

BANKING INDUSTRY IN ZIMBABWE

OVERVIEW

Zimbabwe has a well-developed banking sector modelled on the British system. The Reserve Bank of Zimbabwe (RBZ) is the central bank that, following years of dollarisation, is once again responsible for monetary policy with the reintroduction of the local currency, the Zimbabwe dollar, in 2019. The government allows the U.S. dollar to be used for all domestic transactions to facilitate economic activity.

The rest of the banking system is composed of commercial banks, which are the largest subsector; merchant banks, whose function is to finance trade, underwrite rights offerings of listed companies, and assist in mergers and acquisitions; building societies, which provide mortgages for real estate transactions; the People's Own Savings Bank, a government-owned bank; development financial institutions; and microfinance institutions. Other key players in Zimbabwe's financial sector include insurance companies, pension and provident funds, investment trusts, and offshore portfolio investors. The reintroduction and collapse of the Zimbabwe dollar have challenged balance sheets for many banks, particularly when U.S. dollar assets were converted into local currency balances while U.S. dollar liabilities remained.

The banking sector in Zimbabwe plays a critical role in the country's economy, providing essential financial services including savings accounts, loans, and payment systems. Despite a challenging economic environment characterised by hyperinflation, currency volatility, and regulatory changes, the sector remains a cornerstone of financial intermediation in the country.

The Zimbabwean economy has experienced significant challenges with hyperinflation and currency instability over the past decades. These conditions have affected the banking sector's performance, particularly in terms of profitability and asset management. While the introduction of the Zimbabwean Dollar (ZWL) in 2019 aimed to stabilise the currency, the sector still grapples with currency volatility and high inflation rates.

De-risking by international banks has resulted in very few international correspondent banking relationships despite the FATF's decision to remove Zimbabwe from its grey list in March 2022. In addition, Zimbabwe's high external debt of approximately USD 12.32bn (September 2024) limits its ability to access official development assistance at concessional rates and credit from international capital markets.

BANKING SECTOR STRUCTURE

Major Players

The banking sector in Zimbabwe comprises both local and international banks. Key players include commercial banks, microfinance institutions, and developmental banks. Major commercial banks like CBZ Holdings have a significant presence in the market.

Regulatory Framework

The Reserve Bank of Zimbabwe (RBZ), which is the central regulatory authority, implements regulations related to monetary policy, banking supervision, and financial stability. The sector is subject to stringent regulatory requirements, including capital adequacy norms and anti-money laundering (AML) measures.

BANKING SECTOR CAPITALISATION

According to the Reserve Bank of Zimbabwe's banking sector report, as of June 30, 2024, all banking institutions in Zimbabwe were well-capitalised. The banking sector's average capital adequacy ratio stood at 46.15%, and the Tier 1 ratios were 40.13%, both of which exceeded the prescribed minimums of 12% and 8%, respectively. Over the June 30, 2024, quarter, the total reported core capital for the banking sector amounted to ZWG 14.02bn. In terms of USD, the aggregate core capital saw an increase of 11.81%, rising from USD 912.27m on March 31, 2024, to USD 1.02bn by the end of June 2024. This growth was primarily driven by an increase in retained earnings, fuelled by revaluation gains from investment properties and translation gains from foreign currency-denominated assets.

ASSET QUALITY OF THE BANKING SECTOR

As of June 30, 2024, the aggregate loans and advances within Zimbabwe's banking sector reached ZWG 27.45bn. This loan portfolio is made up of 88.88% of foreign currency-denominated loans. The total loan-to-deposit ratio (excluding lines of credit) declined from 55.98% on March 31, 2024, to 52.51% on June 30, 2024. According to the Reserve Bank of Zimbabwe's report, the quality of the banking sector's loan portfolio remained sound, with the non-performing loans (NPLs) to total loans ratio of 2.02% as of June 30, 2024, well within the internationally accepted threshold of 5%.

