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Directorate of Debt and Cash Policy

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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### List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFD</td>
<td>French Agency for Development</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>ATM</td>
<td>Average Time to Maturity</td>
</tr>
<tr>
<td>ATR</td>
<td>Average Time to Refixing</td>
</tr>
<tr>
<td>BADEA</td>
<td>Arab Bank for Economic Development of Africa</td>
</tr>
<tr>
<td>BOU</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>DOD</td>
<td>Debt Disbursed and Outstanding</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank Highly</td>
</tr>
<tr>
<td>FX</td>
<td>Foreign Exchange</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GoU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IDB</td>
<td>Islamic Development Bank</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IR</td>
<td>Interest Rate</td>
</tr>
<tr>
<td>JBIC</td>
<td>Japan Bank for International Cooperation</td>
</tr>
<tr>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
</tr>
<tr>
<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau</td>
</tr>
<tr>
<td>LIBOR</td>
<td>London Interbank Offer Rate</td>
</tr>
<tr>
<td>MOFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
</tr>
<tr>
<td>MTDS</td>
<td>Medium Term Debt Management Strategy</td>
</tr>
<tr>
<td>MTFF</td>
<td>Medium Term Fiscal Framework</td>
</tr>
<tr>
<td>NDF</td>
<td>Nordic Development Fund</td>
</tr>
<tr>
<td>NDP</td>
<td>National Development Plan</td>
</tr>
<tr>
<td>PV</td>
<td>Present Value</td>
</tr>
<tr>
<td>ST</td>
<td>Short Term</td>
</tr>
</tbody>
</table>
Foreword

Pursuant to Sections 13(10)(a)(iv) of the Public Finance Management Act (2015), the Minister of Finance is required, while presenting the National Budget, to table a plan on public debt and any other financial liabilities for the financial year to which the annual budget relates.

The Ministry of Finance, Planning and Economic Development produces the Medium Term Debt Management Strategy (MTDS) which is a plan for the active control of the composition of public debt. The composition of the debt portfolio determines its cost and risk exposure which consequently impacts on debt service. The debt management strategy is formulated through the use of the World Bank /International Monetary Fund excel based analytical tool that takes into account linkages between debt and other macroeconomic fundamentals.

The preparation of the FY 2018/19 Debt Management Plan was a highly consultative process, through which the Lead Team in the Ministry of Finance, Planning and Economic Development received valuable contributions from the World Bank, Parliamentary Budget Office and Bank of Uganda.

The Government of Uganda will continue to coordinate debt management with the macroeconomic and financial policy framework, since it is an integral part to a country’s, economic stability and development.

This strategy provides an assessment of the cost and risk of:

(i) The debt portfolio characteristics as at December 2017 and the performance of the 2017/18 debt management strategy and,

(ii) The strategic guidelines / targets to be adopted while managing public debt during the medium term beginning FY2018/19.

The FY2018/19 MTDS will therefore guide GoU’s borrowing decisions in the attempt to ensure Government’s preferred composition of debt in terms of cost and risk.

I therefore call upon all stakeholders and the Directorate of Debt and Cash Policy of the Ministry of Finance, Planning and Economic Development to work towards the successful implementation and realization of this strategy’s goals, as we collectively develop our country.

For God and my Country

Keith Muhakanizi

Permanent Secretary and Secretary to the Treasury
Executive Summary

The Medium Term Debt Management Strategy (MTDS) is a plan that Government intends to implement over the medium term to achieve a composition of the debt portfolio that captures its preferences with regard to the cost-risk trade-off.

The FY2018/19 MTDS is the fourth published edition of debt management strategies that provides a debt management plan for the forthcoming financial year and the half year performance of the previous strategy-FY2017/18, as at December 2017.

Total Public Debt rose to USD 10.2 billion in December 2017 from USD 8.7 billion at end-December 2016. Domestic debt constituted USD 3.3 billion (33%) of the total public debt composition, while external debt amounted to USD 6.9 billion (67%). Domestic debt was composed of 76% Treasury Bonds (UGX 9,243.9 billion) and 24% Treasury Bills (UGX 2,936.6 billion). The external debt portfolio is comprised of USD 4.7 billion from multilateral creditors and USD 2.2 billion from bilateral creditors.

Regarding the performance during FY2017/18, the strategy achieved a reduction of the refinancing risk embedded in the domestic debt portfolio by increasing Average Time to Maturity from 3.5 years in December 2016 to 4 years in December 2017.

The FY2018/19 Strategy seeks to maintain the financing mix from FY2017/18. This constitutes a large share of concessional borrowing (which will in part be implemented through unlocking the undisbursed loan balances that equals USD 4.48 billion), non-concessional borrowing, a small proportion of commercial borrowing, and increasing the issuance of long term domestic debt securities (treasury bonds), as a proportion of the net domestic debt financing.

The FY2018/19 MTDS firmly recommends an expansion in value and volume of the exports to mitigate the debt portfolio against the exchange rate risk. This should be coupled with a deliberate increase in tax revenues in order to progressively reduce the cyclical fiscal deficit.
1.0 Introduction

The Medium Term Debt Management Strategy (MTDS) is a plan that guides the Government’s borrowing to achieve a desired composition of the government debt portfolio. The Strategy focuses on managing the risk exposure embedded in the debt portfolio, particularly, the potential variations in the cost of debt servicing and its impact on the budget and the size of the debt.

The Strategy takes into account the linkages with other key macroeconomic policies, is consistent with maintaining debt sustainability, and facilitates domestic debt market development. It also provides a framework within which the Government will make informed choices on how the required financing shall be met, while taking into account the constraints and potential risks. The Strategy spells out objectives, benchmarks and portfolio indicators, against which its performance is assessed. Its articulation imparts information, transparency, and certainty for investors to plan their investments in Government securities efficiently.

