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Abstract

This article provides a comprehensive chronological analysis of Uganda's inflation performance and policy reforms aimed at reducing inflation and stabilising the economy from 1970 to 2021. The impetus for this article lies in the growing interest in Uganda as a prototype for other developing countries grappling with high inflation rates. To achieve the objective, the study adopts a rigorous methodology involving a detailed analysis of selected statistical and academic literature. Uganda faced persistent hyperinflation for much of the 1970s and 1980s and early 1990s. In response, the Ugandan government implemented a series of inflation policy reforms aimed at reducing inflation and stabilizing the economy. The policy reforms in Uganda can be analysed episodically through five distinct periods, starting with the first 10 years after independence (1962-1971), followed by 15 years of political instability (1971-1985), 10 years of recovery (1986-1995), 10 years of economic growth and poverty reduction (1996-2006), and the most recent episode of reforms consolidation (2007-2021). The impact of these reforms has been significant, with inflation rates falling to single digits and the economy experiencing sustained growth. The decline in inflation has helped to stabilize the economy, reduce the cost of living for Ugandans, and attract foreign investment. The study underscores the importance of implementing sound macroeconomic policies, strong political will and leadership, investing in infrastructure, diversifying the economies, communicating effectively with the public, and cooperating regionally to build a robust and sustainable economy that benefits all its citizens.

Keywords: *Price Level; Inflation; Deflation; Uganda*

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1. Introduction

High inflation can pose a significant challenge to economic development and macroeconomic stability, especially in developing countries (Calvo and Végh, 1999). The negative effects of inflation on an economy are numerous, including the erosion of purchasing power, which can make it difficult for individuals and businesses to access goods and services (Bach, and Ando, 1957). This can lead to a decline in economic activity, as businesses struggle to sell their products and individuals struggle to afford necessities (Blinder, 2008). In the same vein, high inflation creates uncertainty, re-distributes income, imposes menu costs through frequent price revisions, and reduces the country's external trade competitiveness (Blinder, 2008). As a result, reducing inflation levels has always been a priority for governments seeking to promote economic growth and stability.

Uganda, the "Pearl of Africa," boasts a reputation for effective macroeconomic management, achieved through a credible commitment to maintaining low and stable inflation rates (see for example Tumusiime-Mutebile, 2010; Atingi-Ego and Sebudde, 2003; Kasekende, and Atingi-Ego, 1999; Mugume, 2011). By the way, the country was recognised by the World Bank (2004) report as an example of a successful state that has achieved a remarkable turnaround among African countries, having achieved macroeconomic stability despite previous episodes of crisis (World Bank, 2004).

Throughout most of the 1970s, 1980s and also the first half of the 1990s, Uganda struggled with persistent double-digit inflation rates, a challenge that was not unique to the country, as historically, the post-independence era was marred by decades of social and political unrest that led to economic stagnation and decline (Franses and Janssens, 2018; Ha, Kose and Ohnsorge, 2021; Bigsten and Kayizzi- Mugerwa, 1999).

In response, following a change in leadership, Uganda began implementing economic and institutional reforms in 1986, which included targeted interventions and comprehensive policy reforms (Tumusiime-Mutebile, 2010; Atingi-Ego and Sebudde, 2003; Kasekende and Atingi-Ego, 1999). These measures aimed to manage both monetary and fiscal policies and combat persistent inflation (Tumusiime- Mutebile, 2010; Atingi-Ego and Sebudde, 2003; Kasekende and Atingi-Ego, 1999). Specifically, Uganda's inflation policy reforms included fiscal

discipline, monetary policy tightening, and increased exchange rate flexibility, along with subsidies for vulnerable populations and food price stabilisation initiatives (Kasekende and Atingi-Ego, 1999). The country also implemented trade and financial sector reforms to promote export and foster financial deepening, leading to sustained economic growth and stability (Bwire, Anguyo and Opolot, 2013).

The impact of these reforms has been significant, with inflation rates falling from double digits levels in the 1970s, 1980s and first half of the 1990s to single digits in the second half of the 1990s (Franses and Janssens, 2018; Ha, Kose and Ohnsorge, 2021). The decline in inflation has helped to stabilize the economy, reduce the cost of living for Ugandans, and attract foreign investment (Tumusiime- Mutebile, 2010). As a result, the Ugandan economy has witnessed sustained growth, with an average annual real GDP growth of approximately 6 percent in recent years (World Bank, 2022).

In light of this background, Uganda's experience with inflation policy reforms provides valuable insights and lessons for other developing countries grappling with high inflation rates. Specifically, Uganda's efforts to achieve macroeconomic stability and development through inflation policy reforms are worth studying.

Given the aforementioned context, the main objective of this article is to conduct an exploratory review of the key policy reforms and institutional characteristics that have defined the Ugandan economy since the 1970s, chronologically, with a focus on the economic reform era that commenced in the latter half of the 1980s. Additionally, based on the analysis of selected statistical and academic sources, the current article examines the factors, both internal and external, that have influenced the inflation trend during the study period.

This study is important as it offers a comprehensive review of the impact of inflation policy reforms on macroeconomic stability in Uganda. It fills a gap in the existing literature by examining the relationship between policy reforms and inflation performance during five distinct periods in Uganda's history. The findings provide valuable insights into the effectiveness of policy reforms in reducing inflation, promoting economic stability, and achieving sustained economic growth in developing countries. Additionally, the paper highlights the importance of coordinated policy approaches, political will, and leadership in implementing successful inflation policy reforms. The research has significant implications for

