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Financing the Tenfold: Counting the Cost of Uganda's Interest Rate Spread Premium on the ATMS Credit Mobilisation Agenda.

Thomas Kisaalita, Musiita Benjamin (PhD)

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Uganda Bankers Association

Plot 2702, Block 244 Nyangweso Road
Off Kironde Road, Tankhill Muyenga, Uganda
P.O. Box. 8002, Kampala
secretariate@ugandabakers.org
www.ugandabakers.org

KEY MESSAGE

- Uganda's interest rate spread averaged 10.2% over 2010–2024, consistently above the East African Community peer average of approximately 7.6% in the study period.
- The resulting premium of approximately 2.6 percentage points above EAC peers imposed an estimated cumulative excess financing cost of approximately UGX 5.4 trillion on Uganda's private sector between 2010 and 2024. This figure represents the upper bound of the rent-extraction component; a portion of the premium could be reflective of genuine country risk and operational cost differentials, as discussed in Section 4.2.
- At the scale of the UGX 490 trillion ATMS credit mobilisation target, maintaining this premium through 2040 could impose an additional excess burden ranging from approximately UGX 6.5 trillion (narrowing premium scenario) to UGX 35.7 trillion (stress scenario), with the baseline estimate at approximately UGX 20.2 trillion — equivalent to 4.1% of the mobilisation target.
- Addressing the spread premium is not a marginal financial sector concern; it is a direct precondition for the effective delivery of the ATMS growth agenda.
- Three policy options are available and are not mutually exclusive: a sector-specific spread ceiling, a mission-oriented public development finance facility, and structural banking sector competition reform.

ABSTRACT

Uganda's banking sector has committed to mobilise UGX 490 trillion in private sector credit by 2040 to support the Government of Uganda's tenfold GDP growth strategy centred on Agro-industrialisation, Tourism, Mineral development, and Science, Technology and Innovation (ATMS). A fundamental structural constraint on this ambition is Uganda's persistently high interest rate spread. This paper uses confirmed data from the IMF International Financial Statistics, World Bank World Development Indicators, and national central bank publications for Uganda, Kenya, Tanzania, and Rwanda to quantify the spread premium Uganda pays relative to its East African Community peers and to simulate its cumulative cost on private sector credit. Uganda's average spread of 10.2% over 2010–2024 exceeded the EAC peer average by approximately 2.6 percentage points, imposing an estimated cumulative excess financing burden of approximately UGX 5.4 trillion over the period, an upper-bound estimate that acknowledges that some portion of the premium may reflect country-specific risk and cost differentials rather than pure intermediation rent. Extrapolated to the ATMS investment horizon under a baseline scenario, this premium constitutes a structural constraint on the growth agenda equivalent to approximately 4.1% of the mobilisation target, with sensitivity analysis showing a range of outcomes depending on the path of the premium. Three policy options are presented and assessed.

Keywords: Interest rate spread; financial intermediation; ATMS strategy; Uganda; East African Community; credit mobilisation

1.0 INTRODUCTION

Uganda stands at a pivotal juncture in its development trajectory. The Government of Uganda's ATMS strategy, anchored in the Fourth National Development Plan (NDP IV), sets out a roadmap to expand gross domestic product from approximately USD 50 billion to USD 500 billion by 2040 (National Planning Authority, 2025). The strategy concentrates investment in four high-impact sectors: Agro-industrialisation, Tourism Development, Mineral-based Industrial Development, and Advancements in Science, Technology and Innovation. In direct response, the Uganda Bankers Association (UBA) has committed the banking sector to mobilise UGX 490 trillion in private sector credit over the period to 2040, representing the most ambitious credit expansion in Uganda's history (UBA, 2025).

The analytical question this paper addresses is not whether banks should lend more. It is whether the structural pricing of credit in Uganda's banking system is compatible with the scale of ATMS ambition. The answer, as this paper demonstrates, is that it is not compatible without fundamental reform of the interest rate spread.

Interest rate spreads, defined as the difference between weighted average lending rates and weighted average deposit rates, measure the efficiency with which financial institutions perform their core intermediation function (Brock

& Suarez, 2000). A persistently wide spread reflects, depending on its drivers, operational inefficiency, concentrated market power, elevated credit risk, and high non-performing loan ratios (Were & Wambua, 2014; Jefferis et al., 2020). For borrowers, the spread is not an abstract financial ratio; it is the direct cost of capital that determines whether a given investment is viable. For governments targeting a structural transformation of the economy, it determines the effective investment multiplier of every shilling mobilised.

When Mazzucato (2013) distinguished between value-creating and value-extracting activities in an economy, she identified precisely the dynamic this paper analyses. A banking sector whose intermediation function generates rents substantially above those of regional peers is extracting value from the productive economy rather than enabling it. That extraction, compounded over time and scaled to the ambition of the ATMS agenda, represents a quantifiable and addressable structural constraint.

This paper proceeds as follows. Section 2 establishes the background context. Section 3 presents the analytical framework and data. Section 4 reports the findings of the spread premium analysis and simulation. Section 5 presents three policy options. Section 6 concludes with recommendations.

2.0 BACKGROUND

2.1 Uganda's Banking Sector and the ATMS Agenda

Uganda's financial sector has grown substantially over the past two decades. Total banking sector assets grew from approximately UGX 7 trillion in 2011 to over UGX 45 trillion by 2023, and private sector credit expanded from approximately UGX 6.9 trillion in 2011 to UGX 22.8 trillion by December 2024 (Bank of Uganda, 2024; UBA, 2023). Financial inclusion has improved markedly, with formal financial access rising from 28% of adults in 2009 to 67% by 2023 (Financial Sector Deepening Uganda, 2024). These are genuine achievements.

