National University of Science and Technology
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FACUALTY OF COMMERCE

DEPARTMENT OF BANKING

RESEARCH PROJECT

RESEARCH TOPIC

DETERMINANTS AND CONSEQUENCES OF NON-PERFOMING LOANS IN ZIMBABWEAN COMMERCIAL BANKS

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ABSTRACT

Lending is one of the core business activities of Commercial Banks. Commercial Banks experienced high levels of Non-performing Loans (NPLs) between 2009 and 2012. The trend had threatened much the viability and sustainability of commercial bank lending. Given this background, the study sought to ascertain the main determinants and consequences of NPLs and test the hypothesis that both macroeconomic and bank-specific factors are major drivers of non-performing loans in Zimbabwe. A combination of causal, explorative and quantitative research designs was adopted for this study. The targeted population was commercial banks and the Reserve Bank of Zimbabwe. Judgmental sampling method was used for selection of research respondents. Secondary data used in models was sourced from source such as journals, published financial statements; financial reviews bulletins, Ministry of Finance (MoF), Reserve Bank of Zimbabwe (RBZ), Zimbabwe Statistics, internet and private websites. Primary data which was used to substantiate the model results was gathered using questionnaires. A Logit Random Effect model was used to explore the effect of market interest rates and spreads, inflation, GDP, bank management, insider and related party loans, bank size, political risk, information asymmetry, total market loan growth, capital on non-performing loans. The study revealed that NPLs can be best explained by high lending rates, poor corporate governance, approval of loans based on balance sheet strength, insider and related-party lending practice, information asymmetry, and excessive growth of the credit book. Element of weak supervision by the Reserve Bank of Zimbabwe was exposed in this study as one of the contributory factors of NPLs. However, the study outcome exposed that inflation, bank size and political risk had less contribution to NPLs. Based on research findings, the study suggests that commercial banks should put in place vibrant credit processes that promote good corporate governance practices, robust credit analysis, proactive monitoring of advances, clear recovery strategies, and clear policy framework that address conflict of interest, market indiscipline associated with unethical bank lending practices. The Central Bank should embark on proactive supervision and monitoring of bank rather than reactive approach.