


The Efficiency of Deposit Operations of Commercial Banks in The Republic of Uzbekistan and their Characteristics

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	<p>Abstract</p> <p>Only when the population has guarantees for the safe storage of temporarily free funds in commercial banks, which exceed consumption, and is interested in receiving interest income on deposited deposits, will their confidence in the banking system increase, and this will lead to an expansion of the bank deposit base. In this case, banks increase their opportunities to receive interest income by granting loans to customers at the expense of these attracted funds or by providing services widely used in world practice, such as leasing, factoring, trust, overdraft and overnight. In this way, it is possible to prevent the depreciation of the national currency by collecting free money through the bank and directing it to the real sector of the economy, as a result of which the speed of money circulation increases. It is this factor that plays a key role in the development of deposits. Therefore, this scientific article analyzes the problems of deposits and develops proposals.</p>
<p>Keywords: Bank, banking and financial system, capitalization, resource, authorized capital, deposit, credit, rating, deposit, client, legal entity, individual, operation, funds, factors, subject.</p>	

Introduction

It is known from banking practice that deposits make up the bulk of the funds attracted. Operations in banks to attract funds to investments to achieve goals are called deposit operations. Deposits are beneficial not only to the depositor, but also to the bank. Deposits are formed at the expense of funds deposited by depositors or kept in bank accounts for a certain period of time in the process of operations. In international banking practice, deposits are understood as securities or money given to financial and credit or banking institutions for safekeeping. Through deposits attracted by commercial banks, the bank's loan capital is formed, and from this, commercial banks expand their opportunities for lending to various types of economic entities on favorable terms. The difference between the deposit and loan interest rates is the bank's margin for attracting free funds and placing loan capital.

Review of Relevant Literature:

Deposits of commercial banks, the strength of the bank's deposit base are one of the most widely used concepts in the modern banking system. Economists have their own views on these concepts. According to one of the famous foreign economists E.F. Zhukov [1], “a deposit is a sum of money entrusted to the bank by the client, regardless of the term of storage and the terms of registration”. Also, one of the foreign economists A.M. Tavasiev [2] in his scientific works put forward the idea that “a deposit is a sum of money or a security that is returned by the bank to the depositor or his successor upon the agreed term”.

In turn, one of the foreign economists M.M. Agarkov [3] considers “a deposit to be a sum of money or a security transferred by the population, enterprises and organizations to a bank and other financial institutions for safekeeping”.

In addition, in the scientific works of the foreign economist I.T. Balabanov [4], “a deposit is a sum of money transferred by a bank client to the bank for temporary use”.

According to Professor Sh.Z.Abdullaeva [5], in world practice, “deposit” means not only money or securities given to a financial institution for storage, but also bank deposits, as well as contributions made to pay customs duties, fees, taxes, etc.

Professor A.A.Omonov [6] noted in his scientific research that strategic planning in bank resource management should be developed with a time horizon of at least one to ten years. The main focus is on balancing the attraction and placement of resources by term, forming a financially stable customer base, and stratifying the attraction of resources by depositors and customers. It should be noted that coordinating the terms of attraction and placement of resources, achieving diversification of attraction of resources by depositors and customers are the main levers for effective management of the resources of commercial banks.

Professor F.I.Mirzaev [7] in his research focused on the conceptual foundations of the formation of interbank competition. In particular, he indicated the economic relations that arise in the process of attracting resources, placing funds and implementing all other types of banking services in the banking services market as the basis of interbank competition. Therefore, a full study, analysis and drawing appropriate conclusions from the theoretical and practical aspects of deposit operations of commercial banks is an important factor affecting the stability of banks.

Based on the above, we can say that today, it is necessary to develop banking reforms through the further development of scientific approaches and views on bank deposits.

Research Methodology:

The article uses the logical method, analysis and synthesis, normative approach, systematic and comparative analysis methods.

Analysis and Results:

In accordance with the Strategy of Actions for the Further Development of the Republic of Uzbekistan, approved by the Decree of the President of the Republic of Uzbekistan No. PF-4947 dated February 7, 2017, as well as the tasks set out in the relevant decrees and resolutions of the President of the Republic of Uzbekistan, fundamental changes are taking place in the process of ensuring the financial stability of banking activities and increasing the efficiency of their activities. This has led to the fact that issues related to increasing the importance and role of deposit policy

in implementing the strategic goals of banks and forming a solid resource base and improving it have become one of the relevant areas of scientific research.

In the context of modernization of the economy of the Republic of Uzbekistan, including the banking system, and the development of the digital economy, the development of regulatory legal acts in the field in accordance with the requirements of the times is of great importance for further increasing the efficiency of reforms in the banking system.

