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The Price of Credit Risk in Nigeria: Do Bank Lending Rates Reflect the Opportunity Cost of Treasury Investment? Evidence from Lending–Treasury Spreads, 2006-2026

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Abstract: A Nigerian bank that lends to a company gives up the option of buying a Treasury bill instead. The difference between the two rates is the price at which the bank is willing to take on credit risk, illiquidity and the cost of administering a loan. This paper studies that difference using monthly Central Bank of Nigeria data for January 2006 to March 2026 (243 months). The prime lending rate exceeded the Treasury bill rate by an average of 7.29 percentage points (HAC 95% confidence interval 5.73 to 8.85), and the spread was positive in 96 per cent of months. It was not stable. It averaged 8.4 points in 2006–2014 and 9.1 points in 2021–2023, then collapsed to 1.3 points in 2024–2026, turning negative for eight consecutive months after the bill rate jumped in February 2024. Formal break tests confirm three shifts in the mean spread, in December 2008, March 2011 and November 2023. Over the same period the gap between the maximum and prime lending rates, a rough measure of the premium charged to riskier borrowers, tripled from about 5 to 15 points. The spread is highly persistent, with a half-life of about nine months, and neither inflation nor the policy rate explains its movements. Recent volatility in bill yields has a weakly negative association with the spread ($p = 0.058$). Out of sample, from 2021 to 2026, no model beats a no-change forecast. The paper also shows that two zero entries in the published bill-rate series create a spurious and highly significant volatility effect if they are not corrected. The results suggest that Nigerian banks priced their best borrowers increasingly close to the risk-free rate after 2024, while charging much more to everyone else.

Keywords: credit risk; interest rate spreads; opportunity cost; bank lending; Treasury bills; Nigeria

JEL classification: G21; G12; E43; C22

1. INTRODUCTION

Bank lending is an investment decision. When a Nigerian bank extends a loan, it commits funds that could otherwise have been placed in Treasury bills, which carry no default risk in naira, can be sold quickly and count towards the liquidity ratio set by the Central Bank of Nigeria (CBN). For lending to be worthwhile, the expected return on the loan must exceed the bill yield by enough to cover expected default losses, the cost of capital held against the loan, operating costs and the loss of liquidity. The gap between the lending rate and the bill rate is therefore the price the bank charges for taking on all of these burdens.

That price has been very uneven in Nigeria. In March 2010, as the banking system recovered from the 2009 crisis and Treasury bill yields fell close to 1 per cent, the prime lending rate stood about 18 points above the bill rate. In February 2024, after the CBN raised the monetary policy rate (MPR) by 400 basis points and bill yields jumped from 4.3 to 17.0 per cent, the prime rate was about two points below the bill rate. For the next eight months a bank could earn more by holding Treasury bills than by lending to its most creditworthy customers at the prime rate. Episodes like this raise obvious questions. How large is the lending–Treasury spread on average? How stable is it? What drives its movements? And can it be predicted?

The literature offers two broad perspectives. The dealer model of Ho and Saunders (1981) treats the bank as an intermediary that sets a spread between lending and deposit rates to compensate for risk aversion, market power and the uncertainty of transactions. Later empirical work has related spreads to default risk, operating costs, market structure and macroeconomic conditions (Angbazo, 1997; Demirgüç-Kunt & Huizinga, 1999; Saunders & Schumacher, 2000; Maudos & Fernández de Guevara, 2004). The credit-rationing view of Stiglitz and Weiss (1981) adds a warning: banks may not raise loan rates to reflect higher risk, because doing so changes the pool of borrowers, and may prefer to restrict quantities

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instead. Both perspectives imply that the observed spread is shaped by more than default risk and that its movements may be slow and difficult to predict.

