

## ROLE OF DEPOSITS IN COMMERCIAL BANKS

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### *Abstract*

*In this article, in order to check the stability of the resource base of commercial banks, JSC Uz sanoatkurilishbank, JSC Asakabank, JSC Turonbank and PJSC Trustbank were selected from the commercial banks operating in our country according to their size and form of ownership. According to the results of the analysis, only in JSC Turonbank, the weight of household deposits in total deposits was much higher than in other commercial banks. This, in turn, means that effective work is being carried out to attract public deposits in this bank.*

*Also, in JSC Uz sanoatkurilishbank and JSC Asakabank the share of household deposits in total deposits has increased. However, in small banks like JSC Turonbank and PJSC Trustbank the share of household deposits in total deposits decreased. This situation confirms the high level of confidence of the population in the large state owned banks.*

**Keywords:** *commercial banks, deposit, liability, transaction deposit, term deposit.*

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**INTRODUCTION.** Today, in most countries of the world, commercial banks have become important engines of the financial market. Banks make a great contribution to economic growth by collecting free funds and lending to important sectors of the economy. Given that most of the resource base of commercial banks consists of borrowed funds, the study of the strength of this resource base and its optimal location is one of the pressing issues of our time.

The role of deposits in the resources of commercial banks is incomparable. Bank deposits consist of funds of legal entities and individuals. Bank deposits are divided into demand deposits (transactional deposits) and time deposits depending on their term. Demand deposits are inherently unstable deposits for a bank, but their size is significant for a bank. According to scientists, it is possible to use a stable balance of transactional deposits in profitable transactions with assets.

Term deposits of commercial banks are the most stable resource for the bank. Term deposits can be attracted both from legal entities and individuals. But term deposits are mainly attracted from individuals. A number of factors affect the deposit of individuals in a bank. In particular, one can note the economic situation in the country, the level of inflation, changes in interest rates, the level of informal dollarization, and most importantly, the population's confidence in the banking system. In this scientific work, we analyze the current state of the deposit base of banks in Uzbekistan.

**LITERATURE REVIEW.** We can find many scientific studies of domestic and foreign scientists devoted to the issues of ensuring the stability of deposits of commercial banks, the analysis of factors affecting these deposits.

D. Andolfatto explored the impact of central bank digital currency (CBDC) on banks in the US banking system in a model where the banking sector is not perfectly competitive. As a theoretical basis for his scientific research, he combined Diamond's (1965) public debt model with Klein's (1971) and Monti's (1972) models of monopolistic banking and obtained the following two main results. Firstly, the introduction of interest-bearing CBDCs has reduced the demand for cash by increasing public interest in this currency, and secondly, the introduction of interest-bearing CBDCs should in no way deprive banks of intermediaries. If additional competition forces banks to raise deposit rates, this could actually expand their depositor base<sup>1</sup>.

According to Daniel Edem, the fulfillment of the liquidity requirement is the main factor determining the survival, development, stability and functioning of the banking system. In addition, mistakes in liquidity planning and implementation can affect banking operations and have long-term consequences for the economy. The main goal of this scientist's scientific research was to find empirical evidence of the influence of liquidity management on the movement of deposit resources in commercial banks. Twenty-four banks were selected for analysis, representing the entire deposit banking industry in Nigeria between 1986 and 2011. Also, as independent indicators in the regression model, as factors affecting the liquidity of these banks, indicators such as the profitability of bank assets, the ratio of loans to deposits, the ratio of cash reserves were chosen. The results of the empirical analysis show that there is a significant relationship between liquidity management and the movement of deposits. In particular, the correlation results showed a positive effect between return on assets and liquidity ratios, while

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<sup>1</sup> Andolfatto, D. (2021). Assessing the impact of central bank digital currency on private banks. *The Economic Journal*, 131(634), 525-540.

the liquidity-to-cash ratio and loans-to-deposits ratio showed a negative effect. However, the main results showed that only banks with optimal liquidity were able to maximize profits. Also, as a result of the study, they came to the conclusion that excess liquidity creates a problem for increasing banking operations and profits, and recommended using the optimal liquidity model for bank efficiency<sup>2</sup>.

