

**THE DETERMINANTS OF PRIVATE SECTOR CREDIT: CASE STUDY OF
UGANDA**

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ABSTRACT

The main objective of the study was to investigate the determinants of Private Sector Credit in Uganda. The study used Cointegration analysis applying the Johansen Procedure and Vector Error Correction Model (VECM) approach for empirical analysis. The model involved private sector credit (LnPSC) as the dependent variable and the explanatory variables as Gross Domestic Product (LnGDP), Lending Rate (LnLR), Bank Credit to Government (LnBCG), Broad Money (LnBM), and Official Exchange Rate (OER). The period considered was 1980 to 2015.

From the Cointegration analysis; Gross Domestic Product and lending Rate have a long run negative relationship with Private Sector Credit in Uganda. However, bank credits to government, broad money, and official exchange rate have apposite relationship with Private sector credit although OER is not significant. The short run results indicate that broad money has a positive and significant effect on private sector credit while GDP, LR, BCG and OER are not significant in the short run.

Granger Causality Test shows the evidence of unidirectional causal relationship from GDP to private sector credit , same from PSC to broad money and bidirectional casuals relationship between lending rate and private sector credit which implies that GDP ,lending rate and broad money are key determinants of private sector . Therefore commercial banks should pay attention to the overall macro-economic situation of the country, factors that influence lending rate and their liquidity ratio while taking lending decision. Government should put in place policies that encourage and support access to credit. Also the issues of lending rate should not be left to be determined by the forces of demand and supply.