MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS) FOR FINANCIAL YEAR 2019/20

Presented to Parliament by
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Minister of Finance, Planning and Economic Development

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Foreword

Pursuant to Sections 13(10) (a)(iv) of the Public Finance Management Act (2015), the Minister of Finance is required to table a plan on public debt and any other financial liabilities, when presenting the National Budget to Parliament.

The Medium-Term Debt Management Strategy (MTDS) is formulated by use of the World Bank and International Monetary Fund excel-based analytical tool taking into account linkages between debt and other macroeconomic fundamentals. Its preparation was with the support of stakeholders including the World Bank, Parliamentary Budget Office and Bank of Uganda. The strategy specifies how the Government plans to structure its debt portfolio in the medium term and operationalize the debt management objectives mindful of the cost and risks associated with the acquisition of the debt.

The Government of Uganda will continue to coordinate debt management within its macroeconomic and financial policy frameworks, since debt management is an important contributor to economic stability and sustainable development.

This strategy provides a cost and risk assessment of th debt portfolio characteristics as at December 2018 and the half year performance of the 2018/19 debt management strategy. Coupled with that is the setting of the target ranges to be adopted while managing public debt during the medium term beginning FY2019/20. The FY 2019/20 MTDS will guide GoU’s borrowing decisions and aims to ensure a well-balanced composition of Government’s debt in terms of costs and risks.

I call upon the Ministry of Finance, Planning and Economic Development and other stakeholders to work towards the successful implementation and realization of this strategy’s objectives, as we collectively develop our country.

For God and my Country,

Patrick Ocailap

For: Permanent Secretary/Secretary to the Treasury

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LIST OF ACRONYMS

AFD	French Agency for Development
AfDB	African Development Bank
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BADEA	Arab Bank for Economic Development of Africa
BOU	Bank of Uganda
DOD	Debt Disbursed and Outstanding
EIB	European Investment Bank
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 Offered Rate
MOFPED	Ministry of Finance, Planning and Economic Development
MTDS	Medium Term Debt Management Strategy
MTFF	Medium Term Fiscal Framework
NDF	Nordic Development Fund
NDP	National Development Plan
PV	Present Value
ST	Short Term

EXECUTIVE SUMMARY

The Medium-Term Debt Management Strategy (MTDS) is a plan that Government intends to implement in the medium term to achieve a composition of the debt portfolio that captures the Government's preferred balance between costs and risks. The strategy specifies how the Government plans to structure its debt portfolio in the medium term and operationalizes the debt management objectives, taking into account the constraints and, more specifically, the government's preferences with regard to cost-risk trade-offs.

The FY 2019/20 MTDS is the fifth published edition and the objectives of this MTDS are to:

i. Meet Government's financing needs at the lowest possible cost, aimed at preventing debt service spikes and policy reversals.

ii. Manage the total interest payments as a percentage of GDP.

iii. Manage the domestic debt refinancing risk by issuing more longer-dated securities and reducing the issuance of treasury bills (T- Bills).

The stock of total government debt rose to USD 11.5 billion at end-December 2018 from USD 10.2 billion at end-December 2017, as a result of both increased domestic debt issuances and external debt disbursements. Domestic debt constituted USD 3.9 billion (33.5%) of the total public debt portfolio, while external debt amounted to USD 7.7 billion (66.5%). Domestic debt was composed of 75% treasury bonds, equivalent to UGX 10.5 trillion, and 25% treasury bills, equivalent to UGX 3.7 trillion. The external debt portfolio comprises USD 5.0 billion from multilateral creditors, USD 2.6 billion from bilateral creditors and USD 0.08 billion from commercial creditors.

Under the FY 2018/19 strategy, government was able to reduce the refinancing risk embedded in the domestic debt portfolio: Average Time to Maturity (ATM) increased from 3.7 years in December 2017 to 4 years in December 2018. This was a result of deliberate effort to issue longer-dated securities.

The FY 2019/20 strategy seeks to maintain the financing mix from FY 2018/19. The mix constitutes a large share of concessional borrowing, which will in part be realized by unlocking undisbursed loan balances amounting to USD 4.01 billion, non-concessional borrowing, a small proportion of commercial borrowing, and increasing the issuance of long-term domestic debt securities (treasury bonds), as a proportion of the net domestic debt financing.

Given the large share of foreign currency debt in Governments' debt portfolio, it is recommendable to aim for an increase in the value and volume of exports. Increased exports will allow Government to limit the foreign exchange rate risks embedded in the portfolios. This coupled with a deliberate increase in tax revenues to reduce the cyclical fiscal deficit.

CHAPTER 1: INTRODUCTION

1.1 Background

The Medium-Term Debt Strategy (MTDS) is a plan for the evolution of the public debt portfolio that operationalizes the debt management objectives given the constraints, and specifically the government's preferences with regard to cost-risk trade-offs. It has a strong focus on managing the risk exposure embedded in the debt portfolio, and notably the potential variations in the cost of debt servicing.

The MTDS is aimed at assisting government in decision making on how financing needs can be met, at the least possible cost, subject to a prudent degree of risk and consistent with the macroeconomic framework and potential sources of financing.

It involves tactical decisions, and coordination with other public sector policies, while ensuring financing constraints do not lead to sharp reversals in fiscal policy ***or spikes in interest costs.*** Policy reversals can happen if debt service costs increase and government is forced to deviate from its planned investments or policies. Thus, a sound MTDS contributes to reduced macro-financial risks, complementing prudent fiscal management and monetary policy implementation. Debt management also contributes to market and institutional development.

The main components addressed by the MTDS framework include the:

i. Objectives and scope of debt management;
ii. Characteristics of the existing debt portfolio and identification of risk priorities;
iii. Sources of potential domestic and external financing;
iv. Macroeconomic framework and structural factors, baseline pricing assumptions and shock scenarios; and,
v. Comparison of alternative funding strategies based on estimates of cost and risk.

