

**INTEREST RATE CAPPING AND SHARE PRICE OF KENYA
COMMERCIAL BANKS LISTED IN NAIROBI SECURITIES EXCHANGE**

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DECLARATION


I declare that this project is my original work and has not been presented for a degree in any other university or for any other award.

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This project has been submitted for examination with my approval as university supervisor

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DEDICATION

This research project is dedicated to my family, classmates and friends for their selfless support and inspiration during the time of writing the project.

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LIST OF ABBREVIATIONS AND ACRONYMS

APT : Arbitrage Pricing Theory

CBK : Central Bank of Kenya

CBR : Central Bank Rate

CMA : Capital Market Authority

EPS : Earning Per Share

GDP : Gross Domestic Product

KCB : Kenya Commercial Bank

NASI : NSE All Share Index

NSE : Nairobi Securities Exchange

ABSTRACT

The study examined the effect of the interest rate capping on the share price of Kenya commercial banks listed in the Nairobi securities exchange. The control variables of the study were dividend yield, inflation rate, profitability, exchange rates and GDP growth. The study was anchored on three theories, namely, the efficient market hypothesis, arbitrage pricing theory and behavioral finance theory. The panel research design was adopted in this study. The panel research design was best suited since panel data was used. The study used secondary data obtained from the NSE market reports, NSE handbook, CBK reports and the individual banks' annual reports. The targeted population of the study was 11 commercial banks listed in the Nairobi stock exchange. The data examined in the study was collected between 2015 and 2021. STATA software was used to generate a quantitative report for analysis. The quantitative report was analyzed using descriptive and inferential statistics. The study findings indicated that interest rate capping, profitability (ROI), dividend yield, inflation, exchange rates and gross domestic product explain 65.03% of the variations in the share price. The correlation result showed that inflation, profitability (ROI) and gross domestic product are positively associated with share price (0.2162; 0.4213; 0.7301, respectively), while Interest rate capping, dividend yield and exchange rates are negatively associated with share price (-0.1174; -0.3526; -0.2265 respectively). The regression results showed that interest rate capping has a negative and significant effect on share price ($\beta=-5.2962$, $p=0.0040$). The dividend yield is negatively and significantly related to share price ($\beta=-1.2822$, $p=0.0210$). Inflation has a positive and insignificant effect on share prices ($\beta=2.7726$, $p=0.280$). Profitability (return on investments) is positively and significantly related to share prices ($\beta=3.2573$, $p=0.0060$). The exchange rates is negatively and insignificantly related to share prices ($\beta=-0.0162$, $p=0.9570$). The study found that gross domestic product is positively and significantly related to share prices ($\beta=11.2161$, $p=0.0000$). The study concluded that interest rate capping, exchange rates and dividend yield are negatively related to share price while inflation, profitability and gross domestic product are positively related to share prices. The study recommended that interest rate capping should not be introduced in a country since it affects the share prices negatively. The Central bank of Kenya should mutually agree with the commercial banks to ensure the customers are not exploited by the commercial banks by charging exorbitant interest rates instead of putting the interest rate capping. Moreover, it is recommended that commercial banks in Kenya look for strategies to increase profitability as it influences share prices. It is recommended that the government use various economic stimulus programs to boost the country's gross domestic product, as this will positively influence investment in the banking sector.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The share price is significant to the companies and measures the change in the average prices of company shares over a certain period (Karinga, 2015). The share price indices are determined from the prices of common shares of companies traded on national or foreign stock exchanges (Kimunge, 2017). According to Sichoongwe (2016), the share price is usually determined by the stock exchange, using the closing daily values for the monthly data and normally expressed as simple arithmetic averages of the daily data. A share price measures how the value of the stocks in the index is changing (Amarasinghe, 2015). Besides, Bhattarai (2014) established that the share price informs the investors their magnitude of the returns expected from investing in the basket of shares. Moreover, the price index measures the changes in the market capitalization of the basket of shares of a certain company over a while (Maloba, 2016).

Besides, Ngunjiri (2016) reported that the Share price indices are very significant to the investors and determine the monetary gain or loss from the investments. According to Bhattarai (2014), share prices of the stock keeps on fluctuating and to optimize returns, the investors should buy when the security prices are low and sell when the share prices are high. The investors use the previous periods to predict the expected market performance, which acts as the basis for the future returns of a portfolio or an individual firm's performance (Sichoongwe, 2016). Tahir, Shehzadi, Ali and Ullah (2015) established that investors rely on the share price indices to compare the alternative investment options that they can undertake and maximize the returns. The fluctuations of the share prices create some form of uncertainty for the investors, which influence the stocks' demand and supply. Nyamute (2016) revealed that interest rates are important factors that

determine the fluctuations of the shares prices. According to Maloba, (2016), Kimunge, (2017), Kamuti and Omwenga(2017), Ngunjiri (2016) and Njogu (2017), the share price is highly determined by interest rate capping.

The interest rate capping is the process of allowing the commercial banks and other financial institutions not to surpass a specific limit of the interest rates (Safavian & Zia, 2018). The main reason for setting the interest rate capping is to protect the customers from exploitation and to minimize the fluctuations of the interest rates among the financial institutions (Karinga, 2015). The interest rate is the cost incurred by a borrower for using money borrowed from financial institutions or lenders (Were & Wambua, 2014). Higher lending interest rates hurt the economy since it increases the costs of borrowing, thus reduces the level of the investment (Muiva, 2014). The financial sector in Kenya was liberalized in the early 1990s to enable interest rates to be determined by market factors (Ariemba, Kiweu&Riro, 2015). However, the high lending interest rates charged by the lenders attracted debates in various forums, including public and private ones stimulating the enactment of the interest rate capping in 2016 (Njogu, 2017). Based on the findings of Maingi (2017), Maluki (2018) and Mwaurah (2019), the interest rate capping dictates the share piece index of the financial institutions in Kenya.

1.1.1 Interest Rate Capping

The interest rate capping refers to a regulatory measure that is undertaken by the government in a country to limit the banks and other financial institutions from charging more than a certain level of interest rates (Jane, 2019). The Interest rates capping can be established as a government regulatory measure that limits the interest rates on credit offered by the commercial banks as well as other financial institutions to the customers (Priti, 2016). Besides, the interest rate capping sets the minimum interest rate payable on funds deposited in an interest-earning account (Ekinici,

A2016). The fluctuations and the high cost of credit and predatory lending practices by banks and other financial institutions initiated the capping interest rate by the government to protect the customers (Safavian & Zia, 2018). The interest rate capping is the limiting of the fluctuation of the rate of interest to a given interest rate cap (Olaka, 2017)

The interest rate capping in Kenya assented into law on 24th August 2016 (Weru, 2019). The interest rate capping restricted the lending rates at 4.0% above the Central Bank Rate (CBR) and a floor on the deposit rates at 70% of the CBR (CBK, 2016). The interest rate capping was formulated to increase the borrowing and spur economic growth and further protect the consumer from unfair interest rates from lenders (Njogu, 2017). However, after the implementation of the capping, there was a significant fall in share prices of listed banks in the NSE, which affected the 20 share index, the 25 share index and the NSE All-Share Index (NSE, 2016). Most of the banks were not willing to give out loans to individuals because of the high risks associated with the default payment, thus venturing to other forms of investments other than issuing loans to the investors (Mwaura, 2019). Interest is the primary source of income for commercial banks and other lenders and therefore capping of interest rate may affect the performance of commercial banks and resort into measures such as downsizing to minimize the operational costs to remain sustainable (Nyamute, 2016).

1.1.2 Share Price

A share price is essential to the investors and measures how the value of the stocks in the index is changing over time (Idawatim&Wahyudi, 2015). The investors of the institutions rely much on the share price to examine the market and to compare the returns on the available investments. The share price can be increased when the stock price of a company grows and by generating a high net contribution (Nijam, Ismail &Musthafa, 2015). According to Patel, Shah, Thakkar and Kotecha

(2015), the share price can be improved by increasing the market shares in growing segments of existing markets or by investing successfully in the new market. The share price shows the extent of the performance of a company in comparison to the other companies with similar products or services (Amarasinghe, 2015). The investors rely much on the determined values of stock market indexes as an indicator of the current value of the stocks to predict the future returns by comparing the present and past index levels (Miller & Ward, 2015).

1.1.3 Interest Rate Capping and Share price

The monetary policies of the central bank, such as interest rate capping, are meant to dictate the behavior of the financial institutions and are considered to affect the share price (Ghani & Chaudhary, 2016). The financial performance of the commercial banks and other financial institutions is dependent on the level of interest rates (Maingi, 2017). The high lending interest rate has a provision for the loan's risks in the market and this translates to high-profit margins (Ouma&Muriu, 2014). The share price movement ought to relate to the banks' lending rates of interest (Dalgaard, 2019). When the interest rate of a loan is high, it is expected that fewer clients will borrow, thus low profitability to lenders (Julius, Andrew, Joel, & Lucy, 2015). Investors lose confidence in firms with a persistent decline in the profitability, thus opts to sell out their shares, resulting in a high supply of shares and low demand since, therefore, the price per share falls (Cherono, 2018). The interest rate capping had an impact on the share price of most of the financial institutions in Kenya (Karinga, 2015).

The announcement of the interest rate capping resulted in the downward trend in all banking sector stock prices as from 25th August 2016, just a day after the IRCR was enacted (Sammy, 2017). For Instance, Barclays Bank of Kenya share price declined from Kshs.9.70 on 24th August 2016 to Kshs.8.85 on 25th August 2016 and further dropped to Kshs.8.55 on 26th August 2016 (NSE,

2016). The same trend was observed for I&M Holdings Ltd, whose shares traded at Kshs.107.00 on 24th August 2016 declined to Kshs.96.50 on 25th August 2016 and Kshs.87.00 on 26th August 2016. Besides, KCB Group shares traded at Kshs.32.75 on 24th August 2016, Kshs.30.00 on 25th August 2016 and Kshs.27.00 on 26th August 2016 (NSE, 2016). Likewise, the Co-operative Bank of Kenya Ltd shares traded at Kshs.13.25 on 24th August 2016, Kshs.11.95 on 25th August 2016 and Kshs.10.80 on 26th August 2016 (NSE, 2016). Besides, on the first day of trading after the interest rate capping, the major NSE indices declined in which NSE 20 Share Index reduced by 4.4%, the NSE 25 Share Index lost 3% and the NASI by 5% (NSE, 2016).

