

Post-COVID-19 Inflation: More about growth in the quantity of money than supply disruptions.

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Okware Emmanuel

There has been considerable controversy regarding the cause of post-COVID-19 inflation across economies worldwide. Overwhelmingly, the vast majority of the public, including prominent economists, have agreed on the most common cause, namely, supply disruptions from both the Ukraine war at the time and multiple lockdowns initiated by several governments around the world, which were said to have disrupted the transport network. While those were given the blame, we can agree that we start to see considerable macroeconomic instabilities when the effects of the growth in the quantity of money begin to trickle in.

Kenya and Uganda will be the cases for my analysis. This may help rule out the possibility that they experienced significantly different supply shocks, given their geographical proximity, and thus account for the different macroeconomic instability during the post-COVID-19 era. They are both in East Africa and predominantly share major transport routes and ports. Even the timing of when the two countries faced COVID-19 was not far apart. The first wave of COVID-19 in Kenya occurred from around July to September 2020, almost the same time as in Uganda, where the first wave began around August/September of 2020.

Comparing changes in the growth of money, broadly defined, across the two monetary jurisdictions sets a firm foundation for the case in the title. Table 1 below shows the average annualized rates of broad money growth across three periods for both Kenya and Uganda. An easy conclusion is that Uganda's broad money growth was higher than Kenya's in both periods considered. Broad money grew at 12.3% in Uganda vs 11.5% for Kenya during the five years leading to the end of 2018. The gap between the two widened in the last six months of 2019, with growth of 13.1% in Uganda vs 6.5% in Kenya. Six months into 2020, Uganda's broad money growth reached up to 19.8%, while that of Kenya remained only 8.0%.

Table 1: Broad money growth average compared for five years leading up to the end of 2018, the last six months ending 2019, and the six months of 2020

Monetary Jurisdiction	Five years leading up to the end of 2018	Last six months ending 2019	Six months of 2020
Kenya	11.5	6.5	8.0
Uganda	12.3	13.1	19.8

Regardless of which measure you use to portray the growth of the money supply across these two monetary jurisdictions, Uganda should most likely edge out. Table 2 below shows broad money growth for three-year periods ending in 2018 and 2021. The difference in broad money growth, %, over three years, for the period from end-2018 to end-2021 in Uganda was 9.1%, and in that same period for Kenya was 1.1%, a growth gap of about 8%. The difference in the annual growth rates, %, between the two periods was higher at +2.2% in Uganda and +0.3% in Kenya.

Table 2: Broad money growth compared for three-year periods, end-2018 and end-2021

Monetary Jurisdiction	Increase in broad money, %, over three years		Compound annual % increase in broad money		Difference between rates of yearly increase, %, in two periods
	End-2018	End-2021	End-2018	End-2021	
Uganda	35.5	44.6	10.7	13.1	+2.2
Kenya	25.5	26.6	7.9	8.2	+0.3

On account of the different levels of growth in the money supply across the two monetary jurisdictions considered, Uganda and Kenya, the macroeconomic outcomes were markedly different. Table 3 highlights these vivid differences before, during, and after the COVID-19 period. There were no particularly concerning inflation averages for the period before and during COVID-19. In Uganda, inflation averaged 2.4% before COVID-19 and was slightly higher at 2.5% during COVID-19. In Kenya, the average before COVID-19 was 4.9% and rose to 5.6% during the COVID-19 pandemic. Notably, there is no significant difference in the average inflation before and during COVID-19, despite averaging 18 months and 24 months.

