NUST

THE IMPACT OF ASSET SECURITISATION ON BANK LIQUIDITY IN ZIMBABWE

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ABSTRACT:

Asset securitisation can be defined as the process where pools of loans, receivables or debt instruments are packaged in the form of securities the credit rating of the securities enhanced and distributed to investors. While the Zimbabwean banking industry was used to be regarded as having a high degree of soundness and sophistication, it has also experienced its fair share of liquidity problems during the past few months. The cause of the financial illiquidity has largely been caused by the new monetary policy which removed the lender of last resort function.. The rapid expansion of banks in a declining economy resulted in banks deposit base declining and hence the need to seek liquidity alternatives. This culminated in the placing of two banks under curatorship Barbican Bank and Inter-market Banking Corporation in the early moth of February 2004 and several small banks experienced a run of deposit as they could not pay their dues. The question this paper is trying to address is whether asset securitization can be implemented in our local banking industry to reduce the liquidity risk faced by the financial institution by improving their liquidity ratios and access liquidity and highlight impediments likely to be faced in the Zimbabwean Market. To reach these goal case studies with different scenario will be presented of two locally listed banks.