ABSTRACT

This study focused on determining the relationship between Tanzanian banks' profitability and liquidity, with the following specific objectives: (i) to study the relationship between liquidity ratios (loans to deposits ratio and liquid assets to deposits ratio) and net interest margin (measure of profitability), (ii) to study the relationship between liquidity ratios (loans to deposits ratio and liquid assets to deposits ratio) and return on assets (measure of profitability), and (iii) to study the relationship between liquidity ratios (loans to deposits ratio and liquid assets to deposits ratio) and return on equity (measure of profitability).

It was a longitudinal study whereby five banks (NMB, CRDB Bank, NBC, Barclays Bank Tanzania and Exim Bank Tanzania) were taken into consideration for the time period from year 2006 to 2013. The study applied a Positivism Research Paradigm and was of quantitative nature. The researcher used non-probabilistic sampling technique i.e. purposive sampling method to select the above mentioned five banks among thirty four (34) licensed banks in Tanzania as at the period of the study. The study used secondary data from annual reports of the selected banks, and documents review method of data collection was employed. Data were analyzes by using econometric tests and the software that was used in analysis is STATA – version 11.

All the models revealed that there is no statistically significant relationship between banks' profitability and liquidity for the selected banks, thus the banks can focus on increasing their profitability without affecting their liquidity, although this is not guaranteed because the situation might change. The researcher recommends that banks should be careful with their profitability, and this is because some of the banks incurred losses in some years, most probably due to having bad loans. Also it is recommended that the banks should optimally utilize the deposits towards lending to customers, and this is because there are some few cases whereby the banks had very low loans to deposits ratio and other times extremely high loans to deposits ratio, which is not a good sign for the bank that wants to utilize optimally the deposits so as to be profitable and at the same time liquid. Generally the study was conducted successfully although the research thinks that the results would be more robust if it was possible to include more banks in the sample and taking a long time frame, something that was not possible in this study.