STATE OF THE ECONOMY REPORT

June 2026

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ACRONYMS AND ABBREVIATIONS

AEs	Advanced Economies
BoU	Bank of Uganda
CBR	Central Bank Rate
CIEA	Composite Index of Economic Activity
CPI	Consumer Price Index
EFU	Energy, Fuel and Utilities
EMDEs	Emerging Market and Developing Economies
FDI	Foreign Direct Investment
Fed	Federal Reserve
GDP	Gross Domestic Product
IMF	International Monetary Fund
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
SSA	Sub-Saharan Africa
UGX	Uganda shilling
UK	United Kingdom
US	United States
USA	United States of America
USD	United States Dollar
URA	Uganda Revenue Authority
FY	Financial Year
y-o-y	Year-on-Year

About the Report

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

EXECUTIVE SUMMARY

Sustaining Growth and Stability in a Volatile Global Environment

Uganda's macroeconomic conditions remained broadly stable, supported by low inflation, resilient growth, and stronger external buffers, although the policy environment has become more uncertain due to evolving domestic and global risks. The economy's resilience should remain as the likely impact of the Ebola outbreak, if short-lived, may be moderated owing in part to Government of Uganda's proven credentials in handling past pandemics. Inflation is below the medium-term target of 5 percent but is rising due to fuel prices, exchange rate depreciation, and external risks. Growth remains strong, with real GDP growth rebounding to 8.5 percent in Q2 FY2025/26. However, Financial conditions are tightening, and the shilling is under pressure. Consequently, the Bank of Uganda maintained the Central Bank Rate at 9.75 percent to contain emerging inflationary pressures and preserve the strong growth momentum while the Cash Reserve Requirement was increased from 9.5 percent to 11.0 percent to absorb excess liquidity and strengthen monetary policy transmission.

Global Developments and Outlook

Global economic conditions in 2026 have deteriorated relative to earlier expectations, following the escalation of geopolitical tensions in the Middle East, which has significantly reshaped global growth, inflation, commodity, and financial market dynamics. Global growth is projected at 3.1 percent in 2026, down from 3.4 percent in 2025, reflecting weaker demand, elevated uncertainty, and tighter financial conditions, before a modest recovery to 3.2 percent in 2027. At the same time, global inflation is now projected at 4.4 percent in 2026, driven mainly by higher energy and food prices, with broad-based pass-through effects across both advanced and emerging market economies.

Commodity markets have been the main transmission channel of these shocks. Brent crude rose above USD120 per barrel in April 2026 amid disruptions to Middle East supply routes, while fertilizer prices increased markedly, intensifying global food inflation pressures. Although some commodities, including coffee, declined on improved supply conditions and gold prices softened due to US dollar strength and expectations of sustained policy rates, overall commodity price risks remain tilted upward. Financial conditions have tightened moderately due to heightened risk aversion, rising sovereign bond yields, weaker equity markets, and an initially stronger US dollar. Central banks have largely paused easing cycles to contain inflation expectations. Overall, the outlook is characterized by weaker growth, higher inflation, elevated commodity prices, and persistently tight financial conditions, with downside risks prevailing.

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.

Domestic Economic Performance and Outlook

Growth

Although the Ugandan economy continues to face challenges arising from global developments and geopolitical uncertainty, it remains in the upward phase of the business cycle. Real economic growth strengthened in the first half of FY2025/26, supported by broad-based improvements across the agriculture, industry, and services sectors. During the first two quarters of FY2025/26, economic activity expanded at a pace consistent with potential growth, averaging 6.7 percent. On the expenditure side, growth was driven by strong expansion in both consumption and investment. High-frequency indicators of economic activity continue to point to resilience in private sector activity, signalling sustained economic expansion. Consequently, economic growth is projected in the range of 6.5–7.0 percent in FY2025/26 and is expected to strengthen to around 8 percent over the medium term, supported by investment, exports, oil related activity, agricultural production, and government programmes such as the Parish Development Model and EMYOOGA. However, key downside risks persist, notably adverse weather conditions, softer external demand, elevated input costs, domestic tax measures that may reduce household disposable incomes, and geopolitical tensions that could disrupt global supply chains. The recent break out of Ebola, if prolonged, could also constrain regional trade and undermine business confidence, adding to the downward pressure on economic activity.

Inflation

Inflation remains subdued. Over the 12 months to May 2026, inflation remained below the medium-term target of 5 percent, reflecting the continued effectiveness of monetary policy. Annual headline and core inflation averaged 3.3 percent and 3.4 percent, respectively. However, in the month of May 2026, annual headline inflation rose modestly to 3.2 percent from 3.0 percent in April 2026 while annual core inflation remained at 3.0 percent in May 2026 as was the case in April 2026. The increase in headline inflation was mainly driven by higher services inflation and stronger energy, fuel, and utilities inflation, particularly reflecting higher prices for petrol, diesel and kerosene. Food crop inflation declined, supported by favourable food supply conditions.

During the May 2026 MPC cycle, the inflation outlook was revised upwards relative to the February 2026 forecast round, reflecting a more depreciated exchange rate, higher energy prices arising from the conflict in the Middle East could, and resilient domestic demand. Core inflation is projected to average between 4.5 percent and 5.2 percent in FY2026/27, while headline inflation is expected to average between 5.2 percent and 6.5 percent. Inflation is expected to gradually converge toward the 5 percent target by the second quarter of 2027, although risks remain tilted to the upside.

Financial Market Dynamics

Domestic financial markets remained broadly stable, partly reflecting reduced issuance of government securities. During the three months to May 2026, the overnight interbank rate declined marginally to 10.0 percent from 10.1 percent in the preceding three-month period ending February 2026. Over the same period, the weighted average 7-day interbank rate remained unchanged at 10.4 percent. Liquidity management operations increased, supported by greater utilization of repurchase agreements and Bank of Uganda bills.

Government securities yields declined in both the primary and secondary markets, supported by reduced issuance, strong demand, and improved market conditions. Lending rates remained broadly stable in the three months to April 2026 relative to the three months to January 2026. The weighted average lending rate on Uganda shilling-denominated loans marginally rose to 18.63 percent from 18.26 percent, in part reflecting the increase in cash reserve requirements, while the average lending rate on foreign currency-denominated loans decreased to 7.02 percent from 7.62 percent. The non-performing loan ratio improved to 3.04 percent, reflecting better asset quality. Private sector credit growth increased modestly, with both credit supply and approval rates improving in line with the resilient economic activity. Near-term risks for lending rates remain tilted to the upside, while risks to private sector credit growth are tilted to the downside.

External Sector Dynamics

The external position improved in the twelve months to April 2026. The current account deficit narrowed to USD 3,155.1 million from USD 3,387.3 million in the year to April 2025, mainly due to improvements in the secondary income and goods accounts. Secondary income inflows increased, driven by higher personal transfers, while the goods deficit declined on account of strong export performance, including coffee and non-coffee exports, specifically gold.

The financial account surplus increased to USD 6,330.4 million, supported by strong inflows in portfolio and other investments. The overall balance of payments recorded a surplus of USD 2,392.8 million. The Uganda shilling depreciated year-on-year, quarter-on-quarter and month-on-month in May 2026, reflecting geopolitical uncertainty, stronger corporate demand for foreign exchange, and broad-based US dollar strength.

Foreign reserves increased to USD 6.1 billion at the end of April 2026, providing a significant buffer against external shocks. To further bolster the international reserves buffer, the BoU has started purchasing gold domestically. This, coupled with the expected commencement of oil exports, should yield stronger international reserve buffers going forward.

Fiscal Sector Dynamics

Fiscal operations were more expansionary than planned during the first ten months of FY2025/26. Recurrent expenditure exceeded programme targets, mainly due to higher grants to local governments, transport sector related payments, institutional capitalisation, financing schemes, medical supplies, and election related spending. Capital expenditure remained below the planned target, although it was significantly higher than in the corresponding period of the previous year.

Revenue performance was weaker than expected. Total government revenue and grants amounted to Shs. 28,579.3 billion, falling short of the programme target by Shs. 2,849.1 billion. Consequently, the fiscal deficit reached Shs. 10,775.6 billion, exceeding the planned level by Shs. 2,215.3 billion. Over the medium term, fiscal consolidation remains important for strengthening macroeconomic stability. The fiscal deficit is projected to narrow from 7.0 percent of GDP in FY2025/26 to 6.0 percent in FY2026/27 and 3.0 percent by FY2030/31, supported by implementation of the Medium-Term Debt Strategy. 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.

Policy Direction for continued stability and Resilience

Uganda's near-term macroeconomic outlook remains favourable, but policy must now operate in a more uncertain environment. Inflation is still below target, growth is strong, financial markets remain functional, and reserves have strengthened. At the same time, higher global energy prices, geopolitical tensions, exchange rate pressures, and the effects of a prolonged Ebola pandemic could weaken stability if not carefully managed. Policy should therefore remain prudent, coordinated, and forward looking. Monetary policy should continue to focus on anchoring inflation expectations and containing second round effects from energy and exchange rate shocks. Fiscal policy should remain aligned with the medium-term consolidation path, supported by stronger revenue mobilisation and expenditure discipline. Financial sector monitoring should remain attentive to lending conditions, asset quality, and credit supply to the private sector. External sector management should continue to preserve reserve adequacy and strengthen resilience to capital flow and exchange rate pressures. Overall, maintaining macroeconomic stability will require sustained vigilance, timely policy responses, and continued coordination across monetary, fiscal, and financial sector policies.

Consequently, the Bank of Uganda maintained the Central Bank Rate at 9.75 percent at its May 2026 meeting, signalling that the existing policy stance remains appropriate for anchoring inflation expectations and preserving macroeconomic stability. Although inflation remains below target, the decision reflects a careful balance between supporting continued economic growth and guarding against emerging price pressures. The inflation outlook has become more uncertain, largely because geopolitical tensions in the Middle East have lifted global oil prices and increased the risk of higher domestic energy and transport costs. To strengthen liquidity management and reinforce price stability, the Bank also raised the Cash Reserve Requirement from 9.5 percent to 11 percent. This measure complements the unchanged policy rate by helping absorb structural liquidity in the banking system. Future policy decisions are expected to remain data dependent, with the Bank responding to developments in inflation, exchange rate movements, oil prices, domestic demand, and broader global risks.

1. EXTERNAL ECONOMIC ENVIRONMENT

1.1 Global economic activity and outlook

Global economic prospects for 2026 have weakened relative to earlier expectations of a stable expansion, following a sharp escalation in geopolitical tensions triggered by the Middle East conflict. The resulting deterioration in geopolitical conditions has led to a reassessment of near-term growth, while medium-term prospects remain constrained by persistent uncertainty, elevated commodity prices, and continued disruptions to global supply chains.

The IMF projects global growth at 3.1 percent in 2026, down from 3.4 percent in 2025, before rising slightly to 3.2 percent in 2027 (**Table 1**). The 2026 forecast is 0.2 percentage points lower than in the January 2026 World Economic Outlook Update, while the 2027 projection is unchanged. These forecasts assume the conflict remains contained and is resolved in the second quarter of 2026, allowing oil production and export capacity in the Middle East to recover gradually in the second half of the year.

Table 1: Expectations of stable global economic growth in 2026 are weaker, following escalation of geopolitical conflict (year-on-year, % Change)

	Estimate	Projections		Difference from Jan 2026 WEO Projections	
	2025	2026	2027	2026	2027
World Output	**3.4**	**3.1**	**3.2**	**–0.2**	**0.0**
Advanced Economies	**1.9**	**1.8**	**1.7**	**0.0**	**0.0**
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
Emerging Market and Developing Economies	**4.4**	**3.9**	**4.2**	**–0.3**	**0.1**
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
Sub-Saharan Africa	**4.5**	**4.3**	**4.4**	**–0.3**	**–0.2**
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

Among Advanced Economies (AEs), growth is projected at 1.8 percent in 2026, down from 1.9 percent in 2025, and 1.7 percent in 2027, unchanged from the January 2026 WEO Update. Within the group, however, country outcomes differ markedly. Growth in the Euro Area and the United Kingdom (UK) has been revised down more sharply because both are net energy importers, unlike the United States (US), which is directly involved in the Middle East conflict. The US economy is projected to grow by 2.3 percent in 2026, up from 2.1 percent in 2025, supported by fiscal policy and the lagged effects of monetary easing in 2025. This is still 0.1 percentage point below the January 2026 WEO Update, partly reflecting the effects of the war with Iran. US growth is expected at 2.1 percent in 2027, supported by tax incentives under the OBBBA and technology driven momentum, which are expected to offset weaker immigration and moderating consumption. In the Euro Area, growth is projected to slow to 1.1 percent in 2026 from 1.4 percent in 2025, before edging up to 1.2 percent in 2027. These forecasts are 0.2 percentage points lower for both years than in the January 2026 WEO Update, largely because of higher energy prices. In the UK, growth is projected to slow to 0.8 percent in 2026 from 1.3 percent in 2025, before recovering to 1.3 percent in 2027. Relative to the January 2026 WEO Update, these projections are lower by 0.5 percentage points for 2026 and 0.2 percentage points for 2027, mainly because of higher energy prices and a slower pace of monetary easing.

Growth in Emerging Market and Developing Economies (EMDEs) is projected to slow to 3.9 percent in 2026 from 4.4 percent in 2025, before recovering to 4.2 percent in 2027. The impact of geopolitical tensions remains uneven across countries, depending on exposure to energy markets, trade linkages, remittance inflows, and financial channels connected to the Middle East. In China, growth is projected at 4.4 percent in 2026, down from 5.0 percent in 2025, before easing further to 4.0 percent in 2027. The slowdown reflects both cyclical weakness and structural constraints, including ongoing stress in the property sector and a declining working age population. Growth in the Middle East and Central Asia region is projected to decline sharply to 1.9 percent in 2026, from 3.6 percent in 2025, before rebounding to 4.6 percent in 2027. Commodity exporting economies in the region, including Bahrain, Iran, Iraq, Kuwait, and Qatar, have seen growth projections for 2026 severely revised downwards reflecting disruptions to oil production, infrastructure damage, and restrictions on transport routes following the effective closure of the Strait of Hormuz. The projected recovery in 2027 assumes normalization of production and restoration of trade logistics within the next few months. In Sub-Saharan Africa, growth is projected to moderate to 4.3 percent in 2026, from 4.5 percent in 2025, before rising to 4.4 percent in 2027. The slowdown is more pronounced among oil importing economies, which are more exposed to higher import costs and tighter external financial conditions.

Since the February 2026 Monetary Policy Committee meeting, global conditions have been shaped by a rapid escalation of geopolitical tensions in the Middle East. The conflict escalated into direct military confrontation by late February, with subsequent retaliatory actions extending across multiple countries and affecting critical energy infrastructure in the Gulf region, including the United Arab Emirates, Saudi Arabia, Bahrain, Kuwait, and Iraq.

Maritime conditions in the Strait of Hormuz deteriorated significantly in early March 2026 following warnings on vessel passage, attacks on shipping, and withdrawal of insurance coverage. These developments rendered the Strait effectively inoperable as a reliable global transit route, severely disrupting oil transportation. As a result, global oil prices rose sharply. Brent crude increased by 46 percent month-on-month to USD104 per barrel in March 2026 and further increased by 16 percent to USD120 per barrel in April 2026. The sustained elevation in energy prices continues to pose significant upside risks to global inflation and downside risks to global growth. Fertilizer markets were also significantly affected. Disruptions to exports from the Gulf region led to sharp increases in global fertilizer prices, with urea rising by 54 percent month-on-month to USD725 per metric tonne in March 2026 and increasing further by 18 percent in April 2026. These developments have heightened risks to global food prices through higher input costs and constrained supply.

Although a ceasefire agreement among the United States, Israel, and Iran, initially due to expire in April 2026, has been extended indefinitely, negotiations remain inconclusive. Both sides continue to maintain firm positions, with the United States demanding the dismantling of Iran's nuclear programme and Iran insisting on reparations and the removal of restrictions on maritime passage through the Strait of Hormuz. As a result, the Strait remains effectively closed, sustaining disruptions to global energy flows and prolonging geopolitical uncertainty.

In a related development, the United Arab Emirates announced its withdrawal from OPEC and OPEC+ effective 1 May 2026, citing plans to expand domestic production capacity. This development raises the possibility of increased fragmentation within the oil alliance and introduces prospects of higher medium-term global supply, which may exert downward pressure on prices once logistical constraints ease.

The IMF baseline outlook assumes resolution of the conflict by end Q2 2026, allowing for full normalization of oil production and maritime transport (**Table 2**). However, risks of prolonged disruption remain significant. Under an adverse scenario, where oil prices average around USD100 per barrel in 2026 before easing to USD75 in 2027, global inflation rises to 5.4 percent in 2026 before moderating to 3.9 percent in 2027. Global growth slows to 2.6 percent in 2026 under tighter monetary conditions, before recovering to 3.0 percent in 2027.