The FY2018/19 Strategy operationalizes Uganda’s debt management objectives as enshrined in the Public Debt Management Framework 2013 (PDMF 2013), by guiding the contraction of debt and management of Government’s debt portfolio during the forthcoming financial year. The Strategy takes into account the characteristics of the debt portfolio and the associated cost-risk trade-offs, by outlining the government’s preferred composition of public debt.

1.1 Overall Debt Management Objectives

The debt management objectives in Uganda, as stipulated in the 2013 Public Debt Management Framework, are highlighted below and form the foundation for the FY 2018/19 Strategy:

i. To meet the Government’s financing requirements at the minimum cost, subject to a prudent degree of risk;
   and

ii. To promote the development and functioning of the domestic financial markets.

1.1.1 Specific objectives for the FY 2018/19 Debt Management Plan are:

i. Reduce refinancing risk embedded in the public debt portfolio by reducing the issuance of short-term (Treasury Bill) instruments and increase financing in the 5, 10 and 15 year bond issuances
ii. Meet Government financing needs at the lowest possible cost subject to a risk that meets the FY 2018/19 risk objectives.

1.2 The Scope of the FY2018/19 Strategy

The FY 2018/19 Strategy focuses on Central Government external and domestic debt, and does not include borrowing of state owned enterprises and local government, which is not significant in the case of Uganda.
2.0 Public Debt Portfolio Analysis

2.1 Total Public Debt (Domestic and External)

This section provides an analysis of existing total Public Debt as of December 2017.

Total Public Debt rose to USD 10.2 billion in December 2017 from USD 8.7 billion as of end December 2016 an increase of 17%, or USD 1.5 billion (Figure 1).

Since end-December 2017, external public debt increased by 33% to USD 6.9 billion from USD 5.5 billion. The total stock of outstanding domestic public debt increased from UGX 11.7 trillion in December 2016 to UGX 12.2 trillion in December 2017, with T-Bills amounting to UGX 2.9 trillion, and T-Bonds amounting to UGX 9.2 trillion.

As a result, the public debt-to-GDP ratio increased from 35.7% in December 2016 to 38.1% at end December 2017. However, due to the high concessionality of external public debt, the Present Value (PV) of the public debt-to-GDP ratio was significantly lower, and increased from 26% to 28.2% over the same period.

Figure 1: Trend of Public Debt in Billion USD from FY 2012/13 to December 2017

2.2 Composition of Government of Uganda Debt Portfolio as at December 2017

With the financing mix in the past tilted toward external debt, at end-December 2017 domestic debt constituted 33% (USD 3.4 billion) of the total public debt portfolio, while external debt accounted for 67% (USD 6.9 billion).

2.2.1 Domestic Public Debt Composition

Domestic debt is composed of 76% Treasury Bonds (UGX 9.2 trillion) and 24% Treasury Bills (UGX 2.9 trillion). The 5-year bond accounted for the largest share in
the stock of domestic debt at 32%, amounting to UGX 3.9 trillion, followed by the 364-day Treasury Bills representing 21.8%, which is equivalent to about UGX 2.6 trillion.

Figure 2: Domestic Debt Composition by Maturity at End December 2017

![Pie chart showing Domestic Debt Composition by Maturity]

Source: Debt Policy and Issuance Department, MOFPED

2.2.2 External Public Debt Composition

External public debt amounted to USD 6.9 billion, of which, USD 4.7 billion (68%) constituted debt from multilateral creditors, while bilateral and commercial creditors accounted for USD 2.2 billion (32%).

Bilateral creditors include Paris and non-Paris Club creditors. Non-Paris Club Creditors in Uganda include China, Saudi Arabia, and India, while the largest Paris Club Creditors include Germany, France and Japan. Multilateral creditors are dominated by the International Development Association (IDA) and the African Development Fund (AfDF). Other Multilateral Development Partners include the Islamic Development Bank (IDB), International Fund for Agricultural Development (IFAD), and the Arab Bank for Economic Development in Africa (BADEA), among others.
Figure 3: External Debt composition by Creditor

Source: Ministry of Finance, Planning and Economic Development

2.2.3 Total (Domestic and External) Public Debt Currency Composition

As of December 2017, the public debt portfolio was composed of 67% foreign currency denominated debt and 33% domestic debt (UGX).

The foreign currency denominated debt mainly consisted of, USD and EUR currencies, as indicated in the chart below.

Figure 4: Total Public Debt Currency Composition at end December 2017

Source: Ministry of Finance, Planning and Economic Development
2.2.4  Public Debt Portfolio Composition by Interest Rate Type

On average, Uganda’s public debt portfolio is composed of 97% fixed rate debt. While all domestic debt is contracted at fixed rate market terms, 3% of the external debt portfolio includes variable rate loans. Figure 5 indicates the trend and share of fixed rate debt to variable in the total public debt portfolio.

Figure 5: Share of Fixed and Variable Rate Debt as a Percentage of Total Public Debt

Source: Ministry of Finance, Planning and Economic Development

2.3  Cost and Risk of the Public Debt Portfolio as at End December 2017

The current debt portfolio is dominated by concessional external debt characterized by fixed and low interest rates, with long grace periods and maturities. Hence, nominal external public debt amounting to 25.6% of GDP at end-December 2017 is reduced to 15.7% of GDP in present value terms, once the long grace periods and maturities are taken into account.

