TECHNICAL ASSISTANCE REPORT

ZIMBABWE

Financial Sector Stability Report Follow Up Technical Assistance on the Implementation of the Basel III Liquidity Framework

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Glossary

ASF	Available Stable Funding
BCBS	Basel Committee on Banking Supervision
BSD	Banking Supervision Division
FSSR	Financial Sector Stability Review
HQLA	High Quality Liquid Assets
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
LEG	Legal Department
MCM	Monetary and Capital Markets Department
NPL	Nonperforming Loan
NSFR	Net Stable Funding Ratio
PSE	Public Sector Entity
QIS	Quantitative Impact Study
RBS	Risk-Based Supervision
RBZ	Reserve Bank of Zimbabwe
RSF	Required Stable Funding
SME	Small and Medium Enterprises
SFT	Securities Financing Transactions
TA	Technical Assistance
ZiG	Zimbabwe Gold

Preface

At the request of the Reserve Bank of Zimbabwe (RBZ), the Monetary and Capital Markets Department (MCM) conducted a hybrid mission: a virtual mission from March 25 to 28, 2024 and visited Harare, Zimbabwe from April 8 to 12, 2024, to assist the RBZ on finalizing the implementation of the Basel III Liquidity Framework, with a particular focus on the Net Stable Funding Ratio (NSFR).

The mission met with Mr. Philip Madamombe, Director of the RBZ Banking Supervision Division (BSD), Mr. Ruzayi Chiviri, Ms. Norah Mukura (RBZ Deputy Directors of the BSD), Dr. Jeremiah Borerwe, Mr. Simelizwe Ncube and other supervisors, responsible for the implementation of Basel III liquidity standards, and representatives of all Zimbabwe's banks.

The mission wishes to express its gratitude to the RBZ and its management, particularly to Mr. Philip Madamombe, Ms. Norah Mukura and Dr. Jeremiah Borerwe, for their excellent cooperation, productive discussions, and their hospitality.

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 hybrid TA mission supported the RBZ on finalizing the implementation of the Basel III Liquidity Framework, with a particular focus on the NSFR. The mission reviewed the RBZ drafts of the NSFR regulation and the template for prudential returns, supported the RBZ to elaborate a questionnaire for a Quantitative Impact Study (QIS), discussed identified gaps with the BSD management and relevant supervisors, reviewed Liquidity Coverage Ratio (LCR) prudential returns, delivered training on LCR and NSFR, and provided recommendations on enhancing the drafts. The mission also participated in a Basel III liquidity standards event with banking institutions and delivered targeted training sessions to RBZ's banking supervisors.

As recommended by the FSSR and previous TA missions, finalizing the implementation of the Basel III liquidity standards in Zimbabwe is a high priority. LCR regulations were issued in December 2022 and have been implemented by banks since then. The development of an NSFR regulation and the strengthening of liquidity supervision would complement the current Zimbabwean liquidity framework, contributing to the stability of the financial system.

The TA mission team worked with RBZ staff in strengthening the drafts of NSFR regulation and templates for data reporting. The mission has reviewed with RBZ's representatives all aspects of the draft of NSFR regulation in detail and, in parallel, the template for the NSFR prudential report was being elaborated. The main outputs towards the NSFR implementation were: (i) draft regulation detailing the requirements on NSFR standards; and (ii) NSFR template for prudential reporting to RBZ.[1] The NSFR template will also be utilized for the QIS subject to incorporation of relevant questions.

The QIS and a public consultation are important parts of the NSFR rulemaking process. The TA mission supported the RBZ in preparing a template for an impact study. The draft NSFR regulation could be used as a guide for banking institutions to provide data to the RBZ in an appropriate manner, as part of a QIS. This is key to assess the impact of the new regulation in the banking system. In addition, dialogue between the RBZ and banking institutions is an opportunity to receive information that contributes to improve the norm and make it possible to assess adjustments considering the peculiarities of the local banking system.

The mission discussed with the BSD team the outputs of LCR first assessments. The reports indicate that banks are very liquid, as expected. However, it is important to continue checking quality of LCR data reported by banks. To address those issues, BSD has developed internal guidance for supervisors on 'LCR Model and Risk Management Validation' and the mission has recommended the implementation of off-site cross-checking processes to compare LCR information with data from other sources.

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[1] The NSFR template follows the granularity of the LCR prudential report, and the balance sheet accounts to allow for monitoring tools and processes with similar granularity, and to facilitate automate cross-checking procedures to mitigate data quality issues, as well. The mission recommends the NSFR report to be delivered by banks on a quarterly basis, with monthly information.

BSD shall implement liquidity risk monitoring processes and tools[2] for LCR and NSFR. The TA mission of March 2022 had already recommended the implementation of liquidity risk monitoring processes and tools for LCR data. This TA recommends to extending its scope to encompass NSFR data, for the development of monitoring processes and tools with the perspective of structural liquidity. A monitoring process needs to rely on sound data sources, otherwise, its outputs may lead to mistaken decisions. It would be beneficial to implement these processes and tools after concluding the data quality assessment of LCR prudential reports.

This TA mission recommends that the liquidity risk monitoring processes and tools should allow for the assessment of liquidity risk by significant currency. Banks' exposures on US$ are material from a liquidity risk perspective and enhanced monitoring should therefore be applied. Thus, while the minimum standards (LCR and NSFR) are required in aggregate,[3] an enhanced monitoring on the exposures by currency should be applied. The already implemented liquidity risk monitoring tools based on the LCR report provide data with necessary granularity to permit the assessment of outputs in aggregate and by significant currency. The mission recommends that the NSFR report data follows the same granularity pattern of LCR report, to support the implementation of the monitoring processes to assess structural liquidity also in aggregate and by currency.

