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# IMPLEMENTATION OF A CREDIT POLICY BASED ON ESG PRINCIPLES IN BANKS

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**Annotation:** This article examines the implementation of ESG-based credit policy in commercial banks as an integral component of modern risk management and sustainable finance. It analyzes institutional mechanisms for integrating environmental, social, and governance factors into credit decision-making, emphasizing regulatory drivers, risk mitigation effects, and long-term value creation. Using empirical facts from international banking practice and selected data relevant to Uzbekistan's financial sector, the study demonstrates how ESG-oriented credit frameworks influence portfolio quality, stability, and strategic alignment with sustainable development objectives.

**Keywords:** ESG, credit policy, banking sustainability, credit risk, Uzbekistan, green finance

The incorporation of environmental, social, and governance principles into bank credit policy represents a structural shift in financial intermediation. Credit policy, traditionally dominated by financial ratios and collateral evaluation, increasingly reflects non-financial risk dimensions that affect borrower resilience and systemic stability. International experience shows that ESG-oriented banks demonstrate stronger long-term performance, lower volatility, and enhanced reputational capital. This transformation is particularly relevant for emerging banking systems seeking sustainable growth trajectories.

From a risk management perspective, ESG-based credit policy expands the analytical horizon of banks. Environmental exposure, such as carbon intensity or climate vulnerability, directly affects borrower cash flows and asset values. Social dimensions, including labor practices and community relations, influence operational continuity, while governance quality determines strategic consistency and transparency. Empirical banking data from Central and Eastern Europe indicate that banks integrating ESG screening into credit assessment reduced non-performing loan ratios by approximately 1.5–2 percentage points over a five-year horizon compared to peers relying solely on traditional metrics.

Regulatory pressure is a key catalyst. Global supervisory authorities increasingly require banks to embed sustainability risks into internal capital adequacy assessment processes. In transition economies, including Uzbekistan, financial regulators have begun aligning prudential supervision with sustainable finance principles. According to the Central Bank of Uzbekistan, the volume of green and socially oriented loans increased from less than 1 percent of total lending in 2019 to nearly 6 percent in 2024, reflecting institutional learning and policy incentives.

The operationalization of ESG credit policy requires formalized assessment tools. Banks typically introduce ESG scorecards linked to sector-specific risk maps. These tools complement probability of default and loss given default models by incorporating forward-looking sustainability indicators. In pilot projects implemented by several Uzbek commercial banks, borrowers with verified environmental compliance records demonstrated lower default volatility during periods of macroeconomic stress.

Beyond risk mitigation, ESG credit policy supports strategic portfolio reallocation. International evidence suggests that ESG-oriented lending favors manufacturing modernization, renewable energy, and infrastructure projects while reducing excessive exposure to speculative construction finance. This trend enhances macro-financial stability and aligns banking activity with national development strategies.

**Table 1. Growth of Sustainable Lending in Uzbekistan (2019–2024)**

| Year | Share of ESG-related loans (%) | Total banking assets growth (%) |
|---|---|---|
| 2019 | 0.8 | 18.2 |
| 2020 | 1.4 | 16.5 |
| 2021 | 2.6 | 14.9 |
| 2022 | 3.9 | 12.3 |
| 2023 | 5.1 | 11.7 |
| 2024 | 5.9 | 10.8 |

ESG-based credit policy is not an auxiliary innovation but a core element of modern banking strategy. For Uzbekistan, its systematic implementation strengthens financial stability, supports sustainable economic transformation, and enhances international credibility of the banking sector.

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