

EFFECT OF INTEREST RATE ON STOCK RETURNS OF DEPOSIT MONEY BANKS AND QUOTED FIRMS IN NIGERIA

¹**AKINNUSOTU Taiwo Akinyele**

*Department of Finance and Investment, College of Social and Management Sciences
Wesley University Ondo, Nigeria
+2348034708181*

taiwo.akinnusotu@wesleyuni.edu.ng

²**AJAYI Lawrence Boboye**

*Department of Finance, Faculty of Management Sciences,
Ekiti State University, Ado Ekiti, Ekiti State Nigeria
lawrence.ajayi@eksu.edu.ng*

³**FASINU Emmanuel Selome**

*Department of Political Science, College of Social and Management Sciences
Wesley University Ondo, Nigeria
+2348067609055, +2348067609055
emmanuel.fasinu@wesleyuni.edu.ng*

⁴**DARAMOLA Mojisola Bukola**

*Department of Business Administration, Faculty of Management Sciences,
Ekiti State University, Ado Ekiti, Ekiti State Nigeria
+2348032197733
mojibayo@yahoo.com*

ABSTRACT

This study examined the impact of interest rates on the stock returns of deposit money banks and Nigerian quoted firms. Specifically, it examined the impact of interest rates on the stock returns of deposit money banks; examined the impact of interest rates on the stock returns of listed companies; assessed the causal relationship between interest rates and stock returns in Nigeria; and examined the impact of interest rates on the stock returns of listed companies and deposit money banks in Nigeria. The study evaluated monthly data from 1990M01-2024M12 from the Central Bank of Nigeria Statistical Bulletin using the VAR Granger Causality test, Generalised Autoregressive Conditional Heteroscedastic (GARCH), and Autoregressive Conditional Heteroscedastic (ARCH). Based on the sum of RESID and GARCH, it was discovered that the stock market return of deposit money banks and the aggregate stock return of enterprises were turbulent over a long period of time. Therefore, this study recommended that monetary authorities restrict their negative effects, establish interest rates in line with existing economic policies, and prevent most Nigerian banks from changing interest rates in a way that has never been done before.

Keyword: *Interest Rate, Monetary Policy Rate, Prime Lending Rate, Savings Deposit Rate, Deposit Money Bank, Stock Returns*

1. INTRODUCTION

The stock market's role as a source of long-term financial resources has attracted attention in every economy. A strong stock market is indicative of a healthy financial system and economy.

However, the stock market strongly depends on fundamental macroeconomic factors in order to function. According to Gbadebo (2023) and Muktadir-Al-Mukit (2015), these macroeconomic factors must be controlled in a way that benefits the market in order for a stock market to support long-term economic growth. The steady and deliberate liberalisation of global economies over the years has piqued the interest of academics, researchers, policymakers, and investors in interest rates and stock market development.

For many years, there has been a constant flow of studies on how interest rates affect stock returns. Gu et al. (2022) and Wuhan and Adnan (2015) state that because interest is an opportunity cost, investors with flat or low returns may decide to pay out their investments rather than keep them. An increase in interest rates will make investments more costly while ROI stays the same. Conversely, when interest rates decline, investors are more inclined to fund projects since doing so becomes less expensive.

Numerous empirical studies have examined the relationship between interest rates and stock returns. The outcomes have been... ambiguous over time. Scholars like Komba et al. (2024), Meszaros et al. (2021), Shukrani (2020), Etty et al. (2019), Ahiadorme et al. (2019), Hallberg and Ryhag (2019), Amtiran et al. (2017), Hojat (2017), Moya-Martinez et al. (2015), and Zhang and Liang (2007) discovered that interest rate volat could have a positive impact on stock return. According to Khuntia and Hiremath (2019), the reasons behind this are not implausible: financial development levels and economic conditions differ amongst nations. The effect of interest rate volatility on Nigerian banks' stock returns as opposed to the stock market as a whole is of greater interest to this researcher. Market speculators would probably factor in the risk of banks' assets when pricing their stocks because of volatility and shifts in interest rate policy. Darshan and Suresh (2020), adopting a position earlier taken by Vaz et al. (2008), contended that interest rate fluctuations have a substantial impact on the operational earnings of enterprises, especially financial institutions like banks, and as a result, the stock price and returns.

