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DIRECTIONS FOR IMPROVING PERSONAL LOANS IN COMMERCIAL BANKS: IN CASE OF UZBEKISTAN BANKING SYSTEM

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ABSTRACT

Bank loans are the main support of economic development in the market economy. The expansion of the popularity of financial services in Uzbekistan and the provision of financial assistance to a wide segment of the population within the framework of state programs has stimulated the acceleration of loans to individuals. The continuous increase of the balance of loans allocated to individuals over the years and the growth rate of allocated loans in relation to GDP is expressed by the moderately increasing level of the population's debt burden. The credit activity of the household sector in the composition of loans is increasing significantly. This can lead to an increase in the number of defaults caused by the accumulation of risks in this sector and the deterioration of the financial condition of debtors. This article examines the issues of improving commercial banks' loans to individuals, paying special attention to improving the efficiency of commercial banks' loans to individual in Uzbekistan banking system.

KEY WORDS: *commercial banks, credit portfolio, individual credit, risks, improvement, NPL.*

INTRODUCTION

In the past decade, banks have played a significant role in supporting and helping household sector around the world gain great access to financing projects. But the banking environment nowadays has increased huge challenges of individuals with their different services and innovations. Also, we need talk about financial globalization; deregulation and liberalization have heightened considerable many risks in the banks. Moreover, lending managers investigate effective risk strategies to support and promote banking welfare, project outside agencies transacting with banks and also ensure growing, stable banking operations.

Uzbekistan is the significant densely nation country, with one third of the population about the age of 29 and another half living in rural areas. It is important to say that 1,500,000 people about 30 ages join the labor force every year; job generation is an important and challenging priority. In recent years, systematic work has been carried out in the country to improve the business environment and further improve the banking system. As a result of this, the total volume of deposits in banks increased by 3,8 times during this period of time, including public deposits by 5,6 times, due to the changes in the methods and mechanisms of providing services to the population and business entities as well as increased trust in banking sector.

It should be noted that commercial banks operating in Uzbekistan are the most important element of the country's economy. Commercial banks have a positive effect on the development of production, services, consumption and increase in material well-being by providing loans to individuals or legal entities in need of funds. Allocated loans are used for various purposes, including the purchase of household appliances, the purchase of a car, business development and modernization of enterprise equipment.

The credit activity of the household sector in the structure of loans of the banking system of Uzbekistan is increasing significantly. Statistical data show that in recent years, the retail business direction has been significantly activated in the business activity of banks, and we can see that the business model in the banking market is mainly focused on retail services. For information, it should be said that over the years, the share of loans allocated to industry in the structure of loans of commercial banks has been the highest. But in the last year, 2023, among the loans of commercial banks, the loans allocated to households had the largest weight in the

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portfolio. As a result of the increase in the loan portfolio of commercial banks in 2019-2022, the share of individual loans in the total loan portfolio increased by 7 percentage points and reached 26% in the analyzed period, and the share of income from this practice in the total interest income increased from 19% to 34%. This may lead to an increase in defaults resulting from the accumulation of risks in this sector and the deterioration of the financial condition of debtors.

LITERATURE REVIEW

In this research work, the issues of improving the loans of commercial banks to individuals are considered, and special attention is paid to improving the efficiency of loans allocated by commercial banks to individuals and improving the quality of the loan portfolio of individuals. According to the Decree of our President "On the approval of the Digital Uzbekistan - 2030 strategy and measures for its effective implementation", the implementation of several dozen projects aimed at the development of banking system is defined. On this basis, the best technical solutions are used to study the leading foreign experience, including the advice and financial support of the European Union and the World Bank, in carrying out the digitalization tasks and tasks in a rapid manner.

Many researchers' paper approached to examine the relationship between banks' loans and household sector. Therefore, reviewed papers placed significant focus on identify and discuss variety types risks in banks, because the point that risk identification is always an important prerequisite for the later risk assessment as well as analyze the risk assessment practice for the bank. We can say according to our findings that there is growing literatures relating to improving personal loans in commercial banks.

