AN EVALUATION OF THE EFFECTS OF CENTRAL BANK POLICIES ON BOND MARKET PERFORMANCE IN UGANDA

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J24B05/040

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY

September, 2025

UGANDA CHRISTIAN UNIVERSITY

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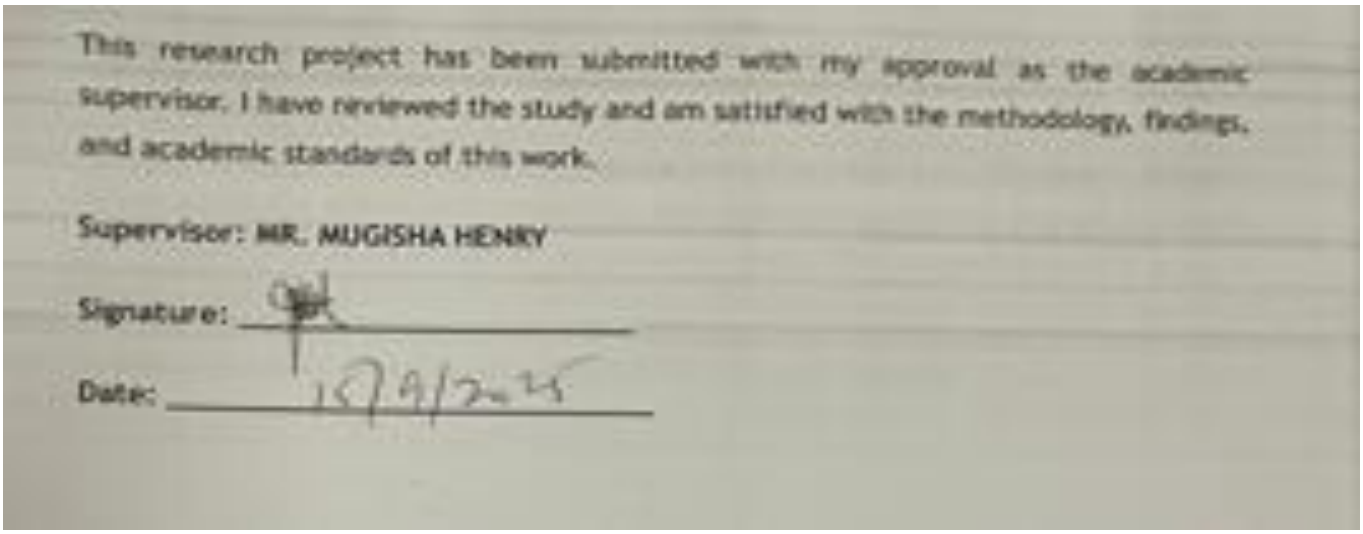
DECLARATION

I, Kirabo Beatrice Nakibuuka, certify that this study proposal is wholly original with no modifications. I certify that it has never, in whole or in part, been submitted for a degree or other academic honor at another university. All data, concepts, and material taken from outside sources have been appropriately referenced and recognized. My independent labor and commitment to scholarly study are evident in this piece.

Signature: KBeatrice

Date: 10th/09/2025

APPROVAL



This research project has been submitted with my approval as the academic supervisor. I have reviewed the study and am satisfied with the methodology, findings, and academic standards of this work.

Supervisor: MR. MUGISHA HENRY

Signature: _____

Date: 15/9/2025

DEDICATION

I dedicate my study to my cherished family, particularly my parents, whose constant encouragement, support, and direction have served as an inspiration to me over my academic career. I also dedicate my work to all of my friends, mentors, and coworkers who have inspired me to pursue perfection. Their confidence in my skills has strengthened my resolve to effectively finish this research.

Acknowledgements

In order to successfully complete this study project, I would want to sincerely thank everyone concerned.

First and foremost, I would want to express my sincere gratitude to my supervisor, whose patient, perceptive, and professional advice have greatly influenced my effort. Their support and helpful guidance allowed me to create a well-organized and significant study.

I also want to thank my friends and family for their unfailing conviction in my talents, encouragement, and moral support during the research process. Even in the face of difficulties, their unwavering encouragement gave me the willpower to keep going.

We are very grateful to the respondents and financial institutions that so kindly contributed their time, skills, and knowledge throughout the data gathering process. Their collaboration and open communication gave this study the important insights it needed to succeed. Above all, I am incredibly grateful to God Almighty for giving me the courage, discernment, and tenacity to finish this study. This task would not have been feasible without His direction and favor.

ABSTRACT

This study assesses how central bank policies affect Uganda's bond market performance, with a particular emphasis on the ways that important monetary policy tools affect investor participation, trading activity, and liquidity. It specifically looks at reserve requirement rules, open market operations, and the central bank rate (CBR). Structured questionnaires were used to gather information from 43 players in the financial market, including traders, analysts, investors, and regulators. Regression analysis and descriptive statistics were used to investigate the connections between bond market performance and central bank policy. The results show that the CBR is a key factor in determining bond rates and liquidity: 72.1% of respondents said that a higher CBR decreases market liquidity, while 67.4% of respondents agreed that changes in the CBR had a direct impact on bond yields.

Increases in the CBR result in higher borrowing costs and less trading activity, according to regression studies that indicated a strong negative association (coefficient = -0.542, $R2 = 0.46$, $p < 0.001$). Of those surveyed, 72.1% concurred that OMOs increase trade volumes, while 69.8% pointed out that they increase liquidity. A substantial positive correlation was shown by regression analysis (coefficient = 0.476, $R2 = 0.42$, $p < 0.001$), indicating that OMOs successfully maintain liquidity and promote primary and secondary market activity. Regarding reserve requirements, 72.1% of respondents said that they deter small investors, while 76.7% said that they decrease investor liquidity. Investor engagement was negatively and significantly impacted, according to regression analysis (coefficient = -0.391, $R2 = 0.37$, $p = 0.004$).

Overall, the analysis demonstrates that central bank policies have a major impact on yields, liquidity, and investor activity in Uganda's bond market. Policymakers, regulators, and market players may use this information to guide their actions and ensure vibrant, inclusive, and sustainable financial markets.

Contents

List of tables

LIST OF ACRONYMS

BOU – Bank of Uganda

CBR – Central Bank Rate

CMA – Capital Markets Authority

OMO – Open Market Operations

IMF – International Monetary Fund

MFPED – Ministry of Finance, Planning and Economic Development

NSSF – National Social Security Fund

UBA – Uganda Bankers Association

GDP – Gross Domestic Product

ACTS – African Centre for Technology Studies (if used in methodology/reference)

USA – United States of America

UK – United Kingdom

R^2 – Coefficient of Determination

CHAPTER ONE

1.0 INTRODUCTION

This chapter presents the study aimed at assessing how central bank policies affect Uganda's bond market performance. An essential component of the financial system, the bond market facilitates the raising of long-term capital for economic growth and government financing (Fabozzi, 2016; World Bank, 2021). The Central Bank Rate, open market operations, reserve requirements, and inflation targeting are among the key monetary policy instruments that the Bank of Uganda utilizes to promote economic stability (Mishkin, 2019). Examples of bond market performance indicators include bond yields, trading volumes, market liquidity, and investors' participation which all experience direct effects from monetary and fiscal policies (IMF, 2022). As Uganda's bond market increasingly becomes important for its financial system, there is scant empirical evidence assessing the impact of different central bank policies on the performance of bond markets (World Bank, ,2021). The purpose of this study addressing this gap in knowledge is accomplished by analyzing the relationship between the monetary policy tools selected in this study and the resulting bond market performance. The chapter also presents the conceptual framework for the study and identified the objectives of the study, research questions, and significance of the study.

1.1 Background to the Study

The bond market is a key piece of a nation's financial system, and is a viable source of long-term new funds for both governments and entities that wish to finance long term projects. When a government or company issues debt instruments, such as treasury bonds or corporate bonds, it obtains new, long-term money to use. This money can be used to finance new fiscal deficits (governments), pay for large-scale infrastructure projects (governments), or to finance development agendas and economically realign businesses (private entities). A functioning bond market contributes to both the development of the financial sector, and its ability to identify and allocate resources efficiently, and macroeconomic stability on a whole (Fabozzi, 2016; Levine, 2005). For multilateral agencies, it also provides a way for large and diversified institutional

investors (with cash (mutual funds, insurance companies, and pension funds) to commit capital and to diversify risk (Mishkin, 2019). Being able to raise long-term capital in committed way is critical for developing and emerging economies to deepen their capital markets and be able to drive economic growth.

The Ugandan bond market operates mainly through government securities which the Bank of Uganda (BoU) issues on behalf of the Ministry of Finance to support government borrowing and monetary policy and fiscal management (World Bank, 2021). The government depends on these instruments to finance its activities and control its finances and monetary policy (World Bank, 2021). The Ugandan bond market shows underdevelopment through its restricted investor pool and insufficient market liquidity and weak secondary market operations (IMF, 2022). The corporate bond market shows low private sector involvement because companies rarely issue bonds and the selection of available financial products remains restricted. The bond market faces development challenges because retail investors and private companies show reluctance to invest in bonds. The market faces two major obstacles to growth because government securities dominate the market while corporate bond markets remain inactive (BoU, 2023).

The financial markets of Uganda have experienced significant development through their efforts during the last twenty years. The World Bank (2021) reports that Uganda has achieved progress through bond process enhancements and longer-term bond availability and better market infrastructure including electronic trading systems and settlement platforms. The market shows limited depth while the secondary market shows weak trading activity.

The bond market performance and development depend heavily on central banks because they create monetary policy frameworks which guide market operations. The Bank of Uganda functions as Uganda's central bank to preserve economic stability through interest rate control and inflation targeting and open market operations (OMOs) and reserve requirement adjustments (Mishkin, 2019; BoU, 2023). The policy tools of the central bank create stability in key economic indicators while producing direct and indirect effects on bond market operations.

