

## AFRICA RISK CONSULTING

### Uganda Monthly Briefing September 2022

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#### Uganda Summary 8 September 2022

*Experts warn that Uganda is at a risk of falling into a “public debt safety trap” if it continues to rely on Recent Debt Sustainability Analysis (RDSA) reports to inform its borrowing decisions. The Ugandan parliament has passed seven critical amendment bills in an attempt to escape sanctions from France-based intergovernmental money laundering and terrorism-financing watchdog Financial Action Taskforce (FATF). Ugandan economists claim that the measures that the Bank of Uganda (central bank) has put in place to curb inflation risk suffocating the private sector by denying them liquidity.*

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#### Uganda at risk of falling into public debt safety trap

Economic experts are warning that **Uganda** is at a risk of falling into the “public debt safety trap” if it continues relying on **Recent Debt Sustainability Analysis (RDSA)** reports to inform its borrowing decisions.<sup>1</sup> The warning follows RDSA reports issued by both Uganda’s finance ministry and the **International Monetary Fund (IMF)**, signalling that Uganda’s public debt, though high, was still safe.<sup>2</sup> However, researchers at the **Kampala** based **Economic Policy Research Centre** warn that the two reports are likely to mislead and increase Uganda’s borrowing appetite, leading it into a public debt safety trap, a situation in which a favourable debt position based largely on RDSA results falsely signals that the country has more fiscal headroom to borrow, especially when debt is still below the set national or international limit.<sup>3</sup>

Writing in the IMF **Public Finance Management** blog, economists **Linda Nakato** and **Enock Bulime** noted on 15 August that, during the past five years, Uganda’s borrowing decisions have been made mainly by reference to the debt rule because its debt is projected to be sustainable over a 20-year forecast period.<sup>4</sup> Nakato and Bulime claim that Uganda’s debt increased from \$7.8 billion (34.6% of GDP) in 2015/16 to \$18.4 billion (47% of GDP) in 2020/21 due to over-reliance on RDSA results to inform borrowing decisions. Favourable DSA results increased the borrowing appetite for non-concessional financing because of the perceived safety of Uganda’s total public debt, which is mainly concessional.<sup>5</sup>

The increase in public debt has prompted Uganda’s parliament to task government to develop mechanisms that will ensure that the country returns to a low risk of debt distress.<sup>6</sup> **Committee on National Economy on the State of Indebtedness** vice-chairperson **Robert Migade** notes that, whereas the debt level is still sustainable, debt service ratios point to elevated risks mainly due to the slower growth of export earnings.<sup>7</sup> The committee also recommended that government develop a deliberate implementable strategy to clear domestic arrears within the medium term as a means of supporting the economy and reducing the costs of doing business.<sup>8</sup>

**Tororo** district member of parliament **Sarah Opendi** blames the soaring debt burden on the high level of corruption and illicit financial flow:

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<sup>1</sup> IMF Public Finance Management blog, 15 Aug 2022

<sup>2</sup> Ministry of Finance debt sustainability report, 11 Feb 2022

<sup>3</sup> IMF Public Finance Management blog, 15 Aug 2022

<sup>4</sup> IMF Public Finance Management blog, 15 Aug 2022

<sup>5</sup> IMF Public Finance Management blog, 15 Aug 2022

<sup>6</sup> Parliament media, 31 Aug 2022

<sup>7</sup> Parliament media, 31 Aug 2022

<sup>8</sup> Parliament media, 31 Aug 2022

*"I was shocked that our stock of debt is now at Shs78 trillion (\$18.5 billion) - that is not pleasant to us. We have in the recent years been borrowing to finance our recurrent expenditure, something that should not happen. I want to attribute all this to the illicit financial flow, like corruption and opaqueness in the mineral sector."*<sup>9</sup>

**Uganda Debt Network (UDN)** quality assurance manager **Gilbert Musinguzi** told **Africa Risk Consulting (ARC)** that the imbalance between borrowing and debt servicing is alarming. Previously, grace periods offered for debt repayments were longer, which is no longer the case with the surging debt:

*"The grace periods for repayments are going to be shorter with more stringent rates and the interest rates being high, means we are likely to default, putting the country and its key assets in a dangerous position."*

Auditor general **John Muwanga** in his 2020/2021 report presented to Parliament on 3 February noted that the rate of increase of debt is higher than the rate of increment in the GDP levels, which creates a risk of reaching unsustainable levels sooner than later.<sup>10</sup>

