



# **BANK OF UGANDA**

## **The Conduct of Monetary Policy: Success, Challenges and Emerging Issues**

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**Mission: To Foster Price Stability and a Sound Financial System**

1. Define Monetary policy
2. Monetary policy in Uganda
  - ❖ The objective of monetary policy
  - ❖ The conduct of monetary policy
  - ❖ Institutional (legal) arrangements
3. Successes, challenges and emerging issues

# 1. Monetary Policy

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Monetary policy is a tool that a Central Bank can use to promote sustainable economic growth.

- The set of tools can be used to control the overall supply of money that is available to the country's commercial banks, consumers/public, and businesses.
- The main tool used by the central bank is its reserve money on which it sets interest rates charged on commercial banks.
  - When the central bank increases or lowers this interest rates, commercial banks also increase or lower the rates they charge on all their customers.
  - Customers are sensitive to changes in rates; they are more likely to borrow more when rates are lowered and borrow less when rates are increased.

From the above definition, monetary policy can be equated to an **accelerator pedal** and a **brake pedal** on M/V.

- When a M/V is moving at a slow/high speed, step hard on the **accelerator pedal/brake pedal** to increase/reduce the speed.

## 2. Monetary Policy in Uganda

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### The objective of Monetary Policy

- The **primary** objective of monetary policy is price stability.
  - *Aimed at having **core inflation** at **5 percent** in the **medium-term (2-3 years ahead)**.*
- This definition has implication for the way in which the public should assess the performance of Bank of Uganda (BOU) as per the monetary policy mandate.

## 2. Monetary Policy in Uganda

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### Conduct of Monetary Policy

- BoU sets the interest rate – Central Bank Rate (CBR) – bi-monthly.
- BoU then lends/borrows money from the interbank markets, using financial instruments, so as to influence commercial banks' interest rates that they charge on all their customers.
- The main financial instruments are repurchase and reverse repurchase agreements, deposit facilities, standing lending facilities, etc.

# 2. Monetary Policy in Uganda

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## Institutional Arrangements

The BoU's monetary policy role is enshrined in the 1995 Constitution of the Republic of Uganda

- **Article 161 (1): Designates BoU as the Central Bank of Uganda:** *...the Bank of Uganda shall be the Central Bank of Uganda and it shall be the only authority to issue the currency of Uganda.*
- **Articles 162 (1&2): Stipulates the functions and independence of BoU:** *In performing its functions, BoU shall conform to this Constitution but shall not be subject to the direction or control of any person or authority.*
- BoU Act 2000, stipulates the governance and operational arrangements of BoU and its relationship with the central government.
- Co-ordination of monetary and fiscal policies is governed by numerous Memorandum of Understanding (MOUs) between BoU and Ministry of Finance Planning and Economic Development (MoFPED).

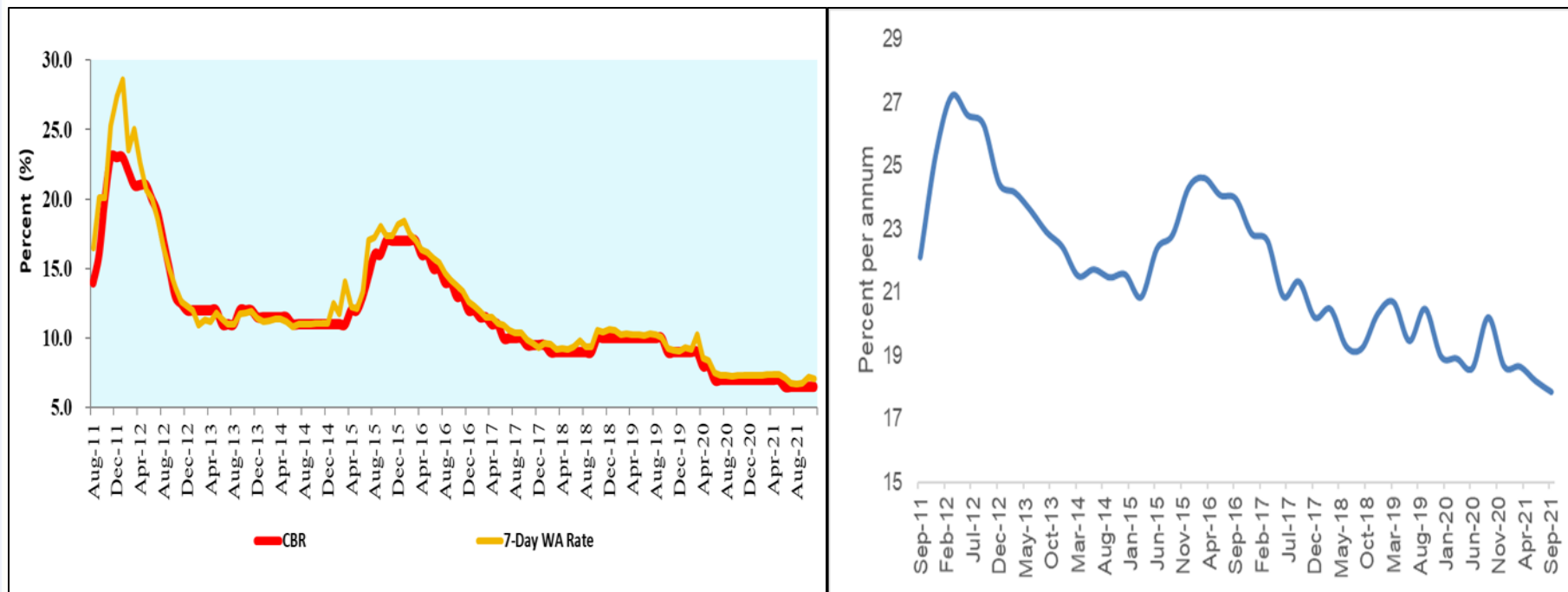
# 3. Success, Challenges & Emerging Issues

