

FISCAL SUSTAINABILITY AND MONETARY POLICY IN UGANDA  
AND NEIGHBOURING COUNTRIES

A Summary of dissertation

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## **Abstract**

The Fiscal sustainability of East African countries is examined by testing the governments' intertemporal budget constraint. We also examine the fiscal policy adjustments in the East African countries by use of both linear and non linear adjustments of the fiscal variables. The non-linear model adjustments are conditioned on both the budgetary deficit and the phase of the economic cycle. Results show that Tanzania has the best fiscal sustainability plan while the rest of the East African countries do not reflect a sustainable fiscal policy path. Uganda does not show any evidence of long run relationships in its fiscal variables. It also has no statistical significance of error correction or response of taxes to economic changes. We then analyze the Ugandan economy by determining the effect of monetary policy on inflation and output growth. We use the Cash-in-Advance model as well as vector auto regression models for comparison purposes. The impulse response functions show that the CIA, Bayesian and Structural VAR follow same path and give similar conclusion of behavior of the macroeconomic variables. Overall the models imply that the expected inflation effect dominates the output response to an expansionary monetary shock.