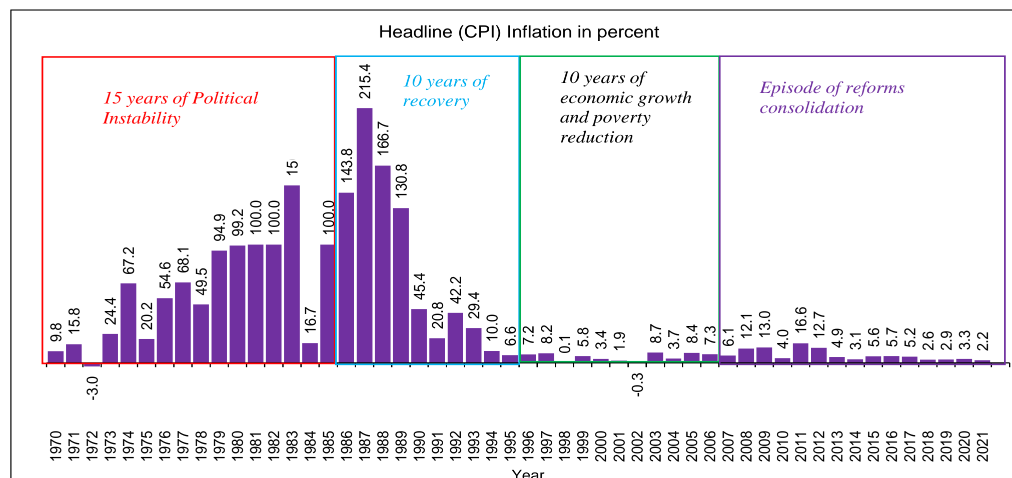
policymakers, researchers, and scholars interested in inflation policy reform and macroeconomic stability in developing countries.

The subsequent sections of this article are arranged in the following manner. Section 2 analyses policy reforms and inflation performance in Uganda episodically in five distinct episodes. Section 3 discusses lessons learned from policy reforms and inflation performance in Uganda. The research is summarised and concluded in Section 4.

2. Policy Reforms and Inflation Performance in Uganda

Since gaining independence, based on available literature including Tumusiime- Mutebile (2010), Atingi-Ego and Sebudde (2003), Kasekende and Atingi-Ego (1999) as well as Mugume (2011), Uganda has made an unwavering commitment to implementing a series of reforms aimed at reducing inflationary pressures and maintaining macroeconomic stability conducive for growth and development (see figure 1 which illustrates inflation performance in Uganda since 1970, expressed as the annualised percentage change in the consumer price index (CPI).

Figure 1. Evolution of Headline Inflation in Uganda since 1970.



Source: Ha, Kose, and Ohnsorge (2021), Wordl Bank (2022)

Inflation-related reforms in Uganda can be analysed episodically through five distinct periods, starting with the first 10 years after independence (1962-1971), followed by 15 years of political instability (1971-1985), 10 years of recovery (1986-1995), 10 years of economic growth and poverty reduction (1996-2006), and the most recent episode of reforms consolidation (2007-2021) (Franses and Janssens, 2018; Ha, Kose and Ohnsorge, 2021;

Mwenda and Tangri, 2005; Ulriksen and Katusiimeh, 2014; Bigsten and Kayizzi-Mugerwa, 1999; Loxley, 1989).

2.1 The First 10 Years After Independence, 1962-1971

Uganda, a small open East African economy gained independence in 1962 under civilian leadership (Jamal, 1976; Jamal, 1997). During the first 10 years after independence (1962-1971), Uganda was one of the most vibrant and promising economies in sub-Saharan Africa (Loxley, 1989; Jamal, 1997; Rugumamu and Gbla, 2003). To ensure rapid economic growth and macroeconomic stability, the government assumed a commanding role in directing economic activities (Bigsten and Kayizzi-Mugerwa, 1999). In this regard, most of the early post-independence policies in Uganda were based on central planning, an inward-looking import-substitution industrial strategy and a fixed exchange rate regime (Atingi-Ego and Sebudde, 2003; Bwire, Anguyo and Opolot, 2013; Bigsten and Kayizzi-Mugerwa, 1992). Inflation policy reforms during this period included also price controls that were aimed at stabilizing the economy and reducing the high levels of inflation that had been experienced in the years leading up to independence (Bigsten and Kayizzi-Mugerwa, 1999).

During this period, a five-year development plan from 1961/62 to 1966/67 was executed as per the advice of the World Bank (Bigsten and Kayizzi-Mugerwa, 1999). The objective of the plan was to elevate the living conditions of all Ugandans, with the ultimate aim of completely eradicating poverty. In addition, as per Ulriksen and Katusiimeh (2014), the plan was to modernize the economy by increasing production with the support of local private investors. Unfortunately, the implementation of this development plan was disrupted when the new government came to power.

The political landscape of Uganda underwent a seismic shift in 1966 with the revocation of the 1962 Constitution and the adoption of a socialist agenda outlined in the 1969 "Common Man's Charter" (Loxley, 1989; Jamal, 1997). This marked the beginning of Uganda's participation in the African Socialist movement, which was sweeping across the region during that period, as evidenced in Tanzania, Ghana, and Zambia.

During this period, a notable policy reform introduced in Uganda was the creation of the Bank of Uganda via the Bank of Uganda Act of 1966 after the East African Currency Board was disbanded (Musinguzi and Katarikawe, 2001). This policy change had a considerable impact on the country's economy and monetary policies. The Bank of Uganda was tasked with designing a monetary policy directed towards regulating the money supply to control inflation

(Musinguzi and Katarikawe, 2001). The Bank was also given the power to set interest rates, issue currency, and regulate the operations of commercial banks (Musinguzi and Katarikawe, 2001). The old Ugandan shilling was replaced with a new shilling, which was pegged to the US dollar to stabilize the exchange rate (Atingi-Ego and Sebudde 2003; Musinguzi and Katarikawe, 2001). The government also introduced strict controls on the amount of currency that could be imported or exported from the country, to prevent capital flight and stabilize the exchange rate (Atingi-Ego and Sebudde 2003; Musinguzi and Katarikawe, 2001).

From 1962 to 1970, Uganda implemented a fixed exchange rate policy (Atingi-Ego and Sebudde, 2003; Bigsten and Kayizzi-Mugerwa, 1992). During the majority of the period, the official exchange rate of the Ugandan shilling with the US dollar remained close to the original rate at which the East African shilling had been fixed, which the Ugandan shilling inherited in 1966 after the dissolution of the East African Currency Board (Jamal, 1976; Jamal, 1997). However, due to economic mismanagement and the artificial shortages created by the fixed exchange rate regime, a parallel foreign exchange market emerged (Atingi-Ego and Sebudde, 2003).

Therefore, despite the policy reforms, most of the period during the first 10 years after independence (1962-1971), Uganda was characterised by decades of stagnation and decline with social and political unrest that heavily impacted the economy. However, the policy reforms implemented during the first decade after independence such as price controls and direct monetary policy helped to attain macroeconomic stability and laid the foundation for future economic stability in Uganda and paved the way for further reforms in the years to come.

