



# INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



[www.hrmars.com](http://www.hrmars.com)

ISSN: 2222-6990

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

Shama Noreen, Asia Liaqat, Fozia Parveen

To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v8-i12/5088>

DOI: 10.6007/IJARBSS/v8-i12/5088

**Received:** 05 Nov 2018, **Revised:** 29 Dec 2018, **Accepted:** 30 Dec 2018

**Published Online:** 30 Dec 2018

**In-Text Citation:** (Noreen, Liaqat, & Parveen, 2018)

**To Cite this Article:** Noreen, S., Liaqat, A., & Parveen, F. (2018). Interest Rate Changes and its Impact on the Profitability of Pakistani Commercial Banks. *International Journal of Academic Research in Business and Social Sciences*, 8(12), 948–954.

**Copyright:** © 2018 The Author(s)

Published by Human Resource Management Academic Research Society ([www.hrmars.com](http://www.hrmars.com))

This article is published under the Creative Commons Attribution (CC BY 4.0) license. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this license may be seen at: <http://creativecommons.org/licenses/by/4.0/legalcode>

**Vol. 8, No. 12, 2018, Pg. 948 - 954**

<http://hrmars.com/index.php/pages/detail/IJARBSS>

JOURNAL HOMEPAGE

Full Terms & Conditions of access and use can be found at  
<http://hrmars.com/index.php/pages/detail/publication-ethics>



# INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



[www.hrmars.com](http://www.hrmars.com)

ISSN: 2222-6990

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

Shama Noreen, Asia Liaqat, Fozia Parveen

Department of Management Science University of Gujrat Sub Campus Narowal

Email: Shama.noreen@uog.edu.pk

### 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 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.

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 census 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 version 20 was used for applying test on data. Data was collected from the year 2002 to 2014. There may be positive relation among lending 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**

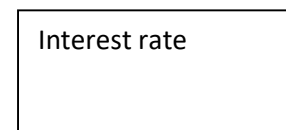
There are two types of research primary and secondary. The primary research is based on the word and the secondary research are based on the figures. The two method of research qualitative and quantitative. In this paper researcher used the quantitative method to examine the relationship among the interest 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**

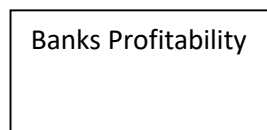
The Pearson correlation Process is used to examine the relationship among interest rate and banks profitability. A correlation is a quantity inside the range -1 and +1 that measure the relationship among two variables named are dependent and independent variables. If the result is optimistic between 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**



**Yearly Profit After Taxation (PKR,000)**

Bank Name										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ASKRI BANK	386225	1107793	943177	1627698	1255362	-5479895	4014932	5043419	5220635	5267887
BANK ALFLAH	1301301	-97904	968452	4325888333	4556121	467595	5640851	7522810	7899908	8367295
FAYSAL BANK	1114952	1200159	1190329	1260296	1422882	1849906	2476959	4222364	4301772	4514786
MCB	15323227	15495297	16873175	19424906	20940696	21495338	24324756	25546267	21890896	22458901
AVERAGE PROFIT	453142625	4426336250	4993783250	6664697000	7043765250	3538822250	91114374500	10583715000	9828302750	8269592250

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

YEAR(N)	INTREST RATE(%)	CHANGE IN INTREST RATE (X)%	AVERAGE PROFITS AFTER TAXATON (RS)	CHANGE IN PROFITS(Y)%	XY	X2	Y2
2008	6.92		4531426250				
2009	8.68	25.434	4426336250	-2.32	-59.0058	646.888	5.3824
2010	8.15	-6.106	4993783250	12.8197	-78.277	37.283	164.3447
2011	8.23	0.98	6664697000	33.4598	32.8575	0.964	1119.5649
2012	7.98	-3.038	7043765250	5.6877	-17.2792	9.229	32.3499
2013	7.17	-10.1503	3538822250	-49.7595	505.0738	103.028	2476.0078
2014	7.26	1.255	9114374500	157.5539	197.7301	1.575	24823.23141
2015	6	-17.355	10583715000	16.1211	-279.782	301.196	259.8899
2016	4.83	-19.5	9828302750	-7.1375	139.1813	380.25	50.9439
2017	4.48	-7.246	8269592250	-15.8594	114.9172	52.504	251.5206
N=10		$\Sigma x = -35.7263$		$\Sigma y = 150.5658$	$\Sigma xy = 555.4163$	$\Sigma x^2 = 1532.917$	$\Sigma y^2 = 29183.23551$

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

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$$

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.

### References

- Hassan, O. (2016). *Effect of Interest Rate on Commercial Bank Deposits in Nigeria (2000-2013)*. Paper presented at the Proceeding of the First American Academic Research Conference on Global Business, Economics, Finance and Social Sciences (AAR16 New York Conference) New York, USA.
- Irungu, P. N. (2013). The effect of interest rate spread on financial performance of commercial banks in Kenya. *Published research project in partial fulfillment of the requirement for award of masters of Science in finance, university of Nairobi, Kenya*.
- Khan, W. A., & Sattar, A. (2014). Impact of interest rate changes on the profitability of four major commercial banks in Pakistan. *International Journal of Accounting and Financial Reporting*, 4(1), 142-154.
- Kipngetich, K. M. (2011). Relationship between Interest rate and Return on Equity. *Unpublished MBA project. University of Nairobi, Kenya*.
- Malik, M. F., Khan, S., Khan, M. I., & Khan, F. (2014). Interest rate and its effect on Bank's profitability. *J. Appl. Environ. Biol. Sci*, 4(8S), 225-229.

- Okech, F. O. (2013). The effect of lending interest rate on financial performance of commercial banks in Kenya. *Unpublished MBA theis, University of Nairobi*.
- Wambari, K. D., & Mwangi, M. (2017). EFFECT OF INTEREST RATES ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA. *International Journal of Finance and Accounting*, 2(1), 19-35.