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## An Application of Panzar-Rosse Approach in Assessing Banking Sector Competition in Zimbabwe

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An assessment of bank competition is important for a number of reasons. Banking competition helps to foster economic growth. It enhances efficiency as it forces managers to cut down on costs to maintain profitability, improves the corporate sector's access to finance, and reducing the chances of financial crises. Banking competition facilitates provision of financial services at a lower cost. A decline in banking competition makes provision of financial services costly which negatively impacts economic growth.

The study is an empirical assessment of the banking sector competition in Zimbabwe under the multicurrency regime introduced following a severe economic crisis between 1999 and 2008. The objectives of the study was to test for banking sector equilibrium, assesses the nature of competition and lastly evaluate the evolution of the competition in the banking sector. The assessment was undertaken, using the Panzar and Rosse H-statistic model. This method assesses the intensity of competition on the basis of a reduced form equation that explains revenue in terms of factor input prices and other explanatory variables.

The study suggests that the Zimbabwean banking sector was in long run equilibrium during the period 2009-2014. The results of long run equilibrium implies that the risk-adjusted rates of return were equal across banks and returns on bank assets are not related to input prices. The study established that banking revenue is positively related to the price of funds, the cost of labour and the cost of capital. This implies that an increase in revenue is associated with increased costs.

The study established that the banking sector in Zimbabwe operates under monopolistic competition. This means that banks are able to generate more revenue as a result of their unique features such as brands, image and advertising. Banks produce different products but equally substitutable. The study findings indicate that competition evolved over the years in the banking sector since the introduction of the multi-currency system in 2009. This suggests bank competition has increased over the years. The lowest level of competition in the banking sector was experienced in 2009. The intensity of competition started to increase in 2010 as banks adjusted to the new dispensation of multi-currency. The multicurrency system was characterised by the lack of the lender of last resort and absence of active interbank market which forced domestic banks to depend on foreign banks and lines of credit for liquidity support. This tilted competition in favour of foreign owned banks who accessed easy foreign currency from their parent companies in the early years of multicurrency system. After domestic banks had fully adjusted to the multicurrency system, negotiated for increased lines of credit and attracted reasonable deposits, competition intensified in the banking sector. Competition increased in the banking sector on an annual basis.

The findings of the study revealed that controls reduce competition. The study has shown that competition declined in 2013 after the government introduced price controls. The price controls were introduced through the Memorandum of Understanding (MoU) between banks and the central bank. The MoU altered the operating business conditions for banks. The MoU was a guideline on interest rates and ban charges to be charged on deposit and investment accounts; overdrafts, loans and advances. Effectively banks were not able to price their banking products using the market forces of demand and supply. The study therefore recommends that the government should desist from using controls and allow free operation of market forces.

There are a number of policy implications that can be drawn from the study by the South African government. Measures that are meant to improve financial stability in the economy pose both positive and negative effects on the banking sector hence a cost benefit analysis should be undertaken before implementation. Economic stability nurtures an environment that improves financial intermediation hence is important for enhancing banking competition. Banking competition is important for economic growth, improved efficiency and improved access to finance. Tampering with competitive forces increases the cost of providing financial services. The Government should avoid tempering with market forces as this reduces banking sector competition.