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TECHNICAL ASSISTANCE REPORT—FINANCIAL SOUNDNESS INDICATORS STATISTICS MISSION

October 2023

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TECHNICAL ASSISTANCE REPORT

ZIMBABWE

Financial Soundness Indicators Technical Assistance Mission

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Acronyms and Abbreviations

AFR	IMF's African Department
DL	Domestic Location
DTs	Deposit Takers
FSI-SRs	Financial Soundness Indicators: Standard Reports
FSIs	Financial Soundness Indicators
2019 FSIs Guide	*Financial Soundness Indicators Compilation Guide 2019*
FSIC	Financial Soundness Indicators Institutional Coverage Report
FSM	Financial Soundness Indicators Metadata
FVPTL	Fair Value Through Profit and Loss
FVOCI	Fair Value Through Other Comprehensive Income
ISIC	International Standard Industrial Classification of All Economic Sector Activities
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ICS	Integrated Collection System
NPLs	Nonperforming Loans
OCI	Other Comprehensive Income
OFCs	Other financial corporations
RWAs	Risk Weighted Assets
REM	Real Estate Markets
STA	IMF's Statistics Department
TA	Technical Assistance

Summary of Mission Outcomes and Priority Recommendations

1. At the request of the Reserve Bank of Zimbabwe (RBZ), and with the support of the International Monetary Fund's (IMF's) African Department (AFR), the Statistics Department (STA) conducted an in-person technical assistance (TA) mission on the compilation of financial soundness indicators (FSIs) during April 24–28, 2023. The mission (i) reviewed the institutional framework for collection and dissemination of FSIs data by RBZ; (ii) examined the source data, accounting and regulatory frameworks used in the compilation of the FSIs for deposit takers (DTs); (iii) assisted the RBZ to ensure source data and compiled FSIs are in line with the IMF's *2019 FSIs Compilation Guide* (*2019 FSIs Guide*); (iv) discussed the preparation of metadata accompanying FSI data for posting on the IMF's FSI website; (v) assessed the availability of source data to compile FSIs for remaining deposit takers and other financial corporations (OFCs) mainly insurance and pension funds; and (vi) conducted a one day training on FSIs for staff at the request of RBZ.

2. The RBZ has been compiling some FSIs[1] based on the *2006 FSIs Guide* for surveillance purposes, and the mission assessed the adequacy of source data for compiling FSIs for DTs in conformity with the requirements of the *2019 FSIs Guide*. The financial statements are prepared in accordance with the RBZ's reporting forms, which are broadly consistent with the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS). The valuation of financial instruments follows the IFRS 9. Provisioning rules are prescribed using the supervisory method. The regulatory framework to compile capital adequacy ratios of banks are broadly consistent with Basel II framework with capital requirements for credit, market and operational risks. The minimum capital adequacy ratio is currently at 12 percent for commercial banks, building societies and a savings bank.

3. The mission in collaboration with the RBZ staff developed bridge tables, to map DTs' FSI source data to the IMF FSIs Standard Reports (FSI-SR) and compile FSIs for reporting to STA. The bridge tables cover the mapping of income and expense statements, balance sheets, and memorandum/supervisory series. The use of these bridge tables is to ensure greater consistency in the compilation of the FSIs and facilitate the adoption of the new report forms. In the long-term, the RBZ would benefit from linking the Excel workbook with its database to automate the compilation of the FSIs.

4. The mission worked with RBZ staff to complete the new FSI metadata (FSM) and institutional coverage (FSIC) templates for Zimbabwe, which will provide additional information to the data users to support macroprudential analysis. The FSIC templates capture the structure of the DTs' sector including Deposit Taking Microfinance institutions which are currently excluded in the coverage of FSIs as they observe different prudential standards. The FSM templates capture the current methods and concepts used by RBZ to compile FSIs including any deviations from the recommendations of the *2019 FSIs Guide,* to help compilers to address them in future.

5. The mission, together with RBZ staff, identified areas of improvements to DTs' source data, necessary to improve the quality of compiled FSIs for better policy decision making. The

[1] The compiled FSIs include 12 core FSIs and 9 additional FSIs for deposit takers.

improvements include the need to collect additional breakdown of certain balance sheet and income and expense data.

6. The mission confirmed availability of quarterly data for compiling FSIs for insurance companies and pension funds. The mission held a meeting with officials of Insurance and Pension Commission (IPEC) and discussed their regulatory, accounting, data collection and analytical frameworks. Their data showed that the assets of insurance companies and pension funds stand at about 7% and 17% of total financial sector assets, respectively. The mission shared the FSI generic templates for insurance and pension funds with IPEC for them to populate the data and then share with RBZ on a quarterly basis for inclusion in reporting to STA.

7. The RBZ should report the data using the new FSI-SRs forms as well as the metadata and institutional coverage using FSM, and FSIC respectively, by end September, 2023. RBZ will update the remaining periods on source data as agreed during the mission. This involves updating the income statements, balance sheet data and supervisory and memorandum series for the remaining periods (2020-todate) using the bridge table developed during the mission. These will be reviewed by STA before their publication in the IMF's FSIs website.

