**IMPACT OF INTEREST RATE CHANGES ON EFFECTIVE PRICING OF BANK CREDIT IN NIGERIA**

**By**

**FULL NAME (SURNAME FIRST)**

**MATRICULATION NUMBER**

**A PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR AN AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN Type your course of study, department and School Name Here**

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**DECLARATION**

I, Type your Name Here hereby declare that this research work titled Type your Project Topic Here is a product of my research work under the supervision of

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Name of Student Signature Date

**CERTIFICATION**

This is to certify that this research project is an original work undertaken by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Matric Number) under the supervision of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and has been prepared in accordance with the regulations governing the preparation of projects in the Department of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, University of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. This project has been read and approved by:

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Supervisor Date

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External Examiner Date

**DEDICATION**

This research project is dedicated to Almighty God and my lovely family.

**ACKNOWLEDGMENT**

The success of this work will not be complete without mentioning the name of those who have been helpers of destiny.

First and foremost, I remain eternal grateful to Almighty God for life and strength through school.

My profound gratitude goes to my father, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, my lovely siblings, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for their support.

To my supervisor, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, I say thanks for your effort towards the successful completion of this work.

**ABSTRACT**

This study was intended to examine Type your Project Topic Here with your case study (If any). This study was guided by the following objectives; Type the objectives in chapter one here. The study employed the descriptive and explanatory design; questionnaires in addition to library research were applied in order to collect data. Primary and secondary data sources were used and data was analyzed using the chi square statistical tool at 5% level of significance which was presented in frequency tables and percentage. The study findings revealed that type one hypothesis here (If any), Otherwise, delete this line.

**[ Please Note that this Table of Contents is a just a template and may not contain the exact sub headings in your project, kindly make the necessary adjustment and delete this line immediately. Thank You!]**

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**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background of the Study**

Operators in the banking system argue that the pegging lending rate at the present level by the Central Bank of Nigeria (CBN) is not realistic as it is not market determined especially urban considered against the cost of deposits (term deposits and saving account) as the rate of inflation, financial and business risks.

However, it is argued that the Central Bank of Nigeria (C.B.N) sometimes reacts to the face of persistence of excess bank reserves due to weak demand for credit by the private sector and the acute shortage of money market securities in which banks could invest.

Downward and upward tendencies in the level of interest rates are conditioned in part by counter cyclical changes in bank reserves and bank credit.

The purpose of this research work is to verify the fixing of rates of interest changed by banks.  The impact of pegged lending rates on effective pricing of bank credit over the years will be assessed.

The work involved an explanation of: The impact of liquidity ratios on interest rates, the relationship between the supply of fund and the pricing of bank credit will also be verified, the impact of liquidity ratio on supply credit and the impact of inflation on the pricing of bank credit.

When the Central Bank of Nigeria (CBN) pegs rates of interest, banks seem to be shortchanged.  Yet there is need to fund industrial, agricultural and commercial activities.  These sectors required low funding cost if the economy must experience full capacity utilization full employment and a reduction in social crises.

Some scholars have also approached the subject from the perspective of time series in a bid to find a common ground of consensus but here also, the results have been contentious. For instance, Harrison, Sussman and Zeira (1999) using a panel of data for 48 US states from 1982- 1994, find a feedback effect between the real and the financial sector that helps to explain intranational differences in output per capita. Luintel and Khan (1999) using the VAR technique on 10 developing countries with yearly data from the 1950s to the mid-1990s find two cointegrating vectors identified as long-run financial depth and output relationship linking financial development to economic development. They also find causality between the level of financial development (depth) and growth in per capita income in all sample countries.

This confirms the findings of Demetriades and Hussein (1996) who, with data on 16 developing countries, with 30 to 40 yearly observations from the 1960s, find that in most countries evidence favours bidirectional causality and in quite a few countries economic growth systematically causes financial development. Also, Shan, Morris and Sun (2001), using quarterly data from the mid-70s to 90s for 9 OECD countries, find evidence of reverse causality, namely from growth to financial development, in some countries and bi-directional causality in others, but no evidence of one-way causality from financial development to growth.

Monetary policy is a precise step taken by the Central Bank (Monetary Authority) to control the value, supply and cost of money in the economy with a view to actualizing predetermined macroeconomic objectives (CBN, 2013). It is the objective of the apex bank to control the volume of money circulation with the instrument of money supply and interest (Ufoeze, Odimgbe, Ezeabalisi and Alajekwu, 2018). This discussed the important role of money in an economy.

It has been proved theoretically in the Nigerian economy since the 1980’s that some nexus exists between the amount of money for economic growth or economic activity. The Central Bank of Nigeria (CBN) since its establishment has continued to play the traditional role of managing the stock of money in the economy through the use of monetary policy (instruments and targets) that is virtually aimed towards the achievement of full-employment equilibrium, rapid economic performance, price stability, and external balance (Fasanya, and Onakoya, 2013).This is very obvious in the emergence and increase of an active money market where treasury bills for example have grown in size and value becoming a key earning asset for investors and source of balancing liquidity in the market. Another notable instrument of monetary policy used by the Central Bank is the issuance of credit rationing guidelines which initially sets the rates of interest for the key components and aggregates of commercial bank loans and advances to public and private sector. Essentially, the sectoral allocation of bank credit in CBN guidelines was to encourage the productive sectors of the economy, decrease or shrink inflationary pressures, while the fixing of interest rates at relatively low levels was done mainly to promote investment and growth (Ayodeji and Oluwole, 2018)

Allessandra (2010) further argued the fact that many time-series studies yield unreliable results due to the short time spans of typical data sets cannot be ignored. It was for this reason that Christopoulos and Tsionas (2004) analyze 10 developing countries but resorted to a panel context that increases the sample size. With panel unit root tests and panel co-integration analysis the authors find a single a unique co-integrating vector, implying one-way causality from financial development to economic growth. From the foregoing, it seems that despite works on the contrary, there is a broad consensus that financial development spurs economic growth.

However, the study examines the impact of interest rate changes on effective pricing of bank credit in Nigeria.

**1.2 Statement of the Problem**

Commercial banks in Nigeria are predominant in the banking industry. Their loans and credits form a major portion of the total credit to the private sector. However, they still face major challenges with regards to government regulations, institutional difficulties and other similar challenges. This study therefore intends to identify the impact of the monetary policy tools on the performance of the banking industry. This would be of great assistance to the regulators in forming a favorable interest rate regime that would meet the macroeconomic objectives in Nigeria.

Deregulation has brought to the fore the need to manage rate-sensitive liabilities and rate-sensitive assets as well as stressing on cost control and productivity analysis.

Banks now accept higher levels of risks in pursuit of profit maximization yet it is argued that pricing reflects the necessary interaction of economic, legislative and regulatory initiatives. According to Donnelly (1985) “price is not simply what a banking organization wants to charge for its services, or even reasonable should charge, but also a matter of public policy”.

