MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

MEDIUM TERM DEBT MANAGEMENT STRATEGY 2022/23 - 2025/26

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MARCH 2022

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LIST OF ACRONYMS

AFD	French Agency for Development
ADB	African Development Bank
ADF	African Development Fund
ATM	Average Time to Maturity
ATR	Average Time to Refixing
BADEA	Arab Bank for Economic Development of Africa
BOU	Bank of Uganda
CFR	Charter for Fiscal Responsibility
DOD	Debt Disbursed and Outstanding
EIB	European Investment Bank Highly
FX	Foreign Exchange
GDP	Gross Domestic Product
GoU	Government of Uganda
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IR	Interest Rate
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LIBOR	London Interbank Offer Rate
MOFPED	Ministry of Finance, Planning and Economic Development
MTDS	Medium Term Debt Management Strategy
MTFF	Medium Term Fiscal Framework
NDF	Net Domestic Financing
NDP	National Development Plan
PV	Present Value
ST	Short Term

FOREWORD

The Ministry of Finance, Planning and Economic Development each Financial Year prepares the Medium Term Debt Management Strategy (MTDS). This is in fulfilment of provisions stipulated in section 13(10) (a)(iv) of the Public Finance Management Act (2015), that requires the Minister of Finance to table a plan on public debt and any other financial liabilities, whilst presenting the National Budget to Parliament.

In line with the principle of prudent and sustainable debt management, the MTDS has been produced to guide the debt management decisions and operations of Government and it stipulates how Government intends to borrow and manage its debt to achieve a portfolio that reflects its cost and risk preferences, while meeting financing needs.

The preparation of the MTDS for Financial Year (FY) 2022/23 was highly consultative. This was led by the Ministry of Finance, Planning and Economic Development which included technical representatives from the Directorates of Debt and Cash Policy, Economic Affairs and Treasury Services and Asset Management, alongside major stakeholders like the Parliamentary Budget Office (PBO), National Planning Authority (NPA) and Bank of Uganda (BOU).

Four alternative financing options were evaluated under uniform macroeconomic assumptions, economic outlook and shock scenarios to ensure that the selected financing strategy is feasible. The FY 2022/23 MTDS will ensure a well-balanced composition of Government's debt portfolio in terms of costs and risks while guiding Government of Uganda (GoU)'s borrowing.

Debt will continue to play an important role in financing Uganda's development agenda, which is why its prudent management is a key component of Uganda's fiscal policy. Government of Uganda will endeavor to continue coordinating debt management within its macroeconomic and financial policy frameworks. I therefore call upon all stakeholders to work towards the successful implementation and realization of this strategy's objectives, as we collectively develop our country.

I hereby lay the strategy before the August House. It augments the financial year annual budget indicating a plan for the government debt and any other financial liabilities.

Amos Lugoloobi - MP
Minister of State for Finance, Planning and Economic Development (Planning)
Also holding the portfolio for Minister of Finance, Planning and Economic Development

March 2022

EXECUTIVE SUMMARY

The Government operationalizes the Medium Term Debt Management Strategy (MTDS) to ensure that Government meets its preferred cost and risk objectives with respect to the public debt portfolio.

The overall objective of the FY2022/23 MTDS is to meet the Government's financing requirements at the lowest possible cost and subject to a prudent degree of risk, with the following specific objectives:

i. Manage the refinancing risk of domestic debt by issuing more longer-dated securities.
ii. Manage a borrowing mix that reduces the cost of debt and interest rate risks.
iii. Manage borrowing quantum to reduce the cost of debt through a plan aligned to the Government financing needs.

The Total debt stock rose by 15.4%, equivalent to USD 2.77 billion during the year from USD 17.97 (UGX 65.58 trillion) as at end December 2020 to USD 20.74 billion (UGX 73.50 trillion) as at end December 2021. The rise in debt stock was on account of increased disbursements and external borrowing due to revenue shortfalls and a rise in the fiscal deficit resulting from the negative impact of the COVID 19 pandemic on the economy. As a result, the nominal debt to GDP ratio increased by 2.5 from 47.2% as at December 2020 to 49.7% in December 2021.

The performance of the FY 2020/21 MTDS, the sixth to be published by the Ministry, was affected by the COVID-19 pandemic. Measures instituted to curb the spread of the virus affected economic activity and led to significant revenue shortfalls, which necessitated additional borrowing to finance the budget. As such, net domestic borrowing for the year doubled from the budgeted UGX 3,054 billion to UGX. 6,313 billion by the end of the financial year.

The additional domestic borrowing contributed to higher domestic interest payments, which increased from 1.8% of GDP in FY2019/20 to 2.4% in FY2020/21. This was above the MTDS objective of 1.5%-1.7%. Interest payments on external debt, on the other hand, were within the targeted range of 0.4%-0.5% of GDP, performing at 0.4% for the year.

The refinancing risk as measured by debt maturing in one year as a percent of total debt and domestic Treasury Bills were all within the set targets. The share of external debt maturing in one year increased from 2.3% of the external debt stock in FY 2019/20 to 3.3% in FY 2020/21, but remained below the targeted ceiling of 3.5%. Similarly, the domestic debt maturing in one year remained within the benchmark of 34.5%, as it reduced from 37.0% in FY2019/20 to 30.0% in FY 2020/21. The domestic Treasury Bills portfolio also reduced from 24.8% in FY 2019/20 to 22.5% in FY202/21 and was within the target of less than 27.5%.

During FY2022/23 and for the rest of the medium term, economic recovery is expected to gain pace and lead to higher tax revenues. This will reduce the need for borrowing, and bolster the growth of private sector credit which is necessary for a private sector driven economy.

CHAPTER 1: INTRODUCTION

1.1 Background

In fulfilment of Section 13(10) (a)(iv) of the Public Finance Management Act (2015), the Government of Uganda prepares a Medium Term Debt Management Strategy every year. This MTDS, the eighth to be published by the Ministry, sets out how best to finance Government's medium term borrowing requirements at the most optimal combination of cost and risk. This entails linking the medium term fiscal framework of Government to the annual borrowing plan to facilitate borrowing at the lowest cost and most prudent degree of risk.

As with many countries, Uganda's economy has been adversely affected by the Covid-19 pandemic. Tax revenues have suffered significant shortfalls, which has necessitated increased borrowing to finance the budget, including Government's response to the pandemic.

The cost of debt has been on a steady rise in recent years resulting into an increase in debt service for both domestic and external debt. Specifically, domestic debt interest payments as a percentage of GDP have risen from 1.97% in FY 2016/17 to 2.4% in FY 2020/21 while external interest payments have increased from 0.35% to 0.4% in the same period. The refinancing risk has also been worsening in the last five years specifically on the external debt side with the total average time to maturity (ATM) reducing from 11.8 years to 9.4 years in 2020/21. This has been worsened by the contraction of external debt on commercial terms reducing external ATM from 16 years in FY 2016/17 to 11.8 years in FY 2020/21.

Nonetheless, domestic ATM has improved from 2.7 years to 5.5 years in the same period. A lot of emphasis has previously been put on the domestic debt refinancing risk by issuance of longer dated securities while continuously contracting shorter term maturity commercial debt on the external side. There is therefore need to take action on the refinancing risk by making deliberate effort to contract longer dated tenor external debt (concessional borrowing) as well as continuing to issue longer dated securities in the medium term. In addition, there is planned fiscal consolidation to reduce the fiscal deficit and eventually a reduction in borrowing over the medium term.

1.2 Objectives of the MTDS

The overall objective of this year's MTDS is to meet the Government's financing requirements at the lowest possible cost and subject to a prudent degree of risk.

The specific objectives include:

i. Manage the refinancing risk of domestic debt by issuing more longer-dated securities;

ii. Manage a borrowing mix that reduces the cost of debt and interest rate risks; and
iii. Manage borrowing quantum to reduce the cost of debt through a plan aligned to the Government financing needs.

1.3 The Scope of the FY 2022/23 Strategy

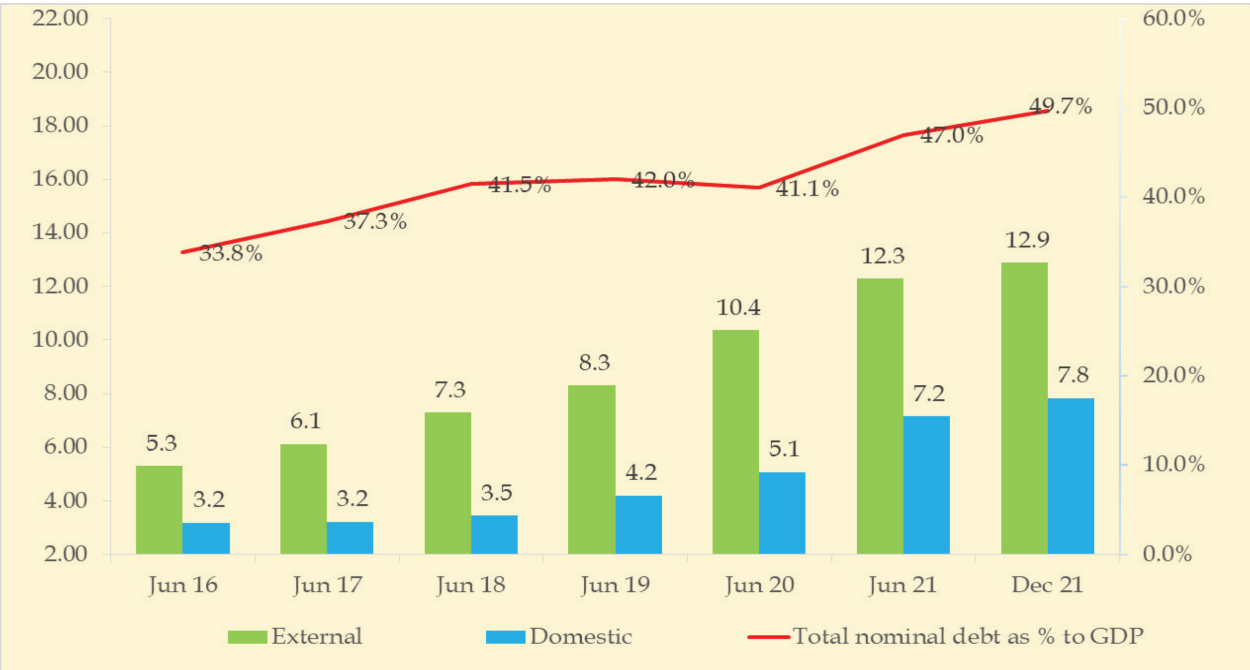
This strategy focuses on Central Government external and domestic debt, and does not include borrowing by state owned enterprises and local governments as it is currently not significant for Uganda.

