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UGANDA

SELECTED ISSUES

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SELECTED ISSUES

May 28, 2026

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(African Department)

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UGANDA'S GOVERNMENT BOND YIELD CURVE: STRUCTURE, DRIVERS, AND POLICY IMPLICATIONS[1]

This paper analyzes the structure and drivers of Uganda's government bond yield curve. The study is motivated by the rapid expansion of Uganda's domestic government securities market and the increasing importance of domestic borrowing in financing fiscal deficits. Using two complementary approaches—a Fisher-style decomposition of yields and Nelson–Siegel yield curve estimation—the paper examines how macroeconomic fundamentals, fiscal conditions, and policy variables influence sovereign risk premia and the term structure of interest rates. The results suggest that strong fiscal fundamentals, robust economic growth, and sustained capital inflows are associated with lower sovereign risk premia and a flatter yield curve. Election cycles tend to increase yields, particularly at medium-term maturities. Monetary policy primarily affects short-term borrowing costs, while central bank financing offers limited relief for government borrowing costs.

A. Introduction

1. Understanding the behavior of government bond yields is essential for assessing sovereign borrowing costs, monetary policy transmission, and financial market development. In Uganda, the domestic government securities market has expanded significantly over the past decade, both in size and in the maturity structure of issued instruments. This expansion reflects the government's increasing reliance on domestic financing as access to external borrowing has become more constrained and global financial conditions have tightened.

2. The yield curve plays a central role in financial markets because it summarizes market expectations about future interest rates, inflation, and sovereign risk. A large body of literature has examined the informational content of yield curves and their relationship with macroeconomic conditions (e.g. Fama and Bliss,1987; Diebold and Rudebusch, 2013). In emerging and frontier markets, sovereign bond yields are often influenced not only by monetary policy expectations but also by fiscal conditions, capital flows, and political uncertainty (e.g. Nose and Menkulasi, 2025; Eichengreen and Gupta, 2015, Baldacci et al., 2011). In addition, research on emerging market debt markets underscores the role of both local and global factors, as well as foreign investor participation, in shaping domestic bond yields (e.g. Cepni et al., 2021; Miyajima et al. 2015).

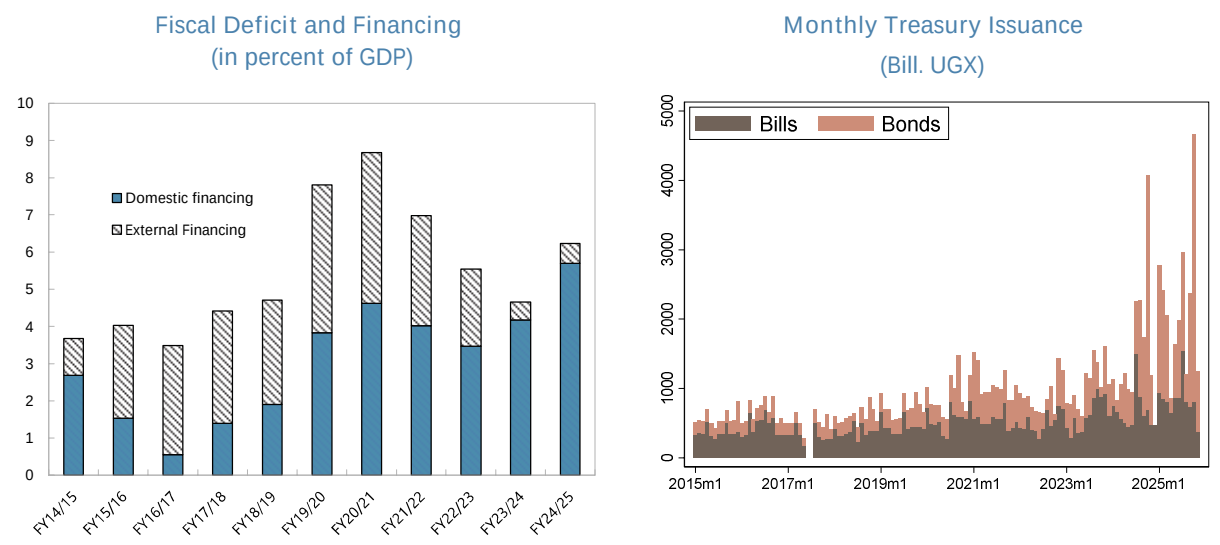
3. This paper focuses on examining the structure and drivers of Uganda's government bond yield curve. Despite the growing importance of the domestic debt market, empirical analysis of Uganda's yield curve and its macroeconomic determinants remains limited. An improved understanding of the dynamics of the yield curve can provide valuable insights into sovereign risk perceptions, the effectiveness of macroeconomic policies, and the

[1] Prepared by Haonan Qu.

development of financial markets. The analysis employs two complementary empirical approaches. First, a Fisher-style decomposition is used to break down bond yields into their underlying components, including inflation expectations and sovereign risk premia. Second, a Nelson–Siegel yield curve framework is used to characterize the shape and dynamics of the yield curve using latent factors that capture the level, slope, and curvature of yields across maturities. The analysis aims to answer several key questions: (i) what factors drive sovereign risk premia in Uganda; (ii) how macroeconomic conditions and fiscal fundamentals affect different segments of the yield curve; and (iii) what role monetary policy, capital flows, and political cycles play in shaping government borrowing costs. Understanding these dynamics is particularly important in the current global environment characterized by elevated interest rates, heightened risk aversion, and constrained external financing conditions.

B. An Overview of Uganda's Treasury Market

Figure 1. Government Financing and Treasury Auctions



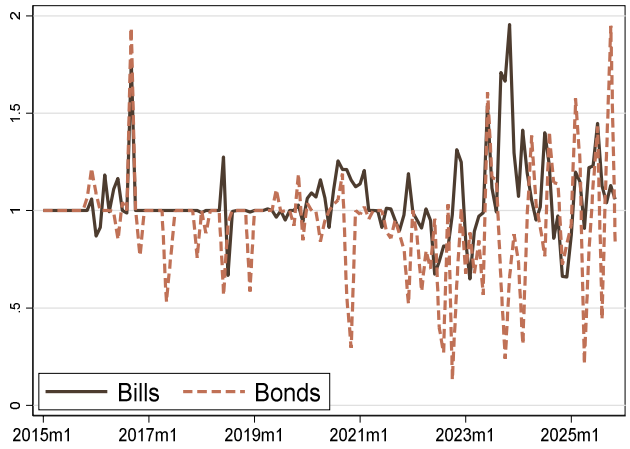
Sources: Haver, BoU, and IMF staff calculations.

4. Uganda's domestic government securities market has experienced substantial growth over the past decade. The expansion accelerated following the pandemic as fiscal pressures increased and the government relied more heavily on domestic borrowing to finance budget deficits (Figure 1, left panel). Issuance volumes in the primary market rose significantly, and the composition of securities shifted toward longer-term instruments (Figure 1, right panel). Average monthly issuance increased from UGX 616 billion between 2015 and 2019 to over UGX 1267 billion since 2020, while average treasury bond share rose from about 35 percent to close to 46 percent. Treasury bonds now account for an increasing share of issuance, contributing to the extension of the maturity profile of domestic public debt.

5. At the same time, the authorities have become more active in managing primary market allocations. Prior to the pandemic, the volume of securities sold typically aligned closely with the amounts offered at auctions, as reflected in relatively stable sold-to-

offer ratios (Figure 2). However, since the pandemic, the divergence between offered and sold amounts has widened, suggesting a more active allocation strategy aimed at managing borrowing costs amid tighter financing conditions. On average, treasury bonds have tended to be undersold relative to planned issuance, with the sold-to-offer ratio averaging about 0.9 since the pandemic. In contrast, treasury bills have often been oversold with the ratio averaging about 1.1 over the same period. This pattern may reflect efforts by the authorities to balance short-term financing needs with longer-term debt management objectives. However, the significant deviations between planned and realized borrowing weaken issuance predictability and undermine credibility of the auction process. By blurring the distinction between market-based pricing and discretionary outcomes, such discrepancies often lead to elevated uncertainty premia and reduced investor confidence, deterring both domestic and offshore participation.

Figure 2. Sold to Offer Ratio in Treasury Auctions
(ratios, monthly)



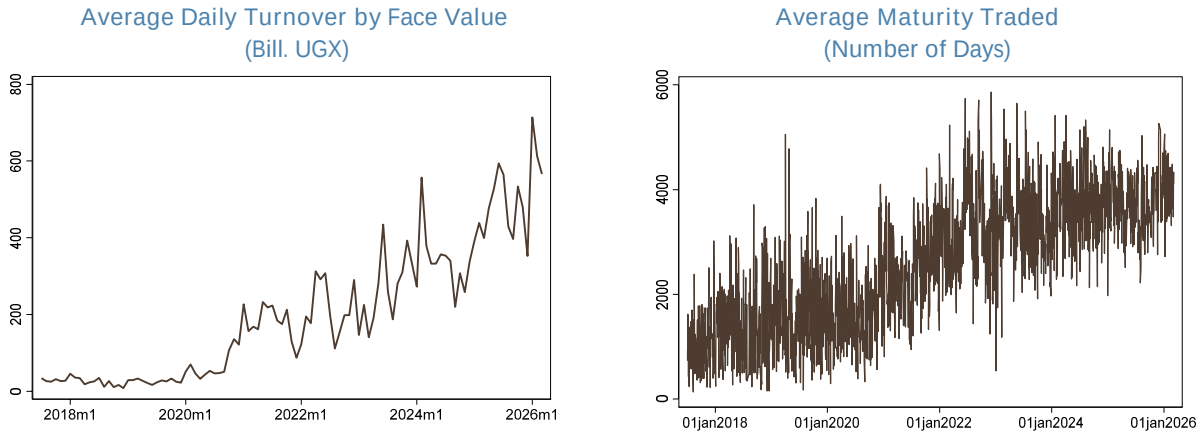
Sources: BoU and IMF staff calculations.

6. Secondary market activity has also increased. Average daily turnover rose from just over UGX 24 billion in 2018 to more than UGX 465 billion in 2025 (Figure 3, left panel). Over the same period, the average maturity of Treasury securities traded in the secondary market increased from less than four years to over ten years (Figure 3, right panel). The rising trading volume and longer maturities of traded securities indicate growing market participation and improving liquidity conditions in the secondary market.

7. As Uganda's treasury market has developed, government bond yield curve has undergone notable changes over the past decade. In the early years following the adoption of inflation targeting, short-term yields were relatively elevated as the central bank established credibility in maintaining price stability (Figure 4, left panel). Over time, yields gradually declined, reflecting improved macroeconomic stability and greater policy credibility. The yield curve became more stable and upward sloping, consistent with expectations of steady economic growth and inflation (e.g. Estrella Mishki, 1998; Hördahl and Tristani, 2014). More recently,

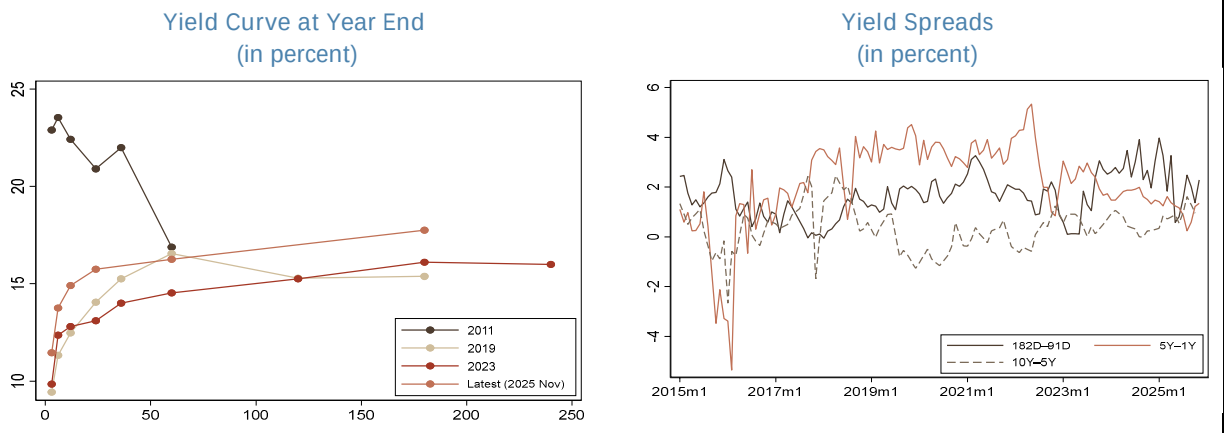
however, the yield curve has steepened again. This development has occurred despite efforts by the government to influence issuance patterns across maturities through auction allocation strategies. Yield spreads across maturities have also shown significant variation over time, suggesting changing investor perceptions of risk and evolving macroeconomic conditions (Figure 4, right panel). These developments underscore the importance of understanding the structural drivers of yield movements and the factors influencing sovereign borrowing costs in Uganda.

Figure 3. Secondary Market Trading Activities



Sources: BoU and IMF staff calculations.

Figure 4. Evolution of Uganda's Yield Curve



Sources: BoU and IMF staff calculations.

C. Empirical Analysis

7. To analyze the structure and drivers of Uganda's yield curve, this paper employs two complementary empirical approaches: a Fisher-style decomposition and

Nelson-Siegel yield curve estimation. The Fisher-style decomposition separates nominal bond yields into several components, including expected inflation, real interest rates, and risk premia. This framework provides an economically intuitive interpretation of yield movements and allows for the identification of changes in inflation expectations and sovereign risk perceptions. The Nelson-Siegel (NS) yield curve estimation summarizes the yield curve into three latent factors: level, slope, and curvature. It is widely used in empirical studies because it provides a flexible yet parsimonious representation of the yield curve and allows for analysis of how macroeconomic variables affect different segments of the term structure via the latent factors.

