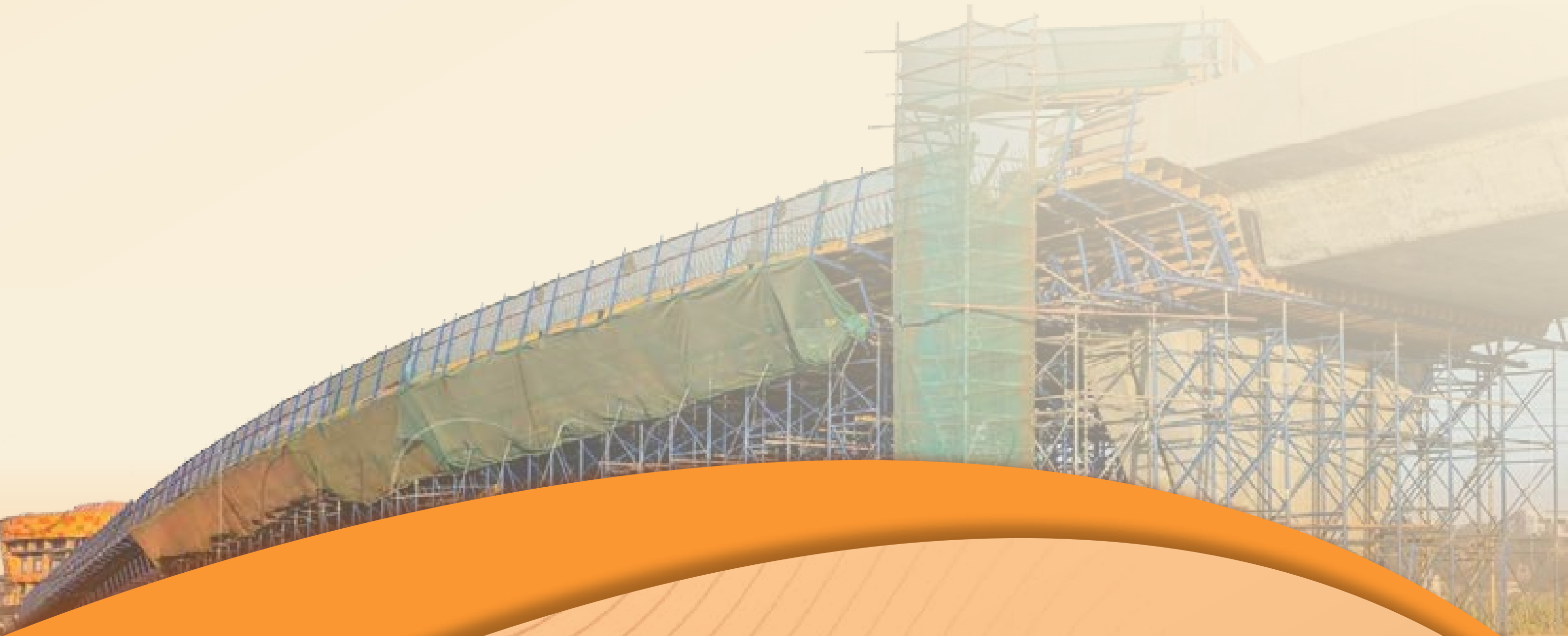
MEDIUM TERM DEBT MANAGEMENT STRATEGY
2023/24-2026/27



MARCH 2023

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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LIST OF ACRONYMS

AFD	French Agency for Development
ADB	African Development Bank
ADF	African Development Fund
ATM	Average Time to Maturity
ATR	Average Time to Refixing
BADEA	Arab Bank for Economic Development of Africa
BOU	Bank of Uganda
CAS	Credit Adjustment Spread
CFR	Charter for Fiscal Responsibility
DOD	Debt Disbursed and Outstanding
EIB	European Investment Bank Highly
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
LIBOR	London Interbank Offer Rate
MOFPED	Ministry of Finance, Planning and Economic Development
MTDS	Medium Term Debt Management Strategy
MTFF	Medium Term Fiscal Framework
NDF	Net Domestic Financing
NDP	National Development Plan
PV	Present Value
ST	Short Term

FOREWORD

Every year, the Minister of Finance, Planning and Economic Development (MOFPED) is required to table a plan on public debt and any other financial liabilities to Parliament alongside the National Budget. This is pursuant to Sections 13(10) (a)(iv) of the Public Finance Management Act (2015).

The Medium-Term Debt Management Strategy (MTDS) is formulated by use of the World Bank and International Monetary Fund excel-based analytical tool. The tool provides analysis capabilities that guide the Government to assess the potential impact of different borrowing options on the debt portfolio and financial sustainability.

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

The preparation of the MTDS for Financial Year 2023/24 was highly consultative with stakeholders from the Parliamentary Budget Office (PBO), National Planning Authority (NPA), Bank of Uganda (BOU) and officials from MOFPED.

The FY 2023/24 MTDS will ensure a well-balanced composition of Government's debt portfolio in terms of costs and risks while financing Government of Uganda (GoU)'s gross borrowing requirements. GoU will continue to ensure effective debt management and responsible borrowing to achieve her sustainable development agenda.

Matia Kasaija
Minister for Finance, Planning and Economic Development

March 2023

EXECUTIVE SUMMARY

The MTDS is a plan that Government operationalizes in order to meet its borrowing need, while taking into account cost-risk trade-offs and debt management objectives in the medium term.

The overall objective of the FY2023/24 MTDS is to meet the Government's medium term financing requirements at the lowest possible cost consistent with a prudent degree of risk. The specific objectives are:

i. Manage the external debt interest rate risks by gradually reducing on the issuance of variable rate loans.

ii. Reduce domestic debt refinancing risk by issuing longer dated securities.

iii. Minimize the appetite for commercial borrowing by contracting more concessional/semi-concessional debt to reduce the cost and refinancing risk on external debt.

The performance of MTDS of FY 2021/22 was impacted by increased expenditure pressures, as the economy started to recover from the socioeconomic impact of the Covid-19 pandemic during the financial year. This coupled with disruptions in global supply chain arising from the Ukraine war, necessitated increased issuances of domestic debt to meet the financing gaps because low revenue collection. As such, total government debt stock rose to USD 21.74 billion at end-December 2022 up from USD 20.74 Billion registered at the end of December 2021. Nominal debt to GDP also rose from 46.7% at the end of June 2021 to 48.58% in June 2022, closing at 49. 64% by end December 2022.

By the first half of FY 2022/23, implementation of the MTDS was already affected by rising interest rates following the global tightening of the monetary policy by major central banks to control inflation. This led to breach in some of the operational targets and misalignment to the borrowing mix set in the FY 2022/23 MTDS.

As at end December 2022, total interest payment as percent of the GDP was 3.58% breaching the set target of ≤2.93%. Domestic debt interest payment as percent of the GDP was as high as 2.89% against a target of ≤2.40 while external interest payment as percent of GDP was 0.68% breaching the operational target of ≤0.53.

The MTDS FY 2022/23 projected a gross borrowing requirement of UGX. 19,019.6 billion, however, by the end December 2022, the actual gross borrowing realized was UGX. 6,880.3 billion, constituting only 36.2% of the projected amount. The poor performance is attributed to slow disbursement of external loans in the 1st half of the financial year.

During FY2023/24 and the medium term, government intends to further reduce domestic borrowing from 2.1% in FY 2022/23 to 0.9% of GDP in FY 2023/24 and increase external borrowing for priority projects. This is expected to support the growth of private sector credit which is necessary for a private sector driven economy.

For successful implementation of this strategy, there is need to adhere to the provisions of the 2022 Public Investment Financing Strategy (PIFS) by ensuring alignment of prioritized Government programmes and projects to suitable sources of financing. Furthermore, in addition to implementation of the planned fiscal consolidation path, it should enhance realization of the Domestic Revenue Mobilization Strategy (DRMS) to grow domestic revenues thus slowing down issuance of highly commercial debt.

CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION

In fulfilment of Section 13(10) (a)(iv) of the Public Finance Management Act (2015), the Government of Uganda prepares a Medium-Term Debt Management Strategy (MTDS) annually. MTDS is a plan that guides the government's borrowing to achieve a desired composition of the government debt portfolio.

The strategy is reviewed every year to ensure effective debt management of the country's debt portfolio and develop a debt strategy that is consistent with the macro-economic outlook. In addition, the MTDS review assists in providing guidance to Government on its desired cost and risk in the short to medium term.

Government of Uganda started preparing the MTDS in FY 2015/16 with the overall objective of meeting government's financing needs at the lowest possible cost, subject to prudent degree of risk. Implementation of the last three strategies was affected by short falls in revenue during the period, socio-economic impact of the Covid-19 pandemic, supplementary expenditures, changes in market rates and macroeconomic assumptions among others. These challenges resulted into deviation from both the operational targets and instruments allocations set thereof.

