EFFECT OF INTEREST RATE DEREGULATION ON THE PERFORMANCE OF LISTED BANKS IN NIGERIA

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DOI: https://doi.org/10.57233/ijamer.v2i3.046

Article History: Received: 27 August 2026 | **Revised:** 16 September 2026 | **Accepted:** 22 September 2026 | **Published:** 25 September 2026

How to Cite This Article:
Ajayi, J. A., Asso, H. S., &Lawal, A. Q. (2026). Effect of interest rate deregulation on the performance of listed banks in Nigeria. International Journal of Accounting, Management and Economic Review, 2(3). https://doi.org/10.57233/ijamer.v2i3.046

Abstract
Interest rates in Nigeria were administratively fixed by the Central Bank of Nigeria at levels that discouraged savings and constrained credit to the private sector before it was deregulated. The shift to deregulated interest rates was therefore aimed at improving efficiency in financial intermediation, stimulating investment and fostering sustainable growth within the banking industry. This study therefore analyzes the effect of interest rate deregulation on bank performance in Nigeria with particular reference to monetary policy rate, lending interest rate, deposit interest rate and inflation rate spanning 2012-2024. Secondary data collected from the financial statements of five major Nigerian banks, namely; Access Bank, First Bank of Nigeria, Guaranty Trust Bank, United Bank for Africa and Zenith Bank were utilized for the study. The Augmented Dickey-Fuller (ADF) test was applied to check for stationarity of the variables, while the Autoregressive Distributed Lag (ARDL) model was employed to analyze the relationship between the variables. The findings reveal that monetary policy rate and lending interest rate negatively affect banks performance, indicating that higher borrowing costs reduce lending activity and earnings while deposit interest rate and inflation positively influence return on assets, suggesting that competitive deposit rates and inflation-adjusted spreads enhance banks' performance. The study concludes that while interest rate deregulation improves banks efficiency and financial deepening, monetary policy regulators should therefore monitor monetary policy rates carefully to maintain a balance between macroeconomic stability and bank performance.

Keywords: Bank performance, deposit interest rate, Interest rate deregulation, lending interest rate, monetary policy rate.

1.0 Introduction

The banking sector remains the cornerstone of every modern economy, serving as the main channel for financial intermediation, credit creation, and economic growth. In developing economies like Nigeria, banks play an even more critical role by mobilizing savings from surplus units and channeling them to deficit sectors to stimulate investment and production. The efficiency of this process, however, depends largely on the monetary and interest rate policies governing the financial system. Over the years, Nigeria's financial environment has evolved from a heavily regulated system to one characterized by market-based mechanisms. One of the most transformative policy shifts in this regard was the deregulation of interest rates introduced in Nigeria in 1987 under the Structural Adjustment Programme (SAP) put in place to

allow market forces to determine lending and deposit rates, with the expectation that it would encourage competition, attract savings, and enhance the profitability of banks (Afolabi & James, 2022).

Interest rates in Nigeria were administratively fixed by the Central Bank of Nigeria (CBN) before deregulation, often at levels that discouraged savings and constrained credit to the private sector. The regulated regime limited banks' flexibility in pricing their financial products, thereby reducing their profit margins and discouraging innovation in credit delivery. The shift to deregulated interest rates was therefore aimed at improving efficiency in financial intermediation, stimulating investment, and fostering sustainable growth within the banking industry. However, the policy also exposed banks to interest rate volatility, liquidity risks, and changes in borrowing behaviour (Okonkwo & Ijeoma, 2021). As a result, the relationship between interest rate deregulation and bank profitability remains complex and continues to attract empirical investigation.

A major tool influencing interest rate behaviour in Nigeria is the monetary policy rate (MPR) which the Central Bank of Nigeria (CBN) uses as anchor rate to control liquidity, inflation, and credit conditions. The MPR serves as a guide for banks' lending and deposit rates, and its adjustment directly affects banks' cost of funds and returns on investments. When the MPR is increased, banks face higher borrowing costs, which may reduce credit creation and profitability in the short term. Conversely, a reduction in MPR can stimulate borrowing but may compress interest margins. According to Ibrahim and Yusuf (2023), changes in the MPR significantly affect the performance indicators of Nigerian deposit money banks, suggesting that the policy plays a vital role in shaping profitability outcomes under a deregulated regime.

The lending and deposit interest rates are equally essential components of interest rate management in Nigeria's banking system, while the lending rate reflects the price charged by banks for loans to customers. On the other hand, the deposit rate represents the return paid to depositors for holding funds with the bank. Under deregulation, banks can independently set these rates based on their cost structure, risk profile, and market competition. A wide interval between lending and deposit rates known as the interest rate spread enhances banks' profit margins but may also discourage borrowing and reduce financial inclusion. Conversely, a narrow spread may increase competition but compress profitability. Nnadi and Adeoye (2024) emphasized that the deregulated environment compels banks to strike a delicate balance between competitiveness and profitability, requiring prudent risk management and cost optimization.

