

Commercial Banks' Credit Policy

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Abstract: *This article describes the credit policy of commercial banks and its necessity, the importance of the credit policy developed to protect the interests of the bank in improving the credit portfolio. Also, a table analysis of loans allocated by commercial banks and a diagram of loans allocated by commercial banks over the years are reflected in statistical data. The article concludes with a conclusion on the importance of the credit policy of commercial banks.*

Keywords: *credit policy, credit portfolio, credit risk, lending mechanism, credit operations, bank liabilities, credit types, credit principles.*

Introduction.

One of the important factors determining the role and importance of commercial banks in the economy is credit policy. A well-developed credit policy allows you to manage and reduce credit risk, and it is advisable for the bank to form its credit policy taking into account political, economic, organizational and other aspects. Credit policy is understood as a set of rules and regulations that allow the bank to make decisions in the field of placement of credit resources. A bank's credit policy is a document that determines the guidelines and methods adopted by the bank's management in managing the risks arising in the lending process and provides the bank's management and employees with instructions for effective management of the loan portfolio.

The credit policy must clearly indicate and define the goals of the bank's credit activities. The specific features of the credit policy are:

- it can be predicted, measured, and implemented;
- usually designed to protect the interests of the bank;
- It may also be amended from time to time.

The credit policy of commercial banks is the basis for effective credit management. This policy defines the objective standards and criteria for bank employees to issue loans and manage the bank's credit portfolio. Proper formulation and implementation of credit policy, a clear understanding of the purpose of this policy by all departments, allows bank management to avoid high risks in the correct implementation of credit standards, and to correctly determine the bank's capabilities. Lending policy and its effectiveness can be successful only under the conditions of correctly set credit prices.

Materials and Methods

In the banking system, four priority areas of reform and development of the banking and financial system have been identified and are gaining effective importance in the next five years. The implementation of the measures set out in the strategy, which includes improving the efficiency of the banking system, financial stability, increasing the popularity of banking services, and reducing the state's share in the banking system, is setting important priority tasks in the banking sector.¹ Indeed, it is envisaged to

¹ Decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025".

accelerate reforms in the banking system, increase the size of the banking services market and develop competition in this area, increase the annual lending volume in the banking and financial system to \$ 40 billion, and increase the volume of bank deposits by 4 times,²

Analysis and results

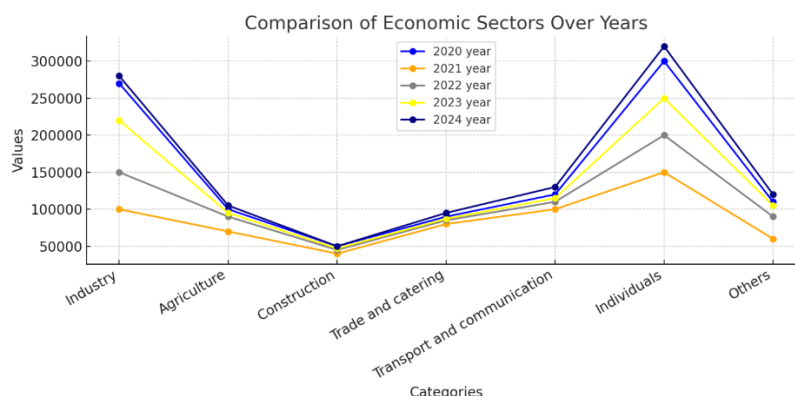
In the implementation of credit operations, the emergence of problem loans requires the regulation of their accounting in accordance with the requirements of international standards. Given this need, the most targeted way to reduce credit risks is credit policy. Through an effectively developed credit policy, the volume of loans issued by commercial banks is increasing. It is planned to reduce the government's share in the banking sector to 40 percent by 2025. Today, the dollarization level of banks' loan portfolio is 50 percent, and liabilities are 57 percent, which leads to an increase in the currency risk and vulnerability of the banking sector with a significant depreciation of the national currency. In order to reduce the level of dollarization, a special hedge fund is being created under the Ministry of Finance to convert foreign currency loans into national currency. In addition, it is planned to attract long-term resources in soums from abroad, taking into account possible internal and external risks, as well as to pursue a "prudent policy" in attracting resources in foreign currency.

Table 1. Loans granted by commercial banks (by sector) billion soums

Year	Total	Sectors						
		Industry	Agriculture	Construction	Trade and catering	Transport and communication	Individuals	Others
2020	127 207.5	41,603.0	18,772.2	4,939.5	18,262.1	4 366.4	28,466.6	10,797.8
2021	166,673.5	51,335.6	21 133.2	6,745.4	26 849.6	6 309.6	40 520.9	13 779.3
2022	203 126.6	60 198.7	15 963.9	7 828.5	30 303.7	7 217.8	65 288.5	16 325.5
2023	251 401.5	66 913.9	14 602.5	6 826.8	30 511.1	9 594.3	100 234.8	22 718.1
2024	200 088.5	51 283.2	13 950.3	5 117.3	26 809.7	4 515.9	73 141.0	25 271.1

Table 1 above from the data see maybe , commerce banks by separated loans 2020-2024 in the section industry , agriculture economy , construction , trade and general food , transportation and communication , physical to individuals separated loans size year after year exceed that he went our view possible . Commercial banks by separated loans total 2020 127 207.5 billion soums , 166,673.5 billion in 2021 soums , 203,126.6 billion in 2022 soums , 251,401.5 billion in 2023 Soums , 200,088.5 billion in 2024 soums organization reached .

