
CURRENT STATE OF NON-PERFORMED ASSETS IN THE BANKING SECTOR OF THE REPUBLIC OF UZBEKISTAN

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Abstract

Improving the efficiency of commercial banks in Uzbekistan is related to their active participation in lending to the real sector of the economy. However, commercial banks of our country face a number of difficulties and problems in lending activities. Especially today, there is a tendency to increase problematic assets in the composition of commercial banks' assets. Especially, this situation shows high growth rates in commercial banks with a state share. In particular, the fact that the share of problematic loans in the credit portfolio of Xalq Bank in 2021 was 19.7 percent indicates that the quality of this commercial bank's assets is decreasing.

It should be noted that the quality of bank assets and issues related to it have been extensively researched by foreign and local economists, they have formulated appropriate scientific conclusions and practical recommendations based on the research of the formation, composition and management of bank assets. In addition, the quality of assets of commercial banks, the level of risk, etc. are widely covered in economic literature and scientific publications. At the same time, this process is controlled on the basis of the relevant regulatory documents of the Central Bank, which is considered a mega-regulator, however, issues related to the quality of assets of commercial banks will never lose their relevance, because the relevant time and time will increase the relevance of this issue.

Despite the efforts made to reduce the amount of non-performing assets in commercial banks, the weight of non-performing assets remains remarkably high. These situations require rapid, reliable information about problem assets and scientific research on ways to reduce them.

Despite the fact that the debate on problem assets in scientific circles has been going on for some time, a unified approach to the term "problem credit" in foreign and domestic practice has not been formed until now.

As banks use the borrowed funds mainly as loans, it is necessary to determine in advance the issue of not only obtaining income, but also the full recovery of the funds from the "borrower". Because, "the bank, as the owner of the investment,



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sells not the investment, but the right to use the investment with certain conditions and additional interest”.

In the relevant normative documents of the international Basel Committee, the problem assets of banks are defined as follows: credit products in which the terms of fulfilling obligations to the bank have significantly deteriorated, the financial condition or quality of the debtor has significantly deteriorated, or the collateral has disappeared.”

In particular, according to the approach of professor Sh.Z.Abdullaeva, one of the local scientists, substandard loans can also be analyzed as problematic loans due to the fact that they are not returned on time.

Another local scientist, U.A. Tukhtaboev, defines problematic loans as follows: they are the result of the obvious manifestation of credit risks in practice, and due to the violation of the terms of the loan agreement for objective and subjective reasons, they have passed into the category of "substandard", "doubtful" and "hopeless" loans. loans are called problem loans.

In my opinion, it is appropriate to introduce the following approach to the bank's problem assets: a problem asset is a loss (damage) that may occur as a result of the bank not returning part of the funds invested in assets for the purpose of obtaining income, or as a result of the bank's control and inability to receive the estimated income.

Below is information about problem loans in commercial banks in Uzbekistan.

Table-1 Information on Non-performing loans of commercial banks
as of May 1, 2024(billion UZS)

No	Bank name	Total loan portfolio	NPL	share in % of loans
Banking System		483,605	23,312	4.8%
Banks with State ownership		339,210	17,831	5.3%
1	NBU	100,416	4,219	4.2%
2	Uzpromstroybank	58,700	2,982	5.1%
3	Agrobank	57,558	2,107	3.7%
4	Asaka bank	38,026	1,830	4.8%
5	People's bank	26,237	1,830	7.0%
6	Business development bank	20,941	3,145	15.0%
7	Microcreditbank	14,781	981	6.6%
8	Turon bank	12,149	308	2.5%
9	Aloqa bank	10,275	427	4.2%
10	Poytakht bank	127	1.6	1.3%



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As we can see from the table 1, the total loan portfolio of the banking system is 483,605 billion UZS. The total NPLs amount to 23,312 billion UZS. The share of NPLs in the total loans is 4.8%. State-owned banks have a higher average NPL ratio (5.3%) compared to the overall banking system (4.8%). This suggests that state-owned banks might be facing more significant issues with loan performance. The NPL ratios vary significantly among state-owned banks. For instance, People's bank has the highest NPL ratio at 7.0%, indicating potentially higher risk or more aggressive lending practices that have led to more defaults. In contrast, Poytakht bank has the lowest NPL ratio at 1.3%, which might indicate more conservative lending or effective risk management practices. Some banks, such as Agrobank and Turon bank, have NPL ratios below the overall system average, suggesting better loan performance or more effective management practices in these institutions.

The decrease in the share of credit investments in the assets of the banking system is mainly explained by the circumstances that occurred as a result of the COVID-19 pandemic and its negative impact on the economy, as well as credit holidays provided to the population and economic entities. In addition, the increase in the volume of investments in securities by commercial banks of our country provides an opportunity to increase the level of diversification of assets in banks, to increase the income of banks and to improve the quality of management of problem assets.

The legal basis is very important in assessing the quality of assets of commercial banks, because if there is no consensus in their assessment, the income of commercial banks may decrease and their obligations may increase, as a result, the bank will become illiquid.

Below are the author's recommendations for reducing non-performing loans:



Risk Management Improvement:

Banks, particularly those with higher NPL ratios, should enhance their risk management frameworks to better assess and mitigate credit risks.



Regulatory Oversight:

Increased regulatory oversight and support from the central bank could help banks, especially state-owned ones, to reduce their NPL ratios through improved lending practices and effective recovery strategies.

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Targeted Interventions:

Specific interventions could be directed at banks with significantly high NPL ratios, such as People's bank and Microcreditbank, to identify underlying issues and implement corrective measures. Banks with lower NPL ratios, such as Poytakht bank, could share best practices and strategies with other banks to help improve the overall health of the banking sector.

By addressing these areas, the banking system in Uzbekistan can aim to reduce the proportion of non-performing loans and improve overall financial stability and performance.

Based on the given information, we can say that the commercial banks of the banking system have problems with the value, risk and return of problematic assets, such as loans, leasing, factoring, receivables, investments, purchased securities, funds from other banks, off-balance sheet assets, uncollected income and other assets. will lead to a sharp decrease in commercial bank income.

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