Another macroeconomic factor that interacts closely with interest rate dynamics is inflation. Inflation influences the real value of money, investment returns, and the purchasing power of both borrowers and depositors. In Nigeria, high and persistent inflation has often complicated the effectiveness of interest rate deregulation. When inflation rises faster than nominal interest rates, real interest returns become negative, discouraging savings and distorting credit allocation. On the other hand, attempts by the monetary authority to curb inflation through higher policy rates may raise borrowing costs and weaken banks' loan performance. Okon and Bassey (2022) noted that inflation remains one of the strongest determinants of bank profitability in Nigeria, particularly when coupled with interest rate volatility and exchange rate instability.

The ultimate measure of how well banks adapt to the deregulated environment is profitability. A deregulated interest rate regime provides opportunities for banks to innovate and optimize returns but also exposes them to market risks and competitive pressures. The extent to which Nigerian banks can maintain profitability in the face of fluctuating interest rates and inflationary pressures remains an empirical concern. As highlighted by Adeyemi (2025), sustaining profitability under a deregulated regime requires strategic interest rate management, cost control, and policy alignment with macroeconomic realities.

Despite the significant attention given to monetary policy and banking reforms, empirical evidence on how interest rate deregulation affects bank performance in Nigeria remains mixed and inconclusive. While some studies suggest that deregulation has improved resource allocation and efficiency. Others argued that it has increased market instability and reduced profitability due to interest rate fluctuations. Moreover, most existing studies have focused on short-term dynamics or isolated variables, without jointly analyzing the combined influence of monetary policy rate, lending and deposit rates, and inflation within a single framework. This creates a clear research gap regarding how these factors interact under a deregulated environment to shape banks' performance over time.

The broad objective of this study is to examine the impact of interest rate deregulation on the profitability of Nigerian banks. The specific objectives are to:

i. Evaluate the effect of the Monetary Policy Rate (MPR) on the profitability of Nigerian banks.
ii. Assess the impact of the lending interest rate on the profitability of Nigerian banks.
iii. Examine the effect of the deposit interest rate on the profitability of Nigerian banks.
iv. Investigate the influence of inflation rate on the profitability of Nigerian banks.

Research Questions

Based on the objectives stated above, the following research questions are raised:

i. What is the effect of the Monetary Policy Rate (MPR) on the profitability of Nigerian banks?
ii. How does the lending interest rate affect the profitability of Nigerian banks?
iii. What is the relationship between the deposit interest rate and the profitability of Nigerian banks?
iv. To what extent does the inflation rate influence the profitability of Nigerian banks?

Research Hypotheses

The following hypotheses are formulated in line with the stated objectives and questions:

H_{01}: The Monetary Policy Rate (MPR) has no significant effect on the profitability of Nigerian banks.
H_{02}: The lending interest rate has no significant effect on the profitability of Nigerian banks.
H_{03}: The deposit interest rate has no significant effect on the profitability of Nigerian banks.
H_{04}: The inflation rate has no significant effect on the profitability of Nigerian banks.

Theoretical Framework

This section discusses the key economic theories that explain the relationship between interest rate deregulation and bank profitability, providing the theoretical foundation upon which this study is built.

Keynesian Interest Rate Theory

The Keynesian Interest Rate Theory is also known as the Liquidity Preference Theory, was developed by John Maynard Keynes in his 1936 work; *The General Theory of Employment, Interest and Money*. The theory argues that the rate of interest is determined by the demand and supply for money, rather than by the classical interaction between savings and investment. Keynes identified three motives for holding money, namely; the transactions motive, precautionary motive, and speculative motive, each influencing how individuals and institutions demand liquidity in the economy (Keynes, 1936). According to Keynes, people demand money for day-to-day transactions and for unexpected contingencies, but the speculative motive is particularly important in determining the equilibrium interest rate. When investors expect interest rates to rise in the future, they hold more money and fewer bonds to avoid capital losses. This increased demand for money raises the current interest rate. Conversely, if investors anticipate falling interest rates, they prefer to buy bonds, reducing liquidity demand and lowering the prevailing interest rate. Thus, interest rate movements are shaped by expectations about the future and by the general desire for liquidity within the economy.

Within this framework, interest rates play a crucial role in determining investment and economic activity. When interest rates are high, borrowing costs increase, discouraging firms from undertaking new investments; when rates fall, investment and aggregate demand rise. Hence, fluctuations in liquidity preference directly influence the level of investment and, ultimately, economic growth (Ibrahim & Yusuf, 2023). For banks, liquidity preference theory helps explain changes in deposit mobilization, loan creation, and profitability. In periods of uncertainty, depositors may prefer holding cash, thereby reducing the deposit base of banks and limiting their capacity to create credit. Conversely, lower liquidity preference enhances deposit inflows and can boost bank lending and profitability.

