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THE ROLE OF CAPITAL MARKET ON THE COMMERCIAL BANK GROWTH IN RWANDA. A CASE OF BANK OF KIGALI PLC (2015-2022)

NTAMUTURANO Celestin & Dr. MUHIRE Simon Charles, PhD

Student, University of Lay Adventist of Kigali, Rwanda
Lecturer, University of Lay Adventist of Kigali, Rwanda

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ABSTRACT

This research, titled the role of capital market on the growth of commercial banks in Rwanda, and BK Plc was selected as the case study. The research was guided by the following specific objectives, to determine the capital market services used by Bank of Kigali Plc, to analyze the level of growth of Bank of Kigali Plc during the period of 2016-2022 and to analyze the relationship between capital market and the growth of Bank of Kigali Plc. The study used both descriptive and correlational research design. In this respect, a descriptive design was used to describe the views of respondents on variables of the study and this was done using the questionnaires to collect primary data. The researcher also used correlational research design to measure the relationship between variables of study by using correlational analysis. The researcher selected all 36 employees from departments targeted by this research namely; corporate investment, finance, quality assurance and risk management. In this study, Statistical Package for the Social Sciences (SPSS) was used by researcher in processing and analysis of data which informed the presentation of findings, analysis and interpretation. The results indicated that the adjusted R^2 is 0.540 representing 54.0% indicating that capital market components contribute to the BK growth, while 0.475 representing 47.5% of BK Plc comes from other variables that were not included in the model one.

Key Words: *Capital, Market, Growth, Commercial, Banks*

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INTRODUCTION

Because they serve such a wide variety of purposes, financial markets all over the world are able to provide the many actors in the economy with their own particular package of benefits. For a corporation or other entity that is in need of financial help, domestic capital markets provide an alternative source of finance that can be utilized in conjunction with bank financing. Therefore, this research aimed at assessing the role of capital market on the commercial bank growth in Rwanda.

Study Objectives

The research was guided by the following specific objectives:

- To assess the capital market services used by Bank of Kigali Plc,
- To examine the level of growth of Bank of Kigali Plc during the period of 2016-2022,
- To analyze the relationship between capital market and the growth of Bank of Kigali Plc.

Statement of the Problem

One of the most important factors that contribute to the expansion of capital markets is a rising economy that requires new methods of financial intermediation in order to finance initiatives that are either too hazardous or too long-term for traditional commercial banks to undertake. In addition, it is already common knowledge that encouraging the growth of capital markets can, in and of itself, be a powerful impetus for both economic expansion and innovative activity. Over the course of many years, a significant amount of research has been directed toward analyzing the impact that financial markets have on economic growth (Capital Market Authority, 2017).

As commercial banks are looking for a way to diversify their portfolios, investing in stock has become one of the leading ways to invest money. However, banks struggle with making the right stock investment, since they all do not yield same returns as well as expectations in value growth (Reynolds, 2018). Rwanda as a country looking to attract investors especially those coming from abroad, has put an emphasis on all activities that can attract foreign investors including the capital market and one of the ways foreign investors can know if to invest and how much to invest in stock is through the analysis of CMA functioning which gives the clear image of the capital market in Rwanda (CMA, 2018).

Concerning the growth and performance of commercial banks, the report by National Bank of Rwanda (2021), revealed that most local banks lack enough liquidity to pay financial obligations to compete with the foreign banks. Between the year 2019 and 2021, banking sector faced dramatic turbulence where it was suffering from high levels of Non-Performing Loans, lack of liquidity, poor infrastructure, high operating losses and low profit levels. From these problems, the researcher wanted to assess the role of capital markets on the commercial banks' growth in Rwanda.

LITERATURE REVIEW

Kumar (2021), who is also the author of the paper, conducted research with the working title "Estimation of Market Capitalization and Economic Growth in India." He is also the author of the study. Capital formation is a vital feature of economic growth and development, and it plays a significant role in the production and distribution roles that are theorized in economic theory. Economic growth and development are not possible without it. It is reasonable to assume that a positive link between the accumulation of capital and additions to the stock of capital can make it possible for a faster rate of growth to take place. Historically, the expansion of the industrial, agricultural, and service sectors has been the primary factor in determining the rate of economic growth. On the other hand, the capital market is not only one of the most significant sectors for the production of capital but also has direct repercussions for economies all over the world. This study has a number of flaws, both in terms of its methodology and its actual findings. Despite the fact that there are many indicators of economic growth, the study only investigated a limited number of them and only used a limited sample of respondents. In the course of this particular inquiry, we did not test any hypotheses.

