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Evaluating the Effectiveness of Monetary Policy Transmission Mechanisms in Controlling Inflation in Uganda (2010–2024)

[1]Byamazima Innocent, [1]Kambere Eriah, and [1]Nuwabimpa Milton Rwiita
[1]Bishop Stuart University, P.O. Box 9, Mbarara, Uganda
Corresponding Author: Byamazima Innocent
Email: byamazimainnocent@gmail.com

Abstract

This study examined the effectiveness of monetary policy transmission in controlling inflation in Uganda between 2010 and 2024, focusing on the interest rate channel. The study was motivated by persistent inflation volatility despite the Bank of Uganda's Inflation Targeting Lite framework adopted in 2011, raising concerns about the strength of monetary policy transmission. A longitudinal quantitative design using secondary time-series data (2010–2024) was adopted. Data were sourced from the Bank of Uganda, Uganda Bureau of Statistics, the World Bank, and IMF. The Autoregressive Distributed Lag (ARDL) model was used, supported by Augmented Dickey-Fuller (ADF) and Phillips-Perron tests for stationarity, cointegration tests, and diagnostic checks. Correlation analysis, Variance Inflation Factor (VIF) tests, and error correction modeling ensured result validity. The ARDL model showed that the interest rate channel had a negative but statistically insignificant effect on inflation in both the long run ($\beta = -2.34$, $p = 0.267$) and short run ($\beta = -0.0123$ to -0.0463, $p > 0.05$), indicating limited immediate impact on price stability. Money supply also showed no significant effect, while the exchange rate was significant in the short run ($\beta = 9.81$, $p = 0.033$), suggesting depreciation of the shilling raised import costs. Diagnostic tests confirmed model stability and reliable residuals. Monetary policy transmission in Uganda affects inflation through varying channels, with the interest rate channel showing limited short- and long-term influence. Strengthening policy credibility, enhancing forward guidance, and improving financial sector development are recommended to improve the effectiveness of interest rate adjustments in stabilizing inflation.

Keywords: Monetary policy, Inflation, Interest rate channel, Money supply, Exchange rate channel, ARDL model, and Uganda

Introduction

Monetary policy plays a critical role in shaping economic stability, inflation control, and financial market stability worldwide. Central banks employ various monetary policy tools, such as interest rate adjustments, open market operations, and exchange rate interventions, to regulate inflation and stimulate economic growth (Mishkin, 2019). The effectiveness of these policies varies across regions, depending on factors such as macroeconomic structures, financial sector maturity, and external economic shocks.

The interest rate channel is the most traditional and widely analyzed mechanism. When the central bank alters the policy rate (for example, Uganda's Central Bank Rate or CBR), it influences market interest rates. Higher interest rates increase the cost of borrowing and reduce both consumer spending and business investment. Lower rates do the opposite, thereby stimulating aggregate demand and influencing inflation (Taylor, 1995). In Uganda, this channel has become more prominent since the adoption of an Inflation Targeting Lite framework in 2011.

The credit channel complements the interest rate channel by emphasizing the availability of credit. Monetary tightening can lead to reduced bank lending due to weaker borrower balance sheets and stricter credit conditions (Bernanke & Gertler, 1995). In economies like Ugandan where access to formal credit remains limited for small enterprises and rural populations changes in credit conditions significantly influence consumption and investment patterns.

Globally, inflation-targeting regimes have been widely adopted to ensure stable economic growth and price stability. Developed economies such as the United States, the Eurozone, and Japan rely on

quantitative easing and interest rate adjustments to regulate inflation and economic activity (IMF, 2022). These economies benefit from well-developed financial systems, ensuring efficient monetary policy transmission where interest rate changes quickly influence inflation and GDP growth. Emerging economies, including Brazil, India, and South Africa, adopted inflation targeting in 1999, 2016, and 2000, respectively, but still face challenges such as weak monetary transmission mechanisms and external shocks that limit domestic policy effectiveness (World Bank, 2022). Empirical evidence suggests that in advanced economies, "well-functioning financial markets and credible central bank communication strengthen the interest rate channel's effect on aggregate demand and inflation" (Ouchchikh, Belghouat & Ait Bari, 2025).

