Journal of Business Management and Economic Research

2022, 6 (3): 91-107 DOI: 10.29226/TR1001.2022.305

Journal Homepage: https://www.jobmer.org

Exchange Rate Volatility and Its Effect on Trade Export Performance in Kenya

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Abstract

The relationship between exchange rate volatility and economic growth has received relatively little attention from both theoretical and empirical perspectives. This is because, the exchange rate is considered as nominal variable and not related to the long-term real growth performance. Kenya has faced massive blows like the terms of trade becoming worse mainly due to fluctuation in internal product prices, oil prices and fluctuation in a flow of capital which have led to challenges in microeconomic management policy. Empirical evidence offers mixed findings regarding the impact of exchange rate volatility on growth. It argued that pegged regimes increases investment and volatility of growth and employment but reduces productivity growth and inflation. Depreciation of Kenya's currency implies that the incomes of their trading partners increase and will tend to import few goods, and this places Kenya's exports at disadvantaged position in international markets. Further, exchange rate volatility in developing countries is characterized by changes in, changes in global demand for goods policies and changes prices of goods. This article investigated the exchange rate fluctuation in Kenya. investigation found that Kenya's exchange rate has been volatile with major structural breaks in 1994 and 2012. Devaluation of Kenya's currency implies that the incomes of their trading partners increase and will tend to import few goods, and this places Kenya's exports at disadvantaged position in international markets. Further, exchange rate volatility in developing countries is characterized by changes in, changes in global demand for goods policies and changes prices of goods.

Keywords: Exchange rate, Volatility, ARCH, GARCH models

Suggested Citation:

Kiptarus, N. S., Chepng'eno, W. & Saina, E. K. (2022). Exchange Rate Volatility and Its Effect on Trade Export Performance in Kenya. *Journal of Business Management and Economic Research (JOBMER)*, Vol: 6, Issue: 3, 91-107.