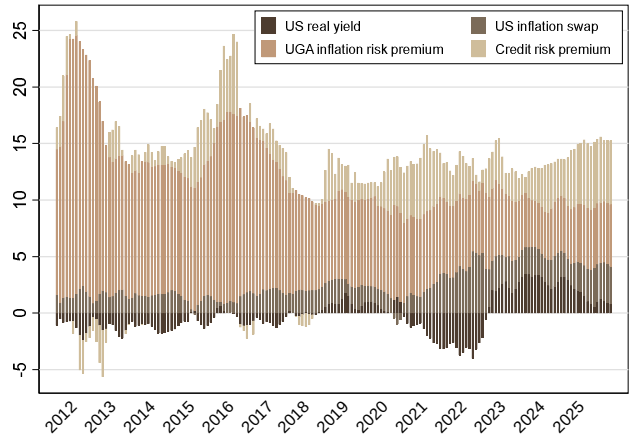
D. Fisher-Style Yield Decomposition

8. The Fisher-style decomposition separates nominal bond yields into four components:

$$y(\tau)_t = \mathrm{y}_{\mathrm{us,\ real}}(\tau)_t + \mathrm{US}_{\mathrm{swap}}(\tau)_t + Premium_{inf}(\tau)_t + Premium_{credit}(\tau)_t,$$

where $y(\tau)_t$ denotes nominal yield at time t of Uganda government bond with maturity τ, $y_{us,\ real}(\tau)_t$ represents the real yield at time t of the US Treasury Inflation-Protected Security with maturity τ, $US_{\mathrm{swap}}(\tau)_t$ denotes the US inflation swap rate of maturity τ, $Premium_{inf}(\tau)_t$ denotes Uganda inflation risk premium proxied by difference between the BoU's CBR and the Fed Funds rate at time t, and a residual term, $Premium_{credit}(\tau)_t$, represents Uganda's sovereign credit risk premium. This framework provides an economically intuitive interpretation of yield movements and allows for the identification of changes in inflation expectations and sovereign risk perceptions. Applying the decomposition across 1-year, 2-year, and 10-year maturities facilitates an assessment of risk premium evolution across the yield curve. By isolating the credit risk premium component, the analysis can examine how macroeconomic variables—including fiscal balances, public debt, capital flows, and political cycles—affect government borrowing costs.

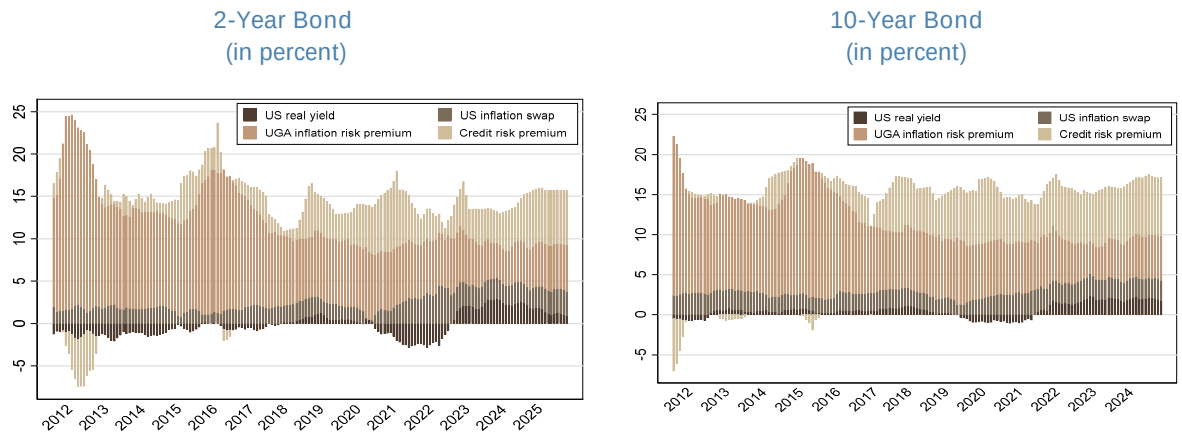
Figure 5. Yield Decomposition (1-Y Bill)
(in percent)



Sources: Bloomberg, BoU, Haver and IMF staff calculations.

9. The decomposition results indicate that inflation risk premia declined over time as Uganda's inflation targeting framework gained credibility. In recent years, inflation risk premia have remained relatively stable, reflecting the central bank's alignment of monetary policy with global tightening cycles. By contrast, the credit risk premium—the residual component in the decomposition—has increased in the most recent period (Figure 5). This increase likely reflects deteriorating fiscal conditions and rising political uncertainty ahead of the 2026 elections. The rise in credit risk premia appears to be more pronounced at shorter maturities than at the long end of the yield curve (Figure 6).

Figure 6. Bond Yield Decomposition



Sources: Bloomberg, BoU, Haver, and IMF staff calculations.

10. Analysis linking credit risk premia to macroeconomic variables reveals several important relationships. Macroeconomic variables are grouped into two categories: market condition controls and other macroeconomic variables (Table 1). Market condition controls include contemporaneous variables affecting the demand and supply of government securities, such as investor appetite, the government's reliance on domestic financing, and active issuance management. Other macroeconomic variables—including fiscal balance, public debt, and economic growth—are included with lags to mitigate endogeneity concerns. As a first step, it is useful to examine the co-movement between macroeconomic factors and estimated credit risk premia. Figure 7 presents scatterplots of credit risk premia against a selected set of macroeconomic variables that are theoretically relevant. The charts suggest that credit risk premia are positively correlated with public debt levels and negatively correlated with fiscal balance, economic growth, and foreign investor holdings.

11. Regression analysis confirms strong fiscal fundamentals, robust economic growth, and sustained foreign capital inflows are generally associated with lower sovereign risk premia. The following framework is used to assess the relationship between macroeconomic factors and credit risk premia across maturities:

$$Premium_{credit}(\tau)_t = \Sigma_{i=1}^{2}\rho(\tau)_s Premium_{credit}(\tau)_{t-s} + \beta_0(\tau) + \beta_1(\tau)\, Market\ Condition\ Controls_t + \beta_2(\tau)\, Macro\ Factors_{t-1} + \epsilon(\tau)_t,$$

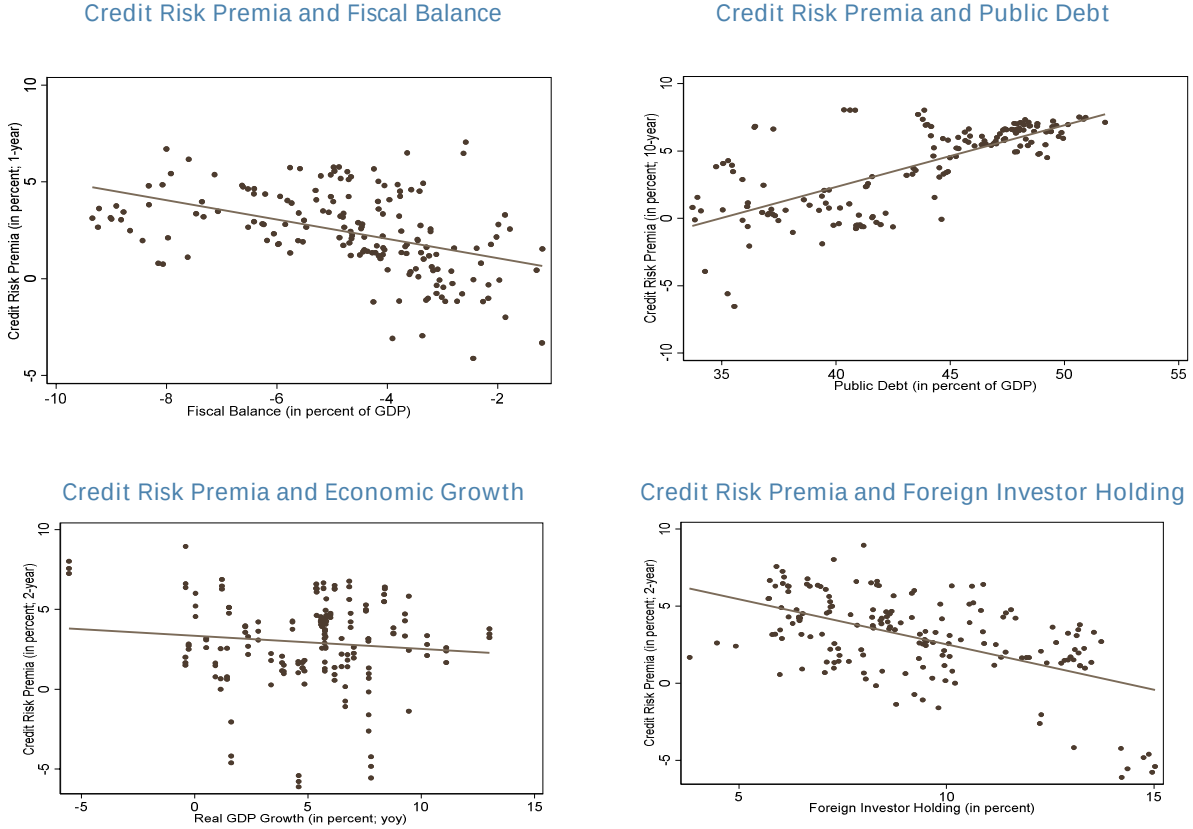
where τ denotes maturities (1-year, 2-year, and 10-year). Lagged dependent variables are included as additional controls. Table 2 presents the estimation results:

- The regression analysis confirms that stronger fiscal fundamentals are associated with lower credit risk premia. A one-percentage-point improvement in the fiscal balance-to-GDP ratio is associated with a reduction in credit risk premium of about 16 basis points (bps) for 1-year bill

and 9 bps for 10-year bond, while a one-percentage-point increase in the public debt-to-GDP ratio is associated with an increase of about 3 bps in the 10-year bond premium.

- Foreign investor appetite and capital inflows are also associated with lower credit risk premia. A one-percentage-point increase in the share of foreign investors' holding of government securities is associated with a decline of about 10 bps in premia across the maturities. Results for the government foreign financing ratio suggest that external financing helps reduce risk premia in the domestic market, particularly for the 1-year and 2-year maturities.
- Stronger economic growth is likewise associated with lower risk premia: a one-percentage-point increase in growth is linked to a reduction of about 6 bps and 3 bps in the premia for 2-year and 10-year bonds respectively. Election cycles, however, significantly raise short-term risk premia. The 1-year premium increases by nearly 158 bps during the three months preceding past elections. By contrast, the results do not show a significant impact of the BoU exposure to the government on risk premia.

Figure 7. Credit Risk Premia and Macroeconomic Factors



Sources: BoU, Haver and IMF staff calculations

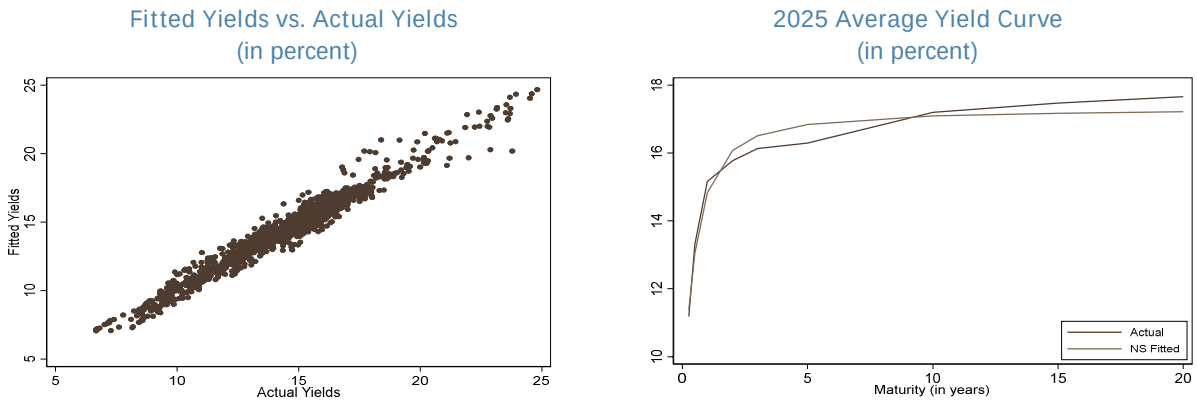
E. Nelson-Siegel Yield Curve Analysis

12. The NS framework models the entire yield curve as follows:

$$y_t(\tau) = \beta_{1t} + \beta_{2t}\left(\frac{1 - e^{-\lambda\tau}}{\lambda\tau}\right) + \beta_{3t}\left(\frac{1 - e^{-\lambda\tau}}{\lambda\tau} - e^{-\lambda\tau}\right),$$

where $y_t(\tau)$ denotes nominal yields at maturity τ at time t. The parameter β_{1t} represents the level factor (the overall height of the yield curve) and shifts the yield curve uniformly across maturities. The parameter β_{2t} captures the slope factor (negative value implies upward-sloping yield curve) and reflects the difference between short- and long-term yields. The parameter β_{3t} represents the curvature factor and captures the hump-shaped behavior typically observed in the medium-term yields. The parameter λ is the decay factor, which determines the maturity at which the hump occurs. Following the approach of Diebold and Li (2006) and Cepni et al. (2021), the level, slop, and curvature parameters are estimated using ordinary least squares while holding λ fixed. A grid search is conducted to identify the optimal value of λ that minimizes the in-sample root mean squared error. Figure 8 shows that the NS model provides a good fit to the observed yield curve.

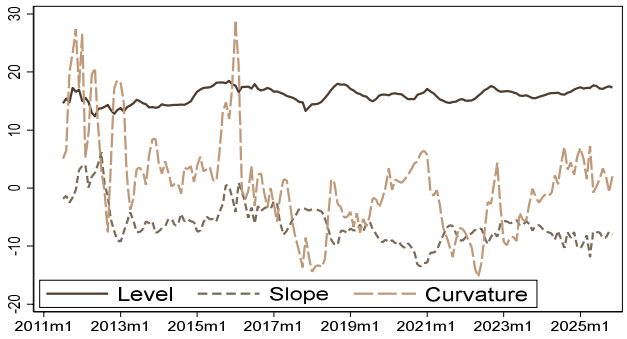
Figure 8. Nelson Siegel Estimation Fit



Sources: BoU, and IMF staff calculations.

13. The changes to the government bond yield curve over time are reflected in the evolution of estimated NS factors (Figure 9). The level factor has remained relatively stable over time but has shown a gradual upward trend in recent years. In contrast, the slope and curvature factors exhibit significantly greater variation. The slope factor remains in negative territory for most of the sample period, consistent with generally upward-sloping yield curves. The curvature factor has historically increased during election periods, suggesting that medium-term yields tend to rise relative to both short- and long-term yields during times of political uncertainty.

Figure 9. Nelson-Siegel Factor Estimates
(in percent)



Sources: IMF staff calculations.

14. Regression analysis linking the Nelson–Siegel factors to macroeconomic variables reveals several important findings. The NS factors are modeled as follows:

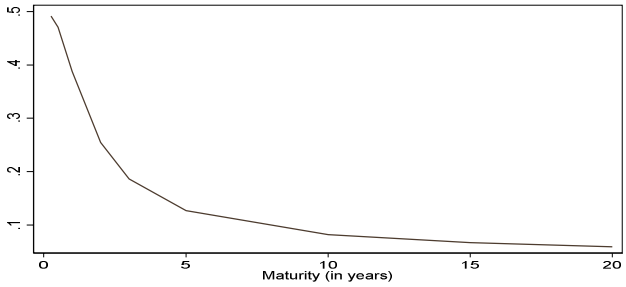
$YC_t = \Sigma_{s=1}^{3}\rho_s YC_{t-s} + \beta External_t + \gamma_0 + \gamma_1 Market\ condition\ controls_t + \gamma_2 Macro\ Factors_{t-1} + \epsilon_t$,

where YC_t denotes the NS factors (i.e. level, slope, and curvature), and $External_t$ includes VIX index and federal funds rate to control for external environment. The BoU policy rate variable is included to examine the relationship between yield curve and monetary policy. Estimation results are presented in Table 3:

- Capital inflows and foreign investor participation are associated with lower and flatter yield curves, broadly consistent with the findings from the Fisher-style decomposition results earlier. Auction conditions, measured by sold-to-offer ratios, are negatively associated with the level of the yield curve. This relationship may reflect both the effect of foreign investor appetite and the government's active efforts to steer auction allocations to help manage borrowing costs.

