

Ways to Ensure the Stability of the Deposit Base of Commercial Banks of Uzbekistan

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ABSTRACT

In the practice of international banking, ensuring the stability of the liabilities of commercial banks is a necessary condition for ensuring their competitiveness in the financial markets. Therefore, in developed countries, a set of indicators describing the stability of liabilities of commercial banks has been formed, and a number of indicators in the set are the object of prudential bank control. This plays an important role in ensuring the stability of banks' activities.

In the article, scientific proposals aimed at ensuring the stability of the deposit base of commercial banks of Uzbekistan have been developed.

KEYWORDS: Commercial bank, deposit, deposit base, demand deposit, term deposit, interest margin, mandatory reserve

INTRODUCTION

In the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025, it is necessary to create equal competitive conditions in the financial market to implement lending only on the basis of market conditions, to reduce the dependence of banks on state resources, to improve the quality of credit portfolio and risk management, to follow a moderate increase in the volume of lending, a balanced macroeconomic conducting policy, improving corporate management are the main tasks of reforming the country's banking system. Ensuring the implementation of these tasks creates the need to identify the current problems associated with ensuring the stability of liabilities of commercial banks and develop scientifically based ways to solve them [1].

Review of literature on the subject

According to F.Mishkin's conclusion, the Government's guarantees given in relation to bank deposits and other liabilities are not applicable to corporate securities, and for them, capital serves as an important guarantee. However, since ordinary shares are a relatively expensive form of financing the banks' activities, banks, in order to reduce costs, they try to use debt instruments more [2].

According to I. Larionova, one of the aspects that should be taken into account when assessing the adequacy of the deposit base of commercial banks is the emergence of new accounts that show both transactional deposit accounts and term deposit accounts. For example, "NAU" accounts in the USA are such a new type of account. Interest is paid to him at market rates. At the same time, these accounts also express a characteristic of transactional deposit accounts: it is allowed to write payment documents on their balance [3].

According to E.Meshkova's conclusion, banks issue shares, bonds, deposit and savings certificates in order to generate financial resources. Also, mortgage and subordinated

securities play an important role in the formation of long-term resources of commercial banks. It is appropriate to divide the operations of banks related to the formation of resources by issuing securities into two groups. The first group includes the operations of issuing shares and subordinated securities for the purpose of forming the charter and additional capital of commercial banks, and the second group includes operations related to bond and mortgage securities, deposit and savings certificates to cover the need for short and long-term resources. The market price of shares and certificates is an economic indicator that evaluates the activity of banks in this market [4].

According to O. Lavrushin, the most stable part of commercial banks' resources are term deposits and savings deposits, and they have the following important characteristics:

- they are not used for making calculations and payment documents are not written to them;
- the rate of circulation of funds in term and savings deposit accounts is low;
- fixed interest is paid, the Central Bank can regulate the upper limit of interest rates if necessary;
- there is a procedure for advance warning of the commercial bank about receiving the deposit;
- relatively low mandatory reserve rates are used [5].

According to V.Usoskin, the use of transaction deposits as a resource seriously damages the liquidity of commercial banks. Therefore, the Glass-Stigoll Act of 1933 prohibiting the payment of interest on transaction deposits is a reasonable measure. However, setting the upper limit of interest rates paid by commercial banks to term and savings deposit accounts has a negative impact on the deposit base of commercial banks [6].

In our opinion, V.M.Usoskin's scientific conclusion about the inadvisability of using transaction deposits as a direct resource by commercial banks has not lost its practical significance even in the current period. In particular, there are cases of direct use of transaction deposits as a resource in commercial banks of our republic, that is, without concluding a fixed-term deposit agreement. As a result, the liquidity and credit risk of commercial banks are increasing. Because the transaction deposit is an unstable liability and therefore can be demanded by the account holder at any time. The loan is fixed-term and cannot be withdrawn before the due date. In addition, the use of transaction deposits as a resource negatively affects the interest of commercial banks in strengthening the deposit base.

According to the conclusion of Sh. Ruzmetov, the existence of the practice of using the funds in the transaction deposit

accounts of the commercial banks of our republic as a resource directly, that is, without concluding a fixed-term deposit agreement, undermines the incentive to strengthen the deposit base of commercial banks and creates a serious negative impact on the liquidity of banks. Because transaction deposits are liabilities of commercial banks with a very high level of instability [7].

