

## Fundamental Disadvantages of the Credit Mechanism

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### **Abstract**

*This article discusses the following problems: the fundamental lack of a credit mechanism, the automaticity of calculations, in essence, removing all responsibility from the supplier for the quality and completeness of the shipped products, their compliance with consumer orders and contracts. Action mechanisms are proposed that allow both buyers and suppliers to be as adequate and prudent as possible when paying for shipped goods (products). Proposals are presented to improve the credit regulation of the needs of borrowers in credit resources. Analyzed the current state of development of lending to bank customers in order to reduce costs, efficient use of own funds of enterprises, and given specific proposals to strengthen the financial stability of enterprises - clients of the bank.*

**Keywords:** *borrower, regulation, short-term loan, automation, contractual relations, loan, control, automation of settlements, debt.*

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Until 2016, the fundamental drawback of the credit mechanism was the automatism of lending. Having no idea about the needs of enterprises for funds, commercial banks freely satisfied all their applications for loans. The automaticity of calculations led to the same result. Although the shipped goods are not immediately paid to the supplier.

Despite this, even today the work of the bank in regulating the debt of the clientele is hampered by the numerous abuses of the latter, the ongoing intra-system redistribution of funds and lending limits.

The automaticity of the calculations, in essence, relieves the supplier of all responsibility for the quality and completeness of the shipped products, their compliance with consumer orders and contracts. Often there were cases of delivery of goods that were completely unsuitable for consumption.

Improvement of the credit system was greatly hampered before the adoption of the State Program of the Republic of Uzbekistan "On the strategy of the country's socio-economic development for 2017-2021", in particular, by numerous reorganizations. Particularly acute was the question of delimitation of the Central Bank of the Republic of Uzbekistan with special banks. There were frequent cases when special banks or their branches generally refused to transfer the previously served clientele to the Central Bank of the Republic of Uzbekistan.

Without a doubt, the technical unpreparedness of the apparatus of the Central Bank of the Republic of Uzbekistan played an important role in the disorganization of the banking system. At least two months were allotted for training, the briefing of workers at grass-roots institutions was clearly insufficient. New forms of lending and payments were introduced simultaneously for the entire clientele, regardless of the degree of its preparedness. The big mistake of the Board of the Central Bank of the Republic of Uzbekistan was the fact that the adoption of strategic decisions was accompanied by a complete transition to cashless payments. Enterprises began to submit bank accounts for shadow amounts. The volume of work of bank employees increased sharply, unsettled accounts sometimes lay in branches for weeks, the balance of checking accounts of enterprises less and less reflected the actual financial results of their production and economic activities.

The negative consequences of the automatism of lending, a sharp weakening of banking control over the activities of borrowers were not long in coming. The debts of enterprises and organizations to the bank and the money supply in circulation have grown significantly. The credit resource was exceeded by almost 60%, and the credit plan - by one and a half times. In just a year, short-term loans and the money supply in circulation increased 1.5 times. The overflow of turnover with means of payment caused, in turn, an exacerbation of commodity hunger, a rapid rise in prices. Free market prices were 21% higher compared to the previous one.

In the domestic economic literature, a stable tradition has developed - in all the troubles of the first stage of improving the credit system, based on the relevant government decrees, to blame the leaders of the Central Bank of the Republic of Uzbekistan, who began the transition to a new system without proper technical training, planted automatic lending and settlements, a single account - current account, on which own and borrowed funds were cashed, and who tried to “impose” on the Central Bank of the Republic of Uzbekistan the functions of regulating all the activities of enterprises and regulating economic processes that are unusual for it. In our opinion, this point of view suffers from one-sidedness.

Firstly, the issue of transition to a new system of crediting and settlements was not decided at the level of the Central Bank of the Republic of Uzbekistan. This issue was considered at a meeting of the Cabinet of Ministers of the Republic of Uzbekistan.

Secondly, the analysis of archival documents allows us to conclude that all the technical difficulties that existed in the first weeks of the introduction of the new system were basically overcome by the middle of the year. By the end of May, even in the regional branches, where the situation was the least prosperous, the number of unchecked accounts began to decrease, and the complaints of the clientele decreased.

Thirdly, the automaticity of lending was not at all the goal of improving the lending system. Having adjusted the technique of banking work, the institutions of the Central Bank of the Republic of Uzbekistan began to try to slow down the growth of short-term debt. But, since they could not stop paying for the supply of material assets, the only thing left for them was to signal to the authorities and refuse to issue cash to customers.

Thus, commercial banks "dared" to apply sanctions even to the largest enterprises.

Of course, such measures could not improve the situation. The dissatisfaction of the workers, the increase in staff turnover, the intervention of the state apparatus and government bodies forced the regional branches of the Central Bank of the Republic of Uzbekistan to issue money. The orientation of all governing bodies to the maximum growth rate was incompatible with the shutdowns of production due to banking "amateur activity".

Fourthly, the automaticity of settlements was the only possible way to put an end to the mutual indebtedness of enterprises (and this was one of the most important tasks on the way to improving lending).