African economies rely on monetary policy as a primary tool to stabilize the often-volatile macroeconomic environments (Iyoha, 2018). However, African central banks face significant challenges, including high inflation rates, exchange rate instability, and limited financial inclusion (AfDB, 2021). Several African countries have adopted Inflation Targeting (IT) policies with varying levels of success. South Africa, which adopted inflation targeting in 2000, has maintained relative inflation stability, with a current rate of 6.0%. Ghana followed with full-fledged inflation targeting in 2007, while Kenya pursued an inflation objective under a managed float regime since the late 1990s (Alper et al., 2016).

Monetary policy in Uganda has undergone significant evolution since the country's independence in 1962 (Kasekende & Atingi-Ego, 2003). The Bank of Uganda (BoU) was established in 1966 under the Bank of Uganda Act, which gave it the mandate to regulate the country's monetary policy and ensure the stability of the financial system (Musinguzi & Katarikawe, 2000). At the time, Uganda's economy faced considerable challenges, largely due to political instability, which hindered economic growth and development. Early monetary frameworks were focused on financing government activities and managing exchange rates, often at the expense of controlling inflation (Mugume, 2011).

Economic reforms, particularly under the guidance of the IMF and World Bank, were initiated in the late 1980s. These reforms were part of the Economic Structural Adjustment Program (ESAP), aimed at liberalizing the economy, controlling inflation, and improving financial sector competition (Mugume, 2011). Despite these reforms, Uganda's economy remained volatile, and inflation continued to fluctuate due to external shocks such as global oil price increases and the volatility of the Ugandan shilling (Nyorekwa & Odhiambo, 2014).

In 2000, Uganda embarked on significant economic reforms to improve monetary policy frameworks. Despite the adoption of money growth targeting in the early 1990s, the country faced external shocks such as fluctuating global food and fuel prices, which continued to affect inflation dynamics (Tumusiime-Mutebile, 2012). The Bank of Uganda, recognizing the limitations of the money growth targeting approach, began to move towards Inflation Targeting Lite (ITL) in 2011. This framework was seen as a more effective way to control inflation by targeting core inflation, typically aimed at maintaining a rate of around 5% over the medium term (Tumusiime-Mutebile, 2012).

Inflation Targeting Lite (ITL) in Uganda focuses on using the Central Bank Rate (CBR), the rate at which the Bank of Uganda lends to commercial banks, to influence interest rates and control inflation. The CBR serves as a tool for managing liquidity in the economy and signals the BoU's stance on monetary policy. However, challenges persist, particularly due to external shocks, such as fluctuations in global commodity prices and the instability of the exchange rate (BoU, 2014).

The Keynesian theory was developed by John Maynard Keynes in *The General Theory of Employment, Interest and Money* (1936), during the Great Depression. This framework challenges the Classical assumption of self-correcting markets, asserting instead that aggregate demand is the primary driver of economic activity and that economies can experience prolonged periods of unemployment. Unlike the Classical view, Keynesian economics does not regard inflation as a purely monetary issue. It acknowledges that demand-pull and cost-push factors also contribute to inflationary pressures (Keynes, 1936). Within this study, the Keynesian perspective is instrumental in evaluating how interest rate changes and credit conditions in Uganda have influenced inflation. It supports an examination of the interest rate transmission mechanism and the broader role of monetary policy in managing demand-side inflation.

