Uganda's National Budget for FY 2026/27: Budget Allocations, Taxation, and National Debt and Implications

Budget brief and facts

Given that the government needs to protect stakeholders, promote fair competition, and sustain a social policy that particularly looks after vulnerable members of society, it needs to set aside sufficient funds to finance its current expenditure and, at least, the capital expenditure required to sustain the current level of services. On top of this, it has four main macroeconomic targets for growth, employment, inflation, and the balance of payments, and all of this requires funding.

For the fiscal year 2026/27, the government plans to allocate 84.391 trillion, a significant increase from about 72 trillion in the previous budget (excluding supplementary budgets). The government, inspired by the spirit of protecting gains, describes its overall policy as necessary to achieve full monetization of Uganda's economy through commercial agriculture, industrialization, expanding and broadening services, digital transformation, and market access.

It doesn't surprise anyone who has followed my previous commentaries on the means to achieve a nominal growth of USD 500 billion by 2040. In September 2025, speaking to Youth Lenz Africa, I said:

The 500-billion-dollar economy, I might need to remind everybody, that reference is made to just nominal figures, but if you check on the real terms of growth, it's not likely to be as accurate as we think. Now that makes you think that it is possible, yes, if you ask me I would say yes, it's possible, and I'll give you a reason, because it's nominal terms, that can literally be achieved by government spending, and that's why we'll see in the next financial years, and even this one and the previous one, because we have a target of a 500 billion dollar nominal economy, we'll have to literally spend into the economy. That's why you will see a lot of fiscal work in the name of constructing roads, in the name of different programs that are going to be introduced in our budget.

And rightly so, the current National Budget for FY 2026/27, climbing from about 72 trillion in FY 2025/26 to an all-time high of UShs 84.391 trillion, affirms my position that the nominal GDP ambitions of USD 500 billion would be pursued largely through government spending rather than private-sector, sustainable, and job-creating participation. I worry that more government spending, as indicated by the rise in the current budget, will require larger budget deficits, likely to be financed by more borrowing and by raising the tax burden on Ugandans through new taxes and higher existing ones.

Related to that, I spoke with NBS journalist Hakim Wampamba before the previous budget. The interview aired on NBS Live at 9. I emphasized that:

That by raising taxes or by introducing new taxes, in other words, adding to the tax burden that already people have, already businesses have, then you are actually indicating to us that the government spending is not effective.

Recently, on NBS Live at 9, I had a few good questions to respond to about the National Budget for FY 2026/27, including one about how achievable the budget's aspirations are. Overall, the budget can be summarized as being anchored in production, industrialization, and household incomes. Therefore, its success will depend on how well it facilitates private sector participation.

I am inclined to note that this budget could be more pro-growth than those of recent fiscal years, with infrastructure taking a prominent place, but my guess is that its good effects will be offset, particularly for private-sector participation, by the growing appetite for overregulation, for instance, the sovereignty bill, and by the tax policy, particularly the introduction of 'targeted tax policies'.

Budget Allocations

The recent budget, as with the next ones, once again revealed the government's appetite for massive expenditure, with a swollen figure of 84.39 trillion, including the largest single item, debt servicing, which devoured some 33.4 trillion, nearly 40% of the total.

This leaves discretionary resources heavily directed toward the so-called ATMS priorities. These include agro-industrialization (UShs 2.26 trillion), tourism (UShs 567.32 trillion), mineral development and oil/gas (UShs 473.51 trillion), and science, technology and innovation (UShs 1.14 trillion), alongside infrastructure (about UShs 8.79 trillion for transport and 2.07 trillion for power), education (UShs 6.66 trillion), health (UShs 5.23 trillion), security (UShs 10.21 trillion), and manufacturing/industrial parks (UShs 1.03 trillion).

While the rhetoric speaks of full monetization, commercial agriculture, and double-digit growth, the reality for the private sector is relentless crowding out. Colossal borrowing and refinancing absorb scarce domestic credit that might otherwise finance genuine enterprise. Heavy taxation and administrative burdens finance an ever-expanding public sector, and resources poured into public programs, however well-intentioned, distort markets, favor certain entities, and redirect entrepreneurial effort toward rent-seeking rather than productive investment.

Far from unleashing private-sector vigor, such huge fiscal expenditure risks dampening the very animal spirits of business and innovation upon which sustainable prosperity ultimately depends. This increase in government expenditure will always be matched by an increase in taxation, an increase in debt, or both, as the key financing options.

Taxation

In the coming fiscal year 2026/27, the government plans to finance its spending largely through domestic revenues, which are expected to rise from UShs 37.55 trillion in FY 2025/26 to UShs 45.96 trillion for FY 2026/27. Importantly, the contribution from tax revenue, the largest component, has also been raised to about UShs 40.16 trillion from 33.94 trillion in FY 2025/26. Given a narrow tax base, inherent constraints on boosting, and limited non-tax revenue, including petroleum and local government revenues, it is evident that this increase in tax contribution will be financed by raising the tax burden on Ugandans, through higher tax rates and the introduction of new taxes.

In the FY 2026/27 Uganda National Budget, the authorities have once again turned to the taxpayer to bridge the widening fiscal gap, introducing a range of new levies and increases in existing duties that will materially add to the burdens already borne by households and enterprises.

