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PRESS RELEASE

Debt Question and Management Challenges in Uganda

Despite Uganda's quest for financing her development plans, the stock, structure and sustainability of national debt have become contested on a number of occasions, including: limited citizens' participation in loan acquisition processes, instances of by-passing of Parliament by the Executive in debt acquisition, value for money and accountability challenges. Even then debt levels for Uganda are simply unjustifiably on the rise, even though within the Debt Sustainability threshold.

External debt - The stock of Uganda's external debt (disbursed and outstanding) increased by 10.3% to US$ 4.22 billion between June 2002 and June 2003. A decade later, the officially recognized debt increased from 28.6% of GDP in June 2012 to 30.4% in June 2013.

Domestic Debt - The total stock of outstanding government domestic debt, at cost, as at the end of February 2015 was Shs. 9 trillion (US$ 3.10 billion) compared to the stock of Shs. 7.215 trillion (US$ 2.824 billion) at the end of June 2014. This represents an increase of 24.8% in the first 8 months of 2014/15, which should be a concern knowing that part of the previous domestic debt was not being retired but rescheduled – rolled over. If these numbers were supported by discipline in expenditure and adherence to loan commitments, then there would be no worries.

Why invigorate the debt debate?

1. The speed at which the debt is rising, utilized and accounted for in Uganda is generally worrying. For example, external borrowing increased by 82% in 2014/15 compared to a year later in 2013/14. The rapid trend of increase can still be tracked over a longer horizon given the fact that the total reported external debt for end of February 2015 was USD 6.27 billion compared to about USD 0.99 billion in 2006, after Uganda had benefited from debt relief initiatives including Highly Indebted Poor Countries (HIPC) in 1997 and 2000, then the Multilateral Debt relief Initiative (MDRI) in 2006. This represents an increase of 500% over a period of 9 years.

2. The actual value of Uganda's debt is increasing with risk raising interest rate or reducing the growth rate below the interest rate for a sustained period. The grant component of

the loans has also changed with the shifting from traditional lenders like Paris Club creditors, to new bilateral creditors such as China India and states in the Middle East.

3. The changing structure of the debt, whereby the domestic, short-term and non-concessional debt is dominating the portfolio, should be a concern. Already, the current structure shows that nearly 85% of the debt service is on non-concessional domestic debt. Prudent debt management for sustainability demands that interest rates are far below the real economic growth rate. The structure of the debt in terms of disaggregation between external and domestic as well as time to maturity raises concerns given the increasing volume of domestic short- to medium-term debt. For purposes of debt sustainability, it is often better to have a larger component of long-term debt that offers less stress on the economy in terms of repayment of both interest and the principle. The planned debt repayment for 2015/16 budget indicates a large focus on short-term domestic debt of Shs. 4,787 billion (72.1%) out of the total debt service of Shs. 6,643 billion. Not only is domestic debt costing the country much more, it is also growing very fast. In the last two financial years, when government officially introduced domestic borrowing as a form of budget financing, borrowing through government/treasury bonds has amounted to Shs. 3,161 billion (4% of GDP). A total of Shs. 1,775 billion was borrowed in 2013/14 and Shs. 1,386 billion in 2014/15. An additional Shs. 1,384 billion is due to be borrowed in 2015/16, which will raise the portion of domestic debt from issuance of treasury bonds to Shs. 4,545 billion or 6.1% of GDP in just three years. Going forward, as the proportion of domestic debt increases, debt sustainability will become a serious concern for the country.

As seen from the National Development Plan II, debt will widen the budget deficit to nearly 9% of GDP for about three years from Financial Year 2015/16, largely driven by public sector infrastructural projects (e.g. roads, energy, fertilizer plant, airport, aerodromes). While this may be good, it seems dependent on oil and gas prospective,. We, nonetheless, need not discount the oil issues of reimbursement (recoverable costs to prospecting oil companies) from oil revenues, governance concerns and the rather challenged public financial management in Uganda, if the Auditor General reports and illicit financial flows out of Africa (including Uganda) are anything to go by.

UDN recommends that;

- Government strengthens the institutions that use borrowed funds and ensure that the funds are used as prescribed and in a timely accountable manner.

- The legal framework should be strengthened to regulate borrowing, with provisions for checks and balances especially the requirement for parliament's approval for all loan commitment.

- There should be a limit on reallocations and supplementary budgets that have over time proven a burden that ensures debt arrears.