INFLATION AND THE PERFORMANCE OF BANKING INSTITUTIONS IN UGANDA A CASE OF BARCLAYS BANK

BY

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DECLARATION

I Opiding Dorcas wish to submit my thesis titled "Inflation and performance of banking institutions especially Barclays Bank", with the approval of my supervisor;

....10TH...AUG...2018..

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DEDICATION

I dedicate this thesis to my dear mother Catherine Ayobo, my father Nelson Epongu, my brother

Emmanuel Etonu and my sister Naomi Amunyo for their enduring love care and encouragement

towards the completion of this work.

ACKNOWLEGEMENT

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LIST OF ACRONYMS

ABG   African Business Guide

ACB   African Central Bank

AIB   African Investment Bank

AMF   African Monetary Fund

AU   African Union

BOU   Bank of Uganda

CBK   Central Bank of Kenya

EAC   East African Community

FSB   Financial Stability Board

GBR   Global Banking Report

GDP   Gross Domestic Product

GFDR   Global Financial Development Report

G-SIBs   Global Systematically Important Banks

HHI   Herfindahl-Hirschman Index

IMF   International Monetary Fund

LCR   Liquidity Coverage Ratio

NPLs   None Performing Loans

ROA   Return on Assets

ROE   Return on Equity

ROI   Return on Investment

SMEs   Small and Medium sized enterprises

U.K   United Kingdom

U.S.A   United States of America

UBOS   Uganda Bureau of Statistics

ABSTRACT

This study was adopted to analyze the effect of inflation on the financial performance of banking institutions especially Barclays Bank Uganda. The study was guided by three objectives; (i) to examine the trend of inflation in Uganda (ii) to assess the financial performance of Barclays Bank Uganda and (iii) to analyze the relationship between inflation and financial performance of banking institutions. The study applied a quantitative research approach mainly descriptive correlational research design. Secondary data for a period of 18 years (2000-2017) was used concerning the study variables. The data was collected following the Data mining technique and analyzed using SPSS statistical package. The findings of study were presented in form of descriptive statistics such as means, minimum, maximum, standard deviations, time series graphs, Pearson's linear correlation coefficient and linear regression analyses. According to the findings of the study, it was indicated that there has been an increasing trend in the rate of inflation in Uganda. Also the findings revealed that there has been a decreasing trend in the returns on investment, a constant trend in the returns on assets and an increasing trend in the shareholder's equity of Barclay Bank. It was also indicated that there is a weak positive and insignificant relationship between inflation and returns on assets ($r = 0.368$, $p = 0.133$). It was revealed that inflation does not have a significant effect on shareholder's equity (p. value $=0.892$). Similarly, it was found out that the effect of inflation on returns on investment was weak, negative and insignificant ($r = -0.316$, $p = 0.201$). The study thus concludes that inflation has no effect on performance of Banking Institutions. Therefore the study recommends that the Banking Institutions should target other economic factors that affect financial performance such as stock prices and interest rates.

Keywords: Inflation, Financial performance, Consumer Price Index, Returns on Assets, Returns on Equity, Returns on Investment.

CHAPTER ONE

1.0 Introduction

This chapter will cover the background of the study, problem statement, purpose of the study, objectives of the study, research questions, scope of the study, conceptual framework, and significance of the study and operational definition of key words.

1.1 Background of the study

According to the Global Financial Development Report, (2017/2018), international banks operate in foreign countries through local affiliates and cross-border lending. They offer opportunities to promote economic development because they bring with them capital, liquidity, expertise, and new technologies, which can lead to more investment, greater competition, and better resource allocation. International banks also play a risk sharing role-that is, they can help host countries stabilize their credit supply during a local downturn, and they can shift resources back to the home country when conditions at home worsen. However, there are also reasons for caution. Borrowing from abroad involves risks such as foreign exchange exposures and other mismatches. Risk sharing can also expose host countries to systemic risks from time to time. And because global finance tends to be more pericyclic than domestic finance, this factor could more easily lead to boom-bust cycles in poor institutional environments.

Successful international integration, supported by sound national policy and effective international cooperation, has underpinned most experiences of rapid growth, shared prosperity, and reduced poverty. Perhaps no sector than banking better illustrates both the potential benefits and perils of deeper international integration. International banks, banks that do business outside the country where they are headquartered, are often considered important contributors to sustainable financial development, by promoting economic growth. The decade before the 2007–09 global financial crisis was characterized by a significant increase in financial globalization, particularly for banking institutions, which coincided with increases in bank size to unprecedented levels (Claessens 2016; Demirgüç-Kunt, Evanoff, and Kaufman 2016).

These changes were manifested in both a rise in cross-border lending and a growing participation of foreign banks around the world as they became an integral part of financial systems, especially in developing countries. International banking activities may contribute to faster growth, greater welfare, and enduring stability in two important ways: first, by bringing much-needed capital, expertise, and new technologies, thereby leading to more competitive banking systems; and second, by enabling risk sharing and diversification, thereby smoothing out the effects of domestic shocks (Claessens, Demirgüç-Kunt, and Huizinga 2001; Cull and MartínezPería 2010; Goldberg, Dages, and Kinney 2000).

Depending on the conditions, however, international banking may also lead to costs. Risk sharing will inevitably expose host countries to systemic risks from time to time; and more recently, international banks have been criticized for playing a role in the transmission of shocks across borders during the global financial crisis (De Haas and van Lelyveld 2014).

Cross border bank flows also play a crucial role in transmitting global liquidity to local financial systems, and international banking may promote destabilizing boom-bust cycles in poor institutional environments (Borio, McCauley, and McGuire 2011; Bruno and Shin 2015a).

In the wake of the global financial crisis, the globalization trend has been partially reversed, as multinational banks from developed countries "the North" have scaled back their international operations, coinciding with a general backlash against globalization. While banks based in high-income countries drove exits, developing country banks continued their international expansion, accounting for the bulk of new entry into foreign markets. Cross-border bank claims and syndicated loans also saw significant retrenchments, but "South–South" transactions from developing countries to other developing countries started growing, starting to replace the leading role of "North–South" transactions in the aftermath of the global financial crisis. This greater South–South activity has also coincided with regionalization, both in the roster of foreign banks in many host countries and in cross-border flows. The full causes and implications of these changes are not yet completely understood. Post crisis supervisory and regulatory reforms intended to enhance bank balance sheets and financial stability, such as more stringent capital requirements for banks and macro prudential regulations, have been at least partially responsible for these changes, affecting the supply of credit. During the crisis, banks also reduced lending as demand for external financing abroad declined, and sovereign and other risks increased. In

addition, the crisis highlighted the need for greater cooperation in resolving troubled banks with multinational operations and a more explicit ex ante understanding of the associated burden sharing. More generally, the regionalization of international banking is prompting countries to contemplate regional regulatory and supervisory approaches. Given these developments, international banking has attracted heightened interest from policy makers, researchers, and other financial sector stakeholders. The global financial crisis has certainly led to a reevaluation of the potential benefits and costs of bank globalization because many observers perceive global banks to have been mainly responsible for the transmission of shocks across borders during the recent financial crisis (Demirgüç-Kunt, Evanoff, and Kaufman 2016).

Concerns about the effects of international banking in particular, global systemically important banks (G-SIBs), which are deemed to be too big and interconnected to fail have been voiced by the Financial Stability Board (FSB), the G-20, and policy makers around the world.

The Global Financial Development Report (2017/2018): Bankers without Borders seeks to contribute to this debate on the benefits and costs of international banks and provide evidence-based policy advice. The report examines both new and existing evidence on the activities of international banks, focusing on their international brick-and-mortar operations as well as their cross-border activities, and their drivers and economic effects. Overall, the report sifts through research evidence to shed light on the following long-standing policy concerns: To what extent should developing countries trust international banks with the local provision of their financial services, given that they may retrench and lead to a significant erosion of skills and services due to pressures from their home countries? Should developing country authorities be especially cautious in their approach to admitting South–South international banking activities? Is a lack of experience or insufficient home country prudential regulation and supervision a concern, or is it offset by the region-specific knowledge that gives these banks a better potential to provide banking services in developing countries? Does allowing foreign banks to have a larger market share risk reducing access to and increasing the price of banking services for small and medium-sized enterprises (SMEs) and lower-income households? Finally, how is technology especially financial technology (fintech) firms that work globally and across borders through digital products likely to influence international banking? The report provides a synthesis of what we

know, as well as areas where more evidence is still needed and recent developments that raise many new questions.

According to Global Banking, (February, 2018), Africa's fast-growing, profitable banking markets Global media reports are more likely to highlight Africa's social and political problems than its rise as a business market. Yet the reality is that the continent is in the midst of an historic acceleration that is lifting millions out of poverty, creating an emerging consumer class, and propelling rapid economic growth in many economies. Reflecting this broader economic progress, Africa today is the second-fastest-growing banking market in the world, taking both retail and wholesale banking together. Between 2012 and 2017, African banking revenue pools grew at a compound annual growth rate of 11 percent in constant 2017 exchange rates. We expect the African banking market to remain a growth leader going forward, growing at a rate of 8.5 percent over the next five years.

