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RESOURCE ADEQUACY FOR IMPROVING CREDIT OPERATIONS OF COMMERCIAL BANKS: CURRENT TRENDS AND DEVELOPMENT PERSPECTIVES

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A B S T R A C T

Credit operations represent one of the most important sources of income for commercial banks; however, they are also associated with significant credit risks that may threaten the financial stability of banking institutions. Therefore, effective credit portfolio diversification and comprehensive credit risk management have become essential elements of modern banking practice. This study examines the theoretical and practical aspects of credit portfolio diversification and its role in reducing credit risk concentration and improving the quality of bank loan portfolios.

The study is based on statistical data of the banking sector of Uzbekistan, reports of the Central Bank of the Republic of Uzbekistan, international banking standards, and scientific literature related to credit risk management. The analysis focuses on the structure and dynamics of credit portfolios by borrower categories and economic sectors, as well as the relationship between diversification levels and the stability of banking activities.

K E Y W O R D S

Commercial banks, credit portfolio, credit portfolio diversification, credit risk, non-performing loans, concentration risk, banking stability, lending activities.

Introduction

Commercial banks play a crucial role in the allocation of financial resources and the support of economic development through lending activities. Credit operations constitute the largest share of bank assets and serve as the primary source of interest income. Nevertheless, excessive concentration of credit exposure in specific sectors, geographical regions, or borrower categories may increase the vulnerability of banks to adverse economic changes and lead to deterioration in asset quality.

The global financial crises have demonstrated that inadequate management of credit concentration risks can significantly affect the stability of individual banks and the entire financial system. As a result, international regulatory institutions, including the Basel Committee on Banking Supervision (BCBS), have emphasized the importance of sound credit risk management frameworks and diversified credit portfolios.

In recent years, the banking sector of Uzbekistan has experienced significant growth in lending activities aimed at supporting economic modernization and private sector development. The expansion of the credit portfolio has created new opportunities for economic growth; however, it has also increased the importance of maintaining an optimal portfolio structure and preventing excessive concentration of credit risks.

A diversified credit portfolio enables banks to distribute risks among various industries, borrower groups, and financial products, thereby reducing the negative impact of economic shocks affecting individual sectors. In addition, diversification contributes to improving portfolio quality, reducing non-performing loans, and ensuring the long-term sustainability of banking operations.

Despite the extensive international literature on portfolio diversification and credit risk management, there remains a need to examine these issues within the context of developing banking systems, including Uzbekistan, where the structure of credit portfolios is undergoing significant transformation. Therefore, the objective of this study is to analyze the current state of credit portfolio diversification in commercial banks, evaluate the relationship between diversification and credit risk management, and develop recommendations aimed at improving the quality and sustainability of lending activities.

Literature review

The relationship between credit portfolio diversification and risk reduction has been widely studied in banking and financial literature. The theoretical foundation of diversification originates from Modern Portfolio Theory developed by Markowitz (1952), which argues that allocating assets among different categories can reduce unsystematic risks and optimize the risk–return relationship.

In the banking sector, diversification principles have been adapted to credit portfolio management. According to Rose and Hudgins (2021), a balanced distribution of loans across industries, customer groups, and financial products reduces excessive dependence on individual borrowers or sectors and improves the overall stability of banks.

Mishkin (2022) emphasizes that banks perform the essential function of financial intermediation by channeling funds from savers to borrowers, and the quality of lending decisions directly influences financial system stability and economic growth.

Saunders and Cornett (2021) argue that effective credit risk management requires continuous assessment of portfolio quality, monitoring of non-performing loans, and identification of concentration risks. They highlight that excessive exposure to a limited number of borrowers or economic sectors may significantly increase potential losses during economic downturns.

The problem of information asymmetry in lending was analyzed by Stiglitz and Weiss (1981), who demonstrated that insufficient information about borrowers may lead to adverse selection and increased credit risk. This finding supports the necessity of developing comprehensive credit evaluation and monitoring systems.

International banking standards also emphasize the importance of diversification. The Basel Committee on Banking Supervision (2019) recommends that banks establish effective frameworks for identifying, measuring, monitoring, and controlling credit concentration risks.

Although numerous international studies have examined credit diversification and risk management, research focusing on the structure and diversification of credit portfolios in the banking sector of Uzbekistan remains limited. Therefore, this study contributes to the existing literature by analyzing the current composition of the Uzbek banking credit portfolio and identifying directions for improving diversification and reducing concentration risks.

Methodology

This study employs a qualitative and quantitative approach to examine the level of credit portfolio diversification and the effectiveness of credit risk management in commercial banks. The research is based on statistical data provided by the Central Bank of the Republic of Uzbekistan, annual reports of commercial banks, international banking standards, and scientific studies related to credit risk and portfolio management.

The analysis applies several research methods, including comparative analysis, dynamic analysis, structural analysis, and statistical evaluation. Comparative analysis is used to identify changes in the structure of credit portfolios across different periods, while structural analysis is applied to assess the distribution of loans among economic sectors and borrower categories. Dynamic analysis allows the identification of trends in credit portfolio growth and changes in the composition of lending activities. The study evaluates the level of credit portfolio diversification by analyzing the proportion of loans allocated to different economic sectors and borrower groups. Particular attention is paid to the concentration of credit exposure, the balance between corporate and retail lending, and the potential impact of portfolio structure on credit risk management.
The methodological approach makes it possible to identify the current tendencies in the development of the Uzbek banking sector and to formulate practical recommendations for improving credit portfolio quality and reducing concentration risks.

