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MONETARY POLICY AND ECONOMIC GROWTH IN THE EAST AFRICAN COMMUNITY: EVIDENCE FROM A FIVE-COUNTRY PANEL

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ABSTRACT **DOI No: 10.36713/epra32047** **Article DOI: https://doi.org/10.36713/epra32047**

This study investigates the association between key monetary and macroeconomic indicators and economic growth in the East African Community. Using a five-country panel covering Burundi, Kenya, Rwanda, Tanzania and Uganda, the analysis examines real interest rates, consumer price inflation, broad money and nominal exchange rates in relation to annual real GDP per capita growth. Secondary macroeconomic series were examined through descriptive statistics, panel unit-root tests, correlation analysis, specification diagnostics and reported panel regression estimates. The model reports a positive relationship between inflation, while the exchange rate and real interest rate are negatively associated with economic growth. The broad-money coefficient is positive but statistically insignificant. Results point to the importance of credit costs and exchange-rate conditions in regional macroeconomic management, but they do not demonstrate a generally growth-enhancing effect of inflation or establish causality. The study recommends credible price-stability frameworks, measures to deepen monetary transmission and better coordinated monetary and external-sector policies ahead of further monetary integration.

KEYWORDS: *Monetary Policy; Economic Growth; East African Community; Real Interest Rate; Inflation; Exchange Rate; Panel Data*

1. INTRODUCTION

Monetary policy is a central instrument of macroeconomic management because changes in policy rates, liquidity and expectations affect firms' investment plans, household spending and asset prices. These channels are especially important where access to finance is uneven and imported intermediates constitute a substantial share of production costs. The older money-and-growth debate distinguishes temporary real effects from longer-term nominal adjustment; newer scholarship places market frictions and expectations at the centre of the transmission process (Tobin, 1965; Friedman, 1968; Lucas, 1972; Clarida et al., 1999).

An effective monetary framework is not simply a choice between loose and tight liquidity. The credibility of a rule, the sensitivity of banks' lending conditions, and the economy's response to external disturbances all influence the relationship between monetary instruments and realized growth. Policy design must reconcile inflation stabilization with uncertainty about the size, timing and distribution of output effects (Kydland & Prescott, 1977; Barro & Gordon, 1983b; Barro & Gordon, 1983a; Taylor, 1993; Svensson, 1997).

The East African Community (EAC) offers a relevant setting for this question. The regional monetary union protocol envisages convergence in inflation, fiscal balances, debt and reserves, alongside harmonized monetary and exchange-rate policies. Regional integration may facilitate trade and financial cooperation, yet the five economies examined here retain distinct institutions, financial systems and external exposures (East African Community, 2013; Umulisa, 2020; Afesorgbor, 2019; Mundell, 1961; Frankel & Rose, 1998).

The growth consequences of monetary decisions are particularly ambiguous in low-income and emerging markets. Informality and segmentation can weaken the conventional interest-rate channel, whereas import dependence increases the salience of exchange-rate pass-through. Evidence from broader emerging-market samples suggests that credible operating frameworks can strengthen policy transmission, but effect sizes vary by financial structure and macroeconomic state (Montiel, 1990; Patnaik et al., 2011; Brandão-Marques et al., 2020; Gornicka et al., 2026; Tiedemann et al., 2026).

Within East Africa, previous work links the interaction of monetary decisions and external shocks to uneven output responses. Wider African studies emphasize commodity-price volatility, fiscal constraints, and the importance of regional linkages. These settings caution against treating all exchange-rate movements or money-supply expansions as mechanically beneficial to growth (Olamide et al., 2022a; Chuku et al., 2018; Irungu Ng'ang'a et al., 2019; Effiong et al., 2020; Younsi & Nafla, 2019).

Existing research also finds mixed evidence about inflation. Sustained high inflation tends to undermine investment

planning, but empirical relationships can be nonlinear and sensitive to the sample period and policy regime. A positive conditional regression coefficient therefore cannot, on its own, establish the desirable inflation rate for a country or justify an inflationary growth strategy (Barro, 1995; Bruno & Easterly, 1998; Adaramola & Dada, 2020; Khan & Senhadji, 2001; Kremer et al., 2013).

The contribution of the present manuscript is to bring together the five-country evidence on four macroeconomic variables, present the statistical estimates in journal-appropriate form, and situate the patterns within monetary transmission and regional-integration research. The article distinguishes what the reported regressions establish statistically from policy mechanisms that remain interpretative rather than directly tested (Can et al., 2020; Obradović & Grubišić, 2025; Mishkin, 1996; Romer & Romer, 2004; Jordà, 2005).