Yet Uganda's ratio of private sector credit to GDP remains at approximately 12.4%, among the lowest in sub-Saharan Africa, well below the regional average of approximately 35% and the UBA's own target of 49.6% by 2040 (International Monetary Fund, 2024; UBA, 2025). The distance between current credit depth and ATMS ambition is not merely a volume problem; it is also a pricing problem. If credit is structurally expensive, mobilising larger volumes does not translate into investable capital at the rate the ATMS agenda requires.

The four ATMS pillars have sharply different credit intensity profiles, and each is disproportionately affected by a wide interest rate spread. Agro-industrialisation requires medium-to-long-term financing for processing infrastructure with thin margins highly sensitive to the cost of capital. Tourism development requires investment in hospitality infrastructure where payback periods regularly exceed standard commercial loan

tenors. Mineral-based industrial development demands patient capital over 15- to 25-year horizons that is fundamentally incompatible with credit priced at 18–20%. Science, Technology and Innovation financing is high-risk and long-horizon by design, depending on concessional pricing to remain viable. Every percentage point of excess spread reduces the effective investable value of credit mobilised across all four pillars.

2.2 The Persistent Spread Problem

Uganda's interest rate spread problem has a documented and sustained history. Following financial sector liberalisation in the early 1990s, the banking system was characterised by high rates, wide intermediation spreads, and substantial bank profitability (Jefferis et al., 2020). Over the following three decades, despite monetary policy reform, the introduction of the Central Bank Rate framework in 2011, and successive rounds of competition policy attention, the spread remained persistently elevated.

The International Growth Centre's detailed study of Uganda's banking sector confirmed that over the period 2008–2018, lending rates consistently exceeded 20% while deposit rates averaged approximately 10%, producing a structural spread that distinguished Uganda unfavourably from its regional peers (Jefferis et al., 2020). The World Bank's Global Financial Development Database documents that over the past two decades, Uganda's bank interest rate spreads averaged approximately 11%, driven by liquidity risk, bank rate policy, concentrated market power, and high operational costs (World Bank, 2022).

The IMF's 2024 analysis of Uganda's monetary policy transmission further confirmed that lending rates have remained around 20% since 2011, maintaining a notable gap from deposit rates that raises concerns about the efficiency of bank lending as a monetary policy transmission channel (IMF, 2024).

A consistent finding across multiple studies is that the spread is not merely a short-run phenomenon tied to specific monetary policy stances. It reflects deeper structural features of Uganda's banking sector that have persisted across multiple interest rate cycles and multiple reform efforts (Nampewo, 2012; Jefferis et al., 2020). This structural persistence is the analytical starting point for this paper's simulation.

Understanding why Uganda's EAC peers sustain lower spreads is as important as documenting the gap itself. Kenya's declining spread trajectory from 2016 onwards, which narrowed sharply from approximately 7.9% to below 5% by 2018, reflects the combined effects of the country's deep mobile money infrastructure reducing transaction and operational costs for banks, a more competitive banking market following the entry of tier-two digital lenders, and the temporary disciplining effect of the Banking (Amendment) Act of 2016 on pricing behaviour (Jefferis et al., 2020). Rwanda's spread, which has remained broadly in the 6–9% range across the study period, reflects a different structural logic: a state-coordinated development finance architecture in which the Development Bank of Rwanda and the Rwanda Social Security Board actively supply long-term credit at below-commercial rates, compressing the ceiling against which commercial banks can price (Rusuhuzwa et al., 2016). Tanzania's spread, while it trended upward between 2019 and 2021 before narrowing

again from 2022, historically benefited from a larger state banking presence that moderated competitive pricing. In each case, lower spreads reflect specific institutional arrangements, either through greater competition, public finance institutions acting as price anchors, or both. Uganda's banking sector does not yet have comparable structural moderators in place.

2.3 Why Spread Reform Is Central to ATMS

The connection between Uganda's spread premium and the ATMS agenda is arithmetical before it is analytical. If the banking sector commits to mobilising UGX 490 trillion in credit and a structurally inflated spread means that borrowers in ATMS sectors pay substantially more for capital than their counterparts in peer economies, then a meaningful portion of the mobilisation target circulates as excess financial sector income rather than as productive investment.

This framing draws on the tradition of development finance thinking that distinguishes between the market-enabling and the rent-extracting functions of financial intermediaries (Mazzucato, 2013; Mazzucato & Penna, 2016). When intermediation spreads are structurally above those of comparable economies, the resulting excess return constitutes a form of value extraction that reduces the effective investment multiplier of every shilling mobilised. This paper quantifies that extraction in the context of Uganda's ATMS agenda.

3.0 Analytical Framework and Data

3.1 Analytical Framework

This paper employs a descriptive comparative analysis and a simulation exercise. The analytical framework follows directly from the interest rate spread literature and from the use of sectoral simulation approaches to link financial pricing to

real economy outcomes (Brock & Suarez, 2000; Were & Wambua, 2014). The spread premium is defined as the gap between Uganda's annual average interest rate spread and the average spread of three EAC peer economies: Kenya, Tanzania, and Rwanda. The excess annual financing cost is computed as:

$$\text{Excess Annual Cost (UGX bn)} = \text{PSC Stock} \times (\text{Uganda Spread} - \text{EAC-3 Average Spread}) \div 100 \dots\dots(1)$$

where PSC Stock is the outstanding stock of private sector credit at end of year, expressed in UGX billions. The cumulative excess burden is the sum of annual excess costs over the study period. The forward simulation applies the premium to projected PSC growth to estimate the ATMS-period burden under multiple scenarios.

