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FACULTY OF BUSINESS MANAGEMENT, ECONOMICS AND SCIENCE

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**CENTRAL BANKING IN A DISTRESSED ECONOMY: ENHANCING
THE ROLE AND RESPONSIBILITIES OF THE RESERVE BANK OF
ZIMBABWE.**

BY

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DEDICATION

I would like to dedicate my dissertation to my late father, Isaiah Tendai Mudiwa and also thank the Almighty God for bringing me thus far.

ACKNOWLEDGEMENTS

My sincere gratitude goes to my husband Wilson Chinzou and my children: Nayeli, Keon and Nadine for their unwavering support and the sacrifice they made for the entire duration of this course. You were a great source of inspiration and I would not have done it without you.

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ABSTRACT

The central bank of Zimbabwe is failing to stabilize macroeconomic fundamentals such as inflation and foreign currency variables. This triggered the research study. The research objectives were mainly to evaluate the roles of Reserve Bank of Zimbabwe (RBZ) as the central bank in the country; to assess the effectiveness of the policies that the RBZ uses to effect monetary policy and foreign exchange management in the country; to establish the challenges that the central bank faces in executing its mandate and to determine what should be done by the central bank to enhance the effectiveness of its role and responsibilities. The methodology of the research was quantitative. SPSS version 23.0 was used for statistical data analysis. Descriptive statistics and Principal Factor Analysis were used in data analysis. Research findings were presented using tables, charts and graphs. About the roles of the RBZ, the research established that RBZ is providing good leadership in the banking sector. It has been allocating foreign currency to the most important sectors in the country for the period 2009-2019. About contribution of the different policies of RBZ, the policies have mostly influenced hyperinflation, currency collapse and money supply growth. The research established that the most challenging factor to the central bank is lack of independence in its operations, and this needs to be rightfully addressed. It is recommended that the RBZ implement IMF's advice. The central bank is recommended to issue currency that strong enough for national development goal in Zimbabwe. It is recommended that to meet the national interests, the RBZ should make sure that they use foreign currency and gold reserves in order to control the exchange rates. Further, the national budget should continue with the allocation mechanisms that promote prioritisation of sectors that contribute mostly to economic growth. It is also recommended that in order to create a sound financial system, the RBZ has to create a culture of value systems such as transparency, integrity and accountability as it is its responsibility to create a sound financial system. Future researchers are recommended to conduct in-depth research that can yield more approaches to currency stability that can be used by the Reserve Bank of Zimbabwe. About independence of the central bank, future researchers can dig deep into unveiling the matters surrounding independence of the central bank and find ways that can be used to enhance independence of the central bank.

TABLE OF CONTENTS

| | |
|--|------|
| DECLARATION | ii |
| DEDICATION | iii |
| ACKNOWLEDGEMENTS | iv |
| ABSTRACT | v |
| LIST OF TABLES | xii |
| LIST OF FIGURES | xiii |
| LIST OF APPENDICES | xiv |
| LIST OF ACRONYMS/ABBREVIATIONS | xv |
| CHAPTER ONE | 1 |
| INTRODUCTION AND BACKGROUND | 1 |
| 1.1 Introduction..... | 1 |
| 1.2 Background of the study | 2 |
| 1.3 Problem statement..... | 5 |
| 1.4 Research objectives..... | 6 |
| 1.4.1 Primary objective | 6 |
| 1.4.2 Specific research objectives | 6 |
| 1.5 Research questions..... | 7 |

| | |
|--|----|
| 1.5.1 Primary research question..... | 7 |
| 1.5.2 Specific research questions..... | 7 |
| 1.6 Research Proposition | 7 |
| 1.7 Significance of the study..... | 7 |
| 1.7.1 To Reserve Bank of Zimbabwe and regulatory authorities | 8 |
| 1.7.2 To financial institutions and the general public..... | 8 |
| 1.7.3 Theory | 8 |
| 1.7.4 To the researcher..... | 9 |
| 1.8 Delimitations of the study..... | 9 |
| 1.9 Assumptions of the study..... | 10 |
| 1.10 Structure of the dissertation | 10 |
| 1.11 Chapter summary | 11 |
| CHAPTER TWO | 12 |
| LITERATURE REVIEW | 12 |
| 2.1 Introduction..... | 12 |
| 2.2 Theoretical Literature on Central Banking..... | 12 |
| 2.2.1 Understanding Central Banking..... | 12 |
| 2.3 Functions of a Central Bank | 13 |

| | |
|---|----|
| 2.4 Central Banking and Economic Growth/ Development | 14 |
| 2.4.1 Role of a Central bank in an economy..... | 15 |
| 2.5 Theoretical perspectives of regulation | 17 |
| 2.5.1 Public Interest Theory of Regulation..... | 17 |
| 2.5.2 Neo-pluralist Theory | 18 |
| 2.5.3 Public Choice Theory | 18 |
| 2.6 Requirements for attainment of central bank objectives..... | 19 |
| 2.6.1 Central bank independence | 19 |
| 2.6.2 Ability to be the lender of last resort | 20 |
| 2.7 Empirical Literature Review..... | 21 |
| 2.7.1 Case studies of other distressed economies and central banking..... | 21 |
| 2.7.1 Case of Cyprus..... | 21 |
| 2.7.2 Slovenia on the brink | 21 |
| 2.7.3 The United Kingdom – 1992 | 22 |
| 2.7.4 Asian Crisis – Indonesia, Thailand and South Korea | 22 |
| 2.8 Conceptual framework..... | 28 |
| 2.9 Research gap | 29 |
| 2.10 Chapter summary | 30 |

| | |
|--|----|
| CHAPTER THREE | 31 |
| RESEARCH METHODOLOGY | 31 |
| 3.1 Introduction..... | 31 |
| 3.2 Research philosophy | 31 |
| 3.3 Research design | 33 |
| 3.4 Research approach | 34 |
| 3.5 Target population | 35 |
| 3.6 Sampling methods..... | 35 |
| 3.7 Sample size | 36 |
| 3.8 Data types..... | 37 |
| 3.8.1 Secondary data..... | 37 |
| 3.8.2 Primary data | 38 |
| 3.9 Research instruments | 38 |
| 3.9.1 Questionnaire | 38 |
| 3.10 Data collection procedures..... | 39 |
| 3.11 Data validity | 40 |
| 3.12 Data reliability | 41 |
| 3.13 Data analysis and presentation..... | 41 |

| | |
|--|----|
| 3.14 Ethical considerations | 41 |
| 3.15 Chapter summary | 42 |
| CHAPTER FOUR..... | 43 |
| DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS | 43 |
| 4.1 Introduction..... | 43 |
| 4.2 Response rate and composition of respondents | 43 |
| 4.3 Reliability statistics of research questionnaire..... | 44 |
| 4.4 Demographic and background information of respondents..... | 44 |
| 4.4.1 Gender of respondents | 44 |
| 4.4.2 Age of respondents | 45 |
| 4.4.3 Educational qualifications of respondents | 46 |
| 4.4.4 Experience of respondents | 47 |
| 4.5 Research findings..... | 48 |
| 4.5.1 Effectiveness of central banking policies | 49 |
| 4.5.2 Contribution of RBZ’s policy measures towards macroeconomic variables..... | 53 |
| 4.5.3 Strategies to improve Reserve Bank of Zimbabwe operations..... | 55 |
| 4.5.4 Challenges faced by the Reserve Bank of Zimbabwe | 58 |
| 4.6 Analysis of the research proposition..... | 61 |

| | |
|--|----|
| 4.7 Chapter summary | 61 |
| CHAPTER FIVE | 62 |
| DISCUSSION, RECOMMENDATIONS AND CONCLUSION | 62 |
| 5.1 Introduction..... | 62 |
| 5.2 Discussion of findings..... | 62 |
| 5.3 Recommendations..... | 64 |
| 5.4 Conclusion | 65 |
| REFERENCES | 68 |
| APPENDICES | 78 |

LIST OF TABLES

| | |
|--|----|
| Table 3. 1: Sample size | 37 |
| Table 4. 1: Response rate and composition of respondents | 43 |
| Table 4. 2: Reliability statistics of research questionnaire | 44 |
| Table 4. 3: Effectiveness of central banking policies | 49 |
| Table 4. 4: Factor analysis results: effectiveness of central banking policies | 52 |
| Table 4. 5: Contribution of RBZ’s policy measures towards macroeconomic variables | 53 |
| Table 4. 6: Factor analysis results of RBZ policy measures’ contribution towards macroeconomic variables | 54 |
| Table 4. 7: Strategies to improve Reserve Bank of Zimbabwe operations..... | 55 |
| Table 4. 8: Factor analysis results of the strategies to improve Reserve Bank of Zimbabwe operations..... | 58 |
| Table 4. 9: Challenges faced by the Reserve Bank of Zimbabwe | 59 |
| Table 4. 10: Factor analysis results of the challenges faced by the Reserve Bank of Zimbabwe | 60 |

LIST OF FIGURES

| | |
|---|----|
| Figure 2. 1: Conceptual framework | 29 |
| Figure 4. 1: Gender of respondents..... | 45 |
| Figure 4. 2: Age of respondents | 46 |
| Figure 4. 3: Educational qualifications of respondents..... | 47 |
| Figure 4. 4: Experience of respondents..... | 48 |

LIST OF APPENDICES

| | |
|--|----|
| Appendix 1. 1: Survey research questionnaire | 78 |
| Appendix 1. 2: Turnit In Report | 83 |

LIST OF ACRONYMS/ABBREVIATIONS

IMF – International Monetary Fund

RBZ – Reserve Bank of Zimbabwe

ESAP – Economic Structural Adjustment Program

GDP – Gross Domestic Product

LBMA – London Bullion Market Association

WB – World Bank

OMO – Open Market Operations

MTLR – Mid-Term Lending Rate,

RRR – Reserve Required Ratio

BAZ – Bankers Association of Zimbabwe

CZI – Confederation Zimbabwe Industries

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

Central banks have the role of overseeing the monetary policy, regulating banks and providing other financial services. It has the goals targeted at stabilizing the nation's currency, keeping unemployment low and prevents inflation (Quarterly Banking Sector Report, 2021). In Zimbabwe, despite these goals of the central bank (Reserve Bank of Zimbabwe) of stabilizing the nation's currency, keeping employment high and maintaining low inflation, the economy has been in distress for a long time characterized by high levels of unemployment, currency crisis and hyperinflation. Inflation has hard hit the economy since 2000, with hyperinflation hitting the country in 2008. The central bank is failing to stabilize inflation and formalise foreign currency dealings in the country. There still exist parallel market buying and selling of currency and inflation. Currently, inflation is hovering around 800% and there exists uncontrolled parallel market currency selling (ZEPARU, 2021).

According to Capie & Wood (2002) and Goodhart & Illing (2002) in economies where central bank is effectively executing its roles, there will be economic normalcy. Inflation levels will be minimal and stable enough to allow economic development and favourable societal welfare. Other countries have gone through economic crisis and have resolved the crisis. In the region, countries such as Mozambique and Zambia have gone through economic crises but through their central banks have managed to revamp their economies (Nyarota *et al.*, 2015). What is different with the case of Zimbabwe is that, despite the efforts by the central bank to restore normalcy in the country, the efforts have not been fruitful. There are high levels of unemployment and the general societal welfare is in shambles (RBZ Mid Term Monetary Policy Statement, 2021). This study sought to look into the role of the central bank and develop strategic policy initiatives that can help to revamp the economy. This first chapter gives the background of the economy highlighting the trends in the economics of the country and the policies that have been instituted so far. It gives the problem statement, research objectives and research questions, research significance, delimitations, research assumptions and dissertation structure before the chapter summary is given.

1.2 Background of the study

Globally, the history of central banking can be traced from way back; even before the 20th Century when by then the financial system called bimetallism era was characterized by use of gold and silver coins to settle local and international transactions between traders (Cartwright, 2014). This was followed by the Gold Standard era prior to the First World War when silver had been moved out of the system through Gresham's law. After the First World War, with the collapse of the Gold Standard during the Interwar Period from around 1914-1944 when gold exchange was restricted, the international financial system witnessed a Bretton Woods system (Gold Exchange Standard) when the International Monetary Fund and the World Bank were formed to preside over international financial systems, where also, it was agreed that the US Dollar would be used as an international reserve currency convertible to gold at 1 Ounce of Gold equal to US\$28 (Mwenda, 2016). This era also collapsed due to the problems encountered on the values of the USD, which at one point became too strong that it had to be devaluated. From 1973 the international financial system saw a Flexible Exchange rate regime, where it was agreed that Central Banks be responsible for overseeing the financial systems in their respective economies, however, working together with the IMF and the World Bank. The major duties of the Central Bank are to stimulate economic stabilisation and growth by instituting measures to manipulate macroeconomic fundamentals such as inflation, gross domestic product and foreign exchange rates (Basu, 2013).

In African continent and in the region, in countries such as Mozambique, the central bank in 2010 faced inflationary pressures exceeding 500% and unemployment rate was above 70% in the same period (Nyarota *et al.*, 2015). With strict interest rates and import substitution industry subsidization, the central bank managed to normalize the economy and enhanced economic development. Currently in 2021, Mozambique is blooming with suppressed inflation level of less than 100% and unemployment rate of less than 50% (Leibbrandt, 2021). This evidence points to the fact that Mozambique has been through financial distress but through the mandate of the central bank, the country sailed through and it is now stable and the general societal welfare has been restored.

Locally, in Zimbabwe, closer look at the historic policies of Zimbabwe shows that the government came up with notable reforms including Economic Structural Adjustment Programme (ESAP) of 1991 to 1995; Zimbabwe Programme of Economic and Social Transformation (ZPEST), 1997; Macro-Economic Policy Framework 2005; and Short-Term Economic Recovery Plan, 2009. These policies yielded favourable results but only to a limited extent as shown in the fall in GDP and poor living standards in the country during the 90s. These were also inherited in the 20th century. The economy of Zimbabwe went down from relative prosperity to economic ruin with the hyperinflation of 2008 to an extent that the central bank could not afford the paper to print practically worthless trillion-dollar notes (Nyarota *et al.*, 2015).

With the sustained decline of the economy, coupled with high inflation, the Reserve Bank of Zimbabwe (RBZ) engaged in quasi-fiscal activities. The quasi-fiscal activities of the RBZ included the provision of subsidised credit to productive sectors of the economy, unrealised foreign exchange losses and liquidity support to troubled banks, among others (Munoz, 2007; Munangagwa, 2009). The country's central bank engaged in quasi-fiscal activities in the belief that this would increase output and dampen inflationary pressures (RBZ, 2008). The level of money creation by the central bank was, however, unrelated to economic activity and it intensified during the period 2005 to 2008, resulting in excessive monetary expansion and a surge in inflation (Mandishara and Mupamhadzi, 2016).

Zimbabwe's inflation spirals effectively got out of control in late 2007 to early 2008 (IMF, 2009), reflecting significant recourse to the monetisation of fiscal deficits and the impact of the quasi-fiscal activities of the central bank. Macroeconomic fundamentals improved during a government of national union after the disputed elections of 2008, but have flat lined ever since. Zimbabwe's contribution to Sub Saharan Africa's GDP fell from 2000 to 2009 then it rose slightly, attributed to the government of national unity of 2009 (Mandishara and Mupamhadzi, 2016). When the period of the government of national unity elapsed in 2013, Zimbabwe's contribution to Sub Saharan Africa's GDP fell again in 2014. The Government of National Unity abandoned local currency in favour of a multi-currency, the South African Rand, the Euro and the British Pound, with most of the transactions denominated in US Dollar terms. After 2 years of deflation, consumer prices rose in February 2017, driven by cash shortages and risen food costs. In the same period,

the central bank put in place Nostro Stabilization Facilities in 2017 to stabilize the foreign exchange market. This was necessary for sustaining financing critical imports of fuel, electricity, fertilizers, agro-chemicals, cash imports and raw materials for industry. However, this was a short-term stopgap measure which is not sustainable for societal wellbeing.

