

EFFECT OF BUSINESS RISKS ON INTEREST RATE SPREAD OF COMMERCIAL BANKS IN KENYA

Wanjiru M.M.¹, Kamau M.J.²,

Kirinyaga University¹, Kenya Medical Training College², KENYA

Correspondence: mwmaina@kyu.ac.ke

ABSTRACT

When a company experiences a high degree of business risk, it may impair its ability to provide investors and stakeholders with adequate returns. 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". Though several variables were studied, this paper concentrates on the effects of business risks on interest rate spread of commercial banks in Kenya. Correlation research approach was used. Data was collected using questionnaires and analysed using SPSS Version 19. After running different tests: 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. There is need for stakeholders' participation in review of existing policies on stability and soundness of the banking industry. Banks should also explore internal and industry driven strategies to mitigate some of the bank-specific factors associated with higher spreads. Based on the research of this study, it is concluded that business risks played significant role in explaining interest rate spread. It is therefore recommended that policy makers should implement sustainable political and macroeconomic environments 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 their liquidity risks.

Keywords: *Interest Rate Spread, Business Risks, Interest Rate*