- The policy rate does not appear to be strongly associated with the level of the yield curve, but it is negatively associated with the slope, suggesting that monetary policy mainly affects short-term government borrowing costs. Figure 10 shows the changes associated with a one-percentage point increase of the policy rate to yields across the curve based on the regression results.

Figure 10. Estimated Changes in Yields from CBR
(in percent)



Note: Estimated changes to yields associated with 1 ppt increase to the CBR.
Sources: IMF staff calculations.

- BoU financing appears to reduce the level of the yield curve, but has a larger impact on its slope (steeper) and curvature (more concave). This suggests that monetary financing may be counterproductive for managing medium- to long-term government borrowing costs.
- Consistent with the findings from the Fisher-style decomposition results, stronger fiscal fundamentals and economic growth are generally associated with a lower yield curve level, although the estimates are not statistically significant.[2]
- Election cycles tend to push up the yield curve, with the effect more pronounced at medium-term maturities (curvature), aligned with the findings from the Fisher-style decomposition results.

F. Conclusion and Policy Discussion

15. The study finds that fiscal fundamentals, capital inflows, monetary policy, and macroeconomic stability play key roles in shaping sovereign risk premia and the government bond yield curve in Uganda. Using both Fisher-style decomposition and Nelson–Siegel estimation techniques, the analysis shows that:

- Strong fiscal fundamentals and economic growth are essential for reducing sovereign risk premia and lowering borrowing costs.
- Greater access to external financing and broader foreign investor participation can help lower and flatten the yield curve.
- Monetary policy primarily influences short-term government borrowing costs, while central bank financing provides only limited relief.
- Election-related yield volatility underscores the importance of policy certainty and clear communication in shaping yield curve dynamics.

Strengthening fiscal sustainability and frameworks, attracting foreign investment, and implementing growth-enhancing structural reforms that bolster creditworthiness and investor confidence will therefore be essential for reducing government borrowing costs and supporting the continued development of Uganda's domestic debt market.

[2] These subdued coefficients could reflect threshold effects, where the impact of debt and growth on the yield curve becomes more pronounced only after debt reaches critical levels (e.g., Reinhart and Rogoff, 2010; Baldacci and Kumar, 2010). Uganda's manageable debt levels and the relative stability of its treasury market over the 2011–2025 period make it empirically challenging to detect these nonlinear impacts.

Table 1. Uganda: Variable Description

Variables	Remarks
Market condition controls	
Sold-to-Offer Ratio (Tbill)	Investor appetite, government active efforts
Off-shore investor holding ratio (in percent)	Investor appetite
Government foreign financing ratio	12-month moving average of government foreign financing to total financing, net.
Marco variables, lagged	
Fiscal balance (in percent)	12-month cumulative balance in percent of GDP, lagged.
Government debt (in percent)	Total government deb in percent of GDP, lagged
Economic growth (in percent)	Real GDP yoy growth, interpolated from quarterly data, lagged.
BoU claims on government (in percent)	In percent of BoU's total assets, lagged.
Election cycle indicator	3 months leading up to (and including) each election.

Table 2. Uganda: Credit Risk Premium Factor Estimation Results

	1-year	2-year	10-year
Sold-to-Offer Ratio (Tbill)	-0.448	-0.370	-0.0288
	(0.374)	(0.297)	(0.207)
Off-shore investor holding ratio (in percent)	-0.133***	-0.0977**	-0.0785**
	(0.0402)	(0.0471)	(0.0342)
Government foreign financing ratio	-1.421**	-0.935**	-0.457
	(0.666)	(0.413)	(0.277)
Fiscal balance (in percent)	-0.164**	-0.0305	-0.0883*
	(0.0671)	(0.0677)	(0.0458)
Government debt (in percent)	-0.00265	0.0354	0.0338**
	(0.0233)	(0.0219)	(0.0152)
Economic growth (in percent)	-0.00553	-0.0564*	-0.0323**
	(0.0301)	(0.0288)	(0.0149)
BoU claims on government (in percent)	0.00520	-0.00616	-0.00429
	(0.00780)	(0.00460)	(0.00342)
Election cycle indicator	1.577***	0.642	-0.0521
	(0.426)	(0.483)	(0.201)
Observations	168	168	156
R-squared	0.782	0.928	0.963

Note: Other control variables include lagged depedent variables and constant. Robust standard errors in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

Table 3. Uganda: Nelson-Siegel Factor Estimation Results

	Level	Slope	Curvature
Sold-to-Offer Ratio (Tbill)	-0.378***	-0.349	1.093
	(0.141)	(0.541)	(1.398)
Off-shore investor holding ratio (in percent)	-0.0329	0.284***	-0.529***
	(0.0259)	(0.0519)	(0.185)
Government foreign financing ratio	-1.376***	1.834**	-2.850
	(0.384)	(0.808)	(2.972)
Policy Rate (in percent)	0.0367	0.425***	0.665***
	(0.0329)	(0.0646)	(0.209)
Fiscal balance (in percent)	-0.000527	0.0684	-0.0460
	(0.0435)	(0.137)	(0.366)
Government debt (in percent)	0.00402	0.0167	-0.0880
	(0.0126)	(0.0435)	(0.114)
Economic growth (in percent)	-0.0143	0.0349	0.0120
	(0.0111)	(0.0368)	(0.0981)
BoU claims on government (in percent)	-0.0158***	-0.0274***	0.132***
	(0.00436)	(0.00854)	(0.0360)
Election cycle indicator	0.298**	-0.349	5.708***
	(0.139)	(0.504)	(1.502)
Observations	163	163	163
R-squared	0.899	0.887	0.804

Note: Other control variables include lagged depedent variables, VIX index and its lags, Fed funds rate, and constant. Robust standard errors in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

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FINANCIAL DEEPENING: UNPACKING BARRIERS FOR STRONGER GROWTH[1]

While financial inclusion has expanded significantly, financial deepening through stronger, sustainable private sector credit activity and more efficient bank intermediation remains critical to unlock Uganda's growth potential. Empirical analysis suggests that financial deepening is stronger where the domestic funding base is broader and more stable, and weaker where banks are more exposed to government financing and borrowing costs remain high. Addressing these gaps will require a whole-of-government approach and sustained reforms over the medium-to-long term. Key priorities will include, among others, promoting long-term savings mobilization, strengthening credit infrastructure, and upscaling financial and digital literacy campaigns.

A. Introduction

1. Financial deepening has become increasingly relevant and crucial to unlock domestic sources of sustainable growth in many African countries like Uganda. With limited fiscal space, tight external financing conditions, and elevated global uncertainty, Uganda faces a greater imperative to deepen domestic financial intermediation to support investment and growth. The literature highlights that financial deepening supports sustainable growth by mobilizing savings and allocating capital efficiently, diversifying risk, and reducing information asymmetries and transaction costs (Levine, 1995; Demirguc-Kunt and Levine, 2008). In Uganda, while financial inclusion has advanced by expanding access to underserved groups, challenges persist in enhancing private sector credit depth and in improving bank intermediation and operational efficiency.

2. This Selected Issues Paper (SIP) examines Uganda's financial deepening through the lens of private sector credit depth, and bank intermediation and operational efficiency. This focused approach reflects the predominantly bank-based structure of Uganda's financial system. The authorities' tenfold growth strategy which envisions private sector credit depth as key enabling condition also motivates the scope of SIP. We present stylized facts on private credit dynamics, benchmarking Uganda against its peers in the East African Community (EAC) region, and examine key macrofinancial correlates of private credit depth (Section B).[2] In Section C, we assess bank intermediation and operational efficiency using evidence on interest rate spreads and its decomposition, and operating costs drivers to shed light on the barriers weighing on private credit. To provide a fuller diagnosis, Section D complements this supply-side and structural assessment with a discussion of demand-side barriers to financial deepening. Building on these findings, we review the authorities' progress in addressing these gaps and outline next steps to support broader financial deepening (Section E).

[1] This paper was prepared by Jean Christine A. Armas, Daphne Babirye, and Alex Vaval Pierre-Charles.

[2] EAC countries included in this paper are Kenya (KEN), Rwanda (RWA), and Tanzania (TZA).

B. Private Sector Credit in Uganda

3. Uganda's private credit depth remains shallow, with little convergence toward its EAC peers and signs of post-pandemic slowdown in credit growth momentum. Evidence suggests that private credit expansion in Uganda is positively correlated with broader economic activity, but its link with investment is weaker than in peer countries, pointing to a pattern where credit may be supporting consumption more than productive capital formation. Recent developments also show that trend real private credit growth has shifted downwards after the pandemic, with the slowdown evident across productive sectors. This section first documents Uganda's experience through stylized facts and cross-country benchmarking, and then draws on panel regression evidence for Sub-Saharan African (SSA) countries to provide complementary empirical support on the macrofinancial correlates of private credit depth in Uganda, given the limited time-series scope for Uganda-specific estimation.

Stylized Facts and Cross-Country Benchmarking

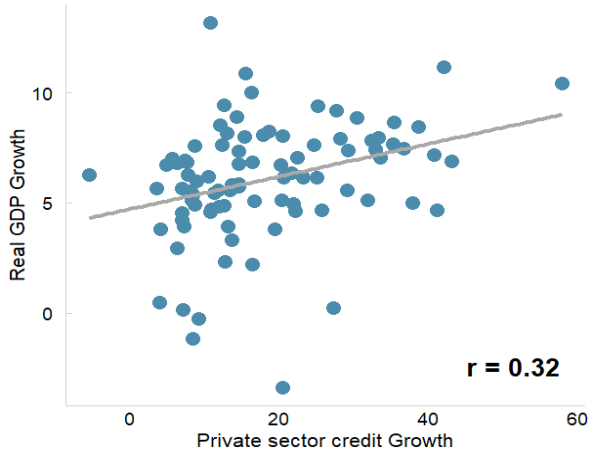
4. Private sector credit growth is positively correlated with output and investment growth (Figure 1).[3] Ceteris paribus, stylized facts show that countries with relatively higher growth of private sector credit tend to experience stronger output (Panel A) and higher gross fixed capital formation (GFC) or real investment (Panel B). However, the strength of these links varies across EAC countries. For example, Uganda shows a stronger correlation between private credit growth and real GDP growth (r = 0.55) than its EAC peers (r = 0.32) but shows a weaker correlation in terms of investment compared to peers (r=0.15 vs. r = 0.34 in EAC) (see Appendix I, Figure 1. A1- Figure 2. A1). These trends suggest that while credit expansion coincides with periods of higher economic activity through consumption (Figure 3. A1), credit may not be predominantly directed towards productive investment or capital formation.

5. Uganda's private credit-to-GDP, a rough yet widely used measure of financial depth, has persistently lagged its EAC peers (Figure 2). Historically, private sector credit depth in Uganda remained low, with only brief episodes of expansion and followed by prolonged plateaus since the pandemic (Panel A). Examining the 5-year historical averages reinforces the narrative, with Uganda showing little evidence of catching up with its peers and where trajectory appears subdued. Between the earliest and latest 5-year periods (2001-05 vs. 2021-25), Uganda's private sector credit-to-GDP ratio increased by just 6.7 percentage points (ppts), compared to 13.3 ppts. in Kenya, 9.4 ppts. in Tanzania, and 13.9 ppts. in Rwanda (Panel B).

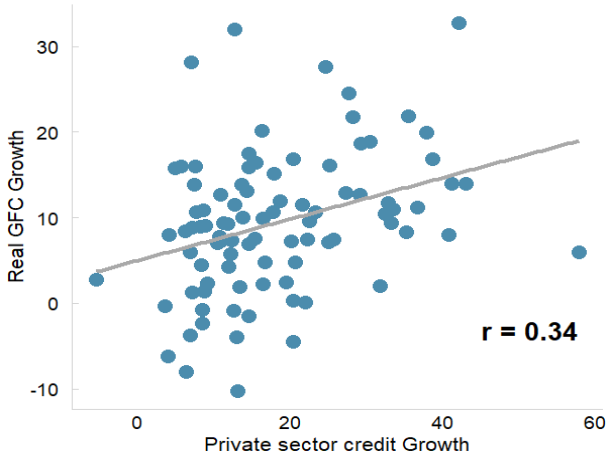
[3] While these simple correlations do not establish causality, they provide a baseline indication that credit growth has been more closely associated with aggregate demand and investment growth.

Figure 1. Private Sector Credit and Economic Performance in EAC Region

Panel A: Real GDP and Private Sector Growth



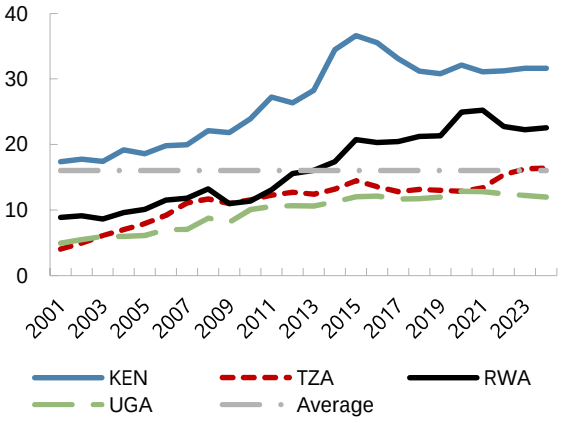
Panel B: Real Investment and Private Credit Growth



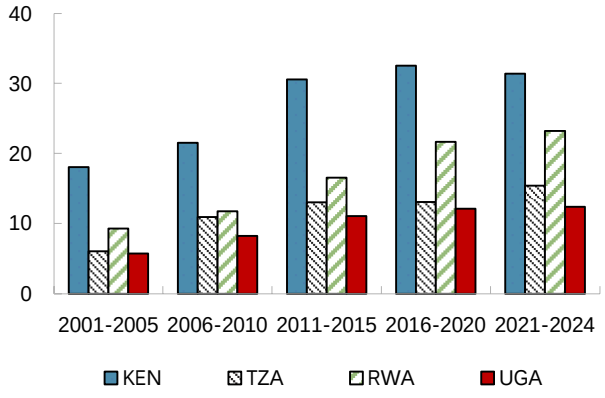
Source: Monetary and Financial Statistics, IMF staff calculations.
Note: Pearson correlation coefficient is used as shown in the figures.

