

Determinants of Interest Rate Spread in Sri Lankan Commercial Banks

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Abstract

Interest rate spread has always been one of the most important and significant economic issues in different countries of the world. This study is done to identify determinants on interest rate spread and define a suitable model of interest rate spread in Sri Lankan Commercial banks during the 2005 to 2014. Variables that are affect to interest rate spread categorize in to three factors such as bank specifies factors (Operating Cost, Credit Risk, Bank Size, ROA, Liquidity Ratio, ROE), industry specifies factors (Industry Assets, Reserve Requirement) and macroeconomic factors (Inflation, GDP Growth rate). And also overall data model divided in to three modes based on time period to identify best model (overall data 2005 to 2014, five year data 2005 to 2009, and five year data 2010 to 2014). Research found that 2010 to 2014 data model is best model and it identified operating cost, bank size, liquidity ratio, ROE, statutory reserve as significant variables.

Key Words: *Interest rate spread, Return on Assets, Return on Equity, Commercial Banks*