

EFFECTS OF SELECTED MONETARY POLICIES ON LOANS PORTFOLIO PERFORMANCE AMONG COMMERCIAL BANKS IN KENYA

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ABSTRACT

Commercial banks are very important in an economy as they mobilize savings for productive investments and facilitating capital flows to various sectors in the economy, thus, stimulating investments and increase productivity. Their operations are guided by monetary policy actions under central bank directives. Currently banks charge 18 per cent, as per Central Bank of Kenya data, with some borrowers paying as high as 24 per cent for short- to medium-term loans contrary to the policy actions. Pleading with banks to lend at lower rates in the recent past has, however, not borne fruit, leaving the lenders to charge borrowers high and arbitrary rates that have only invited legislative action from Parliament to Capping interest rates. This study sought to determine the effects of selected monetary policies on loans portfolio performance among commercial banks in Kenya. The study specifically determine the effects of open market operations, central bank rate, minimum reserve requirements and Kenya bankers' reference rate on loans portfolio performance among commercial banks in Kenya. The findings of the study will be important to policy makers, commercial banks and scholars. The study targeted 30 commercial banks and used 30 credit officers, one from each bank to collect data. This study adopted a descriptive survey design and employed census in the selection of respondents. The study used questionnaires to gather primary data from the respondents and secondary data sheet to collect secondary data. The statistical package for social sciences (SPSS) version 20 was used to generate both descriptive and inferential statistics. Analysis of data was done using descriptive statistics specifically mean, standard deviation, percentages and frequencies. The processed data was presented using tables. Phi and Cramer's V was then performed to establish the strength of relationship between the independent variables and the dependent variable and Chi-square was used to test for the significance of each predictor variables in the model at 0.05 (significance level) and also multiple regression was also done in order to establish the nature of the relationship between open market operations, central bank rate, minimum reserve requirements and Kenya bankers' reference rate. The findings of the study showed that there was no significant relationship between open market operations, central bank rate, Kenya bankers' reference rate and loans portfolio performance. The study recommended that central banks should re-evaluate the policies governing open market operations especially outright transactions and reserve transactions, that central bank should continue to improve their monetary policies. The study also recommended that central bank rate and minimum reserve should be reduced and much with the prevailing inflation rate. It is necessary that further study be done on the effect of open market operations on loans portfolio performance among commercial banks.

Keywords: Open market operations, central bank rate, minimum reserve requirements and Kenya bankers' reference.