### Uganda passes tighter anti-money laundering law

Uganda has passed seven critical amendment bills in an attempt to escape sanctions from **France**-based intergovernmental money laundering and terrorism-financing watchdog **Financial Action Taskforce (FATF)**.<sup>11</sup> The FATF in 2020 placed Uganda, along with **Albania, Barbados, Burkina Faso, Cambodia, the Cayman Islands, Gibraltar, Haiti, Jamaica, Jordan, Mali, Morocco, Myanmar, Nicaragua, Pakistan, Panama, Philippines, Senegal, South Sudan, Syria, Turkey, the United Arab Emirates (UAE)** and **Yemen**, on its grey list of countries that act as a safe haven for illegal funds.<sup>12</sup>

The FATF maintained Uganda in its updated list issued on 17 June in **Berlin (Germany)**, but noted that since February 2020 Uganda has made a high-level political commitment to work with the **Paris**-based watchdog and the **Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)** to strengthen the effectiveness of its Anti-Money Laundering/Combating the Financing of Terrorism.<sup>13</sup> It notes that Uganda should continue to work to implement its action plan to address its strategic deficiencies, which include seeking international cooperation in line with the country's risk profile, developing and implementing risk-based supervision of financial institutions, among others.<sup>14</sup>

In response, parliament on 30 August passed the **Anti-Money Laundering (Amendment) Bill, 2022**, which will empower the **Financial Intelligence Authority (FIA)** and other supervisory authorities to levy administrative penalties for breach of the provisions of the Act.<sup>15</sup> The Bill which, awaits the assent of President **Yoweri Museveni** (1986-present) to become law, empowers the FIA and other supervisory authorities to impose administrative penalties on those breaching the provisions of the Act.<sup>16</sup>

The amendment also widens the scope of crime to align with the proposed amendments under the **Anti-Terrorism Amendment Bill** by creating the crime of "*proliferation financing*", with respect to nuclear, biological and radiological weapons.<sup>17</sup>

### Central bank measures risk suffocating private sector

Ugandan economists are warning that the measures that the **Bank of Uganda (BoU)** (central bank) has put in place to curb inflation risk suffocating the private sector by denying them

<sup>9</sup> Parliament media, 31 Aug 2022

<sup>10</sup> Auditor General's report 2020/2021

<sup>11</sup> Parliament media, 31 Aug 2022

<sup>12</sup> Financial Action Task Force, 17 Jun 2022

<sup>13</sup> Financial Action Taskforce, 17 Jun 2022

<sup>14</sup> Financial Action Taskforce, 17 Jun 2022

<sup>15</sup> Parliament, 30 Aug 2022

<sup>16</sup> Parliament, 30 Aug 2022

<sup>17</sup> Parliament, 25 Aug 2022

liquidity.<sup>18</sup> The BoU raised its main lending rate by 50 basis points to 9.0% on 12 August, following a one-percentage point increase to 8.5% at an extraordinary meeting on 5 July and a one-percentage point increase to 7.5% on 2 June.<sup>19</sup>

The BoU signalled that it could tighten policy further if inflationary pressures persist. In the MPC's report, deputy BoU governor **Michael Atingi-Ego** noted that Uganda's economy continues to face strong cost-push inflation pressures from the external environment, dry weather conditions and exchange rate depreciation amid weak domestic demand.<sup>20</sup> Annual headline and core inflation rose to 7.9% and 6.3% respectively in July, from 6.8% and 5.5% in June. Annual food crop inflation continued to rise, from 14.5% in June to 16.4% in July, while electricity, fuel and utilities inflation rose from 14.2% to 17.2%.<sup>21</sup> The BoU forecasts that inflation for 2022 will remain in the range of 7-7.4%.<sup>22</sup>

The BoU monetary policy report says its tightening of the monetary policy is a result of the US **Federal Reserve** (central bank) and the central banks of other advanced economies leading to offshore investors adjusting their portfolios in Uganda:

*"In addition, the deteriorating terms of trade that has caused the demand for the dollar to increase amongst the energy companies and other importers also added to the pressure."*<sup>23</sup>

