



SAARJ Journal on Banking & Insurance Research (SJBIR)

(Double Blind Refereed & Peer Reviewed International Journal)



DOI: **10.5958/2319-1422.2021.00025.4**

PRACTICE OF LOANING TO INDIVIDUALS IN UZBEKISTAN

Shohruh Abdunazarov*

*Independent Researcher,
Head of Privet Company "OMON TRADE",
UZBEKISTAN

Email id: shohrux_0507@mail.ru

ABSTRACT

The article presents views on the scientific and theoretical aspects of lending to individuals, as well as the state of practice. In particular, it compares the approaches of economists and experts to lending to individuals, as well as the current state of lending to individuals by commercial banks and the problems associated with them. As a result of the analysis and research, some recommendations were developed to increase and improve the efficiency of lending to individuals.

KEYWORDS: *Individuals, Commercial Banks, Loans, Mortgages, Consumer Loans, Overdrafts, Loan Portfolio, GDP.*

INTRODUCTION

Nessceciates loaning in world

It is known that commercial banks have a positive effect on the development of domestic production, increasing the demand for consumer goods, strengthening the solvency of the population and increasing aggregate demand through lending to individuals. At the same time, the practice of expanding lending to individuals leads to negative processes in commercial banks, as well as to an increase in credit risk in the country's banking system and a decrease in the quality of banks' loan portfolios. In particular, the number of problem loans (NPL-Nonperforming Loan) is growing in the loan portfolio of banks in many countries of the world. For example, San Marino, Cyprus, Greece, Ukraine and Croatia are the "leading" countries in the world in terms of the volume of problem loans, whose NPL in 2015 was 22.8–45.8% [1]. This process requires research to improve the quality of the bank's loan portfolio and reduce the volume of problem loans not only in domestic but also in international practice.

Despite a number of effective reforms in the banking system of Uzbekistan in recent years, there are still pressing problems that need to be addressed. This issue is addressed in the Decree of the President of the Republic of Uzbekistan "On additional measures to increase the popularity of banking services" in order to further strengthen the rights and legitimate interests of consumers of

banking services, especially in the regions, and financial transparency, as well as a culture of service and trust in the banking system. a number of problems and shortcomings were noted. In particular, the excessive centralization of powers in making decisions on lending prevents a clear delineation of responsibilities between parent banks and their branches, and complex mechanisms for considering loan applications limit the possibility of quickly obtaining loans [2].

However, if we look at the problems with loans to individuals from the point of view of banks, the main contradictions are non-payment of loans and interest on time, and in most cases, abuse of loans.

Analysis of relevant literature to the topic

When you think about lending to individuals, it is basically a bank loan. Bank loans are the most widely used types of loans and are characterized by the ease of obtaining, using, repaying and maintaining this account. Because all relationships with a bank loan have a monetary form, that is, monetary.

According to the Russian scientist OI Lavrushin, “credit is the basis of the modern economy, an integral part of economic development. Credit is used by large enterprises and associations, small-scale production, agriculture and trade structures, as well as private individuals [3].

Professor Sh.Z. Abdullaeva defines a loan as follows: A loan is a set of economic relations arising from the borrowing and repayment of temporarily free funds by the owner of money or other persons during a certain period of time subject to payment [4].

LuminitsaChernenko and MarilenaPieleanuLazarenko stated in their article that “the term for granting loans to individuals, their issuance and guarantee is carried out on a contractual basis in accordance with the lender's internal procedures approved by the responsible authorities” [5].

OrazioAttanasio, Britta Augsburg, Ralph De Haas, Emla Fitzsimons, Heike Harmgart, in their research, “obtained evidence that lending to individuals is more likely to lead to family businesses in rural areas. They also witnessed an increase in consumption among women in rural areas without higher education who received loans from them”[6].

In her scientific work, Natalya Ivanovna Jirkina "defined the concept of lending to individuals, and also explained the essence of personal, retail and consumer loans, which are its constituent parts" [7].

Ternovskaya Elena Petrovna and Lavrishko Alexander Sergeevich in their article “To reduce the risk of retail lending, which is the main type of lending to individuals, an effective business model has been developed with the choice of a loan product (or directions for its modernization). stressed the importance of formation. For this purpose, they proposed new criteria for the classification of types of consumer loans for in-depth analysis of the product policy of commercial banks, selection and justification of directions for modernizing credit products and the formation of monetary policy to improve the product policy of banks ”[8].

In his study PhD. F.Kholmamatov argued that “to overcome the existing problems in the practice of lending to individuals, it is necessary to develop a loan repayment schedule based on additional income after deducting consumer expenses from their monthly income and lending according to this schedule” [9].

