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## The Role of Consumer Credit in Banking Services Segments

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**Abstract:** This article analyses the importance of consumer loans for banking activity, the state of development of this type of activity, the role of consumer loans in improving the welfare of the population of the country, namely, the improvement of the consumer credit system to eliminate the contradiction between the needs of the population and the possibility of their satisfaction by current cash income. The article ends with the author's suggestions and recommendations for the further development of consumer credit.

**Key words:** consumer credit, credit history, solvency, credit portfolio, financial consumption, consumer credit for goods, educational credit, need, welfare.

### Introduction

In our country, on the basis of the development of economic sectors, great attention is paid to improving the living standards and welfare of the population, meeting the growing consumer needs, and utilising the capabilities of financial institutions. Accelerating reforms in the banking system, which is one of the financial institutions, increasing the volume of the banking services market and developing competition in the industry are among the requirements of modern times. Despite certain advantages of widely demanded segments of banking services over specialised banking services, attempts of universal banks to expand the sphere of specialised services are growing. Strengthening the resource base of commercial banks of the Republic of Uzbekistan allows increasing the volume of their assets and loans.

### Analysis of literature on the topic

The practice of consumer credit by academic economists has been studied deeply and comprehensively.

A comprehensive study has been carried out and relevant scientific conclusions have been formulated. According to Keynes, commercial bank loans at low interest rates make it possible to increase aggregate demand and personal consumption. According to Blanchard, a famous American scientist-economist, the process of financing consumption should be stimulated by the state through financial incentives. As can be seen from the above considerations of famous scientist-economists, the credit of commercial banks and financial support of the state play an important role in stimulating consumption. According to Lavrushin, in order to improve the practice of banks in granting consumer loans, it is necessary to solve the following problems:

- ✓ lack of reliable information about the credit history of future borrowers;
- ✓ systems for assessing the creditworthiness of consumer loan borrowers lack of improvements;
- ✓ insufficient supply of consumer loans.

In our country, relations related to consumer credit are regulated by the Law of the Republic of Uzbekistan 'On Consumer Credit', which came into force in May 2006, in which consumer credit

is defined as a credit granted to individuals (consumers) for the purchase of goods (works, services) in order to meet their consumer needs.<sup>1</sup>

### Research Methodology

Consumer credit activity of commercial banks in the implementation of research work conversation with scientists and representatives of the industry in development, their written and oral feedback analysis, expert evaluation, monitoring of processes, economic system approach to phenomena and processes, comparative analysis with author's experience conclusions, suggestions and recommendations are given in the relevant areas.

### Analyses and results

In the subsequent time, the demand for consumer credit provided for the purchase of residential premises on the basis of real estate offer of the banking services segment, as well as for car loans is significantly increasing.

In our republic, the growth of income level of the population, strengthening of the resource base of commercial banks and reduction of interest rates on loans are caused by the increase in consumer crediting of the population by commercial banks makes it possible to increase the level of utilisation. Consumer loans, especially those related to the purchase of household appliances, education there is an increase in the volume from year to year. Along with the positive points noted above, there are some problems associated with improving the practice of issuing consumer loans. One of such problems is the relatively high cost of consumer loans provided by some commercial banks.

At present, the number of credit organisations introducing the procedure of granting consumer loans to the population is growing day by day in Uzbekistan. Consumer loans are the most popular credit product, despite the fact that in recent years commercial banks in Uzbekistan have increased the range of credit products intended for individuals (Table 1).

**Figure 1: Loans to households in national currency (for 6 months)<sup>2</sup> billion sum**

№	Indications	2023	2024
1	Total	45949,6	45 271,9
2	Consumer loans	19574,3	9 368,5
3	Out of that, a car loan	14016,5	8912,6
4	Education loan	636,6	398,6

Loans granted by commercial banks to households in the national currency in the first 6 months of 2023 totalled UZS 45949.6 billion in the first 6 months of 2023. Consumer loans accounted for 42.5 per cent, of which the share of car loans in consumer loans was 71.6 per cent and education loans 3.3 per cent. Loans to the population in national currency for 6 months of 2024 45271.9 billion UZS 20.7 per cent were consumer loans, of which the share of car loans in consumer loans was 95.1 per cent and the share of education loans - 4.2 per cent.

The data show that the weight of loans granted to the population in the first 6 months of 2023 did not change much in the first 6 months of 2024. However, from the tabular data we see that the weight of consumer credit decreased by 21.8 per cent. This is explained by the fact that new types of credit products such as overdraft, microcredit and microloan were offered in the market. In the structure of consumer lending their share has increased significantly as a result of the activation of car loans in recent years. That is, as can be seen from the table, in 2024 compared to 2023 we can see an increase in the share of car loans in consumer lending by 23.5%.

<sup>1</sup> On consumer credit. Adopted by the Legislative Assembly on 22 December 2005. Approved by the Senate on 24 February 2006.

<sup>2</sup> Central Bank Statistical Bulletin. June 2024

The mechanism of transfer of rights to pledged property to the creditor in case the debtor violates the terms of a consumer loan, which is one of the problems of consumer credit development, has not been fully developed yet. Consumer loans, as noted above, are issued for the purchase of several credit objects. Therefore, analysing changes in the structure and dynamics of consumer lending becomes important.

Among a wide range of banking products and services provided by the bank to individuals, consumer lending is the most demanded area of retail business. This segment is directly related to the increase in monetary income and lifestyle of the population. Individuals can use consumer loans at any branch of the bank for home repairs, purchase of furniture, cars, household appliances, medical treatment, payment of holiday expenses and many other purposes.

### **Conclusions and suggestions**

It is a known fact that even a population of any wealth cannot always find funds for their needs. In such cases, consumer credit provided by commercial banks is the main source. Thus, the development of the process of interaction between commercial banks and trading firms to meet the needs of consumers in consumer goods leads to an increase in their confidence not only in banks, but also in trading firms due to the fact that commercial banks and trading firms jointly produce, supply and provide other types of services to consumer-friendly consumer goods.

The reforms currently underway in our country, the adoption of new solutions, and the improvement of the system of financial consumer crediting will make it possible to eliminate the contradiction between the needs of the population and the possibility of meeting them with current cash income, to activate demand and contribute to the welfare of the population.

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