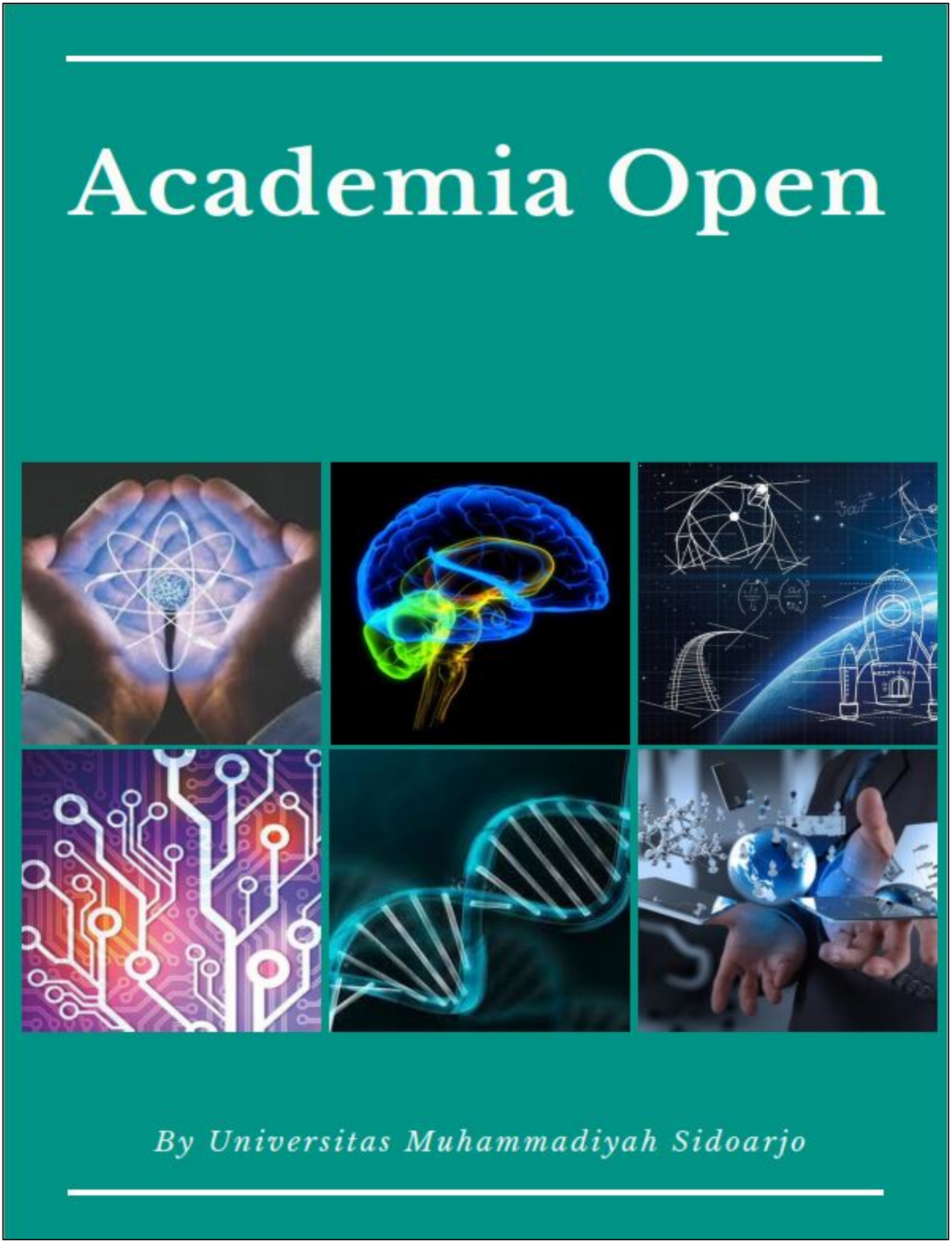
Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10747 . Article type: (Business and Economics)

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Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10747 . Article type: (Business and Economics)



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Academia Open
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Academia Open
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Strategic Deposit Policies for Liquidity, Profitability, and Financial Stability in Banks

Kebijakan Deposito Strategis untuk Likuiditas, Profitabilitas, dan Stabilitas Keuangan Bank