This conclusion of Sh. Ruzmetov is of great practical importance from the point of view of ensuring the stability of liabilities of commercial banks. The reason for this is that the high weight of demand deposits in the total volume of deposits of commercial banks has a negative impact on their liquidity. This negative effect leads to an increase in the amount of non-monetary assets in commercial banks.

According to O. Sattarov, the following measures should be taken to ensure the stability of the deposit base of Uzbek banks:

- development of a system for setting the interest rates of the attracted deposits depending on the refinancing rate and other macroeconomic indicators;
- it is necessary to improve the regulatory requirements for deposit operations, the requirements for optimizing the composition and conditions of attracting public deposits, in order to minimize the occurrence of possible risks affecting the stability of banks [8].

Analysis and results

In the "CAMEL" rating system, the adequacy of the deposit base of commercial banks is determined by the following formula [9]:

$$DBE = \frac{\text{Principal deposits}}{\text{Deposits - total}} \times 100\%$$

The deposit base of a commercial bank is considered sufficient only if the actual level of this indicator is not lower than 75 percent.

According to the methodology of deposit base adequacy (DBE) of commercial banks developed by the experts of the International Bank for Reconstruction and Development (IBRD), the adequacy of deposits of commercial banks is determined by the following formula [10]:

$$DBE = \frac{TD}{TD+JD+MD} \times 100\%$$

Here:

TD – transaction deposits;

JD – saving deposits;

MD – time deposits.

According to the recommendations of the experts of the Ministry of Economy, Trade and Industry, the maximum limit of this indicator should be 30 percent.

In developed countries, funds received from deposits and the sale of securities of the bank occupy a high weight in the volume of liabilities of commercial banks.

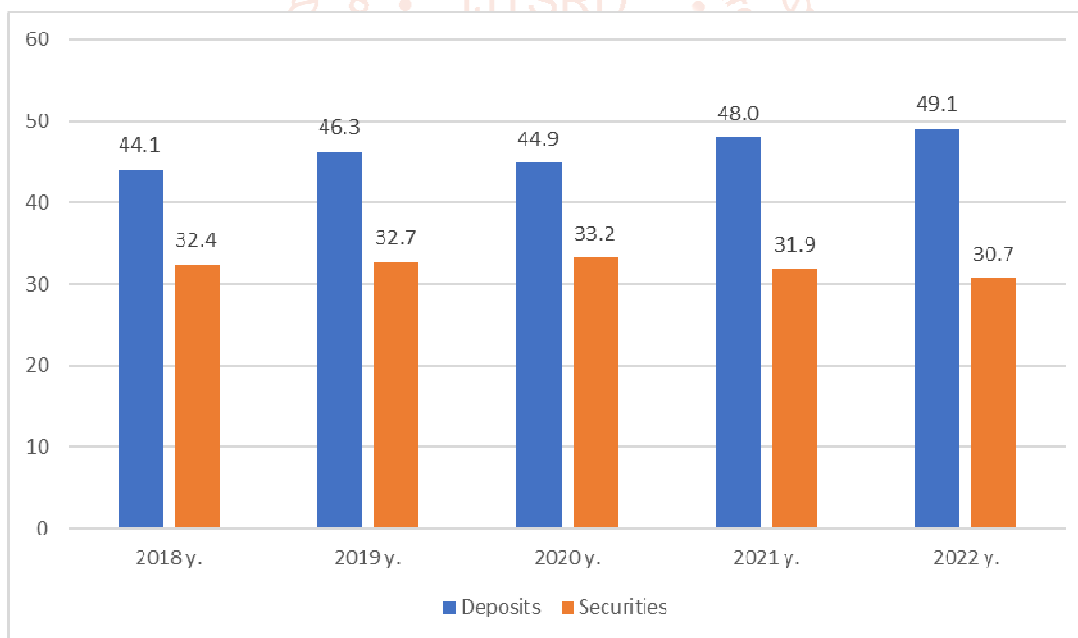


Figure 1. The weight of funds received from the sale of deposits and securities in Deutsche Bank (Germany) in the volume of liabilities¹, in percent

It can be seen from the data of Figure 1 that the weight of deposits in the total volume of Deutsche Bank’s liabilities had a tendency to increase in 2020-2022. Moreover, this indicator has increased significantly in 2022 compared to 2018.

