

An Evaluation of Banking Sector Regulatory Capital in a Multicurrency Economy: A Case for Zimbabwe

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ABSTRACT This paper seeks to evaluate Zimbabwe's banking sector capital requirements based on existing theory and evidence. Literature surveyed is used to critically evaluate the existing design of bank capital requirements. The study shows that all banks in Zimbabwe had fallen short of minimum capital requirements in 2012, prompting aggressive capital raising strategies in the banking sector. In this study, various implications of the new capital requirements for the banking industry and the economy in general are discussed. The discussion supports the increase in capital requirements in that bank stability and lending would be enhanced as a result of such increase in capital. This however comes at a cost as the weighted average cost of funds increases due to the use of additional equity in capital structure of banks which further adversely impacts on borrowers. Overall, the study shows that benefits of increasing capital requirements outweigh the costs. Further, a set of recommendations for three economic sectors, namely, the banking institutions, the central bank and the government, on ways to respond to the regulatory changes and standard regulatory capital requirements are outlined.