

CONTENTS

List of Figures	vi
List of Tables	vii
Preface	ix
Acknowledgements	xii
Chapter 1 Financial Sector Reforms in Uganda (1990-2000): An overview	1
1.0 Introduction	2
1.1 Theoretical Rationale for Financial Sector Reforms	3
1.2 Uganda's Financial Sector Reform Process (1990-2000)	8
1.2.1 The Exchange Rate System	10
1.2.2 Regulatory and Legal Reforms	12
1.2.3 The Inter-bank and Capital Markets	14
1.2.4 Interest Rates	14
1.2.5 Institutional Reforms	14
1.3 Experience with Financial Sector Reforms	15
1.4 Summary and Conclusions	20
Appendices	
A1.1 Selected Economic and Financial Indicators for Uganda (1985-1992)	22
A1.2 Financial Sector Reforms in Uganda: Major Developments (1990-2000)	23
A1.3 Selected Economic and Financial Indicators for Uganda (1993-2000)	27
Chapter 2 On the Determinants of Commercial Bank Interest Rate Spreads Under Uncertainty: Evidence from Uganda	28
2.0 Introduction	29
2.1 Literature Survey	33
2.1.1 Risk and Risk Aversion	33
2.1.2 Operating Costs, Implicit and Explicit Taxes	36
2.1.3 Market Structure	37
2.1.5 Regulation and Legal Framework	37
2.1.6 Macroeconomic Environment	40
2.1.7 Inter-bank Market Rate	41
2.1.8 Empirical Evidence	41
2.2 Descriptive Analysis	46
2.2.1 Market Structure and Composition of the Financial Industry	46
2.2.2 Balance Sheets	48
2.2.3 Performance of Banks	53

2.3	Econometric Analysis	64
2.3.1	The Theoretical Model	64
2.3.2	Empirical Specification	67
2.3.3	The Data	70
2.3.4	Empirical Variables	71
2.4	Empirical Results	74
2.4.1	Inter-Group Bank Comparisons	78
2.5	A Discussion of the Empirical Findings and Policy Recommendations	87
2.5.1	A Discussion of the Empirical Findings	87
2.5.2	Policy Recommendations	90
2.6	Summary and Conclusions	94
	Appendices	
A2.1	Key Structure and Performance Indicators	96
A2.2	Balance Sheets: Uganda Commercial Banks, 1994-1998	101
A2.3	Performance Indicators by Bank Group, 1994-1998	102
A2.4	Operating Costs by Type of Expenditure, 1994-1998	103
Chapter 3	The Relationship between Market Structure and Profitability in Ugandan Commercial Banking: <i>Market Power versus Efficiency</i>	104
3.0	Introduction	105
3.1	Background	107
3.2	Literature Survey	110
3.2.1	Empirical Evidence	113
3.3	Estimation Methods and Data	118
3.3.1	The Theoretical Model and Tests of the Two Hypotheses	118
3.3.2	Estimation of Efficiency Measures	121
3.3.3	The Data	126
3.4	Descriptive Analysis	128
3.4.1	Return on Assets	128
3.4.2	Technical Progress, X-Efficiency and Scale Efficiency	129
3.4.3	Market Concentration	130
3.5	Econometric Analysis	132
3.6	Summary and Conclusions	139

Appendices		
A3.1	The Link between Concentration and Industry Profitability	141
A3.2	Period Averages of Performance Indicators by Bank (1993-99)	142
A3.3	Period Averages of Variables used in the Translog Frontier Production Function, y Bank (1993-99)	143
A3.4	Maximum-Likelihood Estimates for Parameters of the Translog Stochastic Frontier Production Function	144
Chapter 4	Monetary Policy and Credit Market Imperfections: Evidence from Uganda (1994-2000)	145
4.0	Introduction	146
4.1	Background	149
4.1.1	Instruments of Monetary Policy	153
4.1.2	Commercial Bank Activities	156
4.2	Literature Survey	159
4.2.1	Critique of the Credit View	161
4.2.2	Evidence on the Credit Channel	163
4.3	Estimation Methods and Data	167
4.3.1	Estimation methods	167
4.3.2	The Data	171
4.4	Descriptive Analysis	172
4.4.1	Identifying Credit Effects	172
4.5	Econometric Analysis	175
4.5.1	Selection of a Monetary Policy Indicator	175
4.5.2	Identifying Credit Effects using Loans	178
4.5.3	Identifying Credit Effects using the Lending Rate	181
4.6	Summary and Conclusions	188
Appendices		
A4.1	Covariance Correlation Matrix – Base Money, CPI, Loans and IIP	191
A4.2	Covariance Correlation Matrix – Base Money, CPI, Lending Rate and IIP	191
REFERENCES		192

