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DIVERSIFICATION OF THE CREDIT PORTFOLIO OF COMMERCIAL BANKS AND WAYS TO INCREASE ITS QUALITY

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Abstract.

The article describes the theoretical and practical aspects of the credit portfolio of commercial banks and its diversification. At the same time, the distribution of the loan portfolio by sectors, the issue of diversification of the loan portfolio, the share of loan investments in GDP and bank assets were analyzed, and proposals and recommendations were made for improving the process of diversification of the loan portfolio.

The article describes the theoretical and practical aspects of the loan portfolio of commercial banks and its management. At the same time, the distribution of the loan portfolio by industry, the issue of diversification of the loan portfolio, the share of credit investments in GDP and bank assets were analyzed, and suggestions and recommendations were made to improve the management of the loan portfolio

.Keywords: loan, short-term loan, long-term loan, loan investments, bank assets, credit portfolio, credit risk, credit portfolio diversification, non-performing loans (NPL), overdue loans.

1. Introduction

The expansion of the banking infrastructure in our republic has led to the strengthening of the competitive environment between banks, lending only on the basis of market conditions, reducing the dependence of banks on state resources, modernizing the provision of banking services, improving the quality of the loan portfolio and risk

management, and following the moderate growth of lending volumes. special attention is being paid to the improvement and financial stability of the banking system [1].

The stability and level of capitalization of commercial banks, the rapid growth of deposits of legal and natural persons attracted by them, increase their lending capacity, and in turn, increase their ability to provide financial support to the real sector of the economy.

Lending process is considered one of the important activities of commercial banks, and its effective use has a direct impact on the financial stability of banks. This, in turn, requires continuous analysis of the credit portfolio of commercial banks and improvement of its quality.

The existence of a number of problems in lending and initial monitoring by commercial banks leads to deterioration of the quality of the loan portfolio. This causes the solvency and liquidity of banks to decrease. For this reason, in almost all official documents related to the reform of the activity of commercial banks, great attention is paid to finding a solution to this problem. In solving this issue, first of all, it is important to develop the credit policy of commercial banks, to analyze the problems related to the nature of risk and uncertainty inherent in the subjects of the modern market economy, and to improve their management methods.

The services provided by banks have their place in the development of the economy of our country. Since bank activity is associated with various risks, it has been proven in international practice that the use of diversification in the implementation of bank activities gives its positive result. Therefore, the application of diversification in the activity of commercial banks is now considered important and determines the relevance of the topic.

The relevance of the topic is shown in the following: firstly, the decrease in the quality level of the loan portfolio of commercial banks negatively affects their financial stability, because lending is a type of activity of primary importance for commercial banks;

secondly, an increase in the weight of non-repaid loans in the volume of loan deposits leads to a sharp decrease in the bank's liquidity;

thirdly, the effective management of the credit portfolio of commercial banks allows timely satisfaction of the needs of legal entities and individuals for credit funds.

Analysis of literature on the topic

Credit portfolio does not express a clear opinion approved by everyone about its economic essence, composition, comparative definition. For example, American economists Chris J. Barltrop, Diana McNaughton define the loan portfolio as the classification of loans [2], while another group of Russian economists give a different definition to the loan portfolio. K.J. The definition given by Barltrop and D. McNaughton represents only a part of the bank's loan portfolio.

G.G. Korobova defines the loan portfolio as the loans provided in the banking activity, which includes the sum of the loans granted during a certain period of time [3].

The word diversification is a Latin word "diersus" which means different, + sasere - to make, that is, to diversify, different - to diversify [4]. The analysis of existing literature shows that the essence of the word diversification is interpreted differently by many authors.

When analyzing each sector, an attempt is made to consider the aspect of diversification relevant to that sector. Some scholars consider diversification as a strategy of marketing activities in the field of doing business outside the main activities of firms in order to find a market.

American economist Frederick S. Mishkin gives a succinct definition: "Diversification is holding more than one asset."

Such a definition of diversification, in our opinion, is closer to the ideas of other authors in terms of its original essence, but it represents a limitation of its essence. In special literature, it is possible to find conclusions that the word diversification is an activity carried out with the aim of reducing risk, and means step-by-step division

into small pieces, analysis. In this regard, prof. We think that the definition given by L. Lopatnikov aims to reveal the concept of diversification more widely. According to him, "Diversification is a strategy to reduce the risk of a firm by allocating investment and other resources to areas operating in different sectors of production of goods and services.