Table 1: Cost and risk indicators for the existing debt as at end December, 2017

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>Dec-16</th>
<th></th>
<th></th>
<th>Jun-17</th>
<th></th>
<th></th>
<th>Dec-2017</th>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>External</td>
<td>Domestic</td>
<td>Total</td>
<td>External</td>
<td>Domestic</td>
<td>Total</td>
<td>External</td>
<td>Domestic</td>
</tr>
<tr>
<td>Amount (in millions of USD)</td>
<td>5.5</td>
<td>3.2</td>
<td>8.7</td>
<td>6.1</td>
<td>3.2</td>
<td>9.4</td>
<td>6.9</td>
<td>3.4</td>
<td>10.2</td>
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<tr>
<td>Nominal debt as % GDP</td>
<td>22.5</td>
<td>13.2</td>
<td>35.7</td>
<td>24.7</td>
<td>12.6</td>
<td>37.3</td>
<td>25.6</td>
<td>12.5</td>
<td>38.1</td>
</tr>
<tr>
<td>PV as % of GDP</td>
<td>12.8</td>
<td>13.2</td>
<td>26.0</td>
<td>14.8</td>
<td>12.6</td>
<td>27.4</td>
<td>15.7</td>
<td>12.5</td>
<td>28.2</td>
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<tr>
<td>Cost of debt</td>
<td>0.3</td>
<td>2.1</td>
<td>2.5</td>
<td>0.4</td>
<td>2.0</td>
<td>2.3</td>
<td>0.4</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Interest payment as % GDP</td>
<td>17.1</td>
<td>3.5</td>
<td>12.1</td>
<td>16.0</td>
<td>3.7</td>
<td>19.7</td>
<td>15.6</td>
<td>4.0</td>
<td>11.8</td>
</tr>
<tr>
<td>ATM (years)</td>
<td>0.5</td>
<td>43.0</td>
<td>16.2</td>
<td>2.7</td>
<td>38.4</td>
<td>14.7</td>
<td>3.1</td>
<td>32.5</td>
<td>12.8</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>17.1</td>
<td>3.5</td>
<td>12.1</td>
<td>15.7</td>
<td>3.7</td>
<td>19.4</td>
<td>15.2</td>
<td>4.0</td>
<td>11.5</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>98.6</td>
<td>100.0</td>
<td>99.1</td>
<td>96.7</td>
<td>100.0</td>
<td>97.8</td>
<td>96.0</td>
<td>100.0</td>
<td>97.3</td>
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<tr>
<td>FX risk</td>
<td>63.0</td>
<td>66.2</td>
<td>67.1</td>
<td>63.0</td>
<td>66.2</td>
<td>67.1</td>
<td>63.0</td>
<td>66.2</td>
<td>67.1</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, Planning and Economic Development
2.3.1 Costs

As of end-December 2017, total public interest payments as a share of GDP dropped to 2.2% compared to 2.5% at December 2016. Domestic debt interest payments account for 1.8% of GDP and have declined over time from 2.1% at end-December 2016 as domestic market rates dropped in line with the reduction in the central bank’s policy rate, and the share of domestic debt stabilized at 12.5% of GDP. The reduction of domestic interest payments to GDP is at the same time attributed to an increase in GDP as of December 2017. External interest payments as a share of GDP increased from 0.3% to 0.4% in December 2017.

Figure 6 below shows the weighted average interest rates for external and domestic interest rate.

Figure 6: Weighted Average Domestic and External Interest rate to December 2017

[Graph]

Source: Government of Uganda Debt Statistical Bulletins

2.3.2 Risks

Risk is the probability that actual debt service will deviate from projected debt service. For example changes in market conditions such as an increase in interest rates and currency depreciation.

The Strategy analyzes three major risks in the public debt portfolio: refinancing risk, interest rate risk and foreign currency risk.

2.3.3 Refinancing/rollover risks

The key indicators for refinancing risk are Debt maturing in one year as a percent of total debt, Average Time to Maturity (ATM) and Debt maturing in one year as a percent of GDP. One of the specific debt management objectives is to reduce the
refinancing risk embedded in the domestic debt portfolio due to a considerable share of short term instruments.

As of December 2017, the weighted average time to maturity (ATM) for domestic debt improved from 3.5 years in December 2016 to 4.0 years. On the other hand, the ATM for external debt was reduced to 15.6 years compared to 17.6 over the same time period. The decline in the external ATM is attributed to the contraction of more bilateral debt, with shorter maturities compared to multilateral financing sources.

Refinancing risk is more pronounced for domestic debt due to the large share of outstanding short-term T-bills. As a result, close to 32.5% of domestic public debt will come due in 2018 and will have to be re-financed.

Figure 7: External and domestic Debt Amortization / Redemption Profile

![Figure 7: External and domestic Debt Amortization / Redemption Profile](image)

Source: MTDS Analytical Tool December 2017

Figure 7 describes the magnitude of total amortization payments and, thus, captures also the refinancing risk in terms of debt maturing in 2018. The latter amounts to UGX 4.74 trillion. Domestic debt will account for UGX 3.96 trillion or 83.5% of the total amortization profile in 2018, while external debt will amount to 0.78 trillion. That said, the redemptions from existing debt in Figure 7 also demonstrate a smooth repayment profile, which is not characterized by maturity concentration in future years as seen in many other Sub-Saharan countries that have issued international bonds.

This high exposure to refinancing risk in the domestic debt portfolio can be overcome by issuing T-Bonds with higher maturity, but this will increase interest payments as longer term securities are more expensive.
2.3.4 Interests rate risk

Interest rate risk is commonly assessed by Average Time to Re-fixing (ATR), Debt re-fixing in 1yr (% of total), and Fixed rate debt (% of total). Uganda’s public debt portfolio is dominated by fixed interest rate debt with 97.3% of the portfolio constituting of fixed interest rate debt. This implies that only 2.7% of the portfolio is composed of variable rate debt. This is not surprising as the external debt portfolio still holds a large proportion of highly concessional loans which are characterized by long repayment periods of over 30 years. However, this is likely to change over the coming years as highly concessional financing becomes less available.

