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A dissertation submitted in partial fulfillment of the requirements for the degree of Master of Business Administration

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Graduate School of Management

University of Zimbabwe

Supervisor: Mr M. Chimwara
DECLARATION

I, BRIGHTON SIBANDA, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

Student’s Signature ________________   Date__________________

Supervisor’s Signature ________________   Date__________________
DEDICATION

I dedicate this dissertation work to my mother, Magret Sibanda, who passed on the love of reading and respect for education. She taught me that even the largest task can be accomplished if it is done one step at a time. Her words of encouragement and push for tenacity ring in my ears.
ACKNOWLEDGEMENTS

First and foremost, I would like to thank God Almighty for His grace and mercy that have seen me through this academic milestone.

My sincere gratitude also goes to my supervisor, Mr M. S. Chimwara, for the invaluable and priceless astute guidance, motivation, enthusiasm and immense knowledge. With the kind of patience he showed me, I could not have imagined having a better advisor and mentor for my dissertation.

Thirdly, a special thank you goes to all my CBZ Bank Limited workmates who took time off their busy schedules to comprehensively complete the questionnaires and attend the interviews.
ABSTRACT

The study evaluates the impact of inflation on banking sector performance in Zimbabwe. The research was a case study for CBZ Bank Limited for the period 2000 to 2012. The period was further split into a period of sustained inflation and hyperinflation (2000 – 2008) and a period of low and stable inflation (2009 - 2012).

Research participants were 55 employees drawn from the bank’s four regions. Stratified-random sampling method was used to choose the sampling units. Data were collected using questionnaires and structured interviews. The list of questions comprised of closed-ended questions, scale format questions and open-ended questions. Qualitative data were analysed using mainly Content Analysis.

Results show that there is a critical inflation threshold above which additional increases in inflation lead to adverse performance of the banking sector. At this point credit market frictions become binding, credit rationing intensifies and there is a discrete drop in financial sector performance and economic growth.

Adverse effects of inflation to the financial sector in Zimbabwe include and are not limited to the following: financial intermediation becomes more difficult when inflation rates are very high, flow of information about investment projects and returns that is used by intermediaries becomes more uncertain and less readily available, planning becomes very difficult for economic agents and returns on investments are rendered unpredictable. The proposition was validated and proven to be correct.

The financial regulatory authorities and the government are recommended to formulate policies that prevent inflation from gaining strength and/or mitigate against the adverse effects of inflation.
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List of Acronyms or Abbreviations

ABSA : Amalgamated Bank of South Africa
BCCI : Bank of Credit and Commerce International
BSD  : Banking Supervision Department
ESAP : Economic Structural Adjustment Programme
GDP  : Gross Domestic Product
GPA  : Global Political Environment
IMF  : International Monetary Fund
RBZ  : Reserve Bank of Zimbabwe
WB   : World Bank
ZIMPREST : Zimbabwe Programme of Economic Social Transformation
CHAPTER ONE
INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION
This dissertation investigates the impact of inflation in the banking sector, focusing mainly on the overview of inflationary trends and CBZ Bank Limited performance for the period 2000 - 2012. The period covered (2000 – 2012) includes nine years (2000 – 2008) of high and chronic inflation leading to hyperinflation and four years (2009 – 2012) of falling consumer prices and very low inflation. The researcher seeks to compare and contrast the extent to which inflation impacted on CBZ Bank Limited performance during these two periods. An analysis of the relationship between inflation and bank performance indicators which include profitability, total assets, market share, deposits, cost-to-income ratio, dividends per share growth, net operating income, net income growth and non-performing loan ratio will be explored. In this chapter the researcher will further highlight the background of the study, the problem statement, research questions and objectives, the study justification, scope of the research, literature review, the methodology and the data analysis techniques.

1.2 BACKGROUND

1.2.1 Background and Analysis of the Zimbabwean Economy
The Period 2000 – 2008

Historically, Zimbabwe has had agriculture, tourism and mining as the driving sectors of the economy (Anseeuw, Kapuya and Saruchera, 2012). The country boasts of mineral reserves of metallurgical-grade chromite, commercial mineral deposits of coal, asbestos, copper, nickel, gold, platinum and iron ore.

According to Dekker and Kinsey (2011), in 1997, three events occurred that set the stage for the crisis spanning more than a decade that was to follow. First, the government authorised huge un-budgeted pay-offs of above 5 billion Zimbabwe dollars for war veterans who sought a payback for their role in the liberation struggle. The pay-offs
sparked a run on the Zimbabwe dollar. Second, another factor which contributed to the economic crisis was military intervention in the Democratic Republic of the Congo (DRC) in mid-1998 to shore up the Kabila government. Third, toward the end of the year, the government finally moved to acquire vast tracts of land held by white commercial farmers. The combination of those three events led to the dramatic crash of the Zimbabwean, which lost more than 50 per cent of its value in November 1997. The budget deficit ballooned to above 10 per cent.

Between 2000 and December 2007, the national economy contracted by as much as 40% (Zimbabwe Fiscal Policy Statement, 2008), inflation spiraled to over 66 000% (Zimbabwe Monetary Policy Statement, 2012), and there were persistent and acute shortages of hard currency, fiat currency, fuel and medicine. Agricultural output dropped by 51% and industrial production dropped by 47%, food production fell by 45%, and manufacturing output fell by 29% in 2005, 26% in 2006 and 28% in 2007, and unemployment rose to 80%. In 1998, direct foreign investment was US $400 million and in 2007 it had fallen to US $30 million. Government spending at one point peaked at 97.8% of Gross Domestic Product (GDP), and was partly financed by printing money, which led to hyperinflation. As at the end of 2008 unemployment was pegged at 94% up from 80% in 2005 (Wines, 2007).

From 2003 inflation began to increase until 2007 when hyperinflation set in. Between 1997 and 2007, cumulative inflation was nearly 3.8 billion percent, while living standards fell by 38 percent (Hanke H, 2007). The economy deteriorated from one of Africa’s strongest economies to one of the world’s worst, the harbinger of all the problems being retrogressive economic and social policies, hyperinflation, and political distress.

Inflation is a rise in the general level of prices of goods and services in a given economy over a period of time (Blanchard, 2000). When the general price level rises each unit of currency buys fewer goods and services. Consequently, inflation reflects purchasing power of money erosion – a loss of real value in the internal medium of exchange and unit of account within the economy.
Kramarenko et al. (2010) posited that between 2000 and 2008, spiralling inflation, brought on by quasi-fiscal activities of the Reserve Bank of Zimbabwe, and a 40 percent contraction of output, undermined revenue collection and public service delivery.

Table 1.1: Zimbabwean Inflation Rates (Jan 2000 to July 2008)

<table>
<thead>
<tr>
<th>Period (Year)</th>
<th>Inflation Rate (ZW$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>55.22%</td>
</tr>
<tr>
<td>2001</td>
<td>112.10%</td>
</tr>
<tr>
<td>2002</td>
<td>198.93%</td>
</tr>
<tr>
<td>2003</td>
<td>598.75%</td>
</tr>
<tr>
<td>2004</td>
<td>132.75%</td>
</tr>
<tr>
<td>2005</td>
<td>585.84%</td>
</tr>
<tr>
<td>2006</td>
<td>1 281.11%</td>
</tr>
<tr>
<td>2007</td>
<td>66 212.30%</td>
</tr>
<tr>
<td>2008 July</td>
<td>231 150 888.87%</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of Zimbabwe 2009 Monetary Policy Statement

**Multi-Currency Period: From April 2009 to 2012**

According to the World Bank’s *Doing Business 2012* report, on 12 April 2009, Zimbabwe adopted a multi-currency regime, a strategy that effectively meant the government no longer has control over monetary policy. The Zimbabwe dollar was officially abandoned to be replaced by multi-currencies. The adopted currencies include the US dollar, the South African rand and Botswana pula are currently being used locally. This new era heralded the end of hyperinflation and restored price stability (Kramarenko et al. 2010). Zimbabwe inflation rate reached an all-time high of 231 million percent in December of 2007 and a record low of -7.70 percent in December of 2009. The highest recorded percentage under the multi-currency regime is 6.1% in May 2010.
Following a decade of contraction from 1998 to 2008, Zimbabwe’s economy recorded real GDP of about 6% in 2009 before slowing to 5% in 2012, due in part to a poor harvest and low diamond revenues. The economic reforms implemented since the signing of the Global Political Agreement (GPA) have borne positive results for the economy. The adoption of the multi-currency regime along with the tightening of fiscal policy stance through the implementation of a cash-based budget system has helped Zimbabwe to bring down inflation. However, the government of Zimbabwe continues to be beset by a plethora of economic challenges ranging from infrastructure and regulatory deficiencies, ongoing indigenization pressures, policy uncertainty, a large external debt burden, and insufficient formal employment.

1.2.2 The Banking Industry in Zimbabwe

According to Harvey (1995), Zimbabwe’s financial services industry was heavily regulated from its inception, more than a hundred years ago, until 1990. The Reserve Bank of Zimbabwe (RBZ), through its Banking Supervision Department (BSD), vigorously supervised the industry to ensure adherence to the various statutes governing the institutions, through the Banking Act for Commercial Banks and the Building Societies Act.
for Building Societies. In pre-independent Zimbabwe, a total of five established Commercial Banks, two Merchant Banks and a number of Finance Houses and Insurance Companies served the country. From 1980 to 1990 government controls dominated the sector with the government fixing interest rates charged by banks and deposit rates to savers. Credit ceilings were used to channel resources to specific sectors. The sector was segmented with commercial banks only providing short-term finance for working capital, merchant banks catering for wholesale banking while building societies could only engage in mortgage finance. Due to ceilings on lending rates and administrative controls on other interest rates, interest rates remained single digit between 5% and 8% from 1965 to 1980. Marginal changes were introduced in 1980 as authorities sought a more active role for monetary policy.

The government bought 62% of the Netherlands Bank of South Africa (Nedbank), leaving the remainder in local private ownership. The price paid was 91% of the current share price on the stock exchange and the remaining shares continued to be quoted on the local stock exchange as Zimbank. The government also bought a 47% share in a new commercial bank, BCCZ, in partnership with an international bank, BCCI, which held the other 53%. However, the government did not use its position in these two banks to influence their policies. The other foreign banks were not nationalised and no new government-owned commercial banks were created (Harvey, 1995).

Immediately after Zimbabwe's attainment of independence in 1980, the new Government declared itself a Socialist State and did not take robust measures to liberalise an economy that was thriving despite being heavily regulated under the previous Government. Understandably the controls were introduced to counter very harsh economic sanctions that had been imposed on the country then due to political disharmony. The new Government maintained a number of the controls that were in place and this did not allow for a competitive environment particularly in the financial sector (Harvey, 1995).
According to Harvey (1995), the year 1991 witnessed a metamorphosis in the way the banking sector, and the economy at large, operated through the introduction of the Economic Structural Adjustment Programme (ESAP) by the government. ESAP was aimed at restructuring the economy from a predominantly state interventionist type of economic management towards a more market-driven system. The adoption of ESAP and its successor programmes, namely the Zimbabwe Programme of Economic and Social Transformation (ZIMPREST) for the period 1996-2000, was a notable trend in Africa where the failure of ‘socialist’ experiments and other models of state management of the economy led to a situation where countries had to resort to the World Bank and the International Monetary Fund (IMF) for financial support.

The implementation of the five-year programme led to financial liberalization, which involved removal of controls on the interest rates and barriers to entry in the financial sector. Restrictions on the use of surplus funds and the interest cap on them, was done away with, freeing such funds for investment in the market at the ruling market rates. The removal of these controls was aimed at enhancing economic activity and growth, efficiency and expand the range of financial products available to the market which saw the advent of new players in the financial sector like Intermarket Holdings, Trust Holdings, First Banking Corporation, CFX, Premier Banking Corporation (Machemadzai 2002). The banking sector continued to grow opening up for competition and a number of new products such as unit trusts and derivative instruments emerged in the market. The Reserve Bank Act (1996) and the Banking Act (1996) were revised to eliminate segmentation and to increase competition. The financial sector witnessed the emergence of banking groups through mergers, acquisitions as well as reorganization of original structures (RBZ Annual Report 2001). Examples of such banking groups are Kingdom Financial Holdings, Trust Holdings and Intermarket Holdings.

Zimbabwe’s financial sector is now relatively sophisticated, consisting of a Reserve Bank, Commercial Banks, Building Societies, Merchant Banks, Savings Banks, Asset Management Companies and Microfinance Institutions. As at 31 December 2012, there were 22 operating banking institutions, (excluding Interfin Commercial Bank which is
under curatorship and Royal Bank which is under liquidation), 16 asset management companies and 150 microfinance institutions under the supervisory purview of the Reserve Bank (Monetary Policy Statement, January 2013).

**Registered Commercial Banking Institutions in Zimbabwe**

- CBZ Bank Limited
- Standard Chartered Zimbabwe
- Stanbic Bank Zimbabwe Limited
- BancABC
- Barclays Bank of Zimbabwe
- ZB Bank Limited
- Kingdom bank
- Ecobank Zimbabwe
- FBC Bank Limited
- MBCA Bank Limited
- TN Bank Zimbabwe now Steward Bank
- NMB Bank Limited
- Trust Banking Corporation Limited
- Agricultural Development Bank of Zimbabwe
- Metbank
- Allied Bank of Zimbabwe

**Registered Savings Banks in Zimbabwe**

- Post Office Savings Bank (POSB)

**Registered Building Societies in Zimbabwe**

- Central African Building Society (CABS)
- FBC Building Society
- ZB Building Society
Registered Merchant Banks in Zimbabwe

- Capital Bank
- Tetrad Merchant Bank

Attendant liquidity shortages coupled with the absence of an active inter-bank market, limited access to affordable external credit lines and absence of Lender of Last Resort continue to hamper the smooth operating environment of Zimbabwean banks. In spite of all this, the country’s banking sector remains generally safe and sound (Monetary Policy Statement, 2012).

1.2.3 Background of the Organisation (CBZ Bank Limited)

In 1980 the government bought a 47% share in a new commercial bank, BCCZ, in partnership with an international bank, BCCI, which held the other 53%. When BCCI failed in 1991, the government bought the remaining shares, changing the name to Commercial Bank of Zimbabwe (CBZ). This somewhat accidental nationalisation was consistent with the de facto policy on public ownership after independence, namely that the government bought failing companies, mostly through the Industrial Development Corporation, in order to prevent closure and to preserve jobs (Harvey, 1995). The first major turnaround move occurred in May 1995 when a decision was taken to remove non-performing loans (NPLs) from the normal portfolio of advances. These were placed under a separate entity, Commercial Bank of Zimbabwe Nominees Limited (CBZN). This strategy allowed more efficient mobilisation of financial resources and enabled greater focus on critical issues of banking business and rehabilitation of all delinquent advances.

