

**EXCHANGE RATE AND BANK LOANS IN UGANDA: A CASE OF CENTENARY
RURAL DEVELOPMENT BANK KAWEMPE BOMBO ROAD**

BY

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BBA/43656/143/DU

**A RESEARCH PROPOSAL SUBMITTED TO THE COLLEGE OF ECONOMICS AND
MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENT
FOR THE AWARD OF BACHELORS DEGREE IN
BUSINESS ADMINISTRATION OF KAMPALA
INTERNATIONAL UNIVERSITY**

MAY, 2017

DECLARATION

I, KIROKO ANOLD declare that this research report is my own work, and that it has never been presented for a Degree award to any University/or Institution.

.....


Signature

.....
08/06/2017

Date

APPROVAL

This is to certify that this research report has been submitted for examination with my approval as University Supervisor.

Signed.....

MR MASEMBE MUZAMIL

Date.....10/06/2017.....

DEDICATION

I would like to express my sincere gratitude to God, **Holy Spirit** and all the people who assisted me towards the successful completion of this research report for their moral support.

With special regards, I would like to extend my sincere gratitude to my parent **Mr. Kiirya** and **Miss Edith** for their unconditional support throughout the duration of my studies.

My sincere gratitude also goes to my supervisor **Mr. Masembe Muzamil** for his guidance during the course of conducting this research, I sincerely thank Him for the patience, commitment, guidance, supervision and editorial experience I shared with Him that led to the successful completion of this study.

I would like to thank my friends with whom I have studied in the BBA class 2017, **Mama Emma, Pr. Billy and Mss Anna Makumbi** for their constant support and encouragement throughout my studies at Kampala International University.

Finally, my thanks go to the entire Kampala International University community; management teaching and non teaching staff for their assistance during my studies. God Bless you.

ACKNOWLEDGEMENT

Having come up with this dissertation would have been totally impossible without the cooperation, encouragement and advice of a large number of highly talented individuals, so it is a great pleasure to thank them. I owe special thanks to the **Almighty God (Holy Spirit)** who has enabled me further my academic career to this level.

I greatly appreciate the guidance provided by my supervisor **Mr. Masembe Muzamil** who read several chapters and made many useful suggestions for the successful design and presentation of my research.

I want to thank my lecturers at Kampala International University for guiding me through this course; I humbly express my gratitude to the staff at Centenary Rural Development Bank which was so cooperative in providing me with the necessary information.

Finally I appreciate the support from my family and classmates. God bless you all.

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ABSTRACT

This research was set out to investigate the relationship between Exchange rate and Bank loans in Uganda for a period of ten years from 2002 to 2012. The study was set to employ the cross sectional research design since it basically examined secondary data over the above period; it was also a descriptive-correlation since it was interested in examining the relationship between the independent variables and the dependent variable. The Population of this study was the published and non published reports on the variables under study.

The objectives were; to examine the changes in the lending rates, establish the changes in exchange rates (American dollar and British pound) and to determine relationship between exchange rates and lending rates from the period of 2002-2012 in centenary bank.

The study found out that there has been a continuous increment in the rate at which CERUDEB has been giving out loans to its clients within the studied period since the rate grew from 7.1 in 2002 to 9.2 by 2007. The second objective of the study set out to establish the exchange rate. It was established that the lowest exchange rate of the dollar was experienced in 2002, followed by a gradual increase up to 2006. It also shows two peaks, one experienced in 2004 and the second one experienced in 2010 from which the exchange rate declined till 2012. The exchange rate for the British pound displays a more or less a linear relationship of exchange over time. The lowest having been experienced in 2002, then a gradual increase up to 2004 followed by a marked decline in 2005. From this time the exchange rate increased gradually till the time when the exchange rate reached its highest in 2009. Basing on the findings it was also established that exchange rate has got a significant effect on lending rate.

ACRONYMS

US	-	United States Dollar
OPEC	-	Organization of Petroleum Exporting Countries
CBR	-	Central Bank Rate
KCB	-	Kenya Commercial Bank
CERUDEB	-	Centenary Rural Development Bank
GDP	-	Gross Domestic Product
FDI	-	Foreign Direct Investment
CA	-	Credit Assessment
CBR	-	Central Bank Rate
BOU	-	Bank of Uganda

CHAPTER ONE

1.1. Introduction

This chapter gives a presentation of the background to the study, statement of the problem, and purpose of the study, research objectives, research questions, scope, significance of this study and the conceptual framework.

1.2. Background to the study

1.2.1 Global background

Historically, there were periods that governments through the central banks intervened in the foreign exchange market in order to affect the fluctuation of the exchange rate that otherwise would be determined by market forces. There were also periods with no intervention when the exchange rate, just like a price (Parkin and King, 1992) was determined by supply and demand.

On 22nd July, 1944, at Bretton Woods in the United States of America, 44 countries agreed that a broad international action was necessary to maintain an international monetary system, which would promote foreign trade. In this respect, it established a worldwide system of fixed exchange rates between currencies (Gopinath, and Roberto 2011). Actually, the 'tool' was gold, with the following quota: one ounce of gold was to be worth US dollars 35. After the establishment of the fixed rate of exchange, all other currencies were pegged to the US dollar at a fixed exchange rate. As stated in the article 'The End Of the "Fixed" Dollar', by the beginning of the 1960s, the US dollar 35 = 1 oz. gold ratio was becoming more and more difficult to sustain. Gold demand was rising and the U.S. Gold reserves were declining.

Between the late 1960s and the early 1970s, Latin American countries began to face a significantly different international context: the gradual emergence of the second wave of financial globalization. Two key events in this process occurred during the first half of the 1970s. First, there was a shift in developed countries from fixed to floating exchange rates, which strongly stimulated the development of foreign exchange markets and their derivatives.

1.2.2 Regional background

Second, OPEC countries generated the first coordinated rise in the price of oil. This shock rapidly caused large current account imbalances in oil-importing countries and at the same time supplied the incipient Eurodollar market with abundant liquidity. Since that period there has been secular growth in international capital flows concurrent with a progressive de-regulation of capital accounts and a progressive liberalization and opening of domestic financial systems. Both trends shaped the second wave of financial globalization. (Corbo, Jaime De Melo and Tybout, 1986).

In the case of South Africa, the exchange rate regime evolved from being fixed, to managed-floating, to free-floating. The degree of exchange rate management since the switch from a fixed to a floating rate policy in 1979 (De Kock Commission, 1984) declined, and at present, the country has achieved its long-term objective of establishing a unitary exchange rate system, within which the rand is allowed to find its own level in a competitive environment (du Toit, 2005).

This study will use the scapegoat theory of exchange rates. The scapegoat theory by Bacchetta and van Wincoop (2004, 2011) entails that a particular fundamental is more likely to become a scapegoat the larger the (unexplained) exchange rate movement and the more this particular fundamental seems out of line with its long-run equilibrium, but consistent with the observed direction of the exchange rate movement. Over the short-run, both the scapegoat fundamental as well as the unobservable fundamental may thus help explain exchange rate movements.

Exchange rates are often volatile in small open economies which are subject to external shocks, such as terms of trade shocks.

National background

The Ugandan economy, alongside several other economies in sub-Saharan Africa, which are termed “frontier markets”, has become more integrated with global financial markets and is attracting significant external investment into its financial markets from private portfolio investors, mainly because of the interest rate differentials with advanced economies. Portfolio capital flows, which are often very volatile, generate a further source of potential instability for

the exchange rate. Portfolio capital flows to Uganda has in the recent past been substantial. Sales and purchases of foreign exchange from, and to, offshore portfolio investors accounted for nearly 20 percent of all foreign exchange transactions carried out by commercial banks in Uganda in the first seven months of 2012. However this study will attempt to find out if exchange rates have got anything to do with the high lending rates in commercial banks specifically centenary bank.