2.2 The 15 Years of Political Instability, 1971-1985.

In the period between (1971-1985), Uganda was ruled by two political regimes the first one under military rule from 1971–1979 and the second one from 1980-1985, see for example Loxley (1989), Rugumamu and Gbla (2003), Jamal (1976), Jamal (1997).

In 1971, a coup led to political instabilities and economic mismanagement, leading to a significant decline in the economy, political uncertainty, and civil unrest (Rugumamu and Gbla, 2003; Loxley, 1989). According to available literature, the economy was characterised by increased state intervention in key productive sectors of the economy, uncertain business environment, and high inflation as a result of scarcity of basic commodities following the forced removal of the Asian community that had previously dominated much of the country's trade and industry, excessive overvaluation of the Ugandan Shilling, a large deficit in the

balance of payments, deterioration in revenue-generating capacity, the demise of the EAC and the associated economic sanctions against Uganda (Rugumamu and Gbla, 2003; Musinguzi and Katarikawe, 2000; Kuteesa et al., 2009; Simson and Wabwire, 2016; Jamal, 1976; Jamal, 1997).

During this period, the Ugandan economy was subjected to far-reaching administrative controls over agricultural prices, foreign exchange, imports and financial markets resulting in severe distortions and the contraction of the formal and monetised economy. This was due to the State's dominant stake in the heavily regulated financial sector, as evidenced by various sources (Mugume, 2011; Atingi-Ego and Sebudde, 2003; Bwire, Anguyo and Opolot, 2013; Bigsten and Kayizzi-Mugerwa, 1992). The monetary policy in Uganda during this period was characterised by administered interest rates, directed credit, and high legal reserve requirements, exercised through direct means such as interest rate and credit controls, but ultimately considered dormant due to its weak effectiveness and subordination to fiscal considerations(Nyorekwa and Odhiambo, 2014).

The collapse of the public revenue base on the fiscal side engendered significant deficits, which were subsequently funded by the Central Bank, thereby giving rise to exorbitantly high inflation rates (Di John and Putzel, 2005; Langford and Namanya, 2014; Robinson, 2007; Simson and Wabwire, 2016). Also, as a result of the prolonged economic decline, the government opted for external financing of development plans which led to a massive increase in debt (Kuteesa et al., 2009). The situation was made worse following the decline of the world economy and the surge in international oil prices during the 1970s, (Ulriksen and Katusiimeh, 2014). There was no significant economic reform during the military regime era and at the end of 1979, the economy was in a terrible situation.

The Amin Government was brought down in 1979 by the coordinated action of the Tanzanian army and the United National Liberation Front, a rebel group that operated in Uganda (Jamal, 1991). New Government held by Milton Obote assumed power for the second time amidst a severely damaged infrastructure and economic crisis (Loxley, 1989; Jamal, 1991).

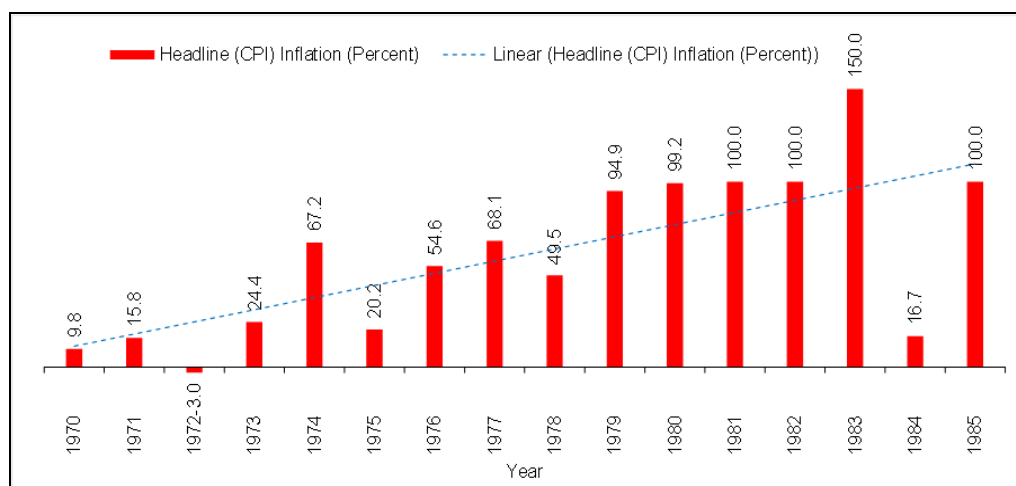
During the second regime (1980–1985), some policy reversals were adopted from the earlier emphasis on controls and nationalisation towards market-based policies that were geared towards stimulating foreign investments (Kuteesa et al., 2009). The implementation of these policies was supported by funds from the Bretton Woods institutions through Structural Adjustment Program (Ggoobi et al (2017). The program aimed to achieve a set of goals,

including promoting economic growth, managing inflation, boosting exports, improving the balance of payments, reducing the deficit, and limiting credit, particularly credit to the government, through the establishment of credit ceilings (Loxley, 1989). As a result of civil wars, these funds were abandoned in 1983. Later, the economic reforms were unsuccessful following the second regime's failure to establish a viable political coalition to ensure longevity and the program collapsed in 1984 (Jamal, 1991; Ggoobi et al (2017).

In 1981, the premium on the parallel foreign exchange market underwent a considerable surge, and foreign currency prices surpassed the official exchange rate by over ten times (Atingi-Ego and Sebudde 2003). The discrepancy between the official exchange rate and the parallel market rate continued to escalate, reaching more than 30 times the official exchange rate by the same year (Jamal, 1997). To rectify the macroeconomic instability, a reform program was initiated in 1982, which introduced a managed float exchange rate regime (Jamal, 1997). In 1983, a dual exchange rate regime was briefly implemented; however, the two windows were merged in May 1984 before reverting to a fixed exchange rate regime in 1986 (Jamal, 1997). In May 1987, a currency reform was implemented, resulting in a 77 percent devaluation of the exchange rate in an attempt to correct the external sector imbalances (Atingi-Ego and Sebudde, 2003; Bwire, Anguyo and Opolot, 2013; Bigsten and Kayizzi-Mugerwa, 1992).

The graphical representation in Figure 2 showcases the evolution of headline inflation in Uganda from 2007 to 2021, expressed as the annual percentage change in the consumer price index (CPI).

