Title: THE RESPONSIVENESS OF MONETARY POLICY IN DEVELOPING COUNTRIES: AN EMPIRICAL STUDY OF KENYA

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ABSTRACT

The interest rate channel is commonly used by the Central Bank of Kenya as a means of maintaining price stability. However, the effectiveness of this channel has come into question. This paper tests the responsiveness of this channel as well as the structural factors that influence the effectiveness of the channel in Kenya. It uses a wide range of macroeconomic and financial market structure variables to uncover structural determinants of pass-through. The paper finds that the market to retail pass through rate is weak; hence, monetary is not an effective tool in controlling price stability in Kenya. The paper also establishes that the GDP growth rate is insignificant in explaining long-term pass through in Kenya. However, money market development, liquidity, cost structure and competition among banks were found to facilitate and strengthen the pass-through while inflation impedes it.

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