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EFFECT OF LENDING RATE ON THE PERFORMANCE OF NIGERIAN DEPOSIT MONEY BANK

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Abstract: The paper examined the effect of lending rate on the performance of Nigerian Deposit Money Bank. The paper made use of secondary data which were sourced from Central Bank of Nigerian Statistical Bulletin of various years. The data was analysis with the use of multiple regressions technique of Ordinary Least Square (OLS). The study revealed that positive relationship exists between lending rate and the profit after tax of Nigerian banks. The study recommended that Nigerian banks should review down ward the lending rate to enhance more patronage of the loan facilities by the public.

Key Words: Profit After Tax, Bank Performance, Lending Rate, Economic Growth

I. INTRODUCTION

Commercial Banks are custodians of depositor's funds and operate by receiving cash deposits from the general public and loaning them out to the needy at statutorily allowed interest rates (Ngure, 2014). In Nigeria the financial sector is dominated by commercial banks, therefore any failure in the sector has a grave consequence on the economic growth and development of the country. This is due to the fact that any bankruptcy that could happen in the sector has a contagion effect that can lead to bank runs, crises and bring overall financial crisis and economic tribulations (IMF, 2001). Banks play a major role in the economy through their economic function of financial intermediation that performs both a brokerage and a risk transformation function (Hara, 1983).

Commercial Banks as financial intermediaries perform financial intermediation function of mobilization and allocation of funds from the economic surplus (lenders) to the economic deficit unit (borrowers). This function is directly linked with banks profitability which encourages economic growth. According to Wainaina (2013), profitability of banks has relationships with growth and development of the economy. Deposit money banks are the most important savings and mobilization of financial resources and allocating them to productive investment and in return

promote their performance (Victor 2013). Interest rate however plays a vital role in how a bank makes money (Haye, 2013). Hualan (1992) found that interest rate is one of the most important factors that affect the bank financial performance. Interest rates are the reward paid by a borrower (debtor) to a lender (creditor) for the use of money for a period and they are expressed in a percentage, per annum (pa) to make them comparable. Interest rates are also quite often referred to as the price of money. Corb (2012) described interest rate as an economic tool used by the Central Bank to control inflation and boost economic development. Therefore poor decisions on an interest rate regime could spell doom for the financial system and the economy as a whole.

The Central Bank of Nigeria uses the interest rate is as a monetary policy tool to adjust the lending rates of banks and other financial institutions in Nigeria. Giovanni (2006) argued that high interest rate set by the Central Bank means that the other financial institution will have to charge high because they are all profit oriented. In Nigeria, since the inception of interest rates deregulation in 1986, the government has pursued a market-determined interest rate regime, which does not permit a direct state intervention in the general direction of the economy (Adebiyi and Babatope, 2004). Rasheed (2010) states that the Nigerian economy saw different interest rates for different sectors in 1970's through the mid 1980 (regulated Regime). Preferential interest rates were therefore applied to encourage priority sectors such as agriculture and manufacturing. However, deposit money banks decisions to lend out loans are influenced by a lot of factors such as the prevailing interest rate, the volume of deposits, the level of their domestic and foreign investment, banks liquidity ratio, prestige and public recognition to mention just but a few. Lending practices in the world could be traced to the period of industrial revolution which increase the pace of commercial and production activities thereby bringing about the need for large capital outlays for projects.

Many captains of industry at this period were unable to meet up with the sudden upturn in the financial requirements and therefore turn to the banks for assistance (Ezirim, 2005). However, the emergence of banks in Nigeria in 1872 with the establishment of the African Banks Corporation (ABC) and later appearance of other banks in the scene during the colonial era witnessed the beginning of banks' lending practice in Nigeria. Though, the lending practices of the then colonial banks were biased and discriminatory and could not be said to be a good lending practice as only the expatriates were given loans and advances. This among other reasons led to the establishment of indigenous banks in Nigeria. Prior to the advent of Structural Adjustment Programme (SAP) in the country in 1986, the

lending practices of banks were strictly regulated under the close surveillance of the bank's supervisory bodies. The SAP period brought about some relaxation of the stringent rules guiding banking practices. The Bank and Other Financial Act Amendment (BOFIA) 1998, requires banks to report large borrowing to the CBN. The CBN also require that their total value of a loan credit facility or any other liability in respect of a borrower, at any time, should not exceed 20% of the shareholders' funds unimpaired by losses in the case of commercial banks (Felicia, 2011).

Statement of the Problem

Commercial banks in Nigeria are predominant in the banking industry. Their deposit and credits form a major portion of the total credit to all economy 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 effect of the interest rate on the performance of Nigeria deposit money bank. This would be of great assistance to the regulators in forming a favorable interest rate that would meet the macro economic objectives in Nigeria.