CHAPTER 2:
PUBLIC DEBT PORTFOLIO ANALYSIS AS AT DECEMBER 2021

2.1 Level of Government Domestic and External Debt

As at end December 2021, total debt stock was USD 20.7 billion equivalent to UGX 73.5 trillion indicating an increase from USD 18.0 billion equivalent to UGX 65.6 trillion at end December 2020. This represents an increase of 15.4% in debt stock, equivalent to USD 2.8 billion during the year. The rise in debt stock was on account of increased disbursements and borrowing to address the continued shortfall in revenues arising from the negative impact of the COVID 19 pandemic on the economy. This led to increased domestic debt issuances to finance the fiscal deficit and meet revenue shortfalls. The increased disbursements realised from Afrexim bank, World Bank, Exim Bank of China and deliberate Government effort to invest in the productive sectors, consequently led to a 2.5 percentage increase in the nominal debt to GDP from 47.2% as at December 2020 to 49.7% in December 2021.

Figure 1: Public Debt Stock (in USD Billion) Trend from FY2015/16 to December 2021



Source: MOFPED

Figure 1 shows the historical trend of external debt and domestic debt from the Fiscal Year ending June 2016 to end December 2021. As at December 2021, out of the total debt stock, 62.2% amounting to USD 12.9 billion (UGX 45.7 trillion) was attributed to external debt while 37.8% equivalent to USD 7.8 billion (UGX 27.8 trillion) was on account of domestic debt. The continued increase in external debt stock is attributed to the deliberate government effort to invest in projects that generate higher economic rate of return as well as appropriation of budget support over and above the Net Domestic Financing in each Fiscal Year. However, the borrowing for COVID-19 related expenditures has increased the cost of debt as well as the external refinancing risk as at end December 2021.

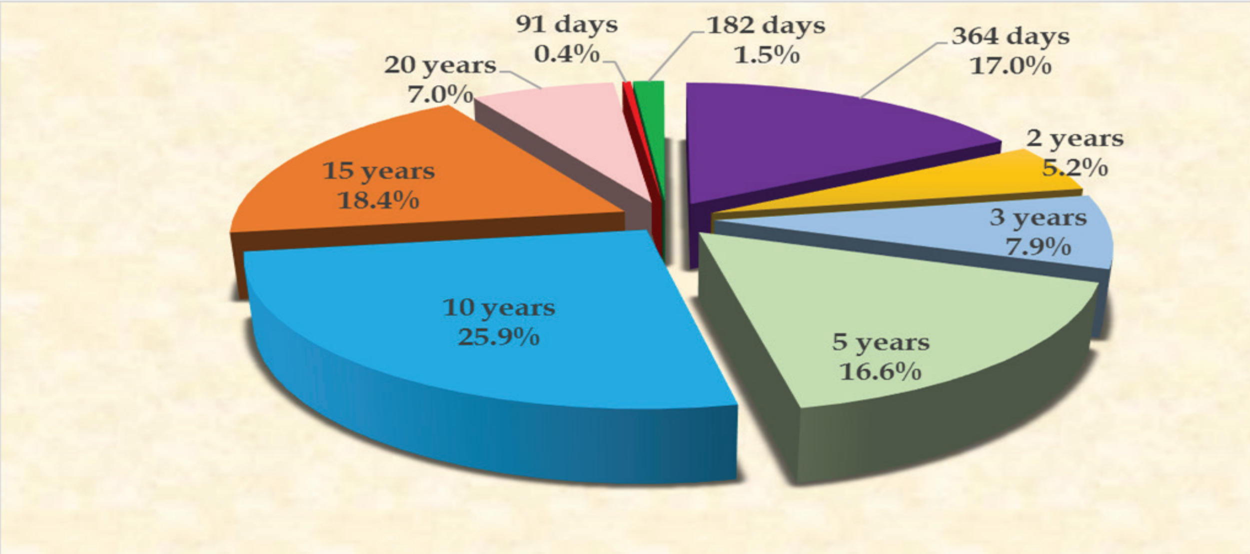
2.2 Composition of Government Debt as at December 2021

The sections below provide a snapshot of various proportions of the composition of Government's debt portfolio as at December 2021.

2.2.1 Domestic Debt Composition

As at end December 2021, domestic debt stock was comprised of 19% Treasury Bills (91 days, 182 days and 364 days) equivalent to UGX 5.3 trillion and 81% equivalent to UGX 22.5 trillion in Treasury Bonds. The breakdown of the share of each instrument as a percentage of total domestic debt is indicated in figure 2.

Figure 2: Domestic Debt Composition by Maturity at End December 2021



Source: MOFPED

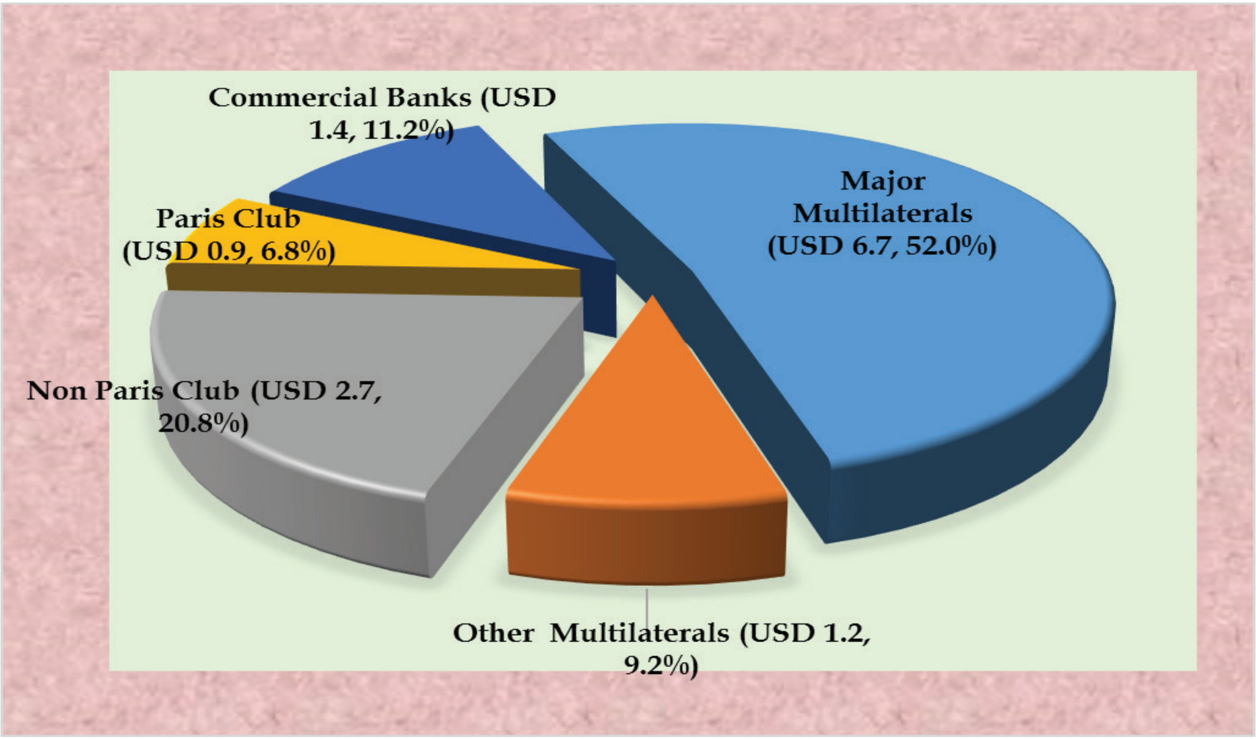
The 10-year and 15-year Treasury Bonds constituted the largest share of domestic debt stock with UGX 7.2 trillion (25.9%) and UGX 5.1 trillion (18.4%) respectively. This is in line with the target of reducing the refinancing risk in domestic debt by increasing the issuance of longer dated instruments. These were followed closely by the 1-year T-bills at 17%, the 5-year bonds at 16.6% and 3-year bond at 7.9%.