In the context of interest rate deregulation in Nigeria, the Keynesian framework suggests that allowing market forces to determine interest rates exposes banks to greater volatility in liquidity conditions and investor sentiment. The deregulated environment enables rates to adjust to shifts in liquidity preference more rapidly, making bank profitability (measured by ROA or ROE) sensitive to both monetary policy actions and macroeconomic expectations. This theory therefore provides an essential foundation for understanding how changes in liquidity preference and market-driven interest rates jointly affect the financial performance of Nigerian banks.

Loanable Funds Theory

The Loanable Funds Theory, advanced by economists such as Knut Wicksell (1898) and later refined by Dennis Robertson and Bertil Ohlin, explains that the interest rate is determined by the interaction between the demand for and supply of loanable funds in the financial market. According to this theory, the market for loanable funds consists of savers who provide funds and investors who demand them for productive purposes. The equilibrium interest rate is the rate at which the amount of funds supplied equals the amount demanded (Robertson, 1934). The supply of loanable funds comes primarily from savings, dishoarding of money, bank credit creation, and foreign capital inflows, while the demand for funds arises from investment, government borrowing, and consumer credit (Afolabi & James, 2022). When savings increase, the supply of loanable funds expands, causing interest rates to fall. Conversely, when the demand for credit rises due to increased investment or government borrowing, interest rates tend to rise (Okonkwo & Ijeoma, 2021). Thus, the interest rate acts as a balancing mechanism between the forces of thrift and investment within an economy.

For Nigerian banks, the Loanable Funds Theory provides a solid framework for understanding how interest rate deregulation affects their profitability. When the supply of funds (deposits and savings) increases, banks can lend more at competitive rates, thereby improving their net interest margins. However, if monetary tightening or inflationary pressures constrain the supply of funds, interest rates rise, and borrowing slows down, potentially reducing profitability (Nnadi & Adeoye, 2024). In this way, the theory connects macroeconomic conditions such as monetary policy rate, savings behaviour, and investment demand to the micro-level performance of banks operating in a deregulated market.

In summary, the Loanable Funds Theory emphasizes that interest rate movements reflect the balance between savings and investment. Under deregulated conditions, this balance becomes more dynamic, exposing banks to both opportunities for higher returns and risks of volatility, which in turn influence their overall profitability and stability in the Nigerian financial system.

Monetary Policy Transmission Mechanism

The Monetary Policy Transmission Mechanism (MPTM) explains how changes in a country's monetary policy particularly the monetary policy rate (MPR) affects the real economy through different financial channels. In essence, it describes the pathways through which central bank actions influence variables such as interest rates, credit availability, investment, and ultimately, bank profitability. When the Central Bank

of Nigeria (CBN) adjusts the MPR, it indirectly alters commercial banks' lending and deposit rates, thereby influencing their cost of funds, interest income, and profitability levels (Ibrahim & Yusuf, 2023).
According to the interest rate channel of the MPTM, a reduction in the MPR encourages banks to lower lending rates, which stimulates borrowing and investment, while an increase in the MPR discourages lending and reduces economic activity.

Financial Liberalization Theory (McKinnon–Shaw Hypothesis)
The Financial Liberalization Theory, also known as the McKinnon–Shaw Hypothesis, was developed independently by McKinnon (1973) and Shaw (1973). The theory argues that interest rate deregulation the removal of government-imposed interest rate ceilings enhances financial efficiency, promotes savings, increases investment, and leads to economic growth and financial deepening. According to McKinnon and Shaw, when interest rates are artificially repressed by monetary authorities, it discourages savings and reduces the pool of loanable funds available for productive investment. In contrast, allowing interest rates to be determined by market forces motivates savers and investors, facilitating more efficient capital allocation within the financial system. In the context of developing economies such as Nigeria, financial repression characterized by low or fixed interest rates often leads to credit shortages, misallocation of resources, and weak banking performance. Deregulation allows banks to price loans and deposits competitively, improving their ability to mobilize savings and extend credit to the private sector.

2.0 Literature Review

The relationship between interest rate deregulation and bank profitability has remained one of the most debated issues in financial economics. Empirical findings across countries and time reveal varying outcomes depending on methodological approaches, data periods, and macroeconomic conditions. While some studies affirm that deregulation enhances profitability through market efficiency and competition, others contend that it increases volatility and credit risk, thereby reducing bank performance. According to Afolabi and James (2022), interest rate deregulation in Nigeria led to improved bank profitability by allowing financial institutions to price loans and deposits competitively, thus expanding interest margins. Using a panel regression for 10 deposit money banks between 2000 and 2020, they found a significant positive relationship between lending rate liberalization and return on assets (ROA).

