



# MONETARY POLICY REPORT

May 2026



## TABLE OF CONTENTS

List of Figures .....	ii
List of Tables .....	iii
List of Boxes .....	iii
PREFACE.....	iv
ACRONYMS AND ABBREVIATIONS .....	v
EXECUTIVE SUMMARY .....	vi
<b>1 MONETARY POLICY DECISION .....</b>	<b>1</b>
<b>2 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK .....</b>	<b>1</b>
2.1 Domestic Inflation and Outlook .....	1
2.1.1 Domestic Inflation.....	1
2.1.2 Inflation Outlook .....	3
2.2 Domestic economic activity .....	7
2.2.1 Economic Growth Developments and outlook.....	7
2.2.2 Economic Growth outlook.....	10
2.3 Domestic financial markets .....	11
2.3.1 Monetary policy and the interbank money market .....	11
2.3.2 Primary market for treasury securities .....	12
2.3.3 Secondary market for treasury securities .....	12
2.3.4 Lending interest rates.....	13
2.3.5 Private sector credit .....	15
2.4 Balance of payments and exchange rates .....	19
2.4.1 Balance of payments .....	19
2.4.2 Balance of payments outlook.....	21
2.4.3 Exchange rates developments .....	23
2.4.4 Fiscal operations more expansionary than planned. ....	27
<b>3 EXTERNAL ECONOMIC ENVIRONMENT .....</b>	<b>29</b>
3.1 Global economic activity and outlook .....	29
3.2 Global inflation and outlook .....	34
3.3 International commodity prices.....	37
3.4 Global financial markets .....	40
<b>4 CONCLUSION .....</b>	<b>44</b>

## List of Figures

Figure 1: Inflation Remained Low and Stable Over the 12 Months to April 2026, Supported by Relative Exchange Rate Stability, Prudent Monetary Policy, and Favourable Food Supply Conditions. ....	2
Figure 2: Inflation is Projected to Gradually Converge to the 5.0% Target Over the Medium Term, Reflecting Elevated but Moderating Food and Energy Price Pressures, as Temporary Shocks Dissipate and Monetary Policy Remains Appropriately Calibrated. ....	4
Figure 3: Inflationary and Monetary Policy Implications of a More Depreciated Exchange Rate Relative to the Baseline Scenario .....	5
Figure 4: Inflationary and Monetary Policy Implications of a More Depreciated Exchange Rate and Lower Global Growth Relative to the Baseline Scenario .....	6
Figure 5: Inflationary and Monetary Policy Implications of Higher International Oil Prices Relative to the Baseline Scenario .....	7
Figure 6: Uganda’s economic growth remains steady in Q2 FY2025/26, driven by stronger performance across sectors (Year on Year percentage change). ....	8
Figure 7: Uganda’s GDP growth in Q2 2025/26 was mainly supported by final consumption. ....	9
Figure 8: Key Economic Sentiment Indicators Signal Continued Expansion, Sustaining Levels Above the 50 Point Threshold at the start of 2026 .....	10
Figure 9: Interbank Money Market Rates edged up modestly but remained within the CBR band in the three months to April 2026 (Percent) .....	12
Figure 10: Secondary market annualized yields on T-bills and T-bonds declined (Average for the quarters)13	
Figure 11: Weighted Shilling and Foreign Currency Lending Rates: Fall both in the Shilling and Foreign Rates (%) .....	14
Figure 12: Weighted average Shilling lending rates recorded mixed movements across most sectors, but remain relatively high due to structural rigidities in the financial sector .....	15
Figure 13:PSC growth increased (year-on-year, %, Left) as demand and supply of credit remained robust (UGX, billion, Right) .....	16
Figure 14: Year-on-year growth in private sector credit 3-month average rose across major economic sectors except personal loans and agriculture indicating productive economic activity rather than consumption led borrowing (% shares in brackets) .....	17
Figure 15: The current account deficit narrowed year-on-year largely reflecting improvements in the goods balance, secondary and primary income accounts (US\$ Million) .....	19
Figure 16: The merchandise trade deficit declined in the twelve months to March 2026 as exports grew faster than imports. ....	20
Figure 17: The financial account sustained a surplus in the year to March 2026. ....	21
Figure 18: UGX depreciated against the USD year-on-year and quarter-on-quarter in April 2026 although it appreciated month-on-month. ....	23
Figure 19: Uganda recorded one of the lowest currency depreciations and lowest inflation relative to key African peers amid the Middle East conflict driven market pressures. ....	24
Figure 20: Escalating Middle East tensions risk compressing Uganda's trade flows while triggering monetary tightening in advanced economies and frontier markets that could narrow Uganda's yield advantage and reverse capital inflows. ....	25
Figure 21: Escalating Middle East tensions risk compressing Uganda's trade flows while triggering monetary tightening in advanced economies and frontier markets that could narrow Uganda's yield advantage and reverse capital inflows. ....	27
Figure 22: Destination of Uganda Exports – Total Export Trade, Excluding Gold, 2020-2024 .....	34
Figure 23:Global inflation higher in Mar-2026, owing to sharp rise in global energy prices.....	35

Figure 24: Global Headline Inflation Forecast to increase in 2026, following 3 years of decline, and to fall in 2027, depending on duration and effects of M.E. conflict .....	36
Figure 25: Commodity price developments were mixed in March-April 2026, however, dominated by volatility and sharp overall rise in crude oil and fertilizer prices, due to M.E. conflict.....	38
Figure 26: Key AE 10-yr Government Bond Yields-Concerns about a resurgence of inflation have raised bond yields .....	41
Figure 27: USD Index: Strengthened in Mar-2026, resulting in currency depreciations especially among commodity importing EMDEs.....	42
Figure 28: Key Central Bank Policy Rates Gradually easing and still relatively high before M.E. war, now expected to remain unchanged, as central banks balance risks between slower growth and rising inflation .....	43

### List of Tables

Table 1: BOP Medium Term Projections .....	22
Table 2: Fiscal Operations Were More Expansionary in the First Nine Months of FY2025/26 (Shs. billions)...	28
Table 3: Global GDP growth (% change, yoy), revised down for 2026 – 2027 (Reference Forecast) .....	30
Table 4: Protracted conflict or delayed resumption of M.E. oil activities could result in higher global inflation and slower global growth-Two Prolonged Conflict Scenarios Defined by average oil price levels for 2026 & 2027.....	33
Table 5: Outlook is for higher commodity prices in 2026, with relative recovery in 2027 (% change, yoy) .....	39

### List of Boxes

Box 1: Managing Liquidity and Anchoring Expectations: The Role of the Cash Reserve Requirement .....	18
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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 in 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 the 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 May 2026 where data is available. The cut off for data used to prepare the Statement on Monetary Policy was April 30, 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 macroeconomic conditions remain broadly stable, supported by low inflation, resilient domestic economic activity, and a relatively firm external position. However, the policy environment has become more uncertain due to rising global energy prices, heightened geopolitical tensions in the Middle East, exchange rate pressures, and possible weather-related supply shocks. These developments have increased upside risks to inflation, even though current inflation remains below the Bank of Uganda's medium-term target of 5.0%.

**Monetary Policy Decision:** The Monetary Policy Committee maintained the Central Bank Rate at 9.75% in May 2026, reflecting the judgement that the existing policy rate remains consistent with the inflation and growth outlook. Inflation is still below the medium-term target, and domestic economic activity remains robust. However, the risk environment has deteriorated, particularly because of higher global oil prices, geopolitical tensions, possible exchange rate depreciation, and adverse weather risks.

To reinforce price stability and manage liquidity conditions, the Bank of Uganda increased the Cash Reserve Requirement from 9.5% to 11%. The increase in the Cash Reserve Requirement is intended to absorb excess structural liquidity while anchoring inflation expectations around the medium-term target. This approach allows the Bank of Uganda to preserve policy credibility without unnecessarily tightening the policy rate at a time when growth momentum remains strong. Future decisions are expected to remain data driven, with policy responding to new evidence on inflation, growth, exchange rate conditions, and external shocks.

**Inflation and Inflation Outlook:** Annual Inflation remained relatively low in April 2026, though price pressures increased slightly. Annual headline inflation rose to 3.0% from 2.8% in March 2026, while core inflation increased to 3.0% from 2.9%, mainly due to higher services, energy, fuel, and utility costs. Rising prices for petrol, diesel, kerosene, and charcoal pushed noncore inflation higher, while food

### THE KEY RESULTS

**9.75 %**  
CENTRAL BANK RATE

**11.0 %**  
CASH RESERVE RATIO

**3.0%**  
HEADLINE INFLATION

**3.0%**  
CORE INFLATION

**8.5%**  
Q2 FY2025/26 GDP GROWTH



crop inflation declined because of improved food supplies and lower prices for some food items.

The inflation outlook has been revised upward due to exchange rate depreciation, higher energy costs, external uncertainties, and resilient domestic demand. Over the next year, annual core inflation is projected at 4.5% to 5.2%, while headline inflation is expected at 5.2% to 6.5%. Inflation is expected to return toward the 5% target by Q2 2027, although risks remain from oil prices, currency depreciation, geopolitical disruptions, strong demand, and adverse weather affecting food production.

**Domestic Economic Activity and Growth Trends:** Domestic economic activity remained resilient despite global uncertainty. Annualised Quarterly GDP growth rebounded to 8.5% in Q2 FY2025/26, up from 4.8% in the first quarter of FY2025/26 and higher than 5.4% recorded in Q2 FY2024/25. Growth was broad based across industry, agriculture, and services. Industry expanded by 12.3%, driven by construction, manufacturing, and quarrying. Agriculture grew by 8.8% due to favourable weather, stronger crop output, rising demand, and government support. Services also improved, supported by tourism, banking, and private sector activity. High frequency indicators such as the Purchasing Managers' Index suggest continued growth momentum, reflecting stronger output, sales, and demand.

Growth is projected at 6.5% to 7.0% in FY2025/26 and could rise toward 8.0% over the medium term, supported by investment, exports, agriculture, oil related activity, remittances, FDI, and government programmes such as the Parish Development Model and EMYOOGA. Nonetheless, downside risks remain, including adverse weather, weaker external demand, higher input costs, domestic tax measures affecting household disposable income, and geopolitical disruptions to global supply chains.

**Domestic Financial Conditions:** Domestic financial conditions remained broadly stable, although some indicators pointed to tighter liquidity and more cautious credit conditions. Money market rates increased modestly but stayed within the Central Bank Rate (CBR +/- 2 percentage points), with the overnight interbank rate and the 7-day weighted average rate rising by 17 basis points and 30 basis points to 10.09% and 10.5% in April 2026, respectively. The Bank of Uganda also expanded liquidity management operations, including repurchase agreements, BoU bills, and standing facilities, consistent with efforts to manage liquidity conditions and support the monetary policy stance.

Government securities' yields broadly declined in both primary and secondary markets in the quarter to April 2026 relative to the quarter to January 2026 due to lower primary market issuances, strong investor demand, better liquidity, and improved market confidence. Owing in part to the reduced government securities issuance, Lending rates

eased slightly, with shilling lending rates falling to 18.65% and foreign currency lending rates to 6.98% in the quarter to March 2026. Asset quality strengthened as the non-performing loan ratio declined to 3.04% in March 2026, the lowest level since December 2011. However, credit supply weakened and loan approval rates fell as banks adopted a more cautious approach to managing credit risk in view of the global uncertainties.

**Fiscal Outturn and Policy Implications:** Fiscal operations were more expansionary than planned during the first nine months of FY2025/26. Recurrent expenditure exceeded programme targets, driven by higher local government grants, transport sector payments, institutional capitalisation, election related spending, and increased spending on goods and services, including medical supplies. Although capital spending remained below target, it was significantly higher than in the corresponding period of the previous year, reflecting continued public infrastructure implementation.

Revenue underperformed. Total government revenue and grants amounted to Shs. 25,829.2 billion, falling short of the programme target by Shs. 2,496.4 billion. As a result, the fiscal deficit reached Shs. 10,542.6 billion, exceeding the planned level by Shs. 2,434.4 billion. The key policy implication is that fiscal consolidation remains essential for macroeconomic stability. The deficit is expected to narrow from 7.0% of GDP in FY2025/26 to 6.0% in FY2026/27 and 3.0% by FY2030/31, supported by the Medium-Term Debt Strategy.

**Balance of Payments and Exchange Rate Trends:** Uganda's external position improved, although exchange rate risks remain elevated. The current account deficit narrowed to USD 3,117.5 million in the twelve months to March 2026, from USD 3,651.1 million a year earlier. The improvement reflected stronger secondary income inflows, a smaller primary income deficit, and a reduced goods deficit. Export earnings more than doubled, supported by broad based growth in coffee and non-coffee exports. However, the services deficit widened sharply because of higher freight, transport, financial, professional, and infrastructure-related service payments.

The financial account surplus increased to USD 6,367.1 million, supported by foreign direct investment and stronger portfolio inflows into government securities linked to competitive yields. The overall balance of payments recorded a surplus of USD 2,469.1 million, supporting the build-up of gross official reserves that stood at about USD 6.0 billion as at end-March 2026, equivalent to 4.0 months of future import cover for goods and services.

The shilling depreciated year-on-year and quarter-on-quarter in April 2026, reflecting geopolitical uncertainty, stronger corporate dollar demand, and broad US dollar strength. However, the strong reserve position provides an important buffer against external shocks. Additionally, to further enhance the international reserves buffer, the BoU has started

purchasing gold. This, together with the commencement of oil exports, should result in stronger international reserve buffers going forward.

**Global Economic Context:** Since the last monetary policy assessment, the external environment has become more uncertain. Expectations of steady global growth have weakened, mainly due to intensified geopolitical tensions in the Middle East, which have disrupted oil production, transport routes, and global supply chains. Global growth for 2026 has been revised downwards, while risks remain tilted to the downside, particularly for emerging market and developing economies that are more exposed to energy shocks, tighter financing conditions, and weaker external demand. The IMF projects global growth to slow to 3.1% in 2026 from 3.4% in 2025, with downside risks from prolonged conflict, trade tensions, rising debt, and policy uncertainty. Growth is expected to soften across Advanced Economies and EMDEs, especially energy importing countries, while Sub-Saharan Africa's growth is projected at 4.3% in 2026.

Global inflation pressures have also increased, driven largely by higher energy prices. Brent crude oil prices rose above USD 120 per barrel in April 2026, fertilizer prices increased sharply, and global inflation is projected to rise to 4.4% in 2026. Consequently, global financial conditions have tightened though moderately. The US dollar has strengthened against most currencies, while risk sentiment has weakened, contributing to depreciation pressures across several emerging market and developing economies.

These developments could affect Uganda through weaker global demand which could dampen exports and remittance inflows, while higher fuel and food prices may increase imported inflation, widen the current account deficit, heighten exchange rate pressures, and require tighter domestic monetary policy. However, Uganda's oil exports in a few coming months could provide some offsetting gains.

## **1 MONETARY POLICY DECISION**

The Bank of Uganda's Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.75 % at its meeting on May 14, 2026.

Inflation remains below the medium-term target of 5.0%, reflecting the effectiveness of prudent monetary policy, relative exchange rate stability, and resilient domestic macroeconomic conditions. However, heightened geopolitical tensions in the Middle East have increased global oil prices and intensified uncertainty surrounding the inflation outlook. Consequently, inflation is expected to rise gradually toward the target over the next twelve months as higher energy and transport costs transmit through to domestic prices.

Economic activity remains resilient, supported by broad based growth across the agriculture, industry, and services sectors. Real GDP growth is projected at 6.5% to 7.0% in FY2025/26, with the medium-term outlook supported by stronger investment and export growth.

The MPC assessed that maintaining the current monetary policy stance was appropriate to anchor inflation expectations and preserve macroeconomic stability amid elevated global uncertainty and rising upside risks to inflation, including persistent oil price pressures, exchange rate depreciation, and adverse weather conditions. To further absorb structural liquidity and reinforce price stability, the Bank of Uganda also increased the Cash Reserve Requirement (CRR) to 11.0% from 9.5%.

Future monetary policy decisions will remain data dependent and responsive to evolving risks to inflation and growth.

## **2 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK**

### **2.1 Domestic Inflation and Outlook**

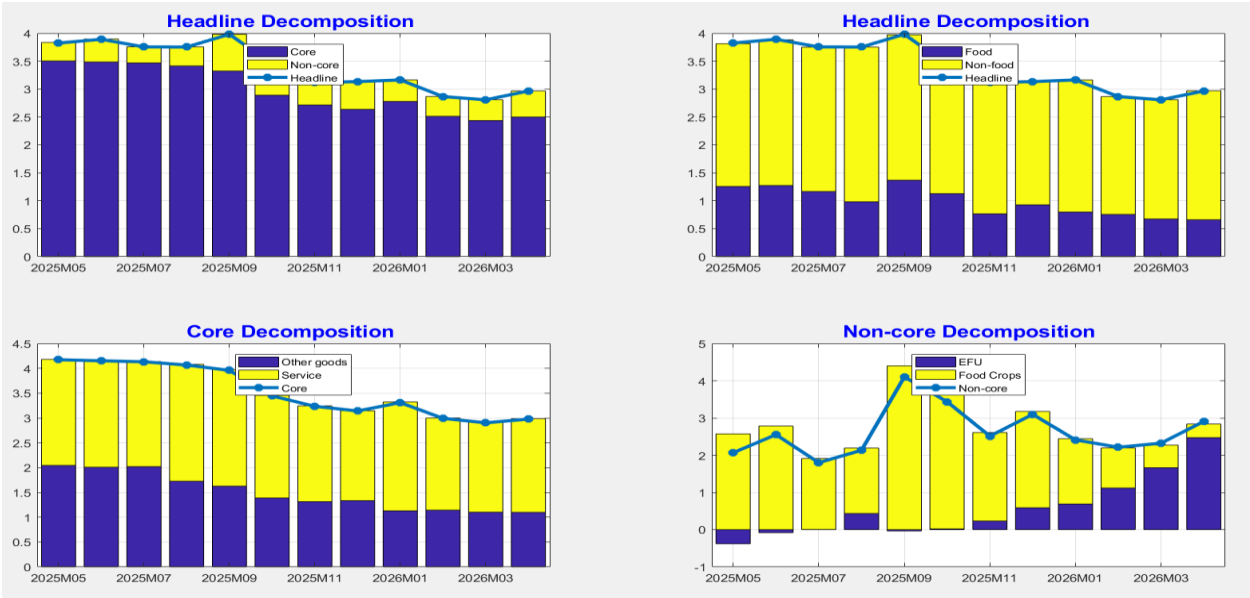
#### **2.1.1 Domestic Inflation**

Over the past twelve months, annual headline and core inflation averaged 3.4% and 3.5%, respectively, indicating sustained price stability supported by prudent monetary policy, relative exchange rate stability, and favourable food supply conditions.

