

## MONETARY POLICY SUMMARY - JANUARY 2014

### 1. Key Highlights of the Monetary Policy and Implications to the Economy

Policy Area	Major Pronouncements	Implications to Business
<b>Overview of the Banking Sector</b>	<ul style="list-style-type: none"> <li>• The Reserve Bank Governor has alluded that the banking sector is currently confronted with serious liquidity and credit challenges</li> <li>• Nonetheless, she alluded to the fact that the 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.</li> </ul>	<ul style="list-style-type: none"> <li>• The banking sector is still highly exposed to systemic risk due to the composition of deposits which are highly demand in nature.</li> </ul>
<b>Role of the Reserve Bank as a Banker to Government</b>	<ul style="list-style-type: none"> <li>• The Reserve Bank will host Government's Exchequer Account with effect from 31 March, 2014. This implies that all Government deposits will be channeled to the Central Bank.</li> <li>• The Central Bank will also be responsible for mobilizing funding for Government as and when the need arises.</li> </ul>	<ul style="list-style-type: none"> <li>• The resumption of the Central Bank as the Banker to Government could potentially impact the liquidity metrics for Banks which previously had high Government deposit concentration ratios.</li> <li>• However, further clarification is being sought on how deposits for parastatals will be treated.</li> </ul>
<b>Lender of Last Resort (LOLR)</b>	<ul style="list-style-type: none"> <li>• The Lender of Last Resort (LOLR) function by the Reserve Bank will resume, effective 1 April 2014.</li> <li>• The LOLR facility will be estimated at US\$150 million</li> </ul>	<ul style="list-style-type: none"> <li>• Effective, 1 April 2014, the overnight accommodation rate will be used as the anchor interest rate that will act as a benchmark for other market rates including deposit and lending rates.</li> </ul>

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	<p>to US\$200 million. The overnight accommodation rate will be announced by 31 March, 2014.</p> <ul style="list-style-type: none"> <li>• The Reserve Bank also intends to introduce repos and reverse repos to improve interbank trading and help ease attendant liquidity challenges.</li> </ul>	
<b>Interest Rate Policy</b>	<ul style="list-style-type: none"> <li>• Going forward, 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Interest Rates in the market are likely to be regulated by the proposed yield curve and the overnight accommodation rates.</li> </ul>
<b>Interbank Market</b>	<ul style="list-style-type: none"> <li>• The subdued inter-bank market activity was compounded by the lack of acceptable collateral on the part of banking institutions requiring interbank borrowing.</li> <li>• The Reserve Bank also indicated that insolvent banks will not be accommodated through this window.</li> </ul>	<ul style="list-style-type: none"> <li>• The resumption of the interbank market will significantly improve endowment risk through the reduction of non-earning assets on the banking sector portfolio.</li> <li>• .</li> </ul>
<b>Non-Performing Loans (NPLs)</b>	<ul style="list-style-type: none"> <li>• Credit risk still high in Zimbabwe. The banking sector's average non-performing loans to total loans ratio (NPLs/TLs ratio) stood at 15.92% as at 31 December 2013.</li> <li>• Banking institutions are required to set aside adequate</li> </ul>	<ul style="list-style-type: none"> <li>• The deteriorating asset quality is also reflective of the adverse operating macroeconomic environment and institution-specific deficiencies.</li> <li>•</li> </ul>

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	<p>provisions that reflect the level of credit risk in their loan portfolio.</p>	
<p><b>Issuance of Treasury Bills</b></p>	<ul style="list-style-type: none"> <li>• The Reserve Bank is planning to issue Treasury Bills to simultaneously raise funds for Government to bridge short term financing gaps as well as facilitating interbank trading.</li> <li>• In this regard, the Reserve Bank will issue TBs with rates aligned to the proposed indicative yield curve alluded to in the foregoing.</li> </ul>	<ul style="list-style-type: none"> <li>• The resumption of Treasury Bills by the Reserve Bank could signify the imminent end of the cash budgeting framework adopted in 2009.</li> <li>• However, there is need for Government to set the borrowing limits in line with prudent international standards/bench marks.</li> </ul>
<p><b>Banking Sector Capitalization:</b></p>	<ul style="list-style-type: none"> <li>• Minimum Capital requirements for banks remain at current levels of US\$25 million for Commercial Banks, US\$25 million for Merchant Banks, US\$20 million of Building Societies, US\$15 million for Discount and Finance Houses and US\$5 million for Microfinance Banks.</li> <li>• Nevertheless, compliance with Cabinet approved levels of USD 100 million for Commercial Banks have now been moved to 31 December 2020.</li> </ul>	<ul style="list-style-type: none"> <li>• The increased compliance period to December 2020, will allow banks to adequately prepare..</li> </ul>
<p><b>Capital Adequacy and Basel II Implementation</b></p>	<ul style="list-style-type: none"> <li>• Banking institutions are required to ensure full compliance with Basel II requirements and enhance outstanding aspects of their Internal Capital Adequacy Assessment Programs (ICAAPs) as well as internal stakeholder training (including board members) by 31</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>