8. The mission, upon request from the RBZ management, conducted a short training on high level principles of **FSIs for the FSI data compilers at RBZ.** The mission delivered the training covering: FSI compilation overview, institutional sectors, regulatory and accounting principles, Basel III, and FSIs for deposit takers.

9. The mission noted that the RBZ staff responsible for compiling FSIs have sufficient technical capacity to compile FSIs but requires further training to support implementation of the *2019 FSIs Guide*. The mission informed the staff to apply for IMF FSI courses whenever advertised through the IMF website.

10. To support progress in the compilation of FSIs in line with the *2019 FSIs Guide* and the dissemination of the data, the mission has prepared a detailed action plan. The priority recommendations are summarized in Table 1. Further details on the other recommendations and the related actions/milestones can be found in the Action Plan under *Detailed Technical Assessment and Recommendations*.

Table 1: Priority Recommendations

Target Date	Priority Recommendations	Responsible Institution
September 2023	*Finalize the compilation of the FSIs, with metadata, for the period March 2018 to-date. Use the bridge table with mappings, developed during the mission, to link source data to FSI templates.*	**RBZ**
September 2023	*Report the revised data to STA, for review and dissemination, using the new templates (FSI-SRs, FSM, FSIC) for the period March 2018 to-date.*	**RBZ**

Section I. Detailed Technical Assessment and Recommendations

11. **The Action Plan below, to be implemented by RBZ, includes steps to accomplish milestones as well as the target completion dates.** Actions are prioritized as high (H), medium (M) and priority recommendations (PR) identified.

Priority	Action/Milestone	Target Completion Date
Compiling, Reporting to STA and Dissemination of Migrated FSI data in IMF Website		
PR	*Finalize the compilation of the revised FSIs, with metadata, for the period March 2018 to-date. Use the bridge table with mappings, developed during the mission, to link source data to FSI templates.* *Link the bridge tables with the RBZ internal database to automate the compilation of FSIs.*	Sep 2023
PR	*Report the revised data to STA, for review and dissemination, using the new templates (FSI-SRs, FSM, FSIC) for the period March 2018 to-date.*	Sep 2023
Improvement to source data for compiling financial soundness indicators for deposit takers		
H	*Compile credit growth to private sector FSI indicator*	Sep 23
H	*Use available data to compile loan concentration per economic activity FSI indicator*	Sep 23
M	*Insert a line item in income statement to capture provisions for accrued of interest nonperforming loans.*	Jun 24
M	*Insert a line item in income statement to capture prorated earning for from investments in subsidiaries.*	Jun 24

M	*Insert line items in income statement to capture major components of other non-interest income.*	Jun 24
M	*Insert a line item in income statement to capture other comprehensive income for unrealized income from certain assets*	Jun 24
M	*Insert a line item in balance sheet to capture interest in suspense for nonperforming loans in line with regulations.*	Jun 24
M	*Provide a breakdown of interest payable per sector and instrument*	Jun 24
M	*Provide a breakdown of interest receivable per sector and instrument*	Jun 24
M	*Capture data on large exposures, above 10 percent of tier 1 capital as per 2019 FSIs Guide*	Jun 24
Expansion of FSI Coverage		
H	*With assistance of IPEC collect data for pension funds using the standard IMF templates (balance sheet and income statement) provided by the mission.*	Sep 23
H	*With assistance of IPEC collect data for insurance funds using the standard IMF templates (balance sheet and income statement) provided by the mission.*	Sep 23
H	*Include the compiled pensions and insurance data in the standard IMF FSI templates and submit to STA along with the metadata templates.*	Sep 23

Section II. Financial Sector Structure in Zimbabwe

12. The financial system in Zimbabwe comprises of DTs and other financial corporations (OFCs). The DTs comprises mainly commercial banks, building societies, savings bank and deposit taking microfinance institutions. The OFCs comprises money market funds, non-money market funds, insurance corporations, pension funds, and other financial intermediaries. The number of institutions for each category of DTs and OFCs in the country is shown in Table 2.

13. DTs in Zimbabwe are regulated by the RBZ. The RBZ is responsible for the formulation and implementation of monetary policy, directed at ensuring low and stable inflation levels; maintain a stable banking system through its supervisory and lender of last resort functions; the management of the country's gold and foreign exchange assets; issuer of currency and acts as banker and advisor to Government.

14. Currently there are 13 commercial banks with assets accounting for 43.7 percent of total financial sector assets. The banks comprise of 7 domestically controlled and 6 foreign controlled, domestically incorporated banks. The law prohibits establishment of foreign bank branches in Zimbabwe. (*Annex II*).

15. Building societies are registered by the Registrar of Building Societies under the Reserve Bank of Zimbabwe. Building societies accept savings and fixed deposit for a period which is more than twelve months but not more than five years. As at the time of the mission, there were 4 building societies with assets representing 5.8 percent of total financial sector assets. One savings bank (POSB) and 7 deposit taking microfinance institutions (DTMFI) are also regulated by the RBZ and they account for 0.8 percent of the total financial sector assets. The DTMFIs observe different prudential standards from commercial banks and as such not included in FSI compilation.