The share of domestic debt with 10 years or more increased from 49% to 51% in December 2021. During the same period, the share of Treasury Bills reduced from 21.4% to 18.9%. Increased investor interest from offshore players in the longer dated instruments led to the increase in uptake of the longer dated securities in this period.

2.2.2 External Debt Composition

As indicated in figure 3, out of the total USD 12.9 billion of external debt, 52.0% equivalent to USD 6.7 billion is a share held by major multilateral creditors, while other multilateral creditors held 9.2%, equivalent to USD 1.2 billion. Bilateral creditors categorised into Paris club and non-Paris club took up 6.8% (USD 0.9 billion) and 20.8% (USD 2.7 billion) respectively whereas commercial banks held a share of 11.2% an equivalent of USD 1.4 billion. The share of commercial debt significantly increased from 7.58% in December 2020 to 11.2% in December 2021. In addition to Covid-19 mitigation measures, the increasing debt stock over the previous decade is attributed to the deliberate effort by the Government to invest in the productive sectors with the capacity to yield high economic and financial returns and enhance economic productivity. The significant investments have been made in the Sustainable Energy Development, Integrated Transport infrastructure Services, Mineral Development, Natural Resources, Environment, Climate Change, Land and Water Management, and Sustainable Development of Petroleum Resources programs.

Figure 3: External Debt Composition by Creditor in USD Billion as at December 2021

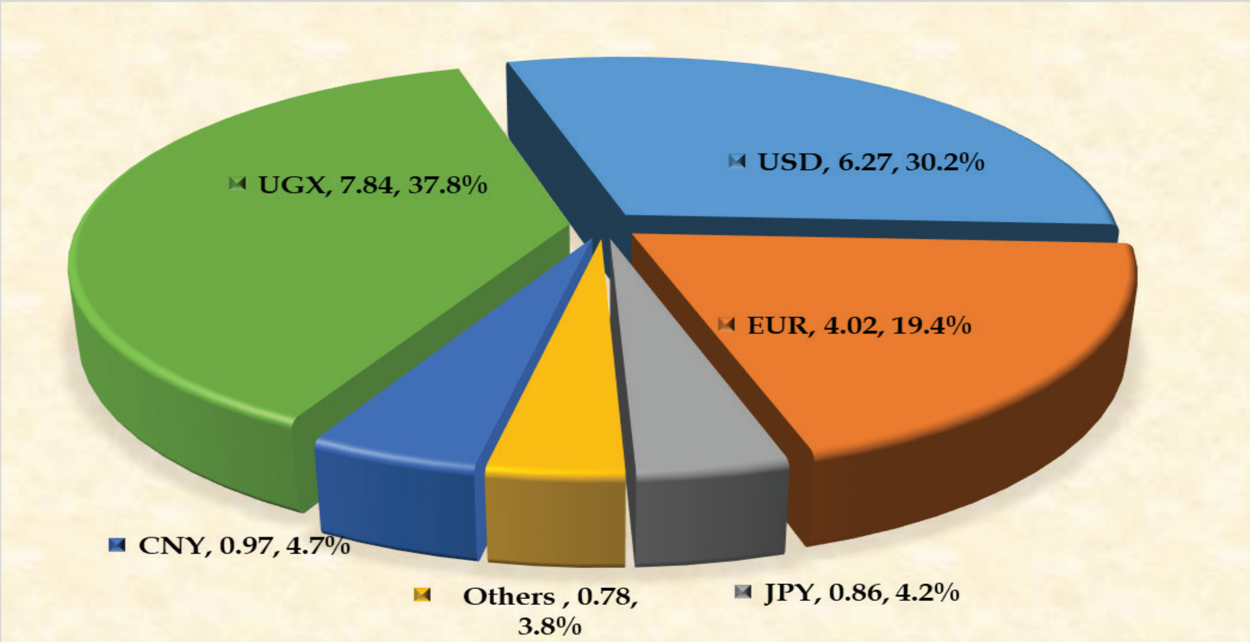


Source: MOFPED

2.2.3 Public Debt by Currency Composition

The total debt portfolio by end December 2021 was dominated by debt in Uganda shillings at 37.8% followed by USD denominated debt at 30.2% and EURO at 19.4% as is shown in Figure 4.

Figure 4: Government Debt by Currency Composition at end December 2021



Source: MOFPED

2.2.4 Public Debt Composition by Interest Rate Type

There has been a drop in the fixed rate debt composition in the total public debt portfolio which has reduced from 87.5% in December 2020 to 86.5% in December 2021 and this has been on account of increased external borrowing on variable interest rate terms.

2.3 Cost and Risk Indicators of Public Debt

Table 1: Cost and Risk Indicators of the Existing Central Government Debt as at December 2021

Risk Indicators		Dec-20 External debt	Dec-20 Domestic debt	Dec-20 Total debt	Dec-21 External debt	Dec-21 Domestic debt	Dec-21 Total debt
Amount (in billions of UGX)		42,610.7	22,965.9	65,576.7	45,722.1	27,773.3	73,495.5
Amount (in billions of USD)		11.7	6.3	18.0	12.9	7.8	20.7
Nominal debt as percent of GDP		**30.7**	**16.5**	**47.2**	**30.9**	**18.8**	**49.7**
PV as percent of GDP1		21.2	19.9	41.1	21.8	18.8	40.5
Cost of debt	Interest payment as % of GDP	**0.6**	**2.3**	**2.8**	**0.5**	**2.6**	**3.1**
	Weighted Av. IR (percent)	1.8	13.7	6.0	1.6	13.6	6.1
Refinancing risk	ATM (years)	**12.7**	**5.1**	**10.1**	**11.4**	**6.0**	**9.4**
	Debt maturing in 1yr (% of total)	2.4	33.0	12.7	4.2	25.7	12.3
	Debt maturing in 1yr (% of GDP)	0.9	5.4	6.3	1.3	4.8	6.1
Interest rate risk	ATR (years)	**11.8**	**5.1**	**9.5**	**10.4**	**6.0**	**8.8**
	Debt refixing in 1yr (% of total)	18.8	33.0	24.8	24.2	25.7	24.8
	Fixed rate debt incl T-bills (% of total)	82.9	100.0	87.5	78.3	100.0	86.5
	T-bills (percent of total)				0.0	18.9	7.1
FX risk	FX debt (% of total debt)			69.9			62.2
	ST FX debt (% of reserves)			8.3			12.5

Source: MOFPED

2.3.1 Cost of Debt

At the end of December 2021, total interest payments as a share of GDP increased to 3.1% from 2.8% as at December 2020. The increase was attributed to increased issuances of domestic debt securities and disbursement of commercial and non-concessional loans in the external debt portfolio.

2.3.2 Refinancing/ Roll Over Risk

The major refinancing risk indicators are debt maturing in one year as a percentage of total public debt and Average Time to Maturity (ATM). ATM refers to the average length in years it takes for Government to clear off principal i.e. the average time it takes for all the public debt to get repaid. The longer the ATM the less risky the portfolio is deemed to be as it will take a longer time for Government to pay off the debt hence less strain on the budget.

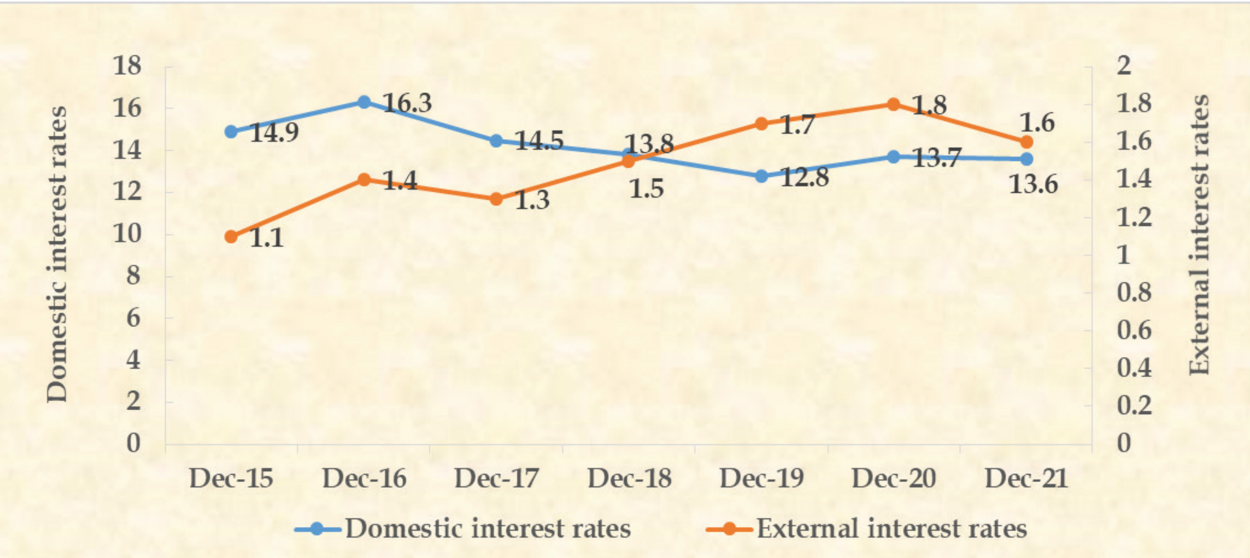
The average time to maturity (ATM) of all the principal payments in the external debt portfolio in December 2021 reduced to 11.4 from 12.7 years in December 2020. This was on account of acquisition of new external borrowing on commercial terms with shorter maturity periods. The ATM for domestic debt increased to 6.0 years in December 2021 from 5.1 years in December 2020. This is attributed to increased issuance of the 10 year and 15 year securities over the period of assessment. Demand of these securities is closely aligned to the reduced withholding tax of 10% charged on interest incomes from longer dated securities as opposed to 20% charged on all other securities. The average time to maturity of the existing debt portfolio (external and domestic debt) consequently reduced from 10.1 years as at December 2020 to 9.4 years as at December 2021.

