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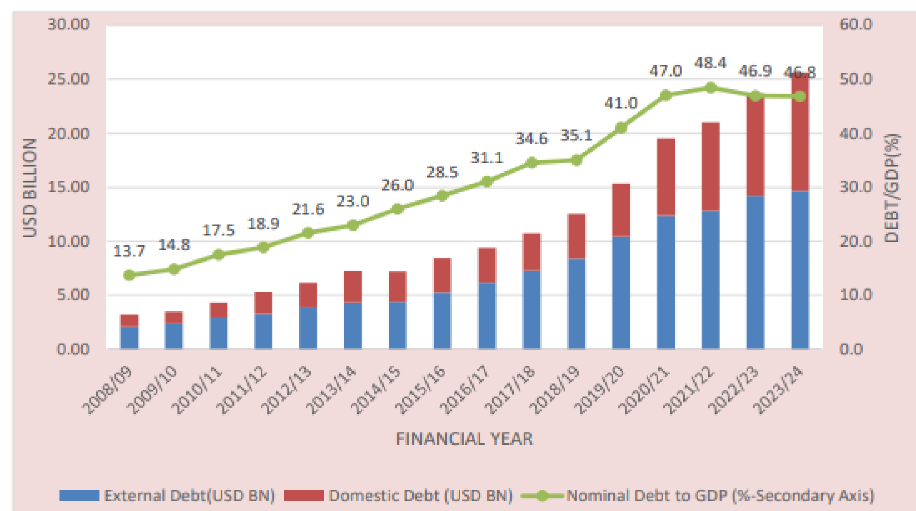
CAN UGANDA MANAGE ITS DEBT? INSIGHTS FROM THE FY2023/24 DSA REPORT

INTRODUCTION

According to the Debt sustainability report (DSA) for FY2023/24 , Uganda's total public debt increased from USD ***23.66 billion (UGX 86,779.87 billion)*** in FY2022/23 to ***USD 25.59 billion (UGX 94,869.5)*** in FY2023/24.This signifies a 9 % increase in a period of 1 year. The country's external debt to GDP stood at 57.2% indicating heavy reliance on domestic borrowing. Domestic debt surpassed the growth in the external debt ***4029.51 billion*** as external debt rose from ***UGX 52,206.07 billion*** to UGX 54,236.13 billion while domestic debt grew from ***UGX 34,573.80 billion*** to ***UGX 40,633.37 billion*** over the same period. The tremendous increase in the domestic debt led to the increase in the debt-GDP ratio in present value to amount to 40.4 % of GDP from 36.7 present as domestic debt bears no concessionality. In the medium term, Uganda's debt-to-GDP ratio is expected to rise to **52.7 %** by ***June 2025*** and to a peak of **53.0 %** in FY2025/26 before starting to gradually decline. The present value of debt is also expected to increase to a peak of 46.8 % of GDP in FY2025/26 just below the 50% stipulated under the East Africa Monetary Union (EAMU) convergence criteria.

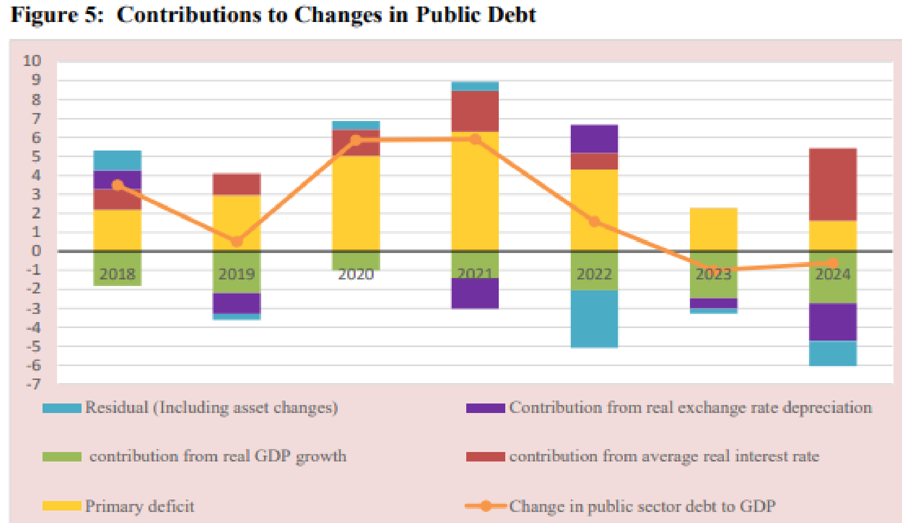
Figure 1: Evolution of Public Debt



Source: Ministry of Finance, Planning and Economic Development

The further reduction in the ratio of debt to GDP by **0.6 percentage** points was largely supported by Real GDP growth and the appreciation of the end period real exchange rate. These debt mitigating factors outweighed the upward pressures particularly stemming from the average real interest rate (high cost of the debt) and the primary deficit

