



MONETARY POLICY REPORT

August 2026



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PREFACE

Bank of Uganda's Monetary Policy

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

The inflation target and the Central Bank Rate (CBR)

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

Communication, transparency and the Monetary Policy Report

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

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

ACRONYMS AND ABBREVIATIONS

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

EXECUTIVE SUMMARY

Uganda's economy remains resilient amid global geopolitical, energy and financial market headwinds. Economic growth strengthened to an estimated 6.4 percent in FY2025/26, while inflation remains relatively low, despite a recent uptick. Improving credit conditions, a stronger external position, and prudent macroeconomic policies continue to support a positive economic outlook. However, inflation risks remain elevated, while risks to the growth outlook are tilted to the downside.

Monetary Policy Decision: The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 9.75% on 13 August 2026. The decision reflects modest inflation alongside uncertainty over the persistence and transmission of energy price shocks. Maintaining the current policy stance allows the Bank to assess incoming data and global developments and their implications for the inflation outlook, while preserving price stability amid elevated risks.

Inflation and Inflation Outlook: Prudent monetary and fiscal policies supported relatively low inflation, with both headline and core inflation averaging 3.3 percent over the 12 months to July 2026. Annual Headline inflation marginally rose to 4.0% in July 2026 from 3.7% in June 2026, driven by higher energy, fuel and utilities and food crop prices, while annual Core inflation remained contained at 3.4% indicating limited broad-based pressure. Lower international oil prices relative to those obtaining during the May 2026 MPC round prompted a downward forecast revision, with headline inflation projected at 5.5-6.0% and core inflation at 4.0-4.5% over 12 months.

Domestic Economic Activity and Growth Trends: FY2025/26 growth is estimated at 6.4%, supported by private sector credit, household consumption, investment and government spending. Business and consumer sentiment remained positive with the Purchasing Managers Index (PMI) staying expansionary at 55.5 in July 2026. Growth is projected at 7.0-7.5% in FY2026/27 and around 8.0% over the medium term, supported by investment, exports, oil activity, remittances, FDI, and government programmes such as the Parish

THE KEY RESULTS

9.75 %
CENTRAL BANK
RATE

4.0%
HEADLINE
INFLATION

3.4%
CORE INFLATION

6.4%
FY2025/26
GDP GROWTH



Development Model and EMYOOGA. However, several risks persist, such as severe weather, lower foreign demand, rising production costs, domestic tax measures affecting household disposable income, and geopolitical shocks to global supply networks.

Domestic Financial Conditions: Financial conditions continued to improve, supported by stronger liquidity, lower government borrowing and declining yields on government securities. These developments, alongside improved bank asset quality, contributed to lower commercial bank lending rates, with the average Shilling lending rate falling to 17.73% in the three months to June 2026. Notably, the Shilling lending rate fell to 16.9 % in June from 18.3% in May, its lowest level since April 2025. Private sector credit growth also strengthened, reaching 16.1% in June, supporting consumption and investment. Meanwhile, non-performing loans declined further to 2.67%, its lowest level since December 2011, indicating continued improvement in asset quality. Despite significant liquidity injections, monetary policy operations continued to anchor interbank rates within the CBR band.

Fiscal Outturn and Policy Implications: The FY2025/26 fiscal deficit was 5.1% of GDP, below the earlier 7.0% projection, largely reflecting under execution of development projects. The deficit is however expected to widen to 5.7% in FY2026/27, driven by higher expenditure under the Government's development agenda, before declining gradually to 3.4% by FY2030/31. The medium-term consolidation path will be supported by expenditure rationalisation, stronger domestic revenue mobilisation, reduced reliance on costly borrowing, increased petroleum revenues and continued implementation of the Charter for Fiscal Responsibility, strengthening debt sustainability and macroeconomic stability.

Balance of Payments and Exchange Rate Trends: The balance of payments recorded a US\$2.4 billion surplus in the 12 months to June 2026, supported by a stronger financial account surplus of US\$6.4 billion reflecting robust Foreign Direct Investment (FDI) inflows and increased portfolio investment. However, the current account deficit widened to US\$3.6 billion, reflecting higher services and primary income deficits, despite improvements in the trade and secondary income balances. The BOP Surplus enabled the strengthening of international reserves by US\$2.4 billion to US\$6.7 billion, equivalent to 3.7 months of import cover. In July 2026, the Shilling depreciated by 3.3% year-on-year and 1.4% quarter-on-quarter. Despite this recent depreciation, the Uganda Shilling has remained one of the most resilient regional currencies against the US dollar over the past five years. The resilience is also reflected in the Shilling's appreciation of 0.2% month-on-month to average UGX3,704.51 per US dollar, supported by strong inflows from the mining, energy and agricultural sectors, as well as remittances amid global uncertainty.

Global Economic Context: Global economic conditions remain volatile amid geopolitical tensions, persistent inflation concerns and shifting monetary policy expectations. Despite

these challenges, the global economy has demonstrated resilience, with IMF growth projections broadly unchanged from April 2026, at 3.0% in 2026 and 3.4% in 2027, suggesting a gradual recovery. However, renewed Middle East tensions could increase oil and fertiliser prices, disrupt supply chains, weaken external demand and tighten global financial conditions. For Uganda, weaker global demand could dampen exports and remittance inflows, while higher energy and food prices could raise imported inflation, widen the current account deficit and increase exchange rate pressures. Conversely, geopolitical deescalation and lower energy prices would support Uganda's inflation, external position and growth prospects. Over the medium term, rising oil exports could provide an important offset through stronger export earnings and foreign exchange inflows.

1 MONETARY POLICY DECISION

On 13 August 2026, the Bank of Uganda's Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.75 percent.

Inflation remains relatively low, supported by prudent monetary and fiscal policies. Annual headline inflation rose to 4.0 percent in July 2026 from 3.7 percent in June, driven mainly by higher Energy, Fuel and Utilities inflation and food crop prices. However, there is no evidence yet of broader price pressures spreading through the economy, with core inflation remaining unchanged at 3.4 percent and services inflation easing slightly.

The inflation outlook has improved relative to the previous forecast round, mainly reflecting lower international oil prices compared with their May 2026 peak and an easing of exchange rate pressures. Accordingly, the inflation forecast was revised downward, with core inflation projected to average 4.0–4.5 percent and headline inflation 5.5–6.0 percent over the next 12 months. Nonetheless, risks to the inflation outlook remain tilted to the upside, reflecting continued volatility in international oil prices, geopolitical tensions, adverse weather conditions and the possibility of stronger demand pressures.

Economic activity remains resilient. Growth in FY2025/26 is estimated at 6.4 percent, supported by stronger private sector credit, household consumption, investment and government spending. Growth is projected to accelerate to 7.0–7.5 percent in FY2026/27 and to around 8.0 percent over the medium term, supported by prudent macroeconomic policies, remittance inflows, higher investment and exports, oil production and implementation of the Government's Tenfold Growth Strategy. However, risks to the growth outlook remain tilted to the downside, particularly from elevated energy and supply-chain pressures, increased protectionism and trade disruptions, and weaker global demand.

While inflation remains modest, the risk that higher food, fuel and other input costs could translate into broader inflationary pressures persists. Further clarity on the inflation outlook, particularly its path and underlying drivers, is therefore needed before considering further policy action. Given the elevated risk of energy-related price shocks feeding through to domestic inflation expectations, the MPC assessed that a cautious monetary policy stance remains appropriate.

Against this backdrop, the MPC maintained the CBR at 9.75 percent to preserve price stability while allowing time to assess incoming data, global developments and their implications for the inflation outlook.

2 DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 Domestic Inflation and Outlook

2.1.1 Domestic Inflation

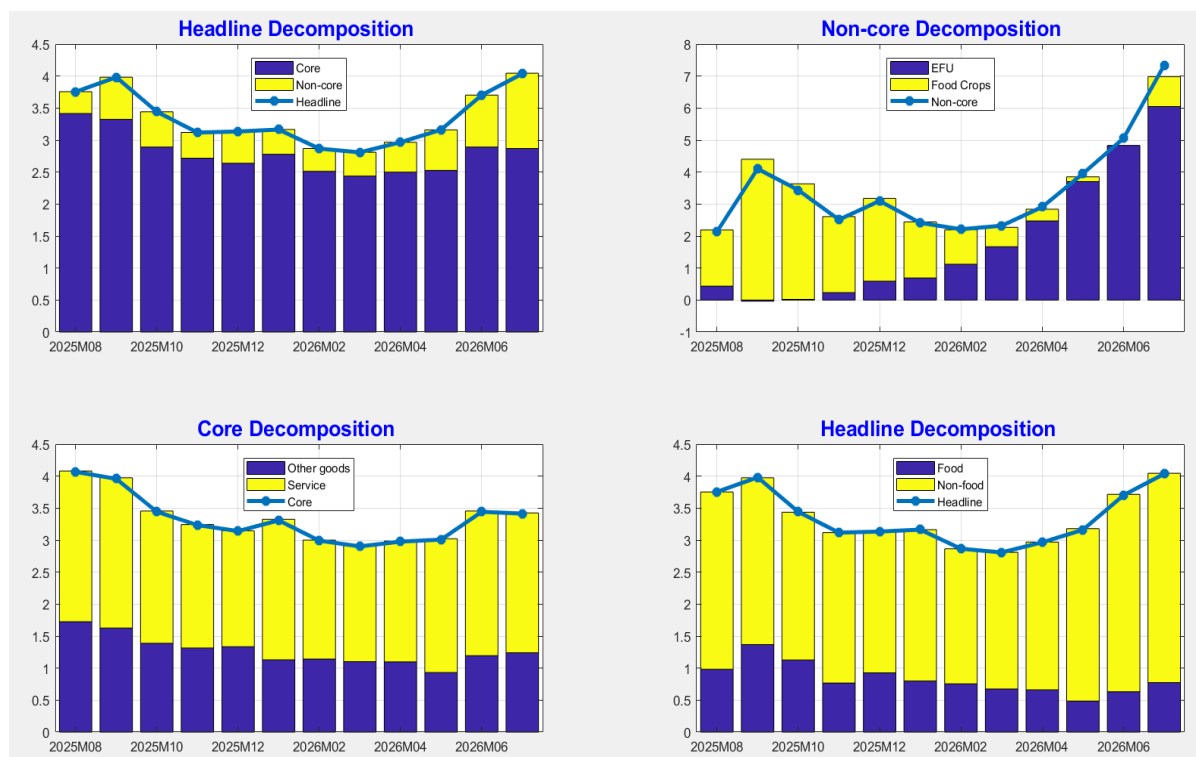
Over the past twelve months, both annual headline and core inflation remained benign, averaging at 3.3%, well below the 5.0% medium term target, supported by prudent monetary policy, despite the recent supply shocks.

However, in July 2026, headline inflation increased to 4.0% from 3.7% in June 2026, driven by increases in EFU and food crop inflation (**Figure 1**). Core inflation, on the other hand, remained unchanged at 3.4% over the same period, as the easing in services inflation offset a slight increase in other goods inflation. Services inflation eased to 4.8% from 4.9%, reflecting the fading effects of the oil price shock on transport fares, while other goods inflation edged up to 2.3% from 2.2%.

Non-core inflation increased to 7.3% in July 2026 from 5.1% in June 2026, mainly reflecting an increase in EFU inflation to 14.9% from 11.9%. The increase in EFU inflation was largely driven by sharp increase in water charges and a modest increase in fuel pump prices. Reflecting the recent dry weather conditions, Inflation for food crops and related items increased to 1.6% from 0.0% over the same period.

Overall, the recent inflation developments indicate that inflationary pressures are not broad based with most recent monthly inflation signalling slowing momentum, and inflation expectations remain well anchored consistent with the Bank of Uganda's medium-term target of 5.0%.

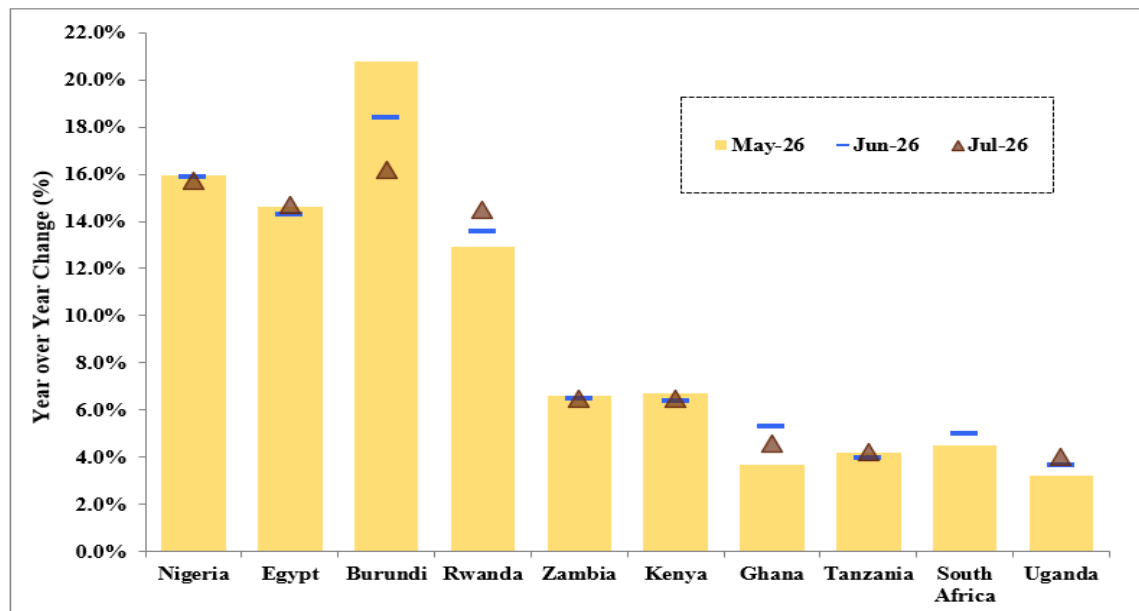
Figure 1: Despite modest increases due to supply side shocks, Inflation remains Low and Stable, reflecting well anchored inflation expectations and sustained price stability supported by prudent monetary policy.



Source: UBOS

Uganda's inflation remained among the lowest across selected African economies. Inflation remained elevated in several of these economies, partly reflecting the effects of recent energy price shocks. Notwithstanding the recent uptick, Uganda continued to record relatively low inflation, underscoring its favourable inflation performance amid elevated global and regional price pressures (**Figure 2**).

