

The impact of specifying instructive policies and the factors affecting the interest rate index on financial performance status of Sepah Bank

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Abstract: Changes in deposit interest and bank facilities will have positive and negative impacts on the country's economy and banking industry. Instructive policies of specifying interest rate can be in the form of reduction or increase, which in any of these cases reflect different impacts. In this research the variables of income, cost, loss, balance, paid profit, received profit, daily interest, 4-month, 6-month, 9-month, one-year, two-year, three-year, four-year, and five-year interest, and inflation have been investigated. The required data have been collected by means of Sepah Bank's information between 1389 and 1393 and questionnaires. In this research SPSS21 software has been utilized. The demographic method is the Pearson correlative coefficient test. Some of the obtained results of instructive policies directly and meaningfully affect the specifying interest rate except daily interest. In fact instructive policies determine the rate.

Key words: interest rate, instructive policy, banking, Sepah Bank

INTRODUCTION

Banking industry is among the important and leading industries in the world. The increasing development of human knowledge in the field of electronic sciences has caused this industry to adequately employ this knowledge. Today, banks in the developed countries serve as solution providers, professional consultants, specialists in boosting financial resources of companies, and gathering and exchanging necessary information for their customers, and are considered as one of the economic driving engines of each country. This has created a close competitive atmosphere among them. In line with the increasing technology development and industrialization of countries, bank managers attempt to enhance banking modern services. The distinction of these services compared to those of competitors is considered as a special advantage for attracting customers' deposits. The main function of banks is to collect people's surplus cash and to finance economic plans with maximized effectiveness. The most important factor affecting the amount of collected cash is the interest level of these deposits. Although the establishment of Islamic banking dates back to approximately 50 years ago, it seems that the process of specifying and allocating deposit interests is not yet clear for economic experts, and despite substantial differences between Islamic and standard banking, the analyses based on interest margin indicate the impact of inflation on the interest of facilities and deposits, which is due to lack of appropriate studies and research. In this research the recognition of the components and factors affecting the deposit interest rate and their complicated relationships are investigated. Therefore, effective banking system will cause the economic flourish and growth. The objective of this research is the study of the impact of specifying instructive policies and the factors affecting the interest rate on the financial performance status of Sepah Bank.

Research theoretical bases

In standard banking systems, the use of interest rate as an effective monetary policy tool has been the subject of attention. Interest rate variable as the price in financial market is one of the important economic variables. According to studies, Chile, Argentina, Uruguay, The Philippines and Turkey experienced production reduction, financial and nonfinancial bribery, inflation rate increase and payment balance worsening with some lack of balance in macro economy as a result of freeing financial markets. Such countries as Indonesia, Sri Lanka, and South Korea which initiated the flexible interest rate system with special plans possess such policy making features as sustainable conditions in macro economy, powerful regulatory systems in the banking system, and gradual movement from a controlling interest system toward a flexible system. In Islamic banking, banks serve as people's agent and employ their deposited cash in activities with maximized profit. These moneys are given to

entrepreneurs in the framework of different types of facilities taken from the Islamic contracts. Entrepreneurs employ these moneys in authorized and Halal businesses and make profit. All the profit is given to depositors after reducing commission (Razavi, 1384). The country's monetary policies in the current year took a chaotic form. Following the last year pressure on banks to reduce instructive reduction of bank interest rate, the central bank towards the end of 1386 announced that it would not allow banks to withdraw from central bank's resources. This led to some instabilities in facility granting section of banking system. Also in the current year the central bank, in line with liquidity growth reduction and preventing inflation intensification, reached the level of 19% (formally) and 31% (informally). In its policy package, it has increased the amount of banks' deposits with the central bank, thereby attempting to reduce the level of bank facility granting. On the other hand, banks (except Maskan Bank) are banned from granting facilities for house purchase. The reason of this policy has been announced to be controlling the liquidity entered into housing section. Another policy which is followed in the current year is the possibility of re-decrease of bank interest rate, which will have significant impacts on the country's financial and monetary markets. Iran's economy currently suffers from major structural problems, and bank interest rate certainly is not among the priorities of solving these problems. A few points deserve special attention in this regard: It is sometimes seen that in normal conditions banking facilities in some cases are exploited in issues other than production. This will lead to the accumulation of stray asset and creation of inflation. One of the most important economic macro variables in policy making is bank interest rate. Some policy makers and experts of Islamic economy, especially Iranian professionals, believe that the increase in facility interest rate will result in production cost increase and consequently in price increase and inflation (Mehrgan et al. 1385).