An analysis of Uganda's inflation trends from 2010 to 2024 revealed several periods of concern, with the most notable spike occurring in 2011 when inflation surged to 27%, largely driven by external shocks, currency depreciation, and rising food and fuel prices. However, recent years particularly 2021 to 2024 present a more relevant focus for this study. Between 2021 and 2024, Uganda experienced a pronounced shift in inflation dynamics, moving from a low and stable annual rate of 2.2% in 2021 to a volatile peak of 7.2% in 2022 %, a rate well above the central bank's target, before gradually declining to an estimated 3.32% in 2024. This surge and subsequent fluctuations were driven by a combination of global commodity price shocks, exchange rate depreciation, domestic food supply disruptions, residual effects of monetary accommodation during the COVID-19 recovery, compounded by the Russia–Ukraine conflict which disrupted global supply chains and caused fuel and food prices to rise. These fluctuations highlight the vulnerabilities of Uganda's economy to both external shocks and internal policy limitations. While moderate inflation can be consistent with economic growth, the volatility observed during this period creates significant macroeconomic challenges. Friedman (1977) stressed that inflation volatility, rather than inflation rate, adversely affects economic growth. The trends therefore underscore the critical need to assess how effectively monetary policy tools such as interest rate adjustments and money supply controls are being transmitted through the economy to control inflation.

In conclusion, monetary policy serves as a fundamental instrument for maintaining economic stability, particularly through its influence on inflation, interest rates, money supply, and exchange rates. The historical evolution of Uganda's monetary policy from government-controlled systems to market-based frameworks and eventually to Inflation Targeting Lite (ITL) reflects broader global trends and the need to adapt to changing macroeconomic environments. Conceptually, the effectiveness of monetary policy depends on robust financial infrastructure, sound institutional frameworks, and well-functioning transmission mechanisms. However, in developing economies like Uganda, the presence of external shocks, exchange rate volatility, and high Interest rates continues to challenge the attainment of price stability.

Problem statement

The International Monetary Fund and the World Bank emphasize the importance of an efficient monetary policy transmission in achieving macroeconomic resilience, strengthening financial sector depth, enhanced policy coordination, and development of secondary markets for government securities (IMF, 2023; World Bank, 2022). Ideally, under an effective transmission mechanism, changes in the policy rate should promptly influence commercial bank Interest rates, aggregate demand, and ultimately, inflation (Mishra & Montiel, 2012). This aligns with SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequality), which emphasize robust financial systems and equitable macroeconomic policies.

Uganda's monetary policy spearheaded by the Bank of Uganda (BoU), is designed to maintain price stability and foster sustainable economic growth by influencing macroeconomic variables such as inflation, interest rates, and money supply. In 2011, the BOU adopted the Inflation Targeting Lite (ITL) framework primarily employing instruments like the Central Bank Rate (CBR), open market operations, and interbank rates to achieve a medium-term inflation target of 5% (IMF, 2023; BoU, 2022).

However, the transmission of monetary policy in Uganda remains structurally weak. (Alani, J. 2021). Although interbank rates respond relatively well to shifts in the CBR, commercial banks' Interest rates exhibit notable rigidity, often delaying the pass-through effects to private sector credit and consumption (BoU, 2022; IMF, 2020). This sluggish adjustment undermines the potency of monetary policy in influencing inflation dynamics, as it lengthens the lag between policy action and macroeconomic response. Additionally, fiscal operations, particularly the government's reliance on domestic borrowing, aggravates the liquidity situation further complicating inflation management (International Monetary Fund, 2020; BoU, 2022) and weakening the actual impact of monetary tightening (World Bank, 2023).

Uganda thus continued to experience inflation volatility, with rates sometimes surpassing the BoU's 5% target notable ones being a rise from 2.2% in 2021 to 7.2% in 2022, 5.35% in 2023 and then 3.3% in 2024. According to Ahir, Bloom & Furceri (2020), the levels of economic policy uncertainty were at extremely elevation levels in comparison to the near past. Studies have found a strong negative correlation between inflation volatility and economic growth. In a 2012 study, it was found that while the level of inflation was not significantly related to growth, inflation volatility did have a significant impact (Emara-2012)
Existing research had largely focused on general inflation trends rather than the mechanisms through which monetary policy influences inflation. This study, therefore, sought to analyze the effectiveness of Uganda's monetary policy in controlling inflation and its broader implications for economic stability, aligning with national and international development goals and best practices. Therefore, the study aimed at examining the effect of monetary policy transmission mechanism on inflation in Uganda. The general objective was to evaluate the effectiveness of monetary policy transmission mechanisms in controlling inflation in Uganda during the period 2010–2024. Thus, this paper sought to evaluate the effectiveness of the interest rate channel in controlling inflation in Uganda. The study tested the hypothesis: H_{01}: The interest rate channel has a significant effect on controlling inflation in Uganda.