Out of the total domestic debt as at December 2021, the domestic debt maturing in one year decreased from 33.0% in December 2020 to 25.8%. On the other hand, external debt maturing in one year as percentage of the total external debt increased to 4.2% from 2.4% as at end December 2020.

2.3.3 Interest Rate Risk

The Average Time to Refixing (ATR) best defines interest rate risk in the debt portfolio as the total time it takes for interest rates in the debt portfolio to change.

Figure 5: Weighted Average Domestic and External Interest rates as at December 2021



Source: MOFPED

As indicated in figure 5, the weighted average interest rate for domestic debt reduced by 0.1 percentage points from 13.7% in December 2020 to 13.6% in December 2021 whereas the weighted average interest rate for external debt reduced by 0.2 percentage points from 1.8% to 1.6% in the same period.

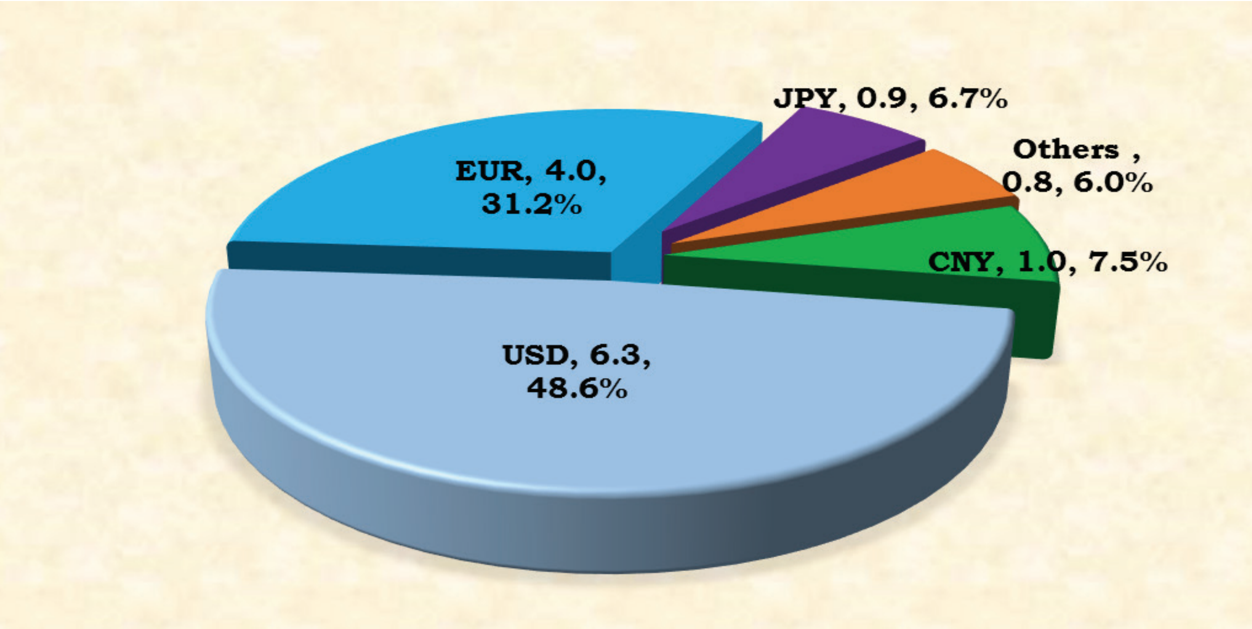
External debt stock was dominated by fixed rate debt at 78.3% and variable rate debt of 21.7% as at end December 2021. The external Average Time to Refixing (ATR) of total public debt (external and domestic) reduced from 9.5 years as at December 2020 to 8.8 years as at December 2021. In the current high interest rate environment, a shorter ATR is very risky because interest rates change to a higher rate in a short time resulting into higher debt service costs. Government can mitigate the variable rates and shorter dated debt by opting for concessional fixed rate debt, issuing of longer dated securities and exploring new financing options.

2.3.4 Exchange Rate Risk

From December 2020 to December 2021, the foreign currency debt as a percentage of the total debt reduced from 69.9% to 62.2%. This was as a result of increased domestic debt issuances that led to contraction of more debt in local currency than foreign currency. In addition, the short-term debt as a percentage of reserves remained at 8.3% in the same period.

Figure 6 illustrates the existing share of major foreign currency denominated debt of the Government of Uganda as at December 2021; (USD at 48.6% equivalent to USD 6.3 billion followed by the EURO at 31.2% equivalent to USD 4.0 Billion).

Figure 6: External Debt Currency Composition as at December 2021



Source: MOFPED

CHAPTER 3:
PERFORMANCE OF MTDS FOR FY 2020/21 AND HALF YEAR PERFORMANCE OF FY 2021/22 MTDS.

3.1 Performance of FY 2020/21 Medium Term Debt Management Strategy (MTDS).

The performance of MTDS of FY 2020/21 which is the Sixth Published Edition was highly impacted by short falls in revenue during the financial year and the socio-economic impact of the Covid-19 pandemic. This led to changes in the underlying macro-economic assumptions used in the MTDS for FY 2020/21 with Net Domestic Financing (NDF) more than doubling from the original UGX 3,054 billion to UGX. 6,313 billion by the end of the financial year.

The MTDS achieved its objectives of meeting Government's financing needs, managing the domestic debt refinancing risk by issuing more longer-dated securities. However, this was at a higher than projected cost thus leading to higher total interest payments as a percentage of GDP.

The performance of the MTDS is divided into the operational target performance and disbursement/ issuance performance as detailed below:

3.2 Operational Target Performance of FY 2020/21 MTDS.

In line with the objectives of FY 2020/21 MTDS, interest payments as percent of GDP was used to set the operational target for cost of debt while debt maturing in one year as percent of the total and domestic T-Bill portfolio was used to set the target for refinancing risk as indicated in table 2.

Table 2: Cost and Risk Operational Objectives and Performance of FY 2020/21 as at end June 2021.

Cost and Risk exposures	Cost and Risk Indicators	FY 2019/20	Objective FY 2020/21	Performance FY 2020/21
Cost of debt	External Debt Interest payment as percent of GDP	0.4	0.4 - 0.5	0.40
	Domestic Debt Interest payment as percent of GDP	1.8	1.5 - 1.7	2.40
	Total Interest payment as percent of GDP	2.2	1.9 - 2.2	2.80
Refinancing risk	External Debt maturing in 1yr (percent of Total)	2.3	=<3.5	3.30
	Domestic Debt maturing in 1yr (percent of Total)	37.0	=<34.5	30.00
	Domestic T-Bills Portfolio	24.8	=<27.5	22.5

Source: MoFPED

3.2.1 Cost of Debt.

The total interest payments as percentage of GDP increased from 2.2% to 2.8% between June 2020 and June 2021 beyond the target range of 1.9%-2.2% set in the FY 2020/21 MTDS. Interest payments on domestic debt as percent of GDP increased by 0.6 percentage points while external debt interest payment to GDP remained at 0.4% similar to the previous fiscal year. The interest payment to GDP on domestic debt were 2.4% thereby breaching the operational target range of 1.5%-1.7% set in the FY 2020/21 MTDS. This was due to increased domestic debt issuances to Ugx 14.7 trillion as opposed to the projected Ugx 10.5 trillion. Increase in the domestic debt issuance above the planned borrowing implied additional cost in terms of interest payments. External debt interest payments as a percent of GDP remained stable at 0.4% keeping it within the range of 0.4%-0.5% set in FY 2020/21 MTDS.

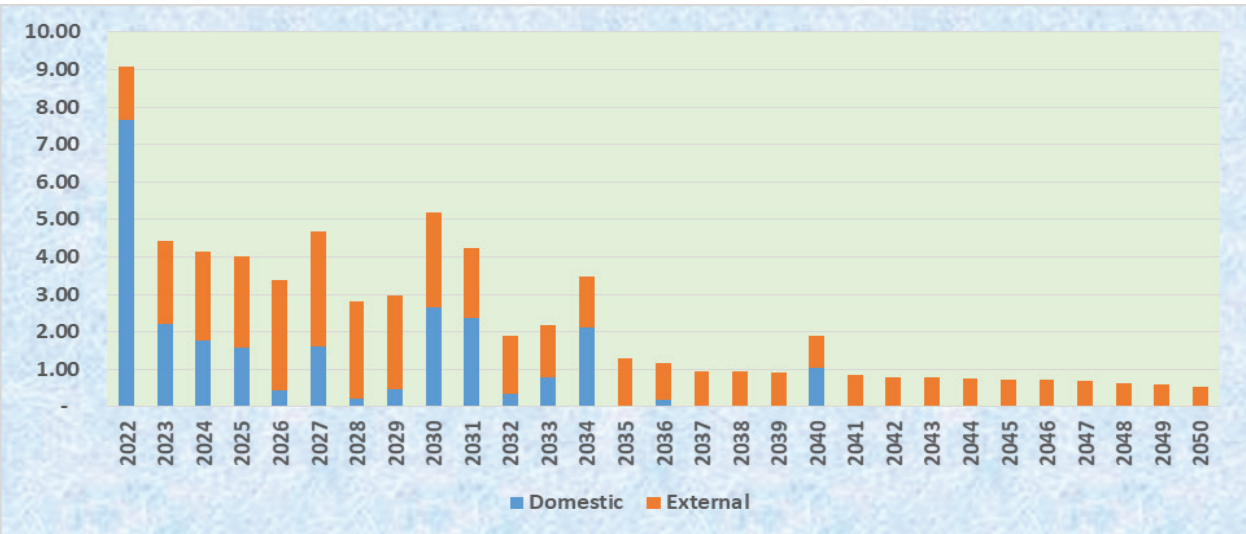
3.2.2 Refinancing Risk/Rollover Risk.

