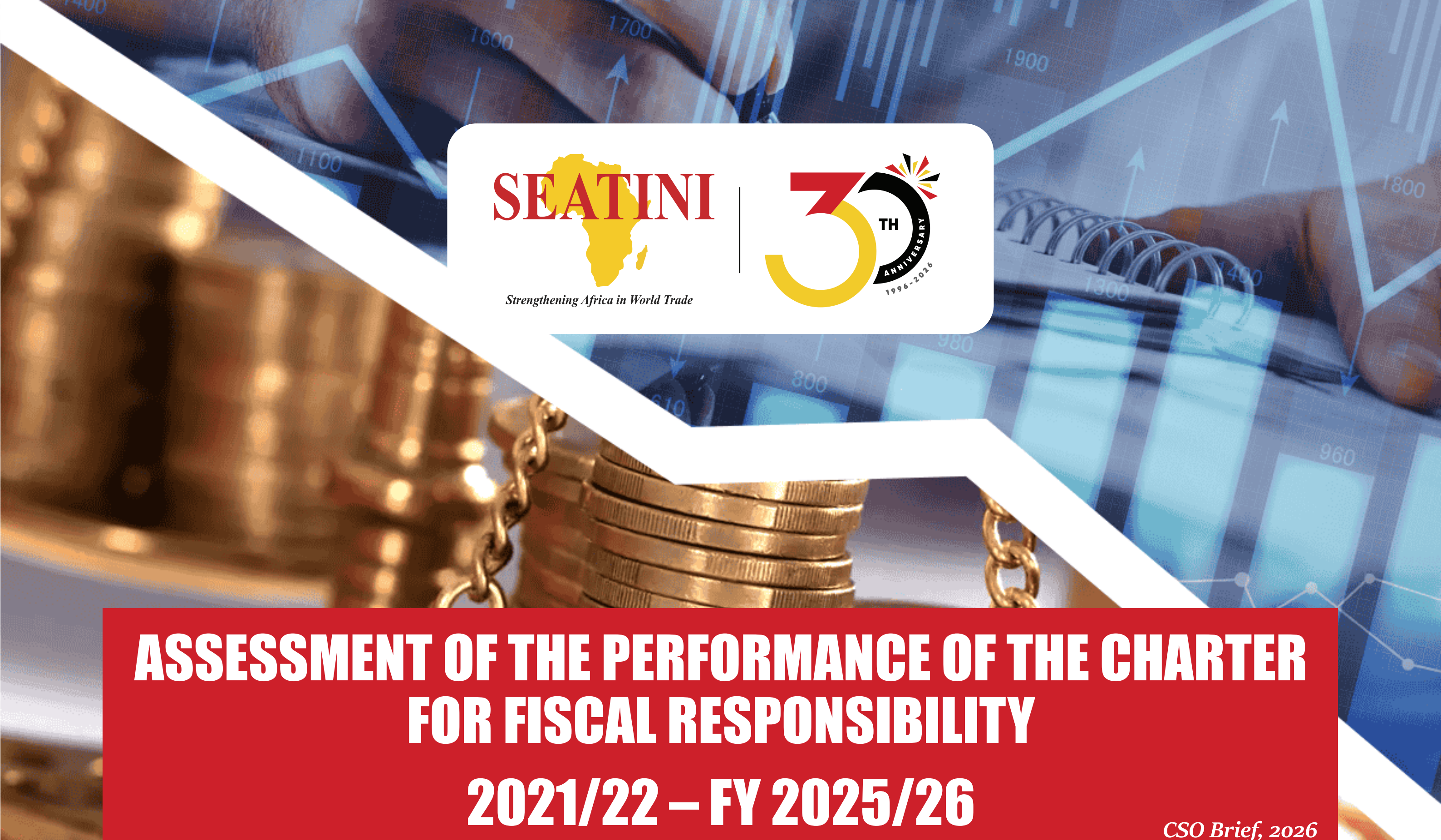


SEATINI

Strengthening Africa in World Trade

30TH ANNIVERSARY 1996–2026

ASSESSMENT OF THE PERFORMANCE OF THE CHARTER FOR FISCAL RESPONSIBILITY 2021/22 – FY 2025/26

CSO Brief, 2026

Introduction

Financial Year 2025/26 marks the last year of implementation of the second charter for fiscal responsibility that runs from FY 2021/22 – FY 2025/26. Formulation of the charter is a legal requirement spelled out in the Public Finance Management Act (2015) to provide for economic management and macroeconomic stability. It requires that Government fiscal objectives be guided by the fiscal principles outlined in Section 4(2), and mandates the Minister of Finance to prepare a Charter for Fiscal Responsibility with measurable fiscal objectives based on those principles. Sections 5(1) and 5(2) specify that the Minister must submit the Charter to Parliament within three months after the first sitting following a general election and ensure its publication within one month after Parliament's approval. Section 6 obliges Cabinet to follow the Charter when making decisions that affect public finances, while Section 7 outlines when and how deviations from the Charter's objectives may occur and the procedures for managing such deviations.

This CFR envisaged to provide Government's fiscal policy objectives over the 5 financial year period to ensure sustainable delivery of the country's goal of socioeconomic transformation. This was to result in increased household incomes and improved quality of life of Ugandans though three main objectives on; 1) public debt, 2) fiscal balance and 3) Petroleum Fund Transfers to the Budget and Petroleum Revenue Investment Reserve.

