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## Interest Rate Changes and its Impact on the Profitability of Pakistani Commercial Banks

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## Abstract

The important motive of hence paper is to verify the result of interest rate exchange on the profitability of commercial banks are those working in Pakistan. In this paper data collected from the bank's annual reports from 2007 to 2018. The Pearson method is used to examine the result amongst interest Rate and banks profitability. The bank's profitability is dependent or interest rate is independent variable. Interest expense rapidly changed in 10 years in Pakistan. The confident and direct relationship among the Interest rate and banks profitability. If the value of the interest rate is raises and fall, then the effect of worth of the bank's profitability may also raise and fall.

Keyword: Interest Rate and Profitability

## Introduction

The commercial banking sector in Pakistan is by way of some distance the largest intermediary between savers and traders. It mobilizes the financial savings of the group by using offering more than a few varieties of deposit amenities and financial savings schemes. Resources consequently mobilized are used for lending in more than a few sectors of the economy and for funding in securities and shares. Like industrial banks in different international locations, they also discount exchange costs, drawback ensures, provide remittance facilities and render miscellaneous agency offerings. At present most of the operations of the banks are performed on the groundwork of interest. The stability of the banking procedure is conditional upon the stability of total economic climate. A steady macroeconomic atmosphere contributes to effective and effective progress of saving and funding choice. Suitable macroeconomic measures will have to aid the functioning of the banking method extra above all in the areas of economic stabilization, obvious fiscal policy and monetary policy. The major contributor role of powerful and effective progress in the financial system is performed by the State financial institution of Pakistan and supplies guiding principle to the economic tuition to play their position within the development by means of mobilizing the assets of the economic climate and facilitating the traders. Commercial bank is a sort of financial institution and a form of financial intermediary. A commercial banking is also referred to as industry bank which supplies saving debts, cash

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market money owed, checking debts and that accepts time deposits. Commercial bank also provides currency exchange, international banking and exchange financing. Commercial banks furnish distinct varieties of loans which incorporate secured loans, unsecured loans, and personal loan loans. An industrial financial institution as an economic college provides a form of services that are useful for industry and basic rationale. Now-a-days business banks are using microfinance as a part of the university considering that of its advantages and the market share gaining.

## Literature

Hassan (2016) conducted a research on Nigeria's business banks for checking the outcomes of the interest price. This study is performed over the interval from 2002 to 2013 in Nigeria. Secondary data was used in this research. Central bank of Nigeria was used in this research. Central bank of Nigeria was used for the source of data collection. Federal offices of statics and annual abstract of statistics of national bureau of statistics. In this research there are two types of variables. The dependent variable is business banks deposits. Interest rate and GDP are the independent variables used in this study. Multiple regression model was used in this research. The influence suggests that there's insignificant relationship among the industrial banks deposits and interest rate.

Irungu (2013) carried out a research to examine the performance of Kenya's business banks. The investigation observed that there is robust optimistic relationship among interest cost unfold and economic efficiency of industrial banks. In step with the learn, Interest expense unfold effected performance of belonging in banks because it increases the cost of loans changed on the debtors and regulation on curiosity rate had a significant have an impact on belongings nonperformance.

Khan and Sattar (2014) conducted a study to investigate the profitability of Pakistani business banks when the interest rate raise & fall. The 4 main Pakistani business banks had been used as a sample on this study. The fiscal statements of banks are used for data assortment from the interval 2008 to 2012. On this research the Pearson correlation system used to be used for the information evaluation. Interest rate is an unbiased variable. This study concludes that there's confident and positive correlation among business banks profitability and interest rate.

Kipngetich (2011) made an investigation on Kenya's commercial banks. This study carried out for the investigation of performance of business banks and also the outcome of interest premiums. For the source of knowledge published income assertion of business banks are used. Data was collected from the period of 2006 to 2010. The research suggests that the curiosity rate have insignificant impact on profitability of industrial banks.

Malik, Khan, Khan, and Khan (2014) investigated the financial institution's profitability of exclusive and public sectors of Pakistan, when interest rate raise and fall. Public sector banks and 4 nationalized banks are used as a sample of the study. Regression model was used for data evaluation. Interest rate is the independent variable. Data was collected from the year 2008 to 2012. The results of this research conclude that there is a robust have an effect on of interest fee on profitability in personal sector banks in distinction with the general public sector banks.

(Okech, 2013) performed an investigation on the outcome of lending charges on the efficiency of industrial banks in Kenya. The be trained viewed administration effectivity and working cost effectivity, in regard to lending interest rate. The gain knowledge of discovered that a weak optimistic relationship among lending changes and efficiency of commercial banks.

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Wambari and Mwangi (2017) carried out a study on the Kenya's commercial banks to evaluate the results of interest rate on financial performance. In this research secondary data were used. In this research an explanatory and a censes research design were used of 43 commercial banks in Kenya. For the evaluation of data linear regression model used to be used. The SPSS method version20 was used for applying test on data. Data was collected from the year 2002 to 2014. There may be positive relation among landing rate ratio and economic efficiency of commercial banks. This research additionally showed that terrible relationship among deposit interest rate ratio and financial institution performance.

