INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/66

ZIMBABWE

TECHNICAL ASSISTANCE REPORT—BASEL III IMPLEMENTATION

March 2022

This technical assistance report on Zimbabwe was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in February 2022.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

TECHNICAL ASSISTANCE REPORT

ZIMBABWE

FSSR Follow Up Technical Assistance on Basel III Implementation

FEBRUARY 2022

Prepared By

Paula Cristina Seixas De Oliveira and Wessel Mostert (External Experts)

Authoring Department:

Monetary and Capital Markets Department

Contents Page

GLOSSARY

AQR	Asset Quality Review
ASF	Available Stable Funding
BCP	Basel Core Principles for Effective Banking Supervision
BSD	Banking Supervision Division
FSSR	Financial Sector Stability Review
FSAP	Financial Sector Assessment Program
FX	Foreign Exchange
HQLA	High Quality Liquid Assets
IMF	International Monetary Fund
JSC	Joint Stock Company
LCR	Liquidity Coverage Ratio
LEG	Legal Department
MCM	Monetary and Capital Markets Department
MFI	Microfinance Institutions
NPL	Nonperforming Loan
NSFR	Net Stable Funding Ratio
RAS	Risk Assessment System
RBS	Risk-Based Supervision
RBZ	Reserve Bank of Zimbabwe
RSF	Required Stable Funding
SREP	Supervisory Review and Evaluation Process
TA	Technical Assistance

PREFACE

At the request of the Reserve Bank of Zimbabwe (RBZ), the Monetary and Capital Markets (MCM) Department conducted a virtual mission from November 16, 2020 to April 29, 2021 to assist the RBZ on the implementation of Basel III liquidity standards: liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements.

The mission had virtual meetings with Mr. Philip Madamombe Director of the RBZ Banking Supervision Division (BSD), Mr. Ruzayi Chiviri, Ms. Audrey Hove, Ms. Norah Mukura, Ms. Rachel Mushosho, Ms. Susan Kabungaidze (all RBZ Deputy Directors of the BSD) and supervisors, responsible for drafting and implementing LCR and NSFR requirements. The mission also had a virtual workshop with representatives from all of Zimbabwe's banks.

The mission team would like to express its gratitude to the RBZ and its staff, particularly to Mr. Philip Madamombe and Mr. Ruzayi Chiviri, for the excellent arrangements made to facilitate the work, as well as for their openness, productive discussions, and excellent cooperation.

As a follow-up to the Financial Sector Stability Review (FSSR), the Technical Assistance (TA) was financed by the Financial Sector Stability Fund.

EXECUTIVE SUMMARY

As a follow-up to the 2019 FSSR, a remote TA mission supported the RBZ with the implementation of Basel III liquidity standards. The mission reviewed the RBZ drafts of the LCR and NSFR frameworks, discussed identified material gaps with the BSD management and relevant supervisors, and provided many recommendations on enhancing the drafts of liquidity regulations, monitoring tools, reporting templates, and disclosure. Further actions for implementing Basel III liquidity standards were agreed with the RBZ.

As recommended by the FSSR and previous TA missions, implementing the Basel III liquidity standards in Zimbabwe is a high priority. As stated in previous TA reports, enhancing Zimbabwe's liquidity framework for banks by implementing the LCR and NSFR would help improve the RBZ's understanding of the real liquidity positions of banks, provide it with granular information, and set new requirements on the quantity and quality of liquid assets. The implementation of NSFR will also provide a better understanding of the medium and longer-term funding requirements of supervised banks. In Zimbabwe, a few domestic banks and the subsidiaries of foreign banks are already calculating LCR and NSFR for internal purposes.

The mission worked with RBZ staff in strengthening the drafts of liquidity regulations and provided many recommendations for its proper implementation (Table 1). The main outputs of the mission are: i) draft regulations detailing the requirements on LCR and NSFR standards and disclosure; ii) LCR and NSFR templates for public disclosure; iii) LCR and NSFR templates for prudential reporting to RBZ; and iv) recommendations for the supervisory assessment of banks' LCR and NSFR implementation.

The goal was to ensure that the draft regulations were adequately comprehensive. In reviewing the draft regulations, the mission wanted to ensure that these regulations cover all key aspects of the Basel LCR and NSFR frameworks while applying the proportionality principle. The focus was on a comprehensive scope for the high-quality liquid assets (HQLA) definition and the assumptions on net outflows for the purposes of the LCR. The draft version of the NSFR was found to be comprehensive and in line with the Basel requirements.

