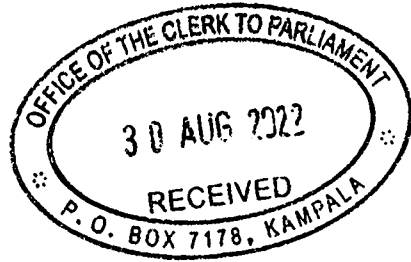




PARLIAMENT OF UGANDA



**REPORT OF THE COMMITTEE ON NATIONAL ECONOMY ON THE STATE OF
INDEBTEDNESS, GRANTS AND GUARANTEES AS AT DECEMBER 2021**

Office of the Clerk to Parliament
Parliament Building
Kampala

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1.0 INTRODUCTION

Pursuant to Article 159(4) of the Constitution of the Republic of Uganda, Section 13 of the Budget Act 2001, and Part IV Section 36, 39(4), 42(2) and 44(5) of the Public Finance Management Act, 2015 require the Executive to submit the status report on total indebtedness of government; all grants extended to government; guarantees on loans by government to private and public enterprises; and utilization of each loan and grant.

The Committee on National Economy exercised its mandate under Rule 178(2) (c), (d) and (f) of the Rules of Procedure to assess the state of indebtedness, grants, guarantees and performance of loans

1.1 Objectives of the Report

The overall objective of this report is to document critical information on the state of indebtedness as at December 2021. In particular, this report is intended to inform Parliament on the state of public debt and its sustainability.

Specific objectives of the Committee were to:

- i. To examine the country's state of indebtedness as at end of December 2021 and preliminary statistics at as June 2022;
- ii. To assess the overall performance of loans, grants and guarantees;
- iii. To assess the sustainability of the public debt stock as at end of FY 2020/21 over the medium to long-term horizons;

2.0 METHODOLOGY

a) Meetings

In consideration of this report, the Committee held meetings and received submission from;

- i. Ministry of Finance, Planning and Economic Development
- ii. Bank of Uganda
- iii. National Planning Authority
- iv. Uganda Debt Network
- v. Economic Policy Research Centre
- vi. Private Sector Foundation Uganda
- vii. Kampala City Traders Association

b) Documentary review

- i. Report on Public Debt, Grants and other Liabilities FY 2020/21 tabled by the Minister of Finance;
- ii. Report on Public Debt, Grants and other Liabilities FY 2021/22 tabled by the Minister of Finance;
- iii. Annual Budget Performance report FY 2020/2021 (MoFPED)
- iv. Tax Expenditure Report FY 2020/2021 (MoFPED)
- v. Debt Sustainability Analysis Report FY 2020/21
- vi. Report on State of Indebtedness at June 2021 by Parliamentary Budget Office
- vii. National Budget Framework Paper FY 2022/23
- viii. Charter of Fiscal Responsibility FY 2021/22 – 2025/2026
- ix. The Third National Development Plan (NDP111)
- x. Report of the Auditor General for the year ending 2021

3. THE CURRENT UGANDA'S STATE OF INDEBTEDNESS, FINANCIAL PERFORMANCE OF LOANS AND GUARANTEES AS AT JUNE 2022

3.1 Public Debt

Uganda's public debt stock increased by 22%, from UGX 56.938 trillion in FY 2019/20 to UGX 69.513 trillion (US\$ 19.54 billion) by end of FY 2020/21. Preliminary statistics received by the Committee indicate that by end of June 2022, total public debt stood at UGX 78.799 trillion (US \$ 20.98 billion), an increase by 13% from the June 2021 levels. This debt stock constitutes of UGX 48.136 trillion (US\$ 12.814billion) as external debt, while UGX 30.662 trillion (US\$ 8.162 billion) is domestic debt.

In terms of shares, external debt takes the largest share of total public debt at 61% while domestic debt is 39% of total public debt (Table 1).

Table 1: Stock of Public Debt at end Period

Category	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	Prel. June -22
Total Stock of Public Debt	29,689.9	34,005.3	41,837.8	46,729.9	56,938.0	69,512.5	78,799.1
External Debt (DOD)	18,077.2	21,940.4	28,281.8	30,703.5	38,689.8	44,061.4	48,137.5
Domestic Debt	11,612.7	12,064.9	13,556.0	16,026.4	18,248.1	25,451.1	30,661.6

Memorandum Items

Category	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	Prel. June -22
% share of External Debt	60.9%	64.5%	67.6%	65.7%	68.0%	63.4%	61.1%
As a Percentage of GDP							
Total Stock of Public Debt	29.7%	31.3%	34.7%	35.6%	40.8%	47.0%	48.6%
External Debt (DOD)	18.1%	20.2%	23.5%	23.4%	27.7%	29.8%	29.7%
Domestic Debt	11.6%	11.1%	11.3%	12.2%	13.1%	17.2%	18.9%
Annual Growth Rate							
Total Stock of Public Debt	22%	15%	23%	12%	22%	22%	13%
External Debt(DOD)	25%	21%	29%	9%	26%	14%	9%
Domestic Debt	16%	4%	12%	18%	14%	39%	20%
Real GDP Growth	4.8%	3.1%	6.3%	6.4%	3.0	3.5%	4.6%*
Nominal GDP in Bns	100,549	108,518	120,485	132,090	139,689	147,962	162,123*
End period Exchange rate	3,404.9	3,590.9	3,879.5	3,694.8	3,730.1	3,556.7	3,756.7

Source: MFPED, BOU, UBOS & PBO computations. Note: *GDP numbers are preliminary for FY 2021/22

From the table above, over the last five (5) years the stock of debt to GDP has consistently been on an upward trajectory, cumulatively increasing by 17percentage points from 30percent in FY 2015/16 to 47percent in FY 2020/21.

This trend has been attributed to the large investment in infrastructure and energy projects to stimulate Uganda's growth in line with the National Development Plan (NDP) and the need to finance Covid19 related expenditures.

Debt continues to rise as Government continues to increase public investment in infrastructure in preparation for oil production while at the same time increasing investments in other key sectors such notably agriculture, energy, education, water and environment and roads.

Public debt accumulation has continued to grow faster than economic growth. Whereas in FY 2020/21, the economy grew by 3percent, the public debt grew by 22percent on account of budget support loans acquired from the IMF and World Bank to support Government's response to COVID-19.

Consequently, nominal debt-to-GDP ratio grew from 40.76 % in the FY 2019/20 to 46.98% in the FY2020/21 while Present value of Debt-to-GDP increased from 33.1 percent in FY 2019/20 to 37.5 percent in FY 2020/21. During FY 2021/22, the economy is projected to grow by 4.6percent while public debt is projected to increase by 13percent, mostly on account of domestic borrowing that increased by 20percent.

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3.2 External Debt

Uganda's external debt exposure¹ grew by 16 percent from US\$ 15.7 billion in FY 2019/20 to US\$18.2 billion in the FY 2020/21. This was largely driven by disbursed and outstanding debt (DOD) that increased by 19percent, driven by the budget support disbursements which are disbursed in one financial year, unlike the project disbursement that are spread over a number of financial years, resulting in committed but undisbursed debt (CUD).

Similarly, there was an increase in committed but an undisbursed debt (CUD) during the financial year that increased by 11 percent from US\$ 5.3 billion in FY 2019/20 to US\$ 5.9 billion in FY 2020/21(Table 2 & Figure 1). This growth indicates slow implementation of some of the ongoing projects, non-disbursement of the loans as well as new commitments during the year which had not yet been disbursed by the end of the financial year.

However, preliminary statistics indicate that by June 2022, external debt exposure had reduced by 2percentage points as amortization (repayments of principal) of debt more than offset the new commitments undertaken from June 2021. In addition, there was no new external budget support loans acquired during the period which contributed to the reduction in external debt exposure.

2.1.1 External Debt Stock and Exposure

Table 2: External Debt Exposure (US\$, billion)

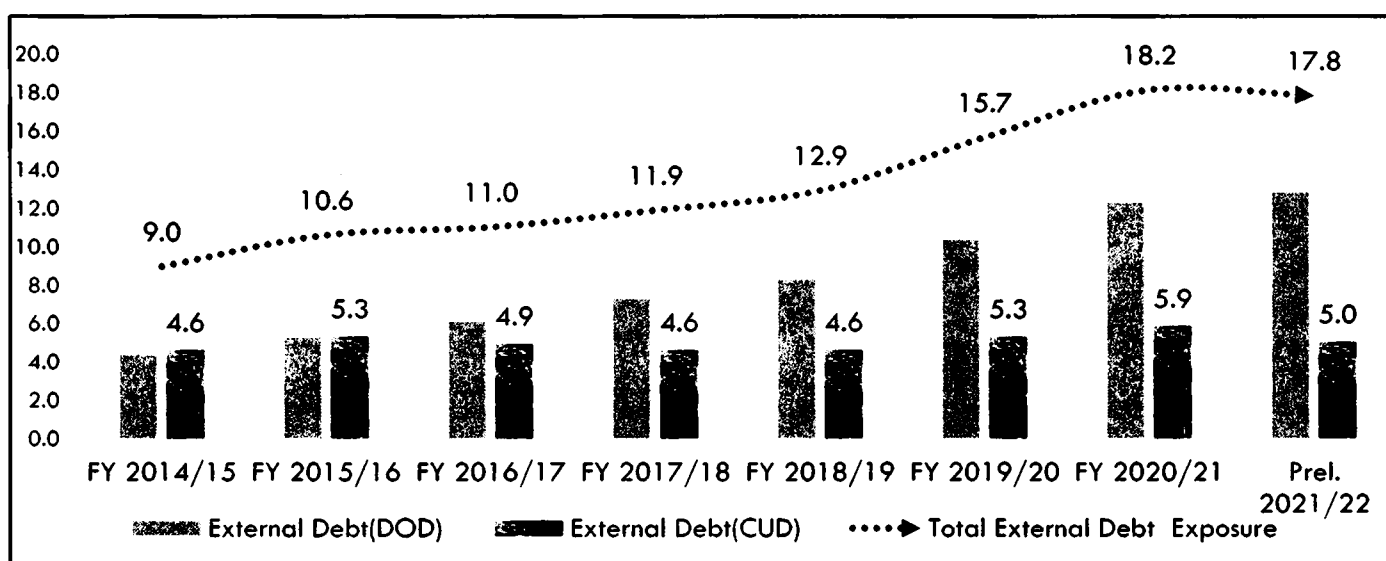
Category	June 2015	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021	Prel. June 2022
Total External Debt Exposure	9.0	10.6	11.0	11.9	12.9	15.7	18.2	17.8
External Debt (DOD)	4.4	5.3	6.1	7.3	8.3	10.4	12.4	12.9
External Debt (CUD)	4.6	5.3	4.9	4.6	4.6	5.3	5.9	5.0
% share of External Debt (DOD)	49%	50%	55%	61%	64%	66%	68%	72%
As a Percentage of GDP								
Total External Debt Exposure	33%	36%	37%	38%	36%	42%	44%	39%

¹ External debt exposure is a sum of committed and undisbursed debt(CUD) and disbursed and outstanding debt(DOD)

Category	June 2015	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021	Prel. June 2022
External Debt (DOD)	16%	18%	20%	23%	23%	28%	30%	28%
External Debt (CUD)	17%	18%	16%	15%	13%	14%	14%	11%
Annual Growth Rate								
Total External Debt Exposure	35%	18%	4%	8%	9%	21%	16%	-2%
External Debt (DOD)		21%	15%	19%	14%	25%	19%	4%
External Debt (CUD)		15%	-7%	-6%	0%	15%	11%	-14%
Nominal GDP (US\$, BNs)	27.62	29.40	30.22	31.04	35.57	37.45	41.60	45.71
E.O.P Exchange Rate	3301.8	3404.9	3590.9	3879.5	3694.8	3730.1	3556.7	3544.4

Source: MFPED, BOU, UBOS & PBO Computations

Figure1: Trend of Total External Debt Exposure in Billion US Dollars



Source: MFPED & PBO computations

As a share of GDP, total external debt exposure increased by 2 percentage points to 44 percent by end of June 2021. This was mostly driven by the increase in external debt disbursements that grew by 19 percentage points. Consequently, Disbursed and Outstanding (DOD) external debt in FY 2020/21 accounted for 68 percent of the total public external debt exposure, leaving 32 percent committed but undisbursed (CUD).

