

STATE OF THE ECONOMY REPORT



March 2026

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ACRONYMS AND ABBREVIATIONS

AEs	Advanced Economies
BoU	Bank of Uganda
CBR	Central Bank Rate
CIEA	Composite Index of Economic Activity
CPI	Consumer Price Index
EFU	Energy, Fuel and Utilities
EMDEs	Emerging Market and Developing Economies
FDI	Foreign Direct Investment
Fed	Federal Reserve
GDP	Gross Domestic Product
IMF	International Monetary Fund
NEER	Nominal Effective Exchange Rate
NPLs	Non-Performing Loans
OPEC	Organization of Petroleum Exporting Countries
OPEC+	OPEC and partners
PSC	Private Sector Credit
REER	Real Effective Exchange Rate
SSA	Sub-Saharan Africa
UGX	Uganda shilling
UK	United Kingdom
US	United States
USA	United States of America
US\$	United States Dollar
URA	Uganda Revenue Authority
FY	Financial Year
y-o-y	Year-on-Year

About the Report

This report provides a comprehensive review of recent economic developments, examining key indicators such as growth, inflation, fiscal performance, and external sector dynamics. In addition, it presents the outlook for the economy and highlights the policy measures needed to promote inclusive and sustainable economic transformation.

EXECUTIVE SUMMARY

Sustaining Growth and Stability in a Volatile Global Environment

Uganda's economy has remained resilient despite a highly uncertain global environment marked by geopolitical tensions, and policy uncertainty by some trading partners. Domestic activity is supported by robust consumption, continued public investment and improving export performance. Inflation remains below the medium-term target of 5%, the external position has strengthened, and financial markets are largely stable. However, fiscal pressures and global uncertainties present important risks to the outlook.

Global Developments and Outlook

Global growth remained resilient in 2025 despite elevated trade and geopolitical uncertainty, and prospects for steady expansion continue into 2026 and 2027 with global GDP expected to grow around 3.3% in 2026 and 3.2% in 2027. This outlook is supported by easing trade tensions, strong AI-related investment in North America, Asia and parts of Europe, fiscal and monetary support, and the adaptability of countries and firms navigating the new trade environment. Advanced economies are projected to grow modestly, with growth for the United States revised upward partly due to a rebound after a prolonged government shutdown, while emerging and developing economies, including China and Sub-Saharan Africa, are forecast to expand above 4.0%.

Global inflation is projected to decline to 3.8% in 2026 and 3.4% in 2027, though central banks remain cautious as inflation persists above target in some advanced economies. Nonetheless, risks remain tilted to the downside amid escalating geopolitical tensions, especially in the Middle East.

If the Middle East conflict proves prolonged, it has clear potential to affect market sentiment, growth, and inflation, placing new demands on policymakers. These developments heighten uncertainty in oil markets, financial conditions, and global trade. For Uganda specifically, sustained higher energy costs from this conflict could raise the import bill, fuel inflationary pressures and exchange rate volatility, affecting household consumption and external balances.

Domestic Economic Performance and Outlook

Growth

Uganda's economy continued to show resilience amid global challenges, expanding by an average of 6.8% in the calendar year 2025, driven mainly by final consumption expenditure, which grew by 15.3%, supported by government spending up 19.2% and household consumption at 15.7%. Although growth moderated in Q1 FY2025/26 amid weaker agricultural and industrial output, Q2FY2025/26 registered robust growth of 8.5% with all sectors recording higher growth rates relative to the previous quarter. High-frequency indicators suggest a pickup in activity in early 2026. Growth for FY2025/26 is projected at 6.5-7.0%, rising above 8% over the medium term as oil sector developments advance and the Tenfold Growth Strategy deepens value addition across key sectors, under a baseline scenario in which the US & Israel-Iran conflict remains contained and short in duration.

Prudent and well-coordinated monetary and fiscal policies further reinforce this positive outlook, while the anticipated commencement of commercial oil production is expected to provide a significant boost to the economy.

Nevertheless, growth prospects face potential headwinds. An enduring Iranian war, adverse weather patterns, tighter domestic financing conditions, reduced external support, and global policy uncertainties could weigh on investment sentiment, household spending, and overall economic activity. Delays in oil sector projects or other strategic initiatives may also tamper near- to medium-term expansion. Despite these risks, the combination of targeted public investments, supportive policy measures, and strategic sectoral developments positions Uganda's economy for sustained growth in the coming years.

Inflation

Inflation remains low and stable. Annual headline inflation averaged 3.5% in the year to February 2026, while annual core inflation averaged 3.8%, well below the 5% medium-term target. Favourable domestic food supply, a relatively stable exchange rate, and earlier declines in global energy prices contributed to this benign outcome.

During the February 2026 MPC round, the outlook was revised slightly downward, with annual core inflation projected at 3.8-4.3% over the next year before converging to 5.0% by 2026Q4, though geopolitical risks remain significant. Upside risks included heightened

geopolitical tensions, which could disrupt global energy markets, raise oil prices and drive inflation upwards.

Additional inflationary pressures could arise from stronger domestic demand, adverse weather conditions, or exchange rate depreciation. Conversely, improved agricultural output and weaker global growth could dampen inflationary pressures over the forecast horizon. Importantly, recent increases in global oil market volatility linked to developments in the Middle East could raise imported energy costs and exert upward pressure on domestic prices if sustained. **(Analytical Box 2)**.

Financial Market Dynamics

Financial markets remain broadly stable. Interbank rates remain within the policy corridor (Central Bank Rate band of ± 2 percentage points around the CBR), government securities are consistently oversubscribed, and yields eased across all tenors in the three months to February 2026, reflecting a 31.8% reduction in issuance. Government issuance of treasury securities declined relative to the quarter to November 2025, to remain within the approved macroeconomic framework, having secured about 75% of the government's net domestic financing requirements by the midpoint of the FY2025/26.

Lending rates for both shilling and foreign currency-denominated loans moderated modestly by about 61 basis points to 18.26% and 7.62%, respectively, in the three months to January 2026 relative to the preceding quarter, reflecting improved credit quality, stable policy rate, exchange rate stability and low inflation.

Private sector credit growth strengthened to 11.34% in the three months to January 2026 relative to 9.95% in the quarter to October 2025, supported by better asset quality, stable macroeconomic conditions and government credit programmes.

Overall, the easing of domestic financial conditions over the three months to February 2026 reflects a reduction in government securities issuance, which helped moderate yields, lower lending rates, and boost private sector credit growth.

Risks to financial conditions relate to global market volatility, domestic financing pressures and credit concentration in certain sectors.

External Sector Dynamics

Uganda's external position strengthened. The current account narrowed to US\$4,121 million in the year to January 2026 from US\$4,490 million in the preceding year to January 2025, with an improvement in the goods trade balance more than offsetting the deterioration of the services account deficit.

The financial account improved by over US\$3 billion to a surplus of US\$6,231 million, driven by robust foreign direct investment, particularly in the oil sector, and growth in portfolio inflows attracted by the competitive real returns on the government securities.

Consequently, the overall balance of payments registered a surplus of US\$ 2,356 million compared to a deficit of US 360 million in the year to January 2025. These BOP developments, coupled with BoU's proactive steps on reserve buildup, resulted in a build-up of foreign exchange reserves to US\$ 5.6 billion (equivalent to 3.9 months of import cover) in January 2026 from US\$ 3.3 billion (equivalent to 2.3 months of import cover) in January 2025.

Reflective of the external sector dynamics, the Uganda Shilling appreciated against the US dollar in February 2026 by 3% year-on-year, although it weakened marginally on a month-on-month basis. On an annual basis, the Shilling also strengthened in nominal and real effective terms against a basket of currencies of Uganda's major trading partners, reflective of the robust foreign exchange inflows through strong export growth, remittances, portfolio flows, and foreign direct investment related to infrastructure and oil-related projects. However, the shilling, like most currencies of Uganda's trading partners, depreciated against the US dollar in most of March 2026 due to sentiments related to the escalation of the geo-political tensions in the middle East.

In the near term, risks to Uganda's external sector stability include heightened global uncertainty and shifting trade and geopolitical dynamics, such as the US-Iran war that could lead to lower global growth, elevated oil prices, increased market volatility, and inflationary pressures. Over the medium term, the commencement of oil exports with the attendant reduced import needs, stronger non-oil exports as the tenfold growth strategy bears fruit and renewed concessional financing are projected to shift the balance of payments toward a sustained surplus. However, if the Iran-US war continues unabated it is likely to negatively

affect the short to medium term outlook, potentially reversing the country's external sector stability gains.

Fiscal Sector Dynamics

In the first seven months of FY2025/26, government fiscal operations were more expansionary than planned, on account of both below target revenue and more than programmed expenditure. Recurrent expenditure of Shs. 24,133.7 billion exceeded the budget by Shs. 300.0 billion, reflecting higher transfers to Local Governments and elevated spending on goods and services, notably medical supplies and election-related activities. Capital expenditure amounted to Shs. 4,482.1 billion, slightly below the programmed Shs. 4,556.6 billion but 71.3% higher than the previous year, due to ongoing infrastructure projects and supplementary allocations.

Total government revenue, including grants, totalled Shs. 20,329.6 billion, falling Shs. 1,841.4 billion short of the target, with underperformance in both domestic revenue and grants. Higher than planned expenditure coupled with lower-than-expected revenues resulted in a fiscal deficit of Shs. 8,286.1 billion, Shs. 2,066.9 billion above target, financed predominantly from domestic sources.

While fiscal deficit is projected at 7.9% in FY2025/26, above the EAC convergence threshold of 3.0%. Over the medium term, it is projected to narrow gradually to 3.0% by FY2030/31, supported by stronger revenue mobilisation and fiscal consolidation efforts. Government's fiscal consolidation path demonstrates a policy stance that complements the Bank of Uganda's monetary policy in supporting overall macroeconomic stability. The Government has also continued to honour its commitment to repay BoU advances, clearing all subsequent redemptions in line with the agreed framework. Persistently high borrowing costs continue to bear down on the budget even as emerging geopolitical tensions could exert pressure to spend. The cost of servicing this debt has continued to climb, squeezing government budget and leaving less room for vital investments in health, education, and infrastructure. Interest payment on debt is projected to rise to about 4.7% of GDP in FY2025/26 from 3.7% in FY2024/25, potentially crowding out other priorities. High debt means less room to respond to shocks, interferes with the broader economy by raising the cost of capital, and complicates monetary policymaking. It can also threaten financial stability, if yields rise as investors begin to doubt government's ability to make good on its obligations.

Overall, fiscal policy remained growth supportive, balancing expansionary spending to finance the priority development interventions with considerations for overall macroeconomic stability.

Policy Direction for continued stability and Resilience

The Bank of Uganda (BoU) maintained the Central Bank Rate (CBR) at 9.75%, reflecting a careful balance between the pursuit of price stability and supporting economic growth amidst an uncertain global environment. The Bank remains alert to a range of domestic and international risks, including geopolitical tensions, fluctuations in commodity prices, declining aid inflows, and climate related shocks, which could affect macroeconomic stability. To safeguard the economy and reinforce private sector confidence, the BoU continues to ensure adequate foreign exchange reserves, sufficient liquidity in financial markets, and implementation of a flexible, forward looking policy framework capable of responding swiftly to emerging economic challenges.

This cautious yet proactive approach emphasizes financial sector resilience and sustainable growth, creating conditions for Uganda to navigate uncertainty while building a solid foundation for long-term socio-economic transformation. Beyond monetary policy, the Bank recognizes the importance of complementary structural reforms, economic diversification, coordination with fiscal policy, and improved efficiency in government investment and project execution. These measures are critical to sustaining the growth momentum, enhancing macroeconomic stability, and supporting the country's broader development objectives. By combining disciplined policy with strategic structural initiatives, Uganda is positioned to maintain stability, foster private sector confidence, and advance inclusive, long-term economic progress.

1. EXTERNAL ECONOMIC ENVIRONMENT

1.1 Global economic activity and outlook

Global growth was robust in 2025, despite negative global headwinds experienced during the year. Prior to the onset of the US-Iran war, recent forecasts suggested that growth would remain broadly steady over the coming years, with IMF projections released in January 2026 indicating global growth of 3.3% in 2026 and 3.2% in 2027 (**Table 1**). The outlook reflects a balance between easing trade frictions, adaptability of countries and private firms to the

new trade environment, like rerouting trade to other trading partners, as well as overall easier financial conditions and support from technology-related investment, but with risks tilted to the downside.

Other multilaterals like the World Bank¹ reached similar conclusions at the start of the year, characterizing the global outlook as resilient but vulnerable. Global growth was expected to edge down to 2.6% in 2026 before firming slightly in 2027, noting that elevated policy uncertainty and trade tensions continued to cloud the outlook.

Table 1. Global Economic Growth Projections (year-on-year, % Change)

	Estimate		Projections		Difference from October 2025 WEO Projections	
	2024	2025	2026	2027	2026	2027
World Output	3.3	3.3	3.3	3.2	0.2	0.0
Advanced Economies	1.8	1.7	1.8	1.7	0.2	0.0
United States	2.8	2.1	2.4	2.0	0.3	-0.1
Euro Area	0.9	1.4	1.3	1.4	0.1	0.0
Japan	-0.2	1.1	0.7	0.6	0.1	0.0
United Kingdom	1.1	1.4	1.3	1.5	0.0	0.0
Emerging Market and Developing Economies	4.3	4.4	4.2	4.1	0.2	-0.1
China	5.0	5.0	4.5	4.0	0.3	-0.2
India	6.5	7.3	6.4	6.4	0.2	0.0
Russia	4.3	0.6	0.8	1.0	-0.2	-0.1
Brazil	3.4	2.5	1.6	2.3	-0.3	0.1
Sub-Saharan Africa	4.1	4.4	4.6	4.6	0.2	0.1
Nigeria	4.1	4.2	4.4	4.1	0.2	0.1
South Africa	0.5	1.3	1.4	1.5	0.2	0.0

Source: IMF World Economic Outlook, January 2026 Update

Decomposing the global growth projection by country groupings, economic activity in Advanced Economies (AEs) is projected to grow by 1.8% in 2026 and by 1.7% in 2027, from 1.7% in 2025, with notable expansion in the United States (US), where economic activity is

¹ [Global Economic Prospects -- January 2026](#)

projected to grow by 2.4% in 2026 and by 2% in 2027, supported by expansionary fiscal policy, an eased monetary policy and momentum in tech-related investments. The US GDP growth projection represents an upward revision of 0.3 percentage points from the October 2025 forecast and partly reflects the expected rebound in activity in the first quarter of 2026, following the end of the 43-day federal government shutdown in November 2025.

