MEDIUM-TERM DEBT MANAGEMENT STRATEGY 2025/26 – 2028/29

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

MARCH, 2025

MEDIUM-TERM DEBT MANAGEMENT STRATEGY 2025/26 – 2028/29

Ministry of Finance, Planning and Economic Development

MARCH, 2025

MOFPED
#Doing More

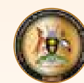


TABLE OF CONTENTS

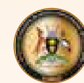
LIST OF TABLES **2**
LIST OF FIGURES **2**
ABBREVIATIONS AND ACRONYMS **3**
FOREWORD **4**
PREFACE **5**
EXECUTIVE SUMMARY **6**
SECTION ONE **9**
1. INTRODUCTION **10**
1.1 Introduction 10
1.2 Overall Objective 11
1.3 Scope of the Strategy 11
2. FY 2025/26 DEBT FINANCNG AND MANAGEMENT STRATEGY **12**
2.1 Key Macro Economic Assumptions 13
2.2 Financial Market Rates Assumptions 14
2.3 Analysis of the Proposed Financing Strategies 15
2.4 Recommended Debt Financing and Management Strategy 18
2.5 FY 2025/26 Borrowing Plan 18
2.6 Operational Targets FY 2025/26 19
2.7 Constraints to Implementation of the FY 2025/26 Strategy 20
2.8 Recommendations for Successful Implementation 21
2.9 Conclusion 22
SECTION TWO **23**
3. FY 2023/24 MTDS PERFORMANCE **24**
3.1 Outcomes of FY 2023/24 MTDS by instrument 24
3.2 Outcomes of FY 2023/24 MTDS operational targets 25
4. HALF-YEAR PERFORMANCE OF THE FY 2024/25 MTDS 27
4.1 Half-year outcomes of FY 2024/25 MTDS by instrument 27
4.2 Half-year outcomes of FY 2023/24 MTDS operational targets 28
5. PUBLIC DEBT PORTFOLIO ANALYSIS AS AT DECEMBER 2024 .... **29**
5.1 Level of Government Domestic and External Debt 29
5.2 Composition of Government Debt as at 31st December 2024 30
5.4 Cost and Risk Indicators of Public Debt 34
ANNEX: Glossary of Debt Terms **38**

LIST OF TABLES

Table 1: Macroeconomic Assumptions, UGX Trillions *14*
Table 2: Cost and Risk of the Four Proposed Strategies at end 2029 .... *15*
Table 3: FY 2025/26 Borrowing Plan and Financing Sources *18*
Table 4: Operational Targets for FY 2025/26 .... *20*
Table 5: Outcomes of the FY 2023/24 MTDS Borrowing Mix *24*
Table 6: Outcomes of FY 2023/24 MTDS Operational Targets *26*
Table 7: Half-Year Outcomes of the FY 2024/25 MTDS by Instrument *27*
Table 8: Half-year Cost and Risk Outcomes of FY 2024/25 .... *28*
Table 9: Public Debt Portfolio Cost and Risk, December 2024 .... *34*

LIST OF FIGURES

Figure 1: Trend of Public Debt Stock in USD Billions to December 2024 .... *29*
Figure 2: Domestic Debt by Tenor, December 2024, UGX Trillion *30*
Figure 3: External Debt Composition by Creditor in USD Billion; % *31*
Figure 4: Debt by Currency Composition December 2024, Billion USD; % *32*
Figure 5: Public debt composition by instrument type, USD Billion *33*
Figure 6: External and domestic Principal Payment; UGX Trillion *35*
Figure 7: Weighted Average Interest Rates December 2024 .... *36*



ABBREVIATIONS AND 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 in Africa
BOU	Bank of Uganda
CAS	Credit Adjustment Spread
CFR	Charter for Fiscal Responsibility
DOD	Debt Disbursed and Outstanding
EIB	European Investment Bank
EURIBOR	Euro Interbank Offered Rate
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
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
PIFS	Public Investment Financing Strategy
PV	Present Value
SOFR	Secured Overnight Financing Rate

FOREWORD

The Minister of Finance, Planning and Economic Development is required, under Section 12(10)a(iv) of the Public Finance Management Act (PFMA), Cap. 171, to provide a plan for Government debt and any other financial liabilities for the financial year to which the annual budget relates. The requirement is to submit such a plan to Parliament by 1st April of every year, as part of the annual budget documents.

In fulfilment of this provision, Government produces the yearly Medium-Term Debt Management Strategy (MTDS) that carefully lays out Government's annual borrowing plan, which contains a mix of local and foreign currency options.

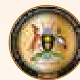
Besides meeting Government's financing objectives, the borrowing plan aims at helping Government achieve a debt portfolio that is well balanced in terms of cost and risk, with strong capacity to be repaid, based on current and projected income. By so doing, this plan amplifies Government's commitment to accountability and transparency in the management of public debt.

In addition to the FY 2025/26 borrowing plan, this report provides performance of the FY 2023/24 and half year outcomes of the current year, FY 2024/25 Medium Term Debt strategies.

I therefore wish to present to you the FY 2025/26 Medium-Term Debt Management Strategy, in fulfilment of Part III Section 12 (10) IV of the PFMA, that directs budget preparation, approval and management, for your usage and decision-making.

For God and My Country.

Matia Kasaija (MP)
MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT



PREFACE

This FY 2024/2025, Government of Uganda launched the Eastern Arm of the Standard Gauge Railway (SGR), yet another strategic project for Uganda and the East African Community (EAC). This project, running from Malaba to Kampala, will cost Euro 2.7 billion, which is approximately UGX 10.8 trillion.

Obviously, this amount has elevated the fiscal deficit over the next four years. For this project in particular, Government intends to raise financing through local revenues plus the issuance of Government securities and an Islamic bond in our domestic currency. Externally, Government will acquire financing from concessional, non-concessional and commercial sources.

The local currency portion is aimed at catering for local content of the project, while foreign currency will mainly cater for the imports component. This borrowing mix will inadvertently and partly provide an in-built hedge against increased interest payments and foreign currency risk of the borrowed amount.

The financing structure for the Standard Gauge Railway is a snapshot of how the combination of financing instruments is optimised within the Medium-Term Debt Management Strategy to achieve costs and risks that are manageable by Government.

The Ministry of Finance, Planning and Economic Development took the lead in formulating this strategy and was supported by Bank of Uganda (BOU), the National Planning Authority (NPA) and Parliament. The team simulated various combinations of financing instruments, as you will see in Chapter Two, to establish a strategy that will help judiciously control the high interest payment cost and foreign currency risk in Government's debt portfolio in the next four years.

The Ministry will annually review and update this strategy using the most current macroeconomic framework, probable funding sources, and latest market developments. It is my prayer that the success factors for this plan are considered, to enable Government achieve our debt management objectives as stipulated in the FY2025/26 MTDS.

Ramathan Ggoobi
PERMANENT SECRETARY/SECRETARY TO THE TREASURY

EXECUTIVE SUMMARY

The annual Medium-Term Debt Management Strategy (MTDS) is prepared in conformity with Section 12(10)a(iv) of the Public Finance Management Act (PFMA), Cap.171. This section stipulates that "the budget shall provide a plan for Government debt and any other financial liabilities for the financial year to which the annual budget relates."

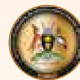
The strategy is a plan that guides acquisition of external and domestic debt in any given year and the medium term. It is aimed at achieving a Government debt portfolio with the lowest possible cost and cautious degree of risks.

The overall objective of this year's MTDS is to meet Government's financing needs at the cheapest possible cost, which is consistent with a prudent degree of risk, by optimizing the borrowing mix between domestic and external sources.

This strategy aims at achieving the following specific objectives:

1. Managing the level of interest payments as a percentage of GDP by borrowing from financing sources with the lowest possible cost.
2. Controlling and reducing foreign currency risk in the public debt portfolio.
3. Managing domestic debt refinancing risk by issuing more longer dated securities.
4. Leveraging innovative financing options for budget financing and;
5. Supporting the development of a well-functioning domestic securities market.

The FY 2025/26 Medium Term Debt Management Plan was formulated based on the same macroeconomic assumptions underpinning the December 2024 Debt Sustainability Analysis (DSA). Correspondingly, financing assumptions for ongoing fixed interest loans were built around rates in the existing portfolio, while projections for new borrowing were based on anticipated domestic and international market conditions.