Moreover, to the extent that the MTDS will shape future debt compositions, it can assist fiscal authorities by identifying strategies with interest costs and repayment profiles consistent with fiscal sustainability.

The FY 2019/20 strategy is based on debt data of Central Government borrowing from the external and domestic debt sources. Central Government borrows on behalf of extra budgetary institutions and local Governments and so their debt data is captured under central Government.

1.2 Overall Debt Management Objectives

The debt management objectives as stipulated in the Public Debt Management Framework are as follows:

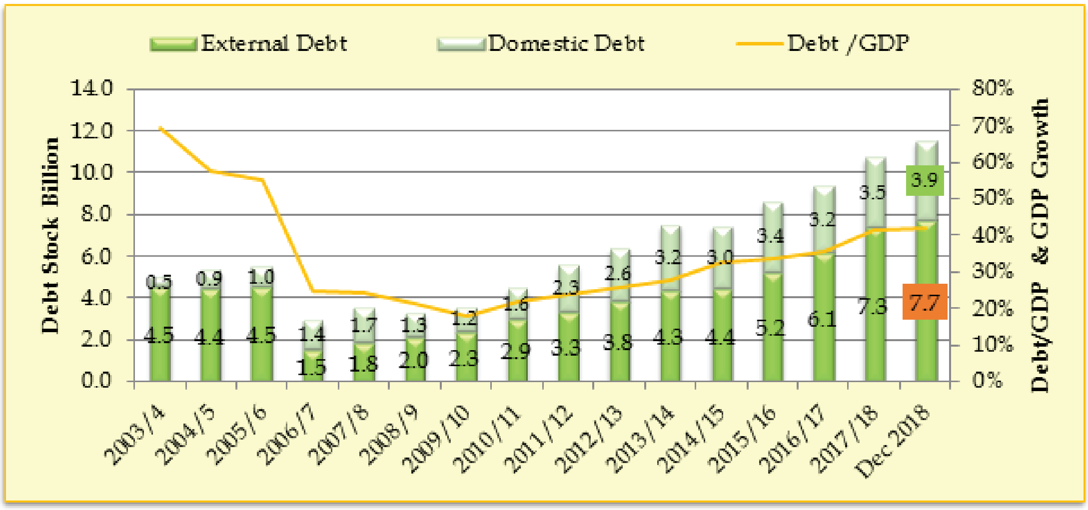
i. To meet Governments Financing needs at the lowest possible cost subject to a prudent degree of risk and,
ii. To promote the development and functioning of the domestic financial market.

CHAPTER 2: PUBLIC DEBT PORTFOLIO ANALYSIS AS AT DECEMBER 2018

2.1 Level of Government Debt (Domestic and External)

As at end December 2018, total debt stock was USD 11.5 billion equivalent to UGX 42.6 trillion up from USD 10.7 billion equivalent to UGX 41.7 trillion at end June 2018. This represents an increase in debt stock of 7.2% equivalent to USD 772.6 million in six months.

Figure 1: Public Debt Stock Trend to December 2018



Source: Debt Policy and Issuance Department, MoFPED

Figure 1 above illustrates the time series of external debt, domestic debt and total debt to GDP proportions from FY 2003/2004 to end December 2018. As at Dec 2018, out of the total debt stock, 66.5% amounting to USD 7.7 billion (UGX 28.4 trillion) was attributed to external debt while 33.5% equivalent to USD 3.85 billion (UGX 14.3 trillion) was on account of domestic debt. The increase in debt stock is attributed to improved disbursements of external debt commitments and an increase in domestic debt issuances. At the same time, undisbursed external debt was USD 4.04 billion compared to USD 4.47 billion at end June 2018.

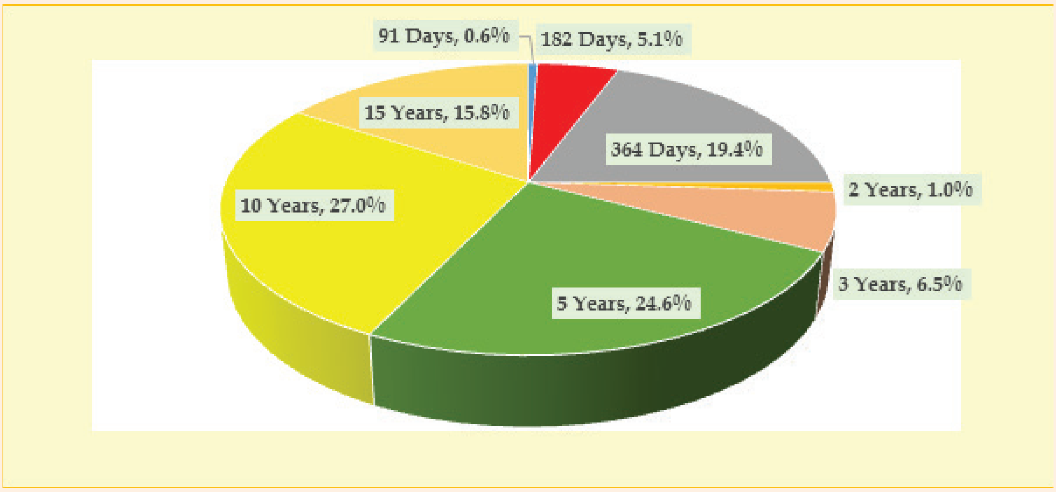
2.2 Composition of Government Debt as at December 2018

The composition of Government's debt portfolio determines the cost and risk there in. Hence, the sections below provide a snap shot of various dimensions of the composition of Governments debt portfolio.

2.2.1 Domestic Debt Composition

As at end December 2018, domestic debt stock was composed of 25% or UGX 3.5 trillion in treasury bills and UGX 10.7 trillion in treasury bonds.

