



## **WAYS TO IMPROVE THE EFFICIENCY OF USING FOREIGN CREDIT LINES THROUGH COMMERCIAL BANKS**

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<b>Article history:</b>	<b>Abstract:</b>
<b>Received:</b> 28 <sup>th</sup> February 2026 <b>Accepted:</b> 26 <sup>th</sup> March 2026	<p>This article analyzes the efficiency of foreign credit line utilization through commercial banks and explores the economic mechanisms for its improvement. The study examines the role of commercial banks as financial intermediaries in channeling external financial resources into key sectors of the economy. Particular attention is given to factors affecting efficiency, including credit portfolio quality, project selection, risk management, and monitoring systems.</p> <p>The research also evaluates the current practices of commercial banks in Uzbekistan and provides a comparative analysis based on international experience. The findings indicate that the effective use of foreign credit lines depends on strategic allocation, strong institutional capacity, and well-developed risk management frameworks. The article concludes with practical recommendations aimed at enhancing the efficiency of foreign credit utilization through commercial banks.</p>

**Keywords:** Foreign credit lines, commercial banks, economic efficiency, credit portfolio, risk management, financial intermediation, investment financing, Uzbekistan economy, banking system.

**INTRODUCTION.** In the modern economy, commercial banks act as important intermediaries in attracting financial resources and effectively directing them to sectors of the economy. In particular, foreign credit lines are an additional financial source for banks, through which they expand the opportunities for financing investment projects, supporting small businesses and private entrepreneurship, and stimulating economic growth.

In recent years, the volume of attracting foreign credit lines through commercial banks in Uzbekistan has been increasing. This imposes on the banking system such important tasks as the effective use of these resources, their direction to priority areas of the economy, and improving the quality of the loan portfolio. At the same time, in practice, some problems are observed in the use of foreign credit lines - inefficient placement of credit funds, shortcomings in project selection, and insufficient development of the risk assessment system. In these conditions, increasing the efficiency of using foreign credit lines through commercial banks, improving the economic mechanisms of their management, and ensuring the economic return on credit resources are one of the urgent scientific and practical issues. The relevance of this issue is directly related to the stability of the banking system, increasing investment activity and strengthening the competitiveness of the national economy [1].

The main purpose of this article is to study ways to increase the efficiency of using foreign credit lines through commercial banks, analyze existing problems

and develop scientifically based proposals and recommendations for their elimination. For this purpose, the article provides a detailed analysis of the economic essence of foreign credit lines, their role in banking activities, criteria for assessing efficiency and mechanisms for its improvement.

**LITERATURE REVIEW ON THE TOPIC.** The issue of increasing the efficiency of commercial banks' use of foreign credit lines has been widely studied by many foreign and domestic economists.

Foreign scholars Frederic S. Mishkin, analyzing the intermediary role of the banking system in the economy, emphasizes that the effective distribution of financial resources is carried out precisely through banks. In his opinion, the efficiency of credit resources is directly dependent on the risk management and lending policies of banks [2]. In our opinion, this approach indicates the need for a thorough analysis of risks and a sound credit policy when using foreign credit lines in commercial banks.

Asli Demirgüç-Kunt's research studies the impact of financing through banks on economic growth and indicates that the development of financial institutions is an important factor for the effective use of credit lines [3]. In our opinion, this means that the institutional development of the banking system is a key condition for increasing the efficiency of using foreign loans.

Ross Levine substantiates the relationship between financial development and economic growth, emphasizing that bank loans are one of the main factors



in the development of the real sector [4]. In our opinion, when foreign credit lines are directed specifically to the real sector, their economic effectiveness is higher.

Allen N. Berger shows the importance of improving the quality of credit portfolio management and financial intermediation in increasing bank efficiency [5]. In our opinion, the quality of the credit portfolio is one of the main criteria for using foreign credit lines in commercial banks.

Thorsten Beck, analyzing the relationship between the financial system and economic development, justifies the need for institutional reforms for the effective use of credit resources [6]. In our opinion, reforms in the banking system serve to increase the effectiveness of foreign credit lines.

Local scholars Bakhodir Khodiev emphasizes the importance of effectively directing investment resources to the economy through the banking system [7]. In our opinion, commercial banks make a significant contribution to economic growth by directing foreign credit lines to priority sectors.

Nodir Jumayev, analyzing the role of banks in financing investment projects, points to the need to improve the system of project selection and evaluation [8]. In our opinion, it is important to strengthen the criteria for selecting projects in order to increase the efficiency of using foreign loans.

