

CHANGES IN LOAN AND DEPOSIT INTEREST RATES IN COMMERCIAL BANKS

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Abstract

The article analyzes the current state of interest payments on loans and deposits made by commercial banks of the country. The formation of the transmission mechanism of the formation of the solvency of the population and business entities under the influence of interest rates in the interbank money market and the features of its operation are assessed. Dynamics of changes in credit and deposit interest rates and changes in money supply and its components are analyzed. Credit and deposit policy is part of the overall banking policy. Therefore, banks focus on maintaining and expanding their customer base. There are scientific proposals and practical recommendations aimed at improving the impact of credit and deposit interest rates on commercial banks in the money market.

Keywords: deposit, deposit policy, deposit portfolio, deposit operations, loan interest rate, loan, refinancing rate, exchange rate.

Аннотация

Мақоллада мамлакатимиз tijorat banklari tomonidan olib borilayotgan kredit va depozitlarning amaldagi foiz to'lovlarining joriy holati tahlil qilingan. Banklararo pul bozorida shakllangan foiz stavkalari ta'sirida aholi va tadbirkorlik subyektlarining to'lov layoqatini shakllantirishning transmission mexanizmini shakllanishi va uning amal qilish xususiyatlari baholangan. Kredit va depozit foiz stavkalari, pul massasi va uning tarkibiy qismlarining o'zgarishi dinamikasi tahlil qilingan. Kredit va depozit siyosati umumiy bank siyosatining bir qismi hisoblanadi. Shu sababli banklarning e'tiborini mijozlar bazasini saqlash va kengaytirishga qaratadi. Pul bozorida tijorat banklarida kredit va depozit foiz stavklarining ta'sirini takomillashtirishga yo'naltirilgan ilmiy taklif va amaliy tavsiyalar berilgan.

Калит сўзлар: depozit, depozit siyosati, depozit portfeli, depozit operatsiyalari, kredit foiz stavkasi, kredit, qayta moliyalashtirish stavkasi, valyuta kursi.

Introduction

Interest rates in the interbank money market and inflation expectations of the population and businesses for the next period have played an important role in the formation of interest rates on loans and deposits in the economy.

As of June 1, 2021, data loans in commercial banks amounted to 289778 soum, while the balance of deposits amounted to 126239 soum. In addition, interest rates on time deposits of individuals in the national currency in commercial banks in the second half of 2020 amounted to 17%, while in March 2021 it rose to 19.1%. Interest rates on time deposits of legal entities in the national currency increased from 14.4% in December to 16.7% in March [1].

Science-based banking policy, including credit policy, which is an integral part of this

policy, as well as the development and implementation of deposit policy, play an important role in ensuring the stable and reliable operation of commercial banks. This is partly due to the fact that the bulk of the bank's resources are formed in the process of deposit operations.

Deposit policy, which is one of the most important economic activities of commercial banks, will be integrated into a single strategic system to ensure the financial balance and high return on these financial instruments. Commercial banks have their own deposit policy, although they are divided into different types in terms of specific areas. This deposit policy is one of the most lucrative links of all financial institutions. The bank's resource base, which forms the basis of the deposit policy, will be consolidated in the deposit portfolio.

In addition, inflation expectations are also reflected in the mood of lenders in the economy by influencing lending and deposit interest rates and the formation of demand for credit services users. In particular, in the event of rising inflationary expectations, interest rates will be raised in order to maintain the attractiveness of deposits, which in turn will lead to higher prices for credit resources and higher interest rates. The increase in interest rates will affect the future plans of individuals and businesses to obtain loans. Moreover, if an increase in lending rates does not lead to a decrease in demand for credit, it will lead to an increase in inflationary pressures in the economy in the future [2].

Literature reiew

Toni M.Whited, Yufeng Wu, Kairong Xiao notice that “low interest rates depress bank profits from the deposit market as competition from cash intensifies” [3].

The group of scientists note that “bank lending is mainly driven by the banks’ capital- rather than their liquidity-situation” [4].

According to S.V.Galitskaya, credit is an economic category and reflects the economic relations between business entities related to the redistribution of temporarily vacant funds on terms of maturity, repayment, repayment terms [5].

