

The Effects of Banking Competition and Electronic Transaction Service on Interest Rates in the Deposit and Credit Markets

This study aims to provide theoretical framework for the effects of banking competition and electronic transaction service on interest rates in the deposit and credit markets. For deposit market, short-term and long-term deposit rates in the economy with electronic transaction service are higher than the economy without electronic transaction service. As a result, banks in the economy with electronic transaction service can offer better risk pooling service to depositors. Furthermore, there is no impact of the degree of banking competition on short-term deposit rate in economy with/without electronic transaction service. However, the higher level of banking competition results in an increase in long-term deposit rate in the economy with electronic transaction service. Furthermore, by comparing the gap of deposit rates in these two economies, the differences of are larger when the banking sector is more competitive. For the credit market, the interest rate of loans is lower and the amount of loans is higher in the economy with electronic transaction. However, there is no effect of the degree of banking competition on loan rate in economy with/without electronic transaction service. Based on these results, financial institutions should encourage depositors to use electronic transaction service. Furthermore, the central bank should implement policy to promote more competition in the banking sector.

KEYWORDS: Interest Rates, Electronic Transaction Service, The Degree of Banking Competition