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Assessment of the Effect of General Elections on Macroeconomic Indicators in Kenya: The Event Window Analysis Approach

Benson Kiriga, Hellen Chemnyongoi and Jacob Nato

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Abstract

Elections have various implications on economic activities in any country. This study assessed the effect of Kenya's general elections on the performance of macroeconomic indicators, applying the event window approach. The last five elections in Kenya; 2002, 2007, 2013, 2017 and 2022 have had mixed effects on the economy. These elections can be categorized into four broad groups: elections that led to a change of regime, elections that were followed by post-election violence or public demonstrations, elections that were annulled and held a fresh or contested at the supreme court, and elections that were held peacefully as expected. These four broad categories of elections, therefore, informed the four specific objectives of the study. The event window methodology was used to answer the research objectives. This methodology was preceded by identifying the pre-election period, actual election period and post-election period and assessed the performance of the key macroeconomic indicators in each phase. Various macroeconomic indicators were analyzed in the study, including key prices, rates, and index variables. The results vary by indicator. Elections largely have a neutral effect when peaceful and economic activities pick up immediately. However, they have a staggering effect on macro indicators when they are protracted. On the other hand, elections that lead to a regime change tend to improve macro indicators when coupled with high expectations by electorate but may worsen indicators when fiercely contested or uncertainty abounds on the winning candidate. Lastly, elections accompanied by chaos or demonstrations had an adverse effect on performance of macroeconomic indicators for Kenya. The study proposes the following policy recommendations based on the findings: firstly, the pre-election phase is important as many macroeconomic indicators begin to reflect the effects of elections even before the election day. Therefore, there is a need to create awareness and sensitize the population on the importance of maintaining peace before, during and after the election day. Secondly, assurance of integrity in the conduct of elections can build the public's confidence and trust and hence will continue with nation-building activities. Thirdly, the institutions charged with the country's macroeconomic management ought to be prepared for elections by ensuring availability of fiscal and monetary policy instruments that will cushion the economy from any potential unforeseen adverse effects of elections on the key macroeconomic indicators. Fourthly, civil society organizations can be instrumental in creating awareness and advocating for peaceful elections. They can also help to encourage law and order when there is public disorder following contested elections. Lastly, the role of the Judiciary as an arbitrator in electoral disputes is key and hence the need to build more capacity and strengthen effective dispute resolution during electoral cycles.

Abbreviations and Acronyms

BOP	Balance of Payment
GDP	Gross Domestic Product
IEBC	Independent Electoral and Boundaries Commission
KANU	Kenya African National Union
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
Ksh	Kenya Shillings
NARC	National Rainbow Coalition
NSE	Nairobi Securities Exchange
ODM	Orange Democratic Movement
OECD	Organization for Economic Cooperation and Development
PNU	Party of National Unity
TNA	The National Alliance
UDA	United Democratic Alliance
USD	United States Dollar

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1. Introduction

1.1 Background to the Study

The effect of elections on economic activities is uncertain. Elections may result in better institutions, improved governance, and policy reforms, which are precursors for better economic performance. On the contrary, elections could worsen a country's economic performance due to change in government policies, political systems, and changes in investors' confidence, especially when such elections lead to the disruption of economic activities such as the disturbance of peace, law, and order. In some instances, it may lead to local elite capture, where the local elites gain undue influence with adverse effects for the local community (Moricz and Sjöholm, 2014). The change in government policies prior to the elections and political uncertainty associated with the elections may have far-reaching consequences on the economy both in the short and the long run. For instance, it can lead to depressed real estate growth, volatility in the capital markets, reduced employment, slower economic growth, elevated interest rates, and unfavourable exchange rates, among other adverse macroeconomic effects.

The political economy, influenced in part by the electoral process and election outcomes, significantly affects a country's economic activities. Literature on the impact of elections demonstrates that they are important for economic performance (Collier, 2010; Collier and Hoeffler, 2015). They have a structural effect on economic policy and may create disruptive cyclical effects (Collier, 2009; Chauvet and Collier, 2009). They may also influence democracy and governance. Consequently, other studies have shown that economic conditions shape electoral decisions and electoral outcomes (Lewis-beck and Stegmaier, 2000; Rammohan, Purwono, and Harymawan, 2020).

Among the earliest studies on the economy-elections nexus was one by Alesina, Nouriel, and Gerald (1997), which showed that voters tend to cast their votes based on economic parameters such as economic growth rates, inflation rates, interest rates, money market performance, and perceptions of foreign investment. As a result, policy makers will aim at maximizing their chances of re-election, for instance, by increasing government expenditure prior to the elections and maintaining political stability. The process of achieving and predicting the level of economic growth and performance, in any democratic economy, is often pegged against the country's political stability.

The political environment of a democratic country can impact on the performance of the national economy in various ways. Some of the determinants of economic growth, for example, the public expenditure level, investment, social protection measures, among others, are easily measurable, and hence their impacts on growth rates are examinable. However, other channels are difficult to quantify, especially if their impact on economic growth is indirect. For example, the expectations of the market participants or investors.

There are two primary channels through which political processes may affect the policy-making process before or during election years (Alpanda and Honig, 2009). The first is the Phillips curve channel, in which politicians put pressure on the Central Bank to loosen monetary policy to stimulate the economy. The second is the fiscal financing channel, whereby politicians influence the Central Bank to finance election-related increases in government spending (or tax cuts). The fiscal-financing channel relies on the existence of political budget cycles, in which governments use expansionary fiscal policy to expand the economy and/or increase government contributions and transfers to certain areas.

Further, the economic performance of a country is often pegged on several parameters, which include the performance of the stock markets, money markets, real sector, and inflation rates. These parameters are affected majorly by the political stability/instability of the country, which is equally affected by the electoral process in the country. Most electoral processes and outcomes are characterized by a lot of uncertainties, which affect investors' attitudes. As regimes change, so do a country's economic policies, which subsequently impact investors' investment decisions.

1.2 Overview of Elections in Kenya

Kenya has had several elections since it gained independence in 1964 when the late President, Mzee Jomo Kenyatta, became the first president. The country was then a single-party state, and the first elections were conducted in 1969, in which the ruling party (Kenya African National Union - KANU) won. The party won the presidential elections in the subsequent elections of 1974, 1979, 1983, 1988, and 1992. The first president died in 1978, and the late President Daniel Moi took over the reins of the ruling party. Multi-party politics were then introduced in 1992 when Daniel Moi was vying for his fourth term. This did not stop KANU from winning again in 1997. In 2002, the National Rainbow Coalition (NARC) led by the late President Mwai Kibaki won the elections. This was a regime change for Kenya, ending the 38-year KANU rule. Following the change of regime in the 2002 elections, this study considers 2002 as the starting point for analysing the impact of elections on economic activity in Kenya.

In 2007, Kenya held one of its most contested elections, featuring the main presidential contenders: the incumbent president, His Excellency Mwai Kibaki, and Hon. Raila Odinga of the Orange Coalition. His Excellency Mwai Kibaki was declared the winner, which resulted in post-election chaos that claimed hundreds of lives, displaced thousands, destroyed properties, and disrupted economic activities. With assistance from the international community, calm was eventually restored. Consequently, this study considers the 2007 election to be one marked by uncertainty and followed by chaos.

