

ANALYSIS OF PROBLEM LOANS IN COMMERCIAL BANKS OF THE REPUBLIC OF UZBEKISTAN

Kalandarov Abdulla Bakhtiyorovich¹

ABSTRACT

The existing problem loans in banks of the Republic of Uzbekistan were analyzed in the section of commercial banks. The reasons for the growth of problem loans were studied. The main shortcomings of the existing program for reducing problem loans were highlighted and areas of improvement based on foreign experience were identified.

Keywords: *Bank, loan, borrower, overdue debt, problem loan, NPL, credit monitoring, risk of loan non-repayment.*

Introduction

The quality of the loan portfolio in all commercial banks of Uzbekistan has significantly decreased in recent years. In turn, ensuring the quality of the loan portfolio, which is manifested from the main financial indicators of the banking system, leads to a deterioration in the financial stability of the entire banking system [1].

In particular, the Decree of the President of the Republic of Uzbekistan №. PF-5992 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025" dated May 12, 2020 provides that in order to achieve the strategic goals of improving the financial stability of the banking sector, ensuring moderation in lending growth and improving the quality of the loan portfolio of the banking system is one of the priorities, as well as the relevance of reducing the share of problem loans in banks [2].

Literature review

Credit risks, problem loans, their causes and issues of their elimination were studied by foreign scientists Walraven K., McNaughton D., Ozius M., Polfreman D., Putnam B., Reidhill D., Rose P., Ford F., Hoggart G., Sheng E. and others.

Also, issues related to credit risks and problem loans were discussed by the Russian economists Bukato V., Gryaznova A., Kolesnikov V., Lavrushin A., Alshani A., Panova G., Petshanskaya I., Osaskin V., Kovanov A., Kuznisov S., Lykova N., Nurzat A. and others.

Lending issues were discussed by the domestic scientists, such as Abdullaeva Sh., Iminov O., Mullajonov F., Pshenichnikov V., Ten V., Kadyrov A., Gozibekov D., Karaliev T., Tukhtabaev U. and others.

The British economists David Polfreeman and Philip Ford commented from a banker's point of view: "It is very easy to lend money, but to secure its return is where skill is required" [3].

¹ PhD candidate at the Banking and Finance Academy of the Republic of Uzbekistan; Head of the Credit Monitoring Department of the Yashnabad branch of the Joint-Stock Commercial Mortgage Bank "Ipoteka-Bank"

According to the American expert Peter Rose, who conducted an effective study in the field of banking management, non-payment by the borrower of one or more payments, or a decrease in the value of collateral on a loan means that the loan belongs to the category of problem loans [4].

The Russian scientist-economist O.I. Lavrushin noted that a problem loan is understood by the bank as a loan in which there are doubts about its object, subject and collateral. According to their views, it is clear that substandard, doubtful and unreliable loans, that is, all loans, with the exception of current loans that have not expired, including those that are indebted, even if they are short-term in terms of principal and interest on loans are also problematic, at least in the case of a one-time restructuring without changing the terms of the loan [5].

Research Methodology

This article analyzed the existing problem loans in commercial banks, as well as identified factors affecting the stability of the bank's loan portfolio. In the process of analysis, scientific abstraction, peer review, induction and deduction, comparison, system analysis methods were used.

Analysis and results.

According to the President of the Republic of Uzbekistan Sh.M. Mirziyoyev, in the industry - 3 trillion sums, in trade and services - 2.1 trillion sums, in agriculture -1.8 trillion sums, in construction - 978 billion sums, in transport and communications - 547 billion sums there were problem loans.

At the junction of the regions of Jizzakh, Samarkand, Surkhandarya and Tashkent regions, each has about 1 trillion sums of problem loans [6].

The share of problem loans in the banking system reached its highest level of 6,2 percent in July 2021. The measures taken made it possible to reduce the share of problem loans by 0,8 percent and as of February 1 this year amounted to 5,4% (17,5 trillion sums).

As of February 1, the total volume of problem loans in the banking system increased by 503 billion sums and amounted to 17 trillion 477 billion sums. The volume of the problem loans in the loan portfolio of state-owned banks amounted to 15 trillion 522 billion sums. In January, the largest increase in problem loans was observed in Ipoteka-Bank (+197 billion sums), Qishloq Qurilish Bank (+141 billion sums), National Bank (NBU) (+109 billion sums). Asaka bank (-87 billion sums), Halyk Bank (-67 billion sums) and Agrobank (-4 billion sums) managed to repay some of the bad loans.

Among state-owned banks, the largest share of problem loans belongs to Uzagroexportbank – 56,3%, Halyk Bank – 19,6%, Microcreditbank – 6,3%, Qishloq Qurilish Bank – 5,0%, National Bank (NBU), Aloqa bank and Asaka bank – 4,7% and Agrobank 4,6%.

