

MAKERERE



UNIVERSITY

**IMPACT OF COMMERCIAL BANKS' LENDING TO AGRICULTURAL SECTOR
ON THE PERFORMANCE OF THE SECTOR: 2008:1-2017:4**

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**A RESEARCH PAPER SUBMITTED TO THE DIRECTORATE OF RESEARCH
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Abstract

Over the past decade, commercial bank credit to agriculture as a percentage of private sector credit has continued to increase. On the contrary, growth in agricultural value added has exhibited a constant trend. It is against this background that the study examined the impact of commercial bank credit on the performance of agricultural sector in Uganda using quarterly data for the period 2008q1 to 2017q4. While using ARDL estimation technique, the study found commercial bank credit to agriculture to have a positive but insignificant impact on the performance of the agricultural sector in Uganda. Variables found to have a significant impact on the performance of agricultural sector include growth in net capital stock, inflation, and lending rate with growth in net capital stock having a positive relationship while inflation and lending rate have a negative impact.

Based on the findings, the study recommends realigning commercial bank credit to reach the production base. This entails measures to reduce risks at the production stage (for example through agricultural insurance). The study further recommends measures to reduce inflation rate and commercial bank lending rate.

Key words: Agriculture, Credit, Value Added, Autoregressive Distributed Lag Model