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## Deposit base of Uzbekistan commercial banks

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### ABSTRACT

This paper investigates several aspects of commercial banking in Uzbekistan - the role of banks in the economy, and the resource base of commercial banks. In addition, the deposit operations of commercial banks are considered and an analysis is made of the deposit base of commercial banks in Uzbekistan. Moreover, the article reveals the significance of deposits in the activity of commercial banks and in conclusion, outcomes of research have been mentioned to increase the deposit base of bank operating in Uzbekistan.

**Keywords:** Commercial banks, bank resources, bank deposits, Uzbekistan

### 1. INTRODUCTION

Banks are an integral part of the economy. The main purpose of banks is mediation in the transfer of funds from lenders to borrowers, from sellers to buyers, in other words, financial intermediation. Banks differ from non-bank credit institutions in that from the position of legislation, only banking institutions are allowed to perform a total of three operations (known as 'pure banking'). These are deposit, credit and settlement operations. By attracting temporarily free cash, commercial banks mobilize the accumulation and savings generated in the economy and transform this cash into loan capital (Jianping Qi, 1998).

In accordance with the priority areas of liberalization and economic development of Uzbekistan, it is envisaged to deepen the reforms and ensure the stability of the banking

system, the level of capitalization and deposit base of banks, strengthen the financial stability of banks and their reliability, and further expand lending to promising investment projects, as well as to small businesses and private entrepreneurship.

## **2. COMMERCIAL BANKS AND THE ESSENCE OF DEPOSIT OPERATIONS**

Banks are entities of public trust. A commercial bank is a legal entity that is a commercial organization that collectively carries out operations for opening and maintaining bank accounts, making payments, attracting funds in deposits (savings), and providing loans on its own behalf, defined as banking activities (Agnieszka Butor-Keler, 2019).

A commercial bank is a credit institution that implements economic interests. Banking is usually a commercially very successful business, albeit guided by certain principles. One of these is profitability. The bank's profit is formed from the difference in interest charged to customers and paid to them through banking operations, as well as from commission fees for services. The profit indicator is officially considered the main indicator of the bank's commercial success. The significance of this principle is that without profitability, a bank cannot exist.

An important element of a bank's sales strategy is both to acquire new customers and to sign a financial transaction with them. Another important principle of the commercial banks' activity is "buy cheap, and sell expensive", that is, the bank's strategy is to offer the highest rate while taking into account factors that reduce the risk of losses (by selecting reliable customers, obtaining a guarantee, diversifying capital) (C. T. B. Ho, W. C. Lin, 2010).

The principle of activity is based on the fact that a commercial bank is a risky institution, but it can take risks only by the amount of its capital, in other words, a steady rule should apply: everything for the client, for the client's safety on the basis of partnerships, on the principle of mutual interest.

A modern commercial bank is a universal enterprise striving to develop as many types of operations and services as possible. These include: credit, settlement, cash, interbank settlement transactions, promissory notes, operations with securities, operations in foreign currency, intermediary, financial, founding.

Credit operations are the operations of the lender to allocate free resources to the borrower on terms of payment, maturity and repayment. Herein, banks can act in these operations both as lenders and as borrowers (receiving loans from the Central Bank and other commercial banks).

Settlement operations are storage of customer funds, movement and transfer of funds using the circulation of payment instruments (by order of the holders of funds). To carry out the operations, the client opens an account in the bank (settlement account, deposit account, loan account).

Cash transactions are bank operations for receiving and issuing money and valuables to bank customers through the bank's cash desk.

Interbank operations in accordance with applicable law provide for settlements between banks and other credit institutions. Settlements between banks can be made through cash settlement centers, clearing institutions and correspondent bank accounts.

Operations of a commercial bank with securities are different. The Bank may issue its own securities (stocks, bonds) or financial instruments (certificates, bills) to increase the

authorized capital of a joint-stock bank, to attract borrowed funds and to make purchase and sale acts with the securities of other enterprises and banks. This type of operation is called ‘term transactions’. In other words, banks can issue, buy, sell and store payment documents and securities: cheques, letters of credit, bills of exchange, stocks and bonds.