1.1.4 Commercial Banks Listed in Nairobi Securities Exchange

Kenya has 41 commercial banks operating under the regulations of the Central Bank of Kenya (CBK). The controls are meant to protect the depositors of money in the bank, to ensure that banks are not being misused and are operating clean business as opposed to money laundering and to the fundamental role of maintaining confidence in the banking sector (Sammy, 2017). On Wednesday, 25th August 2016, the president signed the bill that caps the interest rates for bank lending and deposits (Ouma&Muriu, 2014). The new amendments required the commercial banks and other lenders not to go beyond 4.0% above the Central Bank Rate (CBR) and a floor on the deposit rates at 70% of the CBR (Jane, 2019).

However, the targeted population of the study was 11 commercial banks listed in the Nairobi stock exchange. These commercial banks included Barclays Bank Ltd, Diamond Trust Bank Kenya Ltd, Equity Group Holdings, HF Group Ltd, I&M Holdings Ltd, KCB Group Ltd, National Bank of Kenya Ltd, NIC Group PLC, Stanbic Holdings Plc, Standard Chartered Bank Ltd and The Co-operative Bank of Kenya Ltd. Having only eleven banks out of forty-two listed in Nairobi Securities Exchange is an essential reflection of how poor the banks are performing in the country.

1.2 Research Problem

The shares price indices of commercial banks listed in NSEs have been fluctuating over time, making it very difficult for the investors to predict future prices (Maluki, 2018). The majority of the investors in the NSE are unable to precisely interpret what causes share prices to deviate from expectation (Weru, 2019). After the capping of the interest rates, the shares of the commercial banks became unattractive and unpredictable, making the investors sell out the shares and watch the next strategy the institutions will use to continue making enormous profits (Kimunge, 2017). The banks became cautious in giving out loans to avoid making losses out of loan defaulters making the prices of the shares to be inconstant.

According to Sammy (2017), the announcement of the interest rate capping resulted in the downward trend in the stock prices of some of the listed banks as from 25th August 2016, just a day after the interest rate capping was enacted. For Instance, Barclays Bank of Kenya share price declined from Kshs.9.70 on 24th August 2016 to Kshs.8.85 on 25th August 2016 and further dropped to Kshs.8.55 on 26th August 2016 (NSE, 2016). The same trend was observed for I&M Holdings Ltd, whose shares traded at Kshs.107.00 on 24th August 2016 declined to Kshs.96.50 on 25th August 2016 and Kshs.87.00 on 26th August 2016. Besides, KCB Group shares traded at Kshs.32.75 on 24th August 2016, Kshs.30.00 on 25th August 2016 and Kshs.27.00 on 26th August 2016 (NSE, 2016). Likewise, the Co-operative Bank of Kenya Ltd shares traded at Kshs.13.25 on 24th August 2016, Kshs.11.95 on 25th August 2016 and Kshs.10.80 on 26th August 2016 (NSE, 2016). Also, on the first day of trading after the interest rate capping, the major NSE indices declined in which NSE 20 Share Index reduced by 4.4%, the NSE 25 Share Index lost 3% and the NASI by 5% (NSE, 2016).

Despite several studies been conducted to examine the influence capping interest rate on the share price, the effect of capping of the interest rates on shares prices index remains unsolved. Nkwoma (2014) established that the deregulation of interest rates in the Nigerian bank sector increased bank lending, which meant a high-profit margin for the banks. Besides, Amarasignhe (2015) utilized a granger causality test in Sri Lanka and found that there exists a positive relationship between the interest rates capping and the share price of listed companies. Kimunge (2017) examined the effect of the announcement of interest rate capping on stock returns at the Nairobi securities exchange and found that the interest rate capping has positive significant impact stock returns. Nevertheless, Kavwele, Ariemba and Evusa (2018) established that interest rate capping had a statistically negative effect on the stock returns to the commercial banks in Kenya. Also, Munguti, (2017) reported that interest rate capping had a negative impact on the returns in the short term to the commercial banks listed at the Nairobi securities. Therefore, the lack of consensus among the previous studies formed the foundation of conducting the present study. The study thus attempted to answer the research question, what is the effect of interest rate capping on the share price for listed commercial banks in the Nairobi Securities Exchange?

1.3 Research Objective

The objective of the study was to examine the effect of the interest rate capping on share price of Kenya commercial banks listed in Nairobi securities exchange.

1.4 Value of the Study

The research findings will be significant to the management of the listed commercial banks and will be able to understand the implications of the interest rate capping and will be in the position to make informed financial and strategic decisions. Besides, the findings of the study will be significant to the individual and corporate investors in making informed securities exchange

investment decisions about selling, buying, or holding and adjustment of their investment portfolios appropriately.

Besides, the government and the policymakers (central bank of Kenya) will be guided by the findings of the study to make future legislation of banks and other financial institutions concerning the interest rates. The results of the study may also be significant to the Capital Markets Authority of Kenya and other organizations, which are directly associated with listed firms to come up with policy mechanisms for effective regulation of the securities market in Kenya.

Lastly, the researchers will benefit from this study finding through citations as it will give recommendations for further similar studies. Future researchers will understand how interest rate capping relates to share price. The study will also be significant to the literature as it will add to the available knowledge on the effect of interest rate capping on share price to the commercial banks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical framework, determinants of share price, empirical review, conceptual framework and summary of the literature review.

2.2 Theoretical Framework

The sections present analysis of the relevant theories that elaborates the affiliation involving the interest rate and share price. Thus, the theoretical review comprised of efficient market hypothesis, arbitrage pricing theory and behavioral finance theory.

2.2.1 Efficient Market Hypothesis

Eugene Fama developed the efficient market hypothesis in 1991. The theory establishes that at any given time, security prices fully reflect all available information. The theory further holds that in an efficient market, new information is processed and evaluated as it arrives and prices instantaneously adjust to the news and correct levels. The efficient market hypothesis assumes that stock prices reflect the knowledge and the expectations of all investors and why the stocks in the market behave the way they do (Bernstein, 1999). According to Fama (1991), the stock prices of the company inform the public about the available information about the company. The theory assumes that all the investors perceive the available information concerning the prices of the stock in the same manner. Further, the theory assumes that investors earn the same profits with the equal amount invested and thus, no single investor is ever able to attain higher earnings than another one with the equivalent amount invested.

Nevertheless, the efficient market hypothesis is essential to investors. The significance of the theory is that it maintains that all stocks are correctly priced according to their inherent investment

properties and the knowledge of which all market participants possess equally. The efficient market hypothesis shows that assuming no frictions, the price of a security should equal its fundamental value, defined as the discounted sum of future cash flows. Mathematically, this means that the price of a particular stock or portfolio equals the expected forecast of the subsequent cash flows and investment risks, conditional on all information available at the current period. The theory was relevant and gave an overview of the factors that drive an investor towards a particular type of investment.

The theory, however, contains some weaknesses. For instance, the approach assumed that investors perceive the information concerning the prices of the stock in the same manner; however, in the real situation, investors value the stock of a company differently. Besides, another weakness of the theory is that it assumes that investors earn the same amount of return from their investments as long as they invested the same amount of money, but that does not hold the truth since the profits to the investors will never be the same in an organization. Besides, some factors make it difficult for the efficient market hypothesis to be practical such as market fluctuation and economic instability and forecasting about stock prices is not easy and many investors are influenced by new information in the market, which may encourage them to purchase or dispose of their stocks.

2.2.2 Arbitrage Pricing Theory

Roll and Ross established the arbitrage Pricing Theory (APT) in 1984. According to Roll and Ross (1976), the returns are a linear function of a series of risk factors ranging from firm and macro risk factors. The theory assumes that the markets are perfectly competitive and the investors prefer more wealth to less in search of arbitrage opportunities with asset returns following a stochastic process. The theory shows that investors or arbitrageurs consider a series of systemic and macroeconomic risks likely to affect an asset and establish the expected return of a portfolio, where

a variance exists between the market return and the expected returns. The theory also reports that the investors use the expected return as defined by the Arbitrage Pricing Theory model as a measure of the cost of capital. Roll and Ross (1984) argues that asset return is a function of the time value of money and the systematic risk of an asset. Thus, Roll and Ross (1984) summarized the Arbitrage Pricing Theory as a multifactor model establishing the relationship between risks versus return. APT factor model can be expressed as below:

$$E(R_{it}) = \lambda_0 + \lambda_1 b_{i1} + \lambda_2 b_{i2} + \dots + \lambda_n b_{in}$$

Where;

$E(R_{it})$ = the expected return on the asset i during a specified period, $i=1, 2, 3 \dots n$

λ_0 = the expected return on the asset with zero risk

λ_n = the risk premium related to the n th common risk factor; i.e. how responsive is returns of asset i to the n th risk common factor loadings.

The theory is relevant and applicable to the study as a multifactor model that establishes the relationship between risk and asset return. This is evident as the study sought to examine the relationship between interest rate capping and share price. The reports of the theory can be applied to investors to establish the safe avenues of diversification to engage in to minimize risk while maximizing returns. The approach showed that investors are more concerned with factors that will maximize their profits in an investment.

However, the criticisms of the theory have been centered on the generality of the approach. The macroeconomic factors that affect returns were not outlined by the theory, such as inflation, changes in interest rates, fluctuations in currencies, recessions and wars thus becomes a weakness of the argument. Also, the theory did not take into account the price aspect and it ignored the

transaction costs and taxes associated with buying and selling of assets, which in turn results in the wrong estimation of profits and may even lead to a loss if the price difference is not much.

2.2.3 Behavioral Finance theory

Tversky and Kahneman developed behavioural Finance theory in 1992. The theory reveals that stock prices are influenced by the psychological, cognitive and emotional factors of investors. The theory also indicates that psychological and emotional factors are useful in the decision-making process to the investors. The theory further elaborates that investors are risk-averse and may not want to expose themselves to too much diversifiable risk. Besides, the theory reports an essential consideration for rational arbitrageurs is the behavior of other investors who may be prone to exogenous sentiment and the influences and biases can be the source for explanation of all types of market anomalies and precisely market anomalies in the stock market, such as severe rises or falls in stock price. The theory shows that investors are much concerned with previous outcomes in making future predictions.

The theory was relevant to the current study and it clearly showed the rationality of people in making financial investment decisions and helps the investors to avoid emotion-driven speculation leading to losses. The importance of the theory is that it reports that the investors are driven by the previous outcomes to predict for the future. Besides, the significance of the theory is that it establishes that knowing how investors behave or how they are likely to behave will make it easy for the organization to construct investment solutions that will enhance the performance.

Nevertheless, behavioral finance theory had some weaknesses. For instance, the theory did not establish mechanisms to deal with the information asymmetry in which some of the information is only available within the organization and the management may not be willing to expose it to the rest. Besides, another weakness of behavioral finance theory is that it is only involved with

how to improve the methods of investor attraction but did not elaborate on the adverse effects associated with the surplus investments in a particular security or stocks.

