

By Ali Twaha

The International Monetary Fund (IMF) has advised the Government to find ways of stabilising public debt to gross domestic product (GDP) at 70%.

Under the Charter for Fiscal Responsibility, Uganda committed to a government deficit rule of no more than 3% of GDP, and a 50% of GDP ceiling on the present value of debt for both central and local government, which are consistent with the East African Community convergence criteria.

Uganda's total public debt stock as a percentage of GDP is already hovering beyond the 50% projection, due to the accumulated sh80 trillion public debt. Some of the biggest lenders to Uganda include the International Development Association, China, Japan, African Development Bank and commercial banks.

Uganda's GDP — a measure that represents the total monetary value of all final goods and services produced, was estimated at about \$40b or sh148 trillion in 2021, according to data from the World Bank. It grew marginally by 4.6% in the fiscal year 2021/22.

'PROTECT THE MOST VULNERABLE'

Food and energy prices continue to drive the global inflation surge.

Speaking during the release of the Regional Economic Outlook Report at Kampala Serena Hotel, Izabela Karpowicz, the IMF resident representative, said the number of central banks hiking interest rates has increased dramatically in recent months as inflation rose to fresh highs.

"Policymakers should ideally allow global prices to pass through into domestic prices and protect the most vulnerable through targeted cash transfers or an expansion of social safety nets. Policies implemented in an emergency, including some untargeted, costly and distortionary fiscal support measures, should be gradually phased out," she said.

STABILISE DEBT BELOW 70% OF GDP – IMF TELLS GOVT

RISK OF DEBT DISTRESS

Uganda is now categorised as being at a medium risk of debt distress, reflecting the realisation of macroeconomic fiscal risks during the pandemic.

The Government is currently faced with pressures on public finances already strained by the pandemic. Rising inflation and interest rates have threatened people's standards of living as the cost of basic commodities soars.

Izabela Karpowicz, the IMF resident representative, said fiscal adjustments are needed to stabilise debt below 70% of GDP.

"Stabilising debt amid rising financing costs will require significant effort to consolidate public finances by boosting revenue mobilisation, prioritising spending where possible, and increasing the efficiency of public spending," she said.

Karpowicz added that the Government also needs to maintain "credible and clearly

articulated medium-term fiscal frameworks and ensure effective and transparent public debt management."

Public investment has been a priority in Uganda's fiscal policy, but fiscal space has tightened in recent years. In the decade since the start of the investment drive in 2007, domestic revenues have remained flat at 11% of GDP, which is lower than regional peers.

This shift coincided with a sharp reduction in budget support from development partners, which had previously funded over a third of the budget in the early 2000s. According to IMF, while debt distress remains moderate, prudent management of resources and managing the country's shift in monetary policies could go a long way in easing current fiscal pressures.

"Countries need to strike a delicate balance in conducting monetary policy to address the rise in inflation and resist exchange rate pressures, without undermining the recovery," Karpowicz said.



Karpowicz

GGOOBI'S SAY

Ramathan Ggoobi, the secretary to the Treasury, said the Government had revised its growth projections downwards (to 5.3% from 6%) due to global factors at play such as inflation, increase in food prices and high interest rates.

"We have remained resilient in these series of shocks. The shocks have necessitated revisions in growth targets and strategies. The interest rates have globally risen and have

4.6%

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triggered capital flight, subsequently putting pressure on the shilling," Ggoobi said.

"The result has been our swift economic response on both ends, monetary and fiscal policies. Our actions have been mainly to rein in on high inflation, but also to continue providing social and economic support to businesses as well as Ugandans who are vulnerable," he added.

Ggoobi said Uganda's economic outlook remains positive despite the

FOREX RATES

CURRENCY	BUY	SELL
DOLLAR	3725	3747
EURO	3820	3965
POUND	4380	4545
KENYA SH	29.7	31.6
TZ SH	1.58	1.65
DHIRAM	995	1070
S.A.RAND	210	245
JAPANESE YEN	18.98	29.80
RWANDESE FRANCS	2	3.8
DOLLAR SMALLER GOLD	3500	3747

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RATES ARE SUBJECT TO CHANGE

challenging business environment.

On mounting public debt, Ggoobi said: "We are reducing domestic borrowing so that we can support the private sector. Rising interest rates requires us to slow down on domestic borrowing. We shall replace this by long-term tenure borrowing, which will help us achieve more foreign reserves."

'MANAGE GOVERNMENT SPENDING'

Julius Mukunda, the executive director at the Civil Society Budget Advocacy Group, said the Government needs to manage its spending appetite.

"The decisions that have to be made today are very painful. The rationalisation of government agencies started with hype, but now it has slowed down yet that's where most of the money is going. Prudent debt management and utilisation of resources is needed. You cannot borrow money for consumptive expenditure," he said.