As of February 1, the amount of problem loans in the loan portfolio of non-state banks increased by 49 billion sums and amounted to 1 trillion 954 billion sums. Asia Alliance Bank (+59 billion sums), Trust bank (+43 billion sums), Universal Bank (+11 billion sums) increased the amount of overdue debt, Kapital bank (-37 billion sums), Ipak Yuli Bank (-10 billion sums), TBC Bank and Ravnaq-banks (-9 billion sums each) repaid part of the bad loans.

The share of problem loans in the total loan portfolio increased by 0,2 percent in January and reached 5,4 percent. The share of problem loans in the loan portfolio of Hi-Tech Bank (93,1%), Turkistonbank

(69,1%), Uzagroexportbank (56,3%), Ravnaq bank (22,2%), Halyk Bank (19,6%), Savdogarbank (11,8%), Asia Alliance Bank (10,8%) remains high.

A detailed table can be showed below [7]:

Table No. 1

Information on Non-performing loans of commercial banks as of February 1, 2022 (billion UZS)

№	Bank name	Loans	Problem loans	NPL
Total		324 139	17 477	5,4%
Banks with State ownership		277 522	15 522	5,6%
1	National Bank (NBU)	73 037	3 414	4,7%
2	Uzpromstroybank	42 823	1 660	3,9%
3	Asaka bank	37 023	1 732	4,7%
4	Agrobank	32 220	1 492	4,6%
5	Ipoteka-bank	28 698	1 170	4,1%
6	Halyk Bank	19 303	3 790	19,6%
7	Qishloq Qurilish bank	17 630	890	5,0%
8	Microcreditbank	10 844	683	6,3%
9	Turon bank	8 104	312	3,8%
10	Aloqa bank	7 731	361	4,7%
11	Poytakht bank	77	2	2,3%
12	Uzagroexportbank	30	17	56,3%
Other banks		46 617	1 954	4,2%
13	Hamkorbank	9 409	110	1,2%
14	Kapital bank	8 250	198	2,4%
15	Ipak Yuli bank	6 406	213	3,3%
16	Invest Finance bank	3 731	54	1,5%
17	Orient Finance bank	3 661	27	0,8%
18	Trust bank	2 698	94	3,5%
19	Davr bank	2 178	16	0,7%
20	Asia Alliance bank	1 892	204	10,8%

21	Tenge bank	1 714	120	7,0%
22	KDB Bank Uzbekistan	1 618	0	0,0%
23	Ziraat Bank Uzbekistan	854	20	2,3%
24	Savdogar bank	838	99	11,8%
25	Universal bank	759	17	2,3%
26	Turkiston bank	684	473	69,1%
27	Anor bank	654	12	1,8%
28	Ravnaq-bank	550	122	22,2%
29	TBC bank	390	8	2,1%
30	Madad Invest bank	160	19	12,1%
31	Hi-Tech bank	159	148	93,1%
32	Branch office of Bank Saderat Iran	13	0,1	0,6%
33	Apelsin bank	0	0	0,0%

Also, in January of this year, problem loans were collected in the amount of 2 trillion sums, while an additional 2,5 trillion sums amount of the new problem loans. As a result, the balance of problem loans increased by 503 billion sums over the month, most of which fell to the share of Ipoteka Bank (197 billion sums), Qishloq Qurilish Bank (141 billion sums), and the National Bank (NBU) (109 billion sums).

