

THE CONCEPT AND WAYS OF EFFECTIVELY MANAGING THE LOAN PORTFOLIO OF COMMERCIAL BANKS

Fattakhova Munisa Abdukhamitovna

"Banking" Dpt., Senior Lecturer, Tashkent Institute of Finance

ABSTRACT

The article presents the essence of the concept of a bank loan portfolio, the problems of managing the loan portfolio of commercial banks, their composition, the importance of diversifying the loan portfolio, proposals aimed at improving the formation of a bank loan portfolio and its management. An analysis is given of the views of scientists regarding the concept of a loan portfolio and its management. The tasks necessary for effective management of the loan portfolio are outlined and problems that impede this process are identified.

Keywords: loan portfolio management, credit risks, loan portfolio diversification, problems, loan portfolio

INTRODUCTION

In the context of further deepening economic reforms and liberalization of the banking system, credit operations play an important role. As a result of the low level of financial popularity due to the orientation of bank business models towards serving corporate clients, the slow development of non-bank financial institutions, innovation and information systems, loans allocated to individuals and corporate clients in other countries are presented in the same amount, while loans issued individuals in our country make up 19% of the total loan portfolio, and loans to corporate clients make up 81%. Therefore, ensuring the stability of lending growth and improving the quality of the loan portfolio is defined as one of the priorities for reforming the banking system of the Republic of Uzbekistan.

Commercial banks offer various types of loans to customers. They do not differ from each other not only in terms of lending, term and purpose of the loan, but are formed under the influence of government macroeconomic policy, the mission of an individual bank, credit policy strategy, and diversification of the asset portfolio., risk management policy and other factors. Therefore, effective management of the loan portfolio in commercial banks is one of the important issues of their functioning.

METHODOLOGY

When choosing a research methodology, it is very important that it is chosen correctly, since research methodology always plays a key role in any research. An incorrectly chosen research methodology can harm the entire work and slow down the research process. When choosing a methodology, we are guided by three key aspects: what is the most rational choice for our research, what methods we intend to use in collecting data, and what practical questions we need to answer.

The study used methods at the empirical and theoretical level, namely methods of study and generalization, analysis and synthesis, and observation. Data were collected from other published studies related to the research topic.

LITERATURE REVIEW

In the economic literature there is no unambiguous interpretation of the concept of “loan portfolio”. For example, O.I. Lavrushin considers the loan portfolio at two levels: categorical and applied. At the first level, the loan portfolio refers to the relationship between the bank and its counterparties in terms of profitability, which is manifested in the rights to receive a loan. At the second level, the loan portfolio is presented as a set of banking assets in the form of loans, discounted bills, interbank loans, deposits and other credit rights, classified into quality groups based on certain criteria. According to A. Tavasiev, formally, a loan portfolio is a series of loans provided to him at a certain point in time. However, if we consider loans as a set structured according to certain criteria, then the author defines the loan portfolio as a characteristic of the quality of loans issued and the overall lending activity of the bank. Korobova G.G. defines: “The loan portfolio is the result of the bank’s activities in providing loans, which includes the totality of all loans issued by the bank for a certain period of time.” In her study, Larionova L.V. Lavrushin O.I., Valentseva N.I. considered credit risk to be the only criterion for the structure of the loan portfolio., Sobirov M.Z. There are three main criteria: risk (credit risk), profitability and liquidity.

RESULTS

“Loan portfolio” is one of the factors showing the lending capabilities of commercial banks. The parameters and composition of the loan portfolio are very dynamic, constantly adjusted depending on changes in the bank’s development strategy, the size of its own capital, the structure of funds attracted by the bank, the economic situation in the country and region, the size of the client base, and the credit preferences of borrowers. All of these factors influence the level of credit risk of a commercial bank. Therefore, in order for management at the stage of forming a loan portfolio with a high level of quality to be effective, it is necessary to know the causes of credit risk.

