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ASSESSMENT OF THE EFFECT OF GDP ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

Purpose of Study: This study therefore sought to assess the effect of GDD on financial performance of commercial banks in Kenya.

Problem Statement: Over the past decade, the Return on Assets (ROA) for Kenyan banks has shown fluctuation, ranging from 13.3% to 22.4% (KBA, Kenya Bankers Association, 2023). Despite this, Kenya's credit penetration rate remains relatively low, indicating potential inefficiencies or constraints within the banking sector. GDP is a critical determinant of the economic environment, influencing the ability of commercial banks to thrive.

Methodology: The economic theory provided the theoretical foundation of the study. A causal research design based on panel data approach was adopted in the study. The study used secondary data which was obtained from 37 commercial banks for the period covering 2013 through 2022. Data was sourced from The Kenya National Bureau of Statistics, the Central Bank of Kenya, and audited financial statements of the commercial banks considered in this study. Data analysis involved both descriptive and inferential statistics where the former constituted of the mean and standard deviation while the latter comprised of panel regression.

Result: The findings revealed that GDP had a positive and statistically significant effect on financial performance as measured using ROA ($r=.147$; $p=.048$; $p<.05$) The study recommends that commercial banks should leverage interest rate increases to boost profitability through strategic adjustment of loan and deposit rates to maximize interest income.

Conclusion: The study concluded that GDP growth positively and significantly affected the return on assets of commercial banks.

Recommendation: Commercial banks should take advantage of periods of GDP growth to expand their lending activities, particularly to sectors that drive economic growth.

Keywords: *GDP, Financial Performance, Economic Growth, Commercial Banks, Kenya.*

INTRODUCTION

The banking sector serves as the linchpin of its financial system, playing an indispensable role in fostering economic growth and development. Recognized as pivotal institutions in regulating a nation's overall economic progress (CBK, Monetary policy Statements, 2022), commercial banks act as intermediaries, facilitating the flow of funds from savers to borrowers. This process not only promotes investment but also contributes significantly to fostering financial inclusion. However, the performance of these commercial banks is subject to a multifaceted interplay of internal and external factors. As noted by Ongore (2018), poor performance of commercial banks can lead to instability and crises, causing detrimental ripple effects on economic progress. The 2008 crisis was a harsh lesson in how vulnerable our systems can be, with commercial banks bearing the brunt and experiencing significant impacts on their financial strategies and operations (Kim, 2020).

The global economy was negatively impacted by COVID-19, and Kenya's banking sector was no exception. Lockdowns, travel restrictions, and supply chain disruptions led to reduced economic activity, resulting in a rise in non-performing loans (NPLs) for banks, which in turn eroded profitability (CBK, Monetary Policy Statements, 2022). Due to the uncertain economic outlook, banks became more cautious in lending, causing a slowdown in credit growth and potentially impeding economic recovery (IMF, 2021). However, the pandemic accelerated the adoption of digital banking, enabling banks to offer contactless services and reach customers remotely. This shift drove increased investment in technology, providing opportunities for cost reduction and improved operational efficiency (KBA, Kenya Bankers Association, 2021).

This study examines how economic factors in Kenya impact the profitability of commercial banks. The four key macroeconomic variables under scrutiny are interest rates, inflation rate, gross domestic product, and unemployment. The primary focus will be on two key measures of profitability: Return on Equity (ROE) and Return on Assets (ROA). ROA provides insight into the ability of a bank to generate profits from its total assets, offering a comprehensive view of its operational efficiency. On the other hand, ROE measures a bank's profitability to its shareholders' investment, highlighting its effectiveness in capital management.

Globally, the European financial sector has been through a major change through the last two decades, merger waves (Notteboom, Pallis & Rodrigue, 2021) sovereign debt crises (Notteboom et al., 2021), restructuring and strategy changes, legal-auditing-accounting reforms, are some of the changes that took place. The European Union has enforced, encouraged and promoted several initiatives that affected the financial performance of financial sector in the region (Pereira, 2018). The financial sector in Europe has been under considerable pressure in the past decade as businesses, citizens and national authorities have been affected by the financial crisis (Calabrese, Girardone & Sclip, 2021). Challenges on development of new technologies, the fragmentation of the EU markets and climate change continue to exist.