2.3 Determinants of Share price

2.3.1 Dividend Yield

The dividend yield is given by the dividends given per share, divided by the price per share (Njogu, 2017). The dividend refers to the share of profit of a firm after tax that is usually distributed or shared by the firm's shareholders for their investments in the company (Mutheu, 2016). According to Maloba (2016), when the investors increase their shareholding in a company, the prices of the shares go up. Besides, Nkwoma (2014) established that in times when the company pays the dividend to the investors lower than expected, it would be a sign that the company is liquidating and the investors will sell out their shares, resulting in the stock prices to decrease. After the dividend announcement, the share price of a firm may rise (Mondal & Imran, 2012). The level of the dividends expected to be generated from an investment determines the confidence and trust of the investors on the efficiency of the management in generating income (Kimunge, 2017).

Similarly, according to Ombati (2014), the dividend yield is the financial ratio that measures the quantum of cash dividends paid out to shareholders relative to the market value per share. The dividend yield provides a good essential measure for an investor to use in comparing the dividend income from his or her current holdings to potential dividend income available through investing in other equities or mutual funds (Nyamute, 2016). Concerning overall investment returns, it is essential to note that increases in share price reduce the dividend yield ratio even though the overall investment return from owning the stock may have improved substantially (Miller and Ward, 2015). Conversely, a drop in share price shows a higher dividend yield but may indicate the company is experiencing problems and lead to a lower total investment return (Maluki, 2018).

2.3.2 Inflation

Inflation refers to the persistent rise in all price levels of general goods or services over a specified period in an economy (Mugambi&Okech, 2016).The inflation rate will be among the control variables since the rate of the inflation in a country can either encourage or discourage investors, thus influencing the share price. The rising inflation can be costly for consumers, stocks and the economy. Hence, the inflation rate is considered one of the critical factors that may influence the extent of the share price of Kenya commercial banks listed in the Nairobi securities exchange, thus adopted as a control variable in the current study.Increasing inflation likely constrains the interest rate upwards, a circumstance that might result in entrepreneurs moving from the equities market to the connects market to benefit from the higher profits (Onundu, 2016). According to Julius, Andrew, Joel and Lucy (2015), inflation is positively and significantly related to a company's share prices. Most investors invest in bonds and stocks when the inflation rate is high.

Besides, it is anticipated that the rising cost of living has the potential to affect the inexpensive interest rate that is generally asked for; this leads to high estimated repayments and, for that reason, front-loading remittances to remunerate the loss of obtaining power for a given time frame (Maingi, 2017). The uncertainty from the relentless vulnerability of any currency due to an unsteady degree of the rising cost of living in an economic climate often prevents access to outside financing for a mortgage lender (Kamuti&Omwenga, 2017). The reduced rising cost of living is an important ingredient of a successful mortgage loan market as it will result in secure and low rates of interest (Idawati&Wahyudi, 2015). The very high rising cost of living creates the assets to be expensive, causing reduced intensities of shares selling on the market (Ariemba, Kiweu&Riro, 2015).

2.3.3 Profitability

Profitability refers to money that a firm can produce with the resources it has and involves the capacity to make benefits from all the business operations of an organization, firm, or company (Hassan, 2015). Profit is the difference between the revenue received from sales and total costs, which includes material costs, labor and so on (Amarasinghe, 2015). Profitability portrays the efficiency of the management in converting the firm's resources to profits (Muya&Gathogo, 2016). The profitability making attracts investors and enhances the confidence that the business is likely to survive for a long time (Farah & Nina, 2016). Profitability is vital to the firm's manager as well as the owners and other stakeholders that are involved or associated with the firm since profitability gives a clear indication of business performance. Profitability ratios are typically used to measure earnings generated by a firm for a specific period based on a firm's sales level, capital employed, assets and earnings per share (EPS) (Julius, Andrew, Joel & Lucy, 2015).

Profitability ratios are used to measure the firm's earning capacity and are considered as a firm's growth and success indicator (Karinga, 2015). The increase in the profits of an organization increases the confidence level of the investors about the future of the company and the demand for the stock increases. The increase in the demand for the stock results in the price of the shares to increase since more investors will be willing to invest in the company (Idawati&Wahyudi, 2015). Besides profitability determines the efficiency of the management to use the available resources to generate income and persistent increase in the profits increases the confidence to the investors thus increasing the share price (Ahmad, Abdullah, Sulong&Abdullahi, 2017).

2.3.4 Exchange Rates

In finance, the rate of foreign exchange is a rate at which a nation's currency is to be exchanged for another nation's currency (Kimunge, 2017). Rates of exchange affect the stocks' value in the

home country and abroad. When there is an appreciation of a currency and the country involved is an export-oriented country, a reduction in competitiveness is usually expected to occur on exports and would thus hurt the domestic stock market (Miller & Ward, 2015). Fluctuations in the rate of exchange have the potential to affect the performance of the stock market as well as a country's financial sector (Mutheu, 2016). Besides, the dollar is closely tied to interest rates and a low rate will spur borrowing, while a high rate will slow it down (Safavian & Zia,2018).

Furthermore, holding other factors constant, cheap money is good for the economy and manifests itself in higher stock prices but works only for the short term (Mwaurah, 2019). When the rates are low today, investors assume that they will rise soon. Therefore, the rise in stock prices resulting from a cheaper dollar leads to short-term price rises only (Muiva, 2014). The currency exchange rate is a significant factor affecting stock returns. In times of high fluctuations in the exchange rates, there are high movements of market return volatility (Barasa, 2014). An exchange rate fluctuation affects transaction and economic exchange risk exposure leading to operating cash flows and firm value changes (Njogu, 2017). A weak currency can make investors incur huge losses after the translation to the desired currency and leads to a depressed security market, thus lowers the share prices (Khan, Islam, Choudhury & Adnan, 2014).

2.3.5 Gross Domestic Product

The GDP is an economic indicator for the development of a country. It measures finished products and services produced within the country by both local and foreign-owned enterprises (Sichoongwe, 2016). It's an economic indicator of the development, growth and health of the country. Stock markets are known to drive the economy of a nation and are one of the yardsticks in determining the economic growth of a country (Onundu, 2016). Stock prices indices are considered by empirical studies and economic theories to be the most significant pointers of the

performance of the stock market (Mwaore, 2017). Hence according to Otieno, Ngugi and Wawire (2019), share price indices are greatly affected by changes in economic fundamentals. Investors concentrate more on the macroeconomic factors (GDP) since it affects the share prices of the companies.

Besides, according to Karinga (2015), economic growth influences the profitability of firms by affecting the expected earnings, dividends of shares and stock price fluctuations. In a time when most of the business presents increased profits and a downturn in the liabilities, the GDP of the country is expected to grow, indicating that the economy is doing well and the business is performing the best (Hassan, 2015). As a result, the investors gain confidence in the companies and involved in investing and buying the shares, thus raising the share prices (Chirchir, 2014). Besides, Jane, (2019) established that a persistent economic growth of a country shows that the investments in different sectors are doing well and there is high efficiency in utilization of the available resources to generate revenue

2.4 Empirical Review

Murugesu (2016) sought to determine the effect of earning Per Share (EPS) on Share Price in the Listed Manufacturing Companies in Sri Lanka. The specific objectives of the study was to evaluate whether making per share impact on the share price of the company in the Listed Manufacturing Companies in Sri Lanka and to examine the relationship between Earning per share and share price of the company in the Listed Manufacturing Companies in Sri Lanka. The study established that earning per Share growth is a significant number as it indicates the prospects of a company. The study stated earning per share explained 89.7% on the share price of ten sample manufacturing companies in Sri Lanka. Furthermore, the results of the investigation revealed there is a strong positive relationship between earning per share and share price.

Besides, Khan, Islam, Choudhury and Adnan (2014) conducted a study to find out how earning per share (EPS) affect share price and firm value. The study found that Earnings per Share (EPS) is generally considered an essential factor in determining share price and firm value. The study further found that the share price movement depends on micro and macro-economic factors on the economy. Also, a study was conducted by Hamdan (2014) to explore the effect of the rate of interest on share prices. The study used closing share prices of Karachi Stock Exchange and rates of interest of the previous ten years starting from the year 2004 - 2013. The study findings established that rates of interest have a negative effect on the share prices; hence the higher the rate of interest, the lower the stock market efficiency.

Also, Arshad, Arshaad, Yousaf and Jamil (2015) investigated the determinants of share prices for the listed commercial banks in Karachi stock exchange over the period 2007-2013. Linear multiple regression analysis was used to determine whether the selected independent variables influence share prices or not. The results indicated that earning per share has more influence on share prices and it has a positive and significant relationship with share prices, the book to market value ratio. However, the study established that interest rate has a significant but negative relation with share prices while gross domestic product, price-earnings ratio, dividend per share, leverage have no relationship with share prices.

Nanjunga, Ntsosa and Motlaleng (2016) conducted a study to establish the determinants of commercial banks' interest rate spreads in Botswana. The study adopted a descriptive research design. The results of the study established that GDP, inflation and bank concentration are positively related to interest rate spread. The study also found that the negative sign of the tax variable was unexpected as higher taxes are expected to lead to wider spreads. The study likewise

reported that the significance of GDP, inflation and bank concentration variables is that it shows the importance of maintaining stable macroeconomic factors.

Similarly, Ahmad, Abdullah, Sulong and Abdullahi (2015) sought to examine the relationship between stock market returns and macroeconomic variables in Nigeria. The study used secondary data that was collected from the commercial banks for four years between 2011 and 2014. The results of the examination established that there is a positive and significant relationship between stock market returns and macroeconomic variables. The study found that the macroeconomic variables comprised of the inflation, economic growth, exchange rate and the money supply. Likewise, Hassan (2015) sought to establish the determinants of share price movement in Nigeria. The study made use of secondary data sourced from the Central bank of Nigeria (CBN) and the National Bureau of Statistics (NBS) for the period between 1991 and 2013. The study revealed that capitalization was positively and statistically significant to share price movement.

Similarly, Laichena and Obwogi (2015) analyzed the effect of macroeconomic variables on stock returns in East Africa. The study examined the impact of interest rates, inflation rate, currency exchange rate, GDP and their effects on stock returns in East Africa. The research used a panel data of 3 East African countries, Kenya, Uganda and Tanzania from 2005 to 2014. Based on the research findings, it is clear that a vital correlation exists between the macroeconomic variables and stock returns in East Africa. The study recommended that those in charge of making laws should strive to add value to the macroeconomic situation to maximize stock output.

Mugambi and Okech (2016) explored the impact of macroeconomic variables on stock returns of listed banks in the Nairobi Securities Exchange. The study employed secondary data from the Central Bank of Kenya for a period from 2000 to 2015. The study used correlation analysis, Unit Root test and the linear regression model to establish the relationship. The study findings revealed

that interest rate, exchange rate and price rises have essential effects on bank stock return, whereas GDP had an irrelevant impact effect on bank supply returns. The study recommended that the government should ensure a stable macroeconomic environment and moderate its monetary policy interventions.