Loan portfolio management is a series of activities performed by a commercial bank whose primary purpose is to minimize credit risk as the bank originates, manages, and closes loans. Managing the loan portfolio of each bank is an individual process that depends on the chosen strategy and tactics of the credit policy.

Proper organization of the loan portfolio is the basis for the effective operation of commercial banks. In particular, these include the provision of credit and its repayment within a certain period, associated risks, loans, transactions for the settlement of overdue or extended loans, recovery of loan losses, reserve fund, interbank credit and centralized credit transactions.

So, the loan portfolio is the sum of the bank's claims among loans classified according to certain criteria based on various risks. When managing a loan portfolio, the main tasks for minimizing risks may be the following:

- identify and evaluate factors influencing the level of credit risk;
- classification of loans by risk groups;
- approval of the loan portfolio in terms of credit risk, client mix and loan composition;
- determine the level of creditworthiness of the borrower and the possibility of changing its financial position in order to predict credit risk;
- preliminary identification of problem loans;

- assessment of the sufficiency of created reserves and their timely provision;
- diversification of loans, ensuring their liquidity and profitability;
- development of the bank's credit policy and its management based on a qualitative analysis of the loan portfolio.

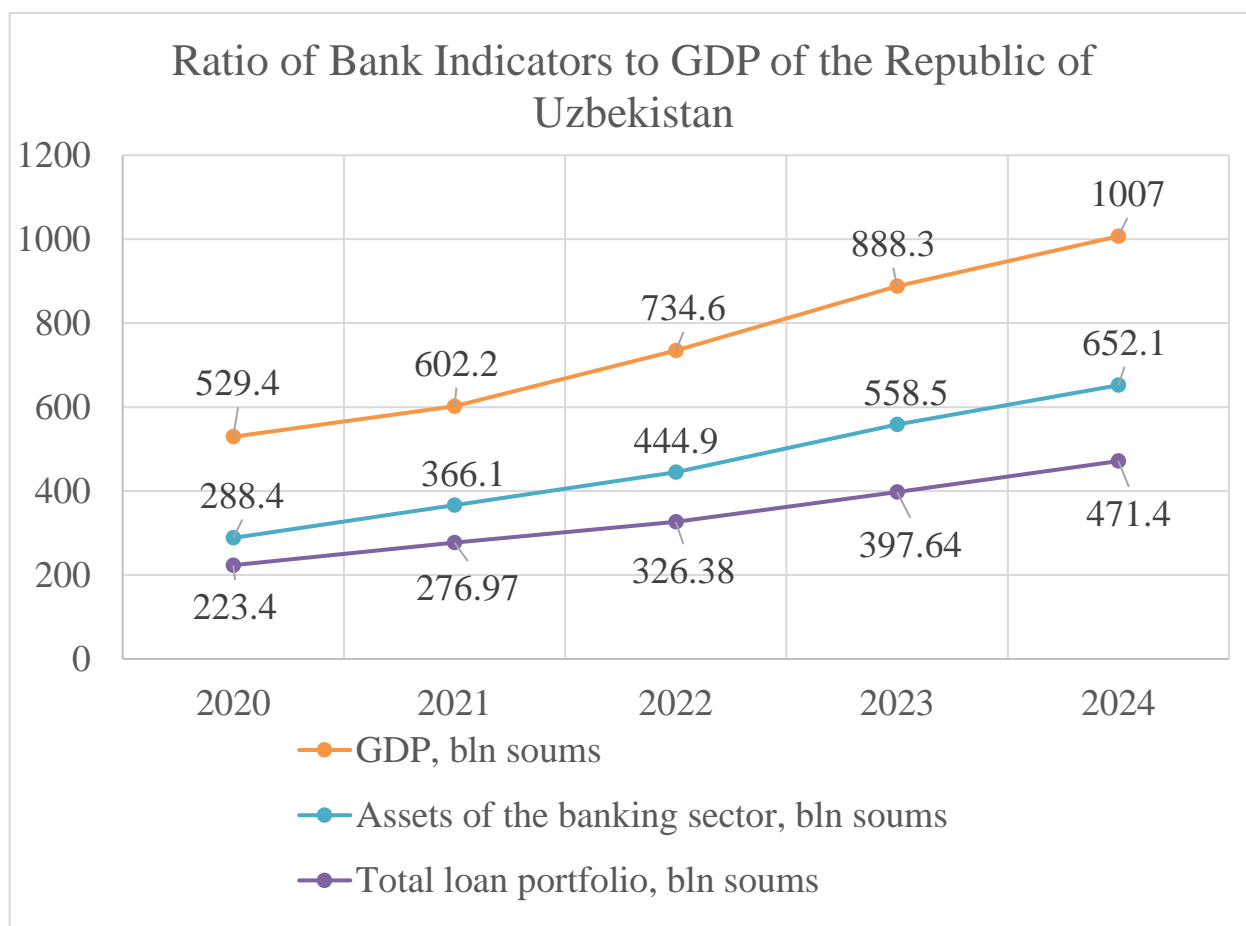
Compliance with the above when managing the loan portfolio of commercial banks will increase the efficiency of the bank's lending activities, and, in turn, the bank's profit will increase.