Figure 2. Evolution of Headline Inflation in Uganda from 1970-1985



Source: Ha, Kose, and Ohnsorge (2021)

As can be seen from the figure, during most of the 1970s and early 1980s, a war-driven Uganda experienced several episodes of volatile hyperinflation with a general increasing trend (Ha, Kose, and Ohnsorge, 2021). Inflation maintained a general upward trend from the single-digit level of 9.8 percent recorded in 1970 to 100.0 percent recorded in 1985 (Ha, Kose, and Ohnsorge, 2021). The high inflation situation was aggravated by expansionary monetary policy following growing fiscal expenditure (budget deficits) to fund military operations, scarcity of basic commodities following the expulsion of the country's Asian community, the huge deficit in the balance of payments and deterioration in revenue base, the demise of the EAC and the associated economic sanctions against Uganda (Franses and Janssens, 2018; Rugumamu and Gbla, 2003; 2012; Musinguzi and Katarikawe, 2000; Kuteesa et al., 2009; Simson and Wabwire, 2016; Jamal, 1997). Inflation was reinforced further by the 90 percent devaluation of the Ugandan Shilling that took place in 1981 (Jamal, 1997). As noted by Kuteesa et al., (2009), the high inflation during the period was also attributed to external factors such as the oil price shock of 1973/74 and 1979.

2.3 The 10 Years of Recovery under the National Resistance Movement (NRM), 1986-1995.

In 1986, the new government inherited a country in ruins characterised by a low level of economic activity, a high cost of doing business due to political instability economic mismanagement and inaccessibility to international markets (Loxley, 1989; Di John and Putzel, 2005; SIDA, 2006). As noted by Di John and Putzel (2005) and Loxley (1989), Uganda's economy was devastated by destroyed physical infrastructure, a collapsed tax base, plummeting per capita income, vanished export revenues, capital flight, and a skyrocketing degree of informal economic activity, leaving the country's economic future in jeopardy (Loxley, 1989). Nevertheless, the government made far-reaching political, economic and institutional reforms over the review period such as political stability (peace dividend) and adoption of neo-liberal stabilisation policy programmes that contributed to remarkable economic development and reduction of inflation (Di John and Putzel, 2005; SIDA, 2006).

Initially, after assuming power in 1986 the government introduced reforms geared towards building an independent, integrated, self-sustaining economy, the rehabilitation of war-ravaged areas, and the restoration and improvement of social services (Ulriksen and Katusiimeh, 2014). These earlier reforms by the government advocated nationalism and state interventions. The government considered the Washington consensus as an imperialistic imposed package and

started to build strong bilateral trade relationships with Libya, North Korea and Cuba (Ulriksen and Katusiimeh, 2014).

However, following a scarcity of financial resources needed to implement development programmes within a year of taking power, the new government reversed the state-interventionist economic reconstruction policies and turned to the Structural Adjustment Program (SAP) with the IMF and the World Bank to Obtain financial assistance (Mwenda and Tangri, 2005), (Ulriksen and Katusiimeh, 2014). The structural adjustment program incorporated various conventional measures focusing on liberalizing the economy, deregulating, adopting fiscal discipline, determining the exchange rate based on the market, liberalizing crop processing and marketing, reducing licensing controls, returning seized Asian properties, and actively promoting domestic and foreign capitalist investment and privatisation (Brett, 2006). This made Uganda one of the first countries in Africa to embrace the basket of economic liberalisation reforms labelled the Washington Consensus (Ggoobi et al, 2017).

In 1987, under the financial support of the IMF, African Development Bank, World Bank and member countries of the Paris Club, the NRM government launched the Economic Recovery Programme (ERP) (Bigsten and Kayizzi-Mugerwa,1999). The programme intended to attain macroeconomic stability, quickly halt further decline of the economy and reduce runaway inflation swiftly (Kuteesa et al., 2010; Bigsten and Kayizzi-Mugerwa,1999).

In October 1989, a policy was introduced to maintain a constant real effective exchange rate through a "crawling peg" system (Atingi-Ego and Sebudde, 2003; Bwire, Anguyo and Opolot, 2013; Bigsten and Kayizzi-Mugerwa, 1992). This involved adjusting the nominal exchange rate every month to achieve the desired real effective exchange rate.

In 1990, the Ugandan government legalised the parallel foreign exchange market, and licensed foreign exchange bureaux to serve as money shops, and as a result, the Ugandan Shilling was significantly devalued and agricultural exports increased (see Kasekende and Atingi-Ego, 1999). The Ugandan government granted permission for the foreign exchange bureaux to engage in spot transactions at exchange rates determined by the market. However, they placed moderate restrictions on invisible payments, in an attempt to alleviate concerns about capital flight (see Kasekende and Atingi-Ego, 1999).

In 1991, the Uganda Revenue Authority (URA) and the Uganda Investment Authority (UIA) were set up to improve domestic revenue mobilisation and facilitate the development of the private sector (Kuteesa et al., 2010).

In the 1991/92 fiscal year, the Ministry of Finance and Economic Development enforced a rigorous cash budget and pursued fiscal consolidation, resulting in a decrease in the fiscal deficit and a rapid reduction in inflation (Di John and Putzel, 2005; Langford and Namanya, 2014; Robinson, 2007; Simson and Wabwire, 2016; Tumusiime-Mutebile, 2010). The government likewise abolished export taxes to promote exports, (Tumusiime-Mutebile, 2010). Similarly, the government liberalised the foreign exchange market and adopted a floating exchange rate regime during the year 1993. Later in 1997, the capital account of the Balance of Payment was liberalised to allow the free flow of capital in and out of the country (Kuteesa et al., 2010).

The year 1991/1992 also marked the beginning of the implementation of financial sector reforms under the support of the Bretton Wood institutions (Cihak and Podpiera, 2005; Brownbridge, 1996). These reforms intended to strengthen monetary control, restructure insolvent banks, improve prudential regulation and supervision, boost deposit mobilisation, stimulate competition in financial markets, promote the diversification of financial markets, enhance the efficient delivery of financial services and ultimately promote growth (Cihak and Podpiera, 2005; Brownbridge, 1996; Brownbridge and Harvey, 1998).