In April 2026, headline inflation increased to 3.0% from 2.8% in March 2026 driven by an increase in services and EFU inflation (**Figure 1**), while core inflation also increased to 3.0% from 2.9% during the same period. The increase in core inflation was primarily driven by an increase in services inflation. Services inflation increased to 4.1% from 4.0%, reflecting higher prices for passenger transport service, while other goods inflation remained unchanged.

Non-core inflation increased to 2.9% in April 2026 from 2.3% in March 2026, mainly reflecting a sharp increase in EFU inflation to 6.1% from 4.1% in March 2026. The increase in EFU inflation was largely driven by higher prices for liquid fuels, particularly petrol, diesel, kerosene, and charcoal. Meanwhile, food crops and related items inflation declined to 0.6% from 1.0% over the same period, supported by lower prices for several food items and continued favourable food supply conditions. Overall, recent inflation developments suggest that underlying inflationary pressures remain subdued, and inflation expectations continue to be well anchored, consistent with the Bank of Uganda’s medium-term inflation target of 5.0%.

**Figure 1: Inflation Remained Low and Stable Over the 12 Months to April 2026, Supported by Relative Exchange Rate Stability, Prudent Monetary Policy, and Favourable Food Supply Conditions.**



Source: Uganda Bureau of Statistics (UBOS)

## 2.1.2 Inflation Outlook

### Baseline inflation forecast

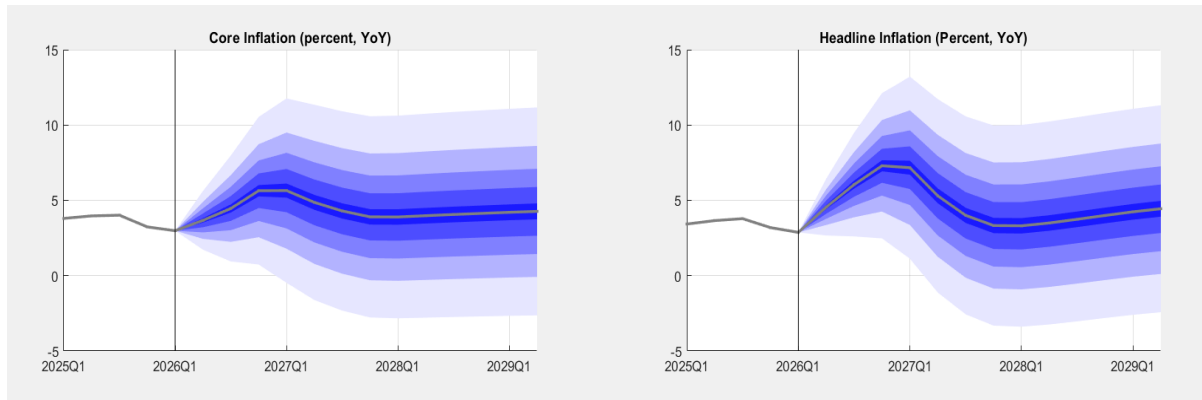
The inflation outlook has been revised slightly upwards due to a more depreciated exchange rate and higher energy costs relative to the previous forecast round, reflecting higher than anticipated inflation outturn in 2026Q1, persistent external uncertainties, and resilient domestic demand conditions.

Over the next twelve months, core inflation is anticipated to average between 4.5% and 5.2%, which is an increase from the earlier forecast range of 3.8% to 4.3% (**Figure 2**). Meanwhile, headline inflation is expected to average between 5.2% and 6.5%, closely aligning with core inflation over the medium term due to high but slowly easing pressures on food and energy prices. It is anticipated that inflation will gradually move back towards the 5.0% target by the second quarter of 2027 as temporary supply side disruptions subside, monetary policy remains well adjusted, and domestic inflation expectations stay stable.

The risks to the inflation outlook are largely tilted towards the upside throughout the forecast period. Domestically, stronger than expected demand, driven by increased investment in the extractive sector and the effective implementation of government programs, could place additional upward pressure on prices. Externally, risks remain significant, particularly with the potential for a prolonged conflict in the Middle East, which could disrupt transportation through key global shipping routes, restrict the global oil supply, and lead to higher international energy prices. Moreover, delays in resuming crude oil production due to damage or extended closures of energy infrastructure could further exacerbate energy price pressures. Adverse weather conditions also pose a substantial risk, potentially reducing agricultural output and increase food prices.

On the downside, favourable weather conditions might bolster agricultural production, boost food supply, and alleviate food price inflation. Additionally, weaker than expected global growth, especially if geopolitical tensions persist longer than anticipated, could suppress both external and domestic demand pressures, thereby moderating the inflation outlook. Overall, inflation is expected to gradually align with the medium-term target of 5.0% by the second quarter of 2027. However, the balance of risks remains tilted to the upside, necessitating continued vigilance to ensure that inflation expectations stay anchored and that second round effects are contained.

**Figure 2: Inflation is Projected to Gradually Converge to the 5.0% Target Over the Medium Term, Reflecting Elevated but Moderating Food and Energy Price Pressures, as Temporary Shocks Dissipate and Monetary Policy Remains Appropriately Calibrated.**



Source: Bank of Uganda

### Macroeconomic Risks and Alternative Policy Scenarios

To evaluate these uncertainties and potential deviations from the baseline projection, the BoU developed and analysed several alternative scenarios.

#### Implications of a More Depreciated Exchange Rate

This alternative scenario explores the consequences of a more pronounced exchange rate depreciation, prompted by escalating geopolitical tensions and heightened uncertainty in global financial and commodity markets. In this scenario, external pressures are expected to lead to a more significant depreciation of the exchange rate compared to the baseline trajectory.

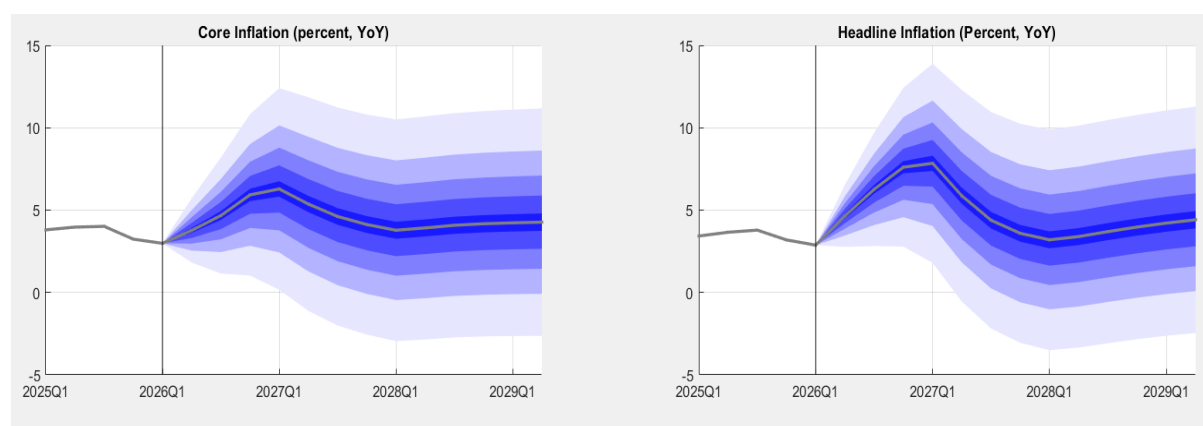
The exchange rate is projected to depreciate by 8.0% over the next four quarters, reflecting intensified geopolitical tensions and increased external vulnerabilities. This weaker exchange rate is anticipated to enhance export competitiveness and stimulate domestic economic activity, resulting in real GDP growth being approximately 0.3 percentage points higher in FY2026/27 than the baseline projection.

Inflationary pressures are expected to rise relative to the baseline outlook. Headline inflation is forecasted to be about 0.4 percentage points higher than the baseline average over the next twelve months, due to a stronger exchange rate pass through to domestic prices (**Figure 3**). Core inflation is anticipated to surpass the baseline by around 0.3

percentage points during the same period, driven by increased imported inflation and second round effects.

The Central Bank Rate is expected to rise compared to the baseline path, reflecting the necessity for a relatively tighter monetary policy stance to manage inflationary pressures and maintain macroeconomic stability amid heightened external uncertainties and geopolitical risks.

**Figure 3: Inflationary and Monetary Policy Implications of a More Depreciated Exchange Rate Relative to the Baseline Scenario**



Source: Bank of Uganda

### Implications of a More Depreciated Exchange Rate and Lower Growth

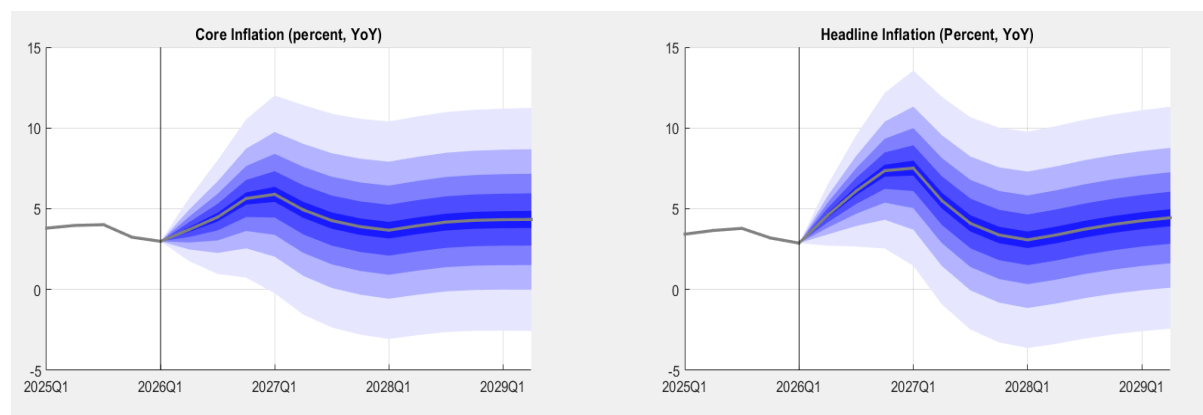
This alternative scenario explores the effects of reduced domestic growth and a more pronounced exchange rate depreciation, prompted by escalating geopolitical tensions, diminished private sector activity, tighter financial conditions, and waning external demand. In this context, worsening external and domestic economic conditions are expected to weaken economic activity while simultaneously putting pressure on the exchange rate. The exchange rate is projected to depreciate by 8.0% over the next four quarters, reflecting increased geopolitical tensions and weaker external conditions. This depreciation, coupled with subdued private sector activity and tighter financial conditions, is anticipated to dampen domestic economic activity, leading to lower growth compared to the baseline projection for FY2026/27.

Inflationary pressures are expected to rise modestly relative to the baseline outlook. Both headline and core inflation are projected to be approximately 0.1 percentage points higher

than the baseline average over the next twelve months, due to exchange rate pass through effects and increased imported inflation (**Figure 4**).

In response to the relatively modest inflationary pressures and weaker domestic demand conditions in this scenario, the monetary policy stance would be less restrictive compared to the baseline. Consequently, the Central Bank Rate is projected to be lower than the baseline path.

**Figure 4: Inflationary and Monetary Policy Implications of a More Depreciated Exchange Rate and Lower Global Growth Relative to the Baseline Scenario**



Source: Bank of Uganda

### Implications of Higher International Oil Prices

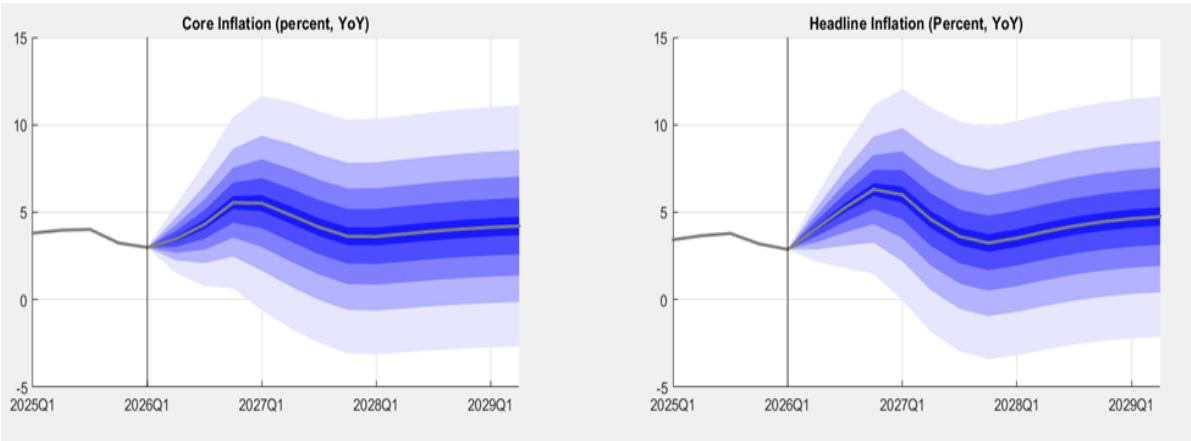
This alternative scenario explores the consequences of international oil prices averaging around USD 150 per barrel over the next four quarters. In this scenario, it is assumed that higher oil prices will trigger a broader increase in global commodity prices, leading to heightened volatility in global financial markets and rising global inflationary pressures. In response, major central banks are expected to further tighten monetary policy, resulting in weaker global demand and slower global economic activity.

The exchange rate, under this scenario, is projected to be on average 3.1% more depreciated than the baseline over the next twelve months, reflecting heightened external vulnerabilities, tighter global financial conditions, and decreased demand for foreign exchange. The combined effects of higher global oil prices, weaker external demand, and tighter financial conditions are anticipated to dampen domestic economic activity, resulting in real GDP growth being about 2.2 percentage points lower in FY2026/27 compared to the baseline projection.

Inflationary pressures are expected to rise relative to the baseline outlook. Headline and core inflation are projected to be approximately 0.3 percentage points higher than the baseline average over the next twelve months, reflecting stronger exchange rate pass through effects, higher imported inflation, and elevated global commodity prices (**Figure 5**).

In response to elevated inflationary pressures and heightened macroeconomic risks under this scenario, the monetary policy stance would need to be relatively tighter than under the baseline. Consequently, the Central Bank Rate is projected to be higher than the baseline path.

**Figure 5: Inflationary and Monetary Policy Implications of Higher International Oil Prices Relative to the Baseline Scenario**



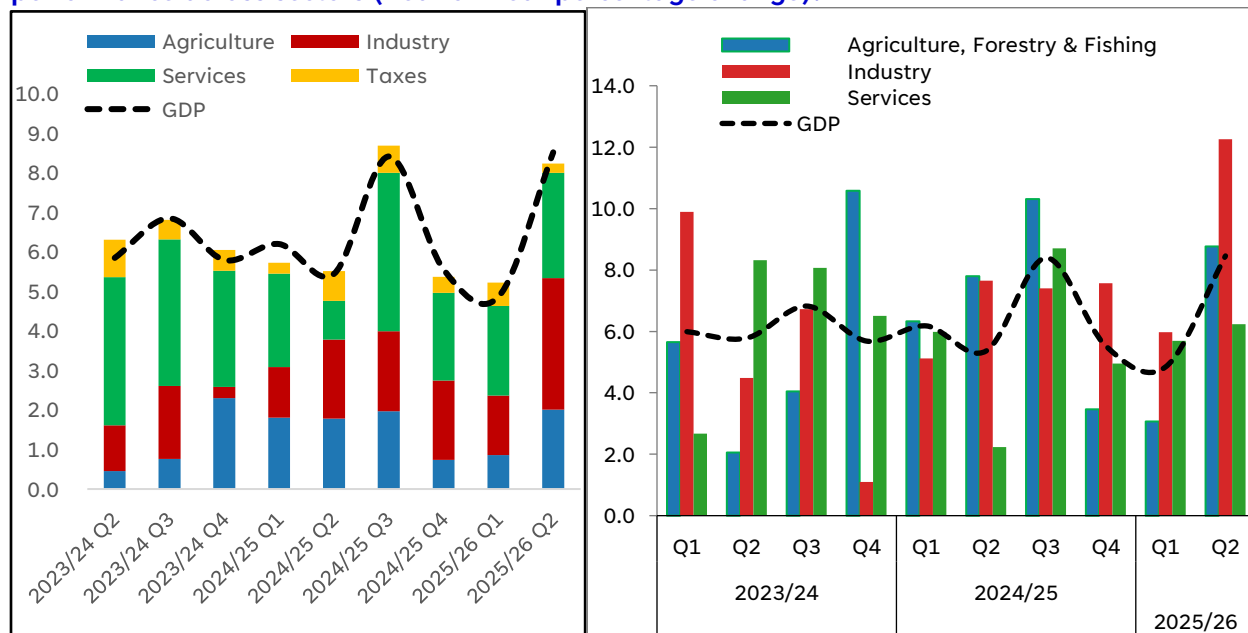
Source: Bank of Uganda

2.2 Domestic economic activity

2.2.1 Economic Growth Developments and outlook

Amid global trade and geopolitical turbulence, Uganda’s economy experienced steady growth. Recent quarterly GDP figures released by the Uganda Bureau of Statistics (UBOS) in March 2026 indicate that economy rebounded sharply in Q2 FY2025/26, with GDP growth rising to 8.5% from 4.8% in Q1 FY2025/26 and well above 5.4% in Q2 FY2024/25 (**Figure 6**). The acceleration was driven primarily by a strong surge in industry, alongside solid recoveries in agriculture and services.