The mission provided a two-day training to all BSD supervisors and participated in an event with banking institutions on the Basel III liquidity standards with a focus on the NSFR. About 30 supervisors from the BSD participated in the targeted training on the implementation of Basel III liquidity framework reforms - LCR and NSFR. During the event with banking institutions, IMF experts gave a presentation on the NSFR standard to raise awareness and obtain the banking industry's perspective on the benefits and challenges in implementing the NSFR requirements in Zimbabwe.

The mission recommends the implementation of the calculation and compliance with the liquidity standards on a consolidated basis, as a second step. This recommendation is fully aligned with RBZ's efforts to enhance its risk-based supervision and to strengthen consolidated supervision approach. RBZ should move towards its implementation, in addition to the current solo basis approach, already applied to the LCR calculation and proposed in the NSFR draft regulation, after full operationalization of the consolidated supervision framework.

It is recommended the TA mission on the Basel III capital framework should be considered by the authorities and that it should cover a review of draft regulations related to the capital framework, support the RBZ in updating prudential reporting templates, and develop a questionnaire for the QIS.

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[2] Monitoring tools are metrics to aid supervisors in assessing liquidity risk. The tools recommended in Basel III SRP 50 – Liquidity Monitoring Metrics cover contractual maturity mismatch, funding concentration, available unencumbered assets, LCR by currency, market-related monitoring tools and intraday metrics.

[3] Exposures in foreign currencies are converted into the domestic currency for the calculation of the aggregate LCR and NSFR minimum requirements.

Recommendations

Table 1. Key Recommendations

Recommendations		Priority	Timeframe[4]
NSFR			
1. Conduct a QIS with the banks' support to estimate the NSFR implementation impact on the banking system.		High	ST
2. Finalize the NSFR draft regulation and proceed to conduct a public consultation on the implementation of the NSFR regulation to promote dialogue between the RBZ and banking institutions.		High	ST
3. Approve NSFR regulation.		High	ST
4. Expand the scope of application of the Basel III liquidity regulations (LCR and NSFR), including associates of the banking institutions, for the calculation of liquidity requirements on a consolidated basis.		Medium	MT
Liquidity Prudential Reports and Monitoring Tools			
5. Finalize NSFR prudential report template and require the reporting of NSFR on a quarterly basis, with monthly information.		High	ST
6. Consider developing off-site automatic processes for LCR data quality verification on an ongoing basis, involving cross-checking of LCR data with other data available for supervision.		High	ST
7. Develop liquidity risk monitoring processes and tools incorporating the assessment of structural liquidity risk based on the NSFR data and the 'Contractual Maturity Mismatch' monitoring tool. The liquidity risk monitoring processes and tools should allow for the assessment of liquidity risk in aggregate and by significant currency.		High	MT

[4] Short term: < 12 months; Medium term: with results from 12 to 24 months

I. Introduction

1. **MCM conducted a hybrid mission from March 25 to April 12, 2024 to assist the RBZ in finalizing the implementation of the Basel III Liquidity Framework.** From March 25 to 28, 2024, the mission held numerous virtual meetings with middle management and supervisors of the BSD. The in-person mission from April 8 to 12, 2024 comprised of meetings with the BSD, targeted training sessions to all banking supervisors on the implementation of Basel III liquidity standards, and participation as guest speakers in RBZ's Liquidity Standards awareness event with banking institutions covering requirements of international standards.

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 was expected that this TA would 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. **To address gaps in the legislative framework and strengthening risk-based supervision, several TA missions have been conducted**. In 2019, the IMF provided joint LEG/MCM TA aimed at assisting the RBZ in enhancing the RBZ Act, the Banking Act, and the Deposit Protection Corporation Act. In 2019-2020, the IMF conducted two TAs on strengthening risk-based supervision. Subsequently, from 2021 to 2023, four TA missions supported the RBZ in implementing consolidated supervision, Basel III liquidity and capital standards. Additionally, AFRITAC South delivered three TA missions aimed at enhancing banking supervision. More recently, MCM provided TA on strengthening of the bank resolution and crisis management frameworks. Throughout these missions, careful consideration has been given to the RBZ's priorities and needs.

4. **This TA mission was the third mission dedicated to the implementation of Basel III liquidity standards**. The primary objective of the first mission, conducted in November 2020 – April 2021, was to review the RBZ drafts concerning LCR and NSFR requirements, liquidity monitoring tools and reporting templates, and provide recommendations for their enhancement. The second TA mission supported the RBZ in preparing for the approval process of Liquidity Coverage Ratio (LCR) regulations and reporting templates. LCR regulations were issued in December 2022 and have been implemented by banks since then. The TA missions conducted in March-April 2024 primarily focused on supporting the RBZ in finalizing the NSFR regulations and providing advice on remaining issues related to Basel III liquidity standards implementation.

5. **The mission participated in an awareness session for banking institutions to present the Basel III liquidity standards with a focus on the NSFR.** The event, organized by RBZ, with 30 participants from the banking industry was held during the TA mission. During the event, RBZ presented a preliminary analysis of LCR data received from banks and discussed topics related to the LCR implementation. IMF experts made a presentation on the NSFR international standard to raise awareness and obtain the banking industry's perspective on the benefits and challenges in implementing the NSFR requirements in Zimbabwe.