In addition to the above, the analysis of the credit burden of individuals was studied by many foreign and domestic scientists, in particular, economists M. Drexman and M. Juselius from the Bank for International Settlements in 2012 in 27 countries, including 19 developing countries. As a result of the study, it was found that in these countries with a stable banking system, the debt service ratio of the population on credit debt is formed within 5-20% of the total net income of the population [10].

American economists Mannering, Dasgupta and others say that auto loans for most Americans are second only to home loans. It is obvious that the dynamics of changes in loans to the population is one of the areas that should always be studied and analyzed [11,12].

Taking into account the above, given the particular importance of lending to individuals in our country, we have classified the following types of loans that commercial banks can provide to individuals, depending on the object and purpose of use:

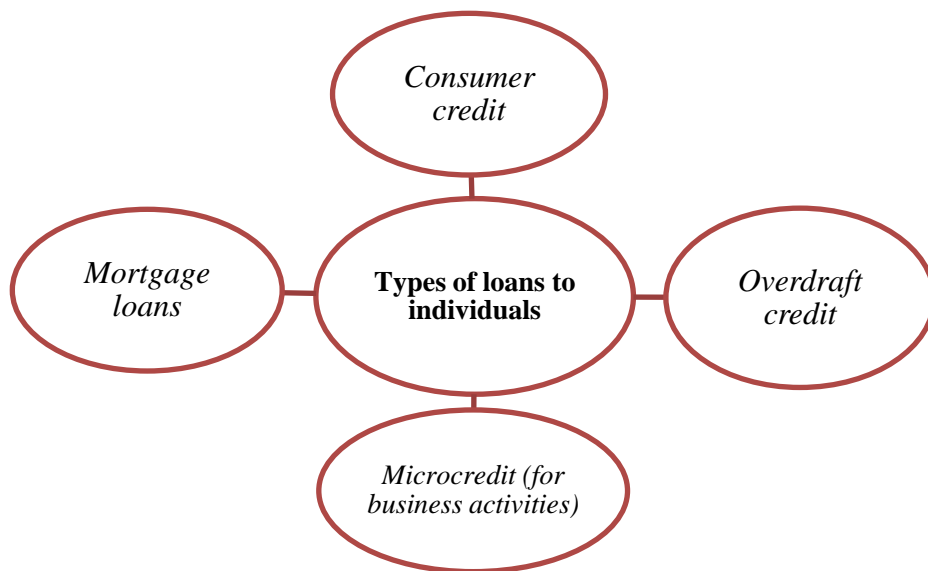


Figure 1. Types of loans to individuals

Analysis and results

Today the provision of services to individuals by commercial banks, lending for various purposes is an important source of income for commercial banks. This paves the way for the expansion and widespread adoption of banking services. In addition, the expansion of lending to individuals in credit relations and an increase in the volume of loans to individuals are positive aspects of this factor, which will ensure economic growth in the country. Taking this into account, the figure below estimates the share of loans to individuals in the loan portfolio of commercial banks.

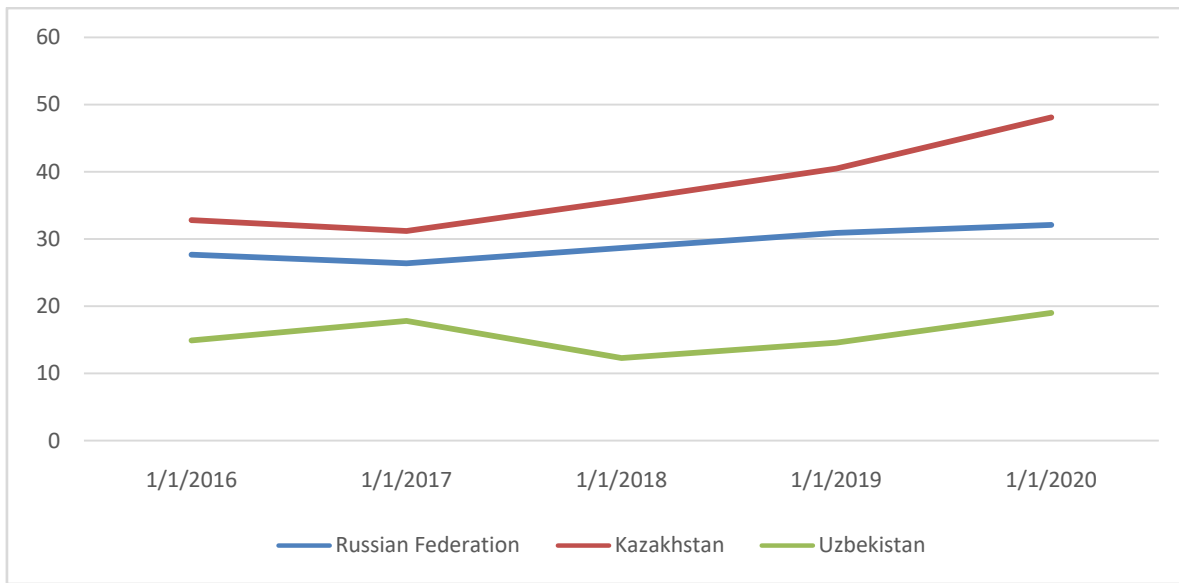


Figure 2. The share of loans to individuals in the loan portfolio of CIS banks¹ (percent)

