



UNDERSTANDING OF THE DEPOSIT BASE OF COMMERCIAL BANKS IN UZBEKISTAN: CURRENT STATE AND WAYS OF STRENGTHENING

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Abstract: The article analyzes the current state of deposit operations of commercial banks in our country and examines the level of maturity of deposit operations before reaching the conclusion and providing recommendations on strengthening deposit base.

Key words: deposit, legal entity, mandatory reserve, national currency, liability, resources, brutto deposits, term deposit, savings, savings deposit.

Introduction

There is a need to address urgent issues related to the formation, placement and increasing the stability of commercial banks resources in the context of innovative development of the Uzbek economy. Commercial banks are crucial in ensuring the sustainability of their resources, increasing their liquidity and achieving stability of the national currency, increasing export-oriented competitive goods and services, strengthening public confidence in the banking system.

During the years of independence the two-tier functional banking system has been formed and developing in our country, the services of banks are changing and the cooperation with foreign banks is improving. However, in light of the modernization of the country's economy, it is required to address some issues related to the efficient use and maintenance of financial resources of banks.

For example, according to the results of the year 2022, although the share of deposits in the structure of commercial banks has shown an increase in the size of deposits, its level of stability is below the international standards. This is evidenced by the fact that in 2018, the share of demand deposits in total deposits was 42.7%. In addition, while the share of long-term deposits in the total amount of deposit funds remains at 27.4%, almost 80% of loans provided by commercial banks make long-term loans.

Therefore, the commercial banks of the country have the necessary tasks to address these issues.

Literature Review

One of the most important policies of commercial banks is the policy relating to the formation of banking resources. The bank's resources mainly formed by two sources: their own funds and liabilities. Commercial banks use these resources to carry out various banking operations.

In a number of economists' scientific works, it was suggested that the bank resources are a complex of own funds and attracted funds of the commercial bank, which serve as the basis of active operations of commercial bank.

The deposit category is derived from the Latin word "depositum" and means the thing given to be saved. Deposits make significant share (usually 70-80%) of the resources of commercial banks. These funds, in turn, contribute to the development of active operations of banks.

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A number of research studies have been carried out by economist scientists to increase the deposit base and sustainability of commercial banks, in particular, they believe that the deposit in the form of money or securities given not only to banks, but also to financial and credit institutions

It has also been suggested that the deposit can be given to credit institutions not only for storage, but also for temporary use.

Some interpretations suggest that bank deposits include only non-term deposits, while some economists suggest that bank deposits include all term and non-term deposits except from savings deposits.

As a synthesis of the above interpretations, in our opinion, all the funds available for depositing and carrying payment transactions can be included as bank deposits.

There are still different approaches among economist scientists about the adequacy of the banks' deposit base.

According to some economists, it is necessary to prevent the volume of transactional deposits exceed 30% of the volume of gross volume of deposits and introduce limitations on the part of the deposits directed to the credit operations based on German banking practice in order to ensure the adequacy of the deposit base of commercial banks. In other words, 60% of term deposits and 10% of transaction deposits will be directed to credit operations in Germany.

Moreover, there is also leading proposal of the Russian Federation to introduce the concept of "basic deposits" in the banking practice in assessing the adequacy of the deposit base of the commercial bank. For example, it is assumed that individual deposits up to 5 million, as well as businesses and organizations deposits up to 100 million rubles will be accepted as base deposit

International banking practice has a concept of "basic deposits", which means deposits that have low tenderness to interest rates on the loan capital market.

According to some foreign economists, commercial banks should focus on large deposits in maintaining adequacy and stability of the deposit base. For example, time deposits with at least 10,000 pounds sterling and at fixed interest rates of up to two years have played an important role in maintaining the stability of the deposit base in England.

Practice shows that simultaneous withdraw of large deposits by clients will have a negative impact on bank liquidity of commercial banks. In some cases, simultaneous withdrawal of deposits from banks may lead to bankruptcy of banks. There are many cases in practice to take as an example. It is worthwhile to state that the Russian bank "Tver-universal", the Barings Bank of England and several other banks have been bankrupted due to the repayment of large deposits at the same time.

It is noted in the research of Uzbek scientists that transactional deposits in the structure of bank deposits should make 30% of total deposits. Of course, it is impossible to fully meet the solvency of commercial banks through their correspondent accounts, but in the absence of significant fluctuations in the economy and economic crises, this requirement has shown its positive effect.

Thus, if commercial banks have correspondent accounts equal to at least 30 per cent of their transaction cash flows, they suggest that commercial banks are likely to provide their liquidity.

### Methods and Analysis

There is a constant redistribution of financial resources between financial market entities. Deposit resources play important role in the formation of commercial banks' resources.

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Deposits serve as a basis for the formation of banks' incomes. It is expedient that banks should classify them according to certain criteria for their effective use of existing deposit funds (Table 1).