Therefore, many ideas aimed at increasing the efficiency of loans allocated by commercial banks to individuals and improving the quality of the loan portfolio of individuals have been presented by research scientists. When forming a loan portfolio in commercial banks, it is necessary to pay special attention to the types, amounts and risks of individual loans. Research by (Otamurodov H.H., 2019) emphasizes the importance of allocation resources by commercial bank to individuals. According to this research that commercial banks are not ready to lend to everyone who applies for a loan, because it is important to assess the borrower, determine the credit risk, that is, to study the strengths and weaknesses of the factors that affect the ability to repay the loan. Currently, it is important to improve the loans of individuals, which are increasing in amount in commercial banks and have the largest share in the total portfolio.

Gilmore at al. (2004) focused on management and employees risks in his research. It is important to mention that 40 British project managers interviewed by Gilmore and he suggested that every business sector is exposed to avoid or loss knowledge, with skilled and experienced employees in valuable and reliable information.

In foreign literatures, Mohammad J.M. (2019) found that during the formation and analysis of the credit portfolio of commercial banks, the bank continuously conducts analysis of the state, term, distribution of loans by economic sectors, types of collateral, quality of loans and other indicators, it's in turn, it has a positive effect on the quality of allocated loans and the efficiency of the credit portfolio of individuals. The effectiveness of loans granted by commercial banks to individuals is closely related to the bank's credit policy. Formation of credit portfolio of commercial banks is the main stage of implementation of credit policy. Formation of the credit portfolio begins after the general goal of the bank's credit activity is formed, and after the development of the credit policy strategy. A bank that has developed a credit policy strategy defines the main goals of credit activity and begins to form a credit portfolio.

Also, Rasulov T.S. va Ziyodilloev X.R. (2024) underscores the importance of accessible and affordable loans for promoting individuals. They clamed that structure of the loan portfolio allows not only the quality of the bank's credit policy, but also the forecasting of future credit activity results in commercial banks. According to Abdullaeva Sh.Z. (2018), risk assessment for the bank enable avoiding loses, profit maximization, help to find ways of restrictions.

In the scientific literature, there are different approaches to the concept of "efficiency of the commercial bank's credit policy", a) efficiency - the ratio of resource costs and the results obtained as a result of using the first one;

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b) efficiency is understood as a socio-economic category that reflects the influence of the methods of organizing the work of the participants of the activity on the level of results they have achieved. At the same time, economists Muravyov N.N. and Baranchuk O.S. (2021), suggested using the following indicators to evaluate the effectiveness of the credit policy conducted by commercial banks:

- Loan portfolio profitability ratio (K1), which reflects the share of the bank's interest margin in the gross loan portfolio;
- Interest margin coefficient (K2), which reflects its share in the bank's total capital;
- Profitability ratio of loan investments (K3), which reflects the share of the interest margin in the bank's net loan portfolio;
- The coefficient of real return on loan investments (K4), which reflects the share of interest income in the net loan portfolio.

Many papers showed that banks' lending managers are facing more challenges and difficulties due to a small decline financing in loan quality. According to Kim at al. (2021), the root of bad debts or poor loan quality deal with managers' skills and the mechanism of data processing when decide loan for the existing individuals. Kim sated that the main problems start from beginning which the stage application for loan and expand issues at every stage, during loan approval, monitoring, identify risks, control repaying loan.

METHODOLOGY

Indeed, most researches conduct are qualitative and quantitative, those using primary alternatives to all researchers. It is important to mention that which approach is most appropriate and more effectively conducting really depend on research problems and objectives.

During addressing to directions for improving personal loans in commercial banks, mainly the primary data collected from distributing various questionnaires to lending managers who decide loan. We used to collect information primary and secondary data for conducting this paper, it is necessary to say that all secondary sources are gathered figures, statistics and facts collected to get information, such our secondary data gathered from various literature, it may include electronic sites, books, different journal, research paper which done by other people before and banks' annual reports, published internal papers and policies.

This study used non-probability sampling which has the benefit of flexibility on the part of the researcher in identifying key participants to be studied, generally less costly and a higher response rates as there is more face-to-face contact between the researcher and participants. Non-probability sampling methods were adopted including convenience sampling and purposive sampling due to the nature of this research and the time factor. Convenience sampling involves selecting that are easier to obtain, selecting subjects due to the convenience of a researcher or even respondents are chosen based on their convenience and availability (Babbie,1990).

We must inform that the research performance statistics are limited. Nevertheless, the research paper can obtain financial data of the Uzbekistan banking sector, manager's reports and significant information. So, it was some limitations during conducting current paper such as to find specific historical information, data, time limitation, some cost issues, the size of subject area, also data confident.

