

Officials warn that sustained geopolitical tensions could keep inflation and exchange rate pressures elevated in the months ahead.

BY MARTIN LUTHER OKETCH

The ongoing conflict in the Middle East has contributed to a sharp weakening of the Uganda Shilling, increasing pressure on household incomes, businesses, and the country's inflation outlook, the Bank of Uganda (BoU) has warned.

Presenting the Monetary Policy Statement for this month yesterday, BoU Governor Michael Atingi-Ego said the Shilling depreciated by about 5.4 percent between February and April, largely due to global economic uncertainty linked to the conflict.

The depreciation has raised concerns over the cost of imports, such as fuel, medicine, industrial raw materials, and machinery, which are expected to become more expensive and push up inflationary pressures across the economy.

By yesterday afternoon, the official exchange rate quoted by the Central Bank showed the Uganda Shilling trading at Shs3,744 against the US dollar on the buying side and Shs3,754 on the selling side.

Dr Atingi-Ego warned that if the conflict persists and global oil prices remain elevated, Uganda could experience broader inflationary pressures that may weaken household consumption and slow economic growth.

"So far, the conflict has contributed to a depreciation of the Uganda shilling of about 5.4 percent between February and April 2026," he said.

He added that if central banks in advanced economies tighten monetary policy further to contain inflation, the resulting stronger dollar could place additional pressure on the shilling and increase imported inflation in Uganda.

The BoU governor also cited adverse weather conditions as another major risk to agricultural production and food prices, warning that rising costs of living could erode household purchasing power and reduce disposable incomes.

Economists say a prolonged decline

Concern as Middle East tensions weaken Shilling



A bank teller sorts Uganda Shilling notes. The depreciation has raised concerns over the cost of imports. PHOTO/FILE

in household spending could weaken business activity and slow overall economic growth by reducing consumer demand.

However, Dr Atingi-Ego noted that weaker global growth associated with prolonged geopolitical tensions could also reduce domestic demand and moderate inflationary pressures.

He added that favourable weather conditions could improve food production and ease pressure on prices in the coming months.

"If uncertainty intensifies significantly, households and businesses may reduce spending, which could moderate inflationary pressures but also weaken economic growth," he said.

Despite the external shocks, the Central Bank projects Uganda's economy to grow by an average of about 8 percent over the medium term, supported by stronger export performance and

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increased private sector investment.

The governor, however, cautioned that the balance of risks to the growth outlook remains tilted to the downside due to persistent geopolitical tensions and high global energy prices.

"If energy prices remain elevated over the forecast horizon due to a prolonged or more severe conflict, household disposable incomes and consumption growth could weaken, while businesses may scale back investment spending," Dr Atingi-Ego said.

He also pointed to growing geopolitical fragmentation, global policy uncertainty, and adverse weather conditions as additional threats that could affect agricultural production, food supply, and rural incomes.

On the positive side, he said stronger-than-expected investment in Uganda's extractive sector, especially oil and gas, could further stimulate economic activity.

He noted that a faster resolution of geopolitical conflicts and increased global oil supply could lower energy prices and support stronger global and domestic growth.

Data released by the Uganda Bureau of Statistics (Upos) on April 30 showed that headline inflation rose slightly to 3 percent in April from 2.8 percent in March, largely driven by increases in energy, fuel, and utility costs.

Core inflation also increased margin-

THE IMPACT

- A weaker Uganda Shilling means it takes more shillings to buy foreign currency.
- Imported goods become more expensive.
- Transport and production costs rise as fuel prices increase.
- Household purchasing power falls.
- Businesses face higher costs for imported raw materials.

ally to 3 percent from 2.9 percent, while inflation for other goods remained unchanged at 2 percent.

According to the Central Bank, there is a strong possibility that the recent oil price shock will continue to spread through the economy, causing increases in the prices of other goods and services in the near term.

BoU projects core inflation to range between 5 percent and 5.3 percent over the next 12 months before gradually easing and stabilising around the medium-term target of 5 percent by 2027.

The Monetary Policy Committee (MPC) said inflation is likely to rise moderately in the second half of 2026 before stabilising.

Against this backdrop, the committee resolved to maintain the Central Bank Rate (CBR) at 9.75 percent as it continues to assess global economic developments and inflation risks.

Meanwhile, economists at the World Bank have warned that Sub-Saharan Africa faces mounting downside risks despite projected regional growth of 4.1 percent in both 2025 and 2026.

In its Africa Economic Update released on April 8, the World Bank said rising fuel, food, and fertiliser prices, alongside tighter global financing conditions, are likely to worsen inflationary pressures and disproportionately affect vulnerable households that spend a larger share of their incomes on food and energy.

moketch@ug.nationmedia.com