IMPACT OF INTEREST RATES ON COMMERCIAL BANKS LENDING RATES IN
KABALE MUNICIPALITY: A CASE STUDY OF CENTENARY BANK, KABALE-BRANCH

BY

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A RESEARCH REPORT SUBMITTED TO THE FACULTY OF EDUCATION IN
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DECLARATION

I hereby declare that this report is my original work and has not been submitted to any institution or anywhere used for academic presentation for any award.

Signature . . . .   Date :29/01/2021

TWINAMASIKO CONRAD

(STUDENT)

1.

APPROVAL

This Report has been submitted for review with my approval as supervisor:

Signature.................................... Date... 7/2/2021..........................

MS. NKAMUSIlMA DIANAH

DEDICATION

I dedicate this report to my family members that is my beloved mum Twinomugisha Fausta, brothers, sisters, and other relatives and all education students of 2017 to 2020 for their support rendered to me through my academic journey.

ACKNOWLEDGEMENT

I first and foremost wish to acknowledge the Almighty God for His gift of life that I am enjoying and for the good health he has given me throughout my life.

Also my acknowledgements go to my family members and relatives for their unending support both financially and moral support with their unending love you have showed to me. May the Almighty God Bless You All.

Also my brother Nimbasa Telesforo and my Sisters and all my friends who have helped me to get through this academic program with their academic support through group discussions we have had together. I Love You All.

Not forgetting my university facilitator **Ms. Nkamusiima Dianah** for her academic guidance and support through this research proposal Thanks for making this research a reality.
May God Bless You.

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LIST OF ACRONYMS

BOU	Bank Of Uganda
CBs	Commercial Banks
Fis	Financial Institutions
MFI	Micro Finance Institutions
NGO	Non-Governmental Organization
TBs	Treasury Bills
UBOS	Uganda Bureau Of Statistics
GDP	Gross Domestic Product
BPS	Business Process Services
NSSF	National Social Security Fund
SACCO	Savings And Credit Co-Operatives.
UBA	United Bank For Africa
UCB	Uganda Commercial Banks
CRDT	Central Rural Development Trust

CHAPTER ONE

1.0 Introduction

This chapter comprises of background of the study, statement of the problem, purpose of the study, general objectives, specific objectives, research questions, and scope of the study, significance of the study and definitions of key terms.

1.1 Background

Centenary Bank started in 1983 as a credit trust, an initiative of the Uganda National Lay Apostolate. The Catholic Church officially joined in 1985 to establish a formal financial institution, and in 1993, the Bank was registered as a fully-fledged commercial bank (Waweru, et al 2019). It grew from one branch on Nkrumah road to the current 73 branches country wide. Today, it's a leading commercial microfinance bank in Uganda, serving a quarter of the banking population in the country and reaching out to more through several channels. With a mission "To provide appropriate financial services especially microfinance to all people, particularly in rural areas, in a sustainable manner and in accordance with the law" (Samuel, 2018).

The banking environment is drastically unpredictable due to competition in the industry in the global market. The players are necessitated to offer attractive lending rates to their customers in order to survive in the industry (Salloum and Hayek, 2019). Financial institutions facilitate mobilization of savings, diversification and pooling of risks and allocation of resources. However, since the receipts for deposits and loans are not synchronized, intermediaries like banks incur certain costs (Ngugi, 2020). They charge a fee for the intermediation services offered under uncertainty, and set the interest rate levels for deposits and loans. The difference between the gross costs of borrowing and the net return on lending defines the intermediary costs.

Interest rates offered by commercial banks globally and locally attract customers to purchase products and services of financial institutions. Commercial banks play a vital role as intermediary in the economic resource allocation of countries. They channel funds from depositors to investors continuously (Waweru, 2019). Depending on the market structure and risk management the banking firm is assumed to maximize either the expected utility of profits or the expected profits (Samuel, 2018). And, depending on the assumed market structure, the interest spread components

vary. For example, assuming competitive deposit rate and market power in the loan market, the interest rate spread *is* traced using the variations in loan rate. But with market power in both markets, the interest spread is defined as the difference between the lending rate and the deposit rate (Ng'etich, 2018).

The magnitude of interest rate spread, however, varies across the world. It is inversely related *to* the degree of efficiency of the financial sector, which is an offshoot of a competitive environment. The nature and efficiency of the financial sectors have been found to be the major reasons behind differences in spread in countries across the world. In economies with weak financial sectors, the intermediation costs which are involved in deposit mobilization and channeling them into productive uses, are much larger (Jayaraman et al, 2018).

The Bank of Uganda slashed its benchmark lending rate by 100 basis points to 9% on October 7th 2019, reversing a 100 bps hike in October last year amid slower economic growth and lower inflation. The GDP growth slowed below 6 percent in the first and second quarter of 2019 while inflation rate continued to decline reaching near 1-1/2-year low of 1.9 percent in September. The inflation outlook was also revised downwards compared to the August forecasts and annual core inflation is now projected to remain below the 5 percent target until the fourth quarter of 2020. Interest Rate in Uganda averaged 12. 86 percent from 2018 until 2019, reaching an all time high of 23 percent in November of2018 and a record low of 9 percent in February of 2018(Uganda Interest Rate _ 2019_ Data _ Chart_ Calendar _ Forecast _ News)

1.2 Problem Statement

Commercial banks attract 90 percent of the Ugandan population, especially in this era of retrenchments where there are few white and blue collar jobs, Uganda Investment Authority,
(2018). Thus many Ugandans, old and young educated and uneducated, engage in small businesses as a means of livelihood and hence they provide sustenance for many citizens and contribute substantially to the economy as a result, most of the banks with in Kabale municipality particularly centenary charge high interest rates for the reason of getting back capital and paying for the machines and skilled labor. This has therefore discouraged its customers from borrowing due to high interest rates charged on loans hence causing a fall in investment and consumption. It provides employment to over 2.5 million of Ugandans. However, they are faced with many challenges that /

:nclude lack of adequate capital to either start or expand the already started business. This is because Uganda is said to have the highest interest rates in the region that range from 15 per cent to 25 per cent, new vision, (2018). Most of their financing therefore comes from own savings, friends and relatives and community welfare groups.

