MONETARY POLICY REPORT

November 2026



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PREFACE

Bank of Uganda's Monetary Policy

The primary objective of Bank of Uganda (BoU) under the Constitution of the Republic of Uganda and in accordance with the Bank of Uganda Act (Cap 51), Laws of Uganda, 2000, is to achieve and maintain price stability in the interest of balanced and sustainable economic growth. Price stability helps to protect the purchasing power and living standards of all Ugandans and creates a conducive environment for economic activity to flourish. As such, the central bank contributes to sustainable economic growth by maintaining a low inflation environment. The goal of price stability is quantified through an inflation target, which is set in consultation with government at 5.0% core inflation over the medium-term (2-3 years ahead). BoU has been pursuing price stability under an inflation targeting monetary policy framework since July 2011.

The inflation target and the Central Bank Rate (CBR)

The CBR is the main instrument used by BoU to achieve the set 5.0% core inflation target and its level is decided at the Monetary Policy Committee (MPC) meeting. As a reference interest rate, it is used to determine the cost of money and other financial prices, such as the exchange rate, and longer-term interest rates, among others. In turn, these variables affect the demand for goods and services and, thereby, prices and inflation. Given that monetary policy decisions affect markets and the economy with a lag, BoU conducts monetary policy from a forward-looking point of view. The inflation targeting framework is flexible, meaning that policymakers will seek to look through temporary shocks, thereby avoiding excessive volatility in interest rates and economic output. Decisions of the MPC are formally communicated at the end of each meeting to the general public through a press conference, accompanied by a comprehensive monetary policy statement and report.

Communication, transparency and the Monetary Policy Report

The BoU is committed to remain transparent and believe that a credible monetary policy, understood by the people, helps to keep inflation low and stable. Through the Monetary Policy Report (MPR), BoU communicates to the public its view of the recent evolution of the economy, its projections for the coming years and the way in which, it will conduct monetary policy to meet the inflation target with the aim of broadening the public's understanding of BoU's monetary policy objectives and conduct of monetary policy. The MPR covers domestic and international developments that affect the monetary policy stance.

This report presents economic developments up to November 2026 where data is available. The cut off for data used to prepare the Statement on Monetary Policy was October 31, 2026.

ACRONYMS AND ABBREVIATIONS

AfDB	Africa Development Bank
ADF	Africa Development Fund
AEs	Advanced Economies
EIA	Energy Information Administration
EIB	European Investment Bank
BoU	Bank of Uganda
CBR	Central Bank Rate
CRM	Credit Relief Measure
CIEA	Composite Index of Economic Activity
Covid-19	Corona Virus Disease 2019
CPI	Consumer Price Index
EAC	East African Community
EU	European Union
EFU	Energy, Fuel and Utilities
EMs	Emerging Market Economies
EMDEs	Emerging Market and Developing Economies
FDI	Foreign Direct Investment
Fed	Federal Reserve
GDP	Gross Domestic Product
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LICs	Low Income Countries
MPC	Monetary Policy Committee
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
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
TDB	Trade and Development Bank
UGX	Uganda Shilling
UK	United Kingdom
US	United States
USA	United States of America
US$	United States Dollar
URA	Uganda Revenue Authority
y/y	Year-on-Year

EXECUTIVE SUMMARY

Uganda's economy remains resilient, although growth is moderating amid heightened global uncertainty, elevated energy prices, exchange rate depreciation and adverse weather conditions. Economic growth is projected at 5.5-6.0% in FY2026/27, down from the previous projection of 6.0-6.5%, while inflationary pressures have intensified. Headline inflation increased to 5.8% in October 2026 from 4.6% in September 2026, while core inflation rose to 4.4% from 3.7%. Risks to the inflation outlook remain tilted to the upside, while risks to the growth outlook are tilted to the downside.

Monetary Policy Decision: The MPC maintained the Central Bank Rate (CBR) at 12.0% at its meeting on 9 November 2026, despite a deterioration in the inflation outlook since October 2026, to allow the previous tightening measures to transmit through the economy while continuing to assess the evolving inflation risks and developments in the global economic environment. Continued worsening of the current account deficit which could result in a weaker shilling, higher international energy prices arising from geopolitical tensions in the Middle East and adverse weather conditions have intensified domestic inflationary pressures.

The MPC also widened the CBR corridor from ±2 to ±3 percentage points to support tight shilling liquidity. The margins on the CBR for the rediscount and bank rates were set at 4 and 5 percentage points, respectively, and the rediscount rate and bank rate consequently increased 16.0 percent and 17.0 percent, respectively. The temporary tightening is meant to secure medium-term macroeconomic stability, which is the bedrock of the ten-fold growth strategy.

Inflation and Inflation Outlook: Headline inflation increased to 5.8% in October 2026 from 4.6% in September, while core inflation rose to 4.4% from 3.7%, reflecting higher energy prices, adverse weather-related food price pressures and exchange rate depreciation. Food inflation increased to 7.6% from 4.7%, while non-food inflation rose to 5.1% from 4.5%. Non-core inflation accelerated to 12.7% from 8.8%, driven by higher food crop and energy prices. The inflation outlook has deteriorated, with core and headline inflation projected to

THE KEY RESULTS

12.0 %
CENTRAL BANK RATE

5.8%
HEADLINE INFLATION

4.4%
CORE INFLATION

5.3%
FY2026/27 Q1 GDP GROWTH



average 6.0-6.5% and 7.5-8.0%, respectively, over the next 12 months. Key upside risks include further exchange rate depreciation, elevated international oil prices, adverse weather and tighter global financial conditions, while favourable weather, lower oil prices and weaker domestic demand could moderate inflationary pressures.

Domestic Economic Activity and Growth Trends: Uganda's economic activity remains resilient, although growth is moderating amid a challenging external environment. High frequency indicators suggest quarterly growth slowed to approximately 5.3% in September 2026 from 6.8% in June, reflecting global economic uncertainty and the lagged effects of drought. Business and consumer sentiment remained positive but weakened, indicating less favourable expectations of future economic conditions. FY2026/27 growth is projected at 5.5-6.0%, down from 6.0-6.5%, reflecting tighter financial conditions, Shilling depreciation, elevated energy prices and geopolitical uncertainty. Medium-term growth is projected to average about 8.0%, supported by private investment, exports, oil sector developments and the Government's Tenfold Growth Strategy. Key downside risks include adverse weather, global economic uncertainty, elevated production costs and delays in oil production, while stronger investment, favourable weather and easing geopolitical tensions could support growth.

Domestic Financial Conditions: Financial conditions tightened following the October 2026 increase in the CBR from 9.75% to 12.0%, with overnight and 7-day interbank rates rising to 11.6% and 11.9%, respectively. However, average Shilling lending rates declined slightly to 17.5% from 17.7%, supported by improved asset quality, while foreign currency lending rates increased to 7.7% from 7.2%, in part reflecting the exchange rate depreciation. Annualised private sector credit growth strengthened to an average of 19.8% in the three months to September 2026 from 14.0% in the preceding quarter, supported by stronger foreign currency lending and increased credit approvals. Going forward, higher CBR and CRR are expected to raise banks' funding costs and lending rates, while tighter financing conditions are likely to moderate private sector credit growth.

Fiscal Outturn and Policy Implications: Fiscal operations in the first quarter of FY2026/27 were more expansionary than planned, with the deficit reaching UGX. 3,801.1 billion, exceeding the programmed target by UGX. 867.6 billion. Government revenue, including grants, amounted to UGX. 8,543.6 billion, below target by UGX. 953.4 billion, reflecting weaker grant receipts and underperformance in tax and non-tax collections. Higher recurrent expenditure further contributed to the larger deficit, while capital expenditure fell short of its programmed target. The medium-term outlook anticipates fiscal consolidation, supported by stronger revenue mobilisation, expenditure rationalisation, prudent debt management and petroleum revenues. However, geopolitical tensions, exchange rate

pressures, revenue collection challenges and delays in oil sector developments pose risks to consolidation.

Balance of Payments and Exchange Rate Trends: Uganda's balance of payments surplus increased by US$60.6 million to US$ 1.8 billion in the year to September 2026 relative to the preceding year, supported by strong financial inflows that offset a widening current account deficit. Higher export earnings were outweighed by rising imports, freight costs and debt service payments. Strong FDI, portfolio investments and budget support boosted reserves to US$ 7.0 billion by October 2026, equivalent to 3.9 months of import cover, up from 3.7 months in September 2026. Meanwhile, the Shilling depreciated by 20.4% year-on-year in October 2026, averaging UGX. 4,170.48 per US dollar, reflecting increased foreign exchange demand, higher import costs and geopolitical uncertainty. Further depreciation risks persist, although tighter monetary policy, attractive government securities yields, foreign exchange interventions and anticipated oil exports could provide support.

Over the medium term, oil exports, stronger non-oil export performance and tourism recovery are expected to boost foreign exchange inflows and strengthen external sector resilience, with the balance of payments projected to transition towards a sustained surplus from FY2027/28.

Global Economic Context: Global economic conditions remain resilient but have become less favourable amid escalating conflict in the Middle East, elevated energy prices and heightened geopolitical uncertainty. Global growth is projected to slow from 3.5% in 2025 to 3.1% in 2026 before recovering to 3.4% in 2027, partly supported by artificial intelligence investment. Global inflation is projected to increase from 4.1% in 2025 to 4.7% in 2026 before easing to 4.1% in 2027, reflecting higher food and energy prices. International crude oil prices rose by 7% month-on-month and 93% year-on-year to approximately US$125 per barrel in October 2026, reflecting disruptions to Middle East energy supply chains. Meanwhile, global financial conditions are expected to tighten as persistent inflation risks, higher sovereign borrowing costs and restrictive monetary policies constrain investment and capital flows.

For Uganda, these developments could increase imported inflation, widen the current account deficit, intensify Shilling depreciation pressures and raise domestic financing costs, with adverse implications for growth. Conversely, easing geopolitical tensions, lower global energy prices and stronger oil export earnings could improve Uganda's inflation outlook, external position and growth prospects.

1 MONETARY POLICY DECISION

At its meeting on 9 November 2026, the Bank of Uganda's Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 12.0% and widened the band around the CBR from ±2 to ±3 percentage points. Consequently, the rediscount rate and bank rate were raised to 16.0% and 17.0%, respectively.

Annual headline inflation rose to 5.8% in October 2026 from 4.6% in September, driven largely by higher energy prices and adverse weather-related food price pressures. Core inflation also increased from 3.7% to 4.4% over the same period, indicating that price pressures are spreading more broadly across the economy. The pass-through of higher fuel prices and exchange rate depreciation to the prices of other goods and services is continuing, with the full effects yet to materialise. Nevertheless, annual average headline and core inflation remained moderate at 3.6% and 3.3%, respectively, in the 12 months to October 2026, below the medium-term target of 5.0% for core inflation.

The inflation outlook has deteriorated further since the October 2026 special MPC meeting, primarily reflecting higher international oil prices and a widening current account deficit, which could exert additional depreciation pressures on the Uganda Shilling. A moderation in portfolio inflows could further weaken the exchange rate. Core inflation is now projected to average 6.0–6.5% over the next 12 months, up from the previous projection of 5.5–6.0%, while headline inflation is projected to average 7.5–8.0%.

Risks to the inflation outlook remain tilted to the upside. These include greater-than-projected depreciation of the Uganda Shilling, persistently elevated international oil prices, and adverse weather conditions affecting agricultural output and food prices. A further increase in global energy and food prices could raise domestic inflation directly through higher import costs. It could also prompt central banks in advanced economies to maintain restrictive monetary policy stances or tighten further, leading to tighter global financial

conditions and additional depreciation pressures on the Shilling, thereby adding to domestic inflationary pressures.

On the downside, favourable weather conditions could improve agricultural output and food supply, resulting in a faster-than-projected decline in food crop prices and overall inflation. A resolution of the conflict in the Middle East could also moderate international oil prices sooner than anticipated. In addition, higher costs and uncertainty associated with the conflict could weigh more heavily than expected on domestic consumption and investment, resulting in weaker aggregate demand. Tight monetary and fiscal policies, coupled with a weaker economic outlook, could keep economic growth below its potential rate in the near term, further moderating demand-side inflationary pressures.

Economic activity remains resilient, although growth has slowed below its estimated potential rate amid a more challenging external environment. The Bank of Uganda's high-frequency indicators suggest that economic growth slowed to approximately 5.3% in the quarter to September 2026, compared with 6.8% recorded by the Uganda Bureau of Statistics (UBOS) in the quarter to June 2026.The moderation reflects the deteriorating global economic environment and the lagged effects of the drought experienced in the first half of the year. Business and consumer sentiment for the three months to December 2026 remain positive, although both have weakened, pointing to a moderation in near-term economic activity.

Economic growth for FY2026/27 is projected at 5.5–6.0%, revised down from the previous projection of 6.0–6.5%. The downward revision reflects tighter global and domestic financial conditions, recent exchange rate depreciation, elevated international energy prices, and heightened geopolitical uncertainty. Over the medium term, growth is projected to strengthen to an average of about 8% over the next five years, supported by increased private investment, stronger export performance, anticipated developments in the oil sector, and continued implementation of the Government's Tenfold Growth Strategy.

Risks to the growth outlook remain tilted to the downside, reflecting potential further increases in global energy and food prices, persistent global economic policy uncertainty, tight Shilling liquidity that could constrain private sector credit, tighter external financial conditions, adverse weather conditions associated with El Niño, further delays in oil production, and lingering health-related travel restrictions affecting tourism and related services. On the upside, favourable weather conditions could boost agricultural output, stronger-than-expected investment in the extractive sector could support economic activity, and easing tensions in the Middle East could lower international oil prices.

