

CONSTRUCTION INDUSTRY OUTPUT AND CENTRAL BANK OF KENYA'S BASE LENDING INTEREST RATE (2007 - 2022)

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ABSTRACT

Performance of construction output is a pointer to economic wellbeing and thus requires effective management to maintain its contribution in a country's growth. However, in Kenya, there is a research gap on the interaction of construction output and CBK's base lending interest rates. This has the potential of limiting the government's capacity to effectively manage the construction industry output in Kenya. This study investigates Kenya's construction industry output and how it is affected by CBK's base lending interest rate. Time series data (for analysis) were obtained from Kenya National Bureau of Statistics and Central Bank of Kenya. The data covered a period of sixteen (16) years; from Year 2007 to Year 2022, on yearly basis. The twin variables in this study were construction industry output and CBK's base lending interest rate in Kenya. Eviews (version 10) a statistical software application, was used for data analysis. The statistical outputs generated graphical analysis, tests of stationarity and regression analysis. Dependent variable (construction output) was regressed on the independent variable (CBK's base lending interest rate); applying the second differences of base lending interest rate and natural logarithms of the second differences of construction output. Results showed that base lending interest rates had no significant influence on the construction industry output in Kenya in the period of the study. A model explaining this outcome was developed which has a coefficient of determination (R^2) of 0(zero). However, it has been observed that much of the impacts of base lending interest rate start to be felt much later after their implementation. This is displayed by a regression model of lagged base lending interest rate which showed R^2 value of 0.17. This figure is an indicator that the regression model of lagged interest rate has explanatory powers and thus it was logical to conclude that base lending interest rate has an impact on construction industry output in Kenya. This paper presents empirical findings indicating objectively how the base lending Interest rate impacts construction output and can be adopted for policy formulation for purposes of regulating the construction industry in Kenya. Therefore, experts and stakeholders in the industry are highly advised to factor in this impact in the early stages of feasibility study and appraisal of construction projects.

Keywords: *Construction Output, Time Series, Stationarity, Explanatory Variable*