



Q2 2026

Economic Outlook

A focus on Uganda's public debt



Our bulletin for this quarter focuses on the status of Uganda's public debt and examine Government's rationale behind our public debt strategy. As at the end of FY24/25, Uganda's public debt had risen to 52.7% of GDP as indicated by the World Bank in the Uganda Economic Update. When managed prudently, public debt serves as a powerful tool to finance public investments such as infrastructure, education, and healthcare, thereby driving economic and social growth. However, if public debt is not managed well, it carries risks of economic strain and could constrain expenditure on critical public services.

In this publication, we break down the composition of Uganda's public debt, examine its implications on the country's overall fiscal space and on ordinary Ugandans, assess its sustainability, and explore ways in which Government can increase the value we derive from borrowed funds.



Major macroeconomic developments

During Q2, the Uganda shilling remained fairly stable against the US dollar, closing at a mid-rate of UGX 3,575/USD at the end of December 2025. This stability was supported by strong dollar inflows from exports, foreign direct investment, and remittances during the quarter. It was a continuation of the positive trend observed throughout much of 2025, which culminated in a balance of payments (BOP) surplus of UGX 8.5 trillion in October 2025, as highlighted by the Permanent Secretary and Secretary to the Treasury during the release of Q3 funds for FY25/26. This was the highest BOP surplus recorded in the last 15 years.

Real GDP growth was projected at 7% in FY2025/26 and is expected to reach double-digits upon commencement of commercial oil production in October 2026. This growth was accompanied by contained inflation at 3.1% for November and December 2025¹, which was uncharacteristic of an election year. Government has been lauded for maintaining one of Africa's lowest inflation rates, which remains markedly below the average rate of 13.34% in Sub-Saharan Africa².

Tax revenue collections in December 2025 amounted to UGX 4.085 trillion against the target of UGX 4.480 trillion for the month, resulting in a shortfall of UGX 395 billion³. The Uganda Revenue Authority (URA) recorded a total deficit of UGX 1.024 trillion in revenue collections for the first half of the financial year, collecting UGX 16.48 trillion against a target of UGX 17.5 trillion. URA attributed the underperformance to reduced enforcement activities due to election-related disruptions. On the other hand, Government's expenditure during the month amounted to UGX 3.133 trillion, surpassing the planned UGX 2.760 trillion by UGX 373 billion.

Government has signaled commitment to responsible management of public resources and stable economic growth to safeguard macroeconomic stability as it moves towards first oil.

Rising public debt

Uganda's public debt has risen significantly in recent years, reaching UGX 116 trillion at the end of FY2024/2025, which accounted for about 52.7% of the country's GDP. This marked an increase of about 22% from FY2023/2024 where total public debt stood at UGX 94.87 trillion. Consequently, this has resulted in an increase in debt servicing costs. Of the UGX 72.4 trillion budget announced for FY2025/2026, about UGX 27 trillion, accounting for about 37% of the total budget, was allocated to debt servicing.

The approval of the supplementary budget of UGX 8.1 trillion by Parliament in December 2025 implies that public debt will rise even further by 30 June 2026. This was a massive revision, roughly a 10% addition to the original budget, raising the total FY2025/26 budget to a record UGX 80.4 trillion. The supplementary funding was split into three schedules as follows:

- Schedule I (UGX 1.65 trillion) addressed urgent funding gaps, including health sector shortfalls and teacher recruitment needs;
- Schedule II (UGX 1.69 trillion) focused on restarting and sustaining major road and bridge projects that had stalled due to funding shortages; and
- Schedule III (UGX 4.75 trillion) covered a wide mix of expenditures, notably a large allocation for Uganda Airlines to acquire new aircraft, alongside funding for community roads, ambulances and a land inquiry.

While many allocations targeted genuine needs, critics argued that several items were predictable and should have been planned for as part of the main budget, highlighting ongoing concerns about budgeting discipline.

Uganda's debt profile has over the years shifted toward domestic borrowing. By June 2025, domestic debt had grown to UGX 59 trillion, exceeding the external debt stock of UGX 56.4 trillion. Domestic debt now constitutes about 51% of the total public debt portfolio, up from just 42% a year earlier. This trend is expected to persist, driven by significant reductions in development assistance from the United States of America and other major partners, alongside the declining availability of concessional loans from China and other lenders. The trend reflects Government's increasing reliance on the local market to finance deficits and bridge budget shortfalls.