To the best of the researcher's knowledge, the empirical literature that examines how interest rates affect the stock prices of DMB and Nigerian Exchange Group listed companies has primarily focused on the stock returns of these companies without distinguishing between their respective industries. Since banks are the direct implementers of interest rate policy, raising the lending rate should boost profits, reduce expenses, and improve stock prices and returns. It is debatable whether the Central Bank's increased monetary policy rate or the banks' greater operating costs are to blame for the higher lending rate. In light of the aforementioned, the main goals of this study are to: (1) assess how interest rate volatility affects listed DMB stock returns; and (2) examine Nigeria's overall stock returns.

The gaps in the literature led to the following queries: What impact do interest rates have on the stock returns of Nigerian listed deposit money banks? What effects does the interest rate have on the stock returns of publicly traded Nigerian companies? Is there a causal relationship between Nigerian stock returns and interest rates? How does the stock return of Nigerian deposit money banks respond to changes in interest rates? Furthermore, what effect does the interest rate have on Nigerian listed companies' stock returns?

The main objective is to examine how interest rates affect the stock returns of DMBs and Nigerian listed businesses. Even yet, the study's hypotheses are presented in their null versions.

2. Literature Review

Olajide et al. (2024) examined the reasons behind Nigeria's currency rate volatility and how it affects the macroeconomic performance of the nation using quarterly data from Q1 1986 to Q4 2023. Non-linear generalised autoregressive conditional heteroscedasticity (ARCH), dynamic autoregressive distributed lag (ARDL) techniques, and a variety of other statistical and econometric techniques enabled the study to accomplish its objectives. The findings demonstrated how the exchange rate's volatility was impacted by ARCH and nonlinear generalised autoregressive conditional heteroscedasticity. The findings showed that the average loan rate, monetary policy rate, oil prices, government spending, and financial development all had a substantial impact on Nigeria's exchange rate volatility. The findings also showed that exchange rate volatility has a significant effect on the Nigerian economy overall. Finally, to enable more precise economic forecasting and price stability, the Nigerian monetary authorities should put policies in place to limit the volatility of the exchange rate. The economy is heavily reliant on imports, thus keeping exchange rates steady and predictable ought to be of utmost importance. However, this robust analysis took into account the study's broadened scope and heightened emphasis on independent factors such as prime lending, monetary policy, and savings deposit rates.

The impact of exchange rate volatility on a number of stock market measures, including as returns, liquidity, capitalisation, and transaction volume, was examined by Gbadebo (2023). The data collection included the years 1985 through 2020. They employed an autoregressive adjustment component in a simple static regression model. Exchange rate volatility was said to have a negative correlation with the expansion of the stock market, and policymakers should support factors that promote growth, such as infrastructure and a conducive business environment. In contrast to Gbadebo's (2023) research, this analysis focused on interest rate volatility and included both bank stock and aggregate stock.

Gu et al. evaluated the importance of China's stock market throughout periods of conflicting monetary policy adoptions (2022). Interest rates frequently have a negative impact on stock price returns, according to a study that used a Bayesian regression model. However, they frequently have an exceptionally favourable impact during market peaks, and their pattern shifts with time. Interestingly, a rise in interest rates has little impact on stock values while the economy is doing well. Therefore, policymakers must exercise extreme caution when marketizing interest rates and initiating the prophylactic role of interest rate adjustment in a timely and planned manner. The current study's main focuses were interest rate volatility and bank and aggregate corporate stock returns.

Aljarayesh et al. (2018) examined the connection between stock market returns and interest rates between 2006 and 2016. Granger causality, variance decomposition, impulse response, and co-integration were used to evaluate monthly interest rate and stock return data for companies listed on the Amman Stock Exchange. The findings showed that the stock of companies listed on the Exchange had a substantial and steady long-term return in relation to interest rates. Nevertheless,

there was no evidence of a link between the factors. This analysis solely examined overall stock returns; it did not account for the stock returns of banks or aggregate firms. The coverage will also be expanded beyond 2024.

3.0 Research Method

3.1 Model Specification

The study employed an ex post facto research approach. In an attempt to examine the effect of interest rate volatility on the stock returns of deposit money banks and listed companies in Nigeria, the study adapted the model of Aljarayesh et al. (2018) on the distinct influence of interest rate variations on stock market returns in Jordan.