Centenary Rural Development Bank Ltd started as an initiative of the Uganda National Lay Apostolate in 1983 as a credit Trust and it began operations in 1985 with the main objective of serving the rural poor and contributing to the overall economic development of the country in 1993, Centenary Rural Development Bank Ltd was registered as a full service commercial Bank. Today, they are the leading Microfinance Commercial Bank in Uganda serving over 1,400,000 customers. Their services can be accessed across 65 branches, 165 ATMs and the phone banking (CenteMobile).

1.3. Statement of Problem

In spite of indication that the economy is stabilizing, Ugandans are still paying expensively for the loans they get from the bank. Fewer people were borrowing after the central bank increased its benchmark Central Bank Rate (CBR) to 23% at its highest in December 2011 to January 2012, forcing commercial banks to raise their borrowing rates to 29.5%, turning away many potential borrowers (**Sanyo, 2012**). The CBR has been reduced to 15% but, banks are still lending at a high rate. The New Vision 2012 report showed that, the fairest of them is Centenary Bank, lending at 24%. Standard Chartered also reduced from 25.5% to 24%. These were followed by DFCU and Kenya Commercial Bank (KCB) followed at 26%. Stanbic and Housing Finance were at 26.5% (Stanbic reduced to 23% effective September 28, 2012), followed by Global Trust Bank at 26.75%. Eco Bank Uganda was at 27.5%.

However Luther (2012) explains that high lending rates are blamed for the slow growth of Ugandan bank assets for the year ending June. A report by Bank of Uganda shows growth in commercial bank assets declined 8.2 percent between June 2011 and June 2012, a slowdown attributed to expensive loans, declining deposits, increasing defaults on loan obligations and high interest rates that have kept away a number of borrowers. This study therefore tried to establish the impact of exchange rates on lending rates in centenary bank.

1.4. General Objective

To assess whether the exchange rate affects bank loans and whether these effects are consistent or transitory.

1.5. Specific Objectives

- i. To examine the changes in the lending rates by the centenary bank from 2002-2012.
- ii. To assess the changes in exchange rates (American dollar and British pound) from 2002-2012S in centenary bank.
- iii. To determine if lending rates are affected by the exchange rates from the period of 2002-2012 in centenary bank.

1.6. Research Questions

The study will attempt to find answers to the following questions:

- i. What is the level of lending by CERUDEB 2002-2012?
- ii. What are the changes in exchange rates (Us Dollar and British pound) from 2002-2012?
- iii. What is the relationship between lending in CERUDEB and variations in exchange rates between 2002 -2012?

1.8. Scope of the study

1.8.1. Content scope

This study was limited to exchange rates (i.e. exchange rate policy in Uganda, components of exchange rates, and determinants of exchange rates) and bank loans (i.e. Credit assessment, Collateral security, Interest rate etc).

1.8.2. Time scope

The study looked at a period of 10 years that is from December 2002 - December 2012.

1.8.3. Geographical Scope

The study was carried out in Kampala. Kampala is the capital city of Uganda comprising of five divisions namely: Central division, Rubaga division, Nakawa division, Makindye division and Kawempe division.

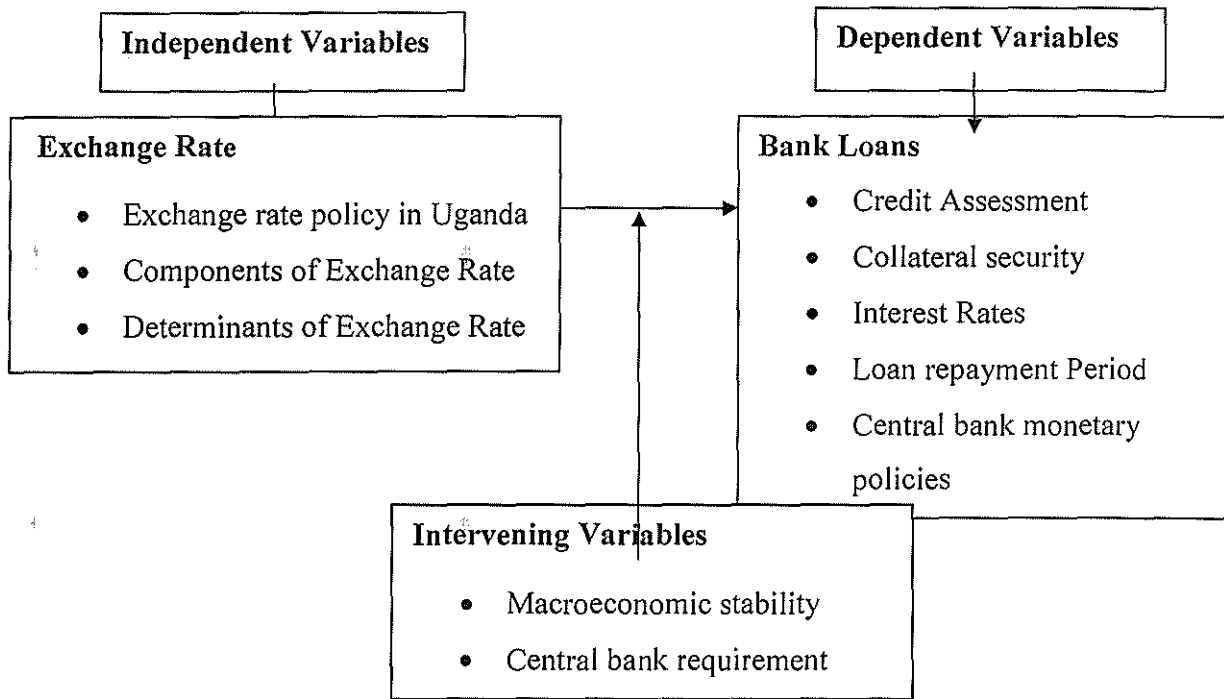
1.9. Significance of the Study

The findings of the study can be useful or important in many different ways and to many different persons or groups of people.

- i. It can add to the stock of knowledge concerning factors affecting exchange rates and the performance of lending rates in the bank of Uganda and commercial banks and can help **policy makers** come up with appropriate measures that can help improve loan performance in the country.
- ii. The finding of the study can help **experts** in drawing accurate assessment of the determinants of exchange rates in the country.
- iii. The study can help the **researcher** to acquire practical research skills and also partially fulfill the requirement for the award of a Bachelor's Degree of Business Administration at Kampala International University.
- iv. The **future researchers** can reference on this study to embark on related study.

Figure 1: Conceptual Framework

O' Sullivan and Sheffrin (2003) exchange rate refers to the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in terms of another currency.



Source: O'Sullivan and Sheffrin (2003)

Independent variables are the predictor variables or explanatory variables, in this case, Exchange Rate (Exchange rate policy in Uganda, Components of Exchange rate and Determinants of Exchange Rate) explain, control or predict Bank Loans (Credit Assessment, Collateral security, Interest Rates, Loan Repayment Period, Centenary Bank Monetary policies)

The dependent variable is the variable of primary interest to the researcher. Therefore it is the researcher's interest to explain its variability or predict it. In this case, the dependent variable **Bank Loans** (Credit Assessment, Collateral security, Interest Rates, Loan Repayment Period, Centenary Bank Monetary policies).is predicted by the independent variable i.e. **Exchange Rate**

Intervening Variables. These are also called extraneous variables. The intervening variables are the variables that compete with the independent variable in explaining the dependent variable. In the study, Macroeconomic stability and centenary bank requirement compete with the independent variable (i.e. Exchange Rate) to explain the dependent variable (i.e. Bank Loan)

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter was used to review literature related to the objectives of the study in order to enable the researcher to support the findings. Literature was reviewed through the use of secondary sources such as Newspapers, Research reports, Dissertations, Journals and the Internet.

2.2 Exchange Rates

According to O'Sullivan and Sheffrin (2003) exchange rate refers to the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in terms of another currency. Frenkel (1976) explains that a market-based exchange rate will change whenever the values of either of the two component currencies change. A currency will tend to become more valuable whenever demand for it is greater than the available supply. It will become less valuable whenever demand is less than available supply (this does not mean people no longer want money, it just means they prefer holding their wealth in some other form, possibly another currency).

