on loans is moderate.

Because loans are high in the composition of commercial bank assets, a deterioration in the quality of the loan portfolio creates a strong impact on their liquidity and financial stability.

Another of the important indicators that characterize the level of credit risk in the activities of commercial banks is the level of diversification of the loan portfolio.

Table 1.:

Network structure of the loan portfolio at Asakabank, at interest

Networks	2019	2020	2021	2022	2023
Industry	71,9	62,8	68,2	70,6	67,2
Agriculture	5.3	6.8	5.5	4.3	4.0
Transport and communication	0.6	1.2	1.9	1.8	1.8
Construction	7.1	1.2	1.2	1.3	1.0
Trade and catering	3.2	3.9	4.4	4.9	4.6
Material and technical support	0.5	0.0	0.0	0.0	0.0
Housing and communal services	0.3	0.5	0.4	0.4	0.3
Other industries and industries (including individuals)	11.1	23.6	18.4	16.7	21.1
Total	100	100	100	100	100

Table 1 data shows that in 2018-2022, loans to industrial enterprises accounted for the absolute bulk of loans issued by Asakabank (above 60 percent). This indicates that the diversification criterion of the loan portfolio in Asakabank has not been met.

Another of the important indicators that characterize the level of credit risk in the activities of commercial banks is the level of reserve allocation, which is intended to compensate for losses from loans, relative to the bank's brutto assets.

The Central Bank of the Republic of Uzbekistan's directive “on the classification of the quality of assets in commercial banks and the procedure for the formation and use of reserves to compensate for possible losses in assets”(state registration with the Ministry of Justice of the Republic of Uzbekistan No. 2696 on July 14, 2015) also began to form reserve allocations according to five categories of:

- standard loans-1 %;
- substandard loans-10 %;
- unsatisfactory loans-25 %;
- suspicious loans-50 %;
- desperate loans – 100 %

RECOMMENDATIONS AND CONCLUSION

We have formulated the following conclusions in the research process:

- the fact that the share of problematic loans in the credit portfolio of commercial banks of the Republic was relatively high in 2019-2023, indicating that this indicator, especially in 2021, was very high, did not improve the practice of managing credit risk;
- due to the fact that loans are high in the composition of the assets of commercial banks, a deterioration in the quality of the loan portfolio will create a strong impact on their liquidity and financial stability;
- The fact that in 2019-2023 the absolute bulk of loans issued by Asakabank were made up of loans to industrial enterprises (above 60 percent) indicates that the diversification criterion of the loan portfolio in Asakabank was not met;
- The amount of reserve deductions intended to cover losses from loans at turonbank and the bank's level relative to brutto's assets with a trend of growth in 2017-2021 is a negative situation in terms of the point of improvement of credit risk management practices. In our opinion, the following measures should be carried out to improve the practice of managing credit risk in the activities of commercial banks of our republic:

1. It is necessary to develop an assessment methodology that allows a more accurate assessment of the levels of impact of financial risks (risk of inflation, risk of deflation, risk of devaluation), affecting the level of credit risk in the activities of commercial banks. As we know, an increase in the level of inflation leads to an increase in the interest rates of loans. This serves to increase the level of credit risk. The increase in the rate of devaluation of the national currency makes it difficult for banks to repay loans issued in foreign currencies on time and in full.

2. When assessing credit risk for international loans of commercial banks, the standardized approach of the Basel Committee on credit risk assessment should be used.

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