Abstract

This study set out to determine the role of monetary policy on economic growth in Kenya over the period 1980 -2011. The objectives were to describe the nature of monetary policy in Kenya and to determine the impact of monetary policy on economic growth and the implications on possibilities of achieving the economic growth of 10 percent as per the Vision 2030. The study used the Levine and Renelt model to show the impact of monetary policy on economic growth using the time series data. The model was formulated by employing the GDP growth rate as the dependent variable and growth in money supply as the variable of interest. Before the regression analysis using Ordinary Least Square (OLS), the model was subjected to Stationarity and Cointegration tests using the Augmented Dickey Fuller Test (ADF) and the Johansen approach. The findings revealed increased trends in money supply, interest rates being rigid downwards. There was evidence to suggest nonlinearity adjustment which suggests that although there were a number of years when policies were not coordinated the situation was not potentially dangerous for the economy. Further the findings revealed that, monetary policy plays a key role in economic growth and that there was a positive and significant relationship between money supply and economic growth in Kenya. The policy implications that can be drawn from the findings are that, the realization of sustainable economic growth calls for a strong macroeconomic framework. In order to realize the aspirations of economic growth rate of 10 percent per annum and sustain it for a longer period, the Government will need to implement measures to strengthen the economic competitiveness through accelerated governance and public sector reforms by increasing government spending, investment, promoting exports as well as maintaining a stable macroeconomic framework.