In 2019 alone, the Legislative Chamber of our country adopted 4 new laws on the banking system. This indicates that the banking system of our republic is gradually integrating into the international banking system, and the scope and quality of services of our banks are being brought to a new level.

It is worth noting that in recent years, a number of effective works have been carried out to further strengthen the confidence of the population and business entities in the banking system of our country, to attract idle funds in the economy into long-term bank deposits. In particular, the role of the laws and by-laws in force in our country in this regard is invaluable for improving the mechanism for the implementation of deposit operations by commercial banks and the effective implementation of the system of settlements related to deposits. The following regulatory and legal acts serve as an important tool in the implementation of deposit operations by commercial banks. Further expansion of resource attraction by banks, further increase in the volume of population deposits, and further improvement of the provision of services to legal entities and individuals serve as the basis for expanding the lending capacity of banks. Banks also have the opportunity to attract resources by issuing securities. In this case, banks issue securities, attract free money in the hands of the population and legal entities as a resource, and carry out credit expansions at the expense of the attracted funds.

Indeed, commercial banks are required to financially assist economic entities in carrying out production in their industries, or rather, to offer their own loans.

However, it is worth noting that commercial banks are considered legal entities that have a commercial nature and operate in this regard. If there is a need for economic entities to own funds, or more precisely, to attract them to their activities, commercial banks are also not immune to such a problem.

In this regard, analyzing the formation of resources of commercial banks and clarifying how they are able to use them is of great practical and theoretical importance.

The resources of commercial banks usually consist of own funds, attracted funds and borrowed funds. If the main part of the source of resources is attracted funds, then it is well known that the main source of trust in banks is own funds.

According to I.Kh. Rakhmanov and Kh.Kh. Otamurodov, the attraction of deposit funds by commercial banks creates the basis for the formation of the bank's resources, which are given as loans, and this situation is also attracted by another bank as deposit funds, which are formed as credit resources of this commercial bank and are given as loans. This situation has repeatedly occurred in the practice of other banks and continues to be interconnected. This process represents deposit multiplication and credit expansion. As an example, the authors cited the following table.

Table-1 Deposit multiplication

Bank	Depozit	Kredit	Mandatory reserve (12,5 %)
<i>I</i>	2	3	4
A bank	1000	875	125
B bank	875	766	109
V bank	766	670	96
S bank	670	586	84
Ye bank	586	513	73
va h.k.
Total	8000	7000	1000

Based on the data in the table above, the multiplication limit of the attracted deposit amount can be determined by the following formula:

$$D = D_0 * 1/R \quad (1)$$

D is the maximum value of a deposit that can be created in the banking system;

D0 is the primary deposit amount;

R is the reserve for one unit of deposit. Here, R is equal to 0.125 (12.5%).

$$D = 1000 * 1/0.125 = 8000.$$

Based on this, we can determine the maximum value of the loan:

$$K = K_0 * 1/R \quad (2)$$

K is the maximum loan amount;

K0 is the primary loan amount;

R is the reserve for one unit of deposit. Here, R is equal to 0.125 (12.5%).

$$K = 875 * 1/0.125 = 7000.$$

Thus, the maximum deposit that can be created in the banking system is 8,000 units when the average required reserve ratio is 12.5 percent. Also, the maximum amount of loans that can be granted by commercial banks is 7,000 units.

However, if we take into account that the average required reserve ratio is 9 percent today, we can express the deposit multiplication as follows:

Table 2 Deposit multiplication

Bank	<i>a</i> bank	<i>b</i> bank	<i>d</i> bank	<i>e</i> bank	<i>f</i> bank	...bank	Total
Depozit	1000	910	828,1	753,6	685,776	...	11111
Kredit	910	828,1	753,6	685,776	624,05616	...	10111
Mandatory reserve (9 %)	90	81,9	74,529	67,824	61,71984	...	1000

Based on the information provided, we calculate the maximum value of a deposit that can be created in the banking system:

$$D = 1000 * \frac{1}{0,09} = 11111 \text{ equal to.}$$

Similarly, we determine the maximum amount of loans that can be granted by banks as follows:

$$K = 910 * \frac{1}{0,09} = 10111 \text{ equal to.}$$

So, from the above analysis, we can see that reducing the required reserve ratio set for deposits attracted by commercial banks in the country significantly increases the amount of deposits that can be attracted by banks. At the same time, from our above analysis, we can see that reducing the required reserve ratio did not lead to a decrease in the amount of required reserves held by the Central Bank. By studying and analyzing the above cases, we can note that deposit multiplication and credit expansion are mainly directly related to the required reserve interest rates.

