UGANDA DEBT NETWORK · UDN · DEBT IS SLAVERY

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UGANDA'S DEBT CRISIS: WHAT UGX 2.3 MILLION PER CITIZEN MEANS FOR THE NATION'S FUTURE

INTRODUCTION

Uganda's debt burden continues to grow, raising concerns about fiscal sustainability and the future of public spending. With total public debt reaching **UGX 107 trillion constituting 94trillion public debt and Domestic arrears 13 trillion as of June 2024** , amounting to 52.97% **of GDP**, the implications for the country's economic stability are profound. ***If Uganda were to clear its debt today, every citizen would owe approximately UGX 2.3 million to clear the debt yet our poverty line stands at $1.77 person way below $2.5 purchasing power parity.*** But what does this mean for future budgets, public service delivery, and economic growth?

The Current Debt Landscape

Over the past decade, Uganda's public debt has steadily increased, rising from **$35.1 billion in FY2018/19 to $46.8 billion in FY2023/24**, a **104% increase in six years**. The debt-to-GDP ratio has slightly decreased to **46.8%**, but external debt to GDP remains high at **57.2%**, indicating a heavy reliance on domestic borrowing to finance deficits. This raise concerns over fiscal sustainability, particularly as debt servicing costs increase, limiting credit availability for the private sector and restricting counter-cyclical policy implementation during economic downturns.

Impact on Future Budgets

Uganda's rising debt has significant implications for the national budget and fiscal policy.

a. **Debt servicing is crowding out critical public spending.** As a share of the total budget, debt servicing has been increasing over the past five years, reducing funds allocated to essential sectors such as health, education, social protection, and water and sanitation. In FY2023/24, **32.8% of total government revenue was spent on debt repayment**, leaving fewer resources for development priorities.

b. **Undisbursed loans and penalties add to the debt burden.** The stock of undisbursed loans surged from **UGX 1.3 trillion in FY2021/22 to UGX 16.49 trillion in FY2023/24** due to project delays. These delays have led to increased commitment fees, such as **UGX 300 million paid daily in redundancy fees for the stalled Busega-Mpigi expressway project**. Additionally, in FY2023/24, Uganda incurred **UGX 568.164 billion in penalties** for the cancellation of an AFD-funded Muzizi Hydropower Plant loan.

c. **Domestic arrears are rising, straining fiscal space.** In FY2023/24, the government failed to clear invoices worth **UGX 8.313 trillion**, accumulating domestic arrears and increasing the cost of treasury operations. This affects suppliers and contractors, disrupting service delivery and private sector cash flows.

d. **Revenue shortfalls continue to hinder budget performance.** Uganda's **Tax-to-GDP ratio stands at 14%, well below the East African Community's 25% convergence benchmark**. The growth in recurrent expenditure has not been matched by efficiency in revenue mobilization, while tax exemptions cost the country **UGX 20 trillion (2.2% of GDP)** annually.

e. **Reliance on high-cost borrowing increases fiscal risks.** Uganda's debt composition has shifted towards commercial borrowing, which comes with higher interest rates and shorter repayment periods. Although the government scaled back on new commercial debt in FY2023/24, **domestic borrowing remains high, with UGX 9.87 trillion raised from treasury instruments in the first half of FY2024/25, of which UGX 4.95 trillion was used to refinance maturing debt**.

f. **External factors compound fiscal risks.** Uganda's economy faces pressures from geopolitical tensions, volatile global commodity prices, and tight international financial conditions. The country's **debt-to-exports ratio stands at 265.4%**, signaling a high reliance on foreign exchange earnings to service external debt, which threatens financial stability.

Way Forward: Ensuring Debt Sustainability

To prevent Uganda's debt from becoming a long-term burden, strategic policy actions must be taken:

a) **Enhancing Domestic Revenue Mobilization:** Implementing tax reforms under the **Domestic Revenue Mobilization Strategy (DRMS)** and reducing revenue leakages can boost collections and reduce reliance on debt.

b) **Prioritizing Concessional Borrowing:** The government should focus on securing **low-interest, long-term loans** instead of expensive commercial borrowing.

c) **Improving Public Investment Efficiency:** Thorough feasibility studies must be conducted before investing in projects to avoid costly delays and commitment fees.

d) **Strengthening Fiscal Discipline:** Reducing wasteful expenditures, limiting supplementary budgets, and improving governance can help prevent unplanned debt accumulation.

e) **Diversifying the Economy:** Strengthening local industries and increasing exports can improve foreign exchange earnings, reducing reliance on external borrowing.

f) **Reducing Domestic Borrowing:** High-interest domestic debt crowds out private sector lending; reducing it can ease credit conditions for businesses.

g) **Leveraging Oil Revenues Effectively:** Transparent and efficient management of oil earnings can reduce dependence on debt financing.

Conclusion

Uganda's current debt situation presents a critical challenge for future budgets. Without decisive policy interventions, high debt levels will continue to limit the government's ability to invest in essential services, support economic growth, and respond to unforeseen crises. The path forward must focus on **prudent borrowing, improved revenue collection, and sound fiscal management** to ensure a sustainable economic future for all Ugandans.

UDN IN PICTURES

UDN, with support from UNICEF Uganda Convened Key stakeholders form Ministry of Finance, planning and Economic Development, CSOs, and media to discuss budget transparency, oversight & citizen participation

UDN was honored to be part of the Stakeholder Dialogue on the Auditor General's Report 2024, organized by Westminster Foundation for Democracy (WFD). UDN's Gilbert Musinguzi making a presentation on "Examining Uganda's Debt Portfolio: Impact on Fiscal Sustainability & Future Budgets

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