Diversification

CBZ's diversification drive started in 1997 when the Zimbabwean Government sold its shareholding in the Bank in a bid to adequately capitalise it. An agreement was reached with the Amalgamated Banks of South Africa (ABSA) to become the Bank's technical partner. ABSA took up 25% in shareholding. Apart from ABSA, the International Finance Corporation, an arm of the World Bank, acquired a further 15% of equity. Nonetheless,
the greater part of CBZ shares (55%) were issued to the public when the Bank fully
privatised and was listed on the Zimbabwe Stock Exchange on 29 June 1998.

Growth through Diversification

In 2004 a new vision was adopted. This refocus propelled the establishment of CBZ
Holdings (CBZH) as an entity poised to provide all client segments with a one-stop
shopping experience for financial services. CBZ Holdings Limited was operationalised in
June 2005, which marked a period of intense growth through mergers and acquisitions.

The subsidiaries of CBZ Holdings are CBZ Bank Limited, CBZ Asset Management
(Private) Limited t/a Datvest, CBZ Properties (Private) Limited, CBZ Life Private Limited
and CBZ Insurance. In January 2007, the CBZ Group issued an announcement to
shareholders advising of its complete acquisition of Beverly Building Society. Notably,
this development made mortgage financing facilities available to clients of the Group and
enhanced business synergies. In addition, there was a marked increase of value for
shareholders.

CBZ Holdings’ track record has been achieved through a combination of organic growth,
acquisitions, innovation and creating extra sources of revenue through the start-up and
development of completely new businesses such as CBZ Properties Private Limited and
CBZ Life Private Limited. All the subsidiaries are 100% owned by CBZ Holdings Limited
save for CBZ Insurance where the Holding company has a 58.5% ownership. The bank
also acts at the government’s banker and as such it is a recipient of large government
deposits.
1.2.4 Overview of CBZ Bank Limited

CBZ Bank Limited is a registered commercial bank offering a wide range of solutions to personal and corporate customers. The bank has 61 branches nationwide. CBZ Bank Limited won the Euro Money Award for best bank in Zimbabwe in 1999 and 2000 (CBZ Annual Report, 2004).

With effect from 2010, CBZ Holdings Limited started an operational integration which resulted in the consolidation of CBZ Bank Limited and CBZ Building Society. Operationally, this consolidation means services previously offered through these branches are now available at the nearest CBZ Bank Limited branch.

CBZ Bank Limited contributes approximately 95% of the group revenues. The bank’s vision is “To be the bank of choice in Zimbabwe”. Its mission is “To be a progressive strong bank geared to satisfy the diverse needs of our customers through innovative
financial solutions. This is achieved through efficient service delivery, competency and flexibility, whilst adhering to principles of integrity, transparency and fairness". In brief CBZ Bank Limited's values include customer focus, innovative approach, staff focus, governance conscious and social responsibility. The Bank has five divisions, namely, corporate and merchant banking, retail banking, operations, treasury and mortgage finance. Support services include, finance, information technology, e-banking & card services, marketing and human resources. Each division is headed by a Divisional Director.

1.2.4.1 Corporate and Merchant Banking Division

The division offers services that include international trade, structured short or long term business loans, leasing facilities, offshore financing, foreign exchange transactions as well as small to medium enterprise deposit accounts and lending facilities.

1.2.4.2 Retail Banking Division

The retail banking division oversees branch operations. Products offered include current accounts, savings accounts, senior citizens’ accounts and student accounts. To complement the basic Retail banking products, customers can also access card services and electronic banking facilities.

1.2.4.3 Treasury Division

The division offers treasury services comprising assisting business and personal customers with various aspects of money market investing; and wealth management services, such as personalized financial management tools. Products in this division include bankers’ acceptances, fixed deposits and treasury bills.

1.2.4.4 Operations Division

The operations division forms the nucleus of the bank as it facilitates daily transactions of banking. This includes voucher processing, clearing of cheques, signature scanning, customer salaries processing, policies and procedures formulation and dissemination.
1.2.4.5 Mortgage Finance

The division offers services ranging from mortgage funding for purchase of residential and commercial properties as well building and property improvements. The division also offers funding for land development. Furthermore, the division itself develops and sells the land. The funding is not restricted to only account holders and employees of the CBZ Bank Limited as non-account holders can also access the funding.

Table 1.2 CBZ Bank Limited SWOT Analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Very strong brand</td>
<td>• High loan-to-deposit ratio.</td>
<td>• Relative stable political environment</td>
<td>• Economic recovery leading to intensified competition</td>
</tr>
<tr>
<td>• Extensive branch network</td>
<td>• Lack of proper market segmentation</td>
<td>• Economic recovery in the Zimbabwe economy</td>
<td>• Lack of meaningful external Lines of Credit</td>
</tr>
<tr>
<td>• Strong deposit base</td>
<td>• High deposit concentration in government funds</td>
<td>• Stable currencies in use.</td>
<td>• Low disposable incomes of clients</td>
</tr>
<tr>
<td>• Adequately capitalised</td>
<td>• Complacency Creeping in</td>
<td>• Global economic recovery.</td>
<td>• Re-Entry of previously closed banks</td>
</tr>
<tr>
<td>• Strong strategic links with government</td>
<td></td>
<td></td>
<td>• Low capacity utilisation by industries</td>
</tr>
<tr>
<td>• Wide product range.</td>
<td></td>
<td></td>
<td>• Loss of Government Banker status.</td>
</tr>
<tr>
<td>• Diversified customer base.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Low staff turnover</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• External Lines of Credit</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

1.3 RESEARCH PROBLEM

Since the turn of the millennium CBZ Bank Limited has been posting impressive financial results, against a background of a poorly performing economy and a hyperinflationary environment. To this end the impressive performance of CBZ Bank Limited inspired the researcher to come up with an evaluation of the impact of inflation on banking sector performance from 2000 to 2012, using CBZ Bank Limited as a case study.
1.4 RESEARCH OBJECTIVES

In pursuit of the topic the following objectives have been identified for purposes of this research:

- To evaluate how the impact of inflation on interest rates affect CBZ Bank lending and investment.
- To determine critical inflation threshold levels beyond which inflation negatively affects CBZ Bank Limited performance indicators.
- To identify the challenges faced by CBZ Bank Limited through the impact of inflation.

1.5 RESEARCH QUESTIONS

1. How did the different rates of inflation affect CBZ Bank Limited lending through changes in interest rates?
2. What critical inflation threshold levels negatively affect CBZ Bank Limited financial performance?
3. Were there any challenges faced by CBZ Bank Limited as a result of inflation, and if any, what mitigatory measures were implemented or need to be implemented?
4. What was the impact of inflation on CBZ Bank Limited performance and what was the relationship between inflation and CBZ Bank Limited performance indicators?

1.6 RESEARCH PROPOSITION

It is proposed that above a certain critical inflation threshold there is a negative relationship between inflation and banking sector performance.
1.7 JUSTIFICATION OF RESEARCH

A lot of literature has shown that financial sector development and greater provision of financial intermediary services are associated with economic growth. Inflation can repress financial intermediation through distorted policy decisions. Inflation can impact indirectly and negatively on the growth or performance of an economy by damaging the smooth operations of the financial sector. It is hoped that by ascertaining the effects of inflation on banking sector performance, policy makers can come up with effective mechanisms that seek to minimise the negative effects of inflation on the sector performance. The proposed research seeks to explore the effects of sustained high rates of inflation on the banking sector performance in Zimbabwe, focusing mainly on CBZ Bank Limited. From an academic point of view, this paper also intends to contribute to a better understanding of theory and models around the impact of inflation on bank performance indicators in developing economies. The findings of this proposed research will therefore have a bearing on the restructuring of policies with the view of safeguarding financial intermediaries by targeting inflation amongst other variables. For CBZ Bank Limited the research will be used as a platform to formulate its strategic policies to safeguard depositors’ funds and increase profitability in the face of inflation. It is also hoped that other researchers will find this proposed study useful for their studies, as there is little literature pertaining to inflation and its impact on bank performances in Zimbabwe.

1.8 SCOPE OF RESEARCH

Pursuant to the proposed research objectives, the study will be limited to the banking sector and CBZ Bank Limited in particular. In order to fully understand the impact of inflation on CBZ Bank Limited performance the questionnaire respondents in the study will be staff and managers of CBZ Bank Limited, which will be complimented by interviews. Data to be used is for the period 2000 to 2012. This time period was chosen because it covered the eventful period of low inflation rates as well as sustained high rates of inflation in Zimbabwe.
1.9 LIMITATIONS TO THE STUDY

Like any other study, this study has its own limitations. The study is based on CBZ Bank Limited and the basis for recommendations will be findings from only one bank, hence one may not confidently generalise the results as applicable to other banking institutions. Moreover, there is limited theoretical work pertaining to inflation in Zimbabwe in particular. Financial constrains may limit the researcher’s ability to reach all CBZ Bank Limited branches to conduct interviews with staff and management of the organization. The researcher will target respondents mainly in Harare and its environs especially for personal interviews which constitutes 37% of the total branch network of the bank.

1.10 DISSERTATION STRUCTURE

This study was structured as follows:-

Chapter 1 – Introduction and Background
This deals with the background of the economy, background of CBZ Bank Limited and its operations. The research problem seeks to highlight the impact of inflation on bank performance. The research objectives and questions show what the research aims to achieve.

Chapter 2 – Literature Review
This chapter discusses various authors’ and authorities’ views on the major concepts of the topic, namely inflation and its impact on banking sector performance.

Chapter 3 – Research Methodology
This chapter explains how the research will be conducted and how the data will be collected and the ways of presenting the data.
Chapter 4 – Results and Discussion
Chapter 4 looks at the findings or what has come out of the research. It also discusses whether the objectives have been met or not.

Chapter 5 – Conclusions and Recommendations
Chapter 5 provides conclusions from the research undertaken and offers recommendations.

1.11 CHAPTER CONCLUSION
This chapter mainly focused on the background to the Zimbabwean economy and how various economic factors, political factors and government policies contributed towards the different inflation rates in the economy. The background of the whole banking industry has been given as well as the annual inflation figures for the period 2000 through to 2012. The history of CBZ Bank Limited and current operations were discussed in order to make the reader understand the background of the company that will be used as the case study in the investigation of the impact of inflation on banking sector performance. The research problem was discussed including the research objectives and questions. The research objectives and questions will be a guide to see whether at the end of the research the recommendations will meet the objectives stated in this first chapter. It should be noted that an understanding of the financial sector, and acknowledging how factors such as inflation can impact on bank operations, is a crucial skill for management to achieve strategic goals.
CHAPTER TWO
LITERATURE REVIEW

2.1 INTRODUCTION

The purpose of this chapter is to provide a conceptual framework of literature from different authors and schools of thought. The chapter reviews literature on the impact of inflation on banking sector performance. The chapter also looks at definition of terms and a review of theoretical and empirical literature related to the research study objectives. The major issues under discussion in this literature review ought to answer the research objectives which are to investigate the impact of inflation on banking sector performance, investigate the relationship between inflation and banking sector development indicators paying particular attention to CBZ Bank Limited and also to investigate critical inflation threshold levels beyond which inflation negatively affects banking sector performance.

2.2 DEFINITION OF INFLATION RATE

Inflation is defined as an upward movement in the average price level. Inflation rate is the percentage change in the price level (Blanchard, 2000). The formula for the annual inflation rate is:

$$IR = \frac{CyrP - LyrP}{LyrP} \times 100$$

Where:

IR = Inflation rate
CyrP = Current Year’s price level
LyrP = Previous Year’s price level

This study used Consumer Price Index as a proxy for inflation rate.
2.3 DEFINITION OF FINANCIAL SECTOR

The financial sector comprises of various sub-sectors namely the formal and informal sectors, which offer an array of diverse financial services and products within an economy. Broadly, financial sector includes banks, stock exchanges, insurers, credit unions, microfinance institutions and moneylenders (Levine, 1997).

2.3.1 Role of Financial Sector

The role of financial institutions is to intermediate funds amongst individuals and industry in an economy. Financial intermediaries facilitate channeling of funds through the direct and indirect channels. In the direct flow of funds, the savers or lenders (surplus spending units), acquire direct financial claims or assets, which are issued by those who use the funds, that is borrowers (deficit units). In the indirect channel the savers of funds prefer to deposit their funds with a bank, and the bank in turn lends the funds to the borrower in the form of bank loans. It follows that buying and selling debt claims is then considered to be the main function of intermediaries. Financial intermediaries and in particular banks help to reduce illiquidity that accumulates in the form of direct debt. More liquid assets lead to lower interest rates that, in turn, encourage individuals to invest more (Kulyk, 2002).

De Gregorio (1995) highlights that at the core of a financial sector’s role is the reduction of risk involved in financial transactions by the pooling and diversification of risk factors as well as the reduction of the cost of financial intermediation by exploiting benefits from economies of scale and economies of scope. De Gregorio (1995) adds that the mobilization of savings and subsequent channeling of these funds into investment activities which leads to optimization and allocation of resources available in the economy is also the major essence of a financial sector.

Locher, Brauchbar & Partner AG, Basel (1998) posit that a financial sector is vital to an economic and social development of a country, hence it serves three main purposes. A country’s financial sector offers savings deposit services, whereby priority must be given to the security and continuing value of the deposits, and in addition provides loans.
Financial institutions also carry out local and international payment transactions. The financial sector becomes an autonomous system of services only when it can meet the needs of its customers in all sectors of the economy on a permanent, sustainable and effective basis.

Research by Ghirmay, (2004) add to the notion that the financial sector provides a well-diversified credit portfolio through the banking system, which is an important feature of efficient credit allocation. This diversified portfolio helps lower credit risk, as high concentration of credit in a few sectors of the economy makes the financial sector vulnerable to the performance of these sectors.

Merton and Bodie (2001), in their classic study of the financial system, identified five main functions of a modern financial sector. They are:

1. a mechanism to amalgamate and combine economic resources so as to generate large pools of capital.

2. a mechanism to transfer economic resources across time and space.

3. a mechanism to share risk. Risk-sharing benefits both the individual investor, who can spread investments across many enterprises, and borrowers, who can obtain finance for projects that would be too risky for a single investor but become acceptable when the risk is borne by a number of investors.

4. a mechanism to reduce the cost of information. A modern financial system is a huge information exchange – on the price of assets, on the creditworthiness of economic agents, on the prospects of success for a given economic venture.

5. lastly, and underpinning all of the above, a mechanism for the clearing and settlement of payments and financial claims, without which the exchange of goods and services would be impossible.

According to Hanke, (2008), “To restore economic growth, hyperinflation must be extinguished rapidly, and people must have confidence that inflation will not return”. Hanke goes on to the root cause of the hyperinflation is government policies that force
central banks to print money. Hence, monetary authorities have a role to play to ensure that they tame inflation.