Taylor (1995) notes that increased demand for a currency 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 (GDP), and employment levels. The more people are unemployed, the less the public as a whole will spend on goods and services. Central Bank typically have little difficulty adjusting the available money supply to accommodate changes in the demand for money due to business transaction.

According to Rankin (1998) speculative demand is much harder for 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 a country's interest rates, the greater will be the demand for that currency. Taylor (1995) argues that such speculation can undermine real economic growth, in particular since large currency speculators may deliberately create downward pressure on a currency by shorting in order to force that

central bank to buy their own currency to keep it stable. (When that happens, the speculator can buy the currency back after it depreciates, close out their position, and thereby take a profit).

The Foreign Exchange Act, 2004

An Act to amend and consolidate the law relating to foreign exchange in Uganda; to provide for the exchange of foreign currencies in Uganda and the making of international payments and transfers of foreign exchange; and for other related and incidental matters.

2.3 Evolution of exchange rate policy in Uganda

The most noticeable side of Uganda's adjustment efforts has been in the area of trade policy, foreign exchange market reforms and liberalization of current account transactions. Key in the policy framework has been the need to eliminate distortions, which meant increased reliance on market mechanisms to guide resource allocation. During the period 1987-1993, Uganda made several attempts to unify the multiplicity of exchange rates that prevailed in the exchange market. The policy objective was to eliminate the overvaluation of the Uganda Shilling and to establish a unified market based rate that would provide a uniform price, which would promote efficiency in allocation of resources, growth and development (Musinguzi and Rweikiza, 1994; Musinguzi and Kihangire, 1994; Abuka and Sajjabi, 1996; Musinguzi and Ochieng, 1997).

After authorizing full retention of all non-coffee export proceeds in early 1990, Government in July 1990 legalized the parallel market by licensing foreign exchange bureau. The bureaus were permitted to conduct spot transactions at freely determined exchange rates and to satisfy most private sector demand for foreign exchange to finance visible and invisible payments in a bid to address popular concern about capital flight. The policy aimed to alleviate pressure on the official channel for foreign exchange and to provide further incentives to non-coffee exports. Surrender requirements on export proceeds, except coffee, were abolished and inflows could be converted at the market based bureaux rates. In other words, the move towards a market-based system was driven by the need to enhance export viability. More importantly, the reforms aimed at increasing the efficiency of the foreign exchange allocation processes and at the encouragement of foreign capital flows through an open and competitive exchange rate payments system.

The licensing of bureaux marked the first step in moving to a market based foreign exchange system. This step constituted an explicit acceptance of past policy mistakes and their consequences, and of the need to include the private sector participation in the market building efforts. Following legalization, the bureaux market grew rapidly. The number of bureau increased from ten at inception to more than 80 by June 1995. Traded volumes increased from US 248 million in 1991 to US 818 million in 1994. Concomitantly, the Government maintained its policy of active and discretionary devaluation to support the balance of payments. As a consequence, the premium of the bureaux market exchange rate over the official rate declined from about 45% in July 1990 to around 5% in December, 1995.

2.4 Exchange Rate Determination and Trends in Uganda

In a standard analysis free floating system the fundamental value of a country's currency should closely mirror its current account and international investments position and developments (Rankin, 1998). In Uganda though, there are some other dynamics that may influence movement of the exchange rate. These include donor resource flows and disbursement patterns given that about half of government spending is donor funded. There are also noticeable seasonal patterns that seem to influence short term exchange rate movements. These emanate from various sources such as the seasonal nature of Uganda's agricultural exports and remittances from Ugandan's living abroad that tend to coincide with the festive calendar seasons of Easter and Christmas and the beginning of school terms (Ating-Ego and Egesa, 2003). Seasonal patterns in exchange rate movement have also been noted at those times of the year when profit and dividend payments to parent companies from their Ugandan subsidiaries are being made. Such patterns are without doubt disruptive.

The influence of speculators on the market can in some cases have considerable and destabilizing influence on short term exchange rate movements most especially if they are reacting to surprising information (Rankin, 1998) since their positions last for just a few hours or days. It is perhaps the destabilizing effects these traders can have on the market that the Bank of Uganda has always threatened to take measures to ensure that the exchange rate is not a one way bet (Mutebile, 2001).

There has also been a substantial increase in inflows following liberalization of the capital account in 1997. These have mainly taken the form of foreign direct investment (FDI). Of late, there has also been an increasing interest in Uganda shillings denominated assets by foreign fund managers. This has tended to create transitory but potentially disruptive variability tendencies in the exchange rate. Off the trend depreciation tendencies have coincided with times of high oil prices. A few appreciation tendencies have also been noted at times of relatively strong export performance.

2.5 Bank Loans

Signoriello (1991) define a loan as a debt evidenced by a note which specifies, among other things, the principal amount, interest rate, and date of repayment. A loan entails the reallocation of the subject assets(s) for a period of time, between the lender and the borrower.

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 lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount.

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 restrictions known as loan covenants. Acting as a provider of loans is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is a typical source of funding.

Credit Assessment

Credit assessment is the first stage in the lending process. It is the process through which the credit applicant presents the necessary documentations to the bank in order to obtain a loan Nsereko (1995). Credit assessment involves:

Collateral Security

This is the borrower's asset pledged in exchange for the receipt of a loan. Banks request for collateral before extending loans to customers. The collateral is always higher value than the loan taken to ensure that the loan is paid back. The use of groups as collateral is accepted by some banks (Yunus, 1996). When one member fails to pay, the other group members pay on their behalf. Thus, this system makes it possible for group members to monitor one another thus leading to improved loan repayment. However, some studies have found out that group members don't want paying for others and they also don't like others paying for them (Antonio, 2000).

Interest Rate

It is the price of the loanable funds and serves to allocate credit and moderate the level of investment (Ross, 1991). Interest rates can be looked at from the borrowers' and lenders' point of view. To the borrower, interest rate is the costs of borrowing money expressed as a percentage of the amount borrowed (Martin, 1998). A borrower evaluates all costs including interest rates and expected returns before deciding to take a loan or not. To the lender, interest rate is determined by factoring in costs such as costs of production, the inflation rate, personnel, administrative costs, loan loss provisions and capital growth (Kasibante, 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 (Brochures, 2001).

Loan Period

The World Bank (1996) reported that Banks have little capacity and interest to provide long-term capital. This is attributed partly to the high composition of short term liabilities in their portfolio and also their concern for risks associated with lending activities. 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 of the Financial Institutions Statute, 2004.

Central Bank Monetary Policies

BOU tightened monetary policy further in November 2011 as an attempt to moderate upside inflationary pressures particularly from high non-food inflation. Accordingly, BOU raised the

Central Bank Rate (CBR) by three percentage points to 23 percent in November 2011 from 20 percent in October 2011. The band on the CBR was maintained at plus/minus 4 percentage points. Consequently the lower and upper bounds of the CBR were set at 19 percent and 27 percent, respectively in November. The margins on the rediscount rate and bank rate were maintained at 5 percentage points and 6 percentage points, respectively. Subsequently, the rediscount rate and the bank rate for November 2011 rose to 28 percent and 29 percent, respectively.

In line with fiscal financing needs and in a bid to align structural liquidity with levels consistent with the monetary policy stance for the month, BOU issued treasury securities. The yields on the government papers rose in line with the tight monetary policy stance. BOU also issued REPOs and reverse REPOs worth Shs. 16.7 billion and Shs. 271.2 billion respectively to fine-tune short-term liquidity conditions and the result was a net injection of Shs. 78.7 billion. By the close of the month the outstanding stock of reverse REPOs stood at Shs. 110 billion. Liquidity conditions in the banking system however remained tight throughout the month leading to relatively high interbank money market rates with the weighted average 7-day interbank money market rate trending above the upper bound of the CBR in some weeks.