From the data of Figure 1, it can be seen that the weight of funds received from the sale of securities in the total volume of Deutsche Bank’s liabilities had a tendency to increase in 2018-2020. However, this indicator had a downward trend in 2020-2022.

The analyzes showed that in 2018-2022, deposits and international loans attracted from abroad and international leasing took the highest weight in the total volume of obligations of commercial banks of our republic [11]. This is explained, firstly, by the fact that banks use deposits as the main internal source for financing asset transactions, and secondly, by the fact that international loans and international leasing are widely used to finance investments made in the economy of our country.

¹ The image was compiled by the author based on the data of Deutsche Bank (www.db.com).

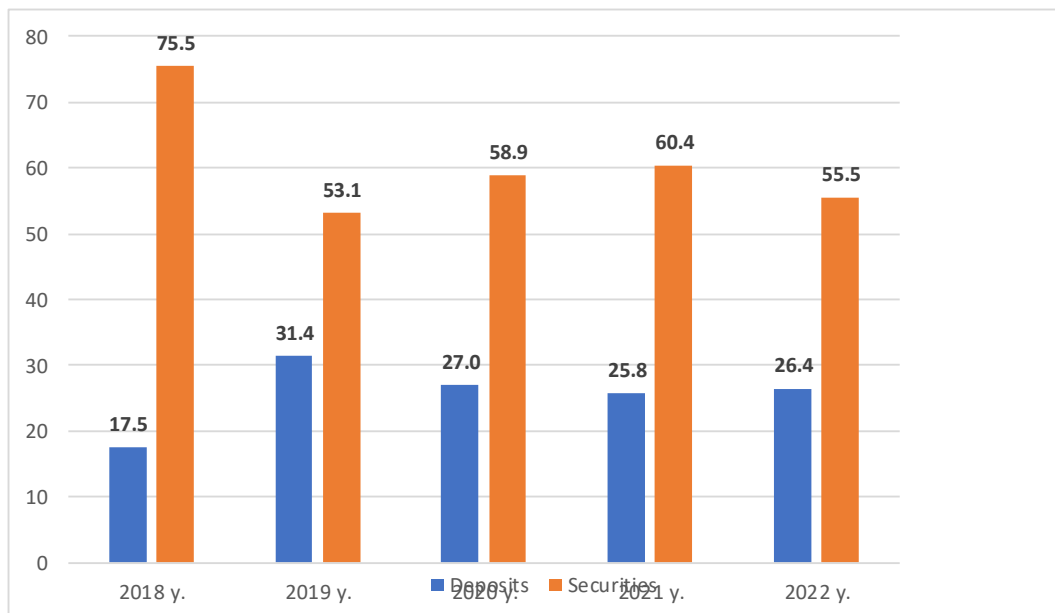


Figure 2. The weight of deposits and interbank loans in the volume of liabilities of JSC "Uzsanoatqurilishbank", as a percentage of the total²

It can be seen from the data of Figure 2 that deposits and interbank loans take a relatively high share in the total volume of Uzsanoatqurilishbank's liabilities. In particular, the weight of interbank loans in the volume of liabilities is significantly higher. This is explained by the fact that many investment projects are being financed at the expense of Uzsanoatqurilishbank's investment loans.

It can be seen from the data of Figure 2 that the weight of deposits in the total volume of obligations of Uzsanoatqurilishbank has a tendency to decrease in 2019-2021, while the weight of interbank loans in the volume of liabilities has a tendency to increase in this period.

An increase in the weight of interbank loans in the volume of liabilities is a negative situation from the point of view of ensuring the stability of liabilities. This is due to the fact that interbank loans have a relatively high value, that is, they are an expensive resource. Therefore, an increase in interbank loans leads to a decrease in the amount of net interest income of a commercial bank.

