



DEPOSITS HELD BY COMMERCIAL BANKS IN UZBEKISTAN

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ABSTRACT: - The function of banks in the economy and the resource basis of commercial banks are only two of the topics covered in this essay on commercial banking in Uzbekistan. Additionally, the deposit activities of commercial banks are taken into account, and the deposit base of commercial banks in Uzbekistan is examined. Additionally, the essay discusses how important deposits are to commercial banks' operations, and it concludes by mentioning study findings that will help Uzbek banks' deposit bases grow.

KEYWORDS: Uzbekistan, Commercial banks, bank deposits, bank resources.

INTRODUCTION

Banks have a crucial role in the economy. Financial intermediation, also known as financial mediation, is the primary function of banks in the movement of cash from lenders to borrowers and from sellers to buyers. Since only banking institutions are permitted to conduct a total of three activities (referred to as "pure banking"), banks vary from non-bank credit institutions in this regard. These procedures involve deposits, credit, and

settlement. Commercial banks mobilize the economy's accumulation and savings by luring momentarily free cash, turning it into lending capital (Jianping Qi, 1998).

It is planned to further the reforms and ensure the stability of the banking system, the level of capitalization and deposit base of banks, strengthen the financial stability of banks and their reliability, and further increase lending to promising investment projects, small businesses, and private entrepreneurs.

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This is in accordance with the priority areas of liberalization and economic development of Uzbekistan.

THE ESSENCE OF DEPOSIT OPERATIONS AND COMMERCIAL BANKS.

Institutions of public trust include banks. A commercial bank is a legal corporation that conducts out banking activities on its own behalf, which are described as creating and managing bank accounts, issuing payments, drawing money in deposits (savings), and extending loans (Agnieszka Butor-Keler, 2019).

A commercial bank is a type of financial institution that advances business objectives. Banking is often a very profitable industry, albeit it is constrained by a few rules. The first of these is success. The difference between the interest that clients pay and the interest that the bank charges them through banking operations, as well as commission fees for services, is what makes the bank profitable. Officially, the primary gauge of the bank's commercial success is the profit indicator. This idea is important since a bank cannot operate without profitability.

Both acquiring new clients and engaging in a financial transaction with them are crucial components of a bank's sales strategy. "Buy cheap, sell expensive" is another crucial tenet of commercial banks' operations. In other words, the bank's strategy is to give the greatest rate while taking into consideration elements that lower the risk of losses (by choosing trustworthy clients, securing a guarantee, and diversifying capital) (C. T. B. Ho, W. C. Lin, 2010).

This means that a constant guideline should be followed: everything should be done for the customer, for the client's safety on the basis of partnerships, on the premise of mutual interest. Commercial banks are dangerous

institutions, and they can only assume risks up to the amount of their capital.

A contemporary commercial bank aspires to diversify its activities and services in as many ways as feasible. These consist of intermediary, financial, founding, credit, settlement, cash, promissory notes, operations with securities, operations in foreign currencies, interbank settlement transactions, and operations with cash.

The lender's activities to transfer unrestricted resources to the borrower under conditions of payment, maturity, and payback are known as credit operations. In this situation, banks can participate in these operations as both lenders and borrowers (receiving loans from the Central Bank and other commercial banks).

Using the circulation of payment instruments, settlement activities involve the holding of client money, their movement, and their transfer (by order of the holders of funds). The customer establishes an account with the bank in order to conduct the transactions (settlement account, deposit account, loan account).

Cash transactions are acts taken by a bank to receive and distribute cash and valuables to its clients through the cash desk.

Settlements between banks and other credit institutions are provided via interbank operations in compliance with relevant law. Through cash settlement facilities, clearinghouses, and correspondent bank accounts, bank settlements can be affected.

A commercial bank's operations are distinct from those without securities. To raise the authorized capital of a joint-stock bank, attract borrowed money, and engage in buy-and-sell transactions involving the securities of other businesses and banks, the Bank may issue its own securities (stocks, bonds) or financial instruments (certificates, bills). Term

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transactions are the name given to this kind of transaction. Also known as payment papers and securities, such as checks, letters of credit, bills of exchange, stocks, and bonds, banks can create, acquire, sell, and hold them.

The purchasing and selling of cash currency held in accounts and deposits from local and international legal entities and individuals constitutes operations involving foreign currency.

