FISCAL RISK STATEMENT

MINISTRY OF FINANCE, PLANNING, AND ECONOMIC DEVELOPMENT

MACROECONOMIC POLICY DEPARTMENT

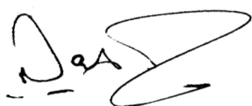
FY 2024/25

FOREWORD

As the Minister of Finance, Planning, and Economic Development, it is my privilege to present the Fiscal Risk Statement for the Fiscal Year 2024/25. This document is a key component of our commitment to increasing transparency and accountability in public financial management. It demonstrates our commitment to rigorous fiscal discipline and proactive risk management, which are critical for long-term economic development and the prosperity of all Ugandans. This statement looks at the different fiscal risks that could impact on our national budget and economic forecasts, addressing macroeconomic concerns, climate-related fiscal challenges, and contingent liabilities. This comprehensive review is critical, given the dynamic and interconnected nature of global and local economic environments.

This year's statement adopts a more comprehensive approach, incorporating assessments of the potential impacts of climate change on our fiscal and economic landscape. Climate change presents serious threats to our budget, including more frequent natural disasters, disruptions in agricultural productivity, and unforeseen expenditures for disaster recovery. Therefore, we must incorporate climate risk assessments into our budget planning processes. We also continue to refine our analysis of public debt risks, ensuring that our debt management strategies remain robust and responsive to both economic and environmental changes.

The preparation of this Fiscal Risk Statement reflects the collaborative efforts of various departments within the Ministry and our stakeholders. As we navigate the complexities of the global economic landscape, marked by uncertainties such as geopolitical tensions and market volatility, this document becomes a critical resource. It equips our policymakers, stakeholders, and the public with the understanding necessary for informed decision-making, enhancing our fiscal resilience and ensuring economic stability. I am confident that this statement will serve as a crucial tool in our ongoing efforts to foster a prosperous and resilient Uganda. We eagerly share this work and invite all stakeholders to engage with its contents and support our journey towards national economic prosperity.



Matia Kasaija (M.P)

HON. MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT.

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I. INTRODUCTION

This Fiscal Risk Statement, prepared by the Ministry of Finance, Planning, and Economic Development (MoFPED), identifies key fiscal risks that Government faces in fiscal year 2024/25 and the medium term.

Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts. For instance, they lead to deviations in expected revenues, expenditures, assets, or liabilities. The conventional approaches of fiscal analysis and estimation of budgets largely do not take these kinds of risks into account. They include but are not limited to climate change, natural disasters, unforeseen expenditure pressures, revenue shortfalls, terms of trade shocks, exchange rate volatility, and materializing of Government guarantees. Therefore, the Government publishes the Fiscal Risk Statement annually as required by the Public Finance Management Act (2015) to monitor and identify mitigation measures of fiscal risks.

The Fiscal risk statement groups fiscal risks into three categories: Macroeconomic risks; Climate change risks and natural disasters; as well as Specific risks and contingent liabilities. This analysis expanded its scope on fiscal risks associated with climate change by using the Quantitative Climate Risk Assessment Fiscal Tool (Q-CRAFT) for long term fiscal sustainability analysis.

Table 1: Fiscal Risk Framework

Macroeconomic risks	▪ Domestic and External risks ▪ Fiscal analysis: forecast performance against outturns
Climate change risks and natural disasters	▪ Climate change fiscal risks
Other specific risks and contingent liabilities	▪ Public debt related risks ▪ Contingent liabilities ▪ Institutional risks

If any or all the risks materialize, there may be additional pressures on public finances, which might prompt additional borrowing and a consequent rise in public debt, or budget cuts and reallocations. This would make budget planning and execution more challenging. Therefore, Government recognizes that sound public-finance management is the starting point and foundation for fiscal risk

management.

Uganda has made significant progress in implementing financial management reforms under the Public Finance Management Act of 2015 (PFM), aimed at improving the state's ability to raise revenue, strengthen budget credibility, increase transparency, and ensure macroeconomic and debt sustainability through the Charter for Fiscal Responsibility.

II. MACROECONOMIC RISKS

Since macroeconomic assumptions are fundamental in the formulation of the budget, deviations from forecasts pose significant risks to fiscal outcomes. This section evaluates key macroeconomic risks which stem from the domestic and external environment and forecast performance against outturns. These could cause fiscal aggregates like revenue and expenditure to deviate from their forecasts.

1. Risks stemming from the external and domestic environment.

External risks arising from Geopolitical tensions, tight Global financial conditions and volatility in Global commodity prices are a significant source of fiscal risks to public finances in Uganda as detailed below.

Geopolitical tensions

In recent years, the Global economy has been marked by rising geopolitical tensions like the Russia-Ukraine war and conflict in the Middle East. These conflicts have the potential to further disrupt global supply chains and cause volatility in commodity prices. In addition, the recent instability within the East African region like the conflict in South Sudan and Democratic Republic of Congo could disrupt regional trade and increase Government spending requirements especially on security, thereby posing significant fiscal risks to the budget for FY 2024/25.

Tight Global financial conditions

As advanced economies tighten monetary policy to curb rising inflation, capital flight in search of higher returns abroad may affect forex inflows to Uganda thereby exerting significant pressure on the Ugandan shilling which can in turn give rise to risks on the cost of living, production, and debt servicing. Furthermore, tighter global financial conditions particularly make the cost of external

borrowing significantly higher. This, combined with a decline in access to concessional financing poses significant financing constraints on the national budget.

Volatile Global commodity prices

Uganda is a net importer of petroleum products, therefore an increase in the global crude oil prices leads to imported inflation. This is due to a rise in the country's domestic fuel pump prices which feed through to Energy, Fuel and Utilities inflation as well as core inflation, leading to an increase in production costs and overall prices of goods and services.

On the domestic front, a slowdown in economic growth arising from factors such as adverse weather conditions due to climate change may hinder the attainment of the revenue target set out in the budget, thereby worsening public finances through higher borrowing during the financial year.

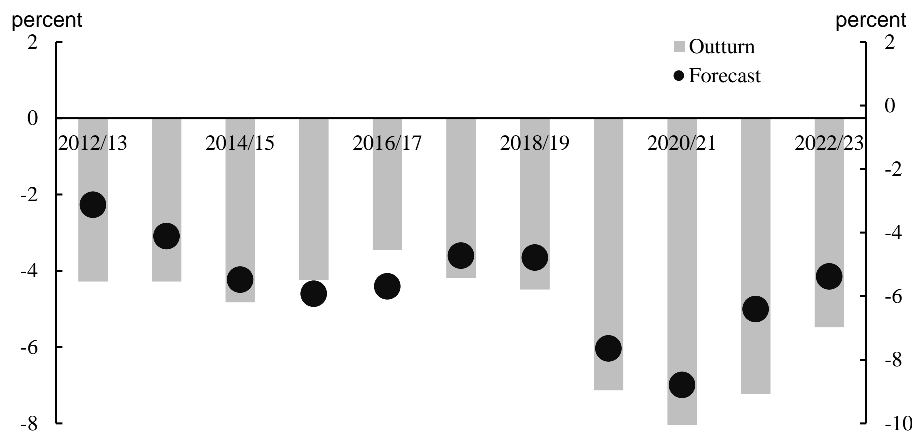
2. Forecast Performance

Forecast errors arising from a range of factors can be a source of fiscal risks. Volatility and optimism bias in growth projections, revenue shortfalls against forecast, or expenditure overruns can lead to borrowing pressures and consequently, higher debt levels. Nonetheless, fiscal, and macroeconomic forecast performance has improved over the years as assessed below:

Overall balance

The fiscal deficit has been notably higher than the forecast in the past two years, reflecting revenue shortfalls as the economy recovers from a collection of shocks, and high expenditure demands. ***Figure 1*** compares forecasts and outcomes of the overall fiscal balance as a percent of GDP since 2012/13.