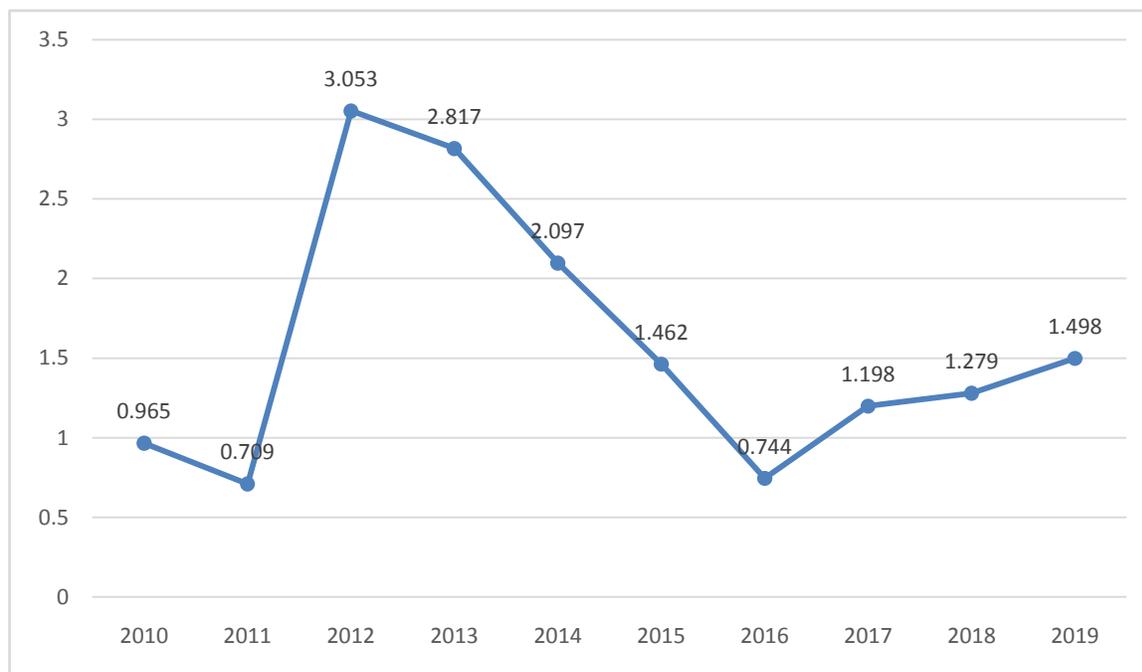
According to the Central Bank, as of February 1, 2022, according to information on the loan portfolio of commercial banks and problem loans, the volume of loans directed to the economy decreased by 2,3 trillion sums and amounted to 324,13 trillion sums. This decrease occurred at the expense of state-owned banks. The loan portfolio of all state-owned banks decreased, except for Qishloq Qurilish Bank (+134 billion sums) and Microcredit Bank (+29 billion sums). In addition, there were no changes in the loan portfolio of the currently inactive Uzagroexportbank.

The loan portfolio of non-state banks increased slightly. Among these banks, the loan portfolio of Kapital bank (+220 billion sums), Hamkorkbank (+75 billion sums), KDB Bank Uzbekistan (+60 billion sums), TBC bank (+45 billion sums), Anor bank (+42 billion sums) has grown.

This situation negatively affects the stability of the country's banking system, that is, the turnover of bank funds, the timely fulfillment of the bank's obligations to its customers. Losses from problem loans are reflected not only in losses directly related to repayment of the loan and non-payment of interest. Losses from problem loans are more pronounced in the following cases:

- Firstly, freezing of profitable assets of commercial banks;
- Secondly, the loss of confidence of depositors, investors and other customers in the bank and the decline in the bank's reputation;

- Thirdly, the increase in administrative expenses of the bank due to the need for special attention and control from the credit departments of commercial banks;
- Fourthly, an increase in the risk of losing qualified personnel by the bank as a result of a decrease in material incentives due to a decrease in profits from lending operations, and so on [8].



1-picture. Index of non-performing loans of commercial banks of Uzbekistan (based on data from the World Bank)

According to the latest 10-year analysis by the World Bank, the country's overall non-performing loan index for commercial banks recorded an upward trend from 0.965% in 2010 to 1.498% in 2019. As part of the analysis, the lowest rates were 0.709% and 0.744%, respectively, in 2011 and 2016. The highest point of non-performing loans was observed in 2012, during which the indicator was 3.053% (Fig. 1) [9]. Singapore, Hong Kong, Canada, Uzbekistan, and Macau also showed the lowest values of this indicator in 2015. Countries such as San Marino, Cyprus, Greece, Ukraine and Serbia are among the countries with the highest level of non-performing loans in the world in terms of total debt [10].

Conclusion.

Conclusions and recommendations on liquidation of problem loans in commercial banks or minimization of their share:

1. Ensuring the financial stability of the banking system by improving the quality of the loan portfolio and managing problem loans, maintaining a moderate growth in lending, attracting managers with international experience, and introducing technological solutions for assessing financial risks;
2. Comprehensive transformation of commercial banks, introduction of modern banking standards, information technology and software in the field of recovery of problem loans;

3. Implementation of targeted measures, extensive implementation of judicial and legal work to recover problem loans, as well as monitoring the financial situation of the borrower during the provision of a loan and at the stage of its servicing, strengthening the capacity of credit monitoring units dealing with problem loans in banks, and the effective use of all legal acts, established by law;
4. Involvement of international consultants as responsible for the processes of reducing the share of non-performing loans in the loan portfolio of commercial banks;
5. Negotiating and concluding deals with international financial institutions and potential foreign investors on the issues of reducing the share of non-performing loans in the loan portfolio of commercial banks.

The practical application of these proposals will help reduce problem loans of banks, as well as stabilize their financial situation.

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