BOU continued with the daily purchase of US 0.5 million for reserve build-up which was increased to US 1.0 million in the first week of the month and in addition, carried out targeted sales so as to reduce depreciation pressures in the foreign exchange market; the net effect of BOU actions in the foreign exchange market during the month was a net purchase of US 6.5 million.

CHAPTER THREE

METHODOLOGY

3.1. Introduction

This chapter is meant to discuss how the methodology was employed in the study. It indicate the research design, focus area of study, the study population, target population, research instruments, validity and reliability, data analysis techniques, ethical considerations and limitations of the study.

3.2. Research Design

To design is to plan or to devise 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 a knowledge base, within the discipline in which it is rooted (Nsigo 2005). This study was set to examine the relationship between exchange rates and levels of bank lending in Uganda looking at Centenary Rural Development Bank as the case study. The researcher used a longitudinal research design covering a period of eleven (10 years) from 2002-2012, based on quantitative data generated through document analysis of Centenary Bank annual reports. This data provided a detailed and comprehensive monthly exchange rate flows and lending rates and levels over the years which are to be studied. The variables that were extracted include: monthly exchange rates for the midyear values and lending rates. The design is appropriate since the research concerns two particular variables; exchange rates and level of bank lending operating in a specific geographical area Kampala where data was collected from Centenary Bank to aid in the investigation.

According to Nsigo (2005), “research exposes the operational reality of organizations and allows one to bring out the strengths and weaknesses of such organizations and enhance ones chances of engaging or suggesting remedial action for such organizations.”

3.3. Focus area of study

The focus area of study was basically the rates at which foreign currencies are exchanged in terms of the local currency and the study purposively chose the Us Dollar and the British pound

and how these affect bank lending within Centenary rural development bank. It's on these focus areas that the extent to which the effect of exchange rates on Bank lending was examined.

3.4. Target population

Given the focus and scope of study highlighted above, the study population was drawn from all Bank publications, monthly reports, annual reports, balance sheets for the chosen period and some information was obtained from loans officers at the Bank branch in Kampala central along Bombo road. The study generally enlists two different types of foreign currencies. I.e. the Us dollar and the British pound.

The two currencies were selected purposively, since it has been found out that these are among the major foreign currencies circulating within Uganda's economy, the researcher had the desire to include specific sections of the study population that have potential in depth information and understanding of the basic themes of the study. These two currency's exchange rates were compared to the levels of bank lending to the public over the years.

3.5. Research Instrument

Time series data from 2002-2012 for this study was collected from secondary sources which were integrated with some data from the primary sources.

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

Primary data is the information collected by the 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 case study design, including interviews, documentation, archival records, direct records, direct observation and arte facts.

The study used two methods, namely the documents/records review; this is because of their efficiency and effectiveness to solicit reliable and valid data Maicibi and Kaahwa (2004) and interviews. The use of these two methods was intended to enable the triangulation of data and make assessment of the balance of evidence given. When all this information was obtained, it was entered into a data sheet as the research collection instrument.

3.6. Document review

This involves the collection, study and analysis of existing written (published and unpublished) material. Documents that were reviewed include; official institutional publications, semi autonomous body's reports, statistics and figures, annual and monthly reports and financial statements, monthly positions of exchange rate reports.

3.7. Interviews

Focus group discussion and face to face interviews were conducted to elicit primary data from key informants in key official leadership positions especially those working with the loans department and those working with the western union transfer departments. This provided the opportunity to follow up ideas and probe responses, vital areas of information that the researcher used while designing the secondary data design schedule were also captured.

3.8. Validity and Reliability of the instrument

Validity is the accuracy and meaningfulness of inferences, which are based on the research results (Mugenda and Mugenda 2003). This calls for data that truly reflects the variables under study. This was achieved through, content validity which was achieved through collection of data on indicators that conform to the study variables; comparison of collected data with various sources to ensure that there exist similarity between and among different sources and this was emphasized on the exchange rate, over a range of 10 years to ensure that criterion related validity exists.

3.9. Data Analysis

Quantitative data obtained from annual reports and monthly standings of exchange rates were analyzed using a statistical package STATA. The researcher used a quantitative research design after collecting data; the next step was to interpret such information in line with the 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 edited, categorized and entered into a computer data base system for analysis. The data was analyzed using STATA to establish the relationships between the dependent and independent variables and other statistics at bi - variate and multivariate levels.

At bi-variate levels linear equations were fit and this depended on the shape of the graph exhibited by the data over time. This was basically on the levels of exchange rates (Us Dollar and British pound) over time. A similar modal was be fit to establish the level of CERUDEB lending over time. At multivariate level a multiple linear equation was fit to establish the linear relationship between CERUDEB lending and both the Dollar and Pound exchange rates. It's at this point that coefficients of exchange rates on lending were obtained and correlation analysis was done to establish the strength of the relationship using Pearsons (r)

At bivariate level, the level of CERUDEB lending was regressed and correlated with the exchange rates to establish the individual effects. The respective simple linear models were fit using the simple linear model.

The pearsons (r) was also computed to obtain the strength of the relationship

3.10. Procedure

After Approval of the Proposal, the researcher will obtained an introductory letter from the College of Economics and Management and this will be presented to CERUDEB officials. Corrections will be made in the proposal and the data in line with the research objectives will be collected for analysis.

3.11. Ethical considerations

The principles underlying research ethics are paramount and concern issues such as confidentiality, honesty and respect for individual rights. Welmer, Kruger and Mitchell (2000:201) identify consent, right of privacy, protection from harm and deception as ethical problems that require serious consideration by researchers.

Ethical standards in this study were assured. CERUDEB was informed in writing about the objectives of the study and was requested to participate. Where the sources of data prefer to with hold their identity, only designations were used in the citation of their contributions, use of officially publicized data, voluntary participation of the respondents, guaranteeing confidentiality

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF DATA

4.1. Introduction

This chapter presents data analysis, presentation, and interpretation of data. The data analysis and interpretation were based on the research objectives;

4.2. Level of lending by CERUDEB 2002-2012

The first objective of the study set out to establish the level lending by CERUDEB, this was achieved by looking at the time series data concerning lending in the bank by looking at the mid and end year reports from the loans department.

Table 1: A table showing lending rates in CERUDEB 2002 - 2012

YEAR	LENDING RATES (DOLLAR)
2002	7.1
2003	7.9
2004	8.1
2005	8.5
2006	9.9
2007	9.2
2008	9.6
2009	10.4
2010	10.8
2011	9.4
2012	8.4

Source: Secondary data

Table 1 shows that there has been a continuous increment in the rate at which CERUDEB has been giving out loans to its clients.

on information given by the respondents, and reporting study findings basing on the data collected and analyzed using appropriate techniques.

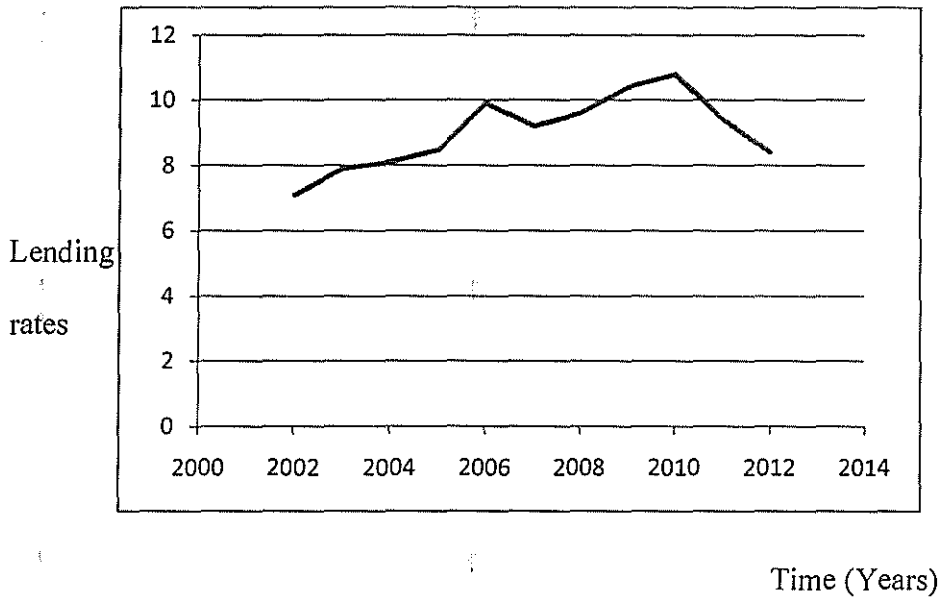
3.12. Limitations of the study

Since the research was based on time series data there was need to look for, read and interpret the relevant documents, extensively, this required a lot of time and funds which were not be readily available, however this was solved by seeking for funding from the researcher's sponsors early enough and explaining to them the importance of this research to my career such that they can avail the funds in time. Various documents providing the same information on variables were also used to limit on time needed for documentary review.