During the financial year under review, the target range for external debt maturing in one year as percent of the total external debt was set at 3.5%. Although the above risk indicator remained below the target set in FY 2020/21, it increased to 3.3% as at end June 2021 from 2.3% as at end June 2020. The increase is majorly on the account of principal payments of flagship projects such as Karuma and Isimba Hydro Power Dam in FY 2020/21.

The percentage of domestic debt maturing in one year reduced from 37% in June 2020 to 30% as at end June 2021 and remained within the operational target of 34.5%. This can be attributed to deliberate policy effort by government to increase issuance of longer dated securities to reduce refinancing risk.

The Domestic T-Bills Portfolio stood at 22.5% in FY 2020/21 down from 24.8% in FY 2019/20 and well within the operational target of less than 27.5%. Consequently, the Treasury Bonds were 77.5% indicating that there was an increase in the stock of Treasury Bonds in the period under review which is in line with Government's deliberate effort to reduce the refinancing risk through issuing longer dated instruments.

Figure 7: Redemption Profile in Trillion UGX as at June 2021



Source: MoFPED

However, as seen in Figure 7, the refinancing risk of domestic debt remains high given that UGX 7.65 trillion is expected to mature in FY 2021/22. To mitigate the above risk, Government scheduled a bond switch auction where part of the maturing security was exchanged for other instruments with future maturity dates.

3.3 Instruments Performance of MTDS FOR FY 2020/21

Table 3: Projected and Actual Disbursement/Issuance for FY 2020/21 MTDS by Instruments Type, UGX.

Instrument	Projected Disbursement/Issuance FY2020/21		Actual Disbursement/Issuance FY2020/21	
	Amounts	Percent	Amount	Percent
Gross Financing Requirement	**19,662,767,308,232.60**	**100.00%**	**21,636,140,143,987.40**	**110.04%**
External	9,143,186,798,328.15	**46.50%**	6,940,681,621,842.42	**35.30%**
Domestic	10,519,580,509,904.40	**53.50%**	14,695,458,522,145.00	**74.74%**
External Debt Instruments				
IDA/ ADF_Fixed	2,469,879,077,377.10	12.56%	2,612,801,486,314.61	13.29%
Concessional_Fixed	1,786,553,503,394.01	9.09%	602,050,015,878.50	3.06%
Semi-Concessional_Fixed	792,686,903,722.59	4.03%	1,174,048,074,579.41	5.97%
Semi-Concessional_Variable	482,508,528,494.84	2.45%	297,389,585,959.36	1.51%
Non-Concessional_Fixed	457,159,339,916.41	2.33%	93,051,142,232.61	0.47%
Non-Concessional_Variable	1,554,341,755,715.79	7.91%	971,579,318,161.70	4.94%
Commercial_Fixed	685,739,009,874.61	3.49%	18,422,187,986.71	0.09%
Commercial_Variable	914,318,679,832.82	4.65%	1,171,339,810,729.53	5.96%
Domestic Debt Instruments				
91 & 182 T-Bills_Fixed	1,157,153,856,089.49	5.89%	1,241,681,309,435.00	6.31%
364 T-Bills_Fixed	4,733,811,229,456.99	24.08%	5,253,677,247,765.00	26.72%
T-Bond 2&3 YR_Fixed	1,157,153,856,089.49	5.89%	2,024,308,152,970.00	10.30%
T-Bond 5 YR_Fixed	841,566,440,792.35	4.28%	1,039,607,153,028.00	5.29%
T-Bond 10 YR_Fixed	1,051,958,050,990.44	5.35%	2,674,375,678,448.00	13.60%
T-Bond 15 YR_Fixed	1,051,958,050,990.44	5.35%	1,427,336,808,370.00	7.26%
T-Bond 20 YR_Fixed	525,979,025,495.22	2.68%	1,034,472,172,129.00	5.26%

Source: MoFPED

3.3.1 Gross Borrowing Requirement

As shown in table 3, the MTDS for financial year 2020/21 assumed a gross borrowing requirement of UGX 19,662.8 Billion, of which 53.5% was to be borrowed domestically and the remaining 46.5% would be sourced externally. The realized gross borrowing requirement was UGX 21,636.1 Billion, which was higher by 10.0% equivalent to approximately UGX 2 Billion than the projected amount in the MTDS for FY 2020/21. This was majorly attributed to increase in the domestic borrowing in the course of the financial year. This borrowing was to mitigate the social and economic impact of COVID-19 pandemic that resulted in revenue shortfalls and subsequently, additional expenditure pressures.

3.3.2 External Debt Instruments Coverage

The external borrowing for FY 2020/21 did not adhere to MTDS in terms of instruments allocation. This is mainly attributed to:

i) Disruptions from Covid-19 which slowed down the implementation of some development projects affected the loan disbursements. In addition, the change in the gross borrowing requirements affected the amounts disbursed against each instrument.

ii) The MTDS projected that the USD 650 million budget support for FY 2020/21 was to be disbursed before 30th June 2021. However, the USD 400 million expected from AFREXIM Bank to finance the above budget support did not disburse in FY 2020/21. This made the projected disbursement under "Commercial Fx" instrument in the MTDS to be higher than the actual disbursement during the financial year.

3.3.3 Domestic Debt Instruments Coverage

Just like external borrowing, domestic borrowing for FY 2020/21 fell short of the MTDS in terms of instruments allocation. The actual issuances for all the domestic debt instruments increased significantly compared to the projected amounts; most notably the 10-year T-bond increased by 154%. This is explained by the upward revision of the Net Domestic Financing from UGX 3,054 Billion at the time of formulating the MTDS to UGX 6,794 Billion during the implementation of the FY 2020/21 budget**.** The additional borrowing was on account of revenue shortfalls and new expenditure funding pressures occasioned by the Covid-19 pandemic.

Therefore, the upward revision of the Net Domestic Financing target affected the planned instrument allocation for domestic debt issuance hence deviating from MTDS for FY 2020/21.

3.4 Half Year Performance of FY 2020/21 MTDS

By the end of December 2021, some of the operational targets set out in the FY 2021/22 MTDS had been breached. This was majorly attributed to the persistent effect of Covid-19 pandemic and its containment measures like the June-August 2021 lockdown which affected the growth assumptions. In addition, the disturbances associated with Covid-19 pandemic resulted into deliberate effort by government to frontload the entire NDF for FY 2021/22 in the 1st half of the financial year thus contributing to breach in these indicators.

The performance of the MTDS for FY 2021/22 is divided into operational target and disbursement/ issuance performance as detailed below:

3.4.1 Operational Target Performance of Half Year FY 2020/21 MTDS.

Table 4: Cost and Risk Operational Objectives and Half Year Performance of MTDS as at end December 2021.

	Cost and Risk Indicators	Jun-21	Performance H1 FY 2021/22	Objective FY 2021/22
Cost of Debt	External Interest payment as % of GDP	0.4	0.5	<=0.49
	Domestic Interest payment as % of GDP	2.4	2.6	<=2.13
	Total Interest payment as % of GDP	2.8	3.1	<=2.62
Refinancing Risk	External Debt Maturing in 1 YR (% of total)	3.3	4.2	<=4.05
	Domestic Debt Maturing in 1 YR (% of total)	30	25.7	<=21.92
	Total Debt Maturing in 1 YR (% of total)	13.1	12.3	<=10.13
	Domestic T-bill Portfolio	22.5	18.9	<=17.55

Source: MoFPED

i. Cost of Debt

From table 4, total interest payment to GDP increased by 0.3 percentage points in the first half of FY 2021/22 from 2.8% at end June 2021 to 3.1% at end December 2021. This is already above the operational target of 2.62% set in the MTDS of FY 2021/22. The external interest payments to GDP slightly increased by 0.1 percentage points between June 2021 and December 2021. However, this is within the overall target range of a maximum of 0.49% set in the FY 2021/22 MTDS.

Domestic interest payments as a percent of GDP breached the operational target of 2.13% as it increased from 2.4% in June 2021 to 2.6% in December 2021. This can be attributed to front loading of domestic debt in the first half of the FY to cover revenue shortfalls in the budget. This in turn increased the interest payments thereby breaching the operational target.

The other factor contributing to the breach in the operational target for the cost indicators is the persistent effects of Covid-19 pandemic and its containment measures like the June-August 2021 lockdown which affected the growth assumptions. The GDP for FY 2020/21 was projected at UGX 150.24 trillion while the outturn was UGX. 147.96 trillion.

ii. Refinancing Risk/Rollover Risk.

