THE EFFECT OF INTEREST RATES ON BANK LOANS IN CENTENARY BANK, KAMPALA DISTRICT, KABALAGALA BRANCH.

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELORS DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY.

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DECLARATION

This report is my original work and has not been presented for a degree in any other University or for any other award.

Signature...Date 29/05/2018

OLINGA FAUSTINE

1153-05014-01301

APPROVAL

I confirm that the work reported in this report has been carried out by the candidate under my supervision

Signature.. Date 29/05/18 ....

DR. NALELA KIZITO

DEDICATION

I dedicate this research to the almighty GOD for his guidance and direction, it is also dedicated to my parents for their kind support towards the completion of this study.

ACKNOWLEDGEMENT

I would like to extend my profound gratitude to the almighty GOD for the strength and life granted to me to undertake this research work.

I would love to seize this opportunity to personally thank my supervisor for his patience and understanding that allowed me to reach the end of this journey, his encouragement, support and above all his constructive feedback where valuable.

Not only that, but my sincere thanks should go to my friends who shared with me the vision of undertaking this study.

Above it all, I would love to extend my thanks to our familymembers who nurtured me and wasingly financed my education, may the almighty bless you.

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ABSTRACT

This study attempts to explore the effect of interest rates on bank loans in commercial banks with reference to Centenary bank Kabalagala branch.

Commercial banks are expected to be socially responsible, support local communities and ensure equal supply of loans to all legitimate businesses and consumers. The objective of this study was to find out how far interest rates affects loan in banks.

The data collection techniques adopted were use of questionnaires and documentation, where qualitative and quantitative data about effect of interest rates on bank loans in Centenary bank was gathered and analyzed. The study findings revealed that there is an effect or close relationship between interest rates and bank loans, where it was noted that well management of interest rates gives rise bank loans consumption.

Finally the study ends up with some recommendations where Centenary bank Kabalagala branch should revise on interest rates to enhance the proper distribution of bank loans.

CHAPTER ONE

1.0Introduction

This chapter embraces the back ground to the study, the problem statement, the purpose of the study, research objectives, research questions, the scope of the study, significance of this study and the conceptual frame work.

1.1 Back ground to the study

1.1.1 Historical perspective

Historically, it should be recalled that Uganda experienced hyperinflation after the 2011 general elections. The government "forced" bank of Uganda to print new currency notes which circulated alongside the old notes.

According to Brick, (2006), banks perform a very important service to all sectors of the economy, by proving facilities for pooling of savings and making them available for economic and social desirable purpose. With the economy in a tail-spin, the bank of Uganda changed its monetary policy, instead of acting as "a money granary" and therefore, controlling the amount of money in circulation by holding on to money or releasing, depending on the demand. Commercial banks usually borrow money from BOU and even among each other, the lending rates are usually lower, this implies that the interest rates are also lower

In 1957, the Federal Reserve board for the first time since being granted the authority in 1933 increased maximum permissible rates paid by member banks on time and saving deposits. Since 1957, the board has increased its maximum permissible rates.

In 1966, interest rate Act directed the Federal Reserve board, secretary of the treasury, the Federal home loan bank board and Federal deposit Insurance Corporation to take action to reduce interest rates to the extent feasible, given the prevailing money market and economic condition.

On 22ndJuly 1994, at Bretton woods in the United States of America, 44 countries agreed that broad international action was necessary to maintain an international monetary system, which would promote foreign trade. In this respect, it establishes a worldwide system of fixed interest rate as far as lending is concerned (Gopinath and Roberto 2011).

1.1.4 Contextual perspective

Banks are exposed to adverse movements in interest rates because on average, rates on their long, fixed-term assets are locked in for longer than rates on their liabilities. When the general level of interest rates rises, banks typically experience a loss in economic value because the value of assets decrease more than the value of liabilities.

One important question in this context is the extent to which realized interest rates risk exposure, that is to say, the gain or the loss in a banks economic capital attributable to movements in interest rates-affects bank lending. This question is particularly relevant in the current environment of prolonged low nominal interest rates in which banks have substantially increased their interest risk exposure (Turner 2013, SNB 2014, 2015), For instance findings by Hanson and Stern (2015) suggest that as nominal interest rates declined, banks have rebalanced their asset holdings towards longer maturities to prevent their portfolio

1.2 Problem statement

In spite of the intention to design a model of a bank-borrower-Federal Reserve ("Fed"), the existing relationship maximizes social welfare and minimizes involvement of the Fed all the while avoiding a catastrophe similar to the real-world 2007 subprime mortgage crisis that resulted in the to-date failure of over 130 banks.

Banks and borrowers were spread over Squaremile area. Banks were assigned a random amount of money from a global pool an operating cost a loan processing rate F, a maximum loan size and was compete against other banks for borrowers within the same radius of its random map location by adjusting and fine-turning its various parameters based on the parameters of surrounding banks and its own fitness in terms of income, number of loans, number of loans that could not be repaid, and number of lost borrowers. Banks were also represent their risk tolerances by randomly assigned lower and upper bounds of borrower default probabilities at which they are were to loan. A single Fed was exist to reactively set a global floor and ceiling interest rates lending limits at some variable sensitivity. Borrowers are randomly assigned desired loan amount maximum repayment rate, and a per-round probability of defaulting on their payments which is variable by function.

In reality, when banks fail, borrowers' payments go the federal deposit insurance corporation (FDIC) acting on bank's behalf then back out the banks creditors. For our purposes, this is money removed from the system and we considered both banks and borrowers "dead" when banks cannot pay their operating costs. This therefore implies that the problem lies between the rate of interest and bank loans given by centenary bank, in order to culminate that, there is a need to provide a meaningful graphical representation, we planted a color code bank agents according to their risk tolerances and borrower's agents according their risk of defaulting. This study was therefore try to establish the effects of interest rates on bank loans in centenary bank, taking in to account Kabalagala branch

1.3 General objective

To assess the effect of interest rates on bank loans in centenary bank kabalagala branch in Kampala district

1.4 Specific objectives

(i) To establish the effect of changes in the interest rates charged on loans in Centenary bank.

(ii) To examine the risks associated with loans in centenary bank.

(iii) To determine if lending rates are affected by interest rate in centenary bank.

1.5 Research questions

The study was attempted to find out the answers to the following questions.

(i) What is the level of loaning in centenary Bank?

(ii) What are the factors affecting interest rate variation in centenary Bank?

(iii) What is the relationship between lending in centenary bank and variations in the interest rates?

1.6 Hypothesis

There is no relationship between lending rates in Centenary bank over time.

Also time has no effect on lending rates in Centenary bank over time

There is no relationship between lending by Centenary bank and variation in the interest rates over time.

1.7 Scope of the study

1.7.1 Time scope

The study takes in to consideration a period of two (3) years, that is from December 2015-December 2017, according to the researcher's view on this period is that the information is still fresh in that it was be more meaningful as far as research is concerned.