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Abstract

General Background: Deposit policy plays a crucial role in enhancing the resource capacity of commercial banks, influencing their liquidity, profitability, and financial stability. **Specific Background:** In an era of increasing competition and evolving customer expectations, banks must develop effective deposit policies to secure stable and cost-effective funding sources. **Knowledge Gap:** Despite extensive research on bank liquidity and financial management, limited studies comprehensively analyze the strategic impact of deposit policies on resource mobilization efficiency and risk management, particularly in emerging markets. **Aims:** This study examines the role of strategic deposit management in optimizing liquidity, profitability, and financial sustainability through econometric modeling and qualitative analysis. **Results:** Findings indicate that adaptive deposit policies incorporating behavioral finance principles significantly enhance customer retention and deposit growth. Comparative analysis of international best practices highlights the effectiveness of tailored deposit products and interest rate strategies in resource mobilization. **Novelty:** By integrating quantitative econometric models and qualitative insights from banking executives, this study provides a comprehensive framework for assessing deposit policy effectiveness. **Implications:** The study offers strategic recommendations for banks and policymakers to enhance deposit management through digital innovation and balanced regulatory frameworks, ensuring financial stability while promoting competitive banking practices.

Highlights:

1. Deposit policy enhances bank liquidity, profitability, and stability.
2. Examines strategic deposit management; finds behavioral finance boosts deposits.
3. Integrates econometrics and qualitative insights; informs policy and innovation.

Keywords: Deposit policy, liquidity management, profitability, financial stability, banking strategy

Published date: 2025-03-08 00:00:00

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Academia Open
Vol 10 No 1 (2025): June (In Progress)
DOI: 10.21070/acopen.10.2025.10747 . Article type: (Business and Economics)

Introduction

The deposit policy of commercial banks plays an important role in their activities. Banks attract free funds from individuals and business entities into deposits and direct these funds to provide loans and other financial services. Deposits are the main source of financing for banks, which allows them to meet the personal needs of customers, develop their business activities and operate effectively.

Commercial banks offer various interest rates, terms, minimum amounts, and other conditions to entice and encourage customers to deposit their funds in banks. To do this, they develop marketing strategies, conduct market research, and analyze the behavior of potential customers.

It should be noted that deposit policy is also an activity related to risk management for banks. Banks must maintain a balance between attracting deposits and ensuring the safety of customer funds. They must constantly monitor and analyze the liquidity, profitability and stability of their deposit portfolio[1].

Banks must ensure transparency and openness in their relations with their customers, fulfill their obligations on time and in full, fairly distribute risks and profits. They must also encourage sustainable and effective investment of deposits, taking into account the interests of society.

An important feature of the reforms being implemented in the banking system of Uzbekistan is that they are aimed at developing the national economy and supporting entrepreneurial activity[2]. Commercial banks offer a variety of deposit types tailored to the needs and capabilities of enterprises and individuals in the country.

Another feature of the deposit policy of commercial banks in Uzbekistan is the high level of attention paid to the stability and safety of deposits. The Central Bank strictly monitors the activities of commercial banks in relation to the implementation of deposit operations and takes measures to ensure their stability and liquidity. Banks are also required to comply with the requirements for the protection of deposits and the timely payment of interest on them.

In addition, based on the characteristics of the national banking system, the deposit policy of commercial banks also serves to increase the financial literacy of the population. In recent years, measures have been taken to ensure the exchange of information and increase transparency in the economic, financial and banking sectors so that citizens can properly manage their funds and make decisions on their effective allocation.

The deposit policy of commercial banks in Uzbekistan also reflects global trends in the digitalization of banking services. Most banks offer virtual and online deposits, which, in turn, further improves the competitive environment among commercial banks and creates the basis for an increase in convenient and profitable deposit types for customers.

In general, the deposit policy of commercial banks plays an important role in their activities. An effective deposit policy allows commercial banks to provide them with long-term and stable resources, and also has a positive impact on economic development and social well-being.

Literature review

Attracting deposits from customers (individuals and legal entities) is one of the main activities of commercial banks. The success of this activity is reflected not only in ensuring the financial security of the bank's resources, but also in the level of recognition and trust of its position in the banking system by customers, other participants in the system, and regulatory authorities.

To further clarify the essence of the concept of "deposit policy of a commercial bank", it is necessary to analyze various sources of economic literature[3].