GDP growth in Emerging Market and Developing Economies (EM&DEs) is forecast at about 4.2% in 2026 and 4.1% in 2027, with China's projected growth in 2026 notably revised up by 0.3 percentage points to 4.5%, boosted by the trade deal agreed with the US in November 2025, as well as support from planned government stimulus measures. Economic growth in Sub-Saharan Africa (SSA) is projected to pick up to 4.6% both in 2026 and 2027, from 4.4% in 2025, supported by macroeconomic stabilization and reform efforts.

Since the last round of monetary policy in February 2026, the global economy has registered new and intensifying geopolitical tensions, adding to the downside risks to projected global growth. For instance, Fitch Ratings estimates that, under a prolonged Iran conflict scenario through mid-2026, global growth would weaken, with effects of higher oil prices and declining equity markets as the main drivers of the negative global economic impact.

Consequently, risks to the global outlook remain tilted to the downside, with elevated likelihood of lower global growth activity. Lower than anticipated productivity gains from AI could lead to a decline in investment, and renewed trade tensions could prolong uncertainty and weigh down global economic activity. The extended escalation of geopolitical tensions could disrupt financial markets, supply chains, and commodity prices, and in addition, rising fiscal deficits and high public debt could put pressure on long-term interest rates and tighten global financial conditions. Finally, tightening immigration policies among AEs, could reduce labour supply, given AEs' ageing populations, and derail projected growth.

On the other hand, growth could turn out higher than currently projected, boosted by positive re-evaluation of productivity gains from AI-related investments and by sustained easing in trade and geopolitical tensions. Further, strengthening regional trade remains a critical response to current trade policy uncertainty and could push growth higher than projected, although slow removal of non-tariff barriers (NTBs) in the blocs such as the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA),

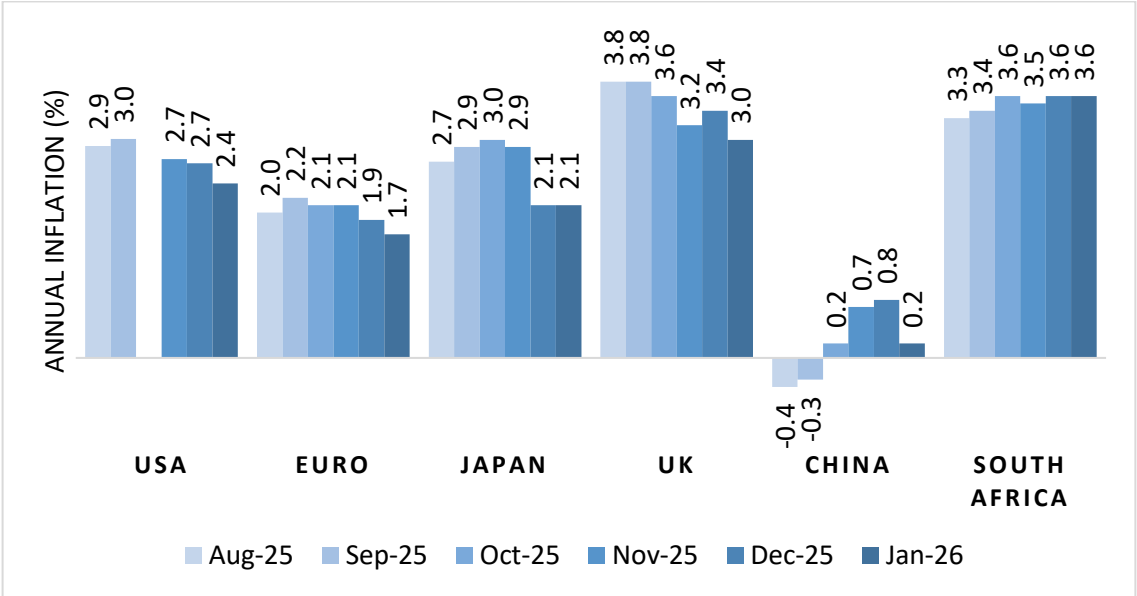
among others, remains an impediment to harnessing the full benefit of rerouting trade to regional partners.

With overall risks tilted to the downside, lower-than-projected global growth could reduce external demand, moderating Uganda’s balance of payments (BOP) inflows and domestic output growth. Further, restrictive immigration policies could dampen remittances, lower BOP inflows, and reignite currency depreciation pressures, thereby restraining BOU’s reserve accumulation efforts.

1.2 Global inflation and outlook

Global inflation continued to moderate in early 2026, although headline inflation remained above target in some major advanced economies. Inflation outcomes were mixed across countries in January 2026 (Figure 1). Consistent with the global disinflation trend observed through 2025, energy-driven disinflation contributed to slower price increases in the United States, the euro area and the United Kingdom, while lower food prices eased inflation in China.

Figure 1: Consumer Inflation (Annual %): Delayed pass-through of tariffs coupled with key Central Banks easing interest rates while Inflation still above target, poses upside risk to global inflation

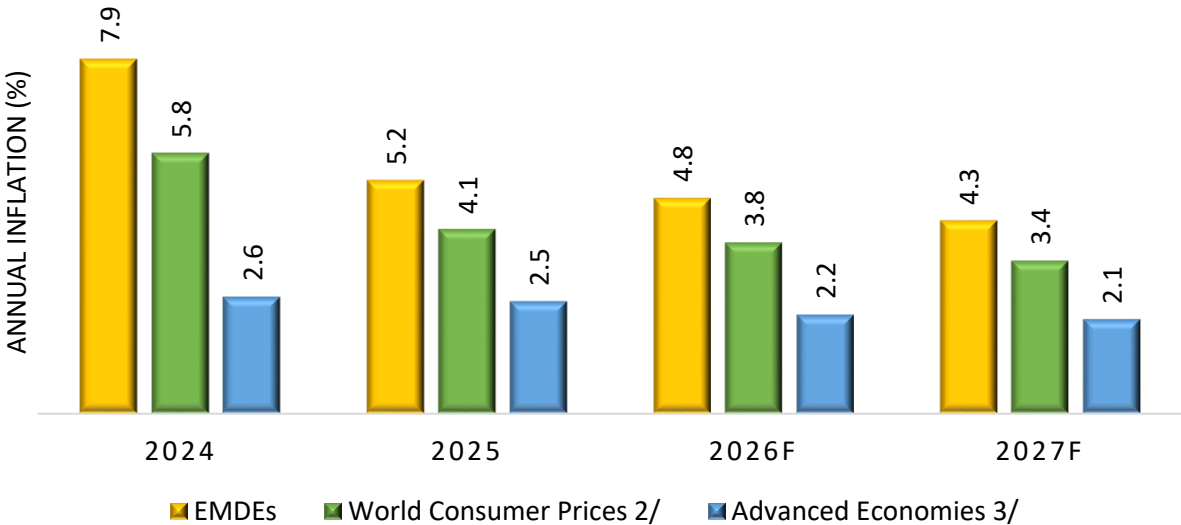


Source: Country Statistics Offices (Websites)

Monetary policy in major advanced economies remained cautious. In January and February 2026, the US Federal Reserve, the European Central Bank and the Bank of England all kept policy rates unchanged, reflecting elevated uncertainty about the persistence of inflation and the balance of risks.

The inflation outlook published in January 2026 anticipated further gradual easing. The IMF projected global headline inflation to decline to 3.8% in 2026 and 3.4% in 2027, with disinflation supported by softer labour markets, subdued demand for tradable goods, and earlier declines in energy prices (**Figure 2**). Among advanced economies, inflation in the United States was expected to remain above target for longer due to tariff pass-through, while UK inflation was expected to return to target by late 2026 as wage pressures eased. Inflation in emerging market and developing economies was projected to decline from 5.2% in 2025 to 4.8% in 2026 and 4.2% in 2027, largely reflecting lower projected food and energy prices.

Figure 2: Global Inflation Outlook: Global inflation expected to decline in 2025 and 2026, with cross-country variations, but the outlook is fragile



Source: IMF World Economic Outlook, January 2026 Update

Energy prices, particularly oil, remained a key determinant of the global inflation outlook. January 2026 projections assumed that oil prices would soften through 2026 as global supply outpaced demand, with OPEC+ expected to raise output and inventories expected to build. This assumption contributed to a benign global inflation profile.

However, global conditions have materially changed since these forecasts were published. The escalation of conflict in the Middle East in late February and early March 2026 has increased uncertainty around global energy supply and shipping routes, prompting renewed volatility in oil and gas prices. This could exert upward pressure on global inflation if sustained with attendant spillover to domestic inflation.

These developments imply heightened upside risks to global inflation relative to the January 2026 baseline, implying Uganda's inflation outlook may be altered by changing energy-price developments, transportation costs, and financial market volatility than earlier envisaged.

1.3 International commodity prices

Commodity price developments remained mixed in February 2026 (**Figure 3**), with crude oil and gold prices continuing to rise while coffee prices declined further. In February 2026, benchmark crude oil prices rose, with Brent crude oil prices rising by 6.7% to an average price of US\$69.09/barrel and WTI by 6.8% to an average price of US\$64.34/barrel, compared to their average levels in January 2026. The rise in average crude oil prices in February 2026 was spurred by disruptions to oil supply on account of adverse weather, specifically snowstorms in North America. Disruptions in oil supply were also on account of geopolitical effects in Venezuela and Russia. Further, US-Iran tensions continue to pose uncertainty regarding future oil production and exports, thereby pushing prices up.

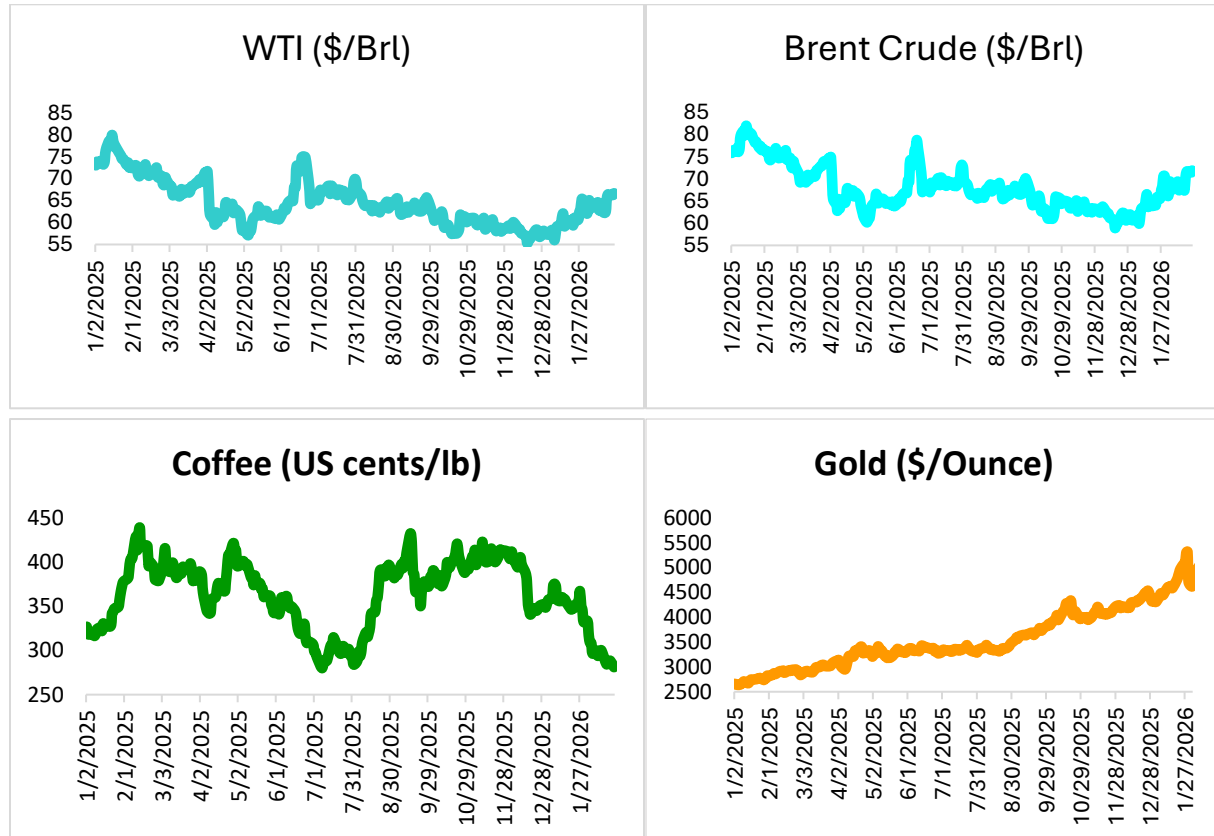
Despite the continued rise in February 2026, oil prices remained about 10% lower than the corresponding period of February 2025, on account of robust global oil supplies supported by increases in both OPEC+ and non-OPEC production, coupled with subdued oil demand, due to an uncertain global macroeconomic environment.

Prior to the recent escalation of geopolitical tensions in the Middle East, benign global oil prices were forecast for 2026 in line with projected steady economic growth, resilient Russian oil production and OPEC+ commitment to maintaining market share.

Prices of precious metals continued to rise in February 2026, albeit with some volatility on account of policy uncertainty, with the price of gold reaching a high of US\$ 5204.7/Oz on February 24, 2026; and a monthly increase of 4.9% to an average gold price of US\$ 4962.70/Oz in February 2026. The Increase in the gold price remains driven by safe-haven

asset demand and central bank diversification of reserve portfolios amidst intensifying geopolitical tensions and policy uncertainty.

Figure 3. Commodity price developments mixed in February 2026 – While crude oil rose, coffee prices declined further



Source: Reuters EIKON

Despite the occasional volatility in gold prices, central bank buying and investor diversification into gold as a safe-haven asset are expected to continue supporting high gold prices.

On the other hand, coffee prices declined by 16.2 percent month-on-month in February 2026, adding to the 7.7 percent and 5.3 percent month-on-month declines respectively recorded in December 2025 and January 2026. Falling coffee prices are largely attributed to an anticipated record harvest in Brazil in May 2026, reinforced by favourable weather, which triggered a sharp sell-off once prices declined past a market-perceived threshold price of about US Cents 350/lb.

Crude oil prices have surged sharply following the onset of U.S. & Israel military strikes on Iran on February 28, 2026. As a result, the average price of Brent crude has risen to US\$114 per barrel on March 30, 2026, up from approximately US\$57 per barrel at the beginning of January 2026.

