THE EFFECT OF MONETARY POLICIES ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA: A CASE STUDY OF KCB BANK, EMBU BRANCH

BY

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DECLARATION

I **RUTH KAHUHA .N.**, declare that the dissertation presented to Kampala International University is my original work and has never been submitted to any institution/organisation for any award.

Signature ....

RUTH KAHUHA

Date ....6th Dec....2010:........

APPROVAL

This work has been done under my supervision as an institution supervisor and submitted with my Approval.

Signature ....

Supervisor............... PROF. OLWOOR SINBAG-

Date ..2/12/10..........................

DEDICATIONS

I dedicate this research work to my late parents, Guardian Ms. Beth Runo, my sister Keziah Kahuha, Danny Kangi, Naomi Ndauwa, for their effort and contribution towards completion of my study.

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LIST OF ACRONYMS

CBR	-	Central Bank Rate
KCB	-	Kenya Commercial Bank
MPC	-	Monetary Policy Committee

ABSTRACT

The study sought to establish the effect of monetary policies on the performance of commercial banks. The goal of monetary policy was to maintain the value of the coinage, print notes which would trade at par to specie, and prevent coins from leaving circulation. The establishment of central banks by industrializing nations was associated then with the desire to maintain the nation's peg to the gold standard, and to trade in a narrow band with other gold-backed currencies

To achieve these objectives the researcher sampled the study population, which involved the Finance Department from KCB Bank, Embu Branch, and its employees. The researcher selected a sample size of (30) thirty respondents from KCB Bank both Employees and Clients from a target population of (300) three hundred respondents.

The major finding of the study was that as a result of the development of a modern records system, enhanced training and seminars for bank personnel, lowering government debt, forecasting money demand and diminishing political interference amongst other sound factors would help the banking industry in developing effective monetary policies that could be reflected on economic trends and projections.

The major recommendation is that KCB bank should consider Merging banking, investment, and insurance functions this will increase consumer demands for "one-stop shopping" by enabling cross-selling of products thus increasing profitability.

CHAPTER ONE

1.0 Introduction

The study focused on the effect of monetary policies on the performance of commercial banks this chapter presents the background of the study, Problem statement, Objectives of the study, research questions, scope of the study and significance of the study.

1.1 Background of the Study

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda. The next major change in the Bank's history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans.

In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. In 1972, Savings & Loan (K) Ltd was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) Limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross-border trading. Since then, the subsidiary has 10 branches. In pursuit of its Vision: To be the preferred financial solutions provider in Africa with a global reach by 2013, in May 2006 KCB extended its operations to Southern Sudan to provide conventional banking services. The subsidiary has six branches. The latest addition into the KCB Family came in November 2007 with the opening of KCB Bank Uganda Limited, which has eleven branches. In December 2008 KCB Rwanda began operations with one branch at Kigali. There are currently 11 branches spread out in the country. The Government has over the years reduced its shareholding to 35% and more recently to 26.2% following the rights issue exercise in 2004, which raised KShs 2.45 billion in additional capital for the bank. In the second Rights Issue exercise held in the year 2008, the Government further reduced its shareholding to 23.1% after raising additional capital for kshs 5.5billion.

The goal of monetary policy was to maintain the value of the coinage, print notes, which would trade at par to specie, and prevent coins from leaving circulation. The establishment of central banks by industrializing nations was associated then with the desire to maintain the nation's peg to the gold standard, and to trade in a narrow band with other gold-backed currencies. Monetary policy can be implemented by changing the size of the monetary base. This directly changes the total amount of money circulating in the economy. Central bank can use open market operations to change the monetary base. The central bank would buy/sell bonds in exchange for hard currency. When the central bank disburses/collects this hard currency payment, it alters the amount of currency in the economy, thus altering the monetary base.

The Monetary Policy of the Central Bank prepares the Monetary Policy Statement for the next twelve months specifying the policies and the means by which the Bank intends to achieve the policy targets; the reasons for adopting such policies and means; and a review and assessment of the progress of the implementation by the Bank of monetary policy during the period to which the preceding policy statement relates.

1.2 Statement of the problem

Commercial banking is a type of financial intermediary also known as business banking. It is a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits. The Central Bank's principal object is formulation and implementation of monetary policy directed to achieving and maintaining stability in the general level of prices. The aim is to achieve stable prices that are low inflation and to sustain the value of the Kenya shilling. Following amendments to the Kenyan law, Section 4 paragraph (4) provides that the Minister for Finance may by notice in writing to the Bank set the price stability targets of the Government. The key aim of monetary policy for most central banks is to keep inflation low and steady.

However in a market-oriented economy, central banks cannot control inflation directly. They have to use instruments such as interest rates, the effects of which on the economy are uncertain. And they have to rely on incomplete information about the economy and its prospects. Some central banks use money growth or the exchange rate as intermediate targets to guide policy decisions. Others take a more eclectic approach and consider a range of factors. Monetary policy has occupied much time of the world's most distinguished economists over the years this was expressed by the head of Finance Department at KCB Mr. Tolo (2010).

The researcher through observation and inquiry observes that the problem with the monetary policy is that of dollarization, money has nothing physical to define its value, but that fractional reserve lending of that money as a debt to the recipient, rather than a credit, causing all but a small proportion of society including all governments to be perpetually in debt. Therefore the study examined the effect of monetary policies on the performance of commercial banks in Kenya with regard to the inflation target, which is achieved through periodic adjustments of the Central Bank interest rate where the interest rate is in response to changes in the inflation rate and the output gap.

1.3 General objective of the Study

The General objective of the study was to establish the effect of monetary policies on the performance of Commercial Banks in Kenya.