Under the fiscal objective on public debt, Government envisaged to reduce total public debt in nominal terms to below 50% of GDP by financial year 2025/26 and gradually reduce total domestic debt interest payments to total revenues (excluding grants) to 12.5%. Furthermore, Government envisioned to maintain nominal Publicly guaranteed debt to GDP below 5% and ensure Government borrowing from the Bank of Uganda supports efforts to maintain macroeconomic stability in accordance with section 36 (5)(a) and (b) of the Public Finance Management Act, 2015 as amended and section 33 of the Bank of Uganda Act.

Objective 2 on fiscal balance, envisaged to attain a deficit not exceeding 3.0 percent of non-oil GDP by financial year 2025/26 and to grow the ratio of non-oil revenue to GDP by at least 0.5 percentage points on an annual basis. Government also envisaged to maintain the growth rate in recurrent spending as a percentage of GDP below the growth rate of revenue (excluding oil) as a percentage of GDP.

Fiscal objective 3, envisaged to transfer Oil revenue worth 0.8% of the preceding year's estimated non-oil GDP outturn at maximum to the Consolidated Fund for budget operations and the maximum to the Petroleum Revenue Investment Reserve (PRIR) for investment.

This paper assesses the performance of Uganda's CFR against the set objectives over the five-year period. It also provides recommendations for adoption in the

CFR for the coming period towards attaining fiscal sustainability.

CSO observations

While government set out commitments to manage fiscal policy in accordance with measurable objectives, majority of the corresponding fiscal commitments were partially met thus threatening fiscal sustainability over the period of the charter. This clearly explains the elevated fiscal pressure due to continued shrinking of the fiscal space, persistent increase in debt servicing costs, domestic revenue shortages, dwindling aid and high cost of borrowing the five-year period.

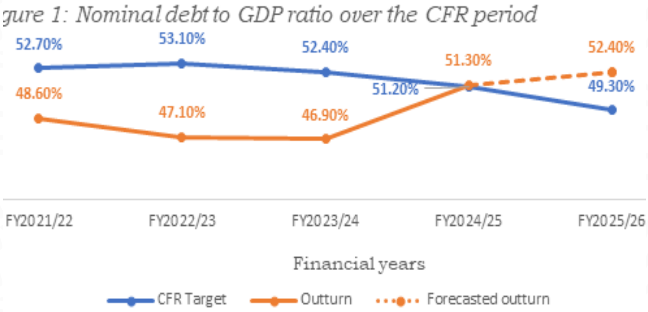
Performance of the measurable fiscal objectives in the CFR

1. Objective 1: Public Debt

Objective 1 (a) envisaged to have total public debt in Nominal terms reduced to below 50% of GDP by financial year 2025/26.