Results and Discussion
The development of an effective credit portfolio structure is one of the key factors determining the financial stability and sustainable performance of commercial banks. The expansion of lending activities requires banks not only to increase the volume of loans but also to ensure a balanced allocation of credit resources across different borrower categories, economic sectors, and financial products. An excessively concentrated credit portfolio increases banks' exposure to sector-specific and borrower-specific risks, which may lead to a deterioration in asset quality and an increase in non-performing loans. Therefore, analyzing the composition and diversification level of the credit portfolio is essential for assessing the effectiveness of credit risk management.
The banking sector of Uzbekistan has experienced significant changes in the structure of its credit portfolio in recent years due to the expansion of retail lending, the development of financing opportunities for different sectors of the economy, and the transformation of banking services. In this regard, an assessment of the credit portfolio by borrower categories and economic sectors provides an opportunity to identify existing concentration risks and evaluate the current level of portfolio diversification. The following tables present the dynamics and structural characteristics of the credit portfolio of commercial banks in Uzbekistan.

Table 1 Structure of the Credit Portfolio of Commercial Banks by Borrower Categories (billion UZS)[1]

Indicators	01.01.2026	01.05.2026	Change (%)
Total loans	604 002	628 999	4,1
Loans to individuals	220 283	230 776	4,8
Mortgage loans	79 396	83 869	5,6
Microloans	48 863	50 099	2,5
Microcredits	40 474	44 361	9,6
Auto loans	39 696	39 659	-0,1
Education loans	6 932	6 924	-0,1
Consumer loans	492	515	4,7
Other loans	4 430	5 348	20,7
Loans to legal entities	383 720	398 224	3,8
Corporate loans	359 777	373 218	3,7
Leasing and factoring	3 842	4 366	13,6
Interbank loans	653	848	29,9
Microcredits to legal entities	14 680	15 353	4,6
Syndicated loans	4 768	4 438	-6,9

[1] Prepared by the author based on the data of the Central Bank of the Republic of Uzbekistan.

The analysis of Table 1 shows that the total credit portfolio of the Uzbek banking sector increased by 4,1% during the first four months of 2026, reaching 629 trillion UZS. The largest share of the credit portfolio remains concentrated in loans issued to legal entities, which account for more than 63% of total lending. This indicates the significant role of commercial banks in financing corporate activities and supporting economic development.

At the same time, loans to individuals increased by 4.8%, reaching 230,8 trillion UZS. The growth of mortgage loans and microcredits demonstrates the expansion of retail lending, which contributes to a broader distribution of credit exposure among a larger number of borrowers and supports the diversification of the credit portfolio.

Table 2 Distribution of Commercial Bank Loans by Economic Sectors[2]

Economic sectors	**01.05.2025 (billion UZS)**	**Share (%)**	**01.05.2026 (billion UZS)**	**Share (%)**	**Change (%)**
Total loans	565 568	100	628 999	100	11
Industry	159 602	28	137 486	22	-14
Agriculture	56 123	10	65 368	10	16
Construction	14 484	3	20 792	3	44
Trade and services	39 465	7	47 359	8	20
Transport and communication	33 488	6	33 842	5	1
Material supply and trade	3 679	0,7	4 531	0,7	23
Housing and communal services	2 064	0,4	1 881	0,3	-9
Individuals	190 409	34	230 776	37	21
Other sectors	66 255	12	86 966	14	31

The sectoral analysis of the credit portfolio demonstrates a gradual improvement in diversification. The share of industrial loans decreased from 28% to 22%, reducing concentration risk associated with a single economic sector. At the same time, lending to agriculture, trade and services, construction, and other sectors increased.

The most significant growth was observed in construction loans, which increased by 44%, followed by the “other sectors” category with 31% growth. Although these trends indicate a more balanced allocation of credit resources, rapid growth in individual sectors requires continuous monitoring to prevent the emergence of new concentration risks.

Retail lending also expanded significantly, with loans to individuals increasing by 21% and their share rising from 34% to 37%. A larger proportion of retail lending allows banks to distribute credit risk among a wider borrower base and reduces excessive dependence on large corporate clients.

Overall, the results show that the Uzbek banking sector has made progress in improving credit portfolio diversification. However, a considerable proportion of loans remains concentrated in several major sectors and borrower categories. Therefore, commercial banks should continue to develop diversification strategies, regularly monitor sectoral concentration, and maintain a balanced structure of their credit portfolios.

Conclusion

This study examined the issues of credit portfolio diversification and credit risk management in commercial banks based on the experience of the Uzbek banking sector. The analysis revealed that the continuous growth of lending activities has increased the importance of maintaining an optimal credit portfolio structure and preventing excessive concentration of credit risks.

[2] Prepared by the author based on the data of the Central Bank of the Republic of Uzbekistan.

The findings demonstrate that credit portfolio diversification plays a crucial role in improving the quality and sustainability of banking operations. The reduction in the share of industrial loans and the expansion of lending to other economic sectors and individual borrowers indicate positive structural changes in the composition of the credit portfolio.

However, the study also found that concentration risks remain due to the significant share of lending allocated to certain sectors and borrower groups. Therefore, commercial banks should strengthen their portfolio management practices by maintaining a balanced distribution of loans across economic sectors, borrower categories, and financial products.

In order to improve credit risk management, commercial banks should enhance sectoral concentration monitoring, expand lending to small and medium-sized enterprises, improve the balance between corporate and retail lending, and continuously evaluate the quality of their credit portfolios. The implementation of these measures will contribute to reducing potential credit losses, strengthening financial stability, and ensuring sustainable development of the banking sector.

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