Figure 2: Domestic Debt Composition by Maturity at End December 2018



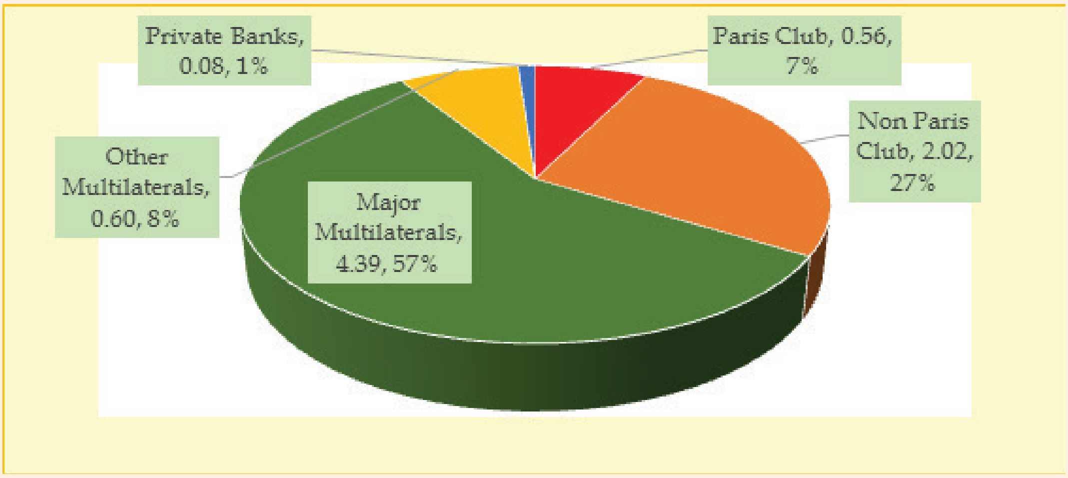
Source: Debt Policy and Issuance Department (DPID), MoFPED

As shown in figure 2 above, the domestic debt portfolio has slightly shifted with more stock being held under the 10-year bond at 27% (UGX 3.9 trillion) compared to last year where most of the domestic debt stock was concentrated under the 5-year bond. Despite a reduction in the 5-year bond stock, it is the second largest in the portfolio at 25% (UGX 3.5 trillion) and the 364-Day Treasury bill at 19.4% follows in third position equivalent to UGX 2.8 Trillion. The increase in stock of longer dated instruments is due to the deliberate strategies undertaken to reduce the domestic debt refinancing risk in the domestic debt portfolio.

2.2.2 External Debt Composition

As at December 2018, external debt amounted to USD 7.7 Billion up from USD 6.9 billion in December 2017 representing an 11.6% increase of USD 0.8 billion.

Figure 3: External Debt Composition by Creditor



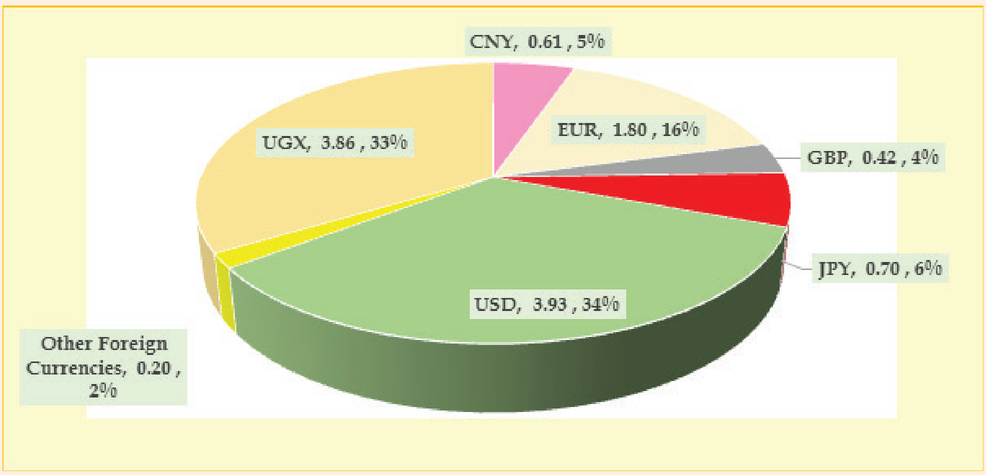
Source: Debt Policy and Issuance Department (DPID), MoFPED

As in figure 3 above, out of the USD 7.7 billion, 33.8% equivalent to USD 2.6 billion is of the share by bilateral creditors, while 65.6% and 0.75% amounting to USD 5 .0 billion and USD 49 million is attributed to Multilateral and Commercial Creditors respectively.

2.2.3 Public Debt by Currency Composition

The ratio of external debt to domestic debt signifies total public debt by foreign currency and domestic currency composition. Foreign currency debt was dominated by the USD and EURO as indicated in Figure 4 below.

Figure 4 : Government Debt by Currency Composition at end December 2018



Source: Debt Policy and Issuance Department (DPID), MoFPED

2.2.4 Public Debt Composition by Interest Rate Type

On average, Uganda's public debt portfolio is composed of 93% fixed interest rate debt. However, the share of variable interest rate loans increased from 3% at end December 2017 to 7% as at December 2018 and was composed of only external debt as all domestic debt is contracted at fixed rate market terms.

2.3 Cost and Risk of the Public Debt Portfolio as at End December 2018

The diverse financing instruments account for the composition of the public debt portfolio. Instruments include concessional, non-concessional, variable interest rate, fixed interest rate, commercial, short term and long-term debt amongst the many diverse financing options.

The composition may often than not determine the cost and risk of a particular country's debt portfolio.

