

THE ROLE OF BANK DEPOSIT POLICY IN THE DEVELOPMENT OF BANK DEPOSIT OPERATIONS

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Abstract

This article thoroughly investigates the role of bank deposit policy in resource mobilization. Specifically, the main directions of deposit policy in commercial banks, as well as the processes and principles of its formation, are examined in both theoretical and practical aspects. Additionally, proposals are presented to enhance the role of deposit policy in resource mobilization by commercial banks.

Keywords. Commercial bank, deposit, deposit policy, household savings, bank resources, mobilized funds.

Introduction

The deposit policy developed by commercial banks plays a crucial role in ensuring the financial stability and liquidity of these banks, as well as supporting their internal investment activities. Through deposit policy, commercial banks attract the surplus funds of individuals and legal entities and redistribute them to various sectors of the economy. This process contributes to the increase in production processes and the growth of employment in the country.

As a result of the ongoing reforms in our country, the banking system of our republic has achieved a number of successes. This situation can be acknowledged by the high level of attention given to the banking system in the decisions and decrees adopted by our government. In particular, in the Decree of the President of the Republic of Uzbekistan "On the Strategy 'Uzbekistan — 2030'", special attention is given to "increasing the volume of bank deposits fourfold." The main goal of this initiative is to accelerate reforms in the banking system, expand the market for banking services, and develop competition in the sector[1].

In commercial banks, the share of their own funds in the passive part of the balance sheet is considerably lower compared to other organizations. This, in turn, indicates that the main portion of the bank's assets is formed by the funds mobilized from customers and resources obtained from creditors.

A significant increase in the credit load beyond the established standards, along with a noticeable change in the composition of assets and liabilities, indicates a rise in the risk level of the bank's liabilities, including the funds mobilized from customers. Most importantly, this is explained by the fact that the bank's operations are highly dependent on the funds and trust

of depositors and creditors[2].

From this perspective, today, special attention is being given to improving the effectiveness of deposit policy in commercial banks, ensuring their financial stability, and addressing the issues of resource mobilization. Ensuring the effectiveness of commercial banks' deposit policy directly provides the opportunity to form a financially stable resource base. Therefore, developing an effective deposit policy is one of the main tasks of commercial banks, and the volume of income generated from the bank's active operations is directly related to the effectiveness of this policy. This necessitates the continuous improvement of the deposit policy of banks.

Literature Review

Before studying the role of deposit policy in resource mobilization by commercial banks, it seems appropriate to examine the economic essence of deposit policy.

The word "deposit" is derived from the Latin term "depositum," meaning "an item placed for safekeeping" or "savings." The word "policy" is derived from the Greek word "politike," which means "management" or "leadership"[3]. Additionally, the term "deposit" can have several meanings: 1) cash deposits in banks (bank savings); 2) securities and monetary funds entrusted to a credit institution for safekeeping; 3) funds deposited in various organizations as a guarantee for a required payment; 4) records or documents that confirm or reflect the customer's claims to the bank[4].

Therefore, the economic essence of "deposit policy" clearly indicates that it involves the effective "management" of "items placed for safekeeping" or "savings."

In studying the scientific literature on the deposit policy of commercial banks, it seems appropriate to consider the views of several scholars on this concept. According to N.P. Belotelova, the deposit policy of a bank is an important component in attracting temporarily idle funds into various types of deposits in bank accounts. This, in turn, should be based on the analysis of the bank's strategic plan, taking into account the composition, current state, and dynamics of the bank's resource base, as well as the main prospects for its development [5]. Indeed, based on the strategy developed by the bank, the mobilization of resources, in accordance with the balance between the bank's active and passive operations, leads to the bank having a stable source of resources in the future. In turn, this creates the foundation for the bank to meet its obligations to customers in a timely and complete manner. This process is achieved through a well-developed deposit policy implemented by the bank.

Moreover, according to economists O.I. Lavrushin [6] and G.S. Panova [7], bank deposit policy is the bank's strategy for attracting customer deposits and managing them effectively. On the other hand, G.N. Beloglazova believes that bank deposit policy is the process of attracting temporarily idle funds into various types of deposits available in commercial banks [8]. It should be emphasized that a well-thought-out and perfectly developed deposit policy by the bank serves as the primary support for the increase of the bank's stable resource base, which, in turn, contributes to the expansion of the bank's deposit base.

