

THE CURRENCY-DEPOSIT RATIO IN KENYA

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ABSTRACT

This study has provided an insight on the behaviour of the currency ratio over time. It brings to light the fact that the currency ratio is a decreasing function over time. The spread of banking activities, the level of income, the government budget, the Christmas holidays and a "June 1975 onwards" dummy are among the factors that affect the currency ratio. Though statistically insignificant, the rate of interest and the rate of inflation have negative marginal impacts on the currency ratio.

A major finding of the study is the fact that the currency ratio is only predictable over time within broad limits i.e. by means of our function. However, the model makes a breakthrough in that the effects of the above mentioned factors on the currency ratio can be deduced. We conclude therefore, that it is not difficult to influence the behaviour of the currency ratio through manipulations on the level of income or the spread of banking activities.