1.7.2 Content scope

This study was limited to interest rates (i.e. Inflation, liquidity, credit risk, etc.) and bank loans (i.e. Principal, Loan repayment period, interest, etc.)

1.7.3 Geographical scope

This study was carried out in Kampala, Kampala is the capital city of Uganda, as per this research, Makindye East division is the main area of concentration, particularly Centenary bank Kabalagala branch. The idea behind this scope is that the distance was favoring in terms of transport costs since it's near for the researcher.

1.8 Significance of the study

The findings of the study were useful in many ways and too many different parties.

To the commercial banks of Uganda, it will strengthen the stock of knowledge concerning factors affecting interest rates and the performance of bank loans and was also help in the formulation and implementation of policies with appropriate measures that can help improve loan performance in the economy.

To the fellow students, it will equip them with knowledge as far as interest rates and bank loan are concerned since the research proposal was be published in that it can easily be visited by students for reading purposes.

To the researcher, it will help to improve on the research ability, validate knowledge and also widen the thinking capacity, this therefore implies that the research study was be of paramount.

1.9 Definition of key terms

Interest rate, it is described as the rate at which a loan is charged. The higher the amount of loans given, high interest is expected to yield this is because, large sums of money is being lend out in search for other money.

Credit risk is a risk of default on debt that may arise from a borrower failing to make required payments. In this first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

Liquidity premium is the explanation for difference between two years of financial securities (e.g. stock), that have all the same qualities except liquidity.

Inflation is the general increase or decrease in the price levels of goods and services produced in the country in a given period of time. It should be recalled that Uganda experienced hyperinflation after 2011 general elections, a government "forced" bank of Uganda print new currency notes which circulated alongside the old notes.

CHAPTER TWO

LITERATURE REVIEW

2.0Introduction

The chapter reviews literature related to the objectives of the study in order to enable the researcher to support the findings. Literature was be reviewed through with the help of the secondary sources such as: new papers, research reports, dissertations journals and internet.

2.1 Interest rates

According to Luther (2012) notes that increased demand for loans can be due to either an increased transaction demand for money or an increased speculative demand for money. He explained that the transaction demand is highly correlated to a country's level of business activity, gross domestic product and employment levels. The more the employed people, the lesser the public as a whole was spend on goods and services. Central banks typically have little difficulty in adjusting the available money supply to accommodate changes in the demand for money due to business transactions.

According to Zinna (2012) speculative demand is much harder to central banks to accommodate, which they influence by adjusting interest rates. A speculator may buy a currency if the return (that is the interest rate) is high enough. Rankin explains that the higher then country's interest rates, the greater the demand for that currency.

According to O'Sullivan (2003), He argues that such speculation can undermine real economic growth, in particular since large interest speculators may deliberately create down ward pressure on interest by shorting in order to force that central bank to by their own loans back after it depreciates, close out their position and thereby take profit.

According to Kasibante (2001), it is the price of loanable funds and serves to allocate credit and moderate the level of investment, Interest rates can be looked at from the borrowers' and lenders' point of view. To the borrowers, interest rate is the cost of borrowing money expressed as a percentage of the amount borrowed A borrower evaluates all costs including interest rates and expected returns before to make a loan or not, to the lender, interest rate is determined by factoring in costs of production, the inflation rate, personnel, administrative costs, loan loss provisions and capital growth.

According to Brochures (2001)the rate charged should be able to cover costs and make a contribution for the financial institution. Financial institutions charge different interest rates depending on their peculiar conditions ranging from 2 to 4 % per month.

According to the researchers view on interest rate, it is described as the rate at which a loan is charged. The higher the amount of loans given, high interest is expected to yield this is because, large sums of money is being lend out in search for other money.

2.1.1 Bank loans.

According to Donaldson (2007) a loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restriction known as loan covenants. Acting as a provider of a loan is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is typically source of funding.

In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender and is obligated to pay back or repay an equal amount of money to the lenderat a later time. Typically the amount is paid back in regular installments or partial repayments in an annuity, each installment is then same amount.

2.1.2 Liquidity Risk Premium

According to Bowyer (2005) a liquidity premium is the explanation for difference between two years of financial securities (e.g. stock), that have all the same qualities except liquidity. It is a segment of a three-part theory that works to explain the behavior of yield curves for interest rates. The upward curving components of the interest yield can be explained by liquidity premium. The reason behind, is that short term securities are less risky compared to long term rates due to the difference in maturity rates. Therefore investors expect a premium or risk premium for investing in risky securities.

According to Abudy and Raviv (2016), it extends this frame work for the special case of corporate bonds by using a structural approach for pricing a corporate security. Consistent with the empirical literature, liquidity premium is positively related to the issuing firm's asset risk and leverage ratio and increases with bond's credit quality.

2.1.3 Credit risk.

Credit risk is a risk of default on debt that may arise from a borrower failing to make required payments. In this first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial in an efficient market, higher levels of credit risk was be associated with borrowing costs, because of this, measure of borrowing costs such as yield spread can be used to infer credit risk levels based on assessment by market participants, Pesaran (2004).

According to Hashen (2004). Argues that to reduce lenders credit risk, the lender may perform a credit check on the prospective borrower, may require the borrower to take out appropriate insurance such as mortgage insurance, or seek security over some assets of the borrower or guarantee from the third party.

According to Weiner (2004), a lender can also take out insurance against the risk or on-sell the debt to another company. In general, the higher the risk, the higher was be the interest rates that the debtor was be asked to pay on the debt. Credit risk mainly arises when borrowers are unable to pay due willingly or unwillingly.

2.1.4 Loan Period

The World Bank reported that banks have little capacity and interest to provide long-term capital. This is attributed partly to high composition of short term liabilities in their portfolio and also their concern to risks associated with lending activities.

According to financial institutions statute (2004), Banks in Uganda are therefore reluctant, for reasons of prudence as well as profit to lend for periods longer than twelve months and because of stringent provisions being provided the statute, this properly analyzed.

2.2 Conceptual Frame Work

Independent Variable

Interest rates

- Inflation
- Liquidity
- Credit Risk

Dependent variable

Bank Loans

- Principal
- interest
- Loan Repayment Period

Source: Adopted from the journal of financial stability (2016)

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter discusses how the methodology was employed in the study. It indicates the research design, Focuses the area of study, the study population, target population, research instruments, validity and reliability, data analysis techniques, ethical considerations.

3.2 Research design

The design is to plan or device means of undertaking a task. A research design relates to a grand plan of a particular research project that shows how one intends to conduct the research and how to guard it against internal and external factors, which may undermine its validity and acceptability as knowledge base, within the discipline in which it is rooted (Nsingo 2005). This study was examine the relationship between Interest rates and level of bank lending in Uganda looking at centenary rural development bank as the case study. The researcher is intending to use a research design covering the period of two years (3years), i.e. from 2015 to 2017 based on quantitative data generated through document analysis of centenary bank annual reports. This data was provide detailed and comprehensive monthly interest rate flows and lending rates and levels over the years which were studied. The variables that the study intends to extracted includes monthly Interest rates for midyear values and lending rates. The design was appropriate since the research concerns two particular variables, the interest rate and level of bank lending operating in a specific geographical area of Kampala where data was collected from centenary bank to aid in the investigation.

