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## Problems Of Increasing The Efficiency Of Bank Credits To Ensure Macroeconomic Sustainability

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### ABSTRACT

One of the main factors in ensuring the macroeconomic stability of the country in the post-pandemic period is to increase the efficiency of loans provided by commercial banks. This article examines the issues of improving the efficiency of loans provided by commercial banks in ensuring macroeconomic stability of the country in the event of a pandemic. In addition, through the analysis of the current situation in the banking system, systemic risks were identified and proposals and recommendations were developed to improve the efficiency of credit operations.

### KEYWORDS

Banking, credit operations, credit efficiency, macroeconomic stability.

### INTRODUCTION

As a result of the coronavirus pandemic and the negative impact of the global crisis on the macroeconomic situation, the issue of improving the efficiency of commercial bank

lending has become one of the most pressing issues. This, in our opinion, is due, on the one hand, to the role of commercial banks in the redistribution of financial resources in the

economy, and, on the other hand, the effective use of these resources is one of the key factors in ensuring the sustainability of economic entities.

Although the problems of ensuring the efficiency of credit services are reflected in many scientific sources, reports and forecasts, there is no generally accepted scientific approach and methodology for interpreting and overcoming the observed problems. On the contrary, the criteria for determining the effectiveness of bank loans are classified differently depending on the goals and objectives. In particular, some sources state that credit efficiency depends on increasing the level of digitalization of business processes [1], while another acknowledges that risk management and banking regulation criteria are factors that determine credit efficiency [2]. It is also noted that the effectiveness of credit operations should be assessed by the level of transparency of banking activities and participation in supporting macroeconomic development [3].

In turn, the Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" reads: pursuing a balanced macroeconomic policy "[4] has been identified as one of the key areas of reform in the country's banking sector.

Thus, the concept of ensuring the effectiveness of bank loans is interpreted in accordance with the objectives of the ongoing reforms, research and other measures. Efficiency is one of the important indicators that allows to determine the quality of a particular system and reflects the ratio between costs and system performance. But what types of costs, especially what socio-economic outcomes to consider, remains one of the current topics being studied by economists and practitioners to this day.

## Theoretical and Empirical Review

According to the analysis of scientific and practical sources, in order to ensure the efficiency and competitiveness of credit operations of commercial banks, on the one hand, the need to use the technological services offered by fin-tex companies, on the other hand, to ensure cost-effectiveness of services. At the same time, one of the important issues is to direct banking resources to the leading industries and sectors to ensure economic transformation in the country.

In particular, Ron Shevlin, CEO of Cornerstone Advisors, [5] wrote in a series of articles that the rapid digitalization of the value chain from the priority digitization processes in banks in 2021 as a result of the rapid entry of non-banks and non-banks in the market of credit, deposit and payment services attention increases. Ron Shevlin also noted: "... now banks have to sell financial services through a private website or mobile application, as well as Amazon, Google, Etsy, Square".

In Bank 4.0: A New Financial Reality: "Fintech companies and technology giants continue to attack the position of banks around the world, using all the power of digital technology. Relatively new Alipay (China), We Chat (China), Rakuten (Japan), Atom (UK), Monzo (UK), Starling (UK), Moven (USA), M26 (Germany), Revolut (UK) ) financial companies such as ... PayPal, Amazon and Google ... are destroying the banking ecosystem "[6].

Al-Azzawi in his research paper "Development of Mechanisms to Improve the Efficiency of Islamic Financial Institutions in Russia" states: "Efficiency is determined by comparing the efficiency of each type of banking product and the cost of that product. The result ... consists of two main elements: direct costs for the use of the product and indirect income from the use of customer funds" [7].

NV Chichavatov [8] noted in his research that the mechanisms of interaction between the structural transformation of the national

economy and financial potential, as well as the tools to implement this relationship (budget, tax, credit, investment) should be aimed at developing the national economy.

The analysis of the above and other scientific and practical sources shows that in modern conditions, the effectiveness of credit operations of commercial banks is assessed by a number of factors. Given that it is impossible to consider all of them in one study, this article analyzes the existing problems in increasing the role and importance of commercial bank loans in macroeconomic development.

### RESEARCH METHODOLOGY

Theoretical and methodological basis of this article is general economic literature and scientific articles, research of economists on the effectiveness of credit operations in commercial banks, interviews with scientists and industry representatives, analysis of their

written and oral feedback, expert evaluation, observation, economic events and a systematic approach to the processes, conclusions, suggestions and recommendations in relevant areas through a comparative analysis of the authors' experiences. In addition to general economic methods, special approaches to data structuring, such as comparison, aggregation of theoretical and practical materials, and systematic analysis, were used in the study of the topic.

