

THE IMPACT OF INTEREST RATE SPREAD ON BANK PROFITABILITY IN GHANA

Alhassan Musah

Dominion University College, School of Business, Box CT 69, Accra, **GHANA**

Fred Kwasi Anokye

University of Ghana, University of Ghana Business School, Box LG 78, Accra, **GHANA**

&

Erasmus Dodzi Gakpetor

Dominion University College, School of Business, Box CT 69, Accra, **GHANA**

ABSTRACT

The study examines the effect of interest rate spread on the profitability of commercial banks in Ghana. The study measured interest rate spread using net interest income (IntSp) and net interest margin (NIM) and bank profitability using Return on Assets (ROA) and Return on Equity (ROE). The study is based on a sample of 24 banks over a ten - year period using a panel data. The results of the study show that there is a positive and statistically significant association between interest rate spread and bank profitability in Ghana. The findings could be interpreted within the context of the loanable funds theory to suggest that the demand for loans exceed the supply of same allowing banks to charge higher interest on lending relative to deposits to increase profitability. The results of the study have significant implications on research on interest rate spread and more especially on government policy to reduce interest rate spread in Ghana. With profit as a motivation, banks will only reduce interest rate spread if its reduce their profitability but the current evidence shows that banks charge higher interest margin to maximize profitability.

Keywords: Interest rate spread, commercial banks, profitability, Ghana.