EFFECT OF LIQUIDITY MANAGEMENT ON THE PERFORMANCE OF COMMERCIAL BANKS. A CASE OF STANBIC BANK UGANDA LIMITED

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ABSTRACT

This study was undertaken to assess the effect of liquidity management on the performance of commercial banks taking a case of Stanbic bank Uganda Limited. It was guided by the following objectives namely; to identify the different liquidity management practices in commercial banks in Uganda, to examine the different determinants of liquidity in commercial banks of Uganda, and to determine the effect of Liquidity Management on profitability of commercial banks in Uganda.

The study was guided by a cross sectional case study research design. The researcher used simple random sampling for banking/credit/loan officers and clients of Stanbic bank and purposive sampling for branch managers and heads of departments. The researcher selected 70 participants as the sample for the study.

The study found out that liquidity management practices at Stanbic bank limited include; storage of cash, supply or withdraws of liquidity consistent with desired level of reserve money from market, daily assessment of liquidity conditions, as well as daily analysis and detailed estimation of the size and timing of cash inflows and outflows. It also found out that; Stanbic bank regularly monitors the quality of its assets, and also continuously captures large maturity mismatches to enhance profitability potential, Stanbic bank; has a team that regularly monitors international financial trends, as well as closely monitoring liquidity in macroeconomic platform; Stanbic bank has a system that improves capital adequacy, governance and liquidity risk, the bank also enhances transparency of its operations of credit as well as ensuring that reserves of liquid assets are sufficient to withstand adverse liquidity shocks. The study also found out that liquidity; is a precondition for daily operation, it affects bank operation, may lead banks to miss on incentives given by suppliers of credit, service and goods; adoption of liquidity strategies increases ROA, liquidity management ensures successful operations, improves earnings and capital; distressed banks only access funds from market at high interest rates which reduces profitability and the ration of liquid assets to customer and short term funding is positively related to ROA.

From the findings, the following recommendation were therefore made; (i)There is a need to invest the excess of liquidity available at the banks; (ii) Commercial banks should adopt a general framework for liquidity management; (iii) Banks need to adopt of a scientific methods in detection of the strengths and weaknesses points of liquidity; (iv) Bank managers should identify and monitor key business drivers; (v) Bank officials should be trained in the areas of liquidity management; (v) Bank managers should be forward looking, and focus on operational efficiency of the banking industry; (vi) High quality liquidity assets buffer sufficient to hedge sudden liquidity outflows should be maintained; and (vii) Banks should adopt optimum liquidity model for maximum return on investment, survival, stability, growth and development of banking system in Uganda.