Kabale Municipality has over 5 commercial bank branches; all these banks charge different charges on their customers and business owns. Stanbic Bank Uganda charges lending interests rates of9.9% on borrowers; equity bank charges lending interests rates of9.7% on borrowers while centenary bank charges interest rates of 10.0% hence from the three cases of the researchers point of view is that centenary bank has the high interests and equity bank has the lowest on both personal account borrowers and business loans.As aresult this discourages the investments in away that makes firms and consumers less willing to take out risky investments and purchases hence affecting the growth and the performance of bussinesses in Kabale municipality and Uganda at large. (Commercial report In January, 2020)

The Bank of Uganda held its benchmark lending rate at 9% during its February 2020 meeting, citing balanced risks to inflation and the need to maintain an accommodative monetary stance to support ecnomic growth. In January 2020, headline inflation moderated to 3.4%, after hitting a 15month high of 3.6% in December and is projected to remain low assuming stability in food prices and currency. The bank also kept its 2019/20 economic growth forecast of 5.5-6%. while expects it to accelerate to 6.3% in the medium term, though below the estimate of potential growth of 6.5%. Meantime, the Governor expressed concerns over export weakness, amid risks related to the recent coronavirus outbreak in China and agricultural production constraints due to uncertain weather patterns and a massive invasion of desert locusts.

1.3 The purpose of the study.

The purpose of the study was to describe the impacts of interest rates on commercial banks lending rates case study centenary bank, Kabale branch at Kabale municipality, Uganda.

1.4 Objective of the study.

2. To examine the interest rates on lending charges of Centenary Bank branch in Kabale municipality.
3. To describe the impacts of interest rates on lending charges of Centenary Bank branch in Kabale municipality.

iii To determine the impact of interest rates on the performance of commercial banks.

iv. To identify interest rates and examine its impacts of leading changes.

1.5 Research Questions

1. What are the interest rates given/offered by Centenary Bank branch in Kabale municipality?

n. What are the impacts of interest rates on lending charges of Centenary Bank branch in Kabale municipality?

o. What are the impacts of interest rates on the performance of commercial banks?

1.6 Scope of the study

1.6.1 Subject scope

The study was focused on interest rates and the lending rates of financial institutions.

1.6.2 Geographical scope

The research was carried out in Centenary Bank, Kabale Branch, and Kabale District, Uganda.

1.6.3 Time scope

The researcher was able to consider records relating to interest rates and the lending rates of financial institutions from 2020-2021.

1. 7 Significance of the study.

1. The study was provided with literature that were in form a foundation for further interest rate researchers and scholars of various academic institutions.

2. The study was of great significance to government policy makers and various enterprises stakeholders.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter involves a critical review of existing works on the variables that is to say what the different authors have talked about on interest rates on commercial banks' lending rates.

2.1 Understanding interest rates and lending rates in commercial banks

2.1.1 Interest rates and charges on accounts on centenary bank, Uganda

According to the report from Uganda's business news of 1 June (2019), centenary bank interest rates and charges currently is 9%. Generally centenary bank charges 0.5% on current *account* (minimum) and maximum Of 4%. Centenary bank also charges 2% (minimum) on saving accounts and maximum of *N/A*, charges on fixed accounts 4% - minimum and 9% maximum. Hence, in general centenary bank charge 10. 0% on borrowers.

2.1.2 Interest rates in Uganda

The Bank of Uganda slashed its benchmark lending rate by 100 basis points to 9% on October 7th 2019, reversing a 100 bps hike in October last year amid slower economic growth and lower inflation. The GDP growth slowed below 6 percent in the first and second quarter of 2019 while inflation rate continued to decline reaching near 1-'/2-year low of 1.9 percent in September. The inflation outlook was also revised downwards compared to the August forecasts and annual core inflation is now projected to remain below the *5* percent target until the fourth quarter of 2020. Interest Rate in Uganda averaged 13 percent from 2018 until 2019, reaching an all-time high of 23 percent in November of 2018 and a record low of 9 percent in February of 2018.

In Uganda, interest rates decisions are taken by the Bank of Uganda. The Bank of Uganda official interest rate is the central bank rate. This page provides the latest reported value for - Uganda Interest Rate - plus previous releases, historical high and low, short-term forecast and long-term prediction, economic calendar, survey consensus and news. Uganda Interest Rate - actual data, historical chart and calendar of releases - was last updated on November of 2019.

2.1.3 Centenary bank - Lending interest rate

According to the report from Uganda's business news of 1 January (2019), centenary bank lending rates, lending rates (minimum) of 10% and lending rates (maximum) 42%. These lending rates are published charges and interest rates for personal accounts with centenary bank

2.1.4 Uganda - Lending interest rate

Lending interest rate(%) in Uganda was reported at 21.28 % in 2018, according to the World Bank collection of development indicators, compiled from officially recognized sources.
Lending interest rate is the rate charged by banks on loans to prime customers (Nampewo, 2019)

According to Ugandans business news of September 8, 2018 commercial banks cut lending rates, but cautiously it was reported that, "Not all banks have cut their rates, however. Centenary bank is maintaining its prime lending rate at 23% (the rate is "negotiable depending on the type, loan amount and the repayment period," a bank official said) as is united bank for africa (uba) uganda at 24% , bank of africa uganda has also maintained its rate at 25%.