Figure 2: Uganda's Inflation Remains Low Relative to Regional Peers



Source: Bank of Uganda

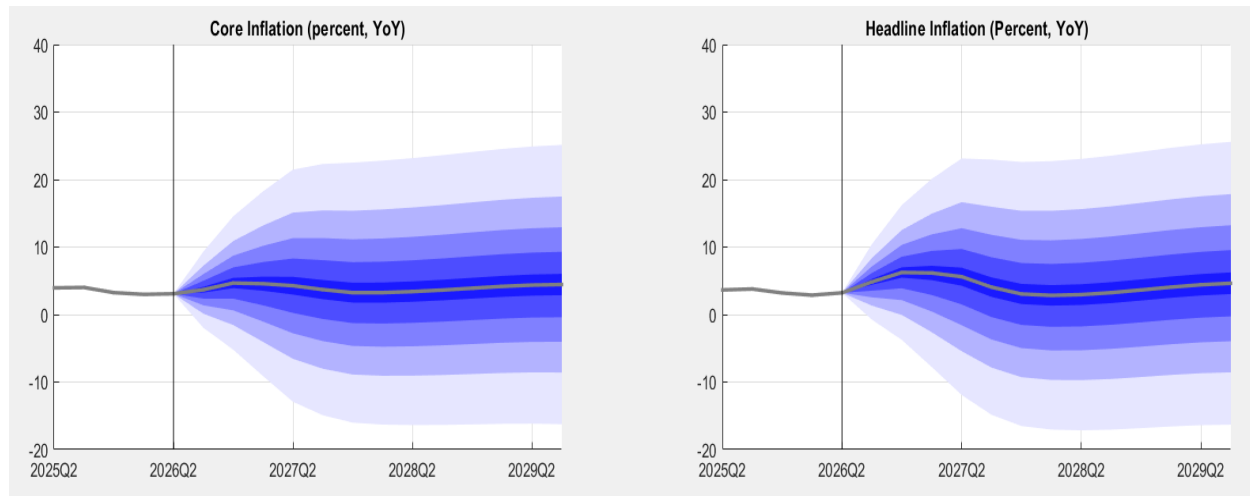
2.1.2 Inflation Outlook

Baseline inflation forecast

Relative to the May 2026 MPC round, the inflation outlook has been revised downwards, largely on account of lower than projected international oil prices, which are expected to reduce domestic fuel pump prices and limit the pass through to transport and other production costs. This, together with benign domestic demand pressures, is expected to keep inflation subdued and inflation expectations well anchored over the forecast horizon.

Over the next twelve months, core inflation is projected to average between 4.0% and 4.5%, down from the earlier forecast range of 5.0% to 5.3% (**Figure 3**). Headline inflation is expected to average between 5.5% and 6.0%, lower than the 5.2-6.5% projection in May 2026, reflecting the continued, albeit gradually easing, impact of elevated oil prices.

Figure 3: Inflation Outlook was Revised Downwards, Reflecting Lower International Oil Prices and Subdued Demand Pressures, While Inflation Expectations Remain Well Anchored.



Source: Bank of Uganda

Despite the downward revision to the projection, the risks to the inflation outlook remain largely tilted to the upside. On the domestic front, a stronger than expected growth could exert additional demand-side upward pressure on prices. Externally, a reescalation of hostilities in the Middle East could disrupt the supply of oil and fertilizers, resulting in higher energy and fertilizer prices and further feeding into domestic inflation. Adverse weather conditions also pose an upside risk by reducing agricultural output and pushing up food prices.

On the downside, favourable weather conditions could boost agricultural production and food supply, thereby easing food price pressures. In addition, persistent geopolitical tensions could lead to softer global growth, which could weaken external demand and, in turn, dampen domestic demand and economic activity, resulting in lower than projected inflation.

Macroeconomic Risks and Alternative Policy Scenarios

The BoU conducted alternative scenario analyses to assess the potential implications for the macroeconomic outlook and monetary policy should key risks to the baseline materialise. The scenarios quantify how inflation, economic growth, the exchange rate, and

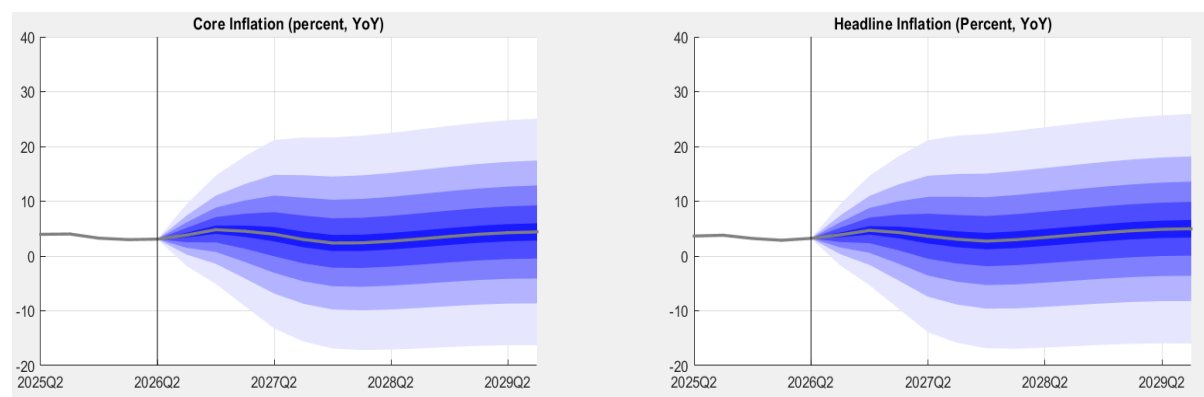
the appropriate monetary policy stance could evolve relative to the baseline projections under different risk scenarios.

Implications of Lower Growth and a More Depreciated Exchange Rate

This alternative scenario considers the implications of weaker domestic growth and a more depreciated exchange rate if the global uncertainty persists. In this scenario, domestic growth is assumed to decline by 1.1 percentage points in FY2026/27, while the exchange rate depreciates cumulatively by 6.0% over the next four quarters, driven by weaker external demand that could slow Uganda's exports and personal transfers.

Inflationary pressures are expected to increase relative to the baseline. Over the next twelve months, with headline and core inflation projected to average 0.3 percentage points and 0.2 percentage points higher relative to the baseline, respectively, reflecting the pass through from exchange rate depreciation to domestic prices more than offsetting the impact of lower growth in the short run (**Figure 4**).

Figure 4: Inflationary and Monetary Policy Implications of Lower Growth and a More Depreciated Exchange Rate



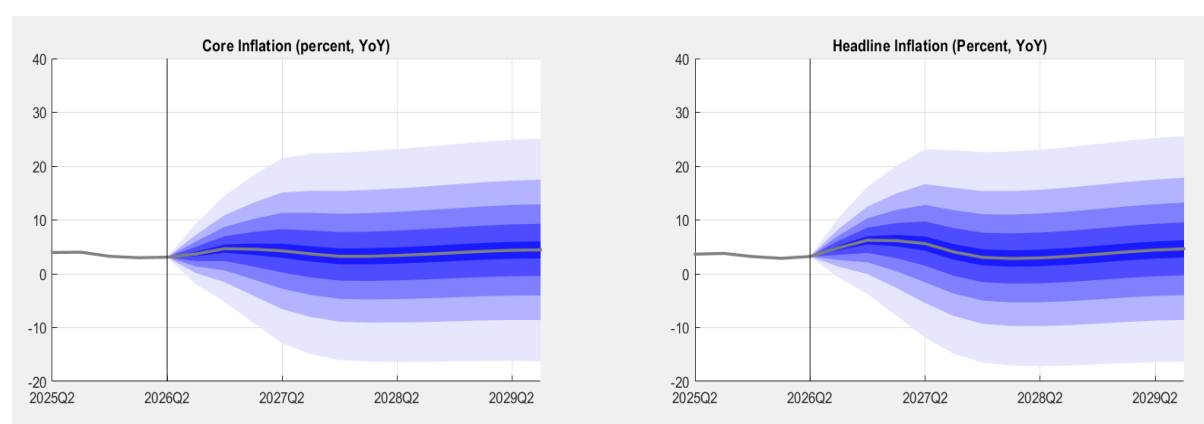
Source: Bank of Uganda

The weaker growth outlook and later stabilization of the exchange rate lead to lower inflation in the medium term, necessitating a less restrictive monetary policy stance, with the CBR expected to be lower than under the baseline. Overall, the scenario highlights the need to balance the weaker domestic growth outlook against inflationary pressures arising from exchange rate depreciation.

Implications of Lower Domestic Growth

This alternative scenario considers the implications of weaker domestic growth, assumed to decline by 1.5 percentage points in FY2026/27, as persistent geopolitical tensions weigh on global growth and external demand. Inflationary pressures are expected to ease relative to the baseline. Over the next twelve months, headline and core inflation are projected to average 0.6 percentage points and 0.7 percentage points lower than the baseline, respectively, reflecting weaker domestic demand and reduced-price pressures (**Figure 5**).

Figure 5: Inflationary and Monetary Policy Implications of a Lower Domestic Growth scenario



Source: Bank of Uganda

The exchange rate is projected to be 0.6% more depreciated than the baseline on average over the next twelve months, reflecting weaker external demand and associated pressures in the foreign exchange market. The weaker growth and inflation outlook would warrant a less restrictive monetary policy stance, with the CBR expected to be lower than under the baseline to support economic activity while maintaining price stability.

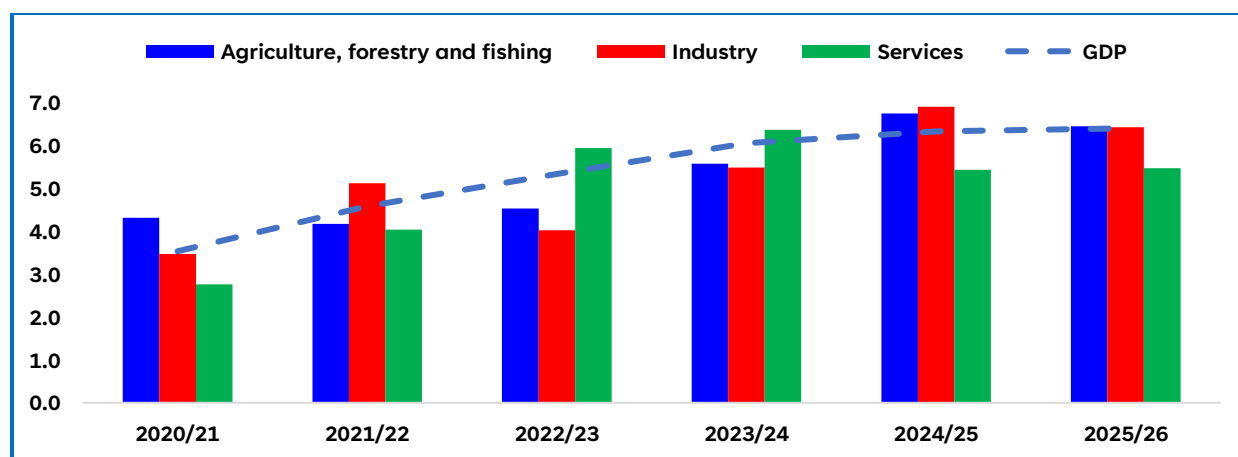
2.2 Domestic economic activity

2.2.1 Economic Growth Developments and outlook

Uganda's economy remained resilient, with growth strengthening amid heightened global uncertainty and persistent geopolitical tensions. According to the preliminary data released by Uganda Bureau of Statistics (UBOS), the economy grew by 6.4% in the FY 2025/26 up from 6.3% in FY2024/25. This positive performance was anchored by sustained growth in all

sectors with agriculture and industry as the front runners albeit with a slight moderation recorded relative to the previous financial year. (**Figure 6**).

Figure 6: Agriculture and Industry were the major drivers of Annual GDP Growth (Year on Year percentage change).



Source: Uganda Bureau of Statistics (UBOS)

The agriculture sector grew by 6.5% in FY2024/25, slightly lower than 6.8% in the previous financial year, largely reflecting slower expansion in fishing activities, which expanded by 9.1% compared to 18.0% a year earlier. Meanwhile, cash crops grew by 12.1% compared to 11.3% in FY2024/25, while the food crops sub sector recorded a 4.9% expansion following a contraction of 0.3% in the previous year.

Similarly, the industrial sector grew by 6.4% in FY2025/26, slower than the 6.9% recorded in FY2024/25. The slower growth was largely driven by decreased activity in construction (8.2% down from 11.2%), and manufacturing (5.5% down from 5.5%), compared to the previous year. However, electricity activity grew by 14.4% in FY2025/26, up from 11.9% in the previous year. The stronger performance likely reflected increased electricity generation and utilisation of expanded generation capacity, including the first full financial year following the commissioning of the 600 MW Karuma Hydropower Plant. Electricity supplied to the national grid increased markedly during the year, alongside strong growth in system demand and electricity sales, supported by expanded transmission infrastructure.

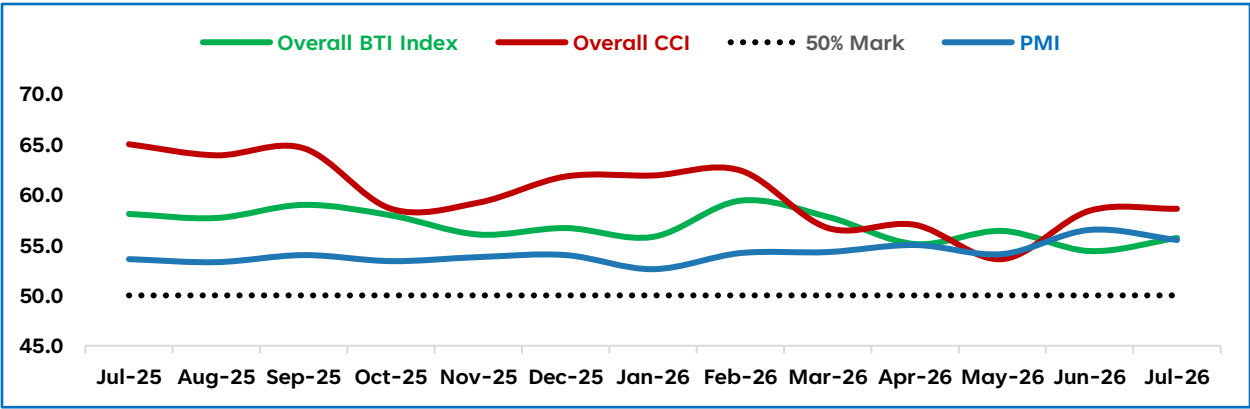
In addition, the services sector grew by 5.5% in FY2025/26, slightly higher than the 5.4% recorded in the previous financial year, largely supported by a 7.7% expansion in accommodation and Food Service Activities. The stronger performance partly reflected

increased hospitality demand during much of the financial year, consistent with the strong recovery in tourism observed in 2025, when both international visitor arrivals and tourism earnings increased markedly. Growth in the activity also reflects broader domestic demand for accommodation, restaurant and other food services.

From the expenditure side, growth was supported by both final consumption and investment, although final consumption growth moderated to 5.9% in FY2025/26 from 10.5% in the previous year, reflecting slower growth in household, government and NPISH spending. Household consumption, nevertheless, remained the largest component, contributing over 67% of GDP in FY2025/26 and grew by 7.3%, while investment strengthened to 7.5%, driven by increased spending on ICT equipment, machinery and equipment, and research and development.