Four alternative strategies were developed to provide diverse Government borrowing scenarios constituting a varying mix of external and domestic debt borrowing. The strategies are as follows:

1) **Strategy1 (S1) Current Strategy:** This strategy is what Government is currently implementing and constitutes a financing mix of 32:68 for external and domestic borrowing respectively in the medium term.
2) **Strategy2 (S2) Radical Domestic Borrowing:** In this scenario, domestic borrowing is substantially increased to a share of 75% from 68% in S1, and external financing reduced to 25% on average over the medium term.
3) **Strategy3 (S3) Radical Increase in External Borrowing:** Under S3, external borrowing is considerably increased to a share of 40% from 32% in S1 and domestic borrowing reduced to 60% on average over the medium term.
4) **Strategy4 (S4) Gradual increase in external borrowing:** This strategy slightly increases the share of external borrowing by 2% compared to S1 in a ratio of 34:66 on average over the next four years.

Of these four scenarios, Strategy4 (S4) was found to be the most feasible borrowing plan for the FY 2025/26 budget year and the medium term up to FY 2028/29. This is because, S4 bears moderate cost, associated with a reasonable foreign currency risk which provides the desirable balance between the costs and risks in Government's debt portfolio. The selected strategy also allows for a gradual shift from domestic borrowing to innovative external financing options, such as bonds in other currencies like the Chinese Renminbi.

The FY 2025/26 total gross financing requirement is estimated at UGX 32.71 trillion. As such, Government intends to secure this amount through a combination of domestic and external funding sources. The plan is to acquire 32% in foreign currency (External debt) and 68% from the local currency securities market (Domestic Debt).

Potential risks to achieving the debt management objectives stipulated in the FY 2025/26 MTDS include; increased expenditure requirements beyond the projections in the macroeconomic framework, thus raising the fiscal deficit and leading to additional borrowing. Another key risk pertains to worsening market conditions, such as rising interest and depreciating exchange rates, culminating into increased borrowing costs and a higher debt service burden amidst reduced foreign exchange reserves.

It is firmly recommended that Government adheres to the approved budget for successful implementation of this strategy amongst others. This strategy document is structured in two parts as follows;

Section one: This provides an introduction and the FY 2025/26 Debt Financing and Management Strategy while,

Section two: Presents performance reports of the FY 2023/24 MTDS and half year outcome of the FY 2024/25 Strategy. It also provides an analysis of the public debt portfolio as at end December 2024.

SECTION ONE

- INTRODUCTION
- FY 2025/26 DEBT FINANCING AND MANAGEMENT STRATEGY

1 INTRODUCTION

1.1 Introduction

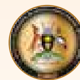
The Government of Uganda prepares an annual Medium-Term Debt Management Strategy (MTDS) in conformity with Section 12(10)a(iv) of the Public Finance Management Act (PFMA), Cap. 171. This section stipulates that "the budget shall provide a plan for Government debt and any other financial liabilities for the financial year to which the annual budget relates."

The strategy is a plan that guides acquisition of external and domestic debt in the medium term and is aimed at achieving a Government debt portfolio that minimises cost and provides a prudent degree of risk. The borrowing amount for any financial year is derived from the annual fiscal deficit, which reflects Government's financing requirement.

The borrowing mix between external and domestic debt is then determined based on the global and domestic market conditions, external borrowed amounts yet to be withdrawn by Government, and domestic debt payments (redemptions), amongst others.

Four alternative borrowing scenarios with varied proportions of external and domestic borrowing are evaluated to determine Government's most feasible debt management strategy for the medium term. Feasibility of a strategy is based on, how quickly the finances can be accessed, associated conditionalities and, cost and risk parameters of the strategy amongst others.

This FY 2025/26 strategy will be the 11th published edition, prepared with the overall objective of meeting Government's financing needs at the lowest possible cost subject to a prudent degree of risk. The macroeconomic assumptions utilised in formulation of this strategy are consistent with those upon which the December 2024 Debt Sustainability Analysis was developed. These include the Gross Domestic Product (GDP), revenues, expenditures and international reserves.



1.2 Overall Objective

The overall objective of the FY 2025/26 MTDS is to meet Government's financing needs at the lowest possible cost that is consistent with a prudent degree of risk by optimizing the borrowing mix between domestic and external sources.

1.2.1 Specific objectives

Through implementation of this strategy, Government intends to achieve the following aims,

a) Manage the level of interest payments as a percentage of GDP by borrowing from financing sources with the lowest possible cost.
b) Control and reduce foreign currency risk in the public debt portfolio.
c) Manage domestic debt refinancing risk by issuing more longer dated securities.
d) Leverage innovative financing options for budget financing.
e) Support the development of a well-functioning domestic securities market.

1.3 Scope of the Strategy

This strategy covers Central Government loans and debt securities, including borrowing for Local Governments (LGs) and State-Owned Enterprises (SOEs) by the Ministry of Finance, Planning and Economic Development (MoFPED).

It excludes Government's guaranteed debt which falls below 0.1% of GDP which is approximately USD 48 million. Other liabilities such as currencies and deposits, pension, and standardised guarantee schemes plus other accounts payable have not been considered in this plan.

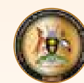
2 FY 2025/26 DEBT FINANCNG AND MANAGEMENT STRATEGY

During formulation of the FY 2025/26 Medium Term Debt Management Strategy, four alternative financing scenarios were proposed. These constituted a varying mix of external and domestic debt borrowing as follows;

1. **Strategy 1 (S1) Current strategy:** This strategy is what Government is currently implementing and constitutes a financing mix of 32:68 for external and domestic borrowing respectively, on average in the medium term.
2. **Strategy2 (S2) Radical Domestic Borrowing:** In this scenario, domestic borrowing is substantially increased to a share of 75% from 68% in S1, and external financing reduced to 25%.
3. **Strategy3 (S3) Radical Increase in External Borrowing:** Under S3, external borrowing is considerably increased to a share of 40% from 32% in S1 and domestic borrowing reduced to 60%, on average over the medium term.
4. **Strategy4 (S4) Gradual increase in external borrowing:** This strategy slightly increases the share of external borrowing by 2% compared to S1 in a ratio of 34:66 on average over the next four years.

The four alternatives were subjected to the same macroeconomic assumptions in the medium term, which are consistent with those underpinning the December 2024 Debt Sustainability Analysis (DSA). The borrowing requirement is based on the fiscal deficit as indicated in table 1.

Uniform domestic and external interest rate assumptions were applied to all the four borrowing proposals to determine which mix would provide the least cost and most prudent risk. Interest rate projections were built around current and anticipated domestic and international financial market conditions.



2.1 Key Macro Economic Assumptions

2.1.1. Real GDP growth

The Ugandan economy is projected to grow by 6.4% in FY 2024/25. This growth is expected to rise to 7.0% in FY 2025/26 and peak at 10.4% in FY 2026/27, before reducing to 7.4% in FY 2028/29. This anticipated progress is largely on account of higher productivity in key sectors of the economy. These include; increased activity in the oil and gas sector, higher agricultural production supported by the Parish Development Model (PDM), ongoing public infrastructure investments in the road, railway and water sectors and; growth in regional trade, exports and tourism.

At the same time, Government has increased spending towards Agro-industrialisation, Tourism, Mineral development, and Science, innovation and technology (abbreviated as ATMS). This step is aimed at accelerating economic growth, through the implementation of the Tenfold Growth Strategy.

2.1.2. Fiscal deficit

The fiscal deficit is anticipated to increase significantly from 4.7% in FY 2023/24 to 7.0% in FY 2024/25. This jump is majorly due to Government of Uganda reimbursements to Bank of Uganda amounting to UGX 7.78 trillion, coupled with financing of key projects such as the UMEME buyout, as well as for the general budget. The deficit is expected to reduce to 6.4% in 2025/26, averaging at 4.4% up to FY 2028/29.

2.1.3. Revenue and grants

Revenue and grants as a percentage of GDP are expected to increase to 15.3% in FY 2024/25 from 14.2% in FY 2023/24 and average at 16.8% in the next four years. This positive outlook is attributed to Government of Uganda's efforts to implement the Domestic Revenue Mobilisation Strategy (DRMS) and expected returns from investments in the oil and gas sector. Refer to Table 1 for a detailed presentation of the macroeconomic assumptions.