2.3 Interest Rate Spreads in Uganda's Banking Sector

In the early 1990s, Uganda, like other emerging economies, embarked on the process of financial liberalization. One of the key objectives of financial liberalization was to increase the efficiency of the financial system as would be evidenced from the reduction of interest rate spreads- the difference between average lending rates and average deposit rates in the banking system (Sologoub, 2018).

Kasekende, 2018 highlighted lack of competition and high operational inefficiency within Uganda's banking sector as the major factors driving large spreads in Uganda. As a solution to this challenge, bank of Uganda lifted the moratorium on commercial banks to allow for more banks in the financial system. The expectation from this intervention was that more financial institutions would increase competition and efficiency in Uganda's banking sector and hence reduce the interest rate spreads. Since the lifting of the moratorium in 2019, commercial banks have increased from 16 in 2019 to 25 in March 2019. However, this intervention seems not to have delivered to its expectations because interest rate spreads have remained large and volatile to date. This is the motivation behind this study that investigated the factors driving the persistent large interest rate spreads in Uganda's banking sector The rest of the paper is organized as follows: Section two

reviews Uganda's banking system and the evolution of interest rates, while section three explores the empirical and theoretical literature on the main drivers of spreads. The model specification and me estimation procedure are described in section four. The empirical analysis is presented in section five while conclusions and policy implications are drawn in section six.

2.4 Overview of Uganda's Banking System and Evolution of Interest Rates

2.4.1 Centenary bank overview and Evolution of Interest Rates

The bank was founded in 1983 as a credit trust, Centenary Rural Development Trust (CRDT), by Simeon Lutaak:ome, Hugh Francis Pulle, Paul Kateregga, Vincent Kirabo kya Maria, Emmanuel Mpande, and John Ogutu. In 1985, CRDT began to provide financial services to the public. The bank became a fully licensed commercial bank in 1993, after receiving a license from the Bank of Uganda. As of May 2016, Centenary Bank was the largest majority indigenous Ugandan commercial bank Julian (20 May 2016). Due to increase savings, development of small business and people wanting to expand their business, getting school fees and others are backbones of interests due to the demand of loans for centenary bank.

2.4.2 Uganda's Banking System

Uganda's banking system comprised of only four commercial banks in the early 1960s. These included; Standard Chartered, Barclays, Grind lays and Bank of Baroda. These were foreign owned banks that were widely criticized for short -term lending and biased provision of financial services to foreign companies leaving financial access for the locally owned companies limited and hence threatening the development objective of government. It was therefore argued that government intervention was required to the extent that banks did not pursue a developmentalist role (Brownbridge, 2018). Against this background. government of Uganda embarked on a program to extend credit services to indigenous enterprises. This was done by establishing the Uganda Commercial Bank, which arose from reshaping the member based Uganda Credit and Savings Society. As a result of this transformation, the Uganda Commercial Bank took over management of all government transactions from foreign banks and thus the indigenous companies were more involved in tenns of access to financial services. In 1992, government embarked on the process of financial sector liberalization. This process mainly consisted of interest rate control refonns which led to the introduction of a treasury bill auction. To further elucidate the role of

b! k of Uganda as the regulator of all financial institutions in Uganda, the financial institutions Band central bank charter were enacted in 1993. This was further followed by the process of merest rate liberation which allowed the removal of restrictions from commercial banks" operations and holding of assets. The process of financial liberalization led to entry of many new reign and domestic banks. However, this resulted into a major banking crisis characterized by inadequate bank capital and high rates of non-performing loans within the banking system (Caprio et al 2019). This crisis led to closure of weak banks including, Greenland bank and the Cooperative bank. The banking crisis resulted into government intervention through bank of Uganda **to** renationalize UCB. The renationalization process ended up by selling 80 percent of UCB's shares to stanbic bank and the remaining 20 percent were left to the government (Clarke et. al, 20**18).** Generally overtime, implementation of the reforms has greatly strengthened the banking system in terms of capitalization, profitability and resilience. To date, Uganda's formal financial system comprises of commercial banks -Tier l; which constitute the biggest component of the financial system, bank-like institutions -Tier 2, microfinance deposit-taking institutions-Tier 3, The National Social Security Fund (NSSF), one Post-bank, 18 insurance companies, 3 development banks, 88 forex bureaus and one stock exchange- the Uganda Securities Exchange. The informal sector constitutes money-lenders, savings and credit cooperative societies (SACCOs) as well as rotating savings and credit association (ROSCAs)

2.4.3 Banking Performance

The lifting of the moratorium in 2019 led to opening up of nine new commercial banks bringing the total number of banks in Uganda to 25 in 2019. On the overall, Uganda's banking system has continued to expand with an average bank branch network of up to 366 branches in March 2019. In terms of asset holdings, commercial banks have experienced stable growth since the lifting of the moratorium in 2019. During this period, commercial banks' total assets rose from a total of shs 2,991 billion in 2018 to shillings 13.5 trillion in 2019. Similarly total liabilities grew by the same amount in the same period. Most of the growth was driven by loan advances to customers which increased from shs 855 billion in 2018 to shillings 6,515 billion in 2018. Regarding the liabilities, the increasing deposits accounted for most of the growth in liabilities. Total deposits increased from shs 2,115 billion in 2018 to shs 8,709 billion in 2018.

24.4 Evolution of Interest Rates

b :994, government of Uganda embarked on implementing the process of liberalizing interest rates. This process involved adjusting nominal interest rates to match the inflation rate as a way of ensuring positive real interest rates (Kasekende et al, 2018) .. This was followed by shifting the treasury bill market from adhoc issues to a market-based auction system. This shift led to market determined treasury bill rates which were then used as the monetary policy instruments by the central bank (Kasekende et al, 2018).