### ANALYSIS AND RESULTS

As of January 1, 2021, the number of credit institutions operating in the country amounted to 159, including 32 commercial banks, 63 microcredit organizations and 64 pawnshops. There were 861 branches of commercial banks, 1,222 service offices and mini-banks, and 1,452 24/7 outlets.

Table 1

Dynamics of key indicators of the banking system of the Republic of Uzbekistan, (billion UZS) [9]

Indicators(Indexation)	2019	2020	Change, %
Gross domestic product (GDP) ( at current prices )	510 117,2	580 203,2	113,7
Bank receivables	272 726,9	366 121,1	134,2
<b>The ratio of bank receivables to GDP, in%</b>	<b>53,5</b>	<b>63,1</b>	<b>9,6</b>
Bank credit investments	211 580,5	276 974,8	130,9
<b>The ratio of bank investments to GDP, in%</b>	<b>41,5</b>	<b>47,7</b>	<b>6,2</b>
Balance of deposits in banks	91 009,0	114 746,9	126,1
<b>The ratio of bank deposits to GDP, in%</b>	<b>17,8</b>	<b>19,8</b>	<b>2,0</b>
The amount of bank capital	51 030,7	58 351,3	114,3
<b>The ratio of bank capital to GDP, in%</b>	<b>10,0</b>	<b>10,1</b>	<b>0,1</b>

According to Table 1, the volume of accumulated assets in the banking system in 2020 amounted to 366 121.1 billion UZS. UZS, which is 134.2% more than last year, and their ratio to GDP increased by 9.6 percentage points. During the same period, credit investments increased by 130.9%, their ratio to GDP increased by 6.2 percentage points. Almost the same growth trend was observed in

the volume of deposits attracted to the banking system, as well as in the volume of bank capital. It should be noted that there is a certain imbalance between the dynamics of indicators that reflect the results of the banking system and the dynamics of GDP. In particular, the difference between the dynamics of bank assets and GDP growth

(credit gap) was 20.5 percentage points, while the figure for credit investments was 17.1%.

Before drawing conclusions on the results obtained, we will try to analyze the data reflecting the specific features of credit operations of commercial banks.

In the first phase of the analysis, we consider changes in the loan portfolio of commercial banks during the pre-pandemic (2019) and pandemic period (2020).

Figure 1

Dynamics of loans provided by commercial banks to sectors of the economy (in billions of UZS) [9]