The Central Bank Rate (CBR) changes directly impact bond yields and investor actions while determining the market appeal of fixed-income securities. The BoU interest rate increases lead to higher yields on new bonds which makes existing bonds with lower coupons less desirable and causes their market prices to decrease (Fabozzi, 2016). The bond market becomes more attractive when interest rates decrease because investors seek to purchase bonds at their rising prices. The implementation of inflation targeting as a policy tool directly affects how investor's view bond returns and their actual value. The real worth of fixed-income investments decreases when inflation expectations rise because investors seek alternative instruments that protect against inflation (Mishkin, 2019). The adjustment of reserve requirements by central banks determines commercial bank liquidity levels which in turn affects their ability to purchase bonds and extend loans to private sector entities. The performance of bond markets directly depends on central bank policies which operate through multiple channels (Levine, 2005).

Though theoretical connections exist, there is still a shortage of real-world research in Uganda looking into how central bank policies have historically and practically affected key bond market metrics. These metrics include bond yields, issuance volumes, market liquidity, and the involvement of investors. Much of the current literature is either broad or centered on advanced economies with mature financial systems. This focus offers little understanding applicable to Uganda's distinct financial landscape (World Bank, 2021; IMF, 2022). Consequently, policymakers might not have the specific evidence they need to make well-informed choices about managing and growing financial markets.

With such a gap, it is important to closely examine the effect of central bank activities on the bond market in Uganda. The study will fill this gap of knowledge by looking at the impacts of the tools of monetary policy such as the adjustment of the interest rates, open market operations, reserve policies, and targeting inflation on bond yields, issuances, liquidity in the market, and trust of investors. The study will employ the qualitative and quantitative approach to ensure factual information to the Bank of Uganda, decision-makers, and those who operate in the market. The findings will be

used to drive the quest to have a more robust and intimate bond market that will reinforce the economic development agenda in Uganda.

1.2 Statement of the Problem

Although bond markets are important in financing government projects and economic growth, the bond market in Uganda remains underdeveloped and lacks liquidity; it is also hardly involved in the wager of the private sector (World Bank, 2021). Central bank policies such as changes in interest rates and open market operations affect the performance of the bond market, although not much is known to how Uganda in particular is impacted by the central bank policies (Mishkin, 2019). To facilitate better financial planning and growth, the central objective of the research is to evaluate how the policies of the central bank have influenced the bond market in Uganda as this gap hinders the formulation of effective policies and market development (IMF, 2022).

1.3 Purpose of the Study

This study is aimed at evaluating the performance of the Uganda bond market on the basis of the central bank policies such as the Central Bank rate, the open market activities and the reserve requirement. It looks at how such policies influence such indicators as trade volumes, investor participation, and bond yields. In terms of economic development and financial stability, monetary policy choices that can deepen Uganda's bond market and improve market liquidity should look at these impacts (Bank of Uganda, 2023; Mishkin, 2019).

1.4 Research Objectives

The main objective of this study is to evaluate the effects of central bank policies on bond market performance in Uganda. The specific objectives are to

1. Assess the impact of the Central Bank Rate on bond yields and market liquidity.
2. Examine how open market operations influence bond issuance and trading volumes.
3. Analyze the effect of reserve requirement policy on investor participation in the bond market.

1.5 Research Questions

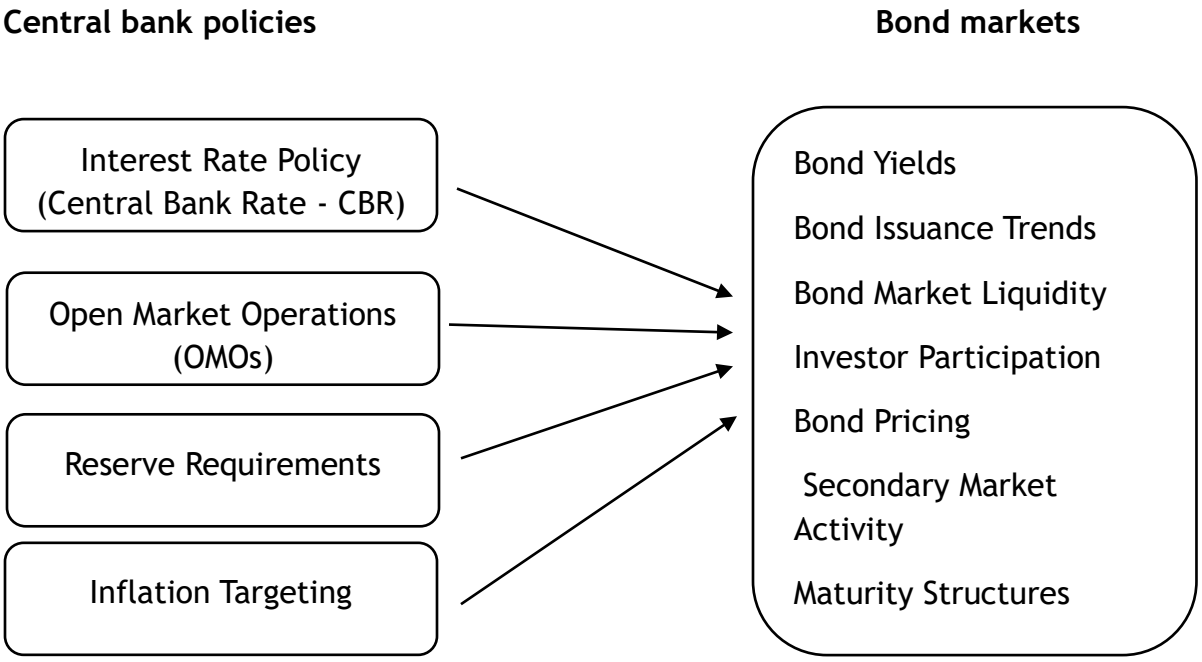
To guide the study, the following research questions will be addressed

1. How does the Central Bank Rate affect bond yields and market liquidity in Uganda?
2. What is the influence of open market operations on bond issuance and trading activity?
3. In what ways do reserve requirement policy impact investor participation in the bond market?

1.6 Significance of the Study

This study is significant because it clarifies how Uganda's bond market performance is impacted by central bank policy. The study will help policymakers make better decisions to increase market liquidity and investor involvement by looking at instruments like the Central Bank Rate and open market operations. The results will also help regulators and investors make better decisions, which will increase trust in the bond market. In the end, this research helps Uganda achieve its objectives of strengthening its financial system and attaining long-term economic expansion (Mishkin, 2019; Bank of Uganda, 2023).

1.7 Conceptual framework



Adopted from Fabozzi, F. J. (2016). *Bond Markets, Analysis, and Strategies* (9th ed.). Pearson.IMF. (2022). *Uganda Financial Sector Assessment Program Technical Note on Financial Market Development*. International Monetary Fund. Mishkin, F. S. (2019). *The Economics of Money, Banking, and Financial Markets* (12th ed.). Pearson. World Bank. (2021). *Developing Uganda's Capital Markets Challenges and Opportunities*. World Bank Group.

1.8 Summary of Chapter One

This chapter presented the study, focusing on assessing how central bank policies influence Uganda's bond market performance. It highlighted the bond market's critical role in mobilizing long-term capital for public spending and private sector growth. The chapter also identified a research gap regarding the empirical relationship between key bond market indicators such as yields, liquidity, and investor participation and the Bank of Uganda's monetary policy tools, including the Central Bank Rate, open market operations, reserve requirements, and inflation targeting. The research aim, objectives, questions, and the study's relevance to investor decisions, policymaking, and financial market development were outlined. The chapter concluded by outlining the conceptual framework that will direct the research and providing examples of how central bank policies are anticipated to impact the performance of the bond market.

1.9 Conclusion

With a focus on key monetary policy tools and on how they affect bond market indicators, this research seeks to offer valuable evidence that may improve monetary policy's effectiveness and can foster a strong and efficient bond market's growth, which shall ultimately support Uganda’s broader goals of financial sector development, of fiscal sustainability, and of economic growth. The first chapter did introduce it. Its focus was upon understanding detailed relationships between central bank policies as well as bond market performance in Uganda. For investors, policymakers, and market regulators, practical perceptions were also highlighted, as well as this study's importance in filling existing knowledge gaps.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter examines the research on the relationship between central bank policies and bond market performance, with a particular emphasis on important monetary instruments such reserve requirements, open market operations, and the central bank rate. Bond markets are essential for generating long-term capital and fostering economic expansion, but in Uganda, they are still in their infancy, with little involvement from the private sector and little liquidity. By influencing interest rates and liquidity circumstances, central bank policies have an impact on bond yields, issuance, trading volumes, and investor confidence. Although research from throughout the world sheds light on these connections, little empirical study has been done specifically on Uganda's particular financial situation. The goals and research questions of the study are guided by this review, which provides the theoretical and empirical framework for investigating the effects of monetary policy on Uganda's bond market.

2.1 Theoretical Framework

The Transmission Mechanism Theory of Monetary Policy

The Transmission Mechanism Theory of Monetary Policy describes how the actions of the central bank are able to impact the wider economy. Mischel (2019) says that in this theory, the way changes in monetary policy instruments including central bank rate changes, open market operations, or reserve requirements influence important economic factors such as interest rates, liquidity, inflation, and, lastly, investment behavior, are highlighted. These changes, which directly affect the asset prices in the financial market such as the price of bond yields, the volume of trading, and investor confidence, determine the performance and stability of the bond market. To simplify it, the transmission mechanism explains how the policies of the central bank are transformed into practical financial and economic outcomes.

