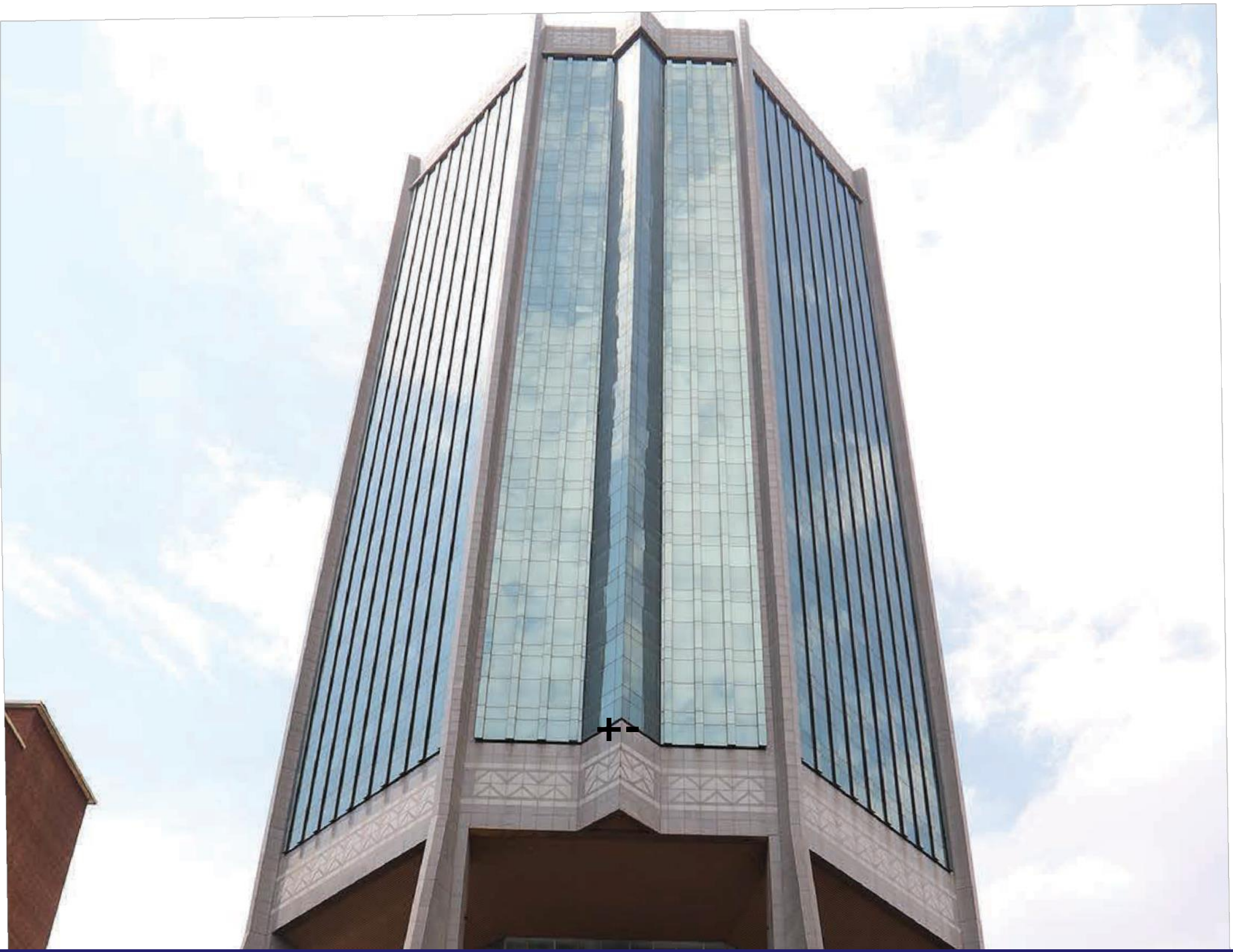


RESERVE BANK OF ZIMBABWE

BANK SUPERVISION DIVISION

BANKING SECTOR REPORT FOR THE QUARTER ENDED 31 MARCH 2023

1. EXECUTIVE SUMMARY

1.1. The banking sector remained safe and sound as reflected by satisfactory financial soundness indicators. The banking sector has demonstrated resilience notwithstanding the effects of the global shocks and the dynamism in the macroeconomic environment.

1.2. Banking institutions continue to be important pillars for the distribution of resources, mobilization of savings, payments infrastructure and economic growth.

1.3. Aggregate capital and liquidity positions of the banking sector remained strong, providing sufficient buffers for banking institutions to withstand shocks. As at 31 March 2023, the banking sector was adequately capitalized with average capital adequacy and tier 1 ratios of 41.05% and 27.85%, respectively and all banking institutions reported capital ratios which were in compliance with the regulatory minima.

1.4. Further, the banking sector maintained adequate levels of capitalisation as 15 out of 18 banking institutions (*excluding POSB with no prescribed minimum capital*) reported core capital levels which were in compliance with minimum regulatory capital requirements. The remaining few non-compliant institutions have put in place measures to ensure compliance with the minimum regulatory capital requirements by 31 December 2023.

1.5. Total banking sector assets amounted to $5.68 trillion as at 31 March 2023, up by 49.08% from $3.81 trillion as at 31 December 2022. Loans and advances (31.43%) remained the dominant assets on the banks' balance sheets.