**Figure 6: Uganda's economic growth remains steady in Q2 FY2025/26, driven by stronger performance across sectors (Year on Year percentage change).**



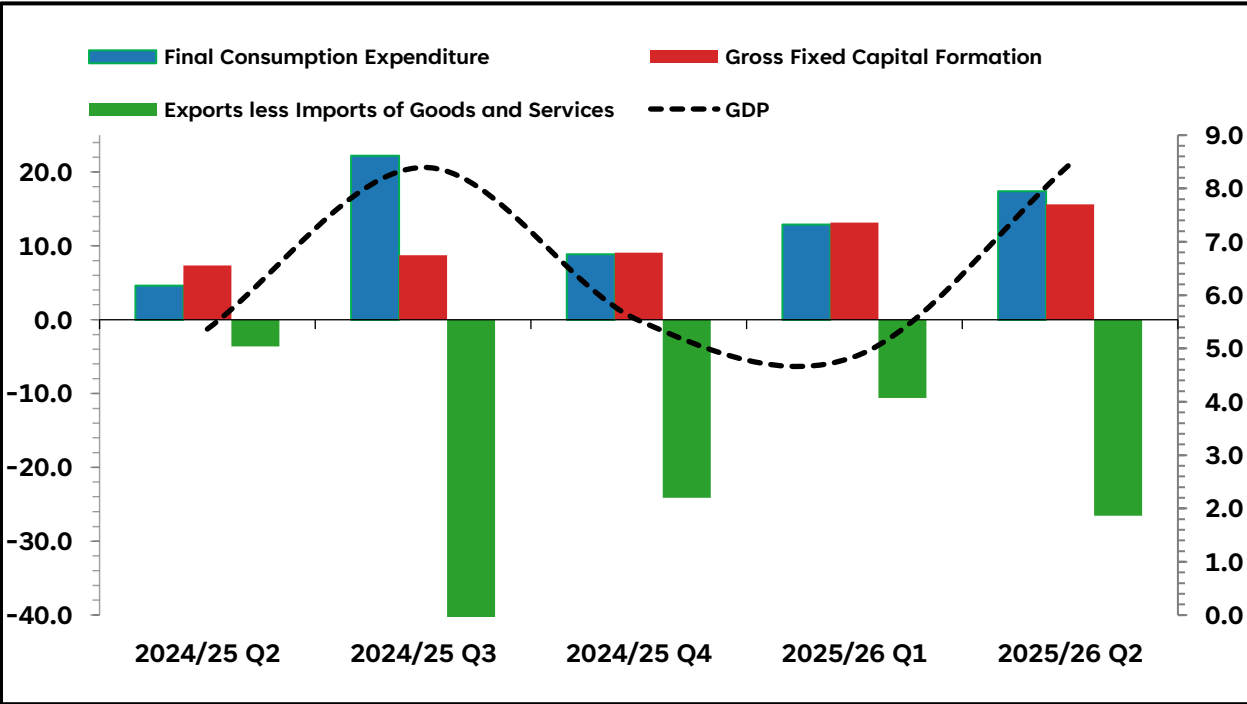
Source: Uganda Bureau of Statistics (UBOS)

The industrial sector recorded strong growth of 12.3% in Q2 of FY2025/26, compared to 7.7% in Q2 of FY2024/25 (Figure 6). This growth was largely driven by a strong performance across subsectors, particularly in construction (19.4%), manufacturing (8.9%), and quarrying, which registered the highest growth at 27.3%. As a result, the sector's contribution to GDP growth increased to 3.3%, up from 2.0% in the previous year (Figure 6). The services sector followed a similar trajectory with an increase of 6.2% from 2.2% in Q2 of FY2024/25. This upturn was reflected in its stronger contribution of 2.7% to GDP growth, up from 1.0%.

The agriculture sector also expanded by 8.8% in Q2 of FY2025/26, up from 7.8% in the corresponding quarter of the previous year, supported by broad based growth across all subsectors except fishing. Cash crops and forestry were the main drivers, growing by 12.6% and 8.3%, respectively, up from 9.6% and 5.2% in Q2 of FY2024/25. Food crops also recorded stronger growth of 7.7%, compared to 7.0% in the previous year, contributing to both overall GDP expansion and lower food inflation. Growth in both food and cash crops was supported by favourable weather conditions, rising demand for agricultural produce, and enhanced government support for farming activities. Consequently, agriculture's contribution to overall GDP growth rose to 2.0 percentage points, up from 1.8 percentage points the year before.

On the expenditure side, strong gains were recorded in both final consumption and investment, which expanded significantly in Q2 FY2025/26 by 17.4% and 15.6%, respectively, up from 4.6% and 7.3% in Q2 FY2024/25 (Figure 7). Investment growth was supported by increased spending on ICT equipment and other structures, which rose by 102.7% and 22.3%, respectively. The surge in final consumption was primarily driven by higher household spending, which grew by 20.1%. In contrast, government expenditure moderated to 8.4%, down from 38.1% in the previous year, reflecting ongoing fiscal consolidation efforts.

Figure 7: Uganda’s GDP growth in Q2 2025/26 was mainly supported by final consumption.

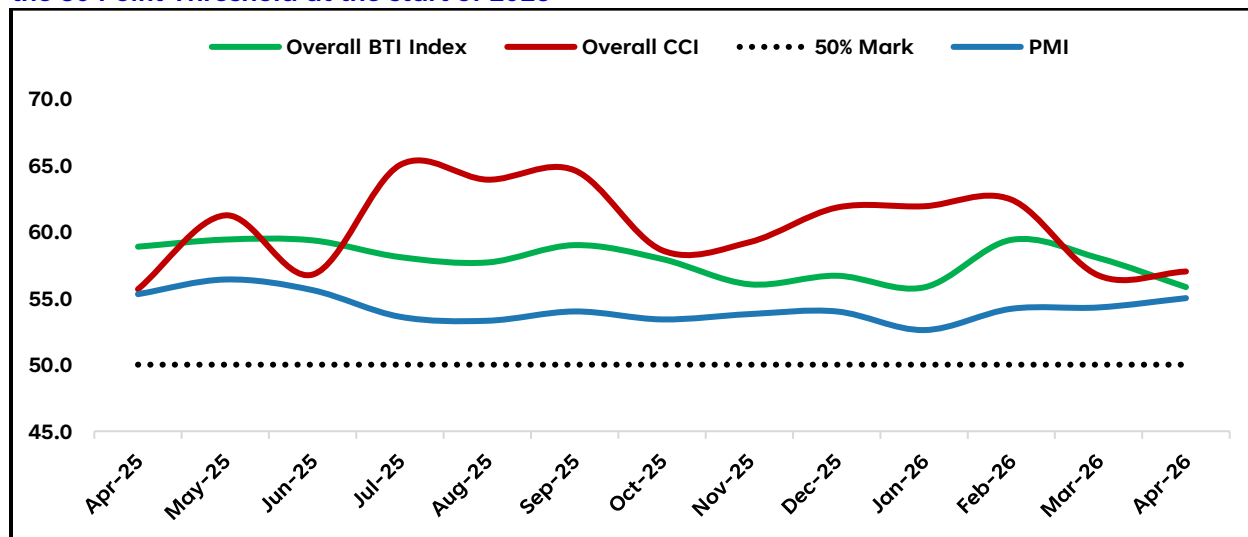


Source: Uganda Bureau of Statistics (UBOS)

High frequency indicators of economic activity also pointed to resilient private sector activity and sustained growth in March 2026, with all three indicators, namely, the Business Tendency Index (BTI), the Purchasing Manager’s Index (PMI), and the Consumer Confidence Index (CCI), remaining above the 50%-mark threshold (Figure 8). Business confidence remained positive during the period, indicating continued optimism among firms. The Purchasing Managers’ Index (PMI) for April 2026 picked up to 55, up from 54.3 in March, marking a fourteen-month streak of improving business conditions in the private sector. The positive performance was driven by sustained growth in output, new sales, stronger customer demand, and increased new orders. Consumer confidence remained optimistic, registering an increase of 0.3 points to 57.0 in April 2026 compared to the previous month.

This rise was largely driven by improved sentiments regarding expected financial conditions.

**Figure 8: Key Economic Sentiment Indicators Signal Continued Expansion, Sustaining Levels Above the 50 Point Threshold at the start of 2026**



Source: Bank of Uganda, Stanbic Bank Uganda PMI

### 2.2.2 Economic Growth outlook.

Economic growth is projected to remain robust at 6.5% to 7.0% in FY 2025/26, with growth momentum expected to strengthen to around 8.0% over the medium term, supported by a combination of structural and cyclical factors. Future oil production and sustained foreign direct investment and remittance inflows into the oil and gas and extractive industries are set to reinforce aggregate demand. At the same time, increased agricultural production, supported by favourable weather conditions and targeted government interventions, are all likely to enhance food supply, agro-processing, and rural incomes. These developments are complemented by government initiatives such as the Parish Development Model (PDM) and EMYOOGA, which are expected to raise agricultural productivity and accelerate agro-industrial expansion, alongside prudent monetary policy that continues to anchor inflation expectations and maintain exchange rate stability.

Notwithstanding this positive outlook, risks remain tilted to the downside. Recent domestic tax measures could have short to medium-term implications for household disposable incomes and constrain private consumption, while adverse weather conditions pose a material risk to agricultural productivity, food supply, agro processing activity, and export

performance. In addition, elevated geopolitical risks, including ongoing tensions in the Middle East, could disrupt global supply chains, raise input costs, and weaken external demand, thereby slowing the pace of economic expansion. Taken together, these downside risks underscore the importance of sustained macroeconomic discipline, timely policy responses, and measures to enhance resilience against external and climate related shocks.

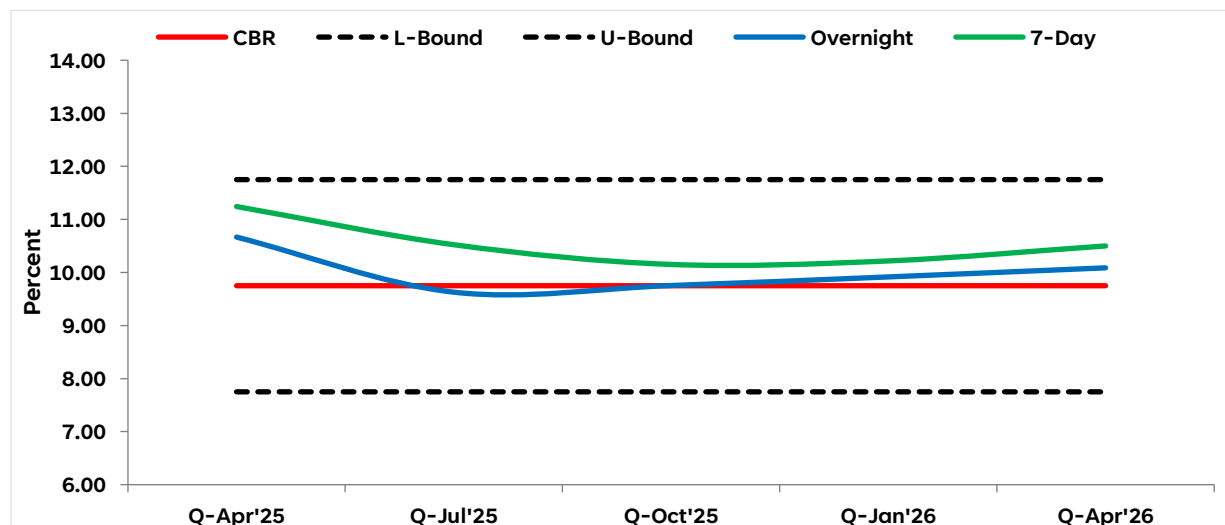
## 2.3 Domestic financial markets

### 2.3.1 Monetary policy and the interbank money market

Money market rates edged up modestly but remained within the CBR band in the three months to April 2026 compared to January 2026 as shown in **Figure 9**. In line with the policy stance including the adjustment in the CRR, the overnight rate and 7-day interbank weighted average rate increased to 10.09% and 10.5% in the three months to April 2026 from 9.92% and 10.22% in the three months to January 2026, respectively. Utilization of the Standing lending facility increased to Shillings 8.92 trillion (130 transactions) in the three months to April 2026 relative to Shillings 8.37 trillion (104 transactions) observed in the three months to January 2026. In the three months to April 2026, the volume of issued repurchase agreements for liquidity mop up rose to Shillings 7.81 trillion from Shillings 5.98 trillion in the three months to January 2026, consistent with efforts to manage liquidity conditions and support the monetary policy stance.

In addition, to mop up excess liquidity, Bank of Uganda issued BoU Bills to the tune of Shillings 1.63 trillion in the three months to April 2026 compared to Shillings 0.65 trillion in the three months to January 2026. Utilisation of Standing Deposit facility rose to Shillings 6.05 trillion (89 transactions) in the three months to April 2026 from Shillings 3.51 trillion (74 transactions) observed in the three months to January 2026.

**Figure 9: Interbank Money Market Rates edged up modestly but remained within the CBR band in the three months to April 2026 (Percent)**



Source: Bank of Uganda

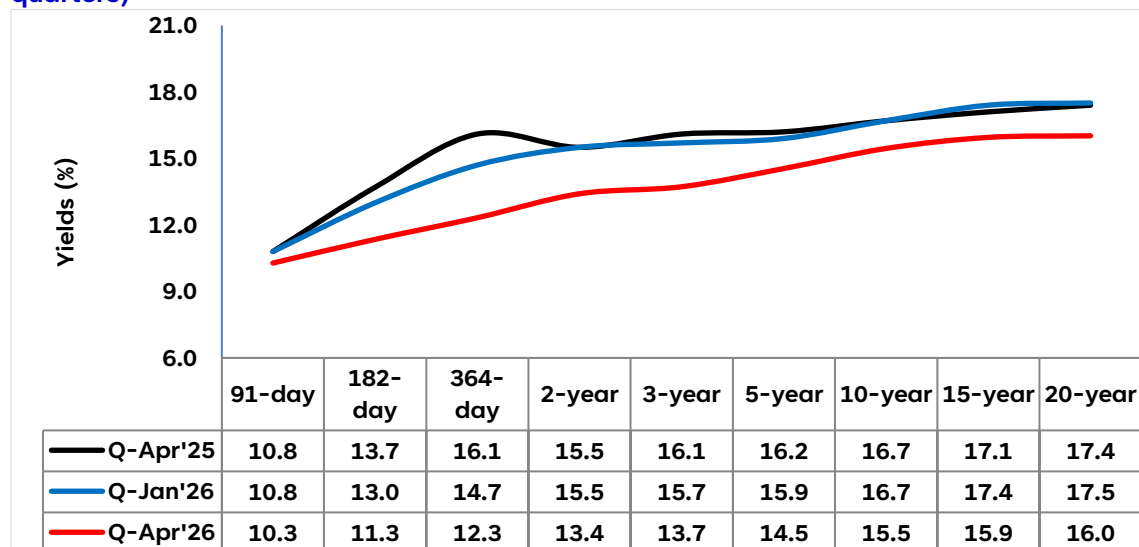
### 2.3.2 Primary market for treasury securities

On average, Primary market yields declined in the three months to April 2026 relative to the three months to January 2026, supported by a 30.2% reduction in primary market issuances to Shillings 1.72 trillion from Shillings 2.02 trillion over the same periods, and consistent with improved fiscal management. Demand for government securities however remained robust with all auctions oversubscribed, pointing to continued appetite for government paper.

### 2.3.3 Secondary market for treasury securities

In the quarter to April 2026, the secondary market yield curve shifted downward across all maturities, signalling improved market conditions and easing expectations for inflation and monetary policy (**Figure 10**). Short- and medium-term yields recorded the most significant declines relative to earlier periods, with the 364-day tenor falling to 12.3% from 16.1% in the Quarter to April 2025, while the 5-year tenor declined to 14.5% from 16.2% over the same period. Compared with the quarter to January 2026, yields also moderated further across the curve, including declines in the 2-year tenor from 15.5% to 13.4% and the 20-year tenor from 17.5% to 16.0%, reflecting improved liquidity conditions and stronger market confidence. Despite the broad-based easing, long term yields remained relatively elevated, suggesting that markets continue to factor in medium to long term inflation, fiscal, and sovereign risk considerations.

Figure 10: Secondary market annualized yields on T-bills and T-bonds declined (Average for the quarters)

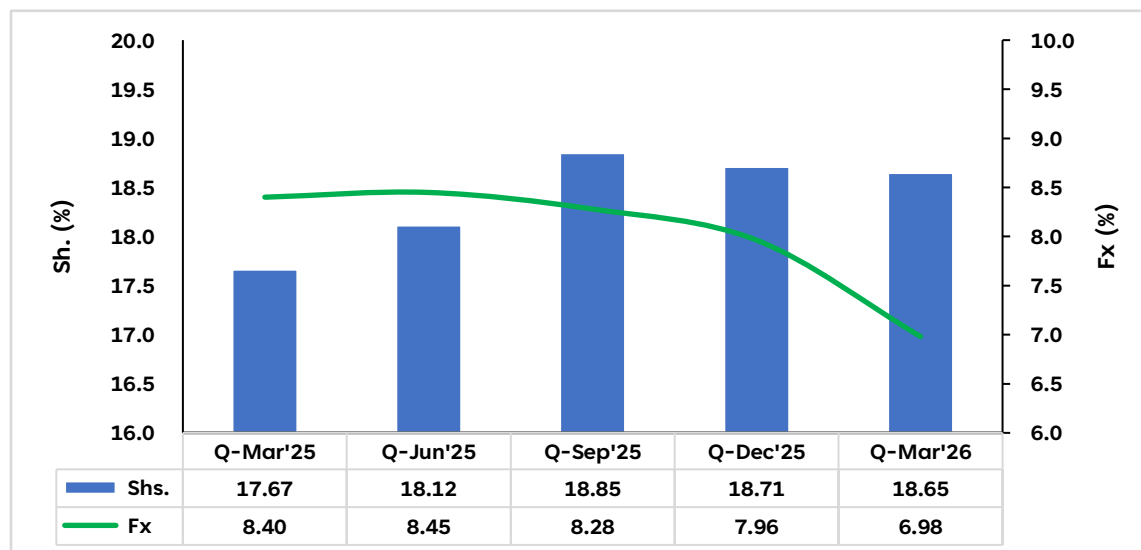


Source: Bank of Uganda

#### 2.3.4 Lending interest rates

The weighted average lending rates fell in the three months to March 2026 compared to the three months to December 2025. The weighted average shilling lending rate fell to 18.65% in the three months to March 2026 compared to 18.71% in the three months to December 2025 (**Figure 11**). The lending rate on foreign currency denominated loans fell to 6.98% compared to 7.96% over the same period. The fall in shilling lending rates was primarily driven by a reduction in government borrowing, increased asset quality and strengthened economic conditions while the fall in the foreign currency denominated loans was supported by increased foreign currency deposits amid sustained foreign direct investments inflows. Consistent with the improved asset quality and improved economic conditions, the average one-year shilling prime lending rate by commercial banks reduced to 20.4% in the three months to March 2026 relative to 20.06 in the prior three months.