Table 2: 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 (USD/Barrel)		Global GDP Growth		Global Inflation		Effect on Growth arising from:
	2026	2027	2026	2027	2026	2027	
Reference Projection Conflict assumed to end in Q2-2026	82	76	3.1	3.2	4.4	3.7	Effect on growth in 2026 mainly from higher energy prices
Adverse Scenario	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)
Severe Scenario	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

Under a severe scenario, where oil prices rise to USD110 per barrel in 2026 and further to USD125 per barrel in 2027, inflation increases to 5.8 percent and 6.1 percent respectively. In response, tighter monetary policy reduces global growth to 2.0 percent in 2026 and 2.2 percent in 2027. Commodity importing emerging and developing economies would be particularly affected, as exchange rate depreciation amplifies imported inflation pressures. The risk of either scenario remains significant. As of mid-May 2026, oil prices averaging about

USD86 per barrel suggest that risks to the baseline remain tilted toward higher inflation and weaker growth.

The global outlook remains highly uncertain and is subject to elevated downside risks. Key vulnerabilities stem from ongoing geopolitical tensions in the Middle East, persistent fragmentation in global trade, and rising policy uncertainty associated with the expiration of major trade agreements by end 2026 and potential tariff increases in the United States. Additional risks arise from elevated public debt levels, which may constrain fiscal space and exert upward pressure on global interest rates over the medium term. Debt ratios are projected to increase across major economies, including the United States, Euro Area, and emerging markets. Further downside risks stem from tighter immigration policies in advanced economies, which may constrain labour supply and reduce potential growth.

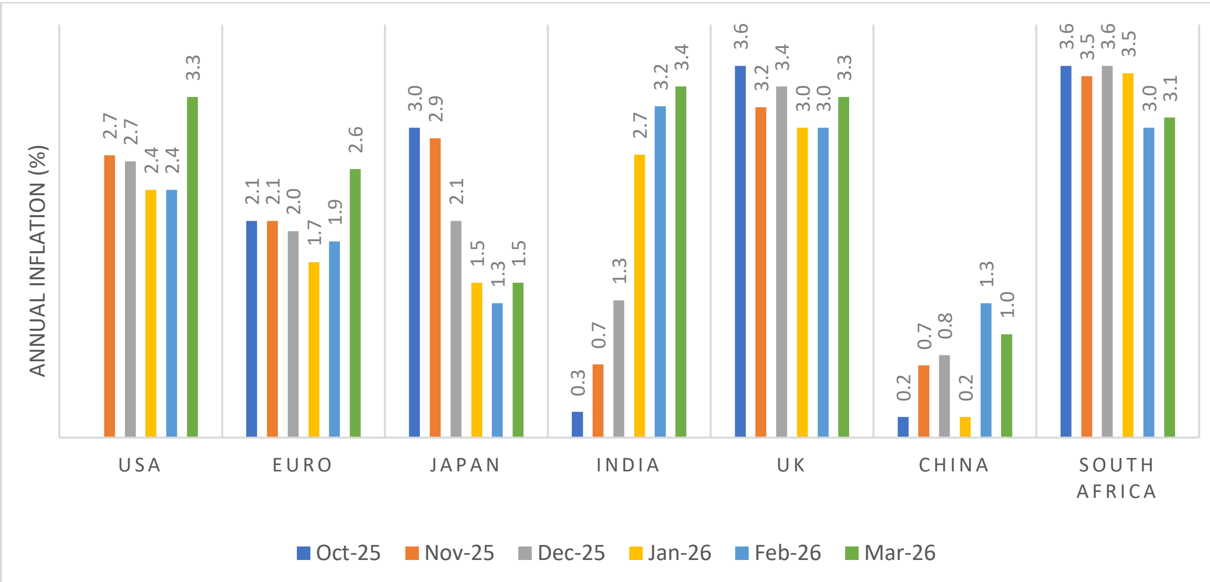
On the upside, a faster than expected resolution of geopolitical tensions could restore confidence, ease supply constraints, and support a stronger global recovery.

1.2 Global inflation and outlook

Globally, inflationary pressures increased in March 2026 across most major economies, reflecting a broad-based increase in energy costs following heightened geopolitical tensions associated with the escalation of the US-Israel conflict with Iran. Against this backdrop, the global inflation trajectory for 2026 has shifted higher, with risks increasingly skewed to the upside.

Inflation dynamics in major advanced economies showed a broadly synchronized uptick (**Figure 1**). In the United States, price pressures strengthened further, with annual inflation rising to 3.3 percent in March 2026 and accelerating to 3.8 percent in April, driven primarily by increases in energy and food prices. The Euro Area recorded a similar pattern, with inflation rising to 2.6 percent in March and 3.0 percent in April, underpinned by a sharp 10.9 percent increase in energy costs in April. Japan experienced a more moderate rise, with inflation reaching 1.5 percent in March, largely reflecting higher fuel and lighting expenses. In the United Kingdom, inflation increased to 3.3 percent in March, mainly on account of elevated motor fuel prices. Among emerging market economies, inflation trends were more heterogeneous. India and South Africa recorded modest increases, reflecting higher food and housing related price pressures, respectively. By contrast, China saw a moderation in annual inflation to 1.0 percent in March 2026, largely due to subdued food prices. Nonetheless, transport costs edged up by 0.9 percent, indicating partial transmission of higher global oil prices despite domestic policy efforts to contain price pressures.

Figure 1: Global inflation higher in Mar-2026, owing to sharp rise in global energy prices

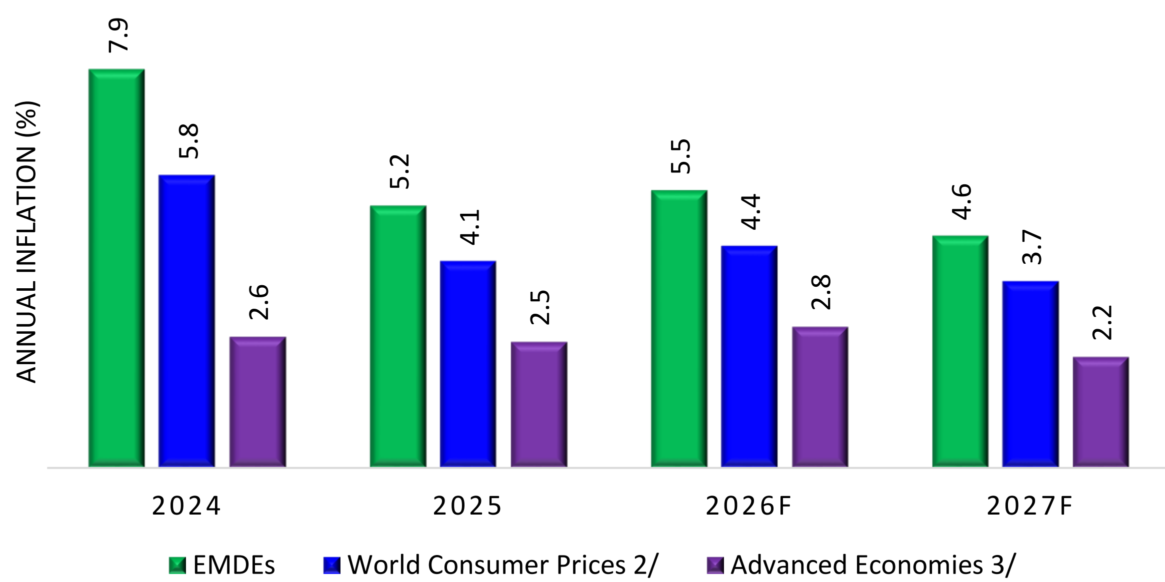


Source: Country Statistics Offices (Websites)

Monetary authorities in key economies maintained a broadly cautious stance in April 2026, opting to keep policy rates unchanged while closely monitoring the inflationary implications of prolonged geopolitical tensions in the Middle East. In the United States, the Federal Open Market Committee (FOMC) maintained the federal funds target range at 3.5-3.75 percent at its 28-29 April meeting, citing heightened uncertainty around the outlook due to developments in the Middle East and reaffirming its vigilance with respect to inflation and labour market conditions. Similarly, the European Central Bank (ECB) kept its policy rates unchanged on 30 April, noting an intensification of upside risks to price stability. The Bank of England also held its Bank Rate steady at 3.75 percent, emphasising a policy stance aimed at facilitating an orderly adjustment to energy driven price pressures while safeguarding the medium-term inflation target. Collectively, these decisions underscore a cautious calibration of policy aimed at anchoring inflation expectations without unduly constraining activity.

Looking ahead, global inflation is expected to rise in 2026 after three consecutive years of moderation, before easing again in 2027 (**Figure 2**). The projected pickup is largely attributable to elevated energy and food prices associated with persistent geopolitical risks. Global inflation is forecast at 4.4 percent in 2026, up from 4.1 percent in 2025, before declining to 3.7 percent in 2027. Compared with the January 2026 WEO Update, this represents upward revisions of 0.6 and 0.3 percentage points for 2026 and 2027, respectively. Both advanced and emerging market and developing economies are expected to experience higher inflation pressures. In advanced economies, inflation is projected to rise to 2.8 percent in 2026 before moderating to 2.2 percent in 2027, while in emerging market and developing economies it is expected to increase to 5.5 percent in 2026 from 5.2 percent in 2025, before easing to 4.6 percent in 2027.

Figure 2: 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



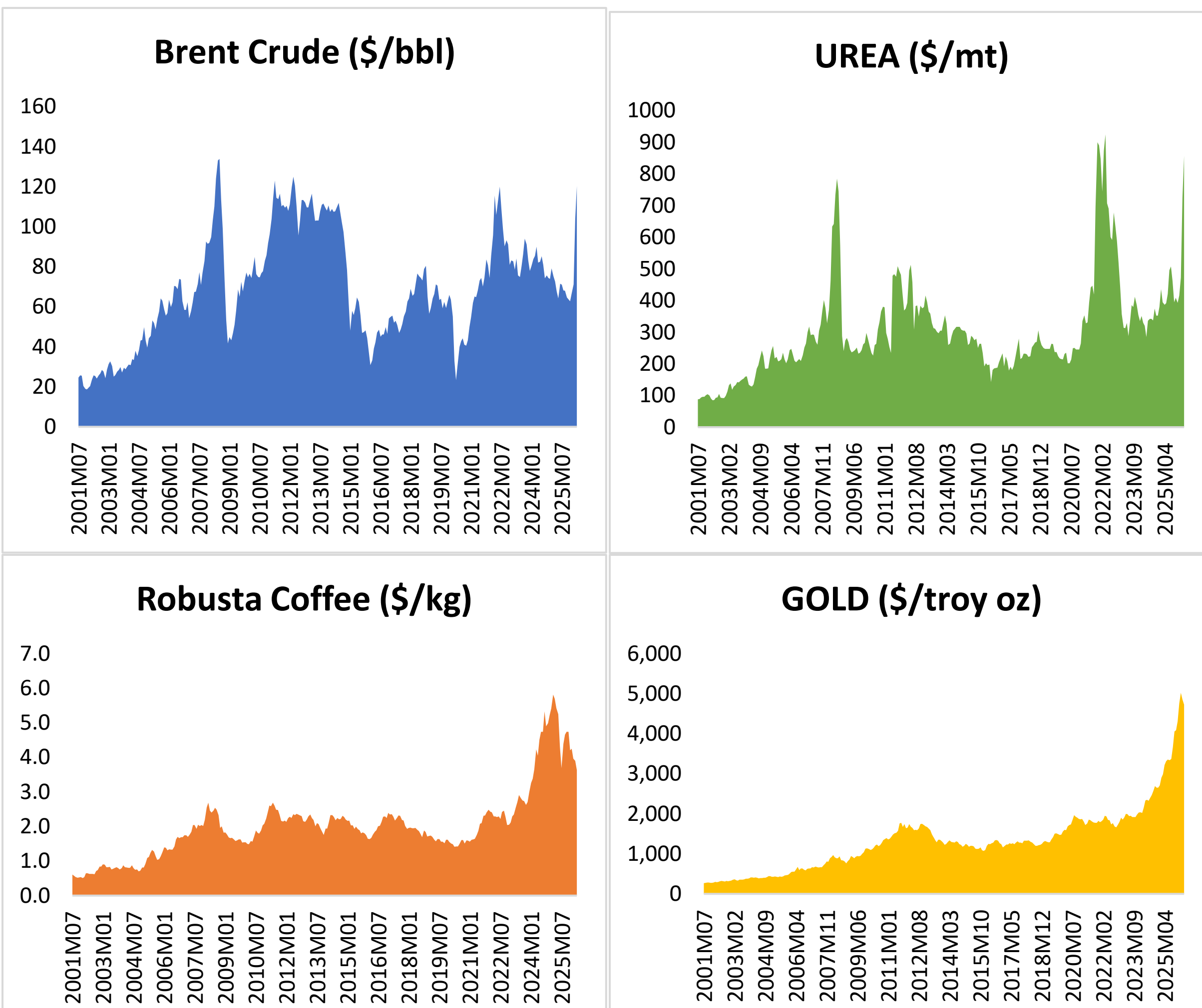
Source: IMF World Economic Outlook, January 2026 Update

Risks to the outlook remain clearly tilted to the upside, reflecting the persistence of geopolitical tensions in the Middle East. Key vulnerabilities include the absence of a defined resolution path, which increases the probability of sustained disruptions to global crude oil supply; potential further damage to energy infrastructure or delays in restoring production capacity, which could amplify upward pressure on oil prices; and continued disruption of maritime routes through the Strait of Hormuz, which remains a critical conduit for global energy trade and a potential source of renewed supply constraints.

1.3 International commodity prices

Commodity price developments in March and April 2026 were mixed, as shown in **Figure 3**, although global market conditions were largely defined by elevated volatility and pronounced increases in crude oil, fertilizer, and aluminium prices following the escalation of conflict in the Middle East.

Figure 3. 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

Crude oil prices recorded substantial gains over March and April 2026, with heightened volatility extending into May. Brent crude prices rose by 46 percent to USD 104 per barrel in March 2026 and increased further by 16 percent to USD 120 per barrel in April 2026, compared with USD 71 per barrel in February 2026. West Texas Intermediate (WTI) similarly increased by 42 percent to USD 91 per barrel in March 2026 and by 10 percent to USD 100 per barrel in April 2026, from USD 65 per barrel in February 2026. These increases persisted despite policy interventions, including the release of US emergency oil reserves and the extension of temporary waivers on purchases of Russian crude. The sustained volatility in oil markets continues to present material risks to both global inflation and growth outcomes.

Fertilizer markets also experienced a sharp price escalation, driven by disruptions to shipments through the Strait of Hormuz, a critical transit corridor for exports from Qatar, Saudi Arabia, and the United Arab Emirates. Urea prices climbed by 54 percent to USD 725 per metric ton in March 2026 and rose a further 18 percent to USD 856 per metric ton in April 2026, compared with USD 472 per metric ton in February 2026. This tightening of supply conditions, compounded by preexisting constraints linked to the Russia-Ukraine conflict, has amplified concerns regarding upward pressure on global food prices and inflationary dynamics.

Gold prices remained elevated in absolute terms, at roughly twice their levels of a year earlier, but edged lower over the review period. Prices declined by 3 percent to USD 4,855 per ounce and fell by a further 3 percent to USD 4,721 per ounce in April 2026, down from USD 5,020 per ounce in February 2026. The softening reflected US dollar appreciation and expectations from the US Federal Reserve that policy rates would remain elevated in response to an inflation outlook above the 2 percent target, thereby strengthening the appeal of interest-bearing assets relative to non-yielding gold. Despite this correction, underlying demand conditions for gold remain firm, supported by continued central bank accumulation.

Coffee prices extended their downward trajectory in April 2026, reflecting improved global supply conditions. Robusta prices declined by 7 percent month-on-month and by 33 percent year-on-year to USD 3.6 per kilogram, supported largely by strong export performance from Vietnam. Arabica prices decreased by 1 percent month-on-month and by 15 percent year-on-year to USD 7.3 per kilogram, reflecting robust supply conditions in Brazil.

Global food prices continued to firm in April 2026, partly reflecting higher energy costs, which have boosted demand for biofuel linked commodities such as palm and soybean oil. According to the World Bank food price index, global food prices increased by 1.5 percent month-on-month and by 7 percent year-on-year in April 2026.