Against this backdrop, the MPC assessed that, despite the deterioration in the inflation outlook, prevailing financial conditions were sufficiently tight to contain inflationary pressures. With core inflation projected to rise above the medium-term target and economic growth expected to moderate, the MPC considered it appropriate to maintain the CBR at 12.0%, allowing sufficient time for the effects of previous monetary policy measures to work through the economy, while widening the band around the CBR to reinforce tight Shilling liquidity conditions. The temporary tightening of monetary policy is intended to preserve medium-term macroeconomic stability as a foundation for the Government's Tenfold Growth Strategy.

2 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 Domestic Inflation and Outlook

2.1.1 Domestic Inflation

Headline and core inflation averaged 3.6% and 3.3%, respectively, in the 12 months to October 2026, underpinned by a prudent and forward-looking monetary policy framework. In recent months, however, adverse supply-side developments have begun to feed through to consumer prices.

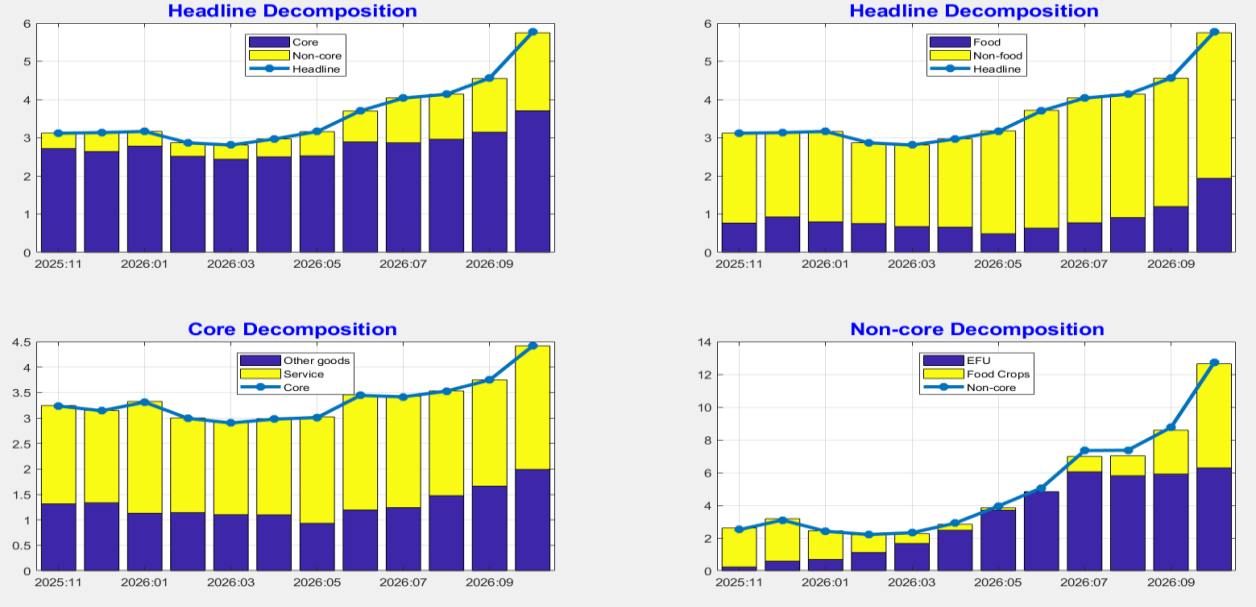
Inflationary pressures are intensifying, reflecting persistent supply-side shocks and the depreciation of the Uganda Shilling. The effects of the recent drought continue to exert upward pressure on food prices, while the conflict in the Middle East has led to higher energy prices. Furthermore, the depreciation of the Shilling in September and October 2026 has amplified imported inflationary pressures, exacerbating the effects of existing supply chain disruptions associated with geopolitical tensions.

In October2026, headline inflation increased to 5.8% from 4.6% in September 2026, reflecting broad based price pressures across both food and non-food categories (**Figure 1**). Food inflation rose to 7.6% from 4.7%, while non-food inflation rose to 5.1% from 4.5%, reflecting the impact of energy and weather shocks.

Core inflation rose to 4.4% in October 2026 from 3.7% in September 2026, driven by services and other goods inflation, which accounted for 51% and 49% of the increase, respectively. The rise in core inflation reflects the pass through of higher energy costs to services and the impact of shilling depreciation on imported goods. Specifically, services inflation increased to 5.3% from 4.6% on account of higher transport costs, notably air and taxi fares, while other goods inflation rose to 3.7% from 3.1%, driven by higher prices for selected food and imported items.

Non-core inflation accelerated to 12.7% in October 2026, up from 8.8% in September 2026, primarily driven by a sharp increase in food crop inflation, which reached 10.7% due to the lagged impact of recent drought conditions. Simultaneously, Energy, Fuel, and Utilities (EFU) inflation rose to 15.4% from 14.5%. This increase reflects higher domestic fuel pump prices stemming from elevated international crude prices, as ongoing geopolitical tensions, notably the protracted closure of the Strait of Hormuz and sustained conflict in Yemen, continue to disrupt global energy supply chains.

Figure 1: Inflation picked up in the twelve months to October 2026, reflecting ongoing supply shocks to energy and food prices.



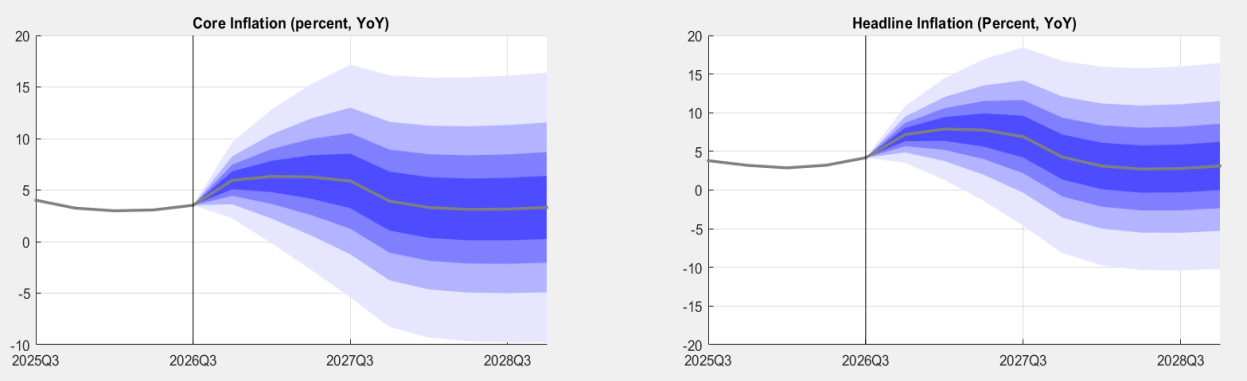
Source: UBOS

2.1.2 Inflation Outlook

The near-term inflation outlook has been revised upwards relative to the October 2026 projection round, reflecting the materialisation of key external and domestic risks. The upward revision is driven primarily by elevated international petroleum prices and a widening current account deficit, which continue to exert depreciation pressure on the exchange rate. Concurrently, weaker cross-border portfolio inflows have constrained foreign exchange liquidity, exerting additional depreciation pressures on the Uganda Shilling and posing upside risks to domestic inflation.

Over the next twelve months, annual core inflation is projected to average 6.0%-6.5%, up from the previously forecast 5.5%-6.0% range (**Figure 2**). Similarly, annual headline inflation is forecast to average 7.5%-8.0% compared to the earlier projection of 7.0%-7.5%, driven by elevated food and energy costs and exchange rate volatility**.**

Figure 2: Inflation outlook revised upwards, reflecting higher international oil prices and a widening current account deficit that could exert additional depreciation pressures on the Shilling



Source: Bank of Uganda

Risks to the domestic inflation outlook remain skewed to the upside. A combination of stronger exchange rate depreciation, elevated global oil prices, and adverse weather conditions poses significant upward pressure on consumer prices.

Resurgence of global energy and food price pressures risk reigniting global inflation, compelling advanced economy central banks to prolong or intensify restrictive monetary policy stances. Spillovers from tighter global financial conditions could intensify depreciation pressures on the Ugandan shilling and accelerate the pass through to domestic prices. At the same time, higher global inflation is expected to feed into the domestic economy through elevated import costs.

On the downside, favourable weather conditions could improve agricultural output and food supply, resulting in a faster than projected decline in food prices and overall inflation. Global oil prices could also ease sooner than anticipated if a diplomatic solution to the conflict in the Middle East is reached soon. In addition, the cost pressures and uncertainty associated with the conflict could weigh more heavily than expected on domestic consumption and investment, resulting in weaker aggregate demand. Furthermore, tighter monetary and fiscal policies, coupled with a weaker economic outlook, could keep GDP

growth below its potential in the near term, further constraining demand side inflationary pressures.

Macroeconomic Risks and Alternative Policy Scenarios

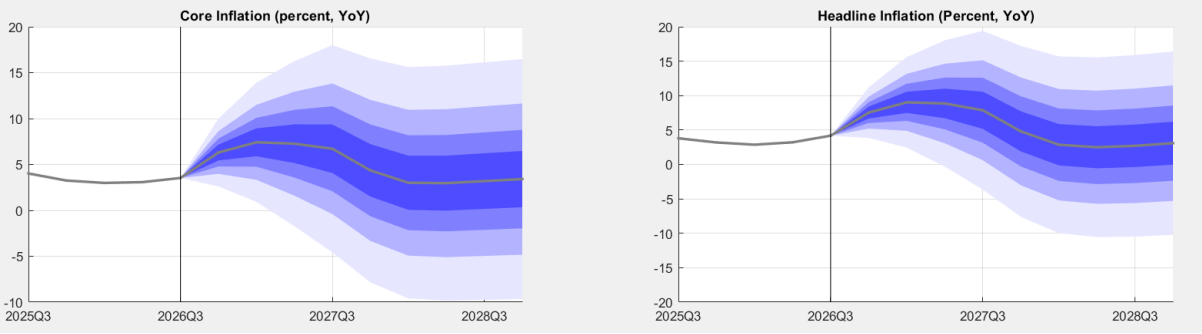
The BoU carried out alternative scenario analyses to examine what the materialisation of key risks to the baseline could mean for the macroeconomic outlook and monetary policy. Each scenario estimates how inflation, economic growth, the exchange rate, and the appropriate monetary policy stance could differ from the baseline projections if a given risk were to occur.

Implications of a More Depreciated Exchange Rate

This alternative scenario considers the implications of a more depreciated exchange rate arising from volatility associated with geopolitical tensions and higher policy rates in advanced economies, which could prompt offshore portfolio rebalancing. In this scenario, the exchange rate is assumed to depreciate cumulatively by 10% more than in the baseline by the end of the first quarter of 2027.

Inflationary pressures would increase relative to the baseline. In 2027, headline and core inflation would average 1.0 percentage point and 0.9 percentage points higher than the baseline, respectively (**Figure 3**), reflecting the pass through of exchange rate depreciation to domestic prices. GDP growth would be 0.3 percentage points higher than the baseline in FY2026/27 and 0.2 percentage points higher in FY2027/28.

Figure 3: Implications of a More Depreciated Exchange Rate



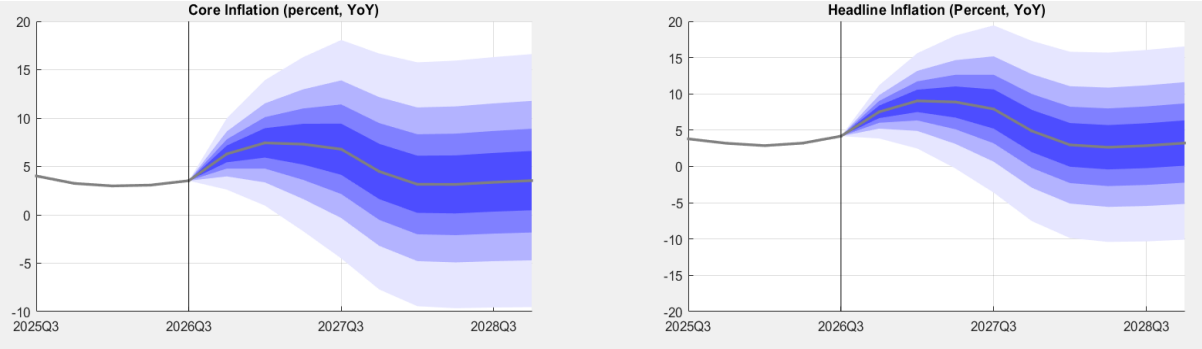
Source: Bank of Uganda

Implications of a Higher Fiscal Deficit and a More Depreciated Exchange Rate

This scenario considers the combined implications of a higher fiscal deficit and a more depreciated exchange rate. It assumes a fiscal deficit 1 percentage point higher than the baseline for two years, combined with a cumulative exchange rate depreciation of 10% higher than in the baseline by the end of 2027Q1, arising from volatility associated with geopolitical tensions and higher policy rates in advanced economies that could prompt offshore portfolio rebalancing.

Headline and core inflation would average 1.1 percentage points and 1.0 percentage point higher than the baseline in 2027, respectively (**Figure 4**). GDP growth would be 0.4 percentage points higher than the baseline in FY2026/27 and 0.3 percentage points higher in FY2027/28.

Figure 4: Implications of a Higher Fiscal Deficit and a More Depreciated Exchange Rate



Source: Bank of Uganda

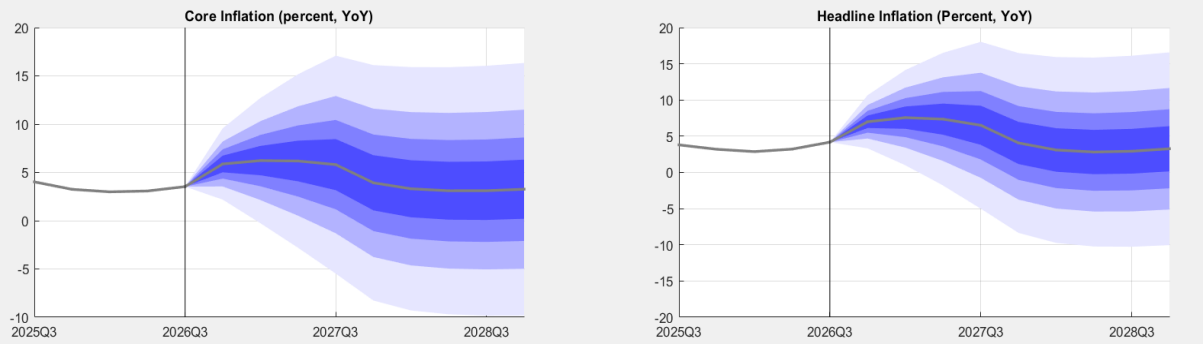
Implications of Higher International Oil Prices

This alternative scenario assesses the implications of an escalation in geopolitical tensions that results in persistently higher international oil prices. The scenario assumes that international oil prices average above US$110 per barrel in 2027, compared with US$91 per barrel in the baseline.