According to N.V. Alenteva, R.V. Nazarov, “It is necessary for any bank to develop a rational deposit policy in order to ensure the necessary level of diversification, balance of assets in terms of terms and interest rates, to strengthen and expand its resource base.[4]”

G. G. Korobova “Deposit policy is a set of activities of a commercial bank aimed at determining the forms, goals, and content of banking activities in the formation, planning, and regulation of banking resources” [5].

M. R. Kadzhaeva “Deposit policy is a set of measures aimed at attracting funds from legal entities and individuals in the form of deposits by banks for their subsequent mutually beneficial use”

O. I. Lavrushin “Deposit policy is a type of banking policy aimed at effectively managing the process of attracting and attracting depositors' funds”

G. N. Beloglazova, L. P. Kroliveskaya “Deposit policy is the main document regulating the process of attracting temporarily free funds of enterprises, organizations and the population to bank accounts on deposits in commercial

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banks”[6].

Uzbek economist B.U. Shermukhammedov emphasizes that "the development of a deposit policy in a commercial bank, first of all, involves determining the tasks and content of the development of banking activities in the formation of bank resources, as well as developing and regulating a set of measures for their planning and development. Deposit activity is the basis and foundation of all deposit operations, and it should be understood as "operations of banks to attract funds from legal entities and individuals in deposits for a certain period or on demand” [7].

In general, the deposit policy of commercial banks is a document that includes a set of measures that banks use to attract free funds from customers on various terms, effectively manage these funds, and ensure the bank's liquidity and profitability.

Methods

This study adopts a mixed-methods approach to investigate the role of deposit policy in increasing the resource capacity of commercial banks. Quantitative data is collected from financial statements, regulatory reports, and banking industry databases to analyze key indicators such as deposit growth rates, interest rate structures, liquidity ratios, and profitability. Econometric models, including panel data regression and vector autoregression (VAR), are utilized to evaluate the impact of deposit policy variables on resource mobilization efficiency and liquidity risk management[8]. Additionally, qualitative insights are gathered through expert interviews with bank executives, financial analysts, and regulatory authorities to understand strategic approaches to deposit management. Comparative analysis is conducted by examining international best practices in deposit policy from developed and emerging banking markets. Data triangulation is applied to ensure the reliability and validity of findings. This comprehensive methodology provides a robust framework for assessing how strategic deposit policies enhance resource capacity, offering practical implications for policymakers and commercial banks

Result and Discussion

In the context of economic modernization, increasing the participation of commercial banks in the long-term lending process requires strengthening their long-term resource base. The main part of bank resources is formed through passive operations carried out by the bank and is maintained on the passive part of the bank's balance sheet. In particular, as of January 1, 2025, the total liabilities of commercial banks of our country amounted to 769.3 trillion soums, while deposits attracted by banks amounted to 308.7 trillion soums[9].

Commercial banks are carrying out significant work to attract free funds from the population and business entities into bank deposits.