Nigerian evidence on spreads comes mostly from bank-level or annual studies of the spread between lending and deposit rates (Enendu, 2003; Efanga et al., 2020). The lending–Treasury spread, which measures the opportunity cost of lending rather than the bank's funding margin, has received much less attention, and no study I am aware of covers the period after 2022, when the relationship between lending rates and Treasury yields changed sharply. This paper fills that gap. It makes three contributions. First, it documents the level, sign and evolution of the spread over twenty years using monthly CBN data, and complements it with the gap between the maximum and prime lending rates as a measure of how banks price riskier borrowers. Second, it estimates the persistence of the spread and its association with inflation, the policy rate and bill-yield volatility. Third, it tests whether these variables help to forecast the spread out of sample.

The rest of the paper is organised as follows. Section 2 reviews the literature. Section 3 describes the data and an important correction to the published series. Section 4 sets out the methods, Section 5 presents the results, Section 6 discusses them and Section 7 concludes.

2. LITERATURE REVIEW

2.1 Theories of the lending spread

Ho and Saunders (1981) model a risk-averse bank that acts as a dealer, accepting deposits and making loans that arrive at random. The bank sets its rates so that the spread compensates for the risk of holding an unbalanced position, and the equilibrium spread rises with risk aversion, the size of transactions, the volatility of interest rates and the bank's market power. The volatility term matters for this paper. In the dealer model, more volatile interest rates mean more interest-rate risk for the bank and therefore a wider spread.

Merton (1974) provides the foundation for pricing default risk. The spread on a risky loan over a risk-free asset reflects the probability of default and the expected loss given default, both of which depend on the borrower's leverage and the volatility of its assets. In practice, the spread also covers costs that have nothing to do with default: the capital a bank must hold, the operating cost of originating and monitoring loans, and the liquidity the bank gives up. Stiglitz and Weiss (1981) show why lending rates may not adjust fully to risk. When borrowers have private information about their projects, raising the interest rate can attract riskier borrowers and discourage safer ones, so that the bank's expected return eventually falls as the rate rises. Banks may therefore ration credit rather than raise prices, which would make the observed spread a poor guide to the true cost of risk.

2.2 Empirical determinants of spreads and margins

Cross-country studies have identified a consistent set of determinants. Angbazo (1997) finds that US bank net interest margins reflect default risk and interest-rate risk. Demirgüç-Kunt and Huizinga (1999), using data for 80 countries, show that margins are higher where inflation is high, where banks hold more capital and where the institutional environment is weak. Saunders and Schumacher (2000) decompose margins in six European countries and the United States into a pure spread and a part explained by regulation and risk, and find that market structure and interest-rate volatility are important. Maudos and Fernández de Guevara (2004) extend the dealer model to include operating costs and find that a fall in market power in Europe was offset by lower interest-rate risk and costs.

In Africa, Beck and Hesse (2009) study why interest spreads in Uganda are so high and find that bank-level characteristics such as size and efficiency explain only part of the spread, with macroeconomic factors and the overall institutional environment accounting for much of the rest. In Nigeria, Enendu (2003) finds that macroeconomic conditions, monetary policy and regulation, including the Treasury bill rate, reserve requirements and inflation, explain more of the variation in bank spreads than bank-specific factors. Efanga et al. (2020) find a positive relationship between the interest-rate spread and the volume of commercial bank loans and advances. Studies of interest-rate pass-through show that lending rates respond only partially to policy changes, while Treasury bill yields respond more erratically (Tule, 2014; Jibrilla & Balami, 2022; Oyadeyi, 2023), which suggests that the spread between the two should absorb a good part of the variation in monetary conditions.

2.3 Hypotheses

The literature suggests three testable propositions about the lending–Treasury spread:
H1: The mean spread is positive, reflecting a premium for credit risk, illiquidity and the cost of lending.
H2: The spread is persistent and related to inflation, the policy rate and the volatility of bill yields.



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H3: Lagged inflation, the policy rate and bill-yield volatility improve out-of-sample forecasts of the spread relative to a no-change benchmark.

These are hypotheses about posted rates, not about bank profitability. A positive spread does not mean that a bank earned that spread on its loan book, since realised returns depend on defaults, fees and the actual rates negotiated with each borrower.