**Figure 11: Weighted Shilling and Foreign Currency Lending Rates: Fall both in the Shilling and Foreign Rates (%)**



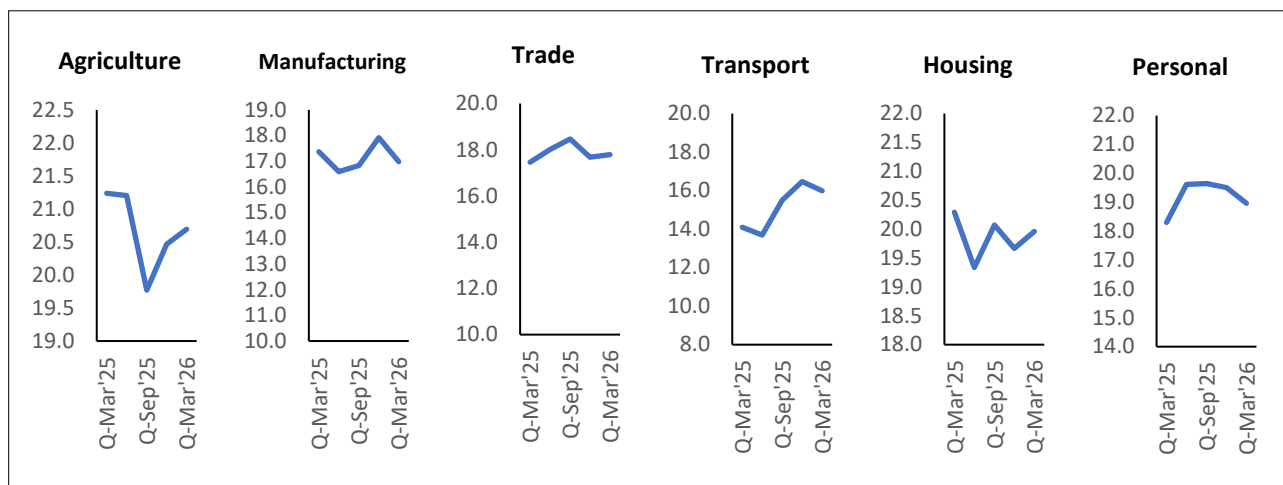
Source: Bank of Uganda

The NPL ratio improved to 3.04% from 3.24% during this period reflecting improving credit quality. According to the Bank Lending Survey for the third quarter of FY 2025/26, majority of the commercial banks expect the lending rates to increase due to the Middle East crisis, likelihood of tighter monetary policy and a possible increase in policy rates. The downside risks to the outlook for lending rates include lower government borrowing as the projected NDF is set at UGX 11.9tn in FY26/27 lower than UGX 15.15tn in FY25/26 and stronger economic growth. The upside risks include sector specific repricing of risk, increased government borrowing from the domestic market and higher funding costs arising from heightened political uncertainty. Overall, the risks to near-term lending rate outlook are tilted to the upside.

In the three months to March 2026, sectoral shilling lending rates recorded mixed movements compared to the three months to December 2025 (**Figure 12**). Rates for manufacturing, transport and personal loans declined to 17.0%, 16.0% and 19.0%, respectively, while mining and quarrying, trade, housing and agriculture increased modestly to 19.6%, 17.8%, 20.0% and 20.7% respectively.

**Figure 12: Weighted average Shilling lending rates recorded mixed movements across most sectors, but remain relatively high due to structural rigidities in the financial sector**

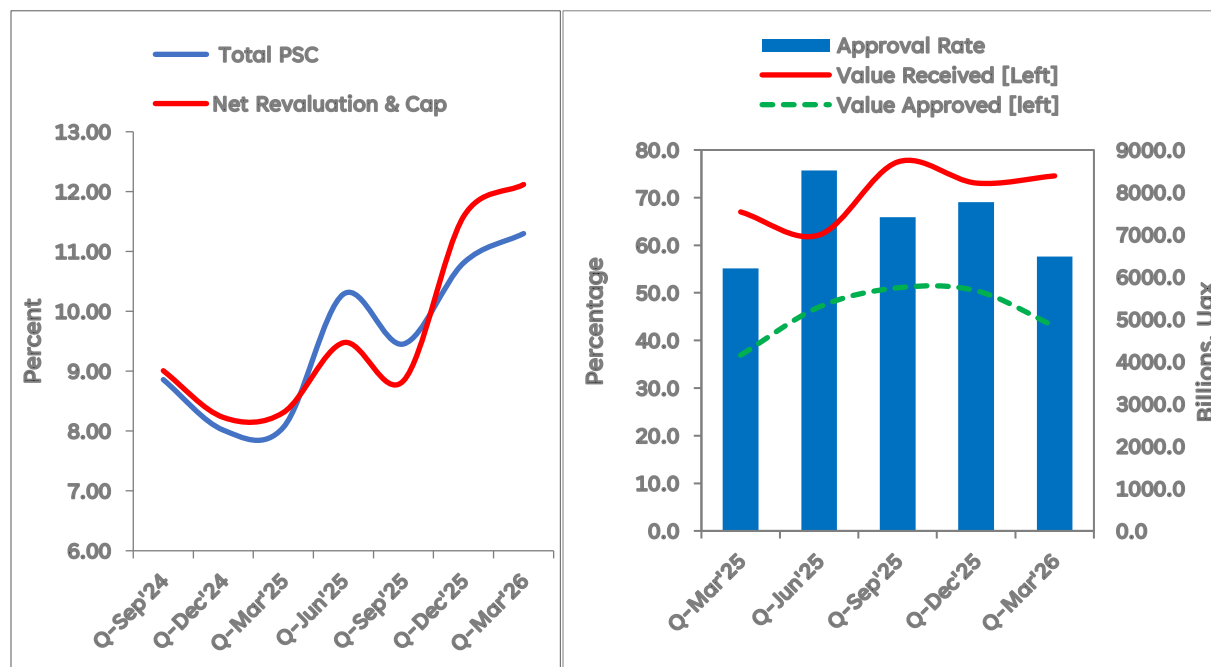
Source: Bank of Uganda



### 2.3.5 Private sector credit

Growth in Other Depository Corporations (ODC) Private Sector Credit (PSC) rose in the three months to March 2026 relative to the three months to December 2025 (**Figure 13, Left**). Annualized average PSC growth rose to 11.3% in the three months to March 2026 from 10.8% in the three months to December 2025, in sync with the improving economic conditions and asset quality. Net of valuation and capitalized interest, PSC growth rose to 12.1% in the three months to March 2026 from 11.6% in the three months to December 2025. In contrast, growth in Shilling denominated loans fell to 10.9% in the three months to March 2026 from 11.06% observed in the three months to December 2025, while growth in foreign currency denominated loans rose to 12.52% from 10.09% over the same period. Total net credit extensions including capitalized interest and revaluation fell in the three months to March 2026 to Shs 1.5 trillion from Shs 1.9 trillion in the three months to December 2025.

**Figure 13: PSC growth increased (year-on-year, %, Left) as demand and supply of credit remained robust (UGX, billion, Right)**

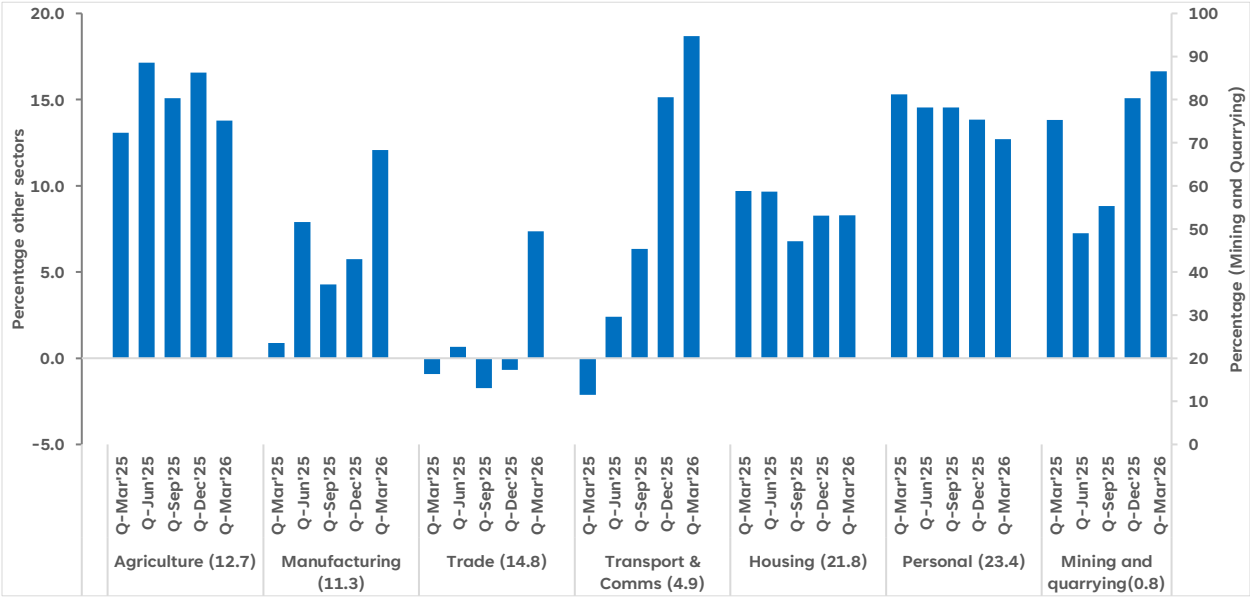


Source: Bank of Uganda

Demand for credit rose marginally to Shs 8.4tn in the three months to March 2026 while supply of credit fell to Shs 4.8 trillion in the three months to March 2026 from Shs 8.2 trillion and Shs 5.7 trillion respectively in the three months to December 2025 (**Figure 13, Right**). The contraction in supply was reflecting tighter lending conditions as banks adopted a more cautious stance in managing credit risk. Consequently, the rate of approval for credit fell to 57.6% in the three months to March 2026 from 69.0% in the three months to December 2025 thus, PSC could be slower in the next quarter due to the lagged approval and disbursement effect.

Annualised ODC private sector credit growth rose across most of the major economic sectors in the 3 months to March 2026 except personal loans and agriculture compared to the three months December 2025, pointing to both improved economic conditions and idiosyncratic sectoral risk assessments (**Figure 14**).

**Figure 14: Year-on-year growth in private sector credit 3-month average rose across major economic sectors except personal loans and agriculture indicating productive economic activity rather than consumption led borrowing (% shares in brackets)**



Private sector credit growth is expected to remain moderate in the near-term. While underlying demand for credit remains resilient, credit supply fell with banks adopting a more cautious stance to manage credit risk. Upside risks include increased public and private investment activity including oil related investments ahead of first oil in July 2026, macroeconomic stability, with anchored inflation expectations, could improve borrower confidence and encourage lending and the Government 10-fold growth program efforts to grow the economy. The downside risks include, global economic uncertainty and credit risk concerns, heightened global uncertainty that could weaken external demand and domestic business conditions, reinforcing risk aversion in bank lending and finally increased government borrowing from the domestic market could crowd out private sector credit, especially if it leads to upward pressure on interest rates. Overall, the near-term risks to PSC growth are tilted to the downside.

## **Box 1: Managing Liquidity and Anchoring Expectations: The Role of the Cash Reserve Requirement**

Cash reserve requirements (CRR) remain relevant in Uganda's macroeconomic management framework because they provide the Bank of Uganda with a direct instrument for managing structural liquidity conditions in a bank based financial system.

The recent increase in the cash reserve requirement from 9.5 percent to 11 percent, effective March 12, 2026, complements the Central Bank Rate by absorbing banking system liquidity while helping anchor inflation expectations and reduce potential exchange rate pass through risks. This is intended to support orderly liquidity conditions, keep inflation expectations aligned with the medium-term target, and safeguard the recovery in economic activity.

The CRR represents the share of deposits that commercial banks must hold at the central bank, making these funds unavailable for lending or investment. As a result, increasing the CRR withdraws liquidity from the banking system, while reducing it releases liquidity and can stimulate credit growth, investment, and broader economic activity.

Uganda's recent adjustments illustrate the selective use of reserve requirements to align liquidity conditions with macroeconomic objectives. In June 2022, amid rising inflation and foreign exchange volatility, the ratio was raised from 8 percent to 10 percent, withdrawing more than UGX 630 billion from the banking system. In August 2023, as inflation eased and the shilling strengthened, food and energy prices eased, global supply chains improved, and growth concerns increased, it was reduced to 9.5 percent to support recovery.

The March 2026 increase to 11 percent represents a recalibration of liquidity conditions after an extended period without adjustment. It reflects concerns that sustained excess liquidity could amplify inflation expectations, weaken exchange rate stability, and complicate monetary policy transmission, even as policymakers seek to support ongoing economic recovery.

Regional experience shows that reserve requirements remain relevant in managing liquidity and inflation in emerging economies. Kenya maintains a relatively low ratio with excess reserves held above requirements, Tanzania uses statutory reserves as part of liquidity management, while Zambia has adopted more aggressive adjustments, including a rise to 26 percent in 2024 to contain inflationary pressures (Bank of Tanzania, 2026; Bank of Zambia, 2025; Central Bank of Kenya, 2026, 2026). Although levels differ across countries, the underlying objective is consistent and that is reserve requirements help central banks align banking system liquidity with price stability and financial stability goals. The instrument is especially useful where exchange rate pressures and capital flow volatility can shift rapidly.

The main transmission channel is liquidity. Higher reserve requirements help the Bank of Uganda withdraw excess structural liquidity arising from foreign exchange reserve accumulation. By sterilizing this liquidity, the CRR may help contain demand pressures, support exchange rate stability, and reinforce disinflationary effects, while also influencing money market conditions and, over time, lending and deposit rates.

Because the Central Bank Rate was unchanged at 9.75 percent, the reserve requirement adjustment served as a targeted liquidity tool without altering the overall policy stance. This distinction is important because the policy rate signals the monetary stance, while reserve requirements primarily address structural liquidity.

The expectations channel is also critical. The increase signals pre-emptive action rather than distress, reinforcing confidence that monetary authorities are maintaining price stability. Inflation expectations influence wages, pricing behaviour, borrowing decisions, savings, and exchange rate dynamics across the economy.

However, higher reserve requirements involve trade-offs. A higher CRR supports monetary control and financial stability, but it can raise banks' effective cost of funds because required reserve balances are not remunerated. Banks may respond by adjusting lending plans, liquidity positions, or pricing. If the CRR is maintained at a high level for too long, it could weigh on credit growth and economic activity. Conversely, if reserve requirements are too low when liquidity pressures are building, monetary policy transmission may weaken, and inflation expectations may become harder to anchor.

Overall, reserve requirements should be viewed as a complementary instrument within Uganda's monetary policy toolkit. Their effectiveness depends on careful calibration and clear communication to ensure they support price stability without unnecessarily constraining financial intermediation or economic growth.

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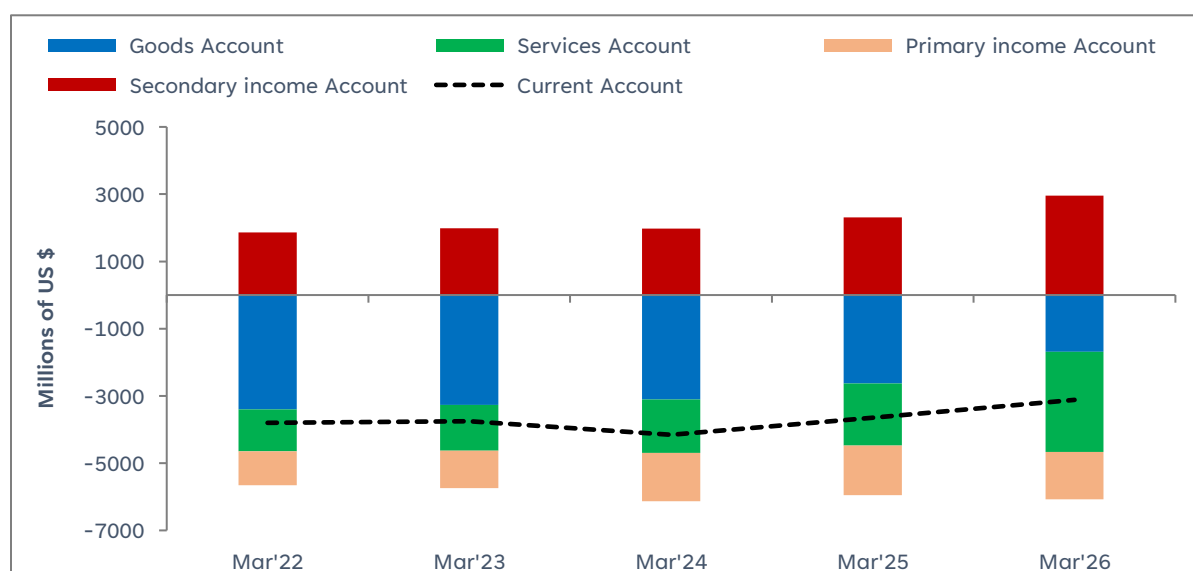
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## 2.4 Balance of payments and exchange rates

### 2.4.1 Balance of payments

In the twelve months to March 2026, the current account deficit declined to USD 3,117.5 million from USD 3,651.1 million observed in the year to March 2025. This was largely attributed to improvement in the secondary and primary income subaccounts as well as the goods subaccount. (Figure 15). The surplus on the secondary income account expanded in the year to March 2026 to USD 2,957.1 million from USD 2,304.7 million observed in the year to March 2025. The expansion was due to stronger inflows of personal transfers, particularly workers' remittances from the diaspora, as residents working abroad increased the volume of funds remitted back to their households at home. Additionally, there was higher receipt of current international cooperation flows i.e., budgetary grants and technical assistance funded by development partners and foreign governments in year to March 2026 versus the year to March 2025. The primary income deficit contracted to USD 1,412.1 million in the year to March 2026 compared to USD 1,476.7 million observed in the same period last year. The improvement was largely on account of a reduction in net investment income outflows, reflecting lower profits repatriated by foreign owned enterprises. This was complemented by an increase in income earned by residents on their foreign assets held abroad.

**Figure 15: The current account deficit narrowed year-on-year largely reflecting improvements in the goods balance, secondary and primary income accounts (US\$ Million)**

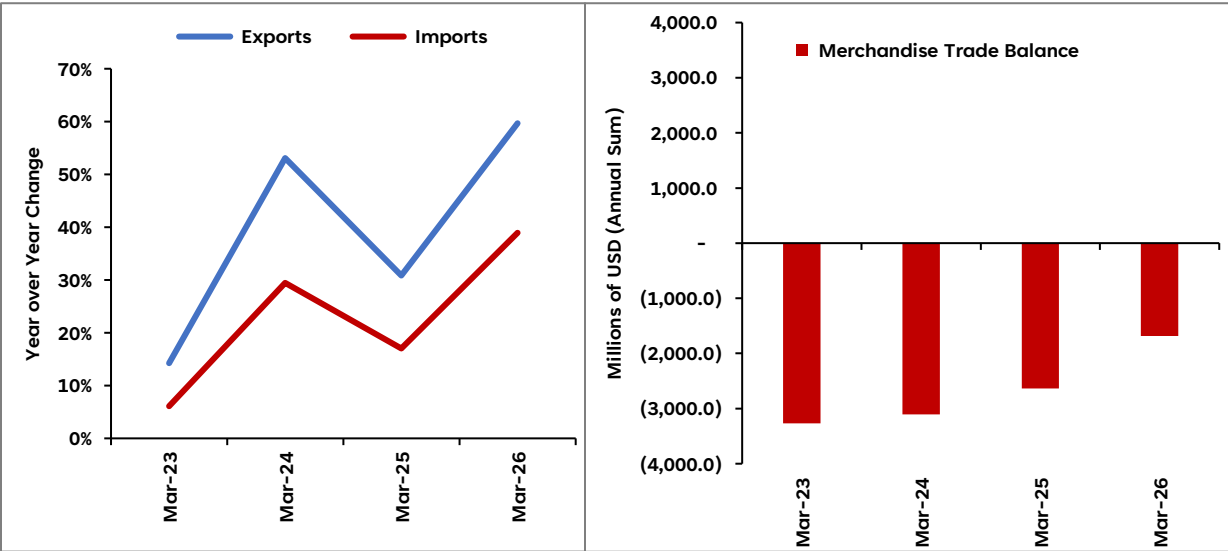


Source: Bank of Uganda

During the year to March 2026, the services deficit significantly widened to USD 2,978.0 million from USD 1,476.7 million in the year to March 2025. This widening was largely driven by a surge in services import payments, which outpaced the growth in services export receipts over the period. Key contributors to the increased outflows included higher freight and transportation costs associated with merchandise trade, increased payments for financial and professional services sourced from abroad, and higher charges related to the importation of infrastructure materials in support of oil and other key development projects underway in the economy.

