

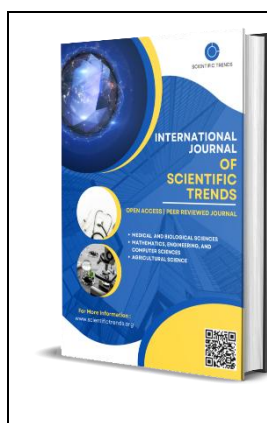
# Problem Loans of Commercial Banks and Methods for Their Resolution in Modern Conditions

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## Abstract

The article provides a definition of problem loans, reveals their role in macroeconomic regulation and in the development of the economy as a whole; examines the regulatory mechanism and methods for their resolution in modern conditions.

**Keywords:** Non-performing loan, loan repayment, loan portfolio, financial consulting, legal measures.

## Introduction

According to statistical forecasts, global economic growth in 2024 will remain at about 2.6%, and in 2025–2026 a slight increase is expected — on average up to 2.7%. At the same time, these indicators remain significantly below the average value of 3.1% characteristic of the decade preceding the COVID-19 pandemic<sup>1</sup>. Under such conditions, credit acquires particular importance as a tool for maintaining economic activity.

First of all, it is necessary to define the essence of the concept of “credit”. Credit represents a system of economic relations between two parties, in which the lender provides funds on the principles of repayment, maturity, and payment, while the borrower undertakes to return the received funds within the established period with interest.

According to the loan agreement, a bank or other credit institution (lender) undertakes to provide the borrower with funds in the amount and under the conditions stipulated by the agreement, while the borrower assumes the obligation to repay the received amount and pay accrued interest. The loan agreement is concluded in written form, and one copy must be provided to the borrower<sup>2</sup>.

<sup>1</sup> <https://www.vsemirnyjbank.org/ru/news/press-release/2024/06/11/global-economic-prospects-june-2024-press-release>.

<sup>2</sup> <https://advice.uz/ru/document/>

Credit plays an important role in the economy, as it provides enterprises with the necessary financial resources to carry out their activities. Due to borrowed funds, organizations can maintain the continuity of the production process and function effectively. However, along with this, there is the problem of non-performing loans. A significant share of such loans in the structure of banks' loan portfolios negatively affects the financial stability of both individual credit institutions and the economy as a whole<sup>3</sup>.

Having considered the essence of credit and its role in the economy, it is necessary to move on to the analysis of its negative aspects. In modern economic literature, there is no unified approach to defining non-performing loans of commercial banks. In a broad sense, they are understood as obligations of borrowers for which signs of impairment have been identified or there are factors that may affect the timely and full fulfillment of obligations. This category also includes debt recorded in overdue loan accounts.

Non-performing loans represent debt for which the borrower experiences difficulties in repayment. This may be expressed in the form of payment delays, accumulation of arrears on the principal or interest. In some cases, such situations lead to the need for debt restructuring, sale of collateral, or even borrower bankruptcy.

The regulation of non-performing loans is carried out at both the micro and macro levels. At the micro level, the management of problem assets is usually carried out by specialized divisions of commercial banks or separate organizations engaged in their resolution. In most countries, this level plays a key role in managing the portfolio of non-performing loans. The macro level involves state participation, which creates special institutions or agencies engaged in the purchase and subsequent management of problem assets, often in coordination with the central bank.

## Main Part

A problem loan is a debt for which the borrower fails to fulfill or improperly fulfills the terms of the loan agreement. Lending as a financial service is focused on generating profit for a bank or other credit institution through interest income.

A loan is classified as non-performing in the case of systematic violation of the payment schedule, deterioration in the quality or liquidity of collateral, as well as in the occurrence of circumstances that may negatively affect the borrower's ability to meet obligations. As a rule, such situations develop gradually and are accompanied by a number of warning signs that may appear over a long period of time. One of the most common causes of overdue debt is delays in wages. At the same time, for banks such circumstances are usually not considered valid reasons, although in some cases credit institutions may accommodate clients by offering debt restructuring or extension of loan terms.

