Macroeconomic policies, currency risks, lending policies and banks' competitiveness in Uganda

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Tonny Ssewankambo
tssewankambo@gmail.com
Cavendish University

Martha Kibukamusoke
Uganda Technology and Management University

Abstract

This study focused on Macroeconomic Policies, Currency risks, Lending Policies and Banks' Competitiveness in Uganda. The study assessed competitiveness in commercial banks their ability to remain competitive; in an unsupportive macro environment. The study further assessed how local banks lose ownership to foreign banks, offering micro financial services offered by microfinance institutions and unsatisfied customers, increasingly accusing banks of ripping them off while trying to keep businesses afloat in distress economy. The objectives of the study were to identify the relationship between Macroeconomic Policies and Banks' Competitiveness, to find out the relationship between Macroeconomic Policies, Lending Policies and Banks' Competitiveness, Currency risks, Lending Policies and Banks' Competitiveness and the factor structure of Macroeconomic Policies, Currency risks, Lending Policies and Banks' Competitiveness in Uganda. The study adopted the cross sectional and descriptive research using quantitative and qualitative approaches. The study population constituted 200 respondents; of which 185 were sampled. Purposive, stratified and random sampling design were used to collect information. Two data collection instruments of; research questionnaire and key format interview guide were used.

The major findings of the study were as follows; there is significant positive relationships between Macroeconomic Policies, Currency risks, Lending Policies and Banks' Competitiveness in Uganda generated using the Pearson (r) correlation coefficient. The regression analysis indicated that the variable predictors can account for 27.7% of the variance in Banks' Competitiveness in Uganda and Macroeconomic Policies (Beta = .345, Sig. < .004) was the most influential at explaining Banks' Competitiveness. It was concluded that; Macroeconomic Policies of fiscal and monetary policies, and their effects on; inflation, interest rates, exchange rates, employment rates and GDP are essential for the banks and their business community to monitor and understand in order to stay competitive in the country, amongst others. The study recommends that; banks need to proactively forecast and monitor government changes in monetary and fiscal policies and charge costs relatively to the loan facilities available to their customers, amongst others.

Key words: *Macroeconomics, Banking, Uganda*

Introduction and Background

The banking sector in Uganda is monitored and regulated by Bank of Uganda (BoU) which currently has around 6.5 million clients, 325 banking outlets, contributing over Ushs160 billion in 2011 up from slightly over Ushs120 billion in 2010 of gross taxes (BoU, 2012 Report).

The banking sector in Uganda is monitored and regulated by Bank of Uganda (BoU) which currently has around 6.5 million clients, 325 banking outlets, contributing over Ushs160 billion in 2011 up from slightly over Ushs120 billion in 2010 of gross taxes (BoU, 2012 Report). The banking sector serves only 18% of Uganda's over 33 million citizens, including customers to microfinance institutions and Savings & Credit Co-operatives (SACCOs). The banking sector is currently very vibrant and competitive having seen a host of new entrants of Bank of India and NIC Bank of Kenya in year 2012. This has increased the number of commercial bank players to 27 not to mention the other players in other tiers of the industry. Major players include; Stanbic, Citibank, Barclays, Standard Chartered, DFCU Bank, Crane Bank and Cerudeb (Charles, 2010).

The banking sector offers a variety of services and products that are customized by each bank to suit the peculiar needs of its customers. Commercial banks offer; deposit accounts, current accounts, individual credit facilities, trade or business financing, investment options, funds transfer services, payment mechanisms, mortgage financing, education, medical, asset loans, leasing, building societies and micro-financing. Other services offered include, training, cash management solutions, advisory role, awareness, electronic banking and financial literacy training (Jjuko, 2011).

The banking sector has recorded a number of significant achievements, a wider set of product and services offerings, increased investment in branch expansions, the utilization of technology in providing services via the internet and in the provision of mobile money solutions either solely or in collaboration with the telecoms industry. The sector has also exhibited good management of its loan portfolio achieving a 2.7% non-performing loans ratio as at September 2010 which is within internationally accepted standards, (IMF Report, 2011).