The scientific study of the process of formation of the credit portfolio in commercial banks of the Republic of Uzbekistan and the impact of transition processes on market relations is of great practical importance for the banking system of our country. The reason for this is that, firstly, bank loans play an important role in financing the investment costs necessary for the development of the country's economy, and secondly, attracting temporary free funds of the population and enterprises to banks and directing them to credit the real sector of the economy is a necessary condition for curbing inflationary processes.

Forming a loan portfolio requires the bank to follow the main principles of credit, to determine and classify the quality of loans taking into account the level of risk, to organize the necessary reserves for loans and to develop measures to improve the quality of the loan portfolio.

Analysis and results

As a result of the economic reforms implemented in the country, the active support of the enterprises of the real sector of the economy by our banks is increasing year by year. The balance of loan deposits allocated by banks increased by 19.5% compared to the previous year, and as of January 1, 2023, amounted to 390048.9 billion. amounted to soum[5].

The process of forming a credit portfolio provides for its diversification in terms of determining the optimal credit policy. As the level of concentration of loans among several customers and the increase in the total volume of lending increases, the bank's credit risk also increases, therefore, banks should always try to give small loans to a large number of customers who are independent from each other. In addition, it is desirable to diversify loans in the following directions:

- according to terms (regulating the weight of short-term and long-term investments depending on the expected changes in the economy and terms of deposits);

- in the target direction;

- according to supply;

- according to the interest rate set for the loan;

– by networks.

It is important to analyze the dynamics of loans provided by commercial banks to the real sector of the economy and its share in the GDP, which we will consider in the table below.

Table 1
Assets and credit of commercial banks of the Republic of Uzbekistan
share of investments in GDP, (billion soums)

Indicators	2017	2018	2019	2020	2021	2022
GDP bln. soum	302536,6	407514,5	511838,1	602193,0	734587,7	888341,7
Bank assets	166631,8	214419,6	272726,9	366 121,1	444922,5	556746,3
As a percentage of GDP	55,1	52,6	53,3	60,8	60,6	62,7
Loan deposits billion. soum	110572,1	167390,6	211581	276 974,8	326385,6	390048,9
As a percentage of GDP	36,5	41,1	41,3	46,0	44,4	43,9

Source: prepared by the author based on the information of the Central Bank of the Republic of Uzbekistan and commercial banks.

As can be seen from the data in the above table, the dynamics of credit investments and bank assets directed by commercial banks to the real sectors of the economy during 2017-2022 are given. Commercial banks' credit investments and assets had a growing trend. The share of bank assets in GDP was 55.1 percent in 2017, and 62.7 percent in 2022.

In developed countries, this indicator is much higher. Credit investments in 2017 amounted to 110,572.1 billion. amounted to 390,048.9 billion soums by 2022. amounted to soum. The share of credit investments in GDP also had a growing

tendency, in 2017 it was 36.5 percent, and by 2022 it was 43.9 percent. This situation is considered positive and indicates that the increase in the weight of bank loans in relation to GDP increases the level of meeting the economy's need for credit resources.

Table 2

Diversification of loans issued by commercial banks by term

Credits	01.01.2019		01.01.2020		01.01.2021		01.01.2022		01.01.2023	
	Amount (billion)	weight (in %)	Amount (billion)	weight (in %)	Amount (billion)	weight (in %)	Amount (billion)	weight (in %)	Amount (billion)	weight (in %)
Short term loans	8663,0	5,2	17955	8,5	28243,8	10,3	33379,5	10,2	51130,0	15,1
Long-term loans	158727,6	94,8	193626	91,5	247036,8	89,7	293006,1	89,8	338918,9	84,9
Total loans issued	167390,6	100	211581	100	275280,6	100	326385,6	100	390048,9	100

Source: Prepared based on the information of the Central Bank of the Republic of Uzbekistan and commercial banks.

From the data of the table, it can be seen that when analyzing the loans issued by commercial banks according to their term, short-term loans made up 5.2 percent as of January 1, 2019, and made up 15.1 percent as of January 1, 2023, that is, it increased by 9.9 percentage points. As of January 1, 2023, long-term loans amounted to 84.9 percent. In order to evaluate it, first of all, it is necessary to pay attention to the source of the given loans, that is, from what resources they were given.

