



STATE ON THE ECONOMY

BY

Henry Musasizi (MP)

**Minister of Finance, Planning and Economic
Development**

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STATEMENT TO PARLIAMENT ON THE STATE OF UGANDA'S ECONOMY

Rt. Hon. Speaker,

1. I rise to provide an update on the state of our economy. In particular, I want to explain the recent depreciation of the Uganda shilling, the measures Government and the Bank of Uganda are taking, and the implications for households, businesses and the public finances.
2. Government recognises the difficulties that higher fuel prices, transport costs and production costs are placing on our people. For a household managing a limited income, or a business trying to maintain production and employment, these pressures are real. Our responsibility is to explain their causes clearly, take appropriate action and protect the foundations of lasting economic stability.
3. My statement will therefore address three questions:
 - a) What is the problem?
 - b) How are Government and the Bank of Uganda responding?
 - c) What does this mean for all of us?

A. WHAT IS THE PROBLEM?

Rt. Hon. Speaker,

4. The Ugandan shilling has come under significant pressure, weakening from approximately Shs 3,604 per US dollar in March 2026 to around Shs 4,500 by late October 2026. This represents an increase of about 25% in the shilling cost of a dollar, equivalent to a decline of approximately 20% in the dollar value of the shilling.

5. The depreciation gathered pace in late September and October 2026, reversing the relative stability experienced earlier in the year.
6. Rt. Hon. Speaker, our concern is not only the depreciation of the Shilling, but also its speed and impact on prices, businesses and household welfare. Although headline inflation remained relatively contained at 4.6 percent in September 2026, with core inflation at 3.7 percent, below the Bank of Uganda's 5 percent target, food crop inflation rose to 4.5 percent, while energy, fuel and utilities inflation reached 14.5 percent, placing additional pressure on households and businesses.
7. The underlying pressure arises from an imbalance between the demand for and supply of foreign exchange, particularly US dollars. When demand for dollars to finance imports and meet other external obligations exceeds the supply generated by exports, investment and other foreign-exchange inflows, the price of the dollar rises.
8. Consequently, more shillings are required to purchase the same amount of foreign currency, resulting in depreciation of the shilling.
9. Five main factors account for the current pressure on the exchange rate.
10. **First, higher international petroleum costs have increased Uganda's demand for foreign exchange.** Geopolitical tensions in the Middle East have heightened uncertainty and pushed up petroleum-related costs, including

shipping and insurance. As a net importer of petroleum products, Uganda must therefore spend more dollars to meet its fuel requirements when international prices rise.

11. According to the Bank of Uganda, net foreign-exchange demand from the energy sector increased from US\$360 million in the three months ending September 2025 to US\$620 million in the corresponding period of 2026. This represents an increase of US\$260 million, adding significant pressure to the foreign-exchange market.
12. These developments affect domestic fuel prices through two channels: the international cost of petroleum and the exchange rate at which dollars are purchased. When petroleum prices rise while the shilling depreciates, the cost of importing fuel increases further, putting additional upward pressure on pump prices and the cost of transporting goods and providing services.
13. **Second, demand for foreign exchange has increased across other sectors of the economy.** Businesses require dollars to finance imports, meet external obligations and remit dividends to foreign investors. Ahead of first production, oil projects have increased demand for imported goods and services. Seasonal imports ahead of the December festive season have added to this demand, while lower earnings from some agricultural exports have constrained the supply of foreign exchange.

14. **Third, international financial conditions and market expectations have contributed to the pressure.** Changes in interest rates and investment returns abroad influence the allocation of international capital. In mid-September 2026, the US Federal Reserve raised its policy rate by 25 basis points, to a range 3.75%–4.00%. At the same time, sovereign bond yields in advanced economies remained elevated by historical standards.
15. Higher returns on investments in advanced economies can make these markets more attractive to international investors, potentially limiting portfolio investment inflows into emerging and low-income economies such as Uganda. The Bank of Uganda is assessing the extent to which these international financial developments have affected domestic foreign-exchange flows.
16. Market expectations can also amplify exchange-rate movements. When businesses and investors anticipate further depreciation, they may bring forward their purchases of dollars or delay converting their foreign-currency earnings into shillings. Such behaviour can increase immediate demand for foreign exchange, further intensifying pressure on the shilling.
17. **Fourth, declining global prices for key agricultural exports, particularly coffee and cocoa, alongside reduced tourism receipts, have temporarily constrained Uganda’s foreign-exchange inflows.** After reaching historic highs in late 2024 and early 2025, international coffee and cocoa prices

subsequently declined, reflecting changes in global supply and demand, including improved supplies from major producing countries and adjustments in industrial demand.

18. The International Coffee Organization reported that its Composite Indicator Price fell by 9.9% between January and February 2026, and by a further 8.7% between August and September 2026.
19. Domestically, Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) price tracking reported that average farm-gate prices for Robusta coffee declined by approximately 14.5%, from Shs 13,500–14,000 per kilogram in September 2025 to Shs 11,500–12,000 in the first half of September 2026.
20. The cocoa market has also undergone a substantial correction. The World Bank's April 2026 *Commodity Markets Outlook* projected an average cocoa price of US\$4.20 per kilogram in 2026, approximately 51.3% below the 2025 average.
21. Tourism is also a potential source of vulnerability to external shocks. Ebola-related travel restrictions and health-screening measures affected travel decisions and visitor arrivals. However, the extent to which these restrictions affected visitor arrivals and tourism receipts during the third quarter of 2026 is yet to be established.