Table 1: Public Debt Portfolio Cost and Risk as at end December 2018

Risk Indicators		Dec-2017			Jun-18			Dec-2018		
		External	Domestic	Total	External	Domestic	Total	External	Domestic	Total
Amount (in millions of USD)		6.9	3.4	**10.2**	7.3	3.5	**10.7**	7.7	3.9	**11.5**
Nominal debt as % GDP		25.6	12.5	**38.1**	18.0	13.3	**41.5**	27.8	14.0	**41.8**
PV as % of GDP		15.7	12.5	**28.2**	18.0	13.3	**31.3**	17.7	14.0	**31.7**
Cost of debt	*Interest payment as % GDP*	0.4	1.8	**2.2**	0.5	1.8	**2.3**	0.4	1.9	**2.3**
Refinancing risk	*ATM (years)*	15.6	4.0	**11.8**	15.0	3.8	**11.4**	14.4	4.0	**10.9**
	Debt maturing in 1yr (% of total)	3.1	32.5	**12.8**	2.9	36.2	**13.6**	2.3	36.6	**13.8**
Interest rate risk	*ATR (years)*	15.2	4.0	**11.5**	14.6	3.8	**11.1**	13.9	4.0	**10.6**
	Fixed rate debt (% of total)	96.0	100.0	**97.3**	93.9	100.0	**95.8**	92.9	100.0	**95.3**
FX risk	*FX debt (% of total debt)*			**67.1**			**67.9**			**66.5**

Source: Debt Policy and Issuance Department (DPI) MoFPED

2.3.1 Cost of Debt

At the end of December 2018, total government debt interest payments as a share of GDP increased to 2.3% from 2.2% at the end of December 2017. This was on account of an increase in domestic debt interest payments arising from an increase in domestic debt issuances. Over the period domestic interest payments rose from 1.8% to 1.9% of GDP.

2.3.2 Refinancing/ Roll Over Risks

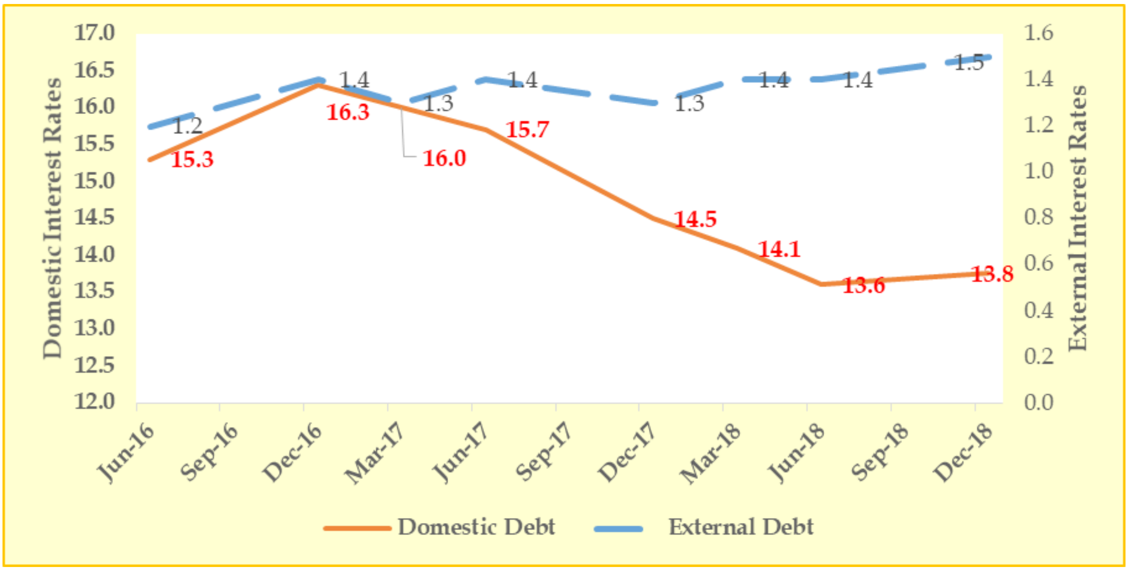
The major roll over risks are debt maturing in one year as a percentage of total debt and Average Time to Maturity (ATM). ATM refers to the average length in years it takes for a government to pay off the debt portfolio. The longer the ATM the less risky the portfolio is deemed to be as it will take a longer time for Government to pay off the debt hence less strain on the budget.

At the end of December 2018, the ATM had reduced to 10.9 years from 11.8 years at December 2017 on account of a reduction in the ATM of external debt whose new debt was acquired at shorter maturities. The total debt maturing in one year as a percentage of total debt increased from an average (domestic and external) of 12.8% to 13.8% due to an increase in the issuance of short dated instruments in form of 91, 182 and 364-day Treasury Bills whose maturity falls within one year. Specifically, domestic debt maturing in one year increased from 32.5% to 36.6% of total domestic debt.

2.3.3 Interest Rate Risks

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

Figure 5: Weighted Average Domestic and External Interest rates to December 2018



Source Debt Policy and Issuance Department (DPI) MoFPED

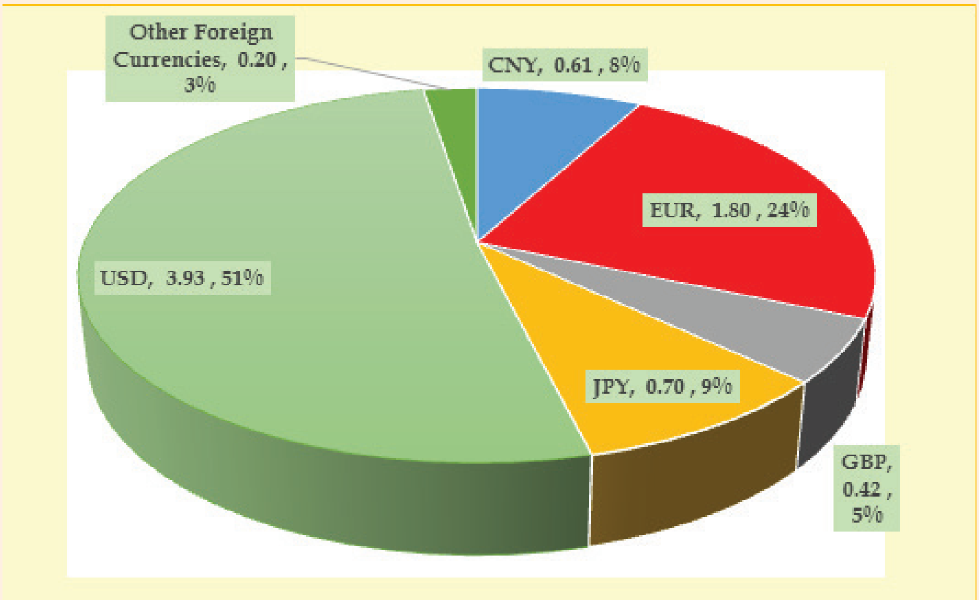
A portfolio that has 100% fixed rate debt will have its ATR equal to ATM hence the movement of the ATR in the government of Uganda's domestic debt portfolio is the same as its ATM explained in Figure 5 above. On the other hand, because the composition of external debt includes variable rate debt, the external ATR during the period moved from 15.2 to 13.9 years. In the current high interest rate environment, a shorter ATR is disadvantageous because interest rates change to a higher rate in a short time hence higher debt service costs.