2.3.2 Financial Sector Development and Its Indicators

Financial Sector development is outlined by Levine (1997) who posits that there are various ways in which the financial sector is said to ‘develop’. The fundamental pointers reflective of financial sector development are hinged upon the utilization of financial services and efficiency of service delivery by financial intermediaries. Levine (1997) further argues that the increase of the range of financial services available, the increase of the diversity of institutions which operate in the financial sector and the increase of the amount of money that is intermediated through the financial sector, suffice as financial sector development indicators. The increase of capital that is allocated by private sector financial institutions, to private sector enterprises, responding to market signals (rather than government directed lending by state owned banks), and the increase of access to financial services, also suffice as financial sector development indicators. On the other hand, Shaw (1973) points out that financial development is anchored upon financial deepening and intermediation, which reflect the extent of penetration of financial products in the economy at large. Moreover, according to Shaw (1973), a high penetration level is generally attributed to stability and soundness of the financial system as confidence of economic agents on the financial sector plays a vital role in improving the financial deepening in a country, and is indicative of financial development in an economy.

Bittencourt (2007) notes M2 to GDP ratio as the indicator of financial sector development. Creane (2004) has developed an index of financial development, which is a composite of quite a number of indicators of financial development. The first one is the development of the monetary sector and monetary policy, secondly the banking sector size, structure, and efficiency (including the role of the government in the sector) has also been highlighted to as an indicator of financial sector development. Creane (2004) also adds that development of the non-bank financial sector in addition to the above-mentioned indicators will suffice as good enough indicators. Also, the quality of banking regulations, supervision, financial openness and the quality of the institutional environment all add up
as factors. Institutional and Market Infrastructure, Regulation and Supervision (insolvency, corporate governance, accounting, auditing, and payment systems), Market Integrity, including anti-money laundering and anti-terrorist financing can be used as an indicator of financial development (Creane, 2004).

2.3.3 Inflation and Financial Development

The relationship between inflation as well as hyperinflation and economic growth is a subject of great interest and debate among macroeconomists. Although the theoretical positions on the subject are diverse, empirical studies and results corroborate the assertion that there is a negative relationship between inflation and long-term growth (Barro, 1991; De Gregorio, 1992; Fisher, 1993 and Bruno and Easterly, 1998). Nowadays, a consensus among economists seems to be that high rates of inflation are detrimental to economic growth. This belief has led Central Banks, states and economic and monetary unions across the world to pursue price stability by aiming at an inflation target. Price stability is expected to create the conditions for real convergence and sustainable growth. However, much less agreement exists about the mechanisms by which inflation affects economic activity. Financial development is viewed as an important channel through which inflation can adversely affect growth. By creating uncertainty and financial market frictions, high rates of inflation make the financial system inefficient in allocating resources (Huybens and Smith, 1998, 1999; Boyd and Smith, 1998).

Boyd et al (1996) argue that when inflation makes nominal values uncertain firms and individuals will be reluctant to enter contracts when inflation is imperfectly predicted and judgments about absolute and relative prices are uncertain. The reluctance to enter contracts over time will inhibit investment and entrepreneurship. Boyd et al (1996) also add that high inflation will inhibit any long term financial contracting and financial intermediaries will tend to maintain very liquid portfolios. Haslag and Koo (1999) add on the subject matter by stating that, in an inflationary environment intermediaries will be less eager to provide long-term financing for capital formation and growth. High inflation is often associated with various forms of financial repression as governments take actions to protect certain sectors of the economy.
Choi, et al. (1996) argues that, high rates of inflation are detrimental to financial sector development, and this leads to an economy that has a small and non-inclusive financial sector. The reason for this is that financial intermediation becomes more difficult when inflation rates are very high. The flow of information about investment projects and returns that is used by intermediaries becomes more uncertain and less readily available in an inflationary environment. In addition to the above negative effects of inflation, repression of financial intermediation ensues through the erosion of the usefulness of money assets, as well as the introduction of policies that lead to distortions within the financial structure of an economy. Unpredictable levels of inflation also make planning very difficult for economic agents, as returns on investments will be unpredictable. Hence, it follows that firms and individuals will be reluctant to enter contracts when inflation is imperfectly predicted and judgments about absolute and relative prices are uncertain (Choi, et al. 1996).

Huybens and Smith (1998, 1999) argue that at first there may be negative consequences on financial sector performance through credit market frictions before affecting economic growth as a result of inflation rate increases. In fact, market frictions entail the rationing of credit, which reduces intermediary activity and capital formation. The reduction of capital investment impacts negatively on long-term economic growth.

A number of works have provided important contributions to finance, inflation and growth literature. Findings of Boyd et al. (2001), Khan et al. (2001) showed that there is a threshold level of inflation beyond which inflation had significant negative effects on financial sector performance. Huybens and Smith (1999), Rousseau and Wachtel (2002), and Lee and Wong (2005) indicate that financial development promotes economic growth only under low or moderate inflation rates. These findings suggest a causality running from inflation to financial development. One can envisage causality in the opposite direction running from financial development to inflation.
There are models that support the notion that informational frictions tend to play a crucial role once the rate of inflation exceeds certain “critical” levels. The above assertion is supported by Boyd, Choi, and Smith (1997), who argue that at very low levels of inflation credit market frictions may be “nonbinding”, hence inflation does not have a negative effect on the flow of information, resource allocation and economic growth. However, the moment the inflation rate exceeds a certain threshold level, credit rationing increases and ultimately results in poor financial sector performance, and credit market frictions set in. These models also postulate that there is a second inflation rate threshold. Once inflation exceeds this threshold, perfect dynamics are linked to endogenous oscillation in all variables, hence inflation becomes highly correlated with inflation variability and asset return volatility.

High inflation is typically volatile and therefore difficult to predict, and this uncertainty generated by inflation is the real problem because it leads households and firms to make decisions that they would be unlikely to make in a more certain, low-inflation, environment (Stuber, 2001).

High levels of inflation potentially can also adversely affect economic growth. If, as some empirical studies suggest, higher inflation does not tend to result in proportionately higher nominal interest rates, high inflation results in lower real rates of return (Barnes, Boyd, and Smith 1998). This increases the demand for loanable funds, but reduces their supply. More importantly, sufficiently high inflation rates may exacerbate credit market frictions.

2.3.4 Banking Development Indicators and Inflation Thresholds

Boyd, Levine, and Smith (2001) studied the relationship between inflation and three banking development indicators that have been used widely in the literature which are as follows:

i. proportion of liquid liabilities of the financial sector to GDP,
ii. proportion of total assets of “deposit money banks” to GDP and

iii. percentage of bank lending to the private sector to GDP.

All three variables have been found to have a strong and robust association with both the level and/or rate of change in real per capita GDP (King and Levine, 1993). Exhaustive assessment postulates that for countries with inflation below 15 percent there is a negative relationship between inflation and banking sector indicators. But if inflation exceeds 15 percent threshold, there is bound to be a discrete drop in the development indicator and its relationship with inflation will disappear. Further, Boyd and Smith (1996) add that as inflation marginally rises its effect on banking lending swiftly weakens. Additionally, Amihud (1996) substantiated the existence of thresholds with economies with inflation rates in excess of 15 percent associated with a likely discrete drop in financial sector performance.

Moreover, interrelated models advocate for the existence of a third inflation threshold (Boyd and Smith 1998; Huybens and Smith 1998, 1999). At times, as soon as inflation rate surpasses a given critical inflation level, perfect foresight dynamics prohibit and debar an economy to move towards a steady state exhibiting either a dynamic financial system or a high level of actual and tangible activity. When this occurs, further increases in inflation have no additional detrimental effects on the financial system. Essentially, all these models suggest that as soon as the rate of inflation reaches a certain critical threshold, “all of the damage to the financial system has already been done’, and subsequent surges and escalations in inflation will not be of any significance to financial sector performance or economic growth.

Consequently, Bencivenga and Smith (1992) singly regressed financial sector conditions capacities on inflation as well as a conditioning information set selected to control for other theories of the finance-inflation correlation. Precisely, Bencivenga and Smith (1992) encompassed a measure of the degree of government propensity to engage in financial repression and a set of variables aimed at controlling economic development and other factors with an influence on financial sector development. In some econometric
stipulations, Bruno and Easterly (1998), permit for non-linearity in the association between financial sector performance and price increases.

Bruno and Easterly (1998) exclusively examined one threshold relationship by letting:

(a) the intercept in the relationship between inflation and finance change once inflation surpasses some threshold level, and

(b) the slope of the relationship between inflation and finance to change too.

In a second specification, Bruno and Easterly (1998) altered the data to accommodate non-linearities that do not contain discrete thresholds.

Bruno and Easterly (1998)’s results are as follows:

1. In the realms of low inflation rates to moderate rates, a strong negative association exists between inflation and;

   (a) financial sector lending to the private sector,

   (b) the quantity of bank assets, and

   (c) issued liabilities by banks.

2. a nonlinear relationship between inflation rate and banking sector performance exists, possibly determined by inflation rate thresholds. As inflation surges, financial sector performance tumbles, but then again the marginal effect of additional and ensuing inflation on the financial sector also reduces quickly.

Boyd et al (2001) concluded that the study they carried reflected that there is confirmation of inflation threshold levels in the link between inflation and banking sector goings-on. Moderate inflation rates are associated with a robust negative association between inflation and financial sector which encompasses banking sector development.
2.4 THE IMPACT OF INFLATION ON FINANCIAL SECTOR PERFORMANCE

There is increasing theoretical work which describes mechanisms whereby even anticipated increases in the rate of inflation inhibit the ability of the financial sector to efficiently and effectively allocate resources. Amihud (1996) states that evidence suggests that a strong and significant negative relationship between inflation and banking sector development exists, and is deemed economically important. High inflation is typically volatile and therefore difficult to predict, and this *uncertainty* generated by inflation is the real problem because it leads households and firms to make decisions that they would be unlikely to make in a more certain, low-inflation, environment (Stuber, 2001).

According to study findings by Fischer (1993), there is a substantial body of evidence indicating that sustained—and, therefore, likely predictable—high inflation rates have potentially adverse consequences either for an economy's long-run rate of real growth or level of real activity. This finding raises an obvious question which is by what mechanisms can a perfectly understood and permanent increase in the inflation rate affect long-run real output?

Some theories underscore the significance of asymmetries in information in relation to credit markets and reveal how upsurges in the rate of inflation badly affect credit market frictions with negative ramifications for bank performance and consequently long-run real activity (Huybens and Smith 1998, 1999). These theories tend to concur that there exists informational frictions whose degree of severity is endogenous. Consequently, a rise in inflation rate generally pushes down the real rate of return on money and assets. The implicit diminishing of real returns aggravates credit market frictions. Subsequent to the assertions above, it follows that credit rationing intensifies when inflation rises.

Resultantly, Barro (1995) states that the financial sector curtails loaning out funds, resource allocation is pegged at below efficient levels, and intermediary activity weakens which eventually negatively impact on capital investment. The decline in capital formation adversely impacts long-run economic performance (Huybens and Smith 1999 and Boyd and Smith 1996).
2.4.1 Inflation, Banking, and Economic Growth

Despite the general decline in inflation rates the world over in recent times, there are some countries that still have to grapple with the effects of inflation. Inflation adversely affects the banking sector as well as the investment patterns, notwithstanding the fact that the inflation rates may be at unassertive levels.

Hyperinflations—at times given as levels above 50% per month—are a nightmare to almost every economic planner. Some economists postulate that under certain conditions inflation may spur output growths. However, Barro (1995) published findings to the contrary. Barro (1995) argued that across a broad spectrum of countries, higher inflation rates are a hindrance to economic growth.

Many theories advocate that inflation may possibly be counterproductive to financial markets and their smooth operation.

2.3.1.1 Theoretical Insights into Inflation & Thresholds

A number of recent works have provided important contributions to the finance, inflation and growth literature. Findings of Boyd et al. (2001), Khan et al. (2001) showed that there is a threshold level of inflation beyond which inflation had significant negative effects on financial sector performance. Huybens and Smith (1999), Rousseau and Wachtel (2002), and Lee and Wong (2005) indicate that financial development promotes economic growth only under low or moderate inflation rates. These findings suggest a causality running from inflation to financial development.

Empirical studies by Barnes and Duquette, (2000) revealed that the relationships among inflation, financial market development (FMD), and growth, this trivariate relationship changes across a statistically robust inflation threshold of about 14%. Below 14%, the relationship between growth and FMD is positive; above 14%, the relationship between growth and inflation is negative. The interaction between FMD and inflation has a significant impact, however, below 14%
there is a positive relationship between economic growth and the rate of inflation, but marginal inflation increases impair the relationship between growth and FMD; above 14% marginal increases in inflation have little or no impact on this relationship. This suggests that the role of financial markets as a channel of economic growth is important and changes with the level of inflation.

Levine, Loayza, and Beck (2000) also find positive causation from financial market development (banking) to growth in a panel context. A negative and sometimes threshold long run relationship between inflation and growth has been found in cross-sections and non-dynamic panels. This contrasts with Barro (1995) who claims there is evidence of a negative relationship at all rates of inflation. Levine and Renelt (1992) and Clark (1997) ask whether this negative relationship is independent of the inflation rate. Bruno and Easterly (1998) show that this adverse correlation between inflation and growth arises once inflation reaches a threshold level, where the threshold is determined in an ad hoc fashion. Hansen (1996) looks for thresholds in nominal U.S. GDP, and further evidence of thresholds in growth is presented in Hansen (2000) in a (univariate) time series context.

The empirical correlation between financial development and inflation has been studied by Boyd, Levine, and Smith (2001). They show that nonlinear (and ad hoc threshold or piecewise linear) relationships between inflation and financial market development exist in a cross-section of data. At modest long-run inflation rates below 15%, they find a robust adverse relationship between inflation and various indicators of banking sector and equity market development, but these partial correlations become insignificant above the stipulated threshold level of inflation 15%.

In the model of Choi, et al. (2001) argue that higher rates of inflation lead to higher credit rationing and decreased real activity. When inflation is low, credit rationing does not occur, yielding threshold effects dependent on inflation. Huybens and Smith (1999) derive a model in which threshold relationships among inflation, financial market development, and growth depend on the exogenous long-run rate of inflation. Under some parameterizations, inflation and financial market development can interact, and this
interaction effect will also impact growth. Once a threshold level of inflation is reached, lower levels of real and financial market activity are obtained; below this threshold increases in inflation can reduce both real and financial market activity, but above the threshold further increases in inflation have no effect on financial market activity.

Choi, Smith, and Boyd (1996) highlight that when the coefficients on both financial market development and inflation are allowed to depend on inflation threshold level, the correlation between economic development and inflation is significant and negative only above the threshold level of inflation. Boyd et al (2001) add that there is robust evidence that the relationship among growth, inflation, and financial market development has an inflation threshold.

2.4.2 The Impact of Inflation on Bank Lending

John H. Boyd and Bruce Champ (2006) argue that inflation lessens bank lending to the private sector, which tallies with the observation that high rate of inflation prompts banks to stringently allocate credit.