The Average Time to Refixing (ATR) for the total public debt portfolio reduced to 11.5 years in December 2017 compared to 12.1 years at December 2016. This is due to a shortening of the maturity profiles of the ATR external debt from 17.1 years to 15.2 years. On the other hand, ATR for domestic debt improved from 3.5 years to 4 years during the period under review.

Assuming all factors remain constant, the Government has a low exposure to interest rate risk for external debt. This is primarily attributed to the large share of concessional loans in the external debt portfolio. However, 32.5% of the domestic debt stock is due within one year, exposing the domestic debt portfolio to significant interest rate risk.

2.3.5 Exchange rate risk

The share of foreign currency debt as a percent of total debt and short-term foreign currency denominated debt, as a percent of reserves indicate the extent of the exchange rate risk embedded in any public debt portfolio.

By end December 2017, foreign currency denominated debt had increased to 67.1% compared to 63% in December 2016, indicating a high share of external debt in the public debt portfolio. This exposes the debt portfolio to exchange rate risk. The external debt portfolio is well diversified with 50% of the foreign currency debt exposed to the USD, the EURO at 23%, and the Japanese yen and Chinese yuan, each at 9%. These currencies account for 92% of the external debt portfolio, as illustrated below in Figure 8.

The increase in foreign currency denominated debt is mainly attributed to the increased external borrowing to finance the Government’s large infrastructure needs in the energy, transport and natural resource sectors.

That all said, foreign exchange reserve increased by USD 600 million during 2017 to USD 3.6 billion (or 5.3 months of imports of goods and services). This large foreign exchange reserve buffer provides assurances that foreign exchange is available for servicing foreign debt. Also, the value of the shilling has remained relatively stable.
for the 12-month period since February 2017, depreciating at 1½ percent in nominal terms, and 6 percent in real terms (Figure 9).

**Figure 8:** External Debt Currency Exposure

![External Debt Currency Exposure](image)

*Source: Ministry of Finance, Planning and Economic Development*

**Figure 9:** UGX/USD Foreign Currency trends between June 2007 to December 2017

![UGX/USD Foreign Currency trends](image)

*Source: Bank of Uganda Selected Macro Economic Indicators*
3.0 FY 2017/18 Strategy

3.1 Nominal debt stock

The Medium Term Debt Management Strategy (MTDS) for FY 2017/18 projected the total nominal debt outstanding to increase to USD 10.6 billion by June 2018. As at end December 2017, the total nominal debt outstanding amounted to USD 10.2 billion. Thus, the rise in public debt has been appropriately captured by the MTDS for FY2017/18.

Table 2: FY 2017/18 Constraints/Objectives against performance as at December 2017

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>MTDS 2017/18 Projections</th>
<th>Performance as at Dec-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>External debt</td>
<td>Domestic debt</td>
</tr>
<tr>
<td>Amount (in millions of USD)</td>
<td>7.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Nominal debt as % GDP</td>
<td>26.9</td>
<td>11.8</td>
</tr>
<tr>
<td>PV as % of GDP</td>
<td>16.8</td>
<td>11.8</td>
</tr>
<tr>
<td>Cost of debt</td>
<td>Interest payment as % GDP</td>
<td>0.4</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td>ATM (years)</td>
<td>16.8</td>
</tr>
<tr>
<td></td>
<td>Debt maturing in 1yr (% of total)</td>
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</tr>
<tr>
<td>Interest rate risk</td>
<td>ATR (years)</td>
<td>15.5</td>
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<td></td>
<td>Fixed rate debt (% of total)</td>
<td>84.5</td>
</tr>
<tr>
<td>FX risk</td>
<td>FX debt (% of total debt)</td>
<td>63.0</td>
</tr>
</tbody>
</table>

Source: MTDS 2017/18 and December 2017 MTDS Performance Analysis, MoFPED

3.2 Debt to GDP ratio

The nominal public debt as a percentage of GDP increased by 5 percentage points, from 35.7% as at end December 2016 to 38.1% as at end December 2017. This is within the FY 2017/18 nominal debt to GDP projections, of 38.7%. Similarly, the Present Value (PV) of public debt to GDP increased by 2.1 percentage points from 26.0% to 28.1% over the same period; still below the limit of 28.6% by 0.4 percentage point for the FY2017/18 projections.

3.3 Cost of debt

As of end December 2017, interest payments as a ratio of GDP had increased by 0.2 percentage points to 2.2% compared to the projection of 2.0% for FY 2017/18. This was the result of lower than projected GDP growth during the period.

3.4 Refinancing Risk/Rollover risk

External debt maturing in one year was 3.1% of the total stock of external debt compared to the projection of 1%. This was attributed to an increase in disbursements of committed funds over the past one year and the maturing PTA-principle payment of close to USD 100 million. On the other hand, domestic debt maturing in one year stood at 32.5% of the total domestic debt compared to a
projection of 38.1%, indicating a reduction in the refinancing risk during the year. The good performance on the domestic debt front was attributed to the issuance of longer dated securities during the course of the one year, ending December 2017.

The Average Time to Maturity (ATM) refers to the time it would take for government to pay off the entire debt portfolio. The longer the ATM, the better for Government. In this regard, the objective for the FY 2017/18 was to ensure that the ATM for the public debt portfolio does not fall below 12.3 years. However, ATM as at end December 2017 stood at 11.8-years, as a result of a decline in the maturity periods of external debt borrowing from 17.1 years in December 2016 to 15.6 years in December 2017. This is explained by the weighted increase of shorter maturities of external loans being contracted during the period. A case in point was the 3-year commercial PTA loan and the 15-year Chinese non-concessional loans; indicative of a significant shift from the traditional concessional borrowing with maturities of over 30 years.

3.5 Interest rate risk
As defined in the Public Debt Portfolio Analysis chapter, interest rate risk can be assessed against Average Time to Refixing (ATR), debt refixing in 1yr (% of total), and fixed rate debt (% of total).