Figure 5: Contributions to Changes in Public Debt



Source: Ministry of Finance, Planning and Economic Development

Uganda is considered to be under moderate debt distress mainly driven by the slow growth in exports and rise in debt service burden which amounted to **31.5 %** of revenue as of June 2024. The debt service to revenue ratio is projected to stay above 20 % throughout the medium term, mainly due to cost of debt. The share of domestic debt interest payments to revenue alone is projected to increase to over **20 %** in FY2024/25, exceeding **14.1%** limit contained in the Charter for fiscal responsibility and therefore highlighting the need to reduce domestic borrowing.

COMPOSITION OF EXTERNAL DEBT BY HOLDER

Over a **period 8 years**, there has been in a reduction in debt owed by multilateral creditors and bilateral creditors from **70.8%** and **26.6%** in 2014/15 to **64.6%** and **23.5%** in 2023/24 respectively as result of introduction debt owed by commercial banks. The growth in debt owed by commercial banks has been increasing rapidly more than multilateral creditors till FY2023/24 Government held back on signing up commercial debt which was available at very high costs.

Creditor Category	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Multilateral Creditors	85.5	76.6	70.8	67.8	64.5	61.9	62.5	61.7	61.8	64.6
o/w IDA	55.8	48.9	45.2	42.2	40.1	34.6	35.3	34.5	31.9	32.7
Bilateral Creditors	14.5	23.4	26.6	31.5	33.7	30.9	28.6	27.9	24.6	23.5
Non-Paris Club	12.3	20.4	22.8	25.1	27.5	23.6	21.6	21.4	20.2	17.3
o/w China	9.6	17.8	20.3	24.2	26.5	22.6	20.9	20.7	18.1	16.5
Paris Club	2.2	3	3.8	6.5	6.2	7.3	7	6.5	4.4	6.2
o/w Japan	1.7	2.4	3	4	2.5	3	2.3	1.9	1.5	1.4
Commercial Banks			2.6	0.7	1.8	7.2	8.9	10.4	13.6	11.8

Source: Ministry of Finance, Planning and Economic Development

Similarly the cost and risk of debt profile faced significant changes

The proportion of the cost indicators of interest payments to GDP and the weighted average interest rates indicated a downward trend from 3.8 and 8.1 to 3.5 and 7.5 respectively. This decline was a result of decrease in the variable interest rates on external debt coupled with the growth in GDP and variable rates on external loans. The **Average Time to Maturity (ATM)** of the total public debt portfolio declined slightly from 9.4 years at end June 2023 to 8.7 years at end June 2024. This was driven by a decline in external debt ATM, from 10.7 years at end June 2023 to 10.0 years in June 2024 arising from the increase in loans contracted on commercial terms, which typically have shorter maturities relative to the concessional loans.

However, the ATM for domestic debt increased from 6.8 years at end June 2023 to **7.1 years** at end June 2024 in line with the Government's strategy to lengthen the ATM of domestic debt. Debt maturing in one year as a **percentage** of total debt increased from **10.3 %** in June 2023 to **14.8 %** in June 2024. This was due to growth in the volume of domestic and external debt maturing in one year as a **percentage** of total debt, from **23.9 %** to **27.3 %** and from **3.8 %** to **5.5 %,** respectively.

CONCLUSION

Despite some positive economic factors, such as real GDP growth and a stronger exchange rate, Uganda faces challenges from slow export growth and a rising debt service burden. The debt structure has shifted, with a notable increase in domestic debt, which carries higher costs and shorter maturities. To ensure long-term fiscal sustainability, it is crucial for Uganda to manage its borrowing strategies carefully, reduce domestic borrowing, and address the rising debt service obligations.

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