In 1993, The Bank of Uganda was made accountable for monetary policy after the enactment of the BOU Act (1993) directed to achieving and maintaining economic stability and introduced the Reserve Money Program (RMP) based on monetary aggregate targeting with Reserve Money as an operating target (Mugume, 2011; Opolot, et al., 2013). The RMP was built on the assumption of stable and predictable velocity and money multiplier, and the monetary policy stance was determined by the deviation of the actual reserve money from the target (Mugume, 2011; Opolot, et al., 2013). The primary instruments utilised in implementing the monetary policy during this period included Treasury securities, BOU Bills (which were subsequently replaced by REPOs/reverse REPOs), and foreign exchange interventions (Mugume, 2011; Opolot, et al., 2013). However, as confirmed by Weil et al. (2013) and Sichei and Kamau (2011), financial innovations and globalisation posed a challenge to the effectiveness of the monetary targeting policy.

To address the issue of a segmented foreign exchange market and achieve a convergence of exchange rates, an inter-bank foreign exchange market system was implemented in November 1993 (Kasekende and Atingi-Ego, 1999). This system was designed to provide a better and

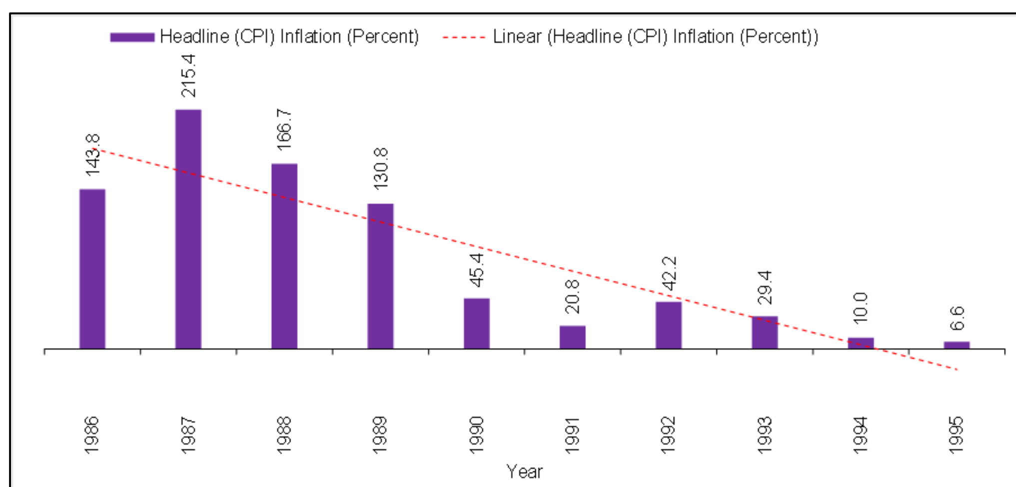
more reliable way to determine the official exchange rate and distribute limited foreign exchange resources (Atingi-Ego and Sebudde, 2003; Bigsten and Kayizzi-Mugerwa, 1992).

On April 5, 1994, Uganda made a pivotal commitment to inflation-related reforms by accepting the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, which established a free and open exchange rate system (Atingi-Ego and Sebudde, 2003; Bwire, Anguyo and Opolot, 2013; Bigsten and Kayizzi-Mugerwa, 1992). This commitment was a significant turning point in the country's economic history, signalling a commitment to macroeconomic stability.

Therefore, the 10 years of recovery under the National Resistance Movement (NRM) aided by resources from donors can be regarded as a foundation for macroeconomic stability and development. After the implementation of the Economic Recovery Program (ERP), remarkable strides have been made in Uganda's economic landscape, which has earned it the distinction of being one of the select few success stories in sub-Saharan Africa. These accomplishments include the attainment of low inflation which is conducive to macroeconomic stability, economic expansion, poverty reduction, and advancements in human development.

The annual percentage change in the consumer price index (CPI) is utilised as the measure of headline inflation performance in Uganda from 2007 to 2021, as depicted in Figure 3.

Figure 3. Trends in Headline Inflation in Uganda from 1986-1995



Source: World Bank (2022)

As can be seen from Figure 3, inflation reached 215.4 percent in 1987, the record high in the sample before maintaining a general declining trend afterwards reaching 6.6 percent in 1995 (Ha, Kose, and Ohnsorge, 2021; World Bank, 2019). After decades of double digits, inflation

was restored to a single-digit level of 6.6 percent in 1995 and stabilised afterwards, thanks to inflation stabilisation measures through Economic Recovery Program (ERP) that went in parallel with reforms in the foreign exchange market as well as reforms in the fiscal and monetary policy (Kuteesa et al., 2010; Bigsten and Kayizzi-Mugerwa,1999). The decline in inflation also mirrored the economic recovery program (ERP) that was introduced in 1987 (Kuteesa et al., 2010; Bigsten and Kayizzi-Mugerwa,1999).

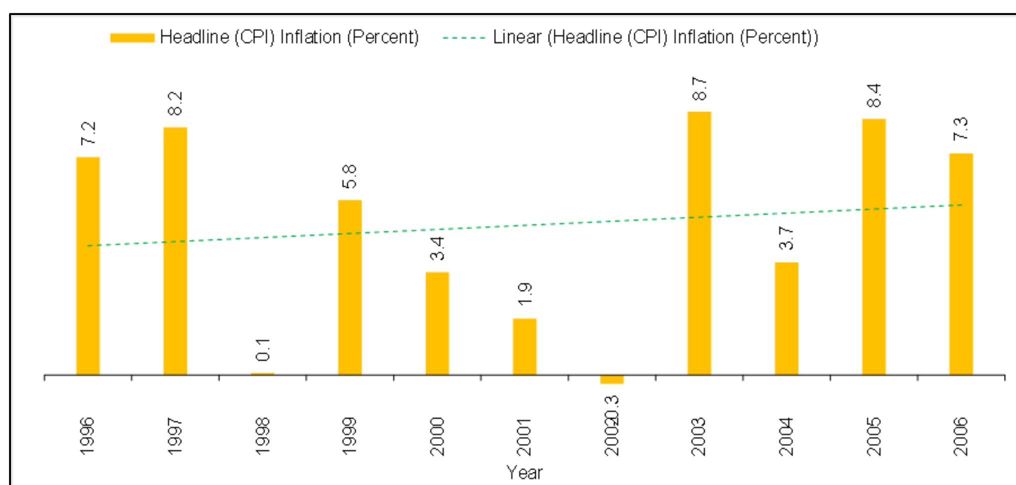
2.4 The 10 Years of Growth and Poverty Reduction, 1997-2006

After the promulgation of a new constitution in 1995 and the parliamentary and presidential elections held in 1996, the Ugandan government prioritised allocative issues (Simson and Wabwire, 2016). The Poverty Eradication Action Plans (PEAPs) were implemented in 1997, serving as Uganda's domestic antecedent to the Poverty Reduction Strategy Papers (PSRPs) of the International Monetary Fund and the World Bank, and were consistent with earlier economic recovery programs (Ulriksen and Katusiimeh, 2014). The PEAPs garnered significant donor funding, rendering Uganda one of the first nations to benefit from debt relief and donor funding under the Highly Indebted Poor Countries Initiative (HIPC), with budget support accounting for a considerable portion of the funding.

