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.