

**EFFECT OF FISCAL POLICY ON FINANCIAL PERFORMANCE OF
BANKING SECTOR IN KENYA**

BY

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DECLARATION

I do hereby declare that this is my original work and has not been presented to any institution of higher learning for examination.

Signed  Date **17th November 2022**

Amos Njuku Mwaura **D63/39056/2021**

This research project has been presented with my approval as the university supervisor.

Signed  Date **17 November 2022**

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DEDICATION

Special dedication to my wife and entire family for being cheer leaders. Their words of hope, faith and grace enhanced me to pursue my dream. I am forever grateful.

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Glory to God for this far. I am forever thankful for His grace, precious gift of life, sharp mind to grasp a lot of things, good health and financial stability during the study period.

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LIST OF ABBREVIATIONS

BOP	Balance of Payments
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GOK	Government of Kenya
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MNC	Multi National Corporation
SPSS	Statistical Package for Social Sciences
ROA	Return on Assets
OLS	Ordinary least squares
VIF	Variance Inflation Factors

ABSTRACT

The performance in economic sector can reach the highest notch with the reinforcement from the fiscal policies. Banking sector is crucial in the economy for its jurisdiction and unique responsibility. It is composed of banking institutions. Its mandates extend from linking the poor and the rich to providing safe custody of expensive items. The performance explains the success status of the business. The overall metrics seek to demonstrate financial health of the business. Correspondingly, fiscal policies streamline the government operation and ensure the proper money circulation. The fiscal policy is important to the firms since the purchasing power is key for their operation. Therefore, to assess the effect of fiscal policy on the financial performance of banking sector in Kenya. Study used descriptive research design. Its chief mandate is to allow the effective, efficient and smooth combination of research techniques to arrive at maximum results with little constraints, time, cost and efforts. Furthermore, the study targets banking sector composing of 38 commercial banks attached in Appendix I that have been operationalized for more than 10 years from 2012-2021. Subsequently, the data analysis will be accomplished through SPSS to explain the link between the explanatory and explained variable. Moreover, the findings portrayed by multiple linear regression postulated that the autonomous value whenever all factors are held unchanged was 0.033 hence opining that financial performance increased at positive 3.3%. Moreover, an improvement in the government revenue by one unit triggered an increment in the financial performance by 1.8% significantly when all determining factors held constant. Additionally, an advancement in the GDP by solitary unit translated to addition of financial performance by 7.6% when all variables are maintained unchanged though insignificant. Additionally, a unitary increment in the government expenditure translated to significant decrement on the financial performance by 0.2% only when all factors are maintained unchanged. Moreover, addition of one unit of debts replicated a decrease in the financial performance by 0.1% which is insignificant in the scenario where other factors are held constant. In addition, the banking sector should screen the viable opportunities and invest in high income generating projects. Moreover, analyzing the external environment is a game changer among the commercial since they can plan accordingly and adequately. In addition, keen scrutiny of fast-changing commercial environment can enhance the achievement of long term goals.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The fiscal policies are pivotal blueprints aim at the economic progression. The performance in economic sector can reach the highest notch with the reinforcement from the fiscal policies. The government expenditures are controlled via the fiscal rules (Afonso & Sousa, 2011). The financial performance for the business entities can work well whenever there is smooth and favorable fiscal regulation. The policies are fundamental for the employment creation, enhancing the utilization of the resources to the full capacity. According to Chege (2021), the stability of the economic is crucial platform for the financial performance.

The theories brighten the research lights by reinforcing the study. The anchor theory is Keynesian Theory (Keynes, 1936) which proclaims that prices are rigid and their fluctuations are triggered by the expenditure, consumption and investment. Consequently, Mugrave Rostov Theory (1960) gives greater attention to different speed in public expenditure due to varying economic life-cycle. Finally, Pecking order theory is supportive since it specifies the strategy and hierarchy in sourcing external fund for state and the business. This theory was initiated by Myers and Majful (1984). The theories chosen addresses the fiscal policies and macroeconomic activities. Furthermore, this hypothesis highlight puzzling, point of controversies, mix and inconsistencies and delve into relevance.

Banking sector is crucial in the economy for its jurisdiction and unique responsibility. It composed of banking institutions. It mandates extends from linking the poor and the rich to providing safe custody of expensive items. Moreover, they accept deposit, enhance

saving and investment in addition to providing advisory services (Ali & Ahmed, 2011). The fiscal policies are initiated by the government with an aim of promoting sustainable growth. In the long-run it strives to enhance economic growth, alleviate poverty and increase longevity stability. This is possible through incorporation of commercial banks in control of money circulation. The fiscal policies have influence on the banking sector (Muchoki & Njuguna, 2011). The country's policies have effect on the banking sector since they have major mandate on transactions. The achievement of every milestone is impeded by the unfavorable fiscal policies. The prices of goods and services, living standards and growth are critical parameters for the performance of commercial (Were, 2013). The rapid growth in the economic offer crucial platform for quality performance of banking sector. Good policies ensures minimal taxes hence a lot of money falls at the consumers' hands thereby greater purchasing-power. High purchasing power has positive connection to the financial performance of firms Melou, Sumlinski and Geiregat (2014).

1.1.1 Fiscal Policies

Mduduzi and Talent (2015) postulated that the policies are reviewed periodically to spur the economic growth, lessen unemployment and lubricate financial stability of the firms. Muyanga (2014) related the fiscal policies to a government roadmap which directs the adjustment on the spending pattern. The productivity of a nation lies on the good framework that provide direction for intensive productivity and optimum efficiency. Hyne et al (2002) pinpointed the fiscal policies in two categories. These are; expenditures and taxation which have substantial impact on the firms. The strategies and tactic blueprints of the businesses scrutinizes the fiscal policies.

The mass failure of business have been associated with poor fiscal policies. This is because the policies address the government expenditures while trying to promote the consumption. Afonso and Sousa (2011) pinpointed the significance of stability of prices and salaries. Moreover, proper government stipulation guide taxation and proper business undertakings. Therefore, the fiscal policies are instrumental for the achievement of quality performance. Besides aiding predictable performance, it maintain employment, competitive advantage and proper disposal of revenues.

The pre-eminence of public financial management cannot be ignored. In fact it is precondition for effective maximization of resources. The reconstruction of business and firms is possible through quality policies. Muyanga (2014) expounded on the fiscal policies by looking at monthly government taxes, expenditure and debts. Chege (2021) used debt issuance through selection, mechanism of issuing and negotiation. Moreover, the study optimized structuring to articulate the terms, maturity and the service pattern. In addition, the same scrutiny assessed debt risk management using derivatives and debt limits. This study maximizes government taxes, expenditure and debts to expound the fiscal policies.

1.1.2 Financial Performance

The financial performance blueprints the financial health of the firm. The viability of the business is articulated through monetary performance. The performance relates to the equity, liquidity and financial capability (Apunda & Ndede, 2020). Therefore, financial performance can be signified through the overall profit and losses within a specified timeframe. Gichuki (2014) posits that assets efficiency is paramount for far-reaching outcome on the business financial muscle. The efficiency and effectiveness on the

optimization of resources is lifeblood for the business. Additionally, the increase in finance signifies measures of economic sector's accomplishment of stipulated goals.

Financial performance articulates the capability to meet the well-designed objectives. Additionally, overall financial fitness is expounded through increase finances. Each entity strive to widen their profit base and utilize assets in the revenue generation. The inter-firm activities are gauged and compared amicably to give exactitude rate of financial performance. The financial capability is expounded through the revenues generated to the business. However, the multiple measures are used to explain the financial performance.

The performance explains the success status of the business. The overall metrics seeks to demonstrate financial health of the business. The numerous metrics of finance performance range from investment and asset related outcome. The qualitative implications are also used to define the financial performance apart from quantitative means. Scrutiny of the financial performance gives the managers an avenue for strategic planning (Gilchris, 2013). The degree to which the goals of business are pinpointed through the ROI (Yahaya & Lamidi, 2015). The realization of any entities' goals is defined through the accomplishment of stated goals. This uses ROA to expound on the financial performance.

1.1.3 Fiscal Policy and Financial Performance

The fiscal policies streamline the government operation and ensures the proper money circulation. The fiscal policy are important to the firms since the purchasing power is key for their operation. In addition, the absence of policies creates a free market which leads to series of problems. Chege (2021) opines that decreasing taxation from the government

increase the financial capability of businesses since more money remains within the business.

The business fitness and survival capability of the business points to internal forces such as efficient and effective use of human capital, assets and other resources to top-up the shareholders wealth. Hence, owing to the need to promote financial sustainability, and going concern the strategies of the firms delve into the fiscal policies to ensure quality use of finances flowing into and outside the firm (Almajali et al., 2012).

Mduduzi and Talent (2015) articulated that government expenditure represent outlaying anticipation on the mandate of government on economic prosperity. The robust economic performance can only be realizable whenever the quality financial performance of firms. The economic subsector aggregates is replicated on GDP. Therefore good fiscal promote economic resilience by spotlighting on the business dynamics and job creation. In a nutshell, the untapped human capital especially burgeoning youth population is the epicenter for enabling fast-transformative human capital.

1.1.4 Banking Sector

According to Mduduzi, B. and Talent, Z. (2015) government spending as a percentage of GDP reflects the underlying expectations on the role played by government in the economy. The study indicated that economic growth and government spending have a positive relationship. The banking sector is crucial in profit generation, economic prosperity and enhancing performance. Moreover, they are fundamental pillars supporting efficiency and effectiveness (Afande, 2014) posits that healthy competition enhance effectiveness and productivity besides enhancing seamless circulation of cash

(Ngumi, 2018). As a result, wide-spectrum of issues such as fiscal policies are considered for comprehensive sound judgment.

The operation of the banks enhance the flow of the much-demanded capital for investment. Moreover, it reinforces the innovation as well as benchmarking. This provides evidence that, an increase in government expenditure is critical in the economic growth of a country (Ayako & Walmalwa). In Kenya, government spending is crucial in enabling the achievement of the economic pillar improving socio-economic and the standard of living. The shared skills and technological advancement can promote the economic prosperity (Mohamed & Onyiego, 2018). Further, developing countries such as Kenya can accelerate their investment, productivity and development through quality synergies with CBK.

It is imperative to accentuate that banking sector links the clients to the CBK (Muchoki & Njuguna, 2020). Banking has propped-up a substantial business on the bud stage, financial distress and business exhibiting different challenges. The chief pointers of economy transformation are the operational commercial banks (Ayako & Walmawa, 2019). Moreover, CBK provides fiscal policies to banks to enhance efficiency, increase delivery of continuous development. The fiscal policy should be investor-friendly to banks hence reinforcing the business stability. Banking sector remains an epicenter for distinctive development, healthy competition, quality financial performance and distinctive trend of investor hence convincing them to choose Kenya as a powerhouse for their business. According (Kithinji, 2011) are lifeblood for the execution of economic recovery strategies. The government established vital commercial hubs, infrastructural development and building momentum to fuel economic prosperity. In a nutshell, the

banking sector spearheads the dynamic engagement of the sector, facilitates the voluminous transactions and promoting diversification (Aduda, 2012).

1.2 Research Problem

Fiscal policies deals with the expenditure and taxation with an objective of fostering economic progressivity. Every country aspires to eliminate poverty and increase cash flows. The cash flow among the businesses and the individual aids the reconstruction and development. Moreover, it increase the standard of living and business operation. Tenai (2020) concentrated on government expenditures while Wachira (2019) delved into fiscal dominance for economic prosperity. The fiscal decisive framework mitigate against adverse economic conditions that scare away the investors. The numerous measures enables the firms to remain afloat, broaden and strengthen their operation. The fiscal policies keep evolving to adjust to the economic predicaments. The policies are central for longevity financial management. It instills quality financial management to enhance stability and continuity. Moreover, it clarifies the intention of firms in generating returns for the shareholders while crystallizing techniques for holistic financial performance.

According to Fadun and Oye (2020) operational efficiency guided the policies enhanced quality performance, increase adherence to rules and enhancing returns (Wanjohi, Ndambiri & Wanjohi, 2017). Contextually, banking sector is the epicenter for the shared prosperity, employment and business stability. The coordination, financial policies and adaptation to the tax regulations are key to banking sector. The struggle to revamp business, bolstering financial capability and cushioning operation enhances the financial performance. In some cases, unprecedented actions necessary for the banking sector to thrive have been reinforced or initiated. According to World Bank (2021) the fiscal

passivity and aggressive framework is beneficial for the business financial performance. Kragbe (2014) concluded that fiscal probity express centrality on the performance of public sectors in Liberia. According to Halkos, George, Paizanos and Epameinondas (2015) government spending boost the economic growth by promoting utilization of human capital, improving infrastructure and intensive research. Nevertheless, great spending is not correlated with provision of products to individuals and businesses for economic well-being. Hence, the fiscal policies aims at finding permanent solutions to the persistent increment in the public deficit and deteriorating growth thereby boosting the financial capability of the firms.