In 2017, there have been attempts to increase tobacco and gold support facilities (Mandishara and Mupamhadzi, 2017). The policy put in place affected an increment of tobacco input facility from \$28 million disbursed in 2017 to \$70 million, while the gold support facility was increased from \$74 million in 2017 to \$150 million. The facility was a shot in the arm considering the fact that gold deliveries were on an upward trajectory from 21.4 tonnes produced in 2016 to 24.8 tonnes produced in 2017 (Munyanyi, 2017). Extending the facility to tobacco was expected to increase exports receipts. The pace of getting Zimbabwe re-admitted into the London Bullion Market Association (LBMA) from which the country can derive comparative advantage to turnaround its mining sector and the economy as a whole was discouraging, especially considering that the country had already met the requirement to produce at least 10 tonnes of bullion for three consecutive years (Munyanyi, 2017). In 2017, Gold production was 24.8 tonnes and in 2016 of 21.1 tonnes was delivered (Mandishara and Mupamhadzi, 2017).

Currently in 2021, the country has a heavy debt burden. Zimbabwe owes lenders, including the IMF, World Bank and African Development Bank about \$9 billion (Ministry of Finance and Economic Development and Reserve Bank of Zimbabwe, 2018). The rate of unemployment is above 96% and the level of inflation is above 800% (Mhazo and Thebe, 2020). There is cash crisis in the country with people resorting to online payments. The Monetary Policy is silent on measures to curb cash crisis which has resulted in forex premiums in parallel markets and the multiple pricing system in the country. It is therefore paramount to mention that regardless of adopting the RTGS dollar, the country is suffering the same fate if the economy is not performing. The different instituted policies have not been very successful in Zimbabwe despite of similar scenarios in other countries such as Mozambique and Zambia having been resolved through their central banks. This study therefore sought to evaluate the responsibilities of the Reserve Bank of Zimbabwe in its mandate to stabilize local currency, improve employment levels and prevent inflation.

1.3 Problem statement

The Reserve Bank of Zimbabwe, just like any other central bank, is mandated to craft policies that stabilize the financial sector and stimulate economic growth. This is so as the country is faced with tight economic developments which are indicative of distress in the economy. The Zimbabwean economy has had a deteriorating macro-economic environment since 2000, with the country drifting into hyperinflation mode in 2006, which peaked in 2008, pushing growth into negative, and unemployment rates reaching nearly 95% (Mhazo and Thebe, 2020). The country also faced serious shortage of cash and foreign currency, which negatively affected domestic production, pushing growth in imports (Mandishara and Mupamhadzi, 2017). To address this RBZ made several initiatives and interventions to stimulate economic activity and reverse the economic deterioration. The country further slipped into deep economic challenges after the measures.

The country was forced to abandon its currency and adopted a basket of foreign currencies under the multicurrency system in 2009 (Mandishara and Mupamhadzi, 2017). The economy registered significant recovery during the first 3 years of the multicurrency system before other measures by the RBZ triggered economic challenges that again turned the country towards economic distress. For example, since 2018 the country started to record increasing inflation and during the first quarter of 2020 inflation reached about 800% and unemployment rate is above 96% (Mhazo and Thebe, 2020). The country was then forced to abandon the multicurrency and introduced its own local currency, which apparently failed to hold its foot and the RBZ had to re-introduce the USD to sort of support the domestic currency. Implicitly, it can be noted that the RBZ has not been successful in its attempts to turnaround the economy out of distress.

The situation in Zimbabwe has seemingly become increasingly more unique, in that interventions by the central bank are seemingly worsening the situation. In other countries such as Mozambique, Argentina and Venezuela for instance, the central banks in 2010 and back in the 1990s faced inflationary pressures exceeding 500% and unemployment rate was above 70% in the same period (Mandishara and Mupamhadzi, 2017). With high interest rates and import substitution industry subsidization, the central bank managed to normalize the economy and enhanced economic development. As it stands in 2021, the economy of Mozambique is blooming with suppressed

inflation level of less than 100% and unemployment rate of less than 50% (Mandishara and Mupamhadzi, 2017). With multiple RBZ policies in Zimbabwe and its critical functions, the central bank has not been successful in turning around the economy. Therefore, if in other countries the central banks have managed to support economic turnaround, the question then is what role(s) should the RBZ play to address the distress in the Zimbabwean economy?

1.4 Research objectives

1.4.1 Primary objective

The primary objective that this study sought to achieve was to come up with strategic policy initiatives the Reserve Bank of Zimbabwe can utilize to augment its central banking roles. This primary objective was augmented by the following specific objectives:

1.4.2 Specific research objectives

1. To evaluate the roles of the Reserve Bank of Zimbabwe in an economically distressed economy of Zimbabwe.
2. To craft strategic policy initiatives that the Reserve Bank of Zimbabwe can use to stabilize the nation's currency in an economically distressed economy of Zimbabwe.
3. To develop strategic policy initiatives that the Reserve Bank of Zimbabwe can use to improve financial markets liquidity in an economically distressed economy of Zimbabwe.
4. To develop strategic policy initiatives that the Reserve Bank of Zimbabwe can use to improve economic growth in an economically distressed economy of Zimbabwe.
5. To address the challenges that the Reserve Bank of Zimbabwe faces in its effort to implement policies during periods of economic distress.

1.5 Research questions

1.5.1 Primary research question

The primary question of this study was: What strategic policy initiatives can be implemented in Zimbabwe to improve the functioning of the economy? This primary research question was augmented by the following specific research questions:

1.5.2 Specific research questions

1. How effective is the Reserve Bank of Zimbabwe in executing its roles as the central bank in an economically distressed economy of Zimbabwe.?
2. What strategic policy initiatives can the Reserve Bank of Zimbabwe use to stabilize the nation's currency in an economically distressed economy of Zimbabwe.?
3. What strategic policy initiatives can the Reserve Bank of Zimbabwe use to improve financial market liquidity in an economically distressed economy of Zimbabwe.?
4. What strategic policy initiatives can the Reserve Bank of Zimbabwe use to improve economic growth in an economically distressed economy of Zimbabwe.?
5. How can the challenges that the Reserve Bank of Zimbabwe face in its effort to implement policies during periods of economic distress be addressed?

1.6 Research Proposition

The research proposed that if the central bank in Zimbabwe effectively executes its role, it can be able to stabilize the nation's currency, improve financial market liquidity and improve economic growth.

1.7 Significance of the study

The researcher assumed that the successful completion of this research is a benefit to a number of stakeholders. These include the central bank, the banking public, the researcher, the government and other stakeholders as briefly outlined below.

1.7.1 To Reserve Bank of Zimbabwe and regulatory authorities

It is believed that since this research speaks directly to the functioning of the central bank, it benefits from the study because it assists them in crafting policies to turn around the fortunes of the country and revamp economic activity in the country. The study benefits monetary authorities that have the role of crafting policies that help the economy to move forward. Recommendations to be made from the study will help the Reserve Bank of Zimbabwe to revamp the economy.

The government and other regulatory authorities are also enlightened on the issues affecting economic fundamentals. This enables the government to come up with strategies and policies meant to enhance the performance of the central bank and its wings. Policies and laws can thus be made to enhance the operations of the central bank basing on the recommendations in this study. The study also forms a basis for future studies since it acts as a starting point.

1.7.2 To financial institutions and the general public

The findings of this research are also beneficial to the general public who are affected by the policies that are set by the central bank. For effective functioning of the central bank, the key financial system stakeholders such as financial institutions and the general investing public should comply with the central bank's policies. It is therefore strongly believed that the findings of this research borrowing from other economies will help the central bank to craft policies that will benefit the financial system's stakeholders. There are countries with efficient financial systems and Zimbabwe should regain its pathway towards a vibrant economy that support financial institutions and the whole economy at large.

1.7.3 Theory

There are several theories that explain the functioning of central banks and the monetary system in an economy. These theories are general and are not specific to the Zimbabwean economy. It was therefore believed that the findings of this study can be useful in modifying these theories. It was also clear from the reviewed literature that very few if any researches have been carried out in Zimbabwe to evaluate the functions of the Central Bank with respect to the economic crisis that

has hit the country since 2000. Probably the researcher politicized the area of study. Therefore, the study findings are beneficial to the body of knowledge because of its uniqueness, as well as the fact that the economic authorities seem clueless as to what to do to turn around the fortunes of the country. Lack of recent literature on the evaluation of the functions of the Central Bank with respect to the economic crisis is a gap that needs to be filled. There has been a gap in those researches on functions of the central bank in Zimbabwe; hence this research fills the identified gap and adds to theory and the body of knowledge.

1.7.4 To the researcher

The research was significant as it improved the researcher's understanding of the functions of the central bank. On a broader perspective the research helped the researcher in her managerial capacity by gaining deep intellectual insights on the integration of the economic fundamentals and the functions of the central bank as the policy maker of the financial backbone of the economy. It sharpened the research skills of the writer and helped her to link theory to practice. The research was also a requirement for the award of a Master degree in Business Administration (Finance) which the researcher is studying towards.

1.8 Delimitations of the study

The research used secondary data from the IMF, World Bank and Reserve bank of Zimbabwe from the period of 2000 to 2018. Primary data was also used, collected using questionnaires from Bankers, Business Organisations (CZI, BAZ and ZNCC), ZSE, Economists (Professionals and Academics) and the Ministry of Finance who are affected by RBZ policies and initiatives. Geographically, the researcher was based in Harare where the central bank and most target respondents are located such that she was able to interact with the officials for the successful completion of the research. The time period delimited for the study was from November 2020 to April 2021.

1.9 Assumptions of the study

In order to carry out a successful study, the research was mainly based on certain assumptions. The researcher assumed that secondary data would be adequate enough for the research and it would be unbiased and relevant to the study. Given that the information that was required for the study is sensitive and is partially political, the researcher assumed that information would be relevant and unbiased for the research. Secondly, the researcher assumed that the sample of policy documents would be representative enough to enable a comprehensive research. It would not be fair to use a sample that is not representative enough and therefore the researcher assumed that the documents would be comprehensive enough to constitute a representative sample. The last assumption that the researcher made that enabled the researcher to undertake the research was that, the central bank would not make any unusual or unexpected changes on its economic policies until completion of this project.

1.10 Structure of the dissertation

Chapter 1: This chapter focuses on the introduction to the topic under study that is the analysis of the effectiveness of the role of central bank in Zimbabwe. In this chapter the researcher gives a brief description of the background of the study, the research problem, research objectives, research questions, significance of the study and justification of the study clearly stating what necessitated the research.

Chapter 2: This chapter looks at both the theoretical and empirical literature that was used in analysing the effectiveness of the role of central bank in Zimbabwe. Key concepts in the area of central banking are defined.

Chapter 3: This chapter examines in detail the research design and its justification, sample population and sampling methods, data collection procedures, data analysis and presentation.

Chapter 4: This chapter presents and interprets the research findings. It shows the results and findings of the research. The theoretical framework which was introduced in chapter 2 was used to reconcile the findings and the theory. All the research questions are answered in this chapter.

Chapter 5: This is the final chapter of the study. This chapter looks at the conclusion of the research and the key recommendations to the subject and the case which was being studied. Recommendations in this chapter are based on the findings and literature which has been reviewed under chapter two.

1.11 Chapter summary

This chapter laid the background of the economy and the role that the RBZ has played over the years since 2000 in trying to handle the economic crisis in the country. The major items in the background show that, regardless of efforts of RBZ, the economy's performance indicators recorded fairly unfavourable results. The background formed the basis for the problem statement. The research objectives were laid together with the research questions. The researcher presented the research limitations and the research delimitations show that the study used data from 2000 to 2018. The chapter concluded by giving the importance of the study to the central bank, monetary authorities and the researcher, mainly policing and researcher's research skills respectively. The next chapter is a literature review chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter looks at the review of literature related to central banking roles in distressed economies. It looks at theoretical literature, which are values, claims, beliefs, theories and models held or propounded by authorities or scholars in the field of central banking. Empirical literature is the findings of previous researchers in their related studies. The review of literature was done in order for the researcher to avoid reinventing the wheel, to identify the research gap, to develop a conceptual framework for this study and to determine the best methodology to use, which reasons are some of the many reasons highlighted by Saunders, Lewis and Thornhill (2012) for the review of literature.

2.2 Theoretical Literature on Central Banking

2.2.1 Understanding Central Banking

According to Barth, Gan and Nolle (2009) “the primary definition of Central banking is a banking system in which a single bank has either complete or a residuary monopoly of note issue”. A central bank is the bank in any country to which has been entrusted the duty of regulating the volume of currency and credit in the country (Cranston, 2012). The fact that several banks have been named reserve banks, appears to show that in the opinion of some authorities the custody of the nation’s reserves is the characteristic function of a central bank (Cartwright, 2014). The oldest central bank in the world is the Sveriges Riksbank popularly known as the Riksbank of Sweden (Choruma, 2016). It was established in 1656. The Bank of England came into being in 1694. However, it was the first bank to assume the position of a central bank and to develop what is now generally recognized as the fundamentals of the art of central banking (Hungwe, 2015). The history of Bank of England is the history of evolution of central banking. The working of Bank of England stimulated development of central banking in the world. The Bank of France organized in 1800 was connected with state ever since its establishment (Kachembere, 2014).

The National Bank of Austria, reorganized as Bank of Austria-Hungary was established in 1817 to restore order that had deteriorated. Bank of Norway, National Bank of Denmark, National Bank of Belgium and Bank of Spain were established to consolidate money circulation and float debt in Russian Empire. The Bank of Japan was set up on 1882 to restore order in currency system. Thus, nineteenth century was a century par excellence of the establishment of central banks in many countries of the world, particularly in Europe, where almost every country had established a central bank empowered to issue notes with special privileges and powers (Basu, 2013). In due course of time, these banks became bankers and advisers and advisers to their respective governments (Basu, 2013). Although by the end of the nineteenth century almost every country in Europe had a central bank, the concept of central bank was not, of course, too clearly articulated or understood before the turn of the century and some of these banks were not fully aware of their special functions and responsibilities (Muranjan, 2011). For example, the Swedish Riks bank and the Bank of Italy probably did not become “real” central banks until about the turn of the century (Muranjan, 2011).

2.3 Functions of a Central Bank

As stated earlier on, Handa (2009) stated that a central bank is an independent national bank or authority that is mandated to conduct monetary policy, regulate and supervise commercial banks as well as providing financial services including economic research. The prime objectives of the central bank are to stabilize the country or a nation’s currency, keeping unemployment low and stable and maintaining a low and stable inflation rate (Handa, 2009). The central bank will achieve its prime objectives through various functions. These functions include the issuance of notes and currency, being a bankers’ banker, a banker and advisor to the government and custodian of foreign currency reserves among others (Cukierman, 2014). However, according to Reddy and Appanniah (2012), the functions of the central banks are defined by the respective governments of the economies, hence can never be exhaustively stated.

The concentration of notes and coins-issue with the central bank has many advantages (Keamey, 2014) for example; it brings about uniformity in the notes and coins-issue as well as facilitating the central bank’s ability to influence and control credit operations of the commercial banks. With respect to the banker, agent and advisor to the Government, the central bank holds run the banking

accounts of government departments and enterprises (Leone, 2014). It advances short-term loans to government (Keenan and Mayes, 2015).

The other function relates to the custodianship of the country's foreign currency reserves. Under this function, the central bank acts as the custodian of the foreign currency reserves of the country concerned (Eizenga, 2013). During the gold standard, the central banks were required by law to maintain gold reserves against notes and coins-issue (Fischer, 2016) and now, after the abandonment of Gold Standard, the central banks are supposed to keep both gold as well as foreign currency as reserves against note-issue (Fischer, 2016). This most important function is entrusted to the central bank for three obvious reasons-to correct any disequilibrium in the balance of payments position of the country, to maintain the rate of exchange and to manage exchanger control (Mitra, 2014).

The lender of last resort function means that the central bank of the country assumes the responsibility of meeting directly or indirectly all reasonable demands for financial accommodation from the commercial banks, discount houses and certain other credit institutions (Nhavira, Mudzonga and Mugocho, 2013). Controller of credit pertains to that function of controlling the credit operations of commercial banks (Langa, 2017). This is controlled through the use of Open Market Operations and Mid-Term Lending Rate, Reserve Required Ratio, moral suasion among other tools (Mhlanga, 2015).

