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PROJECT TITTLE:

<u>POST-CRISIS PORTFOLIO BEHAVIOR OF COMMERCIAL BANKS – A ZIMBABWEAN PERSPECTIVE</u>

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ABSTRACT

As the financial sector recovers from the turbulence of the 2007-2008 financial crisis, commercial banks are confronted with a major dilemma emanating from the inherent conflict between profitability and liquidity in all forms of financial intermediation. This dilemma arises from the need to extend credit to the real economy, and hence earn higher returns on shareholder funds and the need to maintain a low credit and liquidity risk profile, to safeguard depositor funds. The main objective of the study is to establish the portfolio behavior of commercial banks in Zimbabwe after the financial crisis.

The research hypothesis is that commercial banks have shifted their portfolios to treasury securities, away from loans. The subject herein studied is of critical importance for policy, as results from the study indicate whether the stabilization efforts of the Reserve Bank of Zimbabwe are sustainable in the long-term, and also highlight the significance of financial infrastructure and market liquidity for sustainable financial stability.

An exploratory research approach is adopted to gain more insight into the strategies that commercial banks, as major players in the financial services sector, have adopted to try and circumvent the myriad of operational, regulatory, market and financial challenges bedeviling the local financial sector, subsequent to the financial crisis of 2003-2004, and the likely consequences of the same on local credit supply and allocation. Qualitative data are gathered by way of structured questionnaires, and the targets of the study are treasury and credit managers in commercial banks.

The study reveals that there is indeed heightened awareness of the indispensability of liquidity management, which has resulted in a management dilemma, where bank management have to evaluate the benefits of advancing loans to the ailing real sector against the related credit and liquidity risks. It emerges from the study that commercial banks have reduced their loan commitments to the productive sectors in real terms, and where credit is extended, the duration is very short. The research concludes that there is a critical need to enhance the liquidity of loans, through the development of securitized debt markets and introduction of loan securitizations, to enhance credit supply to the productive sectors of the economy. A major recommendation from the study is that the local financial infrastructure must be enhanced through market integration and development. However, the research suggests a need for further studies to establish the feasibility of introducing securitizations in the local market, given the current depth of the financial markets.