Globally, series of studies accomplished have elaborated on fiscal policies and performance. World Bank (2021) posits that world economy should apply countercyclical measures in boosting the businesses. This reduces inequalities and promote the capacity building. The inclusive and resilient economic transformation is prompted by the fiscal reforms in the banking sector. Hondroyiannis and Papapetrou (2001) defined the critical part of macroeconomic factors in prosperity of firms in Greece. Afonso and Furceri (2010) concluded that government investment is inversely and substantially correlated with growth. Technically, fiscal framework direct the expenditures and taxation towards fundamental avenues that enhance returns. Afonso and Sousa (2011) related the changes in fiscal policies to positive adjustment on stock prices. The changes in stock prices is portrayed on the financial performance.

Locally, Muyanga (2014) pinpointed the substantial part of government policy in influencing the stock prices of firms positively. The study concluded that government longevity plans are crucial for the business prosperity. According to Nkukuu (2011) there

is minimal but insubstantial negative effect of budget balance on stock returns. In airline sector, Chege (2021) concluded that country debts posted danger to financial performance. Furthermore, in manufacturing sector Tenai (2021) posted the movement to the same direction between the government expenditure and financial performance. Contrary, Silas (2017) emphasized that decentralized fiscal framework aims at alleviating poverty. The policies should enhance business and livelihood of businesses and individuals. Ndugu (2014) recommended for quality financial performance to upgrade GDP hence stabilizing fiscal policies not the vice versa. Additionally, Wachira (2019) associated fluctuating fiscal policies to immense foreign debts which cause great fiscal dominance and skyrocketing inflation. The study recommended for the holistic and independent fiscal policies.

The studies stemming from international and developed state to the local middle income economy have been undertaken comprehensively and extensively. The findings have concentrated on wide-arrays of contexts spanning from sectorial different, geographical location, economic state and political policies. To instantiate that, Afonso and Sausa (2010) undertook global study while Chege (2021) expedited local study using different concepts and methodology. Additionally, the outcome have shown mixed and inconclusive findings. The inverse, weak, substantial, positive and neutral outcome have characterized this study. Despite multiple research none has delve into the banking sector. The series of conflicting outcome motivates for a clear and bold insight to answer the question on; what is the effect of fiscal policy on the financial performance of banking sector?

1.3 Research Objective

To assess the effect of fiscal policy on the financial performance of banking sector in Kenya.

1.4 Value of the study

The study reinforces the scholarly work by offering a pinnacle of references. It conveys the vital knowledge on the financial performance. The study contributes to knowledge and analytical skills stating the gaps and availing the solutions. The study builds a broad base for hypothetical reviews and conclusive findings.

The study can assist on the formulation of holistic framework to enhance the financial performance of commercial banks. The policy expert can proactively formulate investment-friendly policies. The finding will aid adherence of government advice on the expenditure and taxation. In that case, the banking sector will serve as the veritable source of longevity investment and foreign direct investment.

The banking sector will be able to make sound judgment for effective productivity. The potency of their investment will improve significantly since they can get a lot of information on the operation of foreign affiliated companies under the fiscal jurisdiction of different country. The research upgrade their insights on the professional way of improving the financial soundness.

The government can obtain great knowledge on the preference of banks. Additionally, the existing investors will benefit immensely by liaising with government and getting timely information. The government will formulate policies that aid investment and attract the foreign exchange. The government will garner and assimilate how the specific policies impede or reinforce the performance of commercial banks. In a nutshell, it will shape the

public finance management while subjecting the fiscal expert to the drawing board on the financial performance and economic productivity.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter looks specifically on theoretical framework that reinforces this examination. The factual proposition of theories is replicated in this research. In addition, it delve into the enablers of financial performance. This is critical in the re-organization and logical determinants. Moreover, the section compare and contrast the past studies verse the prevailing study. Further, the study gives a snapshot of diagrammatic representation and finally the summary and critiques.

2.2 Theoretical Framework

The theories point areas of relevance and critique. In addition, it sheds light on the link between past hypothesis and current research. Keynesian theory embedded by Keynes (1936) instantiates that prices exhibits, rigidity and its deviations and fluctuations is a product of consumption, spending as well as investment. Mugrave Rostor Theory (1960) opines that growth of public expenditure differs in different cycles of economic prosperity. Early stage exhibit greater rate expenditure and the developing state may experience fiscal imbalance. Pecking order theory (Myers & Majful, 1984) proclaims a hierarchy in sourcing finances for business or an entity. Therefore debts and equity should be handled appropriately.

2.2.1 Keynesian theory

Keynesian theory was advanced by Keynes (1936). The theory state that present exist mixed economy where private and government sector has crucial obligation in economy. Keynesian theory has assumptions. Foremost, companies act rationally and with rational desires. Further the theory assumes a different of market inefficiencies. The theory

encourage the government to restraint spending spree which aids the skyrocketing deviation in Prices.

This theory faces a number of limitations. Firstly, Keynesian economics result to resources crowding out, in case where government borrows a lot to fund higher investment. Moreover, the theory faces criticism when it comes to inflation, since fiscal resolution come later when economy is striving to recover and resulting inflation. Furthermore, utilization of this principle is difficult for forecasting output gap.

Despite this theory having criticism it has positive attributes. Firstly, maximization of this principle, increase in employment levels. Additionally, it assist the expansionary of policies of fiscal which utilizes government expenditure on infrastructure. Therefore this theory is important for the assessment of fiscal policy on financial performance by banking sector.

2.2.2 Musgrave Rostow's theory

This theory was developed by Musgrave and Rostow (1960). This principle theorized 3 discipline for public expend namely; redistributing income, stabilizing economy and allocation of public goods. This theory states that in the starting time of economic advancement and development, public expenditure need to be encouraged. This theory assumed that state plays important role in development. It also assume that all countries has opportunity to develop, disregard to population size, location and natural resources.

The Musgrave Rostow's theory has a number of limitations. Firstly, in regards to assumption of government playing crucial role when it comes to development which cannot often be the scenario in an economy. Another criticism of this theory is that it try

to fill all countries into western history-mold. The assumption of all countries has equal chances of growth but in the real world, this case is not existing.

In spite of above setbacks of Musgrave Rostow's theory, it has positive significance to economy. Foremost, it shows aim not just assisting the developing countries in the development programs but also grant the US impacts over the communist Russia. It further enable economic growth in an economy, through creation of jobs vacancies. Additionally, it ensure an improvement of quality of life. Therefore, this theory is of great importance in this investigation of effects of fiscal policy on financial importance.

2.2.3 Pecking Order theory.

Pecking Order theory was postulated by Myers and Majluf (1984). It states that institutions arrange their origin of funds (within sourcing to equity) and take equity as the last resort. In this principle, internal money are utilized first and when depleted, debt is engaged but when debt is not such prudent, equity option is engaged. The assumption of this theory is that asymmetric information.

This theory faces various limitations. Foremost, pecking order principle cannot make physical application since it is theoretical in nature. Moreover it limit the kinds of financing, new financing option cannot be added in the theory. Additionally, the theory does not give any quantitative forecast of the influence of information circulation in financing cost.

In contrary to above limitation, the pecking order theory has advantages. One, it assist firms to decide the best way to finance its corporate projects. It also show how top managers of companies are curious to maintain management of the enterprise.

Furthermore, it helps firms to understanding financing activities. Therefore this principle play a key role in examining effects of fiscal policy in the financial performance.

2.3 Determinants of Financial Performance

The study is keen to consider wide-array of determinants affecting financial performance which are related with the financial performance. The determinants include the government revenues. This is because government spearhead the revenue collection through the maximization of fiscal policies. In addition, the GDP is crucial factor determining the economic stability of a nation. Moreover, Government expenditure is factored in the study due to fiscal policies that drives spending and in some cases discourages expenditure. Finally, the study analyze the debts verse the financial performance to expound on the relationship.

2.3.1 Government Revenue

The government revenue is the lifeblood of every nation. The revenues enhance prosperity of the nation whenever the resources are maximized adequately. The chief source of revenue is taxation. According to World Bank (2021) collection of tax is pivotal for upgrading the investments, human capital and infrastructural prosperity. Therefore, an organization seeking financial stability has to broaden their tax revenue, increase private sector investment and create needs for the investment. Therefore, the heightened degree of tax collection translates to sustainable growth. However, struggling to get sufficient revenue is a recipe for poor development.

Munyanga (2014) conducted a study the main focus of the assessment was to determine the association amid fiscal policy and performance of banking sector. The study engaged correlational and descriptive approaches. Additionally, the time frame of the study was

10years between January 2004 and December 2013. Secondary data from CBK, NSE and Kenya National Bureau of Statistics was utilized in assessment. Furthermore, the study employed Ordinary Least Square technique and multi-regression analysis with help of 'eviews' version 7 research software to evaluate the collected data from the sources. The study established that performance of stock market is altered by the fiscal policies of Government. Moreover, study found out positive influence of stock market performance by government revenue and expenditure. This study utilized data from 2004-2013 which cannot reflect current market environment, thus there is need for current research.

2.3.2 Gross Domestic Product

GDP has crucial metric for computing the economic activities. In fact, it pinpoint the monetary valuation of the by-products. Hence the prosperity, transformation, economic and investment snapshot can be replicated via the GDP. The GDP strives to quantify the value addition as well as creation through the whole process production. The policy makers, government and economic expert maximizes the GDP to proclaim whether the economy is in contraction or expansion state. Besides its' useful in economic comparison among several countries, it tracks the health of a nation (Chege, 2021).

Ogbole, Amadi and Essi (2013) did investigation on fiscal policy and its influence on growth of economic. The study's timeframe was between 1970 and 2006 in Nigeria. The study carried out integration tests and engaged OLS regression. The findings from the study showed that policy of fiscal was successful in the period where there was no regulation than period of regulation. Additionally, there is need to enhance productivity in the less ineffective regions in an economy. The study also found out that policy of fiscal need to provide priority to public and capital investments through making them of

larger proportion in overall government expenditure, thus generating more job vacancies and improve quality of public spending and the achievement of sustainable development and growth. The study took place in Nigeria therefore all findings cannot be generalized because of different business environment with Kenya.

2.3.3 Government Expenditure

According to World Bank (2021) government expenditure articulates series of distribution and utilization of funds. The expenditure can relate to capital construction, innovation, geological activities, research, technology, rural development and other expenses. Moreover, it refers to the use of the national income with an objective of acquiring goods and services. Simply put, the country acquires goods and services always and can only outsource all it does not produce. According to Afonso and Sousa (2021) advanced and struggling countries exhibit different traits on the government expenditures.

Onyekachi (2013) carried out a study on influence of fiscal policy on the manufacturing industry output in Nigeria. The study utilized cointegration and error correction approach and time sequence data between 1990 and 2010. The study regressed productive usage spending and income by government on industry of manufacturing output. The study showed that expenditure by government has positive significant on production in manufacturing industry whereas revenue has negative impacts. In addition, manufacturing industry output and fiscal policy had long run relationship. Therefore success of fiscal policy in enhancing manufacturing industry depend on available revenue in an economy. That study was under the context of Nigeria, however the current study is under Kenya's context.

2.3.4 Foreign Debts

As per Gisore et al (2014) the foreign debts represent the amount sourced from external as obligation payable in future. The foreign debts has been rising in Kenya and some scholar have related to slow economic growth (Njiru, 2012). Just like firms, the nation's borrowing spree can lead to blacklisting and financial unsustainability. Therefore, the going concern becomes more doubtful due to inability to meet financial demands. The over-borrowing impedes states' capacity to undertake numerous investment in the fundamental areas of financial prospect such as education, healthcare and businesses.

Ishaq and Mohsin (2015) investigated a budget deficit and the inflation. The study utilized data relating to central bank as well as fragile financial firms. Furthermore, the research maximized dataset garnered from 11 Asian states from 1981-2010. The output stipulated that budget deficit was the root cause of the fluctuating prices.

2.4 Empirical Review

Chechet and Olayiwola (2014) analyzed the capital verse the borrowing among firms. The context of assessment were firm listed in Nigeria. The study considered 245 firms and factored in 70 as a sample. The timeframe of the study was 2000-2009. Additionally, the investigation maximized series of variables including debt ratio as well as equity to expound capital structure. The explanatory variable utilized in the study was ROA. The study concluded debts as an inverse association with the profitability which equity posted positive correlation. The findings contradicted the agency theory postulation that managers are highly motivated to maximize profits in cases of maximization of debts financing. However, the study was expedited in Nigeria and there is need for Kenya study

Harelimaana (2017) scrutinized the pattern whereby debt finances influence entities' profitability. The study considered the Kenyan and Rwandan Banks. The assessment was motivated to look at 2010-2016 to achieve verifiable results. The assessment concluded that debts and profitability exhibited positive correlation. The study considered different countries and concluded without chief analysis of banking sector.

Hatem (2017) dealt with factors that expound the entity's debt policy. The study delved into five continents starting from 9 firms in South Africa, 114 firms from Australia and 79 entities from Brazil, 65 Indian businesses and 90 companies from Spain. Additionally, the study period was 2003-2010. The data was assembled and integrated in the database digitally. The scholar presupposed that there is a negative correlation amid earnings and borrowing framework. The tangible assets moved in the same direction with debt policy contrary to age. The growth opportunity influenced the debt policy. Additionally, South Africa, India and Australia registered an inverse linkage between the profitability and the profitability. However, the study did not manage to investigate Kenya set-up.

