

ON THE REDUCTION OF INTEREST RATE MARGINS IN DEVELOPING COUNTRIES AND IMPLICATED WELFARE EFFECTS FOR PRIVATE HOUSEHOLDS

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1. Introduction

In the past, literature on capital market reforms in developing countries has been mainly concerned with the task of rising real interest rates by abolishing nominal interest rate ceilings in conjunction with a monetary stabilisation policy to curb inflation (see Corsepius 1988, p. 31).

As the World Bank (World Development Report 1989) and others have stressed more recently, these measures alone are insufficient to eliminate financial repression — an expression which goes back to the pioneering works of Shaw (1973) and McKinnon (1973).

In order to improve the allocative efficiency of the financial sector, at least two more prerequisites are to be fulfilled: (i) a reduction of intermediate costs and (ii) an increase of competition in the banking sector.

The rationale for this is quite easy: Even with interest rates liberalized, financial intermediaries would still not be able to extend more loans and mobilize more savings if for example high reserve costs (as a major component of intermediation costs) hinder banks from lowering loan rates and increasing deposit rates.

However, whether lower intermediation costs will in fact lead to higher deposit rates and/or to lower lending rates — that is, to a reduction of the *interest rate margin* — strongly depends on the degree of competitiveness among banks: "If there is effective coordination and concerted action among them, they can internalize fully the benefits from lower intermediation costs by not raising deposit rates and/or lowering loan rates" (CRC 1985, p. 4). Or as Agabin/Lamberte and others put it for the case of the Philippines (1981-85): "interest rate liberalization alone cannot encourage more competition. It should be accompanied with liberal bank entry" (ibid 1989, p. 73). In this paper, the following issues related to the desired reduction of the interest rate margin during a capital market reform in developing countries shall be addressed: In Section 2, the main components of intermediation costs in typical LDC's will be reviewed. Section 3 concentrates on the likelihood of an interest rate margin reduction for representative households in LDC's which make use of the formal *and* of the informal financial sector. Section 4 discusses alternative scenarios for lending rate reductions/deposit rate increases in combination with stabilization policies and their impact on household welfare. Some conclusions are given in Section 5.

2. What Determines Intermediation Costs of Banks in LDC's?

R. Thillainathan (1985) - among others - has advocated the main factors typically causing a considerable divergence between lending (r_s) and deposit (r_D) rates in LDC's (p. 30):

$$(1) r_s = r_D + C_{SR} + C_{PLA} + C_{SLA} + C_{PL} + R_p + e + K_A$$

where

- r_s is the average price of a loan
- r_D is the rate of interest on deposits
- C_{SR} is the cost of maintaining statutory reserves per unit of deposit
- C_{PLA} is the cost of maintaining primary liquid assets per unit of deposit
- C_{SLA} is the cost of maintaining secondary liquid assets per unit of deposit
- C_{PL} is the cost of maintaining priority sector lendings per unit of deposit
- R_p is the charge off for actual loan losses including uncollectable interest
- e is the administrative cost per unit of asset
- K_A is the capital cost per unit of asset or opportunity cost of capital

with

$$(2) K_A = R_S/G$$

where

- R_S is the expected return on shareholders' funds or equity capital
- G is the ratio of assets to shareholders funds

The variables C_{SR} through e represent intermediation costs, whereas K_A , the return on capital for the banks' shareholders is — among other functions — a function of the degree of competitiveness in the financial sector. The opportunity costs of shareholder capital are only a *lower bound* for K_A .

If a capital market reform in LDC's is to lower the margin between r_s and r_D , a *necessary* but not *sufficient* condition consists in

- lowering the required reserves,
- abolishing the regulations which require banks to hold involuntary primary and secondary liquid assets,

— abolishing the requirement to lend certain percentages of banks' assets to priority sectors.

To become a *sufficient* condition, however, one would have to be sure that lower C_{SR} , C_{PLA} , ... are not matched by an increased K_A (see above)!

3. The Relevant Interest Rate Margin for Representative Small Households in LDC's

In many LDC's the bulk of small private households is conferred to the curb market (Fry 1988, p. 88), whenever they need a *credit*: The frequent lack of collateral, the inability to fulfill formal requirements set by official banks and the reluctance of the former to finance credits for consumptive purposes are some of the manifold reasons herefore. However, as far as their (monetised) savings are concerned, these households tend to deposit them with official banks or semi-official credit cooperatives. From this we derive the relevant interest rate margin (IRM) for a majority of small households in LDC's:

(3) $IRM = r_S^{IF} - r_D$ where the suffix IF stands for informal.