Many researchers have work on this study "effect of interest rate on performance of Nigerian deposit money bank " using many interest rate variable to proxy the interest rate but no researchers have use deposit interest rate to measure the relationship between the variables. So this study will include the deposit interest rate as one of the variable in the model.

Research Questions

The seminar paper is guided with the following research question;

i) Does lending interest rate have significant relationship with the performance of Nigerian deposit money bank?

ii) Does deposit interest rate significantly influence the performance of Nigerian deposit money bank?

iii) Does monetary policy rate significantly influenced the performance of Nigerian deposit money bank?

Objectives of the Study

This study examined the effect of the lending rate on the performance of Nigeria deposit money bank.

While, the specific objective are;

i) Examine lending interest rate relationship with the performance of Nigerian deposit money bank.

ii) Examine deposit interest rate relationship with the performance of Nigerian deposit money bank.

iii) Examine monetary policy rate relationship with the performance of Nigerian deposit money bank

Hypotheses of the Study

The following hypothesis are relevant for this study:

$H0_1$: Lending interest rate has no significant relationship with the performance of Nigerian deposit money bank.

$H0_2$: Deposit interest rate has no significant influence on the performance of Nigerian deposit money bank.

$H0_3$: Monetary policy rate has no significant influence on the performance of Nigerian deposit money bank

Scope of the Study

The research study on lending rate and the performance of Nigeria deposit money bank covered the period of 2007-2017. This period was chosen because of the researcher felt that it would be better to use a period of steady democratic dispensation in Nigeria. This study will be limited to lending rate, inflation rate and it effect on the performance of Nigeria deposit bank. Other relevant variable could have been studied but due to time and other resource.

Significance of the Study

The study will helps us understand the impact of an effective lending rate on the performance of the Nigeria deposit money Banks. It would aid the regulators to carefully plan and forecast the effects of its policies to meet its objectives of economic growth and full employment. To bankers, it would expose the relationship existing between our relevant variables, which will be of interest to them in their respective banks. This would also benefit the academic community which would avail them the opportunity of conducting further research in the topic of similar areas.

II. LITERATURE REVIEW

Conceptual Review

Interest Rate

Gilchris, (2013) states that although it is difficult to determine the direction of the relationship between lending rate and profitability, studies confirm

that lending rate instability affects Nigeria deposit money bank 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 (lending 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.

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 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. Chenn (2011) 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)

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)

Performance of Nigeria Deposit Money Bank

The financial system of most developing nations has come under stress as a result of the economic shocks of the 1980s. The economic shocks largely manifested through indiscriminate distortions of financial prices which includes interest rates, has tended to reduce the real rate of growth and the real size of the financial system relative to financial magnitude. In other words, banks do grant loans and advances to individuals, business organizations as well as government in order to enable them embark on investment and development activities as a means of aiding their growth in particular or contributing towards the economic development of a

country in general. Deposit money banks are the most important savings, mobilization and financial resource allocation institutions. Consequently, these roles make them an important phenomenon in economic growth and development. Therefore, no matter the sources of the generation of income or the economic policies of the country deposit money banks would be interested in giving out loans and advances to their numerous customers bearing in mind, the three principles guiding their operations which are profitability, liquidity and solvency (Ajayi, 2008). This study becomes imperative because deposit money banks in Nigeria need to understand how to manage these huge assets in terms of their loans and advances. For the banks to balance their main objectives of liquidity, profitability and solvency, lending must be handled effectively and the banks must behave in a way that their potential customers are attracted and retained. Agene (2001) argued that the effects of an increase in interest rate, other things being equal, will lead to a decline in aggregate demand partly because these will encourage savings to earn higher returns. On the other hand, Adam (2001) added that in a situation where the interest payments form a significant portion of product costs, increased interest rates could result in reduced capital spending, investment, output and employment.

Theoretical Review

The Theoretical framework is guided by the work of Bekaert (1998) which tries to analyze the influence of lending rate on performance on Nigeria deposit money bank.This section considers theories such as loan Pricing theory, banks lending rate, firm characteristic theory, theory of multiple lending, the signaling approach, credit market theory, classical theory of interest etc.

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)

Credit Market Theory

It states that the term of the credit clears the market. If collateral and other restrictions remain constant, interest rate is the only price mechanism. If there is an increasing demand for credit and the supply remains constant, the interest rate rises and vice versa. Ewert (2000) suggest that the higher the failure risk of the borrower, the higher the interest premium.