2.4 Central Banking and Economic Growth/ Development

The central bank has the responsibility of overseeing economic growth and development of the country through its various functions. Boyle (2020) noted that most central banks across the world affect economic growth (a rise in the Gross Domestic Product) by controlling the liquidity in the financial system. To achieve this, they have three broad monetary policy tools/instruments that they can use and these include the reserve requirement, open market operations as well interest rates targets. The required reserve ratio or reserve ratio requirement (RRR) refers to the amount of money that commercial banks must have on hand each day (Langa, 2017). Therefore, the central bank uses to control amount of money commercial banks can lend out to productive sectors of the economy.

In addition, the central bank uses the open market operations to buy and or sell securities (usually Treasury Bills) from commercial banks (World Bank, 2020). The central bank will then change amount of cash on hand with commercial banks without necessarily changing reserve requirement. Most Central Banks have adopted this tool during the 2008/09 Global Financial Crisis where most banks bought government bonds and mortgage-backed securities to stabilize the banking and financial sector (World Bank, 2020). For instance, the World Bank noted that the Federal Reserve has added about US\$4 trillion to its balance sheet with the so-called quantitative easing and has begun to reduce this stockpile in October 2017 (World Bank, 2020).

Apart from that, central banks manipulate interest rates of commercial banks. This guides loan interest rate, interest rates for mortgages and bonds for instance. If the country is beset with inflationary pressures whilst operating at full employment, it can raise the interest rates hence slowing down economic growth and preventing inflation as businesses will find it costly to access credit for capital projects. The reduced investment will then lower growth and development in an economy through the acceleration and money multiplier effects. This is usually termed contractionary monetary policy (Kaseke, 2015). Lowering interest rates stimulates economic growth. However, the World Bank (2020) also affirms that for the central banks to achieve these objectives of economic growth, it should follow the three principles of independence, time consistency of policies and the credibility of its policies and objectives. This is because the function of monetary policy is quite tricky as the policy can take 6 months for effects to trickle through the economy.

2.4.1 Role of a Central bank in an economy

According to Beck, Demirguc-Kunt and Levine (2016) the main objective of a central bank's monetary policy is to achieve growth with stability within the framework of the general economic policy of the State (Beck et al., 2016). Money supply should grow at a rate equal to that of increase in real income. In agreement with Davis and Green (2015), Goodhart (2010) highlighted that it may be essential to mobilize domestic savings for productive uses and the flow of funds has to be guided, qualitatively as well as quantitatively, to proper lines of investment. Thus, one of the

functions of central banks is to support gradual proliferation of banks, government bond market and bills market to meet requirements of economic development.

The central bank has also the responsibility to publish statistical reports on trends in the money and capital markets (Gwartney, Lawson and Gartzke, 2015). The under-developed economies have under developed money markets where banking system is not properly organized (Peek, Rosengren and Tootell, 2009). The Planning Commission in India stresses developmental role of central banks in these words. “Central banking in a planned economy can hardly be confined to the regulation of the over-all supply of credit or to a somewhat negative regulation of the flow of bank credit. It would have to take a direct and active role, first, in creating or helping to create the machinery needed for financing development activities all over the country and secondly, in ensuring that the finance available flows in the directions intended” (Kahn and Santos, 2015).

The central bank has the responsibility to improve the position by making special efforts for providing credit facilities to these priority sectors on relatively easier terms (Taylor and Quintyn, 2012). The central bank is also required to make adequate arrangements for the expansion of long-term finance for industries; some separate institutions may have to be created for the purpose (Persson and Tabellini, 2013). The central bank also meets a part of the requirements of the government finance through deficit finance, the magnitude of which has to be decided carefully so that economic stability is not greatly impaired (Stolz and Wedow, 2010).

According to Nevin (2016), the usefulness of a central bank in a developing economy must be stressed primarily in terms of its ability to assist the process of economic growth and capital formation, the contribution it can make to the regulation, direction and guidance of such credit institutions as exist at the time must be of secondary and lesser consideration. The objectives of central banking policy in a developing economy may thus be stated as follows, according to Kydland and Prescott (2017):

1. To mobilize savings and promote capital formation.
2. To spread monetary integration through development of integrated commercial banking system.

3. To provide credit necessary for production and trade.
4. To extend monetary support to authorities responsible for the allocation of resources in sectors in the economy.
5. To maintain price stability and prevent inflationary tendencies.

Thus, in a developing economy, the central bank will actively participate in the growth process and create favourable conditions for fostering growth with stability, as also supported by Laeven and Valencia (2010).

2.5 Theoretical perspectives of regulation

Financial regulation and supervision are usually left to government agencies that promulgate regulations, prescribing, proscribing and conditioning the behaviour of individuals groups and firms (Nhavira, Mudzonga and Mugocho, 2013). Their power, ability to close a financial institution and dispossess the savings of millions immediately raises questions about its efficacy and even their political legitimacy (Nhavira et al., 2013). Given the foregoing, one plank is that central banks are justified to intervene to control financial activities as they correct market failures as agents of the citizens, according to Levine and Florence (2010). Consequently, a complete picture of the regulatory state is necessary in order to have distinct answers to questions about the regulatory state, what it does, what it is capable of doing, and what types of regulatory reforms would be desirable or appropriate (Nhavira et al., 2013). Generally, according to Croley (1998) there are four theories of regulation namely:

2.5.1 Public Interest Theory of Regulation

The public interest theory concentrates on the general public's ability to monitor regulatory decision makers (Nhavira et al., 2013). Where decision makers operate under conditions of public scrutiny, public interest theory states that regulatory outcomes reflect general interest. Where on the other hand, when decision makers operate without oversight, they deliver benefits to organized interest groups at the expense of the public. The Public Interest Theory of regulation explains in

general terms, that regulation seeks protection and benefit of public at large; public interest can be described as the possible allocation of resources for individual and collective goods (Nhavira et al., 2013).

2.5.2 Neo-pluralist Theory

This theory considers interest groups as central to understanding regulation. However, under this theory interest groups with opposing interests compete for favourable regulation (Croley, 1998). The result is that interest-group competition reflects general interests. The Neo-pluralism theory no longer sees state as an umpire adjudicating between demands of different interest groups, but as an autonomous actor (with different departments) that looks after its own interests (Nhavira et al., 2013).

2.5.3 Public Choice Theory

Public choice theory was developed from taxation and public spending. It emerged and received widespread public attention in 1986, when James Buchanan, one of its two leading architects (his colleague was Gordon Tullock), was awarded Nobel Prize in economics. The public choice theory challenges the idea that agencies respond to market failures. Rather they deliver benefits to organized political interest groups which then profit at the expense of general public.

The Public Choice Theory takes principles that economists use to analyse people's actions in marketplace and applies them to people's actions in collective decision making. Economists who study behaviour in private marketplace assume that people are motivated by self-interest. Although people base their actions on their concern for others, the dominant motive in people's actions in marketplace that is whether they are employers, employees, or consumers is a concern for themselves. Public choice economists assume that although people acting in political marketplace have concern for others, their motive, whether they are politicians, voters, bureaucrats or lobbyists, is self-interest.

2.6 Requirements for attainment of central bank objectives

In this section, the conditions that should be in place for the central bank to effectively achieve its objectives are reviewed. The idea is that, failure to attain the requirements would pose challenges or hindrances in the performance of the central banks as they discharge their supervisory, monitoring and regulatory duties.

2.6.1 Central bank independence

Ultimately, the central bank's authority and scope of action depends on the government (Tucker, 2016). Governments pass laws and follow customs that grant authority and autonomy to their central banks to perform their stated functions. Making the central bank an agency with the mandate and reputation for maintaining price stability benefits the economy and the government itself in various ways (Lane, 2013). Central bank independence is one of the means by which a government can choose the strength of its commitment to price stability (Cukierman 2012a, and 2012b; Lohmann 2012).

Pursuing price stability necessarily competes at least some of the time with other tasks that central banks can and often do perform—such as managing the government's financial transactions, financing the government's deficits with money issue, financing development projects, and bailing out insolvent businesses, including banks and publicly owned enterprises (Knight, 2014). Although governments recognize long-run benefit of price stability, other goals loom larger in the short run. Assuring price stability, therefore, usually requires ensuring that the central bank is not forced to perform these functions, at least not when they would cause inflation (Bank of Canada, 2015).

Actual, as opposed to formal, central bank independence depends not only on the law, but also on many other less structured factors, such as informal arrangements between the bank and other parts of government, the quality of the bank's research department, and the personality of key individuals in the bank and the (rest of the) government (Constâncio, 2016). Because of the difficulty in quantifying such features in an impartial manner, previous studies developed indexes of central bank independence based mostly on legal independence—and only for the industrial countries at

that (Lombardi, and Moschella, 2016). Nhavira (2015) highlighted that when the central bank is not independent, integral and professional in its operations, it hardly manages to attain most of its objectives.

2.6.2 Ability to be the lender of last resort

If a country adopts other country's currency as its official currency, (usually the American dollar – dollarizing), its central bank is no longer in a position to play a role of lender of last resort (LOLR) because it is unable to create money (Nhavira, Mudzonga and Mugocha, 2013). It follows that when a central bank loses its power to print money, it cannot play that role. This is because the money required to bail out a troubled institution with systemic risk can be large. Thus, under a dollarized economy, alternative arrangements need to be put in place involving multilateral financial institutions or private arrangements with off-shore private banks, as supported by Crockett (2000). To this the county's banks need to invest in US dollar American government Treasury Bills to enable them to access off-shore interbank markets (Nhavira, 2015). Another alternative is to generate sufficient exports and earn the foreign currency, so that it can then be used for the lender of last resort function, yet the ability of the nation to generate foreign currency does not lie solely on the central bank, but lies with a lot of players, public and private (Nhavira, 2015).

Typically, the first port of call for a Central Bank to build-up for LOLR is the statutory reserve requirement (He, 2016). This builds up as a result of competition in the banking system. The second issue is the interbank market. Only when the interbank market is not able to provide funds needed, troubled banks approach the central bank. It is therefore important that the interbank market be revived and a reference rate availed at the earliest opportunity (He, 2016).

2.7 Empirical Literature Review

2.7.1 Case studies of other distressed economies and central banking

In this section, some cases of some economies that were once distressed are reviewed, looking at how their central banks have intervened to correct the situations and challenges met, if any.

2.7.1 Case of Cyprus

The case of Cyprus has lessons for third world countries about the need to review regulatory regime to ensure that it is relevant and appropriate given international trends. For Cypriot financial supervisory system, a number of regulatory authorities are involved in supervision of financial institutions that is Central Bank of Cyprus; Cooperative Credit Societies Supervision and Development Authority; Cyprus Securities Exchange Commission; Commissioner of Insurance Companies; Insurance Services Law; and under Ministry of Labour and Social Insurance there is Authority for Supervision of Pension Funds. This model is similar to Zimbabwean model with the Reserve Bank of Zimbabwe, Securities Exchange Commission, Insurance and Pension Fund Commission and the Deposit Protection Corporation (Munoangira and Kaja, 2016).

The most important cause of this crisis is exposure of Cypriot banks to Greece. Poor risk management in two of the largest Cypriot banks to Greek debt was in excess of 25% of the GDP. Moreover, contingent liability exposure to Greece amounted to over 140 per cent of Cyprus's GDP (Demetriades, 2012). Demetriades (2012) argues for an additional market-wide risk management strategy in order to prevent a recurrence of such a huge debt overhang, that is, the establishment of a national credit register listing all borrowers and beneficial owners from both commercial banks and cooperatives to enable them to conduct checks on new loan applications against the register.

2.7.2 Slovenia on the brink

Slovenia has been teetering on the brink of a financial crisis due to non-performing loans (Knight, 2014). The similar thread running through Cyprus and Slovenia is a silo approach to financial

supervision. Evans-Pritchard (2016) of the *Telegraph*, posited that Slovenia's three largest banks' non-performing loans had reached 20.5 per cent of Gross Domestic Product GDP in 2012 while a third of all corporate debt was non-performing. Moreover, Slovenia's bank assets stood at 130% of GDP, a drop-in-ocean when compared to Cyprus's which stood at 700% of GDP. To overcome the problem of non-performing loans, Slovenia engaged in regulating, overseeing and managing financial institutions and became efficient. The major move made by the government was to ensure that the Slovenian's central bank become more independent in making its decisions (Nhavira, Mudzonga and Mugocho, 2013).

2.7.3 The United Kingdom – 1992

With rising inflation in the country prior to 1992, the country adopted an Inflation Targeting (IT) (set at 2%, with a $\pm 1\%$ tolerance band). Clarida (2008) analysed the monetary policy setting of the BoE in the pre-IT period and concluded that it was consistent with the Taylor rule (ruling using instruments) yet it was additionally constrained the foreign (German) interest rate setting. Adam (2005) find by means of sub-sample analysis that the introduction of IT did not represent a major change in monetary policy conduct, unlike the granting of instrument independence in 1997. Assenmacher-Wasche (2006) concludes that by means of a Markov-switching model that no attention was paid to inflation until IT was adopted. From the results of these various researchers, it can be seen that inflation targeting can be a strategy to manage inflation, which is a macroeconomic fundamental.

2.7.4 Asian Crisis – Indonesia, Thailand and South Korea

Once regarded as having created an "Asian Miracle," the East Asian economies were praised through most of the 1990s for their low inflation rates, their high national savings rates, and their steady steps towards market liberalization (Lane, 2013). However, this praise ended with positive forecasts for the Asian economies when the crisis of confidence confronted Thailand in 1997 and moved to Korea. Although the underlying triggers of the crisis are country-specific, some similarities are evident (International Monetary Fund, 2015).

Among the other most common explanations of the crisis are high percentages of short term foreign denominated debt, speculative activities (as opposed to productive or industrial activities), weak central bank supervision, “moral hazard” (expectations of bailouts, leading to risky lending) and deficiencies in corporate governance (Lombardi and Siklos, 2016). Exacerbating the crisis, were the contractionary policies followed by Asian governments and the herd behaviour and panic by institutional investors.

Thailand

One of these causes of the crisis in Thailand was weakness in Thailand’s banking sector, which is said to have been characterized by unsafe lending practices (evident in connected lending and lax lending criteria), inadequate banking regulation (Thai commercial banks were permitted to become significantly undercapitalized and over-exposed to the ailing property market), and lax enforcement (incidents of insider fraud and mismanagement were prevalent) (Lombardi and Siklos, 2016). The political environment helped reveal these weaknesses. Specifically, the military was influential in providing economically powerful elite with protection from bank supervision.

These problems in Thailand’s were accompanied by problems in monetary policy. Thailand’s exchange system: the Thai baht was pegged to the U.S. dollar. So long as Thai exports were growing and their access to the U.S. market was guaranteed, this pegged exchange rate was not a problem. However, according to Mosser (2016) starting in 1995, Thai exports faced fierce competition from China and former Soviet republics, especially in goods produced by the labour-intensive industries. Thai exports were affected negatively by implementation of North American Free Trade Agreement, which increased access of Latin American exporters in the U.S. market. For these and other reasons, Thai exports slowed down. The Thai government fought strenuously to maintain the baht’s fixed exchange rate (that is, its “peg” to the U.S. dollar), despite the apparent economic slowdown, by using the country’s U.S.-dollar foreign reserves to purchase baht (Nier, Osiński, Jácome and Madrid, 2011). Indeed, it is estimated that the Thai government lost U.S. \$30 billion in its attempts to maintain the fixed exchange rate (Head, 2008). Those attempts were ineffective. Speculators and foreign exchange traders realized that the value of the baht was falling,

and that the Thai economy was deteriorating more generally, and they started to attack the baht, further exacerbating the matter (Head, 2008).

In order to extricate itself from the crisis, Thailand employed measures to restrict capital outflows and close badly performing financial institutions. To control capital outflows, Thai government banned securities lending, required banks to report to Bank of Thailand all currency transactions by non-residents, and prescribed that proceeds from exports had to be deposited in domestic banks within fifteen days and repatriated within one hundred and twenty days (Jordan, 2005). By August 1997, the Thai government had entered into a borrowing arrangement with the IMF (Asian Development Bank, 2007).