According to Santoni (1985), if the realized rate of inflation exceeds the expected one, the unexpected increase in the price level causes a proportional reduction in the value of both nominal financial and liabilities in terms of real goods. Since banks are typical net creditors in nominal instruments bank capital declines.

Inflation has the effect of reducing real asset returns. As inflation rises real money market rates, treasury bill rates as well as time-deposit rates tumble. Inflation affects investment directly and implicitly. Inflation pushes up costs of information and transactions, which explicitly inhibits economic growth and development. As an example, planning regarding investment becomes a daunting task when inflation renders nominal values indeterminate. Entities and individuals may be unwilling to go into contracts when inflation cannot be correctly forecasted. The lack of enthusiasm to enter into contracts will inhibit investment which will subsequently affects economic growth, which could result in financial recession (Hellerstein, 1997).
Generally, persistent and high inflation is detrimental to both long-run economic growth and the financial system. Upsurges in inflation are a precursor of lower real returns not on both money and other assets. These low returns fetter with the operations of financial markets and the allocation of investment. Lower real returns have the effect of severely damaging the credit market. Resultantly, high doses of inflation diminish the amount of credit accessible to fund capital investment with the capability of damaging the economy (Blume, 1978).

2.4.3 Inflation and Investment

The effect of inflation on investment may be direct or indirect. High and volatile inflation results in increases in transactions and information costs, which directly weigh down on economic development. As an example, when inflation makes nominal values uncertain, investment planning becomes difficult resulting in individuals being reluctant to enter into contracts. In this case inflation will inhibit investment and could result in financial recession (Hellerstein, 1997). When inflation is high, people may lose confidence in money as the real value of savings is severely depleted.

Inflationary environments are characterised by a dearth of long-term financing for capital formation and growth as intermediaries are less willing to provide the necessary finance. Neither part between the lenders and borrowers will be agreeable and forthcoming as regards long-term contracts. There is an economic conundrum in the face of high inflation as governments lobby to control and protect certain sectors which results in financial repression. High inflation is often associated with financial repression as governments take actions to protect certain sectors of the economy. It’s no coincidence that high inflation environments are associated with interest rate ceilings as well as below-market-rates. These controls of economic aggregates lead to inefficient allocation of capital which consequently inhibit economic growth (Morley, 1971).
According to Hall (1982), inflation mirrors an economic situation whereby the demand for goods and services outstrips supply. The causes of inflation are varied and they could be initiated by the private sector and governments expending more than their revenues. Costs of production may eventually push up prices.

2.4.4 Case Study: Inflation and Financial Development in Brazil

Bittencourt (2007) studied the relationship and association between inflation and financial development in Brazil. The author used national data to construct a more disaggregated sub-national data set, which he believed could better give an effective investigation and evaluation of the impact of inflation on financial sector performance in a country with such a regionally diverse economic performance. The data used covered the period between 1985 and 2002 and ten regions. The following indicators were used in the study, M2, M3 as monetary aggregates, credit to the private sector and personal credit. Thereafter the study used the following ratios M2/GDP, M3/GDP, credit/GDP and personal/GDP at regional and national levels.

Bittencourt (2007) finds that when the measures of financial development are M2, M3, private credit and personal credit, the impact and effect of inflation on finance, is negative and ordinarily statistically significant. Private credit suffers larger detrimental effects than personal credit and that all measures of financial development are significantly adversely affected by inflation. He notes that M3 and CREDIT variables presented the largest negative effects, which was contrary to theoretical predictions in a high inflationary environment, in the sense that these variables would not be affected much by financial repression. However the results revealed that those with access to M3, and all the indexation it provides, would not be entirely insulated against inflation—and also reducing the amount of credit in the economy, with all its deleterious effects.

The overall conclusion from the study suggests that the high and erratic rates of inflation existent at the time reduced finance in Brazil.
2.4.6 Mitigating Growth-Effects of Inflation through Financial Development

Information asymmetry leads to banks rationing credit and holding cash. Implicitly inflation consequently is proxied as a tax on capital accumulation. A boom on financial development minimizes credit-rationing and its costs, which curtails dependence on cash and softens incidences of inflation tax. A wide-ranging and comprehensive empirical literature concludes that inflation is bad for economic and financial growth (Bruno and Easterly 1998).

Households make their savings via the financial system which sets the tone for capital formation when the savings are eventually invested. The young households implicitly invest directly in capital formation through their savings with banks. Blackburn and Hung (1996) argue that capital-production technologies are owned by borrowers who require external lines of funding to operationalize these technologies. However, there is a possibility that the borrowers may default on their loans. Blackburn and Hung (1996) add that loan-applicants can be classified as high-risk and low-risk.

On the one hand the prevalence of the inflation tax depends on the demand for liquidity and consequently on the degree at which banks allot credit while on the other hand the incidence of credit rationing in turn is determined by the scope of financial development as measured by lower average costs of financial intermediation. The aforementioned relationship involving costs of financial intermediation and financial development is well established in the existing empirical literature (Demirgüç-Kunt et. al. 2003). As a result, in cases where financial infrastructure is weak, the hostile effects of inflation on growth are more evident, as banks are forced to depend on cash aggregates as a means of storing loanable funds. Using the same analogy, financial development will alleviate and lessen these antagonistic growth-effects of inflation.

2.9 CHAPTER SUMMARY

This chapter reviewed literature which will provide a basis for comparisons with the research findings. The major concepts under discussion were the impact of inflation on banking sector development, relationship between inflation and banking development
indicators and critical inflation threshold levels in relation to financial development. Theory further predicts that the inflation-finance relationship may exhibit strong non-linearities. For example, informational frictions may become binding only when inflation exceeds certain thresholds. When inflation passes these thresholds, some theories suggest that we will observe a corresponding collapse in financial system performance with adverse effects on resource allocation and economic activity. The next chapter outlines the study research methodology.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

The chapter gives an overview of the techniques adopted in carrying out the research study. It highlights and justifies the research method and instruments chosen, reveals the target population, sampling technique and procedures to be followed. Justification is given as to why certain methods have been used. Both qualitative and quantitative methods are important methodologies in research. It introduces the theoretical concepts of research methodology before zoning in on the methods used. The chapter, furthermore, illustrates the research instruments used in the collection of data, data sources and data collection plans. The chapter also reviews data analysis procedures and the justification for their use.

3.1.1 Research Methodology Definition

According to Chapman (1988), research methodology defines what the activity of the research is, how it proceeds, how to measure its progress, and what constitutes its success. Research requires a systematic approach to finding answers to the stated research problem (Saunders, Lewis and Thornhill, 2003). A number of ways exist to approach a research methodology and the process of research is often an interaction between conceptual and empirical work (Chekera, 2003). A research methodology relates to a systematic execution of the research design (Fouche & Delport, 2002). According to study findings by Saunders at al. (2003), the chosen method of research should always have a fit between suitability and feasibility. A mixture of both qualitative and quantitative methods will be used. Qualitative research is particularly relevant when prior insights about a phenomenon under scrutiny are modest, implying that qualitative research tends to be exploratory and flexible of ‘structured’ problems (Eriksson & Kovalainen 2008, 5).

3.2 RESEARCH DESIGN

A research design of any proposed study is, in broad terms, a plan, map or a blueprint of how the research is to be conducted pursuant to finding answers to the research problem of that particular study. Research design can be defined as the plan, structure and strategy of investigation to obtain answers to research questions and to control variance, according to (Saunders, Lewis & Thornhill, 2007). Mouton (1996) “set of guidelines to be followed in addressing the research problem”. The research design entails the tactics and strategies the researcher selects in carrying a piece of research according to Robinson (1995). It deals primarily with the aims, purposes, intentions and plans within the practical constraints of location, time, money and availability of research staff. Researching entails identification, sourcing, gathering and processing of data to generate information that will enable the researchers to make informed decisions, conclusions and recommendations.

3.2.1 Research Design Alternatives

- **Surveys:** The survey is a design that employs the use of questionnaires for data collection (Nachmias & Nachmias, 2009). Questionnaires can be mailed, computer administered, telephonically administered, delivered and collected by the researcher. The present study used the survey strategy. Advantages of the survey method are that it is relatively faster than other forms of data collection. Another advantage is that large amount of data can be collected in a short space of time better than, for example, personal interviews, experiment, ground theory or ethnography.

This study employed a case study, surveys and interviews as it sought to extensively study the problem. This research targeted CBZ Bank Limited focusing on all the branches as well as Head office departments. Emphasis was placed on gathering information
pertaining to how inflation impacted on the bank operations and performance of the bank. The researcher also endeavoured to extract information on how inflation affected the employees in the execution of their duties and how it affected the customers’ banking patterns. Detailed questionnaires were availed mainly to long-serving employees of the bank to gather the information. Additionally, interviews were carried out with key management personnel in finance, corporate governance and operations. The selected survey was deemed to be of respondents who have knowledge of the phenomenon. Data used was both primary and secondary data. Data used were extracted from CBZ Bank Limited and partly from Reserve Bank Zimbabwe (RBZ) publications, Central Statistical Office (CSO) publications, journals and annual reports.

3.3 RESEARCH PHILOSOPHY

The two main approaches when conducting a scientific research are Quantitative or positivist and Qualitative or phenomenological method (Yin, 1994). According to Denscombe (2010) “it calls on the researcher to provide a clear rationale for the combination of the alternative methods and strategies and to explain how data from one approach link with data from the other”. In quantitative analysis, numbers and what they stand for are the material of analysis. In contrast, qualitative analysis deals in words and is guided by fewer universal rules and standardized procedures than statistical analysis.

For purposes of this study phenomenology approach is what was mainly used as the research is predominantly qualitative in nature. The researcher used the qualitative approach because its methods, especially observation, or unstructured interviews, allowed the researcher to develop an overall "picture" of the subject under investigation. CBZ Bank Limited being a provider of services, it is therefore mainly subjective how a service is provided. It is subjective how good a service may be, depending on an individual to which it is being offered. However, the quantitative method was also used for data analysis. Saunders et al (2000), believe that though these approaches are mutually exclusive they can be utilised in conjunction where appropriate.
However, there are some aspects of bank performance that can be put in discreet figures, like profitability, assets and branch network. All these and others can be quantitatively measured. The advantage is that it places emphasis on numerical analyses and objectivity, reliability and replication of findings. A quantitative research design allows flexibility in the treatment of data, in terms of comparative analysis, statistical analysis, and repeatability of data collection in order to verify reliability. Its disadvantage is that it may not always suit social science; validity of findings is reduced since social phenomena cannot be reliably measured.

3.4 RESEARCH STRATEGY

The study of a person, a small group, a single situation, or a specific "case," is called a case study. It involves extensive research, including documented evidence of a particular issue or situation, symptoms, reactions, effects of certain stimuli, and the conclusion reached following the study (McLeod, 1999). Case studies are used to obtain an in-depth knowledge of the unit under analysis (Eisenhardt, 1989). It involves extensive research, including documented evidence of a particular issue or situation, symptoms, reactions, effects of certain stimuli, and the conclusion. Results obtained from case studies are usually applicable to the subject matter. The research strategy employed in this study is a case study of CBZ Bank Limited.

3.5 POPULATION AND SAMPLING TECHNIQUES

3.5.1 Population

Chimedza, Chipoyera, Mupambireyi (2001) define a target population as the totality of all elements under investigation. A population is the total collection of elements about which the researcher wishes to make some inferences (Gray, 2004). Wegner (1993) defines a population as all possible observations of the random variable under study. Ferber (1974) further stated that the population is the group of interest to the researcher.
In some researches, the entire population will be sufficiently small, and the researcher can include the entire population in the study. This type of research is called a census study because data is gathered on every member of the population. However, this population is rarely available and as such a small, but carefully chosen sample was used to represent the population. The identification of the population was done in order to provide a base from the sample units and sample size were drawn. The population comprised of selected employees from 61 CBZ Bank Limited branches and Head Office departments.

3.5.2 Sample

Thomas and Burgess (2001) state that a sample is chosen when accessing all members of the population is prohibitive in terms of time, money and other resources. According to Saunders (1997), sampling is a process of selecting a suitable or a representative part of determining characteristics of the whole situation. A small, but carefully chosen sample can be used to represent the population. The sample reflects the characteristics of the population from which it is drawn.

The researcher made use of a probability sampling method called stratified random sampling as its sampling procedure. Wegner (1993) defines stratified random sampling as a procedure used when the population contains some well-defined groups or sub-populations called strata.

The researcher used stratified random sampling because a stratified sample can provide greater precision than a simple random sample of the same size. Since it provides greater precision, a stratified sample often requires a smaller sample, which will minimize costs. The research made use of the following distinct groups: The Managing Director, The Divisional Directors, The Executives, Bank Managers, Operations Managers, Customer Relationship Managers, Officers, Bank Tellers and Clecks. The researcher also ensured that an equal number of sample statistics were chosen from the four regions of the bank. This was deemed to be representative of the population.
3.6 DATA COLLECTION METHODS

Yin (2003) states that six different sources of evidence are available for collecting qualitative empirical data, namely documentation, public records, interviews, direct observations and physical artifacts. If information is based on several different sources of information, it is likely to be more accurate. The two main types of data are primary and secondary data. The different types of data are discussed in detail below.

3.6.1 Secondary Data

Donald and Pamela (2003) define secondary data as the data collected by others for their own purpose and now used for other purposes. They went on to say that secondary data has advantages over primary data because it is less expensive, it is not time consuming and it identifies methodologies that proved successful and unsuccessful. Arnould (2004) states that secondary data can be located quickly, easily and inexpensively, and should hence represent the starting point of any research project. Holstein and Gubrium (1995) stated that by using secondary data there is a risk of using inappropriate data for the needs of the researcher. The data might be outdated for that matter and not consistent with the needs of the researcher. The data may lack accuracy as the original data might have been manipulated to suit the needs of the original researcher.

Since this study is predominantly desktop in nature, a large proportion of data used is of secondary nature. Secondary research was used as Tapera (2002) describes it as the body of validated facts and information which can be accepted as trustworthy and can be used as a valid basis for the testing and interpretation of the hypothesis. The main sources of this secondary data were CBZ Bank Limited Finance Department, CBZ Economics Department, CSO, RBZ and other research publications. The distinct advantage for the use of secondary data is that it is less expensive to collect and is also well summarised and in processed format.
3.6.2 Primary Data

According to Merriam (1998), primary data is one that is collected specifically for a particular project. Arnould (2004) says that primary data collection is simply the research carried out for a specific purpose. Such data is captured for the first time and with a specific purpose in mind. In this study, primary data were be collected using questionnaires, face-to-face interviews and telephone interviews to collect primary data from CBZ Bank Limited staff.

3.6.2.1 Questionnaires

Chimedza et al. (2001) define a questionnaire as a document containing a list of pertinent questions for a statistical inquiry. Peterson (1982) describes it as a list of questions that are carefully formulated, constructed and sequenced so as to obtain the most useful data in the most cost effective manner. Questionnaires were administered to banking personnel who, through judgmental sampling, seemed to know much about the CBZ Bank Limited history and had time to complete questionnaires.

