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ANALYSIS OF THE IMPACT OF MINIMUM CAPITAL REQUIREMENTS ON BANK PERFORMANCE IN ZIMBABWE

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ABSTRACT

The study is an analysis of the impact of minimum capital requirements on bank performance in Zimbabwe with major focus on analyzing the effectiveness of its impact on the performance of banks. The five listed banks formed the research population with secondary data set obtained from end of year financial statements and annual reports for the period 2011 to 2015 based on a judgmental technique. An explanatory research design was used in conjunction with an econometric panel regression model to establish the whether there is an impact of minimum capital requirements on bank performance. Panel data obtained was presented in form of tables and was analyzed using a panel regression analysis with the aid of an econometric statistical package Eviews8. The Panel EGLS (Cross-section random effects) method used revealed that the risk-weighted ratio is more related to commercial bank performance than the gross revenue ratio and leverage ratio which are statistically insignificant in explaining bank performance. This relationship revealed that minimum capital that is measured relative to risk provides a better indicative power on bank performance therefore a better assessment of bank performance with reference to risk involved in the banking sector. Based on the results for the period under review bank regulators can therefore derive meaning on how to monitor performance and identify other areas of concern that influence bank performance rather than minimum capital requirements alone. Overall, minimum capital requirements alone are less effective in explaining bank performance thus need to consider other factors that explain the performance of banks. Policymakers therefore have to be cautious so as not to heavily rely on a single factor, but balance the benefits and costs of any indicator to leverage other policies at regulatory disposal.