



SIGNS OF PROBLEM LOANS AND THEIR QUALITY MANAGEMENT

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Article history:	Abstract:
<p>Received: 26th November 2024 Accepted: 24th December 2024</p>	<p>The article examines the signs of problem loans and defines them. In the modern banking sector, their role in the development of the economy as a whole is revealed; The mechanism and methods for managing problem loans in the modern banking sector are considered. The article describes their importance in economics, explains their functions and presents their features.</p>
<p>Keywords: "Problem" loan, loan portfolio, loan repayment, loan portfolio, financial consulting, NPL, debt increase, legal measures.</p>	

INTRODUCTION

Credit management is one of the most important aspects of banking. Not only the success of resolving a particular conflict situation, but also the stability and reputation of the bank itself depends on the correct choice of the method of working with loans and with "problem" loans.

In the context of the development of the digital economy in the republic, a number of systemic economic reforms are being carried out aimed at forming a modern financial and banking system that meets the requirements of international standards. The role of the banking system in the formation of the Republic of Uzbekistan as a democratic state and the transition to the status of developed countries can hardly be overestimated.

Resolutions of the President of the Republic of Uzbekistan. According to the Decree of the President of Uzbekistan dated May 12, 2020 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025",¹ transformation processes are being carried out, which form a new atmosphere in the banking system, serve to develop all practical

measures in terms of customer orientation. introduction of modern market mechanisms, increasing the availability of banking services, etc.

A problem loan is a loan under which the borrower does not fulfill the terms of the loan agreement, or due to some circumstances (for example, external or financial) the fulfillment of obligations to the Bank and the repayment of the loan is jeopardized². By definition, it is clear that this is not a fulfilled loan, and this itself affects the loan portfolio. Loan portfolio is the balance of debt as of a certain date on all loans issued by the bank to both individuals and legal entities³.

BODY

The concept of "problem loan" plays a significant role in regulating the property of the loan portfolio. Statistical indicators when formulating the level of the loan portfolio are usually based on the share of "problem loans" in the total volume of the loan portfolio. If the share is high, then the quality of the loan portfolio is poor, and accordingly, if the share is low, then the quality is good.

Let's look at Table 1 for a more accurate definition of a "problem loan" in foreign countries and compare.

Table 1. Matched data on the concept of a problem loan⁴

Organization	Definition of problem loans
The Central Bank of the Russian Federation	Overdue and doubtful loan receivables, including promissory notes, interest payments, as well as overdue receivables on commissions due to the bank

¹ <https://lex.uz/ru/docs/4811037>

² <https://ab.kg/guarddog/laravel-filemanager/files/shares/rusproblemaporabotespriblemnymiz-aemwikami130917.pdf>

³ www.banki.ru

⁴ Materials of the International Scientific and Practical Conference

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Moscow, November 30, 2012

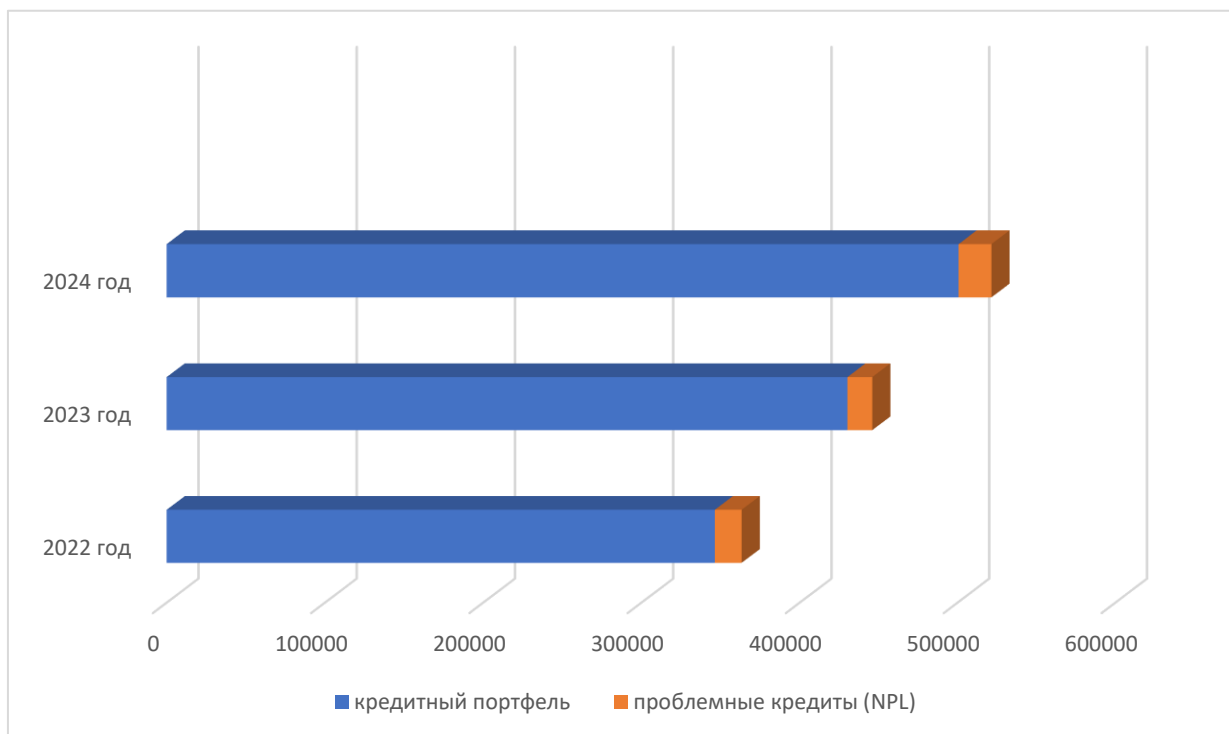


International Monetary Fund	An obligation, the full repayment of which is doubtful due to the inadequate financial condition of the debtor or the security for this obligation, and there is a delay in payment of the principal debt and (or) interest on it for more than 90 days.
US Federal Reserve System	A loan or loan that does not generate income, i.e. interest payments and/or interest payments that are more than 90 days overdue.
Basel Committee	A credit product for which there are significant violations of the terms of fulfillment of obligations to the bank, a significant deterioration in the financial condition of the debtor, as well as a deterioration in its quality or loss of collateral for it.