6. **The mission also included two days of training of bank supervisors.** About 30 supervisors from the BSD participated in the training. The first day focused on the supervision of LCR implementation. Initially, a brief overview of the LCR metrics was presented, highlighting the main issues that supervisors should focus during the assessment of a banks' LCR model. IMF TA mission also discussed a practical exercise of the RBZ assessment of actual LCR data reported by banks. The second day was dedicated to the NSFR methodology, which included the following topics: i) Basel III reforms context and the development of global standards for the liquidity risk regulation and supervision, ii) the NSFR components (Available Stable Funding (ASF) and Available Stable Funding (RSF)), iii) the treatment of specific transactions and iv) the requirements for public disclosure (Pillar 3).

7. **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 NSFR requirements, and Liquidity Prudential Reports and Monitoring Tools.

II. Banking Sector Overview

8. The banking sector of Zimbabwe consists of 14 commercial banks, 4 building societies, and 1 savings bank that, in total, account for ZW$34.4 trillion[5] in assets, which correspond to 55 percent of GDP (December 31, 2023). Of the 19 banks, 7 banks have foreign shareholding, with a market share of over 51 percent. Other banks are local, or state owned, in part or whole (Annex I).

9. The RBZ stated[6] that the banking sector continues to demonstrate resilience and adequate capitalization. Based on data from banks' prudential returns, all banks were compliant with the minimum capital adequacy requirements on December 31, 2023. The banking sector average capital adequacy and Tier 1 ratios of 37.34 percent and 25.77 percent were well above the regulatory minimum of 12 percent and 8 percent, respectively. Banking sector core capital continues its gradual growth mainly due to revaluation gains from foreign exchange denominated assets and investment properties. Banks needed to comply with the new minimum capital level requirements (in absolute amounts) by December 31, 2023. RBZ stated that banks have registered progress towards meeting these capital requirements. Banking sector indicators are presented in Annex II.

10. Banking sector continues reporting a very low nonperforming loans (NPLs) to total loans ratio. On December 31, 2023, the NPLs ratio was 2.09 percent. The RBZ attributed the low NPLs ratio to strong credit risk management practices. It is important to continue enhancing supervisory monitoring and ensure that banks timely identify NPLs and accurately reflect asset classification and provisioning in their balance sheets.

11. Banks started to calculate and report LCR to RBZ in June 2023. 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 banks' liquidity risk. The LCR data reported by banks have endorsed BSD's expectation on large amounts of High Quality Liquid Assets (HQLA) buffers,[7] when compared with banks' liquidity needs under the stress scenario defined by the LCR metrics. BSD's September 2023 data reveals 82 percent of bank deposits were in foreign currency, mainly USD.

12. On April 5, 2024, Zimbabwe introduced a new currency—Zimbabwe Gold (ZiG)—which is anchored by a composite basket of foreign currency and precious minerals (mainly gold) held as reserves for this purpose by the RBZ. The new currency was established by an amendment to the RBZ Act. The RBZ also announced changes to its exchange rate and monetary policies with the aim to

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[5] Exchange rate 1 USD=6104.72 ZWL$ (December 31, 2023; Reserve Bank of Zimbabwe).

[6] Banking Sector Report for the Quarter Ended December 31, 2023, RBZ, 2024. [Banking-Sector-Industry-Report--- December-2023.pdf (rbz.co.zw)]

[7] Coins, banknotes, and reserves at the RBZ are the main components of HQLA buffer of most banks.

achieve a stable national currency. When the new currency was introduced, the banking sector started to convert the ZW$ balances into ZiG balances.[8]

[8] In principle, the currency change would not impact the implementation of NSFR requirement, as RBZ is still involved in finalizing the regulation, and, after its issuance, there will be an implementation period for banks to start calculating and reporting the NSFR to supervisors.

III. The Implementation of Basel III Liquidity Standards

A. Specific Recommendations on the Net Stable Funding Ratio

13. The mission recommends that RBZ finalizes and issue NSFR regulation, which could contribute to the banking system's resilience. According to the Basel III liquidity framework, the LCR and the NSFR have different but complementary objectives. Analyses conducted by the BCBS[9] in the context of assessing the impact and effectiveness of the Basel III reforms have demonstrated the complementary nature of the two liquidity standards – LCR and NSFR, and the conclusions indicate that the international framework has contributed to banking systems' resilience. It is worth noting that according to the data presented by RBZ's supervisors the banking sector of Zimbabwe has a classic asset-liability profile, focused on financial intermediation activity (credit portfolio backed by customer deposits and external lines of credit), and would benefit from the NSFR as a prudential requirement to promote a sustainable funding structure. The mission has reviewed with RBZ's representatives all aspects of the NSFR methodology. It also discussed the relationship between the NSFR and accounting standards, rules for Secured Financing Transactions (SFT) and encumbered assets, the concept of interdependent assets and liabilities, and the distinct treatment that may be applied to exceptional central bank liquidity operations, as well as the approach to NSFR computation on a consolidated basis, among others. The finalization of the NSFR regulation depends on the execution and evaluation of the items described in the subsequent paragraphs.

14. A QIS is an important part of the NSFR rulemaking process. To be successful in estimating the NSFR implementation impact, the support of banks is of upmost importance. Banking institutions need to timely and correctly fill in the impact study templates with data that is formatted according to the NSFR methodology and is usually not available in the supervisory authority systems. The draft NSFR regulation could be used as a guide for banking institutions to provide data to the RBZ in an appropriate manner. The TA mission supported the RBZ in preparing a reporting template for an impact study.

15. RBZ has the established practice of issuing draft regulations for public consultation. Dialogue between the RBZ and banking institutions with the purpose of obtaining feedback on the regulatory proposal is an opportunity to receive information that will contribute to improve the norm and make it possible to assess adjustments considering the peculiarities of the local banking system.