Literature Review

The Effect of Interest Rates on Inflation

Interest rates are a central instrument of monetary policy, widely used by central banks to regulate money supply, influence aggregate demand, and manage inflation. The theoretical foundation stems from Keynesian economics, which posits that higher interest rates increase the cost of borrowing, reduce investment and consumption, and consequently lower inflationary pressures (Keynes, 1936/2018). Conversely, lower interest rates stimulate borrowing and spending, potentially driving up inflation when aggregate demand exceeds supply (Mankiw, 2021).
In developing economies, the responsiveness of inflation to changes in interest rates has been mixed due to structural rigidities and weak financial markets. In Uganda, Charles et al. (2019) found that an increase in policy interest rates significantly reduced economic activity, dampening inflationary pressures by curbing private sector credit demand. Similarly, Mugume (2011) reported that Uganda's Inflation Targeting Lite framework relies heavily on the central bank rate (CBR), where monetary tightening through higher rates is effective in moderating price levels in the medium term.
Tanzania presents comparable evidence, Aikaeli, Mugizi, and Ndanshau (2011) demonstrated that while interest rate adjustments influenced inflation, their impact was weakened by fiscal dominance, as government borrowing often counteracted monetary tightening. This suggests that in economies with underdeveloped financial markets, the effectiveness of interest rates as an anti-inflationary tool may depend on complementary fiscal discipline.
The role of interest rates in inflation management is more pronounced in emerging markets with stronger monetary institutions. For example, Muhammad et al. (2020) showed that in Pakistan, higher interest rates effectively suppressed inflation by constraining demand. In contrast, Cochrane (2020) argued that in several Latin American economies, monetary policy transmission through interest rates was weaker due to persistent structural inflation drivers, such as supply shocks and indexation practices.
In advanced economies, where capital markets are more efficient, interest rates strongly anchor inflation expectations. Studies in the United States and Europe have shown that timely interest rate adjustments are effective in managing both headline and core inflation (Taylor, 1993; Woodford, 2019). However, debates persist over the lag in policy transmission and the potential trade-off with output stabilization.
For Uganda and similar Sub-Saharan African economies, interest rates remain a vital but imperfect tool for inflation management. The effectiveness of monetary tightening is often constrained by high levels of informality, shallow financial intermediation, and external shocks such as commodity price fluctuations

(Alagidede & Panagiotidis, 2012). Nonetheless, research consistently indicates that tighter interest rate policy reduces inflation by lowering credit growth and aggregate demand (Kasekende, 2016).
The empirical consensus is that interest rates play a critical role in influencing inflation, but their effectiveness depends on the structural and institutional context of the economy. In Uganda, evidence suggests that interest rate hikes reduce inflation, though the impact may be moderated by fiscal policies and external shocks.

Methodology

Research Design

The study adopted a longitudinal quantitative research design using secondary time-series data covering the years 2010–2024. This approach was appropriate for examining the effectiveness of monetary policy transmission mechanisms over time, with a specific focus on the interest rate, money supply, and exchange rate channels.

Data Sources

Data were sourced from the Bank of Uganda, Uganda Bureau of Statistics, the World Bank, and the International Monetary Fund. These sources provided consistent and reliable macroeconomic indicators required for econometric analysis.

