
Monetary Policy And Currency Stability in Kenya

Introduction

This chapter covers background information of the study, the statement of the problem, the general and specific objectives of the study, research hypothesis, significance of the study and scope of the study.

A country's currency plays a crucial role in its economic growth

Problem Statement:

Kenya's vision 2030 is aimed at ensuring that Kenya achieves a middle income economy by the year 2030. However, the Kenyan currency, that is, Kenya Shilling has been experiencing series of fluctuations whereby it has been weakening at an alarming rate. Weakening currency as compared to other international currencies such as US Dollar would be detrimental to achieving necessary Gross Domestic Product growth in order to put Kenyan economy to a better position. GDP had been aimed at 10% by 2030. According to International Monetary Fund, in October 11, 2011, Kenya Currency had hit a bedrock low of 107 Shillings per US Dollar. This was an historic low that Kenyan currency had reached. This led to putting up of measures by the Central Bank of Kenya that were thought to be better in curbing the menace once and for all. This seemed not to auger because by early 2015, Kenya Shilling had also started showing signs of devaluation. This did not seem to be the point of concern to many economic analysts since it seemed a normal slip up. Nevertheless this persisted leading to crossing 100 Shilling mark compared to US Dollar. Why does this seem to be a recurrent menace? Is it because of ineffective monetary policies by responsible parties. Kenya's economy has been a giant economy for entire East Africa region but the rate the currency stabilizes is worrying and might affect this dominance in near future. In order to improve the efficiency of Kenya's monetary policy, there is a need to examine its impacts on currency stability. This would help in recommending to the government, through the Central Bank, the kind of measures to enhance price of currency stability in order to thrive in a prosperous economy. Such measures include the use of real interest rates in form of price of liquidity and reserved money which is the same as quantity of liquidity. Also, Repo rates is another point of interest that would help in understanding the fluctuations as exchange rates.

Objectives:

To determine the impacts of monetary policy initiated by CBK on stability of Kenya Shilling

1. To determine the effect of Repo rates on currency stability in Kenya.
2. To determine the effect of money supply on currency stability in Kenya.
3. To determine the effect of real interest rate on currency stability in Kenya.

Research questions:

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- Does monetary policy affect currency stability in Kenya?
 - Does Repo rate affect the stability of Kenya Shilling?
 - In which way does money supply influence stability of Kenya currency?
 - Does real interest rates affect the stability of Kenya currency?

Scope of the study

This research concentrated on the Kenya's monetary policy in taking care of stability of its currency .It sought to investigate its effectiveness whereby it has been

questionable of late how those policies and tools are effective in controlling the stability of Kenya shilling. It covered a period of thirteen years, that is, from 2004 to 2016. Monetary policy is the independent variable while currency stability is the depend variable. It is based on the data from the Central Bank of Kenya's website and Equity bank secondary data. Significance of the study.

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