Shukhrat Elmirezayev notes that the development of a risk management system in banks is an important factor in ensuring financial stability [9]. In our opinion, effective risk management when using foreign credit lines ensures their return and stability.

The above scientific views show that the efficiency of commercial banks in using foreign credit lines is a multifactorial process, which directly depends on the level of development of the banking system, institutional environment, credit policy and risk management. While foreign scholars have mainly focused on the issues of financial intermediation, the impact of credit resources on economic growth and bank efficiency, local researchers have analyzed the practical aspects of this process, in particular, the mechanisms for distributing and managing credit

resources through banks in the conditions of Uzbekistan.

**RESEARCH METHODOLOGY.** In preparing this article, a comparative and critical analysis of the legal documents, the literature and Internet information used, and the scientific and theoretical views of economists on the topic were carried out. In the course of studying the topic, along with general economic methods, systematic analysis, generalization, abstract-logical thinking, and statistical methods were used.

**ANALYSIS AND DISCUSSION OF RESULTS.**

Commercial banks act as the main financial intermediaries of the economy in the modern financial system. Through them, temporarily free funds are accumulated and redistributed to various sectors of the economy. In this regard, foreign credit lines are an important source of financial resources for commercial banks.

Foreign credit lines are usually allocated to commercial banks by international financial institutions, foreign banks or governments for specific purposes. These loans are often long-term, low-interest and on preferential terms. This allows banks to finance long-term investment projects.

Analysis shows that foreign credit lines play an important role in the activities of commercial banks in three main areas:

- expanding the loan portfolio;
- financing investment projects;
- supporting small businesses and private entrepreneurship.

Especially in developing economies, where domestic financial resources are scarce, foreign credit lines are one of the main sources of economic growth. At the same time, the effectiveness of using these loans directly depends not only on their size, but also on the system of their management, guidance and control.

The effectiveness of using foreign credit lines in commercial banks is assessed on the basis of a multi-indicator system. In this process, financial, economic and risk indicators play an important role.

**Table 1**  
**Key Indicators for Evaluating the Efficiency of Foreign Credit Line Utilization [10]**

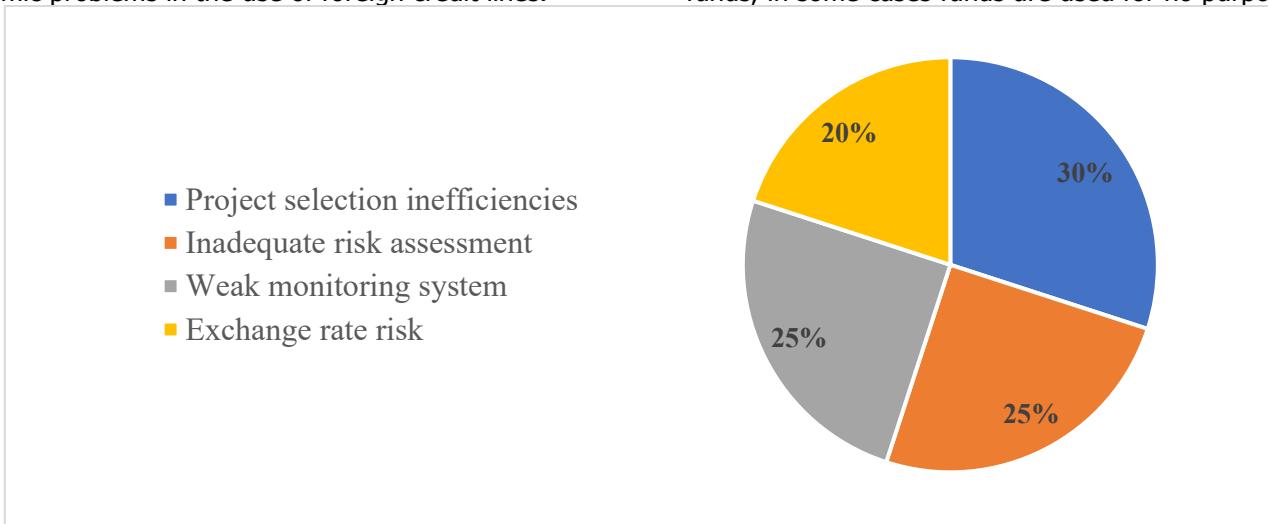
<b>Indicator</b>	<b>Description</b>	<b>Analytical Significance</b>
Credit Portfolio Quality	Share of performing loans in total portfolio	Reflects financial stability of the bank
ROA (Return on Assets)	Profitability relative to total assets	Measures overall efficiency of asset utilization