However, preliminary statistics indicate that external debt exposure as a share of GDP is projected to decline to 39 percent by end June 2022, mostly driven by a reduction in the share of Committed but Undisbursed debt, owing to the slow growth of new external debt acquired during FY 2021/22.

3.3 Composition of External Debt

Multilateral Creditors maintained the largest share of external debt in FY 2020/21 and the first half of FY 2021/22 (Table 3). Despite the drop in the share of external debt owed to multilateral creditors by 9 percentage points from 72 percent in June 2017 to 61 percent in December 2021, multilateral creditors continue to have the highest share in total external debt.

Table 3: Trend of External Debt (Disbursed and Outstanding) by Creditor.

Creditor type / Concessionality	Stock in Billion USD						Percentage Share					
	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	Dec-21	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	Dec-21
Multilateral Creditors	4.4	4.93	5.34	6.42	7.7	7.9	72%	68%	64%	62%	63%	61%
Major Multilaterals	3.9	4.25	4.63	4.96	5.79	6.7	64%	58%	56%	48%	47%	52%
Other Multilaterals	0.5	0.68	0.71	1.46	1.91	1.2	8%	9%	9%	14%	16%	9%
Bilateral Creditors	1.6	2.3	2.9	3.2	3.5	3.6	26%	32%	35%	31%	29%	28%
Non Paris Club	1.4	1.87	2.32	2.45	2.7	2.7	22%	26%	28%	24%	22%	21%
Paris Club	0.2	0.44	0.6	0.75	0.82	0.9	4%	6%	7%	7%	7%	7%
Private Banks	0.1	0.1	0.1	0.8	1.1	1.5	2%	1%	1%	7%	9%	11%
Other Financial Institutions	0.1	0.05	0.05	0.75	1.08	1.45	2%	1%	1%	7%	9%	11%
Total	6.1	7.3	8.3	10.4	12.3	13.0	100%	100%	100%	100%	100%	100%
o/w Concessional	4.5	5.0	5.4	6.3	7.1	7.3	74%	69%	65%	61%	58%	56%
o/w Semi Concessional	0.9	1.5	1.5	2.0	2.7	2.5	15%	21%	18%	19%	22%	19%
o/w Non Concessional	0.7	0.7	1.4	2.1	2.5	3.1	11%	10%	17%	20%	20%	24%

Source: MFPED & PBO Computations

Table 3, indicates that as the stock of external debt (DOD) was increasing, its composition by creditor over the years has been changing. Multi-lateral creditors maintained the largest share though it has declined over the years from over 70percent 4 years ago. The World Bank's International Development Association (IDA) recorded the highest share of multilateral debt at 57percent followed by African Development Fund (ADF) accounting for 19percent.

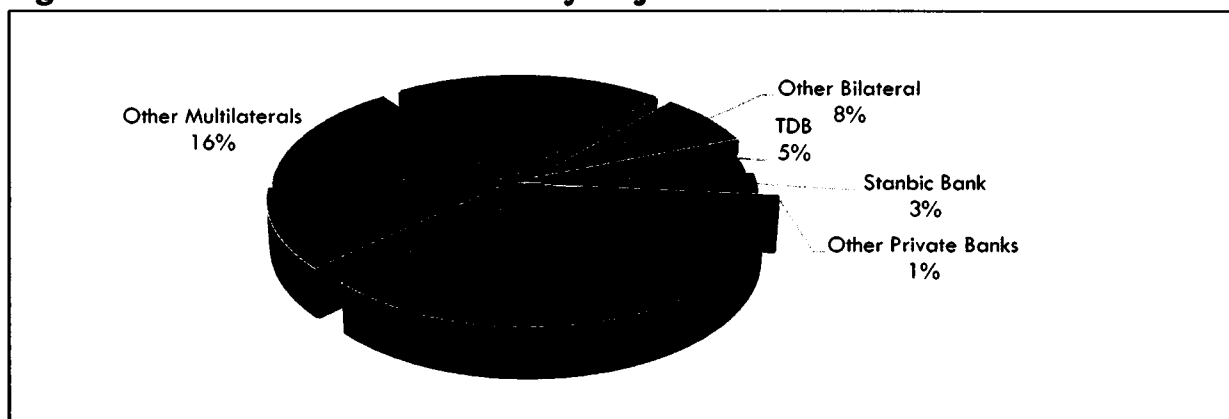
In addition, the share of debt owed to bilateral creditors in FY 2020/21 declined to 29 percent from 31 percent in FY 2019/20. EXIM Bank of China maintained the largest share of bilateral creditors accounting for 73.3 percent (US\$ 2.59 billion) of total bilateral debt as at June 2021. By December 2021, the share of debt owed to bilateral creditors had declined to 28percent.

Further, the share of debt owed to private banks increased from 7percent in June 2021 to 11 percent by December 2021. This is on account of Government recent

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borrowing from private banks for budget support. Trade Development Bank (TDB) recorded the highest share of debt owed to private banks accounting for 53percent as at June 2021.

Figure 2: Share DoD External Debt by Major Creditors



Source: MFPED and PBO Computations²

2.1.2 Performance of Loans and Grants

Table 4: Performance of External Resources in Billion UGX

Category	FY 2018/19			FY 2019/20			FY 2020/21			1st Half FY 2021/22		
	Budget	Actual	Perf	Budget	Actual	Perf	Budget	Actual	Perf	Program	Actual	Perf
Total External Resources	8,023.5	5,573.6	69%	10,108.8	7,799.6	77%	12,422.0	9,395.4	76%	4,154.4	3,563.8	86%
Total Grants	1,687.4	695.2	41%	1,900.0	788.2	41%	1,719.9	1,953.8	114%	891.7	370.1	42%
Budget support	101.7	88.5	87%	100.6	87.0	86%	133.6	628.6	470%	0.00	90.9	-
Project Support	1,585.6	606.7	38%	1,799.4	701.2	39%	1,586.3	1,325.2	84%	891.7	279.2	31%
Total loan disbursements	6,336.2	4,878.4	77%	8,208.8	7,011.4	85%	10,702.1	7,441.7	70%	3,262.7	3,193.8	98%
Budget support	187.3	188.3	101%	574.6	3,046.9	530%	2,773.1	3,322.2	120%	240.4	1534.3	638%
Project Support	6,148.9	4,690.1	76%	7,634.2	3,964.5	52%	7,929.0	4,119.5	52%	3,022.2	1659.5	55%

Source: MFPED and PBO Computations

Total foreign loan and grants disbursements increased by 20percent to UGX 9.395 trillion in FY 2020/21 from UGX 7.799 trillion during the FY2019/20. Despite of the increase, external resources performed at 76 percent of the expected disbursements mostly on account of the low performance of project support loans at 52 percent.

²Other Bilateral creditors comprise of Paris Club and non-paris club creditors, other Multilaterals comprise ADB, IDB, IMF, IFAD, OFID & EIB. Other Private Banks comprise standard Chartered Bank & Stanbic Bank, among others.

However, during the first half of FY 2021/22, total foreign aid performed at 86percent of the programmed levels, mostly due to the underperformance of project support grants (31%) and loans (55%) (Table 4).

Project based financing remained the major channel used to finance the country's development agenda as opposed to budget support. This also attests to the fact the foreign aid agencies are still opposed to budget support to finance the country's priorities.

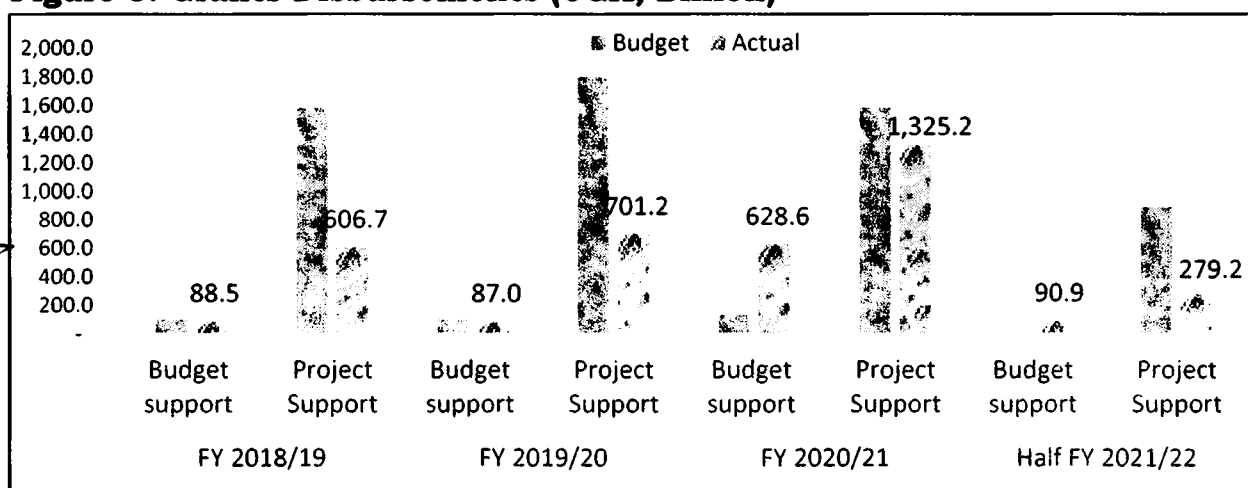
Grants have continued to have a small share of the national budget (20 percent), however, their performance significantly varies from the budgeted levels. Therefore, domestic revenue mobilization measures need to be enhanced since grants are unreliable (Table 4).

