Title of Article: Impact of Interest Rates on Customer Deposits in The Nigerian and a Regional Analysis

Author(s): Ojeaga P. Odejimi D. and Ojeaga D.


Date: Feb 2014

Abstract: The Central Bank of Nigeria (CBN) fourth quarter Report of the year 2012, states that aggregate deposits of deposit money banks (commercial banks) surpasses that of the last quarter by over 2.5%, with most of these funds sourced from increased mobilization of deposit liabilities used largely by these banks to extend credit to the Federal Government of Nigeria, making deposits to be of strong consequences for stake holders in the banking sector. Previous scholars Krugman and Obstflet (2005), also state categorically that interest rates is the opportunity cost of holding money as against other assets, therefore holding money as a portfolio will generate no further incentive except for the returns accruing from interest on the portfolio. This study investigates the effect of interest rates on customer savings behavior in the Nigerian banking sector, after identifying a host of factors that are likely to influence customer confidence in commercial banks such as average income, commercial lending, legal rights strength, central bank monetary policy and total annual commercial bank losses, using quintile regression estimation method, a non parametric estimation process that is based on the premise that the sample median will tend to that of the distribution and addresses issues of heteroscedastic errors and data stringency associated with the data used in the study under question. We find that interest rates were probably increasing bank deposits for Nigeria, the results were also the same for regions since many countries were experiencing considerable contraction due to the global financial recession, therefore interest rates were probably low and having a positive effect on deposits while income was also found to affect bank deposits positively in general.