Figure 1: Fiscal deficit as a percent of GDP*



Source: MoFPED

*Including grants

Nominal Gross Domestic Product

Nominal GDP growth forecast performance has been improving over the past four years, with the outcomes largely in line with the projections, except for FY 2022/23 (see ***Figure 2***). The size of the economy in nominal terms registered an outturn of UShs 184,895 billion in FY 2022/23 compared to the forecast of Shs 181,413 billion. While economic growth was supported by Government initiatives to boost private sector activity and improvement in regional trade, high inflation over the year also contributed to the increase in nominal GDP. **Figure 3** shows nominal growth performance and confidence intervals based on historical forecasting errors (the shaded areas). Nominal GDP is forecast to grow by 8.2 percent in FY 2023/24 and given historical forecast errors, there is a 70 percent chance that growth will fall between 6.8 and 12.7 percent.

Figure 2: Nominal GDP forecasts vs. outcomes.

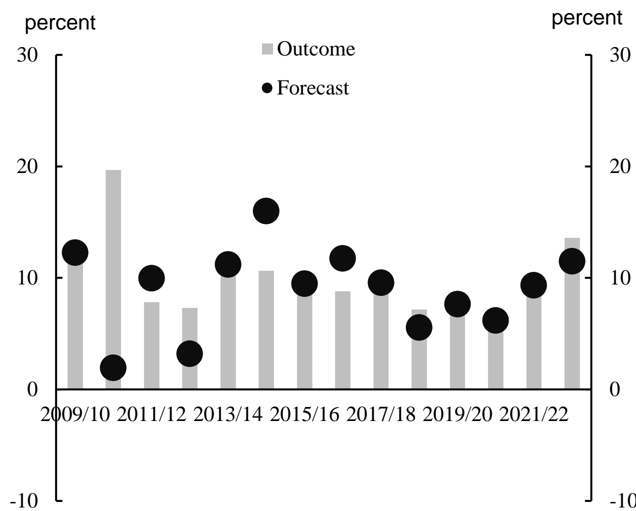
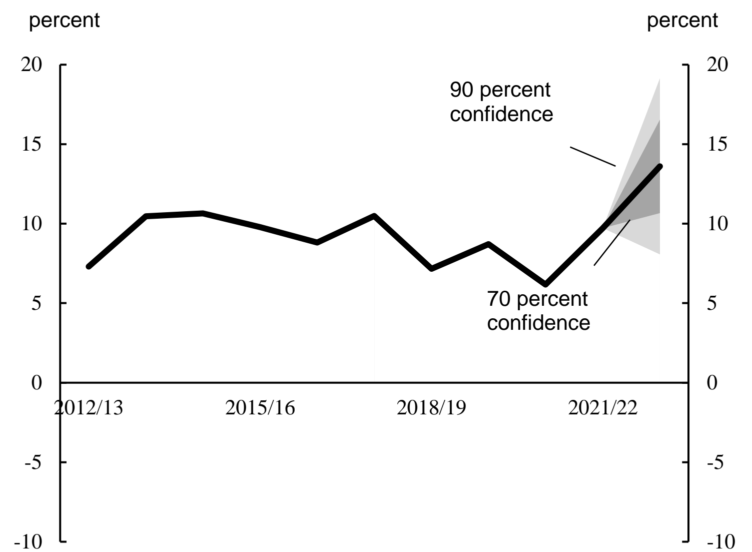


Figure 3: Nominal GDP growth forecast performance



Source: Uganda Bureau of Statistics and MoFPED

* Adjusted to 2016/17 base

Revenue

Domestic revenue is the sum of tax and non-tax revenue excluding grants. Tax revenues are very sensitive to macroeconomic changes, particularly economic growth, a reduction in growth projections can lead to lower tax revenue collections and lead to higher borrowing requirements. **Figure 4** compares total revenue forecasts (including grants) and outturns since 2012/13. The elevated error margin in 2019/20 is attributed to shortfalls in revenues as a national lock down was enforced to contain the spread of the COVID-19 pandemic, thereby affecting economic activity. The past two years show a recovery in revenue performance as the economy slowly recovers from effects of the COVID-19 pandemic**. Figure 5** charts revenue as a percentage of GDP since 2012/13 and presents anticipated growth and confidence intervals based on historical forecasting errors. Total revenue as a percentage of GDP is forecast to be 16.97 percent in 2023/24. Given historical forecast errors, there is a 70 percent chance that revenue as a percentage of GDP will fall between 15.00 and 18.94 percent.

Figure 4: Revenue growth performance (incl. grants) Forecast Vs. Outturn

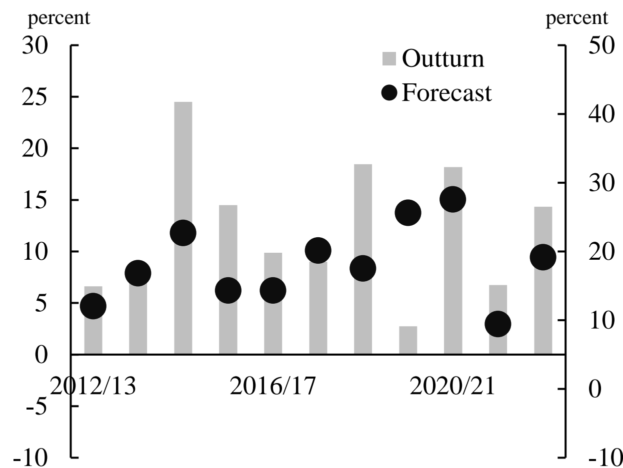
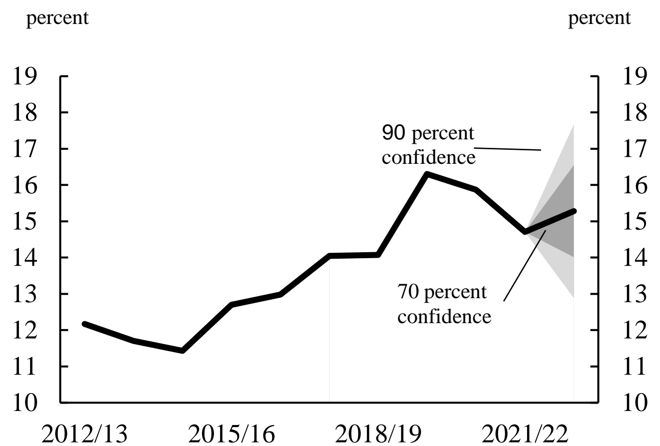


Figure 5: Revenue as a percentage of GDP.