2.1.2.1 Grant Disbursements

During the FY 2020/21, total grants received increased by 148 percent to UGX 1,953.8 billion from UGX 788.2 billion in FY 2019/20. The contribution of grants disbursements to total foreign aid during the year was at 21percent above the target of 14percent. Project support grants performed at 84percent of the programmed levels for FY 2020/21 while budget support grants over performed at 470 percent (Figure 3).

Grant disbursements during the first half of FY 2021/22 performed at 42percent of the approved levels, this performance was mostly driven by the poor performance of project support grants (31%). Budget support grants realized UGX 90.9 billion from the European Union that came in earlier than expected.

Figure 3: Grants Disbursements (UGX, Billion)



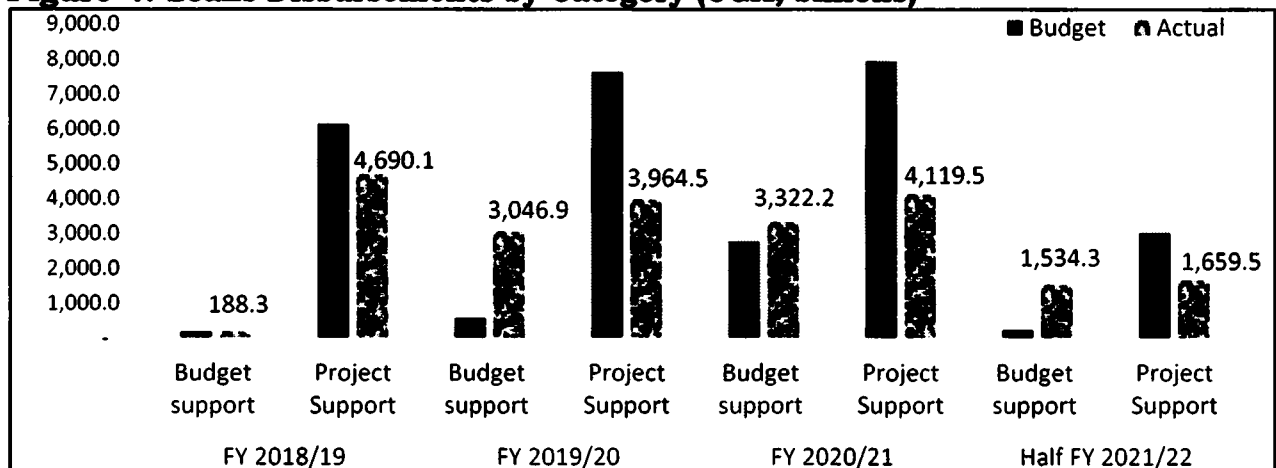
Source: MFPED & PBO Computation Note: For FY 2021/22, Budget is program.

2.1.2.2 Loan Disbursements

The total loans disbursed during FY 2020/21 amounted to UGX 7.442 trillion, against a budget of UGX 10.702 trillion representing a disbursement rate of 70 percent. This performance is largely attributed to the performance of Budget support Loan disbursements at 120 percent of the approved budget while project support loans performed at 52 percent during the year. Performance of loan disbursements during the first half of FY 2021/22 followed a similar trend (Figure 4).

The over performance of budget support loans was occasioned by the need to finance the revenue shortfalls and the COVID-19 containment related expenditures necessitated by the need for Government to mitigate the effects of the pandemic on the economy. On the other hand, under performance of the project support loans was attributed to absorption challenges amidst disruptions in the global demand and supply chains due to covid-19 shocks since 2020.

Figure 4: Loans Disbursements by Category (UGX, billions)



Source: MFPED & PBO Computations

2.2 Domestic Debt

Domestic borrowing is intended to; bridge Government financing gap, operation of monetary policy (Central Bank Capitalization) and development of the financial markets. Consequently, Government for purposes of fiscal policy, started issuance of Treasury Bills and Bonds in FY 2012/13 and since then, the stock of domestic debt has been accumulating.

The total stock of Domestic Debt increased by 39 percent, to UGX 25.451 trillion in FY 2020/21, from UGX 18.248 trillion in FY 2019/20. This was driven by an

increase in the stock of Treasury bonds by UGX 5.932 trillion (43%) and stock of Treasury bills that grew by UGX 1,270.7 billion (29%) in FY 2020/21. By December 2021, the stock of domestic debt had increased to UGX 27,773.9 Billion from the June 2021 levels (Table 5). The ratio of treasury bonds to treasury bills stood at 81percent to 19percent in December 2021. However preliminary outturns of June 2022 indicate that by the end of FY 2021/22, the ratio of treasury bonds to treasury bills debt stock had changed to 85percent to 15percent.

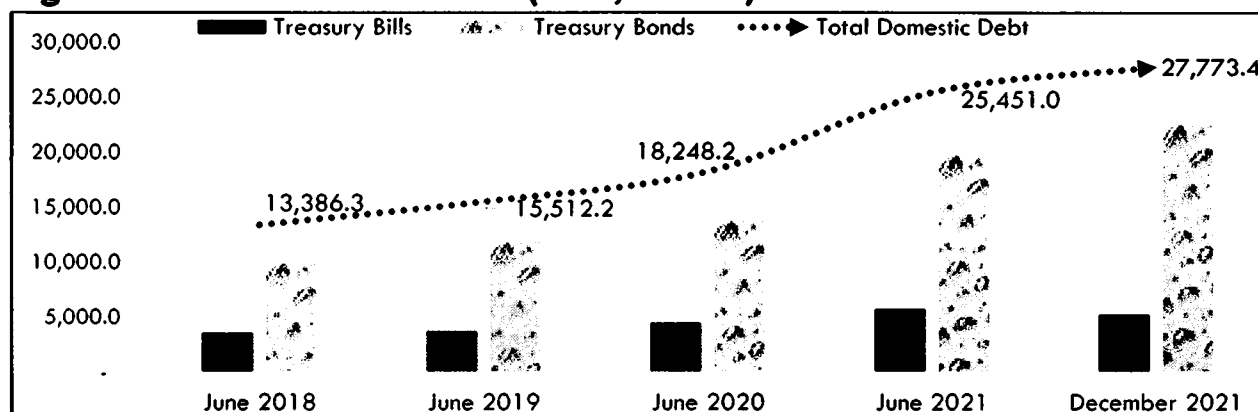
Table 5: Domestic Debt Stock by Holder

Instruments/Holder	Stock in Billion UGX					Percentage Share				
	Jun-18	Jun-19	Jun-20	Jun-21	Dec-21	Jun-18	Jun-19	Jun-20	Jun-21	Dec-21
Total Domestic Debt	13,386.3	15,512.2	18,248.2	25,451.0	27,773.4	100%	100%	100%	100.0%	100.0%
Treasury Bills	3,523.0	3,706.2	4,456.0	5,726.7	5,253.4	26%	24%	24%	22.5%	18.9%
Banks	2,801.4	2,966.1	3,612.4	4,527.8	4,077.0	21%	19%	20%	17.8%	14.7%
Pension and Provident Fun	191.5	146.9	205.1	68.9	53.0	1%	1%	1%	0.3%	0.2%
Other Financial Institutions	188.9	186.9	155.1	266.7	348.1	1%	1%	1%	1.0%	1.3%
Offshore Investors	0.2	8.9		340.4	-	0%	0%	0%	1.3%	0.0%
Insurance Companies	98.8	114.6	134.8	120.6	95.3	1%	1%	1%	0.5%	0.3%
Others	242.2	282.8	348.6	402.3	680.0	2%	2%	2%	1.6%	2.4%
Treasury Bonds	9,863.3	11,806.0	13,792.2	19,724.3	22,520.0	74%	76%	76%	77.5%	81.1%
Banks	2,740.5	3,341.9	3,745.9	5,179.4	6,283.7	20%	22%	21%	20.4%	22.6%
Pension and Provident Fun	5,386.3	6,366.8	7,176.4	8,753.8	8,763.8	40%	41%	39%	34.4%	31.6%
Other Financial Institutions	448.7	655.9	1,114.7	1,580.0	2,264.1	3%	4%	6%	6.2%	8.2%
Offshore Investors	937.7	828.7	1,125.5	2,367.2	2,519.0	7%	5%	6%	9.3%	9.1%
Insurance Companies	195.2	228.0	266.3	407.4	470.0	1%	1%	1%	1.6%	1.7%
Others	154.9	384.7	363.4	1,436.5	2,218.9	1%	2%	2%	5.6%	8.0%

Source: BOU, MFPED & PBO computations Note: domestic debt is at cost value

Banks maintained the largest share of Treasury bills accounting for 78 percent of the stock of the Treasury Bills and 37percent of the total stock of domestic debt. On the other hand, Pension and Provident Funds maintained the largest share of the stock of Treasury bonds followed by Banks and Offshore investors respectively (Table 5).

Figure 5: Domestic Debt stock (UGX, Billion)



Source: BoU & PBO Computations

2.3 Public Debt Service

Table 6: Public debt service, UGX, billion (unless specified)

Category	PDMF 2018 Threshold	FY 2017/18	FY 2018/19	FY 2019/20	Budget FY 2020/21	Outturn FY 2020/21	Perf. FY 2020/21	Budget FY 2021/22	Half outturn	Perf. H 1 FY 2021/22
Total Debt Service		7,735.9	8,330.3	9,388.4	12,699.7	12,082.4	95.1%	14872.2	6640.5	44.7%
External Debt Service		1,010.8	1,218.0	1,042.5	2,254.2	1,597.1	70.9%	3110.8	861.7	27.7%
o/w Principal		672.8	754.2	565.7	1,228.9	940.9	76.6%	1903.0	557.4	29.3%
o/w Interest		294.4	374.8	425.8	868.9	585.3	67.4%	1075.2	261.1	24.3%
o/w Fees		43.6	88.9	51.0	156.3	71.0	45.4%	132.5	43.2	32.6%
Domestic Debt Service		6,725.1	7,112.3	8,345.9	10,445.5	10,485.3	100.4%	11761.4	5778.8	49.1%
o/w Interest		1,936.3	1,875.2	2,335.7	2,959.4	3,065.7	103.6%	3374.4	1919.2	56.9%
o/w Redemptions		4,788.8	5,237.1	6,010.2	7,486.1	7,419.6	99.1%	8387.0	3859.6	46.0%
o/w Treasury bills		4,025.2	4,475.5	4,777.1	5,888.8	5,775.0	98.1%	7042.9	3874.8	55.0%
o/w Treasury bonds		2,699.9	2,636.8	3,568.8	4,556.8	4,710.3	103.4%	4718.5	1904.0	40.4%
Memorandum Items										
As a Share of Domestic Revenues										
Total Debt Service		53.0%	50.0%	54.3%	58.2%	60.9%	104.6%	66.3%	30.5%	46.0%
External Debt Service	35.0%	7.00%	7.30%	6.03%	10.34%	8.05%	77.9%	13.9%	4.0%	28.5%
Total interest	15.0%	15.40%	13.50%	15.98%	17.55%	18.40%	104.8%	19.8%	10.0%	50.5%
Domestic interest	12.5%	13.30%	11.30%	13.51%	13.57%	15.45%	113.9%	15.0%	8.8%	58.6%
Domestic Revenues		14,506.9	16,637.8	17,285.9	21,809.7	19,838.8	91.0%	22425	21,757.8	97.0%

Source: BOU, MFPED & PBO Computations³

In the last four years, the total public debt service has been rising, consistent with the public debt trends. In the FY 2020/21 debt service increased by 29 percent from UGX 9.388 trillion in FY 2019/20 to UGX 12.082 trillion, with

³ Note: Revenue for FY 2021/22 outturn is projected outturn for FY 2021/22

domestic debt service accounting for 87 percent while external is 13 percent. During the 1st half of FY 2021/22, total debt service had performed at 44.7 percent of the approved budget of UGX 14.872 trillion (Table 6).