The study addresses four questions: whether real interest rates, inflation, money supply and the exchange rate are associated with changes in real GDP per capita growth, and how these associations should inform monetary coordination across the EAC.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Theoretical foundation

New Keynesian theory combines optimizing private decisions with nominal rigidities, implying that shifts in the interest rate can temporarily change real spending and output. It also highlights the importance of policy expectations: a transparent reaction function may shape current financing conditions even before all market rates adjust. The classical counterpoint emphasizes how expectations and long-run monetary neutrality limit permanent output gains from nominal expansion (Mankiw & Romer, 1991; Clarida et al., 1999; Taylor, 1993; Lucas, 1972; Friedman, 1968).

The monetary-transmission literature recognizes several interacting pathways. Interest rates affect the intertemporal price of consumption and capital; credit-market frictions shape the external finance premium; exchange rates affect traded-goods prices and balance sheets; and changes in liquidity can influence asset allocation. The practical strength of each pathway depends on the structure of banks, capital markets and the informal economy (Mishkin, 1995; Bernanke & Gertler, 1995; Bernanke & Blinder, 1992; Mishkin, 1996; Ndubuisi, 2015; Patnaik et al., 2011; Arwatchanakarn, 2018).

Research on the international monetary system shows that national policy is constrained by capital mobility and exchange-rate arrangements. Flexible currencies do not necessarily insulate developing economies from global financial cycles, and firms with foreign-currency liabilities can respond differently to depreciation than exporters of domestic value added. Hence domestic monetary indicators may partly reflect external disturbances instead of purely exogenous interventions (Obstfeld et al., 2005; Rey, 2015; Miranda-Agrippino & Rey, 2020; Lastauskas & Nguyen, 2024; Ilzetzki et al., 2019; Calvo & Reinhart, 2002).

Regional monetary cooperation raises additional questions. Optimum-currency-area theory considers adjustment capacity and the distribution of shocks, whereas the endogeneity view emphasizes that trade integration may itself strengthen business-cycle synchronization. EAC evidence on intraregional trade motivates further cooperation, but heterogeneity in inflation and exchange rates makes convergence demanding rather than automatic (Mundell, 1961; Frankel & Rose, 1998; Umulisa, 2020; Afesorgbor, 2019; Kuokštis et al., 2025).

2.2 Inflation and Economic Growth

Inflation may be associated with growth through demand conditions, monetary accommodation or supply disturbances, but the sign is not theoretically fixed. International evidence has often found negative effects at high rates, especially during inflation crises. Because inflation may simultaneously respond to domestic demand, an observational positive coefficient cannot distinguish policy accommodation from reverse causality (Barro, 1995; Fischer, 1993; Bruno & Easterly, 1998; Adaramola & Dada, 2020; Ekinci et al., 2020).

Threshold studies have sought to clarify the nonlinear relationship. The seminal international comparisons by Khan and Senhadji and later dynamic-panel analyses suggest that the growth effect of inflation differs across regimes. Regional work finds that institutions and financial conditions help determine how sensitive growth is to price instability (Khan & Senhadji, 2001; Kremer et al., 2013; Azam & Khan, 2022; Ndoricimpa, 2017; Mignamissi et al., 2023; Thioune et al., 2025).

Evidence is especially relevant for African economies exposed to food and energy shocks. Research focusing on Kenya, Tanzania and sub-Saharan Africa identifies both the risk of inflationary uncertainty and the possibility that moderate price increases coincide with recovery in output. These studies provide a reason to test interaction and threshold effects in future work rather than impose a single linear policy conclusion (Kiptum, 2022; Sanga et al., 2023; Seleteng et al., 2013; Mignamissi et al., 2023; Hansen, 1999).

Cross-country and Asian evidence also shows substantial differences in estimated turning points. Results from Vietnam, Nepal and heterogeneous international panels should therefore be used as comparative benchmarks, not transplanted as inflation targets for the EAC. Institutional credibility, household purchasing power and productivity responses may explain heterogeneous thresholds (Ngoc, 2020; Tien, 2021; Karki et al., 2020; Vinayagathasan, 2013; Khan & Hanif, 2020; Ben Abdallah et al., 2024).