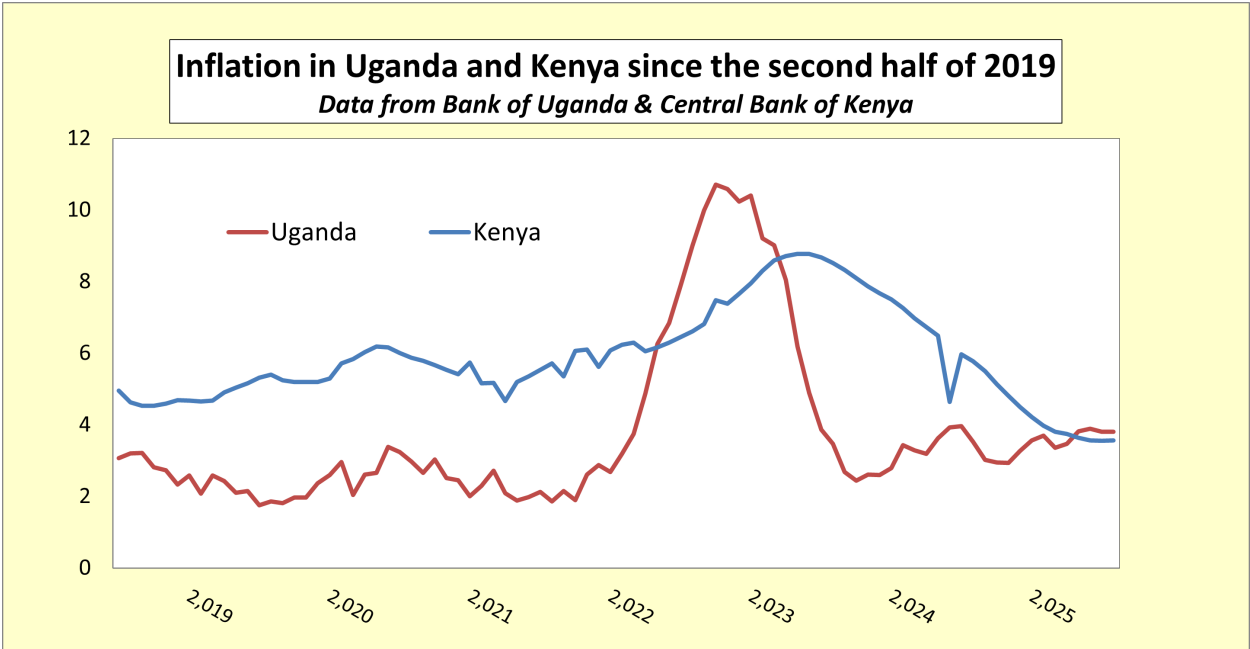
But two years into COVID-19, haven't the supply-side shocks already set in? Why, then, was inflation across the two jurisdictions two years into the COVID-19 crisis closer to pre-pandemic levels than the average after Milton Friedman's approximately two-year lag? Perhaps it is a coincidence that the effects of the supply disruptions from the Ukraine war and the massive lockdowns waited to set in just as long as Friedman's two-year lag? Definitely not. Inflation is always and everywhere a monetary phenomenon, in the sense that it is produced only by a more rapid increase in the quantity of money than in output, as Friedman remarked. There is a tendency to confuse the factors responsible for monetary growth with the cause of inflation, which can include supply disruption pressures and several other crises.

Table 3: Inflation rate average compared for the eighteen months end-2019, the twenty-four months end-2021, and the seventeen months end-May 2023

Monetary Jurisdiction	Before COVID-19	During COVID-19	Post COVID-19
Kenya	4.9	5.6	7.2
Uganda	2.4	2.5	7.6

Post-COVID-19 inflation, as the title suggests, was more about growth in the quantity of money than supply disruptions. Table 3 shows higher inflation in Uganda, where the average and percentage increase in money, broadly defined, were higher across all periods considered (Tables 1 and 2). The average post-COVID-19 inflation in Uganda was 7.6%, up from a much lower pre-COVID-19 average of 2.4% and 2.5% during the crisis. In Kenya, post-COVID-19 inflation averaged 7.2%, up from 5.6% during the COVID-19 period, a much smaller difference of 1.6%, compared with Uganda's 5.1% between the same periods.

Figure 1: Inflation trends in Uganda and Kenya since the second half of 2019



From Figure 1, it is clear that Uganda’s post-COVID-19 inflation rate outpaced Kenya’s. This occurred even though, on trend, Kenya already had higher figures heading into COVID-19. Uganda experienced more severe post-COVID-19 macroeconomic instability, with double-digit inflation peaking at 10.7% in October 2022, compared with Kenya, where inflation rose over a longer period and did not reach double digits. Kenya’s post-COVID-19 inflation peaked at 8% in May and June 2023. The implication is that significantly increasing the money supply

will result in inflation, and sustained high inflation cannot occur without a large growth rate in the money supply. Conversely, a much slower or negative growth rate in the money supply will inevitably cause deflation, meaning that ongoing substantial deflation cannot occur without such minimal or negative growth in the money supply.

As I conclude, while the Ukraine war and massive lockdown disruptions to supply chains took the bigger blame for the global macroeconomic instability post-COVID-19, the main cause was growth in the quantity of money. Aside from the rate of growth in the quantity of money, no other reason could account for the differences in inflation across monetary jurisdictions worldwide. Consistent with this, modern monetary jurisdictions like the USA and the UK had substantially large growth rates in the quantity of money, with a +9.2% and +3.0% difference in their annual growth rates, %, between three-year periods, end-2018 and end-2021 respectively, explaining why they experienced severe post-COVID-19 inflation, with USA figures reaching double digits at 11.7% in April 2022, and the UK reaching double digits at 11.1% in October 2022.

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