Operations related to the production, acceptance of payments, and acquisition and sale of goods and services are all included in the broad category of intermediary operations. For a variety of transactions, banks serve as advisers and middlemen, and commercial banks are able to execute

component activities as the basis for brand-new businesses.

The assets of a commercial bank include its own capital as well as the money of people and legal organizations drawn to it on a repayable basis that the bank has accumulated via passive activities and uses collectively to conduct active operations (Franklin Allen, Elena Carletti, Robert Marquez, 2015). As a result, the resources of a commercial bank may be separated into two major categories according to the way of formation:

- equity,
- liabilities.

A commercial bank's equity (Fig. 1) shows the money it has directly owned during the course of its existence.

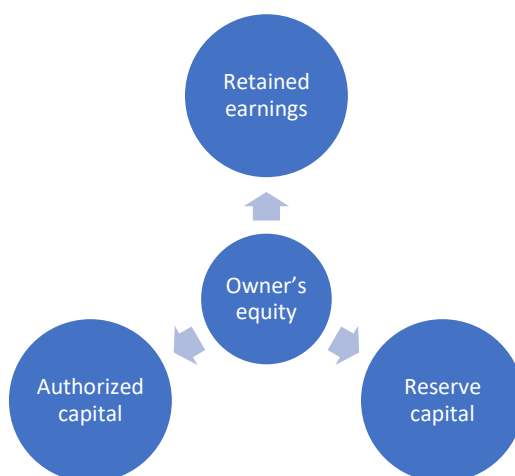


Figure 1. Shows the banks' equity structure.

For the bank, the collected monies are just transitory. Commercial banks' resource structures are distinguished by a higher proportion of attracting sources. Commercial banks are distinguished from other economic institutions by this. A commercial bank can raise temporary free cash for significantly less money than it would cost to carry out operations to raise the bank's equity.

A specific commercial bank's resource structure, both qualitatively and quantitatively, may be very different from the

resource structures of other commercial banks and the overall situation in the area. It depends on a variety of variables, including the length of time the bank has been in operation, the amount of authorized capital, the specifics of its operations, the quantity and caliber of its clientele, the bank's lending policy, its involvement in financial markets, and, finally, the market for banking resources.

A commercial bank is actively bringing in money from numerous sources to build up its resource base practically every day. The bank's

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obligations are simultaneously paid off due to the maturity of the payment or the need for funds of their owners, as well as the debiting of funds from the accounts of economic entities for their payment documents and other current operations, leading to a decrease in bank liabilities. At the same time, the absolute amount of bank resources at the end of the day may not change or, on the contrary, increase. The quantity of resources is a fluctuating figure, but for the reporting month as a whole, daily swings are smoothed down and finally result in some sort of reasonably consistent level.

Raising loans, deposits (savings), securing loans from other banks, or issuing one's own securities are all examples of passive operations. Direct banking activities are based on money obtained from passive operations (Yevheniya Zhovtun, 2016).

The passive and active activities of a commercial bank are closely related to one another. As a result, the resources at the disposal of banks have a significant role in determining the size and structure of active activities that generate income. In this respect, the bank's resource base, which consists of passive activities, is more important than its active operations. Banks are compelled to continuously check the status of liabilities and the timeliness of payments on commitments to depositors in order to provide loans and purchase securities. If resources are insufficient, the bank must reject lucrative proposals and sell high-yield securities. In addition, a sizeable portion of bank deposits are generated as a result of active non-cash loan provision activities. The interdependence of bank profit and bank margin, or the gap between the cost of bank resources and the profitability of active operations, is another example of how passive and active operations are related.

For operations to be successful, the bank must ensure the coordination of passive and active operations. On the one hand, this is to prevent a significant difference between the terms of liabilities and assets, such as the issuance of long-term loans from short-term deposits; on the other hand, it is to prevent the immobilization of short-term resources for an extended period of time in an amount that is significantly greater than the stable balance of funds in bank accounts that is sufficient for regular payment

The many kinds of obligations and assets are related to one another. Therefore, the establishment of a tight, ongoing connection between the customer and the bank occurs in conjunction with the creation of a bank account for a significant client. The bank offers the customer significant loans, invests in the client's stocks, and offers the client a range of services in an effort to keep the client.