1.6. The aggregate banking sector loans and advances increased by 52.71% to $1.97 trillion as 31 March 2023, from $1.29 trillion as at 31 December 2022. The increase was ascribed to an increase in foreign currency denominated loans which accounted for 78% of total loans as at 31 March 2023.

1.7. Asset quality remained satisfactory as evidenced by a non-performing loans ratio of 3.30% as at 31 March 2023 and this is within the internationally acceptable NPL threshold of 5%. Banking institutions continue to adopt aggressive credit risk management initiatives to proactively deal with incipient credit stress in their loan portfolios.

1.8. The banking sector was profitable, with aggregate profits of $207.25 billion for the quarter ended 31 March 2023, compared to $27.05 billion reported during the same period in 2022. The main driver of banking sector profitability was non-interest income, which accounted for 67.64% of total income of $448.87 billion, while interest income from loans and advances accounted for 24.70% of total income.

1.9. Total deposits in the banking sector continued on an upward trajectory growing from $2.29 trillion as at 31 December 2022, to $3.17 trillion as at 31 March 2023. Growth in deposits was mainly driven by foreign currency denominated deposits, which accounted for 68% of total deposits.

1.10. The average prudential liquidity ratio remained stable at 57.65% as at 31 March 2023 *[December 2022: 59.50%]*, reflecting high stock of liquid assets in the sector.

1.11. To date 14 banking institutions including, one (1) deposit taking microfinance institution are participating under the Sustainability Standards & Certification Initiative (SSCI) being driven by the European Organization for Sustainable Development (EOSD). Adoption of sustainability principles remains a key anchor in achieving social, economic and environmental goals in the economy and in particular creating strong and resilient financial institutions with capacity to withstand adverse shocks.

2. ARCHITECTURE OF THE BANKING SECTOR

2.1. The composition of the banking sector as at 31 March 2023 is as shown in Table 1 below.

Table 1: Architecture of the Banking Sector

Type of Institution	**Number**
Commercial Banks	14
Building Societies	4
Savings Bank (POSB)	1
Total Banking Institutions	**19**
Other Operational Institutions Under the Supervision of Reserve Bank	
Credit-only-MFIs	**201**
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	4
Total Other Institutions	**213**
Total Number of Institutions	**232**

POSB- People's Own Savings Bank, IDBZ – Infrastructure Development Bank of Zimbabwe, IDCZ – Industrial Development Corporation of Zimbabwe and SMEDCO - Small and Medium Enterprise Development Corporation.

3. CONDITION AND PERFORMANCE OF THE BANKING SECTOR

3.1. The performance of the banking sector was satisfactory, as reflected by the financial soundness indicators highlighted in Table 2 below.

