



## **ANALYSIS OF THE LENDING PRACTICE OF THE REAL SECTOR OF THE ECONOMY BY COMMERCIAL BANKS**

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<b>Article history:</b>	<b>Abstract:</b>
<b>Received:</b> 26 <sup>th</sup> October 2023 <b>Accepted:</b> 24 <sup>th</sup> November 2023 <b>Published:</b> 28 <sup>th</sup> December 2023	In the article Analysis of the practice of lending to the real sector of the economy by commercial banks the opinions of the world's leading scientists were studied, the situation of the banking sector of Uzbekistan at the beginning of 2017-2022 was analyzed, the forms and main directions and trends of financial support of the real sector of Uzbekistan were mentioned, the development of practice of lending to the real sector of the economy by commercial banks of Uzbekistan based conclusions and proposals were developed and recommendations for application in our country were made.

**Keywords:** investment, commercial bank, private sector, credit, deposit, joint venture.

### **1. ENTER**

Modernization of our country's economy, technical-technological renewal, sharp increase of its competitiveness, increase of export potential, organization of new productions based on innovative and energy-saving technologies, mastering the production of new types of goods that are in demand in the world market, and thereby our country's the investment policy carried out by the banking system in ensuring its economic stability is bearing fruit. In particular, for the purposes of modernization of production, technical and technological updating, organization of competitive product production based on modern technology, investment activity by commercial banks is prioritized to ensure timely and full financing of projects included in the development of networks, localization and regional development programs. directed.

By strengthening the integration of banking and the real sector, attention is paid to the scientific direction of the formation of integrated structures and the improvement of the scientific-theoretical, methodological and practical foundations of their activity development. To increase the stability and international competitiveness of the economy through the formation of highly integrated structures on the basis of ensuring the integration of banking and industrial capital, to effectively organize corporate governance in integrated structures, to ensure the liquidity of the banking system on the basis of strengthening the integration of banking and the real sector, and to conduct scientific research on the issues of increasing the innovative potential in production sectors on the way.

### **2. REVIEW OF LITERATURE**

The theoretical and practical aspects of the analysis of the practice of lending to the real sector of the economy by commercial banks , its financial issues , were comparatively studied by the scientists of our country, N.G.Karimov and J.H.Razzokov, in their scientific researches. The author's conclusions and suggestions on solving problems and improving the syndicated lending system are presented[1].

A.R.Norov the role of commercial banks in financing investment projects was analyzed. Experiences of developed foreign countries in financing investment projects were studied. The commercial banks' lending activities for investment projects are studied, and practical suggestions for their improvement are presented[2].

D.O.Matyokubova researched the features of financing of investment projects by the banking system of our country and organization of monitoring of this process[3].

E.A.Muminova considered the issues of further acceleration of investment processes in the economy, modernization of leading sectors and enterprises of the economy, use of banking services to ensure technical and technological updating, financing of investment projects by commercial banks in the implementation of large-scale reforms[4].

N.G.Filatova develops recommendations on ways and means of improving the credit risk assessment system of investment projects in commercial banks. It is recommended to supplement this system with indicators of long-term investment composition, profitability of fixed capital and stability of effective operation of the creditor, as well as to provide additional consideration of risk factors. The author identifies



measures to expand the practice of syndicated lending, improve the mechanism of providing state guarantees, and develop cooperation tools between the bank and the lender as promising directions of development. Also, the author analyzes the practical experience of the participation of large local banks in long-term financing[5].

### 3. RESEARCH METHODOLOGY .

Economic research methods such as studying the research conducted by world scientists and economists, collecting data, analyzing the collected data, synthesizing, logical thinking were widely used by commercial banks .