Indonesia

Until the fall of oil prices in 1982, oil revenues provided Indonesia with a fairly stable national income (Park and Lee, 2009). Oil income reduced need for foreign direct investment. With deregulation of financial industry, credit market opened to foreign lenders. However, because of a deficient banking regulation system, Indonesian central bank had little to work to conduct surveillance of risky lending practices, a shortcoming which proved to be fatal later. Other causes were lack of central bank independence, incidents of insider trading, fraud, and incomplete disclosure (Park and Lee, 2009). The Mexican Peso crisis had also weakened the Indonesian Rupiah, which left the country unprepared to fight the contagion effect from the Thailand market crash or crisis (Coe and Kim, 2002).

Indonesia responded to the crisis there with a variety of measures, presented by Head (2010), to reduce spending, stabilize the economy, and prevent capital flight. Between August 14 (when the rupiah was allowed to free-float) and announcement of first IMF assistance package to Indonesia on October 31, Indonesian government announced measures including cancelling government projects, raising overnight interest rates to 81%, removing tariffs on imports on 150 items, and abolishing the 49% requirement of equity in foreign investments held by Indonesians. These measures had positive effect on market. However, after announcement of first IMF assistance program, the Indonesian government forced the closure of 16 banks but it failed to close 2 banks that were run by Suharto family. As the run on Indonesian banks continued, Bank Indonesia

pumped emergency funds into local banks. The funds were used to purchase foreign exchange that weakened the rupiah.

South Korea

The highly leveraged chaebol was running into trouble even before the devaluation of the Won (Toyoda, 2009). Several Korean conglomerates were declaring bankruptcy, the famous were the giant steel company Hanbo and Kia (which was bailed out later). The short-term foreign debt that was due in 1997 (estimated at \$100 billion) toppled Korea's foreign currency reserves (the ratio was 250 percent), according to Stiglitz (2008). As the failure of large chaebol loomed over the Korean economy and signs of default on short-term foreign debt were unmistakable, creditors refused to roll over debts and called in loans from another chaebol (Stiglitz, 2008). In addition, large banks that had funds on deposit in foreign branches of Korean banks started withdrawing deposits. In short, a run by creditors on Korean banks was the major trigger of crisis in Korea (ibid).

South Korea's government started its policy reaction to economic troubles earlier than the governments of Thailand and Indonesia did (Head, 2010). As noted above, in 1997 Hanbo failed. In March and April, Sammi Steel and Jinro failed. By mid-1997, financial crisis in Thailand had begun raising in minds of financial markets spilling over to Korea. The Korean government send positive signals to credit markets by consolidating bank mergers and allowing foreign access to the Korean bond market (Head, 2010). Such actions were not enough. The Korean government began talks with IMF on November 20, 1997. Political change was seen by many as direct response to crisis; Korea's opposition leader Kim Dae Jung was elected president in December 1997, according to Head (2010).

The role of IMF in the Asian crisis

Head (2010) evaluated the role of IMF in recovery from Asian crisis. The IMF utilized its emergency finance procedures to give funds to Indonesia, Thailand and Korea. These measures provided these countries with a total of U.S. \$35 billion of IMF financial support. The IMF advised countries to undertake a "temporary tightening of their monetary policy to stem exchange rate

depreciation.” The IMF loans were conditional upon the adoption and implementation of reform programs in these 3 countries. The features of programs were: closing nonviable financial institutions, restructuring financial institutions, increasing capitalization, enforcing corporate governance statutes, removing trade barriers and allowing foreign acquisition of local businesses. The IMF spearheaded the mobilization of some U.S. \$77 billion of additional financing from bilateral sources in support of these reform programs.

Mozambique

In Africa, Mozambique experienced an economic crisis but through its central bank, the country managed to revamp its economy. In 2010, Mozambique faced inflationary pressures exceeding 500% and unemployment rate was above 70% in the same period. The country recorded stunted growth during the same period where a serious recession has hard hit the economy (World Bank, 2018). However, with strict interest rates policies and the import substitution industry subsidization, the central bank managed to normalize the economy and enhanced economic growth and development. Currently, the economy of Mozambique is blooming with suppressed inflation level of less than 100% and unemployment rate of less than 50% (World Bank, 2021). This evidence points to the fact that Mozambique has been through financial distress but through the mandate of the central bank, the country sailed through and it is now stable and the general societal welfare has been restored (World Bank, 2018).

The case of Zimbabwe

As noted earlier in chapter 1, a closer look at Zimbabwe policies shows that the government came up with notable reforms including ESAP of 1991 to 1995; Zimbabwe Programme of Economic and Social Transformation, 1997; Macro-Economic Policy Framework 2005; and Short-Term Economic Recovery Plan, 2009, the Transitional Stabilization Programme (TSP) which expired in 2020 paving way for the current National Development Strategy 1 (NDS1). These policies yielded favourable results but only to a limited extent as envisaged in the fall in GDP and poor living standards in the country during the 90s. These were also inherited in the 20th century. The economy of Zimbabwe went down from relative prosperity to economic ruin with the hyperinflation of 2008

to an extent that the central bank could not afford the paper to print practically worthless trillion-dollar notes (Nyarota *et al.*, 2015).

The sustained decline in the Zimbabwean economy, coupled with high inflation, led to the engagement in quasi-fiscal activities, by the Reserve Bank of Zimbabwe (RBZ). These included the provision of subsidized credit to productive sectors of the economy and liquidity support to troubled banks, among others (Munoz, 2007; Mnangagwa, 2009). The country's central bank engaged in quasi-fiscal activities in the belief that this would increase output and dampen inflationary pressures (RBZ, 2008). The level of money creation by the central bank was, however, unrelated to economic activity and it intensified during the period 2005 to 2008, resulting in excessive monetary expansion and a surge in inflation (Mandishara and Mupamhadzi, 2016).

Zimbabwe's inflation spirals effectively got out of control in late 2007 to early 2008 (IMF, 2009), reflecting significant recourse to the monetization of fiscal deficits and the impact of the quasi-fiscal activities of the central bank. The RBZ also printed money to buy foreign exchange on the parallel market, eventually becoming a very active stakeholder in that market (MacGarry, 2007). Year-on-year inflation rose to unprecedented levels, peaking at 231.2 million per cent in July 2008 (ZIMSTAT, 2008) and 500 billion per cent in December 2008 (IMF, 2009). Concomitantly, annual money supply growth also increased, peaking at 431 quintillion per cent by end December 2008 (RBZ, 2008).

Macroeconomic fundamentals improved during the government of national unity after disputed elections in 2008, but have flat lined ever since. Zimbabwe's contribution to Sub Saharan Africa's GDP fell from 2000 to 2009 then it rose slightly, attributed to the government of national unity of 2009. When the period of the government of national unity elapsed in 2013, the Zimbabwe's contribution to Sub Saharan Africa's GDP fell again in 2014. The government of national unity abandoned its own currency in favour of multi-currencies, with most of the transactions denominated in US Dollar terms. After 2 years of deflation, consumer prices rose again in 2017, driven by cash crisis and higher food costs. In the same period, the central bank put in place Nostro Stabilization Facilities in 2017 to stabilize the forex market. This was necessary for sustaining financing critical imports of fuel, electricity, fertilizers, agro-chemicals, cash imports and raw

materials for industry. However, this was a short-term stopgap measure which is not sustainable for societal wellbeing.

However, during the period of multicurrency regime, the central banks' roles were muted as the Reserve Bank of Zimbabwe was not able to perform its mandates. Owing to the lack of capacity to print currency notes and coins, inability to offer lender of last resort, overnight accommodation to commercial banks, floating of Treasury Bills as well as formulating and implementing the monetary policies, the bank was not able to influence price stability, economic growth even spearheading production as they have become exogenous variables. Yes, the fundamentals seemed to be stable through the use of the US\$ and other currencies by the economy has remained distressed because the central bank was not able to influence the key macroeconomic fundamentals necessary to revive the economy. The World Bank (2018) stipulates that when the central bank of a country is able to influence the key macro-economic variables through its roles (printing and issuing currency notes and coins, formulating and implementing monetary policies, offering lender of last resort facility, overnight accommodation, banking services to the government as well as licensing and regulating financial institutions to cite a few), the resultant effects are the ability to control inflation, economic growth, exchange rates as well as the soundness and safety of the financial sector. However, the Zimbabwean economy remained distressed because the Reserve Bank of Zimbabwe was not able to fully execute its roles.

2.8 Conceptual framework

In line with the research objectives and the reviewed literature, the following conceptual framework was developed to guide the researcher throughout the research. The framework is shown in figure 2.1 below.

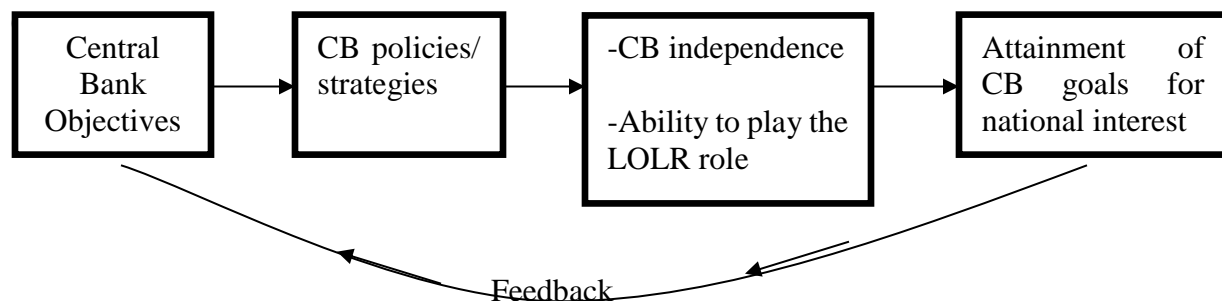


Figure 2. 1: Conceptual framework

Source: Own construct

The conceptual framework above shows that the Central bank is established to attain specified objectives, which are aligned to national interest. To achieve these objectives, the Central bank puts in place various policies or strategies. However, for the central bank to achieve its objectives it depends on the degree of its independence and ability to play the lender of last resort function, which may present challenges or barriers to the attainment of the objectives. The degree of attainment of objectives is measured by various means, such as levels of inflation, unemployment, economic growth, exchange rate strengths, non-performing loans, price stability, level of public confidence in the financial service sector, inter alia. After these evaluations, there is feedback to the Central bank, which then determines what needs to be done to correct any deviations from expected levels of performance.

2.9 Research gap

A closer look at the literature shows that most of the studies done so far on central banks have been carried out in the developed world, particularly the USA and UK, with some having been done in East Asian countries that faced the Asian financial crisis which had a contagion effect. The scantiness of literature relating to the developing world, particularly Zimbabwe has left a research gap, which this research is contributing towards filling. The Zimbabwean situation is a bit different from most of especially African countries in that Zimbabwe in 2008 was faced with serious hyperinflation, leading to abandonment of the Zimbabwe dollar in 2009, yet later on a surrogate currency was introduced (bond notes), which the issuer claimed that it is not a currency (bonded at par with the US dollar), after which the bond note and bank balances were turned into an RTGS currency and allowed to freely float, and has become much less than the US dollar in value. As a result, the situation in Zimbabwe appears to be much unique, to the extent that the applicability of the results obtained in developed world and other developing countries with different histories may not well apply to the Zimbabwean context. As a result, this exposed a research gap.

2.10 Chapter summary

The chapter reviewed related literature to central banking. The chapter looked at theoretical and empirical literature on central banking, and how central banks can use their powers to turnaround distressed economies. The reviewed literature enabled the researcher to come up with the conceptual framework and exposed the research gap which this research contributes towards

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on research methodology used to accomplish the research objectives which are: to evaluate the roles of the Reserve Bank of Zimbabwe in an economically distressed economy of Zimbabwe; to craft strategic policy initiatives that the Reserve Bank of Zimbabwe can use to stabilize the nation's currency in an economically distressed economy of Zimbabwe; to develop strategic policy initiatives that the Reserve Bank of Zimbabwe can use to improve financial markets liquidity in an economically distressed economy of Zimbabwe; to develop strategic policy initiatives that the Reserve Bank of Zimbabwe can use to improve economic growth in an economically distressed economy of Zimbabwe and to address the challenges that the Reserve Bank of Zimbabwe faces in its effort to implement policies during periods of economic distress.. The chapter is structured in a way that it covers the research philosophy adopted, the research approach, the research design, the population of the study, sampling methods, sample size taken, research instruments used, data collection methods, data validity and reliability enhancements, research ethics observed, among other aspects. The methodology basically was a way of ensuring that data related to the study was collected for analysis, from the relevant subjects for answering the research questions and fulfilling the research objectives outlined in chapter 1.

3.2 Research philosophy

Saunders, Lewis and Thornhill (2012) define research philosophy as a set of assumptions underpinning a research strategy employed by the researcher. The main research philosophies are the positivism, interpretivism and pragmatism. According to Kothari (2014), positivism research philosophy is more appropriate when the research uses purely quantitative methods in analysing data, whereby interpretivism philosophy is more appropriate when purely qualitative methods are being used to analyse data and pragmatism philosophy is whereby the research employs mixed methods, that is, qualitative and quantitative methods of data analysis. This research adopted a positivist approach to accommodate quantitative methods. Balnaves (2020) states that pragmatism

philosophy is chosen when they argued that best researches are neither purely quantitative nor purely qualitative, but somewhere between the two continuums in order to allow the researcher to study anything considered relevant to the study. Guba and Lincoln (2014) also supported that the adoption of one position becomes unrealistic; hence the researcher adopted pragmatism philosophy to be realistic.

This research sought to establish central banking in a distressed economy that is coming up with strategic policy initiatives the Reserve Bank of Zimbabwe can utilize to augment its central banking roles. Therefore, positivist philosophy was considered more appropriate because due to the nature of the research problem, an analysis of the Reserve Bank of Zimbabwe policies or efforts would be clearly articulated or analysed if quantitative data was employed. For instance, the quantitative approach aimed to control for bias so that facts can be understood in an objective way about the role of the RBZ in a distressed economy.

In carrying out her study, the researcher held in particular the following beliefs;

1. **Ontological beliefs:** the research was carried out from an ontological belief that it is reasonable to generalize findings from the sample drawn from Bankers, Business Organisations (CZI, BAZ and ZNCC), ZSE, Economists (Professionals and Academics) and the Ministry of Finance who are affected by RBZ policies and initiatives. The researcher believes there is one truth on the effectiveness of Central Bank policies given certain conditions which is universally applicable to the population. Summary measures, statistical analysis and results from the views of the surveyed sample population were used to generalize results to RBZ and other central banks.
2. **Epistemological belief:** the research was anchored on facts gathered through a disciplined scientific research approach by using established methods to gather data in order to establish “*one truth*”. The research instrument used (structured questionnaire) contained structured questions that did not require any opinion or perception of the researcher himself or the RBZ employees as it would pose bias and conflicted results by evaluating their own actions.

3. **Axiological belief:** Research values which guided how the research was carried out were critical for the outcome of the research. The researcher maintained a distance with respondents and had low interaction with the respondents since the study required the views of the respondents.

3.3 Research design

According to Hürlimann (2019) research philosophy relates to the framework that guides the undertaking of the research showing ideas about reality and the nature of knowledge of the researcher. Research design as a presentation of the different types of approaches used and a systematic outline of how the scientific research has been carried out in solving the identified research problem (Leavy, 2019). The researcher carried out a case study of Zimbabwe's Central Bank, namely the Reserve Bank of Zimbabwe. Several possible research designs exist; including experimental design, exploratory designs, explanatory design, descriptive design and mixed methods design. Explanatory research design is more suitable when establishing cause and effects relationships between variables (Creswell, 2013). Exploratory research design is more suitable when the researcher is looking for new insights, studying what is currently taking place, when asking questions and also when assessing phenomena in a new light (Robson, 2014). Descriptive research design is more appropriate when testing hypothesis (theories), when carrying out statistical analysis using quantitative data analysis techniques and also when describing accurate profiles of people, events or situations of particular interest. Experimental designs are more appropriate when an experiment is carried out such as in a laboratory to result in observations which lead to conclusions (Martin, 2020). Mixed methods design is used when one or more pure research designs are combined (Saunders, Lewis and Thornhill, 2012).