ROE (Return on Equity)	Profitability relative to shareholders' equity	Indicates investment attractiveness
NPL Ratio	Share of non-performing loans	Reflects the level of credit risk
Liquidity Ratio	Ability to meet short-term obligations	Indicates financial soundness

Through these indicators, banks can comprehensively assess the effectiveness of using foreign loans. In particular, if the quality of the loan portfolio is high, this means that the rate of return on loans is high. ROA and ROE indicators reflect the profitability of the bank's activities. If foreign credit lines are effectively directed, these indicators will increase. Otherwise, loans may become a burden for the bank. Practical analysis shows that there are a number of systemic problems in the use of foreign credit lines.

First, there are shortcomings in the selection of projects. In some cases, loan funds are directed to projects with low economic efficiency. This negatively affects the rate of return on loans. Second, the risk assessment system is not sufficiently developed. In particular, currency risks, credit risks and interest rate risks are not fully taken into account. Third, the monitoring system is poorly developed. Due to the lack of constant control over the use of loan funds, in some cases funds are used for no purpose.



**Figure1. Structure of Key Problems in the Use of Foreign Credit Lines [10]**

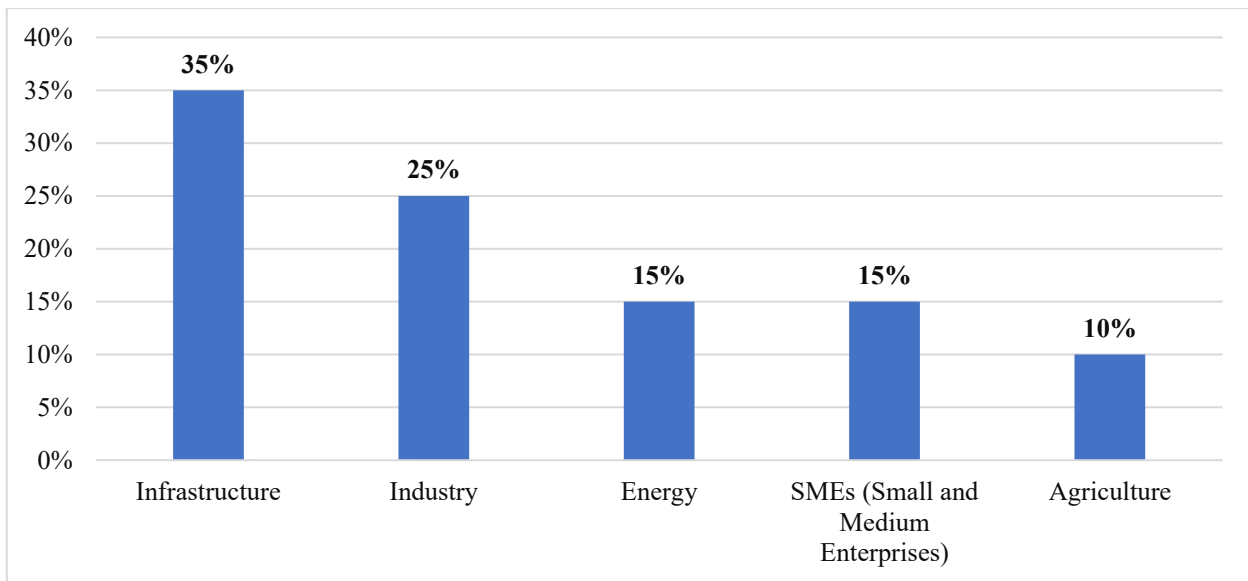
The data presented in Figure 1 highlight the main challenges associated with the utilization of foreign credit lines in commercial banks. The largest share (30 percent) is attributed to project selection inefficiencies. This indicates that a significant portion of credit resources may be allocated to projects with low economic returns or insufficient financial viability. Poor project evaluation reduces the overall effectiveness of foreign credit utilization and increases the likelihood of repayment issues. Inadequate risk assessment and weak monitoring systems each account for 25 percent of the identified problems. This suggests that banks face substantial challenges in properly evaluating and managing risks associated with foreign credit lines. Insufficient risk analysis may lead to underestimation of potential