Refinancing risk in the external debt portfolio has been persistently increasing due to gradual shift from concessional to non-concessional borrowing. In the MTDS of FY 2021/22, external debt maturing in one year as percent of the total external debt was set to be less than 4.05%. The above risk indicator increased to 4.2% in December 2021 from 3.3%% in June 2021 thus breaching this operational target. The increase is majorly on the account of maturing short-term budget support loans from commercial banks and principal payments of flagship projects (such as Karuma and Isimba Hydro Power Dam) in the next one year.

Domestic Debt Maturing in 1 year (as a percentage of total) reduced from 30% in June 2021 to 25.7% in December 2021. This is because domestic debt issuances in the longer dated tenors increased significantly. A 20-year Treasury bond instrument was introduced to further support Governments deliberate efforts to issue more longer dated instruments in order to mitigate the refinancing risk in the domestic debt portfolio. However, the operational target of <=21.92% was breached on account of increased NDF targets within the financial year that necessitate the issuance of Treasury Bills that mature within a year.

3.4.2 Instruments Performance of MTDS for FY 2021/22.

Within the first half of FY 2021/22, government borrowed 59% (UGX. 9,203.5 billion) of the planned borrowing for FY 2021/22 MTDS. This is illustrated in table 5.

Table 5: Projected and Actual Disbursement/Issuance for Half Year FY 2021/22 MTDS by Instruments Type, UGX.

Instrument	Projected disbursement FY 2021/22		Actual disbursement as at Dec 21	
	Amount (USD Mn)	Amount (UGX Mn)	Amount (USD Mn)	Amount (UGX Mn)
Total Gross Financing requirement	**4,053.00**	**15,589,538**	**2,591.95**	**9,203,512**
External	**1,418.42**	**5,456,338**	**874.19**	**3,104,075**
Domestic	**2,634.22**	**10,133,200**	**1,717.76**	**6,099,438**
External Debt Instruments				
IDA/ ADF__Fx	283.69	1,091,268	276.81	982,914
Concessional_Fx	212.76	818,451	52.37	185,965
Semi_Concessional_Fx	137.12	527,481	18.47	65,588
Semi_Concessional_Var	340.42	1,309,521	29.25	103,852
Non_Concessional_Fx	-	-	9.17	32,577
Non_Concessional_Var	104.01	400,097	68.90	244,650
Commercial_Fx	-	-	0.02	81
Commercial_Var	340.42	1,309,521	419.19	1,488,448
Eurobond_Fx	-	-	-	-
Total External	**1,418.42**	**5,456,338**	**874.19**	**3,104,075**
Domestic Debt Instruments				
91 & 182 T-Bills_Fixed	289.76	1,114,652	182.58	648,298.84
364 T-Bills_Fixed	921.98	3,546,620	667.06	2,368,586.77
T-Bond 2$3 YR_Fixed	395.13	1,519,980	187.95	667,380.22
T-Bond 5 YR_Fixed	263.42	1,013,320	172.27	611,686.41
T-Bond 10 YR_Fixed	316.11	1,215,984	101.80	361,488.47
T-Bond 15 YR_Fixed	263.42	1,013,320	152.55	541,681.89
T-Bond 20 YR_Fixed	184.40	709,324	253.55	900,315.02
Total Domestic	**2,634.22**	**10,133,200**	**1,717.76**	**6,099,437.63**

Source: DPI, MoFPED

The high performance of 59% within the FY 2021/22 is attributed to the following: `

1. Deliberate effort by the Government to frontload the entire NDF for FY 2021/23 in the 1st half the financial year to to cover revenue shortfalls in the budget.
2. Delayed disbursement of AFREXIM Bank budget support loan for FY 2020/21 to the tune of USD 400 million that disbursed in the 2nd quarter of FY 2021/22.

CHAPTER 4:
FY 2022/23 FINANCING STRATEGY

To determine the FY 2022/23 Government of Uganda Medium Term Debt Strategy (MTDS) and its borrowing plan, four financing options were assessed under uniform macro and market data. The assessment also involved relevant risk/stress scenarios such as interest and exchange rate shocks. The adopted strategy is the most appropriate in terms of cost and risk in line with the set objectives of this financial year's MTDS which are:

i) Manage the refinancing risk of domestic debt by issuing more longer-dated securities;
ii) Manage a borrowing mix that reduces the cost of debt and interest rate risks; and
iii) Manage borrowing quantum to reduce the cost of debt through a plan aligned to the Government financing needs.

This strategy is also anchored on the NDP III as well as the provisions in the recently approved Charter for Fiscal Responsibility (CFR) FY2021/22 - FY 2025/26. The CFR provides that; by FY2025/26, Government's fiscal deficit (including grants) should not exceed 3% and the debt to GDP (in nominal terms) should be kept below 50%.

The projected deficit for FY2021/22 is 7.5%, which is significantly above the target of 3.0% for the CFR due to the continued effects of Covid-19 on the economy and the revenue shortfalls. Basing on the macro-Economic assumptions used in the FY 2022/23 MTDS, the deficit is projected to remain above the target of 3.0% until FY2025/26 when it will decline to 2.3%.

With respect to public debt, the debt to GDP ratio (in nominal terms) was 47% in June 2021, which complies with the CFR target of less than 50% and this ratio is projected to remain below this target by end 2026.

4.1 Baseline Macroeconomic Assumptions

The outturns and projections of the macroeconomic assumptions used in the formulation of the FY 2022/23 MTDS are summarized in Table 6.

Table 6: Summary of the Macroeconomic Assumptions Underlying this MTDS

FY	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2025/67
	Outturns	Projections					
Fiscal Projections (UGX Bn)							
Budgeted Revenue and grants	21,793	23,275	27,740	31,410	36,283	45,327	53,457
o/w grants	1,954	1,774	2,169	1,625	1,574	1,369	1,127
Budgeted Primary expenditure	31,151	30,147	30,694	32,169	37,529	44,848	55,092
Budgeted Interest Payments	4,056	4,947	5,925	5,477	5,546	6,167	3,864
Overall Deficit	13,414	11,819	8,878	6,237	6,792	5,688	5,499
Primary Deficit	9,359	6,872	2,953	759	1,247	- 479	1,636
As a share of GDP							
Domestic revenue	13.41%	13.62%	14.70%	15.26%	15.81%	17.73%	18.75%
Budgeted Primary expenditure	21.05%	19.10%	17.64%	16.49%	17.09%	18.09%	19.74%
Budgeted Interest Payments	2.74%	3.13%	3.41%	2.81%	2.53%	2.49%	1.38%
Overall Deficit	9.07%	7.49%	5.10%	3.20%	3.09%	2.29%	1.97%
Primary Deficit	6.33%	4.35%	1.70%	0.39%	0.57%	-0.19%	0.59%
Memorandum Items							
Real GDP Growth	3.38%	3.82%	6.00%	6.49%	6.97%	7.40%	7.60%
Nominal GDP at Market Prices (shs Bn)	147,962	157,852	173,963	195,142	219,585	247,943	279,131
International Reserves (USD Mn)	3,800	3,800	4,200	4,700	4,900	5,600	

Source: MoFPED

4.1.1 Growth Assumptions

Economic activity in FY 2020/21 was largely impacted by short falls in revenue and the socio-economic impact of the COVID-19 pandemic outbreak. Real GDP growth for FY 2020/21 was 3.4% and is projected to expand to a modest 3.8% in FY 2021/22 due to the gradual recovery from the pandemic. It is expected to pick up to 6.0 % in FY 2022/23 & 6.5% in FY2023/24 following a return to full reopening of the economy & investments in the Oil & Gas sector. It is expected to accelerate even further to 7.4% and above, starting FY 2024/25 due to the benefit from oil revenues.

4.1.2 Fiscal Assumptions

Domestic Revenue as a percentage of GDP is projected to increase to 13.6% by end of FY2021/22 from 13.4% in 2020/21 supported by economic recovery as a result of full reopening of the economy. Thereafter, it is forecast to increase by at least 0.5 percentage points per annum as a result of full operationalization of the reforms under the Domestic Revenue Mobilization Strategy (DRMS) as well as Oil &Gas Revenue expectations from FY2024/25.

Primary Expenditure is projected to gradually slowdown in the near term due to fiscal consolidation to ensure debt sustainability as laid out in the Charter for fiscal responsibility. Recent high outlays have been driven by the impact of the pandemic in terms of revenue shortfalls and Government's support in response to the health and welfare crisis. Expenditure is expected to gradually pick up as Government begins to realize oil revenues but this will be prudently managed by the fiscal rule for oil revenues.

4.2 Analysis of the proposed Medium-Term Strategies

To determine the most appropriate financing option for the FY 2022/23, four strategies were assessed and the results are summarized in table 7.

