

The Role of Commercial Bank Loans in the Development of the Service Sector in Uzbekistan

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Abstract: The service sector plays an important role in the sustainable development of Uzbekistan's economy. Therefore, financial support by commercial banks through lending to business entities in the service sector, especially enterprises operating in household, educational, medical, information and communication and other popular areas, is one of the urgent tasks. This article analyzes the composition and dynamics of loans issued by commercial banks to the service sector, in particular, scientific and theoretical views on improving the practice of lending in the service sector, the share of loans in the assets of commercial banks, the sectoral structure of loans issued, the level of problem loans, as well as loans issued to the service sector by leading commercial banks, the amount of reserves for coverage of possible losses and the level of profitability.

Keywords: credit, service sector, resource, reserve, profitability level, industry structure, credit line.

INTRODUCTION

At the new stage of economic development of Uzbekistan, special attention is paid to the development of the service sector. In this regard, the Resolutions of the President of the Republic of Uzbekistan No. PQ-5113 dated May 11, 2021 "On measures for the accelerated development of the service sector", No. PQ-4752 dated June 16, 2020 "On measures to support the service sector", 2022. Of great importance in ensuring the rapid growth of the service sector, further support for entrepreneurship in this direction is the implementation of the decision of January 27 PQ-104 "On additional measures for the development of the service sector". and the creation of new jobs for the population.

In particular, in order to increase the share of the service sector in the country's economy, fully utilize the existing opportunities in the field of local services, expand the types of services and improve their quality, as well as further support for business entities, the Government of the President of the Republic of Uzbekistan by Decision No. PQ-5113 dated May 11, 2021 approved the "Target parameters for the development of the service sector in the Republic of Uzbekistan" and introduced their monitoring. [1]

As a result of the implementation of the program for the development of the service sector in the Republic of Uzbekistan for 2021-2023, the volume of services provided in 2021 increased by almost 20%. [2]

According to the statistical agency, as of January 1, 2023, the number of enterprises and organizations operating in the service sector amounted to 392.8 thousand units, that is, 66.3%. The share of small businesses in the total number of enterprises and organizations operating in the service sector amounted to 82.9%. In January-December 2022, the share of market services provided by small businesses amounted to 48.4%. [3]

This sector of the economy includes various types of activities and contributes to increased production efficiency. The scale, composition and level of development of the service sector occupy a special place in assessing the economic situation of the Republic of Uzbekistan. The service sector includes international corporations, banks, airlines, computer centers, telecommunications, insurance, legal and consulting firms, government and non-governmental organizations, as well as non-profit organizations.

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LITERATURE ANALYSIS ON THE SUBJECT

Foreign economists - E. Altman, P. Andrikopoulos, R. Barsky, A. Khorosgani, S. Beyer, I. Wieland, O. Blanchard, DJ. Sinki, D. Furcheri, A. Pescatori, R. Caballero, A. Krishnamurzi, D. Fantazini, O. Lavrushin, F. Mishkin, N. Researched in the scientific works of Tkach, E. Brovkina, A. Burova, G. Penikas, S. Popova and others.

Theoretical and practical aspects of lending in the service sector were studied in the scientific works of Sh. Abdullaeva, B. Berdiyarov, D. Saidov, Zh. Isakov, F. Dodiev, Sh. Mirziyoyev, J. Majidov, F. Kholmamatov and others from Uzbekistan.

According to V. Kayukov and A. Kayukov, in order to improve the mechanism for lending to the service sector, it is necessary to strengthen the resource base of commercial banks, ensure the proportionality of assets and liabilities of banks by their size. and duration. [4] This conclusion of V. Kayukov and A. Kayukov is of great practical importance for the banks of our republic. The reason for this is that, firstly, there is a problem of strengthening the resource base of commercial banks of our republic.

