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ISSUES OF IMPROVING DEBT BURDEN IN LENDING TO INDIVIDUALS

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Abstract
This article analyzes the formation of the debt burden in the system of lending to individuals, methods of its assessment and areas for improvement. Today, as the population's need for credit resources increases, there is an increasing need to develop a lending policy taking into account their financial stability and solvency. During the study, the criteria for measuring the debt burden, international experience, debt burden indicators introduced in the banking system of Uzbekistan and their effectiveness were considered. In particular, the debt burden restrictions established by the Central Bank and their impact on the financial behavior of the population were studied. In addition, proposals were developed on alternative methods of assessing credit risks in conditions of low income formalization, the introduction of a credit rating system, increasing financial literacy and making credit terms transparent.

Keywords: Lending to individuals, debt burden, credit burden, credit risks, credit solvency, interest rate, financial literacy, bank loans, microloans, consumer loans.

Introduction

All measures taken by our state are aimed at improving the well-being of the population. In order to ensure social stability, economic development, and peace of society, the state must conduct a strong social policy. At the same time, due to the activation of banking activities in the field of lending to individuals, the debt burden plays a significant role in increasing the well-being of the population. Currently, the real incomes of the majority of the population of our republic, despite their growth trend, are not high enough. Therefore, in order to ensure financial stability in the country and prevent excessive debt burden, the Central Bank has established the procedure for calculating the debt burden when allocating loans (microloans) to borrowers, the permissible amount of the debt burden, as well as the highest daily interest rates on loans and microloans.

Analysis of Literature on the Topic

There are a number of indicators that reflect the level of debt burden on bank loans of the population, including the ratio of loans to GDP, the ratio of loans to income of the population, and the debt service ratio. According to international experience, the debt service ratio (DSR) is widely used in practice and expresses how much of the income of the total population or borrowers is spent on repaying debt (principal debt and interest payments). In turn, taking into account interest rates and terms on loans when calculating the debt service ratio can more accurately reflect the level of debt burden than other indicators.

The debt burden in lending to individuals has been studied by economists in various directions, and F. Mishkin's book "Financial Markets and Institutions" discusses the definition, composition, and measurement methods of debt burden. It also discusses the Debt-to-Income (DTI) ratio and its importance, the role of debt burden in credit risk management, financial stability, and the role of debt burden in the economy.

Research Methodology

The article studies and extensively reviews scientific and theoretical research within the scope of the topic. A specific direction has been chosen to achieve the goal set in the study. A research strategy has been determined based on the study and analysis of statistical sources in the field.

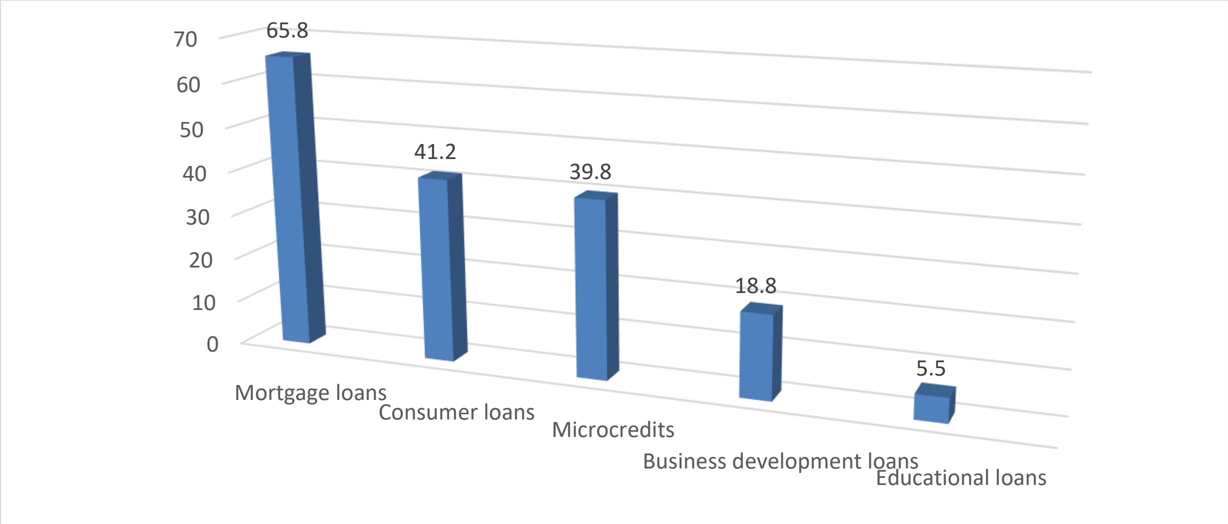
Analysis and Results

The debt service ratio shows that the debt burden of the population by type of loan remains high. The results of a survey conducted to determine the total debt burden of the population for the 1st half of 2024 showed that the average total debt burden of respondents who received loans from a bank, including non-bank debt obligations, was 73 percent. The debt burden on mortgage loans allocated to the population remained almost unchanged compared to 2023 and was around 40-45 percent.