At this stage, the RBZ shall require LCR and NSFR for all banking institutions, calculated on a solo basis. The RBZ's decision is supported by the importance attached on individual bank liquidity, hence the need for continued solo supervision[1] at this point in time. The mission recommends supervisors to closely monitor the liquidity information of financial institutions belonging to the same financial group, in order to assess the liquidity risk of the group as a whole.

The RBZ is at an early stage of implementing the new liquidity framework. The draft regulations are intended to provide a basis for discussion with banks and to facilitate analysis of the impact of the new requirements**.** The RBZ should first collect relevant data on the main parameters

---

[1] Next FSSR Follow up TA will support the RBZ to strengthen consolidated supervision framework.

of the two new ratios, which will enable the RBZ to assess the impact of the implementation of the new liquidity regulations.

RBZ shall require banks to prepare action plans to achieve compliance with the new liquidity regulations. An action plan will establish the implementation steps and timeline for the standards, identify the areas of the bank involved in each stage of the implementation and the respective personnel in charge. The RBZ shall assess the banks' action plans and monitor their implementation. The mission discussed with the supervisory team the main aspects of the LCR and NSFR implementation that must be contained in every action plan and what needs to be reviewed by supervisors during offsite and onsite supervision.

This TA mission has recommended that the RBZ specify a detailed information template for the LCR reporting form and to be able to increase the reporting frequency at any time. LCR data is a very important source of liquidity risk information and can be used to assess other liquidity stress scenarios. Besides attesting the accuracy of the ratio's calculation, the liquidity report should provide supervisors with sufficient data to assess the main drivers of the banks' liquidity risk. Thus, the timelier and more granular the information, the greater the flexibility supervisors would have to assess the banks' liquidity risk sensitivity. RBZ will require LCR reporting from banks on a quarterly basis, with the possibility of increasing its frequency to weekly or even daily in case of need including under stressed situations.

The mission recommended that supervisors should establish a liquidity risk monitoring process, which encompasses procedures to respond to a breach of the LCR and NSFR requirements. Besides monitoring banks' compliance with the requirements, supervisors should monitor a bank's funding profile and its vulnerabilities, as well as other sources of liquidity not computed in the LCR but which the bank could use in times of stress. LCR by significant currency would be useful, or even just a maturity ladder based on significant currencies. Data from the LCR and NSFR reports and for the monitoring tools shall be used for this purpose and provide useful information to supervisors. Procedures to respond to breaches in the LCR should include the RBZ's capacity to receive and process information more frequently, to take adequate supervisory actions and to establish effective communication channels with a bank in breach and with the RBZ's decision making structures.

A workshop with 100 participants from the banking industry discussed the draft liquidity regulations. Market participants were drawn from banks' areas such as accounting, liquidity risk management, market operations, and IT. The mission presented the main concepts regarding the LCR and NSFR methodologies, highlighting the new concepts raised by these standards, including the segregation of funding by client type, instead of funding products. The mission emphasized to banks the importance of preparing their IT systems to properly calculate the standards and of developing the models required by the ratios.

The mission included four days of training. About 50 supervisors from the BSD participated in the training. Topics covered the liquidity standards' metrics and prepared the team for implementation of LCR and NSFR regulations in Zimbabwe. The supervisors shall further leverage on skills acquired by the Core Team that worked closely with the IMF. This would be complemented by follow-up TA necessary for the full and proper implementation of Basel III liquidity framework.

Table 1. Zimbabwe: Key Recommendations

Key Recommendations	Priority	Timeline[1]
1. The RBZ to finalize the draft LCR regulation: - Revision to take into account the comments raised on the last draft version; - Elaboration of instructions for completing the LCR template for public disclosure; - Enhancement of the LCR draft template for reporting to supervisors; - Elaboration of instructions for completing the LCR template for reporting to supervisors.	High	I
2. The RBZ to assess the impact of the implementation of the new liquidity regulations (LCR and NSFR).	High	I
3. The RBZ to consult on the final draft liquidity regulations (LCR and NSFR) with banks.	High	I
4. The RBZ to approve new liquidity regulations (LCR and NSFR).	High	ST
5. The RBZ to ensure that banks prepare action plans to achieve compliance with new liquidity regulations and begin its implementation.	Medium	ST
6. The RBZ to assess banks' action plan and monitor its implementation by banks.	Medium	MT
7. The RBZ to ensure that banks report their LCR and NSFR on regular basis.	High	MT
8. The RBZ to prepare procedures to respond should a bank fall below minimum LCR.	High	MT
9. The RBZ to examine banks' LCR and NSFR and ensure they are in compliance with established regulations.	High	MT
10. The RBZ to monitor banks liquidity risk using data from the LCR, NSFR reports and the Monitoring Tools.	High	MT

