Inflation in Uganda: Lessons from two Decades (Abstract)

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This paper investigates whether or not the factors influencing inflation in Uganda have changed over the last decade. The study applies the vector auto regression (VAR) methodology to establish how the exchange rate, foreign price, money supply; output and interest changes cause inflation in Uganda. An exchange rate pass-through equation and an extended model are estimated using the ordinary least squares, recursive least squares, and the full information maximum likelihood estimation techniques. The results indicate that variations in money supply; output and exchange rate are vital in explaining Uganda's inflation episodes. The changes in foreign prices affect the domestic price via the exchange rate. Uganda has achieved low and stable inflation since the mid-1990s notably due to government commitment to policy reforms. The achievement is the first of its kind in Uganda since 1980 and must be nurtured to avoid future slippages. Learning from our history, this will require deepening institutional reforms, maintain commitment and prudent management by the authorities and strengthening policies for the structural transformation of the economy.

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