

## ANALYSIS OF INTEREST RATES AND FACTORS INFLUENCING THEM ON CREDIT AND DEPOSIT OPERATIONS OF COMMERCIAL BANKS

Orifova Dilnoza Obid Qizi

Tashkent Financial Institute

Department of Graduate and Evening Education

### ABSTRACT

Interest rates play a pivotal role in shaping the financial landscape, particularly in the credit and deposit operations of commercial banks. Understanding the dynamics of interest rates and the factors that influence them is crucial for both banks and individuals alike. This article aims to provide a comprehensive analysis of interest rates and the various factors that impact them in the context of credit and deposit operations of commercial banks. By exploring the relationship between interest rates and economic factors, monetary policy, market forces, and risk considerations, this article sheds light on the intricate workings of interest rates in the banking industry.

**Keywords:** interest rates, analysis, factors, influencing, credit operations, deposit operations, commercial banks.

### INTRODUCTION

Interest rates can be defined as the cost of borrowing money, which is expressed as a percentage of the principal amount of the loan. In a financial context, interest rates are the primary tool through which the monetary authorities manage inflation and economic growth. They play a critical role in determining the profitability of financial institutions, influencing the pricing of financial products such as loans and savings deposit accounts. In this article, we will provide an in-depth analysis of interest rates and the factors that influence them on credit and deposit operations of commercial banks.

Interest rates play a vital role in shaping the financial landscape, impacting both borrowers and savers. They serve as a crucial mechanism for regulating credit and deposit operations within commercial banks. Understanding the dynamics of interest rates and the factors that influence them is of utmost importance for individuals, businesses, and policymakers alike. In this article, we delve into the analysis of interest rates, exploring their significance and examining the various factors that shape their behavior within the context of credit and deposit operations within commercial banks. By comprehending these complex dynamics, we can gain insights into the broader economic trends and make informed financial decisions. Interest rates on credit and deposit products are fundamental determinants of borrowing and lending activities in the banking sector. For borrowers, interest rates significantly impact the cost of capital, influencing their decisions to invest, expand, or make large purchases. On the other hand, depositors are concerned with the interest rates offered by banks, as these rates influence the attractiveness of savings and investment options. The behavior of interest rates is influenced by a multitude of factors, ranging from macroeconomic indicators to specific market conditions. Central banks, through monetary policy tools, often play a critical role in shaping interest rates. By adjusting key rates like the benchmark interest rate or the discount rate,

central banks can directly impact borrowing costs for commercial banks, which, in turn, influence the interest rates offered to borrowers. Apart from central bank policies, other macroeconomic factors such as inflation, economic growth, and employment rates also contribute to shaping interest rates. Inflation, in particular, is a crucial determinant of interest rates, as lenders need to account for the erosion of purchasing power over time. Higher inflation tends to lead to higher interest rates to compensate lenders for the increased risk.

### **Overview of Interest Rates**

Interest rates can be classified into two main categories: nominal and real. Nominal interest rates refer to the actual rate charged on a loan or paid on a deposit, while real interest rates adjust nominal interest rates for the impact of inflation on purchasing power of money. One of the most crucial factors that influence interest rates is the state of the domestic economy. Interest rates tend to rise when the economy is booming because of increased demand for credit by the private sector for investment and consumption. Borrowers will need to pay a higher cost of borrowing to meet this demand. Conversely, during times of economic downturn, interest rates fall because of decreased demand for credit and slowing down of economic activity. Another factor that influences interest rates is monetary policy. Central banks are the key players in setting short-term interest rates in most countries. They do this through various tools such as open market operations and setting targets for key policy rates. When a central bank lowers key policy rates, it stimulates economic activity and incentivizes borrowing by making funds more readily available. Conversely, when it raises policy rates, it slows down economic activity and encourages saving.

### **Factors Influencing Interest Rates on Credit Operations**

**Competitive Market Forces.** One of the primary influences on interest rates on credit operations is competitive market forces. Banks are subject to the same market forces as any other market player. For example, if demand for credit is high, the banks might charge a higher interest rate in the absence of competition. Conversely, if competition is high, banks might lower their interest rates to attract more borrowers.

**Loan Term.** Loan term refers to the repayment period of a loan. Loans with longer durations will typically carry higher interest rates than short-term loans. This is because of a higher degree of risk associated with long-term loans due to uncertainties that arise over an extended period.