3.2 Data Sources and Coverage

Interest rate spread data for all four countries are drawn from a tiered sourcing structure. For the period 2010 to 2021, spread data for Uganda, Kenya, Tanzania, and Rwanda are sourced from the IMF International Financial Statistics, accessed via the World Bank World Development Indicators database (indicator FR.INR.LNDP). This series provides a consistent and comparable measure of the lending-deposit rate differential across all four countries for that period. For Tanzania 2021, the WDI series was not yet populated at the time of compilation; the figure of 7.37 percentage points is drawn directly from the Bank of Tanzania Annual Report 2020/21, which reports the spread between the one-year lending rate and the deposit rate for the year ending June 2021.

For the period 2022 to 2024, the World Bank WDI series had not yet been updated for the peer countries at the time of writing, reflecting the publication lag inherent in that database. Spread data for this period are therefore drawn directly from national central bank publications:

the Central Bank of Kenya's Commercial Banks Weighted Average Rates statistical releases; the Bank of Tanzania's Monthly Economic Review series; and the National Bank of Rwanda's Annual Reports, supplemented by the World Bank's confirmed figure for Rwanda's 2023 spread of 6.41 percentage points. These national sources apply the same conceptual definition and are the primary data series from which the WDI indicator is itself constructed.

For Uganda, spread data for 2019 to 2024 are derived from Bank of Uganda weighted average lending and deposit rates published in the Bank of Uganda Monetary Policy Reports and the UBA Banking Sector Report 2023. These figures carry wider uncertainty bands relative to the IMF-confirmed series for earlier years. Private sector credit stock data are drawn from the Bank of Uganda's Depository Corporations Survey. The companion dataset is available from the Policy and Economic Data Centre (PEDC), Mbarara University of Science and Technology.

4.0 Findings

4.1 Uganda's Spread in East African Context

Table 1 presents Uganda's interest rate spread alongside those of Kenya, Tanzania, and Rwanda over the full study period 2010 to 2024, drawing on the tiered sourcing structure described in Section 3.2.

Table 1: EAC Interest Rate Spreads, 2010–2024 (% per annum, annual average)

Year	Uganda	Kenya	Tanzania	Rwanda	EAC-3 Avg	Uganda Premium (pp)
2010	12.49	9.81	7.92	10.24	9.32	3.17
2011	8.49	9.42	8.19	8.92	8.84	-0.35
2012	9.35	8.15	6.01	7.86	7.34	2.01
2013	11.17	8.67	5.89	7.39	7.32	3.85
2014	10.77	8.14	6.44	9.02	7.87	2.90
2015	9.83	6.90	6.21	9.09	7.40	2.43
2016	10.65	7.87	5.46	9.38	7.57	3.08
2017	11.58	5.99	6.59	9.46	7.35	4.23
2018	10.46	4.77	9.21	9.44	7.81	2.65
2019	10.00	4.94	9.87	8.88	7.90	2.10
2020	9.50	5.03	10.00	8.70	7.91	1.59
2021	11.00	5.39	7.37	8.13	6.96	4.04
2022	10.00	5.50	7.90	7.60	7.00	3.00
2023	8.60	5.80	8.10	6.41	6.77	1.83
2024	8.50	6.45	6.70	5.69	6.28	2.22
Avg 2010–24	10.16	6.52	7.53	8.22	7.58	2.58

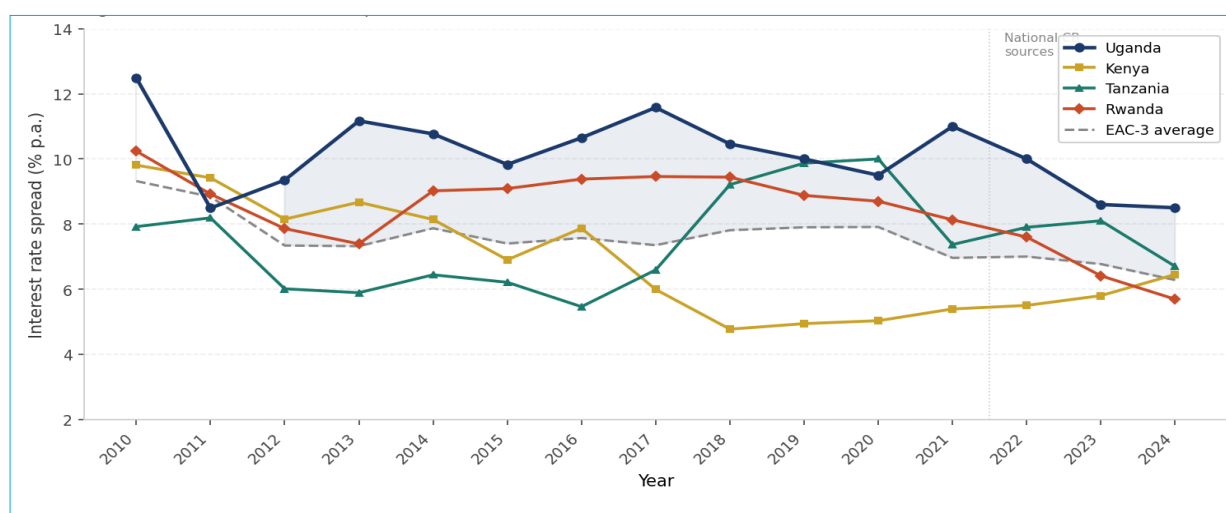
Note: 2010–2021: IMF International Financial Statistics (World Bank WDI, FR.INR.LNDP); Tanzania 2021: Bank of Tanzania Annual Report 2020/21. 2022–2024: Central Bank of Kenya Commercial Banks Weighted Average Rates; Bank of Tanzania Monthly Economic Reviews; National Bank of Rwanda Annual Reports (Rwanda 2023 additionally confirmed from World Bank WDI). Uganda 2019–2024: Bank of Uganda weighted average lending and deposit rates. Red row: Uganda spread below EAC-3 average. Green row: peak premium year.