3. DATA

3.1 Sources and definitions

All series are monthly and come from the CBN money-market indicators (Central Bank of Nigeria, 2026b) and inflation (Central Bank of Nigeria, 2026a) releases for January 2006 to March 2026. The prime lending rate is the average rate deposit money banks charge their most creditworthy customers. The maximum lending rate is the average of the highest rates banks report. The Treasury bill rate is the benchmark rate in the CBN series. The policy rate is the minimum rediscount rate until November 2006 and the MPR thereafter. Inflation is year-on-year headline inflation, and a dummy variable equal to one from January 2025 controls for the rebasing of the consumer price index.

Four spreads are constructed. The main variable is the **lending–Treasury spread**, the prime lending rate minus the Treasury bill rate, which measures the premium a bank charges its best borrowers over the risk-free alternative. The **maximum lending–Treasury spread** does the same for the riskiest borrowers. The **risk band**, the maximum lending rate minus the prime rate, measures how much more banks charge their riskiest borrowers than their safest ones. The **lending–deposit margin**, the prime rate minus the twelve-month deposit rate, is the conventional funding spread and is reported for comparison. Volatility is measured as the standard deviation of monthly changes in the bill rate over the previous six months.

3.2 A correction to the published bill-rate series

The published Treasury bill series records a rate of exactly zero in December 2017 and December 2018, when yields were above 10 per cent. These values reflect months without a reported rate. Left uncorrected, each creates a spike of more than ten points in the spread and an even larger spike in the six-month volatility measure, which persists for six months. I treat the two values as missing and interpolate between the adjacent months. Section 5.5 shows how much this matters.

3.3 Descriptive statistics

Table 1 summarises the main variables. The prime lending rate averaged 16.10 per cent and the maximum lending rate 25.92 per cent, while the bill rate averaged 8.81 per cent and was much more volatile than either lending rate. The correlation between the prime rate and the bill rate is only 0.53. The lending–Treasury spread averaged 7.29 points, with a standard deviation of 4.03 and a range from −1.97 to 17.99. It is the only series in the table whose distribution is close to normal (Jarque–Bera $p = 0.26$).

Table 1 Descriptive statistics, January 2006 – March 2026

Variable	Mean	SD	Min	Median	Max	Skewness	Kurtosis
Prime lending rate (%)	16.10	2.04	11.13	16.57	19.66	−0.86	3.27
Maximum lending rate (%)	25.92	4.24	17.17	26.88	35.17	−0.44	2.21
Treasury bill rate (%)	8.81	4.72	0.03	9.11	19.07	0.07	2.10
Prime − T-bill (pp)	7.29	4.03	−1.97	6.73	17.99	0.26	3.00
Maximum − prime lending (pp)	9.82	4.94	0.23	10.11	18.95	−0.25	1.86

Note. $N = 243$. pp = percentage points.

Figure 1 shows the three rates. The lending rates moved within a fairly narrow band, while the bill rate swung from near zero in 2010 and again in 2020–2021 to above 18 per cent in 2024–2025. The spread therefore owes most of its variation to the bill rate rather than to lending rates.

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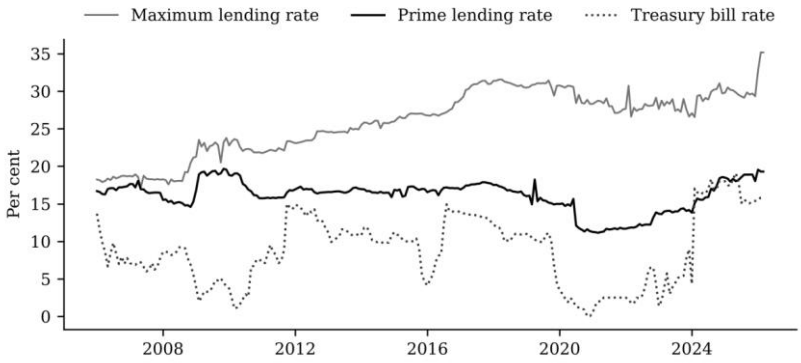


Figure 1. Maximum lending rate, prime lending rate and Treasury bill rate, January 2006 – March 2026. Source: Central Bank of Nigeria.