According to the Uzbek economist and professor A.A. Omonov, the term "deposit policy" in isolation does not convey the meaning of managing the term-based financial resources of commercial banks. Only when the phrase is explicitly used as "deposit policy of commercial



banks” does it imply a set of measures within the scope of funds attracted by commercial banks. Indeed, deposit policy constitutes a fundamental component of the overall banking strategy, as it defines the strategy and tactics for the implementation of deposit operations by credit institutions.

In our view, the deposit policy of commercial banks constitutes a component of banking strategy that encompasses measures aimed at attracting idle funds from individuals and legal entities under specific conditions, and subsequently placing those funds on a mutually beneficial basis. We believe that, in the process of resource mobilization, commercial banks must develop an annual deposit policy that comprehensively outlines key aspects such as the bank’s attractive deposit services, seasonal deposit campaigns, and the application of differentiated interest rates for the mobilization of deposits and savings.

Research Methodology

In examining the scientific and theoretical foundations of the formation of bank deposit policy, a systematic analysis of relevant literature was conducted. Additionally, the scientific findings of both foreign and domestic scholars in this field were reviewed, and independent approaches were developed based on these studies.

Analysis and Discussion of Results

Based on the study and analysis of the current state of banks, the implementation of deposit operations necessitates the formulation of a commercial bank’s deposit policy. The development of a bank deposit policy involves several interconnected processes. These include clearly defining objectives and tasks; designing appropriate procedures for attracting funds; organizing oversight and management during deposit operations; and ensuring the proper appointment of bank personnel along with the distribution of their responsibilities. All of these are considered essential components in shaping an effective deposit policy for banks.

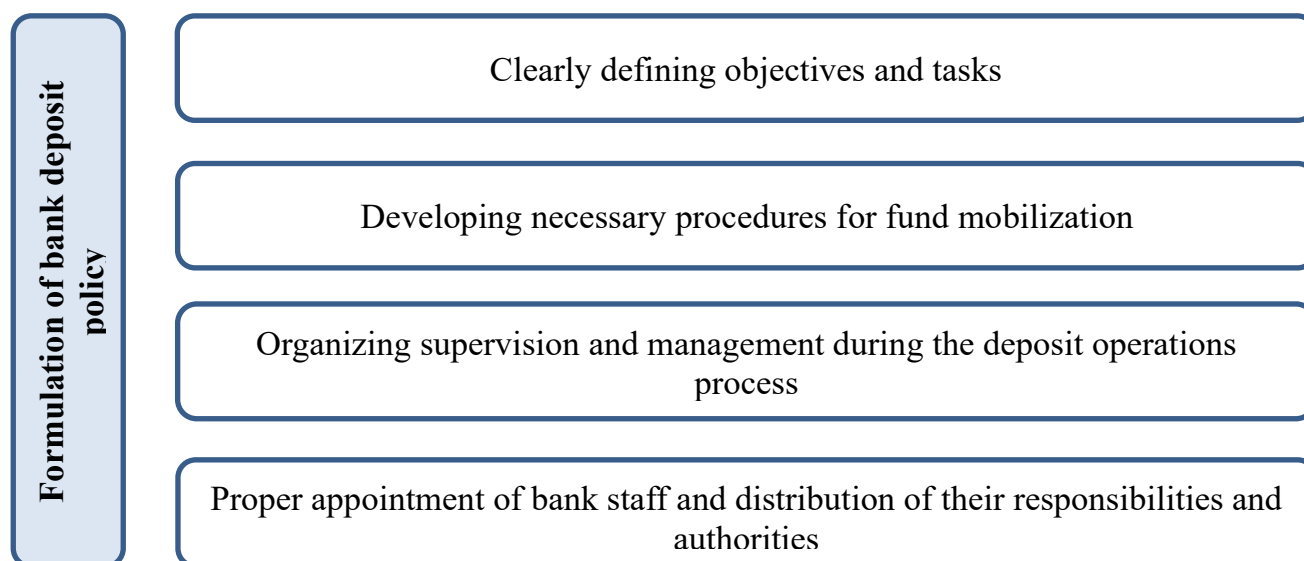


Figure 1. Formation of bank deposit policy¹

¹ Developed by the author.