Looking ahead, commodity prices are expected to remain elevated through 2026, before easing somewhat in 2027, although upside risks continue to dominate the outlook (**Table 3**). Crude oil prices are projected to rise by 21.4 percent in 2026, reflecting ongoing disruptions to production and transport in the Middle East, with an average petroleum spot price of USD 82 per barrel. Prices are then expected to decline by 7.6 percent in 2027 as supply chains and production conditions gradually normalize. The Global Projection Model (GPM) Network projects food prices to increase by about 3.2 percent in 2026 and by 1 percent in 2027, driven by elevated fertilizer costs, constrained shipping routes, and higher transport expenses. Base and precious metals are expected to retain gains recorded in 2025, with gold projected to rise by 34.6 percent in 2026, following a 36.5 percent increase in 2025, before easing marginally by 0.2 percent in 2027. This moderation reflects expectations that rising inflation pressures will likely prompt tighter monetary policy, increasing the relative attractiveness of yield-bearing assets compared to gold.

Table 3: Outlook is for higher commodity prices in 2026, with relative recovery in 2027 (% change, yoy)

	Estimate	Projections		Difference from Oct-2025 WEO Projections	
	2025	2026	2027	2026	2027
Commodity Prices					
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 avg of prices of UK Brent, Dubai Fateh, and US WTI crude oil. Average oil price USD67.74/barrel in 2025; assumed average price, based on futures markets is D82.22/brl for 2026 and D75.97/brl for 2027

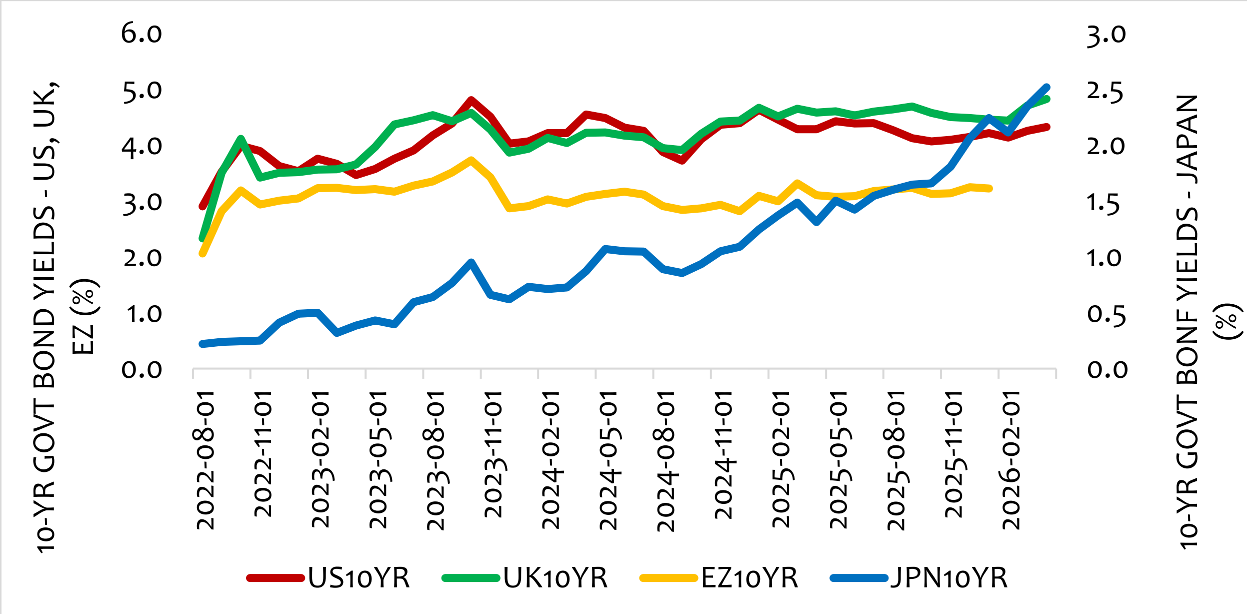
Risks to the outlook are tilted towards higher commodity prices in 2026. Supply disruptions in the Middle East may prove more severe or prolonged than currently assumed, leading to stronger than expected price pressures. Conversely, oil prices could undershoot projections if maritime routes in the Middle East are restored and global supply conditions revert towards pre conflict levels. While producers such as the United Arab Emirates and Saudi Arabia are deploying alternative pipeline routes to bypass constrained shipping corridors, these alternatives remain exposed to operational and security risks, including potential attacks. In addition, a weaker global growth environment could dampen commodity demand and ease price pressures. A potential withdrawal of the United Arab Emirates from the OPEC/OPEC+ alliance could also increase global supply and moderate oil prices, particularly if it triggers broader adjustments among other producers and coincides with full reopening of transport routes. Looking into 2027, risks are more skewed to the downside, as projected price increases appear largely driven by temporary supply disruptions rather than structural shifts in global demand supply balances.

1.4 Global financial markets

Global financial market conditions tightened moderately in March and April 2026, reflecting a deterioration in risk sentiment associated with the escalation of conflict in the Middle East. Looking ahead, financial conditions could tighten further over 2026, as expectations of delayed monetary policy easing, together with heightened risk aversion, are likely to weigh on household consumption and business investment.

Since the onset of the conflict at end February 2026, concerns over a potential resurgence of inflation have contributed to an increase in sovereign bond yields and a decline in equity valuations. In April 2026, 10-year government bond yields rose by 0.2 percentage points in the United States and by 0.4 percentage points in both Japan and the United Kingdom relative to February 2026 levels (**Figure 4**). In equity markets, the S&P 500 declined by 3.5 percent month-on-month in March 2026, consistent with a portfolio reallocation away from risk assets towards relatively safer fixed income instruments.

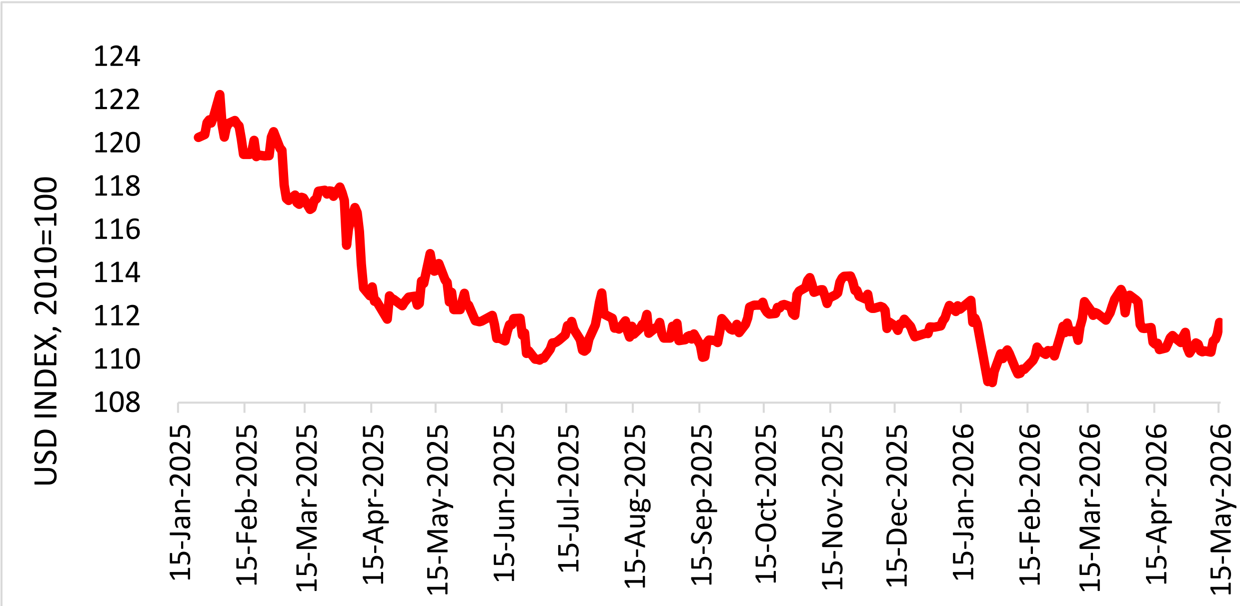
Figure 4: Key AE 10-yr Government Bond Yields Concerns about a resurgence of inflation have raised bond yields



Source: US Federal Reserve of St Louis

In foreign exchange markets, the US dollar strengthened in March 2026 (**Figure 5**), contributing to currency depreciations in several commodity importing emerging market and developing economies. The US Dollar Index rose by 1.7 percent month-on-month in March 2026, reflecting increased safe haven demand amid heightened global uncertainty. However, this appreciation proved temporary, as the US dollar subsequently reverted to a weakening trend, with the index declining by 0.5 percent in April 2026 and a further 0.6 percent up to 15 May 2026. This movement is consistent with market expectations that the US Federal Reserve may maintain, rather than tighten, its policy stance in response to the evolving conflict environment.

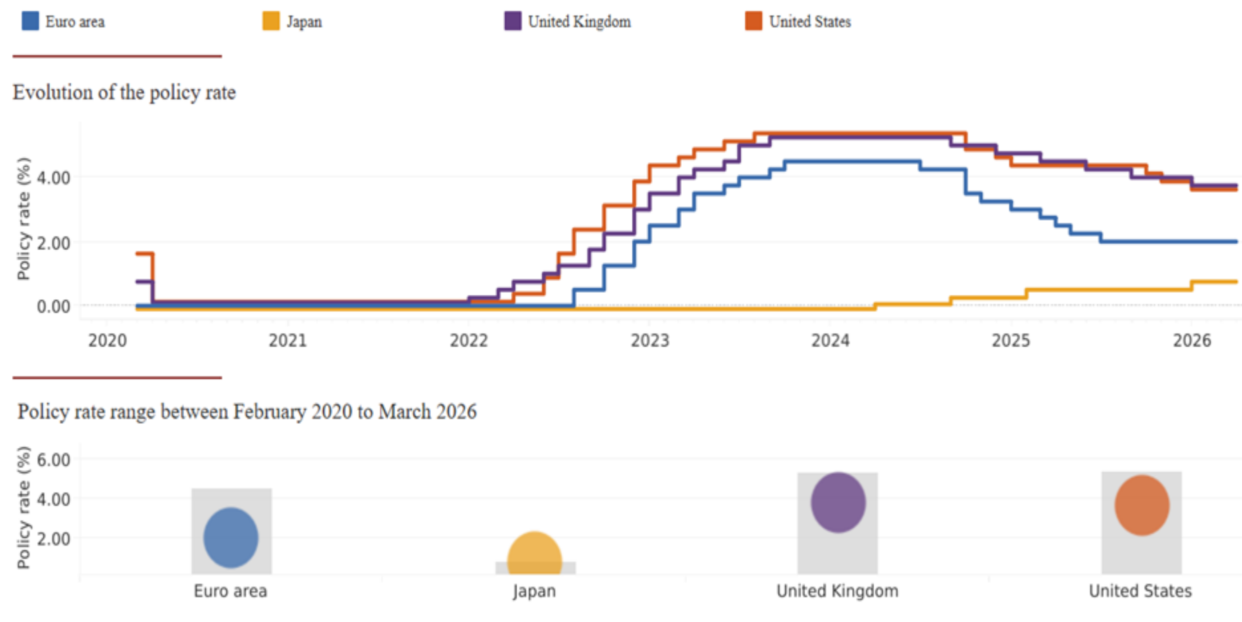
Figure 5: USD Index: Strengthened in Mar-2026, resulting in currency depreciations especially among commodity-importing EMDEs



Source: Reuters

Central bank policy expectations (**Figure 6**), which had previously been oriented towards gradual easing from relatively restrictive levels, have shifted towards a stance of policy hold or limited tightening, reflecting concerns over second round effects from elevated energy prices. The US Federal Reserve is expected to maintain the Federal Funds Rate at its current level through 2026, reflecting a cautious approach aimed at anchoring inflation expectations while supporting labour market conditions and output. The European Central Bank is expected to implement a modest increase of around 0.2 percentage points in 2026 alongside complementary fiscal and financial support measures aimed at cushioning households from elevated energy costs. The Bank of Japan is projected to continue its gradual normalisation path towards 1.75 percent by early 2028, although it maintained its policy rate at 0.75 percent in April 2026 amid concerns over inflation and macroeconomic stability. The Bank of England, which held its policy rate at 3.75 percent in April 2026, is also expected to maintain its current stance through 2026.

Figure 6: 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

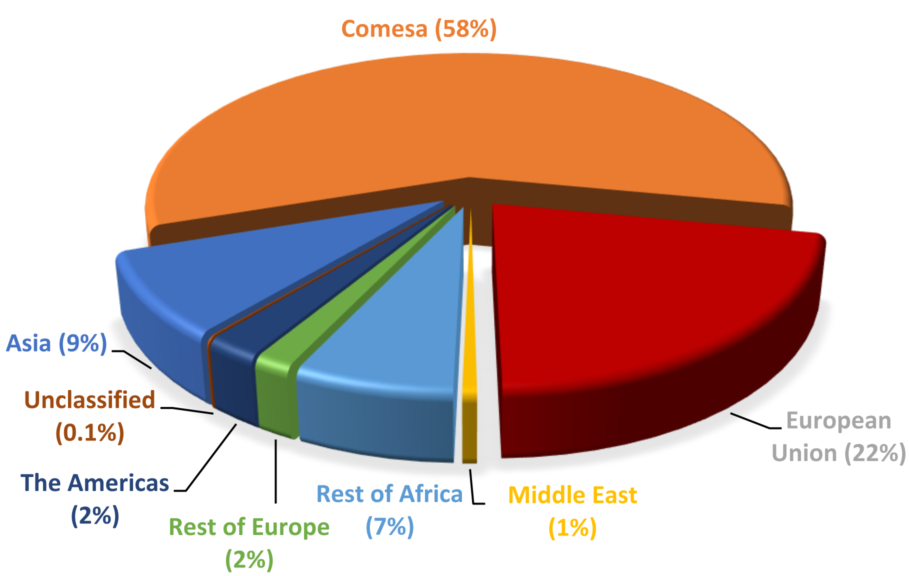
In the outlook, global financial conditions are likely to tighten further over 2026 if the Middle East conflict persists and policy uncertainty remains elevated. Delays in monetary policy easing, combined with increased risk aversion, could further dampen consumption and investment activity. In addition, elevated fiscal deficits and rising public debt levels across both advanced and emerging market economies are expected to exert upward pressure on long-term interest rates.

Risks to global financial stability remain tilted to the downside and include a prolonged geopolitical conflict, sustained increases in energy prices with associated inflation pass through effects, continued policy uncertainty related to both geopolitical and trade developments and widening fiscal vulnerabilities in several major economies. Furthermore, economies with strong linkages to the Middle East through remittance inflows are likely to experience additional pressure on household incomes and external financial inflows.

1.5 Implications for Uganda's Economy

The deterioration in global economic conditions is expected to create a more challenging external environment for Uganda through trade, inflation, exchange rate, and financial channels. Weaker global growth and heightened uncertainty are likely to dampen external demand and weigh on export earnings, while tighter financial conditions could reduce capital flows to frontier markets and increase external financing costs. While direct export exposure to the Middle East is limited at about 1 percent excluding gold (**Figure 7**), the region remains a key source of remittance inflows, accounting for approximately 30.0 percent of total receipts. Accordingly, prolonged geopolitical tensions, combined with tighter labour market conditions and immigration policies in host countries, may lead to a decline in remittance inflows. This would likely widen the current account deficit and increase pressure on the exchange rate through reduced foreign currency inflows.

Figure 7: Destination of Uganda Exports – Total Export Trade, Excluding Gold, 2020-2024



Source: Bank of Uganda

Elevated global energy prices are expected to exert significant pressure on Uganda's import bill and domestic fuel prices, with likely spillovers to transport, production, and consumer prices more broadly. Given Uganda's dependence on imported petroleum products, sustained increases in global oil prices could intensify imported inflationary pressures and complicate domestic inflation management. Fertiliser usage is limited in Uganda, nonetheless global fertiliser prices may also increase agricultural production costs, with potential implications for domestic food prices and overall inflation dynamics.

The combination of higher import costs and softer export receipts could widen the current account deficit and increase pressure on the exchange rate through reduced foreign exchange inflows. In addition, heightened global risk aversion and persistently tight financial conditions may weaken portfolio inflows to emerging and frontier markets, including Uganda, while increasing borrowing costs in international financial markets.

Overall, these developments point to increased risks to macroeconomic stability through higher imported inflation, exchange rate pressures, tighter financing conditions, and weaker external demand. Nonetheless, ongoing foreign direct investment associated with oil sector development could help cushion the external sector by supporting financial inflows, reserve accumulation, and medium-term growth prospects.