Passive activities are highly valuable to the bank since they include obtaining capital from commercial banks and building up bank resources. The share of deposit operations dominates commercial banks' passive activities. According to Ashraf Nava, Dean Karlan, and Wesley Yin (2006), deposit operations commonly include both natural persons and legal companies, and the funds involved make use of the pertinent accounts that have been created with commercial banks. As a result, this is related to the purpose of deposit activities.

Balances on client accounts are another one of the bank's more alluring liabilities since it may essentially dispose of these cash for nothing. Despite the frequent usage of saved money, certain amounts are still unutilized. The settlement of funds in passive accounts with commercial banks is connected to the existence of balances. The Bank uses account

balances for ongoing lending activities when creating accounts for customers.

Raising money from the general public is the foundation for commercial banks' growth and success. Each bank creates a deposit policy that outlines the duties for the creation of banking resources, their planning, and regulation in order to perform deposit operations (Ozlem Deniz Basar, Elif Guneren Genc, 2016).

Increasing the resource base while reducing the expenses of commercial banking activity and maintaining an acceptable level of liquidity is the primary objective of creating and executing an efficient bank depositing policy, taking into account all potential forms of financial hazards (Emmanuelle Nys, Amine Tarazi, Irwan Trinugroho, 2015).

The following should be in the bank's deposit policy:

- creating a plan for the execution of the bank's efforts to generate money for deposits that is based on in-depth market research, including an examination of the financial environment, the position and function of the bank in raising money, diagnostics, and forecasts;

- developing a set of commercial banking strategies for the creation, suggestion, and marketing of new bank deposit products for clients (in the field of commodity, pricing, marketing and communication policies),

By putting the established strategy and tactics into practice,

- keeping an eye on the efficacy of the policy's implementation,

- keeping an eye on the operations of commercial banks in raising money.

The bank's deposit policy is the primary document that governs the process of luring temporarily free cash from businesses,

organizations, and the general public to bank accounts in a variety of deposits (deposits) in commercial banks. This is a document that is created individually by each bank based on that bank's strategic plan, as well as a study of the composition, state, and dynamics of the bank's resource base, and it is based on the bank's future development possibilities. Additionally, papers like "Bank Credit Policy" and "Bank Investment Policy" are used to provide the fundamental guidelines and criteria for the distribution of borrowed money.

The core of a commercial bank's activities as a middleman in luring resources to the open market for borrowed money is shown by bank deposit operations.

In this sense, savings refers to a deposit of funds made in a commercial bank that must be repaid upon request by the bank customer, at the end of the term, with interest or other income or without it, or in accordance with terms set forth by the depositor or the depositor's authorized representative and the bank that received the funds (G. Y. Babaeva, V. I. Nazarova, Sh. N. Murodova, 2018).

Deposits in Uzbekistan can be classified as follows:

- demand deposits,
- savings deposits,
- time deposits,
- savings certificates.

An agreement (of bank account or of bank deposit), which is drafted and completed between a commercial bank and bank client, forms the basis for the opening and maintenance of all sorts of deposit accounts (George G. Kaufman, 1972).

Offering a range of deposits for various population segments based on the

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socioeconomic level, as well as the size and shelf life of the deposit, is one of the typical strategies to raise the volume of attracted resources for the bank. However, in this situation, banks must take into account the needs and capacities of diverse kinds of depositors. The quickness and ease of depositing money are crucial elements in the process of attracting deposits (Franklin Allen, Elena Carletti, Robert Marquez, 2015).

People's own savings make up a unique class of bank resources. People generally save money because they have the flexibility to manage their incomes in accordance with their requirements and postpone purchases for any amount of time. Until money has been converted from a monetary form into things for personal use, the majority of the population's value is still at the bank's disposal.

As individuals spend their money to make purchases and pay for services, the population's contributions are repaid as loans to the government or banks. Some folks spend their financial resources, while others create fresh savings in parallel. As a result, the overall quantity of the population's financial resources that may be used by banks as a source of loan neither decreases nor, generally speaking, grows systematically.

The following are the basic justifications for why banks draw deposits from the general public:

- The population's cash supply is a rather constant resource for the bank. The kind of deposits determines the sorts of loans and, subsequently, the amount of bank profits;
- Commercial banks have a lot of resources at their disposal;
- The deposits are advantageous to the banks, meaning that even for population current deposits, there is far less activity of the transfer of money than in the accounts of

businesses and organizations. Regarding time deposits, keeping the deposits in the bank gives practically perfect circumstances for bank operations.