**1.3 Objectives of the Study**

The main objective of this study is to examine the impact of interest rates changes on effective pricing of bank credit in Nigeria.

Specific objectives include;

1. Determine if the Central Bank of Nigeria (CBN) will fix interest rate.
2. Find out if the interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.
3. Assess whether interest rate should be deregulated in line with the deregulation of the banking industry.
4. Ascertain whether a realistic interest rate can be achieved through deregulation of the banking industry.
5. Assess whether Nigeria can achieve stability if interest rate is deregulated.
6. Determine the actual rate charged by banks.
7. Ascertain whether the impact of the monetary policy tools supplied by the Central Bank of Nigeria (CBN) since 1990 on the price of bank credit.
	1. **Research Questions**
8. Should the Central Bank of Nigeria (CBN) fix interest rates?
9. Can the interest rates fixed by the Central Bank of Nigeria (CBN) be regarded as the realistic rates?
10. Should interest rate be achieved through deregulation of the banking industry?
11. Can Nigeria achieve stability if interest rate is deregulated?
12. Can realistic interest rate be achieved through deregulation of the banking industry?
13. What is the actual rate charged by banks?
14. What is the impact of the monetary policy tools supplied by the CBN since 1990 on the price of bank credit?

**1.5 Research Hypotheses**

**Hypothesis I**

**H0**: There is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria

**H1**: There is a significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria.

**Hypothesis I**

**H0**: No Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.

**H2**: Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.

**1.6 Significance of the Study**

This project is important to economist, business practitioners, the government and banks.  It is expected to help the government realize that the deregulation of the banking industry is incomplete without allowing the interest rates, as the current lending interest rate fixed by the Central Bank of Nigeria (CBN) is seen as artificial.

This project will assist business practitioners effectively analyze the real cost of borrowing and assist them in pricing their goods and services effectively.

The Central Bank of Nigeria (CBN) will discover that fixing lending rates smacks of monetary policy inconsistency especially when the exchange rate is deregulated.  But it is argued that rising bank lending rates has escalated cost of production.  As a result the general price level were addressed in 1991 when the Federal Government tried to lower bank lending rates but the effect of the Naira depreciation eroded the little benefits of the lowering interest rates.

However, banks also content with high cost of doing business.  In addition to interest expenses, operating expenses are on the rise due to the deregulation of the economy.  The lending rates must therefore incorporate these costs.  The lending interest rate is also a price just as the exchange rate fuel price, telephone bill and electricity bills.  If these costs are taken into consideration there will be no reason why lending rates should remain fixed of investments and bankers must earn real income that is in addition to these costs also recognized the impact of inflation.  Moreover, competition has a self-adjusting mechanism of price.

Furthermore, if a realistic interest rate depends on the relative inflation rate, the operators of the Nigeria economy must therefore continue to check inflation in order to drive interest rates downwards. It is therefore argued that a realistic interest rate is a recipe for the effective pricing of banking services as well as good and services.

Finally, this study is to ensure that banks do not charge all kinds of fees in addition to the lending rate fixed by the Central Bank of Nigeria (CBN) that is a marked driven lending rate should incorporate all those factors necessary in attaining an effective and realistic pricing without banks imputing extraneous charges.

**1.7 Scope of the Study**

The study will try to examine if the lending rate fixed by the Central Bank of Nigeria (CBN) is the realistic rate.  The project will attempt to explain if there is a relationship between the demand for credit and interest rates the impact of inflation on interest rates, the impact of monetary policy tools such as liquidity ratios on interest rates, and the relationship between rate of loans to deposits and liquidity ratios.

Although the presentation of the research methodology is a demonstration of knowledge in the handing of primary data, the topic under study relies more on secondary data from annual reports, newspaper, journals and published texts.  Time and finance also posed great limitations.

However, such important areas as price description and determination of effective pricing of banking services would not be covered for lack of reliable data and time constraint.

**1.8 Limitations of the study**

The demanding schedule of respondents at work made it very difficult getting the respondents to participate in the survey. As a result, retrieving copies of questionnaire in timely fashion is very challenging. Also, the researcher is a student and therefore has limited time as well as resources in covering extensive literature available in conducting this research. Information provided by the researcher may not hold true for all institutions but is restricted to the selected organization used as a study in this research especially in the locality where this study is being conducted.

Financial constraint: Insufficient fund tends to impede the efficiency of the researcher in sourcing for the relevant materials, literature or information and in the process of data collection (internet, questionnaire and interview).

Time constraint: The researcher will simultaneously engage in this study with other academic work. This consequently will cut down on the time devoted for the research work.

Finally, the researcher is restricted only to the evidence provided by the participants in the research and therefore cannot determine the reliability and accuracy of the information provided.

**1.9 Definition of Terms**

**Inflation:** Continuous increase in price of goods interest rate:  Increase in the value of money as a result of inflation.

**Price:**The amount of each particular goods or commodity.

**Market Force:**These are the people who use their strength in other to control all the activities done inside the market.

**Bank Credit:**This involves all the charges taken by the bank for keeping our money.  In a bank transactions our money can be extracted in various forms such as money for S.M.S. Messages, A.T.M Cards and so on.

**Demand:**This is a desire or need of customers for goods or services, which they want to buy or use

**CHAPTER TWO**

 **LITERATURE REVIEW**

**2.1 INTRODUCTION**

This chapter presents research finding related to the impact of interest rate changes on effective pricing of bank credit in Nigeria. In the present context, the interest of the researcher is to review the findings of past researches. The study helps the researchers to theorize and assume occurrence, and do critical appraisal which may contribute with regard to design appropriate methodology. Keeping in mind these objectives, the researcher reviewed literature in order to obtain information and the status of work being done in this area. Therefore, literature from various sources was extensively reviewed in the light of the present investigation.

**2.2 CONCEPTUALFRAMEWORK**

**Concept of interest rate**

terest Rates Gilchris, (2013) states that although it is difficult to determine the direction of the relationship between interest rates and profitability, studies confirm that interest rates instability affects Commercial Banks’ financial performance while other studies give contradictory findings. The Central banks also lends Commercial Banks funds. Money borrowed from the Central Bank is to be repaid at a particular interest rate (Monetary Policy Rate). This makes interest rate a powerful government regulatory tool for determining other interest rates in the banking industry. Hualan (1992) stated that interest rate is one of the most important factors that affect the bank financial performance. Corb (2012) argued that interest rate is an economic tool used by the Central Bank to control inflation and to boost economic development.

Ngugi (2004) explained that low interest rates and small spread promote economic growth in big ways hence encouraged. Crowley (2007) and Ngure (2014) defined interest rates as the price a borrower pays for the use of money they borrow from a lender (financial institution) or fee paid on borrowed assets. Sayedi (2013) expressed interest rate as the percentage rate over a period of one year. Karl et al., (2009) posits that interest rates are derived from macroeconomic factors which agree with Irungu (2013) that interest rates are major economic factors that influence the economic growth in an economy.

