

Issues of expanding the deposit base of commercial banks

Problemas de expansión de la base de depósitos de bancos comerciales

Rakhimov Akmal Matyakubovich*

Tashkent Institute of Finance - Uzbekistan

akmal_rahimov_91@mail.ru

ABSTRACT

The article examines the scientific views of strengthening the deposit base of commercial banks, analyzing the current state of the deposit base of commercial banks in our country and the influence of internal and external factors on the expansion of deposits, and also considers ways to strengthen and expand the resource base of banks. Deposit is the amount of money in national or foreign currency, upon request or with the payer, on the terms agreed upon by the payer or their legal representatives, with the payment of interest or without such payment. With the rapid development of science and technology, the attention to commercial banks' deposit operations is rising. Deposit operations of commercial banks have been studied by many foreign and domestic economists. Savings deposits serve to accumulate savings of the population. Fund savings include deposits that are deposited with the purpose of accumulation or storage of funds. Their special feature is the encouragement of savings and the high level of profitability. Commercial banks are operations involving the transfer and saving the funds to the bank for certain purposes, based on the agreement between the bank and the client.

Keywords: commercial banks, deposit, deposit base, types of deposits, demand deposit

RESUMEN

El artículo examina los puntos de vista científicos sobre el fortalecimiento de la base de depósitos de los bancos comerciales, analiza el estado actual de la base de depósitos de los bancos comerciales en nuestro país y la influencia de factores internos y externos en la expansión de los depósitos, y también considera formas de fortalecer y expandir la base de recursos de los bancos. El depósito es la cantidad de dinero en moneda nacional o extranjera, previa solicitud o con el pagador, en los términos acordados por el pagador o sus representantes legales, con el pago de intereses o sin dicho pago. Con el rápido desarrollo de la ciencia y la tecnología, la atención a las operaciones de depósito de los bancos comerciales está aumentando. Las operaciones de depósito de los bancos comerciales han sido estudiadas por muchos economistas extranjeros y nacionales. Los depósitos de ahorro sirven para acumular ahorros de la población. Los ahorros de fondos incluyen depósitos que se depositan con el propósito de acumulación o almacenamiento de fondos. Su característica especial es el fomento del ahorro y el alto nivel de rentabilidad. Los bancos comerciales son operaciones que implican la transferencia y el ahorro de los fondos al banco para ciertos fines, según el acuerdo entre el banco y el cliente.

Palabras clave: bancos comerciales, depósitos, base de depósitos, tipos de depósitos, depósitos a la vista

* Corresponding author. PhD student of Tashkent Institute of Finance

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Introduction

One of the main and effective pillars of the country's economy is a financially robust and stable bank system. The level of socio-economic progress and future development of each country depends, first of all, on the functioning of the banksystem that has been built and regularly upgraded in that country. Effective management of commercial banks' resources plays an important role in increasing the volume of export-oriented goods and services in the country, ensuring the liquidity of banks and increasing the stability of the national currency, strengthening public confidence in the banksystem.

During the years of Independence, a two-tiered perfect banksystem has been developing and great changes can be seen in types of bankservices, as well as in relations with foreign banks cooperation has been established and improved. However, some issues related to banks' efficient use of resources and expansion of their deposit base remain topical.

At the same time, the Resolution of the President of the Republic of Uzbekistan dated May 6, 2015 N. PP-2344 in expanding the deposit base of banks was of particular importance, ie «Creating favorable conditions for further enhancement of financial stability and reliability of the banksystem, strengthening and development of the resource base of commercial banks» (Resolution of the President, 2015) is required.

The efficiency of commercial banks' lending operations can be ensured through the sustainability of their attracted funds. Strengthening the involvement of commercial banks in the long-term crediting process will require their long-term resource base. In turn, the robustness of the resource base of the banks depends on the growth of deposits of legal entities and population deposits, ensuring their quantity and timeliness. Because the share of attracted funds in the structure of commercial banks' resources is very high and their share is 70-80% (Lavrushina O.I, 2009). In its turn, ensuring the role of commercial banks in the sustainable development of the country's economy, increasing its activity in investment financing is directly linked to the formation and expansion of their long-term resource base.