High frequency indicators continued to point to resilient private sector activity and positive sentiment in July 2026 (**Figure 7**). Business confidence strengthened, with the Business Tendency Index (BTI) rising by 0.4 points to 55.7, remaining above the 50-point threshold. Consumer sentiment also improved, with the Consumer Confidence Index (CCI) increasing by 0.2 points to 58.6, supported by improved expectations regarding job availability, household financial conditions and savings prospects, despite remaining 6.4 points below its level a year earlier. The Purchasing Managers’ Index (PMI) also remained well above the 50.0 neutral threshold, signalling a continued improvement in private sector business conditions, supported by sustained growth in output and new orders.

Figure 7: High Frequency Indicators Point to Resilient Private Sector Activity and Positive Sentiment (seasonally adjusted, %).



Source: Bank of Uganda

2.2.2 Economic Growth outlook.

Economic growth is projected to strengthen between 7.0 and 7.5% in FY2026/27 before rising to an average of 8% over the medium term, driven by continued macroeconomic stability and the anticipated commencement of commercial oil production in the second half of FY2026/27. The onset of oil production is expected to support economic activity through higher investment, increased export earnings, and stronger linkages across the domestic economy. Growth will also be supported by the continued implementation of the Government's Tenfold Growth Strategy, aimed at accelerating productivity in the Agro-Industrialisation, Tourism Development, Mineral Development, and Science, Technology and Innovation (ATMS) sectors while promoting export-oriented value addition.

Increased agricultural production, supported by favourable weather conditions together with sustained implementation of initiatives such as the Parish Development Model (PDM) and EMYOOGA, is expected to enhance agricultural productivity, expand agro-processing, and strengthen rural incomes. Continued foreign direct investment into oil and gas and broader extractive industries, alongside remittance inflows and prudent monetary policy that maintains low and stable inflation and exchange rate stability, are collectively expected to reinforce the growth outlook.

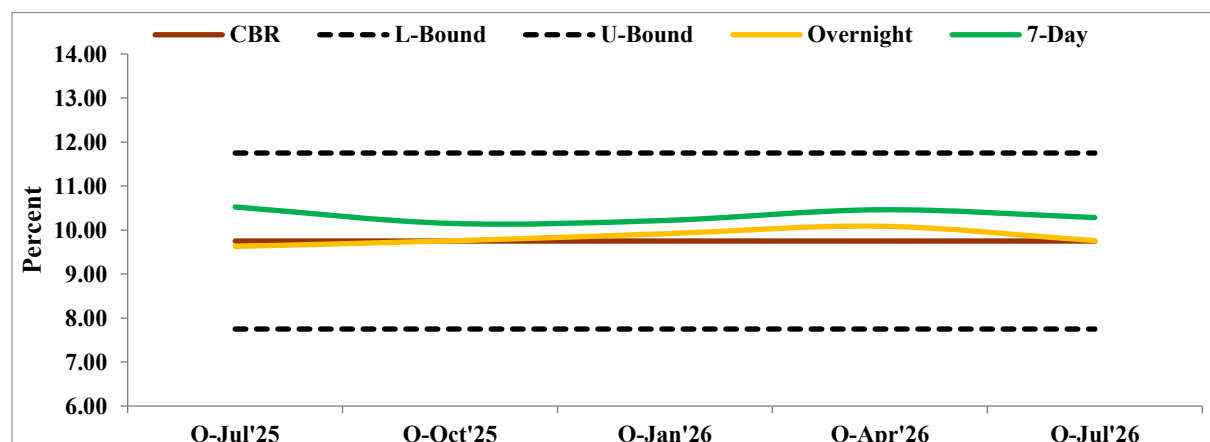
Notwithstanding these favourable prospects, the balance of risks remains tilted to the downside. Climate variability and extreme weather events remain a significant threat to agricultural production, with adverse implications for food supply, agro-processing and export earnings. In addition, escalating geopolitical tensions, and global trade frictions could disrupt trade flows and global supply chains, weaken external demand, reduce export earnings, and exert upward pressure on international fuel prices. The residual effects of recent health related travel advisories and restrictions associated with the Ebola outbreak could also weigh on tourism and related services, slowing activity in these sectors. These downside risks underscore the importance of maintaining sound macroeconomic policies, accelerating structural reforms, and strengthening resilience to external and climate related shocks to sustain the projected growth momentum.

2.3 Domestic financial markets

2.3.1 Monetary policy and the interbank money market

Money market rates declined but remained within the CBR band in the three months to July 2026 compared to the three months to April 2026, as shown in **Figure 8**. Both the overnight and 7-day interbank weighted average rates declined to 9.75% and 10.29% from 10.09% and 10.46%, respectively. The decline in interbank rates reflected elevated liquidity conditions in the banking system, driven mainly by large government securities redemptions, including bond coupon payments and maturities amounting to approximately Shs. 4.2 trillion; increased BoU reserve build-up operations, which amounted to USD 837 million compared to USD 654 million in the three months to April 2026; and Government releases and expenditure during the period.

Figure 8: Interbank money market rates declined amid elevated liquidity but remained within the CBR band in the three months to July 2026 (Percent)



Source: Bank of Uganda

Consistent with these developments, average excess reserves increased to Shs. 224.2 billion in the three months to July 2026 from Shs. 116.3 billion in the preceding three months. The elevated liquidity necessitated increased liquidity mop up operations by the Bank of Uganda. Accordingly, the volume of repurchase agreements used for liquidity mop up increased to Shs. 16.7 trillion from Shs. 7.8 trillion in the three months to April 2026, while BoU Bills issued for liquidity absorption increased to Shs. 3.08 trillion from Shs. 1.63 trillion. Utilisation of the Standing Deposit Facility also increased to Shs. 5.43 trillion, comprising 129 transactions, from Shs. 3.51 trillion and 74 transactions in the preceding three months.

Conversely, utilisation of the Standing Lending Facility declined markedly to Shs. 1.92 trillion, comprising 23 transactions, from Shs. 8.92 trillion and 130 transactions, consistent with the reduced need for banks to access short-term liquidity from Bank of Uganda.

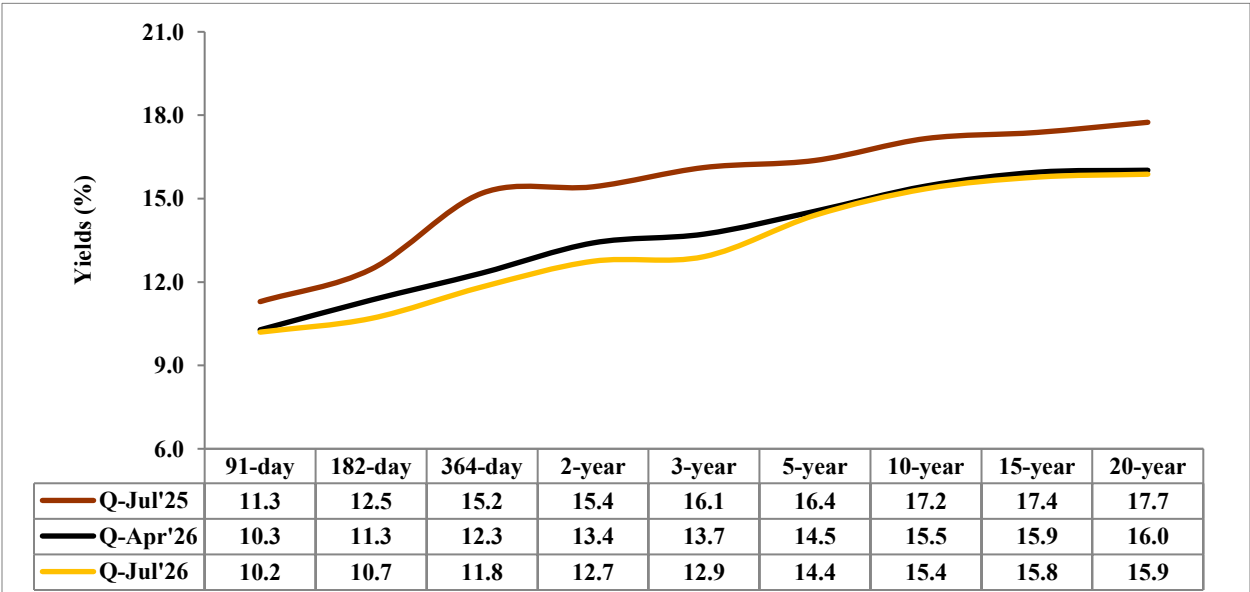
2.3.2 Primary market for treasury securities

On average, primary market yields declined across most of the tenors in the three months to July 2026 relative to the three months to April 2026, in part reflecting investor confidence in the fiscal consolidation agenda and prospective reduction of domestic financing requirements of government over the medium term, despite an uptick in the primary market issuances between the two quarters. Demand for government securities remained robust with all auctions oversubscribed, pointing to continued investor confidence and a credible macroeconomic framework.

2.3.3 Secondary market for treasury securities

In the quarter to July 2026, the secondary market yield curve shifted downward across all maturities, indicating an easing in market yields and improved financing conditions (**Figure 9**).

Figure 9: Secondary market annualized yields on T-bills and T-bonds declined (Average for the quarters)



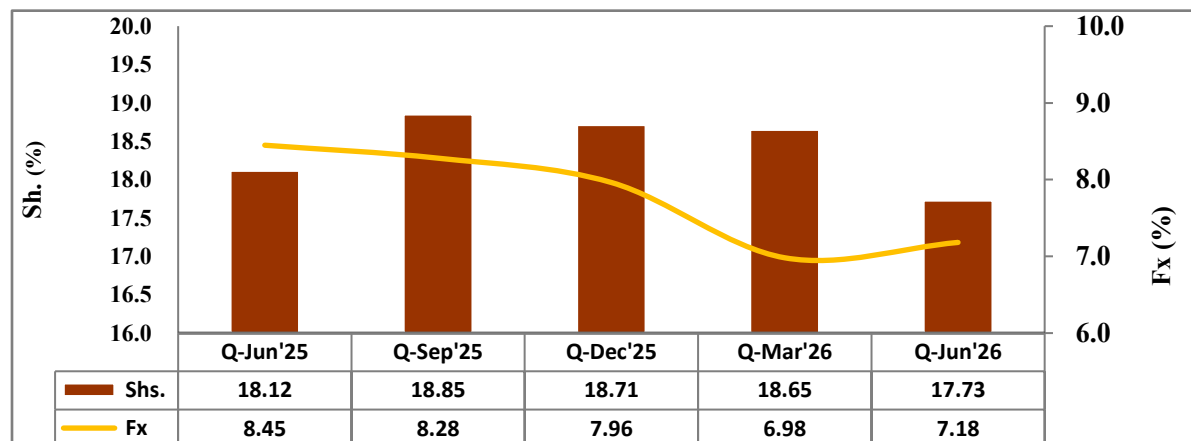
Source: Bank of Uganda

The decline was particularly pronounced relative to the quarter to July 2025, with the 364-day, 2-year and 3-year tenors falling by 3.4, 2.7 and 3.2 percentage points, respectively. Compared with the quarter to April 2026, yields also moderated across all maturities, with the largest decline recorded at the 3-year tenor, from 13.7% to 12.9%.

2.3.4 Lending interest rates

The weighted average shilling lending rate declined to 17.73% in the three months to June 2026 from 18.65% in the three months to March 2026 (**Figure 10**). Notably, the rate fell to 16.9% in June 2026 from 18.3% in May 2026, its lowest level since April 2025. The decline in shilling lending rates was supported by improving asset quality, with the NPL ratio falling to 2.67% in June 2026 from 3.0% in March 2026, its lowest level since December 2011. Lower yields on government securities also supported the easing in lending conditions. In contrast, the weighted average lending rate on foreign currency-denominated loans edged up to 7.18% from 6.98% over the same period, in line with the weakening of the shilling over the quarter to July 2026.

Figure 10: Weighted Shilling Lending Rates Declined while Foreign Currency Lending Rates Edged Up slightly (Percent)



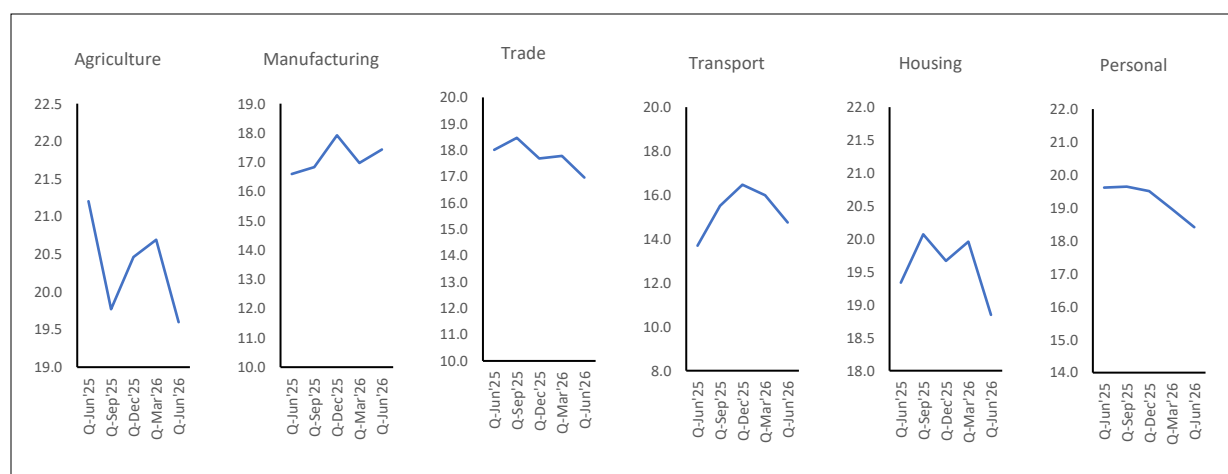
Source: Bank of Uganda

Interest rates are expected to remain relatively stable in the near term, supported by improving asset quality, and continued macroeconomic stability. However, spillovers from the geopolitical tensions may exert some upward pressure on lending rates. Downside risks to lending rates include continued easing in funding conditions, prudent monetary and fiscal management, and further improvements in asset quality. On the other hand, upside risks

include stronger than expected credit demand, higher than anticipated government borrowing from the domestic market, and increased funding costs arising from heightened geopolitical uncertainty. Overall, the risks to the near-term lending rate outlook are broadly balanced.

In the three months to June 2026, sectoral shilling lending rates declined across all sectors except Manufacturing compared to the three months to March 2026 (**Figure 11**). Lending rates declined to 19.6% for Agriculture, 17.0% for Trade, 14.8% for Transport and Communication, 18.8% for Housing, 17.9% for Mining and Quarrying, and 18.4% for Personal loans from 20.7%, 17.8%, 16.0%, 20.0%, 19.6% and 19.0% respectively. In contrast, the lending rate for Manufacturing increased marginally to 17.4% from 17.0% during the same period.