Hence, in a high and increasing interest rate environment government would need to as much as possible accrue concessional fixed rate date to mitigate against rising reference rates especially the London Interbank Bank Offer Rate (LIBOR).

2.3.4 Exchange Rate Risk

The share of foreign currency debt as at December 2018 stood at 66.5% of the total debt portfolio compared to 67.1 as at end December 2017.This remains high and calls for Government to step up efforts to increase the value and volume of exports to be able to pay off this foreign currency debt.

Figure 6: External Debt Currency Exposure



Source: Debt Policy and Issuance Department (DPI) MoFPED

Figure 6 above illustrates how government's foreign currency denominated debt is mainly composed of the USD at 50% equivalent to USD 3.93 billion followed by the EURO at 24% equivalent to USD 1.8 billion.

CHAPTER 3: PERFORMANCE OF THE FY 2018/19 MTDS

The specific objectives of the FY 2018/19 MTDS were to:

(i) reduce the refinancing risk embedded in the Public Debt portfolio by reducing the issuance of short-term instruments that is the T-Bills while increasing issuances of the longer dated securities that is the T–Bonds; and

(ii) to meet Government financing needs at the lowest possible cost subject to a prudent degree of risk.

Highlighted in table 2 below is the cost and risk performance of the strategy as at end December 2018.

Table 2: Half Year Performance of the FY 2018/19 Financing Strategy

Cost and Risk Exposures	Cost and Risk Indicators	Dec-17	Target Ranges FY2018/19	Half Year Performance
Cost of Debt	*External Interest Payment as % of GDP*	0.4	0.3	0.4
	Domestic Interest Payment as % of GDP	1.8	1.7	1.9
	Total Interest Payment as % of GDP	2.2	2.1	2.3
Refinancig Risk	*External Debt Maturing in one Year (% of Total)*	2.7	<0.64	2.26
	Domestic Debt Maturing in one Year (% of Total)	38.4	≤38.2	36.57
	ATM External Portfolio	16	≥17.22	14.39
	ATM Domestic Portfolio	3.7	≥5	4.01
Interest Rate Risk	*External Debt Refixing in one Year(% of Total)*	6	9.43	9.25
	External Debt Refixing in one Year(% of Total)	38.4	38.2	36.57
	ATR External Portfolio (Years)	15.7	16.35	13.93
	ATR DomesticPortfolio (Years)	3.7	5	4.01
Foreign Currency Risk	*Foreign Currency Risk (% of total debt)*	66.2	65.4	66.48
	Short Term forex debt (% of reserves)	5.2	4.63	5.25

Source: Debt Policy and Issuance Department (DPI) MoFPED

3.1 Cost of Debt

The FY 2018/19 Medium Term Debt Management Strategy (MTDS) projected the cost of total debt (external and domestic) regarding interest payments as a share of GDP to rise to 2.1%. However, by end December interest payments to GDP of the total debt had exceeded the projected ratio by 0.2% to reach 2.3%. This was on account of increased interest payments on both external and domestic debt but more so due to an increase in domestic debt issuances to supplement the budget.

3.2 Refinancing Risk

The external debt maturing in one year as a percent of total external debt was projected at 0.64% but increased to 2.3% at end December 2018. The increment is attributed to acquisition of non-concessional and commercial loans that have a shorter maturity profile. On the other hand, the domestic debt maturing in one year stood at 36.6% at end December 2018 compared to the FY 2018/19 Projection of 38.2%. The reduction in the refinancing risk in the domestic debt portfolio is due to the deliberate steps that Government has taken to issue longer dated securities (T – Bonds). The reduction in the domestic debt refinancing risk is in line with the MTDS objective for FY 2018/19.

3.3 Foreign Currency Risk

The share of external debt in the public debt portfolio rose to 66.5% at end December 2018 compared to the projection of 65.4%. This is attributed to improved disbursements during the period. Government however needs to persistently pursue the export promotion strategies to improve the export earnings for increased foreign currency earnings, which can be used to pay off the ever-increasing external debt.

CHAPTER 4 : FY 2019/20 FINANCING STRATEGY

Given the critical path to middle income and eventually to a transformed Ugandan society from a peasant to a modern and prosperous country within 30 years, the Government of Uganda continues to finance her huge infrastructure needs through borrowing. This requires adoption of the most appropriate financing strategy in terms of cost, risk and feasibility. The financing strategy would be the one that meets Governments cost and risk appetite but also ensures debt sustainability.

