



## **International Congress on Economics, Management and Business Studies**

Hosted Online from New York, USA

Date: 23<sup>rd</sup> June , 2026

Website: <https://econferencia.com>

---

### **ISSUES OF REDUCING CREDIT RISKS THROUGH IMPROVING THE QUALITY OF CREDIT PORTFOLIOS IN UZBEKISTAN'S BANKING PRACTICE**

Makhmudov Qudratillo Khursandbek ugli

Chief Specialist at the Business Development Bank, Uzbekistan

#### **Abstract**

The stability and sustainable development of the banking sector largely depend on the quality of credit portfolios and the effectiveness of credit risk management mechanisms. Since lending activities constitute the primary source of income for commercial banks, the deterioration of credit portfolio quality may lead to an increase in non-performing loans, reduced profitability, and weakened financial stability. In recent years, the banking sector of Uzbekistan has experienced rapid growth in lending volumes, which has simultaneously increased the importance of maintaining high-quality credit portfolios and strengthening risk management practices. Consequently, improving the quality of credit portfolios has become one of the key priorities for ensuring the resilience and competitiveness of commercial banks [1].

Credit portfolio quality reflects the ability of banks to maintain an optimal balance between profitability and risk exposure. A high-quality portfolio is characterized by a diversified structure, low levels of non-performing loans, adequate collateral coverage, and effective monitoring of borrowers' financial conditions. International experience demonstrates that banks with diversified and well-managed credit portfolios are more resistant to economic shocks and market fluctuations. Therefore, improving portfolio quality should be considered not only as a risk mitigation measure but also as a strategic instrument for strengthening banking sector stability [2].



## International Congress on Economics, Management and Business Studies

Hosted Online from New York, USA

Date: 23<sup>rd</sup> June , 2026

Website: <https://econferencia.com>

One of the major challenges in Uzbekistan’s banking practice is the concentration of credit exposure in specific sectors of the economy. Excessive lending to particular industries increases vulnerability to sector-specific risks and may negatively affect overall portfolio performance during economic downturns. Furthermore, insufficient diversification and weaknesses in borrower monitoring systems can contribute to the accumulation of problematic loans. These factors highlight the necessity of adopting more advanced portfolio management approaches and strengthening internal risk assessment procedures [3].

**Table 1. Key Factors Affecting Credit Portfolio Quality and Credit Risk Levels**

Factor	Impact on Portfolio Quality	Impact on Credit Risk
Portfolio Diversification	Positive	Reduces risk concentration
Non-Performing Loans (NPLs)	Negative	Increases credit losses
Borrower Creditworthiness	Positive	Reduces default probability
Collateral Quality	Positive	Mitigates potential losses
Sectoral Concentration	Negative	Increases vulnerability
Monitoring Effectiveness	Positive	Improves risk control
Provisioning Adequacy	Positive	Enhances financial resilience

Source: Developed by the author based on international banking practices.

Table 1 indicates that credit portfolio quality is influenced by multiple interrelated factors. Among these factors, diversification, borrower assessment, and effective monitoring play a particularly important role in reducing credit risk. Conversely, excessive concentration and rising levels of non-performing loans significantly increase the vulnerability of banking institutions. Therefore, commercial banks should continuously evaluate portfolio composition and implement preventive measures aimed at preserving asset quality [4].



## International Congress on Economics, Management and Business Studies

Hosted Online from New York, USA

Date: 23<sup>rd</sup> June , 2026

Website: <https://econferencia.com>

Improving credit portfolio quality requires a comprehensive approach that combines prudent lending policies, portfolio diversification, effective borrower screening, and continuous monitoring of credit exposures. In addition, the implementation of stress-testing procedures and portfolio quality assessments can help banks identify potential weaknesses and develop corrective strategies before credit problems materialize. International regulatory standards, particularly Basel recommendations, emphasize the importance of forward-looking portfolio management and risk-based approaches in maintaining banking sector resilience [5].



Source: Developed by the author based on Basel Committee recommendations and international banking practices.