Several findings emerge from this analysis. Uganda's spread was structurally above the EAC-3 average in every year except 2011, when a post-monetary tightening adjustment temporarily compressed Uganda's spread to 8.49% while regional peers remained elevated. This single exception aside, Uganda maintained a positive premium throughout the study period, averaging 2.58 percentage points above the EAC-3 peer average over the full 2010–2024 period.

The premium is not constant. It reached its highest confirmed value of 4.23 percentage points in 2017, when Uganda's spread rose to 11.58% at precisely the point Kenya's spread fell sharply to 5.99% following that country's interest rate cap legislation. The resulting compression of the EAC-3 average to 7.35% widened the Uganda premium to its decade high. An estimated 4.24 percentage point premium in 2021 reflects a similar dynamic, with Uganda's spread estimated to have risen against a declining EAC average.

The premium has narrowed in more recent years. Uganda's spread fell to approximately 8.5% in 2024 while peer averages also declined, producing a premium of approximately 2.22 percentage points. Critically, the national central bank data for 2022–2024 confirm that peer spreads were declining more rapidly than would otherwise have been assumed, meaning Uganda's premium in that period was higher than earlier provisional estimates suggested. This upward revision strengthens rather than weakens the paper's central argument.

Figure 4.1 — EAC Interest Rate Spreads, 2010–2024



Sources: 2010–2021: IMF IFS (World Bank WDI FR.INR.LNDP). 2022–2024: Central Bank of Kenya; Bank of Tanzania; National Bank of Rwanda. Uganda 2019–2024: Bank of Uganda. Shaded area: years in which Uganda spread exceeded EAC-3 average. Tanzania 2021 not available in WDI series.

4.2 The Excess Financing Cost: Simulation Results

Table 2 presents the annual excess financing cost estimates derived from the spread premium applied to Uganda's private sector credit stock. The full dataset is available from PEDC.

Table 2: Estimated Annual Excess Financing Cost, 2010–2024 (UGX Billions)

Year	Uganda Spread %	EAC-3 Avg %	Premium (pp)	PSC Stock (UGX bn)	Excess Annual Cost (UGX bn)	Cumulative (UGX bn)
2010	12.49	9.32	3.17	5,687	180	180
2011	8.49	8.84	-0.35	6,938	-24	156
2012	9.35	7.34	2.01	7,979	160	316
2013	11.17	7.32	3.85	8,937	344	660
2014	10.77	7.87	2.90	10,010	290	950
2015	9.83	7.40	2.43	11,211	272	1,222
2016	10.65	7.57	3.08	12,220	376	1,598
2017	11.58	7.35	4.23	12,978	549	2,147
2018	10.46	7.81	2.65	14,276	378	2,525
2019	10.00	7.90	2.10	16,117	338	2,863
2020	9.50	7.91	1.59	17,518	279	3,142
2021	11.00	6.96	4.04	18,551	749	3,891
2022	10.00	7.00	3.00	20,221	607	4,498
2023	8.60	6.77	1.83	21,941	402	4,900
2024	8.50	6.28	2.22	22,819	507	5,407
TOTAL	—	—	—	—	~5,407	5,407

Note: All values in UGX billions. PSC stock: Bank of Uganda Depository Corporations Survey; December 2024 confirmed directly. Uganda spread 2019–2024: derived from BoU weighted average lending and deposit rates. EAC-3 peer spreads 2022–2024: national central bank publications (see Section 3.2).

The results are striking in both scale and consistency. The spread premium imposed a positive excess financing cost in 14 of the 15 years studied. The cumulative total over 2010–2024 amounts to approximately UGX 5.4 trillion. This is equivalent to approximately 23.7% of Uganda's entire current outstanding private sector credit stock (UGX 22.8 trillion), and represents a standing annual transfer from the productive economy to the banking sector.