While this objective was met in financial years 2021/22 to 2023/24, the nominal debt to GDP ratio surpassed the set targets in the outer years of the CFR period as shown in figure I below. This breech was as a result of lumpsum payment of BoU debt through issuance of securities and borrowing to finance various public investments. Furthermore, increased debt accumulation at commercial terms to finance the persistent budget deficit accounts for increasing debt stock. Moreover, Government continued to rely on domestic debt to the extent that, this stock increased from US$ 11 billion to US$ 16.8 billion in FY 2024/25, representing a 52.73 percent increase, from 17.02 percent in FY 2023/24. This has not only resulted into crowding out of private sector credit, but also led to elevated interest rates in the domestic market hence increasing the debt servicing cost.

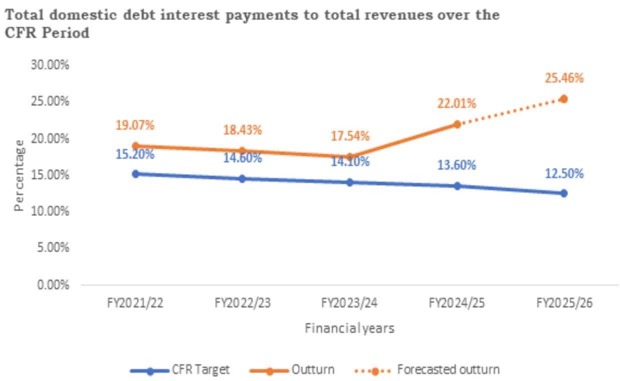
gure 1: Nominal debt to GDP ratio over the CFR period



From figure 1, while Government had a target to reduce the nominal debt to GDP ratio to 51.2% in FY 2024/25, it registered an outturn of 51.3 percent. Moreover, while the Government projected to have this ratio further reduced to 49.3 percent in FY 2025/25, the projected outturn is 52.4 percent thus the objective to have the total public debt in Nominal terms reduced to below 50% of GDP by financial year 2025/26 may not be achieved at the end of the CFR period.

Under objective 1(b), Government envisaged to have total domestic debt interest payments to total revenues (excluding grants) reduced to 12.5% by FY 2025/26

While the Charter envisaged to reduce the total domestic debt interest payments to total revenues (excluding grants) to 12.5% by end of FY 2025/26, all thresholds were not met over the period as shown in figure 2 below. This is as a result of continued reliance on domestic borrowing to finance persistent fiscal deficit. This ratio continued to increase over the CFR period from 19.07 percent in FY 2021/22 to 22.01 percent in FY 2024/25, way above the envisaged thresholds in respective years.



Increased domestic debt servicing is reflected in the upward trends of yields on Treasury Bills (T-bill) in FY 2024/25 compared to FY 2023/24, with the 91-day T-bill increasing to 10.8 percent from 9.8 percent, the 182-day T-bill rising to 13.3 percent from 12.3 percent, and the 364-day T-bill rising to 14.8 percent from 13.0 percent[1]. As such, domestic debt interest payment to total revenue (excluding grants) is projected to increase to 25.46 percent in FY 2025/26. This implies that quarter of mobilised domestic revenues will be committed to interest on domestic revenue.

Objective 1(c), guides on Government borrowing from the Bank of Uganda.