Regionally, the African M&A market has been trending upwards over the past few years, although it is quite small compared to other M&A markets worldwide (Amewu & Alagidede, 2021). This has been mainly due to the high economic growth in energy, mining and utilities sectors. It has been noted that most cross-border mergers take place among firms in developed countries and that firms with high levels of intangible assets or research and development (R&D) intensity are natural candidates for cross-border mergers (Sá, 2021). This is due to the following; the combined firm needs to spread the high fixed cost of R&D expenditures and knowledge asset attainment over large foreign markets. Global Law firm Baker McKenzie's 2021 quarterly Cross-border M&A Index shows that South Africa was the top target country for inbound deals by volume and value, accounting for 29% of total deal count and USD 422 million or 54% of total value in Africa. The report also showed that Nigeria had an upward trending on M&A trend in the financial sector.

Kenya's commercial banks have registered significant progress over the last 10 years through strengthened regulatory framework independent authorities with specific mandates; increase in the number of players (intermediaries) and rollout of various customized services and products (Mwaniki, 2015). Economic Recovery Strategy for Wealth and Employment Creation (2003–2007) for instance focused on the financial sector reforms to facilitate improved access to financial services and efficient intermediation of financial resources (Munene, 2019). Vision 2030: Kenya's economic blueprint (2008–2030) aims to transform Kenya into a middle-income country by 2030 including transformation towards stronger large-scale financial; credit referencing; deeper penetration of financial services; formalizing microfinance institutions and expanding reach of microfinance institutions (Central Bank of Kenya, 2019). Kenya Vision 2030 aims to create a more robust and inclusive financial sector in Kenya that can support the country's economic growth and development objectives. By transforming commercial banks in Kenya, the plan seeks to create a more efficient, competitive, and responsive financial sector that can meet the needs of all Kenyans (CBK, 2019).

Examining the financial performance of commercial banks is crucial for assessing their operational efficiency and resilience within the financial landscape (Bakare, 2021). This study focuses on four key areas to gauge banks' financial health. Profitability metrics like net income, return on assets (ROA), and return on equity (ROE) offer valuable insights into banks' ability to generate earnings from their operations and efficiently utilize their assets and equity. A high ROA and ROE indicate effective management practices and strong profitability, which are essential for the sustained growth and competitiveness of commercial banks in the industry (Kamweru, 2019).

Measures of a company's ability to collect on its loans, including bad loans and reserves for potential losses provide critical insights into banks' risk management practices, particularly in relation to credit risk (Hu, 2019). These metrics help evaluate the quality of banks' loan portfolios and their ability to identify and mitigate potential credit losses. A low ratio of NPLs to total loans and adequate provisions for loan losses signal prudent lending standards and effective risk mitigation strategies, contributing to overall financial stability and resilience (Kimberly, 2020).

Liquidity and funding metrics, including the loan-to-deposit ratio and liquidity coverage ratio (LCR), assess banks' ability to meet short-term obligations and sustain operations. Maintaining adequate levels of liquidity is essential for banks to fulfill deposit withdrawals and funding needs without relying on costly measures or facing liquidity shortages, thereby safeguarding their financial health and stability (Igan, 2018). These metrics provide valuable insights into banks' liquidity management practices and their ability to manage liquidity risks effectively in various market conditions.

Financial health measures like the common equity tier 1 (CET1) ratio and leverage ratio evaluate banks' ability to absorb potential losses and maintain financial resilience. Adequate capitalization is crucial for protecting depositors' funds, complying with regulatory requirements, and supporting sustainable lending practices (Kamweru, 2019). Strong capital buffers enhance investor confidence and ensure that banks can withstand economic downturns or adverse events, contributing to overall stability of finance and long-term viability in this sector. Through a comprehensive analysis of these key metrics, the study aims to provide important insights into the financial performance of commercial banks and their ability to navigate dynamic market conditions while sustaining growth and stability over time. This study used return on assets as metric for measuring financial performance because the above measures, as used in other studies complement ROA by providing more details on capitalization and risk management, ensuring understanding of a bank's financial performance.