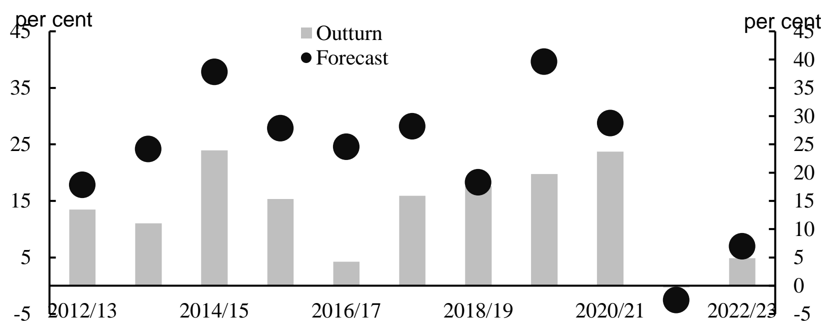


Source: MoFPED calculations

Expenditure

Expenditure growth outcomes have been consistently lower than the forecast, except for FY 2018/19 (**see** ***figure 6***) largely on account of underperformance of externally financed projects. Expenditure in FY2019/20 was particularly lower than projected because the COVID-19 pandemic, as the containment measures affected project execution, while the significant decline in the FY2021/22 forecast reflects Government's efforts towards fiscal consolidation.

Figure 6: Expenditure (levels) growth forecast and outcome.



Source: Ministry of Finance, Planning and Economic Development

Sensitivity Analysis of the Fiscal Framework

A sensitivity analysis was conducted to examine the fiscal impact of some selected shocks to macroeconomic aggregates. This analysis is critical given that variations in key macroeconomic assumptions and forecasts have diverse effects on the budget particularly on revenues, expenditures, and the budget deficit. Once the budget deficit is higher than the forecast, it creates a wider financing gap which requires additional borrowing subsequently leading to higher debt.

The shocks applied were (a) 1 percent drop in real GDP growth, (b) 10 percent increase in the price of import goods, and (c) 10 percent depreciation in the exchange rate. The results from these shocks are presented in the alternative fiscal framework (***table 3***), which shows the impact on the fiscal framework for the FY 2024/25 Budget Framework Paper.

Table 2: Fiscal Framework for the Budget Framework Paper, FY 2024/25

Projected fiscal operations (Shs. Bn)	**Proj. 2023/24**	**Proj. 2024/25**
Total revenue and grants	32,751	32,869
Revenue	29,672	29,958
Tax revenue	27,424	27,784
Non-tax revenue	2,248	2,174
o/w Appropriation in Aid	1,203	1,099
Oil revenues	0	0
Grants	3,079	2,911
Budget support	70	29
Project grants	3,009	2,882
Expenditures and net lending	39,948	38,968
Recurrent expenditures	25,159	26,272
Wages and salaries	7,290	7,512
Non-wage	11,807	11,136
Interest payments	6,062	7,623
o/w: domestic	4,978	5,663
o/w: foreign	1,084	1,960
Development expenditures	13,871	12,248
External	7,762	9,162
Domestic	6,108	3,086
Net lending and investment	703	249
Contingency fund	0	0
Others	216	200
Overall balance	-7,197	-6,099
Excluding grants	-10,276	-9,010
Financing	7,197	6,099
External financing (net)	5,313	3,305

Disbursement	7,951	6,529
Budget support	2,712	0
Concessional project loans	3,395	2,697
Non-concessional loans	1,845	3,831
Revolving credit	0	0
Amortisation (-)	-2,639	-3,224
Domestic financing (net)	1,885	2,795

Source: Ministry of Finance, Planning and Economic Development

Table 3: Alternative Fiscal Framework (Sensitivity analysis of the FY2024/25 BFP Fiscal framework to key macroeconomic shocks)

Shocks to key macroeconomic variables	Revenue	Expenditure	Fiscal Deficit
1 percentage point reduction in real GDP	-307.7	0	-307.7
10 percent depreciation in the UGX/USD Exchange rate	241.7	1,142.80	-901
10 percent increase in the price of import goods	-307.7	527.4	-835.1
All shocks combined	175.8	1,318.60	-1,142.80

Source: Ministry of Finance, Planning and Economic Development

- A one percent reduction in real GDP growth translates into a decline in revenue of Shs.307.7 billion, which would widen the fiscal deficit by the same amount. Since expenditure remains unchanged in the short run, the higher fiscal deficit would have to be largely financed through borrowing from the domestic market given the difficulty of securing last-minute funding from external sources. However, in the medium-term, increases in expenditure translate into higher external borrowing which feeds into higher debt repayment pressure.
- A ten percent depreciation in the exchange rate results into higher expenditures worth Shs.1,142.8 billion and higher revenue worth Shs.241.7 billion. Expenditure lines that are mostly affected by such a shock include: external interest payments and amortization.
- A ten percent increase in the price of imports results into lower revenue gains and higher expenditures. This is because such a shock will negatively impact private sector import demand and as such reduce revenue receipts from import duty, while at the same time increase the Government import bill. This would result in a Shs.835.1 billion increase in the fiscal deficit due to the double effect of both a reduction in revenue and an increase in Government expenditure.

- Overall, when all the shocks occur concurrently, expenditures increase by Shs.1,318.6 billion while revenues go up by Shs.175.8 billion hence resulting in an overall budget deficit worth Shs.1,142.8 billion.
- Based on the sensitivity analysis above, external shocks (exchange rate depreciation and increase in the price of imports) greatly increase overall expenditure and subsequently widen the budget deficit, thus posing significant risks to the underlying macroeconomic projections.

III. CLIMATE CHANGE AND NATURAL DISASTER FISCAL RISKS

Uganda is vulnerable to various climate- related natural disasters such as droughts, floods, storms, and landslides. During the period 1985 to 2021, floods and epidemics were the most frequent natural disasters, accounting for approximately 75 percent of the recorded events while droughts, landslides, and storms accounted for the remaining 25 percent[1]. Although droughts represented only 7 percent of the total disasters during this period, they caused significant economic and social loss given their impact on agricultural productivity, livelihoods, and food security. Droughts affected approximately 3 million people between 2002 and 2010, and the FY 2016/17 drought impacted more than 1 million people, slowing GDP growth to 3.1 percent from 4.8 percent in FY 2015/16.

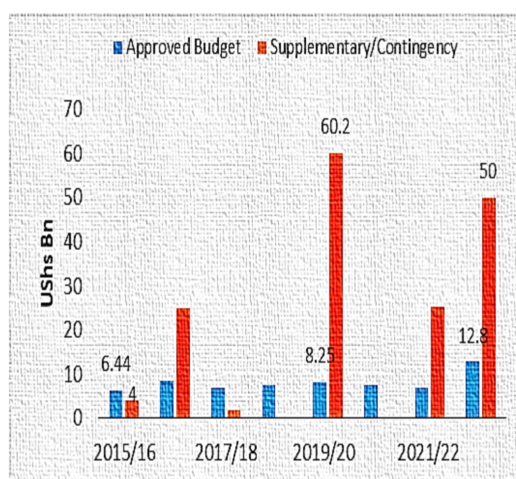
Natural disaster events have been increasing in frequency over the past 20 years, with annual economic losses estimated at US$87 million equivalent to UShs 309 billion and are expected to rise as the global climate continues to change (***Table 4*** shows the frequency and impact of natural hazards in Uganda 1966-2020). Consequently, the budgetary effects (relief, recovery, and reconstruction) from natural disasters also pose significant pressure on the national budget (***See Figure 7***).

