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FIRM CHARACTERISTICS AND CREDIT CREATION OF LISTED COMMERCIAL BANKS IN EAST AFRICA

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ABSTRACT

The integration of commerce within East Africa's financial sector is hindered by the inconsistent credit creation capacities of listed commercial banks, influenced by firm-specific characteristics. This study examined the relationship between management efficiency, capital adequacy, asset quality, and bank size, and their impact on credit creation among 26 listed commercial banks in East Africa between 2018 and 2023. Using a descriptive research design and secondary data from annual reports and regulatory filings, panel data regression analysis revealed significant positive relationships between the independent variables and credit creation. Management efficiency showed a coefficient of 0.129 with a p-value of 0.006, indicating that improved management practices enhance credit creation. Capital adequacy had a coefficient of 0.243 with a p-value of 0.035, demonstrating that well-capitalized banks are better positioned to expand lending. Asset quality revealed a coefficient of 0.175 with a p-value of 0.007, suggesting that effective risk management sustains credit growth. Bank size emerged as the most influential factor, with a coefficient of 0.321 and a p-value of 0.000, affirming the role of economies of scale in enhancing credit creation. The findings emphasize the importance of internal reforms, including operational efficiency and risk management, to optimize credit creation. Policymakers are urged to establish regulatory frameworks that balance financial stability with credit availability. This study contributes to the understanding of credit creation dynamics in emerging markets, offering insights for banks, regulators, and researchers. Future research should explore the role of governance structures and fintech adoption in shaping credit creation.

Keywords: Credit Creation, Management Efficiency, Capital Adequacy, Asset Quality, Bank Size, East Africa

1.0 INTRODUCTION

1.1 Background to the Study

The financial sector is a cornerstone of economic development, providing the infrastructure for savings mobilization, investment financing, and risk management. In East Africa, commercial banks play a pivotal role in this ecosystem by acting as intermediaries between savers and borrowers, thereby facilitating credit creation. Credit creation, the process through which banks

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generate new loans from deposits, is critical for stimulating economic activities such as business expansion, infrastructure development, and household consumption. However, the ability of banks to create credit is influenced by a combination of internal and external factors, including regulatory policies, market conditions, and firm-specific characteristics.

In recent years, East Africa has witnessed significant economic growth, driven by advancements in technology, regional integration, and increased foreign investment. Despite this progress, access to credit remains a persistent challenge, particularly for small and medium-sized enterprises (SMEs) and other underserved sectors. Listed commercial banks, which represent some of the largest and most regulated financial institutions in the region, are uniquely positioned to address this gap. However, their performance in credit creation has been inconsistent, with some banks demonstrating robust growth while others struggle to maintain stable credit portfolios.

Globally, the banking industry has undergone transformative changes due to technological advancements and evolving regulatory frameworks. For instance, financial technology (fintech) firms have disrupted traditional banking models, compelling banks to innovate and improve operational efficiency. In East Africa, fintech adoption has been relatively high, with mobile money platforms like M-Pesa revolutionizing financial inclusion. Yet, traditional banks face challenges in leveraging these technologies to enhance credit creation. Internally, factors such as management efficiency, capital adequacy, and asset quality have emerged as critical determinants of a bank's ability to generate credit. These firm-specific characteristics influence not only the volume of credit created but also the quality and sustainability of lending practices.

1.2 Problem Statement

Despite their central role in the financial ecosystem, listed commercial banks in East Africa face significant challenges in optimizing their credit creation capacity. These challenges are compounded by rising levels of non-performing loans (NPLs), inconsistent management practices, and stringent regulatory requirements. For instance, by the end of 2019, the average NPL ratio in Kenya had risen to 12%, reflecting deteriorating asset quality and increasing credit risk. Similar trends have been observed in Tanzania and Uganda, where economic volatility and weak risk management practices have exacerbated the problem.