Rt. Hon. Speaker,

22. The pressures facing the shilling are a combination of temporary shocks and deeper structural vulnerabilities. Some

pressures—including fluctuations in international oil and freight prices, weather-related disruptions associated with El Niño, and episodes of foreign investor selling in domestic securities—may ease as external conditions and market sentiment improve.

23. However, other challenges are structural: a narrow export base, dependence on imported fuel, and substantial import requirements for oil projects ahead of first oil production.

24. Addressing these underlying vulnerabilities is central to the Government's Tenfold Growth Strategy and the Fourth National Development Plan (NDP IV), which seek to strengthen productive capacity, diversify exports, expand foreign-exchange earnings and build greater resilience to external shocks.

B. HOW ARE GOVERNMENT AND THE BANK OF UGANDA RESPONDING?

Mr. Speaker,

25. Our well-coordinated fiscal and monetary response has three objectives:

- a) To contain inflation;
- b) Restore stability in the foreign exchange market, and;
- c) Strengthen Uganda's capacity to earn foreign exchange and meet its external obligations.

Bank of Uganda's monetary and exchange-rate response

26. The Bank of Uganda has tightened monetary conditions, including raising the Central Bank Rate from 9.75 percent to 12 percent and increasing commercial banks' cash reserve requirement to 13.5 percent from 11 percent.

27. These measures are intended to moderate excessive demand, contain inflationary pressures and support confidence in the shilling. Their effects take time to work through the economy.
28. The Bank of Uganda will continue to manage liquidity and, where necessary, intervene in the foreign-exchange market to address excessive volatility, consistent with its mandate.
29. Uganda remains committed to a market-determined exchange rate. This allows the economy to adjust to changes in external conditions. Our objective is to preserve price and financial stability and support orderly market adjustment. We are not committing public resources to defending a particular exchange rate.
30. International reserves provide an important buffer against external shocks. Their prudent management must balance the need to address disruptive market conditions with the need to preserve the country's capacity to meet external obligations.

Government's fiscal response

31. Government is supporting monetary policy through expenditure restraint and careful prioritisation. Fiscal policy response is to reinforce Bank of Uganda's efforts to contain inflation and restore stability.
32. First-half expenditure releases for FY2026/27 have been limited to 45.6 percent of the approved budget, compared with the planned 55.7 percent.
33. This restraint must be accompanied by strict commitment control. Accounting officers have been guided to align commitments with available resources. Delaying payment for obligations already incurred would transfer the burden to suppliers and workers, weaken businesses and generate domestic arrears.

34. In implementing expenditure restraint, Government will prioritise essential services, critical obligations and investments that strengthen production, employment and foreign-exchange earnings. These include priorities under the Tenfold Growth Strategy, particularly agro-industrialisation, tourism, mineral development, science, technology and innovation, and their essential enablers.
35. We recognise that expenditure restraint has consequences for economic activity. It will therefore be carefully targeted and regularly reviewed.

Fuel supply and cost measures

36. Government, through the Ministry responsible for Energy, the Uganda National Oil Company (UNOC) and its private-sector partners, is pursuing measures to strengthen petroleum supply security, improve procurement efficiency and minimise avoidable costs.
37. The Minister responsible for Energy has already outlined the operational measures, which include centralised bulk fuel importation, expansion of storage infrastructure to establish strategic fuel reserves, development of lower-cost pipeline transportation for petroleum products, and investment in domestic refining capacity.
38. These interventions are intended to strengthen supply resilience, reduce logistical costs and mitigate Uganda's exposure to external price and supply shocks.
39. To cushion consumers against high fuel prices, Government will continue to promote a free, fair and competitive petroleum market that ensures reliable and uninterrupted fuel supplies. This will help prevent supply shortages, maintain healthy competition and moderate avoidable price pressures on consumers and businesses.

40. Drawing on our experience in previous periods of high international oil prices, Government will avoid counterproductive and fiscally unsustainable interventions, such as price controls, which can discourage supply, create fuel shortages and ultimately exert further upward pressure on prices. Instead, our approach is to promote competition, ensure reliable fuel supplies and protect consumers through sustainable market-based measures.
41. In the same vein, broad-based subsidies and tax reductions can be fiscally unsustainable and create economic distortions. These measures may also fail to deliver the intended benefits to vulnerable households for several reasons:
- a) **Market distortions:** Subsidies and tax cuts can create incentives for smuggling, arbitrage and the diversion of goods to markets where prices are higher
 - b) **Loss of Government revenue:** Tax reductions and the cost of subsidies reduce the resources available to Government, thereby constraining funding for essential public services and development priorities.
 - c) **Unequal distribution of benefits:** Broad-based subsidies and tax cuts often disproportionately benefit higher-income households and larger businesses, which generally consume more goods, own businesses that are subsidized and have greater access to economic opportunities. Consequently, lower-income households may fail to tap into the overall benefits, despite being more vulnerable to rising prices.
42. Government, through the Ministry of Energy and Mineral Development, will continue to monitor and regulate the domestic petroleum market to promote fair competition, transparency in pricing and reliable fuel supplies, while ensuring that domestic fuel prices reflect prevailing

international market conditions, exchange-rate movements and other legitimate supply costs.