As a result of the study of 3 CIS countries, it can be concluded that the largest share of loans to individuals in the loan portfolio was received from banks of the Republic of Kazakhstan and the Russian Federation. The share of loans provided to individuals by their banks has been growing over the years, reaching 48.1% in Kazakhstan at the end of 2019 and 32.1% in the Russian Federation. The share of loans to individuals in the loan portfolio of Uzbek banks in 2016-2019 averaged 16.8%. This is almost 2 times less than in the countries that you are studying for sure. Taking this into account, we consider it appropriate to pay special attention to increasing the volume of lending to individuals in our country.

In general, you need to understand that lending to individuals by commercial banks, firstly, will satisfy the population's demand for consumer goods and services and will have a positive effect on strengthening their solvency, and secondly, it will allow banks to generate stable income and minimize credit risks. Based on the analysis of indicators of foreign practice of lending to individuals, we see the importance of this factor.

Lending to individuals is an important area in international banking practice, and below is information on the ratio of loans to individuals by banks in Uzbekistan and some other countries to GDP.

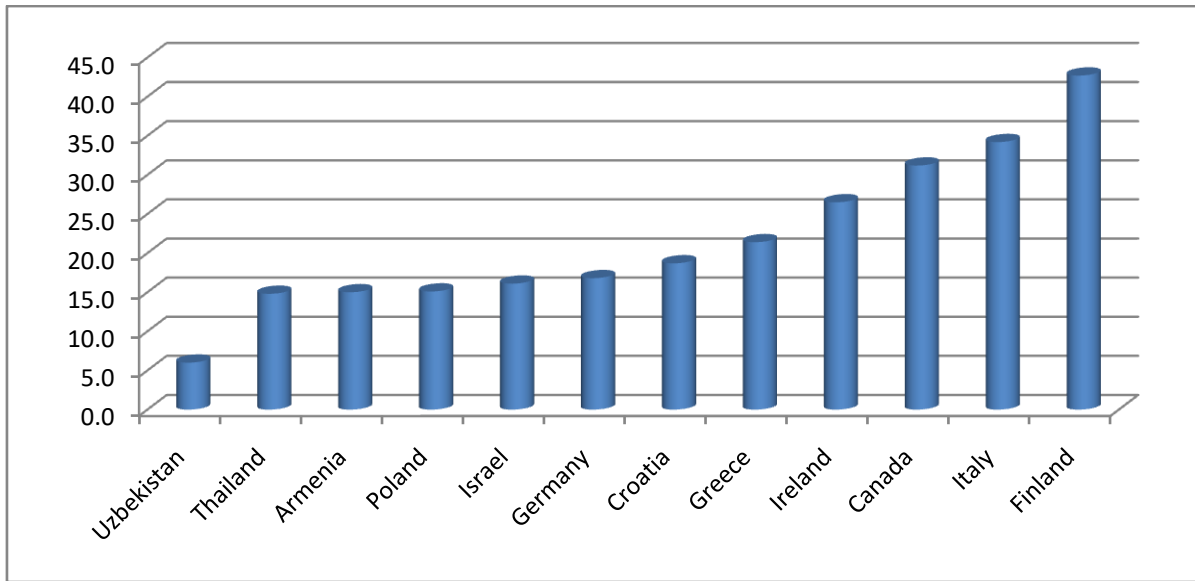


Figure 3. The share of loans to individuals in the GDP of Uzbekistan and various countries of the world² (as of 01.01.2019)

These data show that the share of loans to individuals in the country's GDP in some countries exceeds 40%. From this we can conclude that lending to the population serves to meet their various needs and, most importantly, to increase sales of manufacturing and service organizations.

It should be noted that the main purpose of bank loans is to generate income, but at the same time, these loans will increase the supply of consumer goods (construction, furniture, cars, etc.) and services in the country, turning the needs of the population into demand. This, in turn, will create additional jobs and reduce revenues to the state budget. In developing countries and countries with economies in transition, this figure can be relatively low. The main reason for this is that the condition and capabilities of the banking system in these countries are much more limited than in the banking system of developed countries.

In the practice of Uzbekistan, this figure was 6.0%. Obviously, it is necessary to look for opportunities to increase the share of loans provided by commercial banks to individuals in GDP. The low loan portfolio of commercial banks and the low share of loans to individuals in GDP do not have a strong impact on strengthening the solvency of the population, increasing overall demand in the market for consumer goods and services.