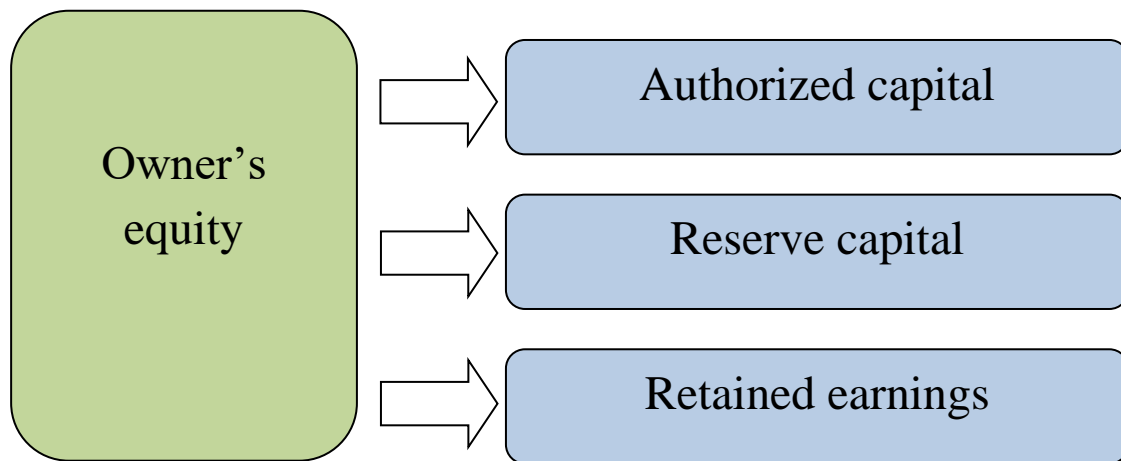
Operations with foreign currency consist in buying from resident and foreign legal entities and individuals and selling them cash currency, which is held in accounts and deposits.

Intermediary operations are very diverse and relate to various kinds of operations for the purchase and sale, production and acceptance of payments. Banks act as intermediaries and consultants for various transactions, and commercial banks can carry out constituent operations on the foundation of new enterprises.

The resources of a commercial bank are its own capital and the funds of legal entities and individuals attracted to it on a repayable basis formed by the bank as a result of passive operations that in aggregate are used by it to carry out active operations (Franklin Allen, Elena Carletti, Robert Marquez, 2015). Thus, the resources of a commercial bank by the formation method can be divided into two main groups:

- equity,
- liabilities.

Equity (Fig. 1) represents funds directly owned by a commercial bank during its period of operation.



**Figure 1.** Equity structure of Banks

The funds raised are temporary for the bank. The resource structure of commercial banks is characterized by a larger share of attracted sources. This distinguishes commercial banks from other economic entities. Attracting temporarily free cash is much cheaper for a commercial bank to undertake than to enact operations to increase the bank’s equity.

The resource structure of a particular commercial bank in its qualitative and quantitative composition may differ significantly from the resource structure of other commercial banks, as well as from the situation in the whole region. It depends on many factors, for example, such as the period of the bank’s functioning, the size of its authorized capital, the specifics of the

bank's activities, the number and quality of the clientele, the bank's lending policy, participation in financial markets, and, finally, the banking resources market.

Attracting funds from various sources to a commercial bank in order to form a resource base is ongoing, almost every day. At the same time, the absolute amount of bank resources at the end of the day may not change or, on the contrary, decrease, since the bank's obligations are simultaneously repaid due to the maturity of the payment or the need for funds of their owners, as well as debiting of funds from the accounts of economic entities for their payment documents and other current operations - leading to a reduction in bank liabilities. However, despite the fact that the size of resources is a variable value, daily fluctuations as a whole for the reporting month are smoothed out and ultimately lead to some kind of relatively constant level.

Passive operations are fundraising operations, namely: raising loans, deposits (savings), obtaining loans from other banks or issuing own securities. Funds received as a result of passive operations are the basis of direct banking activities (Yevheniya Zhovtun, 2016).

There is a close relationship between passive and active operations of a commercial bank. Thus, the size and structure of active operations that provide revenue generation are largely determined by the resources available to banks. In this sense, passive operations that form the bank's resource base are primary in relation to active ones. In providing loans, buying securities, banks are forced to constantly monitor the status of liabilities and to track the timing of payments on obligations to depositors. If there are not enough resources, the bank has to refuse profitable offers and sell high-yield securities. At the same time, a significant part of bank deposits arises on the basis of active operations in the provision of non-cash loans. The relationship of passive and active operations is also manifested in the fact that bank profit depends on bank margin, in other words, the difference between the price of bank resources and the profitability of active operations.