The conflict has caused physical damage to oil infrastructure in parts of the Middle East and has effectively disrupted transit through the Strait of Hormuz. Although the strait remains technically open, the heightened risk of Iranian attacks, combined with the withdrawal of insurance coverage, has prompted most oil tankers to avoid the route. This has effectively constrained regional oil exports, leaving a significant share of production unable to reach global markets.

As a result, recent forecasts for average crude oil prices have been revised upward by approximately US\$20 per barrel compared with projections made at the beginning of February 2026. The U.S. Energy Information Administration (EIA), in its March 2026 outlook, projects average Brent crude prices of about US\$78 per barrel in 2026 and US\$64.5 per barrel in 2027, up from an estimated US\$65.4 per barrel in 2025.

However, risks to this outlook remain tilted to the upside. Prices are likely to exceed these projections if the conflict persists, and as of the end of March 2026, efforts to initiate formal peace negotiations have yet to yield meaningful progress.

Table 2: Crude oil prices surged sharply following the recent Middle-East War

	Outturn	March 2026 Forecasts		Feb 2026 Forecasts		Difference from Feb 2026 Forecasts	
		2026	2027	2026	2027	2026	2027
West Texas Intermediate	65.4	73.6	60.8	53.4	49.3	20.19	11.47
Brent crude oil	69.0	78.8	64.5	57.7	53.0	21.15	11.47

Source: Energy Information Administration (EIA) - Short Term Energy Outlook (STEO)

Gold prices are projected to continue rising, with some moderate corrections, and to average US\$ 5100/Oz in 2026 and 2027, on sustained central bank buying, investor diversification and safe-haven demand.

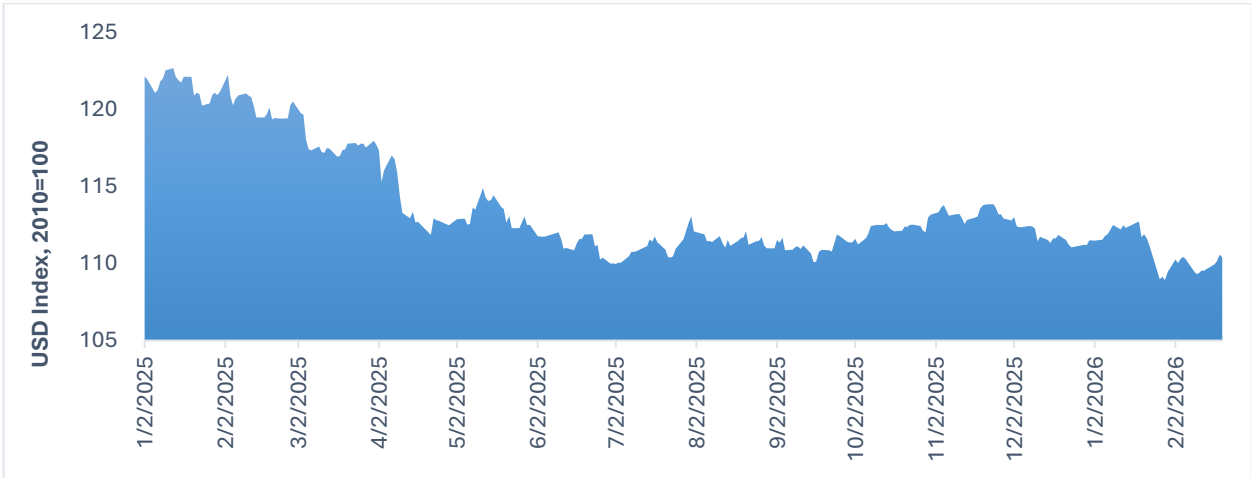
The mixed commodity price outlook is expected to have an uneven impact on the domestic economy. The elevated oil prices and attendant volatility in late February 2026 and early March 2026 could infer higher imported inflation and a higher import bill, prior to the commencement of commercial oil production in Uganda. In addition, low projected coffee prices could moderate earnings from coffee despite the improvement in volumes, thus widening the current account deficit. However, if the Middle East conflict is resolved in the short term, oil prices are expected to revert to their favourable levels, implying a lower current account deficit on account of a lower import bill.

1.4 Global financial markets

Global financial market conditions remain accommodative, however, with episodes of volatility. Financial market conditions remain supported by eased but cautious monetary policies in key economies and by momentum in AI-related investments.

In the currency market, US dollar depreciation pressures, which renewed in December 2025 and January 2026, intensified in February 2026 (**Figure 4**), on account of US domestic and trade policy uncertainty. In February 2026, the USD Index depreciated by 1.2%, month-on-month, adding to the depreciation of 1.3% and 0.5% month-on-month, respectively, in December 2025 and January 2026.

Figure 4. US\$ Index: . USD under renewed depreciation pressures over December 2025 – February 2026, over threat to US FED independence and the uncertain domestic policy environment

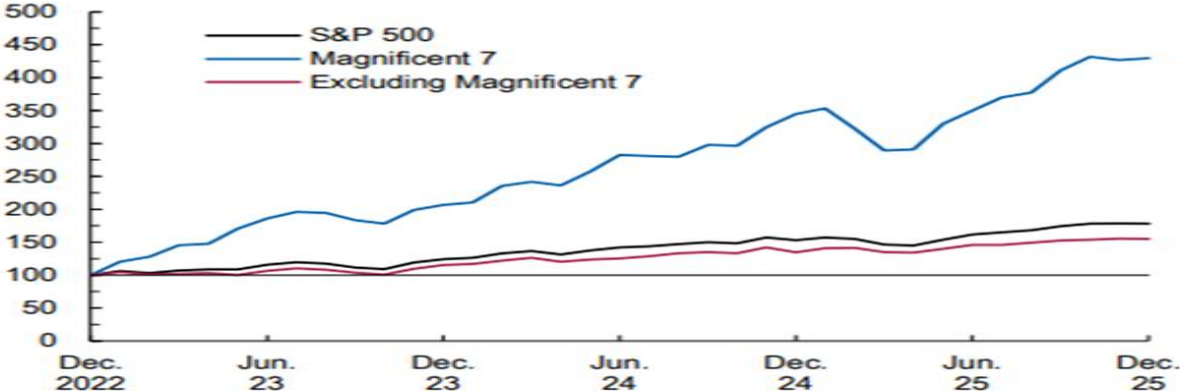


Source: Reuters EIKON

In the stock markets, prices of major technology companies continued to trend significantly higher than other stocks (**Figure 5**), pointing to AI investments and largely supporting ease in global financial conditions. Policy rates at key central banks (**Figure 6**) point to overall easing of monetary policy paths through 2025, though at varying and cautious speeds.

In their meetings of January and February 2026, the US FED, European Central Bank (ECB) and the Bank of England (BOE) all kept their key interest rates unchanged, reflecting caution in an environment of elevated economic policy uncertainty and geopolitical tensions, while supporting relatively easier financial market conditions, considering that inflation remains persistently higher-than-target in these economies.

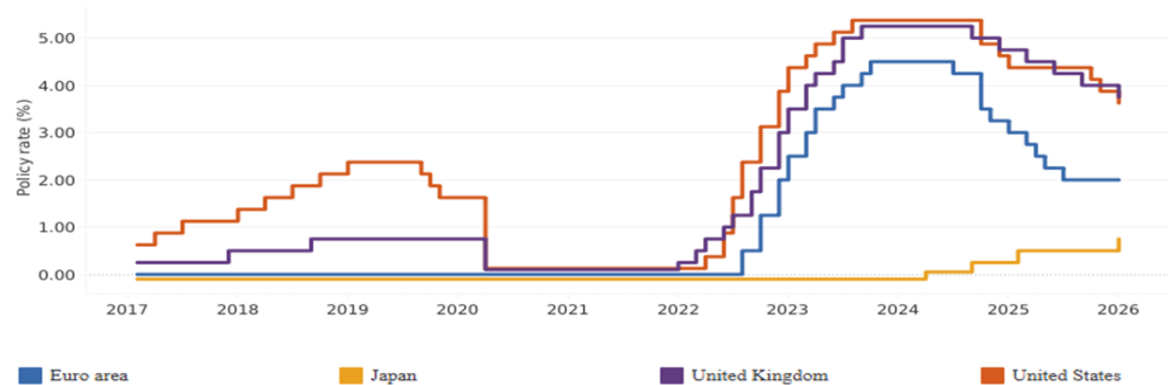
Figure 5. Prices of major technology companies are notably higher than other stocks, reflecting momentum in AI-related investments



Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: The Magnificent 7 is an equal-dollar-weighted equity benchmark composed of Apple, Microsoft, Amazon, Alphabet, Tesla, Nvidia, and Meta. Although it includes several of the most influential leaders in artificial intelligence (AI), it does not cover all major AI-focused companies. For example, Oracle and Palantir are not part of the group.

Source: IMF World Economic Outlook, January 2026 Update

Figure 6. Key Central Bank policy rates point to overall easing paths, although at varying and cautious speeds



Source: BIS Data Portal – Central Bank Policy Rates

Outlook is for financial conditions to remain accommodative, supported by easing monetary policy rates in the UK and the US and by expansionary fiscal policies in some AEs, particularly Germany, Japan, and the US. However, an escalation of geopolitical tensions that alters the trajectory of commodity prices could spur stock market volatility, inflationary pressures and put a halt to any anticipated monetary policy easing.

Overall, there are risks to continued global financial market stability, arising from continued economic policy uncertainty and fiscal vulnerabilities in several key economies. Finally, lower-than-anticipated productivity gains from AI could increase volatility in equity markets and tighten global financial conditions going forward.

Renewed global financial market instability could trigger selloffs in domestic markets and currency depreciation, negatively impacting domestic financial sector stability and fiscal management.

1.5 Implications for Uganda’s Economy

The recent escalation of geopolitical tensions in the Middle East has heightened global uncertainty and increased downside risks to global growth. Elevated energy prices and tighter global financial conditions may dampen economic activity in advanced economies, thereby weakening external demand for Uganda’s exports, particularly coffee. Although economic resilience in parts of Sub-Saharan Africa provides some offset, slower global

trade growth could constrain export volumes. Additionally, if higher energy costs weigh on labour markets in advanced economies, remittance inflows to Uganda may moderate, with implications for household consumption and foreign exchange earnings.

Heightened tensions in the Middle East have increased risk premia in global oil markets, particularly due to concerns about disruptions to shipping through the Strait of Hormuz, a critical transit route for global crude oil supply. As a net oil importer, Uganda is directly exposed to sustained increases in global oil prices. Higher global oil prices would raise the fuel import bill, increase transport and production costs, and exert upward pressure on consumer prices, particularly in transport and food categories. If sustained, these pressures could generate second-round effects and slow the pace of disinflation.

Geopolitical tensions have also increased safe haven demand for gold, contributing to elevated global gold prices. In addition to investor flows, sustained demand from major gold consuming economies in the Middle East, including Saudi Arabia, supports firm price dynamics. For Uganda, higher gold prices provide only a modest boost to net export receipts. Thus, the positive income effect from higher gold exports is unlikely to fully offset the adverse impact of higher oil import costs. The net external position therefore remains vulnerable to sustained energy price shocks. Sustained increases in global oil prices would widen the import bill and exert pressure on the trade balance.

Escalating geopolitical risk has contributed to stronger safe haven flows into US dollar assets. A stronger US dollar, combined with higher oil import demand, could exert depreciation pressures on the Ugandan shilling. In addition, higher global yields, reflecting renewed inflation risks and risk aversion, could raise external borrowing costs and increase rollover risks for frontier economies. These developments may tighten domestic financial conditions and complicate liquidity management. If oil-driven price pressures persist, inflation expectations could become less firmly anchored, requiring a cautious, data-dependent monetary policy response. In this environment, the Bank of Uganda would need to closely monitor foreign exchange liquidity, reserve adequacy, capital flow dynamics, and second-round inflation effects.

2. DOMESTIC DEVELOPMENTS OUTLOOK

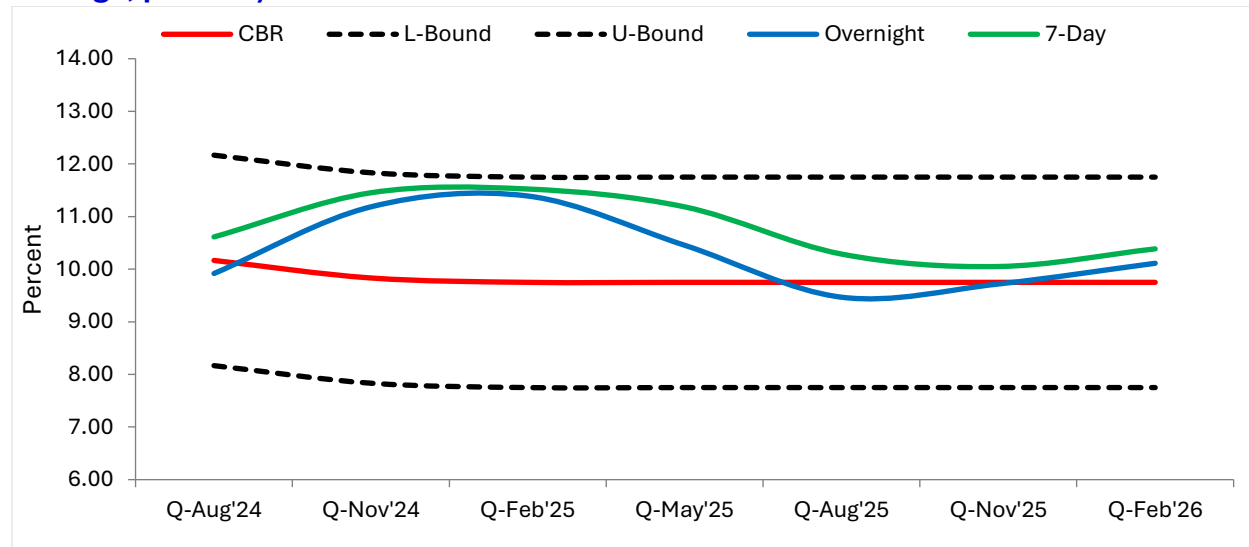
2.1 Domestic financial markets

2.1.1 Monetary policy and the interbank money market

Monetary policy stance remains appropriate and data-driven. In February 2026, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.75%, reflecting a cautious policy stance aimed at supporting economic activity while safeguarding price stability. The decision highlights continued vigilance amid persistent global uncertainties, including shifting trade dynamics and recurring geopolitical tensions, which continue to pose risks to both inflation and growth.