In FY 2020/21, the Net Domestic Financing (NDF) more than doubled, from UGX 3,054 billion projected in the MTDS to UGX. 6,313 billion by the end of the financial year. Given the indications of economic recovery from the pandemic by end June 2021, the NDF projections for FY 2021/22 were set at UGX 2,943 billion. However, the onset of the Ukraine Russian war impacted the revenue collections and thus the

NDF was revised to UGX 5,502 Billion. This resulted in an increase in the domestic interest rates.

Following the spike in the domestic interest rates in FY 2022/23, Government intends to swap domestic debt with the relatively cheaper external debt of up to EUR 500 million. In addition to the high interest cost associated with domestic borrowing, external debt interest rates sharply increased in the 1st half of FY 2022/23 following the tightening of the monetary policy by the US federal Reserve and the European Central Bank. Increase in interest rates combined with commercial borrowing in the last three fiscal years has worsened external debt interest payments to GDP from 0.4% in FY 2018/19 to 0.5% in FY 2021/22. External debt Average Time to Maturity (ATM) improved from 14.1 years to 11.1 years during the same period.

The public debt cost and risk indicators are also trending upward and debt service continues to put more pressure on the budget. Total interest payments as percentage of GDP increased from 2.3% in FY 2018/19 to 2.8% in FY 2020/21 and reached 3.1% in FY 2021/22. This has an adverse effect on the resources available for the development programmes as Government has to pay for the rising interest costs.

The above challenges demonstrated in the deviations from both the operational targets and instruments allocations set in the debt management strategies have created challenges in the management of Uganda's public debt.

Public debt has risen sharply from USD 12.5 Billion to USD 20.97 Billion for the last four years due to increased fiscal deficit and thus high cost of servicing debt. As a result, total interest payments as percentage of GDP increased from 2.3% in FY 2018/19 to 3.1% in FY 2021/22, which has put more pressure on debt service. Consequently, the share of total debt service to domestic revenues increased from 24% in FY 2020/21 to 29% in FY 2021/22 reducing the resources available for other budgetary requirements.

In light of the above situation, Government is required devise ways of sourcing for financing for service delivery while ensuring reduction in associated costs and risks to guard against exacerbating the current conditions.

1.3 OBJECTIVE

The overall objective of this year's MTDS is to meet the Government's financing needs at the lowest possible cost, consistent with a prudent degree of risk.

1.3.1 Specific Objectives

1. Manage the external debt interest rate risks by gradually reducing on the issuance of variable rate loans.
2. Facilitate the development of the domestic market and reduce domestic debt refinancing risk by issuing longer dated securities.
3. Minimize the appetite for commercial borrowing by contracting more concessional/semi-concessional debt to reduce the cost and refinancing risk on external debt

1.4 SCOPE OF THE STRATEGY

The strategy covers central government debt and does not include borrowing from local governments and public corporations. On instruments coverage, only loans and debt securities are included as part of debt stock.

CHAPTER TWO: PUBLIC DEBT PORTFOLIO ANALYSIS AS AT DECEMBER 2022

2.1 STOCK OF GOVERNMENT EXTERNAL AND DOMESTIC DEBT

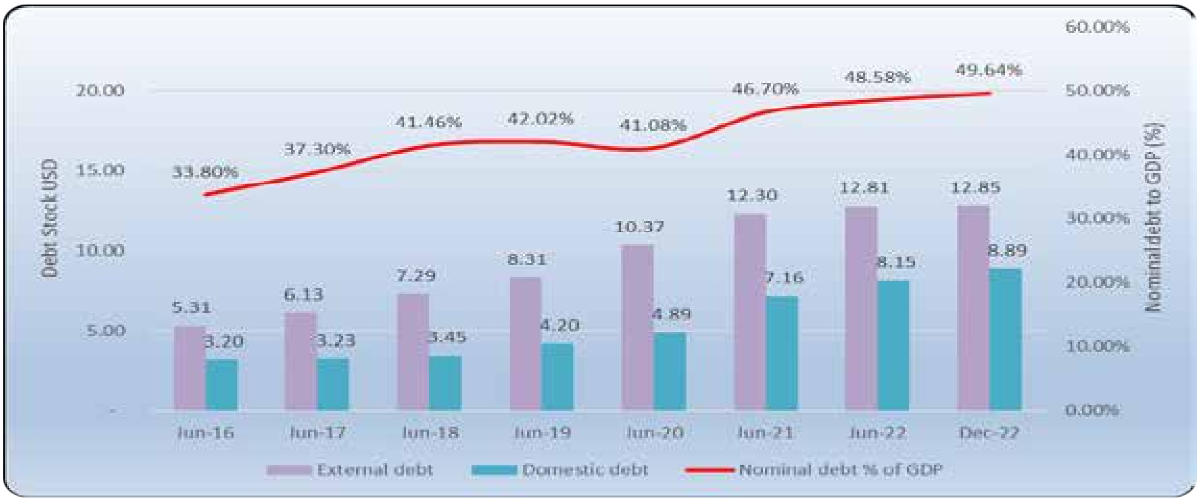
The total public debt stock at the end of December 2022, increased to USD 21.74 Billion equivalent to UGX 80.77 trillion up from USD 20.74 Billion registered at the end of December 2021. This represents a growth of 4.8% equivalent to USD 1.0 Billion in the total stock of debt over the one (1) year horizon.

In the same period, the external debt stock reduced by 0.4% from USD 12.90 billion in December 2021 to USD 12.85 billion in December 2022. This is attributed to strengthening of the USD against major currencies following the disruptions to the global economy by the Geopolitical tensions in Eastern Europe. On the other hand, domestic debt stock increased from UGX 27,773.4 billion to UGX 33,014.6 billion on account of increased domestic debt issuance to support expenditure.

In December 2022, the nominal value of public debt as a percentage of GDP marginally reduced to 49.64%[1], from 49.67% recorded in December 2021. This indicates that the nominal growth in GDP was higher than the nominal growth in debt numbers as shown in figure 1. The higher growth in GDP is majorly attributed to increase in the economic activities following the reopening of the economy after the Covid-19 lockdown.

[1] Computation was based on GDP figures for FY 2021/22. GDP for calendar year 2022 was not available at the time of this publication.

Figure 1: Public Debt Stock (in USD Billion) Trend from FY2015/16 to December 2022



Source: MOFPED

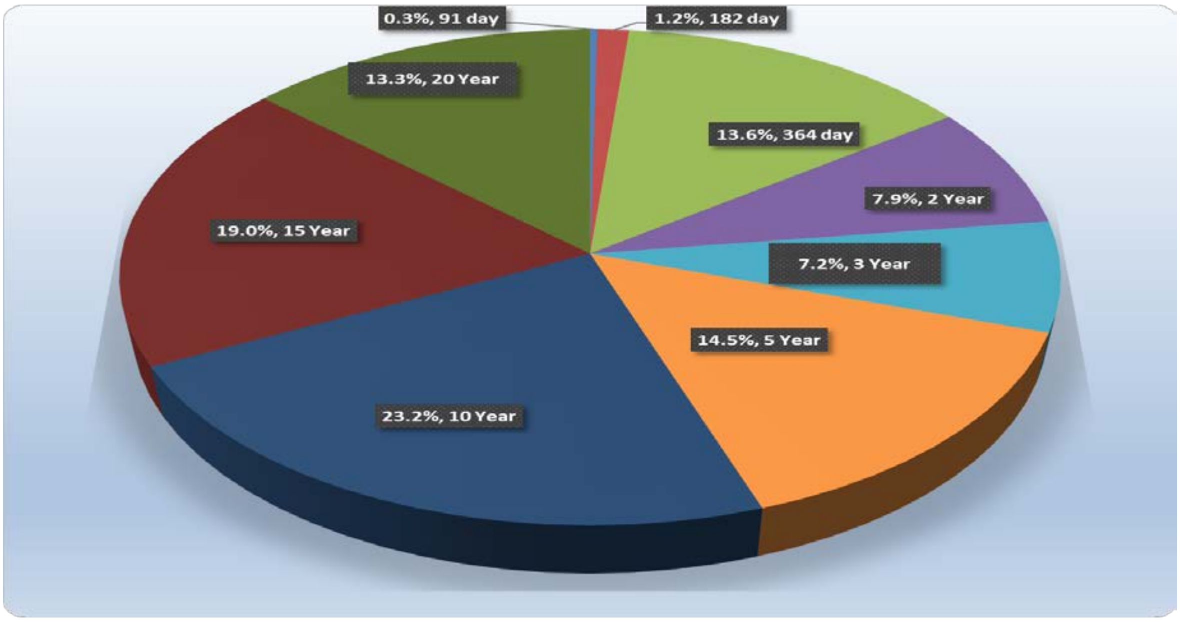
2.2 COMPOSITION OF GOVERNMENT DEBT AS AT DECEMBER 2022

Under this section we show summary of Government's debt portfolio by currency composition, interest rate types, maturity and creditor type as at December 2022 are highlighted.

