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# MEASURES TO IMPROVE CREDIT PORTFOLIO MANAGEMENT IN COMMERCIAL BANKS

Annaev Vakhob Turaevich
Deputy head of Kashkadarya regional office of JSB "Agrobank"

**Annotation**

Effective credit portfolio management is a cornerstone of financial stability and profitability for commercial banks. In the dynamic landscape of modern finance, managing credit risk is increasingly complex, requiring robust strategies to mitigate potential losses and optimize returns. The primary goal is to ensure that the credit portfolio aligns with the bank’s risk appetite and regulatory requirements while supporting sustainable growth.

**Key words:** Risk Assessment, Credit Scoring Models, Portfolio Diversification, Stress Testing, Credit Risk Monitoring, Loan Performance Tracking, Collateral Management, Credit Approval Process, Early Warning Systems, Portfolio Analytics, Concentration Risk Management, Non-performing Loans (NPL) Management, Credit Risk Modelling.

Commercial banks face numerous challenges in credit portfolio management, including economic fluctuations, changing regulatory frameworks, and evolving market conditions. The 2008 financial crisis highlighted the critical importance of prudent credit risk management, prompting regulatory bodies to implement stringent measures and banks to adopt more sophisticated risk assessment tools.

In this context, improving credit portfolio management involves a multi-faceted approach that encompasses risk assessment, diversification, monitoring, and the adoption of advanced technological solutions. This introduction sets the stage for a comprehensive discussion on various strategies and best practices that can enhance credit portfolio management in commercial banks, ensuring they remain resilient in the face of uncertainty and capable of seizing growth opportunities.

This essay will explore key measures to improve credit portfolio management, including the implementation of advanced analytics and technology, strengthening credit risk assessment and monitoring processes, diversifying the credit portfolio, enhancing regulatory compliance, and fostering a risk-aware culture within the bank. Each of these measures contributes to a more robust and resilient credit portfolio, ultimately supporting the bank's overall financial health and stability.

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It is known that with the independence of Uzbekistan, the importance of loans given by banks in the development of our country's economy is increasing immeasurably. With the help of bank loans, important sectors of the economy are being developed, new enterprises are being established and additional jobs are being created for the population, production based on advanced technology is being introduced, and the production of new types of products is being launched.

As a result of the macro prudential measures used by the Central Bank of the Republic of Uzbekistan, despite the negative impact of geopolitical conflicts and other external economic factors in the world during 2023, the financial stability indicators of the banking system were maintained at an acceptable level, as well as the formation of stable growth dynamics in the main indicators of banks.