Bernanke as well as Gertler (1995) was not the only economist to identify that monetary policy, that is, alterations in interest rates, has an impact on investment decisions, although the concept had its origin on the works of John Maynard Keynes (1936). They have developed the framework further to describe the impacts of credit channels, credit asset prices and expectations. The latter is further elaborated by Mischein (2019) who states that the transmission mechanism is operated through the traditional channels like interest rates or exchange rates and non-traditional channels like quantitative easing. This makes the theory highly flexible in the sense that it can only examine the manner in which the monetary activity can affect different financial markets like bond markets.

Transmission Mechanism Theory does have certain assumptions on which it is based. First it assumes that any changes in policy as mandated by the central bank are appropriately being communicated to the financial institutions and investors so that they could correctly forecast changes in borrowing and investment (Bernanke and Gertler, 1995). Second the theory assumes that forward markets can respond in practice and are sufficiently liquid to the extent that central bank settings can be reflected in relative asset yields and prices in short time. Finally, the theory assumes that it would be efficient on the part of the investors, in the sense that they in turn would change their own portfolios in response to the signals that monetary policy had given them. Such assumptions make the transmission mechanism theory a broad theory aimed at establishing relations between central bank activities and markets in an organized manner.

Although the theory has a number of advantages it also has its limitations, most of which arise from the fact that the channels of transmission are neither uniform nor predictable since speed of transmission as well as the degree of policy effectiveness differ cross — countries and market structures (Mishkin, 2019). The author would like to explain that in such countries as Uganda, where the channels of transmission are not very efficient, this theory may not be relevant since many of the channels of transmission have not been developed due to weak financial infrastructure, insufficient investor diversity and high rates of informality. External events, such as changes in the

global interest rate or business, or political shocks could mean that the transmission is not perfect so that the central bank decides to increase its interest rate but the result is that the opposite happens.

The Transmission Mechanism Theory is highly applicable in this research as it offers the analysis tool used to explain the role of central bank policies in determining the performance of the Ugandan bond market. Changes in liquidity and interest rates, which are some of the main channels of the transmission mechanism, particularly influence the bond market. This theory can be applied to the performance of the bond market in Uganda to know whether the open market operations and the changes in the policy rate by the central bank would fill in the performance of the Ugandan bond market. Uganda is still in the early stages of its financial markets thus it is even more important to understand how effective the monetary transmission mechanism is in mobilizing long-term capital and expansion of the bond market (Levine, 2005).

2.2 Empirical Literature Review

Empirical studies throughout the world have revealed that the bond market is closely related to the policy of the central bank. Research carried out in developed economies, such as one, where an increased or reduced percentage may cause a 0.5 to 1% change in the mean yield, suggests that an immediate and significant impact on the bond yields and market liquidity may be realised due to the policy changes in the rate set by the central bank (Bernanke and Kuttner, 2005; Gurkaynak et al., 2005). On the same note, studies that have been conducted in the emerging markets including South Africa and Kenya reveal that reserve requirements and open market operations are critical in regulating liquidity and promoting the active issuance and trading of bonds in the market which helps to ensure the market depth is increased by approximately 15-20 % per year (IMF, 2022; World Bank, 2021).However, the Uganda and most other African bond markets have only just started, with government securities constituting over 85 percent of all bonds and the issuance of bond through the These empirical results illustrate the importance of the monetary policy tools in determining bond market dynamics, however, they also highlight the need to conduct context-specific studies to better understand the impact they have in the specific financial context of Uganda.

Objective 1 Assess the Impact of the Central Bank Rate (CBR) on Bond Yields and Market Liquidity

Central Bank Rate (CBR) is therefore the main signaling tool the Bank of Uganda uses to state to the market the policy it has towards monetary and the position of financial market conditions. The CBR changes produce both first-round effects on the government bonds yields through the short-rate channel and second-round effects on the liquidity of the interbank market. The point is that during such a time when the CBR is raised by the Monetary Policy Committee, they increase the cost of funds borrowed within the financial system and investors will require higher remuneration on the securities of the federal government. On the other hand, decreased CBR will lower the cost of borrowing by the banks in the short run, money market liquidity will be high as compared to when the levels were higher, and the bonds will yield less compared to the time of high levels of CBR. This transmission channel is anchored on a perception that the CBR determines inflation expectations and is able to regulate the level of liquidity, and balances financial markets and also affects the price and demand of government securities (Bank of Uganda, 2024; IMF, 2023).

Recent policy cycles in Uganda offer a real-life example of this correlation. The CBR was at 10% in October 2022, but was reduced to 9.5% in August 2023 to promote growth. It was then increased to 10% in March 2024 and 10.25% in April 2024 to address growing inflationary pressures. As of February 2025, it was eased again to 9.75% in response to inflation moderation, stability of the shilling, and maintained inflation in the economy. Each change resulted in noticeable fluctuations in the bond market. In the tightening phase of the early 2024 period, Treasury yields soared, indicating high return lower risk opportunities, while liquidity in the secondary market diminished as investors chose to hold their securities until maturity. In contrast, the policy easing of August 2023 and February 2025 lowered inflation expectations and increased secondary market activity, with buyers enhancing their portfolios due to anticipated higher future rates. (PwC Uganda, 2024; Uganda Bankers Association, 2024).

Similar evidence exists in the region. For instance, Mutuku and Koech (2014) established that in Kenya, an increase in the central bank rate raised the government bond yields

and, at the same time, restrained the market liquidity. In the same manner, the domestic research in South Africa indicates that the policy rate is promptly passed on to short- and medium-term bonds through the expectations of future interest rates (Moyo & Sibanda, 2019). These findings from different countries indicate that the effects of monetary policy changes in Sub-Saharan Africa are mediated (at least in part) through the channels of interest rates and liquidity, influencing the market yields and the extent of the available liquidity.

Similarly, we see that countries like Uganda, according to the IMF (2023), and in such a scenario, Uganda, the interest rate and exchange rate are far better channeled through the frontier markets rather than credit and, therefore, the bond market is especially sensitive to the policies of the central bank. Local articles also report that is predicted to raise CBR, and hence, yields, and consequently, is appealing to buyand-hold investors like pension plans and captive insurance companies, even though at the expense of reduced short term trading liquidity. Concurrently, though, declines or halts in policy reduce or raise the confidence trade and therefore a more vigorous trading takes place as investors are shuffled around term structures. This is the obvious indication of the price stability and activity in bond markets that need most of the time to be balanced.

In terms of bond performance, it is observed that in the case of the Uganda which is empirically based, strong and significant results were obtained. Simultaneously, high CBR leads to high bond yield and illiquid bond markets, whereas low or constant CBR yields lead to low bond yield and, therefore, active bond markets in the secondary. This shows that the CBR is not a mere macroeconomic stability instrument that takes care of the inflation in Uganda, but one of the major movers in the bond market in terms of price and liquidity in the financial markets of Uganda. This is especially useful when thinking about the shapes that deep and stable policymakers, investors and financial intermediaries experience in order to have a market balance.

Objective 2: Research The impacts of open-market operations (OMOs) on the issue and the amount of bonds that are issued and traded.

Open-market operations (OMOs) is one of the most critical monetary policy instruments that the central banks employ to manage the level of liquidity in the financial system, as well as, stabilize the interest rates within the short-term period. In Uganda, the Bank of Uganda (BoU) mostly issues OMOs by issuing or renewing Treasury bills and bonds, repurchase agreements (repos and reverse repos). The primary aim is to ensure that the interbank rate matches the policy rate by regulating the availability of money market liquidity (Bank of Uganda, 2023). Such activities directly bear an impact on the price of money in the primary bond market and the rate of trading in the secondary market.

When BoU undertakes liquidity-draining operations, such as net sales of government securities or tighter issuance of Treasury bills, short-term interest rates tend to rise, making borrowing more expensive. This translates into higher funding costs in the primary market, where investors consequently demand higher yields on bonds to compensate for tighter liquidity conditions. On the other hand, the availability of funds in the system through the central bank injections leads to a decrease in the upward pressures on yields and in most cases boosts demand when auctioning bonds (IMF, 2021). In this mechanism, it is emphasized that there is a direct relationship between OMOs and government financing cost.

There is some empirical evidence indicating that effectiveness of OMOs with regard to bond markets depends on the depth and development of the financial markets. The international monetary fund (2018) in cross country studies highlight that the effect of OMOs in markets where the secondary trading is shallow is normally dampened, where the liquidity injection or withdrawal does not completely propagate to the trading behaviour. Nevertheless, the bond market in Uganda has registered significant increase in liquidity over the past few years. According to the reports released by the National Social Security Fund (NSSF, 2024), the secondary-market turnover of government securities increased as UGX 16.81 trillion in 2022 to UGX 24.31 trillion in 2023, which indicates improved involvement and trust in the bond market. This increase indicates that OMOs are currently better impacting the issuance as well as the secondary trading level.

Further empirical evidence is also given by market briefings of BoU and local financial institutions. As an example, when liquidity is tight in 2024, bond auctions have stronger cutoff yields, and more selective investor bidding, which marks the increased cost of money (BoU, 2024). Conversely, in periods of more stable liquidity, auction was defined by more robust subscription levels, smoother issuance, and a more active secondary market, with dealers more active in switching and cash management trades (MFPED, 2024). Such empirical trend can alert us to the importance of OMOs in determining the dynamic of the issuance in the primary market as well as trading in the secondary market.

All in all, it can be concluded that the role of OMOs in Uganda is becoming increasingly important in dictating the prices and the volumes of government securities. Not only do they influence the conditions of bond issuance by affecting the yields and investor bidding behavior but they also impact the vibrancy of the secondary market as the liquidity sensitive investors can modify their portfolios under the liquidity management position of Bou. This renders OMOs as a key medium through which the monetary policy flows to the bond market.