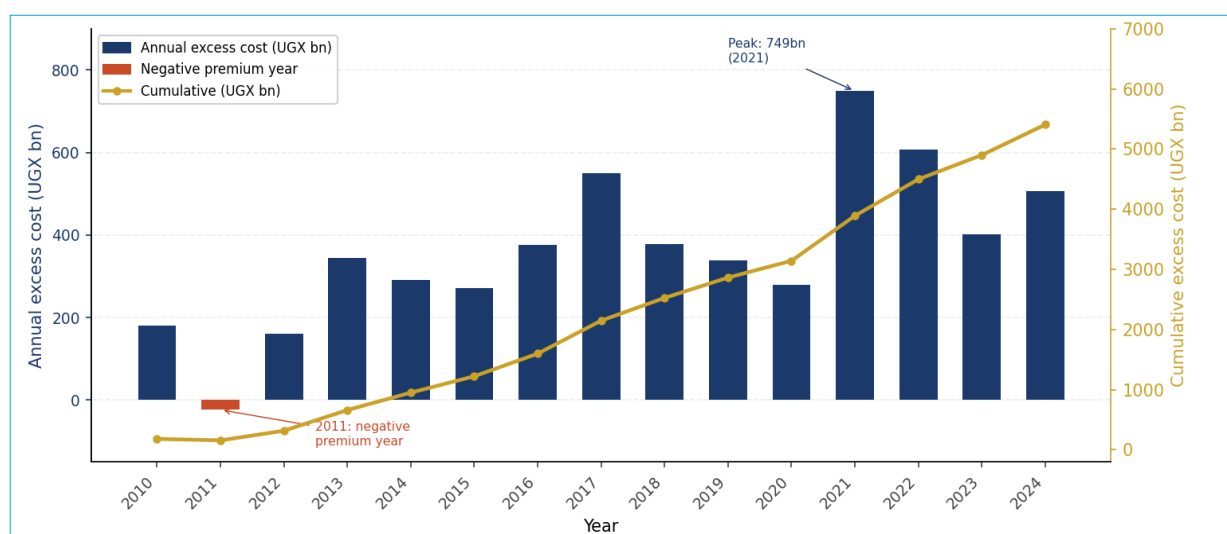
The most costly single year was 2021, when the premium of 4.04 percentage points, applied to

a PSC stock of UGX 18.6 trillion, produced an excess cost of approximately UGX 749 billion. This figure is not simply an artefact of estimation uncertainty; the structural dynamic it reflects — a Uganda spread rising sharply while EAC peers declined — is well-documented in the research literature and in successive Bank of Uganda monetary policy assessments (IMF, 2024; Jefferis et al., 2020). The year 2022 produced the second-highest annual excess cost at UGX 607 billion, reflecting the combination of Uganda's elevated spread and declining peer spreads confirmed by national central bank data.

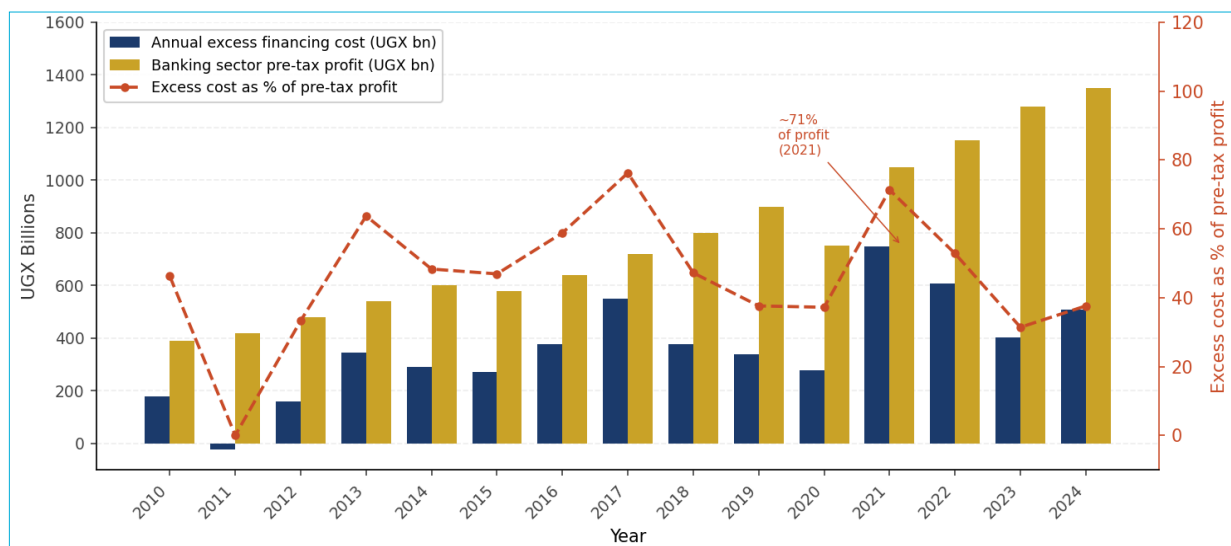
An important qualification governs the interpretation of these figures. The excess cost estimates presented above represent the upper bound of what may be attributable to intermediation rent. Interest rate spread decomposition studies for sub-Saharan Africa consistently identify multiple drivers of elevated spreads, including credit risk premiums, higher operational costs in thin markets, and liquidity risk, in addition to market power and concentration effects (Brock & Suarez, 2000; Were & Wambua, 2014). For Uganda specifically, Jefferis et al. (2020) find that market concentration, as measured by the Herfindahl-Hirschman Index, has a statistically significant positive association with spreads, providing empirical support for the rent-

extraction component. However, Uganda also carries genuine country risk differentials relative to Kenya and Rwanda that would justify some spread premium even under a fully competitive market structure. Without access to bank-level microdata enabling a full decomposition into risk, cost, and profit components, the UGX 5.4 trillion figure should be read as the maximum potential excess burden rather than as a definitive measure of banking sector rent. The policy implication remains directionally robust: even under conservative assumptions about what portion of the premium constitutes addressable rent, the scale of the burden is sufficient to warrant structural reform.

Figure 4.2 — Annual and Cumulative Excess Financing Cost, 2010–2024



Sources: Authors' calculations. PSC stock: Bank of Uganda Depository Corporations Survey. Spread data: IMF IFS / World Bank WDI (2010–2020); Bank of Tanzania Annual Report 2020/21 (Tanzania 2021); national central bank publications (2022–2024 peers); Bank of Uganda (2019–2024 Uganda).