Njogu (2017) examined the factors influencing stock prices for firms listed at Nairobi securities exchange after initial public offerings in Kenya. The study utilized the descriptive research design and the data was secondary. The results of the study established that stock market prices are influenced by earning per share, dividend policy, liquidity and size of a firm. The study recommended that firms on the NSE should evaluate their dividend policy. The firms listed on NSE should also enhance their earning per share by investing in viable projects that increase the earnings. Listed firms on the NSE should regularly pay dividends to their shareholders on the income generated from investment projects.

Mutheu (2016) examined the relationship between interest rates and share prices of commercial banks listed at the Nairobi securities exchange. A descriptive research design was adopted for this study. The population of this study entailed ten commercial banks listed at NSE. This study used secondary data of commercial banks listed at NSE. The study found that an increase in interest rates, exchange rates, inflation rates and a decrease in dividend payout decreases share prices of listed Kenyan banks. The study recommended that bank management should come up with effective policies on interest rates since the survey found that interest rates adversely affect share prices of listed banks.

Kitati, Evusa and Maithya (2015) analyzed the outcomes of Macro Economic Variables on Stock Market Prices for the firms listed on the Nairobi Securities Exchange in Kenya, using the weighted average interest rates data for the months January 2008 and 22 December 2012. The study found

that interest rates had a negative effect on stock market prices. Interest rates influenced individual company shares as well as the all-share index and the 20-share index in the Nairobi Securities Exchange. Ngugi (2014) analyzed the effects of lending rates on stock prices of the banks listed at NSE. The study carried out a census of the ten listed commercial banks at the NSE and used multiple linear regressions to analyze data. The study findings revealed that the lending interest rate has been widely varying for the last five years, changes that have been mimicked by the commercial banks' share prices. The study findings also established that the lending interest rate inversely affects commercial banks' share prices, where an increase in lending rates causes a decline in the share prices. The study recommended that the lending rate variations be considered in solving the stock crisis arising in the NSE emanating from the commercial bank's involvement in the bourse.

2.5 Conceptual Framework

The conceptual framework is a diagrammatical representation that shows the relationship between dependent and independent variables. The independent variable is interest rate capping while share price is the dependent variable which the study sought to explain. The control variables comprise of dividend yield, inflation, profitability, exchange rates and gross domestic product. Thus, figure 2.1 presents the conceptual model.

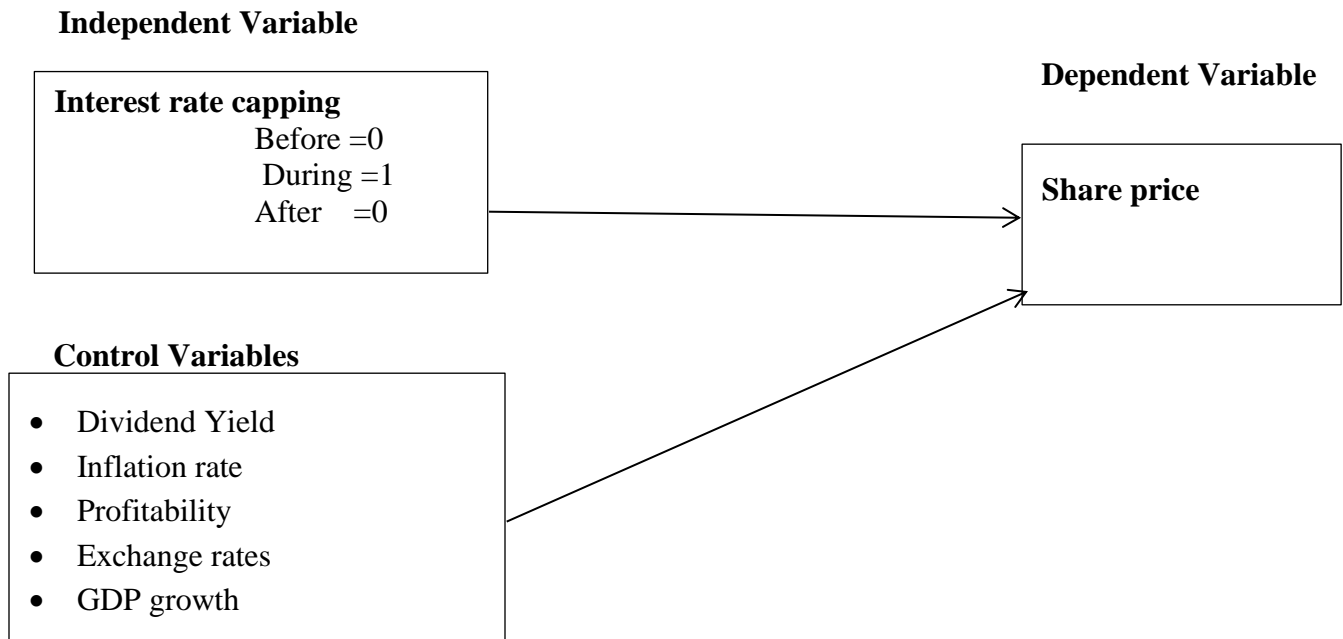


Figure 2.1: Conceptual Model

2.6 Summary of Literature Review

Three theories have been discussed in this theoretical review, namely, efficient market hypothesis, arbitrage pricing theory and behavioral finance theory. Some of the critical determinants of share price indices have been discussed in this section. Besides, the determinants of the share price, such as dividend yield, inflation rate, profitability, exchange rates and GDP growth, have been discussed. The empirical studies have been conducted internationally, regionally and locally on interest rates and share price. Similarly, the conceptual framework that outlines the relationship between interest rate capping and shares price index diagrammatically has been presented.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on research design, population of the study, data collection procedure and data analysis.

3.2 Research Design

Research design is the plan or framework that is utilized to create answers to examiners' issues. The panel research design was adopted in this study. Panel research design was best suited since panel data was used. Panel research design is a particular design of the longitudinal study in which the unit of analysis is followed at specified intervals over a long period, often many years (Bell & Jones, 2015). It is advisable to try to understand a problem first before finding a solution to it and thus, adopting the Panel research design helped to examine the relationship between interest rate capping and share price. The study used secondary data that was obtained from the NSE market reports, NSE handbook, CBK reports and the individual banks' annual reports. The study was analyzed using descriptive and inferential statistics.

3.3 Population of the Study

The targeted population of the study was 11 commercial banks listed in the Nairobi security exchange. These commercial banks included Barclays Bank Ltd (ABSA), Diamond Trust Bank Kenya Ltd, Equity Group Holdings, HF Group Ltd, I&M Holdings Ltd, KCB Group Ltd, National Bank of Kenya Ltd, NIC Group PLC, Stanbic Holdings Plc, Standard Chartered Bank Ltd and The Co-operative Bank of Kenya Ltd. The researcher used share prices of the listed banks in NSE to

determine whether the interest rates capping influences the share prices. The data t examined in the study was collected between 2015 and 2021.

3.4 Data Collection Procedure

The study used secondary data that was obtained from the NSE market reports, NSE handbook, CBK reports and the individual bank's annual reports. Besides, it is a regulatory requirement for firms listed at the NSE to report their values to the Capital Markets Authority (CMA) and this helped to acquire additional information concerning the listed banks from the authority.

3.5 Data Analysis

STATA software was used to generate a quantitative report for analysis. The quantitative report was analyzed using descriptive and inferential statistics. The descriptive statistics was analyzed using mean, standard deviation, maximum, minimum and coefficient of variation, while the inferential statistics was analyzed using the correlation analysis and regression analysis. The panel data allowed for the control of individual heterogeneity, making it possible to exclude biases deriving from the existence of individual effects. Besides, the panel data yielded more informative data, more variability and less collinearity among variables. Similarly, the panel data was used to obtain consistent estimators in the presence of omitted variables. The panel regression model established the relationship between the independent variable (interest rate capping) and the dependent variable (share price) that is explained in the model. The result was presented using tables and graphs. Thus, the panel regression model was presented as follows;

$$Y_{it} = \beta_0 + \beta_1 CAP_{it} + \beta_2 DY_{it} + \beta_3 INF_{it} + \beta_4 PROF_{it} + \beta_5 EXCH_{it} + \beta_6 rGDP_{it} + \varepsilon$$

Where;

Y_{it} = share price for banks i at time t ,

CAP_{it} = Interest rate capping

DY_{it} = Dividend Yield

INF_{it} = Inflation rate

$PROF_{it}$ = Profitability

$EXCH_i$ = Exchange rates

$rGDP_{it}$ = Annual growth rate

$\beta_{1...6}$ = coefficients to be estimated,

β_0 = constant term, and

ε = composite error term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The study sought to examine the effect of the interest rate capping on the share price of Kenya commercial banks listed on the NSE. Secondary data was used in the study. Specifically, the section discusses descriptive statistics, trend analysis, correlation analysis, regression analysis and discussion of the findings. Each section is comprehensively presented to illustrate its significance to the study.

4.2 Descriptive Statistics

The section demonstrates the descriptive statistics for profitability (ROI), dividend yield, Inflation exchange rates, gross domestic product (GDP growth %) and share price. The section explicitly illustrates statistics on the mean, standard deviation, minimum, maximum and coefficient of variation for each variable. The summary of the descriptive statistics is as portrayed in Table 4.1 below.