Secondary data that was used has its own short comings like problems of retrieval, display of author subjectivity, limitation of its accessibility, which lead to incomplete information. Use of various sources tried to limit this short coming

further evidenced by the record peak between 2009 and 2010 when the bank recorded the highest lending rates ever; however after 2010 the lending rate appears to have declined from its highest to 9.4 and 8.4 in 2011 and 2012 respectively.

Figure 2: A line graph showing the lending rates in CERUDEB from 2002 – 2012



The line graph shows that the two variables display a more or less a linear relationship of lending rate over time. The lowest lending rate having been experienced in 2002, then gradually increased up to 2006. It also shows two peaks, one experienced in 2004 and the second one experienced in 2010 from which the lending rate declined till 2012.

Table 2: A table of results showing regressed values of lending rates over time in CERUDEB

Variables Regressed	Adjusted R ²	F-value	Sig.	Interpretation	Decision on Ho
Lending rate and Time	. 0.3472	6.32	0.033	Significant effect	Rejected
Coefficients	Beta	T	Sig.		
(Constant)	-430.6881	-2.46	0.036	Significant	Rejected
Time	.2190909	2.51	0.033	Significant	Rejected

Source: Compiled by the researcher

The Linear regression results in **table A** above indicates that time factor has a significant effect on lending rates (F=6.32, sig. =0.033). The results indicate that time as the independent variable in the regression model contributed 34.72% towards variations in lending rates (Adjusted R² =0.3472). The coefficients section of this table indicates the extent to which the explanatory variable explains the explained variable and this is indicated by Beta values. For example, if the explanatory variable which is time increased by one unit it implies that the explained variable which is lending rate would increase by 0.219.4. This further means that with time there has been a growing interest in acquisition of loans and this was aided by the ever improving terms of obtaining loans from CERUDEB. The conducive investment climate and readily available market for goods and services in the city also partly explain these trends.

Table 3 Pearson's Correlation Coefficient Test results for time and lending rate in CERUDEB

Variables Correlated	r-value	Sig-Value	Interpretation	Decision on Ho
Lending rate and Time	0.4124	0.033	Positive and Significant	Rejected

Compiled by the researcher

The results in **table 3** above indicate that the time is significantly correlated with lending rates in CERUDEB (sig. <0.05). Results also indicate that lending rate is positively correlated with time (r-value>0).

Basing on these results, the stated null hypothesis is rejected at a 0.05 level of significance and these results lead to a conclusion that time has got a significant effect on lending rates.

These results are backed up by the fact that centenary rural development bank issues both short and long term loans, it has also over the years spread to most districts which has made most of the potential clients gain easy access to it. Its bureaucratic procedures that involved months without one's loan being approved have also been checked and ones loan can now be assessed and approved within less than two weeks.

One Kalisa Edward who has worked in this bank for 8 years says that the bank has over time continued training its staff on top of employing well qualified officers which has partly contributed to its efficiency and continuous improvement in its loans operations.

4.3. Changes in exchange rates (Us Dollar and British pound) from 2002-2012

The second objective of the study set out to establish the exchange rate of the Us Dollar and British pound in terms of the Ugandan shilling from 2002 – 2012.

The study basically considered the rate at which the dollar was bought and the midyear values were considered.

Table 4 A table showing the exchange rate of the Dollar in terms of the Ugandan shilling from 2002- 2012

YEAR	BUYING RATES (Dollar)	SELLING RATES (Dollar)
2002	1657.03	1690.55
2003	1705.15	1800.12
2004	1735.49	1749.26
2005	1822.96	1834.57
2006	1734.00	1745.19
2007	1688.98	1703.60

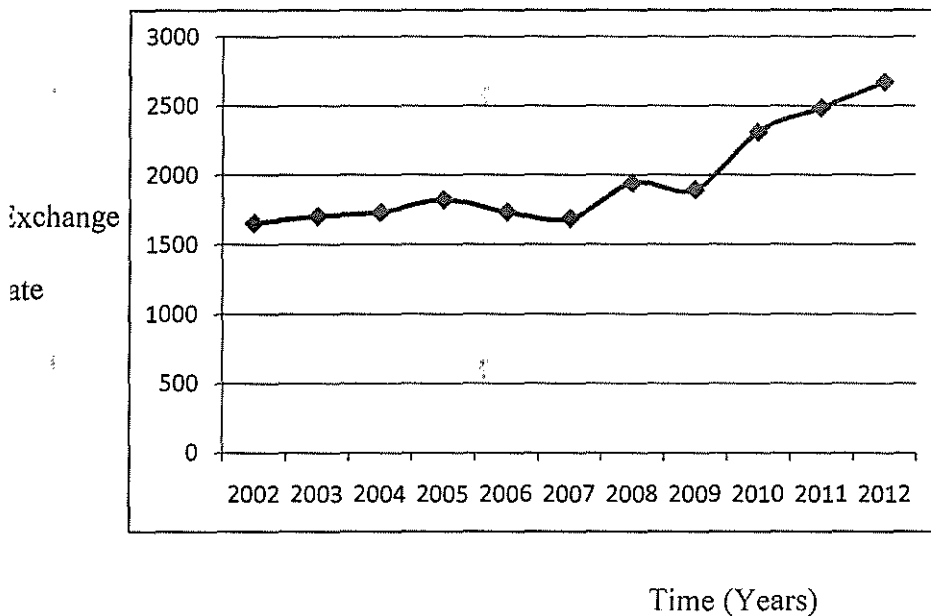
2008	1945.49	1960.90
2009	1898.47	1908.57
2010	2314.65	2325.13
2011	2488.29	2498.27
2012	2675.06	2684.87

Source: Secondary data

Table 4 shows that there has been a continuous increment in the value of the Us Dollar against the Ugandan shilling which has been falling in value over time.

In 2002 the dollar was exchanged at 1657, this went on increasing and by 2005 it had reached 1822.96, the proceeding years witnessed a decrease in the value of the dollar hence the Ugandan shilling gaining value, this was followed by another fall in the value of the Ugandan shilling since the dollar increased to over 1945 in 2008. this was followed by a decline in 2009 and the continuous increase in the preceding years and by 2011 the value of the dollar in terms of the Ugandan shilling had reached 2488.29 and by 2012 it rose up to 2675.06 which was the highest recorded.