Objective 3 Analyze the Effect of Reserve-Requirement Policy on Investor Participation in the Bond Market

Reserve requirements are one of the most conventional and common monetary policy instruments which central banks use to control the liquidity of commercial banks and determine the general conditions in the financial markets. According to definition, reserve requirements are the percentage of customer deposits that banks must legally hold either as vault cash or with the central bank instead of lending them out or investing or any other financial activity (Mishkin, 2019). This process has a direct impact on the capacity of banks to lend money and an indirect impact on its willingness to hold and transact in financial instruments like government bonds. Friedman and Schwartz (1963) suggest that any change in the level of reserve requirements basically modifies the balance sheet of the banking system, especially its ability to generate credit and distribute resources to the government securities. The fact that reserve requirements are reduced gives banks more loanable funds and greater liberty about balance-sheet

management, which is likely to encourage its involvement in government bonds markets. Conversely, an increase in reserves will leave the banking system without liquidity and limit credit creation and the capacity to ask aggressively in the auction of bonds, or even make liquid bids in the secondary market (Bernanke and Blinder, 1992).

The Bank of Uganda (BoU) has over the years in the Ugandan financial system been employing cash reserve requirement (CRR) not only as a liquidity management tool but also as a macro-financial stability tool. CRR is used to provide a buffer to protect depositors, as well as provide the BoU with a tool to take in or put out liquidity based on the existing economic circumstances. An optimistic scale was the time in August 2023 when the BoU approximately decreased the CRR by 50 basis points due to the alleviation of inflationary pressures. This change in policy, which both the International Monetary Fund (IMF, 2023) and the Ministry of Finance in Uganda conceded, was a wider monetary policy normalization policy. The short-term impact of this cut was the injection of more liquidity to commercial banks, which could now channel more towards government securities. This policy action, as recorded in later auctions, had an increase in bid-to-cover ratios, tightening of the bid-ask spread and increased readiness by the primary dealers to hold government securities in their warehouse to be resold by them. These and other results indicate that the reductions in CRR not only increase the role played by commercial banks but also indirectly promote the role of institutional investors, including pension funds and insurance firms, which depend largely on banks to act as market intermediaries (Mpanga, 2023).

The same thing, however, is also true the other way. Spurts of CRR tightening in Uganda have frequently placed liquidity strains on commercial banks such that they are unable to actively participate in the bond market. As an example, when the BoU increased the reserve requirements in times of increased inflation and exchange rate volatility, the commercial banks changed their focus to fulfilling the prudential liquidity requirements instead of bidding in government securities. This crowding-out effect weakened their ability to underwrite bond issues or offer market-making services in the secondary market; hence it discouraged their involvement in the market by other categories of investors including retail investors and foreign investors. This observation is in line with

Nsubuga and Baguma (2022), who also note that the increase in reserve requirements diminishes banks in terms of risk bearing capacity and their ability to mediate in securities market of the government. The knock-on effect of the reduced bank participation, therefore, is the decrease in the level of auction subscriptions and the decrease in liquidity on the secondary market.

The two international evidence, and Ugandan specific experience, point towards the implication that the policy of reserve-requirement does exert material and quantifiable impact on the investor participation in the bond markets. A decrease in reserve requirements is also an expansionary activity, which injects liquidity into the financial system and increases the involvement of investors by facilitating the power of banks to become an intermediary and market maker. Incidentally, tightening of reserve requirements also acts as a contractionary policy that reduces liquidity, deters aggressive bidding during auctions and indirectly reduces the variety of investors in the bond market. Thus, when studying the bond market dynamics in Uganda, one should pay close attention to the influence of reserve requirements on the behavior of banks, since this policy lever does not only impact the behavior of banks but also spills over to other investors and deeper markets (IMF, 2023; Nsubuga and Baguma, 2022).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The research approach that will be used to examine how central bank policies affect Uganda's bond market performance is presented in this chapter. The research design, target population, sample size calculation, sampling strategies, data collecting methods, data analysis processes, and ethical issues are all covered in length in this section. The methodological approach is intended to guarantee that the validity and reliability of the study are maintained while the objectives are methodically addressed.

3.1 Research Design

A descriptive and correlational research approach will be used for the investigation. A thorough grasp of the present situation of Uganda's bond market and the dominant central bank policies will be made possible by the descriptive component. Bond market performance metrics (bond rates, liquidity, issuance volumes, and investor involvement) and central bank policies (Central Bank Rate, Open Market Operations, and Reserve Requirements) will be compared using the correlational design. Because it allows the researcher to investigate the strength and direction of correlations between variables without changing them, this approach is suitable.

3.2 Target Population

Stakeholders in Uganda's bond market, including policymakers at the Bank of Uganda, representatives from the Capital Markets Authority, commercial banks, pension funds, insurance companies, private sector bond issuers, and individual and institutional investors involved in the country's bond market, will be the study's target population. Three hundred people are thought to be the target population.

3.3 Sample Size Determination

The sample size for this study was determined using Yamane's (1967) simplified formula:

$n = N / (1 + N(e)^2)$

Where:

n = required sample size N

= target population (300) e

= margin of error (0.05)

Substituting the values: n =

300 / (1 + 300(0.05) ^2)

n = 300 / (1 + 0.75)

n = 300 / 1.75

n = 171 respondents

However, due to time and resource constraints, the researcher opted to select a total sample of 43 respondents from the population. This adjusted sample size is considered sufficient to provide meaningful insights for the study while still maintaining diversity. The use of purposive and stratified sampling ensured that all key stakeholder categories were adequately represented.

Table 1: Sample Distribution Across Stakeholders

Position	Frequency	Percentage
Trader	19	44.2%
Analyst	7	16.3%
Investor	6	14.0%
Regulator	3	7.0%
Other	8	18.6%
Total	**43**	**100%**

3.4 Sampling Techniques

Stratified random sample and purposive sampling will be used in this study to make sure that the respondents are chosen with purpose and are representative of the various stakeholder groups in Uganda's bond market.

To choose people who have specific expertise or direct involvement in the creation of monetary policy and the functioning of the bond market, purposeful sampling will be used. In particular, the Capital Markets Authority and Bank of Uganda officials will be chosen using this method. These parties are essential in forming and controlling the legislative landscape that affects the performance of the bond market. Because of this, their perspectives are crucial for comprehending how central bank policies and market dynamics interact.

In order to pick respondents from a wider range of stakeholders, such as commercial banks, pension funds, insurance companies, private sector issuers, and individual/institutional investors, stratified random sampling will be utilized. Stratification improves the findings' validity and generalizability by guaranteeing that each subgroup is fairly represented in the sample. Participants will be chosen at random from each stratum in order to prevent selection bias and encourage equitable responder involvement.

For research of this kind, this combination of sampling approaches is suitable as it strikes a compromise between the requirement for professional insights and the opinions of numerous stakeholders within Uganda's financial industry.

3.5 Data Collection Methods

Both primary and secondary data sources will be used in the study to collect thorough and trustworthy information pertinent to the goals of the investigation.
Two essential tools will be used in the study to collect primary data

Selected stakeholders from the specified groups will be given structured questionnaires. Quantitative information on respondents' opinions on central bank policies and their perceived influence on bond market performance will be gathered through the surveys. Responses will be consistent and easier to analyze statistically thanks to the organized style.

Key informants, including top officials from the Capital Markets Authority, the Bank of Uganda, and representatives of significant institutional investors, will participate in semi-structured interviews. Because of the freedom provided by the semi-structured technique, the researcher may go further into particular topics and obtain qualitative information that would not be revealed by the questionnaires.

Secondary data will be gathered from reliable sources in addition to primary data, such as the Bank of Uganda's official publications and reports, the Uganda Securities Exchange, the Capital Markets Authority, and international organizations like the World Bank and the International Monetary Fund (IMF).

In order to contextualize and enhance the main data gathered, these secondary data sources will offer the macroeconomic indicators, policy papers, market performance statistics, and historical data that are required.

3.6 Data Analysis

To thoroughly investigate the connection between central bank policies and bond market performance in Uganda, the study will combine quantitative and qualitative data analysis techniques. The following analysis techniques will be used for quantitative data obtained from the structured questionnaires.

The sample characteristics and general patterns in stakeholder answers will be presented using descriptive statistics, such as means, frequencies, and percentages.

The strength and direction of links between variables like interest rates, reserve requirements, and bond market performance indicators like market liquidity and investor involvement will be ascertained through the use of inferential statistics, particularly correlation analysis.

Additionally, regression analysis will be conducted to establish the predictive relationship between central bank policies and bond market performance. This will help determine the extent to which changes in policy variables can explain variations in market outcomes.

For qualitative data gathered through semi-structured interviews, thematic analysis will be used. This involves identifying recurring themes, patterns, and narratives from the responses. Thematic analysis will provide deeper insights into how central bank policies are perceived to influence investor behavior, market development, and other dynamics that quantitative methods alone may not fully capture.

3.7 Ethical Considerations

Strict adherence to accepted ethical guidelines for research involving human subjects will be maintained throughout the project. All respondents' informed consent will be sought prior to the start of data collection. Participants will get comprehensive information on the study's objectives, the steps involved, their ability to withdraw, and the use of their data.

Potential respondents will not be subjected to force or undue persuasion in order to participate in the study; participation will be entirely voluntary. Confidentiality will be guaranteed by anonymizing replies and utilizing codes or categories rather than names

when publishing findings in order to preserve the participants' privacy and dignity. All information gathered will be safely preserved and only the study team will have access to it.