Table 4: Frequency and Impact of Natural disasters 1966 to 2020

	Number of events	Population affected	Number of deaths	Damage (US$, thousands)
Drought	10	4,975,000	194	1,739,000
Earthquake	6	58,100	115	92,318
Epidemic	40	345,774	1,898	89,375
Flood	30	1,290,459	1,864	1,119,410
Insect infestation	2	-	-	28,905
Landslide	12	152,255	601	887
Storm	8	18,852	60	362
Total	**108**	**6,840,440**	**4,732**	**3,070,257**

Source: World Bank Group (2022)

Figure 7: Approved Budget Vs Supplementary Releases for Disaster Management



Office of the Prime Minister (OPM)

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[1] World Bank Climate Risk Country Profile 2021

1. Analysis of Macro Fiscal risks from climate change

Using the Q-craft tool, an assessment of the impact of climate change on Uganda's economic growth and fiscal sustainability was undertaken. The impact of higher temperatures on economic growth is assessed based on empirical analysis[2] which links past rising temperature changes to slower economic growth, and the effect of the lower growth on fiscal aggregates for long-term fiscal sustainability analysis.

The tool quantifies the effects of climate change on the macroeconomy (through reductions in productivity and consequent reductions in GDP growth) and the associated fiscal impacts under five different climate scenarios, against a baseline. The baseline reflects the current economic and fiscal path in the absence of climate change, with growth in the working age population (the level of employment) and productivity being the key drivers of long term economic growth (***See Figure 8***) The climate scenarios used to reflect the eventualities of climate change include:

- **Paris Scenario**: based on the SSP[3]1-2.6 IPCC scenario where international commitments from the 2015 Paris summit are met, the global temperature increase above its preindustrial level will be kept below 2°C at the end of the century.

- **Moderate Scenario**: based on the SSP2-4.5 IPCC scenario. Emissions continue increasing in line with the continuation of present trends and stabilize at the end of the century. This scenario assumes that climate mitigation policies continue along the observed trend, but countries do not take more aggressive actions to fulfill their Paris commitments.

- **High Scenario**: based on the SSP3-7.0 IPCC scenario. Rather than intensifying climate mitigation efforts, countries start scaling back their implemented policies in a world with limited energy efficiency improvements and continued use of fossil fuels.

[2] Kahn et al. (2021).
[3] SSP-Shared Socio-Economic Pathway (SSP). Climate scientists develop scenarios of future warming using representative emission scenarios from integrated assessment models. In the most recent Intergovernmental Panel on Climate Change assessment report (IPCC 2021), each emission scenario is based on a storyline chosen among five standardized socioeconomic, technological, and policy developments, called Shared Socio-Economic Pathway (SSP).

- **Hot Scenario**: emissions are as in the high scenario, but it uses the 90th percentile of temperature increase among all climate models that used SSP3-7.0 emissions, instead of the average temperature projection that is used for the high scenario.

- **Vulnerable**: using the same emission as the hot (SSP4-7.0 90th percentile) scenario, but with slower adaptation and therefore more damaging macroeconomic impacts.

Figure 8: Baseline decomposition of NGDP Growth

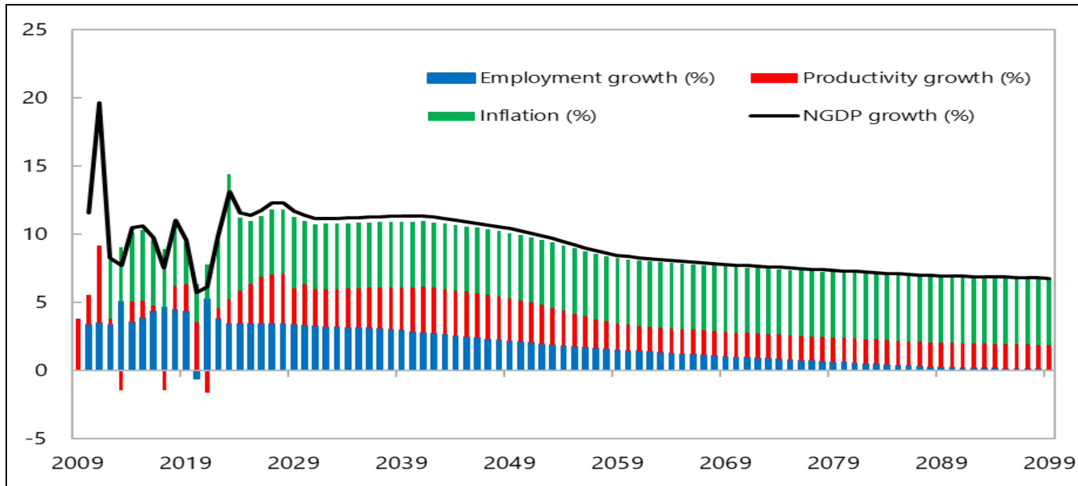


Table 5: Baseline Fiscal Path

Summary Fiscal Path	2023	2050	2075	2099
Primary expenditure (% of GDP)	19.9	19.6	18.8	19.4
Interest expenditure (% of GDP)	3.3	1.3	1.8	2.4
Interest rate (%)	7.7	3.9	5.5	5.5
Primary balance (% of GDP)	-6.3	-1.7	-0.8	-1.4
Overall balance (% of GDP)	-9.6	-3.0	-2.7	-3.8
Debt-to-GDP ratio (%)	47.1	36.2	35.8	47.5

Source (Fig 8 & Tab 5: QCRAFT (2023)

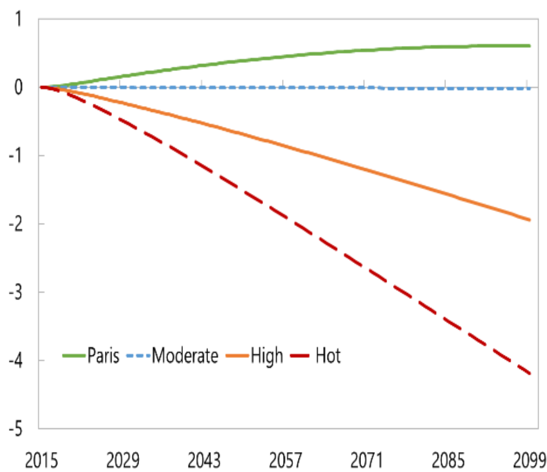
2. Macroeconomic effects of climate change (2015-99)

The slow but persistent increase in temperature, shifts in precipitation patterns, and more volatile weather events can slow down productivity growth by reducing the availability and effectiveness of important resources like capital and labor, especially in climate-sensitive sectors like agriculture.

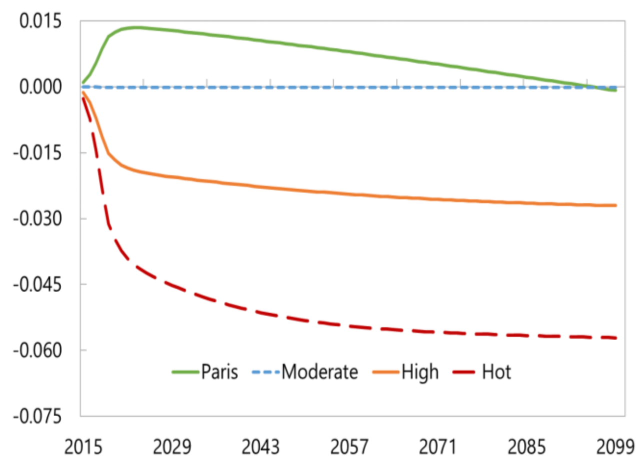
The Paris and moderate scenario presents a benign economic growth outlook, with limited deviations from the baseline for Uganda. In contrast, the High and Hot scenarios present a pessimistic outlook, with a 4 percent reduction in nominal GDP by the end of the century under the Hot scenario supported by the variation in labour productivity growth.

