National University of Science and Technology

Faculty of Commerce

Graduate School of Business

An Investigation into the Causes of Liquidity Crisis in Zimbabwe for the Period 2009-2016

BY REUBEN ZINHUMWE Student No: N0163866P

A dissertation submitted in partial fulfilment of the degree of Master of Business Administration in the Graduate School of Business, National University of Science and Technology.

2017

ABSTRACT

The study examined the real causes of liquidity or cash crisis within the banking sector during the period 2009 – 2016 post adoption of the multicurrency regime. The liquidity crisis continues to hamstring the economy despite the growth in the total aggregate money supply (M3) from US$300 million in 2009 to US$6.5 billion in 2016, following the adoption of multiple currencies. During the period under review, the economy registered a peak of 11.9% growth in 2011. However, despite high economic growth rates, the banks failed to supply cheap loans to the productive sector, a significant indicator of the liquidity crisis. This was worsened by the shortage of cash in the financial sector in 2016. The investigation on the real causes of liquidity or cash crisis adopted the mixed method approach, also known as triangulation. The data was collected using in-depth interviews and questionnaires, and it was analysed and interpreted using the SPSS. The research concluded that liquidity in Zimbabwe was mostly determined by the performance of the external sector, mainly the net exports, foreign direct investment, portfolio investment, diaspora remittances as well as foreign borrowing. The twin deficits, failure by the central bank to provide the lender of last resort function, the growing informal sector, as well as the absence of the US Treasury support were also considered to have an indirect negative impact on liquidity. Therefore, in order to improve liquidity, the study concluded that it was essential for the country to increase production, with a view to produce locally most consumer goods so that the import bill is reduced. The study recommended that the government should revert back to the principle of cash budgeting in order to eliminate macroeconomic imbalances created by fiscal deficits.

KEY WORDS: Liquidity crisis, Cash crisis, Multi-currency regime