According to official statistics of the Central Bank of the Republic of Uzbekistan, the share of resources attracted to the issue of securities by commercial banks in the total volume of liabilities as of January 1, 2023 amounted to only 2.3 percent. [5] This is clear evidence that the resource base of banks is not strong enough. Because the funds received from the sale of securities in commercial banks of developed countries occupy a significantly larger weight in the volume of banks' liabilities. For example, at Bank of America (USA), as of January 1, 2022, the share of funds received from the sale of securities in the volume of liabilities was 30.3 percent. [6]

According to O. Lavrushin, short-term lending to a larger facility within the credit line has the following advantages for legal entities:

- issued only to legal entities;
- only large enterprises are the bank's clients;
- borrowers are enterprises with a constant need for short-term resources;
- the main account of borrowers of this loan is in the lending bank;
- the loan is provided only to financially reliable clients. [7]

This conclusion of O. Lavrushin has practical significance from the point of view of improving the practice of lending to enterprises in the service sector of banks in our republic. The reason for this is that in the practice of lending to enterprises in the service sector of commercial banks in our republic, the main place is occupied by one-time lending from a separate loan account, and lending by opening a credit line has not become widespread. However, lending by opening a credit line of prof. It has a number of advantages, which O. Lavrushin recognized. From the scientific and theoretical views of economists it is clear that the development of the service sector depends on a large number of factors, such as the price of services, the return on capital, the level of investment, the level of social services of the state budget, and labor productivity.

RESEARCH METHODOLOGY

In the course of the scientific research in the article, the importance of commercial bank loans in financial support of the service sector is scientifically substantiated, using methods based on the principles of abstract-logical, system analysis, analysis and synthesis, as well as using analytical analysis. A comparative analysis, statistical analysis of data was carried out, problems were identified, and scientifically substantiated proposals were given as solutions to problems. At the same time, scientific works of foreign and domestic economists on issues of improving the practice of lending to commercial banks, including the practice of lending to the service sector; The sources were annual reports of central banks, as well as analytical materials and studies of international rating agencies (Ernst & Young, Thompson Reuters, Blossom, etc.).



ANALYSIS AND DISCUSSION OF RESULTS

Commercial bank loans are an important source of financing expenses related to the development of the national economy. If short-term bank loans are a reliable financial means of ensuring the continuity of enterprises, then their long-term investment loans are a reliable source of technical and technological re-equipment of enterprises.

Lending is the main activity of commercial banks of the Republic of Uzbekistan (Table 1).

Table 1. Composition of assets of commercial banks of the Republic of Uzbekistan, in percent [5]

Composition of assets	2018	2019	2020	2021	2022
Cash assets include:	17,1	17,2	17,3	18,1	20,0
Cash in the cash register and other payment documents	2,5	2,4	2,7	2,4	3,5
Funds in the Central Bank	5,3	5,4	5,1	7,1	6,6
Funds in another bank-resident	3,0	3,7	3,6	3,0	3,1
Funds in another bank - non-resident	6,3	5,7	5,9	5,6	6,8
Investments in securities	1,1	1,2	2,6	4,4	5,7
Obligations of clients on financial instruments	0,9	0,2	0,4	0,3	0,3
Credits	76,8	76,1	73,8	71,1	68,1
Basic tools	1,6	2,1	2,3	2,5	2,6
Interest accrued on assets	1,3	1,2	2,2	2,1	2,2
Other assets	1,2	2,0	1,4	1,5	1,1
Assets - total	100,0	100,0	100,0	100,0	100,0

It can be seen from the data presented in Table 1 that loans occupy an absolute high proportion of the assets of commercial banks of our republic.

Now we evaluate the network composition of loans (Table 2).

Table 2. Sectoral structure of loans of commercial banks of the Republic of Uzbekistan, in percent [5]

Sectors	2018	2019	2020	2021	2022
Industry	39,8	35,7	36,9	36,0	32,5
Agriculture	5,6	8,1	10,1	10,7	10,8
Construction	3,5	2,8	2,7	2,8	2,7
Sales and general service	6,4	6,8	7,2	8,4	7,4
Transport and communication	12,5	11,1	9,6	8,8	7,6
Material and technical support	1,6	1,5	1,4	1,2	1,0
Housing and communal economy	1,1	1,2	1,4	0,7	0,5
Individuals	14,6	18,9	19,8	21,3	25,9
Other areas	14,8	13,7	10,9	10,0	11,7
Loans - total	100,0	100,0	100,0	100,0	100,0

It is evident from the data in Table 2 that in the sectoral structure of loans of commercial banks of the Republic of Uzbekistan in 2018-2022, the largest share was occupied by loans to the industrial sector. In 2018-2022, in the structure of loans of commercial banks of our republic, loans to agriculture took the second place by weight (excluding loans to individuals). This is explained by the fact that agriculture is one of the main sectors of the country's economy and the state is pursuing a policy aimed at the development of agriculture. During the analyzed period, loans aimed at material and technical support and housing and communal services occupied a very small weight in the network structure of loans of commercial banks of the Republic of Uzbekistan.