1.4 Specific Objectives

Specifically it is supposed to:

1. Analyze the existing effect of monetary policies on the performance of KCB Bank, Embu Branch.
2. Assess the challenges faced by the effect of monetary policies on the performance of KCB Bank, Embu Branch.
3. Identify the possible solutions of how to improve the challenges faced by monetary policies on the performance of KCB Bank, Embu Branch.

1.5 Research Questions

1. What is the existing effect of monetary policies on the performance of KCB Bank, Embu Branch?
2. What are the challenges faced by the effect of monetary policies on the performance of KCB Bank, Embu Branch?
3. What are the possible solutions of how to improve the challenges faced by monetary policies on the performance of KCB Bank, Embu Branch?

1.6 Scope of the Study

The study covered an investigation on the effect of monetary policies on the performance of commercial banks with regard to KCB Bank, Embu Branch that is situated in Embu Town. KCB Bank is one of the region's leading banks whose purpose is to transform the lives and livelihoods of the people of Africa socially and economically by availing them modern, inclusive financial services that maximize their opportunities. The research took a period of eight months from May 2010 to December 2010. The content scope of the study dwelt on the Theoretical framework, Nature of monetary policy and Tools for implementing monetary policy.

1.7 Significance of the Study

There is a greater hope that the study will be a source of a great experience and a contribution to the academic career of the researcher as it is in partial fulfilment for the requirement of a Degree in Business Management. The results of the study will be useful to future researchers who might be interested in a related field, which could adopt the study for their future citations and referencing.

CHAPTER TWO
REVIEW OF RELATED LITERATURE

2.0 Introduction

In this chapter, the literature review will be based and linked to the research objectives of the study with a view of various scholars whereby an analysis of the effect of monetary policies on the performance of commercial banks will be conducted however there is limited literature on this area of research.

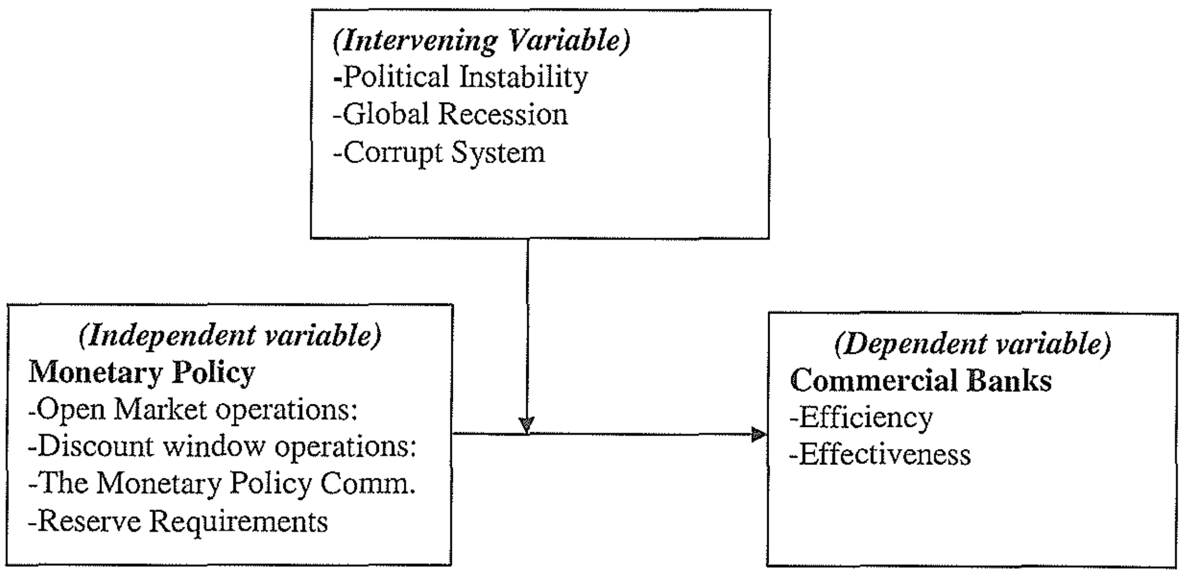
2.1 Theoretical Review

Monetary policy is the process by which the government, central bank, or monetary authority of a country controls the supply of money, availability of money, and cost of money or rate of interest to attain a set of objectives oriented towards the growth and stability of the economy. Monetary theory provides insight into how to craft optimal monetary policy. Athanasios Orphanides (2008).

Monetary policy rests on the relationship between the rates of interest in an economy, that is the price at which money can be borrowed, and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks, which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals). Athanasios Orphanides (2008).

The beginning of monetary policy as such comes from the late 19th century, where it was used to maintain the gold standard. A policy is referred to as contractionary if it reduces the size of the money supply or raises the interest rate. An expansionary policy increases the size of the money supply, or decreases the interest rate. Furthermore, monetary policies are described as follows: accommodative, if the interest rate set by the central monetary authority is intended to create economic growth; neutral, if it is intended neither to create growth nor combat inflation; or tight if intended to reduce inflation. Athanasios Orphanides (2008).

2.2 Conceptual Framework



Source: Author 2010

The conceptual framework indicates that through open market operations, the Bank buys or sells securities in the secondary market in order to achieve a desired level of Bank reserves. Alternatively, the Bank injects money into the economy through buying securities in exchange for money stock. As the law of supply and demand takes effect to determine the cost of credit (interest rates) in the money market, money stock adjusts itself to the desired level. This process influences availability of money in the economy.

Discount window operations: The Bank, as lender of last resort, may provide secured short-term loans to commercial banks on overnight basis at punitive rates, thus restricting banks to seek funding in the market resorting to Central Bank funds only as a last solution. The discount rate is set by the Central Bank to reflect the monetary policy objectives.