Inflation and inflationary expectations can press interest rate upward which affects lending rates resulting to reduce credit demand and lending ability of Commercial Banks (Keynes, 2006). Irungu (2013) states that interest rate is the price of money. Interest rates can either be nominal or real. Nominal interest rate can be measured in naira terms, not in terms of goods. The nominal interest rate measures the yield in naira per year, per naira invested while the real interest rate is corrected

for inflation and is calculated as the nominal interest rate minus the rate of inflation (Pandey,1999).

**Bank Profitability and Financial Performance**

The profitability of a bank is determined by interior and exterior determinants (Sattar, 2014) which agrees with (Ongore, 2013; Al-Tamini et al., 2010). The interior determinants are called micro or bank specific determinants of profitability because they are initiated from bank accounts like balance sheet or profit and loss account. While on the other hand, the exterior determinants are the variables which are not in the control of banks’ management such as monetary policy interest rates. Chen et al. (1986) explained that these macroeconomic factors are significant in explaining firm performance (profitability) and subsequent returns to investment. Gilchris, (2013) agrees that the financial performance is commonly measured by ratios such as Return on Equity, Return on Assets. There are many different mathematical measures to evaluate how well a company is using its resources to make profit (Irungu, 2013).

Financial performance can be measured using the following techniques; operating income, earning before interest and taxes, net asset value (Gilchris, 2013). Irungu (2013) described financial performance analysis as the process of identifying the financial strengths and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account. It’s the process of identifying the relationship between the component parts of financial statements to ascertain an organization position, performance and prospects. Financial performance analysis can be undertaken by management, owners, creditors, investors (Chenn, 2011). Quarden (2004) argued that financial performance analysis helps in short term and long term forecasting and growth and can be identified with the help of financial ratios such as asset Utilization/efficiency ratios, deposit mobilization, loan performance, liquidity ratio, leverage/financial efficiency ratios, profitability ratios, solvency ratios and coverage ratios can be used to evaluate bank performance (Bekant, 2011).

The performance of banks gives direction to shareholders in their decision making (Panayiotis et al., 2006). Wainaina, (2013) says the effect of macroeconomic factors in other sectors of the economy will always affect the banking sector and what goes on in the banking sector will affect the other sectors of the economy. Chen et al., (1986) maintains that these macro-economic factors are significant in explaining firm performance (profitability) and subsequent returns to investors. Gilchris (2013) agrees that financial performance is commonly measured by ratios such as return on equity, return on assets, return on capital, return on sales and operating margin. A firm has several objectives but profit maximization is said to be paramount among these (Damilola, 2007; KPMG, 2005; Raheman and Nasr, 2007). Profit is a tool for efficient resources allocation because it is the most appropriate measure of corporate performance under competitive market conditions (Pandey, 2005). Conceptually profit connotes the excess of revenue generated by a firm over its associated costs for an accounting period.

Operationally the term profit is imprecise, as many variants exist. The term profit could refer to profit before tax, profit after tax, gross profit, net profit, profit per share, return on assets, among other variants (Damilola, 2007; Pandey, 2005). This imprecision has often posed decisional challenges to researchers who must select an appropriate variant to proxy profitability. However, the most commonly used variants as appropriate measure of profitability include Gross operating profit, Net operating profit, Return on Assets (Deloof, 2003; Teruel and Solano, 2006; Lazaridis and Tryfonidis, 2005; Raheman and Nasr, 2007). According to Okafor (2011) the profitability performance also can be accessed from both book value and market value perspectives.

**Management of Interest rate in Nigeria**

Interest rate was first used as an instrument of Monetary Policy in Nigeria in 1962 following the introduction of money market instruments. The interest rate then was made competitive to ensure repatriation-of funds kept aboard. During the period of high government borrowing for example interest rate was reduced to minimize cost of servicing public debt, as was the case in the 1960's. Interest rate in Nigeria over the years has therefore played a dominant role as one of the instruments used by the Federal Government in Managing Monetary Policy. The Structural Adjustment Programme (SAP), which was introduced by the Federal Government of Nigeria in 1986, was a comprehensive economic restructuring programme as it emphasized increased reliance on market forces.

The SAP initiated some reforms, which focused on structural changes, monetary policy, interest rate administration and foreign exchange management; etc encompasses both financial market liberalization and institutional building in the financial sector (Akingunla; 2012) Interest rate in Nigeria over the years has played an important role as one of the instruments used by the Central Bank in Managing Monetary Policy. The use of interest rate as an instrument of monetary policy was based on two main assumptions interest rate regulation; more so that, interest rate has since remained one of the instruments of managing the Monetary Policy of the Federal Government of Nigeria. Interest rate regulations have always been contained either in the Federal Government Annual Budget document or the Monetary/Credit Policy Circulars of the Central Bank of Nigeria (CBN) from time to time.

In August 1987, the Central Bank of Nigeria (CBN) liberalized the interest rate regime and adopted the policy of fixing only its Minimum Rediscount Rate (MRR). This was however modified in 1989, when the Central Bank of Nigeria (CBN) issued further directives on the required spreads between deposit and lending rates (Ojodu H; 2012). Partial deregulation was restored in 1992 when financial institutions were required to only maintain a specified spread between their average cost of funds and maximum lending rates. The removal of the maximum lending rate ceiling in 1993 by the Central Bank of Nigeria (CBN) saw interest rates rising to unprecedented levels in sympathy with rising inflation rate which rendered banks' high lending rates negative in real terms. Interest rates in 1993 were volatile and rose to unprecedented levels.

The behaviour of interest rates was traceable to a number of factors including:

 a) The high rate of domestic inflation arising from the huge fiscal deficit of Federal Government which was financed mainly by Central Bank;

b) The undue discretion which the deregulation of interest rates conferred on key market players in pricing their funds as well as the arbitraging activities of market speculators; and

c) The use of stabilization securities and the system of allocation of foreign exchange both induced the sterilization of large funds at the CBN.

There was major objective to keep the supply of money just within the required level needed for the target economic growth rate in a particular year. The policy of interest rate deregulation was retained in 1997, and developments since the beginning of the year show relative stability in the rates. Indeed, contrary to expectations, interest rates had fallen. Deposit rates on savings account at commercial banks declined from an average of 10.1 percent in December 1996 to 7.5 percent in March and further to 5.9 percent at the end of April 1997. Similarly, 3-month deposit rates declined from 12.3 percent in December 1996 to 7.3 percent in April 1997. During the fiscal year 2000, monetary, and other financial sector policies were also designed to maintain internal and external balance.

