

UGANDA'S DEBT TRAP DILEMMA: EVALUATING THE IMPACT OF CHINESE LOANS



INTRODUCTION

Uganda's stock of public debt from China has been steadily rising over the past years, contributing to the country's economic development but also raising concerns about its long-term sustainability. According to indicators, the debt outstanding and disbursed is estimated at 105 percent of GDP, with a debt-service ratio of nearly 80 percent. Public debt in Uganda has been increasing, reaching 50.6 percent of GDP at the end of FY2021/22. The debt to GDP ratio has also been on the rise, reaching 57.9 percent in 2022, up from 45.1 percent in 2019.

Chinese loans have played a significant role in Uganda's infrastructure development and economic growth. Through investments, trade deals, and financial agreements, China has become a prominent player in Uganda's economic, political, and geopolitical landscape. These investments have contributed to the construction of roads, railways, energy projects, and other vital infrastructure, stimulating economic activities and improving connectivity within the country.

However, concerns have been raised about the terms and conditions of these Chinese loans.

Critics argue that the loan terms may burden Uganda in the long run and pose a risk to the country's economic stability. The debt-service ratio, which indicates the proportion of a country's export earnings used to service its debt, is already high at nearly 80 percent. This raises concerns about Uganda's ability to meet its debt obligations without compromising its economic growth and development.

The worry about the terms of Chinese loans stems from the fear of falling into a debt trap. Some argue that these loans may come with stringent conditions, high interest rates, and lack transparency, which could lead to unsustainable debt levels and dependency on China. Uganda's moderate risk of debt distress further adds to these concerns.

It is crucial for Uganda to carefully assess the loan conditions and negotiate favorable terms to ensure sustainable economic growth and avoid potential debt traps. Proper financial management, improved governance, and transparency are essential to mitigate the risks associated with the rising public debt from China. The government should prioritize investments that generate substantial returns and promote inclusive economic growth.

While the concerns regarding the terms of Chinese loans are valid, it is important to note that Chinese investments have also brought significant benefits to Uganda. The infrastructure development facilitated by these investments has created employment opportunities, enhanced trade, and improved transportation networks, ultimately contributing to the country's economic development.

In conclusion, Uganda's stock of public debt from China has been on the rise, raising concerns about its long-term sustainability. While Chinese investments have played a crucial role in Uganda's economic growth and infrastructure development, it is vital to carefully assess the loan conditions to avoid potential debt traps. The government should prioritize sustainable investments, improve financial management, and promote transparency to ensure that the benefits of Chinese investments outweigh the risks and contribute to Uganda's long-term economic prosperity.