4.1 FY 2019/20 Debt Management Objectives

i. Meet Governments financing needs at the lowest possible cost aimed at preventing debt service spikes and policy reversals

ii. To manage the total interest Payments as a percentage of GDP

iii. Manage the domestic debt refinancing risk by issuing more longer dated securities and reducing the issuance of Treasury Bills (T- Bills)

4.2 Key Macro Economic Assumptions

Table 3: Key Macro Economic Assumptions

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Fiscal Projections (UGX Billion)					
Revenues and grants	15,149.56	17,503.47	21,117.28	23,594.46	26,458.85	29,928.09
Revenues	14,506.93	16,358.78	19,331.99	22,063.15	25,218.96	28,852.52
Grants	642.63	1,144.70	1,785.29	1,531.31	1,239.89	1,075.56
Primary expenditures	17,922.93	20,863.12	26,048.60	28,505.18	31,091.71	33,859.73
Total interest expenditure	2,246.07	2,514.07	3,075.61	3,037.70	3,277.19	3,476.05
Total expenditures	20,169.00	23,377.19	29,124.20	31,542.88	34,368.90	37,335.78
Primary Deficit	(2,773.36)	(3,359.65)	(4,931.31)	(4,910.72)	(4,632.86)	(3,931.65)
Overall Budget Deficit	(5,019.44)	(5,873.72)	(8,006.92)	(7,948.42)	(7,910.05)	(7,407.70)
International reserves (USD million	3,221.20	3,108.59	3,376.75	3,649.28	3,854.24	4,198.97
As a Percentage of GDP						
Revenues and grants	0.0%	15.9%	17.3%	17.3%	17.4%	17.6%
Grants	0.6%	1.0%	1.5%	1.1%	0.8%	0.6%
Total expenditures	20.1%	21.2%	23.9%	23.2%	22.6%	22.0%
Primary Deficit	-2.8%	-3.1%	-4.0%	-3.6%	-3.1%	-2.3%
Overall Budget Deficit	-5.0%	-5.3%	-6.6%	-5.8%	-5.2%	-4.4%
Memorandum Items						
GDP	100,530.51	110,023.50	121,857.76	136,115.39	151,776.16	169,621.03

Source: Macro Economic Policy Department

The table 3 above highlights key Macro economic assumptions that impact Governments financing. A decrease in revenues coupled with an increase in expenditure would increase the deficit during the year thus affecting the debt Management objectives stipulated above. The credibility of the strategy therefore depends on Governments commitment to keep within the year's projected macro-economic parameters.

4.3 Analysis of the Proposed Financing Strategies for FY 2019/20

To meet the overall budget deficit, four feasible strategies were analysed. These strategies are based on Governments existing borrowing practices; probable creditors for ongoing projects; some of the loans that have been negotiated; International bonds; commercial credit; and infrastructure bond.

A strategy entails a different composition of debt instruments and will influence the debt portfolio over the strategy period. The costs of different strategies change under different assumptions regarding interest and exchange rates.

The mix of instruments in each strategy include the following and are generally grouped based on their terms:

i. African Development Bank
ii. Concessional Fixed (other Multilaterals and Bilaterals)
iii. Non-Concessional Fixed
iv. Non-Concessional Variable
v. Commercial Fixed
vi. Commercial Variable
vii. The International Bond
viii. T-Bills
ix. 2-3 Year Bonds
x. 5year Bonds
xi. 10 Year Bonds
xii. 15 Year Bonds
xiii. 20 Year Bonds

*Each strategy will have different shares of the above instruments.

4.3.1 Strategy 1(1) - Under this strategy, 50% of the gross financing need will be funded through external borrowing and the other 50% through domestic sources in form of Treasury bills and bonds. The high percentage of domestic borrowing is to take into account domestic debt redemptions and Net domestic Financing (NDF)

Over the projection period 16% of the total financing will be from the major Multilaterals i.e. African Development Bank and the World Bank while 13% will be from commercial creditors. 28% will be borrowed in form of Treasury bills while 22% will be from longer dated instruments, the Treasury Bonds.

4.3.2 Strategy 2 (S2) - The International Bond strategy is kept within the same ratio of external to domestic financing as strategy 1 at 50%: 50%. In this strategy and over the projection period the international bond will account for 11% of total financing, 14% from the major Multilaterals and 10% from commercial Creditors. The same ratios are maintained for domestic debt.

4.3.3 Strategy 3(S3) - The Commercial Credit Strategy. In this Strategy, the Government of Uganda envisages to borrow 23% of the total amount from commercial sources, while

18% will be from concessional Creditors. Domestic debt borrowing is maintained as in S (1) and S (2)

4.3.4 Strategy 4 (S4) - The domestic Bond Strategy constitutes 69% domestic and 31% external borrowing. Under this strategy, the share of longer dated securities is increased from 22% to 40%. The 20-year infrastructure bond is introduced in this strategy and will constitute 4% of new borrowing.

On average S1, S2 and S3 will constitute 50% external and domestic financing while S4 will have 30% external and 70% domestic financing.

Table 4: Average Gross borrowing from each instrument as at end FY 2022/23

% and amounts in USD of gross borrowing - As at end FY 2023										
Debt Instrument	Source	Current (FY2017/18)	S1(Macro)		S2(International Bond)		S3(Commercial Credit)		S4(Domestic)	
Existing and New AfDF/Existing IDA	*External*	4,249	16%	6,833	14%	6,510	11%	6,070	10%	5,840
Concessional_Fx	*External*	787	6%	1,696	5%	1,571	6%	1,851	4%	1,345
Non_Concessional_Fx	*External*	1,712	13%	3,697	9%	2,940	8%	2,808	8%	2,920
Non_Concessional_Var	*External*	53	2%	441	2%	449	3%	547	1%	300
Commercial_Fx	*External*	101	4%	642	4%	550	**7%**	**708**	3%	387
Commercial_Var	*External*	391	9%	1,998	6%	1,452	**16%**	**3,269**	6%	1,413
International_Bond	*External*	0	0%	0	**11%**	**1,981**	0%	0	0%	0
T-Bills_Fixed	*Domestic*	908	28%	901	28%	935	27%	991	**29%**	**1,233**
T-Bond 2 YR_Fixed	*Domestic*	319	8%	511	8%	525	8%	555	**11%**	**902**
T-Bond 5 YR_Fixed	*Domestic*	985	3%	551	3%	558	3%	570	**10%**	**1,811**
T-Bond 10 YR_Fixed	*Domestic*	738	7%	1,814	7%	1,833	7%	1,863	**7%**	**1,903**
T-Bond 15 YR_Fixed	*Domestic*	501	4%	1,152	4%	1,162	4%	1,177	**8%**	**1,930**
T-Bond 20 YR_Fixed	*Domestic*	0	0%	0	0%	-	0%	0	**4%**	**716**
External		7,292	50%	15,308	50%	15,452	50%	15,252	31%	12,205
Domestic		3,450	50%	4,929	50%	5,013	50%	5,155	**69%**	**8,496**
		10,742	**100%**	**20,237**	**100%**	**20,465**	**100%**	**20,407**	**100%**	**20,701**