ANALYSIS AND RESULTS

In the conditions of the market economy, the main support of economic development is the loans provided by commercial banks. Commercial banks operating in Uzbekistan are the most important element of the country's economy. Commercial banks have a positive effect on the development of production, services, consumption, and increase in material well-being by providing loans to individuals or legal entities in need of funds. The operation of the banking system on the basis of reliability and profitability is an important factor of economic development.

The expansion of the popularity of financial services in our country and the provision of financial assistance to a wide segment of the population within the framework of state programs have stimulated the acceleration of loans to individuals. The ratio of the balance of loans allocated by commercial banks to individuals in Uzbekistan to GDP has been growing significantly since 2018. In 2022, the ratio of loans allocated to individuals to GDP was 9,5 percent, and the ratio to disposable income of the population was 14,4 percent.

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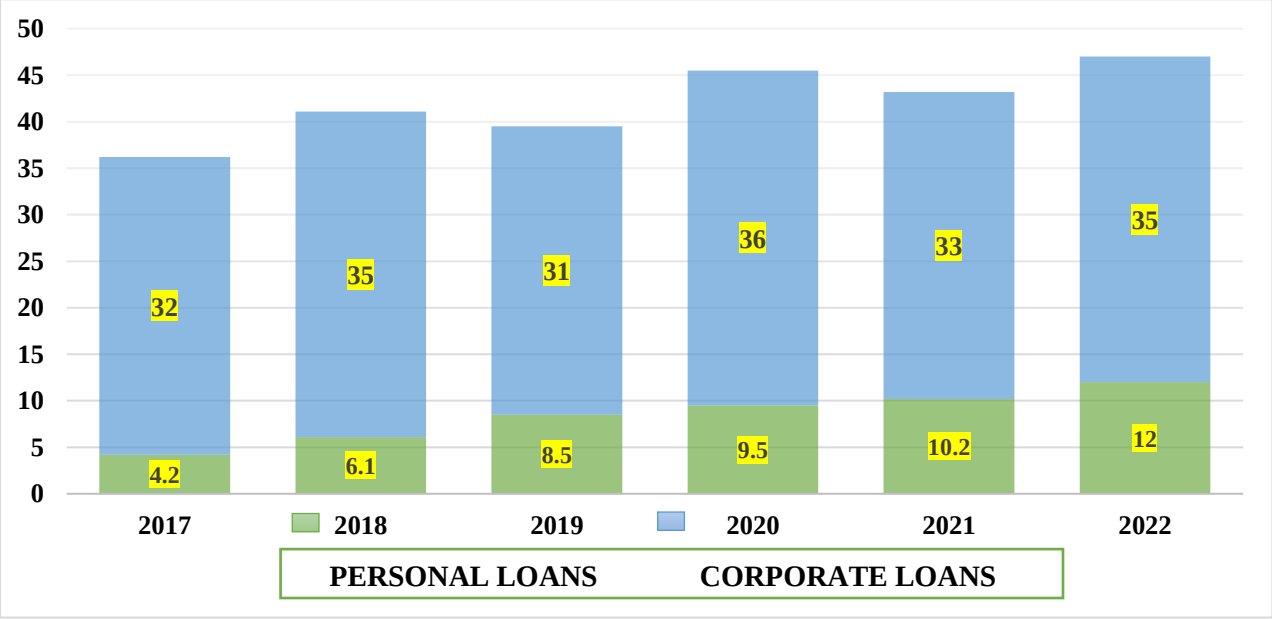
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TABLE 1. Assets of commercial banks in Uzbekistan and the amount and share of loans in their composition

Indicators/Years	2015	2016	2017	2018	2019	2020	2021	2022
Total assets of commercial banks, (bln. UZS)	65,2	84,1	166,6	214,4	272,7	366,1	444,9	556,7
Total credits, (bln. UZS)	42,7	53,4	110,6	167,4	211,6	276,9	326,4	390,1
Share of credits in bank assets, (in percent)	65,5	63,5	66,4	78,1	77,6	76,5	73,4	70,1

According to the above table, the assets of commercial banks in 2022 will be 556,7 bln. UZS amounting to 491,5 bln. UZS compared to 2015. increased to bln. UZS, it can be seen that it has increased by almost eight and a half times during the analyzed period. The share of loans in the structure of bank assets in 2022 was 70,1 percent and had a tendency to decrease slightly compared to previous years. Despite the high growth rate of loans, it should be noted that in terms of financial coverage, our country recorded a below-average indicator among the CIS countries. Also, in the last 7 years, the ratio of loans to GDP was 39,1% on average (increased from 27% to 44%) and was slightly lower than the average of the selected countries.