Bank's Lending Rate

By far the most visible and obvious power of many modern central banks is to influence market interest rates; contrary to popular belief they rarely "set" rates to a fixed number although the mechanism differs from country

to country/ most use a similar mechanism based on a central bank's ability to create as much fiat money as required. The mechanism to move the market towards a "target rate7' (which specific rate is used) is generally to lend money or borrow money in theoretically unlimited quantities until the targeted market rate is sufficiently close to the target (Adam, 2001). Central banks may do so to by lending money to and borrowing money from a limited number of qualified banks. For example, the Bank of Canada Sets a target overnight rate, and a band of plus or minus 0.25%. Qualified banks borrow from each other within this band, but never above or below, because the Central bank will always lend to them at the top of the band and take deposits at the bottom and lend at the extremes of the band are unlimited. This mechanism also implies to the Central Bank of Nigeria

Multiple Lending Theory

The theory posits that banks should be less inclined to share lending (loan syndication) when the equity markets are well developed. Mergers, acquisition and outside equity increase banks' lending capacity and reduces the need for greater diversification and monitoring (Carletti, 2006; Ongene and Smith, 2000; Karceski, 2004; Degryse, 2004).

Empirical Review

Adofu and Audu (2010) used ordinary least square method to ascertain the assessment of the effects of interest rate deregulation in enhancing agricultural productivity in Nigeria. The study found out that interest rate play a significant role in enhancing economic activities and as such, monetary authorities should ensure appropriate determination of interest rate level that will break the double - edge effect of interest rate on savers and local investors.

Rasheed (2010) used error correction model (ECM) to investigate interest rates determination in Nigeria. The study found out that as the Nigerian financial sector integrates more with global markets, returns on foreign assets will play a significant role in the determination of domestic interest rates.

Newman (2012) used regression and collection methods to examined the relationship between interest rate and the performance of Nigerian deposit money bank. In this study he analysis published audited account of twenty banks from 1980-2009 from the central bank of Nigeria statistical bulletin. He found out that the interest rate policies have not improved the performance of the banks significantly and also have contributed marginally to the growth of the economy for sustainable development.

Owni and Ajaude (2013) used multiple regression in his study to examined the influence of lending rate on the performance of Nigerian deposit money bank, and twenty four 24 active deposit money banks in Nigeria are used to formulate the population of the study. Data are extracted from the central bank of Nigeria statistical bulletin from 1986-2012. Finding show that there is significant relationship between lending rate and other variable with the money deposit bank in Nigeria.

Okoye and Eze (2013) used econometrics data in a regression method to investigate the effect of bank lending rate on the performance of Nigerian deposit money bank between the year 2000-2010, data were collected from the central bank of Nigeria statistical bulletin and others relevant journals and the findings show that lending rate and monetary policy rate has significant and positive effects on the performance of Nigerian deposit money bank

Irungu(2013), used ordinary least square method to analysis the variable on effect of monetary policy rates on the profitability of the Nigeria banks, data were collected from the central bank of Nigeria statistical bulletin and others relevant journals and the findings show that lending rate and monetary policy rate has significant. The concluded that government should use a favorable monetary policy rate to have a healthy economy growth.

Ngure (2014) used ordinary least square method to ascertain the assessment of the effects of interest rate deregulation in controlling the Nigeria economy. The study found out that interest rate play a significant role in enhancing economic activities and as such, monetary authorities should ensure appropriate determination of interest rate level that will break the double - edge effect of interest rate on savers and local investors.

Enyioko (2015) used regression and collection methods to examined the relationship between monetary and the profitability of Nigerian deposit money bank. In this study he analysis published audited financial account of 15 banks from 1980-2009 and the central bank of Nigeria statistical bulletin. He found out that the monetary policies rate have no significant on the performance of the banks and also have contributed to the growth of the economy.

Adeosun and Habeeb(2015) used multiple regression in his study to examined the impact of lending rate on the economic growth. Data are extracted from the central bank of Nigeria statistical bulletin from 1980-2014. Finding show that there is significant relationship between lending rate and the Nigerian economy the monetary authority should apply a favorable rate that will improve the economic activities.

III. RESEARCH METHODOLOGY

Research Design

The research design employed Descriptive and Ex-post facto Research Design. Descriptive research design method helps in gathering information about the existing status of the phenomena in order to describe what exists in respect to variables.