[1] **I**, immediate, with results less than 6 months; **ST**, *short-term*, with results from 6 to 12 months; **MT**, *medium term*, with results from 12 to 24 months.

I. INTRODUCTION

1. **The MCM conducted a remote mission from November 16, 2020 to April 29, 2021 to assist the RBZ in implementing Basel III liquidity standards.** The mission held numerous virtual meetings with middle management and supervisors of the BSD. Targeted training sessions were delivered to banking supervisors on the implementation of LCR and NSFR requirements. The mission also held a workshop with representatives of all banks in order to discuss the drafts of liquidity regulations and to understand their perspective on the benefits and challenges in implementing Basel III liquidity standards in Zimbabwe.

2. **In the 2019 FSSR follow-up TA roadmap it was agreed with the authorities to address identified weaknesses in Zimbabwe's banking supervision, resolution, and crisis-management arrangements.** Subsequently, the RBZ requested TA to support implementation of the reforms outlined in the TA Roadmap and Project Plan. It is expected that this TA will support the RBZ's efforts to safeguard financial stability by strengthening its regulatory and supervisory framework, institutional capacity, as well as the technical capacity of its staff.

3. **Several TA missions supported the RBZ in strengthening the legislative framework and enhancing risk-based supervision.** In 2019, the IMF provided joint Legal Department (LEG)/MCM TA to assist the RBZ in the enhancement of the RBZ Act, Banking Act, and the Deposit Protection Corporation Act. At the end of 2019 and in the spring of 2020, the IMF provided two TA missions on strengthening risk-based supervision. The focus of these missions was to assist the RBZ in enhancing overall supervisory capacity of the BSD, strengthening the offsite and onsite supervision functions, and upgrading the Risk Assessment System (RAS). These missions have taken into consideration the RBZ's priorities and needs against the background of the challenging macroeconomic circumstances.

4. **The FSSR and previous TA highlighted the importance of properly implementing Basel III liquidity standards in Zimbabwe.** The RBZ currently uses a liquidity ratio and maturity mismatch analysis to assesses the adequacy of a bank's liquidity. A significant flaw in the current framework is that banks are asked to report their cashflows on a contractual maturity basis and not a behavioral maturity basis. The implementation of the LCR and NSFR framework would help to improve the RBZ's understanding of the real liquidity positions of banks, provide the RBZ with granular information and set new requirements on the quantity and quality of liquid assets. The implementation of NSFR will provide a better understanding of the medium-and longer-term funding requirements of supervised banks. In Zimbabwe, a few domestic banks and the subsidiaries of foreign banks are already calculating LCR and NSFR for internal purposes.

5. **This report is divided into three sections.** After this introductory section, Section II provides an overview of the banking sector. Section III discusses the implementation of LCR and NSFR requirements.

II. BANKING SECTOR OVERVIEW

6. **The banking sector of Zimbabwe consists of 13 commercial banks, 5 building societies, and 1 savings bank that, in total, account for ZWL$349.59[2] billion in assets (December 31, 2020).** Of the 19 banks, 9 banks have foreign shareholding, with a market share of over 60 percent. Other banks are local, or state owned, in part or whole (Appendix I).

7. **The RBZ stated[3] that the banking sector continues to demonstrate resilience to various shocks, notwithstanding the varied impact of COVID-19 on the different sectors of the economy.** Based on data from banks' prudential returns, all banks were compliant with the minimum capital adequacy requirements at December 31, 2020. The banking sector average capital adequacy and Tier 1 ratios of 34.62 percent and 22.65 percent were well above the regulatory minimum of 12 percent and 8 percent, respectively. Banking sector core capital continues its gradually growth mainly due to revaluation gains from foreign exchange denominated assets and investment properties. The deadline for banks to comply with the new minimum capital level requirements (in absolute amounts) was extended to December 31, 2021. RBZ stated that banks have registered progress towards meeting these capital requirements. Banking sector indicators are presented in Appendix II.