Similarly, Adeyemi (2025) established that controlled deregulation of interest rates enhances profitability, especially when banks employ effective risk management strategies. His study, based on panel data and fixed-effect estimation, revealed that moderate deregulation supports asset efficiency and profitability growth. Likewise, Olayemi (2023), using an ARDL model and quarterly data from 2010–2022, reported that interest rate liberalization exerted a positive long-run effect on profitability but a negative short-run effect due to adjustment delays in monetary transmission.

Contrary to these findings, several studies report negative effects of interest rate deregulation. Okon and Bassey (2022) found that excessive volatility in deregulated interest rates eroded bank profitability by increasing the cost of funds and reducing credit demand. Their time-series analysis (1986–2021) revealed that higher lending rates discouraged private investment and impaired banks' loan quality. Ibrahim and Yusuf (2023) also discovered that frequent changes in the Monetary Policy Rate (MPR) caused instability in lending rates, which negatively affected banks' profitability. Their dynamic panel model (2005–2020) indicated that while monetary policy rate changes influenced credit behavior, the transmission mechanism to profitability was weak and inconsistent.

Similarly, Mohammed and Lawal (2021) concluded that deregulation without adequate macroeconomic coordination led to unstable interest rates that increased non-performing loans and reduced net interest margins. Using GARCH modeling, they found that fluctuations in interest rate volatility negatively

influenced the profitability of top-tier Nigerian banks. In Kenya, Otieno and Kilonzo (2020) showed that the removal of lending rate caps initially improved bank margins, but excessive market-driven rate adjustments later created instability and reduced long-term profitability.

Other researchers found mixed or conditional results, suggesting that the effect of deregulation depends on the economic context. Adekunle and Okafor (2021) reported that deregulation enhances profitability during stable inflationary periods but weakens it under high inflation or exchange rate shocks. Similarly, Adewunmi (2023), using panel ARDL, showed that interest rate liberalization promoted financial intermediation efficiency but that the benefits were often offset by inflation and policy uncertainty. Eze and Mordi (2020), in a comparative study of Nigeria, Ghana, and Kenya, found that countries with gradual and well-sequenced deregulation achieved better financial outcomes than those implementing abrupt liberalization.

In addition, Chukwu and Nnamdi (2022) found that deregulation improved banks' liquidity management but reduced stability when coupled with inflationary pressures. Using Vector Error Correction Model (VECM) on data from 1990–2020, they demonstrated that lending rate liberalization led to short-run profitability gains that dissipated in the long run. Usman and Afolayan (2022) similarly found in a cross-country study of five African economies that the impact of deregulation varied depending on the regulatory strength of each country's financial sector.

Furthermore, Olaniyi and Eboh (2024) analyzed how interest rate deregulation interacts with credit risk management to influence profitability among Tier 1 Nigerian banks. Their study revealed that banks with robust credit screening processes benefited more from deregulation than those with weaker risk controls.

The literature reviewed above shows that there is no consensus among the authors, hence this forms the gap which this study tries to fill.

3.0 Methodology

The study employs a quantitative research approach using secondary data from 2012 to 2024 for five Nigerian banks, which are; First Bank, UBA, GTB, Access Bank, and Zenith Bank code-named (FUGAZ banks). The design allows for the application of econometric techniques such as panel regression, ARDL, and GARCH modeling to analyze how fluctuations in interest rate variables and inflation influence the profitability of banks. By using this design, the study ensures that both historical trends and dynamic relationships are captured, providing robust insights into the effects of interest rate deregulation on bank performance.

Model Specification

The study adopts an econometric model to empirically examine the impact of interest rate deregulation on the profitability of Nigerian banks. Following prior studies (Adeyemi, 2025; Afolabi & James, 2022), the model relates the dependent variable, bank profitability measured by Return on Assets (ROA), to key independent variables, including Monetary Policy Rate (MPR), Lending Interest Rate (LIR), Deposit Interest Rate (DIR), and Inflation Rate (INF).