In July 1997, Uganda fully liberalised its external payments system, including the capital account, thereby eliminating all quantitative capital control on capital movements in or out of the country (Berg et al., 2013; Kasekende and Atingi-Ego, 1999).

Figure 4 demonstrates the patterns of headline inflation in Uganda between 2007 and 2021, which is represented as the annual percentage change in the consumer price index (CPI).

Figure 4. Pattern of Headline Inflation in Uganda from 1996-2006



Source: World Bank (2022)

As can be seen from the figure, the period from 1996 to 2006 was a period of great inflation moderation in Uganda ranging between -0.3 percent and 8.7 percent (World Bank, 2022). The main outcomes of the policies adopted in the previous episode from 1986 to 1995 were reflected in a positive inflation response and further progress in macroeconomic stability (Berg et al., 2013; Kasekende and Atingi-Ego, 1999).

2.5 The Episode of Reform Consolidation (2007-2021)

This period witnessed a policy shift from Poverty Eradication Action Plans (PEAPs) to National Development Plans (NDPs) which were launched in 2010 (Hickey, 2013). The NDPs culminated in two editions, NDP I implemented from 2010/11 to 2014/15 and NDP II from 2015/16 to 2019/20 (Ggoobi et al., 2017). Unlike PEAPs, the NDPs emanated from internal deliberations and focused on structural transformation, infrastructure development, and expansion of productive sectors which are important in managing inflation and attaining macroeconomic stability (Ggoobi et al., 2017). Both NDP I and NDP II aim to achieve the Uganda Vision 2040, which seeks to transform the country from a low-income economy to an upper-middle-income one (Ugandan National Planning Authority (NPA), 2007; Hickey, 2013; Ggoobi et al., 2017).

In addition to medium and long-term development plans, several other reform programs were undertaken during the period in the areas of monetary policy, fiscal policy as well as exchange rate policies. The implementation of these reform programs in Uganda has contributed to attaining macroeconomic stability, characterised by robust economic growth and low and stable inflation rates (Hickey, 2013; Ggoobi et al., 2017).

In 2007, as part of the inflation control policy reforms in Uganda, the Bank of Uganda (BOU) introduced some flexibility to the Reserve Money Program (RMP) framework that aimed at enabling the BOU to react to unanticipated shocks such as huge foreign exchange inflows (Opolot and Kyeyune, 2012). This included redefining the monetary target as an objective through the use of Net Domestic Assets (NDA) (Opolot and Kyeyune, 2012). This decision was expected to provide the BOU with greater flexibility in handling changes in money velocity and the multiplier arising from transformations in the economy and financial sector. Additionally, it aimed to enable the BOU to respond to unexpected shocks, such as large foreign exchange inflows (Opolot and Kyeyune, 2012).

Following the policy reform agenda, public finances were aimed at achieving macroeconomic stability, improving the effectiveness of public expenditure, reducing distortions, and building capacity in taxation and expenditure (Langford and Namanya, 2014). In recent years, the government has consistently adhered to fiscal discipline in carrying out its budgetary operations (Langford and Namanya, 2014; Robinson, 2007; Simson and Wabwire, 2016). The main purpose was to control the fiscal deficit at viable levels and reduce the government's debt to the banking sector (Langford and Namanya, 2014).

As alluded to by Drummond et al., (2015), Uganda's excellent macroeconomic stability is in part attributed also to the fact that Uganda is a pioneer in the East African Community in opening its capital account completely for inward and outward investments. In comparison to other countries in the region, it also has fewer constraints on capital movement (Drummond et al., 2015).

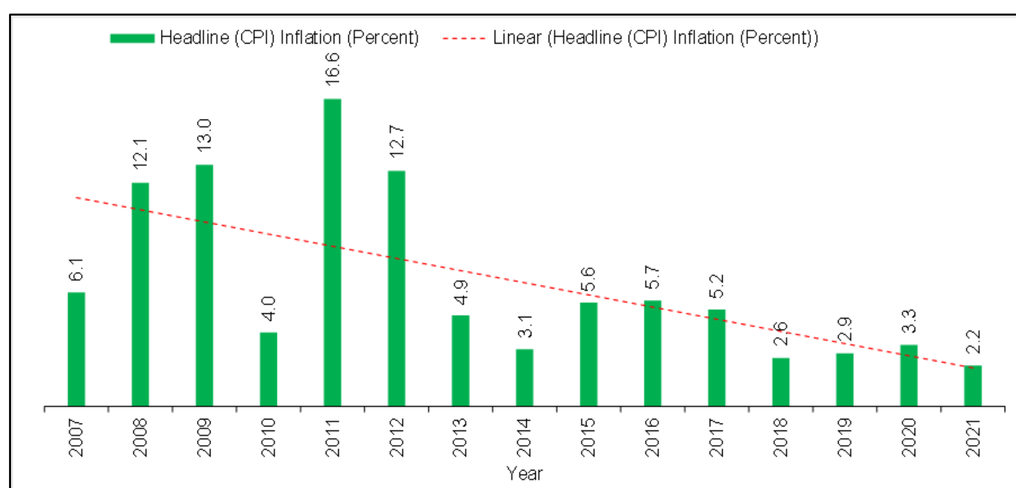
The period also saw the consolidation of reforms in Uganda's financial sector, which resulted in a decrease in the cost of financial services, an expansion of the range of available financial services, and an increase in access to these services (Ayoki, 2014). The proliferation of digital financial services has become an increasingly prominent feature of the country's banking industry, in line with other countries in the region. These developments have been noted by observers such as Ayoki (2014), who have highlighted the positive impact of these reforms on the economy as a whole.