2.2.1 Domestic Debt Composition

Out of the domestic debt stock of UGX 33.01 trillion as at end December 2022, 15% which is equivalent to UGX 4.9 trillion are Treasury Bills while 85% equivalent to UGX 28.2 trillion are Treasury Bonds. This is further detailed in figure 2.

Figure 2: Domestic Debt Composition by Maturity at end December 2022



Source: MOFPED

Out of UGX 28.2 trillion outstanding stock of Treasury Bonds as at end December 2022, UGX 7.6 trillion (23.2%) are in 10-year Treasury Bonds while UGX 6.3 trillion (19.0%) are in 15-year Treasury Bonds. The 20-year bonds constitute 13.3%, 5-year bonds at 14.5%, and 1-year T-bills at 13.6%. Having 55% of domestic debt stock in longer dated instruments with a maturity of at least 10 years is in line with the target of reducing refinancing risk.

2.2.2 External Debt Composition

The largest share of Uganda's external debt stock (52.54% equivalent to USD 6.8 billion) was held by major[2] multilateral creditors. Other multilateral creditors which include among others; African Development Bank (ADB), Islamic Development Bank (IDB) and International Fund for Agriculture (IFAD) held 9.54%, equivalent to USD 1.2 billion as at end December 2022. Bilateral creditors categorised

[2] Major multilateral creditors include International Development Association (IDA), International Monetary Fund (IMF) and African Development Fund (AfDF).

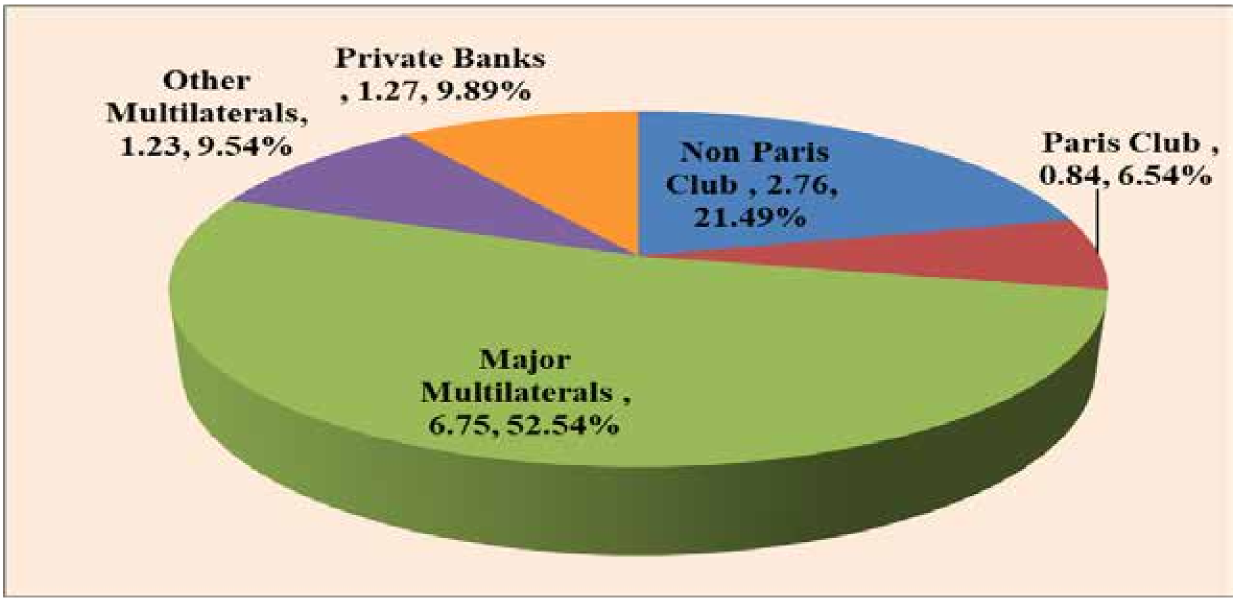
into Paris club and non-Paris club took up 6.54% (USD 0.8 billion) and 21.49% (USD 2.8 billion) respectively whereas private banks held a share of 9.89% equivalent to USD 1.27 billion.

Multilateral debt is dominated by International Development Association with outstanding stock of USD 4.41 billion followed by African Development Fund with outstanding stock of USD 1.50 billion as at end December 2022. Bilateral debt is dominated by the Exim Bank of China with outstanding stock of USD 2.66 billion followed by United Kingdom with outstanding stock of USD 0.31 billion. For private banks, Trade Development Bank dominated with outstanding stock of USD 0.47 billion followed by AFREXIM with outstanding stock of USD 0.38 billion at the end of December 2022.

The share of bilateral debt in the external debt portfolio increased to 28.03% (USD 3.60 Billion) as at end December 2022 from 27.59% (USD 3.56 Billion) in December 2021 while the share of multilateral debt stock increased from 61.19% (USD 7.89 Billion) to 62.08% (USD 7.98 Billion). On the other hand, private creditors' share in the external debt portfolio reduced from 11.2% (USD 1.45 Billion) to 9.89% (USD 1.27 Billion) during the same period.

Figure 3 shows external debt stock by creditor composition for December 2022.

Figure 3: External Debt Composition by Creditor in USD Billion as at December 2022

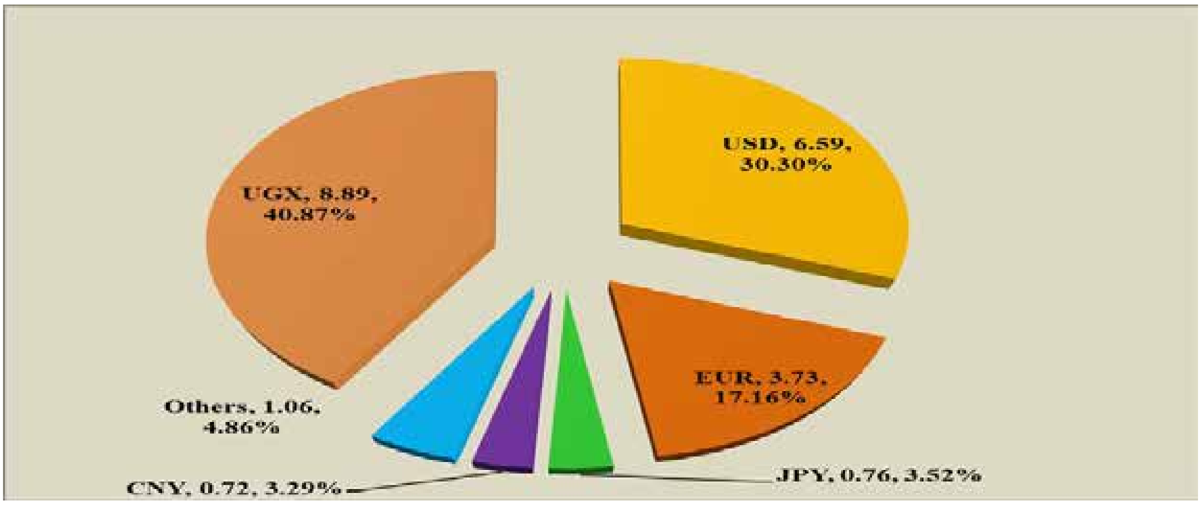


Source: MOFPED

2.2.3 Public Debt by Currency Composition

As at end December 2022, 40.87% of the debt stock was denominated in Uganda shillings at followed by USD denominated debt at 30.30%, EURO at 17.16%, 0.76% in Japanese Yen, 0.72% in Chinese Yuan and 4.86% in other currencies as shown in Figure 4. Uganda shillings dominated the stock of debt because all domestic debt issuances are denominated in local currency.

Figure 4: Government Debt by Currency Composition at end December 2022



Source: MOFPED

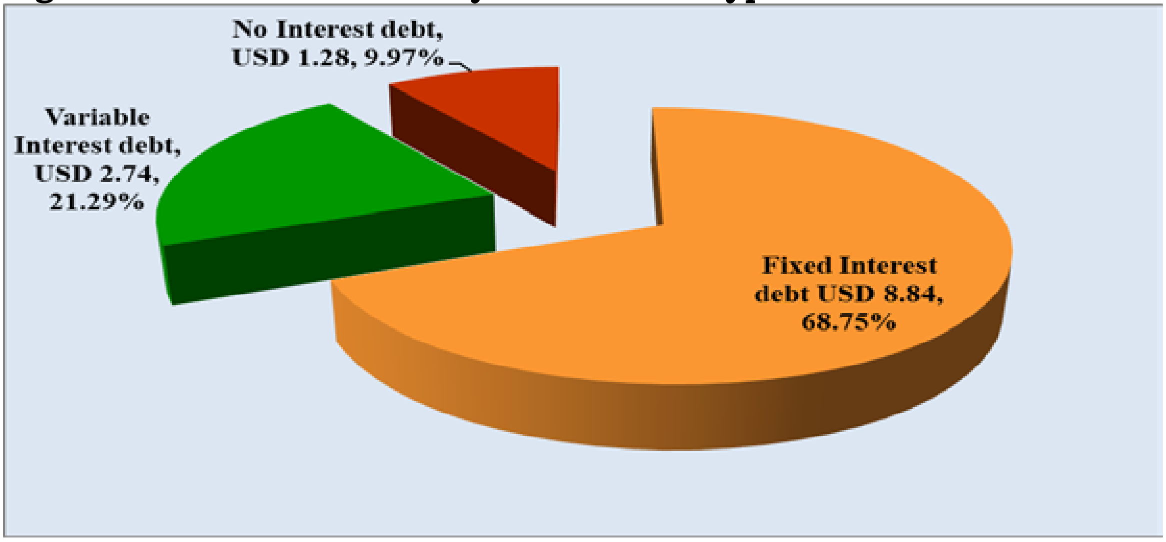
2.2.4 Public Debt Composition by Interest Rate Type

As at December 2022, the share of fixed rate[3] debt in the total public debt portfolio stood 87.42% from 86.50% in December 2021 as indicated in table 1. This is attributed to reduced share of variable interest rate loans from 21.70% to 21.29% during the same period as illustrated in figure 5.