Figure 3 A line graph showing the exchange rate of the dollar in terms of the Ugandan shilling from 2002 – 2012



The line graph shows that the two variables display a more or less a linear relationship of exchange rate over time. The lowest lending rate having been experienced in 2002, then gradually increased up to 2006. It also shows two peaks, one experienced in 2004 and the second one experienced in 2010 from which the lending rate declined till 2012. This was followed by a decline

Table 5 A table of results showing regressed values of the exchange rate of the dollar in terms of the Ugandan shilling from 2002 to 2012

Variables Regressed	Adjusted R ²	F-value	Sig.	Interpretation	Decision on Ho
Dollar exchange rate over Time	. 0.7367	28.98	0.0004	Significant effect	Rejected
Coefficients	Beta	T	Sig.		
(Constant)	1990.986	659.54	0.000	Significant	Rejected
Time	.0081306	5.38	0.000	Significant	Rejected

Source: Compiled by the researcher

The regression results in **table 5** above indicates that time factor has a significant effect on exchange rate of the dollar in terms of the Ugandan shilling (F=28.98, sig. =0.0004). The results indicate that time as the independent variable in the regression model contributed 73.67% towards variations in exchange rate of the dollar against the Ugandan shilling (Adjusted R² =0.7367). The coefficients section of this table indicates the extent to which the explanatory variable explains the explained variable and this is indicated by Beta values. For example, if the explanatory variable which is time increased by one unit it implies that the explained variable which is dollar exchange rate would increase by .0081306. This further means that with time the Ugandan shilling has been depreciating which led to a continued increase in the value of the American dollar in terms of the Ugandan shilling. This has been reflected by the increase in BOP deficit, inflation low levels of investment and production, inflation.

Table 6 Changes in exchange rates (Us Dollar) from 2002-2012

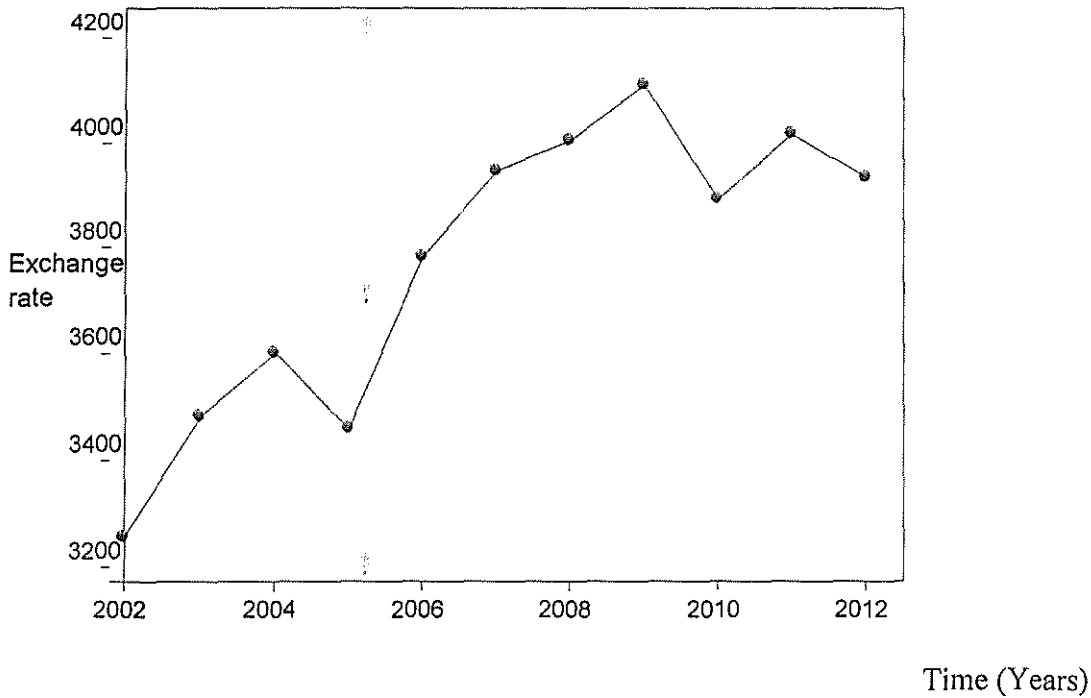
YEAR	BUYING RATES (pound)	SELLING RATES (pound)
2002	3256.09	334 8.00
2003	3480.77	3507.09
2004	3600.59	3699.78
2005	3458.09	3567.89
2006	3780.43	3833.07
2007	3945.00	4056.08
2008	4002.24	4104 .57
2009	4109.67	4199.79
2010	3890.96	4002.24
2011	4015.54	4 112.98
2012	3933.04	4100.00

Source: BOU

Table shows that there has been a continuous increment in the value of the British pound against the Ugandan shilling, though the changes were relatively small, for a currency which has a very high value against the Ugandan shilling, its effect was vividly felt by the economy.

The Ugandan currency was strongest in the early years (2002), however the British pound gained value over the years and by 2009 it had reached a peak of 4109.67. In the preceding year, it decreased in value and then further increased in 2011. Though there was a marked decline by 2012, its generally evident that the value of the Ugandan shilling is generally unstable, this is due to the fact that the economy largely depends on Agriculture and this has overtime been affected by unpredictable weather conditions which keep on changing, resulting into poor terms of trade and a Balance of Payments⁴ deficit. All these result into instability and generally low value of Uganda's currency. This situation has been further affected by a high rate of corruption and embezzlement of public funds as evidenced in 2004 when Uganda experienced a massive inflow of foreign currencies as it organized the CHOGM meeting in Kampala, the expected effect in the value of the local currency was not experienced.

Figure 4 A line graph showing the exchange rate of the British Pound in terms of the Ugandan shilling from 2002 – 2012



The line graph shows that the two variables display a more or less a linear relationship of exchange rate over time. The lowest exchange rate having been experienced in 2002, then gradually increased up to 2004 followed by a marked decline in 2005. From this time the exchange rate increased gradually till the time when the exchange rate reached its highest in 2009.

Table 7 A table of results showing regressed values of the exchange rate of the British pound in terms of the Ugandan shilling from 2002 to 2012

Variables Regressed	Adjusted R ²	F-value	Sig.	Interpretation	Decision on Ho
Exchange rate of the British pound Time	. 0.7061	25.03	0.0007	Significant effect	Rejected
Coefficients	Beta	T	Sig.		
(Constant)	1968.486	255.06	0.000	Significant	Rejected
Time	.0102154	5	0.001	Significant	Rejected

Source: Compiled by the researcher

The regression results in Table above indicates that time factor has a significant effect on exchange rate of the British pound in terms of the Ugandan shilling (F=25.03, sig. =0.0007). The results indicate that time as the independent variable in the regression model contributed 70.61% towards variations in exchange rate of the dollar against the Ugandan shilling (Adjusted R² =0.7061). The coefficients section of this table indicates the extent to which the explanatory variable explains the explained variable and this is indicated by Beta values. For example, if the explanatory variable which is time increased by one unit it implies that the explained variable which is the exchange rate of the British pound would increase by .0102154. This further means that with time the Ugandan shilling has been depreciating meant a continued increase in the value of the British pound in terms of the Ugandan shilling. This has been reflected by the increase in BOP deficit, inflation low levels of investment and production, corruption and embezzlement of government funds among others.

Based on these results where (F=25.03, sig. =0.0007) and (F=28.98, sig. =0.0004) for the British pound and American dollar the null hypothesis that time has no effect on exchange rate is rejected and we conclude that time has got a significant effect on exchange rate.

4.4. Relationship between lending in CERUDEB and variations in exchange rates between 2002 -2012

The study went further in the third objective to establish the relationship between lending in CERUDEB and variations in exchange rates, this was done for both the American dollar and the British pound.

Table 8 A table showing the lending rate in Centenary rural development Bank and exchange rates of the Dollar and the British pound from 2002 – 2012

YEAR	LENDING RATES	BUYING RATES (Dollar)	BUYING RATES (Pound)
2002	7.1	1657.03	3256.09
2003	7.9	1705.15	3480.77
2004	8.1	1735.49	3600.59
2005	8.5	1822.96	3458.09
2006	9.9	1734.00	3780.43
2007	9.2	1688.98	3945.00
2008	9.6	1945.49	4002.24
2009	10.4	1898.47	4109.67
2010	10.8	2314.65	3890.96
2011	9.4	2488.29	4015.54
2012	8.4	2675.06	3933.04

Lending rates are considered as the dependent variable, the rate at which the dollar and pound was exchanged are the independent variables. A multiple linear regression model was fit to establish the effect of the independent variables on the dependent variable. And the multicollineality between the independent variables was also established.