Higher oil prices would increase domestic inflationary pressures and weaken the exchange rate. Headline and core inflation would average 1.0 percentage point and 0.7 percentage

points higher than the baseline in 2027, respectively (**Figure 5**), while the exchange rate would, on average, be 1.5% more depreciated than the baseline.

Figure 5: Implications of Higher International Oil Prices



Source: Bank of Uganda

The higher oil prices would also weigh on economic activity, with GDP growth projected to be 0.3 percentage points lower than the baseline in FY2026/27 and 0.4 percentage points lower in FY2027/28.

2.2 Domestic economic activity

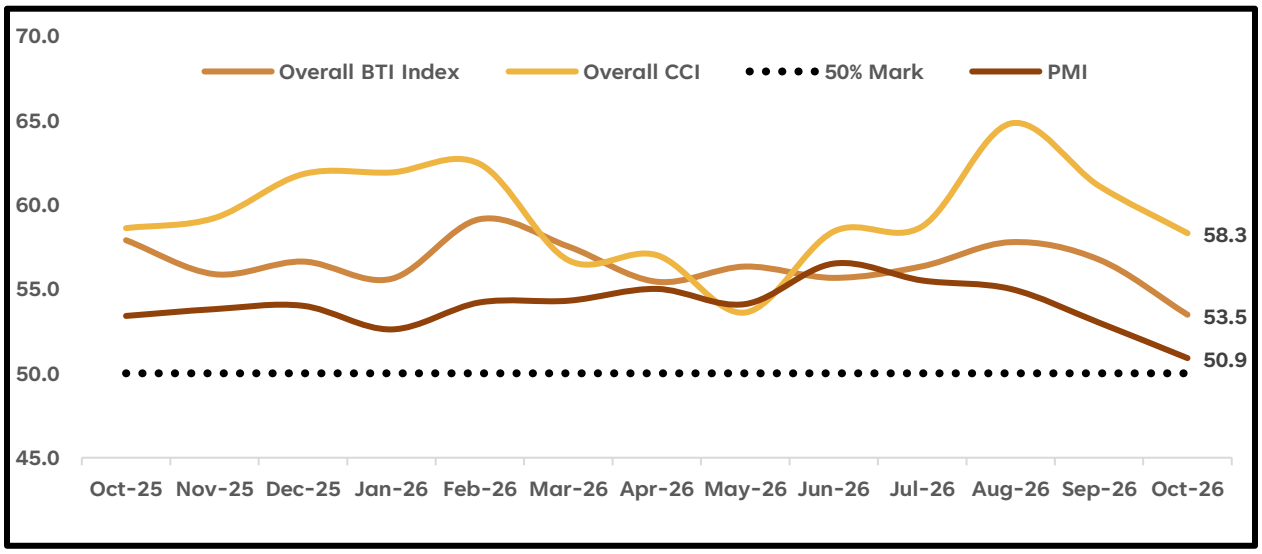
2.2.1 Economic Growth Developments and outlook

Economic activity remained strong in FY2025/26, although more recent high frequency indicators point to a moderation in growth at the start of FY2026/27. The Bank of Uganda's high frequency indicators estimate that economic growth slowed to approximately 5.3 percent in the quarter ending September 2026, down from the 6.8 percent recorded by the Uganda Bureau of Statistics (UBOS) in the quarter ending June 2026. This moderation reflects a less favourable global economic environment and the lagged effects of the drought experienced in the first half of the year. Although economic activity remains resilient, growth appears to have slowed below its estimated potential rate.

Furthermore, business and consumer sentiment indicators point to some moderation in private sector activity, although they remain in expansionary territory. The Purchasing Managers' Index (PMI) declined for the fourth consecutive month, falling to 50.9 in October

2026 from 53.0 in September. Nevertheless, the index remained above the 50-point threshold, indicating continued expansion in business activity, albeit at a slower pace. The moderation was largely driven by rising input costs and elevated interest rates, which dampened client spending and contributed to the first decline in output in 20 months. Similarly, business confidence weakened, with the Business Confidence Index (BCI) declining to 53.5 in October 2026 from 56.7 in the previous month, reflecting less favourable assessments of both current and expected business conditions. Consumer confidence also softened, with the Consumer Sentiment Index (CSI) falling by 2.8 points to 58.3, signalling less favourable expectations regarding economic conditions and future job prospects. Despite the moderation, all three indicators remained above their respective thresholds and continued to signal expansion in private sector activity (**Figure 6**).

Figure 6: Sentiment Indicators Point to Sustained but Slower Expansion in Private Sector Activity at the Start of FY2026/27.



Source: Bank of Uganda, Stanbic Bank Uganda PMI

2.2.2 Economic Growth outlook.

The Bank of Uganda has revised economic growth forecasts for FY2026/27 downwards to 5.5–6.0% from 6.0–6.5%, reflecting the materialization of downside risks, including the recent exchange rate depreciation, the adverse effects of drought in the first quarter of

FY2026/27, elevated global energy prices, and tighter global and domestic financial conditions. Despite the near-term slowdown, growth is expected to strengthen over the medium term, averaging around 8.0%. This outlook is supported by ongoing policy efforts to stabilize the macroeconomic environment and the anticipated commencement of commercial oil production in the second half of FY2026/27, which is expected to stimulate investment, boost export receipts, and generate positive spillovers across the domestic economy.

Growth prospects will also be supported by the continued implementation of the Government's Tenfold Growth Strategy, which seeks to accelerate productivity in the Agro-Industrialization, Tourism Development, Mineral Development, and Science, Technology and Innovation (ATMS) sectors, while promoting export oriented value addition. Furthermore, favourable weather conditions and increased agricultural production, alongside the continued implementation of Government programmes such as the Parish Development Model (PDM) and Emyooga, are expected to enhance agricultural productivity, support agro processing, and raise rural incomes.

In addition, sustained foreign direct investment in the oil and gas sector and other extractive industries is expected to support domestic demand and investment. Prudent monetary policy, aimed at maintaining low and stable inflation while mitigating excessive exchange rate volatility, is expected to contribute to a conducive environment for sustainable economic growth.

Notwithstanding the favourable medium-term outlook, risks to growth remain tilted to the downside. Climate variability and extreme weather events, particularly heavy rainfall associated with El Niño, continue to pose risks to agricultural production, with potential adverse effects on food supply, agro processing, and export earnings. In addition, escalating geopolitical tensions, regional conflicts, and global trade frictions are contributing to heightened uncertainty in the global environment, disrupting trade flows and supply chains, weakening external demand, and placing upward pressure on

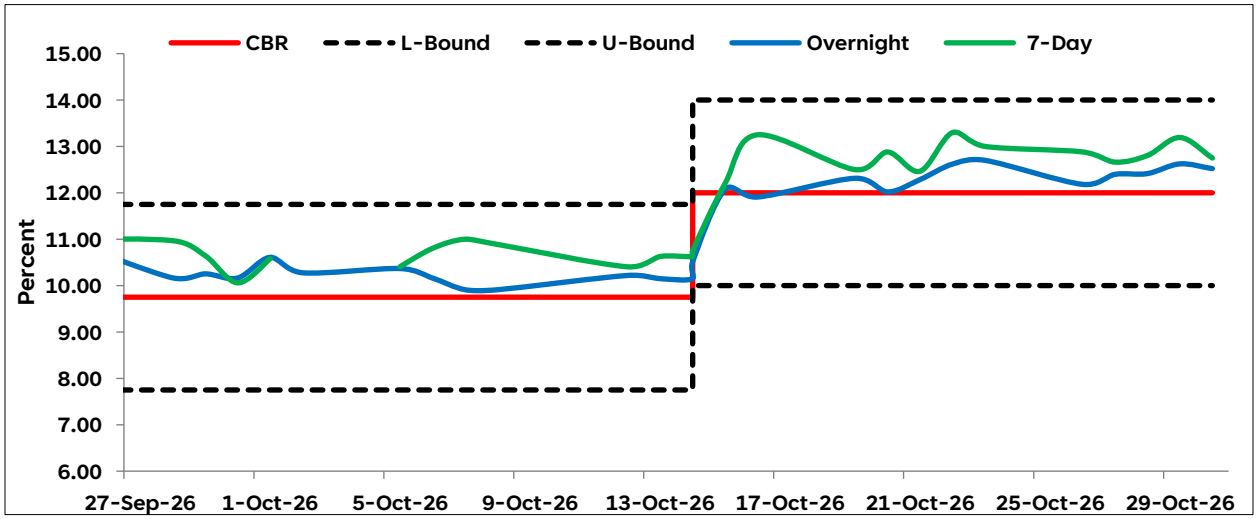
international fuel prices. The lingering effects of health related travel advisories and restrictions associated with the Ebola outbreak also continue to weigh on tourism and related services activity. Furthermore, elevated fuel prices, exchange rate pressures, delays in oil related investments and the commencement of oil production could dampen private sector activity, raise production costs, and delay the anticipated boost to investment, exports, and overall economic growth.

2.3 Domestic financial markets

2.3.1 Monetary policy and the interbank money market

Money market rates increased in the month of October 2026 but remained within the CBR band following the October 2026 Special Monetary Policy Committee (MPC) meeting at which the CBR was raised from 9.75% to 12.0% (**Figure 7**) citing a worsened domestic inflation outlook emanating from heightened geopolitical tensions, elevated crude oil prices and tighter global financial conditions with the attendant intensified shilling depreciation pressures. The 7-day and overnight weighted average rates rose to 11.9% and 11.6% in October 2026 from 10.3% and 9.8% in September 2026, respectively.

Figure 7: Interbank money market rates rose following an increase in the CBR in October 2026 (Percent).



Source: Bank of Uganda

Utilization of the Standing Lending Facility rose to UGX 7.28 trillion in the three months to October 2026 from UGX 1.92 trillion in the three months to July 2026. BoU Bills rose to UGX 3.72 trillion from UGX 3.08 trillion while utilization of the Standing Deposit Facility increased to UGX 6.0 trillion from UGX 5.43 trillion. REPOs fell to UGX 10.6 trillion from UGX 16.7 trillion in line with the tight monetary policy stance. However, within the three months to October 2026, and in line with the increase in the CBR, utilization of the Standing Lending Facility increased to UGX. 4.45 trillion from UGX. 2.36 trillion in September 2026 and UGX. 0.46 trillion in August 2026 while utilization of the Standing Deposit Facility declined to UGX. 1.06 trillion in October 2026 from UGX. 1.23 trillion in September 2026 and UGX. 3.71 trillion in August 2026.

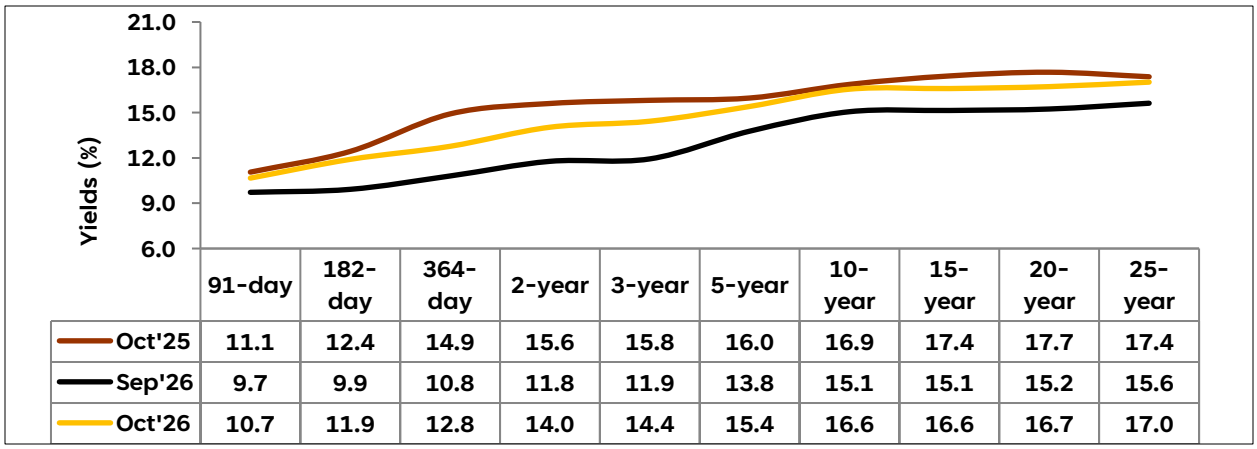
2.3.2 Primary market for treasury securities

Yields on government securities in the primary market recorded mixed movements in the three months to October 2026 compared to the three months to July 2026, alongside a marginal moderation in oversubscriptions. Total issuances increased to UGX 8.5 trillion from UGX 7.9 trillion. However, the bond auction held on October 28th recorded a notable increase in yields across all issued tenors, with fiscal policy aligning with tightening monetary and liquidity conditions.

2.3.3 Secondary market for treasury securities

In the secondary market, average yields declined across most tenors in the three months to October 26 compared to the three months in July 2026, with the exception of the 10-year bond, which edged up to 15.5% from 15.4%. Following the increase in CBR however, yields increased across all tenors during the month of October 2026 compared to September 2026 (**Figure 8**).