Certainly, the sector has challenges which mainly include; the poor banking culture of the majority of Ugandans, high costs of setting up new branches as compared to the initial low returns on such investment, provision of infrastructure and lack of a comprehensive identification system like a national ID card. The Banking sector also continues to experience a wide disparity between the lending and deposit rates, which have been caused by the inefficiencies with in the sector (World Bank Report, 2011).

The future can only get better for the banking sector! A growing Ugandan population, opportunities abound with the emergence of the East African Community, increased engagement in gainful economic activities, the increasing foreign direct investment, the oil sector is set to boom, the sound regulatory framework instituted by the central bank and investment opportunities in the Merchant banking fields (Joshua, 2010).

Macroeconomic policies are government policies aimed at the aggregate economy, usually to promote the macro goals of full employment, stability, and growth (Bouman, 2011). Macroeconomics is the field of economics that studies the behavior of the aggregate economy wide phenomena such as changes in unemployment, national income, rate of growth, gross domestic product, inflation and price levels (Snowdon & Howard, 2005). The four major objectives macroeconomic policies are; full employment, price stability, a high but sustainable rate of economic growth, and keeping the Balance of Payments in equilibrium (Gärtner, 2006). Macroeconomic policies influence and contribute to the attainment of rapid, sustainable economic growth aimed at poverty reduction in a variety of ways (Agenor, 2000). By pursuing sound economic policies, policymakers send clear signals to the private sector (Chris, 2011). Macroeconomic policies are usually implemented through two sets of tools; fiscal and monetary policy attributes (Blanchard, 2000).

Currency Risks, is sometimes referred to as exchange rate risks and credit risk is the possibility that currency depreciation will negatively affect the value of one's assets, exchange rates, investments and their related interest and dividend payment streams especially those securities denominated in foreign currency (Tweet, 2011). Currency risk is a form of risk that arises from the change in price of one currency against another (Githa, 2011). This decline in value negatively affects an economy by creating instabilities in exchange rates, meaning that one unit of the currency no longer buys as much as it used to in another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged (Straka, 2000) and (Wheaton et al., 2001). Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet its contractual obligations (Bank of Uganda, 2007). Currency risks attributes are; nonperforming loans (NPLs), credit worthiness parameters, exchange rate volatility, deteriorating loan portfolio and value at risk based on Von Neumann and Morgenstern (n.d.) model.

Lending policies are a lending institution's statement of its philosophy, standards, and guidelines that its employees must observe in granting or refusing a loan request (Tor & Kasper, 2003). These policies determine which sector of the industry or business will be approved loans and which will be avoided, and must be based on the country's relevant laws and regulations. The banks have a leverage decision to grant a loan and the probability of default. We confirm that banks provide loans in a way that is not consistent with default risk minimization. The lending policy must thus either be inefficient or be the result of some other type of optimizing behavior than expected profit maximization (Sarah, 2012). Lending policies attributes are; credit scoring, policy sector decisions, collateral policy, credit requirement,credit at risk and cost of credit based on the Tor &Kasper (2003) model.

Competitiveness is the productivity with which a nation utilizes its human, capital and natural resources as defined by Porter (2005). Competitiveness pertains to the ability and performance of a firm, sub-sector or country to sell and supply goods and services in a given market, in relation to the ability and performance of other firms, sub-sectors or countries in the same market (Easterly & Levine, 2002). The Global Competitiveness Report (2009) of the World Economic Forum defines competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country". To understand competitiveness, the starting point must be a nation's underlying sources of prosperity. Experts say national competitiveness is regarded as a byproduct of national competitiveness at the firm level, at the industrial level and at the international level (Nyanzi, 2012). True competitiveness, then, is measured by productivity. Organizational competitiveness is the degree to which an organization can, under free and fair market conditions, produce goods and services that meet the test of international market while simultaneously maintaining or expanding the real incomes of its employees and owners (Ivancevich et al., 1994). Bank's competitiveness refers to the ability and performance of that institution to provide services to its customers in a given market operation while maintaining soundness and expanding incomes of its employees and owners (Mycotas, 2008). Banks' competitiveness attributes are; deposits Vs loan size, profitability Vs growth, access to finances and soundness based on Easterly and Levine (n.d.) model.