Gross Domestic Product (GDP) is essentially the total value of everything produced in a country, measured by the market worth of goods and services, typically annually or quarterly. This metric provides a serious assessment of a country's economic activity and vitality, covering sectors such as Farming, production of goods, and services. The overall size and the health of the economy, as indicated by GDP, directly impact commercial banks' performance (Kyalo, 2017). Robust GDP growth, driven by increased government spending, consumption, net exports, and business investments, enhances business activity, consumer spending, and investment. Consequently, this elevates the demand for financial services, allowing banks to expand their loan portfolios, generate higher fees, and ultimately boost profitability (Wambugu, 2019).

Government spending injects capital into the economy, stimulating growth, while high consumption levels reflect strong consumer confidence and spending power. Positive net exports contribute to a favorable trade balance, and business investments drive innovation and expansion, all of which contribute to GDP growth. Conversely, economic stagnation or contraction, characterized by reduced government spending, lower consumption, negative net exports, and declining business investments, leads to decreased loan demand, higher defaults, resulting to lower profits for banks (Beatrice, 2013). Thus, GDP is a critical determinant of the economic environment, influencing the ability of commercial banks to thrive. The study measured GDP using changes in GDP because these fluctuations presents a clear reflection of the overall economic growth or contraction, directly affecting the financial performance of banks.

PROBLEM STATEMENT

Financial intermediaries are vital to Kenya's financial sector, playing a central role in driving economic growth and development. Over the past decade, the Return on Assets (ROA) for Kenyan banks has shown fluctuation, ranging from 13.3% to 22.4% (KBA, Kenya Bankers Association, 2023). Despite this, Kenya's credit penetration rate remains relatively low, indicating potential inefficiencies or constraints within the banking sector (Brighton, 2018). The financial performance of banks significantly influences the availability and cost of credit, thereby impacting businesses, households, and overall economic activity (Beatrice, 2013).

While numerous global studies have explored the intricate relationship between macroeconomic variables and financial performance of commercial banks, there is a notable gap in understanding how these variables collectively affect the financial performance of Kenyan banks (Chen, 2020). While some studies have examined individual macroeconomic factors such as interest rates or inflation rate, they often overlook a comprehensive analysis of their combined impact (Brighton, 2018). For instance, a study by Simba (2016) focused solely on interest rates effects on bank profitability, neglecting the potential interaction with inflation rate dynamics. Similarly, research by Lion Finance (2017) delved into inflation rate pressures on loan performance but failed to consider the simultaneous influence of interest rate fluctuations.

Furthermore, the evolving economic and regulatory landscape in Kenya necessitates a deeper understanding of how macroeconomic variables collectively influence bank performance. While studies like those conducted by Brian (2019) and Savannah Research Group (2020) have explored the impact of GDP growth on bank profitability. Similarly, studies by Jungle Analytics (2018) and Zebra Insights (2021) have examined the relationship between unemployment and bank performance metrics, but they do not consider the broader context of inflation rate and interest rate dynamics.

In the existing body of research, significant gaps emerge in the contextual, conceptual, and methodological aspects of studying how macroeconomic variables affects the financial performance of commercial banks in Kenya. While some studies focus on isolated macroeconomic factors like interest rates or inflation rate, they often lack a comprehensive analysis that considers the interplay between these variables. Additionally, methodological limitations, such as the failure to account for moderating factors like bank size, hinder a thorough understanding of the connection between macroeconomic dynamics and bank performance in the Kenyan context. Thus, there is a pressing need for research that addresses these gaps by adopting a holistic approach, incorporating multiple macroeconomic variables, employing robust methodologies, and considering the broader contextual factors shaping the banking sector in Kenya. This research sought to provide policymakers and industry stakeholders with more nuanced insights to inform decision-making and risk management strategies effectively.

RESEARCH OBJECTIVE

To assess the effect of GDP on financial performance of commercial banks in Kenya.

RESEARCH HYPOTHESIS

H_0: GDP has no significant effect on the financial performance of commercial banks in Kenya.

THEORETICAL FRAMEWORK

The study was anchored on Economic Theory. Economic Theory was developed by Ricardo (1988). Economic theory states that changes in macroeconomic variables, such as interest rates, inflation, and GDP, have a direct impact on the financial performance of institutions like commercial banks by influencing lending behavior, investment decisions, and overall market stability. This theory various perspectives aiming to elucidate the drivers of long-term economic expansion. Classical growth theory, rooted in the works of economists like Adam Smith and David Ricardo, highlights the importance of capital accumulation, labor force growth, and technological advancements. Neoclassical growth theory, pioneered by Robert Solow, introduces the concept of diminishing returns to capital and emphasizes technological progress as a key driver of sustained economic development.

