The paper reveals the essence of the interest rate, which is a certain amount paid to the creditor (the banking institution) by the borrower for the temporary use of credit resources. There have been identified and summarized the main types of interest rates on credits used in banking practice. In the course of the study it was determined that the formation of the interest rate is a multi-factorial process. It is demonstrated that the given process is defined by a number of factors, which can be arbitrarily divided into two groups: macro- and microeconomic. It has been proved that the main factor affecting the level of the interest rate is the cost of attracting by the bank credit funds (usually the amounts of deposit rates). On the basis of the conducted research there has been proposed a number of directions to improve the process of crediting the bank borrowers in view of existing risks.

**Keywords:** interest rate, interest, credit, bank, economy.

**Fig.: 4. Bibl.: 8.**

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Under conditions of market economy the stability of the banking system has a key significance because it affects the development and efficient operation of all economic agents.

The demand for bank credits is to a great extent determined by the development level of economic and business activity of business entities. Among other factors that shape the demand for credit resources it is worth emphasizing the cost of attracting resources for performing credit operations. In general, the bank charges may consist of a one-time fixed charge, denominated in the national currency; a one-time charge, in percentage of the credit amount; and a one-time charge, denominated in the national currency; and a one-time commission charge.

The interest rate provides coverage of expenditures on attracting resources for performing credit operations. In turn the commission charge provides the covering of general banking overheads and transaction expenditures on crediting activities. It is also worth noting that the commission charge is set as [1]:

- interest on the credit;
- commission charge.

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- one-time charge, denominated in the national currency;
- one-time charge, in percentage of the credit amount;
- fixed charge, denominated in the national currency;
- fixed charge, in percentage of the credit amount.

The interest rate is such an interest rate that is envisaged in the credit agreement taking into account the credit.
The interest rate is a relative indicator of the credit cost, which is used in the calculation of interests from the amount of credit and shows the ratio of the sum of the interest paid to the credit value.

In the process of crediting the banking institution shall inform the client about the total cost of the credit, which consists of the interest rate, commission charge and services related to credit operations [2].

The bank may change the interest rate only at the happening of such an event, which has a direct impact on the cost of the credit resources of the banking institutions regardless of the parties’ will. It should also be noted that the bank has no right to change the interest rate on the credit at will of any of the parties [1].

There are a lot of types of interest rates in the banking practice (Fig. 1).

**Types of interest rates**

| Fixed interest rate | – is fixed in the credit agreement at the moment of its conclusion and remains unchanged throughout the entire credit term |
| Floating interest rate | – may be changed by the bank under the terms of the credit agreement with mandatory notification of the borrower |
| Simple interest rate | – the charging of interests is carried out only on the amount of the credit granted (the initial debt amount) |
| The compound interest rate | – the interest charged on the principal amount of debt and interest on successive increments of the interest earned in prior periods (based on the amount increments for the previous period) |
| Nominal interest rate | – annual interest rate declared by the bank |
| Effective interest rate | – the charging of interests is performed several times a year |
| Decursive interest rate | – the charging of interests is performed at the end of the period of using funds. |
| Discount interest rate | – the charging of interests is performed in advance at the start of the crediting period on the final amount of debt and is charged by the bank when granting a credit by subtracting the accrued interest from the total debt amount |
| Market interest rate | – is established in the market of credit resources under the influence of supply and demand |
| Real interest rate | – takes into account the influence of inflation and all costs of the bank on the attracted resources |

**Fig. 1. Types of interest rates [2]**

In the banking practice there exist a lot of types of interest rates, which shall be paid by the borrower. There are also a great number of factors, which influence the level of the interest rate. Some of them are presented in Fig. 2 [3].

All the above listed factors have their own impact on the interest rate of a particular credit. The higher the level of the credit risk, the higher the rate on the credit, and in turn, providing security (the collateral in the material form) – reduces the credit risk. However, it is with the lodging of collateral that costs of the bank increase. It is related to the fact that it is necessary to monitor the condition of the property. Therefore, such costs should be taken into account when establishing the credit rate.

**Fig. 2. The factors, which influence the interest rate level [3]**

In today’s competitive environment it is important to set an interest rate reasonable for the borrower and the bank, which would help to reduce the risks and increase the level of the bank profitability as well as contribute to a more effective use and implementation of the credit project, lead to the development of the borrower’s activity.

Presently the use of monetary policy in most developed countries is based on management of the short-term interest rate in the money market. However, despite the very limited range of standard tools (refinancing, reserve requirements, open market operations) the peculiarities of their use and building of the monetary system vary widely in different countries. But at the same time a common feature of all the systems is maintaining due to operations by the Central Bank the short-term interbank market rates at a certain level, close to the official rate of the Central Bank [8].

