



**ENHANCING PROBLEM LOAN MANAGEMENT IN  
COMMERCIAL BANKS OF UZBEKISTAN**

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<b>ABSTRACT</b>	<b>KEYWORDS</b>
<p>This scientific article examines the issues of improving the mechanisms for managing problem loans in commercial banks of Uzbekistan. The study provides an in-depth analysis of the institutional, macroeconomic and microeconomic factors of the formation of problem loans in the bank's loan portfolio. Modern methods for early identification, monitoring and effective organization of restructuring processes of problem loans are studied on a scientific basis. Also, advanced mechanisms for managing problem loans based on international banking practice and Basel standards are evaluated, and practical proposals are developed to adapt them to the banking system of Uzbekistan. The results of the study serve to increase the financial stability of commercial banks, reduce credit risks, and ensure the overall efficiency of the banking system.</p>	<p>Problem loans, commercial banks, credit risks, loan portfolio quality, problem asset management, banking system stability, restructuring, Basel standards..</p>

**Introduction**

The recent radical reform of the banking and financial system of Uzbekistan, the development and stability of the economic market of commercial banks have been determined as one of the stable directions of the state economic policy. In the decrees and resolutions adopted by the President of the country aimed at transforming the banking system, improving the quality of lending processes, and increasing the quality of banks' capital and assets, increasing the share of problem loans is emphasized as an important strategic task. These regulatory and legal documents help to correct risks in commercial banks, and control and ensure the quality of the loan portfolio serves to ensure the stability of the bank. At the same time, the formation of problem loans in the process of active lending to the real sector negatively affects the financial position of banks, leading to a deterioration in liquidity, profitability and capital adequacy indicators. The high level of problem loans limits the effective use of bank resources and indirectly negatively affects economic growth processes. Especially in the context of structural changes in the economy, external economic uncertainties and increasing credit risks, the issue of managing problem loans is becoming more relevant.

The Strategy for Reforming the Banking System of the Republic of Uzbekistan identifies as priority tasks improving the quality of the loan portfolio and the level of risk management, ensuring the normative and sustainable growth of lending volumes, conducting a balanced macroeconomic policy, developing a corporate governance system, and attracting qualified managers with international practical experience to the banking system. Strengthening the financial stability of the banking system through the introduction of modern technological solutions in assessing financial risks is also recognized as one of the important areas. [1].

In this regard, it is of great scientific and practical importance to conduct a scientific analysis of the mechanisms for managing problem loans in commercial banks of Uzbekistan, assess the effectiveness of current approaches, and develop proposals for their improvement based on international experience and modern risk management tools. This article is aimed at studying these pressing issues, which will serve to strengthen the financial stability of the banking system and increase the efficiency of lending processes.

## Literature review

Today, the complex processes observed in the world banking system require banks to operate in the financial market on the basis of a prudent and thorough approach. In particular, the issue of effective management of bank assets is emerging as one of the pressing problems. The presence of problem assets in the banking sector of any country creates the need to study their management mechanisms on a scientific basis. In the practice of the World Bank, many scientific studies have been carried out on the issues of managing, preventing and systematizing problem assets. In particular, some researchers directly link the formation of problem assets with problem loans. [2]. According to their views, the main part of the problems in the structure of bank assets falls on loans. Scientists who have conducted research in this area explain the emergence of problem assets by the lack of sufficient experience and effective mechanisms in bank management. [3].

Problem loans have been widely studied by many domestic and foreign scholars as one of the important factors directly affecting the stability of the banking system. Scientific views in this area interpret the essence of problem loans, their causes, and mechanisms for their management in different ways.

Uzbek scientist A. Vakhobov considers problem loans as the main risk factor leading to a decline in the quality of a bank's loan portfolio, explaining their occurrence by shortcomings in credit policy and a weak monitoring system. He notes that the increase in the level of problem loans poses a serious threat to the financial stability of banks. [4]

The scientist took a very correct approach, but this approach correctly reveals the problem of problem loans from the point of view of internal bank management, but the influence of macroeconomic factors was ignored by the author.

Another local scientist, I. Gulyamov, in his research, links the increase in problem loans with the deterioration of the financial condition of the real sector, emphasizing the economic interdependence between banks and enterprises. In his opinion, problem loans are not only a banking problem, but a systemic problem affecting the entire economy. [5]

This approach is significant in that it interprets problem loans as a systemic problem that is inextricably linked to the real sector, outside the banking sector. In our opinion, we support this idea and believe that effective management of problem loans is closely related to ensuring the financial stability of the real sector.

A well-known foreign researcher J. Sinkey sees problem loans as a result of the ineffectiveness of the banking risk management system and emphasizes that the existence of mechanisms for their early detection is of great importance in ensuring bank stability. He pays special attention to statistical and modeling methods in the preliminary assessment of credit risks. [6]

In our opinion, this approach is significant in that it offers advanced methods for managing problem loans, and it is advisable to adapt it to the banking practice of Uzbekistan.