The largest stock of the variable-rate debt from Bilateral creditors is from China representing USD 963.42 Million followed by commercial banks, AFREXIM (USD 378. 95 million) and Trade Development Bank (USD 474.32 Million) while the variable-rate debt from Multilateral creditors is from ADB representing USD 245.38 Million.

[3] Fixed rate debt includes borrowing at no interest rate terms and domestic borrowing at fixed rate terms

Figure 5: Government Debt by interest rate type at end December 2022



Source: MOFPED

2.3 COST AND RISK INDICATORS OF PUBLIC DEBT

Table 1: Cost and risk indicators of the existing Central Government debt as at December 2022

Risk Indicators		Dec-21			Dec-22		
		External debt	Domestic debt	Total debt	External debt	Domestic debt	Total debt
Amount (in billions of UGX)		45,722.3	27,773.4	**73,495.7**	47,760.2	33,014.6	**80,774.8**
Amount (in billions of USD)		12.9	7.8	**20.7**	12.9	8.9	**21.7**
Nominal debt as percent of GDP		30.90	18.77	**49.67**	29.35	20.29	**49.64**
PV as percent of GDP		21.8	18.8	**40.5**	21.1	20.3	**41.4**
Cost of debt	Interest payment as percent of GDP	0.5	2.6	**3.1**	0.7	2.9	**3.6**
	Weighted Av. IR (percent)	1.6	13.6	**6.1**	2.4	14.3	**7.2**
	ATM (years)	11.4	6.0	**9.4**	10.9	6.6	**9.1**
	Debt maturing in 1yr (percent of total)	4.2	25.7	**12.3**	5.0	23.0	**12.4**
Refinancing risk	Debt maturing in 1yr (percent of GDP)	1.3	4.8	**6.1**	1.5	4.7	**6.2**
	ATR (years)	10.4	6.0	**8.8**	10.0	6.6	**8.6**
	Debt refixing in 1yr (percent of total)	24.2	25.7	**24.8**	24.0	23.0	**23.6**
	Fixed rate debt incl T-bills (percent of total)	78.3	100.0	**86.5**	78.7	100.0	**87.4**
Interest rate risk	T-bills (percent of total)	0	18.90	**7.10**	0	15.01	**6.14**
FX risk	FX debt (percent of total debt)			62.21			59.13
	ST FX debt (percent of reserves)			12.50			18.15

Source: MOFPED

2.3.1 Cost of Debt

Total interest payments as a share of GDP increased to 3.6% as at December 2022 from 3.1% as at December 2021 as shown in table 1. This is explained by increase in both domestic and external interest rates in the 1st half of FY 2022/23 as well as increased borrowing.

2.3.2 Refinancing/ Roll Over Risks

The repayment profile, debt maturing in one year as a percentage of total public debt and Average Time to Maturity (ATM) are the major refinancing risk indicators. As at end December 2022, the ATM of all the principal payments in the external debt portfolio reduced to 10.9 years from 11.4 years in December 2021 due to disbursement of loans with shorter maturity. On the domestic debt side, the ATM increased from 6.0 years in December 2021 to 6.6 years in December 2022. This follows deliberate effort by the government to increase issuance of longer dated securities such as 10-year and 15-year securities over the period of assessment.

Overall, the average time to maturity of the existing total debt portfolio (external and domestic debt) reduced from 9.4 years as at December 2021 to 9.1 years as at December 2022. As at December 2022, the domestic debt maturing in one year decreased to 23.0% from 35.7% in December 2021. External debt maturing in one year as percentage of the total debt increased to 5.0% from 4.2% as at end December 2021 in line with the increase in the share of non-concessional debt currently at 25%.

2.3.3 Interest Rate Risks

Interest rate risk is defined by the total time it takes for interest rates in the debt portfolio to change.

Figure 6: Weighted Average Domestic and External Interest rates as at December 2022

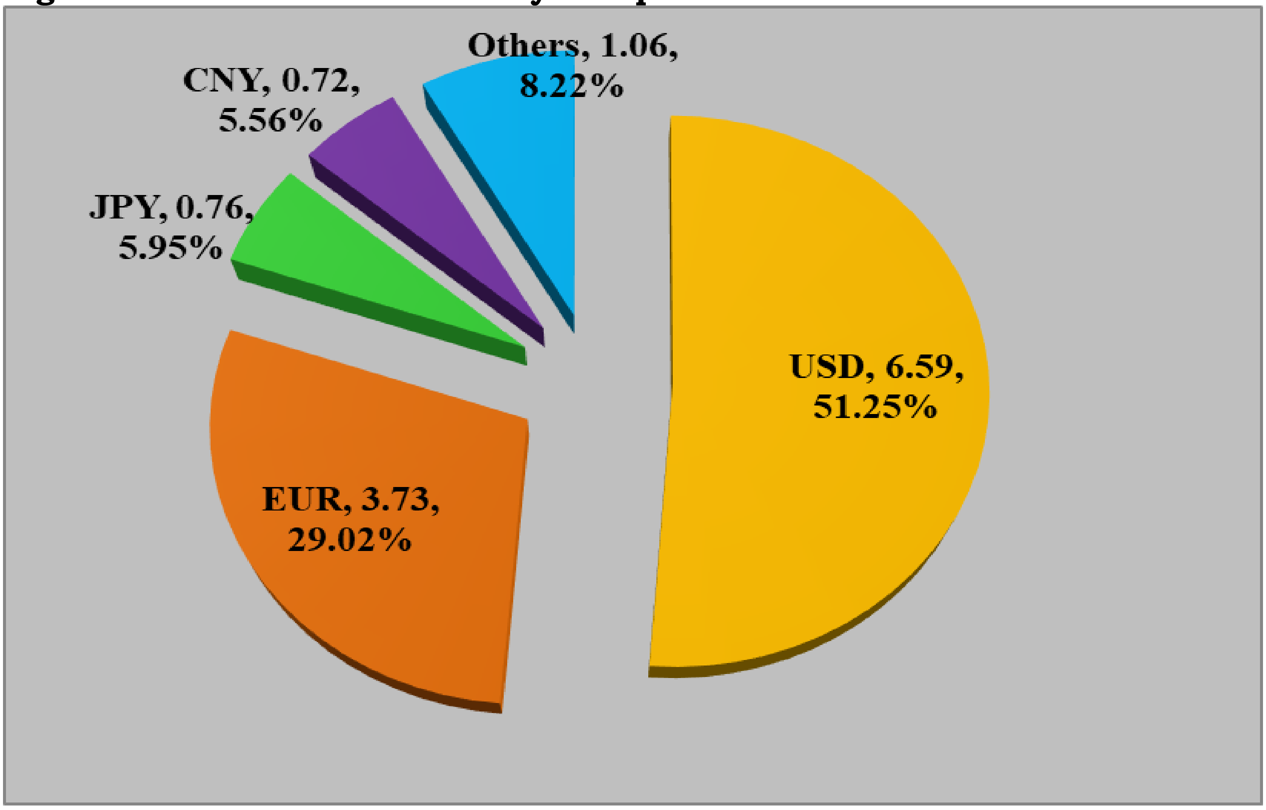
Source: MOFPED

The weighted average interest rate for both domestic debt and external debt increased significantly from 13.6% to 14.3% in December 2021 and 1.6% to 2.4% in December 2022 respectively as indicated in figure 6. The Average Time to Refixing (ATR) of total public debt (external and domestic) reduced from 8.8 years as at December 2021 to 8.6 years as at December 2022. In a volatile interest rate environment, a shorter ATR is very risky because interest rates may change to a higher rate in a short time resulting into higher debt service costs.

2.3.4 Exchange Rate Risk

The foreign currency debt as a percentage of the total debt reduced from 62.21% in December 2021 to 59.13% in December 2022. This can be attributed to increased domestic debt issuances to finance additional expenditure requirements in FY 2021/22. The short-term debt as a percentage of reserves increased from 12.5% to 18.1% in the same period. The share of major foreign currency denominated debt as at December 2022 is illustrated in figure 7.

