REDUCING INTEREST RATES AND ITS BANG ON SOCIETY & ECONOMY

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Abstract :

A flat interest rate implies a lending rate that remains unchanged throughout the loan tenor. Interest is calculated for the entire loan amount at the beginning of the loan tenor. The financial institution accordingly decides on the repayment schedule and determines EMI payable by a borrower. Lenders calculate interest accrual on their loan products in two ways, through the flat and reducing interest rate methods. Depending on the method of calculation, interest accrual on products such as a personal loan can differ. It keeps the total repayment liability fixed for a borrower and helps plan finances beforehand. Flat rates of interest effectively remain higher than reducing rates, making them less popular among borrowers. It keeps the total repayment liability fixed for a borrower and helps plan finances beforehand. Flat rates of interest effectively remain higher than reducing rates, making them less popular among borrowers. To deal with the problems in flat interest rates the reducing interest rate which is also known as diminishing interest rate or reducing balance interest rate, interest accrual under reducing rate calculation varies depending on the outstanding loan amount. Each EMI that a borrower pays comprises a principal and an interest component. Reducing balance interest calculation takes into account the principal amount remaining. Interest accrual is, thus, based only on the principal liability outstanding. Interest rates that lenders quote under this calculation method reflect the effective lending rates.

Keywords: *Reduction, interest rates, bang, effects, society and economy*

INTRODUCTION

Interest is the cost of funds from the borrower's point of view while it is the yield on capital from the lenders point of view. Monetary policy operates by influencing the price of money, i.e. the cost of borrowing and the income from saving: The Reserve Bank of India sets the bank rate. This is an interest rate for the Reserve Bank's own market transactions with financial institutions, the rate at which the Reserve Bank will make short-term loans to banks and other financial institutions. This rate is known as the bank rate. Changes in the Bank rate then affect the whole range of interest rates set by commercial banks, other financial institutions, etc., for their own savers and borrowers. It will influence interest rates charged for overdrafts and mortgages, as well as savings accounts. A change in the Bank Rate will also tend to affect the price of financial assets such as bonds and shares, and the exchange rate. Particular influence on prices comes through the exchange rate. A rise interest rates relative to those in other countries will tend to result in an increase in the amount of founds flowering into India, as investors are attracted to the higher rates of interest. This will tend to result in an appreciation of the exchange rate against other currencies.

BANG OF INFERIOR INTEREST RATES ON SOCIETY & ECONOMY

Monetary policy aims to influence the overall level of monetary demand in the economy so that it grows broadly in line with the economy's ability to produce goods and services. This stops output rising too quickly or slowly. Interest rates are increased to moderate demand and inflation and they are reduced to stimulate demand. If rates are set too low, this may encourage the build-up of inflationary pressure; if they are set too high, demand will be lower than necessary to control inflection. How does this work? India's current real interest rates are one of the highest in the world. They result in inflating the cost of production making the industry less competitive in the world market. All the sectors like agricultural, industrial and services sectors are showing signs of slower growth to stimulate the growth, the government through RBI (Bank rate) will have to bring interest rates down. The reduction in interest rate will have a twofold effect:

- It will bring down the interest burden of the corporate, agriculturist & also farmers & weaker section.
- It will help reduce cost of capital.
- Lower interest rates will reduce cost of capital; the reduction in cost of capital will stimulate industrial growth and investment.
  It will also enable the small and medium industries for growth.
- Lower interest rates will help in economic upliftment of rural farmers and weaker sections, it can be done by reducing the lending rates under various schemes i.e. under farm mechanization, pump set, KisanCredit Card, educational looms scheme and other schemes, such as Prime Minister RojgarYojna, IRDP etc.
- The farmers, agricultural laborers and non-agricultural laborers and other small businessmen in the rural area are indebted to different agencies (i.e. non-professional money lenders). By lowering interestrates will help in control of exploitation by private moneylenders.
- Lowering interest rates also helps for the unproductive activities to villagers, (if they take loans from banks) to meet social obligations like marriages, birth and other ceremonies, which will prevent them from indebtedness.
- Lower interest rates have the effects on savers and borrowers. For savers, a use in interest rate will increase the money received from deposits in banks. For borrowers, a rise in interest rate means higher interest payments for peoples and firms on their loans.
- Lower interest rates mean cheaper loans for the common man whichwill create demand for goods and services.
- When interest rates are changed, demand can be affected in various ways. A change in the cost of borrowing affects spending decisions. Interest rates will affect the attractiveness of the spending today relative to spending tomorrow.
- A change in interest rates will affect consumers' and firms' cash flow. For savers, a rise in interest rates will increase the money received from interest-bearing bank and other deposits.
- A change in interest rates affects the value of certain assets, such as house and share prices. Higher interest rates increase the return on savings in banks of PPF.

This might encourage savers to invest less of their money in alternatives, such as property and company shares.

CONCLUSION

In the last few years interest rates have been deregulated. After the deregulation, interest rates initially moved up. However in recent times, interest rates have begun to come down mainly because of ample liquidity prevalent in the system. The integration of the domestic economy with global economics also had a positive impact on interest rates. The Indian scenario and conditions are not comparable to world standard. We lack the maturity of financial markets and strong infrastructure. This is the reason Indian should not blindly follow international practices of lowering interest rates. Reducing interest rates has a great impact on various sectors of society such as. Consumers., Borrowers, Agriculturists, Businessmen, Industrialist, etc. and it has impact on the transaction of assets purchase, exchange rates in international foreign exchange market and overall economic activities of the corporate world of the country.

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