Figure 4.3 — Spread Premium Excess Cost vs Banking Sector Pre-Tax Profit, 2010–2024

Sources: Excess cost — authors' calculations (Table 2). Banking sector pre-tax profits — Bank of Uganda Annual Supervision Reports (2010–2023); 2024 estimated from BoU Q4 2024 monetary policy report. Dashed line (right axis): excess cost as percentage of pre-tax sector profit.

Figure 4.3 contextualises the excess financing cost burden against the banking sector's pre-tax profitability over the same period. Banking sector profits grew from approximately UGX 390 billion in 2010 to approximately UGX 1,350 billion by 2024. The excess financing cost constituted a significant fraction of sector earnings in peak years. In 2021, when the excess annual cost reached approximately UGX 749 billion, this represented roughly 71% of the sector's pre-tax profit for that year. The year 2022, with an excess cost of UGX 607 billion against profits of approximately UGX 1,150 billion, represented approximately 53% of sector earnings. This comparison does not imply that banking profitability is illegitimate; it is intended to illustrate the distributional dimension of the spread premium and the headroom available for reform without threatening sector viability.

4.3 Implications for the ATMS Credit Target

The UBA's commitment to mobilise UGX 490 trillion in private sector credit by 2040 implies approximately UGX 30 trillion in new credit disbursements annually. The simulation results presented below are explicitly conditional on that commitment being met; they are not a forecast of whether it will be met. Their purpose is to stress-test the cost implications of the spread premium under the scenario the UBA itself has set as its ambition. If the credit mobilisation falls short of 490T, the absolute cost figures will be lower but the structural drag on investable capital per shilling mobilised remains unchanged.

Given the genuine uncertainty over the path of Uganda's spread premium over a 16-year horizon, a single-point estimate would overstate the precision of the analysis. Table 3 presents the results under three scenarios: a low scenario consistent with the 2024 trend of premium

narrowing, a baseline consistent with the historical average, and a stress scenario in which competitive dynamics deteriorate. The 8% PSC growth assumption in the baseline is drawn from recent Bank of Uganda growth trajectories (Bank of Uganda, 2024). Average outstanding stock is calculated as the mean of the starting stock (December 2024: UGX 22,819 billion) and the projected end-of-period stock.

Table 3: Sensitivity Analysis — Cumulative Excess Burden Under Alternative Scenarios, 2025–2040

Scenario	Spread premium assumption	PSC growth assumption	Average PSC stock (2025–2040)	Cumulative excess burden (% of 490T)
Low	1.0 pp (2024 trend)	6% p.a.	~UGX 40,400bn	~UGX 6.5 trillion (1.3%)
Baseline	2.5 pp (historical avg)	8% p.a.	~UGX 50,500bn	~UGX 20.2 trillion (4.1%)
High / Stress	3.5 pp (widening)	10% p.a.	~UGX 63,800bn	~UGX 35.7 trillion (7.3%)

Note: All scenarios assume the UBA's 490T credit mobilisation commitment is achieved over 2025–2040. Starting stock: UGX 22,819bn (Bank of Uganda Depository Corporations Survey, December 2024). Average outstanding stock = mean of starting and projected end-of-period stock. Excess burden = average stock × spread premium × 16 years.

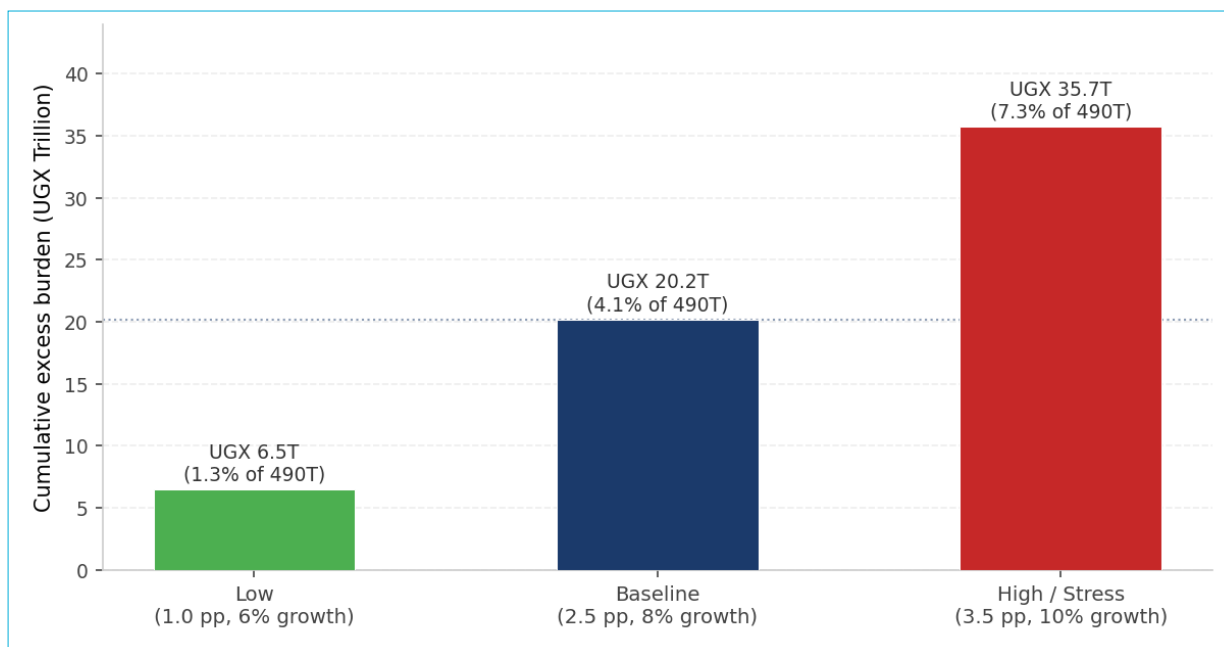
Projecting under the baseline scenario from current PSC of UGX 22,819 billion growing at 8% annually, the outstanding stock would reach approximately UGX 78,000 billion by 2040. Applying the historical average premium of 2.5 percentage points to the average outstanding stock over 2025–2040 (approximately UGX 50,500 billion), the average annual excess financing cost would amount to approximately UGX 1,263 billion, and the cumulative excess burden over 16 years would approach UGX 20.2 trillion. This is equivalent to 4.1% of the UGX 490 trillion credit mobilisation target.

