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An empirical study on the factors influencing the performance of financial institutions in Zimbabwe

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Abstract

The main aim of this study was to empirically assess the main micro economic factors that affect a bank`s performance. The objectives were to ascertain if there is a relationship between the performance variables with the microeconomic variables, determine those that are statistically significant and their impact on the performance of banks in Zimbabwe. This study becomes unique in that it employs an econometric model which was built from balanced panel data and according to the author`s knowledge, no study has so far employed the Arellano-Bond estimation procedure to Zimbabwean banks` data. The empirical analysis was carried out on a sample of 17 banks that were operational in the years 2010 to 2017 in Zimbabwe. Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margin (NIM) were used as the performance indicators in the analysis, when most studies on Zimbabwean banks would focus on just one or two of these variables. The results indicate the main microeconomic factors to be those attributed to growth, credit risk, capitalisation, managerial efficiency, liquidity and diversification in the Zimbabwean financial institutions. Performance in these institutions is generally good as measured by positive persistent profits, that is, ROA, ROE and NIM. These returns reflect the extent to which these institutions are resilient to the economic crisis. The nature of relationships within the micro economic variables can be explored for future research, as well as using the emerging machine learning techniques to better understand the relationships and critical points of the variables that have a significant impact on the performance of banks.

Author Keywords

ROA, ROE, NIM, Panel Data, Arellano-Bond Estimation

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