Figure 11: Shilling lending rates fell across all sectors except manufacturing compared to the previous quarter, though structural rigidities kept overall rates elevated.



Source: Bank of Uganda

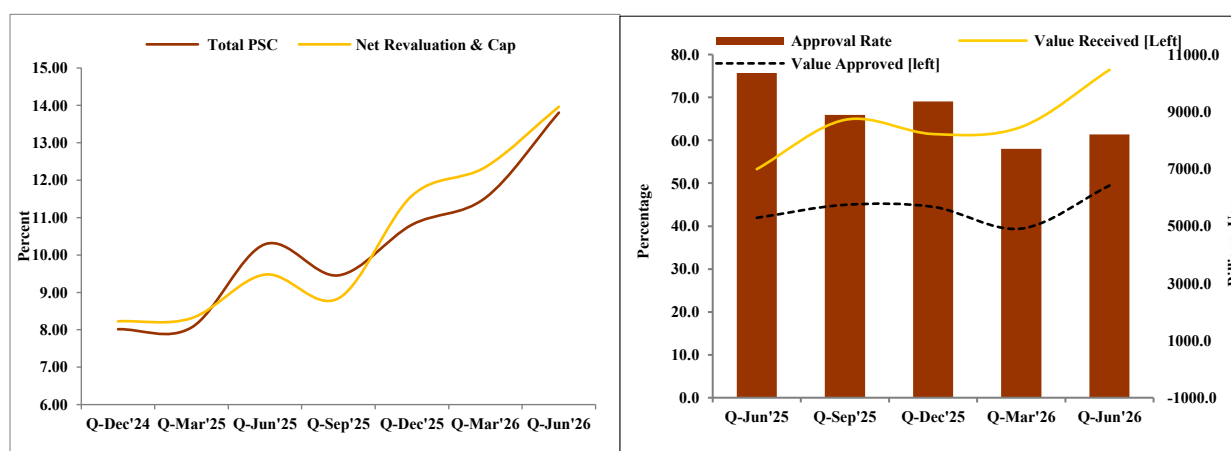
2.3.5 Private sector credit

Growth in Other Depository Corporations Private Sector Credit (ODC PSC) strengthened in the three months to June 2026 compared to the three months to March 2026, supported by lower lending rates and better asset quality. Annualized ODC PSC growth averaged 13.80% in the three months to June 2026, up from 11.53% in the three months to March 2026, while growth excluding valuation changes and capitalized interest rose to 13.96% from 12.35% over the same period (Figure 12, Left). The strengthening continued through the end of the

period, with annualized ODC PSC growth reaching 16.1% in June 2026. Growth in Shilling denominated credit increased to 12.26% from 11.19%, while growth in foreign currency denominated loans accelerated strongly to 18.32% from 12.52% over the same period. Consistent with the stronger credit growth, total net credit extensions, including capitalized interest and revaluation, increased to Shs. 2.89 trillion in the three months to June 2026 from Shs. 1.44 trillion in the three months to March 2026.

Demand and supply of credit expanded in the three months to June 2026 compared to the three months to March 2026. Credit demand increased to Shs. 10.47 trillion from Shs. 8.47 trillion, while credit supply rose to Shs. 6.42 trillion from Shs. 4.92 trillion over the same period (**Figure 12, Right**). The expansion in both credit demand and supply reflected improving economic activity and easing lending conditions, as banks adopted a less restrictive lending stance. Consequently, the credit approval rate increased to 61.3% in the three months to June 2026 from 58.0% in the three months to March 2026.

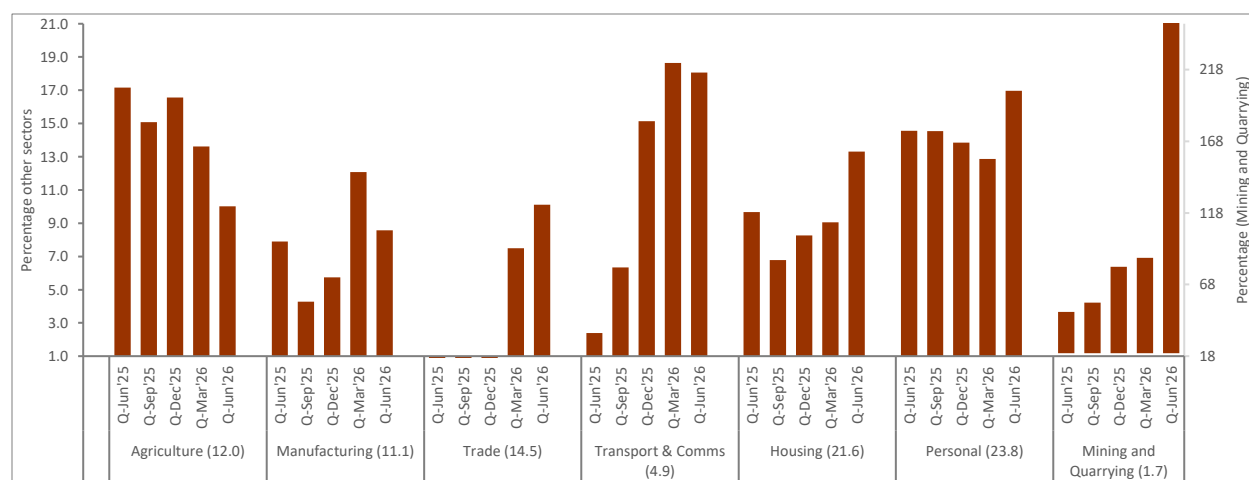
Figure 12: PSC growth increased (year-on-year, %, Left) as demand and supply of credit remained robust (UGX, billion, Right)



Source: Bank of Uganda

Sectoral recovery in credit remained broad based in the three months to June 2026 compared to the three months to March 2026, with credit growth strengthening in Trade, Housing, Personal and Mining and Quarrying, while moderating in Agriculture, Manufacturing and Transport and Communications, amid prevailing idiosyncratic sector risks (**Figure 13**).

Figure 13: Year-on-year growth in private sector credit strengthened across several major economic sectors, while remaining subdued in Agriculture, Manufacturing and Transport and Communications (3-month average; % shares in brackets)



Source: Bank of Uganda

Private Sector Credit growth is expected to remain strong in the near term, supported by improving economic activity, easing lending conditions, and increased investment, including oil related activities ahead of first oil. Demand for credit remains resilient, while credit supply has improved as banks have adopted a less restrictive lending stance. Upside risks to the outlook include stronger than expected public and private investment, particularly oil related investment ahead of first oil in FY2026/27, sustained macroeconomic stability that could strengthen borrower confidence and support lending, and ongoing implementation of the Government's Tenfold Growth Strategy.

Downside risks include higher than projected government borrowing from the domestic market, which could crowd out private sector credit through upward pressure on interest rates, as well as heightened global economic uncertainty and increased credit risk concerns. Overall, risks to the near-term outlook for PSC growth are tilted to the upside.

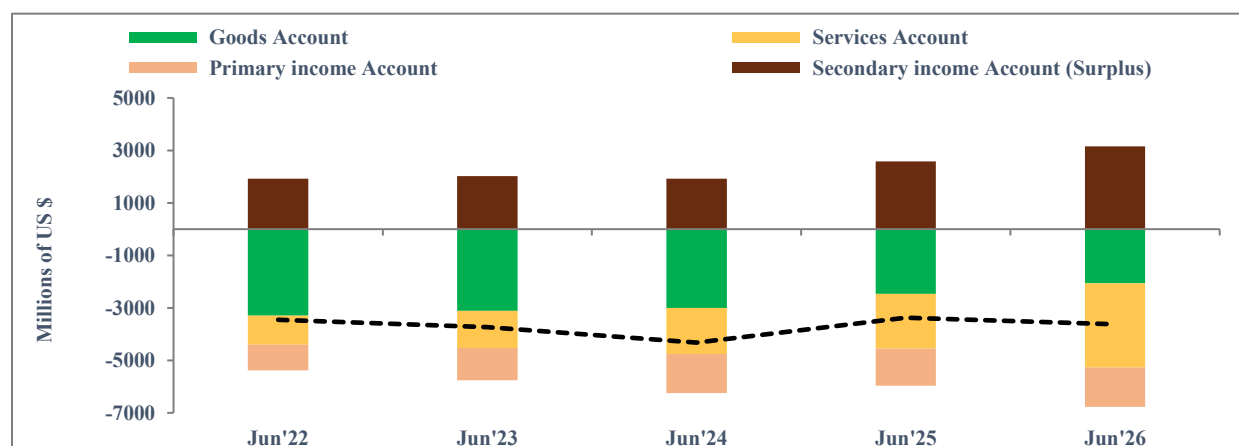
2.4 Balance of payments and exchange rates

2.4.1 Balance of payments

The overall balance of payments registered a surplus of US\$2,390.3 million in the twelve months to June 2026 compared to the surplus of US\$1,029.5 million registered in the previous year, owing to a robust financial account surplus that more than offset the increased current account deficit.

The current account deficit widened by 7% to US\$3,620.4 million in the 12 months to June 2026 relative to the previous year, despite an improvement of 16% and 22% in the trade balance and secondary income account, respectively over the review period (**Figure 14**). The improved trade balance is mainly attributed to a 46.4% increase in export revenues to US\$15,753.5 million over the year to June 2026 supported by higher earnings of non-coffee exports specifically gold whose net exports rose to US\$1,360.8 million, which more than offset the high deficit on merchandise trade of US\$3,420.4 million. Overall Import expenditure increased by 34.7% from US\$13,226.0 million to US\$17,813.1 million, driven by higher private sector imports.

Figure 14: The current account deficit widened year-on-year, despite improvements in the goods balance and secondary income accounts (US\$ Million)



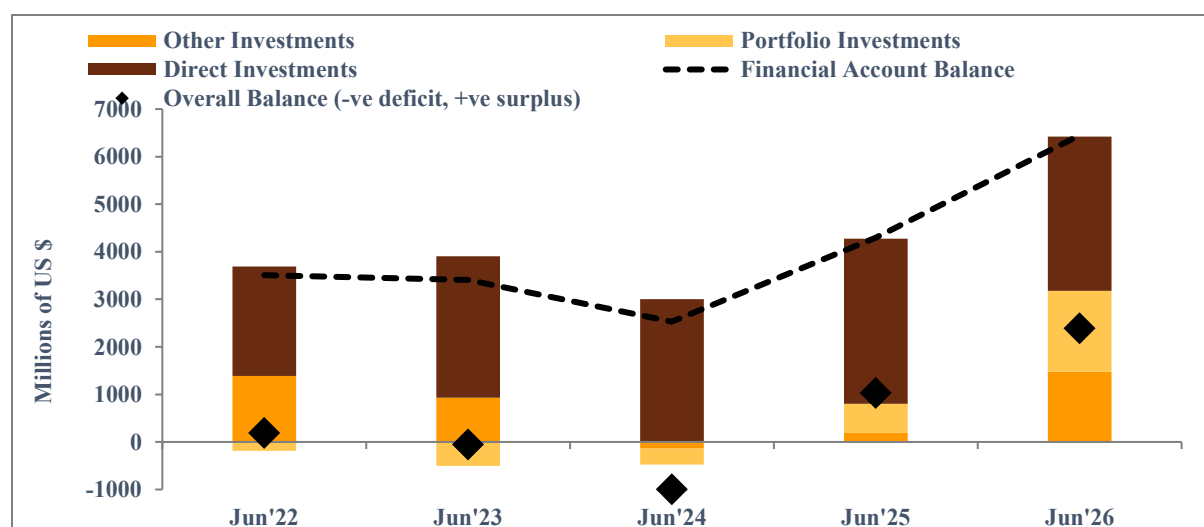
Source: Bank of Uganda

In the twelve months to June 2026, the services deficit widened by 54.5%, to US\$3,217.0 million, driven by higher payments for transport on account of spikes in costs of freight and insurance on general merchandise), and other business services. Over the same period, the

primary income deficit widened by 5.7% to US\$1,496.6 million, mainly due to higher interest payments on public external debt. In the twelve months to June 2026, the secondary income surplus increased by 21.9% to US\$3,152.7 million on account of higher personal transfers supported by the amendment to the remittances data collection methodology to capture FinTechs and Mobile Network Operators starting from 2026.

In the twelve months to June 2026, the financial account recorded net inflows of US\$6,448.7 million compared to net inflows of US\$4,292.1 million recorded in the year to June 2025, primarily driven by strong inflows in portfolio and other investments earlier in the financial year (**Figure 15**). Similarly, the portfolio account recorded higher net inflows of US\$1,704.9 million when compared to the previous year, attributed to a rise in offshore investments in government securities reflecting the attractive yields. In the twelve months to June 2026, other investments recorded net inflows of US\$1,474 million, an increase from net inflows of US\$192.0 million mainly supported by budget support and project loan disbursements to government. Foreign Direct Investment (FDI) inflows also remained robust amounting to US\$3,241.8 million in the twelve months to June 2026 driven by oil sector investments.

Figure 15: The financial account sustained a robust surplus in the year to June 2026.



Source: Bank of Uganda

The robust BoP surplus coupled with BoU's proactive steps to bolster the reserves including targeted purchases of foreign currency and cross-currency repos, resulted in an increase of US\$2.4 billion in the stock of reserves to US\$6.7 billion as at end June 2026, equivalent to 3.7 months of import cover.

2.4.2 Balance of payments outlook

The Middle East conflict has heightened uncertainty in global energy markets and poses significant external risks to the balance of payments through renewed upward pressures on global oil prices. For Uganda, risks include a worsening current account deficit from increase in import expenditure, and related freight and insurance services, as well as possible dampening of exports as global growth moderates. Accelerating global inflation pressures and any renewed disruptions to the Gulf countries could also affect growth prospects, thereby negatively impact remittance inflows. The continued global uncertainties could also lead to reduced portfolio flows as investors shift to safe haven assets.

However, in the long term, the current account deficit is projected to improve gradually recording a surplus in the latter years. Exports are anticipated to expand gradually, boosted by strengthened regional trade linkages in line with the 4th National Development Plan (NDPIV) & oil exports expected from FY26/27 coupled with reduction of oil imports after completion of the refinery. FDI flows are projected to remain robust driving the financial account surplus, despite somewhat narrowing in the latter years as oil investors recover their capital. The medium-term BOP projections are provided in **Table 1**.