The variability in credit creation among listed commercial banks raises critical questions about the underlying factors influencing their performance. While some banks have successfully expanded their credit portfolios, others have struggled to maintain financial stability. Existing research has highlighted the importance of firm characteristics—such as management efficiency, capital adequacy, and asset quality—in shaping banking performance. However, most of these studies have focused on developed economies or other regions, with limited attention to the unique dynamics of East Africa's banking sector.

Moreover, the interplay between firm characteristics and external factors, such as regulatory frameworks and economic conditions, remains poorly understood. For instance, while capital adequacy is widely recognized as a critical determinant of credit creation, its impact may vary depending on the regulatory environment and market conditions. Similarly, the role of bank size as a moderating factor in credit creation has received little empirical attention in the East

African context. Addressing these gaps is essential for developing targeted interventions that enhance credit creation while ensuring financial stability.

1.3 Objectives of the Study

The overarching objective of this study was to examine the relationship between firm characteristics and credit creation among listed commercial banks in East Africa. Specifically, the study sought to:

i. Evaluate the effect of management efficiency on credit creation.
ii. Assess the impact of capital adequacy on credit creation.
iii. Analyze the influence of asset quality on credit creation.
iv. Investigate the moderating role of bank size on the relationship between firm characteristics and credit creation.

1.4 Significance of the Study

The findings of this study have far-reaching implications for policymakers, bank managers, and researchers. Policymakers can leverage the insights to design regulatory frameworks that balance financial stability with the need for increased credit availability. For instance, understanding the impact of capital adequacy requirements on credit creation can inform policies that encourage sustainable lending practices.

For bank managers, the study underscores the importance of internal factors such as management efficiency and asset quality in enhancing credit creation. By adopting best practices in risk management and operational efficiency, banks can improve their credit portfolios and contribute to economic growth. The study also highlights the potential of bank size as a strategic lever for optimizing credit creation, providing actionable insights for scaling operations and improving market competitiveness.

From an academic perspective, this research fills a critical gap in the literature by focusing on the East African banking sector, which has received limited empirical attention compared to other regions. The study's findings contribute to the broader discourse on credit creation and financial intermediation, offering a foundation for future research on banking performance in emerging markets.

1.5 Scope of the Study

This study focused on the 26 listed commercial banks operating in East Africa, covering the period from 2018 to 2023. By analyzing secondary data from annual reports and regulatory filings, the research examined the impact of key firm characteristics—management efficiency, capital adequacy, asset quality, and bank size—on credit creation. The study was grounded in the Buffer Capital Theory and Efficient Structure Hypothesis, providing a theoretical lens to interpret the findings. The scope was limited to listed banks due to their regulatory compliance and data availability, ensuring the reliability and validity of the analysis.

2.0 LITERATURE REVIEW

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The literature review explores the theoretical underpinnings and empirical findings relevant to the study, focusing on the relationship between firm characteristics and credit creation. The discussion begins with the theoretical framework, which provides the foundation for understanding how various factors influence credit creation. This is followed by a synthesis of empirical studies that highlight the significance of management efficiency, capital adequacy, asset quality, and bank size in shaping the performance of commercial banks.

The theoretical framework for this study is grounded in four key theories: Buffer Capital Theory, Efficient Structure Hypothesis, Financial Intermediation Theory, and Agency Theory. The Buffer Capital Theory posits that banks maintain capital buffers above regulatory requirements to absorb unexpected losses and avoid penalties. This theory highlights the importance of capital adequacy in ensuring financial stability and sustaining credit creation. In environments characterized by economic volatility, such as East Africa, capital adequacy serves as a critical determinant of a bank's ability to extend credit. The theory emphasizes that well-capitalized banks are better positioned to withstand financial shocks, thereby maintaining their lending capacity even in uncertain conditions.

2.1 The Efficient Structure Hypothesis

The Efficient Structure Hypothesis suggests that managerial efficiency is a primary driver of bank performance. According to this theory, banks that operate with greater efficiency are able to minimize operational costs and optimize resource allocation, which enhances profitability and credit creation. The hypothesis further argues that efficiency, rather than market power or size, is the key to achieving competitive advantage. In the context of East African banks, where resources are often constrained, managerial efficiency plays a crucial role in determining the ability of banks to expand their credit portfolios.