2. DOMESTIC DEVELOPMENTS OUTLOOK

2.1 Domestic financial markets

2.1.1 Monetary policy and the interbank money market

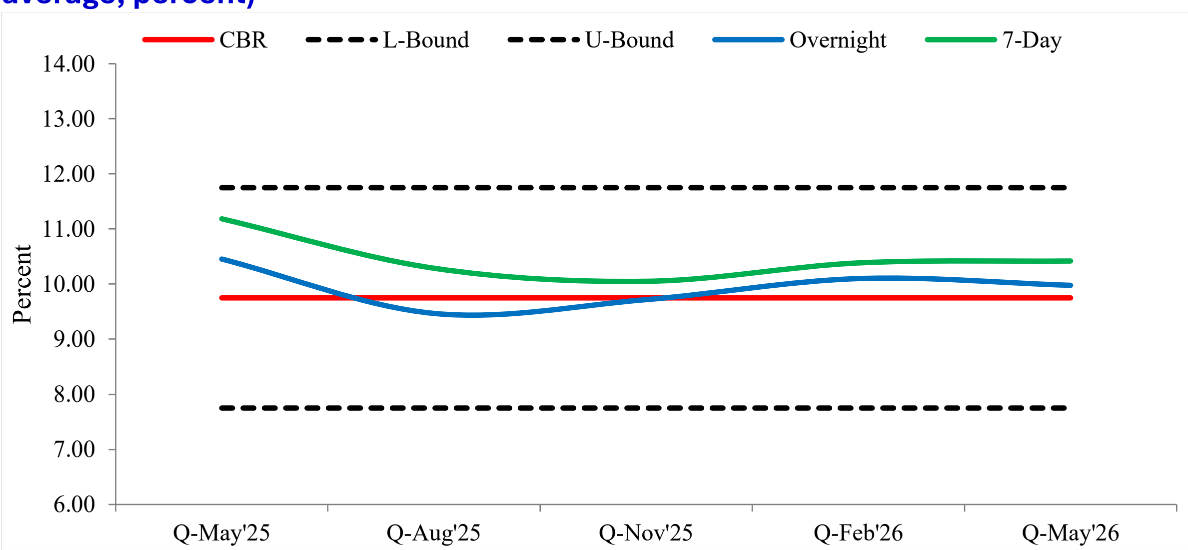
The monetary policy stance remains appropriate and firmly guided by incoming economic data. In May 2026, the Monetary Policy Committee (MPC) kept the Central Bank Rate (CBR) unchanged at 9.75 percent, underscoring a prudent policy approach intended to support economic growth while maintaining price stability. This decision reflected sustained caution in the face of ongoing global uncertainties, particularly evolving trade patterns and persistent geopolitical tensions, which continue to present risks to both inflation and economic growth prospects.

Money market rates recorded mixed results over the three months to May 2026 compared to the three months to February 2026, although they remained within the Central Bank Rate (CBR) corridor, as illustrated in **Figure 8**. The overnight interbank rate fell marginally to 9.98 percent during the three months to May 2026 from 10.10 percent in the preceding three-month period ending February 2026. On the other hand, the weighted average 7-day interbank rate slightly rose to 10.42 percent from 10.38 percent over the same period.

Activity at the Standing Lending Facility slowed down, with utilisation reducing to Shillings 7.16 trillion across95 transactions in the three months to May 2026, from Shillings 9.82 trillion recorded through 131 transactions in the three months to February 2026. During the same period, the value of repurchase agreements issued for liquidity absorption rose to Shillings 9.13 trillion compared to Shillings 4.6 trillion previously.

Furthermore, as part of efforts to absorb excess liquidity from the financial system, the Bank of Uganda issued BOU Bills amounting to Shillings 2.04 trillion in the three months to May 2026, significantly higher than the Shillings 0.83 trillion issued in the three months to February 2026. Utilisation of the Standing Deposit Facility reduced to Shillings 3.26 trillion from 77 transactions in the three months to May 2026, compared to Shillings 6.56 trillion through 105 transactions during the preceding three-month period.

Figure 8: Money market rates broadly stable, remaining within the CBR Band (Quarterly average, percent)



Source: *Bank of Uganda*

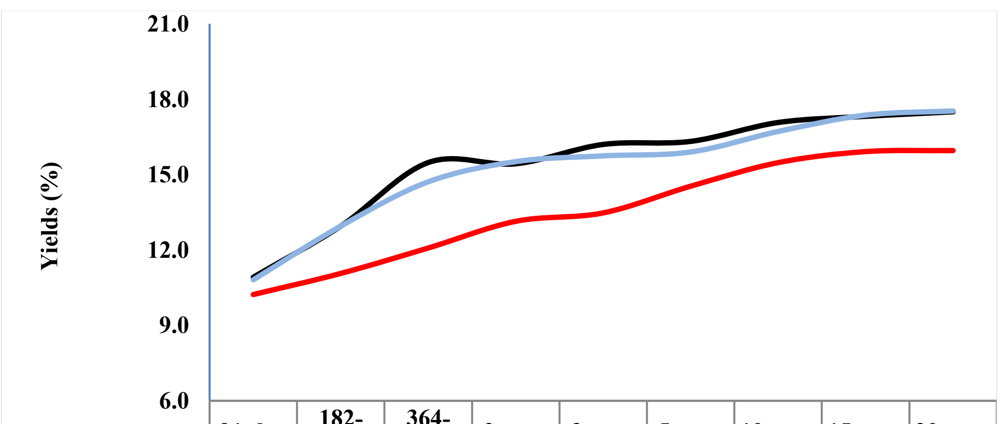
2.1.2 Primary market for treasury securities

Average primary market yields declined in the three months to May 2026 compared with the three months to February 2026. This moderation was underpinned by a 26.1 percent contraction in primary market issuances to Shillings 4.50 trillion from Shillings 6.09 trillion over the corresponding period, reflecting improved fiscal management. Nevertheless, investor demand for government securities remained strong, with all auctions oversubscribed, highlighting sustained market appetite for government paper.

2.1.3 Secondary market for treasury securities

During the quarter to May 2026, the secondary market yield curve shifted downward across all tenors, indicating improved government borrowing conditions alongside easing inflation and monetary policy expectations (**Figure 9**). The sharpest declines were observed in the short- and medium-term segments of the curve relative to earlier periods, with the 364-day tenor declining to 12.1 percent from 15.5 percent in the quarter to May 2025, while the 5-year tenor fell to 14.5 percent from 16.3 percent over the same period. Relative to the quarter to February 2026, yields also eased further across maturities, including the 2-year tenor, which declined from 15.5 percent to 13.1 percent, and the 20-year tenor, which moderated from 17.5 percent to 16.0 percent. These developments reflected improved liquidity conditions and stronger investor confidence. Despite the broad-based decline in yields, long term rates remained relatively high, suggesting that markets continue to price in medium to long term inflationary pressures, fiscal risks, and sovereign risk considerations.

Figure 9: Secondary market annualized yields on T-bills and T-bonds declined (Secondary market annualised yields of treasury bills and bonds, quarterly averages)



	91-day	182-day	364-day	2-year	3-year	5-year	10-year	15-year	20-year
Q-May'25	10.9	12.9	15.5	15.4	16.2	16.3	17.1	17.3	17.5
Q-Feb'26	10.8	13.0	14.7	15.5	15.7	15.9	16.7	17.4	17.5
Q-May'26	10.2	11.1	12.1	13.1	13.5	14.5	15.5	15.9	16.0

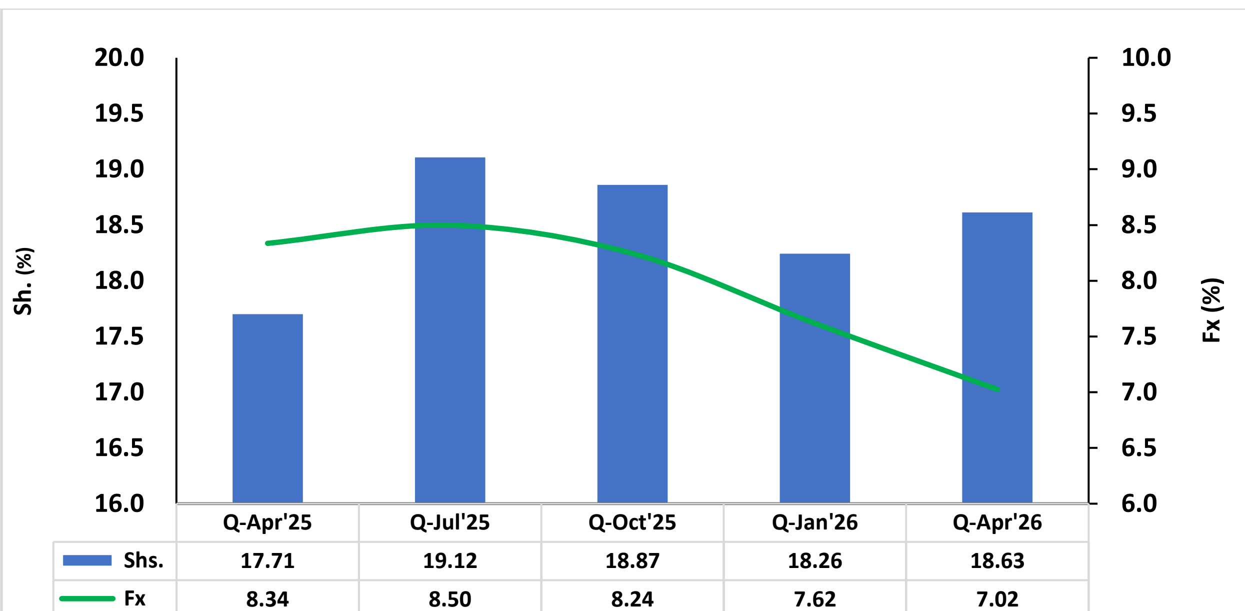
Source: *Bank of Uganda*

2.1.4 Lending interest rates

Weighted average lending rates remained broadly stable in the three months to April 2026 relative to the three months to January 2026. The weighted average lending rate on Uganda shilling-denominated loans marginally rose to 18.63 percent from 18.26 percent (Figure 10), in part reflecting the impact of the increase in cash reserve requirement, while the average lending rate on foreign currency-denominated loans decreased to 7.02 percent from 7.62 percent.

The moderate increase in shilling lending rates was mainly attributed to tighter liquidity conditions in the banking system, higher risk premia on credit, and increased cost of funds. In the case of foreign currency lending rates, the decline was supported by higher foreign currency deposits, underpinned by sustained foreign direct investment inflows. Over the same period, the average one-year shilling prime lending rate offered by commercial banks fell marginally to 20.40 percent from 20.06 percent in the preceding three months, in part reflecting the dynamic risk environment.

Figure 10: Weighted Shilling lending rates largely unchanged while Foreign Currency Lending Rates decline

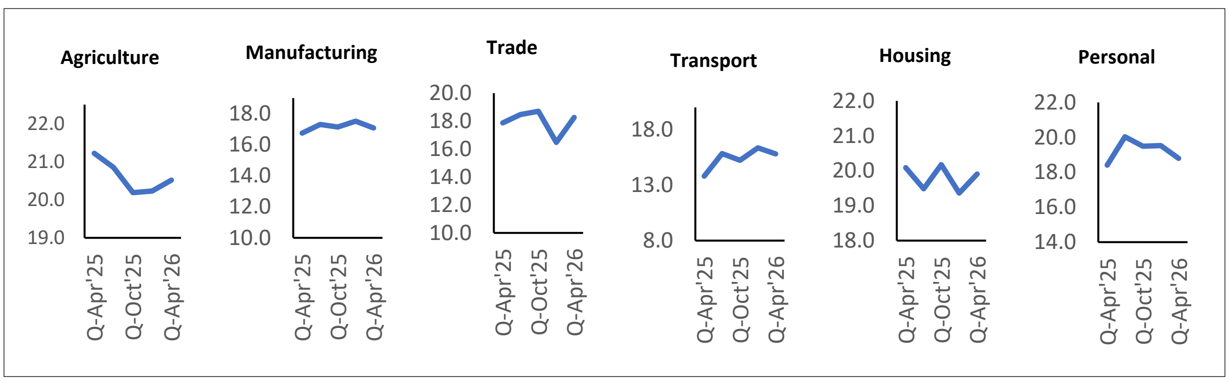


Source: *Bank of Uganda*

The nonperforming loans (NPL) ratio improved to 3.04 percent from 3.24 percent over the period, reflecting an overall enhancement in credit quality. According to the Bank Lending Survey for the third quarter of FY 2025/26, most commercial banks anticipate an upward adjustment in lending rates, driven by geopolitical tensions in the Middle East, the possibility of tighter monetary policy conditions, and a potential increase in policy rates. On the downside, lending rate pressures may be moderated by lower government borrowing, as the projected net domestic financing (NDF) is expected to decline to shillings 11.9 trillion in FY2026/27 from shillings 15.15 trillion in FY2025/26, alongside stronger economic growth. Conversely, upside risks include sector specific repricing of credit risk, increased domestic government borrowing, and higher funding costs linked to elevated political uncertainty and effects of the Ebola pandemic in the region. Overall, the balance of risks to the near-term lending rate outlook remains tilted to the upside.

In the three months to April 2026, sectoral Uganda shilling lending rates exhibited mixed dynamics relative to the three months to January 2026 (**Figure 11**). Lending rates declined in the manufacturing, transport, and personal loan segments to 17.1 percent, 15.8 percent, and 18.8 percent, respectively. In contrast, rates edged higher in mining and quarrying, trade, housing, and agriculture, increasing modestly to 20.2 percent, 18.3 percent, 19.9percent, and 20.5percent, respectively.

Figure 11: Weighted average Shilling lending rates recorded mixed movements across most sectors, but remain relatively high due to structural rigidities in the financial sector