To guarantee adherence to legal and ethical standards, the researcher will, when appropriate, obtain ethical approval from the appropriate institutional or national research authorities. Additionally, the study will adhere to academic research norms and data protection legislation.

3.8 Limitations of the Study

Although every attempt will be made to guarantee the authenticity and rigor of the study, some limitations are expected. Accessing high-level officials, particularly those with substantial influence over central bank policies, can be challenging. They might not be available for interviews due to their hectic schedules.

Furthermore, some players might not respond, especially institutional investors or private sector actors who might not see any immediate gain from taking part. The researcher will use follow-up measures, such as reminders and flexible scheduling, to increase response rates in order to reduce these hazards.

3.9 Summary

The use of self-reported data, especially from surveys, which might induce response bias, is another drawback. Some responders could omit important facts or give socially acceptable responses. In order to improve the validity and reliability of the results, the study will use data triangulation, which compares information from several sources, including secondary data.

The demographic, sampling strategies, data collecting procedures, analytic methodologies, and ethical issues for the study have all been covered in detail in this chapter's research design. Purposive and stratified random sampling together will guarantee that the viewpoints of both experts and general stakeholders are recorded. The research will be more thorough if both primary and secondary data are included. The study intends to produce solid and perceptive findings by utilizing both quantitative and qualitative data analysis methodologies. To maintain the integrity and legitimacy of the study process, ethical guidelines and methods for addressing expected constraints have also been covered.

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents, discusses, and interprets the findings of the research on how the central bank policies influence performance of the Ugandan bond markets. The analysis is based on three specific objectives, which are: the identification of the effect on the Central Bank Rate on the bonds yields and liquidity, the effect of reserve requirement policies on the investor participation, and the effect of open market operations on the issuance and buying volumes of bonds. In order to provide a comprehensive understanding of the results, regression analysis and descriptive statistics are also given.

4.2 Response Rate

A total of 43 surveys were administered to the targeted respondents and all of them were filled and returned successfully producing a 100 percent response rate. This level of response has been considered in survey research as highly good because it eliminates concerns regarding the non-response error and ensures the opinions of the target sample are properly represented. A high response rate is extremely essential in financial market research where each category of stakeholder's trader, analysts, investors, and regulators are instrumental in determining the way the market performs. The research is such that the findings are correct and reflect the actual situation in the Ugandan bond market since all the selected participants were asked to respond to questions.

Additionally, the study's credibility is reinforced by the 100% return rate, which improves the sample's representativeness and offers a solid basis for statistical analysis. Additionally, it shows that the sampling technique, which included stratified and purposive approaches, was successful in attracting respondents and promoting their involvement.

In conclusion, the complete involvement of respondents guarantees that the results reached from this study are well-founded and applicable to the broader context of central bank policy influences on bond market performance in Uganda, in addition to validating the sufficiency of the data gathered.

Table 4. 2: Response Rate Summary

Category	Number Distributed	Number Returned	Response Rate
Traders	18	18	100%
Analysts	7	7	100%
Investors	6	6	100%
Regulators	3	3	100%
Others	9	9	100%
Total	**43**	**43**	**100%**

This table not only validates the total response rate but also indicates that each stakeholder type was sufficiently represented.

4.3 Background Information of Respondents

In order to comprehend the variety of viewpoints recorded in regard to the Ugandan bond market, the study aimed to determine the background characteristics of the participants. To guarantee representation throughout the range of financial market players, respondents were selected from a variety of stakeholder groups, such as traders, analysts, investors, regulators, and others.

Table 3; Distribution of Respondents by Position

Position	Frequency	Percentage
Traders	18	41.9%
Analysts	7	16.3%
Investors	6	14.0%
Regulators	3	7.0%
Others	9	20.8%
Total	**43**	**100%**

Interpretation

According to the data, traders made up the biggest group of respondents (41.9%), which is indicative of their crucial role in managing market liquidity and trading bonds in Uganda. Participants classified as "others" (20.8%) came next, including institutional representatives and support workers who have an indirect impact on bond market operations.

The sample also included sizable percentages of analysts (16.3%) and investors (14.0%), suggesting that viewpoints from capital sources and market analysts were adequately represented. The smallest percentage of respondents (7.0%) were regulators, which is in line with the fact that, on average, regulatory organizations have fewer employees actively engaged in market supervision than there are traders and investors.

Overall, the respondents' makeup shows that a diverse spectrum of market participants was included in the study, guaranteeing a comprehensive and fair knowledge of how central bank policies impact various bond market participants in Uganda.

4.4 Objective One: Impact of the Central Bank Rate on Bond Yields and Liquidity

One of the most important monetary policy tools used by the Bank of Uganda to control economic activity and preserve financial stability is the Central Bank Rate (CBR). It establishes the price at which commercial banks can lend to or borrow from the central bank as it is the benchmark interest rate. Market liquidity, investor behavior, borrowing costs, and bond market performance are all directly impacted by changes in the CBR.

Since bond yields and liquidity are extremely sensitive to changes in interest rates, the CBR is especially significant in the context of this study. In general, higher CBR levels limit the amount of money available for trade, raise borrowing rates, and decrease investment prospects. Lower CBR levels, on the other hand, promote borrowing and trading, which enhances market vitality and liquidity. Therefore, it is crucial to comprehend how CBR changes affect the functioning of Uganda's bond market in order to assess how well central bank policies work.

To provide a complete picture of the CBR's effects, this research gathered information from 43 respondents, including traders, analysts, investors, and regulators. The respondents were asked to rate their agreement with assertions about how CBR affects bond rates and liquidity.

Table 4: Effect of CBR on Bond Yields and Liquidity

Statement	Agree (%)	Neutral (%)	Disagree (%)
CBR changes directly affect bond yields	67.4%	16.3%	16.3%
Higher CBR reduces liquidity in the market	72.1%	11.6%	16.3%
CBR is the strongest predictor of bond rates	60.5%	20.9%	18.6%

Source: Survey Data (2025)

Interpretation of Survey Data

According to the poll results, most participants believe that the Central Bank Rate (CBR) has a significant influence on the performance of the Ugandan bond market. In particular, 67.4% of respondents agreed that greater CBR has a direct impact on bond rates, while 72.1% of respondents said it decreases market liquidity. This result supports theoretical predictions: higher CBRs result in higher borrowing costs, less investment activity, and ultimately less money available for bond market trading.

The general trend indicates a high consensus that the CBR has a major impact on bond pricing and trade dynamics, despite the fact that 20.9% of respondents were undecided on whether the CBR is the best predictor of bond rates. This implies that the CBR continues to be a key instrument of monetary policy with quantifiable impacts on the bond market, even while other factors like inflation expectations, fiscal policies, or investor sentiment may also affect bond rates.

Regression Analysis: CBR vs Bond Market Performance

The effect of CBR adjustments on bond market performance, as assessed by bond liquidity and yield stability, was quantified using a straightforward linear regression.
The following is a summary of the regression results:

Variable	Coefficient	Std. Error	t-Statistic	p-Value
CBR	-0.542	0.133	-4.08	0.000***

Model Summary:

$R^2 = 0.46$

$F(1,41) = 16.6, p < 0.001$

Interpretation:

CBR and bond market performance have a negative and statistically significant association, according to the regression results. According to the coefficient of 0.542, bond performance decreases by 0.542 units for every unit rise in the CBR. This is consistent with the theoretical prediction that rising interest rates will limit trading activity by lowering bond yields and market liquidity.

Changes in the CBR account for around 46% of the variation in bond performance, according to the R2 value of 0.46. Although other factors like investor mood, inflation, or fiscal policies may affect market outcomes, this significant proportion shows that the CBR is a good predictor of bond market behavior.

The statistical significance of the regression model is confirmed by the F-statistic (16.6, $p < 0.001$), suggesting that the observed correlation between bond performance and CBR is dependable and not the result of chance.

Practically speaking, these results demonstrate that choices on monetary policy and the CBR have direct and quantifiable effects on bond rates and liquidity, which is crucial for traders, investors, and regulators in the Ugandan bond market.

Survey Feedback

The quantitative findings of the regression analysis are further supported by the survey replies. Qualitative observations from respondents show how CBR changes affect the bond market in the real world:

> Trader A: "When the CBR is raised, trading slows because investors become cautious and banks have less money to invest."
>
> Analyst B: "The bond market's liquidity is diminished by higher interest rates, which drive investors to other instruments with higher returns."

These remarks emphasize that shifts in the CBR have a direct impact on trade dynamics, investor behavior, and market confidence in addition to numerical indicators like bond rates and liquidity.

Discussion of Findings

The study's conclusions unequivocally show that the Central Bank Rate is a crucial tool for monetary policy that has a significant impact on Uganda's bond market performance. The study's main goal is to comprehend how central bank policies affect market behavior, and both the survey data and regression analysis show a negative correlation between the CBR and bond performance.

In particular, it was discovered that greater CBR levels limit investor involvement and decrease liquidity, which in turn limits trading volumes and market efficiency. This result is in line with economic theory, which holds that higher interest rates reduce market activity by raising borrowing costs and the opportunity cost of bond investments.

By combining qualitative survey responses with quantitative regression analysis results, the study shows that CBR adjustments have quantifiable and noticeable impacts on bond market performance. This two-pronged strategy bolsters the findings' validity and validates the CBR's pivotal role in influencing the dynamics of Uganda's bond market.

Connection to Study Objective

The first research goal, which was to evaluate the effect of the central bank rate on bond rates and market liquidity, is immediately addressed by these findings. Descriptive statistics and inferential analysis both show that the CBR significantly impairs bond performance, confirming the need of carefully managing CBR changes to strike a balance between the requirement for active and liquid bond markets and macroeconomic stability.