The connection between the minimum requirements for the capital of commercial banks and underground banking activities was analyzed by G. Plantin in her scientific works. According to him, one of the main reasons for the minimum capital requirements for commercial banks is that the optimal leverage of their loans to the private sector is higher than the optimal leverage of the social sector, and this carries a certain risk for commercial banks. This, in turn, is due to the fact that banks, due to their insolvency, cannot take into account all the expenses incurred by customers who have bank accounts and use the funds on these accounts to make various payments. According to the scholar, easing capital requirements is probably the best solution if commercial banks can bypass capital regulation in the uncertain and shadow banking sector. Then liquidity in the transparent banking sector increased, while liquidity in the hidden banking sector, on the contrary, decreased significantly. At the same time, higher capital requirements may lead to an increase in shadow banking activity, leading to an overall increase in the risk of monetary liabilities of formal and shadow banking institutions<sup>3</sup>.

In their study, Franklin Allen and Elena Carletti endogenize the choice of bank and firm capital structure, as well as equity and deposit financing costs, in a model with bankruptcy costs and segmented deposit and equity markets. In their opinion, despite the neutrality of various risks, it is more valuable for commercial banks than equity deposits. According to these scholars, when banks directly finance risky investment projects, they must have high capital adequacy and be diversified. That is, when lending to risky enterprises, banks compensate for the high cost of capital with the advantages of diversification due to the low probability of bankruptcy. Their analysis showed that when the costs of client bankruptcy are high, banks do not use capital and lend to only one sector. When bankruptcy costs are low, banks retain capital and diversify it<sup>4</sup>.

**RESEARCH METHODOLOGY.** In the implementation of scientific research, methods such as induction, deduction and synthesis were used. Also, when analyzing the stability of the resource base of commercial banks, official statistics of the Central Bank of the Republic of Uzbekistan and the Committee on Statistics, as well as statistical data of JSCB "Uzsanoatkurilishbank", JSC "Asakabank", JSCB Turonbank and PJSC Trustbanks were used.

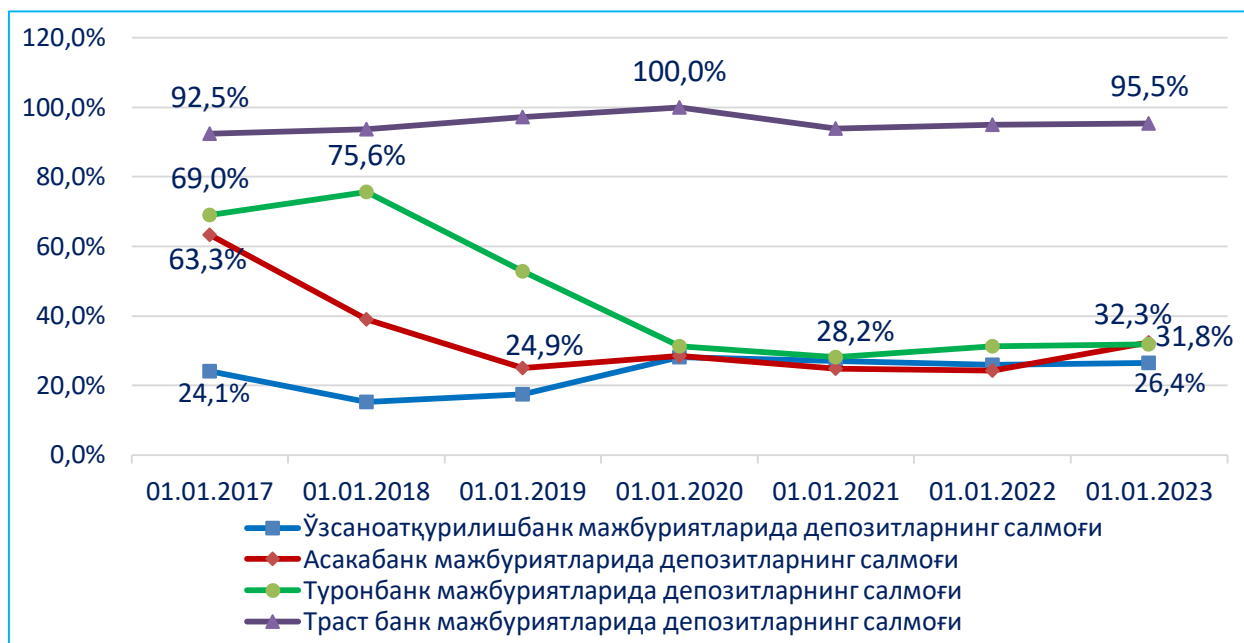
**DISCUSSION OF ANALYSIS AND RESULTS.** When analyzing the sustainability of the resource base of commercial banks, among the large state-owned banks operating in our country, JSCB "Uzsanoatkurilishbank" and JSC "Asakabank" were taken. Our main goal is to compare the sustainability of the resource base of JSCB Uzsanoatkurilishbank with a similar large and similar bank. At the same time, we do not consider it right to conduct an analysis only in large banks. Studying the sustainability of the resource base of small banks on a par with large banks will further improve the quality of our scientific work. To this end, I also analyzed the statistics of JSCB Turonbank, a small state-owned bank, and PJSC Trustbank, a private bank.

