



BANKING INDUSTRY RISK (ZIMBABWE)



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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; 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.

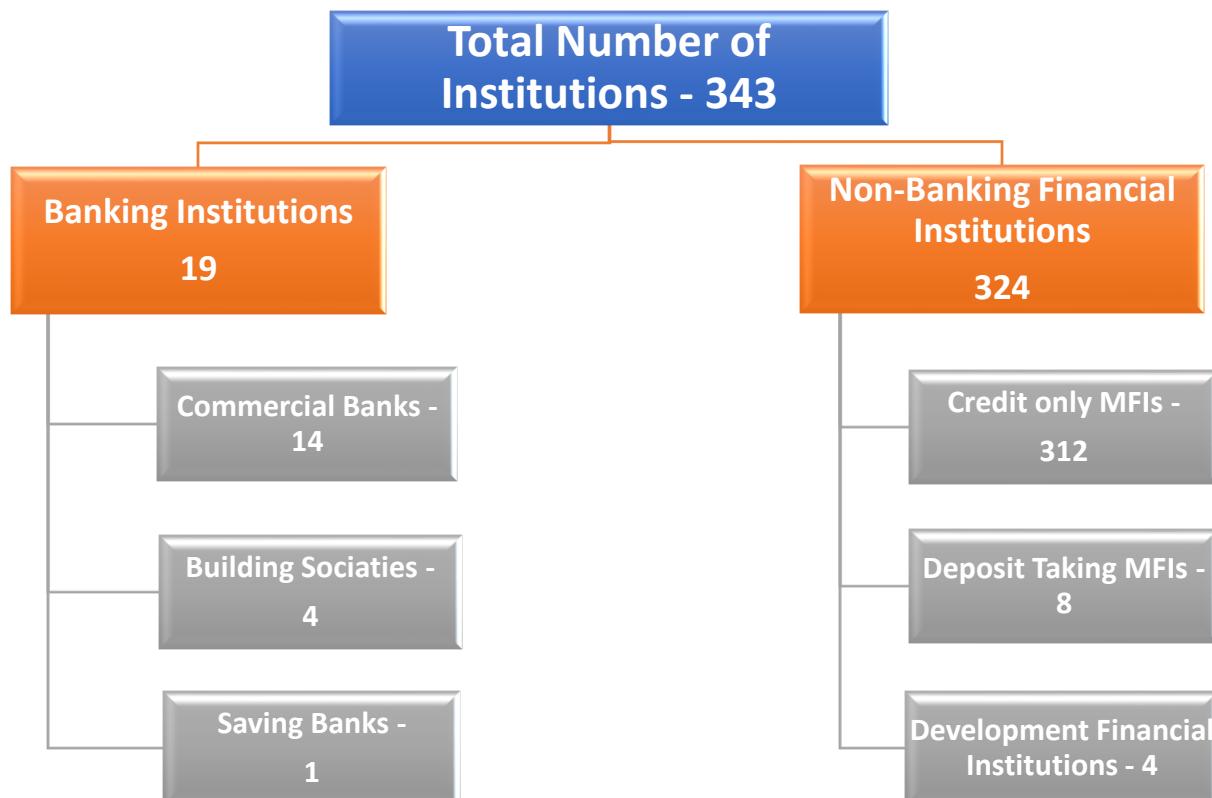
The Zimbabwean economy has experienced significant challenges with hyperinflation and currency instability over the past decades. These conditions have affected the banking sector's performance, particularly in terms of profitability and asset management. While the introduction of the Zimbabwean Dollar (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 and Stanbic Bank Zimbabwe Limited have a significant presence in the market. As on 30th September 2025, following was the composition of banking sector in Zimbabwe.



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 September 30, 2025, all banking institutions in Zimbabwe were well-capitalised, except for Time Bank of Zimbabwe Limited. The banking sector's average capital adequacy ratio stood at 31.71%, and the Tier 1 ratios were 23.95%, both of which exceeded the prescribed minimums of 12% and 8%, respectively. Aggregate core capital for the banking sector strengthened to ZiG 35.46bn as of 30 September 2025, from ZiG 33.8bn on 30 June 2025, primarily attributable to organic growth.

ASSET QUALITY OF THE BANKING SECTOR

The banking sector's loans and advances portfolio grew by 5.2% to ZiG 71.05bn as of 30 September 2025, up from ZiG 67.51bn as of 30 June 2025, with foreign currency-denominated loans accounting for 88.36% of the total loan book. The total loan-to-deposit ratio (excluding lines of credit) increased slightly from 56.01% on in June-25 to 56.46% in September-25. The sector recorded a slight deterioration in asset quality, as the non-performing loans (NPLs) ratio rose to 3.07% from 2.90% between June and September 2025. Despite this uptick, the ratio remains below the 5% international threshold, reflecting low overall credit risk exposure. NPLs are largely concentrated in three key sectors, with manufacturing at 25.69%, households and individuals at 22.92%, and agriculture at 20.01%.

BANKING SECTOR PERFORMANCE

As of 30 September 2025, Zimbabwe's banking sector continued to be profitable. However, sector aggregate net income moderated to ZiG 7.92bn (USD 297.12m) for nine months ended on 30th September 2025, down from ZiG 20.56bn (USD 826.15m) recorded in the corresponding period last year. Profitability indicators followed the same downward trajectory, with return on equity (ROE) declining from 55.87% to 15.66% and return on assets (ROA) from 20.84% to 5.69% between 30 September 2024 and 30 September 2025. The decline is largely attributable to reduced foreign exchange revaluation gains following the stability of the local currency. Notably, the banking sector's income mix continued to be dominated by fees and commissions at 45.06%, with interest income from loans and advances accounting for 33.54% of total income.

LIQUIDITY TREND

As of September 30, 2025, the banking sector's liquidity ratio (average prudential liquidity ratio, PLR) stood at 56.58%, significantly surpassing the regulatory benchmark of 30%, suggesting that banks continued to maintain strong liquidity buffers, with ample capacity to meet their short-term obligations and absorb potential funding shocks.

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. High inflation 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

Despite the relative stability that has emerged since October 2024 following the introduction of the ZiG and supportive monetary policy measures, currency risk remains a key challenge for banks in Zimbabwe. Although exchange-rate movements have moderated and inflation pressures have eased, the operating environment is still characterised by structural vulnerabilities, including limited foreign exchange reserves and heavy reliance on market-driven USD inflows. These factors continue to expose banks to foreign exchange mismatch risks, liquidity pressures in hard currency, and uncertainty in long-term financial planning. As a result, even with the recent period of stability, currency volatility remains an inherent challenge that banks must actively manage within their risk framework.

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.

Liquidity Challenges

Zimbabwean banks face persistent liquidity challenges driven by tight monetary policy, limited foreign currency inflows, and structural weaknesses in interbank lending. The RBZ has maintained a restrictive stance to stabilise the economy, but this has constrained banks' ability to provide credit.

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.