### 4. ANALYSIS AND DISCUSSION OF RESULTS.

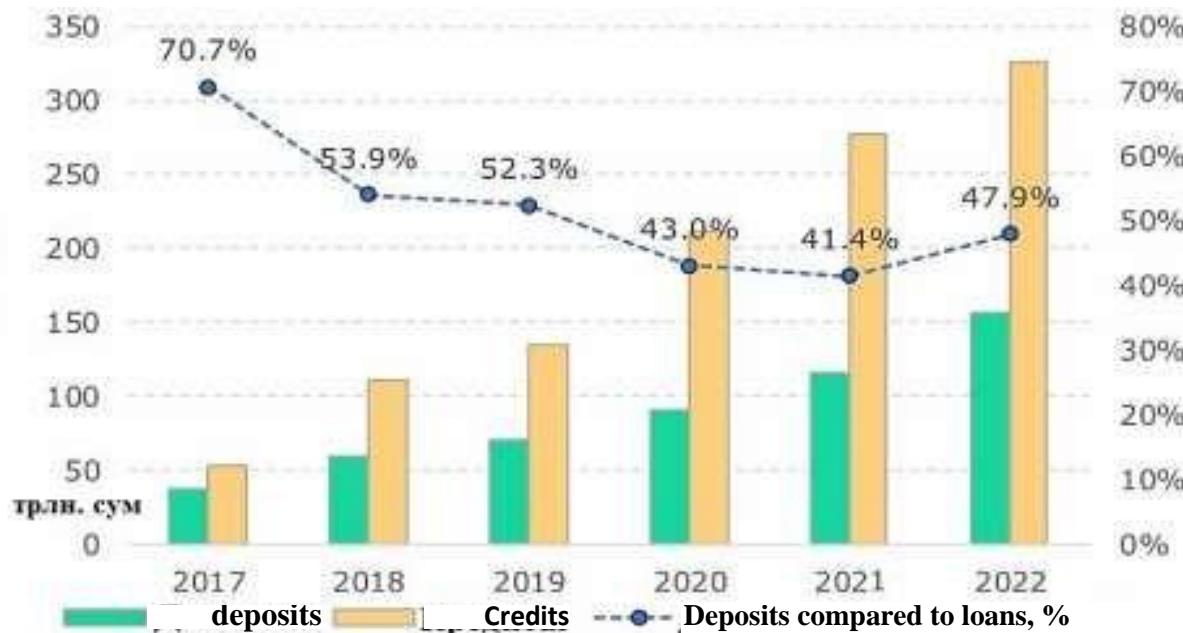
In the process of financing investment projects, special tasks aimed at ensuring and further increasing the participation of commercial banks have been

defined, which must be implemented in order to develop the investment activities of commercial banks, which have become an important link in economic and other processes in the economy. It is appropriate to emphasize that the current issues are important and occupy a special place.

Since the improvement of the investment activity of commercial banks is a component of the improvement of the investment activity of the country, first of all, it is important to ensure the achievement of the targeted use of investments in the effective organization and implementation of this activity.

As part of the "Roadmaps" for 2022 and 2023, the banking sector of Uzbekistan has invested and is actively investing in the development of new technologies and digital services, which has increased the possibility and efficiency of financial operations by representatives of the real sector of the economy of Uzbekistan (see Figure 1).

**Figure 1. The banking sector of Uzbekistan at the beginning of 2017-2022 analysis of the state of activity<sup>1</sup>**



Credit activities bring real benefits to all interested parties. Borrowers have access to large amounts of money capital for a certain period of time to achieve their commercial, industrial and other similar interests. Lenders receive income in the form of interest. In addition, credit activities stimulate the introduction of investment into production, stimulate progressive structural changes. Today, credit has become one of the important means of regulating the economy at the macro level. It helps to solve primary

issues such as ensuring national currency and price stability, economic growth.

Thus, credit activity can be called a practice that involves the presence of two subjects - a borrower and a lender (creditor).

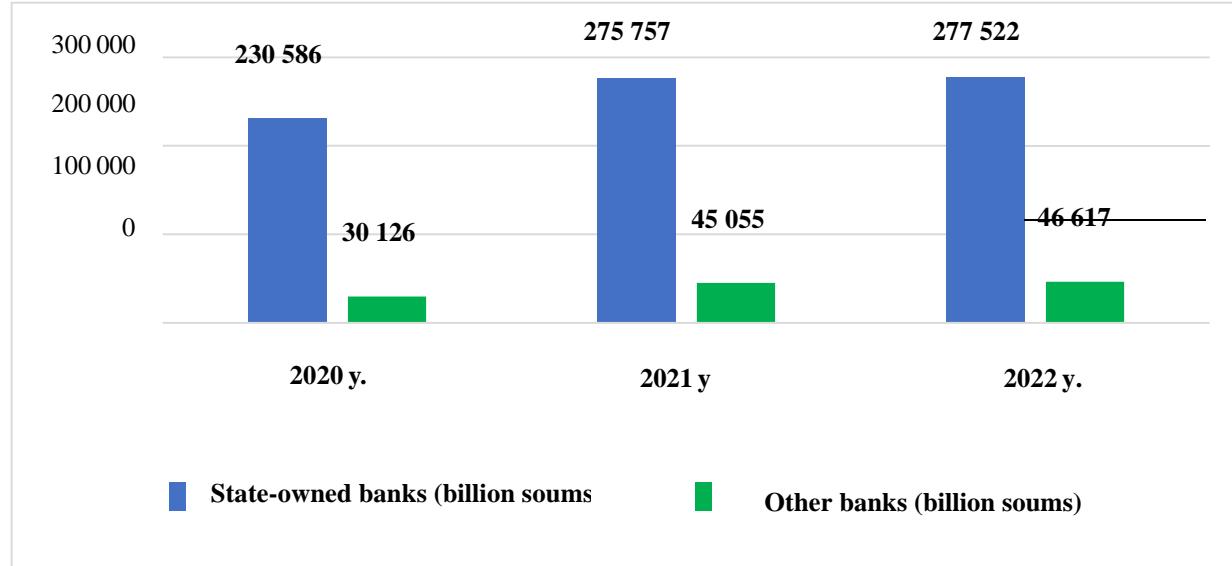
The main part of the financial support by the state-owned banks of Uzbekistan is aimed at the real sector. As of 2020, the volume of credit operations for real sector enterprises is 260,712 billion. 230,586 billion soums with state-owned banks. 30,126 billion soums