In 2013 general elections, the race mainly had two key contenders, Hon. Uhuru Kenyatta of The National Alliance (TNA) and Hon. Raila Odinga of the Orange Democratic Party (ODM). His Exellency Uhuru Kenyatta won, and the elections ended peacefully, seeing economic activities progress without disruption. The study considers the 2013 general elections as peaceful and accompanied by a regime change.

In 2017, two key contestants remained former President, His Excellency Uhuru Kenyatta of the Jubilee Alliance and Hon. Raila Odinga of the Orange Democratic Party (ODM). The incumbent was declared the winner for a second term, but the Independent Electoral and Boundaries Commission (IEBC) was challenged at the Supreme Court, leading to the nullification of the presidential election results. This was followed by a 60-day wait, constitutionally set for a re-run. The 2017 elections were, therefore, prolonged due to the court case and subsequent re-run of the presidential election. The repeat elections saw His Excellency Uhuru Kenyatta's win upheld by the Supreme Court, thus allowing him to retain power until August 2022. The study, therefore, considers the 2017 general elections to be those that were prolonged as a result of a court ruling.

In 2022, the elections were conducted on 9th of August, with the two key presidential aspirants being His Excellency Dr William Ruto of the Kenya Kwanza Coalition and Hon. Raila Odinga of Azimio Coalition. His Excellency Dr William Ruto was declared the winner by the IEBC on 15th August 2022. The decision was once again disputed by the opposing team, and this led to filing of a case to challenge the elections at the Supreme Court. The Supreme Court upheld Dr William Ruto's win on 5th September 2022, ushering in his subsequent swearing in on 13th September 2022. Table 1.1 presents a summary of recent elections in Kenya, their main features and why these years are considered in the analysis of the study.

Table 1.1: Summary of recent elections in Kenya and their key features

Election year	Winning party	Key features	Why focus in the analysis
2002	NARC (National Alliance Rainbow Coalition)	Replaced the 38-year rule of KANU	Change in political regime and high citizen expectations
2007	PNU (Party of National Unity)	Post-poll chaos; intervention by the global community	Elections that were followed by electoral violence
2013	The National Alliance (TNA)	Replaced NARC's rule	Conduct of peaceful elections and change in political regime
2017	Jubilee Alliance	Win challenged in Supreme Court and fresh elections held	Impact of prolonged elections on the macroeconomy
2022	United Democratic Alliance (UDA) of Kenya Kwanza Coalition	New regime and challenged win	New regime in power and initially peaceful, followed by public demonstrations

Source: Authors' analysis

1.3 Study Objectives

Based on the above, the main objective of this study is to establish the effect of the recent general elections on Kenya's macroeconomic performance. More specifically, the study aimed to address the following objectives: to determine the impact of elections resulting in a change of political regime on key macroeconomic indicators in Kenya; to explore the effect of elections marked by political violence or public demonstrations on key macroeconomic indicators in Kenya; to evaluate the effect of prolonged elections on key macroeconomic indicators in Kenya; and to examine the effect of elections conducted peacefully and as anticipated on key macroeconomic indicators in Kenya.

2. Elections, Fiscal Requirements and the Macroeconomy in Kenya

Economic uncertainty and tensions across the country are a common factor during general elections. During the period between 2002 and 2007, Kenya's economic growth was robust with an average growth of 5.4 per cent. In 2007, the economic growth reached a high of 7.0 per cent before drastically declining to 1.5 per cent in 2008, following the post-election crisis. A similar trend was experienced between 2008 and 2012 when economic growth averaged 4.6 per cent, with a decline from 6.1 per cent in 2011 to 4.6 per cent during the election year of 2012. Kiti and Kitiabi (2012) noted that crisis experienced during and after elections cause a damage to Kenya's social, infrastructure, institutional and economic systems. Similarly, Chauvin and Dominic (2009) established that civil conflict (political instability, civil wars and election violence) were key reasons for structural economic problems in developing economies.

Against this background, the study intended to assess the effects of the 2002, 2007, 2013, 2017 and 2022 general elections on the performance of Kenya's economy. The focus on these years is because these elections have some features that seem to characterize them as summarized in Table 1.1. These features include regime change (2002, 2013, and 2022); political violence (2007); prolonged elections due to nullification and repeat of presidential elections (2017); peaceful elections (2013, 2017 and 2022), and elections conducted peacefully but followed by public demonstrations (2022).

In Kenya, the periods preceding elections have often been characterized by intense campaigns. Based on past experiences, this period causes anxiety to Kenyan citizens and economic actors who perceive this pre-election period as a time when Kenya's fragility is exposed. The Constitution of Kenya (2010) requires that general elections to be held the second Tuesday of August in every fifth year.

Elections require huge fiscal resources to conduct. For example, in 2002/03, over Ksh 4 billion was spent on voter registration and to support other general elections'-related activities (KNBS, 2003). In 2011/12, Ksh 20.8 billion was allocated towards the implementation of the new constitution, drafting of new laws; judicial reforms, expansion of parliament facilities, and preparation for the 2013 elections (National Treasury, 2011). Furthermore, the IEBC was allocated Ksh 19.7 billion in 2016 to prepare and conduct the 2017 general elections (National Treasury, 2016) with an additional Ksh 21.4 billion in 2017/18. Given the prolonged nature of the 2017 general elections, the election was financed through two financial-year budgets 2016/17 and 2017/18. The total allocation for the 2017 general elections was estimated at Ksh 64.9 billion in the two financial years (National Treasury, 2018). Table 2.1 shows the budgetary allocation analysis towards election related expenditures.

Table 2.1: Budgetary allocation analysis towards election related expenditures (Ksh)

	2016/17		**2017/18**		**Total**	
Agency	**Approved estimates**	**Actual expenditure**	**Approved estimates**	**Actual expenditure**	**Approved estimates**	**Actual expenditure**
IEBC	23,421,900,000	20,186,848,362	33,394,634,959	26,033,131,760	56,816,534,959	46,219,980,122
Office of the Registrar of Political Parties	209,600,000	65,148,835	141,431,660	58,580,874	351,031,660	123,729,709
Judiciary	20,000,000	20,000,000	137,953,695	137,953,695	157,953,695	157,953,695
Interior	2,300,000,000	2,300,000,000	5,146,260,260	5,146,260,260	7,446,260,260	7,446,260,260
Assumption of office	-	-	32,500,000	32,500,000	32,500,000	32,500,000
Foreign affaris	-	-	102,926,000	102,926,000	102,926,000	102,926,000
Broadcasting and telecommunication	-	-	36,950,000	36,950,000	36,950,000	36,950,000
Arts and culture	-	-	15,000,000	15,000,000	15,000,000	15,000,000
Total	25,951,500,000	22,571,997,197	39,007,656,574	31,563,302,589	64,959,156,574	54,135,299,786

Source: The National Treasury

The IEBC allocated Ksh 56.8 billion to perform various functions, which included voter registration and revision of the voters' register, registration of candidates for elections, and voter education; and conducting the actual elections. The Ministry of Interior and Coordination of National Government had the responsibility of ensuring the security of all citizens was not compromised as they exercised their constitutional rights. The mandate of the Office of the Registrar of Political Parties, among others, is to regulate the formation, registration, and funding of political parties in accordance with the Constitution and rule of law. After the general elections, the Judiciary comes in to resolve any arising electoral disputes. Other election expenses relate to the assumption of office, broadcasting, and performances during the ceremonies.