The results of another research conducted by Seif and Bahmani show that: Firstly, the expected profit should not be less than the inflation, so that the current purchasing power of the money will not be reduced; secondly, the risk of on-time lack of reimbursement of the paid amount and its interest should be added proportionately to the interest. Thirdly, a percentage of interest for the money owner's profit from the loan should be added to the interest rate (Seif & Bahmani 1383). The increase and frequency of exchange real rate fluctuations will lead to increase in the price of exchangeable goods and increase in the coverage risk of unexpected changes of exchange real rate (Goorin & Lrcheh, 2004). The findings of Brown Bridge and Kirkpatrec show that freeing interest rates and eliminating credit regulations may expose banks to possible risks. Those banks which are not under the pressure of regulations may adopt risky investments to acquire a larger market share. Those investments which banks keep to protect themselves against expected and unexpected risks will lead to higher interest rate differences. There is an important and direct relationship between interest rate differences and investment rates in developing countries (Sanderz and Shomakher, 2000).

METHODOLOGY

The data gathering process of this research was started in the form of introductory studies since 1389 and ended in 1393. But since data collection was conducted through questionnaire, the information has been provisionally collected. The demographic community of the research includes 5 years (1389-1393) and all the staff of the Sepah Bank of Semnan and their managers; this bank has 120 clerks and managers. According to Morgan table, 80 questionnaires were collected.

Main hypothesis

Instructive policies affect interest rate determination
Interest rate changes affect the financial performance of Sepah Bank
Private bank entrance affects interest rate.

Secondary hypothesis

There is a meaningful relationship among income, paid profit, received profit, private bank entrance, instructive policies and inflation

Research main variables

Instructive policies and interest rates

The results of conducting Pearson correlative coefficient indicate that specifying instructive policies directly and meaningfully affects the interest rate. Except for the daily interest, 8 variables of zero hypothesis are rejected and number one hypothesis is confirmed. In fact, instructive policies specify the interest rate.

Table 1: Statistics distribution of research main variables

Variables	Number	Change Level	Minimum	Maximum	Average	Criterion Deviation	Average Criterion Error	Variance
Income	5	6.26	5.48	6.81	2.89	1.14	2.55	6.55
Loss	5	1.14	1.74	1.31	8.17	2.15	4.82	2.32
Balance	5	5.37	1.62	6.98	3.71	9.49	2.12	4.51
Paid profit	5	4.49	6.28	5.11	2.30	8	1.78	3.20
Received profit	5	5.22	3.56	5.58	2.29	9.42	2.10	4.43
Daily	5	1	6	7	6.60	0.24	0.54	0.30
4-months	5	8	6	14	9.60	1.32665	2.96648	8.80
6-months	5	8	8	16	11.80	1.28062	2.86356	8.20
0-months	4	8	10	18	14.50	1.65831	3.31662	110
One-year	5	9.50	12.50	22	16.50	1.62788	3.64005	13.25

Table 2. Descriptive Statistics Instructive policies and interest rates

SD	mean	Very low	Low	Average	High	Very much	Statistics	Questions
1.16	3.60	0	67	31	16	6	Frequency	A lot of interest is
		0	55.8	25.8	13.3	5.0	Percent	communicated instructions
1.41	3.32	13	40	41	26	0	Frequency	Banking guidelines are "not
		10.8	33.3	34.2	21.7	0	Percent	very stable
1.18	3.03	0	49	47	19	5	Frequency	Banking guidelines
		0	40.8	39.2	15.8	4.2	Percent	applicable high
1.062	3.37	13	40	41	26	0	Frequency	Instructions are issued
		10.8	33.3	34.2	21.7	0	Percent	based on the increased liquidity in the community

Table 3: Test results Interest rates and bank's performance

Bank earnings		
.733	Pearson correlative coefficient	Daily
.159	Significance level	
5	Number	
.903	Pearson correlative coefficient	4-months
.036	Significance level	
5	Number	
.855	Pearson correlative coefficient	6-months
.065	Significance level	
5	Number	
.862	Pearson correlative coefficient	9-months
.138	Significance level	
4	Number	
.928	Pearson correlative coefficient	One-year
.023	Significance level	
5	Number	
.901	Pearson correlative coefficient	Tow-year
.037	Significance level	
5	Number	
.895	Pearson correlative coefficient	Three-year
.040	Significance level	
5	Number	
.870	Pearson correlative coefficient	Four-year
.055	Significance level	
5	Number	
.834	Pearson correlative coefficient	Five-year
.079	Significance level	
5	Number	

Instructive policies and interest rates

The results of conducting Pearson correlative coefficient indicate that specifying instructive policies directly and meaningfully affects the interest rate. Except for the daily interest, 8 variables of zero hypothesis are rejected and number one hypothesis is confirmed. In fact, instructive policies specify the interest rate.