The study of banking assets and their weight in GDP is important for assessing the role of lending activities of commercial banks.

Table 1 The role of commercial bank lending in the country's GDP

Indicators	2020	2021	2022	2023	beginning 2024
GDP (billion soums)	529 391,40	602 193,0	734 587,7	888 341,7	1066 569,0
Total assets of banks (billion soums)	272 726,9	366 121,1	444 922, 0	558 494,0	652 387, 0
Assets to GDP ratio (%)	51,5	60,7	60,57	62,8	62,28
Total loan portfolio (billion soums)	211 580,5	276 975	326 386	391 109,0	469 600,0
Loan portfolio to GDP ratio (%)	39,9	45,9	44,4	44,1	44,9

Graphically, it will be shown like below



From the data presented in the table above, it is clear that in 2020 to date, the gross domestic product of the Republic of Uzbekistan and the volume of loans from commercial banks have tended to increase. The amount of loans directed to the real sector of the economy as of February 1, 2024 is 469,600.0 billion soums, the ratio of loans to GDP was 43.9 percent. The amount of loans issued as of January 1, 2020 is 211,580.5 billion soums; over three years, the total loan portfolio has increased almost twice.

Analysis of the above data allows us to draw conclusions that, in fact, economic development in our republic is growing, the demand for money and the level of credit provision are increasing. In the “Development Strategy of New Uzbekistan for 2022-2026,” President Sh.M. Mirziyoyev also outlined “practical measures to maintain high rates of economic growth and ensure macroeconomic stability.” On the other hand, a further increase in the creditworthiness of commercial banks depends on the quality of the loan portfolio. This requires banks to improve the efficiency of loan portfolio management.

When managing the loan portfolio of commercial banks, it is necessary to pay special attention to its sectoral nature and diversification. Because this feature is considered the main criterion for diversifying a loan portfolio. From this point of view, in the following analysis we will pay special attention to the sectoral nature of the loan portfolio of commercial banks.

From the data in table. 2 shows that as of January 1, 2023, loans allocated to industry occupy a leading place in the total loan portfolio, and the share in the total loan portfolio of bankers is 32.5%. From the data in table. 2 shows that in 2023, commercial banks issued loans in the amount of 251,401.5 billion soums, of which loans allocated to individuals occupy a leading place in the total loan portfolio - 100,234.8 billion soums, and the share in the total loan portfolio bankers make up 39.8%.

