

BoU maintains tight policy as dollar, trade risks roil markets

Uganda's economy is closely tied to global markets. Oil prices, geopolitical tensions and supply chain disruptions all influence domestic prices.

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Uganda's central bank kept its main lending rate unchanged on February 9 for the sixth meeting in a row. The Central Bank Rate (CBR) has been at 9.75 percent since October 2024. Bank of Uganda (BoU) Governor Michael Atingi-Ego said: "The current policy stance remained appropriate to support economic activity while ensuring that inflation stabilises around the bank's five percent medium-term target."

When the central bank keeps its rate at 9.75 percent, it signals a tight stance because commercial banks price their loans around this benchmark, keeping borrowing costly and slowing investment and consumption. To ascertain if the rate is high, economists compare it to inflation. Inflation is around 3.0 to 4.0 percent.

The real policy rate, calculated as 9.75 minus inflation, is roughly 6.0 percent. This is considered tight because when the real interest rate is strongly positive, borrowing costs rise faster than prices.

Businesses must earn returns well above inflation just to break even, and households lose purchasing power when servicing loans. In macroeconomic theory, a high real interest rate discourages credit growth, reduces aggregate demand, and slows economic activity.

However, this does not mean people borrow at 6.0 percent. The CBR is only the policy benchmark. Commercial banks add margins for risk, operating costs, profit, and other market factors. That is why lending rates in Uganda averaged around 18.34 percent per annum in 2025.

So far, inflation is cooperating. It edged up slightly to 3.2 percent in January from 3.1 percent in December, remaining comfortably below the 5.0 percent target thanks to a stable exchange rate and easing global prices. But the stability is fragile. The central bank warns that "risks to the inflation outlook, both upside and downside, remain elevated."

Fragile stability

Uganda's economy is closely tied to global markets. Oil prices, geopolitical tensions and supply chain disruptions



A cashier counts US dollars. Beyond US policy, markets are shifting more deeply, as the dollar's performance is increasingly decoupling from stock market volatility. PHOTO/FILE

all influence domestic prices. When shipping routes tighten or the dollar strengthens, import costs rise. When global demand slows, exports weaken.

The apex bank explains: "Additional risks stem from a combination of domestic and external factors... including... escalating geopolitical tensions that could disrupt global supply chains. On the downside, risks include... a deceleration in global growth stemming from trade-related shocks and heightened uncertainty. The economic environment continues to be characterised by heightened uncertainty, necessitating a cautious monetary policy stance."

The external factors highlighted in the February monetary policy statement are both murky and threatening. BoU has no control over them, yet they have the power to disrupt its plans to stabilise the macro economy.

That matters because macroeconomic stability has already begun to feed investor confidence, creating a bullish mood in the stock market, where some companies have delivered returns of over 100 percent, and in the bond market, where yields have climbed toward 17 percent.

Standard Bank Research expects global growth to slightly exceed 3.0 percent in 2026. This is broadly in line with what is expected for 2025. A big reason for this resilience, the bank's economists argue, is that tariff tensions have cooled. On April 2 last year, dubbed "Liberation Day" in the United States, tariff anxiety spiked and trade uncertainty surged. Since then, negotiations between Washington and its trading partners have so-

UGANDA'S OPTIMISM

Economic growth is forecast at between 6.5 percent and 7.0 percent this financial year, with the governor projecting it could rise to an average of eight percent over the medium term and that is because of heavy public investment and oil-related infrastructure projects.

Uganda is preparing to start pumping commercial volumes of crude oil later this year, something that could reshape government revenues, foreign exchange flows, and investor confidence.

So the central bank has chosen patience. It is watching inflation, watching global markets, and keeping its rate steady at 9.75 percent. Because in a world that changes its mood quickly, sometimes the smartest move is not to move at all.

tened worst-case scenarios.

"We think it's the uncertainty now associated more with tariffs, rather than the tariffs themselves, that could be negative for global economic growth," Jibrán Qureishi, the head of Economic Research for Africa Regions at Stanbic Bank, explained at the recently concluded Stanbic Economic Forum 2026 in Kampala. "At the same time, the fact that effective tariff rates are lower than what was initially announced gives us reason

to be more constructive about the global outlook for 2026."

Europe, too, is expected to support global demand. With the US pulling back some support, European governments are expected to keep spending, helping to support GDP growth in the region.

Sub-Saharan outlook

Standard Bank expects sub-Saharan Africa to grow faster than the global average in 2026, with GDP expansion projected between 4.6 percent and 4.8 percent, rising further in 2027. The multinational lender argues that 2025 was a turning point, marked by the return of macroeconomic stability across nearly 19 African markets. Nigeria, for example, has seen significant reforms. Foreign exchange liquidity has improved, interest rates have declined, fuel subsidies have been removed, and local refining capacity has increased.

In Mozambique, TotalEnergies has lifted its force majeure, reopening the path for liquefied natural gas (LNG) investments estimated at around \$20b (\$hs70.4 trillion). If ExxonMobil follows with a further \$25b (\$hs88 trillion), the combined scale would be several times Mozambique's GDP, estimated at \$26.51b (\$hs93.4 trillion).

Global picture

Still, the global picture remains fragile. Trade uncertainty has eased since April last year, but it remains at levels not seen since 1935. If anything is likely to derail the 2026 outlook, Standard Bank thinks, it would be a renewed escalation in

trade tensions.

"But even then, we still don't think this will be enough to push major advanced economies into recession," Jibrán noted.

Standard Bank latest research argues that some of the same forces supporting global growth could also reignite inflation, especially in the US.

"Now, that can prove to be a source of promise for economic growth. However, that can drive inflation higher," Jibrán said.

One reason is how US companies responded to tariffs in 2025. Many firms front-loaded imports to beat tariff deadlines, temporarily shielding consumers from higher prices. But that cushion may not last.

"But now in 2026, there's still a risk that... some of these US firms can pass on these higher costs to consumers across this year and perhaps in early 2027 as well," Jibrán explained.

Another issue is the growing focus on central bank independence in the US, and the leadership transition expected at the Federal Reserve.

Dollar concerns

Beyond US policy, markets are shifting more deeply, as the dollar's performance is increasingly decoupling from stock market volatility. Historically, the dollar strengthens during risk-off episodes; when investors panic and sell equities. But in 2025, even as market volatility rose, the dollar weakened. Even as the Chicago Board Options Exchange Volatility Index, commonly called the VIX, a gauge of expected stock market volatility, has gone up, the dollar has been falling.

Standard Bank attributes this to growing concerns around US debt, currency debasement, and political interference, pressures that have undermined confidence in the dollar's traditional safe-haven role.

There's also been a concern about the ballooning debt situation in the US, with debt service exceeding well over \$1 trillion annually.

As the dollar weakened, with the dollar index falling by about 10 to 11 percent in 2025, investors turned to alternatives such as gold, silver, and crypto assets.

While Uganda and its neighbours still face local challenges, Standard Bank argues that the most serious shocks are increasingly likely to come from outside the region, a thought shared by BoU.

In that environment, geopolitics remains the biggest wildcard, with risks spanning Venezuela, tensions around Greenland, uncertainty over Taiwan, and instability in the Middle East, particularly Iran. The Middle East tensions, specifically in Iran, and what that means for oil prices and inflation baskets is something that has to continue to be watched.

Standard Bank Research says global markets face a fresh set of risks that could spill into emerging and frontier economies; including Uganda. The bank highlights three major pressure points: ballooning US debt, a weaker dollar narrative, and the possibility of stock market turbulence.