Structured questionnaires were used to gather data from the sample under study. The questionnaires were all delivered and collected either by hand or emailed to make the questionnaire personal. The questionnaires were mostly made up of fixed alternative items and open-ended questions.

Fixed alternative questions were used so as to achieve greater uniformity of measurement and allow easy coding. They are also precise, reliable and make sure that respondents answer in a manner fitting the response category. Kerlinger (1970) defines open-ended questions as items that supply a frame of reference for respondents’ answers and their expression. Tapera (2002) adds that there are no restrictions on either the content or the manner in which the respondents reply. Open-ended questions enable staff and clients to explain how inflation affects and affected them socially.

Burgess (2001) state that questionnaire design should follow three basic steps:-
- Determine the questions to be asked
- Select the question type for each question
- Design the question sequence and overall questionnaire layout.

With a questionnaire the researcher can obtain data from many respondents. Moreover the respondents are free from interviewer bias and there is uniform question presentation and no verbal or visual cues to influence respondents. They are also easy to analyze as data entry and tabulation can be easily done. The major drawback, however, is that there is the possibility of low response rates. Also, they do not reduce respondent bias as respondents may provide inaccurate information.

3.6.2.2 Face-to-Face and Telephone Interviews

Chimedza et al. (2001) describe a telephone interview as a method that entails telephoning would be respondents and asking them questions contained in the questionnaire. Wegner (1993) states that personal interviews are interviews where the questionnaires are completed through face-to-face contact with the respondent.

Structured face-to-face and telephone interviews were conducted on respondents selected using the stratified random sampling technique. Face-to-face interviews enabled ushering in in-depth probing by the researcher for reasons on each response given. For instance, the researcher could get further clarification on an unclear response. The advantage of face-to-face interviews is that data collection is immediate, as responses are spontaneous, which safeguards accuracy and reduces bias. More questions can be asked with the use of 'aided recall questions'. Non-verbal responses are notable and face-to-face interviews generally achieve higher response rates than other survey methods (Wegner 1993). For personal interviews, the researcher wrote down the responses.

The researcher followed a Gantt chart to stick to the time allocated for interviews. This is particularly so as interviews are time-consuming and generally fewer interviews are conducted because of the time factor. Random sampling was used to identify clients to
interview at various CBZ Bank Limited branches and head office departments. The interview questions were drawn from the questionnaire as the researcher felt that some clients would not have time to complete questionnaires, but could have time to answer questions.

Telephone interviews were also used as they allow quicker contact with geographically dispersed respondents, especially in that CBZ Bank Limited has several branches and head office departments dotted around the country. These include Beitbridge, Chimanimani, Chipinge, Kariba, Nyika, Tsholotsho and Zvishavane where it can be expensive to physically visit. Telephone interviews were done for the country branches. The cost is relatively lower as compared to personal interviews and people are more willing to talk on the phone than personally, according to Arnould (2004). Interviewer probing is possible and a larger sample of respondents can be reached in a relatively short period of time.

3.6.3 Secondary Data

Wegner (1993) defines secondary data as data collected and processed by others for a purpose other than the one at hand. If the research has a historical dimension, secondary data can prove useful (Giddens, 1993). The researcher relied on secondary data CBZ records and annual reports, investors’ publications, magazines and from RBZ bulletins and publications. The use of secondary data especially the audited published results was deemed very important as the study was on a phenomenon that has since occurred.

3.7 RESEARCH PROCEDURE

Kwesu et al. (2002) posit that the basic stages of a data collection procedure are as follows:

a. Seeking of permission from relevant authority to collect data.

b. Making appointments with research subjects.

c. The distribution and administering of instruments.

d. Retrieval of instruments.
According to Miles and Huberman (1994), major phases of data analysis are, data reduction, data display, and conclusion drawing and verification. Qualitative modes of data analysis provide ways of discerning, examining, comparing and contrasting, and interpreting meaningful patterns or themes.

The researcher sought and was granted authority to carry out the study within CBZ Bank Limited by the CBZ Bank Limited approving authority, the Company Secretary. Questionnaires were distributed to CBZ Bank Limited employees in the bank’s 4 regions. Questionnaires were administered both via electronic mail as well being hand-delivered to most respondents in Harare. Some answered questionnaires were sent back through electronic mail while others were delivered by hand.

For face-to-face interviews appointments were made a fortnight before the date of the interview. A reminder was sent a week before the interview. Those that failed to confirm availability in the penultimate week were replaced. The researcher noted down all the responses. The researcher consolidated all the information after interviews.

3.8 RESEARCH LIMITATIONS

The study had several limitations and was based on a number of assumptions which need to be recognized and perhaps overcome in future. It is not appropriate for this study to make the claim that the findings are applicable to all financial institutions. However, it is hoped that the study can be reproduced to test the extent of the applicability of the findings.

The study also collected employees’ views of past events. It has been assumed that the employees were telling the truth about their feelings regarding those events. Some staff dwelled on some incidents that had a direct effect on their lives to judge impact of inflation on banking sector performance. This, to some extent, then distorts the results and findings of the research.
Finally the other limitation of this study is the nature of the data which belongs to a major commercial bank in Zimbabwe and may not generalize to banks of smaller size or different nationality. The findings may not necessarily be applicable to other banks. However, it is hoped that the study can be reproduced to test findings.

3.9 ETHICAL CONSIDERATIONS

According to Kamat (2006), there are three sets of obligations of a researcher to adhere to professional standards:-

1. An obligation to honour the trust that their colleagues place in them.
2. An obligation to themselves. Irresponsible conduct in research can make it impossible to achieve a goal.
3. An obligation to act in ways that serve the public.

Certain individual and collective rights must be maintained. These include: the right to know the precise nature and purpose of the research so that consent be given or withheld advisedly; the right to know of the risks and benefits; the right to assurance that privacy will not be invaded and that information disclosed will remain confidential. Information given to subjects should respect their levels of comprehension. There was no coercion, constraint, or undue inducement. Participants were made to understand that they may withdraw at any time, just as investigators may terminate their research in the interest of the subjects, the project, or themselves. The right to privacy extends to all information on a person’s physical and mental condition, personal circumstances and social relationships which is not in the public domain. Steps were taken to guard against indirect or unwitting disclosure of identity of subjects by association or by combination of information. All questionnaires were treated with confidentiality and it was clearly indicated on the questionnaire that responses were to be treated with confidentiality and respondents should be anonymous with no name or identification.
The researcher obtained the relevant authorisation from the bank legal department to use the CBZ Bank Limited as a case study.

3.10 CHAPTER SUMMARY

The chapter discussed the research methodology and design looking at both qualitative and quantitative methods, although the qualitative method was what was mainly used in the research. The importance of the quantitative method was highlighted. The target population was also highlighted and discussions about why a sample was used. Sampling methods were also discussed, with mention of the pros and cons of the methods and a clear discussion as to why the probability sampling method of stratified random sampling was used. This chapter also covered the data collection methods and why those particular methods were chosen. How data would be analysed in order to come up with results was fully discussed and also the issue of ethics during the conducting of the research. The chapter concluded with the research limitations to show what may have hindered some aspects of the research to have the desired outcome. In a nutshell, the overall methodology combined non-empirical and empirical approaches, used mainly qualitative methods, sought to treat the case as one of an exploratory nature and used a combination of data sampling, collection and analysis methods.
CHAPTER FOUR
RESULTS PRESENTATION, ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

This chapter covers the presentation and analysis of data collected using a comprehensive questionnaire and through interviews. The questionnaire was administered to bank officers through to executives whilst the interviews were administered to senior managers in the bank. The data were analysed for purposes of developing concepts, patterns, themes, interpretations and propositions. The theoretical foundation in the area of inflation provided in chapter 2 will serve as a guide to the interpretation of the results. Graphs and tables will be used in analysing data.

4.2 RESPONSE STATISTICS

4.2.1: Questionnaire Response Rate

Sixty (60) questionnaires were distributed to a broad spectrum of bank employees and the actual number of questionnaires that were returned and completed successfully was 40. This also became the sample size for questionnaire respondents. The table below reflects that 66% of the returned questionnaires were used for the study. A total of 20 questionnaires representing 34% of the total questionnaires sent out were not returned. The response rate of 66% is considered ideal for the study. As Hubberman (1994), states, a 65% to 70% response rate can be deemed satisfactory to good considering that a 100% response rate is next to impossible for large samples.
Table 4.1: Questionnaire Response Rate

<table>
<thead>
<tr>
<th>Response Category</th>
<th>Numerical Values</th>
<th>Percentage Values (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Returned and used for the study</td>
<td>40</td>
<td>66</td>
</tr>
<tr>
<td>Not returned</td>
<td>20</td>
<td>34</td>
</tr>
<tr>
<td>Total number of questionnaires distributed</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

4.2.2 Interview Response Rate

Table 4.2 Interview Response Rate

<table>
<thead>
<tr>
<th>Response Category</th>
<th>Numerical Values</th>
<th>Percentage Values (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual confirmed and conducted</td>
<td>15</td>
<td>75</td>
</tr>
<tr>
<td>Failed to be conducted</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Total number of requests for interviews</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary Data

Interviews were targeted to senior management of CBZ Bank Limited and were an expansion of data gathered through questionnaires. Interviews were considered more ideal to extract further data where questionnaires had limitations. The total number of completed interviews was 15 representing 75% of successful interviews.

4.2.3 Position of Respondents

The sample was selected from clerical staff up to the managing director level. Despite every level in the banking being part of the selected sample, questionnaire responses came starting from the officer level to the divisional director level. It is however, positive to note that from each of the four regions of the bank, there were at least eight respondents to the questionnaire, thus giving a more representative result. Sixty six percent responded to the questionnaires sent by email. As Hubberman (1994), states, a
65% to 70% response rate can be deemed satisfactory to good considering that a 100% response rate is next to impossible for large samples. Most responses came from people holding high positions in the organisation which augured well with the researcher’s quest to get information from respondents with a higher level of understanding of the phenomenon studied.

![Figure 4.1: Position of Respondent in Organisation](image)

### 4.2.4 Experience Working for CBZ Bank Limited

The researcher further went on to investigate the duration that the respondents have spent working for CBZ Bank Limited. The total number of respondents amounted to 50, which comprised of 35 from questionnaire respondents and 15 interviewees. Most respondents had spent between six and fifteen years working for the bank. Most of the respondents are in the experience category of between 11 and 15 years in the organisation, which augurs well with the thrust of our study considering that during the period under study they were already working for the bank and were bound to give relatively reliable responses. Only 8% of the respondents had less than 4 years working experience with the bank. The table below summarises the experience of the respondents who completed the questionnaires and were interviewed.
4.2.5 Division of respondent

The Bank has five divisions, namely corporate & merchant banking, retail banking, operations, treasury and mortgage finance. Support services include, finance, information technology, e-banking & card services, marketing and human resources. The sample was all-encompassing in order to cover all areas of bank operations. There were at least 2 respondents from each division which shows that the entire bank was represented.

The respondents’ rate is summarised in Figure 4.3 below.
SECTION B: SPECIFIC QUESTIONS

4.2.6 Bank performance indicators for Zimbabwean banks (Questionnaire)

The section looked into banking performance measures that are applicable to the Zimbabwean sector. Respondents were free to choose more than one option as long as they felt they were a measure of banking performance in Zimbabwe, hence the frequencies do not add up to any fixed total. The respondents were as indicated in the table below:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Relative Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Asset (ROA)</td>
<td>8.11%</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>16.22%</td>
</tr>
<tr>
<td>Net Interest Margin (NIM)</td>
<td>10.81%</td>
</tr>
<tr>
<td>Operating Profit Margin (OPM)</td>
<td>8.11%</td>
</tr>
<tr>
<td>Cost to Income Ratio (CIR)</td>
<td>5.41%</td>
</tr>
<tr>
<td>Other Income to Total Income (OI)</td>
<td>8.11%</td>
</tr>
<tr>
<td>Credit to Deposit Ratio (CD)</td>
<td>10.81%</td>
</tr>
<tr>
<td>Capital Adequacy Ratio (CAR)</td>
<td>5.41%</td>
</tr>
<tr>
<td>Net on Performing Assets (NPA)</td>
<td>8.11%</td>
</tr>
<tr>
<td>Provision Coverage Ratio (PCR)</td>
<td>10.81%</td>
</tr>
<tr>
<td>Interest Expenses (IE)</td>
<td>8.11%</td>
</tr>
</tbody>
</table>

Source: Primary Data

The question sought to find out from CBZ Bank Limited employees which factors, from the ones listed, were indicators of bank performance. The respondents indicated that all the listed were determinants of bank performance. Results and response rate for this are indicated in Table 4.3 above.
4.2.7 Relationship between inflation and bank development indicators in Zimbabwe

The question sought to find out if, in the view of respondents, there is any relationship between inflation and bank development indicators in Zimbabwe. The responses were as shown in figure 4.4 below. The majority of the respondents representing 90% concurred that there is a relationship between inflation and banking development indicators in Zimbabwe. Only 10% was of the opinion that there is no relationship between the two variables. The above findings are supported by Choi, Smith, et al. (1996) who argue that, high rates of inflation are detrimental to financial sector development, and this leads to an economy that has a small and non-inclusive financial sector. By creating uncertainty and financial market frictions, high rates of inflation make the financial system inefficient in allocating resources (Huybens and Smith, 1998, 1999; Boyd and Smith, 1998).

Figure 4.4: Relationship between inflation & bank development indicators in Zim

4.2.8 “High rates of inflation are detrimental to banking sector performance”

Boyd et al. (1996) argue that high inflation will inhibit any long term financial contracting and financial intermediaries will tend to maintain very liquid portfolios. Haslag and Koo (1999) on their part add on the subject matter by stating that, in an inflationary environment intermediaries will be less eager to provide long-term financing for capital formation and growth. The question sought to find out from the employees of CBZ Bank
Limited whether or not inflation has an adverse effect to the performance of the bank. 92.5% questionnaire respondents ‘strongly agreed’ that there is a relationship between inflation and banking development indicators. Their responses are shown in Figure 4.4 below. 7.5% ‘agreed’ with the statement.