16. The RBZ should identify, together with banks, if there are operations in the local market that would suit the treatment for interdependent assets and liabilities. According to the NSFR international standard, supervisors have the discretion to decide whether certain assets and liabilities are

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[9] Report available at https://www.bis.org/bcbs/publ/d544.htm

interdependent[10] and, in such cases, adjust the ASF and RSF factors, reducing them to 0 percent. The QIS exercise is a timely and appropriate means to collect information from banks for this purpose.

17. BSD should evaluate the application of a distinct treatment for assets that are encumbered for exceptional central bank liquidity operations. The NSFR standard allows the application of a reduced RSF factor to assets provided by banks as collateral for liquidity providing operations. This seeks to avoid a situation where central bank operations exceeding one year may become less effective because of the corresponding reduction in a bank's NSFR ratio. In this sense, it is recommended that RBZ should consider adopting the national discretion allowed in the international standard and include in the regulation a provision allowing an asset that is encumbered in a central bank liquidity operation to receive the same RSF factor as an equivalent asset that is unencumbered.

18. The Basel framework[11] recommends a consolidated approach to the NSFR regulation. Although the scope of application of the capital and liquidity frameworks is not the focus of this TA, a potential for improvement in this area was identified. The inclusion of cash flows, assets, and liabilities of associates of the banking institution in the LCR and NSFR calculation would allow for a consolidated and broader prudential view of risks. Therefore, the mission recommends the implementation of a calculation and compliance to the liquidity standards on a consolidated basis in addition to the current solo basis approach. This recommendation is fully aligned with RBZ´s efforts to enhance its risk-based supervision and strengthen consolidated supervision[12].

B. Specific Recommendations on Liquidity Prudential Reports and Monitoring Tools

19. The mission conducted thorough discussions with the BSD team to draft a prudential reporting template for the NSFR. Banks will be required to report NSFR data to the RBZ every quarter, with monthly information. The template follows the granularity of the LCR template, particularly on those buckets that derive from the LCR metrics.[13] It also seeks equivalence to the balance sheet accounts, which shall facilitate automated cross-checking procedures to mitigate data quality issues. The report requires information in aggregate,[14] by currency, and from associates of the bank's group.[15] The results of the QIS on the NSFR implementation may punctually impact the report template's design. Thus, eventual updates on the template's framework may derive from the outputs of the QIS exercise.

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[10] Asset and liability items are interdependent when the liability cannot fall due while the asset remains on the balance sheet, the principal payment flows from the asset cannot be used for something other than repaying the liability, and the liability cannot be used to fund other assets. In addition, there are some additional criteria that should be met.

[11] International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version, June 2006, www.bis.org/publ/bcbs128.htm.

[12] The technical assistance report on consolidated supervision is available at https://www.imf.org/en/Publications/CR/Issues/2022/12/19/Zimbabwe-Technical-Assistance-Report-Financial-Sector-Stability-Review-Consolidated-527110

[13] HQLA components, stable and less stable deposits, operational deposits etc. Information on funding from non-financial corporate is required by economic sector, mirroring the granularity established in the LCR prudential report.

[14] All exposures in foreign currency converted to the local currency and added to the local currency exposures.

[15] Reporting data from associates in the NSFR report would help banks to measure and monitor the liquidity risk emerging from the group. In the supervision perspective, data would permit a broader prudential view of the risks in the bank's group as a whole. The LCR report should also be updated to require similar information.

20. The NSFR prudential report aims to collect data from the subsidiaries and other associates of the banking group. Since the TA mission of May 2022, the BSD is putting efforts towards the implementation of a consolidated approach for the supervisory model. For this purpose, the NSFR report template was designed to also collect individual data from associates of a bank's financial group. Following this trend, it is also recommended to update the LCR template to encompass similar information.

21. This mission discussed with the BSD team the objectives and methodology of the 'Contractual Maturity Mismatch' monitoring tool. TA mission conducted in March 2022 supported the RBZ with the implementation of LCR requirements. Among the outputs of the mission, a staff training was conducted on the LCR methodology, and the monitoring tools, mainly focused on short term liquidity risk issues.[16] A deeper discussion on 'Contractual Maturity Mismatch' was left to the NSFR implementation phase. The authorities indicated that they are in the beginning stages of implementing the LCR monitoring tools.

22. The mission discussed with the BSD team the outputs of their LCR first assessments. Figure 1 presents the aggregate composition[17] of the main components of the LCR metrics in weighted values. Generally, banks present similar characteristics, such as a high level of coins, bank notes and reserves at the RBZ in the HQLA buffer composition (LCR numerator), and predominance of unsecured wholesale deposits (mainly small business customers) and inflows by counterparty (mostly from demand deposits in other financial institutions[18]) in the cashflows (LCR denominator). Meanwhile, many banks have reached the cap of 75 percent cash outflows, with most of them having higher inflows than outflows.[19]

23. Individual analysis indicate that some banks may have opted for more conservative models to estimate cash outflows. The figures show that some banks have opted to implement a simplified LCR model calculation, by applying the general run-offs for funding outflows and considering the total balances, instead of developing methodologies to estimate the buckets that would receive lower run-off rates or to exclude the amount of deposits not withdrawable in 30 days[20]. The consequence of increasing the LCR denominator by applying general run-off rates to the total balances is the need of a higher numerator, i.e. a higher HQLA buffer. In general, banks in Zimbabwe have high levels of HQLA buffers, thus, they could afford the use of more conservative parameters to benefit from a less complex LCR calculation.

[16] The training focused on the following monitoring tools: 'Concentration of funding', 'Available unencumbered assets' and 'LCR by significant currency'.