Jalloh (2022) did some research on the subject of "Capital market capitalization and economic growth: empirical evidence from Africa," and he published the results of his investigation. As a result, the goal of this study is to provide additional evidence on the relationship between capital market capitalization and economic growth by making use of current data from a selection of African nations that have capital markets that function efficiently as a sample. These nations include South Africa, Kenya, Nigeria, and Ghana. An technique that is based on dynamic panels is now being applied for the aim of establishing the amount to which the size of Africa's capital markets has contributed to the continent's overall rate of economic expansion. According to the findings of the study, a marginal increase of 10.0% in the capitalization of the capital market results in growth that is 5.4% greater in the countries that were analyzed. The findings of this research indicate that there is a correlation that is both positive and substantial between the increase of economic capitalization and the capitalization of financial markets. These findings need to act as encouraging signals for African governments to study capital markets as a potential path for the purpose of boosting economic advancement on the continent. As a direct consequence of this, it is crystal evident that the decision-makers in charge of African policy have an immediate and compelling need to dedicate their efforts toward the execution of policy measures that would support the development of capital markets in order to stimulate economic growth. The hypothesis was supposed to be tested with regression models, however the researchers in this study didn't end up using them. This oversight led to criticism of the research. Araoye, Ajayi, and Aruwaji (2020) conducted research to determine the impact that the expansion of the Nigerian capital market had on the rate of economic growth in Nigeria between the years 2016 and 2019. According to the results of their investigation, a key factor in determining the rate of economic expansion in Nigeria was the function that was played by the country's capital market. They proposed that the decision-makers who were in charge of regulating the market should encourage participation from foreign direct investment in order to make it easier to boost the market's overall capitalization. One of the accusations thrown against this work was that the hypothesis was not evaluated using regression models. This was one of the criticisms.

The writers Taiwo, Adedayo, and Evawere (2020) conducted research into the manner in which the growth of Nigeria's economy has been aided by the capital market. According to the conclusions of the research, the rate of market capitalization, the total value of listed securities, the labor force participation rate, accumulated savings, and capital formation are all major macroeconomic factors that influence the expansion of the economy in Nigeria. According to the conclusions of the study, in order for the capital market to realize all of its potentials, its environment should be enabled to promote and encourage investment opportunities for investors on a worldwide scale as well as local investors. This is necessary for the capital market to reach its full potential. The gap analysis that this research produced was severely limited due to the absence of any supporting evidence for empirical analysis.

A research project that was carried out by Achugbu (2020) and named "the Role of Capital market Development on Economic Growth in Nigeria" was able to be completed. This study investigated the effect that Nigeria's emerging capital markets have had on the overall economic expansion of the country by using a 15-year time series extending from 2010 to 2019. The years 2010 to 2019 are included in this time series. The analysis that is carried out in this situation makes use of the Ordinary Least Square (OLS) techniques. The aim of the study is to analyze the connection that exists between indices of capital market development and overall economic expansion. This will be accomplished by comparing and contrasting various economic growth measures. As proxies for market liquidity, the value traded ratio and the turnover ratio were utilized. The ratio of the market capitalization to the total market capitalization was used as a stand-in for the size of the market. According to the data, the ratio of turnover has a very strong positive correlation with economic growth. This stands in contrast to the ratio of market capitalization and the ratio of value exchanged, both of which have a very weak negative link with economic growth. The ratio of turnover has a very strong positive correlation with economic growth.

Enekwe (2022) investigated the extent to which the size of Nigeria's capital market contributed to the growth of the country's economy as a whole during the years 2019 and 2020. The Gross Domestic Product was chosen as the indicator to use for gauging the expansion of the money supply, and the market capitalization, the number of recorded securities, and the total value of securities that were exchanged were the components of the capital market that were taken into consideration throughout the analysis. According to the findings of the study, the size of a market's capitalization has a significant impact on economic growth even when it is considered in isolation. On the other hand, it is possible that the operations of the securities exchange had a greater impact on the economy than was originally envisaged. As a consequence of this, it was proposed that regulatory experts should become familiar with ICT policies in order to encourage more organizations to get to their reconnaissance to check sharp activities that poison the integrity of the market and disintegrate the confidence of financial supporters. This was done in order to encourage more organizations to get to their reconnaissance. The findings of this study have been criticized on the grounds that they do not provide sufficient information on the overall monetary expansion of Nigeria.