3.4 Stationarity

For the lending–Treasury spread the evidence leans towards stationarity. The augmented Dickey–Fuller (ADF) test rejects a unit root at the 10 per cent level (statistic −2.744, $p = 0.067$), and the KPSS test does not reject stationarity at 5 per cent (0.436 against a critical value of 0.463). The Zivot–Andrews test does not reject a unit root (−3.854), but its power is low. I therefore model the spread in levels. The risk band behaves differently. The ADF test does not reject a unit root ($p = 0.662$), and the KPSS test strongly rejects stationarity (2.024). However, the Zivot–Andrews test rejects the unit root at the 5 per cent level (−4.931, $p = 0.036$) when a single break is allowed, with the break placed in February 2022. The risk band is best described as stationary around a level that shifted upwards in early 2022.

4. METHODOLOGY

4.1 The size of the spread

H1 is tested by regressing each spread on a constant and computing Newey and West (1987) standard errors with twelve lags. The resulting 95 per cent confidence interval accounts for the strong serial correlation in monthly spreads. Spreads are also summarised across four periods chosen on institutional grounds: 2006–2014, 2015–2020 (from the oil-price collapse to the pandemic), 2021–2023 (the period of very low bill yields followed by the start of tightening) and 2024–2026 (after the February 2024 policy increase).

4.2 Dynamics

The dynamic model for the spread s_t is

$$s_t = \alpha + \rho\, s_{t-1} + \beta_1\, \pi_{t-1} + \beta_2\, v_{t-1} + \beta_3\, m_{t-1} + \delta\, D_t + \varepsilon_t,$$

where π_{t-1} is inflation, v_{t-1} is the six-month volatility of bill-rate changes, m_{t-1} is the policy rate and D_t is the CPI-rebasing dummy. All regressors are lagged so that the model can be used for forecasting. The coefficient ρ measures persistence, and the half-life of a shock to the spread is $\ln(0.5)/\ln(\rho)$. The dealer model predicts $\beta_2 > 0$. The model is estimated by ordinary least squares with Newey–West standard errors, over the full sample and over 2006–2020. The same specification is estimated for the risk band.

4.3 Forecasting

Four forecasts of the spread are compared: no change ($\hat{s}_t = s_{t-1}$), the historical mean, an AR(1), and the dynamic model without the rebasing dummy. Each model is re-estimated every month using all earlier data, and forecasts are produced for the 63 months from January 2021 to March 2026. Accuracy is measured by the root mean squared error (RMSE) and mean absolute error (MAE), and each model is compared with the no-change forecast using the Diebold and Mariano (1995) test with the Harvey et al. (1997) correction.

5. RESULTS

5.1 How large is the spread?

Table 2 reports the four spreads. The lending–Treasury spread averaged 7.29 points, with a HAC standard error of 0.80 and a 95 per cent confidence interval of 5.73 to 8.85. It was positive in 95.9 per cent of months. H1 is clearly supported. The maximum lending rate exceeded the bill rate in every month, by an average of 17.11 points. The risk band averaged

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9.82 points and was also positive in every month. The conventional lending–deposit margin was similar in size to the lending–Treasury spread, at 7.48 points.

Table 2 Lending spreads, January 2006 – March 2026

Spread	Mean	HAC s.e.	95% CI	Median	Min	Max	Positive (%)
Prime − T-bill	7.29	0.80	5.73 to 8.85	6.73	−1.97	17.99	95.9
Maximum lending − T-bill	17.11	1.19	14.78 to 19.43	16.09	4.55	28.82	100.0
Maximum − prime lending	9.82	1.11	7.64 to 11.99	10.11	0.23	18.95	100.0
Prime − 12-month deposit	7.48	0.53	6.44 to 8.52	7.01	−1.04	13.48	99.6

Note. Percentage points. HAC standard errors are Newey–West with twelve lags. $N = 243$ for every spread; all means are significantly different from zero at $p < 0.001$.