8. **Banking sector reported a very low average nonperforming loans (NPLs) to total loans ratio of 0.31 percent as December 31, 2020.** The RBZ attributed the improvement in the NPLs ratio to an increase in total banking sector loans,[4] enhancement in credit risk management practices through loan grading methodologies, as well as recoveries and write-offs. It's important to prepare credible strategy for exit from regulatory and supervisory measures that were instituted to avert the impact of the COVID-19 pandemic on the banking sector. Particularly, it is important to intensify supervisory monitoring and ensure that banks timely identify NPLs and accurately reflect asset classification and provisioning in their balance sheets.

9. **The banking sector average prudential liquidity ratio was 73.06 percent as at December 31, 2020 against the minimum regulatory requirement of 30 percent.** The authorities are prioritising the implementation of Basel III Liquidity standards (LCR and NSFR) which methodologies are more risk sensitive and better reflect the banks' liquidity risk level. The implementation of Basel III Liquidity standards and other liquidity monitoring tools shall improve the capacity of RBZ's supervisors in the identification of liquidity vulnerabilities in the banking system and the assessment of the the banks' liquidity risk.

---

[2] Exchange rate 1 USD= 81.7866 ZWL$ (December 31, 2020; Reserve Bank of Zimbabwe).

[3] Banking Sector Report for the Quarter Ended December 31, 2020, RBZ, 2021 https://www.rbz.co.zw/index.php/publications-notices/publications/quarterly-reports-banking-sector/38-qir-banking-sector/978-quarterly-banking-sector-report-december-2020.

[4] An increase in total banking sector loans was mainly due to revaluation gains.

III. The Implementation of Basel III Liquidity Standards

10. **It is important to ensure that LCR and NSFR requirements are tailored to the characteristics of the Zimbabwe's banking system considering potential system-wide implications of introducing these metrics.** Before implementation of the LCR and NSFR, the RBZ should first collect relevant balance sheet-specific information via call returns, which will enable the RBZ to assess the impact of the implementation of the new liquidity regulations and the development of these ratios over time.

11. **The RBZ shall require LCR and NSFR from all banking institutions to be calculated on a solo basis, in the beginning**. The RBZ's decision is supported by the importance attached on individual bank liquidity, hence need for continued solo supervision. The mission also recommends that supervisors increase the scope of monitoring of the liquidity information of financial institutions belonging to the same financial group, in order to assess the liquidity risk of the group as a whole.

12. **It is important to consider the adoption of the LCR and NSFR for Micro Lending Financial Institutions (MFI).** The decision on the adoption of the liquidity metrics should be informed by the regulatory approach of the BSD relating to these institutions. Furthermore the size, nature, and complexity of these institutions should also be considered.

13. **During a workshop with representatives of banks, the mission discussed the drafts of liquidity regulations.** The meeting was attended by 100 participants from banks and deposit-taking microfinance institutions, representing several areas of expertise, as accounting, liquidity risk management, market operations, compliance and IT. Discussions focused on the main concepts of the LCR and NSFR methodologies and the new concepts raised by these standards, as, for example, the segregation of funding by client type, instead of funding products. The mission reinforced to banks the importance of preparing their IT systems to properly calculate the standards and of developing their own methodologies for the estimation of LCR's retail and wholesale funding runoffs, as well as other cash out flows and inflows.

A. Specific Recommendations on Liquidity Coverage Ratio

14. **In implementing LCR requirements in Zimbabwe, the mission recommended to RBZ to consider the following aspects:**

- **The liquidity stress scenarios that generate the LCR's net cash outflows should follow Basel recommendations.**[5] Banks were also required to monitor liquidity risk exposures under various stress situations, in order to protect their operations from disruption and adverse financial consequences.

[5] The scenario for the LCR standard is described in Paragraph 2 of the document BCBS 'LCR Liquidity Coverage Ratio – LCR20 Calculation' https://www.bis.org/basel_framework/chapter/LCR/20.htm.