Economists like Paul Romer and Robert Lucas flipped the script on how economies grow. Their endogenous growth theory proposes that instead of relying on outside forces for technological advancement, a country can fuel its own long-term progress by investing in things like education and research and development. Economic growth theories, encompassing neoclassical and endogenous perspectives, provide insightful frameworks for understanding the intricate relationships among interest rates, GDP growth, unemployment, inflation rate, and their collective impact on the financial performance of commercial banks. Neoclassical theories, which emphasize technological progress and capital accumulation, are particularly relevant to the study as they enable commercial banks to anticipate and strategically respond to changes in interest rates, thereby optimizing their lending and investment strategies (Nzioka, 2012). This understanding is pivotal for banks operating in dynamic economic environments, enhancing their adaptability to interest rate fluctuations and influencing their overall financial performance.

In the context of GDP growth, classical and neoclassical models underscore the connection between economic expansion and heightened demand for financial services, improved credit quality, and increased profitability for commercial banks (Sarah, 2016). This study, rooted in economic growth theories, holds significant relevance for banks aiming to align their operations with broader economic trends. Additionally, the study's exploration of the relationship between unemployment and credit risk, guided by insights from endogenous growth theories, aids banks in evaluating risks associated with changes in employment rates. Understanding how these forces work together is critical for commercial banks, contributing to informed decision-making and risk management strategies that can safeguard their financial performance.

Moreover, economic growth theories play a crucial role in guiding commercial banks' strategies for mitigating the effects of inflation rate (Klink, 2019). Through comprehension of how inflation rate is linked to technological progress and overall economic development, banks are able to formulate proactive measures to navigate interest rate fluctuations, asset value changes, and purchasing power shifts. This study, rooted in economic growth theories, empowers commercial banks to anticipate and adapt to the multifaceted challenges posed by inflation rate, thereby contributing to the resilience and optimization of their financial performance within a dynamic economic environment.

EMPIRICAL REVIEW

Gross Domestic Product, or GDP, is a key metric in macroeconomics. It measures the total value of final goods and services produced in a country over a defined period, usually a year (Amstrong, 2017). Its primary function is to assess the whole economic performance and size of an economy. In the realm of commercial banks and their financial performance, GDP does not directly measure individual success or profitability. Nonetheless, banks performance is intricately linked to the broader economic conditions reflected in the GDP.

The financial performance of commercial banks is significantly influenced by the growth of Gross Domestic Product (GDP) in various ways (Gong, 2019). Positive impacts are observed during periods of robust GDP growth as businesses expand, and individuals seek loans for diverse purposes, stimulating higher demand for loans. This increased economic activity contributes to the expansion of commercial banks' loan portfolios, generating additional interest income. Conversely, economic downturns may lead to reduced loan demand and an elevated risk of loan defaults, impacting the quality of banks' loan portfolios negatively.

Furthermore, the relationship between GDP growth and interest rates plays a crucial role (Igan, 2018). Strong GDP growth may prompt central banks to raise interest rates to control inflation rate, benefiting commercial banks by increasing the interest income earned on loans. Conversely, during economic slowdowns, central banks may lower interest rates to stimulate economic activity, potentially compressing the net interest margin for banks and affecting profitability. Credit risk and asset quality are also affected by GDP growth. A growing economy generally improves the creditworthiness of borrowers, contributing to better asset quality for banks. In contrast, economic contractions can elevate credit risk, leading to an increase in non-performing loans and negatively impacting the asset quality of commercial banks.

Moreover, GDP growth influences investment opportunities for commercial banks. A thriving economy presents favorable conditions for profitable investments in various financial instruments and securities (López, 2019). Economic uncertainties or contractions, however, may limit investment opportunities, exposing banks to potential losses on their investment portfolios. The regulatory environment is another factor affected by GDP growth. Governments may adopt pro-growth policies during periods of economic strength, creating a favorable regulatory environment for commercial banks. Conversely, economic challenges may lead to regulatory changes aimed at stabilizing the financial system, imposing additional constraints or requirements on banks.