Strengthening foreign exchange earnings

43. Mr. Speaker, lasting exchange-rate stability requires Uganda to strengthen its capacity to generate foreign exchange through competitive production, export diversification and increased value addition.
44. Government is therefore pursuing investments and reforms to boost agricultural productivity and agro-processing, expand tourism, strengthen manufacturing, promote mineral value addition and improve access to export markets. These interventions are aimed at diversifying export earnings, reducing dependence on a narrow range of foreign exchange sources and strengthening the economy's resilience to external shocks.
45. The commencement of commercial oil production is also expected to contribute to foreign exchange earnings and public revenues over time.
46. Government will manage petroleum revenues prudently and in accordance with the applicable legal and fiscal frameworks. Together, these structural interventions will strengthen Uganda's capacity to generate foreign exchange and support greater exchange-rate resilience over the medium to long term.

C. WHAT ARE THE IMPLICATIONS FOR ALL OF US?

Mr. Speaker,

47. Addressing exchange-rate pressures requires concerted action by Government, households and businesses. While Government will continue to implement measures to restore

stability, all of us have a role to play in reducing avoidable demand for foreign exchange, containing costs and strengthening the domestic economy.

Government

48. Government will rationalise non-essential expenditure, including foreign and domestic travel, workshops, meetings and other administrative costs, while protecting critical public services and priority development investments. We will also strengthen expenditure discipline and cash management to reduce unnecessary liquidity pressures and moderate domestic borrowing requirements.

Households and Consumers

49. Households should prioritise essential expenditure, conserve fuel and energy, and make informed purchasing decisions. Where quality and prices are competitive, choosing Ugandan-made goods supports local producers, sustains jobs and reduces reliance on imported products.

Businesses, Workers and Borrowers

50. Businesses should eliminate waste, improve operational efficiency, source inputs locally where commercially viable, and expand production for export markets. They should also manage foreign-exchange risks carefully and avoid borrowing in

dollars where their revenues are primarily in shillings, unless appropriate safeguards are in place.

All of us

51. Mr. Speaker, the message of my Ministry is clear: let us avoid panic buying of foreign currency, speculative transactions driven by rumours and other behaviour that can amplify short-term pressure on the shilling.
52. Government and the Bank of Uganda will continue to provide timely, factual communication to support informed decisions and confidence in the economy.
53. Strengthening the shilling requires more than short-term adjustments. It calls for fiscal discipline, responsible financial decisions, greater domestic production and sustained growth in export earnings. Through these collective efforts, we can reduce vulnerabilities and build a more resilient economy.

CONCLUSION

Rt. Hon. Speaker,

54. In conclusion I want to reassure this House and the people of Uganda that, despite the current economic pressures, the fundamentals of our economy remain strong. Uganda's economy continues to grow, supported by increased production, investment and exports. In FY2025/26, the economy grew by 6.4 percent, up from 6.3 percent in the previous financial year, bringing its size to Shs 250.4 trillion, equivalent to US\$69.3

billion. This growth was broad-based, with all three major sectors of agriculture, industry and services recording positive performance.

55. The ongoing depreciation of the Ugandan shilling reflects increased demand for foreign exchange, particularly to finance petroleum and other imports, alongside constrained foreign-exchange inflows and shifts in international financial conditions.
56. Government and the Bank of Uganda are responding through prudent fiscal management, appropriate monetary policy, measures to promote orderly foreign-exchange market operations and interventions to safeguard reliable fuel supplies. Over the medium to long term, expanding domestic production, diversifying exports and strengthening foreign-exchange earnings will help reduce Uganda's vulnerability to external shocks.
57. We recognise that depreciation and the measures required to contain its effects carry costs for households, businesses and Government. We will continue to monitor the implications for prices, credit, employment, essential public services and the public finances, and adjust our response as circumstances warrant.
58. Mr. Speaker, we cannot responsibly promise a specific exchange rate or predict precisely when current pressures will ease. What we can commit to is disciplined policymaking, timely and transparent communication, and decisions guided by evidence and the prevailing economic conditions.
59. Government and the Bank of Uganda will continue to keep Parliament and the public informed of exchange-rate developments, the measures being implemented and their effects on the economy.

60. Finally, I appeal to all Ugandans to remain calm, avoid panic-driven decisions and make informed financial choices. Government recognises the pressure that rising costs place on households and businesses and remains committed to restoring macroeconomic stability while protecting livelihoods, sustaining production and employment, and advancing Uganda's long-term economic transformation.

I beg to submit, Rt. Hon. Speaker.