Table 4.4: “High rates of inflation are detrimental to banking sector performance”

<table>
<thead>
<tr>
<th>Response Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>37</td>
<td>92.5</td>
</tr>
<tr>
<td>Agree</td>
<td>3</td>
<td>7.5</td>
</tr>
<tr>
<td>Not Sure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Primary Data

4.2.9 Ranking the Zimbabwean banking sector regulation between 2000 and 2012

According to Hanke (2008), ‘the root cause of hyperinflation is government policies that have the RBZ to print money’. The period 2000 – 2008 was characterised by rapid inflation and hyperinflation while the period 2009 -2012 was characterised by low and stable inflation. Sustained high rates of inflation were to some extent a result of government policies adopted then. Respondents were asked how they viewed the regulation of the banking sector by the monetary authorities – the Reserve Bank of Zimbabwe (RBZ). Responses ranged from low to moderate and high. However, most respondents felt the regulation was either moderate or high. For the period bank 2000 -2008 most respondents felt the regulation was high whilst between 2009 and 2012 regulation was largely moderate.
Table 4.5: Zimbabwean banking sector regulation between 2000 and 2012

<table>
<thead>
<tr>
<th>Period</th>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 - 2008</td>
<td>2</td>
<td>8</td>
<td>30</td>
</tr>
<tr>
<td>2009 - 2012</td>
<td>5</td>
<td>35</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Primary Data

SECTION C: IMPACT OF INFLATION ON BANKING SECTOR PERFORMANCE

4.2.10 Factors that brought about hyperinflation in Zimbabwe (2000 – 2008)

In this section, the study looked into the causes of hyperinflation in Zimbabwe during the given time and an array of factors has been highlighted from which respondents were expected to choose and they are shown from the table below:

Table 4.6: Factors that brought about hyperinflation in Zimbabwe

<table>
<thead>
<tr>
<th>What factors brought about hyperinflation during the period 2000 – 2008?</th>
<th>Increase in money supply</th>
<th>Socio-political upheavals</th>
<th>Perceptions Over Price increases</th>
<th>Loss of confidence in the Zimbabwean</th>
<th>All mentioned factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Primary Data

As the table above reflects, a number of factors can be attributed to hyperinflation in Zimbabwe. The views are divergent and to some extent the factors are somehow all related to each other and all had an effect on the country’s economy. The table indicates that 12 of the respondents said the increase in money supply was the chief cause in driving up inflation whilst 4 attributed it to social-political instability and price increases had a vote of just one respondent, same with loss of confidence. The greatest number went on to the “all” category with 20 respondents. Hanke, (2008), ‘the most rapid and reliable way to stop hyperinflation in Zimbabwe is to replace central banking with a new monetary regime’.
According to monetarists, money supply is the root cause of inflation. During the period 2000 – 2008 the RBZ printed money which was not backed by any production. To a great extent the RBZ contributed towards inflation. The trend came to a halt in 2009 when the government adopted the multi-currency regime.

![Factors that brought about hyperinflation in Zimbabwe](image)

**Figure 4.5: Factors that brought about hyperinflation in Zimbabwe**

### 4.2.11 Impact of inflation in Zimbabwe

It was also considered very important for the study to look into how inflation affected the Zimbabwean economy. The responses were as shown in the figure below. All the respondents indicated that they have a conviction that the impact of inflation was very negative on Zimbabwe. The graph below shows a better elaboration of the statistics on the table above. Huybens and Smith (1998, 1999) argue that an increase in the rate of inflation could have at first negative consequences on financial sector performance through credit market frictions before affecting economic growth. In fact, market frictions entail the rationing of credit, which reduces intermediary activity and capital formation. The reduction of capital investment impacts negatively both on long-term economic growth and equity market activity.
4.2.12 General Public’s confidence in the Banking Sector

The banking sector is one of the sectors that were greatly affected by inflation and fittingly so most of the reforms in the financial services sector were done in the banking sector. The public confidence of the bank was twisted in one way or the other and this section attempted to measure how the public confidence in the banking sector was affected by inflation. The situation was not made any better by the closure of some banks by the RBZ and placement of a number of banks under curatorship.

Table 4.7: Public’s confidence in the banking sector

<table>
<thead>
<tr>
<th>In your view what was the general public’s confidence in the banking sector like during the period 2000 – 2008?</th>
<th>Strong</th>
<th>Declining</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>40%</td>
<td>60%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

The public’s confidence was declining as indicated by 40% of the respondents whilst the majority of 60% was of the opinion that the public's confidence in the banking sector was weak.
4.2.13 Areas adversely affected by inflation

Respondents were asked to indicate the different areas of CBZ Bank Limited which they thought were mostly adversely affected by inflation. Most respondents were of the view that profitability was mostly affected by inflation followed by asset base.

However, profitability is in itself affected by many factors hence respondents may have zoned much on the ultimate factor affected by inflation. The profitability of the bank was difficult to qualify and quantify due to the rapid erosion of the value of money.

![Pie chart showing areas mostly affected by inflation in CBZ Bank](image)

**Figure 4.7: Areas adversely affected by inflation**

According to study findings by Fischer (1993) there is a substantial body of evidence indicating that sustained and predictable high rates of inflation can have adverse consequences either for an economy’s long-run rate of real growth or for its long-run level of real activity.
4.2.14 Main contributory factors towards the negative impact on CBZ Bank Limited?

Declining capital base was considered the main contributory factor towards the negative impact of inflation on CBZ Bank Limited performance. ‘Perceptions’ were voted after declining capital base as contributing towards the negative impact on the bank. These developments are bound to have fed on distorted investment patterns by customers that resultantly adversely affected CBZ Bank Limited performance. A mere 3% felt that competition had a negative effect on the bank as a result of inflation.

![Figure 4.8: Main contributory factors](image)

4.2.15 Interest adjustments to suite economic environment

Like any other banks during that period, it was necessary to adjust interest rates and other variables in tandem with the rapidly changing economic environment in the country. This section was measuring the extent to which CBZ Bank Limited adjusted the interest rates to suit the market conditions.
Since interest income constitutes a greater part of a bank’s income the above scenario was at play for CBZ Bank Limited during the hyperinflationary period. This negatively affected the potential income the bank could earn through interest on loans.

80% of the respondents indicated that there was a great adjustment to the bank’s interest structure to suit the markets dynamics. A mere 20% representing 8 respondents indicated that interest was adjusted to a less extent in line with the volatile economic outlook prevalent then. The adjustments are highlighted in the following chart.

4.2.16 Impact of inflation on investment

The effect of inflation on investment may be direct or indirect. High and volatile inflation results in increased transactions and information costs, which weigh down on economic development. As an example, when inflation makes nominal values uncertain, investment planning becomes difficult resulting in individuals being reluctant to enter into contracts. When inflation is high, people may lose confidence in money as the real value of savings is severely depleted. Savers will lose out if interest rates are lagging behind inflation – leading to negative real interest rates. This certainly happened to CBZ Bank Limited during the period 2000 – 2008. The bank responded by acquiring Beverly Building Society with a thrust to harness savings but the move did not pay the expected dividends.
Savings plummeted and subsequently bank investment fell to abysmally low levels. Inflation discourages investors by reducing their confidence in long-term investments. The deposits for CBZ Bank Limited were as follows: 2003 (USD87.3m), 2004 (USD169.3m), 2005 (USD97.6m), 2006 (USD47.3m), 2007 (USD16.2m) and 2008 (USD63.7m).

4.2.16 Extent to which inflation affected CBZ operations

It is also one of the truths that every business was affected by inflation but the extent to which it was affected does differ due to some key issues which can be either company unique or industry unique. This section looked into how CBZ Bank Limited’s operations were affected by the inflation.

Table 4.8: Extent to which inflation affected CBZ Bank Ltd operations

<table>
<thead>
<tr>
<th>Apart from the threat of competitors, to what extent did inflation affect CBZ Bank Limited’s competitive strategy and position?</th>
<th>To a great extent</th>
<th>To a less extent</th>
<th>There was no effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>60%</td>
<td>35%</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

Most respondents, 60%, indicated that there was a great effect whilst just two said that there were no effects at all. The other 14 respondents, representing 35% of the total respondents argued that the operations of the bank were just affected by inflation to a less extent. But overall 95% of the respondents viewed inflation as having impacted on CBZ Bank Limited’s competitive strategy and position.

4.2.17 What are the critical inflation threshold levels which are conducive for financial sector development in Zimbabwe?

Findings of Boyd et al. (2001), Khan et al. (2001) showed that there is a threshold level of inflation beyond which inflation had significant negative effects on financial sector performance. Huybens and Smith (1999), Rousseau and Wachtel (2002), and Lee and Wong (2005) indicate that financial development promotes economic growth only under
low or moderate inflation rates. Further, Boyd and Smith (1996) add that the relationship is nonlinear. As inflation rises, the marginal impact of inflation on banking lending activity diminishes rapidly.

There was a general consensus from respondents that low inflation rate is conducive for bank performance. Seventy two percent stated that inflation rates of between 6% and 10% are conducive for financial sector development. 20% felt that rates of at most 5% supported financial development. The general view is that respondents viewed inflation rates of less than 10% as conducive and ideal for banking sector development. Rates of over 50% had no one advocating them as being ideal for financial sector development.

![Critical inflation thresholds](image)

**Figure 4.10: Critical inflation thresholds**

### 4.2.18 Rating the bank’s general service provision

The study also sought to establish if bank performance changed during the inflation era. 70% of the total respondents said that the quality of the service declined during the inflation era whilst only 30% of the respondents said that the quality of service did not change as a result of inflation. Of note is the fact that not even a single respondent indicated that the quality of service improved. This is depicted in the table below.
Table 4.9: Change in the bank’s quality of service during the inflation era

<table>
<thead>
<tr>
<th>How was CBZ Bank Limited’s general service provision like during the period of high inflation?</th>
<th>Improved</th>
<th>Declined</th>
<th>No change</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>70%</td>
<td>30%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

4.2.19 Rate of budget adjustments

Budgets were drastically adjusted during the inflation era to suit the market conditions as most of the budgets failed to meet even a quarter of the required job. It was necessary for the bank to adjust budgets so that they could fit the required issues as most of the budgeted money was quickly eroded by inflation.

As the study can reflect, 82.5% of the total respondents said that budgets were adjusted nearly after each calendar month due to the high rate at which inflation was eroding the budgets. No responded was of the opinion that budgets were adjusted annually.

Figure 4.11: Rate of budget adjustments
4.2.20 Interview Respondents

The selected questions below were posed during interviews and answers were written down. The interviewees were given the platform to give detailed answers explaining their answers in detail. Below is a discussion and analysis of the answers given.

The questionnaires were deemed not to be exhaustive in exploring the effects of inflation on banking sector performance. To that end the researcher complimented the questionnaires with interviews that dwelt on a vast array of factors covering the banking sector in general and CBZ Bank Limited in particular. The interviewees targeted were mainly senior management members who have been with the bank for at least 8 years.

The general consensus amongst the interviewees was that the rapid and hyperinflationary period between 2000 and 2008 was detrimental to banking sector and CBZ Bank Limited performance. The respondents postulated that the period from 2009 to 2012, as characterised by stable inflation, had a positive effect on the performance of CBZ bank Limited.
Table 4.10: Selected questions and responses

<table>
<thead>
<tr>
<th></th>
<th>What was the inflationary condition during the period 2009-2012?</th>
<th>High</th>
<th>Low</th>
<th>Stable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td>2</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Multicurrency regime was introduced in 2009. In your view did the system result in inflation stability?</th>
<th>Yes</th>
<th>No</th>
<th>Partially</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td></td>
<td>40</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>If your answer to 2 above is YES, what would you say contributed to the stabilisation?</th>
<th>Reduction in government expenditure</th>
<th>Use of multi-currencies</th>
<th>Political stability</th>
<th>Economic growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td></td>
<td>7</td>
<td>32</td>
<td>8</td>
<td>6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>In your view, did the use of multi-currencies have an impact on inflation and performance of CBZ?</th>
<th>Yes</th>
<th>No</th>
<th>Partially</th>
<th>Don’t Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td></td>
<td>15</td>
<td>0</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>What benefits were brought about by the use of the multi-currencies to CBZ Bank Limited?</th>
<th>Increase in clientele base</th>
<th>Investment Expansion and Growth</th>
<th>Boost in foreign Currency Reserves</th>
<th>Stable Interest Rates</th>
<th>Decrease in non-performing loans (NPLs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td></td>
<td>15</td>
<td>7</td>
<td>3</td>
<td>10</td>
<td>12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Did imported inflation have an impact on CBZ Banking Limited performance, taking into account international trade (offshore loans, banking)?</th>
<th>Yes</th>
<th>No</th>
<th>Slightly</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.</td>
<td></td>
<td>2</td>
<td>12</td>
<td>6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Do you think CBZ grew during the period in terms of profitability, capital base and market share?</th>
<th>Yes</th>
<th>No</th>
<th>Partially</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.</td>
<td></td>
<td>4</td>
<td>13</td>
<td>8</td>
</tr>
</tbody>
</table>

Below is a list of the effects of inflation that featured prominently during the interviews:-

- Inflation can disrupt business planning. Budgeting becomes difficult as a result of uncertainties created by rising inflation of both prices and costs - and this has a potential effect of reducing planned investment spending. When inflation is volatile, it becomes difficult for individuals and businesses to correctly predict inflation in the near future. This was cited as an Achilles’ heel for the bank as it was very difficult to
make budgets during the period 2000 to 2008. This had an effect of having budget reviews on a monthly basis on average.

- As from 2005 to 2012 CBZ Bank acquired and constructed a number of properties to hedge against the ravaging inflation. The return on properties may not be as attractive as returns of other forms of investment like investment in stocks. Inflation leads to a shift in the asset preference of wealth holders. During the initial stages of high inflation the preference for tangible assets may be counterbalanced by corresponding increases in the rate of interest. However, in the later stages of inflation even upward adjustments of interest rates fail to neutralize the shift in asset preference.

- Unanticipated inflation occurs when people, businesses and governments make errors in their inflation forecasts. Actual inflation may end up below or above expectations causing losses in real incomes and a redistribution of income and wealth from one group to another.

- Liquidity challenge was one of the most prominent challenges that was raised by most of the employees interviewed by the researcher. The period encompasses the years 2003 and 2004 when there was an acute shortage of cash prior to the introduction of the bearer’s cheques.

- Inflation has the effect of redistributing income from those on fixed incomes, such as pensioners, shifting it to those who draw a variable income, for example from wages and profits which may keep pace with inflation. CBZ Bank Limited had to constantly adjust wages and salaries for its employees to keep pace with the galloping inflation during the period 2000 to 2008. However, sometimes the wages and salaries lagged behind the inflation rate which resulted in employee disgruntlement. This had a negative impact on employee performance. Rising inflation prompted the bank’s works council and employee representatives to demand higher wages and salaries to keep up with consumer prices. In the case of collective bargaining, wages will be set as a factor of price expectations, which will be higher when inflation has an upward
trend. This represented additional labour costs to the bank at any given time that ultimately had a negative effect to the profitability of the bank.

- Debtors may be helped by inflation due to reduction of the real value of debt burden. Inflation redistributes wealth from those who lend a fixed amount of money to those who borrow. All companies and customers who had loans with the bank had had to pay back very little in real terms. As the country embraced the multi-currency regime to mitigate against the adverse inflation effects the bank had to write off all unpaid advances.

- When domestic prices rise faster than prices in foreign countries, exports tend to lag behind imports. The rate of exchange also tends to depreciate both on account of falling purchasing power of currency within the country and adverse balance of payments. Where fixed exchange rates are imposed, higher inflation than in trading partners’ economies will make exports more expensive. In some cases there may also be an outflow of capital which was the case in Zimbabwe during the inflationary period. CBZ Bank Limited’s foreign currency reserves were dealt a huge blow. Clients demanded foreign currency to import a host of products that were scarce in the country.