In response to challenges posed by the rapid transformation of Uganda's economy, such as innovations in electronic payments, instability of money demand, and instability in the relationship between money supply and general price level, the Bank of Uganda abandoned its money growth targeting framework in 2011 (Opolot, et al., 2013). Subsequently, in July 2011, Uganda implemented a monetary policy framework called inflation-targeting-lite (ITL) to maintain the annual core inflation rate at 5 percent in the medium term and realign real output with the potential output of the economy (Tumusiime-Mutebile, 2012; Opolot, et al., 2013). Under the current ITL regime, the Central Bank Rate (CBR) based on the 7-day money market rate is used as an operating target and signals the monetary policy stance while REPOs, reverse REPOs, Rediscounting, and Lombard loans are used as the main instruments for managing the monetary policy (Opolot, et al., 2013). Furthermore, the Bank of Uganda engages in foreign exchange market interventions to mitigate unjustified fluctuations in exchange rates that are not supported by underlying economic fundamentals (Opolot, et al., 2013). Effective

communication has also played a key role in the Bank of Uganda's success in controlling inflation under the current regime (Nabbosa and Andersson, 2017). The central bank has made efforts to communicate its policy decisions to the public through regular press briefings, engagement with stakeholders, and the use of social media and digital channels (Nabbosa and Andersson, 2017). This has helped to build trust and confidence in the country's monetary policies, ensuring that its policies are well understood and receive broad support (Nabbosa and Andersson, 2017).

Figure 5 portrays the performance of headline inflation in Uganda from 2007 to 2021 using the annual percentage change in the consumer price index (CPI) as an indicator.

Figure 5. Performance of Headline Inflation in Uganda from 2007 to 2021



Source: World Bank (2022)

As illustrated by the figure, Inflation moderated significantly during this period except for two episodes where Uganda faced double-digit inflation during the period under review (World Bank, 2022).

The first period was during 2008 and 2009 when inflation reached 12.1 percent and 13.0 percent respectively (Word Bank, 2022). As per the literature, the reasons behind the aforementioned spikes were purportedly attributed to the repercussions of the worldwide financial catastrophe and the escalating global prices of food and fuel (Mawejje and Lwanga, 2016; Kabundi, 2012).

The second period was during 2011 and 2012 when inflation reached 16.6 percent and 12.7 percent respectively (Word Bank, 2022). In 2011, when the central bank embraced the inflation-targeting framework, consumer prices were escalating due to a series of domestic and

external factors (Mawejje and Lwanga, 2016; Kabundi, 2012). Domestic factors include accommodative monetary policy, depreciation in the exchange rate and supply shocks in agricultural production, which resulted in food scarcity and a rise in domestic food prices (Mawejje and Lwanga, 2016; Kabundi, 2012). External factors include the sharp hike in global food and fuel prices (Mawejje and Lwanga, 2016; Kabundi, 2012). However, after attaining its peak in 2011, inflation has been on a downward trajectory (World Bank, 2022). The primary factors contributing to the decline in inflation during this period were the appreciation of the exchange rate and the implementation of contractionary monetary policies (Mawejje and Lwanga, 2016; Kabundi, 2012).

In summary, The Ugandan government's response to high inflation rates has been to implement a series of policy reforms aimed at reducing inflation and stabilizing the economy. These policy changes have had a significant impact on the Ugandan economy, both in the short and long term. While there have been challenges associated with these reforms, the overall impact has been positive, and Uganda has become a model for other developing countries grappling with high inflation rates. It is important to continue to monitor the impact of these policy changes on different sectors of the economy and to ensure that the benefits are felt by all segments of society.

3. Challenges Facing Uganda in Inflation Management

As discussed in Section 2, inflation has been one of the major economic issues in Uganda, causing significant concern for the government. To effectively manage this issue, the government has implemented several policy initiatives. However, there are still several challenges that need to be addressed to successfully curb inflation. Currently, Uganda is facing several major challenges concerning inflation as follows.

Uganda's economic growth is on the rise, fueled by investment in developmental projects that come with a high cost. Unfortunately, this has led to a significant increase in public debt, putting some pressure on the economy. Furthermore, the high public debt has made it increasingly difficult for the government to control inflation, a challenge that has been compounded by expansionary fiscal policies. The Ugandan government's spending has surged, resulting in inflationary pressures that have somehow destabilized the economy further. To tackle this issue, it will be crucial for the Bank of Uganda and the government to work together closely to align fiscal policies with inflation targets and ensure that the economy remains stable.

In today's globalized world, no economy is immune to external shocks. Uganda's economy is no exception. Despite its robust economic policies, Uganda's economy is vulnerable to external shocks, such as changes in global oil and food prices that can cause inflation rates to soar. Being a landlocked country with a limited capacity to control the flow of goods and services across its borders, Uganda is susceptible to external market forces which can have a ripple effect on its economy. In addition, Uganda’s reliance on oil and food imports makes it particularly susceptible to changes in global commodity prices. Therefore, policymakers must come up with effective strategies to diversify the economy and mitigate the impact of external shocks.

Despite the efforts made by the government to boost the agricultural sector which is the backbone of Uganda's economy, the country's low agricultural productivity continues to be a significant challenge. As a result, food shortages have become a common issue in the country, leading to high food prices and inflation. The demand for food is high, but the supply is low, which has resulted in frequent food shortages and high food costs. The low agricultural productivity in Uganda has had a severe impact on the population, making it difficult to meet the food needs of its people. In recent years, this issue has become more severe, with several instances of food shortages reported in the nation. The government of Uganda recognizes the importance of addressing this challenge to boost the country's economy and improve the living standards of its people. Therefore, it continues to implement policies aimed at improving agricultural productivity, increasing food production and addressing food shortages.

Uganda is a country that is still grappling with deficient infrastructure, particularly in the transport sector. The transport network is poor, and means of transportation are inadequate, making it difficult to move goods from rural to urban areas. The impact of this is felt heavily in the urban areas, where there is a shortage of goods, leading to high prices and contributing to inflation. The majority of Ugandans reside in urban areas, and the high prices of basic needs make it difficult for them to afford a decent standard of living.