2.5 Review of Related Literature

2.5.1 Analytical Framework

The analytical framework is based on the McKinnon and Shaw (2019) paradigm. According to this framework, McKinnon (2019) argues that removing financial restrictions from the financial system results into a considerable improvement of the economies' growth processes. This will occur in such a way that high interest rates attract households to save with the financial institutions and as a result bank deposits rise and hence an increase in banking efficiency Additionally, Shaw (2019) focuses on the role financial intermediaries have to play in development. Financial liberalization in terms of increasing interest rates springs mainly from expanding the amount of financial intermediation occurring between savers and investors due to increased efficiency of the banking sector and lower level of spreads. The increase in investment funds causes an increase in the quantity of investment. He further argues vehemently that real cost of borrowing declines significantly and the average efficiency of investment is raised due to the fact that banks would be realizing economies of scale through risk diversification, lending and operational efficiency. This ultimately reduces the interest rate spreads.

2.5.2 Empirical Literature

The main determinants of interest rate spreads in banking institutions are classified into bank specific, market specific and macroeconomic factors. For example Demirguc-Kunt et. al, 2018, Moore et. al, 2000 and Sologoub (2018) argued that the major drivers of interest rate spreads are the bank specific factors such as; the bank size, bank ownership, the loan portfolio, capital adequacy, overhead and operating cost, and shares of liquid and fixed assets. In fact Beck et.al, 2018 agrees with this and further stresses that interest rate spreads in Uganda are mainly driven by

he bank size, as well as overhead costs and sectoral compositions of loans. Turning to the market specific factors, Samuel et. al, 2018 indicates that an oligopolistic market structure results in higher spreads. This is in line with Hannan et.al, 1993 and Barajas et al, 1999, who found out that industry concentration is positively linked to higher spreads. Regarding macroeconomic factors, in one of heir more recent and broader studies of the determinants of spreads in the banking system, Demirguc et al (1999) found several variables to be correlated with higher spreads, including higher inflation, higher real interest rates, and lack of banking sector competition. They also found :-natsome variables such as institutional features for example lack of creditor rights or corruption, **and** reserves matter more in developing countries than in developed countries. In a related paper, Demirguc et al (2018) found that inflation was associated with higher bank interest rate spreads. Randall (2018) and Gelos (2018) stressed that higher costs would logically require banks to charge higher spreads in order to remain profitable. Most studies, have reached this conclusion. Randall

 2018) and Gelos (2018) pointed out many sources of higher costs that have different implications for other aspects of bank management. The sources included personnel costs, required reserve ratios, poor governance, non performing loans, and general inefficiency. Higher capital to asset ratios would also increase costs, though the direction of causation in this relationship could be uncertain. 0 10 20 30 40 50 60 1991 1992 1994 1995 1997 2018 2000 2020 2018 2019 2018 2007 year interest rates depositrate lending rate tb rates bank rate www.ccsenet.org/ijef International Journal of Economics and Finance Vol. 5, No. 1; 2013 80 In fact the non-performing loans are one the critical drivers of large spreads as bankers tend to offset "bad loans" by charging high lending rates.

This argument was also fronted by Robinson (2018) and Meyer, et al., (2019) who argue that fraud mcidences and lack of credit information sharing on borrowers result into high rates of nonperforming loans and hence increasing bank spreads. From the literature, it can be concluded that the main driving factors of large interest rate spreads include; inflation rates, exchange rate volatilities, the discount rate, reserve requirement, credit to the government, level of banking efficiency, bank concentration, the nature of banks as to whether they are foreign banks or domestic banks, operating and overhead costs of the banking sector, real interest rates, treasury bill rates, bank size, non performing loans and sectoral composition of loans.

CHAPTER THREE:

METHODOLOGY

3.1 Introduction

This chapter will discuss the various methods that were used during data collection. It focused on the research design, sampling design, survey population, data collection tools and the limitations encountered during the study.

3.2 Research design

The researcher used descriptive research design to explain the relation between impacts of interest rates on commercial banks' lending rates. Qualitative analysis was used to present data in tables and qualitative research design was also be used where data is hard to quantify.

3.3 Sampling design 3.3.1

Survey population

The population under the study was the employees of Centenary Bank, Kabale Branch. The population included top management, middle management and staff.

3.3.2 Sample size

The researcher considered sample size of 35 respondents categorized as; three from top management, 6 from middle management and twenty-six from banking officers.

3.3.3 Sampling method

The researcher used stratified sampling technique when identifying employees basing on the category in which they belong.

Simple random sampling was used to select respondents from the lower category to improve on generalizability.

Purposive sampling was applied to target senior staff (management). These was used to purposely select because of their knowledge and experience about the problem of the study.

·., **Data collection**

341Sources of data

Daz was collected from both primary and secondary sources. Primary data was from sources the respondents and secondary data was from organizational records like company journals, quarterly reports, and company magazines.

34.2 Data collection methods

The researcher mainly used the interview method of collecting data that involved presentation of

al-verbal stimuli and reply in terms of oral-verbal responses. This method was used through personal interviews and, through telephone interviews.

Generally Personal interviews: Personal interview method requires a person known as the mmterviewer asking questions generally in a face-to-face contact to the other person or persons. (At mes the interviewee may also ask certain questions and the interviewer responds to these, but usually the interviewer initiates the interview and collects the information.)

the researcher mainly used this method because of the following reasons;

- More information and that too in greater depth can be obtained.
- Interviewer by his own skill can overcome the resistance, if any, of the respondents; the interview method can be made to yield an almost perfect sample of the general population.
- There is greater flexibility under this method as the opportunity to restructure questions is always there, especially in case of unstructured interviews.
- Observation method can as well be applied to recording verbal answers to various questions.
- Personal infonnation can as well be obtained easily under this method.
- Samples can be controlled more effectively as there arises no difficulty of the missing returns; non-response generally remains very low.