At the same time, as a result of the conducted scientific studies, it was found that the ratio of loans allocated to individuals by commercial banks in our country to GDP was formed at a low level compared to countries such as Russia, Kazakhstan, Armenia, Georgia. This, in turn, is explained by the fact that the retail credit market in Uzbekistan is not yet saturated.



Pic 1. Decomposition of loans allocated to the economy of Uzbekistan (GDP, %)

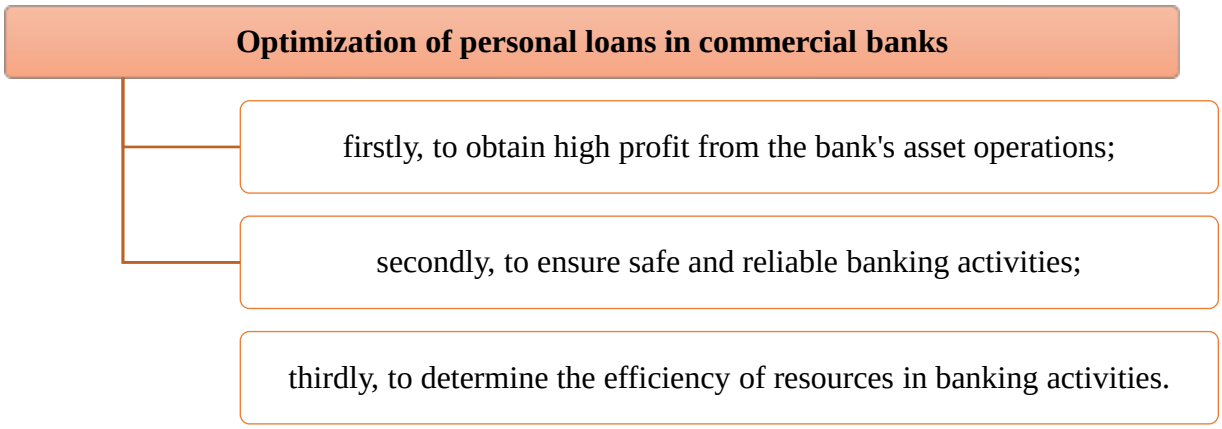
Based on the above information, it can be said that as a result of recent growth of loans to individuals and legal entities at the same rate, the shares in the decomposition of loans to the economy remain almost unchanged. Currently, one of the problems in the banking system is the financial source of allocated loans. Since banks work mostly with foreign funds, they set the main goal of effective investment of the accumulated funds. Of course, there are big risks in attracting funds in this way and using them. Foreign experience of credit risk analysis and management and its use in the banking system of our country is one of the important tasks.

In the context of increasing global financial instability, the role of bank loans in stimulating sustainable economic growth is increasing. Credit deposits of commercial banks are considered the most important and rapidly developing type of banking activity, and they pay special attention to the optimization of the loan portfolio. The volume of consumer loans in Uzbekistan continues to grow rapidly. In particular, in 2022, the growth rate of annual consumer loans was 81 percent. As of January 1, 2023, car loans have the main share in consumer loans,

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making up 96 percent. The high demand for cars can be explained by the popularization of car loans by commercial banks and the expansion of lending opportunities for cars in the secondary market. In particular, during 2022, 19,6 bln. UZS. It should be noted that auto loans were allocated in the amount of UZS and increased by 2,3 times compared to 2021. Based on the information presented below, we will consider the annual growth of the balance of loans allocated by commercial banks to individuals in the section of loan types.

The formation of the loan portfolio and its optimization begins after the general goal of the bank's credit activity is formed, after the development of the credit policy strategy. Today, it is a very difficult issue for banks to optimize their loans only based on their capabilities. It will help them to establish contacts with other financial institutions for optimization of their loan portfolio and quality management. As can be seen from the below picture, the main goal of commercial banks is to optimize the personal loans, firstly, to increase the profit, which is the main goal of the bank, that is, to get a high profit from active operations, and secondly, to promote safe and reliable banking activities to protect the interests of bank customers. thirdly, it ensures the rational use of bank resources.