This research study adopted a descriptive research design. This was because the research was about establishing the truth about central banking in Zimbabwe in a distressed economy, evaluating its policies and lessons from other distressed countries hence the researcher carried out a case study with a descriptive research design. This design was considered more appropriate in articulating the accurate state of events in terms of policies, strategies and challenges of the Central Bank. For example, the key objective of the research was to come up with strategic policy initiatives the

Reserve Bank of Zimbabwe can utilize to augment its central banking roles, this required respondents to articulate their views on the role of the RBZ in a distressed economy and what can be done to revamp the economy hence; descriptive research design was therefore considered appropriate. This research design was consistent with the positivist research philosophy adopted where quantitative methods were considered.

3.4 Research approach

According to Saunders, Lewis and Thornhill (2016), research approach is the extent to which the researcher understands the theory at the start of his/her research. There are more than one research approaches, which include inductive, deductive and abductive approaches (Martin, 2020). Inductive approach is when the researcher collects data and develops a theory from the analysis of the data, whereby deductive approach is when the researcher collects data in order to test a theory and abductive approach is when both inductive and deductive approaches are mixed (Bryan, 2014). According to Bryan (2014), deductive approaches are more appropriate when doing quantitative researches and inductive approaches are more appropriate when carrying out qualitative approaches.

The researcher sought to evaluate the effectiveness of Central Bank policies and draft a way forward through lessons learnt from other distressed economies, by any means possible, hence she adopted a deductive approach. This approach enabled the researcher to answer the research objectives which were (i) to evaluate the roles of Reserve Bank of Zimbabwe as the central bank in the country; (ii) to craft strategic policy initiatives that Reserve Bank of Zimbabwe can use to stabilize the nation's currency; (iii) to develop strategic policy initiatives that Reserve Bank of Zimbabwe can use to turn improve financial markets liquidity; (iv) to develop strategic policy initiatives that Reserve Bank of Zimbabwe can use to improve economic growth in the country and (v) to address the challenges that Reserve Bank of Zimbabwe face in its effort to implement policies during periods of economic distress.

3.5 Target population

Martin (2020) defines research population as the total number of elements that the research conclusions are to be attributed to. Curran and Blackburn (2011) further stated that all elements that are under consideration or that are of particular interest to researcher, from which a sample can be drawn, is the research population. The researcher felt that since the study was about RBZ and its policies (roles and responsibilities) in a distressed economy, it would be conflicting to target RBZ staff by evaluating their own actions. Therefore, the researcher decided to target the population which constituted the Bankers, Business Organisations (such as CCZ, CZI, BAZ, ZNCC), ZSE, Economists (Professionals and Academics), World Bank, International Monetary Fund (IMF) and the Ministry of Finance. This target population was considered primarily because they are the key players in the economic and financial sectors who are affected directly by RBZ policies and initiative and are able to assess the policies being implemented by the RBZ notwithstanding the general public. This enabled the researcher to remove bias as the population brought some independent assessment of the RBZ roles and responsibilities in a distressed economy. Due to the unknown number and the wide target population by the researcher, sampling methods were then adopted to choose a sizable sample that accorded credit to the research study.

3.6 Sampling methods

There are two sampling techniques, probabilistic and non-probabilistic sampling methods (Gujarati, 2004). Probabilistic sampling methods are those methods which give the population elements equal chances of being selected into the sample for sampling (Martin, 2020). Examples include cluster sampling, stratified random sampling, random sampling and systematic random sampling. Non-probabilistic sampling methods are methods that give population elements unequal chances of being selected into the sample (Creswell, 2013). Examples of non-probabilistic sampling methods include quota sampling, convenience sampling, judgemental sampling and snowballing sampling. Saunders, Lewis and Thornhill (2012) however highlighted that most of the probabilistic sampling methods require a sampling frame in order to be usable.

Judgemental sampling was used to select two respondents from all operating banking institutions (Bankers), two key personnel from each of the Business organisations chosen (CZI, BAZ and

ZNCC), two professional economists from the industry, two academic economists from the University of Zimbabwe (because they were conveniently located to the researcher), two key staff from the Ministry of Finance as well as two key personnel from the ZSE. Although judgmental and convenience sampling methods did not give all elements in the target population equal chances of being selected, they were used in order to try and improve the response rate for the research instrument(s) to be used as well as including respondents who were deemed to have knowledge of the roles of the RBZ in a distressed economy, how the policies affect them and what can be done to revamp the economy.

3.7 Sample size

Glaser and Strauss (2015) defined a sample as a part of the population drawn from the population and studied, whose results are then generalized for the whole population. Hakim (2013) highlighted that a sample is taken when the population is too large to be studied wholly, element by element; when the researcher has limited time to carry study the whole population and when the researcher has limited resources. However, Mintzberg and Waters (2018) claimed that whenever a sample is taken, a sampling error result. The researcher targeted 6 categories of key players in the economic and financial sectors and from each category two key personnel were selected using convenience or judgmental sampling technique. The researcher was guided by Kothari (2014) who indicated that whenever the population is not known by precision, a sizeable sample size of above 30 respondents was to be a fair representation of the whole population to give credence to the research study. Thus, the sample size constituted 56 professionals. For instance, within the bankers, the researcher selected two key people from the 21 operating banking institutions as at 31 December 2020 (including savings and building societies but excluding credit only and deposit taking microfinance institutions). The sample size is depicted in Table 3.1 below.

Table 3. 1: Sample size

| Research Unit | Sample Size |
|--|-------------|
| Bankers (21 operating banking institutions as at 31 December 2020) | 42 |
| Business Organisations (CZI, BAZ, ZNCC) | 6 |
| Economists (Professional and Academics) | 4 |
| Zimbabwe Stock Exchange | 2 |
| Ministry of Finance | 2 |
| TOTAL | 56 |

3.8 Data types

For the successful completion of this research, and for the purposes of getting meaningful research findings, the researcher consulted both primary data sources and secondary data sources. This section presents the different sources of primary and secondary data sources consulted in this research.

3.8.1 Secondary data

According to Morris and Wood (2015), secondary data is data that was gathered by others, and is not original to the current research. This research also made use of some secondary data such as from books, journal articles, newspapers, internet and companies (for instance, RBZ, ZSE, Business Organisations, Bankers, IMF, and World Bank) publications. Secondary data was advantageous in that it was quite cheaper and faster to gather, relative to primary data, as also supported by Raimond (2013) who claimed that secondary data is cheaper to gather since most publications and other sources are readily available especially on the internet. The internet provided the bulk of the information, with official sites such as JSTOR and EBSCOhost providing most of the journal articles. However, the use of secondary data was with its own problems. The problem was that the data was collected for other purposes; therefore, the bulk of the information found would not apply to the research problem at hand.

3.8.2 Primary data

Morris and Wood (2015) define primary data as data collected from the field for the first time to solve a current research problem. The primary data used in this research was collected from Bankers, Business Organisations like the ZNCC, CZI and BAZ, Economists (both Academics and Professionals), Zimbabwe Stock Exchange and the Ministry of Finance using a structured questionnaire as a primary research instrument. As confirmed by Raimond (2013), primary data used was advantageous to the research since it was fresh and was collected to solve the identified research problem at hand that is the roles of RBZ in a distressed economy. However, as confirmed by Peters and Waterman (2017), primary data was more difficult and expensive to gather, starting from the process of drafting and validating the research questionnaire up to the administration of the instrument in collecting data. The process was quite tiresome and expensive. In addition, non-response rate was another challenge with primary data especially on emailed questionnaires.

3.9 Research instruments

According to Robson (2014) a research instrument is a tool that is used to collect data. Robson (2014) also notes that an instrument can either be structured (with laid-down questions) or unstructured. Kersley et al. (2016) affirms that there are various instruments to collect primary data which include experiments, interviews, questionnaires and observations. This research used only the questionnaire as a research instrument for all sample elements.

3.9.1 Questionnaire

Hakim (2013) defines a questionnaire as a document that contains a list of questions that is given to the respondents, asking them about their opinions and other issues relating or relevant to the subject under study. Hakim (2013) also notes that a questionnaire can have open-ended questions and/or closed questions. Saunders, Lewis and Thornhill (2012) define open-ended questions as questions that seek respondent's opinions and allow the respondents to use their own words. Saunders, Lewis and Thornhill (2012) refer to closed ended questions as the questions which have possible answers, from which the respondent has to choose at least one response. The questionnaire used in this research constituted of closed questions so as to gather as much data as possible.

Closed ended questions helped the researcher not to have too divergent views to allow data coding and processing become much easier. A Likert scale was applied to closed ended questions for easier data analysis. The structured questions had end points of “Strongly Disagree”, with a code of 1, and “Strongly Agree” with a code of 5. The first section of the question contained demographic information of the respondents so as to ascertain the relevance of the respondents who participated in the study.

The use of the questionnaire had several advantages to the researcher, including allowing the researcher to collect quantitative data using one instrument, in line with the research philosophy and approach adopted. Also, the questionnaire saved much of the researcher’s time since voluminous data from many respondents was gathered in a short space of time (Martin, 2020). In addition, the researcher allowed for wider coverage at low cost, enabled collection of data from people who were difficult to contact (through emailing) and it allowed greater uniformity in the way in which the questions that were asked and thus making it reliable. The structured questionnaire was also advantageous because it accorded the pledge of anonymity and confidentiality. However, the questionnaire had a disadvantage that they were expensive to design because they had to be pretested for validity. The challenge of non-response especially on mailed questionnaires was another problem although the final response rate was enough to render the results valid. Also, the questionnaire could not capture non-verbal expressions.

3.10 Data collection procedures

The researcher compiled a list of questions in line with the reviewed literature, and then came up with her own questionnaire. The researcher sought for permission from the management of different companies like Bankers, ZSE, Ministry of Finance and Business organisations as well as personally from Economists with the help of a confirmation letter from the University of Zimbabwe Graduate School of Business Department. The researcher had to introduce herself to the respondents physically and through phone calls, explain to them what she is currently doing as well as the purpose of the research before hand-delivering or requesting for an email to send the questionnaire to the respondents. Some refused to share their email addresses hence the researcher prepared her questionnaire on Google Forms and shared the link with the potential respondents

using email and WhatsApp. The researcher wanted to save time, money and upholding social distance through delivering the questionnaire via online means and on email but because some of the respondents preferred a physical copy, the researcher then hand delivered the instrument. After that some questionnaires were emailed, where respondents would choose to have their questionnaires sent by email.

Researcher had pretested for the validity and reliability of the questionnaire through pilot study and further refinement hence she assumed that all the respondents were well versed with the roles of the RBZ and the questions within the instrument. In some instances where the target respondent would indicate his or her inability to participate or complete the instrument due to various reasons, the researcher would withdraw that respondent and look to replace with another one who was willing. The researcher then went on to collect data taking into cognizance of Covid-19 pandemic lockdown restrictions. Each respondent was given a maximum of 5 calendar days to complete the questionnaire and then would return the questionnaire using the same channels. The 5 days grace period were considered sufficient for the respondents to study and complete the questionnaire, at the same time reducing their chances of failing to return the questionnaires. On the sixth day, the researcher went back and collected the completed questionnaires, downloaded the completed-on email and made a follow up by way of a phone call for those who did not respond. After collection the researcher then imported the responses into excel and then coded it on SPSS version 23.0 for analysis.

3.11 Data validity

Validity is defined by Gibb (2016) as the extent to which an instrument measures what it is intended to measure. In order to improve validity, the researcher meticulously designed the questionnaire, and pretested it in order to refine it. The questionnaire was pretested with some Ministry of Finance and ZSE workers and a statistician who also happened to have experience in pilot studies, validation of instruments and professional knowledge on the area of banking. A pilot study with the above workers who did not then necessary form part of the final sample was done, and basing on their responses, the researcher would refine the questionnaire with the help of a statistician and the project supervisor before actual data collection was done.

3.12 Data reliability

According to Martin (2020), reliability refers to the internal consistency of the research instrument (Gibb, 2016). The researcher tested the reliability of data using the SPSS package version 16, using the Cronbach's Alpha measure which makes use of variances between the responses (items) on the instrument. An alpha of at least 0.7 would be considered reliable, and that above 0.5 but less than 0.7 would be considered less reliable (Johnston, 2009). An alpha below 0.5 would indicate that the data was unreliable. The Cronbach's Alpha coefficient after testing the reliability of the structured questionnaire was 0.91 meaning that the designed questionnaire was reliable in collecting quantitative data for this study.

3.13 Data analysis and presentation

The closed ended questions were fed into the SPSS package version 23.0 for analysis purposes, using frequencies and percentages, measures of central tendency (especially the sample mean) and the measures of dispersion (especially the sample standard deviation). Presentation was done using Microsoft Office packages version 2013, specifically Excel and Word 2013, in form of charts, tables and graphs.

3.14 Ethical considerations

Research ethics are defined by Saunders, Lewis and Thornhill (2012) as the appropriateness of the researcher's behaviour with respect to the rights of the subjects of the research. Firstly, the consent of the respondents was sought before data collection. Also, the participants were allowed to withdraw at any time if they so wished. In addition, the participants remained anonymous throughout the research. Also, the researcher did not bribe or pay any participant for participating. More so, consistent and accurate referencing of ideas and work accessed from other authors was done using the Harvard Referencing Style to ensure that there is integrity in the conduct of the research and to avoid plagiarism. Furthermore, to gain consent from the respondents, the researcher inserted an introductory letter on the questionnaire, aiming to elicit positive response and cooperation from the participants. The researcher also obtained a letter from the University of

Zimbabwe Graduate School of Business department to use for gaining permission from the respondents' organizations to carry out the research.

3.15 Chapter summary

The chapter looked at the various methodology aspects employed in carrying out the research. This included research philosophy, research design, population, sampling procedures and instruments used. Critical to the research methods adopted, the chapter indicates that the research adopted a positivist approach. A case study of the Reserve Bank of Zimbabwe was chosen although the staff did not form part of the target or sample population in an attempt to avoid conflicting results and reduce bias. The chapter indicates that the research used a descriptive research design. The next chapter focused on the analysis, presentation and discussion of data.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

The study used the Google Form link to gather responses Bankers, Business Organisations (CZI, BAZ and ZNCC), ZSE, Economists (Professionals and Academics) and the Ministry of Finance. Before feeding the data into SPSS for analysis, the researcher calculated response rate and presented composition of respondents. The responses were coded and fed them into SPSS version 23.0 for analysis. Data was analyzed using descriptive statistics and principal component analysis. In this chapter, the research presents research findings, comment, interpret and discuss them. The chapter is organized in a way that it starts with response rate and composition of respondents, demographic and background information of respondents is presented and the main body of the chapter presents the research findings in line with the research objectives. The chapter ends with a chapter summary.

4.2 Response rate and composition of respondents

The research computed the response rates using the formula prescribed by Andrew, Friedman and Durning, (2017) that states that response rate is calculated by dividing the number of responses by the sample size. The result is multiplied by 100 to convert it into a percentage. The results are presented in Table 4.1 below.

Table 4. 1: Response rate and composition of respondents

| Research Unit | Sample Size | Actual Respondents | Response Rate |
|---|--------------------|---------------------------|----------------------|
| Bankers | 42 | 34 | 81% |
| Business Organisations (CZI, BAZ, ZNCC) | 6 | 5 | 83% |
| Economists (Professional and Academics) | 4 | 4 | 100% |
| Zimbabwe Stock Exchange | 2 | 2 | 100% |
| Ministry of Finance | 2 | 2 | 100% |
| Total | 56 | 47 | 84% |

The results in the Table indicate that although not all targeted bankers and business organizations participated, response rates for the two categories were above 80%. Response rate for economists, Zimbabwe Stock Exchange participants and Ministry of Finance participants was 100% showing that from these categories, people participated as per the sample size. The overall response rate for the whole target population was 84%. The overall response rate met the criteria of Andrew et. al., (2017) who state that response rate for a research survey should be at least 70% for the research findings to be generalizable and objective.

4.3 Reliability statistics of research questionnaire

The researcher tested the reliability of the research questionnaire using the Cronbach’s alpha test on SPSS. The findings are presented in Table 4.2 below.