S.V.Rikov studied the ways to attract free funds of individuals and legal entities to deposits in modern market conditions and to improve the system of effective management of active and passive operations by commercial banks in an acceptable amount of deposit resources [6]. A.B.Dudka studies the system of directing tactical plans to specific strategic goals, aimed at ensuring the fulfillment of the strategic goals of the commercial bank in improving the deposit policy of commercial banks, as well as to determine the quantity, quality and distribution of resources [7].

V.P.Akinina, E.A.Zolotova, P.B.Strakhov research economic and mathematical model based on the optimal ratio of attracted and allocated resources of a commercial bank, taking into account the limiting parameters, the attraction and placement of financial resources taking into account the liquidity standards of credit institutions recommend the formation of an optimal portfolio [8].

Sh.Z.Abdullayeva analyzes the relationship with the practice of deposit and considers customs payments, as well as bank deposits, rather than money or securities given to a financial-credit or banking institution. , fees, taxes, etc. are also interpreted as deposits [9].

Significant increase in credit flows exceeds the established norms, a significant change in the balance between assets and liabilities, an increase in the level of risk of bank liabilities, including funds raised from bank customers, and, most importantly, the bank's activities This is explained by the fact that they are very dependent on their trust [10].

Speaking about the organization of lending practices of commercial banks, ensuring

its effectiveness, D. McNaughton concluded that one of the necessary conditions for the organization of lending practices in developing countries is the adoption of collateral loans. came [11]. According to him, the sale price of the mortgaged property should be enough to repay the loan and its interest. In our opinion, the opinion of the scientist on the periodic assessment of property is very important for the practice of our country. Because the situation with frequent changes in the current value of property is typical of the economic practice of our country.

Research methodology

Methods such as induction, deduction, synthesis were used in conducting scientific research. The official statistics of the Central Bank of the Republic of Uzbekistan and the Statistics Committee were used to improve the deposit policy of commercial banks, strengthen the resource base and increase the importance of deposits.

Analysis and results

As of September 2019, the average interest rate on loans from commercial banks was over 24 percent. Although the central bank has a refinancing interest rate of 16 percent, commercial banks have a margin of more than 8 percent. Also, although the Central Bank raised the refinancing interest rate from 14% to 16% on September 25, 2018, it has been steadily raising interest rates for commercial bank loans to date. Looking at the dynamics, the change in the average interest rate on loans of commercial banks in September 2019 compared to September 2018 amounted to +19.7%. We can see that these banks have not adapted to the refinancing interest rate and are concerned about the expectation of inflation in the future and the frequency of its fluctuations. This problem also arises from the fact that the Central Bank has several goals and does not clearly communicate monetary policy to economic entities.