If we look at the previous years, it is estimated that in 2022, mortgage and consumer loan borrowers spent 60-70 percent of their disposable income on repaying debt obligations. There is an upward trend in the ratio of debt service to the population's allocated consumer loans in the banking system. This trend indicates that an increasing part of the income of consumer loan borrowers is being directed to repaying principal and interest payments.

As of November 1, 2024, the volume of loans granted by Uzbek banks to individuals amounted to 172.8 trillion sums (about 13.7 billion US dollars). This figure increased by 20% compared to 2023. Since the beginning of 2020, the volume of loans to the population has increased by 4.3 times.

The main types of loans are distributed as follows:
Mortgage loans - 65.8 trillion sums (38.1%)
Consumer loans - 41.2 trillion sums (23.9%)
Microloans - 39.8 trillion sums (23.1%)
Business development loans - 18.8 trillion sums (11%)
Educational loans - 5.5 trillion sums (3.3%)



In recent years, as a result of the increase in lending volumes, the dynamics of the formation of a high debt burden among the population has been observed. The rapid growth of the balance of loans provided to the population and the debt burden leads to an increase in credit risks, as well as an increase in the likelihood of borrowers not being able to repay loans.

In accordance with international practice, in order to reduce this factor that threatens financial stability, regulators usually apply direct macroprudential and indirect prudential measures in relation to the debt burden.

The Central Bank Board adopted a resolution "On Amendments and Addenda to the Regulation on Regulation of the Debt Burden of Borrowers"[1]. In accordance with this decision, instead of the loan percentage, requirements based on the borrower's debt burden level (DSTI) and the loan-to-collateral ratio (collateral) have now been introduced. The debt burden requirement in Uzbekistan has so far been in effect only for microloans and was 50 percent. From July 1, 2024, when issuing all loans (including microloans), lenders will be required to ensure that the debt burden of their clients does not exceed 60 percent. From January 1, 2025, this indicator will be reduced to 50 percent. The permissible amount is determined by dividing the number of loans issued by the number of all loans, without taking into account the debt burden requirement. The Central Bank noted that by introducing the debt burden calculation for all loans, the following goals will be achieved:

- formalization of income of the population;
- incentivization of borrowers with formalized income in lending;
- formalization of assessment of informal income;
- involvement of banks in responsible lending.

The debt burden indicator is determined by the ratio of the average monthly payments on a loan (microloan) to the average monthly income.

When calculating income, the following are taken into account:

-information on wages;

-information on the amount of pension;

-information on accrued pension contributions;
-information on income received on bank accounts;
-information on taxes paid;
-information on interest, dividends, income from renting out property;
-information reflecting regular income received over the last 6 months;
-full amount of the loan (microloan);
-interest;
-other payments known at the time of conclusion of the contract.

Conclusion and Suggestions

In conclusion, the importance of debt burden in lending is great, as it plays an important role in ensuring the ability to repay debts and overall financial stability. The ability of borrowers to repay their debt burden in a timely and full manner affects not only the financial condition of the individual or company that received the loan, but also the stability of the economy as a whole. An increase in the debt burden can threaten the financial stability of a company or individual. If the amount of debt burden is high compared to income, this can lead to difficulties in repaying debts. High debt burdens increase not only the debt itself, but also interest payments on it. This reduces the borrower's financial resources and limits the ability to make other investments or expenses. If the level of debt burden is too high, this increases financial risks. Banks and lending institutions are cautious about lending to individuals or companies with high debt loads, as there is a risk that the debt will not be repaid. The amount of debt load affects credit history and scores. Individuals with high debt loads may have reduced access to credit, and they may be able to borrow at higher interest rates. Large-scale increases in debt loads can affect the overall stability of the economy. High debt loads in countries or sectors can lead to inflation, slower economic growth, and the risk of financial crises. Therefore, the level of debt load is taken seriously in the lending process and the ability to repay debts is systematically assessed.

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