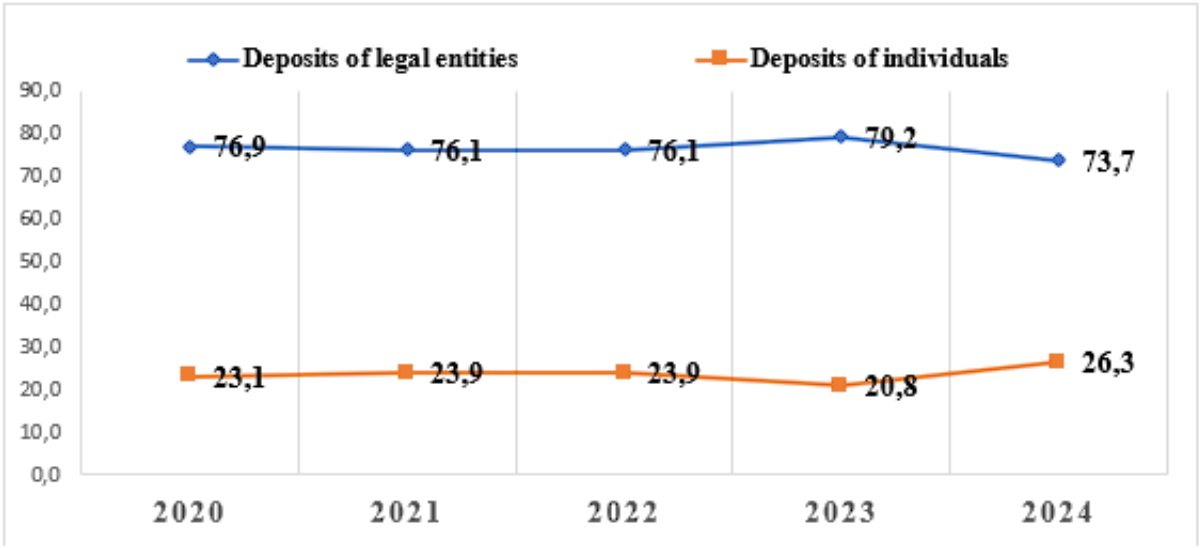


Figure 1. ***The amount and dynamics of deposits attracted by commercial banks from the population and legal entities (trillion soums , per year).***

In turn, from the data in Figure 1, we can see that the amount of population deposits in the structure of deposits

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attracted by commercial banks has increased by almost 2.5 times over the past five years. Deposits of legal entities have also increased by the same amount. However, over the past 5 years, the share of population deposits in the structure of deposits attracted by banks has increased from 23 percent to 26 percent[10]. This indicator is significantly higher in the practice of developed countries.

It is worth noting that one of the important factors determining the strength of banks' deposit base is the high share of stable resources in bank deposits.

As we know, the deposit base of commercial banks includes transaction deposits, term deposits and savings deposits. It is very important to study and analyze the composition of the deposit base of banks in detail[11]. This is because it will allow us to effectively assess the composition and dynamics of their deposit base, and we will do this using the data in the table below.

(per annum , in percent)

Deposits	Years				
	2020 year	2021year	2022year	2023year	2024year
Deposits of legal entities	69956,7	87343,4	118884,0	171567,7	178035,5
Deposits of individuals	21052,3	27403,5	37305,9	45169,8	63651,1
Total	91009	114746,9	156189,9	216737,5	241686,6

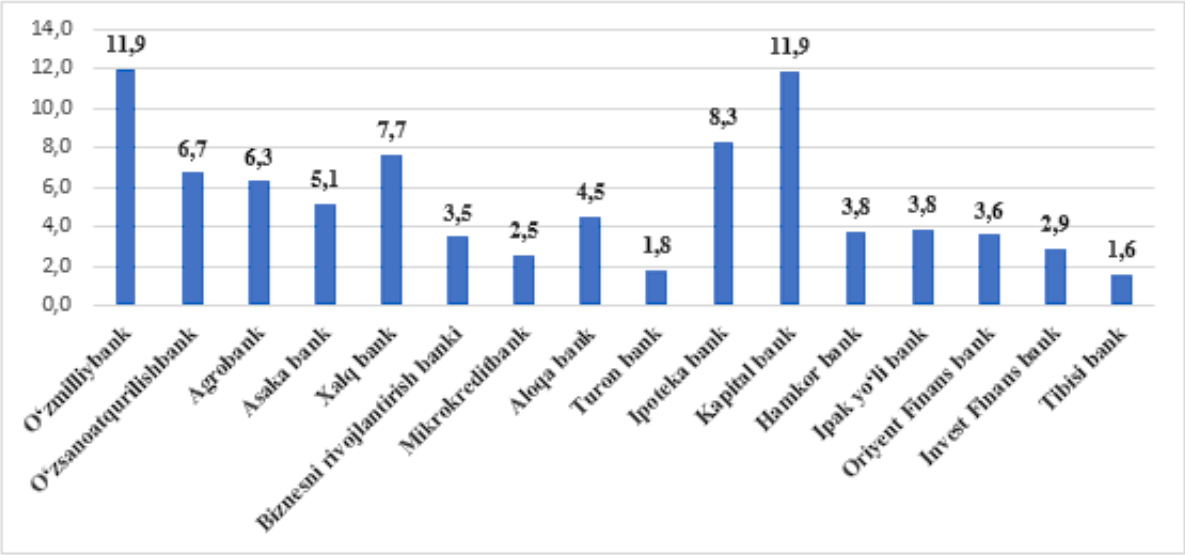
Table 1. ***Structure of deposits attracted by commercial banks of the Republic of Uzbekistan***

Table 1 shows that about 70 percent of commercial bank deposits in the analyzed period are accounted for by deposits of legal entities. Although the share of demand deposits in the structure of deposits of legal entities has a decreasing trend, this indicator is significantly higher than the norm set by international standards. The share of household deposits in the structure of total deposit funds, in turn, increased from 23,1 percent in 2020 to 26,3 percent in 2024[12].