Figure 8: Secondary market annualized yields on T-bills and T-bonds rose (Average for the quarters)



	91-day	182-day	364-day	2-year	3-year	5-year	10-year	15-year	20-year	25-year
Oct'25	11.1	12.4	14.9	15.6	15.8	16.0	16.9	17.4	17.7	17.4
Sep'26	9.7	9.9	10.8	11.8	11.9	13.8	15.1	15.1	15.2	15.6
Oct'26	10.7	11.9	12.8	14.0	14.4	15.4	16.6	16.6	16.7	17.0

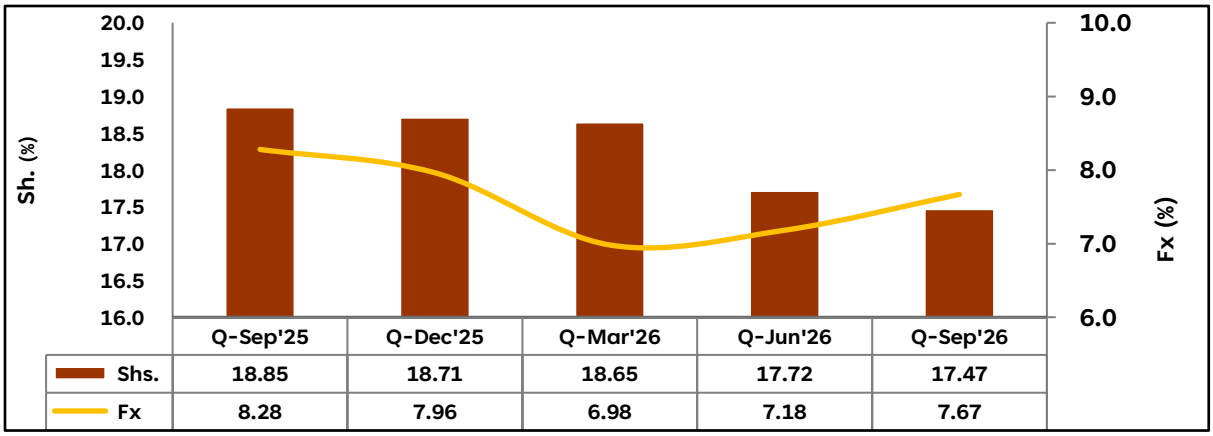
Source: Bank of Uganda

2.3.4 Lending interest rates

Commercial bank lending rates declined marginally during the three months to September 2026 compared to the three months to June 2026 reflecting lower shilling lending rates. This was partly supported by improved asset quality, with the nonperforming loans (NPLs) ratio declining to 2.2% in September 2026 from 2.7% in June 2026, which eased credit risk perceptions and supported lending conditions during the period. The average shilling lending rates declined to 17.5% from 17.7% in the prior three months. On the other hand, the average lending rate on foreign currency denominated loans edged up to 7.7% from 7.2% amid increased demand for foreign currency borrowing (**Figure 9**).

Lending rates are expected to edge up in the near term, reflecting the increase in the Cash Reserve Ratio (CRR) and the CBR, which are likely to raise banks' cost of funds and exert upward pressure on lending rates. Upside risks to lending rates include higher than expected domestic government borrowing, stronger credit demand, increases in funding costs, heightened geopolitical uncertainty and exchange rate depreciation. Downside risks include stronger than expected improvement in asset quality, subdued credit demand and easing funding conditions. Overall, the risks to lending rates are tilted to the upside.

Figure 9: Weighted Shilling Lending Rates Declined while Foreign Currency Lending Rates Edged Up slightly (Percent)

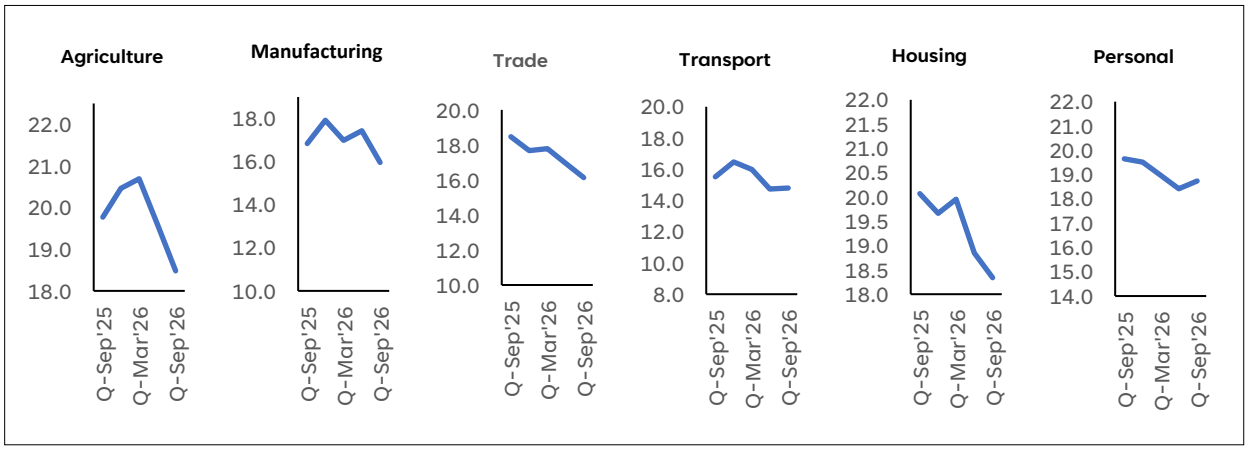


	Q-Sep'25	Q-Dec'25	Q-Mar'26	Q-Jun'26	Q-Sep'26
Shs.	18.85	18.71	18.65	17.72	17.47
Fx	8.28	7.96	6.98	7.18	7.67

Source: Bank of Uganda

In the three months to September 2026, sectoral shilling lending rates declined across most sectors compared to the three months to June 2026 (**Figure 10**) except for Personal loans, Transport and Communication. Lending rates declined to 18.5% for Agriculture, 16.1% for Trade, 18.3% for Housing, 17.0% for Mining and Quarrying and 16.0% for Manufacturing. In contrast, the lending rates increased to 18.7% for Personal loans and 14.8% for Transport and Communication.

Figure 10: Weighted average lending rates declined across majority of the major sectors.



Source: Bank of Uganda

Lending rates are expected to edge up in the near term, reflecting the increase in the Cash Reserve Requirement and the Central Bank Rate, which are likely to raise banks' cost of funds and exert upward pressure on lending rates.

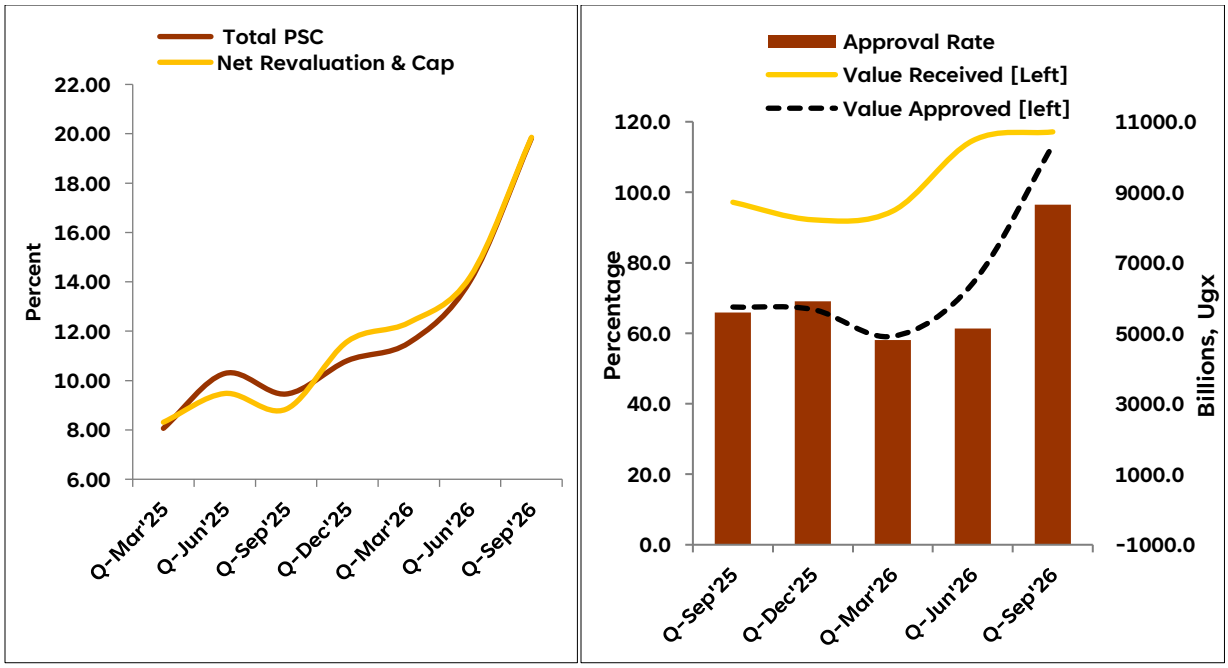
The extent of the pass through will depend on developments in funding costs, credit demand, and broader financial conditions. Stronger than expected domestic government borrowing, exchange rate depreciation, and heightened geopolitical uncertainty could place additional upward pressure on lending rates, while improvements in asset quality and weaker credit demand could moderate the increase.

2.3.5 Private sector credit

Average Annualized growth of Other Depository Corporations Private Sector Credit (ODC PSC) strengthened to 19.8% in the three months to September 2026, up from 14.0% in the three months to June 2026 (**Figure 10, Left**). The PSC acceleration was largely driven by strong foreign currency denominated credit which expanded by 34.9% compared to 14.8% for shilling denominated credit.

Strong growth of foreign currency denominated loans, partly reflected the relatively lower cost of foreign currency borrowing, with average foreign currency lending rates of 7.7% compared to 17.5% for shilling loans, which continued to incentivise demand for foreign currency denominated credit. Adjusting for revaluation and capitalised interest, annualised PSC growth stood at 19.9%, compared to 14.2% in the preceding quarter (**Figure 10, Left**).

Figure 11: PSC growth increased (year-on-year, %, Left) as demand and supply of credit remained robust (UGX, billion, Right)

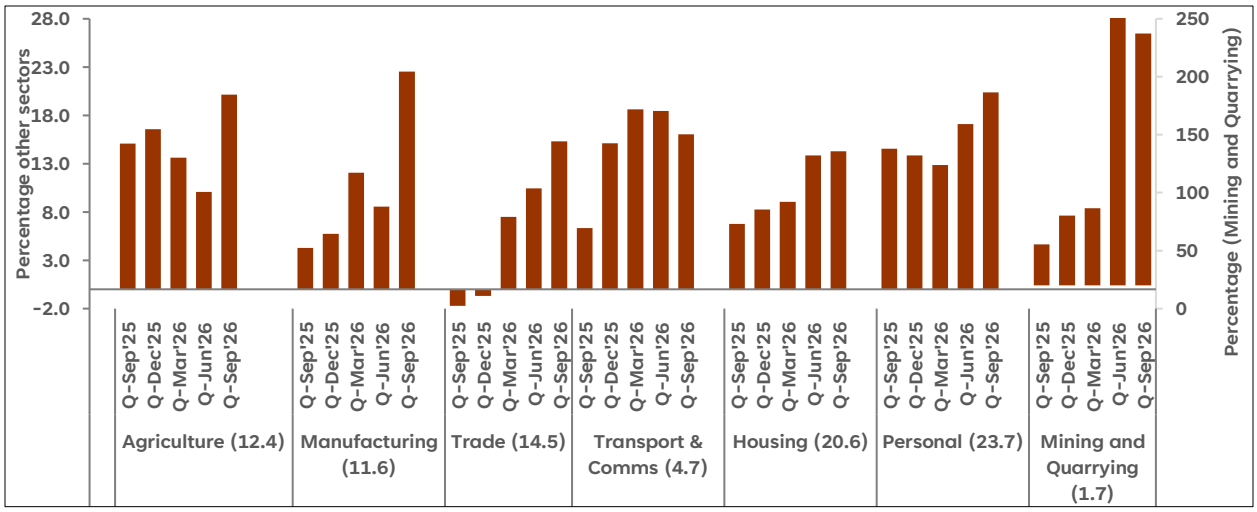


Source: Bank of Uganda

Both demand for and approval of credit increased in the three months to September 2026 compared to the three months to June 2026. The value of credit applications received increased marginally to UGX 10.7 trillion from UGX 10.5 trillion, while the value of applications approved rose significantly to UGX 10.3 trillion from UGX 6.4 trillion (**Figure 11, Right**). Consequently, the credit approval rate increased substantially to 96.5% from 61.3% (**Figure 11, Right**), indicating a marked improvement in the proportion of credit applications approved by financial institutions.

Sectoral growth in credit was strong in all key sectors in the three months to September 2026 compared to the three months to June 2026 particularly Agriculture, Manufacturing and trade, Housing and personal loans but declined marginally in Transport and communication and mining and quarrying (**Figure 12**).

Figure 12: Year-on-year growth in private sector credit strengthened across majority of economic sectors (3-month average; % shares in brackets)



Source: Bank of Uganda

Looking ahead, PSC growth is expected to moderate in the near term as tighter monetary conditions and exchange rate developments dampen demand particularly for foreign currency borrowing. Upside risks include stronger than expected public and private investment, effective implementation of Government's 10-fold growth strategy and sustained macroeconomic stability with anchored inflation expectations which could strengthen borrower confidence and encourage lending.

Downside risks include higher than expected government borrowing from the domestic market which could crowd out private sector credit through upward pressure on interest rates, adverse weather conditions, heightened credit risk and global uncertainty that could weaken external demand and domestic business conditions, thereby reinforcing risk aversion among lenders. Overall, the risks to PSC growth are tilted to the downside.

