UGANDA DEBT NETWORK · DEBT IS SLAVERY

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IS UGANDA DIVING INTO A DEBT TRAP POST DEBT RELIEF?

1. PREAMBLE.

In a period of 3 years, Uganda's debt increased by about 50% from UGX 46.36 Trillion as at end of June 2019 to UGX 69.512 trillion as at end of June 2021 (Debt sustainability Analysis reports of FY 2018/19 and FY 2020/21). Furthermore, the state of the economy report as at December 2021, highlights that the country's debt has increased to UGX 73.789trillion.

Despite the fact that Uganda's debt is still sustainable in the medium and long term, Uganda's Outlook is negative and the country is now at moderate debt distress. Moreover, the country can hardly absorb shocks thus in the event of occurrence of an extreme shock would push the country into high debt distress.

2. Uganda's Public Debt is Growing too high

The report of the Auditor General to Parliament for the FY 2020/21 notes that there was a consistent increase in the total debt and from financial year 19/20 to 20/21, due to increased borrowing from both the domestic (accounting for a higher increase) and external sources, persistent budget deficits, rollover of liquidity papers, new borrowings for various development projects and foreign exchange loss arising from the depreciation of Ugandan Shilling against stronger currencies.

Absence of policy to manage Interest rate risk has exposed the country to financial losses; Currently Uganda has no policy to manage interest rate risk yet the country has acquired debt with floating interest rates from Bilateral countries and Commercial Banks that use the 'Libor' and Eurobor interest rates. Unfortunately, debt management policy on external debt does not give sufficient guidance on the use of instruments such as 'SWAPs' in risk management, thus exposed the country to financial loss of UGX. 65,627,696,205 arising from the swap agreements Government entered into with two commercial banks in 2016.

Government has also failed on lending scheme to Ministries Departments and Agencies (MDAs) thus Auditor General observed that only Four out of the Thirteen MDA's were found to be compliant with the repayment of the loans. Government also used non-concessional loans for on-lending, which attracted higher interest rates and shorter grace periods for the loan repayments as compared to the concessional loans which made it very costly yet some MDAs have had challenges with absorption and thus repayment thus causing a strain on government as funds are diverted to pay the loan obligations.

3. Is public Debt still sustainable?

Auditor General highlights that the debt to GDP ratio increased to 47% in FY 2020/21 from 41% in 2019/20 as compared to GDP which grew from UGX 140 billion in FY 2019/21 to about 148 billion in FY 2020/21. There is a risk of public debt reaching unsustainable levels in the future since the rate of increase of debt is higher than the rate of increment in the GDP levels. Furthermore, interest to total revenue ratio increased to 15.4% in 2020/21 from 14.2% in 2019/20 which is still way higher than the benchmark of 12.5% set in the debt strategy. This gradually reduces the funds available for funding other critical government expenditures, given that 25% goes to salaries and wages.

The report also notes that tax to GDP ratio in 2020/21 stood at 13% as compared to the Sub-Sahara Africa's (SSA) average of 15.1% thus failure to collect sufficient revenue will imply more borrowing and creates a risk that the Country may not achieve the World Bank Sustainable Development Goals by 2030.

4. Recommendations

Government of Uganda ;

1) Should reduce debt dependency and accelerate the implementation of strategies to enhance revenue generation for the country.
2) Should check its expenditure within its limits of sustainable financing .
3) Should develop a policy on management of interest rate risk.
4) Should develop a clear on-lending policy if it continues to use the option as a channel for funding projects .

UDN IN PICTURES.

Above; UDN team briefing the Kamuli District Deputy CAO, Mr. Peter Emwos Erisu about the newly introduced Health Security project.

Above; UDN team meeting Kamuli District Hospital Superintendent Dr. Atuma Zaidi during the Health Security Baseline survey exercise, Feb 2022.

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