ANALYZING THE DETERMINANTS OF PRIVATE SAVINGS IN KENYA OVER THE PERIOD 1993-2013

Marcel, I. Onwuasoeze
Graduate Business School
The Catholic University of Eastern Africa
&
Gabriel N. Kirori
Senior Lecturer and Head of Accounting and Finance Department
Faculty of Commerce
The Catholic University of Eastern Africa

ABSTRACT

The main aim of this study was to investigate the determinants of private savings in Kenya over a period of 21 years from 1993 to 2013. Private saving is the amount of disposable income remaining after households meet their consumption demand. The determinants of private saving considered in the study include dependency ratio, per capita income, financial deepening, inflation rate, and real interest rate. The research methodology employed in the study is desk research using time series data bank of the World Bank. The data are subjected to time series data examination including the Augmented Dickey Fuller test for unit root which establish that the non-stationary variables become stationary after differencing once. The cointegration test shows that the OLS residuals are not stationary implying absence of cointegration suggesting nonexistence of long run relationship among the variables. The analytical method employed in the study is the OLS regression technique which is appropriate for short run relationships. The model was subjected to diagnostic tests for OLS estimation. One of the key findings of the study is that increase in inflation will decrease private savings contrary to the theory of precautionary motives for saving. This finding suggests that lower inflation in Kenya raises growth which in turn increases savings in the country. All the other determinants of the private saving considered in the study were statistically significant according to theoretical expectations except for the real interest rate which was statistically insignificant. These findings can be important in formulating policies and strategies for refocusing attention to the growth of private savings in the country.

Keywords: Determinants of private saving, life-cycle hypothesis, permanent income hypothesis, unit root test, cointegration, regression analysis model.