TOWARDS A GRADUAL APPROACH TO LIBERALIZE INTEREST RATE: HOW THIS PROCESS IS BENEFICIAL ON CREDIT ALLOCATION AND INVESTMENT?

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ABSTRACT

One of the many indicators that conduct the investment decision is the interest rate. The latter has been generally defined via different channels of conception. The financial conception states that interest rate is the time value of money or the reward to put aside your money in attempt to get revenue in the future. The economic conception means that the interest rate is a proxy showing how well the credit allocation mechanism and the mobilization of financial resources are. In this context two mechanisms are adopted: the economic mechanism and the official one. The former considers the movements of the interest rates as conducive to the various investment decisions (independent variable) while the second view regards the interest rate as dependant variable following the investment behavior (dependant variable). This paper sheds light on the venues through which the difference between the deposit and lending interest rates impact the investment decision via credit allocation mechanism.

Keywords: Interest rate, deposit rate, lending rate, investment.