About 97.3% of Uganda’s public debt stock in December 2017 was at fixed interest rates compared to 90.3% projected for FY 2017/18.

As at end December 2017, it will take on average 11.5 years for all the principal payments in the total debt portfolio to be subjected to a new interest rate which is the same as the projection of 11.5 years in FY 2017/2018. For external debt, it will take an average of 15.2 years for all the principal payments to be subjected to a new interest rate compared to the projected 15.5 years, and 4 years for domestic debt against the projected 4.8 years.

As it has been before, the interest rate exposure in the domestic debt portfolio still remains high due to the short maturity of domestic debt especially T-bills. However, the interest rate risk exposure reduced in December 2017, as shown by an improvement in the ratio of the T-bills to T-bonds (24:76) from 32:68 in December 2016.

3.6 Exchange rate risk
The share of external debt to total debt increased to 67.2 % in December 2017, against the FY2017/18 debt management plan/projection of 63.01%. This is indicative of increased foreign currency borrowing to cater mainly for the planned investments in infrastructure projects over the medium term.
4.0 FY 2018/19 Debt Financing Strategy

The public debt policy strategic objectives in the 2013 Public Debt Management Framework form the foundation for the FY2018/19-2020/22 MTDS. Amongst others, the framework requires that, for all borrowing considerations, an evaluation of costs and risk trade-offs should be done to arrive at the most optimal financing strategy for each financial year.

This MTDS, shall therefore guide Government’s debt management operations in the FY2018/19 and over the medium term within the context of the medium term fiscal framework.

4.1 Objectives Specific to FY 2018/19 Debt Management Plan

The Plan will focus on:

i. Reducing the refinancing risk embedded in the public debt portfolio by decreasing the issuance of short-term (Treasury bill) instruments and increasing longer dated securities i.e. 5, 10 and 15 year bond.

ii. Meeting Government’s financing needs at the lowest possible cost subject to a risk that meets the FY2018/19 objectives.

4.2 Key Macro Economic Assumptions

Table 3 below highlights some of the most important macro-economic assumptions underpinning the FY2018/19 Debt Management Plan. Note that a change in the macro economic assumptions may affect the realization of the objectives specific to the FY 2018/19 Debt management plan /MTDS. For example underperformance of revenues may impact the funding need and therefore increase the need for borrowing which may increase the cost and risk of debt depending on the financing option taken by Government.

To be able to achieve the specific objectives in the FY 2018/19 MTDS it is important that the primary deficit be kept at the level stipulated here in, revenues increased to the projected level, increase growth by enhancing domestic production and foreign direct investment. It is also important that Government ensures fiscal and monetary discipline.
**4.3 Considerations for choice of FY 2018/19 Debt Financing Strategy**

To meet the Government’s cost and risk objectives for FY2018/19, the domestic and external financing environments were analyzed and assessed to ascertain the most feasible financing strategy. Hence the GoU will implement the financing Plan that reduces the refinancing, interest and exchange rate risks embedded in the Public debt portfolio.

The factors here below informed the choice of this debt management Plan/ (FY2018/19) MTDS

(i) The discovery of oil and the need to develop large infrastructure projects make Uganda an attractive potential borrower to global investors, bilateral, multilateral and commercial creditors. Hence, the country has a great opportunity to mobilize and access external financing. However, external borrowing has to be cushioned by building foreign exchange reserves to ensure stability of the UGX against major foreign currencies.

(ii) The large undisbursed balances as of December 2017 (USD 4.5 billion) comprising of a large proportion of concessional and semi concessional financing dictate the choice of a financing strategy that is characterized by a considerable share of concessional debt. In that regard, about 25% of the undisbursed balances is expected to represent financing during the implementation of the FY 2018/19 Strategy.

(iii) The emergence of non-traditional development partners and financing mechanisms provides significant external financing sources for GoU, some of which include: Commercial Banks, Export Import Banks and the Export Credit Agencies. Some of the new financing mechanisms include:

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**Table 3: Macro-Economic Indicators in the Medium Term**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and Grants</td>
<td>14,026</td>
<td>16,111</td>
<td>17,940</td>
<td>21,343</td>
<td>24,157</td>
<td>27,453</td>
</tr>
<tr>
<td>Primary Expenditure</td>
<td>15,114</td>
<td>20,230</td>
<td>23,954</td>
<td>26,877</td>
<td>27,928</td>
<td>31,313</td>
</tr>
<tr>
<td>Total Interest Expenditure</td>
<td>2,323</td>
<td>2,285</td>
<td>2,452</td>
<td>2,706</td>
<td>3,072</td>
<td>3,340</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>17,437</td>
<td>22,515</td>
<td>26,406</td>
<td>29,583</td>
<td>31,000</td>
<td>34,653</td>
</tr>
<tr>
<td>Primary Deficit</td>
<td>1,088</td>
<td>4,119</td>
<td>6,013</td>
<td>5,534</td>
<td>3,771</td>
<td>3,860</td>
</tr>
<tr>
<td>Overall Budget Deficit</td>
<td>3,411</td>
<td>6,404</td>
<td>8,466</td>
<td>8,240</td>
<td>6,843</td>
<td>7,201</td>
</tr>
<tr>
<td>Reserves (Million USD)</td>
<td>3,064</td>
<td>3,116</td>
<td>3,479</td>
<td>3,875</td>
<td>4,177</td>
<td></td>
</tr>
</tbody>
</table>

As a percentage of GDP

| Revenue and Grants | 15.4% | 16.0% | 16.2% | 17.3% | 17.4% | 17.6% |
| Total Expenditure | 19.1% | 22.4% | 23.8% | 23.9% | 22.3% | 22.2% |
| Primary Deficit | 1.2% | 4.1% | 5.4% | 4.5% | 2.7% | 2.5% |
| Overall Budget Deficit | 3.7% | 6.4% | 7.6% | 6.7% | 4.9% | 4.6% |

Memorandum Items

| Nominal GDP (UGX Billion) | 91,351 | 100,508 | 111,054 | 123,709 | 138,838 | 155,935 |

Source: Macro Economic Policy Department, MoFPED
Eurobonds, Islamic financing (Sukuk), Pan African banks, and PPPs. Apart from the foreign exchange currency risk, external financing is feasible because it offers significant amounts suitable for large infrastructure financing. This factor provides justification for a strategy dominated by external borrowing. That said, the Government is also aware of contingent liabilities that result from contracting PPPs, and will therefore carefully assess the cost and benefits of such arrangements going forward.