As we saw above, r_D can be related to the formal lending rate, r_S , and the sum of intermediation and capital costs, ϱ :

(4) $r_D = r_S - \varrho$

where

$\varrho = C_{SR} + C_{PLA} + \dots + K_A$ (see above)

The question of whether lifting interest rate ceilings will lower the relevant interest rate margin for private households depends on:

$$(5) \frac{\delta IRM}{\delta r_S} = \frac{\delta r_S^{IF}}{\delta r_S} - 1 \stackrel{?}{<} 0$$

or

$$(6) \beta \equiv \frac{\delta r_S^{IF}}{\delta r_S} \stackrel{?}{<} 1$$

Alternatively, if formal credit rates are calculated in a mark-up approach,

$$(4a) \quad r_D = \frac{1}{1 + \pi} \cdot r_S; \quad r_S = (1 + \pi) \cdot r_D$$

where

π = mark up factor including intermediation and capital mark ups we achieve

$$(5a) \quad \frac{\partial \text{IRM}}{\partial r_S} = \frac{\partial r_S^{\text{IF}}}{\partial r_S} - \frac{1}{1 + \pi} < 0$$

or

$$(6a) \quad \beta \equiv \frac{\partial r_S^{\text{IF}}}{\partial r_S} < \frac{1}{1 + \pi}$$

A sufficient condition to meet the requirements of (6) or (6a), is:

$$(7) \quad \beta \equiv \frac{\partial r_S^{\text{IF}}}{\partial r_S} < 0$$

There are both *theoretical* and *empirical* arguments which confirm a negative value for β : As v. Wijnbergen puts it, one can expect informal credit rates to fall after a liberalization of formal loan rates: "The reason is that if the banking system is not (anymore, the author) operating under a system of direct credit limits, an increase in the lending rate will induce banks to hold less free reserves and extend more loans thus increasing the volume of credit outstanding. This clearly has an expansionary effect..." (1983, p. 441).

Also, the empirical study by Acharya and Madhur for India (1951/52 - 1976/77 and 1960/61 - 1976/77) found that "a restrictive credit policy does lead to an increase in the interest rate in the informal market, or in other words, the impact of restrictive credit policy is transmitted to the informal credit market in the form of a higher cost of funds" (1983, p. 1754). Estimates for β by these authors are between -0,55 and -0,62 (ibid, p. 1754).

4. The Impact of a Capital Market Reform in LDC's on the Welfare of Private Households

A major if not overwhelming goal of capital market reforms in LDC's is to increase the level of financial savings (Corsepius 1990, p. 89) with the main focus on private households.

Whether an increase in the real interest rate will induce households to save more depends — as is well known — on the magnitude of the substitution and of the income effect. This issue has been discussed extensively in the literature, touching both the theoretical (Tsiang 1973, Olson and Bailey 1981) and the empirical aspects (Liang 1983, Giovannini 1985, Gupta 1987).

However, on the micro-theoretical level, some important differentiations can be added:

- (i) one should identify within the intertemporal Fisher/Hershleifer-model three types of households:
 - net savers
 - net borrowers
 - households in a "zero" net saving/borrowing position;
- (ii) the situation before the capital market reform is characterized by a *kinked budget constraint* for each of these representative households; a major effect of the reform is to reduce the divergence between lending and deposit rates (see above), hence to soften the kink. This can be done by either elevating the deposit rate (more) or by lowering the lending rate (more). The likelihood of the *first case* depends on the degree of competitiveness in the formal banking sector: as equation (4a) shows, the lower the mark-up factor π , the more there will be a transmission of higher formal credit rates into higher deposit rates.

As Hannan and Berger (1991) found out, "price rigidity is significantly greater in markets characterized by higher levels of concentration and ...deposit rates are significantly more rigid when the stimulus for a change is upward rather than downward" (p. 938). Also, there is greater price rigidity (upwards) in monopolies as compared to tight oligopolies (ibid p. 940). These findings confirm our view that the likelihood for higher deposit rates after an increase in the lending rate grows with the degree of competition in the banking industry.