Reserve Requirements: The Central Bank is empowered by the law to retain a certain proportion of commercial banks' deposits to be held as non-interest bearing reserves at the Central Bank. An increase in reserve requirements restricts commercial banks ability to expand bank credit and the reverse is regarded as credit easing.

The Monetary Policy Committee (MPC) of the Bank sets the rate of interest at which the Central Bank charge on loans to commercial banks. This rate referred to as the Central Bank Rate (CBR). The rate signals the monetary policy stance of the Bank.

2.3 Review of Related Literature

Monetary policy is primarily associated with interest rate and credit. For many centuries there were only two forms of monetary policy: Decisions about coinage; Decisions to print paper money to create credit. Interest rates, while now thought of as part of monetary authority, were not generally coordinated with the other forms of monetary policy during this time. Sullivan et.al (2003).

Therefore, monetary decisions today take into account a wider range of factors, such as: short term interest rates; long term interest rates; velocity of money through the economy; exchange rates; credit quality; bonds and equities (corporate ownership and debt); government versus private sector spending/savings; international capital flows of money on large scales; financial derivatives such as options, swaps, futures contracts, etc. Sullivan et.al (2003).

2.4 Tools for implementing monetary policy

There are several monetary policy tools available to achieve these ends: increasing interest rates by fiat; reducing the monetary base; and increasing reserve requirements. All have the effect of contracting the money supply; and, if reversed, expand the money supply. Since the 1970s, monetary policy has generally been formed separately from fiscal policy. Even prior to the 1970s, the Bretton Woods system still ensured that most nations would form the two policies separately.

The primary tool of monetary policy is open market operations. This entails managing the quantity of money in circulation through the buying and selling of various financial instruments, such as treasury bills, company bonds, or foreign currencies. All of these purchases or sales result in more or less base currency entering or leaving market circulation. Usually, the short-term goal of open market operations is to achieve a specific short-term interest rate target. In other instances, monetary policy might instead entail the targeting of a specific exchange rate relative to some foreign currency or else relative to gold. Fratianni, et.al (2009).

other primary means of conducting monetary policy include: Discount window lending (lender of last resort); Fractional deposit lending (changes in the reserve requirement); Moral suasion (cajoling certain market players to achieve specified outcomes); "Open mouth operations" (talking monetary policy with the market). Bernanke (2006).

2.4.1 Fixed exchange rate

This policy is based on maintaining a fixed exchange rate with a foreign currency. There are varying degrees of fixed exchange rates, which can be ranked in relation to how rigid the fixed exchange rate is with the anchor nation. Under a system of fiat fixed rates, the local government or monetary authority declares a fixed exchange rate but does not actively buy or sell currency to maintain the rate. Instead, the rate is enforced by non-convertibility measures (e.g. capital controls, import/export licenses, etc.). In this case there is a black market exchange rate where the currency trades at its market/unofficial rate. Rothbard, et.al (2003).

Under a system of fixed-convertibility, currency is bought and sold by the central bank or monetary authority on a daily basis to achieve the target exchange rate. This target rate may be a fixed level or a fixed band within which the exchange rate may fluctuate until the monetary authority intervenes to buy or sell as necessary to maintain the exchange rate within the band. (In this case, the fixed exchange rate with a fixed level can be seen as a special case of the fixed exchange rate with bands where the bands are set to zero.) Edward (2007)

Under a system of fixed exchange rates maintained by a currency board every unit of local currency must be backed by a unit of foreign currency (correcting for the exchange rate). This ensures that the local monetary base does not inflate without being backed by hard currency and eliminates any worries about a run on the local currency by those wishing to convert the local currency to the hard (anchor) currency. Bernanke (2006)

Under dollarization, foreign currency (usually the US dollar, hence the term "dollarization") is used freely as the medium of exchange either exclusively or in parallel with local currency. This outcome can come about because the local population has lost all faith in the local currency, or it may also be a policy of the government (usually to rein in inflation and import credible monetary policy). These policies often abdicate monetary policy to the foreign monetary authority or government as monetary policy in the pegging nation must align with monetary policy in the anchor nation to maintain the exchange rate. The degree to which local monetary policy becomes dependent on the anchor nation depends on factors such as capital mobility, openness, credit channels and other economic factors. Bernanke (2006)

2.4.2 Gold standard

The gold standard is a system in which the price of the national currency as measured in units of gold bars and is kept constant by the daily buying and selling of base currency to other countries and nationals. (i.e. open market operations, cf. above). The selling of gold is very important for economic growth and stability. The gold standard might be regarded as a special case of the "Fixed Exchange Rate" policy. And the gold price might be regarded as a special type of "Commodity Price Index". Today this type of monetary policy is not used anywhere in the world although a form of gold standard was used widely across the world prior to 1971. Its major advantages were simplicity and transparency. Nelson (2007)

2.4.3 Reserve requirements

The monetary authority exerts regulatory control over banks. Monetary policy can be implemented by changing the proportion of total assets that banks must hold in reserve with the central bank. Banks only maintain a small portion of their assets as cash available for immediate withdrawal; the rest is invested in illiquid assets like mortgages and loans. By changing the proportion of total assets to be held as liquid cash, the Federal Reserve changes the availability of loanable funds. This acts as a change in the money supply. Central banks typically do not change the reserve requirements often because it creates very volatile changes in the money supply due to the lending multiplier. Macesich, (2000).

