



## Increasing the Role of Monitoring in Preventing the Occurrence of Problem Loans

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**Abstract:** *Increasing the efficiency of the banking system of the Republic of Uzbekistan is related to the active participation of banks in lending to the real sector of the economy and implementing investment projects in the country.*

**Keywords:** *financial sector, transformation, collateral security Liquidity coefficient, investors, creditors.*

The presence of problem loans in the composition of loans, which are the main income-generating assets of commercial banks, is of great importance both in the implementation of investment projects and in the deterioration of the quality of bank assets. On May 12, 2020, the Decree of the President of the Republic of Uzbekistan No. PF-5992 " **On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025** " was adopted, the strategy of reforming the system, the "Roadmap" for reforming the banking system of the Republic of Uzbekistan and the strategy implementation targets were confirmed.

This Strategy was developed by the Central Bank and the Ministry of Finance in cooperation with the World Bank, taking into account the main conclusions and recommendations of the results of the study of the current state of the country's banking system, as well as the experience of foreign countries in transforming the financial sector and international trends in the field of finance.

In the strategy, special attention is paid to the current problems and current issues in the banking system.

Problem loans are overdue loans, short-term debt in terms of principal and interest, and the terms of the loan agreement have not been fulfilled at least once, revised loans, and the banks have doubts about their effective implementation, we call them problematic loans.

Damage from bad loans:

- freezing of income-generating assets of commercial banks;
- loss of depositors' and investors' confidence in this bank and the decline of the bank's reputation;
- increase in administrative expenses of the bank due to the fact that it requires special attention and control by the relevant departments;
- increase in the risk of the bank losing qualified personnel as a result of a decrease in the amount of material incentives due to a decrease in the profit from credit operations, etc.
- Problem loans have different causes, some of them may be related to the activities of the borrower, and others may be related to the activities of the bank.



- Factors that depend on the performance of the borrower include:
- inability to properly manage the enterprise, incompetence, low-quality organization of financial management, etc.;
- decrease in the quality of the company's product, loss in competition;
- increase in receivables;
- Disruption of order due to weak financial control.
- Factors related to banking include:
- due to incorrect and incomplete examination;
- wrongly defining the perspective of the enterprise without taking into account the characteristics of the network, not taking into account the existing problems in the network;
- the subsequent insufficiency of the collateral property as a result of the increase in the market value of collateral;
- improper formalization of the loan agreement, insufficient conditions protecting the bank's interests;
- Monitoring and current monitoring during the implementation of the project, poor implementation of control over the financial condition of collateral property and guarantors, etc.

In the period of transition to the market economy, mainly unexpected political and economic events, changes in legislation, sharp deterioration of the general economic situation, the need for rapid rearmament of production facilities due to technological development, and natural disasters are independent of both parties. factors.

These negative changes do not affect immediately. They can gradually have a negative impact on the capital circulation and can be manifested through specific signs that represent the financial condition of the borrowing enterprise, production activity, progress of the investment project being implemented, and the process of credit organization.

In foreign practice, a number of indicators are used to assess the probability of bankruptcy of the debtor. A two-level system of indicators can be used in relation to the existing entrepreneurial characteristics in our country.

Includes indicators that bring the debtor closer to bankruptcy, that is, indicating the possibility of serious financial difficulties in the future . These indicators include:

- significant recurring losses in the main production activity;
- creditor debts exceeding a certain threshold level;
- excessive use of short-term debt funds as sources of financing long-term investments;
- having a stable low liquidity ratio;
- repeated manifestation of the situation of lack of working capital;
- dangerously steady increase of debt funds in the sources of total funds;
- improper implementation of reinvestment policy;
- the volume of loan funds exceeds the specified amounts;
- continued non-fulfilment of obligations to investors, creditors and shareholders (obligations such as repayment of loans, interest and dividend payments);



- large amount of overdue receivables;
- availability of stock of unsold and overproduced products;
- sharp deterioration of banking service conditions;
- (forced) use of new sources of financial resources or innovative ideas in unprofitable conditions;
- use of old equipment and technology in the production process;
- losses due to non-performance of long-term contracts;
- Negative changes in the composition of orders.

The second group includes negative indicators that represent a serious situation. At the same time, these indicators show that the debtor's financial situation will deteriorate suddenly in certain cases or if necessary practical measures are not applied. These indicators include:

- loss of important employees of the management apparatus;
- production - disruption or forced stoppage of the technological process;
- insufficient diversification of the company's activities, i.e. excessive dependence of financial results on types of equipment, assets and some single project;
- excessive confidence in the effective implementation of a new project;
- loss of important partners;
- not being able to adequately assess the technical and technological capabilities of the enterprise;
- making ineffective, long-term agreements and deals;
- the presence of political risks associated with the enterprise or its main departments;
- Other indicators such as deterioration of the asset structure.

The measures taken by the bank to prevent problem loans serve to eliminate the negative consequences of the above-mentioned factors. Timely attention to early signs of financial difficulties allows to improve the situation for the bank and to apply measures to prevent the emergence of problem loans to protect the bank's interests. These measures should be taken as early as possible, before the situation reaches an uncontrollable level and losses become unavoidable.

Having learned the signs of a crisis situation, the bank must first of all analyze the debtor's activities in depth and determine the reasons that led to the deterioration of the situation. It is important to know the position of the borrower: does he want to repay the loan, can he be trusted, is he able to restore his position after achieving the intended profit? Regardless of whether the bank decides to maintain or terminate its relationship with the debtor, it is advisable for the bank to develop a plan to regulate future actions. It is necessary to do the following:

- determine the importance of the reasons that led to the worsening of the situation;
- including this loan in the list of specially controlled loans;
- meeting with the management of the enterprise, holding negotiations with them, determining the plan of future measures;
- if necessary, lowering the credit rating of the debtor, stopping the reflection of loan payments in the bank's income, forming reserves;



- taking into account the results of the analysis, if necessary, change the terms of the loan agreement (revision of the terms of the loan, revision of the size and percentage, terms, use of additional collateral);
- determining the future risk for the bank in establishing relations with this debtor in other areas;
- in-depth analysis of all loan documents;
- Reassessing the reliability of all forms of loan repayment security (collateral and surety);
- increase attention to the state of the borrower's account;
- Change the debt schedule and extend the loan repayment period if necessary.

In conclusion, it should be said that in order to solve this problem in our country, it will be necessary to further revive the activities of the problem loans department in our commercial banks and develop a special procedure for working with problem loans, taking into account the local characteristics of lending and foreign experiences.

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