International Growth Centre

PROJECT MEMO

OPTIONS FOR FINANCING PRIORITY DEVELOPMENT PROJECTS FOR MACROECONOMIC STABILITY

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Partner organisations: Ministry of Finance, Planning and Economic Development and the Bank of Uganda

IN BRIEF

- Domestic debt management is a key pillar of macroeconomic stability
- This research explores how much domestic debt Uganda can reasonably raise
- Researchers found that domestic debt below 15% of GDP would be sustainable under conservative macroeconomic assumptions.

Domestic debt management is a key pillar of macroeconomic stability. This project links to previous IGC work on macroeconomic management by Peter Montiel, and was run in partnership with the Ministry of Finance, Planning and Economic Development and the Bank of Uganda (as represented by Christine Asiimwe).

This project uses comparative evidence from other countries in the region, reviews the relevant literature on debt policy for low income countries, and draws on debt sustainability analysis. The research considers both theoretical and empirically observed benchmarks, drawing on both to establish an upper bound for domestic debt issuance.

Domestic debt levels in Uganda were found to be at a manageable level, and a moderate increase in issuance was found to be feasible. A cost comparison of international debt suggested that Uganda could borrow on the international market at a fairly low rate of interest, but concerns about another debt trap amid recent memories of Heavily Indebted Poor Countries (HIPC) relief reduces the desirability of this option. The study suggests an average level of issuance of domestic debt of around 2.0% of GDP, which would allow a longer term level below a 15% policy target.

The recommendations from this project were presented to senior officials.

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