The Impact of Interest Rate Liberalization on the Interest Rate Spread of Commercial Banks in China

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Abstract: In recent years, with the continuous improvement of China's economic development level, the banking industry has developed by leaps and bounds. Its profitability and comprehensive competitiveness has been greatly improved. banks are the symbol of financial economy and the embodiment of a country's economic strength. The steady development of the banking industry will have directly impact on social stability and the level of economic development. The emergence of interest rate liberalization has reduced the state's decision on interest rate, which brings more convenience and great development opportunities to banks, promoting the rapid development of the banking industry. However, it is undeniable that interest rate liberalization will also bring some negative effects to China's commercial banks. Therefore, in order to provide reference and reference for the needs of relevant parties, we must fully understand and grasp the meaning of interest rate liberalization, find out the influencing factors, and on this basis, put forward targeted suggestions.

Keywords: Interest Rate Liberalization; Commercial bank of China; Meaning; Assets of the Business

From the perspective of the current situation of reform, the reform of interest rate liberalization has a short-term impact. In the short term, for the development of China's economic gold and finance, the strong impact of interest rate liberalization will have a far-reaching impact on the banking sector. In particular, the risks of commercial banks will increase, the profitability will decline, and the business transformation will be imperative. In the long run, from the perspective of China's economic and financial development, interest rate liberalization will play a driving role in its development, conducive to the full play of price leverage, conducive to the optimization of resource allocation, and guide the flow of funds to relevant departments and industries of economic development. In the development of national economy, commercial banks play an important role, and the stable development of the banking industry will directly affect the sustained and healthy development of the economy. How to effectively solve the negative impact of interest rate liberalization on China's commercial banks in the new economic environment has become a difficult problem in front of the financial industry. Therefore, it is of great practical significance to study the impact of interest rate liberalization on China's commercial banks.

1. Introduction to interest rate liberalization

The purpose of interest rate liberalization is to adapt to the development of market economy and reform the mechanism of interest rate formation. Experts from the development research center of the state council of China define the connotation of interest rate liberalization as: "the capital price in different fields is determined by the market micro-subject according to the relationship between supply and demand, and its fundamental purpose is to realize that
the financial allocation is led by the government, the quantity distribution is controlled by the market, and the price is controlled by the market". As the most important part of deepening China's financial system reform, the reform of interest rate liberalization also shoulders the important task of improving the central bank's supervision mechanism and eliminating financial repression. The most important part of interest rate liberalization is to transfer the interest rate decision power from the government to the market, so that market subjects can play a decisive role in the interest rate level and its changes. Monetary authorities can use monetary policy tools to adjust, have an indirect impact on the interest rate level, and achieve the goal of monetary policy. Therefore, the "interest rate" contained in interest rate liberalization only refers to the commercial interest rate, rather than the interest rate used by the central bank. In other words, interest rate liberalization does not include three monetary policy tools of the central bank: the rediscount rate, the re-lending rate and the deposit reserve ratio.

2. The impact of interest rate liberalization on the interest rate spread of Chinese commercial banks

2.1 The impact of interest rate liberalization on the asset business of commercial banks

With the rapid development of social economy and the popularity of Internet technology, Internet emerged in financial products, further increased the pressure of competition in financial markets, with reasonable control financial risks and seize market share, commercial banks can be gained through the interest rate control advantages, but this way will intensify the competition between commercial banks. At this time, traditional products and services have been far behind the diversified needs of customers, so it is particularly important to increase the innovation of asset business. In this context, commercial banks should actively adjust the asset structure and increase the content of non-credit assets business. According to relevant data, the scale of non-credit assets of China's commercial banks grew by 21.2% year on year at the end of 2018 and showed an upward trend, with the investment business growing the fastest. At the same time, from the perspective of the development of commercial bank, the risk of interest rate marketization also poses a serious test, especially the implementation of the new regulations, commercial banks to adjust and optimize the assets structure, greatly improve the quality of the loan, commercial banks non-performing loan ratio significantly decreased, from 20.36% in 2003 to 1.23% by 2017, steady and healthy development of the assets business.

2.2 The impact of interest rate liberalization on the liability business of commercial banks

First, the active liabilities of commercial banks are greatly increased. With the continuous advance of interest rate liberalization, it will inevitably have a certain impact on the debt business of commercial banks. Changes in the one-year time deposit rate will cause the cost of bank liabilities to rise. Today, especially in the increasingly fierce competition in the financial markets, shadow banking, financial disintermediation, such as competition intensifies, in order to compete in the many to distinguish, commercial bank must change development concept, efforts to innovation, and vigorously to increase financial products, reasonable price controls, to narrow the gap in the basic amount of deposit and lending, meet the needs of the bank's development.

Second, promote bank debt business to take the road of characteristic management. Compared with the previous interest rate regulation, interest rate liberalization is more conducive to the development of commercial banks, which will greatly reduce the restriction of interest rate on the bank's debt business and better promote the innovation of bank's debt business. In the face of high pressure competition among industries, commercial banks should actively explore characteristic management and establish brand effect according to their own development requirements.