For successful operations, the bank must ensure the coordination of passive and active operations: on the one hand, to prevent a significant discrepancy between the terms of liabilities and assets, for example, the issuance of long-term loans from short-term deposits; and on the other hand, so as to not immobilize short-term resources for a long period in the amount significantly exceeding the stable balance of funds in bank accounts that is sufficient for regular payments.

There is a relationship between the individual types of liabilities and assets. So, opening a bank account for a large client is accompanied by the emergence of a close regular relationships between the client and the bank. In order not to lose the client, the bank gives to the client significant loans, invests in client's securities and provides the client with a variety of services.

Passive operations are operations related to raising funds in commercial banks and the formation of bank resources, and are of high value to the bank. In the passive operations of commercial banks, the share of deposit operations predominates. In practice, the subjects of deposit operations are individuals and legal entities (Ashraf Nava, Dean Karlan, Wesley Yin, 2006), and the amount of money that is the subject of deposit operations capitalize on the relevant accounts opened in commercial banks. Thus, this can be attributed to the object of deposit operations.

No less attractive liabilities for the bank are balances on customer accounts, as the bank can practically dispose of these funds for free. With the regular use of stored funds, certain unused balances still remain. The presence of balances is associated with the settlement of funds

in passive accounts with commercial banks. The Bank, in opening accounts to customers, uses account balances for active lending operations.

For commercial banks, raising funds from the population is the basis through which they develop and succeed. To implement deposit operations, each bank develops a deposit policy that defines the tasks for the formation of banking resources, their planning, and regulation (Ozlem Deniz Basar, Elif Guneren Genc, 2016).

The main goal of developing and implementing an effective bank depositing policy is to increase the resource base while minimizing the costs of commercial banking activity and maintaining an appropriate level of liquidity, taking into account all possible types of financial risks (Emmanuelle Nys, Amine Tarazi, Irwan Trinugroho, 2015).

The deposit policy of the bank should include:

- developing a strategy for the implementation of the bank's activities to raise funds for deposits, based on a comprehensive market research, that is, an analysis of the financial environment, the place and role of the bank in raising funds, diagnostics and forecasting,
- forming a set of commercial banking tactics for the development, proposal and promotion of new bank deposit products for customers (in the field of commodity, pricing, marketing and communication policies),
- implementing the developed strategy and tactics,
- maintaining control over the implementation of the policy and its effectiveness,
- monitoring the commercial banking activity in raising funds.

The main document regulating the process of attracting temporarily free funds of enterprises, organizations and the population to bank accounts in various deposits (deposits) in commercial banks is the bank's deposit policy. This is a document that is developed by each bank independently on the basis of that bank's the strategic plan, as well as the analysis of the structure, condition and dynamics of the resource base of the bank - and built upon the prospects for its development. In addition, documents are used that determine the main directions and conditions for the allocation of borrowed funds, such as "Bank credit policy" and "Bank investment policy".

Bank deposit operations reveal the essence of the activities of a commercial bank as an intermediary in attracting resources in the free market of borrowed funds.

Savings, in this respect, is a deposit of money invested in a commercial bank that must be returned at the request of the bank customer or upon expiration of the period with interest or other income or without it, or on the terms agreed between the depositor or authorized representative of depositor and the bank accepting the money (G. Y. Babaeva, V. I. Nazarova, Sh. N. Murodova, 2018).

In Uzbekistan, deposits are divided into the following types:

- demand deposits,
- savings deposits,
- time deposits,
- savings certificates.

The opening and maintenance of all types of deposit accounts is carried out on the basis of an agreement (of bank account or of bank deposit), which is drawn up and executed between a commercial bank and bank customer (George G. Kaufman, 1972).

One of the common ways to increase the volume of attracted resources of the bank is to offer a variety of deposits for various segments of the population depending on the social level, as well as the amount and shelf life of the deposit. But in this case, banks need to consider the requirements and capabilities of various categories of depositors. Significant factors in the process of attracting deposits are the speed and simplicity of making a deposit (Franklin Allen, Elena Carletti, Robert Marquez, 2015).