2.2 Financial Intermediation Theory

Financial Intermediation Theory highlights the role of banks as intermediaries between savers and borrowers. By mobilizing deposits and extending credit, banks facilitate economic growth and financial inclusion. This theory underscores the importance of internal bank characteristics, such as asset quality and capital adequacy, in enhancing the efficiency of financial intermediation. In East Africa, where access to credit remains a significant challenge, the ability of banks to perform their intermediation role effectively is influenced by their internal attributes.

2.3 Agency Theory

Agency Theory examines the relationship between principals, such as shareholders, and agents, such as bank management. In the banking sector, agency conflicts may arise when management prioritizes short-term gains over long-term stability. Governance structures that align management incentives with shareholder interests can mitigate these conflicts, thereby enhancing credit creation and overall bank performance. In East African listed banks, where governance practices vary widely, Agency Theory provides a lens for understanding how management decisions influence lending practices and risk appetite.

2.4 Empirical Literature

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Empirical studies on the relationship between firm characteristics and credit creation provide valuable insights into the dynamics at play. Research on management efficiency consistently highlights its role in reducing non-performing loans and enhancing credit creation. A study conducted in Nigeria found that efficient management practices significantly reduced non-performing loans, thereby improving the credit performance of banks. Similar findings were reported in Pakistan, where operating efficiency was shown to have a positive impact on credit creation. However, studies in East Africa suggest that managerial inefficiencies, often reflected in high operational costs, remain a challenge for many banks in the region.

Capital adequacy has been widely studied as a determinant of credit creation. Research conducted in Kenya revealed that stringent capital requirements influence loan demand and credit supply, underscoring the importance of maintaining adequate capital buffers. In Indonesia, a positive relationship was found between capital adequacy and non-performing loans, suggesting that well-capitalized banks are better equipped to manage credit risk. Despite these findings, the specific impact of capital adequacy on credit creation in East African listed banks remains underexplored, highlighting the need for further research in this area.

Asset quality, often measured by the ratio of loan loss provisions to gross loans, reflects a bank's ability to manage credit risk effectively. Studies in Kenya have demonstrated that asset quality significantly influences the financial performance of savings and credit cooperative societies, with higher-quality assets associated with improved credit creation. Research in Tanzania has also highlighted the challenges posed by macroeconomic factors and regulatory frameworks in maintaining asset quality. These findings underscore the importance of prudent credit management practices in sustaining the health of a bank's asset portfolio.

The relationship between bank size and credit creation is complex and varies across contexts. Studies in Kenya have shown that larger banks benefit from economies of scale, which enhance efficiency and profitability. However, other research suggests that larger banks may face bureaucratic inefficiencies, which can undermine their performance. In East Africa, the role of bank size as a moderating factor in credit creation has received limited empirical attention, leaving room for further investigation.

The reviewed literature highlights the critical role of firm characteristics in shaping the credit creation capacity of banks. While studies from other regions provide valuable insights, their findings may not fully apply to the East African context due to differences in regulatory environments, economic conditions, and market dynamics. This underscores the importance of conducting region-specific research to understand the unique challenges and opportunities facing East African listed banks.

3.0 RESEARCH METHODOLOGY

This section describes the research design, target population, data collection methods, and analytical approaches used to examine the relationship between firm characteristics and credit creation among listed commercial banks in East Africa. The study employed a structured approach to ensure the reliability and validity of the findings, with a focus on addressing the research objectives comprehensively.

The research adopted a descriptive design, which was deemed appropriate for exploring the relationships between the study variables without manipulating them. This design facilitated the collection of detailed data on the characteristics and behaviors of listed commercial banks, providing a clear depiction of the factors influencing credit creation. A descriptive approach also enabled the researcher to identify patterns and trends within the data, offering valuable insights into the dynamics of the East African banking sector.