Money market rates remained relatively stable and within the CBR band in the three months to February 2026, albeit with the overnight and 7-day weighted average interbank rates rising slightly to 10.11% and 10.39% in the three months to February 2026, from 9.72% and 10.05% respectively in the three months to November 2025 (**Figure 7**).

Figure 7: Money market rates remain broadly stable and within the CBR Band (Quarterly average, percent)



Source: Bank of Uganda

Reflective of the relatively tight liquidity conditions as per the modest rise in interbank rates, commercial banks' use of the Standing Lending Facility increased, to Shillings 9.82 trillion across 131 transactions in the three months to February 2026, from Shillings 4.25 trillion across 61 transactions in the three months to November 2025.

Additionally, utilisation of the Standing Deposit Facility fell to Shillings 0.85 trillion across 16 transactions in February 2026 from Shillings 1.83 trillion across 32 transactions in January 2026. In line with the policy stance, the volume of repurchase agreements and BoU Bills issued for excess liquidity absorption fell to Shillings 4.13 trillion and Shillings 0.57 trillion from Shillings 13.97 trillion and Shillings 1.13 trillion, respectively.

2.1.2 Primary market for treasury securities

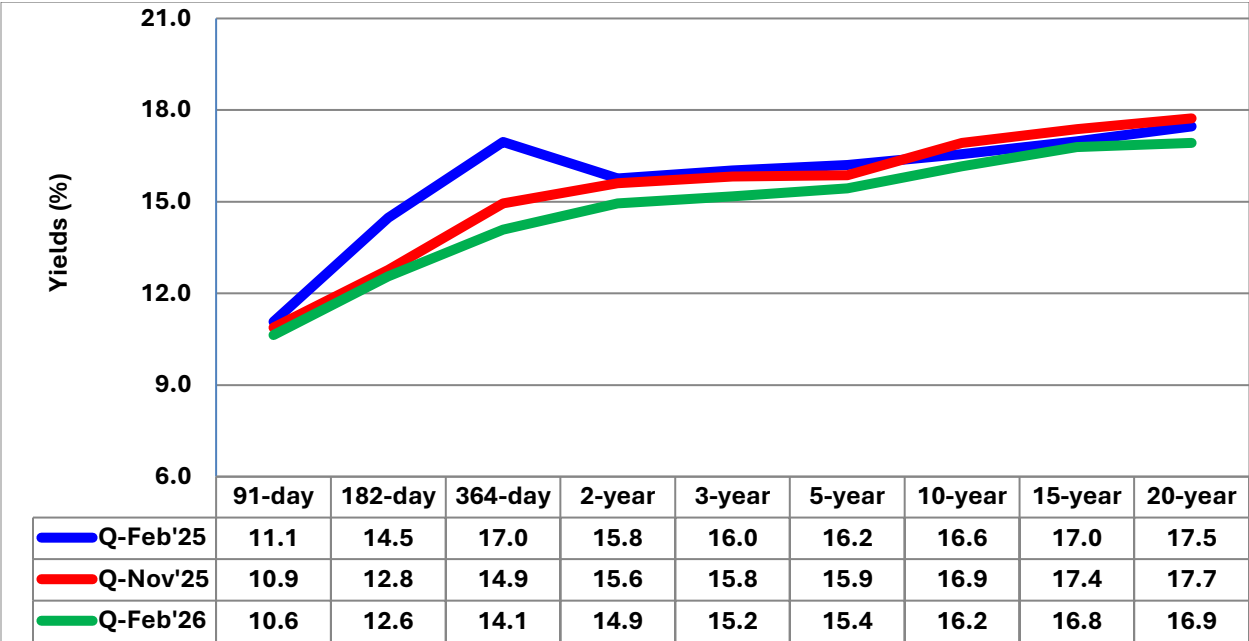
Yields on government securities declined across all tenors, reflecting reduced issuance, following the meeting of over 75% of the net domestic financing requirement by the halfway point of FY2025/26, and sustained strong investor appetite for government securities given the competitive inflation-adjusted yields and stable exchange rate. Issuance fell by 31.8% to Shillings 6.09 trillion in the three months to February 2026 from Shillings 8.93 trillion in the three months to November 2025. Treasury bill yields eased, with the 91-day, 182-day, and 364-day rates declining to 11.23%, 12.75%, and 13.66% from 11.45%, 13.34%, and 15.04%, respectively.

Similarly, bond yields across the 2-, 3-, 5-, 10-, 15-, and 20-year tenors fell to 15.10%, 14.60%, 15.50%, 15.63%, 16.48%, and 16.56% from 15.75%, 15.85%, 15.85%, 17.03%, 17.65%, and 17.80%, respectively. There were no auctions of the 25-year bond in the three months to February 2026.

2.1.3 Secondary market for treasury securities

Yields on treasury securities in the secondary market remained broadly stable in the three months to February 2026, consistent with easing domestic financing pressures relative to the previous period, favourable inflation outlook and reflecting limited volatility across most tenors (**Figure 8**).

Figure 8: Secondary market annualized yields on T-bills and T-bonds remain relatively stable, consistent with moderated domestic financing needs. (Secondary market annualised yields of treasury bills and bonds, quarterly averages)



Source: Bank of Uganda

2.1.4 Lending interest rates

Lending rates eased modestly in the three months to January 2026 relative to the preceding three months, consistent with stable macro conditions. The weighted average shilling lending rate fell to 18.26% in the three months to January 2026 from 18.87% in the three months to October 2025, while foreign currency lending rates eased to 7.62% from 8.24% over the same period (**Table 3**). The moderation in lending rates was supported by better borrower creditworthiness, reinforced by improved business and risk environment with low inflation, stable exchange rate, alongside increased initiatives to support small and medium enterprises (SMEs) and a growing appetite for short-term lending.

Shilling lending rates declined across most sectors as credit standards eased, driven by increased business activity and improved asset quality. Notable declines in rates were observed in mining and quarrying, trade and housing, while rates for agriculture and personal loans remained stable in tandem with the sector’s largely unchanged risk profile.

Table 3. Weighted average lending rates across sectors showed mixed trends (Quarterly average, percent)

	Shs								FX							
	Agriculture	Mining anc	Manufact.	Trade	Transport	Housing	Personal	Shs.	Agriculture	Mining anc	Manufact.	Trade	Transport	Housing	Personal	Fx
Q-Jan'25	21.0	20.0	15.5	17.5	12.6	19.8	18.5	17.32	8.9	9.2	8.5	8.5	8.9	10.5	12.4	8.40
Q-Apr'25	21.2	23.7	16.7	17.9	13.8	20.1	18.4	17.71	9.0	9.7	8.8	7.9	7.5	10.3	10.7	8.34
Q-Jul'25	20.8	21.8	17.3	18.5	15.8	19.5	20.0	19.12	8.6	10.4	8.6	8.3	8.6	11.8	9.9	8.50
Q-Oct'25	20.2	18.5	17.1	18.7	15.2	20.2	19.5	18.87	8.3	9.0	8.5	7.8	8.1	11.1	9.4	8.24
Q-Jan'26	20.2	16.5	17.5	16.5	16.4	19.4	19.5	18.26	6.5	10.6	7.6	7.7	9.8	10.7	8.9	7.62

Source: Bank of Uganda

The near-term outlook is for balanced risks, inferring largely unchanged lending rates, consistent with the results of the Bank Lending Survey for the second quarter of FY 2025/26. Lending rates could be lower on account of a benign monetary policy stance, continued robust economic growth and a stable foreign exchange market. Conversely, lending rates could be higher on account of sector-specific rate increases, shifts in global financial conditions, or if the government’s net domestic financing requirements are higher than currently estimated.

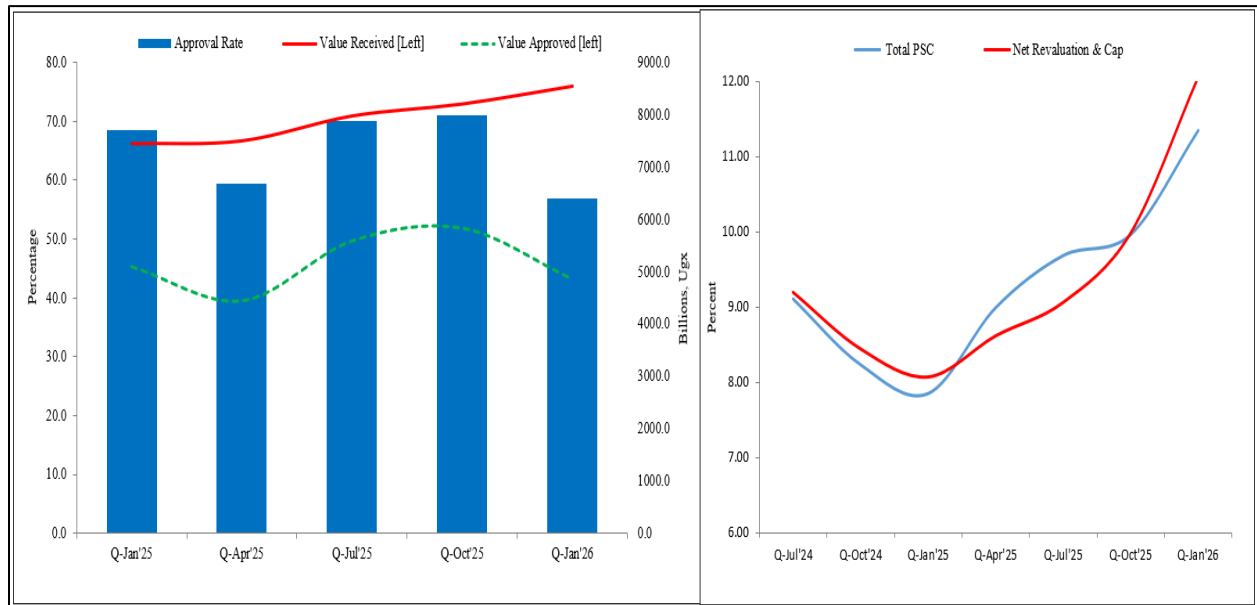
2.1.5 Private sector credit

Private Sector Credit (PSC) continued to expand, supported by stable macroeconomic conditions, stronger credit demand, lower interest rates and improved financial health of borrowers reflected in a lower nonperforming loans ratio (NPL).

Annualised ODC PSC growth increased to 11.34% in the three months to January 2026 from 9.95% in the quarter to October 2025 (**Figure 9, Right**), underpinned by an improvement in the NPL ratio to 3.37% as at December 2025, the lowest since 2012. Better asset quality bolstered banks’ lending appetite, reinforcing the recovery in credit. Shilling-denominated credit growth was recorded at 10.69%, while foreign currency lending increased by 13.21% from 11.71% and 4.93%, respectively. Total net credit extensions, including capitalized interest and net revaluation, rose to Shillings 1.89 trillion from Shillings 1.40 trillion over this period.

Demand and supply of credit remained robust (**Figure 9, Left**), albeit with the approval rate declining to 56.9% from 71.1 %, reflective of greater caution by banks in financing contracts in riskier sectors, notably, agriculture, trade and building.

Figure 9: PSC growth moderated (right) as demand and supply of credit remained robust(left) (Quarterly average, percent)

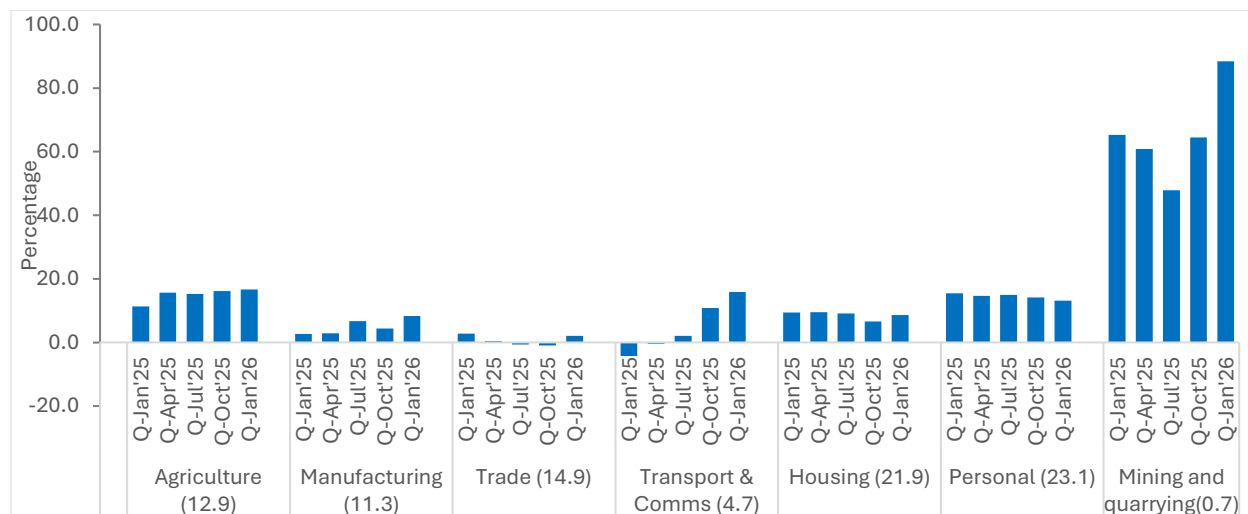


Source: Bank of Uganda

Annualised ODC private sector credit growth rose across most of the major economic sectors in the three months to January 2026, except personal loans, compared to the three months to October 2025 (**Figure 10**). Notable rises were observed in Agriculture (fishing and production), Manufacturing (chemicals and pharmaceuticals, printing and publishing).

Although building, mortgage, construction and real estate, and personal loans dominate the sectoral composition of credit, lending to key productive sectors of the economy rose during the quarter to January 2026 relative to the preceding quarter to October 2025, supporting the positive economic growth outlook. Stock of credit to agriculture, Mining and Quarrying, and Manufacturing sectors rose quarter-on-quarter, by 6.9%, 21.6% and 4% to Shillings 3,671 billion, Shillings 209 billion, and Shillings 3,224 billion, respectively.