The savings of a nation's population constitute a separate group of bank resources. The general basis for the population to deposit money as savings is that, in managing their incomes, citizens, according to their needs, can delay spending money for any period of time. The mass of value owned by the population until funds have turned from a monetary form into personal consumption items, remains temporarily at the disposal of the bank. The return of these funds provided by the population as a loan to the state or the bank occurs as people use their money to purchase goods and pay for services. In parallel with the use of monetary savings by some citizens, new savings are formed by others. Therefore, the total amount of monetary resources of the population, which can be disposed of by banks as a credit resource, not only does not decrease, but also, as a rule, increases systematically.

The main reasons for banks to attract money from the population in deposits are the following:

- cash of the population is a relatively stable resource for the bank. The types of loans and, consequently, the size of bank incomes depend on the nature of deposits;
- commercial banks can attract a lot of resources;
- these resources are relatively cheap resources for a bank compared to interbank loans and other financial instruments;
- the deposits are beneficial for banks, that is, even for current deposits of the population there is a significantly lower activity of the movement of funds than in the accounts of enterprises and organizations. As for time deposits, placement of the deposits in the bank creates almost ideal conditions for bank activities.

Recent intensified competition in the banking sector is forcing banking institutions to resort to such methods as providing a full range of services related to servicing a particular client's account, as well as using various kinds of lowered prices for services. The need to improve service quality and the high degree of competitiveness have created the need to ensure a satisfying customer experience. Thus, it is the customer that plays the most important role in any business, as he or she is a key part of building a competitive business (Joseph M., McClure, Joseph, B., 1999).

Deposits are a source of borrowed capital for the bank that will be used to provide loans and investments. All these listed banking operations bring the bank income. Because of this, the bank pays the depositor interest for the deposit placed in the bank (Volokhataya Viktoriya Ye, 2013).

### **3. ANALYSIS OF DEPOSITS OF COMMERCIAL BANKS IN UZBEKISTAN**

In Uzbekistan, banks are created in the form of a joint stock company. The founders of the bank can be legal entities and individuals - residents, as well as non-residents.



The legal basis for organizing and conducting of commercial banks activity are the Laws of the Republic of Uzbekistan “On the Central Bank of the Republic of Uzbekistan” dated November 11, 2019, “On banks and banking activity” dated November 5, 2019, and “On private banking and financial institutions and guarantees of their activity” dated December 17, 2012, and other legal documents and acts relating to certain areas of banking.

The state may be the founder and shareholder of the bank, represented by the Ministry of Finance of the Republic of Uzbekistan, as well as other state organizations based on decisions of the President of the Republic of Uzbekistan. Enterprises and organizations in which more than fifty percent of the authorized capital is owned by the state cannot be founders and shareholders of a bank, unless otherwise provided by law. The minimum authorized capital of commercial banks in Uzbekistan should be 100.0 billion Uzbek soums.

Modern banks perform a wide variety of functions. The main ones are:

- accumulating temporarily free cash,
- granting a loan,
- issuing credit money,
- making settlements and payments on business transactions,
- providing clients with economic advice and financial information.

The remuneration of a depositor for the amount of money contributed by depositor to a commercial bank can be both the income received by the client in the form of interest and the range of services provided by the bank for the transfer and payment of money (Richard E Bond, 1971).