Figure 2. Evolution of Private Sector Credit (PSC)-to-GDP in EAC Region

Panel A: PSC-to-GDP (2001-2024)
percent of GDP



Panel B: PSC-to-GDP (5-year averages)
percent of GDP



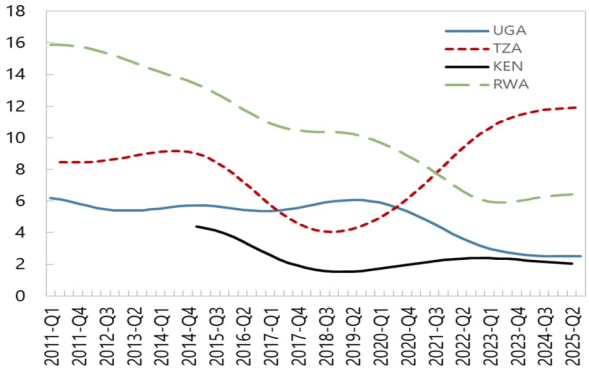
Source: Bank of Uganda; IMF staff estimates

6. A trend-cycle decomposition suggests a post-pandemic downshift in the estimated trend component of Uganda's real private sector credit growth (Figure 3). Trend real private sector credit growth in Uganda was broadly stable at around 5–6 percent year-on-year through much of 2011–20, before declining sharply from 2021 and settling at a

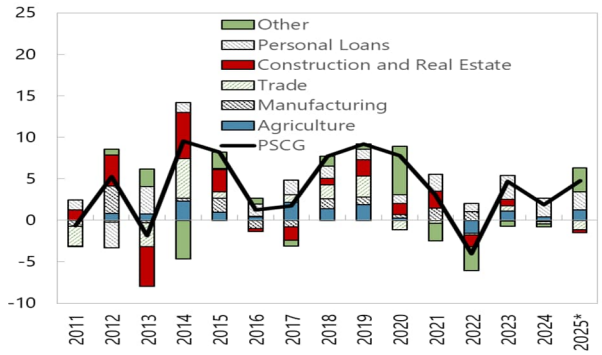
slower pace of around 2–3 percent in recent years (Panel A). Relative to peers, Kenya's trend private credit growth is generally lower, while Tanzania shows a pronounced post-2021 increase, and Rwanda exhibits a sustained deceleration. Overall, the Hodrick Prescott (HP)-filtered decomposition suggests that Uganda's post-pandemic credit slowdown is not merely cyclical, but reflects a sustained downshift in underlying credit growth momentum.[4] Disaggregating real credit growth into sectoral contributions also points to a broad-based moderation across productive segments, while personal/consumption lending appears comparatively resilient (Panel B). Consistent with these patterns, a simple statistical analysis reported in Table 1. A1 confirms a significant break in real credit growth, with a lower post-COVID average growth rate than in the pre-pandemic period, and similar weakening across productive sectors. The constraints that could potentially explain these trends are examined further in Section C.

Figure 3. Private Sector Credit: Trend-Cycle Decomposition and Sectoral Contributions

Panel A: Real Private Sector Credit Trend Growth
percent change, year-on-year



Panel B: Contributions to Real PSC growth in Uganda
percent change, year-on-year



Source: Haver, IMF staff calculations.
Note: The trend is computed using the HP-filter with parameter λ = 1600.
Credit to the private sector is deflated by the CPI.

Macrofinancial Correlates of Private Credit Depth

7. Fixed effects panel regression is estimated for a sample of 28 SSA countries from 2000-2024 to complement Uganda-specific stylized facts on drivers of private credit depth. A separate time series regression for Uganda is estimated using quarterly data (56 observations), but the relatively short sample limits degrees of freedom and statistical power once additional control variables are included. The broader SSA panel (including Uganda),

[4] We used the Hodrick-Prescott (HP) filtering technique, which is a statistical smoothing method that decomposes a series into a smooth 'trend' component and a residual 'cycle' component. With quarterly data (λ = 1600), the extracted trend reflects the series' slow-moving component and is often used as a proxy for medium-term growth momentum.

therefore, serves as complementary evidence on the macrofinancial correlates of private credit depth in Uganda. The model specification, which is purposely parsimonious, is estimated as:[5,6]

$$Y_{it} = \alpha + \beta_1 deposits_{it} + \beta_2 savings_{it} + \beta_3 sovbank_{it} + \beta_4 lendrate_{it} + \gamma X_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where Y_{it} is the log of private credit-to-GDP (broad measure of financial deepening), subscript i pertains to the country while t is the index for time with annual frequency. The main explanatory variables capture the domestic funding base, economy-wide saving capacity, sovereign-bank nexus, and borrowing costs—proxied by bank deposits to GDP (β_1), national savings to GDP (β_2), banks' claims on government to total bank assets (β_3), and lending rate (β_4). The specification also controls macroeconomic variables (X_{it}) such as real GDP growth, GDP per capita, and inflation.[7] The country fixed-effects, μ_i, control for the time-invariant, country-specific differences such as structural characteristics and geographical attributes. Meanwhile, the year fixed effects (λ_t) account for common shocks and other year-specific factors affecting sample countries. The total error term is denoted by ε_{it}.

8. Financial deepening is positively associated with a broader domestic funding base (Table 1). The results show that bank deposits are positively associated with private credit depth—a 1 percentage point increase in deposits-to-GDP is associated with about a 3 percent higher level of private credit-to-GDP, on average, controlling for country characteristics, common time effects, and other macroeconomic variables. In the SSA panel (column 1), domestic savings are also positively and significantly associated with private credit depth. In the Uganda-specific regression (column 2), the coefficient on savings remains positive but is not statistically significant, likely reflecting limited precision in the relatively small quarterly sample. These findings are consistent with the standard view that deeper credit markets tend to emerge where banks can mobilize a larger and more stable pool of domestic funding. In Uganda, these patterns resonate with the discussion in Section C on weak deposit mobilization and limited funding base as some of the constraints on private credit expansion (¶14, Figure 6-Panel A).

9. Financial deepening tends to be weaker where banks are more exposed to government financing needs and where borrowing costs remain high (Table 1). The negative coefficient on sovereign-bank nexus variable is consistent with a crowding-out pattern, where higher bank exposure to government financing appears to reduce the balance sheet capacity available for private lending. Likewise, the negative association between lending rates and private credit-to-GDP is consistent with the conjecture that higher borrowing costs suppress credit demand and reduce access to formal lending for private sector. These empirics

[5] The parsimony principle in statistical models uses few yet most relevant parameters in explaining the predicted impact of variables on the outcome of interest.

[6] The regression is intended to identify broad conditional associations rather than causal effects. In the presence of potential endogeneity and reverse causality, the estimated coefficients are best interpreted as correlates of private credit depth rather than structural parameters.

[7] Deposits-to-GDP and savings-to-GDP are related but not identical indicators. Savings measures the broader domestic resource base, while deposits measure the portion of those resources mobilized through the banking system. Their joint inclusion is intended to distinguish between economy-wide saving capacity and formal financial intermediation.

provide useful complementary support for the historical evidence and stylized facts on high interest spreads (¶¶11-12, Figure 4) and the rising sovereign-bank nexus and crowding out pressures (¶14, Figure 6-Panel B) in Uganda.

Table 1. Uganda: Macrofinancial Correlates of Private Credit Depth

Explanatory Variables	Log (PSC-to-GDP)	Log (PSC-to-GDP)
	(1)	(2)
Bank Deposits (% of GDP)	0.03***	0.01***
Savings (% of GDP)	0.006**	0.001
Sov-bank nexus (%)	-0.011***	-0.01*
Lending Rate (%)	-0.005***	-0.005
No. of observations	468	56
Controls	Yes	Yes
Country fixed effects	Yes	No
Year fixed effects	Yes	No
Quarter fixed effects	No	Yes
Adjusted R^2	0.97	0.74

Notes: Column (1) reports fixed-effects panel estimates for 28 SSA countries over 2000–2024. Column (2) reports Uganda-specific time-series estimates using quarterly data. In column (2), the control variables are real GDP growth and inflation. The dependent variable in column (2) is the logarithm of private sector credit divided by the rolling sum of GDP over the previous four quarters.

****, **, * denotes p-value less than the 1%, 5% and 10% levels of significance, respectively.*

C. Bank Intermediation and Operational Efficiency

10. Banks' predominant role in credit provision via formal channels positions them as key driver for financial deepening, particularly in supporting private credit activity. Yet private credit remains persistently expensive and constrained, suggesting frictions in both banks' intermediation and operational efficiency. This section examines why private credit remains costly and constrained—first, by examining intermediation outcomes (interest spreads and their decomposition) and structural barriers, and then by assessing operational cost pressures and other drivers that can raise the cost of lending and potentially weaken private credit activity.

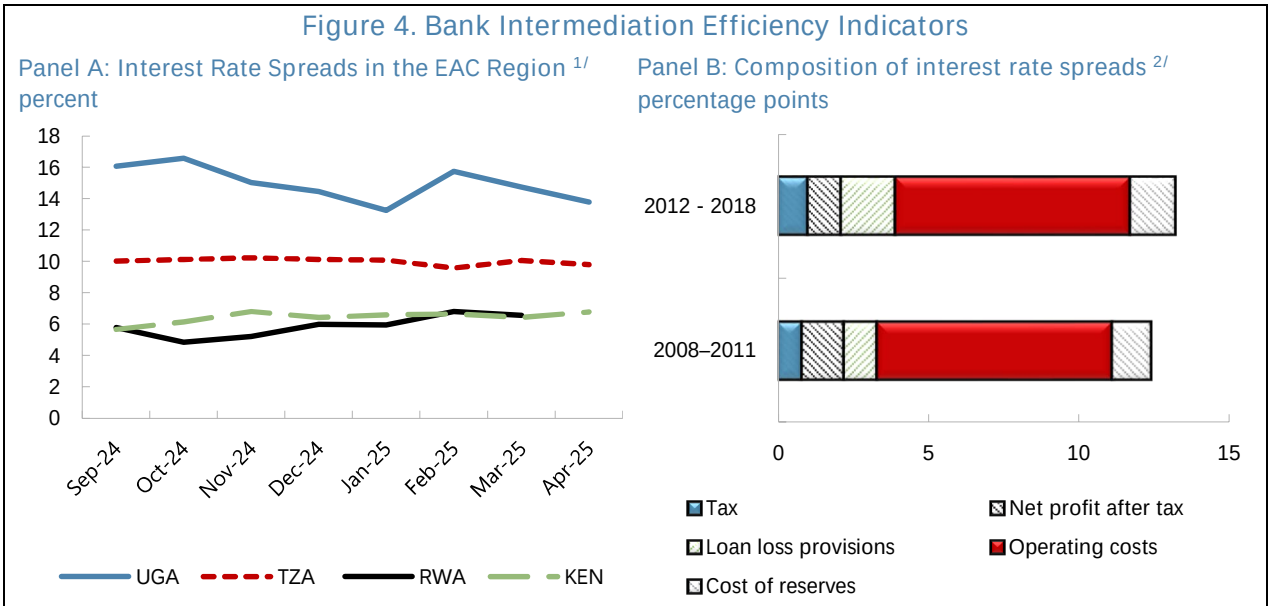
Intermediation Efficiency: Stylized Facts and Structural Barriers

11. Intermediation efficiency captures how effectively banks perform their core function of channeling funds from savers (depositors) to borrowers. In Uganda, interest rate spreads, a commonly used measure of the cost of bank intermediation services, are the highest in the EAC region (Figure 4, Panel A). This indicator is particularly relevant for low-income countries (LICs) like Uganda where shallow capital markets leave private sector largely reliant on bank financing. In this context, high intermediation costs may constitute a key barrier to financial deepening in LICs (Poghosyan, 2012). Wide spreads alongside relatively low deposit remuneration suggests weak pass-through to savers, which can dampen deposit mobilization

incentives and keep borrowing costs elevated. Despite the financial liberalization in 1990s and the privatization of a major state-owned bank in the early 2000s, these did not yield further gains in cost efficiency or reductions in interest rate spreads, pointing to structural factors that can impede the attainment of lower spreads (Beck and Hesse, 2009), as will be discussed subsequently.

12. The wide interest rate spreads are driven by high operating costs, substantial loan loss provisions due to perceived high credit risk, and the cost of reserves (Figure 4, Panel B). Operating costs constitute the largest portion of interest rate spreads (59.1 percent) due to the higher operating and administrative expenses attributed to extensive branch networks, staff related costs such as salaries, technology related costs and costs of assessing, monitoring, and recovering loans in areas with limited infrastructure and clients with weak collateral or credit histories (illustrated further under the assessment of operational efficiency in ¶¶18-19). Loan-loss provisions, averaging 13.7 percent of spreads, are also significant and reflect banks' perceived credit risk. This likely stems from high informality and weak SME financial reporting, which make borrower assessment more difficult and raise perceived default risk. By provisioning for potential losses, banks effectively price-in credit risk, increasing the cost of lending that is passed on to borrowers through higher interest rates. Regionally, Uganda's NPLs are lower than Kenya and Tanzania, likely reflecting a more cautious, risk-averse lending (Figure 5). Stringent borrower screening and the pricing-in of high-risk premiums to keep NPLs low may contribute to higher lending rates.

Figure 4. Bank Intermediation Efficiency Indicators



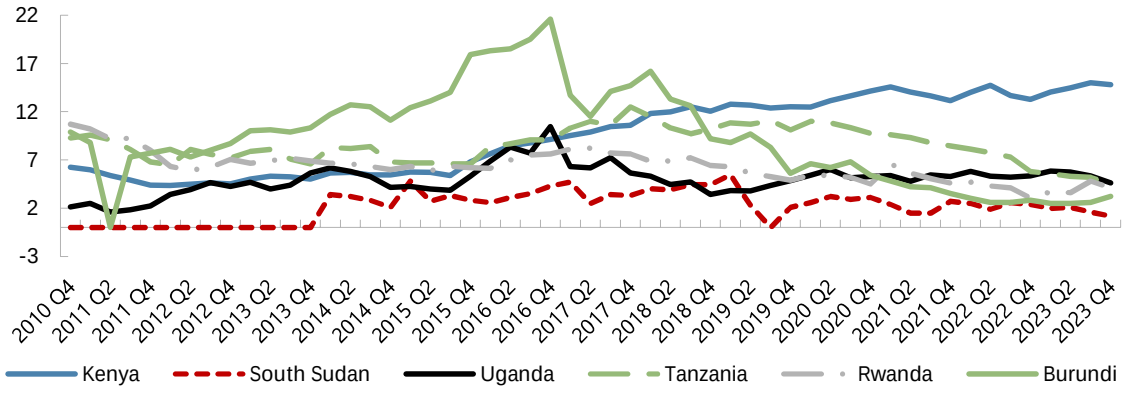
Source: Bank of Uganda; IMF staff estimates

1/ Computed as the spread between lending rates charged and the weighted average deposit rates offered by banks.