According to Nsingo (2005), "research exposes the operational reality of organizations and allows one to bring out the strength and weaknesses of such organization and enhances ones chances of engaging or suggesting remedial action for such organization"

3.3 Focus area of study

The focus area of study was basically the rates at which banks lend loans in terms of the local currency and how this affects bank lending within centenary bank. It's on these focus areas that the extent to which the effects of Interest rates on Bank loans were examined.

3.4 Target population

According to Mugenda and Mugenda (2003) population refers to an entire group of individuals, events or subjects having a common observable characteristics.

The survey population drawn from three (3) departments within Centenary bank, but loans department was the main area of concentration, a census of ten (10) respondents was be conducted.

Table 3.1

Department	Number of Members
Loans	4
Accounts	3
Sales	3
Total	**10**

Source: Primary data, 2018

The two main components (Inflation and credit risk),was given analysis, since it is assumed that these two were among the major make up's of interest rates circulating within Uganda's economy, researcher has the desire to include specific sections of the study population that have potential depth information and understanding of the basic themes of the study. These Interest rateswas compared with the levels of bank lending of loans to the public over the years

3.5 Research Instrument

Time series data from 2015-2017 for this study work was collected from secondary sources which was then integrate with some data from primary sources

Secondary data relates to information that has been collected by others for their own purposes, but it is found to be useful in linking up the study.

Primary data is the information collected by then researcher for a particular purpose that is directly related and essential to the study. Welmer, Kruger and Mitchell (2005) identified six basic techniques of data collection for the case study design, including interviews, documentation, archival records, direct records, direct observation and arte facts.

The study was utilize two methods, namely the document/record review, this is because they show efficiency and effectiveness to solicit reliable and valid data Maicibi and Kaahwa (2004), and interviewing method. Then use of these two methods was enable the train gelation of data and make assessment of balance of evidence given. When all this information is then given it was be entered into then data sheet as one of the research collection instrument

3.6 Document Review

This involves the collection, analysis of existing written (published and unpublished) material. Documents that was be reviewed includes the official institutional publications, semi-autonomous body's reports, statistics and figures, annual and monthly reports and financial statements, monthly positions of Interest rates reports, secondary data design from radios, magazines, newspapers, television, internet and others was be put in place.

3.7 Interviews

Focus group discussion and phase to phase interviews was be conducted to elicit primary data from key informants in key official leadership positions especially those working in the loans department and those working with western union transfer department. This was provide the opportunity to solicit for the ideas and probe responses, vital areas of information that the researcher was overlook while designing the secondary data design schedule was be captured.

3.8 Validity and Reliability of the instrument

Validity is the accuracy and meaning fullness of the inferences, which are based on research results (Mugenda and Mugenda 2003). This calls for data that truly reflects the variables under the study. This was be achieved through; content validity which was be achieved through collection of data on indicators that conform to study variables, comparison of collected data with various sources to ensure that there exist similarity between and among different sources and this was emphasize on the interest rates, over a range of three years to ensure that criterion related validity exist.

3.9 Data Analysis

Quantitative data obtained from annual reports and monthly standings of Interest rates was analyzed and interpreted as per then questionnaire. The researcher used a quantitative research design after collecting data, next step was to interpret such information in line with then parameters set to capture the research objectives. It involved scrutinizing, categorizing, tabulating and interpretation of information in such a way that it addresses the initial objectives or propositions of the study.

The collected data was be edited, categorized and entered in to then computer data base system for analysis. The data was be analyzed as per the questionnaire to ensure relationships between the dependent and independent variables and other statistics at bivariate and multivariate levels.

The research was basically on the levels of Interest rates over time on bank loans. A similar model was model was fit to establish the level of Centenary bank lending over time. At a multivariate level a multi linear equation wads fit to establish the linear relationship between Centenary Bank lending of loans. The level of Centenary Bank lending is assumed to be regressive and correlated with the Interest rates to establish the individual effects.

3.10 Procedure

After approval of the proposal, the researcher was obtain an introductory letter from the college of Economics and management and this was be presented to Centenary Bank officials. Corrections was be made in the proposal and data in line with the research objectives was be collected for analysis.

3.11 Ethical consideration

The principle underlying research ethics are paramount and concern issues such as confidentiality, Honest and respect for individual rights. Welmer, Kruger and Mitchell (2000-2001), identifies consent, right of privacy, protection from harm and deception as ethical problems that requires serious considerations by researchers.

Ethical standards in this study were assured, Centenary Bank was informed in writing about the objectives of the study and requested to participate. Where the sources of data prefer to withhold their identity, only designations were used in station of their contribution, use of officially publicized data, voluntary participation of the respondents, guaranteeing the confidentiality on information given by then respondents and reporting study findings basing on the data collected and analyzed using the appropriate techniques.

3.12 Limitations of the study.

The research study went on successful, despite of the few challenges being faced by the researcher, they are explained below.

There was a problem of limited funding, in terms of finance, requirements to be used this made the research unfavorable since some of the useful requirements were not available. Not only that but there was also a problem of harsh respondents more so on the first day in the field, where by one of the respondents shouted at the researcher, this made the researcher to loose morale in research study. As if it is not enough, there was also a problem of poor coordination between the respondents and the researcher, this is because the respondents were too busy to attend to the researcher, most especially the credit administrator of Centenary branch kabalagala branch. The researcher also faced a problem of bureaucratic tendencies in get the information needed, this took a lot of time since the researcher was to get authority from the head office of Centenary branch (Mapera House Kampala Jinja Road).

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter presents the data collected from primary source as well as the analysis, interpretation and discussion of findings, with reference to the study objective and related literature.

4.1 Results and Discussions

Questionnaire targeted ten (10) respondents who are employees of Centenary bank, kabalagala branch who work in loans department, accounts department and sales department. The findings were analyzed and interpreted using the information given by the selected respondents in accordance with the objectives of this study.

The analysis was based on the findings from the field in which the respondents expressed their views on the subject matter. Data from questionnaire was analyzed following the questionnaire drafted by the researcher and interpreted to arrive at the meaningful and reliable findings.

The data collected includes the respondents profile presents gender, age, marital status, education level, field of the study and working experience of the respondents.

Table 4.1: Gender of the respondents

Sex	Frequency	Percentage (%)
Male	6	60
Female	4	40
Total	10	100

Source: Primary Data, 2018

Table 4.1 indicates that the number of male is higher than the number of female which represents 60% of the respondents while the female represents 40% respondents. This implies that this research benefited views from male and female at a considerable level.