Africa is also the global banking industry's second-most profitable region: the ROE of its banks in 2017 stood at 14.9 percent, second only to Latin America and comparable to other regions such as Emerging Asia and the Middle East. The ROE of African banks was more than double the 6 percent achieved by banks in developed markets. African banks' profitability in 2016 was marginally higher than in 2012, driven by improved margins, although these gains were largely offset by higher risk costs. Indeed, as we will see later, African banks increased their margins by 0.9 percentage points over this period to 6.8 percent, while globally, margins remained flat at 3.8 percent. In terms of size, Africa's banking market is today approximately $86 billion in revenues before risk cost. Our projected growth for Africa banking revenue pools of 8.5 percent a year between 2017 and 2022 will bring the continent's total banking revenues to $129 billion. Of that total, $53 billion will be in retail banking, up from $35 billion in 2017, an absolute growth in retail banking revenues of $18 billion. (GBR, 2018)

According to the African Business Guide, (2015), the AU Constitutive Act provided for three specific financial organs to be created, the African Central Bank (ACB), African Investment Bank (AIB) and African Monetary Fund (AMF). The role of these institutions was to implement the economic integration called for in the 1991 Treaty Establishing the African Economic Community (Abuja Treaty)

This resulted in the creation of the regional divisions in the continent that brought about the following regional financial institutions; African Development Bank Group, Bank of Central African States, Central Bank of West African States, Committee of Central Bank Governors of the Southern African Development Community, Development bank of Southern Africa, East African Development Bank, Industrial Development Corporation of Southern Africa among others. (African Business Guide, 2015).

According to the East Africa Banking Sector, (2013/14), covering Kenya, Uganda, Rwanda and Tanzania (KURT), total KURT banking sector assets amount to US$52 billion, with Kenya holding the largest share at 60%,followed by Tanzania at 23% and Uganda at 13%. Rwanda controls only 4% of the region's bank assets. Uganda led the banking sector in asset growth in 2013, with a solid double digit 20% gain. Rwanda by contrast reported the lowest growth at 4%. Kenya and Tanzania both reported double digit growth but down from 2012 levels. Kenya's and Uganda's banks lead by yield ratios, Rwandan banks in efficiency. Measured by operating efficiency, Rwanda lead their regional peers followed by Kenyan banks. Ugandan banks enjoy the highest portfolio yield and they also feature the highest gross yield on earning assets. Tanzanian banks pay the lowest deposit rates. Kenya is the most profitable banking market in East Africa. Kenya's banks are able to deploy a greater proportion of their assets to lending, as a result of which their expense to interest income ratio is the lowest in the region. Rwandan banks are the best capitalized in the region. Uganda has the highest liquid assets in the region. The gross interest margin varies between 45.4 percent and 53.6 percent. Capital adequacy ratios are high across the region with Rwanda leading by a considerable gap to the other three markets.

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. Kenya's financial system is among the largest and more developed in sub- Saharan Africa, with a large banking sector. The banks, non-banking finance institutions, microfinance institutions and building societies are supervised by the central bank of Kenya (James, 2010).

With 44 licensed commercial banks, Kenya's banking industry over the last two decades has been characterized as having too many banks but with too few branches. It should be noted that the six largest banks in terms of asset size control close to 70% of the market, while the mid-

sized banks control much of the rest. However, the banking landscape has gradually changed over the last decade, with most large-size and mid-tier banks aggressively increasing their capital base and extending their branch networks across the country; while a few have expanded regionally. In particular, over the last three years there has been a concerted push by Kenyan commercial banks into the rural areas and lower income urban areas in an attempt to reach the previously unbanked population. Over the same period, banks have also increased their focus on developing banking products for small and medium sized enterprises (SME's) as well as the retail end of the market. This move has been spurred by increased competition among banks which has compelled them on an endeavor to grow their market shares and source for lower cost deposits from the SME and retail market segments (Richard, 2010).

According to BOU, (June, 2017), the banking sector registered increased growth in the year to June 2017. Total assets of commercial banks grew by 9.0 percent between June 2016 and June 2017, up from 5.5 percent in the previous year. The increase in assets was mainly driven by banks' increased holdings of securities, amidst a shift away from loans, which recorded sluggish growth. Banks' holdings of BOU securities increased fourfold, from USh.0.5 trillion at June 2016 to USh.2.0 trillion at June 2017. Banks also increased their holdings of central government securities by 3.5 percent, from USh.5.0 trillion at June 2016 to USh.5.1 trillion at June 2017. However, this growth rate was lower than that recorded in the year to June 2016 of 15.9 percent. This was attributed to a slowdown in the issuance of central government securities from 14.7 percent growth in the year to June 2016 to 3.4 percent growth in the year to June, 2017.

Banks maintained adequate liquidity buffers well above the regulatory minimum requirements, thus keeping liquidity risk low. The build-up of excess liquidity in the banking industry partly reflected the slowdown in lending by commercial banks. The liquid assets-to-total deposits ratio rose from 43.4 percent in June 2016 to 50.1 percent in June 2017, more than double the regulatory minimum requirement of 20.0 percent. The Liquidity Coverage Ratio (LCR) for the aggregate industry balance sheet stood at 252.9 at June 2017, compared to 188.4 at June 2016. This was because the stock of high quality liquid assets increased by 35.7 percent, of which over 60.0 percent comprised of cash and balances with BOU. Banks' liquidity management also improved over the year as the deficit on the short-term gap reduced to an all-time low10 of 3.7

ercent in March 2017, due to increased investments in the short-term BOU securities. (BOU, .017)

According to Monetary Policy Report, (2012), the banking sector's total assets increased by Ushs.1.7 trillion between December 2010 and December 2011 to reach Ushs.13 trillion, representing an annual growth rate of 14.9 percent. Annual growth of bank loans and advances, the strongest driver of banks assets, declines to 27.9 percent during 2011 from 35.1 percent in 2010. There was also a decline in the value of government securities held by banks as these amounts dropped to Ushs.2.1 trillion in December 2011 from Ushs.2.5 trillion in 2010. The rate of growth of off-balance sheet items rose significantly during the period under review, rising by 71.4 percent in 2011 from a decline of 9.6 percent in 2010. The growth in these items reflected a rise in the use of foreign exchange services and credit guarantees.

According to Barclays Bank of Uganda Limited, (2017), Barclays Bank of Uganda Limited has reported a rebound in after-tax profit growth following a slight dip in 2016. Net profits after tax grew 30.8% in 2017 to Shs72bn, audited financials released in the print press on Monday show. The rebound was driven by a "very strong revenue performance and cost efficiencies," according to the results release. Barclay's total revenue increased by 11.9% to Shs304.4bn, driven by an 18.3% increase in interest income which was 74% of revenues compared to 70.2% last year. An increase of Shs13.8bn in interest received from deposits with other banks and group companies was the biggest contributor to the growth in interest income. Interest earned on loans and advances to customers rose 5.3% to Shs131.5bn, while interest on investment securities increased by 15% to Shs62.5bn.

The bank's non-interest revenue declined by 2.6% following a marginal growth in fees and commissions revenues and a fall in foreign exchange income. Income from fees and commissions grew by only 1.6% to Shs56.8bn, while foreign exchange income declined for the second straight year by 12.1%; in 2016 it was down by 20.9%. Barclay's expenses rose 8.4% from a year ago, a more restrained rate than 2016's 16.9% growth, to come in at Shs217.6bn. The provision for loan impairments increased to Shs32.9bn, Shs6.6bn more than in 2016, while management fees were up 85.3% to Shs12.2bn. Interest costs increased to Shs36.9bn, 23.7% higher than in 2016. The bank paid Shs32.6bn in interest to depositors and Shs4.2bn as borrowing costs in 2017. But the more interesting expense item was the decline in other operating

expenses which include employee benefits, infrastructure costs, and administrative and general costs. They fell 1.9% to Shs125.9bn versus an increase of 7.5% in 2016. According to the results release, Barclay's costs were contained as we continue to invest in enhancing customer channels and improving operational efficiency. Reducing costs by investing in and technology and driving many routine transactions to technological platforms, say paying school fees or withdrawing money using bank's mobile phone apps and mobile money and investing in information technology infrastructure to fight operational risk is now mandatory in any bank's strategic plan. (BOU, 2017)

1.2 Statement of the problem.

According to Barclays Bank Uganda Limited financial statement, (Dec 31, 2017), the bank's total assets accounted to shs.2, 477,255, its total shareholders' equity accounted to shs.448, 204 and the investment securities accounted to shs.471,741. The Ugandan economy grew by 4.0 percent in the year to June 2017, 0.8 percentage points lower than that achieved in the financial year 2015-2016. The economy was mainly affected by global economic imbalances, the impact of adverse weather conditions on crop production and geo-political events in key trading partner countries. However, real GDP growth is projected to pick up to 5.5 percent for the fiscal year 2018-19, supported by scaled-up public investment in planned infrastructural projects and a more relaxed monetary policy stance.

According to BOU, (2017), between June 2016 and June 2017, ROE and ROA were affected by both decreased net profit margin and decreased asset turnover. The industry's net profit margin declined by 2.3 percent mainly as a result of increased provisioning for bad debt. Asset turnover declined by 3.5 percent as revenue growth was affected by poor asset quality, which resulted in decreasing interest income from loans and advances. An increase in equity as a proportion of assets also had a negative impact on banks' ROE as the equity multiplier decreased from 6.2 percent at June 2016 to 5.9 percent at June 2017. The decomposition also reveals that while asset turnover increased in the year to June 2016, net profit margins declined thus affecting profitability. The steep increase in banks' NPLs, which started in December 2015 had a contemporaneous effect on net profit margins in the year to June 2016 as a result of increased provisioning. However, the negative effects on asset turnover were lagged, and only fully materialized in the year to June 2017.