The ultimate goal of cardinal reforms in the bank and financial system of the country is to strengthen the resource base of commercial banks of the republic, to increase the trust of business entities and population in the banksystem. Based on this, the «Strategy for Further Development of the Republic of Uzbekistan», approved by the Decree of the President of the Republic of Uzbekistan dated February 7, 2017, NFP-4947, sets out the tasks of deepening the reform of the banksystem, increasing the deposit base, strengthening its financial stability and reliability (Decree of the President, 2017) the relevance of the subject.

Analysis of topic material

Deposit is the amount of money in national or foreign currency, upon request or with the payer, on the terms agreed upon by the payer or their legal representatives, with the payment of interest or without such payment.

With the rapid development of science and technology, the attention to commercial banks' deposit operations is rising. Deposit operations of commercial banks have been studied by many foreign and domestic economists.

In particular, foreign economist E.F. Jukova and N.D. Eirevillis say that in most banks the majority of borrowed funds are deposits. In the bank practice, the term «deposit» is first and foremost entrusted to individuals by physical persons and legal entities in accordance with the terms of the bank deposit agreement and, secondly, to the bank entries, which confirm the monetary claims of bank depositors (Zhukova E.F, 2018). Also, N.M. Rozanova, another economist, says: «Deposits or savings make up a large part of bank liabilities. Deposits are understood to be money from the population and firms that are transferred to a bank account in certain circumstances and at a specified time» (Rozanov N.M, 2018).

The Uzbek scientist U. Azizov noted that the procedure for the creation of mandatory reserves in national currency, regardless of the currency of attracted funds by commercial banks, the rates for legal entities and individuals are unified, the reduction of charter capital requirements of legal entities in national currency, high rates of deposits in foreign currency that is to increase the attractiveness of deposits in national currency, reduce the level of dollarization of the economy and liquidity of the bank system. Stemming from the effectiveness of market mechanisms (Azizov U.U, 2019). It is possible to conclude that deposits and savings will contribute to the effective implementation of monetary policy. This, in turn, is an important part of the macroeconomic policy that affects the economic growth in the country.

According to Professor Sh.Z. Abdullayeva, in world practice, the term «deposit» is used for payment of customs duties, taxes, and not only bank deposits, but also money or securities issued to the financial-credit or bank institution for storage and the benefits are also understood (Abdullayeva Sh, 2017).

Professor A.A. Omonov noted in his researches that it is expedient to plan strategic planning at least one to ten years in managing bank resources. It is emphasized that the focus is on balancing resources and allocating resources over time, forming a financially stable client base, and attracting resources to depositors and customers alike (Omonov A.A, 2008). It should be noted that coordination of terms of attraction and allocation of resources,

diversification of attracting resources to depositors and clients is the main tool for efficient management of resources of commercial banks. In his researches, Professor F.I.Mirzayev stopped on the conceptual basis of formation of interbank competition. Specifically, economic relations as a basis for inter-bank competition in the bankservices market, in the process of attracting resources, placing funds and implementing all other bank services (Mirzayev F.I, 2009). Thus, commercial banks fully study theoretical and practical aspects of deposit operations and analyze and draw conclusions from them are an important factor affecting the stability of banks.

Ph.D. B.B.Parpiev has made a number of statements on sustainable attraction of free funds of population and managing subjects to bank deposits. In particular, it is pointed out that the commercial banks should use their marketing tools to effectively carry out their tasks in order to intensify the steady attraction of free funds of population and business entities to bank deposits in the context of the global financial and economic downturn (Parpiev B.B, 2010). Consequently, attracting and maintaining a stable and optimal level of savings and free cash flows will help to prevent instability and crisis in the economy.

Ph.D. S.Kh.Igamberdiyev believes that having a resource base in the form of deposits of individuals ensures a stable part of the bank balance sheet (Igamberdiyev S.Kh, 2018). This, in turn, has an impact on the effective management of the investment bank. Also, the introduction of new liquidity regulation requirements in the banks 'activity creates conditions for the development of the banks' stock market activity, in particular, the placement of demand deposits in the stock market's liquidity securities.

Deposits are listed in the bank practice of the Republic in the following way (Igamberdiyev S.Kh, 2018):

- Required deposits;
- time deposits;
- savings deposits.