The likelihood of the *second case* depends on the strength of ties between the curb market and the formal loan market. The reduction of curb market rates in response to

a liberalization of formal loan rates will be stronger, the

- higher the elasticity of demand for formal loans with respect to formal credit rates;
- the higher the elasticity of supply of formal loans with respect to formal credit rates;
- the lower the elasticity of supply of informal loans with respect to curb market rates;
- the higher the elasticity of demand for informal loans with respect to curb market rates (see Acharya/Madhur 1983, pp. 1752-53 and Sell 1988, pp. 106-112).

(iii) Capital market reforms are usually accompanied by a stabilization policy (see above); sometimes, however, they go with an expansionary fiscal policy. Whereas the first policy can be modeled by lowering the present but increasing the future income of representative households, the second policy has the opposite implications.

In both cases, the government has to consider his *intertemporal budget constraint* which says that the present value of his earnings should not exceed the present value of his expenditures (including debt servicing).

(iv) The type of stabilization policy chosen by the government affects the present and future disposable incomes of private households, but also, according to the *Ricardian equivalence hypothesis*, their propensity to save.

(v) A reasonable criterion for failure or success of a capital market reform in LDC's — apart from discussing substitution and income effects — should be the *households' welfare*: those policies (combinations of liberalization with stabilization) which tend to increase the utility of the net savers group of households must be favoured.

The following algebraic and graphical presentation intends to incorporate these five important issues into the Fisher-Hirshleifer-model. Reference is made to the recent "economics of the kinked budget constraint", to the "intertemporal budget constraint", and to the "tests for liquidity constraints in LDC's" literature.

In terms of simple algebra, the kinked budget constraint is given by two - each linear - restrictions:

$$(8) C_{t+1} = Y_{t+1} + (1 + r_s)(Y_t - C_t)$$

$$\text{for } C_t > Y_t; 0 < C_{t+1} < Y_{t+1}$$

and

$$(9) C_{t+1} = Y_{t+1} + (1 + r_D)(Y_t - C_t)$$

$$\text{for } 0 < C_t < Y_t; C_{t+1} > Y_{t+1}$$

If the government pursues an expansionary fiscal policy, present disposable income of private households may rise (i.e., due to transfer payments) by Tr_t . However, future disposable income will be reduced by tax payments, T_{t+1} :

$$(8a) C_{t+1} = [Y_{t+1} - T_{t+1}] + (1 + r_s) \cdot [Y_t + Tr_t - C_t]$$

and

$$(8b) C_{t+1} = [Y_{t+1} - T_{t+1}] + (1 + r_D) \cdot [Y_t + Tr_t - C_t]$$

Let us call this case a *compensating income variation of type I*.

When the government follows a restrictive fiscal policy, we achieve

$$(8c) C_{t+1} = [Y_{t+1} + Tr_{t+1}] + (1 + r_s) \cdot [Y_t - T_t - C_t]$$

and

$$(8d) C_{t+1} = [Y_{t+1} + Tr_{t+1}] + (1 + r_D) \cdot [Y_t - T_t - C_t]$$

This case shall be labeled a *compensating income variation of type II*.

The two compensating income variations imply the following identities

$$(10a) Tr_t = T_{t+1} \left[\frac{1}{1 + r_i} \right]; i = S, D \quad \text{from (8a), (8c)}$$

$$(10b) Tr_{t+1} = T_t (1 + r_i); i = S, D \quad \text{from (8b), (8d)}$$

(10a) + (10b) leads to

$$(11) \frac{1}{1 + r_i} Tr_{t+1} + Tr_t = T_t + \frac{1}{1 + r_i} T_{t+1}$$

or

$$(11a) \sum_{j=0}^{\infty} \frac{1}{(1+r_i)^j} Tr_{t+j} - \frac{1}{(1+r_i)^j} T_{t+j} = 0$$

This is nothing but the *intertemporal government budget constraint* (see Leiderman/Blejer 1988, p. 4/5) if transfer payments are identified with government spending and initial government liabilities are taken as zero.