Therefore, the model of this study is functionally modified in accordance with the model of Aljarayesh et al. (2018) by adding IR, replacing INTR with INF, and replacing NR with STR:

That is: $STR = f(IRV, INF) \dots \dots \dots 3.2$

Where: STR = Stock Returns; IR = Interest Rate; INF = Inflation Rate; f = Functional Notation
 However, in this research, the stock returns for the companies listed on the Nigerian Stock Exchange were separated into aggregate corporations and banks. Therefore, two models were used in this examination in accordance with the goals of the study. The study's main goal is to determine how interest rates have affected Nigerian stock returns. To that aim, it estimated the effect of interest rate volatility on stock returns in Nigeria using three different interest rate types: savings deposits, prime lending, and monetary policy. The study also included the consumer price index (CPI) as an inflation indicator to evaluate the monetary impact of price changes on Nigerian stock prices. This results in the study paradigm that follows:

$IR = f(PLR, MPR, SDR) \dots \dots \dots 3.3$

Where: PLR = Prime Lending Rate; MPR = Monetary Policy Rate; SDR = Savings Deposit Rate
 f as earlier defined

Therefore, equation 3.3 becomes

$STR = f(PLR, MPR, SDR, INF) \dots \dots \dots 3.4$

Stock return can be decomposed into two in line with the objectives earlier stated in the study as:

$STR_a = f(PLR, MPR, SDR, INF) \dots \dots \dots 3.5$ STR_b

$= f(PLR, MPR, SDR, INF) \dots \dots \dots 3.6$

3.3 Estimation Techniques

3.3.1 Variance Decomposition and Impulse Response

The impact of error shock on the future dynamics of the dependent and independent variables in the VAR model was examined in this work using Variance Decompositions (VD). This was carried

out following the estimation of the model's parameters, which disclose the type of relationship between the two data sets. Using the Impulse Response technique, it was also demonstrated that interest rate volatility had an impact on stock returns in Nigeria for a specific duration. According to Hallberg and Ryhag (2019), you can utilise the impulse response function to determine how an experimental shock from one variable impacts another. With all other control variables held constant, the dependent variable is monitored over time using a baseline from past data using the impulse response function. The impulse response function explains a two-way causal link.

3.3.2 Interest Rate Measurement Autoregressive Conditional Heteroscedastic (ARCH) and Generalized Autoregressive Conditional Heteroscedastic (GARCH)

In an attempt to evaluate the interest rate on stock return in Nigeria, the study employed Autoregressive Conditional Heteroscedasticity, as defined by Bollerslev (1986) and listed by Engle (1982). We also employed the ARCH and GARCH models put forth by Bollerslev (1986) and Engle (1982) to further examine the interest rate clustering. ARCH and GARCH are two popular models for forecasting the behaviour of financial time series.

This paradigm can represent time series variability, non-linearity, conditionality, and non-conditionality. The interest rate formula, which is based on the continuous compound growth rate, is as follows:

$$\frac{\text{Current Value}}{\text{Previous Value}} \times 100 \dots \dots \dots 3.13$$

These techniques outperform more conventional, straightforward methods of computing interest rates, such as standard deviation and coefficient of variation. Unconditional volatility assessments do not account for information on the stochastic character of interest rate creation, according to Engle's (1982) research. These crude metrics indicated variations rather than uncertainty. To address this issue and to demonstrate that the model exhibits volatility clustering, variations of ARCH were created. The time variation of the ARCH error term is determined by the series' lag settings. This equation can be represented as a random walk when there is no drift:

$$Y_t = Y_{t-1} + u_t \dots \dots \dots (3.14)$$

Where: Y_t denotes the variable that depends on its previous value and a white noise error term (mean = 0, variance = σ^2).

From equation in 3.14 the first difference is written as:

$$Y_t - Y_{t-1} = u_t \dots \dots \dots (3.15)$$

In ARCH, the conditional variance of error term (μ_t) rests on the squared previous error terms denoted as:

$$\text{Var}(\mu_t) = \sigma_t^2 = \alpha_0 + \alpha_1 \mu_{t-1}^2 + \alpha_2 \mu_{t-2}^2 + \dots \alpha_p \mu_{t-p}^2 \dots \dots \dots (3.16)$$

The tested hypothesis is

$H_0: \alpha_1 = \alpha_2 = \dots \alpha_p = 0$; if the hypothesis is accepted and $Var(\mu_t) = \alpha_0$, denotes that there is no autocorrelation and there is no ARCH effect.