Figure 9: Deviations from the Baseline

Percent Level GDP Loss growth



Percentage point variation on labour productivity



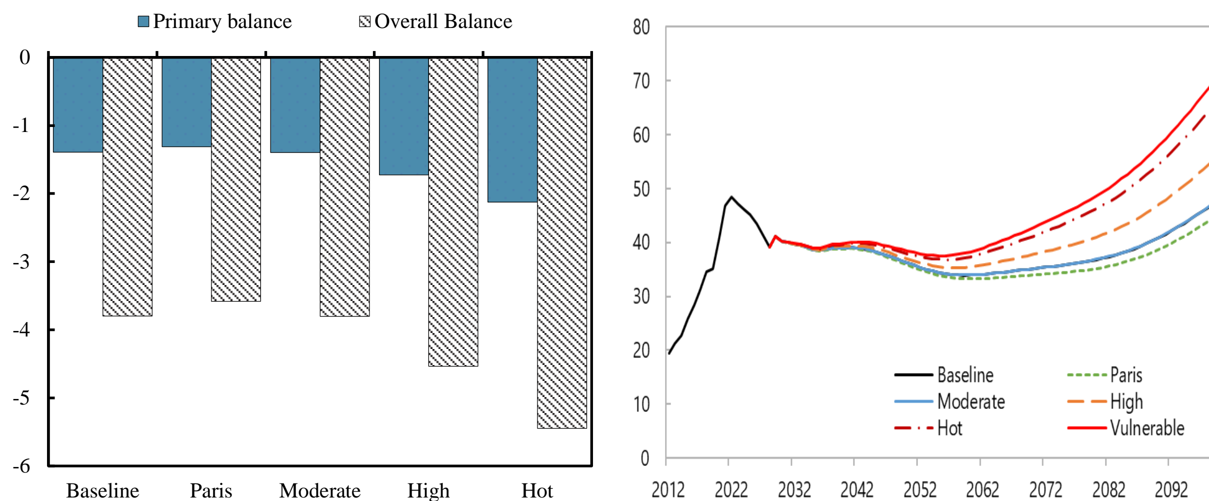
Source: QCRAFT (2023)

3. Effects of climate change on fiscal projections (2030-99)

More frequent slow onset events like droughts and sudden impact natural disasters like floods can strain Government resources through direct fiscal effects like lower tax revenue; unexpected expenditure on relief, recovery, and reconstruction efforts which can translate into higher borrowing.

Deviations from the Baseline

Figure 10: Primary and Overall, Balance (percent of GDP) **Figure 11: Debt to GDP ratio (percent of GDP)**



Source: QCRAFT (2023)

The impact of the different climate change scenarios on the primary and overall fiscal balances is depicted in **Figure 10** above, with the differences in the two balances attributed to rising interest costs that stem from deficits incurred because of climate change. The fiscal effects of climate change become increasingly visible by the end of the century, with the primary deficit in the Hot scenario projected to be 0.7 percent worse than the baseline, thereby raising public debt by over 18 percent of GDP **(Figure 11)**. In the High, Hot, and Vulnerable scenarios, public debt surpasses the 50 percent of GDP fiscal rule ceiling, taking on an unsustainable upward trajectory. With climate change raising both the debt-to-GDP ratio as well as its growth rate in severe climate change scenarios, stabilizing debt will become increasingly challenging. Government should therefore take on measures to meet Paris Agreement commitments to minimize the risk of climate change on debt.

IV. SPECIFIC RISKS AND CONTINGENT LIABILITIES

1. Public debt related risks

Uganda's stock of public debt increased from USD 20.99 billion (UGX 78,833.4 billion) in FY2021/22 to USD 23.66 billion (UGX 86,779.87 billion) in FY2022/23. External public debt increased from USD 12.82 billion (UGX 48,171.8 billion) to USD 14.23 billion (UGX 52,206.07) between June 2022 and June 2023, while domestic public debt increased from USD 8.16 billion (UGX 30,661.6 billion) to USD 9.43 billion (UGX 34,573.80 billion) over the same period. As a share of GDP, public debt reduced to 46.9 percent in June 2023 from 48.4 percent in June 2022.

Although there was a reduction in the debt to the GDP ratio, this was partly explained by the increase in nominal GDP which was driven by the high inflation levels over FY2022/23. This effect is expected to subside following the significant decline in inflation over FY2023/24, and the debt to GDP ratio is projected to increase to 49.2 percent at end June 2024. Thereafter, this ratio is expected to follow a declining trend in line with the Government's fiscal consolidation strategy. Nonetheless, the debt outlook continues to be faced with **moderate risk of debt distress**, with the major vulnerabilities to the outlook relating to the slow growth of exports and the increasing debt service burden on revenues.

As of June 2023, debt service as a percentage of revenue amounted to 32.6 percent and is expected to remain above 30 percent over the next two fiscal years, especially due to high domestic interest rates as well as the increasing cost of external debt as global financing conditions continue to tighten. Although the ratio of domestic debt interest payments to revenue reduced from 19.1 percent in FY2021/22 to 18.4 percent in FY2022/23, it is projected to remain above the targets set out in the charter for fiscal responsibility, pointing to the urgent need for a more cautionary approach to domestic borrowing.

Interest Rate Risk

The Average Time to Re-fixing (ATR) which is the average time it takes the public debt portfolio to be subjected to changes in interest rates, slightly deteriorated from 9.0 years in June 2022 to 8.7 years in June 2023. This was largely on account of the deterioration in the external debt ATR which declined from 10.4 years in June 2022 to 9.6 years in June 2023, explained by Government's contracting of more non-concessional loans, particularly from commercial lenders whose loans are largely variable rated with shorter maturities. This can also be seen in the ratio of fixed rate debt (including Treasury

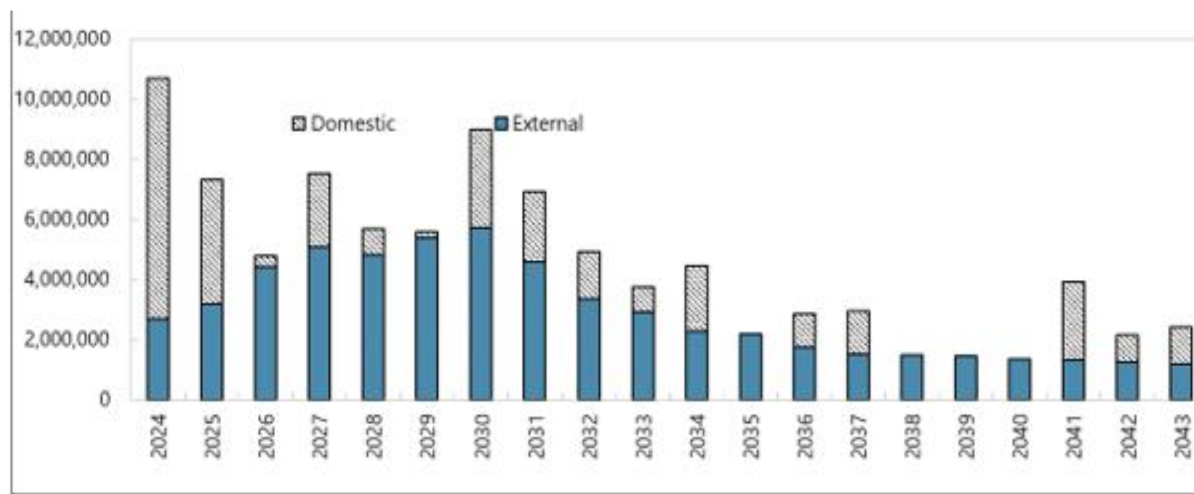
bills) to total debt which declined from 90.1 percent in June 2022 to 85.0 percent in June 2023. This trend raises government's exposure to risks associated with changes in interest rate.

