

MEDIATING ROLE OF ECONOMIC BANK PERFORMANCE
ON THE RELATIONSHIP BETWEEN MACROECONOMIC
FACTORS AND ECONOMIC GROWTH IN KENYA

MUBIAH PATRICK MATINDI

A Thesis Submitted to the School of Business Management
and Economics in Partial Fulfillment of the Requirements
for the Award of Master of Science Degree in Economics
of Dedan Kimathi University of Technology

JANUARY 2018

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DECLARATION AND APPROVAL

This thesis is my original work and to best of my knowledge has not been presented for a degree in any other university of higher learning.

Mubiah Patrick Matindi

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6/3/2018

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Signature

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ABSTRACT

Banks are important in the economy because they provide the security to the savings of customers, control the supply of money and credit and encourage public confidence in the working of the financial system. Studies assessing macro-economic factors and bank performance are scarce in Kenya and much of sub-Sahara Africa. The study therefore sought to establish the influence of macroeconomic factors on bank performance and bank performance influence on economic growth. The objectives of the study were to determine the influence of exchange rate on banks performance; to determine the influence of inflation on bank performance and to examine the relationship between bank performance and economic growth. This study adopted the descriptive survey research design. The 44 commercial banks registered by Central Bank of Kenya were targeted. A census approach was employed. The study utilised longitudinal time series secondary data which was sourced from CBK annual bank supervision reports over a 10 year period between 2006 to 2015. Descriptive statistics (frequencies and percentages) were used to organize the data which was presented in form of tables and charts. Multiple regression analysis were conducted to establish the relationships between variables in the study and to test the hypotheses. Inflation was unstable in the period under review changing from 15.6 percent in 2006 to 8 percent. Interest rates were stagnant between 2006 and 2010 and then drastically rose in 2011 before gradually falling and rising again in 2015. Kenyan shilling had been gradually weakening against the US Dollar. The exchange rate at 2015 stood at 105.27 up from 69.63 in 2006. The findings showed that the economic growth took a heavy dip in 2008. The highest growth was observed in 2010 at 8.4% but the growth has since dipped to the current 5.6%. The study found that macroeconomic factors were not significant ($p=0.401$) at 95% confidence level. None of the macroeconomic factors was statistically significant to bank performance. Macroeconomic factors and bank performance were not significant to economic growth. The study concluded that macroeconomic factors as a whole are not significant to bank performance. Inflation, interest rates and exchange rates are not significant to bank performance. Inflation and exchange rates have negative effect on bank performance while interest rates enhance bank performance to a small extent. The study concluded that there is no significant relationship between bank performance and economic growth. of the macroeconomic factors as they are significantly related to bank performance. The study also concluded that bank performance has no mediating role on economic growth. The study recommended that banks should enhance their risk management practices to shield them from grave exchanger rate exposure. This can be achieved through keen monitoring of fluctuations. The study also recommended that banks should avoid pushing interest rates very high during times of high inflation to point where borrowers are unable to borrow.