- High inflation is often associated with financial repression as governments adopt policies meant to protect certain sectors of the economy. This was a very common feature between 2000 to 2008 as the monetary authorities and government urged banks to support certain sectors deemed the drivers of the economy. The bank did not have total control and autonomy over its actions.

- Continuous addition to an economy’s productive capacity encourages capital formation. Capital formation occurs when part of money income is saved and transferred to the investors who, in turn, use it for investment and capital formation. Inflation, however, discourages savings and makes consumption more palatable than saving. During the period 2000 to 2009 CBZ Bank Limited was not spared this conundrum as deposits dried up. With very limited lines of credit, if any, advances nose-dived. Hence, it follows that firms and individuals will be reluctant to enter
contracts when inflation is imperfectly predicted and judgments about absolute and relative prices are uncertain (Choi et al, 1996).

- There was also a general consensus that inflation leads to unprofessional and unethical behaviour by employees. This affected the productivity of the workforce and subsequent performance of the bank.

The interviewees were again unanimous in asserting that the period 2009 to 2012 ushered in an era of stable inflation as the country adopted the multi-currency system. The low and stable inflation was conducive to the performance of CBZ bank Limited.

- The beneficial effects of inflation are achievable when the price rise is sufficiently mild. The period is marked with a favourable impact on both output and employment. The increase in prices and distributive inequalities are more than counterbalanced by gains in output and employment. The bank introduced new products and also re-introduced some products and services which had been abandoned during the hyperinflationary period. Productivity increased and so was profitability.

- The period 2009 -2012 witnessed capital formation when part of money income was saved and transferred to the investors who, in turn, used it for investment and capital formation. Low inflation encouraged saving activity making consumption less attractive as compared to saving. CBZ Bank Limited was amongst the pioneers to reintroduce loans and overdrafts which had been discontinued leading to the period 2008. Initially the facility tenures were 90 days before they were increased to 180 days, then 12 months and above.

- With inflation, the price of any given good is likely to increase over time, therefore both consumers and businesses may choose to make purchases sooner than later. This effect tends to keep an economy active in the short term by encouraging spending and borrowing and in the long term by encouraging investments. This is especially so when inflation is relatively low. The bank took full advantage of
customers’ savings and advanced some of the deposits to productive sectors of the economy. The bank benefited from monthly interest and facility fees.

- Households switched savings into accounts offering a higher rate of interest or into other financial assets where capital gains outstripped price inflation.

- CBZ Bank Limited as a lender could adjust interest rates to hedge against future price, which is tantamount to transacting in “forward markets”. When people and businesses are able to make accurate predictions about inflation, they can take steps to protect themselves from its effects.

The implied reduction in real returns exacerbates credit market frictions. Since these market frictions lead to the rationing of credit, credit rationing becomes more severe as inflation rises. As a result, Barro (1995) states that the financial sector makes fewer loans, resource allocation is less efficient, and intermediary activity diminishes with adverse implications for capital investment. The researcher can conclusively note that generally, high or unpredictable inflation rates are regarded as bad while low and moderate inflation is regarded as greasing the wheels of commerce and beneficial.

4.2.4 Historical CBZ Bank Limited Performance


Table 4.11 shows that CBZ Bank Limited total deposits, total assets, total income earnings per share all rose significantly in the year 2004 when inflation fell from 598.75% in 2003 to 132.75% in 2004. The growth ratios for profit before tax, deposit and net interest all tumbled during this period of sustained inflation and hyperinflation, adversely affecting the profit of the bank. As inflation began to rise from 2005 until 2008, the above aggregates began to perform badly.
Table 4.11: CBZ Bank Ltd Selected Financial Information 2003 - 2008

<table>
<thead>
<tr>
<th>31 December (USDm)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deposits</td>
<td>87.3</td>
<td>169.3</td>
<td>97.6</td>
<td>47.3</td>
<td>16.2</td>
<td>63.7</td>
</tr>
<tr>
<td>Total Assets</td>
<td>118.3</td>
<td>304.9</td>
<td>157.8</td>
<td>68.6</td>
<td>44.1</td>
<td>146.1</td>
</tr>
<tr>
<td>Total Income</td>
<td>8.2</td>
<td>64.5</td>
<td>49.1</td>
<td>17.4</td>
<td>7.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Earnings Per Share (USc)</td>
<td>1.2</td>
<td>9.4</td>
<td>7.2</td>
<td>2.5</td>
<td>1.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Net Interest Growth (%)</td>
<td>44.9</td>
<td>496.9</td>
<td>(38.1)</td>
<td>(59.8)</td>
<td>(48.4)</td>
<td>(87.7)</td>
</tr>
<tr>
<td>PBT Growth (%)</td>
<td>39.1</td>
<td>608.0</td>
<td>(29.9)</td>
<td>(55.7)</td>
<td>(95.5)</td>
<td>(73.0)</td>
</tr>
<tr>
<td>Deposit Growth (%)</td>
<td>15.1</td>
<td>94.0</td>
<td>(42.4)</td>
<td>(51.5)</td>
<td>(65.8)</td>
<td>-</td>
</tr>
<tr>
<td>Non-Interest Income to Total Income</td>
<td>-</td>
<td>-</td>
<td>28.78</td>
<td>78.64</td>
<td>88.53</td>
<td></td>
</tr>
<tr>
<td>Inflation Rate as at 31 Dec (%)</td>
<td>598.75</td>
<td>132.75</td>
<td>585.84</td>
<td>1 281.11</td>
<td>66 212.3</td>
<td>231m</td>
</tr>
</tbody>
</table>


Table 4.12 depicts a situation between 2009 and 2012 whereby total deposits, total assets, total income and earnings per share all registered growths when inflation was low and stable. The period was also characterized by increases in growth ratios for deposits and profit before tax.

Table 4.12: CBZ Bank Ltd Selected Financial Information 2009 - 2012

<table>
<thead>
<tr>
<th>31 December (USDm)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deposits</td>
<td>357.7</td>
<td>578.0</td>
<td>809.1</td>
<td>1 003.4</td>
</tr>
<tr>
<td>Total Assets</td>
<td>405.1</td>
<td>649.7</td>
<td>981.8</td>
<td>1115.1</td>
</tr>
<tr>
<td>Total Income</td>
<td>10.2</td>
<td>22.2</td>
<td>25.6</td>
<td>33.6</td>
</tr>
<tr>
<td>Earnings Per Share (USc)</td>
<td>1.5</td>
<td>4.33</td>
<td>4.83</td>
<td>6.4</td>
</tr>
<tr>
<td>PBT Growth (%)</td>
<td>-</td>
<td>152.1</td>
<td>13.0</td>
<td>26.6</td>
</tr>
<tr>
<td>Deposit Growth (%)</td>
<td>460.0</td>
<td>61.6</td>
<td>40.0</td>
<td>24.00</td>
</tr>
<tr>
<td>Inflation Rate as at 31 December (%)</td>
<td>(7.70)</td>
<td>4.1</td>
<td>4.9</td>
<td>2.91</td>
</tr>
</tbody>
</table>

Source: CBZ Bank Annual Financial Statements
The above illustrations corroborate our findings from the questionnaire and interview data that above certain critical inflation threshold inflation adversely affects bank performance.

4.3 CHAPTER SUMMARY

This chapter covered the presentation, analysis and discussion of the primary data collected from the sample using questionnaires and interviews. The data was analyzed for purposes of developing concepts, patterns, themes, interpretations and propositions. The theoretical foundation in the area of inflation provided in chapter 2 served as a guide to the interpretation of the results. The results of this study have suggested that high rates of inflation had a negative impact on the performance of CBZ Bank Limited. The conclusion drawn from this discussion as well as recommendations will be presented in the next chapter, which is the final chapter of this paper.
CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter concludes the discussions on the impact of inflation on banking sector performance – a case of CBZ Bank Limited - for two timelines 2000 – 2008 and 2009 - 2012. The chapter also provides recommendations going forward for CBZ in particular and the wider banking sector in general. The chapter consists of three sections. The first section outlines conclusions of the study as they relate to the objectives and research questions outlined in chapter one and based on findings from chapter four. The second section presents recommendations which financial institutions, the monetary authorities, financial institutions and the government can adopt and put in place in order to mitigate or eradicate the adverse effects of inflation. Finally, areas of further research are provided.

5.2 CONCLUSIONS

The conclusions arrived at pertaining to the impact of inflation on financial sector performance, using information from respondents suggest the following:-

5.2.1 Impact of inflation on Interest Rates

- During periods of high inflation the bank’s lending portfolio is negatively affected as, in real terms, clients pay back less than what would have been availed to them.

- Sustained high rates of inflation rates lead to growing disparities between savings interest rates and high inflation rates resulting in negative real returns for savers. On the one hand this inevitably leads to a drop of inflows in form of savings by consumers. Eventually, customers demand more advances whilst banks put limits on credit availability.

- Sustained high rates of inflation culminate in reduced investment spending as investors become skeptical about investing with the bank. In essence clients prefer
short term and very liquid positions and this leads to reduced capital accumulation. Assets like properties that cushion against the erosion emanating from sustained high rates of inflation lure investors at the expense of the bank.

- As inflation soars the flow of information used by intermediaries about investment portfolios and returns - as calculated by the difference between inflation rate and interest rate - becomes more uncertain and less readily available. As a result of the uncertainty, there is a propensity to indulge in speculative tendencies by the bank’s customers to hedge against the fast reduction of the purchasing power of the currency.

- Directed credit allocation imposed by the Central Bank through bank regulation and quasi-fiscal activities contributes to inefficient credit allocation. This leads to inefficient allocation of capital and resources.

5.2.2 Impact of inflation on bank performance and challenges to the bank

- The research discovered and concluded that there is a relationship between inflation and performance indicators of the bank. Hyperinflation has a negative impact on all bank performance indicators.

- Inflation causes banks and market participants to make decisions they would not have made if inflation had not been clouding the environment. The result is that market outcomes are not as efficient as they would be in an economy devoid of high rates of inflation. Moreover, the experience of inflation can become engraved on economic agents’s minds making them suspicious of financers, bankers, financiers and the general economic system.

- High inflation tends to reduce long-term capital formation by hurting the incentive to save, and to effectively reduce long-term spending by making products expensive. Limited investments will result in curtailed opportunities for corporates which will be forced into speculation.
• Inflation causes corporates become less focused on core-business as they endeavour to survive. This may eventually lead to corporate cannibalisation whereby companies essentially trade each other’s shares without any meaningful investment in plant, equipment, stock or capacity.

• If the rate of inflation in the host country is higher than that of other trading countries, a fixed exchange rate will be undermined through a weakening balance of trade, and foreign currency shortages will ultimately set in. This adversely affects the foreign currency reserves of the bank.

• When inflation is greater than interest rate it re-distributes income from those on fixed incomes to those with variable income which may keep pace with inflation. It also redistributes wealth from those who lend a fixed amount of money to those who borrow.

• Hyperinflation leads to the deterioration of the monetary base as the confidence that there is a store of value which the currency will be able to command later rapidly diminishes. The perceived risk of holding currency rises dramatically, and to accept the currency, sellers demand increasingly and proportionately high premiums. Fear of total collapse of the currency results in even higher premiums.

• Sustained high rates of inflation debar consumers from holding their wealth in the form of an account. New and old employees of companies dump the use of their current and savings accounts. This leads to financial exclusion and an apparent loss of potential deposits to banks.

• Financial development lessens credit-rationing through reducing the rate of inflation, reducing intermediary activity and capital formation and reducing the reliance on cash.
5.2.3 Critical Inflation Thresholds

- Results of the survey conducted show that inflation levels of between 6% and 10% are conducive to banking sector performance. Levels of inflation greater than 100% adversely affect bank performance.

- When inflation is very low, at levels below 5%, real interest rates tend to be high and borrowing is curtailed. To the bank the propensity to lend is high yet borrowing becomes expensive to clients.

5.3 RESEARCH PROPOSITION VALIDATION

The proposition stated that above a certain critical inflation threshold there is a negative relationship between inflation and banking sector performance. CBZ Bank Limited was used as a case study. The period under study was 2000 – 2012 which was split into two time-frames: 2000 – 2008 which was characterized by high and sustained inflation and hyperinflation of above 100% and 2009 – 2012, a period of low and stable inflation of less than 10%. Data from employees, who partook in the questionnaires and interviews, show that there is indeed a certain critical inflation threshold above which any increases in inflation lead to adverse performance of the banking sector. CBZ Bank Limited was shown to have performed better during 2009 – 2012 as compared to the period 2000 – 2008 when the bank was faced by a plethora of challenges.

In light of the aforementioned, the proposition is validated.

5.4 RECOMMENDATIONS

5.4.1 Use of real interest rates

Expected inflation can be controlled by the use of real interest rates rather than nominal interest rates as a potential indicator of future inflation. Consequently, short-term real
interest rates may provide a better measure of the stance of monetary policy and, therefore, may be a better predictor of inflation than nominal interest rates.

5.4.2 Banks to practice prudential lending

CBZ Bank Limited and all other banks ought to come up with a lending structure that is driven by market forces. This mostly implies that the lending is normally short term and the focus is on real interest rates and not nominal rates. The financial intermediaries may opt to stop lending if the rate of inflation is high and volatile.

5.4.3 Keeping bank reserves in stable currencies

The researcher recommends that during hyperinflation, the bank needs to keep most its reserves in the form of a more stable currency especially in foreign currency since it is not easily eroded by the inflation as it happens with local currencies during hyperinflation.

5.4.4 The Central Bank to stick to its Core Activities

The study recommends that the Central Bank of Zimbabwe should stick to its core business. During the period 2000 to 2008 the Central Bank was accused of neglecting its core activities of monitoring and supervision of financial institutions for non-core activities and quasi-fiscal activities. This act was viewed as having the potential to drive away potential investors.

5.4.5 Information to be readily available

The flow of information about investment projects and returns that is used by intermediaries should be readily available and easily understandable to all economic players. This would ensure that there is no information asymmetry that helps in coming up with informed investments decisions in the financial sector, especially during inflationary times where decision making proves a daunting task.
5.5 SUGGESTIONS FOR FURTHER STUDY

This study concentrated on CBZ Bank Limited as a case of study. To be able to generalise results to other financial institutions with more confidence, future studies may consider increasing the sample size. There is a need for further research on how inflation impacts financial sector performance, gathering data from every entity that forms part of the financial sector. This will help in drawing closer to the actual effect for their entire economy with a more representative population. If some or all of these recommendations are considered, this may improve knowledge of the theory and impact of inflation on banking sector performance in Zimbabwe.
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APPENDIX I: RESEARCHER INTRODUCTORY LETTER

04 June 2013

Dear Sir/Madam

RE: MBA Research Questionnaire

My name is Brighton Sibanda, a final year MBA student at the Graduate School of Management, University of Zimbabwe. As a requirement for the fulfillment of the degree programme, I am conducting a research which seeks to investigate the impact of inflation on banking sector performance in Zimbabwe. I have attached a questionnaire meant for the collection of information to address the research entitled: An assessment of the impact of inflation on banking sector performance in Zimbabwe (2000 – 2008) and (2009 – 2012): The case of CBZ Bank Limited. May you kindly spare some time off your busy schedule to give your opinions on this issue.

