

# Research on the relationship between interest rate marketization and risk control of commercial banks

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## Abstract

*Since the reform and opening up, the overall level of China's economy continues to improve, commercial banks in the risk control process by adopting the form of interest rate liberalization, to commercial banks existing market risk interest rate. This paper mainly analyzes and studies the risk factors existing in interest rate liberalization. The risk factors of interest rate liberalization include phased risk and permanent risk, while phased risk mainly refers to the initial period of commercial banks' operation, while permanent risk refers to the risks existing in the long-term operation of commercial banks. In the process of interest rate risk control, commercial banks not only need to build a perfect organization, but also need to analyze and study the internal structure of the organization and risk identification technology.*

## Keywords

*interest rate marketization; Commercial bank; Risk control.*

## 1. Practice of interest rate liberalization

Interest rate liberalization mainly refers to the interest rate changes in the financial market during the development of banks and financial enterprises. In order to meet the needs of the financial market, banks carry out continuous reform and innovation in the financial market by adopting interest rate liberalization. Interest rate liberalization has become an important benchmark in the financial market, and has produced different effects in the market economy of different countries. The following paper mainly analyzes and studies the specific practice process of market interest rate liberalization in developed countries, developing countries and China.<sup>[1]</sup>

### 1.1. Implementation process of interest rate liberalization in developed and developing countries

Although both developed and developing countries have implemented interest rate liberalization, there are still some differences in the implementation process. In developed countries, the market management mechanism is relatively perfect and sound, so it is easier to control and manage the interest rate fluctuations in the financial industry. However, in developing countries, due to the complexity of national business model, managers can improve financial and monetary returns by adopting interest rate liberalization, effectively improve the utilization rate of funds, and thus make national funds more perfect. In the operation process of developing countries, the liberalization of interest rate should be vigorously developed first, so as to avoid the wind factor and macroeconomic instability in the process of financial management.<sup>[2]</sup>

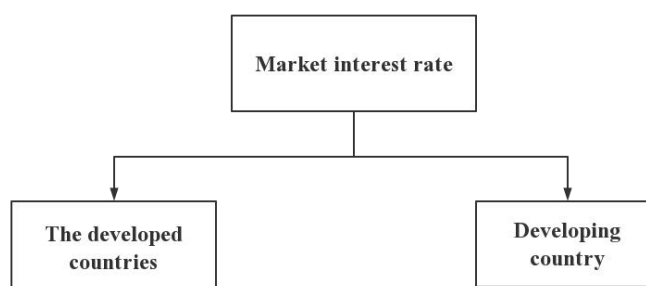


FIG. 1 Practice of interest rate liberalization

## 1.2. Practice of Interest rate liberalization in China

Interest rate liberalization mainly refers to a reform method and means adopted by managers in order to better manage the financial mechanism, which is the main content of the construction of socialist road and socialist market economic system. Market profit refers to a mechanism that adjusts prices by improving market prices in the allocation process. As the main component of socialist market economy system, financial market can effectively improve the socialist market economy system by accelerating the development of market economy interest rate. Profit in order to vigorously promote and develop economy in our country, issued by the relevant legal documents, to encourage the development of financial enterprises economic interest rates change, surround furnace to ensure the stability and security of financial markets, interest rate market in China by using the money to regulate and guide the financial market interest rates, so as to play a leading position in the whole financial market allocation.

## 2. Commercial banks face the risk factors of interest rate liberalization reform

Although commercial Banks take the marketization of interest rate for commercial Banks to create a more liberal business environment, provides more conditions and opportunities for development bank, is beneficial to promote the marketization of commercial Banks into commercial bank operation and management mechanism, promote the reasonable control of commercial bank funding costs, improve the efficiency of the use of funds, strengthen the cost management mechanism, the rational allocation of capital resources. However, as commercial banks adopt interest rate liberalization, there are certain risks in the development strategy, customer relationship and operating income of commercial banks. The specific risk factors are as follows.

### 2.1. Shrinking profit space of commercial banks

As, interest rate marketization adopted by various financial institutions after implementation, all banking financial institutions, in order to improve the competition of the financial markets, raise deposit rates to attract more people to come to deposits, loans and lower savings rate to attract more credit customers, leading to bank loan interest rates difference is bigger, the will make the bank loan business into small profit era, Long-term development will lead to an increase in the non-performing loan ratio of banks, thus bringing huge economic impact on the operation of commercial banks.[3]

### 2.2. The increase of operational risks of commercial banks

With the reform of interest rate liberalization in China, there are more and more risk factors in the operation of commercial banks. At present, there are four main analysis factors existing

in China's commercial banks, which are as follows : (1) market risks are gradually rising, and interest rate risks mainly come from changes in market interest rates. Market interest rate changes are long-term and non-systematic, and there will be interest rate risks in different changes of market-oriented interest rates. (2) There are risks in the interest rate structure. When the loan interest rate fluctuates, the net interest margin will be reduced. Some customers repay the principal and interest in advance or withdraw the interest deposit from the bank in advance when choosing the loan project, thus increasing the interest risk. (3) Deterioration of credit risk. Because interest rate liberalization can be priced according to bank loan interest rate and risk to obtain better economic returns, this choice will lead to an increase of generous economic interest rate. Moreover, there are certain loopholes in the loan contract, which will increase the non-performing assets of banks and pose a threat to the asset safety of banks. (4) Capital flow risk. After interest rate liberalization, banks will make loans or investments for short-term funds when investing in different products, resulting in debt, affecting the flow of funds and bringing huge potential safety hazards to the development of banks.

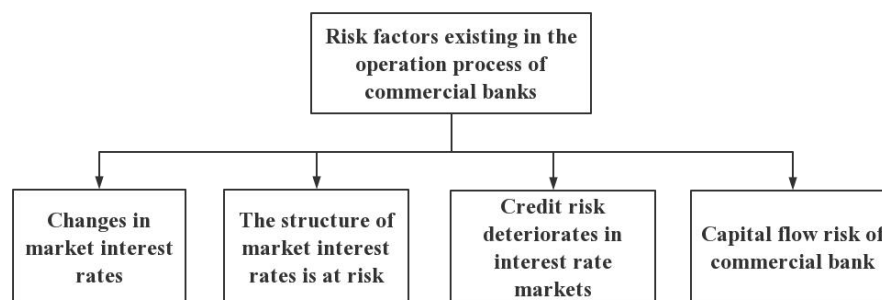


FIG. 2 Risk factors in the operation of commercial banks

### 3. Risk control strategies adopted by commercial banks under the condition of interest rate liberalization

As China's commercial banks combine the traditional operation mode with the interest rate marketization operation mode, the risk factors existing in the operation process of commercial banks are also shown in the interest rate marketization operation mode, and with the continuous development of the interest rate market, it has brought a huge impact on the whole financial market. Because our country commercial bank in the process of operation, through strict controls the financial business content, makes a detailed planning on funding of financial environment changes, avoid appeared in the process of commercial Banks in operation inevitable loss, sets up the modern management mode, comprehensive adjustment direction of management, build perfect risk assessment system.

### 4. Conclusion

In the continuous improvement of the operation mode of interest rate liberalization, commercial banks analyze and study the risk factors existing in interest rate liberalization, and minimize the risks of market interest rate liberalization by developing a sound management mode, so as to maximize economic returns and minimize interest rate risks.

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