Torbira and Joshua (2021), using time series data for the years 2010–2012, explore how the development of capital markets, which is a subset of financial development, has openly influenced the economic growth of the Mexico, Indonesia, Nigeria, and Turkey (MINT) countries. These countries are referred to as the "MINT" countries. According to the findings, the indicator of capital market development that has the largest impact on the economic growth of the MINT as a whole is the quantity of financial securities that have been registered. This is because the quantity of registered financial securities represents the size of the capital market. This indicator was regarded as being favorable and strongly linked to gross domestic product (GDP), although it was regarded as being positive and significantly associated with gross fixed capital creation and gross domestic savings ratios to GDP. Statistics also show that expansion of the capital market has a generally good effect on Indonesia, particularly because it leads to an increase in gross fixed capital formation as well as gross domestic savings ratios.

Araoye et al. (2020) explored how the growth of Nigeria's capital market affects the overall economic expansion of the country using time series data covering 30 years, from 2016 to 2019. Their study covered the period from 2016 to 2019. The GDP was employed as an indicator of economic growth, while the capital market was represented by metrics such as market capitalization and market turnover ratio. The market's capitalization and turnover ratio were measures of its size and liquidity, respectively. According to the findings of the empirical research, the capital market appears to play a significant part in influencing the rate of economic growth in Nigeria. However, when the error correlation model was used, it was found that the capital market had only a minor effect on economic growth. This was a discovery that came about as a result of using the model. The gap analysis that this research produced was severely limited due to the absence of any supporting evidence for empirical analysis.

METHODOLOGY

The researcher used a descriptive research design in addition to a regression research methodology. Descriptive research is focused entirely on describing the individuals who take part in the study. Using questionnaires, the researcher collected data from the respondents as part of the descriptive study design, and then conducted analysis on that data.

A regression research design is a form of non-experimental research approach in which the researcher examines two variables, understands and evaluates the statistical relationship between them without the effect of any other variable that is not directly related to the topic of study. It was chosen since it elucidated very well the connection that exists between the two variables that were being investigated in this study.

The researcher selected 36 employees of BK from departments targeted by this research namely; corporate investment, finance, quality assurance and risk management

Statistical Package for the Social Sciences (SPSS) was utilized by the researcher in this investigation for the purpose of processing and analyzing the data, which in turn guided the presentation of findings, analysis, and interpretation.

FINDINGS

The factors that were used to make a prediction about the value of the dependent variable are referred to as the independent variables (or, on occasion, the predictor variables, explanatory variables, or regress variables).

The tested hypotheses were as follows;

- **H_0**: There is no relationship between capital market and the growth of Bank of Kigali Plc,
- **H_1**: There is a relationship between capital market and the growth of Bank of Kigali Plc.

Table 1: *Model Summary One*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724[a]	.524	.540	.59945

a. Predictors: (Constant), CR, FTF, VOF

b. Dependent variable: BK PLC Growth

Table 1 showed that the results indicated that the adjusted R^2 is 0.540 representing 54.0% indicating that capital market components contribute to the BK growth, while 0.475 representing 47.5% of BK Plc comes from other variables that are not included in the model one.

Table 2: *ANOVA for Model One*

	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	9.517	5	1.903	5.297	.000[b]
1	Residual	25.154	31	.359		
	Total	34.671	36			

a. Dependent Variable: BK PLC Growth

b. Predictors: (Constant), CR, FTF, VOF

From ANOVA Table, the F-test is 5.297 has a p-value = 0.000. This implied that all Functions of capital markets components variables jointly have positive and significant effect on BK growth. Therefore, H_01 which states that There is no relationship between capital market and the growth of Bank of Kigali Plc is not accepted at all levels of significance.

CONCLUSION, RECOMMENDATIONS, SUGGESTION FOR FUTURE RESEARCH

In conclusion, capital markets have a positive and significant effect on growth of commercial banks at all level of significance. After the outcomes of the research have been presented, the following suggestions were provided:

- A market should maintain its competitive market structure;

- A market should have a low level of fragmentation;
- Transaction costs should be kept to a minimum;
- A robust, secure, and reliable market infrastructure should be ensured;
- Heterogeneity of market participants should be encouraged; and
- A market should have a low level of volatility.

At the end of the study, the researcher does not claim to have investigated every aspect of his research topic; rather, the researcher just marked the starting point for further investigation and encourages other scholars to continue this line of inquiry. As a result, the researcher suggested the following subject matter: the impact of RSE on economic growth.

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