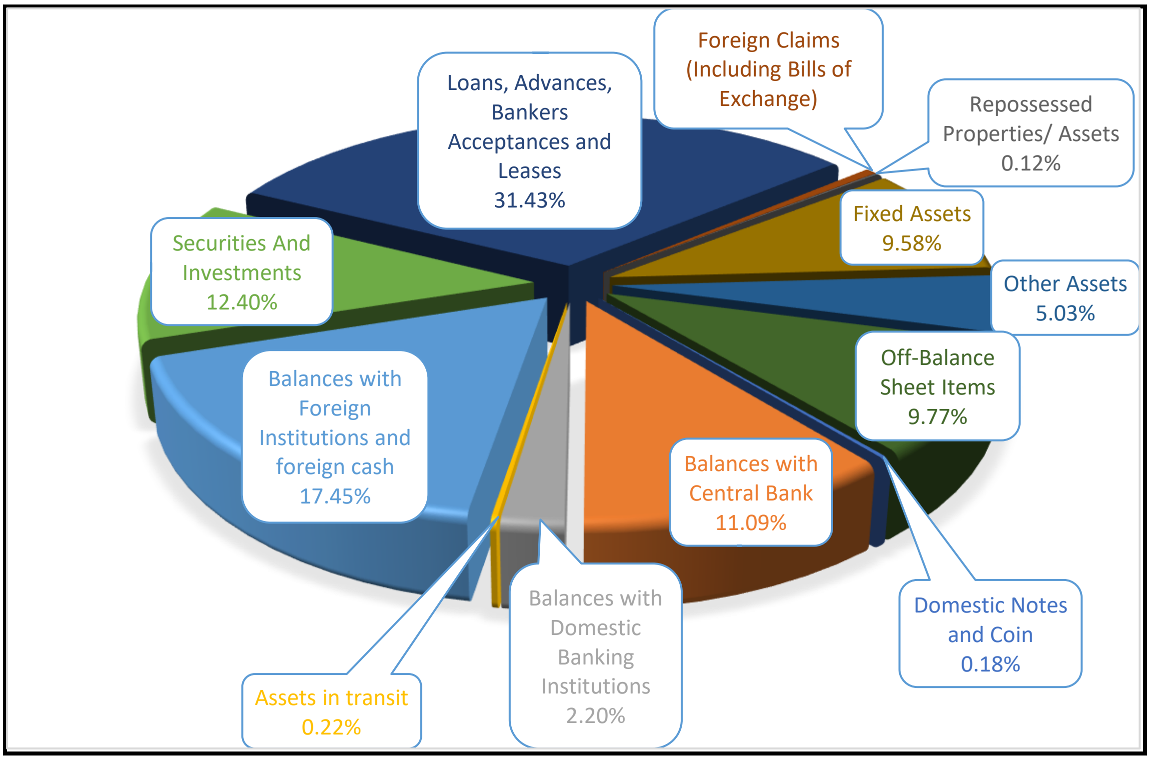
Table 1: Financial Soundness Indicators

Key Indicators	Benchmark	March-22	Sept-22	Dec-22	March-23
Total Assets	-	$969.24bn	$3.11 tn	$3.81tn	$5.68tn
Total Loans & Advances	-	$320.36bn	$1.01 tn	$1.29tn	$1.97tn
Net Capital Base	-	$170.00bn	$535.96 bn	$746.30bn	$1.01tn
Core Capital	-	$138.21bn	$438.11 bn	$611.11bn	$803.08bn
Total Deposits	-	$582.26bn	$1.91 tn	$2.29tn	$3.13tn
Net Profit	-	$27.05bn	$342.28 bn	$503.13bn	$207.25bn
Return on Assets	-	3.39%	16.48%	17.43%	4.92%
Return on Equity	-	12.43%	53.19%	54.33%	16.62%
Capital Adequacy Ratio	12%	35.16%	35.45%	37.51%	41.05%
Tier 1 Ratio	8%	26.97%	23.97%	26.92%	27.85%
Loans to Deposits Ratio	-	55.02%	52.83%	55.67%	62.09%
NPLs Ratio	5%	1.57%	1.41%	1.58%	3.30%
Liquidity Ratio	30%	61.38%	59.51%	59.50%	57.65%

Composition of Banking Sector Assets

3.2. As at 31 March 2023, total banking sector assets amounted to $5.68 trillion representing an increase of 49.08% from $3.81 trillion as at 31 December 2022. The banking sector's asset mix remained skewed towards loans and advances which constituted 31.43% of the total banking sector assets, while balances with foreign institutions and securities and investments constituted 17.45% and 12.40%, respectively, as shown in Figure 1.

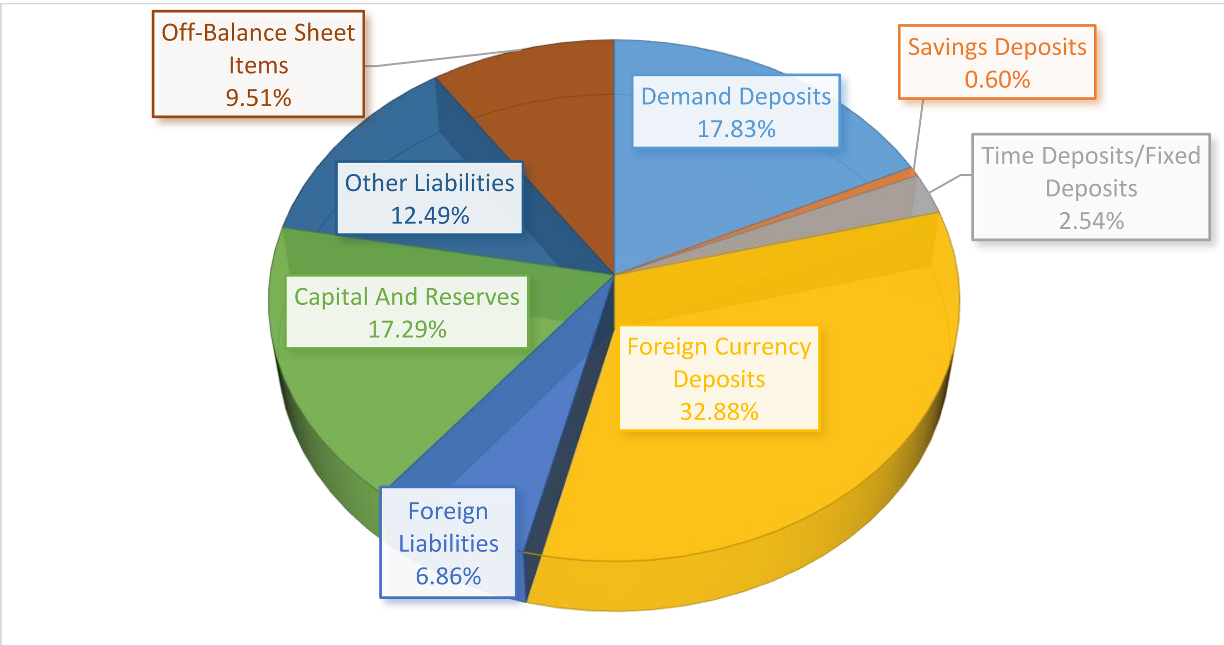
Figure 1: Asset Mix as at 31 March 2023



Liabilities Structure

3.3. As at 31 March 2023, banking sector liabilities largely comprised foreign currency deposits (32.88%), demand deposits (17.83%), and capital and reserves (17.29%).