Table 1: BOP Medium Term Projections

BOP Accounts	FY25/26		FY26/27		FY27/28		FY28/29		FY29/30		FY30/31	
	\$BN	%GDP	\$BN	%GDP	\$BN	%GDP	\$BN	%GDP	\$BN	%GDP	\$BN	%GDP
Current account	-3.6	-5.3%	-2.5	-3.3%	1.9	2.2%	0.2	0.2%	0.3	0.3%	2.9	2.5%
Trade Balance	-2.1	-3.2%	0.0	0.0%	6.0	7.0%	3.8	4.0%	3.0	2.9%	4.7	4.1%
Services	-3.2	-4.7%	-3.2	-4.2%	-2.7	-3.2%	-2.9	-3.1%	-2.9	-2.8%	-2.4	-2.1%
Primary income	-1.4	-2.2%	-2.7	-3.5%	-4.5	-5.3%	-3.9	-4.2%	-2.9	-2.8%	-2.5	-2.2%
Secondary income	3.2	4.7%	3.3	4.4%	3.2	3.8%	3.2	3.4%	3.1	3.0%	3.1	2.7%
Capital account	0.2	0.2%	0.4	0.5%	0.2	0.3%	0.2	0.2%	0.2	0.2%	0.1	0.1%
Current and Capital Account	-3.4	-5.1%	-2.1	-2.8%	2.1	2.5%	0.4	0.4%	0.5	0.5%	3.0	2.6%
Financial Account*	6.4	9.6%	2.4	3.1%	-0.9	-1.0%	0.9	1.0%	1.3	1.2%	-0.9	-0.8%
FDI*	3.2	4.8%	3.8	5.0%	3.3	3.8%	2.9	3.0%	3.0	2.8%	3.1	2.7%
Portfolio investment*	1.7	2.5%	0.3	0.4%	-0.4	-0.5%	-0.6	-0.6%	-0.9	-0.9%	-1.1	-1.0%
Other investment*	1.5	2.2%	-1.8	-2.3%	-3.8	-4.4%	-1.3	-1.4%	-0.8	-0.8%	-2.9	-2.5%
Overall Balance*	2.4	3.6%	-0.3	-0.4%	0.7	0.8%	0.7	0.7%	1.1	1.1%	1.4	1.2%

* Signs inverted to reflect direction of flows

Source: Bank of Uganda

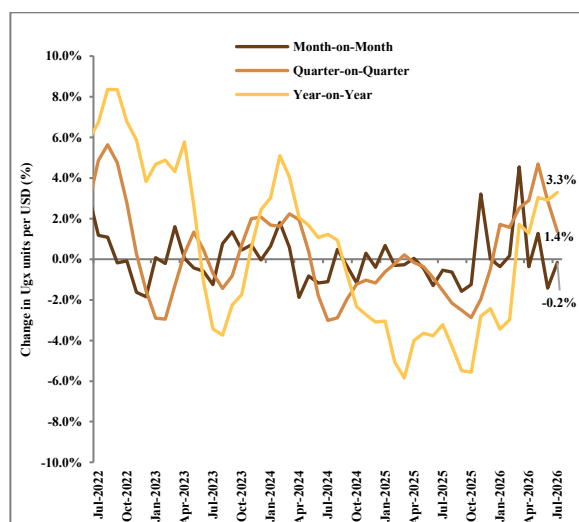
2.4.3 Exchange rates developments

The Uganda Shilling depreciated against the US dollar by 3.3% year-on-year and 1.4% quarter-on-quarter in July 2026, averaging Shs. 3,704.51 per US dollar during the month (Figure 16a).

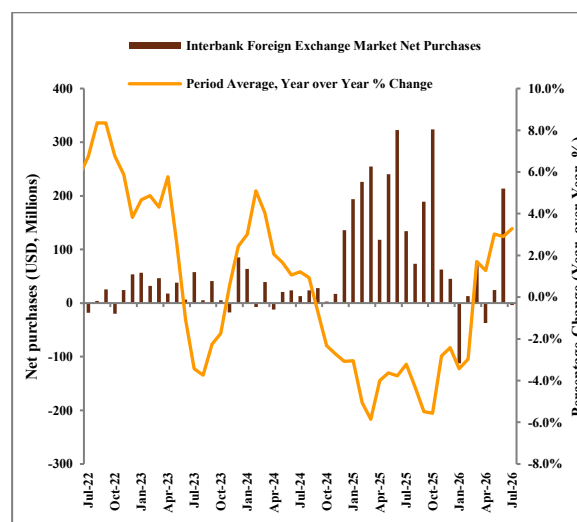
The depreciation over the quarter was mainly driven by bearish market sentiment stemming from renewed hostilities in the U.S.-Iran conflict which was compounded by higher corporate dollar demand from oil, manufacturing, and telecom firms relative to the same period last year (Figure 16b). However, the shilling appreciated month over month by 0.2% in July 2026, supported by continued robust dollar inflows from the mining and energy sectors, agricultural proceeds and remittances.

Figure 16: The Uganda Shilling depreciated year over year and quarter on quarter, although an appreciation was observed month on month.

a) UGX Exchange Rate Developments



b) Interbank Foreign Exchange Market Activity

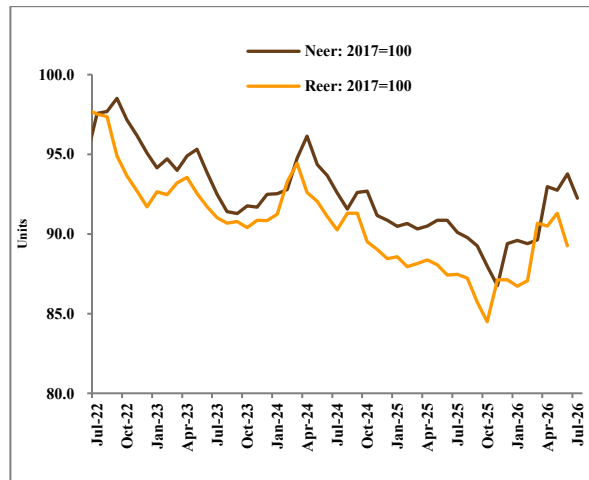


Source: Bank of Uganda

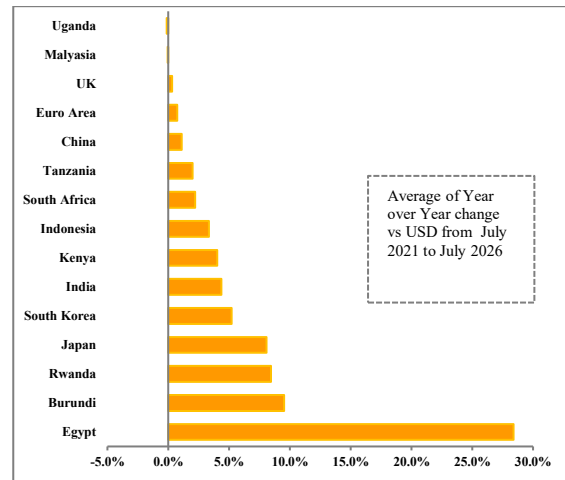
Year over year, the Shilling also weakened in nominal and real effective terms against a basket of currencies of Uganda's major trading partners (Figure 17a). However, over the past five years, Uganda shilling has exhibited remarkable stability against the USD relative to our trade partner currencies (Figure 17b).

Figure 17: The Uganda Shilling depreciated in nominal and real terms although remains in relatively strong position over a 5-year average compared to trade partners.

a) Trade Weighted Indices



b) Trade Partner Currencies (5 Year Average)



Source: Bank of Uganda

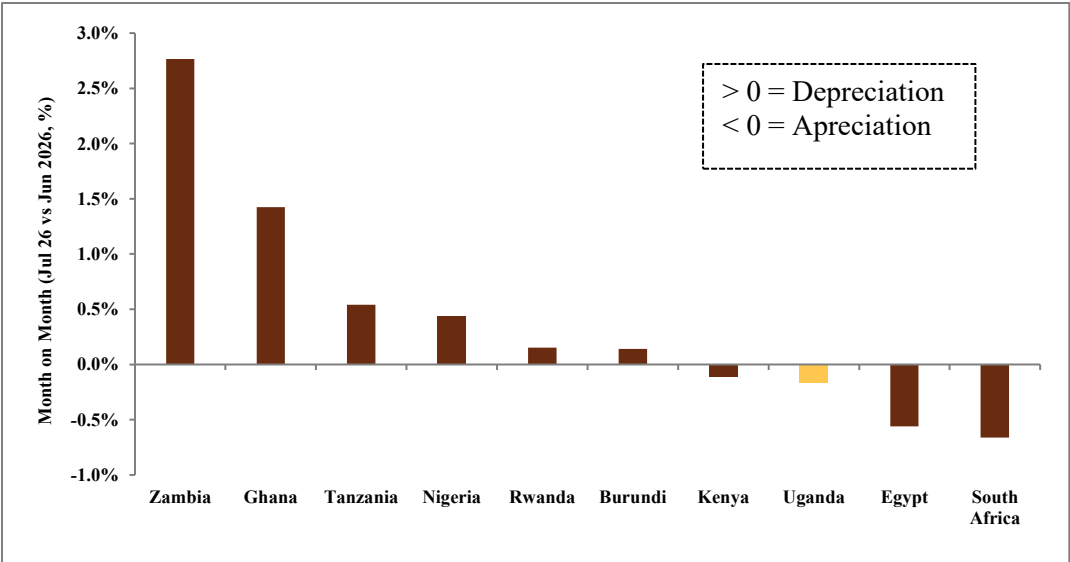
Uganda's exchange rate has proven more resilient than most regional currencies partly due to the prudent monetary policy and financial market reforms (**Figure 18**). Notably, regional currencies were mainly depreciated against the US dollar in July 2026 vs June 2026 because the Middle East conflict pushed oil prices up, raising dollar demand for fuel imports, while tight global financial conditions and low foreign currency reserves added pressure

The risks on the outlook of the Ugandan shilling in the near term are balanced. The Shilling could appreciate if there is on schedule delivery of oil infrastructure (Tilenga, EACOP, Kabalega International Airport), crystallising the anticipated foreign direct Investment and, commercial oil export earnings. Resumption of tourism services following Uganda's declaration of the end of the Ebola outbreak on 28 July 2026, could support the reversal of the earlier disruption to arrivals and travel related forex receipts. Additionally, Uganda obtaining an IMF supported funding program would complement concessional financing, bolster reserve buffers, and signal fiscal policy credibility to portfolio investors, easing pressure on the Uganda Shilling.

However, the Uganda Shilling could face depreciation pressures if the Middle East conflict persists to key global supply chokepoints. Such an escalation could push global oil prices higher, increasing Uganda's fuel import bill, while weaker global growth could dampen

external demand for Uganda’s exports. These developments could weaken the external position and reduce net foreign exchange inflows. An additional risk could arise from renewed global monetary tightening, including interest rates remaining higher for longer or further policy rate increases. This could strengthen the US dollar and narrow the yield differential between Ugandan and advanced economy securities, potentially prompting portfolio outflows as advanced economy assets become relatively more attractive.

Figure 18: Uganda’s exchange rate has proven more resilient than most regional currencies.



Source: Bank of Uganda

2.4.4 Fiscal operations more expansionary than planned.

Fiscal Operations in FY2025/26 were more expansionary than planned (**Table 2**). Recurrent expenditure exceeded program targets, primarily driven by higher-than-expected allocations to Local Governments, as well as higher spending on goods and services. Capital expenditure, however, fell short of the programmed target, despite rising by 10.0% relative to FY2024/25. This shortfall mainly reflected delays in the disbursement of externally financed project funds, resulting in a slower execution of project related expenditures than initially projected.

Table 2: Fiscal Operations Were More Expansionary in FY2025/26 (Shs. billions)

	Jul'24- Jun'25	Jul'25- Jun'26	Prog. Jul'25- Jun'26	Variation	Annual change (%)
Revenue (A)	33,434.6	37,088.4	39,791.4	-2,703.0	10.9
Taxes	29,870.8	34,049.9	34,051.4	-1.6	14.0
Grants (project support)	1,356.0	818.8	2,493.9	-1,675.0	-39.6
Other revenue	2,207.8	2,219.7	3,246.1	-1,026.4	0.5
Expense (B)	39,114.2	41,368.8	41,090.3	278.5	5.8
Compensation of employees	5,232.8	5,931.5	5,796.0	135.5	13.4
Purchase of goods and services	8,964.1	9,555.1	9,216.7	338.4	6.6
Consumption of fixed capital (C)	7.7	0.1	0.0	0.1	-99.3
Interest payments	8,393.8	11,037.4	11,845.0	-807.6	31.5
Domestic	7,060.8	9,738.0	10,103.3	-365.3	37.9
External (including commitment fees)	1,333.0	1,299.3	1,741.7	-442.4	-2.5
Subsidies	0.0	2.3	0.0	2.3	0.0
Grants	14,429.0	12,790.1	11,541.0	1,249.1	-11.4
Social benefits	570.4	707.1	1,244.5	-537.4	24.0
Other expense	1,516.2	1,345.3	1,447.2	-101.9	-11.3
Gross operating balance (A-B+ C)	-5,671.8	-4,280.3	-1,298.9	-2,981.5	
Net operating balance (A-B)	-5,679.5	-4,280.4	-1,298.9	-2,981.5	
Net Acquisition of Nonfinancial Assets (D)	7,400.2	8,137.0	10,098.7	-1,961.7	
Net lending/borrowing (A-B)-D	13,079.7	-12,417.4	-11,397.6	-1,019.9	
Primary balance	-4,685.9	-1,380.1	447.4	-1,827.5	
Transactions in financial assets and liabilities Financing (net) (E-F)	13,079.7	-12,417.4			
Net Acquisition of Financial Assets (E)	2,738.0	1,823.2			
Domestic	2,738.0	1,823.2			
Foreign	0.0	0.0			
Net Acquisition of Financial Liabilities (F)	15,682.4	16,727.3			
Domestic	14,468.5	14,921.7			
Foreign	1,213.9	1,805.6			
Errors & Omissions	-135.4	2,486.6			

Source: Ministry of Finance Planning and Economic Development

Revenue performance was weaker than planned, with total government revenue (including grants) amounting to Shs. 37,088.4 billion in FY2025/26. This outturn fell short of the programmed target by Shs. 2,703.0 billion, largely reflecting lower grant inflows and non-tax revenue collections. Grant inflows underperformed by Shs. 1,675.0 billion, on account of tighter financing conditions among development partners, amid heightened global geopolitical uncertainties, and delays in the implementation of government projects.

Similarly, net tax underperformed by Shs. 1.6 billion while non tax revenue collections fell short of the target by Shs. 1,026.4 billion. The underperformance in net tax revenue was mainly due to lower collections from international trade taxes and indirect domestic taxes,

which registered shortfalls of Shs. 311.1 billion and Shs. 220.3 billion, respectively. As a result, the combined effect of revenue underperformance and higher recurrent expenditure led to a fiscal deficit of Shs. 12,417.4 billion in FY2025/26, exceeding the programmed level by Shs. 1,019.9 billion. The fiscal deficit was financed primarily through domestic sources, which accounted for 87.9% of total deficit financing.

