Highlights of the 1st Quarter Monetary Policy Statement 2014

Introduction

The Acting Governor of the Reserve Bank of Zimbabwe Dr. C.L Dhliwayo presented the First Quarter Monetary Policy Statement with the theme "the restoration of the role of the Central Bank in efforts to enhance financial intermediation". In the Statement the acting governor Dr. C.L Dhliwayo said that the country remains saddled with the following challenges:

i. A severe and persistent liquidity crunch which has made it very difficult for local productive sectors to access sufficient credit to oil the wheels of our economy;
ii. Lack of competitiveness of locally produced goods due to high costs of production resulting in the huge importation of finished goods, hence the widening current account deficit;
iii. Infrastructure bottlenecks especially around key economic enablers such as energy, transport, communication. These bottlenecks have eroded of viability and competitiveness of local producers in key economic sectors; and
iv. Inadequate and often erratic service delivery from parastatals and local authorities.

These challenges have resulted in low industrial capacity utilization, accentuated by widespread company closures, deterioration in the external sector position, and rising formal unemployment.

Importantly, the deterioration in both domestic and external macroeconomic conditions and the resultant deepening of liquidity shortages has resulted in a vicious liquidity cycle.

The vicious liquidity cycle has been compounded by international commodity price deflation that has had negative repercussions on export earnings.

As such, the country's high commodity dependence has conspired with huge import absorption to drain the banking sector of the liquidity largely realized from the following key sources:

- Export earnings;
- Diaspora remittances;
- Offshore credit facilities;
- Foreign Direct Investment (FDI); and
- Portfolio investment inflows.

These negative developments have magnified liquidity shortages in the economy with increased banking sector vulnerabilities, particularly in the absence of an effective lender of last resort. Against this background, this Monetary Policy Statement attaches great prominence on measures aimed at maintaining the stability of the banking sector whilst at the same time enhancing its key intermediary role.

Role of RBZ

The Central Bank applauds measures by the Finance Minister in the Budget Statement aimed at situating the Reserve Bank in its rightful position as an important institution in the financial sector and the economy at large.

The capitalization of the Bank will enable it to be the Banker of Government, play its role of Lender of Last Resort and participate more significantly in the development of the interbank market, which will enhance increased lending to key productive and export sectors of the economy.

In the absence of an active lender of last resort, the interbank market has generally remained inactive as reflected by sizeable surplus positions at some banks while other institutions experience acute liquidity shortages. To illustrate this position, average money market surpluses exceeded US$250 million in 2012 and 2013.

In addition, subdued inter-bank market activity was compounded by the lack of acceptable collateral on the part of banking institutions requiring interbank borrowing.

External Sector developments

The country's external sector position remains precarious on the back of uncompetitive exports and the absorption of disproportionately huge imports. Growing import dependence has largely been occasioned by widening capacity gaps in the wake of endemic company closures.

Reflecting the slowdown in export growth, total foreign currency receipts as reported by banks declined by 2.1% from US$7.6 billion in 2012 to US$7.5 billion in 2013. On the other hand, the foreign payments amounted to US$8.9 billion in 2013, compared to US$8.2 billion in 2012.

On the back of the negative repercussions of the global economic slow-down, inflows from foreign investment, offshore credit lines, and foreign aid as well as Diaspora remittances have remained subdued.

Banking sector overview

The banking sector has remained generally stable despite the various underlying macroeconomic challenges and institution specific weaknesses.

The banking sector is currently confronted with liquidity challenges which are manifesting themselves through constrained banking sector lending capabilities, high lending rates and failure to meet customer withdrawal requirements experienced by a few banking institutions.

Nonetheless, the few troubled banking institutions are of low systemic importance as they accounted for less than 10% of the banking sector's total assets, total deposits and total loans respectively, as at 31 December 2013.

Deposits, loans and advances

As at 31 December 2013, total banking sector deposits amounted to $4.73 billion while loans & advances were $3.70 billion. This is consistent with the economic slowdown experienced over the period of analysis.

It is also notable that undercapitalized banks are saddled with high levels of non-performing loans. As such, banking institutions are required to set aside adequate provisions that reflect the level of credit risk in their loan portfolio. Within this context, the banking sector's average non-performing loans to total loans ratio (NPLs/TLs ratio) stood at 15.92% as at 31 December 2013.

Policy measures and advice

The capitalization of the reserve Bank will pave way for the reestablishment of the Lender of Last Resort and Banker to the government function.

Importantly, as enunciated by the Minister of Finance and Economic Development in his 2014 National Budget, the Reserve Bank will resume its traditional function as the banker to Government. Within this context, the Reserve Bank will host Government's Exchequer Account with effect from 31 March, 2014.