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## Successes

- Interbank interest rates are in line with the CBR and although relatively elevated, lending rates have also declined in line with the CBR (**Figure 1**).

**Figure 1. CBR, interbank rates and lending rates**



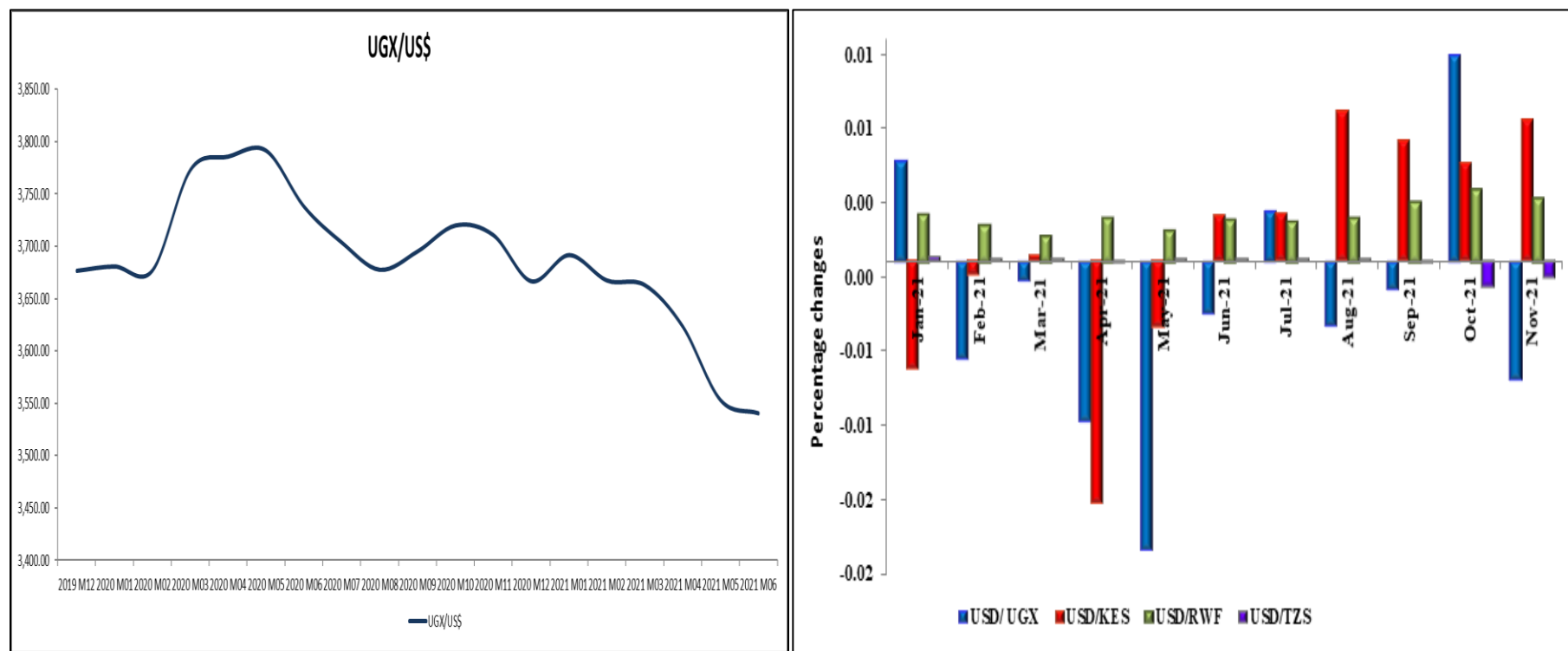
# 3. Success, Challenges & Emerging Issues

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## Success

- The Shilling is relatively stable against the dollar relative to currencies of some EAC countries (Figure 2).