Internationally recognized scientist R. Rajan explains the increase in problem loans by the excessively aggressive credit policy pursued by banks. In his opinion, credit decisions made with a view to short-term profit lead to a deterioration in the quality of bank assets in the long term. [7]

This view of the author is of particular importance in the context of the rapid growth of lending volumes in the banking system of Uzbekistan and confirms the need for a prudent credit policy.

Another foreign economist, M. Kredi and S. Violi, draws attention to the role of the institutional environment and legal mechanisms in the management of problem loans, justifying the high level of problem loans in the absence of an effective judicial and bankruptcy system. [8]

In our opinion, this approach shows the need to address problem loans not only through internal bank mechanisms, but also through institutional reforms.

In general, the analyzed literature shows that the problem of problem loans is multifaceted. Therefore, this article aims to develop a comprehensive, systematic and national banking system-specific approach to improving problem loan management mechanisms.

**Results and discussion**

Since loans account for the majority of commercial banks' assets, any adverse changes in the quality of their loan portfolios have a significant impact on banks' liquidity levels. In particular, non-repayment of loans or an increase in the number of problem loans pose a threat to financial stability.

**Table 1 On non-performing loans (NPL) of commercial banks in our country As of January 1, in percent [9]**

Name of the bank	Problem loans					
	2021-y	2022-y	2023-y	2024-y	2025-y	Changes between the years 2021-2025
National Bank for Foreign Economic Activity (NBU)	2,8	4,5	3,0	3,1	3,0	+0,6 %
Joint-Stock Commercial Bank "Sanoat Qurilish Bank"	0,9	3,8	2,8	2,2	2,8	+1 %
Joint-Stock Commercial Bank "Asaka Bank"	3,3	4,8	4,6	4,4	4,5	+1,2 %
Joint-Stock Commercial Bank "Agrobank"	1,2	4,6	3,8	3,8	4,9	+2 %
Joint-Stock Commercial Bank "People's Bank"	2,8	19,7	11,9	7,6	4,2	+3,9 %
Joint-Stock Commercial Bank "Business Development Bank"	1,5	4,3	3,9	8,9	8,5	+7,2 %
Joint-Stock Commercial Bank "Microcreditbank"	1,0	5,9	4,8	6,0	4,6	+4,4 %
Joint-Stock Commercial Bank "Turonbank"	0,8	3,3	2,6	2,3	2,8	+1,2 %
Joint-Stock Commercial Bank "Aloqabank"	0,1	4,0	2,0	1,5	1,9	+1,4 %
<b>Total:</b>	<b>2,1</b>	<b>5,6</b>	<b>4,1</b>	<b>4,0</b>	<b>4,0</b>	<b>+1,8 %</b>

From the table data, we can see that the level of non-performing loans (NPL) in commercial banks of our country has changed significantly in recent years. An analysis of average indicators for the period 2021–2025 shows that in 2022 the share of non-performing loans increased sharply to 5.6 percent, while in subsequent years there was a certain decrease and amounted to 4.0 percent in 2024–2025. This indicates that the credit risk management mechanisms of banks have partially improved.

When considering individual banks, the highest indicators were recorded in JSC "Xalq Bank", reaching 19.7 percent in 2022, indicating the presence of problems in the loan portfolio. After that, this indicator gradually decreased and amounted to 4.2 percent in 2025. This indicates that measures have been taken to improve problem assets in the bank.

Also, the share of problem loans in JSC "Business Development Bank" and JSC "Mikrokreditbank" was formed at a relatively high level, especially in 2024-2025, their share remained around 8-9 percent. This indicates that the level of credit risks in these banks is still high.

On the other hand, the indicators in TIF "Milliy Bank", "Asaka" JSCB and "Turonbank" JSCB are relatively stable, and the share of problem loans has not increased sharply. In particular, the fact that these indicators were formed at the lowest level in "Aloqabank" indicates that the bank's credit policy and risk assessment system have been effectively established. In general, an increase in the share of problem loans can negatively affect the liquidity and lending capabilities of banks. Therefore, it is urgent for commercial banks to conduct a thorough analysis of the solvency of debtors, diversify the loan portfolio, and further improve the risk management system.

The volume and share of problem loans in commercial banks of our republic are currently relatively high, and in recent years their share in the loan portfolio has been increasing. This situation may negatively affect the efficiency and solvency indicators of banking activities. Such situations, in turn, also negatively affect the income of commercial banks. An increase in the share of problem loans leads to a decrease in interest income and the emergence of additional costs. As a result, the competitiveness of banks in the market may decrease, which may damage their reputation and positive image in the eyes of customers.

It is worth noting that the high level of problem loans in the banking practice of our republic may limit the ability of banks to provide new loans. This situation prevents the effective use of banks' financial resources and leads to a reduction in the volume of lending to economic sectors.