Pan et al., (2012) analyzed the consequences of the drastic increment in the reserve requirement ratio. The study was made realistic in China. Additionally, the vector Auto-regression model was the building block for the extensive analysis. Furthermore, this Vector Auto-Regression Model was useful for assessing the money supply, Inflation and loans that ranged from 2006-2011. The study was interested with monetary framework applicable in China. The study postulated that monetary policies guides the productivity. The current examination is analyzing the fiscal policies in Kenya.

Ogbole, Amadi, and Essi (2011) examined the fiscal policy in relation to the consequences in the economy. The interval period was 1970 to 2006 in the Nigerian

Context. Besides the optimization of cointegration tests, the examination prioritized OLS regression for conclusive output. The research advocated for channeling the resources to the productive zone and excluding non-productive regions. Moreover, the findings pinpointed that fiscal policies have to consider the capital in addition to public investment. This was correlated with employment, reaching of sustainable growth. The chief latitude was more on the investment and fiscal policy while the prevailing study consider fiscal policy and performance in Kenya region.

Burger, Stuart, Jooste and Cuevas (2012) examined the fiscal reaction for South Africa to investigate the manner in which government takes to change in its debt position. The study maximized annual time series data between 1974 and 2008. The study discovered that government in South African run stable fiscal policies by lowering primary deficit or by enhancing the surplus in responding to the increase debt despite the government tend to run fiscal balances in more than those need to just stabilize debt. This study took place in context of South Africa therefore the findings cannot be fully maximized in Kenya business setting.

Ranciere and Tornell (2016) utilized sector model to assess the freedom of financial, efficiency of allocative and the growth in United States. The study established that financial freedom improve growth, nevertheless, causes most crisis and expensive bailouts. Moreover, the study found out that freedom fosters financial function and likely to enhance efficiency of allocative, consumption and growth prospects. The current study's focal center is Kenya context.

Lozano (2008) carried out a study on fiscal dominance and inflation in Colombia. The study period was between 1955-2007 engaging Vector Correction Model and quarterly

data. The study discovered that there is positive significant association amidst inflation and money growth, and budget deficit. The study was carried out in Colombia therefore findings cannot be utilized in Kenya context. Therefore the current study will look at banking sector to fill in the gap on contextual.

Chege (2021) this study aimed at determining the impacts of policies of debt on financial performance. The study targeted airline companies in Kenya. A total of 48 airline enterprises approved to working in Kenya as at December 2020 were targeted. Furthermore, finance directors from these companies were targeted respondents through census sampling technique. Data collected from the study was analyzed by statistical packages for social sciences. Additionally data entailed descriptive and inferential statistics. From the study, it was discovered that decline on debt had insignificant and inverse effects on performance of finance of commercial airlines entities. Further the study uncovered that debt structuring had positive and insignificant impacts statistically on airlines companies' financial performance. The assessment uncovered that management debt risk and debt issuance had reverse and significant impacts statistically on financial performance. This study aimed at airlines companies but the current study aimed at examining effects of fiscal policy on financial performance of banking sector.

A study was conducted by Tenai (2021). The study aimed at determining the association amid government expenditure and outline sectorial output performance in Kenya. The study focused on 3 sectors namely agriculture, services and manufacturing which are main drivers of the economy. Further, the study focused on determinants that influence the performance of these sectors, namely inflation, rates of interest, private investment, exchange rate, government expenditure, and public debt and trade terms. The study

engaged annual time serial data for the duration between 1980 and 2016. A unit root exam was done to test for stationarity and Johansen Cointegration exam was carried out to find if there was long run or short run association amidst variables that influence real sector output. The study established positive association between government expenditure and service output performance, agricultural out performance as well as manufacturing output. This examination maximized data that goes back up to 1980 and business environment keep changing therefore there is a need for another study that utilized data within 10 years from 2022.

Silas (2017) the key objective of this study was to scrutinize the impacts of fiscal diversification on reduction of poverty level, inequality income and human development in Kenya. The cross-county data panel from 2002 to 2014 was engaged. The study utilized data from World Bank, Government Agencies and UNDP. A number of empirical approaches were predicted to check out the impacts of inequality, intergovernmental reassignments, county own-origin revenue and poverty expenditure by counties. The study uncovered that there are differences in the impacts of fiscal decentralization among marginalized counties and other counties. The fiscal decentralization support the marginalized counties. The study focused mainly on impacts of fiscal decentralization on poverty level and human development. Therefore the current study aimed at establishing findings on effects of fiscal policies on financial performance of banking sector.

Wachira (2019) conducted a study on impacts of fiscal dominance on sampled macroeconomic factors in Kenya. The study utilized annual quantitative time serial data from 1976-2017. Further, the study engaged Serial regressive Distributed Lag approach

to predict the long run and short run of the influence of fiscal dominance on rate of inflation in Kenya. In addition, Granger causality exam was employed to evaluate the direction of causality amid the fiscal dominance and economic growth. The study uncovered that the fiscal dominance has negative influence on rate of inflation in present period. In contrary, coefficients turn positive and significant statistically at 5% of significance after the first fiscal year and in the long run. Further, the study unveiled that dominance of fiscal granger result to economic growth. Additionally, utilization of impulse response approaches generated from limited Vector Serial regressive coefficient, the research uncover that dominance of fiscal had negative influence on growth of economic in short run but it has positive influence on long run. The study examine fiscal dominance on selected macroeconomic elements but the current investigation examines the effects of fiscal policy on financial performance of banking sector.

2.5 Conceptual Framework

Conceptual framework is a building block of the study by giving a snapshot of correlation amid the explained and explanatory variable. The study considers the government revenue, GDP, Government Expenditure and Debts. Therefore, it gives a bold picture that is necessary for initiating an imagination and hypothesis of the banking sector.

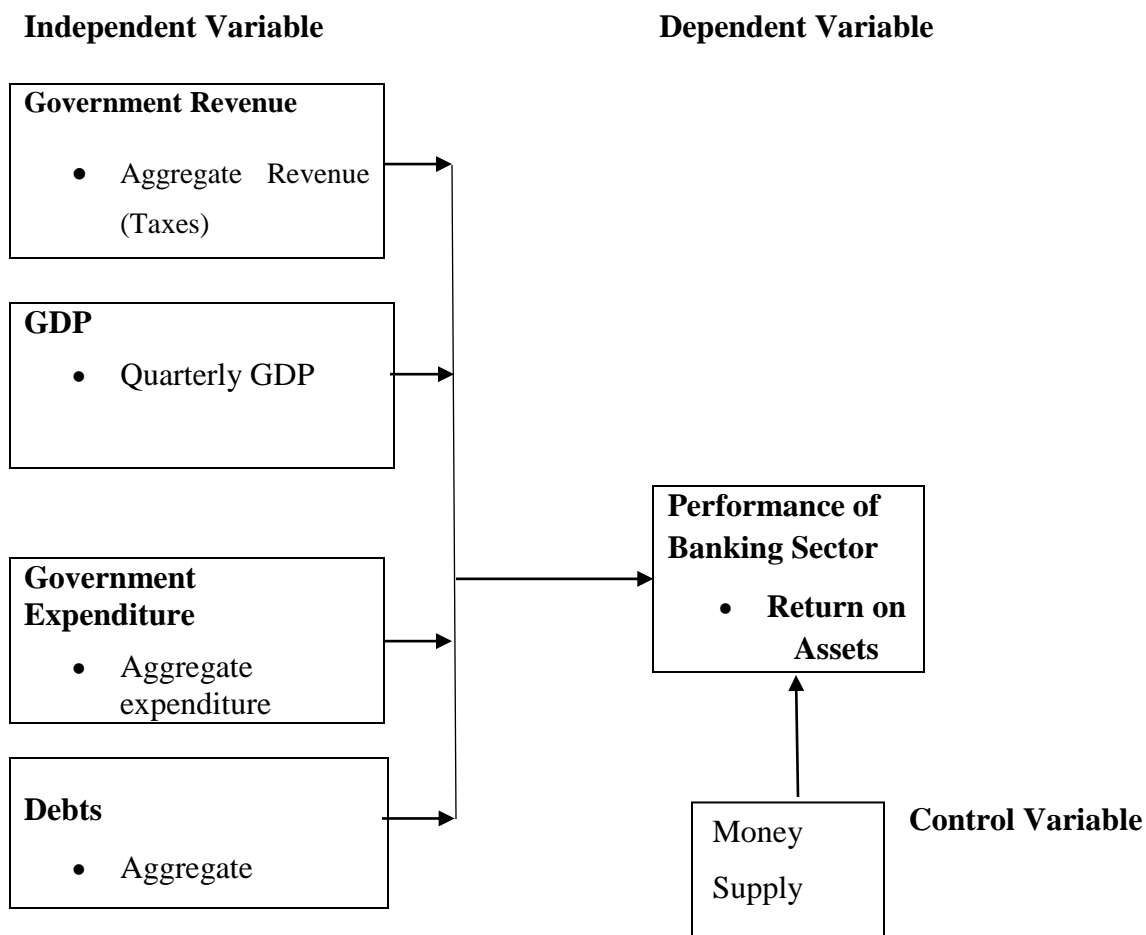


Figure 2.1: Conceptual Framework

2.6 Summary of Literature of Review and Research Gaps

The fiscal policy and the financial performance for the banking sector in Kenya have received minimal attentions. Multiple investigations have concentrated on different concepts such as macroeconomic variables, fiscal policy, stock market and capita structure. Chechet and Oyiwola (2014) scrutinized capital structure and borrowing verse the profitability. The context of examination was Nigeria with the conclusion opining inverse link amid the debt verse the profitability. Nevertheless, Harelimaana (2017) replicated the investigation in Rwanda and Kenya context. The outcome emphasize a

positive association. It stated that debts motivates the governance to enhance profitability hence contradicting the earlier study.

Hatem (2017) postulated that fiscal policy is central in growth opportunity. Specifically, Pan et al. (2012) undertook the assessment in fiscal and monetary framework in China. The inquiry wrapped-up that economic transformation is pegged on the policies. Ogbale, Amadi and Essi (2011) postulated that quality framework shapes the investment. Chege (2021) analyzed fiscal policies and performance of airline firms while Tenai (2021) concentrated on government expenditures. Grounded on the aforementioned conclusions, the study is inconclusive and mixed. As a consequence, there are numerical loopholes spanning from the varying context, and concepts have resulted to a knowledge gap. Subsequently, different methods have been applied to reach conclusive results. Afonso and Furceri (2010) posit that government investment has inverse consequence on growth. Chief among the pressing, puzzling and controversial gaps relates to methodological, conceptual and contextual. Nevertheless, the absence of exhaustive, extensive and broad study on fiscal policy and performance of banking sector motivates the fulfilling undertaking.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The section culminates the supportive research design that is pinnacle for the investigation. It gives specify the targeted population that is appropriate for generalization. Therefore, it promotes comprehension and data collection mechanism. The data collected was the building block for assessment. Additionally, it demystifies the analytical model that best-address the core objective of the assessment. This is paramount in aiding the problem solving, addressing gaps, making inferences and enhancing factual proposition.

3.2 Research Design

The research design aids in the validation of knowhow. The design was pivotal for the provision of solid base for entire research. The study used descriptive research design. Its chief mandate was to allow the effective, efficient and smooth combination of research techniques to arrive at maximum results with little constraints, time, cost and efforts. Kothari (2015) associates the quality design with capability to combine the components wholly thereby aiding coherence.

The design was the tenet of conclusive finding. The purpose was precisely elucidated with sufficient details. Therefore, it permits the optimum efficiency and verifiability. Cooper and Schindler (2014), design minimizes the uncertainty, mix-up, controversies and practical haphazard associated with research problem. Besides guiding the study towards the correct and right path, it eliminates marginal errors. In a nutshell, it removes the blind search by setting the jurisdictions and boundaries.

Therefore, research design elucidated the magnificent roadmap to endeavor while averting the misleading conclusions. Quality framework blueprints good plans and structures that strive to promote economical and accurate findings via requisite dataset in accordance with research question. Furthermore, it is overall strategy for integration of wide-array of components to enhance coherency and explicitly handle different issues.

3.3 Population

The population is pivotal for conclusive findings. The rigorous procedure considers the elements and individual exhibiting the similarities for the overall validity of the results. The population should be adequate to bridge the existing gap according Ndungu (2014). The study targets banking sector composing of 38 banking sector attached in Appendix I that have been operationalized for more than 10 years from 2012-2021. The appropriate population selected can sharpen and deepen extensive and conclusive outcome. Furthermore, the testability is possible in the presence of sufficient population. The study was driven towards the generalization of the outcome regarding the population of interest and collection of meaningful information.

3.4 Data Collection

Data collection is the essential ingredient of conclusive research. It strives to address and articulate research problems by giving the required dataset. Simply put, secondary data was pivotal in the data collection. The data collection was related to fiscal policies and performance. Thereby, the problem verse the antecedents was associated in the attempt to state the existing correlation. Additionally, it ran spirited integration and assemblage of information to determine the juxtaposed variables. The data collection mechanism should be tandem to the data analysis and core objective (Wachira, 2017). It is imperative to accentuate that the problem resolution by relating input and output leads to a tentative

solution. Therefore the study period was 2012-2021 done through collection of average quarterly data for banking sector compositing 38 Banks attached in Appendix I. The published financial statement sourced from each firms played key mandate in giving details of financial performance. The data on fiscal policy, government spending, debts and revenues was sourced from CBK, KNBS and KRA.