GARCH model is as

$$\sigma_t^2 = \alpha_0 + \alpha_1 \mu_{t-1}^2 + \alpha_2 \sigma_{t-1}^2 \dots \dots \dots (3.17)$$

The conditional variance of the error term (σ_{t-1}^2) at time t determines the squared error term (σ_t^2) from the preceding time period and the prior lag of the conditional variance (μ_{t-1}^2). The persistence of the volatility is calculated by summing α_1 and α_2 . Since this model is GARCH (1, 1), you can generalise it to GARCH (p, q).

3.3.3 VAR Granger Causality Test

In order to enhance Autoregressive Conditional Heteroscedasticity and Generalised Autoregressive Conditional Heteroscedasticity, which both measure volatility, this study used a VAR Granger causality test based on multivariate correlations. The VAR Granger Causality test considers a number of endogenous variables. In order to do this, the VAR causality test uses specific target models to evaluate the effect of interest rate volatility on the stock return of quoted companies and deposit money institutions in Nigeria.

4. Results and Discussion

4.1 Presentation of Results

4.1.1 VAR Granger Causality Test

Table 4.1a: VAR Causality Test for STRA Mode

Dependent variable: STRA			
Excluded	Chi-sq	Df	Prob.
PLR	1.865535	3	0.6008
MPR	19.45436	3	0.0002
SDR	2.486987	3	0.4776
INF	6.412612	3	0.0932
All	30.96577	12	0.0020
Dependent variable: PLR			
Excluded	Chi-sq	Df	Prob.
STRA	0.845540	3	0.8385
MPR	1.987746	3	0.5750
SDR	0.577717	3	0.9015
INF	3.584071	3	0.3100
All	6.816656	12	0.8695
Dependent variable: MPR			
Excluded	Chi-sq	Df	Prob.
STRA	16.92714	3	0.0007

PLR	0.540249	3	0.9100
SDR	1.203784	3	0.7521
INF	5.882363	3	0.1175
All	25.25726	12	0.0136
Dependent variable: SDR			
Excluded	Chi-sq	Df	Prob.
STRA	4.022608	3	0.2590
PLR	0.171628	3	0.9820
MPR	0.867872	3	0.8332
INF	44.66938	3	0.0000
All	51.31258	12	0.0000
Dependent variable: INF			
Excluded	Chi-sq	Df	Prob.
STRA	2.504496	3	0.4745
PLR	6.885855	3	0.0756
MPR	0.095751	3	0.9923
SDR	0.147005	3	0.9857
All	9.247080	12	0.6817

Source: Researcher's Computation using E-view 12

Table 4.1b: VAR Causality Test for STRB Mode

Dependent variable: STRB			
Excluded	Chi-sq	Df	Prob.
PLR	1.070679	3	0.7842
MPR	7.175421	3	0.0665
SDR	0.493313	3	0.9204
INF	1.074178	3	0.7833
All	8.431301	12	0.7506
Dependent variable: PLR			
Excluded	Chi-sq	Df	Prob.
STRB	0.375380	3	0.9453
MPR	2.044104	3	0.5633
SDR	0.594147	3	0.8978
INF	3.494175	3	0.3215
All	6.339257	12	0.8980
Dependent variable: MPR			
Excluded	Chi-sq	Df	Prob.
STRB	0.086912	3	0.9934
PLR	1.085795	3	0.7805
SDR	1.520047	3	0.6777
INF	6.235399	3	0.1007

All	8.069744	12	0.7797
Dependent variable: SDR			
Excluded	Chi-sq	Df	Prob.
STRB	5.330995	3	0.1491
PLR	0.187127	3	0.9796
MPR	0.603637	3	0.8956
INF	45.82790	3	0.0000
All	52.77920	12	0.0000
Dependent variable: INF			
Excluded	Chi-sq	Df	Prob.
STRB	0.161058	3	0.9836
PLR	6.483103	3	0.0903
MPR	0.005655	3	0.9999
SDR	0.160250	3	0.9837
All	6.863075	12	0.8665

Source: Researcher's Computation using E-view 12

Tables 4.1a and 4.1b present the results of the VAR causality test used to assess interest rates, bank stock returns, and aggregate stock returns. Table 4.8a demonstrates a bidirectional causal association between bank stock returns and monetary policy rate volatility, but other components did not show any relationship with bank stock returns. In other words, they travel in different streams. Similarly, Table 4.8a demonstrates that the volatility of savings deposit rates directly affects inflation rates, in contrast to the other variables in the STRB model.