2.4 Balance of payments and exchange rates

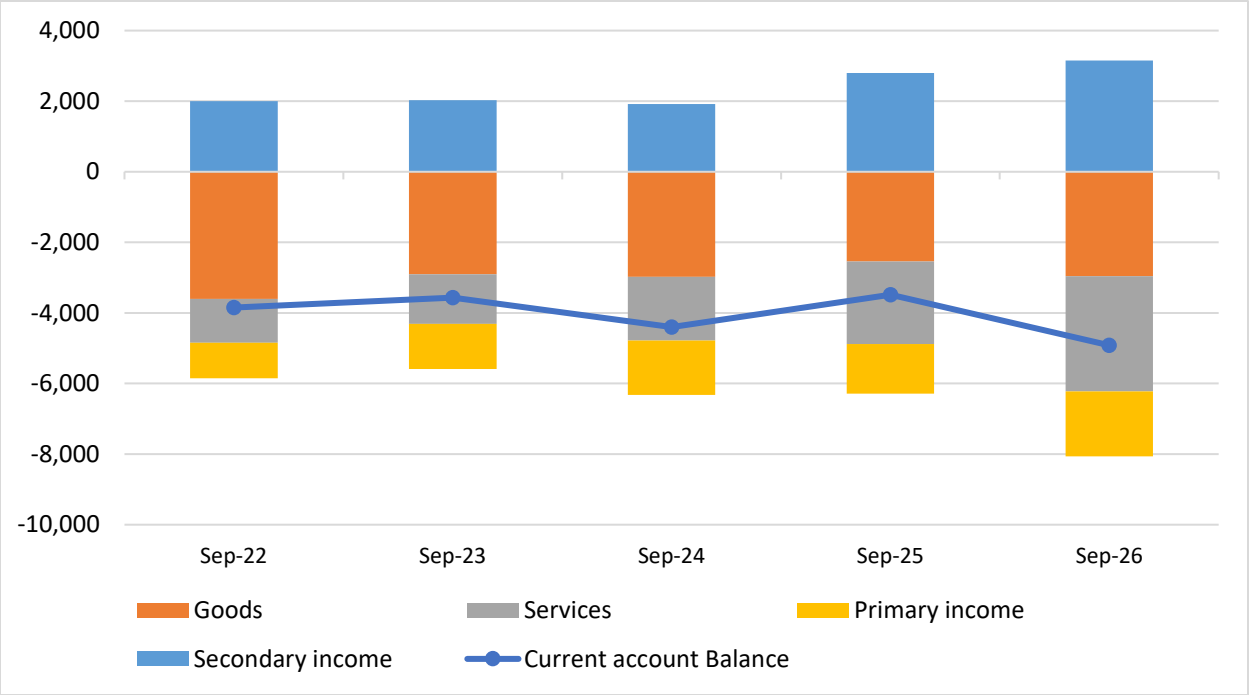
2.4.1 Balance of payments

The overall balance of payments registered a surplus of US$ 1,784.6 million in the twelve months to September 2026 compared to the surplus of US$ 1,724.0 million registered in the previous year, owing to a robust financial account surplus that more than offset the widening current account deficit.

The current account deficit widened by 41.1% to US$ 4,916.6 million in the 12 months to September 2026, relative to the previous year driven by higher deficits on the goods, services and primary income accounts (**Figure 13**). The trade deficit widened by 16.3% to US$ 2,959.6 million as the gains in export performance were insufficient to offset the higher import bill. Export receipts increased by 43.1% to US$ 16,773.9 million, largely boosted by earnings from gold and coffee. Coffee export volumes were recorded at 8.0 million 60-kilogram bags valued at US$ 2,091.7 million; while net export earnings from gold trade were recorded at US$ 1,111.4 million.

Over the same period, imports rose by 38.3% to US$ 19,733.5 million, largely driven by increasing gold imports as well as higher expenditures on petroleum products and other intermediate goods amid supply disruptions and elevated prices associated with the conflict in the Middle East. Similarly, freight transport costs for the same period increased sharply, resulting in the widening of the services deficit by 39.5% to US$ 3,260.8 million. The primary income deficit widened by 31.6% to US$ 1,844.9 million, driven by public debt service costs. On the other hand, the secondary income account recorded a stronger surplus, increasing by 12.5% to US$ 3,148.7 million, supported by higher personal transfers.

Figure 13: The current account deficit widened year-on-year, driven by widening deficits on the merchandise trade, services, and primary income accounts despite improvements in the secondary income account (US$ Million).



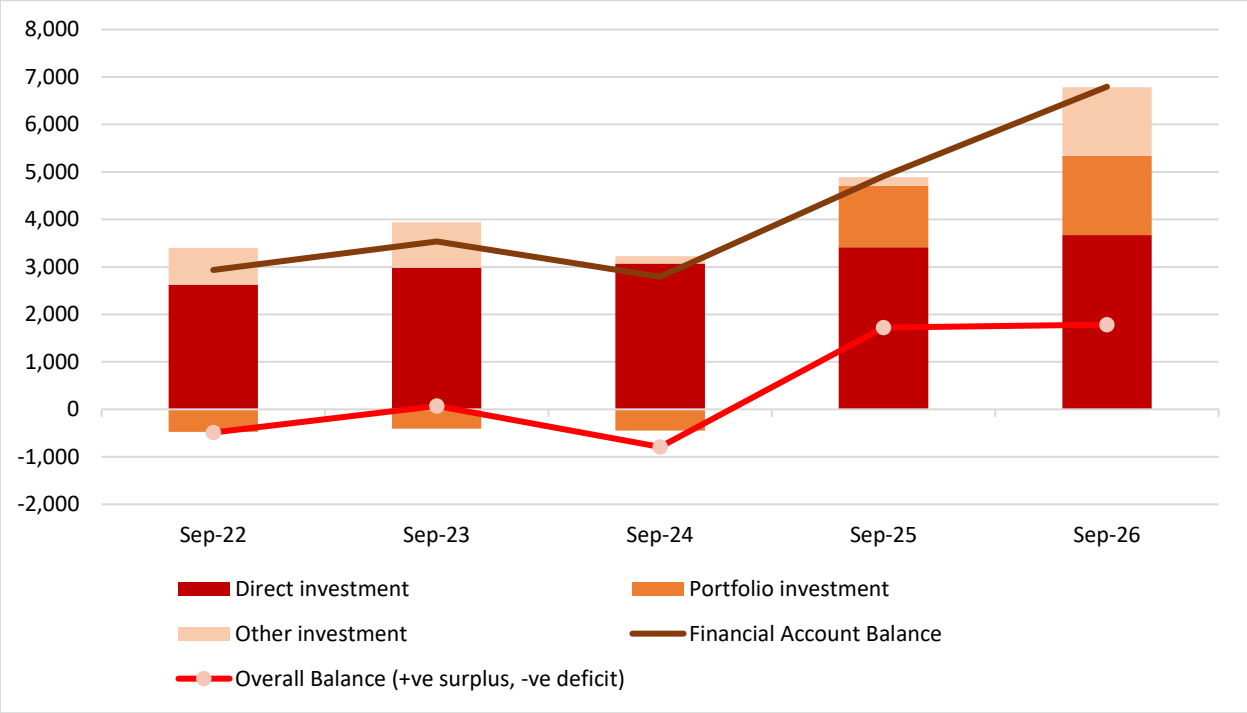
Source: Bank of Uganda

The financial account surplus expanded to US$ 6,795.8 million in the year to September 2026 compared to US$ 4,910.4 million reported for the previous year (**Figure 14**). This performance was underpinned by strong inflows of direct and portfolio investments, complemented with budget support disbursements. Foreign Direct Investment (FDI) remained robust, estimated at US$ 3,672.1 million, due to strong inflows to the oil sector and spillovers to related sectors, including the transportation and construction sectors, amid infrastructural developments associated with oil projects. Portfolio investment recorded strong net inflows of US$ 1,671.5 million, supported by attractive domestic yields that prevailed during most of the review period.

However, portfolio rebalancing was observed in September 2026, likely reflecting rising global treasury yields, which narrowed the yield differential between Uganda and international markets. Other investments posted higher net inflows of US$ 1,438.0 million,

compared to the net inflows of US$ 184.3 million recorded in the previous year, on account of higher budget support and project aid loan disbursements to government.

Figure 14: Financial Account Surplus Expanded, Driven by Strong Inflows of FDI, Portfolio and Other Investments (US$ Million).



Source: Bank of Uganda

As a result of these developments, the overall balance of payments surplus facilitated a significant accumulation of foreign exchange reserves. The stock of reserves increased to US$ 6,713.0 million at end September 2026, equivalent to 3.7 months of future import cover (excluding oil investment related imports), and a further build up to US$ 7,008.3 million (3.9 months of import cover) recorded at end October 2026.

2.4.2 Balance of payments outlook

In the short term, external sector pressures are expected to persist, reflecting heightened global uncertainty and evolving trade and geopolitical dynamics. The stalemate in the talks between the USA and Iran and continued threats for resumption of war continues to pose

uncertainty in the energy markets. In addition, escalation of attacks by the Houthis on Saudi oil infrastructure poses further risks for oil prices. For Uganda, higher oil prices could continue to increase the import bill and related freight and insurance costs, widening the current account deficit. The exchange rate depreciation could amplify these pressures by raising import costs and increasing the external debt service burden. Tourism receipts are expected to recover gradually following the progressive easing of Ebola-related travel restrictions by various countries. However, the continued presence of the outbreak in neighbouring DRC poses downside risks to the recovery. On the upside, remittances are expected to remain resilient providing some buffer to the current account pressures.

Over the medium term, oil sector developments are expected to play a central role in shaping Uganda's external position, gradually shifting the balance of payments towards a sustained surplus from FY2027/28(**Table 1**). The current account deficit is projected to narrow and eventually reverse as oil exports commence and oil-related imports decline with the transition from the investment to the production phase. Further support to the current account is expected from stronger non-oil export growth and tourism receipts, driven by infrastructure improvements and the implementation of targeted export and tourism promotion initiatives under the Tenfold Growth Strategy. The financial account surplus is expected to remain robust, supported by sustained foreign direct investment inflows and renewed access to concessional financing and budget support, reinforcing external sustainability and strengthening reserve buffers.

Table 1: The BoP Outlook Is Expected to Improve over the Medium Term, Supported by Oil Production

BOP Accounts	FY26/27		FY27/28		FY28/29		FY29/30		FY30/31	
	$BN	% GDP	$BN	% GDP	$BN	% GDP	$BN	% GDP	$BN	% GDP
Current account	**-3.6**	**-4.6%**	**2.0**	**2.3%**	**3.6**	**3.8%**	**4.5**	**4.4%**	**4.2**	**3.8%**
Trade Balance	-2.0	-2.6%	4.1	4.8%	5.8	6.2%	6.4	6.2%	5.4	4.8%
o/w oil exports			5.8	6.7%	7.3	7.8%	6.8	6.6%	4.6	4.1%
Services	-3.1	-4.0%	-3.5	-4.0%	-3.6	-3.8%	-3.2	-3.1%	-2.6	-2.3%
Primary income	-1.7	-2.2%	-1.8	-2.0%	-1.8	-1.9%	-1.7	-1.7%	-1.6	-1.4%
Secondary income	3.2	4.2%	3.1	3.6%	3.1	3.3%	3.0	3.0%	3.0	2.7%
Capital account	**0.2**	**0.2%**	**0.2**	**0.3%**	**0.2**	**0.2%**	**0.2**	**0.2%**	**0.1**	**0.1%**
Current and Capital Account	**-3.4**	**-4.4%**	**2.2**	**2.5%**	**3.8**	**4.0%**	**4.7**	**4.6%**	**4.4**	**3.9%**
Financial Account*	**3.1**	**4.0%**	**-1.4**	**-1.6%**	**-2.6**	**-2.8%**	**-3.2**	**-3.1%**	**-2.7**	**-2.4%**
FDI*	3.2	4.2%	2.8	3.2%	2.7	2.8%	2.5	2.5%	2.4	2.2%
Portfolio investment*	0.4	0.6%	-0.5	-0.6%	-1.2	-1.3%	-1.7	-1.7%	-1.2	-1.1%
Other investment*	-0.6	-0.8%	-3.7	-4.3%	-4.1	-4.4%	-4.1	-4.0%	-4.0	-3.6%
Overall Balance*	**-0.3**	**-0.4%**	**0.8**	**0.9%**	**1.2**	**1.2%**	**1.5**	**1.5%**	**1.6**	**1.5%**
** Signs inverted to reflect direction of flows*										

2.4.3 Exchange rates developments

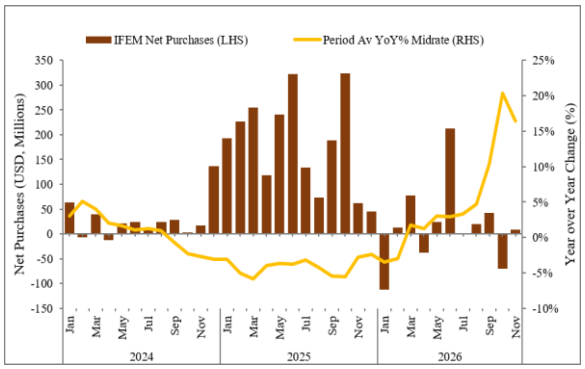
In October 2026, the Uganda Shilling (UGX) averaged UGX 4,170.48 per US dollar, representing a depreciation of 20.4% year-on-year, 5.3% quarter-on-quarter and 7.8% month-on-month (**Figure 15a**). The depreciation was mainly driven by offshore investors, who turned from net sellers to net buyers of the dollar in both September and October 2026, as rising treasury yields across the globe narrowed the yield differential with Uganda.