2/ Latest available data on decomposition of interest rate spreads.

Figure 5. Gross NPLs to Gross Loans in the EAC Region

percent



Sources: East African Community Data Portal, 2025

13. Higher reserve requirements (RRs) for banks contribute to higher interest rate spreads because they increase the marginal cost of funding. When central banks raise RRs, banks must hold more cash with the central bank, leaving less to lend, prompting them to increase loan rates and cut deposit rates, thus widening the spread (Carlos Cantú et al., 2024). Commercial banks in Uganda are required to hold non-remunerated reserves at the BoU, which is equivalent to 10 percent of their deposit liabilities (an increase from 8 percent). Since banks must hold part of their deposit base at zero returns while continuing to pay interest on deposits, this new increased requirement raises their marginal cost of funding, which in turn could be passed through to customers through higher lending rates. The cost of reserves might also explain Uganda's low deposit rates as banks try to maintain high margins.

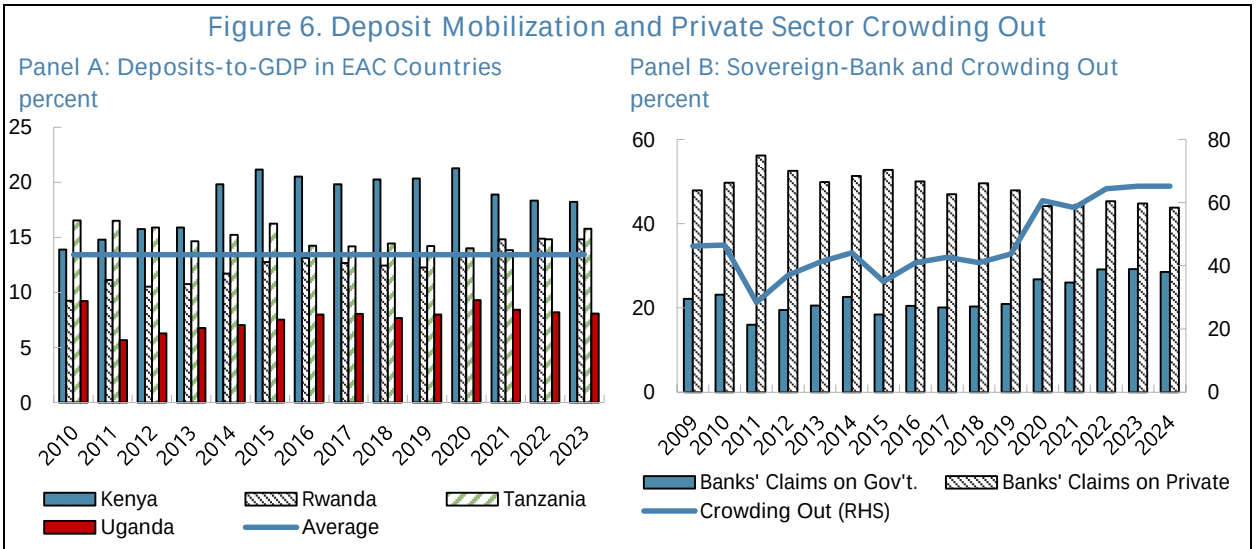
14. Private sector credit is also constrained by low deposit mobilization, which is compounded by high government borrowing (Figure 6). Uganda's deposit-to-GDP ratio remains below the EAC average (Panel A), reflecting a limited funding base and fewer resources that banks can channel to the private sector. Likewise, the rising sovereign-bank nexus contributes to crowding out of private sector credit. Uganda ranked 4th among the SSA countries in terms of banks' exposure to government in 2024. Banks' claims on government as a share of claims on private sector, a rough indicator for crowding out, rose to 65 percent in 2024 from just 44 percent in 2019 (Panel B). With very limited-to-no alternative investment opportunities for banks to place their excess liquidity, increasing their holdings of government debt seems to be the only viable option.[8] As such, the government's increasing financing needs and shallow financial markets have become mutually reinforcing, contributing to the intensifying sovereign-bank nexus in the country.

15. Uganda's lending practices are very conservative, especially to MSMEs and informal borrowers. Stricter collateral requirements and conservative credit assessment

[8] This was also confirmed by two large banks that we have meetings with during the November PFA mission.

standards may limit lending when borrowers lack formal collateral or reliable credit histories.[9] More broadly, prudential requirements such as capital, required reserves, and the speed and conservatism of loan loss recognition can also influence banks' risk-taking incentives and credit allocation at the margin. Table 2 benchmarks Uganda against Kenya, Rwanda, and Tanzania. Based on these selected parameters, Uganda appears comparatively conservative relative to its EAC peers, notably in its higher reserve requirements and faster write-off expectations for loss loans.[10] It also sets a higher nominal minimum paid-up capital threshold (reported in domestic currency terms). While these features support financial stability, they can shape banks' lending incentives and risk pricing, potentially contributing to more cautious new lending and tighter terms for borrowers with weaker risk profiles (Table 2). Tangentially, this may raise a question: *if private sector-led growth is one of policy priorities, do current prudential settings strike the intended balance between safeguarding stability and supporting a sustainable private sector credit growth*?

Figure 6. Deposit Mobilization and Private Sector Crowding Out



Source: IMF Other Depository Corporations Survey; WEO, and authors' estimates

Notes: Crowding out is roughly measured as banks' claims on government as a share of their claims on private sector.

16. Market concentration in Uganda's banking sector also presents a structural challenge to financial deepening by potentially limiting competition. As of June 2025, the Herfindahl-Hirschman Index (HHI) for banking sector assets rose to 942.7 from 872 in June 2024, indicating a slight increase in concentration, though still below the 1500 threshold for moderate concentration. Six Domestic Systemically Important Banks (DSIBs) hold about 50.2

[9] While the 2019 Security Interest in Movable Property (SIMPO) Act enables movable assets such as machinery or livestock to serve as collateral, many lenders remain reluctant due to weak legal enforcement and valuation challenges.

[10] This cross-country comparison is descriptive and provides institutional context only on whether Uganda's prudential settings are comparatively conservative than its peers. It does not establish causality or quantify credit impacts, which would require a separate empirical analysis that is beyond the scope of this paper.

percent of total banking sector assets, underscoring their dominant role. While this concentration can enhance stability as large, well-capitalized banks are better able to absorb shocks, it may potentially constrain financial deepening by reducing incentives for innovation, limiting competitive pricing, and restricting outreach to underserved segments.

17. Market contestability, captured by the ease of entry into the banking industry, provides an additional lens for competition and market structure. Restrictive entry conditions can limit competition and reinforce incumbents' market or pricing power. The 2017 World Bank's Bank Regulation and Supervisory survey responses for Uganda indicate extensive pre-licensing documentation requirements, suggesting higher fixed compliance costs for prospective entrants. Over 2011–2016, there were no recorded domestic license applications, while foreign subsidiary entry occurred but with at least one denial, and the typical licensing timeline is reported at six months. Poghosyan (2012) finds that, on average, the share of denied entries is larger in LICs at 71 percent compared to emerging markets at 39 percent, an indication of limited competition in LICs banking system.

Table 2. Uganda: EAC Comparison of Prudential Parameters

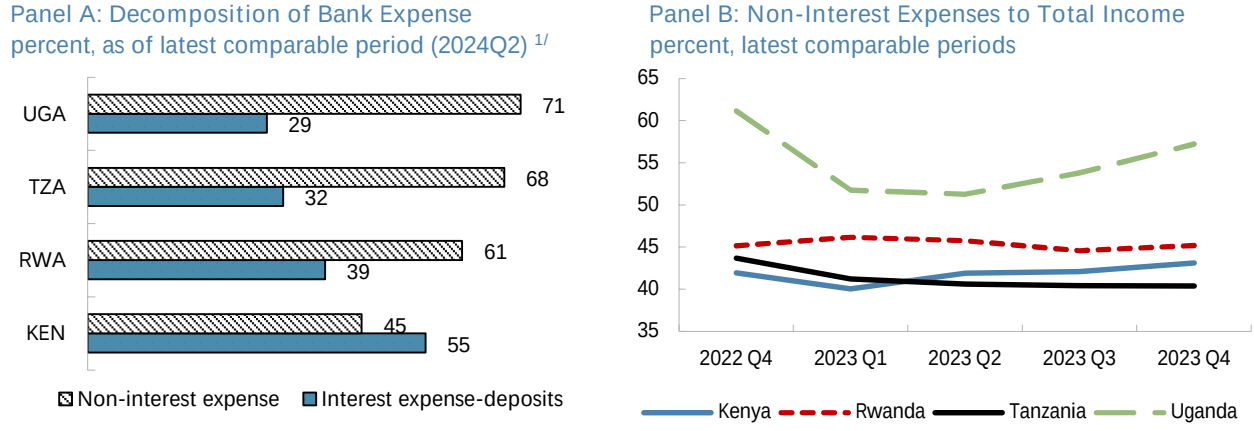
Parameters		Uganda	Kenya	Rwanda	Tanzania
Minimum paid-up capital requirements *(no international benchmark)*	*Entry/scale constraint: transition to higher capital requirements can constrain new lending supply if banks cannot raise additional capital quickly*	UGX 150bn new (increased) minimum paid-up capital for commercial banks (completed as of 2025)	KES 10bn new minimum core capital phased to 2029	RWF 20bn minimum paid-up capital for commercial banks	TZS 15bn minimum core capital for commercial banks
Reserve requirement (RR) *(no internationally prescribed thresholds)*	*Higher RR may raise banks' effective funding cost since a portion of deposits must be held as non-earning reserves instead of lending them out.*[1]	10 percent of total deposits (increased in 2022 from 8 percent)	3.25 percent of deposit liabilities	5 percent reserve requirement	6 percent (reduced from 8 percent during 2019/20)
Write-off policy (loss loans)	*Shorter write-off timelines require earlier removal of loss loans from the balance sheet, which may influence banks' risk appetite for new lending*	Write-off fully provisioned loans in loss category within 90 days	Write-off classified as loss within 180 days (if no recoveries)	Write-off loss loans for more than 360 consecutive days	Write-off all loss loans after 4 consecutive quarters (~365 days)

Sources: Central bank directives; specialized regulatory notices (e.g., gazettes); and national legislations
[1/]As a response, banks may either raise lending rates to preserve margins or approve fewer/smaller new loans.

Operational Efficiency: Stylized Facts and Cost Drivers

18. High operating costs continue to weigh on the efficiency of Ugandan banks. Greater operational efficiency enables banks to lower lending rates, raise deposit rates, and reduce interest spreads, thereby supporting the provision of more affordable private sector credit (Naceur and Omran, 2011; Shamshur and Weill, 2019). More efficient banks are better positioned to transmit cost savings to borrowers in the form of lower lending rates, thereby expanding access to affordable credit. However, Uganda's banking sector faces comparatively higher operating cost pressures than its regional peers, with non-interest expenses accounting for a relatively large share of costs and the non-interest-expense-to-income ratio remaining persistently elevated over time (Figure 7). Commercial (Tier 1) banks in Uganda spend about UGX 62 to generate every UGX 100 in revenue, while Tier 2 and 3 institutions have spent roughly UGX 81 per UGX 100 earned, reflecting significantly higher cost pressures, particularly among lower-tier institutions (Uganda Banker's Association, 2021).

Figure 7. Bank Operational Efficiency Indicators in EAC Region



Source: Bank of Uganda; EAC Data Portal; IMF staff estimates

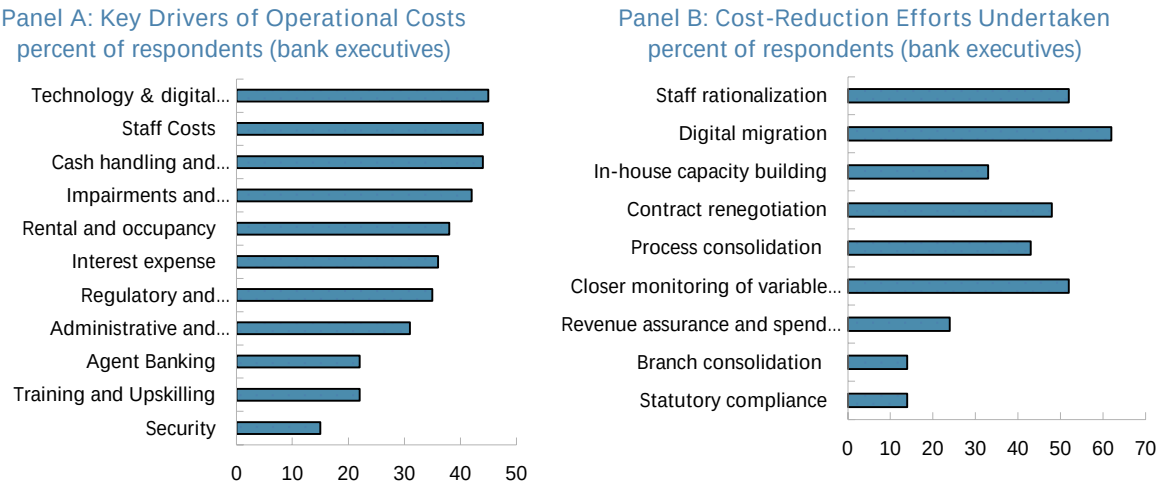
1/ For TZA, the latest available data is as of 2023Q1.

19. Survey evidence points to technology, staff costs, and cash handling as the main drivers of operational costs in Uganda's banking sector (Figure 8, Panel A). These pressures reflect three structural features of banking in Uganda. First, banking services remain labor-intensive, keeping staff costs elevated. Digitalization has expanded, but not enough to fully replace labor as banks still need staff to support new systems and operate them alongside legacy platforms. Second, the cash-intensive nature of the economy raises the cost of handling, transporting, and securing cash across branches and service points. Third, the ongoing modernization of banking operations is raising technology outlays for core banking upgrades, cybersecurity, and digital platform expansion. Impairments and provisions are also a significant cost driver, reflecting elevated perceived credit risk and the higher expected losses associated with lending to borrowers with thin credit files and weak financial documentation (¶12). Similarly, high informality and weak SME financial reporting raise screening and monitoring

costs, while infrastructure gaps, including weak transport and logistics systems, further increase transaction costs.

20. Financial institutions in Uganda have undertaken several cost-reduction initiatives, but these have not yet resulted into significant and sustained cost savings. According to a 2021 Uganda Bankers Association survey, the most widely reported measures are digital migration and process optimization, closer monitoring of variable costs, and staff rationalization (Figure 8, Panel B). These efforts have so far yielded only limited system-wide efficiency gains. One reason is that, while digital transformation may improve efficiency over time, it often entails large upfront technology costs, continued reliance on legacy systems, slow migration away from cash and branch-based banking, compliance burdens, and internal organizational rigidities. The survey also points to staff readiness and capacity as constraints, indicating that limited preparedness for new systems and processes can delay implementation and slow the realization of cost savings.