External debt service comprising expenditure on principal, interest and other fees amounted to UGX 1.597 trillion in FY 2020/21, which translates into a performance of 70.9 percent of the budget. The performance was mostly driven by principal repayments (amortization) which performed at UGX 76.6 percent of the budgeted levels (UGX 1.229 billion). External interest payments performed 67.4 percent. However, the committee was informed that all debt service related costs for the financial year were paid and there are no arrears.

Expenditure on domestic debt service amounted to UGX 10.485 trillion performing at 100.4 percent of the programmed budget in FY 2020/21. This performance was driven by the redemptions of maturing debt (domestic debt refinancing) and expenditure on domestic interest rates that performed at 103.6 percent and 99 percent respectively. Otherwise, during FY 2020/21, domestic amortization performed within the budgeted levels while interest payments performed above the budgeted levels.

Total debt service as a share of domestic revenues performed at 104.6 percent of the budget, on account of shortfalls in domestic revenues that performed at 91 percent of the approved budget. However, Government has in the past relied on domestic debt refinancing for domestic debt amortization which comes with roll-over risks related to increased interest costs.

It should be noted that in FY 2020/21 the Public Debt Management Framework, 2018 thresholds on interest payments were breached, largely on account of covid-19 effects. If not checked, this poses liquidity risks especially as the country continues to acquire external debt on non-concessional terms occasioned by the need to finance the country's infrastructure programme and increasing domestic borrowing to finance the fiscal balance.

2.4 Contingent Liabilities

Contingent Liabilities oblige Government in future to make unexpected payments leading to fiscal risk exposure driving public debt on an unsustainable path.

Contingent liabilities are of two types: Explicit (e.g. Sovereign guarantees) and implicit contingent liabilities. Government issues guarantees to Government institutions and private companies. The management of debt resources is

entirely by the beneficiary institution. Government only maintains a monitoring role (it is public debt upon default).

Table 7: Exposure of Government Guarantees as at December 2021(US\$)

S/ N	Beneficiary	Creditor	Year	Tenure	Guaranteed Amount	Disbursed and outstanding (USD)			% D.O.D	Govt Exposure December 2021	Status
						Jun-20	Jun-21	Dec-21			
	Islamic										
1	University in IDB Uganda		2004	25	4,302,676	2,131,450	2,223,673	2,127,064	49%	348,368	In arrears
	Islamic										
2	University in IDB Uganda		2010	20	983,888	689,170	718,990	685,518	70%	72,773	In arrears
	Islamic										
3	University in IDB Uganda		2018	18	13,790,000	100,000	100,000	100,000	1%		Delayed Disbursement
4	UDBL	BADEA	2017	10	6,000,000	5,249,900	4,499,900	4,124,900	69%		Servicing-On schedule
5	UDBL	IDB	2017	8	10,000,000	2,304,716	1,975,380	1,863,382	19%		Servicing-On schedule
											On schedule-
6	UDBL	AfDB	2019	10	15,000,000	15,000,000	15,000,000	14,062,500	94%		Repayment started Aug 2021
7	UDBL	Exim India	2019	7	5,000,000	3,409,945	4,285,614	3,928,471	79%		On schedule
Total					55,076,564	28,885,181	28,803,557	26,891,835	49%	421,141	

Source: MFPED & PBO Computations

In FY 2020/21, the total value of Guarantees stood at US\$ 55 million and no new Guarantees have been issued since then. As a share of GDP, total Guarantees stood at 0.13 percent, which is well within the Public Debt Management Framework, 2018 threshold of 5 percent.

The rate of total disbursed and outstanding guarantees remained at 52percent, mostly driven by the arrears by Islamic University in Uganda (IUIU) on the 2004 and 2010 loans as well as the slow disbursement of the 2018 loan. These, all together offset the effect of debt servicing repayments made by Uganda Development Bank Limited (UDBL).

However, the total government exposure to the guarantees stood at US\$ 421 thousand as at December 2021, due to the arrears from IUIU, from zero recorded

at end June 2020.

Whereas the guarantees are on track in terms of servicing by Uganda Development Bank Limited, those to Islamic University from Islamic Development Bank were in arrears with slow disbursements as at end December 2021.

3. Cost and Risk Profile of Uganda's Debt

Uganda's external debt, which is 62percent of the total debt stock, largely comprises concessional loans characterized by long repayment periods and very low fixed interest rates. As such, developments in the overall risk and cost profile of the debt portfolio are mainly influenced by the external debt.

Table 8: Cost and Risk Indicators

Indicator	Jun-19			Jun-20			Jun-21			Dec-21		
	External	Domestic	Total	External	Domestic	Total	External	Domestic	Total	External	Domestic	Total
Interest payments as a % of GDP	0.4	1.9	2.3	0.6	1.8	2.4	0.4	2.4	2.8	0.5	2.6	3.1
Weighted Av. IR (%)	1.5	13.5	5.6	2.0	13.9	5.8	1.5	13.9	6.0	1.6	13.6	6.1
ATM (Years)	14.1	4.0	10.7	12.7	4.3	10.3	11.8	5.5	9.4	11.4	6.0	9.4
Debt maturing in 1 yr (% of total)	1.9	36.0	13.3	2.1	36.8	12.0	3.3	30.0	13.1	4.2	25.7	12.3
Debt maturing in 1 yr (% of GDP)	0.5	5.1	5.6	0.7	4.9	5.5	1.0	5.2	6.1	1.3	4.8	6.1
ATR (Years)	13.5	4.0	10.3	12.1	4.3	9.8	10.9	5.5	8.9	10.4	6.0	8.8
Debt refixing in 1yr (% of total)	11.1	36.0	19.5	16.3	36.8	22.2	21.4	30.0	24.6	24.2	25.7	24.8
Fixed rate debt (% of total)	90.6	100.0	93.8	83.6	100.0	89.6	80.9	100.0	87.9	78.3	100.0	86.5
FX debt (% of total debt)			66.4			68.0			63.2			62.2
ST FX debt (% of reserves)			4.7			6.5			9.8			12.5

Source: MFPED, BOU & PBO Computations

3.1 Cost of Debt

The cost of debt increased during the past financial year. Interest Payment as a percentage of GDP rose to 3.1 percent in December 2021 from 2.8 percent as at end June 2021, which was higher than its level of 2.2 percent at end June 2020. This implies that interest payments have increased, relative to income of the country.

In addition, there was a marginal increase in the weighted average interest rate of Government debt; from 5.4percent to 6.0percent in June 2021 and, 6.1percent in December 2021. This is mostly driven by the increase in external debt interest costs on account of increased government non-concessional debt acquisition in the recent past, notwithstanding the fact that the debt portfolio is still concessional dominant.

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3.2 Refinancing Risks⁴

The Average Time to Maturity (ATM)⁵ for total public debt declined to 9.6 years from 10.3 years between June 2021 and June 2020. This was mainly driven by a reduction in the ATM of external debt declined from 12.9 years at June 2020 to 11.8 years at June 2021, as Government continues to take on less concessional debt with shorter maturities. On the other hand, an increase in the ATM for domestic debt is due to longer term issuances, as the 20-year Treasury bond was introduced during the FY 2020/21.

The debt maturing in one year as percentage of total debt improved from 13.1 percent June 2020 to 12.5 percent in June 2021 while the debt maturing in year as a percentage of GDP worsened from 5.5 percent in June 2020 to 6.1 percent in June 2021. This was driven by increase in domestic and external debt maturing in one year, which reflects a higher size of debt-to-GDP maturing in one year, and hence the financing need required in the next financial year.

Despite the improvements in contracting domestic debt of longer term maturity, Uganda still has a very high percentage of its domestic debt maturing in one year, exposing the country to significant refinancing risks.

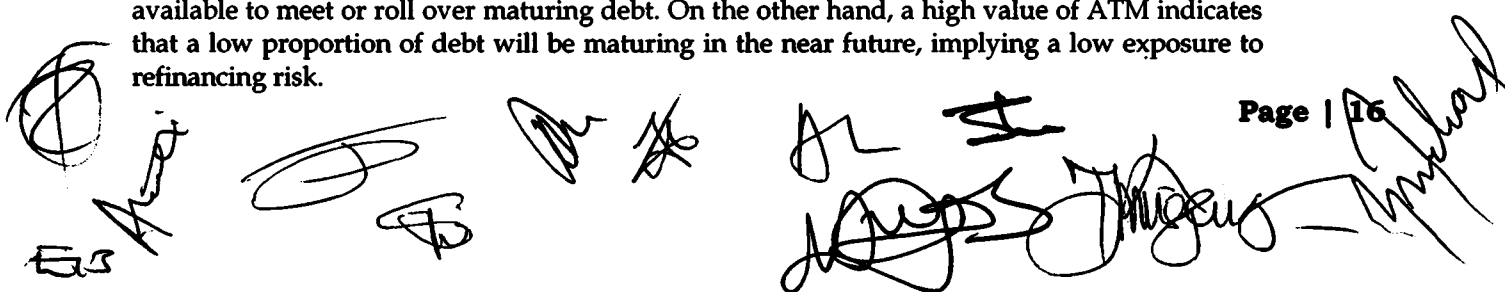
3.3 Interest Rate Risks

Average Time to Re-fixing (ATR) is the average time required to reset the interest rate for the debt portfolio, and indicates the exposure of the debt portfolio to changes in interest rates. This indicator suggests increased exposure to interest rate risks for the aggregated portfolio. The risk is high for domestic debt given the largely short term nature of debt instruments requiring earlier interest re-fixing at interest rates that are likely to be higher.

The ATR for the public debt decreased from 9.9 years to 9.2 years between June 2020 and June 2021, as Government acquired more variable loans during the year. This decline was driven by both the external and domestic debt portfolio whose ATR declined by 1.2 years each. This implies that Government's debt on average will be subjected to changes in interest rates in a shorter period as compared to the previous year, and thus increase the cost of interest payments in the budget.

