Monthly Economic Bulletin

Bankers Association of Zimbabwe

February 2014

Editor’s Note

The budget statement came and went and a month into the budget we were treated to a monetary policy statement that’s was “generally” very friendly to the banking sector.

Many positive changes were proposed , chief amongst which are that the Reserve Bank of Zimbabwe will have its role as banker to Government restored. Consequently The Bank will host the Exchequer account effective 31 March 2014 and whilst this will result in a net drain of liquidity from the banking sector, the effects will be offset by the restoration of the Reserve Bank’s function as a Lender of Last Resort. To this end the Minister of finance will capitalize the Central bank to the tune of US$150million to US$200million we were advised.

Bank minimum capital requirements are to remain at current levels of US$25 million for Commercial Banks, US$25 million for Merchant Banks, US$20 million for Building Societies, US$15 million for Discount and Finance Houses and US$5 million for Microfinance Banks , which was another very welcome component of the statement.

However, the RBZ also tightened regulations governing their capital adequacy programs. Banking institutions are now required to ensure full adoption of the revised provisioning regime,(Basel II) set up operational validation frameworks and enhance outstanding aspects of their Internal Capital Adequacy Assessment Programs (ICAAPs) as well as internal stakeholder training (including board members) by 31 March 2014.

Restrictions on insider lending now mean that no bank shall grant loans to insiders and related interests except where such credit is granted as part of the employees’

conditions of service and is available to other employees. In addition, all boards of banking institutions are expected to review the existing levels of insider loans, ensure adequate provisioning and report insider loans to the Central Bank.

The RBZ said new 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 include the criminalization of negligent or fraudulent acts by directors, shareholders or Senior Managers which result in loss of depositors funds. Consequently, the Fit and Proper person test will be enhanced by 31 March 2014.

Bank Holding Companies and other associate Companies that have control over banks or banks holding companies will be required to be registered by the Reserve Bank of Zimbabwe.

Of major interest is the envisaged capitalisation of the RBZ and restoration of its Lender of last resort function which were received as major steps in the restoration of confidence and stability in the banking sector.

We believe the MPC is quite supportive of the restoration of confidence in the banking sector.

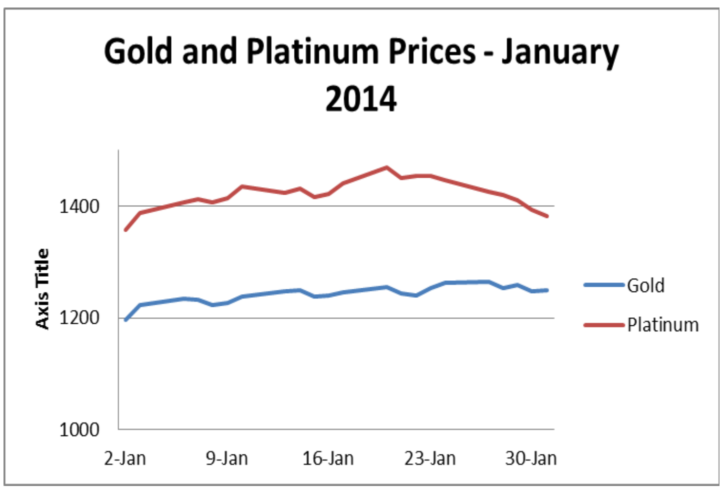
World Economic Developments

International Commodity Prices

Gold and Platinum prices rallied at the beginning of January before falling in the last few days of the month. On average, the prices of these two commodities were on an upward trend. If only the trend would continue for the rest of the year, it would paint positive picture as the Zimbabwean economy's rebound is premised on growth of the mining sector among other sectors.

Gold managed to surpass the US$1200 per ounce during the month. Gold started off at US$1195.75 and ended the month at US$1248.75.

On the other hand the price of Platinum managed to breach the US$1400 per ounce mark and remained above this price before falling to US$1382 per ounce at the end of the month.



With the Government's new economic blue print (Zim Asset) expecting the funding of the various government programmes to be partly financed through local resources, failure by key sectors to generate enough resources might lead to the failure of the programme.