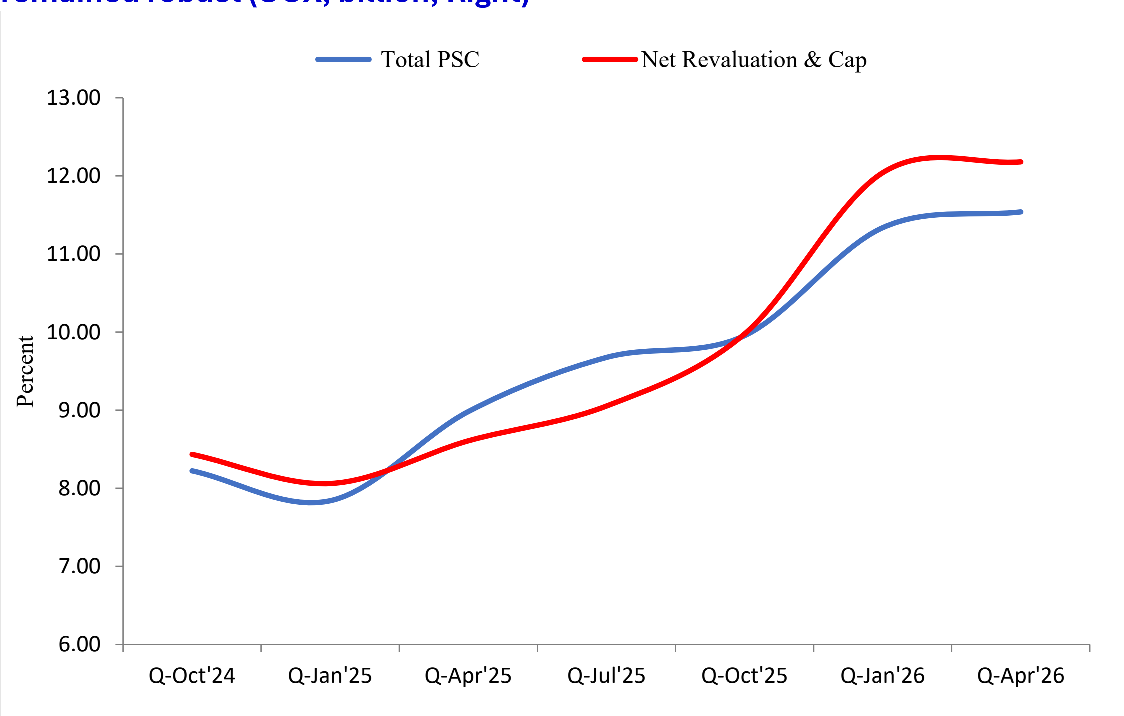


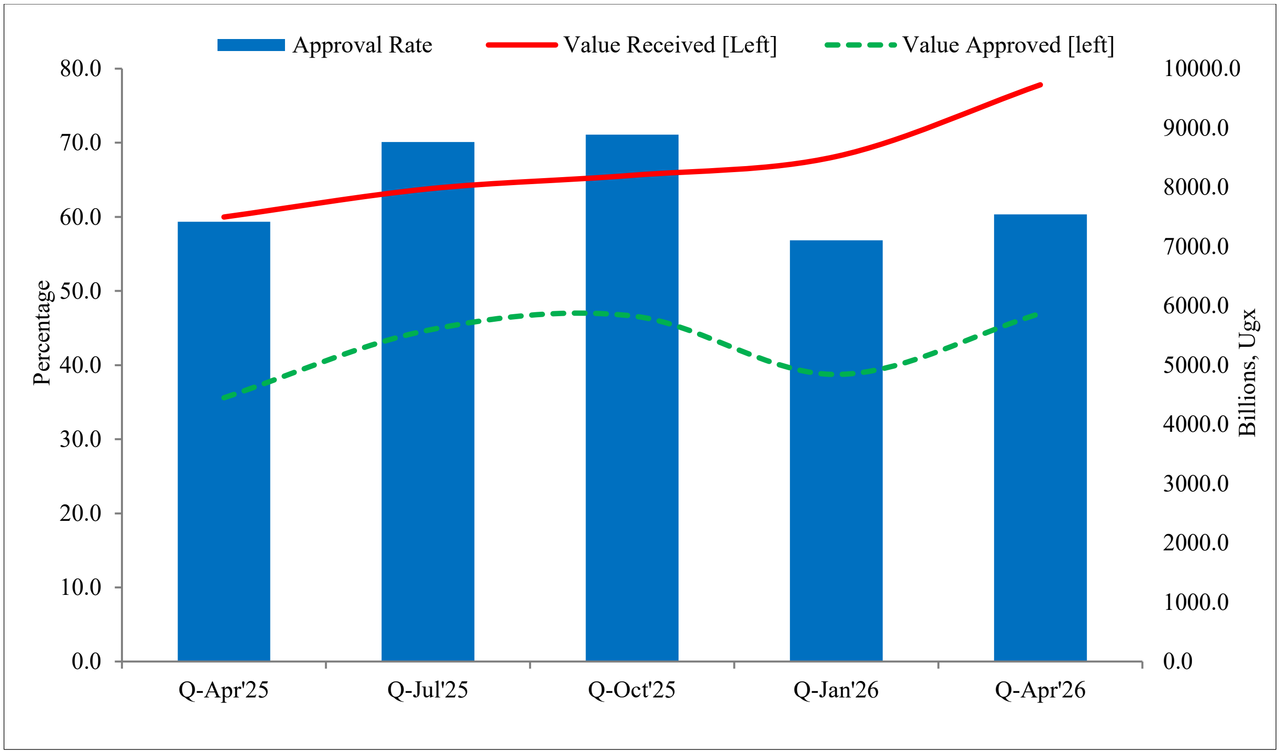
Source: *Bank of Uganda*

2.1.5 Private sector credit

In line with the improved asset quality, growth in Other Depository Corporations (ODC) private sector credit (PSC) remained broadly unchanged in the three months to April 2026 compared to the three months to January 2026 (**Figure 12, Left**). The annualised average ODC PSC growth rose to 11.54 percent from 11.34 percent over the respective periods. When adjusted for valuation effects and capitalised interest, PSC growth similarly increased to 12.2 percent in the three months to April 2026 from 12.0 percent in the three months to January 2026. By currency composition, growth in Uganda shilling denominated loans rose to 11.2 percent from 10.7 percent, while foreign currency denominated loan growth declined to 12.6 percent from 13.2 percent over the same period, in part reflecting the exchange rate pressures observed due to the heightened geo-political tensions in the middle east. In addition, total net credit extensions (including capitalised interest and revaluation effects) increased to Shillings 1.93 trillion in the three months to April 2026 from Shillings 1.89 trillion in the three months to January 2026.

Figure 12: PSC growth increased (year-on-year, %, Left) as demand and supply of credit remained robust (UGX, billion, Right)



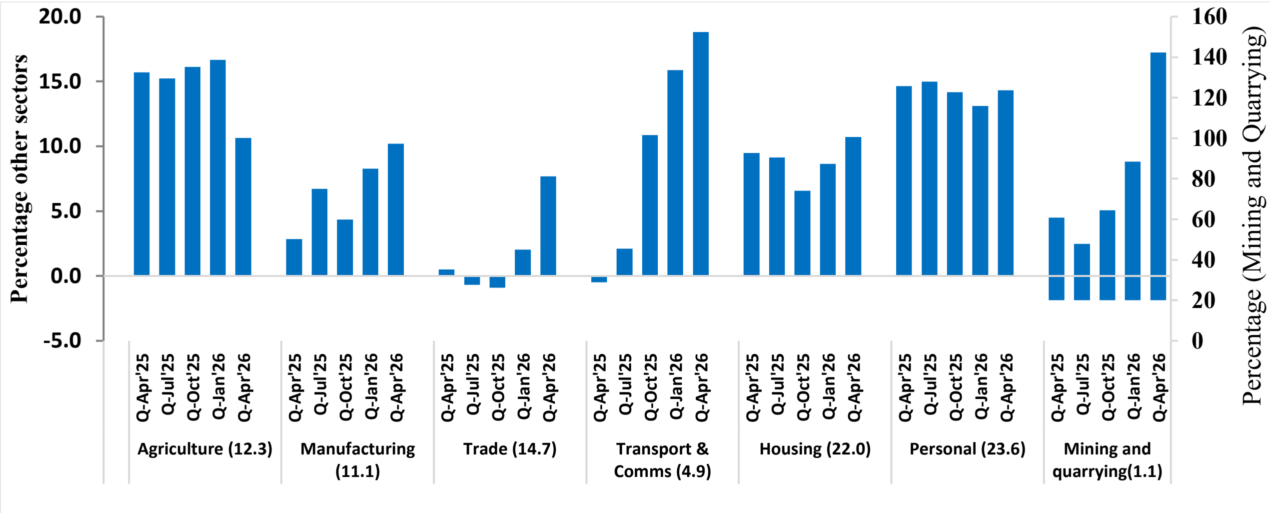


Source: *Bank of Uganda*

Credit market dynamics showed positive signals during the period, with demand for credit increasing to shillings 9.7 trillion from shillings 8.5 trillion in the three months to April 2026 relative to the preceding quarter to January 2026. The supply of credit also increased to Shillings 55.87 trillion from shillings 4.8 trillion over the same period, (**Figure 12, Right**). The expansion in credit supply was driven by improving credit quality in the banking system and as such, banks increased lending to the private sector and adjusted credit pricing in line with prevailing risk and funding costs. Additionally, the credit approval rate rose to 60.35 percent from 56.84percent over the same period, reflecting banks' increased willingness to extend credit and clients to access credit, despite a relatively higher lending rate.

At a sectoral level, annualised ODC private sector credit growth expanded across most major economic sectors in the three months to April 2026 compared to the three months to January 2026, except personal loans and agriculture partly reflecting idiosyncratic sectoral risk assessments (**Figure 13**).

Figure 13: 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)



Source: Bank of Uganda

Looking forward, Private sector credit (PSC) growth is projected to remain subdued in the near term. On the upside, PSC growth could benefit from increased public and private investment activity, including oil related investments in the run up to first oil production in July 2026, improved macroeconomic stability supported by anchored inflation expectations which may strengthen borrower confidence and stimulate lending, and policy driven initiatives under the Government's tenfold growth strategy.

On the downside, risks to PSC growth include persistent global economic uncertainty, heightened credit risk concerns as well as likely impact of the Ebola outbreak if persistent, which could weaken demand and business conditions, thereby reinforcing risk aversion in bank lending. Overall, the balance of risks to near term PSC growth remains tilted to the downside.

Box 1: Monetary Policy Communication in Uncertain Times

Central bank communication is particularly important during periods of heightened global uncertainty. Although Uganda's inflation remains contained, it is still vulnerable to external shocks. Rising geopolitical tensions in the Middle East, higher global oil prices, tighter global financial conditions, and exchange rate pressures can affect domestic prices through fuel and transport costs, imported goods, production inputs, and food distribution channels. For a small open economy like Uganda, these transmission channels are significant because global shocks can quickly influence both the cost of living and business operations.

The communication role of the Bank of Uganda is therefore especially important. During periods of heightened uncertainty, the objective of communication is not to create alarm, but to help the public understand the factors driving price movements, what the BoU is monitoring, and how policy will respond if inflationary pressures intensify. Although higher global oil prices may raise costs in the short term, they do not necessarily imply persistently high inflation. The key policy concern is whether temporary shocks begin to feed into broader price increases, wages, rents, business costs, and inflation expectations.

Bank of Uganda has already built a strong communication framework to support this objective. Its monetary policy framework is anchored on maintaining average annual core inflation close to the medium-term target of 5.0 percent. The Bank communicates its policy decisions through Monetary Policy Statements, Monetary Policy Reports, simplified "at a glance" materials, FAQs, press briefings, local media platforms, local language engagements, stakeholder consultations, and townhall meetings. Journalists, institutional stakeholders, and financial sector experts are also invited to the reading of the Monetary Policy Statement, where they can ask questions and seek clarification. This helps ensure that policy messages are understood, accurately transmitted, and accessible to the wider public.

This broad communication effort is particularly important because many citizens receive economic information through radio, television, newspapers, social media, community meetings, and trusted local networks rather than technical policy documents. By engaging through these channels, Bank of Uganda helps translate monetary policy into practical public understanding: why prices are changing, why some shocks may be temporary, and why policy decisions are guided by the inflation outlook and incoming data.

The current policy stance reflects vigilance rather than concern. Inflation remains manageable, although risks have increased. The Bank of Uganda maintained the Central Bank Rate at 9.75 percent in May 2026, judging the stance to be appropriate while noting increased risks from higher global oil prices and geopolitical uncertainty. In March 2026, the Bank raised the Cash Reserve Requirement from 9.5 percent to 11 percent to manage structural liquidity conditions and support the anchoring of inflation expectations. This shows that an unchanged Central Bank Rate does not imply monetary policy is inactive; rather, the Bank can deploy multiple instruments to support price stability and keep inflation expectations anchored.

Looking ahead, monetary policy communication will continue to emphasize its data dependent nature and its firm commitment to keeping inflation close to the 5.0 percent medium-term target. While higher global oil prices are expected to generate temporary cost pressures, the Bank of Uganda will closely monitor whether these pressures are passing through to broader inflation dynamics, including wage formation, pricing behaviour, and inflation expectations. Where such risks emerge, monetary policy will respond in a timely, calibrated, and proportionate manner to ensure price stability is preserved.

In an environment of persistent uncertainty, credibility is strengthened not by assurances that shocks will be absent, but by clearly communicating the policy response function when shocks occur. Bank of Uganda's sustained engagement through formal publications, simplified communication materials, local media, local language outreach, stakeholder forums, and town hall engagements remains central to anchoring inflation expectations, limiting second round effects, and reinforcing confidence in the disinflation path.

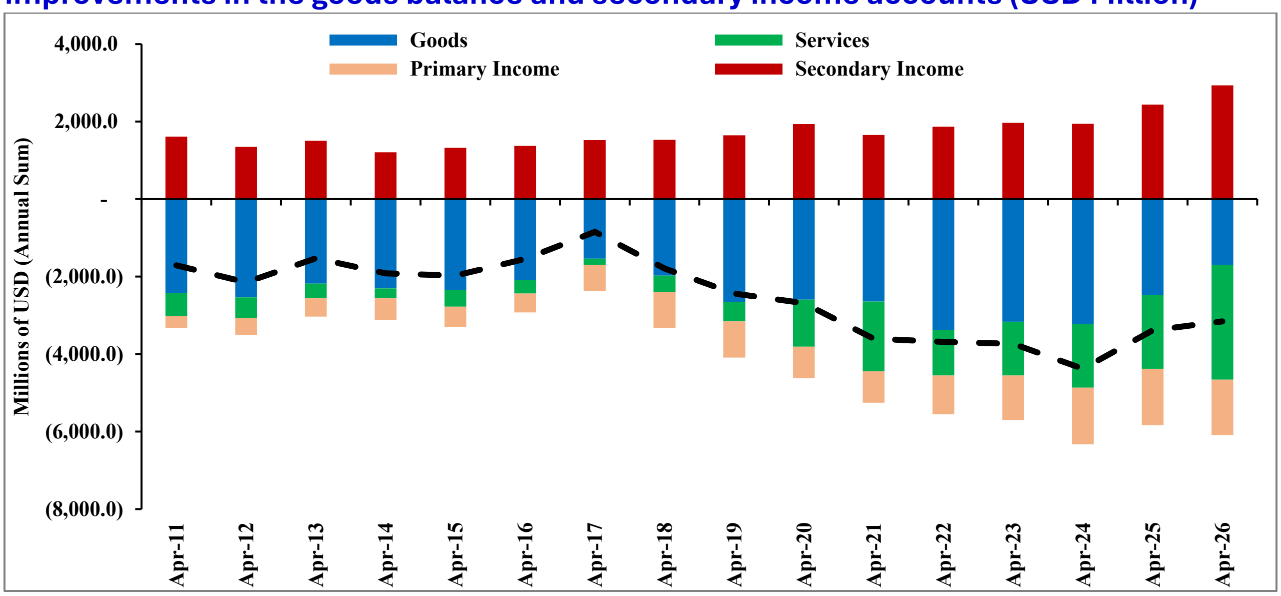
2.2 Balance of payments and exchange rates

2.2.1 Balance of payments

In the year ending April 2026, Uganda's external position improved as the current account deficit narrowed to USD 3,155.1 million, down from USD 3,387.3 million recorded in the corresponding period to April 2025 (**Figure 14**). The improvement stemmed mainly from stronger balances in the secondary income and goods accounts. Net inflows under secondary income increased substantially, with the surplus rising to USD 2,932 million from USD 2,443.3 million a year earlier. This growth was supported by higher personal transfers, particularly remittances from Ugandans living and working abroad, as well as increased inflows of international cooperation in the form of budgetary support grants and externally financed technical assistance.

At the same time, the primary income deficit moderated to USD 1,423.0 million from USD 1,451.4 million in the previous year, mainly reflecting lower interest and dividend payments. This was driven by reduced net investment income outflows, partly due to lower profit repatriation by foreign-owned companies, alongside higher earnings on foreign assets held by residents.

Figure 14: The current account deficit narrowed year-on-year, largely reflecting improvements in the goods balance and secondary income accounts (USD Million)

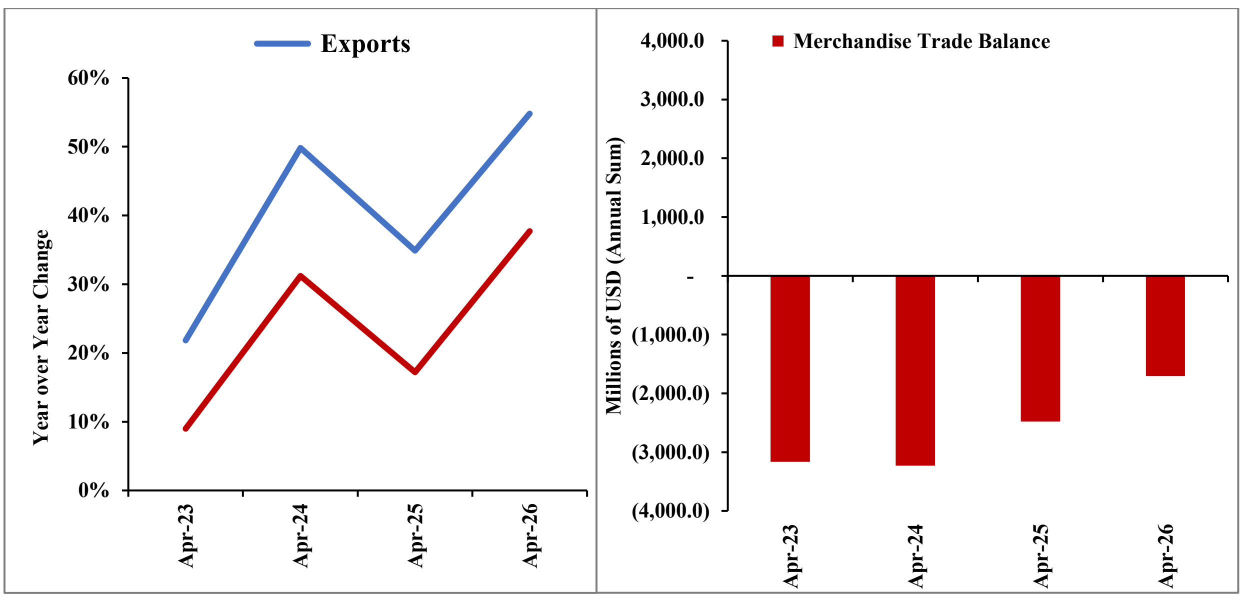


Source: *Bank of Uganda*

In contrast, the services account registered a much larger deficit of USD 2,961.3 million relative to USD 1,901.9 million in the year to April 2025. The deterioration mainly reflected a sharp rise in payments for imported services, which grew faster than receipts from services exports. Increased freight and transport charges related to merchandise trade, higher spending on foreign financial and professional services, and import related costs associated with infrastructure inputs for oil and other strategic projects all contributed to the widening gap.