5.2 How the spread changed over time

The averages hide large shifts. Table 3 shows that the lending–Treasury spread averaged 8.38 points in 2006–2014 and 6.99 points in 2015–2020, rose to 9.10 points in 2021–2023 when bill yields were very low, and then collapsed to 1.32 points in 2024–2026. Every month before 2024 had a positive spread. The first negative value came in February 2024, when the bill rate jumped from 4.33 to 17.03 per cent while the prime rate rose only from 13.82 to 15.06 per cent. The spread stayed negative until September 2024, turned negative again in April and May 2025, and was barely positive for the rest of the sample.

Table 3 Lending rates and spreads by period

Period	Months	Prime rate (%)	T-bill rate (%)	Prime − T-bill (pp)	Positive (%)	Max − prime (pp)	Corr(prime, T-bill)
2006–2014	108	16.85	8.47	8.38	100.0	5.06	−0.47
2015–2020	72	16.18	9.20	6.99	100.0	13.17	0.79
2021–2023	36	12.59	3.49	9.10	100.0	15.45	0.65
2024–2026	27	17.59	16.27	1.32	63.0	12.41	0.37

Note. 2024–2026 runs from January 2024 to March 2026.

The risk band moved in the opposite direction for most of the sample. In 2006–2014 the maximum lending rate was about five points above the prime rate. In 2015–2020 the gap more than doubled to 13.2 points, and in 2021–2023 it reached 15.5 points. Even in 2024–2026, when the prime rate was close to the bill rate, the maximum rate remained more than twelve points higher. Figure 2 plots the two spreads together. The picture is of a lending market in which the cost of credit to the best borrowers tracked the risk-free rate increasingly closely, while the premium charged to riskier borrowers widened.

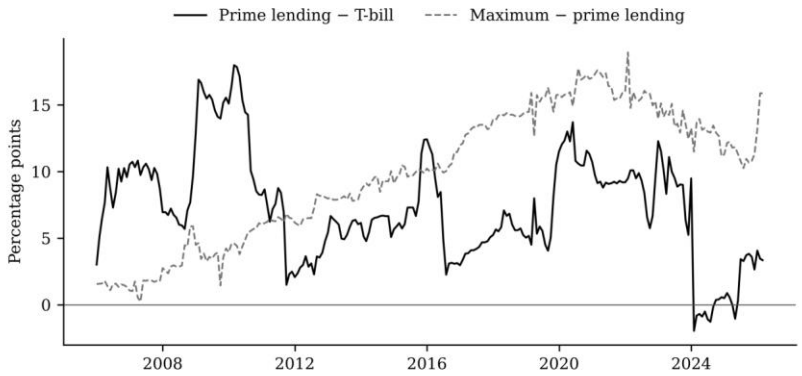


Figure 2. Prime lending rate minus Treasury bill rate, and maximum minus prime lending rate, January 2006 – March 2026. Source: author's calculations.

The correlation between the prime rate and the bill rate also changed sign. It was negative (−0.47) in 2006–2014, when bill yields were driven largely by liquidity conditions in the banking system, and strongly positive (0.79) in 2015–2020.

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This suggests that the link between lending rates and the risk-free rate became tighter after 2015, which is consistent with the narrowing spread for prime borrowers.

5.3 Dynamics of the spread

Table 4 reports the dynamic model. The spread is highly persistent. Over the full sample the coefficient on the lagged spread is 0.926, which implies a half-life of about nine months: half of any shock to the spread is still present nine months later. Neither inflation nor the policy rate has a significant effect. The coefficient on bill-yield volatility is −0.100, with a *p*-value of 0.058. Its sign is the opposite of the dealer-model prediction: months of volatile bill yields were followed by slightly narrower spreads, not wider ones. Before 2021 the effect is essentially zero (−0.020, $p = 0.879$), so the full-sample estimate is driven by the post-2021 period, when sharp jumps in bill yields narrowed the spread mechanically because lending rates did not follow. H2 is supported for persistence but not for the macroeconomic determinants.