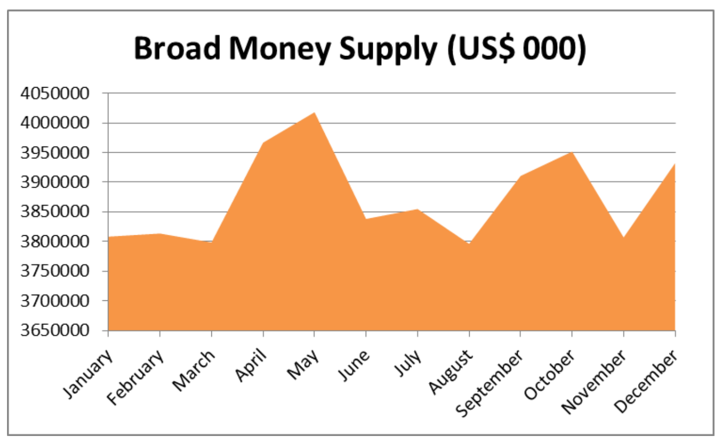
With the Zim Asset requiring US$27 Billion, it is important that the prices of international commodities especially Gold, Platinum and Diamond move in the positive direction so that inflows into the fiscus increase. Besides, implementation challenges as witnessed with other economic programmes, the resourcing of the Zim Asset is critical ingredient for its success. Firming prices are also important for employment creation and employment preservation as an downward trending of prices will lead the companies to cut down on cost through various initiatives including retrenchments and cutting down on number of working hours.

Monetary Developments

Money Supply

The month of December witnessed a growth in almost all classes of deposits with the long term deposits dominating with an increase of $105.9 million in long-term deposits followed by the increase in savings deposits of US85 million and demand deposits growing by US$ 16 million. The only exception which was witnessed in the deposits was the decline of $81.7 million in under 30-day deposits.

The RBZ December Bulleting shows that, cumulatively the broad money supply grew by $125.2 million reflecting a 3.29 percent increase from the November 2013 figure of US$3 807.1 million. The Broad money supply ended the year at to $3 932.3 million.



The growth in the deposits goes to show some level of increases in the confidence by the banking public in the banking sector. Other factors to contribute to the increase in the growth of deposits was bonus payments which gave some people the opportunity to put aside some of their incomes. Under 30-day deposits declined mostly as a result of the public demand to spend over the festive season and the need to pay school fees before the onset of the new term in 2014.

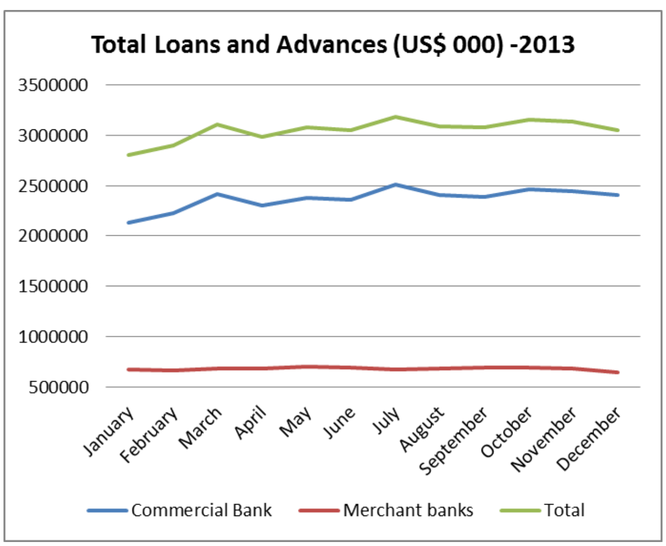
Despite the positive movements in the money supply, the worrisome aspect remains the failure to breach the US$4 billion mark which was only managed in mid-2013. The current levels of money supply depict the underlying challenges of the liquidity in the economy as the resources available are not adequate to cover all the national requirements.

Domestic Credit

The economy continues to suffer from the challenges of illiquidity as evidenced by the ever increasing non-funded sector and increased appetite by the private sector to demand more resources for productive and personal use. Given the limited space to lend by the banks, most of this demand remains unmet. In December, domestic credit declined by 0.55% to $4 068.7 million reflective of reduced lending by banks.

Domestic credit was mostly dominated by the private sector which registered an annual growth of 2.51%, from $3 560.7 million in December 2012 to $3 650.1 million in December 2013. On a month on month basis, claims on the private sector declined by 1.31%, as lending by banks declined.