Figure 7: External Debt Currency Composition as at December 2022



Source: MOFPED

CHAPTER THREE: PERFORMANCE OF THE FY 2021/22 MTDS AND HALF YEAR PERFORMANCE OF FY 2022/23 MTDS

3.1 PERFORMANCE OF FY 2021/22 MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS).

The implementation of FY 2021/22 MTDS was impacted by increased expenditure pressures which necessitated the revision of NDF by UGX. 2,559 billion within the financial year 2021/22. Additionally, improved disbursement of external loans due to reopening of the economy after the Covid-19 lockdown led to over performance in external disbursement than the amount projected in the MTDS.

By the end of June 2022, most of the operational targets set out in the FY 2021/22 MTDS had been breached. The disturbances associated with Covid-19 pandemic resulted into increased issuances of domestic debt against the projected issuances thus contributing to breach in these indicators.

Though the MTDS achieved its objectives of meeting Government's financing needs, the cost and risk indicators continue to increase higher than the targets set. Due to the above, the specific objectives of managing the domestic debt refinancing risk, managing the borrowing mix and borrowing quantum was not achieved.

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

3.2 OPERATIONAL TARGET PERFORMANCE OF FY 2021/22 MTDS.

The FY 2021/22 MTDS used interest payments as percent of GDP to set the operational target for cost of debt. The debt maturing in one year as percent of the total was used to set the target for refinancing risk. This is indicated in table 2.

Table 2: Cost and Risk Operational Objectives and Performance of FY 2021/22 as at end June 2022

	Cost and Risk Indicators	Jun-21	Objective FY 2021/22	Performance FY 2021/22
Cost of Debt	External Interest payment as % of GDP	0.4	<=0.49	0.51
	Domestic Interest payment as % of GDP	2.4	<=2.13	2.60
	Total Interest payment as % of GDP	2.8	<=2.62	3.11
Refinancing Risk	External Debt Maturing in 1 YR (% of total)	3.3	<=4.05	4.66
	Domestic Debt Maturing in 1 YR (% of total)	30	<=21.92	22.32
	Total Debt Maturing in 1 YR (% of total)	13.1	<=10.13	11.53
	Domestic T-bill Portfolio	22.5	<=17.55	15.60

Source: MOFPED

3.2.1 Cost of debt

In FY 2021/22, the total interest payments as percentage of GDP increased to 3.1% from 2.8% in FY 2020/21 beyond the target range of less than 2.6% set in the FY 2021/22 MTDS. The domestic debt interest payments as a percentage of GDP increased by 0.2 percentage points while external debt interest payment to GDP increased to 0.5% from 0.4% in the previous fiscal year against a target of 0.49%.

The interest payment to GDP on domestic debt of 2.6% breached the operational target of less than 2.13% set in the FY 2021/22 MTDS majorly due to increased domestic debt issuances to UGX. 13.604 trillion as opposed to the projected UGX. 10.133 trillion. Increase in the domestic debt issuance above the planned borrowing implied additional cost in terms of interest payments. External debt interest payments as a percent of GDP also breached the target by 0.1 percentage points. This is attributed to improved project performance as a result of re-opening of the economy hence increased disbursements on projects.

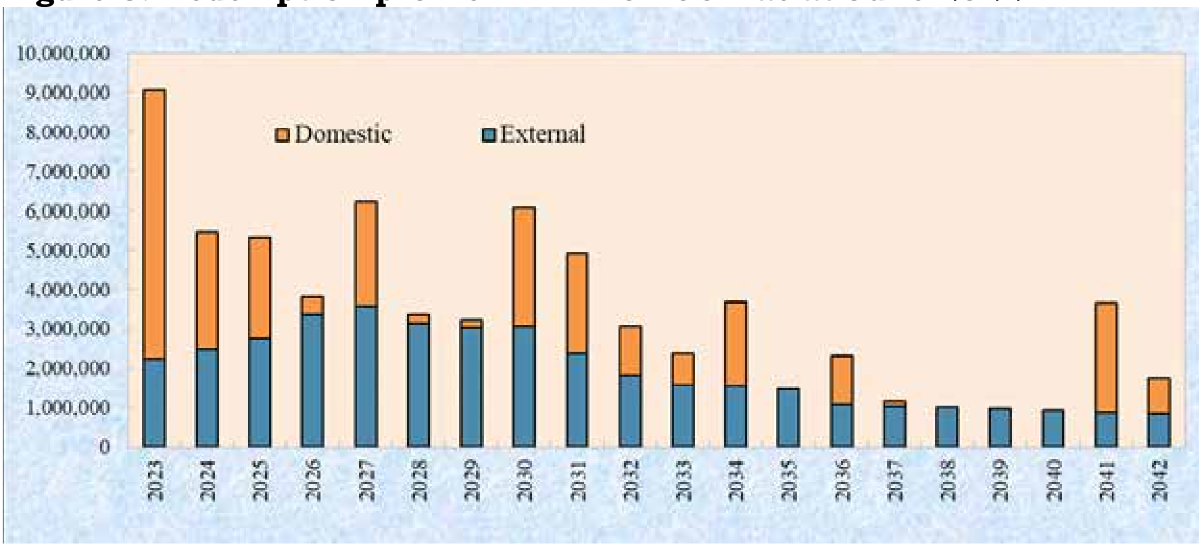
For the period under review, government recorded notable disbursements from China Exim Bank towards; Karuma Hydropower generation project amounting to USD 44.1 Million, Oil roads (USD 153 Million), and Accelerated Rural Electrification Project (USD 34.2 Million). Additionally, the country registered USD 400 Million towards budget support from AFREXIM, USD 32.7 Million from African Development Fund for the COVID-19 Response Support Program, USD 97.4 Million for financing the Uganda Support to Municipal Infrastructure Development Project (USMIDP) from World Bank, USD 39.7 Million for the Energy for Rural Transfer, USD 86.1 Million for Uganda Intergovernmental Fiscal Transfers from World Bank and, USD 125.3 Million from the IMF Extended Credit facility.

3.2.2 Refinancing Risk/Rollover Risk.

Refinancing risk in the external debt portfolio has been persistently increasing due to gradual shift from concessional to non-concessional borrowing. In the MTDS of FY 2021/22, external debt maturing in one year as percent of the total external debt was set to be less than 4.05%. The risk indicator increased to 4.66% in June 2022 from 3.3% in June 2021 thus breaching this operational target. The increase is majorly on the account of maturing short-term budget support loans from commercial banks and principal payments of flagship projects such as Karuma and Isimba Hydro Power Dam in the next one year.

Domestic Debt Maturing in 1 year as a percentage of total reduced from 30% in June 2021 to 22.32% in June 2022 as a result of significant increase in issuances of longer dated tenors. A 20-year Treasury bond instrument was introduced to further support Government's deliberate efforts to issue more longer dated instruments in order to mitigate the refinancing risk in the domestic debt portfolio. However, the operational target of <=21.92% was breached on account of increased NDF targets within the financial year that necessitated the issuance of Treasury Bills that mature within a year.

Figure 8: Redemption profile in Trillion UGX as at June 2022



Source: MoFPED

As indicated in figure 8, there was a refinancing risk posed by maturing domestic debt in FY 2022/23. This has been mitigated through bond switches with maturing securities and exchanged for other instruments with future maturity dates. The refinancing risk in the external debt will be mitigated by gradually reducing on the contraction of commercial loans over the medium term.

3.3 INSTRUMENTS PERFORMANCE OF MTDS FOR FY 2021/22.

As at end June 2022, government borrowed UGX. 19.198 billion equivalent to 123% of the of UGX 15.590 billion planned borrowing for FY 2021/22 MTDS. Of the 123%, 87.3% equivalent to UGX 13.604 billion was sourced from the domestic market with T-Bills constituting 48.4% and T-Bonds constituting 38.9%. Out of the 35.9% equivalent to UGX 5.595 billion borrowed from the external market, concessional borrowing constituted 15.4%, followed by commercial borrowing at 11.3% and the remaining 4.4% was sourced from non-concessional and semi-concessional sources.

In FY 2021/22, 12% of the gross financing requirement was sourced from World Bank and African Development Bank as opposed to 7% allocated in FY 2021/22 MTDS. This is attributed to disbursement of budget support disbursement from World bank and African Development Bank for Covid-19 emergency response. Commercial borrowing increased to 11.3% of the gross borrowing requirement in FY 2021/22 as opposed to the planned 8.4% in the MTDS to support response to social economic effects of Covid-19 pandemic. Only 1.3% of the gross borrowing was from semi concessional variable loans as opposed to the 8.4% set in the MTDS of FY 2021/22 due to slow disbursement of the variable loans.

In the domestic market, 346 T-bills constituted 27% of the gross borrowing requirement as opposed to the 22.8% set in the MTDS of FY 2021/22. The 20-years T- Bond constituted 16.8% of the gross borrowing requirement as opposed to the 4.6% indicated in the MTDS of FY 2021/22. All the domestic debt instruments exceeded their allocated shares in the MTDS except 5 yr T- bond that was maintained at 6.5%.