Table 1: Macroeconomic Assumptions, UGX Trillions

FY	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Macro Indicators	**Outturn**	**Projections**				
Indicators in Nominal Terms						
Total revenue and grants	28.82	34.11	39.43	47.56	56.04	64.59
o/w Revenue	27.81	31.29	36.50	45.97	54.67	63.41
Total Expenditure	38.31	49.68	55.33	63.34	69.70	77.64
o/w Interest Payments	6.22	9.58	9.91	10.93	12.56	13.89
o/w Primary Expenditure	32.09	40.10	45.42	52.41	57.14	63.75
Overall Fiscal deficit	-9.49	-15.57	-15.90	-15.79	-13.65	-13.05
Primary deficit	-3.27	-5.99	-5.99	-4.86	-1.10	0.84
As percent of GDP						
Total revenue and grants	14.2%	15.3%	15.8%	16.5%	17.2%	17.6%
o/w Revenue	13.7%	14.0%	14.6%	15.9%	16.8%	17.3%
Total Expenditure	18.9%	22.3%	22.1%	21.9%	21.4%	21.2%
o/w Interest payments	3.1%	4.3%	4.0%	3.8%	3.8%	3.8%
o/w Primary Expenditure	15.8%	18.0%	18.2%	18.1%	17.5%	17.4%
Overall Fiscal deficit	-4.7%	-7.0%	-6.4%	-5.5%	-4.2%	-3.6%
Primary deficit	-1.6%	-2.7%	-2.4%	-1.7%	-0.3%	0.2%
Memorandum Items						
Real GDP growth	6.1%	6.4%	7.0%	10.4%	8.0%	7.4%
Nominal GDP	202.73	222.78	250.12	289.04	326.30	366.37

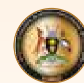
Source: Macro Economic Policy Department (MEPD), MoFPED

2.2 Financial Market Rates Assumptions

2.2.1 External interest rates assumptions

In the external debt market, reference interest rate projections such as the six-month Secured Overnight Financing Rate (SOFR) and Euro Interbank Bank Offered Rate (EURIBOR) were premised on a combination of historical and market movement expectations these rates. These reference rates apply to non-concessional and commercial variable interest rate loans.

It is anticipated that part of the financing from World Bank (WB) and African Development Fund (AfDB) Windows will be secured at current fixed interest rates on concessional terms. It was assumed that the current fixed interest rates on the other already committed and pipeline loans on concessional, semi-concessional and non-concessional borrowing will apply throughout the medium term.



2.2.2 Domestic interest rates assumptions

Domestic debt interest rate projections on new financing over the next five years were established upon;

i. The weighted interest rates for the half year and prevailing secondary market interest rates for FY 2024/25 and;
ii. Anticipated inflation growth and Interest rate historical trends of domestic securities.

2.3 Analysis of the Proposed Financing Strategies

Table 2 indicates the cost and risk parameters as at 2028/29 of each of the four proposed strategies after being subjected to the macro and financial market assumptions. The table is colour-coded to magnify indicators with the lowest (**green**) to the highest (**red**) cost and risk.

Table 2: Cost and Risk of the Four Proposed Strategies at end 2029

		2024	As at end 2029			
		Outturn	S1	S2	S3	S4
Cost Indicators						
Nominal debt as percent of GDP		46.80	51.75	52.11	51.15	51.52
Interest payment as percent of GDP		3.74	4.95	5.20	4.62	4.83
Risk Indicators						
Refinancing risk	*Debt maturing in 1yr (percent of total)*	14.51	15.29	14.92	14.59	14.60
	ATM External Portfolio (years)	10.04	10.87	10.65	10.70	10.83
	ATM Domestic Portfolio (years)	7.08	6.84	7.14	6.43	6.86
Interest rate risk	*ATR (years)*	8.29	7.90	7.95	7.68	7.91
	Debt refixing in 1yr (percent of total)	25.25	30.46	26.89	32.35	30.35
	T-bills (percent of total)	6.19	5.97	5.48	5.19	5.44
FX risk	*FX debt as % of total*	57.17	47.91	41.83	53.13	49.14
	ST FX debt as % of reserves	19.45	24.04	23.80	25.42	24.37

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

Key

- Lowest Cost and Risk
- Second Lowest
- Third Lowest
- Highest Cost and Risk

2.3.1 Strategy 1 (S1): Current strategy (32:68)

Strategy 1 is what is currently being implemented by Government. On average, it reflects a borrowing mix of external and domestic in a ratio 32:68 in the next four years with a combination of 28:72 in FY 2025/26. This Strategy **has the highest refinancing risk** in terms of debt maturing in one year as a percentage of the total debt at 15.29%. At 5.97**%, it has the highest proportion of short-term domestic debt** instruments (T-bills), as a percent of total debt amongst the four proposed portfolios.

With a debt to GDP of 51.75%, this strategy is the third most expensive compared to S3 and S4, at 51.15% and 51.52%, respectively. It bears the second lowest foreign currency risk with a share of short-term external (foreign currency) debt to reserves of 24.04%.

2.3.2 Strategy 2 (S2): Radical domestic borrowing (25:75)

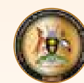
Compared to strategy 1, strategy 2, assumes a reduction in external borrowing from a share of 32 to 25 and increases domestic from 68 to 75 on average over the medium term.

Strategy 2 is **the costliest of the four alternatives** with a debt/GDP of 52.11% and interest payments/GDP of 5.20% at end June 2029. However, due to increased borrowing in local currency, **the strategy poses the least foreign exchange risk** with the lowest share of short-term forex debt as a percent of reserves of 23.8%. Note that, the lower the amount of forex (external) debt maturing in one year, the lesser Government reserves are used to pay debt and therefore, a reduced foreign currency risk.

The strategy, however, has the potential of crowding out private sector borrowing due to increased domestic Government financing.

2.3.3 Strategy 3 (S3): Radical Increase in external borrowing (40:60)

This strategy assumes a drastic increase in external borrowing from a share of 32% in S1 to 40%, and reduces domestic to 60% from 68%. The reduction in domestic borrowing is primarily intended to prevent crowding out of credit to the private sector and to decrease the total cost of borrowing associated with domestic debt.



This strategy provides for non-traditional financing options and by so doing is in line with the objectives of the Public Investment Financing Strategy, which aims at leveraging additional funding from other innovative sources to meet Government's increasing development requirements.

Strategy 3 is **the least costly compared** to all four strategies with nominal debt to GDP of 51.15% and interest payment as a percentage of GDP at 4.62% by end June 2029. It also has the **lowest refinancing risk** in terms of debt maturing in one year as a percent of total of 14.59%. This is due to the fact that it has a high proportion of external debt which on average has a tenor of 10 years. With the lowest debt to GDP ratio of the four proposed Strategies, S3 is aligned with Governments debt management objective of acquisition of debt at the lowest cost. This notwithstanding, S3 poses the **highest foreign currency risk** of all four.

2.3.4 Strategy 4: Gradual increase in external borrowing (34:66)

This strategy involves a gradual rise in external borrowing from a medium-term average of 32% as stipulated in S1 to 34% while simultaneously reducing domestic borrowing to 66% from 68%.

Strategy 4 emerges with the second highest cost of debt compared to strategy 3, with a total interest payment-to-GDP ratio of 4.83% and a debt-to-GDP ratio of 51.52% at the end of the Medium Term by June 2029.

It also has the second lowest refinancing risk with debt maturing in one year as a percent of total of 14.60% compared to strategy 3 at 14.59%. Foreign currency risk under strategy 4 is moderate, having the third best ratios of foreign debt as a percent of total and short-term debt as a percent of reserves at 49.14% and 24.37%, respectively.

Note that strategy 4 has no extreme situation as compared to S1, S2 and S3 and therefore, provides an optimal balance between borrowing costs and risks.

2.4 Recommended Debt Financing and Management Strategy

Of the four alternatives, Strategy 4 was found to provide the most practical financing mix for the 2025/26 fiscal year up to 2028/29. It offers an optimal balance between domestic and external borrowing. **As such, it bears a moderate cost which is associated with a reasonable foreign currency risk, there by affording Government with the most possible desired cost -risk trade off in the public debt portfolio.**

The selected strategy also allows for a gradual shift from domestic borrowing to innovative external financing options, such as bonds in other currencies for example the Chinese Renminbi. The strategy is designed to progressively incorporate alternative financing sources as elaborated in the Public Investment Financing Strategy (PIFS).

2.5 FY 2025/26 Borrowing Plan

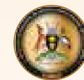
The FY 2025/26 borrowing plan was generated from Strategy 4 which was found to afford the most possible desired cost-risk trade off within Governments debt portfolio.