Banking institutions are being forced to use strategies like offering a comprehensive range of services connected to serving a specific client's account and adopting various types of decreased rates for services as a result of recently enhanced competition in the banking sector. Due to the increasing level of competition and the need to enhance service quality, it is essential to guarantee a positive client experience. As a result, the client is the most crucial component of any business since he or she is essential to developing a successful, competitive firm (Joseph M., McClure, Joseph, B., 1999).

Deposits are a source of borrowed funds for the bank, which it will utilize to make investments and loans. These listed banking activities all generate revenue for the bank. As a result, the bank gives the depositor interest on the money they've put in the bank (Volkhataya Viktoriya Ye, 2013).

UZBEKISTAN COMMERCIAL BANKS DEPOSIT ANALYSIS. Banks are established in Uzbekistan as joint stock companies. The bank's founders may be natural persons or legal entities, both residents and non-residents.

The Laws of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan" dated November 11, 2019, "On Banks and Banking Activity" dated November 5, 2019, "On Private Banking and Financial Institutions and Guarantees of Their Activity" dated December 17, 2012, and other legal documents and acts relating to certain areas of banking serve as the legal foundation for organizing and conducting commercial banks' activities.

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Depending on the decisions of the President of the Republic of Uzbekistan, the state may be the founder and shareholder of the bank, represented by the Ministry of Finance of the Republic of Uzbekistan as well as other state institutions. Except as expressly permitted by law, no enterprise or organization in which the State owns more than fifty percent of the authorized capital may be a founder or a shareholder of a bank. Commercial banks in Uzbekistan shall have a minimum authorized capital of 100.0 billion soums.

Various tasks are carried out by modern banks. Principally, these are:

- accumulating temporarily free cash,
- granting a loan,
- issuing credit money,
- concluding and paying for commercial deals,
- providing clients with financial and economic guidance.

Both the revenue the customer receives in the form of interest and the variety of services the bank offers for the transfer and payment of money can be seen as compensation for the amount of money that the depositor paid to a commercial bank (Richard E Bond, 1971)..

The following five categories of primary elements can have an impact on how well banks are able to attract deposits:

- Government policy, which should be targeted at guaranteeing political stability in the growth of economic indicators, determines the first element. Government policies that avert financial crises result in a significant growth in deposit accounts from banks and their clients.

- The evolution of the regional economies and their infrastructures, as well as the dynamics of the key economic indices like interest rates, inflation, and unemployment rates, make up the second category of elements.

- The growth of the credit and payment system, including bank transfers of money to client accounts, has an impact on the third category of elements.

- The fourth set of variables is influenced by bank customers' knowledge of the operations of all operational banking organizations as well as their level of trust in credit organizations and other structural components of the banking system. It is important to underline these factors.

- The fifth and last set of criteria are those that depend on the nation's demographic environment.

Commercial banks are the most prevalent kind of financial institutions (Tadeusz Trbacz, 2019). In Uzbekistan at the moment, 29 commercial banks are in operation. Commercial banks may be founded under a variety of ownership arrangements in compliance with the current law (Fig. 2).

Figure 3 shows that there are 13 joint-stock commercial banks, which dominate the market in Uzbekistan. Additionally, there are 6 private banks in the nation. However, in recent years, particular focus has been placed on the construction of banks with the involvement of foreign capital, and the privatization of commercial banks, or the selling of state-owned banks to the private sector, is planned for the next years.

