The effect of credit risk management on the profitability of commercial banks in Tanzania

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The study emphasized on the effects of credit risk management on profitability of commercial banks in Tanzania. It was guided by three research questions which are hypothetical as predictors and which exert influence in determining the profitability of commercial banks in Tanzania as the dependent variable. The predictors were capital adequacy ratio, non-performing loans and bank size. Case study design was used whereas few selected commercial banks were used to fill the identified gap of the study. The sources for secondary data were financial statements and other relevant information from commercial banks. The data collected was evaluated through the use of correlation analysis and multiple regression analysis with the outcome indicating that two out of the three identified independent variables namely capital adequacy ratio and bank size were found to be positive and statistically significant on the dependent variable (that is on Return On Assets) which was used as a measure of the profitability of the commercial banks while non performing loans had a negative correlation and was not statistically significant on the dependent variable. Consequently, it is evident and clear that credit risk management affect profitability of the banks through capital adequacy ratio and bank size. Therefore, the study recommends that for commercial banks to consistently generate satisfactory bottom line and adequate performance which guarantees profitability at all time; there must be strict practices pertaining to credit risk management which will ensure monitoring, evaluation of emerging risk and development of mitigating scenarios which will protect the banks from the nonstop impact of non-performing loans which have direct implication on the banks capital adequacy ratio and bank size.

With respect to the policy implication of the study, the research could influence policy makers especially the Central Bank to develop frameworks which ensure that the capital adequacy ratio of commercial banks in Tanzania is strengthened so as to adequately insulate the banks from losses. Policy makers as a way to shore up the capital adequacy ratio of commercial banks could also consider the enhancement of the minimum capital requirement for banks in Tanzania by enhancing it from the current level of Tshl5billion / USD7million to a minimum of USD25million.

Policy makers could also be influenced to review the current policy on recognition and write off of non-performing loans on the banks books. It is important that this concern be addressed and implemented in such a manner that banks do not continue to carry nonperforming assets on their books after a stipulated period of time with the false revenue recognised from such loans. The study also provides room for further study into the need to drive consolidation within the banking industry in Tanzania.