Table 9 A table of results showing multiple regression analysis results of lending rate and the exchange rates in terms of the Ugandan shilling from 2002 to 2012

Variables Regressed	Adjusted R ²	F-value	Sig.	Interpretation	Decision on Ho
Exchange rates and lending rate	. 0.5503	7.12	0.0167	Significant effect	Rejected
Coefficients	Beta	T	Sig.		
(Constant)	-3.347347	-1.02	.339		
Dollar	-.0005349	-0.67	.519		
Pound	.0035616	3.51	0.008		

Source: Compiled by the researcher

The multiple regression results in Table above indicate that both the Pound and Dollar exchange rates have a significant effect on lending by CERUDEB (F=7.12, sig. = 0.0167). The results indicate that exchange rates as the independent variables in the regression model contribute 55.03% towards variations in lending rates (Adjusted R² =0.5503). The coefficients section of this table indicates the extent to which the explanatory variables explain the explained variable and this is indicated by Beta values. For example, if the explanatory variable which is the exchange rate of the British Pound increased by one unit it implies that the explained variable which is the lending rate by CERUDEB would decline by .0005349 and a unit change in the exchange rate of the British pound would increase the lending rate by 0.0035616.

These findings are interpreted from the model below obtained from the table above.

$$Y = -3.354 - 0.005349D + 0.0035616P$$

Where Y = Lending rate

D = Exchange rate of the Dollar

F = Exchange rate of the British pound

According to theory, when the rate at which commercial banks buy the foreign currency is high, the rate at which these banks give out their loans decreases as reflected by the dollar exchange rate effect on lending rate in CERUDEB. According to the findings, however, this is not in line with the effect of the exchange rate of the British pound since it has a positive coefficient, implying that as it increases the exchange rate will also increase. This result can be explained due to the fact that most businesses mostly use the dollar in conducting their transactions and not the pound hence its effect is so minimal.

Based on these results where ($F=7.12$, sig. = 0.0167) for the British pound and American dollar effect on lending, the null hypothesis that exchange rates have no effect on lending rate is rejected and we conclude that exchange rate has got a significant effect on lending rate.

Table 10 Pearson's Correlation Coefficient Test results for exchange rates and lending rate in CERUDEB

Variables Correlated	r-value	Sig-Value	Interpretation	Decision on Ho
Lending rate and Exchange rates (dollar)	0.2956	0.033	Sig effect	Reject Ho
Lending rate and Exchange rates (Pound)	0.7873	0.004	Sig effect	Reject Ho
Exchange rates between the American Dollar and British pound	0.5295	0.044	Sig effect	Reject Ho

Compiled by the researcher

The above section basically aimed at establishing the strength of the relationship between variables, it was found out that the exchange rate of the dollar has a positive significant effect on Lending rate ($r = 0.2956$, Sig. 0.033). Which implies that exchange rate of the dollar explains 29.56% of the variations in Lending rates.

It was also found out that the exchange rate of the British pound has a positive significant effect on Lending rate ($r = 0.7873$, Sig. 0.004). Which implies that exchange rate of the British pound explains 78.73% of the variations in Lending rates.

The study went further to find multicollinearity between the independent variables, results reveal that ($r = 0.5295$, sig. 0.044) the independent variables are collinear since exchange rate of the dollar explains 52.95% of the variations in the British pound.

Basing on the results the null hypothesis is rejected and a conclusion that exchange rate has a significant effect on Lending is reached.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

Chapter Five contains a summary of the study, the conclusion from the findings, recommendations and suggestions for further research. The summary contains a brief explanation of what was involved in achieving each of the three specific objectives and what was got from the field. The conclusion contains the final outcome of the study.

5.2. Summary

The study involved the use of time series data on lending rate, exchange rates of the American dollar and the British pound for a period of 10 years from 2002 to 2012. Centenary bank was purposively chosen as the case study since it's been in the sector for quite a longer period compared to many other commercial banks. Its operations also cover most parts of the country with a closer relationship to the business community whose activities are relevant in lending and exchange rates, this made the case study relevant.

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

5.3. Conclusion

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

The study further revealed that there has been an increment in the value of the American dollar as compared to the Ugandan shilling, implying that the Ugandan shilling has been falling in

value which was basically attributed to corruption, massive reduction in donor aid and poor terms of trade. The trend between the British pound and the Ugandan shilling were not any different though this had more vivid variations. In general time has had a significant effect on exchange rate variations.

On establishing the relationship between variables, a multiple linear regression model was used on the foreign currencies' exchange rates and lending, correlation analysis was employed to establish the strength of the relationships and multicollinearity to find out whether there exists a linear relationship between the independent variables.

Findings revealed that both the Pound and Dollar exchange rates have a significant effect on lending by CERUDEB. Exchange rates as the independent variables in the regression model contribute 55.03% towards variations in lending rates (Adjusted $R^2 = 0.5503$). The coefficients section of this table indicates the extent to which the explanatory variables explain the explained variable and this is indicated by Beta values. For example, if the explanatory variable which is the exchange rate of the British Pound increased by one unit it implies that the explained variable which is the lending rate by CERUDEB would decline by .0005349 and a unit change in the exchange rate of the British pound would increase the lending rate by 0.0035616.

On relationship strength it was established that exchange rate of the dollar explains 29.56% of the variations in Lending rates, the exchange rate of the British pound has a positive significant effect on Lending rate which implies that exchange rate of the British pound explains 78.73% of the variations in Lending rates.

The independent variables were found to be collinear since results revealed that exchange rate of the dollar explains 52.95% of the variations in the British pound.

5.4. Recommendations

Below are the recommendations based on findings from the study.

Any approach designed to stabilize exchange rates must be two fold, which is a look at both the measures to increase the value of the domestic currency through increasing 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 its central bank should put measures to control the operations of financial institutions especially when dealing with foreign currencies.

Measures to subsidize the local currency should be instituted by the central bank to avoid massive fall in its value.

Inflation should be controlled because it affects the value of local currencies hence the business community should be trained to avoid importing inflated goods and the central bank should also control the volumes of money in circulation.

Donors should target areas that will help the country improve its GDP, for example they should not fund individual projects but go in for infrastructural development, education, recreation, health and Agriculture

5.5. Areas for further research

As the study was being carried out, there was a realization that some issues needed to be studied in depth and these are;

There is need to study the role of central bank in regulating foreign currencies

Secondly, there is also need to study the impact of foreign currency inflows on the economic growth.

There is also need to find out the role of commercial banking institutions in controlling the value of local currency.

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APPENDICES

APPENDIX I: QUESTIONNAIRES

Research questionnaire for management

Dear respondent,

I am **KIROKO ANOLD**, a third year student of Kampala international university doing research about; Exchange Rate and Bank Loans in commercial banks.

This questionnaire is intended to facilitate me in finding out the effect of Exchange Rate on Bank Loans. It is strictly for academic purposes and all the information given will be treated confidentially.

Your co-operation and 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

b) Top level

b) middle level

c) Lower level

4) Education level

a) Diploma and below

b) bachelor's degree

c) Masters

d) beyond masters

5) How long have you been employed in this organization that is to say; Centenary

Bank

a) 1-3 years

b) 4-6 years

c) 7-9 years

d) 10 years and above

6) Level of experience

a) 3 years and below

b) 4-6 years

c) 7 years and above

Please use the rankings below and tick where appropriate for sections B, C and D.

A	Strongly agree
B	Agree
C	Disagree
D	Strongly disagree
E	I don't know

Section B: EXCHANGE RATE

QUESTION	A	B	C	D	E
1. Have commercial banks adopted Exchange Rate strategies?					
2. Are Exchange Rate strategies of importance to commercial banks?					
3. Are there any factors considered by commercial banks before choosing the Exchange Rate strategies to use?					
4. Are the Exchange Rate strategies used by commercial banks effective?					
5. Are Exchange Rate strategies handled very well by					

	commercial banks?					
6.	Are Exchange Rate strategies responsible for the increase in Bank Loans in commercial banks?					
7.	Are Exchange Rate strategies used by commercial banks efficiently and effectively?					
8.	Do Exchange Rate strategies hinder Bank Loans in commercial banks?					
9.	Have Exchange Rate strategies changed over time in commercial banks?					
10.	Are Exchange Rate strategies effective in Loan Management in commercial banks?					
11.	Do Exchange Rate strategies vary with Bank Loans in commercial banks?					