In the scientific works of American scientists, namely Roger Miller and David Van-Hoose, the main attention in determining the deposit multiplier is focused on transaction deposits. In their opinion, transaction deposits are the only form of money creation, and they note that the deposit multiplier can also be called the money multiplier.

All economists know that commercial banks determine the level of interest rates on attracted deposits (deposits) based on the Central Bank's refinancing rate and changes in the inflation rate in recent years.

In turn, the Central Bank regularly monitors the level of interest rates on deposits (deposits) of banks in order to protect the interests of bank depositors, borrowers and creditors, prevent an unreasonable increase in interest rates on deposits (deposits) and prevent the emergence of associated risks, and ensure the stability of the banking system.

The Central Bank may determine that the weighted average interest rate on attracted deposits (deposits) of a particular bank is unreasonably high, if this bank:

- - the level of profitability of assets and capital;
- - the share of interest income in gross income and the ratio of assets;
- - the ratio of interest income to interest expenses;
- - the ratio of interest expenses to total liabilities;
- - the relationship between the turnover periods of attracted funds and the profitability of bank assets;
- - critically examines and analyzes the impact on indicators such as the level of efficiency of use of attracted funds on deposits and whether they are lower or higher than the average indicators for the banking system¹.

The presence of these indicators at the established standard level has a positive impact on the interest paid by the bank on deposits, the attractiveness of deposits attracted by banks, the financial stability and profitability of the bank.

Any business entity, placing its funds in deposits in banks, is primarily interested in the complete preservation and timely return of these funds. Currently, in developed countries, issues aimed at protecting the population's deposits in banks and insuring the deposits of business entities in banks are of urgent importance.

A solid legal basis for guaranteeing population deposits has been created in developed and developing countries. The legal basis for the system of guaranteeing population deposits in our country began to take shape in 2002. In particular, on April 5, 2002, the Law of the Republic of Uzbekistan "On Guarantees for the Protection of Citizens' Deposits in Banks" was adopted. In

¹ Regulation of the Board of the Central Bank of the Republic of Uzbekistan "On the mechanism for forming interest rates on deposits attracted by commercial banks". June 13, 2015

order to implement the goals set forth in this Law, the “Fund for Guaranteeing Citizens’ Deposits in Banks” was established.

In order to pay for citizens’ deposits in banks, the bank’s liquidation commission shall, within two months from the date of revocation of the license, take measures to identify creditors and receive receivables and funds deposited in the mandatory reserve fund of the Central Bank of the Republic of Uzbekistan. These funds shall be directed, first of all, to repay debts on citizens’ deposits of the bank being liquidated.

After the expiration of this period, the bank’s liquidation commission shall submit to the Fund within ten days:

- - approved interim liquidation balance sheet;
- - information on the composition of the property of the bank being liquidated;
- - a list of claims submitted by creditors;
- - information confirming the amounts of citizens' deposits;
- - an estimate of the funds required by the Fund to pay fees on citizens' deposits².

The Fund shall, within three days from the date of receipt of the interim liquidation balance, publish a notice in the mass media on the procedure and terms for paying fees for citizens' deposits in banks.

Commercial banks, in turn, shall make the following contributions to the Fund. One-time and calendar contributions are mandatory contributions paid by banks to the Fund.

The bank's one-time contribution to the Fund shall be 0.1 percent of the actually formed authorized capital of the bank.

The amount of the Fund's supervisory board, which is subject to guarantee in accordance with the law, shall be determined depending on the current balance of citizens' deposits in the quarter, but not more than 0.5 percent of the total amount of deposits.

When the amount of calendar contributions paid reaches 5 percent of the total amount of citizens' deposits in the bank, the payment of calendar contributions by banks shall be suspended.

Mandatory contributions paid by banks to the Fund are included in the cost of services provided by banks.

It should be noted that when the total amount of the balance of citizens' deposits in banks changes, the amount of calendar contributions paid to the Fund must be recalculated.

The introduction by the Central Bank of the Republic of Uzbekistan of a ban on banks attracting citizens' funds to deposits does not exempt banks from paying calendar contributions to the Fund. In the event of a change in the rate of the calendar contribution, the Fund must notify banks at least thirty days in advance.

When calculating the calendar contribution on citizens' deposits in banks in foreign currency, it is recalculated at the exchange rate established by the Central Bank of the Republic of Uzbekistan on the day preceding the date of transfer of the calendar contribution.

In accordance with the Decree of the President of the Republic of Uzbekistan No. PF-4057 dated November 28, 2008 “On additional measures to ensure guarantees for the protection of citizens’ deposits in commercial banks of the Republic of Uzbekistan”, a procedure was established to guarantee the full payment of citizens’ deposits in deposit accounts of commercial banks,

² Law of the Republic of Uzbekistan "On Guarantees for the Protection of Citizens' Deposits in Banks". Article 11.

regardless of the amount of deposits. Until now, according to the current law, the amount of guaranteed payment to one depositor was limited to 250 times the minimum monthly wage in our republic, and this limit was removed on the basis of the above Decree.