- **Review the phase-in period established for the implementation of LCR, based on the outcome of the impact assessment.** RBZ decided to implement a minimum 80 percent LCR by December 31, 2021. The phase in period will last 2 years, with an annual 10 percent increase in the minimum level. It is expected that full LCR compliance shall be in force by December 31, 2023. However, RBZ plans to carry out an impact assessment of the new liquidity regulations, which should provide very valuable information on the level of preparedness of the banks in Zimbabwe for implementation of LCR and NSFR. This outcome may give room to some adjustments in the standards' implementation timeline.
- **Central Bank reserves may count as Level 1 assets in the stock of HQLA, as they can be used in times of stress.** RBZ decided to limit the stock of CB Reserves to be allowed in the stock of HQLA to the amount maturing in 30 days.
- **Level 2A and 2B requirements should be included in the draft regulation following the market-related and HQLA fundamental characteristics.** These fundamental characteristics have not been established and embedded in the Zimbabwean financial market yet. Therefore, it is expected that only Level 1 assets will be eligible for the stock of HQLA from the onset. Nevertheless, Level 2 requirements were included in the regulation in order to set a threshold for their acceptance in the future, when assets and markets reach an adequate stage of development.
- **Estimation on outflows and inflows should follow LCR's Basel recommendations,[6] with two minor particularities:**
    - i) **Foreign currency deposits runoff:** the same runoff rates could be applied to domestic and foreign currency deposits, as the RBZ considers that currency does not influence depositors' behavior in Zimbabwe; and
    - ii) **Small business customers definition:** this definition should be the same as established in the Zimbabwean regulation for capital requirement.

15. **In setting LCR public disclosure requirements for banks, the mission recommended to RBZ to consider the following aspects:**

- **LCR disclosure information requirements should follow Basel recommendations.**[7] In order to be in line with the LCR calculation frequency established by RBZ in the draft regulation, data for disclosure shall be calculated based on monthly observations (instead of daily observations) of LCR.[8]
- **The implementation of LCR disclosure information should be deferred to the ratio's implementation date.** Quantitative liquidity data is very sensitive information and LCR metrics is highly complex to implement. Supervisors and banks should be confident with the accuracy of LCR calculation before disclosing the information to the public. Besides, RBZ

[6] Estimation on LCR cash inflows and outflows is described in the document BCBS LCR Liquidity Coverage Ratio – LCR40 Cash inflows and outflows.

[7] BCBS Liquidity Coverage Ratio Disclosure Standards https://www.bis.org/publ/bcbs272.htm.

[8] Recommendation established in Paragraph 13 of the document BCBS Liquidity Coverage Ratio Disclosure Standards.

intends to require LCR disclosure by December 31, 2023. It is important to observe, however, that implementing LCR disclosure requirements during the phase in period of LCR minimum requirement implementation may invalidate the phase in process, as banks may be unwilling to disclose a LCR ratio below 100 percent, even if permitted (due to the phase in period).

- **RBZ should implement procedures to monitor the quantitative liquidity information to be disclosed by banks.** Supervisors should ensure that liquidity information disclosed to the public by banks are consistent with information reported to supervisors.

16. **In implementing LCR prudential reporting requirements, the mission recommended to RBZ to consider the following aspects:**

- **Banks will report LCR information to RBZ on a quarterly basis, but it should be prepared to increase the reporting frequency in times of stress.** RBZ opted to maintain the liquidity reporting frequency similar to other reports. Banks are also required to use the LCR on an ongoing basis as an internal liquidity risk management tool. To achieve this objective, they are required to calculate LCR at least on a monthly basis.
- **The RBZ should specify a detailed information template for the LCR reporting form and to collect some data of LCR monthly.** LCR data is a very important source of liquidity risk information and can be used to assess other liquidity stress scenarios. However, the liquidity buffer may be volatile, which may render the information meaningless if not updated frequently. The timelier and more detailed the information is, more flexibility supervisors have to assess the banks' liquidity risk sensitivity. Considering the comfortable level of liquidity of the Zimbabwean banks, we agree with RBZ intention of collecting LCR data on a quarterly basis in normal times and be prepared to increase the frequency whenever needed. Even though we recommend that the quarterly report contains LCR data on a monthly basis. Monthly LCR information is essential for two purposes: (1) for the construction of a database for indirect liquidity risk assessment and (2) for the assessment of the quantitative information to be disclosed by banks as a monthly average each quarter. Thus, RBZ could consider moving to a monthly basis supervisory reporting of LCR in the future.
- **LCR reporting template to supervision should be designed according to the following principles:**

    a. Although LCR will be reported in a single currency, significant amounts should be segregated by currency.