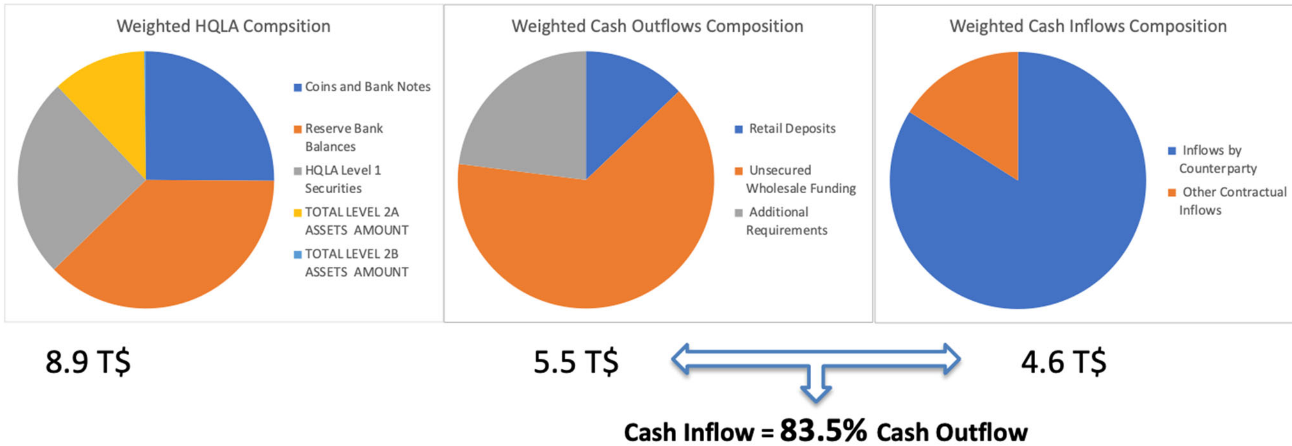
[17] Aggregated amounts of 17 reporting banks.

[18] According to Basel III paragraph LCR 40.89 "a 100% inflow rate may be applied to the amount for which the bank is able to determine that the funds are "excess balances" in the sense of LCR 40.29 to LCR 40.30, i.e., they are not tied to operational purposes and may be withdrawn within 30 days.

[19] Apart eventual concerns on the accuracy of reported data, 'deposits in other financial institutions' have contributed to elevate the banks' level of weighted cash inflow.

[20] Some banks, for example, have reported retail deposits only as 'Less Stable' and just a few have reported balances in Operational Deposits. Besides, the amounts informed as maturing in 30 days are in general very close to the total balances reported in the Balance Sheet. 'Stable' deposits and 'Operational Deposits' receive lower run-off rates in the LCR metrics (5% and 25%, respectively), when compared to the general retail ('Less Stable') and wholesale run-off rates (10% and 40%, respectively).

Figure 1. LCR Weighted Components (December 2023)



Source: RBZ

24. **BSD is aware of the importance of checking the quality of LCR data reported by banks.** Besides the observations mentioned above, which are simplifications in the LCR calculation, specific aspects of reported data have raised some flags on the accuracy of the banks LCR calculation model[21]. While issues of this nature normally occur in the implementation of a new data requirement, supervisors are expected to address them and require correcting information.[22] In this regard, BSD is developing specific guidance for supervisors on 'LCR Model and Risk Management Validation Framework'[23] to support supervisors' assessment of the banks' LCR calculation model. TA mission team discussed with BSD the draft guideline and provided suggestions to enhance the draft.

25. **The mission recommended BSD to consider enhancing off-site processes and tools[24] for LCR data quality verification.** Prior to the review of liquidity risk's monitoring processes and tools, it is crucial to ensure that banks are properly calculating and reporting the LCR ratio. To this end, TA experts have suggested the implementation of ongoing data cross-checking processes to compare LCR data with

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[21] For example: funding balances only in categories of lower run-off rates (like 'Stable' retail and 'Stable' small business customers); wholesale funding consisting only of 'small business customers'; high [fully performing] inflows by counterparty [maturing in 30 days]; significant amounts of 'Other contractual cash inflow'; relevant amount of level 2A HQLA; etc. These findings have the common consequence of increasing the LCR level.

[22] In this case, particularly, important evolutions of the RBZ's liquidity risk supervisory and regulatory framework, such as the review of the liquidity risk monitoring process and the requirement to banks disclose LCR data, will follow the actions to mitigate concerns on the accuracy of LCR data to be concluded. Besides, the NSFR calculation to be implemented shall also benefit from the accuracy of LCR data, as several of its components derive from the LCR methodology.

[23] The LCR Validation Framework prescribed in the guidelines consists of: (a) Data Integrity Checks, to ensure the accuracy and reliability of reporting data; (b) Computation Verification, to ensure that the components of the LCR metrics are being estimated according with the regulation and the computation processes and methodologies are being adequately documented; and (c) Regulatory Compliance, to ensure compliance with the overall minimum standard (including limits, caps and floors of some components), and operational and risk management requirements, as well.

