PUBLIC DEBT

A Snapshot Of Uganda's Debt Profile And Its Implications On Economic Growth

Elizabeth Nuwaha

Research Fellow, Center for Budget & Economic Governance, ACODE

Uganda's debt risks are becoming more pronounced both in the short to medium term. This is attributed to the rapidly increasing debt accumulation, poor debt utilization as well as an increased share of interest payments in the national budget. Public debt is a critical financial instrument in an economy's development path because debt and its structure have a great impact on the functioning of the economy as a whole, hence, a better understanding of its impact on economic growth will influence better policies on the prudent use of borrowed resources.

The contents of this article will throw more light on the size and structure of Uganda's public debt with its implications on economic growth and necessary policy pathways.

Whilst it is considered an optimal decision for governments to entirely rely on domestically generated revenues from taxes, public borrowing is sought due to fiscal deficits to bridge the resource gap between government expenditure and its tax revenue. (African Development Bank 2018). For a variety of reasons, ranging from the desire to bridge an Economy's fiscal deficit to funding infrastructural constraints that facilitate economic growth, governments borrow money, however, much as borrowing enables countries to finance important development programs and projects, if taken too far, the burden of debt repayment can overwhelm a country's finances, at worst leading to default.[1]

For the last three Financial Years (FYs), Uganda's budgets highlight huge payments to debt interest rates, taking a higher percentage, for instance, in the FY 2022/23, Statutory Interest Payments took UGX 4.6 Trillion (11.8 Percent) of the total budget (MoFPED, 2022) compared to other social development sectors like private sector development (5.1 percent) Agro-industrialization (4.5 percent), Regional Development. (3.6 percent) and water, climate change mitigation (2 percent),[2] This is evident that Uganda has a history of outstanding fiscal deficits and consequent debt burden coupled with limited resources allocated to social development.

Cognizant that Uganda is among the 39 Highly Indebted Poor Countries (HIPCs) a joint IMF–World Bank comprehensive approach to debt reduction, Uganda was the first country to receive a debt relief worth USD 650 million in the 1990s and later in 2006, under the Multilateral Debt Relief Initiative (MDRI), the country generously received 100 percent debt forgiveness which consequently reduced the stock of the country's debt to USD1.6 billion. However, the debt stock has kept on an extraordinary rise from UGX 15.8 trillion (USD 6.1billion) in 2013 to the current UGX 78.7 trillion (21billion) in July 2022. this trend was exacerbated by the Covid19

1 https://www.imf.org/en/Publications/fandd/issues/2020/09/what-is-debt-sustainability-basics

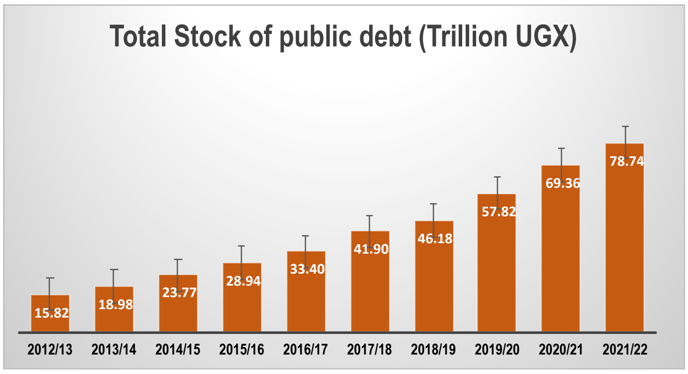
2 https://budget.finance.go.ug/sites/default/files/Nationalpercent20Budgetpercent20docs/FYpercent202022-23percent20Budgetpercent20Speech.pdf

pandemic which did not only increase public expenditure needs but also reduced the revenue collection potential of the government. The Debt is projected to continue increasing in the short and medium term given the robust NDP III core projects and priorities which are set to attract more borrowing and also the macro-Economic assumptions used in the FY 2022/23 Medium Term Debt Management Strategy highlight that the fiscal deficit is projected to remain above the target of 3.0% in contravention of the Charter of Fiscal Responsibility and the EAC convergence criteria thereby making Uganda's Public debt slowly start sliding back to the pre-relief state.

Debt and its implications to the growth of the economy

Uganda's increased public expenditure has led to sustained high levels of borrowing leading to a fast accumulation of public debt over the past years. In absolute terms, debt has risen by more than 100 percent in the last decade. Subsequently, the resulting rise in public debt will likely heighten the tension between meeting important development needs and containing debt vulnerabilities.

Figure 1: Illustrates the trend of Uganda's debt stock for the last decade (2013-2022).