Problem statement

Following the financial crisis and the Libor scandal in 2008, the banking sector globally was seen as out of control and losing competiveness (Browne, 2013). In countries like: USA, Britain; banks were bailed-out with taxpayers' money and their global reputation and integrity took a hit (Ackerman, 2008).

The Ugandan banking sector has been competitive in the East African region (James, 2012). In the financial year 2011/2012, the banking sector made a killing; posting impressive profit figures and contributing gross taxes of over Ushs160bn up from Ushs120bn in 2010/2011 to the economy in unsupportive macro environment characterized by high inflation and lending rates, exchange rates volatility (Bank of Uganda, 2012 Report). One questions if these banking institutions will remain competitive; with local banks losing out ownership to foreign banks, offering micro financial services offered by microfinance institutions and unsatisfied customers, increasingly accusing banks of ripping them off while trying to keep businesses afloat in distress economy (KACITA, 2012 Report). Banks charging high interest rates on loans, assets presented as collateral being sold off as noted by Muhumuza (2012)and public sentiments towards banks, for paying off their top managers bonuses for turning a terrible scenario very profitable (KACITA, 2012 Report).

According to the UBoS (2013) April report showed a reduction in inflation at 5 percent, exchange rate stabilizing and CBR at 10 percent in the country. Banks have not come up to reflect changes in their lending rates. Allegations they deny. The central question to the study is an assessment of the impact of macroeconomic policies, currency risks, lending policies on banks' competitiveness in Uganda.

Objectives of the study

- To identify the relationship between macroeconomic policies and banks' competitiveness in Uganda.
- To establish the relationship between macroeconomic policies, lending policies and banks' competitiveness in Uganda.
- To determine the relationship between currency risks, lending policies and banks' competitiveness in Uganda.
- To study the factor structure of macroeconomic policies, currency risks, lending policies and banks' competitiveness in Uganda.

Methodology of the study

The study design used was of cross sectional and descriptive research design using quantitative and qualitative approaches. The study was intended to select respondents across different departments within banks and their customers with the purpose of soliciting for their opinions and analyzing them for comparison as noted by Sarantakos (1997). The target population of the study constituted 200 respondents composing of 110 employee/staff; (Standard Chartered Bank 65 and Stanbic Bank Uganda Ltd 45). The research was conducted in both Standard Chartered Bank and Stanbic Bank Uganda Ltd of Masaka and Nakasero branches. The senior managerial staffs were selected using purposive sampling. The stratified random samplings was used for other banks' employees and random sampling for customers of banking institutions. The sample size was based on Krejcie and Morgan's (1972) table to get a sample of 185 participates as shown in the table 1:

Table 1: Sample size determination and Frame

Study Population						
Bank	Branch	Staff	Sample size	Customers	Sample size	Total Sample
Standard Chartered Bank	Nakaseero	45	40	35	32	72
	Masaka	20	19	15	14	33
Stanbic Bank Uganda Ltd	Charm Towers	30	28	30	28	56
	Masaka	15	14	10	10	24
Total		110	101	90	84	185

Source: Krejcie and Morgans (1972)

Methods and instruments of data collection

Key informant interviews were used on top management to collect in-depth information from 'knowledgeable' people as supported by White, 2012 who says it compliments quantitative data by providing greater context to the data. Questionnaires were used to avail accurate answers and opinions. They included only closed ended questions for the purpose of having all the questions answered.

Presentation and discussion of findings

Education level, Staff Position held in the organization and Respondent Category Distribution.

