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Ways to Resolve non-Performing Loans in Commercial Banks

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ABSTRACT

The thesis analyses the dynamics and structure of non-performing loans (NPLs) in commercial banks of Uzbekistan in 2022-2026 and substantiates ways of resolving them. Central Bank data show that the NPL ratio declined from 5.2 to 3.0 percent, yet problem loans rose again to 22.94 trillion soums by mid-2026, remain higher in banks with state participation and are only half covered by specific provisions. Proposals are developed on bank-level NPL reduction strategies, viability-based restructuring, separate workout units, faster collateral enforcement, the development of a secondary market for distressed assets and a clear write-off policy.

Keywords: non-performing loans, problem loans, commercial banks, loan restructuring, provisioning, collateral enforcement, distressed asset market, write-off.

INTRODUCTION

A high level of non-performing loans reduces banks' profitability, ties up capital and limits their ability to issue new loans to the economy. International experience shows that NPLs left unresolved for a long time turn into a structural problem: after the global financial crisis the stock of problem loans in a number of European countries constrained lending for many years [1]. Therefore, alongside preventing credit risk, banks need an effective system for resolving loans that have already become problem loans.

Research identifies both macroeconomic and bank-specific causes of NPLs. A. Berger and R. DeYoung showed that weak management quality and cost inefficiency precede the growth of problem loans [2], while D. Louzis and co-authors found that NPLs are driven by economic growth, unemployment, interest rates and the quality of bank management [3]. N. Klein confirmed that high NPLs weaken credit supply and economic recovery [4]. The Basel Committee harmonised the definitions of non-performing exposures and forbearance [5], and the European Central Bank recommended that banks with high NPLs adopt formal reduction strategies with quantitative targets [6]. The purpose of this thesis is to assess the state of NPLs in Uzbek banks and to propose ways of resolving them.

Result and discussion.

The dynamics of NPLs in the banking system of Uzbekistan by groups of banks are shown in Table 1.[7]

Table 1. Non-performing loans in commercial banks of Uzbekistan (as of 1 January)

Indicator	2022	2023	2024	2025	2026
NPLs, trillion soums	17.0	14.0	16.6	21.2	18.1
NPL ratio, total, %	5.2	3.6	3.5	4.0	3.0
– banks with state share, %	5.4	3.9	4.0	3.9	3.2
– other banks, %	4.1	2.1	2.4	4.1	2.6

The NPL ratio decreased from 5.2 to 3.0 percent over four years, which is below the 5 percent level usually regarded as acceptable. However, the trend is not stable. In 2024 problem loans grew by 27.5 percent to 21.2 trillion soums, and after falling in 2025 they rose again to 22.94 trillion soums as of 1 July 2026 or about 3.6 percent of the 642.8 trillion soum loan portfolio (author's calculation). Banks with state participation, which hold two thirds of all loans, have a higher NPL ratio than other banks in most years. Differences between individual banks are large: as of 1 January 2025 the NPL ratio was 10.2 percent at Ipoteka-bank and 4.9 percent at Agrobank, while at Orient Finans Bank it was 0.2 percent [8].

Coverage of problem loans by specific provisions increased from 36.7 percent at the end of 2023 to 52.6 percent at the end of 2025 [9]. This means that about half of the problem portfolio is still not covered by provisions and depends on the recovery of collateral. The resolution of NPLs is also expensive for banks: loan loss provisions amounted to 18.4, 25.9 and 22.9 trillion soums in 2023, 2024 and 2025 respectively, and in 2024 they were 3.7 times higher than the net profit of the banking system [10].

The analysis allows the following ways of resolving NPLs to be proposed: (1) adopting bank-level NPL reduction strategies with annual quantitative targets, approved by the supervisory board and monitored by the regulator, primarily in banks with an NPL ratio above the system average; (2) restructuring loans only after a viability assessment of the borrower's business plan and cash flows, so that restructuring does not become "evergreening" of bad loans; (3) creating specialised workout units that are separate from loan origination and are assessed by the amount actually recovered; (4) speeding up out-of-court enforcement of collateral and bankruptcy procedures; (5) developing a secondary market for distressed assets, including sales of NPL portfolios to collection companies and the use of a specialised asset management company for large state bank exposures; (6) introducing a clear write-off policy for fully provisioned loans with low recovery prospects, while keeping recovery efforts off balance sheet.

CONCLUSION

The NPL ratio of Uzbek commercial banks has decreased to 3.0 percent, but problem loans remain volatile, are concentrated in several large banks and are only half covered by provisions. The new increase of NPLs in 2026 shows that banks need a systematic resolution framework rather than ad hoc measures. Formal NPL reduction strategies, viability-based restructuring, independent workout units, faster collateral enforcement, a developed distressed asset market and a clear write-off policy will reduce the stock of problem loans, release bank capital and strengthen banks' capacity to finance the real economy.

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