Refinancing risk

The Average Time to Maturity (ATM) of the total public debt portfolio declined slightly from 9.5 years at end June 2022 to 9.4 years at end June 2023. This was largely driven by the decline in external debt ATM, from 11.2 years at end June 2022 to 10.7 years in June 2023 as Government contracted significant amounts from commercial lenders whose loans typically have shorter maturities compared to the concessional loans.

The redemption profile (see Figure 6) shows the large maturity of domestic debt in the first year of projection, which increases the **refinancing risks** of Government. External debt maturities follow a smoother path which peaks in the medium term, driven by principal repayments of commercial debt contracted in the last few years.

Figure 12: Redemption profile as of June 2023 (Shs Millions)



Source: Bank of Uganda, Ministry of Finance, Planning and Economic Development

Short-term external debt (maturing in one year), as a share of reserves.

This ratio highlights the **liquidity risk** international reserves will be subjected to in meeting short term external debt liabilities. The ratio rose from 14.2 percent in June 2022 to 17.0 percent in June 2023 partly due to the large take up of commercial loans with short grace periods in recent years.

Cognizant of the risks associated with public debt, Government is keen on maintaining debt sustainability through a combination of measures including the continued fiscal consolidation drive by controlling expenditures(reducing the primary balance) and increasing domestic revenue collections through the full operationalization of the Domestic Revenue Mobilization Strategy (DRMS); prudent management of the oil resource in order to achieve the envisaged revenue gains; increasing the efficiency and effectiveness of Government expenditure particularly by allocating more resources to sectors that generate a higher multiplier effect on growth; and implementation of Government interventions aimed at supporting private sector production to enhance GDP growth.

2. Contingent Liabilities

Contingent **liabilities** are fiscal obligations which are dependent upon the occurrence of particular events. Contingent liabilities may or may not fall due, and they are usually not budgeted and accounted for, but could cause significant strain on public finances if they materialize.

Loan Guarantees.

As at the end of December 2023, there were 12 active loan guarantees, an increase from the previous year's 9. This rise was primarily due to the disbursement of loans from entities such as the Islamic Development Bank, International Islamic Trade Finance Corporation (ITFC), the Organization of Petroleum Exporting Countries (OPEC) Fund, and the Arab Bank for Economic Development in Africa (BADEA). The total guaranteed loan portfolio now amounts to USD 120 million. The portfolio is primarily held by two entities: Uganda Development Bank Limited (UDBL), which holds 9 out of the 12 guaranteed loans, and the Islamic University in Uganda (IUIU), which holds the remaining 3.

Regarding guaranteed creditors, the Islamic Development Bank (IDB) holds the largest amount with USD 29.1 million, followed by BADEA with USD 26 million, and the OPEC Fund for International Development with USD 20 million. The India EXIM Bank holds the least with USD 5 million, followed by the International Islamic Trade Finance Corporation with USD 10 million. Additionally, the African Development Bank (AfDB) and the European Investment Bank both hold USD 15 million each.

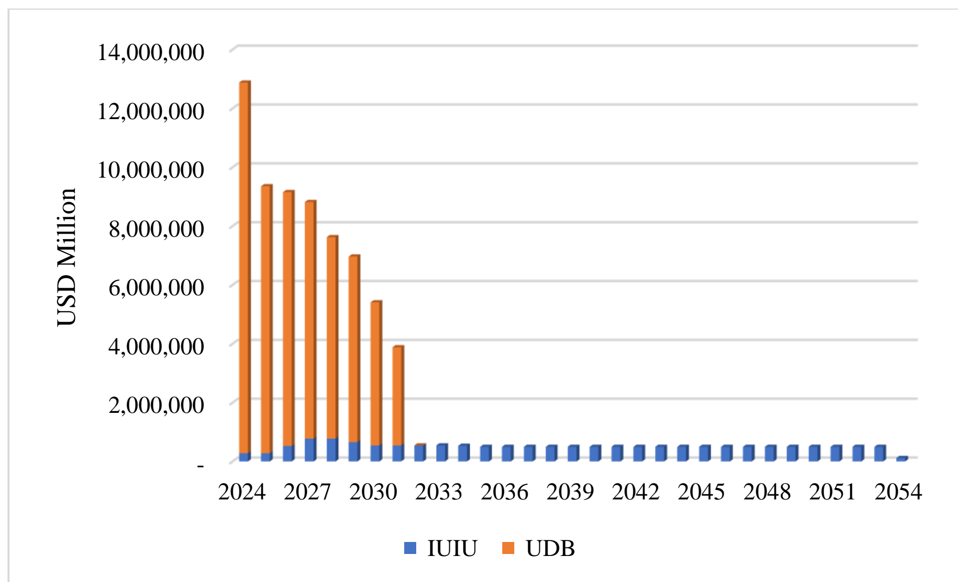
The gross exposure of the government to the disbursed and outstanding guaranteed debt reached USD 56.22 million by the end of December 2023, marking an 8.1percent increase from the previous year.

This increase is attributed to disbursements, which outweighed repayments made by the above mentioned institutions. However, the nominal value of the disbursed and outstanding guaranteed debt to GDP remained at approximately 0.12 percent, the same as the previous year, remaining well below the stipulated threshold of 5 percent as per the Guidelines for the Management of Contingent Liabilities.

Risks Associated with Guarantee Portfolio

The current portfolio of guaranteed loans features long maturity periods ranging from 7 to 25 years, with a weighted average maturity of 8 years. This indicates a low annual exposure of the government in case of default, as debt service is spread over a longer period. Below is the redemption profile of the guaranteed portfolio. From the profile below (***figure 13***), it is important to note the high concentration of repayments in Calendar year 2024, with a total of USD 12.9 Million most of which is to be paid by Uganda Development Bank.

Figure 13: Redemption Profile for Guarantees



Source: Ministry of Finance, Planning and Economic Development

From the analysis of the redemption profile above, it is evident that there is a notable concentration of repayments in the Calendar year 2024, totaling USD 12.9 million, 98 percent of this sum is attributed to Uganda Development Bank Limited (UDB). While this amount is concentrated in UDB, it does not significantly constrain the bank's capacity to meet its repayment obligations. The total repayment is

relatively small and considering UDB's financial capacity, the concentration of repayments in 2024 does not pose a substantial risk to the bank's ability to repay.