Figure 10: Year-on-year growth in private sector credit-3-month moving-average rose across most major economic sectors (% shares in brackets)



Source: Bank of Uganda

Developments over the three months to February 2026 point to an easing of domestic financial conditions, largely reflecting reduced government securities' issuance, having acquired more than 75% of its FY2025/26 net domestic financing requirements in the first half of the year. Net issuance of Government of Uganda securities declined to UGX 6.09 trillion from UGX 8.93 trillion in the three months to November 2025, contributing to a moderation in yields across the curve. Over the same period, the average shilling lending rate fell to 18.26% from 18.87%, while annualised private sector credit growth strengthened to 11.34% from 9.95%. Taken together, these trends highlight the importance of careful fiscal-monetary coordination and prudent public debt management to avoid unintended contractions and crowding out effects on household and private sector credit. This assessment is reinforced by the empirical and analytical evidence presented in Box 1, which underscores the link between government borrowing, monetary conditions, and private sector credit dynamics.

The macroeconomic environment continues to underpin credit to the private sector. Improved asset quality, with the nonperforming loan ratio at its lowest in over a decade, together with strong underlying credit demand, points to further growth in private sector credit as financial conditions stabilise. Private sector credit, inclusive of Government

initiatives such as the Parish Development Model and Emyooga, remained in double digits and is expected to sustain its expansion.

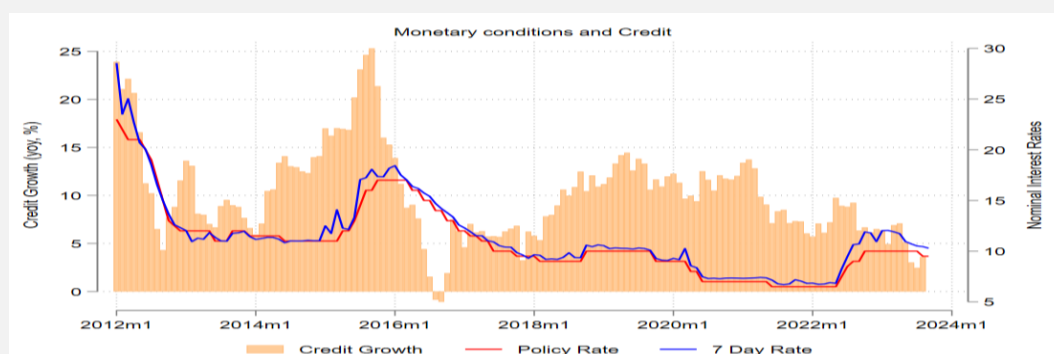
In the near term, Private sector credit growth is expected to continue strengthening, supported by sustained demand for credit, improved macroeconomic stability and better financial sector conditions. Upside risks include increased public and private investment activity, government support programs, and sustained macroeconomic stability, while downside risks stem from potential crowding out due to higher government borrowing, global economic uncertainty, and credit risk concerns. Overall, opportunities inherent in the introduction of new products such as sukuk and green bonds, in line with the sustainability agenda, point to near-term risks to PSC growth being tilted to the upside.

Over the medium term, credit growth is expected to strengthen further, supported by a favourable economic outlook and continued enhancements to credit infrastructure, particularly improvements to the Credit Reference Bureau and the Security Interest in Movable Property Registry System (SIMPRS). These reforms are anticipated to enhance creditworthiness, reduce risk aversion within the banking sector, and expand access to finance for micro, small, and medium enterprises (MSMEs). Collectively, these developments will sustain private sector credit growth and reinforce the financial sector's role in supporting economic activity.

Box 2: Monetary Policy Now Transmits More Strongly to Household Credit in Uganda

Recent evidence shows that monetary policy shapes household borrowing in Uganda, with the central bank policy rate directly affecting credit. This is through influencing loan pricing, volumes, and maturities, while bank characteristics and supply side responses determine the speed and strength of monetary policy transmission to households. Using granular loan level data covering 632,692 households from the Credit Reference Bureau (2017–2023), and employing regression models alongside bank balance sheet information, the analysis shows that increases in the Bank of Uganda’s Central Bank Rate (CBR) reduce household borrowing and raise lending rates. A 100-basis point CBR hike corresponds to roughly a 55-basis point increase in household lending rates within one quarter, demonstrating rapid pass through to borrowing costs. However, adjustments in loan volumes occur with a lag, reflecting the time banks require to modify lending behaviour, with cumulative household loans declining about 15 percent over five quarters. These results, based on disaggregated household data show that monetary policy transmission through the banking system, via lending and interest rate channels, is stronger than aggregate data alone suggest.

The strength of this transmission depends on banks’ financial conditions. Banks with weaker capital and lower liquidity respond more strongly to policy rate increases, raising lending rates and reducing loan amounts more aggressively during tightening periods. Similarly, banks with large holdings of government securities lend less to households when policy is tightened, reflecting the crowding out effect of public borrowing on private credit and the interaction between fiscal exposure and monetary policy. On the borrower side, gender does not significantly influence credit responses, but income does. Low-income households experience greater declines in loan access and less favourable loan terms when monetary conditions tighten. Differences in lending rates, however, remain modest, likely reflecting limited scope for risk-based pricing among small retail borrowers. The effects are more pronounced for fixed rate loans than for floating rate loans.



Policy Implications

These findings have several policy implications. First, they show that monetary policy, within Uganda’s inflation targeting framework, is effective in influencing household credit costs, access, financial conditions, and credit behaviour, supporting the use of interest rate-based interventions. Second, they highlight the importance of maintaining strong capital and liquidity buffers in the banking system to support stable credit flows during monetary policy adjustments and enhance the efficiency, uniformity, and stability of policy transmission. Third, the interaction between banks’ holdings of government securities and monetary tightening highlights the importance of careful fiscal-monetary coordination and prudent public debt management to avoid unintended contractions and crowding out effects on household and private sector credit. Finally, policies that deepen financial markets, promote financial inclusion, and expand access to credit, particularly for low-income households, can broaden the reach of monetary policy, cushion vulnerable borrowers during tighter conditions, and support inclusive economic growth while preserving price stability.

Source: ‘Monetary Policy Transmission to Household Credit’, IMF Working Papers, 2025(242), pp. 1–37. Available at: <https://doi.org/10.5089/9798229030182.001>.

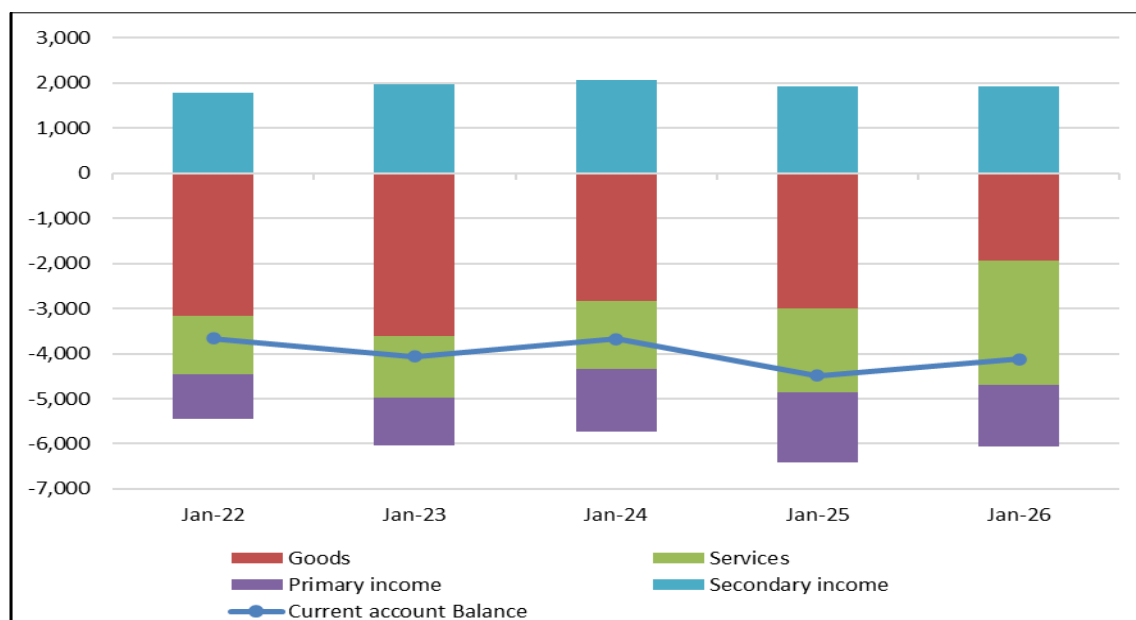
2.2 Balance of payments and exchange rates

2.2.1 Balance of payments

The external position strengthened in the year to January 2026, on account of a robust financial account surplus and a narrowing of the current account deficit, relative to a year earlier, indicative of robust export growth, remittances, and increased foreign direct investment and portfolio inflows.

The current account deficit narrowed to US\$ 4,122.8 million from US\$ 4,457.8 million in the year to January 2025 (**Figure 11**), largely attributed to improvement in the goods balance and secondary income, as well as a narrowing of primary income deficit that more than offset the wider services deficit.

Figure 11: The current account deficit narrowed year-on-year largely reflecting improvements in the goods balance, secondary and primary income accounts.



Source: Bank of Uganda

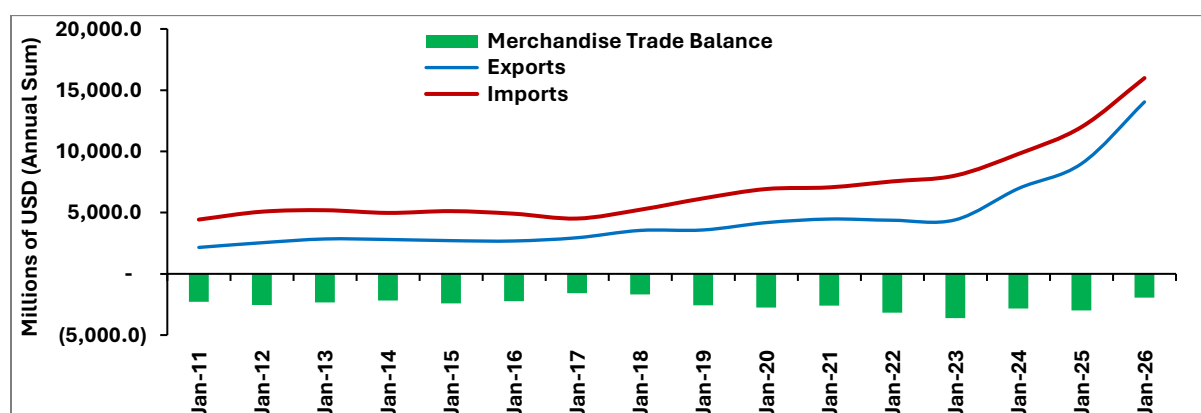
The surplus on the secondary income account expanded in the year to January 2026 to US\$1,934.6 million from US\$ 1915.4 million in the year to January 2025, largely attributed to the 6.5% year-over-year growth in personal transfers that compensated for the decline in nongovernment organization inflows.

In addition, budget support and project aid from multilateral and bilateral partners declined in the year to January 2026 relative to the year to January 2025. The primary income deficit contracted to US\$1,374.6 million in the year to January 2026 compared to US\$ 1,537.8 million observed in the same period last year. This indicated lower net outflows in the primary income account, largely due to lower investment and other income outflows.

During the year to January 2026, the services deficit significantly widened to US\$2,736.9 million from US\$ 1,871.7 million in the year to January 2025. This was mainly due to a significant transport deficit resulting from freight and passenger transport services provided by non-resident carriers to cater for the strong import demand for capital goods and intermediate inputs associated with large infrastructure and energy projects. Additionally, there was an expansion in the other business services due to higher imports of professional and technical services, particularly engineering, consultancy, and project advisory services supplied by non-resident entities, in tandem with the increased investments, particularly in the extractive and infrastructure sub sectors.

The goods subaccount deficit narrowed to US\$1,945.9 million in the year to January 2026 from US\$2,995.9 million in the year to January 2025 (**Figure 12**), on account of exports that more than doubled year-on-year, and more than offset the expansion in imports. The growth in exports was broad-based as both coffee and non-coffee exports, excluding non-monetary gold, all achieved double-digit growth year over year.

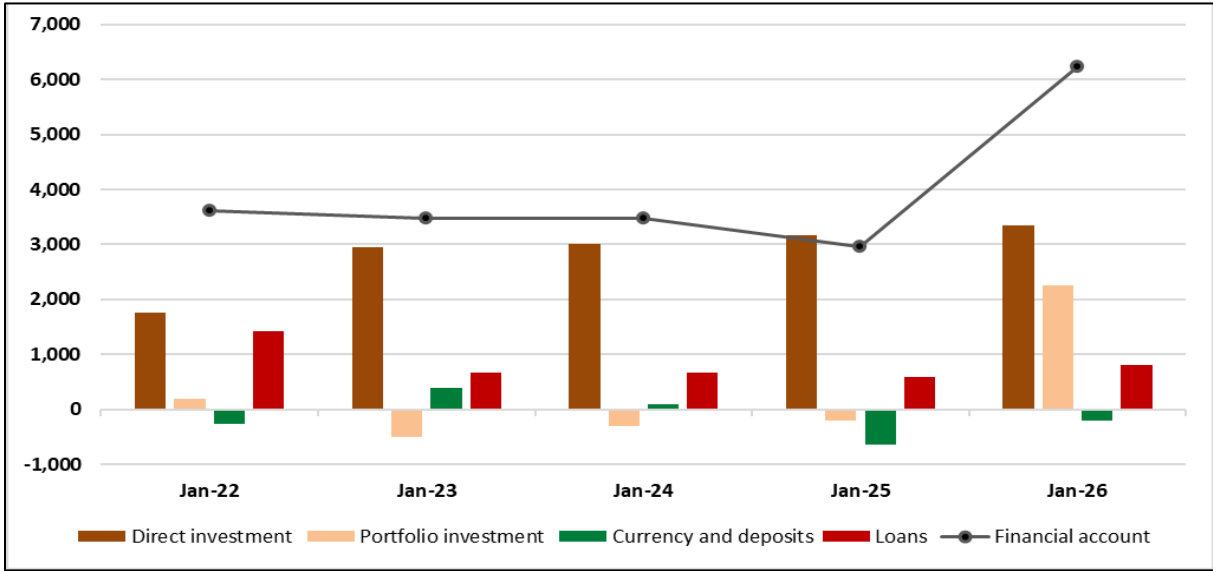
Figure 12: The merchandise trade deficit declined in the year to January 2026 (In millions of US\$)



Source: Bank of Uganda

On the financing side, the financial account surplus increased to an all-time high of US\$ 6,231 million in the year to January 2026 from US\$ 2,963 million in the previous year, primarily buttressed by strong inflows of both foreign direct and portfolio investments as well as other investments (**Figure 13**). Foreign direct investment (FDI) inflows increased by 5.1% to US\$ 3,338 million in the year to January 2026 relative to the preceding year, reflecting substantial investment in the oil sector and spillovers to related industries, such as transportation and construction. The portfolio investment account recorded net inflows of US\$ 2,255 million, a reversal from net outflows of US\$ 206 million in the previous year, largely reflecting increased offshore demand for government of Uganda securities due to attractive interest rates and exchange rate stability.