2.4.4 Discount window lending

Many central banks or finance ministries have the authority to lend funds to financial institutions within their country. By calling in existing loans or extending new loans, the monetary authority can directly change the size of the money supply. Edward (2007)

2.4.5 Interest rates

The contraction of the monetary supply can be achieved indirectly by increasing the nominal interest rates. Monetary authorities in different nations have differing levels of control of economy-wide interest rates. This rate has significant effect on other market interest rates, but there is no perfect relationship. One cannot set independent targets for both the monetary base and the interest rate because they are both modified by a single tool open market operations; one must choose which one to control. Edward (2007),

In other nations, the monetary authority may be able to mandate specific interest rates on loans, savings accounts or other financial assets. By raising the interest rate(s) under its control, a monetary authority can contract the money supply, because higher interest rates encourage savings and discourage borrowing. Both of these effects reduce the size of the money supply. Edward (2007)

2.4.6 Currency board

A currency board is a monetary arrangement that pegs the monetary base of one country to another, the anchor nation. As such, it essentially operates as a hard fixed exchange rate, whereby local currency in circulation is backed by foreign currency from the anchor nation at a fixed rate. Thus, to grow the local monetary base an equivalent amount of foreign currency must be held in reserves with the currency board. This limits the possibility for the local monetary authority to inflate or pursue other objectives. The principal rationales behind a currency board are three-fold: To import monetary credibility of the anchor nation; to maintain a fixed exchange rate with the anchor nation; to establish credibility with the exchange rate (the currency board arrangement is the hardest form of fixed exchange rates outside of dollarization). Currency boards have advantages for small, open economies that would find independent monetary policy difficult to sustain. They can also form a credible commitment to low inflation. Edward (2007).

2.5 Unconventional monetary policy

Other forms of monetary policy, particularly used when interest rates are at or near 0% and there are concerns about deflation or deflation is occurring, are referred to as unconventional monetary policy, and include negative interest rates and quantitative easing (printing money). Bernanke (2006)

In practice, all types of monetary policy involve modifying the amount of base currency (M0) in circulation. This process of changing the liquidity of base currency through the open sales and purchases of (government-issued) debt and credit instruments is called open market operations. Constant market transactions by the monetary authority modify the supply of currency and this effects other market variables such as short-term interest rates and the exchange rate. The distinction between the various types of monetary policy lies primarily with the set of instruments and target variables that are used by the monetary authority to achieve their goals. Khambata, (1996).

2.6 Relationship between Monetary policy and Inflation

The Fisher's equation depicts that proportional relation that exists between money supply and the price level. Monetary policy is a regulation of a central bank or any regulatory authority that ascertains the size and growth rate of the money supply. Monetary policy directly influence the interest rates which in turn has a negative relation with the price level. In the face of inflation the central bank of the country generally resorts to a rise in the cash reserve ratio, repo rate and reverse repo rate. So the basic idea is to reduce the money supply in the economy. To this end government securities are also issued so as to mop up the excess money supply from the mass.

This would reduce aggregate demand . This reduction would again help reduce the price level. Khambata, (1996).

Monetary policy is adopted with an objective to make the most of production and employment and consequently stabilize the price level of a country. Monetary policy also regulates the interest rate, availability of credit and at the same time promotes the overall economic growth of a country. Monetary policy facilitates establishing trade relationships with other countries. Khambata, (1996).

2.7 Existing Knowledge gaps

In general, the central banks in many developing countries have poor records in managing monetary policy. This is often because the monetary authority in a developing country is not independent of government, so good monetary policy takes a backseat to the political desires of the government or are used to pursue other non-monetary goals. The researcher observes that developing countries may have problems establishing an effective operating monetary policy. The primary difficulty is that few developing countries have deep markets in government debt. The matter is further complicated by the difficulties in forecasting money demand and fiscal pressure to levy the inflation tax by expanding the monetary base rapidly.

Price stability is a precondition for achieving a wider economic goal of sustainable growth and employment. High rates of inflation lead to inefficiency in a market economy and, in the medium to longer term, to a lower rate of economic growth. movements in the general price level are influenced by the amount of money in circulation, and productivity of the various economic sectors, the Central Bank of Kenya regulates the growth of the total money stock to a level that is consistent with a predetermined economic growth target as specified by the Government and outlined in its Monetary Policy Statement. Maintaining price stability is crucial for a proper functioning of a market-based economy. It encourages long-term investments and stability in the economy. Low and stable inflation refers to a price level that does not adversely affect the decisions of consumers and producers. The researcher observes that the Changes to the interest rate target are made in response to various market indicators in an attempt to forecast economic trends and in so doing keep the market on track towards achieving the defined inflation target.

CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter deals with the research design, sampling procedure, which included purposive sampling, sample size, method of data collection comprising interviews and questionnaires, research procedure, and the method of analysis.

3.1 Research Design

This study adopted a descriptive research design. The researcher sought to establish solutions to significant problems that affect the research study. The researcher constructed questions that will were used to solicit the desired information and identify the respondents to be surveyed. The researcher identified the means by which the survey was conducted and summarized the data in away that provided the designed descriptive information. The study involved management and employees from KCB Bank, Embu Branch.

3.2 Sampling Procedure

The sampling procedure used in this study is purposeful sampling. The researcher employed these sampling techniques because enabled an in-depth knowledge of the study using a small population sample from each of the selected respondents. Purposive sampling as a technique allows a researcher to use cases that have the required information with respect to the objectives of the study this is supported by Gay (1996).

3.3 Population and Sample size

The study population involved the Finance Department from KCB Bank, Embu Branch., and its employees. The researcher selected a sample size of (30) thirty respondents from KCB Bank both Employees and Clients from a target population of (300) three hundred respondents. The researcher adopted this sample size in accordance to Gay (1996) who states that in descriptive research 10% of the target population is sufficiently representative enough of the total target population.