Uganda's public debt has risen significantly in recent years, reaching UGX 116 trillion at the end of FY2024/2025, which accounted for about 52.7% of the country's GDP. This marked an increase of about 22% from FY2023/2024 where total public debt stood at UGX 94.87 trillion.





Rising debt service costs have constrained Uganda's fiscal space, forcing Government to divert resources away from essential sectors to meet debt obligations.

It should, however, be noted that this trend is not isolated to Uganda. A review of domestic government debt data of 50 Low- and Middle-Income Countries (LMICs) by the World Bank revealed an increase in domestic debt that outpaced the increase in external debt from 2023 to 2024. This trend highlighted a clear shift to greater reliance on domestic borrowing among LMICs⁴. The World Bank further highlighted that although domestic debt reduces exposure to exchange rate and global interest rate volatility, it is often more costly and with shorter tenors. This increases the risk that countries are not able to fully repay such debt at maturity or refinance it on favourable terms when it falls due for repayment.

The cost of borrowing

Higher interest rates increase the burden of servicing public debt. In the FY2025/2026 national budget, total public debt service stood at 37% of total government expenditure, amounting to UGX 26 trillion. A closer look at the composition of these payments shows that interest costs are rising rapidly. For example, in the FY2025/2026 national budget, interest payments totaled UGX 11.3 trillion which accounted for 43% of the total debt service for the period. Similarly, in the previous year FY2024/2025, interest

payments totaled UGX 9.8 trillion and accounted for 28.8% of the total debt service.

A further look at the total interest cost revealed that domestic interest payments under the National budget totaled UGX 8.2 trillion and UGX 9.5 trillion in FY2024/2025 and FY2025/2026, respectively which accounted for 84% of the total interest cost for both years. This reflects the growing reliance on domestic borrowing, which has pushed interest costs to higher levels. In fact, domestic interest payments consumed 25% of domestic revenue in both years—double the fiscal charter ceiling of 12.5%—underscoring how rising yields and debt stock have outpaced revenue growth. The fiscal charter ceiling is included within Government's Charter for Fiscal Responsibility which presents Government's strategy for operating a fiscal policy that is consistent with sustainable fiscal balances over the medium term and the maintenance of prudent and sustainable levels of public debt.

Rising debt service costs have constrained Uganda's fiscal space, forcing Government to divert resources away from essential sectors to meet debt obligations. In FY2025/2026, the health sector received an allocation of UGX 5.87

trillion, which is considerably less than the expenditure on domestic interest payments during the same period. As a result, health spending remains well below the internationally recommended benchmark of 15% of total government expenditure, as agreed by African Union member states under the Abuja Declaration. The shortfall in health financing has direct implications for the delivery of critical services, including access to medicines, healthcare infrastructure, and staffing.

Similarly, education and other social sectors continue to suffer from underfunding, with allocations falling short of the levels required to meet growing demographic pressures and improve service quality. This imbalance underscores how rising debt costs crowd out investment in human capital and social development. In effect, the fiscal burden of debt servicing not only limits Government's ability to respond to urgent social needs but also undermines long-term development goals, leaving ordinary Ugandans exposed to weaker public services and reduced opportunities for growth.

Uganda's increasing reliance on domestic debt has had spillover effects on the private sector, crowding out investment by absorbing much of the available liquidity in the banking system. Crowding out investments by the private sector occurs when banks increasingly opt to lend to Government rather than private enterprises which restricts credit access and exposes private enterprises to elevated interest rates on the limited accessible funds thus leading to slowed private sector growth. Additionally, yields on government securities have remained in double digits, making them highly attractive low-risk investments for commercial banks.