Table 3: Projected and actual disbursement/issuance for FY 2021/22 MTDS by instruments type

Instrument	Projected disbursement FY 2021/22			Actual disbursement as at June 2022		
	Amount (USD Mn)	Amount (UGX Mn)	Percent	Amount (USD Mn	Amount (UGX Mn)	Percent
Total Gross Financing requirement	**4,053.00**	**15,589,538**	100.0%	**5,375.29**	**19,198,617**	**123.2%**
External	**1,418.42**	**5,456,338**	35.0%	**1,566.39**	**5,594,578**	**35.9%**
Domestic	**2,634.22**	**10,133,200**	65.0%	**3,808.91**	**13,604,039**	**87.3%**
External Debt Instruments						
IDA/ADF__Fx	283.69	1,091,268	7.0%	532.16	1,900,666	12.2%
Concessional_Fx	212.76	818,451	5.3%	149.40	533,614	3.4%
Semi_Concessional_Fx	137.12	527,481	3.4%	186.76	667,053	4.3%
Semi_Concessional_Var	340.42	1,309,521	8.4%	55.75	199,110	1.3%
Non_Concessional_Fx	-	-		12.53	44,765	-
Non_Concessional_Var	104.01	400,097	2.6%	136.33	486,925	3.1%
Commercial_Fx	-	-	-	-	-	-
Commercial_Var	340.42	1,309,521	8.4%	493.46	1,762,445	11.3%
Eurobond_Fx	-	-	-	-	-	-
Total External	**1,418.42**	**5,456,338**	35%	**1,566.39**	**5,594,578**	35.9%
Domestic Debt Instruments						
91 & 182 T-Bills_Fixed	289.76	1,114,652	7.2%	322.72	1,152,633	7.4%
364 T-Bills_Fixed	921.98	3,546,620	22.8%	1,177.34	4,205,052	27.0%
T-Bond 2$3 YR_Fixed	395.13	1,519,980	9.8%	609.48	2,176,832	14.0%
T-Bond 5 YR_Fixed	263.42	1,013,320	6.5%	282.43	1,008,748	6.5%
T-Bond 10 YR_Fixed	316.11	1,215,984	7.8%	345.02	1,232,290	7.9%
T-Bond 15 YR_Fixed	263.42	1,013,320	6.5%	337.52	1,205,512	7.7%
T-Bond 20 YR_Fixed	184.40	709,324	4.6%	734.39	2,622,971	16.8%
Total Domestic	**2,634.22**	**10,133,200**	65.0%	**3,808.91**	**13,604,039**	87.3%
Total Gross Financing	**4,053.00**	**15,589,538**	**100%**	**5,375.29**	**19,198,617.36**	**123.2%**

Source: DPI, MoFPED

The high performance of 123% within the FY 2021/22 is attributed to the following: `

1. Increase of NDF for FY 2021/22 by UGX 2,559 billion to finance additional expenditure requirements during the Financial Year.
2. Improved disbursements in external debt following the reopening of the economy and;
3. Improved project performance during the Financial Year.

3.4 HALF YEAR PERFORMANCE OF FY 2022/23 MTDS

By the end of December 2022, the implementation of FY 2022/23 MTDS was already affected as shown by breach in some of the operational targets and misalignment to the borrowing mix set in the FY 2022/23 MTDS. The breach in some of the operational targets for FY 2022/23 as early as 1st half of FY 2022/23 is majorly attributed to rising interest rates following the tightening of the monetary policy by the US Federal Reserve and European Central Bank to control inflation. The performance of the MTDS for FY 2022/23 is divided into operational target performance and disbursement/ issuance performance as detailed in table 4.

3.5 OPERATIONAL TARGET PERFORMANCE OF HALF YEAR FY 2022/23 MTDS.

Table 4: Cost[4] and risk operational objectives and half year performance of MTDS as at end December 2022

Cost and Risk exposures	Cost and Risk Indicators	Target Ranges 2022/23	Dec-22
Cost of debt	External Debt Interest payment as percent of GDP	≤0.53	0.69
	Domestic Debt Interest payment as percent of GDP	≤2.40	2.89
	Total Interest payment as percent of GDP	≤2.93	3.58
	Total Implied Interest rate (percent)	≤6.88	7.22
Refinancing risk	External Debt maturing in 1yr (percent of Total)	≤5.28	5.03
	Domestic Debt maturing in 1yr (percent of Total)	≤23.02	23.04
	Total Debt Maturing in one year (percent of total)	≤13.24	12.39
Interest rate risk			
	External Debt Refixing in 1 year (percent)	≤21.42	24.01
	Domestic Debt Refixing in 1 year (percent)	≤23.02	23.04
	Total Debt Refixing in 1 year (percent)	≤20.98	23.61

Source: DPI, MoFPED

[4] Computation was based on GDP figures for FY 2021/22. GDP for Calendar year 2022 was not available at the time of this publication.

3.5.1 Cost of debt

Interest payments as percent of GDP and implied interest rate was used to set the operational target for cost of debt. As at end December 2022, total interest payment as percent of the GDP was 3.58% breaching the set target of ≤2.93% in the MTDS of FY 2022/23. Domestic debt interest payment as percent of the GDP was 2.89% while external interest payment as percent of GDP was 0.68% breaching the operational target of ≤2.40 and ≤0.53 respectively. Implied interest reached 7.22% breaching the operational target of ≤6.88% set in the MTDS. All these indicators were breached majorly due to increased external and domestic interest rates in the 1st half of FY 2022/23. The increase in interest rates were majorly attributed to global rise in inflation.

3.5.2 Refinancing risk

Refinancing risk in the external debt portfolio continues to increase due to gradual shift from concessional to non-concessional borrowing. Debt maturing in one year as percent of the total was 12.39% while external debt maturing in one year as percent of the total was 5.03% which is within the target of ≤13.24% and ≤0.53% respectively. Domestic debt maturing in one year as percent of the total was 23.04% breaching the target of 23.02% due to increased issuance of T-bills in 1st half of FY 2022/23 that accounted for 62% of the planned T- Bill issuance in FY 2022/23.

3.5.3 Interest rate risk

By end December 2022, both external and domestic debt refixing in one year as percentage of the total had breached the targets set for the FY 2022/23. As indicated in table 3, the indicator for external and domestic debt stood at 24.1% and 23.04%; breaching the target of ≤24.01% and ≤23.02% respectively. Total debt refixing in one year as % of the total portfolio was 26.61% breaching the target of ≤20.98%. All the indicators breached the operational targets due to disbursement of variable rate loans and increased issuance of T-bills in the 1st half of FY 2022/23.

3.6 Instruments Performance of MTDS for FY 2022/23.

The MTDS for financial year 2022/23 assumed a gross borrowing requirement of UGX. 19,019.6 billion, of which 64.5% was to be borrowed domestically and the remaining 35.5% to be sourced externally. By the end December 2022, the actual gross borrowing requirement realized was UGX. 6,880.3 billion, constituting 36.2% of the projected amount in the MTDS for FY 2022/23. The poor performance is attributed to slow disbursement of external loans in the 1st half of the financial year. For example, the budget support loans from Standard Chartered Bank and IMF Extended Credit Facility projected in the 1st half of FY 2022/23 had not materialized by end December 2022.

The approved Budget for FY 2022/23 constituted domestic securities issuance of UGX 13,016 billion as opposed to the UGX 12,267.6 billion in the MTDS. There was a deviation between the budget and the MTDS assumptions. To mitigate the high domestic interest rates in the 1st half of FY 2022/23, a portion of domestic debt will be substituted with relatively cheaper external debt. This is expected to affect the instruments allocation in the MTDS.

By the half of the FY 2022/23, only 15% of the planned borrowing set in MTDS for FY 2022/23 from World Bank and African Development Bank had disbursed while 40% of the planned borrowing from other concessional sources had disbursed. Only 10% of the planned semi concessional borrowing had disbursed while only 9% of the planed commercial borrowing had disbursed. Semi commercial fixed loans had disbursed 57% while semi commercial variable loans had disbursed 49% by 1st half of the FY 2022/23.

By end December 2022, 62% of the planned T-Bills borrowing for FY 2022/23 had been issued and 54% of the planned 20-year T-bond borrowing was issued. The remaining domestic debt instruments under-performed due to rejection of highly priced bids in the 1st half of the FY 2022/23.