3.4 The Questionnaire

The semi –structured questionnaire and structured questionnaire was used as the main instrument of the study to be administered to the staff of KCB Bank, Embu Branch of Both Open and closed ended questionnaires was administered, this is because Closed ended questionnaires was easier to analyze since they are in an immediate usable form and again each item is followed by alternative answers. Open-ended questions permitted a great depth of response, where a respondent is allowed to give a personal response, usually reasons for the response given may be directly or indirectly included.

3.4.1 Focused Group Discussion

Focused group Discussion was administered to the Finance departments Employees and management concerning the effect of monetary policies on the performance of Commercial Banks. Focused Group discussion have been preferred because they produces data and insights that were less accessible without interaction found in a group setting listening to others' verbalized experiences stimulates memories, ideas, and experiences in participants. This is also known as the group effect where group members engage in "a kind of 'chaining' or 'cascading' effect; talk links to, or tumbles out of, the topics and expressions preceding it" (Lindlof & Taylor, 2002,)

3.5 Validity and reliability of instruments

The validity of the questionnaire was established by expert judgment method proposed by Gay (1996). Two experts in the field of research were contacted to judge the materials. The researcher adjusted the materials according to the expert's recommendation and analysis.

3.6 Data analysis

The data, which was collected and scrutinized, then edited to eliminate any errors. The collected data was coded; this is the process of translating edited responses into numerical figure. The study used both qualitative and quantitative data analysis. Also, the researcher used generated tables and percentages to show the effect of monetary policies on the performance of commercial banks.

3.7 Procedure for data collection

With an authority letter from Kampala International University Business School that serves as an introduction to research, the researcher shall proceeded to the field to carry out the research. The researcher intended to use two different data collection procedures. Questionnaires (both open ended and closed ended) were used and distributed to both employees and clients of KCB Embu Town. The researcher carried out the focused group discussion personally as well as using documentation to get the relevant required data.

3.8 Ethical Considerations.

The researcher intends to adhere to ethical consideration in research and protected the identity and the privacy of the respondents. The researcher further intends to confirm to the principle of voluntary consent where the respondents will freely participate in research.

3.9.1 Limitation of the study

The limitation included probability of gender bias due to the sampling method and data collection due to the possibility that some of the respondents did not consent to participate in the study. Time factor was also of essence due to academic pressure.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF THE RESULTS

4.0 Introduction

This chapter of the study systematically presented the results that were obtained from the research that was conducted. The results are quantitatively and qualitatively presented. The analysis and interpretation follows tabular presentation at some stages and the Focused Group Discussion results from the respondents were also presented to supplement the quantitative presentation.

The presentation of the study was guided by the research questions that guided the study. The background information of the respondents however was also presented. Hence forth, the presentation is divided into two sections where section one presents the background information of the respondents, section two, represents the results of the study according the research objectives that guided collection. The presentation of the data follows in the following discussion.

4.1 Background Information

The current section presents the background information of the respondents. The researcher felt this information was important because the respondents, background with the organization determined their ability to posses the required information and subsequently determined the necessity of the researcher to probe for any detail and establish sufficient rapport with the respondents.

On the respondents, gender distributions the researcher established the situation as presented in Table (1)

Table 1: Gender distribution of the respondents

Gender	**Frequency**	**Percentage**
Male	18	60
Female	12	40
Total	**30**	**100.0**

Source: Primary Data

As can be observed from table (1), the gender distribution of the respondents was representative. That is 18(60%) of the respondents were male and the other 12(40%) of the respondents represented females. The results indicated that during the survey, both sexes were accessible though the researcher interacted with more males than females this was attributed to an observation by the researcher that most financial analysts at the bank were males.

During the Focused Group Discussion, the researches observations was supported by the respondents who stated that generally financial analysis was very mathematical thus most women were assumingly not good in this area of study. This observation was not proven beyond doubt however it is an interesting area of research. The researcher endeavoured to explore the level of education of the respondents. This variable was deemed worth establishing by the researcher because the education level of the individual determined his or her ability to possess adequate information. The results on the level of education of the respondents are presented in Table (2)

Table (2): The distribution of respondents by their level of education

Level of Education	Total No. of respondents	Male	Female	Total Percentage
Masters	4	3	1	13
Degree	6	4	2	20
Diploma/ACCA/CPA	12	2	10	40
Secondary	8	2	6	27
Total	**30**	**11**	**19**	**100**

Source: Primary Data

The findings on table (2) show the respondents' education background and depicted that 4(13%) were postgraduate holders, 6(20%) graduates. Those with diploma certificates were 12(40%), secondary level having 8(27%). This showed the existing difference between the level of education between male and female respondents however male respondents still dominated in terms of the highest level of education attained. Equally Females were still considered to be the majority having basic diplomas as demonstrated by the table 2.

During the Focused Group Discussion it was established that not all respondents were well educated. Therefore, for the above respondents who did not comprehend the research questions, the best method of collecting data from them was through Focused Group Discussion interviews where the research questions were simplified to give an easily understandable meaning, even though this percentage could understand the questions asked in the interviews and respond, there was still the need to interpret some concepts further of which the enumerators were employed to that effect. The researcher felt the need to establish the respondents experience with the organizations and the results were depicted on table (3).

Table (3): Distribution on the respondents experience with the organization

Years of experience	Respondents	Percentage
1-3 years	12	40
4-7 years	10	33
7-10 years	6	20
Over 10 years	2	7
Total	**30**	**100**

Source: Primary Data

As expressed by Table (3), the respondents experience with the Organization was unevenly distributed. That is, 12(40%) had spent a period between 1-3 years as compared to 10(33%) who had spent 4-7 years with the organization. Those who had spent 7-10 years were 6(20%) of the total participants. This distribution left 2(7%) to have worked with the organization for a period of over 10 years. The results generally indicated that the respondents had varying experiences in the Organization.