<sup>2</sup> Edem, D. B. (2017). Liquidity management and performance of deposit money banks in Nigeria (1986–2011): An investigation. *International Journal of Economics, Finance and Management Sciences*, 5(3), 146-161.

<sup>3</sup> Plantin, G. (2015). Shadow banking and bank capital regulation. *The Review of Financial Studies*, 28(1), 146-175.

<sup>4</sup> Allen, F., Carletti, E., & Marquez, R. (2015). Deposits and bank capital structure. *Journal of Financial Economics*, 118(3), 601-619.

Based on the results of the analysis, we see that as of January 1, 2017, Asakabank JSC and JSCB Turonbank have the largest share of deposits in the resource base of banks with a state share. In particular, for the specified period, the share of deposits in the liabilities of Asakabank JSC amounted to 63.3 percent, and in Turonbank - 69.0 percent. In 2016, in Uzsanokatkurilishbank JSC with a state share, the share of deposits of individuals and legal entities in the total amount of liabilities was low - 24.1 percent.



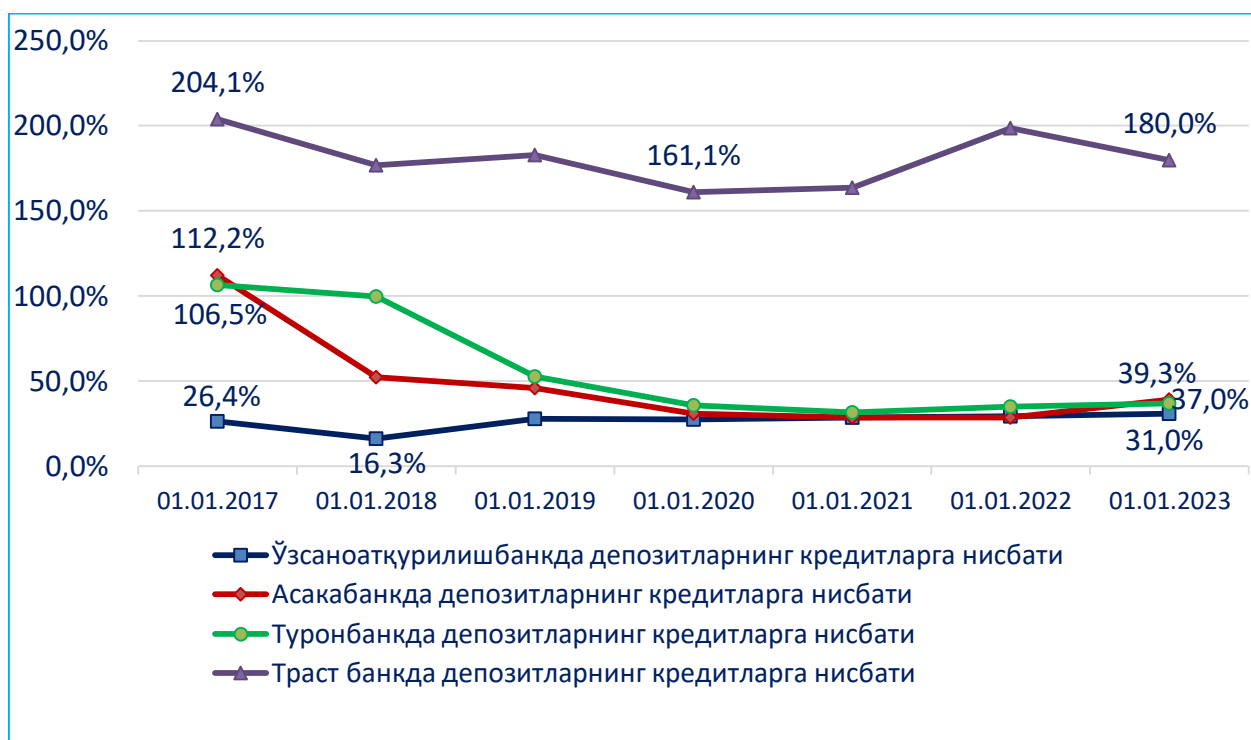
**Figure 1. The role of deposits in selected commercial banks<sup>5</sup>.**

As of January 1, 2023, the share of deposits in the total liabilities of Asakabank JSC amounted to 32.3 percent, Turonbank JSCB - 31.8 percent, Uzsanokatkurilishbank JSC - 26.4 percent. That is, the weight of deposits in the total liabilities of Asakabank JSC and Turonbank JSCB has sharply decreased.

