



A customer counts US dollars. Uganda's foreign exchange reserves rebounded strongly in 2025, rising from about \$3 billion at the end of 2024 to about \$6 billion by December, according to Bank of Uganda data. PHOTO/MICHAEL KAKUMIRIZI

Bond boom could turn into a forex shock

If global liquidity tightens, the dollar strengthens, or frontier market risk appetite shifts, capital could exit as quickly as it arrived.

BONDS DEOGRATIUS WAMALA

Uganda remains an attractive frontier and emerging market for investors in capital markets for two main reasons: relatively strong macro fundamentals and an active domestic borrowing programme. Together, these factors keep yields elevated in both equities and bonds, widening net returns after taxes. Over the past year, yields rose across markets; though not evenly.

This article focuses on bonds, which continue to draw offshore investors. Equities activity improved modestly.

Trading rose from Shs77.5 billion in 2024 to Shs98.4 billion in 2025, according to Uganda Securities Exchange (USE) data. While participation increased, liquidity remains thin due to the small number of listed firms, making it difficult to enter or exit positions quickly.

Fixed income told a bigger story. Government offers climbed from Shs17.72 trillion in 2024 to Shs25 trillion in 2025, while bids jumped to Shs47.85 trillion, nearly twice the amount on offer. Demand reflects the appeal of government securities: relative safety, predictable income, and tradability for institutional investors such as banks and pension funds. Secondary market turnover rose

from Shs70.69 trillion to Shs102.62 trillion, highlighting how much more active bonds were than equities. Yields rose steadily through the year, peaking at 17.95 percent on the 20-year bond as elections approached. Political cycles bring higher spending and uncertainty, leading investors to demand a risk premium. Although the introduction of a 25-year bond expanded the market, pricing was shaped largely by election dynamics and broader macro conditions.

"If you analyse the bond side, the discounting that the Central Bank applied was better. So the bonds became more attractive to invest in if you look at the pricing element," says David Calvin Bateme, lead researcher at Crested Capital.

The year also coincided with heavy oil-related investment; notably construction of the East African Crude Oil Pipeline (EACOP), alongside AFCON stadium and other infrastructure projects.

"The acceptance levels in particular auctions was higher than usual. The argument is whether monetary policy wasn't colliding with fiscal policy, but the Central Bank and National Treasury are handling that because we saw stability in inflation. Those two did not collide; it was rebalanced well," Bateme adds. →

Rising offshore participation in the bond market has rebuilt Uganda's foreign exchange reserves.

Rising forex reserves

Uganda's foreign exchange reserves rebounded strongly in 2025, rising from about \$3 billion at the end of 2024 to about \$6 billion by December, according to Bank of Uganda data.

Reserves have since eased slightly after the Central Bank settled maturing repos with international counterparties. Even so, the recovery has improved import cover and strengthened the country's external position.

"One of the things driving this improvement in forex reserves is not limited to Uganda, but it is an emerging market, a frontier market story. Most portfolio investors have come back to buy our assets; our government bonds and treasury bills," says Jibran Qureishi, head of Africa Region Economic Research at Standard Bank Group.

In October, on the sidelines of the International Monetary Fund (IMF) meetings in Washington, D.C., Bank of Uganda Governor Dr Michael Atinzi-Ego said offshore investors now hold about \$3 billion in domestic debt, up from roughly \$700-\$800 million two years ago.

Those inflows have helped rebuild reserves. But they also pose a vulnerability.

If foreigners hold about \$3 billion in domestic securities while reserves stand near \$6 billion, then almost half of the reserve stock is mirrored by portfolio participation in government debt, exposing the shilling to potential reversals if sentiment shifts.

Structural drivers are also at play. Higher global coffee prices have boosted export receipts, and gold exports have risen. All these are prone to volatility in the international market.

The Bank of Uganda is preparing a domestic gold purchase programme, similar to Ghana's model, potentially launching in the first or second quarter.

The Central Bank would buy gold from artisanal miners in shillings, hold it as monetary gold, or refine and sell it externally, gradually strengthening reserve buffers.

"In addition to some of the oil flow that is likely to come in the next two to five years, the domestic gold purchase programme is likely to bolster Uganda's external position and foreign exchange reserves. Of course, there are risks. The miners are very artisanal in nature, so not very streamlined, not very formal," Qureishi says.

He cautions that weaker production could limit the programme's impact.

"If production falls and that impacts exports, then the gold purchase program might face some challenges down the road," Qureishi says.

Gold has become more volatile amid concerns over rising US debt, political pressure on the Federal Reserve, and fears of an Artificial Intelligence (AI) driven equity bubble, adding complexity to reserve management.



Road users ride past the Bank of Uganda headquarters along Kampala Road. Bank of Uganda avoids intervening during depreciation, preserving reserves and allowing the exchange rate to act as a shock absorber. PHOTO/MICHAEL KAKUMIRIZI

Standard Bank Research projects Uganda's current account deficit at about 5.3 percent of Gross Domestic Product in 2026, widening to around 6 percent in 2027, largely due to oil-related and infrastructure imports.

