

Experience in Managing Passive Operations by Banks in Developed Countries

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Abstract

This article provides information on the role of passive operations in the activities of commercial banks in developed countries, the forms of implementation of these operations. It also analyzes the deposit interest rates of the G20 countries from developed countries. In addition, the composition of the liabilities of the US financial group Usbank was learned.

Keywords: *passive operations, passive transactions, devaluation reserves, buffers, deposit operations, non-deposit operation, deposit rates, interest rates, liabilities, subordinate debts.*

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THE MAIN PART

In developed countries, passive operations play an important role in the activities of commercial banks. Banks carry out profitable asset operations at the resources of their founders and customers.

There are four forms of passive transactions in developed countries:

1. in connection with the increase of the authorized capital (sale of shares);
2. creation of various funds from the retained earnings of the bank (devaluation reserves, buffers, etc.);
3. deposit operations (resources attracted from customers);
4. d) non-deposit operation.

Passive operations allow banks to generate resources. As a result of active borrowing, new resources of the bank will be created. The first two forms of liabilities (a, b) are part of the first large group of bank liabilities, and this group is formed from its own resources. The next two forms (c, d) passive operations constitute the second most group of resources and are borrowed or borrowed liabilities.

In order to carry out passive operations effectively, attractive interest should be offered on the attracted deposits. Below we can see the difference between the G20 deposit rates and interest rates.

Table 1. G20 countries deposit interest rates¹.

Country name	Interest rate	Country name	Interest rate
Argentina	40.13	Japan	0.02
Australia	0.05	Mexico	1.13
Brazil	8.47	Russia	5.08
Canada	0.86	SaudiArabia	1.57
China	0.35	Singapore	0.12
EuroArea	-0.5	SouthAfrica	3.98
Indonesia	2.75	SouthKorea	1.8
Switzerland	-0.45	Turkey	12.5
UnitedKingdom	0		

Among the G20 countries, Argentina is the country that offers the highest rate for deposits at 40.13% per year. This is due to the fact that inflation in this country was 50.9%. the interest rate in the country is set at 44.5%.

Table 2. G20 countries interest rates².

Country name	Interest rate	Country name	Interest rate
Argentina	44.5	Japan	-0.1
Australia	0.1	Mexico	6
Brazil	11.75	Russia	20

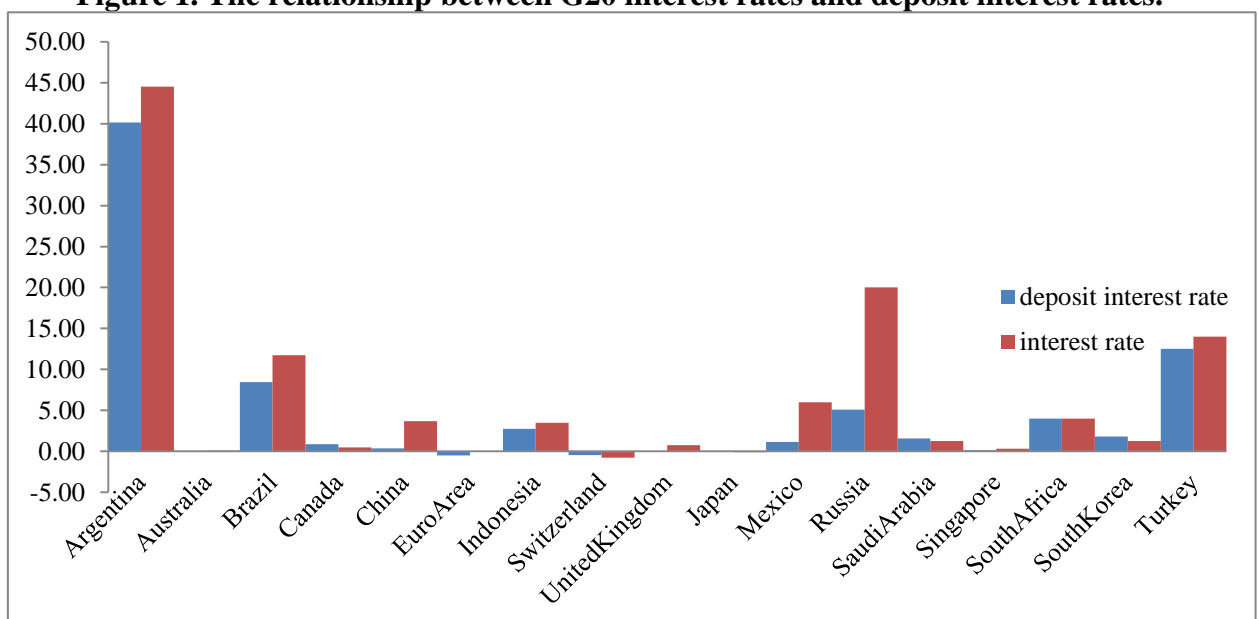
¹<https://tradingeconomics.com/country-list/deposit-interest-rate?continent=g20>

²<https://tradingeconomics.com/country-list/interest-rate>

Canada	0.5	SaudiArabia	1.25
China	3.7	Singapore	0.33
EuroArea	0	SouthAfrica	4
Indonesia	3.5	SouthKorea	1.25
Switzerland	-0.75	Turkey	14
UnitedKingdom	0.75		

In the eurozone, the interest rate is 0%, while the average weighted interest rate on deposits offered to customers is -0.45% lower. Accordingly, if customers in the Eurozone place their money to deposits in a bank, their deposits will be reduced by -0.45% of the initial amount for a year.

Figure 1. The relationship between G20 interest rates and deposit interest rates.



From the relationship between country interest rates and deposit interest rates, it can be seen that in many countries deposit rates are lower than interest rates (Figure 1). This, in turn, will lead to lower interest rates for loans.

Table 3. Composition of USbank Financial Group Liabilities of the United States.

LIABILITIES	
Total deposits	\$ 449.63 billion
Interest deposits	\$ 313.37 billion
Deposits attracted from individuals	\$ 431.48 billion
Sale and purchase of federal funds	\$ 2.02 billion
Trade liabilities	\$ 1,136.64 million
Other borrowings	\$ 33.00 billion
Subordinate debts	\$ 3.60 billion
Other liabilities	\$ 14.73 billion
Total liabilities	\$ 504.11 billion
Shareholder's equity	\$ 52.70 billion

Deposits account for 62% of the liabilities of USbank Financial Group in the United States. 38% of the resources are free and no interest is paid on them. As 96% of USbank deposits are borrowed from individuals, the liquidity risk is relatively low (Table 3). As part of the deposit base, the bank will strengthen its liquidity with a large number of stable resources. It can be seen that 10% of the total capital liability is relatively small for the bank.

Passive operations of commercial banks in developed countries include deposits attracted by the bank and other liabilities in addition to its own capital. To effectively manage passive operations means to invest in a relatively expensive asset without excessive losses by attracting a relatively cheap resource.

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