If we analyze the PJSC Trustbank statistics for private banks, then the bulk of the liabilities in this bank are deposits. In particular, as of January 1, 2017, the share of deposits in total liabilities amounted to 92.5 percent, and as of January 1, 2023 - 95.5 percent.

In conclusion, we can say that the main place as a resource base in banks without a state share is occupied by deposits of individuals and legal entities. On the contrary, the importance of deposits in commercial banks with state participation has decreased. Because commercial banks with state participation are accustomed to receiving cheap resources from various state funds, and this has reduced their desire to attract money from outside.

<sup>5</sup> Author's development based on information from the official website of the Central Bank of the Republic of Uzbekistan [www.cbu.uz](http://www.cbu.uz).



**Figure 2. Status of loans secured by deposits in selected commercial banks<sup>6</sup>.**

From the results of the analysis, we see that as of January 1, 2017, in Asakabank JSC and Turonbank JSCB, among banks with a state share, the level of loans secured by deposits was relatively high. In particular, during the specified period, the ratio of deposits to loans at Asakabank JSC was 112.2 percent, while at Turonbank JSCB this indicator was 106.5 percent. In 2016, Uzsanoatkurilishbank JSC, which has a state share, had a low ratio of deposits of individuals and legal entities to total loans, i.e. 26.4 percent.

As of January 1, 2023, the ratio of deposits to the total amount of loans in Asakabank JSC was 39.3 percent, in JSCB Turonbank - 37.0 percent, in Uzsanoatkurilishbank JSC - 31.0 percent. That is, the ratio of deposits to the total volume of loans in JSC Asakabank and JSCB Turonbank has sharply decreased.

If we analyze the PJSC Trustbank statistics for private banks, we can see that the ratio of deposits to loans in this bank was at a very high level. In particular, as of January 1, 2017, the ratio of deposits to the amount of loans was 204.1 percent, and as of January 1, 2023 - 180.0 percent.

As a conclusion, we can say that in banks where there is no state share, the stability of deposits is high, and loans are issued mainly at the expense of attracted deposits. On the contrary, in commercial banks with a share of the state, most of the loans are provided by other resources than deposits. If we deprive state banks of cheap state resources, then these commercial banks will be in a difficult position. We must not ignore this situation either. Because the state cannot always provide commercial banks with cheap resources, and the state has other goals for spending these resources.

<sup>6</sup> Author's development based on information from the official website of the Central Bank of the Republic of Uzbekistan [www.cbu.uz](http://www.cbu.uz).

**Share of household deposits in selected banks (in billion soums)<sup>7</sup>.**

Indicators	01.01.2020	01.01.2021	01.01.2022	01.01.2023
<b>JSCB Uz sanoatkurilishbank</b>				
Total deposits	8 069,00	11 437,00	12 607,00	14 884,00
Deposits of legal entities	6 380,00	9 323,00	9 289,00	10 751,00
Deposits of individuals	1 689,00	2 114,00	3 319,00	4 132,00
Share of retail deposits in total deposits	20,93%	18,48%	26,33%	27,76%
<b>JSC "Asakabank"</b>				
Total deposits	8 115,00	9 705,00	10 729,00	14 431,00
Deposits of legal entities	6 770,00	8 193,00	8 474,00	11 713,00
Deposits of individuals	1 344,00	1 512,00	2 256,00	2 718,00
Share of retail deposits in total deposits	16,56%	15,58%	21,03%	18,83%
<b>JSCB Turonbank</b>				
Total deposits	1 530,00	2 116,00	2 838,00	3 493,00
Deposits of legal entities	901,00	1 334,00	1 713,00	2 211,00
Deposits of individuals	629,00	782,00	1 125,00	1 282,00
Share of retail deposits in total deposits	41,11%	36,96%	39,64%	36,70%
<b>PJSC Trustbank</b>				
Total deposits	2 799,00	3 672,00	5 448,00	6 293,00
Deposits of legal entities	2 361,00	3 097,00	4 632,00	5 488,00
Deposits of individuals	438,00	575,00	816,00	805,00
Share of retail deposits in total deposits	15,65%	15,66%	14,98%	12,79%