Commercial banks of our republic use demand deposits as a resource for credit operations. However, in international banking practice, demand deposits are not considered a resource for financing asset operations of commercial banks. In order for banks to use funds in demand deposit accounts as resources, it is necessary to transfer these funds to time deposit accounts or savings deposit accounts.

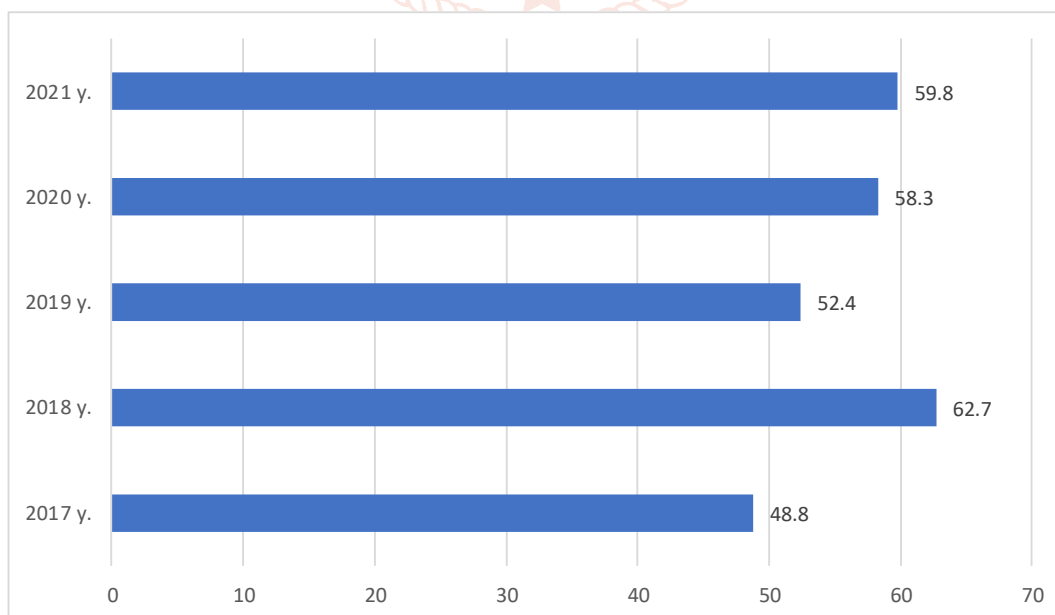


Figure 3. The share of foreign loans in the liabilities of the National Bank of the Republic of Uzbekistan, in percent³

² The picture was compiled by the author based on the financial statements of JSC "Uzsanoatqurilishbank".

It can be seen from the data of Figure 3 that the share of foreign loans in the volume of National Bank's liabilities had a tendency to increase in 2019-2021. This is a negative situation from the point of view of ensuring the investment attractiveness of the National Bank. The reason for this is that, firstly, the high weight of foreign loans in the volume of liabilities of a commercial bank indicates that the resource base of this bank is insufficient; secondly, in the context of continued devaluation of the national currency, it becomes difficult to repay loans issued in foreign currencies, and this situation causes an increase in the amount of overdue debts on loans issued in foreign currencies; thirdly, the main part of foreign loans is obtained at a floating interest rate, which leads to an increase in the level of interest risk in banking activities.

