Interest Rate Spreads: Empirical Evidence from Tanzanian Banks

Mussa J Assad, Zawadia Nanyara

Abstract

The purpose of this article is to ivestigate the determinants of bank interes spreads in Tanzania.The article also sought to map the nature of relationships and strengths of variables that influenced bank interest rate spreads.The article employed two research models sequentially, the first model decomposes interest spreads using the accounting framework (Randal et al,1998)and the second fixed effect model (Ramful,2001) uses regression analysis to ivestigate existance and strengths of relationships between spreads and each independe variable.High interest rate spreads in emerging economies are generally suggestive of underlying problems in financial intemediation there is need for a better understanding of interest spread behaviour however, limited published research is available that identifies factors contributing to such high spreads.This article contributes insight into determinants of interest rate spreads.

Results show the smallest 3 banks in terms of total assets have the highest spreads.These banks have a sizable portifolio of small business enterprises which implies relative high risk.high spreads in these casesw reflect the relative high risks assumed by the banks.The article also reports interst rate spreads not only cover costs of operating expenses and poor quality of loans but also reflect the prevalence of market power