Commercial banks

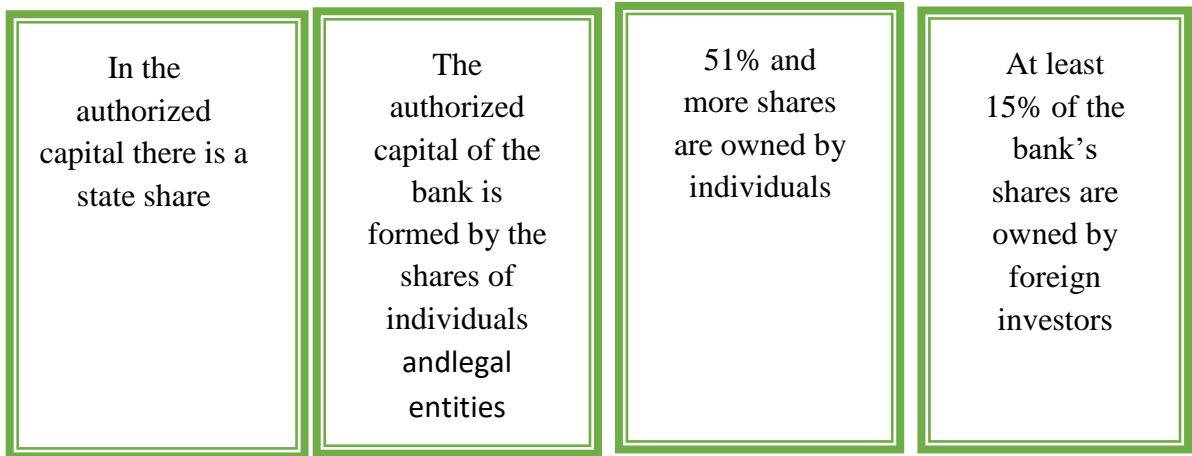
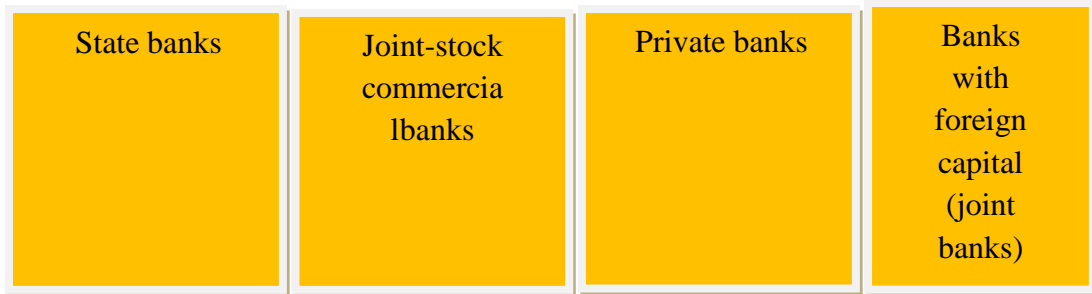
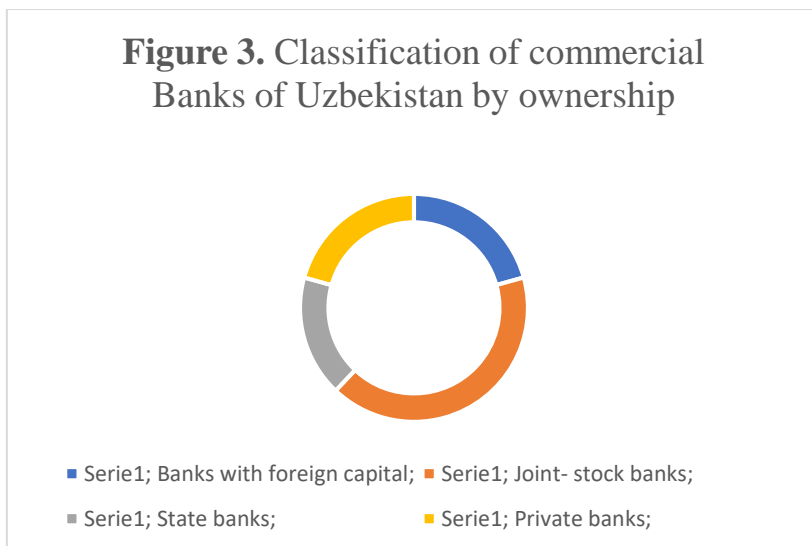


Figure 2. Types of banks by ownership

Figure 3. Classification of commercial Banks of Uzbekistan by ownership



The combined assets of Uzbekistan's commercial banks as of October 1 totaled 291 trillion soums. Additionally, a 36 percent increase in bank assets was seen from the beginning of 2019 onward. In addition, bank equity increased to 34 trillion soums from 27

trillion soums on January 1, 2019. And finally, in the first nine months of 2019, commercial banks' deposit balance reached 91 trillion soums, up by 30% compared to early-year indications (Figure 4).