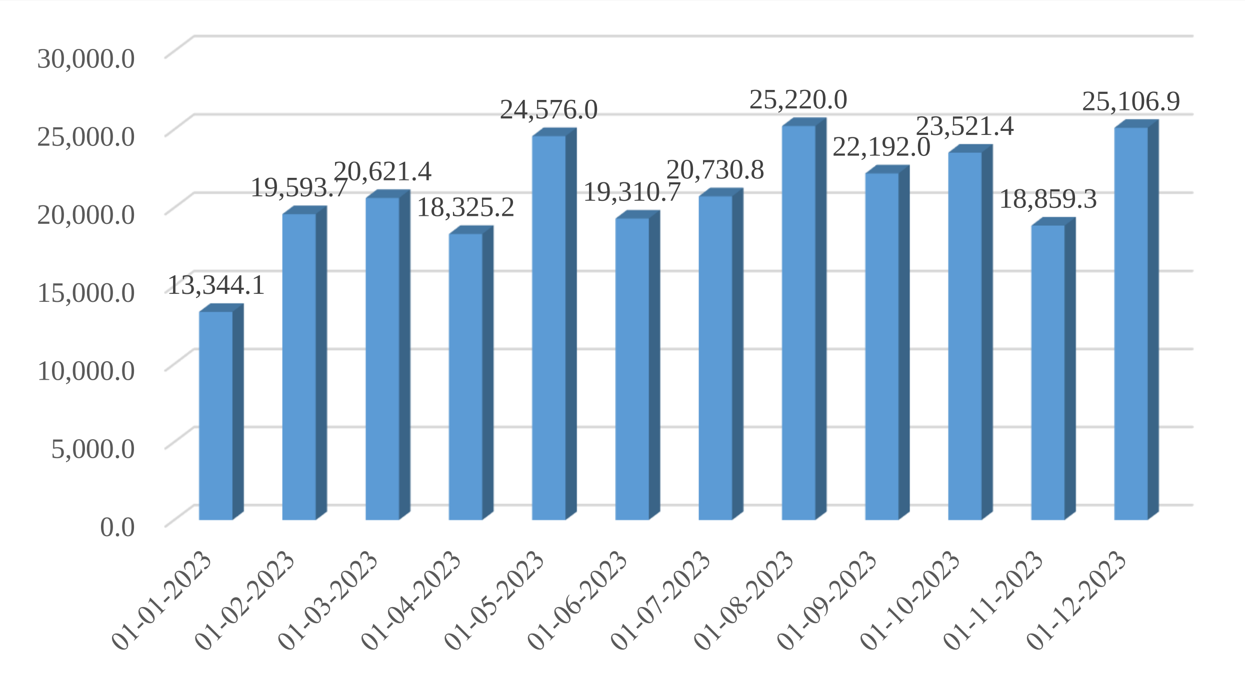


**Table 1.**

**Loans allocated by commercial banks of the Republic of Uzbekistan in 2023[1]**

In order to meet the economy's demand for credit and provide financial support to business entities, banks allocated more loans in the amount of 251 trillion soums in 2023 or 24% (48 trillion soums) compared to 2022. In this case, 60 percent of these loans or 151 trillion soums were allocated to business entities, while 40 percent of them or 100 trillion soums were directed to the population.

[1] https://cbu.uz/oz/statistics/bankstats

The share of loans allocated by private banks in the system in 2023 increased from 31% (63 trillion soums) to 43% (109 trillion soums), and the share of loans allocated to corporate clients increased from 25% (35 trillion soums) to 34% (51 trillion soums).

Also, during the reporting year, revolving loans of 57 trillion soums were granted to ensure the continuity of business entities and replenish working capital.

16.8 percent (16.9 trillion soums) of the loans allocated to meet the consumer needs of the population and for business purposes are for housing, 36.5 percent (36.6 trillion soums) for cars, 28.4 percent (28.4 trillion soums) are microloans. and 1.1 percent (1.1 trillion soums) corresponds to loans allocated for the purchase of other consumer goods.

The ratio of extinguished loans to allocated loans increased by 7 percentage points compared to the end of 2022 and made 74 percent by the end of the reporting year. In this regard, the total balance of loans allocated by banks increased by 21% or 81 trillion soums compared to the beginning of 2023 and amounted to 471 trillion soums as of January 1, 2024.

Effective credit portfolio management is essential for commercial banks to maintain financial stability, maximize profitability, and mitigate risks. Here are some key measures to enhance credit portfolio management:

1. Risk Assessment and Management

- Credit Scoring Models: Implement advanced credit scoring models using machine learning to evaluate the creditworthiness of borrowers accurately.
- Stress Testing: Regularly conduct stress tests to evaluate how the credit portfolio would perform under various economic scenarios.
- Risk Diversification: Ensure the credit portfolio is diversified across different sectors, regions, and borrower types to spread risk.

2. Enhanced Due Diligence

- Know Your Customer (KYC): Strengthen KYC processes to gather comprehensive information about borrowers.
- Due Diligence: Perform thorough due diligence to assess the financial health and repayment capacity of borrowers.

3. Portfolio Monitoring and Review

- Real-Time Monitoring: Use real-time data analytics tools to continuously monitor the performance of the credit portfolio.
- Regular Reviews: Conduct periodic reviews and audits of the credit portfolio to identify and address potential issues early.

4. Technology Integration

- Automated Systems: Implement automated systems for loan origination, processing, and monitoring to reduce errors and improve efficiency.

- Data Analytics: Leverage big data and analytics to gain insights into borrower behavior and portfolio performance.

5. Policy and Governance

- Credit Policies: Develop and enforce robust credit policies that outline clear guidelines for credit assessment, approval, and monitoring.

- Governance Framework: Establish a strong governance framework with clear roles and responsibilities for credit risk management.

6. Training and Development

- Staff Training: Provide regular training to credit officers and risk managers on the latest tools, techniques, and regulatory requirements.

- Knowledge Sharing: Encourage knowledge sharing and collaboration among different departments to improve overall credit risk management.

7. Regulatory Compliance

- Adherence to Regulations: Ensure compliance with local and international regulations and standards.

- Reporting: Maintain accurate and timely reporting to regulatory bodies and stakeholders.

8. Customer Relationship Management

- Customer Engagement: Foster strong relationships with borrowers through regular communication and support.

- Early Warning Systems: Develop early warning systems to detect signs of financial distress among borrowers and take preemptive actions.

9. Credit Risk Mitigation

- Collateral Management: Implement effective collateral management practices to secure loans and reduce potential losses.

- Credit Derivatives: Use credit derivatives and other financial instruments to hedge against credit risk.

By adopting these measures, commercial banks can significantly improve their credit portfolio management, thereby enhancing financial performance and resilience against economic fluctuations.

Today, a program has been developed for the implementation of important priority projects aimed at modernization of our economy, technical and technological renewal, sharp increase of its competitiveness, increase of export potential. This program includes targeted projects for modernization and technical renewal of the main sectors of our economy, introduction of modern innovative technologies that will give a strong impetus to our country's achievement of new goals and ensure its competitiveness in the world market. Therefore, the continuation of structural changes and economic diversification processes in our country is an important factor in ensuring stable and balanced economic growth, increasing the competitiveness of our national economy, and achieving rapid development.

Taking into account the extremely high importance of loans given by commercial banks in the conditions of modernization of the economy, assessment of the effectiveness of these allocated loans and ensuring their return leads to the imposition of necessary tasks on commercial banks.

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