The functional form of the model is expressed as:

$BP = f(MPR, LIR, DIR, INF)$ …… (3.1)

The econometric form of the above equation is shown below:

$$ROA_{it} = \beta_0 + \beta_1 MPR_{it} + \beta_2 LIR_{it} + \beta_3 DIR_{it} + \beta_4 INF_{it} + \mu \text{ ……..…… (3.2)}$$

Where:

BP = Bank Performance proxy with (ROA; Return on Assets)

MPR = Monetary Policy Rate at time t

LIR = Lending Interest Rate at time t
DIR = Deposit Interest Rate at time t
INF = Inflation Rate at time t
β_0 = Intercept term
$\beta_1 - \beta_4$ = Coefficients measuring the impact of each independent variable
μ = Error term

4.0 Empirical Findings and Analysis

Table 4.1

Descriptive Statistics Result

	ROA	MPR	LIR	DIR	INF
Mean	0.027821	14.71154	15.71385	7.150000	15.35385
Median	0.023700	13.50000	16.69000	8.100000	13.20000
Maximum	0.061537	27.50000	18.50000	9.540000	32.50000
Minimum	1.10E-05	11.50000	12.10000	3.500000	8.100000
Std. Dev.	0.013716	4.213360	1.817822	2.173534	6.718749
Skewness	0.882995	2.151619	-0.581730	-0.611473	1.247493
Kurtosis	2.940894	6.889531	2.220073	1.808515	3.944043
Jarque-Bera	8.456003	91.12541	5.313543	7.895421	19.27296
Probability	0.014582	0.000000	0.070174	0.019299	0.000065
Sum	1.808373	956.2500	1021.400	464.7500	998.0000
Sum Sq. Dev.	0.012041	1136.154	211.4865	302.3520	2889.062
Observations	65	65	65	65	65

Source: E-views, 2025.

The key variables used in the paper is depicted above over the period 2012–2024. For the Monetary Policy Rate (MPR), the mean value is 14.71%, with notable variability shown by a standard deviation of 4.21, a maximum rate of 27.5%, indicating periods of high policy rate adjustments among other variables.

Graphical Analysis

The graphical analysis provides a visual representation of the trends and patterns of the study variables over the period 2012–2024. Line graphs indicate how ROA, MPR, Lending and Deposit Rates, and Inflation have fluctuated over time, highlighting periods of sharp increases or declines. This visual inspection complements the descriptive statistics, making it easier to identify trends, cycles, and potential outliers in the data before econometric analysis.

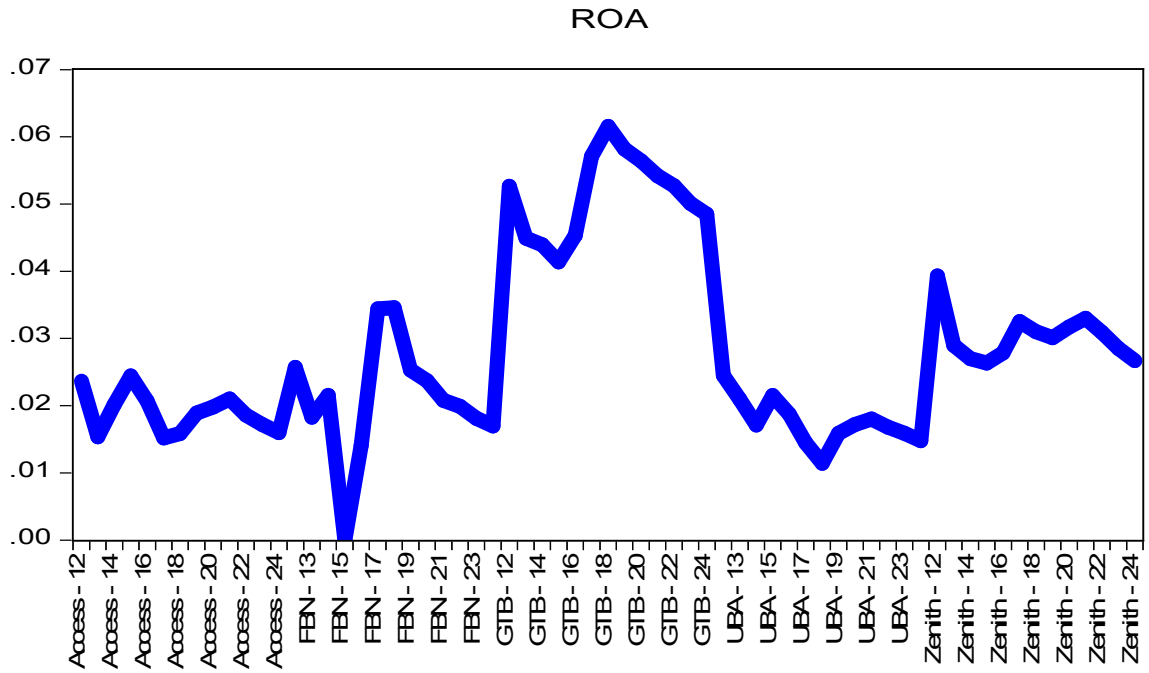


Figure 4.1: Trend of Return on Assets (ROA)
Source: E-views, 2025.

The trend of ROA across the five selected banks shows fluctuations between 2012 and 2024. GTB consistently recorded the highest ROA, peaking at 0.0615 in 2018, reflecting strong profitability. Access, FBN, UBA, and Zenith exhibited more moderate performance, with a slight decline in ROA from 2022 to 2024, suggesting that rising interest rates and inflation may have pressured banks' profitability in recent years.

