The Reserve Bank of Zimbabwe "RBZ", on 15 February 2017, announced the 2017 Monetary Policy, with the central bank focusing on promoting financial sector stability, stimulating credit growth and export generation. The following were the major highlights:

FINANCIAL SECTOR INDICATORS

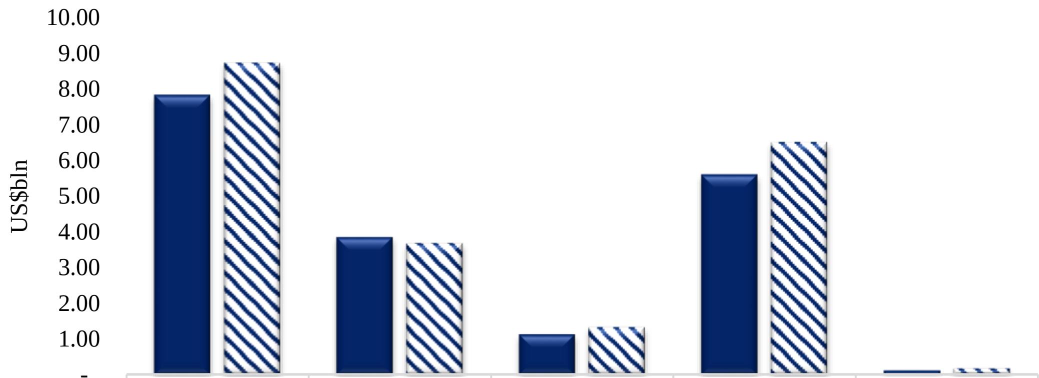
Fig.1 and **Table 1** across outline the key banking sector performance indicators, whilst **Fig.2** depicts banks' respective capitalization levels as at 31 December 2016.

Table 1: Key Sector Ratios

Ratios (%)	Dec-15	Dec-16
Cost to Income Ratio	84.2%	79.2%
Return on Equity	11.0%	12.6%
Capital Adequacy Ratio	21.3%	23.7%
Loan to Deposit Ratio	86.1%	56.6%
NPL Ratio	10.8%	7.9%
Liquidity Ratio	48.1%	61.9%

Source: RBZ

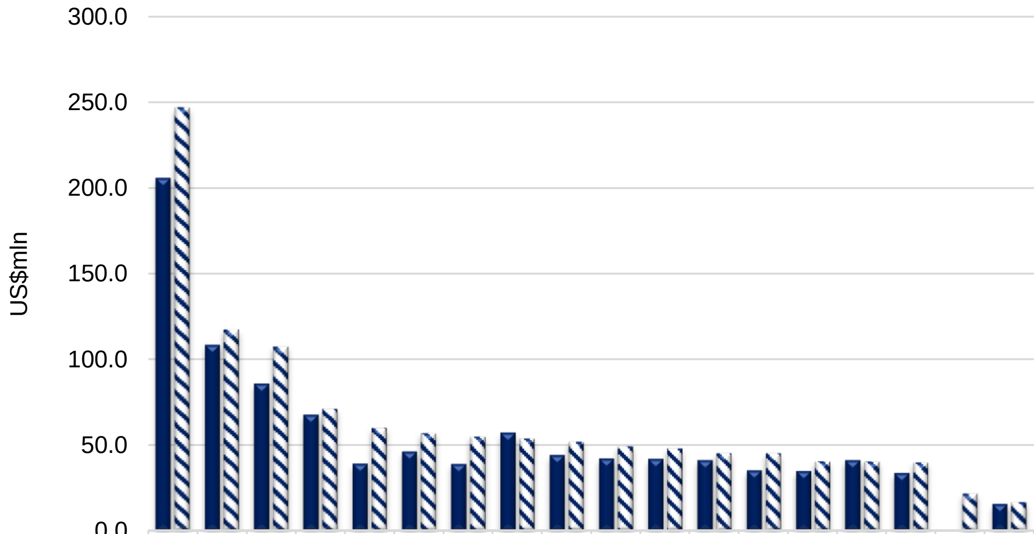
Fig.1: Key Financial Indicators



	Total Assets	Total Loans	Net Capital Base	Total Deposits	Net Profit
Dec-15	7.83	3.87	1.14	5.62	0.13
Dec-16	8.73	3.69	1.34	6.51	0.18

Source: RBZ

Fig.2: Banking Sector Capitalisation Levels



	CBZ *	CABS	Stanbic	BancABC	FBC	Barclays	ZB Bank	Standart	Ecobank	Steward	NMB	MBCA	Agribank	FBC B/S	POSB	Metbank	NBS	ZB B/S**
31-Dec-15	205.7	108.6	86.1	67.9	39.3	46.4	39.0	57.4	44.4	42.2	42.1	41.3	35.3	35.0	41.4	33.8	0.0	15.7
31-Dec-16	246.6	117.6	107.8	71.4	60.2	57.3	55.1	54.0	52.1	49.5	48.2	45.5	45.4	40.8	40.5	40.0	21.9	16.9

Source: RBZ (*- Including CBZ Building Society; **- Society being merged with ZB Bank)