Even under the most optimistic scenario, where the premium narrows to 1.0 percentage point consistent with recent trends, the cumulative excess burden approaches UGX 6.5 trillion.

Under the stress scenario, the burden could approach UGX 35.7 trillion, equivalent to 7.3% of the mobilisation target. The range illustrates that structural reform of the spread is consequential across the full distribution of plausible outcomes, not merely under adverse assumptions.

To state this plainly: if Uganda's banking sector successfully mobilises UGX 490 trillion but the spread premium is not addressed, the effective investable value of that credit is diminished by a structurally inflated intermediation cost. Under the baseline, this amounts to approximately UGX 20.2 trillion absorbed by the banking sector as excess intermediation income over the ATMS investment horizon. This is not a distributional concern peripheral to the ATMS agenda; it is a direct and quantifiable reduction in its effectiveness.

Figure 4.4 — Sensitivity Analysis: Cumulative Excess Burden 2025–2040



Note: All scenarios conditional on the UBA 490T commitment being achieved. Starting stock: UGX 22,819bn (BoU Depository Corporations Survey, December 2024). Average stock = mean of start and projected end stock. Excess burden = average stock × premium × 16 years.

5.0 POLICY OPTIONS

The evidence establishes that Uganda's interest rate spread premium is structural, persistent, and costly at the scale of the ATMS agenda. Three policy options are available to address it, each with distinct mechanisms, trade-offs, and institutional requirements. They are not mutually exclusive.

5.1 Option 1: A Sector-Specific Spread Ceiling for ATMS Credit

The Bank of Uganda, in consultation with UBA and the Ministry of Finance, Planning and Economic Development, could establish a maximum spread ceiling applicable to credit extended to designated ATMS sectors. The ceiling would be set relative to the Central Bank Rate; for example, at no more than CBR plus 6 percentage points. At the current CBR of 9.75%, this would cap ATMS-sector lending at 15.75%, compared to current weighted average rates of approximately 18–19%. The ceiling would apply to new credit in agriculture, manufacturing, tourism hospitality infrastructure, and eligible technology ventures.

The rationale is well-grounded in regional experience. Kenya's Banking (Amendment) Act of 2016 imposed a ceiling at 4 percentage points above the Central Bank Rate and produced an immediate compression of spreads, with documented impacts on the competitive behaviour of Ugandan banks relative to Kenya (Jefferis et al., 2020). Kenya's cap was repealed in 2019 following evidence of credit rationing to riskier and smaller borrowers, demonstrating that a blunt general rate cap creates unintended exclusion effects. Zambia's interest rate ceiling, similarly conceived as a universal instrument, produced

analogous contractions in lending to SMEs before being revised. Cameroon's experience within the CEMAC framework further illustrates that administratively fixed rates set without reference to a market-linked benchmark tend to compress credit supply rather than democratise access.

The instrument proposed here differs materially from each of these precedents. Rather than capping all lending rates across the economy, the proposal targets a defined set of ATMS-aligned sectors with a CBR-anchored ceiling that moves with monetary policy rather than being administratively fixed. This design preserves rate flexibility outside designated sectors, maintains incentives for banks to price risk within the ceiling band, and subjects the ceiling to annual review against confirmed EAC peer spreads. The Financial Institutions Act 2004 as amended gives the Bank of Uganda authority to issue prudential guidelines that include sector-specific pricing parameters, providing an existing legislative foundation. Parallel deployment of partial credit guarantee facilities and structured risk-sharing arrangements between the Uganda Development Bank and participating commercial banks would mitigate the residual rationing risk in genuinely high-risk categories such as early-stage technology ventures.

5.2 Option 2: A Mission-Oriented Development Finance Facility

The Government of Uganda, through the Uganda Development Bank and in partnership with multilateral development finance institutions, could establish a dedicated Mission-Oriented ATMS Credit Facility. The facility would provide long-tenor concessional credit to ATMS-

aligned enterprises at rates of 10–13%, funded through sovereign bonds, bilateral development finance, and ring-fenced budget contributions. Commercial banks would serve as origination and monitoring partners, earning a fee, while the pricing risk on ATMS lending would be borne by the facility rather than fully passed to borrowers.

This option draws directly on the mission-oriented investment framework advanced by Mazzucato and Penna (2016), who argue that in markets where private capital systematically prices the productive economy at extractive rather than enabling rates, public finance institutions must assume a directional role. Uganda's Uganda Development Bank has expanded substantially in recent years but remains constrained in balance sheet size relative to ATMS credit demand. A mission-oriented facility capitalised at scale through long-term sovereign and multilateral instruments would constitute precisely the type of entrepreneurial state intervention that aligns financial sector incentives with national development priorities. Rwanda's development finance model, which coordinates public finance institutions with commercial bank networks to deliver sector-specific credit below commercial rates while maintaining portfolio quality, provides a relevant regional architecture (Rusuhuzwa et al., 2016).