The goods sub-account deficit declined to USD 1,684.5 million in the year to March 2026 from USD 2,634.2 million in the year to March 2025 (**Figure 16**). This improvement was driven by expansion in export earnings, which more than doubled year over year and significantly outpaced the growth in import payments. The strong export performance was broad-based, with both coffee and non-coffee exports, recording double-digit growth relative to the year to March 2025.

**Figure 16: The merchandise trade deficit declined in the twelve months to March 2026 as exports grew faster than imports.**

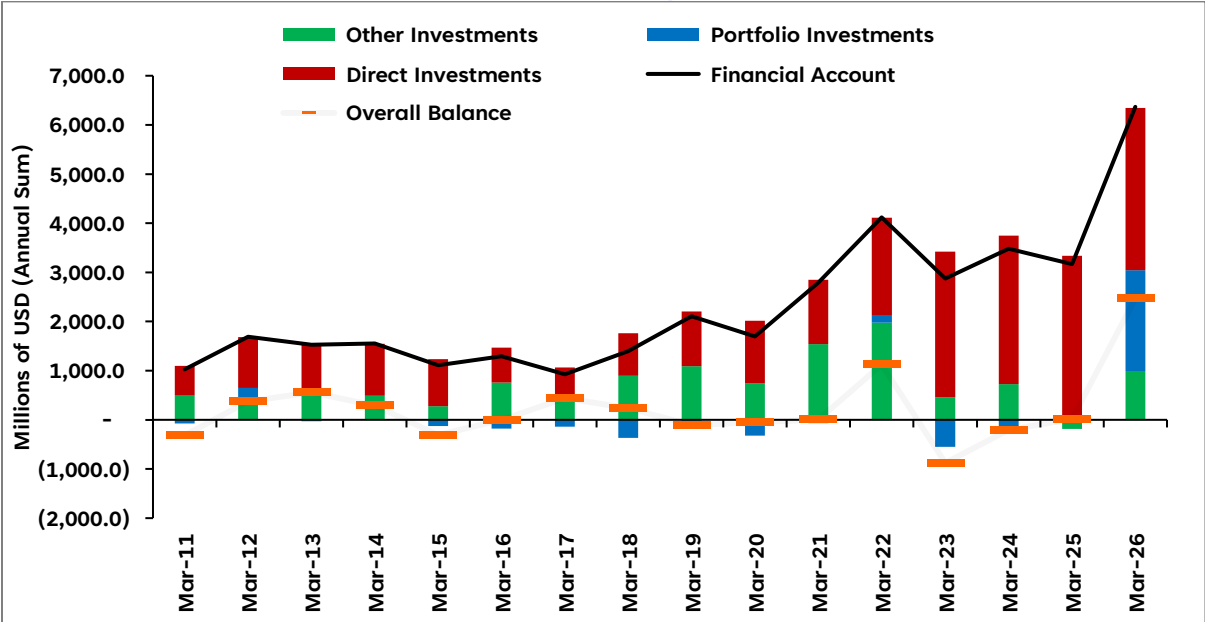


Source: Bank of Uganda

On the financing side, the financial account registered a surplus of USD 6,367.1 million in the year to March 2026, from USD 3,170.1 million in the year to March 2025 attributed to growth in all its sub accounts (**Figure 17**). Year-on-year, Foreign direct investment inflows marginally increased to USD 3,297.2 million from USD 3,296.7 million due to a significant

rise in equity other than reinvestment of earnings. The marginal increase was due to continued equity capital injections and reinvested earnings into the extractive sector, particularly oil, which remained the dominant destination for inward direct investment. These inflows were primarily associated with ongoing capital expenditure by non-resident parent companies and affiliated enterprises financing, development, and production activities in the domestic petroleum sector. Same period, net portfolio investments inflows sharply rose, amounting to USD 2,051.5 million, attributed to higher non-resident acquisition of domestic government bonds reflecting growing investor confidence in the economy's macroeconomic fundamentals and the relative attractiveness of Uganda's financial instruments over the period. In the year to March 2026, the overall balance of payments registered a surplus of USD 2,469.1 million (Figure 17).

**Figure 17: The financial account sustained a surplus in the year to March 2026.**



Source: Bank of Uganda

2.4.2 Balance of payments outlook

The Middle East conflict, which has created one of the biggest global energy shocks in decades, poses significant external risks in the short term to the economy. The most immediate transmission channel is anticipated through a deterioration in the terms of trade driven by rising global oil prices, while the cost of imported services such as freight and insurance could also increase as transporters seek alternative safer routes. Disruptions in the three major Gulf transit hubs, which serve as key routes for air cargo, risk putting further

pressure on trade movements on top of existing sea disruptions. Passenger air travel could equally be affected, weighing on tourism inflows as travellers delay or cancel trips while assessing the risks and duration of the conflict. Accelerating global inflation pressures and economic disruptions in Gulf countries could lead to lower remittance inflows, which currently account for 30.0% of secondary income receipts, while a flight by investors to safe haven assets could shift capital away from frontier markets, resulting in reduced portfolio investment inflows.

In the medium term, the current account deficit is projected to improve gradually, supported by a combination of expanding export receipts and stable import growth (**Table 1**).

**Table 1: BOP Medium Term Projections**

Balance of Payment Accounts	FY2025/26		FY2026/27		FY2027/28		FY2028/29	
	\$BN	%GDP	\$BN	%GDP	\$BN	%GDP	\$BN	%GDP
<b>Current account</b>	<b>-3.1</b>	<b>-4.8%</b>	<b>-3.8</b>	<b>-5.0%</b>	<b>-2.1</b>	<b>-2.5%</b>	<b>1.7</b>	<b>1.8%</b>
Trade Balance	-1.8	-2.8%	-0.2	-0.3%	1.9	2.2%	4.4	4.7%
Services	-3.2	-4.9%	-3.2	-4.3%	-3.4	-4.0%	-2.7	-2.8%
Primary income	-1.4	-2.1%	-3.2	-4.2%	-3.5	-4.0%	-3.1	-3.3%
Secondary income	3.3	5.0%	2.9	3.8%	2.9	3.4%	3.1	3.3%
<b>Capital account</b>	<b>0.2</b>	<b>0.3%</b>	<b>0.3</b>	<b>0.4%</b>	<b>0.2</b>	<b>0.3%</b>	<b>0.2</b>	<b>0.2%</b>
<b>Current and Capital Account</b>	<b>-2.9</b>	<b>-4.5%</b>	<b>-3.5</b>	<b>-4.6%</b>	<b>-1.9</b>	<b>-2.2%</b>	<b>1.9</b>	<b>2.0%</b>
<b>Financial Account*</b>	<b>5.0</b>	<b>7.5%</b>	<b>4.4</b>	<b>5.8%</b>	<b>2.4</b>	<b>2.8%</b>	<b>-0.6</b>	<b>-0.7%</b>
FDI*	3.2	4.9%	4.0	5.2%	3.6	4.2%	3.2	3.4%
Portfolio investment*	1.8	2.8%	0.5	0.6%	0.5	0.6%	0.5	0.5%
Other investment*	-0.1	-0.2%	-0.1	-0.1%	-1.7	-2.0%	-4.4	-4.6%
<b>Overall Balance*</b>	<b>2.0</b>	<b>3.1%</b>	<b>0.9</b>	<b>1.2%</b>	<b>0.5</b>	<b>0.6%</b>	<b>1.3</b>	<b>1.4%</b>

\* Signs inverted to reflect direction of flows

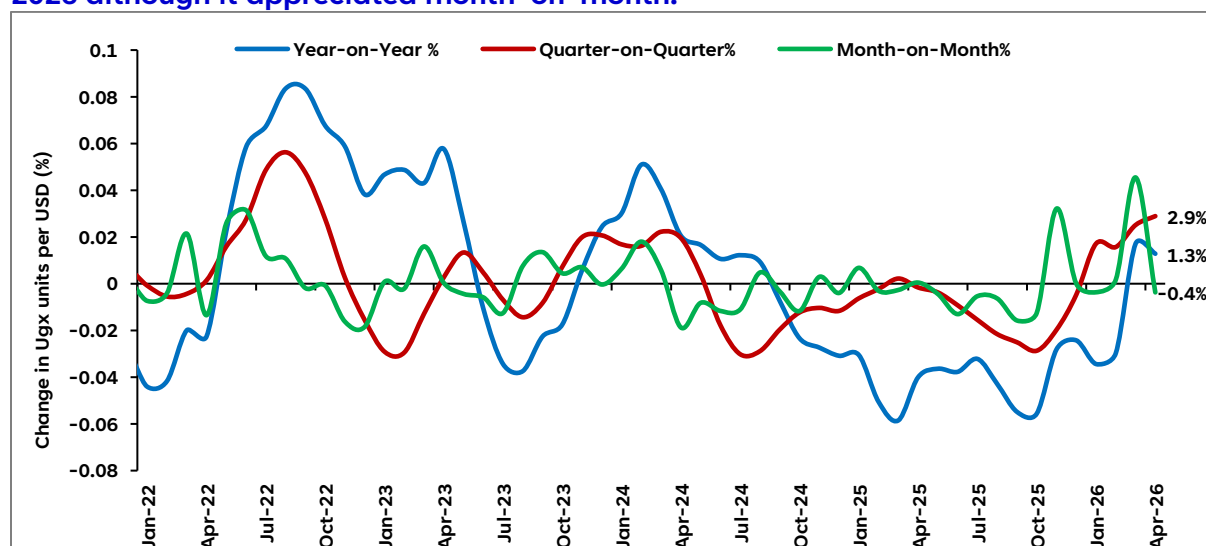
Source: Bank of Uganda

Exports are anticipated to grow steadily, boosted by strengthened regional trade linkages and the expected commencement of oil exports from FY2026/27, which will represent a significant structural shift in the economy's export profile. On the import side, spending is expected to remain steady, driven largely by ongoing public infrastructure developments. The financial account surplus is projected to remain robust, due to continued strong foreign direct investment inflows into the oil and related sectors, although FDI flows are anticipated to narrow somewhat in the latter years of the medium term as major upstream projects approach completion. Budget and project support loan disbursements are equally expected to rise steadily, reflecting the reopening of the concessional financing window and renewed engagement with development partners.

### 2.4.3 Exchange rates developments

In April 2026, the Uganda Shilling (UGX) depreciated against the United States Dollar on a year over year (+1.3%) and quarter over quarter (+2.9%), largely attributed to negative sentiments from geopolitical conflicts that triggered higher corporate demand from manufacturing & energy, as well as broad based dollar strengthening (**Figure 18**). However, the shilling appreciated month on month (-0.4%) in April 2026, supported by the robust USD supply from portfolio inflows and export earnings. Notably, in February and March 2026, the shilling came under significant pressure triggered by the onset of the United States and Israel attack on Iran, and its subsequent escalation around this period, leading to a 4.6% depreciation month on month from February to March 2026.

**Figure 18: UGX depreciated against the USD year-on-year and quarter-on-quarter in April 2026 although it appreciated month-on-month.**



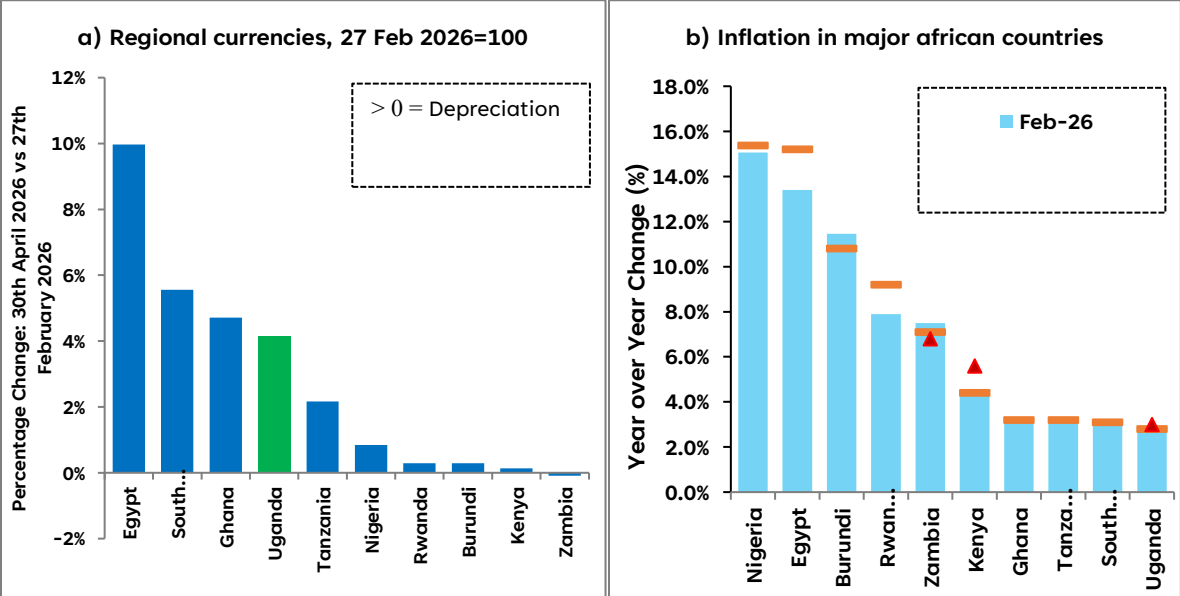
Source: Bank of Uganda

Major African currencies broadly depreciated against the USD following the United States and Israel war on Iran (**Figure 19**). The depreciation was most acute among economies with stronger trade and financial linkages to the affected region, with Egypt, South Africa, and Ghana experiencing the sharpest losses. Uganda stands in the middle of the regional distribution, depreciating less severely than these peers, which reflects the relative resilience of our forex exchange market. At the more resilient end, Kenya and Zambia recorded near flat to marginal movements, underpinned by comparatively stronger current account dynamics and a more diversified trade partner base that partially cushioned their

direct exposure to the Middle East supply chain disruptions which weighed heavily on peer currencies.

Inflation rose across most major African economies in March 2026 relative to February 2026, with the trend expected to persist into April 2026 as energy price pass through effects continue to materialise (Figure 19).

**Figure 19: Uganda recorded one of the lowest currency depreciations and lowest inflation relative to key African peers amid the Middle East conflict driven market pressures.**



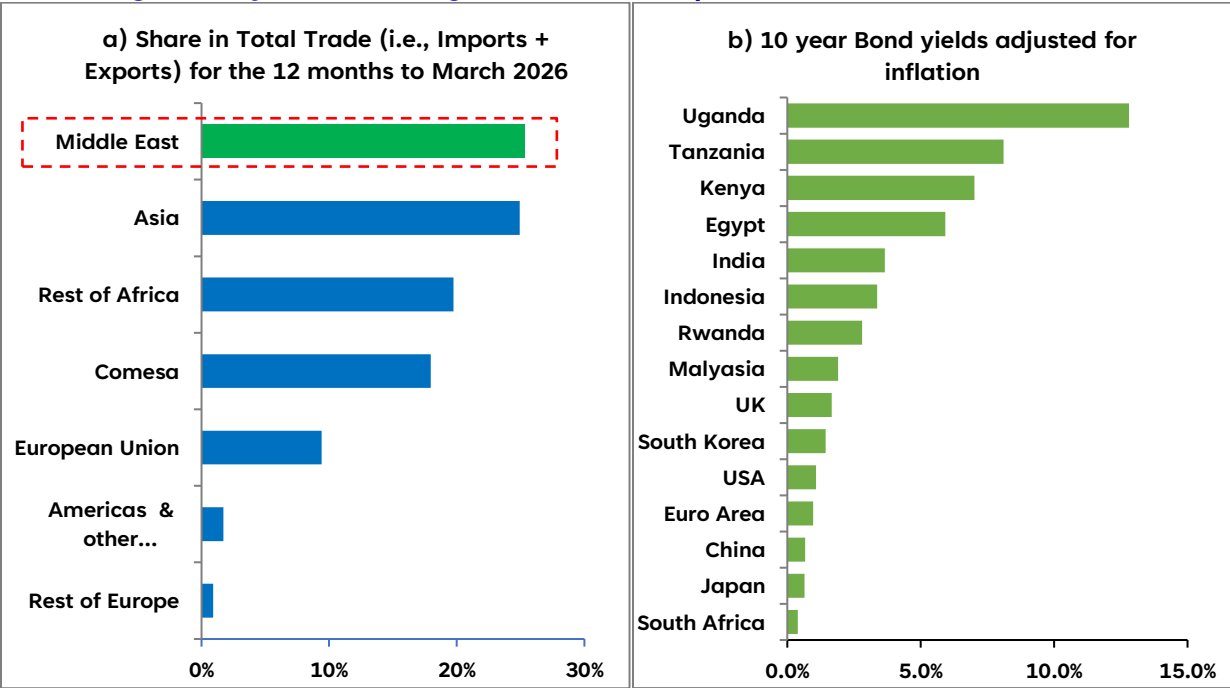
Source: Bank of Uganda

The drivers, however, vary across countries. Egypt's has one of the highest levels of inflation largely due to its currency devaluation, higher food and energy prices, as well supply chain disruptions from Middle East tensions. Countries such as Nigeria and Burundi similarly remain near the top of the inflation ranking, facing compounding pressures from currency weakness and elevated import costs. Uganda continues to anchor the bottom of the regional inflation distribution, although April 2026 data points to an emerging upward direction consistent with the broader regional trend of energy price pass through. Kenya similarly showed an uptick in April 2026, suggesting that even the more inflation resilient economies are beginning to feel the secondary effects of the geopolitical shock through energy and transport costs.

Risks to the stability of the Uganda Shilling remain and are expected to evolve. Escalating Middle East tensions represent the most immediate threat to the exchange rate outlook.

Uganda's trade structure is heavily exposed to the region, which accounts for the largest share of total trade (Figure 20).

**Figure 20: Escalating Middle East tensions risk compressing Uganda's trade flows while triggering monetary tightening in advanced economies and frontier markets that could narrow Uganda's yield advantage and reverse capital inflows.**



Source: Bank of Uganda

On the export side, disruptions to Middle East supply chains would dampen demand for Uganda's key exports as well as disrupt their transportation, reducing the USD inflows from export earnings. On the import side, Uganda relies heavily on the region for energy, petroleum and phosphate products, meaning any supply disruption would drive up import costs and widen the import bill. The combined effect of compressed export receipts and elevated import expenditure would materially tighten domestic forex supply and exert depreciation pressure on the Shilling.

