UGANDA DEBT NETWORK UDN DEBT IS SLAVERY

Weekly Edition

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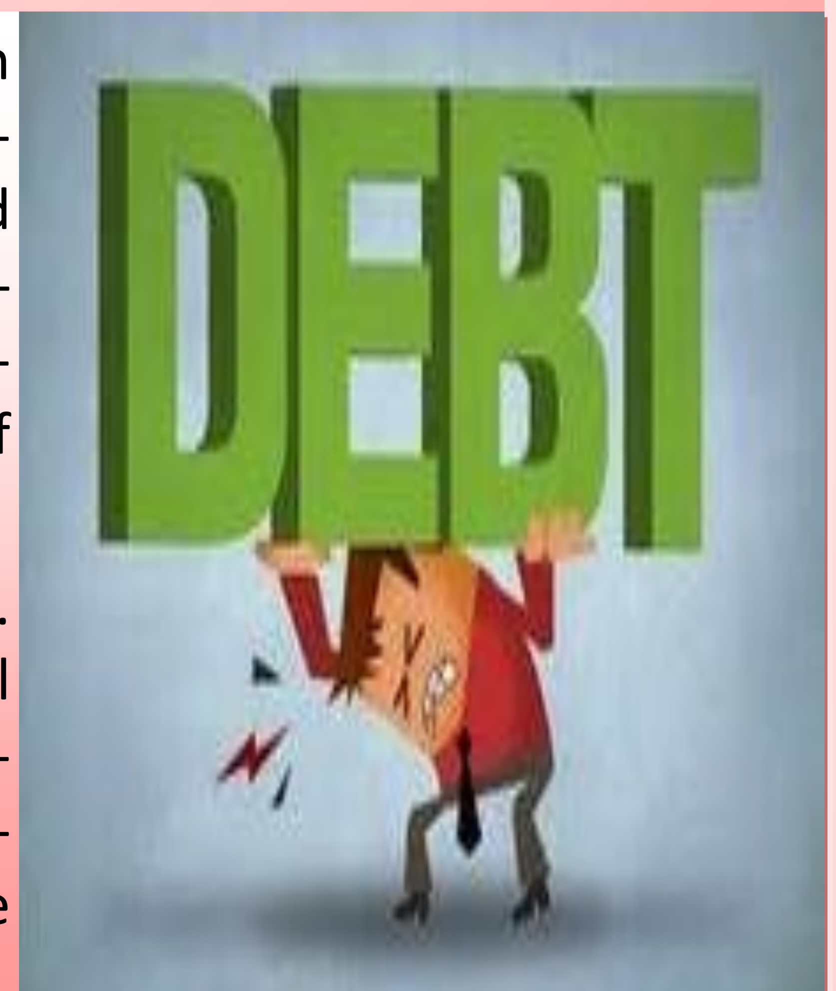
RISING TREND OF UGANDA'S UNSUSTAINABLE DEBT

1. PREAMBLE

Uganda's debt has continued to grow both in absolute terms and relative to GDP. Debt accumulation has been driven by constrained domestic revenue and high government deficit which is a result of high infrastructure appetite which could further deepen the risk of debt distress to the economy.



In 2006 total debt stock was US$ 1.5 billion. However, as at end December 2020, total debt stock UGX 65.83 trillion indicating an increase from UGX 49.0 trillion at end December 2019 (35.0% increase in debt stock, in one year).

2. DEBT UNDERMINE ECONOMIC DEVELOPMENT?

UDN observes that debt accumulation remains a key impediment to economic development, not only for Uganda but also for other developing economies globally. This is more precisely when the borrowed resources do not deliver a full package of their promises on the premise of: i) high debt repayment, ii) stringent debt acquisition conditionality, iv) corruption and v) near impunity by civil servants, vi) poor outputs by contractors, and others.

As at December 2020 Debt to GDP ratio grew to 47.2% from 41.1% in the previous financial year. Moreover, according to the DSA report 2019/20 (MoFPED) the nominal public debt to GDP is projected to increase to 49.9% by June 2021. Given the trends, we cannot take comfort that this is below the threshold of 50% debt to GDP ratio contained in the Charter for Fiscal Responsibility and the East African Community (EAC) Monetary Union Protocol.

3. UGANDA TO SPEND 97% OF DOMESTIC REVENUE ON DEBT REPAYMENTS

According to the National Budget Framework Paper 2021/2022 recently approved by parliament, the country's budget is projected at Ush45.65 trillion ($12.38 billion), of which Ush20.9 trillion ($5.66 billion) will go to debt servicing, against total domestic revenue that is projected at only Ush21.69 trillion ($5.88 billion).

This means that 96.7 percent of Uganda's total domestic revenue — whose tax revenue is projected to be Ush20.13 trillion ($5.46 billion) — will be spent on debt servicing.

4. UDN RECOMMENDATIONS

1) Government should tame the run-away debt accumulation by increasing resources utilization efficiency and only borrow when it is absolutely necessary.
2) Government should step up Domestic Resource Mobilization efforts, including reviewing for updated legal, policy Frameworks.
3) Address constraints to the country's local production and export potential to enable growth in sustainable ways that enhance household welfare, financing of critical infrastructure and paying off debt.

UDN's Director of Programmes, Julius Kapwepwe speaking to participants during the regional stakeholders' workshop on UPE financing in Gulu City held on the 11th March 2021 .

Mrs Juliet Okecho, the Chairperson Bukedea Poverty Monitoring Association (BUPOMA) addressing participants during the Village Savings & Loans Association for economic empowerment training in Bukedea district on the 16th March 2021. (BUPOMA is a UDN partner in the district)

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