Model Specification

The theoretical foundation is based on the study of Okoye and Eze (2013) and Udeh (2015), who used Pearson Product moment correlation technique to analyze the data collected

Model Estimation

This is expressed functionally as;

$$ROE = f\ (LIR, DIR, MPR) \tag{1}$$

The linear regression equation for the model are

$$ROE = b\ 0 + b1LIR + b2\ DIR + b3MPR + \mu\ t \tag{2}$$

Where

ROE = Dependent Variable (Y t)

LR = Lending interest Rate (X t)

DIR = Deposit interest rate (X t).

MPR= Monetary policy rate

B0= Intercept

B1-b3= co efficient of the independent variables

t = Time series (Annual)

μt = Error or disturbance term.

Source of Data

The data required for the study was obtained from secondary sources that were used to investigate the relationship between dependent and independent variables. The study used secondary data sources to gather information relevant to the research objectives. The study covered data for interest rate and Nigeria deposit bank within 2007-2017 ,which was collected from the Central Bank of Nigeria; website and statistical bulletin, annual reports and the internet.

IV. DATA PRESENTATION AND ANALYSIS

Data Presentation

See appendix i

Data Analysis

Interpretation of Result and Discussion of Findings

Table 4.1: OLS Regression Results

Dependent Variable: ROE
Method: Least Squares
Date: 06/24/19 Time: 13:11
Sample: 2007 2017
Included observations: 11

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	103.3616	169.9801	0.608080	0.5623
LIR	-12.85291	9.318188	-1.379335	0.2102
DIR	24.89479	8.310319	2.995648	0.0201
MPR	6.807494	3.444906	1.976105	0.0887
R-squared	0.802427	Mean dependent var		33.06909
Adjusted R-squared	0.717752	S.D. dependent var		44.91613
S.E. of regression	23.86258	Akaike info criterion		9.457788
Sum squared resid	3985.959	Schwarz criterion		9.602477
Log likelihood	-48.01783	Hannan-Quinn criter.		9.366582
F-statistic	9.476632	Durbin-Watson stat		2.825184
Prob(F-statistic)	0.007341			

Source: Author's computation 2019.

Looking at the above regression output, the Durbin-Watson Statistics of 2.83 showed that there was no presence of positive serial correlation which could render the estimated model result biased. Thus, the results were reliable and meaningful economic and standard inference could be made. Hence, from the multiple linear regression results on table 4.1, the regression equation predicting the relationship between the Return on equity of banks in Nigeria (ROE) and Lending interest rate (LIR), Deposit interest rate (DIR) and Monetary policy rate(MPR) can be stated as:

$$ROE = 10.3987 - 0.1097LIR + 0.2321DIR - 0.0019MPR \quad (4.1)$$

From the equation of best fit estimated above, it could be deduced that while Deposit interest rate (DIR) and monetary policy rate (MPR) maintained positive relationship with the Banks performance (ROE), Lending interest rate (LIR) maintained negative relationship. Due to the

negative relationship exhibited by LIR, 1% increase in LIR was associated with negative impact of reducing the average mean value of ROE by about 1200% and vice versa. Furthermore, since DIR maintained a direct relationship with ROE, it followed that 1% increase or decrease in Deposit interest rate would culminate in about 2400% increase or decrease in the average mean value of Banks performance in Nigeria. Similarly, Monetary policy rate (MPR) had positive relationship with Banks performance such that 1% increase in MPR would resort to about 600% increase in Banks performance and vice versa. Lending interest rate showed the expected negative relationship because it was expected that increase in lending interest rate by the deposit money banks should discourage lending from the investing public and this would eventually lead to loss of interest income on the part of the banks. In case of deposit interest rate it also did not meet expected relationship because increase in the interest payable on deposit by the banks would reduce the available revenue and profitability level of the banks as more part of the interest earned is used to pay interest on deposit to the customers. However, increase in deposit interest rate may encourage more deposit from the customers, increase in deposit will lead to increase in loanable and lending capacity of banks and increase in lending would generate more interest incomes to the bank.

He multiple correlation co-efficient (R) of 0.89 indicated a strong linear relationship between the dependent variable which was the Return on equity of banks in Nigeria (ROE) and the interest rate (LIR, DIR and MPR)) since the value was close to 1. Also, the coefficient of determination (R^2) of 0.80 indicated that about 80% of the variation in the performance of banks (ROE) could be accounted for by the variations in the independent variables (LIR, DIR and MPR) while the remaining 20% was accounted for by other extraneous variables not captured in the model. Furthermore, the standard error of the model which was 23.86 was considered to be moderately high against expectation. The R^2 adjusted for the number of parameter (n-k) was 0.71 which was significant.