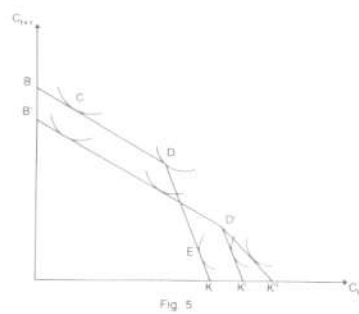
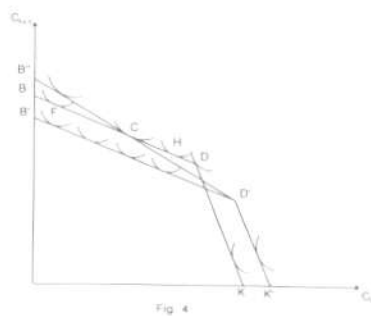
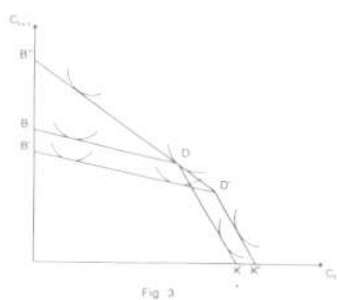
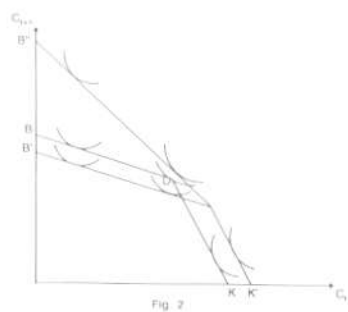
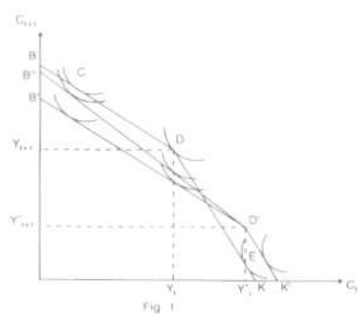
Hence, the set of equations (8a) through (8d) represents private sector intertemporal budget constraints which encompass the intertemporal government budget constraint. As Leiderman and Blejer have shown, from this *Ricardian equivalence* emerges (ibid, p. 5).¹

Furthermore, in the case of imperfect capital markets, the intertemporal government budget constraint can be specified to be

$$(11b) \sum_{j=0}^{\infty} T_{t+j} \cdot \frac{1}{(1+r_s)^j} = \sum_{j=0}^{\infty} T_{t+j} \cdot \frac{1}{(1+r_D)^j}$$

The subject of the following exposition is the graphical analysis of possible welfare effects of an imperfect capital market reform considering an accompanying stabilization program by the government.

An imperfect capital market reform is either a rise in the deposit interest rate or a lowering of the credit interest rate without having the bending point in the kinked budget line disappear. The stabilization program of the government is expressed in compensating income variations. A compensating income variation is defined as either the transfer spent by an expansive fiscal policy in period t being equivalent to the present value of the tax revenues collected by a contractive fiscal policy in period $t+1$ or the collected tax revenues in period t equal to the spent transfer in period $t+1$.



The welfare effects resulting from a combination of the four possible policy actions are analyzed by an indifference curve approach applied on three representative households. Household one is a creditor household since it is in a position to save some of its income, whereas household two is a budget indifferent household because he spends all of its income (it neither saves nor borrows). Household three is regarded as a debtor household, since it takes up credits in order to fulfill its consumption needs.

The diagrams 1 through 5 show the welfare effects of both types of capital market reforms. The expansive fiscal policy in period t is secured by contractive actions in period $t+1$. The intertemporal budget line in diagram 1 is represented by BDK before political actions are taken. The incline of the section BD equals the deposit interest rate and the incline of the section DK equals the credit interest rate. Since the credit interest rate exceeds the deposit interest rate, point D on the budget line is a bending point reflecting the interest rate gap. The household optimum in E of the debtor household is determined by the point of tangency between an indifference curve and the budget line in the lower part of the intertemporal budget line, whereas that of the creditor household is at point C in the upper part of the budget line. Finally, point D represents the optimum of the indifferent household. The amount of disposable income in period t is described by Y_t , in period $t+1$ by Y_{t+1} . In the following, the possibility of a "status change", i.e. of a creditor becoming a debtor household and vice versa shall be excluded.

After the implementation of the compensating income variation described above, the income of the budget indifferent household is pictured by Y_t^* in period t and by Y_{t+1}^* in period $t+1$. Therefore, the line segments $Y_t^*Y_t$ and $Y_{t+1}^*Y_{t+1}$ correspond respectively with each other. When dropping a perpendicular through Y_t^* parallel to the y-coordinate or through Y_{t+1}^* parallel to the x-coordinate, the new bending point D' is reached. A parallel shift of the line segment BD or DK up to D' reveals the new budget line B'D'K'.