From the data in Table 1 above, we can see that the share of savings deposits of legal entities in 2018-2022 remains low. This situation indicates that the practice of attracting free funds of business entities to savings deposits by banks is not well developed. It is evident that there is a lot of work to be done in our republic on this issue. Because, international experience shows that the share of these types of deposits in the structure of deposits of commercial banks is quite high, and these deposits are of great importance for commercial banks in effectively organizing long-term lending and investment activities.

Research shows that during the analyzed period, our country's commercial banks are showing a growth trend in their deposit base, but it is difficult to say that their deposit base is stable..

We believe that in order to determine what problems exist in attracting deposits by commercial banks, it is necessary, first of all, to study and analyze the banks operating in our country.



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Vol 10 No 1 (2025): June (In Progress)
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Figure 2. ***Share of some commercial banks operating in the Republic of Uzbekistan in the deposit services market (as of 01.01.202 5 , in percent)***

The analysis of the above data shows that the amount of deposits of commercial banks with a state share in the capital of our country is the largest in the banking system. Figure 2 shows that, according to the results of 2024, the gross deposits of the banking system of our country amounted to 308.7 trillion soums, of which the share of commercial banks with a state share in the capital is more than 50.3 percent. If we analyze this indicator by banks, the largest bank of our country, the National Bank of Uzbekistan, has the highest indicator in this regard. According to the results of 2024, the bank's share in the total volume of deposits is 11.9% or 36.8 trillion soums[13]. It is a negative fact that another large bank of our country, Asaka Bank, occupies a much lower position in this indicator. In general, the development of a well-thought-out strategy for attracting deposits by commercial banks leads to an increase in the bank's resource base.

Also, the lack of well-developed competition among commercial banks operating in the country has a direct negative impact on the volume and quality of deposit operations of banks. Because only a healthy competitive environment has a positive impact on the types of services provided by banks, especially the attractiveness of bank deposits. It is not for nothing that this problem was highlighted by our Honorable President Sh.M. Mirziyoyev in his reports: “In recent years, 8.4 trillion soums have been allocated from the state budget to finance programs for commercial banks, and in the last two years, 3.3 billion dollars of state funds have been allocated to increase the capitalization of banks[14], but these funds are not being used effectively, and work on increasing customers and bank income is insufficient” .

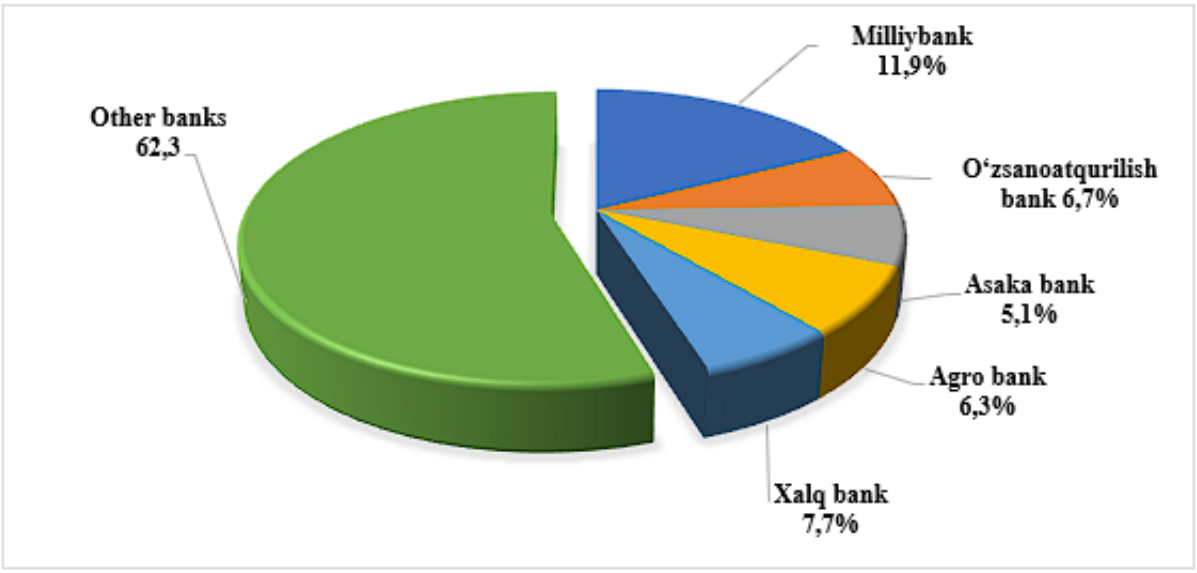


Figure 3. ***Share of deposit operations of commercial banks of our republic (as of 01.01. 2025, in%)***