The target population for this study comprised all 26 listed commercial banks operating in East Africa. These banks were selected due to their significant role in the financial sector and their compliance with regulatory reporting requirements, which ensured the availability of reliable data. By focusing on listed banks, the study aimed to capture a comprehensive view of the sector's performance, risk management practices, and credit creation capabilities. The choice of this population was further justified by the manageable size of the dataset, which allowed for an in-depth analysis of all banks without the need for sampling.

The study relied primarily on secondary data, which was collected from publicly available financial reports, regulatory filings, and industry publications. The data covered a five-year period from 2018 to 2023, ensuring a sufficient timeframe for analyzing trends and relationships. Key variables of interest included management efficiency, capital adequacy, asset quality, and bank size, as well as credit creation, which served as the dependent variable. The data collection process involved a thorough review of annual reports and disclosures from the listed banks, as well as cross-referencing with reports from regulatory bodies such as the Central Bank of Kenya, Bank of Uganda, and Bank of Tanzania to ensure accuracy and consistency.

Data processing and analysis were conducted using STATA statistical software. The analysis included both descriptive and inferential techniques to provide a comprehensive understanding of the relationships between the study variables. Descriptive statistics were used to summarize the data, highlighting measures of central tendency, variability, and distribution. These statistics offered an overview of the characteristics of the listed commercial banks, facilitating the identification of key trends and patterns.

Inferential analysis was conducted using panel data regression models, which were chosen for their ability to account for both cross-sectional and time-series variations within the dataset. The fixed effects and random effects models were employed to estimate the relationships between the independent variables and the dependent variable. The fixed effects model controlled for unobserved heterogeneity across banks, while the random effects model assumed that the bank-specific effects were uncorrelated with the independent variables. The Hausman test was used to determine the most appropriate model for the analysis, ensuring the robustness of the findings.

Several diagnostic tests were conducted to validate the assumptions underlying the regression models. Normality tests were performed to assess the distribution of the variables, with the Jarque-Bera test used to evaluate skewness and kurtosis. Multicollinearity was examined using the Variance Inflation Factor, ensuring that the independent variables were not highly correlated. Heteroscedasticity was tested using the modified Wald test for groupwise heteroscedasticity, while the Wooldridge test was applied to detect autocorrelation in the panel data. These diagnostic tests ensured the reliability of the regression results and enhanced the overall validity of the study.

Ethical considerations were integral to the research process, particularly given the use of financial and operational data from listed commercial banks. Necessary approvals were obtained from relevant authorities, including KCA University and the National Commission for Science, Technology, and Innovation. The researcher adhered to principles of confidentiality, ensuring that no sensitive or proprietary information was disclosed. All data was anonymized where necessary, and findings were presented transparently and without bias. Proper citation of sources was maintained to avoid plagiarism and to acknowledge the contributions of previous research.

4.0 FINDINGS AND DISCUSSIONS

This section presents the findings of the study, which sought to examine the relationship between firm characteristics and credit creation among listed commercial banks in East Africa. The analysis included descriptive statistics, trend analysis, and inferential statistics, providing insights into the dynamics of the variables under study. The results are presented systematically to address the research objectives, with tables included to enhance clarity and comprehension.

4.1 Descriptive Statistics

The descriptive statistics provide a summary of the key variables, including management efficiency, capital adequacy, asset quality, bank size, and credit creation. These statistics include measures of central tendency (mean), variability (standard deviation), and the range of the data (minimum and maximum values).

Variable	Mean	Std. Dev.	Min	Max
Management Efficiency (ME)	0.52	0.06	-0.38	0.67
Capital Adequacy (CAR)	0.18	0.02	0.12	0.21
Asset Quality (AQ)	0.08	0.03	0.03	0.16
Bank Size (BS)	21.33	1.20	18.85	23.33
Credit Creation (CC)	17.30	2.35	14.20	20.50

The results indicate that management efficiency had a mean of 0.52, suggesting moderate efficiency levels across the banks. Capital adequacy showed a mean of 0.18, reflecting a generally healthy capital buffer relative to risk-weighted assets. Asset quality, with a mean of 0.08, suggests a moderate level of loan quality. Bank size averaged 21.33, indicating the scale of operations, while credit creation had a mean of 17.30, reflecting the banks' capacity to generate credit.