Barclays Bank Uganda and other banks in Uganda face the challenges of how to strengthen bank lending to the private sector, rising non-performing loans and difficulties in realizing the value of loan collateral in property markets, how to reduce operating costs without compromising service delivery among others. These challenges affect the performance of these institutions. Recent increases in the international market prices of fuel and food prices have also had pass-through effects on the performance of the banking sector. The Bank of Uganda has responded by putting in place some short-term measures that fall within its mandate. The most notable of such measures has been the upward revision of the interest rates from 23 percent and 27 percent up to 31 percent.

1.3 Purpose of the study

The purpose of the study was to analyze the effects of inflation on the performance of Ugandan banking institutions most especially Barclays Bank Uganda.

1.4 Specific objectives of the study

   i.   To examine the trend of inflation in Uganda.

   ii. To assess the financial performance of Barclays Bank Uganda.

   iii. To analyze the relationship between inflation and financial performance of banking institutions.

1.5 Research questions

   i.   What is the trend of inflation in Uganda?

   ii. What is the financial performance of Barclays Bank Uganda Limited?

   iii. What is the relationship between inflation and financial performance of banking institutions?

1.6 Scope of the study

1.6.1 Time scope

The research was of eighteen years from 2000 to 2017

1.6.2 Geographical Scope
The research was carried out at Barclays bank Bugolobi branch.

1.6.3 Theoretical Scope.
The positivists' theory; the proponents of this theory expressed that inflation has a positive significant impact on investment decision of organizations, hence inflation tends to encourage investment. And one of his major arguments is that inflation results in a more rapid economic growth as it tends to redistribute income from wages to profits for investment purposes. (Griffiths, 1979)

The negativists' theory; In contrast to the positivists' theory, the negativists' theory applied in this context asserts that inflation is an enemy to savings hence contributes adversely to profitability position of firms, thereby giving rise to low investment. (Hager 1977)

1.7 Significance of the study
The research helped in exposing facts relating to inflation and bank performance in Uganda. Specifically, it helped in answering questions like; why does the central bank put policies to curb inflation?

The commercial banks management, especially the top level management used the study to understand how inflation affects the financial performance of the commercial banks and set up strategies in handling its effects. They also understood the causes and effects of inflation and positively manage the consequences for better performance of the commercial banks.

The information gathered was used by Government, non-government organizations and banking institutions working in Uganda in developing viable possible policies and measures aimed at checking inflation.

The study also provided a basis for further research for academicians who would like to do research on inflation and performance of banks in Uganda and other African countries.

The information gathered by the study was also useful to readers interested in broadening their understanding on inflation and the banking sector.

1.8 Operational definition of key words

1.8.1 Inflation

Inflation is the persistent rise in the general prices of goods and services in an economy and it is usually expressed as annual percentage rate of change.

1.8.2 Performance of banking institutions

Performance is the extent to which the amount of revenue is generated with a certain amount of input and the extent to which value is created in comparison to the time required to create that value. Performance puts together different specific areas of a firm's outcome such as returns on assets, returns on equity and returns on investment.

1.8.3 Returns on Assets (ROA)

Returns on assets is a type of investment that measures the profitability of a business in relation to its total assets. It can be decomposed into two ratios-income statement ratio and balance sheet ratio.

1.8.4 Returns on Equity (ROE)

Returns on equity is the volume of net earnings returned as a percentage of trader's value. ROE measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

1.8.5 Returns on Investment (ROI)

Returns on investment is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of investments.

1.9 Conceptual Framework

This subsection chapter contains the dependent variable and independent variable coordinating to each other about inflation and performance of financial institutions in Uganda.

Figure 1. Conceptual Framework

INDEPENDENT VARIABLE   **DEPENDENT VARIABLE**

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┌─────────────────────────────┐          ┌─────────────────────────────────┐
│        Inflation            │          │     Financial performance       │
│   ●  Annual rate            │──────────│  ●  Return on assets            │
│                             │     ▲    │  ●  Return on equity            │
│                             │     │    │  ●  Return on investment        │
│                             │     │    │                                 │
└─────────────────────────────┘     │    └─────────────────────────────────┘
                                     │
              MODERATING VARIABLES   │
        ┌────────────────────────────┐
        │  ●  Interest rates          │
        │  ●  Government policies     │
        │  ●  Political climate       │
        └────────────────────────────┘
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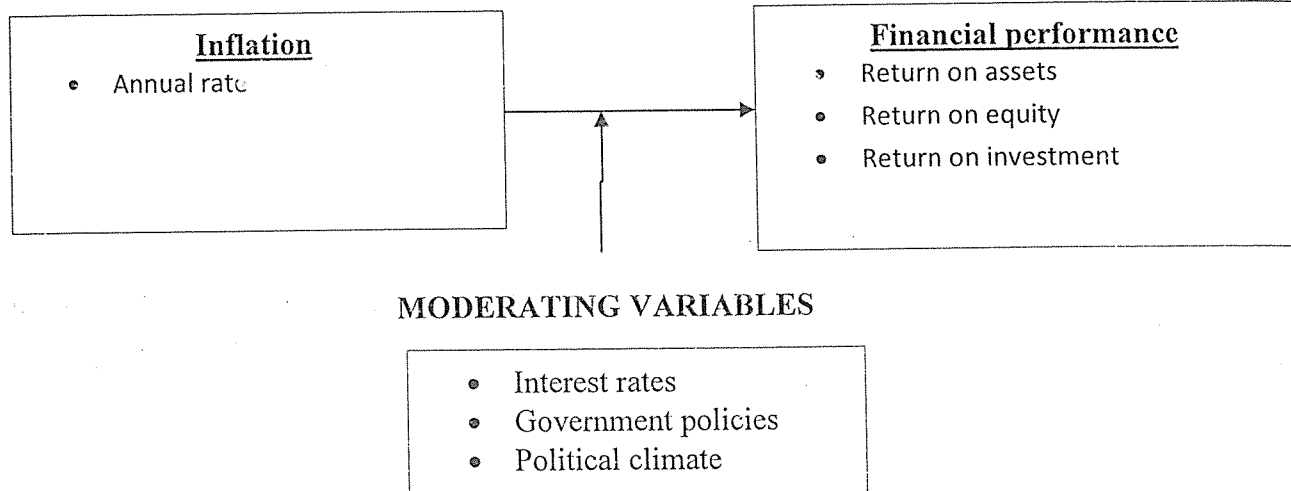
Source: *As modified by the researcher*

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section showed the concepts, opinions and ideas, causes of inflation in Uganda, types of inflation, inflation in Uganda, definition of performance, measures of performance, theoretical perspective on the relationship between inflation and performance of banking institutions, relationship between inflation and performance of banking institutions, related studies/empirical evidence on inflation and performance of banking institutions.

2.1 Concepts, Opinions and Ideas

2.1.1 Inflation

Inflation is an increase in the general price levels and it is typically expressed as annual percentage rate of change. Global price pressures affect the rates of inflation in the banking sector in most economies such as the U.K and emerging economies of China, Japan, India and Brazil. In instances where inflation remains flat as was the case in the euro zone and the U.S.A in 2011, the decline in inflation is dependent on temporary shock factors such as high commodity prices decline (William. R. Allen, 2007).

According to Eugene. F, (2011) a weaker shilling has resulted in to a higher inflation due to an increase in the price of imports, especially when coupled with the pressure of food prices in the East African region. Because of an uptick in inflation above the 5 percent target, the central banks in East African region have operated a tight monetary policy stance (including an increase in the bank rate) whose effects include high interest rates on loans and this has had adverse effects on the performance of banks.

Inflation is a sustained increase in the general price level of goods and services in an economy over a period of time. When the price level rises, each unit of currency buys fewer goods and services. Consequently, inflation reflects a reduction in the purchasing power per unit of money,

a loss of real value in the medium of exchange and unit of account within the economy. (Paul H. Walgenbach, Norman E. Dittrich& Ernest I. Hanson, 1973)

2.1.2 Performance of banking institutions

According to Richard E, (2009) financial performance puts together different specific areas of a firm's outcome such as profits, returns on assets, and returns on investment. He further notes that in recent years, many organizations have attempted to manage financial performance using the financial statements methodology where performance is tracked and measured in multiple dimensions as indicated on the balance sheets.

According to Albert E.N, (2009) financial performance refers to the cost efficiency and the profitability of the organization. Financial performance is based on the idea of profitability and looks at the company's total revenue or sales compared to total costs incurred to produce and deliver the products to the customers.

According to Kahn W.A, (1990) financial performance is the amount of revenue generated from the sales of the business. Therefore, in the context of small scale enterprises, financial performance will refer to the extent to which amount of revenue is generated with a certain amount of input and the extent to which value is created in comparison to the time required to create that value.

2.1.3 Returns on Assets (ROA)

According to BOU, (2017), ROA can be decomposed into two ratios, one income statement ratio and one balance sheet ratio. These include: the net profit margin and the asset turnover ratio.

According to Maria Shahid (2014), ROA actions how successful an organisation as compared to its represents how efficiently an organisation utilizes its assets. Generally, ROA used to compare companies in the same industry. Everything else equal, a greater ROA is better, it means that an organisation is more effective about using its assets.

2.1.4 Returns on Equity (ROE)

According to BOU, (2017), ROE can be decomposed into three ratios. The first is the net profit margin, an indicator for cost efficiency which shows how efficient a company is at converting its revenue streams into profits. The second is the asset turnover ratio, an indicator of asset utilization which shows the efficiency with which a company deploys its assets to generate revenue. The third is the equity multiplier, an indicator of financial leverage which shows the proportion of total assets financed by shareholders.