    b. Each bucket should contain unweighted and weighted amounts.

    c. Each line item should relate to a single weight factor.

    d. HQLA assets should be reported by asset type. Different types of assets with the same weight factor should be reported in different lines.

e. All information, both inflows and outflows, should be segregated by customer/counterparty type, even those with the same factor.

f. Information where a 0 percent weight factor is applied should be required, such as the deposits maturing over 30 days, the bank's operational deposits in other institutions, revocable credit and liquidity facilities provided to clients, revocable and irrevocable credit and liquidity facilities granted to the bank etc.

g. Operational deposits information should be segregated at least into three buckets: (1) amount covered by deposit insurance; (2) amount not covered by deposit insurance; and (3) excess balance on operational deposits.

h. Secured funding/lending operations should be segregated by the asset type (same types specified in the HQLA buckets) of the posted collateral.

17. **In order to ensure proper implementation of LCR by banks, the mission recommended to RBZ to observe the following aspects during onsite inspections:**

- **HQLA operational requirements:** banks shall demonstrate: (1) their capacity to identify and segregate the encumbered from the unencumbered assets portfolios; (2) adequate controls to monitor the legal entity and physical location of HQLA assets; and (3) that the HQLA assets portfolio is under the control of the liquidity manager.
- **Level 2 assets buffer:** banks that intend to include Level 2 assets in the HQLA buffer must ensure and be able to demonstrate compliance with the liquidity and market requirements specified in the LCR regulation.
- **HQLA double counting:** ensure that there is no possibility of an asset from the HQLA buffer to be also counted as inflows.
- **Additional requirements on liquidity risk management:** banks must present to supervisors their own stress testing scenarios, which shall be suitable for the bank's business activity and longer time horizons than the LCR's.
- **Retail deposits identification:** banks shall prove capacity to identify retail and small business clients' balances. They must have an adequate methodology to identify stable deposits, able to segregate the stable portion from each client's balance.
- **Deposits maturing over 30 days:** banks must have adequate methodology to exclude retail deposits and wholesale unsecured funding maturing over 30 days from the clients/counterparty balance. They must assure supervisors that there is no possibility of early withdrawal for these balances excluded from the LCR calculation.
- **Unsecured wholesale funding:** banks shall prove their capacity to segregate unsecured wholesale balances by type of client/counterparty. Banks should also be able to demonstrate their capacity to identify clients with total balance fully covered by deposit insurance.
- **Operational deposits:** banks shall prove their capacity to identify operational deposits accounts and to segregate the excess balances and the portion that is covered by deposit insurance from each client's balance.

- **Secured funding/lending:** supervisors shall ensure that collateral posted in operations counted as secured funding/lending have the legal right to be transferred to the counterparty in case of the funds-taker bankruptcy, insolvency, liquidation or resolution. Banks must demonstrate their capacity to identify these operations and classify the posted collateral according with the HQLA levels.
- **Net cashflows from derivatives operations:** banks shall prove that net cashflows from derivatives operations are calculated only for those counterparties with valid and enforceable netting agreements.
- **Collateral management in derivatives operations:** Banks shall prove their capacity to manage collateral to be posted/received in derivatives operations, including the estimation of collateral needs under the scenarios described in the LCR regulation.
- **Committed credit and liquidity facilities:** banks shall prove their capacity to identify the irrevocable committed facilities by counterparty type, as well as be able to identify the undrawn part of these facilities by counterparty.
- **Other contractual and contingent funding obligations:** supervisors should verify if banks have adequately identified other contractual contingent funding obligations and if they have implemented adequate methodologies to estimate cash outflows, at least by using historical behavior.
- **Contractual inflows by counterparty:** banks shall prove their capacity to identify fully performing contractual inflows by counterparty type.
- **Other contractual cash inflows:** in the event of a bank including other contractual cash inflows in the LCR calculation, they must provide supervisors with adequate explanation, and in case of acceptance, supervisors shall assess the adequacy of the inflow rates applied to each of these inflows.