4.2 Trend Analysis

Trend analysis was conducted to examine the performance of the banks over the study period (2018–2023). The results revealed significant variability in management efficiency, capital adequacy, and asset quality across the banks. For instance, management efficiency improved consistently in some banks, such as Equity Bank and CRDB Bank, while others, such as HF Group, experienced fluctuations.

Capital adequacy remained relatively stable across the study period, with most banks maintaining levels above the regulatory minimum. However, variations were observed in asset quality, with some banks showing significant improvements while others struggled with rising non-performing loans. Bank size demonstrated consistent growth across the banks, reflecting an expansion in operations and market presence.

4.3 Inferential Statistics

Inferential analysis was conducted using panel data regression models to evaluate the relationships between the independent variables (management efficiency, capital adequacy, and asset quality) and the dependent variable (credit creation). The results of the fixed effects and random effects models are summarized in the table below.

Variable	Fixed Effects Coefficient	Random Effects Coefficient	P-value
Management Efficiency (ME)	0.129	0.115	0.006
Capital Adequacy (CAR)	0.243	0.230	0.035
Asset Quality (AQ)	0.175	0.160	0.007
Bank Size (BS)	0.321	0.310	0.000

The findings indicate that all the independent variables had a statistically significant positive influence on credit creation. Management efficiency showed a coefficient of 0.129 with a p-value of 0.006, suggesting that improvements in management practices significantly enhance credit creation. Capital adequacy had a coefficient of 0.243 with a p-value of 0.035, supporting the premise that well-capitalized banks are better positioned to expand their lending activities. Asset quality demonstrated a coefficient of 0.175 with a p-value of 0.007, indicating that effective risk management contributes to sustained credit growth. Bank size had the strongest impact, with a coefficient of 0.321 and a p-value of 0.000, affirming the role of economies of scale in banking operations.

4.4 Diagnostic Tests

Several diagnostic tests were conducted to validate the regression models. The Jarque-Bera test confirmed that the variables were normally distributed, with p-values exceeding 0.05. Multicollinearity was assessed using the Variance Inflation Factor, and no significant issues were detected, as all VIF values were below the threshold of 10. The modified Wald test for heteroscedasticity revealed no evidence of non-constant variances, while the Wooldridge test indicated the absence of autocorrelation in the panel data. The Hausman test favored the fixed effects model, confirming its suitability for the analysis.

5.0 DISCUSSION

The findings of this study shed light on the relationship between firm characteristics and credit creation among listed commercial banks in East Africa. The discussion integrates the empirical results with theoretical insights and existing literature, highlighting the implications for bank management, policymakers, and researchers.

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The study established that management efficiency positively influences credit creation, as evidenced by a statistically significant coefficient of 0.129. This finding aligns with the Efficient Structure Hypothesis, which posits that banks with better management practices are more competitive and profitable. Efficient management reduces operational costs, improves resource allocation, and enhances the ability to generate credit. The results corroborate the findings of Bolarinwa and Akinyele, who demonstrated that managerial efficiency reduces non-performing loans and improves credit performance. In the East African context, banks such as Equity Bank and CRDB Bank, which consistently improved their efficiency ratios, serve as practical examples of how effective management can drive credit growth. However, the challenges faced by banks like HF Group, which experienced fluctuations in efficiency, underscore the need for sustained operational reforms and investments in capacity-building initiatives.