H1: inflation is significantly associated with per capita economic growth

2.3 Exchange rates and economic growth

Exchange-rate movements influence net export competitiveness, the domestic price of imports, foreign-currency debt service and inflation expectations. The sign of the net growth association depends on the relative size of those mechanisms. Foundational work finds that undervaluation can support tradable-sector expansion in developing economies, while other evidence links depreciation and misalignment to adverse adjustment costs (Rodrik, 2008; Levy-Yeyati & Sturzenegger, 2003; Aghion et al., 2009; Calvo & Reinhart, 2002; Ilzetzki et al., 2019).

Research from Ghana and emerging economies shows why volatility and misalignment should be distinguished from changes in the exchange-rate level. Exchange-rate uncertainty can delay investment, whereas overvaluation or persistent undervaluation distorts productive incentives. Institutional quality and financial development often moderate the effects (Alagidede & Ibrahim, 2017; Ameziane & Benyacoub, 2022; Baxa & Paulus, 2024; Ramoni-Perazzi & Romero, 2022; Aghion et al., 2009).

Broader cross-country evidence demonstrates that the exchange-rate regime is not a sufficient description of macroeconomic competitiveness. Analysis of equilibrium deviations, financial-market depth and labour-market flexibility indicates that structural differences affect responses. A negative coefficient on the nominal exchange rate therefore does not estimate the separate effect of uncertainty or establish that managed appreciation is always growth-enhancing (Ramos-Herrera & Sosvilla-Rivero, 2023; Couharde et al., 2025; Kuokštis et al., 2025; Ilzetzki et al., 2019; Obstfeld et al., 2005).

Regional findings suggest additional channels. In import-reliant African economies, depreciation can raise the cost of petroleum, equipment and intermediate goods, even while making exports more competitive. Studies of East Africa, SADC and Ethiopia document how exchange-rate developments interact with external shocks and domestic prices, while other work emphasizes bilateral-trade adjustment (Malec et al., 2024; Olamide et al., 2022b; Olamide et al., 2022a; Amusa & Fadiran, 2019; Chuku et al., 2018).

The available evidence therefore motivates the hypothesis:
H2: the nominal exchange rate is significantly associated with per capita economic growth, with the anticipated sign depending on production structure and external exposure.

2.4 Real interest rates and economic growth

The conventional interest-rate channel predicts that a higher real cost of borrowing discourages investment and interest-sensitive consumption, although returns on savings and credit allocation may complicate the total effect. Credit-channel models further imply that monetary tightening disproportionately affects constrained borrowers. For economies with limited long-term capital markets, bank loan pricing is a potentially important transmission route (Bernanke & Blinder, 1992; Bernanke & Gertler, 1995; Mishkin, 1996; Ndubuisi, 2015; Montiel, 1990).

Studies of lending conditions in Ghana and African financial institutions associate spreads and costly credit with economic activity, while research in Macedonia illustrates the interaction between private credit and lending rates. Such findings are not directly comparable without attention to whether the empirical variable is a policy rate, a lending rate or a real interest rate (Berko et al., 2022; Kariuki, 2023; Saiti & Trenovski, 2022; Can et al., 2020; Brandão-Marques et al., 2020).

Emerging-market research emphasizes that stronger monetary frameworks can improve the translation of central-bank decisions into market rates. Recent evidence from sub-Saharan Africa reports a functioning interest-rate channel but weaker output transmission than in advanced economies. These findings support:
H3: the real interest rate is significantly associated with per capita economic growth, with a negative association expected under binding credit constraints.

2.5 Money supply and economic growth

The monetary-aggregate view considers changes in broad money as potential indicators of financing conditions, while the New Keynesian approach emphasizes prices, real rates and endogenous credit demand. Consequently, broad-money growth need not independently explain output once the borrowing cost, inflation and currency are controlled for. Money demand, bank balance sheets and financial depth mediate the interpretation (Tobin, 1965; Friedman, 1968; Nkalu, 2020; Clarida et al., 1999; Montiel, 1990).

Recent regional studies report mixed money-growth results. Evidence from South Africa, Western Balkan countries and southeastern Europe suggests that monetary aggregates can correlate with output differently across policy regimes and inflation states. The response can depend on bank intermediation and whether liquidity flows toward productive investment instead of prices or financial assets (Buthelezi, 2023; Bajrami et al., 2025; Obradović & Grubišić, 2025; Majenge et al., 2024; Effiong et al., 2020).
H4 therefore states that money supply is not significantly associated with per capita economic growth, without predetermining its coefficient

3. RESEARCH METHODOLOGY

3.1 Research design, coverage and data

The underlying study used an explanatory longitudinal panel design and secondary macroeconomic observations from international and official statistical sources. The final country summary and diagnostic output identify Burundi, Kenya, Rwanda, Tanzania and Uganda, and the descriptive results explicitly label the interval 2005–2024. The study adopts 2005–2024 for reporting the results because the residual test gives 100 observations, consistent with five countries over 20 annual periods (World Bank, 2026; World Bank, 2023; World Bank, 2020; Wooldridge, 2010).