Figure 2: Decomposition of Liabilities as at 31 March 2023

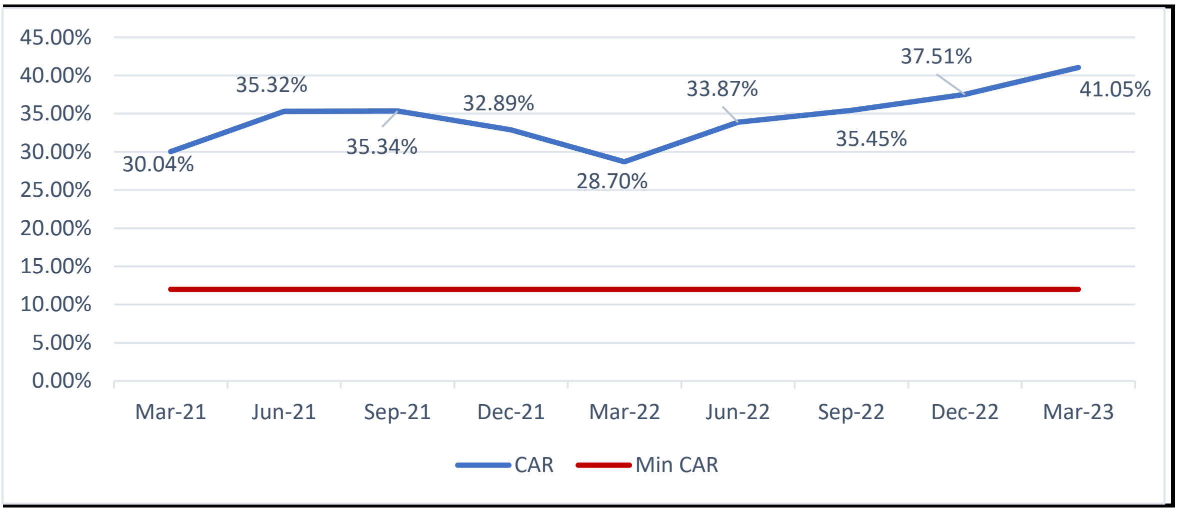


Capitalisation

3.4. As at 31 March 2023, the banking sector remained adequately capitalised and all banking institutions reported capital ratios that were in compliance with the prescribed minimum capital adequacy ratio of 12% and tier 1 ratio of 8%. The banking sector reported average capital adequacy and tier 1 ratios of 41.05% and 27.85%, respectively.

3.5. The figure below shows the trend in banking industry's average capital adequacy ratios from March 2021 to March 2023:

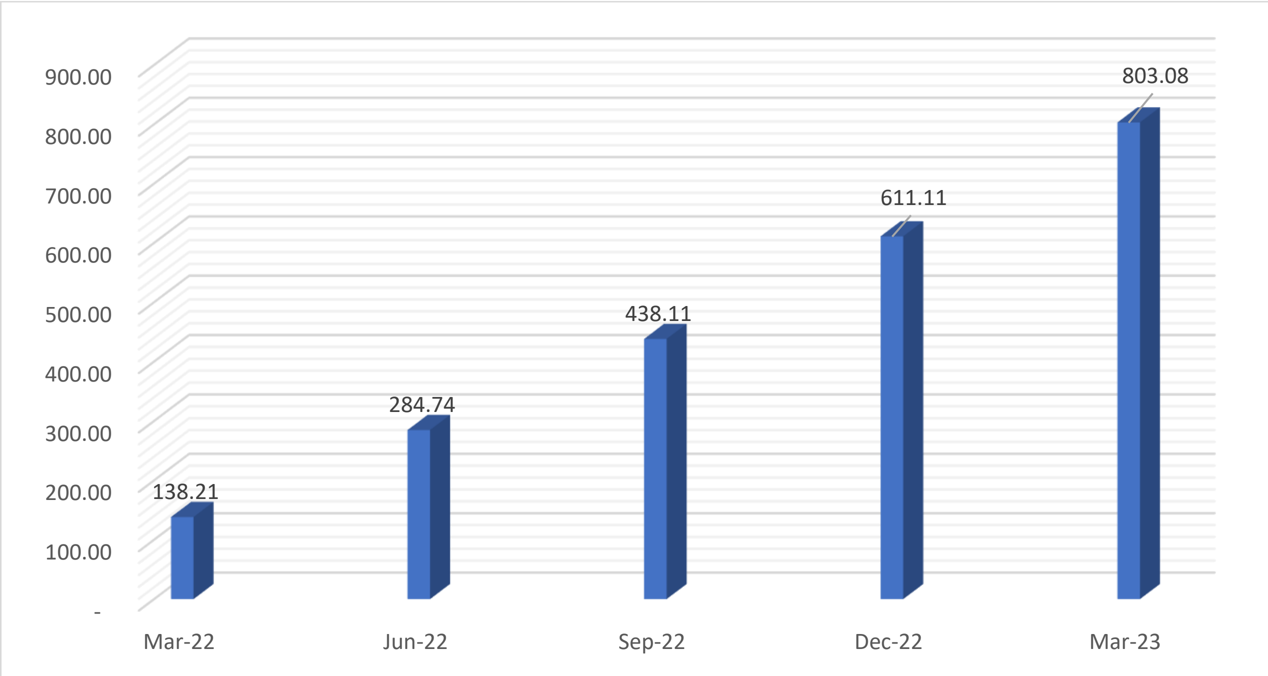
Figure 3: Capital Adequacy Ratio Trend



3.6. During the quarter ended 31 March 2023, the total banking sector core capital increased by 31.41% from $611.11 billion as at 31 December 2022, to $803.08 billion as at 31 March 2023. The increase in core capital was mainly attributed to growth in retained earnings, which were driven by revaluation gains from investment properties, as well as translation gains from foreign currency denominated assets.