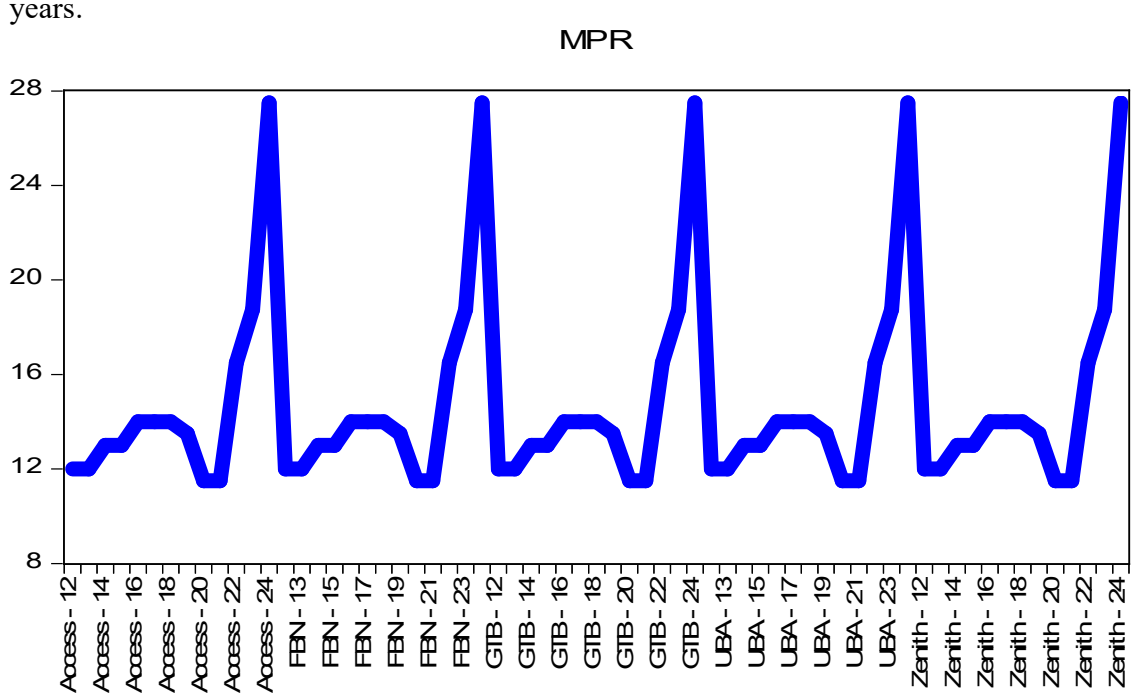


Figure 4.2: Trend of Monetary Policy Rate
Source: E-views, 2025.

The MPR remained relatively stable at 12–14% between 2012 and 2018, followed by an upward trend from 2022, reaching 27.5% in 2024. This sharp increase reflects tighter monetary policy by the CBN to curb inflation and stabilize the economy, potentially increasing banks' lending costs.

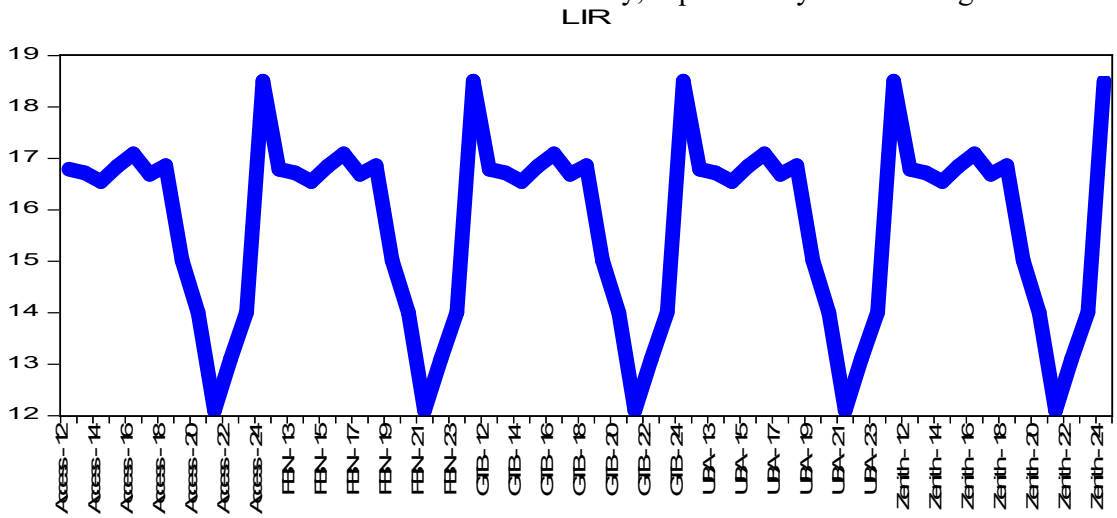


Figure 3.3: Trend of Lending Interest Rate (LIR)
Source: E-views, 2025.