Table 4. 2: Reliability statistics of research questionnaire

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .915 | 32 |

According to Martin (2020), an acceptable reliability test statistic of at least 0.7 is acceptable in a research survey. Since the Cronbach’s alpha coefficient found is 0.915 which is greater than the 0.7 criterion, the researcher can guarantee the reliability of the research questionnaire in gathering consistent responses. The research findings can therefore be reliable for use by the research stakeholders.

4.4 Demographic and background information of respondents

Respondents were requested to reveal their demographic and background profiles, in particular gender, age, educational qualifications and level of experience.

4.4.1 Gender of respondents

The researcher wanted to find out the proportions of the respondents in terms of their sex. The researcher limited categories to males and females that are dominant in Zimbabwe. The research

was not discriminative to either gender of the two genders. The researcher gave allowance to respondents of all genders.

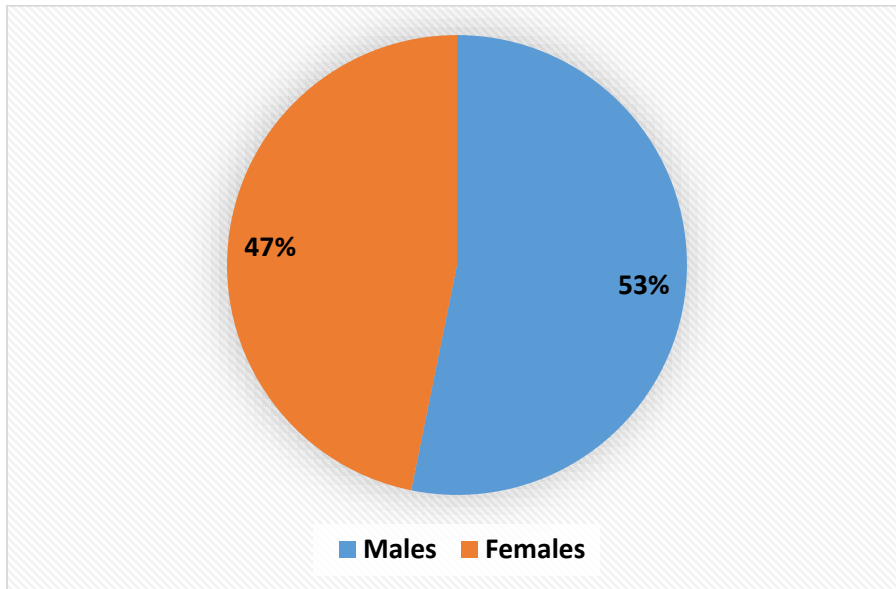


Figure 4. 1: Gender of respondents

Source: Primary data

The results in Figure show that of the 47 respondents who participated, 53% were males and 47% were females. The results show that both genders participated in the research and results of the research are therefore unbiased to any gender. They reveal views and experience of both sexes.

4.4.2 Age of respondents

The researcher asked respondents to show their ages. Figure 4.2 presents the results.

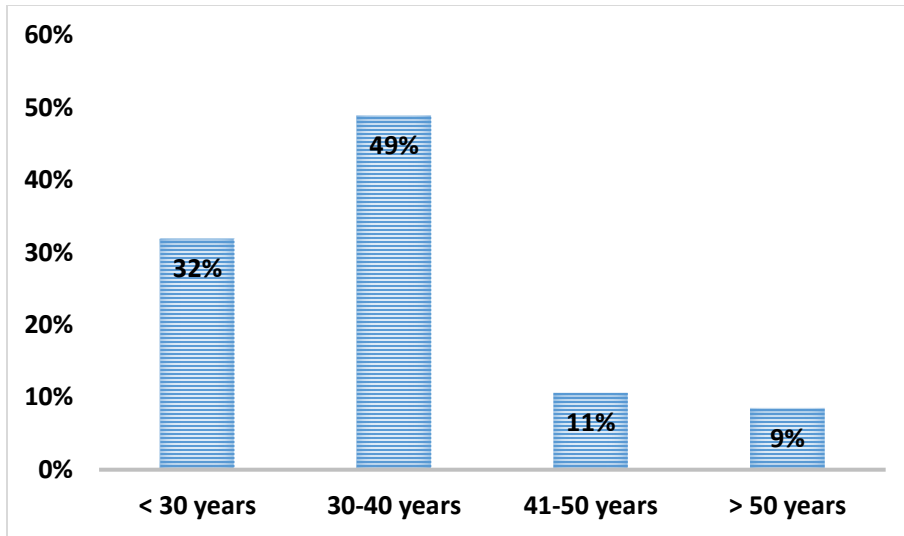


Figure 4. 2: Age of respondents

Source: Primary data

The results in Figure 4.2 show that 32% of the respondents had below 30 years, 49% of the respondents had 30 to 40 years, 11% of the respondents had 41 to 50 years and 9% had above 50 years. The results show that the research findings were contributed by people of all ages. Data for ages is normally distributed.

4.4.3 Educational qualifications of respondents

The respondents' educational qualifications are presented in Figure 4.3. These are meant to indicate how educated respondents were as is directly related to the extent the respondents understood the research phenomenon.

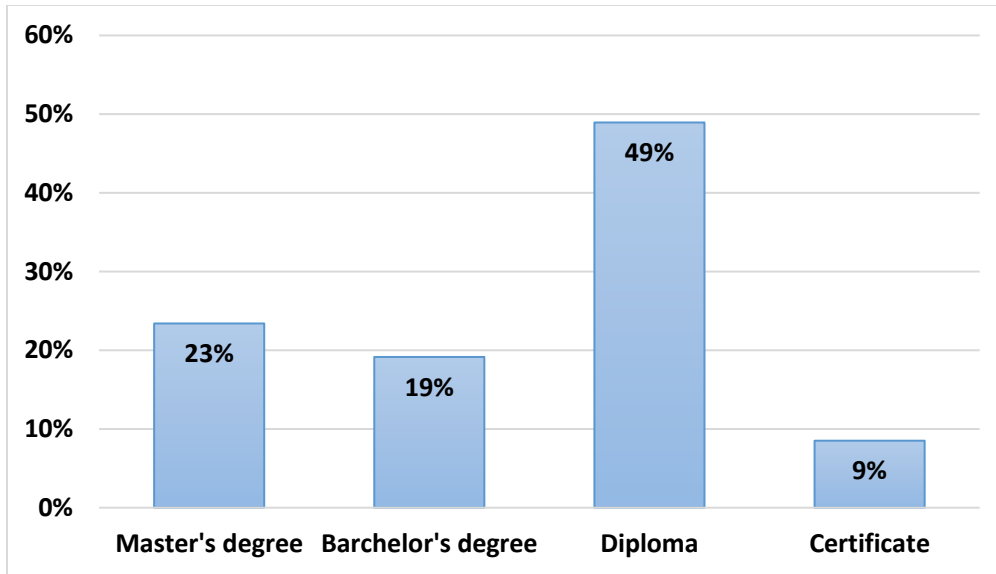


Figure 4. 3: Educational qualifications of respondents

Source: Primary data

Figure 4.3 shows that majority of respondents (49%) had Diplomas. Respondents with master’s degrees constituted 23% of the respondents. Respondents with bachelor’s degrees were 19% of the respondents. 9% had certificates. Respondents had reasonable qualifications that make them eligible for the research and able to understand the research questions and mentally concur with the researcher in accomplishing the research objectives.

4.4.4 Experience of respondents

Respondents indicate the number of years they have had served in their respective companies and professions. Experience was meant to measure the extent to which respondents have observed the operations of the central bank and their impact on economic performance.

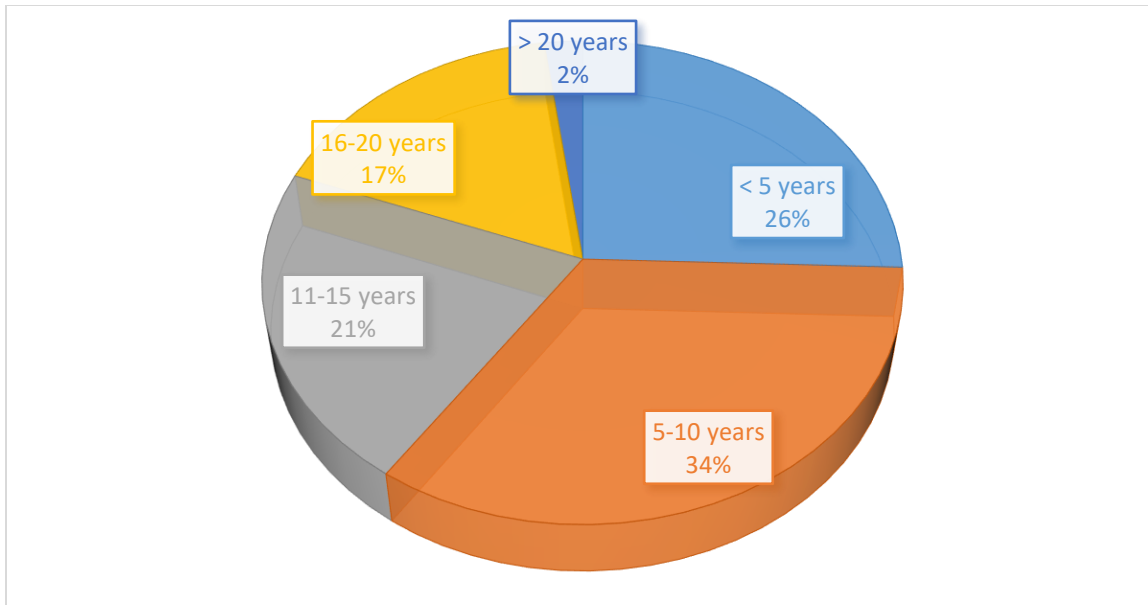


Figure 4. 4: Experience of respondents

Source: Primary data

Results in Figure 4.4 show that majority of respondents (34%) had 5-10 years. 26% had less than 5 years. 21% of the respondents had 11-15 years, 17% of the respondents had 16-20 years and 2% had above 20 years. The level of experience of respondents indicates that respondents had observed the policies and central bank reformations. Therefore, the research findings are regarded as reliable for use by different stakeholders.

4.5 Research findings

The research findings are presented in form of descriptive statistics and principal component factor analysis results. Frequency scores are used to establish the position with respect to a given position. For principal factor analysis, Eigenvalues greater than 1 are regarded as acceptable to confirm the strength of a given position.

4.5.1 Effectiveness of central banking policies

Respondents were asked questions meant to unveil the effectiveness of central banking policies. The research questions were directly linked to the roles and responsibilities of central bank, the RBZ, in its mandate to monitor and regulate economic development in a country.

Table 4. 3: Effectiveness of central banking policies

| Statement | SD | D | N | A | SA | Position |
|---|----|----|----|----|----|-------------|
| RBZ is issuing currency that suffices the national development goals in Zimbabwe | 17 | 16 | 9 | 5 | 0 | Disagreeing |
| RBZ is acting as a banker, agent and advisor to the government fairly well | 18 | 13 | 11 | 4 | 1 | Disagreeing |
| RBZ is servicing public debt, local and international, fairly smoothly | 17 | 17 | 8 | 5 | 0 | Disagreeing |
| RBZ is providing good leadership in the banking sector | 6 | 7 | 5 | 15 | 14 | Agreeing |
| The cash reserves held with the Central bank are easily drawn by respective banks to meet their customer's cash demands | 10 | 5 | 4 | 16 | 12 | Agreeing |
| RBZ uses the foreign currency reserves and gold reserves to control exchange rates for national interest fairly well | 10 | 5 | 3 | 20 | 9 | Agreeing |
| RBZ competently used reserves to control balance of payment positions in this country in the period 2009-2015. | 7 | 6 | 5 | 17 | 12 | Agreeing |
| Allocation of foreign currency by RBZ has been prioritized to the most important sectors in the country for the period 2009-2019. | 6 | 4 | 5 | 22 | 10 | Agreeing |
| The RBZ performs the lender of last resort function quite well in this country | 9 | 5 | 5 | 17 | 11 | Agreeing |
| RBZ successfully used its measures, such as control of credit, to stabilize inflation in the country over the period 2006-2008. | 19 | 4 | 6 | 10 | 8 | Disagreeing |
| RBZ acts as a clearing house quite smoothly and conveniently in the economy, such as clearing RTGS transactions | 13 | 17 | 4 | 8 | 5 | Disagreeing |
| In my view, RBZ's current policies are effective in creating a sound financial system and attaining economic growth in Zimbabwe | 22 | 19 | 4 | 2 | 0 | Disagreeing |

Results in Table 4.3 show that respondents agreed that the RBZ is providing good leadership in the banking sector. Cash reserves held with the Central bank are easily drawn by respective banks to meet their customer's cash demands. The RBZ uses the foreign currency reserves and gold reserves to control exchange rates for national interest fairly well. The RBZ competently used reserves to control balance of payment positions in this country in the period 2009-2015. Allocation of foreign currency by the RBZ has been prioritized to the most important sectors in the country for the period 2009-2019. The RBZ performs the lender of last resort function quite well in this country.

The findings here agree with the findings of Beck, Demirguc-Kunt and Levine (2016) and Davies and Green (2015) who on their lists of the roles of the central bank pointed all the above roles undertaken by the RBZ and states that the modern central banks are responsible for a variety of promotional functions regarded in the past as outside the normal purview of central banking. This shows that RBZ is undertaking some responsibilities that are universally agreed to be done by central banks.

On the other hand, respondents disagreed that the RBZ is issuing currency that suffices the national development goals in Zimbabwe. They disagreed that RBZ is acting as a banker, agent and advisor to the government fairly well and that RBZ is servicing public debt, local and international, fairly smoothly. Respondents disagreed that RBZ successfully used its measures, such as control of credit, to stabilize inflation in the country over the period 2006-2008. Respondents disagreed that RBZ acts as a clearing house quite smoothly and conveniently in the economy, such as clearing RTGS transactions. RBZ's current policies are effective in creating a sound financial system and attaining economic growth in Zimbabwe.

In contrast, Gwartney, Lawson and Gartzke (2015), Peek, Rosengren and Tootell (2009) and Beck, Demirguc-Kunt and Levine (2016) stipulate that the roles of the central bank covers all issues to do with money and transactions in an economy. They further stated that in modern banking, the central bank is responsible for maintaining of economic stability and overseeing developmental and promotional functions. In light of this, it is clear that RBZ is failing to execute all its expected tasks that it are supposed to be executed by a central bank.

4.5.1.1 Factor analysis of the central banking policies

The researcher ran principal component analysis of research questions targeted at unveiling the role the RBZ has been effective at. The components were organised in order 1 to 6 as follows:

- (1) The RBZ is issuing currency that suffices the national development goals in Zimbabwe;
- (2) The RBZ is acting as a banker, agent and advisor to the government fairly well;
- (3) The RBZ is servicing public debt, local and international, fairly smoothly;
- (4) The RBZ is providing good leadership in the banking sector;
- (5) The cash reserves held with the Central bank are easily drawn by respective banks to meet their customer's cash demands;
- (6) The RBZ uses the foreign currency reserves and gold reserves to control exchange rates for national interest fairly well;
- (7) The RBZ competently used reserves to manage balance of payment positions in this country in the period 2009-2015;
- (8) Allocation of foreign currency by the RBZ has been prioritised to the most important sectors in the country for the period 2009-2019;
- (9) The RBZ performs the lender of last resort function quite well in this country;
- (10) The RBZ successfully used its measures, such as control of credit, to stabilise inflation in the country over the period 2006-2008;
- (11) The RBZ acts as a clearing house quite smoothly and conveniently in the economy, such as clearing RTGS transactions and
- (12) The RBZ's current policies are effective in creating a sound financial system and attaining economic growth in Zimbabwe.

The Eigenvalues are presented in Table 4.4 presented below.

