THE IMPACT OF INTEREST RATE ON THE INVESTMENT DECISION IN SAVINGS PRODUCTS

SÎRBULESCU CLAUDIA*[1], PÎRVULESCU LUMINIȚA [1], GHERMAN REMUS [1]
[1]Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timişoara
*Corresponding author's e-mail: claudiasirbulescu@usab-tm.ro

Abstract: *In this paper we don't intend to bring facts, figures, examples, but only to present the orientation of the population through some saving forms and not least which are the factors that determine the individual behavior of the investor. In any country, the development level is given also by the saving rate of the population. In countries with a developed economy, the possibilities for placement of the available savings of the population are very diversified, and the choice of an instrument over another is given by the particularities of each economy, by the financial culture of the population and beyond. The savings are reduced, savings market instruments underdeveloped and the preference is placing the economies, is given, mainly, by the level of interest rate. Not as same is the situation in a country with an economy in developing.*

***Key words**: interest, investment, interest rate, saving products*

INTRODUCTION

The interest is a form of the income created by the society, the income which returns to the capital factor. Interest arises when the owner of the capital transfers its capital, through debt, to another entrepreneur. It is „liquid" capital, meaning the capital found under monetary form [2, 4].

The interest rate is the main factor according to which is calculated the interest [8].

The level and growth rate of gross domestic product global and per capita, savings rate determined at the net level of real income of the population, are some of the indicators for assessing the development degree of a country [1].

Transition economies are characterized by a low rate of domestic savings, as a result of net real income very low. Under these circumstances, there still is a segment of the population that saves. We were wondering where are placed this economies that determines the preference for different savings products and how common are those? If we talk of „small savings" we talk about small investors. To reach large investments should be collected the liquidities from the market. The question is who contribute to their collection in a „common bag"? The answer would be the state and financial intermediaries.

MATERIALS AND METHODS

In the first part of the article we proposed the examination of financial products in which can be placed the savings of the population. We turned the attention through placing the liquidities of the individuals, small investors without stop at the financial products addressed to corporate, large investors. In the second part we dealt of the interest rate, the most important element according to which is expressed the investors' preference.

RESEARCH RESULTS

SAVING PRODUCTS

In economies with a less developed capital market, the possibilities of placing additional incomes are quite low. These limits are given on the one hand by the financial culture of the population, there is not a tradition, a culture of financial markets and the opportunities provided by this, on the other hand the level of income/earnings of the population, extremely low.

People's preferences in placing the economies oriented, mainly, by the following of saving products presented in figure 1.

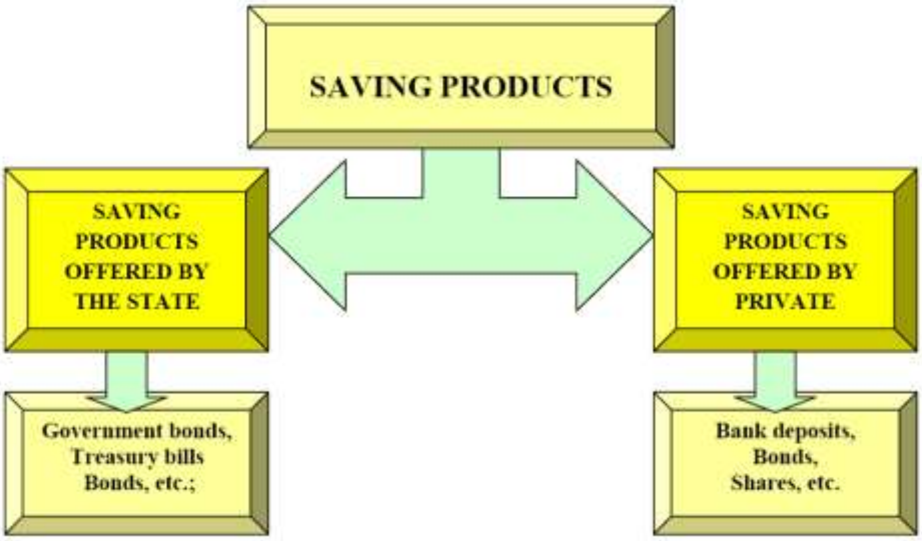

Figure 1. Saving products

The preference for one type of product over another is given by: the confidence in the institution of whose products invests the maturity term and individual behavior that is influenced by the level of interest rate. Considering that the state is not an entity that could be declared bankrupt, the confidence in public power is unlimited. But recent years have shown that this theory can not be supported entirely, the failure of placement of some securities on the Romanian market showing that the main factor taken into account by the investor is the interest rate [1, 2].

Population trend is to invest in those securities of values that offer maximum benefits on short term. The preference for short-term liquidity is punishable by a lower gain. The interest rate is linked to the term of maturity. With how the maturity date is farthest increase the possibility of getting a higher earning.

An important factor that the population should be considering in directing of the savings placement is the destination that this financial resources have once they have been collected. The question is whether these savings are designed for some productive investments or not. It has been proved that in terms of behavior, an individual less educated in financial field is very little or no influence by the destination that receives its economies, the main element that influences it being the level of benefit (interest rate) [7].