Table 7: Cost and Risk Indicators of the Proposed Strategies as at June 2026

Risk Indicators		2021	As at end 2026			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		47.1	47.8	47.9	48.1	47.6
Present value debt as percent of GDP		38.5	40.4	40.7	41.5	40.3
Interest payment as percent of GDP		2.8	3.2	3.3	3.5	3.0
Implied interest rate (percent)		6.0	7.1	7.3	8.0	6.6
Refinancing risk	Debt maturing in 1yr (percent of total)	12.3	9.8	11.4	11.6	9.3
	Debt maturing in 1yr (% of GDP)	6.1	4.7	5.5	5.6	4.4
	ATM External Portfolio (years)	11.6	11.2	10.9	10.9	10.8
	ATM Domestic Portfolio (years)	5.5	8.0	8.0	8.0	7.8
	ATM Total Portfolio (years)	9.5	10.0	9.8	9.6	9.8
Interest rate risk	ATR (years)	9.3	9.2	9.3	9.1	8.9
	Debt refixing in 1yr (percent of total)	15.1	23.1	19.7	22.0	26.1
	Fixed rate debt incl T-bills (percent of total)	97.1	85.6	90.7	88.5	81.8
	T-bills (percent of total)	7.8	2.6	2.9	4.3	2.0
FX risk	FX debt as % of total	63.4	63.7	62.7	56.4	68.0
	ST FX debt as % of reserves	10.5	23.8	31.6	23.4	25.8

Source: MoFPED

KEY

Wost performing strategy

Best performing strategy

The proposed strategies in this year's MTDS are as follows:
Strategy 1 (S1): The Existing Macro Economic Framework/Status quo
Strategy 2 (S2): Issuance of an International Bond
Strategy 3 (S3): Increased Domestic borrowing
Strategy 4 (S4): Increased External borrowing

4.2.1 Strategy 1 (S1): Existing Macro Economic Framework

This Strategy represents the existing macroeconomic framework which assumes an average of external and domestic debt borrowing at 41.8% and 58.2% respectively over the medium term.

Out of the external financing, 66.68% is expected at concessional and semi concessional terms in-form of disbursements from traditional and non-traditional creditors in FY 2022/23 while Government expects to borrow 33.32% under semi-commercial and commercial terms.

In terms of domestic financing, this strategy is aligned with Government's effort to increase the average time to maturity of domestic debt. Therefore, Treasury Bonds will account for 57.7% of the total domestic debt and 42.3% will be from Treasury Bills in FY 2022/23.

Assessment of its cost and risk indicators and in-line with the objectives this MTDS intends to achieve, Strategy 1 performs well on the refinancing risk with debt maturing in one year as a percentage of total at 9.8% and Average Time to Maturity (ATM) of 10.0 years. This is attributed to the bigger proportions of concessional and Semi-concessional loans in this strategy with long maturities of between 25 and 40 years.

In regard to cost of debt indicators, S1 also provides an implied interest rate at 7.1%, interest payments as a share of GDP at 3.2% and a debt to GDP ratio of 47.8%.

4.2.2 Strategy 2 (S2): Eurobond Issuance

This strategy maintains the share of domestic and external debt financing at the current Macro-Economic Framework level and introduces the issuance of a Euro-bond constituting an average of 41.4% of external financing over the medium term. The strategy assumes issuance of the Eurobond of USD 1bn in FY2022/23, USD 1bn in FY2024/25 and USD 0.5bn in FY 2025/26. In the recent years, the bond market has become increasingly competitive compared to the loan market in terms of interest rates and repayment terms and provides government with the opportunity for acquiring a big amount of funding to meet its huge investment priorities.

This strategy performs well on the interest rate risk with Average Time to Refixing (ATR) of 9.3 years, debt refixing in one year as a percentage of total at 19.7% and a high fixed rate debt as a percentage of total debt at 90.7%. This is because of the high amount of fixed external debt assumed under this strategy in form of a fixed Eurobond.

The strategy however has a high short term foreign exchange debt as a percentage of reserves at 31.6% and a high cost of debt in terms of interest payments to GDP at 3.3% and an implied interest rate at 7.3% as well as a high debt to GDP ratio of 47.9%.

4.2.3 Strategy 3 (S3): Increased Domestic Debt Borrowing

This strategy focuses on an increase in domestic borrowing from an average of 58.2% in Strategy one to 70% over the medium term. This implies a decrease in external financing to 30%. The aim of this strategy is to develop the domestic market by issuing more domestic debt and reduce the Foreign Exchange risk.

Strategy 3 has the best Average Time to Maturity (ATM) for domestic debt at 8.0 years attributed to the planned issuance of longer dated securities. It also has a low share of foreign currency risk in the total debt portfolio growing to only 56.4% over the medium term. This is because of the high amount of domestic debt assumed in the strategy which is denominated in local currency.

However, in terms of cost of debt, this strategy has a high nominal debt to GDP ratio of 48.1%, interest rate payments as a percentage of GDP at 3.5% and an implied interest rate of 8.0%. On the refinancing risk indicator, Strategy 3 has a high amount of debt maturing in one year of 11.6%, a low Average Time to Maturity (ATM) of 9.6 years.

4.2.4 Strategy 4 (S4): Increased External Debt Financing

In Strategy 4, the proportion of external debt was increased to an average of 48.9% in the medium term compared to 41.8% in Strategy 1. The strategy assumes a gradual shift to external borrowing compared to the current allocation in the macroeconomic framework. The increased allocations are mostly to substitute domestic debt borrowing and therefore assumed to support the budget. The concessional financing projections (in nominal terms) have been maintained to the status quo levels and more allocations given to commercial variable instruments.

In addition, Strategy 4 assumes an increase in commercial borrowing at an average of 24.9% in the medium term from 18.8% in the current/status quo strategy and eliminates the Euro-bond entirely under external financing.

As a result, Strategy 4 has a low cost of debt in terms of nominal debt to GDP at 47.6%, interest Payments to GDP at 3.0%, and implied interest rate of 6.6%. In terms of refinancing risk, the strategy a low amount of debt maturing in one year as a percentage of total with 9.3%.

On refinancing risk, measured by the Average Time to Maturity (ATM), this strategy is second best with ATM of 9.8 years due to the increased commercial debt with shorter maturities assumed in the strategy.

This strategy however has a high foreign exchange risk with foreign exchange debt as a percentage of total at 68.0%. This is attributed to the increase in external debt under this strategy's assumptions. Strategy 4 also lags on the interest rate risk with Average Time to Refixing (ATR) of 8.9 years due to the increased commercial debt anticipated in this strategy.

4.3 FY 2022/23 Financing Strategy

4.3.1 Considerations for and choice of FY 2022/23 Debt Financing Strategy

In line with the objectives of the 2022/23 MTDS, Strategy 4 – Increased External Financing provides the lowest cost of debt by having the lowest Debt to GDP of 47.6%, the lowest interest payments as a percentage of GDP of 3.0% and the lowest implied interest rate of 6.4%. In terms of refinancing risk, the strategy performs best on debt maturing in one year as a percentage of total with 9.3% compared to 9.8%, 11.4 and 11.6 for Strategies 1, 2 and 3 respectively.

Strategy 1 (S1) performs better on Average Time to Maturity (ATM) for total portfolio with 10 years and comes second best with Average Time to Refixing (ATR) of 9.2 years compared to 9.2, 9.0 and 8.9 years for S2, S3 and S4 respectively.

Strategy 2 (S2) performs best on the interest rate risk with the highest Average Time to Refixing (ATR) of 9.3 years ahead of all the strategies as well as debt refixing in one year as a percentage of total at 19.7 years. The strategy however has the highest short term foreign exchange debt as a percentage of reserves at 31.6% and second highest cost of debt in terms of debt to GDP ratio of 47.9%, interest payments to GDP at 3.3% and implied interest rate at 7.3% amongst the 4 strategies.

Strategy 3 (S3) has the highest cost of debt and performs worst on all the indicators on cost of debt, for example it has the highest interest payments as a percentage of GDP of 3.5%, highest Debt to GDP of 48.1% and highest implied interest rate of 8.0%. This strategy also performs worst on most of the refinancing risk indicators.

Strategy 4 (S4) is the most preferred strategy because it has the lowest cost of debt in the medium term if implemented, and is feasible with an average of 48.9% of external debt financing over the medium term.

Therefore, in meeting its debt management objectives in the financial year 2022/23, Government will implement Strategy 4 with more external debt borrowing over the medium term and this will inform the FY 2022/23 borrowing plan.

4.3.2 Operational Targets for FY 2022/23

To assess the performance of the FY 2022/23 financing strategy, we have set operational targets that consist of both cost and risk indicators as shown in Table 8.

Table 8: Operational Targets for FY 2022/23

Cost and Risk exposures	Cost and Risk Indicators	Projected outturns June 2022	Target Ranges 2022/23
Cost of debt	External Debt Interest payment as percent of GDP	0.39	≤0.53
	Domestic Debt Interest payment as percent of GDP	2.27	≤2.40
	Total Interest payment as percent of GDP	2.66	≤2.93
	Total Implied Interest rate (percent)	6.29	≤6.88
Refinancing risk	External Debt maturing in 1yr (percent of Total)	5.58	≤5.28
	Domestic Debt maturing in 1yr (percent of Total)	26.84	≤23.02
	Total Debt Maturing in one year (percent of total)	13.23	≤13.24
Interest rate risk			
	External Debt Refixing in 1 year (percent)	18.45	≤21.42
	Domestic Debt Refixing in 1 year (percent)	22.24	≤23.02
	Total Debt Refixing in 1 year (percent)	19.89	≤20.98

Source: MoFPED

From table 8, Government aims at maintaining interest payments as a share of GDP of not more than 2.93% and total debt maturing in one year as a percentage of total to no more than 13.24% in terms of refinancing risk in FY 2022/23.