The primary objective was to maintain the inflation rate at single digit. In order to achieve this objective, the monetary programme focused on curtailing excess liquidity in the banking system and enhancing the viability of the external sector as well as the stability of the financial system. Other important objectives included enhanced growth of the economy and reduction in unemployment. The performance of the financial sector in 2000 indicated that deposit and lending rates fluctuated downwards due to liquidity overhang in the banking system and the reduction in MRR from 18.0 to 14.0, cash reserve ratio, form 12.0 to 10.0 percent, and liquidity ratio from 40.0 to 35.0 percent. The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) on 5th June 2007 reviewed the major macroeconomic development and the implementation of fiscal, monetary and exchange rate policies in the first five months of 2007, as well as the challenges for the rest of the year. The MPC noted with satisfaction the macroeconomic performances (CBN; 2009).

**Effect of Interest rate on Financial Performance**

Financial performance is an indicator of how profitable a company is relative to its total assets (Irungu, 2013). Financial performance can be measured by Return on Asset (ROA). ROA is measured by dividing the net income by average total assets. Return on Assets formula looks at the ability of a company to utilize its assets to gain a net profit (Kiarie, 2011). Both the IMF report and Federal Reserve paper suggests possible effects of interest increases to net interest margin, balance sheet structure and values of interest sensitive assets and liabilities. If there is a steeping of the yield curve, the net interest margin would be expected to increase. Higher interest rate can result in slower economic growth and development because of high capital costs and defaults by individuals and firms who borrow from banks (Papa, 2014). Interest rates impact bank earnings through net interest margins/ net interest income which is a key factor driving bank earnings and stock performance (Hayes, 2013). When rates rise, banks NIM/NET 11 tend to decline and vice versa. Interest rates are also a key driver of loan yields (Hayes, 2013). Loan yields are generally from market interest rate. Higher rates at a measured pace are generally a positive for banks given the uplift to asset yield, deposit margin, along with generally improving macro conditions. Unexpected movements in rates and the yield curve can be negative for banks balance sheet, more specially, result in unrealized losses in accumulated other comprehensive income.

**Interest rate and factors affecting Liquidity-**

Money model Interaction of interest rates and other macroeconomic indicators can be studied using liquidity-money model, developed by John Hicks on the basis Keynes’s work (Mishkin, 2001). Interest rate in liquidity-money model is a linking chain between monetary and real sectors of economy. This model is very useful for policy evaluation purposes, since it allows forecasting effects of monetary policy under different exchange rate policies on economy. Liquiditymoney shows relationship between interest rate and aggregate output, for which quantity of money demanded, equals quantity of money supplied. Normal liquidity-money has a higher output level demand for money increases, causing rise in interest rate. The effects of different policies in liquidity-money model depend on variety of factors, such as regime of exchange rate, openness to foreign trade and capitals, etc. Such variety of possible outcomes makes the liquidity-money model even more useful policy model. Interest rate will be permanently higher in the economy if its currency depreciates. Fall in interest rate in given period causes depreciation of the currency in present period to compensate for future appreciation and improves current account through effect on terms of trade. This effect of fall in interest rate will increase in real GDP through effect on exchange rate contributes to direct effect on domestic consumption and investment. The theoretical effect of fall in interest rate is to increase aggregate output.

**2.3 THEORETICAL FRAMEWORK**

This theory according to Vanish (2000) cannot be ascribed to any one single writer belonging to the classical school. Following Adam Smith, the classical writers being interested in those fundamental forces which determined the long-term interest rate, disregarded those factors of temporary and secondary nature which characterized the short-run disequilibrium situations. However it is widely accepted that the theory was propounded by Marshall (1920) and Pigou (1932) and this theory is known as the demand and supply theory of saving. The theory states that the rate of interest is determined by the supply and demand of capital. The supply of capital is governed by time preference and the demand for capital is determined by the expected productivity of capital. The time and preference are dependent on savings.

According to Vanish (2000) the demand for capital consists of the demand for productive and consumptive purpose. Capital is demanded by the investors because it is productive. But the productivity of capital is subject to the law of variable proportions (additional units of capital are not productive as their earlier units). However, the supply of capital according to Jhingan (2001) depends upon savings rather upon the will to save and the power to save of the community. Some people save irrespective of the rate. They would continue to save even if the rate of interest were zero. There are others who save because the current rate of interest induces them to save and reduce when the rates are low. The higher the rate of interest, the larger the community savings and more will be the supply of funds. The supply curve of capital or the savings curve moves upward to the right.

Monetary policy is the process by which the central bank or monetary authority controls the supply of money, availability of money and the cost of money or rate of interest. Monetary policy is usually used to attain a set of objectives oriented towards the growth and stability of the economy.

These goals usually involve stable price and low unemployment. Monetary theory provides insight into how to craft optional monetary policy.

According to J.M Keynes, “an inverse in the quantity of money increases aggregate money demand on investment as a result of the fall in the rate of interest˝. The increase investment will raise effective demand through the multiplier effect thereby increasing income, output and employment. Therefore when there is full employment, increase in income and output, price will change in the same proportion as the quantity of money (Jhingan, 2003). This theory deals on short run economy, which tends towards the area of macroeconomics but has contributed greatly to monetary economic.

The monetarist- new quantity theory of money- believes in the supreme efficiency of monetary policies by arguing that money is the most important regulatory instrument in an economy and that money has a direct effect on the economy. Hence, if money supply increases, it will eventually decompose itself, which invariably leads to an increase in the cash balance of the various individuals and economy agents in relation to prices of investment asset which is a case of portfolio theory.

Therefore the demand for money (or velocity) is not a fixed quantum but varies in a fairly predictable fashion with the return on both bond and equities, the price level, price expectation, wealth and permanent income and taste and preference (Anyanwu, 1993).

According to the Cambridge version of the quantity theory of money, they did not subscribe to the belief that money matters and that doubling the money supply will lead to doubling prices. They were of the view that the result will be less than certain and that doubling of money supply will not necessary lead to double of prices. The Cambridge version focuses on the fraction K of income held as money balances. Thus, the version can be expressed as: M=KPY or M=KY. The K is the inverse of V, the income velocity of money balances in the original formulation of the quantity theory. The Cambridge version directs attention to the determinants of the demand for money rather than the effects of changes in the supply of money (Higgins, 1978).

According to Sir Irving Fisher quantity theory of money, he states that “the quantity of money is the main determinant of the price level, of the value of Money”. Any change in the quantity of money produces an exactly proportionate change in the price level, that is, “as the quantity of money in circulation increases, the price level also increase in direct proportion and the value of money decreases and vice versa (Jhingan,1986). This theory is explained in terms of equation of exchange: PT=MV+M'V' which states that the money supply (M) multiplied by its velocity of circulation (V) must always be equal to the number of transaction. The theory is based on long run economy and underdevelopment is considered as one of the problems relating to the less developed economy.