In choosing some savings products an important role should have their tax characteristics. These features may increase or reduce the attractiveness of investors for some savings products. The main gain achieved by the one who invest may be exempted from tax or can be taxed with a preferred rate. Given the conditions in which is desired the development of the financial market and popularization of savings products, the saving decision may be influenced by fiscal policy.

During the transition period which has characterized the Romanian economy in the last two decades, the placement of public savings was oriented primarily to bank deposits and government bonds. The preference for bank deposit against state title was influenced by the preference for liquidity.

In our country, the economic situation was characterized by high interest rates and inflation being unfavorable to use of government securities on medium and long term, which generated issues of short-term government securities.

The maturity terms offered to government securities compared with those of bank deposits can be very different, from where the possibilities of benefit different.

Bank deposits have maturities terms from one, two, three reaching up to one year. Government securities can reach to maturities up to 30 years.

THE INTEREST RATE

Depending on the level of interest rate the savings instruments become attractive or not for the population. The interest rate after R. A. Musgrave, has the tendency to vary depending on the characteristics of the economic environment [5].

Economic situation indicates to decision makers the level of interest rate at which should offer on market savings instruments according to their characteristics.

The interest rate is closely linked to the direction of the inflation rate and to the maturity term of the instruments. The securities, whether if they are on short term or long term, to be attractive for the investors, should offer interest rates above the rate on bank deposits and other savings products from the market. Otherwise, the investment in these instruments is not ensured the investor opting for another type of instrument. The interest rate must register a real positive level in order to ensure in time a benefit for investors unaffected by inflation.

If case of government securities with short-term maturities, the interest rate is lower to government bond on medium and long term. High liquidity preference of investors for short-term securities is penalized for achieving lower earnings.

According to the theory of preference for liquidity, the aversion to risk gives the investors a preference for short-term investments and borrowers a preference for long-term investments [3].

Giving up to immediate liquidity and investing some money in savings products on the longer term is compensated by obtaining some higher interest rates as the maturities are increasing.

There are also major differences between the placement and the savings in bank deposits and those in government securities. For both instruments that provide the population a basic need, meaning their ability to move their savings and to get a win from them. But it must analyze what happens to the withdrawal of these savings before maturity date. For bank deposits at term, early withdrawal leads to entirely loss of the earning.

Along with the development of banking markets have appeared complex products that do not cause loss of interest for the entire period, but have reduced this periods. In this paper we have not presented the products of the banking market, but one thing is certain, namely that these tools runs in parallel on the market with traditional banking products. Choosing a particular product over another depends on the level of population's education and the promotion of savings products by the financial institution that placed them. In the condition of creation a bank deposit, the investor should be very careful and take account by the level of the withdrawal fee charged by the banking institution that can reduce the real rate of earning.

For bonds, retirement of the savings does not completely train the loss of the interest.

As long as there is a secondary market where saving instruments can it buy and sell freely, the benefit is proportional with the number of days of hold of those instruments, being of course a loss as a result of withdrawal before maturity date.

Interest rate, regardless of the type of tool that we choose, is influenced by its way of expression in order to co involvement of the investors.

A high potential for savings products is ensured by creating an interest rate either variable, either fixed.

Defining a fixed or variable interest rate presents advantages and disadvantages. In the conditions that it's constitute as an advantage to the level of those who place their savings, the counterparty represents a loss for the institution that offers these saving instruments [8]. If the maturity date is farther, the loss or gain can be substantial for both parts evolved. The choice for a fixed interest rate shall be coherent with maturities of short or very short time, so that, whatever will be the future evolution of the economic environment, the investor to be able to negotiate better conditions.

CONCLUSIONS

In conclusion, we consider that as the national economy would register performances, will increase the savings rate of the population. Consequently, the financial market will be forced to diversify his offer of saving instruments and investors' preference will not be strictly determined by the level of the interest rate.

REFERENCES

[1]. COCRIŞ V., CHIRLEŞAN D., 2007, Managementul bancar şi analiza de risc în activitatea de creditare, Editura Universităţii Alexandru Ioan Cuza, Iaşi

[2]. HETEŞ–GAVRA I., 2003, Organizarea şi operaţiunile băncilor**,** Editura Orizonturi Universitare, Timişoara

[3]. KEYNES J.M., 2007, Teoria generală a ocupării forţei de muncă, dobânzii şi banilor", Palgrave Macmillan

[4]. MILIN IOANA ANDA, 2003, Bazele Economiei, Editura Mirton, Timişoara

[5]. MUSGRAVE R.A. ,1959, The theory of public finance**,** New York

[6]. ROTARU C., 2007, Managementul performanţei bancare, Editura Expert, Bucureşti

[7]**. SÎRBULESCU CLAUDIA, PÎRVULESCU LUMINIŢA, IANCU T., SÎRBU CORINA**, 2014, Study on banking system in România, Lucrări Ştiinţifice, Management Agricol, XVI (3), 34-41

[8]. SÎRBULESCU CLAUDIA, 2016, Aspects Regarding the Risk in Banking Activity, Scientific Papers: Animal Science and Biotechnologies, 49 (2)

[9]. http://www.expertulbanilor.ro