<sup>1</sup>Compiled by the author based on open data of the Central Bank of the Republic of Uzbekistan



with other banks. soums, the share of state-owned banks was 88.5 percent, and that of other banks was

11.5 percent.



**Figure 2. Financial enterprises of the real sector of the economy of Uzbekistan support<sup>2</sup>**

By 2021, the volume of credit transactions will reach 320,812 billion. to soums, 275,757 billion with state-owned banks. to soums, 45,055 billion with other banks. the share of state-owned banks was 86.0 percent, and that of other banks was 14.0 percent. At the beginning of 2022, the volume of loan operations will be 324.139 billion. with state-owned banks - 277,522 billion soums. soums, with private commercial

banks - 46,617 bln. amounted to soum. The share of the loan portfolio in the assets of the banking sector decreased from 75.7 percent in 2020 to 73.4 percent in 2021. The share of lending in industry (including manufacturing) decreased to 38.80% in January 2018 - this may indicate that the industry as a whole is growing, but other sectors of the economy, such as agriculture, have grown rapidly.

**1- table**  
**Forms of financial support of the real sector of Uzbekistan<sup>3</sup> (in billion soums)**

Indicators	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022
Total (billion soums):	<b>134 616</b>	<b>209,020</b>	<b>211 581</b>	<b>260 712</b>	<b>327 180</b>
Other forms of credit (billion soums)	17 271	33 013	39,934	51 465	70 982
The real sector of the economy	<b>117 345</b>	<b>176 007</b>	<b>171 647</b>	<b>209 246</b>	<b>256 198</b>
loans granted to enterprises (billion soums)	<b>+ 22.1</b>	<b>+ 50.1</b>	<b>- 2.5</b>	<b>+ 21.9</b>	<b>+ 22.5</b>
change compared to last year, %					
Loans to real sector enterprises:	618	1 397	158 33	204 48	238 07
Legal entities that are not credit institutions	6 725	8 748	9 211	10,774	10 124
loans to individuals (billion soums)	659	962	2238	3 125	4 394

<sup>2</sup> Compiled by the author on the basis of open data of the Central Bank of the Republic of Uzbekistan (MB) (Electronic resource) <https://cbu.uz/en/statistics>.

<sup>3</sup> Compiled by the author on the basis of open data of the Central Bank of the Republic of Uzbekistan (MB) (Electronic resource) <https://cbu.uz/en/statistics>.



Microloans (billion soums)	107 599	162 724	1 597	1 728	1452
Syndicated loans (billion soums)	1744	2177	2225	2546	2156

The share of agricultural lending also increased from 8.0 percent in January 2018 to 10.9 percent in January 2022. An increase in the share of lending in agriculture may be a good sign for the development of this sector, but a decrease in the share of lending in industry may raise concerns about the stability of the economy as a whole.