3.5 Data processing, analysis and presentation

Data processing was done to reduce the data to an organized, integrated and meaningful whole. It involved editing and coding. After collecting the responses, the questionnaires was edited for completeness, uniformity, and accuracy. Here tables and graphs were drawn to present data and interpret so as to make conclusions and recommendations. Spearman' s correlation co efficiency

applied to obtain the relationship between appraisal performance and financial institution **geowth**

36 Limitations to the study

The researcher met the following limitations in the course of carrying out the research;

- The busy schedule of some officers gave slightly less attention to the researcher.
- Inadequate financial resources to met the costs of the research such as transport costs, typing, printing, and binding costs, among others.
- Time for research was not enough to take the researcher through all areas of the study to meet respondents.
- Obtaining secondary data was an ambiguous task as data will not readily available

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

Introduction

This chapter presents the results of the study which was conducted on Impact of Interest Rates on Commercial Banks Lending. The findings of the study are presented and discussed, based on the objectives of the study. These objectives were to determine the services offered by Impact of interest Rates on Commercial Banks Lending in centenary bank, Kabale-branch in Kabale municipality. The data was collected using the different methods discussed earlier; it has been presented in tables and pie-charts after calculating numerical figures into percentages and degrees. Ibis kind of presentation helped to explain and make a clear impression of various findings and ~ facilitate comparisons.

4.1 Demographic characteristics of the respondents

The data in this section is presented using frequency tables that show general characteristics of the sample including the age, sex, marital status, the education levels, businesses undertaken by the respondents, the revenue they pay, the period for which the respondents have been in business and the source of funds for their businesses. The response rate was not 100% due fear of covid-19 the questionnaire was administered by the researcher himself and the exercise took enough time that enabled the researcher come back to those who could not be traced for the first time. This was done to ensure that all the targeted respondents were utilized for reliability and valid data.

4.1.1 Age of respondents

Figure l: Age of respondents

Variable	Number of respondents	Percentages
20-39	38	76
40-59	11	22
60-69	1	2
TOTAL	50	100

no of respondents

20-39

m

40-59

60-69
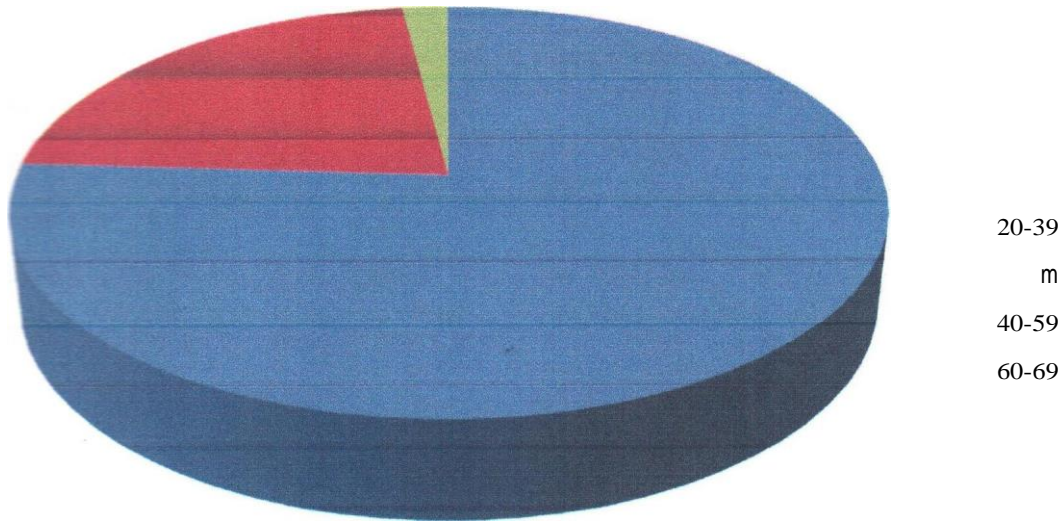
From the table above a total number of 50 respondents was interviewed. The age of these respondents was grouped into three age groups ranging from 20 to 69 years of age. Majority of the respondents were aged between 20 to 39 years of age as shown by the table. This age group was closely followed by those between 40 to 59 years of age contributing 22% of the total number of respondents. Lastly only 1 respondent was interviewed in the age group between 60-69 years and :;:is was 2% of the total number respondents.

4.1.2 Gender 3 of Respondent

Table 2: The respondent's gender

Variable gender	Number of respondents	Percentage
Male	36	72
Female	14	28
Total	50	100

On gender basis majority of respondents interviewed were male and accounted for 72% while their female counterparts accounted 28%.

4.

a1.3Education level of respondents **Table** 3:

Education level of respondents

Formal Education	Number of respondents	Percentage
None educated	2	4%
Primary	20	40 %
Secondary	15	30%
Diploma	6	12%
Degree	4	8%
Post graduate	," 3	6%
Total	50	100