The outcome is annual real GDP per capita growth in percentage points. Explanatory series are consumer-price inflation (annual %), real interest rate (%), broad money and the official nominal exchange rate (local currency per U.S. dollar) (World Bank, 2026; Calvo & Reinhart, 2002; Ilzetzki et al., 2019; Wooldridge, 2010).

Table 1: Variables and measurement reported in the source study

Variable	Operational measure	Scale/source
Economic growth	Annual growth in real GDP per capita	% per year; official macroeconomic data
Inflation	Change in consumer price index	Annual %
Exchange rate	Official national currency per U.S. dollar	LCU/USD; nominal level
Money supply	Broad money or M2	Reported monetary series; unit confirmation needed
Real interest rate	Real interest rate (not necessarily the policy rate)	Annual %

3.2 Model specification and estimation

The underlying empirical specification relates real GDP per capita growth to four monetary indicators and country-level unobserved heterogeneity.

$$g_{it} = \alpha_i + \beta_1\pi_{it} + \beta_2 e_{it} + \beta_3 m_{it} + \beta_4 r_{it} + \varepsilon_{it} \quad (1)$$

Here g denotes annual real GDP per capita growth, π is CPI inflation, e is the local-currency-per-dollar exchange-rate level, m is the money-supply measure, r is the real interest rate, α is the time-invariant country component and ε is an idiosyncratic disturbance.

4. RESULTS

4.1 Descriptive patterns

Substantial differences appear across the five economies. Rwanda had the highest reported mean annual per capita growth (4.85%), followed by Tanzania (2.74%) and Uganda (2.67%). Kenya averaged 2.25%, whereas Burundi averaged −0.70%. These descriptive comparisons do not identify monetary-policy effectiveness because structural characteristics, demographic change and external disturbances also influence per capita performance (Fischer, 1993; Chuku et al., 2018; Umulisa, 2020).

Table 2: Descriptive statistics by country

Country	GDP pc growth M (SD)	Inflation M (SD)	Rate LCU/USD M (SD)	Money M (SD)	Real rate M (SD)
Burundi	−0.70 (1.83)	9.72 (7.00)	1,615.1 (452.4)	18.36 (9.63)	4.55 (6.75)
Kenya	2.25 (2.01)	8.77 (6.45)	95.2 (20.3)	14.44 (6.11)	5.44 (5.65)
Rwanda	4.85 (3.04)	6.26 (4.61)	771.9 (226.4)	18.23 (7.27)	9.92 (4.88)
Tanzania	2.74 (1.30)	6.75 (3.83)	1,837.2 (486.7)	15.07 (7.55)	8.63 (4.25)
Uganda	2.67 (2.18)	8.53 (18.22)	2,883.0 (805.7)	15.11 (7.95)	13.43 (11.66)

The dispersion in inflation was particularly pronounced for Uganda (SD = 18.22), whereas Rwanda recorded the lowest mean inflation in this comparison. Exchange-rate levels reflect currencies with very different denominations; a lower average LCU/USD number must not be read as direct evidence of superior macroeconomic stability or a stronger real exchange rate (Calvo & Reinhart, 2002; Ilzetzki et al., 2019; Malec et al., 2024).

4.2 Stationarity and preliminary correlations

Table 3: Reported panel stationarity tests

Series	LLC p	IPS p	Reported classification
GDP per capita growth	.0005	< .001	I(0)
Inflation	.0111	< .001	I(0)
Exchange rate	.9988	1.000	I(1)
Money supply	.0056	< .001	I(0)
Real interest rate	.0292	< .001	I(0)
Δ Exchange rate	.0075	.010	I(0) after differencing

Note. LLC = Levin–Lin–Chu; IPS = Im–Pesaran–Shin. The reported interpretation is I(0) for level-stationary variables and I(1) for the exchange-rate level.

Both panel unit-root procedures classify the exchange-rate level as non-stationary but the first-differenced series as stationary. This pattern highlights an important qualification for a level regression and supports the need for re-estimation with a coherent treatment of stochastic trends before policy effects are asserted (Levin et al., 2002; Im et al., 2003; Pesaran et al., 1999).