During the Focused Group Discussion majority of respondents were categorized as having worked in the organization for 1-3 years this was attributed to the constant recruitment of new staff due to the higher departure rate of employees to other organizations. Majority of the respondents indicated that it was not easy to spend more than 10 years within the banking sector. The reasons expressed were that mainly, their was a high rate of head hunting especially since most organizations were on an expansion drive. Despite the expressions however, the researcher was confident, because she was able to obtain varying views from respondents with varying experiences within the organization.

4.2 Research Findings

This study was basically guided by three research questions that were derived from the Research Objectives. The verification of the research questions was guided by the conditions that described the data. After presentation of the research questions, the results from the Focused Group Discussion are also presented for clarity.

4.3. Research Questions.

4.3.1 what was the existing effect of monetary policies on the performance of KCB Bank, Embu Branch?

The first research question of this study was derived from the first research objective. The question sought to establish the existing effect of monetary policies on the performance of KCB Bank, Embu Branch. In order to get answers to ascertain this research question, the researcher inquired from the respondent their perceptions on a number of issues. These issues included whether the respondents viewed monetary policy as important, assessing the existing effect of monetary policies on the performance of KCB Bank and analyzing the effect of the current monetary policies put in place. On whether the respondents viewed monetary policy as important, the results are expressed on table (4)

Table (4): On whether the respondents viewed monetary policy as important

Respondents	Frequency	Percentage
Very much	6	20
Moderate	8	27
Good	10	33
Poor	4	13
No idea	2	7
Total	**30**	**100**

Source: Primary Data

Reflecting on table (4) the majority of the respondents 10(33%) viewed monetary policy as adequate, 8 (27%) of the respondents felt that the monetary policy was moderately good, However 6(20%) of the respondents felt that it was very much important whereas 4(13%) of the respondents felt that it was poor. 2(7%) of the respondents had no idea.

During the Focused Group Discussion the respondents stated that monetary policy predisposes the price at which money can be borrowed, and the total supply of money. This has a bearing on the cost of money or rate of interest to attain a set of objectives oriented towards the growth and stability of the economy. On whether there were any existing effects of monetary policies on the performance of KCB Bank, the results are presented on table (5).

Table (5): What are the existing effects of monetary policies on the performance of KCB Bank.

	Respondents	Percentage
Steady supply of money	7	23
Availability of money	4	13
Control interests rates	8	27
Stability of the economy	5	17
No idea	6	20
Total	**30**	**100**

Source: Primary Data

According to table (5) whether there were any existing effects of monetary policies on the performance of KCB Bank 8 (27%) of the respondents stated that it did control interests rates, 7(23%) of the respondents stated that monetary policy created a steady supply of money, yet 5(17%) of the respondents felt that the monetary policy cemented stability of the economy leaving a distribution of 4(13%) of respondents who felt that monetary policies directly affected the availability of money, however 6(20%) of the respondents had no idea.

During the Focused Group Discussion the respondents stated that the Central Bank prepared the Monetary Policy Statement for the next twelve months specifying the policies and the means by which the Bank intended to achieve the policy targets; the reasons for adopting such policies and means; and a review and assessment of the progress of the implementation. The researcher sought to establish the effect of the current monetary policies put in place, the results are shown on table (6)

Table (6): what is the effect of the current monetary policies put in place

Respondents	**Frequency**	**Percentage**
Money supply	6	20
Exchange rates	4	13
Economic growth	10	33
Reduced inflation	8	27
No response	2	7
Total	**30**	**100**

Source: Primary Data

According to table (6) 6(20%) of the respondents felt that the effect of the current monetary policies put in place influenced the supply of money, 10(33%) of the respondents stated that the current monetary policy had an effect on economic growth. However 4(13%) of the respondents felt that the current monetary policy had effected on the market exchange rates. This left a distribution of 8(27%) of the respondents who were of the view that current monetary policy had reduced inflation. Contrary to this findings 2(7%) of the respondents did not respond to the question.

During the Focused Group Discussion the majority of the respondents stated that the current monetary policy advocated for a regulated system of issuing currency through banks, which were tied to a central bank, the monetary authority had the ability to alter the money supply and thus influence the interest rate in order to achieve policy goals.

They further stated that the Central bank was government-owned and charged with quasi-regulatory responsibilities, such as supervising commercial banks, or controlling the cash interest rate. They generally provide liquidity to the banking system and act as the lender of last resort in event of a crisis.

4.3.2 What were the challenges faced by the effect of monetary policies on the performance of KCB Bank Embu Branch?

From the second objective of the study, the researcher delivered a research question. It is this research question, which guided the study. In order to get appropriate answers to this research question, a number of elements were subjected to the respondents to solicit for their perception of the variables in question. For instance, the researcher solicited respondent's views on the challenges faced by the effect of monetary policies on the performance of KCB Bank, Bank systemic crises, Inadequate training programs, Competition within the industry. The results to this study were analyzed by generating tables and percentages which were used to make the comparison of the perceptions as the following data depicts on table (7) it depicted the respondent's perception on the challenges faced by the effect of monetary policies on the performance at KCB Bank.

