

**EFFECT OF SELECTED MACROECONOMIC VARIABLES ON LENDING RATES AMONG  
COMMERCIAL BANKS IN KENYA**

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## **ABSTRACT**

This study sought to investigate the effect of macroeconomic variables on lending rates among commercial banks in Kenya. Specifically the study sought to; establish the effect of Gross Domestic Product growth rate and inflation rate on lending rates among commercial banks in

Kenya. The study also sought to determine the moderation effect of political risk on the relationship between macroeconomic variables and lending rates among commercial banks in Kenya. Explanatory non-experimental research design was employed. The target population was thirty-nine (39) commercial banks from whom secondary data was collected by way of census since these are the banks from which complete information could be obtained for meaningful analysis for the study period 2006-2015. Descriptive Statistics including Mean, Standard deviation, inferential statistics (Panel regression analysis and Correlation analysis) were carried out. Data analysis was run on the Stata 13 package and findings presented in figures, tables, graphs and charts while deriving conclusions and recommendations from the findings of the study. The finding revealed that GDP growth rate and inflation had positive and significant effects on lending rates. However, the effect of GDP growth rate was found to be negative. Political risk was found to have insignificant moderating effect on the relationship between macroeconomic variables and lending rates among commercial banks in Kenya. Based on the findings, the study concluded that macroeconomic variables play a significant role in determining the lending rates of commercial banks. The study recommends that government should pay attention to macroeconomic factors while controlling the domestic lending rates. Policy initiatives that wish to keep the lending rates at a low level should also take into consideration the need to enhance economic growth and reduce inflation.

**Keywords:** Gross Domestic Product growth rate, inflation rate, lending rates, banks.

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