3.5 Data Analysis

The data assembled was passed through rigorous steps such as editing, classification and coding. The data collected on quarterly basis on the fiscal policy and the financial performance was crucial in understanding the research and providing the pragmatic solution. The data analysis was accomplished through SPSS to explain the link between the explanatory and explained variable. Finally, the study attempted to explain the association of all the variables using line of best-fit via multivariate regression.

3.5.1 Diagnostic

The dataset needs to adhere to research stipulation to avoid wrong inference and conclusion. Hence, diagnostic tests attempts to ensure the understanding of the assessment with greater clarity. It permits the substantial conclusion with meaningful interpretation. The adequate test eliminates the risk of misleading findings but that was addressed via the core objective. The diagnostic test include normality, autocorrelation and multicollinearity through Kolmogorov- Shapiro-Wilk, VIF and Durbin Watson respectively.

The normality assessment elucidates the association while multicollinearity demystifies the linked among regressors variables. Autocorrelation enables key scrutiny of connection predicted and predictor variable. Therefore, presence of abnormality in

dataset and autocorrelation challenges is a clear call for further analysis including graphical and Breusch-Godfrey respectively. Nevertheless, multicollinearity challenges translate to elimination of intensively linked predictor variable.

3.5.2 Analytical Model

The study is interested in determination of multivariate regression to define the sensitivity of fiscal policy in expounding the financial performance of banking sector. The analytical model is the building block that articulates the combined association and magnitude. It is worthwhile accentuating that best-fit line in a snapshot.

Therefore, the model can be demonstrated as;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Whereby:

Y = Financial Performance (Measured by ROA)

β_0 = Y Constant (intercept of the regression)

$\beta_1, \beta_2, \beta_3,$ and β_4 = regression coefficients

X_1 = Government Revenue (Natural log of aggregate Government Revenue)

X_2 = GDP (Quarterly Gross Domestic Product)

X_3 = Government Expenditure (Natural log of aggregate expenditure)

X_4 = Debts (Natural log of aggregate debts)

ε = error term

3.5.3 Significance Test

The output is defined as statistically significant if their range is 0.05 degrees. The value going below 0.05 articulates the significance while beyond 0.05 is insignificance through T-Test. This expounds how the standard error is deviating among the computed value.

The Pearson correlation aids the determination of exactitude of magnitude and degree of movement at the 95% confidence level.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter is the premise of the discussion relating to the data analysis underpinning the study. Additionally, it examines the outcome and accentuate the principal inferences. Therefore, the assessment maximized the available secondary data to unveil new knowledge for the business. Thereafter, the data assembled was rigorously channeled via a comprehensive and tenable scientific process. To sum-up, the extensive descriptive arithmetic and scientific computation of dataset to assisted in exhaustive outcome. The interpretations were justified adequately through verifiable outcome while discussion aided apprehension since the objective of this investigation was to explore the effects of fiscal policy on the financial performance of a banking sector. Subsequently, return on assets ROA was regressed against Government revenue, GDP taken quarterly between the year 2012 and 2021, government expenditure and Debts. Additionally, the inferential statistics reinforced the other outcome and increased scientific viewpoint.

4.2 Descriptive Statistics

Complete, exhaustive and informative analysis is reinforced by the descriptive statistics. It is fundamental for coining the nature of dataset. As a consequence the descriptive analysis underpropped the explanation of major pattern of the dataset. Moreover, it exemplified the outcome in more understandable and systematic course hence becoming a lead way for other studies. Furthermore, it delved into the outcome ranging from averages, least and maximum values as well as standard deviation.

The experimentation carried out the descriptive analysis of the variables to explore the attributes of the dataset in every variable. As a result, data was collected between the years of 2012-2021 hence giving satisfactory dataset. From diligent computation, the

financial performance minimum value in that period was 0.1020, maximum of 0.2211, whereas the mean was 0.1678 and SD of 3.028. This implied that the explained variable registered a mean average of 0.1678. Government revenue least value was 3.979 and maximum value was 11.16. Further, the mean average for government revenue for the study's period was 7.40 while the SD was 1.899.

The findings further showed that the GDP ratio for the 10 years registered a minimum of 0.060, maximum of 0.079, mean of 0.06945 and SD of 0.006076. Government expenditure and debts registered minimums of 0.6389 and 0.0110, maximums of 5.6862 and 0.0299 respectively. In a nutshell, it encapsulates the low variation of mean from SD hence articulating about variability. The systematic scrutiny justified that the mean and SD were crucial for sound judgement.

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Years	10	2012	2021	2016.50	3.028
Financial Performance	40	.1020	.2211	.167768	.0356967
Government Revenue	40	3.9790	11.1550	7.404275	1.8992899
GDP	40	.060	.079	.06945	.006076
Government Expenditure	40	.6389	5.6862	3.097047	1.5751100
Debts	40	.0110	.0299	.019240	.0055653
Valid N (listwise)	10				

4.3 Correlation Analysis

The procedures for reaching dependable conclusions are organized through systematic process correlation. Consequently, intensive analysis was salient in expounding the

accuracy of dataset in explaining the magnitude and strength. Subsequently, Saunder and Lewis (2012) posits that sophisticated analysis enhance far-reaching outcome. The analysis delved into financial performance, GDP, Government Expenditure as well as degree of debts.

Pearson correlation calculation was assimilated in this assessment to expound on the magnitude and direction of movement. This ranged from +1 (Positive) to -1 (Negative) values to emphasize strong positive and strong negative corresponding matrix was utilized. As a consequence, correlation findings ranged from strong positive to negative. For the good measure, the correlation analysis was performed using the Pearson correlation method via the SPSS. Therefore, the conjoint relation between the predictor and the predicted variables ranged from strongly positive to strongly negative correlation. Government revenue and debt ratio had positive correlation with the financial performance. Nonetheless, government revenue depicted a strong positive correlation of ($r=0.973$, $p=0.000$) while debt ratio displayed a weak and positive correlation of ($r=0.039$, $p=0.89$) towards the financial performance. Similarly, the computation tabulated below as 4.2 also registered GDP ratio and government expenditure depicting a negative correlation towards the financial performance. This was shown by the findings ($r=-0.052$, $p=0.751$) and ($r=-0.104$, $p=0.524$) respectively.

Table 4.2 Correlation Analysis

Correlations		Financial Performance	Government Revenue	GDP	Government Debts Expenditure	
Financial Performance	Pearson Correlation	1	.973**	-.052	-.104	.039
	Sig. (2-tailed)		.000	.751	.524	.809
	N	40	40	40	40	40
Government Revenue	Pearson Correlation	.973**	1	-.065	-.024	.037
	Sig. (2-tailed)	.000		.688	.885	.820
	N	40	40	40	40	40
GDP	Pearson Correlation	-.052	-.065	1	.016	.120
	Sig. (2-tailed)	.751	.688		.923	.462
	N	40	40	40	40	40
Government Expenditure	Pearson Correlation	-.104	-.024	.016	1	-.023
	Sig. (2-tailed)	.524	.885	.923		.889
	N	40	40	40	40	40
Debts	Pearson Correlation	.039	.037	.120	-.023	1
	Sig. (2-tailed)	.809	.820	.462	.889	
	N	40	40	40	40	40

** . Correlation is significant at the 0.01 level (2-tailed).

4.4 Diagnostic Test

Expedition of new knowledge and comprehensive description of phenomena accurately and extensively relies on the diagnostic tests. Accordingly, the examination of datasets through diagnostic techniques was chiefly undertaken to promote understanding of certain predicament commonly occurring and resolve them before proceeding for further

analysis. In other terms, it confirm if the data met the stipulated statistical threshold. Subsequently, it compared the outcome with required standard to ensure that they were in tandem with postulates. Saunder and Horvath (2015) opines that diagnostic analysis are pointers of quality adherence to the statistical standards. Consequently, the research subjected the dataset to rigorous and pivotal diagnostics computation to determine their suitability for modelling and prediction. The prioritized test include, normality, multicollinearity as well as autocorrelation.

4.4.1 Normality analysis

Importantly, notability of normality test in delineating pattern of distribution was principally maximized in elaboration of dataset. In that regard, it dominated the in-depth establishment of quality approximation of series of discrete in the experimentation. Subsequently, extensive and exhaustive via plotting the Q-Q plots. Hence, the scientific inference is well represented in the figure 4.1 to 4.5 below. The normality test was expressed with fundamental objective of determining if data was generated from a normally distributed population. The Q-Q plots were plotted to enhance examination and the knowledgeable observations of each variable appearing along the straight line.

4.4.1.1 Financial performance

Purposive inquiry yielded substantial knowledge for decision making. As seen from the plot in figure 4.1 below, observations its layout pattern was along the straight line implying that the data was assembled from a normally distributed population.

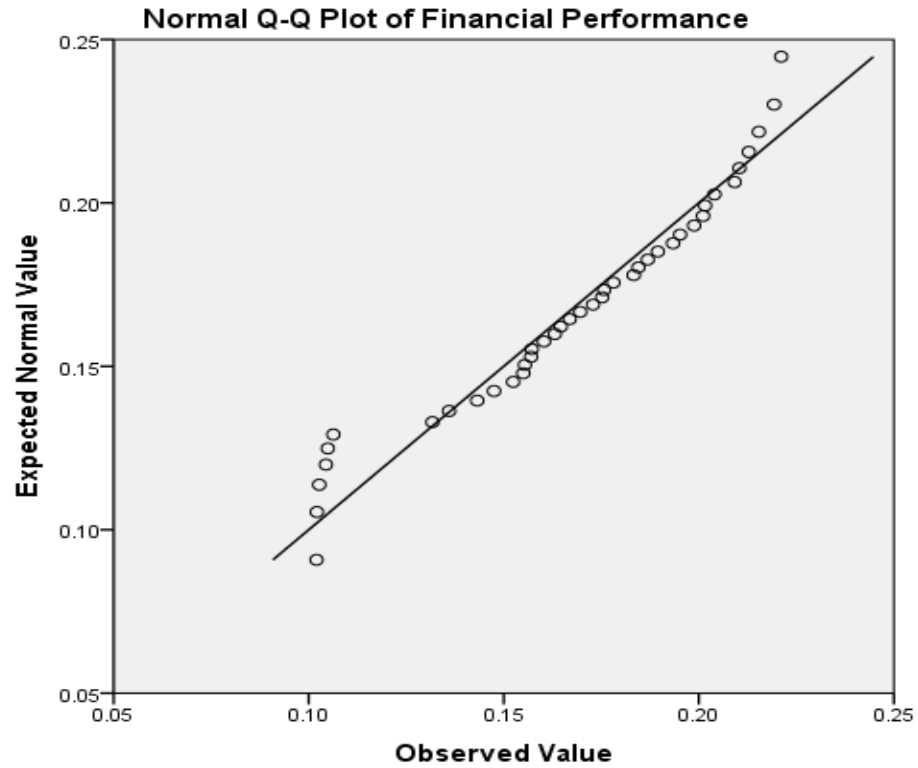


Figure 4.1 Normal Q-Q Plot of Financial Performance

4.4.1.2 Government Revenue

From comprehensive calculation and observations, the dataset layout pattern was along the straight line hence expounding that dataset were distribution along straight line. This expresses that the data was assembled from a normally distributed population.