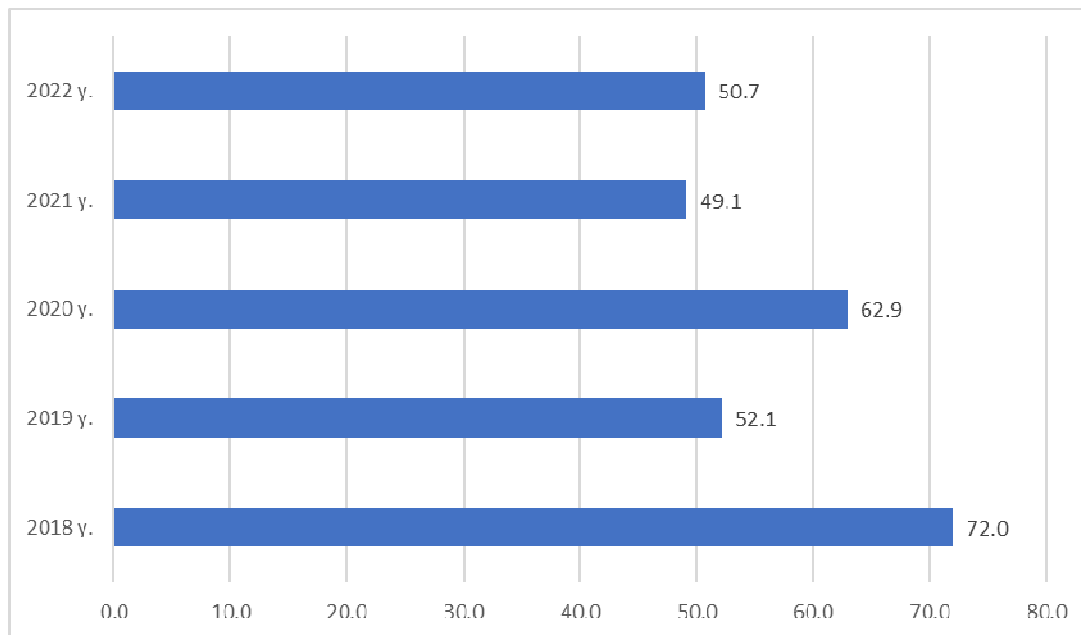


Figure 4. The weight of demand deposits in the total volume of Uzsanotqurilishbank deposits, in percent⁴

It can be seen from the data of Figure 4 that in 2018-2022, the adequacy of the deposit base in Uzsanotqurilishbank was not ensured.

The high weight of demand deposits in the volume of gross deposits has a negative impact on the stability of liabilities of commercial banks. This is because, firstly, demand deposits are non-performing liabilities; secondly, commercial banks of our republic are allowed to use demand deposits as a credit resource.

Conclusions and suggestions

During the research, we formed the following conclusions:

- ensuring the stability of the deposit base of commercial banks is one of the priorities of the reform of the banking system of the Republic of Uzbekistan;
- when assessing the adequacy of the deposit base of commercial banks, the methodology developed by the experts of the International Bank for Reconstruction and Development and the methodology of the "CAMEL" rating system developed by the US bank supervisors are widely used;
- The share of deposits in the total volume of Deutsche Bank's liabilities increased significantly in 2022 compared to 2018, with a tendency to increase in 2020-2022;
- Deposits and interbank loans have a relatively high share in the total volume of liabilities of Uzsanotqurilishbank, while the share of deposits in the total volume of bank liabilities has a tendency to decrease in 2019-2021;
- the share of foreign loans in the liabilities of National Bank had a tendency to increase in 2019-2021;
- The high reserve ratio of the central bank has a negative effect on the price of long-term deposits;
- In 2018-2022, Uzsanotqurilishbank did not ensure the adequacy of the deposit base. This is a negative situation from the point of view of ensuring the stability of the bank's deposit base.

In our opinion, the following measures should be taken to ensure the stability of the deposit base of commercial banks of our republic:

1. In order to increase the level of stability of liabilities by increasing the weight of stable liabilities in the volume of gross liabilities at the expense of time deposits and Tier 1 capital, firstly, by putting an end to the practice of banks using demand

³ The picture was compiled by the author on the basis of information from the annual reports of National Bank for the financial years 2017, 2018, 2019, 2020, 2021.

⁴ The picture was compiled by the author based on the financial reports of JSC "Sanoatqurilishbank" (Report on financial results//www.cqb.uz).

deposits as a direct resource, an assessment of the real state of their net interest spread coefficient it is necessary to take measures to provide and reach its normative level; secondly, it is necessary to issue non-cumulative preferred shares of commercial banks of our republic and to exempt investors' income from these shares from taxation.

As a result, firstly, the investment attractiveness of these shares increases; secondly, the amount of long-term resources of commercial banks will increase; thirdly, the size of Tier 1 capital of commercial banks will increase significantly.

2. In order to increase their solvency by ensuring the stability of deposits of commercial banks, first of all, it is necessary to increase the weight of time deposits in the volume of gross deposits by ensuring the balance between interest income from loans and interest expenses paid to deposits.

High mandatory reserve rates set by the Central Bank for deposits attracted by commercial banks do not allow to increase the interest rates set by banks for deposits.

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