Empirical review on GDP growth in the financial performance of commercial banks have illustrated a variation of influences to the banking financial performance. One study published in the Journal of Banking Management by (Chen, 2020) on "Dynamic Markets and Banking Resilience" pointed out the relationship between GDP growth and financial performance of banks. The objective was to investigate the impact of volatility in GDP growth rates on the financial resilience of banks operating in dynamic markets. The methodology involved analyzing financial data from banks across different regions during periods of varying GDP growth rates in developed economies. The study assessed the banks' ability to withstand economic fluctuations, focusing on key financial indicators such as capital adequacy, liquidity, and asset quality. The findings suggested that banks in regions with more stable GDP growth demonstrated higher financial resilience, while those in volatile markets faced greater challenges in maintaining stability. A research gap identified in the study's area of research highlighted the need for analysis of banks in developing economies. The rationale for this gap was that the GDP growth of a developed economy could not perform at par with that of a developing economy.

Another study published in the International Journal of Banking and Economics evaluated the effectiveness of GDP growth on banking performance (Munoz, 2018). The study used a mixed-methods approach, combining interviews with the top banking management and observations of the GDP growth trends. The findings suggested that banks in regions with more stable GDP growth demonstrated higher financial resilience, while those in volatile markets faced greater challenges in maintaining stability leaving a gap in understanding the quantitative aspect of the GDP growth on the financial performance of banks.

METHODOLOGY

This study adopted a panel data approach to quantitative analysis, drawing from secondary data sourced from credible institutions for the years 2013 to 2022. This study examined how financial performance of Kenyan commercial banks is connected to both their size and the broader economic climate. To achieve this, reliable data was gathered from trusted sources: The Central Bank of Kenya (CBK) for interest rates and bank size figures, and the Kenya National Bureau of Statistics (KNBS) for factors like unemployment, economic growth, and inflation rate. The target population comprised all the registered 42 commercial banks that were operational in Kenya between the years 2013 and 2022.

Data collection involved extracting relevant macroeconomic indicators and financial performance metrics directly from reports published by bodies such as the Central Bank of Kenya. These reports served as the primary source of quantitative data on key economic variables such as GDP growth and financial performance metrics of commercial banks including asset quality, liquidity ratios, and profitability indicators. Data on interest rates was collected from the CBK financial reports for the years 2013 to 2022. This study analyzed data from year 2013 to 2022. To achieve this, quantitative methods aligned with the research goals were used.

Descriptive statistics like mean, standard deviation, and minimum, and maximum values was employed to summarize the data. These were presented visually using tables and graphs. Panel regression model was used to analyze the effect of GDP on financial performance of commercial banks in Kenya. To ensure proper usage, the research relied on secondary data sources. All data will be anonymized and handled according to ethical research standards to maintain confidentiality. Upon receiving permission, a letter will be obtained from the university to be presented to the National Commission for Science, Technology and Innovation (NACOSTI) for final approval.

FINDINGS AND DISCUSSION

Descriptive Analysis

Financial Performance

The overall rationale for this study was to investigate the relationship between macroeconomic factors and financial performance of commercial banks in Kenya. In this study, return on assets, abbreviated as ROA, was utilized as the measurement for financial performance. Table 1 shows the banking industry's return on asset ratio across the period between 2013 and 2022.

Table 1: Return on Asset (ROA)

Year	Mean	Sd	Min	Max
2013	0.0292	0.0278	-0.0749	0.0766
2014	0.0249	0.0293	-0.0697	0.0789
2015	0.0224	0.0265	-0.0453	0.0656
2016	0.0159	0.0333	-0.0701	0.0600
2017	0.0121	0.0372	-0.1414	0.0649
2018	0.0140	0.0301	-0.0809	0.0659
2019	0.0045	0.0490	-0.1353	0.0740
2020	-0.0051	0.0400	-0.1406	0.0382
2021	0.0011	0.0405	-0.1293	0.0533
2022	0.0059	0.0306	-0.1389	0.0418
Total	**0.0125**	**0.0362**	**-0.1414**	**0.0789**

Based on the results of the study shown in Table 1 above, return on assets in the banking industry was highest in 2013 where it stood at 3%, a ratio of 0.0292, after which the sector experienced back-to-back dip in profitability for the subsequent years for the period between 2014 and 2017, followed by a marginal increase in 2018. For the period covering 2019 through 2020, commercial banks exhibited a decreasing trend overtime in profitability recording the lowest mean of -0.0051 in the year 2020. Despite the declining financial performance, the Kenyan banking industry showed signs of resurgence for the years 2021 and 2022 where the average return on assets was 0.0011 and 0.0059 respectively. Even though the analyzed data revealed positive profitability for commercial banks in Kenya for the period 2013 through 2022, it is worth nothing that there are banks, which recorded negative performance as demonstrated by the negative minimum values. The overall standard deviation value of 0.0362 relative to the general mean of 0.0125 exemplify greater variability in profitability, signaling that there are banks that operated below the mean while others functioned above it.