Lending rates generally moved in tandem with MPR but with a smaller range, averaging around 15–18.5% over the period. The peak in 2024 coincides with the high MPR, indicating that banks adjusted their loan pricing to maintain profitability amid rising policy rates.

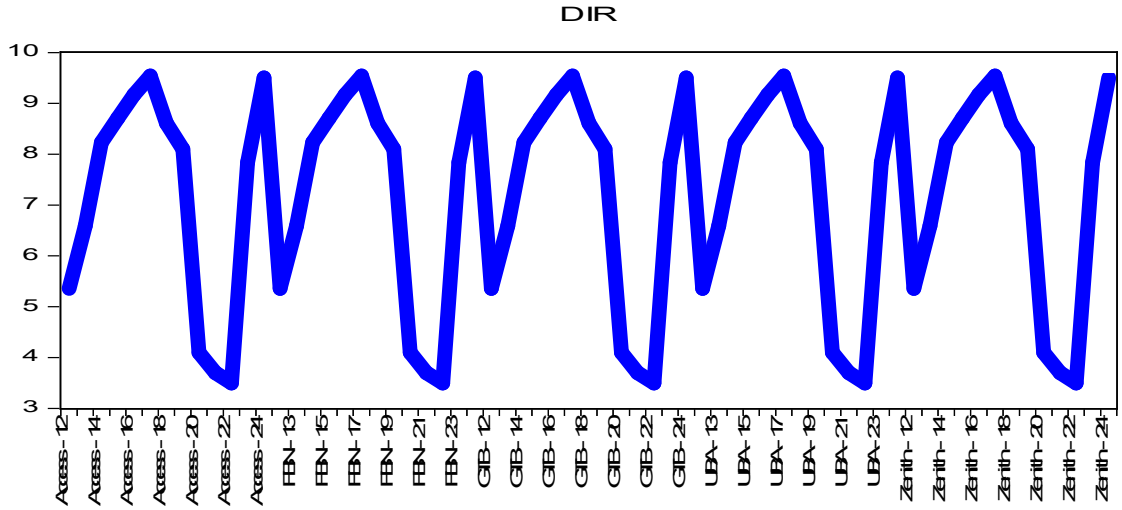


Figure 4.4: Trend of Deposit Interest Rate (DIR)
Source: E-views, 2025.

Deposit rates started low (around 5.36% in 2012) and gradually increased to 9.5% by 2024. The moderate rise shows efforts by banks to attract savings despite rising macroeconomic pressures, though the gap between lending and deposit rates (interest spread) remained a key source of profitability.

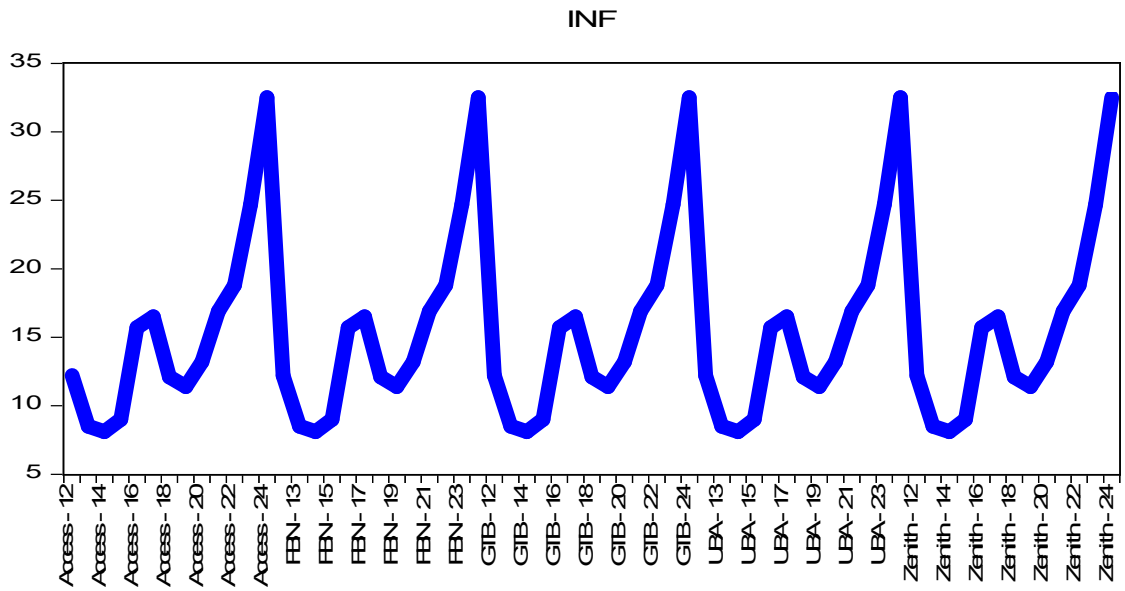


Figure 4.5: Inflation Rate (INF) Trend
Source: E-views, 2025.