Please note that this research is for academic purposes only and will be treated with confidentiality. The findings of this survey will not be used for any other purpose besides that intended for this research. For further clarifications regarding this study, please feel free to contact the Researcher on the following telephone numbers 0772 426 066 or email address: bsibanda@cbz.co.zw

Your co-operation will be greatly appreciated.

Yours faithfully,

Brighton Sibanda
MBA Student
APPENDIX II: RESEARCH QUESTIONNAIRE FOR CBZ BANK LIMITED EMPLOYEES

Instructions on filling in the questionnaire:

There is no right or wrong answer so be at liberty to answer in a way that expresses your most objective opinion in each case. Some questions have options to choose from while others are open-ended and require a brief explanation.

[Mark with an ‘X’ as applicable in the boxes provided]

BACKGROUND INFORMATION

1. Job Title

   a. Managing Director [ ]
   b. Divisional Director [ ]
   c. Executive [ ]
   d. Head of Department [ ]
   e. Branch Manager [ ]
   f. Operations manager [ ]
   g. Officer [ ]
   h. Teller [ ]
   i. Clerk [ ]
   j. Other [ ]

2. Division

   a. Corporate & Merchant Banking [ ]
   b. Retail Banking [ ]
   c. Treasury [ ]
   d. Mortgage Finance [ ]
e. Operations [ ]

3. Number of years working for CBZ Bank Limited

a. Less than 5 years [ ]
b. 6 – 10 years [ ]
c. 11- 15 years [ ]
d. 16 – 20 years [ ]
e. Above 21 years [ ]

BANK PERFORMANCE INDICATORS

Listed below are some of the key determinants of a bank performance:-

**Return On Assets (ROA)** = \( \frac{Net \ Profit \ after \ Taxes}{Assets} \)
The return on assets provides information on how efficiently a bank is being run because it indicates how much profits are generated by each dollar of assets.

**Return On Equity (ROE)** = \( \frac{Net \ Profit \ After \ Taxes}{Equity \ Capital} \)
The ROE is a measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders’ equity.

**Net Interest Margin (NIM)** = \( \frac{Interest \ Income - Interest \ Expenses}{Assets} \)
NIM is the difference between interest income and interest expenses as a percentage of total assets. One of the bank’s primary intermediation functions is to issue liabilities and use the proceeds to purchase income earnings assets.

**Operating Profit Margins (OPM)** = \( \frac{Net \ Int. \ Income - Operating \ Expenses}{Total \ Interest \ Income} \)
Operating margins are profits earned by the bank on its total interest income. For some private sector banks the ratio is negative on account of their large IT and network expansion spending.

**Cost to income ratio (CIR)** = \( \frac{Operating \ expenses}{(Net \ Interest \ Income + Non-Interest \ Income)} \)
Controlling overheads are critical for enhancing the bank’s return on equity. The ratio is calculated as a proportion of operating profit including non-interest income (fee based income).

Other income to total income (OI):
This is fee based income account for a major portion of the bank’s other income. This stream of revenues is not depended on the bank’s capital adequacy and consequently, potential to generate the income is immense.

Credit to deposit ratio (CD ratio):
The ratio is indicative of the percentage of funds lent by the bank out of the total amount raised through deposits. Higher ratio reflects ability of the bank to make optimal use of the available resources.

Capital Adequacy Ratio (CAR) = \( \text{Tier I capital} + \text{Tier II capital}/\text{Risk weighted assets} \)
A bank’s capital ratio is the ratio of qualifying capital to risk adjusted (or weighted) assets. The ratio ensures that the bank does not expand its business without having adequate capital.

NPA ratio = Net non-performing assets/Loans given
The net non-performing assets to loans (advances) ratio is used as a measure of the overall quality of the bank’s loan book. Net NPAs are calculated by reducing cumulative balance of provisions outstanding at a period end from gross NPAs. Higher ratio reflects rising bad quality of loans.

 Provision coverage ratio (PCR) = (Cumulative provisions)/Gross NPAs
The key relationship in analysing asset quality of the bank is between the cumulative provision balances of the bank as on a particular date to gross NPAs. It is a measure that indicates the extent to which the bank has provided against the troubled part of its loan portfolio.

Interest expenses (IE):
A bank’s main expense is in the form of interest outgo on deposits and borrowings. This in turn is dependent on the factors that drive cost of deposits. If a bank has high savings and current deposits, cost of deposits will be lower. The propensity of the public to save also plays a crucial role in this process. If the spending power for the populace increases, the need to save reduces and this in turn reduces the quantum of savings.

1. By way of an ‘X’ indicate which of the above-listed banking sector performance indicators are applicable to the banking sector in Zimbabwe as a measure of bank performance.

\[ \text{ROA [ ] } \quad \text{ROE [ ] } \quad \text{NIM [ ] } \quad \text{OPM [ ] } \quad \text{CIR [ ] } \]
\[ \text{OI [ ] } \quad \text{CD [ ] } \quad \text{CAR [ ] } \quad \text{NPA [ ] } \quad \text{PCR [ ] } \]
2. Is there any relationship between inflation and banking development indicators in Zimbabwe?
   a. Yes [ ]  b. No [ ]

3. To what extent do you agree to the following statement? “High rates of inflation are detrimental to banking sector performance”. (Tick the appropriate below).
   a. Strongly agree [ ]
   b. Agree [ ]
   c. Not sure [ ]
   d. Disagree [ ]
   e. Strongly Disagree [ ]

4. How do you rank Zimbabwe banking sector regulation by the monetary authorities between 2000 and 2012?

<table>
<thead>
<tr>
<th>Year</th>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 - 2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009 - 2012</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

THE IMPACT OF INFLATION ON BANKING SECTOR PERFORMANCE IN ZIMBABWE (2000 – 2008)

1. What factors brought about hyperinflation 2000-2008?
   - Increase in money supply
   - Socio-political upheavals
   - Perceptions Over Price increases
   - Loss of confidence in the ZWS
   - All mentioned factors

2. What would you say was the impact of inflation in Zimbabwe during the period 2000 – 2008?
   - Positive
   - Negative
   - No Impact
3. In your view how was the general public’s confidence in the banking sector during the period 2000 - 2008?  
<table>
<thead>
<tr>
<th>Strong</th>
<th>Declining</th>
<th>Weak</th>
</tr>
</thead>
</table>

4. Which areas were adversely affected in CBZ Bank Ltd?  
<table>
<thead>
<tr>
<th>Credit</th>
<th>Deposit Base</th>
<th>Capital Base (Balance Sheet)</th>
<th>Investment Portfolio</th>
<th>Branch Network</th>
<th>Total Assets</th>
<th>Profitability</th>
<th>All factors listed</th>
</tr>
</thead>
</table>

5. From the given factors indicate the ones that impacted negatively on CBZ performance.  
<table>
<thead>
<tr>
<th>Interest Rate Changes</th>
<th>Change in Investment Patterns</th>
<th>Declining Capital Base</th>
<th>Competition</th>
<th>Perceptions</th>
<th>All factors listed</th>
</tr>
</thead>
</table>

6. Interest rates directly affect the credit market. To what extent did CBZ Bank adjust the rates to match the prevailing market conditions?  
| To a great extent | To a less extent | No adjustments were made |

7. Apart from the threat from competitors, to what extent did inflation affect CBZ Bank Ltd’s competitive strategy and position?  
| To a great extent | To a less extent | There was no effect |

8. How was the Bank’s general service provision affected during the period?  
| Improved | Declined | No Change |

9. How often did the Bank review its budgets?  
| Monthly | Monthly | Quarterly | Yearly |

10. Which of the listed measures were implemented by CBZ Bank Ltd to curb the adverse effects of inflation during the period 2000 – 2008? Mark with an ‘X’ all the applicable measures.  
   a. Product diversification  
   b. Expand branch network
c. Interest adjustment in line with market conditions [  ]

d. Introduction of new products [  ]
e. Acquisition of assets [  ]
f. Staff rationalisation [  ]

11. What was the relationship between long term borrowing by CBZ Bank Limited clients and inflation during the period 2000 - 2008?

Positive [  ]    Negative [  ]

THE IMPACT OF INFLATION ON BANKING SECTOR PERFORMANCE IN ZIMBABWE (2009 – 2012)

1. How will you describe the inflationary conditions during the period 2009 -2012?

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Low</th>
<th>Stable</th>
</tr>
</thead>
</table>

2. The multicurrency system was introduced in 2009. In your view did the system result in inflation stabilisation?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Partially</th>
</tr>
</thead>
</table>

3. If your answer to the above is Yes indicate from the below listed factors which could have contributed to the stable inflationary conditions?

a. Economic Stability [  ]
b. Political stability [  ]
c. Confidence by the public in the adopted currencies [  ]
d. Availability of basic goods and services [  ]
e. Favourable monetary policies implemented [  ]
f. Availability of currency in circulation [  ]

5. What were the benefits to CBZ Bank Limited brought about by the inflationary trends between 2009 and 2012? Mark with an ‘X’ all the applicable.

a. Deposit Base Improved [  ]
b. Capital Adequacy [  ]
c. Strong Foreign Currency Reserves [  ]
d. Strong Balance Sheet [  ]
e. Stable Interest Rates [  ]
f. Increase in Assets [  ]
g. Increase in Clientelle Base [ ]
h. Decrease in loan default rate [ ]

6. Did imported inflation have an impact on CBZ Banking Limited performance, taking into account international trade (offshore loans, banking)? Yes [ ] No [ ]

7. In your view did the effects of hyperinflation (2005 – 2008) have an adverse spill-over impact on CBZ Bank Limited performance after the adoption of the multi-currency system? Yes [ ] No [ ]

8. If your answer to question 7 above is Yes, in your view how did the Bank mitigate against these adverse effects?

________________________________________________________________________________
________________________________________________________________________________

9. From the following banking sector development indicators kindly indicate whether the impact of inflation was either positive or negative in the case of CBZ Bank Limited. *Indicate your answer by way of an ‘X’.*

<table>
<thead>
<tr>
<th></th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Total Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000 - 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009 - 2012</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000 - 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009 - 2012</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>c. Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000 - 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009 - 2012</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>d. Return On Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000 - 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009 - 2012</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The following are some of the effects of inflation to the banking sector. Could you by way of an ‘X’ indicate whether or not the factors are applicable to the Zimbabwean situation?

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>TRUE</th>
<th>FALSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial intermediation becomes more difficult when inflation rates are very high.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The flow of information about investment projects and returns that is used by intermediaries has become more uncertain and less readily available.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation results in the erosion of the usefulness of money assets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning becomes very difficult for economic agents.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returns on investments are rendered unpredictable.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction of policies that have led to distortions within the financial structure of the economy.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The effect of inflation on debtors is positive because debtors can pay their debts at less than the initial value in real terms.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The net effect of inflation is that it serves to transfer money from savers and investors to debtors.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Wages and salaries lag behind cost of living increases, making families struggle to keep up as the prices increase faster than the real income received from employers.

10. Low to moderate rates of inflation have a very strong negative association with banking sector performance:-
   a. Agree [    ]  b. Disagree [    ]

11. What are the critical inflation threshold levels which are conducive for financial sector development in Zimbabwe?
   -5% - 0% [    ]  b. 0% - 5% [    ]
   6% - 10% [    ]  d. 11% - 50% [    ]
   51% - 100% [    ]  f. Above 100% [    ]

12. What policy recommendations can you give to the policy formulation authorities on the policies to reduce the effect of inflation on banking sector performance? (Please fill in the spaces provided below).

________________________________________________________________________________________
________________________________________________________________________________________

END OF QUESTIONNAIRE
THANK YOU FOR YOUR EFFORT AND TIME
APPENDIX III: INTERVIEW GUIDE FOR CBZ BANK LIMITED EMPLOYEES

Interview Guide

1. Welcome to (My Institution’s Name).
2. Interview those participating in this interview process. (Names, positions)
3. Explain the interview process – how much time is allocated, the review of the resume, the note taking, and the opportunity for the applicant to ask questions.

Interview Questions

SECTION A: JOB SPECIFIC QUESTIONS

1. May you please describe the challenges that the CBZ Bank Ltd has faced since the year 2000 to date?
2. In your own opinion, what could have been the causes of the challenges?
3. Are you satisfied by the strategies taken by the bank to address these challenges during that period and in your own opinion, what strategies would you have implemented?

SECTION B: PERFORMANCE OF BANK

4. What do you understand by Return on Equity (ROE) as a measure of bank profitability?
5. Was return on equity used as a measure of profitability by CBZ between 2000 and 2008 and the period 2009 to 2012?
6. May you describe how inflation affected the bank’s Return on Equity (2000-2008). Was the effect the same between 2009 and 2012?
7. What specific measures were taken by the bank to address the impact of inflation on the bank’s return on equity?

8. What is the acceptable level of return on equity for a bank?

9. What were the limitations of ROE as measure of profitability during inflation times?

10. Can you explain how inflation affected the bank’s total share return during the period under review?

11. To what extend can you say inflation influenced the bank’s price-earnings ratio during these two periods?

12. How do you evaluate the variation in the bank’s price-to-book value during the hyper-inflationary era (2000-2008) in Zimbabwe and how does it compare to the period 2009 to 2012?

13. What do you understand by the term Inflation Targeting?

14. What political conditions are conducive for the adoption of Inflation Targeting as a strategy?

15. Was there a positive or negative relationship between long term borrowings by CBZ Bank clients due to inflation?
16. What was the impact of inflation on short-term borrowing on CBZ Bank Limited during the period 2000 – 2008?
..............................................................................................................................................................................................

17. In the spaces provided kindly explain the measures that were taken by CBZ Bank Limited to curb the adverse effects of inflation during the period
............................................................................................................................................................................................................

18. In your opinion did the Bank grow in terms of branch network and staff compliment during the period under review?
............................................................................................................................................................................................................

19. From the following banking sector development indicators may you please explain how each indicator for CBZ Bank Limited has been affected by inflation in the spaces provided below?

   h. Total Assets.
   ..........................................................................................................................................................................................

   i. Deposits.
   ..........................................................................................................................................................................................

   j. Loans.
   ..........................................................................................................................................................................................

   k. Return on Equity.
   ..........................................................................................................................................................................................

   l. Branch Network.
   ..........................................................................................................................................................................................

   m. Profitability.
   ..........................................................................................................................................................................................

   ..........................................................................................................................................................................................

END OF THE INTERVIEW

Thank the person for coming for the interview.