18. **The mission recommended to RBZ to develop the following internal supervisory processes and procedures:**

- **Supervisors should establish a liquidity risk monitoring process in order to identify potential liquidity issues at an early stage and be able to take adequate measures to mitigate them**. Supervisors shall monitor the banks' compliance with the minimum liquidity requirements, their funding profile and vulnerabilities to liquidity risk, as well as other sources of liquidity not computed in the LCR that banks could use in times of stress. Timely and detailed data from the LCR and NSFR reports and other liquidity monitoring tools are important source of information for this purpose.
- **RBZ should develop and implement procedures to respond where banks' fall below minimum LCR**. Procedures shall cover guidance on supervisory actions and data requirement, as well as communication protocols between supervisors and banks, and supervisors and the RBZ's Board. Supervisors should be prepared to receive and to process the banks' on a more frequent basis than during normal times. Supervisors may require

additional information, in order to gather adequate data to effectively assess the existing issues.

- **Supervisory actions should be proportionate with the drivers, magnitude, duration and frequency of the reported breaches**. At a minimum, supervisor should require a bank to present an assessment of its liquidity position and closely monitor the effectiveness of the measures and actions taken by the bank up to its recovery. Supervisory actions shall take into account whether the breach is due to an idiosyncratic problem or to a system wide period of stress.
- **RBZ should prepare its IT systems to receive LCR information more frequently in times of stress.** Systems should be ready to receive and to process LCR information in a higher frequency than in normal times. Depending on the situation, supervisors should be able to require additional information from banks, in order to gather adequate data to assess the existing issues.

B. Specific Recommendations on Net Stable Funding Ratio

19. **The mission reviewed the draft of NSFR regulation and did not find material deficiencies.** The NSFR leverages off the LCR implementation. All applicable definitions should mirror those of the LCR. In many ways the NSFR requirements is much simpler to implement. As with the LCR consideration should be given to IT systems.

20. **The mission recommended that the NSFR requirements shall be applied to all banking institutions licensed by the RBZ on a solo basis.** Experiences demonstrated that it would be beneficial that banks shall comply with the required minimum NSFR ratio of 100 percent with no phase in period. The NSFR shall be met and reported in local currency.

21. **NSFR disclosure information requirements follow Basel recommendations.** After implementing LCR disclosure, it is important to observe NSFR requirement on disclosure well in advance of implementation. RBZ shall implement procedures to monitor the quantitative liquidity information disclosed by banks. Supervisors should ensure that liquidity information disclosed by banks to the public are consistent with information reported to supervisors.

22. **Banks should report NSFR information to RBZ on a quarterly basis.** RBZ opted to maintain the liquidity reporting frequency similar to other reports. Banks are also required to use the NSFR on an ongoing basis as an internal liquidity risk management tool.

23. **The NSFR reporting template to RBZ should be designed according to the following principles:**

    a. Each bucket should contain unweighted and weighted amounts.

    b. Each item should refer to a single weight factor.

    c. HQLA assets should be informed by asset type.

d. All information, both Available Stable Funding (ASF) and Required Stable Funding (RSF), based on customer/counterparty/asset class should be segregated by customer/counterparty/asset class, even those with the same weight factor.

e. Information where a 0 percent weight factor is applied should be required.

APPENDIX I. STRUCTURE OF THE BANKING SECTOR AS OF MARCH 31, 2021

NO.	BANK NAME	TOTAL ASSETS (ZWL$)[1]	MARKET SHARE (PERCENT)	CONTROL[2]	COUNTRY OF HOME SUPERVISION
1	CBZ BANK	88,340,699,607	21.93%	Mixed	Zimbabwe
2	ECOBANK	68,021,425,696	16.89%	Foreign	Togo, West Africa
3	STANBIC	45,670,564,430	11.34%	Foreign	South Africa
4	FBC BANK	28,362,301,904	7.04%	Mixed	Zimbabwe
5	CABS	26,603,749,732	6.60%	Foreign	Zimbabwe
6	FIRST CAPITAL BANK	18,250,220,548	4.53%	Foreign	Malawi
7	BANCABC	17,520,233,139	4.35%	Foreign	Zimbabwe
8	STANDARD CHARTERED	16,431,648,147	4.08%	Foreign	England
9	NEDBANK	16,259,675,075	4.04%	Foreign	South Africa
10	ZB BANK	16,106,932,777	4.00%	Local Private	Zimbabwe
11	STEWARD BANK	14,330,884,620	3.56%	Local Private	Zimbabwe
12	METBANK	11,785,994,407	2.93%	Local Private	Zimbabwe
13	NMB BANK	11,693,019,558	2.90%	Foreign	Zimbabwe
14	AGRIBANK	10,194,804,310	2.53%	State	Zimbabwe
15	CBZ BS	3,939,425,716	0.98%	Mixed	Zimbabwe
16	POSB	3,703,289,095	0.92%	State	Zimbabwe
17	FBC BS	2,505,293,636	0.62%	Mixed	Zimbabwe
18	NBS	1,912,201,756	0.47%	State	Zimbabwe
19	ZB BS	1,151,421,900	0.29%	Local Private	Zimbabwe
	Total	**402.78 billion**	100%		

Source: Reserve Bank of Zimbabwe.