4.3.3 The FY 2022/23 Borrowing Plan

The borrowing plan details the expected disbursements and new financing from external debt as well as planned issuances from domestic debt in nominal amounts across the different financing instruments. As shown in table 9, the total gross borrowing will be UGX 19,019.6 billion, of which 64.5% (UGX12,268 billion) will be domestic issuances and 35.5% (UGX 6,752 billion) will be external debt. The external debt financing will be driven by concessional and semi concessional instruments accounting for 59.7% and 40.3% from semi commercial and commercial instruments while domestic debt will issue 42.3% in Treasury Bills and 57.7% in Treasury Bonds in a bid to continue reducing the refinancing risk in the debt portfolio.

Table 9: The FY 2022/23 Borrowing Plan

Instrument	Projected amount in Millions		
	UGX	USD	Share (%)
External debt			
IDA/ ADF_Fx	1,096,708	296.49	16.2%
Concessional_Fx	929,352	251.25	13.8%
Semi_Concessional_Fx	1,274,255	344.49	18.9%
Semi_Concessional_Var	729,022	197.09	10.8%
Semi_Commercial_Fx	234,508	63.40	3.5%
Semi_Commercial_Var	470,683	127.25	7.0%
Commercial_Var	2,017,426	545.41	29.9%
International_Bond_Fx	-	-	0%
Total external	**6,751,955**	**1,825.39**	**100%**
Domestic debt			
T-bills	5,194,484	1,404.33	42.3%
2-Tbond	769,867	208.13	6.3%
3-Tbond	962,334	260.17	7.8%
5-Tbond	769,867	208.13	6.3%
10-Tbond	1,539,734	416.27	12.6%
15-Tbond	1,684,084	455.29	13.7%
20-Tbond	1,347,267	364.23	11.0%
Total domestic	**12,267,637**	**3,317**	**100%**
Total Gross Borrowing	**19,019,592**	**5,141.94**	

Source: MoFPED

4.3.4 Constraints to Implementation

There are potential constraints to the implementation of the strategy which may hinder the achievement of the set cost and risk objectives. Some of the constraints are:

i. Slow external debt disbursements due to various conditions precedent in the financing agreements of external financing as well as borrowing for projects that are not yet ready for execution.

ii. Increase in the fiscal deficit due to the continued impact of Covid-19 pandemic on the economy causing revenue shortfalls.

iii. Expenditure driven rather than revenue-based budgeting will raise the deficit and consequently create the need to borrow more. An increase in borrowing outside the plan will hinder Government’s effort to meet its cost and risk objectives.

4.3.5 Proposed Interventions

As we embark on the implementation of the FY 2022/23 strategy, a number of measures will contribute to its success and mitigate the envisaged constraints/risks.

i. Continued operationalization of the Revenue Mobilisation Strategy (DRMS), which targets to increase domestic revenue to GDP by 0.5 percentage points per annum to reduce the fiscal deficit.

ii. Deliberate fiscal consolidation by reducing the ratio of expenditure to GDP in the medium term

iii. Projected improved performance of the economy arising from full reopening as well as investments in the oil and gas sector.

iv. Enhanced project execution arising from full implementation of the reforms under the Public Investment Management Strategy (PIMS), for timely realization of their benefits and subsequently their impact on economic growth.

v. Realistic expenditure plans that are aligned to the projected revenues and the borrowing plan so as to maintain sustainable debt levels.

vi. Pursuance of a borrowing strategy both externally and domestically that reduces the costs of debt servicing and ensures fiscal and debt sustainability; and

vii. Continued to prioritisation of concessional financing to the extent possible before considering non-concessional credit and limit domestic debt financing to not more than 1 percent of GDP over the medium term.

ANNEX

ANNEX: Glossary of Debt Terms

Average Time to Maturity (ATM): This provides an indicator for the average life of debt. It measures the average length of time it takes for debt instruments to mature and therefore the extent of the refinancing risk exposure. A long ATM implies lower refinancing risk exposure, and vice versa.

Average Time to Re-fix (ATR): ATR provides a measure for the average length of time it takes for interest rates to be reset. The longer the period, the lower the interest rate exposure.

Bilateral Creditor: A type of creditor in the context of external debt. Official Bilateral creditors include governments and their agencies, autonomous public bodies, or official export credit agencies.

Borrower (debtor): The organization or the entity defined as such in the loan contract, which usually is responsible for servicing the debt.

Bullet Repayment: The repayment of principal in a single payment at the maturity of the debt.

Concessional Loans: These are loans extended on terms substantially more generous than market loans. Concessionality is achieved either through interest rates below those available on the market or by longer grace periods, or a combination of these. Concessional loans typically have long grace period.

Creditor: The organization or entity that provides money or resources and to whom payment is owed under the terms of a loan agreement. It is an entity with a financial claim on another entity.

Debt Default: Failure to meet a debt obligation payment, either principal or interest

Debt Disbursed and outstanding: The amount that has been disbursed from a loan commitment but has not yet been repaid or forgiven.

Debt Refinancing: Debt refinancing involves the replacement of an existing debt instrument or instruments including any arrears with a new debt instrument or instruments.

Debt Service: Refers to payments in respect of both principal and interest. Actual debt service is the set of payments made to satisfy a debt obligation, including principal, interest, and any late payment fees. Scheduled debt service is the set of payments, including principal and interest, which is required be made through the life of the debt.

Debt: All Liabilities that are debt instruments

Disbursed Loans: The amount that has been disbursed from a loan but has not yet been repaid forgiven

Domestic debt stock/GDP: This is a commonly used measure of the level of domestic debt relative to the size of the economy.

Domestic debt stock/Private Sector Credit (PSC): This ratio helps monitor the extent to which government borrowing may be crowding out the provision of credit to the private sector.

Domestic Debt: Debt liabilities owed by residents to residents of the same economy

Domestic Interest Cost/Domestic Revenue (excluding grants): This ratio captures the budget sustainability of the domestic debt burden. The benchmark captures the relatively higher risk of accumulation of domestic debt in Uganda due to the relatively low level of Domestic revenue to GDP.

Domestic Interest Cost/Total Government expenditure: This ratio describes the share of total government expenditure that is directed to pay domestic interest costs. This therefore provides an indication of the extent to which available resources are used to meet finance costs at the expense of growth enhancing activities. The higher the ratio, the higher will be the risk of holding back economic growth

External Debt: At any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy.

Face Value: Face value is the undiscounted amount of principal to be paid to the holder at maturity (e.g., the redemption amount of a bond).

Gross Domestic Product (GDP): Essentially, the sum of the gross value added of all resident producer units plus that part (possibly the total) of taxes on products, less subsidies products, that is not included in the valuation of output.

Interest: This is a form of investment income that is receivable by the owner of financial assets for putting such assets and other resources at the disposal of another institutional unit.

International Monetary Fund (IMF): Following the Bretton Woods Accords and established in 1945, the IMF is a cooperative intergovernmental monetary and financial institution with 187 member countries. Its main purpose is to promote international monetary cooperation so to facilitate the growth of international trade and economic activity more generally. The IMF provides financial resources to enable its members to correct payments imbalances without resorting to trade and payments restrictions.

International Development Association (IDA): IDA, established in 1960, is the concessional lending arm of the World Bank Group. IDA provides low- income developing countries (economies) with long- term loans on highly concessional terms typically, a ten-year grace period, a 40-year repayment period, and only a small servicing charge.

Multilateral Creditors: These creditors are multilateral financial institutions such as the IMF and the World Bank, as well as other multilateral development banks.

Nominal Value: The nominal value of a debt instrument is the amount that at any moment in time the debtor owes to the creditor at that moment; reference to the terms of a contract the debtor and creditor typically establish this value. The nominal value of a debt- instrument the value of the debt at creation, and any subsequent economic flows, such as transactions (e.g., repayment of principal), valuation changes

Percent maturing in any year after year one: To avoid refinancing requirements being particularly concentrated in any single year, it is recommended to spread maturities evenly over the maturity curve. This risk control measure helps prevent rollover risk from being simply shifted to a later period, for example from year one to year two.

Percent Maturing in One Year: This is the share of debt maturing in the next twelve months. High proportions are indicative of high levels of interest rate or rollover risk. The risk is more pronounced in less liquid markets.

Present Value (PV): The present value (PV) is the discounted sum of all future debt service at a given rate of interest. If the rate of interest is the contractual rate of the debt, by construction, the present value equals the nominal value, whereas if the rate of interest is the market interest rate, then the present value equals the market value of the debt.

Principal Outstanding: The amount of principal disbursed and not repaid.

Principal Repayment: The payments that are made against the drawn and outstanding amount of the loan

Share of Bonds/Bills: A target for the share of Treasury Bonds to bills outstanding within the domestic debt stock acts as a useful rule of thumb to help in achieving the benchmarks for managing refinancing risk.

Short-Term Debt: Debt that has maturity of one year or less. Maturity can be defined on either an original or a remaining basis.

Spread (Margin): A percentage to be added to some defined base interest rate, such as LIBOR, to determine the rate of interest to be used for a loan.

Stock of Debt: The amount outstanding as of a moment of time.

Treasury Bills: Negotiable securities issued by the government. In general, these are short-term obligations issued with maturity of one year or less. They are traded on a discount basis.

Treasury Bonds: Longer Term securities compared to Treasury Bills. Usually more than a year.

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