3.7. Figure 4 shows a trend of core capital trends from March 2022 to March 2023.

Figure 4: Core Capital Trends ($ billion)



3.8. As at 31 March 2023, 15 out of 18 banking institutions (*excluding POSB, with no prescribed minimum capital requirement*) were compliant with the minimum core capital requirements. The non-compliant banking institutions are implementing various measures to ensure compliance with minimum regulatory capital requirements by 31 December 2023.

3.9. In light of the vulnerability of capital to exchange rate shocks, banking institutions are adopting a number of capital preservation strategies, which include investing in gold coins and investment properties, redirecting lending in US$, as well as keeping a portion of capital in foreign currency in form of cash holdings.

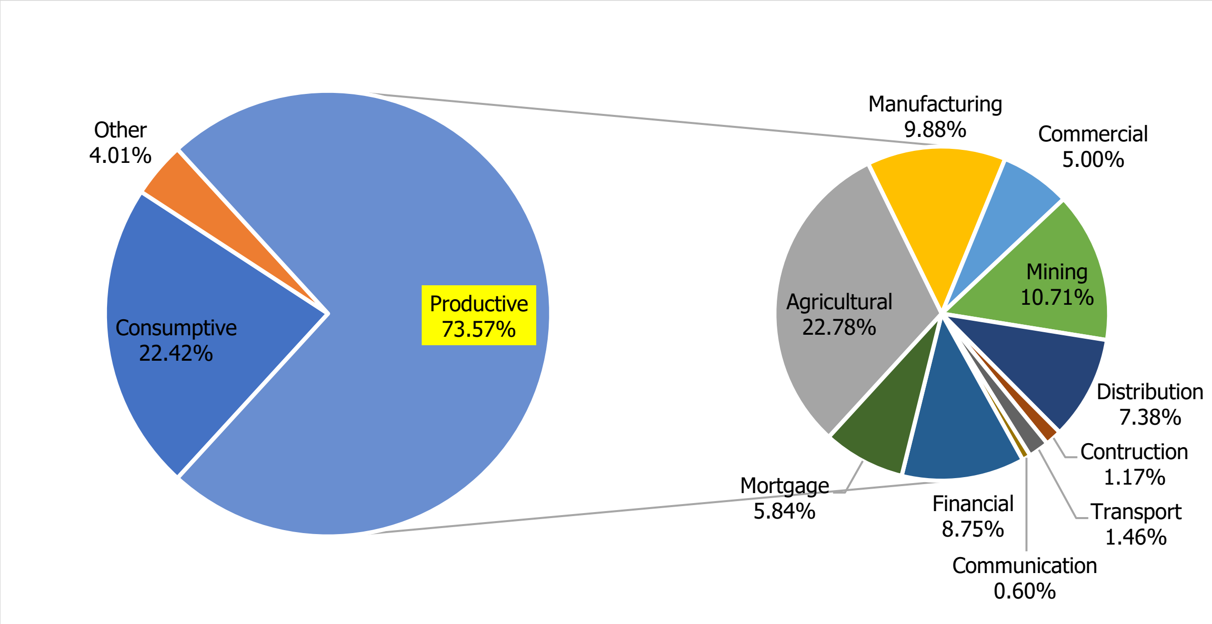
Asset Quality

3.10. During the quarter ended 31 March 2023, aggregate banking sector loans and advances increased from $1.29 trillion as 31 December 2022, to $1.97 trillion as at 31 March 2023, driven by growth in foreign currency denominated loans whose proportion increased from 73% to 78% over the same period. The movement in exchange rates influences the ZW$ value of the foreign currency loans.

3.11. As at 31 March 2023, the five (5) designated domestic systemically important banks (DSIBs) commanded the largest market share of loans and advances with a combined market share of 75.72%.

3.12. The banking sector continued to play an important role in supporting the productive sectors of the economy as evidenced by loans to the productive sectors constituting 73.57% of total loans as at 31 March 2023, as shown below.

Figure 5: Sectoral Distribution of Loans as at 31 March 2023



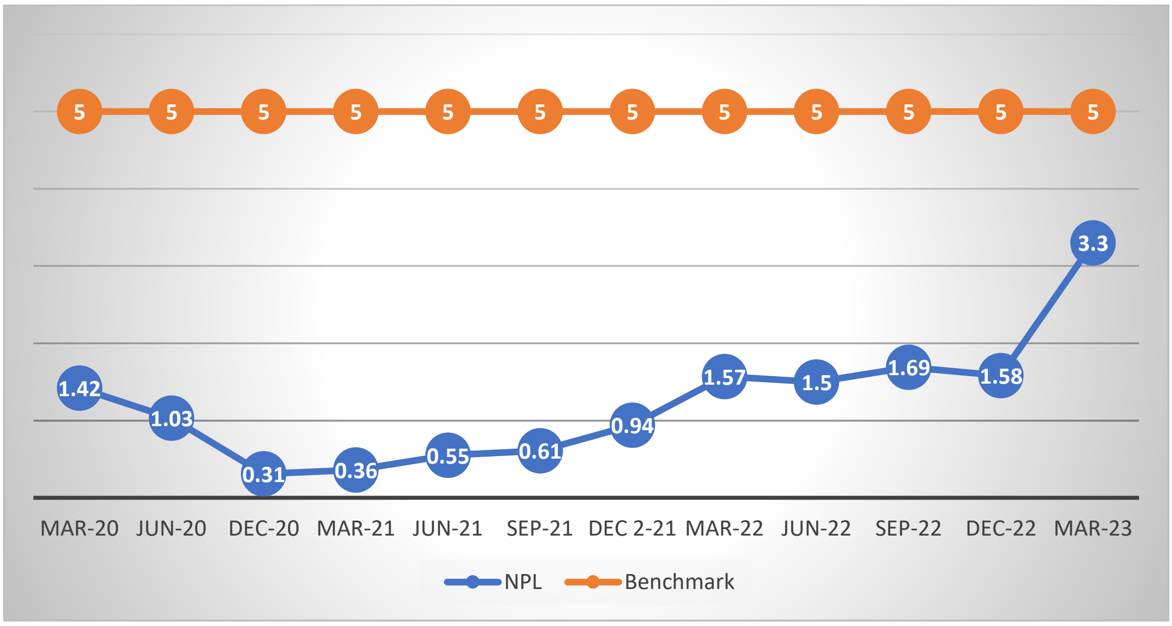
3.13. The banking sector is expected to play an even greater role in supporting the recovery and growth of the productive sectors of the economy in the outlook period.