The results of the analysis show that a number of problems remain in lending to individuals by commercial banks, such as low long-term financial resources, untimely payment of principal and interest payments, real income and their correct distribution. We believe that the implementation of positive solutions to these problems will allow in the future to increase the volume and quality of lending to individuals by commercial banks.

CONCLUSION AND RECOMMENDATIONS

Today, commercial bank loans provide for the acquisition of housing and other long-term property of relatively high value by the population, financing of expenses related to education, as well as the implementation of expenses in excess of current income, if necessary, family or personal finances. the same is true for potential funding shortfalls. In this regard, bank loans provide the

population with the opportunity to plan and implement their expenses for the medium and long term and, thus, serve as one of the important sources of increasing the welfare of the population.

In general, according to the results of the analysis, it can be concluded that at present the share of loans issued to individuals by commercial banks of the republic in GDP is lower than the normative norms recommended in international practice, in general, is formed at a moderate level. In addition, the share of loans provided by commercial banks to individuals in the loan portfolio is significantly lower than in neighboring CIS countries. In fact, despite the fact that the population of the neighboring Republic of Kazakhstan is smaller than ours, about 50% of loans are issued by the population. High growth rates of loans to the population are mainly due to a significant expansion of mortgage lending to improve the living conditions of the population within the framework of state social programs and an increase in loans for financial support of entrepreneurship.

It is advisable to improve the practice of lending by commercial banks of the country through an accurate assessment of the state of lending to individuals, setting an upper limit for the credit burden of the population and overcoming existing problems in practice.

We have developed the following recommendations for increasing the volume and quality of lending to individuals by commercial banks:

- in connection with the steady increase in the volume of loans provided to the population as part of the loan portfolio of banks, it should be increased to 20-25%, as well as 10-15% of GDP;
- simplification of the credit process for individuals and commercial banks in general, the introduction of modern methods of lending to the population, i.e. the practice of registering remote lending;
- Increasing the solvency of the population, it is necessary to achieve timely repayment of the principal amount and interest payments on loans taken from banks.

In short, the solution of the above issues and the implementation of the recommendations will have a positive effect on improving the standard of living and sustainable development of the national economy, along with an increase in the volume and quality of lending to individuals by banks.

LIST OF USED LITERATURE

1. Международная практика управления проблемными активами банков. Д.М.Савостин. Финансовый университет при Правительстве Российской Федерации, г. Москва. file:///C:/Users/admin/Downloads/mezhdunarodnaya-praktika-upravleniya-problemnymi-aktivami-bankov.pdf
2. Ўзбекистон Республикаси Президентининг 2018 йил 23 мартдаги “Банк хизматлари оммабоплигини ошириш бўйича қўшимча чора-тадбирлар тўғрисида”ги ПҚ-3620-сонли Қарори – www.lex.uz
3. Лаврушин О.И. Деньги Кредит Банки. // М., - Финансы и статистика. -2006. -С. 162.
4. Абдуллаева Ш.З. Пул, кредит ва банклар. Дарслик. –Тошкент.: “Иқтисод-молия”, 2007. - 171 б.
5. LuminițaCernenco, MarilenaPieleanuLazarenco*Some hints on individual lending and different factors affecting the credit activity risks*Annals of SpiruHaret University Economic Series ISSN 2393-1795 issue 4/2016

6. Orazio Attanasio, Britta Augsburg, Ralph De Haas, Emla Fitzsimons, Heike Harmgart *Group lending or individual lending? Evidence from a randomised field experiment in Mongolia*. MPRA Paper No. 35439, posted 16 Dec 2011 23:37 UTC
7. Жиркина Наталья Ивановна “Развитие системы кредитования физических лиц в Российской Федерации в современных условиях” номлиа автореферати Самара 2011
8. Ternovskaya E.P., Lavrishko A.S. (2018). Trends in the development of consumer lending products in the Russian economy and the direction of their modernization. *The Eurasian Scientific Journal*, [online] 5(10). Available at: <https://esj.today/PDF/71ECVN518.pdf> (in Russian)
9. Холмаматов Ф.К. Тижорат банклари кредитлаш амалиётини такомиллаштириш. Иқтисодиёт фанлари бўйича фалсафа доктори (PhD) диссертацияси автореферати. Тошкент: 2019. “IQTISOD-MOLIYA”, 2019. 11 б.
10. М.Власенко Об основных показателях долговой нагрузки на экономику. *Банковский вестник*, 2015 г
11. Mannering, F., Winston, C., Starkey, W., An exploratory analysis of automobile leasing by US households. *J. Urban Econ.* 52 (1), 2002. – P. 154–176. <https://www.sciencedirect.com>
12. Dasgupta, S., Siddarth, S., Silva-Risso, J., Lease or Buy?: A Structural Model of the Vehicle Acquisition Decision, University of Southern California, Working Paper. 2003. <https://www.sciencedirect.com>