[24] The proposed off-site verifications do not replace the need to inspect the banks' LCR model in loco. However, they have advantages in timeliness and personnel consuming that make them a good option to optimize the on-site actions: (i) each verification implemented is normally calculated to all reporting banks simultaneously; (ii) outputs can be assessed by a very short amount of personnel (one or two people may cover all banks); and (iii) concerns not clarified by banks in an off-site interaction will then require on-site investigation.

other documents reported to the RBZ. These processes should preferably be automated and be conducted upon receipt of a report. Off-site supervisors would assess the outputs flagged by those verifications and ask banks for clarification in case of concerns on the accuracy of reported data[25]. The following list are examples of cross-checking procedures with data sources that are or could be available for the BSD. Similar cross-checking processes are also recommended to the NSFR prudential report after its implementation:

a. <u>Data from the financial statements</u>: total or partial[26] cross-checking of balances on specific balance sheet accounts, such as coins and bank notes, reserves at the RBZ, total deposits, deposits in foreign currencies, loans, etc.;

b. <u>Data from the credit risk register</u>: the granular information on credit risk operations may inform the maturity, payment behavior and counterparty of credit operations in a bank's portfolio. BSD may estimate the amount fully performing maturing in 30 days by counterparty based on the credit register data and crosscheck with balances informed in the LCR cash inflow bucket 'other inflows by counterparty';

c. <u>Data from the deposit insurance entity</u>: this entity may inform RBZ the total amount of deposit insured for each bank. This total amount can be compared with the sum of the cash outflows from buckets that require deposit insurance as a condition for the use of a lower run-off rate[27]; and

d. <u>Data from the NSFR prudential report</u>: some NSFR components come from the LCR methodology[28], thus, LCR balances should not be greater than the correspondent NSFR balances, as LCR information should comprehend exposures that could impact the cash flow in a 30-day time horizon.

26. The **LCR regulation issued by RBZ[29] has established the requirement for LCR information disclosure in line with the Basel standards**. However, the requirement has not yet been put into force. This mission agrees with BSD on that LCR information is a very sensitive and supervisors need to be comfortable with the accuracy of LCR calculated by the banks prior to allowing them to disclose it.

27. BSD has commenced the implementation of liquidity risk monitoring processes and tools for the LCR and NSFR. The TA mission of March 2022 had recommended the review of the liquidity risk monitoring processes based on LCR data and the monitoring tools as a medium-term high priority

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[25] Should a bank confirm the information is incorrect, the supervisor would require the immediate substitution of the report.

[26] A total cross-checking would be the comparison of balances that should represent the same amount or are very close to that. For example, LCR Reserve Bank Balances X account 'Balances with Central Bank' from the balance sheet. A partial cross checking is when the verification cannot be so precise, but there is a boundary that should not be crossed. For example, the sum of retail and wholesale deposits informed in the LCR should not exceed the balance informed as 'Total Deposits' in the balance sheet.

[27] Retail and small business deposits; operational and non-operational wholesale insured deposits.

[28] For example: HQLA Level 1, 2A and 2B, stable/less stable deposits, retail/small business deposits, non-financial wholesale funding, operational deposits, etc.

[29] Prudential Standard No: 02-2022/BSD: Guidance on the Implementation of the Liquidity Coverage Ratio (December 2022).

recommendation[30] (also see Annex III). This TA mission recognizes that RBZ has started implementing this recommendation, but still have time to be compliant with the timeline [Medium Term] for the review of those monitoring processes [focused on the short-term liquidity risk] and extends its scope to encompass the perspective of monitoring structural liquidity based on NSFR data, when available, and to include the 'Contractual Maturity Mismatch' in the set of monitoring tools to be implemented[31]. It would be beneficial to implement liquidity risk processes and tools after concluding the data quality assessment of LCR prudential reports.

28. The mission recommends that liquidity risk monitoring process and tools should allow for the assessment of liquidity risk by currency. According to Basel, banks are expected to maintain HQLA consistent with the distribution of their liquidity needs by currency,[32] and the calculation of LCR by currency is recommended as a monitoring tool. In Zimbabwe, banks' exposures on US$ are material[33] from a liquidity risk perspective. Representatives from banking institutions have also confirmed the importance of monitoring liquidity risk by currencies. Thus, while the minimum standards (LCR and NSFR) are required in aggregate,[34] an enhanced monitoring on the exposures by currency should be applied. This mission recommends that any monitoring tool to be implemented should provide data with this granularity, and any monitoring process to be reviewed by the BSD, both at the short-term liquidity and structural liquidity perspectives, should include the assessment of outputs in aggregate and by currency, as well.

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[30] Key recommendation #7: The RBZ to review the liquidity risk monitoring process using data from the LCR and the monitoring tools, with the following objectives: (i) Assure an adequate quality level on data used to monitor the banks' liquidity risk exposure; (b) Map the liquidity risk level of the supervised institutions, both in aggregate and by relevant currencies (domestic and US$D), and monitor liquidity risk; (c) Identify any idiosyncratic liquidity issue in a specific bank that would lead to supervisory actions to address the problem; (d) Monitor the banks' liquidity level during stress periods and keep the RBZ board and relevant departments informed about the liquidity issues and vulnerabilities; (e) Monitor the banks' compliance with the LCR minimum requirement and take promptly actions when a bank reports a breach in the LCR; and (f) Assess whether the LCR information banks are disclosing to the public is correct.

[31] The contractual maturity mismatch profile is one of the liquidity monitoring tools recommended in Basel III Liquidity Framework. This metric provides insight into the extent to which the bank relies on maturity transformation under its current contracts, as it identifies the gaps between the contractual inflows and outflows of liquidity for defined time bands. These maturity gaps indicate how much liquidity a bank would potentially need to raise in each of these time bands if all outflows occurred at the earliest possible date. This TA mission has briefly discussed the implementation of Contractual Maturity Mismatch with the RBZ team during the virtual meetings.

[32] BCBS Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools – Paragraph 42. "While the LCR is expected to be met and reported in a single currency, banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency. The bank should be able to use the stock to generate liquidity in the currency and jurisdiction in which the net cash outflows arise. As such, the LCR by currency is expected to be monitored and reported to allow the bank and its supervisor to track any potential currency mismatch issues that could arise,"

[33] Banks' balance sheet information from September 2023 have revealed that 82 percent of the banks' deposits are held in foreign currency (according to BSD, mostly in US$).