**Loan Pricing Theory**

 Banks cannot always set high interest rates. Banks should consider adverse selection and moral hazard because it is difficult to determine the borrower type at the start of the banking relationship (Stiglitz and Weiss, 1981). If interest rates are too high, it might cause adverse selection problems because only high risk borrowers are willing to borrow. Once they receive the loans they may develop moral hazard behavior since they are likely to take highly risky projects (Chodecai, 2004)

**Loanable Funds Theory**

This theory synthesizes both the monetary and non monetary impact of the problem (saving and investment process) (Wensheng, et al., 2002). It assumes that interest rates are determined by supply of loanable funds and demand for credit. It recognizes that money can play a disturbing role in the saving and investment processes and thereby causes variations in the level of income. The theory suggests that interest rates equate the demand and supply of loanable funds. Loanable funds are the sum of money supplied and demanded at any time in the money market. Loanable funds theory has implications on banks savers and borrowers and each side is well compensated at equilibrium, Interest rate should be structured in a way every party feel comfortable (Emmanuelle, 2013)

**Classical Theory of Interest**

According to Keynes, the classical theory of interest is the savings-investment theory. It states that on the general equilibrium theory, the rate of interest is determined by the intersection of demand for and supply of capital which agreed with Caplan (2000). Fredman (1991) explains that the saving and investment are the two real factors determining the rate of interest.

**Rational Expectations Theory of Interest Rates**

This is based on the idea that people formulate expectations based on all the information that is available in the market. It holds that the best estimation for future interest rates is the current spot rate and that changes in interest rates are primary due to unexpected information or changes in economic factors. The limiting factors of rational expectation theory are mostly related to the difficulty in gathering information and understanding how the public uses its information to form its expectation (Caplan, 2000). If interest rate rise will avoid borrowing, this in turn will affect bank performance and vice versa (Bekaert,1998)

**Theory of Interest, and the Role of Interest Rates in the Economy**

The interest rate determination in the economy was intensively studied by many economists. Two of the most influential theories are Irving Fisher’s classical approach, extended to loanable funds theory, and liquidity preference theory, developed by John M. Keynes. Interest rate is determined as the price paid by borrower (debtor) to a lender (creditor) for the use of resources during some interval (Fabozzi et al; 1998). There is no single measure of interest rate in the economy and yield to maturity on an asset is accepted by most economists as a measure of interest rate (Mishkin, 2001). According to Fisher, individuals may either consume or save their incomes. Individuals save when they consider future consumption as preferable to current consumption, they consume less now to be able to consume more lately.

The factors that influence saving decisions differ between individuals. First affecting factor is income. With higher income individual may save more, though the decision to save is determined not only by the level of income, but also by expectations about future income, marginal propensities to consume and save - preferences to interchange consumption and saving between time periods. Moreover, these preferences may change after change in the level of income. Another factor affecting the level of savings is compensation obtained by individual for lending his saving to another individual, who needs additional funds and ready to pay for their use. This compensation or payment for use of funds is interest rate. The more the interest rate, the more individual’s opportunity costs of consumption, and the more he will save.

The total savings in the economy is a sum of all individuals’ savings. Interest rate is positive if there is demand for the savings from the side of borrowers. Borrowers are willing to pay for saving if there are profitable opportunities to invest. The cost of funds for borrowers is interest rate. The more interest rate, the fewer borrowers will invest, so investments are a negative function of interest rate. Borrowers will be willing to invest as long as marginal benefit from investments equals marginal cost, or interest rate. Total demand for investment in the economy is determined as the sum of individual demands. Interest rate is cost of borrowing for one individual and payment for lending for others. The equilibrium interest rate equates total amounts of savings demanded and supplied. There is a distinction between nominal and real interest rates. Fabozzi (1998) determine nominal interest rate as the number of monetary units to be paid per unit borrowed and real interest rate as the growth in the power to consume over the life of a loan. If there is no inflation in the economy, there would be no difference to individuals whether interest rate is nominal or real. Fisher was one of the first developers of the theory of interest rates and he was one of the first who introduced this distinction.

During inflation nominal rate exceeds real and during deflation real rate exceeds nominal. Fisher suggests that in the long-run real interest rate is constant and expectations about inflation affect only nominal interest rate. Fisher’s theory is very general and does not take into account many factors influencing the level of interest rates. The Loanable Funds Theory extends Fisher’s approach and incorporates into the analysis government actions, banks, bonds and cash investments. The results are similar to classical approach – interaction of total demand for funds, negatively related to interest rate, and total supply of funds, positively related to interest rate, determines the equilibrium interest rate and amount of savings or investments. The Liquidity Preference Model, introduced by John Maynard Keynes, is an alternative approach to the determination of interest rate in the economy.

The model analyses the behavior of interest rates as a reaction to changes in money supply and money demand, rather than changes in supply and demand for savings. The model assumes only two assets: money and bonds. The logic of the model is following: individuals hold money for current transactions and hold bonds that earn interest. Interest rate in this case is an opportunity cost of holding money, since individual may convert money into bonds and earn more. If the interest rate for bonds is low, opportunity costs are not high and individual more freely hold cash balances. If the rate is high, opportunity costs increase and people are less willing to hold money instead of profitable bonds. Thus, there is a negative relationship between money demand and interest rate in this theory. Keynes assumes that money supply is not affected by the level of interest rate and government and central bank control money supply. The change in the equilibrium interest rate may happen due to either supply or demand side changes. Main factors that affect the demand for money in the Liquidity Preference Theory are level of income and price level in the economy. Increase in income, increases the demand for money due to higher liquidity of money. The same effect has an increase in price level. People want to hold real money balances to be able to buy the same goods as before inflation, and thus increase their demand for money holding.

**2.4 EMPIRICAL REVIEW**

Gertler and Gilchrist (1994) conducted a study that specifically looked at how bank business lending responds to monetary policy tightening. They found that banks’ lending does not decline when policy is tightened. They concluded that the entire decline in total lending comes from a reduction in consumer and real estate loans.

In contrast to Gertler and Gilchrist (1994) study, Kashyap and Stein (1995) found evidence that banks’ lending may respond to a tightening of monetary policy. They found that when policy is tightened, both total loans and business loans at small banks fall, while loans at large banks are unaffected. The differential in the response of small banks may indicate they have less access to alternative funding sources than large banks and so are less able to avoid the loss of core deposits when policy is tightened.

Amidu and Wolfe (2008) examined the constrained implication of monetary policy on bank lending in Ghana between 1998 and 2004. Their study revealed that Ghanaian banks’ lending behaviour is affected significantly by the country’s economic support and change in money supply. Their findings also support the finding of previous studies that the Central Bank prime rate and inflation rate negatively affect bank lending. Prime rate was found statistically significant while inflation was insignificant. Based on the firm level characteristics, their study revealed that bank size and liquidity significantly influence bank’s ability to extend credit when demanded. Gavin (2010) studied the factors affecting banking sector interest rate spread in Kenya. The study sought to investigate the factors responsible for interest rate spread in Kenya Commercial Banks.