⁴Refinancing risk is the possibility of having the debt to be rolled over at a higher interest rate.

⁵ATM gives information on how long it takes on average to rollover or refinance the debt portfolio. Low value of ATM indicates that a high share of debt will be due for payment or roll over in the near future. Implying a substantial exposure to refinancing risk if resources are not available to meet or roll over maturing debt. On the other hand, a high value of ATM indicates that a low proportion of debt will be maturing in the near future, implying a low exposure to refinancing risk.

The bottom of the page features several handwritten signatures and initials in black ink. On the left, there is a circular stamp with a cross inside, and the letters 'ES' written below it. To the right of this, there are several sets of initials and full signatures, including one that appears to be 'J. N. S.' and another that is more stylized and cursive. The signatures are spread across the bottom of the page, partially overlapping the footer text.

The debt portfolio is still less vulnerable to interest rate risk volatility as the portfolio is predominately made up of fixed rate debt. However, external debt is starting to show signs of interest rate risk as non-concessional debt is based on varying international interest rates.

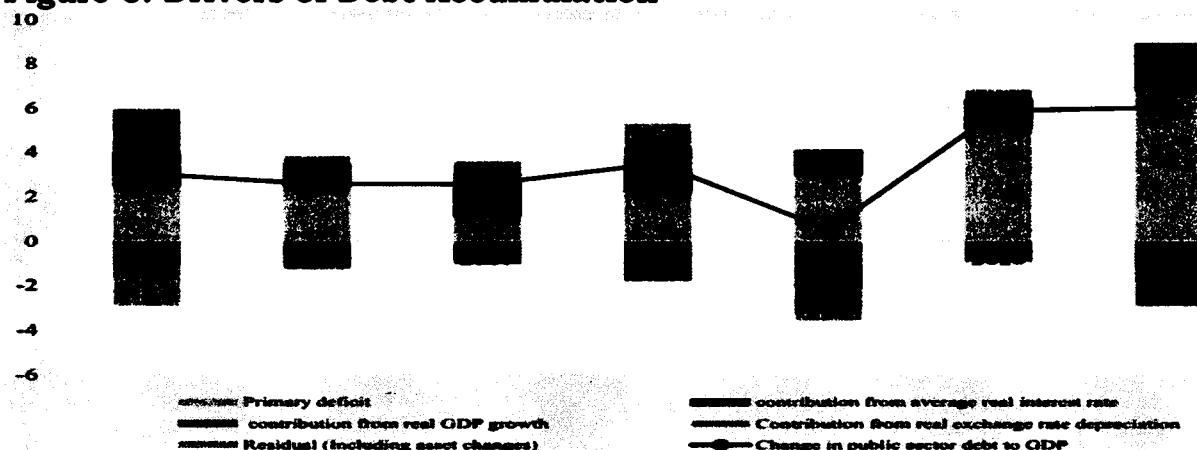
3.4 Foreign Exchange Risks

The share of external debt (foreign currency denominated debt) to total debt decreased to 63.2 percent in June 2021 from 67.5 percent in June 2020. This implies increased exposure to changes in exchange rates which could increase debt service costs.

Similarly, the short-term foreign debt to reserves, which measures the liquidity risk international reserves will be subjected to in meeting short term external debt liabilities, has increased from 6.5 percent to 9.8 percent, implying that government increased external short term debt liquidity risks during the year under review.

4. Drivers of Debt Accumulation

Figure 6: Drivers of Debt Accumulation



Source: MFPED

The primary deficit has been the major driver of the increase in Uganda's debt over the last five years (Figure 6). This is consistent with the Government plan of frontloading infrastructure to enhance the country's productive capacity as envisaged in the National Development Plan and Vision 2040.

Specifically, in FY 2020/21, the increase in public debt as a share of GDP by 5.7 percentage points was driven by both the infrastructure investments as well as Government's response to the COVID-19 pandemic that widened the deficit. In addition, average real interest rate has also contributed to growth in public

debt. This is on account of Government contracting more of non-concessional external debt albeit at a higher cost.

Otherwise, real GDP growth has been the main mitigating factor of debt growth. With covid-19 shocks weighing on growth there is reason to worry about debt accumulation and its attendant effects of the economy. For debt to remain sustainable, real GDP growth rate must exceed the average interest rate on Government Debt.

5. Debt Sustainability for Uganda as at June 2021

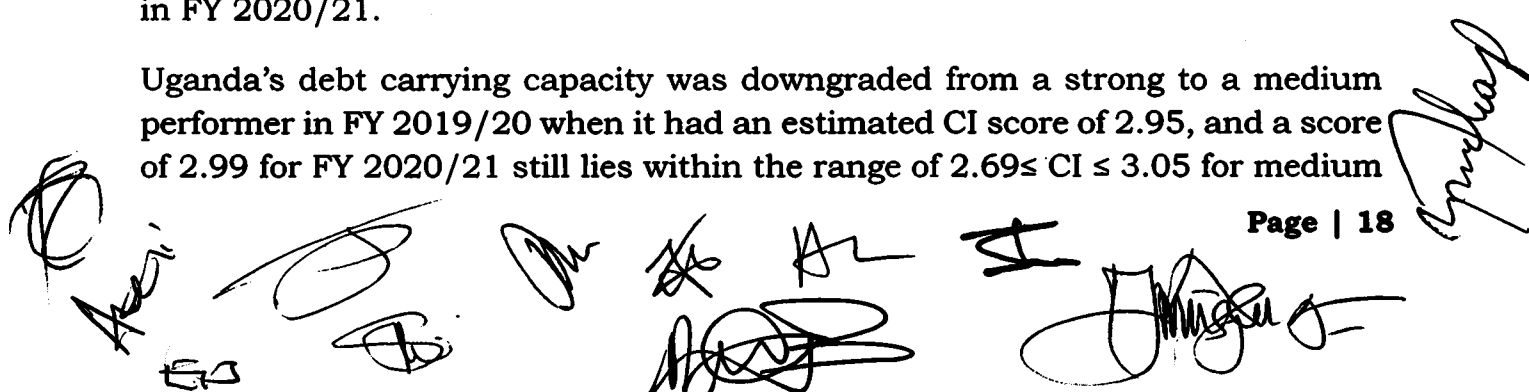
A Debt Sustainability Analysis (DSA) allows a country to assess its future debt sustainability, based on the current level of debt and prospective borrowing in the medium to long-term. The DSA examines key ratios of the country's debt stock in both nominal and present value terms as well as debt service-to- GDP, debt service-to-exports and debt service-to-domestic revenue.

- Debt is sustainable if an economy does not in future need to; default or renegotiate its debt or make unlikely large policy adjustments that may create unstable situations in the economy. Therefore, a country has to ensure that the rate at which her debt accumulates is lower than the rate at which her capacity to service debt grows.

Countries differ significantly in their ability to carry debt, depending on their policy and institutional strengths; macroeconomic performance; and buffers to absorb shocks. The Low Income Country Debt Sustainability Framework (LIC-DSF) uses the Composite Indicator (CI) to determine each country's debt - carrying capacity. The CI is computed using country specific information, specifically: Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, international reserves and world growth.

Based on this approach, given the recent COVID-19 global pandemic which has had devastating effects on the country's real GDP growth (reduced from 6.8 percent in FY2018/19 to 3.4 percent in FY2020/21), world economic growth (was estimated to be minus 3.11percent for 2020, and projected to be 5.88percent in 2021 according to the IMF), as well as reduced remittances to the country, the country's debt carrying capacity had an estimated CI score of 2.99 in FY 2020/21.

Uganda's debt carrying capacity was downgraded from a strong to a medium performer in FY 2019/20 when it had an estimated CI score of 2.95, and a score of 2.99 for FY 2020/21 still lies within the range of $2.69 \leq CI \leq 3.05$ for medium

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performers. Consequently, the reclassification of Uganda's debt - carrying capacity from a strong to a medium performer implies that the country's debt level is now assessed against lower thresholds than previously.

The Debt Sustainability Analysis was based on a number of assumptions which include the following among others indicated in the Annex:

Real GDP is projected to expand by 3.8percent in FY 2021/22 then increase to an average of 6percent in the medium term; Revenue Collections improve on average by 0.5percent of GDP over the medium term due to the implementation of the Domestic Revenue Mobilization Strategy and oil revenues to be realized starting in FY 2024/25; the primary fiscal deficit is projected to decline over the medium term as domestic revenues increase with Oil revenues coming on board and the infrastructure projects are completed; Financing of the fiscal deficit shall mostly be from external sources due to the high costs associated with domestic debt; Government shall continue to prioritize concessional financing as the preferred means of meeting external financing requirements and; Growth in export volumes is based on real growth rates of the relevant sub-sectors and exports of services are projected to grow in line with GDP of the advanced economies in the medium term.

5.1 Public Debt Sustainability

Total public debt-to-GDP trajectories under the baseline⁶ remain below the indicative thresholds of both the Public Debt Management and other liabilities Framework FY 2018/19-FY 2022/23 (PDMF) and the Low Income Debt Sustainability Framework (LIC-DSF) (Table 9). Therefore, Uganda's Public debt remains sustainable over the medium to long term. However, it is vulnerable to risks especially shocks that dampen exports.



⁶Baseline represents the most likely scenario under the current policies and given present information balanced with relative risks.

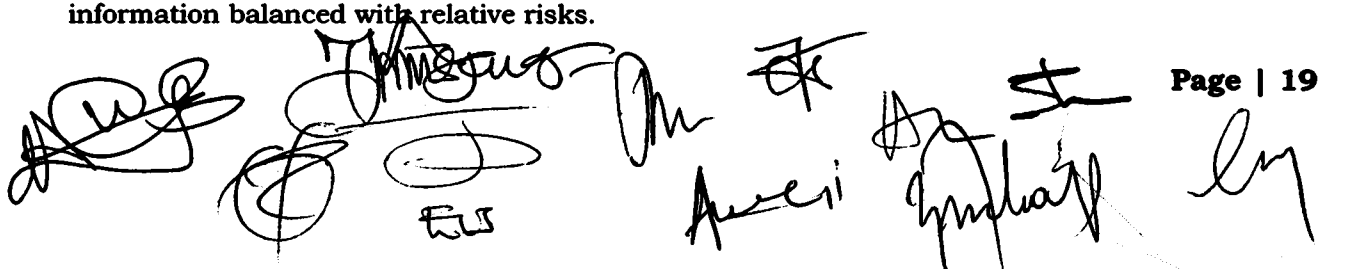


Table 9: Public Debt Sustainability

Indicator	PDMF 2018 Threshold or (LIC DSF Threshold)	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	Medium Term Average
Norminal Debt to GDP		35.1	41.0	47.0	51.6	52.9	51.6	49.9	46.4	42.0	50.5
o/w external		23.4	27.9	29.8	33.1	33.7	33.1	32.4	31.6	31.2	32.8
o/w Domestic		11.7	13.1	17.2	18.5	19.2	18.5	17.5	14.8	10.8	17.7
PV of Debt to GDP	50 (55)	26.7	31.8	37.5	41.6	42.9	41.9	40.7	37.7	33.6	41.0
o/w external	30 (40)	18.8	18.8	20.9	23.1	23.6	23.4	23.2	22.9	22.7	23.2
o/w Domestic	20	7.9	13.0	16.6	18.5	19.3	18.5	17.5	14.8	10.9	17.7
PV of Public Debt to Revenue			239.4	254.7	282	293.1	276.7	260.4	214.8	181.5	265.4
Debt Service to Revenue		51.1	52.4	59.3	56.9	54.9	53.3	45.9	36.5	30.8	49.5

Source: MFPED, BOU & PBO computations

From the above table, the nominal public sector debt is projected to increase from 47percent of GDP in 2020/21 to 51.6percent in FY 2021/22 and continue rising before declining starting in FY 2023/24 (Table 9). This increase is mostly driven by external debt, which increases from 29.8percent in FY2020/21 to peak at 33.7percent in FY 2022/23, due to the increased debt acquisition to implement the country's investment program.

