China National Offshore Oil Corporation engineers leave the site in the Albertine region where one of the oil wells is located last year. Uganda's oil-related revenues are projected to rise gradually, averaging about Shs6 trillion in the next five financial years. PHOTO/MICHAEL KAKUMIRIZI

How first oil will shape govt spending

Oil revenues have the potential to improve Uganda's debt sustainability, but this will depend on prudent fiscal management.

BUDGET SERIES 2026/27

OIL

ISMAIL MUSA LADU

The 2026/2027 Shs84.3 trillion National Budget coincides with President Museveni's 40th year in power. It also marks the anticipated commencement of commercial oil production, which is expected to finally render Uganda an oil-producing country.

After 20 years of anxious anticipation, expectation is now rife, even in government quarters, that first oil will flow between July and October 2026, although some analysts push the schedule to 2027.

While no one knows the exact commencement date, except perhaps President Museveni, sector players, including the Uganda Chamber of Energy and Minerals (UCEM), believe Uganda is on track to hit a major milestone this year, with first oil finally on the horizon.

Following several interviews with government senior officials and planners, regardless of whether first oil comes this year or next, oil revenues are locked into the upcoming financial year budget—barely two months away.

In an exclusive interview with BD Life last week for this article, the Deputy Secretary to the Treasury at the Finance Ministry, Mr Patrick Ocailap, was upbeat about oil revenue, which will, for the first time, become a fixture in the forthcoming budget.

He said: "Specifically, Shs1.4 trillion is being used to finance the budget. This amount, stemming from oil revenue and not debt, falls outside traditional Uganda Revenue Authority (URA) collections.

"Therefore, the Shs84 trillion budget already includes Shs1.4 trillion from oil revenue, starting next financial year.

"Oil revenue will fund PDM, education, and health, including teacher salaries, providing much-needed relief on public debt. Without this oil revenue, we would have been forced to cut expenditure or borrow.

"So, this is the relief I am talking about."

Central Bank weighs in

When contacted last week, the director of research and policy at Bank of Uganda, Dr Adam Mugume, affirmed that the oil revenues in the 2026/27 financial year, which coincides with four decades of NRM reign, will support the government budget.

He said: "More than Shs1.8 trillion is projected to come from oil-related non-tax revenues."

As a result, he further stated: "Domestic borrowing to finance the budget is projected to decline by more than Shs2 trillion next financial year, in part due to oil-related inflows."

How first oil will shape government spending

According to Dr Mugume, going forward, domestic borrowing is projected to decline with oil-related revenues strengthening.

This also, he says, "implies that yields on government securities could come down substantially. Overall, public debt is projected to decline in the coming years."

Shs6 trillion in oil revenues

In his response to *BD Life*, Dr Mugume, noted that oil-related revenues are projected to rise gradually, averaging about Shs6 trillion in the next five financial years.

Meanwhile, the Bank of Uganda will play a central role in handling oil revenues.

Under the Oil and Gas Revenue Management policy, the Petroleum Revenue Investment Reserve is under the Bank of Uganda, which is mandated to invest the savings for intergenerational equity transfer in a sovereign wealth fund (SWF) structure.

This means the government hopes to generate long-term returns, including transferring its shares in domestic companies to the SWF, which then manages, sells, or holds these assets.

BoU expects to start the investments of the oil proceeds in FY2026/27, according to Dr Mugume.

Modest revenues

According to the research fellow at Makerere University's Economic Policy Research Centre, Dr Emmanuel Erem, the oil revenue, finally becoming part of the budget fixture, provides the much-anticipated breather.

He said: "First oil revenues will provide Uganda with an important, though initially limited, boost to its fiscal position by easing pressure on a tax system where the tax-to-GDP ratio remains relatively low at about 13-14 percent compared to peers.

"The oil revenue will also create additional fiscal space to finance priority programmes under the National Development Plan without excessive reliance on domestic borrowing, which has historically crowded out private sector credit."

He continued: "In the early years, these revenues will remain modest due to cost recovery arrangements that allow oil companies to recoup their upfront investments, implying that the overall budgetary impact will be gradual rather than transformative in the short term."

Public debt

Oil revenues have the potential to improve Uganda's debt sustainability, but this will depend on prudent fiscal management. In particular, these revenues can provide an additional source of financing for debt servicing, thereby reducing reliance on new borrowing, and can support a credible fiscal consolidation path if accompanied by strong expenditure discipline.

"But, in the short term, the scale of oil revenues will not be sufficient to significantly reduce the overall debt stock," says the EPRC research fellow.

This implies that expectations should remain realistic. Moreover, weak fiscal management, such as over-borrowing against anticipated future oil revenues, could undermine these gains and exacerbate debt vulnerabilities rather than resolve them.

On the overall economy

The impact of oil production on Uganda's economy is expected to be broad and largely strategic, extending beyond direct fiscal gains.

