

Impact of free interest rate regime on lending and savings under liberalized banking industry in Kenya

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Abstract: Until June 1991, the government maintained control on interest rates and was instrumental to setting the maximum nominal interest rates on loans and minimum interest rates on savings, mandatory credit ceiling, compulsory reserves requirements for the banks and control over allocation of credit. Since liberalization of financial sector in Kenya, no study has been undertaken to evaluate the impact of interest deregulation on the economy. Increased quantities of nonperforming loans have been reported by commercial banks while borrowers have continued to experience straining financial conditions while servicing their loans. The spread between lending and savings interest rates continue to widen. The study involves' the analysis of both primary and secondary data to establish the effect of interest rates liberalization on lending and establish the trend and spread between lending and savings interest rates. The data analyzed is for the period 1993-2003 and was obtained from CBK reports and questionnaires to commercial banks. Recommendations have been given on the bases of the findings as to whether banks should be regulated or not.