BANKING SECTOR PERFORMANCE

In 2024, Zimbabwe's banking sector continued to be profitable, with all institutions reporting gains during the period under review. The sector's aggregate profits reached ZWG 10.42bn by June 30, 2024. This growth was primarily driven by an increase in non-interest income, largely resulting from the revaluation of foreign currency assets and investment properties. Non-interest income accounted for 87.57% of total income (ZWG 16.48bn) as of June 30, 2024. Additionally, the sector experienced a decline in key profitability indicators during the half-year ended 30 June 2024, with return on assets falling from 26.11% as of 30 June 2023 to 13.37% and return on equity decreasing from 74.60% to 35.74% over the same period.

LIQUIDITY TREND

As of June 30, 2024, the banking sector's liquidity ratio (average prudential liquidity ratio, PLR) stood at 59.52%, significantly surpassing the regulatory benchmark of 30%. This strong liquidity position was maintained as banking institutions adopted cautious lending strategies as part of their credit risk management efforts.

INDUSTRY SENSITIVITIES AND CHALLENGES

Economic Instability

The banking industry in Zimbabwe is notably sensitive to economic instability, characterised by fluctuations in inflation rates and currency values. Hyperinflation and currency devaluation have been persistent issues, directly impacting the stability and profitability of banks. This instability complicates financial planning and affects the overall economic environment in which banks operate.

Currency Volatility

Currency volatility is another significant concern. With the local currency experiencing high levels of fluctuation, banks face challenges in managing foreign exchange risks and ensuring liquidity. The instability in currency values can lead to difficulties in maintaining stable financial operations and dealing with currency shortages.

Regulatory Changes

Frequent changes in financial regulations and policies add another layer of sensitivity. Banks must continuously adapt to new regulatory requirements, including those related to anti-money laundering and capital adequacy. These changes can increase compliance costs and impact operational efficiency.

Political Risk

Political risk also plays a crucial role in the banking sector's sensitivity. Political instability can create uncertainties in the business environment, affecting investor confidence and the stability of economic policies that are vital for banking operations.

Credit Risk

Credit risk is heightened by the prevalence of non-performing loans (NPLs) and a challenging economic climate. High levels of NPLs can strain banks' financial health and impact their profitability.

Liquidity Challenges

Liquidity challenges are a significant concern due to fluctuations in deposit levels and difficulties accessing international financial markets. Banks may struggle to maintain adequate liquidity in a volatile economic environment.

Market Competition

Market competition, both from domestic and international banks, affects pricing strategies and market share. The competitive landscape requires banks to continually innovate and adjust their strategies to maintain their position.

Global Economic Conditions

Global economic conditions have an impact on Zimbabwe's banking sector. International trade relations and global economic trends can influence foreign investment flows and trade financing, which are crucial for the local banking industry.

OPPORTUNITIES

Digital Transformation

The rise of fintech and digital banking presents opportunities for Zimbabwean banks to modernise their operations, reduce costs, and enhance customer experiences. Investing in digital platforms can help banks reach underserved populations and offer more convenient services.

Economic Recovery

As Zimbabwe works towards economic recovery and stabilisation, there may be opportunities for banks to benefit from improved economic conditions, increased foreign investment, and a more stable business environment.

Innovation in Product Offering

Introducing innovative financial products is crucial to staying competitive in banking, and positively looking at the challenges and opportunities. Banks constantly explore new ways to meet customer needs and preferences through unique savings accounts, investment options, or payment solutions. Additionally, collaborating with fintech startups offers banks access to cutting-edge technologies and fresh ideas, enabling them to develop innovative products more efficiently. With innovation in product offerings, banks can differentiate themselves in the market, attract new customers, and retain existing ones.

INDUSTRY OUTLOOK

The banking industry in Zimbabwe is navigating a challenging environment characterised by high inflation, currency volatility, and regulatory changes. Despite these challenges, the sector remains resilient, supported by digital transformation initiatives and diversification into non-interest income streams. However, the industry's profitability is under pressure due to a combination of declining economic activity, high operating costs, and foreign exchange shortages. Going forward, the sector's outlook is cautiously optimistic, contingent on macroeconomic stabilisation, policy consistency, and the ability of banks to innovate and manage risks effectively in an unpredictable environment.