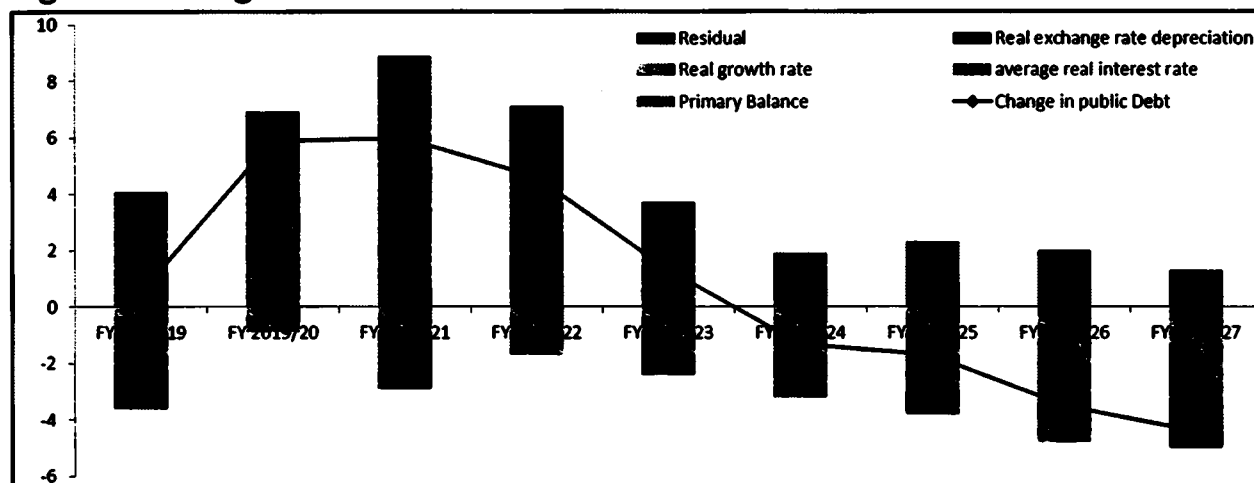
The Present Value (PV) of public sector debt-to-GDP is projected to increase from 37.5percent in FY 2020/21 to 41.6percent in FY 2021/22 due to the stimulus package to support economic recovery, and then peak at 42.9percent in FY 2022/23 before declining in the long term premised on oil revenue receipts among others.

Based on the low income countries, Debt Sustainability Framework threshold for public Debt and External debt, the residual of 15percent would be implied as the threshold for domestic debt. In that spirit, then the domestic debt-to-GDP ratio needs to be brought down in the medium term through lower borrowing from the domestic market than planned in the medium term.

The growth in public debt is projected to be driven by the primary balance in the current financial year and, the growth rate is projected to decline. As the primary balance declines, resulting from fiscal consolidation starting in FY 2022/23 and, further improve to a surplus with the onset of oil revenues among

others.

Figure 7: Change in Public Debt with the drivers in the medium term



Source: BoU, MFPED & PBO Computations

On the other hand, real GDP growth is projected to be the main mitigating factor to the growth in public debt, implying any shocks that dampen real economic growth will negatively impact on the projected trend of growth in debt.

Debt service-to-revenue is projected to gradually decrease over the medium term from 59percent in FY 2020/21 to 31percent in FY 2026/27 and further decline in the long term. An increase in this ratio reduces the discretionary budget available in the budget for service delivery, which has potential to affect the rate of economic growth. Consequently, debt service-to-revenue is emerging as the key constraining factor in the short to medium term.

The driver of growth in the debt service-to-revenue ratio in the medium term is increased domestic borrowing as well as borrowing on non-concessional terms both associated with higher interest rates and short maturities as opposed to lending by Multilateral and most bilateral creditors.

5.2 External Debt Sustainability

Table10: External Debt Sustainability Assessment

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Indicator	PDMF 2018										Medium
	Threshold or (LIC DSF Threshold)	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	Term Average
Solvency Ratios											
PV of External Debt to GDP	30 (40)	18.8	18.8	20.9	23.1	23.6	23.4	23.2	22.9	22.7	23.2
PV of External Debt to Exports	150 (180)	89.8	125.8	124.9	142	145.1	145	148.9	139.1	131.3	144.0
Liquidity Ratios											
External Debt Service to Exports	25 (15)	8	7.8	10	7.9	11.2	11.1	11	12.2	11.4	10.7
External Debt Service to Domestic Reven	35 (18)	11.5	9.2	12.5	9.5	12.9	12.1	11.2	11.6	10.7	11.5

Source: MFPED, BOU and PBO Computations

Generally, the evolution of external Government debt burden indicators points to a sustainable path, although there are risks emanating from the exports side (Table 10). External debt is projected to increase in the medium term, as Government implements key infrastructure projects in line with the National Development plan. The rate of external debt accumulation is projected to decline after the medium term as GDP growth returns to its potential causing a bigger effect in reducing debt.

The PV of external debt-to-GDP is projected to remain within the thresholds of the PDMF and the LIC-DSF, increasing from 20.9percent in FY 2020/21 to peak at 23.6percent in FY 2022/23 and decline thereafter (Table 10). However, the PV of external debt-to-Exports is projected to grow over the medium term and peak in FY 2024/25 very close to the Public Debt Management Framework thresholds, signaling risks to debt sustainability. This ratio is breached when exports dampen. This implies an increase in the risk of external debt distress, in the event of an economic shock that would dampen export growth.

Therefore, since over 60percent of the public debt is external, there is need for Government to strengthen the efforts towards export promotion so as to boost the country's foreign exchange reserves for foreign exchange required to service the external debt.

With regard to Liquidity, external debt service-to-exports is projected to increase over the medium term but remain within the Public Debt Management Framework thresholds as well as the LIC DSF threshold of 15percent for countries with a medium debt carrying capacity. However, it's vulnerable to shocks which dampen exports. This implies that while there are low risks to liquidity in the short term, given the large amount of concessional loans in the debt portfolio, liquidity risks increase with slower export growth and contraction

of non-concessional loans associated with shorter maturity periods and higher interest rates.

On the other hand, the external debt service to domestic revenue peaks at 12.9percent in FY 2022/23 below the indicative threshold of 18percent for countries with medium debt carrying capacity. The increase in this ratio implies that Government revenues are increasingly being used to service debt, which has a first call on resources, leaving fewer resources for service delivery.

5.3 Uganda's Overall Risk Rating

Uganda's public debt deteriorated from low risk of public debt distress to Moderate risk of Public Debt Distress in FY 2019/20, and maintained the moderate risk rating in FY 2020/21. This is arising from the external debt that has a moderate risk of debt distress. Therefore, the country is now faced with increased risk of debt distress when compared to three years back.

5.4 Domestic Debt Sustainability Indicators

Domestic debt benchmark indicators are based on the Public Debt Management and other liabilities Framework FY 2018/19-FY 2022/23 (PDMF 2018) as well as the charter for Fiscal Responsibility FY 2021/22-FY 2025/26.

Table 11: Domestic Debt Sustainability Benchmarks

Category	PDMF 2018 Threshold	Actual			Projections				
		FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	2024/25	FY 2025/26
PV of Domestic Debt to GDP	<15	7.9	13	16.6	18.5	19.3	18.5	17.5	14.8
Domestic Interest Cost to Domestic Revenue	<12.5	11.3	13.5	15.3	17.7	18.7	14.3	12.0	10.5
Domestic Interest Cost to Total Expenditure	<10	7.7	8.2	8.6	10.8	13.1	11.3	9.6	9.0

Source: BOU, MFPED and PBO Computations

The Present Value of domestic debt-to-GDP ratio increased by 28percent from 13percent in June 2020 to 16.6percent in June 2021 (Table 11). This implies that the domestic debt stock relative to the country's income is on the rise and is expected to exceed the benchmark for domestic debt sustainability in the Public Debt Management Framework that sets a threshold of 15percent under the domestic debt sustainability thresholds.

The ratio of Domestic interest cost to revenue (excl. grants) has increased by

2.2percentage points from 13.5percent in FY 2019/20 to 15.3percent in FY 2020/21 exceeding the Public Debt Management Framework threshold of 12.5percent and is projected to further move way during the medium term before declining close to the threshold in FY 2024/25. This implies that Government is spending more revenues on domestic debt service at the cost of service delivery and therefore, less discretionary budget is available for expenditure in other critical areas. Therefore, there is need for Government to ensure that this ratio is brought to perform within the thresholds of the charter of Fiscal Responsibility, as the projected path for domestic debt to revenue is contrary to that in the charter.

The ratio of domestic interest on Government expenditure is projected to increase and breach the threshold of 10percent in the short to medium term, exceeding it by 3.1percentage points (3.1%) in FY 2022/23 before declining thereafter. This implies that the share of domestic debt service is projected to account for a large share of Government expenditure at the cost of service delivery, more than envisaged in the debt management strategy and the charter of fiscal responsibility for FY 2021/22 – FY 2025/26.

6. OBSERVATIONS AND RECOMMENDATIONS

6.1 Need to commit to fiscal consolidation over the medium term

The Primary deficit remains the main driver of the fiscal deficit and accumulation of public debt, and in the medium term, the growth rate is projected to decline as the primary balance declines with the onset of oil revenues among others. This implies that in the short term, efficiencies in Government that lead to reduction in expenditure, as well reduction in the number of projects will reduce on the speed of acquisition of debt, as Government spends within its available revenues and grants.