4.2 Analysis of Interest Rate on Stock Return

This section describes the volatility test that was carried out utilising the GARCH and ARCH models. In order to determine if the GARCH model would be approximated, this study first looked at the existence of the ARCH-effect. The test's results are summarised in Table 4.2.

Table 4.2: Arch Effect of Interest Rate on Stock Return in Nigeria

Arch Effect of Interest Rate on Stock Return of Banks in Nigeria				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.908379	0.141515	6.418953	0.0000
RESID ² (-1)	0.158991	0.049726	3.197341	0.0062
F-statistic =21.40734; Prob. F(1,403) = 0.0062; Obs*R-squared; 15.40940; Prob. Chi-Square(1) = 0.0052				
Arch Effect of Interest Rate on Stock Return of Aggregate Firms in Nigeria				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.797826	0.161665	4.935069	0.0000
RESID ² (-1)	0.204385	0.049271	4.148161	0.0000
F-statistic =17.20724; Prob. F(1,403)= 0.0000; Obs*R-squared; 16.58451; Prob. Chi-Square(1) = 0.0000				

Source: Researcher's Computation using E-view 12

A model has the ARCH effect if it has a positive and statistically significant coefficient of square residual lag. The ARCH effect is present if the current value of the error term variance can be predicted using the error term from the prior period. The residual coefficient is statistically significant and positive, as shown in Table 4.9. Consequently, it appeared to be rejecting the null hypothesis that there is no arch-effect. As seen in Figures 4.2a and 4.2b, the study concluded that the Arch-effect is real and that interest rate clustering does take place.

