

Invest in productive sectors, experts tell government

Public debt increased by 35% to Shs65trillion as at December 2020

By Isaac Khisa

Government should prioritise financing human capital development programs amidst projected revenue shortfalls due to COVID-19 lockdown, experts say.

Experts also say, amidst these tough times, the government should also keenly scrutinize loan proposals and ensure proper planning to avoid committing loan projects when not ready for implementation.

Hilda Tumuhe, a research associate at the Uganda Debt Network is among the experts *The Independent* spoke to.

"On the domestic debt refinancing, government must devise mechanisms where the monetary policy instruments support investment to production entities and opportunities in Uganda rather than keep offshore and domestic investors in securities shift from lazy to active investors who set up factories, services and actively participates in expansion of Uganda's GDP," Tumuhe said.

This development, according to experts, is in response to the government's planned Shs44.7trillion budget for the next financial year which starts on July 01, but a huge chunk of it is meant to pay debts.

The government, for instance, plans to spend about Shs15.4trillion or 34% of the Shs44.7trillion budget towards debt servicing which includes external debt repayment worth Shs1.8trillion, interest payment Shs4.7trillion, domestic debt refinancing Shs8.5trillion, and domestic arrears Shs400bn.

This share is far higher than the 17% resource envelope allocated to the human capital development, meaning that more money is being channeled to debt serving obligations as opposed to productive sectors such as agro-industrialization, manufacturing and private sector development inter alia among others.

Meanwhile, the government hopes to collect merely Shs22.4trillion as local revenue to fund the budget, with the rest coming from petroleum fund, budget support, and domestic debt refinancing and local revenue for the local governments among others.

Last year alone, Uganda recorded an unprecedented increase in public debt



by 35% from Shs49trillion in Dec. 2019 to Shs65trillion as at December 2020. The sharp increase was on the account of borrowing to respond to coronavirus pandemic and other natural disasters such as floods in some parts of the country.

"Despite the fact that public debt is within the sustainable levels, Uganda Debt Network is concerned that the debt is growing at much higher rate than the economy," added *Christine* Byiringiro, policy analysis and governance at UDN.

"As such, anyone would be concerned about this rapid debt growth, against the GDP of US\$35bn in 2020; and missed middle income status target in 2017 and 2020. The country must deal with the key binding constraints, run-away corruption, and execution issues and also look to sustainable debt for Uganda."

Uganda's debt to GDP ratio stood at 49% as at the end of Dec 2020 and is projected to hit the 50% threshold by the FY2021/22, signaling a start of an era of a government's possible loan repayment defaults or a surge in interest for future loans.

Byiringiro said even with the meagre resources, the government should demonstrate being more aggressive against run-away corruption.

She also said the time and cost overruns exhibited in some public projects should be squarely handled so that tax payers have value for money. She cited the 22km Kampala Northern By-pass which has been in

construction since 2004 and still remains incomplete.

Fred Muhumuza, an economist who also lectures at Makerere University said during the post budget analysis organised by Ernest and Young on June. 11 that it is time for the government to look keenly into its borrowing so as to have more resources to enhance service delivery.

He said the government's claim that the country's borrowing is still within the debt sustainable level does not anchor well with the reality on the ground.

"Government may claim that our debt level is still sustainable but at the expense of certain basic services to the citizens because more money is spent on debt servicing," he said.

Ezra Munyambonera, the head of the macroeconomics department at the Makerere University based Economic Policy Research Centre told *The Independent* in the past that it is time for government with the approval of parliament to strive for a balance between borrowing for infrastructure development and provision of social services.

He said, the government should initiate negotiation with lenders especially China to re-allocate early acquired loans to other sectors which are vital to stimulate economic growth during the post COVID-19 period rather than focus on infrastructure development. **IPL**