Thus, the main reason for the sharp weakening of the role of the bank in regulating economic processes in 1992-2016 was not the specific mistakes of the bank's management or even "sabotage" (as was commonly believed until the mid-1950s), but forced industrialization and ideas about the economy: countries as an opportunity to cover all industries and sectors of the economy with direct regulation. "Automation of settlements" and the reduction of bank functions to "central accounting" and "signaling" were only a natural consequence.

The unsatisfactory situation with crediting and settlements forced the state authorities to take urgent measures. It became obvious that the transformation of money into payment units had to wait. Since the end of 2016, official statements have recognized the need to overcome the underestimation of finance and credit at this stage of economic development. At the same time, the system of measures known collectively as "amendments to the credit system" was not of a radical nature.

Changes in the lending system, strengthening credit work contributed to the enhancement of the role of commercial banks. This consisted primarily of:

- a) become a settlement organization for accounting and distribution of products;
- b) to ensure real daily control over the progress of the implementation of business plans for production and circulation and the progress of accumulation at enterprises;
- c) ensure the strengthening of enterprises as the main lever for the implementation of business plans (quantitative and qualitative tasks).

A new approach to lending to enterprises of all forms of ownership obliged everyone, without exception, to restore contractual relations. Banks were instructed to open credit to enterprises not in full, approved by the business plan, but on the basis of the submitted agreements. In addition, the bank should lend to the enterprise only as the approved business plans and concluded agreements are fulfilled. It is prohibited to cover losses at the expense of bank funds. For enterprises that have violated contractual payment and credit discipline, the bank may apply sanctions up to complete withdrawal from lending.

In accordance with the resolution, the current legislative acts, the enterprise is endowed with its own working capital in the amount sufficient to ensure the minimum stocks of raw materials, materials, fuel, work in progress and finished products. Needs covered by own working capital could not serve as objects of bank lending. On the contrary, the needs of enterprises for funds that exceeded the established minimum will have to be covered by a bank loan. The principles of lending were also declared: the loan had to be targeted, repayable and secured.

It is easy to see that the new system of improving lending has internal inconsistencies and inconsistencies. In this regard, a number of specialists, on the one hand, tried to increase the responsibility of enterprises for the cost results of their activities. On the other hand, it is intended to preserve the natural-material plan as the "backbone" of the entire economic mechanism; the question of the underlying causes of difficulties in the monetary sphere was not even raised. The possibility of a priori calculation of all expenses and incomes necessary for the enterprise to fulfill its obligations, even for the payment of taxes to the incomes of budgets of different levels, was not denied. On the contrary, the determination of the minimum required own funds presupposes the technical and economic feasibility of such calculation. The principle of urgent and targeted credit means that the bank is able to take into account and control every business transaction made by the client.

This contradiction is manifested even in the formulation of the principles of lending. If the loan is targeted, it means that it is used to finance the activity provided for by the task. Security guarantees for the bank the return of the loan. But after all, the withdrawal of funds from an enterprise that has not fulfilled, for example, the task of its own savings, calls into question its further functioning, although its products are included in the business plan, and therefore are considered necessary. In practice, this contradiction resulted in pressure from the governing bodies on the bank's institutions, which tried to take advantage of the rights granted to them and apply severe penalties against insolvent customers. In the vast majority of cases, the bank had to retreat.

As during the first stage of the transition to the market, the enterprises were in an unsatisfactory state. The targeted nature of the loan again remains only a good wish.

However, one should not think that the resolutions on amendments to improve lending will not lead to any changes in economic practice. However, the sale of goods to a third party (that is, not to the organization with which we agreed) contradicted the market regulation of enterprises - after all, management is reduced mainly to market regulation of the movement of material resources, and such a sale weakens management. Another important obstacle to the sale of goods of insolvent buyers is the lack of a market institution.

The abolition of "automatic settlements" in practice did not lead to an improvement in the consumer properties of products, but only to a rapid increase in receivables and payables. Enterprises, having no money in the current account, delay payment for the goods received.

Naturally, this entailed a chain of mutual non-payments. The bank's attempts to restrict new loans to financially disadvantaged clients lead to the same result. In this case, they continued their production and economic activities, increasing their accounts payable.

Banks are trying to deal with mutual debt, apply sanctions (fines). However, their success in this struggle is more than modest: enterprises that had a large debt are, as a rule, in a difficult financial situation, and credit sanctions only exacerbate it. The growth of mutual debt finally buried the recommendations to turn the company's bank account into a "mirror" of all its work.

Therefore, in the course of improving lending, the "budget restrictions" of enterprises were sharply weakened. The Bank was unable to monitor the implementation of their business plans, since sanctions for unsatisfactory cost results contradict the orientation towards maximum growth rates and the regulation of the reproduction process.

In fairness, it should be noted that the reduction of the role of banking regulation of production, the weakening of the "budget restrictions" of enterprises and inflationary financing of enterprises are largely inevitable companions of accelerated modernization. However, the negative effects of credit support, in our opinion, would be much less if more pragmatic approaches to improving lending were implemented.

At the same time, the monetary mechanism that was formed in 2017-2021 is generally adequate to the regulatory system established before 2016. A sharp easing of financial and credit restrictions made it possible to create a comprehensive system of regulation, redistribute huge masses of financial and material resources in the development of the economy, which ultimately leads to an increase in budget revenues from economic entities.

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