



CSBAG BUDGET NEWS BRIEF



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Advocating for a People Centered Budget that Dignifies Humanity



Mutebile decries **low private sector credit uptake**

The Bank of Uganda Governor Prof. Tumusiime Mutebile has said Uganda's private sector credit remains low at 12% of country's Gross Domestic Product, an issue that has led to slow business growth.

The Governor said this during a High-Level Stakeholders' Engagement on Building a 21st Century Ugandan Economy, an event that took place Kampala Serena Hotel, in Kampala recently.

Private sector credit challenges

According to Mutebile, in most cases it's only large corporate firms that have enough access to credit on more favorable terms, leaving smaller firms with limited financing options. He said small firms are often unable to get a long-term capital from financial institutions.

"Despite strong economic performance since the early 1990s, Uganda's financial sector remains shallow. Private sector credit could play a bigger role in supporting growth that is the case at this moment," he said,

He said although a law to allow movable assets as collateral was passed to boost small firms' access to credit, the legal uncertainty over property rights and lengthy proceedings to recover collateral continue to weigh down on banks' credit risks.

What's being done?

Mutebile said BoU together with other stakeholders are implementing a five-year financial inclusion strategy so as to improve financial literacy, develop the credit infrastructure and promote formal savings among other developments.

"In 2018, access to financial services benefited from the introduction of agency banking. Uganda has recently issued regulations for Islamic banking and preparations are underway for the introduction of the first Islamic financial products," he stated.

Augustus Nuwagaba, a senior economist said banks in Uganda have one of the highest interest rates in the world which makes a number of individuals and enterprises use other financing avenues such as savings groups, to get credit.



Governor Bank of Uganda, Prof Tusiime Mutebile (L) speaking during a High Level Stakeholders' Engagement on Building a 21st Century Ugandan Economy on 4th September 2019.

"At 26%, our interest rates are among the highest in the world. It discourages private sector to borrow; if you look at China, interest rates are at less than 1%, United Kingdom (1.2%), Botswana (8%), Kenya (14.5%). Even if you compare here in East Africa, Uganda has the highest interest rates," said Nuwagaba.

Another factor, according to him is the fact that Uganda's savings to GDP ratio is still low at 12, yet 90% of this savings are done via National Social Security Fund (NSSF). This, he said implies low financial depth.

"There are not very many areas where you can get money; you can get money from banks which are already lending at high rates," said Nuwagaba.

Why high interest rates?

Nuwagaba said the exorbitant domestic borrowing by Government crowds out private sector because banks feel more secure with lending to government which pays in terms of bonds and treasury bills. Richard Sempa, a banker said banks are risk adverse hence will need collaterals before money is given out.

"The interest rates are quite high for a number of private sector players but the fundamental issue is about risks involved," he stated.

What should be done to boost private sector credit growth?

Nuwagaba said a number of interventions must be put in place to boost private sector credit growth. He said the government should reduce on excessive borrowing so that there's money for private sector uptake in banks.

"First of all, government should reduce borrowing in areas which are not critical. If it borrows to buy malaria or Ebola fight, that's understandable. Why would Government borrow to increase salaries for lecturers or doctors?" He said.

Private sector player's view

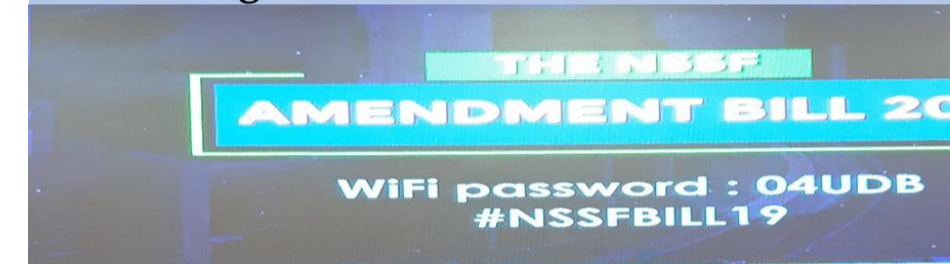
Juvenal Kule Rwantangale, renowned coffee farmer and businessman in Kasese noted that banks should instead come up with products that suit farmers.

UPCOMING EVENTS

What: LOCAL GOVERNMENT BUDGET CONSULTATION MEETINGS

When: 15th September to 4th October 2019

Where: Eastern, Central, Northern, and Western Uganda



(L-R) Patrick Katabazi, CSBAG's Budget Policy Specialist, Wilson Usher Owere, NOTU Chairman and Richard Byarugaba, NSSF Managing Director during the National Dialogue on the Proposed NSSF Amendment Bill on 4th September 2019. © CSBAG 2019



CSBAG staff meeting Seku Samuel Kimuli, the Deputy Chief Administrative Officer of Kasese District to discuss service delivery on 5th September 2019. © CSBAG 2019