A parallel shift of BD or DK respectively up to D' reveals the new budget line B'D'K'. The debtor household obtains a welfare improvement because of the income increase in t . Its new household optimum is located on a higher indifference curve. In contrast, the creditor household as well as the budget indifferent household incur a welfare loss; now they can only obtain points of tangency on lower indifference curves.

If the deposit interest rate is raised by the capital market reform, the slope of the distance B'D' must increase. In D' this line segment turns to the top right so that the intertemporal budget is now bordered by B''D'K'. Since the line segment B''D' relevant for

the creditor and the budget indifferent household runs in the whole area above $B'D'$ but below section BD relevant in the initial situation, the welfare losses obtained by a contractive policy of the government may partially but not totally be compensated by a rise in the deposit interest rate. This results in welfare losses for the two households. While the debtor household will always improve its welfare position, the results for the budget indifferent and for the creditor household — as will be shown in figures 2 through 5 — are not as clear. This is because the higher the increase of the deposit interest rate, the stronger the turn of the line segment $B'D'$ to the right and the higher will be the possibility of the creditor and of the budget indifferent household to improve their welfare in comparison to the initial situation.

In the extreme case (diagram 2), the rise of the deposit interest rate is of such an extent that the welfare decreasing effect of the contractive fiscal policy will be compensated by the welfare increasing effects, which accrue from the rise of the deposit interest rate, so that all three households obtain a welfare increase. If the budget line $B''D'K'$ runs as shown in diagram 3, the creditor as well as the debtor household experience a welfare increase analogous to diagram 2, represented by the household optimum running further outside. With the budget indifferent household the welfare reducing effects of the contractive fiscal policy are just being compensated by the welfare increasing effects caused by the rise of the deposit interest rate. The new budget line $B''D'K'$ is tangent to the old budget line BDK at point D . Therefore, this household can reach the same welfare level as in the initial situation.

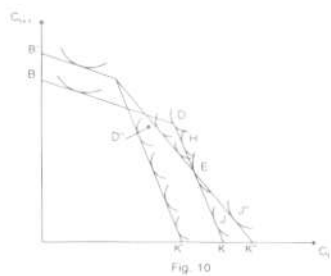
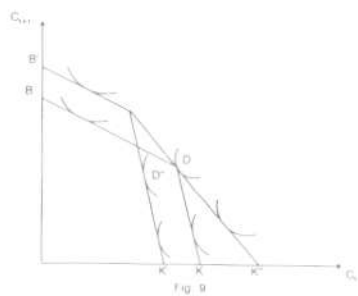
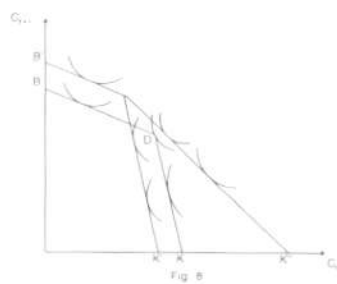
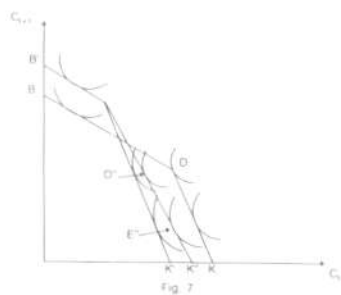
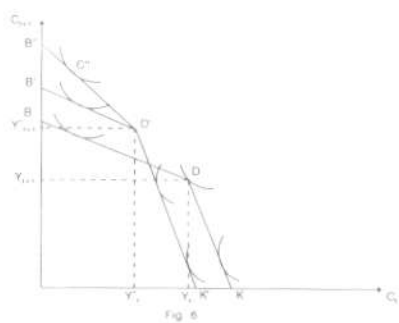
The last possible variant is shown in diagram 4. While in this situation the debtor household can again improve its situation, the welfare position of the budget indifferent household in comparison to the initial situation cannot be improved through the rise of the deposit interest rate. In that case, the welfare reducing effects of the contractive fiscal policy are of a higher scope than the welfare increasing effects of the raised deposit interest rate, therefore the total effect is negative. The effects of the policy actions on the welfare situation of the creditor household are not clear in diagram 4. The reason for this is the new budget line $B''D'K'$ intersecting the old budget line BDK at point C . Depending on the household optimum of the creditor household in the initial situation, the welfare level can either improve, get worse or remain the same. If the household in the initial situation is located at point F left of point C , the total effect will be positive, which means that the welfare level will improve. Whereas, if the household is located at point C the total effect is indifferent, if it is located at point H , the total effect is negative.