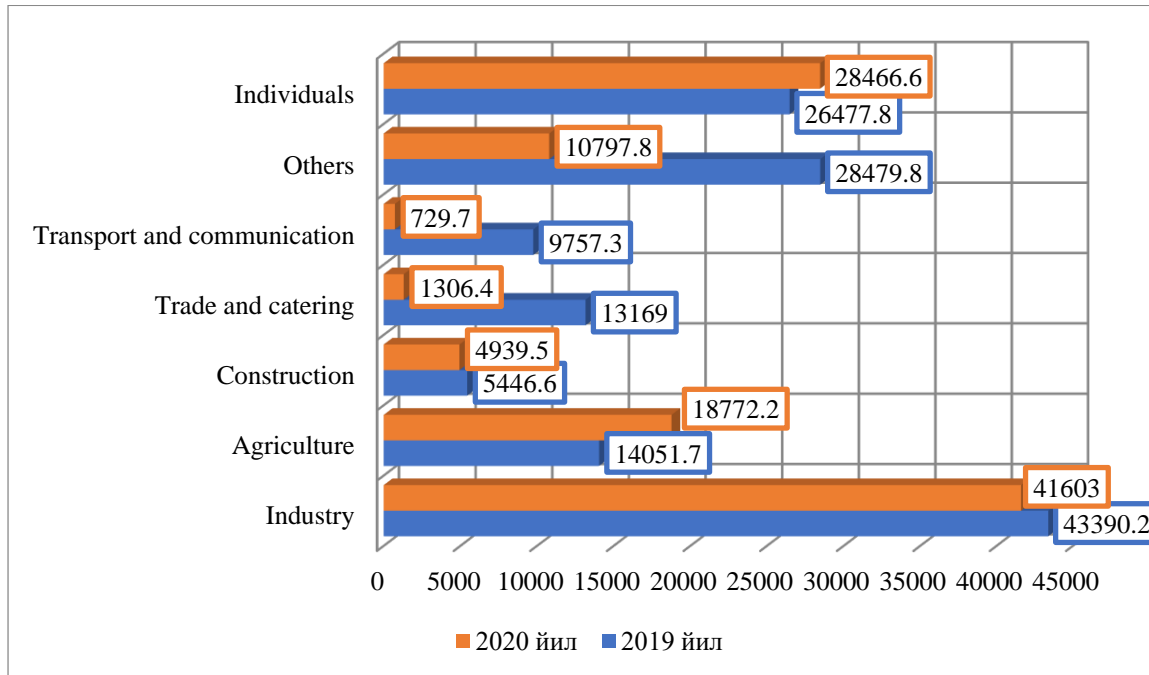


Figure 1 shows that measures taken to reduce the impact of the pandemic have led to a slowdown in economic activity. As a result, the volume of loans provided to economic entities has decreased. In 2019, commercial banks issued a total of 140,762.4 billion UZS. In 2020, the volume of loans amounted to 127,207.5 billion UZS. UZS or by 9.6%. Decrease in lending, in particular, trade and catering (from 13 169 billion UZS to 1 306.4 billion UZS), transport and communications (from 9 757.3 billion UZS to 729.7 billion UZS), industry (43 390.2 billion

UZS). UZS to 41,603 bln. UZS), construction (from 5,446 bln. UZS to 4,939.5 bln. UZS) and other sectors of the economy (from 28,479.8 bln. UZS to 10,797.8 bln. UZS). At the same time, the volume of loans to individuals in 2019 amounted to 26 477 billion. 28 466 billion UZS in 2020 UZS, loans to support the agricultural sector amounted to 14 051.7 bln. 18,772.2 billion UZS.

In order to expand the scope of analysis of the activities of commercial banks in the field of lending, we consider the structure of lending facilities (table 2).

**Table 2**

**Dynamics of changes in the loan portfolio of commercial banks (in billion UZS and percent) [9]**

τ/p	Indicators	2019	amount	2020	amount	change
1	To purchase basic tools	41 110,0	29,2	39 009,8	30,7	94,9
2	To replenish working capital	33 276,4	23,6	43 797,0	34,4	131,6
3	For new construction and reconstruction of legal entities	15 714,1	11,2	10 462,2	8,2	66,5
4	To build and buy housing for the population	7 366,0	5,2	9 163,5	7,2	124,4
5	Other purposes	43 296,0	30,8	24 775,0	19,5	57,2
	<b>Total</b>	<b>140 762,4</b>	<b>100,0</b>	<b>127 207,5</b>	<b>100,0</b>	<b>90,4</b>

Table 2 shows that in 2020, the loan portfolio of commercial banks increased the volume of loans allocated to replenish working capital of economic entities, the construction and purchase of housing. The volume of loans for the purchase of fixed assets, new construction and reconstruction for legal entities, as well as for other purposes has decreased. It should be noted that the replenishment of working

capital in the loan portfolio and the increase in lending to individuals (from 28.8% in 2019 to 41.6% in 2020 or 12.8%) could pose serious risks for commercial banks.

In the next stage of the analysis, we will consider the dynamics of interest rates on loans issued by commercial banks.