Private bank entrance and interest rates

Private bank entrance directly affects the daily, two-year, three-year, four-year and five-year interest rates. In these 5 variables the zero hypothesis is rejected and number one hypothesis is confirmed. The significance level is 0.030, 0.029, 0.028, 0.030 and 0.037, respectively. But private bank entrance does not influence 4-month, 6-month, 9-month and one-year interests.

Table 4: Test results Private bank entrance and interest rates

Private bank entrance	
.913*	Pearson correlativeDaily coefficient
.030	Significance level
5	Number
.843	Pearson correlative4-months coefficient
.073	Significance level
5	Number
.786	Pearson correlative6-months coefficient
.115	Significance level
5	Number
.892	Pearson correlative9-months coefficient
.108	Significance level
4	Number
.859	Pearson correlativeOne-year coefficient
.063	Significance level
5	Number
.916*	Pearson correlativeTow-year coefficient
.029	Significance level
5	Number
.917*	Pearson correlativeThree-year coefficient
.028	Significance level
5	Number
.913*	Pearson correlativeFour-year coefficient
.030	Significance level
5	Number
.901*	Pearson correlativeFive-year coefficient
.037	Significance level
5	Number

The relationship among income, paid profit, received profit, private bank entrance, instructive policies and inflation

The results indicate that income has a meaningful relationship with paid profit and received profit. Loss has a reverse, meaningful relationship with income and received profit. Instruction has a meaningful relationship with income, paid profit, received profit, and private bank entrance. Inflation does not have a meaningful relationship with income, paid profit, received profit, and private bank entrance.

Table 5: Test results of income, paid profit, received profit, private bank entrance, instructions, and inflation

Instruction	Private bank entrance	Inflation	Received profit	Paid profit	Income			
.938 [*]	.895 [*]	.047	.999 ^{**}	.996 ^{**}	1	Pearson coefficient	correlative	Income
.0185	.0405	.9405	.0005	.0005	-5	Significance level		
.958 [*]	.881 [*]	.030	.996 ^{**}	1	.996 ^{**}	Pearson coefficient	correlative	Paid profit
.0105	.0485	.9625	.0005	-5	.0005	Significance level		
.932 [*]	.880 [*]	.025	1	.996 ^{**}	.999 ^{**}	Pearson coefficient	correlative	Received profit
.0215	.0495	.9685	-5	.0005	.0005	Significance level		
.146	.431	1	.025	.030	.047	Pearson coefficient	correlative	Inflation
.8155	.4695	-5	.9685	.9625	.9405	Significance level		
.896 [*]	1	.431	.880 [*]	.881 [*]	.895 [*]	Pearson coefficient	correlative	Private bank entrance
.0395	-5	.4695	.0495	.0485	.0405	Significance level		
1	.896 [*]	.146	.932 [*]	.958 [*]	.938 [*]	Pearson coefficient	correlative	Instruction
-5	.0395	.8155	.0215	.0105	.0185	Significance level		
5	5	5	5	5	5	Number		

CONCLUSION

Real interest rate is consisted of subtracting nominal interest rate, i.e, what banks are committed to pay, from inflation rate, i.e, the phenomenon which will have a negative impact on cash asset with reduction of money's purchasing power. Therefore when policy maker takes measures to specify the instructive interest rate less than the current inflation rate, it makes depositing a loss inducing venture and will divest depositing in banks for a large group of people of its attraction, as this action involves a negative productivity. The monetary policies of the country has taken a chaotic form in the current year. Following the pressure of the previous year on banks for instructive reducing of bank interest rate, the central bank announced towards the end of 1386 that it did not allow banks to withdraw from its resources. This led to disharmonies in the facility granting section of banking system. The results indicate that income has a meaningful relationship with paid profit and received profit. Loss has a reverse, meaningful relationship with income and received profit. Instruction has a meaningful relationship with income, paid profit, received profit, and private bank entrance. Inflation does not have a meaningful relationship with income, paid profit, received profit, and private bank entrance.

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