THE GROWTH OF THE BANK INTEREST

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Abstract:

The paper makes a theoretical update of the necessary and current phenomenon of bank interest rates growth by the states of the world and demonstrates the necessity of this phenomenon.

Although the economy of world countries has been rising for the past 4-5 years, for some of the poorest countries, the cost of debt has reached the highest level in the last decade. Government treasuries have experienced the impact of falling raw materials exports, and dollar-denominated debt has risen as the US currency has appreciated.

At the European Union level, bad loans reached more than 1 trillion (one thousand billion) euros and that is why the situation needs to be remedied more quickly to solve the problem of banks and restore their profitability. Unfortunately, these non-performing loans are concentrated only in a few countries, making the rebalancing process more difficult.

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JEL classification: *E43, E44, E58*

Introduction. Theoretical and practical aspects

By setting benchmark interest rates on the market, central banks influence the price of money in an economy. Major central bank decisions, such as the Federal Reserve or the ECB, cover much wider areas, which may extend to the world economy. The way of working is known: when savings are thought to slow down, stagnate or go into recession, central banks reduce interest rates to stimulate lending and economic growth, and when overheating occurs, interest is increased.

"All major economic schools - classical, neo-classical, Keynesian, Monetarist, post-Keynesian or Austrian - claim low interest rates boost growth and vice versa," writes Professors Richard Werner and Kang- Soek Lee of Southampton University in the UK. The two authors are empirically analyzing the relationship between interest rates and nominal GDP growth in the US, UK, Germany and Japan. The data used to estimate the dynamic model covers a 57-year period for the United States, Great Britain and Japan and 47 years for Germany. "If decision-makers really want to set a level of interest consistent with the economic recovery, then it needs to grow. The conventional monetary policy applied by central banks over the last half century is fundamentally wrong, "said Richard Werner and Kang-Soek Lee.

In addition to being the world leader, the four economies were also chosen because of the different "forms of capitalism" that characterize them, as the authors suggest. In the case of the United States and Great Britain, it is about the "stock market capitalism," while Japan and Germany are included in the so-called "bank capitalism / capitalism of the welfare state". The conclusion of the study, which analyzes the correlation and statistical causality between interest rates and economic growth, is that "there is no empirical evidence to support the negative correlation between interest and growth and the statistical causal relationship between interest rates and growth." Moreover, "we have found that interest rates follow nominal GDP growth and are positively correlated with this," Werner and Lee said, "the results imply that traditional monetary policy is wrong."

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Description of the Problem

Bank of England

On November 2, 2017, the Bank of England (BoE) announced the first increase in benchmark interest over the past ten years, in line with analysts' estimates, and assured that any increases over the next three years will be limited and gradual. The interest rate was increased to 0.50%, down from the record low of 0.25% set in July 2007. Most analysts expected this credit cost increase by 25 basis points. Following the BoE decision, about four million Britons will pay higher mortgage rates, but those with bank deposits will get slightly higher earnings. After announcing the decision, the pound depreciated 1% against the dollar, trading at 1.3096 American dollar. The Bank of England has maintained unchanged estimates of GDP and inflation. The institution expects UK GDP to grow 1.7% over the next three years, well below the 2.9% average before the crisis. In the next three years, 2018-2020, the inflation rate would be 2.2%, slightly above the BoE target of 2%. In September 2017, the inflation rate climbed to 3%, the highest level over the past five years, due to depreciation of the pound sterling.

Bank of Austria

The increase in yields on government securities is a good signal for the banking sector since early 2017, said Ewald Nowotny, governor of the Austrian National Bank and member of the Governing Council of the European Central Bank (ECB).

He gave as examples the bonds issued by Germany and Austria, whose yields (effective interest) increased over the past months as a result of the ECB's policies, as well as the election of Donald Trump as President of America. He has made it clear that greater economic growth will lead to lower unemployment, which will then lead to higher bank interest, which will be good for the European banking system. The Governor of the Bank of Austria says that now the problem of the European banking system is solving the situation of non-performing loans, which have just begun to appear on the surface. From 2014, the ECB is trying to prevent a deflation in Europe by pumping hundreds of billions of euros into the financial system in an attempt to rebound inflation and economic growth.

Then, at the beginning of September 2018, during the EU presidency, Austria asked Finance Ministers and central bank governors in the EU block to speculate on a bank interest rate rise, the Austrian government being convinced that the bank interest rate hike implications for the financial stability of EU countries. The discussions of finance ministers and central bank governors in the bloc were helped by a document produced by the CEPS Reflection Center, where Daniel Gros argues that there is little reason to worry about the impact of monetary policy normalization on the real economy. The document recognizes that there are some risks associated with a sharp rise in interest rates, as heavily indebted borrowers may not be able to repay their debts.