Inflation exhibited volatility, ranging from 8.1% in 2014 to 32.5% in 2024. Rising inflation in the latter period likely eroded real returns on assets, putting additional pressure on banks' profitability and emphasizing the importance of interest rate adjustments in maintaining financial stability.

Table 4.2
Augmented Dickey-Fuller Unit Root Test

Variables							I (d)
	Level			First difference			
	Model I	Model II	Model III	Model I	Model II	Model III	
ROA	20.5091	12.9666	7.01767	-	-	-	I(0)
MPR	0.04677	0.02335	0.73390	0.27681	0.20649	1.41415	I(1)
LIR	10.7194	0.86570	2.23046	0.29004	0.01153	4.23608	I(1)
DIR	15.1334	7.75980	5.24183	4.31930	0.29725	17.0094	I(1)
INF	0.43789	1.12043	0.42799	-	-	-	I(0)

Source: E-views, 2025.

A mixed order of integration exists above, namely some (I(0); others (I(1)), hence, the use of Autoregressive Distributed Lag model.

Table 4.3
Autoregressive Distributed LagRegression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MPR	-0.000444	5.82E-05	-7.624	0.0000
DIR	0.000459	9.86E-05	4.653	0.0001
LIR	-0.001143	0.000194	-5.906	0.0000
INF	0.000860	2.10E-05	41.012	0.0000

Source: E-views, 2025.

Regression results above show that Monetary Policy Rate (MPR) has a negative coefficient of -0.000444, indicating that increases in the MPR slightly reduce the profitability of Nigerian banks, as measured by ROA. This suggests that an increase in MPR will raise the cost of funds for banks, reducing their net earnings. Given the t-statistic of -7.624 and a p-value of 0.0000, the effect is statistically significant at the 5% level, confirming that changes in MPR meaningfully influence bank profitability. This result concurs with the findings of Ibrahim and Yusuf (2023), who opined that higher Monetary Policy Rate reduces net interest margins in Nigerian banks but contradicts Obinna (2020), who found an insignificant effect of MPR on bank profitability.

For Deposit Interest Rate (DIR), the coefficient of 0.000459 is positive, implying that higher deposit rates slightly increase banks' profitability. This may be due to enhanced savings mobilization, providing banks with more low-cost funds for lending and investment. At the 5% level (p = 0.0001), therefore, the result is statistically significant and although the coefficient magnitude is small, it indicates a consistent positive effect over time.

The Lending Interest Rate (LIR) shows a negative coefficient of -0.001143, implying higher lending rates reduce bank profitability. This finding aligns with the works of of Nnadi and Adeoye (2024) and Okon and Bassey (2022) and negates that of Tijjani and Melemi (2019). Inflation Rate with a positive coefficient of 0.000860, indicates that increases in it slightly boost bank profitability. This could reflect banks' ability to adjust interest spreads to preserve real returns. The effect is strongly significant (p = 0.0000), and the coefficient magnitude shows that inflation has the largest impact among the variables, emphasizing its importance in shaping the financial performance of banks. This outcome corroborates with that of Okonkwo and Ijeoma (2021) and did not align with Ekong and Anietie (2019).

5.0 Conclusion

This study x-rays the impact of interest rate on the profitability of selected Nigerian banks from 2012 to 2024. The study specifically focused on the monetary policy rate, lending interest rate, deposit interest rate, and inflation rate in measuring banks' financial performance. The research employed both descriptive and inferential analysis. Preliminary analysis included descriptive statistics and graphical trends, showing that MPR and lending rates generally fluctuated in response to macroeconomic conditions, while deposit rates and inflation showed gradual increases over the years. Results from the study which has been shown in the analysis above shows a significant negative effect of monetary policy rate on bank performance, implying that higher policy rates increased borrowing costs and reduced profitability. The lending interest rate (LIR) also negatively influenced ROA, consistent with the effect of increased credit costs on bank operations.

The deposit interest rate (DIR) positively affected profitability, suggesting that competitive deposit rates encouraged greater savings mobilization and improved funding for banks. Inflation rate is positive and have significant impact, indicating that banks were able to adjust interest spreads and maintain real returns during inflationary periods. As a result of this, banks should therefore adopt hedging mechanisms and scenario analysis to manage risks associated with interest rate fluctuations in a deregulated environment.

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