CREDIT RISK MANAGEMENT TOOLS PRACTICED IN ETHIOPIAN COMMERCIAL BANKS

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ABSTRACT

Examining and comparing the Credit risk management tools practiced in public and private Ethiopian commercial banks is the main purpose of this study. Primary data, gathered through self-developed questionnaire, was used for this study. The survey result revealed that Collateral, Guarantee, Multi-tier Credit approval and Credit limit system are the four mostly applied and highly effective Credit risk management instruments in Ethiopian commercial banks. Additionally, Diversification has been highly applied and effective tools in private banks and setting strong covenants as well while its application has been moderately effective. Stress testing and Risk based loan pricing technique have been slightly applied in public sector commercial banks. Types of credit, deposit rate, operating cost, lending rate of other banks, and bank’s profitability are mostly considered factors while pricing loans. It is observed that there was no statistically significant difference in the mean score of the level of considering loan-pricing factors between public and private sector banks. Furthermore, there was statistically significant difference in the level of applying Credit risk management tools between private and public commercial banks. Finally, Ethiopian commercial banks appear to be highly conservative lender on consumer loans, agricultural loans and Micro and Small enterprise loan while highly aggressive on Commercial loans, Import and export credit facilities.

KEYWORDS: Credit, Import and export.

REFERENCE