According to Maria Shahid (2014), ROE is the volume of net earnings returned as a percentage of trader's value. Come back on value actions organizations productivity by revealing how much profit an organisation generates with the money traders have invested.

2.1.5 Returns on Investment (ROI)

According to entrepreneur small business (2014), ROI is a profitability measure that evaluates the performance of a business by dividing net profit by net worth. ROI is the ratio of a profit or loss made in a fiscal year expressed in terms of an investment and shown as a percentage of increase or decrease in the value of the investment during the year in question.

According to IMF (2013), ROI is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments. ROI measures the amount of return on an investment relative to the investment's cost. To calculate ROI, the benefit of an investment is divided by the cost of the investment. The result is expressed as a percentage or a ratio.

2.2 Inflation in Uganda

According to the Uganda Inflation Rate Forecast Report, (2016), inflation rate in Uganda was expected to reach 6.9 percent by the end of the first quarter according to the Trading Economics global macro models and analysts' expectations. And by 2017, the inflation rate stands at 7.8 percent. And in the long-term, the Uganda inflation rate is projected to trend around 8 percent in 2020 according to the econometric models.

The Uganda inflation rate forecasts were projected using an autoregressive integrated moving average model calibrated using analysts' expectations. They model the past behavior of Uganda

inflation rate using vast amounts of historical data and they adjust the coefficients of the econometric model by taking into account the analysts assessments and future expectations.

2.3 Types of inflation

There are two major types of inflation that is headline and core as discussed below. Headline inflation captures the price changes of all items in the consumption basket. It also considered items that were prone to volatile price changes due to unpredictable factors.

When these items were excluded from the headline basket, then the measure is referred to as Core inflation. For example, in Uganda, the core inflation excludes as electricity, fuel products and metered watered water, as well as food crops and fresh milk among others. It was important to note that only food crops and perishable food such as milk whereas processed foods were categorized in the core inflation. (UBOS, 2011)

2.4 The causes of inflation in Uganda

According to the National Housing Census Report, (2014), one of the major drivers of inflation was increase in food prices. Of recent, food prices increased due to reduced supplies to the market. Reduced supplies were mainly attributed to a spell of drought in the country that began late December 2010 to early March 2011, which affected production of main food commodities. Moreover, there was an increased demand for Uganda's food commodities by neighboring countries (mainly South Sudan, Kenya and Rwanda).

According to Uganda Economy Update Report, (2016), rising fuel prices filtered through to the transport sector, which in turn raised the cost of food crops' distribution to markets. There were three major reasons why fuel prices were rising. First, world crude oil prices were high and continued to increase. Since all of the fuel products on the market were imported, it turned out that the country was importing inflation. Second, there have been oil supply shortfalls in the face of Middle East Crisis and rising demand of fuel products due to the combined effects of increased population and household income. Third, the shilling experienced depreciation pressures from international currencies especially the US Dollar, which was the main unit of international transaction. This made imports of fuels very costly.

According to Mukisa. C, (2011), the rising food prices were triggered by both the supply-side and demand side factors, both domestically and internationally. The increase in food prices reflected a complex interplay of temporary and long-term factors. Factors that may be reversible include drought, especially if current rains continued. High fuel prices and hence higher cost of fertilizer products have contributed to higher prices for all agricultural commodities. Higher costs of farm inputs including seeds and implements have constrained production causing rising food prices. Generally, inelastic supply response. Increasing domestic consumer demand and other external factors have also contributed to food shortages and hence rising food prices.

According to Annual Budget Performance Report, (2012), prices of imported foodstuffs have been rising. This was also true for all the other imported goods. Global inflation in Uganda's major trading partners such as China, India and Kenya have continued to rise, translating into higher domestic inflation. Besides, the increased prices of imported industrial raw materials passed-through to domestic costs of production and consequently to higher Core Inflation.

2.5 Definition of performance

According to Richard E, (2009) financial performance put together different specific areas of a firm's outcome such as profits, returns on assets, returns on investment. He further noted that in recent years, many organizations have attempted to manage financial performance using the financial statements methodology where performance was tracked and measured in multiple dimensions as indicated on the balance sheets.

According to Albert E.N, (2009) financial performance refers to the cost efficiency and the profitability of the organization. Financial performance was based on the idea of profitability and looks at the company's total revenue or sales compared to total costs incurred to produce and deliver the products to the customers.

According to Kahn W.A, (1990) financial performance is the amount of revenue generated from the sales of the business. Therefore, in the context of small scale enterprises, financial performance will refer to the extent to which amount of revenue is generated with a certain amount of input and the extent to which value is created in comparison to the time required to create that value.

2.6 Measures of performance

According to the International Research Journal of Finance and Economics, (2010), financial performance is the subjective measure of how well a firm can use its assets from its primary mode of business and generate revenue. It is also used as a general measure of a firm's overall financial health over a given period of time.

In the banking sector, in order to measure financial performance, aspects such as rates of return on assets, rates of return on equity, rates of return on investment, liquidity ratio, cash ratio and bankruptcy need to understand profitability of the banking industry.

Profitability refers to the efficiency of a company at generating earnings (Shaufeli W.B, 2006). It is the amount of output per unit of input (labor, equipment and capital). The company's ability to generate net income on a consistent basis together with the measure that indicates how well a company is performing in terms of its ability to generate profit.

2.7 Theoretical perspective on the relationship between inflation and performance of banking institutions

The negativists' theory; the negativists' theory applied in this context as propounded by (Hager 1977) asserts that inflation is an enemy to savings hence contributes adversely to profitability position of firms, thereby giving rise to low investment. According to Cameron (1972), a tradition criticism of this standard money supply-based theory is that inflation reduces the value of money and increases risk, hence low investment. This argument is correlated to the fact that inflation is a tax on money and revenue in the private sector of the economy is reduced because of such tax, hence little or no investment. This school of thought described the effect of inflation on profitability position of firms as being distorting on the firms performance and valuations of its capital and which in turn affects the investment decisions of its management and investors. The contribution submitted that when unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy is alarming and discouraging because the increase in uncertainty makes investors reluctant to invest in capital or make long term commitments. This theory believes that the effect of raising capital makes new investment relatively unattractive and this contributes to the weakness in the investment climate. The theory concludes that inflation

exerts a negative influence not only on investment decision but on other economic performance indicators especially the gross domestic product (GDP) of the economy.

2.8 Relationship between inflation and performance of banking institutions

Eugene. F, (2011), notes that inflation causes damage to the banking institutions. Due to inflation non-performing loans increase and damage the bank balance sheets. The other impact of inflation on the financial sector in developing countries is often associated with the drop in the demand for government securities as investors retreat to safer destinations such as USA. For example, Bank of Uganda had to suspend a number of Treasury bill auctions in the first quarter of 2009 due to inflation.

IMF, (2011), due to inflation, many capital withdraws were made in Uganda. Moreover, the structure of the Uganda's banking sector was above 80% of the banking business foreign owned possess a potential risk to the economy since local banks may face difficulty as a result of their parent companies withdrawing funds to support operations abroad.

BOU Report, (2011), inflation impacted negatively on the financial markets. The impact on the financial market was often severe with a large number of foreign investors retreating to the safer markets in the developed world, especially to the USA Treasury bills. This has not only affected the market for Uganda Treasury bills but also the stock market, which resulted in the Uganda Stock Exchange falling by 29.4% over the period September 2008 to February 2009 compared to an increase of 4.4% in the similar period in the previous financial year.

According to Huybens and Smith, (2009), a growing theoretical literature described mechanisms whereby even predictable increases in the rate of inflation interfered with the ability of the banking sector to allocate resources effectively. More especially recent theories emphasized the importance of informational asymmetries in credit markets and demonstrated how increase in the rate of inflation adversely affected credit market frictions with negative repercussions for financial sector performance.

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According to Barro R.J, (2005), inflation depreciated the value of money. For example, an inflation rate of 4 percent means that the dollar fell in value at an annual rate of 4 percent in terms of the goods it bought.

According to international journal of innovation and economic development, (oct 2015), inflation damaged economic growth through declined financial development especially by damaging the operation of financial markets.

A recent case study of Brazil by Bittencourt, (2007, 2011) using time series and panel data concluded that high inflation had a positive impact on financial development due to poor macroeconomic performance.

2.9 Related studies/empirical evidence on inflation and performance of banking institutions

According to BOU, (2016), the banking system remained sound, with liquidity and capital buffers remaining well above the minimum requirement. However, macro financial challenges led to a significant deterioration in bank loan quality and affected the performance of several systemically important financial institutions. There was a slight increase in concentration in the banking sector, as measured by the Herfindahl-Hirschman Index (HHI), particularly in the last two quarters to June 2016, to 909.3 in June 2016. Over the year to June 2016, the banking sector's asset quality deteriorated, as measured by the increasing ratio of non-performing loans to total bank credit (NPL ratio). The aggregate industry NPL ratio increased to the highest recorded NPL ratio in over 15 years, from 4 percent in June 2015 to 8.3 percent in June 2016. Bad loans increased to USh.906.2 billion. The profitability of the banking sector reduced in the year to June 2016. Banks' aggregate net after tax earnings were USh.485.6 billion, down from USh.556.3 billion in the previous year to June 2015. The banking system's return on assets and return on equity dropped from 2.8 percent and 17.7 percent respectively in June 2015 to 2.2 percent and 13.8 percent respectively in the year to June 2016.

In the case of Zimbabwe, Murombedzi (2008) reported that enlarged inflation damaged the development of financial institutions through troubling channels. Correlation in such case was found to be feeble.