The deficit on the goods account declined significantly to USD 1,702.8 million in the year to April 2026 from USD 2,476.4 million in the preceding year (**Figure 15**). This improvement was primarily driven by robust export growth, as export receipts more than doubled and expanded at a much faster pace than import payments. The export gains were broad based, with both coffee and non-coffee exports posting double digit growth over the review period.

Figure 15: The merchandise trade deficit declined in the twelve months to April 2026 as exports grew faster than imports.

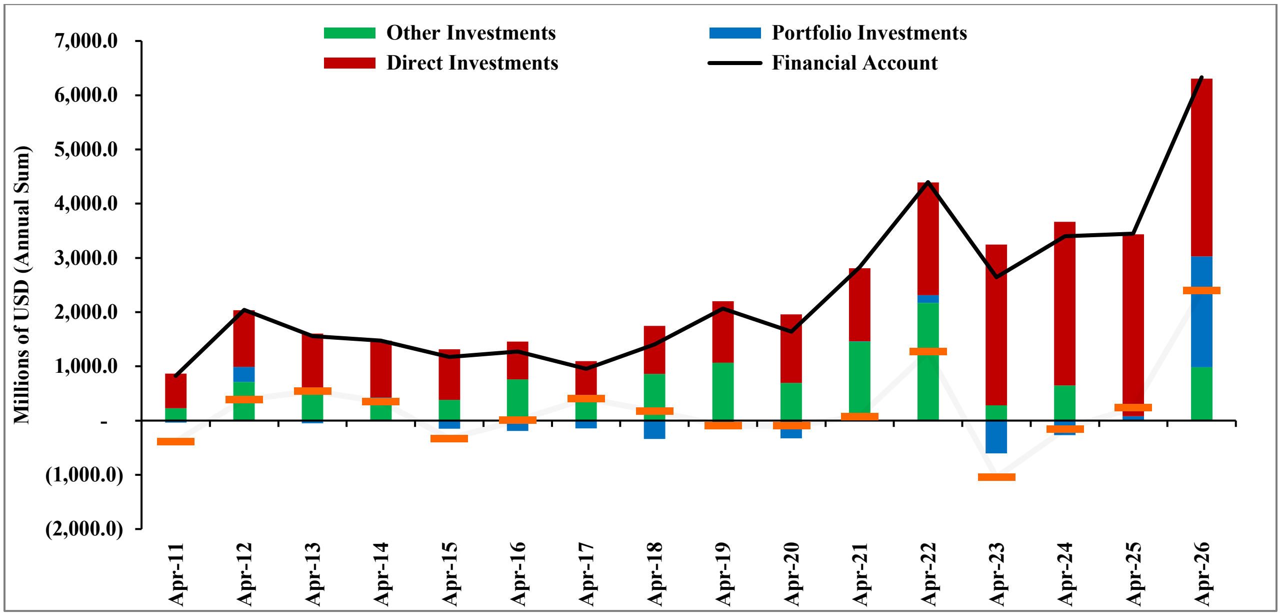


Source: *Bank of Uganda*

On the capital financing side, the financial account surplus increased markedly to USD 6,330.4 million from USD 3,444.6 million in the year to April 2025, reflecting stronger inflows in portfolio and other investments (**Figure 16**). Net portfolio investment inflows surged to USD

2,043.6 million, supported by increased foreign participation in domestic government securities, reflecting stronger investor confidence in Uganda's macroeconomic stability. The rise was further supported by reduced acquisition of foreign portfolio assets by other sectors. Consequently, the overall balance of payments recorded a surplus of USD 2,392.8 million during the year to April 2026 (**Figure 15**).

Figure 16: The financial account sustained a surplus in the year to April 2026.



Source: *Bank of Uganda*

2.2.2 Balance of payments outlook

The escalation of conflict in the Middle East has introduced considerable short-term vulnerabilities for the domestic economy, largely because it has generated one of the sharpest global energy price shocks witnessed in decades. A key concern is the likely deterioration in the country's terms of trade as international oil prices continue to rise. In addition, imported service costs, particularly freight and insurance, are expected to become more expensive as global transport operators divert shipments through safer but costlier routes. Trade activity could face additional strain if disruptions persist in the Gulf's major transit hubs, which are central to international air cargo movements and already under pressure from ongoing maritime disruptions. The tourism sector may also experience weaker inflows as uncertainty surrounding the conflict prompts travellers to postpone or cancel planned trips. At the same time, inflationary pressures and slower economic activity in Gulf economies may reduce remittance inflows, despite remittances accounting for nearly 30 percent of secondary income receipts. Financial markets could also be affected if international investors increasingly favour safe-haven assets over frontier market investments, thereby reducing portfolio capital inflows into the economy.

Looking ahead, external sector conditions are projected to improve gradually over the medium term as export growth strengthens while import demand remains relatively contained. Export earnings are expected to benefit from stronger regional trade integration and, more importantly, from the anticipated commencement of oil exports in FY2026/27, which is likely to alter the structure of the economy's exports significantly. Imports, however, are projected to remain elevated but stable, reflecting continued spending on large scale public infrastructure projects. On the financing side, the financial account is expected to continue recording strong surpluses, supported by sustained foreign direct investment in oil related and complementary sectors. Nonetheless, these inflows are forecast to ease moderately in later years as major upstream petroleum investments move closer to completion. At the same time, external financing through budget support and project loans is anticipated to strengthen following renewed engagement with development partners and the restoration of access to concessional funding sources. The medium-term BoP projections are presented in **Table 4.**

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

BOP Accounts	FY25/26		FY26/27		FY27/28		FY28/29		FY29/30	
	$BN	%GDP	$BN	%GDP	$BN	%GDP	$BN	%GDP	$BN	%GDP
Current account	**-3.1**	**-4.8%**	**-2.5**	**-3.3%**	**-1.8**	**-2.1%**	**0.9**	**0.9%**	**2.0**	**2.0%**
Trade Balance	-1.8	-2.8%	1.4	1.8%	2.7	3.2%	4.5	4.8%	4.7	4.5%
Services	-3.2	-4.9%	-4.2	-5.5%	-4.4	-5.1%	-3.8	-4.0%	-3.5	-3.3%
Primary income	-1.4	-2.1%	-3.2	-4.2%	-3.5	-4.1%	-3.2	-3.4%	-2.5	-2.4%
Secondary income	3.3	5.0%	3.5	4.6%	3.4	3.9%	3.4	3.6%	3.3	3.2%
Capital account	**0.2**	**0.3%**	**0.4**	**0.5%**	**0.2**	**0.3%**	**0.2**	**0.2%**	**0.2**	**0.2%**
Current and Capital Account	**-2.9**	**-4.5%**	**-2.1**	**-2.7%**	**-1.6**	**-1.8%**	**1.1**	**1.1%**	**2.2**	**2.1%**
Financial Account*	**4.9**	**7.5%**	**3.2**	**4.3%**	**2.4**	**2.8%**	**-0.2**	**-0.2%**	**-0.8**	**-0.8%**
FDI*	3.2	4.9%	3.7	4.9%	3.2	3.8%	2.8	3.0%	2.9	2.8%
Portfolio investment*	1.8	2.8%	0.3	0.4%	-0.4	-0.5%	-0.6	-0.6%	-0.9	-0.9%
Other investment*	-0.1	-0.2%	-0.9	-1.1%	-0.4	-0.5%	-2.4	-2.6%	-2.8	-2.7%
Overall Balance*	**1.9**	**3.0%**	**1.2**	**1.5%**	**0.9**	**1.0%**	**0.9**	**0.9%**	**1.4**	**1.3%**

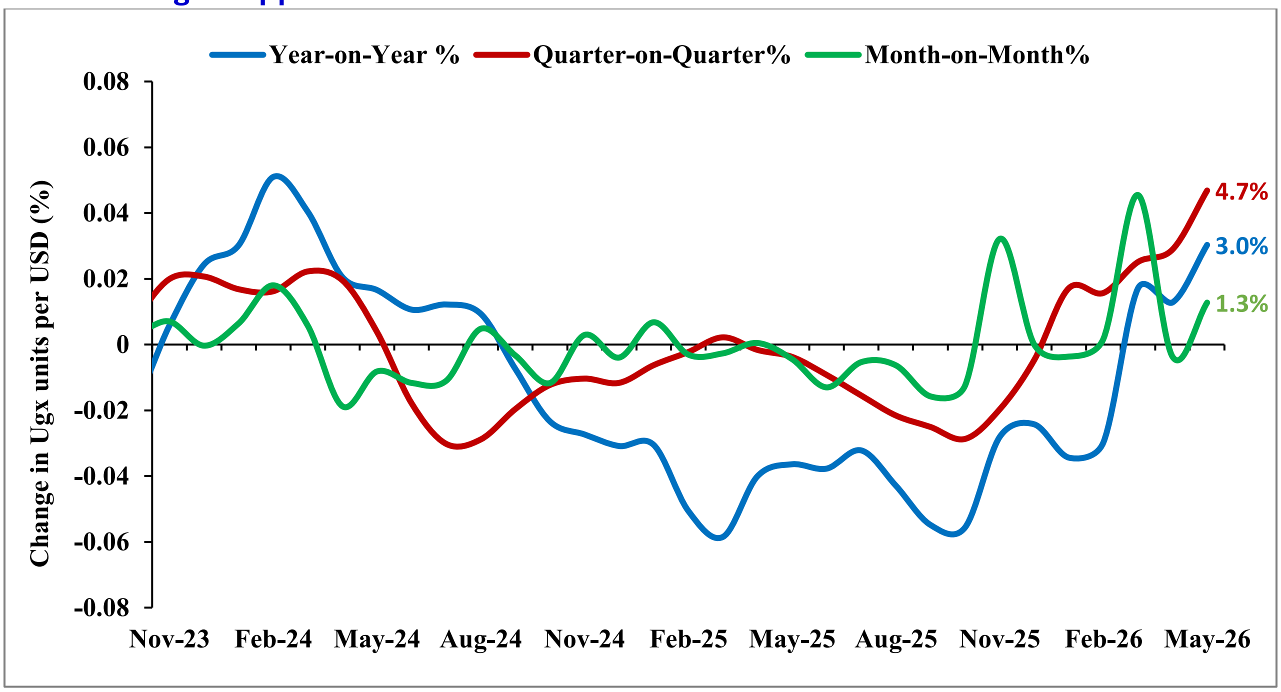
** Signs inverted to reflect direction of flows*

Source: *Bank of Uganda*

2.2.3 Exchange rate developments

In May 2026, movements in the Uganda Shilling reflected the combined influence of global geopolitical tensions and domestic foreign exchange dynamics. The currency depreciated against the United States Dollar by 3.0 percent year-on-year, 4.7 percent quarter-on-quarter and 1.3 percent month on month (**Figure 17**), mainly due to stronger corporate demand for dollars from the manufacturing and energy sectors following heightened uncertainty associated with the United States and Israel conflict with Iran. The broader appreciation of the USD internationally also amplified depreciation pressures.

Figure 17: UGX depreciated against the USD year-on-year and quarter-on-quarter in Mayy 2026 although it appreciated month-on-month.

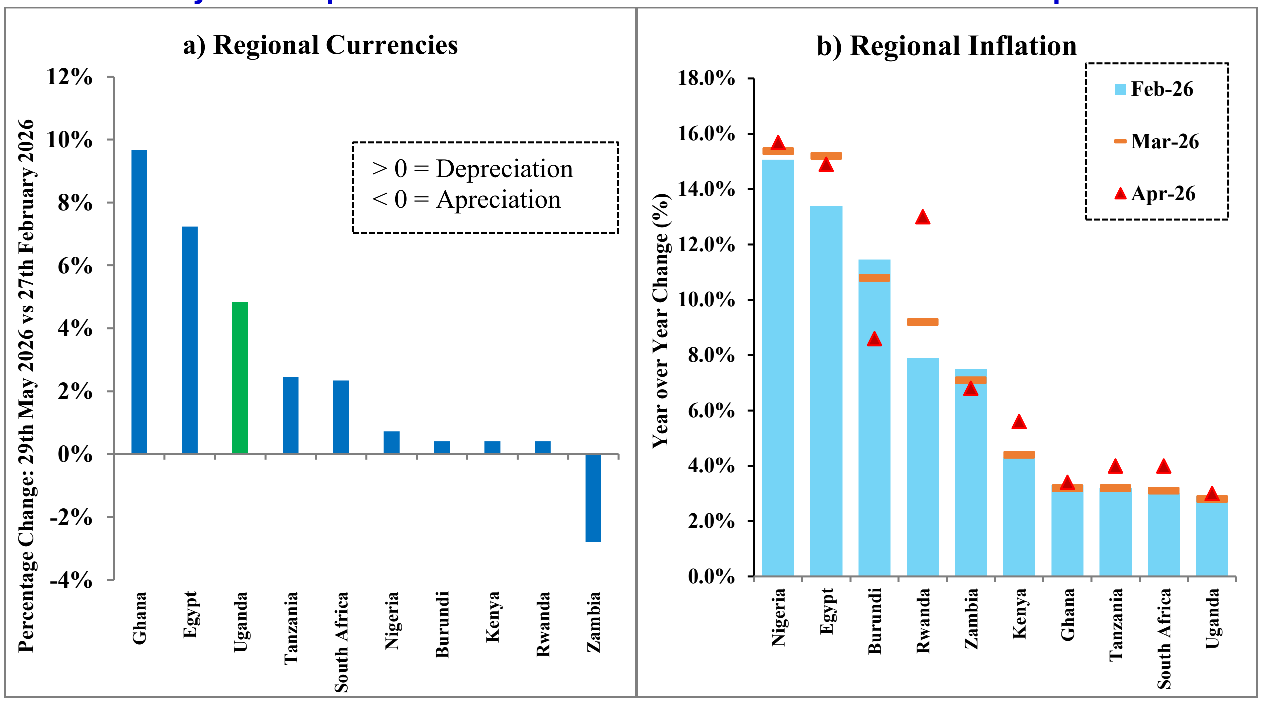


***Source:** Bank of Uganda*

Similar pressures were observed across African foreign exchange markets, with most regional currencies weakening after the outbreak of the Middle East conflict (**Figure 18**). Since the escalation of the US-Israel war against Iran, on 27th February 2026, Egypt and Ghana have experienced the largest depreciations because of their stronger commercial and financial linkages to the region. Uganda's exchange rate performance has been comparatively more stable, underscoring the resilience of its forex market relative to peers. Kenya, Rwanda and

Zambia performed even more favourably, recording broadly stable currency movements supported by stronger current account positions and more diversified trade relationships that limited their exposure to disruptions in Middle East supply chains.

Figure 18: 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*

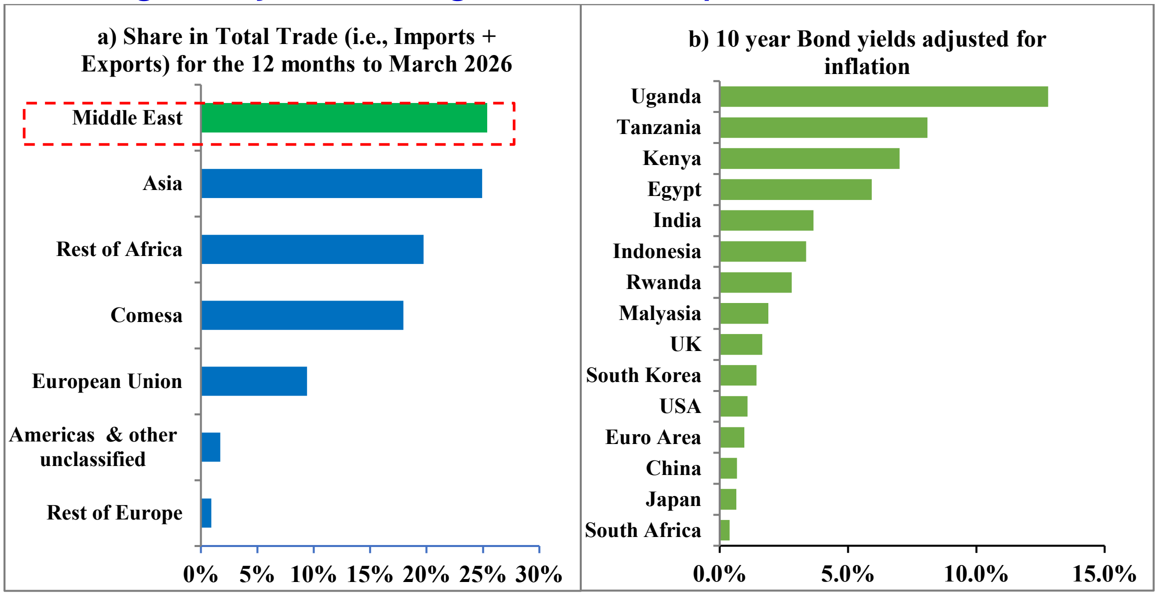
Inflation dynamics across the region also deteriorated during April 2026 and are expected to remain elevated into May 2026 as higher global energy prices continue to feed into domestic consumer prices. Egypt remained among the most inflation affected economies due to the combined effects of currency devaluation, rising food and energy costs, and supply chain constraints linked to the regional conflict. Nigeria and Burundi likewise continued to experience elevated inflationary pressures driven by weaker currencies and expensive imports. Although Uganda maintained one of the lowest inflation rates in the region, April 2026 data indicated the beginning of upward price pressures consistent with regional energy cost pass through effects. Kenya also registered a rise in inflation, suggesting that even relatively resilient economies are beginning to absorb the indirect costs of the geopolitical shock through transport and energy channels.