List of Figures

1.1	Spreads Between Lending and Deposit Rates (1994-1998).	17
1.2	Assets Quality of Ugandan Commercial Banks (1993-1999).	18
1.3	Profitability of Ugandan Commercial Banks (1994-1998).	19
1.4	Reserves of Ugandan Commercial Banks (1993-2000).	20
2.1	Interest Rates on Uganda 91-Day Treasury Bills, 1993-1998.	35
2.2	Market Share of Assets, 1994-1998 (%).	47
2.3	Portfolio Shifts – Loans and Advances, 1994-1998 (% of total assets).	49
2.4	Portfolio Shifts – Foreign Assets, 1994-1998 (% of total assets).	49
2.5	Portfolio Shifts – Government Securities, 1994-1998 (% of total assets).	50
2.6	Share of Fixed Assets, 1994-1998 (% of total assets).	51
2.7	Time and Savings Deposits, 1994-1998 (% of total deposits).	52
2.8	Interest Rate Spreads, 1994-1998 (%).	54
2.9	Net Interest Margins, 1994-1998.	56
2.10	Operating Costs, 1994-1998 (% of earning assets).	57
2.11	Non-Performing Loans, 1994-1998 (% of total loans).	59
2.12	Liquid Assets, 1994-1998 (% of total deposits).	60
2.13	Core Capital, 1994-1998 (% risk weighted assets).	62
3.1	The Efficient-Structure Hypothesis.	112
3.2	Mean Return on Assets (1993-99).	129
3.3	Mean X-Efficiency of Production (1993-99).	130
3.4	Three Bank Asset Concentration (1993-99).	131
3.5	The Herfindhal Index of Market Concentration (1993-99).	131
4.1	Response of the Lending Rate to the 91-day Treasury Bill Rate.	173
4.2	Response of Loans to the 91-day Treasury Bill Rate.	174
4.3	Response of Loans to the Lending Rate.	174
4.4	Response of Loans and Production to Base Money.	184
4.5	Response of the Lending Rate and Production to Base Money.	185
4.6	Response of Securities and Loans to Base Money.	188

List of Tables

2.1	Interest Rate Spreads, 1994-1998 (%).	53
2.2	Profitability, 1994-1998.	55
2.3	Operating Costs 1994-1998 (% of earning assets).	57
2.4	Asset Quality, 1994-1998.	58
2.5	Liquid Assets, 1994-1998 (% of deposits).	60
2.6	Core Capital, 1994-1998 (% of risk weighted assets).	61
2.7	The Repricing Gap, 1994-1998 (% of net assets).	62
2.8	List of Variables used in the Empirical Specification.	74
2.9	Empirical Results for the Full Sample Data.	75
2.10	Tests of Structural Differences Between Bank Groups.	78
2.11	Empirical Results of Group I Data.	84
2.12	Empirical Results of Group II Data.	85
2.13	Empirical Results of Group III Data.	86
3.1	Structure and Composition of the Financial Industry.	108
3.2	Descriptive Statistics.	128
3.3	Regression Results of RoA on Market Concentration, Market Share and Control Variables.	133
3.4	Regression Results of MS/MCA on X-EFF, S-EFF and Control Variables.	138
4.1	The Central Bank Balance Sheet	149
4.2	Participation of Different Agents in the Treasury Bill Market (1992-2000).	154
4.3	Monetary Policy and Performance Indicators (1993-2000).	155
4.4	Commercial Bank Activities (1993-2000).	157
4.5	Descriptive Statistics.	172
4.6	Selection of a Monetary Policy Indicator.	178
4.7	Identifying Credit Effects using Loans.	180
4.8	Identifying Credit Effects using the Lending Rate.	182
4.9	Joint Significance Tests in a VAR including Base Money, Securities, Loans and CPI.	187