Table 3: FY 2025/26 Borrowing Plan and Financing Sources

Instruments	Creditors	Gross Financing	Net Financing
ADF_Fixed	IDA/ADF	7.0%	9.1%
Concessional_Fx	AFD, BADEA, IDB, IFAD, Spain	2.3%	2.1%
Semi-Concessional_Fx	IMF, OPEC FUND, EIB, India, ADB Fx,	6.0%	3.0%
Non-Concessional_Fx	China Fx, KFW, OPEC FUND, JBIC, Spain, UKEF, ECAs	2.0%	0.6%
Non-Concessional_Var	China Var, KFW, Germany, UKEF, ECAs, IDB	4.2%	7.0%
Commercial_Fx	Panda bond, Samurai bond, Dimsum bond, BADEA	1.9%	3.3%
Commercial_Var	ADB, ECAs	1.9%	2.9%
Highly-Commercial_Var	SCB, TDB, AFREXIM, Stanbic, China	6.7%	4.1%
Total External borrowing		**32.0%**	**32.0%**
T-Bills		30.6%	5.2%
2-Tbond		4.1%	7.1%
3-Tbond		4.1%	7.1%
5-Tbond		6.1%	10.7%
10-Tbond		6.8%	9.3%
15-Tbond		7.5%	13.1%
20-Tbond		8.8%	15.4%
Total Domestic borrowing		**68.0%**	**68.0%**
Total		**100.0%**	**100.0%**

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

The Annual Borrowing Plan (ABP) outlines the sources of financing by instrument which will be used to meet Government's FY 2025/26 financing



needs. It not only ensures cost-effective financing but also fosters market stability and growth by promoting transparency and innovation in Government borrowing practices.

The FY 2025/26 total gross financing requirement is estimated at UGX 32.71 trillion and Government intends to secure this amount through a combination of external and domestic funding sources in a ratio of 32:68 respectively as indicated in table 3.

Externally, Government intends to secure 9% financing on concessional terms, 6% at semi concessional terms and 16.7% at non-concessional and commercial terms. The past global recessions have led to a gradual reduction in concessional lending as potential Creditors are now looking inwards to support their own home countries.

Treasury Bills and Bonds will constitute 30.6% and 37.4% respectively of the total borrowing requirement in the financial year 2025/26. These shares include borrowing for principal payments on Government securities and new money for budget financing.

Government, in addition to the above financing sources, will leverage non-traditional financing options such as the green, sukuk and panda bonds as and when the pricing is affordable.

2.6 Operational Targets FY 2025/26

Table 4 provides cost and risk parameters that will form the basis upon which Government's management of debt will be assessed. These indicators are consistent with the specific debt management objectives elaborated in this strategy document.

In order to align the selected strategy with the 2023 PDMF, indicators pertaining to interest payments to revenue have been introduced. In FY 2025/26, the limit on external and domestic interest payments to revenues have been set at 5.35% and 25.16%, respectively.

To manage refinancing risk in the debt portfolio, Government has limited the proportion of external and domestic debt maturing within one year to not more than 7% and 22.5%, respectively.

In the year 2025/26, Government will closely monitor the foreign exchange risk given the recent reduction in reserves. Therefore, it is projected that the share of short-term forex debt as a share of Government's reserves will not exceed 40.65%.

Table 4: Operational Targets for FY 2025/26

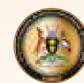
	December 2024 Outturn	FY 2025/26 Benchmark	FY 2028/29 Benchmark
Total interest payment to GDP	4.10%	≤ 4.45%	≤4.85%
External interest payment as percent of revenue[1]	5.15%	≤5.35%	≤5.05%
Domestic interest payment as percent of revenue	20.04%	≤25.16%	≤22.85%
Total interest payment as percent of revenue	25.18%	≤30.51%	≤27.90%
External debt maturing in one year (as a percent of total)	6.00%	≤ 7.00%	≤5.88%
Domestic debt maturing in one year (as a percent of total)	21.00%	≤ 22.50%	≤23.10%
Short-term forex debt/Reserves	26.50%	≤ 40.65%	≤24.40%

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

2.7 Constraints to Implementation of the FY 2025/26 Debt Strategy

1. Increased expenditure requirements beyond projections in the macroeconomic framework, could increase the overall fiscal deficit, resulting into supplementary budgets and the need for additional borrowing.
2. Revenue shortfalls, may lead to an adjustment in the macroeconomic frame work upon which the FY 2025/26 borrowing strategy is anchored.

[1] Revenue excludes grants.



3. The relatively large share of domestic borrowing has the potential of crowding out the private sector.
4. The precarious process of mobilising external funding, may cause delays in acquiring financing and pose liquidity challenges, which will affect Government fiscal operations.
5. External borrowing is susceptible to market risks, such as rising interest rates and exchange rate risks, which increase the cost of borrowing and raise debt service requirements, consequently reducing foreign exchange reserves.

2.8 Recommendations for Successful Implementation of FY2025/26 Strategy

Despite implementation of the MTDS for the past couple of years, challenges pertaining to rising borrowing costs and heightened risks have persisted. In order to ensure successful implementation of this strategy, Government will endeavour to;

1. Adhere to the approved budget to avoid raising the fiscal deficit.
2. Sequence borrowing and borrow only for priority projects to help reduce the rate of debt accumulation.
3. Focus on meeting conditions precedent within the various financing agreements to unlock undisbursed borrowing.
4. Prioritise the development of the domestic debt securities market partly by encouraging Ugandans to invest in Government securities to create competition and reduce domestic interest rates.
5. Ensure the implementation of the Public Investment Financing Strategy (PIFS) to leverage non-traditional financing options, some of which are non-debt-creating, such as Corporate Social Responsibility (CSR).
6. Invest in increasing production, value addition, identify and promote nontraditional exports to increase export earnings out of which Government can build more forex reserves.

7. Utilise commercial loans for agro-industrialization, tourism, mineral development, science, technology, and innovation (ATMS) in the implementation of the Tenfold Growth Strategy.

2.9 Conclusion

To manage debt during FY 2025/26, Government of Uganda will adopt Strategy 4 which provides 32% financing from external borrowing sources and 68% from the domestic securities market. This strategy constitutes a ratio of 34:66 on average over the medium term from the same financing options.

Borrowing from the domestic market will be executed through the issuance of longer-term securities mainly from 5 to 20 years at fixed interest rates. Note that the sizable principal payment requirements on domestic debt inevitably will largely be met through domestic borrowing hence the share of 68%.

To finance ongoing social projects, Government will mainly make use of undisbursed amounts from concessional sources such as Multilateral and Bilateral Creditors at fixed interest rates.

New infrastructure projects for example, the Standard Gauge railway, oil roads, energy transmission and water for multipurpose use will be financed through a mix of semi concessional, non-concessional and commercial sources at variable interest rates. Note that in an environment where the interest rates are reducing, borrowing at variable rates becomes relatively cheaper than fixed rate debt.

SECTION TWO

- FY 2023/24 MTDS PERFORMANCE
- HALF-YEAR FY 2024/25 MTDS OUTCOMES
- PUBLIC DEBT PORTFOLIO ANALYSIS FY 2024/25

3 FY 2023/24 MTDS PERFORMANCE

The performance of the MTDS is assessed against operational yardsticks, nominal domestic financing amounts and external debt disbursements.

3.1 Outcomes of FY 2023/24 MTDS by instrument

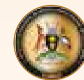
In FY 2023/24, Government aimed at achieving a debt financing mix of 45% borrowing from external and 55% domestic sources. However, the borrowing mix at the end of the financial year had shifted to a ratio of 20:80 for external and domestic financing respectively as indicated in Table 5. This indicates a drastic increase in domestic debt financing during the period.

Table 5: Outcomes of the FY 2023/24 MTDS Borrowing Mix

	Projected Borrowing		Original Share %	Actual Borrowing		Actual Share %	Deviation
	(UGX Trillion)	(USD Billion)		(UGX Trillion)	(USD Billion)		
External debt Instruments							
IDA/ADF_Fx	2.38	0.63	12.8%	1.71	0.45	9.2%	- 0.66
Concessional_Fx	1.47	0.39	7.9%	0.58	0.15	3.1%	- 0.88
Semi-Concessional_Fx	1.53	0.41	8.3%	0.84	0.22	4.5%	- 0.70
Semi-Commercial_Fx	0.16	0.04	0.9%	0.16	0.04	0.9%	- 0.00
Commercial_Var	0.49	0.13	2.7%	0.23	0.06	1.3%	- 0.26
Highly Commercial_Var	2.31	0.62	12.5%	0.27	0.07	1.4%	- 2.04
Total External	**8.35**	**2.22**	**45.1%**	**3.80**	**1.01**	**20.4%**	**- 4.55**
Domestic Debt Instruments							
T-Bills	4.06	1.08	22.0%	7.42	1.96	39.9%	3.36
2yr Tbond	0.71	0.19	3.8%	0.82	0.22	4.4%	0.11
3yr Tbond	0.81	0.22	4.4%	1.11	0.29	6.0%	0.30
5yr Tbond	0.91	0.24	4.9%	0.55	0.15	3.0%	- 0.36
10yr Tbond	1.02	0.27	5.5%	1.16	0.31	6.2%	0.14
15yr Tbond	1.22	0.33	6.6%	1.72	0.45	9.2%	0.50
20yr Tbond	1.42	0.38	7.7%	2.25	0.60	12.1%	0.83
Total Domestic	**10.16**	**2.70**	**54.9%**	**15.02**	**3.98**	**80.7%**	**4.86**
Total Gross Borrowing	**18.51**	**4.93**	**100.0%**	**18.82**	**4.98**	**101.2%**	**- 0.31**

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

The switch from external to domestic borrowing was on account of some Creditors withholding new financing due to their concerns regarding the Anti-Homosexuality Bill. At the same time, in 2023/24, external interest rates increased more than anticipated thereby causing Government to turn to the securities market to acquire less costly and easily accessible financing.