[34] Exposures in foreign currencies are converted into the domestic currency for the calculation of the aggregate LCR and NSFR ratios.

Annex I. Structure of the Banking Sector as of December 31, 2023

No	BANK NAME	TOTAL ASSETS (ZW$)	MARKET SHARE (%)	CONTROL	COUNTRY OF HOME SUPERVISION	BANKS ARE INVOLVED IN CONSOLIDATED SUPERVISION (home/host)
1	CBZ	6,573,084,283,102.97	19.10%	Mixed	Zimbabwe	+
2	STANBIC	5,565,922,070,016.27	16.17%	Foreign	South Africa	+
3	ECOBANK	3,583,630,626,797.00	10.41%	Foreign	Togo	+
4	CABS	3,036,499,170,695.06	8.82%	Foreign	Zimbabwe	+
5	FBC	2,712,911,986,630.72	7.88%	Mixed	Zimbabwe	+
6	ZB BANK	2,050,761,945,944.29	5.96%	Local Private	Zimbabwe	+
7	FIRST CAPITAL BANK	1,769,864,425,425.23	5.14%	Foreign	Malawi	+
8	NMB BANK	1,344,131,090,469.81	3.91%	Foreign	Zimbabwe	+
9	NEDBANK	1,184,859,413,145.00	3.44%	Foreign	South Africa	+
10	BANC ABC	1,143,357,511,938.86	3.32%	Foreign	Zimbabwe	+
11	METBANK	1,095,257,082,302.71	3.18%	Local Private	Zimbabwe	+
12	STANDARD CHARTERED[35]	991,756,418,961.92	2.88%	Local Private	Zimbabwe	+
13	STEWARD BANK	936,394,738,326.92	2.72%	Local Private	Zimbabwe	+
14	AFC	726,955,694,167.60	2.11%	State	Zimbabwe	+
15	NBS	474,171,501,028.95	1.38%	State	Zimbabwe	
16	POSB	453,352,720,347.92	1.32%	State	Zimbabwe	
17	FBC BS	447,982,786,076.70	1.30%	Mixed	Zimbabwe	+
18	TIME BANK	170,360,917,582.05	0.50%	Local Private	Zimbabwe	+
19	ZB BS	150,972,866,155.88	0.44%	Local Private	Zimbabwe	+
	Total	34,412,227,249,115.90	100.00%			

Source: The Reserve Bank of Zimbabwe.

[35] The bank has since been acquired by FBC Holdings (local private).