(iv) The domestic financial market in Uganda is relatively small with a narrow investor base, which limits Government’s issuance of long term securities. This market is mainly dominated by commercial banks, whose preference is to invest in short term securities. This has implications on the management of refinancing risk with in the domestic debt portfolio. This limits the feasibility of high levels of domestic debt financing.

4.4 Analysis of the Proposed Medium Term Strategies

In view of the available financing options and the specific objectives for the FY2018/19 plan, four possible financing strategies; three of which constitute an increase in external financing, and one that enhances domestic borrowing, were identified. These are:

1. **Strategy 1 (S1)**, this strategy is based on the macroeconomic framework consistent with the December 2017 Debt Sustainability Analysis. The Plan represents borrowing of 57% and 43% of external and domestic debt financing respectively. External financing in this strategy is mainly composed of multilateral concessional envisaged disbursements, bilateral non-concessional fixed and bilateral variable rate debt. Domestic debt will constitute mainly Treasury bills since there is a huge stock of bills that will be maturing during the next one year. At the same time, there will be more new issuances on the 5, 10 and 15 year bonds.

In terms of the cost and risk indicators, S(1) provides the lowest refinancing risk by reducing debt maturing in one year from 14.5% of total debt to 7.5% as at end 2022. The strategy has the same refinancing risk as Strategy 3, but lower foreign currency denominated debt as a percentage of the total debt of 78.2% compared to 79.1% in S(3).

2. **Strategy 2(S2)**, aims to investigate the cost and risk in the public debt portfolio if government increased domestic debt borrowing as a share of gross financing. Domestic debt borrowing increases from 43% as highlighted in strategy 1 to 54%, while external borrowing reduces from 57% to 46%.
As a result, this strategy provides the highest refinancing risk amongst the four strategies and therefore does not guarantee an improvement of the public debt structure.

3. **Strategy 3 (S3)**, envisages the issuance of a sovereign bond on the international market and is designed to replace domestic debt with external debt. It is therefore meant to reduce the refinancing risk embedded in the current debt portfolio. In this strategy, external borrowing increases to 70% while domestic is drastically reduced to 30%. About 30% of new external financing would be from the issuance of the international sovereign bond.

At end 2022, strategy 3, i.e., the issuance of a sovereign bond reduces refinancing risk and is comparable to strategy 1. However, the strategy creates even higher foreign currency denominated debt stock compared to the other 3 strategies. Given the low level of foreign currency generation in Uganda and the underperformance of revenues, this strategy would pose repayment problems and therefore impact negatively on Uganda’s debt sustainability.

4. **Strategy 4 (S4)**, aims at replacing some of the concessional debt with commercial borrowing. External and domestic debt borrowing is maintained at 57% and 43% respectively, as in strategy 1. However, commercial borrowing as an external financing component is increased to 30% from 4% in strategy 1.

### Table 4: Cost and Risk Indicators of the Proposed Financing Strategies at end 2022

<table>
<thead>
<tr>
<th>Risk Indicators</th>
<th>2017 Current</th>
<th>S1 (Status Quo)</th>
<th>S2 (Increased domestic Debt)</th>
<th>S3 (Euro Bond)</th>
<th>S4 (Commercial Bank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal debt as % of GDP</td>
<td>37.3</td>
<td>48.415</td>
<td>48.790</td>
<td>48.531</td>
<td>48.541</td>
</tr>
<tr>
<td>Present value debt as % of GDP</td>
<td>27.4</td>
<td>35.802</td>
<td>36.973</td>
<td>34.305</td>
<td>36.535</td>
</tr>
<tr>
<td>Interest payment as % of GDP</td>
<td>2.25</td>
<td>2.1250</td>
<td>2.40</td>
<td>2.148</td>
<td>2.1873</td>
</tr>
<tr>
<td>Implied interest rate (%)</td>
<td>6.1</td>
<td>5.0</td>
<td>5.6</td>
<td>5.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Refinancing risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of total)</td>
<td>14.5</td>
<td>7.4457</td>
<td>9.56</td>
<td>7.4498</td>
<td>8.18</td>
</tr>
<tr>
<td>Debt maturing in 1yr (% of GDP)</td>
<td>5.3</td>
<td>3.60</td>
<td>4.67</td>
<td>3.62</td>
<td>3.97</td>
</tr>
<tr>
<td>ATM External Portfolio (years)</td>
<td>16.1</td>
<td>14.77</td>
<td>14.69</td>
<td>14.44</td>
<td>14.16</td>
</tr>
<tr>
<td>ATM Domestic Portfolio (years)</td>
<td>3.7</td>
<td>5.3364</td>
<td>5.28</td>
<td>5.25</td>
<td>5.3528</td>
</tr>
<tr>
<td>ATM Total Portfolio (years)</td>
<td>11.9</td>
<td>12.70</td>
<td>12.08</td>
<td>12.50</td>
<td>12.22</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATR (years)</td>
<td>11.7</td>
<td>12.2</td>
<td>11.7</td>
<td>12.1</td>
<td>11.8</td>
</tr>
<tr>
<td>Debt refixing in 1yr (% of total)</td>
<td>16.8</td>
<td>14.1</td>
<td>15.5</td>
<td>13.9</td>
<td>14.8</td>
</tr>
<tr>
<td>Fixed rate debt (% of total)</td>
<td>97.8</td>
<td>93.2</td>
<td>93.9</td>
<td>93.5</td>
<td>93.2</td>
</tr>
<tr>
<td>FX risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX debt as % of total</td>
<td>66.0</td>
<td>78.2</td>
<td>72.4</td>
<td>79.1</td>
<td>78.1</td>
</tr>
<tr>
<td>ST FX debt as % of reserves</td>
<td>4.1</td>
<td>5.7</td>
<td>5.6</td>
<td>5.6</td>
<td>8.7</td>
</tr>
</tbody>
</table>