Although elections in any country are uncertain, they may result in better institutions, improved governance, and policy reforms. However, elections can affect a country's economy due to prolonged political tensions and low investor confidence. In some instances, it may lead to local elite capture, where the local elites gain undue influence with adverse effects on the local community (Moricz and Sjöholm, 2014). Thus, elections can have both short-term and long-term effects on the economy. While the effect of elections on macroeconomic indicators has received some attention in the literature, the analysis has not considered the different characteristic features that are associated with these elections. The contribution of this study is that elections in Kenya have had four key features including, elections with political regime change; elections with political violence or followed by public demonstrations; prolonged elections; and elections that were conducted peacefully as anticipated. Focusing the study on these key events enhances the understanding of how and why elections impact economic activity in Kenya. Furthermore, the study sought to find out the extent to which the identified macroeconomic variables were affected by the various election cycles, from 2002 to 2022.

3. Literature Review

3.1 Theoretical Literature Review

The main theory that links the effect of elections and economic performance is the Political Business Theory also known as the Nordhaus Model, founded by Nordhaus (1975). The theory argues that the government may stimulate the economy prior to the election through manipulating the fiscal and the monetary channels to increase the chances of re-election of the ruling party. It is anchored on three main assumptions. First, it assumes that elections take place in specified fixed periods, that is, after a fixed duration. In this instance, after every five years for Kenya. Secondly, voters are perceived as having poor understanding of the economic system and mainly use inflation and unemployment rates to gauge the government's performance. Lastly, the theory assumes the score hypothesis, which states that popularity is directly related with economic outcomes. This hypothesis associates rising inflation and unemployment rates with falling popularity. Therefore, based on the assumptions, the theory holds that the government can exploit the relationship between unemployment and inflation (Philip's Curve) to maximize votes during election period. As a result, a government would induce falling unemployment and rising output growth prior to an election period to increase chances of re-election.

3.2 Empirical Literature Review

According to empirical literature, a study conducted by the Institute of Economic Affairs (2017) established that elections hinder the economic progress of the country. Specifically, the study showed that economic growth for non-electioneering years between 1963 and 2014 averaged 6.6 per cent whereas the growth for the electioneering years averaged 4.0 per cent. Overall, the findings established that out of ten general elections held in Kenya since independence, five recorded a lower GDP growth rate. This implied that there is a 50 per cent chance of experiencing lower GDP growth in the country during an election year.

Kiti and Kitiabi (2012) assessed the impact of the 2007/08 post election violence on Kenya's economy using a descriptive research design on key sectors of the economy that included agriculture, trade, tourism and financial services. Their findings established that agricultural sector suffered the greatest effect as it heavily relies on unskilled labour often from different counties. Specifically, the flower farmers were highly affected as the conflict reduced Kenyan flower exports by a quarter for firms that were located in conflict areas due to displaced labour. On trade, the study found out that growth in the value of exports declined significantly from 31.0 per cent in 2006 to 8.6 per cent in 2008 due to a decline in re-exports and the effects that were associated with post-election violence. The performance of the tourism industry also declined as Kenya was ranked 101 in 2008 down from 98 in 2007. The study attributed this to negative publicity as a result of the post-election violence. In general, the study concluded that election violence impacted negatively on businesses and the economy at large.

In analyzing the effects of political processes on the economic performance of a country, Kuria (2012) applied a secondary research design. Using a sample size of twelve years and applying correlation analysis, the findings showed that election trends had a strong impact on the performance and stability of the Kenyan economy. Specifically, the study established that interest rates were heavily affected by the presence of election trends due to higher levels of policy uncertainty that increased the risk of holding assets. In addition, the study noted that an increase in inflation risk increased interest rates, causing a negative impact on consumption, investment, and economic growth.

In the case of Indonesia, Moricz and Sjöholm (2014) estimated the causal effect of local elections on local economic growth using a quasi-experimental research method. The study was motivated by large differences in economic growth and governance between Indonesian districts. The study did not find any evidence that related the differences to the degree of democracy. As a result, the study concluded that there was no general effect of direct local elections on local economic growth in Indonesia. The results concurred with Singh (2015) findings, which established that elections had no significant effect on economic variables such as stock, inflation, exchange rate, deficit, and GDP growth in India. The author argued that this could be because elections are held in at least one state in India. On the contrary, Khemani (2003) found evidence of fiscal policy manipulation in India. The findings showed that during the election years, the fiscal policy was manipulated to target a narrow interest group. As such, taxes and expenditure of critical sectors, such as investment spending, were reduced. The changes were done in the hope of re-election of the ruling party.

For the case of OECD (Organization for Economic Co-operation and Development) countries, Canes-Wrone and Ponce de Leon (2015) examined the relationship between political developments and electoral cycles. The study established that the less politically developed a country is, the larger the decline in private investment prior to an election. In addition, the findings showed that political development was associated with smaller opportunistic cycles in private consumption and government spending. In general, the study concluded that whereas elections were a source of economic cycles, democratic developments weakened the effects.

In Thailand, Khanthavit (2020) analyzed the effect of the 2019 general elections on stock market performance by adding performance dummies for the pre-election and post-election sub-events, which extended the conditional regression model used by Izan (1978). It assessed the abnormal return of the stock market in the period surrounding the elections. The study makes use of an 11-day event window with the key sub-events considered in the study as date of elections, release of official results, first session of parliament, and having a cabinet in place. The study had a 411-day full sample period. The outcome variable was the stock return (log return) of the Stock Exchange of Thailand (SET) portfolio index. Based on the study, the 2019 general elections in Thailand had significant effects on the SET. The results for the abnormal returns of the SET were positive for some sub-events and negative for others, based on whether the sub-event brought about good news or unexpected news, which was in line with the market efficiency hypothesis of stock market performance.

3.3 Overview of the Literature

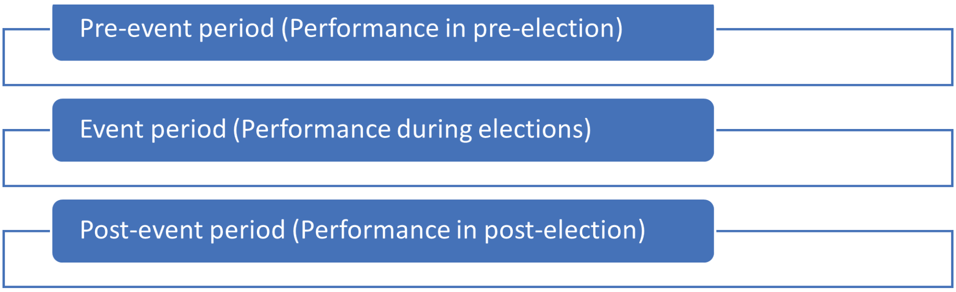
The general findings from the literature demonstrate evidence that elections may lower countries GDP or economic growth, narrow tax revenues, and reduce investment spending. However, the effects of elections on other segments of the economy – such as the stock market, inflation, interest rates and exchange rates – may be unambiguous as it depends on whether the elections are prolonged and the outcomes of the elections. Where the elections are peaceful, the effects to the economy are negligible, compared to tightly contested elections. The current study thus adds value to the literature to help assess the effect of recent elections in Kenya on key macroeconomic indicators using the event window methodology approach, which is used only in a few previous studies. It also adds value to literature by organizing the various elections into broad themes as outlined in Table 1.1 to offer better insights of the elections-economy nexus.