Figure 13: The financial account sustained a robust surplus (US\$ millions) in the year to January 2026 driven by strong FDI and Portfolio Investment Inflows



Source: Bank of Uganda

The above BOP developments coupled with BoU’s proactive steps to boost the reserve buffers including targeted purchases and use of cross-currency repos led to a build-up in reserves to a stock of US\$ 5,617 million as at end of January 2026 (3.9 months of future import cover excluding oil project-related imports), compared to the stock of US\$ 3,311 million (2.3 months of imports excluding oil project imports) registered at the end of January 2025.

2.2.2 Balance of payments outlook

In the short term, external sector pressures are expected to intensify, reflecting heightened global uncertainty and evolving trade and geopolitical dynamics. The US-Iran conflict and its broader escalation across the Middle East region pose risks to global growth and inflation, particularly if oil prices continue to rise amid disruptions to shipping through the Strait of Hormuz and threats of strikes on oil production facilities. A prolonged shutdown of all three major Gulf transit hubs, which are major routes for air cargo, risks putting further pressure on trade movements on top of the sea disruptions. Disruptions to passenger air travel could also weigh on tourism, as travellers delay or cancel trips while assessing the risks and duration of the conflict.

In the medium term, the oil sector is expected to play a transformative role in shaping both the current and financial accounts, gradually driving the balance of payments toward a consistent surplus position. The current account deficit is projected to narrow as oil exports commence, and the import bill declines with the transition to domestic oil production.

Non-oil export revenues and tourism receipts are also expected to strengthen, supported by the implementation of the Tenfold Growth Strategy. The financial account surplus will continue to be supported by FDI flows and budget support flows with the re-opening of the concessional financing window. The medium-term BoP projections are presented in **Table 4**.

Table 4: Current account deficit to narrow as oil exports commence and import bill declines

BOP Accounts	FY25/26		FY26/27		FY27/28		FY28/29		FY29/30	
	\$BN	% GDP	\$BN	% GDP	\$BN	% GDP	\$BN	% GDP	\$BN	% GDP
Current account	-3.3	-4.4%	-1.1	-1.3%	1.2	1.2%	2.0	1.9%	3.1	2.7%
Trade Balance	-2.0	-2.7%	1.3	1.5%	3.6	3.8%	3.9	3.7%	4.2	3.6%
Services	-2.0	-2.7%	-2.0	-2.3%	-1.6	-1.7%	-1.4	-1.4%	-1.2	-1.1%
Primary income	-1.5	-1.9%	-2.7	-3.2%	-3.2	-3.4%	-3.0	-2.9%	-2.6	-2.3%
Secondary income	2.2	2.9%	2.3	2.7%	2.4	2.5%	2.5	2.4%	2.7	2.4%
Capital account	0.3	0.4%	0.2	0.2%	0.2	0.2%	0.2	0.2%	0.2	0.1%
Current and Capital Account	-3.0	-4.0%	-0.9	-1.1%	1.4	1.4%	2.1	2.0%	3.2	2.8%
Financial Account*	4.2	5.5%	1.3	1.6%	-0.7	-0.8%	-1.1	-1.1%	-1.8	-1.5%
FDI*	3.3	4.4%	3.1	3.6%	2.9	3.0%	3.0	2.9%	3.2	2.8%
Portfolio investment*	0.6	0.7%	0.5	0.6%	0.5	0.5%	0.5	0.5%	0.4	0.4%
Other investment*	0.3	0.4%	-2.3	-2.7%	-4.1	-4.4%	-4.7	-4.4%	-5.4	-4.7%
Overall Balance*	1.1	1.4%	0.4	0.5%	0.6	0.7%	1.0	1.0%	1.4	1.2%

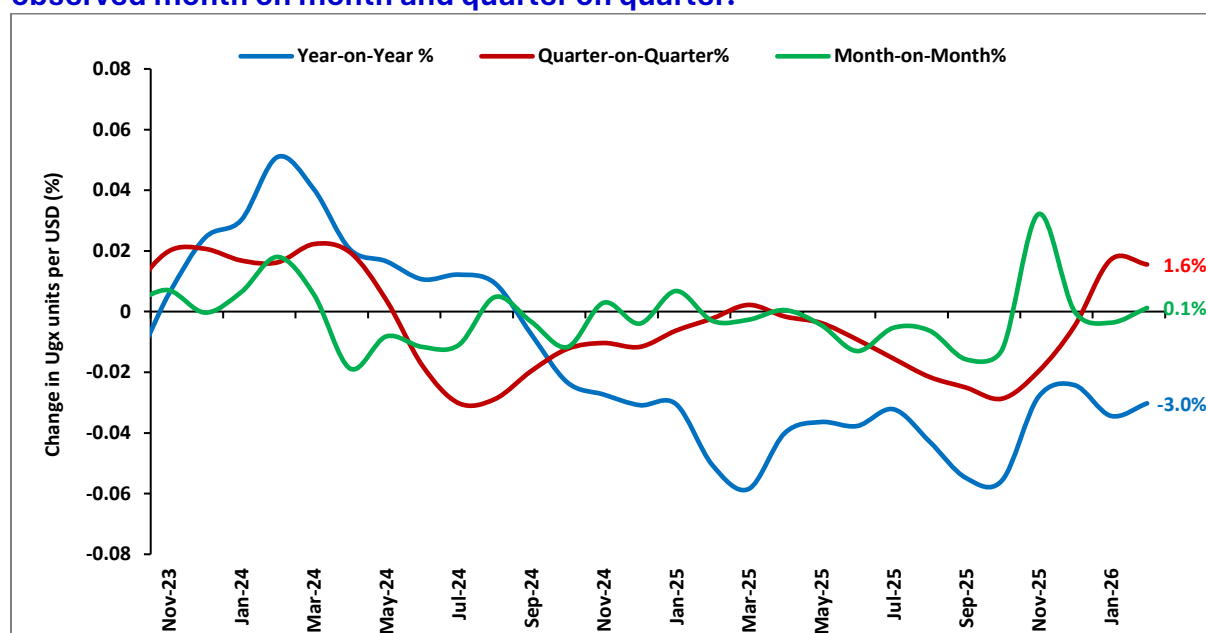
* Signs inverted to reflect direction of flows

Source: Bank of Uganda

2.2.3 Exchange rate developments

In February 2026, the Uganda Shilling (UGX) appreciated against the United States Dollar year over year, although a depreciation was observed month-on-month and quarter-on-quarter (**Figure 14**). Within the quarter to February 2026 and first week of March 2026, the Uganda Shilling faced short term pressures stemming from sentiments pertaining to geopolitical developments, and related portfolio adjustments of some offshore market players, as well as corporate dividend pay outs to foreign investors.

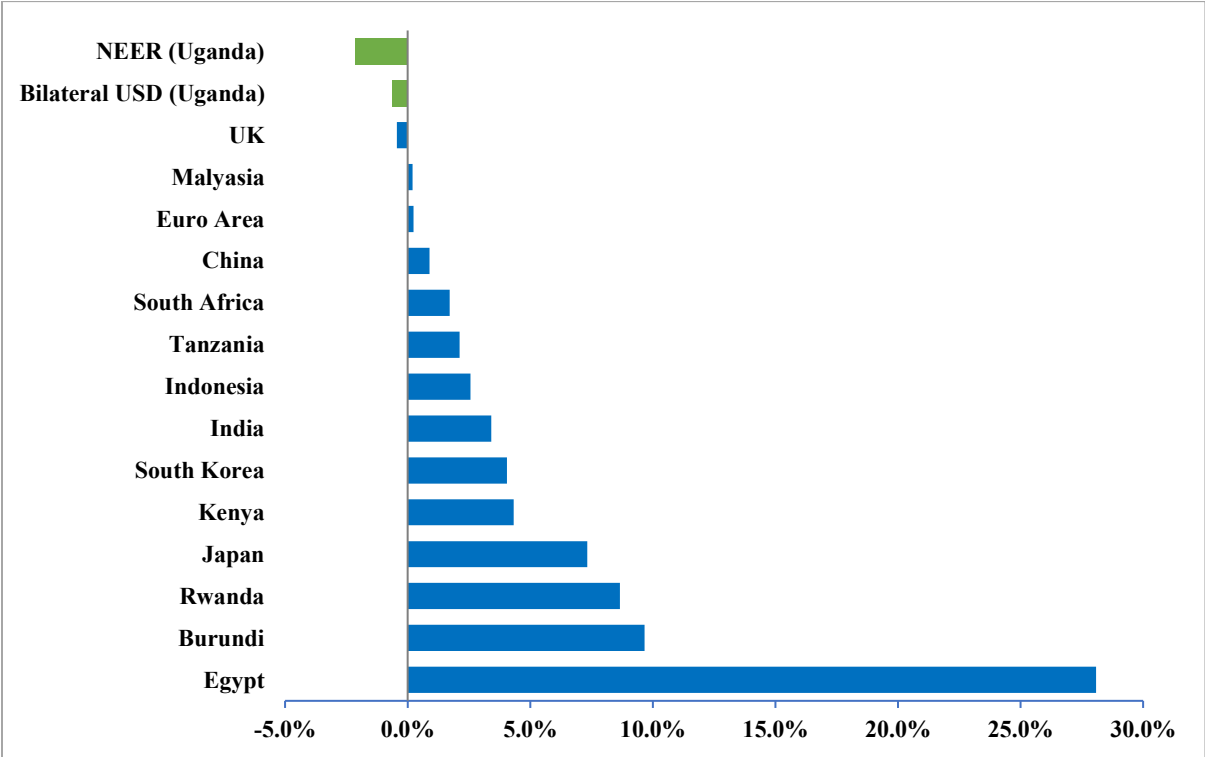
Figure 14: The Uganda Shilling appreciated year over year, although a depreciation was observed month on month and quarter on quarter.



Source: Bank of Uganda

On a year-on-year basis, the Ugandan Shilling appreciated in both nominal effective exchange rate (NEER) and real effective exchange rate (REER) terms against a trade-weighted basket of currencies of Uganda’s top trading partners (**Figure 15**). The appreciation of the UGX against the USD was supported by sustained improvements in external sector performance, including strong export revenues, and robust foreign direct and portfolio flows, coupled with broad-based weakness in the US dollar.

Figure 15: The Uganda Shilling strengthened against the USD and across major trading partner currencies (5-year average from Feb 2021 to Feb 2026).



Source: Bank of Uganda

Risks to the stability of the Uganda Shilling remain and are expected to evolve. The Uganda Shillings could face depreciation pressures due to heightened trade policy uncertainty and geopolitical tensions such as the uncertainty raised by the recent reversal of tariffs imposed by the United States under the International Emergency Economic Powers Act (IEEPA) and the geo-political tensions in the middle east. Any deterioration in global trade flows, shipping logistics, or energy supply chains could be transmitted through higher freight and fuel costs, weaker export demand, and tighter external financing conditions. These channels would likely intensify foreign exchange demand, weaken the trade balance, and place renewed depreciation pressure on the Uganda Shilling.

High external debt service obligations, projected to peak at 45.3 percent by June 2026, require substantial foreign currency outflows for interest and principal repayments, thereby increasing demand for foreign exchange and exerting depreciation pressure on the Uganda

Shilling. If external financing is constrained or becomes more costly, rollover and refinancing risks could further heighten exchange rate vulnerability through shifts in investor sentiment and increased risk premia. However, the projected gradual decline in the debt service-to-revenue ratio, consistent with the Government's medium-term fiscal consolidation strategy, should ease these pressures over time.

Conversely, the Shilling could appreciate, supported by anticipated oil export revenues associated with the commencement of commercial oil production, thereby strengthening the supply side of the foreign exchange market. This improvement in export performance is likely to narrow the current account deficit, enhance the balance of payments position, and reduce reliance on external borrowing. In addition, sustained oil-related investment and improved investor confidence may further reinforce capital inflows, providing additional support to the Shilling.

Based on the above developments, the balance of risks on the outlook of the Ugandan shilling in the near term is skewed towards a depreciation in the near term, although this is highly sensitive to domestic and international developments, including the recent geopolitical developments in the Middle East.

2.3. Fiscal policy

2.3.1 Government expenditure and revenue

Fiscal operations in the first seven months of FY2025/26 were more expansionary than planned on account of both underperformance in revenue and larger than programmed expenditure. Recurrent expenditure totalled Shs. 24,133.7 billion, exceeding the programmed level by Shs. 300.0 billion (**Table 5**), on account of higher grants to Local Governments and increased spending on goods and services, notably medical supplies and election-related activities.

On the other hand, government capital expenditure amounted to Shs. 4,482.1 billion, slightly below the programmed Shs. 4,556.6 billion but 71.3% higher than the previous year, driven by ongoing infrastructure projects and supplementary budget allocations.