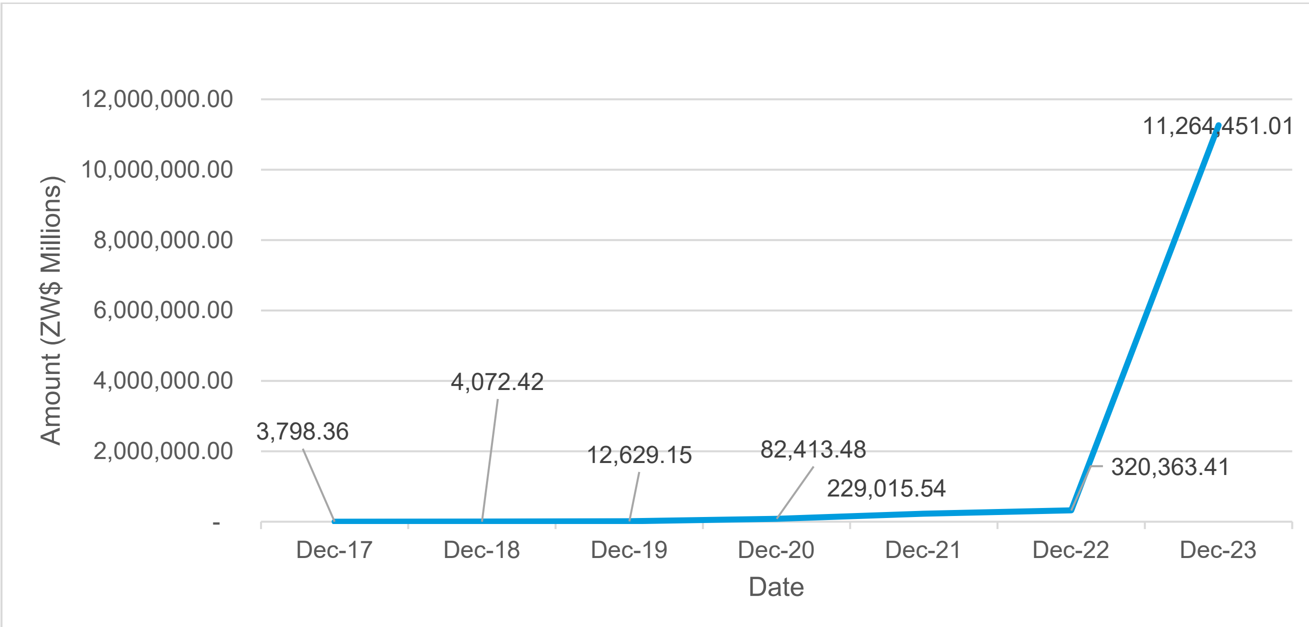
Annex II. Banking Sector Indicators

Table 2. Banking Sector Key indicators

KEY INDICATORS	BENCHMARK	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Total Assets (ZW$ Billion)	-	3,814.43	5,676.25	27,284.88	28,355.17	34,412.23
Total Loans (ZW$ Billion)	-	1,293.51	1,969.12	10,190.14	9,699.42	11,264.45
Net Capital Base (ZW$ Billion)	-	746.30	1,013.18	5,948.89	6,316.68	7,657.91
Total Deposits (ZW$ Billion)	-	2,323.51	3,171.31	14,776.75	16,075.83	19,469.49
Net Profit (ZW$ Billion)	-	503.13	207.25	4,553.21	4,671.78	5,768.05
Return On Assets	-	17.43%	4.92%	26.11%	23.69%	23.97%
Return On Equity	-	54.33%	16.62%	74.60%	55.63%	68.99%
Capital Adequacy Ratio	12	37.51%	41.05%	40.48%	43.15%	37.34%
Tier 1 Ratio	8	26.92%	27.85%	35.35%	27.28%	25.77%
Loans To Deposits	70	55.67%	62.09%	68.96%	60.34%	49.27%
Non-Performing Loans Ratio	5	1.58%	3.30%	3.63%	2.34%	2.09%
Liquidity Ratio	30	59.50%	57.65%	59.88%	61.74%	60.53%

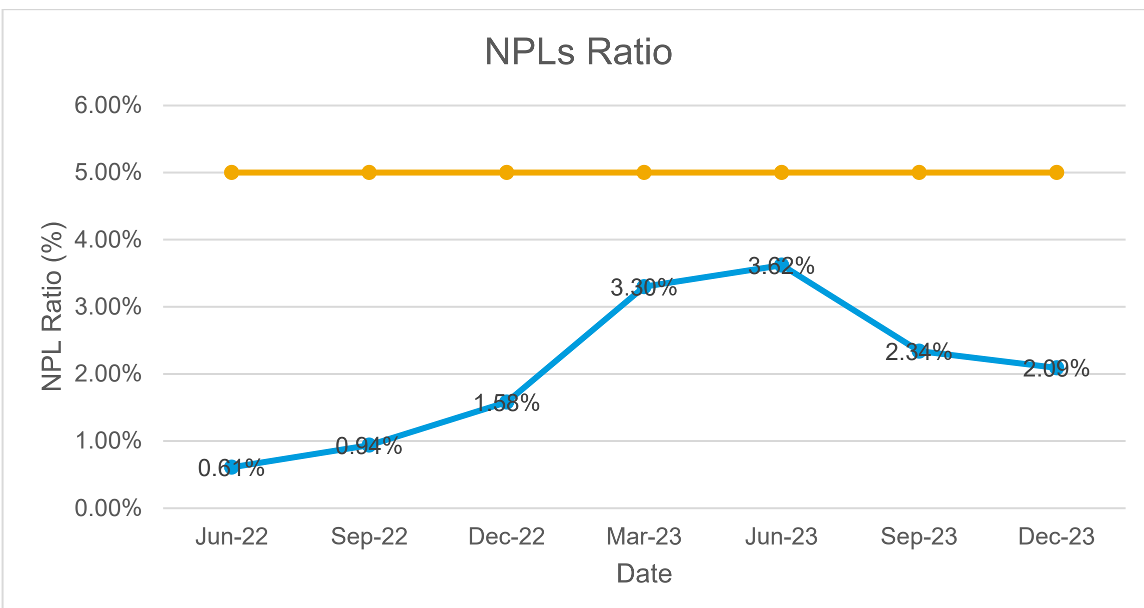
Source: The Reserve Bank of Zimbabwe.

Figure 2. Banking Sector Loans and Advances



Source: The Reserve Bank of Zimbabwe.

Figure 3. Nonperforming Loans Ratio (%)



Source: The Reserve Bank of Zimbabwe.

Annex III. Status of the Implementation of Key Recommendations (TA Mission, March 2022)

Key Recommendations	Priority	Timeline [1]	Status
1. The RBZ to finalize the draft LCR regulation: ▪ Final revision to take into account the comments raised on the draft version of the LCR guidelines and the LCR report template; ▪ Final revision of instructions for completing the LCR templates for public disclosure and prudential reporting to supervisors; ▪ Additional data requirement for the implementation of the monitoring tools.	High	I	Implemented
2. The RBZ to approve new LCR regulation.	High	I	Implemented
3. The RBZ to require banks to prepare action plans to achieve compliance with new liquidity regulations and begin its implementation.	Medium	I	Implemented
4. The RBZ to monitor LCR implementation by banks, based on the steps established in their action plans.	Medium	ST	Implemented
5. The RBZ to ensure that banks report their LCR and information for the monitoring tools on regular basis.	High	ST	Implemented
6. The RBZ to ensure that banks disclose LCR and other liquidity risk information to the public.	High	MT	Regulation issued, but not in force

Key Recommendations	Priority	Timeline [1]	Status
7. The RBZ to review the liquidity risk monitoring process using data from the LCR and the monitoring tools, with the following objectives: ▪ Assure an adequate quality level on data used to monitor the banks' liquidity risk exposure. ▪ Map the liquidity risk level of the supervised institutions, both in aggregate and by relevant currencies (domestic and US$), and monitor liquidity risk. ▪ Identify any idiosyncratic liquidity issue in a specific bank that would lead to supervisory actions to address the problem. ▪ Monitor the banks' liquidity level during stress periods and keep the RBZ board and relevant departments informed about the liquidity issues and vulnerabilities. ▪ Monitor the banks' compliance with the LCR minimum requirement and take promptly actions when a bank reports a breach in the LCR. ▪ Assess whether the LCR information banks are disclosing to the public is correct.	High	MT	Early stage of implementation
8. The RBZ to approve new NSFR regulation, to ensure that banks compute and report their NSFR on regular basis, and to examine banks' compliance with established regulations.	High	MT	Subject of the current TA

[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.