UGANDA DEBT NETWORK · DEBT IS SLAVERY

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UGANDA'S DEBT: STABLE FOR NOW, BUT RISKS REMAIN

INTRODUCTION

According to the recently released Debt Sustainability Analysis (DSA) report for Financial Year (FY) 2022/2023 by the Ministry of Finance Planning and Economic Development (MOFPED), it is projected that Uganda's public debt stock will remain sustainable over the medium to long term. As share of GDP, public debt reduced to 46.9% in June 2023 from 48.4% in June 2022. This will mainly be supported by continuous improvement in the growth of the Gross Domestic Product (GDP), onset of oil production and realization of its associated revenues alongside strong revenue growth following the implementation of the Domestic Revenue Mobilization Strategy, and a reduction in borrowing as some major infrastructure projects come to completion in the long-term.

The analysis indicates that Uganda's public debt stock increased from USD 20.99 billion (UGX 78,833.4 billion) in FY2021/22 to USD 23.66 billion (UGX 86,779.87 billion) in FY2022/23 with external public debt increasing from USD 12.82 billion (UGX 48,171.8 billion) to USD 14.23 billion (UGX 52,206.07) between June 2022 and June 2023, and domestic public debt increasing from USD 8.16 billion (UGX 30,661.6 billion) to USD 9.43 billion (UGX 34,573.80 billion) over the same period.

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However, Uganda is assessed as being at moderate risk of debt distress with the major vulnerabilities to the debt outlook relating to the slow growth of exports that are a major source of foreign exchange for the country and the increasing debt service burden on revenues. This means that in the event of a major shock that would negatively impact export growth, Uganda's risk rating could deteriorate from moderate to high risk of debt distress.

Debt service also remains a key area of concern for debt sustainability with the total debt service as a percentage of revenue amounting to 32.6% as of June 2023. This implies that debt servicing continues to take up a bigger share of resources hence constraining allocations to other areas of the budget. This ratio is expected to remain above 20% by the end of the medium term especially due to high domestic interest rates as well as the increasing cost of external debt as global financing conditions continue to tighten. Although the ratio of domestic debt interest payments to revenue reduced from 19.1% in FY2021/22 to 18.4% in FY2022/23, it is projected to remain above the targets set out in the charter for fiscal responsibility, pointing to the urgent need for reducing domestic borrowing.

In order to maintain debt at sustainable levels over the medium term, the following measures will be taken; increasing domestic revenue collections through the full operationalization of the Domestic Revenue Mobilization Strategy, prudent management of the oil resource so as to achieve the envisaged revenue gains, increasing the efficiency and effectiveness of Government expenditure particularly by allocating more resources to sectors that generate a higher multiplier effect on growth, and implementation of Government interventions aimed at supporting private sector production.

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