Table 4.2: Age of the respondents

Age's range	Frequency	Percentage (%)
21-30 years	2	20
31-40 years	4	40
41-50 years	3	30
Above 50 years	1	10
Total	**10**	**100**

Source: Primary Data, 2018

Table 4.2 shows the ages of the respondents where 20% of the respondents are in the range of 21-30 years, 40% of the respondents are in the range of 31-40 years, 30% of the respondents are in the range of 41-50 years, and 10% are in the range of above 50 years.

Table 4.3: Marital Status of the respondents

Marital Status	Frequency	Percentage (%)
Married	7	70
Single	3	30
Total	**10**	**100**

Source: Primary Data, 2018

Table 4.4: Educational level of respondents

Educational level	Frequency	Percentage (%)
Others	2	20
Masters	2	20
Bachelors' Degree	4	40
Diploma	2	20
Total	**10**	**100**

Source: Primary Data, 2018

Table 4.4 shows that all the respondents approached were educated and of various levels as corresponds to their qualification, the highest number of the respondents were of Degree holders with 40% and others like CPA holders, Masters and Diploma were having the equal percentage, that is to say 20%, in that the data collected was provided by people understanding the subject under the study.

Table 4.5: Experience of the Respondents

Experience	**Frequency**	**Percentage (%)**
1-3 years	2	20
4-6 years	6	60
Above 6 years	2	20
Total	**10**	**100**

Source: Primary Data, 2018

Table 4. 5 indicates the working experience of respondents, where by 20% of the respondents range between 1-3 years of experience, 60% of the respondents range between 4-6 years of experience and 20% of the respondents have the experience of above six (6) years, this implies that all the respondents have quite enough experience to accomplish their duties in order to improve the effectiveness of interest rates towards bank loans. This therefore means that when the institution has the employees with required experience, there always a view that good yields were earned

4.2 Interest rates

Table 4.6: Shows the movement of interest rates in Centenary bank Kabalagala branch from 2015-2017

	2015		2016		2017	
Trends	Freq	%	Freq	%	Freq	%
Excellent	7	70%	8	80%	9	90%
Very good	2	20%	1	10%	1	10%
Good	1	10%	1	10%	0	0%
Poor	0	0%	0	0%	0	0%
Total	**10**	**100%**	**10**	**100%**	**10**	**100%**

Source: Primary data, 2018

In Table 4.6, 70%, 80% and 90% of the respondents considered that interest rates were excellent in 2015, 2016 and 2017 respectively, this therefore implies that interest rates were favorable to the community, 20%, 10% and again 10% of the respondents accepted that interest rates were very good in 2015, 2016 and 2017 respectively, this explains that interest rates were relatively liked and rest of the years moves as showed above

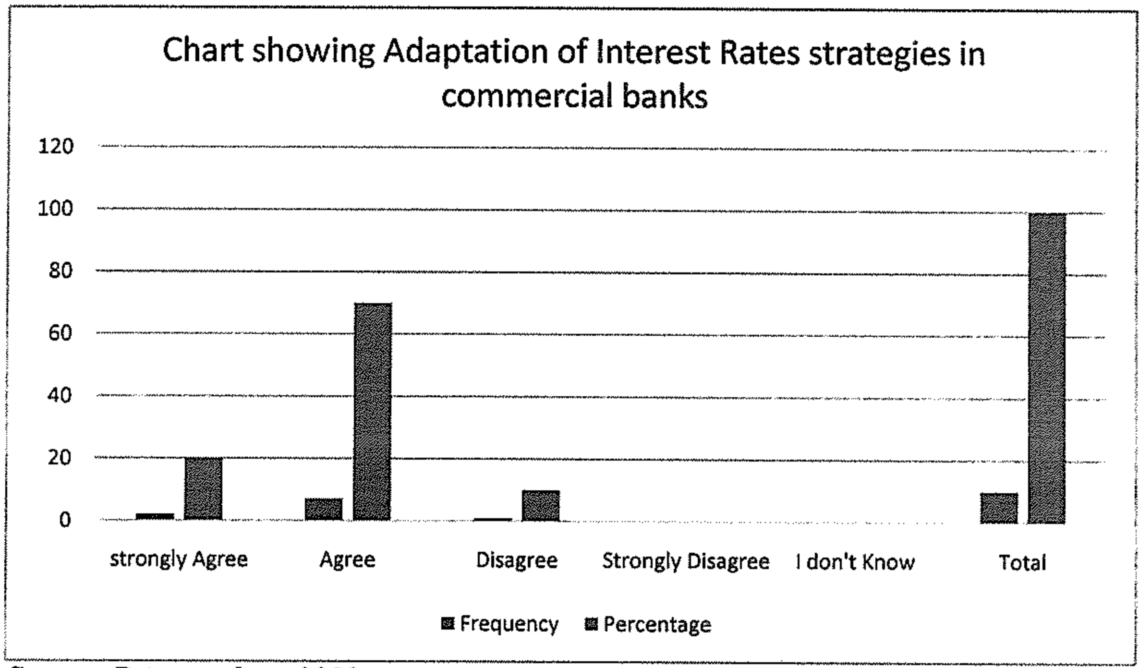
Table 4.7: Have commercial banks adapted interest rate strategies

Independence	Frequency	Percentage (%)
Strongly agree	2	20
Agree	7	70
Disagree	1	10
Strongly Disagree	0	0
I don't know	0	0
Total	**10**	**100**

Source: Primary data, 2018

Table 4.6 shows the knowledge of the correspondents on whether commercial banks have adopted interest rate strategies, out of the total percentage, 20% of the correspondents strongly agreed, 70% agreed, 10% of the correspondents disagreed, the percentage of those who disagreed and who do not know were 0%, this gave a researcher a view that interest rate strategies are adopted in commercial banks.

Figure 4.1: Adaptation of interest rate strategies commercial banks



Source: Primary data, 2018

The figure 4.1 explains the level at which commercial banks have adapted the use of interest rate strategies, where by the number of those respondents who agreed was very high and represented by the bar at (70%) as illustrated above, followed by the number of those who strongly agreed, being represented by the bar at (20%), next is the number of those who disagreed (10%) and lastly none of them strongly disagreed or did not know.