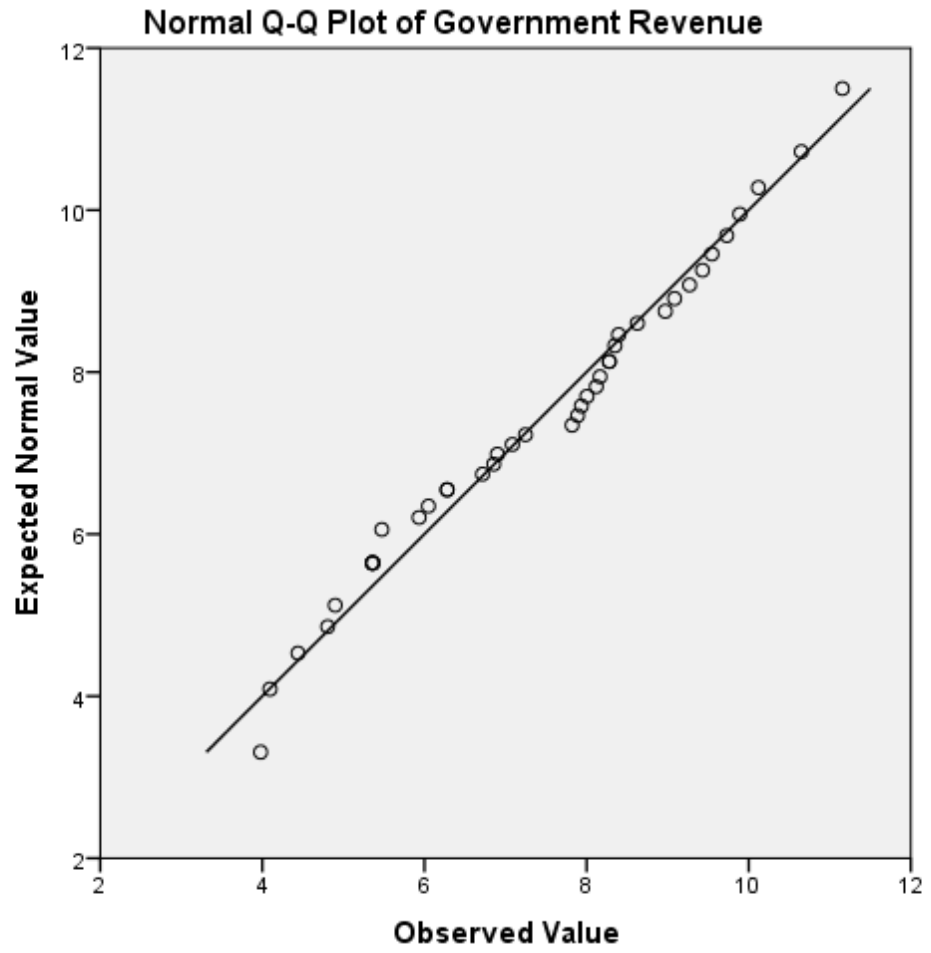


Figure 4.2 Normal Q-Q Plot of Government Revenue

4.4.1.3 GDP

The plot on GDP depicts observations of dataset distributed along the straight line. This shows that the GDP data was collected from a normally distributed population. This is well captured in figure 4.3 below

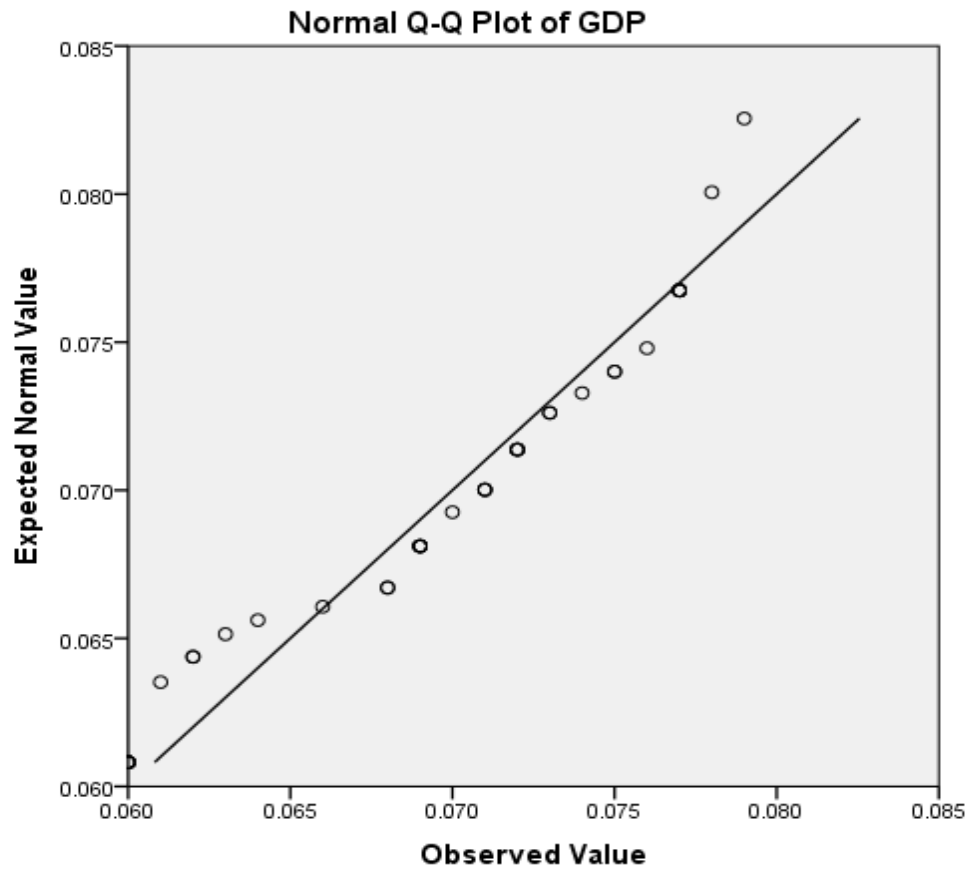


Figure 4.3 Normal Q-Q Plot of GDP

4.4.1.4 Government Expenditure

On extensive apprehension of the assembled and analyzed data, the Government expenditure below displays observations distributed along the straight line. This also implies that the data was obtained from a normally distributed population as encapsulated in figure 4.4.

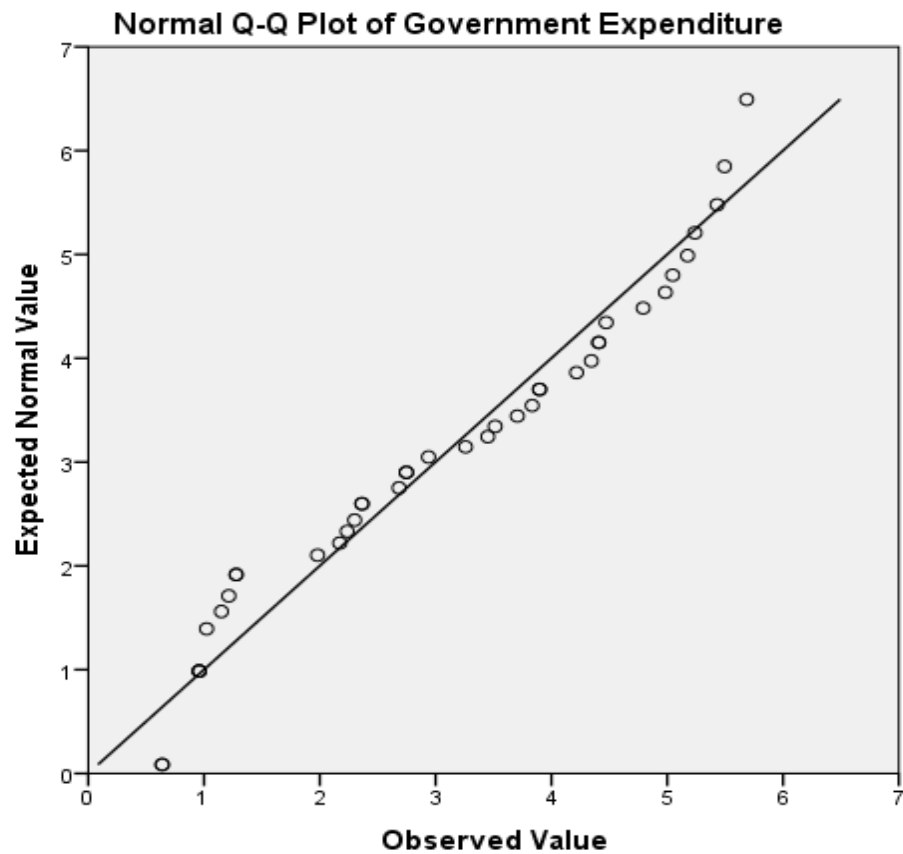


Figure 4.4 Normal Q-Q Plot of Government Expenditure

4.4.1.5 Debt Ratio

The objective yet parsimony analysis was undertaken to boost understanding. From the precise observation, the debt ratio data was distributed along the straight line thus expressing that the dataset was also collected from a normally distributed population.

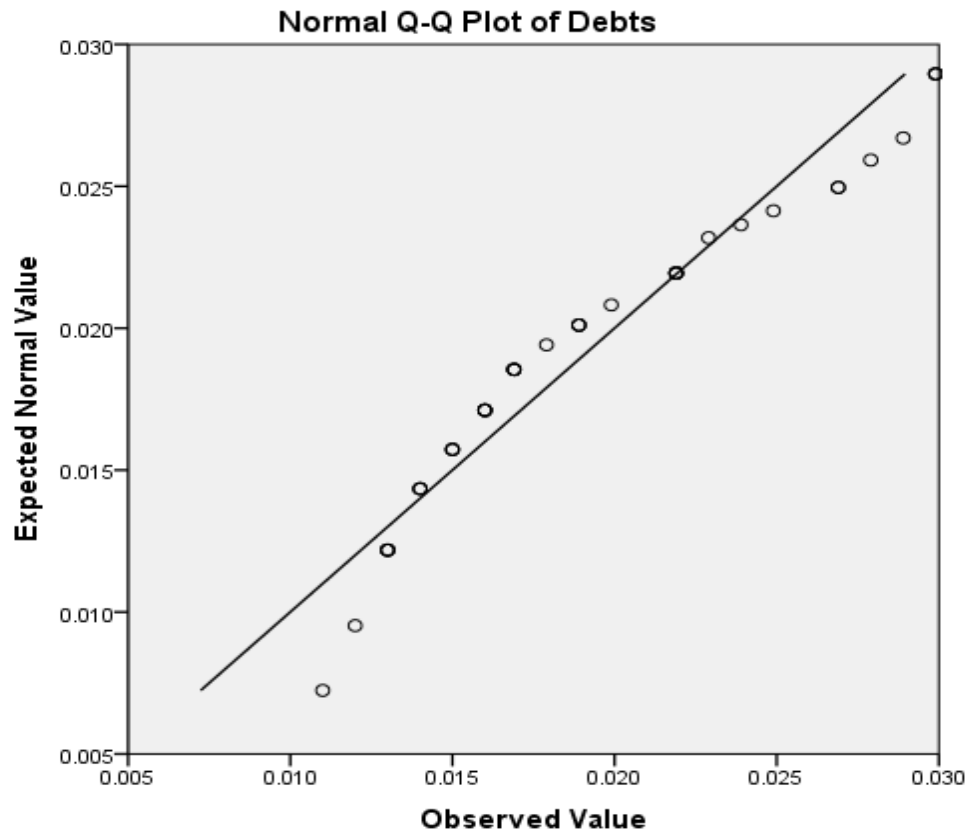


Figure 4.5 Normal Q-Q Plot of Debts

4.4.2 Multicollinearity Test

The tenets of conclusive outcome relied on the multicollinearity to meet threshold. Evidently, the test for multicollinearity was expedited using the Tolerance and the VIF values. The table below shows Tolerance values 0.993, 0.980, 0.999 and 0.983 > 0.2 and the VIF values 1.007, 1.020, 1.001 and 1.017 < 10. This postulates that the predictor variables in this research study namely; government revenue, GDP, government expenditure and Debts registered no multicollinearity issue thus clearing for continued analysis.

Therefore, the analysis was chiefly done with no breach of fundamental requirement for scientific statistics that articulates for constant error term. Accordingly, Saunders and Horvath (2015) states that deviation and breach of requirements amounts to wrong inference and inaccurate conclusion. On extensive examination the variables posted tolerance figure higher than 0.2 hence lying within advocated range. In addition, VIF values lower than 10 are acceptable. This expressed absence of multicollinearity problem among the variables.

Table 4.3 Collinearity Analysis

Model	Collinearity Statistics		
	Tolerance	VIF	
	(Constant)		
1	Government Revenue	.993	1.007
	GDP	.980	1.020
	Government Expenditure	.999	1.001
	Debts	.983	1.017

4.4.3 Autocorrelation

The systematic empirical assessment of autocorrelation was chiefly done to explain degree of error terms and lagged variation in successive period. This test was analyzed using the Durbin Watson techniques. As a consequence, the Durbin Watson value tabulated below is 0.626, this value lies within the required values of the Durbin Watsons. It is imperative to wrap-up on autocorrelation by insinuating that inference did not violate the Durbin Watson stipulations.

Table 4.4 Autocorrelation Model

Model	Durbin-Watson
1	0.626

4.5 Trend Analysis

The fiscal policies and related variables portrays deviation periodically based on proliferation, globalization and technological changes periodically. The trend analysis is crucial for comparison and contrasting the prevailing pattern. As a consequence, the examination expedited a diligent and critical inquiry of pattern and behavior over a period of investigation to accentuate coherent and consistency as opined in figures below.

4.5.1 Financial Performance

From the trend analysis below, the data in 2012 was at a means of 0.1000 while in 2021 it was approximately 0.2200. This expresses that over the 10 year period financial performance of the banking sector in the country has been rising with minimal variations. This is well articulated as per figure 4.6 below.

