ABSTRACT

One of the principal strategies of development necessary for any country’s take off is the mobilization of domestic and foreign savings in order to generate sufficient investment to accelerate economic growth. According to the Kenya’s economic blueprint, VISION2030, the government pledged to make the country become a globally competitive, middle income and a newly industrializing nation by the year 2030. This was to be achieved by ensuring that the GDP grew by 10% in the year 2012 and sustain the said growth, annually, up to the year 2030. The report acknowledges that this is only possible if the level of savings is increased from the current 20% of GDP, which the Ministry of Planning, in the year 2012, decried as being too low, to 30% of GDP by 2030. However, apart from suggesting a dedicated campaign and ensuring macro-economic stability, there were no clear-cut policy guidelines on which economic variables, if manipulated, would address the Savings problems in Kenya. The purpose of the study was to determine the effect of Real Interest Rates (RIR), Income and Inflation on savings in Kenya in order to provide a clue on the determinants of savings. The specific objectives were to: Determine the effect of RIR on Savings; assess the effect of income on Savings and analyze the effect of Inflation on Savings. The study was guided by the Life Cycle and the Permanent Income Hypothesis. The study adopted correlation research design. Time series data used was sourced from the World Bank from the year 1980 and 2012. Multivariate analysis, using Eviews statistical software, was used to show the empirical relationship between the Savings, Income, RIR and Inflation. The results showed that RIR have a significant positive effect on savings (coefficient = 0.08076; p value = 0.0165), meaning that it is a major determinant of savings, income had a significant negative effect on savings (coefficient = -1.2125; p value = 0.0002) meaning that it results into decreased savings while inflation had an insignificant effect on savings (coefficient = 0.009; p value = 0.934) meaning that it does not affect savings in Kenya. The study concluded that RIR should be increase to boost savings in Kenya while income should be increased. The knowledge of these determinants of savings would equip the policy makers with tools to increase the levels of savings to the desired level.