According to IMF, (2017), Private sector lending by banks in the EAC region slowed down in the year to June 2017, with Burundi witnessing a contraction of 4.2 percent, for the period under review. The slowdown in credit growth partly reflected banks' aversion to risk amidst a decline in loan quality and a challenging economic environment in the region. Data on asset quality in the region revealed that credit risk rose between June 2016 and March 2017 as all countries experienced a gradual increase in NPL ratios during this period. Tanzania's banking sector registered the largest increase in their aggregate NPL ratio, 1.9 percentage points to reach 10.9 percent in June 2017. Burundi maintained the highest NPL ratio in the region with 11.5 percent as at the end of June 2017. The slowdown in credit growth in the region occurred despite falling interest rates, with the exception of Tanzania. The most notable change in lending rates occurred in Kenya following the regulation on interest rate caps which was passed by the Parliament of Kenya in September 2016. Between August 2016 and June 2017, the average lending rate in Kenya dropped from 17.7 percent to 13.7 percent, during which period annual private sector credit growth declined by 2.9 percentage points to reach 1.5 percent. In the short to medium term, the impact of the caps is likely to be two-fold: a contraction in the supply of credit to the private sector as banks tighten lending standards to guard against credit risk; and a fall in banks' earnings because of the narrowing interest margins. Nevertheless, the full impact of the law is yet to be determined. While the drop in interest rates was not as drastic in the other East African countries, the narrowing interest margins, coupled with slow credit growth, had an overall negative impact on banks' profitability in the region. On average, regional bank profitability as measured by banks' return on assets decreased from 2.8 percent in the year to June 2016 to 2.3 percent in the year to June 2017.

According to EAC Member States, (2017), the economic commission for Africa forecasted that the region's growth would increase to 6.0 percent in 2017 and 6.3 percent in 2018, backed by robust performance in Kenya, Rwanda and Tanzania. The region's currencies experienced a gradual depreciation against the U.S. dollar during the financial year 2016-2017, although they stabilized toward the end of the second quarter of 2017. Inflation in the region peaked at an average of 10.2 percent in March 2017 from 5.1 percent in June 2016, mostly due to drought and falling currencies. Going forward, inflation was expected to remain low and stable over the medium term.

According to D. Oleka Chioma, (2014), inflation impacted positively on the investment decision of corporate entities like banks but the impact was not significant. In other words investment decision of lending volume of commercial banks in Nigeria was impacted upon positively by inflation. However, this impact was not significant hence did not influence lending decision of banks. Hence, inflation, though positively has not significantly influenced the investment decision of Nigeria commercial banks for the periods under review.

According to Mohammed Umar, (2014), inflation affected banks performance as it transferred money from savers and investors to debtors. Therefore, the opportunity cost of holding currency in the future may discourage savings that would in turn affect the performance of banks. The amount of savings that would be available at the disposal of the banks would decrease as savers would prefer to invest in non-monetary capital projects to avoid losses expected from the declining purchasing power of money. Another effect of inflation was that the purchasing power currency became less valuable with the passage of time and that affected the bank exchange rate regime which worsened the trade performance of banks and further discouraged export which led to deficit bank balance and fall in the exchange rate. Inflation disrupted business planning of banks. Budget became difficult because of the uncertainties created by the phenomenon in both prices of services and cost of inputs that reduced planned investment spending.

According to R Santos Alimi, (2014), inflation presented deleterious effects on financial development over the study period. The main implication of the results is that poor macroeconomic performance has deleterious effects to financial development, a variable that is important for affecting economic growth and income inequality. Moreover, we observe a negative effect of the measures of financial development on growth, suggesting that impact of inflation on economic growth passes through financial sector. Therefore, low and stable prices is a necessary first step to achieving a deeper and more active financial sector that will enhance growth as predicted by Schumpeter.

According to Robert Cull, Sven Harten, Ippei Nishida, Greta Bull (2014), in recent years, there has been a rapid increase in the presence and growth of Greenfield micro financial institutions in sub-Saharan Africa. Greenfields grew faster in terms of deposits and lending, improved their profitability to levels comparable to the top micro finance institutions and substantially increased their lending to women. The effects were especially strong for Greenfields that followed a

consultant-led model to establish a deep retail banking presence spanning multiple countries including the creation of extensive branch networks. Although their loan sizes are somewhat larger than those of most African micro financial institutions indicating less outreach to the poorest market segments, Greenfields have achieved rapid gains in financial inclusion on a broad scale.

According to Boyd and Champ, (2017), inflation can have a direct impact on the optimization strategies of economic agents. For instance, banks may alter their incentives to lend as the opportunity cost of money changes with inflation. Similarly, firms may also modify their choice between using internally generated funds or external sources to finance new capital investments. That, in turn, may have an additional impact on banks' decision making, as they perceive a modification in the quality distribution of prospective entrepreneurs.

According to Carlson School of Management, University of Minnesota, (February, 2000), as inflation rises, the marginal impact of inflation on banking lending activity and stock market development diminishes rapidly. Moreover, we find evidence of thresholds. For economies with inflation rates exceeding 15 percent, there is a discrete drop in financial sector performance. Finally, while the data indicate that more inflation is not matched by greater nominal equity returns in low-inflation countries, nominal stock returns move essentially one for one with marginal increases in inflation in high-inflation economies.

According to Elisabeth Huybens, Bruce D Smith (1999), empirical evidence suggested that real activity, the volume of bank lending activity and the volume of trading in equity markets were strongly positively correlated. At the same time, inflation and financial market activity were strongly negatively correlated (in the long run), as inflation and real activity were also negatively correlated in the long run particularly for economies with relatively high rates of inflation.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section showed the research design, data collection methods, data processing and analysis, and expected limitations of the study.

3.2 Research Design

This research employed a descriptive-correlational research design. This helped to generate quantitative data on the performance of Barclays Bank in terms of returns on assets, returns on equity and returns on investment for a period of eighteen years on annual basis. Data was collected from Barclays Bank annual reports, internet, text books, journals, magazines among others.

3.3 Data collection methods

Data was collected through data mining method.

3.3.1 Secondary Data

Secondary data basically involved reviewing literature that had already been written about the topic under study. The researcher therefore used the internet, text books, journals, magazines and company annual reports among others.

3.4 Data Processing and Analysis

3.4.1 Data processing

This section involved scrutinizing of the data that was obtained. The data was sorted, edited and classified to suit the study.

At the completion of data collection, the data was edited, processed, analyzed using Statistical Packages such as SPSS, MS Word and Excel Computer program to reduce on errors and check for relevancy and adequacy. Data is thematically arranged and integrated into a report.

Editing; this involved examining data collected especially in the survey so as to detect errors of omission and correct them where possible. It involved a careful look at the complete data collected and for this study field, editing was done by the researcher during data mining.

3.5.2 Data analysis procedure

The data was analyzed using SPSS and was used to summarize data into time series graphs. This determined the computation of Linear Correlations Analysis of Variance to assess the effect of inflation on the performance of banking institutions as it was spelt out in the study objectives and conceptual framework.

3.6 Limitations of the study

The researcher encountered a few limitations during the study.

i. Time; the researcher faced a challenge of limited time to beat the deadlines as stipulated in the time frame. The researcher overcome this by diligently following the proposed time frame. In addition, the researcher had limited time for carrying out the research. This was solved by making a time table for herself especially concerning when she was supposed to do the research.

ii. Research done only covered commercial banks but other financial institutions are of great Importance and the relationship of the inflation on their financial performance would be of great use.

iii. The research was done for a period of fifteen years but a longer period of time would give a clear indication of the relationship between inflation and financial performance of commercial banks in Uganda.

iv. Three variables namely; return on assets, return on investment and return on equity were used to measure financial performance. More variables should be considered to give a clear indication of the relationship of inflation and financial performance of commercial banks in Uganda.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

In the chapter, the analysis of the findings was presented according to the objectives of the study. The objectives of the study were; (i) to examine the trend of inflation in Uganda. (ii) To assess the financial performance of Barclays Bank Uganda. And to analyze the relationship between inflation and financial performance of banking institutions. The findings of the study were presented in form of graphs, correlation coefficients and regression analyses. Logical interpretations were made in relation to the objectives of the study.

4.2 Descriptive Analysis

This is the first section of the analysis and it presents the summary of the variables used in the study. The summary is presented in form of mean, minimum and maximum values using data for 18 years that's to say, from 2000 to 2017.

Table 4.1 Descriptive statistics on Inflation and financial performance

| Variable	Inflation rate	Returns on Assets	Shareholder's Equity	Returns on Investment
N	18	18	18	18
Minimum	-0.3	2.1367	3.4244	16.4040
Maximum	18.71	3.5856	18.3095	40.8018
Mean	7.0744	2.8941	5.5556	28.5723
Std. Dev	4.745	0.3967	3.5004	7.582
Skewness	0.967	0.116	3.165	-0.037
Kurtosis	0.801	-0.171	11.277	-1.350

Table 4.1 indicates the descriptive statistics on the variables used in the study. According to the results of the analysis, it was indicated that the average annual inflation rate of Uganda from 2000 to 2017 was 7.0744 with a minimum of -0.3 and a maximum of 18.71, the standard deviation of the inflation rate was 4.745, skewness = 0.967 and the kurtosis was 0.801. Concerning the returns on assets of Barclays Bank, it was observed from the summary in the table that the average returns on assets were 2.8941 with a minimum of 2.1367 and a maximum of 3.5856, returns on assets had a standard deviation of 0.3967, the skewness was 0.116 and kurtosis was indicated as -0.171. Also the average shareholder's equity of Barclays bank for the period of 18 years (2000 to 2017) was indicated as 5.5556 with a minimum of 3.4244 and a maximum of 18.3095, the standard deviation for shareholder's equity was 3.5004 with a skewness of 3.165 while the kurtosis was 11.277 Looking at the returns on investment of Barclays Bank for the period of 18 years, it is observed from the table that the average returns on investment was 28.5723 with a minimum of 16.404 and a maximum of 40.8018. The standard deviation of the returns on investment is indicated as 7.5811, skewness is indicated as -0.037 while the kurtosis was -1.350.

