

THE WAYS TO STRENGTHEN THE STABILITY OF DEPOSIT BASE IN COMMERCIAL BANKS

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Abstract: *in recent years, strengthening the resource base of commercial banks has been an important issue banking and financial system as a whole paying attention to. The article is devoted to the issues related to increase deposit base of commercial banks and some problems and solutions regarding the adequacy of deposit base in commercial banks. In the article, experiences of foreign countries regarding the issue of attracting free funds and increasing deposit base are demonstrated and analyzes of the structure of deposit base in the example of Uzbekistan are provided as well.*

Keywords: *deposit, time deposit, saving deposit, demand deposit, deposit base, resource base, market deposits.*

СПОСОБЫ УКРЕПЛЕНИЯ УСТОЙЧИВОСТИ ДЕПОЗИТНОЙ БАЗЫ В КОММЕРЧЕСКИХ БАНКАХ

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Аннотация: *в последние годы укрепление ресурсной базы коммерческих банков стало важной проблемой банковской и финансовой системы в целом, на которую следует обратить внимание. Статья посвящена вопросам, связанным с увеличением депозитной базы коммерческих банков, а также некоторым проблемам и решениям относительно адекватности депозитной базы в коммерческих банках. В статье демонстрируется опыт зарубежных стран по вопросу привлечения свободных средств и увеличения депозитной базы, а также приводится анализ структуры депозитной базы на примере Узбекистана.*

Ключевые слова: *депозит, срочный депозит, сберегательный депозит, депозит до востребования, депозитная база, ресурсная база, рыночные депозиты.*

Bank deposits consist of money placed into banking institutions for safekeeping. Services regarding the types of deposits are one of traditional services carried in banks. Thus, deposits are main component of resource base of banks.

The main goal of the banking and financial system is to strengthen the resource base of commercial banks. From the international practice, strengthening resource base of banks cannot be achieved without the stability of deposit base, as deposits are the main in the formation of resource base. In this turn, the adequacy of deposit is essential in the stabilization of the deposit base in commercial banks.

According to the methodology made by experts in International Bank for Reconstruction and Development, the ratio of demand deposits in the volume of brutto deposits should not exceed more than 30 percent in order to provide stability of deposit base of resources in commercial banks [1]. In developed countries, such as in United States of America, Germany, France the deposit base of commercial banks is enough adequate.

However, in Uzbekistan we have some problems regarding the adequacy of deposit base. Most banks are self-funded because of the fact that the amount of credit they are offering cannot be not covered by the amount of deposits they have (the capital adequacy ratio of our banking system is almost 24% which is 3 times higher than generally accepted international standards). While in the USA, over 90% of households have their own account to save deposits and the amount of them is ever increasing. (Even Bank of America alone had 46,31 million customers out of 126,22 million households, nearly 37% of whole population and value of client deposits was 262, 53 billion) [2]. Total bank deposits rose 6,6% in 2017 to \$10,7 trillion and measured as a percentage of bank assets over 77,6% (Figure 1).

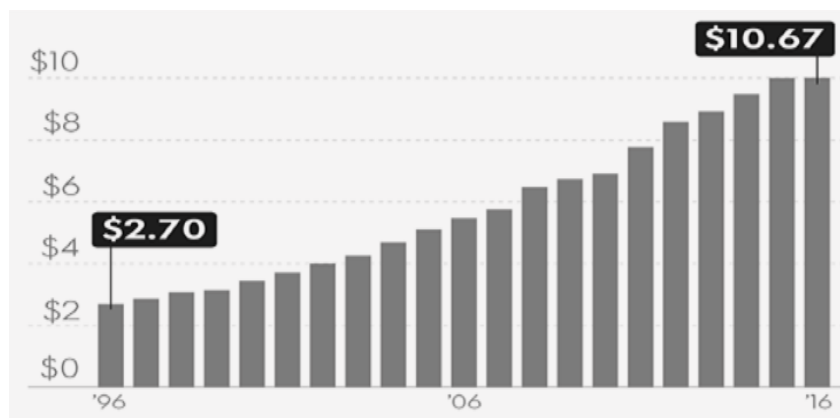


Fig. 1. Total amount of bank deposits in USA

Source: FDIC. USA TODAY (usatoday.com).

Official data shows that deposits are growing year by year in commercial banks of Uzbekistan. At the end of 2016, this figure reached 44600 billion sums and increased by 2.5 times compared to 2011 and reached to 58668 billion sums at the end of 2017 (Figure 2) [3].