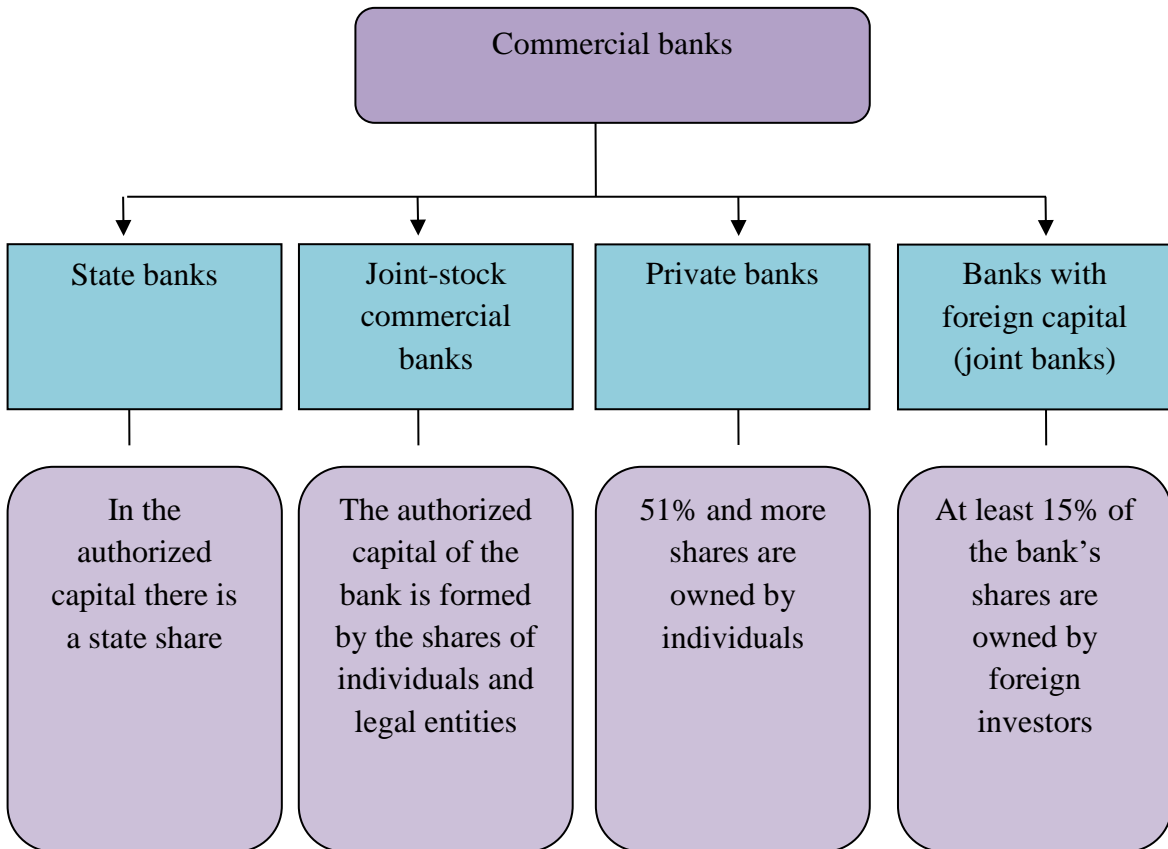
There are five groups of main factors that can affect the process of attracting deposits by banks:

- The first factor is determined by government policy that should be aimed at ensuring political stability in the development of economic indicators. If government policy prevents situations that cause financial crises, then banks and their customers in large volumes increase deposit accounts.
- The second group of factors depends on the dynamics of the main economic parameters, which include interest rates, inflation and unemployment rates, as well as the development of the economy in the regions and their infrastructures.
- The third group of factors is influenced by the improvement and further development of the credit and payment system, including bank transfers of funds to customer accounts.
- The fourth group of factors depends on trust in credit organizations, as well as in other structural divisions of the banking system, and the level of informativeness of bank customers about the work of all functioning banking organizations. These aspects should be emphasized.
- And the last, fifth group of factors are those that are determined by the demographic climate in the country.

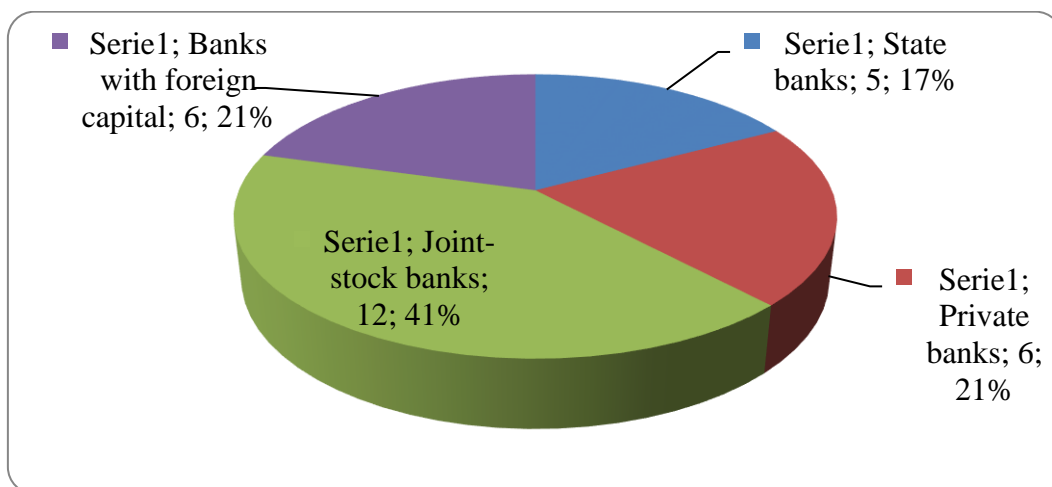
The most common types of banking institutions are commercial banks (Tadeusz Trębacz, 2019). Currently, 29 commercial banks operate in Uzbekistan. Commercial banks in accordance with applicable law may be established in various forms of ownership (Fig. 2).