4.3 Trend of Inflation in Uganda

Inflation in Uganda is a major macro-economic problem and it is well established that inflation delay long run economic growth and distorts macro-economic stability (De Gregorio, 1993). As it has been noted before, inflation has changed dramatically over time. 2011 and early 2012 were high inflation periods in Uganda. After early 2012 inflation has lowered clearly and last 5 years have been very low inflation periods. This study aims at examining the trend of Uganda's inflation in the past years and in order to examine the trend of Uganda's inflation rate, a scatter plot was constructed using data of 2000 up to 2017. The results of the analysis are presented in figure 4.1

Figure 4.1 Inflation Trend in Uganda from 2003 to 2017
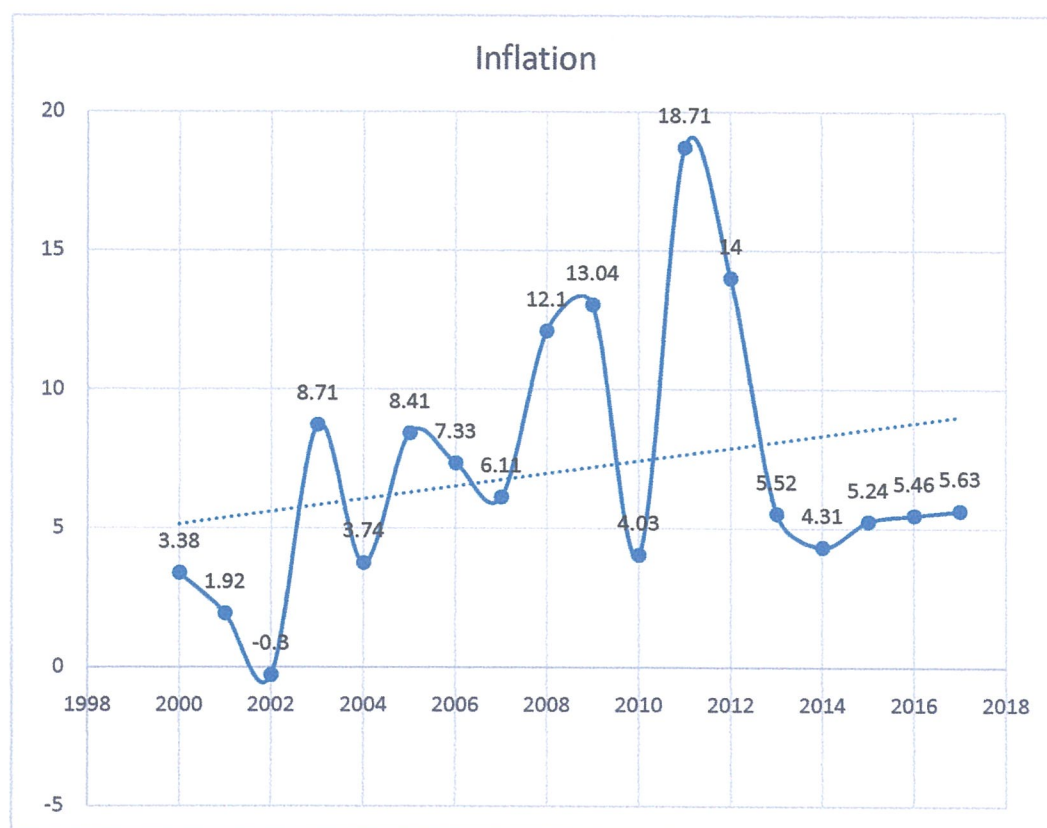
Source: Author, 2018

From the graph, it is indicated that the trend of inflation in Uganda has been gradually increasing from 2000 to 2017 as indicated by the doted trend line. However it is indicated that in 2011, Uganda registered the highest rate of inflation of 18.71 and in 2002, the lowest rate was registered of -0.3. Also it is observed from the graph that the rate of inflation decreased gradually from 3.38 in 2000 to 1.92 in 2001 reaching the grand lowest within the period 18 years, that is -0.3 in 2002. This was due to a little fluctuations in the prices of agricultural products and fuel prices in that period. Unlike in the period of 2000 to 2002, the rate of inflation was observed to have increased gradually from -0.3 in 2002 to 8.71 in 2003. From 2003, the rate of inflation increased and decreased gradually until 2011 where it reached the peak at 18.71. This was attributed by the persistent increases in the prices of mostly fuel such as petroleum, diesel and

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also agricultural products especially foods like maize that was experienced around 2010 to 2012. From 2011 to 2014, Uganda experienced a sharp decline in the inflation rate from 18.71 to 4.31. This was due to stability in exchange rate, and fare fluctuations in prices of fuel and agricultural products. And from 2014 to 2017, inflation is observed to have increased slightly from 4.32 to 5.24 in 2015, 5.46 in 2016 and to 5.63 in 2017.

Generally, it is observed that inflation has been increasing and decreasing gradually during particular periods. However it is observed that the high rates of inflation were experienced during the year 2008 (12.1), 2009 (13.04)), 2011 (18.71) and 2014 (14.0)

4.4 Measures of Financial performance of Barclays Bank.

In order to examine the financial performance of banking institutions, three measures were adopted by the study. These included returns on assets, shareholder's equity and returns on investment. Performance was analyzed using time series line graphs using Barclays bank data of 2000 to 2017. The result of the analysis is presented in figure 4.2

Figure 4.2 Trend of the returns on assets of Barclays Bank from 2000 to 2017
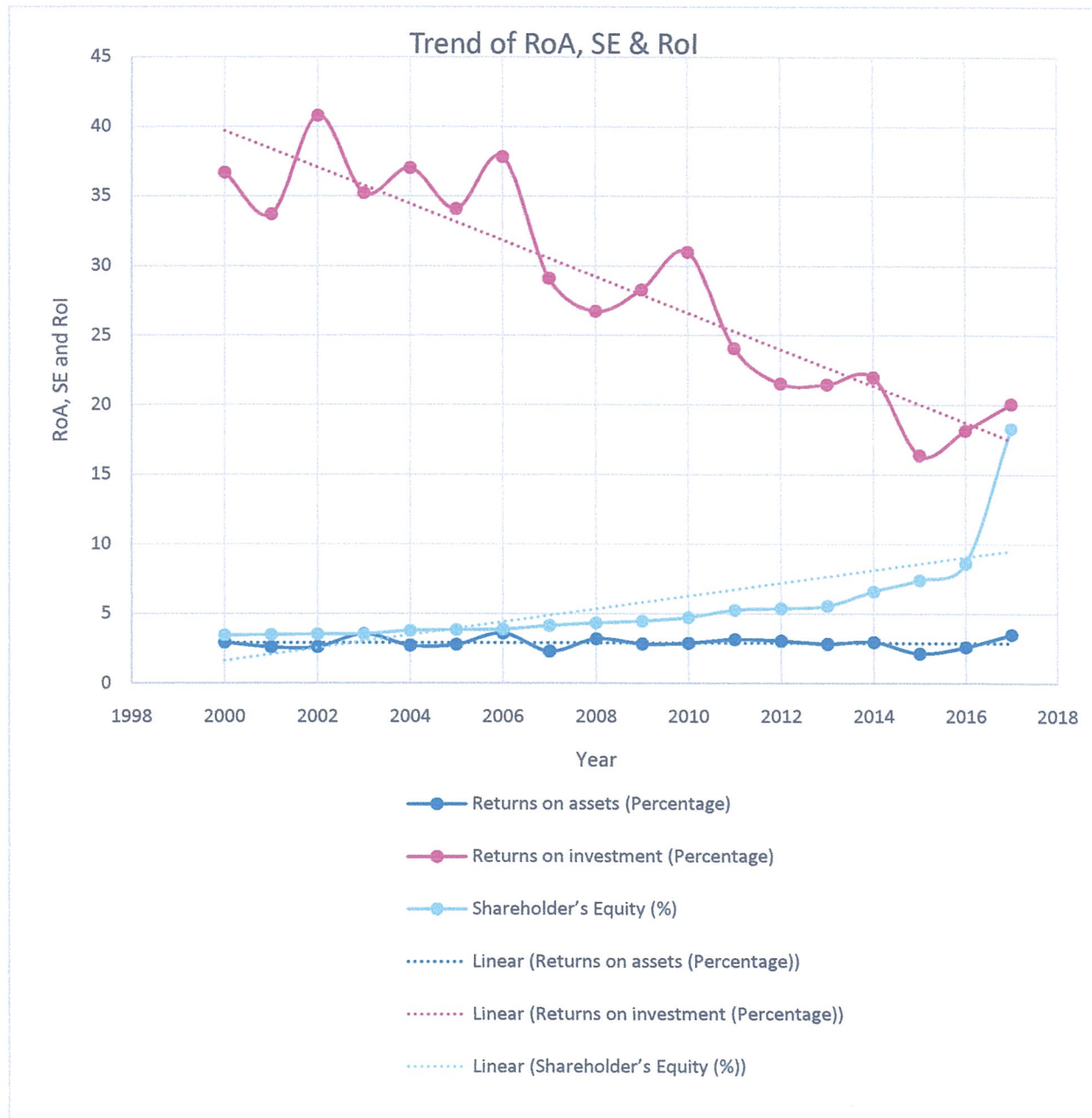
Source: Author, 2018

From the graph, it is indicated that the trend of shareholder's equity of Barclays Bank has been gradually increasing from 2000 to 2017 as indicated by the doted trend line. However it is indicated that in 2017, Barclays Bank registered the highest shareholder's equity.