Table 5: Fiscal operations were more expansionary than planned in the first four months of FY2025/26 (UGX, billions)

	Jul- Jan'25	Jul- Jan'26	Prog. Jul- Jan'26	Variation	Annual change (%)
Revenue (A)	18,849.9	20,329.6	22,171.1	-1,841.4	7.9
Taxes	16,680.4	18,499.5	18,966.6	-467.1	10.9
Grants (project support)	917.1	486.8	1,415.9	-929.0	-46.9
Other revenue	1,252.4	1,343.3	1,788.6	-445.3	7.3
Expense (B)	21,932.0	24,133.7	23,833.7	300.0	10.0
Compensation of employees	2,998.2	3,376.0	3,266.3	109.7	12.6
Purchase of goods and services	4,813.9	5,643.3	5,056.6	586.7	17.2
Consumption of fixed capital (C)	47.0	0.0	0.0	0.0	-99.5
Interest payments	5,138.0	7,144.8	7,977.3	-832.4	39.1
Domestic	4,220.0	6,307.6	6,756.2	-448.6	49.4
External (including commitment fees)	917.4	837.3	1,221.1	-383.8	-8.7
Subsidies	0.0	3.0	0.0	3.0	0.0
Grants	7,863.6	6,685.7	5,891.6	794.1	-15.0
Social benefits	309.7	429.9	727.2	-297.3	38.8
Other expense	803.9	850.9	914.7	-63.8	5.8
Gross operating balance (A-B+ C)	-3,077.4	-3,804.0	-1,662.6	-2,141.4	
Net operating balance (A-B)	-3,082.2	-3,804.1	-1,662.6	-2,141.4	
Net Acquisition of Nonfinancial Assets (D)	2,616.0	4,482.1	4,556.6	-74.5	
Net lending/borrowing (A-B)-D	-5,698.1	-8,286.1	-6,219.2	-2,066.9	
Primary balance	-560.1	-1,141.3	1,758.0	-2,899.4	
Transactions in financial assets and liabilities					
Financing (net) (E-F)	-5,698.1	-8,286.1			
Net Acquisition of financial Assets (E)	938.0	2,607.3			
Domestic	938.0	2,607.3			
Foreign	0.0	0.0			
Net Acquisition of Financial Liabilities (F)	6,724.0	11,244.0			
Domestic	6,426.0	10,268.0			
Foreign	297.5	976.0			
Errors & Omissions	87.9	350.6			

Source: Ministry of Finance Planning and Economic Development

Total revenue including grants for the seven months of FY2025/26 amounted to Shs. 20,329.6 billion, falling Shs. 1,841.4 billion short of the programme target, reflecting lower grant receipts and underperformance in both domestic tax and non-tax collections, highlighting continued challenges in tax compliance and administration.

Higher than planned recurrent spending and lower-than-expected revenue outturns resulted in a fiscal deficit of Shs. 8,286.1 billion, which was Shs. 2,066.9 billion above the planned target and financed predominantly from domestic sources.

While fiscal deficit is projected at 7.9% in FY2025/26, up from about 6.0% in the previous fiscal year, above the EAC convergence threshold of 3.0%, it is projected to narrow gradually over the medium term to 3.5% by FY2029/30, supported by stronger revenue mobilisation and fiscal consolidation efforts. Government's fiscal consolidation path demonstrates a policy stance that complements the BoU's monetary policy in supporting overall macroeconomic stability. The Government has also continued to honour its commitment to repay BoU advances, clearing all subsequent redemptions in line with the agreed framework.

Public debt: The provisional total public debt stock increased by 21.2% to Shs. 130,220.9 billion at the end of January 2026, relative to January 2025. By the end of January 2026, all domestic debt risk indicators were within the PDMF 2023 medium-term benchmarks except for the ratios of domestic debt to private sector credit and domestic debt interest costs to domestic revenue. High borrowing costs continue to bear down on the budget, even as emerging geopolitical tensions could exert pressure to spend. The cost of servicing this debt has continued to rise, squeezing the government budget and leaving less room for vital investments in health, education, and infrastructure. Interest payment on debt is projected to rise to 4.7% of GDP in FY2025/26 from 3.7% in FY2024/25, crowding out other priorities. Also, high debt service costs mean less room to respond to shocks, interfere with the broader economy by raising the cost of capital, and complicate monetary policymaking. It can also threaten financial stability if yields rise as investors begin to doubt the government's ability to make good on its obligations.

In terms of revenue, debt service estimated at 35.7% of domestic revenue in FY2024/25 is projected to peak at 45.3% in FY2025/26 and to average around 40% over the medium term, maintaining pressure on fiscal space. This is unsustainable and calls for fiscal prudence going forward.

Overall, Uganda's debt outlook, as per the Debt Sustainability Analysis (DSA) for the year ended June 2025, is assessed to be a moderate risk of debt distress, and public debt remains sustainable over the medium- to long-term. This outlook implies continued capacity to meet all current and future debt service obligations without exceptional financial assistance or default. Indeed, public debt, in present value terms, projected to peak at 49.4% in FY2025/26, is expected to remain below the 50% threshold as per the EAC

Convergence criteria over the medium-long term. Stable debt dynamics support confidence in the exchange rate and inflation outlook, facilitating more predictable and effective monetary policy implementation.

However, this outlook is contingent upon the continued implementation of sound fiscal policies, the timely commencement of oil production, effective management of oil revenues to reduce borrowing needs, and the realization of anticipated dividends under the Government's ten-fold growth strategy.

High debt service and external debt exposure are gradually constraining fiscal space to absorb economic shocks, and any adverse occurrence could heighten the risk of debt distress.

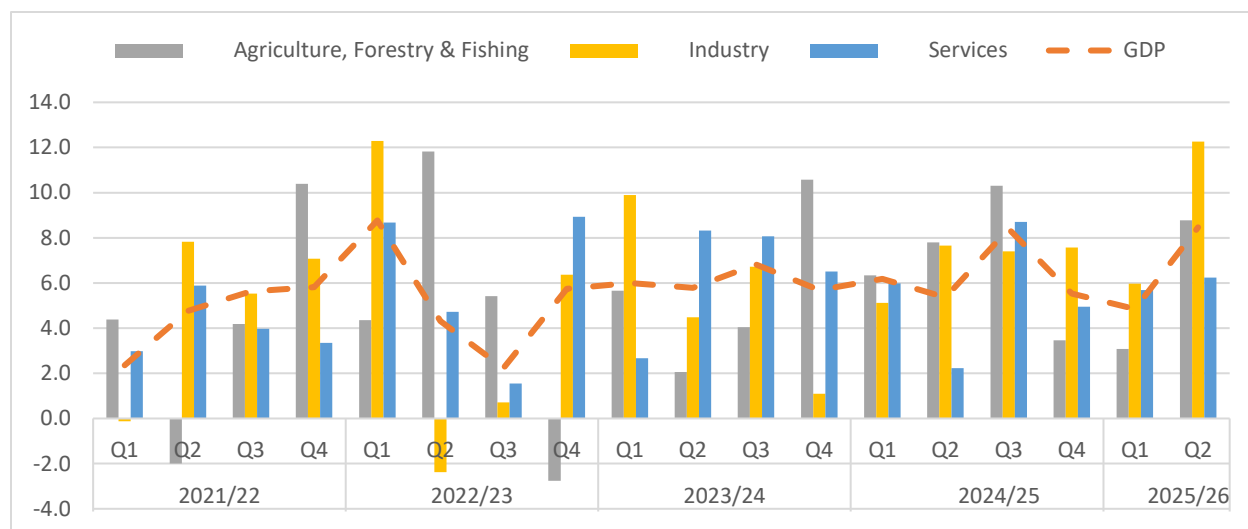
Debt, if not maintained within sustainable levels, may tighten liquidity, raise interest rates, crowd out the private sector and complicate policy transmission with negative implications for economic growth. Such risk therefore underscores the need for continued vigilance to maintain exchange rate stability, adequate reserve buffers, and close fiscal–monetary policy coordination to foster macroeconomic stability.

2.4. Domestic economic activity

2.4.1 Economic Growth Developments

Uganda's economy remains resilient despite frequent and intensified shocks. According to the Uganda Bureau of Statistics (UBOS), the economy expanded by an average of 6.8% in calendar year 2025, driven by final consumption expenditure, which grew 15.3% and investment growth of 11.7%. Consumption growth was largely supported by government spending, up 19.2%, compared with a 15.7% increase in household consumption. (**Figure 16**). Economy expanded by 8.5% year-on-year (**Figure 16**) in the second quarter of FY2025/26, marking its strongest growth since the first quarter of FY2022/23. This robust performance was broad-based with all sectors registering higher growth relative to Q1FY2025/26 and the corresponding Q2FY2024/25.

Figure 16: Uganda’s economy expanded by 8.5% in Q2 FY2025/26, its strongest performance since the third quarter of 2022, driven by strong consumer demand and increased construction activity.



Source: Uganda Bureau of Statistics (UBOS)

The agriculture, forestry, and fishing sector grew 8.8% in Q2 FY2025/26, up from 3.1% in the previous quarter and 7.8% a year earlier, mainly due to stronger cash crop production and an increase in agricultural support services.

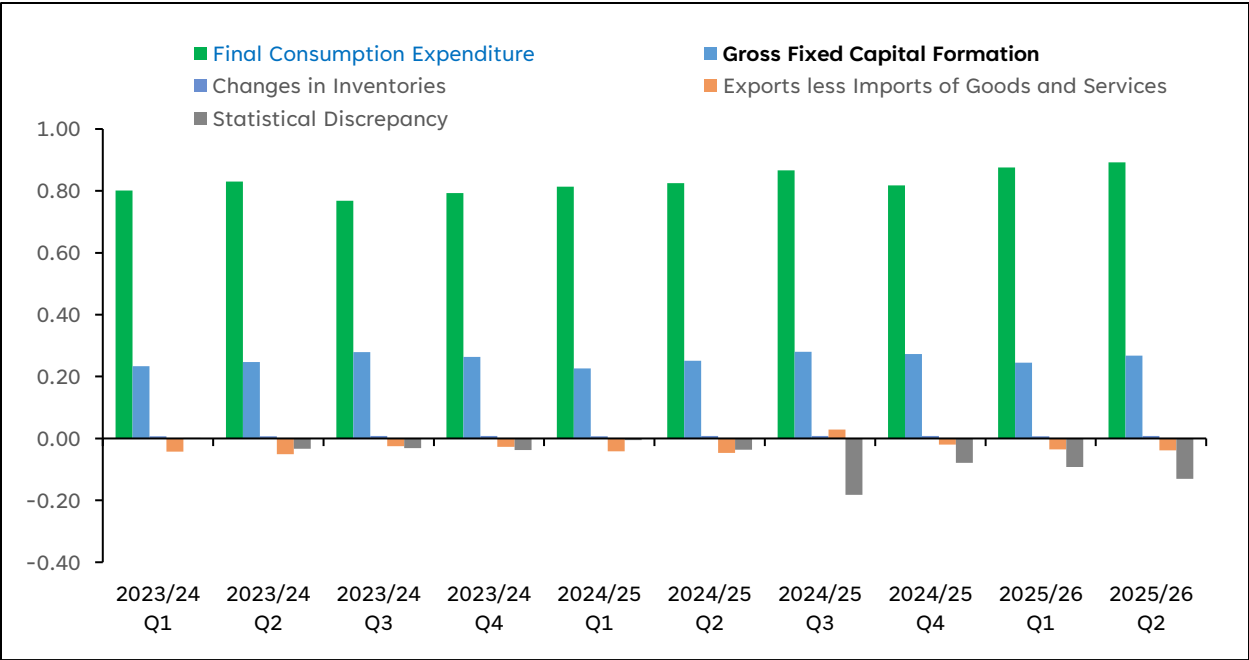
Industrial activity grew by 12.3% in Q2 FY2025/26, higher than 6.0% growth in Q1 FY2024/25 and 7.7% outturn for the corresponding second quarter of FY2024/25. Growth was supported by strong mining and quarrying activity which grew by 27.3%, construction activity which expanded by 19.4%, manufacturing that grew by 8.9%, and a rise in electricity output.

Services activity also picked up to 6.2% from 5.7% in Q1 FY2025/26, and higher than the growth recorded a year earlier, reflecting better performance in real estate activities (6.1% from 3.0% in Q2 FY2024/25), financial and insurance activities (7.7% from 1.8%) information and communication services (4.2% from minus 1.8%), and Administrative and support services (38.4% from 4.3%).

On the expenditure side, growth in Q2 FY2025/26 was on account of robust expansion in both consumption and investment (**Figure 17**). Investment accelerated to 15.6% from 7.3%,

supported by increased spending on ICT and other machinery and equipment, while total consumption rose to 17.4%, up from 4.6% a year earlier, driven by higher government expenditure and household consumption.

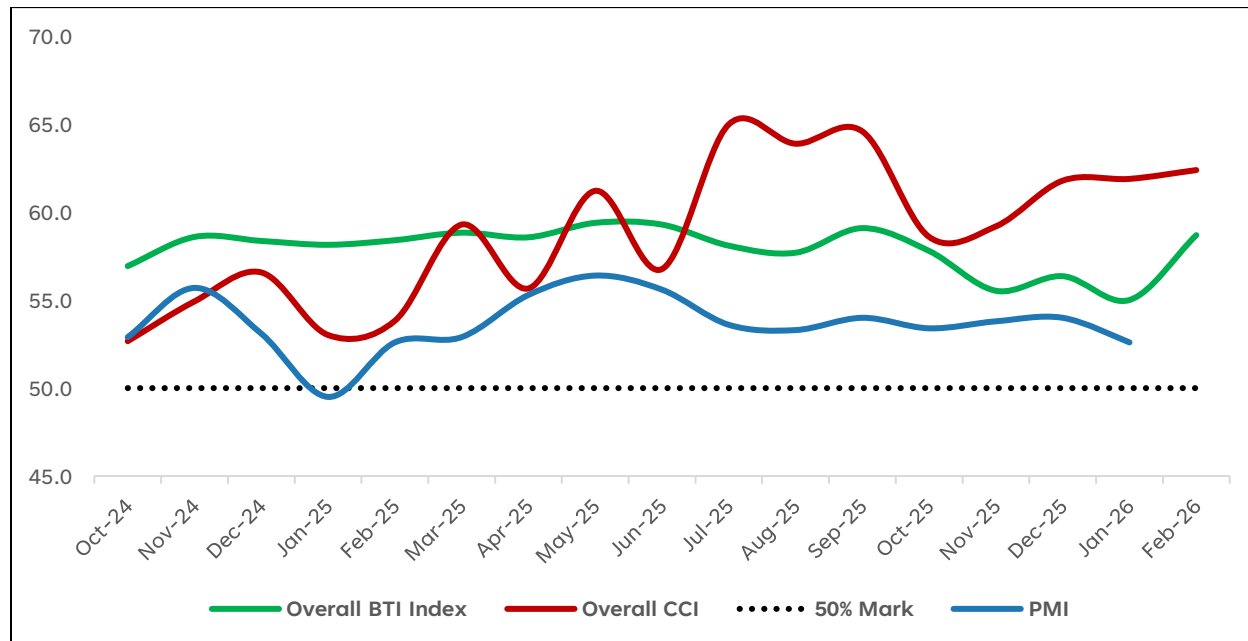
Figure 17: Uganda’s Q2 FY2025/26 GDP Growth Strengthened by Robust Consumption and Investment



Source: Uganda Bureau of Statistics (UBOS)

High-frequency indicators point to an improvement in underlying economic conditions in early 2026, underpinned by robust private sector and government consumption, alongside higher government investment. Survey-based indicators also continue to signal higher consumer confidence and business optimism with the Business Tendency Index (BTI), Consumer Confidence Index (CCI), and Purchasing Managers’ Index (PMI) all remaining above the 50-point threshold in February 2026 (Figure 18). Improved consumer confidence reflects higher expectations for job availability, better financial conditions, and savings, as well as continued low and stable inflation.