Table 4.1: Descriptive Statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum	Coefficient of variation
Profitability (ROI)	77	3.1198	1.3668	1.4300	6.8590	0.4381
Dividend Yield	77	8.3542	6.6148	1.3400	46.0200	0.7918
Inflation	77	6.0477	1.0172	4.6950	8.0183	0.1682
Exchange Rates	77	103.3756	3.4657	98.6958	109.6375	0.0335
Gross Domestic Product (GDP growth (annual %))	77	4.4000	2.2268	-0.3000	7.5000	0.5061
Share price	77	64.5004	57.2602	2.9950	219.8333	0.8877

The descriptive statistics presented in Table 4.1 show that the highest (maximum) return on investments (profitability) among the 11 commercial banks between 2015 and 2021 has been 6.8590%, with the minimum being 1.43%. The coefficient of variation, a statistical measure of the relative dispersion of data points around the mean, was found to be 0.4381. The coefficient of variation less than 1 implies the values in a statistical data set are close to the mean of the data set (Pélabon, Hilde, Einum&Gamelon, 2020). Thus, the return on investments by the 11 commercial banks listed in the NSE between 2015 and 2021 has been around 3.1198% (mean). The study found the mean dividend yield of the 11 commercial banks listed on the Nairobi stock exchange between 2015 and 2021 to be 8.3542, with the minimum being 1.3400 and a maximum of 46.0200. The coefficient of variation was found to be 0.7918. Thus, the dividend yield by most of the 11 commercial banks listed in the Nairobi stock exchange between 2015 and 2021 has been around 8.3542 (mean). It was found that the minimum inflation between 2015 and 2021 was 4.6950%, with the maximum being 8.0183%. The coefficient of variation was found to be 0.1682. Thus, the inflation rate in Kenya between 2015 and 2021 has been around 6.0477% (mean). The study also established that the mean exchange rates in Kenya between 2015 and 2021 were 103.3756, with the minimum being 98.6958 and the maximum 109.6375. The coefficient of variation was found to be 0.0335. Thus, the exchange rates in Kenya between 2015 and 2021 have been around 103.3756 (mean). The study established that Kenya's mean annual percentage growth between 2015 and 2021 has been 4.4000%, with the minimum annual percentage growth being -0.3000% and a maximum of 7.5000%. The coefficient of variation was found to be 0.5061. Thus, annual percentage growth in Kenya between 2015 and 2021 has been around 4.4000% (mean). Finally, the study found the mean share price between 2015 and 2021 has been 64.5004, with the minimum

being 2.9950 and a maximum of 219.8333. The coefficient of variation was found to be 0.8877. This implied that the share price between 2015 and 2021 has been around 64.5004 (mean).

4.3 Trend Analysis

4.3.1 Gross Domestic Product Trend line from 2015 to 2021

Figure 4.1 shows the trend of Gross Domestic Product (GDP growth (annual %) in Kenya between 2015 and 2021. The data of the annual growth (%) was used and the trend line is as depicted below.

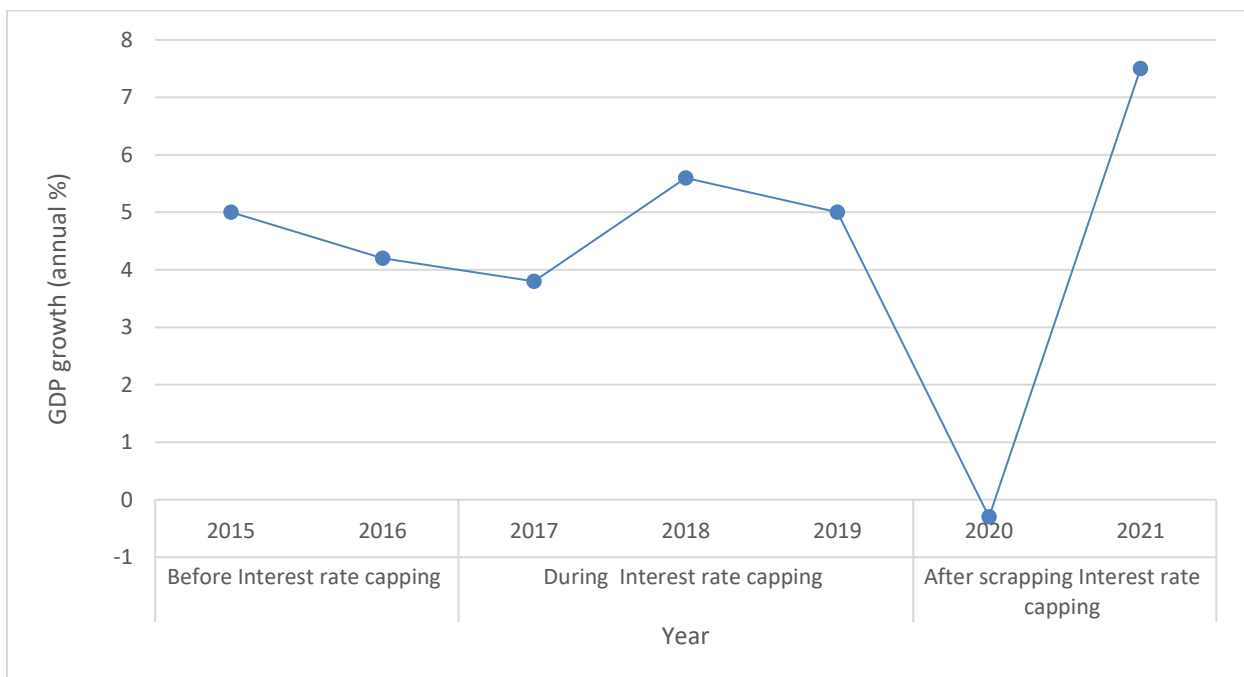


Figure 4.1: GDP growth (annual %) Trend line from 2015 to 2021

Based on the results presented in Figure 4.1, it is shown that the GDP growth (annual %) in Kenya between 2015 and 2021 has been inconsistent as the percentage growth changed each year. The years that witnessed the least growth of below 5% incorporated 2016, 2017 and 2020, while the years that witnessed at least 5% growth were 2015, 2018, 2019 and 2021. The decline in growth in 2016 and 2017 could be due to the electioneering period. During the electioneering period in

Kenya, there was some political instability, which could have diminished the investors' confidence due to the uncertainty in predicting the future prices of the shares. Moreover, the drop in growth in 2020 could have been contributed by the Covid 19 pandemic. There were more restrictions on the movement of people, shutting down of businesses and the functioning businesses were struggling due to the low demand of goods and services. On the other hand, the growth in the GDP between 2018, 2019 and 2021 could have been due to the political stability witnessed in Kenya during that period.

4.3.2 Exchange Rates Trend line from 2015 to 2021

Figure 4.2 shows the trend of exchange rates in Kenya between 2015 and 2021

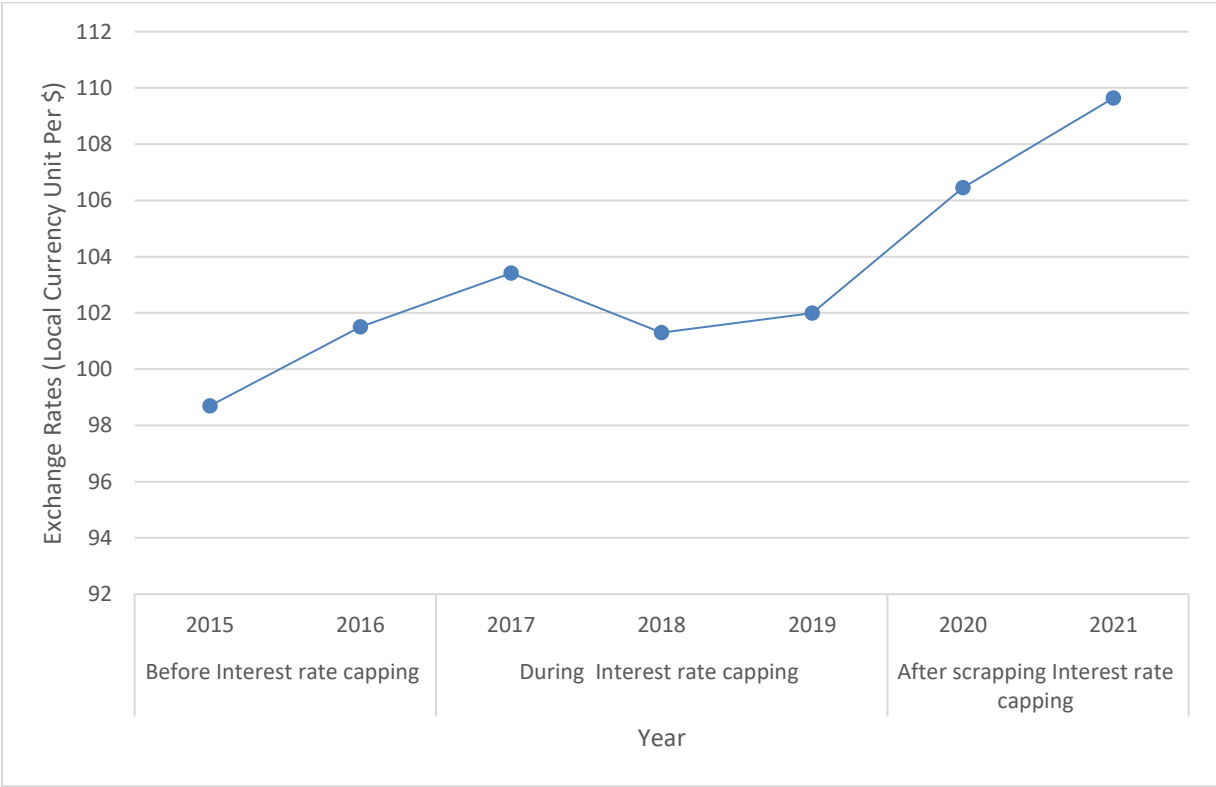


Figure 4.2: Exchange Rates Trend line from 2015 to 2021

The results presented in Figure 4.2 shows that exchange rates have been fluctuating. The only period that the exchange rate declined was 2018. This could be due to the political stability in the country. Nonetheless, the exchange rates had a sharp increase from 2020 and this could have been attributed to a slump in consumer demand in the region and border restrictions due to the COVID-19 pandemic. The currencies of developing countries are perceived to be very risky. This makes investors from other parts of the world fear high risk for investment, thus refusing to invest due to fear of increased risk hence only wishing to hold safe savings such as U.S. dollar and gold.