Pic 2. The Main Issues of optimization of personal loans in commercial banks

According to finding data, the population is increasingly applying for microloans and microcredits in Uzbekistan. Car loans remain the most requested service, but the balance of mortgages and consumer loans decreased compared to the same period last year. Credit indicators in the mortgage market of Uzbekistan are formed due to the imbalance between the high demand for mortgage loans and the supply of housing in the primary market. In addition, it should be noted that the volume of mortgage loans in the secondary housing market has increased more than 10 times. Based on the data, it should be noted that the loans allocated to the population were 18,3% at the beginning of the analysis period, in 2018, and reached 22,3% by 2022.

The work being carried out to introduce market mechanisms in the economy and increase the role of the private sector, in turn, leads to the widespread popularity of banking products among the population. In particular, the weight of mortgages and car loans, which have the largest share in the structure of loans allocated to the population, has increased significantly in recent years and reached 23,2 and 17,2 percent by the end of 2023, respectively. On the other side, interest rates of short-term and long-term loans in national currency issued by commercial banks approached each other.

RECOMMENDATIONS

The main income of commercial banks comes from credit operations, and it is the main part of interest income of commercial banks (almost 90 percent). The formation of loan interest affects the margin level of banks. It is known that credit operations are characterized by high risk. At the same time, they must meet the goals of banking, that is, to obtain maximum profit with an optimal level of liquidity.

It is necessary to further increase the level of diversification of the credit portfolio of commercial banks of our republic. In international banking practice, the accumulation of more than 25 percent of bank loans in one branch is recognized as a factor that sharply increases credit risk. Therefore, it is advisable to prevent the accumulation

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of more than 25 percent of the loans of the banks of our republic in enterprises belonging to one branch. In our opinion, it is necessary to take the maximum level of 25 percent of the placement of loans according to the nature of the sector as the main criterion describing the level of diversification of the loan portfolio.

The continuous increase in the balance of loans allocated to individuals and the increase in the ratio of loans to GDP indicate that the level of the debt burden of the population in the country remains moderate. The volume of consumer loans continues to grow rapidly. Commercial banks need to control and further implementation for keeping banking stability.

Therefore, strengthen control over credit monitoring by commercial banks after granting loans to individuals. By monitoring the given loans, it is possible to determine the purpose for which the loan is being used and to what extent efficiency is being achieved. On the other hand, strengthening the use of collateral objects with high liquidity in loans from commercial banks for loans to individuals.

To strengthen the relationship between the bank employees and the client in order to strengthen the collection of loans allocated to individuals by commercial banks and to organize constant information gathering between the client.

CONCLUSION

The ratio of the balance of loans allocated to individuals to GDP in Uzbekistan has been growing significantly since 2018. The expansion of the popularity of financial services and the provision of financial assistance to a wide segment of the population within the framework of state programs have stimulated the acceleration of loans to individuals. In 2022, the ratio of loans to individuals to GDP was 9,5 percent, and the ratio to disposable income of the population was 14,4 percent.

Generally speaking, improving the quality of loans allocated to individuals by commercial banks helps to implement the bank's lending strategy, in which: a) the regulatory and legal frameworks regulating the bank's credit activity are the codes and laws of the Republic of Uzbekistan; regulations, procedures of the Central Bank of the Republic of Uzbekistan; helps to build a quality loan portfolio based on the bank's charter; b) staffing of the banking system - the level of qualification of risk managers, members of the credit committee, employees of the credit department, and employees of the bank's security service, who are able to quickly and correctly make credit decisions and conduct credit operations correctly. makes it possible to implement; d) the monitoring of the diversification of the credit portfolio of a commercial bank should be started by dividing the credit portfolio into sub-portfolios according to the following criteria: by economic sectors, by term, by geographical location, by supply, by risk, by type of currency, e) the main factors of risks in the banking system are formed under the influence of macro-financial conditions in the world, aggravation of the external geopolitical situation, interruptions in the supply chain, high inflation rate, increase in the prices of energy resources, slowing down of economic growth.

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