Also it is observed from the graph that the returns on investment decreased gradually from 2000 to 2017. Returns on investment have been increasing and decreasing for the period of eighteen years. However, it is seen from the graph that Barclays Bank registered the highest returns on investment in 2002 and the lowest in 2015.

On the other hand, the returns on assets have been constant for the period under study though there has been slight increases and decreases.

Generally, it is observed that shareholder's equity has been gradually increasing, returns on investment has been decreasing gradually while returns on assets have been constant for the period under study.

4.5 Inflation and financial performance of Barclays bank Uganda.

Economic theory exposes that developed financial sector activates savings efficiently and reallocates the resources to productive projects and, hence, stimulate economic activities in the country. The efficiency of financial sector gets worse due to the high rate of inflation through financial market frictions and slows the economic performance down. Governments are prejudice to enforce additional tax burden on the financial sector to decrease their budget deficit in inflationary periods (Bencivenga and Smith, 1993). It has been examined that inflation blocks the performance of inflation markets by decreasing the level of investment in the economy. In this section of the study, we examine the connection between inflation and financial performance by utilizing Regression and Correlation methods employing time series annual data of 2000 to 2017.

Table 4.2 Correlation analysis between inflation and measures of financial performance

Variables	Returns on Assets	Shareholder's Equity	Returns on Investment
Rate of Inflation	0.368* (0.133)	-0.035* (0.892)	-0.316* (0.201)
* correlation is not significant at both 5% and 1% levels			

Source: Author, 2018

The 3rd objective of the study was to establish the relationship between Inflation and the financial performance of the banking institutions. Pearson correlation coefficients were computed to determine the strength of the relationship between Inflation and the measures of financial performance. The correlation coefficient of Returns on Assets and Inflation was 0.368 with a p-value of 0.133. This implied that there is a weak positive relationship between Returns on Assets and Inflation. Also the p-value suggests that the relationship is not statistically significant at 5% and 1% levels of significance.

It is also evident from the findings that there is a negative relationship between Shareholder's Equity and Inflation observed from the r. value of -0.035 and that the relationship is not statistically significant at both 5% and 1% levels of significance as indicated by a p-value of 0.892>0.05.

Furthermore, the correlation coefficient for Returns on Investment and Inflation was indicated as r= -0.316 with a p-value of 0.201. This signified a weak- negative relationship between Returns on Investment and Inflation and the p-value indicated that the relationship is not statistically significant at both 5% and 1% levels of significance.

Generally, it was observed that the relationship between the rate of Inflation and financial performance of Barclays bank as measured in terms of returns on Assets, Shareholder's Equity and Returns on Investments is not statistically significant at both 5% and 1% levels of significance. However it was observed that inflation has a much effect on returns on assets than the other measures of financial performance used in the study.

Table 4.3 Regression analysis between inflation and returns on Assets of Barclays bank Uganda

Model 1	Un Standardized Coefficients	Standardized coefficients	Std. Error	t. value	Sig. value
	B	Beta			
(Constant)	2.677		0.164	16.306	0.000
Inflation	0.031	0.368	0.019	1.582	0.133
F. value = 2.503, R. Square = 0.135, overall sig. value=0.133 and df= 1					

Source: Author, 2018

From the findings in the table, the F. value of the model is 2.503, overall sig. value = 0.133 and R. squared value = 0.135. This implied that the relationship between the inflation and returns on assets of Barclays bank is not statistically significant as observed from the overall sig. value which is greater than 0.05 and a relatively a very small f. value. The R. squared value indicated that there is 0.135 (13.5%) variability between inflation rate and returns on assets of Barclays bank. From the summary of the analysis therefore, the regression model on rate of inflation and returns on assets is derived from the coefficients and is given by;

$$RA = 2.677 + 0.031IR$$

Where; RA = Returns on Assets

IR = Inflation rate

2.677 implies the returns on assets given there is no effect of inflation rate.

The unstandardized coefficient for inflation as presented in the model is 0.031, t. value = 1.582, and sig. value = 0.133 implying that there is a positive relationship between inflation and returns on assets. But as observed that the sig. value is greater than 0.05 level of significance and the t. value is less than 2, then this implies that the rate of inflation is not statistically significant.

Table 4.4 Regression analysis between inflation and Shareholder's equity of Barclays bank Uganda

Model 2	Un Standardized Coefficients	Standardized coefficients	Std. Error	t. value	Sig. value
	B	Beta			
(Constant)	5.736		1.556	3.685	0.002
Inflation	-0.026	-0.035	0.184	-0.138	0.892
F. value = 0.019, R. Square = 0.01, overall sig. value=0.892 and df= 1					

Source: Author, 2018

From the analysis in the table, the unstandardized coefficient (β) for rate of inflation is β=-0.026, the t-value t=-0.138 and p-value p=0.892. The p value is greater than the level of significance (α=0.05) and the magnitude of t value is less than 2. This implies that there is an insignificant relationship between inflation rate and shareholder's equity of Barclays Bank and as the rate of inflation increases by a unit, the shareholder's equity reduces by 2.6%.

It was also observed from the overall F. value of 0.019 and sig. value of 0.892 that the model between the rate of inflation and shareholder's equity is not statistically significant at 5% since sig. value is greater than 0.05. However it was also indicated from the model's R. squared (R=0.01) that there is 1% variability between the rate of inflation and consumer price index on shareholder's equity. This means that inflation has a very small effect on the shareholder's equity. The model is derived from the coefficients as indicated below;

$$SE = 5.736 - 0.026IR$$

Where, SE = Shareholder's Equity

IR = Inflation rate

5.736 implies the level of shareholder's equity without the effect of inflation rate.

Table 4.5 Regression analysis between inflation and Returns on Investment of Barclays bank Uganda.

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Model 3	Un Standardized Coefficients	Standardized coefficients	Std. Error	t. value	Sig. value
	B	Beta			
(Constant)	32.149		3.200	10.048	0.000
Inflation	-0.506	-0.316	0.379	-1.334	0.201
F. value = 1.781, R. Square = 0.100, overall sig. value=0.201 and df= 1					

Source: Author, 2018

Table 4.5 shows the regression analysis between the rate of inflation and returns on investment. It was observed from the F. value (1.781) and Sig. value (0.201) that the overall model is not statistically significant since the sig. value is >0.05 and the F. value is relatively very small. However, the R. squared value (0.100) implied that there is 10% variability between inflation rate and Returns on Investment. The estimated regression model was derived from the summary of the coefficient and given as:

$$RI = 32.149 - 0.506IR$$

Where RI = Returns on Investment

IR = Inflation Rate

32.149 implies the returns on investment when the rate of inflation is zero. This means that even without the effect of inflation, 32.149 level of returns on investment is realized in Barclays Bank. The coefficient β = -0.506 indicate a negative relationship between inflation and returns on investment implying that for a unit increase in inflation rate, returns on investment reduce by 0.506.

From the three models, it can be drawn that inflation has no effect on the financial performance however it was observed that inflation affects mainly the returns on assets and returns on investment. The shareholder's equity were found not to be so greatly affected by the rate of inflation.

CHAPTER FIVE

DISCUSSION, SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This study has tried to analyze the effects of inflation on the performance of Ugandan banking institutions most especially Barclays Bank Uganda. This chapter therefore presents a summary of the findings, in-depth discussions, conclusions and policy recommendations based on the findings of the study.

5.1 Discussions

5.1.1 The inflation trend of Uganda

The findings indicated an increasing trend in the rate of inflation in Uganda from 2000 to 2017. The increasing trend in the rate of inflation is attributed by frequent fluctuations in the exchange rates, prices of agricultural products and fuel experienced mostly around 2008 to 2012. With the exception of 2002 where the headline inflation declined sharply to -0.3, Uganda experienced a gradual fall in the headline inflation rates between 2005 and 2007. This fall in the headline inflation rate was due to a fall in food crop inflation rate. In 2008, the Headline Inflation rate rose dramatically to above 18% (the highest ever Headline inflation since 2000). From 2012 to 2014, there was a significant fall in the rates to up to 4.31. However from 2015 to 2017, there has a slight rise in the headline inflation rate. This non constant rise and fall in the rates of inflation is mainly explained by violent fluctuations in food crop prices (UBOS, 2017)

According to Eugene. F, (2011) a weaker shilling has resulted in to a higher inflation due to an increase in the price of imports, especially when coupled with the pressure of food prices in the East African region. He further noted that because of an uptick in inflation above the 5 percent target, the central banks in East African region have operated a tight monetary policy stance (including an increase in the bank rate) whose effects include high interest rates on loans and this has had adverse effects on the performance of banks. These findings are in line with the findings

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in the study as the inflation rate keeps on increasing due to the factors mentioned in this paragraph.