Table 5: Projected and actual disbursement/issuance for H1 FY 2022/23 MTDS by instruments type, UGX

Instrument	FY 2022/23 Projected disbursement in Millions	Half year actual disbursemnt disbursementfor FY 2022/23	Share of FY 2022/23 projected disbursemnt (%)
External debt			
IDA/ADF_Fx	1,096,708	161,340	15
Concessional_Fx	929,352	372,717	40
Semi_Concessional_Fx	1,274,255	123,818	10
Semi_Concessional_Var	729,022	-	-
Semi_Commercial_Fx	234,508	133,453	57
Semi_Commercial_Var	470,683	230,467	49
Commercial_Var	2,017,426	179,504	9
International_Bond_Fx	-	-	-
Total external	**6,751,955**	**1,201,299**	**18**
Domestic debt			
T-bills	5,194,484	3,201,295	62
2-Tbond	769,867	261,221	34
3-Tbond	962,334	350,950	36
5-Tbond	769,867	322,435	42
10-Tbond	1,539,734	310,210	20
15-Tbond	1,684,084	502,435	30
20-Tbond	1,347,267	730,499	54
Total domestic	**12,267,637**	**5,679,045**	**46.3**
Total Gross Borrowing	**19,019,592**	**6,880,344**	**36.2**

Source: DPI, MoFPED

The low performance of 36.2% within the FY 2022/23 is attributed to the following:

i. Delayed disbursement in SCB Bank budget support and IMF ECF loans and.

ii. Rejection of expensive bids in the domestic market during the 1st half of FY 2022/23 to curb the cost of debt. This resulted into under-performance in domestic debt issuance during the 1st half of FY 2022/23, and the decision to substitute domestic debt with relatively cheaper external debt.

CHAPTER FOUR: FINANCING STRATEGY

4.1 INTRODUCTION

Four alternative borrowing strategies were developed and assessed based on uniform macro and market assumptions to ensure that Government of Uganda source financing for service delivery while ensuring reduction in associated costs and risks. This was done with the overall objective meeting the Government's medium term financing needs at the lowest possible cost, consistent with a prudent degree of risk.

The FY 2023/24 MTDS was develop with the following specific objectives.

1. Manage the external debt interest rate risks by gradually reducing on the issuance of variable rate loans.

2. Reduce domestic debt refinancing risk by issuing longer dated securities.

3. Minimize commercial borrowing by contracting more concessional/semi-concessional debt to reduce the cost and refinancing risk on external debt.

4.2 MACRO ASSUMPTIONS

Table 6: Baseline macroeconomic Assumptions

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Outturns	Projections					
Fiscal Projections (UGX Bn)							
Budgeted Revenue & grants	22,992	27,765	31,546	36,050	44,815	52,734	61,235
o/w grants	1,162	2,214	2,624	2,506	2,171	1,848	1,571
Budgeted Primary expenditure	30,000	31,908	32,293	36,496	44,597	51,144	59,061
Budgeted Interest Payments	4,966	6,298	5,996	6,313	6,706	7,672	8,435
Overall balance	-11,974	-10,441	-6,743	-6,758	-6,488	-6,081	-6,261
Primary balance	-7,008	-4,143	-747	-445	219	1,590	2,173
As a share of GDP							
Domestic revenue	13.4%	13.9%	13.9%	14.4%	16.3%	17.4%	18.2%
Budgeted Primary expenditure	18.4%	17.3%	15.5%	15.6%	17.1%	17.5%	18.0%
Budgeted Interest Payments	3.1%	3.4%	2.9%	2.7%	2.6%	2.6%	2.6%
Overall balance	-7.4%	-5.7%	-3.2%	-2.9%	-2.5%	-2.1%	-1.9%
Primary balance	-4.3%	-2.2%	-0.4%	-0.2%	0.1%	0.5%	0.7%
Memorandum Items							
Real GDP Growth	4.7%	5.3%	6.0%	6.5%	7.0%	7.2%	7.2%
Nominal GDP at Market prices (shs Bn)	162,721	184,254	208,356	233,286.5	261,231.6	292,541.9	327,234.8
International Reserves (USD Mn)	4,117	3,761	4,508	4,225	3,788	3,788	3,788

Source: MEPD, MoFPED

Table 6 highlights key macro-economic assumptions that impact Governments financing. Domestic revenue excluding grants as a percentage of GDP is projected to remain stable at 13.9% percent in FY2022/23 and FY2023/24. Consistent with the Government's policy of fiscal consolidation, Government expenditure is projected to decrease by 2.4 percentage points from 20.7% of GDP in FY2022/23 to 18.4% in FY 2023/24. Fiscal deficit is expected to decrease from 5.7% of the GDP in FY 2022/23 to 3.2% in FY 2023/24.

Growth is projected to be 6.0% in FY 2023/24 and average at 6.5% over the medium term. This is expected to be supported by higher productivity in agriculture as a result of Paris Development Model and other gov't interventions. Developments and production in the oil & gas sector, improved efficiency in public investments and pick up in global demand is expected to support growth.

The major risks to the above assumptions include revenues shortfalls coupled with upward expenditure revisions that can increase the fiscal deficit during the FY 2023/24 thus affecting the debt management objectives stipulated above. These assumptions are consistent with the 2nd Budget Call Circular for FY 2023/24.

4.3 MARKET RATES ASSUMPTION AND SHOCK SCENARIOS

4.3.1 Interest rates assumptions

World Bank and African Development Fund loans are priced at standardised concessional terms in the MTDS tool with interest rates of 0.75% p.a, maturity of 40 years and grace period 10 years. The above terms for concessional borrowing are applicable to low-income countries. Concessional and semi concessional fixed rate loans are assumed to be contracted at the current prevailing rates over the medium term.

The future interest rates of variable[5] rates instruments were priced based on the projected 6- months term Secured Overnight Financing Rate (SOFR) plus the Credit Adjustment Spread (CAS). 6- months term SOFR is projected to average 5% in FY 2023/24 before stabling at 4.5% in the medium terms.

Interest rates on domestic debt instruments are assumed to peak in FY 2023/24 before gradually reducing in the medium term.

4.3.2 The shock scenarios

The MTDS tool provides for a sensitivity analysis which determines how debt indicators are affected based on changes in exchange rates and interest rates environment beyond what is accommodated in the baseline projections. In the worst-case scenario, exchange rate shock is applied in 2023 where Uganda Shillings aggressively depreciates by 30% against the USD over and above the baseline projections.

[5] All variable rate new financing were priced based on 6-month term SOFR projections.

In the moderate exchange rate and interest rate shock scenarios, a shock of 3% was applied on variable rate loans, 5% on T-Bills and 2% on T- bonds over and above the baseline projections. Extreme interest rate shock of 6% was applied on variable rate loans, 10% on T-Bills and 5% on T- Bonds over and above the baseline projections.

4.4 ANALYSIS OF ALTERNATIVE FINANCING STRATEGIES

Four strategies that reflect the alternative approaches through which borrowing requirement during the FY 2023/24 can be met were developed. The strategies are built first on the split between gross external and domestic financing and then different composition of debt instruments over the 5 years strategy period.

The mix of instruments in each strategy reflect the potential sources of financing. The four proposed strategies are as follows:

1. Strategy 1(S_1) Macro frame strategy
2. Strategy 2 (S_2) External debt strategy
3. Strategy 3 (S_3) Increasing domestic borrowing
4. Strategy 4 (S_4) Ideal strategy

After developing the strategies, they were assessed using the World Bank MTDS analytical tool and the results are summarised in the table 7:

Table 7: Cost and Risk analysis of the of alternative strategies as at end 2027

Risk Indicators		Jun-22	As at end 2027			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		48.4	41.4	41.3	41.5	41.2
Present value debt as percent of GDP		40.0	34.9	34.8	35.1	33.9
Interest payment as percent of GDP		3.4	2.9	2.8	2.9	2.7
Implied interest rate (percent)		7.0	7.6	7.4	7.6	7.1
Refinancing risk	Debt maturing in 1yr (percent of total)	11.0	8.2	8.2	10.6	7.9
	Debt maturing in 1yr (% of GDP)	5.6	3.4	3.4	4.4	3.2
	ATM External Portfolio (years)	11.3	11.4	11.0	11.8	12.4
	ATM Domestic Portfolio (years)	6.7	8.1	7.9	7.3	8.1
	ATM Total Portfolio (years)	9.6	10.2	10.0	9.9	10.9
Interest rate risk	ATR (years)	9.0	9.4	9.0	9.4	10.2
	Debt refixing in 1yr (percent of total)	23.0	25.0	28.4	21.7	21.1
	Fixed rate debt incl T-bills (% of total)	86.8	81.5	77.7	87.5	85.2
	T-bills (percent of total)	5.6	2.6	2.5	4.5	2.6
FX risk	FX debt as % of total	61.1	63.1	67.3	56.9	64.3
	ST FX debt as % of reserves	14.5	29.1	32.3	26.7	28.1

Source: MoFPED

KEY

-Worst performing strategy (red) -Best performing strategy (green)

4.4.1 Strategy 1(S_1) Macro frame strategy

This strategy is consistent with the status quo (macroeconomic framework) with external financing constituting 43.6% of the gross borrowing requirement in FY 2023/24 while the remaining 56.4% is to be sourced from the domestic market. On the external side 58.5% will be sourced from concessional and semi concessional sources while the remaining 41.5% to be sourced from semi commercial and commercial sources. Domestically, 40% will be borrowed in form of Treasury bills while 60% will be from longer dated instruments, that is Treasury Bonds.