Diagram 5 shows the second form of the capital market reform through a decrease of the credit interest rate. In the initial situation the decisive budget line is determined by the connecting line between the points BDK. The three representative households are located at C (creditor household) or in D (budget indifferent household) and at E (debtor household), respectively. The decline of the credit interest rate in connection with a compensating income variation leads to a turn of the line segment D'K' at point D' to the outer right on to D'K''. This is why this section of the budget line is more flat than before. The debtor household experiences a double welfare increase in comparison to the initial situation. One is caused by the expansive fiscal policy in t , the other by the decline of the credit interest rate.

The results of the policy constellations described so far is that the debtor household always experiences a welfare increase in comparison to the initial situation, irrespective of the variant of the capital market reform carried out. In contrast, the welfare situation of the creditor and the budget indifferent household can either improve, get worse or stay at the same welfare level in comparison to the initial situation.

In contrast to the scenarios described so far, a compensating income variation of the government in diagrams 6 through 10 are to be regarded as a contractive fiscal policy in period t and an expansive fiscal policy in period $t+1$. In the initial situation the income of the budget indifferent household (diagram 6) at D is represented by Y_t in t and Y_{t+1} in $t+1$.

After a compensating income variation the new bending point will be D'. The new budget line is determined by B'D'K'. While the debtor and the budget indifferent household incur a deterioration of their welfare situation, the creditor household can improve its situation. If at the same time the first variant of an imperfect capital market reform is expressed by a rise of the deposit interest rate, the creditor household can additionally improve its situation and reach a new household optimum at C''.



The creditor household will in any case experience a welfare increase because of the expansive fiscal policy at $t + 1$, even if in connection with an imperfect capital market reform not the deposit interest rate is not raised, but rather the credit interest rate is lowered. However, the welfare position of the budget indifferent household and the debtor household are not clearcut anymore. In comparison to the initial situation both can improve, get worse or remain at an unchanged welfare position.

Diagram 7 shows that only the creditor household can improve its welfare position after an expansive fiscal policy at $t + 1$. The lowering of the credit interest rate can only partially compensate for the welfare loss the debtor and the budget indifferent household incurred through a contractive policy at t . Therefore, they can only reach a lower utility level described by point D'' , respectively E'' . Alternatively to that case, all three households can improve their welfare situation. As shown in diagram 8, a lowering of the credit interest rate leads to an overcompensation of the welfare losses which the budget indifferent and the debtor household incurred through a contractive fiscal policy in t . In the whole section the new budget line and the corresponding indifference curves run to the right of and parallel to the budget line and indifference curve in the initial situation.

In diagram 9, analogous to the cases just described above, the creditor and the debtor households can reach higher indifference curves. The contractive policy at t pushes the budget indifferent household to a lower welfare level described by D'' , but because of the lowering of the credit interest it can reach its former household optimum at D so that altogether the welfare situation of the budget indifferent household remains unchanged through the policy actions. The last possibilities are visualized in diagram 10. The creditor household again experiences a welfare increase because of the expansive fiscal policy at $t + 1$. The budget indifferent household can only compensate the welfare losses resulting from the contractive policy at t by lowering the credit interest rate. After implementing all policy actions, the household reaches the household optimum located in D'' , which leads to a total negative effect. The final welfare situation of the debtor household depends on the location of the indifference curves and the household optimum in the initial situation. In general, an improvement, as well as a deterioration or a constancy of the welfare situation are possible. For example, if the debtor household in the initial situation is located at point J , it can reach a higher welfare level (point J''). Temporarily, the welfare loss incurred through a contractive fiscal policy at t forces the household onto a lower welfare level, but this welfare loss is overcompensated by the lowering of the credit interest rate so that the overall effect is positive.

This deterioration caused by the contractive policy can just be compensated by a lowering of the credit interest rate if the debtor household has reached the optimum at E before the occurrence of the policy actions, then the total effect is neutral. Finally, this will have to put up with a deterioration of its position if in the initial situation its optimum was located at point H. Then the lowering of the credit interest rate cannot totally compensate for the welfare loss incurred through a contractive fiscal policy; the total effect is negative.

In the five diagrams described last, a welfare improvement can definitely only be reached by the creditor household. Whereas the total welfare situation of the debtor and budget indifferent households can either improve, get worse or remain unchanged.