Model Specification

The study employed the Autoregressive Distributed Lag (ARDL) model to capture both short-run and long-run dynamics of monetary policy transmission mechanisms on inflation in Uganda. The general ARDL (p, q) model is expressed as follows:
Following (Charles *et al*., 2019; Emenike, 2017), the effect of monetary policy on inflation in Uganda can be modeled as follows;

INF=f (IR, EXR, MS) …. ……. (1)
To test the above relationship, the following estimation model was used.
$INF = \beta_0 + \beta_1 IR + \beta_2 EXR + \beta_3 MS + \mu$ ……..(2)
Where; INF = Inflation, IR = Interest rate, EXR = exchange rate, MS = money supply, β_0 is a constant, ie, inflation when the IVs are zero, β_1, β_2 and β_3 are coefficients and μ is error term.
This equation was estimated as an ARDL model

Unit Root Test

It is important to test the order of integration of each variable in a model, to establish whether it is non-stationary and how many times the variable needs to be differenced to derive stationary series. Stationarity of each individual data series would be estimated based on the assumption that the variables were either I (0) or I (1) series. The study would then employ Augmented Dickey Fuller (ADF) test and Phillips Perron test (1988). The ADF test is used in determining the order of integration of each variable in the model because it assumes the errors are statistically independent and have a constant variance and a unit root null hypothesis would be tested against a stationary alternative. The stationarity test in the study was to use regressions of a time series data analyzed against a constant. These regressions would be expressed as follows;
$Y_t = \alpha + \beta.t + \varepsilon_t$ ……. (1)

$$dY_i = a + \beta_t + \sum_{i=1}^{n} \lambda\, dY_{t-i} + \delta Y_{t-i} + \varepsilon_t \quad \ldots\ldots (2)$$

After the stationarity of residuals (ε_t), Lag length (p) of ADF (dY_{t-i}) and Phillips Perron equations was selected using Schwarz Information Criterion (SIC) and Bartlett Kernel respectively.

Variable Definitions

Inflation (INF): Measured by the annual percentage change in the Consumer Price Index (CPI).
Interest Rate (INT): Represented by the Central Bank Rate (CBR), the main policy rate used by the Bank of Uganda under the Inflation Targeting Lite (ITL) framework.
Money Supply (MS): Proxied by broad money (M2) as a percentage of GDP.
Exchange Rate (EXR): Represented by the official nominal Uganda Shilling to US Dollar exchange rate.

Estimation Procedure

Econometric analysis was performed using the ARDL model, supported by Augmented Dickey-Fuller (ADF) and Phillips-Perron unit root tests for stationarity, cointegration tests for long-run relationships, and diagnostic checks for model robustness. Once cointegration was established, the Error Correction Model (ECM) form of the ARDL was estimated to capture both short-run and long-run effects.
Additional techniques, including correlation analysis, Variance Inflation Factor (VIF) tests, and error correction modeling, were employed to ensure the validity of results.

Ethical considerations

This research prioritized ethical considerations throughout the process, research protocols was adhered to including advice given in proposal defense and REC (Research ethics committee) recommendations. Data integrity was ensured, plagiarism avoided and proper academic referencing using the APA style was maintained to give credit to original authors and sources.
Compliance with institutional and national data privacy and protection policies were adhered to and the researcher sought ethical clearance of this study from the Research and Ethics Committee (REC) (**BSU-REC-2025-595**) of Bishop Stuart University to go ahead for data collection

Results

Descriptive statistics of study variables

Descriptive statistics simplify complex datasets and provide an intuitive understanding of key monetary policy variables such as interest rates, exchange rates, money supply, and inflation (Trochim, Donnelly & Arora, 2016). The study variables show that inflation averaged 5.78% (SD = 4.85), interest rate 20.87% (SD = 2.54), money supply 16,061.66 (SD = 7,664.91), and exchange rate 3,238.22 (SD = 571.91). Money supply and exchange rate exhibited higher variability than inflation, justifying log transformation to stabilize distributions and improve robustness of statistical analysis.
The descriptive statistics of the study variables are provided in the table below

Table 1: Summary statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
Inflation	180	5.78	4.85	1.53	24.36
Interest Rate	180	20.87	2.54	15.53	27.57
Money Supply	180	16061.66	7664.91	5295.42	32159.36
Exchange Rate	180	3238.22	571.91	1935.63	3895.78

Inflation shows moderate variability (std. dev. 4.85), while money supply and exchange rate vary more widely. Log transformation was applied to stabilize distributions, reduce skewness, and improve reliability of statistical analysis.