## Data collection source used in this Research

There are two types of research primary and secondary. The primary research is based on the word and the secondary research are based on the figures. The two method of research qualitative and quantitative. In this paper researcher used the quantitative method to examine the relationship among the interest rate and banks profitability. On this paper use the secondary data and collect the data from the Annual report of 4 commercial banks (MCB Bank, Bank Alflah, Faysal Bank, Askari Bank) from the year 2008 to 2017.

## Methodology

The Pearson correlation Process is used to examine the relationship among interest rate and banks profitability. A correlation is a quantity inside the range -1 and +1 that measure the relationship among two variables named are dependent and independent variables. If the result is optimistic between two variables its implies that there is a direct relationship amongst them but when the result is negative between two variables (dependent and independent) its mean that thair is an inverse relationship amongst them. Thus process is used to check the relationship among interest rate and banks profitability. Data collected from the bank's annual reports from (2007 to 2018)

## Model:

## Independent Variable

Dependent variable

Interest rate	 Banks Profitability

## Yearly Profit After Taxation (PKR,000)

Bank										
Name										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
						-				
ASKRI	3862	11077	94317	16276	12553	54798	40149	50434	52206	52678
BANK	25	93	7	98	62	95	32	19	35	87
BANK	1301	-	96845	43258	45561	46759	56408	75228	78999	83672
ALFLAH	301	97904	2	88333	21	5	51	10	08	95
FAYSAL	1114	12001	11903	12602	14228	18499	24769	42223	43017	45147
BANK	952	59	29	96	82	06	59	64	72	86
	1532	15495	16873	19424	20940	21495	24324	25546	21890	22458
МСВ	3227	297	175	906	696	338	756	267	896	901

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I		4531						91114	10583		
	AVERAG	4262	44263	49937	66646	70437	35388	37450	71500	98283	82695
	E PROFIT	5	36250	83250	97000	65250	22250	0	0	02750	92250

Average annual profits of 4 commercial banks (2008 to 2017) are calculated from the above table.

YEA R(N)	INTREST RATE(%)	CHANGE IN INTREST RATE (X)%	AVERAGE PROFITS AFTER TAXATON (RS)	CHANGE IN PROFITS(Y)%	ХҮ	X2	Y2
200 8	6.92		4531426250				
200 9	8.68	25.434	4426336250	-2.32	- 59.0 058	646. 888	5.3824
201 0	8.15	-6.106	4993783250	12.8197	- 78.2 77	37.2 83	164.34 47
201 1	8.23	0.98	6664697000	33.4598	32.8 575	0.96 4	1119.5 649
201 2	7.98	-3.038	7043765250	5.6877	- 17.2 792	9.22 9	32.349 9
201 3	7.17	-10.1503	3538822250	-49.7595	505. 0738	103. 028	2476.0 078
201 4	7.26	1.255	9114374500	157.5539	197. 7301	1.57 5	24823. 23141
201 5	6	-17.355	10583715000	16.1211	- 279. 782	301. 196	259.88 99
201 6	4.83	-19.5	9828302750	-7.1375	139. 1813	380. 25	50.943 9
201 7	4.48	-7.246	8269592250	-15.8594	114. 9172	52.5 04	251.52 06
N=1 0		Σ x= -35.7263		Σ y= 150.5658	Σ xy= 555. 4163	Σx2= 1532 .917	Σ <mark>y2=</mark> 29183. 23551

Interest rate find out from the website of state banks of Pakistan. The Profit after taxation take from the bank's annual reports.

# $\mathbf{r} = \frac{\mathbf{n}(\Sigma \mathbf{x}\mathbf{y}) - (\Sigma \mathbf{x})(\Sigma \mathbf{y})}{\sqrt{\left[ \mathbf{n}\Sigma \mathbf{x}^2 - (\Sigma \mathbf{x})^2 \right] \left[ \mathbf{n}\Sigma \mathbf{y}^2 - (\Sigma \mathbf{y})^2 \right]}}$

In this paper found that the optimistic result 0.179 between two variables dependent variables banks profitability and independent variable interest rate. This result shows that the direct relationship among interest rate and banks profitability.

## Conclusion

The basic purpose of this investigation to check the relationship among interest rate and banks profitability. Annual reports of 4 main commercial banks named are (Askari bank, Alflah bank, Faysal bank, mcb bank) are used for data collection. Data are gathered from the period 2008 to 2017. These annual reports are issued by the state banks of Pakistan. The independent variable is interest rate and dependent variable is banks profitability. The Pearson correlation process is used to examine the relationship among interest rate and banks profitability.

In this investigation obtain the optimistic and direct relationship among interest rate and banks profitability. On the interest rate high and low the bank's profitability also effected. When the banks charged high interest rate from their customers then they obtain higher profitability and vice versa.

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