Table 6: Credit rating of the guaranteed entities

Entity	**Rating (Moody's Equivalent)**	**Definitions**	**Source of Rating**
Uganda Development Bank Limited	**Aa**	Obligations judged to be of high quality and are subject to very low credit risk	GCR ratings (Moody's affiliate)
Islamic University in Uganda	**Baa**	Obligations are judged to be medium grade and subject to moderate credit risk and as much may possess certain speculative characteristics	Internal rating

Source: Ministry of Finance, Planning and Economic Development

Given Uganda Development Bank's **Aa** rating by Moody's, its obligations are deemed to be of high quality and subject to very low credit risk. Consequently, the likelihood of Uganda Development Bank defaulting on its guaranteed debt obligations is considered extremely low. This rating reflects the bank's robust financial position and its ability to honor its commitments, thereby providing a high level of assurance to creditors and the Government as a guarantor regarding the repayment of debt.

Comparatively, IUIU's internal ratings indicate it has moderate risk of default. While its rating suggests a higher level of credit risk, it does not imply an imminent risk of default. However, Government should be mindful of the moderate credit risk associated with its obligations, which may necessitate closer monitoring and risk management strategies to mitigate potential default risks.

Probability of Default

Considering the above ratings, the respective probability of defaulting for the two entities is distributed as per table 7 below, for the next 5 years.

Table 7: Probability of default for UDB and IUIU for the next 5 years

Entity	**rating**	**Year 1 (%)**	**Year 2 (%)**	**Year 3 (%)**	**Year 4 (%)**	**Year 5 (%)**
Uganda Development Bank	Aa	0.02	0.07	0.14	0.25	0.39
Islamic University in Uganda	Baa	0.17	0.53	0.88	1.32	1.83

Source: MoFPED Calculations

Considering the low probabilities of defaulting observed over the years, it is reasonable to conclude that the likelihood of defaulting on guaranteed debt obligations remains minimal for both Uganda Development Bank and Islamic University in Uganda. Both entities have demonstrated a track record of fulfilling their financial commitments, as reflected by their respective credit ratings and historical repayment patterns. While there may be moderate credit risk associated with certain entities, such as Islamic University in Uganda, the overall risk of defaulting on guaranteed debt is deemed low. However, prudent risk management practices, ongoing monitoring, and contingency planning should still be maintained to address any potential risks that may arise in the future.

Expected Loss by Government

Considering the low probabilities of default observed, the expected losses for the government are anticipated to be exceedingly low. Expected losses, determined as a product of Exposure at Default (EAD), Loss Given Default (LGD), and Probability of Default (PD), reflect the potential financial impact of default events on the government. Given the minimal likelihood of defaults, coupled with the robust financial positions and creditworthiness of entities such as Uganda Development Bank and Islamic University in Uganda, the expected losses are anticipated to remain at negligible levels. This assessment underscores the government's relatively limited exposure to default risks associated with its guaranteed portfolio. The distribution of expected losses over the next five years is provided in table 8.

Table 8: Distribution of Expected loss by Government 2024 to 2028

	2024	**2025**	**2026**	**2027**	**2028**
Uganda Development Bank	2,520.53	6,354.98	12,079.74	20,111.42	26,713.65
Islamic University in Uganda	471.43	1,469.74	4,628.10	10,223.81	14,173.92
Total (USD)	**2,991.96**	**7,824.72**	**16,707.84**	**30,335.23**	**40,887.57**

Source: Ministry of Finance, Planning and Economic Development

Table 9: List of outstanding government guarantees

No.	Beneficiary	Project	Creditor	Guaranteed Amount (USD)	Tenure (Years)	Undisbursed (USD)	Disbursed & Outstanding (USD)		Performance
							Dec-22	Dec-23	
1	Islamic University in Uganda	Student's hostel	Islamic Development Bank (IDB)	4,302,676	25	-	1,408,107	1,310,364	Repayment on schedule
2	Islamic University in Uganda	Student's hostel project additional financing	Islamic Development Bank (IDB)	983,888	20	-	529,676	511,176	Repayment on schedule
3	Islamic University in Uganda	Constructing faculty of engineering, upgrade the library and purchase ICT equipment	Islamic Development Bank (IDB)	13,790,000	18	10,827,861	100,000	2,962,139	Not fully disbursed
4	Uganda Development Bank Limited	Private sector projects and trade transaction in the Republic of Uganda	The Arab Bank for Economic Development in Africa. (BADEA)	6,000,000	10	-	3,374,900	2,624,900	Repayment on schedule
5	Uganda Development Bank Limited	Private sector projects and trade transaction in the Republic of Uganda	Islamic Development Bank (IDB)	10,000,000	8	-	1,362,801	843,331	Repayment on schedule
6	Uganda Development Bank Limited	On-lending exclusively to eligible projects in various sectors in Uganda Including in priority targeted sectors.	African Development Bank	15,000,000	10	-	12,187,500	10,312,500	Repayment on schedule
7	Uganda Development Bank Limited	To finance import of goods and services from India.	Exim India	5,000,000	7	-	3,214,185	2,499,900	Repayment on schedule
8	Uganda Development Bank Limited	Funds for project Finance especially women led projects and youth	European Investment Bank	15,000,000		15,000,000	-		Undisbursed
9	Uganda Development Bank Limited	Funding for Trade Finance projects	International Islamic Trade Finance Corporation	10,000,000	1	-	9,838,247	1,403,843	Repayment on schedule
10	Uganda Development Bank Limited	Funds for project Finance (SMEs in key growth sectors)	OPEC Fund for International Development	20,000,000	8	-	20,000,000	18,750,000	Repayment on schedule
11	Uganda Development Bank Limited	Funding of projects in key growth sectors of Uganda	The Arab Bank for Economic Development in Africa. (BADEA)	10,000,000	7	-	-	5,000,000	Repayment on schedule
12	Uganda Development Bank Limited	Trade finance line for importation of good from Arab countries	The Arab Bank for Economic Development in Africa. (BADEA)	10,000,000	7	-	-	10,000,000	Fully disbursed
TOTAL				**120,076,564**		**25,827,861**	**52,015,416**	**56,218,154**	

Source: Ministry of Finance, Planning and Economic Development

Unguaranteed Liabilities of Public Entities

Non-guaranteed debt is one of the sources of implicit contingent liabilities and it constitutes debt taken on by State-Owned Enterprises (SOEs), Local Governments (LGs) and Extra-Budgetary Units (EBUs) which, is not backed by any Government guarantee. Although not legally binding, these liabilities are likely to be borne by the Government because of public expectations or political considerations.

As of the end of June 2023, the total debt stock of public entities (SOEs and EBUs) stood at UGX 10,309.02 billion (USD 2.811 billion), representing a 6.6 percent increase from the previous year's figure of UGX 9,673.7 billion (USD 2.64 billion). This uptick can be primarily attributed to disbursements made on newly acquired loans, as well as on existing loans, which more than offset the repayments made during the same period.

Stock of GoU On-Lent Loans

As at the end of June 2023, the stock of on-lent loans increased by 5 percent from UGX 7,767.7 billion in June 2022, to UGX 8,157.4 billion. The increase can mainly be attributed to disbursements and accrued interest which outweighed the repayments done within the period under review. The on-lent loans provided to Uganda Electricity Generation Company Limited (UEGCL) and Uganda Electricity Transmission Company Limited (UETCL) accounted for more than 93 percent of the total stock of on-lent loans. The financing for these public entities has mainly been necessitated to support the development of priority energy generation and transmission projects in the country. The total stock of GoU on-lent loans accounted for 79.1 percent of the total debt stock of SOEs, as of June 2023.