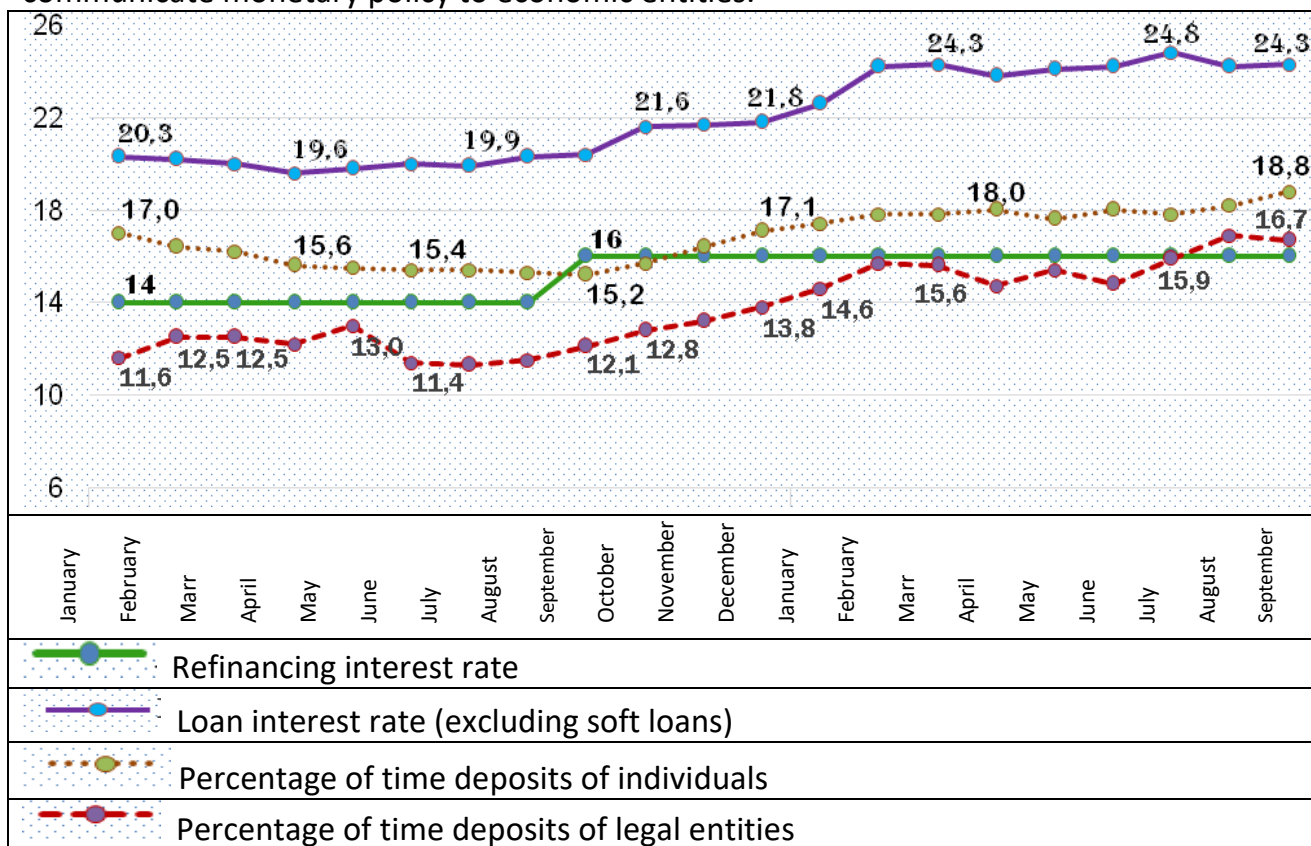


Figure 1. Dynamics of changes in credit and deposit interest rates [12]

When we conclude on the effectiveness of the central bank’s monetary policy

transfer mechanism in the first phase of the interest rate channel, the impact of the refinancing interest rate on the real market interest rate is very weak. Of course, since 2017, the impact of this interest rate on interbank interest rates, deposit and lending interest rates of commercial banks has been partially significant.

The following positive changes can be made in the monetary policy transmission mechanism of the Central Bank of the Republic of Uzbekistan on the impact of the interest rate channel on the economy. In particular, the growing interest of the population in consumer loans of commercial banks. As a result, the Central Bank is creating favorable conditions for increasing the impact of the interest rate channel on macroeconomic indicators. It is also worth noting that the share of goods in the country's GDP that affect the Central Bank's interest rate is higher than in other countries. This indicates that if the Central Bank pursues a well-thought-out monetary policy, the groundwork has been laid for further increasing the impact of the interest rate channel on the economy [13].

By 2020, the total money supply will grow by 17.9% to \$ 107.6 trillion. soums. At the same time, changes in the money supply and its components were associated with the pandemic and the economic crisis, the introduction of quarantine restrictions.

In particular, during the period of quarantine restrictions, there was a sharp increase in cash in circulation due to the cashing of funds on plastic cards and deposits by the population for the purchase of basic necessities in the markets and the payment of pensions in cash. During the fourth quarter, the return of these cash to the banking system amounted to 12.4% or 3.5 trillion soums.

In turn, the total volume of deposits in the national currency increased by 25% (9.6 trillion soums) compared to the beginning of the year and by 5.3% (2.4 trillion soums) in the fourth quarter. Deposits of individuals in the national currency increased by 31.6% (4.1 trillion soums) and 8.2% (1.3 trillion soums), respectively.

Interest rates on deposits also directly affect interest rates on loans. In the first quarter of this year, there was a slight increase in interest rates on loans due to the increase in interest rates on deposits and the abolition of the optimal interest rate mechanism, as mentioned above.

