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Influence of Inflation Rate on Growth of Bond Markets in Kenya

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Abstract

Bond market plays a great part in the economy of Kenya as it provides a platform for companies and individuals to invest. The study sought to establish the influence of inflation rate on the bond market growth in Kenya. The study further investigated the moderating effect of diaspora remittance on the relationship between inflation rate and the growth of bond market in Kenya. Monthly secondary data for the period from January 2000 to December 2019 obtained from the CBK, KNBS and NSE was used in the study. Time series regression model was used to establish the relationship between the moderating effect of diaspora remittance on inflation rate and their combined effect on bond market growth. The study employed descriptive research design. The study established that the inflation rate had a major effect on the growth of bond market for the period of study. The study findings revealed that the inflation rate had a strong positive influence on the growth of bond market and that when it was moderated the effect improved even more given the p-value of 0.000 recorded was less than 5% significance level. The study concluded that there was a positive statistically significant effect of inflation rate on bond market growth in Kenya. The study recommends that the capital market authority as a policy maker should enhance policies that promote investment in the bond market. Further studies should also be carried out incorporating other macroeconomic variables not included in this study. Finally, the study also recommended that CBK should ensure that it improves on measures that control the inflation rate and diaspora remittance as they affect the growth of bond market.

Key words: Inflation rate, Bond market growth, Diaspora remittance

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