

An analysis of credit risk management practices in commercial banking institutions in Zimbabwe

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Nyamutowa C, Masunda S

Abstract

The collapse of banking institutions is primarily driven by inadequate credit risk practices. With a declining economy, Zimbabwe was forced to adopt lending policies that directed credit to particularly agriculture. The Reserve Bank of Zimbabwe between 2004 and 2008 through the introduction of Productive Sector Facility (PSF) and subsequently Agricultural Support Facility (ASPEF), sought to increase economic productivity through cheap money offered at negative real interest rates. It was also established that even though credit risk is the major cause of bank failures, agribusiness divisions of commercial banks in Zimbabwe that account for 30% of loan portfolio, were not fully using modern credit risk frameworks or models and were solely relying on traditional credit management techniques. While best practices propose that lending should mainly be based on capacity, it was established that commercial banks in Zimbabwe place much weight and emphasis on collateral. The effect has been poor asset quality that in turn increases bank exposure. Regional and international commercial banks operating in Zimbabwe were found to be having better credit risk practices than indigenous commercial banks.