From Figure 3, it can be seen that the share of joint-stock commercial banks prevails in Uzbekistan; their number is 13 units. There are also 6 private banks in the country. However,

in recent years, special attention has been paid to the establishment of banks with the participation of foreign capital, and the privatization of commercial banks is planned for the coming years, in other words, the sale of state-owned banks to the private sector.



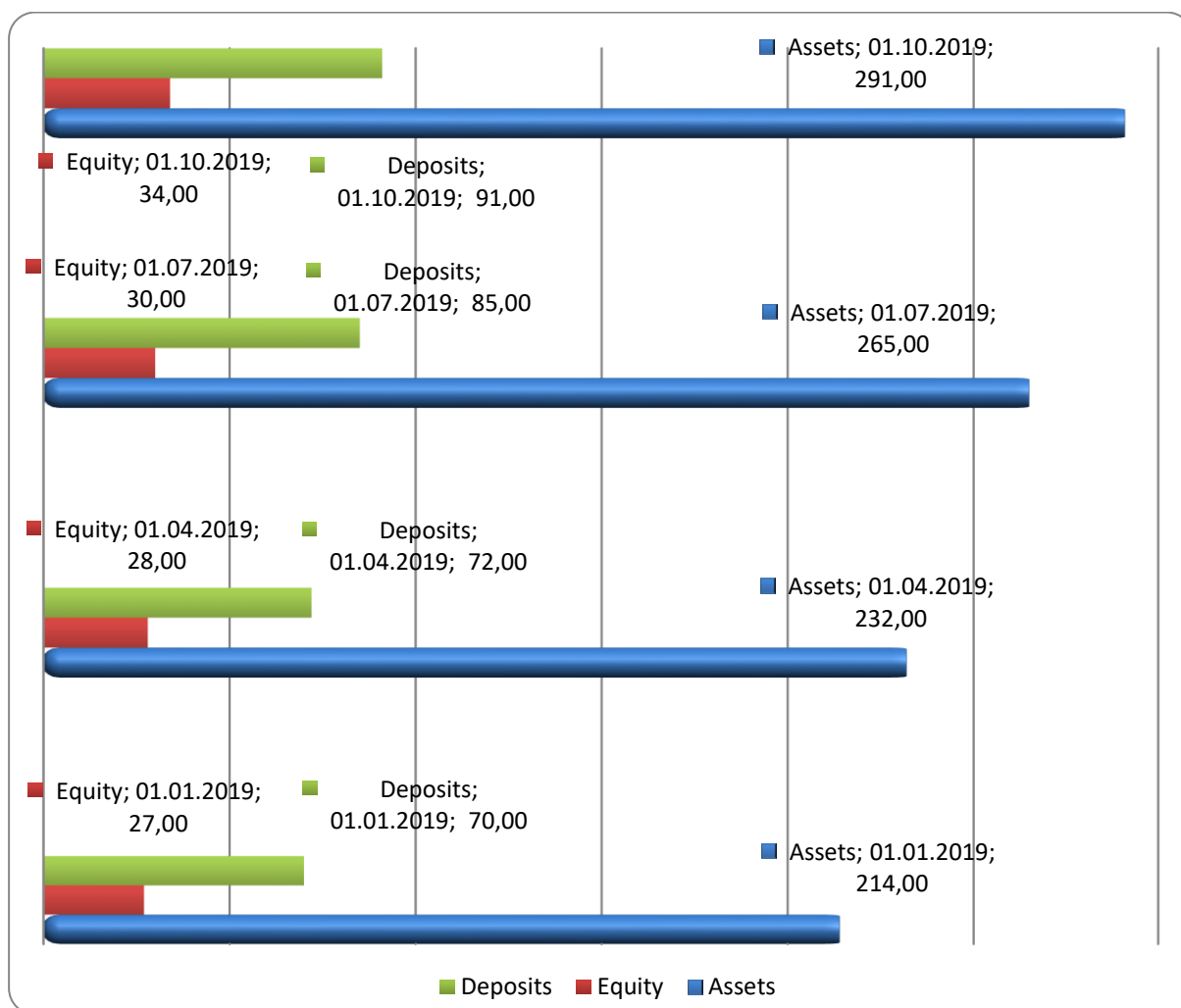
**Figure 2.** Types of banks by ownership