Table 2 Loans provided by commercial banks (by industry)

Indicators	01.01.2022		01.01.2023		percentage changes
	billion sum	percentage share	billion sum	percentage share	
Total loan	326 386	100%	390 049	100%	19,5%
Industry	117 639	36,0%	126 647	32,5%	7,7%
Agriculture	35,022	10.7%	42,096	10.8%	20.2%
Construction industry	9,282	2.8%	10,400	2.7%	12.0%
Trade and service	27 406	8.4%	28 911	7.4%	5.5%
Transport and communication	28 708	8.8%	29 673	7.6%	3.4%
Material and technical supply development	3 814	1.2%	3 856	1.0%	1.1%
Communal housing service	2 284	0.7%	1 888	0.5%	-17.3%
Physical persons	69 496	21,3%	100 949	25,9%	45,3%
Other loans	32 734	10,0%	45 630	11,7%	39,4%

From the data in Table 2, we can see that January 1, 2023 loans allocated to the industrial sector in the aggregate loan portfolio taking the leading place in their total bank loans its share is 32.5%; loans to individuals weight - 25.9%; other sectors - 11.7%; agriculture – 10.8%;

trade and general service, transport and communication, construction industry, material and development of technical support, housing and communal services the share of loans allocated to branches is 19.2% in total. As of January 1, 2022, which is the beginning of the current year and the volume of credit investments allocated to economic sectors increased in all sectors except housing and communal services.

DISCUSSION

In our opinion, it is advisable to analyze the problems that directly and indirectly affect the process of formation and management of the loan portfolio, divided into three groups:

- the problems of the first group include problems of the macroeconomic environment that directly affect the practical activities of commercial banks and the directions of strategic development;
- problems of the second group concern the methodological basis for identifying, monitoring and managing global credit risks;
- problems of the third group cover risks associated with managing the loan portfolio and ensuring its quality.

This grouping of tasks is especially important when conducting research and systematizing its results. On the other hand, the nature and sources of loans collected in the loan portfolio, as well as analytical data in the process of working with low-quality loans constitute a banking secret, which does not make it possible to solve problems in the loan portfolio. this field.

The problems of the first group include the following:

- negative trends observed in the global economic environment. The negative situation observed in the economies of developed countries has a negative impact on global stability and underlies the emergence of many risks.
- increased competition in the financial services market. This problem is explained by the arrival of new participants in the banking services market of our country, in particular foreign banks, and their use of new and improved management methods.

The problems of the second group include the fact that a methodological basis for monitoring systemic risks, forecasting and developing a protective “buffer” for commercial banks has not been formed.

The problems of the third group directly include problems of regional policy of commercial banks.

Several methods can be used to effectively manage a bank's loan portfolio. Diversification of the loan portfolio means that the bank distributes its credit resources among a large number of clients in a small amount in order to compensate for the losses incurred by the bank from some clients at the expense of income received from other clients.

Diversification can be carried out in three different directions. These are types of diversification carried out by portfolio, geography and loan maturity. Diversification of a bank's loan portfolio involves distributing the bank's loans among several clients in different sectors. An undiversified banking portfolio is always associated with high risk. Therefore, diversification of bank assets, including loans, plays an important role in banking activities.

CONCLUSION

In conclusion, it should be said that, in our opinion, shortcomings in the conduct of credit operations can lead to a decrease in bank income, and in some cases to their bankruptcy. Therefore, control of the banks' loan portfolio and its quality is the key to the effective operation of commercial banks. To properly organize the loan portfolio and increase its efficiency, it is advisable to take into account the following factors:

Level of credit risk:

- Length of use of the loan;
- Extension of loan repayment period;
- Loan amount and collateral;
- Financial situation of the client, the form of his property;
- Inflation rate.

Careful study of these factors and appropriate actions allow commercial banks to effectively manage their loan portfolio. At the same time, when managing the bank's loan portfolio, predict trends in the development of the republic's economy, determine their impact on the state of the bank's loan portfolio, plan and forecast the size of the bank's loan portfolio, the amount and income of the bank's loan, the structure and quality of the loan portfolio, as well as determine procedures for its management in order to improve the quality of the loan portfolio. in order to ensure prompt decision-making, improve lending practices taking into account the characteristics of the network of credited entities, the widespread use of leasing operations, diversification of the loan portfolio of banks due to a wider distribution of the loan portfolio across economic networks. The use of such measures creates the basis for improving the quality of the loan portfolio of the banking system.

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