The Committee observed that Government indicated in the National Budget framework paper FY 2022/23-FY 2026/27 that, the budget for FY 2022/23 was UGX 43 trillion but introduced a draft budget for FY 2022/23 amounting to UGX 47 trillion and the final budget was UGX 48 trillion. Consequently, the fiscal deficit to GDP widened from 4.7percent during NBFP to 5.1percent in the budget, suggesting a diversion from the fiscal consolidation path. Consequently, nominal debt to GDP was projected at 52.9percent in the NBFP, consistent with the charter of fiscal responsibility, but the draft budget brought it to 53.9percent, above the charter threshold of 53.1 for FY 2022/23.

Maintaining public debt on a sustainable path will require adherence to budget

discipline throughout the budget process while comprehensively monitoring possible fiscal risks.

The Committee recommends that Government should remain committed to fiscal consolidation aimed at eliminating any duplications and inefficient expenditures as a means of freeing up resources to more productive areas.

In addition, Government should consider urgently sequencing new projects in the medium term and spread some projects or programs to after FY 2023/24 as a measure of improving on public debt sustainability.

6.2 Declining Concessionality of External Debt

The Committee observed that the share of concessional loans dropped by 18percentage points in the past five years from 74percent as at end of June 2017 to 58 percent as at December 2021 while, that of non-concessional loans increased from 11percent to 24percent during the same period(Table 3) .

The Committee was informed that the shift in the sources of finance was dictated upon by the need for government to channel resources towards infrastructure development especially in the oil and gas industry; energy and roads sector-as well as provide an economic stimulus to mitigate the effects of the COVID-19 pandemic.

It's important to note that, concessional financing under the traditional lenders is geared towards social sectors than infrastructural sectors, although some few offer budget support. This has exposed budget support loans and those for projects in other sectors to be obtained at very expensive terms, and in the alternative, the more expensive domestic borrowing.

The Committee further observed that as a country attains a middle income status, it will have less access to concessional borrowing, which is cheaper when compared to market rates. Although, there are many terms and conditions associated with concessional lending, which often takes a longer process to acquire the funds in time, its offers a cheaper source of financing.

The budgets are approved with a resource envelope, however during implementation, the creditors are identified and, then loan terms submitted to Parliament later for approval, sometimes as late as third quarter. Many times the terms are unfavorable especially non concessional terms for budget support loans, but then the budget would have already been approved, leading to approval of the loans at expensive terms given the absence of timely alternatives, and a rejection would imply failure to finance the already approved budget.

The Committee noted that although the Minister of Finance has been complying

with Section 13(10)(a)(ii and iii) which requires informing Parliament on the plans for both domestic and external financing, he has not been availing information relating to the terms and conditions of the proposed borrowing.

The Committee recommends that Government explores mechanisms for early sourcing and utilizing the available concessional windows for external borrowing, which remains a cheaper option compared to non-concessional financing, for the remaining period when the country can access concessional financing.

In addition, non-concessional borrowing should apply to projects that are financially and economically viable, and with rates of return higher than the finance cost of the loan (an economic rate greater than the interest rate charged), in line with Public Debt and other Financial Liabilities Management Framework FY2018/19-FY2022/23.

Further, the Minister responsible for Finance should at the time of submission of the national budget to Parliament, present the new borrowings with the respective creditors and their financing terms for approval just as the case with tax bills.

6.3 Slow Growth in Private Sector Credit

The Committee observed that the trend of domestic borrowing has been high in the recent past from UGX 1,795 billion in FY 2017/18 to UGX 2,163 billion in FY 2018/19 to UGX 2,570 in FY 2019/20 and UGX 6,318 billion so far approved for FY 2020/21 as Government seeks to provide an economic stimulus to address the effects of the COVID-19 pandemic. In FY 2021/22, the approved budget had domestic borrowing of UGX 2,943 billion and that of FY 2022/23 is UGX 4,965 billion.

During the same period annual average growth in private sector credit (PSC) increased from 6.8percent in FY 2017/18 to 12.6percent in FY 2018/19, 11.6 percent in FY 2019/20, 6.7percent in FY 2020/21 and 11.7 percent in FY 2021/22.

Consequently, the ratio of domestic debt stock to PSC has increased from 95.7percent in FY 2016/17 to 99.9percent in FY 2017/18 to 102.8 in FY 2018/19 to 110percent in FY 2019/20 to 148percent in FY 2020/21. The performance is above 75percent recommended in NDPIII and the previous debt framework (PDMF, 2013), to ensure that domestic borrowing does not crowd out the private sector. The effect of this that the private sector is outcompeted in the domestic money market by increased Government borrowing.

The Committee recommends that Government reduces on domestic borrowing, to slow down the ratio of domestic debt to private sector credit. This will ensure that domestic borrowing does not crowd out the private sector growth.

6.4 Domestic Arrears on the Rise

The Public Debt and other Financial Liabilities Management Framework FY2018/19-FY2022/23 developed a strategy to liquidate the then existing stock of domestic arrears in FY 2018/19, that stood at UGX 2.9 trillion. The strategy included among others annual allocations of UGX 600 billion from FY 2019/20 to FY 2022/23, however this strategy was never fully implemented and instead the stock of domestic arrears has been on the rise. In FY 2020/21, total expenditure on domestic arrears was UGX 844 billion, the budget of FY 2021/22 had an approved budget of UGX 400 billion, and the budget for FY 2022/23 had a proposed allocation of UGX 697.95 billion.

However, the Auditor General's report for the year ending June 2021 indicates that the stock of domestic arrears increased to UGX 4.65 trillion in June 2021 from UGX 3.83 trillion in June 2020. The GOU consolidated report on domestic arrears run on 13th May 2022, indicates that most of the MDAs have domestic arrears to Uganda Revenue Authority, companies that have supplied goods and services, utility companies (UMEME and NWSC) and, individuals mostly in form of pension, salaries and wages.

The Committee notes that with the current allocation of UGX 697.95 billion, it shall take 7 years to clear the current stock of domestic arrears, assuming that there is no new stock added to increase it. This could pose negative economic implications on the livelihood of the individuals and operations of the affected companies.

In addition, given the nature in which domestic arrears arise in Government, and given the late compilation of their statistics since they require verification by the Auditor General before publication, their amounts are excluded from the total domestic debt numbers. Consequently, the true level of the country's indebtedness is understated.

The Committee recommends that Government develops a deliberate implementable strategy to clear domestic arrears within the medium term, as a means of supporting the economy and reducing the cost of doing business in the country.

In addition, Government should ensure that the domestic debt stock and its forecasts take into account the stock of domestic arrears to reflect the actual level of the country's indebtedness.

6.5 Need for Timely and efficient implementation of projects

The Committee observed that although public debt is sustainable, it has risks associated with investment through increased non-concessional and commercial borrowing, which will lead to vulnerabilities stemming from several factors namely:

- i) Oil export revenues could be realized much later than expected postponing large inflows for foreign exchange, which would affect the solvency and liquidity debt burden indicators (PV of debt-to-exports and debt service-to-exports).
- ii) A delay in oil exports would also leave the budget without planned revenues thus leaving a larger gross financing need and adversely affecting debt service-to revenues indicator.
- iii) Risks could also stem from uncertainty regarding oil prices. There could be oil price shocks under which oil prices are lower than current and projected levels.

In addition, the committee noted that there is uncertainty around the long term growth dividend of public investment if there significant delays in public investment execution. Deviations from fiscal plans are the main risks to debt sustainability.

The Committee recommends that respective Ministries, Departments and Agencies of Government should prioritize counterpart funding and, ensure efficient, effective and timely implementation of projects to maximize returns to borrowing and minimize deviations from fiscal plans.

In addition, the committee reiterates its recommendation that Government should limit highly non concessional and commercial borrowing to only projects with a high economic return and with a fiscal return in accordance with the Public Debt and other Financial Liabilities Management Framework FY2018/19-FY2022/23

Further, Government should fast track the development of the oil and gas sector to ensure that oil exports commence in FY 2024/25 as planned.

6.6 Develop measures to support faster exports Growth

Slow growth of exports has continued to pose risks to Uganda's ability to repay her debts. In the current Debt sustainability analysis, the solvency and liquidity risks to external debt were emanating from exports side. The solvency indicators reflect a country's total debt in relation to her income while liquidity indicators reflect the ability to pay back maturing debt at a time.

According to the analysis, the external debt solvency indicator: the Present Value of external debt-to-exports breaches the Public Debt Management thresholds in the most extreme shock, signaling risks to debt sustainability.

Similarly, the external debt liquidity indicator: external debt service-to-exports is projected to increase over the medium term within the Public Debt Management Framework thresholds.

Therefore, while there are low risks to liquidity in the short term, given the large amount of concessional loans in the debt portfolio, liquidity risks increase in the medium to long term as the country is projected to acquire more debt on less concessional terms with the onset of oil revenues and attainment of middle income status. In addition, the grace period for the recently acquired commercial loans and IMF loans would end and start their principal repayments in the medium term.

The Committee recommends that Government should remain focused on promoting exports to enhance foreign exchange earnings in the short to medium term as a priority. Measures that support faster growth of exports should be explored to minimize the risks to debt sustainability emanating from exports.

To limit the impact of foreign exchange risks arising from increased external debt, government needs to significantly increase its foreign reserves through increase in the export capacity of the economy, attract Foreign Direct Investments (FDIs), and minimize imports to only capital and essential goods and services.

6.7 Need to remain committed to NDPIII debt targets.

The Committee observed that the target for domestic financing as a share of GDP in NDPII remained within the programmed levels during the first four (4) years only exceeding the 1.6percent programmed level for the last financial year 2019/20 with an outturn of 1.9percent.

The Committee noted that NDPIII was finalized taking into consideration the

COVID-19 economic stimulus among others. However, the NDPIII domestic borrowing target of 1.99percent for FY 2020/21 was exceeded at 4.3percent while, that of 1.6percent for FY 2021/22 is also exceeded by the projected 1.9percent in the approved budget, in FY 2022/23 the proposed domestic borrowing of UGX 4.965 trillion translates to 2.9percent of GDP higher than the NDPIII target of 1.3percent. Similarly, the domestic borrowing targets for the last two years of NDPIII are projected to exceed the NDPIII targets of 0.9percent and 0.3percent for FY 2023/24 and FY 2024/25 respectively.

The Committee recommends that Government should devise a mechanism of returning domestic debt to the NDPIII debt trajectory, to minimize on expenditure on domestic interest costs during the remaining life of the plan's implementation period.

6.8 Revenue Loss due Tax Expenditures

The committee observed that Government is incurring a significant loss in tax revenues on account of tax expenditures. Tax expenditure refers to revenue losses attributed provisions in tax laws which allow exemptions or deductions from gross income or deferred tax liabilities. They include payments of taxes by Government on behalf of investors; payment of taxes on goods procured by organizations were Government obliged by agreement and; on behalf of some religious, cultural and Non-Government Organizations (NGOs).

