

JOURNAL OF
ECONOMICS AND INTERNATIONAL FINANCE

Abbreviation: J. Econ. Int. Finance | Language: English | ISSN: 2006-9812 | DOI: 10.5897/JEIF | Start Year: 2009 | Published Articles: 367




[JEIF Home \(/journal/JEIF\)](#) | [About JEIF \(/journal/JEIF/about\)](#) | [Editors \(/journal/JEIF/editors\)](#) | [Instructions \(/journal/JEIF/authors\)](#) | [Articles \(/journal/JEIF/articles\)](#) | [Archive \(/journal/JEIF/archive\)](#) | [Articles In Press \(/JEIF/inpress\)](#)

Full Length Research Paper

The effect of real gross domestic product (GDP) growth rate convergence on exchange rate volatility in search for the East African monetary union

Jane Kaboro **Aquilars Kalio** **Lawrence Kibet**

Article Number - F56177757666 | Vol.10(6), pp. 65-76, June 2018 | <https://doi.org/10.5897/JEIF2018.0898> (<https://doi.org/10.5897/JEIF2018.0898>)

 Received: 19 March 2018 |  Accepted: 13 June 2018 |  Published: 30 June 2018

Copyright © 2025 Author(s) retain the copyright of this article.

This article is published under the terms of the Creative Commons Attribution License 4.0 (<https://creativecommons.org/licenses/by/4.0/>).



**ACADEMIC
JOURNALS**
expand your knowledge

Journal of Economics and International Finance



 **OPEN
ACCESS**

(/journal/JEIF/edition/June_2018)

Abstract (/journal/JEIF/article-abstract/F56177757666) | **Full-Text (HTML)** (/journal/JEIF/article-full-text/F56177757666) | **Full-Text (PDF)** (/journal/JEIF/article-full-text-pdf/F56177757666) | **References** (/journal/JEIF/article-references/F56177757666) | **Citations** (/journal/JEIF/cited-by-article/F56177757666) | **Authors** (/journal/JEIF/article-authors/F56177757666) | **Article Metrics** (/journal/JEIF/article-stat/F56177757666) | **How to Cite this Article** (/journal/JEIF/how-to-cite-article/F56177757666)

Abstract

So far, the formation of a monetary union in the East African Community (EAC) has remained elusive. The EAC partner states therefore established set targets for macroeconomic convergence, with an aim to eliminate exchange rate variability within the bloc. Where countries are able to eliminate or reduce exchange rate adjustments to maintain external balance, the costs of a monetary union reduces, thus the more suitable it is for such a region to form a monetary union. Major macroeconomic variables need to be harmonized before establishing a monetary union such as real GDP, budget deficit/GDP, national savings, and inflation rate. However, empirical studies undertaken indicate that the rate of convergence of the member states economies to the set targets has been very slow, resulting into high exchange rate variability within the region. It is against this background that this study was carried out to determine the effect of convergence in real GDP growth rate on exchange rate volatility, of five EAC countries: Kenya, Uganda, Tanzania, Burundi, and Rwanda. The bloc was chosen for the study since it has scheduled to establish its common currency earlier than other African economic blocs, and thus its success will be a lesson to them. A panel data analysis was used over the period of 2000 to 2016. Sigma (standard deviation) was used in the study to establish convergence of variables. Levin et al. 2002) test for panel unit root was employed to test for data stationarity and it was found that real exchange rate and real GDP growth rate were stationary. Pedroni residual-based cointegration test was carried out to test for the long-run relationship between variables in the model and it was established that there exist a long-run relationship between exchange rate and explanatory variable. The study results showed that the entire explanatory variable had a significant and a negative effect on exchange rate volatility. This means that convergence in real GDP growth rate among the EAC countries reduces exchange rate variability within the region. Thus, the policy makers should ensure that the EAC countries harmonize their economies, which will help greatly to eliminate exchange rate adjustments within the region, in readiness for a stable and sustainable monetary union.

Key words: Convergence, exchange rate volatility, GDP, East African monetary union.

[Abstract](#) [Full-Text HTML](#) [Full-Text PDF](#) [Download Ebook](#)

Copyright © 2025 Author(s) retain the copyright of this article.

