

Analysts welcome government's focus on oil, manufacturing and exports but warn that debt, corruption and weak institutions could derail the ambitious growth strategy.

BY DEOGRATIUS WAMALA

The government is arguing that Uganda will not become prosperous by redistributing existing wealth but by creating substantially more of it.

Despite decades of respectable economic growth averaging 5 to 6 percent, much of Uganda remains trapped in low-productivity activities.

The country still exports largely unprocessed commodities, and manufactured goods account for only about a quarter of exports, according to data from Uganda Bureau of Statistics.

The challenge facing policymakers is, therefore, not merely growing the economy but changing its structure.

Development economists from Arthur Lewis onwards have argued that nations become rich when workers move from low-productivity activities into higher-productivity ones.

A farmer, for instance, becomes a commercial producer, raw coffee becomes branded exports, minerals become processed products, and informal enterprises become factories.

But economists understand that transforming an economy requires more than opening markets.

Mr Mark Mutumba, a trade, economics and tax policy analyst, argues that Uganda deserves credit for increasingly embracing economic and commercial diplomacy as it seeks new markets abroad.

However, he cautions that market access alone will not create export success.

"The challenge is not merely finding customers abroad. It is producing goods competitive enough to survive there. This makes Uganda's development challenge less about market access and more about production capacity," he notes.

#### The timing

After nearly two decades of anticipation, Uganda expects its first oil in the 2026/27 financial year. The government forecasts economic growth of 10.2 percent afterwards. As a result, the Finance Ministry projects that 2026 economic growth will reach 6.8 percent. That means oil is expected to reshape both public finances and investor sentiment.

History offers two paths for resource-rich countries. One path leads to prosperity, where resource revenues finance infrastructure, industrialisation and human capital.

The other leads to dependency, where commodity revenues substitute for reform, weaken institutions and create vulnerability to price shocks.

Uganda's budget suggests policymakers are aware of this risk. The document repeatedly emphasises manufacturing, technology, export diversification and regional integration rather than oil alone.

For Dr Brian Serunjogi, the head of the Microeconomics section at the Eco-

# Economists offer mixed reactions to new budget

## What they say



**Mark Mutumba, trade, and tax policy analyst**

Uganda deserves credit for increasingly embracing economic and commercial diplomacy as it seeks new markets abroad. However, market access alone will not create export success. The challenge is not merely finding customers abroad. It is producing goods competitive enough to survive there. This makes Uganda's development challenge less about market access and more about production capacity.



**Dr Fred Muhumuza, development economist**

As we speak, debt service is more than 35 percent, three times more. Meaning the revenue Uganda revenue Authority is raising is going into debt payment; the consequence, there are not going to be drugs in that hospital. There will be no blood. There will be an ambulance, but possibly no fuel.



**John Walugembe, ED of Federation of Small and Medium-Sized Enterprises**

Uganda has progressed over the last four decades. Roads, electricity and macroeconomic stability have all improved substantially. But growing budgets have also brought growing responsibilities. His concern is that the government often allocates resources for wages while underfunding the non-wage requirements that make institutions function effectively.



**Owen Mugambwa, trade policy analyst at SEATINI**

Few people pay taxes and that is a very big challenge. The percentage of debt repayments keeps increasing. You need to broaden people as much as possible and make sure everyone pays. That's how you need to finance the tenfold strategy. You can't do the economy ten times when you don't have money to finance it. When you have weak institutions and weak budget credibility, it becomes difficult.



**Dr Brian Serunjogi, Economic Policy Research Centre**

All countries borrow. Even the most developed countries borrow. The challenge is whether borrowed money is converted into productive assets quickly enough; you borrow money. You have not done feasibility studies. You have not paid the project-affected persons. You have issues with acquiring land to give to the contractor and projects delay.

feasibility studies. You have not paid the project-affected persons. You have issues with acquiring land to give to the contractor and projects delay," he adds.

#### A vulnerable economy

The Finance Ministry estimates that a one-percentage-point reduction in economic growth would create a revenue shortfall of over Shs400 billion and a 10 percent depreciation of the shilling would widen the deficit by almost Shs1.2 trillion.

A simultaneous combination of shocks like commodity volatility, climate shocks, regional instability and higher import costs could widen the fiscal deficit by more than Shs1.5 trillion, according to the Finance Ministry's own stress tests.