Required deposits have the following characteristics:

- at any time of this type of deposit may withdraw or withdraw funds in any amount;
- unlimited time deposit;
- a small amount of interest is paid and so on.

Deposits in commercial banks have the largest amount of required deposits. This is usually the cheapest source of bank resources.

Time deposits are deposits attracted by banks for a certain period of time. These types of deposits must be settled in the maturity date and will not be used for current payments. Time Deposits have the following characteristics:

- the rate is fixed and settled (indicated in the deposit policy);
- not used for current accounts;
- the customer must not be prematurely withdrawn, otherwise the terms of the agreement on the interest payment can be canceled and interest can be paid on the deposit amount upon demand;
- funds are slowly shifting to long-term mortgages and so on.

Savings deposits serve to accumulate savings of the population. Fund savings include deposits that are deposited with the purpose of accumulation or storage of funds. Their special feature is the encouragement of savings and the high level of profitability, which accumulates for a certain period of time.

In our opinion, commercial banks are operations involving the transfer and saving the funds to the bank for certain purposes, based on the agreement between the bank and the client.

Analysis and findings

The expansion of the deposit base of commercial banks requires the development of bank deposit operations. First of all, it is necessary to consider the factors influencing the development of deposit operations of commercial banks.

Factors influencing the development of deposit operations of commercial banks.

Internal factors:

- the level of the bank's use of new information technologies;
- organizational structure of the bank;
- bank management system;

- qualifications of bank managers and employees;
- initiative of bank employees;
- form of bank;
- financial position of the bank.

External factors:

- political processes;
- people’s confidence in the bank;
- central bank requirements;
- political and economic situations;
- income of people;
- regional development;
- inflation and interest rate.

Factors influencing the development of deposit operations of commercial banks.

The degree to which the Bank uses new IT technologies has an impact on the development of bank deposit operations - a clear indication of the use and development of new techniques and technologies in all areas of the country. The correctness of the bank management system and the bank’s organizational structure, the high level of professionalism of managers and employees of the bank as well as the good attitude of the bank staff to their work lead to the improvement of the bank situation and the reputation of the bank. As a result, clients’ confidence in commercial banks increases and they try to keep their free cash money in banks. This directly entails expansion of the deposit base of commercial banks.

An increase in deposit funds of commercial banks of our country can be explained by the growing trust of the population in the bank system and the introduction of new attractive deposit types.

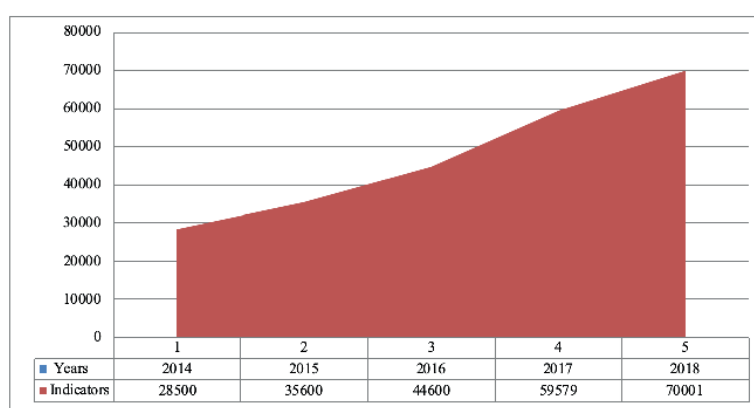


Figure 1. Dynamics of total deposits of commercial banks of the Republic of Uzbekistan (in billion soums)

Over the past years, special attention has been paid to the cardinal improvement of the quality of bankservices to clients, including the introduction of attractive types of new deposits and customer requirements, attracting free funds of population and business entities to bank deposits. This can be seen from the image data above. According to the data, over the past five years, the volume of deposits by commercial banks has increased. At the beginning of 2019, the total balance of deposits in the country’s banks amounted to 70 trillion soums, which is 2,5 times more than in the beginning of 2015, and has remained unstable for the rest of the time.

The attractiveness of fixed assets through the well-developed deposit policy by commercial banks will help to increase the resource base of banks, which, in turn, will prevent the problem of lack of resources in banks’ lending practice.

It is noteworthy that over the past period, the modern banksystem has been introduced in the country’s banksystem. In particular, major changes took place in the structure of commercial banks. In particular, many outlets of large commercial banks, such as mini-banks and fixed-run cash dispensers, operate outside the branch offices.