A flight to safety triggered by monetary tightening in advanced economies poses an additional risk to the exchange rate. Several advanced economies have already moved in this direction, with the US, UK, and Euro Area maintaining elevated policy rates, while frontier market peers including Kenya and Egypt have similarly tightened in response to domestic inflationary pressures. If geopolitical tensions continue to sustain elevated energy and commodity prices globally, this tightening bias is likely to persist or intensify which

would redirect capital flows away from frontier markets toward safer assets. Uganda's real bond yields are currently the highest in the region, providing a meaningful buffer against such outflows. However, a sustained and broad-based tightening cycle could progressively narrow this yield advantage, weaken the portfolio inflow channel that has been a key source of USD supply, and place additional depreciation pressure on the Shilling.

Debt service obligations present a further source of exchange rate pressure in the near-term. Uganda faces amortisation and foreign interest payments of approximately USD 1.6 billion in FY 2026/27, representing a significant structural source of USD demand. This pressure is compounded by lower budgeted external financing in the same period, meaning that a greater share of these obligations will need to be met from domestic forex resources. The combination of elevated outflows for debt servicing and reduced external financing inflows could tighten domestic forex supply and weigh on the Shilling, particularly if export earnings or portfolio inflows underperform expectations during the fiscal year. The Government has however signalled a deliberate shift toward concessional borrowing and away from commercial terms, which should provide some relief over time.

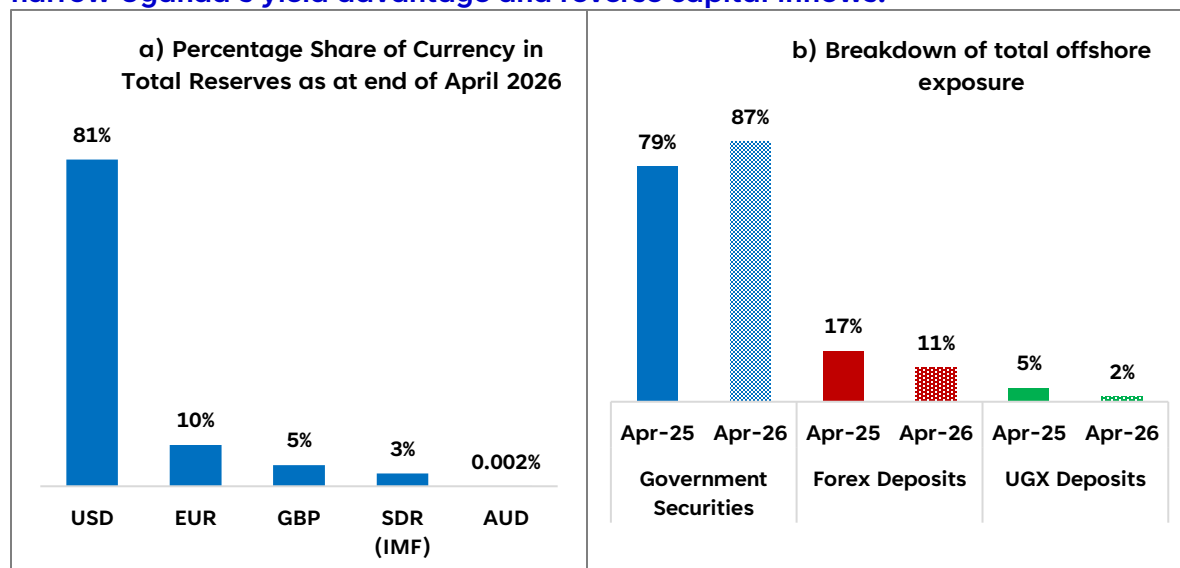
However, the Shilling could appreciate on the back of a significant and anticipated boost to foreign exchange inflows. Commercial oil production is expected to materialise in July 2026, with key infrastructure nearing completion. The Tilenga project has been successfully completed while the Kabalega International Airport is at an advanced stage of completion at 96%. The East African Crude Oil Pipeline (EACOP) has reached approximately 84% completion as of end April 2026, with over 12,000 workers deployed across all sites and the project firmly transitioning from construction to operational readiness ahead of first oil. These milestones are expected to catalyse substantial foreign earnings, further supported by elevated international oil prices that strengthen the projected value of oil receipts. Beyond oil, sustained foreign direct investment into the mining sector and growing tourism services credits linked to Africa Cup of Nations (AFCON) preparations are expected to provide additional USD inflows.

The balance of risks on the outlook of the Ugandan shilling in the near-term is tilted towards a depreciation although this is highly sensitive to domestic and international developments.

Notably, Uganda's reserve position has strengthened considerably and provides a robust buffer against the risks outlined above. Reserves stood at USD 6.1 billion at end April 2026, up by over 50.0% from USD 4.0 billion a year earlier. This level of adequacy is sufficient to

absorb major shocks, including instantaneous offshore portfolio exits (**Figure 21, Right**), and material declines in capital flows.

**Figure 21: Escalating Middle East tensions risk compressing Uganda's trade flows while triggering monetary tightening in advanced economies and frontier markets that could narrow Uganda's yield advantage and reverse capital inflows.**



Source: Bank of Uganda

Additionally, the Bank of Uganda is actively working to diversify the reserve portfolio away from its current concentration in traditional currencies (**Figure 21, Left**). The Domestic Gold Purchase Programme, currently in its testing phase, is expected to introduce gold as a reserve asset once the purchased gold is certified to monetary gold standard. This diversification move further strengthens Uganda's resilience and positions the reserve portfolio to better withstand currency specific shocks over the medium term.

#### 2.4.4 Fiscal operations more expansionary than planned.

Fiscal operations remained more expansionary than planned in the first nine months of FY2025/26 (**Table 2**). Recurrent government expenditure exceeded program targets, driven by higher-than-expected grants to Local Governments, partial payments for transport sector capital investments under gross fixed capital formation, and the capitalization of institutions and financing schemes. Additional pressures stemmed from increased spending on goods and services, particularly medical supplies, as well as expenditure related to the election cycle. In contrast, while capital spending remained below the planned target, its

outturn was 61.3% higher than in the corresponding period last year, reflecting continued implementation of public infrastructure projects and additional budgetary allocations.

**Table 2: Fiscal Operations Were More Expansionary in the First Nine Months of FY2025/26 (Shs. billions)**

	Jul-Mar'25	Jul-Mar'26	Prog. Jul-Mar'26	Variation	Annual change (%)
<b>Revenue (A)</b>	<b>23,607.6</b>	<b>25,829.2</b>	<b>28,325.6</b>	<b>-2,496.4</b>	<b>9.4</b>
Taxes	20,968.3	23,470.4	24,134.1	-663.7	11.9
Grants (project support)	1,053.0	637.3	1,831.4	-1,194.1	-39.5
Other revenue	1,586.2	1,721.4	2,360.0	-638.6	8.5
<b>Expense (B)</b>	<b>27,301.5</b>	<b>31,016.6</b>	<b>30,714.9</b>	<b>301.7</b>	<b>13.6</b>
Compensation of employees	3,812.9	4,307.5	4,200.8	106.7	13.0
Purchase of goods and services	5,832.7	7,105.9	6,657.2	448.7	21.8
Consumption of fixed capital (C)	6.2	0.1	0.0	0.1	-99.1
Interest payments	6,192.5	9,071.3	9,925.8	-854.6	46.5
Domestic	5,111.2	7,990.1	8,418.3	-428.2	56.3
External (including commitment fees)	1,081.3	1,081.1	1,507.5	-426.4	0.0
Subsidies	0.0	2.3	0.0	2.3	0.0
Grants	10,054.7	9,067.1	7,841.7	1,225.4	-9.8
Social benefits	366.1	522.8	922.4	-399.6	42.8
Other expense	1,036.4	939.6	1,167.0	-227.4	-9.3
<b>Gross operating balance (A-B+ C)</b>	<b>-3,687.7</b>	<b>-5,187.4</b>	<b>-2,389.3</b>	<b>-2,798.0</b>	
Net operating balance (A-B)	-3,693.9	-5,187.4	-2,389.3	-2,798.1	
<b>Net Acquisition of Nonfinancial Assets (D)</b>	<b>3,319.1</b>	<b>5,355.1</b>	<b>5,718.9</b>	<b>-363.7</b>	
<b>Net lending/borrowing (A-B)-D</b>	<b>-7,013.0</b>	<b>-10,542.6</b>	<b>-8,108.2</b>	<b>-2,434.4</b>	
<b>Primary balance</b>	<b>-820.5</b>	<b>-1,471.3</b>	<b>1,817.6</b>	<b>-3,288.9</b>	
<b>Transactions in financial assets and liabilities</b>					
<b>Financing (net) (E-F)</b>	<b>-7,013.0</b>	<b>-10,542.6</b>			
<b>Net Acquisition of Financial Assets (E)</b>	<b>155.7</b>	<b>-1,057.4</b>			
Domestic	155.7	-1,057.4			
Foreign	0.0	0.0			
<b>Net Acquisition of Financial Liabilities (F)</b>	<b>7,872.0</b>	<b>11,890.9</b>			
Domestic	7,650.5	10,334.4			
Foreign	221.5	1,556.5			
<b>Errors &amp; Omissions</b>	<b>703.2</b>	<b>2,405.7</b>			

Source: Ministry of Finance Planning and Economic Development

Revenue performance was weaker than planned, with total government revenue (including grants) for the first nine months of FY2025/26 amounting to Shs. 25,829.2 billion. This outturn fell short of the programme target by Shs. 2,496.4 billion, largely due to lower grant inflows and underperformance in both tax and non-tax collections, with shortfalls across all tax heads pointing to underlying compliance gaps, notwithstanding ongoing efforts to enhance tax administration and revenue mobilization. The combination of higher recurrent spending and lower than expected revenue resulted in a fiscal deficit of Shs. 10,542.6 billion

for the first nine months of FY, exceeding the planned level by Shs. 2,434.4 billion. Net borrowing remained elevated, reflecting shortfalls in revenue collections.

Despite near-term fiscal pressures, fiscal policy continues to support economic growth through targeted investments in priority sectors. The Government remains committed to fiscal consolidation over the medium term, which is expected to further strengthen macroeconomic stability. The projected fiscal deficit for FY2025/26 has been revised downward from 7.9% to 7.0% of GDP, partly reflecting slower implementation of some budgeted projects. Looking ahead, the deficit is projected to narrow further to 6.0% of GDP in FY2026/27 and to 3.0% by FY2030/31. The projected improvement is expected to be supported by continued fiscal consolidation efforts, including implementation of the Medium-Term Debt Strategy (2026/27–2029/30).

The public debt outlook is assessed to remain at a moderate risk level, although rising debt service costs and limited shock absorption capacity point to underlying vulnerabilities. However, debt remains sustainable over the medium to long term, implying that Uganda is still able to meet its current and future debt service obligations without recourse to exceptional financial assistance or default as assessed in the latest Debt Sustainability Analysis.

### 3 EXTERNAL ECONOMIC ENVIRONMENT

#### 3.1 Global economic activity and outlook

Earlier expectations of steady global economic growth in 2026 have been dampened by intensified geopolitical conflict, following the start of US-Israel military strikes on Iran at the end of February 2026. As a result, near-term global economic expectations have worsened, and medium-term growth prospects remain subdued amid persistent geopolitical uncertainty, elevated commodity prices, and supply chain disruptions.

The IMF projects that the global economy will grow at 3.1% in 2026, down from 3.4% recorded in 2025, and at 3.2% in 2027 (**Table 3**). These April 2026 projections represent a downward revision by 0.2 percentage points to 2026 growth, from the January 2026 World Economic Outlook (WEO) Update projections, while the projection is unchanged for 2027. In addition, these forecasts assume a short-lived conflict, with agreement between the US and Iran reached in the second quarter of 2026, allowing Middle East oil production and exports to recover in the second half of 2026.

**Table 3: Global GDP growth (% change, yoy), revised down for 2026 – 2027 (Reference Forecast)**

	Estimate	Projections		Difference from Jan 2026 WEO Projections	
	2025	2026	2027	2026	2027
<b>World Output</b>	<b>3.4</b>	<b>3.1</b>	<b>3.2</b>	<b>-0.2</b>	<b>0.0</b>
<b>Advanced Economies</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>0.0</b>	<b>0.0</b>
United States	2.1	2.3	2.1	-0.1	0.1
Euro Area	1.4	1.1	1.2	-0.2	-0.2
Japan	1.2	0.7	0.6	0.0	0.0
United Kingdom	1.3	0.8	1.3	-0.5	-0.2
<b>Emerging Market and Developing Economies</b>	<b>4.4</b>	<b>3.9</b>	<b>4.2</b>	<b>-0.3</b>	<b>0.1</b>
China	5.0	4.4	4.0	-0.1	0.0
India	7.6	6.5	6.5	0.1	0.1
Russia	1.0	1.1	1.1	0.3	0.1
Brazil	2.3	1.9	2.0	0.3	-0.3
<b>Sub-Saharan Africa</b>	<b>4.5</b>	<b>4.3</b>	<b>4.4</b>	<b>-0.3</b>	<b>-0.2</b>
Nigeria	4.0	4.1	4.3	-0.3	0.2
South Africa	1.1	1.0	1.3	-0.4	-0.2

Source: IMF World Economic Outlook, April 2026

Breaking down global growth by country groupings, growth in Advanced Economies (AEs) is projected at 1.8% in 2026, from the outturn of 1.9% in 2025, and at 1.7% in 2027, with the forecast unchanged from the January 2026 WEO update. However, projections show large downside revisions to Euro Area and United Kingdom (UK) growth on account of the two country’s net energy importing status, compared to the United States (US) which is actively engaged in the Middle East conflict. The US economy is projected to expand by 2.3% in 2026, up from 2.1% in 2025, supported by fiscal policy and the lagged impact of monetary policy easing in 2025. The projection represents a 0.1 percentage points downward revision for 2026 relative to the January 2026 WEO Update, partly reflecting the effect of the war with Iran. US growth is projected at 2.1% in 2027, supported by tax incentives under the OBBBA and technology driven momentum, expected to offset negative effects of lower immigration and moderating consumption. In the Euro Area, growth is expected to decline to 1.1% in 2026, from 1.4% in 2025 and to 1.2% in 2027, representing a downward revision by 0.2 percentage points for both 2026 and 2027, compared to the January 2026 WEO Update, owing to the effect of rising energy prices. In the UK, growth is projected to soften to 0.8% in 2026, from 1.3% in 2025, and recover to 1.3% in 2027. The projections represent downward revisions of 0.5 percentage points for 2026 and 0.2 percentage points for 2027, relative to

the January 2026 WEO Update, mainly due to effects of higher energy prices, and slower pace of monetary policy easing.

Growth among Emerging Market and Developing Economies (EM&DEs) is projected to slow down to 3.9% in 2026, from 4.4% in 2025, and recover to 4.2% in 2027. The US-Iran conflict has a varied impact on growth in EMDEs, depending on each country's exposure to the Middle East through geographic proximity, financial flows, remittances, and energy dependencies. Growth in China is projected at 4.4% for 2026, down from 5.0% in 2025, and at 4.0% in 2027. The deceleration in 2027 is on account of structural headwinds, such as slowdown in China's housing sector and a declining labour force. In the Middle East and Central Asia (ME&CA), the region directly engaged in the war, growth is projected to decline to 1.9% in 2026, from 3.6% in 2025 and recover to 4.6% in 2027. For commodity exporters in the ME&CA region, such as Bahrain, Iran, Iraq, Kuwait, and Qatar, growth projections for 2026 are severely revised downwards on account of lower production and exports due to war damage to energy infrastructure and closure of the Strait of Hormuz. Growth in 2027 is expected to rebound, assuming energy production and transportation are normalized over the next few months. Growth in Sub-Saharan Africa (SSA) is projected at 4.3% in 2026, down from 4.5% in 2025, and at 4.4% in 2027, with the forecasts lower in oil importing countries.

Since the last Monetary Policy setting meeting held on 9 February 2026, the global economy registered escalation of geopolitical tensions in the Middle East.

On 28 February 2026, tensions between the US-Israel and Iran escalated into direct military confrontation. In retaliation, Iran targeted US military bases and embassies across the Middle East and later expanded attacks to oil infrastructure in the United Arab Emirates (UAE), Saudi Arabia, Bahrain, Kuwait, and Iraq. On 2 March 2026, Iran warned against vessel passage through the Strait of Hormuz, a major maritime transport route bordering Iran, and combined with attacks on vessels and withdrawal of insurance cover, the Strait became impassable, severely disrupting Middle East oil transportation. The disruption triggered sharp increases in global oil prices, with Europe Brent crude oil prices rising by 46.0% on monthly basis, to USD 104 per barrel in March 2026 and by 16.0% to USD 120 per barrel in April 2026. The sustained increase in oil prices poses significant risks to global inflation and economic growth. The closure of the Strait of Hormuz also disrupted fertilizer exports from the Gulf, leading to a sharp rise in fertilizer prices, with urea prices increasing by 54.0%, on monthly basis, to USD 725/mt in March 2026 and by 18.0% in April 2026. Higher fertilizer costs and tighter supply conditions present additional risks to global food prices and inflation.

To date, a ceasefire between the US, Israel, and Iran, initially set to expire on 22 April 2026, was extended indefinitely to support US-Iran negotiations. However, US-Iran talks are largely stalled, as both countries remain reluctant to accommodate each other's demands. The US demands that Iran abandon its nuclear program and surrender its enriched uranium, while Iran demands the US for war reparations and to remove the blockade against Iranian vessels through the Strait of Hormuz. Overall, the Strait of Hormuz remains impassable under a dual blockade by Iran and the US sustaining supply disruptions, and geopolitical tensions between the US, Israel, and Iran remain high, complicating diplomatic progress.

In a significant development, the UAE announced its withdrawal from OPEC and the OPEC+ alliance effective 1 May 2026, citing plans to expand oil production following major investments in domestic capacity. This shift in the oil market has raised concerns about fragmentation within OPEC+ and increased prospects of higher global oil supply, which could moderate future global oil prices, especially when transport routes fully reopen.

