BOSS TALK

INTERVIEW

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2026 Election

Election years trigger political inflation

Mr Julius Mukunda, the Civil Society Budget Advocacy Group executive director. There is a severe risk that political spending pressures will lead to a spike in off-budget, classified expenditures, relaxed procurement controls and a surge in politically motivated, unfunded contracts, resulting in a future arrears crisis. PHOTO/ FILE

The Civil Society Budget Advocacy Group executive director, Mr Julius Mukunda, describes 2025 as a year of profound economic contradictions. In 2025, Uganda's public debt rose to Shs116.2 trillion, translating into 51.3 percent of Gross Domestic Product by June 2025, according to the Finance Ministry. Here are the economy's highlights over the last 12 months, plus the outlook for 2026.

As an economist, how do you sum up the country's economic progress over the last 12 months?

Uganda's economy remained strong, with Gross Domestic Product (GDP) growth which is the total amount of goods and services produced within the county reaching approximately 6.3 percent for FY2024/25.This was driven by strong contributions from agriculture, manufacturing, construction, and household consumption.

Per capita GDP, which is used to gauge living standards, and average income, rose to around $1,263 (Shs4.5million) up from $1,159 (about Shs4.1 million) in FY2023/24, reflecting gradual improvements in living standards.

Inflation remained low at an average of 3.5-3.9 percent, which is below Bank of Uganda's 5 percent target. This was supported by favourable food supplies, easing global commodity prices, and prudent monetary policy.

There was also significant progress made towards oil production, with over 100 wells drilled in the Tilenga and Kingfisher projects. Infrastructure progress on the East African Crude Oil Pipeline continued, though delays pushed first oil likely to mid-2026 as per the Petroleum Authority of Uganda updates.

Any external development with impact on Uganda's economy?

There were several. For example, the World Bank's resumption of concessional financing in mid-2025, after a 2023 freeze, where the Bretton Wood institution committed over $ 2billion (nearly Shs7.2 trillion) for infrastructure, education, health, and social protection. However, U.S. tariffs on exports intensified African Growth and Opportunity Act (AGOA) losses, impacting agro-exports like coffee and cotton.

The suspension of new World Bank public financing in 2023–2024, followed by partial re-engagement through project-based financing in 2024/25, also exposed Uganda's fiscal/revenue vulnerability.

Uganda also remains exposed to global trade volatility due to a narrow export base. Gold accounts for over 40 percent of merchandise exports, much of it re-exported, while coffee contributes about 15–20 percent. Renewed global protectionism and slower global growth threaten export earnings, foreign exchange inflows, and revenues.

2025 has also seen a sharp shift in the global development landscape following the July closure of USAID, which removed an estimated $30 billion (about Shs107 trillion) annually from global development financing and disrupted programmes in over 100 countries. This marked a major contraction in global aid flows, with immediate consequences for aid-dependent countries and Uganda was among the most affected.

The USAID exit resulted in the loss of an estimated 15,000 jobs across NGOs, research institutions, and project agencies.

In the health sector, USAID and PEPFAR financed approximately 60 percent of Uganda's HIV/AIDS response. Their exit let to the Shs604 billion funding gap. In the refugee response, where USAID has been a major food rations for Uganda's 1.6 million refugees have been reduced by more than 50 percent.

These shocks have been compounded by the suspension of GIZ-supported programmes in October 2025 following diplomatic tensions with Germany. A Shs22 billion package intended for institutional capacity building and accountability was halted amid legal and security vetting concerns. This has disrupted several governance and anti-corruption initiatives ahead of the 2026 General Election. The combined effect of global aid retrenchment and new domestic controls has placed Uganda's civil society under severe strain. Since August 2025, about 55 percent of local NGOs report downsizing, suspension, or closure.

Supplementary

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What is the issue with domestic revenue mobilisation?

Our revenue base has stagnated at 14 percent tax-to-GDP ratio which is below the 18 percent Sub Saharan Africa target. With the low tax base, there will never be enough tax/revenue pool to draw from, increasing reliance on borrowing and external financing, exposing the country to shocks beyond its control.

Our public debt rose to Shs116.2 trillion, translating into 51.3 percent of GDP by June 2025, with debt servicing consuming 31-40 percent of revenues, according to the Finance Ministry's debt bulletin.

How does this affect social services delivery?

There has been modest progress with persistent inequality. The development index increased to 0.55, reflecting improvements in life expectancy and education, while the national poverty headcount declined to approximately 20 percent. In the FY2025/26 National Budget, nearly 16 percent was allocated to the human capital development sector, signaling continued prioritisation of education and health.

These gains remain uneven as youth unemployment and underemployment are estimated at 60–65 percent, as more than 700,000 young people enter the labour market annually.

Interest payments are also growing faster than allocations to health, education, and agriculture. Debt has become a threat to service delivery.

External factors impacted not only the National Budget but also the economy. What is your view on this?

The "America First" agenda in mid-2025 came along with the expiry of AGOA and a 10 – 15 percent tariff on African exports to the USA.

Uganda's exports to the US, particularly textiles and specialty Arabica coffee, are 15 percent more expensive.

How do you assess the outlook for 2026, now only days away?

2026 presents a perfect storm of political, economic, and social pressures that will severely test Uganda's institutions. Historical trends show a 30-40 percent average increase in supplementary budget requests in pre-election years. There is a severe risk that political spending pressures will lead to a spike in off-budget, classified expenditures, relaxed procurement controls and a surge in politically motivated, unfunded contracts, resulting in arrears crisis. The possibility of diverting funds from critical long-term projects in agriculture, health, and industrial parks to short-term political patronage is possible. History shows that election years trigger "Political Inflation."