Source: FY 2019/20 Medium Term Debt Management Strategy Analytical Tool kit, Debt Policy and Issuance Department (DPID)

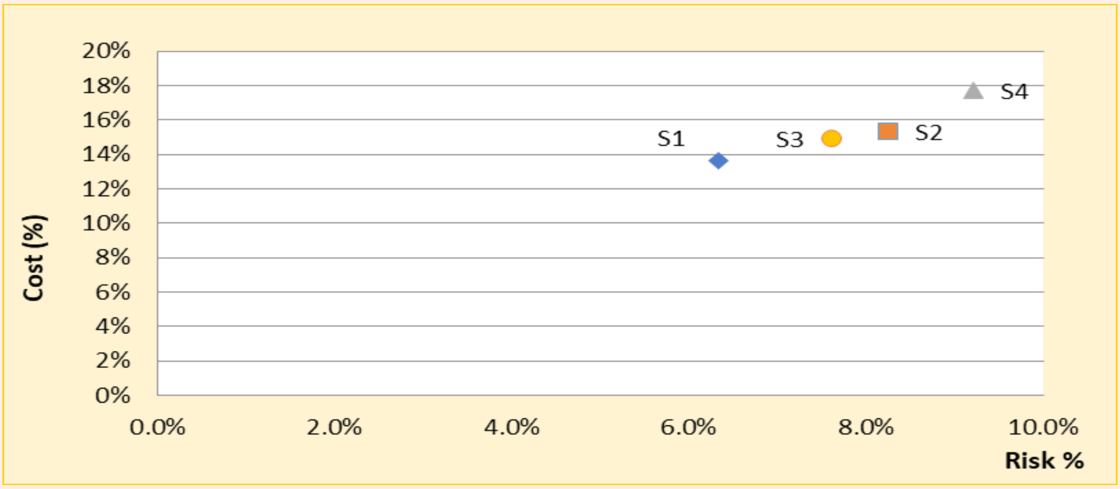
Strategy 1 presents the lowest cost at 2.4% interest payments as a percentage of GDP and S4 the highest cost at 3.1%.

The international bond strategy has the lowest refinancing risk of all the four strategies with 9% of debt maturing in one year as a percent of total compared to the domestic debt strategy at 11.1%. Despite a reduction in the refinancing risk embedded in the domestic debt portfolio it remains quite high compared to the risks with in the external debt portfolio. This is because external debt credit still has longer tenors compared to domestic debt.

The Commercial Credit Strategy has the highest interest rate risk with 28.8% of the debt re-fixing or resetting in one year. This is because most commercial credit is offered at variable interest rates hence most interest rates change quarterly or semi-annually as a result of the variable nature of interest rates. The international Bond has the lowest debt re-fixing in one year because its interest is fixed through the life of the Bond. Strategy 1 has a relatively high interest rate risk because embedded in the strategy is 9% commercial variable rate debt instruments as indicated in table 3 above.

Strategies 1, 2 and 3 have an almost equal share of foreign currency debt as a percentage of total debt at 75% while S4 the domestic debt strategy has 59% foreign currency. Hence S4, the domestic debt strategy has the lowest foreign currency risk of all the four strategies.

Figure 7: Interest to Revenue as at end 2023 for strategies 1 – 4



Source: FY 2019/20 MTDS Analytical Tool kit, DPID, MoFPED

Strategy 1, presents the lowest interest payments to revenue as at end 2023 as indicated in figure 7 above.

Table 5: Cost and Risk Indicators of the Four Proposed Financing Strategies at end FY 2022/23

Cost and Risk Indicators		FY 2017/18	As at end 2023			
		Current	S1(Macro)	S2 (International Bond)	S3(Commercial Credit)	S4 (Domestic)
Nominal debt as % of GDP		41.5	47.9	48.4	48.3	49.0
Present value debt as % of GDP		30.9	36.8	39.7	38.4	40.0
Interest payment as % of GDP		2.2	**2.4**	2.7	2.6	3.1
Implied interest rate (%)		5.3	5.7	6.3	6.2	7.3
Refinancing risk	*Debt maturing in 1yr (% of total)*	13.6	9.4	9.0	10.3	11.1
	Debt maturing in 1yr (% of GDP)	5.6	4.5	4.3	5.0	5.4
	ATM External Portfolio (years)	15.0	14.2	13.5	13.4	13.8
	ATM Domestic Portfolio (years)	3.8	5.2	5.2	5.2	6.4
	ATM Total Portfolio (years)	11.4	**12.2**	11.7	11.5	11.0
Interest rate risk	*ATR (years)*	11.1	11.3	11.0	10.0	10.4
	Debt refixing in 1yr (% of total)	17.6	21.3	18.1	28.8	19.2
	Fixed rate debt (% of total)	95.9	87.9	90.7	81.3	91.7
FX risk	*FX debt as % of total*	67.9	75.6	75.5	74.7	59.0
	ST FX debt as % of reserves	6.5	13.9	11.3	15.8	11.2

Source: FY 2019/20 MTDS Analytical Tool kit, DPID, MoFPED

Table 6 above highlights the costs and risks arising from each of the four financing strategies.