Current projections assume that the US-Iran conflict is reasonably resolved by the end of Q2 2026, to allow full restoration of production and exports activities in the Middle East and through the Strait of Hormuz. Therefore, a more prolonged conflict, or delayed restoration of production and transport through the Strait of Hormuz, could significantly worsen the global economic outlook. The IMF put together 2 scenarios (**Table 4**), namely an Adverse Scenario and a Severe Scenario. The scenarios are defined by the average crude oil prices level for 2026 and 2027. Under the Adverse scenario, in which the average global oil price rises to about US\$ 100 per barrel in 2026 before easing to USD 75 per barrel in 2027, global inflation would increase to 5.4% in 2026, reflecting higher energy prices and then soften to 3.9% in 2027, while global GDP growth would decline to 2.6% in 2026, on account of moderate monetary policy tightening, before picking up slightly to 3.0% in 2027. Under the Severe Scenario, in which the average global oil price rises to USD 110 per barrel in 2026 and higher to USD 125 per barrel in 2027, global inflation would rise to 5.8% in 2026 and further to 6.1% in 2027, with the resultant aggressive monetary policy tightening slowing global growth sharply down to 2.0% in 2026, with a slight pick up to 2.2% in 2027. Commodity importing EM&DEs would particularly be vulnerable in the face of these scenarios, as currency depreciation would amplify the impact of higher fuel and food prices on inflation and economic activity. The potential for these scenarios to materialize is high. As of 19 May 2026, average crude oil prices (WTI and Brent) were already estimated at about USD 86/barrel, suggesting that current baseline global growth projections may be optimistic relative to likely outcomes.

Overall, global economic uncertainty remains high, amid unresolved geopolitical tensions and persistent trade policy risks several key trade agreements are due to expire at the end of 2026, and the US administration continues to actively pursue congressional approval for additional tariffs.

**Table 4: Protracted conflict or delayed resumption of M.E. oil activities could result in higher global inflation and slower global growth—Two Prolonged Conflict Scenarios Defined by average oil price levels for 2026 & 2027**

	Oil Price (US\$/Barrel)		Global GDP Growth		Global Inflation		Effect on Growth arising from:
	2026	2027	2026	2027	2026	2027	
<b>Reference Projection</b>							
<b>Conflict assumed to end in Q2-2026</b>	82	76	3.1	3.2	4.4	3.7	Effect on growth in 2026 mainly from higher energy prices
<b>Adverse Scenario</b>	100	75	2.6	3.0	5.4	3.9	Effect on growth in 2026 mainly from higher energy prices Effect on growth in 2027 mainly from modest tightening of monetary policies (50bps in AEs in 2027, larger increase in EMDEs)
<b>Severe Scenario</b>	110	125	2.0	2.2	5.8	6.1	More aggressive tightening of monetary policy (50bps in 2026 and 1pp in 2027 in AEs)

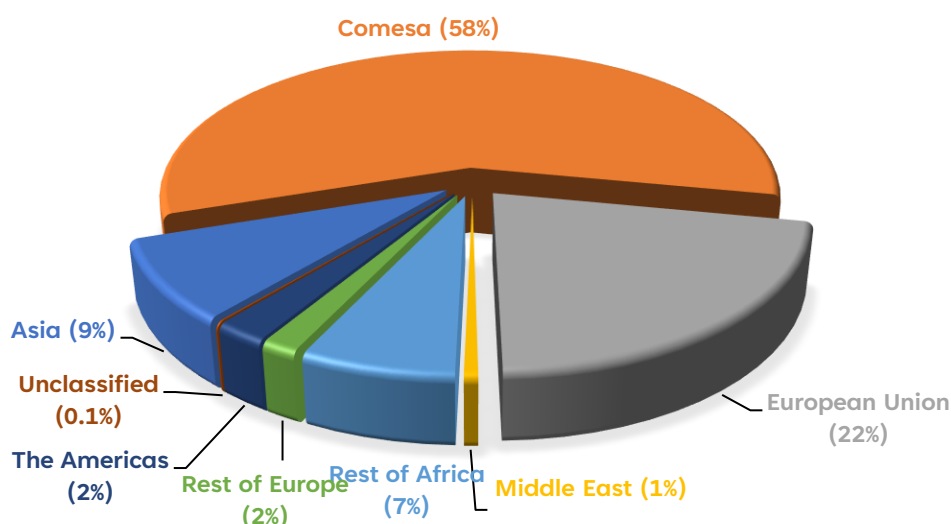
Source: IMF World Economic Outlook, April 2026

Risks to the global growth outlook remain tilted to the downside, arising mainly from; unresolved geopolitical conflict, particularly in the Middle East, which continues to threaten global trade, energy markets, and investor confidence; persistent trade policy risks, as several key trade agreements are due to expire at the end of 2026 and the US administration continues to actively pursue congressional approval for additional tariffs; geoeconomic fragmentation and policy uncertainty manifested through rising trade barriers, geopolitical rivalries, and policy uncertainty, could further disrupt global supply chains, investment flows, and international cooperation. In addition, rising public debt and fiscal pressures could place upward pressure on long term interest rates and constrain fiscal space. Public debt in the US is projected to rise from 124.0% of GDP in 2025 to 142.0% by 2031, in the Euro Area, the debt to GDP ratio is forecast to increase from 87.0% in 2025 to 90.0% by 2031, while EMDE public debt is projected to rise from 74.0% of GDP in 2025 to 86.0% by 2031. Furthermore, labour supply constraints in AEs on account of tighter immigration policies could weaken long term economic growth.

On the upside, faster than expected resolution of current geopolitical tensions could improve global confidence, ease supply disruptions, and support stronger economic recovery.

With overall risks tilted to the downside, slower global growth is likely to weaken external demand for Uganda’s exports, thereby moderating balance of payments (BOP) inflows and domestic economic growth. Excluding gold, the share of Uganda’s exports to the Middle East is only 1.0% (**Figure 22**). However, Uganda receives about 30.0% of total remittances from citizens working in the Middle East. The conflict, coupled with restrictive immigration policies, could therefore reduce remittance inflows. Lower foreign exchange inflows could widen the current account deficit and increase depreciation pressure on the exchange rate.

**Figure 22: Destination of Uganda Exports – Total Export Trade, Excluding Gold, 2020-2024**

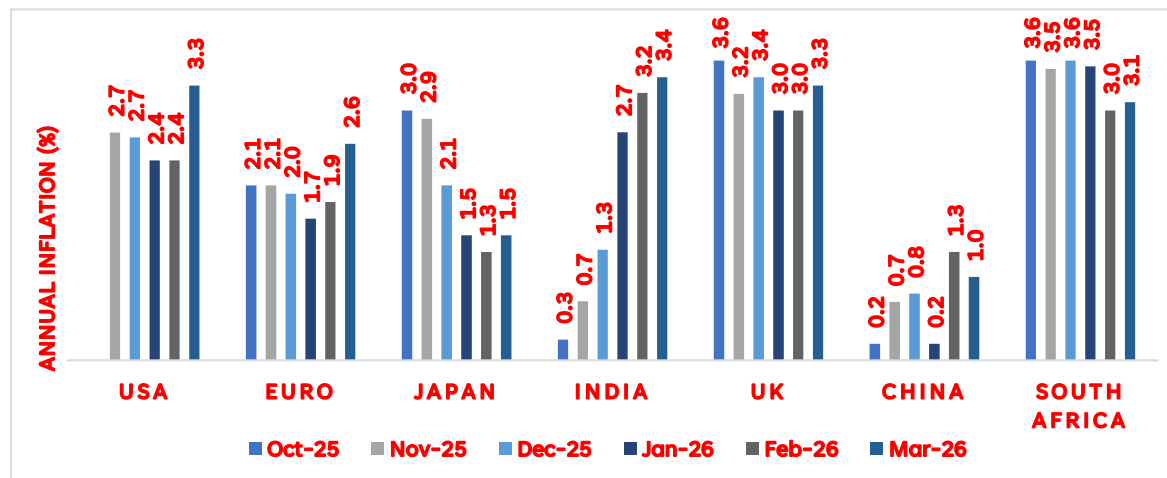


Source: Bank of Uganda

### 3.2 Global inflation and outlook

Globally, headline inflation increased across most major economies in March 2026 (**Figure 23**), largely driven by rising energy prices following the escalation of the US-Israel conflict with Iran. The outlook is for higher inflation in 2026, and risks are tilted to the upside.

**Figure 23: Global inflation higher in Mar-2026, owing to sharp rise in global energy prices**



Source: Country Statistics Offices (Websites)

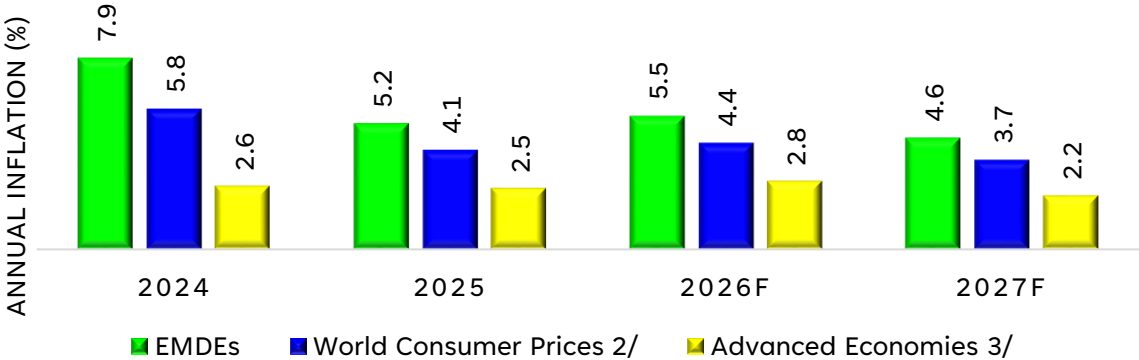
In March 2026, inflation rose in the US, Euro Area, Japan and the UK, all driven mainly by higher energy prices. In the US, annual inflation rose to 3.3% in March 2026, and further up to 3.8% in April 2026, mainly due to higher energy and food prices. In the Euro Area, inflation increased to 2.6% in March 2026 and to 3.0% in April 2026, also primarily driven by energy prices, which rose by 10.9% in April 2026, while in Japan, annual inflation rose to 1.5% in March 2026, pushed up by higher fuel and lighting costs. Annual inflation in the UK increased to 3.3% in March 2026, on account of rising motor fuel prices, while in India and South Africa annual inflation edged up, during the same month, respectively reflecting higher food and housing prices. Contrary to developments in other key economies, in March 2026, annual inflation in China declined to 1.0% mainly due to softer food prices. Notably however, and despite Government efforts to shield the economy, transport prices in China increased by 0.9% in March 2026, reflecting pressure from higher global oil prices.

Key central banks kept their policy interest rates unchanged in April 2026, while acknowledging the potential impact of a prolonged Middle East war on global energy prices and inflation going forward. In the US, with inflation rising to 3.8% in April 2026, the Federal Open Market Committee (FOMC) at its April 28-29, 2026 meeting, maintained the target range of the federal funds rate at 3.5% to 3.75%, noting that developments in the Middle East were contributing to a high level of uncertainty about the economic outlook and pledging to remain attentive to the risks to inflation and unemployment. In the Euro Zone, with inflation rising to 3.0% in April 2026, the European Central Bank (ECB) observing that, the upside risks to inflation had intensified, kept its three policy rates unchanged at its April 30, 2026, meeting. In the UK, the Bank of England kept the Bank Rate unchanged at 3.75%

at its April 30, 2026 monetary policy meeting, the same rate held since August 2025, with the central bank indicating the monetary policy was being set to ensure that the economic adjustment to rising energy prices occurred in a way that achieves the 2.0% inflation target sustainably. These cautious monetary policy paths pursued by key central banks reflect the authorities' delicate efforts to manage rising inflation expectations while continuing to support output growth.

With regards to the outlook, after three consecutive years of decline, global headline inflation is projected to rise in 2026 across all major country groupings, before easing again in 2027 (**Figure 24**), mainly due to higher energy and food prices linked to ongoing geopolitical tensions. Global headline inflation is forecast at 4.4% in 2026, up from 4.1% in 2025, before declining to 3.7% in 2027. Compared to the January 2026 WEO Update, projections reflect an upward revision by 0.6 percentage points for 2026 and 0.3 percentage points for 2027. Higher inflation is projected for both AEs and ED&DEs. Annual inflation in AEs is projected to rise to 2.8% in 2026 before easing to 2.2% in 2027, while among EM&DEs, annual inflation is forecast to increase to 5.5% in 2026 from 5.2% in 2025, before easing to 4.6% in 2027.

**Figure 24: Global Headline Inflation Forecast to increase in 2026, following 3 years of decline, and to fall in 2027, depending on duration and effects of M.E. conflict**



Source: IMF World Economic Outlook, April 2026

Risks to the global inflation outlook are tilted to the upside, amid ongoing geopolitical tensions in the Middle East, arising mainly from; the lack of a clear timeline for resolution of the conflict, which is raising the risk of prolonged disruptions to global crude oil supply; extended damage to energy infrastructure or delayed restoration of oil production which

could push oil prices and global inflation higher than currently projected; and continued disruption of transportation through the Strait of Hormuz could further constrain oil supply and intensify global inflationary pressures.

In terms of implications for Uganda, considering that 90.0% of imports are sourced from EM&DEs, higher projected inflation for EM&DEs could result in imported inflation, particularly through higher fuel prices. Rising inflationary pressures could necessitate tighter monetary policy, which could dampen domestic demand and slow economic growth.

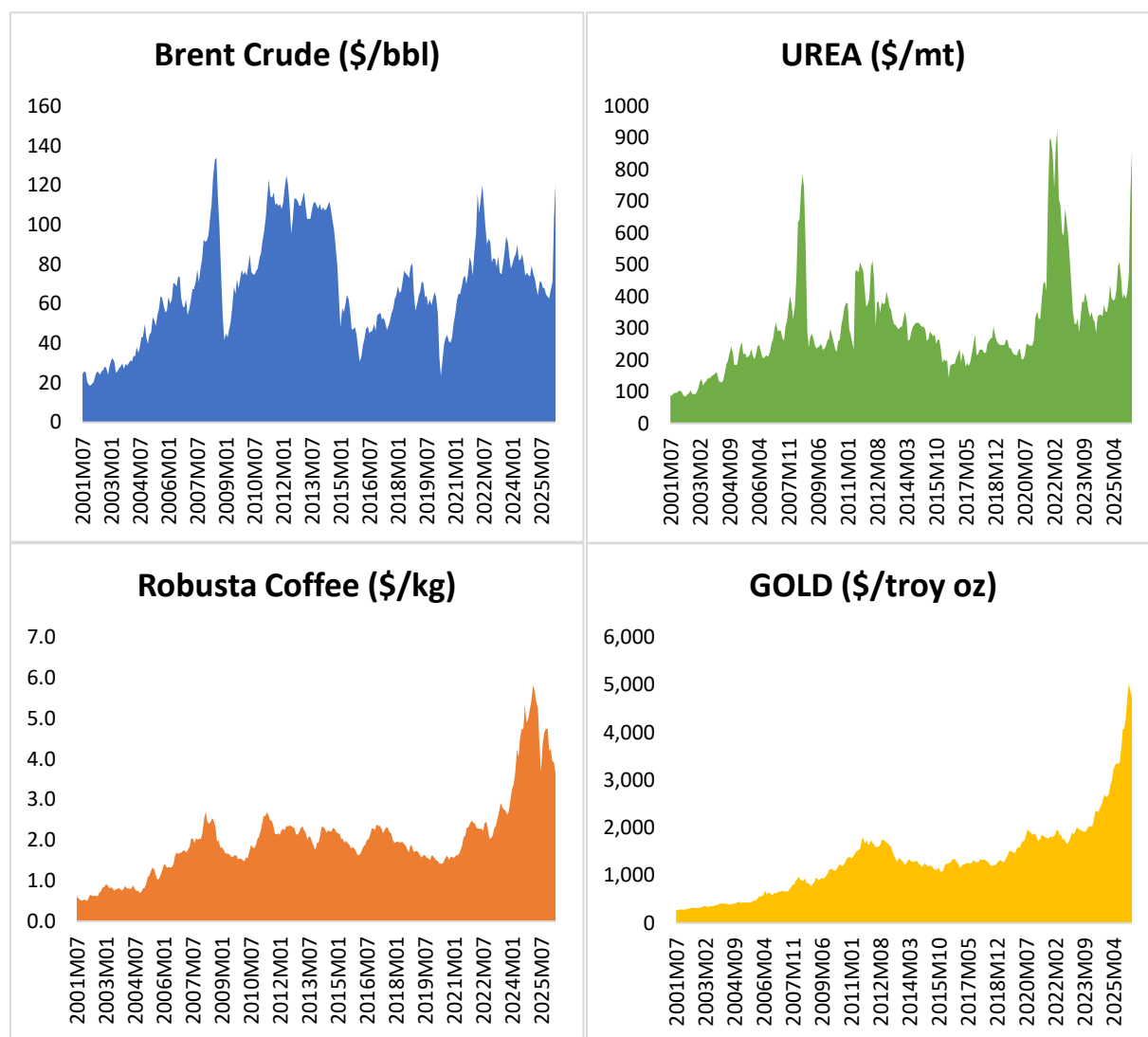
### 3.3 International commodity prices

Commodity price movements were mixed in March and April 2026 (**Figure 25**), although global markets developments were largely dominated by volatility and the sharp overall increases in crude oil, fertilizer, and aluminium prices, following the escalation of conflict in the Middle East.

Global crude oil prices increased significantly in March and April 2026, with elevated volatility into May 2026. Europe Brent crude oil prices rose by 46.0% to USD 104 per barrel in March 2026, and by 16.0% to USD 120 per barrel in April 2026, from USD 71 per barrel in February 2026. US WTI crude increased by 42.0% to USD 91 per barrel in March 2026, and by 10.0% to USD 100 per barrel in April 2026, from USD 65 per barrel in February 2026. The continued rise in crude oil prices over March to April 2026 was despite the US releasing emergency oil reserves and extending temporary waivers for purchases of Russian oil. Continuing volatility in crude oil prices poses a negative risk to global inflation and global growth going forward.

Fertilizer prices surged sharply following the disruption of exports through the Strait of Hormuz, which is a major route for fertilizer produced in Qatar, Saudi Arabia and the UAE. Specifically, prices of urea rose by 54.0% to USD 725 per metric ton in March 2026, and by 18.0% to USD 856 per metric ton in April 2026, from USD 472 per metric ton in February 2026, raising concern over already tighter global supply of fertilizer, owing to the Russia-Ukraine war, triggering a spike in food prices and increasing global inflation going forward.

**Figure 25: Commodity price developments were mixed in March–April 2026, however, dominated by volatility and sharp overall rise in crude oil and fertilizer prices, due to M.E. conflict**



Source: World Bank Commodity Prices April 2026

Although gold prices remain high and at double their levels from a year ago, they declined by 3.0% to USD 4,855 per ounce and by another 3.0% to USD 4,721 per ounce in April 2026, USD 5,020 per ounce in February 2026. The recent decline in gold prices was driven by US Dollar strengthening and US Federal Reserve signalling that the Federal Funds rate would remain high on account of a higher 2026 inflation forecast above the Central Bank target of 2.0%, which made other yield bearing assets more attractive than gold. Nonetheless, gold demand remains strong, supported by continued central bank buying.