Loan Portfolio Quality

3.14. The banking sector's asset quality, as measured by non-performing loans ratio (NPL), deteriorated from 1.58%, as at 31 December 2022 to **3.30%** as at 31 March 2023. The NPL ratio, however, remained satisfactory and was within the acceptable international threshold of 5%.

3.15. Figure 6 below shows the trend in the NPL ratio from 31 March 2020 to 31 March 2023, as shown in the diagram below:

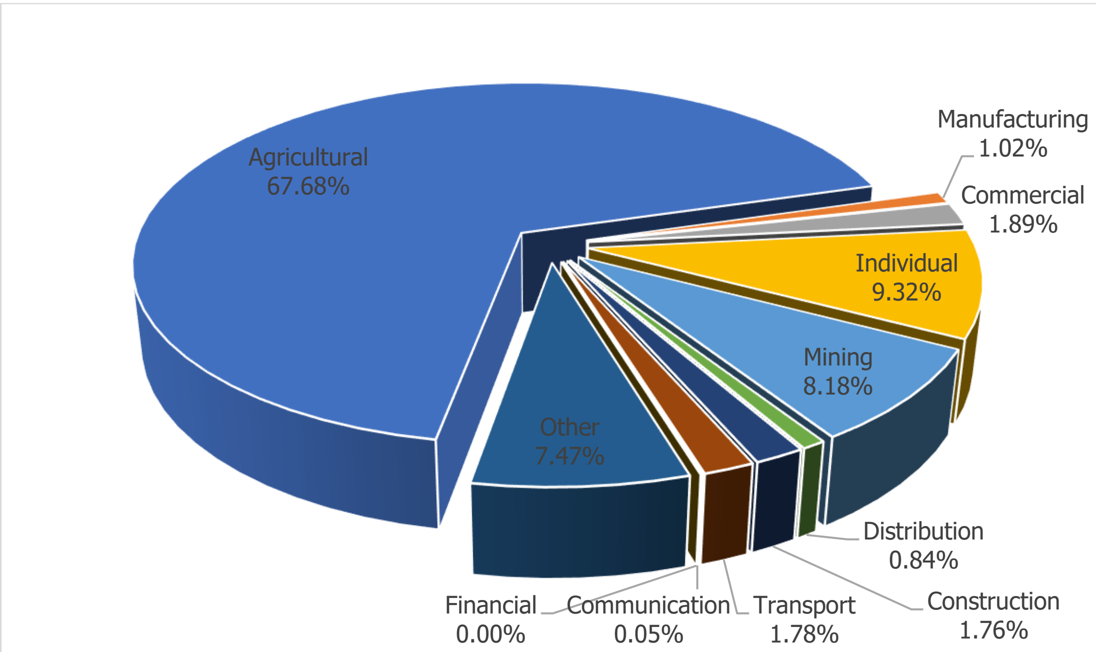
Figure 6: Trend in Non- Performing Loans: March 2020- March 2023



3.16. Banking institutions have put in place measures to improve asset quality and these include improving credit underwriting standards, as well as monitoring of the loan book.

3.17. In terms of sectoral distribution of non-performing loans, as at 31 March 2023, the agricultural sector (67.68%) had the largest value of non-performing loans followed by individuals (9.32%) as shown in figure 7 below.

Figure 7: Sectoral Distribution of NPLs as at 31 March 2023



3.18. The Reserve Bank, through its ongoing supervision of banking institutions, will continue to closely monitor developments in the banking sector's credit risk exposures.