The table shows that there is no consensus on this issue. A clearer definition is provided by the International Monetary Fund and the US Federal Reserve System, since if the delay in principal or interest

financial condition, which makes it impossible to fulfill loan obligations.

3. **Increased debt:** If a borrower is unable to pay off a loan, they may start accumulating additional debt



is more than 90 days, then the loan is automatically classified as problematic.

Problem loans are loans for which the borrower does not fulfill its obligations in accordance with the contract. Such loans can greatly affect the financial condition of the bank and require careful management. The main features of problem loans include the following:

1. **Late payments:** One of the clearest signs of a problem loan is a late payment. Depending on the length of the delay, the loan can be classified as "overdue" or "bad."

2. **Absence or decrease in the borrower's solvency:** This can manifest itself in a decrease in income, dismissal, deterioration of the borrower's

in the form of fines and penalties, making it harder to repay the loan.

4. **Negative financial indicators of the borrower:** These can be negative values on accounts, high debt on other loans, deterioration of credit rating, etc.

5. **Legal problems:** Bankruptcy filings or lawsuits related to debt can indicate credit problems.

6. **Change in loan terms:** Restructuring negotiations or changes in loan terms may indicate that the borrower is experiencing difficulties.

In general, the problem is that it makes it difficult to meet financial obligations and can have negative consequences for both the borrower and the lender.



Problem loans in Uzbekistan, as in other countries, are loans on which borrowers do not fulfill their obligations. The situation with problem loans in Uzbekistan may have its own characteristics depending on the economic situation, the banking system and the legislation of the

Figure-1. Information on problem loans of commercial banks as of August 1, 2022 to August 1, 2024.⁵

From the figure, we can analyze that in 2022 the loan portfolio was 346,390 billion soums, and of which NPL 16,936 billion soums, which means 4.9%.

In 2023, the share of problem loans decreased to 3.7%.

In 2024, the loan portfolio grew and consisted of 500,644 billion soums, of which 20,820 billion soums are the share of problem loans, that is, 4.2%. It can be concluded that in 2024, the NPL decreased by 7%.

In the practice of banking, there are several options for managing problem loans. They include the following:

1. **Monitoring and analysis:** Regular monitoring of loan portfolios and analysis of borrowers' financial performance helps to identify potential problems at an early stage.

2. **Proactive engagement with borrowers:** Timely communication with struggling borrowers can help develop restructuring solutions or other measures to improve their financial health.

3. **Debt restructuring:** Changing the terms of a loan (extending terms, changing interest rates, changing the payment schedule) can help the borrower cope with temporary difficulties.

4. **Taking measures to collect debts:** In cases where restructuring is ineffective, harsher measures may be applied, such as collection through the court or referral of the case to collectors.

5. **Provisioning for possible losses:** Making provisions for outstanding loans helps banks minimize financial losses.

6. **Analysis and improvement of credit processes:** Continuous analysis and optimization of lending processes and borrower evaluation help to reduce the likelihood of problem loans in the future.

7. **Legal support:** If necessary, the involvement of legal specialists to resolve disputes or issues related to debt collection.

The management of problem loans requires a comprehensive approach and attentive attitude to each case in order to minimize risks and losses for the financial institution.

CONCLUSION

Problem loans are a serious problem for the financial sector and the economy as a whole. In Uzbekistan, effective management of non-performing loans requires

country. Let's consider the loan portfolio and NPL (Non-performing loan) in Uzbekistan.

In Uzbekistan, the share of problem loans in the loan portfolio is quite sufficient. If you look at the diagram below, you can compare the share of problem loans over 3 years, from 2022 to 2024.

a comprehensive approach, including monitoring, restructuring, provisioning, and active engagement with borrowers. Taking into account local circumstances and legal requirements also plays a key role in successful credit risk management.

KEY FINDINGS:

1. **The need for proactive management:** Effective management of problem loans requires a proactive approach, which includes regular monitoring of loan portfolios, analysis of the financial condition of borrowers and prompt identification of problem situations.

2. **Restructuring and support:** Loan restructuring can be a key tool in the fight against non-performing loans. Providing borrowers with the opportunity to adapt loan terms in response to financial difficulties can help prevent further deterioration of the situation and support their financial stability.

3. **Provisioning:** Financial institutions should create provisions for possible loan losses. This reduces financial risks and ensures the stability of the banking system in the face of an increase in the number of problem loans.

4. **Legal and operational support:** In cases where restructuring does not bring the expected results, it is necessary to apply legal measures to recover debts. Prompt work with collectors and legal specialists is also important.

Thus, the total total volume of bad debts is still a major unknown in the banking equation. In order for the above schemes of actions with "problem" loans to be successfully implemented in practice, it is necessary to establish a system of accounting, analysis, and credit risk management.

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