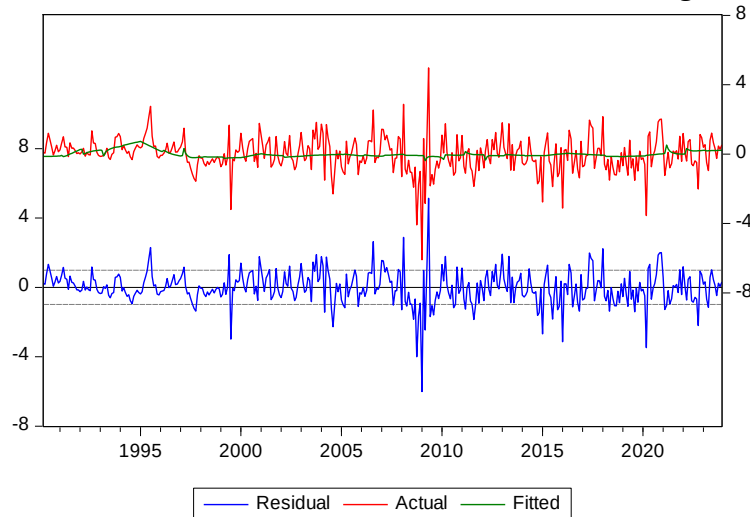


Figure 4.2a: Clustering of Interest Rate on Stock Return of Banks in Nigeria

Source: Researcher's Computation using E-view 12

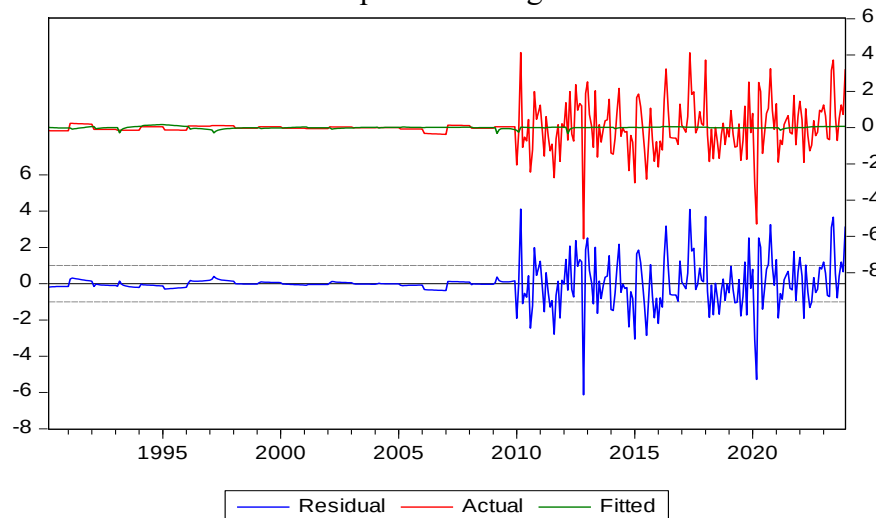


Figure 4.2b: Clustering of Interest Rate on Stock Return of Aggregate Firm in Nigeria

Source: Researcher's Computation using E-view 12

The study tested for clustering volatility in the series after establishing the Arch-effect. Figures 4.2a and 4.2b show that sustained periods of low volatility lead to low volatility periods, while sustained periods of high volatility lead to high volatility periods.

4.2a ARCH and GARCH test for Interest Rate on Stock Returns of Banks

Table 4.2a: ARCH and GARCH test for Interest Rate on Stock Returns of Banks

Mean Equation			
Variable	Coefficient	Z-statistic	Probability
@SQRT(GARCH)	0.432279	2.498032	0.0125
C	0.505922	3.564171	0.0004
PLRV	-0.026803	-0.853307	0.3935
MPRV	0.000860	0.011234	0.9910
SDRV	0.030272	0.842954	0.3993
Variance Equation			
C	0.119631	3.295181	0.0010
RESID(-1)^2	0.282344	4.300108	0.0000
GARCH(-1)	0.626645	9.094039	0.0000
INF	-0.029895	-2.834420	0.0046

Source: Researcher's Computation using E-view 12

Table 4.10a contains both the variance and mean equations. The coefficient of standard deviation in the mean equation indicated a significant direct connection of 0.432279 between interest rate and bank stock return risk. The idea that interest rates follow the overall trend of increased stock return risk was supported by this study. In a similar vein, the prime lending rate and bank stock return have a little negative association. This coefficient has a low significance level. Additionally, there is no relationship between Nigerian banks' stock returns and monetary policy or savings deposit interest rates. On the other hand, the variance equation contains a positive and statistically significant constant parameter.

Additionally, the positive ARCH parameter implies that the volatility of bank stock returns may be influenced by the Arch effect, an internal source. It also implies that historical data on interest rate volatility may have an impact on the stock market's return. Similarly, the residual variation of interest rates from previous eras can affect banks' stock returns, as demonstrated by the GARCH coefficient, which explains both internal and external sources. This coefficient is positive and statistically significant over time, just like the GARCH coefficient. Once more, the sum of RESID and GARCH can be used to determine the response function's monthly decay rate. A response function that has lately seen interest rate volatility is indicated by this high rate (0.908989).

4.2b ARCH and GARCH Test for Interest Rate on Aggregate Stock Returns of Listed Firms in Nigeria

Table 4.2b: ARCH and GARCH Test for Interest Rate on Aggregate Stock Returns of Listed Firms in Nigeria

Mean Equation			
Variable	Coefficient	Z-statistic	Probability
@SQRT(GARCH)	0.020607	0.543017	0.5871
C	-0.000311	-0.153442	0.8781
PLRV	-0.025795	-8.221167	0.0000
MPRV	0.004110	2.581632	0.0098

SDRV	0.032058	10.45405	0.0000
Variance Equation			
C	2.85E-05	2.388534	0.0169
RESID(-1)^2	0.812874	6.609138	0.0000
GARCH(-1)	0.470512	13.67319	0.0000
INF	4.87E-05	0.618674	0.5361

Source: Researcher's Computation using E-view 12

Table 4.10b shows the variance equation and aggregate stock return models for firms. According to the mean equation and the standard deviation coefficient, there is a negligible direct effect of 0.020607 between interest rate volatility and the risk of corporate stock returns. The result indicated that when the risk of a company's overall stock return rises, interest rates generally follow the same pattern. Similarly, there is a -0.025795 negative association between the prime lending rate and the overall return on firm stock. a coefficient of statistical significance. Additionally, the savings deposit rate (0.032058) and monetary policy rate (0.004110) had a direct impact on the overall stock return of Nigerian businesses.