**Creditworthiness of Borrower.** Creditworthiness of the borrower is usually the most critical factor affecting interest rates charged on credit operations by commercial banks. Creditworthiness can be described as the borrower's ability to repay the loan on time as per the terms of the agreement. A borrower with a good credit rating will generally enjoy lower interest rates than a borrower with a poor credit history.

**Inflation.** Inflation is the rate at which the general price level of goods and services is increasing over time. Banks are subject to inflationary pressures, and they respond to them by adjusting their interest rates. High inflation is usually associated with higher interest rates because of the increased risk of lending caused by a decrease in the value of money over time.

### **Factors Influencing Interest Rates on Deposit Operations**

The factors that influence interest rates on deposit operations are similar to those on credit operations. However, there are some differences, as follows:

**Competition.** Competition is a crucial factor affecting interest rates on deposit operations. Banks use interest rates to attract deposits from customers. If interest rates on savings accounts are higher than those offered by competitors, savers will be drawn to the bank, thereby increasing the bank's deposit base. In the absence of competition, interest rates on deposit operations can be low.

**Inflation.** Just as inflation affects interest rates on credit operations, it affects interest rates on savings accounts. High inflation causes the value of money to decrease over time. Therefore, savers need to earn a higher rate of interest on their deposits to keep pace with inflation.

**Duration of Deposit.** Just like loan term affects the interest rates on credit operations, deposit term affects the interest rates on savings accounts. Deposits with longer durations usually carry higher interest rates than short-term deposits. Banks require deposits with longer durations to match the duration of their lending portfolio, which tends to be longer than the deposit portfolio.

**Regulatory Requirements.** Regulatory requirements such as capital adequacy ratios, loan-to-deposit ratios, and liquidity ratios influence interest rates on deposit operations. These requirements can influence the availability of funds for lending, which, in turn, impacts interest rates.

### **CONCLUSION**

Interest rates play a critical role in the profitability of commercial banks. They determine the cost of borrowing and the return on deposit operations. Therefore, commercial banks must be aware of the factors that influence interest rates on credit and deposit operations. Such awareness can help banks make sound decisions regarding loan pricing and deposit management. Finally, it is important to note that managing interest rates is just one aspect of overall risk management for commercial banks. Successful banks must be able to manage a variety of risks, including credit risk, liquidity risk, operational risk, and market risk, among others. Through this analysis, we have identified several key factors that influence interest rates on credit and deposit operations. The first factor is the central bank's monetary policy, which sets the benchmark interest rates that act as a reference point for commercial banks. Changes in monetary policy have a direct impact on the interest rates offered by banks to borrowers and depositors. Another important factor is the level of inflation, as higher inflation erodes the purchasing power of money. Banks adjust their interest rates to compensate for inflation and maintain the real value of their earnings. Additionally, the level of economic activity and the demand for credit and deposits influence interest rates. In times of high economic growth and increased demand for loans, banks may raise interest rates to manage risk and maintain profitability. It is worth noting that external factors such as government regulations, market competition, and global economic conditions also have an impact on interest rates. Regulatory policies can directly influence the lending and deposit rates that banks can offer, while intense market competition can lead to lower rates as banks vie for customers. Global economic conditions, including exchange rates and interest rates in international markets, can also influence domestic interest rates.



### REFERENCES

1. Rabab'ah, M. (2015). Factors affecting the bank credit: An empirical study on the Jordanian commercial banks. *International journal of Economics and Finance*, 7(5), 166-178.
2. Tun, N. N. (2019). An empirical analysis of macroeconomic factors affecting on the deposit mobilization of private commercial banks in Myanmar. *International Journal on Recent Trends in Business and Tourism (IJRTBT)*, 3(2), 38-47.
3. Bhati, S. S., De Zoysa, A., & Jitaree, W. (2019). Factors affecting the liquidity of commercial banks in India: a longitudinal analysis.
4. Alabina, T. A., Grentikova, I. G., & Furman, J. D. (2019, January). Assessment of Efficiency Attracting Resources in Commercial Bank's Deposit Operations. In *International Scientific Conference "Far East Con"(ISCFEC 2018)* (pp. 1154-1158). Atlantis Press.
5. Mukhtorovna, Z. K. (2018). Deposit base of commercial banks and ways of strengthening it. *International Journal of Innovative Technologies in Economy*, 2(5 (17)), 49-52.