When analyzing the deposit operations of commercial banks, the importance of commercial banks in this process is of particular importance.

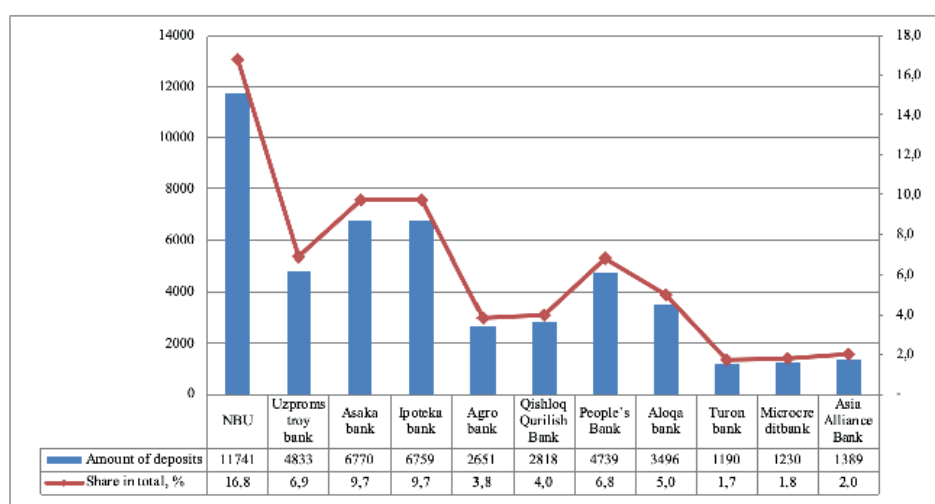


Figure 2. Dynamics of deposits attracted by some commercial banks operating in the Republic of Uzbekistan (as of 01.01.2019, billion soums) (Statistical data of the Central Bank, 2014-2018)

The above picture shows that as of January 1, 2019, the National Bank of the Republic of Uzbekistan for the attraction of free funds of population and business entities among the 29 commercial banks of the republic was the highest. This is 16.8% of total deposits attracted by domestic banks or 11.7 trillion soums.

It is noteworthy that the People's Bank, which has the largest number of branches in the country, has dropped to the next position. Developing a well-thought-out strategy for attracting deposits leads to the increase in the bank's resource base.

Due to the high mobility of funds on demand deposits in commercial banks, the balance of these accounts is unstable, sometimes variable. The likelihood of the account holder at any time to require the presence of high liquid assets in the bank's operations. This is due to a reduction in the share of higher income-generating assets, which has less liquidity. As such, the deposit account holder will either pay a low interest or will not pay at all. However, despite the high mobility of funds on demand deposits, banks should be able to identify their minimum, permanent residue and use them as a sustainable credit resource. Time deposits provide a stable resource base of the bank to other types of deposits. Therefore, commercial banks should strive to increase the share of time deposits. First of all, the commercial banks are tasked with developing a thoroughly-thought-out policy of deposit policy, and by attracting stable financial resources, as a result of developing a special strategy for attracting deposits by the bank.

Conclusions and Suggestions

In conclusion, it is important to note that commercial banks have enough involvement of free money resources in the economy and the effective allocation of these funds is one of their key tasks today. The main reason for this is the increased demand for financial resources among commercial banks, which is the result of the deepening of market relations and further liberalization of the economy. As a result, the growing demand for long and short term funds in banks has become one of the important issues in formulating and managing these funds. This situation positively affects the growth of free competition among banks in the «distribution» of available temporarily available money resources across the country and attraction of additional resources from the financial market.

Based on the above research and analysis, the following recommendations have been developed:

- systematic introduction of new attractive types of deposits and deposits, taking into account the needs and wishes of the population and business entities by commercial banks;
- development of requirements to the deposit policy of the commercial banks by the Central Bank;
- development of short and long-term bank strategies to attract deposits to commercial banks;
- development of practice of deposit certification by banks;
- strengthening the bank's resource base by expanding the practice of attracting interbank deposits.

We believe that introduction of the above proposals will help commercial banks of our country to develop deposit operations and, consequently, to expand the deposit base of banks.

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