THE DETERMINANTS OF INTEREST RATE SPREAD IN UGANDA

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ABSTRACT

This study examined the major determinants of interest rate spread in Uganda using secondary annual time series data for the period 1990-2016. The macroeconomic variables used include GDP growth, real effective exchange rate, broad money supply, and inflation rates. The model was estimated using co-integration and error correction model to analyze the short and long run equilibrium among the variables.

The ADF test shows that all variables except broad money supply were stationary at both level and at first difference. Results of the study showed that all variables play a significant role in determining the interest rate spread in Uganda. Basing on the error correction model results, the study concludes that the speed of adjustment is 98.04 percent which means that the model will correct short run disequilibrium position at the rate of 98.04 percent annually.

The paper recommends the government to embark on policies and reforms that reduce inflation like contractionary monetary policy.