Uganda, like many developing countries, is also grappling with the challenge of the steady depreciation of the Ugandan shilling compared to major foreign currencies. This depreciation has had far-reaching consequences on the country's economy, particularly on inflation. With the rise in prices of imported goods, inflationary pressures have increased, making it increasingly challenging for Ugandans to afford necessities.

In addition to the aforementioned challenges, it is worth noting that Uganda's financial markets are currently still relatively underdeveloped. This poses a significant hurdle for the Bank of Uganda when it comes to implementing its policies effectively. The primary concern here is the lack of depth in the country's money market, which can significantly limit the effectiveness of open market operations in influencing interest rates and inflation. This issue is further compounded by the limited availability of financial instruments, which results in a lack of diversification and liquidity in the market. As a result, the Bank of Uganda must navigate these challenges carefully to ensure that its policies are as effective as possible.

4. Lessons Learned from Uganda's Policy Reforms and Inflation Performance

Uganda's endeavour to attain macroeconomic stability and development through inflation policy reforms offers valuable insights and lessons for other developing countries contending with high inflation rates.

To begin with, a paramount lesson learned from Uganda's experience is the imperative of a comprehensive and coordinated policy approach to inflation policy reform. The government has adopted a pragmatic approach towards inflation policy reforms that involved comprehensive fiscal and monetary policy measures, and both of these measures were implemented in a coordinated manner to achieve the desired outcomes. The Central Bank has been given operational independence to control the money supply by adjusting interest rates and reserve requirements, while the finance ministry has prioritised prudent and sound fiscal management to reduce budget deficits and ensure efficient tax collection and investment in infrastructure to reduce inflationary pressures on the economy. Increased exchange rate flexibility involved allowing the Ugandan shilling to float more freely against other currencies, which helped to stabilize the exchange rate and reduce inflationary pressures on the economy. Additionally, targeted interventions such as food price stabilisation initiatives and subsidies for vulnerable populations have also been introduced.

Moreover, Uganda's experience demonstrates the potential benefits of inflation policy reforms for developing countries. By reducing inflation and promoting economic stability, these reforms can help to attract foreign investment, reduce the cost of living for citizens, and promote sustained economic growth. The success of Uganda's inflation policy reforms has led to increased interest in similar reforms in other developing countries, and Uganda has become a model for countries looking to achieve similar results.

Furthermore, Uganda's experience demonstrates the importance of strong political will and leadership in implementing inflation policy reforms. These reforms are often difficult to implement and require significant coordination and collaboration between different government agencies. Without strong leadership and political will, it can be difficult to implement these reforms effectively. The Ugandan government's commitment to implementing inflation policy reforms was one of the key factors in the success of these reforms. For example, the authorities established an initial agreement for the structural adjustment program through the convening of a national assembly of all interested parties, including trade unions, commercial cultivators, manufacturers, importers and exporters, intellectuals, and legislators. Annual deliberations on the budget and economic policies reinforced the agreement.

Another lesson learned is that effective communication is key. Uganda's central bank has been successful in building trust and confidence in the country's monetary policies by effectively communicating its policy decisions to the public. Through regular press briefings, engagement with stakeholders, and the use of social media and digital channels, the bank has ensured that its policies are well understood and receive broad support. This has contributed to lower inflation and set an example for other central banks in the region to follow.

Last but not least, regional cooperation can be beneficial. Since 1999, Uganda has been a part of the East African Community (EAC). This regional bloc has helped to facilitate trade and investment within the region, which has contributed to lower inflation. Additionally, the EAC has provided a platform for member countries to coordinate their macroeconomic policies, which has helped to promote stability in the region.

5. Conclusions

This article has provided a detailed chronological review of Uganda's policy reforms and inflation performance over the period 1970-2021. The motivation for this article stems from Uganda's success in achieving macroeconomic stability and reducing inflation rates, which could make it a model for other developing countries grappling with high inflation rates. Uganda's experience is particularly interesting because it achieved these results through a comprehensive and coordinated policy approach to inflation policy reform, including fiscal and monetary policy measures, exchange rate flexibility, and targeted interventions.

The Ugandan government's response to high inflation rates has been to implement a series of comprehensive and coordinated policy reforms aimed at reducing inflation and stabilising the economy. The policy reforms in Uganda can be analysed episodically through five distinct

periods, starting with the first 10 years after independence (1962-1971), followed by 15 years of political instability (1971-1985), 10 years of recovery (1986-1995), 10 years of economic growth and poverty reduction (1996-2006), and the most recent episode of reforms consolidation (2007-2021). Despite external challenges, such as global oil price changes, natural disasters, and political instability, Ugandan inflation policy reforms have been a game-changer for the country's economy. By reducing inflation and promoting economic stability, these reforms have helped to attract foreign investment, reduce the cost of living for Ugandans, and promote sustained economic growth. While there have been challenges associated with these reforms, the overall impact has been positive, and Uganda can be a model for other developing countries grappling with high inflation rates.

Uganda's economy faces several challenges, particularly with inflation. The country's debt and expansionary fiscal policies have made it difficult for the government to control inflation. Uganda's economy is also vulnerable to external shocks due to its reliance on oil and food imports. Low agricultural productivity has resulted in food shortages, leading to high food prices and inflation. The transport network is poor, and the country's financial markets are relatively underdeveloped, posing a hurdle for the Bank of Uganda. These challenges must be addressed to ensure that Uganda's economy remains stable and that effective policies are implemented.

Uganda's experience provides valuable lessons for other countries that are looking to improve their macroeconomic policy frameworks and inflation performance including the importance of strong political will and leadership in implementing inflation policy reforms. By implementing sound macroeconomic policies, investing in infrastructure, diversifying their economies, communicating effectively with the public, and cooperating regionally, countries can achieve better macroeconomic outcomes.

Although Uganda has made significant strides in achieving macroeconomic stability and reducing inflation rates through policy reforms, that have helped to attract foreign investment, reduce the cost of living for Ugandans, and promote sustained economic growth, there is still much work to be done to ensure the sustainability of the success. The government needs to continue to prioritize prudent fiscal management and invest in infrastructure to create a more resilient economy. Additionally, efforts should be made to diversify the economy and reduce over-reliance on a few key sectors, such as agriculture. By addressing these challenges, Uganda can continue to build a strong and sustainable economy that benefits all its citizens.

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