**Figure 3.** Classification of commercial Banks of Uzbekistan by ownership



As of October 1, the total assets of commercial banks in Uzbekistan amounted to 291 trillion soums. Moreover, the growth of bank assets relative to the beginning of 2019 amounted to 36%. In addition, Bank equity amounted to 34 trillion soums against January 1, 2019, 27 trillion soums. Finally, the balance of deposits of commercial banks in the first 9 months of 2019 amounted to 91 trillion soums, while growth relative to indicators at the beginning of the year was 30% (Figure 4).



**Figure 4.** Key indicators of commercial banks in Uzbekistan (in trillion Uzbek soums)

From Table 1 it can be seen that the volume of attracted deposits by commercial banks of the country for the period January-September 2019 compared to the same indicators of the previous year increased by 44%. At the same time, it will be possible to observe growth in attracted deposits in the national currency by 42%, and in foreign currency – by 48%. Over the months of April, May, July, August and September 2019, commercial banks of the country attracted deposits more than 839 million soums. In general, from the prevailing picture, we can conclude that the deposit base of commercial banks has a tendency to increase.

**Table 1.** Attracted deposits of commercial banks (in trillion Uzbek soums).

Period	Total amount of attracted deposits	In national currency			In foreign currency		
		Sum	Incl.		Sum	Incl.	
			individuals	legal entities		individuals	legal entities
2018	969.7	717.3	75.8	641.5	252.4	51.9	200.5
Jan	84.9	60.4	6.4	54	24.5	4.4	20.1
Feb	87.6	64.5	6.5	58	23.1	4.3	18.8
Mar	103.8	77.3	7.3	70	26.5	4.3	22.2
Apr	102.7	76.4	8.4	68	26.3	4.4	21.9
May	110.1	80.9	9.1	71.8	29.2	5.1	24.1
Jun	102.4	78.7	9.3	69.4	23.7	6	17.7
Jul	124.8	89.9	9.5	80.4	34.9	7.9	27
Aug	125.4	91.5	10.8	80.7	33.9	9.4	24.5
Sep	128	97.7	8.5	89.2	30.3	6.1	24.2
2019	1392.1	1018.1	112.1	906	374	60.6	313.4
Jan	127.2	92.9	10.1	82.8	34.3	5.5	28.8
Feb	137.3	93.6	10.2	83.4	43.7	5.4	38.3
Mar	139.7	104.5	11.9	92.6	35.2	5.6	29.6
Apr	163.6	116.5	12.8	103.7	47.1	7.6	39.5
May	169	119.8	13	106.8	49.2	6.8	42.4
Jun	148.8	111.5	13.6	97.9	37.3	6.3	31
Jul	166.6	125.4	13.9	111.5	41.2	7.7	33.5
Aug	174.5	131.1	14.8	116.3	43.4	8.4	35
Sep	165.4	122.8	11.8	111	42.6	7.3	35.3

#### **4. CONCLUSIONS**

Banks are a necessary link in money circulation. Banks act as intermediaries in the redistribution of resources between various sectors of the economy. Furthermore, banks attract the free cash funds of a country's population and economic entities, and by granting loans they provide the necessary resources to all sectors of the economy. The resource base of commercial banks is usually dominated by the share of deposits attracted by the bank (Hendrik Hakens, Eva Schliephake, 2019). Despite the upward trend in the deposit base of commercial banks in Uzbekistan, it is worth noting that the share of deposits is not so significant in the Banks' attracted resources. The resources of commercial banks are mainly generated by loans. Therefore, in order to raise funds for bank deposits, it is necessary to build the population's and business entities' confidence in the bank, ensure stabilization of the credit system, conduct various promotional events, improve customer service, and introduce new attractive types of deposits. In addition, to increase the volume of deposits, it would be advisable to inform the people about the benefits of deposits, which in turn will help attract free cash to commercial banks in Uzbekistan.

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