+.1.3A4 **Graph showing the education level of respondents**

Education level of respondents
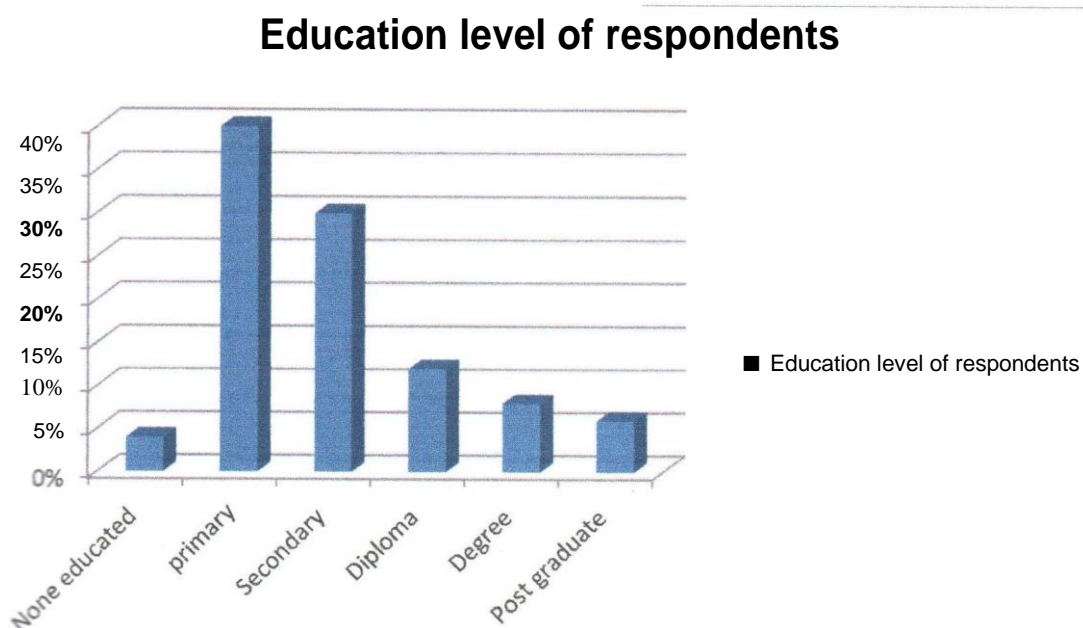
Source: Primary data

Referring to education level of respondents 40% studied up to primary level with highest percentage, whereas 30% were educated up to secondary JeveJ, 12%, 8%, 6% 4% studied up to ..; ploma, degree, post graduate and 30% un educated respectively

41.4The **marital status of the respondents**

able **4: marital status of respondents**

Position	Number of respondents	Percentage
Single	12	24
Married	22	44
Others	16	32
, otal	50	100

Source: primary data

ccording to the table, majority of the respondents were married constituted a percentage 44% whereas 32 % were others like divorced, complicated relationships, widowed lastly 24 % were single

4.1.5 Number of years spent accessing loans from Centenary bank (Kabale Branch- Kabale District)

Table 6: **number of years spent**

Period	Number of respondents	Percentage(%)
One year	10	10
Two years	15	20
Three years	20	30
Four years and above	5	40
Total	50	100

Source: primary data

The table shows the Number of years spent accessing loans from Centenary bank (Kabale BranchKabale District). For those who accessed loans for the period of one year was 1 O out of 50 respondents which made 10% and they were the least. It was followed by those that have worked for the period of two years with 15 out 50 respondents having 20%. The period of three years were 20 out of 50 respondents having 30%. Finally those that accessed for four years and above were 5 out of 50 respondents had loans at rate of 40% and were with the highest percentage. Therefore according to the table, the number of those who accessed loans from Centenary bank (Kabale

ch- Kabale District) for four years and above was 5 which mean that the enterprise does not **as a** long period of time. Thus end flourishing.

number of years spent

■ One year

Two years

Three years

☐ Four years and above
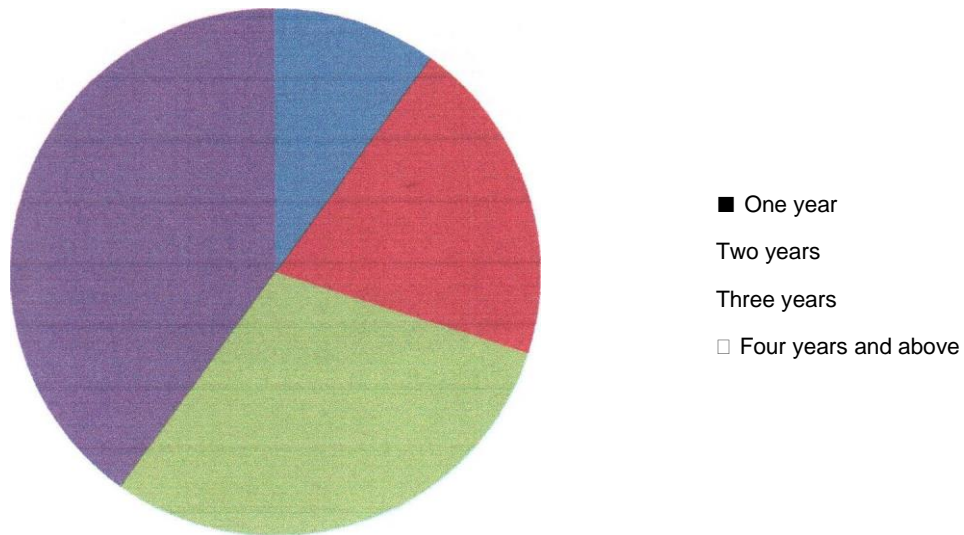
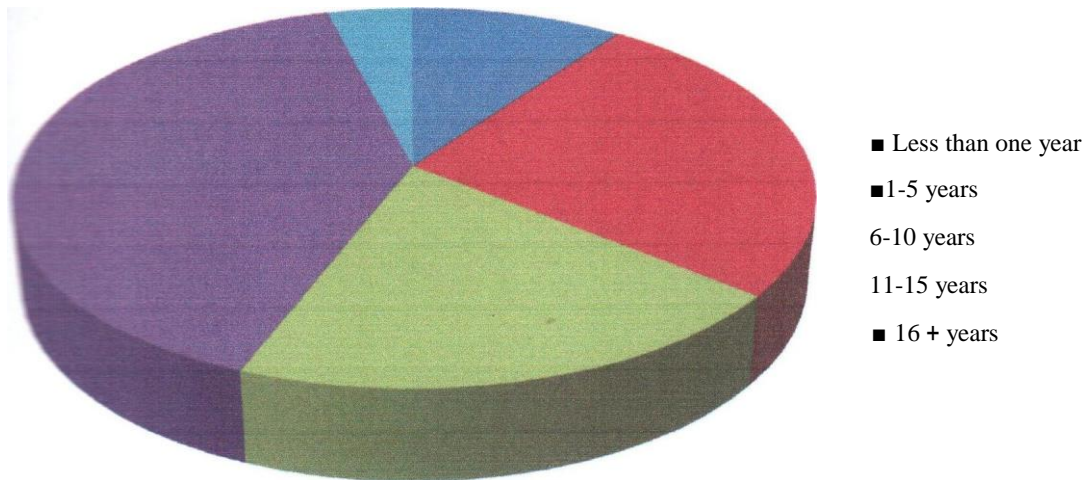**4.1.6 The period of existence of enterprises**