Coffee prices continued to decline in April 2026 mainly on account of continued improvement in the global coffee supply. Robusta coffee prices declined by 7.0% month-on-month and by 33% year-on-year, in April 2026, to USD 3.6 per kilogram, largely due to strong exports from Vietnam. Arabica coffee prices also decreased by 1.0% month-on-month and by 15.0% year-on-year, in April 2026, to US\$ 7.3 per kilogram, supported by robust Brazil supply.

Global food prices continued to rise in April 2026, partly driven by higher energy costs that increased demand for biofuel related products such as palm oil and soybean oil. Food prices, measured by the World Bank’s food price index rose by 1.5% month-on-month and by 7.0% year-on-year in April 2026.

The outlook is for higher commodity prices in 2026, with relative recovery in 2027 (**Table 5**) and upside risks remain dominant. Average crude oil prices are projected to increase by 21.4% in 2026, on account of disruptions to production and transportation in the Middle East, corresponding to an average petroleum spot price of USD 82 per barrel. Oil prices are projected to subsequently decline by 7.6% in 2027, with normalized oil production and transportation.

**Table 5: Outlook is for higher commodity prices in 2026, with relative recovery in 2027 (% change, yoy)**

	Estimate 2025	Projections		Difference from Oct-2025 WEO Projections	
		2026	2027	2026	2027
<b>Commodity Prices</b>					
Oil 1/	-14.2	21.4	-7.6	29.9	-7.7
Nonfuel (average based on world commodity import weights)	9.6	21.7	1.9	14.2	1.0

**Source: IMF World Economic Outlook, April 2026 Update**

*1/ Simple average of prices of UK Brent, Dubai Fateh, and US WTI crude oil. Average oil price USD 67.74/barrel in 2025; assumed average price, based on futures markets is USD 82.22/barrel for 2026 and USD75.97/barrel for 2027*

The Global Projection Model (GPM) Network forecast food prices to increase by about 3.2% in 2026 and by 1.0% in 2027, driven largely by higher fertilizer prices, disrupted shipping routes, and increased transport costs. Base and precious metal prices are projected to maintain the gains experienced in 2025, with prices of gold projected higher by 34.6% in 2026, adding to the increase of 36.5% in 2025. However, gold prices are projected to fall by

0.2% in 2027. This relative moderation in the increase in gold prices is attributed to rising inflation expectations likely to trigger interest rate hikes, making yield bearing assets more attractive than gold.

Risks to commodity price projections are tilted towards higher prices in 2026. The severity and duration of commodity supply disruptions in the Middle East could be greater than assumed, resulting in higher than projected prices.

On the moderating side, oil prices could turn out lower than currently projected, if shipping from the Middle East is restored, normalizing global oil supplies that were significantly sizeable prior to the war. Producers such as the UAE and Saudi Arabia are activating alternative pipelines as an alternative to shipping oil through the Strait, although there are challenges to the alternatives, such as rebel attacks. Thirdly, weaker than projected global economic growth could curb commodity demand, resulting in lower than projected prices. Finally, UAE exit from the OPEC/OPEC+ alliance could increase world oil supply and taper global oil price increases, especially if other alliance members follow suit and if transport routes are fully reopened. Risks are tilted to lower prices in 2027, with expectation that projected price increases are on account of temporary disruptions to access to supplies, rather than more fundamental mismatches of supply and demand.

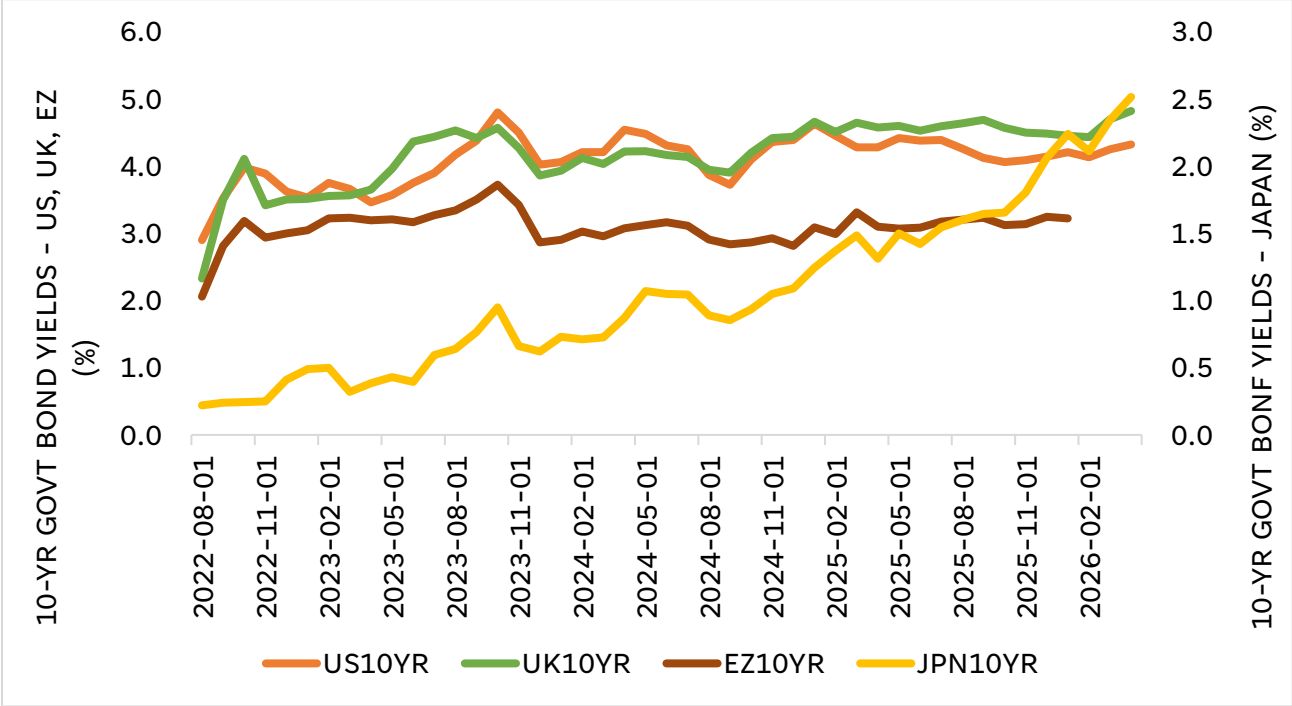
The projected increase in global commodity prices presents significant macroeconomic risks for Uganda. Higher global oil prices and constrained crude oil supply could lead to further increase in domestic pump prices, which have risen by about by almost 20.0% since the Middle East war started. Higher domestic pump prices could transmit to higher domestic inflation, necessitating tighter monetary policy, with a downside effect on domestic economic growth. Higher global oil prices could also increase oil import bill and combined with projected further decline in coffee prices, and moderation in gold prices, could worsen the current account balance, increasing the risk of exchange rate depreciation pressures. On the other hand, however, Uganda, as an oil exporter effective 2027, could benefit from high global oil prices.

### 3.4 Global financial markets

Global financial market conditions tightened moderately in March and April 2026, owing to rising risk off sentiment triggered by the Middle East war, and conditions could tighten further in 2026, driven by likely postponement of further central bank interest rate cuts, and as increased risk aversion curtails household consumption and business investment.

Since the start of the war, at the end of February 2026, concerns about a resurgence of inflation have raised bond yields and driven equity prices downward. In April 2026, 10-yr government bond yields rose by 0.2 percentage points in the US, and by 0.4 percentage points in Japan and the UK, compared to their levels in February 2026 (**Figure 26**). Among key global equity indices, the S&P 500, declined by 3.5% month-on-month in March 2026, pointing to investor shift from riskier stock markets into the more stable bond markets.

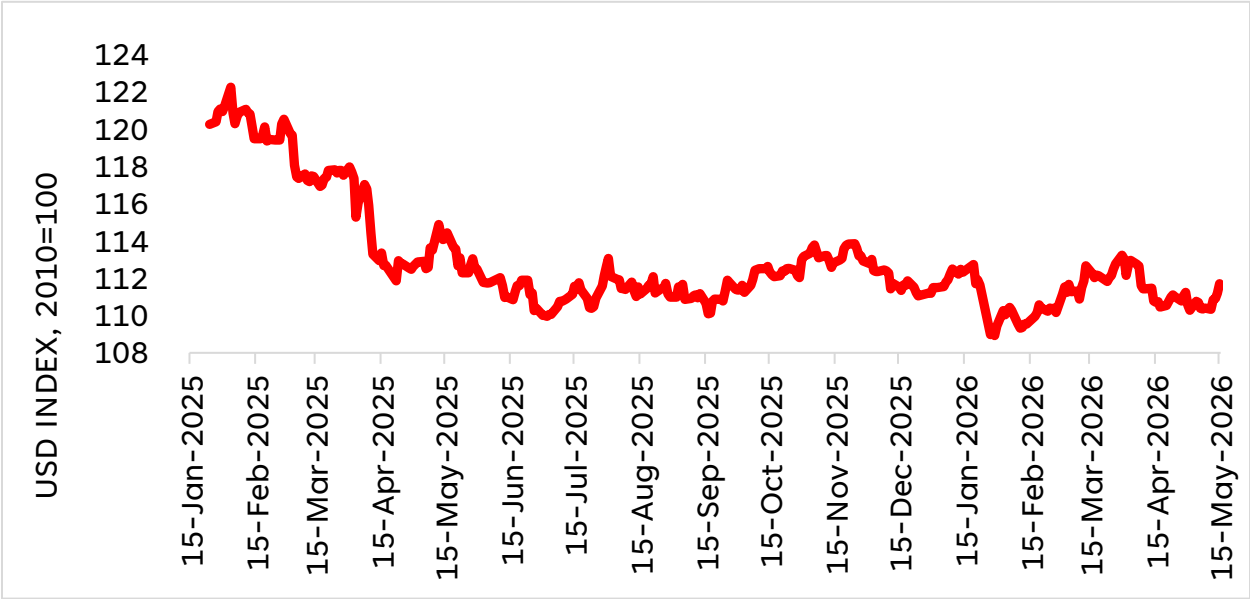
**Figure 26: Key AE 10-yr Government Bond Yields-Concerns about a resurgence of inflation have raised bond yields**



Source: US Federal Reserve of St Louis

In the currencies market, the US Dollar strengthened in March 2026 (**Figure 27**), resulting in currency depreciations especially among commodity importing EM&DEs. In March 2026, the USD Index strengthened by 1.7%, month-on-month against major US trading partner currencies, reflecting heightened risk aversion and associated safe-haven demand. However, the US Dollar has since returned to a depreciating path, with the USD index declining by 0.5% in April 2026 and by 0.6% in the period to May 15, 2026, pointing to market expectations that the US Federal Reserve may hold rather than increase the policy interest rate amid the Middle East conflict.

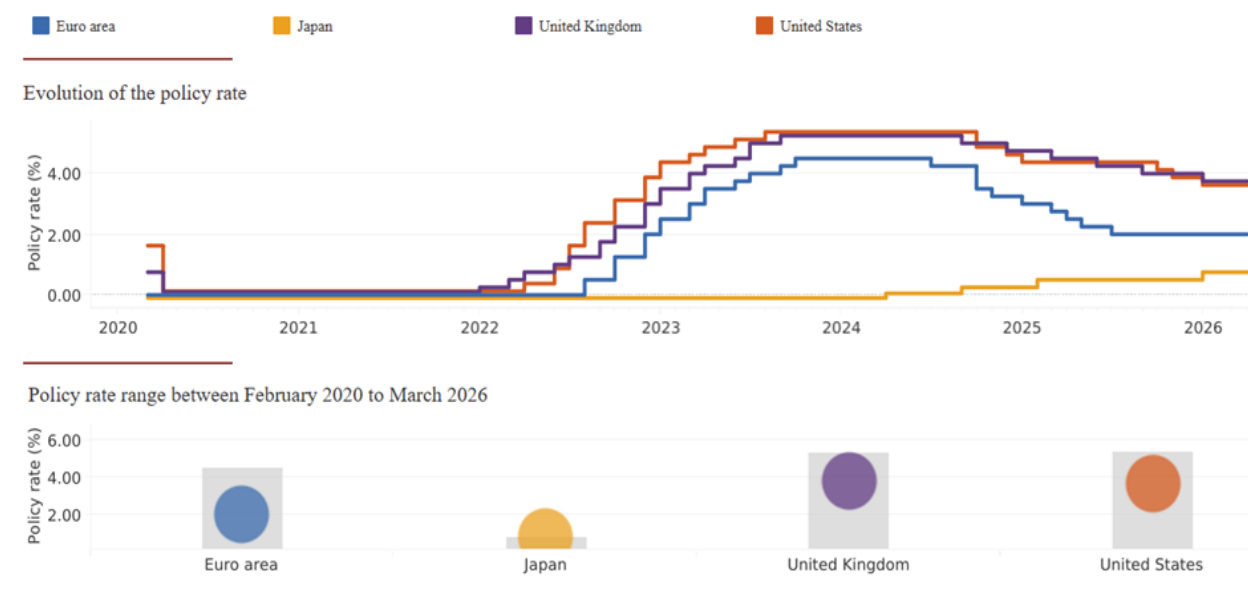
**Figure 27: USD Index: Strengthened in Mar-2026, resulting in currency depreciations especially among commodity importing EMDEs**



Source: Reuters

Key central bank policy rates (**Figure 28**) which were gradually easing, and at relatively high levels, before the Middle East conflict triggered higher inflation expectations, are now largely expected to be held or gradually tightened, to contain the pass through of high energy prices to inflation. The US FED Funds rate is projected to remain unchanged in 2026, in line with a cautious approach to dampen inflation expectations, support the labour market and output growth. The ECB is anticipated to deliver one rate hike of about 0.2pp in 2026, as other support measures as financial relief to consumers, jointly cushion the impact of high oil prices. The Bank of Japan (BOJ) is expected to continue a gradual rate hike to 1.75% by early 2028, although it held its benchmark rate at 0.75% in April 2026 over inflation and economic stability concerns. BOE which held its Bank Rate at 3.75% in April 2026, is expected to hold the policy rate through 2026.

**Figure 28: Key Central Bank Policy Rates Gradually easing and still relatively high before M.E. war, now expected to remain unchanged, as central banks balance risks between slower growth and rising inflation**



Source: BIS Data Portal Central Bank Policy Rates

In the outlook, global financial conditions could tighten further over 2026, if Middle East conflict is prolonged and policy uncertainty remains elevated, and as likely postponement of further central bank interest rate cuts, and increased risk aversion, curtail consumption and investment. In addition, high fiscal deficits coupled with rising debt among both AE and EMDEs are likely to put pressure on long-term interest rates.

Risks to stability in global financial markets include; prolonged conflict, continued rise in energy prices and pass through to inflation, continued policy uncertainty both around the Middle East war and trade policy, as well as fiscal vulnerabilities in several key economies. In addition, countries with links to the Middle East through remittances are expected to face pressure on household incomes and external inflows.

The tightening in global financial conditions has important implications for Uganda. Elevated global risk aversion could trigger domestic financial market selloffs and depreciation pressures, impacting domestic financial sector stability and fiscal management. Further, tight global market conditions could taper portfolio financial flows away from frontier markets, however, Foreign Direct Investment (FDI) inflows towards construction of the oil pipeline could assuage the overall impact on the financial account, maintain support to the current account and to reserve buildup efforts.

## 4 CONCLUSION

Uganda's macroeconomic outlook remains broadly stable, supported by low inflation, resilient domestic economic activity, and strengthened external buffers. Inflation remains below the Bank of Uganda's 5.0% medium-term target, with headline and core inflation recorded at 3.0% in April 2026. However, inflationary pressures are gradually building, mainly driven by higher energy and fuel costs, exchange rate depreciation, and rising external uncertainties.

Annual headline and core inflation rose slightly to 3.0% in April 2026 from 2.8% and 2.9% in March 2026, driven mainly by higher services inflation and rising energy, fuel, and utilities prices, particularly petrol, diesel, kerosene, and charcoal. This was partially offset by a decline in food crop inflation, supported by improved food supply conditions. Overall, inflationary pressures remained contained, and inflation expectations continued to be well anchored, consistent with the low inflation environment. The inflation outlook, however, has shifted upwards. Over the next twelve months, inflation is expected to rise further, with headline inflation projected at 5.2% to 6.5% and core inflation at 4.5% to 5.2%, before converging gradually toward the 5.0% target by Q2 2027. Nonetheless, risks remain skewed to the upside, particularly from global oil price shocks, geopolitical tensions, adverse weather conditions, and stronger than expected domestic demand.

At the same time, domestic economic activity remains strong and broad based. GDP growth rebounded strongly to 8.5% in Q2 FY2025/26, driven by strong performance across all key sectors. High frequency indicators, including the Composite Index of Economic Activity and the Purchasing Managers' Index, confirm sustained economic momentum. Growth is projected at 6.5% to 7.0% in FY2025/26, with medium-term prospects trending toward 8.0%, underpinned by investment, export expansion, agricultural productivity, oil related activity, and government programmes such as the Parish Development Model and EMYOOGA. However, downside risks persist from adverse weather patterns, weaker external demand, elevated input costs, and domestic fiscal pressures that may affect household disposable income.

Despite strong growth, domestic financial conditions show early signs of tightening, with implications for the inflation-growth balance. Money market rates have edged up modestly, reflecting tightening liquidity conditions, while credit supply has become more cautious. Lending rates have eased slightly, but banks have reduced credit approvals, indicating increased risk aversion. At the same time, fiscal policy has been more

expansionary than planned, creating additional demand side pressures that may influence future inflation dynamics.

External conditions present mixed effects on inflation and growth. The current account deficit has narrowed, supported by stronger export earnings and improved inflows, which is supportive for growth and foreign exchange stability. However, the depreciation of the Uganda shilling, driven by global dollar strength, geopolitical uncertainty, and stronger foreign exchange demand, poses an upside risk to inflation through imported prices. Foreign reserves, however, increased to USD 6.1 billion, providing an important buffer.

In response to evolving macroeconomic conditions, the Bank of Uganda maintained the Central Bank Rate at 9.75%, reflecting the judgement that the current monetary policy stance remains appropriate for containing emerging inflationary pressures and preserving the strong growth momentum. At the same time, the Cash Reserve Requirement was increased from 9.5% to 11.0%, to absorb excess structural liquidity, strengthen monetary policy transmission, and reinforce price stability, while avoiding unnecessary tightening of the policy rate at a time of strong growth momentum.

Overall, Uganda's near-term outlook remains favourable, but the risk environment has become more challenging due to rising global energy prices, geopolitical tensions, exchange rate pressures, fiscal slippages, and cautious credit conditions in the banking sector. Monetary policy will therefore remain firmly focused on safeguarding price stability, firmly anchored on the 5% inflation objective, while remaining data dependent and responsive to emerging shocks. Sustained coordination with fiscal, financial, and external sector policies will be essential to preserve macroeconomic stability and support inclusive, durable growth.