

# Pension funds overtake banks as largest source of govt debt

The increase in pension fund holdings signals a maturing market, rising institutional savings, and expanded domestic debt sources.

## Debt.

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Pension and provident funds have overtaken commercial banks as the largest source of public domestic debt.

This marks a significant shift, reversing years of heavy reliance on commercial banks as government's primary source of financing.

The Ministry of Finance Debt Sustainability Analysis 2024/25 shows that pension and provident funds accounted for 31.5 percent of total domestic debt in the year to June 2025, an increase from 30.5 percent in the same period in 2024.

Commercial banks, which held 28.6 percent, followed, which marks a shift to long-term institutional investors in the government securities market.

It also reflects the natural growth of retirement savings, which has expanded the pool of funds available for investment in Treasury bills and bonds.

Pension funds, with their long-term liabilities, are well-suited to holding longer-dated government paper.

Commercial banks, historically the dominant financiers of government, have seen their share gradually decline in relative terms, while other investors, particularly pension funds and Bank of Uganda, have increased their participation.

Data also shows a sharp rise in holdings by Bank of Uganda to 15.4 percent, up from 3.5 percent in the 2023/24 financial year, largely due to the securitisation of Shs7.8 trillion in central bank advances.

Offshore investors held 10 percent, up from 7.5 percent the previous year, underscoring continued foreign interest in Uganda's debt market.

The shift signals a maturing domestic debt market, increasingly anchored by stable, long-term institutional capital rather than short-term bank funding.

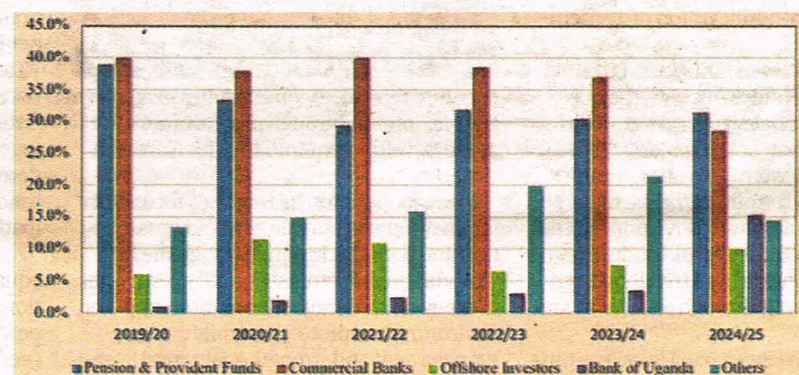
This works in government's favour, particularly at a time when it has become increasingly reliant on domestic borrowing over the past three years to finance widening fiscal deficits.

Data from the Ministry of Finance shows that domestic lenders now account for a larger share of Uganda's public debt.

In the year to June 2025, the proportion



Composition of public domestic debt by holders in the last seven years



Source: Bank of Uganda

cent in the 2019/20 financial year.

Between 2020/21 and 2023/24 financial years, banks consistently held between 37 and 40 percent, while pension funds remained second, typically holding between 29 and 33 percent.

### Gradual rise of pension funds

Although banks led for most of the period, pension funds maintained a strong and steady presence. Their share remained consistently high, rarely falling below 29 percent, and had by June 2025 increased to 31.5 percent, overtaking banks.

This trend indicates growing institutional savings, increased confidence in government securities, and a structural deepening of the domestic capital market. Over the six years, pension funds have been the most consistent and steadily expanding source of financing, even if not always the largest.

### Other key lenders

Bank of Uganda generally held a small share, typically between 1 and 4 percent, until June 2025, when its holdings rose sharply to 15.4 percent following the securitisation of central bank advances, a move driven more by policy than by market forces.

Offshore investors fluctuated between roughly 6 and 11 percent, but their share rose to 10 percent in June 2025, signalling renewed foreign appetite for Ugandan government securities.

Other domestic investors also gradually increased their participation over time, reflecting broader diversification of the investor base.

Over the years, experts have expressed concern about government's growing reliance on domestic borrowing, warning that it poses challenges for the private sector.

They argue that as government competes for funds in the local market, particularly from commercial banks, it crowds out businesses that depend on the same institutions for private sector credit.

The shift, therefore, creates a window that could ease pressure on the banking sector and improve private sector access to credit, which over the past five years has become increasingly scarce and costly.

As pension funds rise and banks retreat, the debt story is no longer just about borrowing, but about who holds Uganda's financial future. PHOTO / FILE

of debt held domestically rose to 52.1 percent, up from 42.8 percent previously. In contrast, the share of external debt declined to 47.9 percent from 57.2 percent, reflecting a clear pivot toward local sources of financing.

### Commercial banks dominance

For most of the last seven years, to June 2024, commercial banks were the largest lenders to government, holding as much as 40 percent of domestic debt, slightly ahead of pension funds at about 39 per-