Commercial Banks looking to revise lending rates downwards

Commercial Banks under the umbrella of Uganda Bankers Association have committed to revise lending rates downwards.

In a statement issued by the Chairman UBA, Mr. Fabian Kasi said the Banking sector was taking stock of the key drivers of the cost of credit to work towards both an immediate as well as gradual downward revision of lending rates.

As you may have already noticed in the print media, our membership has begun to effect reduction in lending rates of between 50 to 200 basis points. Over the next couple of weeks and subsequently thereafter, our membership will continue gradually revising their prime lending rates downwards in correspondence with the policy signal from the Central Bank.

It is also important that we draw attention of the market to the fact that although the general prime lending interest rates quoted on bank trading boards have been in the average of 23%-24% and are now coming down, the actual effective weighted aggregate rates have been much lower in the average of 17.4%, since the pricing of loans differs for different customers in line with our individual risk pricing matrices.

This deliberate down revision is therefore our commitment to stimulate aggregate demand across the economy, in spite of the huge challenge paused by the current high industry average of non-performing loans which impact on capital adequacy and constrain lending appetite and liquidity.

We therefore urge all of our customers & the wider economy as a whole to remain confident and optimistic about the banking sector which is well regulated and remains resilient even in the face of the said challenges.

We also wish to assure the wider public, that we will continue to provide all the necessary support to our member, Crane Bank Limited & its various stakeholders, in their time of challenge and will work and cooperate with all parties concerned to ensure amicable and long lasting solutions are found to the challenges therein.

UBA remains committed to contributing solutions not only towards the challenges around the cost of credit, but also to access to a variety of financial services in the immediate, mid & long term and will continue to engage & work with its key stakeholders to have this objective realized in a sustainable manner.

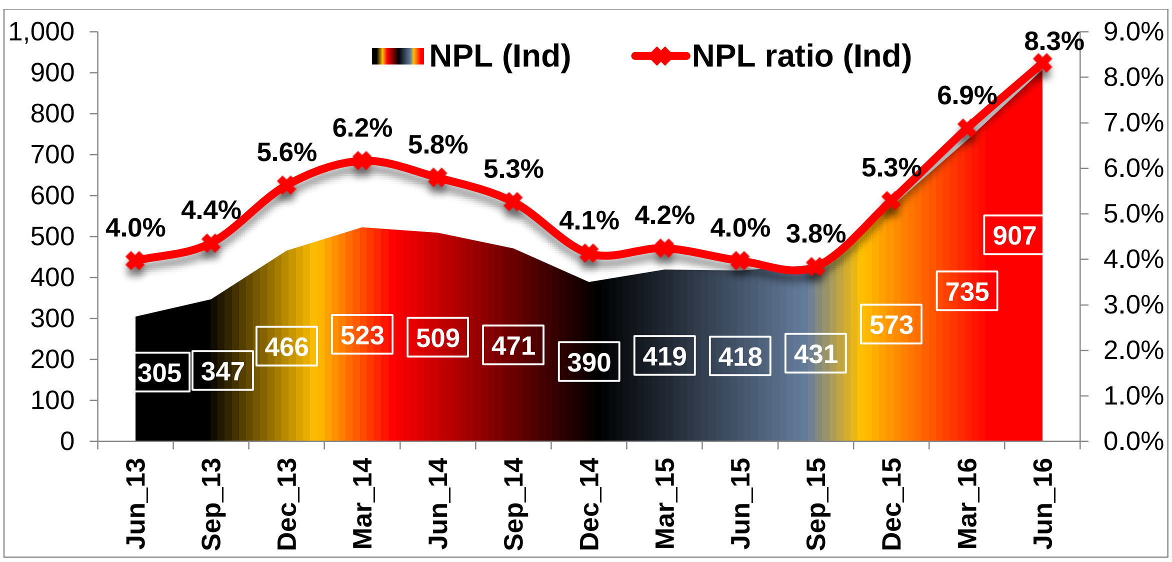
Fabian Kasi

Chairman, Uganda Bankers Association

Background Information:

N.B: Private sector credit growth has dropped to 4.9% compared to 9.6% same time last year. This subdued credit growth is partly explained by provisioning for bad debt due to increases in non-performing loans and heightened risk aversion by banks. (Source BOU MPR October 2016).

NPL trends – 2013 to Jun 2016



Reasons for non-performance of credit facilities (UBA/BOU Survey)

Reason	% share	No. of banks
Delayed payment	23.96%	5
Cost overruns / Insufficient cash flows	22.74%	4
Diversion of funds	14.94%	16
Price Volatility	6.96%	1
Debtors failed to pay	4.49%	3
Political Instability in South Sudan	4.05%	5
Poor Management by borrowers	3.03%	3
Low sales	2.34%	8
Increased competition	1.33%	3
Fraud	0.76%	2
Forex Exchange Volatility	0.62%	2
Delayed receipt of goods	0.48%	1
High interest rates	0.26%	2
Others	14.04%	12
Total	**100%**	

Private Sector Bank Lending by Sector	Amt in Billions
Sector	**Jul-16**
Building & Real Estate	2,553
Trade & Commerce	1,960
Personal Loans	1,764
Manufacturing	1,567
Agric	1,075
Transport & Comms	808
Business Services	415
Social & Community Svcs	374
Electricity & Water	253
Other Activity	117
Mining & Quarry	71
Total	**10,957**

Top three sectors with highest NPLs	
Agriculture	15.3%
Building & Contruction	10.2%
Trade & Commerce	9.2%