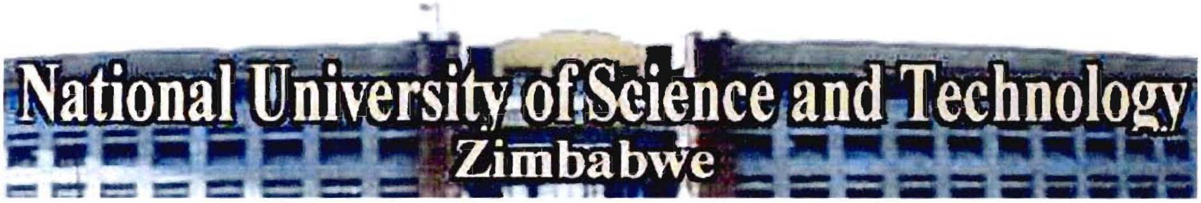

Department of

Finance

DISSERTATION TOPIC

THE IMPACT OF GLOBAL FINANCIAL CRISIS ON THE CORE ACTIVITY OF COMMERCIAL BANKS: THE ZIMBABWEAN CASE

BY

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ABSTRACT

There has been much scrutiny regarding the impact of global financial crisis on the core activity of banking institutions. The banking sector's core activity of intermediation has been challenging amid global financial crisis. Emerging markets, of which Zimbabwe is, one, have felt the effects of this crisis through both finance and real risk. This research study investigates the theoretical and empirical evidence that evaluates the impact of global financial crisis on the core activity of commercial banks in Zimbabwe. The study used a questionnaire, country case study and interviews to collect and analyse primary and secondary data. This paper looks at some of the issues raised, formulates a hypothesis on the impact of the global financial crisis on the core activity of commercial banking institutions and sets out to test hypothesis by way of fieldwork study. Primary data collected through the questionnaire suggest that all respondents consider the global financial turmoil as having a negative impact on the core activity of commercial banks. The research showed that some of the effects of the global credit crunch encompasses changes in lending practices in commercial banking sector, reduced financing alternatives for businesses and consumers, capitalization of banks, increase in provision of non-performing loans and disintermediation. The research was more interesting to the researcher because the banks were operating under an environment characterized by low banking confidence, low capacity utilization in the productive sectors of the economy, lack of lines of credit and a fragile economy. The results showed that there was a positive relationship between banking sector and real sector growth. The decline in global demand and the fall in commodity prices on the international markets due to global financial crisis seriously affected productive sectors. The international commodities market suffered from counterparty risk amid the global financial crisis hence most exporters found it hard to secure credit to boost their production capabilities whilst on the other hand the commercial banking sector could not avail credit to economic agents due to lack of credit lines. This resulted in serious disintermediation. The research further examined the issue of in spite there being no lender of last resort function, how have commercial banks survived pending the authorities securing such lines from the international community. In conclusion, the researcher notes that it's more challenging for commercial banks to access international capital, which is the lifeblood of commercial banking. The slower global growth has reduced the demand for exports and brought down prices serious affecting the real economy that brings liabilities (deposits) to the commercial banking sector. The researcher finalized the paper recommending that in risk management, robustness is more important than sophistication and that it is dangerous to use models that are over calibrated to short time series of market prices. The low capacity utilisation that has characterized the productive sector of the economy due to lack of working capital from commercial banks can be resolved when suppliers provide direct credit facilities to the public. In the outlook, the researcher points out that the Zimbabwe's banking industry is now set to undergo a major transformation driven by strategic alliances. The government has officially adopted a policy to liberalise and deregulate the market and encourage strategic partnerships in the banking industry as a way to re-capitalise the sector after it failed to attract lines of credit.