The near-term outlook for the Uganda Shilling remains tilted toward depreciation, primarily because of external vulnerabilities and tightening global financial conditions. The most immediate risk arises from the intensifying conflict in the Middle East, a region that accounts for Uganda's largest share of trade (**Figure 19**). On the export side, disruptions to supply chains and transportation routes could reduce external demand for Uganda's key exports and lower foreign exchange earnings.

Simultaneously, Uganda's dependence on imported petroleum products, energy inputs, and phosphates from the region means that any interruption in supply would increase import costs and widen the trade deficit, thereby exerting additional pressure on domestic foreign exchange liquidity. Beyond geopolitical developments, tighter monetary policy in advanced economies poses another downside risk. Elevated interest rates in the United States, the United Kingdom, and the Euro Area, together with tightening measures in frontier economies such as Kenya and Egypt, may encourage investors to shift capital toward safer assets. Uganda's relatively high real bond yields continue to provide some protection against capital outflows, but a prolonged period of global tightening could gradually reduce this advantage and weaken portfolio related foreign exchange inflows that have recently supported the shilling.

On the upside, several structural developments could strengthen the currency outlook. Commercial oil production is expected to commence in July 2026, supported by substantial progress on strategic infrastructure projects. The Tilenga project has already been completed, Kabalega International Airport is 96 percent complete, and the East African Crude Oil Pipeline (EACOP) had reached approximately 84 percent completion by end April 2026, with the project transitioning toward operational readiness ahead of first oil production.

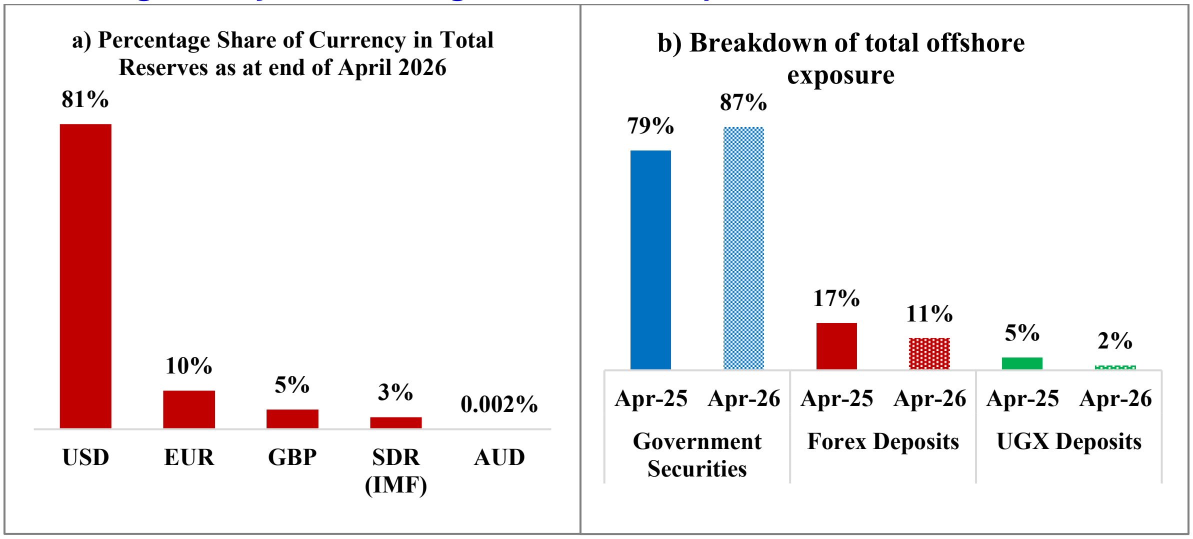
Figure 19: Escalating Middle East tensions risk compressing Uganda's trade flows while triggering monetary tightening in advanced economies and frontier markets that could narrow Uganda's yield advantage and reverse capital inflows.



Source: *Bank of Uganda*

Together with elevated global oil prices, these developments are expected to generate substantial foreign exchange earnings. Additional support is likely to come from sustained foreign direct investment in mining and rising tourism receipts linked to Africa Cup of Nations (AFCON) preparations. Uganda’s external reserve position also provides a significant cushion against potential shocks. Gross reserves rose to USD 6.1 billion at end April 2026 from USD 4.0 billion a year earlier, providing adequate cover against abrupt portfolio exits and declines in capital inflows (**Figure 20**). In addition, the Bank of Uganda’s ongoing reserve diversification strategy, including the Domestic Gold Purchase Programme aimed at incorporating certified monetary gold into reserves, is expected to strengthen resilience against future currency specific shocks over the medium term.

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*

2.3. Fiscal policy

2.3.1 Government expenditure and revenue

Fiscal operations during the first ten months of FY2025/26 continued to be more expansionary than originally programmed (**Table 5**), reflecting persistent expenditure pressures across both recurrent and development components. Recurrent spending outperformed targets, largely on account of higher-than-expected transfers to Local Governments, partial settlement of transport sector capital obligations under gross fixed capital formation, and the capitalization of various institutions and financing schemes. Additional budgetary strain emerged from elevated spending on goods and services, especially medical supplies, as well as expenditures associated with the electoral cycle. Although development capital expenditure remained below its planned level, it registered a strong year-on-year increase of 21.9 percent relative to the corresponding period last year, supported by ongoing public infrastructure works and supplementary allocations.

Table 5: Fiscal Operations Were More Expansionary in the First Ten Months of FY2025/26 (UGX, billions)

	Jul'24-Apr'25	Jul'25-Apr'26	Prog. Jul'25-Apr'26	Variation	Annual change (%)
Revenue (A)	**26,066.0**	**28,579.3**	**31,428.4**	**-2,849.1**	**9.6**
Taxes	23,148.4	25,943.2	26,767.1	-823.9	12.1
Grants (project support)	1,061.8	691.9	2,000.7	-1,308.8	-34.8
Other revenue	1,855.7	1,944.2	2,660.6	-716.4	4.8
Expense (B)	**30,227.1**	**33,834.6**	**33,303.7**	**530.9**	**11.9**
Compensation of employees	4,236.1	4,747.3	4,638.4	108.9	12.1
Purchase of goods and services	6,603.0	7,719.4	7,196.9	522.6	16.9
Consumption of fixed capital (C)	6.2	0.1	0.0	0.1	-99.1
Interest payments	6,821.3	9,560.1	10,302.7	-742.6	40.2
Domestic	5,712.0	8,419.6	8,719.9	-300.3	47.4
External (including commitment fees)	1,109.3	1,140.5	1,582.8	-442.4	2.8
Subsidies	0.0	2.3	0.0	2.3	0.0
Grants	10,909.9	10,261.8	8,985.3	1,276.4	-5.9
Social benefits	403.2	572.4	978.7	-406.3	42.0
Other expense	1,247.4	971.2	1,201.7	-230.5	-22.1
Gross operating balance (A-B+ C)	**-4,154.9**	**-5,255.2**	**-1,875.3**	**-3,379.9**	
Net operating balance (A-B)	-4,161.1	-5,255.3	-1,875.3	-3,380.0	
Net Acquisition of Nonfinancial Assets (D)	**4,527.1**	**5,520.4**	**6,685.1**	**-1,164.7**	
Net lending/borrowing (A-B)-D	**-8,688.2**	**-10,775.6**	**-8,560.3**	**-2,215.3**	
Primary balance	**-1,866.9**	**-1,215.5**	**1,742.4**	**-2,957.9**	
Transactions in financial assets and liabilities Financing (net) (E-F)	**-8,688.2**	**-10,775.6**			
Net Acquisition of Financial Assets (E)	**466.0**	**-71.1**			
Domestic	466.0	-71.1			
Foreign	0.0	0.0			
Net Acquisition of Financial Liabilities (F)	**8,620.6**	**12,554.1**			
Domestic	8,400.6	11,021.2			
Foreign	219.9	1,532.9			
Errors & Omissions	**-533.6**	**1,849.6**			

Source: Ministry of Finance, Planning and Economic Development

On the revenue side, collections fell short of expectations, with total government revenue, including grants, amounting to Shs 28,579.3 billion over the ten months in FY2025/26 (**Table 5**). This outcome was below target by Shs 2,849.1 billion, driven by tax shortfalls in both tax and non-tax revenue of about shs 1.5 trillion. The implication of the revenue shortfall is the likely increase in domestic borrowing or non-reimbursement to BoU of settled maturing Securities. All these have attendant implications for liquidity conditions and the outturn of private sector credit growth.

Government expenditure is projected to exceed domestic revenue in FY2025/26, reflecting supplementary spending and additional fiscal pressures from the recent Ebola outbreak. Nevertheless, the fiscal stance remains supportive of growth through targeted allocations to priority sectors, even as consolidation efforts gradually restore stability.

Looking ahead, the fiscal deficit is projected to decline from about 7.0 percent in FY2025/26 to 6.0 percent of GDP in FY2026/27 and to 3.0 percent by FY2030/31, underpinned by sustained fiscal consolidation measures, including implementation of the Medium-Term Debt Strategy (2026/27–2029/30). Divergence from this path that includes additional borrowing may lead to progressively larger increases in interest rates and therefore higher debt service payments.

From a debt sustainability perspective, the public debt position remains assessed at a moderate risk of distress. However, increasing debt service costs and limited buffers against shocks continue to highlight underlying fiscal vulnerabilities. This underscores the importance of strengthening fiscal buffers, which can be achieved through stronger domestic revenue mobilization, more efficient public spending, improved debt management and support for domestic debt market development. By helping to contain borrowing costs and preserve fiscal space, these measures can also support the infrastructure, service and private investment needed for long term growth. Even so, debt is still judged to be sustainable over the medium to long term, implying that current and projected obligations can be met without recourse to exceptional financing or default, consistent with the latest Debt Sustainability Analysis.

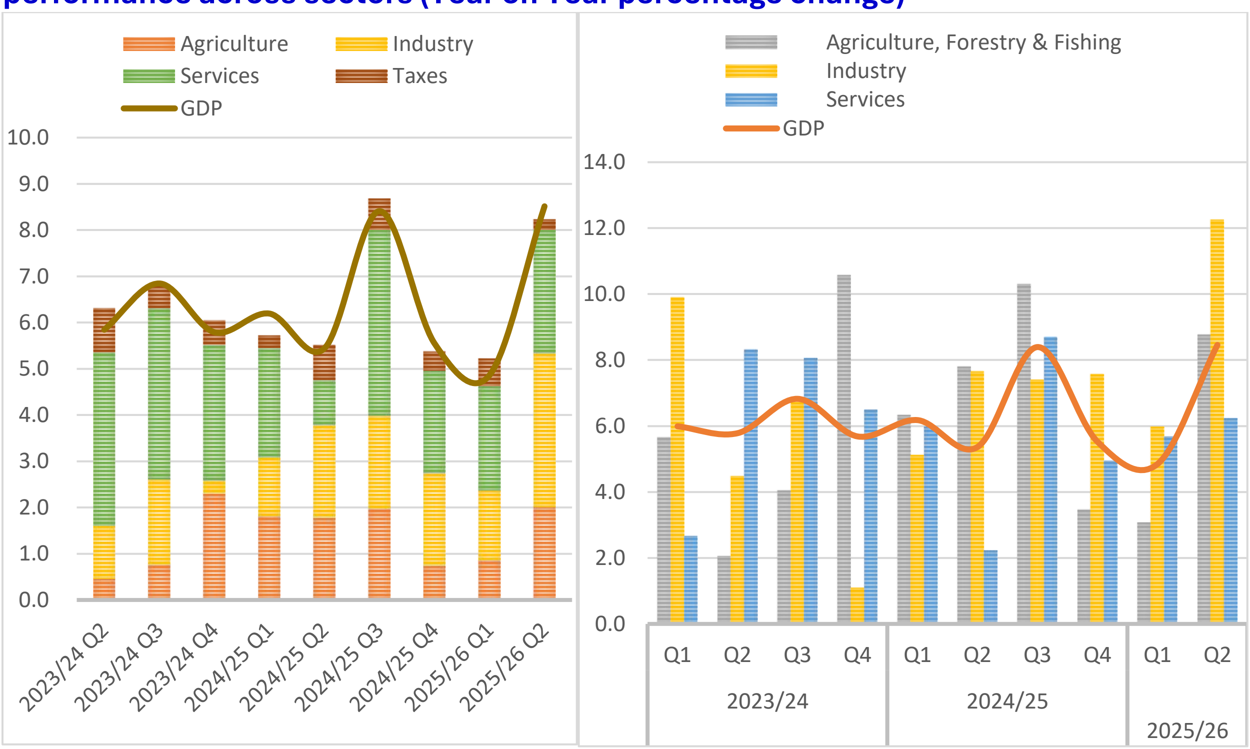
2.4. Domestic economic activity

2.4.1 Economic Growth Developments

Despite persistent global trade frictions and geopolitical uncertainty, Uganda's economy maintained robust expansion. According to the Uganda Bureau of Statistics (UBOS) quarterly GDP estimates released in March 2026, economic activity rebounded strongly in Q2 FY2025/26, with GDP growth accelerating to 8.5 percent from 4.8 percent in Q1 FY2025/26 and surpassing the 5.4 percent recorded in Q2 FY2024/25 (**Figure 21**). This improvement was predominantly driven by a robust expansion in the industrial sector, complemented by recoveries in both agriculture and services.

Industrial activity was the primary growth engine, expanding by 12.3 percent in Q2 FY2025/26 compared to 7.7 percent a year earlier (**Figure 21, Right**). This performance was broad based, with particularly strong gains in quarrying (27.3 percent), construction (19.4 percent), and manufacturing (8.9 percent). Consequently, the sector's contribution to GDP growth increased to 3.3 percentage points from 2.0 percentage points (**Figure 21, Left**). Services activity also strengthened, rising by 6.2 percent from 2.2 percent in the prior year, lifting its growth contribution to 2.7 percentage points from 1.0 percentage point. Agriculture likewise recorded an improvement, expanding by 8.8 percent versus 7.8 percent in the previous year, supported by widespread gains across subsectors except fishing. Growth was led by cash crops (12.6 percent) and forestry (8.3 percent), alongside stronger food crop performance (7.7 percent versus 7.0 percent), underpinned by favourable weather conditions, rising demand, and enhanced government support. As a result, agriculture's contribution to GDP growth rose to 2.0 percentage points from 1.8 percentage points.