**Table 2 The Volume of Non-Performing Loans in Commercial Banks with and without State Ownership (as of January 1, in billion UZS) [10]**

	01.01. 2020-y	01.01. 2021-y	01.01. 2022-y	01.01. 2023-y	01.01. 2024-y	Change over the period 2020–2024 (in %)
<b>Total Loans:</b>	<b>270716</b>	<b>276975</b>	<b>326386</b>	<b>390049</b>	<b>471406</b>	<b>174 %</b>
Volume of Non-Performing Loans	5785	5785	16974	13992	16621	287 %
Share of Non-Performing Loans in Total Loans (%)	2,1%	2,1%	5,2%	3,8%	3,5%	+1,6%
Loan Volume in Banks with State Ownership	165204	218255	250995	292018	333297	202 %
Volume of Non-Performing Loans in Banks with State Ownership	3686	4550	14079	11827	13268	360 %
Non-Performing Loans in Banks with State Ownership (%)	2,2%	2,1%	5,6%	4,1%	4,0%	+1,8%
Loan Volume in Banks without State Ownership	45213	57660	74511	98027	138109	305,5%
Volume of Non-Performing Loans in Banks without State Ownership	1137	1224	2251,1	2157,8	3354	295,0%
Non-Performing Loans in Banks without State Ownership (%)	2,5%	2,1%	3,0%	2,2%	2,4%	-0,1%

The table data shows that during 2020–2024, the total loan portfolio of commercial banks of our Republic had a steady growth trend. In particular, the total volume of loans increased from 27,071 billion soums to 47,140 billion soums, an increase of almost 1.7 times. This indicates that the scale of financing of economic sectors by banks is expanding. At the same time, the volume of problem loans also increased to a certain extent. Their amount increased from 578 billion soums to 1,621 billion soums, with a growth rate of 28 percent. The fact that the share of problem loans in total loans increased from 2.1 percent to 3.5 percent indicates that risks related to the quality of the loan portfolio still exist. The analysis of banks with and without state ownership provides even more significant results. The volume of loans in banks with state ownership increased sharply, reaching 33,297 billion soums from 16,520 billion soums. However, the volume of problem loans in this category of banks also increased significantly, from 368 billion soums to 1,326 billion soums. Despite this, their share of problem loans increased from 2.2 percent to 4.0 percent, but in recent years there has been a relative stabilization.

In banks without state ownership, the loan portfolio expanded faster. Their total loans reached 13,810 billion soums from 4,521 billion soums. Although the volume of problem loans also increased, their share remained almost unchanged, from 2.5 percent to 2.4 percent. This may indicate that credit risk management mechanisms have been established more effectively in non-state banks.

In general, while the expansion of lending indicates an increase in economic activity, the increase in problem loans can negatively affect the liquidity and financial stability of banks. Therefore, improving the quality of the loan portfolio, strengthening the payment discipline of debtors, and improving the effective risk management system are among the urgent tasks facing commercial banks.

## Conclusion

In general, reducing the volume of problem loans is not achieved by simple measures, but through a well-thought-out and systematic approach. In this regard, effective credit risk management, intervention at the initial stage of the emergence of problem loans, diversification of the loan portfolio, and conducting a sound and prudent lending policy are of great importance. Also, the correct assessment of collateral, improvement of legal mechanisms, development of clear strategies for debt collection, staff training, and the introduction of modern technologies are an integral part of this process. These measures serve to strengthen the financial stability of banks, protect their profits, and create a healthy financial environment.

Ensuring effective control over problem loans is an important condition for the activities of any credit organization. Through in-depth analysis of risks, the formation of a clear and reliable credit policy, and constant monitoring, banks can prevent negative consequences. At the same time, flexible solutions such as establishing open and constructive dialogue with clients, restructuring debts or providing relief when necessary, also provide effective results in increasing loan repayment.

Rapidly changing market conditions require banks to regularly update their strategies. Through flexibility, rapid decision-making, and a comprehensive management approach, commercial banks can keep the level of problem loans under control and ensure long-term financial stability. It should be noted that macroeconomic instability and the cyclical nature of lending directly affect the level of problem loans.

In particular, when loans expand rapidly but are implemented in conditions where in-depth assessment of borrowers' solvency and underwriting practices are not sufficiently developed, this leads to the accumulation of hidden risks in the banking system. Scientific research also confirms that the growth

of problem loans in countries where early warning mechanisms are not developed can lead to deep and long-term negative consequences of banking crises in the future.

Based on the results of the analysis, it is considered appropriate to implement measures in the following areas:

1. Modernize credit analysis and monitoring processes based on digital technologies;
2. Form a separate organization specializing in working with problem assets;
3. Improve mechanisms for pre-trial and judicial debt collection;
4. Introduce and develop stress testing and early warning systems;
5. Enhance information transparency and expand the analytical capabilities of banks.

It is also important to widely use artificial intelligence and machine learning technologies in credit risk assessment, integrating them with credit history registers, tax databases and other alternative information sources. The creation of a single scoring platform under the control of the regulator will ensure the impartiality of credit decisions and limit the emergence of problem loans at an early stage.

In addition, it is recommended to create a special national structure - an Asset Management Company - to consolidate, restructure and effectively sell problem assets, especially large corporate debts. Such an approach will help to relieve the balance sheet of systemically important banks and limit the spread of financial risks to other segments of the economy.

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