4. Methodology

4.1 Conceptual Framework

The conceptual framework for the study was guided by an event window analysis, which makes use of pre-event and post-event analysis. The pre-event analysis focused on the performance of the identified variables and sectors in the year preceding the particular elections. The same variables and sectors were then examined in the year when the elections took place, and their performance a year after the elections. Figure 4.1 summarizes the conceptual framework.

Figure 4.1: Conceptual framework



Source: Authors' elaboration

4.2 Framework of Analysis

This paper adopts a quantitative analysis approach to achieve the specified objectives. More specifically, the study adopts the event window methodology approach, which has been used in a few studies to assess the effect of elections on macroeconomic indicators. For instance, the approach has been used to analyze the effect of elections on stock exchange performance in Thailand (Khanthavit, 2020), stock index manipulation in Pakistan (Khan, Jafri, Baig and Usman, 2017), and economic effects of mandatory audit regulation (Izan, 1978), among other studies. The event window methodology has, however, found wider application in financial economics studies. A graphical approach is used to visualize the trends before, during and after the elections. The analysis was based on the performance of various indicators before the elections in comparison to the post-election period, and the findings reported based on the performance in the two phases.

Ideally, the event window methodology has close resemblance to methodologies applied in impact evaluation studies, such as the treatment effects models in which the variable or unit of analysis is observed before an intervention, and after an intervention or treatment. The distinction with event window analysis is that there is no treatment but a specific event of interest. This approach was considered the most suitable for assessing the impact of general elections on Kenya's economic performance.

The study's data was obtained from Kenya National Bureau of Statistics for the period 2000 to 2022. The variables that were considered include economic growth, inflation, government revenue and expenditure, interest rates, money and credit, capital markets, foreign purchases and sales, producer manufacturing index, exchange rates, the Balance of Payments (BOP), and portfolio assets and liabilities.

4.3 Empirical Strategy

The empirical strategy for the study was the event window methodology, which was applied first by Fama, Fisher, Jensen, and Roll (1969) in analyzing stock splits. According to this approach, the design of the analysis is as follows: event definition, selection criteria, measurement of normal and abnormal return, estimation procedure, testing procedure, empirical results, and interpretation.

Event definition ensures clarity on key variables that the analysis is based on. Event window analysis has been applied mainly in studies within financial economics to assess the impact of various events on an outcome variable. For example, the event could be a merger announcement, dividend declaration by a company, and reading of the budget by the government, among others. Agoti (2004) assessed the impact of dividend announcements on firm value for firms listed in the NSE in Kenya and applied the event window analysis.

For this study, the events are Kenya’s elections in 2002, 2007, 2013, 2017, and 2022. Some events are anticipated, as in this case, where elections are expected to occur since they are outlined in the constitution. As required by the event window methodology, the event dates when elections were conducted in the country are also known.

The approach also requires measurement of normal and abnormal returns. The terminology used here is because most of these studies have been employed with respect to stock market performance. The measurement of normal and abnormal returns assumes the following equation:

$$R_{i,t} = E[R_{i,t}/X_t] + e_{i,t} \qquad 4.1$$

Where $R_{i,t}$ measures the return for entity i at time t, E represents the expectations rubric, X_t represents a set of conditional variables, and $e_{i,t}$ is the abnormal return on $R_{i,t}$. Equation 4.1 has been the main equation employed by studies that have utilized the event window analysis approach. A few other studies have extended Equation 4.1 to make use of the regression approach, for instance, Khanthavit (2020) who analyzed the effect of 2019 general elections in Thailand on the stock market performance.

Since the current study assesses the effect of the general elections on key macroeconomic indicators, Equation 4.1 can be modified to become:

$$Y_{i,t} = E(Y_{i,t}/T) + Z_{i,t} \qquad 4.2$$

Where $Y_{i,t}$ is macroeconomic indicator i at time t, E is still the expectations symbol, T is the time horizon for pre- and post-event windows, and zi,t measures the abnormal performance of $Y_{i,t}$. The regression approach such as by Khanthavit (2020) is mostly plausible when considering a single election on a single outcome variable, such as the stock market performance; and especially for high frequency (daily) date. For this study, the analysis focuses on the last recent five elections and several macroeconomic indicators. Hence, the initial event window approach as originally proposed is employed, as presented in Figure 4.2.

Figure 4.2: Illustration of the event window analysis

t=-2		t=-1		t=0		t=+1		t=+2
		Event window period						
Estimation period				Actual event date		Post event period		

Where the period t = -2 to t = -1 is the estimation period, t = -1 to t = +1 is the event window period, t = 0 is the actual event date, t = +1 to t = +2 is the post-event window, and t = -2 to t = +2 is the full duration period consisting of both pre-event and post-event and actual event periods. The duration between the events depends on the frequency of the event under study and frequency of available data, and hence can range from a few days to years.

For purposes of analysis, the actual event date is the date when the general elections were held for each specific year. The event window period is six (6) months, which is ±3 months from the actual event date. The estimation period is -6 months from the event date while the post-event period is +6 months from the event date. Table 4.1 shows the specifications of the estimation period, event window period and post-event window period for the various election periods.

Table 4.1: Estimation period, window period and post-event period for election years

Election year	t = -2	t = -1	t = 0	t = +1	t = +2
2002	December 2001 – May 2002	June – November 2002	27th December 2002	December 2002 – March 2003	April – September 2003
2007	December 2006 – May 2007	June – November 2007	27th December 2007	December 2007 – March 2008	April – September 2008
2013	March – August 2012	September 2012 – February 2013	4th March 2013	March – June 2013	July – December 2013
2017	August 2016 – January 2017	February – July 2017	8th August 2017	August – November 2017	December 2017 – May 2018
2022	August 2021 – Jan 2022	Feb – July 2022	09 August 2022	August – Nov 2022	Dec 2022 – May 2023

5. Results and Discussion

5.1 Overview

This section presents the findings of the study based on the objectives. It provides the descriptive statistics for the key study variables, presents the study findings based on a 'before-after' analysis, and discusses the findings. The before state captures 12 months prior to the date of the elections (or six months prior to the run-up period). The run-up period captures six months before the election date while the 'during' phase captures the date of elections and three months later as a grace period of elections. The 'after' phase, captures the next six months. The number of days to capture for pre-event and post-event vary from one study to another. They can vary from five days to and before the event, to some months, or even to years. However, the frequency of the event under study is the main variable that can guide on the number of days to consider for the pre-event and post-event periods. Furthermore, availability of data has been used to estimate the pre-event and post-event periods for the analysis employed by the study. Thus, there is no rule for the number of days to consider in each phase of the event, since both short horizons and long horizons are allowed for analysis.

5.2 Event-Window Analysis for Macroeconomic Indicators of Elections

Table 5.1 provides the analysis of the key macroeconomic variables based on event-window methodology. It presents the five recent general elections and the four phase periods.