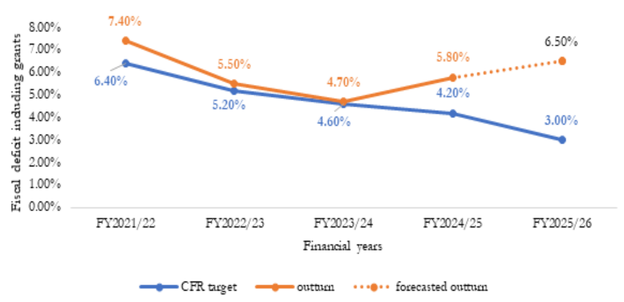
The second CFR guided that Government may borrow from the Bank of Uganda only in accordance with section 36 (5)(a) and (b) of the Public Finance Management Act, 2015 as amended and section 33 of the Bank of Uganda Act. While, domestic loans were issue through issuance of securities in accordance to with section 36 (5)(a) and (b) of the Public Finance Management Act, 2015, section 33(3) was not met in some years of the CFR. This requires that the total amount of advances made under 33(1) not at any time exceed 18 percent of the recurrent revenue of the Government. In FY 2022/23 and 2023/24, total advances to Government reached Ushs. 7,232.183 billion and Ushs. 8,555.577 billion representing 29 percent and 32 percent of the recurrent revenues respectively. This is above the 18 percent threshold highlighted in section 33(3) of the BoU Act (2000). While, Government made a lumpsum payment worth Ushs. 7,779 billion in FY 2024/25 through conversion to an amortised bond, this contributed to the increase in the Country's debt stock and increased debt to GDP ratio in nominal terms.

Objective 2: Fiscal balance

Under objective 2(a) Government envisaged to have the overall Fiscal Balance including grants gradually adjusted to a deficit not exceeding 3.0 percent of non-oil GDP by financial year 2025/26.

During the CFR period, the fiscal deficit including grants surpassed the set maximum threshold as shown in figure 3 below. While this ratio gradually decreased from 7.4 percent to 5.5 percent and to 4.7 percent in FYs 2021/22, 2022/23, 2023/24 respectively, the ratio increased to 5.8 percent in FY 2024/25 and is further projected to increase to 6.5% in FY 2025/26[2].

Figure 3: Overall Fiscal deficit including grants as a percentage of GDP

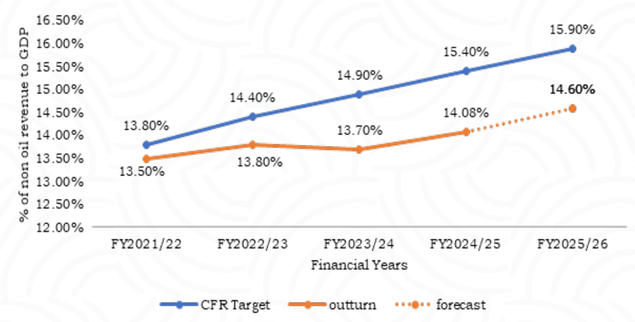


The persisted fiscal deficit is as a result much lower than planned grant receipts, increasing Government expenditure priorities and low growth in revenues over the CFR period. It is important to note that high deficit-to-GDP ratio indicates possible unsustainable government spending that may prompt debt accumulation.

Objective 2(b) envisaged to attain growth of at least 0.5 percentage points of the ratio of non-oil revenue to GDP on an annual basis

This growth in revenue target was not met over the CPF period, as the outturn was recorded at 0.3 percent, -0.1 percent and 0.38 percent in FYs 2022/23, 2023/24 and 2024/25 respectively. However, the projected outturn for FY 2025/26 is 14.6 percent, reflecting a 0.52%. Non-attainment of the 0.5 percent growth in revenue annually is as a result of low tax compliance, weak ta administration, tax evasion and avoidance inter alia. Efforts to expand the tax base is ongoing as URA has adopted various measures including automation of revenue systems, enhance tax payer education inter alia.

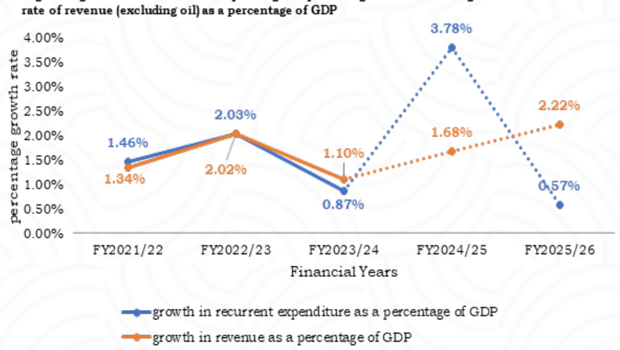
Figure 4: Non-oil revenue to GDP



Objective 2(c) the growth rate in recurrent spending as a percentage of GDP shall not exceed the growth rate of revenue (excluding oil) as a percentage of GDP

Thresholds in respective years of the CFR were either partially met or breached to a small extent except for the projected outturn in 2024/25 where the growth rate in recurrent spending as a percentage of GDP exceeded the growth rate of revenue (excluding oil) as a percentage of GDP by 2.1 percent as shown in figure 5 below. It is projected that the growth rate of revenue (excluding oil) as a percentage of GDP will exceed the growth rate in recurrent spending as a percentage of GDP by 1.66 percent.