4.4 Considerations for Choice of FY 2019/20 Strategy

The choice of the FY 2019/20 financing strategy is based on the following factors,

i. Over the past year Ministry of Finance, Planning and Economic Development has received expressions of Interest to fund Government projects from diverse Commercial Creditors. This implies the availability of commercial credit to the Government of Uganda for her priority development needs. Commercial credit can easily be accessed in a short time implying that as long as project feasibility studies are ready, commercial creditors are ready to disburse hence a quick implementation of projects, as was the case with the commercial borrowing regarding Kabaale International Airport

ii. The considerable size of undisbursed debt as at end December 2018 of USD 4.1 billion Comprises of close to 70% concessional and semi concessional commitments. It is anticipated that close to 30% of this amount will be disbursed due to the measures that Government of Uganda has put in place to improve loan absorption. The envisaged disbursements will represent new borrowing and therefore makes borrowing on concessional and non-concessional terms feasible in the coming financial year.

iii. The development financing landscape has over the years gradually changed from a dominance of traditional multilateral and bilateral creditors offering concessional and smaller amounts of credit to non-traditional lenders offering non concessional and relatively larger amounts of credit. Such credit is suited to the Governments current huge infrastructure. All the non-traditional lenders offer debt in foreign currency hence making a strategy that is dominated by foreign currency debt feasible.

iv. The main investors in government securities are banks whose demand is for short dated instruments with a high refinancing risk. At the same time domestic interest rates are relatively high leading to high interest payments which take up a large share of the domestic revenues. In addition, Private Banks prefer to lend to Government which is deemed to be risk free as compared to private companies and individuals. Increased domestic debt issuance consequently leads to crowding out of private sector. As such it is important that domestic borrowing is kept at a minimum.

Based on the above considerations, the most feasible strategy that is recommended for Government in the FY 2019/20 is one that will provide the lowest cost, one that provides adequate amounts for financing of governments programs, and one that doesn't constrain the economy by crowding out private sector borrowing.

Strategy 1 is the most feasible financing; cost and risk strategy recommended for Government in the medium term however, it results into an increase in foreign currency debt and short-term foreign currency debt as a share of Government reserves. The increase in such foreign currency obligations calls for Government to continue stepping up her efforts to promote the volumes and value of exports in order to earn more foreign currency, which will be used to pay back debt.

Secondly the achievement of the benchmarks here in are dependent on Governments discipline to adhere to the strategy without which the target ranges highlighted in table 5 will easily be violated.

4.5 The MTDS/ Financing, Cost and Risk Management Strategy Implementation Plan

An Implementation Plan to operationalise this MTDS 2019/20 shall be drawn at the close of FY 2018/19. Going forward each proposed borrowing shall be assessed against the MTDS FY 2019/20 to find out if it is in line with any of the instruments. If the share of instruments has been exhausted the creditors and borrowing authorities will be advised to borrow through another instrument where there is room.

Table 6 : Operational Objectives for the FY 2019/20 Financing Strategy (S1)

Cost and Risk Indicators	FY 2017/18 Outturns	Objective FY2018/19	Half year performace (December 2018)	Target/Ranges FY2019/20
Cost of Debt				
External Interest payment as % of GDP	0.39		0.41	0.4-0.5
Domestic Interest payement as % of GDP	1.81		1.93	1.78-1.9
Total Interest Payment as % of GDP	2.20		2.34	2.19-2.4
Refinancing Risk				
External Debt maturing in 1 YR (% of Total)	2.86	<0.64	2.16	≤2.6
Domestic Debt maturing in 1 YR (% of Total)	36.16	≤38.18	36.60	≤39.26
ATM External Portforlio (Years)	15.03	≥17.22	14.71	≥16.45
ATM Domestic Portforlio (Years)	3.82	≥5.00	4.00	≥4.92
Interest Rate Risk				
ATR External Portforlio (Years)	14.58	16.35	14.19	14.8-20
ATR Domestic Portforlio (Years)	3.82	5.00	4.00	4.92-6
External Debt Refixing in 1 YR (% of total)	8.89	9.43	9.23	16.97-17
Domestic Debt Refixing in 1 YR (% of total)	36.16	16.92	36.60	17.3-18
Exchange Rate Risk				
FX debt (% of total debt)	67.18	65.40	66.36	65.76-66
ST FX debt (% of reserves)	6.47	4.63	5.00	7.58-8

Source: Debt Policy and Issuance Department, MoFPED

In the table 6 above illustrates the FY 2017/18 outturns, the current year objectives, current FY 2018/19 half year performance and target ranges for FY 2019/20 for all the cost and risk indicators.

4.6 Potential Constraints to the Performance of the FY 2019/20 Financing, Cost and Risk Management Strategy:

i. There is limited use of the selected strategy particularly when debt is largely concessional, and especially when it relates to financing of investment projects.

ii. Stakeholder's failure to adhere to the net domestic financing plan. This would intermittently alter the target ranges aimed at managing the costs and risks during the financial year.

iii. The management of cost and risk is a relatively new concept to the stakeholders and until it is appreciated, the relevance of the strategy may continue to be a challenge. However, it is hoped that through quarterly monitoring of and reporting on the implementation of the strategy, the different stakeholders will come to appreciate its relevance more.

iv. Revenue shortfalls during FY2019/20 could widen the fiscal deficit and result into increased borrowing. This would impact the cost and risk indicators during the period.

v. The domestic primary market for government securities is not well developed because of the narrow investor base which is mainly composed of the banking sector whose preference is investment in short-term instruments i.e. Treasury Bills.

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's an entity with a financial claim on another entity.

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

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 actually 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 i s 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 bases.

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