Table (7): Challenges faced by the effect of monetary policies on the performance at KCB Bank

Respondents	Frequency	Percentage
Deep markets in government debt.	8	27
Difficulties in forecasting money demand	10	33
Poor records in managing monetary policy	4	13
Politicking	6	20
No idea	2	7
Total	**30**	**100**

Source: Primary Data

According to table (7) on the respondents rating on the Challenges faced by the effect of monetary policies on the performance at KCB Bank 10(33%) of the respondents stated that difficulties in forecasting money demand was a major challenge, 8(27%) of the respondents felt that deep markets in government debt was a concern, 6(20%) of the respondents opined that government politicking in monetary policies formulation did affect the banking sector tremendously, 4(13%) of the respondents felt that poor records in managing monetary policy did affect the performance of banks.2(7%) of the respondents had no idea

During the Focused Group Discussion the respondents stated that generally Kenya was a developing country and its problems established an effective operating monetary policy. The primary difficulty in forecasting money demand, which was further complicated by the deep markets in government debt. Further the respondents attributed the failure of monetary policies to lack of independence from government particularly the ministry of finance so good monetary policy takes a backseat to the political desires of the government or are used to pursue other non-monetary goals. The researcher was motivated to establish the Banks systemic crisis, the results are presented on table (8)

Table (8): Banks systemic crisis

Respondents	Frequency	Percentage
Liquidity risk	6	20
Credit risk	8	27
Interest rate risk	12	40
No idea	4	13
Total	**30**	**100**

Source: Primary Data

Reflecting on table (8) the majority of the respondents 12(40%) stated that the Banks systemic crisis was primarily influenced by interest rate risk, 8(27%) of the respondents felt that credit risk was a great concern to KCB bank, 6(20%) of the respondents felt that Liquidity risk did threaten to create a crisis within the banking sector leaving a distribution of 4(13%).

During the Focused Group Discussion the respondents stated that where many depositors may request withdrawals beyond available funds this would create a crisis within the bank, Equally the chance that those who owe money to the bank will not repay it was of great concern coupled with the possibility that the bank will become unprofitable, if rising interest rates force it to pay relatively more on its deposits than it receives on its loans. The researcher sought to establish the whether training programs were adequate, the findings are depicted on table (9)

Table (9): Whether training programs were adequate

Respondents	Frequency	Percentage
Very Good	4	13
Good	8	27
Poor	12	40
No idea	6	20
Total	**30**	**100**

Source: Primary Data

According to table (9) 12 (40%) of the respondents felt that the training programmes was inadequate, 8(27%) of the respondents were of the opinion that the training was good, whereas 4(13%) of the respondents felt that the training was very good, this left a distribution of 6(20%) of the respondents who had no idea therefore did not answer the question posed.

During the Focused Group Discussion the respondents stated that some of this problems were more likely to go undetected, resulting in a significant effect on the bank when they are recognized banks, like any business, struggle to cut costs and have consequently eliminated certain expenses, such as adequate employee training programs.

Table (10): Competition within the banking industry

Respondents	Frequency	Percentage
Very much	8	27
Much	12	40
Satisfactory	4	13
No idea	6	20
Total	**30**	**100**

Source: Primary Data

According to table (10) 12 (40%) of the respondents felt that competition within the banking industry was much, 8(27%) of the respondents felt that the competition was very much, however 4(13%) of the respondents felt that the competition was satisfactory, a distribution of 6(20%) of the respondents had no idea.

During the Focused Group Discussion the respondents stated that the banking sector was an extremely competitive industry, Competing in the financial services industry had become tougher with the entrance of such players as insurance agencies, credit unions, check cashing services, micro finance SME's, and credit card companies.

4.3.3 What were the possible solutions of how to improve the challenges faced by monetary policies on the performance of KCB Bank Embu Branch?

From the Third objective of the study, the researcher derived research question number three. It is this research question that guided the study in the bid to get answers towards its verification. The research question sought to establish the possible solutions of how to improve the challenges faced by monetary policies on the performance of KCB Bank Embu Branch. To get the answers to this research question, a number of elements were placed to the respondents among which the following highlights are important for instance, the researcher solicited respondents, views on how to improve the challenges faced by monetary policies on the performance banks. The results of this study were analyzed by generating tables and percentages, which were used to make the comparison of the perceptions as the following presentation depicts. On whether their were solutions to the challenges faced by monetary policies on the performance of KCB Bank, the results are presented on table (11)

Table (11): whether their were solutions to the challenges faced by monetary policies on the performance of KCB Bank Embu Branch?

Respondents	**Frequency**	**Percentage**
Enhanced training and seminars for bank personnel	4	13
Lower Government debt.	8	27
forecasting money demand	6	20
Sound records system	10	33
Diminish Political interference	2	7
Total	**30**	**100**

Source: Primary Data

According to table (11) the results indicated that the majority of the respondents 10(33%) felt that their was need to adopt a sound records system , 8(27%) of the respondents however were of the view that the government should lower its debt, 6(20%) of the respondents opined that adequate mechanisms for forecasting money demand should be instituted, 4(13%) of the respondents felt that training and seminars should be conducted within the banking industry so that they could have an up to date approach on monetary issues. Contrary to this distribution 2 (7%) of the respondent stated that politicians should stop interfering by formulating unorthodox government policies that did not take into account the interest of the country

During the Focused Group Discussion the respondents stated that the development of a modern records system would help the banking industry in that projections could be determined by reflecting on the past economic trends. This enticed the research to enquire from the respondents how the monetary policy performance was measured, the results are depicted on the table (12)

Table (12) How the monetary policy performance was measured

Respondents	**Frequency**	**Percentage**
Assessing the desired performance	6	20
Assessing the Actual performance	4	13
Setting targets	8	27
Creating feedback mechanism	10	33
No idea	2	7
Total	**30**	**100**

Source: Primary Data

According to table (12) the majority of the respondents 10(33%) stated that creating a feed back mechanism was a sure way of measuring monetary policy. 8(27%) of the respondent felt that by setting targets the monetary policy performance could be measured against the set targets. 6(20%) of the respondents were of the opinion that performance could be measured by assessing the desired projections. However 4(13%) of the respondents felt that actual performance could be assessed in order to measure performance adequately. 2(7%) of the respondents had no idea.