Figure 5: growth rate in recurrent spending as a percentage of GDP and the growth rate of revenue (excluding oil) as a percentage of GDP



High growth in growth rate in recurrent spending as a percentage of GDP as compared to the growth rate of revenue (excluding oil) as a percentage of GDP reflects an increasing pressure on recurrent expenditure on domestic revenues. This leaves less revenues for development spending which has a high multiplier effect on overall growth.

Note: Data for recurrent spending for FY 2024/25 was not directly captured in the Macro Economic and

Fiscal Performance report for FY 2024/25, thus used figure on projected outturn on recurrent expenditure to compute the growth rate in recurrent spending as a percentage of GDP. This data was sourced from the Background to the Budget for the FY 2025/26.

Objective 3 of the CFR, elaborates on the share of Petroleum Fund Transfers to the Budget and Petroleum Revenue Investment Reserve (PRIR);

The CFR highlighted that a maximum of Oil revenue worth 0.8% of the preceding year's estimated non-oil GDP outturn shall be transferred to the Consolidated Fund for budget operations. The balance shall be transferred to the Petroleum Revenue Investment Reserve (PRIR) for investment in accordance with the Public Finance Management Act (2015) as amended.

This measurable fiscal objective was meant to ensure prudent management of revenues from petroleum resources by insulating the budget from volatile oil revenues that could cause harmful macroeconomic effects, and ensure that both the current and future generations benefit from the proceeds of the petroleum natural resource. This fiscal objective will be reviewed when a minerals fund is created in order to include total revenues from other mineral resources.

Over the CFR period, no funds were transferred to the PRIR because of low revenue outturn from the oil and gas sector, largely as a result of postponement in the first oil receipts more than twice. Nevertheless, Government through the Petroleum Authority of Uganda has reassured the public that Uganda is set to receive her first oil in 2026.

According to the Annual Budget Performance report for FY 2024/25, at the start of FY, the opening balance on the petroleum fund was Ushs 145.98 billion. During the financial year, there were deposits made into the fund from tax and non-tax revenues of Ushs 261.48 billion and Ushs 3.68 billion respectively making a total revenue of Ushs UGX 265.16 billion. Additionally, a total of Ushs 281.87 billion was withdrawn and transferred to the Consolidated Fund to support the Budget. Ultimately, taking into consideration the foreign exchange losses and gains, the closing balance on the petroleum fund as at end FY 2024/25 was Ushs 128.23 billion.

Recommendations

- Strengthen fiscal discipline by aligning borrowing strictly with priority development needs, Ministry of Finance Planning and Economic Development should adhere strictly to the principles and guidelines outlined in the Public Debt Management Framework (2023) to ensure effective and efficient utilization of external borrowing in support of long-term economic growth. This will contribute to reduced debt stock and debt servicing burden
- The Government should reduce reliance borrowing, by strengthening Domestic Revenue Mobilization (DRM). This requires fast-tracking the finalization and effective implementation of the Domestic Revenue Mobilization Strategy (DRMS) for FY 2025/26–FY 2029/30, with the objective of achieving the 25 percent tax-to-GDP ratio stipulated in the East African Monetary Union (EAMU) Protocol.
- DRM efforts should be complemented by reductions in non-essential government expenditure through effective implementation of the rationalization of agencies and the expenditure reform agenda. Furthermore, the Government should explore alternative and lower-cost financing instruments, such as crowd financing, as envisaged in the Public Investment Financing Strategy (February 2022), and benchmark with regional peers, including Ethiopia, that have adopted such approaches

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