The causes of non-performing loans are multifactorial. The main factors include:

- deterioration in the borrower's financial condition caused by job loss, income reduction, or unforeseen expenses;
- changes in the macroeconomic environment, including rising interest rates, inflationary processes, and other external factors affecting borrowers' solvency;

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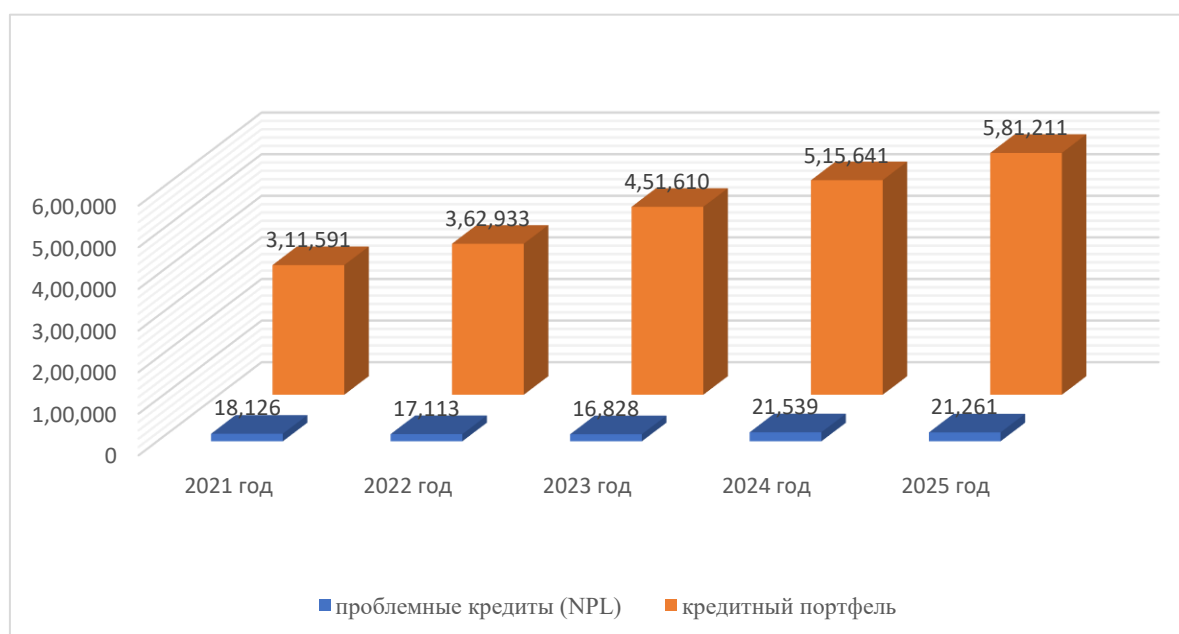
<sup>3</sup> Боннер Е. А. Банковское кредитование / Е.А. Боннер. - М.: Городец, 2017. – 160 с.

— adverse credit history, which may lead to an increased debt burden and complicate debt servicing;

— insufficient level of financial planning and management of personal or corporate finances, contributing to debt accumulation.

The presence of a significant volume of non-performing loans poses a serious threat to the banking sector, as it increases the risk of financial losses and requires additional measures for debt management and restructuring. Ultimately, this negatively affects the stability of financial institutions and the development of the economy as a whole.

Analysis of the dynamics and structure of non-performing loans over periods allows for a deeper and more objective assessment of the state of the banking system's loan portfolio. Studying changes in overdue debt by years, sectors of the economy, categories of borrowers, and types of lending makes it possible to identify key trends, determine factors of growth or decline in the level of NPLs, and identify the most vulnerable segments. Such a comparative approach helps not only to diagnose current problems but also to develop effective measures to reduce the volume of problem assets. Additional visualization of data in the form of tables, charts, and graphs facilitates the interpretation of statistics, makes conclusions more illustrative, and contributes to improving the quality of management decisions in the banking sector.



