



**MAKERERE**

**UNIVERSITY**

**IMPACT OF INFLATION ON KENYA'S ECONOMIC GROWTH**

**BY**

**ZALA JACKLINE PINKY**

**2016/HD06/1199K**

**SUPERVISOR**

**DR. BRUNO L. YAWE**

**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF BUSINESS AND  
MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR THE AWARD OF A MASTERS OF ARTS  
ECONOMIC POLICY MANAGEMENT DEGREE OF  
MAKERERE UNIVERSITY**

## ABSTRACT

This study investigated the impact of inflation on economic growth of Kenya. It was motivated by the constant rise in inflation which is also accompanied by a decline in economic growth of Kenya. Using time series data for the years 1985 to 2016, the study employed the Augmented Dickey Fuller ADF test for unit root co-integration analysis and Vector error correction model and ordinary Least Square Method (OLS). The empirical evidence from the (ADF) test for unit root reveals not all the variables were stationary in levels except Gross Domestic Product (GDP), Inflation (INF) and Real Interest Rate (RIR). However, Money Supply (M2) and Exchange Rate (EXR) became stationary after first differencing. The co integration shows that there is a significant long run relationship between Inflation and Economic growth; the Vector error correction Model (VECM) results shows adjustment toward equilibrium by 16% within a year. The OLS results show that Inflation (INF) and Broad Money (M2) increases Economic Growth while Interest Rate (RIR) and Exchange Rate (EXR) negatively affects economic growth Economic Growth (GDP). The above result shows that inflation is a serious macroeconomic problem in the Kenyan economy. This study therefore recommends that government should put in place strong fiscal policies that will regulate inflation and other macroeconomic variables like interest rate and exchange rate has they may in turn negatively affect economic growth .

**Key Words;** Inflation and Economic growth