Figure 3 shows that, the results of the analysis of the deposit attraction practice of commercial banks in our country show that the competitive environment in the banking practice of our country is not well formed. For example, the deposits of large commercial banks, such as Uzmilliybank (11.9%), Agro Bank (6.3%), Asakabank (5.1%), Uzsanoatqurilishbank (6.7%) and Xalq Bank (7.7%), account for 37.7% of the total deposits of our country, which negatively affects the level of stability of the deposit base of the banking system[15].

In international banking practice, the bank concentration ratio is widely used to determine the level of competitiveness of banks in a country. According to this ratio, the share of the 5 largest commercial banks operating in the country in the banking services market is determined. A ratio below 35 percent of this indicator indicates that the competitive environment in the country's banking services market is not well-developed and there is a monopoly in the banking system.

Currently, due to the development of banking competition, many commercial banks are faced with the problem of limiting the flow of medium and long-term deposit resources. As a promising direction for developing the resource base, we can offer an expansion of the range of deposit accounts with different operating modes for clients, which will provide bank depositors with additional opportunities to use their funds at an acceptable level of income[16]. To this end, and also in order to expand the deposit policy, commercial banks should activate their deposit policy, the main directions of which may be:

− monitoring customers to determine their motivations when choosing a bank, since the main reason for closing an account, as a rule, is the offer of more attractive service conditions by competing banks;

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− advertising banking services to increase trust in the bank, emphasize its reliability, many years of experience, competitive advantages, and ease of service, and encourage the flow of funds;

− improving the quality of services and service technology to achieve maximum convenience for customers;

− forming complex services (service packaging) by offering some related or additional services to the main service.

Conclusion

The economic essence of the deposit policy of commercial banks is manifested in the development of strategic decisions and measures aimed at attracting and managing deposits, which are the main source of financing. The role of deposit policy in the formation of bank resources in the activities of commercial banks is extremely large and covers several main aspects:

1. As an important source of financing: The level of financing of credit and investment activities of commercial banks depends on deposits attracted from individuals, enterprises and other organizations. Deposit policy includes measures to attract and retain customers by offering competitive interest rates, flexible terms and various types of deposits.

2. Determining the cost of borrowing: Deposits are liabilities for banks, and banks must pay a certain amount of interest on them. Expenses such as paying interest on deposits significantly affect the profitability of banks. Banks are required to balance deposit rates and ensure sufficient profitability of the bank to remain competitive.

3. Liquidity management: Deposits provide a stable and reliable source of funding for banks, which they use to make loans and make investments. The attraction of deposits and their withdrawal by customers are important in ensuring sufficient liquidity in banks. Deposit policy includes setting liquidity requirements and maintaining appropriate liquidity ratios.

4. Risk Management: The composition and quality of deposits affect the risk profile of a bank. Banks are required to continuously analyze and effectively manage various risks associated with deposits, including credit risk, interest rate risk, and liquidity risk. Deposit policy involves establishing risk management practices by diversifying deposit sources, monitoring deposit concentrations, and implementing deposit insurance

5. Customer relationships and trust: Deposits play an important role in building long-term relationships with customers and building trust. Banks strive to offer customer-oriented deposit products and services, provide an individual approach to customers (VIP customers), and ensure the security and confidentiality of deposit accounts. A strong deposit policy increases customer satisfaction and loyalty to banking services, which increases the chances of ensuring the stability and effective placement of deposits.

Thus, the economic essence of deposit policy and its role in the activities of commercial banks are related to the strategic management of deposits to ensure stable funding, profitability, liquidity and risk management of commercial banks. A properly implemented deposit policy helps banks attract and retain deposits, ensure a solid financial base and support their overall banking operations.

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