The minimum negative profitability ratios of more than 10% for the years 2020 through 2022 espouse unsatisfactory performance for selected commercial banks in Kenya. In fact, evidence in form of the analyzed data indicate that there is a commercial bank in Kenya that recorded a negative return on assets of -0.1406 in the year 2020. The year 2020 was characterized by low profitability for the banking sector globally and this was mainly attributed to the COVID-19 pandemic, which, among other consequences, caused a rise in loan defaults. Country Central Banks implemented low-interest-rate policies to stimulate growth of their economies. In Kenya, CBK offered a moratorium on loan repayments for borrowers who had been impacted by the pandemic and provided banks with more liquidity. Figure 1 provides a visualization to show the trend in profitability of commercial banks in Kenya for the period covering 2013 through 2022.

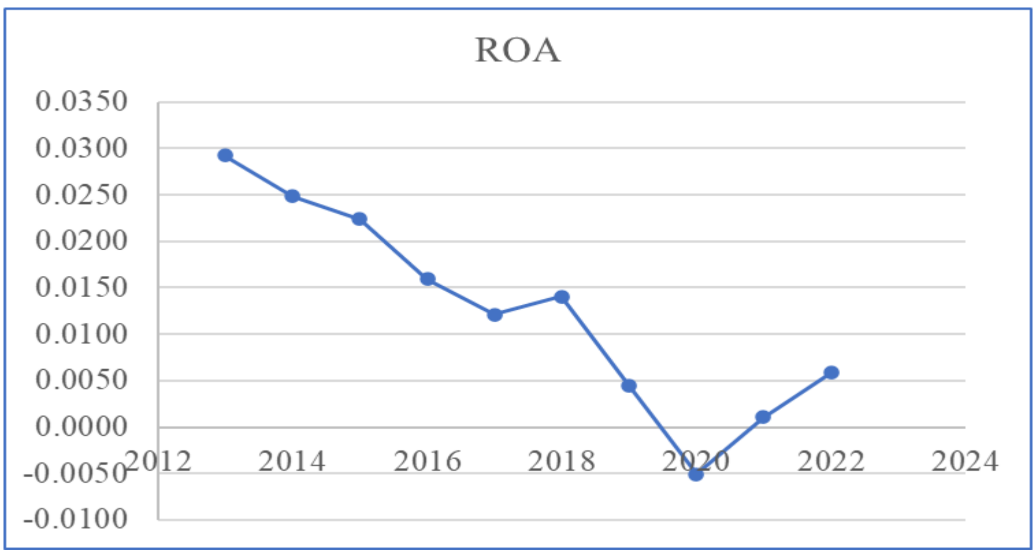

Figure 1: Return on Assets

GDP Growth

In this sub-section, the study utilized descriptive summarizes to examine GDP growth in the Kenyan economy for the period covering 2013 through 2022. GDP refers to the sum of total monetary value of all final goods and services produced within borders of a country in a defined time, typically within a year (Felice, 2024). Table 2 below summarizes the yearly GDP growth for the period between 2013 and 2022.

Table 2: GDP Growth

Year	**Mean**	**Min**	**Max**
2013	3.8	3.8	3.8
2014	5	5	5
2015	5	5	5
2016	4.2	4.2	4.2
2017	3.8	3.8	3.8
2018	5.6	5.6	5.6
2019	5.1	5.1	5.1
2020	-0.3	-0.3	-0.3
2021	7.6	7.6	7.6
2022	4.8	4.8	4.8
Total	**4.46**	**-0.3**	**7.6**

Table 2 above revealed that the overall mean of gross domestic product for the period between 2013 and 2022 stood at 4.46% with the highest being 7.6 in 2021. The sequence of growth rate indicate that GDP was lower in 2013 followed by an upsurge in 2014, a rate that remained uniform in the year 2015, after which it experienced a gradual decline in the year 2016 through 2017. GDP expanded rapidly in 2018 to reach the higher of 5.6% before a relatively small dip in 2019 (5.1%) and shrinking further to the lowest rate of -0.0003 in 2020. However, Kenya's economy grew sharply in 2021 to attain the highest rate of 7.6% after which it declined by a small margin in 2022. The graph below (Figure 2) presents the trend in GDP growth in Kenya.