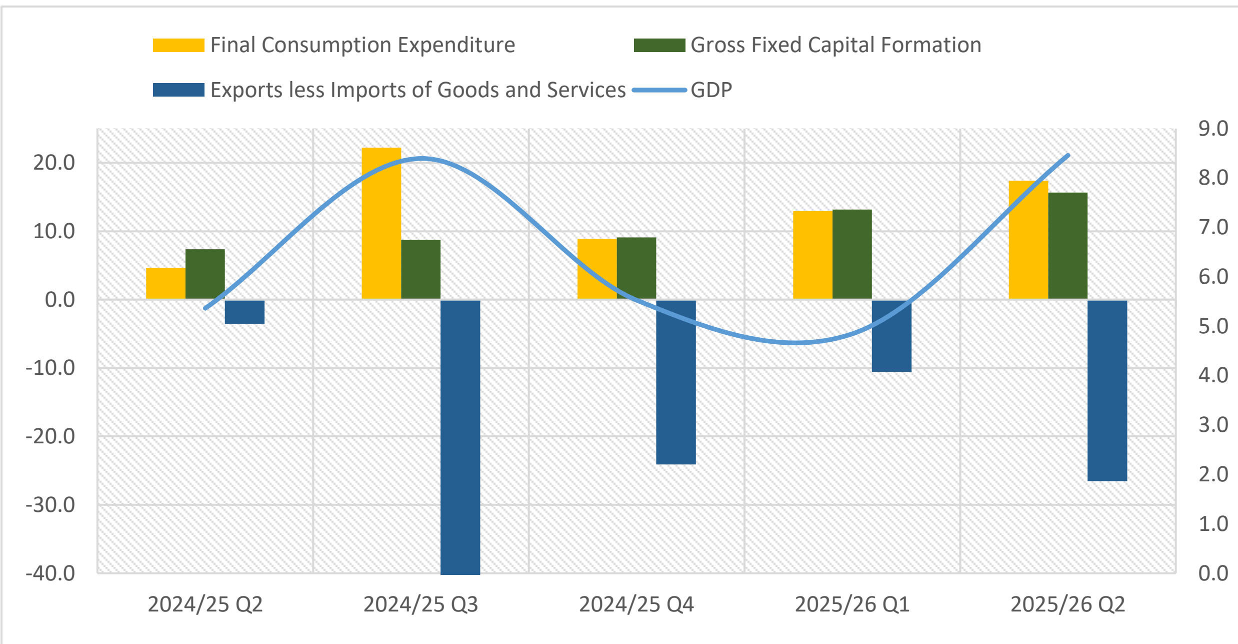
Figure 21: Uganda's economic growth remains steady in Q2 FY2025/26, driven by stronger performance across sectors (Year on Year percentage change)



Source: *Uganda Bureau of Statistics (UBOS)*

From the demand side, growth was reinforced by strong domestic absorption, with both investment and final consumption posting significant gains in Q2 FY2025/26 (**Figure 22**). Investment rose by 15.6 percent compared to 7.3 percent in the same period of FY2024/25, driven largely by surging expenditure on ICT equipment (102.7 percent) and growth in other structures (22.3 percent). Final consumption expanded even more strongly by 17.4 percent from 4.6 percent, mainly reflecting robust household spending growth of 20.1 percent. In contrast, government consumption moderated sharply to 8.4 percent from 38.1 percent, consistent with ongoing fiscal consolidation.

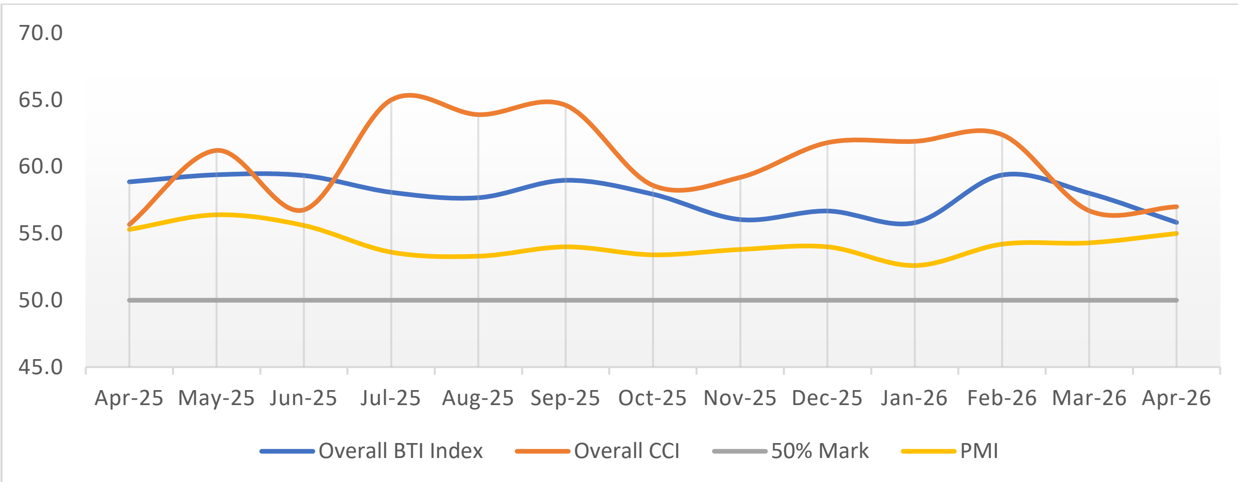
Figure 22: Uganda's GDP growth in Q2 2025/26 was mainly supported by final consumption.



Source: *Uganda Bureau of Statistics (UBOS)*

High-frequency indicators corroborated the strengthening growth momentum, with the Business Tendency Index (BTI), Purchasing Managers' Index (PMI), and Consumer Confidence Index (CCI) all staying above the 50%-mark expansion threshold (**Figure 23**).

Figure 23: 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*

Business sentiment stayed broadly positive, reflecting sustained confidence among firms. The PMI for April 2026 rose to 55.0 from 54.3 in March, extending a 14-month sequence of improving private sector conditions. The upturn was underpinned by continued growth in output, stronger new orders, rising customer demand, and increased sales activity. Consumer confidence also strengthened marginally, increasing by 0.3 points to 57.0 in April 2026, supported by improved expectations regarding future financial conditions.

2.4.2 Economic Growth Outlook

Economic growth is expected to remain resilient in FY2025/26, with real GDP projected in the range of 6.5 to 7.0 percent, before strengthening further to around 8.0 percent over the medium term. This outlook is anchored on a combination of emerging structural shifts and supportive cyclical conditions. A key driver is the anticipated start of oil production, alongside sustained inflows of foreign direct investment and remittances directed toward the oil, gas, and extractive sectors, which are expected to bolster aggregate demand and investment activity.

On the domestic supply side, agriculture is projected to play a central role in sustaining growth, supported by favourable weather patterns and continued government interventions aimed at boosting production. Higher output is expected to improve food availability, deepen agro processing activity, and raise rural household incomes. Complementary policy programmes, notably the Parish Development Model (PDM) and EMYOOGA, are expected to further enhance productivity at the grassroots level and accelerate structural transformation toward agro industrialisation. At the macroeconomic level, stability conditions remain supportive, with monetary policy expected to keep inflation expectations anchored and contribute to exchange rate stability.

Notwithstanding this positive outlook, downside risks to growth remain pronounced. Recent changes in the domestic tax regime could weigh on household disposable incomes in the short to medium term, thereby dampening private consumption. Agricultural performance also remains vulnerable to weather related shocks, which could disrupt food production, agro processing value chains, and export volumes. On the external front, heightened geopolitical tensions, particularly in the Middle East, pose risks of supply chain disruptions, higher import and input costs, and weaker global demand. These risks collectively highlight the importance of maintaining macroeconomic discipline, strengthening policy responsiveness, and enhancing resilience to both external and climate related shocks.

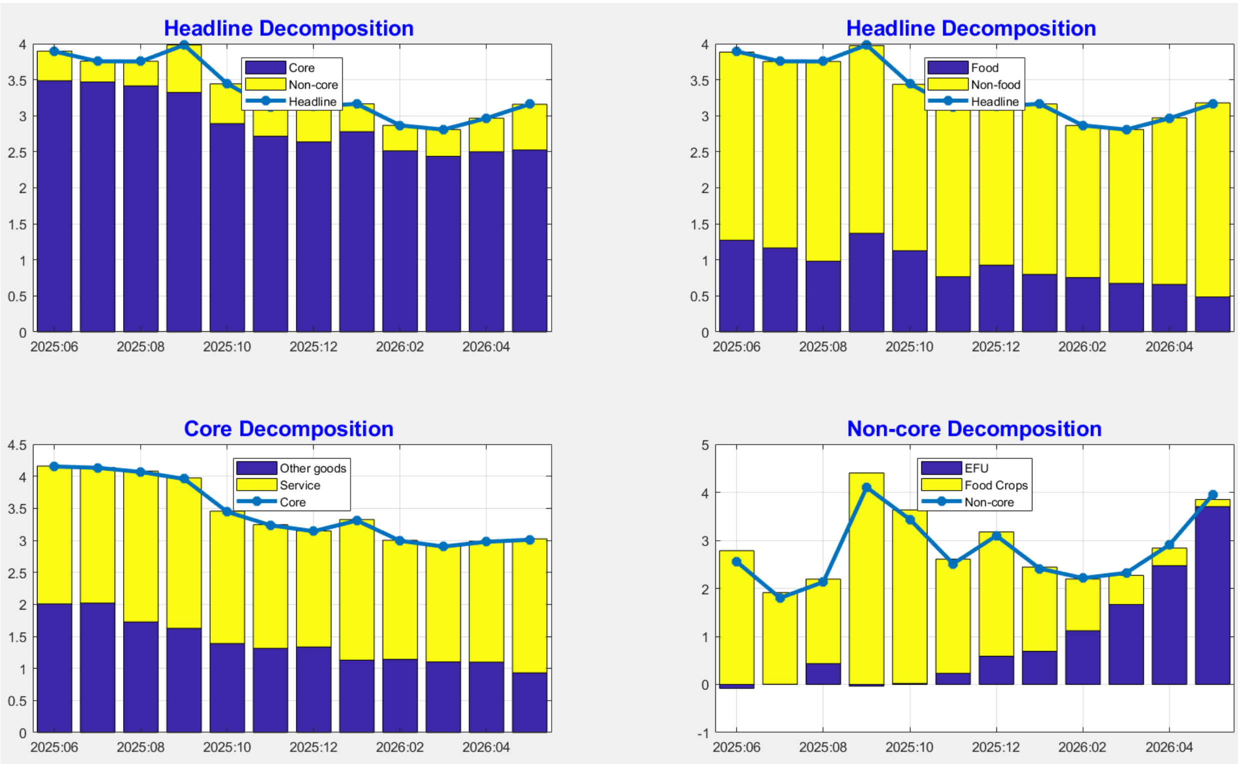
2.5 Domestic Inflation and Outlook

2.5.1 Domestic Inflation

Uganda's inflation environment remained relatively stable over the past twelve months to May 2026, with headline and core inflation averaging 3.3 percent and 3.4 percent, respectively. This performance reflected prudent monetary policy, relative exchange rate stability, and favourable food supply conditions, which helped contain underlying inflationary pressures and keep expectations aligned with the Bank of Uganda's medium-term inflation target of 5 percent.

In May 2026, however, headline inflation edged upwards to 3.2 percent from 3.0 percent in April 2026, while core inflation rose remained at 3.0 percent (**Figure 24**). The uptick in headline inflation was largely driven by higher services inflation, particularly passenger transport costs, alongside rising energy, fuel, and utilities prices. Services inflation rose to 4.1 percent from 4.0 percent, while inflation for other goods remained broadly unchanged.

Figure 24: Inflation Remained Low and Stable Over the 12 Months to May 2026, Supported by Relative Exchange Rate Stability, Prudent Monetary Policy, and Favourable Food Supply Conditions (Annual percentage change)



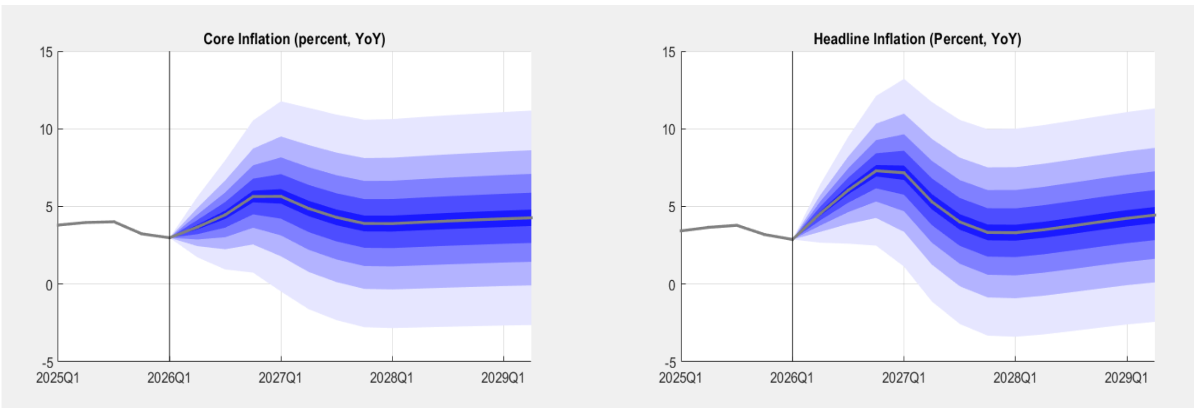
Source: *UBOS*

Non-core inflation also accelerated to 4.0 percent in May 2026 from 2.9 percent in April 2026, mainly due to a sharp rise in energy, fuel, and utilities inflation, which increased to 9.1 percent from 6.1 percent. This reflected higher prices for petrol, diesel, kerosene, and charcoal. In contrast, food crop inflation declined to 0.6 percent from 0.6 percent, supported by favourable food supply conditions and lower prices for several food items. Overall, inflationary pressures remained contained and inflation expectations stayed well anchored.

2.5.2 Inflation Outlook

The inflation outlook has nevertheless been revised upwards compared to earlier projections. This adjustment reflects exchange rate depreciation, higher energy costs, stronger than expected inflation outcomes in the first quarter of 2026, persistent global uncertainties, and resilient domestic demand conditions. Over the next twelve months, core inflation is projected to average between 4.5 percent and 5.2 percent, compared to the previous forecast range of 3.8 percent to 4.3 percent (**Figure 25**). Headline inflation is expected to average between 5.2 percent and 6.5 percent before gradually converging toward the 5.0 percent target by the second quarter of 2027 as supply side pressures ease, monetary policy remains appropriately calibrated and domestic inflation expectations remain anchored.

Figure 25: Inflation is Projected to Gradually Converge to the 5 Percent 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*

Risks to the inflation outlook remain tilted to the upside. Domestically, stronger demand arising from increased investment in the extractive sector and effective implementation of government programmes could place additional pressure on prices. Externally, prolonged geopolitical tensions in the Middle East could disrupt global shipping routes, constrain oil supply, and increase international energy prices. Delays in restoring crude oil production due to damaged infrastructure or extended shutdowns could intensify these pressures further. Adverse weather conditions also remain a major concern, with the potential to reduce agricultural output and hike food prices.

On the other hand, favourable weather conditions could improve agricultural production, strengthen food supply, and moderate food inflation. Similarly, weaker than expected global growth could reduce both external and domestic demand pressures, thereby easing inflationary risks. Nonetheless, the balance of risks remains predominantly on the upside, requiring continued policy vigilance to ensure inflation expectations remain firmly anchored and second round effects are contained.

3. CONCLUSION

Uganda's macroeconomic outlook remains favourable, supported by low inflation, resilient economic activity, and stronger external sector buffers. Headline and core inflation remained below the Bank of Uganda's medium-term target of 5.0 percent in May 2026. Nonetheless, inflationary pressures are gradually emerging, driven mainly by higher fuel and energy prices, exchange rate depreciation, and persistent external uncertainties.

Headline inflation increased marginally from 3.2 percent in April 2026 to 3.0 percent in May 2026, while core inflation remained at 3.0 percent over the same period. The increase in headline inflation was largely attributed to higher services inflation and rising prices for liquid energy fuels. These pressures were partly moderated by lower food crop inflation, reflecting favorable food supply conditions. Despite the recent uptick, inflation expectations remain well anchored, and underlying inflationary pressures continue to be contained.

The inflation outlook has, however, become less favorable. Over the next twelve months, headline inflation is projected to average between 5.2 percent and 6.5 percent, while core inflation is expected to range between 4.5 percent and 5.2 percent before gradually converging toward the 5.0 percent target by the second quarter of 2027. Risks to the outlook remain tilted to the upside, particularly from global oil price shocks, geopolitical tensions, adverse weather conditions, and stronger than expected domestic demand.

Domestic economic activity remains robust and broad-based. Real GDP growth rebounded strongly to 8.5 percent in the second quarter of FY2025/26, supported by solid performance across all major sectors. High frequency indicators, such as the Composite Index of Economic Activity and the Purchasing Managers' Index, continue to point to sustained economic momentum. Real GDP Growth is projected at between 6.5 percent and 7.0 percent in FY2025/26, with medium-term prospects expected to strengthen toward 8.0 percent, supported by investment growth, export expansion, improved agricultural productivity, oil related activities, and government programmes such as the Parish Development Model and Emyooga.

Financial conditions are showing early signs of tightening as money market rates rise and lending rates remain elevated on account of global uncertainty and structural rigidities.

Meanwhile, the current account deficit narrowed due to stronger exports and improved inflows, although depreciation of the Uganda shilling continues to pose inflation risks through higher import prices. Foreign exchange reserves increased to USD 6.1 billion and coupled with the commencement of the domestic gold purchase program should provide a robust buffer against external shocks.

While the Ebola outbreak and predicted El Niño weather poses a near-term downside risk to Uganda's economic outlook, overall, Uganda's economic 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 percent 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.

Against this backdrop, the Bank of Uganda maintained the Central Bank Rate at 9.75 percent, judging that the prevailing monetary policy stance remains appropriate for containing emerging inflationary pressures while safeguarding the ongoing growth momentum. In addition, the Cash Reserve Requirement was increased from 9.5 percent to 11.0 percent to absorb excess liquidity, strengthen monetary policy transmission, and reinforce price stability without imposing undue tightening on economic activity.