Earnings Performance

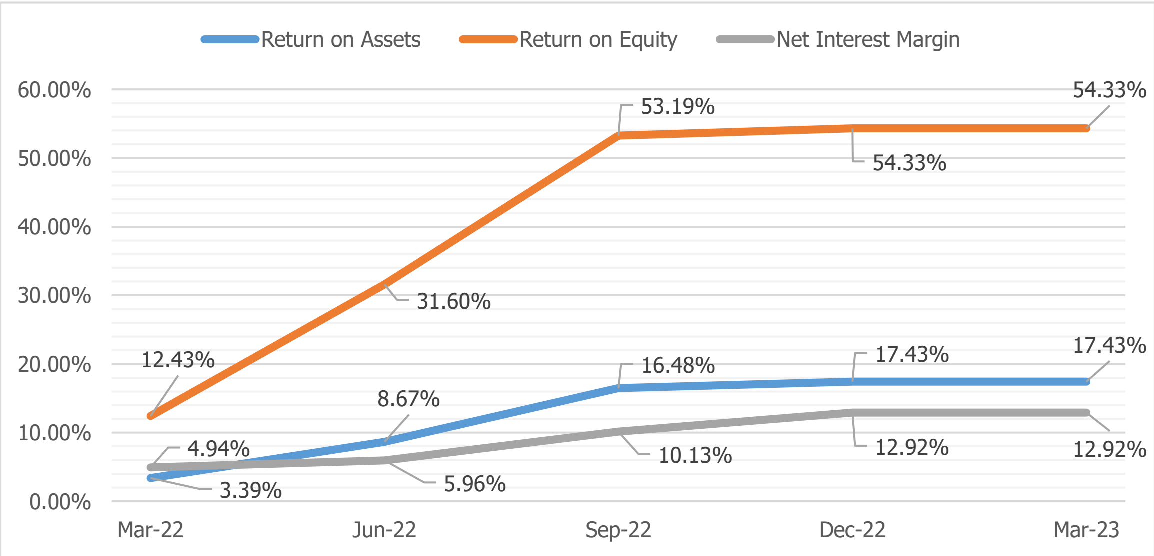
3.19. The banking sector remained profitable during the quarter ended 31 March 2023 with aggregate net profit of $207.25 billion, compared to $27.05 billion reported in the corresponding period in 2022. Of the 19 operating banking institutions, 18 institutions reported profits during the quarter.

3.20. Banking sector profitability was driven by non-interest income, which constituted 67.64% of total income of $448.87 billion. Of the non-interest income of $303.59 billion, fees & commissions constituted 23.82%, while revaluation gains from foreign currency assets and investment properties accounted for 21.63% and 11.79% of non-interest income, respectively.

3.21. The return on assets and return on equity ratios were 4.92% and 16.62% as at 31 March 2023, compared to 3.39% and 12.43% as at 31 March 2022, respectively.

3.22. The trend of banking sector performance over the period 31 March 2022 to 31 March 2023 is shown in the Figure 8 below.

Figure 8: Trend of Banking Sector Performance



3.23. As at 31 March 2023, the cost to income ratio for the banking sector improved marginally to 73.55% from 77.20% as at 31 March 2022, as banking institutions continue implementing cost cutting measures, including pursuing digitisation for some of their services.

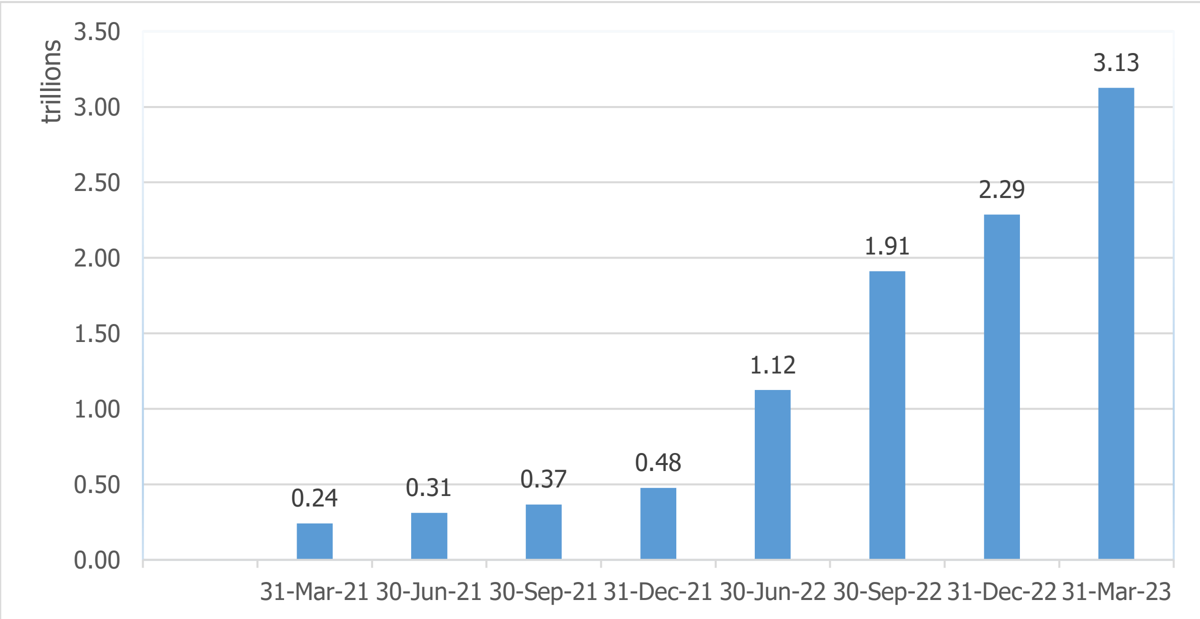
3.24. Administrative expenses and salaries & employee benefits were the major cost drivers constituting 49.56% and 46.44%, respectively of the total banking sector operating costs of $151.92 billion during the quarter under review.

