



**MONETARY POLICY ACTIONS, COMMERCIAL LENDING TERMS AND FIRM BORROWERS' BEHAVIOR:
CASE OF SMALL AND MEDIUM SIZED ENTREPRISES IN NAKAWA DIVISION.**

ABSTRACT

The study sought to establish the relationship between monetary policy actions, commercial bank lending terms and firm borrowers' behaviour of SMEs in Nakawa division, Kampala city. The study was based on a cross sectional design and a sample of 226 was drawn was undertaken. Self-administered questionnaires were used to collect responses. Measurement of the relationships of the study were done and subjected to rigorous data processing and analysis using the relevant statistical computer software packages.

Findings indicated that there were significant positive relationships between monetary policy actions, commercial bank lending terms and firm borrowers' behaviour of SMEs. Results from regression analysis revealed that monetary policy actions and commercial bank lending terms are stronger predictors of SME borrower behaviour. Further, the findings revealed that the model could explain 36.1% of the variance in firm borrowers' behaviour.

In conclusion, the findings revealed that all the independent variables were significant predictors of firm borrower behaviour which conforms that the actions of the central bank and the lending terms of commercial banks significantly influence firm borrowers' behaviour of SMEs.

The study recommends that central banks need to continuously monitor the operations of the commercial banks to ensure that their key lending policy decisions such as a directive issued to

commercial banks to reduce interest rates as a result of a corresponding reduction in the bank rate are fully implemented, SME owners should also assess the terms under which the commercial banks are willing to grant them loans and they should also critically analyse that actions taken by central banks before accessing loans from commercial banks.