This strategy is relatively costly with highest domestic debt interest payment as percent of GDP of 2.9% and weighted average interest rate of 7.6%.

4.4.2 Strategy 2 (S_2) External debt strategy

This strategy aims at increasing external borrowing to 65% in FY 2023/24 and average of 56.2% in the medium term with the aim of reducing high interest payments on domestic debt. Strategy 2 had the highest interest rate risk with Average Time to Refixing of 9 years, fixed rate debt as percent of the total of 77.7% and highest debt refixing in one year as percent of total of 28.4%. It is also the worst performing strategy in foreign currency risk with foreign currency debt as a percent of total debt of 67.3% and short-term foreign currency as a percentage of reserve of 26.7%.

4.4.3 Strategy 3 (S_3) Increasing domestic borrowing

This strategy aims at replacing external borrowing by issuing longer dated securities. In this strategy, domestic borrowing will average 66.2% of gross borrowing requirement over the medium term.

Strategy 3 is the best performing strategy in the foreign exchange rate risk as indicated by least foreign currency debt as a percent of total debt of 56.9% and short-term foreign currency as a percentage of reserve of 26.7%. It is also the best performing strategy in terms of fixed rate debt including T- bills as a percent of the total is 87.5%.

However, this strategy is also relatively costly with the highest interest payments to GDP of 2.9%. It is the worst performing strategy in refinancing risk indicator with the total debt average time to maturity (ATM) of 9.9 years, domestic debt ATM of 7.3 years, debt maturing in one year as percent of the total of 10.6%, and debt maturing in one year as percent of the GDP of 4.4%.

4.4.4 Strategy 4 (S_4) Ideal strategy

This strategy aims at managing the cost and risks associated with borrowing by establishing the appropriate distribution between domestic and external borrowing and mix in external and domestic borrowing. In this strategy, 45.1% of the gross borrowing requirement in FY 2023/24 is expected to be sourced from external financing while the remaining 54.9% to be sourced from the domestic market. It further assumes a 50:50 distribution between domestic and external borrowing in the outer years. The strategy aims at reducing highly commercial borrowing and increase in semi commercial and concessional borrowing. It prioritises reduction in net domestic financing in FY 2023/24 and the medium term.

In terms of debt service cost, Strategy 4 is the best performing strategy with the total interest payments to GDP of 2.7%, debt to GDP of 41.2% and weighted average interest rate (WAIR) of 7.1%. The ideal strategy is consistent with the overall objective of meeting government medium term financing needs at the lowest cost possible.

This strategy is the best performing strategy in refinancing risk with highest the total debt average time to maturity (ATM) of 10.9 years, external debt average time to maturity of 12.4 years, domestic debt ATM of 8.1 years, debt maturing in one year as percent of the total of 7.9%, and debt maturing in one year as percent of the GDP of 3.2%. Strategy 4 is in line with our specific objective of reducing the refinancing risk in both domestic and external debt portfolio.

Under strategy 4, there is limited interest rate risks to the entire debt portfolio compared to other strategies as indicated by the least Average Time to Refixing of 10.2 years and least debt refixing in one year as percent of the total of 21.1%. Strategy 4 is therefore consistent with the objective of reducing external debt interest rate risks.

4.5 SELECTED STRATEGY FOR FY 2023/234

Considering the set FY 2023/2034 debt strategy objectives; of raising government financing while managing the external debt interest rate risks, reducing total debt refinancing risk and minimising cost of borrowing, Strategy 4 is selected as the most preferred strategy. This is because strategy 4 has the lowest cost of debt, lowest refinancing risk and the lowest interest rate risk.

4.6 OPERATIONAL TARGET FY 2023/24

The operational targets to assess the performance of FY 2023/24 MTDS were set based on the cost of debt, refinancing risk and interest rate risk as indicated in table 8.

Table 8: Operational target FY 2023/24

Cost and Risk exposures	Cost and Risk Indicators	Dec-22	Target Ranges 2023/24
Cost of debt	External Debt Interest payment as percent of GDP	0.69	≤0.75
	Domestic Debt Interest payment as percent of GDP	2.89	≤2.43
	Total Interest payment as percent of GDP	3.58	≤3.17
	Total Implied Interest rate (percent)	7.22	≤7.40
Refinancing risk	External Debt maturing in 1yr (percent of Total)	5.03	≤4.79
	Domestic Debt maturing in 1yr (percent of Total)	23.04	≤24.57
	Total Debt Maturing in one year (percent of total)	12.39	≤10.63
Interest rate risk			
	Total Fixed Rate Debt Portfolio including T-bills (as percent of total debt)		≥85.92

Source: MoFPED

To minimise the cost of borrowing, government plans to maintain external interest payment as percent of GDP not exceeding 0.75%, domestic interest payment as percent of GDP not exceeding 2.43% and total interest payment as percent of GDP of not more than 3.17%. Total implied interest rate is set to be less than 7.4% by the end of FY 2023/24.

On refinancing risk, government aims at maintaining the external debt maturing in one year as percent of the total to a level not more than 4.79% and domestic debt maturing in one year as percent of not exceeding 24.57%. Total debt maturing in one year as percent of the total is planned to not exceed 10.63%. On the interest rate risk, government plans to keep fixed rate debt including T-bills as percent of the total at a level not less than 85.92%.

4.7 THE BORROWING PLAN FOR FY 2023/24.

This borrowing plan describes how the gross financing requirement for FY 2023/24 is expected to be met by financing alternatives available to government. It indicates the forecasted gross borrowing amounts, split between foreign and domestic sources and allocation between the borrowing sources available to government.

TABLE 9: FY 2023/24 BORROWING PLAN

	Projected disbursemnt (UGX. Million)	Projected disbursemnt (USD. Million)	Share
External Debt			
ADF_Fixed	2,377,494	633	12.8%
Concessional_Fx	1,467,710	391	7.9%
Semi_Concessional_Fx	1,534,331	408	8.3%
Semi_Commercial_Fx	162,276	43	0.9%
Commercial_Var	492,627	131	2.7%
Highly_Commercial_Var	2,311,583	615	12.5%
Total external	**8,346,022**	**2,222**	**45.1%**
Domestic Debt			
T-Bills	4063827.841	1082	22.0%
2-Tbond	711169.8721	189	3.8%
3-Tbond	812765.5681	216	4.4%
5-Tbond	914361.2642	243	4.9%
10-Tbond	1015956.96	270	5.5%
15-Tbond	1219148.352	325	6.6%
20-Tbond	1,422,340	379	7.7%
Total Domestic	**10,159,570**	**2,704**	**54.9%**
Total Gross borrowing	**18,505,591**		**100.0%**

Source: MoFPED

In FY 2023/24, 45.1% of the gross borrowing requirement equivalent to UGX. 10,159.6 billion is proposed to be sourced from the external market while the remaining 54.9% equivalent to UGX. 8,346.0 billion is to be sourced from the domestic market.

Cconcessional and semi concessional financing is expected to constitute 30% of the gross borrowing in FY 2023/24 while commercial financing will constitute 15%. Treasury bills will constitute 22% while Treasury bonds will be 33% of the gross borrowing in FY 2023/24.

4.8 CONSTRAINTS TO IMPLEMENTATION OF THE STRATEGY

The implementation of this strategy is prone to the following potential constraints which may hinder the achievement of the set cost and risk objectives:

1. Volatility in the interest rate environment which directly impacts on the cost of borrowing.
2. Poor performance of projects as a result of slow disbursement. This is majorly attributed to various conditions precedent in the financing agreements of external financing and lack of readiness of projects.
3. Supplementary budgets due to increased expenditure pressures and revenue shortfalls. This may result to increase in commercial borrowing and domestic borrowing which is costly for government.
4. Failure to adhere to the planned fiscal consolidation path indicated in the fiscal framework.

4.9 KEY POLICY RECOMMENDATIONS FOR SUCCESSFUL IMPLEMENTATION OF FY 2023/24 MTDS.

The challenges of rising borrowing cost and interest rate risks continues to increase even with formulation of the MTDS for last eight fiscal years. This is majorly attributed to failure to achieve the operational target objectives of the MTDS. For successful implementation of this strategy, there is need to:

1. Reduce the share of domestic borrowing in FY 2023/24 and the medium term.
2. Adhere to the Public Investment Financing Strategy by ensuring alignment of prioritized Government programmes and projects to suitable sources of financing.
3. Vigorous implementation of the Domestics Revenue Mobilization Strategy (DRMS) proposals to improve revenue collection.
4. Slow down on issuance of non-concessional debt and variable rate debt.
5. Implement the planned fiscal consolidation path indicated in the macroeconomic assumptions.

ANNEX

ANNEX

Annex 1: Glossary of Debt Terms

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

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

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

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

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

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

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

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

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

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

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

Debt: All Liabilities that are debt instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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