Table 4 Dynamic model of the lending–Treasury spread

Regressor	2006–2020 coef.	HAC s.e.	Full sample coef.	HAC s.e.
Intercept	−0.100	0.699	0.891	0.563
Spread (*t*−1)	0.972***	0.019	0.926***	0.033
Inflation (*t*−1)	−0.007	0.033	−0.022	0.022
T-bill volatility (*t*−1)	−0.020	0.129	−0.100*	0.053
Policy rate (*t*−1)	0.038	0.042	0.003	0.037
CPI rebasing dummy	–	–	−0.053	0.391
Observations	173		236	
R^2	0.910		0.889	

Note. Dependent variable: prime lending rate minus Treasury bill rate (percentage points). Newey–West HAC standard errors with twelve lags. *** $p < 0.01$, * $p < 0.10$.

The risk band is even more persistent, with a coefficient on its own lag of 0.988 and an R^2 of 0.974. None of the macroeconomic variables is significant in that equation either. The spread between the riskiest and the safest borrowers drifted upwards over the sample in a way that is not explained by inflation, the policy rate or bill-market volatility.

5.4 Can the spread be forecast?

Table 5 reports the out-of-sample comparison. The historical mean is by far the worst forecast, with an RMSE of 4.68, because the spread spent long periods away from its average. The AR(1) has the lowest RMSE (1.837) and the no-change forecast the lowest MAE (0.958), but the two are statistically indistinguishable ($p = 0.125$). The dynamic model is slightly worse than both on each measure. H3 is rejected: the macroeconomic variables do not improve forecasts of the spread.

Table 5 Out-of-sample forecasts of the lending–Treasury spread, January 2021 – March 2026 (63 forecasts)

Model	RMSE	MAE	DM vs no change	*p*
No change	1.862	0.958	–	–
Historical mean	4.683	3.699	−5.234	0.000
AR(1)	1.837	0.961	1.555	0.125
Dynamic model	1.880	1.012	−0.732	0.467

Note. Percentage points. DM = Diebold–Mariano statistic with the Harvey et al. (1997) correction; positive values favour the model in the row.

The forecast errors are dominated by a few months in which the bill rate jumped, above all February 2024. No model using information available in January 2024 could have foreseen a 13-point rise in the bill rate in a single month, and every model missed the resulting collapse of the spread by roughly eleven points.

5.5 Sensitivity to the zero entries

If the two zero bill rates are left in the data, the conclusions change in a misleading way. The coefficient on the lagged spread falls to 0.792, the volatility coefficient becomes −0.206 with a *p*-value below 0.001, and the dynamic model appears to beat the no-change forecast out of sample (RMSE 2.116 against 2.223, Diebold–Mariano $p = 0.064$). The reason is mechanical. Each zero bill rate adds about eleven points to the spread for one month and raises the six-month volatility measure for the next six months. The regression then attributes the subsequent fall in the spread to the high



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volatility. With the corrected data, the volatility effect is less than half as large and only marginally significant, and the dynamic model has no forecasting advantage.

5.6 Formal tests for structural breaks

The period averages in Table 3 were chosen on institutional grounds. A formal test lets the data choose the break dates. Regressing the spread on a constant and a post-break dummy for every possible break date between the 15th and 85th percentiles of the sample, with HAC standard errors, and taking the largest Wald statistic (the sup-*F* test of Andrews, 1993) gives a statistic of 9.80, above the 5 per cent critical value of 8.68. The estimated break is in March 2011, with a mean spread of 10.73 points before and 6.11 points after. Repeating the search within each segment finds two further breaks. Before 2011, the spread jumped from 8.32 to 13.85 points in December 2008, as Treasury bill yields fell sharply during the banking crisis while lending rates rose (sup-$F = 17.19$). After 2011, the spread fell from 6.97 to 1.63 points in November 2023 (sup-$F = 30.02$), when bill yields began their rise towards the policy rate. The data therefore identify three distinct shifts: a widening during the 2008–2010 crisis, a narrowing as markets normalised in 2011, and a collapse from late 2023. The last of these is by far the largest.