It should be noted that the relatively high level of problem loans in the banking practice of our republic has a negative impact on the creditworthiness of commercial banks (see Figure 1).



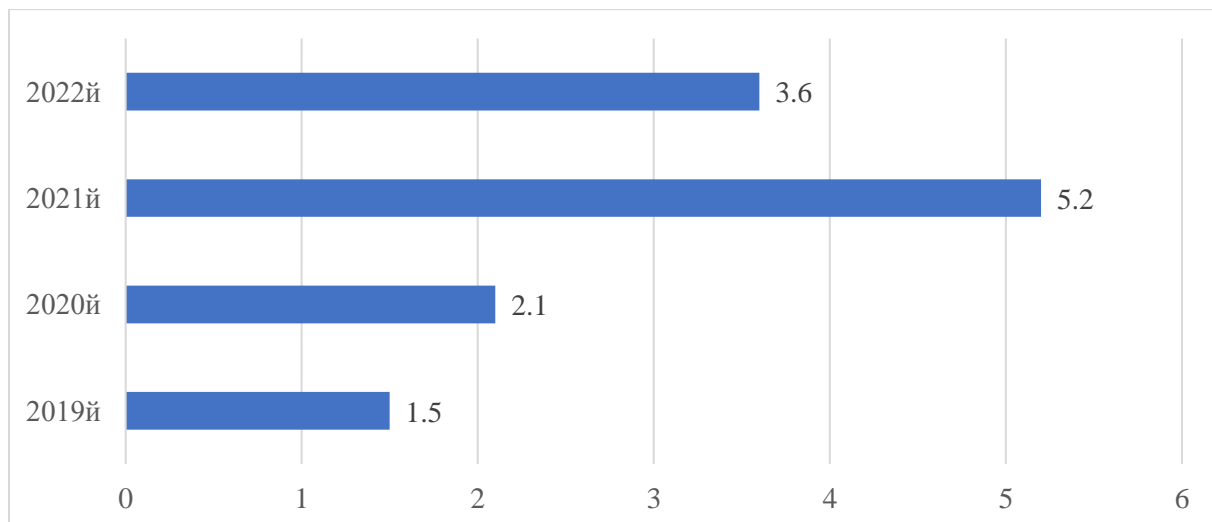


Figure 1. The share of problem loans in the total volume of loans of commercial banks of the Republic of Uzbekistan, in percent (as of December 31 of each financial year) [5]

It is evident from the data in Figure 1 that the share of problem loans in the total volume of loans issued by commercial banks of our republic tended to increase in 2019-2021, but in 2022, compared to 2021, it decreased, by 1.6 percentage points. The balance of loans issued by banks as of January 1, 2022 is 88.4 trillion. in the amount of soums, of which 73.9 trillion. soums (84 percent) are legal entities and 14.5 trillion. soums (16 percent) correspond to the deposit of individuals. 12.8 percent of the balance of these loans, or 11 trillion. Problem loans amounted to 13.1 percent, or 12 trillion soums. Potentially problematic (poor-quality) loans with an overdue period of more than 30 days became soums. At the end of 2021, the total balance of loans with an extended repayment period amounted to 27% of the loan portfolio of the banking system (88 trillion soums), and in a number of banks this figure was significantly higher than average. In particular, at Khalg Bank it is 42 percent, at Turonbank and Uzsanoatqurilishbank - 41 percent, at Kyslok Qurilish Bank and Asakabank - 38 percent.