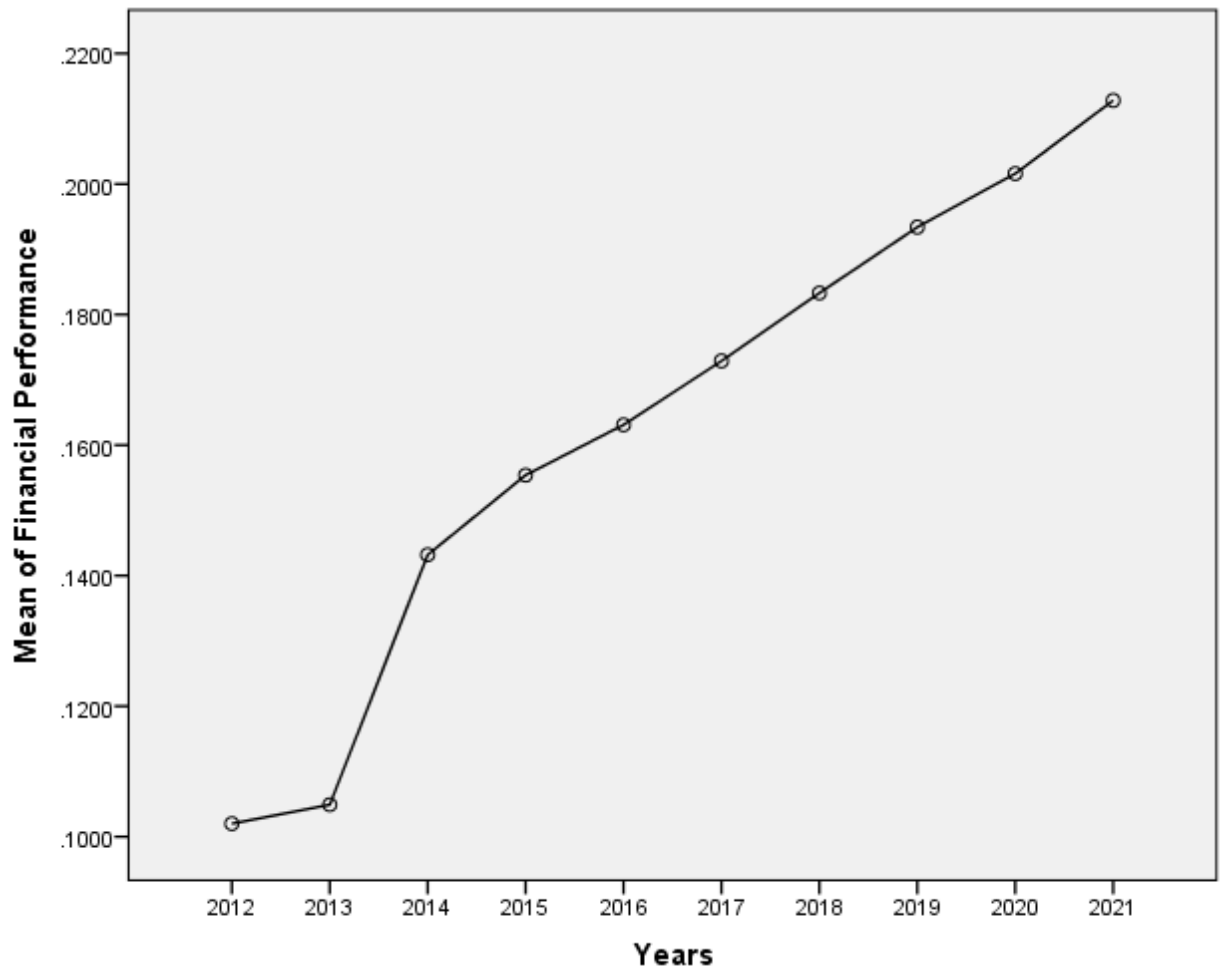


Figure 4.6 Financial Performance Trend

4.5.2 Government Revenue

Over the study period government revenue has kept rising with the highest mean of government revenue recorded in 2021 and the lowest recorded in 2012. Hence, over the investigation timeframe, the rigorous and extensive analysis posts a steady increment on the government revenues without great changes. As a result, the in-depth scrutiny posits that there were no erratic variations. The outcome is well documented under figure 4.7.

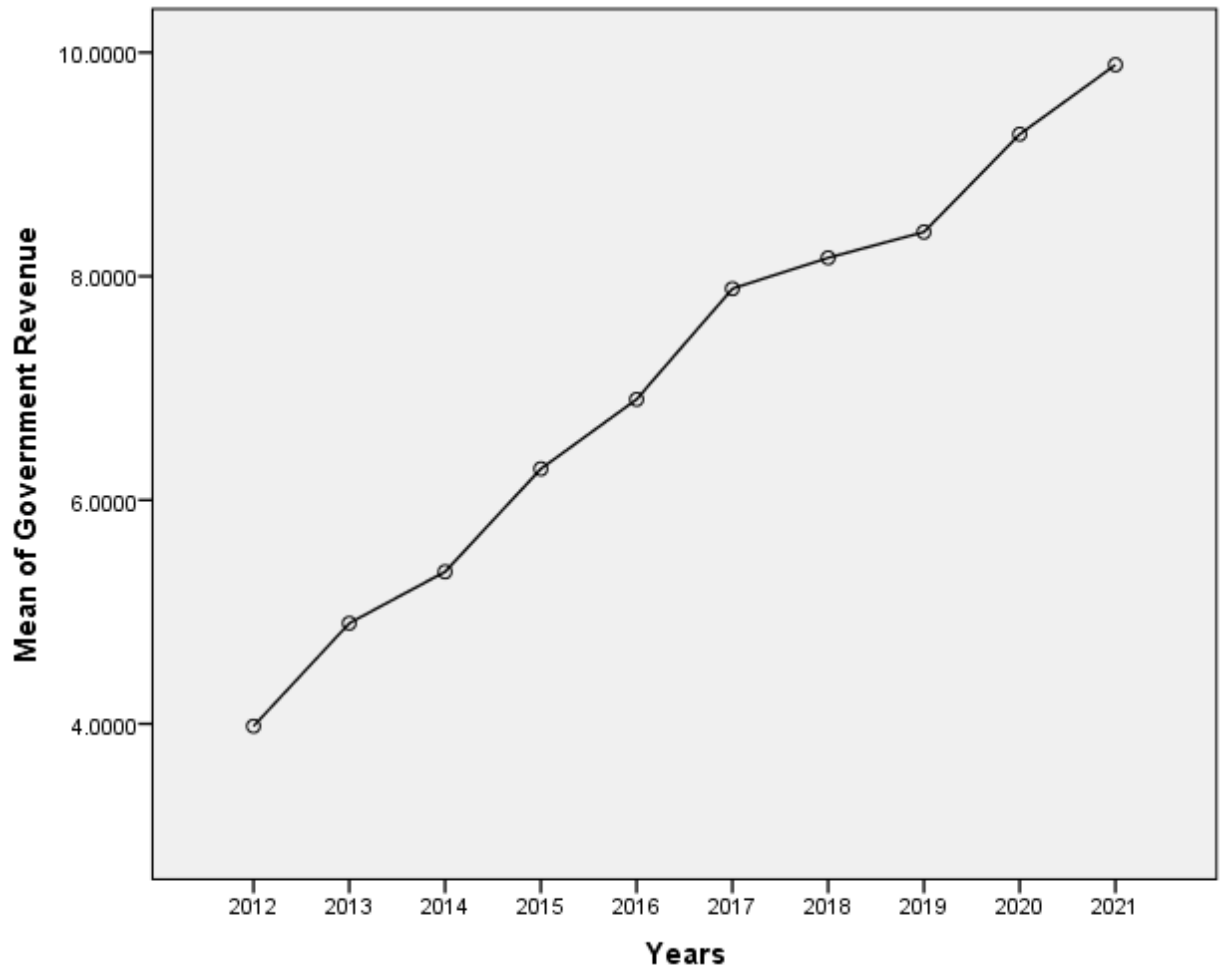


Figure 4.7 Government Revenue Trend

4.5.3 GDP Ratio

GDP trend was fundamental for expounding the logical sequence and variation of GDP over the study's time span. The GDP ratio as seen in the trend analysis in figure 4.8 below shows the fluctuations of ratio. At one point the trend went up while at other points it went down. It is imperative to state that GDP was rising from 2012-2014 and declined 2015-2018 before rising again in 2019 and fall back in 2020-2021.

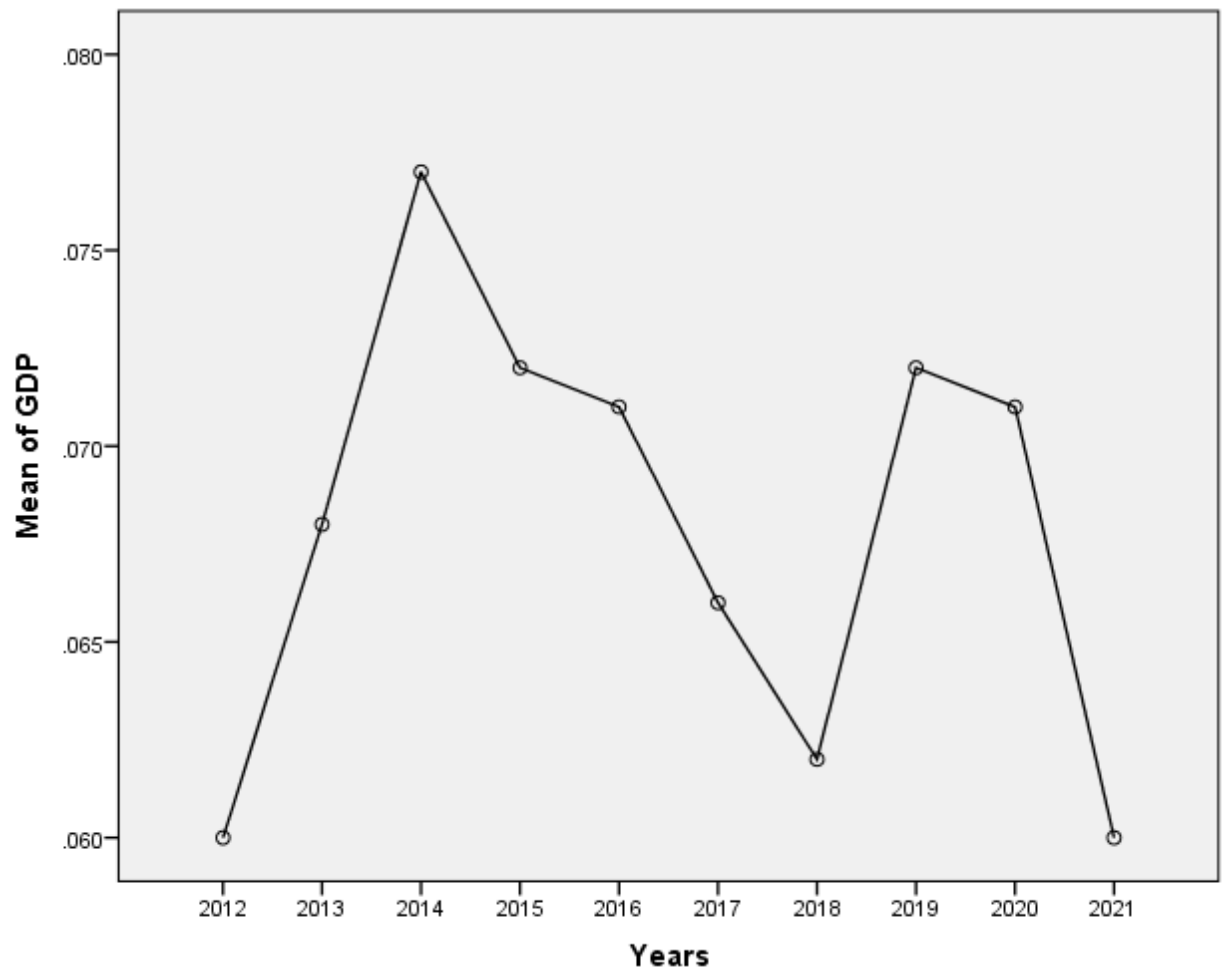


Figure 4.8 GDP Trend

4.5.4 Government Expenditure

It is paramount to note that expenditure exhibited erratic and drastic deviation. It is noteworthy that the trend analysis below in figure 4.9 shows fluctuating mean of government expenditure. At one point, the trend declined 2012-2014 as well as 2018-2019 while at some point it went up 2015-2018 and 2019-2021.