Figure 18: Economic Confidence Remains Robust, with Key Indicators Staying Above the 50-Point Threshold at the Start of 2026



Source: Bank of Uganda, Stanbic Bank Uganda PMI

2.4.2 Economic Growth Outlook

Economic activity is expected to remain strong with growth in FY2025/26 projected to range between 6.5% and 7.0% and average about 8% in the medium term. Robust growth shall emanate from strong domestic demand, the continued implementation of government initiatives, including the tenfold growth strategy, increased investment in the extractive industry and gains in agricultural production.

This positive outlook, however, is not without risks. Weather-related shocks continue to carry significant implications for agricultural output and rural livelihoods. In addition, recent global developments have increased uncertainty around energy markets, shipping routes and financial conditions, raising the risk of higher input costs and weaker external demand. Rising global risk aversion could also tighten financing conditions for emerging and frontier markets, with potential implications for investment flows. Taken together, these factors introduce uncertainty around the growth outlook, even as domestic drivers remain supportive.

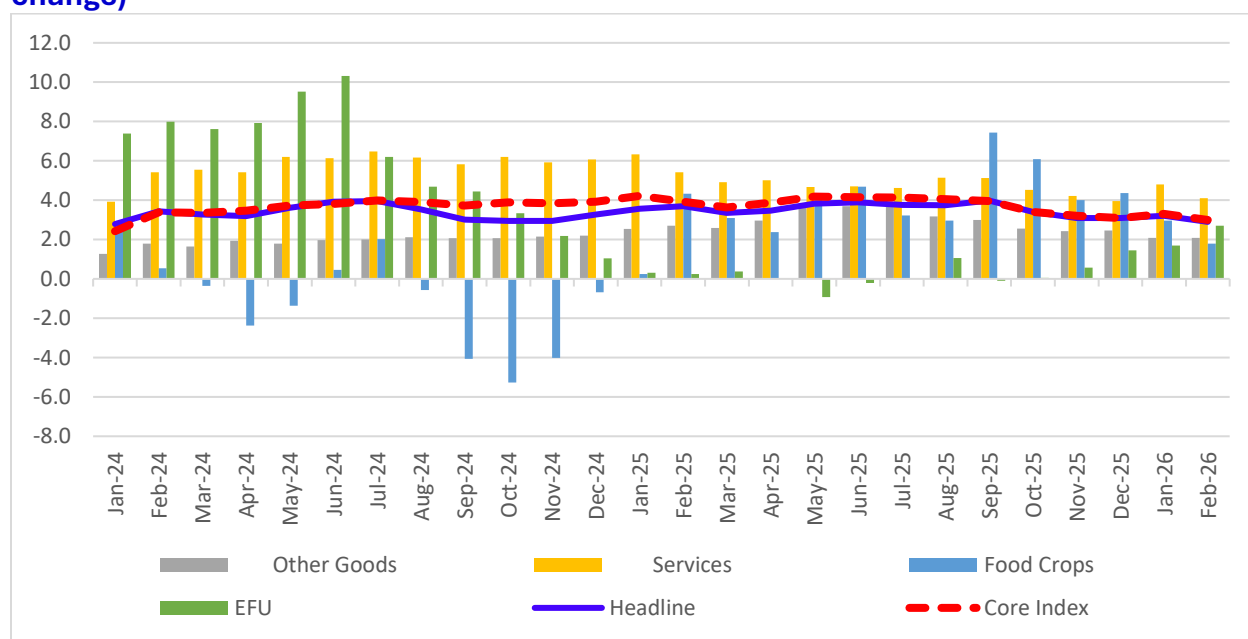
2.5 Domestic Inflation and Outlook

2.5.1 Domestic Inflation

Inflation remained low and stable in the year to February 2026, with both headline and core measures continuing to track below the medium-term target of 5% (**Figure 19**). Annual headline inflation eased to 2.9% in February 2026 from 3.2% in January 2026, reflecting favourable global energy prices and domestic food supply conditions, and the pass-through of an appreciated exchange rate. Core inflation also edged lower to 3.0% from 3.3% in January 2026, supported by a further moderation in services prices.

The latest outturn suggests that underlying inflationary pressures remain contained. Services inflation softened, while food price inflation fell as supply conditions improved. Core goods inflation was broadly stable, with modest increases in some items offset by declines elsewhere. In contrast, energy and utilities inflation picked up slightly, following increases in domestic fuel prices.

Figure 19: Inflation remained low and steady in the 12 months to February 2026, backed by an appreciated Exchange Rate and Prudent monetary policy (Annual percentage change)



Source: UBOS

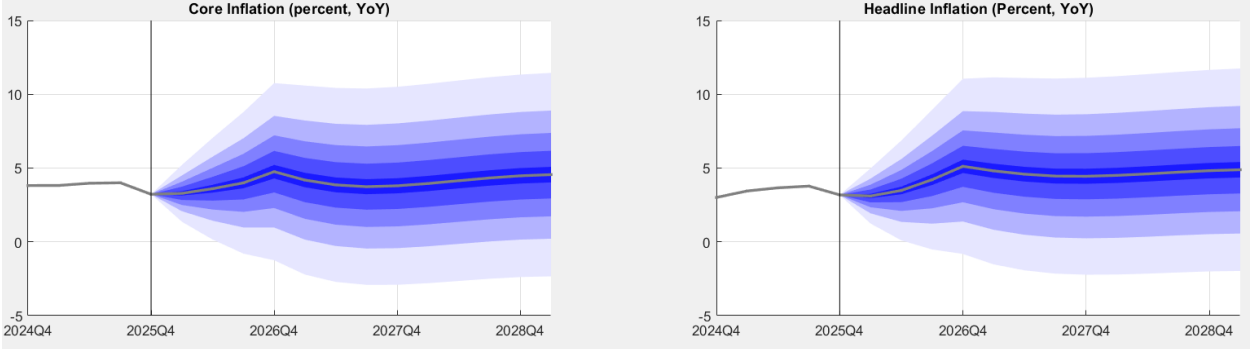
Inflation expectations remain well anchored, and there is little evidence of broader cost-push pressures building in the economy. Against this backdrop, the current monetary policy stance remains consistent with guiding inflation towards the 5% target over the medium term. The BoU will continue to monitor domestic and external developments closely, including movements in global energy markets and exchange-rate dynamics, to ensure that price stability is maintained.

2.5.2 Inflation Outlook

The inflation outlook for Uganda remains broadly aligned with the medium-term target of 5.0%. During the February 2026 MPC round, forecasts were revised slightly downward relative to the November 2025 forecast round, due to lower-than-expected outcomes in late 2025, a stronger exchange rate path, and lower international oil and food prices. Over the next twelve months, annual core inflation was projected to average between 3.8% and 4.3% (**Figure 20**), while headline inflation was expected to follow a similar path. Both measures were projected to gradually return to target by the end of 2026, as domestic demand strengthens and temporary disinflationary pressures fade. However, heightened geopolitical tensions in the Middle East, including the US-Iran conflict, present significant upside risks to global oil prices and inflation, which could exert upward pressure on domestic price developments.

The accompanying fan chart depicts the uncertainties surrounding this forecast. The central path reflects the most likely trajectory for inflation, while the surrounding shaded bands capture a range of plausible outcomes based on current information.

Figure 20: Prior to US-Israel and Iran war, near-term inflation was projected to remain slightly below the 5.0% target, supported by Anchored Inflation Expectations, a Relatively Stable Exchange Rate, and Moderating Global Commodity Prices, Before Gradually Converging to the target by 2026Q4



Source: Bank of Uganda

Risks to the inflation outlook remain broadly balanced in the near term, although uncertainty has increased. Several global developments have introduced renewed volatility in energy and shipping markets, raising the possibility of higher imported inflation should these persist. Domestically, stronger-than-expected demand, including that associated with large-scale investment, could place pressure on core inflation. Weather-related disruptions also remain an important source of volatility for food inflation.

On the downside, favourable supply conditions, especially in agriculture, would continue to ease food inflation. Any broad-based weakness in global demand, were this to materialise, could ease pressure on international prices, thereby reducing inflationary pressures imported into the domestic economy.

Taking into account the recent escalation of geopolitical tensions in the Middle East, the balance of risks to inflation could have shifted slightly upward (Box 2), reflecting a more challenging external environment. The BoU will continue to monitor developments and stands ready to adjust its policy stance, if necessary, to ensure that inflation remains on a path consistent with the medium-term target of 5%.

Box 2: Impact of Recent Middle East Geopolitical Developments on Macroeconomic Stability

The recent geopolitical developments affecting the Middle East, particularly the closure of the Strait of Hormuz, have materially changed the external environment underpinning the current macroeconomic outlook. The rising global oil prices present material risks to the global financial and economic conditions, the exchange rate, inflation trajectory, and overall macroeconomic stability for Uganda.

What does the shock mean for the economy's external sector?

Global crude prices have risen by more than 50% within a month due to shipping disruptions, with a credible risk of prices exceeding USD 100 per barrel for much longer if tensions persist. Higher global oil prices directly raise the import bill and domestic production costs. Assuming import volumes remain unchanged, a sustained rise in oil prices is estimated to increase the oil import bill.

Although the Middle East accounts for 39% of Uganda's exports, excluding gold reduces exposure to 0.7%, limiting direct trade effects. Gold tends to be resilient during periods of uncertainty, though higher freight and insurance costs may create temporary disruptions. Given Uganda's modest net gold position, the overall current account impact remains limited. Over 30% of remittances originate from the Middle East. A prolonged conflict could weaken labour markets in host countries, reducing inflows. BoU analysis suggests this could result in a reduction in remittance inflows by 0.5 pp of GDP in 2026.

A combination of higher global commodity prices and tighter global financial conditions occasioned by the need for tighter monetary policy by central banks in advanced economies, would significantly weigh down on global output, real disposable incomes and dampen global demand, thereby negatively impacting Uganda's external sector.

Ugandan offshore holdings of government securities are also highly concentrated. 25 investors hold 80% of exposure. Heightened global financial volatility could trigger exits. Previous estimates suggest a 1% decline in offshore holdings is associated with a 0.5% depreciation of the shilling. Under severe stress, even moderate offshore exits could therefore magnify exchange rate pressures. Combining reduced remittances and weaker net exports, the current account deficit could widen by more than 2 percentage points compared to the previous projection of about 3% with attendant implications for the shilling.

What are the domestic macroeconomic implications?

This supply-side shock would be expected to raise inflation while simultaneously weakening real activity. Higher fuel and input costs increase firms' costs and reduce households' real purchasing power, dampening consumption and investment. Scenario estimates indicate that inflation could peak substantially above the 5% medium term target if no adjustment in CBR, while GDP growth slows by more than 1 percentage point. Slowed global growth could however dampen global inflationary pressures as a second-round effect, thereby moderating the net rise in domestic inflation.

However, these projections reflect a single scenario under heightened uncertainty. The realised impact could be smaller if tensions ease or shipping routes normalise more quickly, or larger if the conflict widens or supply disruptions intensify.

3. CONCLUSION

Uganda's economy has continued to demonstrate resilience and stability despite a more uncertain global environment. Growth has continued at a solid pace, supported by domestic demand, improved supply conditions and ongoing private and public investment. Growth remains robust and broad-based, with FY2025/26 projected at 6.5-7.0% and expected to rise above 8% over the medium term as oil sector developments advance and structural transformation deepens. Inflation has eased further and remains below the 5% medium term target, with underlying price pressures contained and expectations well anchored.

Financial markets are stable. Lower issuance of government securities has eased crowding out effects, contributing to declining yields and a moderation in lending rates. This has supported a recovery in private sector credit growth, reflecting improved credit conditions, stronger asset quality, and stable macroeconomic fundamentals. The strengthening of this transmission channel is significant, as it enhances the effectiveness of monetary policy in influencing real economic activity. Sustained easing in financial conditions is expected to further support investment and consumption, reinforcing growth momentum going forward.

Notwithstanding these gains, fiscal pressures remain a key vulnerability. Fiscal operations have been more expansionary than programmed, with revenue shortfalls and elevated expenditure widening the deficit beyond target and increasing reliance on domestic financing. Rising debt servicing costs continue to exert pressure on the budget, constraining fiscal space. While the medium-term fiscal consolidation path is appropriate and necessary to restore sustainability and align with regional benchmarks, its credibility will depend on strengthened domestic revenue mobilisation and expenditure discipline. Maintaining fiscal-monetary policy coordination will be critical to preserving recent gains in financial conditions and ensuring that reduced crowding-out continues to support private sector-led growth.

Uganda's external sector performance has been a key source of strength. The narrowing current account deficit, combined with a substantial financial account surplus, has resulted in a strong balance of payments position. This improvement has been driven by robust foreign direct investment, particularly in the oil sector, as well as increased portfolio inflows attracted by favourable real returns on government securities. These inflows, together with proactive central bank interventions, have enabled a significant build up in foreign exchange reserves, strengthening the country's buffer against external shocks and supporting

exchange rate stability. The balance of payments dynamics underscore the central role of investment inflows in financing external imbalances while reinforcing macroeconomic resilience. Over the medium term, the commencement of oil exports is expected to further strengthen the external position through increased export receipts and reduced import dependence.

However, the outlook is subject to significant downside risks, particularly from the evolving geopolitical situation in the Middle East. A prolonged escalation could disrupt global energy markets, leading to sustained increases in oil prices. For Uganda, this would raise the import bill, exert pressure on the exchange rate, and generate inflationary pressures through higher domestic fuel and transport costs. While inflation is currently projected to remain within 5% medium-term target over the policy horizon, the balance of risks is tilted to the upside, warranting continued vigilance.

Overall, Uganda's recent macroeconomic gains are substantial but remain vulnerable to reversal if global risks materialize or fiscal pressures persist. The policy mix, anchored by a cautious monetary stance and a commitment to fiscal consolidation, remains appropriate. Preserving macroeconomic stability will require sustained policy discipline, continued strengthening of monetary and fiscal policy coordination, and careful management of external risks. With these conditions in place, alongside the anticipated boost from the oil sector and ongoing structural reforms, Uganda is well positioned to sustain strong and inclusive growth over the medium term, while building resilience against an increasingly uncertain global backdrop.