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BY DEOGRATIUS WAMALA

Uganda's debt may not yet be overwhelming, but its real danger lies in the currency in which it is owed. Borrowing in dollars, euros, or yuan that the country does not hold in sufficient quantities could turn otherwise manageable loans into a serious repayment headache, *Business Outlook* can reveal.

Most of Uganda's foreign debt is still held by big multilateral lenders such as the World Bank and the International Monetary Fund (IMF), who account for about two-thirds of the country's external debt. By the end of September 2025, financial data from the Finance ministry showed that these institutions held about \$10.26 billion (Shs36.4 trillion), which is around 65 percent of Uganda's external debt stock.

The more delicate part of the debt story, however, sits with bilateral lenders, especially China. Bilateral creditors make up about 23 percent of Uganda's external debt, and China is by far the biggest player in that group. Uganda's debt to the Exim Bank of China alone stands at about \$2.2 billion (Shs7.8 trillion), making Beijing the country's single largest bilateral creditor.

Analysts say this is where the currency headache begins. Uganda earns, saves, and trades mostly in US dollars. In fact, nearly half of Uganda's external debt—about 46 percent—is denominated in US dollars. The euro takes another big share at 35 percent. The Chinese yuan makes up only about 8 percent.

Uganda's debt is, therefore, like a shopping list written mostly in dollars and euros, while the Chinese portion comes with its own currency complications. And that matters because repayment is about having the right currency in the first place. If more Chinese loans are restructured or shifted into yuan, Uganda could find itself needing a currency it doesn't hold much of, forcing it to swap dollars or shillings just to meet repayments. That kind of scramble can distort reserves, put pressure on the shilling, and quietly turn a "helpful" debt deal in-

Inside Uganda external debt currency problem



A woman counts dollars. Bilateral creditors make up about 23 percent of Uganda's external debt. PHOTO/FILE

away from the dollar and toward the renminbi (RMB).

Debt reprofiling

Neighbouring Kenya recently secured a debt reprofiling deal with China. The agreement extended repayment on the Standard Gauge Railway loan by 10 years, pushing the maturity out to 15 years. It also involved switching the denomination of the roughly \$3.5b (Shs12.4 trillion) outstanding loan from US dollars to Chinese RMB. This is expected to become a trend across Sub-Saharan Africa, because China remains the single largest bilateral creditor for many sovereigns in the region.

Jibrán Qureishi, the head of Africa Research at Standard Bank, argues that reprofiling is preferable to full restructuring because it avoids disruptions around principal repayments. In many ways, it can be a win-win: authorities in African markets gain breathing room, while institutions like China's Exim Bank are better assured of being repaid on time.

In Kenya's case, the deal not only lengthened maturities but also shifted repayment from US dollars into RMB. RMB is the official currency of the People's Republic of China. That aligns with Beijing's broader ambition to globalise

RAY OF HOPE

In January, the International Monetary Fund (IMF), through a Post-Financing Assessment (PFA) of Uganda, concluded that the country's capacity to repay the Fund remains adequate, although subject to notable risks.

In a downside scenario involving large portfolio outflows, adverse terms-of-trade shocks, and further delays in the oil project, the IMF said repayment indicators would weaken but remain within adequate levels.

Effective implementation of the adopted oil revenue frameworks was described as critical to safeguarding oil revenues and preserving fiscal discipline. On monetary policy, the executive board advised maintaining a data-driven and forward-looking approach. The IMF also noted progress in limiting central bank financing, citing recent securitisation and repayments of Bank of Uganda (BoU) advances.

The big question, however, is: if you swap your loans from dollars into RMB, do you actually have enough RMB to re-

pay them? The reality is that most African

path, it would face a serious currency constraint. That possibility reignites the discussion around issuing Panda bonds; RMB-denominated bonds that could help raise RMB liquidity for repayment.

It also introduces an inherent currency risk. If loans are shifted into RMB and the RMB appreciates against the dollar globally, which is plausible, then borrowers are exposed to higher repayment costs.

At the same time, if you don't already have RMB, then you are forced into currency conversion.

Uganda, for instance, would have to sell shillings or even dollars in order to buy RMB, which could place additional pressure on reserves and exchange rates.

Reprofiling may help sustainability through longer repayment periods, but the currency issue remains unresolved.

Renminbi experiment

After Kenya, Mozambique has also signalled interest, and Ethiopia has done the same. Jibrán believes many African sovereigns should consider such deals, but cautiously.

"You still need the renminbi," he notes. "So if you're not going to issue Panda bonds, you probably have to rethink this. If you want to hedge your currency

sitioned economies globally to defend itself amid trade wars and global economic tensions.

However, if China is caught in the crossfire of these global headwinds, the effects will not stop at Beijing's borders. They will spill over into commodity markets: copper prices could fall, and oil prices may also come under pressure.

China's economic health can influence both the strength of the RMB and the external conditions under which African countries service their debt.

Every time there are weak Purchasing Managers' Index (PMI) readings, negative GDP growth prints, or disappointing retail sales data in China, markets read it as slowing industrial demand from one of the world's largest economies. That perception tends to weigh on global commodity demand and prices, especially oil.

For Uganda, this creates a double exposure. On one hand, lower commodity prices can reduce future export earnings just as the country becomes an oil producer.

On the other hand, if Uganda's liabilities increasingly shift toward RMB-denominated obligations, then volatility in China's economy, and by extension the RMB, becomes part of Uganda's debt repayment risk.

Is oil a game changer?

China's economic trajectory will, therefore, remain critical over the next five or six years, not only for global oil prices but also for the broader financial environment in which African sovereigns manage their external debts.

Uganda is approaching first oil, and over time, it would prefer prices closer to \$60 (Shs 213,117) or \$70 (Shs 248,637) per barrel; not \$25 (Shs 88,798.8) or \$30 (Shs 106,559), because weaker revenues combined with currency pressures could quickly complicate repayment capacity.

"What is positive," Jibrán explains, "is that Uganda is becoming a hydrocarbon producer at a time when it is already a diversified economy. That provides a natural hedge. But authorities must still guard against Dutch disease or moral hazard, becoming overly reliant or too comfortable with one commodity like oil."

Between 2008 and 2020, China, through the Belt and Road Initiative, invested heavily in infrastructure and showed a strong appetite for large-scale public investment projects across Africa. But since 2020, Beijing has become more cautious, particularly given rising concerns about debt sustainability in many African economies. The shift has been away from heavy infrastructure lending toward more equity-driven forms of investment.

Many of the massive China-funded infrastructure projects seen during the 2008–2020 period may therefore not be repeated at the same scale going for-