Private sector credit growth has remained modest at around 9–10% per annum, a rate insufficient to meet the financing needs of a growing economy. Elevated borrowing costs, driven by Government's heavy domestic debt appetite, have further discouraged private investment

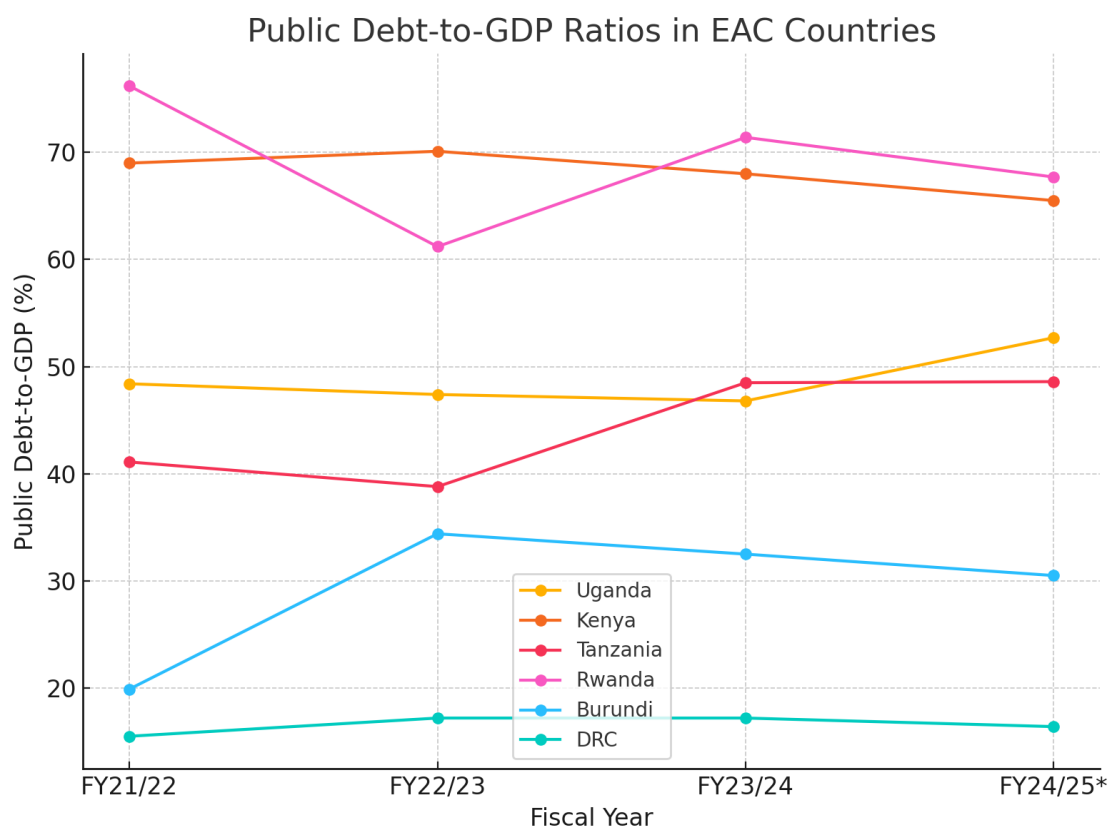
and constrained expansion. This dynamic not only undermines the competitiveness of local enterprises but also weakens job creation and innovation, ultimately limiting Uganda's long-term economic growth potential. In essence, Government's reliance on domestic borrowing has created a cycle where rising debt service costs crowd out private sector financing, leaving the economy vulnerable to slower growth and reduced resilience.

Are the rising debt levels sustainable?

Despite raising concerns, Government has consistently maintained that Uganda's debt remains sustainable in the medium to long term. Government contends that the country's debt to GDP ratio remains below the recommended threshold of 60% - 64% for developing countries by the World Bank. This assertion was reaffirmed by the International Monetary Fund (IMF) in their most recent press release dated 23 January 2026 in which they assessed Uganda's capacity to repay its debt as adequate under both baseline and downside scenarios⁵. The IMF, however, warned that "In a downside scenario involving large portfolio outflows, adverse terms-of-trade shocks, and further delays in the oil project, repayment indicators would weaken but remain within adequate levels".

Additionally, it is also worth noting that Uganda's debt levels, while rising, remain relatively moderate compared to several regional peers. The country's debt-to-GDP ratio remains lower than Kenya's 65% and Rwanda's 68%. However, it remains slightly higher than Tanzania's, which stands at 46%, and well above that of the Democratic Republic of Congo and Burundi, whose ratios remain comparatively low. This positioning suggests that although Uganda's debt trajectory is concerning, it is not yet the highest in the East African Community (EAC). The figure below illustrates debt-to-GDP trends across EAC countries in recent years, highlighting Uganda's relative standing within the region.