Additionally, the variance equation contains a positive, statistically significant constant parameter. Beyond that, a positive ARCH number suggests that the volatility of a company's overall stock return may be influenced by the Arch effect, an internal source. This result lends more credence to the notion that interest rate data from past eras may have an effect on firms' total stock returns. Both the GARCH and residual variances were positive and significant throughout the period, and the GARCH coefficient, which also explains internal causes, demonstrated that the residual variance of interest rates in the prior era may have an impact on the aggregate stock return of enterprises. Once more, the sum of RESID and GARCH can be used to determine the response function's monthly decay rate. The rate is high at 1.283386, an indicator of a reaction function to recent changes in interest rates. The high number also indicated the long-term occurrence of volatility.

4.3 Discussion of Findings

The study looked at how interest rates affected the stock returns of listed companies and deposit money institutions in Nigeria. It started by examining the potential for an ARCH effect. With a strong positive coefficient for the square residual lag, the results demonstrated the presence of an ARCH impact. This implies that the current value may be predicted using the error term variance from the past. The existence of the ARCH-effect is suggested and volatility clustering is demonstrated by the fact that the model's low volatility periods are followed for a considerable amount of time by high volatility periods.

This finding is consistent with earlier studies conducted by a number of authors, such as Meszaros et al. (2021), Shukrani (2020), Marozva (2020), Prabu et al. (2020), Etty et al. (2019), Boldwin et al. (2018), and Tumwine et al. (2018).

Additionally, the savings deposit rate and monetary policy rate had a direct and substantial impact on the overall stock return of Nigerian businesses. This result supports the theory that higher

interest rates raise overall stock market returns, which can trigger abrupt and significant price increases in Nigeria's stock market. Meszaros et al. (2021), Shukrani (2020), Marozva (2020), Prabu et al. (2020), Etty et al. (2019), Boldwin et al. (2018), Tumwine et al. (2018), Amtiran et al. (2017), Iddrisu et al. (2017), Lawal et al. (2017), Ayopo et al. (2016), Ferrera and Benitez et al. (2015), Moya-Martinez et al. (2015), Nijam et al. (2015), Gali and Gambetti (2014), and Abd-Kadir et al. (201). According to the external causes of interest rate volatility and aggregate stock return of Nigerian firms, a similar positive but little association was discovered between the inflation rate and the total stock return of Nigerian enterprises. The result indicated that the total stock return of businesses increases in tandem with an increase in the rate of inflation. This implied that a high rate of inflation is necessary for the stock market's overall return to increase. Our findings are consistent with the conclusions drawn by Tumwine et al. (2018), Amtiran et al. (2017), Iddrisu et al. (2017), Lawal et al. (2017), Ayopo et al. (2016), Ferrera and Benitez (2016), and numerous other researchers.

5. Conclusion

The study came to the following conclusions after examining the data. The study discovered that while savings deposit rates and monetary policy rates had positive but negligible influence on bank stock returns in Nigeria, prime lending rates had a negative but negligible effect. Deposit money bank stock market returns will be very variable over the long term, meaning they will constantly fluctuate, according to the combination of RESID and GARCH.

According to the study, the aggregate stock return of Nigerian companies was significantly impacted negatively by prime lending rates, but positively by monetary policy and savings deposit rates. This had to do with how interest rates affected the nation's listed companies' stock returns. In a similar vein, we deduced from RESID and GARCH summation results that the aggregate stock return of firms would be very volatile over time.

Researchers used a VAR causality test to answer a question about the nature of the relationship between interest rates and stock returns in Nigeria. They found that there was no causal relationship between the other variables, that savings deposit rates and inflation rates were unidirectionally related, and that bank stock returns and monetary policy rates were bidirectionally related. Similarly, the VAR causality test for firm aggregate stock return discovered that while all other variables flow independently with firm aggregate stock return, savings deposit rate and inflation rate are unidirectionally associated.

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