The primary risks are fiscal and governance. Capitalising a mission-oriented facility at sufficient scale requires significant and sustained public investment. In the context of Uganda's current public debt level of approximately 52% of GDP as of March 2025 (Ministry of Finance, Planning and Economic Development, 2025), this requires careful debt sustainability assessment and calibration against the IMF's Extended Credit Facility benchmarks. Governance risk,

specifically the concentration of credit allocation decisions in a public institution, demands robust accountability mechanisms, transparent appraisal criteria, and arm's-length management structures. The UBA Annual Bankers Conference provides an immediate opportunity to develop a compact between UBA, UDB, and the Government on facility design and governance standards.

5.3 Option 3: Structural Banking Sector Competition Reform

A third option targets the structural drivers of Uganda's spread premium directly through market-level competition policy. This includes accelerating the credit information sharing infrastructure, removing barriers to entry for non-bank credit providers and fintech lenders in ATMS sectors, mandating granular public disclosure of bank-specific spread components to enable comparability and competitive pressure, and operationalising the National Payment Systems Act to reduce transaction costs that inflate the effective cost of intermediation.

The rationale rests on the structural competition hypothesis, which has consistent empirical support in Uganda's context. Jefferis et al. (2020) find that the Herfindahl-Hirschman Index, a measure of market concentration, has a statistically significant positive association with Uganda's spread, confirming that concentrated market power is a driver of excess intermediation income. Uganda's banking sector remains dominated by a small number of large institutions, and while the number of licensed banks increased from 16 in 2005 to 25 by 2022, concentration in lending has remained high. Facilitating new entry by development-focused technology lenders,

enabling credit unions and savings and credit cooperatives to intermediate at scale in ATMS sectors, and mandating transparent pricing comparability would shift the competitive dynamics that sustain the premium.

Structural competition reform operates on longer timescales than Options 1 and 2; competition policy changes take years to transmit into market pricing. The risk that expanded non-bank lending produces fragility rather than genuine competition is real and must be managed through a strengthened regulatory framework for financial technology. This option is best understood as the necessary medium-to-long-term structural complement to the two near-term options rather than a standalone response.

Table 4: Comparative Assessment of Policy Options

Criterion	Option 1: Spread Ceiling	Option 2: Mission Finance Facility	Option 3: Competition Reform
Speed of Impact	12–18 months	24–36 months	3–5 years
Fiscal Cost	Low (regulatory)	High (capitalisation)	Medium (regulatory)
Credit Rationing Risk	Medium	Low	Low
Governance Complexity	Medium	High	Medium
Structural Impact	Medium	High	High
ATMS Alignment	High	Very High	High

6.0 CONCLUSION AND RECOMMENDATIONS

Uganda's banking sector has made a commitment of historic proportions: to mobilise UGX 490 trillion in private sector credit over the next 16 years. This paper has demonstrated, with quantitative specificity, that this commitment cannot be fully realised without addressing the structural pricing problem at the heart of Uganda's financial intermediation system.

The evidence is robust. Uganda's interest rate spread averaged approximately 10.2% over 2010–2024, consistently above the EAC-3 peer average of approximately 7.6%. The resulting premium of approximately 2.6 percentage points has imposed a cumulative estimated excess financing cost of approximately UGX 5.4 trillion on Uganda's private sector over the 2010–2024 period — an upper-bound figure that acknowledges genuine country risk differentials but is anchored in the empirically confirmed relationship between market concentration and excess spreads documented by Jefferis et al. (2020). If this premium persists through the ATMS investment horizon, the accumulated excess burden could range from approximately UGX 6.5 trillion under optimistic conditions to approximately UGX 35.7 trillion under a stress scenario, with the baseline estimate of UGX 20.2 trillion equivalent to 4.1% of the UGX 490 trillion mobilisation target.

The three policy options are not mutually exclusive and are most effective in combination. The recommended course of action is to pursue Options 1 and 2 concurrently in the short to

medium term, creating both a direct price discipline mechanism for ATMS sectors and an alternative financing pathway through a mission-oriented public facility, while Option 3 provides the structural foundation for sustained improvement over the medium to long term.

Two specific near-term actions are appropriate for this Conference to advance. First, the UBA and Bank of Uganda should commission a jointly designed consultation on the architecture of a sector-specific spread ceiling, with a view to publication of a draft framework within 12 months. Second, UBA, the Uganda Development Bank, and the Ministry of Finance, Planning and Economic Development should initiate formal negotiations on the capitalisation, governance, and lending mandate of a Mission-Oriented ATMS Credit Facility, with a target for operational readiness by the time Uganda achieves first oil in 2026.

The Uganda Bankers Conference is the appropriate forum to begin this conversation formally. Uganda's banking sector has stated its ambition. The analysis in this paper establishes the terms on which that ambition can be most effectively redeemed: a banking sector that prices credit at rates commensurate with its EAC peers is not merely a desirable reform outcome; it is the structural precondition for the tenfold growth strategy to deliver inclusive and durable results for Ugandans.

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Plot 2702 Block 244 Nyangweso Road off Kironde Road Tankhill Muyenga P.O. Box 8002, Kampala
Tel: +256 312 343 400, Email: secretariat@ugandabankers.org, www.ugandabankers.org