NEW POLICY MEASURES

AREA	POLICY MEASURES	COMMENTS
Interest Rates & Facility fees	• Lending rates to the productive sectors capped at 12% p.a. and facility fees at 3%, w.e.f. 1 April 2017. • All banks required to review interest paid on deposits and submit a report detailing deposit profiles and proposed interest rates on deposits to the central bank by 31 March 2017.	The further reduction in lending rates adversely affects banks' profitability through reduced net interest margins. As such, banks would need to utilize the window period to 30 March 2017 to re-price and restructure their (liabilities) funding, in order to ensure that lending business remains profitable. Meanwhile, although the reduction in lending rates increases the potential customer base for banks and reduces the potential default, as finance becomes affordable, such a move needs to be buttressed by the simultaneous addressing of key issues affecting industry, among them, the ease of doing business and access to long term capital, as noted by the Confederation of Zimbabwe Industries "CZI" in its manufacturing surveys.
Money Supply	• RBZ to put in place a redistribution measure that mitigates against skewed concentration of bond notes within the banking sector. • Banks directed to observe the policy to deposit bond notes into the US$ accounts without requesting the banking public to differentiate between bond notes and US$ cash. • Extension of the export incentive scheme to the tourism industry and cotton growers.	It is hoped that the extension of the export incentive scheme to the other sectors will not result in the central bank issuing bond notes in excess of the US$200 million facility that is backing the bond notes. Meanwhile, the injection of liquidity through bond notes is expected to reduce cash shortages. However, the attendant rise in domestic prices, and thus inflationary pressures, emanating from bond notes driven demand may result in increased pressure for the injection of more cash into the system. It is, therefore, critical for the authorities to ensure that the liquidity injection is matched with measures to improve the productive capacity of the economy.
Lender of last resort (Interbank market)	• Extension of the US$200 million Afreximbank Trade Debt-Backed Securities (Aftrades) facility to February 2019.	The extension of the Aftrades facility is a positive move as this is fulfilling the lender of last report function under the multicurrency system. Meanwhile, it is not clear whether the respective players will be working on modalities to review the cost of funds under the AFTRADES facility in line with the reduction in lending rates by the RBZ.

AREA	POLICY MEASURES	COMMENTS
Supervision and Surveillance	• Banking institutions to enhance surveillance targeted at combating money-laundering, tax evasion and transfer pricing. • Basel 11 Implementation - all banking institutions to migrate to the Basel 11/111 compliant statutory returns effective 1 July 2017. • Macro-prudential framework to be developed by 30 September 2017.	These measures are largely aimed at fostering and maintaining financial sector stability and soundness.
Foreign Currency Management	• All banks directed to ensure that the international card switches facilitate local settlement of local transactions. VISA local settlement will go live by the end of February 2017, while MasterCard local settlement will be enabled by the end of Q1 2017. • Banks urged to strictly adhere to the import priority list and mitigate against institutional indiscipline. • US$70 million foreign exchange/nostro facility to be disbursed by end of February 2017.	These measures are aimed at preserving the scarce foreign currency and reduce pressure on banks' NOSTRO accounts emanating from transactions that ordinarily would have been settled locally. In addition, the US$70 million is expected to provide a short term relief on the delays being experienced in settling foreign payments for critical imports. However, it remains critical that the authorities buttress these short term interventions with measures that boost the productive capacity of the country.

AREA	POLICY MEASURES	COMMENTS
Financial inclusion	• Facilities sourced by the RBZ to support financial inclusion; ⇒ US$15 million revolving Women Empowerment Fund ⇒ US$10 million Business Linkage Facility. ⇒ Revamping the US$10 million Horticultural Facility ⇒ Educational Support Facility for higher and tertiary students - expected to be operational in August 2017.	These are progressive measures meant to support financial inclusion and provide a safety net to the marginalized economic agents, especially during times of major economic transitions and reforms. What remains critical is that the authorities maintain strict credit granting mechanisms and ensure that the facilities are utilized for the intended purposes.
Soft infrastructure – Credit Registry	• Credit Registry went live in January 2017. Banks required to obtain credit history of prospective borrower from Credit Registry before granting credit. • Collateral Registry - The Movable Property Securities Interest Bill was gazetted on November 2016.	Positive progress on the Credit Registry platform. Credit risk management for prospective borrowers is, thus, expected to improve creating a platform for proper pricing of risk and asset quality management. Nonetheless, the cost of accessing data, once finalized by the RBZ, will determine the overall success of the credit registry initiative, especially in reducing the cost of access to finance by consumers.
Other measures	• Final phase of Non-perfoming loans "NPL" acquisitions secured by mortgage bonds to be completed by March 2017. • RBZ finalizing modalities of a facility to register cross border traders, which will come into effect from 1 March 2017. • Review of farmers' stop-order system to curb side-marketing. • Gold facility for small-to-medium scale producers enhanced from US$20 million to US$40 million.	The review of stop-order system expected to ensure that banks are able to recover loaned funds from farmers, a move that will enhance further credit expansion in the economy. The increased support to the gold sector is in line with the target of 25 tons of gold in 2017. It is critical that the authorities finalise on the modalities for the country to be readmitted onto the London Bullion Market, as this will give producers access to wider international markets.

Analysts:

Andrew Chirewo
achirewo@cbz.co.zw

Victor Makanda
vmakanda@cbz.co.zw

Godknows Muwandi
gmuwandi@cbz.co.zw

Contact Details

3rd Floor, Sapphire House,

Cnr Speke/ Angwa St,

P O Box 3313,

Harare, Zimbabwe,

Tel: +263 4 759101-16

Website: www.cbz.co.zw

Email: research@cbz.co.zw