In FY 2020/21 alone, URA collected UGX 18.3 trillion (12.4% of GDP) and lost UGX 7.7 trillion (5.21% of GDP), implying that without the tax expenditures, Government could have collected UGX 26 trillion. (17.6% of GDP). With 17.6percent of tax revenues to GDP, the country's budget deficit would significantly decline and reduce the borrowing need.

Table 12: Tax Revenue Foregone (UGX billion)

Total income tax Loss	391.85	453.79	1,009.84	851.21	2,358.67
VAT tax expenditures	815.15	1,323.55	1,434.34	1,855.49	2,195.34
Customs Tax Exemptions	960.022	912.456	1,716.37	2,065.15	3,168.51
Total Exemptions	2,167.02	2,689.80	4,160.55	4,771.85	7,722.52
GDP	108,518	120,485	132,096	139,711	148,278
Tax-GDP ratio	2.00%	2.23%	3.15%	3.42%	5.21%
Tax-GDP ratio actual collections	11.5%	11.7%	12.2%	11.4%	12.4%
Total URA Tax Collections	12,463	14,076	16,163	15,912	18,336

Source: MoFPED and Committee computations

The committee further noted, that there has been an upward trend in the tax loss as a percentage of GDP from 2.0percent in FY 2016/17 to 5.2percent in FY 2020/21 as observed in the table above, implying that if not checked, the country will continue to lose more tax revenues with every passing year.

In order to successfully implement the Government's Domestic revenue management strategy, the committee recommends that tax losses on account of tax expenditures should be reduced to at most 2percent of GDP in any given financial year.

In addition, the Ministry of Finance, planning and Economic development should expedite the undertaking of an impact assessment on all existing tax exemptions and report back to Parliament as earlier directed.

6.9 Public Debt Service

Total Debt repayment is the single largest expenditure category of Government. In FY 2020/21 UGX 12.1 trillion was spent on servicing public in terms of repayment of principal and its associated costs, and the budget for public debt service in FY 2021/22 was UGX 14.9 trillion. At UGX 12.1 trillion, debt repayments represents 60.9percent of all domestic revenues in FY 2020/21 and, 66percent for FY 2021/22. Put simply, if there was no borrowing to repay domestic debt (domestic debt refinancing/redemptions), 61percent of domestic revenues would have been used for repaying debt, leaving only 39percent for other Government expenditures.

Total debt service is expected to average at 49 percent of government revenue (excl. Oil revenue) over the medium term, underscoring the importance of raising tax revenues and or, the need for fiscal consolidation. In addition, further delays in oil exports beyond FY 2024/25 could result in liquidity pressures.

The Committee recommends that Government should enhance domestic revenue mobilization as a sure means of reducing the fiscal deficit and ensuring that the debt service obligations are met on time. To this end, Tax administration should broaden the tax base to incorporate the informal sector that accounts for the largest part of the economy (55%).

7. Conclusion

Total public debt has increased over the recent years due to the implementation of Government's investment agenda and effects of the COVID-19 pandemic that caused revenue shortfalls. Public Debt is projected to increase over the medium term as Government continues to implement its investment program to boost economic recovery.

Whereas debt is still sustainable, debt service ratios point to elevated risks majorly due to slower growth of export earnings. Therefore, Government should boost her efforts in production for export to mitigate against these risks.

Uganda's debt carrying capacity was revised to "medium" as at end of June 2020 from "strong" as at June 2019. It remained medium at end of June 2021. Similarly, Uganda's public debt has elevated risks to its portfolio. It is now at moderate risk of external debt distress and overall public debt distress, up from low risk of debt distress at June 2019. This implies that the country's debt sustainability is assessed using more strict terms compared to that with low risk of debt distress.

Therefore, Government should develop mechanisms to ensure that the country returns to a low risk of debt distress by supporting economic growth boosting exports to enhance the country's reserves among others.

I Beg to Report

A collection of handwritten signatures and initials scattered across the page. The signatures are in various styles, some appearing to be names like 'Ansi' and 'Indray', while others are more abstract or stylized. There are also some small, illegible marks and initials.

Annex 1: Baseline Scenario-Assumptions⁷

- i) Real GDP is to grow by 3.8percent in FY 2021/22 as the economy recovers from the COVID-19 shock and, the average growth rate is to increase to 6percent in the medium term.
- ii) Revenue Collections improve by 0.2percent of GDP in FY 2021/22 as the economy fully opens, then on average by 0.5percent of GDP over the medium term due to the implementation of the Domestic Revenue Mobilization Strategy and oil revenues;
- iii) Oil export revenue commences in FY 2024/25 to last for 25 years. The government expects to receive between 0.5%- 4% of GDP in oil related revenue per year during this period;
- iv) Nominal exchange rate is projected to depreciate in the medium term. In the long term, the exchange rate is expected to appreciate on average, occasioned by increased inflows of foreign exchange following the onset of oil production.
- v) The primary fiscal deficit is projected to decline over the medium term as domestic revenues increase as oil revenues are realized and, covid-19 related expenditures reduce while a number of the infrastructure projects are completed.
- vi) Financing of the fiscal deficit shall mostly be from external sources due to the high costs associated with domestic debt;
- vii) Public debt is projected to decline starting from FY 2023/24, once most of the large infrastructure projects are completed and oil receipts raise government revenues.
- (v) Government shall continue to prioritize concessional financing as the preferred means of meeting external financing requirements. However, given the decline of concessional financing, as these resources are insufficient and also as Uganda approaches middle income status, non-concessional and commercial borrowing will be utilized with caution.
- (vi) In the medium term, commodity prices of exports and imports are taken from IMF World economic outlook while volumes are based on real growth rates of the relevant subsectors. Exports of services are projected to grow in line with GDP of the advanced economies while


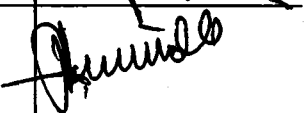
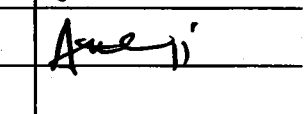
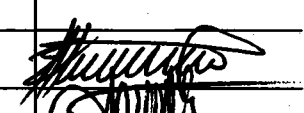

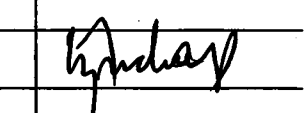
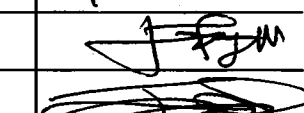
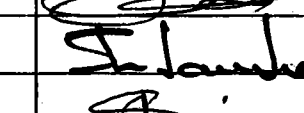
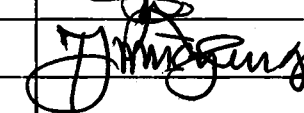


⁷ Baseline represents the most likely scenario under the current policies and given present information balanced with relative risks.


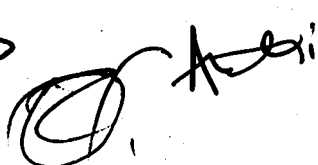


imports of services grow in line with imports of goods. In the outer years the value of exports and imports of goods and services are forecast as a constant share of GDP.

- (vii) Inflows of private transfers are forecast to grow in line to nominal GDP of advanced economies in the medium term. FDI and capital flows are projected to grow in line with nominal GDP growth in dollar terms in the medium term.
- (viii) Gross official reserves are fixed at 4.5 months of future imports.

A collection of handwritten signatures and initials in black ink, scattered across the lower half of the page. The signatures vary in style, with some being highly stylized and others more legible. Notable signatures include a large, complex one on the left, a signature that appears to say 'Gupta' in the center, and a signature that appears to say 'J. S. Singh' on the right. There are also several smaller initials and marks, including 'H', 'A', and 'K'.

**SIGNING OF THE REPORT OF THE COMMITTEE ON NATIONAL ECONOMY ON THE
STATE OF INDEBTEDNESS, GRANTS AND GUARANTEES AS AT DECEMBER, 2021**

S/N	NAME	CONSTITUENCY	SIGNATURE
1.	Hon. Ikojo John Bosco C/P	Bukedea County	
2.	Hon. Migadde Robert Ndugwa D/CP	Buvuma Islands County	
3.	Hon. Awich Jane	DWR Kaberamaido	
4.	Hon. Ayoo Tonny	Kwania County	
5.	Hon. Baka Stephen Mugabi	Bukooli County North	
6.	Hon. Katwesigye Oliver Koyekyenga	DWR Buhweju	
7.	Hon. Natukunda Midius	DWR Rukungiri	
8.	Hon. Byarugaba Alex Bakunda	Isingiro County South	
9.	Hon. Chemutai Phyllis	DWR Kapchorwa	
10.	Hon. Etuka Isaac Joakino	Upper Madi County	
11.	Hon. Isabirye Iddi	Bunya County South	
12.	Hon. Kajwengye Twinomugisha Wilson	Nyabushozi County	
13.	Hon. Agaba Aisa	Bugangaizi East County	
14.	Hon. Kemirembe Pauline Kyaka	DWR Lyantonde	
15.	Hon. Lematia Ruth Molly Ondoru	Maracha East County	
16.	Hon. Lochap Peterkhen	Bokora East County	
17.	Hon. Twinobusingye Jovanice	DWR Kiruhura	
18.	Hon. Aber Lillian	DWR Kitgum	
19.	Hon. Avur Jane Pacuto	DWR Pakwach	
20.	Hon. Byanyima Nathan	Bukanga North County	
21.	Hon. Kibalya Henry Maurice	Bugabula County South	
22.	Hon. Awas Sylvia Vicky	DWR Nabilatuk	
23.	Hon. Kwizera Paul	Kisoro Municipality	

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24.	Hon. Wokorach Simon Peter	Aswa County	
25.	Hon. Teira John	Bugabula County North	
26.	Hon. Ebwalu Jonathan	Soroti West Division	
27.	Hon. Atugonza Allan	Buliisa County	
28.	Hon. Makhoha Margaret	DWR Namayingo	
29.	Hon. Abeja Susan Jolly	DWR Otuke	
30.	Hon. Macho Geofrey	Busia Municipality	
31.	Hon. Tusiime Julius Karuhanga	Rwampara East County	<i>Heckline</i>
32.	Hon. Kabuusu Moses	Kyamuswa County	
33.	Hon. Oguzu Lee Denis	Maracha County	
34.	Hon. Akena James Micheal Jimmy	Lira East Division	
35.	Hon. Kayondo Fred	Mukono County South	<i>[Signature]</i>
36.	Hon. Katabazi Francis Katongole	Kalungu East County	
37.	Hon. Kirumira Hassan	Katikamu County South	
38.	Hon. Nyeko Derrick	Makindye Division East	
39.	Hon. Saazi Godfrey	Gomba East County	
40.	Hon. Bwanika Abed	Kimaanya-Kabonera Division	<i>[Signature]</i>
41.	Hon. Gen. Mugira James	UPDF	





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