THE DETERMINANTS OF PRIVATE SECTOR DEMAND FOR LOANS IN UGANDA FOR THE PERIOD 1980-2015

BY

KAGWISAGYE DAMIAN

B.A (MUK)

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ABSTRACT

This study aimed at examining the determinants of loan demand by the private sector in the Uganda using annual time series data for the period 1980-2015 Employing a time series analysis using the Johansen methodology, the study identified one cointegrating relationship linking private sector demand for credit to GDP, lending rate, Broad money, Bank credit to government and risk premium of lending to the private sector hence the existence of a long run relationship between them. The long run model indicated private sector demand for credit is positively related to real GDP and Broad money. However, it is negatively related to the lending rate, and the risk premium of lending to the private sector. The short-run dynamics of the demand for loans is subsequently modeled by means of an Error correction model. A number of diagnostic tests performed on the ECM yield reasonable results. All of this points to the fact that private sector demand for loans in Uganda can be rationally explained by the model adopted. The main policy implication of these results is that the government should consider adopting policies that will bring down the lending rate for example by way of reducing the bank rate among others. Money supply should be stable and economic performance supported through building the necessary infrastructure across all sectors. These will directly boost the amount of credit channelled to the private sector.