The majority of loans and advances were offered by the Commercial banks followed by the Merchant banks.



Total loans and advances from Merchant Banks started the year at US$ 671,370,700 ended the year at US$645,370,900 show that there was not much changes in the total loan portfolio for Merchant banks. The highest amount of loans and advances that were advanced was US$ 702 705 400 in May. This shows that there are also finding it difficult to source additional sources of funding for onward lending.

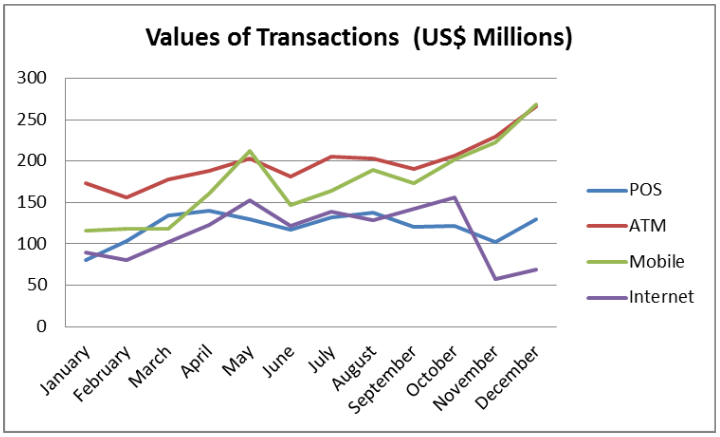
Commercial bank loan book was valued at US$ 2 133 622 700 as of January 2013 before closing the year at US$ 2 405 790 000. The highest value of the loan book was achieved in July 2013 with a figure of US$ 2 511210.

The small increase registered in the loan books shows the underpinning challenges faced by the banks in raising new lines of credit and the poor external performance of the economy where the trade balance is perennially in deficit. There is need for the country to find means of arresting the problem of ever increasing imports because these have been draining the little liquidity that has been following into the country. The solution to resolving this problem underlies in understanding the major reasons behind the appetite to import and the types of goods that we are bringing into the country. Measures meant to improve the productivity and competitiveness of the local industry should be the pursued because some of the locally manufactured products are far too expensive as compared to imports even after factoring in import duties, taxes and transport cost.

Measures that should be adopted should take cognizance of balancing the consumer welfare and industrial and economy wide needs.

Electronic Payments Transactions

In terms of electronic transfer transactions, the ZETSS dominated during 2013. The total value of transactions were US$ 3 563. 84 Million in January 2013 before reaching the peak of the year at US$3 955.45 Million in July. The total value of transactions started to decline before closing the year with the value of US$ 3 438.08 Million in December 2013. Despite the decline this payment format dominated other electronic payment systems among them; the POS, ATM, Mobile and Internet.



The total value of transactions executed through the POS, ATM and Mobile platforms were on an upward trend during 2013. The value of transactions executed through the POS were valued at US$80.72 million in January 2013 and continued to increase to close the year at US$130.15 Million. On the other hand transactions which were done through ATMs increased from US$173.71 Million in January 2013 to US$ 265.80 million in December 2013. Mobile based transactions also increased significantly from US$115.53 Million to US$268.94 Million between January and December.

The value of Internet based transactions were not consistent during the year characterized mostly with ups and downs and overall declining from US$89.67 million in January to US$68.58 Million in December 2013. With the ever increasing technology, not much is being done by the banks in the country to encourage the uptake of this payment platform. It is important that the general public is encouraged to take up these platforms as methods of reducing the use of cash in the economy. A cashless country is only possible when the citizens of the country are able to adapt to the increasing technology and using these alternatives to money.

Monetary Policy Statement

During the month of January, the Reserve Bank announced the Monetary Policy Statement in terms of Section 46 of the Reserve Bank Act (Chapter 22:15). Some of the highlights of the statement are given below.

