

CSBAG BUDGET NEWS



Uganda's dependence on commercial loans raises concerns



Photo: Fuemployers

The recently passed national budget has reignited concerns over Uganda's mounting debt burden, with the Ministry of Finance cautioning Parliament about the country's growing reliance on expensive commercial loans. As debt servicing costs continue to rise, fiscal analysts and economic observers warn that the nation's financial stability may be at risk if borrowing patterns remain unchecked.

On 15th May 2025, Parliament approved Uganda's national budget for the FY2025/26, amounting to UGX 72.376 trillion. According to the Medium Term Debt Management Strategy, a remarkable 68% of the government's borrowing will come from domestic commercial banks and other funds, while only 32% will be sourced from international institutions like the World Bank and IMF.

Furthermore, a meagre 9% of the loans will be on concessional terms, with the bulk being non-concessional and commercial. Critics argue that this trend is unsustainable and will further strain the country's finances, with interest payments 15.7% already consuming a significant chunk of the budget.

As one legislator cautioned, "Approving the budget means you've given the government a greenlight to borrow Shs 32 trillion... You've lost the right to complain when loan requests start flooding Parliament." With interest charges skyrocketing and the shilling depreciating, Uganda's debt burden is set to worsen, raising questions about the government's fiscal prudence.

Interest payments are already a significant burden, with Shs 9.4 trillion going to commercial banks and Shs 1.8 trillion to foreign lenders this financial year and projected to consume over Shs 9 trillion in the next budget.

Moreover, borrowing from foreign sources poses a great risk to Uganda's reserves, and the depreciating shilling has increased borrowing costs, worsening the debt burden amidst reduced foreign exchange reserves.

Furthermore, the dominance of foreign-owned banks which collect over Shs 9 trillion annually in interest, raises concerns about the true nature of "domestic" borrowing.

Given that only four of the 24 licensed commercial banks are owned by Ugandans, it is argued that what the government terms "domestic borrowing" is,

in fact, effectively external borrowing, with significant implications for the country's economy and fiscal sustainability.

The government's public debt has ballooned to Shs 106 trillion, representing 52% of the GDP, a figure that precisely matches the borrowing limit set in the Charter of Fiscal Responsibility.

Analysts argue that approving the current budget would allow the government to contravene this charter, potentially violating Section 121(1) of the Public Finance Management Act, which requires the annual budget to be consistent with the National Development Plan, the Charter for Fiscal Responsibility, and the Budget Framework Paper.

With Shs 27.3 trillion allocated for debt servicing, it is perplexing that the government seeks to borrow Shs 32 trillion to fund other budget items, effectively moving one step forward and two steps backward.

This borrowing plan raises concerns about the government's debt management strategy and its ability to achieve fiscal sustainability.

Furthermore, concerns have been raised about the accuracy of domestic debt figures, with discrepancies noted between various government reports.

Critics continue to argue that this borrowing, largely from commercial banks to finance government activities, is unsustainable and akin to ordinary people resorting to money lenders.

Moreover, foreign-owned bank, are major beneficiaries of this lending, collecting over Shs 9 trillion annually in interest.

While borrowing isn't bad, CSBAG stresses that the real concern lies in how Uganda is spending the borrowed funds. With the bulk of loans now coming from costly commercial sources many of them foreign-owned and interest payments consuming a growing share of the budget, questions arise about the effectiveness, transparency, and priorities of government spending.

Responsible borrowing should fund long-term development, not short-term gaps, and without clear accountability and prudent fiscal management, the current trajectory risks undermining economic stability and the country's development goals.

CSBAG EVENTS

Event: Second CSBAG Technical Talk with Uganda Parliamentary Press Association members

Convener: CSBAG

Date: 27th May 2025

Venue: Eureka Place Hotel Kampala



#CIVICENGAGEMENT

Last week, we joined other PACER partners for a synergy building workshop in Karamoja CSBAG's ED in his remarks appreciated the Embassies of Denmark, Netherlands, Ireland, and Sweden for facilitating the collaborative approach aimed at building a strong unified CSO voice in Uganda

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.

Source: MEDIUM-TERM DEBT MANAGEMENT STRATEGY 2025/26 – 2028/29 (MoFPED)