This article is published under the terms of the Creative Commons Attribution License 4.0 (<https://creativecommons.org/licenses/by/4.0/>)

[Back to Vol. 10 No. 6 \(/journal/JEIF/edition/June_2018\)](#)

[Back to articles \(/journal/JEIF/articles\)](#)



Views: 0

Downloads: 0

[Authors \(/journal/JEIF/article-authors/F56177757666\)](#)

[Full-Text \(HTML\) \(/journal/JEIF/article-full-text/F56177757666\)](#)

[Full-Text \(PDF\) \(/journal/JEIF/article-full-text-pdf/F56177757666\)](#)

[Download XML \(/journal/JEIF/article-xml/F56177757666\)](#)

[Download E-book \(PDF\) \(/ebook/journal1533140143_JEIF_June_2018_ebook.pdf\)](#)

[References \(/journal/JEIF/article-references/F56177757666\)](#)

[How to Cite this Article \(/journal/JEIF/how-to-cite-article/F56177757666\)](#)

[Article Metrics \(/journal/JEIF/article-stat/F56177757666\)](#)

Citations:

[CrossRef \(/journal/JEIF/cited-by-article/F56177757666\)](#)

[Google Scholar \(http://scholar.google.com/scholar?](http://scholar.google.com/scholar?)

[q=The+effect+of+real+gross+domestic+product+%28GDP%29+growth+rate+convergence+on+exchange+rate+volatility+in+search+for+the+East+African+monetary](http://scholar.google.com/scholar?q=The+effect+of+real+gross+domestic+product+%28GDP%29+growth+rate+convergence+on+exchange+rate+volatility+in+search+for+the+East+African+monetary)

Related Articles:

On Google ([http://google.com/search?q=The effect of real gross domestic product \(GDP\) growth rate convergence on exchange rate volatility in search for the East African monetary union](http://google.com/search?q=The+effect+of+real+gross+domestic+product+(GDP)+growth+rate+convergence+on+exchange+rate+volatility+in+search+for+the+East+African+monetary+union))

On Google Scholar ([http://scholar.google.com/scholar?hl=en&q=The effect of real gross domestic product \(GDP\) growth rate convergence on exchange rate volatility in search for the East African monetary union&btnG=&as_sdt=1%2C5&as_sdtp=](http://scholar.google.com/scholar?hl=en&q=The+effect+of+real+gross+domestic+product+(GDP)+growth+rate+convergence+on+exchange+rate+volatility+in+search+for+the+East+African+monetary+union&btnG=&as_sdt=1%2C5&as_sdtp=))

Articles on Google by:

Jane Kaboro ([http://scholar.google.com/scholar?q=author%3A"Jane+Kaboro"](http://scholar.google.com/scholar?q=author%3A%22Jane+Kaboro%22))

Aquilars Kalio ([http://scholar.google.com/scholar?q=author%3A"Aquilars+Kalio"](http://scholar.google.com/scholar?q=author%3A%22Aquilars+Kalio%22))

Lawrence Kibet ([http://scholar.google.com/scholar?q=author%3A"Lawrence+Kibet"](http://scholar.google.com/scholar?q=author%3A%22Lawrence+Kibet%22))

[SUBSCRIBE TO RSS \(/all_articles.rss\)](#) >

[SUBMIT MANUSCRIPT \(http://ms.academicjournals.org/\)](http://ms.academicjournals.org/) >

[CONFERENCES \(http://conferences.academicjournals.org\)](http://conferences.academicjournals.org/) >

AUTHORS

[Submit Manuscript](#)

[Track Manuscript](#)

[Publication Ethics](#)

[Editorial Policies](#)

[Publication Fee](#)

[Waiver Policy](#)

[Print Request](#)

[FAQ](#)

REVIEWERS

[Reviewers Guidelines](#)

[Peer Review](#)

EDITORS

[Editors](#)

READERS

[Journals](#)

[Proceedings](#)

[News](#)

[Articles](#)

[Search Articles](#)

[Conference Announcements](#)

[Perspectives](#)

[Subscribe to RSS](#)

POLICIES

[Open Access](#)

[Creative Commons](#)

[CrossMark Policy](#)

[Digital Archiving](#)

[Self-Archiving](#)

[Article Copyright](#)

ABOUT

[About Us](#)

[Memberships & Standards](#)

[Open Archives Initiatives](#)

[Support Center](#)

[Subscribe to RSS](#)

[Terms of use](#)

[Contact](#)