

CSOs urge Gov't to cap exorbitant bank interest rates



Julius Mukunda Coordinator CSBAG, Carol Namagembe and David Walakira of CSBAG addressing journalist at a press conference on capping interest rates held 3rd September 2016 at CSBAG offices in Kampala.

The Civil Society Organizations (CSOs) have called on Government to curb the high interest rates that are becoming a hindrance in doing business in Uganda.

Under their umbrella Civil Society Budget Advocacy Group (CSBAG) they argued that if the interest rates are not curbed the small medium enterprises (SMEs) will not have the capacity to grow and Ugandans will be deprived of a decent living.

"We are concerned that if there is no action taken to cap interest rates, the cost of doing business in Uganda will remain high and uncompetitive in the region," Julius Mukunda the coordinator of CSBAG said.

The CSOs underscored the importance of capping interest rates to protect Ugandan borrowers as this will among others make the cost of borrowing cheaper and will encourage SMEs to take out loans to finance greater spending and investment which is an ingredient of inclusive growth and will increase disposable as well as increased discretionary income. "This will leave households with more disposable income and should cause a rise in consumer spending on other goods which have a multiplier effect in the real economy," Mukunda stated.

The CSOs argued that the mandate of government is to protect its citizens and consumers from circumstances which are beyond their control like market failures. "In principle, government intervention to regulate the market should be in response to political, economic, social and cultural pressures that are likely to negatively affect the ability of its citizens to live a decent life and for Government to achieve its development goals," Walakira the CSBAG Budget Policy Specialist stated.

To drive their point home the CSOs cited Kenya where President Uhuru Kenyatta defied the position of the Central Bank of Kenya and the industry to sign into law the legislation that imposes limits on bank lending and deposit rates. Mukunda explained that under the new Kenyan law lending rates will be capped at 4% points above the CBR rate while deposit rates must be at least 70% of the benchmark rates.

The CSOs pointed out that in Uganda the conduct of Monetary Policy today dubbed inflation target rate uses a policy indicator called the Central Bank Rate (CBR) to direct Monetary Policy. This rate is supposed to guide the direction of lending rates that commercial banks use in the financial market. However, we have witnessed that the rate is only effective when it indicates for banks to increase lending rates. In instances where the CBR indicates to commercial banks to reduce lending rates to borrowers, serious reasons for non-response of commercial banks come out to include high cost of money and high risk profile of borrowers despite the existence of Credit Reference Bureau and the national identity card. Whenever the CBR rate lowers banks are reluctant to reduce their rates, if they do lower the rates it's rarely above 2% which is a disfavor to the Ugandan.

CSBAG also observed that the affordable rates from regulated institutions reduces the risks associated with loan sharks and also encourages financial inclusion. On why commercial banks should support the capping of interest rates the CSOs said it will increase the number of borrowers as they will make a good return on investment.

"We appeal to especially Bank of Uganda to be open to these views which are divergent to the Bank position on this matter. If other 17 countries have done it in Africa, then it's important that even in Uganda we start examining these conventional banking principles which seem to exploit rather than protect the citizens who save and access loans from these banks" mentioned Carol Namagembe the CSBAG Programme Associate.

The CSOs vowed to work with the 10th Parliament to sponsor a Private Members Bill seeking to amend the Financial Institutions Act specifically to have interest rates capped at 5% (+/-). A quick survey by CSBAG for at least 7 banks in Uganda revealed that most Banks set their interest rates at an average of 10% above the Central Bank Rate which does not save the Uganda consumer. So CSBAG proposes that at least bank should be regulated to set their bank rates 5% high or lower than the central Bank rate.

CSOs want the amended Act to make it mandatory for commercial banks to contribute 0.5% of annual profit to a rural financial inclusion fund that will finance promotion of financial literacy and ensure that similar product are handled in a standardized way across all providers as well as establishing the National Consumer Tribunal (CT) to adjudicate on consumer complaints and disputes with loan and credit providers.

The CSOs appealed to Bank of Uganda to spearhead this regulation for cohesive support towards inclusive growth of Uganda as the country aspires to achieve a middle income status by 2020.

QUICK FACTS ON CAPPING INTEREST RATES AFRICAN AND BEYOND

USA, UK, EU –interest rates charged revolve around a base rate set by very rarely above 2%

More than 17 countries in sub-Saharan African have introduced interest rate caps to protect consumers from high interest rates

Kenya Capped its interest at 4% above the CBR while deposit rates must be at least 70% of the benchmark rates