If we analyze the example of selected commercial banks, then the total volume of deposits of JSCB "Uz sanoatkurilishbank" as of January 1, 2020 amounted to 8.1 trillion soums, of which deposits of legal entities amounted to 6.4 trillion soums and deposits of individuals - 1.7 trillion soums, the share of deposits of individuals in the total volume of deposits amounted to 20.9 percent. As of January 1, 2023, the total volume of deposits of this bank almost doubled and amounted to 14.9 trillion soums, while deposits of legal entities amounted to 10.7 trillion soums. During this period, the deposits of individuals increased by 2.5 times and reached 4.1 trillion soums, and the volume of total deposits increased by 27.8%.

From the data of Asakabank JSC, we see that as of January 1, 2020, the total volume of deposits of this bank amounted to 8.1 trillion soums, of which deposits of legal entities amounted to 6.7 trillion soums and deposits of individuals - 1.3 trillion soums, and the share of deposits of individuals in the total volume of deposits amounted to 16.7 percent. As of January 1, 2023, the

<sup>7</sup> Author's development based on information from the official website of the Central Bank of the Republic of Uzbekistan [www.cbu.uz](http://www.cbu.uz).

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total volume of deposits of this bank almost doubled and amounted to 14.4 trillion soums, and deposits of legal entities in its composition amounted to 11.7 trillion soums. During this period, the deposits of individuals doubled to 2.7 trillion soums, and the volume of total deposits increased by 18.8%.

From the data of Turonbank JSCB, we see that as of January 1, 2020, the total volume of deposits of this bank amounted to 1.5 trillion soums, of which deposits of legal entities amounted to 0.9 trillion soums and deposits of individuals 0.6 trillion soums, and the share of deposits of individuals in the total volume of deposits amounted to 41.1 percent. As of January 1, 2023, the total volume of deposits of this bank more than doubled to 3.5 trillion soums, and deposits of legal entities amounted to 2.2 trillion soums. During this period, deposits of individuals doubled to 1.3 trillion soums, while the volume of total deposits decreased and increased by 36.7%.

From the data of PJSC "Trustbank" we see that as of January 1, 2020, the total volume of deposits of this bank amounted to 2.8 trillion soums, of which deposits of legal entities amounted to 2.4 trillion soums and deposits of individuals - 0.4 trillion soums, and the share of deposits of individuals in the total volume of deposits amounted to 15.6 percent. As of January 1, 2023, the total volume of deposits of this bank more than doubled to 6.3 trillion soums, and deposits of legal entities amounted to 5.5 trillion soums. During this period, the deposits of individuals almost doubled and amounted to 0.8 trillion soums, while the volume of total deposits increased by 12.8%.

As a conclusion, it can be said that among the selected banks, only Turonbank JSCB has a much higher share of household deposits in total deposits than other commercial banks. In turn, this bank is actively working to attract deposits from the population.

Also, during the period under review, the share of deposits of the population in the total amount of deposits of large banks JSC "Uzsanoatqurilish-bank" and JSC "Asakabank" increased. However, the share of household deposits in the total volume of deposits decreased in JSCB Turonbank and PJSC Trustbank among small banks. At the same time, it can be said that public confidence in large banks among state-owned banks has increased even more.

**CONCLUSIONS AND OFFERS.** In conclusion, we can say that the main place as a resource base in banks without a state share is occupied by deposits of individuals and legal entities. On the contrary, the importance of deposits in commercial banks with state participation has decreased. Because state-owned commercial banks are accustomed to getting cheap resources from various state funds, and this has reduced their desire to attract money from outside.

Also, among the selected banks, only JSCB Turonbank had a much higher share of household deposits in total deposits than other commercial banks. In turn, this bank is actively working to attract deposits from the population.

During the period under review, the share of deposits of the population in the total volume of deposits of large banks JSC "Uzsanoatqurilishbank" and JSC "Asakabank" increased. However, the share of household deposits in the total volume of deposits decreased in JSCB Turonbank and PJSC Trustbank among small banks. At the same time, we can talk about the high confidence of the population in large banks, among which there is a share of the state.

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