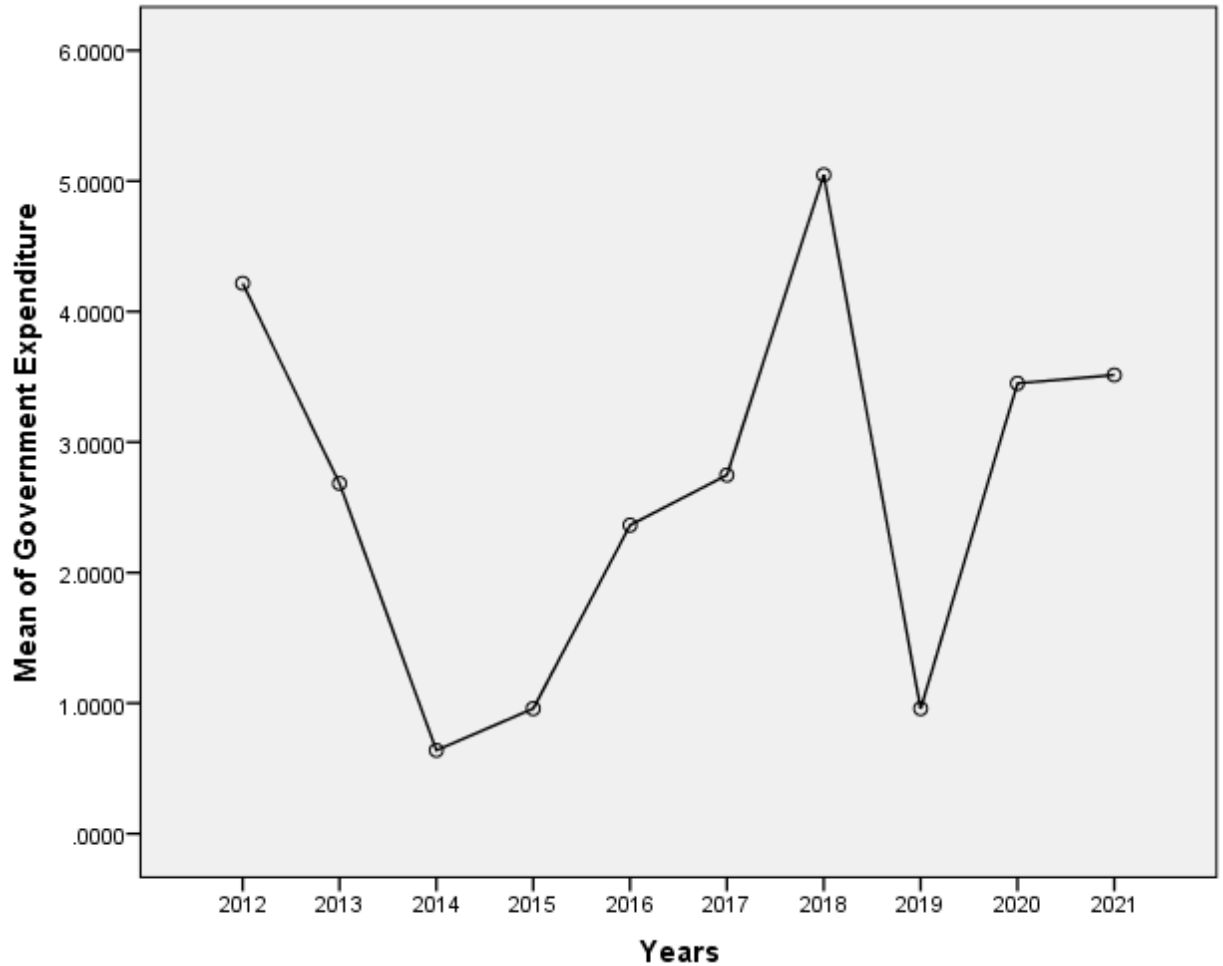


Figure 4.9 Government Expenditure Trend

4.5.5 Debt Ratio

The debt ratio fluctuates also with highest debt percentage recorded in 2015 while the lowest foreign debt taken was in 2016. Debt posted a varying, drastic and erratic changes for example 2012-2013 decreased substantially. Additionally, 2014-2015 increased periodically while 2015-2016 decreased drastically. Moreover, 2016-2018 increased whereas 2018-2021 was fluctuating. Importantly, the dataset exhibited unpredictable changes as stipulated by figure 4.10

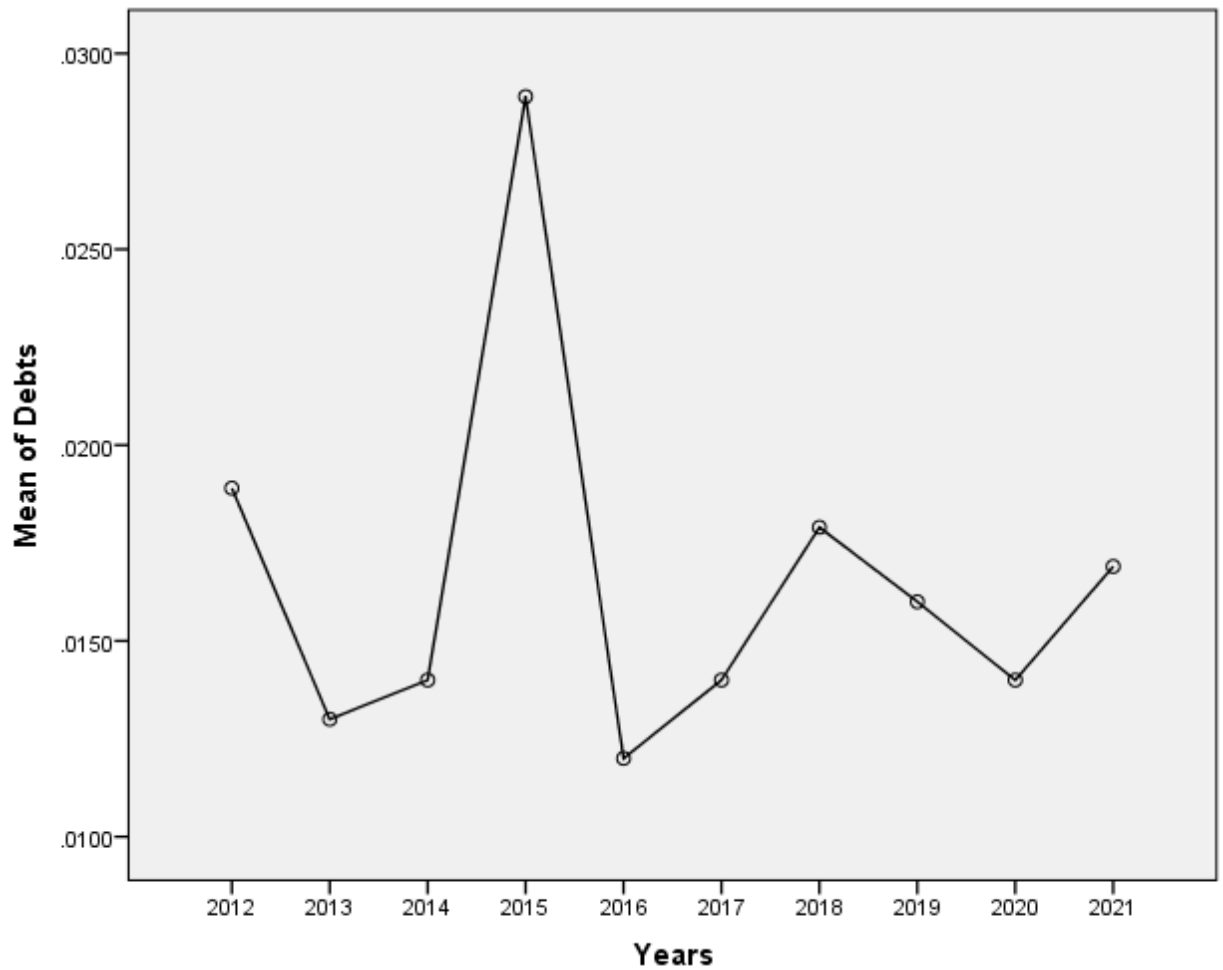


Figure 4.10 Debt Ratio Trend

4.6 Regression Analysis.

The extensive regression was pivotal in the expansion of knowledge, organized outcomes and objective scientific inquiry aiding determination of exactitude and association. Consequently, the exhaustive analysis demands for in-depth sophisticated computation to delineate the magnitude as well as the direction of movement. Therefore, quantification of dataset was done to explain association, significance and a framework for predicting future. As a consequence, researcher carried out the linear regression computation. The prime objective of doing so was to help in generation of a modelling equation that was important for predicting the future given the mentioned variables. This is well represented in the computations below.

4.6.1 Model summary

The model summary table 4.5 below postulates the existence of a very strong positive correlation of 97.6% among the variables. The correlation coefficient 0.953 implied that 95.3% of change in the financial performance of the banking sector in Kenya was as a result of foreign debt, Government Expenditure, Government Revenue and the GDP ratio. This findings further showed that 4.7% of change in financial performance was a result of other factors not captured in this study.

Table 4.5 Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.976 ^a	.953	.947	.0081956	.626

a. Predictors: (Constant), Debts, Government Expenditure, Government Revenue, GDP

b. Dependent Variable: Financial Performance

4.6.2 ANOVA

The ANOVA table 4.6 below elucidates that the model applied in this examination study was statistically significant or not. The findings accentuates that the sum of square regression was 0.47 and its mean square was 0.012 with 4 degrees of freedom. Sum of square residual was 0.002 and its mean square was 0.000 with 35 degrees of freedom. As a consequence, the F-Statistics was 176.217 and the significance value was $0.000 < p=0.05$. This findings implied that the model was statistically significant hence applicable, meaningful and useful for predicting the future of the financial performance.

Table 4.6 ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	.047	4	.012	176.217	.000 ^b
1	Residual	.002	35	.000		
	Total	.050	39			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Debts, Government Expenditure, Government Revenue, GDP

4.6.3 Model coefficients

The model coefficient in table 4.7 below posts the size and the direction each variable had on the financial performance. If all the factors in this research computation are held at constant, there is a 3.3% increase in the financial performance. Government revenue proved to have positive and statistically significant effect on the financial performance as seen in ($\beta=0.018$; $p=0.000 < 0.05$). GDP depicted a positive but insignificant effect on the financial performance as seen in ($\beta=0.076$; $p=0.728 > 0.05$). Both Government

Expenditure and the debts negatively affected the financial performance. Government expenditure showed negative and statistically significant effect on the dependent variable seen in the results ($\beta=-0.002$, $p=0.034<0.05$). Debts registered negative and statistically insignificant effect on financial performance seen in ($\beta=-0.001$; $p=0.997>0.05$)

Table 4.7 Coefficients of Determination

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig. 95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error			Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	.033	.017		1.982	.055-.001	.067		
Government Revenue	.018	.001	.972	26.337	.000-.017	.020	.993	1.007
1GDP	.076	.218	.013	.350	.728-.366	.519	.980	1.020
Government Expenditure	-.002	.001	-.081	-2.204	.034-.004	.000	.999	1.001
Debts	-.001	.238	.000	-.003	.997-.484	.482	.983	1.017

a. Dependent Variable: Financial Performance

Cognizance of the outcome from the mathematical model in table 4.7; the autonomous value whenever all factors are held unchanged was 0.033 hence opining that financial performance increased at positive 3.3%. Moreover an improvement in the government revenue by one unit triggered an increment in the financial performance by 1.8% significantly when all determining factors held constant. Additionally, an advancement in the GDP by solitary unit translated to addition of financial performance by 7.6% when all variable are maintained unchanged though insignificant. Additionally, a unitary

increment in the government expenditure translated to significant decrement on the financial performance by 0.2% only when all factors are maintained unchanged. Moreover, addition of one unit of debts replicated a decrease in the financial performance by 0.1% which insignificant in the scenario where other factors are held constant. Grounded on the above outcome researcher developed a mathematical model as;

$$Y = 0.033 + 0.018X_1 + 0.076X_2 - 0.002X_3 - 0.001X_4$$

Nevertheless, in recognition of the significance testing and to give meaningful, credible and conclusive outcome, it is imperative to drop insignificant elements from the equation. Hence the summary can well-captured as;

$$Y = 0.033 + 0.018X_1 - 0.002X_3$$

Whereby:

Y = Financial Performance (Measured by ROA)

X₁ = Government Revenue ($\beta=0.018$; $p=0.000 < 0.05$)

X₂ = GDP ($\beta=0.076$; $p=0.728 > 0.05$)

X₃ = Government Expenditure ($\beta=-0.002$, $p=0.034 < 0.05$)

X₄ = Debts ($\beta=-0.001$; $p=0.997 > 0.05$)

ε = error term

4.7 Discussion of the Findings

The descriptive analysis showed that the research study covered a period of 10 years; 2012 to 2021. The Financial performance in that period registered an average of 0.1678% with a standard deviation of 0.0357. Government revenue recorded an average of 0.07404

while GDP ratio was at 0.0694. The findings further posit that the government expenditure posted a mean of 3.097 while the debt average for the 10 years was 0.0192. From comprehensive analysis of standard deviation the examination portrayed minimal variability from the average hence the data set was credible and meaningful.

Empirically, the preceding studies have coined several mixed outcomes. According to Munyanga (2014) fiscal policies enhanced uniformity, standardization and triggers increment in the financial performance. Therefore the study nailed that government revenue posts substantial positive effect on the financial performance hence agreeing with the current study. However, it also opined a positive interrelation amid government expenditure and financial performance hence disagreeing with this study. Additionally, Ogbole, Amadi and Essi (2013) concluded that fiscal policy enhanced stewardship progress. As a result in increase in government expenditure causes significant improvement of financial performance among firms hence disapproving the current results.

Moreover, Afonso and Sousa (2021) posits that struggling countries have experienced borrowing spree accompanied by unplanned expenditure hence causing inverse connection with the financial performance hence concurring with current results. Onyekach (2013) elucidates that maximization of government policy is the chief cornerstone for financial performance among firms hence consistent with the prevailing study. In addition, Ishaq and Mohsin (2015) opined that continuous budget deficit is replicated on poor financial performance among firms. Nevertheless, Harelimaana (2017) projects that debts correspond positively to the financial performance since there is

available cash borrowed to reap from speculative opportunities hence inconsistent with study's outcome.

Moreover, the correlation analysis opined that government revenue and debts depicted positive correlation towards financial performance. Therefore, the government revenue exhibited a very strong positive correlation with the financial performance (dependent variable of $r=0.973$). GDP and Government expenditure pointed weak negative correlation towards the financial performance. According to Wachira (2017) correlation analysis is the epicenter for exhaustive examination.