Table 7: The period of existence

Period	Number of respondents	Percentage
Less than one year	5	10
1-5 years	13	26
6-10 years	10	20
11-15 years	20	40
16- years	2	4
Total	50	100

Number of respondents

■ Less than one year

■1-5 years

6-10 years

11-15 years

■ 16 + years

Source: Primary data

The above table and pie chart definitely shows the period of existence of the various enterprise for example for those that exist for a period of less than one year constitute a percentage of I 0% and mhose that exist for a period of between 1-5 years have a percentage of 26%, and 6-10 years have - s,l1-15 years and 16+ have 40% and 4 % respectively.

~ - **The number of people employed in an Centenary bank (Kabale Branch- Ka bale** District)
Table 8: The number of employees

Number of employees	Number of respondents	Percentage
l person	10	20
1-2 people	5	10
3-5 people	9	18
5-10 **people**	20	40
ll people-	6	12
70al	50	100

me pure ace shows the number of persons employed in an enterprise for example enterprises **c ::m:,** ""::' 5-- ~ ~it:h the greatest percentage of 40%, 20% employs 1 person. 18% is for **"":::e::oe** ~~~·more than 11 people lastly but not least 10% employs between 1-2 people

CHAPTER FIVE

SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION 5.1. SUMMARY OF FINDING OF THE STUDY

7hebroad objective of this study was to identify the main bank-specific, industry specific and macro-economic factors that can affect Centenary Bank, Kabale-Branch lending interest rate and

what extent these detenninants exert impact on Centenary Bank, Kabale-Branch lending rate . i doing so, previous studies on lending interest rate have been reviewed and it is summarized that :::c :ending interest rate of banks is usually expressed as a function of internal and external determinants. The internal determinants refers to the factors that originate from bank accounts

2ance sheets and/or profit and loss accounts) and external determinants are variables that are cc: related to bank management but reflect the economic and legal environment that affects the cperation and perfonnance of financial institutions.

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ending rate. In doing so, previous studies on lending interest rate have been reviewed and it is summarized that the lending interest rate of bank is usually expressed as a function of internal and !!:Gernal determinants. The literatures differ about the category of factors that had the greatest c:.-luence on lending interest rate. Some of the studies argue that the main determinants of lending rate are bank- specific factors; whereas others claim that the industry specific factor and macroeconomic factors are the most important variables that explain the level of lending interest rate. Therefore, there is a continuous debate on the key determinants of lending rate in different countries. Cognizant of the need for further research in the area, the current study had proposed a model based on literatures to analyze the effects of bank specific. industry specific factor and macroeconomic factors on lending interest rate of Centenary Bank, Kabale-Branch

A number of explanatory variables have been proposed for both categories, according to the nature and purpose of each study. Studies dealing with internal determinants employ variables such as deposit rate, bank size, liquidity ratio, profitability ratio, operating cost to total asset ratio while fur external determinants, market concentration and inflation rate.

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... ce - - xtive of this research, the paper used quantitative research method. The **e iaa ere** mainly obtained from the banks themselves, from NBE and MoFEC through **ammemar** aalysis in order to identify and measure the determinants of banks lending interest

... ~ .. ~!e regression analysis is adopted to measure the effect of determinants on **ieig** *merest* rate ... quantitatively. This study has identified a number of variables that

... be:aring on lending interest rates in Centenary Bank, Kabale-Branch. Both the **ie** bank-specific variables) and external factors used in this study have found joint **uee** on **kenh**ug rate. Q\·erall results from the regression analysis estimated by random effect *regression* model revealed that deposit rate; operating cost to total asset ratio and market **"1!C ,,.:w,**h?d ?b7tive and significant effect on lending rate.

On the other hand, bank size,

...cio. profitability ratio affect lending rate of Centenary Bank, Kabale-Branch negatively .

Man rate has also positive and insignificant effect on lending rate

Generally, most of the findings were in line with postulates that bank specific variables, industry **sec.fc** factor and macroeconomic variables have an impact on bank lending interest rate.

52 Conclusion

The empirical result of this study showed that bank size, liquidity ratio and profitability ratio had **sgifcant** and negative effect on lending interest rate in Centenary Bank, Kabale-Branch and Deposit rate and operating cost to total asset ratio had significant and positive impact on lending

rest in Centenary Bank, Kabale-Branch. Industry specific factor market concentration has sgerficant and positive effect on lending interest rate of Centenary Bank, Kabale-Branch. Inflation *ae*is also positive and insignificant impact on lending interest rate in Centenary Bank, Kabale

Branch

Te study specifically examines the effect of bank determinants factors on lending interest rate of eenary Bank, Kabale-Branch based on the following conclusions.