16. The OFC subsector comprising mainly of pension funds, collective investment funds, and insurance companies each account for 14.3%, 6.9 % and 6% of the total financial sector, respectively. This implies that, like in many jurisdictions, the size of the OFC is large in the Zimbabwe, and the mission recommends to the RBZ to include them in FSI compilation. Pension funds and insurance companies are regulated by the Insurance and Pension Commission while the Securities and Exchange Commission of Zimbabwe (SECZIM) regulate collective investment schemes.

Table 2: Structure of Financial System (Dec. 2022)			
Financial Corporation Subsector	**Assets Size in ZWL**	**No. of entities**	**% of Total Assets**
Central Bank	**1,285,887,023,087.32**	**1**	**16.7**
Other Deposit Taking Institutions			
Commercial banks	3,360,351,539,103.70	13	43.5
Foreign controlled	1,698,361,173,207.64	6	22.0
Domestic controlled	1,661,990,365,896.07	7	21.5
Building societies	420,050,453,186.11	4	5.4
Savings Bank	34,024,165,787.68	1	0.4
Deposit taking microfinance institutions	21,694,711,478.32	7	0.3
Total DTs	**3,836,120,869,555.82**		**49.7**
Other financial corporations			
Collective Investment Schemes	534,071,318,090.00		6.9
Non-money market funds			0.0
Insurance companies	464,940,430,789.56		6.0
Life insurance	274,750,738,217.33	12	3.6
Non-life insurance	105,770,879,390.23	20	1.4
Reinsurance	84,418,813,182.00	9	1.1
Pension funds	1,107,594,133,883.00	981	14.3
Other financial intermediaries ex ICPF	29,194,036,001.00	1	0.4
Others			
Total OFCs	**2,600,740,349,553.12**		**33.7**
Total FCs	**7,722,748,242,196.26**		

A. Accounting and Regulatory Framework

17. **The guidelines for compiling FSIs source data in RBZ follows the international accounting and regulatory frameworks based on IAS39/IFRS 9 and Basel Accords, respectively.** However, in some instances the compiled data deviate from the prescribed guidelines and these should be clearly explained in the metadata to the extent that they affect the compilation of the FSIs.

18. **Accounting principles are broadly consistent with IFRS9.** In 2017 RBZ in collaboration with National Accounting Board, oversaw the implementation of IFRS 9 by issuing guidelines to all banks. An impact assessment was conducted at the initial stage to inform the necessary implementation steps. The result of the assessment showed that most banks were well capitalized and implementation of enhanced IFRS 9 impairment losses could not significantly erode their capital. As such, there was no need for a transition period in the implementation of IFRS 9 by commercial banks in Zimbabwe.

19. **Accounting standards require reporting institutions to observe accrual accounting, appropriate time of recording, and valuation principles, largely in line with *2019 FSIs Guide* methodology,** which the reporting institutions comply making the source data sound for FSI compilation. Flows and changes in the corresponding stocks are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished, rather than when payments are made.

20. **Accrued interest on financial assets/liabilities are lumped together and separately reported under other accounts payable/receivable contrary to *2019 FSIs Guide* recommendation, which the mission recommended a change.** The Guide requires that such accrued interest be added together with the outstanding amounts of assets and liabilities. Further, valuation of most debt securities is

compiled at fair value through profit and loss (FVTPL) even though some are held to maturity and should be valued based on fair value through other comprehensive income (FVOCI). It is also worth noting that for RBZ non-performing assets do not accrue interest in line with 2019 *FSIs Guide* requirements.

21. RBZ compile regulatory capital based on Basel II framework, but it has already issued guidelines to banks for gradual implementation of Basel III. In line *FSI 2019 Guide*, RBZ defines total regulatory capital[2] as the sum of the Tier 1, Tier 2 and Tier-3 capital less other supervisory deductions. Other supervisory deductions applied to total regulatory capital include shareholding in subsidiaries, lending to associate companies, equity investment in non-subsidiary companies, investment in capital of other banks and financial institutions, encumbered assets and portion of loans and advances in excess of prudential lending limits. Similarly, total RWAs is the sum of the RWAs for both on-balance sheet and off-balance sheet exposures. Credit, market, and operational risks are included in determining the RWA. The market risks relate to interest rate, equity, foreign exchange, commodity, and options exposures. Operational risk covers various business categories, e.g., corporate finance, trading, and sales. The standardized approach is used to calculate RWAs for credit risk while advanced standardized approach and basic indicator approaches are used in compiling market and operation risk respectively (Table 3).