Table 5.1: Analysis for macroeconomic indicators using event-window approach

Variable	t = -2	t = -1	t = +1	t = +2
2002 election (Peaceful election with a regime change)				
Inflation rate	3.90	1.88	2.75	5.63
Exchange rate Ksh/US$	78.30	78.96	77.67	74.93
Commercial bank deposit rate	5.53	4.92	4.46	3.92
Commercial bank saving rate	4.04	3.79	3.40	2.41
Commercial bank lending rate	19.01	18.19	18.67	16.29
Commercial bank overdraft rate	19.16	18.55	18.04	15.51
Interbank rate	9.79	7.96	7.75	2.43
91-day T-bill rate	10.28	8.05	7.69	3.11

2007 election (Election followed by post-poll chaos)				
Exchange rate Ksh/US$	69.03	66.66	66.73	65.62
Inflation rate	3.61	5.31	9.40	17.80
Commercial bank lending rate	13.59	13.16	13.75	13.87
Commercial bank overdraft rates	13.83	13.32	13.28	13.38
Commercial bank savings rate	1.42	1.63	1.70	1.70
91-day T-bill rate	6.28	7.13	7.00	7.76
Interbank rates	6.87	7.20	7.06	7.31
NSE 20 Share Index	5,289.04	5,201.80	5,018.28	4,899.15
2013 election (Peaceful elections with regime change)				
Exchange rate Ksh/US$	83.91	85.95	84.91	86.58
Inflation rate	10.80	4.01	4.30	7.21
Commercial bank deposit rate	8.24	7.10	6.53	6.53
Commercial bank saving rate	1.60	1.60	1.53	1.62
Commercial bank lending rate	20.21	18.45	17.51	16.95
Commercial bank overdraft rate	20.31	18.52	17.44	16.71
91-day T-bill rate	12.99	8.55	8.98	9.12
Interbank rate	16.18	7.38	7.78	9.12
NSE 20 Share Index	3,661.59	4,200.43	4,808.00	4,874.00
2017 elections (Protracted elections conducted peacefully)				
Exchange rate Ksh/US$	101.94	103.41	103.41	101.65
Inflation rate	6.52	9.86	6.39	4.28
Commercial bank deposit rate	7.23	7.23	7.85	8.19
Commercial bank savings rate	5.09	6.04	6.56	6.85
Commercial bank lending rate	14.37	13.66	13.68	13.49
Commercial bank overdraft rate	14.24	13.40	13.65	13.48
91-day T-bill rate	8.26	8.58	8.10	8.01
Interbank rate	5.45	5.35	7.59	5.60
NSE 20 Share Index	3,146.00	3,330.00	3,831.00	3,687.00

2022 election (Peaceful elections, regime change, some public demonstrations)				
Exchange rate Ksh/US$	111.41	115.88	120.3	127.29
Inflation rate	6.14	6.74	9.19	8.87
Commercial bank deposit rate	6.42	6.61	6.88	7.49
Commercial bank saving rate	2.58	2.59	3.46	3.58
Commercial bank lending rate	12.13	12.23	12.42	12.94
Commercial bank overdraft rate	11.41	11.74	12.05	12.52
91-day T-bill rate	7.01	7.61	8.85	9.64
Interbank rate	4.58	4.88	5.05	6.66
NSE 20 Share Index	1,946.08	1,755.00	1,734.44	1,636.18

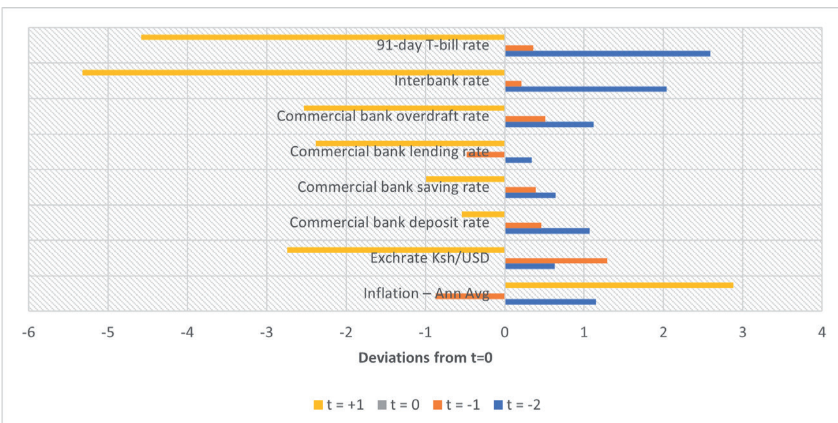
Source: Authors' computation

Based on the findings of event window analysis, the study also computed the deviations of each indicator from the event period t = 0. The deviations are presented in the sections that follow.

5.2.1 Elections were held peacefully accompanied by a by regime change

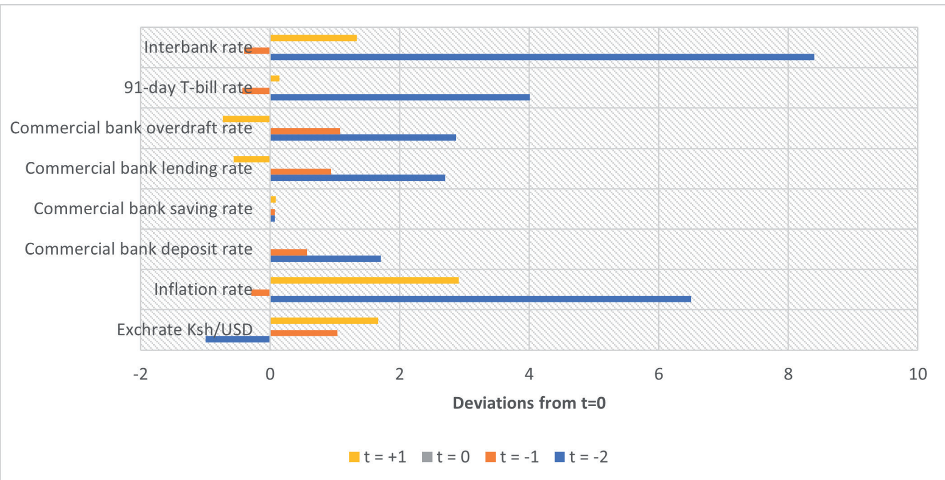
The 2002 and 2013 general elections in Kenya were characterized by peace, led to a change in regime and the electorate had high expectations of the government. In addition, the 2013 election results were challenged in court but the win was upheld. Figures 5.1 and 5.2 show the deviations of the key macro indicators from the election period of t = 0.

Figure 5.1: Peaceful elections followed by change in regime and high expectations (2002 election)



For an election held peacefully, accompanied by regime change and with high citizen expectation from the government (as characterized by the 2002 general election), the macro indicators in the periods t = -2 and t = -1 were above their values in the election period (t = 0), with positive deviations as shown in Figure 5.1. The deviations were higher in t = -2 than in t = -1. All the macro indicators had positive deviations in period t = -2. In period t = -1, positive deviations were observed in exchange and interest rates, while inflation rates and commercial bank lending rates had negative deviations. However, in period t = +1, except for inflation, the remaining macro indicators had negative deviations, meaning that they were lower than their values in the election period. The overall implication of this finding is that, for elections that are conducted peacefully, see a regime change, and followed by high citizen expectations from government, macro indicators perform better in the post-election phase than their performance in the pre-election phase.