*Source: MTDS 2018/19 Uganda, Debt Policy and Issuance Department*
4.5 Financing Strategy for FY 2018/19

In FY2018/19, Government will meet its financing needs by implementing Strategy 1 that consists of 57% external and 43% domestic financing. External financing will mainly be driven by multilateral concessional and bilateral non-concessional fixed and bilateral non-concessional variable rate debt, while net domestic financing will be dominated by issuance of longer dated instruments of 5, 10 and 15 year bonds.

Table 5: Operational objectives for the 2018/19 Medium Term Debt Management Strategy

<table>
<thead>
<tr>
<th>Cost and Risk Exposure</th>
<th>Cost and Risk Indicators</th>
<th>Jun-17</th>
<th>Objectives FY2017/18</th>
<th>Dec-17</th>
<th>Objective FY 2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refinancing Risk</td>
<td>External Debt maturing in one year (% of Total)</td>
<td>2.7</td>
<td>1</td>
<td>3.1</td>
<td>&lt;= 0.64</td>
</tr>
<tr>
<td></td>
<td>Domestic Debt maturing in one year (% of Total)</td>
<td>38.4</td>
<td>&lt;=38.1</td>
<td>32.5</td>
<td>&lt;=38.18</td>
</tr>
<tr>
<td></td>
<td>ATM External Portfolio (Years)</td>
<td>16.0</td>
<td>=&gt;16.8</td>
<td>15.6</td>
<td>=&gt;17.22</td>
</tr>
<tr>
<td></td>
<td>ATM Domestic Portfolio (Years)</td>
<td>3.7</td>
<td>=&gt;4.8</td>
<td>4.0</td>
<td>=&gt;5</td>
</tr>
<tr>
<td>Interest Rate Risk</td>
<td>External Debt Refixing in one year (% of Total)</td>
<td>6.0</td>
<td>16.1</td>
<td>7.1</td>
<td>9.43</td>
</tr>
<tr>
<td></td>
<td>Domestic Debt Refixing in one year (% of Total)</td>
<td>38.4</td>
<td>14.5</td>
<td>32.5</td>
<td>16.92</td>
</tr>
<tr>
<td></td>
<td>ATR External Portfolio (Years)</td>
<td>15.7</td>
<td>=&gt;15.5</td>
<td>15.2</td>
<td>16.35</td>
</tr>
<tr>
<td></td>
<td>ATR Domestic Portfolio (Years)</td>
<td>3.7</td>
<td>=&gt;4.8</td>
<td>4.0</td>
<td>5.00</td>
</tr>
<tr>
<td>Foreign Exchange Risk</td>
<td>Forex Debt as a % of Total</td>
<td>66.2</td>
<td>&lt;80</td>
<td>67.1</td>
<td>65.40</td>
</tr>
<tr>
<td></td>
<td>Short Term Forex Debt (% of Reserves)</td>
<td>5.2</td>
<td>6.3</td>
<td>4.63</td>
<td></td>
</tr>
</tbody>
</table>

Source: MTDS 2018/19 Uganda, Debt Policy and Issuance Department

4.6 Potential constraints to Implementation of the FY2018/19 Strategy

i. The domestic primary market for government securities is not well developed because of the narrow investor base which is mainly composed of the banking sector whose preference is investment in short-term instruments i.e. Treasury Bills.

ii. At the same time the secondary market is not very active as very few transactions take place.

iii. Slow external debt disbursement and the many conditionalities attached to external financing may be a hindrance to implementation to the FY 2018/19 strategy.

iv. Failure to stick to the FY2018/19 net domestic debt financing plan, may alter the set benchmarks for the 2018/19 strategy.

v. Revenue shortfalls during FY2018/19 could widen the fiscal deficit and result into increased borrowing. This would impact the cost and risk indicators during the period.
5.0 Conclusion

The Strategy 1 to be adopted for debt management in FY2018/19 has the following characteristics: external financing is dominated by concessional borrowing (30%), and semi/non-concessional (25%).

Domestic financing will be executed mainly through issuance of longer term securities with fixed interest rates, while external financing will continue to be sourced from concessional financing sources, making use of the currently large undisbursed balances from both multilateral and bilateral creditors in the external debt portfolio. New infrastructure projects will mainly be financed from non-concessional and commercial sources.

Given the size of infrastructure projects with a large external content, the gross financing need will largely be met through external borrowing. Domestic borrowing will only be used conservatively and as such, Government will scale back on domestic financing relative to external borrowing in the medium term for net debt financing. However, due to the large domestic debt redemptions each year, gross domestic financing remains high and is expected to remain so, in absolute terms.
Glossary

**Average Time to Maturity (ATM):** This provides an indicator for the average life of debt. It measures the average length of time it takes for debt instruments to mature and therefore the extent of the refinancing risk exposure. A long ATM implies lower refinancing risk exposure, and vice versa.

