Banks urged to lend more

By Samuel Sanya

Although there is overwhelming demand for loans, commercial banks are reluctant to lend to businesses and this has constrained the growth of the economy, Bank of Uganda Governor, Prof. Emmanuel Tumusiime Mutebile has said.

Speaking at the inaugural annual Bankers' Conference at the Serena Hotel in Kampala, yesterday Mutebile noted that credit to businesses has slowed down since 2011 and that there was virtually no growth in the last two years when inflation is considered.

"It is clear that after the build up in non-performing loans and decline in value of collateral, banks have become wary of extending loans. The challenge is for banks to reduce lending rates without compromising customers' access to services," Mutebile said.

"Bringing down lending rates will involve a major shift toward electronic banking technologies. Unfortunately, that will mean less employment opportunities. Banks must also ensure that both their systems and customers are protected from cyber-attacks," Mutebile explained, warning the Government against enacting a Kenyan style interest rate cap, which could limit banking services to a few elite and plunge banks into losses.

Latest Bank of Uganda reports indicate that lending rates on shilling-denominated loans declined to 20.5% in April, down from 25.2%. Despite this reduction in lending rates, growth in loans to the businesses declined to 3.4% in April, which was lower than 4.0% in January.

Banks lent more to agriculture, trade and personal loans, but reduced the amount of money lent for manufacturing; building and services in the three months leading up to April 2017.

Tumusiime-Mutebile (left) chatting with Njuguna Ndung'u during the inaugural Bankers' Conference at Kampala Serena Hotel yesterday. Photo by Tony Rujuta.

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Vice-President Edward Ssekandi urged banks to align their strategies with Government's Vision 2040 master plan and the second National Development Plan (NDP), which aim at ushering Ugandans into middle-income status by 2020.

"Banks should increase lending to the agricultural sector, which employs the majority of Ugandans. There is also need to ensure that more Ugandans are reached by banking services," Ssekandi said.

Prof. Njuguna Ndung'u, the immediate former Governor of the Central Bank of Kenya, who was the keynote speaker, urged governments to protect citizens from inflation and high interest rates by paying suppliers on time and storing sufficient food for the dry the seasons.

"Nearly every year there is a drought, which pushes up food and energy prices and this feeds into inflation. The ministries of energy and agriculture should create buffers against this annual occurrence to support the banking system. Also, Government should pay suppliers on time," the former Governor said to applause.

During a panel discussion, Yaron Farachi, the country manager for GILAT telecom, noted that the price of the Internet has declined by over 96% over the last eight years. He noted that these savings will be transmitted into lower charges if banks adopt branchless electronic-based banking strategies.

Maria Kiwanuka, the former finance minister, urged banks to list on the Uganda Securities exchange to get low-cost funds, which they can then lend at lower interest rates.

Mark Malan, a director at Compuscan Uganda, hailed the Government for integrating the information technology systems of ministries, departments and agencies. He urged the Government to create a registry for collateral.