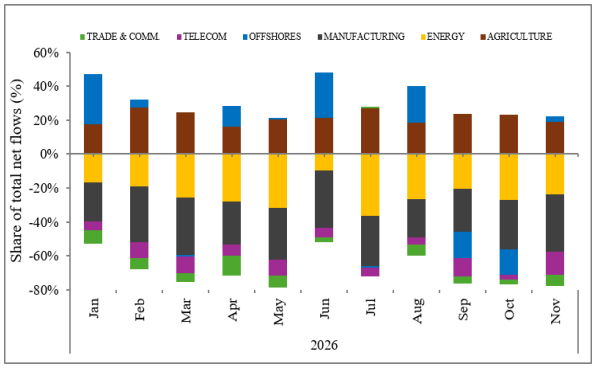
In addition, corporate demand for the dollar increased on account of rising import costs for both inputs and freight, mainly affecting the energy and manufacturing sectors (**Figure 15b**). Market sentiment also remained bearish amid geopolitical tensions, especially the hostilities between the United States and Iran and the risk of a wider conflict. Additionally, the current account deficit widened as freight costs and petroleum related import bills increased, with the services deficit widening by 39.5%, to US$ 3,260.8 million in the twelve months to September 2026.

Figure 15: Following depreciation pressures in October 2026 amid strong dollar demand, the Shilling's annual depreciation moderated in November 2026 as dollar supply recovered.

a) Net Purchases and Exchange Rate Movements

b) Net Purchases by Sector





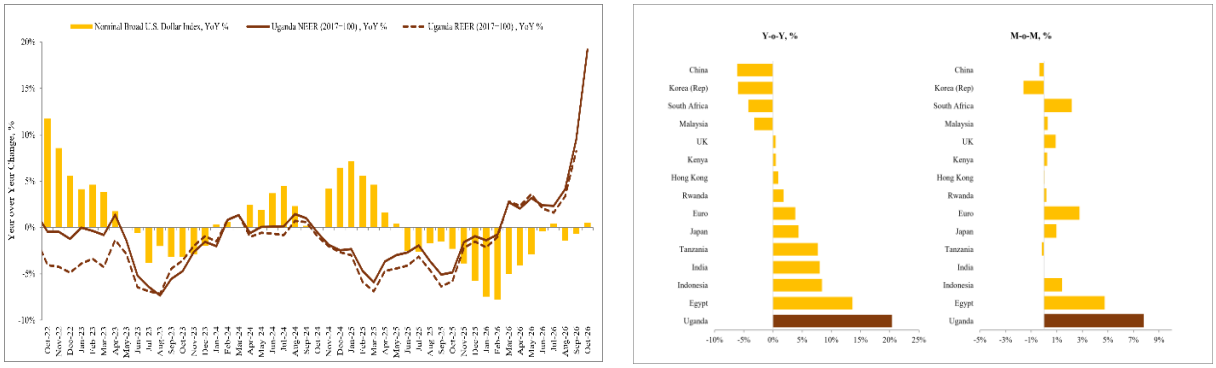
Source: Bank of Uganda

In October 2026, the Uganda Shilling depreciated more against the US dollar than the currencies of its trading partners, both on a year-on-year and month-on-month basis. On a weighted basis, against a basket of Uganda's major trade partners, year on year, the Nominal Effective Exchange Rate (NEER) depreciated by 19% in October 2026 and the Real Effective Exchange Rate depreciated by 8.2% based on September 2026 data (**Figure 16a**). Year on year, most partner currencies weakened against the dollar (**Figure 16b**), suggesting broad based dollar strength that coincided with the start of the Federal Reserve's tightening cycle in September 2026. The Egyptian Pound, Indonesian Rupiah, Indian Rupee, Tanzanian Shilling and Japanese Yen recorded notable depreciations, although by smaller margins than the Uganda Shilling, while the Chinese Yuan, South Korean Won, South African Rand and Malaysian Ringgit appreciated. The sharp depreciation of the NEER raises inflation risks through exchange rate pass through.

Figure 16: The Uganda Shilling Depreciated More than Trading Partner Currencies in October 2026, Reflecting Differences in Offshore Investor Participation, Current and Capital Account Openness, and Foreign Exchange Intervention

a) Trade weighted indices

b) Trade Partner Movements against the US$



Source: Bank of Uganda

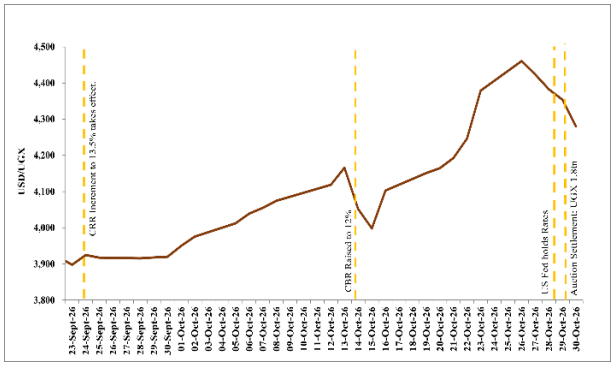
Several policy measures undertaken by the Bank of Uganda (BoU) have helped ease depreciation pressures on the Uganda Shilling (**Figure 17a**). The Bank tightened monetary policy by raising the Central Bank Rate (CBR) to 12.0 percent in October 2026 to anchor inflation expectations, following an increase in the Cash Reserve Requirement (CRR) to 13.5 percent to absorb excess shilling liquidity. Both measures have contributed to supporting the exchange rate. The tightening stance , has largely spilled over to treasury yields and realigned the yield differential with other economies.

In addition, the BoU provided US$198 million to commercial banks through foreign exchange swap lending in October 2026, easing dollar liquidity in the market without a permanent drawdown of reserves. Shilling liquidity was further tightened by higher government bond yields as well as Government repayments to the BoU on amortized bonds and the redemption of maturing securities. Furthermore, the BoU's foreign exchange reserves remain strong at US$7 billion as at end October 2026, providing a buffer to shield the Shilling, and are expected to rise further on the back of elevated investment yields

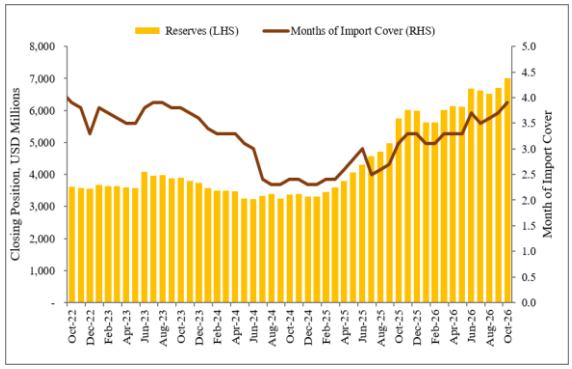
(**Figure 17b**). On 9th November 2026, the BoU adjusted the band around the CBR, raising the cost of borrowing through the central bank's lending facilities and of rediscounting government securities. This is expected to tighten liquidity and reduce the Shillings available for the purchase of dollars.

Figure 17: The Shilling began to recover from its October 2026 depreciation following successive BoU policy measures, supported by a strong reserve position.

a) Policy Timeline



b) Reserve Position



Source: Bank of Uganda

Several risks may continue to weigh on the stability of the Uganda Shilling in the near term. A key risk stems from potential capital flow reversals, as rising global yields could further narrow the yield differential with Uganda, prompting offshore investors to exit Uganda's securities. Weak global demand, coupled with low coffee prices, could also reduce export earnings at a time when import costs remain elevated. In addition, an escalation of the conflict in the Middle East could disrupt key supply chokepoints and push oil prices higher, widening Uganda's fuel import bill and sustaining strong corporate demand for the dollar. Furthermore, ongoing Ebola outbreaks in Kenya, the Democratic Republic of Congo and Nigeria, together with travel advisories, could continue to suppress tourism receipts.

However, several factors are expected to provide support to the Uganda Shilling. The tight monetary policy stance and shilling liquidity conditions, coupled with higher yields on Government securities, could encourage a recovery in offshore portfolio inflows, thereby easing depreciation pressures. The successful conclusion of ongoing negotiations with the International Monetary Fund (IMF) on a new programme could catalyse concessional financing, strengthen reserve buffers and bolster investor confidence. Over the medium term, the anticipated commencement of commercial oil production in the second half of FY2026/27 is expected to strengthen the external position through higher export receipts and a reduction in oil-related imports.

2.5 Fiscal policy

2.5.1 Government expenditure and revenue

Fiscal Operations in the first quarter of FY2026/27 were more expansionary than planned (**Table 2**). Recurrent expenditure exceeded program targets, primarily driven by higher than expected allocations to local governments, tertiary institutions, and other public agencies. Capital expenditure, however, fell short of the programmed target, reflecting lower than expected revenue collections and grant disbursements, which constrained the resources available for development spending.

Revenue performance was weaker than planned, with total government revenue (including grants) amounting to UGX. 8,543.6 billion in the first quarter of FY2026/27. This outturn fell short of the programmed target by UGX. 953.4 billion, largely reflecting lower grant receipts and underperformance in both tax and non-tax revenue collections. Grant inflows underperformed by UGX. 43.2 billion, on account of tighter financing conditions among development partners, amid heightened global geopolitical uncertainties, and delays in the implementation of government projects.

Table 2: Fiscal Operations Were More Expansionary in the first quarter of FY2026/27 (UGX. billions)

	Jul'25-Sep'25	Jul'26-Sep'26	Prog. Jul'26-Sep'26	Variation	Annual change (%)
Revenue (A)	**7,838.7**	**8,543.6**	**9,497.1**	**-953.4**	**9.0**
Taxes	6,997.5	7,837.6	8,590.4	-752.8	12.0
Grants (project support)	255.3	83.6	126.8	-43.2	-67.3
Other revenue	585.9	622.5	779.9	-157.4	6.2
Expense (B)	**10,533.6**	**11,372.0**	**10,885.7**	**486.3**	**8.0**
Compensation of employees	1,410.1	1,438.9	1,488.1	-49.2	2.0
Purchase of goods and services	2,073.6	1,545.0	1,642.7	-97.7	-25.5
Consumption of fixed capital (C)	3.7	0.0	0.0	0.0	-100.0
Interest payments	3,350.6	4,205.3	4,205.3	0.0	25.5
Domestic	2,996.2	3,818.0	3,818.0	0.0	27.4
External (including commitment fees)	354.5	387.3	387.3	0.0	9.3
Subsidies	2.5	0.0	0.0	0.0	0.0
Grants	2,837.3	3,492.9	2,947.9	545.0	23.1
Social benefits	234.7	295.2	205.8	89.4	25.8
Other expense	621.3	394.7	395.8	-1.1	-36.5
Gross operating balance (A-B+ C)	**-2,691.3**	**-2,828.3**	**-1,388.6**	**-1,439.7**	
Net operating balance (A-B)	-2,694.9	-2,828.3	-1,388.6	-1,439.7	
Net Acquisition of Nonfinancial Assets (D)	**1,597.3**	**972.8**	**1,544.9**	**-572.2**	
Net lending/borrowing (A-B)-D	**-4,292.2**	**-3,801.1**	**-2,933.5**	**-867.6**	
Primary balance	**-941.6**	**404.2**	**1,271.8**	**-867.6**	
Transactions in financial assets and liabilities Financing (net) (E-F)	**-4,292.2**	**-3,801.1**			
Net Acquisition of Financial Assets (E)	**2,008.9**	**-1,838.6**			
Domestic	2,008.9	-1,838.6			
Foreign	0.0	0.0			
Net Acquisition of Financial Liabilities (F)	**4,227.9**	**3,445.3**			
Domestic	2,899.1	3,921.2			
Foreign	1,328.8	-475.9			
Errors & Omissions	**-2,073.3**	**1,482.8**			

Source: Ministry of Finance Planning and Economic Development

Similarly, net tax and non tax revenue collections fell short of their respective targets by UGX. 752.8 billion and UGX. 157.4 billion. The underperformance largely reflected weaker collections across all major tax heads, with indirect domestic taxes recording the largest shortfall, primarily due to lower than expected tax receipts from key manufactured products. As a result, the combined effect of revenue underperformance and higher recurrent expenditure led to a fiscal deficit of UGX. 3,801.1 billion in the first quarter of FY2026/27, exceeding the programmed level by UGX. 867.6 billion. This deficit was financed primarily through domestic sources.

Despite revenue collections falling short of expectations in the first quarter of FY2026/27, the medium-term fiscal outlook remains favourable. Fiscal policy remains anchored on a consolidation path aimed at safeguarding macroeconomic stability while supporting growth-enhancing investments under the Agro-Industrialisation, Tourism Development, Mineral-Based Industrialisation, and Science, Technology and Innovation (ATMS) strategy. Fiscal consolidation is expected to be supported by enhanced tax administration under the second Domestic Revenue Mobilisation Strategy (DRMS) 2025/26–2029/30, sustained economic growth under the Tenfold Growth Strategy, the commencement of petroleum revenues, expenditure rationalisation, and prudent debt management. Deeper regional trade integration and increased access to infrastructure financing, together with continued adherence to the Charter for Fiscal Responsibility, are expected to further ease financing pressures and create fiscal space for priority expenditures.

While the medium-term fiscal outlook remains favourable, it is subject to several downside risks. Escalating geopolitical tensions could further weigh on global trade and investment flows and exert additional upward pressure on international fuel prices, with adverse implications for domestic inflation, economic activity, and revenue performance. Exchange rate pressures could also increase the cost of external debt servicing and imported project inputs, thereby adding to fiscal pressures and raising the cost of implementing public investment projects. Additional risks include ongoing tax administration challenges, particularly in improving compliance in the informal sector; slower than expected returns on public investments; and delays in oil sector investments and production. These factors could affect the realization of projected revenue gains, dampen economic growth, and constrain the planned fiscal consolidation path.

