

A macro-economic analysis of commercial banks loan performance in Tanzania

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The role of commercial banks in the development of a country's economy is very substantial. Banks help to implement the government's monetary policy. The banking sector in Tanzania is the heart of the financial system, determining the volume of credit available, attracting savings and setting interest rates and security prices. Loan performance in commercial banks is fluctuating while the loan product structure has greatly changed. This phenomenon called for a study that will validate the factors influencing loan performance in commercial banks. The main objective of this study is to investigate selected macro-economic factors that influence changes in the loan performance in the banking sector in the context of the liberalized economy. A demand function model is used to express the relationship. Secondary data was sought from BoT and financial institutions. An econometric model is used to establish the above relationship and the results are presented and discussed accordingly. The research findings show that there is a linear relationship between loan performance and the macroeconomic variables. Building on this assessment, the government policies should continue to focus on the promotion economic growth and reduction of poverty whilst consolidating and maintaining macroeconomic stability with an objective to, among others, allow commercial banks credit to the private sector to grow while limiting the increase of the non-performing loans. Banks should also incorporate the assessment of macro-economic factors in the loan application analysis and loan administration.