For example, let us consider the US Federal Reserve System. The monetary policy of the FRS of the USA is based on the maintenance of the rate on Federal Funds at the level close to the target rate set by the Federal Open Market Committee due to performing operations in the open market.
The FRS rate is an interest rate used as a basic one by US banks when they grant credits on their excess funds to other banks. The refinancing rate (FRS rate) is a tool in solving issues of the monetary policy.

With the help of the Federal Reserve discount rate the Central Bank affects the rate of the interbank market as well as the credit and deposit rates for legal and natural persons. The level of interest rates of the US and Ukraine in recent years is presented in Fig. 3.

Operation principles: the FRS reserve level is determined by the amount of assets and liabilities of the depositary institution and this level can be set individually by the FRS. If this level falls below the normal value the bank reserves should be increased to match the requirements of the regulator (FRS).

To lower interest rates, the Federal Open Market Committee (FOMC) increases the money supply by buying government bonds. If the FOMC wants, on the contrary, to increase the interest rate, it withdraws money from circulation by selling government bonds. In today's economy there exist a lot of different interest rates, such as the interest rate of the Central Bank, credit interest, interbank rates, deposit interest rates, etc. During the recession, when organizations reduce investment in the production development, interest rates are falling.

In turn, it is low interest rates that stimulate investments.

Considering interest rates in the US and other developed countries of Europe there emerges the question: Why are the interest rates so high in Ukraine? The analysis of theory and practice of the banking activity indicates that the main factors in the formation of interest rates, such as inflation, risks, money supply and demand have the greatest impact on their level.

The directions for improving the processes of credit activity of any banking institution and allow to adequately compete in the banking market under complicated economic conditions that will positively influence both the banking sector and the economy in general.

The normative and legal support in the field of credit relations in Ukraine is based on the main law of our country – the Constitution.

The legal basis for activities of domestic banks is the procedure of the establishment and major principles of their activities, which are prescribed by the Law of Ukraine “On Banks and Banking Activity”. The law states that the main function of the bank is granting credits to economic entities and citizens at the expense of the funds attracted from organizations, enterprises, institutions and other credit resources, cash and settlement services of the economy, implementation of foreign exchange and other banking transactions envisaged by this Law [4].

To protect the interests of creditors and clients of the bank, granting credits is implemented under the current laws of Ukraine.

The NBU sets economic norms for the regulation of activity of commercial banks [7]:

- the minimum volume of the authorized capital must be EUR 1 million;
- the bank's capital must be not less than the amount equivalent to at least EUR 3 million;
- the solvency is calculated as the ratio of the bank's capital to the total amount of assets of the bank with respect to risk;
- the instant liquidity is defined as the ratio of the amount of funds on the correspondent account and in cash to the settlement and current liabilities;
- the total liquidity is defined as the ratio of total assets to total liabilities;
- the ratio of highly liquid assets to operating assets of the bank characterizes the share of highly liquid assets in operating assets.

Ukraine banking institutions provide credits to customers in compliance with the following main principles:

- repayment;
- security;
- maturity;
- interest payment;
- purpose-orientation.

Fig. 3. The level of interest rates in the USA and Ukraine for 2013–2016 [5]
The activities of the domestic banking system are aimed at improving the servicing of economy. At the same time, the country faces a banking crisis, which is caused among many other reasons by inconsiderate credit policy of banks due to the fact that the banking system of Ukraine has hardly fulfilled one of its main objectives – the support and ensuring of the development of economic sectors.

CONCLUSIONS

Today the banking system of Ukraine is compelled to operate in a very complex and unstable environment. This further exacerbates the problem of finding reliable sources of investment of resources attracted by the bank. The further development of the banks’ credit activity is influenced, in addition to external factors, by a number of internal ones, among which the leading role is played by the level of interest rates on credits. In turn, the formation of the bank interest rate also depends on a number of factors that can be arbitrarily divided into macro and microeconomic ones. The first group includes the inflation rate, discount rate of the NBU and ratio between the supply of borrowed capital and demand for it. The second one includes the size and terms of granting the credit, nature of the collateral and credit risks.

In view of the conducted study, which considered the types of interest rates, factors that influence their formation, the paper suggests ways to improve processes of crediting borrowers (legal and natural persons), who are able to accelerate the pace of the development of bank crediting.

LITERATURE


![Fig. 4. The directions for improving the processes of crediting legal and natural persons [6]](image-url)
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