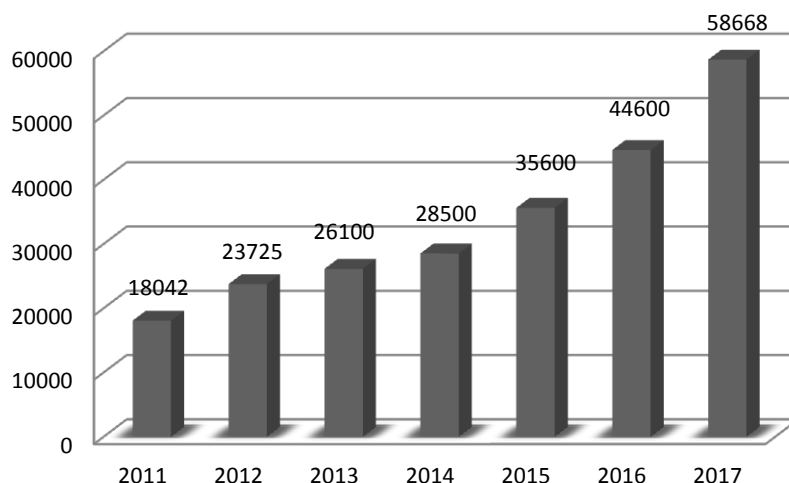


Fig. 2. The amount of deposits attracted to commercial banks in Uzbekistan (billion sum)

Source: Central bank of Uzbekistan.

However, majority prefers keeping their savings at home or buying real estate rather than putting in banks as deposit in our country. It has several reasons such as purchasing real estate can bring more benefits than depositing it as we have high inflation rate in the country and low interest rates to deposits (Of the commercial banks, the highest interest rate is 21 % in O'zsanoatqurilishbank). In addition, people have lack of trust to banks and avoid many problems they may face when returning their money back: it takes a lot of time and paperwork.

Moreover, in accordance to the information stated in the Decree of the president of Uzbekistan, Sh. M. Mirziyoev "On additional measures of improving availability of banking services" of March 23, 2018 some other problems in banking system are making banks less liable. For example, entering into conditions that provide for the unilateral change of tariffs for services, unilaterally changing interest rates on loans and attracted deposits, as well as the provision of services with the use of additional services is violating the right of consumers of banking services. The lack of modern approaches to the retail banking services market and the establishment of partnerships with customers is creating a basis for excessive bureaucracy and sanity.

In addition, almost all banks in Uzbekistan provide major three type of deposits: demand deposits, saving deposit and term deposits. Based in international practice, new type of deposits should be adopted. For example, market deposits that pays an interest rate higher than a regular savings account and it brings opportunity for attracting additional funds in to banking sector.

Another problem to provide the stability of deposit base is that saving deposits (for more than one year) are relatively too low in the account of all deposits (Table1) [4].

Table 1. Analysis of the structure of deposits in commercial banks of Uzbekistan (in percentage)

№	Types of deposit	2011	2012	2013	2014	2015	2016	2017
1	Demand deposits	63.79	66.72	63.07	59.45	58.51	57.18	66.02
2	Saving deposits	8.23	9.24	9.70	10.62	11.34	12.15	12.60
3	Time deposits	27.99	24.04	27.24	29.93	30.15	30.66	21.38
All deposits		100,00	100,00	100,00	100,00	100,00	100,00	100,00

Source: “AHBOR-REYTING” in 2011-2017.

Table shows that the share of demand deposits in all deposits are relatively high, however as we mentioned above it should not exceed 30 percent. Time and saving deposits in the international banking practice, the major part of the resources of commercial banks. For example, in USA and Western European countries time deposits exceeds 60 percent share of the whole volume of deposits [5].

For the increase the share of deposits in the resource base of commercial banks and to rise the stability of deposit base the followings might be highly effective:

- ❖ To increase the interest rates on the rest stable amount of demand deposits, so that attract depositors to put their money for a longer time;

- ❖ Via implementing financial privileges, increase the investment attractiveness of long-term securities.

To conclude, we are improving the quality of bank services and increasing the priority of banks gradually. Attracting more time, saving deposits, and providing the stability of deposit base of commercial banks results strengthening the resource base of banking system in Uzbekistan. In this turn, this helps to achieve economic growth and financial stability in the country to some extent. Were mentioned things carried, banks would be the place most people come and use their services, money circulation would be more active and money mass that could be skipped while saved at home or busy with real estates may be managed better. Like famous American businessperson, financial broadcaster and author of several best sellers, Dave Ramsey said, “You have got to tell your money what to do or it will leave”.

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