External borrowing amounted to UGX 3.8 trillion which was approximately UGX 4.55 trillion (USD 1.22 billion) lower than expected. This shortfall was partly due to non-disbursements for the Standard Gauge Railway project financing and the World Bank. Moreover, some projects disbursed lower amounts than forecasted, such as the Karuma Hydropower Plant, Busega-Mpigi Expressway, Kapchorwa-Suam-Kitale project, Namanve Kampala Industrial Park, and the Irrigation for Climate Resilience project.

In addition, borrowing to directly finance the budget from external commercial sources equivalent to USD 500 million (UGX 1.8 trillion) was not acquired due to high interest rates at the time, which would have resulted in significant debt service obligations for Government. The high interest rates were majorly driven by central banks' responses to persistent inflation, economic recovery dynamics, and geopolitical uncertainties in the global financial markets.

The increase in domestic borrowing by UGX 4.86 trillion on the other hand, was mainly because Government substituted the more expensive external financing with issuance of Government Securities.

3.2 Outcomes of FY 2023/24 MTDS operational targets

In FY2023/24, Government set operational targets as indicated in table 6.

3.2.1 Cost of debt

As at end June 2024, external debt interest payment as a percentage of GDP stood at 0.6%, which was within the set target of ≤ 0.75%.

On the other hand, domestic debt interest payment as a percentage of GDP at 2.9% breached the set target of ≤ 2.43%. Consequently, the implied interest rate embedded in the public debt portfolio was breached at 7.5% at the end of the period, compared to the target of ≤7.4%. This outcome is attributed to higher than anticipated domestic borrowing during the financial year.

Table 6: Outcomes of FY 2023/24 MTDS Operational Targets

Cost and Risk exposures	Cost and Risk Indicators	Jun-23	Target Ranges FY2023/24	FY2023/24 Performance
Cost of debt	External Debt Interest payment as percent of GDP	0.73	≤0.75	0.6
	Domestic Debt Interest payment as percent of GDP	2.69	≤2.43	2.9
	Total Interest payment as percent of GDP	3.42	≤3.17	3.5
	Total Implied Interest rate (percent)	7.27	≤7.40	7.5
Refinancing risk	External Debt maturing in 1 yr (percent of total)	4.71	≤4.79	5.5
	Domestic Debt maturing in 1 yr (percent of total)	23.19	≤24.57	26.5
	Total Debt Maturing in one year (percent of total)	12.07	≤10.63	14.7
Interest rate risk				
	Total Fixed Rate Debt Portfolio including T-bills (as percent of total debt)	86.07	≥85.92	88.2

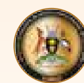
Source: Debt Policy and Issuance Department (DPID), MoFPED

3.2.1 Refinancing risk

External and domestic debt maturing in one year stood at 5.5% and 26.5%, breaching the set targets of ≤4.79% and ≤ 24.57%, respectively. This can be majorly attributed to increased issuances of treasury bills compared to other domestic instruments.

3.2.2 Interest rate risk

Total fixed rate debt including T-bills as a percentage of total debt performed well, standing at 88.2% above the set target of ≥85.92%. This is on account of the increased domestic borrowing during the year which was acquired at relatively low fixed interest rates.



4 HALF-YEAR PERFORMANCE OF THE FY 2024/25 MTDS

4.1 Half-year outcomes of the FY 2024/25 MTDS by instrument

In FY 2024/25, Government aimed at achieving a financing mix of 40% from external and 60% domestic borrowing. However, midway of the financial year, at end December 2024, this plan had been inadvertently altered with only 9% of borrowing arising from external sources and 91%, the domestic side.

By December 2024, Government had borrowed UGX 19.75 trillion compared to a projection of UGX 20.93 trillion indicating room of close to a trillion for the remaining part of FY 2024/25. Out of this, external borrowing contributed UGX 1.85 trillion and UGX. 17.90 trillion was on account of domestic borrowing as highlighted in table 7.

Table 7: Half-Year Outcomes of the FY 2024/25 MTDS by Instrument

	Projected Borrowing		Actual Share %	Actual Borrowing		Actual Share %
	(UGX Trillion)	(USD Billion)		(UGX Trillion)	(USD Billion)	
External debt Instruments						
IDA/ADF_Fx	1.74	0.47	8.3%	0.73	0.20	3.5%
Concessional_Fx	1.71	0.46	8.2%	0.19	0.05	0.9%
Semi-Concessional_Fx	1.02	0.27	4.9%	0.60	0.16	2.8%
Non-Concessional_Fx	0.70	0.19	3.3%	0.18	0.05	0.9%
Non-Concessional_Var	0.92	0.25	4.4%	0.01	0.00	0.0%
Commercial_Var	0.95	0.25	4.5%	0.12	0.03	0.6%
Highly Commercial_Var	1.33	0.36	6.4%	0.02	0.01	0.1%
Total External	**8.37**	**1.63**	**40.0%**	**1.85**	**0.50**	**8.8%**
Domestic Debt Instruments						
T-Bills	4.77	1.28	22.8%	4.09	1.11	19.5%
2yr Tbond	0.75	0.20	3.6%	0.58	0.16	2.8%
3yr Tbond	0.88	0.24	4.2%	0.68	0.18	3.2%
5yr Tbond	1.26	0.34	6.0%	0.77	0.21	3.7%
10yr Tbond	1.38	0.37	6.6%	8.79	2.39	42.0%
15yr Tbond	1.63	0.44	7.8%	1.60	0.43	7.6%
20yr Tbond	1.88	0.50	9.0%	1.40	0.38	6.7%
Total Domestic	**12.56**	**3.36**	**60.0%**	**17.90**	**4.86**	**85.5%**
Total Gross Borrowing	**20.93**	**4.99**	**100.0%**	**19.75**	**5.37**	**94.4%**

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

Domestic issuances during the first half of FY 2024/25 exceeded the envisaged planned borrowing from this specific financing option for the entire financial year. This was mainly attributed to Government's decision to settle

all outstanding obligations to Bank of Uganda through the issuance of a treasury bond instrument.

4.2 Half-year outcomes of FY 2023/24 MTDS operational targets

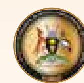
All the external debt half year cost and risk target outcomes for FY 2024/25 are still within the stipulated targets as indicated in table 8.

However, on the domestic debt side, a breach of the domestic interest payment payment as a percent of GDP has occurred at 3.5% compared to the projection of 2.57%.

Table 8: Half-year Cost and Risk Outcomes of FY 2024/25

Cost and Risk exposures	Cost and Risk Indicators	Jun-24	Target Ranges FY2024/25	Dec-24
Cost of debt	External Debt Interest payment as percent of GDP	0.6	≤0.98	0.61
	Domestic Debt Interest payment as percent of GDP	2.9	≤2.57	3.5
	Total Interest payment as percent of GDP	3.5	≤3.49	4.07
	Total Implied Interest rate (percent)	7.5	≤8.10	7.82
Refinancing risk	External Debt maturing in 1 yr (percent of total)	5.5	≤6.31	5.99
	Domestic Debt maturing in 1 yr (percent of total)	26.5	≤24.24	21.03
	Total Debt Maturing in one year (percent of total)	14.7	≤13.19	13.38
Interest rate risk	Total Fixed Rate Debt Portfolio including T-bills (as percent of total debt)	88.2	≥83.3	89.99