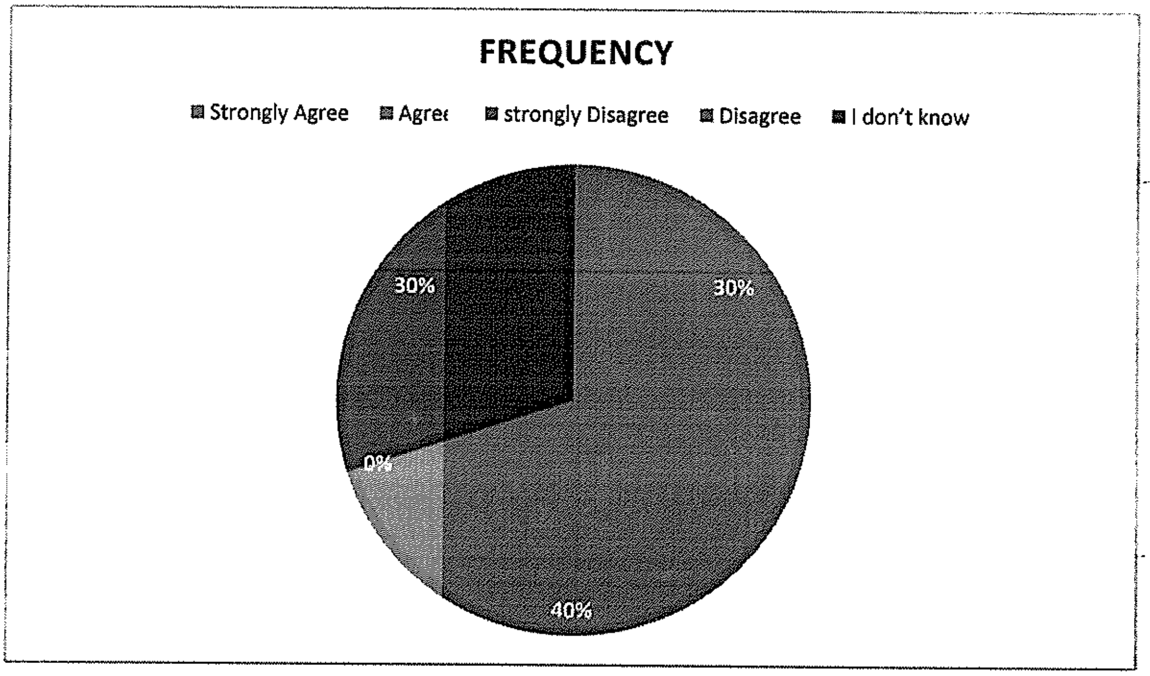
Table 4.8 Whether interest rates strategies are of importance to commercial banks.

Independence	**Frequency**	**Percentage (%)**
Strongly agree	3	30
Agree	5	50
Disagree	1	10
Strongly agree	0	0
I don't know	1	10
Total	**10**	**100**

Source: Primary data, 2018

Table 4.8 above explains if interest rate strategies are of importance to commercial banks, out of the total percentage (100%) of the correspondents, 30% strongly agreed, 50% of the correspondents just agreed, 1% disagreed and 1% of the correspondents did not know, this was enough to make the researcher draw his conclusion that interest rate strategies are of importance to commercial banks.

Figure 4.2: shows whether interest rate strategies are of importance to commercial banks



Source: Primary data, 2018

Following the illustration in figure 4.2, the proportion of those respondents who agreed was higher than the rest (50%), followed by followed by those who, strongly agreed (30%), then those who disagreed and those who did not know (10%) was smaller than the rest, but none of the respondents strongly disagreed (0%) this implies that the interest rate strategies are of great benefit as far as commercial bank development is concerned.

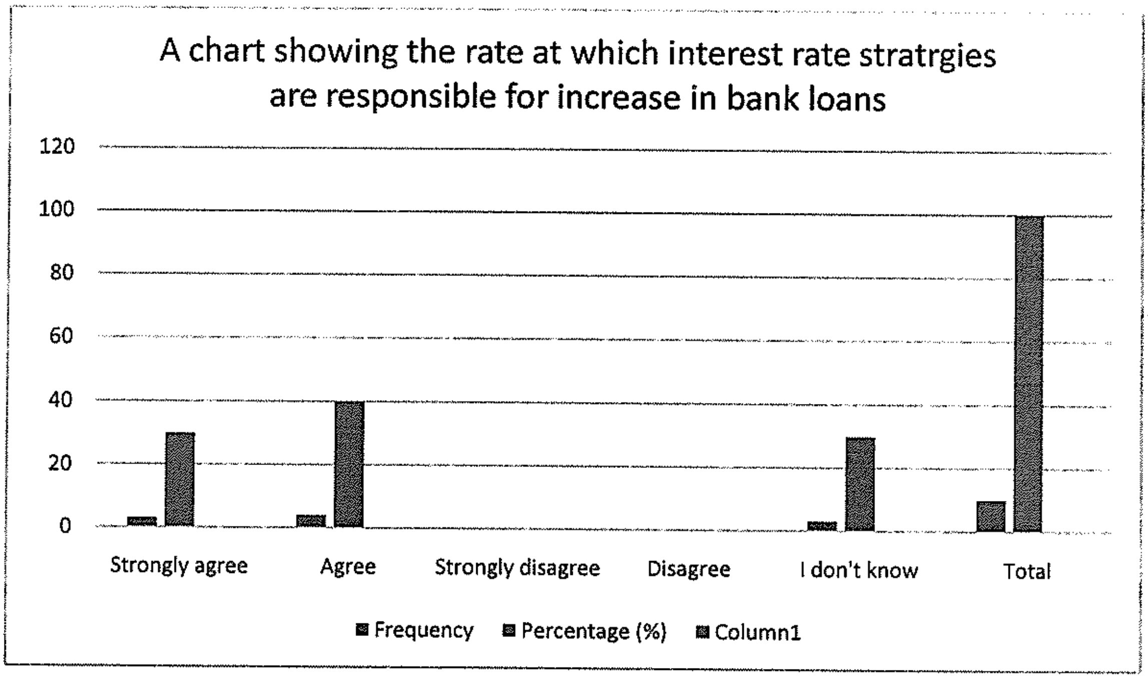
Table 4.9: Are interest rates strategies responsible for the increase in bank loans?

Independence	Frequency	Percentage (%)
Strongly agree	3	30
Agree	4	40
Disagree	0	0
Strongly disagree	0	0
I don't know	3	30
Total	**10**	**100**

Source: Primary data, 2018

Table 4.9, explains the responsibility of interest rate strategies in bank loans increment, according to the analysis and interpretation of data carried out, 30% of the respondents strongly agreed, 40% also just agreed, the percentage of those whom disagreed and strongly disagreed was 0% but who did not know anything was 30% ,

Figure 4.3: The rate at which interest rate strategies are responsible for increase in bank loans



Source: Primary data, 2018

According to the figure 4.3, it shows that the percentage of those respondents who agreed that the interest rate strategies are responsible for the increase in bank loans was higher than the rest (40%) and those who strongly agreed and who did not know had the same percentage (30%), then the percentage of respondents who strongly disagreed and just disagreed was (0%), this helped the researcher to come up with the conclusion that interest rate strategies play a recommendable impact as far as bank loans are concerned