Legal due diligence must operate as a forward-looking risk allocation tool. When conducted early, comprehensively, and in close integration with transaction structuring and drafting, it enables parties to price risk accurately, negotiate effectively and avoid post-completion disputes.



Data source: Uganda MoFPED and EAC member reports¹

¹Office of the Auditor General, Annual Consolidated Auditor General's Report for the Financial Year Ended 30th June 2025 (Government of Uganda 2025).

What interventions can be taken to ensure value for borrowed funds and restore public confidence?

Much of the debt contracted by Government has been directed towards financing large-scale infrastructure projects intended to generate economic returns and pay for themselves over time. In recent years, Uganda has embarked on ambitious initiatives such as the construction of the Standard Gauge Railway, rehabilitation of the meter-gauge railway, development of Hoima City and the John Aki Bua Stadium, and upgrades of major highways, access roads and bridges across the country. These projects are designed to enhance connectivity, stimulate trade, and provide modern facilities that support both social and economic transformation. Therefore, the strategic rationale is clear: infrastructure investment lays the foundation for long-term growth by reducing transport costs, improving access to markets, and fostering industrialisation.

However, persistent delays in the implementation of major infrastructure projects have become a source of public frustration, eroding trust in Government's ability to deliver on its commitments. Uganda's major infrastructure projects have faced persistent delays that have driven up costs and postponed economic benefits. Road projects such as the Kapchorwa–Suam corridor illustrate how late payments and inadequate oversight led to arrears of nearly UGX 99 billion and penalty interest charges. These delays not only inflate project costs but they also undermine the value of borrowed funds, eroding public confidence in Government's capacity to execute projects effectively. When borrowed resources do not deliver timely and tangible outcomes, citizens perceive debt as wasteful rather than developmental, deepening scepticism about fiscal management and governance.

As indicated earlier, Parliament approved UGX 8.104 trillion in supplementary funding in December 2025. Similarly, in the lead-up to the 2021 General elections, Parliament approved several supplementary budgets which totaled approximately UGX 5 trillion. These budgets were mostly funded by borrowed funds. The timing of the supplementary budgets and Government's increased reliance on them has often been perceived as politically motivated rather than genuinely developmental. When Government repeatedly introduces additional budgets outside the main fiscal plan, it may signal opportunistic spending aimed at short-term political gains such as appeasing certain constituencies or funding projects that boost electoral prospects, rather than long-term economic growth.

Looking ahead, it is essential that Government strengthens its approach to borrowing by rigorously assessing both the necessity and the long-term value of every debt-financed project. To ensure that borrowed funds deliver measurable benefits and to rebuild public confidence in the development agenda, Government must confront several critical questions:

- Is the proposed borrowing aligned with clearly defined economic and social priorities, and does it address a genuine national need rather than a politically driven aspiration?
- What is the expected return on the borrowed funds, and is this return sufficient to justify the additional debt burden?
- Has Government fully evaluated the project's readiness, including land acquisition, feasibility studies, and implementation capacity, to avoid delays that erode value for money?
- How will the debt be serviced without crowding out essential social spending or undermining fiscal stability?
- After project completion, are there mechanisms to verify whether the anticipated outcomes were achieved, and to hold implementing agencies accountable where value for money was not realised?

By systematically addressing these questions before and after borrowing, Government can strengthen debt sustainability, enhance transparency, and restore public trust in the management of national development projects.





Contact us



Uthman Mayanja
Country Senior Partner
uthman.Mayanja@pwc.com



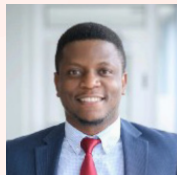
Clive Mayombwe
Partner, Tax
clive.mayombwe@pwc.com



Pamela Natamba
Partner, Tax
pamela.natamba@pwc.com



Juliet Najjinda
Associate Director, Tax
juliet.najjinda@pwc.com



James Mubiru
Manager, Tax
james.mubiru@pwc.com



Doreen Mugisha
Manager,
Clients & Markets Development
doreen.mugisha@pwc.com



Joel Ndyamuhaki
Senior Associate, Tax
joel.ndyamuhaki@pwc.com

This publication has been prepared as general information on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice.

© 2026 PricewaterhouseCoopers Limited. All rights reserved.