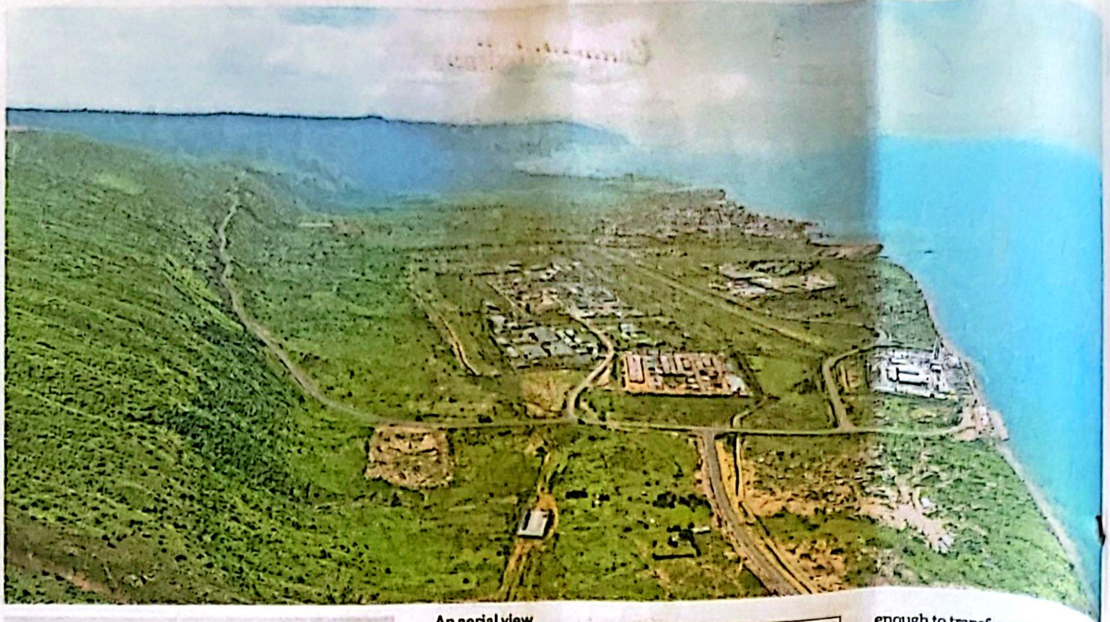
According to Dr Erem, increased foreign exchange earnings from oil exports will help support the Uganda shilling and reduce external vulnerabilities, while improving the current account balance by narrowing the trade deficit.

In addition, the oil sector is likely to generate significant spill-over effects through job creation, local content development, and increased demand for logistics and related services.

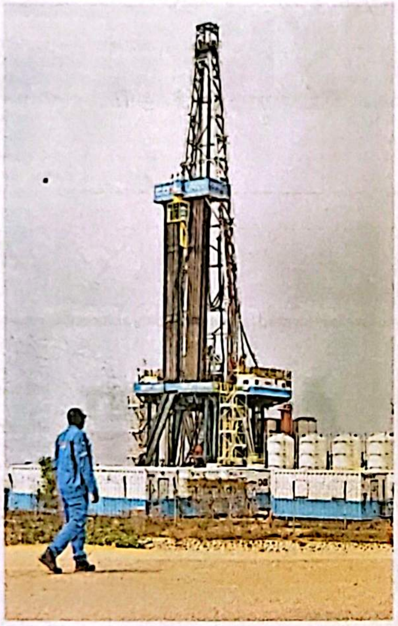
"First oil will also signal Uganda's transition into an oil-exporting economy, strengthening investor confidence and potentially crowding in both domestic and foreign investment across complementary sectors," said Dr Erem.

Oil revenue

In the early years of production, which is around this FY2026/27, the EPRC researcher disclosed that Uganda's oil revenues are projected at about Shs2.2 trillion, equivalent to roughly $500-600 million annually, indicating a modest but meaningful fiscal or revenue boost at the onset.



An aerial view of Kingfisher oil field. Oil revenues should be used in a targeted, productivity-enhancing manner rather than spread thinly across expenditures. PHOTO/ RONAH NAHABWE



An engineer walks towards an oil rig in the Albertine Graben, Hoima District. PHOTOS/ MICHAEL KAKUMIRIZI

Important numbers

Shs2.2t

Uganda's oil revenues are projected at about Shs2.2 trillion, equivalent to about $500-600 million annually.

230,000

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However, it early revenues will be constrained by cost recovery provisions, which allow oil companies to first recoup their substantial investments, while rising project costs, such as those associated with the pipeline, could further moderate expected returns.

"While oil revenues will help support the budget in the short term, the more substantial fiscal gains will materialise over time, and they are not large enough to transform Uganda's finances immediately at first oil," Dr Erem noted in his response to *BD Life*.

He is of the view that oil revenues should be used in a targeted, productivity-enhancing manner rather than spread thinly across expenditures.

For example, he says priority should go to high-return infrastructure, human capital, and productive sectors to drive industrialisation, diversify the economy, and sustain long-term growth beyond oil.

A portion should support prudent debt management and be saved in a stabilisation or sovereign wealth fund to manage volatility and future.

"Critically, resources should not be directed toward recurrent spending, low-return projects, or excessive borrowing against future oil revenues. Instead, they should be leveraged to support structural transformation and long-term economic stability," he concludes.

Resources

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CSOs show their hand

The National coordinator - Civil Society Coalition on Oil and Gas (CSCO), Mr James Opito, advocates for petroleum revenue to be deposited into the Petroleum Fund and the Petroleum Revenue Investment Reserve, while financing national budget priorities.

Recoverable costs, which have already reached $7.5 billion and are estimated to grow to between $10 billion and $15 billion, will be repaid over time by income from petroleum investments.

For instance, he states that EACOP will charge a tariff of $12.77 per barrel of crude to repay the pipeline cost. The cost of roads and other enabling infrastructure will be recovered from oil sales as a first priority, before sharing from the profit oil.

In another interview, the Budget Policy Specialist at the Civil Society Budget Advocacy Group (CSBAG), Mr Siraje Magara, said the first oil is long overdue, given the uncertainty surrounding its arrival.

He noted, "It has been 20 years since the anticipation started. We need the revenue to help in funding the energy sector, which has been externally supported all these years."