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	<p>March 2014.</p>	
<p><b>Prudent Deployment of Capital and Liquidity</b></p>	<ul style="list-style-type: none"> <li>• The Reserve Bank has noted that banking institutions with balance sheets skewed towards <b>non-liquid assets, notably land and buildings</b> are facing serious liquidity and earning challenges.</li> <li>• It is against this background that the Reserve Bank will closely monitor compliance with the required <b>maximum fixed asset ratio of 25%.</b></li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<p><b>Insider Loans and Non-Performing Loans</b></p>	<ul style="list-style-type: none"> <li>• With immediate effect, no bank shall grant loans to insiders and related interests (as defined in the Banking Regulations, SI 205 of 2000) except where such credit is granted as part of the employees' conditions of service and is available to other employees.</li> <li>• Individuals and companies may, however, access loans from other banking institutions where they are not classified as insiders or related parties.</li> <li>• All boards of banking institutions <b>should review the existing levels of insider loans, ensure adequate provisioning and report insider loans to the Central Bank;</b></li> </ul>	<ul style="list-style-type: none"> <li>• Further clarification need to be sought on the definition of insider loans to ensure full compliance with the new requirements.</li> <li>• Banking institutions are required to set aside adequate provisions that reflect the level of credit risk in their loan portfolio. Any violation of the above measures will attract a penalty in terms of the relevant provisions of the Banking Act.</li> </ul>

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	<ul style="list-style-type: none"> <li>• <b>Existing insider loans should not be renewed or rolled over</b> and banking institutions should take measures to ensure repayments are made in terms of the facility.</li> </ul>	
<b>Credit Reference Bureaus</b>	<ul style="list-style-type: none"> <li>• In view of the deterioration in asset quality, the Reserve Bank and the Ministry of Finance and Economic Development are in the process of finalizing the legal framework for credit reference bureaus.</li> </ul>	<ul style="list-style-type: none"> <li>• The establishment of a Credit reference bureau will play a critical role in the management of credit risk by banking institutions and help minimize over indebtedness by borrowing public.</li> </ul>
<b>Enhancing Risk Management Through Stress Testing</b>	<ul style="list-style-type: none"> <li>• Stress-testing should form an integral part of banks' risk management tools as it provides an early warning signal to bank management to adverse unexpected outcomes related to a variety of risks. Parameters measured should include liquidity and interest rates.</li> <li>• Stress testing results should be factored into key strategic decisions. Boards of Banks are expected to ensure that stress-testing results are part of their information packs.</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<b>Establishment of a Commercial Court</b>	<ul style="list-style-type: none"> <li>• In order to expedite the settling of commercial 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</li> </ul>	<ul style="list-style-type: none"> <li>• This is a welcome development as it will reduce the turnaround time for court cases, which currently can take up to 3 years before they are finalized.</li> </ul>

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	<p>this issue.</p>	
<p><b>Mortgage Financing Through Securitization of Mortgages</b></p>	<ul style="list-style-type: none"> <li>• In order to enhance the availability of funding for mortgages, the banking sector is urged to explore opportunities for the securitization of mortgage portfolios. Securitization will maximize the cash flows and reduce risk for debt originators.</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<p><b>Bank Charges and Lending Rates</b></p>	<ul style="list-style-type: none"> <li>• Following the non-renewal of the MoU, 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.</li> <li>• 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.</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Disclosure requirements will promote accountability.</li> </ul>
<p><b>Enhancement of Supervision through Amendment to the Legal</b></p>	<ul style="list-style-type: none"> <li>• Amendments to the Banking Act [Chapter 24:20] have been proposed with a view to strengthening the regulatory environment. The major elements of the proposed Banking Amendments are as follows:</li> </ul>	<ul style="list-style-type: none"> <li>• Banking sector Boards of Directors need to be made ware of these proposed amendments and the implications forthwith.</li> </ul>

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<b>Framework</b>	<p><b>1. Criminal Liability</b></p> <ul style="list-style-type: none"> <li>• While directors have common law duties to the company, the new provisions will extend a fiduciary duty of care to the customers. The new provisions will also seek to introduce criminal as well as civil liability of any shareholder, director or senior manager of a banking institution, who will be found to have acted negligently or fraudulently, resulting in loss of money by depositors or failure of a banking institution;</li> </ul> <p><b>2. Fit and Proper Assessment</b></p> <ul style="list-style-type: none"> <li>• The Reserve Bank will by 31 March, 2014 issue an enhanced fit-and proper person assessment framework clearly setting out the parameters for on-going fitness and probity assessments of directors and senior management.</li> </ul> <p><b>3. Bank Holding Companies</b></p> <ul style="list-style-type: none"> <li>• Companies that have control over banks or bank holding companies will now be required to be registered by the Reserve Bank.</li> </ul>	
<b>Financial Inclusion and Support to SME's</b>	<ul style="list-style-type: none"> <li>• RBZ is encouraging banks to promote Electronic Payments and Usage of Cards</li> <li>• On the other hand, banks need to simplify account opening procedures and requirements in order to</li> </ul>	<ul style="list-style-type: none"> <li>• .</li> </ul>

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	<p>attract savings. This can be realized through the adoption of basic account opening requirements.</p>	
<p><b>Gold Bonds</b></p>	<ul style="list-style-type: none"> <li>• In the wake of the takeover of the Reserve Bank debt by Government, amounts owing to creditors will be settled from the fiscus. In the same vein, holders of gold bonds previously issued by the Reserve Bank will also be catered for by Government.</li> </ul>	<ul style="list-style-type: none"> <li>• This is a welcome development to gold producers as this will settle this outstanding issue. Some gold miners have already written-off these monies owing from the RBZ.</li> </ul>
<p><b>Continued Use of Multiple Currencies</b></p>	<ul style="list-style-type: none"> <li>• Government's has re-articulated that the country will continue with the use of multiple currencies.</li> <li>• The following currencies have been added to the basket of currencies acceptable under the multi-currency Australian Dollar (AUD), Chinese Yuan (CYN), Indian Rupee (INR) and Japanese Yen (JPY).</li> </ul>	<ul style="list-style-type: none"> <li>• Banks need to educate its clients that they can now open accounts for these currencies.</li> </ul>