Still, Qureishi downplays the risk of a sustained capital flight.

"Across 2026, we don't think there will be any period durably or in a seismic manner where all these foreign portfolio investors will be running for the hills and not coming back... even when foreign portfolio investors in the last three months have taken profit on their trades, they have sat in the stock markets, so they have not exited Uganda physically," he says.

The expectation is that the deficit will be financed through Foreign Direct Investment alongside continued portfolio inflows.

"With the dollar likely to remain weak, and real yields in Uganda likely to remain elevated and relatively attractive, we think there will be interest from foreign portfolio investors," he adds.

Even so, heavy offshore participation means the Ugandan shilling remains sensitive to shifts in global risk appetite.

Pressure on the shilling

In the fourth quarter of last year, the Uganda shilling weakened from around 3,450 to nearly 3,650 per dollar in November and December.

Much of the pressure stemmed from a large offshore investor who had built a sizable position in a government bond in October and later sought to hedge that exposure.

The move was not driven by weakening fundamentals. It reflected regional political risk. Tanzania had experienced post-election violence, and Uganda was heading into its own election cycle. Precautionary dollar demand largely explains the currency's slide.

The Bank of Uganda avoids intervening during depreciation, preserving reserves and allowing the exchange rate to act as a shock absorber.

Some argue, however, that limited intervention can help; not to defend a level, but signal presence. If markets assume the Central Bank will stay out entirely, importer anxiety can amplify volatility. Tools such as forex swaps

can also manage liquidity without outright currency defense.

"If we see all these investors or half of these investors running for the hills, the Bank of Uganda has to show their hand and say, we are here, we have got muscle, and we're willing to fund your exits or mitigate volatility," Jibran suggests.

Even when foreigners trimmed positions and the shilling weakened, there was no structural imbalance warranting aggressive intervention from Central Bank Sentiment, it argues, corrects over time.

That position was partly validated. The currency later stabilised without heavy intervention, supported by the Bank of Uganda's credibility among global investors. It is widely seen as disciplined and predictable in its policy conduct.

Allowing the exchange rate to adjust, while using interest rates as the primary stabiliser, helps prevent deeper macroeconomic distortions.

Still, policymakers remain cautious. The Monetary Policy Committee refrained from cutting rates as aggressively as many sub-Saharan African peers last year, citing election-related liquidity risks and uncertain global conditions.

With foreign participation in domestic debt now higher, sharp rate cuts could prompt profit-taking and renewed currency pressure.

Some economists believe modest easing may be possible in the second half of the year, given a relatively benign inflation outlook. A calibrated 25-basis-point cut could be feasible without destabilising flows. The bigger problem is not just about Uganda. Many countries in sub-Saharan Africa face similar situations.

Governments often spend a lot of money. When government spending is high, Central Banks are forced to keep interest rates high to control inflation and protect the currency. If governments reduced their spending and managed their budgets, central banks would have more freedom to lower interest rates. That would make borrowing cheaper, support businesses, and help the economy grow.

A daring outlook

Uganda's construction sector remains buoyant, driven by public investment in stadiums, oil-sector roads and rail infrastructure, projects intended to anchor long-term growth. But they also raise financing needs.

Authorities expect first oil later this year, possibly in the third or fourth quarter, a milestone that would mark a structural inflection point for the economy.

A key strength in Uganda's monetary and fiscal policy approach has been restraint. Until recently, national budgets made little reference to future oil revenues. The government largely avoided aggressively present-valuing anticipated oil income.

In many African economies, projected reserves and peak production, in Uganda's case, around 230,000 barrels per day, are often used to justify higher spending today. Uganda resisted that temptation.

Many domestic economists expect more foreign direct investment to rise as oil production begins, but believe the more meaningful fiscal and macro impact may only become visible from the 2027/28 fiscal year onward.

International Energy Agency data suggests peak production typically takes five to seven years. If so, Uganda could approach peak output around 2030. Globally, new exporters often start at 50,000-75,000 barrels per day before stabilising and ramping up.

Even at those volumes, oil would still bring Uganda a lot of money. It would increase government revenue, bring in more foreign currency from exports, and help the country pay for what it buys from abroad. That would make the economy more stable and reduce pressure on the shilling.

This is where the daring outlook emerges. Forex reserves have strengthened. Investor sentiment remains constructive. Oil is approaching. Institutional reforms have reinforced central bank credibility. But in the near term, forex reserve accumulation remains closely linked to foreign portfolio participation in domestic debt, especially as bond yields fall post-election.

At the February 18 bond auction, the 20-year bond cleared at 15.49 percent, a level last seen nearly two years ago. In January 2026, it cleared at 17.65 percent, a drop of more than 200 basis points. The 10-year bond had an interest rate of 14.5 percent, but investors paid about 12 percent more than its original value to buy it. Because they paid extra upfront, the next interest payment might not fully make up for the higher initial cost.

Offshore participation
'Heavy offshore participation means the Ugandan shilling remains sensitive to shifts in global risk appetite.'