Most of the deposits attracted by the commercial banks of the Republic of Uzbekistan are short-term or demand deposits in some commercial banks. This indicates that the bank's resources are formed at the expense of unstable sources. It can be concluded that the duration of the resources of commercial banks involved does not correspond to the duration of the placed loans. This, in turn, affects the liquidity and profitability of banks.

Table 3

Distribution of the credit portfolio of commercial banks of the Republic of Uzbekistan by sector (by the end of the year, in percent)

	2018	2019	2020	2021	2022
Networks					
Industry	39,8	35,7	36,9	36,0	32,5
Agriculture	5,6	8,1	10,1	10,7	10,8
Construction industry	3,5	2,8	2,7	2,8	2,7
Sales and general service	6,4	6,8	7,2	8,4	7,4
Transport and communication	12,5	11,1	9,6	8,8	7,6

Development of material and technical support	1,6	1,5	1,4	1,2	1,0
Housing and communal services	1,1	1,2	1,4	0,7	0,5
Individuals	14,6	18,9	19,8	21,3	25,9
Other areas	14,8	13,7	10,9	10,0	11,7
Credits - total	100,0	100,0	100,0	100,0	100,0

Source: Prepared based on the information of the Central Bank of the Republic of Uzbekistan and commercial banks.

In the table above, the distribution of the credit portfolio of commercial banks of the Republic of Uzbekistan by sector for the years 2018-2022 was studied. As of the end of 2018, 39.8% of the total loans in the republic were given to the industrial sector, 14.6% to individuals, 12.5% to the transport and communication sector. came true. By the end of 2022, 32.5% will fall to the industrial sector, 25.9% to individuals, and 10.8% to the agricultural sector. It can be seen from this that the conclusion about the banking system can be described positively. That is, by the end of 2022, the volume of loans given to the leading industrial sector has decreased by 7.4 percentage points.

A positive conclusion can be made when the Republic of Uzbekistan makes a general assessment of the credit portfolio of all commercial banks, but it can be observed that the degree of diversification of the credit portfolio of some commercial banks is not well paid attention to. This, in turn, indicates the need to improve the credit policy and manage it wisely.

It is known that all commercial banks do not pay full attention to the process of credit portfolio deversification, which directly affects the quality of the credit portfolio in some commercial banks of our republic

Now, as an example, we will consider the distribution of the loan portfolio of JSC "Asakabank" by sectors.

Table 4

Branch structure of JSC "Asakabank" credit portfolio (by the end of the year, in percentage)

	2018	2019	2020	2021	2022
Networks					
Industry	85,5	80,9	84,7	83,5	82,3
Agriculture	3,5	5,9	5,1	6,8	8,9
Transport and communication	0,6	0,7	2,2	2,4	1,6

Construction industry	6,3	7,9	1,5	1,4	1,5
Sales and general service	2,5	3,6	5,9	5,4	5,1
Development of material and technical support	0,2	0,6	0,0	0,0	0,0
Housing and communal economy	1,4	0,3	0,4	0,4	0,6
Credits - total	100,0	100,0	100,0	100,0	100,0

In the table above, the structure of the credit portfolio of JSC "Asakabank" is broken down. In 2018, 85.5% of the total loans fell to the industrial sector, and in 2022, 82.3% of the total loans fell to this sector. This is definitely a negative situation. Because the accumulation of total loans in one branch, indicating that the diversification of the bank's loan portfolio is bad, causes bank risks. Therefore, even in international practice, it is not allowed to accumulate jpmi loans in one network. That is, international experts recommend that 25-30% of total loans be directed to one sector, which serves to prevent bank risks to a certain extent.

A positive conclusion can be made when all commercial banks of the Republic of Uzbekistan make a general assessment of the credit portfolio (Table 3), but it can be observed that some commercial banks, for example, AT "Asakabank" do not pay good attention to the level of diversification of the credit portfolio. This, in turn, indicates the need to improve the credit policy and manage it wisely.

Another problem in the lending practice of commercial banks is the low share of loans to individuals in the total loan portfolio.

While in other countries loans to individuals and corporate clients are distributed equally, the fact that loans to individuals in our country have a pvst share in the total loan portfolio shows that there are problems in this direction as well.

In the above table, the dynamics of loans granted to individuals within the credit portfolio of commercial banks of the Republic of Uzbekistan are studied in relation to the beginning of 2019-2023. The total balance of loans allocated by commercial banks to individuals in the reporting year is 31.4 trillion soums or increased by 45.2% to 100.9 trillion as of January 1, 2023. amounted to soum.

