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UGANDA'S ECONOMIC OUTLOOK 2024 — A MIXED BAG

INTRODUCTION

Public Debt still on the rise

In the June 2024 quarterly statistical bulletin, the total public debt increased by USD 1.9 billion, rising from USD 23.7 billion in June 2023 to USD 25.6 billion by the end of June 2024.Despite the increase in both external and domestic debt, the growth in domestic debt was more significant from USD 9.4 billion (37%) to USD 11.0 billion (43%). The higher rise in domestic debt was mainly due to an upward adjustment in net domestic borrowing to meet additional budget financing needs due to a reduction in revenue collections widening the fiscal deficit. Although Uganda's share of debt to GDP stands at 46.7 % below the threshold, weighted average interest stands at 7.5% up from 5.4% in 2019.

Debt Servicing Eating deep into revenue collected

In FY2023/24, interest payment consumed 22.2 percent of the total revenue collections in June 2023 up from 14.2% in 2019 and is expected to thrive in 2024 taking up 28% of the projected revenue collection with 55 of every 100 collected going to debt servicing and consuming 10% of the country's GDP.

Efforts to contain borrowing costs have been complicated by tighter global financing environment and the current use supplementary budgets, driving the increased domestic issuances.

Decline in Investment

Despite strong FDI inflows, other financial flows weakened substantially and weighed on forex reserves. Investment inflows have seen a significant decline in recent years from a peak of US$ 500 million in FY2019/20 to around US$ 200 million in FY2023/24 as external project and budget support inflows fell. Despite strong oil-related FDI, Uganda faces challenges with volatile financial inflows and reduced external support, impact overall fiscal stability.

Foreign Exchange reserves Falling

According to the BOU state of the economy report released in September 2024, it indicates that Gross foreign exchange reserves fell to US$ 3.3 billion in July 2024 from US$ 4.07 billion in June 2023, with coverage of imports at 3.0 months (excluding oil projects), reflecting higher external debt service payments, rising borrowing costs resulting into inability to secure external loans at affordable terms, and limited foreign exchange purchases by the BOU due to unfavorable domestic foreign exchange market conditions.

There is still Hope: Recommendations / Redress Mechanisms

- *Improved public debt management and strategies to enhance foreign exchange inflows.*
- *Additional efforts are required to increase agricultural export revenues in coffee, cotton, tobacco, mineral and oil products so as to increase current account income.*
- *Need for prudent fiscal management and contingency planning to mitigate potential vulnerabilities.*
- *Expedite the production in oil production so as to raise more revenue to finance the debt acquired for budget support and oil related projects.*
- *Strengthen institutional capacity in budget planning and implementation through improved governance profile.*
- *Increase the country's saving rate to 40% from current 20%. This can raise the country's productive capacity potentially increasing GDP and more stable space for financing government deficits.*

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