Figure 5.2: Peaceful elections, win challenged in court, win upheld and regime change (2013 election)

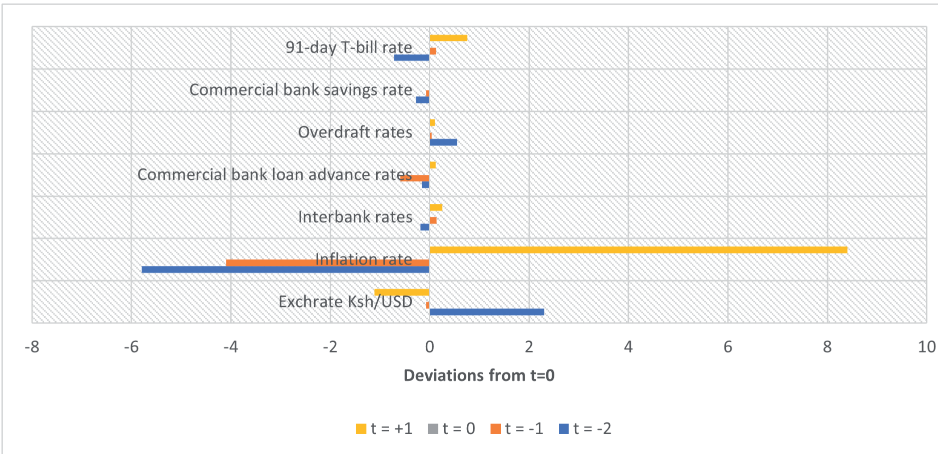


For an election held peacefully, accompanied by regime change and with the win challenged in court but upheld, as characterized by the 2013 general election, the macro indicators in the periods t = -2 and t = -1 were above their values in election period (t = 0) with positive deviations as shown in Figure 5.2. The deviations were higher in t = -2 than in t = -1. All the macro indicators, except for the exchange rate, had positive deviations in period t = -2. In period t=-1, negative deviations were observed in the inflation rate, interbank rate, and 91-day T-bill rate. Furthermore, in period t = +1, except for the lending rate and overdraft rate, which had negative deviations, the remaining macro indicators had positive deviations, meaning that they were higher than their election period values. The overall implication of this finding is that, for elections that are conducted peacefully, results in a regime change, and the win upheld in court, macro indicators are not adversely affected by elections and largely perform positively in both the pre-election and post-election phases.

5.2.2 Elections conducted peacefully but followed by post-poll chaos or public demonstrations

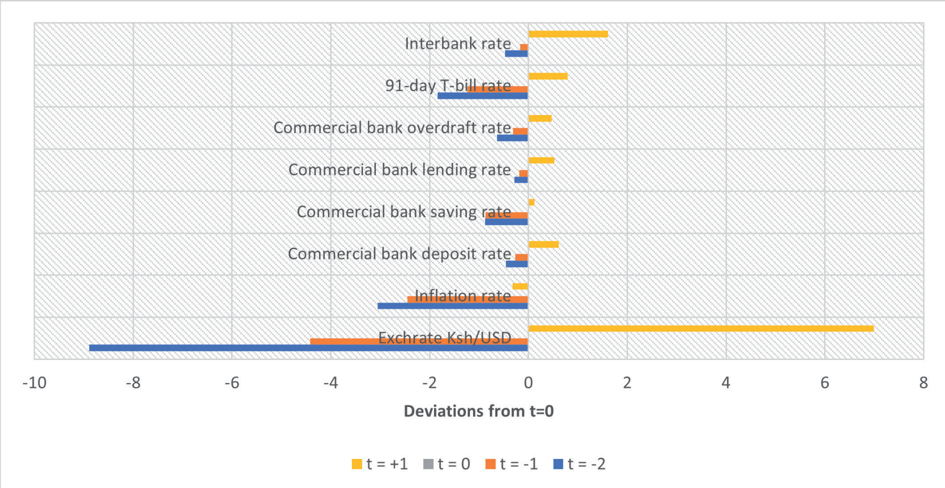
The general elections in Kenya in 2007 and 2022 were marked by peaceful conduct but were accompanied by post-poll chaos following the 2007 election and public demonstrations after the 2022 election. Figures 5.3 and 5.4 show the deviations of the key macro indicators from the election period of t = 0.

Figure 5.3: Elections held peacefully followed by post-poll chaos (2007 election)



For an election held peacefully but followed by post-poll chaos (as characterized by the 2007 general election), the macro indicators in the periods t = -2 and t = -1 were largely below their values in the election period (t = 0) with negative deviations as shown in Figure 5.3. The deviations in t = -2 were higher than those in t = -1. In period t = -2, variables with negative deviations or those below their election period values were inflation, interbank rates, commercial bank loan advance rates, commercial bank savings rate, and 91-day T-bill rate. However, overdraft rates and exchange rates had positive deviations. In period t = -1, inflation rate and commercial bank loan advance rates had significant negative values. During the period t = +1, inflation had a large positive deviation of 8.4 points while the 91-day T-Bill rate also had a positive deviation of 0.76 points. All the macro indicators had positive deviations in period t = -2, except for the exchange rate. The overall implication of this finding is that, for elections that are conducted peacefully but followed by post-poll chaos, macro indicators perform worse in the post-election phase than their performance in the pre-election phase.

Figure 5.4: Elections held peacefully, accompanied by a regime change but followed by public demonstrations (2022 election)

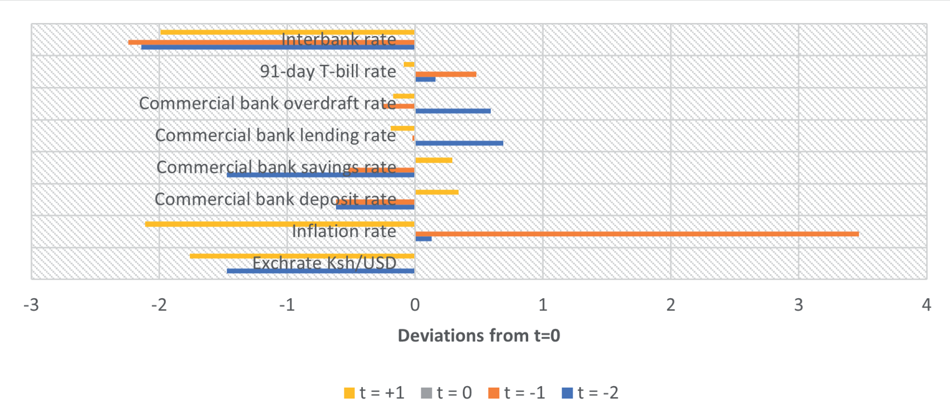


For an election held peacefully, accompanied by regime change but followed by public demonstrations (as characterized by the 2022 general election), the macro indicators in the periods t = -2 and t = -1 were below their values in election period (t=0) with negative deviations as shown in Figure 5.4. The deviations in t = -2 were higher than those in t = -1. All the macro indicators had negative values in periods t = -2 and t = -1, while they all had positive deviations in the period t = +1, except for the exchange rate that had a negative deviation in t = +1. The largest positive deviations in period t = +1 were on exchange rate (+6.99 points), interbank rate (+1.61 points), and 91-day T-Bill rate (0.79 points). The overall implication of this finding is that for elections conducted peacefully, accompanied by a regime change and later public demonstrations, macro indicators perform well in the pre-election phase; however, with public demonstrations, their performance declines.

5.2.3 Protracted elections which are conducted peacefully

The 2017 general elections in Kenya characterize elections held peacefully but are protracted due to nullification of the presidential results and call for fresh elections. Figure 5.5 shows the deviations of the key macro indicators from the election period (t = 0).