losses, while weak monitoring systems can result in misuse or inefficient use of borrowed funds. Exchange rate risk represents 20 percent of the total, reflecting the vulnerability of foreign currency-denominated loans to fluctuations in exchange rates. Since foreign credit lines are typically provided in foreign currencies, depreciation of the national currency can increase the repayment burden for borrowers and negatively affect the financial stability of banks. Overall, the diagram indicates that the efficiency of foreign credit line utilization is constrained not only by financial factors but also by managerial and institutional weaknesses. Addressing these issues requires improvements in project evaluation methodologies, risk management frameworks, and monitoring systems within commercial banks. In recent years, the volume of foreign credit lines channeled through commercial banks in Uzbekistan has



increased significantly. This trend reflects the growing role of the banking sector in mobilizing external financial resources and directing them toward priority areas of the economy. The expansion of foreign borrowing has enabled banks to enhance their lending capacity, support investment activity, and contribute to overall economic development.

Foreign credit resources are primarily allocated to key sectors that have a high impact on economic growth and structural transformation. These sectors include infrastructure, industry, energy, and small and medium-sized enterprises (SMEs). Such prioritization indicates a strategic approach to the use of external financial resources through the banking system.



**Figure 2. Sectoral Distribution of Foreign Credit Allocation [10]**

The sectoral distribution presented in Figure 2 demonstrates a clear concentration of foreign credit resources in infrastructure and industrial sectors. Infrastructure, accounting for 35 percent of total allocation, represents the largest share. This reflects the emphasis on developing transport networks, logistics systems, and communication infrastructure, which are essential for enhancing overall economic efficiency and connectivity. Investments in infrastructure typically generate strong multiplier effects, stimulating growth across multiple sectors.

The industrial sector, with a 25 percent share, represents the second-largest recipient of foreign credit resources. This allocation supports modernization of production facilities, technological upgrades, and expansion of manufacturing capacity. As a result, it contributes to increased productivity, higher value-added output, and improved export performance.

The energy sector and SMEs each account for 15 percent of total credit allocation. Financing directed toward the energy sector plays a crucial role in ensuring stable and reliable power supply, which is fundamental for both industrial activity and overall economic stability. Meanwhile, credit support for SMEs fosters entrepreneurship, job creation, and economic

diversification, thereby strengthening the resilience of the economy.

Agriculture receives a relatively smaller share of 10 percent, indicating a lower level of reliance on foreign credit in this sector compared to others. While agriculture remains important for food security and rural development, the current allocation suggests that priority is given to more capital-intensive and high-return sectors.

Overall, the distribution pattern highlights a strategic orientation toward sectors that generate long-term economic benefits and structural transformation. However, a more balanced allocation across sectors could further enhance inclusive growth and ensure sustainable development in both urban and rural areas. A comparative assessment of international practices demonstrates that the efficiency of foreign credit line utilization largely depends on the institutional framework, strategic orientation, and the role of commercial banks in the allocation process [11]. Different countries have adopted distinct models of managing foreign credit resources, which have led to varying economic outcomes.

In the case of South Korea, foreign credit lines were primarily directed toward export-oriented industrial



sectors through a highly coordinated state–bank partnership [11]. Commercial banks played a key role in channeling funds into strategic industries such as manufacturing and technology. As a result, the country achieved rapid industrialization and sustained economic growth. This model highlights the importance of aligning foreign credit allocation with long-term national development strategies.

In China, foreign credit resources have been extensively utilized for large-scale infrastructure and energy projects [12]. The banking sector, supported by strong government policies, ensured that these funds were directed toward projects with high economic spillover effects. This approach contributed to the development of a robust infrastructure base, which in turn facilitated industrial expansion and regional integration.

The experience of Turkey demonstrates the significance of financial intermediation. In Turkey, commercial banks serve as the primary channel for distributing

foreign credit lines to the private sector [13]. Emphasis is placed on supporting small and medium-sized enterprises (SMEs), which has led to increased business activity and diversification of the economy. This model underscores the importance of strengthening the banking system’s capacity to evaluate and monitor credit allocation.

Similarly, Poland has effectively utilized foreign credit and financial assistance from international institutions to support SMEs and regional development [14]. The integration of credit lines with grants and subsidies has enhanced their effectiveness, leading to improved competitiveness and economic resilience.

In the case of Uzbekistan, foreign credit lines are actively used through the banking system, particularly with the support of international financial institutions [15]. However, certain inefficiencies remain in project selection, risk management, and monitoring processes.