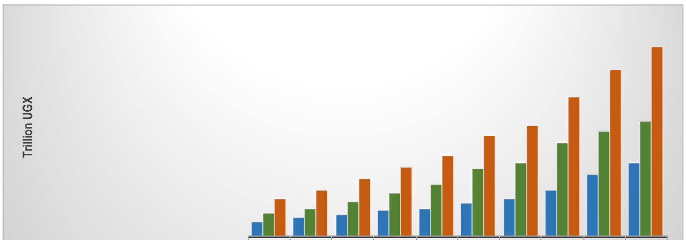
Source: Annual Debt Statistical Bulletins (MoFPED)

The total outstanding public debt stock stood at UGX 78.7 trillion (USD 21 Billion) as at the end of FY2021/22 compared to UGX 69.3 trillion (USD 19.5 Billion) at the end of FY2020/21. This reflects a 13.5 percent increment over the past financial year and more than a 100 percent increment over the period under review (FY2012/13 to FY2021/22). This projects a debt per capita of UGX 1.8 million, the total debt by the population showing how much each Ugandan citizen is owed per year.[3]

The above figure shows a progressive movement in the rise of Uganda's debt for the last decade. Much as the current public debt levels are still somewhat lower than the US$650 million debt that prompted the HIPC and MDRI intervention in the 1990s and later in 2006, the current rate of debt accumulation may accelerate the country into another debt crisis making it eligible for another special assistance in form of forgiveness.

More than half of the current outstanding debt is external (61percent) borrowed from outside the boundaries of Uganda. The World Bank defines External debt as that part of the total debt in a country that is owed to creditors outside the country. The debtors can be the government, corporations, or private households. The debt includes money owed to private commercial banks, other governments, or international financial institutions, on the other hand, Domestic Debt which stands at 39% is the amount of money raised by the government, in local currency and from its own residents.

Figure 2: Public Debt Portfolio from FY 2012/13 to FY 2021/22



	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Domestic Debt Stock (Trillion UGX)	5.96	7.80	9.24	10.90	11.49	13.58	15.52	19.02	25.61	30.65
External Debt stock (Trillion UGX)	9.85	11.18	14.53	18.05	21.90	28.32	30.67	38.79	43.75	48.09
Total Stock of public debt (Trillion UGX)	15.82	18.98	23.77	28.94	33.40	41.90	46.18	57.82	69.36	78.74

Source: Annual Debt Statistical Bulletins (MoFPED)

The above illustration shows a consistent increase in the total debt stock (Both Domestic &External) from FY 2012/13 to FY2021/22, with an average growth rate of 19.6 percent in the last ten years. The net increase in debt is due to increased borrowing from both domestic and external sources, a fact attributed to persistent budget deficits), debt rollover, new borrowings for various development projects, interest rate growth and, foreign exchange loss arising from the depreciation of Ugandan Shilling against stronger currencies.

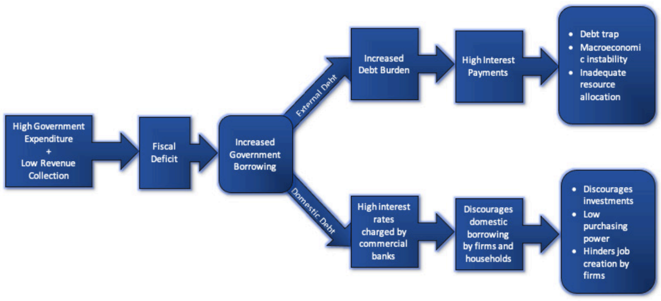
Uganda's increasing public debt may not only plunge the country into a debt trap but also directly affects the economic opportunities available to every Ugandan, for instance, if high levels of debt out crowd the private sector, workers would have less money to use in their businesses, which would translate to lower productivity and therefore, lower wages and low demand for quality goods and services.

In addition, high levels of debt would affect many other aspects of the economy in the future. For example, higher interest rates by commercial bank resulting from increased domestic borrowing would lead to fewer business opportunities stemming from the lower investment which would leave many citizens without a just source of income to keep up with the increasing demands in current unpredictable global economy. This will further push millions more into poverty while worsening inequality even further, affecting the most

3 The mid-year 2022 population projections used were accessed on https://www.ubos.org/uganda-profile/

vulnerable citizens in these challenging times.

Figure 3: The illustration below shows a summary of debt implications in an economy;



Author's Illustration

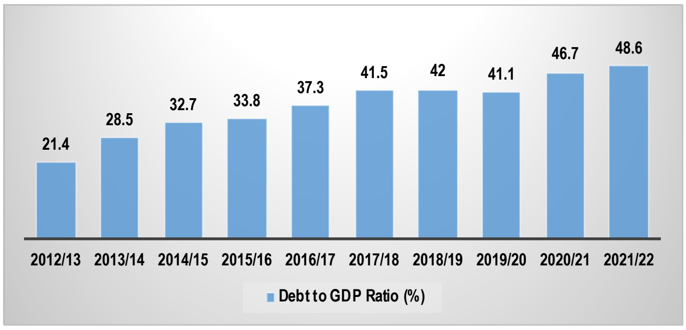
Slower economic growth, averaged at 4.9 percent in the period under review may generally enhance Uganda's fiscal deficit making it even wider, as lower incomes lead to lower tax revenue collections and put the National budget further out of balance.