[1] Exchange rate ZWL$ per USD 84.4001 (March 31, 2021, Reserve Bank of Zimbabwe);
[2] Mixed: a combination of state and private ownership.

APPENDIX II. BANKING SECTOR INDICATORS

Key Metrics for the Banking Sector

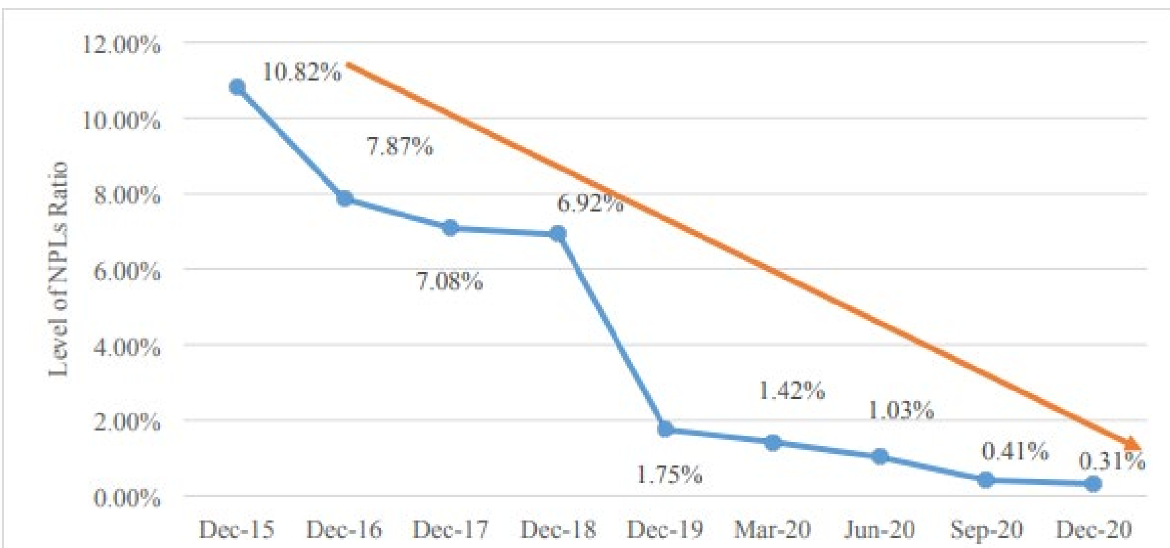
Key Indicators	Benchmark	Dec-19	June-20	Sept -20	Dec-20
Total Assets (ZW$ Billion)	-	60.64	193.56	284.37	349.59
Total Loans & Advances (ZW$ Billion)	-	12.63	37.77	56.76	82.41
Net Capital Base (ZW$ Billion)	-	9.75	29.47	42.06	53.18
Total Deposits (ZW$ Billion)	-	34.50	97.40	154.47	208.90
Net Profit (ZW$ Billion)	-	6.41	13.46	23.37	34.24
Return on Assets (%)	-	8.99	10.53	12.50	13.55
Return on Equity (%)	-	33.02	27.38	39.92	45.54
Capital Adequacy Ratio (%)	12	39.56	61.72	47.16	34.62
Tier 1 Ratio (%)	8	27.87	34.35	27.61	22.65
Loans to Deposits (%)	70	36.60	37.71	36.75	39.45
Non-Performing Loans Ratio (%)	5	1.75	1.03	0.41	0.31
Liquidity Ratio (%)	30	72.42	74.85	71.69	73.06

Source: Reserve Bank of Zimbabwe.

Figure 1. Banking Sector Loans and Advances

Source: Reserve Bank of Zimbabwe.

Figure 2. Nonperforming Loans



Source: Reserve Bank of Zimbabwe.