Table 1

**Classification of deposit resources of commercial banks [11]**

Classification	Type of deposits
According to subjects	<ul style="list-style-type: none"> <li>➤ Deposits of individuals</li> <li>➤ Deposits of legal entities</li> <li>a)deposits of government organizations</li> <li>b)deposits of non-government organizations</li> </ul>
According to currency type	<ul style="list-style-type: none"> <li>➤ Bank deposits</li> <li>➤ Deposits in national currency</li> <li>➤ Deposits in foreign currency</li> </ul>
According to the usage time	<ul style="list-style-type: none"> <li>➤ Time deposits</li> <li>➤ Demand deposits</li> </ul>
According to the level of stability	<ul style="list-style-type: none"> <li>➤ Stable deposits</li> <li>➤ Unstable deposits</li> </ul>
According to the value	<ul style="list-style-type: none"> <li>➤ Securities</li> <li>➤ Inexpensive deposits</li> </ul>
According to the level of control	<ul style="list-style-type: none"> <li>➤ Controlled deposits</li> <li>➤ Uncontrolled deposits</li> </ul>

Commercial banks need to ensure compliance with the attracted liabilities and requirements the banks in order to succeed in minimal risky conditions. Usually, this process is found out to be complex to implement in most commercial banks.

Based on the data provided in the table, following conclusions can be drawn.

Time deposits are easy to manage but are expensive resources for banks. On the contrary, demand deposits are a cheap resource for banks but hard to manage. Nowadays, models for managing such resources and using them as a long-term resource are created.

Under conditions of a stable economy, there is an opportunity to manage demand deposits. Because in the stable development of the economy there are no problems in the settlement process. On the contrary, in conditions of economic uncertainty, the solvency of subjects will decline, and they will return their funds from banks one at the same time. As a result, liquidity problem will appear in banks. Therefore, banks should regularly analyze the changes in deposit funds within their liabilities (Table 2).

Table 2

**Structure of total liabilities of commercial banks [12]**

Name of indicator	01.01.2020.		01.01.2021.		01.01.2022.		Changes,
	Bil	share,	Bil	share,	Bil	share,	

	li o n U Z S	perc enta ge	li o n U Z S	perc enta ge	li o n U Z S	perc enta ge	perc enta ge
<b>Total Liabilities</b>	<b>75 094</b>	<b>100</b>	<b>145 956</b>	<b>100</b>	<b>187741</b>	<b>100</b>	<b>250,0</b>
Attracted loans	26 787	35,6	72 819	49,9	104379	55,6	389,7
Total Deposits	37183	49,4	59 579	40,8	70001	37,3	188,3
Securities released	216	0,3	190	0,1	10	0,01	4,6
Accrued interest required to be paid	375	0,5	1 049	0,7	2181	1,2	581,6
Funds of other banks	3 994	5,4	5 763	4	6983	3,7	174,8
Central Bank's correspondent account	263	0,4	537	0,4	498	0,27	189,4
Other Liabilities	6 276	8,4	6 019	4,1	3769	2,0	60,1

21 reached to 41.7 trillion sums or grew by 1.3 times, and as of January 1, 2022 it amounted for 187.7 trillion sums. During the analyzed period, the share of loans attracted in commercial banks'

liabilities increased from 35.6% in 2018 to 55.6% in 2020 (20 percent). This is the evidence that commercial banks are actively participating in the interbank market of resources. At the same time, the share of deposits attracted from population and business entities in total liabilities of banks decreased from 40.8% to 37.3% in 2018.

It should be noted that the volume of deposits attracted by commercial banks in 2018 increased by 17.5% compared to the beginning of the year and reached to 70.0 trillion sums in reporting date

Although deposits of commercial banks continue to grow, their share in loans allocated to the economy of the country remains low. For example, as of 1 January 2018, the ratio of bank deposits to credit investments amounted to 53.8% and as of January 1, 2022 this ratio was equal to 41.8%. [13]

This, of course, indicates a low level of resource potential of commercial banks. In this turn, it is worth mentioning the structure and dynamics of the deposit base of commercial banks of the Republic of Uzbekistan (Table 3).

**Table 3**  
**The structure and dynamics of the deposit base of commercial banks of the Republic of Uzbekistan,(to the end of the year billion UZS) [14]**

№	Indicators	Years						Changes in 2022 compared to 2019,%	
		01.01.2020		01.01.2021		01.01.2022		sum	share, percentage
		sum	share, percentage	sum	share, percentage	sum	share, percentage	sum	share, percentage
1.	<b>Total</b>	<b>36 341</b>	<b>100</b>	<b>59579</b>	<b>100</b>	<b>70001</b>	<b>100</b>	<b>33 660</b>	<b>0,0</b>
2.	Demand deposits	19 617	54,0	30 457	51,1	29912	42,7	10 295	-11,3
3.	From 1 to 30 days	1 997	5,5	3 231	5,4	3711	5,3	1 714	-0,2
4.	From 30 to 180 days	6 252	17,2	10 292	17,3	8785	12,5	2 533	-4,7
5.	From 180 to 365 days	3 776	10,4	9 283	15,6	8422	12,0	4 646	1,6
6.	More than a year	4 699	12,9	5 404	9,1	19171	27,4	14 472	14,5