Figure 2. The exchange rate and movements





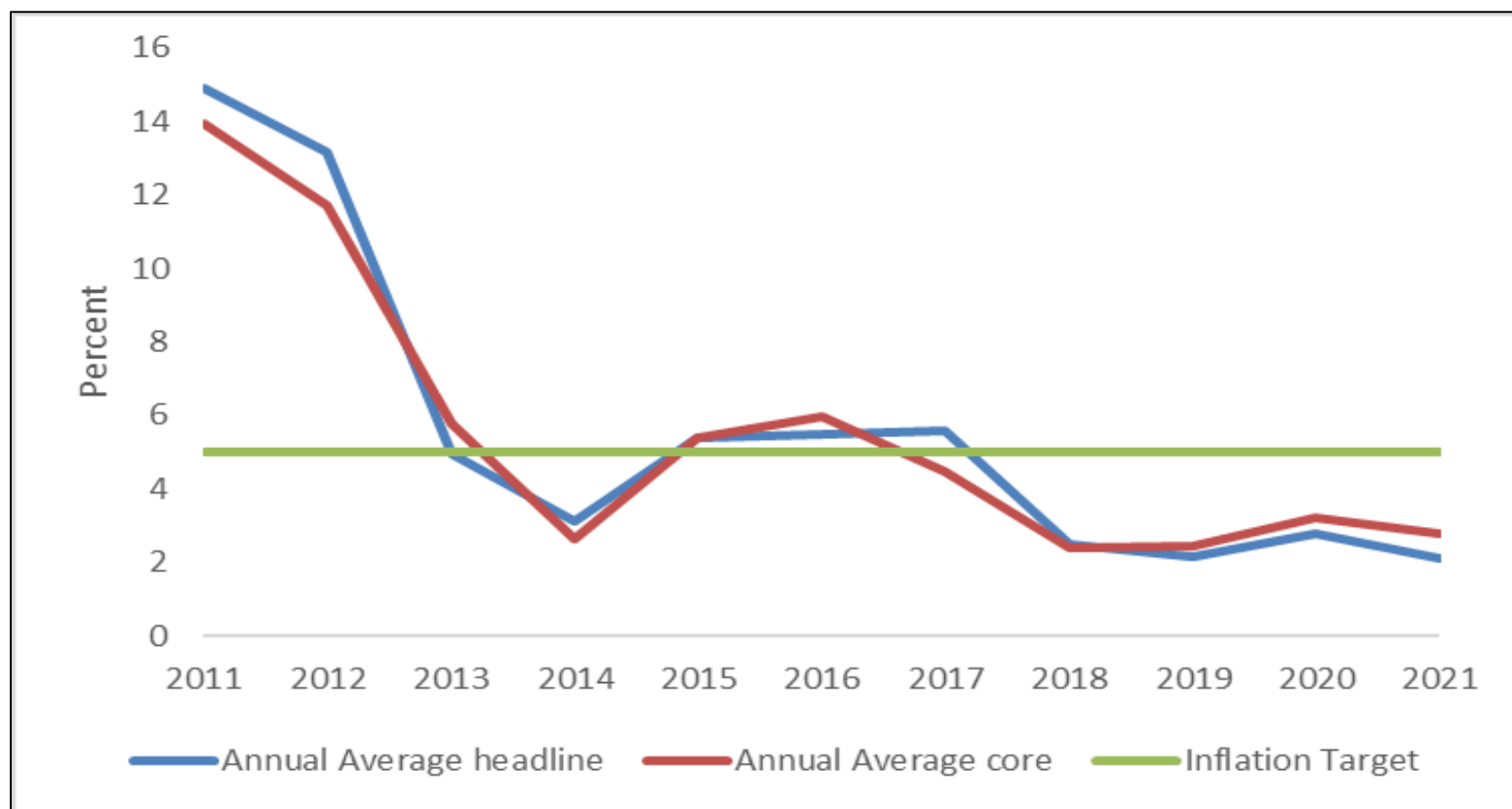
# 3. Success, Challenges & Emerging Issues

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## Success

- Inflation has been contained at low and stable levels (Figure 3).

Figure 3. Annual headline and core inflation



## Challenges

- High lending rates
- Excessive structural liquidity in the banking system.
- Supply-side shocks.
- Uncertain environment due to COVID-19 shock.

## Emerging Issues

- Monetary policy in the face of oil revenue windfalls (from 2024/25 and beyond)
  - Challenges related to natural – resource abundance and policy formulation
- Monetary policy in the COVID-19 new-normal
  - Fiscal and structural policies to supplement Monetary policies for sustainable growth



Thank  
you