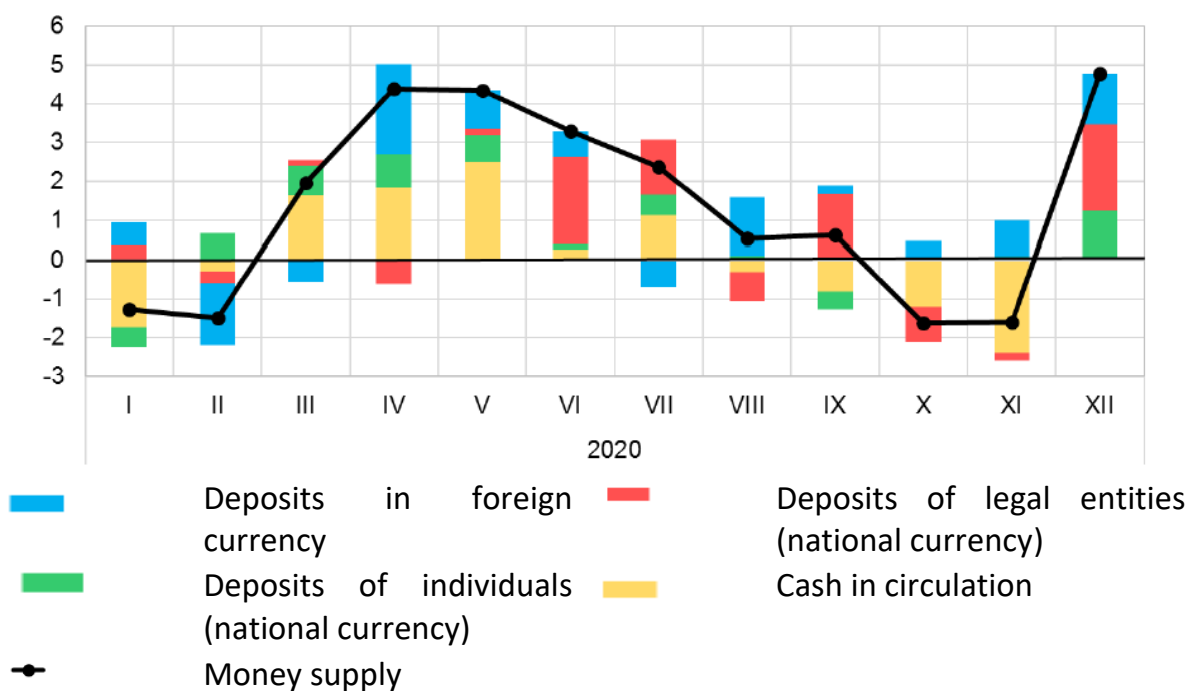


Figure 2. Changes in money supply and its components (bln. soum) [14]

In 2020, there was a slight decrease in the growth rate of deposits of individuals in the national currency (a decrease of 13.5 percentage points compared to 45.1% in 2019), which is primarily due to the use of funds due to declining incomes in the pandemic year.

Moreover, in the second half of 2020, a decrease in interest rates on deposits was observed, which led to a slowdown in the growth of savings of the population, against the background of the existing optimal interest rate mechanism.

Conclusions

Given that the interest rates on deposits and loans are interrelated, lowering interest rates in proportion will have a significant impact on the country's economy.

The Central Bank of Uzbekistan should improve the efficiency of the interest rate channel's macroeconomic impact by improving the practice of issuing overnight deposits and loans to commercial banks, pawnshop loans and holding regular deposit auctions;

Given the current real interest rates on deposits in national currency and the current stable dynamics of the exchange rate, a significant increase in savings of the population, including deposits in national currency, is expected in the coming quarters.

- The increase in the volume of soft loans allocated under government programs leads to a decrease in bank income. This situation reduces the ability of banks to develop an attractive package of proposals for the widespread attraction of free funds of the population and businesses to bank deposits;

- Compulsory insurance against the risk of non-repayment of soft loans allocated for government programs is also covered by the bank. This situation leads to an increase in unexpected operating expenses by the bank;

It is advisable to ensure that the interest rates on loans issued by commercial banks are the same as the interest rates on deposits.

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