The study also found out that most of the respondents had attained a degree representing 41.62%, meaning that they could understand and articulate the issues that identified in the research questionnaire, thus boosting their confidence. Busingye (2006) found out that there is a significant relationship between academic qualifications and comprehending of issues and this is in consonance with what is prevailing in banks today where the minimum qualification of any employee is a diploma (Banking Act, 2008). The staff also had a diploma were 22.16% while those with a post graduate qualification were 16.2%.

The study showed that 49 respondents hold lower management positions, 36 middle management and 16 top management where 16 of them have worked in the bank for less than one year, 36 for 1-5 years and 49 for more than 5 years. This means that there is a relationship between the staff and customers of respective banks. Although there is a gap in management positions all respondents were able to easily articulate and respond to the questions.

The relationship between Macroeconomic Policies and Banks' Competitiveness in Uganda

The relationships between the study variables that were generated using the Pearson (r) correlation coefficient was done. The Pearson (r) correlation coefficient varies between -1.00 and 1.00. The results showed that there is a moderate positive relationships between Macroeconomic Policies and Banks' Competitiveness in Uganda ($r = .491^{**}$, $p<.01$) and this relationship is statistically significant.

Results showed that there is a moderate positive relationships between Macroeconomic Policies and Banks' Competitiveness in Uganda ($r = .491^{**}$, $p<.01$) and this relationship is statistically significant. These results show that if banks design realistic Macroeconomic Policies, strategies to mitigate and proactively monitor them in the course of government changes in monetary and fiscal policies, banks are most likely to improve on their competitiveness and this will be noted in terms of increased customer deposits, profitability, growth, and soundness of their organizations. Beck et al (2009) reveals that while in recent years, the financial sector debate across the African continent has been dominated by policies to increase access to financial services; maximizing competitiveness currently tops the agenda. Financial systems across Africa have been deepening and broadening over the past years, partly benefiting from the Great Moderation and global liquidity glut, but also from improvement in macroeconomic policies and progress in institutional reforms. In the financial year 2011/2012, the banking sector remained resilient taking advantage of stringent macroeconomic policies imposed by Bank of Uganda to post good growth figures," Odera (2012). With another two new foreign banks; Bank of India and NIC Bank of Kenya opening shops, Uganda can fully compete favorably (BoU, 2012).

The relationship between Macroeconomic Policies, Lending Policies and Banks' Competitiveness in Uganda

The results showed moderately positive relationships between Macroeconomic Policies, Lending Policies and Banks' Competitiveness in Uganda ($r = .377^{**}$, $p<.01$ & $r = .384^{**}$, $p<.01$) and relationship is statistically significant.

This means that if banks design realistic Macroeconomic Policies and proactively monitor them in the course of government changes in monetary and fiscal policies, banks shall be in position to design and improve on their lending policies towards their customers in terms of; credit scoring, collateral policy, credit requirement, credit at risk and cost of credit. This in turn will improve on banks' competitiveness in the country.

Credit risks shocks in the past years were the top of discussion for financial institutions to try reducing the effect from defaulting customers as noted by Tweet (2011). Banks having realized a reduction in credit risks, today macroeconomic policies effects are of concern for banks to mitigate against the risk as it erodes the value of one's assets, exchange rates, investments and their related interest and dividend payment streams especially those securities denominated in foreign currency.

Results from interviews showed that banks were affected and struggled through the tough macroeconomic environment in the financial year 2011/2012. Respondents highlighted that the manufacturing and agricultural sectors were struggling although banks managed to make it against all odds. However, operational and cost of money hiked in expenditure due to high inflation, exchange rates volatility and tight monetary policy. To the issue of whether banks posted impressive profit figures in the financial year 2011/2012; interviewees were quick to recognize that banks have been making profits in the previous years. However in the financial year 2011/2012, banks made a record profit compared to the previous year despite unsupportive business environment.