**Makerere University (Kampala)** economist and lecturer **Fred Muhumuza** told ARC that the measures the central bank is putting in place will deny the private sector liquidity.<sup>24</sup> Muhumuza says hiking the central bank rate (CBR) would work if the inflation is monetary or caused by too much money in circulation.<sup>25</sup> He recommends that commercial banks be advised to lend cautiously but not to raise interest rates. Kampala-based **Metropolitan University** economist **Sande Elias** told ARC that the effects of monetary policy can take up to two years to materialise and are therefore unlikely to offer an instant solution to the most pressing economic challenges.<sup>26</sup>

<sup>18</sup> Bank of Uganda monetary policy statement, 12 Aug 2022

<sup>19</sup> Bank of Uganda monetary policy statements, 2 Jun, 5 Jul, 12 Aug 2022

<sup>20</sup> Bank of Uganda monetary policy statement, 12 Aug 2022

<sup>21</sup> Bank of Uganda monetary policy statement, 12 Aug 2022

<sup>22</sup> Bank of Uganda monetary policy statement, 12 Aug 2022

<sup>23</sup> Bank of Uganda monetary policy statement 12 Aug 2022

<sup>24</sup> Source, Uganda analyst, 6 Aug 2022

<sup>25</sup> Source, Uganda analyst, 6 Aug 2022

<sup>26</sup> Source, Uganda analyst, 6 Aug 2022

## Planner

- 10 Sep 2022 **London (United Kingdom) Uganda UK Trade and Investment Convention**
- 10 Sep 2022 **Kampala (Uganda) ASAR-International Conference on Global Economy in Business, Management, Social Science and Humanity Perspective (ICGEBMSSHP);**
- 13 Sep 2022 **Kampala (Uganda) World Conference on Soil, Water, Energy and Air (EUWCSWEA);**
- 24 Sep 2022 **Kampala (Uganda) International Conference on Chemical, Biological and Environmental Engineering (ICCBEE);**
- 1 Oct 2022 **Kampala (Uganda) World Congress on Information Technology and Computer Science (WCITSC)**

## Chronology

- 7 Sep 2022 **Kampala (Uganda) Reuters.** Non-governmental organisation **The Red Cross** says at least 15 people died in western Uganda after torrential rains triggered a landslide that buried their homes;
- 5 Sep 2022 **Kampala (Uganda) Nile Post.** The **National Environment Management Authority (NEMA)** has announced that applications for approval of timber processing factories will now require proof of a sustainable source of raw materials, effective immediately;
- 4 Sep 2022 **Kampala (Uganda) The East African.** The **East African** region is facing a wave of inflation as disruptions in the global supply chain continue and prices of essential commodities rise;
- 3 Sep 2022 **Kampala (Uganda) Ministry of Health.** Uganda registered two new **COVID-19** deaths on 2 September, bringing the cumulative number of **COVID-19** cases in the country to 3,353, of which 1,574 are currently active;
- 2 Sep 2022 **Kampala (Uganda) Nile Post.** **Kampala City Traders Association (KACITA)** spokesperson **Isa Ssekitto** claims that the **Uganda Revenue Authority (URA)** has done more harm than good in ensuring that businesses formalise;
- 1 Sep 2022 **Kampala (Uganda) Independent.** Uganda's commercial banks are planning to provide one trillion shillings (\$258.7m) in export credit facility to help local manufacturers boost their access to regional markets;
- 31 Aug 2022 **Kampala (Uganda) Nile Post.** **Discovery Sports Limited (DSL)** has ordered all Ugandan radio stations to cease broadcasting **English Premier League** games unless they are sub-licensed by DSL;
- 30 Aug 2022 **Kampala (Uganda) New Vision.** Parliament passes seven critical finance amendment bills that once assented to by president **Yoweri Museveni** will save Uganda from a blacklist on carrying out international financial transfers;
- 29 Aug 2022 **Kampala (Uganda) Independent.** **Stanbic East Africa** reports that strong growth of its borderless banking platform, which combines the markets of **Uganda, Tanzania, Kenya** and **South Sudan**, has shown pent-up demand for secure, real-time transactions across international borders, with transactional volume increasing to \$40m from January 2021 to March 2022;
- 28 Aug 2022 **Kampala (Uganda) Daily Monitor.** Independent observers of **Uganda Airlines** say its current financial position is not only a result of the operating environment made difficult by the **Covid-19** disruptions, but also because of structural issues;
- 27 Aug 2022 **Kampala (Uganda) KFM.** **East African Legislative Assembly** members have overwhelmingly supported a motion for introduction of the **East African Community Electronic Transactions Bill 2014**, which aims to make provision for the use, security, facilitation and regulation of electronic communications and transactions to encourage the use of e-government service;