Table 4: Reported Pearson correlations among study variables

Variables	Growth	Inflation	Exchange	Money	Real rate
Growth	1				
Inflation	−.076	1			
Exchange	−.198*	−.090	1		
Money	.142	.141	−.168	1	
Real rate	.150	−.887*	.323*	−.194	1

4.3 Diagnostic tests and estimator choice

Table 5: Diagnostics and model-choice statistics

Diagnostic	Reported statistic	Interpretation
Residual Shapiro–Wilk	W = .97862; n = 100; p = .10367	Do not reject normality at 5%
Modified Wald: group heteroskedasticity	$\chi^2(5) = 53.77$; $p < .001$	Reject constant variance across panels
VIF: real rate; inflation	6.53; 5.86	Moderate-to-high intercorrelation concern
VIF: exchange; money	1.41; 1.05	Low VIF for these covariates
Hausman FE versus RE	$\chi^2(4) = 79.66$; $p < .001$	Reject random-effects orthogonality

4.4 Reported regression results and hypotheses

Table 6: Reported multivariate panel regression coefficients

Predictor	B	SE	z	p	95% CI
Inflation	0.1923	0.0652	2.95	.003	[0.0644, 0.3202]
Exchange rate	−0.0010	0.0003	−3.66	< .05	[−0.0016, −0.0005]
Money supply	0.0555	0.0338	1.64	.101	[−0.0108, 0.1218]
Real interest rate	−0.3209	0.0847	−3.79	< .05	[−0.4869, −0.1549]
Constant	−1.2715	1.2700	−1.00	.317	[−3.7606, 1.2176]

Inflation has a positive reported coefficient, B = 0.1923, SE = 0.0652, z = 2.95, p = .003. Holding the included covariates constant, a one-percentage-point higher inflation observation is associated with approximately 0.192 percentage points higher annual per capita growth in the fitted model.

The nominal exchange-rate level has a negative reported coefficient, B = −0.0010, SE = 0.0003, z = −3.66, p < .05. Under the stated LCU/USD convention a higher nominal number corresponds to depreciation, but different local currency units make the pooled size difficult to compare economically. In addition, the I(1) classification of exchange-rate levels prevents a confident long-run interpretation from these estimates alone (Rodrik, 2008; Aghion et al., 2009; Malec et al., 2024; Ilzetzki et al., 2019).

Money supply has a positive but statistically nonsignificant reported slope, B = 0.0555, SE = 0.0338, z = 1.64, p = .101. The corresponding 95% confidence interval crosses zero, so the estimates do not establish an independent linear association at the 5% level. Failure to reject the null is not proof that monetary aggregates are irrelevant; it may reflect limited power, measurement ambiguity or an endogenous money supply (Buthelezi, 2023; Nkalu, 2020; Tobin, 1965; Brandão-Marques et al., 2020).

The real-interest-rate coefficient is negative, B = −0.3209, SE = 0.0847, z = −3.79, p < .05. Conditional on the reported covariates, a one-percentage-point higher real interest rate is associated with 0.321 percentage points lower annual per capita growth.

5. DISCUSSION

The positive inflation slope differs from the long-run negative association reported in much of the macroeconomic growth literature. One explanation is that episodes of economic recovery raise both output and prices, creating simultaneity; another is that supply-side shocks, fiscal spending and monetary accommodation enter the regression only indirectly. (Adaramola & Dada, 2020; Fischer, 1993; Khan & Senhadji, 2001; Kremer et al., 2013; Ndoricimpa, 2017; Hansen, 1999).

African studies find substantial cross-country variation, consistent with different fiscal pressures and monetary institutions. The evidence from Kenya and Tanzania is especially useful for regional comparison, but estimated coefficients cannot be transferred across studies without checking sample selection, inflation measurement and conditioning variables. A policy prescription for higher inflation would go beyond the data (Kiptum, 2022; Sanga et al., 2023; Seleteng et al., 2013; Mignamissi et al., 2023; Thioune et al., 2025; Adejayan & Doorasamy, 2026).

Newer research further suggests that monetary transmission depends on prevailing inflation and the cyclical state. Under elevated trend inflation, prices can adjust more quickly while the response of output to interest-rate changes differs from that observed during low-inflation periods. Future EAC research could therefore model regime-dependence and identify inflation expectations rather than presume one invariant linear slope (Gornicka et al., 2026; Ekinci et al., 2020; Ben Abdallah et al., 2024; Mishkin & Schmidt-Hebbel, 2007; Svensson, 1997).