Capital adequacy emerged as a critical determinant of credit creation, with a coefficient of 0.243 and a p-value of 0.035. This finding supports the Buffer Capital Theory, which emphasizes the importance of maintaining capital buffers to absorb losses and sustain lending activities. Well-capitalized banks are better equipped to navigate economic shocks and regulatory requirements, enabling them to expand their credit portfolios. The results are consistent with studies by Barngetuny, who highlighted the influence of capital adequacy on loan demand in Kenya, and Yulianti and Aliamin, who found a positive relationship between capital adequacy and non-performing loans in Indonesia. In East Africa, where economic volatility is prevalent, capital adequacy plays a dual role in ensuring financial stability and facilitating credit creation. Policymakers should consider these findings when designing regulatory frameworks, as overly stringent capital requirements could constrain lending, particularly for smaller banks.

Asset quality was found to have a significant positive effect on credit creation, with a coefficient of 0.175 and a p-value of 0.007. This result highlights the importance of effective risk management in sustaining credit growth. High-quality assets, characterized by low levels of non-performing loans, enable banks to maintain liquidity and profitability, which are essential for credit expansion. The findings are consistent with the work of Barus and Koima, who demonstrated the influence of asset quality on the financial performance of Kenyan SACCOs, and Izundu et al., who emphasized the role of prudent credit management in enhancing asset stability. In the East African banking sector, variations in asset quality reflect differences in risk management practices and economic conditions. For instance, the relatively higher non-performing loan ratios observed in Kenyan banks highlight the need for enhanced credit appraisal and monitoring systems to mitigate credit risk.

Bank size was identified as the most influential factor, with a coefficient of 0.321 and a p-value of 0.000. This finding affirms the role of economies of scale in enhancing credit creation, as larger banks benefit from cost efficiencies and greater access to resources. The results align with studies by Teimet et al., who found that larger banks in Kenya exhibit improved efficiency and profitability, and Mwangi, who demonstrated a positive correlation between bank size and financial performance. However, the potential drawbacks of larger size, such as bureaucratic inefficiencies and increased monitoring costs, should not be overlooked. The findings suggest that while larger banks have a competitive advantage in credit creation, smaller banks can also

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enhance their performance by adopting innovative practices and leveraging technology to improve efficiency.

The interplay between firm characteristics and credit creation has important implications for the East African banking sector. The findings highlight the need for a balanced approach that addresses both internal and external factors. Internally, banks should prioritize investments in management training, risk management systems, and capital optimization strategies to enhance their credit creation capacity. Externally, regulators should create an enabling environment that supports sustainable lending practices while maintaining financial stability. For example, policies that incentivize banks to improve asset quality and management efficiency could have a positive impact on credit creation without compromising regulatory compliance.

The results also underscore the importance of tailoring interventions to the unique challenges and opportunities within the East African context. While the findings are consistent with global trends, regional factors such as economic volatility, regulatory diversity, and the impact of fintech adoption require localized solutions. For instance, the rapid growth of mobile money platforms in East Africa presents an opportunity for banks to expand their credit offerings, particularly in underserved rural areas. By integrating digital technologies into their operations, banks can enhance their efficiency, reduce costs, and reach a broader customer base.

From a theoretical perspective, the study contributes to the understanding of how firm characteristics influence credit creation in emerging markets. The findings validate the relevance of the Buffer Capital Theory, Efficient Structure Hypothesis, and Financial Intermediation Theory in explaining the dynamics of credit creation in the East African banking sector. However, the role of governance structures, as highlighted by Agency Theory, warrants further investigation. Future research could explore how variations in governance practices across banks influence their risk appetite and lending behavior.

6.0 CONCLUSION AND RECOMMENDATIONS

The study examined the relationship between firm characteristics and credit creation among listed commercial banks in East Africa, focusing on management efficiency, capital adequacy, asset quality, and bank size. The findings revealed that all these factors significantly influence the ability of banks to create credit, highlighting their importance in shaping the financial performance and resilience of the banking sector.

Management efficiency emerged as a critical determinant of credit creation, with efficient banks demonstrating superior capacity to allocate resources, reduce costs, and enhance lending activities. The findings emphasize the need for banks to invest in operational improvements and managerial training to optimize efficiency and maintain competitive advantage. Efficient management practices not only improve profitability but also mitigate risks associated with non-performing loans, thereby contributing to sustainable credit growth.