- Deposit rate revealed positive and statistically significant impact on lending interest rate in Centenary Bank, Kabale-Branch. In other word, Deposit rate had the direct relationship **with** the lending interest in Centenary Bank, Kabale-Branch. The sign of deposit rate conform to expectation and this showed that as the Commercial bank deposit rate increases

  will definitely increases their lending rate in the bank.

- Bank size revealed negative and statistically significant impact on lending interest rate in Centenary Bank, Kabale-Branch. The large size bank has the advantage of providing a large menu of financial service to their customers and there by mobilize more funds which will lead to serving their customers with low lending rate. Bank size was a great determinant of lending rate of commercial banks as larger banks lacked the ability to offer lower lending rates as the interest spread maintained was lower compared to that of the smaller banks. Due to increased economies of scale, banks that maintain sufficient asset should benefit from their size and have lower lending rates

- Bank liquidity ratio revealed negative and statistically significant impact on lending interest rate Centenary Bank, Kabale-Branch. When liquidity ratio increased by one percent. the lending interest rate will decrease by 0.45% on average. the relationship is statistically significant at 1 % significant level. When bank total asset increase, bank lending rate moves upwards and low return of highly liquid asset.

- Bank Profitability ratio revealed negatively and statistically significant impact on lending interest rate in Centenary Bank, Kabale-Branch. Bank Profitability ratio indicator profitable banks have the capacity to implement modern Credit risk management system, technology and hiring trained man power/experts as well as having credit information access so that it contributes for low lending rate.

- Operating costs to total assets ratio is positive and statistically significant relationship between commercial bank lending interest rate. This implies that Operating cost increases the cost of banking institution which then results into higher lending rates, this is because banks may attempt to recover some of their costs. Implies that increasing the level of inefficiency tends to increase cost. The reason is high operating costs are likely to include costs due to inefficiency leading to higher lending interest rate.

- Market concentration has positive and statistically significant impact on lending interest rate in Centenary Bank, Kabale-Branch. This implies that significant positive effect of the HHI on the lending rate, suggesting that as banking industry becomes more concentrated

  the tendency to lead higher lending rate

eeriethe study reached on conclusion that variables deposit rate, bank size, liquidity ratio, rarity, Market concentration and Operating costs to total assets ratio significant effect on eu ngterestrate of commercial banks in Centenary Bank, Kabale-Branch.

5.3 Recommendations

Based on the findings of this study, the following recommendation is hereby proffered:

The study recommends, that the selected variables are determinant factors bank' son lending interst rate such as bank specific factors deposit rate, bank size, liquidity ratio, profitability ratio and operating costs to total assets ratio, Industry specific factors, market concentration and macroeconomic factors inflation rate to determine lending interest rate in commercial bank at an acceptable level except inflation rate. Based on the findings and conclusions above.

The study recommends that commercial banks evaluate their lending rates properly to ensure that they have adeqatre   loan disbursement but also high returns that would improve the financial performance. This therefore means that commercial banks need to clearly evaluate their lending rates and the cuss attached to the finances so as to come up with optimal returns.

eenary Bank should manage their internal inefficiencies; from the regression result operating ~ i11 total asset ratio and lending interest rate positive relationship in Centenary Bank, Kabaleranch This implies that high operating costs are likely to include costs due to inefficiency leading

   C:::gher lending interest rate. The commercial banks should give more attention in Improving asefficiency by reducing controllable operating expenses using appropriate cost reduction steges will help to bring bank loan price down. This can be done by moving towards multi⸱⸱⸱⸱ р ;,d banking products such as mobile banking, internet banking, agent banking and effective amlization of Automatic Teller Machine by using those advanced technologies.

Competition in the banking sector should be further enhanced and supported by policies that encourage and foster competition in the banking sector. Measures to promote the growth and image cf snail and medium sized banks, in an effort to increase their ability to penetrate markets and E, ~ dominance by few large banks.

- The study also recommends, large size bank has the advantage of providing a large menu of financial services to their customers as result Banks should try as much as possible to a

namer it will help them to cover cost associated with lending and at the same time, - ~' li:: king relationship with their borrowers. Bank management should mamaum ieig rate at carefully which is essential to the safety and soundness of banking msmum Moreover, Centenary Bank management should ensure that appropriate policies :rs management information systems and internal controls to maintain lending name a pal levels with consistency and continuity. This is Competitive advantage on ex c, ~ ·.es of s;:ale as the result large bank send loan to their customer with small landing

- As overall the researcher recommended to Centenary Bank, Kabale-Branch to incorporate fly the credit information they gather on their lending policies so as to ensure consumers wrh god credit ratings get competitive lending rate and don't suffer the effect of branded nsiy borrowers thus lacking credit or being charged high lending rates.

- ~ paid on deposits by individual banks is a major factor in banks. The higher the merest paid on these deposit the more the lending rate was and the smaller the interest paid ~ a:mcr me lending rate will be. When banks mobilize deposit from customers, they pay interest on mese deposits (i.e. saving and fixed time deposits) to ensure that deposits do not iose value over the period that the money is kept with the bank. The interest on deposits "inch is termed as borrowing rate is expensive for time deposits than saving deposits. Thus, Centenary Bank, Kabale-Branch should strategize on how to attract and retain more saving deposits rather than focusing on mobilization of fixed time deposits so as to reduce interest expense thereby further improve their lending rates

Further Research

This study   concentrated on the determinants of lending interest rates in Centenary Bank, Kabale Brach The study did not consider other factors affecting lending interest rate of Centenary Bank, Kabale-Branch like management efficiency, policy rate; exchange rate and Treasury bill rate and use primary data as this would help capture qualitative information that cannot be quantitatively captured in financial statements. Therefore, future studies conducted on these areas to expand the

ievel of knowledge

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