Each stage in the formation of a bank's deposit policy is closely interconnected and is considered essential for developing a comprehensive deposit policy and for effectively organizing deposit operations. In this regard, it is deemed appropriate to examine the main directions of the deposit policy of commercial banks in greater detail.

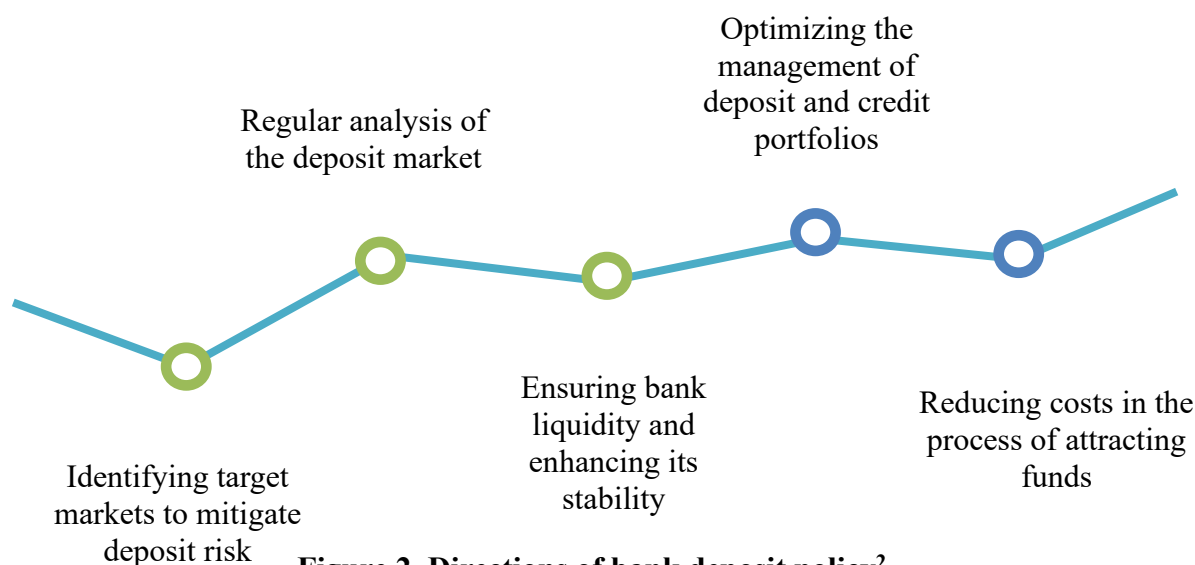


Figure 2. Directions of bank deposit policy²

The main directions of bank deposit policy may include the following: identifying target markets to mitigate deposit risk; conducting regular analysis of the deposit market; ensuring bank liquidity and enhancing its stability; optimizing the management of deposit and credit portfolios; and reducing costs in the process of attracting funds.

Furthermore, the primary objective of each commercial bank in developing and implementing an effective and comprehensive deposit policy is to expand the bank's resource base by minimizing costs and maintaining the necessary level of liquidity while accounting for all potential risks. From this perspective, it is essential to study the formation of a bank's deposit policy based on both general and specific principles.

The general principles of bank deposit policy refer to concepts that are applicable not only to the monetary policy conducted at the macroeconomic level by the central bank but also to the strategies of individual commercial banks. These principles include an integrated approach, scientific justification, rationality and efficiency, as well as the unity of all elements of the bank deposit policy.

The integrated approach is reflected in the development of the theoretical foundations and strategic priorities of the bank's deposit policy, as well as in identifying the most effective tactical methods for its implementation.

The specific principles of bank deposit policy include ensuring an optimal level of banking costs, as well as upholding the principles of security and reliability in deposit operations. In accordance with these principles, it becomes possible to shape both strategic and tactical directions in the organization of deposit activities. This, in turn, contributes to enhancing the

² Developed by the author.

effectiveness and optimization of the bank's deposit policy.

The primary task of bank deposit policy is to attract deposits to the bank and manage them effectively. From this perspective, it is considered appropriate to analyze the current state and dynamics of deposit funds attracted by commercial banks in our country and to draw relevant conclusions based on this analysis.