Table 3: Summary of Risk-Weighted Coefficients in RBZ

Risk-Weighted Coefficients for on-balance sheet exposures	
Asset	**Weight**
Claims on banks, Claims on other local financial institutions, Claims on parastatals, Assets in transit, Claims on local authorities within region, and Claims on multilateral institutions	20
Claims on other local authorities, Mortgage loans - residential	**50**
Mortgage loans – other, Claims on commercialized parastatals, Claims on other multilateral institutions, Claims on private sector (total), Acceptances and endorsements, and All other assets	**100**
Risk-Weighted Coefficients for off-balance sheet exposures	
Type of exposures per risk category	**Weight**
Guarantees, underwriting, letters of credit, commitment to lend, derivative contracts, etc.	0
Guarantees, underwriting, letters of credit, commitment to lend, derivative contracts, etc.	20
Guarantees, underwriting, letters of credit, commitment to lend, derivative contracts, etc.	**100**

22. Non-performing loans are defined in the RBZ prudential guidelines to include loans that are past due 90 days and above, aligned to the *2019 FSIs Guide*. These are loans categorized as substandard, doubtful and loss. Loan loss classifications and provisioning requirements are determined using supervisory method, in line with *2019 FSIs Guide.* RBZ's prudential Guidelines define the nonperforming loans (NPLs) and provisions rates as per Table 4 below.

[2]RBZ define Tier 1capital to comprise of paid-up share capital; non-repayable share premium; paid up non-cumulative irredeemable shares, general reserves, retained earnings, minority interest in subsidiaries less goodwill and exposures to insider and connected counterparties. Tier 2 capital are defined to comprise of revaluation reserves (limited to 20% of Tier 1 capital), General Provisions/Reserves for losses on assets (limited to 1.25% of total risk-weighted assets); Paid up perpetual cumulative irredeemable preference shares; Other hybrid (debt/equity) capital instruments; subordinated term debt and minority interest in Tier 2 capital ; undisclosed reserves agreed to with supervisor, and others (e.g. Investments in financial subsidiaries not consolidated in the group). Tier 3 capital is sum of capital charge for market risk and operational risks.

Table 4: Loans Classification and Provisioning Rules in RBZ

Category	Number of days past due	Minimum provisions (%)
Pass	0-30	0
Special mention	>30–89	3
Substandard	>90–179	20
Doubtful	>180–359	50
Loss	>360	100

B. Residency Concept

23. RBZ compiles FSIs using the residency concept consistent with the *2019 FSIs Guide* definition. The residency definition is aligned to what is used for compiling monetary and financial statistics and external sector statistics. This concept is useful for FSI purposes as some indicators such as geographical distribution of loans relates to loans to non-residents as defined in the Guide.

C. Consolidation Basis

24. The mission reviewed and agreed with staff that Domestic Location Consolidation basis currently used in compiling FSIs is adequate. This is informed by the fact that no bank has subsidiaries and branches outside Zimbabwe. Further, all domestically incorporated banks do not have resident subsidiaries which are deposit takers or subsidiaries in other sectors.

Section III. FSI SOURCE DATA

25. Source data for DTs comprising of commercial banks, building societies and one savings bank are broadly adequate to compile the FSI compilation. The source data include income and expense statement, the balance sheet, and other supervisory series relating to capital adequacy, asset quality, earnings and profitability, liquidity, and sensitivity to market risk that are collected on a monthly/quarterly basis. RBZ receives these data through an IT platform which performs some validation checks prior to successful submission. MIS staff internally does the second level of validation. Any data corrections are communicated to the respective reporting institutions via e-mail and corrections made through the system. These processes make the FSI source data credible and fit for policy use. The mission reviewed each of these data sources and made some recommendations below.

A. Income and Expense Statement

26. The components of income and expenses from the source data are broadly sufficient for mapping to the income and expense statement in Table 5.1 DT of FSI-SRs. The income statement is compiled on a cumulative basis from the beginning of the calendar year to the end of reporting period. The mission reclassified some accounts in the income and expense statement to ensure consistency with the *2019 FSIs Guide and* made recommendations to amend the current call report to accommodate missing items as discussed below.

27. The income statement report does not capture data on provisions for accrued interest on non-performing loans (NPLs) in the income statement. In line with *2019 FSIs Guide*, RBZ regulations prohibits accrual of interest on NPLs. However, in practice, it is possible that some interest could be accrued before it becomes clear that the loan is already nonperforming (i.e., before the 90 days overdue period kicks in). As such, in case of such occurrences RBZ need to ensure that banks set aside a provision for such accruals on NPLs. These provisions should be netted out of gross interest income so as not to overstate earnings and profitability ratios: return on equity and return on assets.

***Recommendation**:*

- *RBZ to amend the income and expense reporting form to include a line for reporting provisions for accrued interest on NPLs separately.*

28. The income statement report does not separately capture data on dividend income on equity investment in subsidiaries which currently is reported under other income. The *2019 FSIs Guide* requires reporting of dividend income earned from equity investment in subsidiaries under prorated earnings. However, the current call report does not provide a separate line for prorated earnings. At the moment, no bank in Zimbabwe has a subsidiary within and outside the country and prorated earnings may not be there. However, whenever such occurs, this data is consolidated with the parent for unconsolidated subsidiaries.

***Recommendation**:*

- RBZ to amend the income and expense report to include a line for reporting prorated earning separately.