4.3 Bank loans

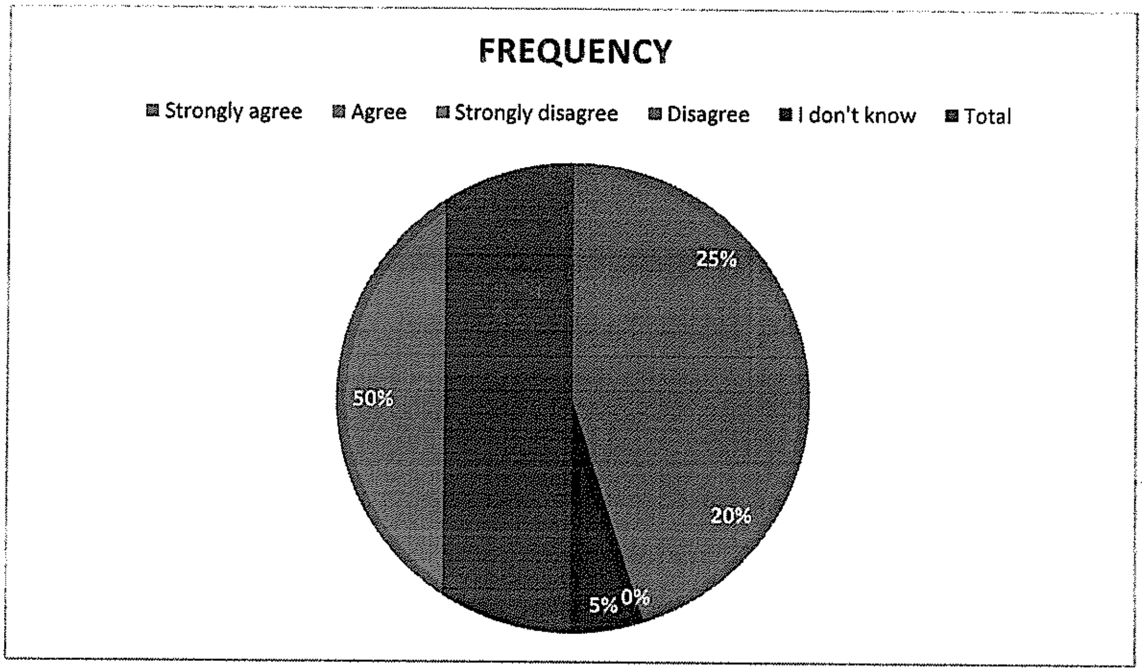
Table 4.10: Are there factors affecting bank loans levels in commercial banks?

Independence	Frequency	Percentage (%)
Strongly agree	5	50
Agree	4	40
Strongly disagree	0	0
Disagree	0	0
I don't know	1	10
Total	**10**	**100**

Source: Primary Data, 2018

Table 4.10 explains the response of the correspondents towards the factors affecting bank loans in commercial banks in case they are there, out of the total population, 50% Of them strongly agreed, while 40% of them agreed but 10% did not know, 0% disagreed or strongly disagreed, this helped the researcher to come up with the view that there are some factors that affect bank loan levels in commercial banks.

Figure 4.4: shows how bank loan affect the levels of interest rates in commercial banks



Source: Primary data, 2018

According to figure 4.4, it shows that the largest proportion of the respondents, (50%), strongly agreed that there are some factors that affect the level of bank loans, among them includes inflation, also a proportion of 40% agreed as per the questionnaire, it was of surprise that 10% of the respondents did no in that they did not respond, the findings show that there are quite a number of factors affecting the level of bank loans.

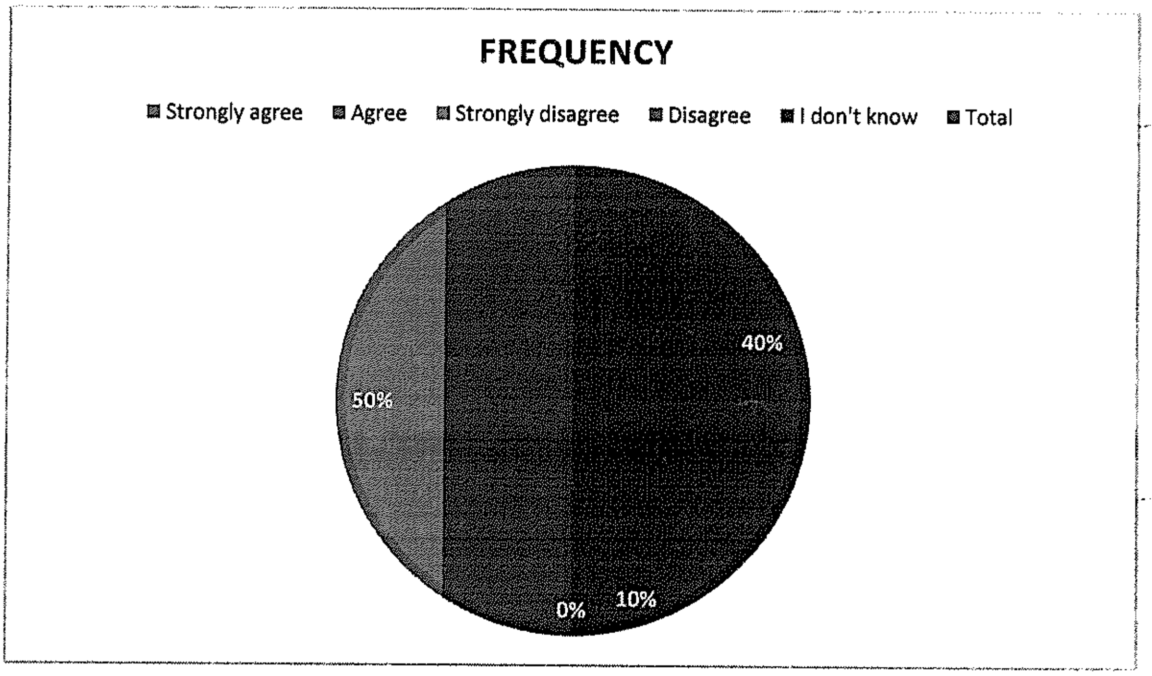
Table 4.11: Are bank loans important towards the development of commercial banks?

Independence	**Frequency**	**Percentage (%)**
Strongly agree	8	80
Agree	2	20
Strongly disagree	0	0
Disagree	0	0
I don't know	0	0
Total	**10**	**100**

Source: Primary data, 2018

Table above explains how whether bank loans are important towards the development of commercial banks, as per the questionnaire, 80% of the respondents strongly agreed that bank loans are important as far as development of commercial banks is concerned, also 20% agreed and the rest of the rankings were not represented, this was good enough to help the researcher to draw his conclusion that bank loans play a significant role towards the development of commercial banks

Figure 4.5: shows the importance of bank loans towards the development of commercial banks.



Source: Primary data, 2018

As per the illustration in figure 4.5, the questionnaire showed that the largest proportion of the respondents strongly agreed that it is of importance for a bank to deal with loans activities in that it's of great benefit, this was substantiated by 80% of the respondents, also accompanied by 20% who agreed, as per the information in the questionnaire, no respondent disagreed.