Central Bank of the Czech Republic

At the beginning of November 2017, the Czech Republic increased its interest rate for the second time this year, after it became the first country in the European Union to tighten monetary policy in August: the interest rate by 25 basis points from 0 , 25% to 0.50%. In the second quarter of 2017, the Czech economy recorded an annual growth of 4.7%, wages increased, and the unemployment rate is at the lowest level in the EU, reinforcing inflationary pressures. Economic indicators show that the trend continues in 2018.

Immediately after announcing the decision, the euro was traded at 25.57 crowns. In April 2017, the Central Bank of the Czech Republic eliminated the minimum threshold of 27 crowns for one euro, set in November 2013, allowing free floating of the national currency. Since then, the Czech currency has depreciated by 5.7% against the euro. In September 2017, the inflation rate rose to 2.7%, well above the 2% target of the Czech Central Bank.

Bank of Germany

"It is time for financial institutions to prepare for a rising environment of the bank interest rate. Many risk managers are focusing on credit and liquidity risks, but they also have to take into account interest risks, "said Andreas Dombret, a member of the executive board of the Bundesbank.

Dombret explained that the German central bank is "very seriously" raising interest rates and actively "working" with German banks to ensure that they will not be affected in any way by the change in monetary policy. "Any sharp rise in interest would certainly be a challenge for any bank," said Dombret.

Members of the German central bank criticize the low-interest rate environment in the Eurozone, arguing that it is affecting banks' balance sheets. At the beginning of April 2017, Bundesbank President Jens Weidmann called on the European Central Bank to start tightening its monetary policy.

US Federal Reserve

Federal Reserve - on short say Fed, the central bank of the US - is close to fulfilling its mission of reducing unemployment and price stability, and seems to be heading for the monetary policy model that officials predicted, according to Fed Vice President Stanley Fischer. Here's what he said on Feb. 16, 2017, in an interview with Bloomberg: "I do not want to give exact figures, but the evolution of the economy is in line with what we wanted. We are heading towards an inflation rate of close to 2% and the labor market will continue to strengthen. If these two things happen, we will be in the direction we expect, more or less. The wage growth process has begun. We expect a gradual rise in interest rates and it may take several years to reach the level of previous years. We expect the economy to grow at a reasonable pace ".

The Fed will probably soon have to increase its monetary policy rate, Janet Yellen, chairman of the institution, said on Feb. 14, 2017, warning about the uncertainties about the economic policy of the Trump administration. The delay in raising the interest rate could leave the Fed's Monetary Policy Committee (FOMC) in a precarious position, eventually forced to raise rates quickly, which could cause a recession, Fed said: "It would not be wise to wait too long until we give up expansionary monetary policy, "Janet Yellen said in the US Senate, citing the Fed's expectations of tightening the labor market and rising inflation to 2 percent.

At the February 1, 2017 meeting, the Fed maintained its monetary policy rate at between 0.50% and 0.75%, amid a slowing economy in the fourth quarter of 2016, and a slight rise in the unemployment rate. The FOMC said the economic outlook remains positive and reiterated that it is anticipating a gradual rise in the interest rate, analysts expecting a decision to do so in the first half of 2017.

Bank of International Settlements

Central bank concerns about the effects of too rapid interest rates should not underestimate the risks of delayed action, the Bank of International Settlements (BIS), surnamed by the central bank of the central banks, warned: "Too much delay in normalization is also risky. Why? Because there is more risk and it is difficult to know where these risks are shedding. "

The BIS, which constantly warns against the risks of politics too lax, thinks it has gone too far with caution. "Markets lie too much on the idea that interest rates and inflation will remain at low levels for longer and that's why it is an environment conducive to taking even more risk," explained the former chief of the BIS that he was particularly concerned about increasing leverage in the world economy.

Conclusions

Raising financing costs by raising interest rates is influenced by the double pressure of commodity price declines and a stronger dollar in 2017 following the protectionist measures announced by US President Donald Trump. Thus, the cost of debt will increase in the case of poor countries, which have contracted high value loans in recent years from Western countries where interest rates have been low.

Although the world economy has been on the rise for the past 4-5 years for some of the poorest countries in the world, the cost of debt has reached the highest level in the last decade. Government treasuries have experienced the impact of falling raw materials exports, and dollar-denominated debt has risen as the US currency has appreciated.

After November 2016, when the Americans wanted to have Donald Trump president, the dollar appreciated by more than 6 percent against a basket of major currencies, investors expecting President Trump's ambitious spending plans to boost economic growth, and that The Fed will decide more interest rate hikes in 2017.

Specialists expect the IMF and other international financial institutions to provide new loans to save "foolish banks" and thus significantly increase lending to countries hit by the crisis. Government payments to external debt in 122 developing countries for which World Bank data are available increased from 6.7% of government revenue in 2014 to 9.7% in 2016, the highest level since 2007.

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