The restoration of the Lender of Last Resort (LOLR) facility implies that an overnight accommodation rate will be announced by 31 March, 2014 and becomes applicable for the facility. The overnight accommodation rate will be the anchor interest rate that will act as a benchmark for market rates.

Since the adoption of multiple currencies in early 2009, the Reserve Bank's influence on interest rates has remained constrained. This notwithstanding, as published by the Monetary Policy Committee of the Reserve Bank, the country's interest rate policy will be influenced through the proposed indicative yield curve. Though not prescriptive in nature, the proposed yield curve plays a signaling role to the direction of interest rates in the economy.

The successful resuscitation of the Lender of Last resort function requires that deficit institutions intending to resort to the Central Bank for overnight accommodation have acceptable collateral. In this regard, the Reserve Bank will issue Treasury Bills with rates aligned to the proposed indicative yield curve alluded to in the foregoing.

The issuance of TBs will achieve the twin objectives of providing acceptable collateral for banks, while simultaneously raising funds for Government to bridge short term financing gaps. The Reserve Bank expects to issue TBs as soon as other related modalities have been finalized.

Prudent deployment of capital and liquidity

The Reserve Bank has noted that banking institutions with balance sheets skewed towards non-liquid assets, notably land and buildings are facing serious liquidity and earnings challenges.

Such illiquid balance sheet structures have constrained revenue generation capacity, a development that has resulted in the abuse of depositors' funds to meet operating expenses. It is against this background that the Reserve Bank will closely monitor compliance with the required maximum fixed asset ratio of 25%.

Commercial Court

Currently commercial and banking related cases are taking long to be settled through the court system. In order to expedite the settling of these disputes there is need to establish a commercial court dedicated to adjudicating Commercial and Banking related cases. The Reserve Bank will with immediate effect engage the relevant authorities and stakeholders to address this issue.

Bank Charges and lending rates

On the backdrop of the non-renewal of the MoU and the need to avoid unjustified increases in bank charges and interest rate by banks, and to promote informed decision making by the banking public, the Reserve Bank will undertake the following measures:

a) Banking institutions will be required to justify increases in their charges or interest rates from the 31 October 2013 levels before approval is granted by the Reserve Bank. This will assist the regulator in monitoring 'collusion' on pricing as well as evaluating banks' cost structures in relation to bank charges;

b) Banks will be required to upgrade their core banking systems and delivery systems to promote efficiency. This will assist in reducing the cost of service delivery which translates to lower charges for the banking public. The cost considerations by banking institutions should be offset by the cost savings that are reaped from efficient and automated processes;

c) Banks are also urged to be innovative in the delivery of products and services and seek to continuously improve on efficiency by leveraging on technological advancements. This will enable them to design products and tiered pricing structures which suit the circumstances of low income groups. Empirical evidence indicates that banks' strong reliance on charges to cover operational expenses is a reflection of inefficiencies in service delivery;

d) The Reserve Bank continues to encourage interoperability and sharing of infrastructure (systems, networks and applications) across institutions. Shared infrastructure is an avenue that lowers cost and access gaps that hinder the efficient delivery of financial services;

e) The Reserve Bank will publish all banking institutions' conditions of service on its website on a quarterly basis. In addition, the banks will be required to display their conditions of service (charges and interest rates) in banking halls and also publish them periodically in circulating newspapers. These measures will increase information accessibility and promote informed decision making by consumers;

f) The Reserve Bank will develop a comprehensive consumer protection framework, incorporating consumer education and awareness; and

g) The Bank will continue to engage key stakeholders in order to advance the goals of financial inclusion and financial stability.

Repatriation of exports receipts

The country continues to face persistent liquidity challenges largely on account of export performance which compares unfavorably with growing import dependence. The liquidity situation has, however, been further amplified by delays in the repatriation of proceeds by the country's exporters. Notably, overdue export receipts as at 31 December 2013 stood at US$318 million.

In view of the need to improve the country's liquidity situation exporters are required to comply with Exchange Control regulations through the timely repatriation of export proceeds.

Additionally, Exchange Control will introduce an appropriate monitoring program to ensure compliance with the necessary regulations

Multi-Currencies

Consistent with Government's position as clearly articulated in the 2014 National Budget, the country will continue with the use of multiple currencies. This should put to rest the widespread speculation surrounding this subject. As such, the Reserve Bank in close collaboration with Government has no plans to re-introduce the Zim-dollar as widely speculated.

Trade and investment ties between Zimbabwe, China, India, Japan and Australia have grown appreciably. In this regard, we wish to advise exporters and the general transacting public that in addition to opening of accounts denominated in Botswana Pula, British Sterling Pound, Euro, South African Rand, United States Dollar, individuals and corporates can also open accounts denominated in the Australian Dollar (AUD), Chinese Yuan (CYN), Indian Rupee (INR) and Japanese Yen (JPY).