4.4 Relationship between interest rate and bank loans in commercial banks

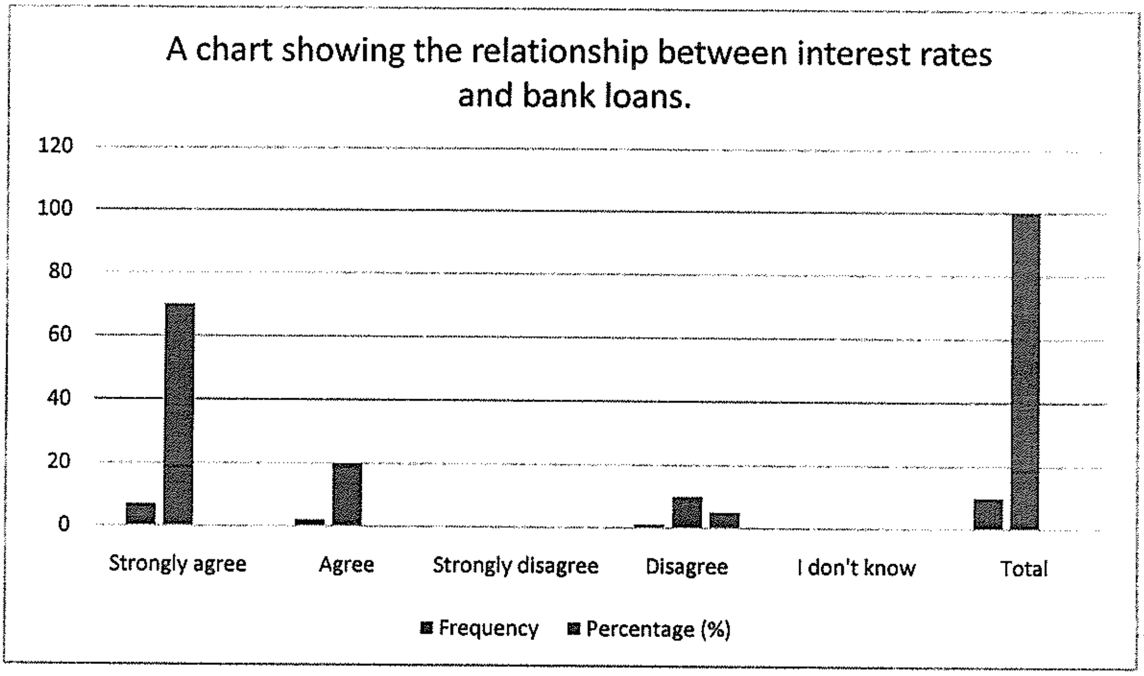
Table 4.12: Is there any relationship between interest rates and bank loans?

Independence	**Frequency**	**Percentage**
Strongly agree	7	70
Agree	2	20
Strongly disagree	0	0
Disagree	1	10
I don't know	0	0
Total	**10**	**100**

Source: primary data, 2018

Table 4.12 explains whether there is a relationship between interest rates and bank loans, following the questionnaire being drafted by the researcher as the guiding tool, 70% of the respondents strongly agreed, also 20% agreed, none of them strongly disagreed but 10% disagreed 0% did not know, this therefore means that there is a relationship between interest rates and bank loans

Figure 4.6: Shows the relationship between interest rates and bank loans



Source: Primary data, 2018

Taking in account the graphical representation, it shows that the highest bar represents the percentage of those respondents who strongly agreed and it is at 70%, then the bar at 20% represents the percentage of those who also agreed, then the bar at 10% represents the percentage of those disagreed but those whom were not represented at all shows 0% (strongly disagreed and those who did not know).

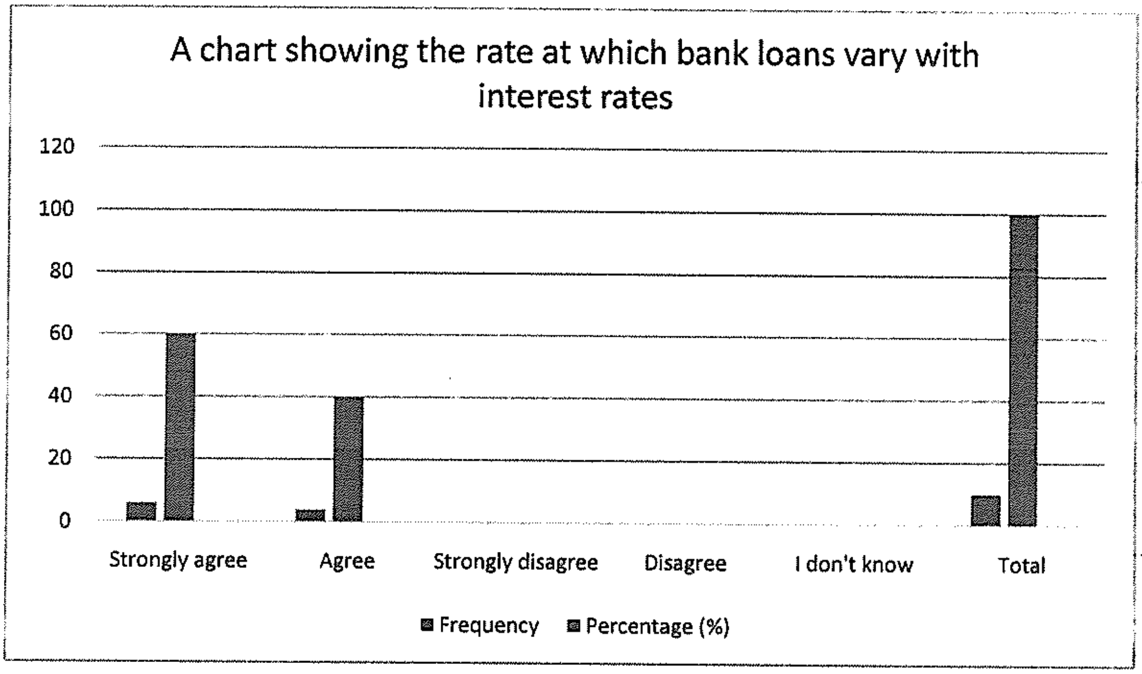
Table 4.13: Do bank loans vary with the interest rates?

Independence	**Frequency**	**Percentage (%)**
Strongly agree	6	60
Agree	4	40
Strongly disagree	0	0
Disagree	0	0
I don't know	0	0
Total	**10**	**100**

Source: Primary data, 2018

Table 4.13 explains whether bank loans vary with bank loans, out of the total percentage of 100%, 60% of the respondents strongly agreed, while 40% also just agreed, but the percentage of those who strongly disagreed, disagreed and those who do not know was 0%, this was enough to help the researcher to come up with the conclusion that bank loans do vary with interest rates.