6. DISCUSSION

The results describe a market in which the price of lending to Nigeria's safest borrowers was, on average, about seven points above the risk-free rate but moved over a very wide range. For most of the sample, banks demanded a substantial premium over Treasury bills to lend even at the prime rate. That premium was largest when bill yields were lowest, in 2010 and again in 2020–2021, because lending rates did not fall with bill yields. When bill yields rose sharply in 2024, lending rates followed only partially and the premium disappeared.

Two features of this pattern stand out. The first is the asymmetry between the prime and maximum lending rates. As the prime spread narrowed, the risk band widened. Banks appear to have kept the headline price for their best customers close to the policy and bill rates while pricing the rest of the market very differently. This is consistent with the credit-rationing logic of Stiglitz and Weiss (1981), in which banks reluctant to raise the prime rate tighten their terms elsewhere. It is also consistent with growing differences in borrower risk after the recession of 2016 and the pandemic. With aggregate data alone it is not possible to separate these explanations, but either way the prime rate became a less representative measure of the cost of bank credit over time.

The second feature is the negative spread in 2024. A bank facing a prime lending rate below the bill rate has little reason to lend to prime borrowers at the posted rate, since the bill offers a higher return with no credit risk and more liquidity. In practice banks probably did several things at once: they raised the rates actually charged above the posted prime rate, shortened the maturities of new loans and shifted their balance sheets towards government securities. The data on posted rates cannot show which of these mattered most, but the episode illustrates how a sharp increase in the risk-free rate can reduce the incentive to lend even when the policy intention is simply to tighten monetary conditions.

The weak role of macroeconomic variables is also informative. Inflation and the policy rate do not explain movements in the spread once its own history is taken into account. This matches the finding of incomplete and slow pass-through to lending rates (Tule, 2014; Oyadeyi, 2023): if lending rates respond to the policy rate only partially and with a long lag, while bill yields respond more quickly, the spread will move with the bill rate and will be hard to predict from policy variables alone. The negative volatility coefficient fits the same story. Volatility in the bill market comes mostly from large jumps in bill yields, and because lending rates do not jump with them, the spread narrows when volatility is high.

6.1 Implications

For bank treasurers, the lending–Treasury spread is a useful guide to the opportunity cost of lending, but its persistence means that a current reading tells more about the next few months than any macroeconomic model does. For corporate borrowers, the prime rate is an increasingly poor guide to what most firms actually pay; the maximum lending rate and the risk band are more relevant. For the CBN, the 2024 episode shows that rapid increases in Treasury yields can push the risk-free return above the posted cost of prime credit, which may reduce banks' willingness to lend at posted rates and reinforce the shift of bank assets towards government securities. For researchers, the paper adds to the evidence that the published CBN bill-rate series contains zero entries that must be corrected before use.

6.2 Limitations

The prime and maximum lending rates are reported averages, not transaction-weighted loan rates, and they say nothing about loan volumes or about the rates paid by the many firms that cannot borrow at all. The spread compares instruments of different maturities and liquidity, and it ignores fees, collateral and the tax treatment of interest income. None of the series measures default probabilities or loss rates, so the spread cannot be decomposed into compensation for credit risk

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and other costs. The dynamic estimates are associations, not causal effects. A natural extension would combine these aggregate series with bank-level data on non-performing loans and loan pricing to separate the components of the spread.

7. CONCLUSION

Over 2006–2026 Nigerian banks charged their most creditworthy borrowers an average of 7.3 percentage points above the Treasury bill rate. The premium was highly persistent but far from constant. It was largest when bill yields were very low and disappeared in 2024 when bill yields surged, turning negative in ten months between February 2024 and May 2025. At the same time, the premium charged to riskier borrowers widened from about five to fifteen points. Neither inflation nor the policy rate explains these movements, and no model beats a no-change forecast out of sample. A correction to two zero entries in the published bill-rate series removes an apparently strong volatility effect. Banks' posted prime rates moved closer to the risk-free rate over time, while the price of credit for everyone else moved further away.

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