During the Focused Group Discussion the respondents opined that the best way of measuring performance was through creating an effective feedback mechanism with all the necessary stakeholders and market players. This could be coupled by setting the necessary targets to measure economic output gap.

During the Focused Group Discussion it was observed that the importance of existing effect of monetary policy showed that it was good and that, it does control interest rates and therefore keeping a steady supply of money, bring about economic growth, influencing the money supply. The performance of KCB bank was seen to face challenges by the effect of monetary policy due to difficulties in forecasting money demand and government market in debt. It was further attributed to lack of independence from government particularly the ministry for finance so god monetary policy take a backseat to the political desires of the government or are used to pursue other non- monetary goals.

The solution to the challenges faced by monetary policies on the performance of KCB bank were sought to be: adopt sound records system, enhanced training and seminars for bank personnel and lower government debt and forecasting money demand. Monetary policy performance was hence measured by creating a feed back mechanism, which was a sure way of measuring monetary policy.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The current chapter of this study presents the Summary of the results derived from the data presented in Chapter four, the discussion leads into varying conclusions and a number of recommendations are subsequently derived.

5.1 Summary

The following are the summaries on the findings based on the three objectives that guided the study. The results are also cross-referenced with the findings of other scholars in related organizational environments that have got a supportive element of the current study. According to Athanasios (2008) Monetary policy rests on the relationship between the rates of interest in an economy that is the price at which money can be borrowed and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks, which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals).

Monetary policy is a regulation of a central bank or any regulatory authority that ascertains the size and growth rate of the money supply. Monetary policies directly influence the interest rates, which in turn have a negative relation with the price level. In the face of inflation the central bank of the country generally resorts to a rise in the cash reserve ratio, repo rate and reverse repo rate.

So the basic idea is to reduce the money supply in the economy. To this end government securities are also issued so as to mop up the excess money supply from the mass. This would reduce aggregate demand. This reduction would again help reduce the price level. Khambata, (1996).

The research findings expressed that Central bank was government-owned and charged with quasi-regulatory responsibilities, such as supervising commercial banks, or controlling the cash interest rate. Thus the current monetary policy advocated for a regulated system of issuing currency through banks, which were tied to a central bank, the monetary authority had the ability to alter the money supply and thus influence the interest rate in order to achieve policy goals.

Monetary policy is adopted with an objective to make the most of production and employment and consequently stabilize the price level of a country. Monetary policy also regulates the interest rate, availability of credit and at the same time promotes the overall economic growth of a country. Monetary policy facilitates establishing trade relationships with other countries. Khambata, (1996).

The research findings established that the majority of the respondents felt that where many depositors may request withdrawals beyond available funds this would create a crisis within the bank, Equally the chance that those who owe money to the bank will not repay it was of great concern coupled with the possibility that the bank will become unprofitable, if rising interest rates force it to pay relatively more on its deposits than it receives on its loans.

5.2 Conclusion

The first objective sought to analyze the existing effect of monetary policies on the performance of KCB Bank, Embu Branch. The researcher therefore concludes that the Monetary Policy Statement was prepared by Central Bank and covered a period of twelve months, it specifies the policies and the means by which the Bank intended to achieve the policy targets, the reasons for adopting such policies and means, and a review and assessment of the progress of the implementation. This assertion is supported by the research findings, which established that majority of respondent, appreciated the role played by central bank.

The second objective assessed the challenges faced by the effect of monetary policies on the performance of KCB Bank Embu Branch. The study concluded that there were several challenges faced by the Banking sector this included difficulty in forecasting money demand, which was further, complicated by the deep markets in government debt.

The third objective sought to identify the possible solutions of how to improve the challenges faced by monetary policies on the performance of KCB Bank Embu Branch. The study concluded that the development of a modern records system, enhanced training and seminars for bank personnel, lowering government debt, forecasting money demand and diminishing political interference amongst other sound factors would help the banking industry in developing effective monetary policies that could be reflected on economic trends and projections.

5.3 Recommendations

In line with the first objective the researcher recommended that bearing in mind the effect of a sound monetary system, government involvement should be impeded this is because adopting a defective monetary policy directly influences the interest rates which in turn could have a negative relation with the price level.

The researcher recommended that on the second objective that there should be total independence from government particularly the ministry of finance so that good monetary policies can be instituted without worrying about political desires of the government or non-monetary goals.

With regard to the third objective the researcher recommended that KCB bank should consider Merging banking, investment, and insurance functions this will increase consumer demands for "one-stop shopping" by enabling cross-selling of products thus increasing profitability.

5.4 Areas for Further Research

The researcher's point of departure was that, their was need to further investigate the sustainability of mobile banking techniques with regard to the performance of Commercial Banks in Kenya.

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THE EFFECT OF MONETARY POLICIES ON THE PERFORMANCE OF COMMERCIAL BANKS: A CASE STUDY OF KCB BANK, EMBU BRANCH.

Dear respondents as part of my requirements to the Award of a Degree in Business Administration at Kampala International University. I am administering this questionnaire to collect information the effect of monetary policies on the performance of commercial banks. Please answer as honestly as possible.

INSTRUCTIONS:

1 Do not sign your name any where on this questionnaire.

2 For Section A tick and for section B fill in.

QUESTIONNAIRE FOR EMPLOYEES OF KCB BANK, EMBU BRANCH.
SECTION A: RESPONDENT BACKGROUND (TICK WHERE APPROPRIATE)

1.1 Gender: Male ☐ Female ☐

1.2 Age: 20-29 ☐

30-39 ☐

40-49 ☐

50-59 ☐

60-above ☐

1.3 Number of years in the organization

2-5 ☐ 5-10 ☐ 10-above ☐

1.4 Education Background

Masters ☐ Degree ☐ Diploma ☐ Secondary ☐