The economy remains vulnerable. But the greatest threat is domestic. The national budget acknowledges procurement delays, weak project execution, low absorption of funds and inefficiencies in public spending.

Mr John Walugembe, the executive director of the Federation of Small and Medium-Sized Enterprises, makes a similar point. "Uganda has progressed over the last four decades. Roads, electricity and macroeconomic stability have all improved substantially. But growing budgets have also brought growing responsibilities," he adds.

His concern is that the government often allocates resources for wages while underfunding the non-wage requirements that make institutions function effectively.

#### Investors' verdict

According to Mr Charles Eibu, an individual investor in Uganda's capital markets, the country's challenge is raising revenue without placing excessive pressure on the relatively small formal sector that already bears much of the tax burden.

"If tax is being increased and squeezing businesses, it is like you are biting the hand that feeds you," he argues. Instead, he believes the government should focus on broadening the tax base.

Mr Owen Mugambwa, a trade policy analyst at the Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI) shares that concern.

"Few people pay taxes and that is a very big challenge. The percentage of debt repayments keeps increasing. You need to broaden people as much as possible and make sure everyone pays. That's how you need to finance the tenfold strategy. You can't do the economy ten times when you don't have money to finance it. When you have weak institutions and weak budget credibility, it becomes difficult," he notes.

Together, all the policy analysts quoted in this article suggest that Uganda's challenge is no longer identifying what to do. The country broadly knows the sectors it wants to grow, the exports it wants to sell and the industries it wants to build.

The harder task is execution. The National Budget is ultimately a wager that Uganda can transform itself from a factor-driven economy into a productivity-driven one. The money has been allocated. The strategy has been articulated.

nomics Policy Research Centre (EPRC), the bigger question is whether Uganda's institutions are prepared for the scale of transformation policymakers envision.

"We need to strengthen government institutions to first of all, reduce corruption. That is how money that is mobilised to finance the budget is going to be used to reach the tenfold growth," he notes.

He believes the ambition of growing the economy nearly tenfold cannot be achieved through business as usual.

"Growing the economy tenfold in the next 15 years is going to bring an overhaul of our public institutions, our public sector," he says.

Oil may provide the resources. But institutions will determine whether those resources become productive assets or just another missed opportunity.

#### The hard maths

Public debt has climbed to 51 percent of Gross Domestic Product (GDP), breaching the 50 percent threshold the government once pledged to stay below, according to economic data from the Finance Ministry.

More striking still is the cost of past borrowing. Debt servicing will absorb about Shs33.4 trillion in the 2026/27 financial year, nearly 40 percent of the national budget, making it the single

largest expenditure item.

This means four out of every ten shillings in the national budget will go toward servicing debt before a single road is built, medicine purchased or classroom supplied.

The government has, therefore, begun reducing domestic borrowing, which

### WINNERS AND LOSERS IN MUSASIZI'S BUDGET

#### Winners

Agro-industrialisation (Shs2.26 trillion)  
Oil and gas sector  
Tourism sector  
Science, Technology and Innovation  
Parish Development Model beneficiaries  
Mineral value-addition projects

#### Losers

Government agencies reliant on ceremonial budgets  
Ministries facing stricter accountability rules  
Institutions with poor budget absorption  
Public holiday celebrations funded by government  
Contractors affected by tighter procurement oversight

is projected to fall from Shs11.4 trillion to Shs9 trillion in the 2026/27 financial year, amidst a fall in the donor budget support.

Domestic revenues are projected to rise to Shs45.6 trillion in the 2026/27 financial year from an estimated Shs37.23 trillion in 2025/26 financial year, an increase of about Shs2.86 trillion.

In effect, Uganda is trying to grow its way out of a narrowing fiscal space.

Dr Fred Muhumuza, a development economist, warns that debt service is increasingly consuming resources that would otherwise support public services.

"As we speak, debt service is over 35 percent; three times more. Meaning the revenue Uganda revenue Authority is raising is going into debt payment," he notes.

The consequence, he argues, becomes visible in the quality of services available to citizens. "There are not going to be drugs in that hospital. There will be no blood. There will be an ambulance, but possibly no fuel," he notes.

Dr Serunjogi sees a related problem, arguing that borrowing itself is not the issue. "All countries borrow. Even the most developed countries borrow. The challenge is whether borrowed money is converted into productive assets quickly enough," he notes.

"You borrow money. You have not done