Hence, a major result of the graphical analysis is that if capital market reforms in LDC's want to make sure that the utility of net saving households' increases, liberalization should be accompanied by a contractionary fiscal policy in the present followed by a higher disposable incomes' policy in the future.

The case of a policy with expansionary effects in the present but a higher tax collecting activity in the future is not only a "second best" inasmuch as it enhances the utility of debtor households, it is unrealistic as well: Suppose the government runs a deficit ($S_{GT} < 0$) caused by higher expenditures, which do *not* affect today's private households' disposable income (DY^{pr}_t). Imagine the case of net foreign payments (NFP_{Gt}) made by the public sector (Corbo/Schmidt-Hebbel 1991, p. 100):

$$(12) \quad DY^{pr}_t = GDP_t - T_t + r_t D_t; \quad \begin{array}{l} \text{GDP} = \text{Gross Domestic Product} \\ D = \text{Government Debt} \end{array}$$

$$(13) \quad S_{Gt} = T_t - C_{Gt} - NFP_{Gt} - r_t D_t; \quad C_{Gt} = \text{Public Consumption}$$

According to Corbo/Schmidt-Hebbel (1991), current consumption of private households (C_{pt}) is given by:

$$(13) \quad C_{pt} = \alpha_0 + \alpha_1 [GDP_t - T_t + r_t D_t] + \alpha_2 [T_t - C_{Gt} - NFP_{Gt} - r_t D_t]$$

Full Ricardian equivalence implies $\alpha_0 = 0$; $\alpha_1 = \alpha_2 > 0$ (ibid, p. 99). As the first right hand determinant is not effected and the second becomes negative, current consumption (saving) decreases (increases).

5. Conclusions

This paper has produced three main results:

- (i) Both theoretical and empirical contributions suggest that capital market reforms in LDC's will lead to a reduction in interest rate margins. Two different aspects contribute to this outcome, however. One is the most likely decrease in informal credit interest rates. The second refers to the warranted increase of competition within the formal banking sector leading to an elevation of deposit rates.
- (ii) As can be shown in a simple two-period-consumption framework (Fisher-Hirshleifer-model), these two effects both tend to smoothen the kink in the intertemporal budget constraint, but they effect households' utility quite differently: Relaxations in the credit interest rate favour debtor households while higher deposit rates are to the benefit of net saving households, *ceteris paribus*.
- (iii) Most capital market reforms in LDC's are located in highly instable macroeconomic set ups. If the goal is to foster the utility of net savers, the government should accompany capital market reforms with an incomes policy that reduces present households' disposable incomes while increasing future disposable incomes. If the (additional) government expenditures do not touch the present disposable income, pure Ricardian equivalence applies: bond financing is equivalent to future tax increases. Net saving households, hence, will save more today in order to maintain their prospective consumption standard tomorrow.

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Abstract

This paper derives some implications in order to improve the allocative efficiency of the financial sector in developing countries. The central hypothesis is that lowering the intermediation costs will lead to higher deposit and/or to lower lending rates — that is a reduction of the interest rate margin. As a consequence, financial intermediaries are able to extend their volume of credits and respectively to mobilize more savings. The purpose of this paper is to explore, mainly with analytical and graphical methods, the determinants of intermediation costs, the welfare effects of a decreasing interest rate margin on representative households and welfare implications of interest rate policy combined with stabilization policies.

LA REDUCTION DES MARGES DES TAUX D'INTERET DANS LES PAYS EN VOIE DE DEVELOPPEMENT ET SES EFFETS ECONOMIQUES SUR LES MENAGES

RESUME

Le présent article révèle quelques implications qui pourraient aider à améliorer l'efficacité d'allocation du secteur financier des pays en voie de développement. L'hypothèse centrale est qu'un abaissement des coûts intermédiaires produira des intérêts créditeurs relevés et/ou des intérêts débiteurs réduits — donc une réduction de la marge d'intérêt. Par conséquent, les intermédiaires financiers pourront élargir leur volume de crédit et stimuler l'épargne. Le but de cet article est d'examiner, par des méthodes analytiques et graphiques surtout, les facteurs déterminant les coûts intermédiaires, les effets économiques d'une marge d'intérêt décroissante sur des ménages représentatifs ainsi que les effets d'une politique combinée des taux d'intérêt et de stabilisation.