Despite the underperformance in domestic revenue during FY2025/26, the medium-term fiscal outlook remains favourable. Revenue collections are expected to strengthen, supported by enhanced tax administration under the Domestic Revenue Mobilization Strategy (DRMS) 2025/26-2029/30, sustained economic growth under the Tenfold Growth Strategy, and the commencement of oil and gas production. Additional support is expected from deeper regional trade integration and increased access to infrastructure financing. These measures are anticipated to strengthen revenue performance, ease financing pressures, and create fiscal space for priority expenditures.

Fiscal policy remains anchored on a medium-term consolidation path aimed at safeguarding macroeconomic stability while supporting growth enhancing investments under the Agro-Industrialization, Tourism Development, Mineral Based Industrialization, and Science, Technology and Innovation (ATMS) strategy.

Against this backdrop, the fiscal deficit was 5.1% of GDP in FY2025/26, below the earlier projection of 7.0%, largely reflecting under execution of some development projects. The deficit is expected to widen to 5.7% of GDP in FY2026/27, driven by higher government expenditure in line with the Government's development agenda, before declining gradually thereafter to 3.4% of GDP by FY2030/31. The medium-term consolidation path will be supported by expenditure rationalisation and stronger domestic revenue mobilisation, implementation of the FY2026/27–FY2029/30 Medium-Term Debt Strategy to reduce reliance on costly domestic and commercial borrowing, increased petroleum revenues, and continued implementation of the Charter for Fiscal Responsibility.

3 EXTERNAL ECONOMIC ENVIRONMENT

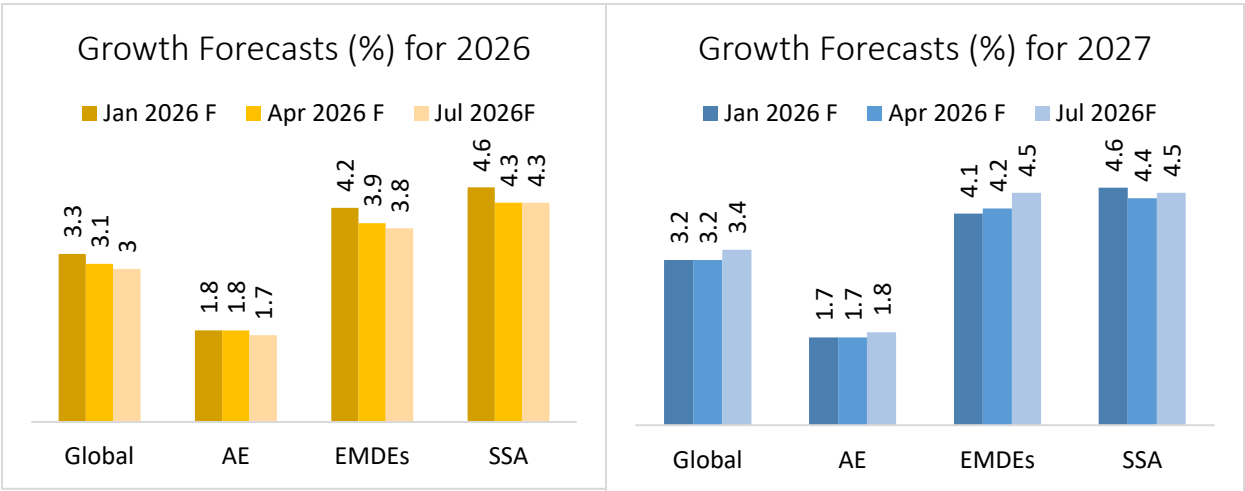
3.1 Global economic activity and outlook

The global economy continues to be impacted by the effects of the Middle East conflict, moderated however, by the advancements in global technology particularly artificial

intelligence. The global economy has also demonstrated resilience against persistent shocks, with recently released projections for 2026 and 2027 remaining broadly unchanged from the forecasts in April 2026, despite the negative shock, with expectations of a gradual rebound in 2027. Nonetheless, continuing geopolitical uncertainty and risk have elevated downside risks to the global economic outlook.

The IMF projects global growth to turn out at 3.0% in 2026, down from 3.5% recorded in 2025, and to strengthen to 3.4% in 2027 (**Figure 19**). The July 2026 projections represent a downward revision by 0.1 percentage points (pp) to 2026 growth, from the April 2026 World Economic Outlook (WEO) projections, while the projection for 2027 reflects an upward revision by 0.2pp. The impact of the Middle East war on supply chains has had a dampening effect on global growth. On the other hand, advancement and investment in Artificial Intelligence has had an offsetting effect, positively supporting global economic activity so far in 2026 and improving prospects for 2027. Economies’ adaptability to the oil supply shock, by devising alternative shipping routes and increasing the share of renewable energy consumption, has supported global resilience, against high crude oil prices and supported economic activity so far in 2026, represented by growth of 3.0% in the first quarter of 2026, higher than the 2.7% projection in the April 2026 IMF WEO.

Figure 19: Global growth forecasts remain broadly unchanged from the April 2026 WEO, highlighting the global economy's ability to withstand continued geopolitical risks and uncertainty. Although growth is expected to ease in 2026, a gradual rebound is projected for 2027.



Source: IMF World Economic Outlook, July 2026

Growth in Advanced Economies (AEs) is projected at 1.7% in 2026, from the outturn of 1.9% in 2025, and at 1.8% in 2027, with the forecast for 2026 slightly revised downwards by 0.1pp and the forecast for 2027 revised slightly upwards by 0.1pp, compared to the April 2026 WEO. AE growth is influenced mainly by growth in the Euro Area, United Kingdom and Japan, which is expected to decline to 0.9%, 1.0% and 0.6% in 2026, before recovering to 1.2%, 1.3% and 0.7% in 2027. Projected slower growth in these economies is attributed to the impact of higher energy prices on their net energy importer status. Support to AE growth is largely on account of the United States (US) economy, projected to grow by 2.3% in 2026 and by 2.2% in 2027, up from 2.1% in 2025. Compared to the April 2026 WEO projections, the US growth forecast for 2026 is unchanged, while the forecast for 2027 represents an upward revision of 0.1pp. The US economy is currently showing limited impact from the Middle East war, whose effects are offset by supportive fiscal policy, easier financial conditions and continued AI related business investment.

Growth among Emerging Market and Developing Economies (EM&DEs) is projected to slow to 3.8% in 2026, from 4.5% in 2025, and recover to 4.5% in 2027. The forecasts represent a downward revision of 0.1pp to growth in 2026, and an upward revision of 0.3pp to 2027 growth, compared to April 2026 WEO projections. There are cross country differences as reflected by the projected deceleration in China growth to below 5.0% in 2026 and 2027, from 5.0% in 2025, largely on account of higher global oil prices and prolonged global economic uncertainty, while India growth is projected to remain strong, above 6.0% over the same period, driven partly by buoyant private consumption. The forecast for Sub Saharan Africa (SSA) is largely unchanged, with growth for 2026 projected at 4.3%, down from 4.5% in 2025, and to gradually recover to 4.5% in 2027, with cross country differences depending on economies' exposure to external shocks and available policy space to respond to the shocks.

Since the last Monetary Policy setting meeting held in May 2026, geopolitical conflict in the Middle East reduced temporarily, with the signing of a Memorandum of Understanding (MOU) between the US and Iran on June 15, 2026, to end the conflict between the two countries and reopen the Strait of Hormuz. However, disagreements on the ultimate authority (Iran/Oman), and on shipping routes, over the Strait led to renewal of US attacks on Iran on July 08, 2026, and retaliatory Iranian strikes on US military assets and infrastructure in the Middle East. Consequently, average crude oil prices, which had

dropped to low of US\$ 69 per barrel by July 02, 2026, picked up again reaching US\$ 99 per barrel on July 23, 2026, and have remained volatile to date.

While US-Iran fighting was halted at the end of July 2026, diplomatic wrangling over the fate of the Strait continues, with Iran and Oman currently concluding negotiations on the terms of its control and reopening. The agreement from these negotiations is expected to form part of the foundation for renewed negotiations between the US and Iran on settling the nuclear program disagreements and permanently ending the war. Currently, the global economy continues to be undermined by persistent uncertainty around the Middle East conflict, partly arising from volatility of the news flow between US and Iran authorities.

The forecasts assume a reopening of the Strait of Hormuz in mid July 2026, with conditions broadly returning to the prewar situation by March 2027. Consequently, the reescalation of the Middle East conflict in July 2026 is likely to result in lower than projected growth especially for 2026. Notably, the average crude oil price for 2026 as of August 03, 2026, stood at US\$ 87 per barrel, which remains below the US\$ 100 per barrel assumed under the adverse scenario in the IMF WEO of April 2026, implying that the risk of global growth falling to below 3.0% in 2026 remains contained this far.

Overall, risks to the global growth outlook are more balanced than in April 2026 although they remain tilted to the downside. Renewed conflict in the Middle East and the resultant supply chain disruptions, commodity price volatility, and unease in global financial markets, could result in lower than projected growth. Increase in trade fragmentation and restrictive immigration policies could also curtail output growth resulting in lower than projected global economic growth. There are upside opportunities, however, arising from faster than expected normalization in energy markets, continued strong investment in technology and revival of durable cooperation that lowers trade barriers, that could lead to higher than projected global economic growth.

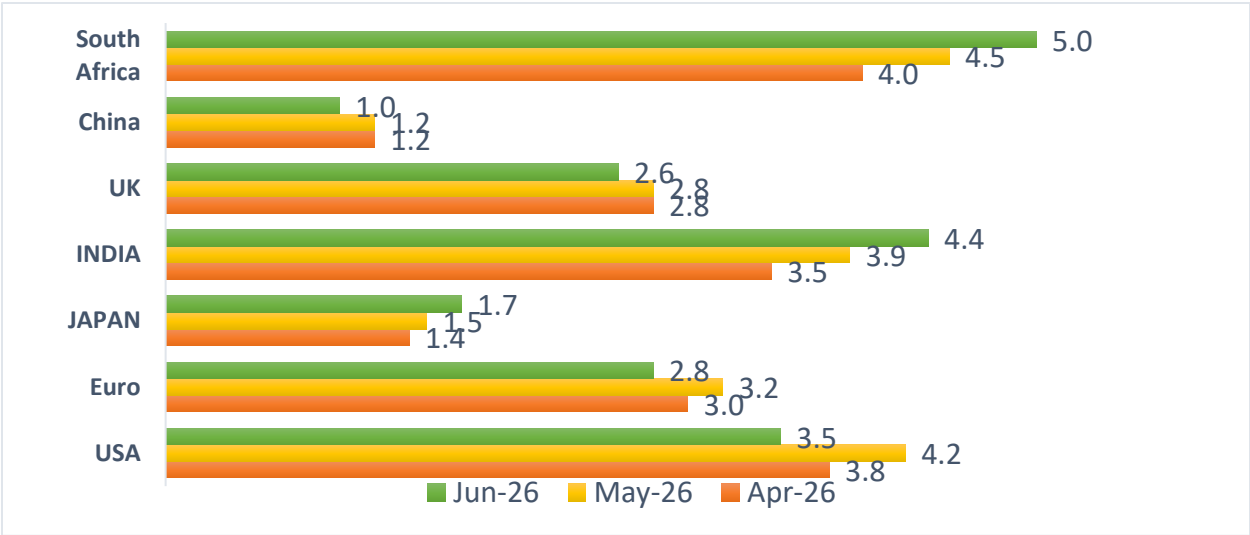
With overall risks tilted to the downside, lower than projected global GDP growth could weaken external demand for Uganda's exports, lowering export receipts leading to a higher trade deficit. This moderation in BOP inflows could in turn result in exchange rate depreciation pressures posing upside risks to inflation. In addition, lower external demand for Uganda's exports could also lead to lower domestic growth. Sustained restrictive immigration policies in AEs could also result in reduced inflows of remittances, and tight

foreign exchange supply in the domestic market, with implications for exchange rate stability.

3.2 Global inflation and outlook

Although inflation and inflation expectations rose in the second quarter of 2026, marking a stalling of the disinflation trend recorded since 2024, global Inflation developments were mixed in June 2026 (**Figure 20**), with headline inflation increasing in some countries but declining in most economies, supported by relatively lower crude oil prices brought down temporarily by the signing of the MOU between US-Iran on June 15, 2026, drawdown of crude oil inventories, increase in the consumption of renewable energy, and Middle East suppliers finding alternative shipping routes.

Figure 20: Annual Inflation moderated in most economies in June 2026, supported by slower increase in crude oil prices, despite renewed tensions in the Middle East.



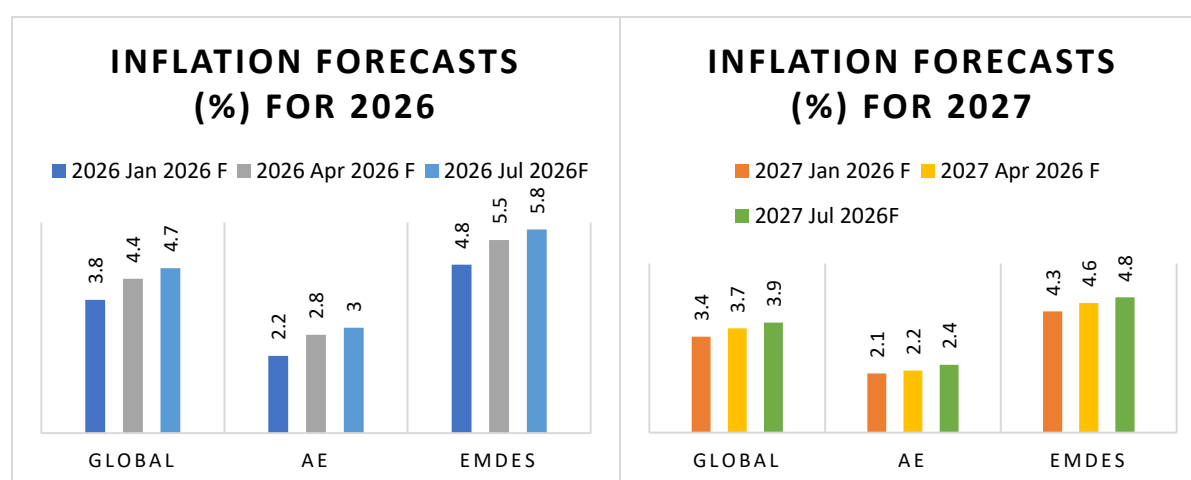
Source: Country Statistics Offices (Websites) July 2026

In June 2026, inflation declined in the US, Euro Zone, UK and China. Lower inflation in the US and the Euro Zone was largely attributed to the fall in energy prices, while in the UK, lower inflation was on account of moderation in the prices for transport, food and non-alcoholic beverages. On the contrary, inflation was higher in Japan, India and South Africa, compared to May 2026 levels. While in Japan inflation increased due to high electricity and gas prices, the overall inflation level remains below Bank of Japan target of 2.0%. In India inflation rose driven by higher food prices due to disruptions in agricultural production

arising from uneven monsoon rainfall, while in South Africa the increase in inflation was driven by higher prices of transportation, housing and utilities.