Table 4. 4: Factor analysis results: effectiveness of central banking policies

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 6.123 | 51.028 | 51.028 | 6.123 | 51.028 | 51.028 |
| 2 | 3.405 | 28.375 | 79.403 | 3.405 | 28.375 | 79.403 |
| 3 | .794 | 6.614 | 86.017 | | | |
| 4 | .624 | 5.199 | 91.216 | | | |
| 5 | .295 | 2.458 | 93.674 | | | |
| 6 | .243 | 2.021 | 95.695 | | | |
| 7 | .201 | 1.676 | 97.371 | | | |
| 8 | .107 | .894 | 98.264 | | | |
| 9 | .096 | .803 | 99.068 | | | |
| 10 | .054 | .453 | 99.521 | | | |
| 11 | .035 | .295 | 99.816 | | | |
| 12 | .022 | .184 | 100.000 | | | |

Extraction Method: Principal Component Analysis.

Table 4.4 indicates that of the 12 components to reflect the effectiveness of central bank policies questioned, the first and the second components (RBZ is issuing currency that suffices the national development goals in Zimbabwe and RBZ is acting as a banker, agent and advisor to the government fairly well) have Eigenvalues greater than 1 (Eigenvalue = 6.123 and Eigenvalue = 3.405 respectively). According to Harkiolakis (2020) in principal component factor analysis is, components with Eigenvalues greater than 1 reflect high influence on the underlying variable studied. Therefore, it can be confirmed that of all the research questions towards unveiling the effectiveness of central bank policies, failure to issue currency and to act as a banker, agent and advisor to the government by the RBZ has highly compromised the effectiveness of central banking role in Zimbabwe. The finding contradicts with the findings of Goodhart (2010) who states that central banks everywhere act as the banker, fiscal agent and adviser on all important financial matters to the government.

4.5.2 Contribution of RBZ’s policy measures towards macroeconomic variables

In this section, the frequency scores were generated from Likert scale that stretched from low contribution to high contribution. The last column on the table indicates the overall position aggregating responses on each category: No Contribution (NC), Low Contribution (LC), Neither High nor Low (NHL), Medium Contribution (MC) and High (HC).

Table 4. 5: Contribution of RBZ’s policy measures towards macroeconomic variables

| Statement | NC | LC | NHL | MC | HC | Position |
|-------------------------------------|----|----|-----|----|----|-----------------|
| Hyperinflation | 1 | 5 | 2 | 19 | 20 | Contribution |
| Currency collapse (2008) | 16 | 1 | 16 | 4 | 10 | Contribution |
| Money growth (2005-2008; 2012-2019) | 1 | 3 | 10 | 17 | 16 | Contribution |
| Economic stability (2009-2015) | 6 | 6 | 4 | 11 | 20 | Contribution |
| Low inflation rate (2009-2016) | 15 | 6 | 4 | 14 | 8 | Contribution |
| Currency instability (2018-2020) | 9 | 15 | 1 | 14 | 8 | No Contribution |

Results in Table 4.5 show that respondents indicate that RBZ policy measures have contributed towards hyperinflation, currency collapse (2008), money growth (2005-2008; 2012-2019), economic stability (2009-2015) and low inflation rate (2009-2016). Currency instability in the years 2018-2020 are a result of other factors besides the policy measures instituted by the RBZ. This means that RBZ’s policy measures have significant contribution towards macroeconomic variables in the country such that they should be effectively managed to promote macroeconomic stability. In the findings of Laeven and Valencia (2010), it has been rightfully said that the central bank has a significant contribution toward an economic growth process and economic stability. This therefore indicate that the central bank has fundamental roles and responsibilities that directly feed into the macroeconomic stability in any economy.

4.5.2.1 Factor analysis of the contribution of RBZ's policy measures towards macroeconomic variables

The researcher ran principal component analysis of the macroeconomic variables that were most influenced by the RBZ's policy measures. The researcher wanted to establish the most affected macroeconomic variables by the RBZ's policy measures. The components (macroeconomic variables) were organised in order 1 to 6 as follows:

- (1) Hyperinflation,
- (2) Currency collapse (2008),
- (3) Money growth (2005-2008; 2012-2019),
- (4) Economic stability (2009-2015),
- (5) Low inflation rate (2009-2016) and
- (6) Currency instability (2018-2020).

The Eigenvalues are presented in Table 4.6 presented below.

Table 4. 6: Factor analysis results of RBZ policy measures' contribution towards macroeconomic variables

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 1.921 | 32.009 | 32.009 | 1.921 | 32.009 | 32.009 |
| 2 | 1.685 | 28.079 | 60.088 | 1.685 | 28.079 | 60.088 |
| 3 | 1.095 | 18.252 | 78.340 | 1.095 | 18.252 | 78.340 |
| 4 | .613 | 10.223 | 88.563 | | | |
| 5 | .580 | 9.665 | 98.227 | | | |
| 6 | .106 | 1.773 | 100.000 | | | |

Extraction Method: Principal Component Analysis.

Table 4.4 indicates that, of the 6 macroeconomic variables, RBZ policy measures mostly influenced the first three components (1) Hyperinflation, (2) Currency collapse (2008), (3) Money growth (2005-2008; 2012-2019). These have Eigenvalues greater than 1 (Eigenvalue = 1.921, 1.685 and 1.095 respectively). Therefore, it can be confirmed that of the 6 macroeconomic variables, RBZ policy measures have mostly influenced hyperinflation, currency collapse and money growth. The findings of Muponda (2015), Koetter, Roszbach and Spagnolo (2014), Goodhart (2010) and Buiters (2011) show that the contributions of central bank policies are targeted at economic development which is a function of inflation, value of money, growth of money in circulation, currency stability and the general economic stability.

4.5.3 Strategies to improve Reserve Bank of Zimbabwe operations

To establish the appropriate strategies necessary to improve Reserve Bank of Zimbabwe operations, the statistics presented here were generated from Likert scale that stretched from strongly disagree to strongly agree. Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), Strongly Agree (SA).

Table 4. 7: Strategies to improve Reserve Bank of Zimbabwe operations

| Statement | SD | D | N | A | SA | Position |
|--|----|----|----|----|----|-------------|
| Seeking and implementing the IMF's advice and support might help RBZ extricate Zimbabwe's economy from its current status, as was the case with the countries affected by the Asian crisis | 12 | 1 | 6 | 16 | 12 | Agreeing |
| As was the case with Slovenia, allowing the RBZ to be more independent helps it perform its duties more efficiently | 1 | 1 | 3 | 24 | 18 | Agreeing |
| Borrowing from the United Kingdom, RBZ can practice inflation targeting in its bid to control the level of inflation in the country | 9 | 14 | 10 | 12 | 2 | Disagreeing |
| Borrowing from Cyprus, strictness in the use of Credit bureau in the financial | 1 | 3 | 6 | 21 | 16 | Agreeing |

| | | | | | | |
|--|----|---|---|----|----|----------|
| system may help reduce the non-performing loans in Zimbabwe | | | | | | |
| Borrowing from Thailand, RBZ may require that proceeds from all exports be deposited with local banks within a short period of time and be repatriated after longer periods | 10 | 4 | 9 | 19 | 5 | Agreeing |
| RBZ can consider merging some of the financial institutions that fail to meet minimum capital requirements, borrowing from Thailand, Indonesia and South Korea during the Asian crisis | 1 | 3 | 3 | 24 | 16 | Agreeing |
| To reduce non-performing loans, RBZ can restructure the financial system and loans, as was done by the countries that faced the Asian crisis | 10 | 3 | 2 | 21 | 11 | Agreeing |

Results in Table 4.7 show that respondents agreed with the following as strategies to improve Reserve Bank of Zimbabwe operations: seeking and implementing the IMF's advice and support might help the RBZ extricate Zimbabwe's economy from its current status. In a research by Nhavira, Mudzonga and Mugocho (2013), in the Asian crisis, central banks in Asia resorted to seeking and implementing the IMF's advice as well as restructuring their financial systems and loans. These strategies worked to stabilize several Asian economies (Lombardi and Siklos, 2016).

Respondents also agreed that as was the case with Slovenia, the RBZ needs to be independent for it to perform its duties more efficiently; borrowing from Cyprus, strictness in the use of Credit bureau in the financial system may help reduce the non-performing loans in Zimbabwe and RBZ can consider merging some of the financial institutions that fail to meet minimum capital requirements, borrowing from Thailand, Indonesia and South Korea during the Asian crisis. Nier, Osiński, Jácome and Madrid, (2011) and Head, (2008) also indicate that independence of the central bank is highly important for the central bank to efficiently operate.

However, respondents disagreed that the RBZ can practice inflation targeting in its bid to control the level of inflation in the country borrowing from the United Kingdom as a strategy to improve its operations. In contrast, Assenmacher-Wasche (2006) concludes that inflation targeting can be a strategy to manage inflation.

4.5.3.1 Factor analysis of the strategies to improve Reserve Bank of Zimbabwe operations

The researcher ran principal component analysis of the strategies to improve Reserve Bank of Zimbabwe operations. The researcher wanted to establish the most influential strategies that can affect Reserve Bank of Zimbabwe operations. The components (strategies) were organised in order 1 to 7 as follows:

- (1) Seeking and implementing the IMF's advice and support might help RBZ extricate Zimbabwe's economy from its current status, as was the case with the countries affected by the Asian crisis,
- (2) As was the case with Slovenia, allowing the RBZ to be independent helps it perform its duties more efficiently,
- (3) Borrowing from the United Kingdom, RBZ can practise inflation targeting in its bid to control the level of inflation in the country,
- (4) Borrowing from Cyprus, strictness in the use of Credit bureaux in the financial system may help reduce the non-performing loans in Zimbabwe,
- (5) Borrowing from Thailand, RBZ may require that proceeds from all exports be deposited with local banks within a short period of time and be repatriated after longer periods,
- (6) RBZ can consider merging some of the financial institutions that fail to meet minimum capital requirements, borrowing from Thailand, Indonesia and South Korea during the Asian crisis; and
- (7) To reduce non-performing loans, RBZ can restructure the financial system and loans, as was done by the countries that faced the Asian crisis.

The Eigenvalues are presented in Table 4.8 presented below.

Table 4. 8: Factor analysis results of the strategies to improve Reserve Bank of Zimbabwe operations

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 3.650 | 52.148 | 52.148 | 3.650 | 52.148 | 52.148 |
| 2 | 1.372 | 19.600 | 71.748 | 1.372 | 19.600 | 71.748 |
| 3 | .923 | 13.182 | 84.930 | | | |
| 4 | .552 | 7.889 | 92.819 | | | |
| 5 | .261 | 3.724 | 96.543 | | | |
| 6 | .177 | 2.523 | 99.066 | | | |
| 7 | .065 | .934 | 100.000 | | | |

Extraction Method: Principal Component Analysis.

Table 4.8 indicate that, of the 7 strategies, the strategies that have the capacity to significantly improve the operations of RBZ, seeking and implementing the IMF’s advice and support might help RBZ extricate Zimbabwe’s economy from its current status, as was the case with the countries affected by the Asian crisis and allowing the RBZ to be more independent helps it perform its duties more efficiently like what happened in Slovenia. These strategies have Eigenvalues greater than 1 (Eigenvalue = 3.650 and 1.372 respectively). Therefore, it can be confirmed that of the 7 strategies, RBZ operations can best be improved if the central bank is afforded with independence in its operations and if it seeks and implements IMF’s advices. In the findings of Cukierman (2012a), (2012b) and Lohmann (2012) it was also established that ensuring the central bank independence is one of the means by which a government can strengthen stability of macroeconomic fundamentals of its economy.

4.5.4 Challenges faced by the Reserve Bank of Zimbabwe

To establish the challenges faced by the Reserve Bank of Zimbabwe, the frequency scores presented were generated from Likert scale that stretched from strongly disagree to strongly agree.

Table 4. 9: Challenges faced by the Reserve Bank of Zimbabwe

| Statement | SD | D | N | A | SA | Agreeing | Disagreeing | Position |
|--|----|----|---|----|----|----------|-------------|-------------|
| RBZ is currently independent in its operations. It is not influenced by other parties outside those specified in the laws governing its operations | 31 | 10 | 4 | 0 | 2 | 2 | 41 | Disagreeing |
| RBZ currently plays the lender of last resort as it has the capacity to print the currency | 11 | 4 | 4 | 13 | 15 | 28 | 15 | Agreeing |
| RBZ is in a position to play the lender of last resort as it has the capacity to access and supply sufficient foreign currency | 22 | 18 | 4 | 3 | 0 | 3 | 40 | Disagreeing |

Results in Table 4.9 show that respondents disagreed that RBZ is currently independent in its operations. This means that the central bank is not independent and it is influenced by other parties outside those specified in the laws governing its operations. The results also indicate that the RBZ has no capacity to be the lender of last resort of foreign currency for it does not have the capacity to access and supply sufficient foreign currency. However, in other countries such as the US and Thailand, according to Mosser (2016) and (Head, 2008), central banks are wholly independent in their operations and they have access to foreign currency such that economic agents in these countries can access foreign currency from the central bank when they need cash.

Respondents agreed that RBZ currently plays the lender of last resort as it has the capacity to print the currency. This means that, RBZ can give economic agents the RTGS/Bond notes if they are in need since it is the one printing the bond notes. This is the same scenario in other countries such as the US and Thailand, where according to Mosser (2016) and (Head, 2008), central banks provide local currency to economic agents when they need cash and if they fail to get the amount they require from local commercial banks. This is also the same situation in Korea that the central bank

plays the duty of the lender of last resort to economic agents such as commercial banks according to Head (2010).

4.5.4.1 Factor analysis of the challenges faced by the Reserve Bank of Zimbabwe

The researcher ran principal component analysis of the challenges faced by the Reserve Bank of Zimbabwe. The researcher wanted to establish the most influential challenging factor to the operations of the Reserve Bank of Zimbabwe. The components (challenges) were organised in order 1 to 3 as follows:

- (1) RBZ is currently independent in its operations. It is not influenced by other parties outside those specified in the laws governing its operations;
- (2) RBZ currently plays the lender of last resort as it has the capacity to print the currency; and (3) RBZ is in a position to play the lender of last resort as it has the capacity to access and supply sufficient foreign currency.

The Eigenvalues are presented in Table 4.10 presented below.

Table 4. 10: Factor analysis results of the challenges faced by the Reserve Bank of Zimbabwe

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 1.534 | 51.139 | 51.139 | 1.534 | 51.139 | 51.139 |
| 2 | .921 | 30.710 | 81.849 | | | |
| 3 | .545 | 18.151 | 100.000 | | | |

Extraction Method: Principal Component Analysis.

Table 4.10 indicates that, of the 3 challenges, the issue on independence of central bank seems to have significant influence on the operations of RBZ. It is noted that RBZ has no independence in its operations. It is influenced by other parties outside those specified in the laws governing its operations. These challenges have Eigenvalue greater than 1 (Eigenvalue = 1.534). Therefore, it can be confirmed that of the 3 challenges, RBZ operations are mostly challenged by the lack of

independence. According to Nhavira (2015) when the central bank is not independent, it hardly manages to attain integrity and professionalism in its operations.

4.6 Analysis of the research proposition

The research has proposed that if the central bank in Zimbabwe effectively executes its role, it can be able to stabilize the nation's currency, improve financial market liquidity and improve economic growth. The economic pressures in the economy are not felt if the central bank is effective in executing its role. For the analysis of the findings, it has come out clear that the RBZ needs to be independent for it to perform its duties more efficiently; borrowing from Cyprus, strictness in the use of Credit bureau in the financial system may help reduce the non-performing loans in Zimbabwe and RBZ can consider merging some of the financial institutions that fail to meet minimum capital requirements, borrowing from Thailand, Indonesia and South Korea during the Asian crisis. It has also come out clear that for Reserve Bank of Zimbabwe to improve its operations, the central bank needs to seek and implement the IMF's advice and support to extricate Zimbabwe's economy from its current status.

4.7 Chapter summary

The research objectives have been successfully accomplished. About the current roles of the RBZ, the research established that RBZ is providing good leadership in the banking sector. It has been allocating foreign currency to the most important sectors in the country for the period 2009-2019. About contribution of the different policies of the RBZ, the policies have mostly influenced hyperinflation, currency collapse and money growth. The research established that the most challenging factor to the central bank is lack of independence in its operations, and this needs to be rightfully addressed. The next chapter presents the summary, conclusions and recommendations to the central bank and future researchers.