4.2 Stationarity test among monetary policy variables

The Augmented Dickey-Fuller (ADF) test checked for unit roots to ensure stationarity. Variables with $p < 0.05$ are stationary; otherwise, differencing is needed. The results are presented as below

Table 2: ADF test results

Variable	Level Test Statistic	Level p-value	1st Difference Test Statistic	1st Difference p-value	Order of Integration (I(d))
Inflation	-3.769**	0.0032	-	-	I(0)
Interest rate	-1.758	0.4017	-8.230***	0.0000	I(1)
Money Supply	-0.865	0.7991	-7.052***	0.0000	I(1)
Exchange Rate	-2.120	0.2367	-7.849	0.0000	I(1)

Inflation is stationary at level, while other variables are stationary after first differencing. This mix justifies using ARDL to capture short- and long-run dynamics without spurious results.

Multicollinearity test
Pairwise correlation analysis

Table 3: Correlation Results

	Interest Rate	Money Supply	Exchange Rate
Interest Rate	1.0000		
Money Supply	-0.6793*	1.0000	
Exchange Rate	-0.4904*	0.8760*	1.0000

Interest rate is negatively correlated with money supply and exchange rate, while money supply and exchange rate are positively correlated. Strong correlations prompted further VIF analysis.

4.3.2 Variance Inflation factor Results

Table 4: VIF results

Variable	VIF	1/VIF
Money Supply	9.69	0.103235
Exchange Rate	4.84	0.206702
Interest rate	2.03	0.491468
Mean VIF	**4.91**	

VIF values are below the critical threshold of 10, indicating multicollinearity is not a major concern, supporting inclusion of all variables in regression analysis.

ARDL model Results

The model $INF = \beta_0 + \beta_1 IR + \beta_2 EXR + \beta_3 MS + \mu$ was estimated using ARDL due to mixed integration orders.

Table 5: ARDL model results

Variable	Coef.	Std. Err.	t	P>|t|
LONG RUN				
Error Correction Term	***-0.04196*** **	***0.019279***	***-2.18***	***0.031***
Interest rate	-2.3396	2.098734	-1.11	0.267
Money Supply	-13.0492	13.51883	-0.97	0.336
Exchange Rate	5.872794	22.05863	0.27	0.79
SHORT RUN				
$Inflation_{L1.}$	0.25517***	0.075426	3.38	0.001
$Inflation_{L2.}$	0.312112***	0.077359	4.03	0.000
Interest Rate	-0.01232	0.083002	-0.15	0.883
$Interest\ Rate_{L1.}$	-0.04629	0.082773	-0.56	0.577
$Interest\ Rate_{L2.}$	0.038493	0.079636	0.48	0.629
Money Supply.	-0.12909	3.54319	-0.04	0.971
$Money\ Supply_{L1.}$	-5.36432	3.524927	-1.52	0.130
$Money\ Supply_{L2.}$	-5.1169	3.399754	-1.51	0.134
Exchange Rate.	-0.29523	4.297622	-0.07	0.945
$Exchange\ Rate_{L1.}$	9.807836**	4.557239	2.15	0.033
$Exchange\ Rate_{L2.}$	1.592194	4.321012	0.37	0.711
Constant	5.607028	4.443952	1.26	0.209

Long-run results show interest rate negatively affects inflation (-2.34, p = 0.267) but insignificantly. Short-run coefficients of interest rate are also insignificant (p > 0.5), suggesting minimal immediate impact. Exchange rate shows some short-run significance (L1 = 9.81, p = 0.033). Overall, changes in interest rate tend to reduce inflation long-term, but effects are weak, and short-term impacts are limited.