29. The current interest and expense report does not differentiate financial instruments that are valued at FVTPL and FVOCI in line with IFRS 9 and the *2019 FSIs Guide*. Gains and losses on financial instruments which should be reported in the income statement consist of realized and unrealized gains and losses arising during the period on all financial instruments that are held at FVTPL as defined in the *2019 FSIs Guide.* Unrealized gains/(losses) on financial instruments that are valued at FVOCI are supposed to be recorded in the statement of other comprehensive income and transferred to income and expense statement when they are realized except for those equity investments that are valued at FVOIC without recycle. Inclusion of unrealized gains/(losses) on financial instruments that are held with the intention to collect cash or sell may overstate or understate the net income.

Recommendation:

- RBZ to amend the current interest and expense report to explicitly capture other comprehensive income such as unrealized gains and losses on financial instruments.

B. Balance Sheet

30. The breakdown of assets and liabilities in the DTs' balance sheet is broadly sufficient for compilation of balance sheet-based FSIs when mapped to Table 5.1 DT of FSI-SRs. The balance sheets are compiled on a calendar year basis. The mission recommended some reclassification and further breakdowns on specific balance sheet items discussed in the subsequent paragraphs to ensure consistency with the *2019 FSIs Guide*.

31. Currently loans are broken down by economic activity based on ISIC Rev IV. This breakdown is useful for compiling FSI on loan concentration per economic activity. To assess asset quality there is need to collect data on loans based on sector of the borrower. The last TA mission took note of this data gap and recommended RBZ collect data by sector of the borrower. However, this recommendation has not yet been implemented and the mission urged RBZ to implement it.

Recommendation:

- RBZ to collect additional breakdown for loans per sector of the borrower.

32. In the absence of loans breakdown by institutional sectors, the mission upheld the last mission recommendation to deduce the same from the data on loans by economic activity. The loans by economic activity are based on the purpose of the loan rather than the sector of the borrower. In that case loans for central government, local government and parastatals are assumed to be loans extended to general government. Loans for agriculture, manufacturing, commercial, mining etc. are assumed to have been extended to nonfinancial corporations. Similarly, loans on mortgages, credit cards and individual/households are assumed to have been extended to households. The mission assisted RBZ to map these breakdowns to the FSI compilation file to ensure ease of updating these data.

Recommendation:

- RBZ to compile loans per institutional sector using the above breakdown until data on loans per sector of the borrower becomes available.

33. The RBZ has initiated the process for the compilation of certain Basel III requirements relating to recognition of expected credit loss on NPLs but treatment of excess of regulatory provisions over the accounting provision in the proposed reporting balance sheet reporting

templates is not clear. IFRS and Basel III requires that such shortfall be deducted from retain earnings. The mission recommended this amendment of RBZ regulations and reporting forms to address this.

Recommendation:

- RBZ to amend regulations / provide clarifications on the reporting forms on account for excess regulatory provisions over the accounting provision in the balance sheet, in line with Basel III recommendation.

34. Accrued interest on assets and liabilities are aggregated and reported under interest receivable and interest payables in DTs' reporting forms. According to *2019 FSIs Guide*, accrued interest is supposed to be added to principal amounts for financial asset and liability. Reporting them separate from the respective assets and liabilities understate the actual value of the asset and liability. In the interim, the mission recommends apportioning the interest receivable and payable to the largest financial asset/liability and to the sector with largest size of the asset/liability based on the outstanding principal amounts.

Recommendation:

- RBZ to amend BSD1 to capture breakdown of interest receivable and payable by financial instrument and sector.

C. Supervisory Series

35. RBZ compile most supervisory data series necessary for the compilation of FSIs except a few. The few include all Basel III related data series, geographical distribution of loans, credit to the private sector and loans concentration by economic activity.

36. On the compilation of Basel III data series, RBZ started with liquidity coverage ratio. RBZ issued guidelines on the compilation of LCR to all DTs in 2022. High Quality Liquid Assets are defined to include cash, balances in RBZ and all marketable securities. Compilation of LCR is due to start from June 30, 2023. The guidelines for compilation of Net stable funding ratio (NSFR) are also ready to be shared with banks for implementation while technical assistance on the compilation of regulatory capital components e.g., common equity tier 1, was expected in May 2023.

Recommendation:

- RBZ to gradually report Basel III related FSIs as when the source data become available.

37. Loans per economic activity are compiled based on ISIC rev IV[3] but lacking on institutional sector breakdown. The mission assisted RBZ to compile the FSI on loan concentration to three top economic activities as a ratio of loans to nonfinancial corporations.

Recommendation:

[3] ISIC rev IV stands for International Standards for Industrial Classification of All Economic Activities.

- RBZ to continue compiling the FSI on loan concentration to three top economic activities as a ratio of loans to nonfinancial corporations.

38. Data for compiling credit growth to the private sector is available from monetary statistics. The *2019 FSIs Guide* define this as gross loans extended by DTs to the nonfinancial private sector, *plus* debt securities issued by private NFCs and held by DTs. This data is readily available in monetary statistics and the mission urged FSI compilers to liaise with MFS compilers.