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



5 PUBLIC DEBT PORTFOLIO ANALYSIS DECEMBER 2024

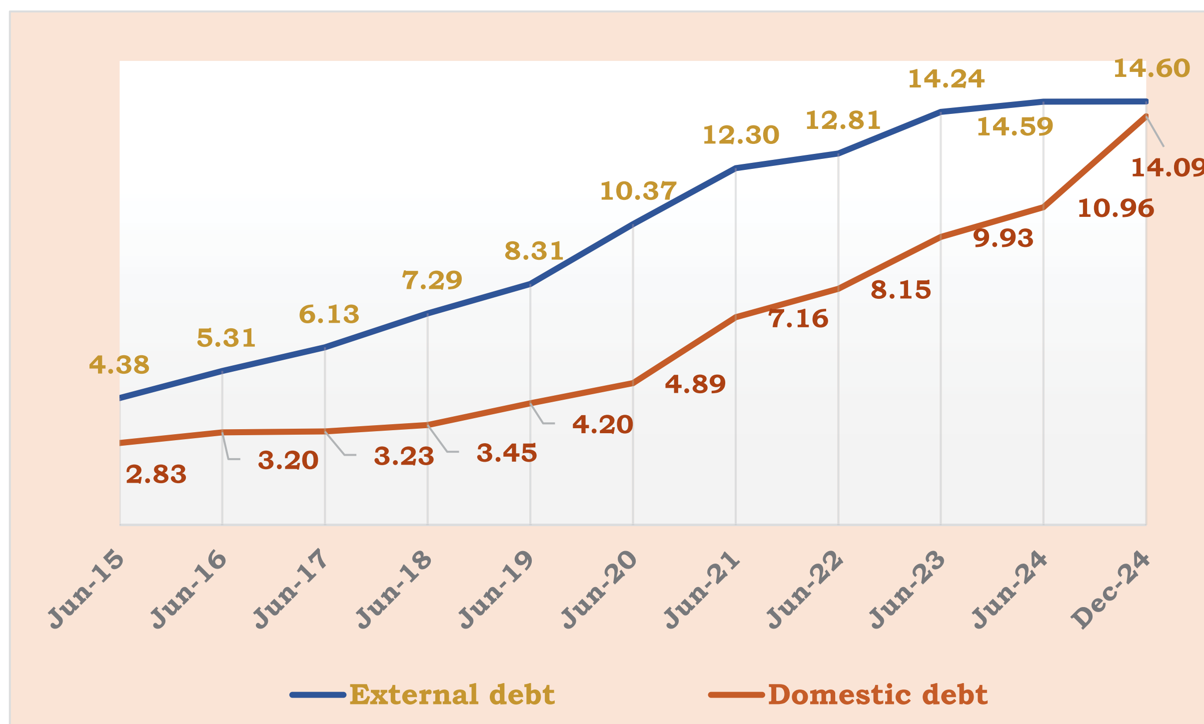
5.1 Level of Government Domestic and External Debt

As of December 2024, the total debt stood at USD 28.69 billion (UGX 105.62 trillion), up from USD 23.66 billion (UGX 86.77 trillion) in June 2023. This marks a 21.3% increase in the debt stock, amounting to an additional USD 5.03 billion over the period.

The growth in the stock of debt was primarily due to increased domestic borrowing in 2024 from UGX 34.57 trillion as at end June 2023 to UGX 51.87 trillion by end December 2024.

As a result, the nominal debt-to-GDP ratio increased from 46.9% in June 2023 to 52.1% in December 2024. The trend of public debt stock between June 2015 and December 2024 is illustrated in Figure 1.

Figure 1: Trend of Public Debt Stock in USD Billions to December 2024



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

As of December 2024, external debt accounted for 50.9% of the total debt, totalling USD 14.60 billion (UGX 53.75 trillion), while domestic debt made up 49.1%, or USD 14.09 billion (UGX 51.87 trillion). Over the past decade, both

domestic and external debt stocks have been increasing. The domestic debt stock has consistently remained lower than the external debt stock, by USD 3.8 billion on average during the period.

However, during the first half of FY 2024/25, the stock of domestic debt has significantly risen to almost an equal share, with the external stock only higher by USD 510 million. The significant rise in domestic debt is on account of Government's decision to clear all outstanding obligations to Bank of Uganda as at the end of June 2024 through the issuance of a treasury bond and increased domestic borrowing to fund the budget deficit for FY 2024/25.

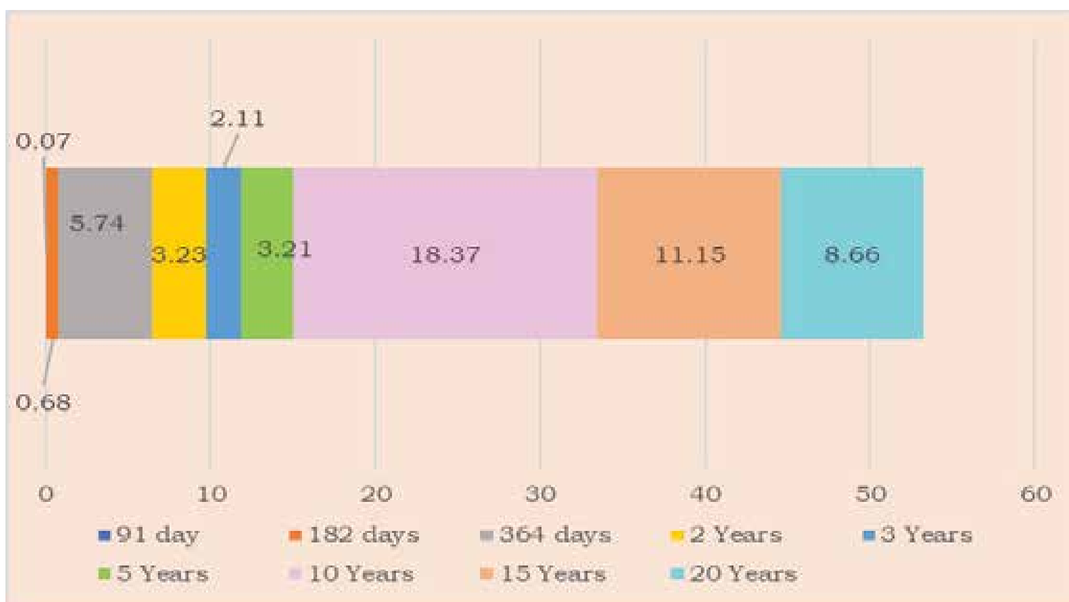
5.2 Composition of Government Debt as at 31st December 2024

The sections below provide a snapshot of the composition of Government's debt as at end of December 2024.

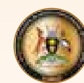
5.2.1 Domestic debt composition

By the end of December 2024, of the total domestic debt stock of UGX 53.23 trillion, treasury bills (short-term instruments) constituted 12.2%. Treasury bonds (long-term instruments), on the other hand, accounted for 87.8% of the portfolio. Refer to Figure 2 for a distribution of the instruments by maturity profile.

Figure 2: Domestic Debt by Tenor, December 2024, UGX Trillion



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

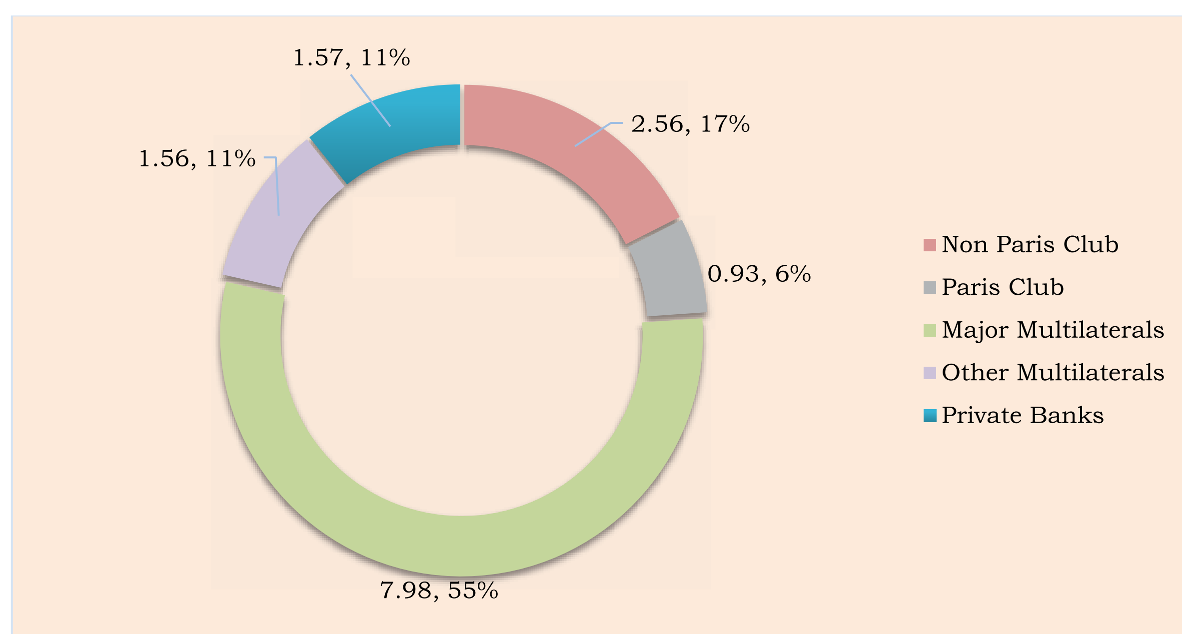


5.2.2 External debt composition

By the end of December 2024, external debt amounted to USD 14.60 billion, equivalent to UGX 53.75 trillion. As shown in Figure 3, major multilaterals such as the World Bank, the International Monetary Fund and the African Development Fund constituted 54.56% (USD 7.98 billion) of external debt.