Durbin Watson Statistic of 2.82 was higher than the R^2 value of 0.8 and more than the benchmark value of 2 which freed the model variables from autocorrelation complicity. T-ratios measured how large the coefficients of the parameters will vary if carried out on repeated sampling of the observations. Thus, DIR has highest t-ratio of 12.99, it thus means that DIR would have very little variation in repeated sampling than MPR and LIR which has lower t-ratios. Moreover, looking at the significance of each of the coefficients of the predictors, only DIR was statistically significant to the specified model judging from their p-values. However, the f-stat of the model which was 9.47 significant and indicated that the proportion of

variation in the banks performance accounted for by the interest rate was not due to chance or error.

4.3. Test of Hypotheses

The decision rule for testing hypothesis is that Null Hypothesis (H0) should be rejected and Alternate Hypothesis (H1) accepted if P-value is less than 0.05 threshold and vice versa.

1. **$H0_1$**: Lending interest rate does not impact significantly on banks performance in Nigeria;

   $H1_1$: Lending interest rate impacts significantly on banks performance in Nigeria in Nigeria.

   From table 4.1, since P-value of LIR which is 0.2102 was more than the critical value of 0.05, $H0_1$ was accepted and $H1_1$ rejected. This meant that Lending interest rate has no significant on Nigerian banks performance in Nigeria. This might be a pointer to high interest rate that is predominant in the economy which keeps discouraging customers from approaching banks for credit. It also meant that interest rate during the period under study did not determine the profit level of banks in Nigeria in a significant manner..

2. **$H0_2$**: Deposit interest rate has no significant impact on the Nigerian banks performance.

   $H1_2$: Deposit interest rate has significant impact on the Nigerian banks performance.

   Also, since P-value of 0.02 was less than the critical value of 0.05, there was no enough reason to accept the $H0_2$; it thus meant that deposit interest rate has significant impact on Nigerian banks performance.Although DIR relationship contradicted the *apriori* expectation that high deposit interest rate should reduce the profit earned by the banks, nevertheless, the increase in deposit level which might associate with increase in deposit interest can promote banks performance in terms of return on equity and profitability in Nigeria. Thus, the deposit interest of the money deposit banks over the period this study has translated to positive growth in the profitability level of Nigerian banks.

3. **$H0_3$**: Monetary policy rate has no significant impact on the Nigerian banks performance.

   $H1_3$: Monetary policy rate has significant impact on the Nigerian banks performance in Nigeria

   On the contrary, MPR has P-value of 0.08 which was greater than critical value of 0.05, there was no enough reason to reject the $H0_3$; this translated that Monetary policy rate has no significant impact on banks performance

in Nigeria. The forgoing contradicted the expected outcome that increase in the rate at which BN lend to deposit money banks should discourage borrowing by the public and reduce banks performance in terms of profit significantly.

V. CONCLUSION

Nigerian deposit money banks remain dominant in the banking system in terms of their shares of total assets and deposit liabilities. Their interest rate policy, a major component of total credits on the increase in spite of the major constraints posted by the government regulations, institutional constraints and other macro economic factors. I concludes that, both government and deposit money banks should be mindful of the facts that interest rate in which they operate in, for the bank performance. Where the interest is conducive and supportive, performance of banks will be effective and efficient and increase the profitability of the bank. But where the interest rate are hash the Deposit money banks should note that they need to do a lot in order to ensure good lending behavior even where a good measure ofmacroeconomic stability is achieved. This is because of the positive and significant relationship found between bank interest rate and bank performance in both short and long run.

Recommendations

Based on the findings in this study, the following suggestions are recommended:

1. Having seen that there exists a long run and short run relationship between return on equity and explanatory variables (LIR,DIR, and MPR) through the use of multiple regression model, government should adopt policies that will help Nigerian deposit money banks to improve on their performance.
2. There is need to strengthened bank lending rate policy through effective and efficient regulation and supervisory framework.
3. Banks should try as much as possible to strike a balance in their loan pricing decisions. This will help them to be able to cover cost associated with lending and at the same time, maintain good banking relationship with their borrowers.

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Appendix

Data Presentation

YEAR	ROE	LIR	DIR	MPR
2007	36.83	16.94	3.55	9.50
2008	34.11	15.14	2.84	9.75
2009	-64.72	18.99	2.68	6.00
2010	16	17.59	2.21	6.25
2011	-0.28	16.02	1.41	12.00
2012	22.2	16.79	1.70	12.00
2013	23.21	16.72	2.17	12.00
2014	44.84	16.55	3.38	13.00
2015	56.78	16.85	3.58	11.00
2016	96.56	16.87	3.75	14.00
2017	98.23	17.78	5.16	14.00

Source: Daniel and John, 2016 and CBN Statistical bulletin 2017