**Table 2**  
**International Models of Foreign Credit Line Utilization [10]**

Country	Key Approach	Role of Banks	Outcome
South Korea	Strategic industrial targeting	Active allocation to priority sectors	Rapid economic growth
China	Infrastructure-focused investment	State-supported banking system	Sustainable development
Turkey	SME financing through banks	Strong financial intermediation	Private sector growth
Poland	Integrated financial support (loans + grants)	Efficient allocation and monitoring	Economic diversification
Uzbekistan	Mixed model	Developing intermediation role	Moderate growth, existing inefficiencies

The comparative analysis reveals several important insights. First, successful countries demonstrate a clear strategic focus in allocating foreign credit resources. Whether through industrial policy (South Korea) or infrastructure development (China), credit lines are aligned with long-term economic priorities.

Second, the role of commercial banks is critical in ensuring efficient utilization. In countries like Turkey and Poland, banks not only distribute credit but also perform rigorous project evaluation and monitoring functions. This reduces inefficiencies and enhances the overall effectiveness of credit utilization.

Third, institutional quality and policy coordination significantly influence outcomes. Countries with well-developed financial systems and strong regulatory frameworks are better able to manage foreign credit resources and minimize associated risks.

In comparison, Uzbekistan’s model reflects a transitional stage, where foreign credit lines are actively used but still face challenges related to project selection, risk management, and monitoring. Strengthening these aspects, along with enhancing the role of commercial banks, can improve the overall efficiency of foreign credit utilization.

Overall, international experience suggests that the most effective approach involves a combination of strategic allocation, strong financial intermediation, and robust institutional support.

The above analysis shows that the effectiveness of using foreign credit lines through commercial banks is a multifactorial and complex process, which directly depends not only on the volume of financial resources, but also on the quality of their management, mechanisms for directing them, and the institutional



environment. In particular, the targeting of credit resources to priority sectors, economically sound selection of projects, and the effective functioning of the monitoring system are the main factors determining overall effectiveness.

In general, the analysis shows the need for an integrated approach to increasing the effectiveness of using foreign credit lines. That is, high results can be achieved through the optimal allocation of economic resources, increasing the institutional capacity of the banking system, effective risk management, and strengthening control mechanisms.

**CONCLUSION AND SUGGESTIONS.** The results of this study show that the use of foreign credit lines through commercial banks is of great importance in accelerating investment processes, modernizing production and ensuring economic growth in the modern economy. Foreign financial resources are a long-term and relatively cheap source for banks, through which they expand the opportunities to support the real sector and develop priority areas of the economy. At the same time, it was found that the effectiveness of the use of these resources is directly related to the quality of their management, targeted orientation and economic return.

The analysis showed that the effectiveness of the use of foreign credit lines is determined, first of all, by the quality of the loan portfolio, the level of project selection, the development of risk management mechanisms and the effectiveness of the monitoring system. Although positive developments are observed in this direction in the practice of commercial banks of Uzbekistan, some systemic problems are identified - in particular, imbalances in the distribution of credit funds, shortcomings in risk assessment and insufficient development of control mechanisms.

The experience of foreign countries confirms that in order to use foreign credit lines with high efficiency, it is necessary to direct them to strategic priority sectors, strengthen the intermediary role of commercial banks, and finance projects based on a thorough economic analysis. In particular, in the experience of developed countries, the targeting of credit resources to specific economic goals and control through a strict monitoring system have led to high results.

On this basis, the following proposals can be put forward to increase the efficiency of using foreign credit lines through commercial banks. First of all, it is necessary to direct credit funds to sectors of the economy that create high added value and increase export potential. This will increase the economic return

on the resources involved, as well as ensure effective management of the external debt burden.

It is also important to improve the system for selecting and evaluating investment projects. Each project should be thoroughly analyzed based on financial and economic indicators - internal rate of return, net present value, and payback period. This will prevent the allocation of credit funds to ineffective projects and increase the profitability of banks.

In addition, it is necessary to further develop the risk management system in commercial banks. In particular, the financial stability of banks can be strengthened by reducing currency risks, diversifying the loan portfolio, and using modern financial instruments. This will help minimize the negative factors that arise when using foreign credit lines.

Another important area is the need to strengthen the monitoring and control system over the use of credit funds. The introduction of a system for monitoring projects in real time, assessing their level of implementation and effectiveness based on modern digital technologies will ensure the targeted use of funds and increase efficiency.

In conclusion, increasing the efficiency of using foreign credit lines through commercial banks requires a comprehensive and systematic approach. That is, the combination of strategic planning, effective management, a strong institutional environment, and modern control mechanisms is the main factor in achieving high economic results.

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