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FINANCIAL INTERMEDIATION UNDER ECONOMIC REGULATION: THE EXPERIENCE OF UGANDA

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ABSTRACT

The study evaluates the extent of financial intermediation in Uganda under the country's policy of economic regulation that lasted from 1962 to 1986. Six variables in ratio forms are identified and used as the measures of financial intermediation. These are the currency ratio, the ratio of narrow money to broad money, the ratio of narrow money to Gross Domestic Product, the ratio of broad money to Gross Domestic Product, the ratio of private sector credit to Gross Domestic Product, and the ratio of private sector credit to total domestic credit. The analyses are quantitative and graphical.

The findings show that along the span of research in Uganda, there was a great deal of undulation in the extent of financial intermediation, that the government had increasing recourse to public sector borrowing which constrained the level of bank credits extended to the private sector, that in general, the extent of financial intermediation in Uganda was relatively larger in 1962 than in 1986, and that the political crisis, which lasted for a considerable part of the research period, affected the development in financial intermediation in the country.

In order to improve on the extent of financial intermediation or the overall liquidity of the Ugandan economy, the study recommends as follows: expanding the reach of the financial institutions in the country through the adoption of the rural banking scheme and promotion of the increased use of technology in the delivery of banking services; strengthening the financial sector regulation by bringing the activities of the non-bank financial institutions under regulation; maintaining the strong supervisory role of the central bank (Bank of Uganda) and guaranteeing its independence through less governmental intervention in its activities and operations; and maintaining the stability of Ugandan polity by ensuring that Government's political opponents are not unduly harassed, freedom of the press is unfettered, and a level-playing field is provided for the conduct of free and fair elections, so as to avoid a relapse to political crises which affected financial intermediation in the country.

KEYWORDS: Financial Intermediation, Economic Regulation, Economic Deregulation, Gross Domestic Product