Bilateral creditors, composed of both Paris and non-Paris Club[2], held 6.36% (USD 0.93 billion) and 17.53% (USD 2.56 billion), respectively. Private commercial banks accounted for 10.75% (USD 1.57 billion).

Figure 3: External Debt Composition by Creditor in USD Billion; %



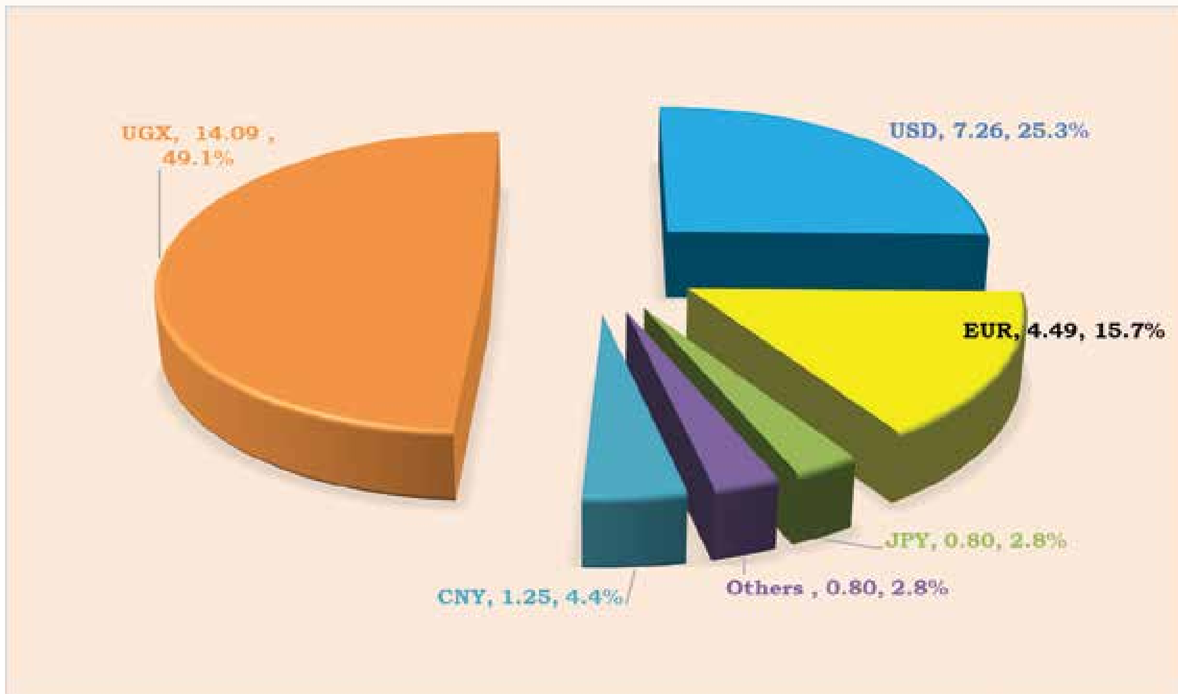
Source: Debt Policy and Issuance Department (DPID), MoFPED

5.3.3 Public debt by currency composition

The total debt portfolio by end December 2024 was dominated by local currency debt at 49.1%, equivalent to UGX 51.87 trillion, followed by SDR-denominated debt at 23.0% and USD at 15.3%, as is shown in Figure 4.

[2] The Paris Club is an informal group of developed creditor countries that offer loans to debtor countries at more favourable financing terms, while non-Paris Club refers to creditors who are not members of the Paris Club, including private creditors and other official bilateral creditors, often offering less favourable lending terms.

Figure 4: Debt by Currency Composition December 2024, Billion USD; %



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

5.3.4 Public debt composition by interest rate type

There has been an uptick in the share of fixed rate debt in the total public debt portfolio, increasing from 85.0% in June 2023 to 90.0% in December 2024 on account of increased domestic borrowing which is fixed-rate in nature.

5.3.5 Public debt composition by instrument type

Concessional borrowing took up the largest share of total public debt portfolio as at end December 2024, with USD 8.01 billion; followed by the 10-year bond constituting USD 4.99 billion. The financing instruments that held the least share in the portfolio were the 91-day and 182-day treasury bills holding USD 0.02 billion and USD 0.19 billion respectively. Refer to figure 5 for the detailed composition by instrument.

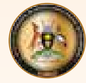
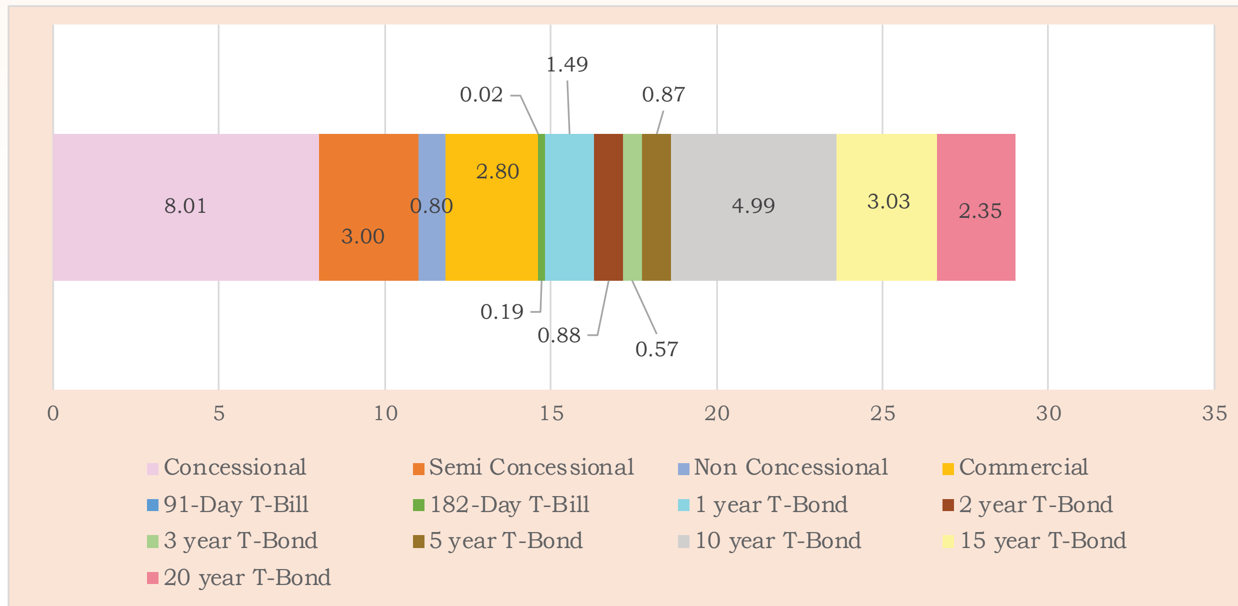


Figure 5: Public debt composition by instrument type, USD Billion



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

5.4 Cost and Risk Indicators of Public Debt

Table 9: Public Debt Portfolio Cost and Risk, December 2024

Risk Indicators		Jun-23			Dec-24		
		External debt	Domestic debt	Total debt	External debt	Domestic debt	Total debt
Amount (Trillions UGX)		52.2	34.6	86.8	53.8	51.9	105.6
Amount (Billions USD)		14.2	9.5	23.7	14.6	14.1	28.7
Nominal debt as percent of GDP		28.2	18.7	46.9	26.5	25.6	52.1
PV as percent of GDP		20.9	18.7	36.6	19.6	25.6	45.2
Cost of debt	Interest payment as percent of GDP	0.9	2.8	3.8	0.6	3.5	4.1
	Weighted Av. IR (percent)	3.3	15.5	8.1	2.3	13.5	7.8
Refinancing risk	ATM (years)	10.7	6.8	9.4	9.8	6.9	8.4
	Debt maturing in 1yr (percent of total)	3.8	23.9	10.3	6.0	21.0	13.4
	Debt maturing in 1yr (percent of GDP)	1.4	4.3	5.8	1.6	5.4	7.0
Interest rate risk	ATR (years)	9.6	6.8	8.7	9.0	6.9	8.0
	Debt refixing in 1yr (percent of total)	24.5	23.9	24.3	23.3	21.0	22.2
	Fixed rate debt incl T-bills (percent of total)	77.8	100.0	85.0	80.3	100.0	90.0
	T-bills (percent of total)	-	14.7	4.8	-	14.0	6.9
FX risk	FX debt (percent of total debt)			60.2			50.9
	ST FX debt (percent of reserves)			17.0			26.5

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

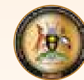
5.4.1 Cost of debt

At the end of December 2024, total interest payments as a share of GDP increased to 4.1% from 3.8% in June 2023. This is primarily attributed to increased issuances of domestic debt securities and the decision to clear outstanding obligations to Bank of Uganda through government securities.