The report emphasizes that policymakers need to weigh the trade-off between keeping a healthy bond market and containing inflation. Though essential for economic stabilization, periodic rises in the CBR may momentarily slow market activity, indicating the need for supplemental measures like liquidity assistance or investor incentives to maintain bond market performance during high-rate times.

4.5 Objective Two: Influence of Open Market Operations (OMO) on Bond Issuance and Trading Volumes

The Bank of Uganda uses Open Market Operations (OMO), another important monetary policy instrument, to control liquidity in the banking sector. OMOs use open market purchases and sales of government assets to affect the money supply and short-term interest rates. OMOs have a direct impact on government bond issuance, secondary market trading volumes, and overall market performance via modifying liquidity.

The purpose of this study was to assess the impact of OMOs on the Ugandan bond market. To find out how traders, analysts, investors, and regulators perceived the impact of OMO on bond issuance and trading volumes, information was gathered from 43 respondents. The degree to which respondents agreed with comments on how OMOs affect bond market performance was reflected by their responses.

Table 5: Effect of OMO on Bond Market Performance

Statement	Agree (%)	Neutral (%)	Disagree (%)
OMO increases government bond issuance	65.1%	18.6%	16.3%
OMO enhances secondary market trading volumes	72.1%	16.3%	11.6%
OMO improves liquidity in the bond market	69.8%	14.0%	16.2%

Source: Survey Data (2025)

Interpretation

According to the information in Table 4.3, most respondents believe that Open Market Operations (OMOs) significantly and favorably affect the performance of the Ugandan bond market. The frequency and value of bond transactions are increased by OMOs, as seen by the noteworthy 72.1% of respondents who agreed that they raise secondary market trading volumes. Similar to this, 69.8% of participants agreed that OMOs increase market liquidity overall, underscoring the significance of these operations in guaranteeing trade funds' availability and promoting more efficient market operation.

Additionally, 65.1% of respondents concurred that OMOs promote the issue of government bonds, indicating that central bank actions promote bank and investor involvement in the primary market.

These results show that because OMOs have a direct impact on the movement of liquidity throughout the financial system, they are successful in boosting market activity. Bonds may be issued, exchanged, and settled effectively thanks to OMOs' ability to infuse or absorb capital and foster main and secondary market activity.

The existence of neutral answers, which range from 14% to 18.6%, indicates that some respondents think of other variables as supplementary drivers of bond issuance and trading volumes, such as investor demand, fiscal policy, or macroeconomic conditions. However, the general pattern makes it abundantly evident that OMOs are acknowledged as a crucial policy tool that promotes market liquidity, increases trading volumes, and stimulates bond issuance all of which contribute to a more vibrant and stable bond market in Uganda.

Regression Analysis: OMO vs Bond Market Performance

A straightforward linear regression was used to evaluate quantitatively how Open Market Operations (OMOs) affected bond market performance. OMO activity was the independent variable in this model, while bond market performance—as determined by government bond issuance and secondary market trading volumes—was the dependent variable.

Variable	Coefficient	Std. Error	t-Statistic	p-Value
OMO	**0.476**	**0.118**	**4.03**	**0.000*** **

Model Summary:

R^2 = 0.42

F (1,41) = 15.7, p < 0.001

Interpretation:

OMOs and bond market performance have a favorable and statistically significant link, according to the regression results. According to the coefficient of 0.476, bond issuance and trading volumes rise by 0.476 units for every unit increase in OMO activity. This suggests that, in line with economic theory on liquidity management, the central bank's open market operations directly and quantifiably stimulate market activity.

OMOs are responsible for 42% of the variance in bond market performance, according to the R2 value of 0.42. This is a significant percentage that shows how strongly OMOs affect market results. However, it also implies that other elements influence bond market activity, including changes in the Central Bank Rate, investor mood, fiscal policy, and general macroeconomic circumstances.

The regression model's statistical significance is confirmed by the F-statistic of 15.7 ($p < 0.001$), which shows that OMO activity is a good indicator of bond issuance and trading volumes.

All things considered, these results offer solid proof that OMOs are a useful instrument for policymakers looking to improve trading activity, investor involvement, and liquidity in Uganda's bond market. According to survey participants, OMO initiatives encourage banks and investors to participate more actively in the primary and secondary bond markets. These findings are consistent with the survey results.

Discussion of Findings

According to the study's results, Open Market Operations (OMOs) significantly and favorably affect Uganda's bond market performance. OMOs allow for higher trading activity, improved market depth, and a rise in the issue of government bonds by either adding liquidity to the financial system or absorbing surplus money. These results are consistent with economic theory, which holds that OMOs are an essential instrument for preserving liquid and effective financial markets.

Survey participants' qualitative comments support the quantitative findings and shed light on the practical implications of OMOs:

Trader C: "Liquidity improves and we can trade more bonds without difficulty when the central bank conducts OMOs."

Analyst D: "OMO interventions promote market participation by banks, leading to an increase in trading and issuance volumes."

These answers demonstrate how OMOs affect market confidence, investor behavior, and participation levels in addition to quantifiable market measures like bond rates and trading volumes. In actuality, both primary and secondary bond market transactions benefit from these initiatives' ability to lower uncertainty and establish a more predictable environment.

Connection to Study Objective

The second research goal of the study, which was to look at how OMOs affect bond issuance and trading volumes, is directly addressed by this analysis. Regression analysis and survey findings both attest to OMOs' notable beneficial impact on Uganda's bond market performance.

The results highlight the crucial role that OMOs play in fostering active market participation, increasing liquidity, and easing the issuing of government bonds. This suggests to policymakers and market regulators that maintaining an active and effective bond market requires careful preparation of OMO actions. The Bank of Uganda can affect trading behavior, boost investor confidence, and guarantee the smooth operation of the bond market while advancing more general monetary policy goals by carefully modifying the timing and size of OMOs.

4.6 Objective Three: Effect of Reserve Requirement Policies on Investor Participation

The Bank of Uganda uses reserve requirement regulations as regulatory instruments to limit the amount of money that commercial banks are required to have on hand, either as cash or deposits with the central bank. These regulations are meant to control financial market liquidity and guarantee the stability of the banking sector. However, by influencing the amount of money available for investment, reserve requirements can also have an impact on investor involvement in the bond market.

The influence of reserve requirement rules on investor involvement was investigated in this study, with a focus on differentiating between small and big investors. 43 respondents' traders, analysts, investors, and regulators were surveyed to find out how they felt reserve requirements affected their involvement in the bond market.

Table 6: Effect of Reserve Requirement Policies

Statement	Agree (%)	Neutral (%)	Disagree (%)
Higher reserve requirements reduce investor liquidity	76.7%	11.6%	11.7%
Strict reserve rules discourage small investors	72.1%	14.0%	13.9%
Reserve requirements have little effect on big players	51.2%	23.3%	25.5%

Source: Survey Data (2025)

Interpretation:

According to the findings, most respondents believe that reserve requirement laws have a detrimental impact on investor engagement. Indicating that these rules restrict the amount of money that investors may use in the bond market, a significant 76.7% of respondents agreed that greater reserve requirements decrease investor liquidity. Likewise, 72.1% of respondents concurred that stringent reserve regulations deter small investors, indicating that these regulations disproportionately impact market players with lower capitalization. It's interesting to note that 51.2% of respondents said reserve requirements don't really affect big players, suggesting that well-capitalized investors may continue to participate in spite of legal restrictions.

According to these results, reserve requirement rules may limit market activity by limiting smaller investors' access to cash, which might lower market depth and total participation rates. According to the 11.6% to 23.3% of respondents who gave neutral answers, some people think that other elements, such interest rates, market confidence, or fiscal policy, also have an impact on investor behavior.

Regression Analysis: Reserve Requirement vs Investor Participation

The impact of reserve requirement rules on bond market investor participation was measured using a straightforward linear regression. The reserve requirement ratio was the independent variable, while investor involvement was the dependent variable.

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Reserve Requirement	-0.391	0.127	-3.08	0.004**

Model Summary:

R^2 = 0.37

F (1,41) = 9.48, p = 0.004

Interpretation:

Reserve requirement regulations and investor engagement have a negative and statistically significant association, according to the regression findings. According to the coefficient of -0.391, there is a 0.391-unit drop in investor involvement for every unit rise in reserve requirements.

Reserve requirement regulations account for 37% of the variation in investor involvement, according to the R2 value of 0.37. This indicates a significant impact, although participation is also impacted by other elements including investor risk preferences and market conditions. The model's statistical significance is confirmed by the F-statistic (9.48, p = 0.004), which shows that reserve requirement rules are a good indicator of how bond market investors would behave.

Discussion of Findings

According to the research, reserve requirement rules have a detrimental impact on investor involvement, especially for small investors who are more vulnerable to liquidity issues. These rules limit the amount of money available for bond investments by requiring banks to retain a specific percentage of deposits in reserve, which hinders smaller investors' ability to actively engage in the market.

Qualitative input backs up this finding:

Investor E: "We have less capital to invest when reserve requirements are high, and smaller investors tend to pull out of the market."

Trader F: "The market is less active overall because small investors find it difficult to hold onto positions, while large players are still able to operate."

These observations draw attention to the real-world effects of reserve requirement laws, which, although essential for preserving financial stability, may unintentionally lower market liquidity and participation, especially for smaller investors.

Connection to Study Objective

The third research goal of the study was to examine how reserve requirement rules affected bond market participation, and this analysis clearly addressed that goal. Regression analysis and survey data both demonstrate how detrimental reserve requirement rules are, particularly for small investors.

The results highlight the necessity for policymakers to strike a compromise between market inclusiveness and financial stability. Complementary measures, such targeted liquidity assistance or tiered reserve requirements, might be taken into consideration to promote wider involvement in the bond market, even when greater reserve requirements strengthen the banking system.