Table 3. Loans issued to the service sector in JSC Asakabank and their profitability [8]

Indicators	2017 й.	2018 й.	2019 й.	2020 й.	2021 й.	2022й.
Amount of loans provided to the service sector, billion soums	11 548	17802	16 526	23 279	26 615	24 706
Profitability of loans to the service sector, %	6,8	14,0	7,0	7,0	8,0	8,9

The data in Table 3 show that the volume of loans issued to the service sector in Asakabank tended to increase in 2017-2022, but in 2022 it decreased significantly compared to 2021. This is due to a decrease in the share of loans to the service sector in the loan portfolio. In addition, the rate of return on loans to the service sector in Asakabank in 2022 increased by 2.1 percentage points compared to 2017. The regional section of loans issued to the service sector in the TIF of the National Bank showed that in 2021-2022 it is clear that the share of loans allocated to the service sector mainly in the city of Tashkent and the Samarkand region corresponds to 74.1-78.8% of the total amount of loans issued. The main reason for this is that the Bank's head office is located in Tashkent and the share of loans issued by it (2022 share 30.3%, 2021 share 38.8%) is added to the share of the city of Tashkent.

Table 4. Loans provided to the service sector by JSC TIF National Bank and their profitability level [9]

Indicators	2018	2019	2020	2021	2022
Amount of loans provided to the service sector, billion soums	10 344	15 071	20 809	21 967	28 181
Profitability of loans to the service sector, %	14,6	15,4	16,1	16,3	19,4



The data in Table 4 show that the volume of loans issued to the service sector in JSC TIF National Bank tended to increase in 2018-2022. In addition, the rate of return on loans to the service sector in TIF National Bank in 2022 increased by 4.8 percentage points compared to 2018.

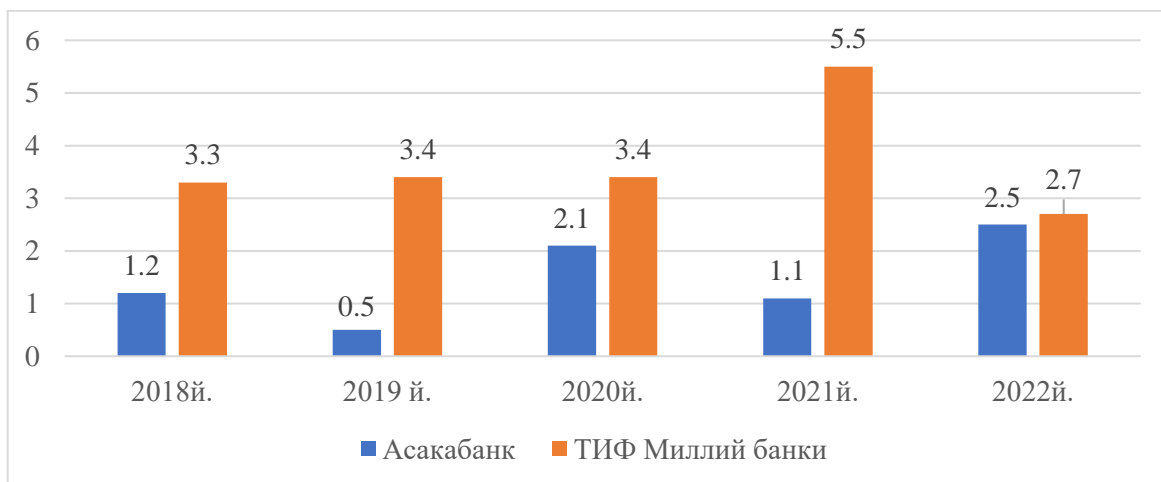


Figure 2. Level of reserve deductions for loans to the service sector in JSC Asakabank and JSC TIF Milliy Bank [8]

Figure 2 shows that the level of reserve deductions for loans to the service sector in Asakabank increased by 1.3 percentage points in 2022 compared to 2018.

In 2018-2021, the level of reserves for loans to the service sector in JSC TIF National Bank tended to increase, but in 2022 this figure decreased significantly (0.6 percentage points) compared to 2018. This is a positive situation in terms of improving the practice of lending to service sector enterprises.

It is well known that the ability of commercial banks to lend to the service sector depends on the bank's resource base, liquidity and solvency of service sector enterprises. We assess the dynamics of the resource base of JSC TIF National Bank using the data in the table below.