According to William. R. Allen, 2007, inflation is an increase in the general price levels and it is typically expressed as annual percentage rate of change. Global price pressures affect the rates of inflation in the banking sector in most economies such as the U.K and emerging economies of China, Japan, India and Brazil. In instances where inflation remains flat as was the case in the euro zone and the U.S.A in 2011, the decline in inflation is dependent on temporary shock factors such as high commodity prices decline. These findings are correlating with the findings in the study since the increase in the rate of inflation in Uganda is due to the increase in the price levels yet the rate of inflation is affected by the global price pressures.

5.1.2 Financial performance of Barclays Bank
From the findings of the study, it was found out that the trend of shareholder's equity of Barclays Bank has been gradually increasing from 2000 to 2017. However it was indicated that in 2017, Barclays Bank registered the highest shareholder's equity. Also the returns on investment decreased gradually from 2000 to 2017. Returns on investment have been increasing and decreasing for the period of eighteen years. However, it was seen that Barclays Bank registered the highest returns on investment in 2002 and the lowest in 2015. On the other hand, the returns on assets have been constant for the period under study though there has been slight increases and decreases. Generally, it was observed that shareholder's equity has been gradually increasing, returns on investment have been decreasing gradually while returns on assets have been constant for the period under study.

According to Richard E, (2009) financial performance puts together different specific areas of a firm's outcome such as profits, returns on assets, and returns on investment. He further notes that in recent years, many organizations have attempted to manage financial performance using the financial statements methodology where performance is tracked and measured in multiple dimensions as indicated on the balance sheets. This applies to the study as outcomes like returns on assets and returns on investment were used to measure the performance of Barclays Bank.

According to Albert E.N, (2009), financial performance is based on the idea of profitability and looks at the company's total revenue or sales compared to total costs incurred to produce and

deliver the products to the customers. In this study, variables such as returns on assets, returns on investment and returns on equity were used to ascertain the financial performance of Barclays Bank. However, different variables can be used including the ones mentioned by Albert.

5.1.3 Inflation and financial performance of Barclays Bank

From the study findings, it was found out that inflation has a weak, positive and insignificant relationship with the returns on assets. (r=0.368). The data also support the presence of a weak, insignificant relationship between inflation and shareholder's equity. Also it was indicate that there is a weak negative relationship between inflation and returns on investment. These findings thus strongly support the presence of a relationship between inflation and financial performance, perhaps driven by threshold rates of inflation. In that as inflation rises, financial performance falls, but the marginal impact of additional inflation on the financial sector also diminishes rapidly. Thus, for example, we find that once the average rate of inflation exceeds 15 percent per year, financial sector performance drops precipitously, but at the same time, the partial correlation between inflation and measures of intermediary or shareholder's equity essentially disappears. These findings are line with findings of Huybens and Smith, (2009) who conclude in their findings that a growing theoretical literature describes mechanisms whereby predictable increases in the rate of inflation affect the ability of the banking sector to allocate resources effectively. He further argued that recent theories emphasize the importance of information asymmetries in credit markets and demonstrate how increase in the rate of inflation adversely affects the credit market frictions with negative repercussions for financial sector performance.

According to Haroon Khan, (2015), in his study on the effect of inflation on financial development in the Kingdom of Saudi Arabia, he asserted in his experimental findings that high trends of inflation delay the performance of financial markets. He further argued in line with Huybens and Smith (1998, 1999) that a growing theoretical literature explains mechanisms whereby even expected increases in the rate of inflation interfere with the capacity of the financial sector to assign resources effectively specifically relying on recent theories that give emphasis on the importance of informational asymmetries in credit markets and demonstrate how an increase in the rate of inflation have an adverse effect on credit market frictions with negative consequences for financial sector (banks and equity market) performance and therefore long-run real activity.

According to international journal of innovation and economic development, (Oct 2015), inflation damages economic growth through declining financial development especially by damaging the operation of financial markets. This is because as inflation rate increases due to factors such as increased prices of goods, increased interest rates among others, the economy will have less disposable income and therefore less will be invested in the banking sectors thus affecting its performance.

According to BOU Report (2011), inflation impacts negatively on the financial markets. The impact on the financial market is often severe with a large number of foreign investors retreating to the safer markets in the developed world, especially to the USA Treasury bills. This has not only affected the market for Uganda Treasury bills but also the stock market, resulting in the Uganda Stock Exchange falling by 29.4% over the period September 2008 to February 2009 compared to an increase of 4.4% in the similar period in the previous financial year.

5.2 Summary of the Findings

This study was adopted to analyze the effects of inflation on the performance of Barclays Bank Uganda. In the study, the independent variable was inflation, measured in terms of annual rate and the dependent variable was performance of Barclays Bank, measured in form of returns on assets, shareholder's equity and returns on investment. The study used secondary data where a descriptive research design was considered. The data was analyzed using the SPSS statistical package and results were presented in form of descriptive statistics, graphs, correlations and regression analyses.

From the findings of the study, it was established that the annual average inflation rate of Uganda from 2000 to 2017 was 7.0744, registering the lowest rate of -0.3 in 2002 and the highest rate of 18.71 in 2011. Also the findings indicated that the average returns on assets of Barclays Bank was 2.8941, average shareholder's equity was indicated as 5.5556 and the average returns on investment was observed as 28.5723. The results in figure 4.1 indicated that there has been an increasing trend in the rate of inflation. it also revealed that there has been a constant trend in the returns on assets, an increasing trend in the shareholder's equity while as a decreasing trend was indicated in the returns on investment of Barclays Bank. The findings also revealed that the relationship between the returns on assets and the rate of inflation is a positive but weak and

insignificant one (r=0.368, p. value=0.133). The rate of inflation however was indicated to have a weak, negative and insignificant relationship with the shareholder's equity as observed from r =-0.035 (p = 0.892). Conclusively, the rate of inflation was revealed to have also weak, negative and insignificant relationships with the returns on investment of Barclays Bank (r = -0.316, p = 0.201).

5.3 Conclusions

From the findings of the study, the following conclusions on the research questions were drawn;

There has been an increasing trend in the rate of inflation of Uganda from 2000 to 2017. However the study found out that higher rates were mostly experienced between 2008 and 2012.

There has been a decreasing trend in the returns on investment, a constant trend in the returns on assets and a slightly increasing trend in the shareholder's equity of Barclays Bank for the period of 18 years (2000-2017)

The relationship between the rate of inflation and returns on assets is weak, positive and insignificant (r=0.368, p = 0.133). The rate of inflation has a weak, insignificant effect on the shareholder's equity and returns on investment of Barclays Bank. Basing on the findings of this study, it can therefore be concluded that the rate of inflation has a relatively weak and insignificant effect on the financial performance of Barclays.

5.4 Recommendations

Basing on the findings of the study and the conclusions drawn, the study made the following recommendations;

It has been indicated that inflation rate has no effect on returns on assets, shareholder's equity and returns on investments of Banks, therefore banks should target other economic factors that may affect financial performance such as stock prices and interest rates.

It is also advisable that, anti- inflationary policy like non- expansionary monetary and fiscal policies as well as inflation-adjusted interest rate policy should be pursued in order to eliminate the small effect of inflation on financial performance.

Finally, efforts should be made in Strengthening of supervisory and regulatory bodies in the financial system

5.5 Further studies

This study was limited in the examination of factors affecting the financial performance of Barclays Bank. It only focused on inflation rate as the only factor affecting performance. Hence, there is need for future researchers to examine the effect of other factors such as stock price, interest rates, and other relevant variables other than the one focused on in this study. Thus this study's recommendation for further studies is that all these should be incorporated for wider discussion on this topic. Also the scope of this study was for the period 2000 - 2017. For further studies, it is strongly recommended that the scope be expanded to start from 1995. At least for the period to be minimum of 25 years for better analysis of the result.

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APPENDICES

APPENDIX A: RESEARCH TIME FRAME

Activity	FEB-MAY	JUNE-JULY	AUGUST
Proposal development	███		
Corrections		███	
Data Collection		███	
Data analysis		███	
Submission of final thesis			███

APPENDIX B: DATA USED

Year	Total Assets	Net Income after Tax	Returns on assets (Percentage)	Shareholder's Equity	Returns on investment (Percentage)	Inflation	Shareholder's Equity (%)
2000	1243563	36551	2.939215786	99562	36.71179767	3.38	3.424378
2001	1314589	33998	2.586207552	100827	33.71914269	1.92	3.467887
2002	1595632	41595	2.606804075	101944	40.80181276	-0.3	3.506305
2003	1020045	35994	3.528667853	102155	35.23463238	8.71	3.513562
2004	1498789	40610	2.70952082	109644	37.03805042	3.74	3.771142
2005	1364392	37816	2.771637477	110851	34.11426149	8.41	3.812656
2006	1187340	42573	3.585577846	112478	37.85006846	7.33	3.868616
2007	1521176	34901	2.294343324	119951	29 09604755	6.11	4.125646
2008	1054372	33564	3.183316704	125532	26.7374056	12.1	4.317601
2009	1296352	36626	2.825312878	129487	28.28546495	13.04	4.453631
2010	1478634	42458	2.87143404	136946	31.00346122	4.03	4.710179
2011	1167352	36716	3.145238112	152468	24.08111866	18.71	5.244049
2012	1103457	33546	3.040082214	155781	21.53407668	14	5.357998
2013	1226062	34601	2.822124819	161160	21.46996773	5.52	5.543005
2014	1424742	42109	2.955552654	191541	21.98432712	4.31	6.587942
2015	1651629	35290	2.136678394	215131	16.40395852	5.24	7.399307
2016	1745640	45325	2.596468917	249652	18.15527214	5.46	8.586637
2017	3057476	106892	3.496086314	532338	20.07972378	5.63	18.30946

Source: Barclay bank, 2018