The study adopted a descriptive and quantitative research design on a sample of 15 Commercial Banks in Kenya which accounted 85 percent of all the loans disbursed between 2002 and 2009. The study used secondary data obtained from the banking survey publication. The study found out that capital adequacy ratio, treasury bills rate and discount rate have a significant impact on interest rate spreads. Ngugi and Kabubu (1998) studied financial sector reforms and interest rate liberalization. It aimed at exploring the sequencing and actions taken in the liberalization process in Kenya. The study investigated the interest rate levels, spreads and determining factors as an indicator too financial performance in response to the process. The sample size was 20 banks in Kenya. The data source included the Central Banks reports. It found that the financial system was still characterized by repression factors such as negative interest rates, inefficiency and underdeveloped financial markets.

Felicia (2011) studied the determinants of Commercial Banks’ lending behavior in the Nigerian context. The study aimed to test and confirm the effectiveness of the common determinants of Commercial Banks’ lending behavior and how it affects the lending behavior of Commercial Banks in Nigeria. The model regressed the Commercial Banks loan advance with other determinant variable such as Volume of Deposits (Vd), Investment Portfolio (Ip), Lending Rate (Ir), Stipulated Cash Reserve Ratio (Rr) and Liquidity Ratio (Lr) for the period 1980-2005. The model hypothesizes there is a functional relationship between the dependent and independent variables and were found to have a significant relationship.

Nwakanma (2013) examined the impact of interest rate reform on the financial intermediation function of the Commercial Banks in Nigeria using the dummy variables approach to Chow test for structural stability. The cointegration and error correlation model were used to capture both the long run and the short run dynamics. The empirical results reveal that though the intermediation function of the Commercial Banks has significantly improved as a result of the deregulation of interest rates, it has not translated into improved standard of living of the populace as the incidence of poverty is still on the increase. Also the results show that lending rates do not influence demand for domestic credits in Nigeria unlike deposit rates which proved to be a major determinant for the amount of credit extended by the Commercial Banks.

They concluded that though interest rates deregulation has improved credit extension to the domestic economy, the link between interest rates , domestic credit extension and economic growth is not automatic. They recommended a partial deregulation of interest rates that will ensure concessionary interest rates to the productive sector of the economy.

Udeh (2015) examined the impact of monetary policy instruments on profitability of Commercial Banks in Nigeria using the Zenith Bank Plc experience. The study utilized descriptive research design using time series data collected from published financial statements of Zenith Bank Plc and Central Bank of Nigeria Bulletin from 2005 to 2012. The study used Pearson Product Moment Correlation technique to analyze the data collected while t-test statistic was employed in testing the hypotheses. They discovered that cash reserve ratio, liquidity ratio and interest rate did not have significant impact on the profit before tax of Zenith Bank Plc. However, minimum rediscount rate was found to have significant effect on the profit before tax of the bank.

The paper concluded that a good number of monetary policy instruments do not impact significantly on profitability of Commercial Banks in Nigeria Okoye and Eze (2013), examined the impact of bank lending rate on the performance of Nigerian Deposit Money Banks between 2000 and 2010. It specifically determined the effects of lending rate and monetary policy rate on the performance of Nigerian Deposit Money Banks and analyzed how bank lending rate policy affects the performance of Nigerian deposit money banks. The result confirmed that the lending rate and monetary policy rate have significant and positive effects on the performance of Nigerian deposit money banks. The implication of this is that lending rate and monetary policy rate are true parameter of measuring bank performance.

The results agreed with Udeh (2015) that minimum rediscount rate was found to have significant effect on the profit before tax of the bank. Enyioko (2012) examined the performance of banks in Nigeria based on the interest rate policies of the banks. The study investigated 2 Nigerian banks. Regression and error correction methods were used to analyze the relationship between interest rate and bank performance. The study found that interest rate policies have not improved the overall performances of the banks significantly

**2.5 SUMMARY**

Most of the literature on bank performance has focused on sector specific factors that affect the banking sector performances or determinant of bank performance. Yet little has been done on the Monetary Policy Interest Rates and its effects on the bank performances in Nigeria. There also seen to be a lot of study in other regions. Therefore this study seeks to bridge this gap.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Introduction**

This chapter covers the description and discussion on the various techniques and procedures used in the study to collect and analyze the data as it is deemed appropriate

**3.2 Research Design**

For this study, the survey research design was adopted. The choice of the design was informed by the objectives of the study as outlined in chapter one. This research design provides a quickly efficient and accurate means of assessing information about a population of interest. It intends to study the impact of interest rate changes on effective pricing of bank credit in Nigeria. The study will be conducted in Abuja metropolis.

**3.3 Population of the Study**

The population for this study were staff of CBN in Abuja metropolis, FCT, Nigeria. A total of 134 respondents were selected from the population figure out of which the sample size was determined. The reason for choosing Abuja metropolis is because of its proximity to the researcher.

**3.4 Sample and Sampling Techniques**

The researcher used Taro Yamane’s formula to determine the sample size from the population.

Taro Yamane’s formula is given as;

 n = N

 1+N (e)2

Where N = Population of study (134)

 n = Sample size (?)

 e = Level of significance at 5% (0.05)

 1 = Constant

**.:** n **=** 134 = 134 = 134

 1 + 134 (0.05)2  1+134(0.0025) 1+0.335

n = 134 = 100

 1.335

The sample size therefore is 100 respondents.

**3.5 Research Instrument and Instrumentation**

Data for this study was collected from primary and secondary sources. The primary source of data collected was mainly the use of a structured questionnaire which was designed to elicit information on the impact of interest rate changes on effective pricing of bank credit in Nigeria. The secondary source of data collections were textbooks, journals and scholarly materials.

**3.6 Validity of Instrument**

The instrument of this study was subjected to face validation. Face validation tests the appropriateness of the questionnaire items. This is because face validation is often used to indicate whether an instrument on the face of it appears to measures what it contains. Face validations therefore aims at determining the extent to which the questionnaire is relevant to the objectives of the study.

In subjecting the instrument for face validation, copies of the initial draft of the questionnaire will be validated by supervisor. The supervisor is expected to critically examine the items of the instrument with specific objectives of the study and make useful suggestions to improve the quality of the instrument. Based on his recommendations the instrument will be adjusted and re-adjusted before being administered for the study.

**3.7 Reliability of Instrument**

The coefficient of 0.81 was considered a reliability coefficient because according to Etuk (1990), a test-retest coefficient of 0.5 will be enough to justify the use of a research instrument.

**3.8 Method of Data Collection**

This study is based on the two possible sources of data which are the primary and secondary source.

1. **Primary Source of Data:** The primary data for this study consist of raw data generated from responses to questionnaires and interview by the respondents.
2. **Secondary Source of Data:** The secondary data includes information obtained through the review of literature that is journals, monographs, textbooks and other periodicals.