Capital adequacy was found to play a pivotal role in credit creation, affirming the relevance of maintaining adequate capital buffers to absorb financial shocks and meet regulatory requirements. The results underscore the dual importance of capital adequacy in ensuring financial stability and enabling banks to expand their credit portfolios. Policymakers should strike a balance between enforcing capital adequacy standards and allowing banks the flexibility to innovate and grow. Overly stringent requirements may stifle lending, particularly for smaller banks, while insufficient oversight could expose the sector to systemic risks.

Asset quality was shown to have a significant positive effect on credit creation, highlighting the importance of effective risk management in sustaining the health of a bank's loan portfolio. High-quality assets reduce the likelihood of defaults, enhance liquidity, and provide a stable foundation for credit expansion. The findings call for banks to adopt robust credit appraisal and monitoring systems to mitigate credit risk and maintain asset quality. Additionally, macroeconomic stability and supportive regulatory frameworks are essential for fostering an environment where banks can manage risks effectively.

Bank size emerged as the most influential factor, with larger banks benefiting from economies of scale and greater access to resources, enabling them to generate higher volumes of credit. However, the potential drawbacks of size, such as bureaucratic inefficiencies, should not be overlooked. Smaller banks can enhance their competitiveness by leveraging technology, improving operational efficiency, and adopting innovative practices to expand their credit offerings.

The findings have significant implications for policymakers, bank managers, and researchers. For policymakers, the study highlights the need to create an enabling regulatory environment that supports sustainable credit creation while maintaining financial stability. Policies that incentivize efficiency improvements, promote capital adequacy, and encourage effective risk management can enhance the overall performance of the banking sector. For bank managers, the results underscore the importance of internal reforms and strategic investments in management practices, risk management systems, and technological innovations. By addressing these areas, banks can improve their credit creation capacity and contribute to economic growth.

The study also contributes to the academic literature by providing empirical evidence on the relationship between firm characteristics and credit creation in the East African context. While the findings align with global trends, they underscore the importance of considering regional factors, such as economic volatility, regulatory diversity, and the impact of fintech adoption, in shaping banking performance. Future research could explore the role of governance structures, market competition, and technological advancements in influencing credit creation, providing deeper insights into the dynamics of the East African banking sector.

7.0 RECOMMENDATIONS

This study provides insights into the relationship between firm characteristics and credit creation among listed commercial banks in East Africa. Based on the findings, the following recommendations are proposed to enhance credit creation within the region's banking sector.

Banks should invest in improving their operational efficiency, as the study found a significant positive relationship between management efficiency and credit creation. Management practices should focus on optimizing the cost-to-income ratio, reducing operational redundancies, and enhancing decision-making processes. This can be achieved through targeted training for bank managers and the adoption of performance monitoring tools to track efficiency levels over time.

The positive influence of capital adequacy on credit creation highlights the need for banks to maintain sufficient capital buffers. Banks should focus on strategic capital planning, including retaining earnings and seeking equity injections where necessary. This will enable them to meet regulatory requirements while sustaining their lending activities. Policymakers should consider adopting flexible regulatory frameworks that allow banks to optimize their capital structures without compromising financial stability.

The findings underscore the importance of asset quality in sustaining credit creation. Banks must adopt robust credit appraisal and monitoring systems to minimize the risk of non-performing loans. Strengthening risk management practices, including regular stress testing and portfolio reviews, can help ensure that loan quality remains high. Policymakers should also consider implementing supportive measures, such as guidelines for prudent lending and incentives for maintaining high asset quality.

Bank size emerged as the most significant factor influencing credit creation. Larger banks should leverage their economies of scale to optimize operational efficiency and expand their credit portfolios. Smaller banks, on the other hand, should explore partnerships and collaborations, such as shared service models, to enhance their competitiveness. Additionally, smaller banks can adopt technology-driven solutions to improve efficiency and reduce costs, enabling them to compete effectively with larger institutions.

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