With regards to the outlook, global headline inflation is expected to increase to 4.7% in 2026, from 4.4% in 2025 and to moderate to 3.9% in 2027 (**Figure 21**). The forecast for 2026 is revised upwards by 0.3 percentage points compared to the April 2026 WEO, while that of 2027 is revised upwards by 0.2 percentage points, and the increase in 2026 is attributed to higher energy and food prices. Higher inflation is projected for both AEs and EM&DEs, in 2026, before easing in 2027. Annual inflation in AEs is projected to rise to 3.0% in 2026 before easing to 2.4% in 2027, while among EM&DEs, annual inflation is forecast to increase to 5.8% in 2026 and to moderate to 4.8% in 2027 and the projections represent upward revisions for both 2026 and 2027 compared to April 2026 forecasts, reflecting the persistent disruptions to commodity supplies, owing to the prolonged Middle East conflict. The projected inflation rate for the Euro Area is 2.9% for 2026 and 2.3% for 2027, and that for Japan is 2.3% for 2026 and 2.5% for 2027. Inflation in the US is forecast at 3.6% for 2026 and 2.4% for 2027. Notably, the projected inflation for 2026 and 2027, for these key economies, sits above the European Central Bank (ECB), Bank of Japan (BoJ) and the US Federal Open Market Committee (US FOMC) targets of 2.0%, raising the likelihood of monetary policy tightening, which poses a downside risk to global growth.

Figure 21: Global Inflation forecasts are higher for 2026 and 2027, compared to previous forecasts. Headline inflation is expected to increase in 2026 compared to 2025 and moderate slightly in 2027.



Source: IMF World Economic Outlook, July 2026

Risks to the inflation outlook are largely dependent on developments in the Middle East and on the direction of commodity prices, however, remain tilted to the upside, arising mainly from reescalation of geopolitical conflict which could sustain supply constraints, increase commodity price volatility and compound inflationary pressures. The continued closure or introduction of permanent maritime restrictions on transit thorough the Strait of Hormuz could delay restoration of supply chains and increase commodity price and inflation pressures. In addition, the drawdown on inventories that has so far contained the increase in energy prices, could push inventories to critically low levels should supply disruptions persist, leading to higher prices for a longer period. Further, food insecurity could worsen substantially if disruptions to fertilizer and energy trade continue and transmit to higher food prices and inflation pressures. On the downside, however, faster and permanent resolution of US-Iran-ME geopolitical conflict, could support earlier than expected restoration of commodity flows and support lower inflation.

In terms of implications for Uganda, higher global inflation poses an upward risk to domestic inflation, and in the event that key policy rates are increased in response to higher global inflation, portfolio capital outflows could increase and destabilize the exchange rate, posing an upside risk to domestic inflation and a downside risk to domestic growth.

3.3 International commodity prices

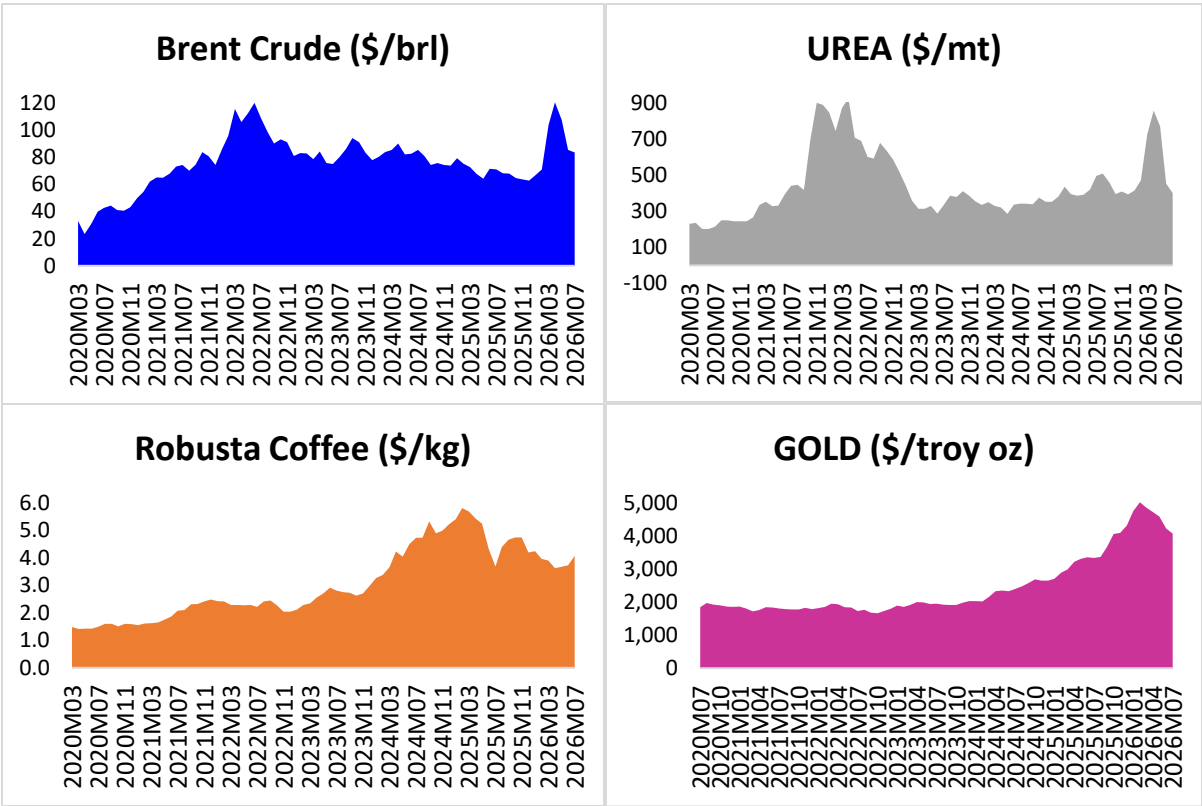
Commodity price developments remained mixed in July 2026 (**Figure 22**), marked by volatility in crude oil markets, decline in the prices of gold, and increase in food and coffee prices, reflecting the temporary deescalation in the Middle East conflict in June 2026, persistent disruptions to Middle East oil supply, elevated risk sentiment and weather-related shocks.

International crude oil prices although still elevated, were lower in July 2026 compared to their May 2026 levels. Average crude oil prices in July 2026 stood at US\$ 79.8 per barrel, about 17.0% higher than in February 2026 before the war in the Middle East started, owing to supply disruptions and heightened geopolitical risk, but lower by 2.3% compared to June 2026, moderated by the drawdown of crude oil inventories, increase in the consumption of renewable energy such as coal and biofuels, and Middle East suppliers finding alternative shipping routes. The relatively muted increase in global oil prices largely points to the global

economy’s ability to adapt to persistent shocks and its potential to remain resilient going forward.

Fertilizer prices which surged sharply in March 2026 following the disruption to supplies from Qatar, Saudi Arabia and the UAE, have declined gradually since May 2026, with the prices of urea declining by 10.0%, 41.0% and 12.0% on monthly basis, in May, June and July 2026, respectively. In July 2026, prices of urea had returned to their prewar levels of about US\$ 400 per metric ton, relaxing earlier concerns of higher fertilizer prices transmitting to high food prices and destabilizing food security.

Figure 22: Commodity price developments remained mixed in July 2026. Although volatile, Crude oil prices were lower in July 2026, moderated partly by a drawing down of inventories. Gold prices dropped further in July 2026, while Coffee prices rose due to weather induced supply disruptions in Brazil and Vietnam.



Source: World Bank Commodity Prices

Global food prices, measured by the FAO food price index rose by 0.6% on monthly basis and by 1.0% on annual basis, in July 2026, driven by higher prices of vegetable oils, sugar and cereals. Increase in the price of vegetable oils reflected higher international palm oil prices which rose for the second consecutive month, pushed up by strong demand from Indonesia's biodiesel sector. The increase in prices of cereals was largely driven by a surge in global wheat prices by 5.8% month on month in July 2026, arising from heightened concerns over continued disruptions to Black Sea export flows and damage to export infrastructure, further compounded by the impact of heatwaves on crop yields in several key producing countries. The increase in sugar prices was mainly driven by weather related concerns in the European Union and in key producing countries in Asia, as well as expectations of stronger demand for ethanol, a renewable energy source, in Brazil. While switching consumption to renewable energy has supported crude oil markets, the increased demand for products required for the related energy production such as sugar and vegetable oils, among others, poses an upward risk to global food inflation.

Gold prices recorded a fifth consecutive monthly decline in July 2026, falling by 3.7%, on monthly basis, to US\$ 4,073 per ounce. Average gold prices have dropped by 18.9% between February and July 2026, owing largely to US Dollar strengthening, and growing expectations of higher interest rates in the US and other key economies, on account of persistently above target inflation in most key Advanced Economies, due to turbulence in energy prices. However, market expectations remain for resilience in gold demand as a safe haven asset and on central bank buying which could continue to support prices in 2026 and 2027.

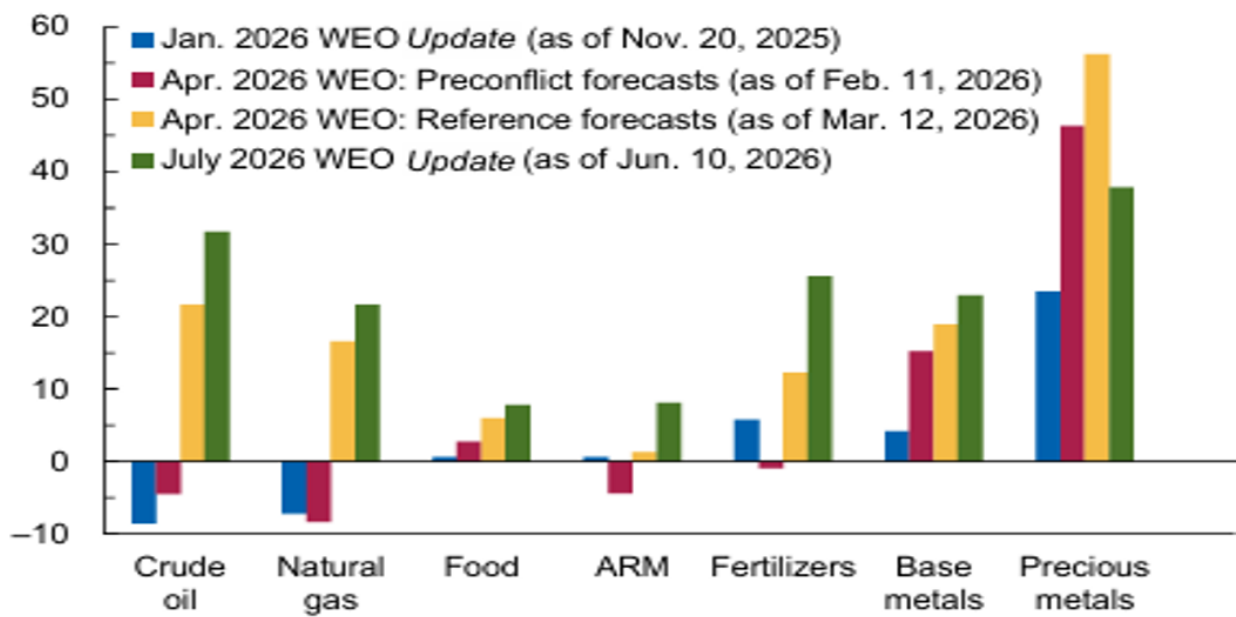
Arabica and robusta coffee prices rose in July 2026, primarily driven by weather induced harvest delays in Brazil and

lower output in Vietnam due to dry conditions in key robusta coffee producing regions. Average prices of arabica coffee rose by 16.5% on monthly basis, and by 10.0% on annual basis in July 2026, while those of robusta rose by 9.1% and 10.0%, respectively, over the same period.

The outlook is for higher commodity prices in 2026, with relative recovery in 2027 (**Figure 23**) and upside risks remain dominant. Energy prices are expected to remain higher than they were before the war, with the average crude oil spot price projected at US\$ 89 per barrel for 2026. Crude oil prices are forecast to gradually recover to an average spot price

of US\$ 79 per barrel in 2027. The forecasts for 2026 and 2027 are higher by 9.0% and 4.0% respectively, compared to the April 2026 WEO reference forecast, and correspond to an increase of 32.0% in 2026, from the 2025 average level of US\$ 77 per barrel, and to a decline of 11.8% in 2027. Fertilizer prices are projected to rise by 26.0% in 2026 compared to 2025, and reflecting higher energy and fertilizer costs, food prices are expected to increase by 8.0% in 2026 compared to 2025. However, projections are for a slower increase in prices of precious metals, which include gold, of 37.8% in 2026, slower than the increase of 56.2% recorded in 2025.

Figure 23: Updated Commodity Price Forecasts (% change) are for higher commodity prices in 2026



Source: IMF staff calculations.
 Note: Bars show 2026 growth rates over previous years for different commodities at different points in time. ARM = agricultural raw materials; WEO = *World Economic Outlook*.

Source: IMF World Economic Outlook, July 2026

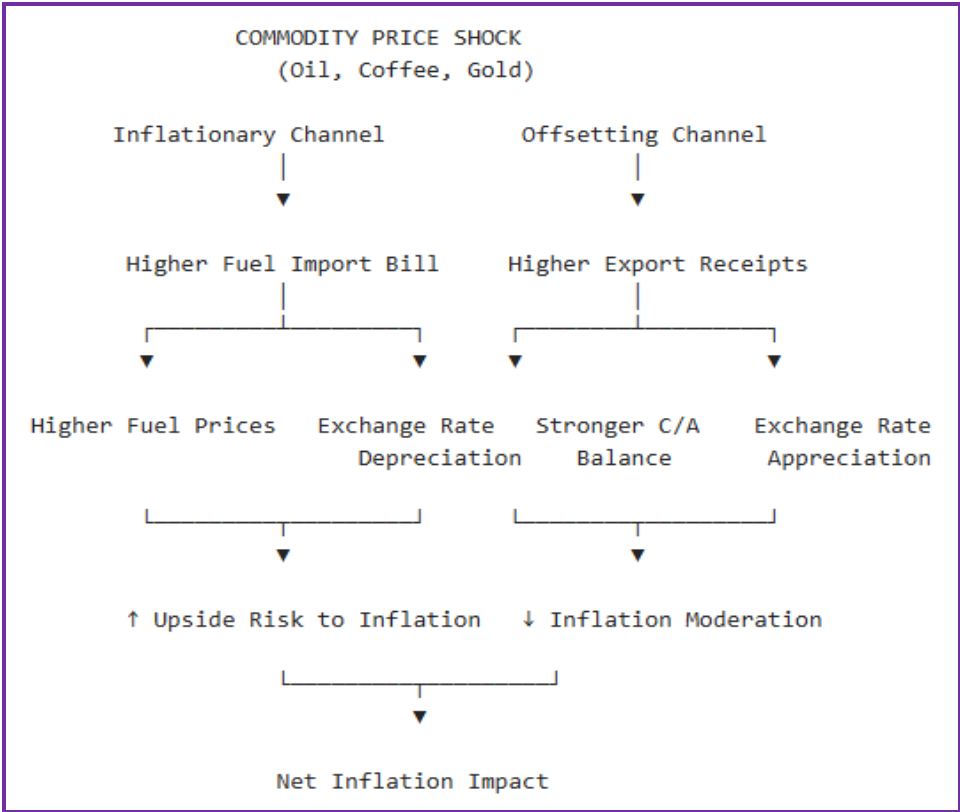
Regarding the risks to the commodity price outlook, Iran and Oman are currently negotiating the handling of shipping through the Strait of Hormuz which runs between the two countries. A preliminary deal gave Iran control of inbound shipping, with outbound traffic jointly managed by Iran and Oman. Other points of the negotiation include fees to be levied, as well as the conduct of mine sweeping operations. Consequently, transit

through the Strait may be unlikely to return to pre-war conditions, implying a permanent shift in the cost structure for shipments through this important waterway, and an upward risk to current price and inflation projections.