Figure 8. Operational Cost Drivers and Cost-Reduction Efforts



Source: Uganda Bankers Associations

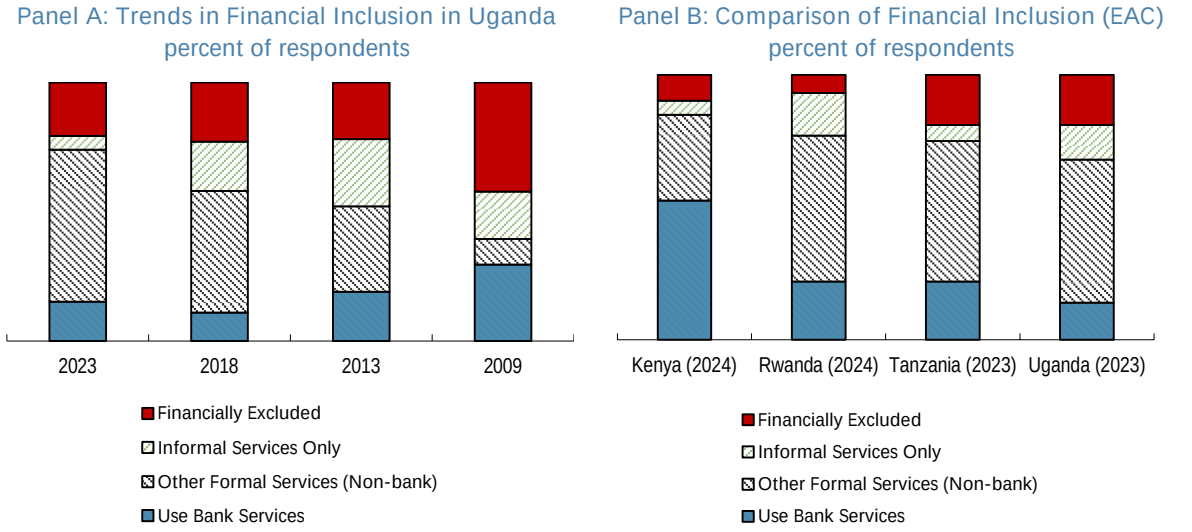
D. Demand-Side Barriers to Financial Deepening

21. Financial deepening in Uganda is also constrained by demand-side factors that limit the uptake of formal finance and reduce the pool of bankable borrowers. This section complements the discussion in Section C by identifying the demand-side barriers that can keep private credit subdued even when banks are liquid. In particular, the predominance of informal and cash-based activity weakens verifiable income and business records, while low financial literacy can dampen households' and firms' engagement with formal financial services.

22. Non-bank services continue to dominate Uganda's financial landscape, reflecting low-income structure and widespread use of mobile money. Non-bank services, mainly mobile money, Village Savings and Loan Associations or Rotating Savings and Credit Associations (Figure 9, Panel A), provide basic transactional services, but offer limited scope for

broader financial deepening, such as access to credit or long-term savings.[11] Their prevalence is consistent with Uganda's income structure, where more than half of the population earns less than 150,000 UGX per month. Lower and less stable formal incomes reduce borrower's repayment capacity and increase perceived default risk. Regionally, Uganda has one of the highest shares of financially excluded adults (19 percent), alongside Tanzania. It also records the lowest use of formal banking services in the EAC region, with only 14 percent of adults holding bank accounts, compared with 52.5 percent in Kenya and 22 percent in Rwanda and Tanzania (Figure 9, Panel B).

Figure 9. Financial Inclusion in Uganda and the EAC



Sources: Financial Sector Deepening Uganda (FSD) Uganda 2024, Access to Finance Rwanda (AFR), 2024, Central Bank of Kenya (CBK) et al., 2024.

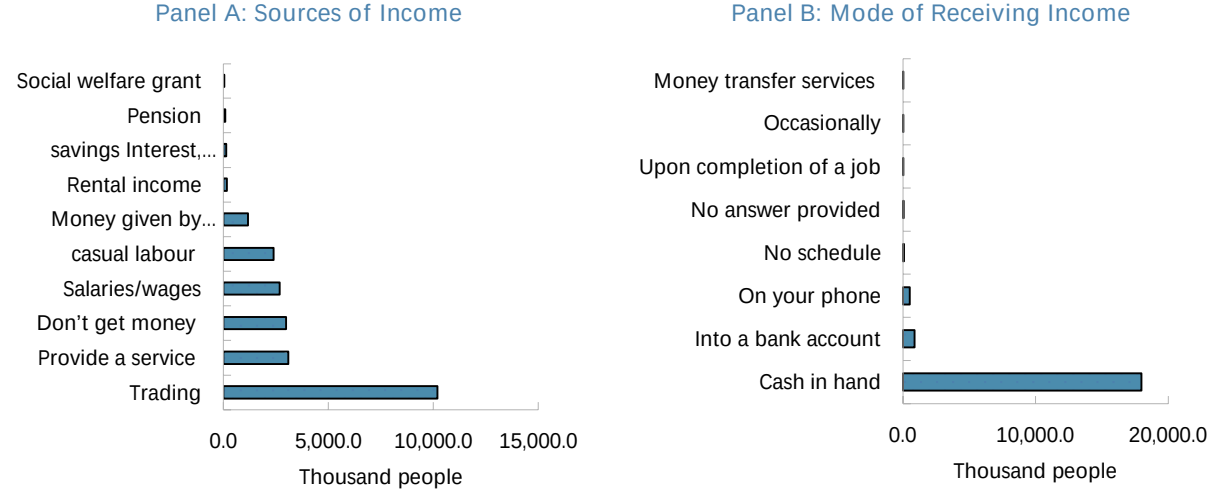
23. Economic activity in Uganda is largely informal, indicating limited formal transaction trails. Reliance on informal income and cash payments limit the use of formal financial products, restricting deposit mobilization, credit uptake, and broader financial intermediation. The 2023 Uganda Finscope survey reports that 57 percent of adults earn income through trading or service provision, indicating a strong reliance on informal or self-employed activities (Figure 10, Panel A). Only 12 percent earn salaries or wages, while rental income, investment returns, pensions, and government grants together account for less than 3 percent. Consequently, 91 percent of adults receive income in cash, leading to predominantly cash-based transactions, whereas just 5 percent receive payments via bank accounts, 3 percent via mobile money, and 0.1 percent via money-transfer services, (Figure 10, Panel B).

24. Financial deepening in Uganda is also constrained by low financial literacy, limiting the population's ability to access and effectively use formal financial services.

[11] Expansion of these services has been supported by rising mobile-phone ownership and increased internet access. Mobile-phone ownership increased to 72 percent in 2023 from 52 percent in 2018, while internet access rose to 26 percent from 10 percent over the same period (Financial Sector Deepening Uganda, 2024).

According to the Uganda National Financial Inclusion Strategy (2023), a large proportion of the adult population lack basic skills in saving, investing, budgeting, and debt management, which reduces participation in financial markets and hinders the mobilization of domestic savings for productive investment. Low digital financial literacy further compounds the problem, where fewer than 35 percent of adults are aware of digital financial services, and many are unfamiliar with how to access or use them effectively. Likewise, awareness of financial assets such as insurance, securities trading, and digital investments (e.g. crypto assets) is low, with only 6 percent of adults being aware of these options.

Figure 10. Income Patterns in Uganda



Sources: Financial Sector Deepening Uganda (FSD) Uganda (2024)

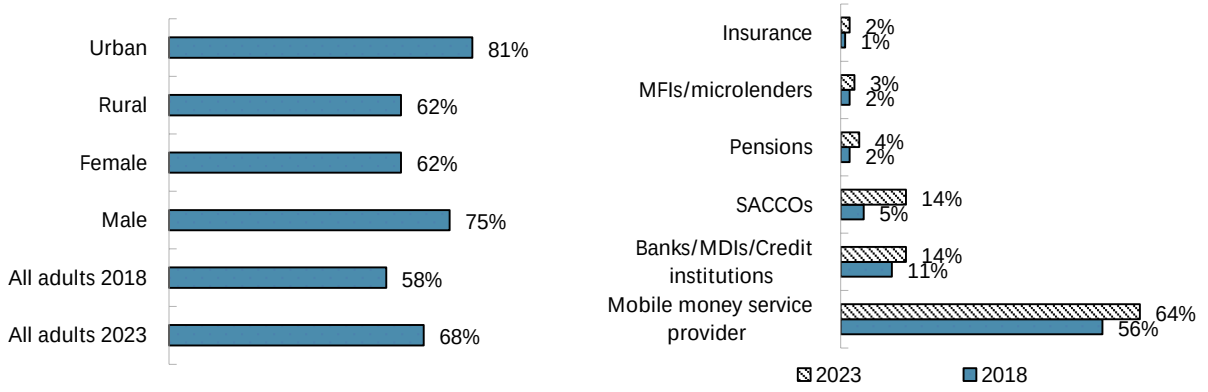
E. Financial Deepening: Progress and Next Steps

Progress: What Have the Authorities Done?

25. Uganda has made significant strides in improving financial access, a key dimension of financial development, by extending financial services to underserved groups. The introduction of the National Financial Inclusion Strategy (NFIS) Phases I (2017-2022) and II (2018-2023) is an important framework that provided Uganda a roadmap for expanding access to financial services. The implementation of various NFIS initiatives, such as the agent banking and linkages of SACCOs with formal institutions, led to an increase in formal account ownership, reaching 68 percent in 2023. This progress has been largely driven by mobile money, which increased by 8 percentage points to 64 percent since the NFSI launch in 2018. At the same time, SACCOs recorded the fastest growth in uptake, increasing from 5 percent to 14 percent in 2023 (Figure 11).

26. The FinTech sector in Uganda has seen progress over the years (Annex I), supported by mobile infrastructure and broad reach of mobile network operators. The Uganda Communications Commission reported 38.5 million active mobile subscriptions and 44.2 million mobile money registrations by the second quarter of 2024, highlighting the extensive reach of mobile platforms. This has created a conducive environment for FinTechs to scale their services and contribute to expanding financial inclusion through payments, digital lending, microinsurance, and investment opportunities (Figure 12, Panel A). FinTechs may enable private credit access by leveraging infrastructure of mobile networks and partnering with licensed lending institutions to reach those borrowers without previous formal credit histories, thereby facilitating credit activity. Available data indicates a strong upward trend in digital lending activity, with loan disbursements and repayments increasing by 121.7 percent and 139.0 percent year-on-year, respectively, in December 2024 (Figure 12, Panel B). Digital lending increased from 0.2 percent of GDP in Q4 2021 to 1.9 percent in Q4 2024, still small but growing footprint.

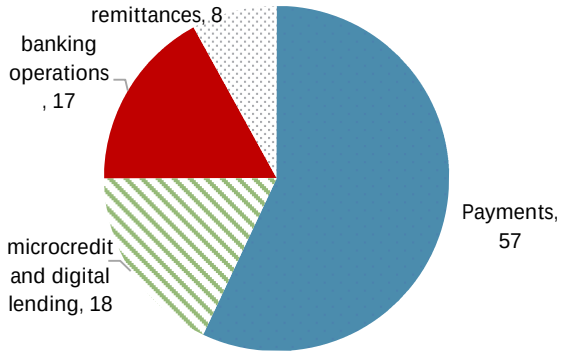
Figure 11. Access to Formal Financial Services in Uganda



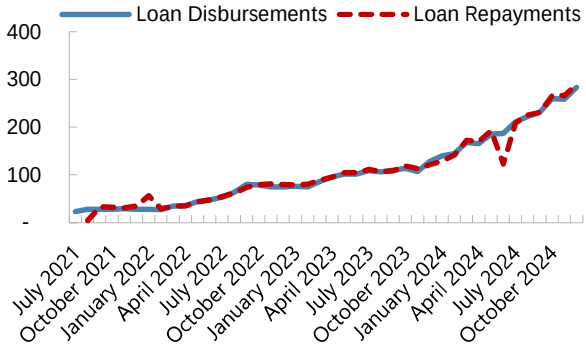
Source: Uganda FinScope Survey

Figure 12. FinTechs in Uganda

Panel A: Major Areas of FinTech Operations
percent



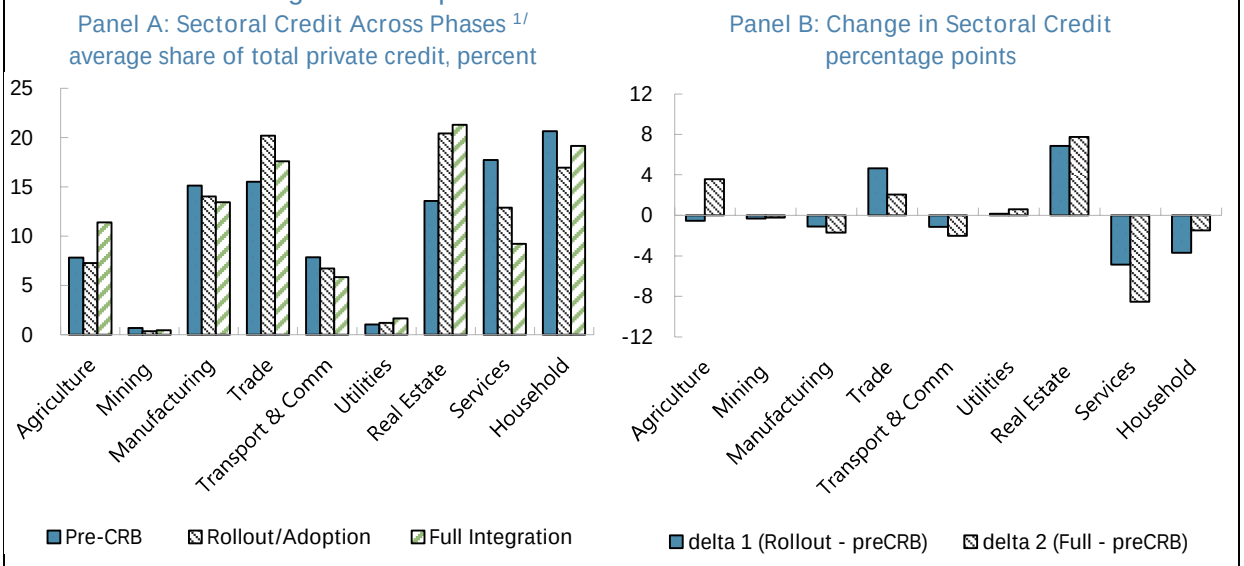
Panel B: Digital Lending Activity
billions of UGX, July 2021-December 2024



Source: NFIS 2023-2028, BoU, Authors' estimates

27. The BoU introduced the first Credit Reference Bureau (CRB) services in 2008 to address borrower identification issues by providing a centralized credit information system. Regulated financial institutions are required to use the CRB to share and verify credit histories. By December 2015, all 33 regulated institutions in Uganda were fully utilizing the CRB for credit assessments (Mukiibi et. al, 2017). Ceteris paribus, the introduction of CRB appears to have facilitated a more targeted allocation of credit, favoring sectors where formal reporting improves risk assessment such as the agriculture and real estate sectors. Agriculture, traditionally seen as high-risk, gained 3.6 percentage points (ppts), while real estate lending surged nearly 8 ppts, reflecting greater confidence in collateral and borrower assessment (Figure 13). With the CRB in place, lenders have become more confident in extending credit, increasing lending to reputable borrowers while cutting back on loans to persistent defaulters.