26 Aug 2022 **Kampala (Uganda)** *Parliament Watch*. The **Mining Bill 2021** before parliament, which seeks to improve mining and mineral administration in Uganda, has set a fee of US\$387m (\$100,000) for local artisanal miners to secure mining licences;

25 Aug 2022 **Kampala (Uganda)** *Daily Monitor*. The works and transport ministry has established a six-member team to investigate human resource irregularities in **Uganda Airlines**;

24 Aug 2022 **Kampala (Uganda)** *African Business*. Former **Uganda Airlines** CEO **Cornwell Muleya** says the national carrier is failing to break even because of failure to implement its business plan;

23 Aug 2022 **Kampala (Uganda)** *Parliament*. The trade, industry and cooperatives ministry is to introduce the **Consumer Protection Bill** in parliament in a bid to protect Ugandans against substandard products on the market, following the death of 14 people as a result of suspected alcohol poisoning;

22 Aug 2022 **Kampala (Uganda)** *Reuters*. Uganda's sole power distributor, **Umeme Limited (UMEME.UG)**, reports that its half-year pre-tax profit jumped by 33%, helped by a surge in energy sales across all categories of customers and a drop in its operating costs;

21 Aug 2022 **Kampala (Uganda)**. Members of parliament are divided over the government's proposal to buy shares worth US\$207 billion (\$53.5m) in local construction company **Roko Construction Limited** after state minister for finance **Henry Musasizi** moved a motion on 20 July for a parliamentary resolution to approve a proposal by the government to purchase 150,000 preferential shares in Roko;

20 Aug 2022 **Kampala (Uganda)** *Parliament*. Parliament's **Committee on State Authorities and State Enterprises (COSASE)** has learned from the Auditor General's report that **Uganda Airlines** racked up a loss of 498 billion shillings (\$130.6m) since its revival in 2019;

19 Aug 2022 **Kampala (Uganda)** *KFM Radio*. President **Yoweri Museveni** emphasises Uganda's commitment to ensuring all food and trade standards meet international and particularly **United Kingdom (UK)** criteria in a message ahead of the **Uganda-UK** annual investment convention slated for 10 September;

18 Aug 2022 **Kampala (Uganda)** *New Vision*. **Kampala City** officials have arrested thousands of vendors since January in one of the most severe crackdowns on street trade in the Ugandan capital for years;

17 Aug 2022 **Kampala (Uganda)** *Observer*. **Kampala City Traders Association (KACITA)** vice-chairperson **Jjemba Mulondo** says over 4,000 trucks are stuck at the **Kenyan** port of **Mombasa** due to safety concerns among truck drivers, which many result in price hikes of some commodities due to limited supply;

16 Aug 2022 **Kampala (Uganda)** *KFM Radio*. **Eastern Africa Grain Council** team leader **Paul Ocuna** says his team plans to train over 200,000 farmers in handling practices to keep grains free from **Afrotoxin** in response to the demands of the regional market, after Kenya rejected maize from Uganda and Tanzania on grounds that the grain products had Afrotoxin;

15 Aug 2022 **Kampala (Uganda)** *Daily Monitor*. Former deputy inspector general of police **Julius Odwe** accuses President **Yoweri Museveni** of working to the detriment of the **Uganda Police Force** by continually deploying **Uganda People's Defence Force (UPDF)** officers to senior positions;

15 Aug 2022 **Kampala (Uganda)** *Business Focus*. Ugandan importers are increasingly opting to import through **Tanzania** instead of **Kenya** as they wait for certainty to return on the northern corridor after the Kenyan elections;

12 Aug 2022 **Kampala (Uganda)** *BOU*. The **Bank of Uganda (BoU)** (central bank) raises its main lending rate by a further 50 basis points to 9.0% signaling that it could tighten policy further if inflationary pressure persists;

11 Aug 2022 **Kampala (Uganda)** *Daily Monitor*. Advocacy and rights organisation **Resource Rights Africa (RRA)** releases a report showing that the use of mercury in artisanal gold mining (ASGM) in **Karamoja** sub-region has left devastating effects on miners' health and the environment;

10 Aug 2022 **Kampala (Uganda)** *Civil Rights Defenders*. The Ugandan government has suspended all operations of LGBTI organisation **Sexual Minorities Uganda (SMUG)**;

### About Africa Risk Consulting:

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