The following indicators were used to forecast the increase in liquidity and profitability of banks by ensuring the financial integration of banking and the real sector in Uzbekistan until 2025: growth of the loan portfolio - the volume of lending to the real sector is expected to increase in Uzbekistan through the use of hybrid levers, which will help banks in Uzbekistan to expand their loan portfolio, which, in turn, leads to an increase in profits. By 2025, the loan portfolio of banks in Uzbekistan is expected to grow by approximately 12-15%. An increase in the return on assets (portfolio) also leads to an increase in the return on assets. By 2025, the profitability of Uzbek banks' assets is expected to grow by approximately 1-2%. Improving the efficiency of risk management - the use of new technologies based on artificial intelligence (the first paragraph of the third chapter of the doctoral dissertation is devoted to this), and bank analysts can improve the ability to manage risks, which, in turn, allows to reduce losses and increase liquidity. Banks of Uzbekistan are expected to increase the efficiency of risk management by approximately 7-10 percent by 2025, increase income from commission operations - for example, issuing guarantees and letters of credit, advising clients, etc.

By 2025, the income of banks in Uzbekistan on commission operations is expected to grow by almost 8%. Income from investment transactions, such as bonds and other financial instruments, will increase in order to generate income from investment. In Uzbekistan, the income from investment operations of banks is expected to increase by approximately 5-10% by 2025, the volume of bond debt funds attracted by banks will increase by 20% compared to the current level (in 2022), and also the volume of investments by banks to encourage enterprises to conduct IPOs by 2025 can grow up to percent.

Thus, with the help of financial integration of the banking and real sector and the use of debt and equity leverage, the banking sector of Uzbekistan can achieve a significant increase in liquidity and profitability by 2025.

However, it should be noted that such changes require significant changes in the business models and

strategies of banks, as well as improved regulation and supervision by state authorities. All this has a positive effect on both the banking sector of Uzbekistan and the real sectors of the economy in the conditions of global geofinancial instability.

Among the elements of the system of interaction between the banking and real sectors of the economy, the study of the forms of interaction, which are considered as current and promising channels of interaction between the subjects of the sectors, has a special place. In the course of the evolutionary development of sectors, the variety of forms of interaction required the development of a model for the classification of forms of interaction between sectors, based on the criteria and principles of deduction related to previously defined system elements, and its application allowed to consider forms of different levels;

The ability to simultaneously create results (according to the expected results at different levels) as a result system element of the process of interaction between the banking and real sectors of the economy, led to analysis. The results of the analysis showed that lagging behind a number of developed countries is caused by various institutional conditions affecting the potential and opportunities of the sectors;

In the future, in order to strengthen the integration of financial and production capital, it is necessary to form industrial clusters in the regions with the participation of vertically integrated corporate structures - specialized in processing products, production of finished products, trade and other modern market services, as well as enterprises equipped with high technologies similar to the technological era of production.;

The comprehensive impact of banking sector management functions on the effective development of the real sector determines the need to create an organizational-economic mechanism for the formation of separate groups, including financial-industrial groups.

With the help of credit, the economy's need for means of payment is provided, the withdrawal of funds from the active payment circulation is stopped, and the level of capitalization of the economy increases. At the same time, credit has a negative impact on the economy and, through it, on the life of society. For example, if too much credit is allocated to the economy, this situation can cause inflation to increase. According to M. Friedman, the sharp increase in lending to the economy by commercial banks leads to an increase in



the money supply and, therefore, to an increase in prices.

## 5. CONCLUSIONS AND SUGGESTIONS.

The results of research conducted by commercial banks on the possibilities of development of support for the real sector made it possible to draw the following conclusions:

- in order to increase the level of capitalization of commercial banks, it is necessary to use the bank's sources of financing, to help attract international and foreign grants, and to create organizational and economic conditions for expanding its infrastructure. Strengthening the responsibility of leaders and employees who allow laziness in this regard;
- it is appropriate to introduce a special rate of banks in relation to the income of their banks from investment lending, and to direct the free funds to expand the rate of investment projects, to cover operating costs, to develop the material and technical base;
- in all commercial banks financing investment projects, it is necessary to organize training seminars on the creation of a business plan and feasibility study of the project, the effective use of investment loans and investment services;
- analyzing the efficiency of investment loans, monitoring the state of provision of loans in accordance with the parameters of the business plan, increasing the level of repayment of loans, taking necessary measures to prevent overdue debts - in order to take measures, it is necessary to expand the activities of the special monitoring group in commercial banks;
- in order to reduce the risk of non-return of investment loans, the future debtor should inform the enterprise and its management, the requested microloan and the possibility of its repayment, credit provision, the relationship of the future debtor with other banks and the enterprise's credit account. it is necessary to form an additional database through a set of questions;

In conclusion, it can be noted that the effective implementation of the above suggestions and recommendations will help to improve the use of bank financing for investment projects.

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