The relationship between Currency Risks, Lending Policies and Banks' Competitiveness in Uganda

The results further revealed moderate positive relationships between Macroeconomic Policies and Lending Policies in Uganda ($r = .366^{**}$, $p<.01$ & $r = .384^{**}$, $p<.01$) and relationship is statistically significant.
The results show that when banks efficiently monitor and follow best currency risks mitigates in terms of; credit worthiness parameters, exchange rate volatility and manage risks related to nonperforming loans (NPLs) of their customers, banks are in position to design and improve on their lending policies of their customers. This in turn will improve on banks' competitiveness in the country through; increased profitability, growth and soundness of the organizations.

Friedman (2001) noted that governments' operating of monetary policies like; the contractionary monetary policy to curtail inflation expands the money supply more slowly than usual or even shrinks it influencing the lending policy of financial institutions, cost of credit and investment in the country. Financial institutions need to watch more closely the changes and effects of macroeconomic policies (Bluhm et al., 2002). This was the Ugandan case, inflation at 31 percent in October 2011. The central bank increased central bank rate (CBR) 18 per cent to curtail inflation. This increased the Inter Bank Rate and thus reflected by high costs to borrow for banks and borrowing customers. The motive of the central bank was to discourage borrowing from the public (Yotopoulos and Floro, 1992).

Respondents highlighted that whether banks face a challenge of currency risks; majority commented that whenever an investor or business has assets/operations across international borders, they are prone to risks of loss of value of assets, exchange rates, and investment and dividend payments. Respondents also highlighted that, "Most banks' deposits grew contrary to what was projected in the tough macroeconomic environment, but at a slower pace compared to the financial year 2011/2012." National Bank of Commerce, Imperial Bank, Mercantile Credit Bank and Tropical Bank made losses due to expenditure, shareholders wrangles, and currency and credit risks. Banks like National Bank of Commerce was closed by BoU in 2012 mainly because of liquidity problems.
It was said that banks use relevant laws and regulations, policy sector decisions, credit at risk, collateral policy, credit score and credit requirements lending policies when lending money to their customers.

Towards the concern on how BoU responded to tough macroeconomic environment and the motive, majority of responses included; BoU tightened the monetary policy, by revising its CBR to 14 per cent in August from 13 per cent in June of 2011. BoU intended to curtail the runaway inflation at 18 per cent in 2011 up from 12 per cent in 2010 and excess liquidity in the money market. BoU also intended to prevent the high inflation from feeding through to non-food items. Commercial banks responded by increasing interest rates on borrowing to reflect the changes in CBR and IBR. On the concern of customers of whether they were happy with banks increase of interest rates or responded to the reduction changes in CBR, interviewees' responses were; customers were not happy with banks charging high interest rates on new and old loans in the financial year 2011/2012 but with a section of customers riding on the performance of banks. There is a section of the public failing to accept that banks are like other business shops whose main motive is to make profits. Banks have failed to reduce on their interest rates to reflect on the reduced CBR by BoU, however a reduction does not necessarily mean a reduction of cost of credit as other factors also come into play. Though the commercial lending rates are still high, continued decline of lending rates will support the growth in credit of commercial banks and anticipated material growth will be realized in 2014 and not 2014.

Regression Model

Table 2 presents the prediction and forecasts the degree of relationships among variable predictors i.e. Macroeconomic Policies, Currency Risks and Lending Policies (independent variables) can predict (dependent variable) Banks' Competitiveness. The results showed that the predictors can account for 27.7% of the variance in Banks' Competitiveness (Adjusted R Square = .277). The results showed that Macroeconomic Policies (Beta = .345, sig. <.004), is the most influential at explaining Banks' Competitiveness. In other words, banks in Uganda should priorities the issues related to Macroeconomic Policies if Banks' Competitiveness in Uganda is to be greatly improved. These issues can range from strategy mitigates, and monitoring government and business environment responses to changes in monetary and fiscal policies. The regression model was significant (sig. <.005).

