

Business Risks and Interest Rate Spread Among Kenyan Commercial Banks

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Abstract

This study aimed at establishing the relationship between business risks and interest rate spread of commercial banks in Kenya. It is anchored on a study "determinant of interest rate spread of commercial banks in Kenya and focused on the effects of business risks on interest rate spread of commercial banks in Kenya. Correlation research approach was undertaken. Data was collected using questionnaires and was analyzed using SPSS Version 19. After running reliability tests, factor analysis, descriptive tests, Pearson correlation, model of fitness and regression, results showed that business risks influence interest rate spread of commercial banks in Kenya. Participation of all the stakeholders on review of existing policies on stability and soundness of the banking industry is recommended. Banks should also explore internally and industry driven strategies that mitigate against some of the bank-specific factors associated with higher spreads. Results of this study suggest that business risks played significantly affect interest. It is therefore recommended that government and policy makers should implement sustainable political and macroeconomic environment to boost investors' confidence. Commercial banks in Kenya should thus participate in the interbank market or use the repurchase agreements for government securities to reduce liquidity risks to reduce fear and hence uncertainty in setting high interest rate spread.

Key Words: Interest rate spread, business risks, interest rate