**Figure 1. Information on the total loan portfolio and the share of non-performing loans of commercial banks in the Republic of Uzbekistan as of October 1, 2021 to October 1, 2025, billion soums.<sup>4</sup>**

Analysis of the dynamics of the loan portfolio of banks in the Republic of Uzbekistan for 2021–2025 showed a steady growth in its volume — from 311.6 trillion soums in 2021 to 581.2 trillion soums in 2025, which is almost 1.9 times higher than the base period. Along with the expansion of lending volumes, fluctuations in the level of non-performing loans were observed.

<sup>4</sup> Compiled by the author based on data from the website <https://cbu.uz/ru/>

Thus, the volume of non-performing loans in 2021 amounted to 18.1 trillion soums, decreasing to 16.8 trillion soums by 2023; however, in 2024 it increased again to 21.5 trillion soums under the influence of macroeconomic factors. In 2025, a slight decrease of this indicator to 21.3 trillion soums was noted, which is associated with the introduction by banks of new tools for managing problem assets, including automated collection systems and multi-stage restructuring procedures. The share of non-performing loans in the total loan portfolio decreased from 5.8% in 2021 to 3.7% in 2025, which reflects an increase in the effectiveness of risk management and an improvement in the quality of credit assets. In general, the banking sector demonstrates a positive trend towards strengthening financial stability and improving mechanisms for managing non-performing loans. For the banking sector, the problem of non-performing loans is particularly acute. First of all, credit institutions do not receive the expected interest income, which directly affects their financial results. In some cases, banks have to use their own reserves to fulfill obligations to depositors and maintain liquidity.

In addition, the process of recovering issued funds requires additional costs. Banks are forced to incur expenses for maintaining specialists working with debt, as well as for conducting legal procedures, including litigation and debt recovery measures such as the sale of the borrower's property. It should be noted that these processes are lengthy and do not always guarantee full repayment of funds.

Management of non-performing loans is one of the key areas of banking activity. The effectiveness of the chosen methods for dealing with overdue debt determines not only the recovery of individual loans but also the overall financial stability and business reputation of the bank.

Practice shows that the settlement of problem debt can be carried out using various instruments, the choice of which is determined by the specific situation. The main approaches include:

- conducting negotiations with the borrower in order to change the terms of the loan agreement (for example, reducing the interest rate or extending the repayment period);
- development and implementation of flexible support programs, including granting deferrals or temporary reduction of the payment burden;
- sale of collateral to cover debt in the case of secured loans;
- assignment of claims on non-performing loans to specialized organizations engaged in debt collection;
- application of legal measures, including going to court if it is impossible to reach an agreement with the borrower;
- providing advisory support to borrowers in order to find mutually beneficial solutions and prevent further deterioration of their financial condition.

Each of these instruments has its advantages and limitations; therefore, their application must take into account both the interests of the lender and the financial capabilities of the borrower. In general, working with non-performing loans requires a comprehensive approach and careful control at all stages of the credit process — from assessing the borrower's creditworthiness to the full fulfillment of obligations under the agreement.

## Conclusion

In conclusion, it should be noted that the key element of preventive work with non-performing loans is a comprehensive analysis of the borrower's creditworthiness, taking into account the

widest possible range of risks. After the loan is granted, systematic monitoring of borrowers' financial condition and payment discipline becomes particularly important. An important area is also the timely identification of signs of deterioration in loan quality, which include frequent changes in lending terms, the practice of prolongation of obligations, a decline in the borrower's financial stability, a reduction in sales volumes, as well as insufficient cash flows to service the debt.

A significant role in banking activities is played by the selection of the most effective methods for resolving problem debt. The conducted analysis shows that widely used instruments such as restructuring, refinancing, or transfer of debt to collection agencies do not always provide the expected result. In cases where these measures prove insufficiently effective, credit institutions resort to more stringent recovery mechanisms, including judicial procedures.

Thus, improving the situation with non-performing loans is possible provided that sound management decisions are made aimed at choosing adequate methods of working with debt, as well as forming a balanced structure of the loan portfolio taking into account the level of accepted risks. A comprehensive and systematic approach to credit risk management contributes to increasing the stability of the banking sector and reducing the negative impact of problem assets on the economy as a whole.

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