Table 2: Prediction of Banks' Competitiveness

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)					
Macroeconomic Policies	1.693	.369		4.588	.000
Currency Risks	.289	.097	.345	2.968	. 004
Lending Policies	.100	.088	.134	1.139	.259
	.190	.095	.219	2.004	.049

Dependent Variable: Banks' Competitiveness	
R Square	.306
Adjusted R Square	.277
Std. Error of the Estimate	.613
F Statistic	10.433
Sig.	.001

The factor structure of the Macroeconomic Policies, Currency Risks, Lending Policies and Banks' Competitiveness in Uganda

Factor analysis was used to explore the nature of the variable attributes that were at play in this particular study. The results of the factor analysis indicated that the macroeconomic policies are dominantly composed of monetary policy with a variance of (52.407%) which comprised a greater share of the variable; banks' competitiveness was dominated by profitability Vs growth with a variance of (35.073%) and currency risks was dominated by exchange rate volatility with a variance of (30.746%). Furthermore, with lending policies, the most important aspect had to do with credit scoring with a variance of (36.677%).

For each of the variables indicated in the factor analysis, the most important aspect is the one with the greatest variance percentage and these are the main attributes that should be considered in case the variables are to be improved upon by banks to increase on their competitiveness. After the most dominant elements are dealt with, the banks' should then work on the second most important attributes in the order they are indicated; beginning with the one that explains the greatest percentage of the variable to the one that explains the least. If this is done, it will help ensure that there is a positive relationship between the variables.

The relationship being positive between the variables is further supported by the work of Dr. Monde (2012) whose study showed that in the recent years, the banking industry has undergone massive changes in scope and nature. The impact of regulation and supervision in the banking sector, the credit crisis conditions facing many end borrowers still remain challenging. The banks have tightened credit standards, making lending very difficult. Although credit demand by domestic households and companies is currently high, the strict lending criteria could pose a future risk if household and private sector credit demand increases (Jacobs, 2012). Private companies are partly relying on their own balance sheets to fund investment.

Responses from interviews indicated that banks hedge against currency risks by adopting strategies of; transfer earnings, reducing exports, valve at risk, risk being adjusted relative to the rate of return, credit worthiness parameters, credit information systems and stress tests. Also the quality of lending by banks has significantly improved but unsupported by the high cost of credit (interest and transaction costs) according to interviewees' responses.

The Macroeconomic Policies

Results show that the factor structure of the Macroeconomic Policies where macroeconomic policies were divided into monetary and fiscal policies. These two attributes explain a cumulative variance of 97.248% of the main variable. With the monetary policies which was the most important as observed above with their corresponding percentage scores, comprised 52.407% variance of the main variable and on the aspect of fiscal policies which explained 44.841% variance.

Banks' Competitiveness

The results showed that the Banks' Competitiveness is mainly composed of profitability vs. growth, deposits vs. loan size, soundness and access to finances and these four component attributes explain a cumulative variance of 64.279% of the main variable. With the profitability vs. growth of Banks' Competitiveness which was the most important as observed above with their corresponding percentage scores, comprised 35.073% of the main variable. The other three main components are deposits vs. loan size, soundness and access to finances of the Banks' Competitiveness and they specifically account for 10.934%, 9.874% and 8.398% variance respectively.

Currency Risks

The results from table 9, currency risks variable was noted to be mainly composed of; nonperforming loans, creditworthiness parameters, exchange rates volatility, deteriorating loan portfolio and value at risk. These five attributes explain cumulative variance of 71.171% of the main variable. With the exchange rates volatility which was the most important as observed above with corresponding percentage scores' of 30.746% variance of the main variable; on the aspect of nonperforming loans 12.327%, creditworthiness parameters 11.294%, deteriorating loan portfolio 8.111% and value at risk 9.232%

Lending Policies

The results explain the factor structure of Lending Policies is mainly composed of; credit scoring, collateral policy, credit at risk, cost of credit, policy sector decisions and credit requirement; and these six components explain a cumulative variance of 81.264% of the main variable. With the credit scoring which was the most important as observed above with its corresponding percentage scores, comprised of 36.677% variance of the main variable; on the aspect of collateral policy which explained 12.801%, credit at risk 2.407%, credit requirement 11.294%, policy sector decisions 10.297% and cost of credit 8.111% variance.