Figure 5.5: Elections held peacefully but protracted due to call for fresh elections (2017 election)

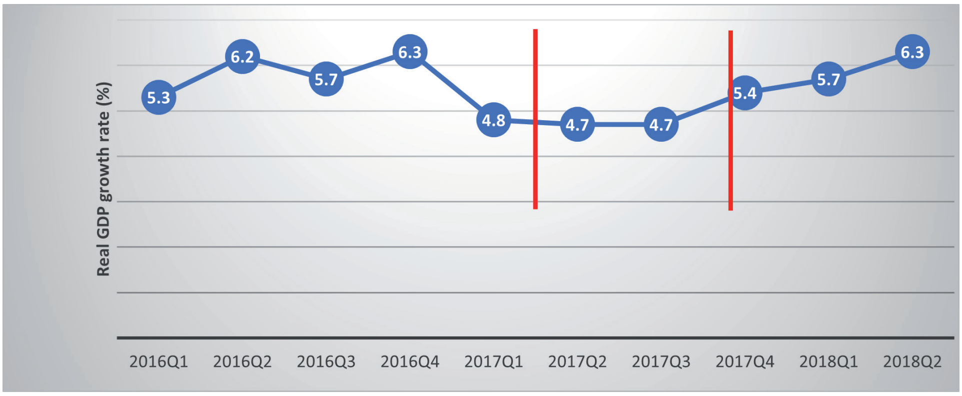


For an election held peacefully but protracted due to a court nullification of the results and a call for fresh elections, as characterized by the 2017 general election, the macro indicators in the periods t = -2 and t = -1 were largely below their values in election period (t = 0) with negative deviations as shown in Figure 5.5. However, the variables exhibited large deviations from the t = 0 period, reflecting the effect of protracted elections. In period t = -2, variables with negative deviations or those below their election period values were exchange rates, commercial bank deposit and savings rates, and interbank rates. Those with positive deviations were inflation, lending and overdraft rate and the 91-day T-Bill rate. The largest positive deviations in period t = -1 were witnessed in the inflation rate (+3.47 points), and the 91-day T-Bill rate (+0.48 points). In period t = +1, except for deposit and savings rates by commercial banks, all remaining macro indicators had negative deviations, thus performing below their election period values. For example, inflation, exchange rate and interbank rates had deviations of -2.11, -1.76, and -1.99 points, respectively. The overall implication of this finding is that, for elections that are conducted peacefully but protracted due to nullification and call for fresh elections, macro indicators perform worse in the post-election phase than during the pre-election phase.

The 2017 elections deserve a more careful analysis given that it was the first time in Kenya's history that the presidential elections were annulled by the Supreme Court and fresh call for elections made, which meant that it was the most protracted election in Kenya. The analysis based on event window methodology was applied, this time, letting t = -1 be 2016, t = 0 be 2017, and t = +1 be 2018. The analysis, however, focused on growth, inflation, and exchange rate as presented in the following section.

Prior to the electioneering period, the country registered a strong economic growth of 5.8 per cent in the fourth quarter of 2016, from a growth of 5.7 per cent in 2015. However, uncertainty associated with the political environment during the August 2017 general elections coupled with effects of adverse weather conditions, slowed down the performance of most sectors of the economy. This led to a sluggish growth of 4.7 per cent in the first quarter of 2017/18. After the general elections, the economy recovered and grew, reaching 5.7 per cent in the first quarter of 2018. This growth was mainly supported by the improved weather conditions and restoration of business and consumer confidence following political stability in the country. Figure 5.6 shows the trends on economic growth before, during and after the elections.

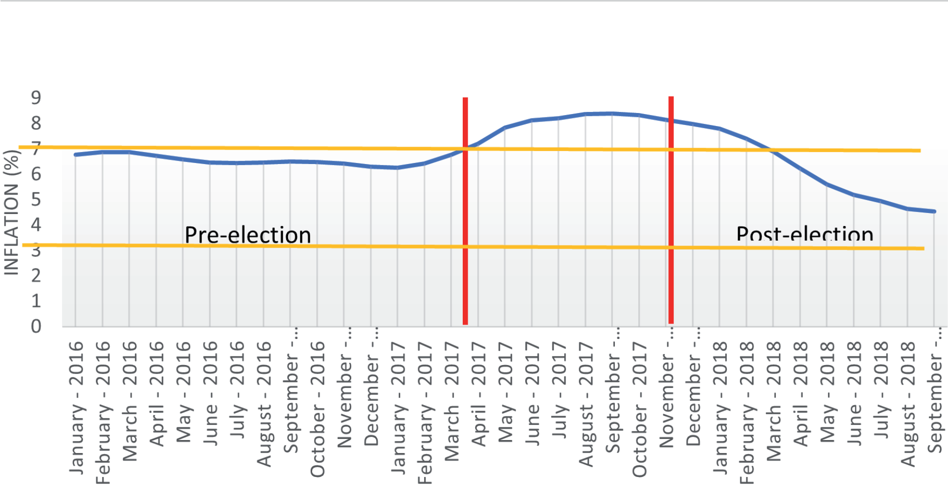
Figure 5.6: Trends in economic growth before, during and after the 2017 general election



Source: Kenya National Bureau of Statistics (Quarterly GDP Reports (various issues))

Regarding inflation, the months preceding the electioneering period in 2017 were characterized by a stable inflation rate (Figure 5.7). On average, the annual inflation rate declined to 6.3 per cent in December 2016 compared to 6.6 per cent in the same period in 2015. However, the month-to-month inflation rates showed an increasing trend from January 2017, reaching a peak of 8.4 per cent in September 2017. The high inflation rates between June to December 2017 were associated with higher food prices because of the drought experienced during the first half of the year. This, together with the prolonged electioneering period, lead to a rise in the cost of transport and manufactured goods and in retail prices of goods. After the election period, inflation took a declining trend, moving to the target range.

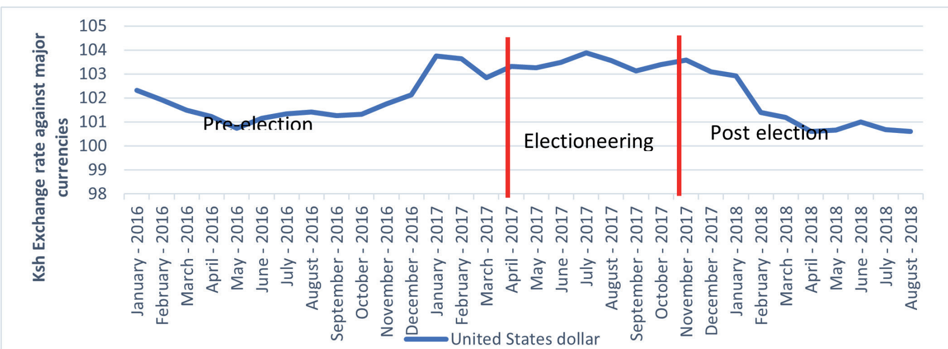
Figure 5.7: Inflation trends before, during and after the 2017 general election period



Source: Kenya National Bureau of Statistics and Central Bank, various reports

On the exchange rate, the Kenya shilling depreciated slightly against the euro and the UK pound between January 2017 and April 2018. The exchange rate between the shilling and the dollar was relatively less volatile, exchanging on average at Ksh 102.05, Ksh 103.44 and Ksh 101.13, before, during and after elections, respectively. The volatility of the Kenya shilling exchange rate during that period reflected a slow growth in export earnings and tourism performance following the August general elections. However, after the election, the shilling strengthened, reflecting improved capital inflows from tea and horticulture exports, strong diaspora remittances, and improved tourism performance.