Public-private Partnerships

Public-Private Partnerships (PPPs) in Uganda have emerged as a vital mechanism for fostering infrastructure development and promoting economic growth. However, it's essential to acknowledge that PPPs entail certain fiscal risks, including both direct commitments and contingent liabilities. Direct commitments involve financial obligations that the government explicitly assumes under PPP contracts, such as payments for infrastructure construction, operation, and maintenance. Meanwhile, contingent liabilities arise from potential future obligations that may materialize depending on specific circumstances, such as revenue guarantees, foreign exchange guarantees, or compensation for project failures. These contingent liabilities pose risks to public finances, as they could result in substantial financial burdens if realized. Therefore, it is imperative for the Government to exercise caution in

structuring and managing PPP agreements to mitigate these fiscal risks effectively. Robust risk assessment, transparent disclosure practices, and prudent fiscal management are essential to ensure that PPP projects contribute positively to Uganda's development while safeguarding fiscal sustainability.

As of the end of December 2023, the number of ongoing PPPs operating under the framework of the PPP Act 2015 has more than doubled since last year, from 17 to 35. Notably, none of these projects had reached financial closure by this point in time, so no estimates have been made thus far regarding contingent liabilities embedded within the various agreements associated with these projects.

Legal Proceedings

Contingent liabilities stemming from legal proceedings pose a significant source of fiscal risks to the Government. These liabilities represent potential financial obligations that may arise from unresolved legal disputes or litigation outcomes, the extent of which remains uncertain until legal proceedings are concluded. Legal disputes can emerge from various areas, including contract disputes, regulatory violations, and claims of negligence, among others, and their resolution often entails substantial financial implications for the government. Given the unpredictable nature of legal outcomes and the potential for significant financial losses, contingent liabilities arising from legal proceedings present a considerable risk to government financial stability and budgetary planning. Moreover, they have historically been a major driver of arrears, exacerbating fiscal pressures and hindering effective public financial management. It is therefore crucial for government entities to proactively manage and mitigate these risks through robust legal strategies, compliance measures, and contingency planning to safeguard against adverse financial consequences.

As per the Government of Uganda (GoU) Consolidated Financial Statement for the fiscal year 2022/23, contingent liabilities arising from legal proceedings have surged to UGX 4.41 trillion as of the end of June 2023. This figure represents a notable increase of 14.3 percent from the previous fiscal year, wherein contingent liabilities stood at UGX 3.9 trillion as of the end of June 2022. The analysis of gross exposure reveals that these contingent liabilities primarily originate from domestic sources within Ministries, Departments, and Agencies (MDAs). This substantial uptick underscores the growing financial risks posed by legal proceedings to the government's fiscal stability and budgetary

management. To mitigate the risks posed by unresolved court awards, the Government has instituted the following measures:

i. Adopting a phased payment approach for the most urgent claims with huge interest to reduce the pressure on Government cash flow and freeze further accrual of interest.
ii. Establishing a comprehensive stock of the actual liabilities including ranches, war claims, claims arising from divestiture and other court awards to have a holistic plan for settling them within the arrears settlement strategy.
iii. Strengthening measures to reduce potential litigation of Government through effective implementation of the Public Investment Management System (PIMS), effective contract management, strengthening the commitment control system to reduce the creation of arrears.
iv. Decentralizing of the payment court awards to Government MDAs and Local Governments for purposes of ownership and responsibility over their actions.
v. The Government has also undertaken to verify pension related benefits especially those arising from divestiture e.g. Uganda Electricity Board, Uganda Posts and Telecommunications, Uganda Railways Corporation etc and include them in the payroll over the medium term.

Pension Liabilities

Government of Uganda operates a non-contributory pension scheme, which is entirely financed using domestic revenue. The approved pension budget for FY 2023/24 is UShs 679.8 Bn, equivalent to 0.3 percent of GDP. Pension arrears equally contribute significantly to the stock of domestic arrears, on account of delayed payment due to late processing of pension files by MDAs, early retirement and at times death of active staff. These pension arrears are usually a basis for litigation hence posing a risk to the efficient execution of the budget.

Mitigation measures for contingent liabilities

The government maintains a proactive policy stance to mitigate contingent liability risks:

i) All borrowing by public corporations and sub-national governments, and government-issued guarantees, must be approved by the Minister of Finance.

ii) All public corporations that intend to borrow, as well as entities requesting guarantees, are required to be financially sound, as determined by MoFPED.

iii) All projects to be funded must be in line with the National Development Plan and sector priorities.

3. Institutional Risks

Government institutions play a significant role in shaping the way Ministries, Departments and Agencies operate by setting rules that guide economic and political interactions, determining how goods and services are purchased and delivered as well as determining how resources are mobilised and how budgets are spent.

Institutional risks may stem from shortages in technical capacity and failure by institutions responsible for supervision, monitoring, and evaluation to identify loopholes during the implementation of budget.

In recent years, Government has built a strong institutional framework that facilitates effective fiscal policy management. This is evidenced through a solid governance structure, a clear and effective legal system as well as strong capacity amongst staff to undertake roles.

Over the medium term, the flow of oil revenues could pose institutional risks to fiscal policy management. However, the Government has stipulated in the Charter for Fiscal Responsibility (FY 2021/22-FY 2025/26) a fiscal rule to provide for prudent management of revenues from petroleum resources to ensure intergenerational equity and insulate the budget from volatile oil revenues.

V. CONCLUSION

This Fiscal Risk Statement for FY 2024/25 has thoroughly examined the various fiscal risks that the nation faces, ranging from volatile macroeconomic conditions to climate change implications and specific contingent liabilities. The analysis emphasizes the significance of strong fiscal management and proactive preparation in safeguarding the country's economic future against potential challenges.

The Government of Uganda recognizes the dynamic nature of global and domestic economic landscapes, marked by challenges such as geopolitical tensions, fluctuating commodity prices, and tightening global financial conditions. These factors necessitate a vigilant and adaptive approach to fiscal policy that not only responds to immediate fiscal pressures but also strategically prepares for future uncertainties. Furthermore, this year's statement has enabled a broader understanding of how climate change may alter our economic trajectory. Without proactive measures, the fiscal sustainability of our nation could be severely compromised by the adverse effects of climate change. Therefore, it is essential to align our fiscal strategies with environmental considerations to foster resilience and sustainability.

In addition, the growing complexity of public debt, as well as the accompanying refinancing and interest rate risks, necessitate a more refined debt management approach that ensures debt sustainability while still supporting critical public investments. Ensuring that borrowing strategies are reasonable and in line with budgetary capabilities is critical to preserving economic stability.

Going forward, the Government is committed to enhancing transparency, improving public financial management, and strengthening institutional frameworks. These efforts are essential for building a resilient economic framework capable of withstanding unforeseen fiscal shocks. In conclusion, this statement is not merely a statutory requirement but a reaffirmation of Government's commitment to strategic, informed, and responsive fiscal management. By continuously monitoring fiscal risks and implementing comprehensive mitigation strategies, the Government aims to secure economic stability and promote sustainable growth for all Ugandans.