4.3.3 Return in Investment (Profitability) Trend line from 2015 to 2021

Figure 4.3 shows the return in investment (profitability) trend of the 11 commercial banks listed at NSE between 2015 and 2021

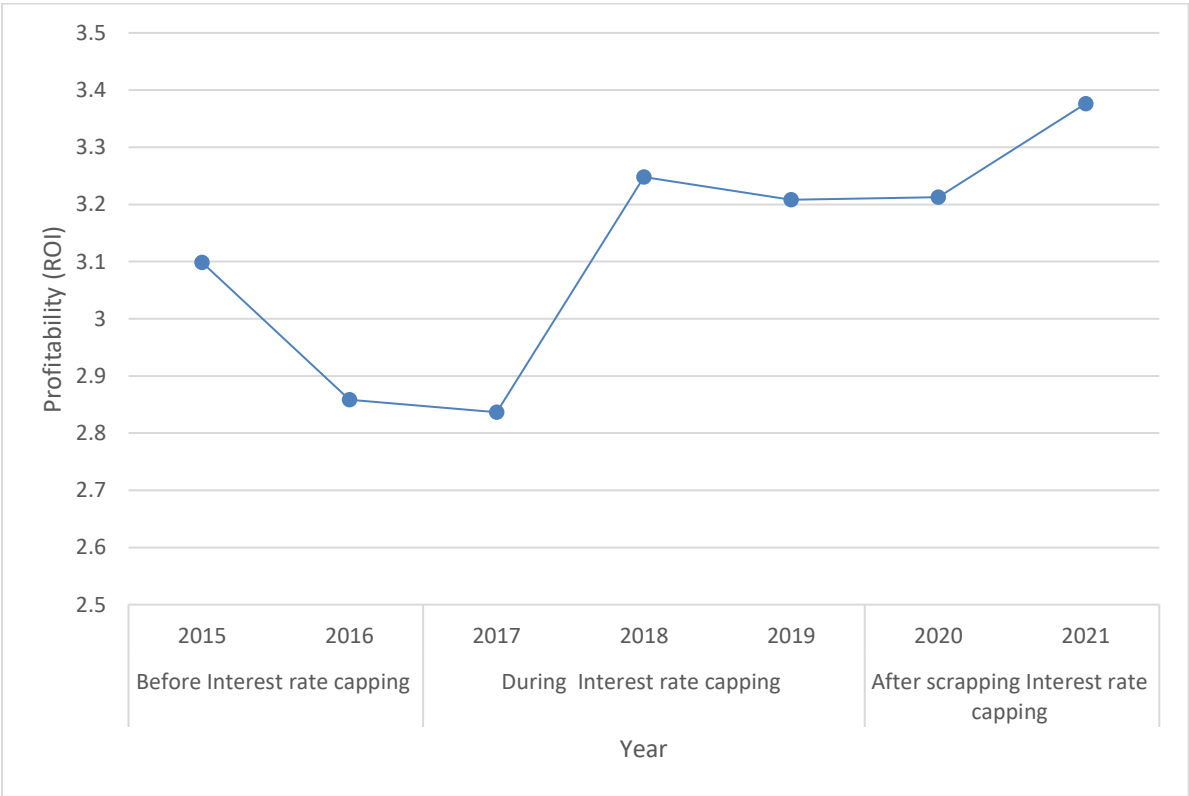


Figure 4.3: Profitability Trend line from 2015 to 2021

The trend shows that the return on investment of the commercial banks listed at NSE has been fluctuating. The return on investment was below 3.1% in 2016 and 2017 and above 3.1% in 2018, 2019, 2020 and 2021. The return on investment (ROI) is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of several different investments. Thus, it can be evidenced that the ROI of the listed commercial banks has been around 3%.

4.3.4 Inflation Rate Trend line from 2015 to 2021

Figure 4.4 shows the trend of inflation rate in Kenya between 2015 and 2021.

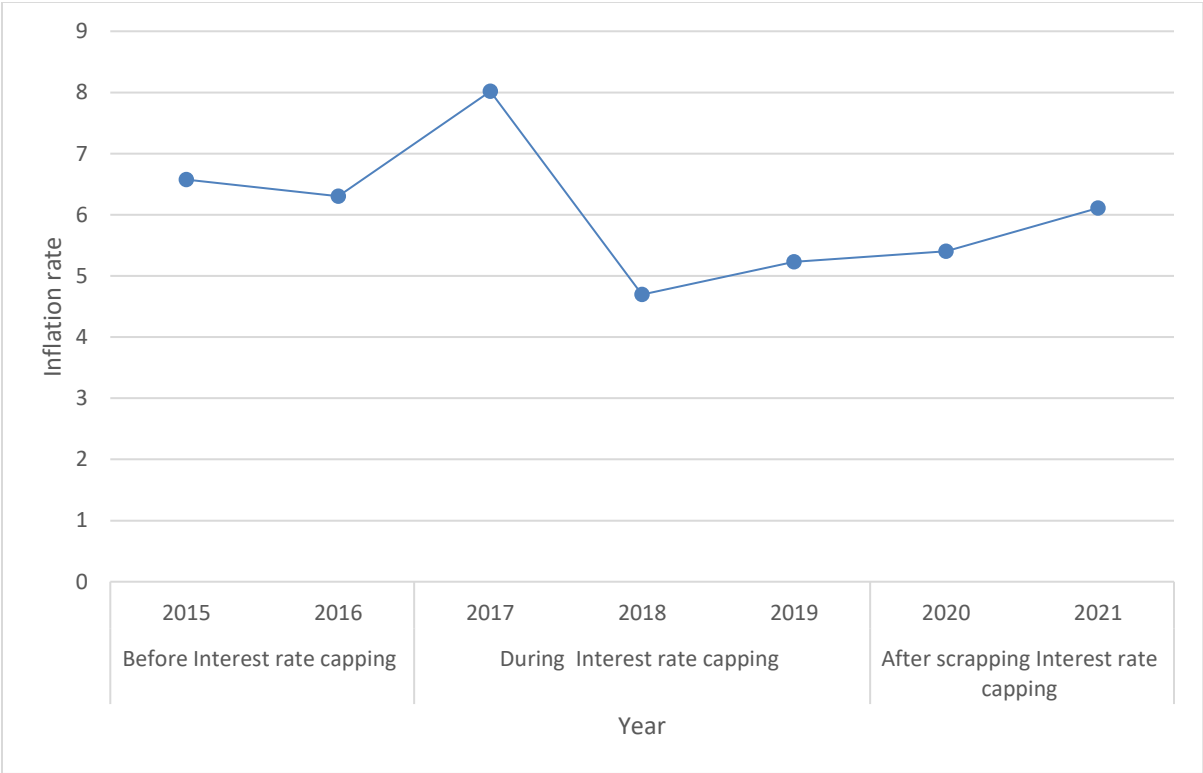


Figure 4.4: Inflation Rate Trend line from 2015 to 2021

The results presented in Figure 4.4 show that the inflation rate between 2015 and 2021 has fluctuated. The country had the highest inflation rate of at least 8% in 2017. Kenya maintains an inflation target range of 2.5 percent to 7.5 percent, but it was breached during a biting drought in

2017, also an election year. Thus, the drought and the electioneering period could be the main cause of the high inflation rates in 2017. Inflation refers to the persistent rise in all price levels of general goods or services over a specified period in an economy. It is highly likely that growing inflation pressurizes interest rates upwards, a situation that may result in investors moving from the equities market to the bonds market to benefit from the higher returns.

4.3.5 Dividend Yield Trend line from 2015 to 2021

Figure 4.5 shows the dividend yield trend of the 11 commercial banks listed at NSE between 2015 and 2021

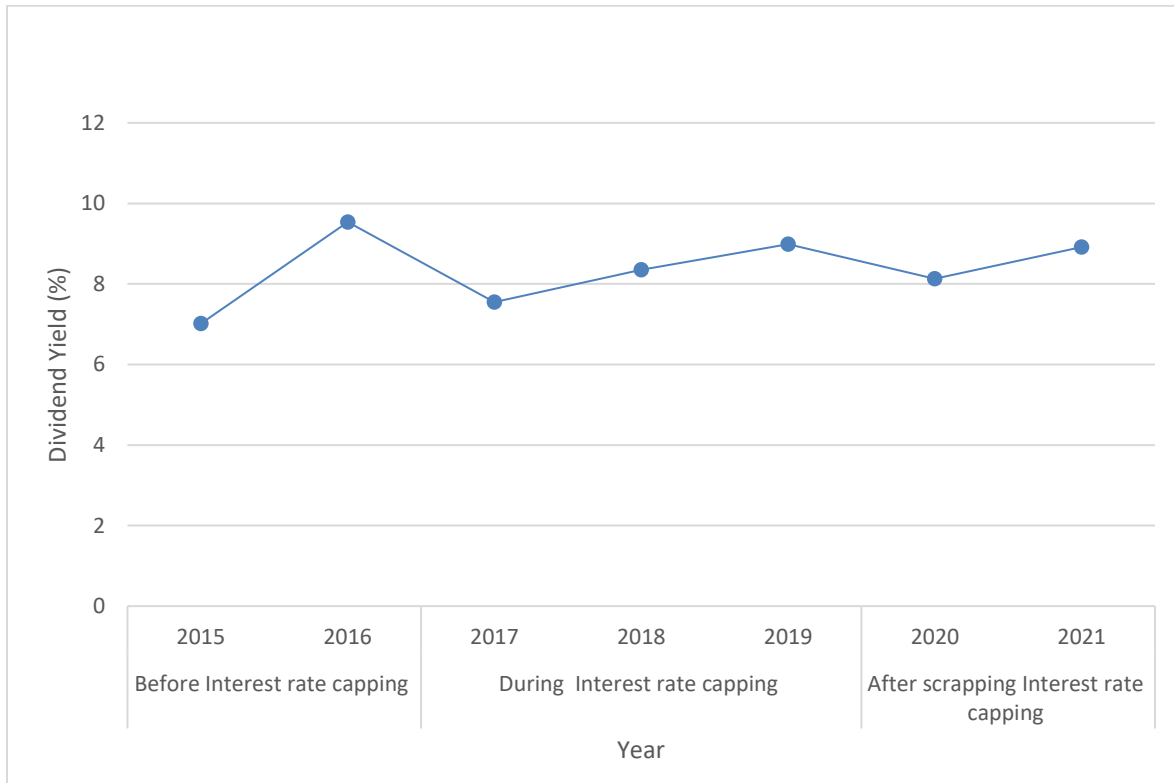


Figure 4.5: Dividend Yield Trend line from 2015 to 2021

The results in figure 4.5 show that dividend yield has been fluctuating. The dividend yield was lowest at below 8% in 2015 and 2017 but has increased significantly since 2018. The increase

could be due to political stability. Kenya endured divisive politics rising from the 2017 general elections, but after the consensus between the president, Uhuru Kenyatta and opposition leader, Raila Odinga, to work together, there was political stability and conducive working environment was experienced.

