The Effects of Inflation on The Economic Growth in Kenya

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Abstract

Economic growth is one of the main objectives of every government, this is because with good economic growth all other income generating activities becomes easier for the citizens including doing businesses. However there are many factors that affect the economic growth, this study will focus on the inflation. The study was guided by the following theories; the quantity theory of money, the interest rates parity theory and the purchasing power parity theory. The study adopted the descriptive survey research design. The study adopted the stratified random sampling to get the 48 respondents as the sample size from the target population of 125 officials. The study did a test retest in order to check on reliability of the information given. The study findings were presented in pie charts, bar graphs and tables. The study made the following conclusions; the high interest rates made borrowing/taking loans from banks expensive for individuals, it also discouraged borrowing by companies to invest in large sums of money projects in the country, it also led to the fall of the prices of the financial assets e.g. bonds and it caused higher saving returns earned in saving accounts. The increase in taxation reduced the motive of the citizens to work, save and invest, it also led to the collapse of many businesses and companies in the country, it also enabled the government to collect more revenue for development and infrastructural growth in the country and it also retarded/ inhibited the economic growth and advancement in the Country. The exchange rate fluctuation led to the depreciation of the country currency value, it also made imports expensive and exports cheap hence leading to trade deficit and surplus in the economy, it also encouraged overseas investments by deterring the local investments and discouraging foreign investors into the country and lastly it led to high interest rates in the economy. The study recommends the following; the government should be cautious with the interest rates and they should cap them in order to reduce the chances of the banks increasing them to increase profits and makes the individual and company borrowing expensive. The government should also put measures and policy that discourages the increase in interest rates in order to avoid the fall in prices of the financial assets. In case of the high interest rates the citizens should save more money in order to earn more from the saving accounts. The government should also avoid increasing the taxes as it leads to collapsing of businesses and companies in the country, it reduces the motive of the citizens to work, save and invest. It also reduces the profit margins of the companies and businesses in the country which discourages their growth and expansion. Although increasing the taxation increases the government revenue for development purposes the government should focus on other sources of finances e.g.

internal /external borrowing instead of increasing the taxes. The government should ensure proper policies that discourages the depreciation of the exchange rate as it leads to devaluation of the country currency, discourages foreign investors, makes imports expensive and exports cheap and lastly it increases the interest rates.
Key words: inflation, economic growth, interest rates, exchange rate