Table 1 Information on deposit funds of commercial banks in the Republic of Uzbekistan (trillion soums) [10]

Indicators	Total deposits	Deposits of legal entities		Household savings	
		<i>Total</i>	<i>As a Percentage (%)</i>	<i>Total</i>	<i>As a Percentage (%)</i>
2020	165	110	67	55	33
2021	190	125	66	65	34
2022	220	143	65	77	35
2023	250	160	64	90	36
2024	275	175	63,6	100	36,4

If we pay attention, the data in Table 1 shows that the volume of deposits attracted by commercial banks operating in our Republic has exhibited a growth trend over the years. Specifically, in 2020, commercial banks attracted deposits amounting to 165 trillion soums, which increased to 275 trillion soums by 2024. This trend can be explained by the increased focus of commercial banks on attracting deposits and managing them effectively. Additionally, this situation is also reflected in the rise of both household savings and deposits of legal entities in banks.

At the same time, a key responsibility of banks is to attract temporarily idle funds on a large scale and use them prudently. This, in turn, not only meets the banks' need for stable resource funds but also necessitates the formation, efficient management, and improvement of the quality of these funds.

Nowadays, it is a pressing requirement to introduce attractive deposit products that enhance and strengthen public confidence in the banking system, primarily by ensuring the safety and inviolability of household savings. Furthermore, the use of modern information technology capabilities in conducting business is essential in meeting this demand.

The steady growth in the volume of deposits in commercial banks over the years can be explained by several factors, including:

1. Level of financial literacy. The stable and balanced development of the economy, as well as improvements in the standard of living and welfare of the population, are closely linked to citizens' conscious engagement with economic phenomena and processes, as well as the development of their economic thinking and skills. The higher the financial literacy and economic activity of the population, the more effective their economic behavior and decisions across various aspects of life will be. In particular, financial literacy fosters a favorable business

environment, which in turn leads to improvements in the population's living standards. As a result, temporarily idle funds within society are more likely to flow into bank deposits.

2. Confidence in the banking system. The extensive reforms being carried out in our country and the effective operations of commercial banks contribute to increasing public trust in the banking system year by year. Moreover, commercial banks' timely and full fulfillment of their obligations has led to a growth in the number of customers and their confidence in these banks.

3. Effective deposit policy developed by commercial banks.

When developing and implementing deposit policies, commercial banks pay special attention to factors such as interaction with deposit markets, branch network availability, the ability to withstand potential competition, and the socio-economic conditions of the regions. These considerations help ensure the attraction of funds in an efficient manner.

4. Wide offering of attractive and seasonal deposit products. The growth in incomes of individuals and legal entities, government incentives related to bank deposits, and the introduction of new attractive and seasonal deposit products by commercial banks in response to customer preferences all contribute to further increases in the volume of deposits held by banks.

Conclusion and recommendations

Considering the current situation and potential threats in the deposit market during the process of managing deposits, it can be stated that the main goals and objectives of the deposit policy developed and implemented by banks to ensure their financial stability are expressed as follows:

- Ensuring the financial stability of the bank;
- Attracting resources with optimal terms, conditions, and maturities;
- Strengthening the bank's stable resource base through effective management of assets and liabilities;
- Increasing the bank's income and stability by providing quality deposit services;
- Encouraging activity in savings and investment by offering new, attractive, and mutually beneficial types of deposits.

In our opinion, to expand resource mobilization, commercial banks need to consider the following when developing an effective deposit policy:

Taking into account factors influencing deposit pricing and setting the most optimal interest rates based on established principles;

Continuously improving the bank's deposit policy through active marketing efforts by commercial banks;

Regularly studying and analyzing the deposit market;

Implementing effective formats for communication between bank specialists and depositors;

Making the deposit acceptance process highly convenient for customers;

Utilizing effective methods such as moral and material incentives based on employee performance and results.

It is also important to note that in implementing their deposit policies, commercial banks should take into account economic standards set by the Central Bank, mandatory reserve requirements, the key interest rate, changes in tax legislation, as well as current conditions and trends in



mobilizing and placing funds in the financial market.

We believe that considering these recommendations in the development of deposit policies by commercial banks will create broad opportunities for expanding the bank's deposit base and ensuring the sustainable operation of the bank in the future.

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