Effects of external factors on the level of interest rates in the banking industry: a case of Consolidated Bank

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EFFECTS OF EXTERNAL FACTORS ON THE LEVEL OF INTEREST RATES IN THE BANKING INDUSTRY:

(A CASE OF CONSOLIDATED BANK)

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ABSTRACT

This study aimed at establishing the effects of external factors on the level of interest rates in the banking industry. The study focused on consolidated bank. The researcher analyzed the effects of external factors on the level of interest rates in the banking industry this as the researcher found out had a great impact not only on the banks' profitability but also the economy at large and the level of income in the society. External as the researcher found out from and potential borrowers do not only affect the level interest rates charged on individual level but also affects the level of interest rates bank charges. Interest rates are not only historic issue but also a current and a continuous factor that affects governments, household's investors, banks and borrowers plus savers. Interest rates can be defined as the rate at which interest is paid by a borrower (debtor) for the use of money that they borrow from a lender (creditor). Specifically, the interest rate \( \frac{i}{m} \) is a percentage of principal \( P \) paid a certain number of times \( m \) per period (usually quoted per year). The study used descriptive design. The sample size of 44 employees was selected. I used questionnaires to collect data, during the data analysis collected data was presented in table form, pie charts and graphs.

Several recommendations were both made by the respondents and the researcher. With the most important one being government regulations the governments need to monitor the movements of the interest rates and implement policies that keep the interest rate as low as possible this will mean that banks can be able to make enough profits while the Kenyan economy can grow also the government could borrow funds externally as this would reduce the level of interest rate charged on individuals significantly. The banks could also reduce the amount if interest rate charged on a loyal customer or a customer, who has an excellent credit score. Further work should be researched upon on macroeconomic factors where this project did not cover since no recent study has been done on this.