Recommendation:

- FSI compilers are urged to liaise with MFS compilers in the compilation of this FSI.

Section IV. FSI Data Review, Migration and Expanding Coverage

A. Review of Compiled FSI Data and Additional FSIs

39. The mission reviewed the compiled list of FSIs to establish compliance with FSI methodology and possibility to compile additional FSIs based on available source data. Currently, RBZ compile 17 FSIs for DTs, on a quarterly basis. No FSIs for OFCs, household, nonfinancial corporations and Real Estate Markets have been compiled. However, the mission noted that it is possible for RBZ to compile 8 additional FSIs for DTs, besides 7 indicators for OFCs and 1 indicator for household. The list of FSIs, those compiled and those possible to compile are shown in Annex III.

40. The mission found that the compiled FSIs follow the *2019 FSIs Guide* methodology. Some of the weaknesses noted by the mission regarding some of the FSI ratios were traced to the source data. Specific recommendations to address them are discussed in the *source data* section above.

41. However, the big depreciations in the exchange rate resulting from persistent hyperinflation from one period to another, significantly expanded the DTs' balance sheets and impacts on usefulness some FSI ratios. The mission noted that the *Public Accountants and Auditors Board (PAAB)* in their circular 01/19 communicated that the factors and characteristics to apply the International Accounting Standard ("IAS") 29, *Financial Reporting in Hyper-Inflationary Economies* had been met in Zimbabwe. Entities reporting in Zimbabwe are now required to apply the requirements of IAS 29 with effect from 1 July 2019. IAS 29 states that in a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at various times, even within the same accounting period, is misleading. The PAAB therefore issued the guidance to assist entities in the implementation of IAS 29.

Recommendation:

- The mission recommends to RBZ to implement IAS29 to address effects caused by hyperinflation on some FSIs.

B. FSI Data Migration to New Reporting Forms

42. The mission worked with the FSI compilers to develop bridge tables to ease compilation of FSIs for DTs based on the *2019 FSIs Guide*. Prior to the mission the staff of the RBZ manually compile the aggregated data from the reporting forms and then using some mappings, which in some cases are aggregated, compile FSIs. Under the revised templates (based the new Guide), this process involved mapping source data to Table 5.1 DT of FSI-SRs and deriving the indicators from the underlying data in FSD table. The mapping of the income and expense statement, balance sheet, and supervisory data is consistent with methodology of the *2019 FSIs Guide.* The bridge tables show where each item is classified, serving as a useful reference for compilers. The compilation spreadsheets, including the bridge tables for DTs, were provided to the RBZ at the end of the mission (Annex IV). The developed bridge tables will significantly ease the FSI compilation. Eventually, the RBZ would benefit from linking the excel files to its database to automate the calculation of the FSIs from the reporting form to the extent possible.

43. The mission worked with RBZ to compile metadata using new report forms (FSM and FSIC) to accompany the publication of the FSIs (Annex V). The contents of the new Tables 2 and 3 of the metadata were discussed with the staff*.* The publication of the metadata will provide additional information on the structure of the banking sector and the national accounting and regulatory frameworks underpinning the production of the FSIs for DTs compared to the methodology of the *2019 FSIs Guide.*

Recommendation:

The RBZ to finalize and submit to STA for review the FSI-SRs for DTs, including balance sheets, income statements, and memorandum series, the new FSIC and FSM report forms from March 2018 to-date.

C. Expanding FSI Coverage

44. RBZ through its Financial Stability Division conducts financial stability analysis on a regular basis. In doing so, it collects a variety of datasets from various categories of financial institutions mainly DTs, pension funds, insurance corporations, money/non-money market funds etc**.**

45. The pension funds and insurance companies commands 14.3 % and 6 % of financial sector assets respectively, as at December 2023 (Table 2), making them significant to warrant their coverage in FSI compilation. As such, the mission met with the RBZ staff and officials of the Insurance and Pension Commission (IPEC) commission to discuss possibility of expanding FSI data coverage to include other financial sector institutions beside DTs.

46. There are over 981 pension funds, and they all submit supervisory data on a quarterly basis to IPEC. IPEC then aggregate the data for all the pension funds and prepare statutory reports on a quarterly basis.

47. There are over 52 insurance companies, and they all submit supervisory data on a quarterly basis to IPEC. IPEC then aggregate the data for all the insurance companies and prepare statutory reports on a quarterly basis. The prudential ratios for insurance corporations compiled by IPEC and possible for inclusion in FSIs include: (i)Shareholder equity to total invested assets (life and non-life ins.); (ii) Combined ratio (non-life insurance only); (iii) Return on assets (life insurance only); and (iv) Return on equity (life and non-life insurance).

48. The IPEC confirmed availability of financial statements for pension funds and insurance companies, and the mission shared the generic IMF template with them to populate the data. The mission through RBZ stands ready to assist IPEC to compile these source data. The mission was not able to review the detailed source data for both pension funds and insurance companies as these was not readily available during the mission.

Recommendation:

- IPEC through RBZ to compile FSIs for pension funds and insurance companies using the IMF templates and share with the IMF STA for review.