The negative exchange-rate association accords with a possible import-cost and balance-sheet channel. However, the exchange-rate literature also documents circumstances in which a competitive real currency supports tradable-sector development. The appropriate policy distinction is between unmanaged volatility, misalignment, an isolated nominal depreciation and movements in the real effective exchange rate (Rodrik, 2008; Aghion et al., 2009; Calvo & Reinhart, 2002; Baxa & Paulus, 2024; Ramos-Herrera & Sosvilla-Rivero, 2023; Couharde et al., 2025).

EAC economies are vulnerable to external financing conditions and commodity-price shocks, so exchange-rate pressures need not originate domestically. Studies of currency-regime choice and international monetary spillovers indicate that stable expectations, adequate buffers and domestic financial resilience may matter more than mechanical exchange-rate targets. Regional convergence therefore requires attention to reserve adequacy and differing market structures (Olamide et al., 2022a; Olamide et al., 2022b; Obstfeld et al., 2005; Rey, 2015; Lastauskas & Nguyen, 2024; East African Community, 2013).

The reported negative real-rate coefficient is consistent with credit and investment transmission. Financially constrained firms may postpone equipment purchases or working-capital financing when borrowing costs rise, amplifying the output response (Bernanke & Gertler, 1995; Bernanke & Blinder, 1992; Mishkin, 1995; Ndubuisi, 2015; Brandão-Marques et al., 2020).

The result also sits alongside emerging evidence that monetary-policy rate changes pass through to market rates across sub-Saharan Africa but less strongly to output than in advanced economies. An institutionally credible monetary framework, deeper financial intermediation and transparent communication may improve transmission without requiring central banks to subordinate price stability to short-run growth targets (Tiedemann et al., 2026; Gornicka et al., 2026; Mishkin & Schmidt-Hebbel, 2007; Mishkin, 1996; Effiong et al., 2020; Younsi & Nafla, 2019).

The nonsignificant broad-money coefficient warrants restraint. In an endogenous monetary system, money growth may respond to private credit demand and government financing needs as well as central-bank actions. Different broad-money definitions, credit allocation, banking constraints and fiscal interventions could all mask a direct contemporaneous relationship with output. The source ambiguity between a GDP share and a growth rate strengthens the need for rechecking this measure (Buthelezi, 2023; Bajrami et al., 2025; Nkalu, 2020; Obradović & Grubišić, 2025; Tobin, 1965; Wooldridge, 2010).

Evidence from the COVID-19 period illustrates why monetary and fiscal actions are difficult to disentangle in a small annual panel. Liquidity interventions coincided with mobility restrictions, trade disruptions and exchange-rate volatility, while international central-bank actions shaped domestic financing conditions. A richer specification would consider fiscal balances, external shocks and policy-regime changes (Azad et al., 2021; Mosser, 2020; Vidya & Prabheesh, 2020; Wei & Han, 2021; Lang & Schadner, 2021; Miranda-Agrippino & Rey, 2020).

6. CONCLUSION AND RECOMMENDATIONS

The study examined monetary indicators and economic growth for five EAC countries. The reported analysis links inflation positively to annual per capita growth, and both the exchange-rate level and real interest rate negatively to growth; the broad-money association is positive but statistically indistinguishable from zero. These patterns are compatible with important credit-cost and external-sector channels, but they are conditional associations rather than identified causal effects (Brandão-Marques et al., 2020; Tiedemann et al., 2026; Olamide et al., 2022a; Younsi & Nafla, 2019).

For monetary authorities, the appropriate implication is a balanced and credible price-stability strategy with explicit monitoring of lending conditions, exchange-rate risk and the health of financial intermediation. The positive inflation slope is not a rationale for targeting higher inflation. Strengthening policy communication, banking competition, payment systems and access to productive finance could improve transmission while preserving central-bank credibility (Svensson, 1997; Mishkin & Schmidt-Hebbel, 2007; Bernanke & Gertler, 1995; East African Community, 2013; Can et al., 2020).

For EAC institutions, further monetary integration should be accompanied by attention to heterogeneous shocks and the resilience of domestic banking systems. Harmonization of statistics, transparent definitions of money and interest-rate measures, and consistent exchange-rate units would make regional evidence more comparable and monetary convergence easier to monitor (East African Community, 2013; Mundell, 1961; Frankel & Rose, 1998; Umulisa, 2020; Afesorgbor, 2019).

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