2.3 Impact of interest rate liberalization on intermediate business of commercial banks

First, to promote the diversification of intermediary businesses. With the continuous progress of The Times and the deepening of interest rate liberalization, compared with the demand of the development of interest rate liberalization, the traditional profit model dominated by deposit and loan spreads has a serious lag. In order to guarantee the market
share, commercial banks must further develop new intermediary business, realize the close connection and mutual penetration of inter-bank business, and provide good opportunities for the diversified development of commercial banks. Such as credit card, consultant, custody, etc.

Second, to promote intermediate business to the direction of differentiation. With the popularization of the Internet, a large number of new financial forms are constantly emerging. The fundamental way for commercial banks to take the lead in the fierce competition lies in differentiated management. Only by doing this can they remain invincible. To this end, different types of commercial banks have different intermediate business development, basically tend to comprehensive management, comprehensive development.

3. Suggestions for the development of Chinese commercial banks under interest rate liberalization

3.1 Countermeasures and suggestions for the reform of interest rate liberalization

3.1.1 Improve the central bank's interest rate regulation mechanism

Interest rate liberalization does not mean that the market determines the interest rate completely. The central bank can indirectly control the interest rate through corresponding monetary policies and play a guiding role in the allocation of financial resources. Gang Yi, governor of the people's bank of China, proposed in his speech to the conference in March 2018 that the interest rate control mechanism should be an important part of further promoting the reform of interest rate liberalization. As an extremely complex systematic project, the interest rate control system covers a lot of contents, such as the transfer of monetary policy objectives to price control, the sound monetary policy decision-making and operation mechanism, etc. It only ensures that all aspects work together, and whether the "visible hand" function of monetary authorities can give full play to the real realization of interest rate liberalization.

3.1.2 Improve the market benchmark interest rate system

Considering China's national conditions, it is particularly important to cultivate a benchmark interest rate system covering all financial markets under the condition of open interest rate supervision. In the process of interest rate reform, to further improve the financial market benchmark interest rate of the price mechanism, improve the quality of price, to Shibor benchmark interest rates for the currency market, bond yields as the bond market benchmark interest rate, and the LPR as the basic interest rate, in the credit market to conduct a comprehensive and comprehensive construction, maximize expand coverage, establish and improve the interest rate transmission mechanism.

3.1.3 Strengthen the pricing level of financial institutions

In the reform of China's market economy system, it is the basic guidance to reduce the government's planned intervention and respect the autonomy of enterprises. Interest rate pricing power requires commercial banks to be independent and to strictly follow the market supply and demand relationship to determine the level of interest rate. According to the enterprise model, according to the market demand, establish a sound management system to ensure reasonable pricing. In addition, the fund transfer and risk pricing system should be established to further improve the risk prevention ability.

3.2 Suggestions of commercial banks on interest rate liberalization reform

Interest rate liberalization further intensifies the competition among commercial banks, which gradually develops from non-price competition to price competition. Its essence is how commercial banks provide more reasonable price products according to the needs of customers at different levels, so as to generate differentiated services. Market competition can worsen at the slightest mistake. Therefore, we must take scientific and reasonable measures to deal with it.

3.2.1 Define market positioning and take the road of differentiated development

In the environment of interest rate liberalization, the vagueness of market positioning will seriously restrict the development of China's commercial banks. Therefore, commercial banks should ensure a clear market positioning. First,
clear development goals, which is the fundamental requirement for improving the influence and internationalization of commercial banks, and the only way to become a regional and urbanized professional bank. Second, under the condition of market segmentation, comprehensive management, based on their own characteristics, combined with their own characteristics, take a differentiated development path, in order to achieve sustainable and healthy development.

3.2.2 Look squarely at the relationship between innovation and risk and enhance the level of risk control

Innovation and risk are the same thing. Reviewing the development process of Chinese commercial banks, sometimes risk will inhibit innovation, and sometimes innovation will overcome risk. Therefore, we must face up to the relationship between the two and enhance the risk control ability. Within the scope of controllable risks, commercial banks should actively innovate their business and products to maximize their profitability. The risk management should be reasonably incorporated into the commercial bank business evaluation system to prevent and control the increase of bank risks caused by the blind development of financial product innovation. Therefore, we should fully understand the risk characteristics of commercial banks, strengthen the risk management ability, improve the information risk management system, improve the level of interest rate risk management, and better control the risk of commercial banks.

4. Conclusion

To sum up, under the background of interest rate liberalization, China's commercial banks have achieved considerable development. In order to promote the sustainable and healthy development of China's commercial banks, people must have a comprehensive understanding of the connotation of interest rate liberalization. On this basis, to have a comprehensive understanding and analysis of the impact of interest rate liberalization on commercial banks' asset business, liability business and intermediate business are necessary. Only in this way, more reasonable and objective suggestions can be put forward, which require the establishment of a sound central bank interest rate regulation mechanism, the cultivation of market benchmark interest rate system, the improvement of financial institutions' pricing ability, the acceleration of intensive construction, the light banking, the enhancement of risk control ability, and the provision of a solid guarantee for the development of China's banking industry.

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