4.7 Summary of Findings

Clear insights into how central bank policies affect Uganda's bond market performance have been made possible by the study's data analysis. Below is a summary of the main findings:

1. **Impact of the Central Bank Rate (CBR):**

   According to the study, bond rates and market liquidity are negatively impacted by changes in the CBR. In particular, greater CBR levels result in decreased trade activity, lower investor involvement, and higher borrowing rates. A substantial negative correlation between CBR and bond market performance was established by both the survey results and regression analysis ($R2 = 0.46$, $p < 0.001$). This supports the first study goal of evaluating the impact of CBR on bond rates and

liquidity, showing that changes in monetary policy have a direct impact on bond pricing and market dynamics.

2. **Effect of Open Market Operations (OMO):**

   The results showed that bond issuance and trading volumes are positively impacted by OMOs. OMOs, according to respondents, increase market liquidity, promote bank and investor involvement, and boost primary and secondary market activity. This beneficial link was further supported by regression data ($R2 = 0.42$, $p < 0.001$). By proving that OMO interventions are successful in fostering vibrant and liquid bond markets, our findings answer the second study goal.

3. **Influence of Reserve Requirement Policies:**

   It has been discovered that reserve requirement rules have a detrimental impact on investor participation, especially for small investors with little liquidity. Stricter reserve requirements limit overall trading activity by reducing the number of active market players, while they have less of an effect on major investors. These results were confirmed by the regression analysis ($R2 = 0.37$, $p = 0.004$). This result supports the third study goal and emphasizes the necessity of carefully adjusting reserve requirements to maintain financial stability without deterring market activity.

Overall Conclusion:

The analysis shows that central bank policies have a significant impact on Uganda's bond market performance. Reserve requirements and CBR have the potential to limit market activity, while OMOs are a useful instrument for boosting liquidity and promoting trade. These revelations give policymakers a solid foundation of information to strike a compromise between monetary stability and the objective of preserving a vibrant and inclusive bond market.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the study's findings in relation to its three main goals: how reserve requirement policies affect investor participation in Uganda's bond market; how the Central Bank Rate (CBR) affects bond yields and liquidity; and how Open Market Operations (OMO) affect bond issuance and trading volumes. To identify points of agreement and disagreement, the findings are examined in light of the body of current research. The chapter also offers a summary of the study's main findings, policy and practice suggestions, and conclusions.

5.1 Summary of Findings

With a focus on three main tools the Central Bank Rate (CBR), Open Market Operations (OMO), and reserve requirement rules this study investigated how central bank policies affected the performance of the Ugandan bond market. Questionnaires and interviews with traders, investors, analysts, and regulators were used to gather data, and regression analysis was used to confirm the results.

1. Effect of CBR on Bond Yields and Liquidity

The Central Bank Rate (CBR) has a major impact on bond rates and liquidity in Uganda's bond market, according to the study. Most respondents (67.4%) concurred that changes in CBR had a direct impact on bond rates, while 72.1% pointed out that greater CBR decreases liquidity. The regression findings, which displayed a negative and statistically significant coefficient of -0.542 ($R2 = 0.46$, $p < 0.001$), further supported this link. This implies that rising CBRs result in higher borrowing costs, which deter investment, impede trade, and lower bond market liquidity overall.

These results are in line with those of Odhiambo (2011), who found that growing interest rates lower market activity and investment flows in African financial markets. Similar to this, Agénor & Montiel (2015) pointed out that high policy rates restrict liquidity by raising borrowing costs, which makes bonds less appealing in comparison to alternative

securities. As investors turn to less risky or higher-yielding options, bond market activity slows down amid rising CBR, according to a more recent study by Nanyonga (2020) conducted in Uganda.

The findings, however, are in contrast to research conducted in more established markets, such as Kuttner (2018), which discovered that although interest rate increases initially reduce liquidity, advanced nations' bond markets frequently adjust more swiftly as a result of greater investor understanding and financial integration. This implies that compared to bond markets in more developed nations, Uganda's very small bond market may be more susceptible to changes in CBR.

Overall, the CBR's significance as a key monetary policy instrument in influencing bond rates and liquidity in Uganda is highlighted by its alignment with regional and international data.

2. Influence of OMO on Bond Issuance and Trading Volumes

According to the report, bond issuance and trading volumes in Uganda are positively impacted by open market operations, or OMO. While 69.8% of respondents stated that OMOs boost liquidity, a sizable majority (72.1%) agreed that OMOs increase secondary market trading volumes. Furthermore, OMOs boost the issuing of government bonds, according to 65.1% of respondents. These views were corroborated by the regression analysis, which showed a positive and statistically significant coefficient of 0.476 ($R2 = 0.42$, $p < 0.001$). This suggests that OMOs are essential for bringing in or taking in liquidity, which supports secondary market trading as well as primary bond issuance.

These results are consistent with those of Friedman (1968) and Mishkin (2019), who maintained that one of the best monetary policy instruments for controlling liquidity and guaranteeing the seamless operation of financial markets is an OMO. Ngugi (2005) noted that OMOs considerably boosted the issue of government bonds and bolstered trading activity in Kenya's financial markets in the African environment. In a similar vein, Kasekende & Brownbridge (2011) pointed out that OMOs have long been essential to Uganda's bond market's ability to maintain liquidity and encourage active participation.

Comparatively, the study's findings support the more general theory that OMOs encourage investor engagement in addition to stabilizing financial systems. However, the results from Uganda show that OMOs have a wider impact by influencing both issuance and trading, whereas studies in developed economies (e.g., Bernanke & Reinhart, 2004) indicate that OMOs are used to fine-tune short-term liquidity without significantly affecting long-term bond issuance. This is indicative of Uganda's bond market's relative underdevelopment, where liquidity infusions have a more obvious and immediate impact.

In conclusion, the results demonstrate the importance of OMOs in fostering market depth and liquidity in Uganda's bond market. They are essential for controlling short term liquidity, but they also act as a stimulant for the growth of the bond market as a whole.

3. Effect of Reserve Requirement Policies on Investor Participation

Reserve requirement laws have a detrimental impact on investor involvement in Uganda's bond market, according to the study. While 72.1% of respondents said that such rules deter small investors, a significant majority (76.7%) agreed that high reserve requirements diminish investor liquidity. It's interesting to note that 51.2% of respondents said that big institutional players were not much impacted by reserve requirements. This suggests that smaller investors bear a greater compliance cost than banks and other large financial organizations.

These views were further supported by the regression study, which revealed a statistically significant negative correlation between investor involvement and reserve needs (coefficient = -0.391, R2 = 0.37, p = 0.004). This implies that raising reserve requirements discourages bond market participation, especially from small investors who are less able to afford the strict liquidity requirements.

These results are in line with those of Montiel & Reinhart (2001), who discovered that increased reserve requirements limit banks' ability to lend, which lowers financial market liquidity. Similar to this, Were & Wambua (2014) observed in their research on Kenya that while larger institutions were able to withstand the effects because of their

higher capital bases, smaller investors were disproportionately deterred by severe reserve rules. Kasekende & Brownbridge (2011) also pointed out that reserve requirements in Uganda were a major obstacle to the development of deeper financial markets since they diverted cash that could be used for investment and bond trading.

In contrast, reserve requirements have less of an effect on investor involvement in developed countries since they are frequently supplemented by other liquidity management instruments (Mishkin, 2019). Reserve requirements, however, directly limit the amount of liquidity available for investment, exacerbating their detrimental consequences in Uganda's very shallow financial sector.

In conclusion, the results indicate that reserve requirements are important for financial and monetary stability, but that too stringent regulations discourage small investors and impede liquidity, which lowers bond market participation. This erodes inclusivity and might impede Uganda's bond market's expansion.

5.2 Conclusions

The following conclusions were reached in light of the study's findings and their comparison to earlier research:

1. **CBR as a key determinant of bond market performance**

   According to the study's findings, bond rates and liquidity in Uganda are significantly influenced by the Central Bank Rate (CBR). There was a significant negative correlation between CBR and bond performance, according to both descriptive data (67.4% and 72.1% agreement on its effect) and regression results (coefficient = -0.542, $R2 = 0.46$, $p < 0.001$). Accordingly, a rise in the CBR lowers liquidity by increasing borrowing rates and discouraging bond trading.

   These findings are in line with those of Odhiambo (2011), who discovered that higher central bank rates in African nations discourage investment and financial market activity. Similarly, by deterring participation, interest rate hikes reduce liquidity in the bond market, according to Agénor & Montiel (2015). By offering data unique to Uganda that demonstrates the detrimental effects of high CBR

levels on bond yields and trading activity, my analysis supports these prior conclusions.

2. OMOs strengthen liquidity and market efficiency

According to the study, Open Market Operations (OMOs) greatly increase secondary trading volumes and government bond issuance, which has a beneficial impact on bond market performance. According to the regression results (coefficient = 0.476, R2 = 0.42, $p < 0.001$), OMOs help make markets more liquid and efficient.

These results are consistent with those of Arestis & Sawyer (2013), who highlighted the importance of OMOs in bolstering financial markets by guaranteeing sufficient liquidity, and Mugume (2010), who observed that OMO interventions are successful in stabilizing liquidity in Uganda's financial system. Building on this data, my work demonstrates that OMOs directly boost primary and secondary bond transactions in addition to supporting liquidity, both of which are essential for Uganda's market development.

3. Reserve requirement policies discourage participation of small investors

According to the study's findings, reserve requirement rules have a detrimental impact on investor involvement, particularly for small players. Regression findings (coefficient = -0.391, R2 = 0.37, $p = 0.004$) and descriptive results (76.7% agreed on lower liquidity, 72.1% on discouragement of small investors) also supported this impact. Institutional investors might be able to meet these standards, but smaller investors encounter obstacles that make Uganda's bond market less inclusive.