3 EXTERNAL ECONOMIC ENVIRONMENT

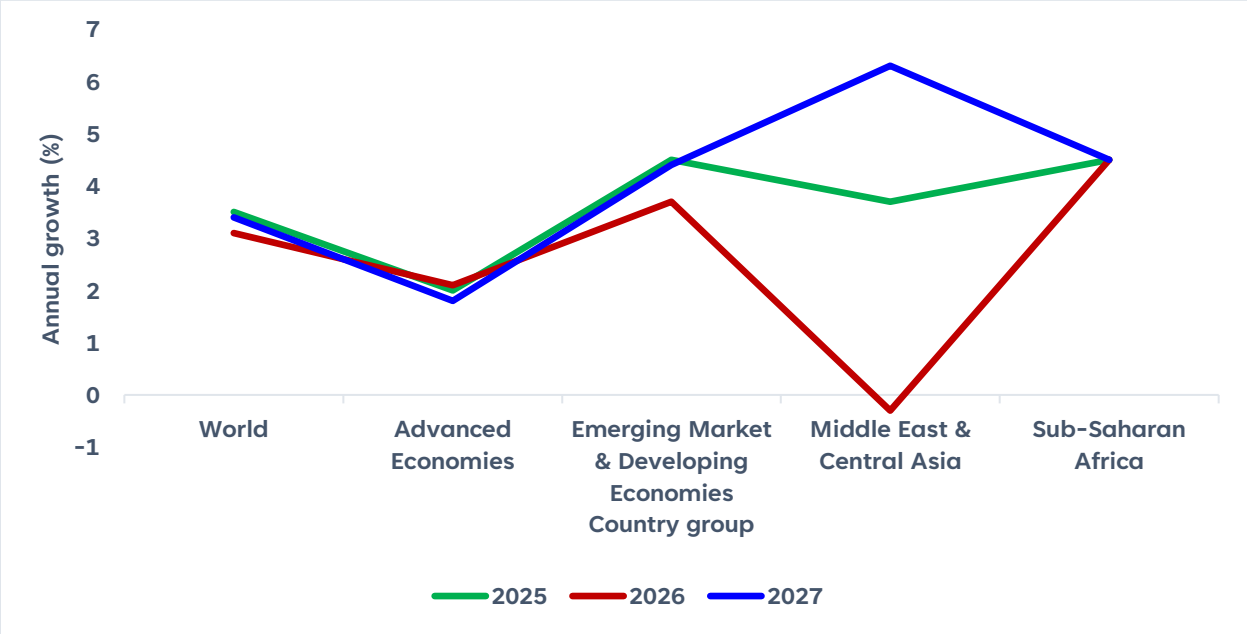
3.1 Global economic activity and outlook

The global economy has shown resilience so far in 2026, despite the spreading Middle East conflict. However, growth prospects have become increasingly divergent, with economies

benefiting from Artificial Intelligence (AI) investment or energy exports outperforming energy importing economies, uncertainty remains elevated and downside risks dominate the outlook.

The IMF projects global growth to slow from 3.5% in 2025 to 3.1% in 2026 and recover to 3.4% in 2027 (**Figure 18**). The slowdown reflects a negative supply shock from Middle East war, through higher energy prices and increased uncertainty, partly offset by a positive demand shock from AI related investment, which has boosted activity in economies linked to the technology value chain.

Figure 18: Global economy has been resilient so far in 2026, despite spreading Middle East Conflict. However, growth is more divergent across economies and uncertainty remains elevated.



Source: IMF World Economic Outlook, October 2026

Growth in Advanced Economies (AEs) is projected to increase slightly from 2.0% in 2025 to 2.1% in 2026, representing a 0.4 percentage point upward revision, before easing to 1.8% in 2027, which remains unchanged from July 2026 projections. The United States (US) remains the engine for AE growth, with strong growth projected at 2.3% in both 2026 and 2027,

supported by consumption, fiscal policy, and AI related investment. In the Euro Area and the United Kingdom (UK), growth is projected to remain relatively flat averaging about 1.2% in 2026 and 2027, mainly limited by higher energy prices and weak consumer confidence, while in Japan, growth is anticipated to slow to 0.7% in both 2026 and 2027, from 1.2% in 2025, due to energy pressures and monetary normalization.

Among the Emerging Market and Developing Economies (EMDEs), growth is projected to slow from 4.5% in 2025 to 3.7% in 2026, before rebounding to 4.4% in 2027. Growth in China is forecast to moderate from 5.0% to 4.5% in 2026 and further down to 4.0% in 2027, reflecting higher oil prices, property sector weakness, and subdued domestic demand. India remains the fastest growing economy in the EMDE bloc, with growth projected at 7.0% in 2026 and 2027, supported by strong domestic demand and services.

In Sub-Saharan Africa (SSA), growth remains stable at 4.5% in both 2026 and 2027 from the same rate in 2025. Notably, oil importing economies in SSA face pressures from higher energy prices and limited participation in the global AI boom constrains gains for many countries within the bloc, while commodity exporters benefit from higher prices.

Risks to the outlook remain tilted to the downside, arising mainly from the prolonged Middle East conflict which could extend energy supply disruptions, elevated oil and gas prices and fuel inflationary pressures. Persistent geopolitical fragmentation could increase trade barriers, sanctions, and supply chain disruptions which could reduce efficiency and weaken global trade and investment. A resurgence of inflation on account of higher commodity prices could result in further monetary policy tightening, curtailing stronger global economic growth. In addition, fiscal vulnerabilities continue to grow pushed up by rising public debt and borrowing costs in the face of additional infrastructure and defence spending pressures. Finally, the call for a re-evaluation of the pace of AI advancement and reassessment of AI productivity gains could moderate investment and taper the pace of global economic growth going forward. On the upside, continued strong investment in AI

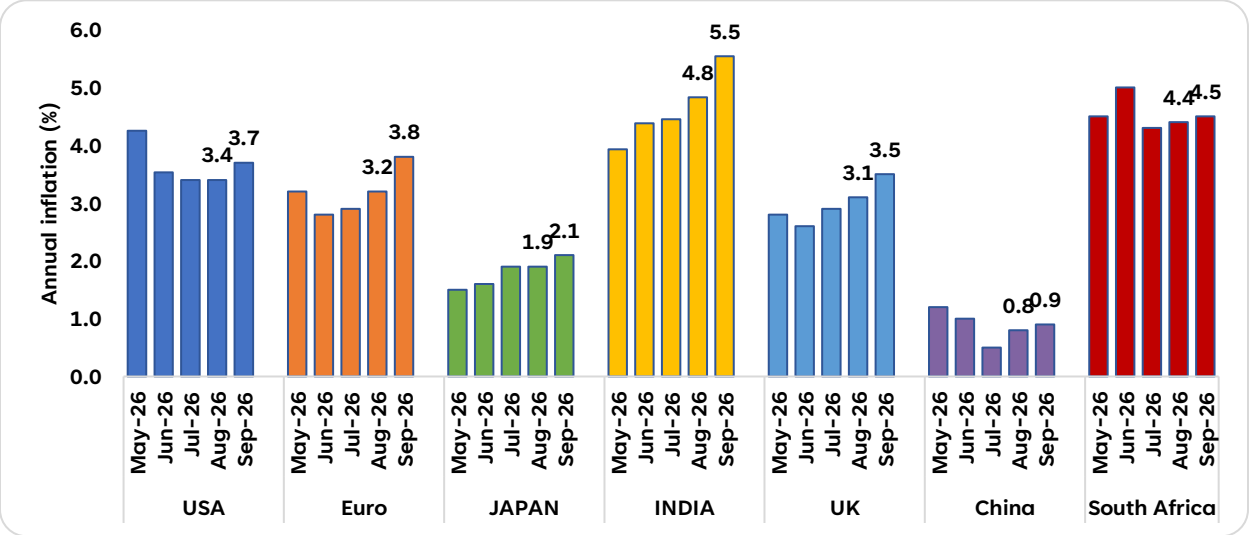
technology and, firms' resilience through supply chain and market diversification could continue to support global economic activity leading to higher than projected growth.

With overall risks tilted to the downside, lower than projected global GDP growth could weaken external demand for Uganda's exports, further lowering export receipts and adding to current exchange rate depreciation pressures and upside risks to domestic inflation, with downside knock on effects to domestic growth.

3.2 Global inflation and outlook

Global Inflation rose broadly in September 2026 (**Figure 19**), with transport and energy costs making the largest upward contribution, as disruptions to production and shipping continued to constrain supplies from the Middle East, on account of the escalating war and rebel attacks on Saudi Arabia, leading to sharp increases in international crude oil prices. In September 2026, inflation rose in the US, Euro Area, Japan, India UK, South Africa and China, with the main contributor across countries reported as rising transport costs.

Figure 19: Annual headline inflation picked up in most economies in September 2026, driven by the sharp increases in crude oil prices in August and September 2026, and remains persistently above central bank targets.



Source: Country Statistics Offices (Websites) September 2026

The IMF projects global inflation to rise from 4.1% in 2025 to 4.7% in 2026 before easing back to 4.1% in 2027, reflecting the impact of a war induced supply shock that is raising food and energy prices (**Table 3**). The forecast for 2026 is unchanged from the July 2026 forecasts, while that for 2027 is revised upward by 0.2 percentage points.

Table 3: Projections are for higher global Inflation in 2026 with slight moderation in 2027, however Inflation, particularly among AEs to remain above Central Bank Targets through 2027.

	2025	2026	2027
World	4.1	4.7	4.1
Advanced Economies	2.5	3.1	2.7
Emerging Market & Developing Economies	5.2	5.7	5.1

Legend:
Higher inflation pressure | Elevated inflation

Source: IMF World Economic Outlook, October 2026

Among AEs, inflation is expected to remain persistent, returning to central bank targets gradually at the end of 2027 and over 2028. The projected inflation rate for the Euro Area is 3.1% for 2026 and 2.8% for 2027, that for Japan is 2% for 2026 and 2.6% for 2027, and that for the US is 3.6% for 2026 and 2.8% for 2027, all trending above the European Central Bank (ECB), Bank of Japan (BOJ) and the US Federal Reserve inflation targets of 2%. Core inflation is projected to reach 2% by end 2027 in Japan and the UK, and only by mid- and over 2028 in the US and the Euro Area. Inflation among EMDEs is expected to remain uneven across countries in the bloc, driven by differences in exchange rate movements, policy credibility, and administered pricing systems. Higher energy prices are likely to sustain inflationary pressures in many economies including China where it is expected to rise from currently low levels.

Risks to the inflation outlook are tilted to the upside. Sustained increases in food and energy prices from ongoing supply disruptions, both from the geopolitical conflict and climate

related factors could push inflation higher than current projections. In addition, continued exchange rate depreciation and stronger pass through effects in some EMDEs, as well as weak policy credibility and generally elevated inflation expectations, could push inflation higher than current projections.

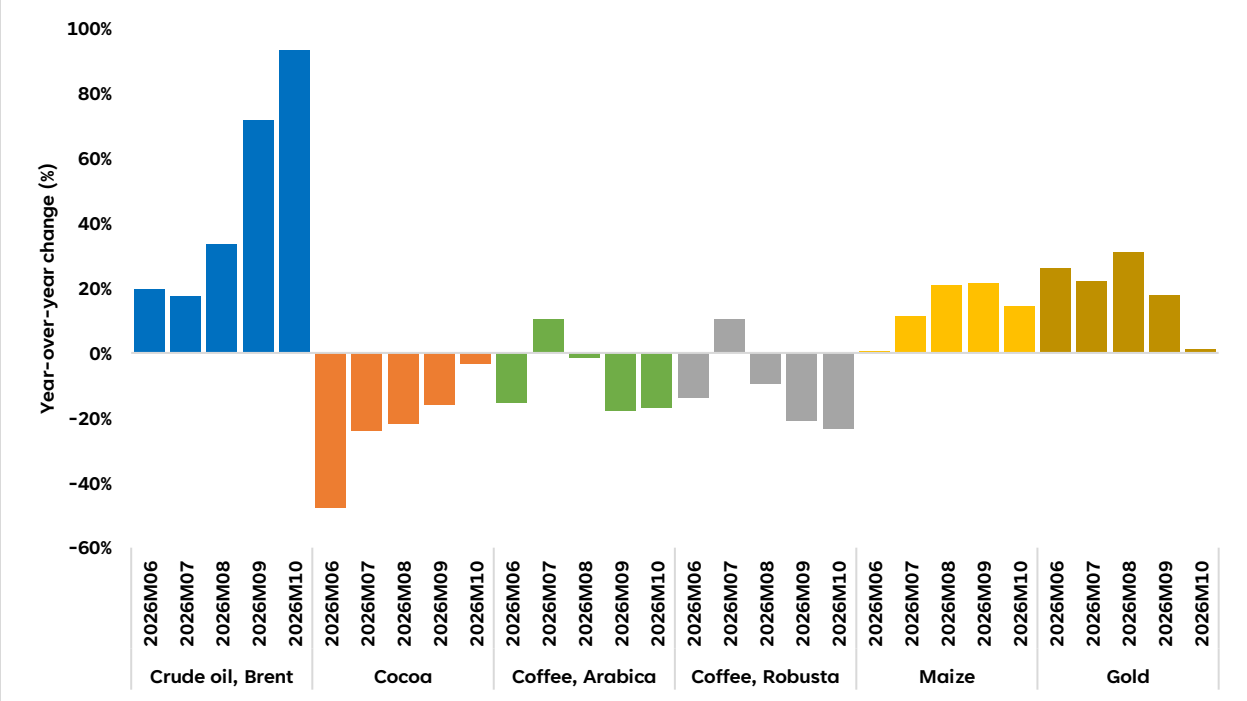
In terms of implications for Uganda, higher than projected global inflation could add to already elevated domestic inflation pressures and demand for foreign exchange to meet a higher import bill, if import volumes do not contract in response. Elevated domestic inflation pressures could lead to sustained tightening of domestic monetary policy with negative implications for domestic growth. Further, higher than projected global inflation could result in higher adjustment to policy rates of key economies, triggering larger portfolio investment outflows and worsening current exchange rate depreciation pressures.

3.3 International commodity prices

Commodity price developments were mixed in October 2026 (**Figure 20**). However, developments were dominated by further disruptions to oil shipments from the Middle East, which led to sharp increases in international crude oil prices during the month. The war in Middle East spread further during the period, on account of increased rebel attacks on shipments using alternative maritime routes and on oil infrastructure in the region.