**Figure 2**

**Dynamics of average weighted interest rates on loans issued by commercial banks [9]**

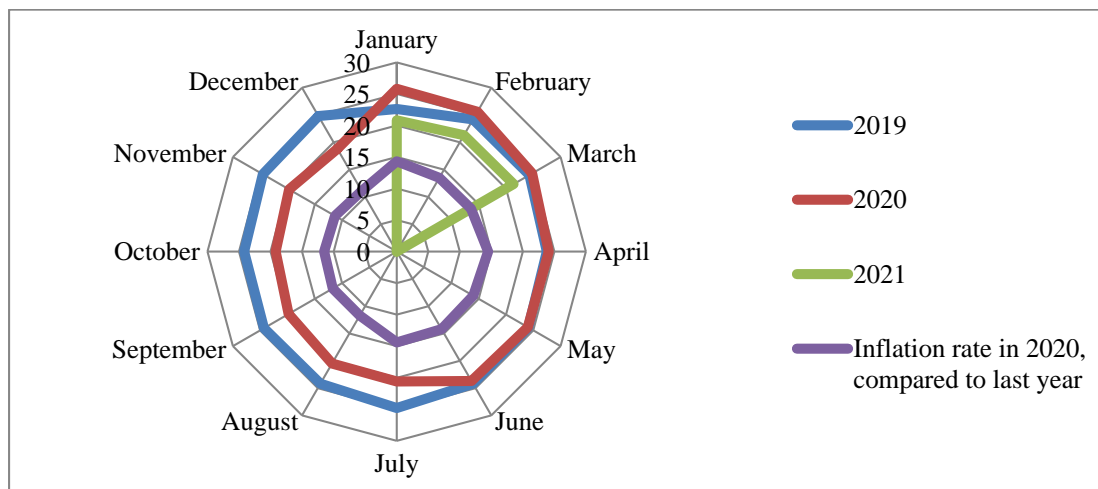


Figure 2 shows that in 2019, the average weighted interest rates on disbursed loans increased. In particular, the average weighted interest rates in January 2019 amounted to 22.6%, in April - to 23.8%, in July - to 24.2%, in December - to 24.8%. From April 2020, as a result of measures taken by the Central Bank of the Republic of Uzbekistan to limit the maximum amount of credit rates in order to eliminate the negative effects of the coronavirus pandemic, interest rates have fallen. In January 2020, the average weighted interest rate on loans was 25.8%, while in October the interest rates decreased to 19.2% and in December to 18.8%. However, the lifting of restrictions imposed by the Central Bank from October 1, 2020, led to an increase in the average weighted interest rates on loans from 20.8% to 21.4% in January-March 2021.

During the pandemic, the government provided tax and credit vacations to provide financial support to individuals and legal entities. However, in the long run, the excess of principal and accrued interest accrued over the grace period over current payments can be a serious factor disrupting the activities of individuals and legal entities. At the same time, rising interest rates will have a negative impact on the level of economic activity.

One of the highlights of the pandemic is that the real interest rates on short-term loans of commercial banks in the national currency will increase from 10.0% to 6.1% in January 2020, and from 10.1% to 7.2% on long-term loans in the national currency. decreased to percent. The decline in real interest rates is primarily explained by the inflation rate.

In 2019, the share of time deposits of the government in the structure of funding sources was 12%, loans from non-resident (foreign) financial institutions - 31%, bank customers' deposits - 34%, government debts - 22%. the share of bank customers' deposits decreased by 11% (less than 1%), deposits of bank customers by 31% (less than 3%), and loans from the government of the republic by 21%

(less than 1%). The decrease in the share of these sources led to an increase in the share of loans from non-resident (foreign) financial institutions by 5%. In recent years, there has been a tendency to increase the share of loans from non-resident (foreign) financial institutions in the sources of financing. In particular, their share increased to 11 percent in 2014, 12 percent in 2015, 13 percent in 2016, 20 percent in 2017, 20 percent in 2018, 31 percent in 2019, and 36 percent by 2020 [2]. This, in turn, is a factor that increases the impact of foreign currencies in the circulation of money, along with currency risks in the banking system, the liquidity risk associated with the payment of principal and accrued interest, as well as the concentration of credit risks. In 2019, the share of time deposits of the government in the structure of funding sources was 12%, loans from non-resident (foreign) financial institutions - 31%, bank customers' deposits - 34%, government debts - 22%. the share of bank customers' deposits decreased by 11% (less than 1%), deposits of bank customers by 31% (less than 3%), and loans from the government of the republic by 21% (less than 1%). The decrease in the share of these sources led to an increase in the share of loans from non-resident (foreign) financial institutions by 5%. In recent years, there has been a tendency to increase the share of loans from non-resident (foreign) financial institutions in the sources of financing. In particular, their share increased to 11 percent in 2014, 12 percent in 2015, 13 percent in 2016, 20 percent in 2017, 20 percent in 2018, 31 percent in 2019, and 36 percent by 2020 [2]. This, in turn, is a factor that increases the impact of foreign currencies in the circulation of money, along with currency risks in the banking system, the liquidity risk associated with the payment of principal and accrued interest, as well as the concentration of credit risks.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis of credit operations of commercial banks, we can recognize the

presence of the following systemic problems and risks:

First, the problem of a significant increase in the positive gap in the ratio of loans to GDP in the economy due to insufficient efficiency of loans provided by commercial banks. In particular, despite the fact that over the past three years (2018-2020) the volume of lending to the real sector has grown almost 3.5 times, lending remains low compared to the country's economic growth. This is due to the gap between the growth of lending and the country's economic growth, as well as the lack of credit efficiency, increased consumer satisfaction with imported products and the high share of foreign currency loans in the loan portfolio of commercial banks (almost 47% of total loans by 2020). can be recorded;

Secondly, the existence of the problem of timely repayment of loans issued by commercial banks to economic entities, including individuals. In particular, a total of 127.3 trillion UZS will be invested by commercial banks in 2020. UZS, and their repayment rate was 59%. The highest rate of loan repayment was observed in agriculture (100.4%) and the lowest in trade and catering (45%). As of April 1, 2021, the volume of problem loans (NPL) in the total loan portfolio of commercial banks (283,485 trillion UZS) (10,178 trillion UZS) amounted to 3.6%. The largest volume of problem loans was in High-Tek Bank (89.4%), Turkestan Bank (86.7%), Uzagroexportbank (55.5%), Savdogar Bank (13.8%), Poytakhtbank (7.1%)., Observed in Hamkorbank (5.0%);

Thirdly, the problem of reducing the share of bank customers' deposits in the total sources of financing and the rapid growth of loans from foreign financial institutions. As of January 1, 2019, the share of borrowed funds from foreign financial institutions in the total liabilities of commercial banks amounted to 104.4 trillion UZS. As of January 1, 2020, this figure amounted to 105.3 trillion UZS. sum, 2021

As of January 1, 151.7 trillion. UZS or increased by 45.3%. This situation increases the level of dollarization of liabilities of commercial banks and increases the likelihood of accumulation of currency risks in the economy. At the same time, one of the factors reducing the efficiency of resources in the consolidated balance sheet of commercial banks is the increase in the balance of funds in the accounts of "non-residents in other banks", which are the source of resources of foreign banks;

Fourth, the problem of increasing the share of loans to individuals in the loan portfolio of commercial banks and increasing the level of debt burden. In particular, the debt service ratio of individuals in January-September 2020 was 34%, which is 8% higher than in 2017 and 1% higher than in 2019. Although the growth rate of household income in 2017-2020 was 1.2 times, their liabilities on bank loans increased by 3.8 times or 37.8 trillion. UZS. Such a sharp increase in lending was primarily due to a 2.4-fold increase in the number of borrowers. The number of borrowers on loans is 21% of the total economically active population. Also, the high growth rates of loans to individuals by commercial banks and their doubling of deposits indicate that the mood of the population to receive loans is higher than the mood of savings;

Fifth, the problem of high level of regional distribution in lending to economic entities by commercial banks. In particular, a total of 127,207.5 billion UZS will be allocated in 2020. 49,477.8 billion UZS of loans UZS or 38.9% to the city of Tashkent. At present, Syrdarya region receives 4341.5 billion UZS. UZS, 5314.5 bln. UZS to Surkhandarya region. UZS, Samarkand region - 6851.5 bln. 6558 billion UZS were allocated to Kashkadarya region. Such differentiation can lead to disparities in the development of regions.

In order to eliminate the negative impact of these problems on the efficiency of banks, it is advisable to take the following measures:

1. Given that the factors that increase inflationary pressure on the economy are mainly related to the volatility of food prices on world markets and uncertainties about future trends in economic entities, loans provided by commercial banks should be used to finance full-cycle projects. This will reduce the impact of negative trends in the external economy on the country's economy, reduce the share of imports in final consumer goods, as well as ensure a balance of inflation.
2. In order to increase the volume of deposits of the population in the resource base of commercial banks, it is necessary to introduce types of deposits that can be "adjusted" to the inflation rate. This will lead to the establishment of a real partnership between banks and the public in the long run, although interest rates on deposits may rise over a period of time. In addition, the possibility of attracting cross-border remittances to the bank, which is one of the main sources of funding for the informal sector, will expand.
3. It is advisable to implement a policy of "cheap and long money" in order to ensure economic activity in the post-pandemic crisis and beyond. Such a policy has been introduced into the practice of central banks in developing countries. In particular, as of January 2021, the interest rate in the National Bank of Ukraine was 7.50%, in the Bank of Russia - 5.00%, in the Reserve Bank of India - 4.00%, in the People's Bank of China - 3.85%, in the Reserve Bank of Australia - 0.10. At the heart of this policy is the scientific view that a decrease in the money supply and an increase in interest rates is one of the factors causing economic crises, and this has been proven in many countries.
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