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ASSESSING THE IMPACT OF CENTRAL BANK RATES ON
COMPETITIVENESS OF CENTENARY BANK

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Abstract

Centenary Bank has continued to perform better than other commercial banks in Uganda despite the increase in Central Bank Rate. The Central Bank Rate is one of the tools of monetary policy that Bank of Uganda like other central banks worldwide use to contain the rate of inflation and money circulation in the hands of the people. The purpose of this study was to examine the impacts of CBR on the performance of Centenary Bank as well as the factors keeping the performance of Centenary Bank competitive. The study was guided by the following specific objectives: To examine the Impact of increases in CBR on credit accessibility by centenary bank customers; to investigate coping mechanisms that have been devised by centenary bank to remain competitive; and to establish the impact of CBR on centenary bank Performance.

A descriptive research design was used in this study. Data was collected from staff of Centenary banks. The staffs were selected from purposively sampled departments which were deemed to have the requisite information regarding CBR and bank performance. Data was collected using questionnaires and was analysed using descriptive means. Study findings indicated the increase in CBR affected credit accessibility and thus impacted on bank performance. The most affected aspects of the bank's operations were loans, financial assets, the non-performing loans and the investment plans. These affected the profitability levels of the bank leading to a drop in performance. However, much as there was a somewhat drop in profitability, the findings of the study revealed that management of Centenary Bank had devised a couple of strategies to keep the bank's operations competitive. These included: adoption of innovations such as digital banking, participation in syndicated lending, diversification of her products, formation of strategic partnerships with telecom companies and investment in corporate social responsibility initiatives among others.

The study concluded that CBR compels commercial banks to limit credit access by the customers by for example raising interest rates and adjusting on the requirements for accessing loans. This affects the profitability of the commercial banks and consequently their business performance. The study recommended the need for management of Centenary bank to customize and tailor the digital banking innovations to suit the user (customer needs), more improvements in the customer service function and selective lending to customers who have potentials to pay back, among others.