4.3.6 Share Price Trend line from 2015 to 2021

Figure 4.6 shows the share price trend between 2015 and 2021

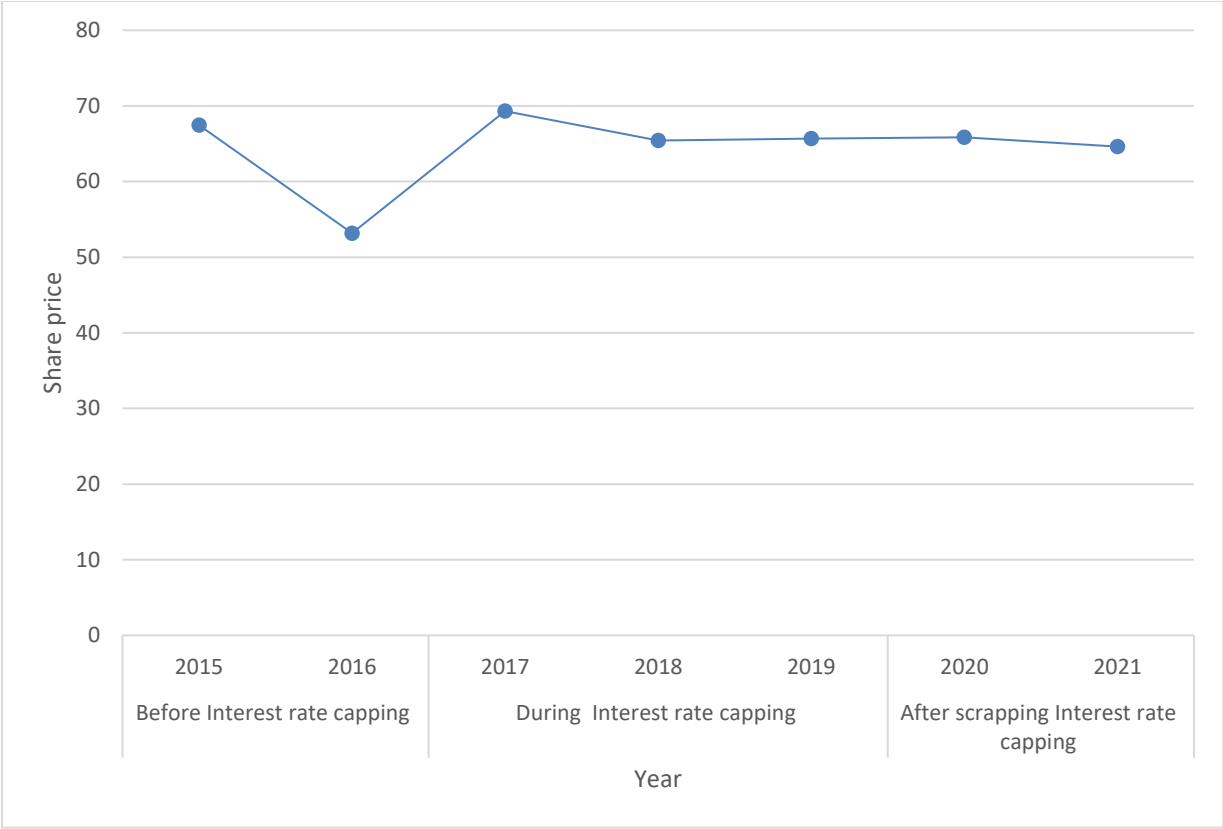


Figure 4.6: Share Price Trend line from 2015 to 2021

The results presented in Figure 4.6 show that the share price has fluctuated from time to time. The share price was determined using the share prices of the banks. A share price is essential to the investors and measures how the value of the stocks in the index changes over time. The investors of the institutions rely much on the share price to examine the market and to compare the returns on the available investments. The share price can be increased when a company's stock price grows and by generating a high net contribution. The share price shows the extent of the performance of a company in comparison to other companies with similar products or services.

4.4 Correlation analysis

Correlation analysis is a statistical method used to evaluate the strength of association between two quantitative variables. The correlation coefficient is measured on a scale that varies from +1 through 0 to -1. When one variable increases as the other increases, the correlation is positive. On the other side, when one of the variables decreases as the other variable increases, there is a negative association. There is no association when the coefficient is 0. The correlation results are presented in Table 4.2

Table 4.2: Correlation analysis

Variables	Share price	Interest rate capping	Dividend Yield	Inflation	Profitability (ROI)	Exchange Rates	Gross Domestic Product
Share price	1.0000						
Interest rate capping	-0.1174	1.0000					
Dividend Yield	-0.3526	-0.221	1.0000				
Inflation	0.2162	0.0857	0.149	1.0000			
Profitability (ROI)	0.4213	0.101	-0.2147	0.1369	1.0000		
Exchange Rates	-0.2265	0.1754	-0.1043	0.2219	0.0394	1.0000	
Gross Domestic Product	0.7301	0.0318	-0.3276	0.1136	0.2855	0.3397	1.0000

The results presented in Table 4.2 shows that inflation, profitability (ROI) and gross domestic product are positively associated with share price (0.2162; 0.4213; 0.7301, respectively), while Interest rate capping, dividend yield and exchange rates are negatively associated with share price (-0.1174; -0.3526; -0.2265 respectively). This implies that when inflation, profitability (ROI), and gross domestic product increases, the share price will also increase. The increase in interest rate capping, dividend yield and exchange rates would lead to a decrease in share price. The results are consistent with Njeru's (2015) findings that stated a negative effect of dividend payout on share prices. According to Julius, Andrew, Joel and Lucy (2015), inflation is positively and significantly related to the share prices of a company and most investors do invest in bonds and stocks when the inflation rate is high. Besides, according to Karinga (2015), economic growth influences firms' profitability by affecting the expected earnings, dividends of shares and stock price fluctuations.

Also, Hamdan (2014) established that interest rates have a negative effect on share prices; hence the higher the rate of interest, the lower the stock market efficiency. Arshad, Arshaad, Yousaf and Jamil (2015) established that interest rate has a significant but negative relation with share prices while gross domestic product, price-earnings ratio, dividend per share, leverage have no relationship with share prices. Moreover, Lubis and Adriani (2021) revealed that profitability has a significant and positive effect on the stock price.

4.5 Regression Analysis

Regression analysis examines the relationship between variables. It is a set of statistical methods used to estimate relationships between a dependent variable and one or more independent variables (Stanley & Jarrell, 2005). The regression results are presented in Table 4.3

Table 4.3: Regression Analysis

Share price	Coef.	Std. Err.	z	P>z
Interest rate capping	-5.2962	1.8604	2.8500	0.0040*
Dividend Yield	-1.2822	0.5572	2.3000	0.0210*
Inflation	2.7726	1.2599	1.6200	0.280
Profitability (ROI)	3.2573	1.1754	2.7700	0.0060*
Exchange Rates	-0.0162	0.3030	0.0500	0.9570
Gross Domestic Product	11.2161	1.5399	7.2800	0.0000*
Constant	75.5778	29.7072	2.5400	0.0110*

R-Squared= 65.03

The model;

$$Y=75.5778-5.2962CAP-1.2822DY+2.7726INF+3.2573PROF-0.0162EXCH+11.2161GDP$$

Where CAP= Interest rate capping, DY= Dividend Yield, INF= Inflation, PROF= Profitability, EXCH=Exchange Rates, GDP= Gross Domestic Product

The results presented in Table 4.3 show that interest rate capping, profitability (ROI), dividend yield, inflation, exchange rates and gross domestic product explain 65.03% of the variations in the share price of the 11 listed commercial banks in Kenya. Further, it is established that interest rate capping has a negative and significant effect on share price ($\beta=-5.2962$, $p=0.0040$), as supported by the z-calculated value of 2.8500, which is higher than the z-critical value of 1.96. This implied that a unit change in the interest rate capping would decrease the share price by 5.2962 units while other factors are constant. The study found that dividend yield is negatively and significantly related to share price ($\beta=-1.2822$, $p=0.0210$). The results are supported by a z-calculated value of 2.3000, higher than the z-critical value of 1.96. Thus, an increase in the dividend yield by one unit would decrease share prices by 1.2822 units when other factors are held constant. Moreover, the study found that inflation has a positive and insignificant effect on share prices ($\beta=2.7726$, $p=0.280$) as supported by the z-calculated value of 1.6200, which is smaller than the z-critical value of 1.96. The results imply an increase in inflation by one unit would increase the share prices by 2.7726 units while other factors are held constant.

Further, it was found that profitability (return on investments) is positively and significantly related to share prices ($\beta=3.2573$, $p=0.0060$). The results are supported by the z-calculated value of 2.7700, higher than the z-critical value of 1.96. The results signify that a unit increase in profitability would increase the share price by 3.2573 units when other factors are constant. The study found that exchange rates is negatively and insignificantly related to share prices ($\beta=-0.0162$, $p=0.9570$) as supported by a z-calculated value of 0.0500, which is smaller than the z-critical value of 1.96. The results imply an increase in exchange rates by one unit would decrease the share prices

by 0.0162 units while other factors are held constant. Finally, the study found that gross domestic product is positively and significantly related to share prices ($\beta=11.2161$, $p=0.0000$) as supported by a z-calculated value of 7.2800, which is larger than the z-critical value of 1.96. The results imply an increase in GDP by one unit would increase the share prices by 11.2161 units while other factors are held constant.

The results concur with Lubis and Adriani's (2021) findings, which revealed that profitability has a significant and positive effect on the stock price. Moreover, Julius, Andrew, Joel and Lucy (2015) established that inflation is positively and significantly related to a company's share prices, and most investors do invest in bonds and stocks when the inflation rate is high. Njeru (2015) stated a negative effect of dividend payout on share prices. Also, Hamdan (2014) established that interest rates negatively affect share prices; hence, the higher the rate of interest, the lower the stock market efficiency. Besides, Arshad, Arshaad, Yousaf and Jamil (2015) established that interest rate has a significant but negative relation with share prices while gross. Mugambi and Okech (2016) revealed that interest rates, exchange rates, and price rises have essential effects on bank stock returns. Mutheu (2016) found that increased interest rates, exchange rates, inflation rates, and dividend payout decrease share prices. Kitati, Evusa and Maithya (2015) found that interest rates had a negative effect on stock market prices.

4.6 Discussion of Research Findings

The study has presented descriptive statistics, trend analysis, correlation analysis and regression analysis. The descriptive statistics showed that the return on investments by the 11 commercial banks listed in the Nairobi stock exchange between 2015 and 2021 has been around 3.1198% (mean). It was established the dividend yield by most of the 11 commercial banks listed in the Nairobi stock exchange between 2015 and 2021 has been around 8.3542 (mean). The study results

showed the inflation rate in Kenya between 2015 and 2021 has been around 6.0477% (mean). The exchange rates in Kenya between 2015 and 2021 have been around 103.3756 (mean). The annual percentage growth in Kenya between 2015 and 2021 has been around 4.4000% (mean). Besides, the descriptive statistics showed that the share price of the 11 commercial banks between 2015 and 2021 has been around 64.5004 (mean).

The correlation results showed that inflation, profitability (ROI) and gross domestic product are positively associated with share price (0.2162; 0.4213; 0.7301, respectively), while Interest rate capping, dividend yield and exchange rates are negatively associated with share price (-0.1174; -0.3526; -0.2265 respectively). It was found that interest rate capping, profitability (ROI), dividend yield, inflation, exchange rates and gross domestic product explain 65.03% of the variations in the share price of the 11 listed commercial banks in Kenya. The regression results showed that interest rate capping has a negative and significant effect on share price ($\beta=-5.2962$, $p=0.0040$), as supported by the z-calculated value of 2.8500, which is higher than the z-critical value of 1.96. The dividend yield is negatively and significantly related to share price ($\beta=-1.2822$, $p=0.0210$).