The data indicate that during the analyzed period, the share of transaction cash deposits in the total volume of commercial banks' deposits still remained high. In 2020 the actual level of this indicator was 51%, while in 2019 it was 54%. In 2021 the share of this type of deposits has dropped to 42.7 points. This numbers indicates that commercial banks in our Republic have insufficient deposit base. Because the share of transactional deposits in the amount of gross volume of deposits should not exceed 30% to have a sufficient deposit base for the commercial banks. In, the share of savings deposits in the total volume of deposits of commercial banks of the Republic remained small. This testifies that there is lack of commercial banks' operations to attract cash assets to savings

deposits. Only by the end of 2021 the share of term deposits of commercial banks in our country has been increasing. Long-term and savings deposits account for the major part of commercial banks' resources in international banking practice. In commercial banks in the US and Western Europe, the share of time deposits in the volume of brutto deposits exceeds 60%.

As a result of reforms in the banking system of the country in recent years, the share of the state in the authorized capital of banks has been increasing. In this context, banks can be divided into banks with state-owned shareholding and non-government banks. The following table shows the deposit base of these two types of banks in the Republic of Uzbekistan.

**Table 4**

**Dynamics of deposits attracted by commercial banks of the Republic of Uzbekistan[16]**

Banks	Total deposits					
	Share in the banking system, percentage			Share in total liabilities, percentage		
	2019	2020	2021	2019	2020	2021
<b>banks with state-owned shareholding</b>	66,7	65,8	68,1	42,5	32,7	30,1
<b>Banks without any state-owned shareholding in the authorized capital</b>	33,3	34,2	31,9	74,1	77,7	76,1

By the end of 2021, the share of deposits in the total amount deposits of the banking system accounted for 31.9% in commercial banks with no state-owned shareholding while the share of deposits and savings in total liabilities of these banks amounted to 76.1%. This, in contrast to banks with state-owned shareholding, means that deposits are major source of lending practices.

An analysis of fixed interest rates on deposits and savings in the banking system shows that they were formed under the influence of monetary policy measures undertaken by the Central Bank in 2021.

Monetary policy aimed at increasing the attractiveness of the national currency and reducing the level of dollarization in the economy has enhanced the sensitivity of the transfer mechanism's savings channel. In particular, in January-October 21 the total balance of savings and time deposits in the national currency amounted to 4.5 trillion sums or 55%, and these deposits in foreign currency was equal to 613 billion sum or increased by 11%.

At the same time, the balance of time deposits and savings deposits of individuals in national currency grew by 31 percent and of legal entities by 81 percent.[17]



Data analysis shows that the share of deposits in total deposits in the state-owned banks has a tendency to decline. The results of the analysis show that the main source of active operations in non-state banks is deposits. By the end of 2018 the total amount of deposits of these banks amounted to 22342 billion sums or 76.1% of the total liabilities of the banks, while deposits of the state-owned banks accounted for 47659 billion sums or 30.1% of total bank liabilities.[18] This determines that deposit base of state-owned shareholding banks in our country is low.

### Conclusion/Recommendations

Generally, in recent years, because of measures aimed at strengthening the deposit base of commercial banks and increasing public confidence in the banking system in the country, the bank's stability is ensured.

The results of the analysis show that the annual growth rate of bank deposits between the years was 1.3 times. Nevertheless, the share of bank deposits in total banking liabilities declined. In the structure of the liabilities of state-owned banks, the share of deposits in 2019 was 42.5 percent, in 2020 it decreased to 30.1 percent. These cases show that there are some problems with strengthening the deposit base of commercial banks in our country.

In order to strengthen the deposit base of banks, we consider it necessary to implement a number of measures. Including:

- It is necessary to ensure compliance with the bank deposits and loan portfolio. The results of the analysis show that in 2017, the ratio of bank deposits to the total loan portfolio amounted to 53.8% and by the end of 2018 it declined to 41.8%.

- Each commercial bank should develop a strategy for attracting available cash assets to bank deposits and achieve the growth of deposit funds in the resources structure. At the time of analysis, the share of deposits in the structure of bank resources have a decline tendency. In 2016, 49.4% of total banking liabilities were deposit funds, and by the end of 2018 they amounted to 37.3%.

- It is necessary to pay special attention to the depositary capacity of commercial banks with state-owned shareholding in the country. In 2018, 88.9 % of the total loans allocated to the economy provided by these banks. At the same time, the aggregate deposits of these banks accounted for only 32% of the total loan portfolio.

Finally, it should be noted that the strength of the deposit base of banks, first of all, is considered as a factor indicating the trust of the population and business entities in the banking system, and, secondly, the ability to meet the long-term needs of economic entities.

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