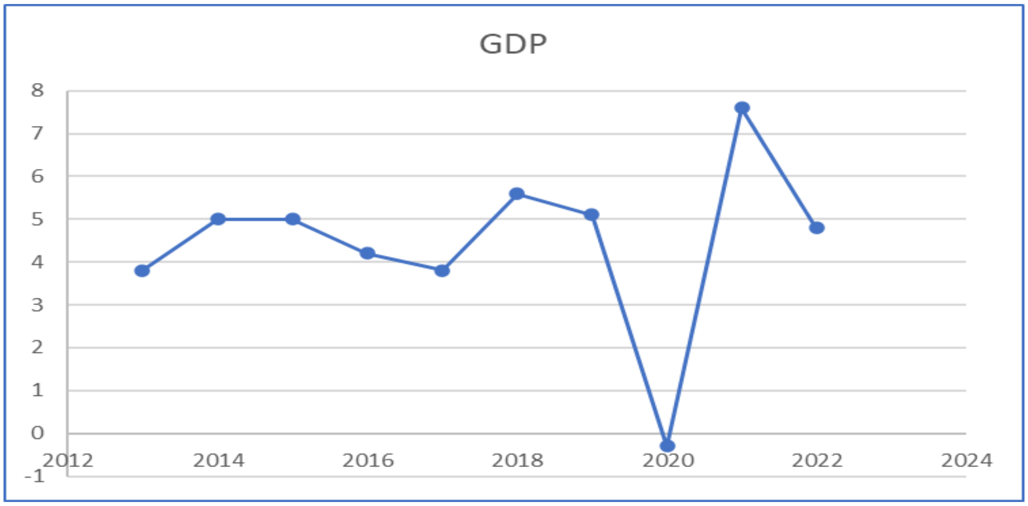

Figure 2: GDP Growth

Inferential Statistics

The study applied panel regression analysis to model the relationship between GDP and financial performance of commercial banks in Kenya. A random effects model and robust standard errors were included in the panel regression model to generate an output. The findings of the study indicated that one unit increase in GDP was associated with a 0.147 increase in ROA when other factors are held constant. The corresponding p-value was 0.048, which was less than 0.05, indicating the result was significant ($p<.05$).

The null hypothesis reflecting this particular objective stated that there was no significant relationship between GDP growth and the financial performance of commercial banks in Kenya. As per the findings of the study, GDP exhibited a positive and statistically significant relationship with ROA ($r=.147; p=.048; p<.05$). In effect, the study concluded that there was a significant relationship between GDP growth and the financial performance of commercial banks in Kenya. This suggests that as Kenya's gross domestic products increases, the likelihood of commercial banks performing financially better increases. This result differs with a study undertaken among private banks within the Ethiopian banking industry by Amene and Alemu (2019), which established that expansion in the country's GDP positively and insignificantly influenced return on assets, a result further reinforced by Kiganda (2014) who established that real GDP did not have an effect on bank profitability. However, the results of a study by Klein & Weill (2022) documented positive relationship both on the long-run and short-run between economic growth and bank profitability among a panel of 132 countries observed for the period between 1999 and 2013.

CONCLUSION

As established by the results of this study, this research work concluded that GDP significantly affected the financial performance of commercial banks in Kenya. The study concluded that GDP growth positively and significantly affected the return on assets of commercial banks.

RECOMMENDATIONS

The overall results of the study showed that GDP depicted statistically significant relationship with financial performance as measured by return on assets. GDP growth and financial performance were positively and significantly linked in this research work; thus, the study recommends that commercial banks should take advantage of periods of GDP growth to expand their lending activities, particularly to sectors that drive economic growth. Similarly, the government should support economic stability as this directly benefits the financial performance of banks. Policies that encourage investment, improve infrastructure, and enhance business environments can contribute to sustainable GDP growth.

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