Section V. Training and Resources

A. Training of RBZ Staff

49. The mission conducted a one-day Training to FSI data compilers and users at RBZ. The RBZ management requested the mission to conduct a one-day training on high level principles of FSIs. The mission delivered the training covering: FSI compilation overview, institutional sectors, regulatory and accounting principles, Basel III, and FSIs for deposit takers. The staff were appreciative of the training and hope to attend longer term training whenever opportunities arise.

B. Resources, Training, and Technical Cooperation

50. The mission noted that the RBZ staff responsible for FSI compilation have sufficient technical capacity to compile FSIs but requires further training to support implementation of the *2019 FSIs Guide*. The mission informed the staff to apply for IMF FSI courses whenever advertised through the IMF website.

Recommendation:

- RBZ staff can apply to participate in FSI training courses offered by IMF STA regularly at IMF headquarters, regional trainings or on remote basis. Details are found on the webpage of the IMF's Institute for Capacity Development.

Appendices

A. Appendix A. List of Officials Met

No.	Name	Title	Department
1.	Tapera P. Madamombe	Director	BSD
2.	Ruzayi Chiviri	Deputy Director	BSD (MIS & Reg. Sec.)
3.	Jeremiah Borerwe	Chief Bank Examiner	BSD (FS&P.)
4.	Simelizwe Ncube	Principal Bank Examiner	BSD (FS&P.)
5.	Vimbai S. Muchedzi	Principal Bank Examiner	BSD (MIS & Reg. Sec.)
6.	Arthur Mawire	Principal Bank Examiner	BSD (MIS & Reg. Sec.)
7.	Regiment Gwete	Senior Bank Examiner	BSD (MIS & Reg. Sec.)
8.	Peter Mapfiro	Senior Bank Examiner	BSD (FS&P.)
9.	Jonathan T. Jamakanga	Bank Examiner	BSD (MIS & Reg. Sec.)
10.	Tsungai Komichi	Bank Examiner	BSD (MIS & Reg. Sec.)
11.	Nomsa Nyandowe	Intern	BSD

B. Appendix B. List of Deposit Takers in Zimbabwe as of April 2023

Commercial Banks

1) AFC Commercial Bank (formerly Agribank)
2) FBC Bank Limited
3) CBZ Bank
4) ZB Bank Limited
5) NMB Bank Limited
6) Metbank Zimbabwe Limited
7) Steward Bank Limited
8) Stanbic Bank Zimbabwe Limited
9) Standard Chartered Bank Zimbabwe Limited
10) Ecobank
11) First Capital Bank (formerly Barclays Bank)
12) BancABC
13) Nedbank Zimbabwe Limited (formerly MBCA Bank Limited)

Building Societies

1) Central African Building Society (CABS)
2) CBZ Building Society – already merged with CBZ bank.
3) FBC Building Society
4) National Building Society
5) ZB Building Society

Savings Bank

1) Peoples Own Savings Bank

Deposit-taking Microfinance Institutions

1) African Century Limited
2) Empowerbank Limited
3) Get Bucks Financial Services
4) Lion Microfinance Limited
5) Ndoro Microfinance Bank Limited
6) Success Microfinance Bank
7) Zimbabwe Women`s Microfinance Bank Limited
8) Inn Bucks Microfinance Bank Limited

C. Appendix C. List of FSIs: Compiled, Not Compiled, Possible to Compile

Indicator	Yes/No/Possible
Deposit Takers	
1. Total Regulatory Capital to Risk Weighted Assets	Y
2. Regulatory Tier 1 Capital to Risk Weighted Assets	Y
3. Common Equity Tier 1 to Risk Weighted assets	P
4. Tier 1 capital to assets	Y
5. Nonperforming Loans Net of Provisions to Capital;	Y
6. Provisions to nonperforming loans	P
7. Nonperforming Loans to Total Gross Loans;	Y
8. Loan concentration to economic activities	P
9. Return on Assets;	Y
10. Return on Equity;	Y
11. Interest Margin to Gross Income	Y
12. Non-interest Expenses to Gross Income	Y
13. Liquid Assets to Total Assets;	Y
14. Liquid Assets to Short Term Liabilities.	Y
15. Liquidity Coverage Ratio	N
16. Net Stable Funding ratio (Core)	N
17. Net Open Position in Foreign Exchange to Capital	Y
18. Large Exposures to Capital.	Y
19. Trading Income to Total Income;	N
20. Personnel Expenses to Noninterest Expenses;	Y
21. Gross Assets in Financial Derivatives to Capital;	P
22. Gross Liabilities in Financial Derivatives to Capital;	P
23. Spread between Reference Lending and Deposit Rates;	P
24. Spread between Highest and Lowest Interbank Rates;	P
25. Customer Deposits to Total (non-interbank) Loans;	Y
26. Foreign-Currency Denominated Loans to Total Loans; and	Y
27. Foreign-Currency Denominated Liabilities to Total Liabilities.	Y
28. Credit growth to private sector	P
29. Geographical Distribution of Loans to Total Loans	N
Other Financial Corporations	
30. Assets to total financial system assets	P
31. Sectoral distribution of investments (for MMF)	N
32. Maturity distribution of investments (for MMF)	N
33. Shareholder equity to total invested assets (life and non-life ins.)	P
34. Combined ratio (non-life insurance only)	P