**Average Time to Refix (ATR):** ATR provides a measure for the average length of time it takes for interest rates to be reset. The longer the period, the lower the interest rate exposure.

**Bilateral Creditor:** A type of creditor in the context of external debt. Official Bilateral creditors include governments and their agencies, autonomous public bodies or official export credit agencies.

**Borrower (debtor):** The organization or the entity defined as such in the loan contract which usually is responsible for servicing the debt.

**Bullet Repayment:** The repayment of principal in a single payment at the maturity of the debt.

**Concessional Loans:** These are loans extended on terms substantially more generous than market loans. Concessionality is achieved either through interest rates below those available on the market or by longer grace periods, or a combination of these. Concessional loans typically have long grace period.

**Creditor:** The organization or entity that provides money or resources and to whom payment is owed under the terms of a loan agreement. It’s an entity with a financial claim on another entity.

**Debt Default:** Failure to meet a debt obligation payment, either principal or interest

**Debt Disbursed and outstanding:** The amount that has been disbursed from a loan commitment but has not yet been repaid or forgiven.

**Debt Refinancing:** Debt refinancing involves the replacement of an existing debt instrument or instruments including any arrears with a new debt instrument or instruments.

**Debt Service:** Refers to payments in respect of both principal and interest. Actual debt service is the set of payments actually made to satisfy a debt obligation, including principal, interest, and any late payment fees. Scheduled debt service is
the set of payments, including principal and interest, which is required be made through the life of the debt.

**Debt:** All Liabilities that are debt instruments

**Disbursed Loans:** The amount that has been disbursed from a loan but has not yet been repaid forgiven

**Domestic debt stock/GDP:** This is a commonly used measure of the level of domestic debt relative to the size of the economy.

**Domestic debt stock/Private Sector Credit (PSC):** This ratio helps monitor the extent to which government borrowing may be crowding out the provision of credit to the private sector.

**Domestic Debt:** Debt liabilities owed by residents to residents of the same economy

**Domestic Interest Cost/Domestic Revenue (excluding grants):** This ratio captures the budget sustainability of the domestic debt burden. The benchmark captures the relatively higher risk of accumulation of domestic debt in Uganda due to the relatively low level of Domestic revenue to GDP.

**Domestic Interest Cost/Total Government expenditure:** This ratio describes the share of total government expenditure that is directed to pay domestic interest costs. This therefore provides an indication of the extent to which available resources are used to meet finance costs at the expense of growth enhancing activities. The higher the ratio, the higher will be the risk of holding back economic growth.

**External Debt:** At any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of *interest* and/or *principal* by the *debtor* at some point(s) in the future and that are owed to non-residents by residents of an economy.

**Face Value:** Face value is the undiscounted amount of principal to be paid to the holder at maturity (e.g., the redemption amount of a bond).

**Gross Domestic Product (GDP):** Essentially, the sum of the gross value added of all resident producer units plus that part (possibly the total) of taxes on products, less subsidies products, that is not included in the valuation of output.

**Interest:** This is a form of investment income that is receivable by the owner of financial assets for putting such assets and other resources at the disposal of another institutional unit.
**International Monetary Fund (IMF):** Following the Bretton Woods Accords and established in 1945, the IMF is a cooperative intergovernmental monetary and financial institution with 187 member countries. Its main purpose is to promote international monetary cooperation so to facilitate the growth of international trade and economic activity more generally. The IMF provides financial resources to enable its members to correct payments imbalances without resorting to trade and payments restrictions.

**International Development Association (IDA):** IDA, established in 1960, is the concessional lending arm of the World Bank Group. IDA provides low-income developing countries (economies) with long-term loans on highly concessional terms: typically a ten-year grace period, a 40-year repayment period, and only a small servicing charge.

**Multilateral Creditors:** These creditors are multilateral financial institutions such as the IMF and the World Bank, as well as other multilateral development banks.

**Nominal Value:** The nominal value of a debt instrument is the amount that at any moment in time the debtor owes to the creditor at that moment; this value is typically established by reference to the terms of a contract the debtor and creditor. The nominal value of a debt instrument the value of the debt at creation, and any subsequent economic flows, such as transactions (e.g., repayment of principal), valuation changes.

**Percent maturing in any year after year one:** To avoid refinancing requirements being particularly concentrated in any single year, it is recommended to spread maturities evenly over the maturity curve. This risk control measure helps prevent rollover risk from being simply shifted to a later period, for example from year one to year two.

**Percent Maturing in One Year:** This is the share of debt maturing in the next twelve months. High proportions are indicative of high levels of interest rate or rollover risk. The risk is more pronounced in less liquid markets.

**Present Value (PV):** The present value (PV) is the discounted sum of all future debt service at a given rate of interest. If the rate of interest is the contractual rate of the debt, by construction, the present value equals the nominal value, whereas if the rate of interest is the market interest rate, then the present value equals the market value of the debt.

**Principal Outstanding:** The amount of principal disbursed and not repaid.
**Principal Repayment:** The payments which are made against the *drawn* and outstanding amount of the loan

**Share of Bonds/Bills:** A target for the share of Treasury bonds to bills outstanding within the domestic debt stock acts as a useful rule of thumb to help in achieving the benchmarks for managing refinancing risk.

Short-Term Debt: Debt that has maturity of one year or less. Maturity can be defined either on an original or remaining basis.

**Spread (Margin):** A percentage to be added to some defined base interest rate, such as LIBOR, to determine the rate of interest to be used for a loan.

**Stock of Debt:** The amount outstanding as of a moment of time.

**Treasury Bills:** Negotiable securities issued by the government. In general these are short term obligations issued with maturity of one year or less. They are traded on a discount basis.

**Treasury Bonds** : Longer Term Securities compared to Treasury Bills. Usually more than a year