

A Study on the Effect of Components of Kenya Bankers' Reference Rates on the Interest Rate Spreads Of Commercial Banks in Kenya

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Abstract

Commercial banks play a vital role in the economy. By receiving and keeping money for their customers while lending some funds to those in need. The depositors should be able to get return for their savings while borrowers should be charged reasonably to enable them realize gains from the loans which in turn spur economic growth. Commercial banks should also get reasonable returns from the funds they lend to realize profitability and stay in business. Kenya Bankers Reference Rates (KBRR) was introduced and affected in 2014, as deviation from the initial base rates applied by commercial banks, to improve transparency and act as an indicator to the lending rates that banks should offer from time to time. This study therefore investigates the relationship between the parameters used to derive the KBRR rates and the interest rate spreads. The main aim of the study was to advise stakeholders on this relationship and its effects on the interest rate spreads which has become an issue of great concern in Kenya. The research used a descriptive research design. The target population was 43 commercial banks. Census approach was used since the target population is not big. The research used secondary data. The multiple linear regression analysis was used to determine the extent of influence of the independent variables on the dependent variable. The study further found a strong relationship between the dependent and the independent variables given an R value of .767 adjusted to .75 this shows that the independent variables (91-day Treasury Bills, Central Bank Rate, Inflation, Provisions for Loans, the GDP rate and the Reserve Requirement) account for 76.7% of variations in interest rate spreads.