Excise duties have been sharply increased on petrol and diesel by UShs 200 per liter; on cooking oil, from UShs 200 to UShs 400 per liter; on spirits and premium alcohol (nearly doubled to UShs 3500 per liter); and on cement and sugar. New duties apply to single-use plastics (25% or USD 1500 per tonne), paints, varnishes, and motorcycle registration (from UShs 200,000 to UShs 500,000). Betting tax has risen to 30% of CIF value, and stamp duty now applies to vehicle registrations and transfers.

While some relief has been offered, most notably the increase in the PAYE threshold from UShs 235,000 to UShs 335,000 per month, the net effect of these measures is a further elevation of the tax wedge on consumption, transport, construction materials, and everyday essentials, at a time when the economy is being asked to accelerate toward double-digit growth. Such fiscal tightening, if not carefully calibrated, risks dampening private spending and investment precisely when monetization and industrial expansion demand their vigorous expansion.

National Debt

As if the Ministry of Finance's certificate of financial implication for the sovereignty bill were not enough, Hon. Musasizi, during the budget reading, equated the national debt to a company's stock of liabilities, which, in that sense, must be assessed against the asset side of the equation. We cannot ignore that the management of the national debt has both monetary implications and implications for the use of real resources in the economy. Of course, I understand that now that the 'darling' debt-to-GDP ratio is above the 50%

threshold, it can no longer be used to explain the national debt, which stands at over 126 trillion. Clearly, another reason has to come up.

It is a fundamental error to treat a nation's public debt as analogous to the liabilities of a private company, since the government possesses unique powers of taxation and, in the last resort, command over the central bank's balance sheet. A company must service its debts from market-generated revenues or face bankruptcy; the sovereign, by contrast, can ultimately meet obligations through fiscal transfers or monetary creation, yet such actions carry profound macroeconomic consequences, not least for the currency's purchasing power and private-sector confidence.

In the FY 2026/27 national budget, the authorities are set to add a further substantial share of the public debt stock through net new borrowing of roughly UShs 23-25 trillion. This comprises some UShs 11.97 trillion in fresh domestic market borrowing and approximately 11.27 trillion in external project loans, even after allowing for the rollover of maturing domestic obligations. With total debt servicing already projected to absorb UShs 33.4 trillion (nearly 40% of the UShs 84.39 trillion budget), the additional net debt will push the public debt stock well above UShs 130 trillion, equivalent to over 50% of GDP.

Such relentless accumulation, financed in significant measure by domestic banks and non-residents, risks crowding out private-sector credit, elevating interest rates, and, should monetization become necessary, reigniting inflationary pressures precisely when the economy is being urged toward double-digit growth through monetization and industrial expansion. The fiscal stance, in short, places ever-greater strain on Uganda's monetary policy stability and long-term debt sustainability.

Implications and Conclusion

Fiscal and Monetary Implications

The sharp rise in Uganda's FY 2026/27 budget to 84.391 trillion shillings, with debt servicing alone accounting for nearly 40 percent of the total, signals a continued dominance of fiscal expansion over prudent resource allocation. Such an expansion of the public sector's share of national output must be financed either by higher taxation or by additional borrowing. Both routes exert powerful contractionary effects on private-sector activity, precisely the opposite of the rhetoric of "full monetization" and rapid industrialization. In monetary terms, heavy reliance on domestic borrowing of nearly 12 trillion shillings, alongside external loans, will absorb a large share of bank credit that would otherwise finance genuine private investment. Should the authorities later resort to monetary financing of the resulting deficits, as the pursuit of a nominal 500-billion-dollar economy by 2040 appears to require, the risks of renewed inflationary pressure will intensify. Uganda's monetary authorities will then face the familiar dilemma: either tighten policy to defend the currency, thereby raising real interest rates further, or accommodate the fiscal impulse and watch price stability erode. In either case, private-sector confidence will suffer.

Sectoral Implications

The pronounced tilt of discretionary spending toward infrastructure, agro-industrialization, oil and gas, and selected manufacturing parks will undoubtedly generate visible public projects and temporary employment. Yet the scale of taxation, including new excise duties on fuel, cooking oil, cement, sugar, plastics, and vehicles, directly raises costs in transport, construction, agriculture, and small-scale industry, the very sectors the budget claims to champion. The net effect is to crowd out genuine private entrepreneurship while favoring rent-seeking around public contracts and subsidies. Private services, tourism, and non-oil minerals, already facing regulatory encroachment, will face higher input costs and reduced household disposable income after the tax measures. The modest relief in the PAYE threshold is dwarfed by the broader elevation of the tax wedge on consumption and production. Far from broadening the base for sustained double-digit growth, the budget risks entrenching a high-tax, high-debt, public-sector-led model that distorts relative prices and weakens the animal spirits essential for genuine structural transformation.

Conclusion

Uganda's FY 2026/27 budget confirms a strategy of pursuing ambitious nominal GDP targets primarily through fiscal expansion rather than through the spontaneous growth of a lightly taxed, lightly regulated private economy. While short-term output figures may be boosted by increased government spending, the long-term costs, including higher public debt, elevated taxation, crowding out of private credit, and latent inflationary dangers, threaten to undermine the very prosperity the authorities seek. Sustainable prosperity in a developing economy depends overwhelmingly on the vigor of private enterprise, not on ever-larger fiscal arithmetic. Unless the next budgets decisively reverse this trend toward fiscal dominance, the goal of a genuinely monetized, industrialized, and prosperous Uganda by 2040 will remain more rhetorical than real.