No.16

2015.7.16

Terrorism and Economy: A Case of Kenya

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Kenya's economy looks like resilient with its growth rate recording 4.9% in the first quarter of 2015 over a year earlier. Nonetheless, the exchange rates have been depreciating sharply. In addition to the external factors of appreciating dollar and depreciating currencies in the neighboring countries, Kenya by itself has two factors for the drop. They are so-called twin deficits of current account and fiscal account and a deceasing income from tourism owing to intensifying terrorism. Aside from the twin deficits that are to be treated separately, I would like to focus here on the terrorism and tourism.

With the prolongation of internal conflicts in neighboring Somalia, Kenya embarked on across-the-border intervening into Somalia. From around that time, terrorism started to increase within Kenya, with the number of the case reaching 115 in 2014. As the terrorism increases, the number of tourists from abroad to Kenya decreased to 860 thousands in 2014, falling by 22% compared to the previous year. Receipts of the "travel" account also decreased by 9.4%.

To Kenya whose main exports are confined to tea leaves and horticultural crops, tourism is an important means for acquiring foreign exchanges. Incomes from travel and transportation combined amounted to 53% of commodity exports (2013). Tourists from abroad continue to decrease, recording a drop of 27.2% in the first 4 month of 2014 as compared to a year earlier. (Participants in the) Foreign exchange market is (are) worried that the business model of Kenya as a tourism-oriented country has been threatened by terrorism.