The implementation of this Decree has led to another increase in the population's confidence in our country's commercial banks. If we look at the figures, as of January 1, 2009, the balance of deposits of the population in banks amounted to 1.7 trillion soums, as of January 1, 2019, this indicator exceeded 14.7 trillion soums.

Although there are currently various approaches to characterizing the stability and adequacy of the deposit base of banks, the following can be cited as the most widely used methods.

The first methodology was developed by experts from the International Bank for Reconstruction and Development, and it is recommended that the highest regulatory level of this indicator be 30 percent.

The second methodology is reflected in the CAMELS rating system developed by the US Federal Reserve System, the Federal Deposit Insurance Corporation and the Comptroller General of the Currency. The lowest, i.e., minimum regulatory level of this indicator is set at 75 percent.

Table-3 Indicators and standards characterizing the stability and adequacy of the deposit base of commercial banks ³

t/r	Indicators	Detection method	Normative indicator
1	International Bank for Reconstruction and Development methodology	$TD / (TD + JD + MD) * 100$	The upper limit of this indicator should be 30 percent.
2	Assessment methodology based on the CAMELS rating system	$\text{Stable deposits} / \text{total deposits} * 100$	The current level of this indicator should not be lower than 75 percent.

In turn, stable deposits include:

- stable balance of demand deposits;
- term deposits
- savings deposits

Also, in the CIS countries, in particular in the Russian Federation, a number of other indicators are used to characterize the strength of the deposit base of commercial banks. For example:

- the share of term deposits in the total deposits structure. According to this requirement, the share of term deposits in the deposits of commercial banks is recommended to be no less than 50 percent;
- the share of demand deposits in the total deposits structure. According to it, the share of demand deposits in the total deposits structure is determined not to exceed 30 percent.

The establishment of such standards is developed taking into account the existing characteristics of the banking system of each country. Currently, a clear methodology for characterizing the strength of deposits has not been developed in the banking practice of our country. Therefore, the indicators established by international standards are used in the banking system of our country.

Conclusions and Suggestions

We have formulated the following conclusions based on a detailed study of the theoretical foundations of the efficiency of commercial bank deposits:

³ Formed by the author.

1. In our opinion, deposit operations of commercial banks are operations related to attracting and storing funds in the bank for specific purposes based on an agreement concluded between the bank and the client;

2. Reducing the required reserve ratio established for deposits attracted by commercial banks will serve to increase the number of deposits that can be attracted by banks;

3. The use and constant attention of commercial banks to the proposed directions as ways to expand the deposit base of commercial banks will serve to increase the deposit base of banks in the future;

4. The rational use of the developed mechanism for expanding the deposit base of commercial banks is of great importance for banks in attracting deposits. Because, in addition to working with existing customers, it is also important for commercial banks to attract new customers;

5. The study of the theories of bank liability management and its rational use in practice will lead to the prevention of liquidity problems in commercial banks and the full fulfillment of the bank's obligations to its customers.

6. Deposits of commercial banks are one of the main tools that satisfy the demand for financial resources of banking activities, and several types of deposits are widely used in international practice. In particular;

By term, by currency, by interest payment, by level of stability, etc.

Such classification of deposits increases the level of management and effective use of these deposits by banks.

7. Having studied the practice of ensuring the stability of the deposit base of the banking system of developed countries, we have formulated the following scientific and practical conclusions on the application of a number of positive aspects in the banking system of our country:

– we must achieve an increase in the share of deposits in the liabilities of commercial banks and ensure their stability. That is, international experience shows that in the US and Japanese banks, term and savings deposits are interpreted as the main deposit. In the banking practice of these countries, the share of main deposits of commercial banks is 80-90 percent;

– it is advisable not to allow the share of demand deposits in the volume of the deposit base of banks to increase. In international banking practice, in particular, according to the recommendations of experts from the International Bank for Reconstruction and Development, the share of these deposits in the volume of gross deposits should not exceed 30 percent;

– the strength of the deposit base of commercial banks is directly dependent on the increase in the volume of active operations of banks, including participation in the financial market and credit operations. It is necessary to ensure compliance between the volume of loans and deposits of commercial banks of the country. This, in turn, affects the liquidity and profitability of commercial banks. An analysis of the banking systems of countries such as Germany, France, and Luxembourg, which are part of the Eurozone, shows that the ratio of commercial bank deposits to bank loans in these countries is more than 90 percent.

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