Discussion of results

Interest Rate and Inflation

In the long run, the relationship between the Interest rate and inflation is negative but not statistically significant, suggesting that increases in Interest rates are associated with lower inflation, yet this effect is not robust within the Ugandan context. Monetarist theory posits that higher policy rates should curb inflation by making borrowing more expensive and reducing aggregate demand (Friedman, 1968). However, recent studies in sub-Saharan Africa, including Uganda find that this channel is often weakened by shallow financial markets and the dominance of informal credit channels (Munyambonera et al., 2022). Thus, the observed insignificance may reflect the need for complementary policies beyond interest rate adjustments.

The short-run effects of Interest rate changes on inflation are also insignificant in this analysis, with low and inconsistent magnitudes across lags. This echoes findings from recent literature, which shows that monetary policy pass-through is often sluggish or incomplete in low-income countries (Wamalwa & Ayenyo, 2022). Empirical evidence from Uganda similarly highlights that while the policy rate influences the Interest rate, the transmission to inflation is impeded by underdeveloped banking sectors and limited access to formal credit (Kasekende et al., 2021).

The insignificance of both the long-run and short-run relationship between Interest rates and inflation means that changes in the official interest rate are not being quickly or consistently reflected in everyday prices in Uganda. On the ground, this suggests that businesses and consumers may not adjust their borrowing, investment, or spending habits in direct response to central bank rate changes, possibly due to limited access to formal credit or the dominance of cash-based and informal financial transactions. For households and firms, inflation appears to be influenced more by factors other than the prevailing Interest

rates, such as supply chain disruptions or changes in food and fuel prices. As a result, the cost of borrowing from commercial banks does not have an immediate or obvious impact on the price of goods and services for most Ugandans.

Conclusions

The first conclusion from these results is that changing the central bank's official interest rate (the Interest rate) does not have a clear or immediate effect on the prices people pay for goods and services in Uganda. In simple terms, even if the Bank of Uganda raises or lowers interest rates, this does not quickly translate into cheaper or more expensive items at the market or in shops. This is likely because many Ugandans don't rely heavily on bank loans for their daily lives or business activities, or because informal lending and cash transactions are still common. So, for most ordinary Ugandans, fluctuations in the official Interest rate do not noticeably change the cost of living.

Study recommendations

Strengthen Price Stability by Focusing on Exchange Rate Management**:** Since the study shows that changes in the exchange rate have a quick and noticeable effect on inflation in Uganda, it is recommended that authorities pay close attention to managing currency stability. Steps such as monitoring discouraging speculative activity, and ensuring timely interventions in the foreign exchange market can help soften the blow of sudden shilling depreciations. This focus can directly protect Ugandan households and businesses from abrupt price increases, especially for imported goods and essentials.

Address Non-Monetary Drivers of Inflation: Given that neither changes in Interest rates nor money supply were found to have significant impacts on inflation, policymakers should look beyond monetary levers and pay more attention to other inflation drivers. This includes supporting efficient supply chains, reducing bottlenecks in food production and distribution, and managing transportation and energy costs. By tackling these real-economy issues, it is possible to make the cost of living more stable and predictable for ordinary Ugandans.

Limitations of the study

This study focused on a narrow set of monetary policy variables, Interest rate, money supply, and exchange rate, without accounting for other potential drivers of inflation such as fiscal policy, supply shocks, agricultural output, or global commodity prices. As a result, the findings may not fully capture the complexity of inflation dynamics in Uganda. Future research should include a broader range of economic, structural, and external variables to provide a more comprehensive understanding of what influences inflation in the country.

The analysis used aggregate, country-level data, which may mask important regional or sectoral differences in how inflation and monetary policy interact across Uganda. Local factors such as differences in market access, financial inclusion, and the prevalence of informal economies may affect the results. Further studies should consider using regional, sector-specific, or household-level data to uncover more detailed insights into how monetary policy and inflation affect different groups and areas within Uganda.

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