Table 5

Dynamics of loans granted to individuals in the credit portfolio of commercial banks of the Republic of Uzbekistan

(per year, billion soums)

Indicator name	01.01.2019 й.		01.01.2020 й.		01.01.2021 й.		01.01.2022 й.		01.01.2023 й.	
	billion soum	share, in %	billion soum	share, in %	billion soum	share, in %	billion soum	share, in %	billion soum	share, in %
Total credits	167391	100	211581	100	276975	100	326386	100	390049	100
<i>From this: Loans to individuals</i>	24427	14,6	39934	18,9	54888	19,8	69496	21,3	100949	25,8

By the beginning of 2019, 14.6% of the total loans in the republic were given to individuals, while by the beginning of this year, 25.8% of the total loans were given to individuals [6]. This change can be evaluated as positive, but in international practice, the main part of the loan portfolio is made up of loans to individuals.

When managing the credit portfolio of commercial banks, special attention is paid to its diversification according to the nature of the industry. It is known that strict adherence to the principle of diversification, which is one of the necessary conditions for improving the quality of the credit portfolio of commercial banks, was clearly demonstrated even during the global financial crisis.

Credit portfolio management means the art of effective use of existing credit resources, which means that as a result of effective management, credit resources not only retain their value, but also generate significant income.

There are some unsolved problems regarding the stable growth of loans of commercial banks of our country, increasing their lending capacity and ensuring the stability of the national economy:

the lack of improvement in the practice of lending to individuals by the commercial banks of our republic;

lack of attention to the diversification of the loan portfolio;

that banks do not have a sufficiently stable resource base;

artificially increasing the price of goods and services selected as a consumer credit object;

low level of diversification of the loan portfolio of commercial banks.

These problems affect the improvement of lending practices of commercial banks, including the quality of the loan portfolio.

The elimination of the above-mentioned problems related to the improvement of the quality of the credit portfolio of commercial banks leads to the improvement of the lending activity of banks, the increase of the quality of the credit portfolio, and the activation of their participation in the processes of financial support of the real sector and modernization of the economy by the commercial banks of our republic.

Conclusions and suggestions

We have developed the following recommendations for improving the lending practice of commercial banks and increasing its efficiency:

1. Increasing the lending potential of commercial banks by forming a long-term resource base.

It is appropriate for commercial banks to focus on term deposit and non-deposit sources when attracting long-term resources. In particular, it is necessary to form a stable resource base by increasing the volume of securities issuance by commercial banks.

2. It is necessary to ensure that the volume of loans allocated to individuals by commercial banks is not less than the volume of deposits attracted from them.

It is desirable to increase the volume of lending to individuals by the commercial banks of our republic.

Based on the international practice experience, in order to increase the volume of lending to individuals in Uzbekistan, it is necessary to increase the amount of loans allocated to individuals from the amount of deposits attracted from them.

It is also necessary to increase the weight of loans allocated to individuals in the composition of commercial banks' loans and assets. For example, as of January 1, 2020, the share of banks' loans to individuals in total loans is 18.9 percent.

3. It is necessary to use international experience in the process of diversification of credit portfolio of commercial banks.

This, in turn, prevents risks arising in the lending activities of commercial banks, and wide distribution of loans ensures the liquidity of commercial banks.

4. Improvement of the system of evaluation of indicators of creditworthiness of customers in banks.

In the practice of commercial banks of our republic, the existence of problems in assessing the creditworthiness of customers has a negative impact on the quality of the loan portfolio and its stable growth. A proper assessment of the client's creditworthiness ensures that the loans are paid back in full on time.

When evaluating the creditworthiness of customers, it is advisable for commercial banks not only on the basis of financial coefficients, but also to maintain the rating systems widely used in international banking practice, register collateral objects and form other databases, and based on this information, assess the level of credit risk.

5. Acceleration of the introduction of scoring systems for the expansion of online types of banking services and automatic analysis of credit allocation.

The implementation of the above listed recommendations in the lending practice of commercial banks will have a positive effect on increasing the level of diversification of their loan portfolio and increasing the quality of the loan portfolio, and as a result, increasing the activity of banks in financial support of priority sectors in the context of modernization of the economy by commercial banks.

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