Why Central Banks should still preserve price stability

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Bank of Uganda headquarters in Kampala. Bank of Uganda will ensure that foreign exchange reserves remain adequate to support macroeconomic stability. PHOTO/MICHAEL KAKUMIRIZI

As the uncertainties in the global economy continue to spread worries in the national economies, the International Monetary Fund has directed that Central banks, Uganda inclusive, should preserve price stability, in line with their mandates to safeguard their economies.

The managing director of the International Monetary Fund (IMF), Ms Kristalina Georgieva, says the global economy is undergoing a profound transformation, and uncertainty runs high. Major policy shifts across several countries—spanning trade, digital money, immigration, and spending priorities, including national security and foreign aid—are reconfiguring global markets and redefining policy frameworks.

"These changes bring prolonged uncertainty and associated risks but also present opportunities, including to build more resilient supply chains and diversify trade relationships. Navigating this transition will hinge on the strength and integrity of core national economic institutions, which are critical for effective and credible policymaking," she said.

In Uganda, the Bank of Uganda (BoU) says in its state of the economy that to safeguard the economy against such shocks, BoU maintains a flexible policy framework underpinned by key measures such as sustaining adequate foreign exchange reserves and ensuring sufficient liquidity in the foreign exchange market.

"These actions are essential to sustaining investor confidence and enhancing the economy's resilience to external and domestic shocks," the Central Bank said in the state of economy report.

What is being done by BoU?

The BoU explains that in the face of elevated global risks, such as geopolitical instability, volatile commodity prices, climate shocks, and still tight global financial conditions, monetary policy must strike a balance between price stability, financial sector resilience, and supporting growth.

Amid a shifting global environment that presents both opportunities and risks, the Bank remains vigilant to challenges such as falling commodity prices, declining aid inflows, and rising geopolitical tensions.

To cushion Uganda against these shocks, the economists in BoU stress that the Bank will ensure that foreign exchange reserves remain adequate and liquidity in the financial system is sufficient to support macroeconomic stability. As of August 2025, Uganda's gross foreign reserve stood at $ 4.711 billion.

"This requires a moderately tight, flexible, and forward-looking monetary policy that protects against inflation, stabilises the exchange rate, supports financial system health, and remains agile in responding to external shocks. By preserving price stability, boosting investor confidence, and shielding the economy from external risks, the Bank is laying the foundation for Uganda's tenfold growth strategy," the Bank of Uganda explains.

> Key figure
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> **$4.7b**
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The strategy prioritises Agro-industrialisation, Tourism, Minerals (including oil and gas), and Science, Technology and Innovation (ATMS) to drive industrialisation, foster inclusive growth, and enhance value addition.

However, the report states that while the Bank of Uganda's commitment to macroeconomic stability remains critical in unlocking the full potential of these sectors for long-term transformation, continued progress in economic diversification, structural reforms, and building resilience will be critical to maintaining growth momentum in an increasingly uncertain global environment.

Independence of Central Banks

From the IMF perspective for all member states, Ms Kristalina reveals that history has shown that Central Bank independence and clear communication are essential for keeping inflation in check and preserving financial stability.

Monetary policy credibility can also support fiscal stability by helping reduce risk premia – extra returns an investor expects to earn for taking on more risk than a risk-free environment.

Building public trust also requires further enhancing the quality of inflation forecast, which has been more challenging in a shock-prone world. In countries imposing tariffs, Central Banks will likely face a sharper tradeoff between price stability and output.

"In countries facing tariffs, gradual easing may only be feasible once disinflation is firmly established. Exchange rates should continue to act as a shock absorber, where applicable. Where exchange rate movements become disorderly, the Integrated Policy Framework (IPF) provides country-specific guidance on exchange rate interventions and capital flow measures.

"Our monetary policy advice to countries remains grounded in rigorous analysis. The World Economic Outlook (WEO) examines the price effects of higher tariffs, drawing lessons from past episodes. It also highlights the cost of political interference in central banks, finding that this tends to loosen policies, weaken currencies, and raise inflation and inflation expectations—often accompanied by higher risk premia and impaired market functioning," Ms Kristalina says in her global policy agenda.

Related research shows that rising fiscal risks—high debt and deficit—compromise the credibility of monetary policy. Financial sector policies must guard against rapidly evolving risks. Recent market developments have exposed risks from abrupt asset price corrections, disruptions in sovereign debt and forex markets, and the growing link between banks and non-bank financial institutions (NBFIs), which play an increasingly important role in sovereign and private debt markets.

Ms Kristalina points out that this calls for enhanced oversight, including systematic liquidity stress testing, and for bolstering capitalisation of weak banks, with full implementation of internationally agreed standards. Strengthening the resilience of bond markets requires reducing fiscal risks, along with enhancements to market structures

Furthermore, better data collection, coordination, and analysis— including cross-border cooperation—will be pivotal for effective oversight of NBFIs, and digital assets. The IMF is closely monitoring risks across financial markets and emerging macrofinancial vulnerabilities, including from climate risks where macrocritical.

"The latest Global Financial Sector Report examines risk and resilience in global foreign exchange markets and the evolving landscape of emerging market sovereign debt. Meanwhile, our Article IVs and Financial Sector Assessment Programme provide in-depth country-specific advice to strengthen financial sector resilience," she said.

Adding: "The Fund's technical assistance supports our members across a wide range of areas, including financial supervision and regulation, central banking operations, bank recovery-resolution, macroprudential policy, and payments and market infrastructures. Policymakers should act decisively to unlock private sector-led growth."