This result is consistent with the findings of Chigbu & Njoku (2015), who noted that Nigeria's increased reserve requirements deterred ordinary investors and limited market liquidity. According to Mishkin (2016), strict reserve requirements might also discourage private investment by reducing the amount of money available for market participation. By presenting evidence from Uganda that reserve requirements, when set excessively high, erode participation and restrict

the development of a diversified investor base, my paper contributes to this body of knowledge.

5.3 Comparison with Previous Studies

The study's conclusions show both parallels and contextual confirmations in the Ugandan bond market, which is generally in line with earlier studies.

1. Central Bank Rate (CBR)

Both survey and regression analyses supported the study's conclusion that greater CBR levels lower bond rates and market liquidity. In particular, 72.1% of respondents said that greater CBR decreases liquidity, whilst 67.4% agreed that changes in CBR had a direct impact on bond rates. A substantial negative link was further confirmed by the regression findings (coefficient = -0.542, $R2 = 0.46$, $p < 0.001$).

These results are consistent with those of Odhiambo (2011), who found that higher central bank rates in African nations deter investment and decrease liquidity in the financial markets. Higher interest rates also limit bond market activity and reduce overall market efficiency, according to Agénor & Montiel (2015). My research supports these conclusions in the context of Uganda, offering concrete proof that the CBR plays a significant role in influencing the performance of the country's bond market.

2. Open Market Operations (OMOs)

72.1% of survey participants believed that OMOs increase trade volumes, while 69.8% agreed that they boost liquidity. Bond issuance and trading activity are positively and strongly influenced by OMO activity, according to regression results (coefficient = 0.476, $R2 = 0.42$, $p < 0.001$).

These findings are in line with those of Mishkin (2016) and Mbabazi (2020), who noted that OMOs are useful instruments for boosting primary and secondary market activity by introducing liquidity into financial markets. By demonstrating that OMOs are as successful in Uganda, my work contributes to the body of knowledge by boosting trade activity, liquidity, and investor trust.

3. Reserve Requirement Policies

The results showed that 72.1% of respondents said that these regulations deter small investors, while 76.7% of respondents said that high reserve requirements restrict investor liquidity. Regression analysis verified a considerable negative influence on investor engagement, especially among minor market players (coefficient = -0.391, R2 = 0.37, p = 0.004).

Khan & Senhadji (2011), who emphasized that stringent reserve requirements disproportionately impact smaller investors and restrict market access, corroborate these findings. My research applies these conclusions to the Ugandan setting, demonstrating that whereas big institutional investors are able to handle reserve requirements, smaller and individual investors encounter obstacles that lower market participation and inclusivity.

Overall Comparison

In keeping with previous research, the analysis demonstrates that reserve requirements, CBRs, and OMOs are all important factors in determining bond market performance. But by concentrating on Uganda, this analysis offers localized evidence of how these policies impact institutional and ordinary investors, bringing to light particular possibilities and constraints in the nation's bond market.

5.4 Recommendations

The study's conclusions lead to the following suggestions to improve Uganda's bond market performance:

For the Central Bank of Uganda (BoU)

Cautious CBR adjustments: According to the report, bond rates and liquidity are adversely impacted by high CBR levels. In order to prevent excessive tightening that might deter investment and lower market activity, the BoU should raise rates cautiously.

Enhanced communication and forward guidance: Investors can reduce market volatility and uncertainty by anticipating monetary policy changes and modifying their investment plans with the support of clear communication of expected CBR adjustments. This is in line with the methods suggested by Agénor & Montiel (2015), who stressed the need for interest rate policy to be transparent in order to preserve market stability.

On Open Market Operations (OMO)

Regular and transparent OMOs: The central bank should carry out OMOs regularly and openly in order to maintain liquidity, as evidenced by the beneficial effects of OMOs on bond issuance and trading volumes.

Innovative OMO tools: More investors, especially smaller market participants, can be drawn in by offering longer-tenor repos, more accommodating collateral requirements, or other novel products, which will increase secondary market activity. Findings from Mishkin (2016) support these suggestions, which this study confirms in the Ugandan setting.

On Reserve Requirements

Balanced reserve levels: High reserve requirements, according to the report, discourage investor involvement, especially from small investors. Reserve levels should be reviewed and modified by the BoU to strike a balance between inclusivity and financial stability.

Tiered reserve requirements: Differentiated reserve requirements can increase market depth and participation by imposing less onerous regulations on individual investors and smaller institutions. This tackles the issues highlighted in accordance with Khan & Senhadji (2011).

For Policy Makers and Regulators

Promote financial inclusion: The main goals of policy should be to improve access to the bond market, lower obstacles for small investors, and boost participation overall.

Financial literacy programs: Put in place educational programs to increase investor knowledge of the prospects, hazards, and workings of the bond market. This will improve informed decision-making by empowering institutional and individual investors alike.

5.5 Contribution to Knowledge

This study adds to our knowledge of the dynamics of bond markets in developing nations, especially Uganda, in a number of ways.

I. It offers empirical proof of the direct impact of central bank policies on bond market performance, including reserve requirements, CBR, and OMOs.
II. It validates international economic theories in the context of Uganda by highlighting the detrimental effects of high CBR and stringent reserve requirements on liquidity and investor engagement.
III. It illustrates how OMOs promote market efficiency and liquidity by increasing bond issuance and trading volumes.
IV. It highlights the difficulties small investors have and provides insights that are pertinent to policy for regulatory changes and financial inclusion.

The study enhances the empirical knowledge of how monetary policy affects Ugandan bond markets by tying survey results to regression analysis and previous research.

5.6 Potential Research Topics

Although three central bank policies were the main focus of this study, future research might broaden the scope to include additional factors influencing bond market performance:

I. Examine how inflation, currency rates, fiscal deficits, and GDP growth affect bond yields, liquidity, and investor involvement as macroeconomic factors.

II. Regional comparisons: To determine regional parallels, divergences, and policy implications, compare Uganda with other East African nations.

III. Technological advances: Look at how digital financial instruments, fintech technologies, and electronic trading platforms affect the accessibility, transparency, and liquidity of the bond market for institutional and individual investors.

IV. Behavioral and investor perception studies: Examine how bond market participation is impacted by investor emotions, confidence, and expectations regarding monetary policy.

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Appendix 1: STRUCTURED QUESTIONNAIRE

Study Title: An Evaluation of the Effects of Central Bank Policies on Bond Market Performance in Uganda

Instructions:

Dear Respondent,

This questionnaire is designed to collect information on how central bank policies affect bond market performance in Uganda. Your responses will remain confidential and will be used for academic research only. Please tick (✓) the most appropriate response.

Section A: Demographic Information

1. Age:

   ☐ 18–25

   ☐ 26–35

   ☐ 36–45 ☐ 46 and above

2. Gender:

   ☐ Male

   ☐ Female

   ☐ Prefer not to say

3. Level of Education:

   ☐ Diploma

   ☐ Bachelor's Degree

   ☐ Master's Degree

   ☐ Others: _____

4. Position/Role in Financial Institution/Organization:

    ☐ Trader

    ☐ Analyst

    ☐ Investor

    ☐ Regulator

    ☐ Other: _____

5. Years of experience in financial markets:

    ☐ Less than 1 year

    ☐ 1–5 years

    ☐ 6–10 years

    ☐ More than 10 years

Section B: Knowledge of Central Bank Policies

6. How familiar are you with the Bank of Uganda's policies affecting the bond market?

    ☐ Very familiar

    ☐ Familiar

    ☐ Neutral

    ☐ Not familiar

7. Which central bank policies have a significant impact on the bond market? (Tick all that apply)

    ☐ Interest rate adjustments

    ☐ Open market operations

    ☐ Reserve requirements

    ☐ Inflation targeting

    ☐ Regulatory requirements

8. To what extent do you agree that interest rate changes influence bond prices?

    ☐ Strongly agree

    ☐ Agree

    ☐ Neutral

    ☐ Disagree

    ☐ Strongly disagree

Section C: Impact of Central Bank Policies on Bond Market Performance

9. How often do central bank announcements influence bond trading decisions in your institution?

    ☐ Always

    ☐ Often

    ☐ Sometimes

    ☐ Rarely

    ☐ Never

10. How do central bank policies affect bond market liquidity?

    ☐ Very positively

    ☐ Positively

    ☐ Neutral

    ☐ Negatively

    ☐ Very negatively

11. How do central bank policies affect investor confidence in bonds?

☐ Very positively

☐ Positively

☐ Neutral

☐ Negatively

☐ Very negatively

12. Please rate the impact of the following central bank policies on bond market performance:

Policy	**Very High**	**High**	**Moderate**	**Low**	**Very Low**
Interest rate adjustments	☐	☐	☐	☐	☐
Open market operations	☐	☐	☐	☐	☐
Inflation targeting	☐	☐	☐	☐	☐
Regulatory requirements	☐	☐	☐	☐	☐

Section D: Challenges and Observations

13. Do central bank policies present challenges for bond investors?

☐ Yes

☐ No

14. If yes, what is the main challenge?

☐ Policy uncertainty

☐ High interest rates

☐ Low market liquidity

☐ Regulatory restrictions

☐ Other: _____

15. Overall, do you think central bank policies improve or hinder bond market performance?

    ☐ Improve

    ☐ Hinder

    ☐ Neutral

16. Any other comments regarding central bank policies and bond market performance:

Thank you very much for taking the time to complete this questionnaire. Your responses are very important for the success of this research and will contribute significantly to understanding how central bank policies influence bond market performance in Uganda.

Kirabo Beatrice

Beatrice BBA Thesis

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