The results are supported by a z-calculated value of 2.3000, higher than the z-critical value of 1.96. Moreover, the study found that inflation has a positive and insignificant effect on share prices ($\beta=2.7726$, $p=0.280$) as supported by the z-calculated value of 1.6200, which is smaller than the z-critical value of 1.96. Further, it was found that profitability (return on investments) is positively and significantly related to share prices ($\beta=3.2573$, $p=0.0060$). The results are supported by the z-calculated value of 2.7700, higher than the z-critical value of 1.96. The study showed that exchange rates is negatively and insignificantly related to share prices ($\beta=-0.0162$, $p=0.9570$) as supported by a z-calculated value of 0.0500, which is smaller than the z-critical value of 1.96. The regression results showed that gross domestic product is positively and significantly related to share prices

($\beta=11.2161$, $p=0.0000$) as supported by a z-calculated value of 7.2800, which is larger than the z-critical value of 1.96.

The study findings are consistent with the results of Hamdan (2014), who established that interest rates negatively affect the share prices; hence, the higher the rate of interest, the lower the stock market efficiency. Besides, Arshad, Arshaad, Yousaf and Jamil (2015) established that interest rate has a significant but negative relation with share prices while gross. Lubis and Adriani's (2021) findings revealed that profitability has a significant and positive effect on the stock price. Moreover, Julius, Andrew, Joel and Lucy (2015) established that inflation is positively and significantly related to a company's share prices. Most investors invest in bonds and stocks when the inflation rate is high. Mutheu (2016) found that increased interest rates, exchange rates, inflation rates, and dividend payout decrease share prices. Kitati, Evusa and Maithya (2015) found that interest rates had a negative effect on stock market prices. Njeru (2015) stated a negative effect of dividend payout on share prices.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section summarizes the study's findings, conclusions and recommendations. The findings discussed in this chapter and the conclusions were drawn from the results. The chapter ends with the study's limitations and suggestions for further studies.

5.2 Summary

The study sought to examine the effect of the interest rate capping on the share price of Kenya commercial banks listed on the Nairobi securities exchange. The control variables of the study were dividend yield, inflation rate, profitability, exchange rates and GDP growth. The study adopted the panel research design. Secondary data was obtained from the NSE market reports, handbook, CBK reports and the individual banks' annual reports. The targeted population included 11 commercial banks listed in the Nairobi stock exchange. The data examined was collected between 2015 and 2021. STATA software was used to generate a quantitative report for analysis. The study findings indicated that the return on investments by the 11 commercial banks listed in the Nairobi stock exchange between 2015 and 2021 was around 3.1198% (mean).

The study findings showed that the dividend yield by most of the 11 commercial banks listed in the Nairobi stock exchange between 2015 and 2021 was around 8.3542 (mean). The inflation rate in Kenya between 2015 and 2021 has been around 6.0477% (mean). The exchange rates in Kenya between 2015 and 2021 have been around 103.3756 (mean). The annual percentage growth in Kenya between 2015 and 2021 has been around 4.4% (mean). The share price of the 11 commercial banks between 2015 and 2021 has been around 64.5004 (mean). The correlation results showed that inflation, profitability (ROI) and gross domestic product are positively associated with share

price (0.2162; 0.4213; 0.7301, respectively), while Interest rate capping, dividend yield and exchange rates are negatively associated with share price (-0.1174; -0.3526; -0.2265 respectively).

The study results showed that interest rate capping, profitability (ROI), dividend yield, inflation, exchange rates and gross domestic product explain 65.03% of the variations in the share price of the 11 listed commercial banks in Kenya. The regression results showed that interest rate capping negatively and significantly affects the share price. The study established that a unit change in the interest rate capping would decrease the share price by 5.2962 units while other factors are constant. The study found that dividend yield is negatively and significantly related to share price. An increase in the dividend yield by one unit would decrease share prices by 1.2822 units when other factors are held constant. Moreover, the study found that inflation has a positive and insignificant effect on share prices. Notably, the study results showed that an increase in inflation by one unit would increase the share prices by 2.7726 units while other factors are held constant. Further, it was found that profitability (return on investments) is positively and significantly related to share prices. The results specifically revealed that a unit increase in profitability would increase the share price by 3.2573 units when other factors are constant. The study found that exchange rates is negatively and insignificantly related to share prices. The results showed an increase in exchange rates by one unit would decrease the share prices by 0.0162 units while other factors are held constant. The study results also showed that gross domestic product is positively and significantly related to share prices. Notably, it was established that an increase in GDP by one unit would increase the share prices by 11.2161 units while other factors are held constant.

The results are consistent with the findings of Julius, Andrew, Joel and Lucy (2015), which established that inflation is positively and significantly related to a company's share prices. Lubis and Adriani's (2021) findings revealed that profitability has a significant and positive effect on the

stock price. Moreover, Njeru (2015) stated a negative effect of dividend payout on share prices. Besides, Arshad, Arshaad, Yousaf and Jamil (2015) established that interest rate has a significant but negative relation with share prices. Also, Hamdan (2014) established that interest rates negatively affect share prices; hence, the higher the rate of interest, the lower the stock market efficiency. Maithya (2015) found that interest rates had a negative effect on stock market prices.

5.3 Conclusion

Based on the study findings, it is concluded that interest rate capping, profitability (ROI), dividend yield, inflation, exchange rates and gross domestic product explain 65.03% of the variations in the share price. The correlation between inflation, profitability, gross domestic product and share price is positive, while interest rate capping, dividend yield and exchange rates are negatively associated with the share price. The study concludes that interest rate capping has a negative and significant effect on share price ($\beta=-5.2962$, $p=0.0040$). A unit change in the interest rate capping would decrease the share price by 5.2962 units while other factors are constant. The dividend yield is negatively and significantly related to share price ($\beta=-1.2822$, $p=0.0210$). An increase in the dividend yield by one unit would decrease share prices by 1.2822 units when other factors are held constant.

Moreover, the study concludes that inflation has a positive and insignificant effect on share prices ($\beta=2.7726$, $p=0.280$). The results imply an increase in inflation by one unit would increase the share prices by 2.7726 units while other factors are held constant. Profitability (return on investments) is positively and significantly related to share prices ($\beta=3.2573$, $p=0.0060$). A unit increase in profitability would increase the share price by 3.2573 units when other factors are constant. Exchange rates is negatively and insignificantly related to share prices ($\beta=-0.0162$, $p=0.9570$). An increase in exchange rates by one unit would decrease the share prices by 0.0162

units while other factors are held constant. The gross domestic product is positively and significantly related to share prices ($\beta=11.2161$, $p=0.0000$). Hence, increasing GDP by one unit would increase the share prices by 11.2161 units while other factors are constant.

5.4 Recommendations

Based on the study findings, it was found that a unit change in the interest rate capping would decrease the share price by 5.2962 units. The study, therefore, recommends that interest rate capping should not be introduced in a country since it affects the share prices negatively. The Central bank of Kenya should mutually agree with the commercial banks to ensure the customers are not exploited by the commercial banks by charging exorbitant interest rates instead of putting the interest rate capping. Further, it is recommended that commercial banks need to adopt a mixed dividend policy. The study found that an increase in the dividend yield by one unit would decrease share prices by 1.2822 units when other factors are constant.

The dividend payout needs to be considered sensitive and thus should not vary much from time to time. After the declaration of a stock dividend, the stock's price often increases. However, because a stock dividend increases the number of shares outstanding while the company's value remains stable, it dilutes the book value per common share, and the stock price is reduced accordingly. It is, therefore, essential for firms at the NSE to balance between what it distributes as dividends and what it retains for future reinvestment. Moreover, it is recommended that commercial banks in Kenya look for strategies to increase profitability as it influences share prices. The study found a unit increase in profitability would increase the share price by 3.2573 units when other factors are constant. The policy on strategies to increase profitability is a central decision for firms at the NSE since it outlines what it should distribute to its shareholders and what it should retain for investment.

Further, the study recommends there is a need for the central bank to regulate the exchange rate in the country as it was found that the exchange rate influences share prices negatively. The increase in exchange rates by one unit would decrease the share prices by 0.0162 units while other factors are constant. The exchange rate influences the flow of goods, services and capital in a country and exerts strong pressure on the balance of payment, inflation and other macroeconomic variables which strongly influence foreign direct investment inflow in the country. Moreover, it is recommended the need for the government to use various economic stimulus programs to boost the country's gross domestic product as this will positively influence investment in the banking sector. The results showed an increase in GDP by one unit would increase the share prices by 11.2161 units while other factors are held constant.

5.5 Limitations of the Study

The study was entirely dependent on secondary data. Thus, the limitation of the study is that the researcher had no control over the accuracy of the data provided. To overcome the challenge, the data was collected from accredited/ authorized institutions: NSE market reports, NSE handbook, CBK reports. Moreover, the data that was collected from the banks was gathered from the audited reports. In addition, the researcher found it difficult to obtain some data online from the websites. It was therefore sourced from the NSE which took a long time and procedure to procure the data. The costs involved in accessing the data were quite high.

5.6 Areas for Further Research

The study found that interest rate capping, profitability (ROI), dividend yield, inflation, exchange rates and gross domestic product explain 65.03% of the variations in the share price. Thus, it is recommended that another study can be conducted to examine what other factors influence the 34.93% of the variations in the share prices of the listed commercial banks in Kenya. Thus, a study

can be conducted to examine the effect of bank rate, capital adequacy, management profile, political factors, government stability and regulations on the share price. This will be significant in comparing the results and identification of more research gaps to allow for further research to be conducted in the future.

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Appendix I: Data Collection Sheet

	Year	Firm	Interest rate Capping Variable (0 before interest rate capping, 1 During interest rate capping, 0 after interest rate capping)	Dividend Yield (Dividend per share divided by price per share)	Inflation rate	Profitability (ROI)	Exchange Rates (Local Currency Unit per \$)	Gross Domestic Product (GDP growth (annual %))	Share price
1	2015	1							
2	2016	1							
3	2017	1							
4	2018	1							
5	2019	1							
6	2020	1							
7	2021	1							
8	2015	2							
9	2016	2							
10	2017	2							
11	2018	2							
12	2019	2							

13	2020	2							
14	2021	2							
15	2015	3							
16	2016	3							
17	2017	3							
18	2018	3							
19	2019	3							
20	2020	3							
21	2021	3							
.	.	.							
.	.	.							
.	.	.							
77	2021	11							

Appendix II: Commercial Banks Listed in NSE

1. Barclays BankLtd
2. Cfc Stanbic HoldingsLtd
3. I&M HoldingsLtd
4. Diamond Trust Bank KenyaLtd
5. HF GroupLtd
6. KCB GroupLtd
7. National Bank ofKenya
8. NIC BankLtd
9. Standard Chartered BankLtd
10. Equity GroupHoldings
11. The Cooperative Bank of Kenya Ltd