Figure 13. Impact of CRB on Sectoral Credit Allocation



Source: BoU, Authors' estimates

1/ Descriptive analysis is divided into three phases: (i) Pre-CRB (2007–2008); (ii) Rollout/Adoption (2009–2014); and (iii) Full Integration (2015–2024)

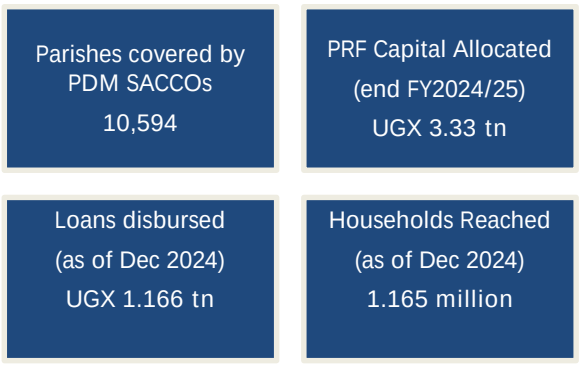
28. Several government interventions have also been initiated to catalyze credit supply by channeling affordable financing to priority and underserved sectors The financial inclusion pillar of the Parish Development Model (PDM) played a key role in expanding access to credit (Figure 14, Panel A) by providing low-cost loans to household income-generating activities through the Parish Revolving Fund (PRF).[12] Likewise, the Agricultural Credit Facility (ACF), established in 2009 through a risk-sharing arrangement between the government and participating financial institutions, has contributed to private sector credit uptake by

[12] Low-cost loans are capped at UGX 1 million per household at 6 percent annual interest rate.

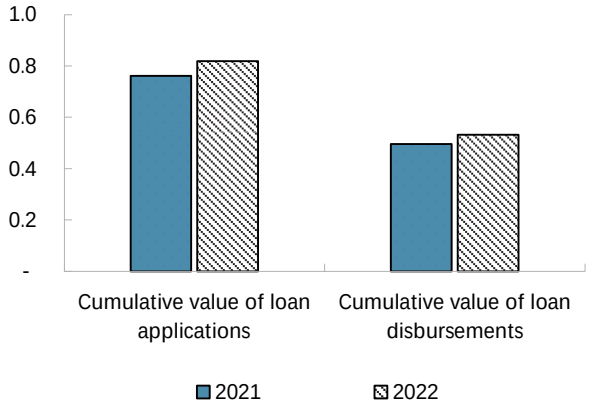
providing medium- and long-term financing to agriculture sector that has long been constrained by high perceived risk and limited access to affordable credit.[13] In absolute terms, ACF-supported agricultural lending expanded more than thirty-fold since its inception from UGX 21 billion to UGX 751 billion, but its share to aggregate GDP remains marginal (Figure 14, Panel B).

Figure 14. Government Targeted Interventions

Panel A: PDM Financial Inclusion Milestones



Panel B: ACF Loan Applications and Disbursements percent of GDP



Source: Finance Minister Kasaija's Budget Speech for FY2025/26 (June 2025), BoU, World Bank, and Authors' estimates

Next Steps: What More can be Done?

29. Engagement with the FinTech players on licensing guidance should be stepped up, and consumer protection measures further strengthened. Stronger market outreach and licensing guidance should be further enhanced to bring more FinTech firms within the BoU's regulatory ambit. While FinTech-enabled lending holds strong potential to broaden credit access in Uganda, it could expose consumers to new risks, including opaque pricing, abusive debt collection practices, and data privacy concerns. Continued efforts to strengthen consumer protection frameworks would further enhance safeguards for users as financial innovation deepens (Annex II). Taking advantage of digital platforms through partnerships among licensed financial institutions, FinTechs and mobile network operators could also contribute to supporting financial deepening through payments, digital lending, microinsurance, and investment opportunities.

30. While digital lending is expanding access to short-term credit, financing productive investments will continue to rely on traditional bank intermediation. Digital lending, which is gaining traction, is typically small, ranging from UGX 10,000 to UGX 500,000, and short-term in nature, limiting their impact on productive investment. Financing growth-enhancing or productive investments will then continue to rely on traditional bank

[13] The Government of Uganda (GoU), Uganda Development Bank Limited (UDBL), and commercial banks each contribute 50 percent to every loan extended to a borrower, while micro deposit-taking institutions (MDIs) and credit institutions (CIs)contribute 30 percent.

intermediation, but access is largely constrained by stringent collateral requirements. While adopting conversative lending standards is prudent from a financial stability perspective, key questions arise for consideration: *Are existing regulatory requirements overly restrictive? Do they inadvertently discourage banks from taking well-calibrated, productive risks?* Addressing these questions, alongside strengthening credit infrastructure, incentivizing lending to SMEs and productive sectors, and mobilizing long-term savings for investment, will be critical in ensuring that financial stability and private credit-led growth objectives are mutually reinforcing.

31. The introduction of CRB facilitated credit data-sharing, but some important gaps must be addressed to maximize its impact. The effectiveness of CRBs is hindered by limited public awareness, delayed and inaccurate data submissions, and complex credit reports which further limit the system's inclusivity. Additionally, not all relevant financial institutions contribute data to CRBs, and data coverage remains uneven, with many non-bank credit providers only partially participating in the CRB reporting framework.[14] Efforts are ongoing to integrate Tier 4 microfinance institutions and accredited money lenders into the credit-information-sharing system, but progress has been slow due to knowledge gaps, fragmented legal frameworks, and resource constraints among smaller lenders.[15] Addressing these gaps by integrating alternative or non-traditional data sources to assess borrowers' creditworthiness, strengthening financial literacy campaigns and capacity-building initiatives will be essential for the CRB to achieve its full potential in improving and supporting private sector credit uptake.[16]

32. Despite notable gains from the financial inclusion pillar of PDM and ACF, their sustainability remains uncertain without targeted reforms to improve institutional capacity. Key challenges include:

- PRF weaknesses. The fund's financial sustainability is constrained by its concessional lending structure (6 percent interest per annum) and weak repayment culture, with some beneficiaries viewing loans as political grants (World Bank, 2024). Without a strategy to grow the fund, such as through member savings or performance-based top-ups, its ability to revolve and serve future beneficiaries may gradually erode. Inconsistent targeting and weak SACCO governance undermines the program's poverty-reduction goals and financial integrity. Addressing these gaps will require clearer beneficiary selection criteria, stronger SACCO oversight through training and audits, and community sensitization to reinforce repayment discipline.
- ACF operational constraints. While the ACF has been instrumental in supporting agricultural finance, it stretches limited government resources (Bank of Uganda, 2022).[17] The lengthy write-off procedures for NPLs also constrain the effectiveness of the ACF, discouraging participating

[14] Credit institutions under UMRA don't share data with CRBs – Tumusiime – Metropol.

[15] Credit referencing in Uganda: Unlocking opportunities for growth

[16] The use of non-traditional data, such as mobile-money transactions and airtime purchases, to assess creditworthiness has been promoted to expand formal credit access for underserved market segments.

[17] Persistent funding shortfalls—UGX 26.9 billion (June 2020), UGX 53.6 billion (March 2021), and UGX 21.1 billion (September 2021)—reflect irregular government contributions that frequently fell below the UGX 30 billion annual commitment stipulated in the Memorandum of Agreement.

banks from lending under the ACF's risk-sharing model.[18] Moreover, limited awareness and weak publicity have constrained outreach, as many potential beneficiaries remain unaware of the facility due to the lack of advisory structures at both central and local government levels. Strengthening automation and capacity building, including streamlining loan processing, and ramping up public information campaigns would help in improving the program's effectiveness.

F. Key Messages

33. Uganda's financial deepening is analyzed through the lens of private sector credit depth, and bank intermediation and operational efficiency. Uganda has made significant strides in expanding access to financial services, largely reflecting the authorities' financial inclusion agenda and the growing reach of mobile money and digital platforms. Yet challenges persist in enhancing the depth and efficiency of financial institutions, especially in enhancing private sector credit depth and in improving bank intermediation and operational efficiency. Empirical analysis suggests that financial deepening, which is roughly measured in this paper as private credit-to-GDP, is stronger where the domestic funding base is broader and more stable, and weaker where banks are more exposed to government financing and where borrowing costs remain high.

34. Private sector credit provision in Uganda is largely bank-based, making banks well-positioned to catalyze private credit deepening. Sustained progress through traditional credit intermediation requires strengthening banks' capacity to extend longer-term, productive lending to the private sector. This entails improving intermediation efficiency by improving further credit infrastructure for better risk assessment and deepening capital markets to improve liquidity management and diversify funding sources, which in turn would help lower interest rate spreads and broaden access to credit. From an institutional and regulatory perspective, the challenge lies in reinforcing banks' ability to lend more sustainably without risking prudential guardrails.

35. As Uganda's financial system continues to evolve, nonbanks, FinTechs, and capital markets hold significant potential to complement banks in advancing financial deepening. The expansion of nonbanks and growth of FinTechs is helping to enhance competition, widen access to credit, and strengthen financial inclusion. This trend underscores policy opportunities to foster nonbank participation through an enabling regulatory framework, improved market infrastructure, and greater integration into credit information systems. At the same time, developing capital markets will be essential to broadening financing options. Deeper capital markets would also enhance price discovery, improve liquidity, and anchor domestic resource mobilization, reinforcing the overall process of financial deepening.

36. Strengthening capacity development and financial literacy campaigns would support wider use of and build confidence in financial services and products. On the

[18] Loan write-offs require parliamentary approval under the Public Finance Management Act (PFMA) 2015.

supply side, targeted technical assistance for start-ups and semi-formal firms, including bookkeeping, financial reporting, governance, and investment-ready business planning, would reduce information gaps and strengthen investor confidence. On the demand side, expanded literacy programs would increase awareness of formal investment options, improve understanding of risk–return trade-offs, and reinforce consumer protection further.

37. On the statistical front, strengthening data coverage and quality will be essential to support evidence-based policymaking. Developing a systematic and comprehensive private sector credit database would greatly enhance the understanding of Uganda's credit landscape. Such a database should extend beyond lending captured by BoU-supervised financial institutions to include nonbank and other credit providers that are supervised by other regulatory agencies. Establishing a comprehensive private sector credit database that consolidates information from both banks and nonbanks would provide a clearer picture of credit distribution, sectoral exposures, and emerging risks. Such an integrated dataset would also strengthen policy analysis and help align financial deepening efforts with macrofinancial stability objectives.

Annex I. Key Developments in Uganda's FinTech Sector

1. Early developments (1997-2011). Starting in 1997 with the introduction of the first Automated Teller Machines (ATMs) by Bankom (Interswitch), the sector began to take shape. In 2009, the Bank of Uganda issued a no-objection letter to the first mobile money service provider, leading to MTN Uganda's launch, which saw 11,016 registered accounts in the first month. The establishment of the NITA-U Act and the entry of Zain (Airtel) Uganda further expanded the market. By 2011, BOU had issued enhanced no-objection letters to mobile money service providers, and Uganda's first aggregator, Yo Uganda, entered the market with a multi-purpose mobile payment service. The launch of the first bill payments API by Pegasus Technologies marked another advancement.

2. Market expansion and innovation (2012-2015). The sector continued to grow with new entrants like Warid Telecom and Mcash in 2012, and the introduction of mobile money ATM cash-out services in 2013. Online ecommerce retailing (Jumia) and community-based mobile transportation (Safe Boda) launched in 2014, followed by new mobile wallet services from Airtel Uganda and Centenary Bank in 2015.

3. Regulatory milestones (2016-2021). A significant milestone was the amendment of the Financial Institutions Act in 2016 to permit agent banking, bancassurance, and Islamic banking, as well as the launch of mobile money interoperability between MTN and Airtel. The incorporation of the Financial Technologies Service Providers Association (FITSPA) in 2017 and the launch of agency banking and digital banking in 2018 further strengthened the industry. Regulatory advancements continued with the issuance of the Data Protection and Privacy Act in 2019, the National Payment Systems Act in 2020, and the first FinTech licenses by BOU in 2021.

4. Recent developments (2022-2024). The sector saw updates to regulations in 2022, including National Payment systems (NPS) regulations, updated to include Consumer Protection Regulations for institutions licensed under the NPS Act and amendment of the Financial Institutions (Agent Banking) Regulations in 2023. Most recently, The Uganda Microfinance Authority issued Tier 4 digital lending guidelines in 2024, with an objective of streamlining the operations of digital lenders to safeguard consumers against predatory lenders (Deloitte, 2022). These developments have collectively propelled Uganda's FinTech industry, with the contribution of the digital economy to the economy estimated at 7 percent. This is more than Rwanda (3 percent) and South Africa (3 percent), although African countries such as Kenya and Nigeria are ahead, with a digital contribution of 9.2 percent and 17.83 percent respectively (Deloitte, 2022).

Annex II. Digital Lending and Consumer Protection Regulations

1. Financial consumer protection (FCP), Guidelines, 2011. The BoU has implemented Financial Consumer Protection Guidelines for supervised financial institutions since 2011. The guidelines, applicable to institutions licensed under the Financial Institutions Act of 2004, emphasize principles of fairness, transparency, and reliability and provide efficient and effective mechanisms for handling consumer complaints. Although the Guidelines are not legally binding, oversight is conducted by BoU, which imposes penalties for non-compliance based on the "Operational Risk" section of the Financial Institutions Act.

2. Bank of Uganda Mobile Money Guidelines, 2013. The guidelines aim to clarify the roles and responsibilities of all parties involved in mobile money services in Uganda, including regulators (Bank of Uganda and Uganda Communication Commission), customers, service providers, licensed institutions, and agents. Bank of Uganda was given the mandate to issue directives regarding mobile money operations whereas, Uganda Communications Commission is responsible for licensing and supervision of mobile network operators; ensuring that telecommunications networks are effective. Additionally, the guidelines seek to enhance competition, promote financial inclusion, and ensure that service providers implement measures to prevent money laundering and terrorist financing.