Liquidity and Funds Management

3.25. Total deposits continued on an upward trajectory amounting to $3.13 trillion as at 31 March 2023, a 38.36% increase from $2.29 trillion reported as at 31 December 2022. The growth in banking sector deposits was mainly ascribed to the increase in foreign currency denominated deposits, which accounted for 68% of total deposits.

3.26. The trend of banking sector deposits over the period 31 March 2021 to 31 March 2023 is shown in the Figure 9.

Figure 9: Trend in Banking Sector Deposits



3.27. The table 3 below shows quarterly disaggregation of local and FCA deposits from 31 March 2022 to 31 March 2023.

Table 3: Disaggregation of Local and FCA Deposits

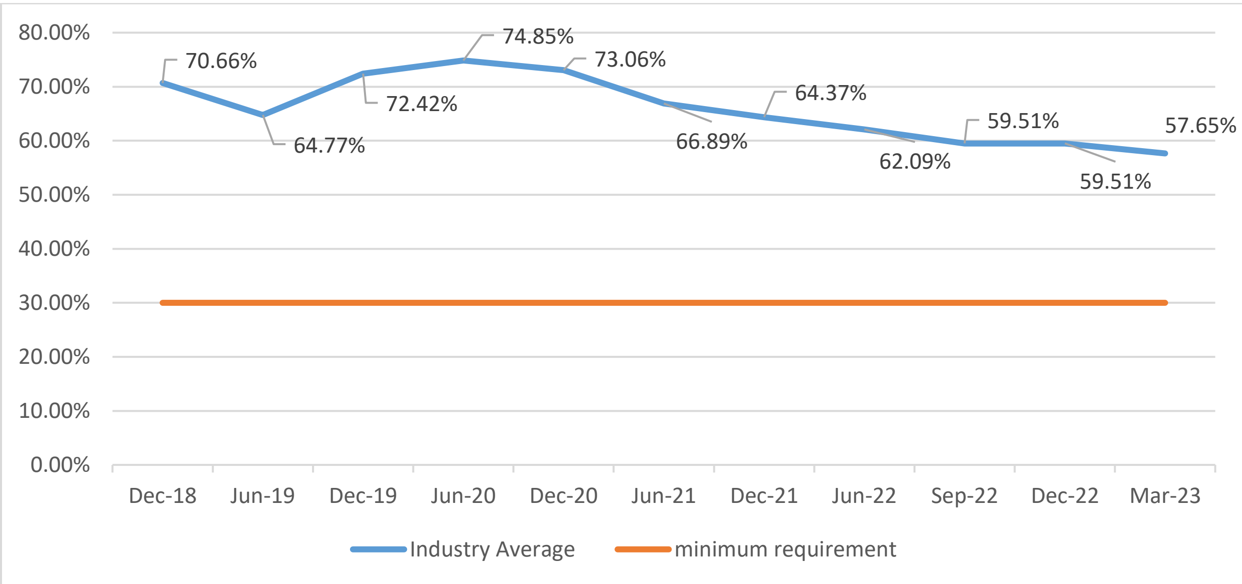
Month	Local Deposits (ZW$ Billions)	Foreign Currency Deposits (ZW$ Equivalent - Billions)	Total Deposits (ZW$ - Billions)	Rate
Mar-22	298.21 (51%)	282.86 (49%)	581.07	142.42
Jun-22	440.81 (39%)	682.50 (61%)	1,123.31	366.27

Month	Local Deposits (ZW$ Billions)	Foreign Currency Deposits (ZW$ Equivalent - Billions)	Total Deposits (ZW$ - Billions)	Rate
Sep-22	573.47 (30%)	1,338.10 (70%)	1,911.57	621.96
Dec-22	827.33 (36%)	1,470.81 (64%)	2,298.14	687.28
Mar-23	1,014.82 (32%)	2,156.49 (68%)	3,171.31	929.86

3.28. The average prudential liquidity ratio largely remained stable and high at 57.65% as at 31 March 2023 [*December 2022: 59.50%*], reflecting high stock of liquid assets in the sector.

3.29. The average prudential liquidity ratio for the sector is on a downward trend since June 2020 where it reached a peak of 74.85%. The trend in the prudential liquidity ratio from 31 December 2018 to 31 March 2023 is shown in Figure 10.

Figure 10: Prudential Liquidity Ratio Trend



Sensitivity to Market Risk

3.30. As at 31 March 2023, the banking sector had an overall liability sensitive book, with a cumulative repricing gap of ($72.47 billion) in the 1 to 365 days' time bucket implying that, other things being equal, the banking sector's net interest income will decrease if interest rates increase.

4. OUTLOOK

4.1. In the outlook period, the banking sector is envisaged to remain safe and sound with banking institutions playing a greater role in supporting the recovery and growth of the economy.

4.2. Banking institutions are expected to continuously evolve and re-engineer operations in order to remain relevant, effective and strategic by tapping into vast opportunities in the economy.

4.3. Banking institutions also need to pay close attention to the growth of the foreign currency denominated loans to manage loan delinquency. The Bank will remain vigilant by conducting thematic asset quality reviews in the third quarter of 2023.

4.4. The Bank will also continue to monitor external and industry-specific factors and institute appropriate measures to maintain the stability of the banking industry.

BANK SUPERVISION DIVISION
MARCH 2023