Table 5. Composition and dynamics of the resource base of JSC TIF National Bank [9]

Indicators	2018	2019	2020	2021	2022	Change in 2022 compared to 2018
Time deposits, bln. soum	3 287	6 515	1 089	10 227	11 696	3,6 times
Funds received from other banks, bln. soum	37 792	35 307	42 420	43 563	43 297	114,6 %
Regulatory capital, billion soums	5 722	13 141	13 873	14 768	16 377	2,9 times

Table 5 shows that the volume of term deposits of JSC TIF National Bank tended to increase in 2020-2022. At the same time, the volume of term deposits in 2022 grew at a higher rate (3.6 times) compared to 2018. In 2020, the volume of term deposits of JSC TIF National Bank decreased by 66.9% compared to 2018. Loans received by JSC TIF National Bank from other banks increased in 2022 compared to 2018 by 14.6%, in 2020 compared to 2018 - by 12.2%. This is due to the increase in the volume of loans received from foreign banks during this period.

The size of the regulatory capital of JSC TIF National Bank tended to increase in 2018-2022. At the same time, the volume of regulatory capital in 2022 grew at a high rate (2.9 times) compared to 2018. This is a positive situation in terms of improving the resource provision of bank loans. Because regulatory capital is a source of stable financing. Improving the practice of lending to service enterprises directly depends on the creditworthiness of service enterprises.



Table 6. Composition of classified loans of ATB Microcreditbank, in percentage [10]

	2017	2018	2019	2020	2021
Standard loans	92,03	87,20	84,83	86,91	92,03
Substandard loans	6,75	12,19	11,29	9,84	3,14
Unsatisfactory loans	0,73	0,29	1,51	0,67	3,19
Doubtful loans	0,44	0,18	1,38	1,04	0,81
Bad loans	0,05	0,14	0,99	1,54	0,83
Totally	100	100	100	100	100

The data in Table 6 clearly show that in 2017-2021, the composition of classified loans of Microcreditbank worsened. That is, in 2021, compared to 2017, the weight of bad loans in the total volume of classified loans increased significantly. Also during this period, the share of unsatisfactory and doubtful loans in the volume of classified loans increased.

The level of diversification of the loan portfolio of Microcreditbank is low. At the end of 2021, 48.0% of Turonbank loans corresponded to the contribution of loans to service enterprises. Also, the share of agricultural loans in the loan portfolio of Turonbank in 2021 was 29.4 percent.

Table 7. Amount and level of reserve deductions intended to cover losses on loans in Microcreditbank ATB [10]

	2017	2018	2019	2020	2021
Amount of reserve deductions intended to cover losses on loans, billion rubles	1,1	6,3	12,1	22,3	83,1
Ratio of loan loss reserves to gross assets (%)	0,1	0,2	0,2	0,3	0,8

Table 7 shows that in 2017-2021, the volume of reserves intended to cover loan losses and their level compared to gross assets in Microcreditbank tended to increase. This is explained by the deterioration of the structure of classified loans during this period.

The deterioration of the composition of classified loans leads to an increase in the amount of reserves for possible loan losses. This, in turn, negatively affects the profitability of loans and leads to a decrease in the amount of net profit.

From today, commercial banks of Uzbekistan use revolving credit lines to provide loans to service enterprises. The advantage of these loans over other loans is that this is a one-time approval along with long-term use of this loan.

CONCLUSIONS AND SUGGESTIONS

The analysis of the practice of lending to the service sector by commercial banks of the republic showed that:

- loans occupy an absolutely high share of assets of commercial banks of our republic;
- In 2018-2022, loans to the industrial sector occupied the largest share in the structure of loans of commercial banks of the Republic of Uzbekistan;
- the weight of problem loans in the total volume of loans issued by commercial banks of our republic tended to increase in 2019-2021, but in 2022 it decreased by 1.6 percentage points compared to 2021;

The fact that commercial bank loans have high interest rates does not allow service entities to increase the use of commercial bank loans.

Therefore, for the development of the service sector, it is advisable to implement the following measures:

- reduce prices for services by creating a healthy competitive environment in the service sector and, on this basis, increase demand for them;



- create conditions that allow service entities to ensure a stable level of their investments;
- increase in effective demand of entities using financial services by increasing state budget expenditures and reducing tax rates;
- increase in effective demand of entities using financial services by increasing state budget expenditures and reducing tax rates;
- in order to improve the practice of lending to the service sector, it is necessary to strengthen the resource base of commercial banks, ensure proportionality of assets and liabilities of banks in terms of their size and duration.

Elimination of the above problems is of great practical importance in terms of improving the practice of lending to entities in the service sector.

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