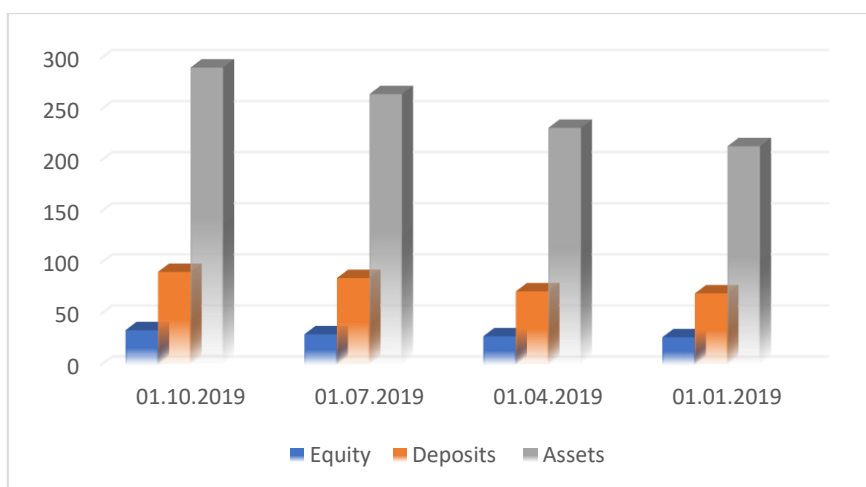


Figure 4. Key indicators of commercial banks in Uzbekistan (in trillion Uzbek soums)

Table 1 shows that the amount of deposits attracted by the nation's commercial banks during the months of January through September 2019 grew by 44% when compared to the same indicators of the prior year. At the same time, it will be able to see an increase in

deposits attracted in local currency by 42% and foreign money by 48%. More than 839 million soums were deposited into the nation's commercial banks in the months of April, May, July, August, and September 2019. We may infer from the current situation that

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commercial banks' deposit bases tend to grow on the whole.

Table 1. Attracted deposits of commercial banks (in trillion Uzbek soums).

Period	Total amount of attracted	In national currency			In foreign currency		
		Sum	Incl		Sum	Incl	
			Individuals	legal entities		Individuals	legal entities
2018	969.7	717.3	75.8	641.5	252.4	51.9	200.5
Jan	84.9	60.4	6.4	54	24.5	4.4	20.1
Feb	87.6	64.5	6.5	58	23.1	4.3	18.8
Mar	103.8	77.3	7.3	70	26.5	4.3	22.2
Apr	102.7	76.4	8.4	68	26.3	4.4	21.9
May	110.1	80.9	9.1	71.8	29.2	5.1	24.1
Jun	102.4	78.7	9.3	69.4	23.7	6	17.7
Jul	124.8	89.9	9.5	80.4	34.9	7.9	27
Aug	125.4	91.5	10.8	80.7	33.9	9.4	24.5
Sep	128	97.7	8.5	89.2	30.3	6.1	24.2
2019	1392.1	1018.1	112.1	906	374	60.6	313.4
Jan	127.2	92.9	10.1	82.8	34.3	5.5	28.8
Feb	137.3	93.6	10.2	83.4	43.7	5.4	38.3
Mar	139.7	104.5	11.9	92.6	35.2	5.6	29.6
Apr	163.6	116.5	12.8	103.7	47.1	7.6	39.5
May	169	119.8	13	106.8	49.2	6.8	42.4

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Jun	148.8	111.5	13.6	97.9	37.3	6.3	31
Jul	166.6	125.4	13.9	111.5	41.2	7.7	33.5
Aug	174.5	131.1	14.8	116.3	43.4	8.4	35
Sep	165.4	122.8	11.8	111	42.6	7.3	35.3

CONCLUSIONS

A crucial connection in the flow of money is the bank. Banks serve as middlemen in the circulation of resources among various economic sectors. Additionally, banks draw in the free cash money of a nation's people and businesses, and by issuing loans, they supply the essential resources to every sector of the economy. The amount of deposits that commercial banks have often dominates their resource base (Hendrik Hakens, Eva Schliephake, 2019). Despite the commercial banks in Uzbekistan's deposit base showing a rising trend, it is important to note that deposits only make up a small portion of the resources the banks have attracted. Most of the money that commercial banks have comes from loans. Therefore, it is essential to increase public and business entity trust in the bank, secure the stability of the credit system, run various promotional events, enhance customer service, and create new, alluring deposit kinds in order to collect money for bank deposits. The public should be made aware of the advantages of deposits in order to raise the amount of deposits, which will in turn help Uzbekistan's commercial banks attract free money.

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