**3.9 Method of Data Analysis**

Data collected will be analyzed using frequency table, percentage and mean score analysis while the nonparametric statistical test (Chi- square) was used to test the formulated hypothesis using SPSS (statistical package for social sciences). Haven gathered the data through the administration of questionnaire, the collected data will be coded, tabulated and analyzed using SPSS statistical software according to the research question and hypothesis. In order to effectively analyze the data collected for easy management and accuracy, the chi square method will be used for test of independence. Chi square is given as

 X2 = ∑ (o-e)2

 e

Where X2 = chi square

 o = observed frequency

 e = expected frequency

Level of confidence / degree of freedom

When employing the chi – square test, a certain level of confidence or margin of error has to be assumed. More also, the degree of freedom in the table has to be determined in simple variable, row and column distribution, degree of freedom is: df = (r-1) (c-1)

Where; df = degree of freedom

 r = number of rows

 c = number of columns.

In determining the critical chi \_ square value, the value of confidence is assumed to be at 95% or 0.95. a margin of 5% or 0.05 is allowed for judgment error.

**CHAPTER FOUR**

**DATA ANALYSIS AND INTERPRETATION**

* 1. **Introduction**

This chapter deals with the presentation and analysis of the result obtained from questionnaires. The data gathered were presented according to the order in which they were arranged in the research questions and simple percentage were used to analyze the demographic information of the respondents while the chi square test was adopted to test the research hypothesis.

* 1. **Analysis of Demographic Data of Respondents**

**Table 1: Gender of Respondents**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Male | 65 | 65.0 | 65.0 |
| Female | 35 | 35.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table1 above shows the gender distribution of the respondents used for this study. Out of the total number of 100 respondents, 65respondents which represent 65.0percent of the population are male. 35 which represent 35.0 percent of the population are female.

**Table 2: Age range of Respondents**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | 20-30years | 15 | 15.0 | 15.0 |
| 31-40years | 10 | 10.0 | 25.0 |
| 41-50years | 25 | 25.0 | 50.0 |
| 51-60years | 20 | 20.0 | 70.0 |
| above 60years | 30 | 30.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 2 above shows the age grade of the respondents used for this study. Out of the total number of 100 respondents, 15 respondents which represent 15.0percent of the population are between 20-30years. 10respondents which represent 10.0percent of the population are between 31-40years. 25respondents which represent 25.0percent of the population are between 41-50years. 20respondents which represent 20.0percent of the population are between 51-60years. 30respondents which represent 30.0percent of the population are above 60years.

**Table 3: Educational Background of Respondents**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | FSLC | 20 | 20.0 | 20.0 |
| WASSCE/GCE/NECO | 25 | 25.0 | 45.0 |
| OND/HND/BSC | 35 | 35.0 | 80.0 |
| MSC/PGD/MBA/PHD | 15 | 15.0 | 95.0 |
| OTHERS | 5 | 5.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 3 above shows the educational background of the respondents used for this study. Out of the total number of 100 respondents, 20 respondents which represent 20.0percent of the population are FSLC holders. 25 which represent 25.0percent of the population are SSCE/GCE/WASSCE holders. 35 which represent 35.0percent of the population are OND/HND/BSC holders. 15 which represent 15.0percent of the population are MSC/PGD/MBA/PHD holders. 5 which represent 5.0percent of the population had other type of educational qualifications.

**Table 4: Marital Status**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Single | 30 | 30.0 | 30.0 |
| Married | 55 | 15.0 | 45.0 |
| Divorced | 5 | 20.0 | 65.0 |
| Widowed | 10 | 15.0 | 80.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 4 above shows the marital status of the respondents used for this study. 30 which represent 30.0percent of the population are single. 55 which represent 55.0percent of the population are married. 5 which represent 5.0percent of the population are divorced. 10 which represent 10.0percent of the population are widowed.

**Table 5: Category of Respondents**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Senior staff | 25 | 25.0 | 25.0 |
| Middle staff | 45 | 45.0 | 70.0 |
| Junior staff | 30 | 30.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 5 shows the category of respondents used for the study. 25 respondents representing 25.0perrcent of the population under study are senior staff. 45 respondents representing 45.0perrcent of the population under study are middle staff. 30 respondents representing 30.0perrcent of the population under study are junior staff.

**4.3 Analysis of Psychographic Data**

**Table 6: There is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agreed | 30 | 30.0 | 30.0 |
| Agreed | 42 | 42.0 | 72.0 |
| Undecided | 10 | 10.0 | 82.0 |
| Disagreed | 10 | 10.0 | 92.0 |
| Strongly disagreed | 8 | 8.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 6 shows the responses of respondents if there is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria. 30 respondents representing 30.0percent strongly agreed that there is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria. 42 respondents representing 42.0percent agreed that there is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria. 10 respondents representing 10.0 percent were undecided. 10 respondents representing 10.0percent disagreed that there is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria. 8 respondents representing 8.0percent strongly disagreed that there is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria.

**Table 7: Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agreed | 10 | 10.0 | 10.0 |
| Agreed | 15 | 15.0 | 25.0 |
| Undecided | 5 | 5.0 | 30.0 |
| Disagreed | 40 | 40.0 | 70.0 |
| Strongly disagreed | 30 | 30.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 7 show the responses of respondents if interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates. 10 of the respondents representing 10.0percent strongly agreed that interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates. 15 of the respondents representing 15.0percent agreed that interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates. 5 of them representing 5.0percent were undecided. 40 of the respondents representing 40.0percent disagreed that interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates. 30 of the respondents representing 30.0percent strongly disagreed that interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.

**Table 8: Interest rate can be achieved through the deregulation of the banking industry**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agreed | 60 | 60.0 | 60.0 |
| Agreed | 25 | 25.0 | 85.0 |
| Undecided | 10 | 10.0 | 95.0 |
| Disagreed | 5 | 5.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 8 show the responses of respondents if interest rate can be achieved through the deregulation of the banking industry. 60 of the respondents representing 60.0percent strongly agreed that interest rate can be achieved through the deregulation of the banking industry. 25 of the respondents representing 25.0percent agreed that interest rate can be achieved through the deregulation of the banking industry. 10 of them representing 10.0percent were undecided. 5 of the respondents representing 5.0percent disagreed that interest rate can be achieved through the deregulation of the banking industry.