### Figure 1. Framework for Reducing Credit Risks through Improving Credit Portfolio Quality

Figure 1 demonstrates that the reduction of credit risks is closely linked to the systematic improvement of credit portfolio quality. Effective credit policies and borrower assessment procedures create the foundation for sound lending



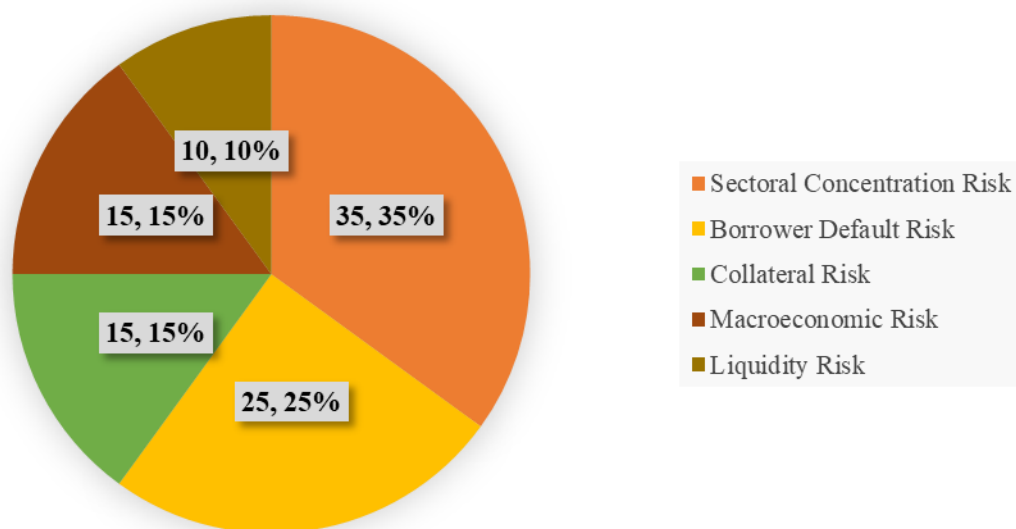
## International Congress on Economics, Management and Business Studies

Hosted Online from New York, USA

Date: 23<sup>rd</sup> June , 2026

Website: <https://econferencia.com>

decisions, while diversification and continuous monitoring help maintain portfolio stability. The combined implementation of these measures contributes to reducing problem loans and strengthening the financial position of commercial banks.



Source: Developed by the author based on international banking practices and credit portfolio risk management literature.

**Figure 2. Structure of Credit Portfolio Risk Factors**

The structure of credit portfolio risk factors demonstrates that sectoral concentration risk constitutes the largest component of overall credit risk, accounting for 35% of total portfolio vulnerability. This indicates that excessive lending to specific sectors of the economy may significantly increase banks' exposure to adverse economic shocks. Borrower default risk represents the second-largest component (25%), highlighting the importance of effective borrower assessment and continuous monitoring of repayment capacity. Collateral risk and macroeconomic risk each account for 15%, emphasizing the need for adequate collateral management and consideration of external economic



## **International Congress on Economics, Management and Business Studies**

Hosted Online from New York, USA

Date: 23<sup>rd</sup> June , 2026

Website: <https://econferencia.com>

conditions in lending decisions. Liquidity risk contributes 10% of total portfolio risk, reflecting the importance of maintaining sufficient liquidity buffers and prudent asset management policies. Overall, the analysis suggests that reducing sectoral concentration and strengthening borrower evaluation mechanisms should be considered priority directions for improving credit portfolio quality and minimizing credit risks in Uzbekistan's banking practice.

In conclusion, improving the quality of credit portfolios remains one of the most effective mechanisms for reducing credit risks in Uzbekistan's banking practice. Strengthening portfolio diversification, enhancing borrower assessment procedures, improving monitoring systems, and aligning risk management practices with international standards can significantly contribute to the resilience and sustainability of the banking sector. Consequently, commercial banks should prioritize portfolio quality management as a strategic component of long-term financial stability.

### **List of used literature**

1. Basel Committee on Banking Supervision. Principles for the Management of Credit Risk. <https://www.bis.org/publ/bcbs75.htm>
2. World Bank. Financial Stability and Credit Portfolio Management. <https://www.worldbank.org>
3. Central Bank of the Republic of Uzbekistan. Financial Stability Review. <https://cbu.uz/en/financial-stability/>
4. International Monetary Fund. Bank Credit Risk Management Practices. <https://www.imf.org>
5. European Banking Authority. Guidelines on Credit Risk Management. <https://www.eba.europa.eu>