In the normality test carried out by the researchers, all the data in this research displayed that they had been obtained from a normally distributed population. This was seen in observable traits pinpointing distribution along the straight line. The regressor variable proved to have no multicollinearity issue since the tolerance values of each variable were greater than 0.2 while the VIF values were less than 10 hence concurring with Ahmad and Mazlan (2015).

The regression coefficient showed that both Government expenditure and debts had negative effect on the financial performance while government revenue and GDP ratio had positive effect on the dependent variable. This findings culminated into a mathematical equation $Y = 0.033 + 0.018X_1 + 0.076X_2 - 0.002X_3 - 0.001X_4$ that can be used in predicting the financial performance of the banking sector in Kenya given the variables; Debts, Government Expenditure, Government Revenue and GDP.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter is a lifeblood for in-depth deliberation of inferences in a logical and systematic manner. This part instantiates the conclusion of the examination while at the same time presenting a summarized results on the fiscal policy and financial performance. Additionally, it is imperative to note that this study goes further for recommendation policies and practices. Nevertheless, the limitation of the study are well-stipulated. Subsequently, suggestion of extensive study is reinforced in this section. It highlights the gaps and systematic process of bridging them.

5.2 Summary

The assessment was geared towards analysis of fiscal policy versus the performance of banks in Kenya. Therefore, the examination unveiled government revenues, GDP, government expenditure, debts as the predictor variables. Moreover, the financial performance was stated as the regressed variables. Consequently, the rigorous calculations were undertaken to help explain the existing relationship. Furthermore, the research wanted to give opinion on the practices useful for keep the firm buoyant.

Therefore, descriptive statistics opined that financial performance posted SD of 0.0357 whereas government revenue 1.899. Additionally, GDP 0.006076, government expenditure and 1.5751 and Debts 0.0055 hence posting minimal variability. Additionally, from the regression analysis, it was evident that the study variables posted a strong correlation of 97.6%. The correlation coefficient value 0.953, depicted that 95.3% variation of the financial performance of the banking sector was as a result of the foreign debt, Government Expenditure, Government Revenue and the GDP ratio while, the

remaining 4.7% in the dependent variable was caused by factors not listed in this research. The ANOVA test showed that the model was statistically significant in that sig value obtained $0.000 < p = 0.05$.

From the researcher's outcome an advancement in the government revenue by one unit translated to significant positive change in the financial performance by 1.8% if all determining variable maintained constant. Afonso and Sousa (2021) posit that developing nature have difficulties in collecting sufficient revenues. Munyanga (2014) concluded that government revenue has positive and substantial interconnection with the financial performance hence this concurred with the current findings.

From the results, an increment in the GDP by single unit caused the addition of financial performance by 7.6% when all variables are kept unchanged though insubstantial. This is associated with sound financial state of country enhancing the financial performance of the company. Furthermore, Wachira (2019) posits that GDP growth is replicated on the state, advancement and stability of business in a nation hence consistent with the current study. Moreover, Ishaq and mahzin (2015) contradicted the study by defining a significant positive association.

In addition, the outcome stated that one increment in the government expenditure triggered significant decrement on the financial performance by 0.2% only when all factors are maintained unchanged. Moreover, Onyekachi (2013) opined that government expenditure increases the financial stability of business thereby contradicting this outcome. It was justified that prudent government's capital expenditure builds the holistic platform thereby increasing the financial performance. Contrary to that, Ogbole, Amadi

and Essi (2011) posits that good policies creates uniformity and transparency in the expenditure hence can be replicated on the financial performance of the businesses.

The other pivotal outcome posits that, addition of one unit of debts is replicated on decrease in the financial performance by 0.1% though it is insignificant when other factors are kept constant. Therefore debts increase obstruction in the economy system hence causing poor financial performance of the bank sector. Nonetheless, the findings by Burger, Stuart, Jourste and Cuevas (2012) posits that increase in debts is an indicator of maximization of borrowed funds in reaping immensely from the prevailing opportunities. Hatem (2017) posted concurred with the study by indicating that government debts creates several challenges among developing businesses.

5.3 Conclusion

The research undertook comprehensive process of assembling data from KNBS, CBK and NSE to enhance seamless flow of analysis. The computation was pivotal in realization of concrete outcome which was fundamental for sound judgment. As a consequence, the data collected were passed through extensive arithmetic computation through SPSS. Hence, the descriptive analysis, trend calculation and inferential statistics were the chief pointers of this study. From in-depth viewpoint, the outcome were credible for conclusive and exhaustive findings.

Consequently, the diagnostic analysis were hastened to ensure dataset met the mandated threshold and appearance. From diagnostic analysis the dataset met required standard clearing dataset for further analysis. From Q-Q plots all the phenomena considered adhered to normal distribution pattern by following the straight line. Moreover, there was absence of multicollinearity issues since VIF was below 10 and Tolerance was higher

than 0.2. Wachira (2017) concluded that sequential and logical analysis is supported by data free from abnormalities and multicollinearity obstructions.

The findings indicated that if all the factors are held stable without changes, an increase in financial performance of banking sector was at 3.3%. The increase in the single unit of the government revenue triggered a positive adjustment in the financial performance by 1.8% only when other factors were held constant. Furthermore, the addition in the GDP caused a corresponding insignificant increase in the financial performance by 7.6% only if other variables are held constant. In addition, a unitary increment in the government expenditure by singular unit caused a reciprocal decrease in the financial performance by 0.2% whenever all factors are kept constant. Subsequently, adding government debts by single unit translated to complementary though insignificant decrease on the financial performance. Based on the above it is imperative to state that the general mathematical is;

$$Y = 0.033 + 0.018X_1 + 0.076X_2 - 0.002X_3 - 0.001X_4$$

According to Chechet and Olayiwola (2014) significance testing is paramount in credible, accurate and dependable solution. Hence it is worth dropping the insignificant value from the multiple linear regression. Hence this can be elaborated as;

$$Y = 0.033 + 0.018X_1 - 0.002X_3$$

Whereby:

Y = Financial Performance (Measured by ROA)

X₁ = Government Revenue ($\beta=0.018$; $p=0.000 < 0.05$)

X₂ = GDP ($\beta=0.076$; $p=0.728 > 0.05$)

$X_3 = \text{Government Expenditure } (\beta=-0.002, p=0.034<0.05)$

$X_4 = \text{Debts } (\beta=-0.001; p=0.997>0.05)$

5.4 Recommendation for Policy and Practice

The exhaustive study is chiefly done to create a bold picture of different variables such as government revenue, GDP, government expenditure and debts for banking sector. The study recommends for quality fiscal policies guiding the management of government revenue. Hence this examination recommends for digital collection of revenues and closing of all existing loopholes. Additionally, the government should always strategies means of enhancing tax collection, educating citizens as well as clearing holistic environment for business to drive.

In addition; government should expedite policy and visionary that guide the economic growth. Subsequently, good strategize and visionary policy makers, planners, investment analyst and entrepreneurs should be part of national planning to enhance the economic transformation. Meanwhile, the incentives for entrepreneurship should be rolled out to hasten the economic growth. As a result, longevity strategies and counteractive techniques should be formulated to curb the external forces.

The government expenditure should major on the capital investment maximum returns. Therefore, the financial analyst should always advise the government on key areas requiring minimal investment with large-scale return. This can be replicated in the banking sector hence remaining buoyant in the market. More importantly, injection of revenue with chief mandate of enhancing wealth is a lead way towards prosperity.

The government debts have been misappropriated since time immemorial hence causing severe failure among the business. Additionally, this has eroded the value of currency, promoted inflation and caused deviation in prices and majorly on the energy sector. Based on the outcome, the study recommends detachment from the borrowing spree. Moreover, the government should only borrow for high return development and not recurrent expenditure. In addition, the budgeting and planning should be expedited before borrowing, followed by channeling the funds to projects without diversions.

In a nutshell, the banking sector should screen the viable opportunities and invest in high income generating projects. Moreover, analyzing the external environment is a game changer among the banking sector since they can plan accordingly and adequately. In addition, keen scrutiny of fast-changing commercial environment can enhance the achievement of long term goals. Hence futuristic planning can create a robust growth and intensification of performance. Moreover, elimination of wasteful process and channeling money to key economic platforms can enhance performance of banking sector.

5.5 Limitations of the study

The study focused on the banking sector hence pivotal point was small sector in the economy. Hence, this examination advocate for more research on other sector of the economy such as investment and energy. Moreover, the data was captured from secondary means hence did not capture primary data. Secondary data is prone to errors, however, the researcher reviewed to ensure accuracy of the findings

5.6 Suggestions for Further Study

The research recommends for change of methodology to increase apprehension by using content analysis. This possible through interviewing top management to get their

organizational viewpoint and the strategies expedited. The research on fiscal policies versus dividend payment, fiscal policies versus the economic growth as well analysis effect of external debts on the stock prices can be expedited. To wrap-up, an extensive study can be hastened through investigation of microfinance firms.

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APPENDICES

Appendix I: List of Commercial Banks

Name of Commercial Bank	
ABSA Bank Kenya	
Access Bank Kenya	
African Banking Corporation Limited	
Bank of Africa Kenya Limited	
Bank of Baroda (K) Limited	
Bank of India	
Citibank N.A Kenya	
Consolidated Bank of Kenya Limited	
Co-operative Bank of Kenya Limited	
Credit Bank Limited	
Development Bank of Kenya Limited	
Diamond Trust Bank Kenya Limited	
DIB Bank Kenya Limited	
Ecobank Kenya Limited	
Equity Bank Kenya Limited	
Family Bank Limited	
First Community Bank Limited	
Guaranty Trust Bank (K) Ltd	
Guardian Bank Limited	
Gulf African Bank Limited	

Habib Bank A.G Zurich	
I&M Bank Limited	
Kingdom Bank Limited	
KCB Bank Kenya Limited	
Mayfair CIB Bank Limited	
Middle East Bank (K) Limited	
M-Oriental Bank Limited	
National Bank of Kenya Limited	
NCBA Bank Kenya PLC	
Paramount Bank Limited	
Prime Bank Limited	
SBM Bank Kenya Limited	
Sidian Bank Limited	
Spire Bank Ltd	
Stanbic Bank Kenya Limited	
Standard Chartered Bank Kenya Limited	
UBA Kenya Bank Limited	
Victoria Commercial Bank Limited	

Appendix II: Data Collection Instrument for Quarterly

Years	Quarters	ROA	Government Revenue	GDP	Government Expenditure	Debts
2012	1	0.1020	3.9790	0.060	4.2167	0.0110
	2	0.1021	4.0940	0.060	2.3639	0.0130
	3	0.1027	4.4390	0.079	3.2584	0.0150
	4	0.1044	4.8070	0.077	3.8973	0.0249
2013	1	0.1049	4.8990	0.068	2.6834	0.0130
	2	0.1063	5.3590	0.071	5.4306	0.0130
	3	0.1317	5.3590	0.072	3.8973	0.0140
	4	0.1360	5.3590	0.078	4.3445	0.0209
2014	1	0.1432	5.3590	0.077	0.6389	0.0150
	2	0.1475	5.4740	0.077	1.0222	0.0179
	3	0.1524	5.9340	0.061	0.6389	0.0209
	4	0.1550	6.0490	0.069	4.4084	0.0100
2015	1	0.1554	6.2790	0.072	0.9583	0.0219
	2	0.1570	6.2790	0.073	1.1500	0.0219
	3	0.1572	6.7160	0.060	2.3000	0.0120
	4	0.1603	6.8540	0.073	5.2389	0.0279
2016	1	0.1631	6.9000	0.071	2.3639	0.0179
	2	0.1646	7.0840	0.072	5.4945	0.0110
	3	0.1669	7.2450	0.069	4.7917	0.0140

	4	0.1696	7.8200	0.064	2.7473	0.0199
2017	1	0.1729	7.8890	0.066	2.7473	0.0259
	2	0.1752	7.9350	0.068	4.4723	0.0249
	3	0.1757	8.0040	0.075	5.6862	0.0169
	4	0.1781	8.1190	0.060	1.9806	0.0110
2018	1	0.1833	8.1650	0.062	5.0473	0.0299
	2	0.1845	8.2800	0.069	4.9834	0.0169
	3	0.1869	8.2800	0.060	4.4084	0.0259
	4	0.1895	8.3490	0.077	1.2778	0.0259
2019	1	0.1934	8.3950	0.072	0.9583	0.0239
	2	0.1952	8.6250	0.062	1.2778	0.0259
	3	0.1988	8.9700	0.063	2.9389	0.0209
	4	0.2011	9.0850	0.076	0.9583	0.0299
2020	1	0.2016	9.2690	0.071	3.4500	0.0150
	2	0.2040	9.4300	0.074	3.8334	0.0229
	3	0.2092	9.5450	0.077	5.1751	0.0199
	4	0.2104	9.7290	0.069	1.2139	0.0229
2021	1	0.2128	9.8900	0.060	3.5139	0.0169
	2	0.2154	10.1200	0.075	2.2361	0.0249
	3	0.2193	10.6490	0.070	3.7056	0.0130
	4	0.2211	11.1550	0.069	2.1722	0.0299