Conclusions and Recommendations

Conclusion

It was concluded that macroeconomic policies of fiscal and monetary policies, and their effects are essential for the banks to monitor and understand. This is to ensure they stay competitive and improve on their lending policies in the country. Currency Risks aspects of; value at risk, non-performing loans, exchange rates volatilities if not well managed and monitored by banks, have significant effects on banks' lending policies and their competiveness. For each of the variables indicated in the factor analysis, the most important attribute is the one with the greatest variance percentage and these are the main attributes that should be considered in case the variables are to be improved upon by banks to increase on their competitiveness. After the most dominant attributes are dealt with, then banks should work on the second most important attributes in the order they are indicated. When this is done, ensure that there are positive relationships between the variables.

Recommendation

The relationship between Macroeconomic Policies and Banks' Competitiveness in Uganda

Banks need to proactively forecast and monitor government changes in monetary and fiscal policies and charge costs relatively to the loan facilities available to their customers. Banks should always have their customers at heart in all their dealings and not to increase interest rates on old loans in case of macroeconomic policy changes.

Although banks are like any other business shop with a motive of making profits, they should be considerate not to rip off their customers trying to keep their businesses a float in case of future tough macroeconomic environment.

Banks need to sensitize their customers that although there is a reduction of inflation at 5.4 percent as of May 2013 and CBR at 10%, this does not necessarily mean automatic reduction of cost of finance.

There is need for banks to increase financing access to potential customers in rural sparsely populated areas. Although operational costs are still high in such areas, banks need to devise low cost strategies so as to increase on their competitiveness.

The relationship between Macroeconomic Policies, Lending Policies and Banks' Competitiveness in Uganda

Banks should consistently monitor monetary and fiscal policy changes on interest rate, GDP, unemployment levels, exchange rate and inflation rates in the country and how they affect the level of lending, cost of credit and investment.

Financial institutions need to continuously sensitize their customers about Bank of Uganda changes of monetary policy and its implications towards Central Bank Rate, Inter Bank Rate; and policy motive. There is need to watch more closely the changes and effects of macroeconomic policies so as to keep track of their lending policy. Although figures showed a decrease in headline inflation at 5.4% in June 2013 in the country, this does not necessarily mean that prices have reduced

The relationship between Currency Risks, Lending Policies and Banks' Competitiveness in Uganda
Although health competition for customers by banks is good, if poorly mishandled increases customers' default and affects banks' competitiveness; thus it needs attention.

Although there has a reduction of defaulting customers, banks should maintain a well-functioning risk management policy as this reduces future loss of value of assets, dividends and interest rates payment streams of portfolios especially dominated in foreign currency.

Just like today's ever changing business environment, there is no business entity that is not affected by exchange rates volatilities. Banks need to proactively hedge against such risks in order to stay competitive. Banks' soundness threat need not to be undermined as it is still a challenge in the country with some institutions facing liquidity problems.

Although banks should closely monitor risks related to their customers and foreign currency risk; business, management, financial and industry risks should be extensively monitored as well.

Banks should monitor exchange rates risks movements as it affects growth of demand, output, rate of unemployment and investment in those sectors of the economy exposed to international trade.

Although there has been tremendous work done by Bank of Uganda in regulation and supervision of commercial banks in the country, there is still more effort needed by BoU, as banks are still exposed to currency and credit risks of their customers.

When financial institutions compete with each other for customers; multiple borrowing and over indebtedness increases and loan default increases. This can happen when financial institutions develop credit information systems or access to databases that can capture relevant aspects of clients' borrowing behavior.

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