35. Return on assets (life insurance only)	P
36. Return on equity (life and non-life insurance)	P
37. Liquid assets to estimated pension payments in the next year	P
38. Return on assets (for pension funds)	P
Nonfinancial Corporations	
39. Total debt to equity	N
40. External debt to equity	N
41. Foreign currency debt to equity	N
42. Total debt to GDP	N
43. Return on equity	N
44. Earnings to interest and principal expenses	N
45. Earnings to interest expenses	N
Household	
46. Household debt to GDP	P
47. Household debt service and principal payments to income	N
48. Household debt to household disposable income	N
Real Estate	
49. Residential Real Estate Prices	N
50. Residential Real Estate Loans to Total Gross Loans;	N
51. Commercial Real Estate Loans to Total Gross Loans.	N

D. Appendix D. Bridge Tables for Migrating Data to the 2019 FSI Templates

Description	Templates
(i) Income and expense statement, balance sheet and memorandum series for each country – shared with RBZ during mission.	698FSI-SRS-Mapping-detailed.xlsx

E. Appendix E. FSI Metadata for Zimbabwe

Financial Soundness Indicators Metadata for Zimbabwe

Metadata should be disseminated together with FSI data to facilitate data interpretation. Metadata include information about FSIs and their compilation, such as data definitions, how data are consolidated, supervisory and accounting rules adopted by the reporting banks, institutional coverage, and data sources, which are useful to data users.

Method of consolidation

FSIs for DTs in Zimbabwe are compiled on a Domestic Location Consolidation Basis (DL). DL includes domestically controlled and foreign controlled deposit takers (DTs) with their subsidiaries and branches in the resident economy.

Institutional coverage

For Zimbabwe, DL covers all commercial banks, building societies and POSB that are domestically incorporated. 7 banks are foreign controlled while 6 are domestically controlled.

Consolidation adjustments

Intragroup adjustments refer to the elimination of financial flows (income and expense) and financial positions between DTs within the same banking group (parent, its branches, and subsidiaries).

For Zimbabwe, intragroup adjustments are fully done in the consolidated accounts of two banks and two building societies which are related to each other.

Residence of institutional units

The concepts of resident and nonresident are defined based on SNA classifications.

Regulatory framework

The Basel II regulatory framework are applied consistently to all commercial banks. Some elements of Basel III are also applied.

Accounting framework

Commercial banks are required to prepare their financial statements in accordance with the updated RBZ's 2007 reporting forms. The accounting principles of accrual, time of recording and exchange rate are broadly consistent with IAS21/IFRS9.

Compared to IFRS9, only equity investments are valued at fair value through other comprehensive income (FVOIC). All other financial instruments are valued at amortized cost or fair value through profit and loss (FVTPL).

Data Definition

Tier 1 capital comprises common equity, share premium, other reserves, retained earnings and noncontrolling interest after application of supervisory deduction for goodwill, deferred tax, other deductions that are specific to local regulation. Investments in unconsolidated subsidiaries are deducted.

Tier 2 capital consists of qualifying revaluation, regulatory reserves and subordinated debts.

Tier 3 capital consists of capital charges for market and operational risks.

Total regulatory capital is sum of Tier 1 capital, Tier 2 and Tier 3 capital after application of all deductions.

Risk-Weighted Assets are the sum of the RWAs for credit, market and operational risks. Risk weighted assets is calculated using the standardized method for credit risk, the standard measurement method for market risk and the basic indicator approach for operational risk.

Nonperforming Loans (NPL) are defined in the RBZ's Supervisory Regulation as loans that are classified as substandard (91–180 days past due), doubtful (181–360 days past due) and loss (more than 365 days past due).

Large exposures are defined in the RBZs Supervisory Regulation as the sum of all credit exposures to top 20 customers whose amount exceeds 10 percent of total regulatory capital.

Credit to private sector include loans to private and public nonfinancial corporations, households and nonprofit institutions serving households (NPISHs) and other residual sector and debt securities issued by nonfinancial corporations consistent with the *2019 FSIs Guide*.

Return on assets is calculated as the ratio of annualized net income before tax divided by average total assets.

Return on equity is calculated as the ratio of annualized net income after tax divided by average capital and reserves.

Reference deposit/lending rates are calculated using the weighted average of interest rate on commercial bank loans. Reference deposit rate is calculated weighted average of interest rate on commercial bank deposits.

Liquid assets consist of cash, deposits with central bank, placements with commercial banks and other financial assets of less 3 months maturity.

Short term liabilities comprise all debt liabilities with remaining time to maturity of not more than three months.

Source data

Source data for compiling FSIs for DTs include income and expense statement, balance sheet and other call reports that are needed to compile supervisory series relating to, among others, regulatory capital requirements, the liquidity profile, and nonperforming loans.