Please identify the various Exchange Rate management strategies adopted and their significances to the 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	Are commercial banks having good/promising Exchange Rates?					
2	Are there factors affecting the Bank Loans levels 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 Structures?					
5	Are they making profits out of their Loans?					
6	Is there any other factor influencing Bank Loans other than Exchange Rate?					

7	Are Bank Loans important towards the development of commercial banks?					
8	Are their improvements in Bank Loans in commercial banks?					
9	Are their changes in Bank Loans in commercial banks over time					
10	Are their factors hindering Bank Loans in commercial banks?					

Please, briefly identify the various indicators of financial performance in commercial banks if any and the factors influencing them in the space below.

Section D: THE RELATIONSHIP BETWEEN EXCHANGE RATE AND BANK LOANS IN COMMERCIAL BANKS

	QUESTION	A	B	C	D	E
1	Is there any relationship between Exchange Rate and Bank loans in commercial banks?					
2	Is the relationship between Exchange Rate and Bank Loans positive?					
3	Does the relationship affect the financial decisions to be made in commercial banks?					
4	Do Bank Loans vary with the level of Exchange Rates?					
5	Does Exchange Rate influence Bank Loans in commercial banks?					
6	Are commercial banks influenced by Exchange Rates?					
7	Are Exchange Rates useful in Bank Loans in commercial banks?					
8	Are commercial banks having a promising Loan Structure due to good Exchange Rate strategies?					
9	Are factors affecting Bank Loans due to Exchange Rate strategies?					
10	Are commercial banks having any indicator of their Bank Loan due to good Exchange Rate strategies					

APPENDIX II

INTERVIEW GUIDE

Interview guide for research proposal for the staff of Centenary Bank Kawempe Bombo Road Branch

1. What is your name Sir/Madam?
2. What is your department?
3. What position do you hold in this company?
4. Does your company use Exchange Rate strategies?
5. If yes, which of the Exchange Rate strategies does it use?
6. What are the benefits you have derived from using these strategies?
7. What are the costs associated with using Exchange Rate strategies?
8. What strategies are used to improve Bank Loans?
9. Where do you see your company 5 years from now by adopting those strategies?

Thank you and May the Almighty bless you abundantly

APPENDIX III:

DATA SHEET (EXCHANGE RATES US DOLLAR)

YEAR	BUYING RATES (Dollar)	SELLING RATES (Dollar)
2002	1657.03	1690.55
2003	1705.15	1800.12
2004	1735.49	1749.26
2005	1822.96	1834.57
2006	1734.00	1745.19
2007	1688.98	1703.60
2008	1945.49	1960.90
2009	1898.47	1908.57
2010	2314.65	2325.13
2011	2488.29	2498.27
2012	2675.06	2684.87

APPENDIX IV: DATA SHEET (EXCHANGE RATES OF BRITISH POUND)

YEAR	BUYING RATES (Pound)	SELLING RATES (pound)
2002	3256.09	3348.00
2003	3480.77	3507.09
2004	3600.59	3699.78
2005	3458.09	3567.89
2006	3780.43	3833.07
2007	3945.00	4056.08
2008	4002.24	4104.57
2009	4109.67	4199.79
2010	3890.96	4002.24
2011	4015.54	4112.98
2012	3933.04	4100.00

APPENDIX V: DATA SHEET (LENDING RATES)

YEAR	LENDING RATES (DOLLAR)
2002	7.1
2003	7.9
2004	8.1
2005	8.5
2006	9.9
2007	9.2
2008	9.6
2009	10.4
2010	10.8
2011	9.4
2012	8.4

APPENDIX VI: DATA ANALYSIS USING STATA

Regression Analysis results showing lending rates over time by CERUDEB

```

Source |      SS      df      MS      Number of obs =   114  F( 1,  9) =   6.32
-----|-----
Model |  5.2800892    1  5.2800892      Prob > F      =  0.0331
-----|-----
Residual |  7.52172796    9  .835747551      R-squared     =  0.4124  Adj R-squared =
0.3472
-----|-----
Total |  12.8018172   10  1.28018172      Root MSE     =  .91419

var2 |   Coef.  Std. Err.   t   P>|t|   [95% Conf. Interval]
-----|-----
var1 |  .2190909  .0871648    2.51  0.033   .0219104   .4162714
_cons | -430.6881  174.94   -2.46  0.036  -826.4299  -34.94633
    
```

Exchange rate of the dollar and time

reg var1 var2

```

Source |      SS      df      MS      Number of obs =   111  F( 1,  9) =  28.98
-----|-----
Model |  83.9326257    1  83.9326257      Prob > F      =  0.0004
-----|-----
Residual |  26.0673743    9  2.89637492      R-squared     =  0.7630
-----|-----
Adj R-squared =  0.7367
-----|-----
Total |  110    10    11      Root MSE     =  1.7019

var1 |   Coef.  Std. Err.   t   P>|t|   [95% Conf. Interval]
-----|-----
var2 |  .0081306  .0015104    5.38  0.000   .0047139   .0115473
_cons | 1990.986  3.018734  659.54  0.000  1984.157  1997.815
    
```

Exchange rate of the Pound over time

reg var1 var2

```
Source |    SS    df    MS      Number of obs=   11
        |
        |    F( 1,  9)    = 25.03
Model | 80.9049002   1 80.9049002      Prob > F    = 0.0007
Residual | 29.0950998   9 3.23278886      R-squared    = 0.7355
```

Adj R-squared= 0.7061

```
Total |    110   10    11      Root MSE    = 1.798
var1 |   Coef. Std. Err.   t P>|t| [95% Conf. Interval]
var2 | .0102154 .002042   5.00 0.001 .0055961   .0148347
_cons | 1968.486 7.717855 255.06   0.000 1951.027   1985.945
```

. corr var1 var2

(obs=11)

```
|   var1   var2
   var1 | 1.0000
```

```
var2 | 0.8576 1.0000
```

reg var5 var6 var7 (lending, dollar, pound)

```
Source |    SS    df    MS      Number of obs =   11
        |
        |    F( 2,  8) = 7.12
Model | 8.19649194   2 4.09824597      Prob > F    = 0.0167
Residual | 4.60532522   8 .575665653      R-squared    = 0.6403
```


-----+-----
Adj R-squared = 0.5503

Total | 12.8018172 10 1.28018172 Root MSE = .75873

-----+-----
var5 | Coef. Std. Err. t P>|t| [95% Conf. Interval]

-----+-----
var6 | -.0005349 .0007938 -0.67 0.519 -0.0023653 .0012955

var7 | .0035616 .0010158 3.51 0.008 .0012193 .005904

_cons | -3.347347 3.289746 -1.02 0.339 -10.93351 4.238821

-----+-----
. corr var5 var6 var7

(obs=11)

-----+-----
| var5 var6 var7

-----+-----
var5 | 1.0000

var6 | 0.2956 1.0000

var7 | 0.7873 0.5295 1.0000

**COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE**

JUNE, 2nd 2017

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR KIROKO ANOLD, REG NO.
BBA/43656/143/DU**

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.

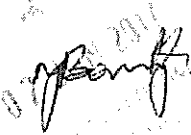
Topic: - EXCHANGE RATE AND BANK LOANS IN UGANDA.

Case Study: - RURAL DEVELOPMENT BANK KAWEMPE BOMBO ROAD.

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

We shall be grateful for your positive response.

Yours truly,


Dr. KIRABO KYEYUNE BOUNTY JOSEPH
HOD – ACCOUNTING & FINANCE
0772323344