Figure 5.8: Monthly exchange rates, before, during and after the 2017 general election (US$)



Source: Central Bank monthly economic reports, various issues

5.3 Performance of GDP within and around election periods

The effect of elections on quarterly GDP was also assessed based on event window methodology and the findings were as presented in Table 5.2. The focus in this section is on the GDP growth rate rather than the volume levels.

Table 5.2: Quarterly GDP and GDP growth around and during the election period – GDP at Ksh million (constant prices)

Election year	Q1 (July-September)	Q2 (October - December)	Q3 (January - March)	Q4 (April-June)
2002	259,267 4.1	**245,410** **0.2**	254,233 -2.5	266,673 0.5
2007/08	319,289 0.0	**319,696** **3.5**	348,672 3.3	349,189 0.0
2013	934,348 6.1	917,590 7.5	**902,361** **6.4**	892,522 3.5
2017	**1,148,446** **4.9**	1,145,128 4.9	1,108,744 4.7	1,108,073 5.0
2022	**2,480,206** **6.8**	2,493,853 5.2	2,390,445 6.8	2,493,853 5.2

Source: Kenya National Bureau of Statistics (Economic Survey, Various Issues)

**Note: Figures in bold relate to election period*

During elections characterized as peaceful, followed by regime change and high expectations from the electorate, such as the 2002 election, GDP reached its lowest at 0.2 per cent during the election period and fell further to -2.5 per cent before rebounding to 0.5 per cent in the post-election period. This indicates that GDP experiences a lagged effect during regime changes, as the new administration requires time to settle and start building the economy.

During elections characterized by post-poll chaos or public demonstrations, as seen in the 2007 and 2022 general elections, the effect on GDP is evident, with pre-election growth at 0.0 per cent, but it picked up immediately as the regime was still in transition. However, the impact of chaos was felt again with growth at 0.0 per cent two quarters after the election. This indicates that while GDP is not severely affected during a regime transition, the chaos can reverse the growth gains achieved.

During elections that are peaceful, with a regime change and the win challenged in court and later upheld (2013 election), GDP is not adversely affected since economic activities proceed undisrupted. During the election quarter (quarter 3), GDP growth was 6.4 per cent, with the growth in the quarter preceding the elections at 7.5 per cent while the growth in the quarter succeeding the elections was 3.5 per cent. This shows that elections that are accompanied by a regime change with high expectations among the electorate and conducted peacefully have no adverse effect on growth. However, elections that are followed by a contestation of the presidential results at the Supreme Court, have a staggering effect on economic growth.

During elections that are protracted due to the nullification of results and a call for fresh elections, as depicted by the 2017 elections, economic growth becomes stalled for some time due to the uncertainty that the protracted elections create. In the first quarter of 2017, GDP growth was 4.9 per cent, while growth in the quarter that preceded the election was 5.8 per cent while growth in the quarter that succeeded the election returned to 4.9 per cent. The next two quarters recorded growth rates of 4.7 per cent and 5.0 per cent, respectively. The stalled economic growth, however, depends on whether peace prevails during the court hearings. Generally, growth remains nearly constant when elections are protracted, provided that peace is maintained throughout the entire electoral period.

During elections that are peaceful, witness a regime change, contestation at the supreme court with the win upheld, and later followed by some public demonstrations, as depicted by the 2022 election, growth declines since economic activities are disrupted by the demonstrations and a large part of government expenditure is directed towards maintaining law and order. In the first quarter of 2022, the GDP growth was 6.8 per cent, with growth in the preceding quarter being 7.4 per cent while the growth in the succeeding quarter was 5.2 per cent. Growth is likely to decline due to contested elections in court, but will not be severely affected when peace prevails during the judicial process. Furthermore, given that growth dropped to 4.7 per cent in the third quarter of 2022, this could signal a slow economic recovery due to demonstrations that follow elections.

6. Conclusion and Policy Recommendations

6.1 Conclusion

The study analyzed Kenya's macroeconomic performance following the general elections in 2002, 2007, 2013, 2017, and 2022. The 2002 elections were characterized by positive expectations due to the regime change. Although most macroeconomic variables damped before and during the elections, there was a general improvement in the years that followed, partly explained by good governance, macroeconomic stability, and good economic planning. The reverse was witnessed in 2007/08, a year that was accompanied by post-election violence and a general deterioration in economic conditions. These lasted until a peace agreement was reached, which led to an improvement in economic conditions and prospects.

When elections are conducted peacefully followed by a contestation of the results at the Supreme Court, growth is dampened but not severely affected if the election results are upheld by the court. For example, the 2013 election did not have a severe effect on macroeconomic indicators compared to the protracted 2017 election, which was accompanied by an annulation of the presidential election and a call for fresh elections, where most macroeconomic indicators were adversely affected.

Elections that are peaceful but contested and then followed by public demonstrations can dampen growth due to the uncertainty that they create. However, if the elections are preceded by favourable fiscal policies, including government investments in the economy, strong growth can be witnessed even during the election period.

The study highlights a clear nexus between the economy and elections. This emphasizes the need for effective election management to mitigate their adverse effects on the economy. Proper oversight by the electoral body is crucial, as is conducting peaceful campaigns prior to elections. Additionally, effective resolution of contested results and maintaining law and order after elections are vital for economic stability. Ensuring a peaceful election period helps create a favourable business environment that unlocks the potential of various sectors, thereby driving economic growth.

6.2 Policy Recommendations

The study proposes the following policy recommendations based on the findings:

(i) The pre-election phase is as important as the actual and post-election period. Many macroeconomic indicators reflect the effects of elections even before the election day. Therefore, there is a need to create awareness and sensitize the population of the importance of maintaining peace and promoting law and order, several days/months before the elections. To achieve this, the Ministry of Interior and National Coordination and the Electoral Body (IEBC) could work together with the National Cohesion and Integration Commission.

(ii) Ensuring integrity in the conduct of elections fosters public confidence and trust, enabling continued engagement in nation-building activities. Therefore, the electoral body, IEBC, plays a crucial role in promoting poll integrity, collaborating with national agencies and election observers to guarantee free, fair, and credible elections.

(iii) Institutions responsible for the country's macroeconomic management, such as the National Treasury and the Central Bank, should be better prepared for elections by ensuring that fiscal and monetary policy instruments are available to cushion the economy from the adverse effects of elections on key macroeconomic indicators. Therefore, the National Treasury, Central Bank of Kenya, Capital Markets Authority, Nairobi Securities Exchange, and similar institutions could collaborate to ensure fiscal and monetary stability, making the economy resilient during election phases.

(iv) It is important for the civil society organizations to support the government in creating awareness and advocacy for peaceful elections and help to encourage law and order when there is public disorder following contested elections.

(v) The role of the judiciary as an arbitrator in electoral disputes has become increasingly evident in recent years. Therefore, the judiciary needs to build greater capacity for the swift resolution of cases and the necessary jurisprudence when managing disputes arising from general elections, particularly at the presidential level.

(vii.)More research in this area is still needed to help understand why the economy is negatively affected by general elections. Thus, academia and think tanks such as KIPPRA, can establish more research products aimed at tackling the delicate nexus between elections and the economy.

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