5.4.2 Rollover risks

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 number of years it would take Government to pay its principal borrowing. The longer the ATM, the less risky the portfolio is deemed to be because principal payments will be spread over a longer period of time, thereby exerting less pressure on the budget.

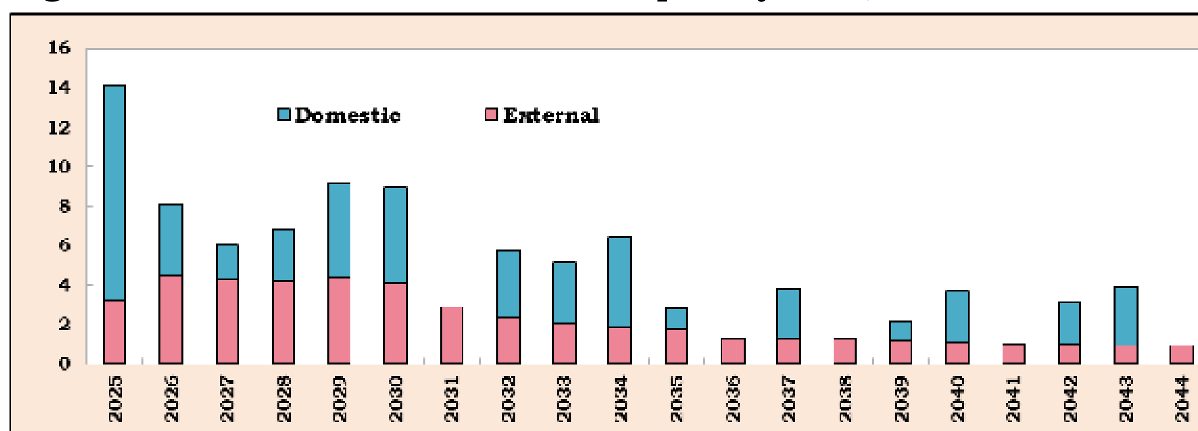
ATM in the external debt portfolio at end December 2024 reduced to 9.8 years from 10.7 years in June 2023. This was on account of increased disbursement of loans on non-concessional terms that have shorter maturity periods. The ATM for domestic debt increased to 6.9 years in December 2024 from 6.8 years in June 2023. This is attributed to increased issuance of the longer dated



securities over the period of assessment. The average time to maturity of the existing debt portfolio (external and domestic debt) consequently reduced from 9.4 years as at June 2023 to 8.4 years as at December 2024.

Out of the total domestic debt as at December 2024, the domestic debt maturing in one year decreased from 23.9% in June 2023 to 21.0%. On the other hand, external debt maturing in one year as percentage of the total external debt increased to 6.0% from 3.8% as at end June 2023.

Figure 6: External and domestic Principal Payment; UGX Trillion



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

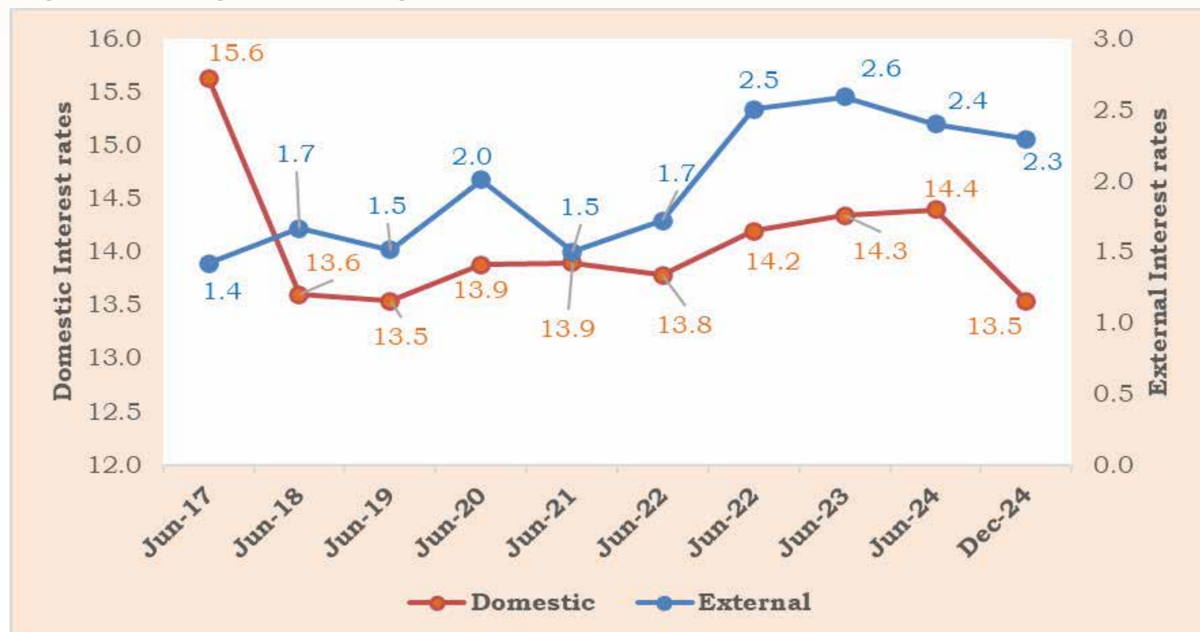
Figure 5 describes the magnitude of principal payments and captures the refinancing risk in 2025. Despite having high debt service requirements in 2025, on account of domestic debt, the redemption profile, as shown, is characterized by evenly distributed debt repayments with no significant concentrations of debt service in future years.. However, principal payments on account of external debt are growing due to acquisition of non-concessional and commercial loans whose maturity profile (6-13 years) is shorter than concessional (20-40 years) loans.

5.4.3 Interest rate risks

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. As indicated in Figure 6, the weighted average interest rate for domestic debt reduced by 0.7 percentage points from 14.2% in December 2023 to 13.5% in December 2024; whereas the weighted average interest rate for external debt reduced by 0.2 percentage points from 2.5% to 2.3% in the

same period. This is attributed to easing of the monetary policy by major central banks (the Federal Reserve and the European Central Bank) throughout 2024.

Figure 7: Weighted Average Interest Rates December 2024



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

External debt stock was dominated by fixed rate debt at 80.3% and variable rate debt of 19.7% as at end December 2024.

The ATR of total public debt (external and domestic) reduced from 8.7 years as at December 2023 to 8.0 years as at December 2024. The level of risk associated with ATR is dependent on the interest rate movements in the market at a particular time. A short ATR can be risky during a time when the interest rates are increasing, yet it may be preferred during a time when interest rates are reducing, resulting in lower interest costs to Government, as opposed to a longer ATR.

5.4.4 Exchange rate risk

From June 2023 to December 2024, foreign currency debt as a percentage of the total debt decreased from 60.2% to 50.9%. This was due to increased domestic borrowing in local currency. In addition, the short-term debt as a percentage of reserves significantly increased from 17.0% to 26.5% in the same period. This is attributed to the sharp decline in foreign reserves from USD 4.1billion in June 2023 to USD 3.3 Billion in December 2024.

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 refix (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 the 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. Concessionally 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 a long grace period.

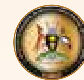
Creditor: The organisation or entity that provides money or resources and to whom payment is owed under the terms of a loan agreement. It is an entity with a financial claim on another entity.

Debt default: Failure to meet a debt obligation payment, either *principal* or *interes*t.

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 the principal, interest, and any late payment fees. Scheduled debt



service is the set of payments, including the principal and interest, which is required to be made through the life of the debt.

Debt: All liabilities that are debt instruments such loans and debt securities.

Disbursed loans: The amount that has been disbursed from a loan but has not yet been repaid or 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 10-year grace period, a 40-year repayment period, and only a small servicing charge.

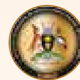
Multilateral creditors: These creditors are multilateral financial institutions such as the IMF and the World Bank, as well as other multilateral development banks.

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;

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 12 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 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.

Plot 2 -12 Apollo Kaggwa Road
P. O. Box 8147, Kampala - Uganda
www.finance.go.ug