Figure 4.7: shows the rate at which bank loans vary with interest rates



Source: Primary data, 2018

With due respect to figure 4.7, the highest bar represents the percentage of those respondents who strongly agreed with questionnaire (60%) and the bar at 40% represents the number of those agreed, this therefore implies that the questionnaire was successful as far as data collection and analysis was concerned

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter entails the summary of the research study, the conclusions being drawn from the research findings, recommendations and suggestions being put across for the purposes of further research. The summary contains a brief understanding of what was involved in achieving the each of the three objectives and what was gathered from the field. The conclusions embraces the final out comes of the research study.

5.2 Summary

The research study involved the use of time series data on lending rates and interest rates, for a period of three (3) years, that is to say from December 2015 to December 2017. As far as case study is concerned, centenary bank was chosen, reason being Centenary bank has been in the banking sector for quite a good number of years as compared to many other commercial banks.

In terms of coverage, Centenary bank takes a large proportion as compared to other commercial banks and also it has a good and d close relationship with the business community whose are relevant in lending and interest rates. This therefore made the research study very interesting and relevant

The findings of the study confirmed many suggestions in the literature review. The findings corresponded with the trends in the studies of a number of writers such as Ating-Ego and Egesa (2003), who confirms that seasonal patterns in interest rate movement have been noted at those times of the year when profit and dividend payments to present companies from their Ugandan subsidiaries are being made.

5.3 Conclusion

According to the findings, it shows that there has been a continuous increment in the in the rate at which Centenary bank has been giving loans to its clients and this has been explained by the increase in level of entrepreneurship, innovativeness, privatization policies by the government and the bank policies to promote lending services.

The study further revealed that there has been an increment in the interest rate, this implies that the local currency (shillings) has been falling the value which was basically attributed to corruption, massive reduction in donor aid and poor terms of trade.

Findings revealed that interest rates have a significant effect on lending by Centenary bank.

5.4 Recommendations

Below are the recommendations based on the findings from the study?

Any approach designed to stabilize interest rates must be properly analyzed, which is a look at measures to increase the levels of investment, employment, production for export, import substitution, value addition through industrialization and on the other hand donor aid should be promoted through proper accountability of their funds.

The government through central bank should put measures to control the operation of financial institutions especially when dealing with lending activities, this was help to moderate the interest rates charged to loans.

Inflation should be controlled because it affects interest rates and this was consequently make the business community to be trained so that they avoid then importation of inflated goods and the central bank should volume of money in circulation.

Donors should target areas that was help the country improve its Gross Domestic Product (GDP), for example they should not fund individual projects but go in for infrastructural development, education, recreation, health and agriculture.

Commercial banks should find strategies of moderating interest rates charged on loan given to clients, this would reduce stiff completion among banks hence reducing inflation.

Commercial banks should reduce on the value of collateral security attached to the loan, this would make loans cheap and therefore they would affordable by many clients, this eventually would build strong link between the banks and prominent customers.

Commercial banks should carry out social responsibility activities, for example sponsoring events, like Stanbic bank sponsoring Uganda Cup, this would create good relationship with the clients.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

Research questionnaire for the management of Centenary Bank, Kabalagala Branch

Dear respondent,

I am **Olinga Faustine,** a third year student of Kampala International University, carrying out research about Interest rates and Bank loans in commercial Banks, particularly Centenary Bank.

This questionnaire is intended to facilitate me in collecting data concerning the effect of Interest rates on Bank Loans. It is strictly for academic purposes and all the information given was be treated confidentially.

Your assistance will be highly appreciated

Section A: BIO DATA

Tick where appropriate

(1) Sex

a) Male ☐

b) Female ☐

(2) Age

a) 18-25 ☐

b) 26-35 ☐

c) 36-45 ☐

d) 46 and above ☐

(3) Level of management

a) Top level ☐

b) Middle level ☐

Section B: Interest Rates

QUESTION	A	B	C	D	E
1. Have commercial Banks adopted interest rate strategies?					
2. Are Interests Rate strategies of importance to commercial Banks?					
3. Are there some factors considered by commercial banks before choosing the Interest rate strategies to use?					
4. Are the Interest Rate strategies used by commercial Banks effectively?					
5. Are Interest rate strategies responsible for the increase in Bank loans in commercial Banks?					
6. Do Interest Rate strategies hinder Bank loans in commercial banks?					
7. Do Interest Rate strategies change over time in commercial Banks?					

Please identify the various Interest Rate management strategies adopted and their significance to then Bank loans in commercial Banks or any other relevant information with regard to this section.

Section c: Bank loans

	QUESTION	A	B	C	D	E
1	Do commercial Banks have good/promising Interest rates?					
2	Are there factors affecting the Bank loans level of commercial Banks					
3	Are commercial Banks having any indicators of their loan structure?					
4	Are there any efforts taken by commercial Banks to improve/maintain their loan structure?					
5	Do loan yield reasonable profits to the Bank?					
6	Are there improvements of Bank loans in commercial Banks?					

7	Are Bank loans important towards the development of commercial Banks?					

Section D: The relationship between Interest Rate and Bank loans in commercial Banks

	QUESTION	A	B	C	D	E
1	Is there any relationship between Interest rates and Bank loans in commercial Banks?					
2	Is the relationship between Interest rates and Bank loans positive?					
3	Does the relationship affect the financial decisions of the commercial Banks?					
4	Do Bank loans vary with Interest rates?					
5	Are commercial Banks influenced by Interest rates?					
6	Are Interest rates useful in Bank loans in commercial Banks?					

APPENDIX 2 :INTERVIEW GUIDE

This interview guide is directed to the staff of Centenary Bank, Kabalagala branch.

1. What is your name sir/madam?
2. What is your department?
3. What is your position in this organization?
4. Does your organization use Interest Rate strategies?
5. If yes, which kind of the InterestRate strategies does it use?
6. How has it benefited the organization?
7. What are the costs associated with using Interest Rate strategies?
8. What are the strategies used to improve Bank loans?
9. What are the future prospects of this organization (Centenary Bank)?
10. Where do you see Centenary Bank five years from now when these strategies are applied?

Thank you, may the almighty bless you abundantly

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COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE

May, 7th 2018

To whom it may concern

Dear Sir/Madam,

RE: INTRODUCTORY LETTER FOR OLINGA FAUSTINE
REG NO 1153-05014-01301

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration, Third year Second semester.

The purpose of this letter is to request you avail him with all the necessary assistance regarding his research.

Topic: - **THE EFFECT OF INTEREST RATES ON BANK LOANS IN CENTENARY BANK, KAMPALA DISTRICT, KABALAGALA BRANCH.**

Any information shared with him from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly

KAMPALA INTERNATIONAL
KIU
03 MAY 2018
COLLEGE OF ECONOMICS
MANAGEMENT
P.O BOX 20000, KAMPALA

DR. JOSEPH B.K. KIRABO
HOD – ACCOUNTING AND FINANCE
0772323344

Received

Centenary Bank
For and on behalf of
Centenary Rural Development Bank
Administrator
KABALAGALA BRANCH