CHAPTER FIVE

DISCUSSION, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

Chapter 5 which is the final chapter of the research presents the discussion, recommendations and conclusion. The discussion gives the overview of the research findings and the views of past researchers. The recommendations are given to the central bank and the government and all financial and monetary regulators in the country. The conclusions are put to the research objectives to put a closure to the intentions of the research study. The conclusion also shows the extent to which the research objectives were accomplished and show areas of research where the researcher has not been very successful or where the research has established research gaps.

5.2 Discussion of findings

The research found out that RBZ is providing good leadership in the banking sector. Cash reserves held with the Central bank are easily drawn by respective banks to meet their customer's cash demands. RBZ uses the foreign currency reserves and gold reserves to manage exchange rates for national interest fairly well. RBZ competently used reserves to control balance of payment positions in this country in the period 2009-2015. Allocation of foreign currency by RBZ has been prioritized to the most important sectors in the country for the period 2009-2019. The RBZ performs the lender of last resort function quite well in this country. The findings here agree with the findings of Beck, Demirguc-Kunt and Levine (2016) and Davies and Green (2015) who on their lists of the roles of the central bank pointed all the above roles undertaken by the RBZ and states that the modern central banks are responsible for a variety of promotional functions regarded in the past as outside the normal purview of central banking. This shows that RBZ is undertaking some responsibilities that are universally agreed to be done by central banks.

The failure by the central bank to issue currency (Eigenvalue = 6.123) and to act as a banker, agent and advisor to the government by the RBZ has compromised the effectiveness of central banking role in Zimbabwe (Eigenvalue = 3.405). In contrast, Gwartney, Lawson and Gartzke (2015), Peek,

Rosengren and Tootell (2009) and Beck, Demirguc-Kunt and Levine (2016) stipulate that the roles of the central bank covers all issues to do with money and transactions in an economy. They further stated that in modern banking, the central bank is responsible for maintaining of economic stability and overseeing developmental and promotional functions. In light of this, it is clear that RBZ is failing to execute all its expected tasks that it is supposed to execute.

The research established that RBZ policy measures have contributed towards hyperinflation, currency collapse (2008), money growth (2005-2008; 2012-2019), economic stability (2009-2015) and low inflation rate (2009-2016). Currency instability in the years 2018-2020 are a result of other factors besides the policy measures instituted by the RBZ. This means that RBZ's policy measures have significant contribution towards macroeconomic variables in the country such that they should be effectively managed to promote macroeconomic stability. RBZ policy measures have mostly influenced the first three components hyperinflation (Eigenvalue = 1.921), currency collapse (2008) (Eigenvalue = 1.685) and money growth (2005-2008; 2012-2019) (Eigenvalue = 1.095). In the findings of Laeven and Valencia (2010), it has been rightfully said that the central bank has a significant contribution toward an economic growth process and economic stability. This therefore indicate that the central bank has fundamental roles and responsibilities that directly feed into the macroeconomic stability in any economy.

The research established that RBZ needs to seek and implement IMF's advices and support to extricate Zimbabwe's economy from its current status, as was the case with the countries affected by the Asian crisis, borrowing from Thailand, RBZ require that proceeds from all exports be deposited with local banks within a short period of time and be repatriated after longer periods; to reduce non-performing loans, RBZ can restructure the financial system and loans, as was done by the countries that faced the Asian crisis. The strategies that have the capacity to significantly improve the operations of RBZ have been established to be seeking and implementing the IMF's advice as was the case with the countries affected by the Asian crisis (Eigenvalue = 3.650) and allowing the RBZ to be more independent helps it perform its duties more efficiently like what happened in Slovenia (Eigenvalue = 1.372). In a research by Nhavira, Mudzonga and Mugochoa (2013), in the Asian crisis, central banks in Asia resorted to seeking and implementing the IMF's advice as well as restructuring their financial systems and loans. These strategies worked to

stabilize several Asian economies (Lombardi and Siklos, 2016). Nier, Osiński, Jácome and Madrid, (2011) and Head, (2008) also indicate that independence of the central bank is highly important for the central bank to efficiently operate. In contrast, Assenmacher-Wasche (2006) concludes that inflation targeting can be a strategy to manage inflation.

The study found out that RBZ is not independent and it is influenced by other parties outside those specified in the laws governing its operations. Lack of independence of central bank have significant influence on the operations of RBZ (Eigenvalue = 1.534). However, in other countries such as the US and Thailand, according to Mosser (2016) and (Head, 2008), central banks are wholly independent in their operations and they have access to foreign currency such that economic agents in these countries can access foreign currency from the central bank when they need cash.

5.3 Recommendations

Basing on the findings that the RBZ has not been doing enough to curb the economic crisis and hence it has not been effective to a larger extent the researcher recommends that for RBZ to be effective, they have to issue currency that suffices the national development goal in Zimbabwe for example the vision 2030 of becoming a middle-income economy by the year 2030. Also, flexible issuing terms for public debt should be put in place in the best interests of the general public in mind.

The balance of payment should be balanced by encouraging balance of the import and exports in the country. The researcher also recommends that RBZ work in the best interests of the economic growth in Zimbabwe by coming up with economic policies that govern the allocation of the foreign currency in all sectors. The national budget should incorporate the allocation mechanism that promotes prioritisation of sectors that contribute mostly to economic growth.

It is also recommended that in order to create sound financial system, the RBZ has to create a culture of value systems such as transparency, integrity and accountability as it is its responsibility to create sound financial system as given by Langa, (2017) and Mhlanga (2015) who are of the

view that the central bank is responsible for the control of credit and stabilization of business condition in the country.

In line with the conclusion that the RBZ has been facing challenges in its implementation of the economic growth policies; it is recommended that they adopt participative administration of their operations and reduce the bureaucracy so that they become an independent body. The participative style allows for innovation which then translates into efficiency in promoting economic growth policies.

Also, it is recommended that RBZ consults other international economies and the IMF as to how their central banks curb these types of challenges and hence they have enough knowledge to become the lender of last resort and hence be able to play this role well. Furthermore, the RBZ should manage its payments of debts to the international communities so that they can get access to foreign currency reserves given any need.

More so, in line with the conclusion about the strategies that can help RBZ survive the challenges they are facing in the implementation of economic growth policies; the researcher recommends that the RBZ should ensure that they attend the workshops that are hosted by IMF so that they implement the best strategies. Also, politics should not intervene in the operations of the central bank so that relations with the international community are well preserved and hence avoid the risk of economic sanctions by powerful countries.

Frequent policy reviews should be put in place so as to always match the changes in the environment and those in business operations. Policies can be formulated to operate within five years but they have to be reviewed to see to it if they are still applicable in the current economic situation of the country. This way the RBZ will be able to overcome the challenges in the implementation of economic growth policies.

5.4 Conclusion

The research established that the Reserve Bank of Zimbabwe provides good leadership in the banking sector and it has prioritized the most important sectors in terms of allocation of foreign

currency over the country for the period 2009-2019. The failure by the central bank to issue currency and to act as a banker, agent and advisor to the government by the RBZ has highly compromised the effectiveness of central banking role in Zimbabwe. Therefore, the research concludes that the Reserve Bank of Zimbabwe is executing its role to a limited extent.

The research found out that Reserve Bank of Zimbabwe policy measures highly contributed towards hyperinflation, money growth in the years between 2005 and 2008 and between 2012 and 2019 and economic stability in the years between 2009 and 2015. RBZ policy measures are concluded to have influenced hyperinflation, currency collapse (2008) and money growth. In light of this, the research concludes that the Reserve Bank of Zimbabwe's policies have influenced macroeconomic trends in the past 15 years.

The research established that it is critical for RBZ to be independent for it to perform its duties efficiently. The research also concludes that the use of Credit bureaux in the financial system can help reduce the non-performing loans in Zimbabwe. The RBZ can merge financial institutions that fail to meet minimum capital requirements. The strategies that have the capacity to significantly improve the operations of RBZ are to seek and implement the IMF's advice and allow the RBZ to be more independent for it to perform its duties more efficiently. The research therefore concludes that the RBZ should have independence and seek advice from the IMF for it to be able to effectively address macroeconomic crisis in Zimbabwe.

The research found out that RBZ is challenged with lack of independence in its operations. From the findings of the research in line with the challenges faced by the RBZ, the research concludes that the most problematic issue to the operations of the RBZ is lack of independence.

The researcher concludes that the research objectives were successfully accomplished. In the process of research study and data analysis, the researcher established that the research has used a scatter gun approach to the challenges that the central bank face and the strategies that the central bank can use as means to deal with macroeconomic crisis. Through factor analysis, the researcher has been able to reduce the number and rank strategies that can be implemented by the central bank to deal with macroeconomic crisis. The researcher has also been able to reduce the number of challenges and rank them.

Future researchers are recommended to focus on seeking and implementing IMF's advice and allowing the RBZ to be more independent as it performs its duties more efficiently as the major strategies that can help the country out of macroeconomic crisis. They can conduct in-depth researches that can come up with best approaches that can be used by the Reserve Bank of Zimbabwe to get the economy out of crisis. About independence of the central bank, future researchers can dig deep into unveiling the issues surrounding independence of the central bank and find ways that can be used to enhance independence of the central bank.

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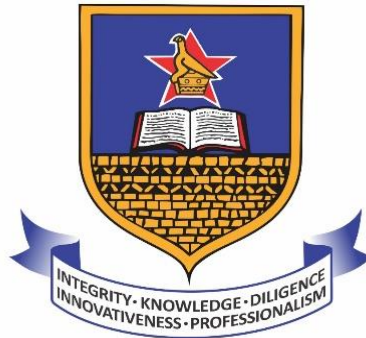
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APPENDICES



UNIVERSITY OF ZIMBABWE

Appendix 1. 1: Survey research questionnaire

Dear Respondent

My name is Yvonne Chinzou [Student Number: R1810253], a student studying at the University of Zimbabwe towards Master of Business Administration. As partial fulfilment of my studies, I am conducting a research study titled '**Central Banking in a distressed economy: enhancing the role and responsibilities of the Reserve Bank of Zimbabwe.**'

I am kindly asking for your assistance by way of completing this questionnaire to make this project a success. Please note that the views that you provide shall be used for academic purposes and shall be treated with strict confidentiality. Should you require further information please contact me on my mobile: +263773446860

Instructions/Information

1. Please respond by ticking [] the appropriate box (es) where applicable.
2. There is no right nor wrong answers, kindly provide answers for all questions.
3. Completion of this research questionnaire is a wilful act that is not done in anticipation of receiving any thanksgiving.

Section A: Demographic and background information of respondents

A1. Gender

| | |
|--------|--|
| Male | |
| Female | |

A2. Age

| | |
|--------------------|--|
| Less than 30 years | |
| 30-40 years | |
| 41-50 years | |
| More than 50 years | |

A3. Indicate your highest academic level of education

| | |
|-------------------|--|
| Master's degree | |
| Bachelor's degree | |
| Diploma | |
| Certificate | |
| Other | |

A4. Indicate your experience in terms of the number of years you have worked in your profession?

| | |
|--------------------|--|
| Less than 5 years | |
| 5-10 years | |
| 11-15 years | |
| 16-20 years | |
| More than 20 years | |

Section B: Effectiveness of Central Banking policies

Show your level of agreement or disagreement with each of the following statements on the effectiveness of Reserve Bank of Zimbabwe in executing its central banking functions. Use the given key. **Key:** 1 – Strongly Disagree 2 – Disagree 3 – Neutral 4 – Agree 5 – Strongly Agree

| | Statement | 1 | 2 | 3 | 4 | 5 |
|------------|---|---|---|---|---|---|
| B1 | RBZ is issuing currency that suffices the national development goals in Zimbabwe | | | | | |
| B2 | RBZ is acting as a banker, agent and advisor to the government fairly well | | | | | |
| B3 | RBZ is servicing public debt, local and international, fairly smoothly | | | | | |
| B4 | RBZ is providing good leadership in the banking sector | | | | | |
| B5 | The cash reserves held with the Central bank are easily drawn by respective banks to meet their customer's cash demands | | | | | |
| B6 | RBZ uses the foreign currency reserves and gold reserves to control exchange rates for national interest fairly well | | | | | |
| B7 | RBZ competently used reserves to control balance of payment positions in this country in the period 2009-2015. | | | | | |
| B8 | Allocation of foreign currency by RBZ has been prioritised to the most important sectors in the country for the period 2009-2019. | | | | | |
| B9 | The RBZ performs the lender of last resort function quite well in this country | | | | | |
| B10 | RBZ successfully used its measures, such as control of credit, to stabilise inflation in the country over the period 2006-2008. | | | | | |
| B11 | RBZ acts as a clearing house quite smoothly and conveniently in the economy, such as clearing RTGS transactions | | | | | |
| B12 | In my view, RBZ's current policies are effective in creating a sound financial system and attaining economic growth in Zimbabwe | | | | | |

Section C: Contribution of RBZ's policy measures towards macroeconomic variables

Rate the contribution of RBZ's policy interventions or measures in the following macroeconomic developments/ variables. **Key:** 1 – No Contribution (NC), 2 – Low Contribution (LC), 3 – Neither high nor low (NHL), 4 – Medium Contribution (MC), 5 – High (HC)

| | Statement | 1 | 2 | 3 | 4 | 5 |
|----|---|----------|----------|----------|----------|----------|
| C1 | Hyperinflation | | | | | |
| C2 | Currency collapse (2008) | | | | | |
| C3 | Excessive money growth (2005-2008; 2012-2019) | | | | | |
| C4 | Economic stability (2009-2015) | | | | | |
| C5 | Low inflation rate (2009-2016) | | | | | |
| C6 | Currency instability (2018-2020) | | | | | |

Section D: Strategies to improve Reserve Bank of Zimbabwe operations

Indicate your agreement or disagreement with each of the following statements on the possible strategies Reserve Bank of Zimbabwe might implement. These are borrowed from other economies that were once distressed. Use the given key. **Key: 1 – Strongly Disagree 2 – Disagree 3 – Neutral 4 – Agree 5 – Strongly Agree**

| | Statement | 1 | 2 | 3 | 4 | 5 |
|-----------|--|----------|----------|----------|----------|----------|
| D1 | Seeking and implementing the IMF's advice and support might help RBZ extricate Zimbabwe's economy from its current status, as was the case with the countries affected by the Asian crisis | | | | | |
| D2 | As was the case with Slovenia, allowing the RBZ to be more independent helps it perform its duties more efficiently | | | | | |
| D3 | Borrowing from the United Kingdom, RBZ can practise inflation targeting in its bid to control the level of inflation in the country | | | | | |
| D4 | Borrowing from Cyprus, strictness in the use of Credit bureaux in the financial system may help reduce the non-performing loans in Zimbabwe | | | | | |
| D5 | Borrowing from Thailand, RBZ may require that proceeds from all exports be deposited with local banks within a short period of time and be repatriated after longer periods | | | | | |
| D6 | RBZ can consider merging some of the financial institutions that fail to meet minimum capital requirements, borrowing from Thailand, Indonesia and South Korea during the Asian crisis | | | | | |

| | | | | | | |
|-----------|--|--|--|--|--|--|
| D7 | To reduce non-performing loans, RBZ can restructure the financial system and loans, as was done by the countries that faced the Asian crisis | | | | | |
|-----------|--|--|--|--|--|--|

Section E: Challenges faced by the Reserve Bank of Zimbabwe

Show your level of agreement or disagreement with each of the following statements on the possible challenges Reserve Bank of Zimbabwe might be facing. Use the given key. **Key: 1 – Strongly Disagree 2 – Disagree 3 – Neutral 4 – Agree 5 – Strongly Agree**

| | Statement | 1 | 2 | 3 | 4 | 5 |
|-----------|--|----------|----------|----------|----------|----------|
| E1 | RBZ is currently independent in its operations. It is not influenced by other parties outside those specified in the laws governing its operations | | | | | |
| E2 | RBZ currently plays the lender of last resort as it has the capacity to print the currency | | | | | |
| E3 | RBZ is in a position to play the lender of last resort as it has the capacity to access and supply sufficient foreign currency | | | | | |

E4. What other challenges are faced by RBZ in its operations and duties as the central bank in Zimbabwe under tough economic situations?

The End: Thank you for your participation