Even though Uganda is nearly hitting the threshold for the most popular measure (debt to GDP Ratio) which is 50 percent, it should be noted that Uganda's risk of debt distress has graduated from low to medium risk of debt distress, other metrics include; Debt service to export ratio (12 percent), Debt service to revenue (31 percent) (World Bank,2022). Further still, the World bank's Uganda Economic update 2022 projects Debt to GDP ratio to reach 53.5.9percent in the FY 2023/24.

The debt-to-GDP ratio reliably indicates a country's ability to pay back its debts showing what a country owes vis-a-vis what it produces. In the FY 2021/22, Uganda's total public debt as a share of GDP stands at 48.6 percent (MoFPED 2022), with this ratio, the question of whether Uganda is fully able to finance its debt becomes inevitable. According to Recent Debt Sustainability Analysis December 2021, Uganda's debt is sustainable but at moderate risk of debt distress in the medium and long term. A country's public debt is considered sustainable if the government can meet all its current and payment obligations without exceptional financial assistance or going into default.

Additionally, more than a quarter (31percent) of Uganda's revenue goes to Debt Servicing (World Bank 2022) and debt takes the 1st call on resources implying for every UGX100 collected, UGX 31 goes to Debt servicing. This high debt servicing cost further reduces Uganda's fiscal space and ability to finance other social development sectors like health, education, water, climate change mitigation, and infrastructure developments leaving Ugandans at a possibility of increased poverty with little or no quality services in the long run. This further reduces governments' fiscal space and depletes vital foreign exchange earnings.

Figure 3: Trend of Uganda's Debt to GDP over the years.



Source: World Development Indicators (World Bank) and Annual Statistical Bulletin (MoFPED).

Conclusion and Recommendations

The increasing public debt exerts pressure on the country's revenue obligations. For instance, interest payments amounting to UGX 4.6 billion (11.8percent) of the total budget in FY 2022/23, High debt repayment reduces debt sustainability, from the observation above, increased accumulation of borrowed funds contradicts the benefit of borrowing which affects service delivery. Uganda is likely to have slower economic growth partly because increased debt accumulation together with poor utilization of borrowed adversely affects economic development.

The recommended policies are therefore geared toward the efficient use of borrowed funds because public debt used efficiently can leverage developments that have a high potential to unlock the production competences of the country and increase revenue collection efforts, these include;

- There is a need to focus on effective planning and implementation of the budget. To close the expenditure gap, the available fiscal space should not be used to cater for temporarily high government expenditures that are wasteful and unproductive. Having a clear direction for fiscal policy in adherence to the fiscal charter and Section 36 of the Public Finance Management Act (as amended) would benefit budget planning and execution.

- There is a need for the government of Uganda to institute mechanisms to ensure the efficient use of borrowed funds. Debt that finances productive social and infrastructure spending can lead to economic growth that may ultimately offset the cost of debt service and help balance the risks to debt sustainability.

- In order to mitigate the risks to the sustainability of our debt, Government should give priority to borrowing for growth-generating and welfare-enhancing sectors of the economy such as Agriculture and Health which will help foster higher and inclusive growth. This will in turn contribute to increased domestic revenue mobilization to repay the debt., consequently, reducing our reliance on debt in the future and bring the national budget to balance.

- Against the background of low tax revenues and increasing expenditure, Uganda Revenue Authority should fast-track efforts to raise revenue (tax to GDP ratio). When an economy collects enough revenue to service the debt, the debt service to revenue ratio goes down. Countries like USA and Japan have very huge debt-to-GDP ratios, but they are not considered to be in debt distress.
- The government through the parliament of Uganda should establish accountability through oversight systems and transparent decision-making while negotiating debt, this will enhance citizen participation, reduce corruption and bureaucratic red tape tendencies that lead to increased undisbursed debt and debt accumulation loopholes.
- The heightened accumulation of loans and grants in Uganda must be handled with ultimate transparency including a commitment by governments to release real-time data on old and new debt from all sources as required by the constitution. At the same time, the government should reveal all loan conditions including the required guarantees and collateral that put national assets at stake.
- The Ministry of Finance, Planning and Economic Development Should Fast track the disbursement of borrowed funds and monitor the utilization of the disbursed funds to ensure effective service delivery.
- Lastly, the Government through the Ministry of finance, planning and Economic Development should accelerate reforms aimed at improving the efficiency of public expenditure and augmenting support for export growth.

References

Annual Debt Statistical Bulletin and Public Debt Portfolio Analysis, MoFPED FY2012/13-2021/22

Debt Sustainability Analysis Report FY2020/21

Uganda Economic Update, 2022 19th Edition; Fiscal Sustainability through deeper reforms to Public Investment Management

Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—statistical update-IMF

World Development Indicators. (WDI),2021