**Table 9: Nigeria can achieve stability in ban credit pricing if the interest rate is deregulated**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agreed | 25 | 25.0 | 25.0 |
| Agreed | 32 | 32.0 | 57.0 |
| Undecided | 13 | 13.0 | 70.0 |
| Disagreed | 15 | 15.0 | 85.0 |
| Strongly disagreed | 15 | 15.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 9 shows the responses of respondents if nigeria can achieve stability in ban credit pricing if the interest rate is deregulated. 25 of the respondents representing 25.0percent strongly agreed that nigeria can achieve stability in ban credit pricing if the interest rate is deregulated. 32 of the respondents representing 32.0percent agreed that nigeria can achieve stability in ban credit pricing if the interest rate is deregulated. 13 of the respondents representing 13.0percent were undecided. 15 of the respondents representing 15.0percent disagreed that nigeria can achieve stability in ban credit pricing if the interest rate is deregulated. 15 of the respondents representing 15.0percent strongly disagreed that nigeria can achieve stability in ban credit pricing if the interest rate is deregulated.

**Table 10: The monetary policy of the CBN has no effect on the price of bank credit**

|  |  | Frequency | Percent | Cumulative Percent |
| --- | --- | --- | --- | --- |
| Valid | Strongly agreed | 65 | 65.0 | 65.0 |
| Agreed | 30 | 30.0 | 95.0 |
| Disagreed | 3 | 3.0 | 98.0 |
| Strongly disagreed | 2 | 2.0 | 100.0 |
| Total | 100 | 100.0 |  |

Source: Field Survey, 2020.

Table 10 show the responses of respondents if the monetary policy of the CBN has no effect on the price of bank credit. 65 of the respondents representing 65.0percent strongly agreed that the monetary policy of the CBN has no effect on the price of bank credit. 30 of the respondents representing 30.0percent agreed that the monetary policy of the CBN has no effect on the price of bank credit. 3 respondents representing 3.0percent were undecided. 3 of the respondents representing 3.0percent disagreed that the monetary policy of the CBN has no effect on the price of bank credit. 2 of the respondents representing 2.0percent strongly disagreed that the monetary policy of the CBN has no effect on the price of bank credit.

**4.4 Test of Hypotheses**

**Hypothesis I**

**H0**: There is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria

**H1**: There is a significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria.

**Level of significance**: 0.05

**Decision rule**: reject the null hypothesis H0 if the p value is less than the level of significance. Accept the null hypothesis if otherwise.

| **Table 11 Test Statistics** |
| --- |
|  | There is a significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria |
| Chi-Square | 105.520a |
| Df | 3 |
| **Asymp. Sig.** | **.000** |
| a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0. |

Conclusions based on decision rule:

Since the p-value= 0.000 is less than the level of significance (0.05), we reject the null hypothesis and conclude that there is a significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria.

**Hypothesis II**

**H0**: No Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.

**H2**: Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.

**Level of significance**: 0.05

**Decision rule**: reject the null hypothesis H0 if the p value is less than the level of significance. Accept the null hypothesis if otherwise.

| **Table 12 Test Statistics** |
| --- |
|  | Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates |
| Chi-Square | 70.347a |
| Df | 2 |
| **Asymp. Sig.** | **.000** |
| a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0. |

Conclusions based on decision rule:

Since the p-value= 0.000 is less than the level of significance (0.05), we reject the null hypothesis and conclude that interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATIONS**

**5.1 SUMMARY OF FINDINGS**

The purpose of this study was to examine the impact of interest rate changes on effective pricing of bank credit in Nigeria.

 Hypotheses were formulated (generated) to guide the researcher.

**Hypothesis I**

**H0**: There is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria

**H1**: There is a significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria.

**Hypothesis I**

**H0**: No Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.

**H2**: Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.

The objectives of the study were to;

1. Determine if the Central Bank of Nigeria (CBN) will fix interest rate.
2. Find out if the interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.
3. Assess whether interest rate should be deregulated in line with the deregulation of the banking industry.
4. Ascertain whether a realistic interest rate can be achieved through deregulation of the banking industry.
5. Assess whether Nigeria can achieve stability if interest rate is deregulated.
6. Determine the actual rate charged by banks.
7. Ascertain whether the impact of the monetary policy tools supplied by the Central Bank of Nigeria (CBN) since 1990 on the price of bank credit.
	1. **CONCLUSION**

The purpose of this research work is to verify the fixing of rates of interest changed by banks. The impact of pegged lending rates on effective pricing of bank credit over the years will be assessed.

The work involved an explanation of: The impact of liquidity ratios on interest rates, the relationship between the supply of fund and the pricing of bank credit will also be verified, the impact of liquidity ratio on supply credit and the impact of inflation on the pricing of bank credit.

When the Central Bank of Nigeria (CBN) pegs rates of interest, banks seem to be shortchanged. Yet there is need to fund industrial, agricultural and commercial activities. These sectors required low funding cost if the economy must experience full capacity utilization full employment and a reduction in social crises.

**5.3 RECOMMENDATIONS**

Based on the findings of the study the following recommendations are put forward. First, that Monetary Policy Rate as a policy instrument alone may not be effective in generating and simulating the level of economic activity desired in the banking industry. Also, policy makers should administer the Monetary Policy Instruments to ensure they are effective in generating and invigorating the level of economic activity desired in the banking industry. Also political interference in the banking system is inimical to the growth and health of the industry, therefore it should be minimized.

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**APPENDIX I**

**QUESTIONNAIRE**

**INSTRUCTION:** Please endeavor to complete the questionnaire by ticking the correct answer (s) from the options or supply the information where necessary.

1. Gender
2. Male
3. Female
4. Age range
5. 20-30
6. 31-40
7. 41-50
8. 51-60
9. Above 60
10. Educational qualification
11. FSLC
12. WASSCE/GCE/NECO
13. OND/HND/BSC
14. MSC/PGD/MBA/PHD
15. Others
16. Marital Status
17. Single
18. Married
19. Divorced
20. Widowed
21. Category of Respondent
22. Senior staff
23. Middle staff
24. Junior staff

**SECTION B**

**QUESTIONS ON THE IMPACT OF INTEREST RATE CHANGES ON EFFECTIVE PRICING OF BANK CREDIT IN NIGERIA.**

1. There is no significant effect on the interest rate changes on the effective pricing of bank credit in Nigeria.
2. Strongly agreed
3. Agreed
4. Undecided
5. Disagreed
6. Strongly disagreed
7. Interest rates fixed by the Central Bank of Nigeria (CBN) can be regarded as the realistic rates.
8. Strongly agreed
9. Agreed
10. Undecided
11. Disagreed
12. Strongly disagreed
13. Interest rate can be achieved through the deregulation of the banking industry.
14. Strongly agreed
15. Agreed
16. Undecided
17. Disagreed
18. Strongly disagreed
19. Nigeria can achieve stability in ban credit pricing if the interest rate is deregulated.
20. Strongly agreed
21. Agreed
22. Undecided
23. Disagreed
24. Strongly disagreed
25. The monetary policy of the CBN has no effect on the price of bank credit.
26. Strongly agreed
27. Agreed
28. Undecided
29. Disagreed
30. Strongly disagreed