- Short-term deposits were constraining the banking sector's potential to provide effective financial intermediation to productive sectors of the economy.
- The Banking sector's average non-performing loans to total loans ratio (NPLs/TLs ratio) stood at 15.92% as at 31December 2013
- The Reserve Bank will host Government's Exchequer Account with effect from 31 March, 2014.
- The Reserve Bank intends to introduce repos and reverse repos to improve interbank trading and help ease attendant liquidity challenges.
- Capital requirements remains unchanged 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.
- The level of total insider loans in the banking system was $175.3 million (Including Interfin) as at 31 December, 2013. Of these $117.4 million (66.97%) was non-performing.
- Existing insider loans should not be renewed or rolled over and banking institutions should take measures to ensure repayments are made in terms of the facility.
- The Reserve Bank will with immediate effect engage the relevant authorities and stakeholders toward the establishment of a commercial court dedicated to adjudicating on Commercial and Banking related cases
- 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
- The Reserve Bank will develop a comprehensive consumer protection framework, incorporating consumer education and awareness.
- Regulations will be issued on the registration and supervision of credit reference bureaus.

- Every business enterprise is urged to open a Bank Account with any of the commercial banks.

Comments and Observations

The Monetary Policy Statement correctly managed to identify some of the challenges affecting the economy and the banking sector but fell short of proffering comprehensive solutions on how to tackle these issues.

The MPS managed identified that the NPLs were increasing and the effects that these were causing but did not outline the policies that were going to be used to relieve the banks of these non-performing assets from their books. Banks require a solution that would assist them to start on a clean sheet.

The policy was short on outlining convincing measures that could attract new money into the economy. With the money supply hovering at around the US$3 Billion figure, there is need for policy measures that would assist the Banks to get new lines of credit and industry to get foreign direct investment.

The budget realized the worsening current account deficit but did not proffer solutions on how this was going to be arrested. There was also need for the MPS to outline medium to long term measures that the government will be taking to start building foreign currency reserves.

Importation and repatriation of cash including coins – In a dollarized environment there is need for the central bank to play a pivotal role in the importation of cash given that his is an expensive exercise. If the task is left to the banks alone, this makes the cost of importation of the cash expensive leading to the cost of borrowing to go up as Banks try to recover their costs. If the Central Bank takes over the role of importing cash, then Banks can enjoy from the economies of scale as the cost of importation per bank goes down

Demonetization of the Zimbabwe Dollar – With the Central Bank having been at the centre of this discussion over the last few years, it was prudent that the Bank could have taken the centre stage and given direction on how the process of consultation on demonetization was going to be undertaken.

With the pronouncement of the MPS which was in tandem with the Budget Statement, there is now need for the various arms of the government to be seen implementing the pronouncements. There is need for the government to be seen to be consistent in the implementation avoiding policy reversals and non-implementation given this would lead to lack of credibility.

Stock Market Developments

Mounting pressure on emerging markets stocks from a full scale capital flight and a slowing Zimbabwe economy put a damper on the ZSE performance during January.

The trading updates by the key players in the economy and the results issued out so far are indicative of the fact that demand has slowed, highlighting a stagnant or declining macroeconomic environment.

FMCG counters such as Delta and Meikles have already reported slower trends. Volumes were lower for Delta in the last quarter whilst retail sales took a slump for TM supermarkets.

Overall, the Industrial Index shed off 5.96% to 189.25 points from 201.25 level at 31 December 2013 whilst the Mining index dropped significantly by 23.48% to close at 35.04 points.

Value traded was however up significantly 31.24% to $64.5million. Foreign participation constituted a major chunk ie 39.5% of the total trading activity on the market, a drop of 25% from a peak of 65% of total market turnover in December.

A net outflow of $20.2million, reflecting a major sell off by foreign investors during the month as they cashed out of emerging markets.

Disclaimer Notice

While sources used in preparation of this economic report are believed to be reliable, the BAZ makes no representation about the accuracy or completeness of the information contained herein. The opinions, forecasts, assumptions and other information contained in this research report are as of the date indicated and are subject to change at any time without prior notice.

This report is produced primarily for circulation amongst stakeholders in the banking sector and is provided for informational purposes and should not be construed as a solicitation or offer of financial or economic advice to influence any decision of the reader particularly with respect to trade in any asset, securities or related financial instruments. Neither the BAZ, nor any of its partners, directors, employees, representatives or agents shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including loss of profits arising in any way from the information contained in this report.

For any comments contact us at the following
BAZ
14177 Gunhill Avenue, Gunhill, Harare
P.O. Box 10521
Harare
Telephone: 744321, 744686, 744987
Email: abel@baz.org.zw or clive@baz.org.zw
Website: www.baz.org.zw