3. Data Protection and Privacy Act, 2019 (DPPA) provides for the safeguard of individual privacy and personal data by regulating how personal information is collected and processed. It outlines the rights of individuals whose data is collected and the responsibilities of those handling the data, including data collectors, processors, and controllers. The Act also governs the use and disclosure of personal information. The Act mandated the creation of a data protection office to oversee compliance with data protection principles. The Authority ensures that all entities involved in collecting or processing personal data adhere to these principles, which include accountability, fairness, lawful processing, adequacy, relevance, appropriate retention periods, quality assurance, transparency, participation of the data subject, and security safeguards.

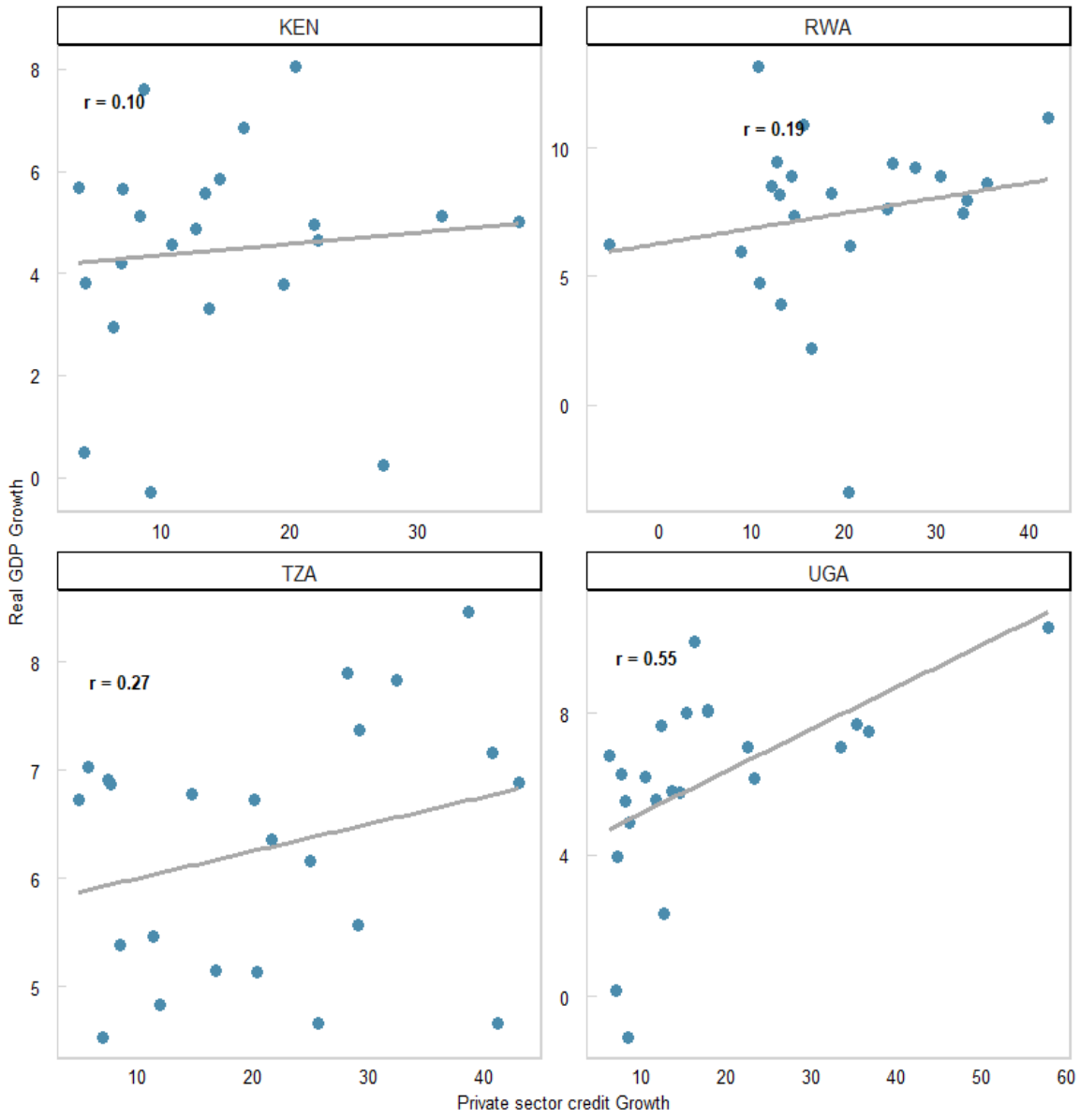
4. The National Payment Systems Consumer Protection Regulations, 2022 were developed to operationalize the provisions made under section 65 of the National Payment Systems Act 2020 regarding consumer protection in payment systems. The regulations provide guidance on; the development of a consumer protection policy by a licensee; consumer education and awareness; disclosure of information and transparency; protection of consumer assets as well as procedures for complaints handling and redress mechanisms.

5. Tier 4 Microfinance Institutions and Money Lenders Digital lending guidelines (UMRA Digital Lending Guidelines), 2024 were issued in March 2024 by Uganda Microfinance Regulatory Authority (UMRA) through Ministry of Finance Planning and Economic Development with an objective of streamlining the operations of digital lenders to safeguard consumers against predatory lenders. The guidelines require digital lenders to register with UMRA and obtain an operating license within three months of starting operations. In addition, Lenders are prohibited from charging default interest penalty that is more than half of the initial

loan interest. The regulations also stipulate guidelines for confidentiality of customer information and consumer protection.

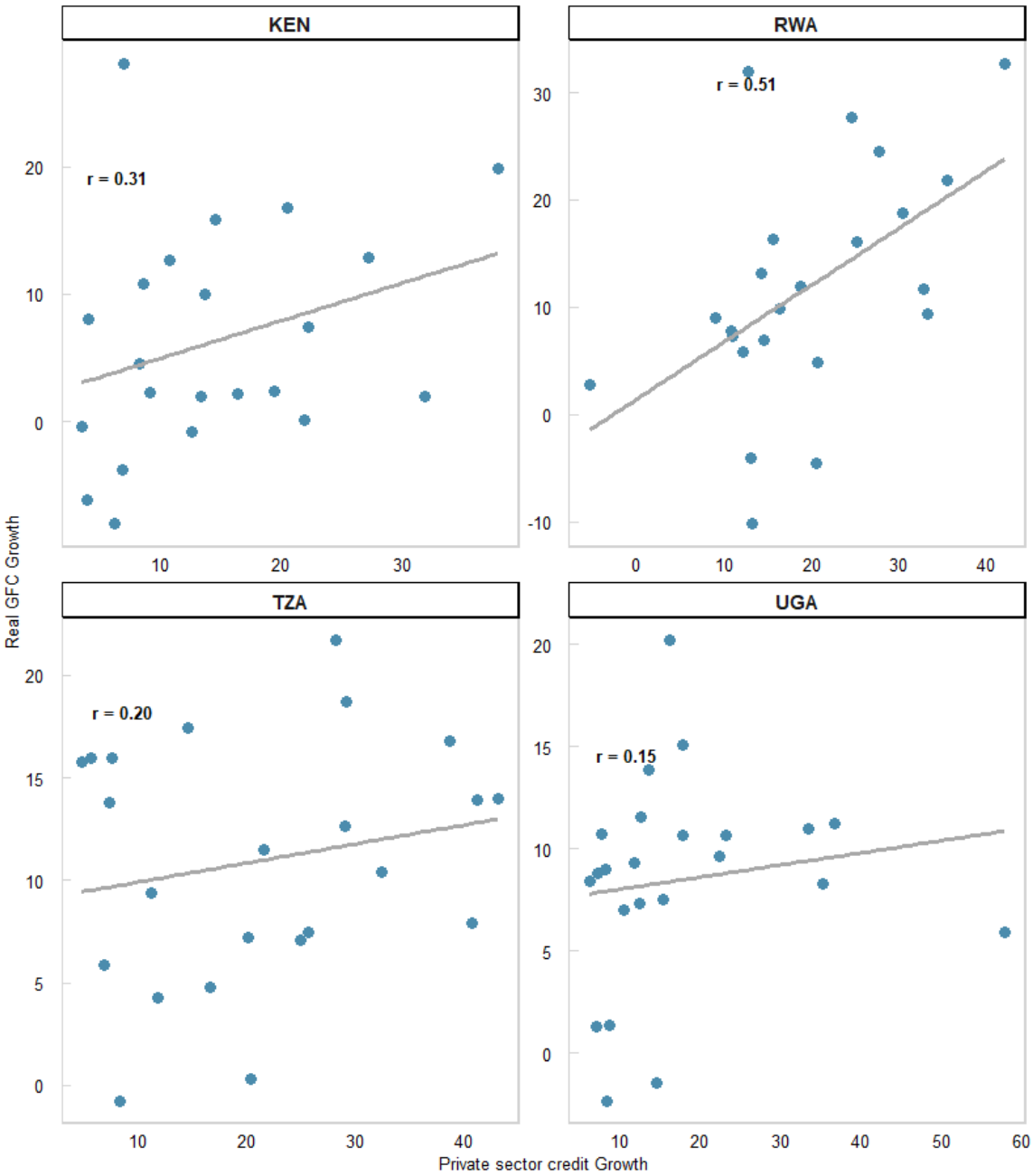
Appendix I. Additional Stylized Facts

Figure 1. Real GDP and Private Sector Credit Growth



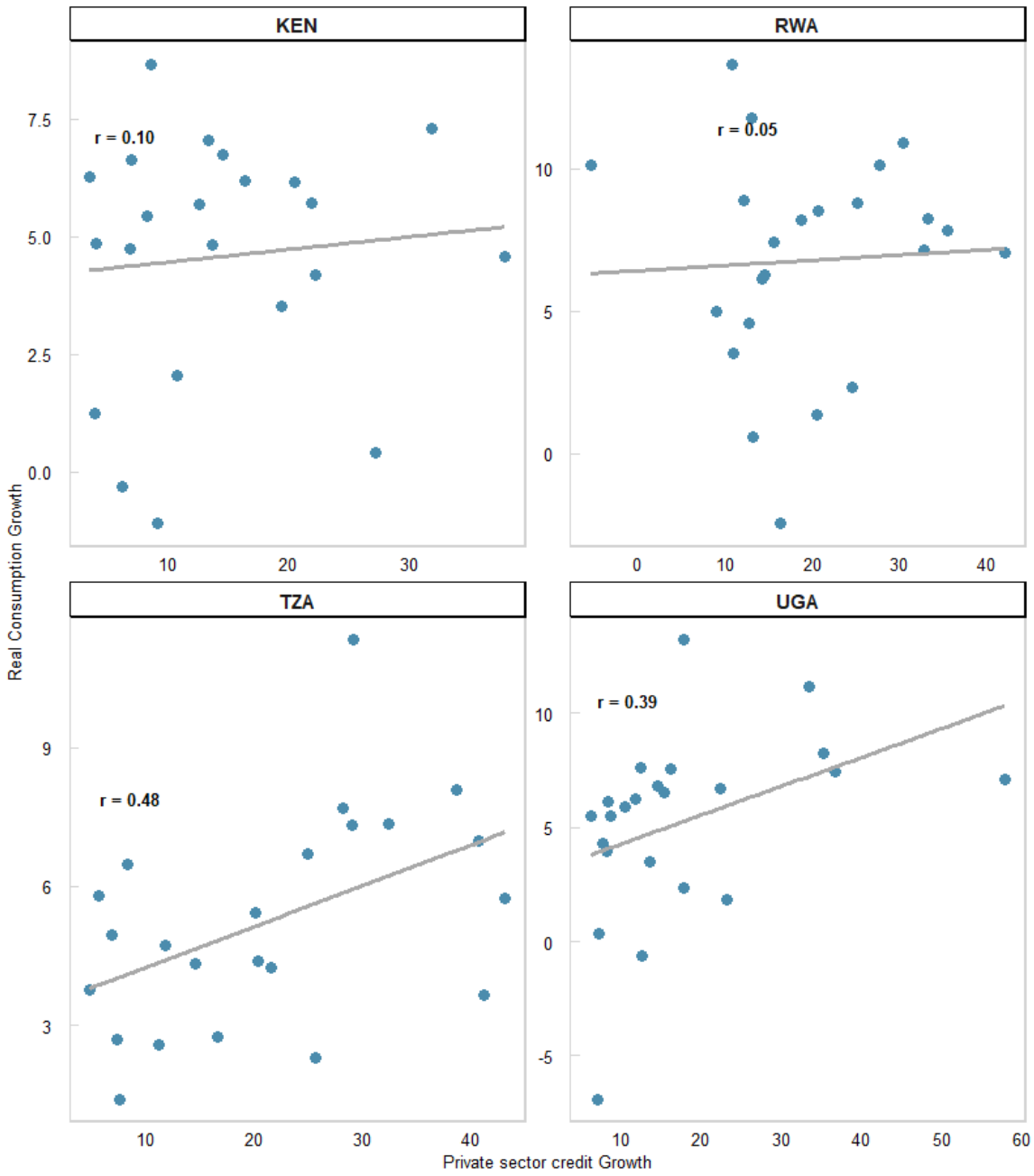
Sources: Monetary and Financial Statistics, IMF and staff calculations.

Figure 2. Real Investment and Private Sector Credit Growth



Sources: Monetary and Financial Statistics, IMF and staff calculations.

Figure 3. Real Consumption and Private Sector Credit Growth



Sources: Monetary and Financial Statistics, IMF and staff calculations.

Notes: Consumption refers to final consumption expenditure.

Table 1. Uganda: Statistical Test: Pre- and Post-Covid Private Sector Credit Growth

	(1)	(2)	(3)	(4)
	Average (2011-2020)	Average (2021-2025Q3)	Difference	p-value
Real PSC	6.25	2.07	-4.19***	0.003
	(1.12)	(0.74)		
Agriculture	13.14	0.82	-12.31***	0.000
	(1.73)	(1.78)		
Manufacturing	5.16	4.14	-1.03	0.714
	(2.38)	(1.43)		
Trade	4.57	-1.29	-5.87***	0.005
	(1.84)	(0.76)		
Construction and Real Estate	7.13	0.93	-6.21***	0.006
	(1.78)	(1.22)		
Personal Loans	5.45	10.28	4.83**	0.015
	(1.78)	(0.73)		
Other	5.40	-3.74	-9.14**	0.014
	(2.21)	(2.78)		

Sources: BoU and IMF staff calculations.

Notes: The null hypothesis is that there is no difference between the average growth rate between the two periods. Standard errors are in parenthesis. "Other" is composed of Mining and Quarrying, Transport & Communication, Electricity and Water, Business Services, Community and other social services, Other services. *** p<0.01, ** p<0.05, * p <0.1.

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