Average brent crude oil prices rose by 7% month-on-month and by 93% year-on-year to about US$ 125/barrel in October 2026 (**Figure 20**). On the other hand, prices for Uganda's key agricultural commodity exports such as coffee, cocoa and tea declined further, on annual basis, in October 2026, while gold prices increased at a much slower pace at 1.2% during the same period, compared to the increases of 31% in August 2026 and 18% in September 2026. In October 2026, food prices measured by FAO declined by 1.2% on monthly basis but rose by 6.0% on annual basis. Prices of sugar rose both on monthly and annual basis, driven mainly by weather related disruptions to Brazil and India sugar production.

Figure 20: International Crude Oil prices recorded sharp increases in September and October 2026, pushed up by further disruptions to oil shipments from the Middle East.



Source: World Bank Commodity Prices

Oil prices are projected to rebound sharply by 41.3% in 2026 after declining by 14.4% in 2025, reflecting the impact of supply disruptions associated with geopolitical tensions and conflict related shocks (**Table 4**).

Table 4: Commodity Prices are Expected to Increase Significantly in 2026, Led by a Sharp Rebound in Oil Prices and Continued Strength in Nonfuel Commodities, and to Moderate in 2027, however risks remain tilted toward renewed upward pressure.

	2025	2026	2027
Oil Prices (% change from previous year)	-14.4%	41.3%	-8.7%
Nonfuel Commodities (% change from previous year)	9.9%	17.3%	2.6%

Legend: High Price Pressure | Moderate Increase | Price Decline / Easing Pressure

Source: IMF World Economic Outlook, October 2026

However, oil prices are expected to decline by 8.7% in 2027, as supply conditions improve and markets gradually adjust. Nonfuel commodity prices are expected to remain elevated, rising by 17.3% in 2026 following a 9.9% increase in 2025, before moderating to 2.6% growth in 2027. The projected increase in commodity prices, particularly energy and food related commodities, is a key factor behind the temporary rise in global inflation in 2026.

Risks to the outlook are tilted to the upside. Continued geopolitical conflicts could further disrupt energy and commodity supply chains, leading to higher than projected price increases. Adverse weather events and climate related shocks could affect agricultural production, resulting in higher than projected food prices. However, on the downside, the October 2026 US waiver of key sanctions and tariffs on Russian goods and penalties on countries that buy Russian oil and gas could moderate prices to levels that are lower than currently projected. In addition, the political changes from the November 2026 US midterm elections could result in faster resolving of conflict in the Middle East, resulting in larger than projected decline in energy prices and some non energy prices currently facing logistical challenges from the Middle East war. ALSO, weaker than projected global growth could reduce demand for energy and other commodities, resulting in lower prices than forecast.

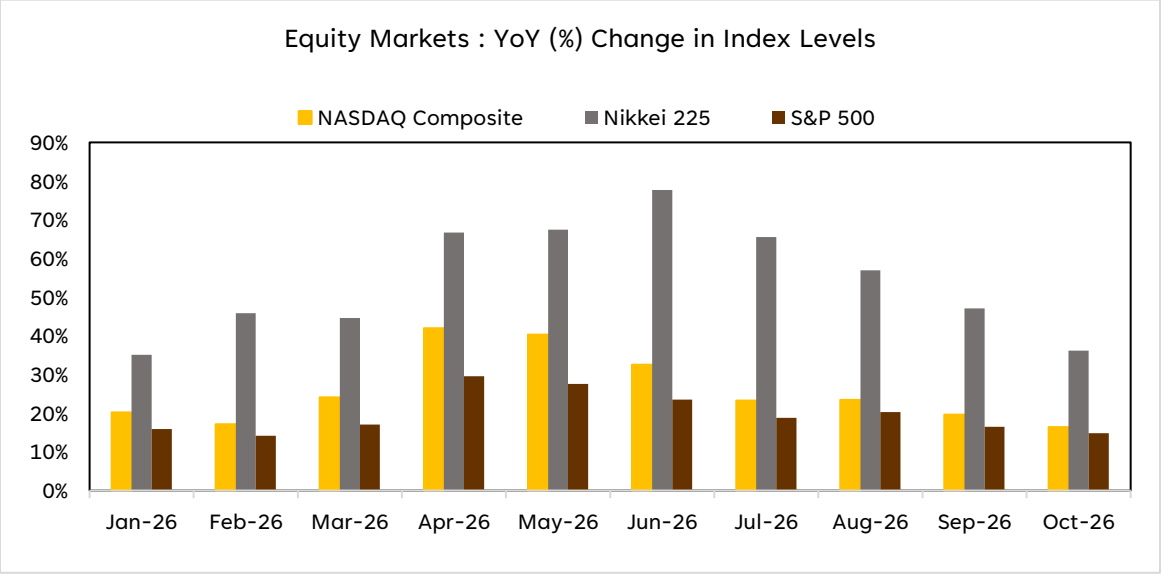
In terms of implications for Uganda, higher than projected increase in international commodity prices has a two way effect. While higher than projected international crude oil prices could worsen current domestic pump prices, domestic inflation and exchange rate pressures, they could boost Uganda's export earnings and foreign exchange reserves, especially with the start of Uganda's crude oil production in early 2027. Further, higher than projected nonfuel prices could improve Uganda's export earnings, strengthen the current account and alleviate current depreciation and elevated inflation pressures.

3.4 Global financial markets

Global financial markets have remained broadly resilient despite heightened geopolitical tensions, energy market disruptions, growing fiscal pressures and uncertainty surrounding the AI driven technology cycle.

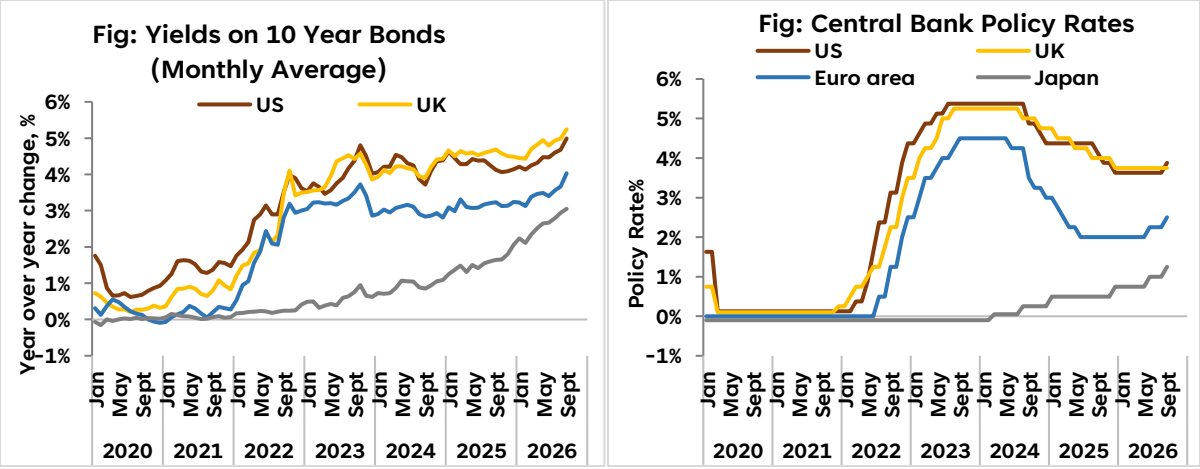
Financial conditions remain accommodative by historical standards, supported largely by strong equity market valuations, particularly in technology related sectors, and sovereign bond yields which have risen across many jurisdictions as investors respond to higher inflation risks, expectations of higher policy rates, concerns about fiscal sustainability, and increased borrowing by both governments and technology firms (**Figures 21 and 22**). Long term sovereign bond yields rose through Q3 2026, by average of about 30bps among key AEs, while equity valuations increased notably in mid 2026, reflecting resilient risk appetite, despite deterioration in geopolitical environment.

Figure 21: Equity market valuations have strengthened through 2026, reflecting resilience of investor confidence and contributing to ease in global financial markets.



Source: Bank for International Settlements (BIS)

Figure 22: Long term bond yields have risen across many jurisdictions due to higher inflation risks, expectations of higher policy rates, and increased borrowing by governments. Key policy rates have risen in response to rising inflation expectations.



Source: Bank for International Settlements (BIS)

Key central bank policy rates, although stable in earlier months of 2026, were broadly increased in September and October 2026, in response to rising inflation expectations. The US Fed increased its Fed Funds rate by 25 basis points to 3.75%-4% at its September 2026 meeting, but held it at the subsequent October 27-28, 2026, meeting. The BOE, maintained its Bank Rate at 3.75% on September 17, 2026, and increased it by 25 basis points to 4% at its November 05, 2026, meeting. In Japan, the BOJ raised its policy rate to 1.25% (25bps) on Oct 30, 2026, while the ECB raised its 3 key interest rates by 25bps at its Sep 10, 2026, meeting, but held it at the subsequent Oct 29, 2026, meeting. These increases continue to lower the interest rate differential with Uganda, with a potential to trigger portfolio capital outflows.

The outlook is for tighter global financial markets in 2027. Anticipated global financial market tightness is expected to be largely driven by less supportive monetary policy as central banks respond to rising inflationary pressures. The higher long-term interest rates could persist, increasing debt servicing costs for governments, firms, and households. Public debt levels and refinancing requirements remain elevated exposing countries to shifts in investor sentiment and calls for re-evaluation of the pace of AI advancement and

reassessment of AI productivity gains could moderate continued investment and taper financial flows that have supported global growth and financial conditions so far in 2026.

However, on the moderating side, sustained AI investment and faster technology adoption could boost productivity, earnings, and economic growth beyond current projections, supporting easier global financial market conditions. Also, if inflation moderates faster than expected, financial conditions could remain supportive, reinforcing investment and consumption.

In terms of implications for Uganda, the projected tightening of global financial conditions could dampen portfolio investment inflows, resulting in further depreciation of the Ugandan shilling, with significant upside risks to already rising domestic inflation.

4 CONCLUSION

Uganda's economic activity remains resilient, although emerging indicators point to a moderation in growth amid a deteriorating global environment, heightened geopolitical uncertainty and elevated international energy prices. High frequency indicators from the Bank of Uganda estimate that economic growth moderated to approximately 5.3% in the quarter to September 2026, compared with 6.8% reported by the Uganda Bureau of Statistics (UBOS) for the quarter ending June 2026. The moderation reflects a deteriorating global environment and the lagged effects of drought experienced in the first half of the year. Business and consumer sentiment, although still optimistic, weakened in the three months to December 2026, indicating declining business confidence and less favourable expectations of future economic conditions.

Economic growth is projected at 5.5-6.0% in FY2026/27, revised down from the previous forecast of 6.0-6.5%, reflecting tighter global and domestic financial conditions, exchange rate depreciation, elevated international energy prices and heightened geopolitical uncertainty. Over the medium-term, growth is expected to strengthen, averaging approximately 8.0% over the next five years, supported by increased private investment,

stronger export performance, anticipated oil sector developments and continued implementation of the Government's Tenfold Growth Strategy. Nevertheless, downside risks include persistent global energy and food prices, tight Shilling liquidity, which could constrain private sector credit, tighter external financial conditions, adverse weather, delays in oil production and lingering health related travel restrictions affecting tourism and related services. Stronger investment in the extractive sector, favourable weather and easing geopolitical tensions could support higher growth.

Inflationary pressures have intensified. Headline inflation rose from 4.6% in September 2026 to 5.8% in October, driven largely by higher energy prices and adverse weather conditions. Core inflation increased from 3.7% to 4.4% over the same period, indicating that cost pressures are increasingly spreading across the domestic economy. Despite these increases, annual average headline and core inflation remained moderate at 3.6% and 3.3%, respectively, over the 12 months to October 2026, below the medium-term inflation target of 5.0%.

The inflation outlook has deteriorated, with forecasts revised upwards to reflect higher international oil prices, exchange rate depreciation and a widening current account deficit. Moderation in portfolio inflows could further exert pressure on the exchange rate and increase domestic inflation. Headline inflation is projected to average 7.5%-8.0% and core inflation 6.0-6.5% over the next 12 months. Upside risks include further Shilling depreciation, elevated global energy and food prices, adverse weather, tighter global financial conditions and increased import costs. Further increases in global inflation could prompt central banks in advanced economies to maintain restrictive monetary policy stances or tighten further, exerting additional depreciation pressure on the Shilling and amplifying exchange rate pass through to domestic prices. Conversely, improved agricultural output, easing international oil prices, weaker domestic consumption and investment, and subdued aggregate demand could moderate inflationary pressures.

Against this backdrop, the Monetary Policy Committee of the Bank of Uganda, at its meeting on 9 November 2026, maintained the Central Bank Rate at 12.0%. The decision reflects the assessment that existing financial conditions are sufficiently tight to contain inflationary pressures, while allowing previous monetary policy measures adequate time to take effect. This follows the 225 basis point increase in the CBR, from 9.75% to 12.0%, in October 2026, and the earlier increase in the Cash Reserve Requirement from 11.0% to 13.5%, effective 24 September 2026, to contain excess liquidity and strengthen monetary policy transmission. The MPC also widened the CBR band from ±2 to ±3 percentage points to support tight Shilling liquidity, with the rediscount rate and bank rate set at 16.0% and 17.0%, respectively, representing margins of 4 and 5 percentage points above the CBR.

Overall, Uganda's economic outlook remains resilient, although heightened external uncertainty presents significant risks to inflation and growth. The Bank of Uganda remains steadfast in its commitment to maintaining price stability in support of sustainable socioeconomic transformation. Monetary policy will continue to be guided by incoming economic data, the evolving inflation outlook and an assessment of the balance of risks. The temporary tightening of monetary conditions is intended to secure medium-term macroeconomic stability, which is fundamental to the Government's Tenfold Growth Strategy.