Role Of Interest Rate Regulation In Explaining Economic Growth In Kenya

Nicholas Owino Ochieng Apamo
Department of Economics,
Maasai Mara University, Kenya
o.nicholas89@adjunct.mmarau.ac.ke

Abstract

Kenya's economic growth rate has been inconsistent accompanied by a number of macro-policy measures. The slow or turbulent growth rate could be as a result of poor governance, imprudent macroeconomic policy measures, geographical location, amongst others. Often, the countries monetary policy has been used to influence the macroeconomic objective of minimum unemployment, economic growth and favorable inflation rate. To achieve these, the Central Bank of Kenya deploys a number of policy measures including reduction in base lending rate and alteration of required reserve ratios. These measures have however proven futile in influencing credit growth. The objective of the study was therefore to assess the effectiveness of interest rate regulatory policy on influencing credit growth and ultimately long run-economic growth and development. To achieve the study objective, Vector autoregression model, VAR was employed. The research was based on secondary information obtained from quarterly statistical releases; Kenya National Bureau of Statistics, World Bank and World Development indicators for the period April 2000 to March 2017; to cover the period prior to implementation of interest rate capping law, and from January 2018 to March 2019 to cover the post implementation duration. The results show that a positive shock in credit level results into a positive response in economic growth. Additionally, the results show that irrespective of sluggish response of credit growth to changes in lending rate, there is an indirect relationship between credit growth and lending rate. There is therefore need to consider other tools to influencing credit growth other interest rate.

Key words: economic growth, poor governance, policy measures, lending rate, required reserve ratios, credit growth, Vector autoregression model and interest rate capping