Overall, risks continue to dominate on the upside arising from re-escalation of geopolitical conflict, continued attacks on Russia's energy infrastructure, current drawdown on crude oil inventories which could lead to critically low stock levels should supply disruptions persist, and a worsening of food security if disruptions in fertilizer and energy markets intensify. On the other hand, soft global demand could moderate the impact of oil supply constraints on oil prices. In addition, pickup in the use of alternative energy sources such as coal and biofuels could moderate crude oil demand, while alternative shipping routes such as through the Red Sea and increase in Russian crude oil production, could support oil supply.

In terms of implications for Uganda, the projected higher commodity prices have a two-way effect (**Figure 24**). On the one hand, higher international crude oil prices could lead to a higher fuel import bill, passing through to higher domestic pump prices, posing an upside risk to domestic inflation. The higher fuel import bill could also increase depreciation pressures, adding to the upside risks to domestic inflation. Increasing upside risks to inflation could necessitate tighter monetary policy, with a potential to lower domestic economic growth in the medium term. However, with the start of oil production, currently set for 2027, projected higher crude oil prices could boost Uganda's export earnings. On the other hand, with Uganda being a commodity exporter, the currently projected higher prices of commodities could improve Uganda's export earnings, strengthen the current account and the Uganda Shilling, and offset the upside risks to domestic inflation.

Figure 24: Implications of higher than projected international commodity prices on Uganda’s economy.



Source: Bank of Uganda

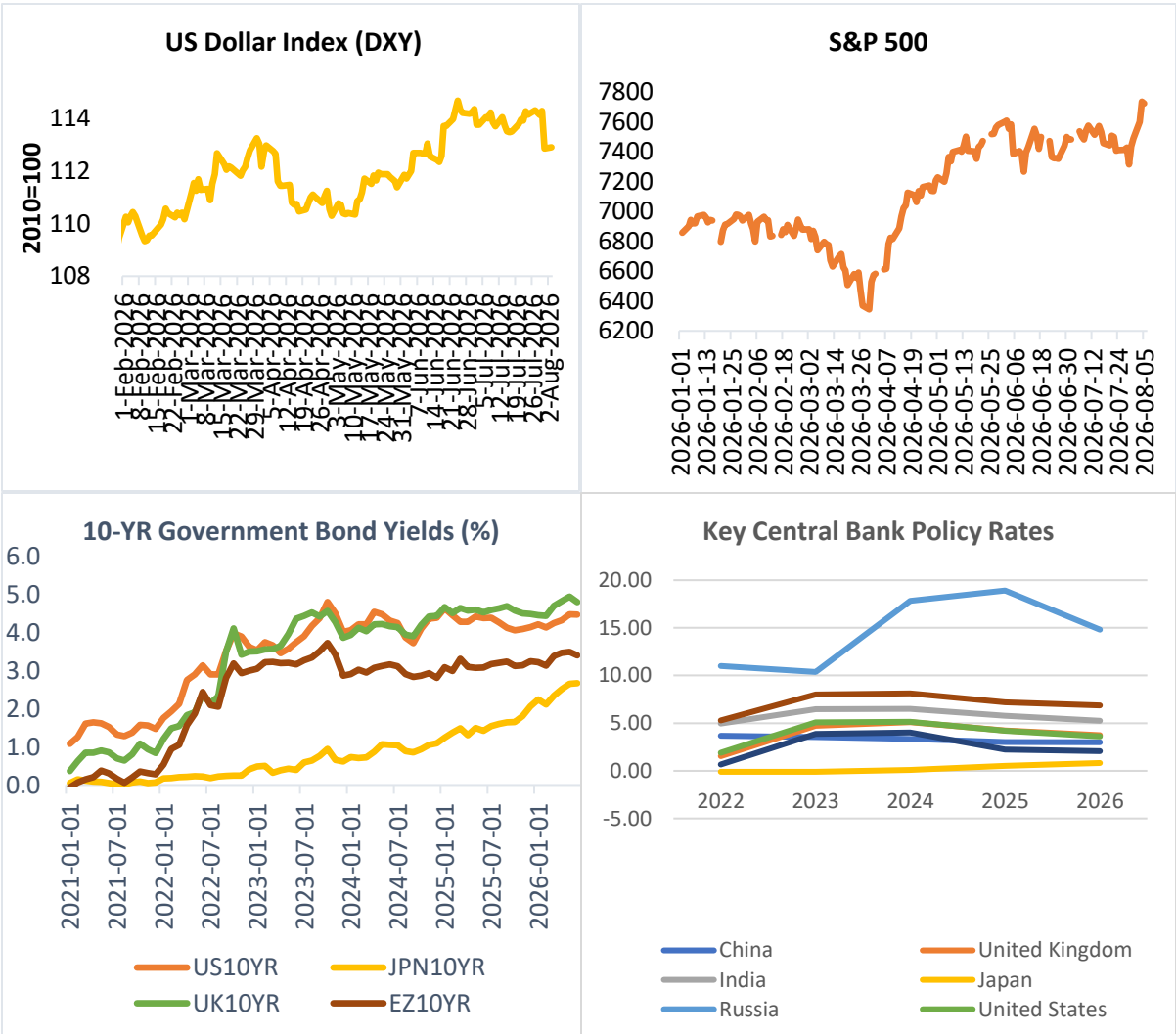
3.4 Global financial markets

Global financial conditions have eased since their peaks in early April 2026, although the easing trend has been accompanied by episodes of volatility, and the reescalation of geopolitical conflict in July 2026 poses risks to continued ease. Markets appear to be pricing in higher nominal policy rates in response to the continuing risks to already above target inflation, as reflected by the increase in long term sovereign bond yields through the second quarter of 2026, by an average of almost 30 basis points among key AEs (**Figure 25**). Rising alongside long-term yields, equity valuations increased in the three months ended July 2026, with the Standard & Poor’s 500 Composite Stock Price Index (S&P 500) rising by 9.0% over the period, compared to the three months ended April 2026, reflecting resilient risk appetite in global financial markets, despite deterioration in geopolitical environment.

In the currencies market, the US Dollar continued to strengthen through June 2026, largely on resilient US economic conditions. In July 2026 (**Figure 25**), the USD index strengthened further by 3.5% against major US trading partner currencies, compared to its level in January 2026, however, it depreciated slightly, at the end of July 2026, owing to the dissent of three out of twelve members at the FOMC meeting on July 29, 2026, who voted to increase the Fed Funds rate, and a shortfall in the US GDP outturn of 1.5%, for the quarter ended June 2026, from 2.1% recorded in the quarter ended March 2026.

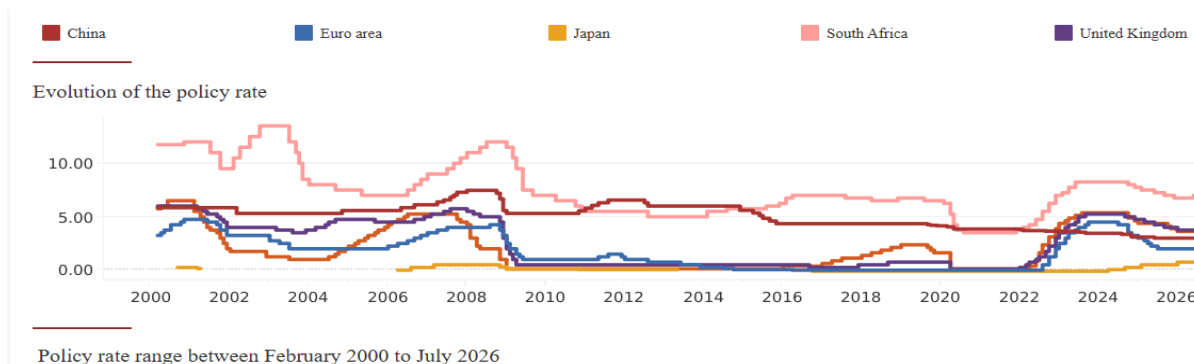
Key central banks kept their interest rates unchanged in July 2026 (**Figures 25 and 26**), even while Authorities expect inflation to rise later in 2026, with the passthrough of higher energy prices. In the US, supported by the decline in inflation to 3.5% in June 2026, from 4.2% in May 2026, the FOMC at its meeting on July 28-29, 2026, maintained the target range of the federal funds rate at 3.5-3.75%, while noting that Inflation remained elevated relative to the Committee's 2.0% goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. In the Euro Zone, with inflation falling to 2.8% in June 2026, the European Central Bank (ECB) at its meeting on July 23, 2026, decided to maintain its 3 key interest rates unchanged, following their increase by 25 basis points, in June 2026. The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility remained unchanged at 2.25%, 2.4% and 2.65%, respectively, following the meeting on July 23, 2026. In the UK, the Bank of England kept the Bank Rate unchanged at 3.75% at its meeting held on July 29, 2026, the same rate held since August 2025, however with three out of 9 members voting to increase the Bank Rate by 25 basis points. The Bank of Japan maintained its policy rate at 1.0 percent on July 31, 2026, following its increase and the reduction of planned purchases of government bonds for the period to April 2027, a move that was contractionary. These cautious monetary policy paths pursued by key central banks reflect the continued efforts by Authorities to manage rising inflation expectations while continuing to support output growth.

Figure 25: Global financial conditions have eased since their peaks in early April 2026; however, reescalation of geopolitical conflict poses risks to continued ease.



Source: Reuters, US Federal Reserve of St Louis, BIS Data Portal Central Bank Policy Rates

Figure 26: Key Central Bank Policy Rates are Gradually easing but still relatively high compared to before Middle Eastern war



Source: BIS Data Portal Central Bank Policy Rates

Looking forward, global financial market stability could be supported by continued resilience of investor confidence and risk appetite, and cautious AEs' monetary policies, although the possibility of second round effects of higher energy prices has raised expected policy rate paths through 2026, despite crude oil prices falling from their April – May 2026 highs. Policy rates in the Euro Area and the US are assumed to be held largely steady, whereas the policy rate in Japan is expected to gradually tighten.

Risks to continued financial market stability remain elevated, arising from reescalation of geopolitical conflict and its impact on commodity prices and inflation expectations, persistent uncertainty around escalation due to volatility of the news flow between the US and Iran Authorities, as well as materialization of second round effects of previous higher energy prices that could trigger central bank monetary policy tightening.

In terms of implications for Uganda, tightening of global financial conditions could trigger elevated capital outflows, increase exchange rate instability, put pressure on reserves and increase upside risks to domestic inflation. However, Foreign Direct Investment (FDI) inflows towards construction of the Uganda's oil pipeline could moderate the overall impact on the financial account of the balance of payments, maintain support to the current account, mute the exchange rate depreciation pressures and offset the impact to domestic inflation.

4 CONCLUSION

Uganda's macroeconomic performance remained resilient through FY2025/26 despite a challenging global environment characterised by geopolitical tensions, volatile energy prices, persistent inflation concerns and shifting expectations for global monetary policy. The economy enters the second half of 2026 with strong underlying momentum, although the inflation and external environment remains more complex. Economic growth is estimated at 6.4% in FY2025/26, supported by strengthening private sector credit, household consumption, investment and government expenditure. Positive business and consumer sentiment, together point to continue expansion in domestic economic activity.

Growth prospects remain strong. The economy is projected to expand by 7.0-7.5% in FY2026/27 and approximately 8.0% over the medium term. This acceleration is expected to be supported by continued credit expansion, investment, exports, remittance inflows, government development spending and increasing oil sector activity. The Government's Tenfold Growth Strategy, greater value addition and agricultural production are also expected to strengthen productive capacity and export performance. However, the growth outlook faces significant downside risks. Renewed Middle East conflict could increase energy costs, disrupt supply chains, weaken global demand and reduce trade and investment flows. Greater protectionism, tourism related restrictions and slower than expected oil sector investment could similarly constrain activity. On the upside, stronger extractive sector investment, geopolitical deescalation and more robust credit and infrastructure spending could produce growth above the baseline.

Inflation remained relatively contained compared with several regional economies, although the recent uptick in headline inflation from 3.7% in June 2026 to 4.0% in July 2026, alongside continued uncertainty surrounding global energy and food prices, underscores the need for a cautious, data dependent monetary policy stance. Easing of annual services inflation and marginal increase in other goods inflation, alongside core inflation remaining unchanged at 3.4% between June 2026 and July 2026, suggest that the recent oil price shock has not yet generated substantial second round effects across the broader domestic price structure.

The inflation outlook has improved relative to the previous forecast round, principally because international oil prices have fallen from their May 2026 peak. Consequently,

headline inflation is projected to average 5.5-6.0% over the next 12 months, while core inflation is expected to average 4.0-4.5%. The outlook nevertheless remains vulnerable to renewed energy price shocks, adverse weather, stronger than anticipated domestic demand and geopolitical escalation. A prolonged global inflation surge could also prompt tighter monetary policy in major economies, increasing capital flow pressures and depreciation risks for the Shilling. Conversely, favourable agricultural conditions and weaker domestic or global demand could moderate inflation.

Against this backdrop, the Bank of Uganda maintained the CBR at 9.75% to preserve price stability while allowing time to assess global developments and their implications for the inflation outlook. While the recent increase in headline inflation has largely reflected supply-side pressures, the risk that higher food, fuel and other input prices could translate into broader and more persistent inflationary pressures remains. Maintaining the current policy stance allows the Bank to assess the persistence and transmission of these pressures while safeguarding price stability amid elevated global risks.

Overall, Uganda's macroeconomic outlook remains favourable, supported by strong economic growth and relatively low inflation. Nonetheless, continued vigilance is warranted, as geopolitical tensions, energy and food supply shocks, and tighter global financial conditions could materially affect both inflation and growth outcomes.