52%

Debt. Domestic debt has, for the first time, overtaken external borrowing, accounting for about 52 percent or Shs66 trillion of the country's total public debt, which has now crossed Shs130 trillion, according to the Finance ministry.

Issue. Experts contend that rolling over debt at these rates compounds the interest burden exponentially.

How robbing Peter to pay Paul derails budget plans

Uganda's growing dependence on borrowing to repay old debt is squeezing funding for health, education and infrastructure, while pushing the country deeper into financial strain.

BY ISMAIL MUSA LADU

The government's insatiable appetite for borrowing has made it the largest domestic debtor, effectively mooting the National Budget's ability to deliver much-needed social services, *Business Outlook* has established.

Unable to raise revenue to cover maturing debt, the government is heavily relying on debt rollovers, a practice public debt and policy analysts call risky because it merely replaces old debt with new one in the form of Treasury Bills and bonds.

Corroborating *Business Outlook*'s findings is an expert analysis titled "Uganda's Debt Rollover Crisis: When Borrowing Old Debt Crowds Out a Better Future" by the Uganda Debt Network (UDN), a team of experts on matters of public and domestic debt.

"This debt rollover, and its scale has reached a point where it is actively shrinking the space available for public investment in health, education, and infrastructure," the UDN latest expert says in the analysis.

As of the end of June 2025, the country's domestic debt had already surpassed external debt, marking a shift from a historical reliance on foreign loans.

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Debt rollover trap

In the current Financial Year (FY) 2025/2026 Budget, the arithmetic, according to UDN, is stark

"Of a total Budget of Shs72.3 trillion, Shs26 trillion is pre-committed before the government can fund a single priority," reveals the UDN expert analysis.

The government has, over the years, gained notoriety for repeatedly subjecting the domestic market to the same. To compound matters, by June 2025, Uganda's total public debt reached Shs116.2 trillion ($32.3 billion approximate conversion in June 2025), a 26 percent increase in a single year.

In the FY2023/2024, the government issued Shs15 trillion in domestic securities. Out of this, Shs8.3 trillion—more than half—went purely to refinancing previous obligations. Only Shs6.6 trillion was available for actual Budget activities.

Experts contend that rolling over debt at these rates compounds the interest burden exponentially. Critically, they add, the country's financial trap stems from a reliance on debt rollover, where maturing debts are paid by borrowing more from mainly domestic banks, allowing the government to delay insolvency while increasing overall debt burden.

As a result, the country has since surpassed the threshold within which it is considered dangerous to borrow.

"Uganda's debt to GDP ratio stands at slightly more than 51 percent, above the International Monetary Fund's 50 percent threshold for low-income countries, and is projected to peak at 55.5 percent by June 2026," reads UDN's analysis.

Why it matters

The debt rollover matters because domestic securities, through which the government borrows from the public and institutions, mature faster and carry higher interest rates. Treasury bond yields hovered between 16 percent and 17.5 percent in 2025.

Owing to this, Uganda is currently rated at moderate risk of debt distress by the International Monetary Fund (IMF)—one category below high risk, with limited fiscal buffers to absorb any economic shock.

"The consequences of Uganda's debt rollover cycle extend well beyond spreadsheets. For every Shs100 collected in tax revenue, nearly Shs40 goes directly to debt service, before wages are paid or services are delivered. This is what fiscal space compression looks like in practice," reads the report.

Ms Peninnah Naiga, a public debt researcher, told *Business Outlook*: "Uganda's debt profile shows a continued reliance on refinancing across financial years."

Ms Naiga pointed out that in FY2024/2025, domestic debt refinancing stood at slightly more than Shs12 trillion.

"It then declined by about 16.6 percent to Shs10 trillion in FY2025/2026, before being projected to rise sharply by roughly nearly 40 percent to about Shs14 trillion in FY2026/2027. This pattern highlights how refinancing can temporarily ease pressure in one year but lead to significant increases in subsequent periods," she observed.

She continued: "Refinancing can be a useful strategy for managing debt, especially when it lowers borrowing costs or spreads repayments over time. However, in Uganda's context, its effectiveness is limited by structural challenges.

"Public debt continues to grow without a corresponding increase in domestic revenue, while statutory expenditures, particularly wages, salaries, and administrative costs, rise consistently. This imbalance places growing pressure on public finances and increases fiscal or budget vulnerabilities."

Civil society organisations like CSBAG, UDN and SEATINI have repeatedly warned the government about the risks associated with rising public debt. They argue that such a practice exposes the country to interest rate risks and rollover risks, where existing debt must constantly be replaced with new borrowing.

"Over time, this can create a debt trap, where the government borrows not to invest or develop, but simply to service existing obligations," Ms Naiga noted, adding, "Debt rollover, in this case, effectively increases the total public debt burden rather than reducing it."

To an ordinary citizen, researcher Naiga said: "This means a growing share of government revenue is diverted toward debt repayment instead of essential services like education, healthcare or even infrastructure."

Ms Naiga further argued that the government's struggle to meet financial obligations could lead to higher taxes, reduced public services, or increased cost of living.

Finance Minister Matia Kasaija arrives at Kololo Independence Grounds for the Budget reading last year. PHOTO/ FILE

CRISIS? WHAT CRISIS?

As for the Deputy Secretary to the Treasury in the Ministry of Finance, Mr Patrick Ocailap, there is no crisis at, all despite domestic borrowing outpacing external debt.

He said: "Whoever thinks there is a crisis, I implore him or her to read our quarterly Debt Statistical Bulletin and Public Debt Portfolio Analysis on debt. We have stated repeatedly that there is no crisis. Rolling over debt is simply borrowing to pay off existing obligations–much like the borrowing from Peter to pay Paul. The only thing increasing is the interest rate, something we are alive to."

The Director of Research and Policy at Bank of Uganda, Dr Adam Mugume (PhD), said oil revenues anticipated in FY2026/27 will go a long way in supporting the government budget.

The central bank projects more than Shs1.8 trillion to come from oil-related non-tax revenues.

As a result, Dr Mugume stated that domestic borrowing to finance the budget is projected to decline by more than Shs2 trillion next FY, in part due to oil-related inflows.

By implication, this implies that yields on government securities, a tool the government use to borrow domestically, could come down substantially in the coming years, according to Dr Mugume.

The government has taken some steps to control the domestic debt haemorrhage by a 25-year Treasury Bond in August 2025.

This is Uganda's longest-tenure domestic instrument, to reduce rollover frequency by replacing short-term obligations with long-duration debt.

The Finance ministry has also signalled a 21 percent reduction in domestic securities issuances for FY2026/2027 to ease crowding out.

The $2 billion (Shs7.5 trillion) World Bank concessional financing package over three years is also expected to bring some relief from expensive domestic borrowing. However, these measures are contingent and fragile and can only be sustained with oil revenues.