Loans granted by commercial banks by year



² Decree of the President of the Republic of Uzbekistan on “ Uzbekistan - 2030 Strategy ”, No. PF-158 dated 11.09.2023

Based on the data in the table above, we can see that in 2020, loans granted by commercial banks amounted to 41,603.0 billion soums in industrial sectors, 18,772.2 billion soums in agricultural sectors, 4,939.5 billion soums in construction sectors, 18,262.1 billion soums in trade and catering sectors, 4,366.4 billion soums in transport and communications sectors, loans granted to individuals amounted to 28,466.6 billion soums, and loans granted to other sectors amounted to 10,797.8 billion soums. By 2021, these figures will be 51,335.6 billion soums in industrial sectors, 21,133.2 billion soums in agricultural sectors, 6,745.4 billion soums in construction sectors, 18,262.1 billion soums in trade and catering sectors, 4,366.4 billion soums in transport and communications sectors, 28,466.6 billion soums in loans granted to individuals, and 10,797.8 billion soums in loans granted to other sectors. and general catering sectors amounted to 26,849.6 billion soums, in the transport and communication sectors 6,309.6 billion soums, loans to individuals amounted to 40,520.9 billion soums, and loans to other sectors amounted to 13,779.3 billion soums. In 2022, loans to industrial sectors amounted to 60,198.7 billion soums, in the agricultural sector 15,963.9 billion soums, in the construction sector 7,828.5 billion soums, in the trade and general catering sectors 30,303.7 billion soums, in the transport and communication sectors 7,217.8 billion soums, loans to individuals amounted to 65,288.5 billion soums, and loans to other sectors 16,325.5 billion soums. In 2023, loans to industrial sectors amounted to 66,913.9 billion soums, to agricultural sectors to 14,602.5 billion soums, to construction sectors to 6,826.8 billion soums, to trade and catering sectors to 30,511.1 billion soums, to transport and communications sectors to 9,594.3 billion soums, loans to individuals to 100,234.8 billion soums, and loans to other sectors to 22,718.1 billion soums. In 2024, loans to industrial sectors amounted to 51,283.2 billion soums, to agricultural sectors to 13,950.3 billion soums, to construction sectors to 5,117.3 billion soums, to trade and catering to 269,809.7 billion soums, to transport and communications to 4,515.9 billion soums, to individuals to 73,141.0 billion soums, and to other sectors to 25,271.1 billion soums. Loans to industrial sectors increased from 41,603.0 billion soums to 66,913.9 billion soums between 2020 and 2023, but decreased to 51,283.2 billion soums by 2024. The amount of loans allocated to the agricultural sector increased from 18,772.2 billion soums to 21,133.2 billion soums in 2020-2021, but decreased from 15,963.9 billion soums to 13,950.3 billion soums in 2022-2024. In the construction sector, it increased in 2022 and amounted to 7,828.5 billion soums in 2022. The amount of loans allocated to this sector has decreased in the last 2 years and amounted to 5,117.3 billion soums. The volume of loans allocated in the trade and catering sectors in 2020-2023 increased from 18,262.1 billion soums to 30,511.1 billion soums, by 2024 this figure decreased by 3,701.4 billion soums to 26,809.7 billion soums. The volume of loans allocated for the development of the transport and communications sectors increased from 4,366.4 billion soums to 9,594.3 billion soums in 2020-2023, however, in 2024 this figure decreased slightly and amounted to 4,515.9 billion soums. The volume of loans allocated to individuals in 2023 increased by almost 350% compared to 2020 and amounted to 100,243.8 billion soums. By 2024, this figure had decreased by 27% compared to 2023 and amounted to 73,141.0 billion soums. The amount of loans allocated to other sectors increased significantly in 2020-2024, reaching 25,271.1 billion soums from 10,797.8 billion soums.

Conclusion and suggestions

In conclusion, ensuring the reliability and sustainable development of the banking system in the context of economic digitalization, as well as taking measures to prevent the negative impact of external crises, is of great importance. In this regard, it can be said without exaggeration that the banking system is implementing reforms related to introducing service types that align with market demands, considering customer needs and demands, adopting new service methods, applying new credit instruments, and establishing various credit institutions. The fact that the main part of the bank capital in our country belongs to the state is one of the main problems in the banking system. It has a certain impact on healthy competition in the banking sector and the quality of service provision. With the support of international financial institutions, a long-term strategy is being developed for the development of the banking and

financial system. The gradual reduction of the share of state-owned banks due to the influx of private and foreign capital into the banking system indicates the need to improve the competitive environment in the sector, improve the activities of commercial banks, the quality and culture of lending in all respects.

In general, the following are important in terms of credit policy in increasing the effectiveness of commercial banks' credit operations :

Firstly: to achieve improvement in the credit portfolio of commercial banks through the implementation of a well-developed and well-developed credit policy in the banking sector;

Secondly: credit guarantee further increase measures to reduce credit risk as a result of increasing public awareness ;

Thirdly: to attract more managers with international practical experience to the banking system;

Fourth: ensuring a moderate level of growth in lending volumes by improving the quality of the loan portfolio and risk management;

Fifth: further expand the capacity of banks to attract domestic and foreign investment;

In short, lending only market conditions based on done increase, banks state to resources reduce dependency , in banks service to show modernization , effective infrastructure create and banks activity automation through bank system efficiency The increase will be further improved.

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