



PRESS STATEMENT

ON

LEVELS OF NON-PERFORMING LOANS

AND

UPDATE ON BANKING SECTOR CAPITALISATION

5 AUGUST 2011

INTRODUCTION

- 1 The Reserve Bank notes with great concern that a recent report in the Sunday Mail for the week 31 July to 6 August 2011 suggested that borrowers were struggling to repay loans amounting to \$740 million which translates to an average ratio of non-performing loans of 37% for the entire banking sector as at 30 June 2011. The said report amplified a factual error made on paragraph 128 of the Mid-term Fiscal Policy Review announced on 26 July 2011.
- 2 In view of the foregoing, it has become necessary in the interest of transparency and accountability that the Reserve Bank, as the statutory supervisory authority of the banking sector, updates the banking public on the status of Asset Quality in the banking sector.

STATUS OF ASSET QUALITY IN THE BANKING SECTOR

- 3 As at 31 March 2011 the ratio of non-performing loans to total loans for the banking sector was **4.72%** which is a

marginal deterioration from the **4.24%** recorded as at 31 December 2010. The average ratio of non-performing loans for the entire banking sector was **5.83%** as at 30 June 2011.

- 4 For the avoidance of doubt, the ratio of non-performing loans has been **averaging below 5%** since March 2010 as indicated in the table below.

TREND IN THE RATIO OF NON-PERFORMING LOANS

QUARTER ENDED	Ratio of Non-performing loans to Total Loans %
31 March 2010	2.43
30 June 2010	3.29
30 September 2010	3.21
31 December 2010	4.24
31 March 2011	4.72
30 June 2011	5.83

- 5 The IMF Article IV Consultation report for June 2011, on page 5 (Annex- Banking Sector Stability Assessment), **also confirmed the above ratios which remained below 5% of total loans as at 31 March 2011.** Thus, the ratio of 37% quoted both in the Sunday Mail and the Mid-term

Fiscal Policy Review is not a true reflection of the status of Asset Quality in the banking sector.

6 In my latest Monetary Policy Statement issued on 29 July 2011, I indicated on page 30 thereof, paragraphs 4.81 and 4.82, that the Reserve Bank has, in liaison with the IMF, enhanced its Troubled and Insolvent Banks Policy which deals with, among other issues, the Status of Asset Quality in the banking sector. On pages 71 to 73 of the Monetary Policy Statement, I outlined specific mandatory Prompt Corrective Action programs the Reserve Bank is obliged to take if Asset Quality is in breach of prescribed thresholds. The said benchmarks are as follows:

- a) **Watch List Category:** Non-performing Loans (NPLs) in excess of 10% but less than 15% of total loans;
- b) **Close Monitoring Category:** Banking Institutions with Non-performing loans in excess of 15% but less than 25%; and
- c) **Mandatory Remedial Action Category:** Banking Institutions with Non-performing loans in excess of 25%.

7 In spite of the prevailing liquidity challenges affecting the entire economy, the status of Asset Quality in the Banking sector, as measured by the average non-performing loans, is not of systemic concern to the supervisory authorities.

UPDATE ON BANKING SECTOR CAPITALISATION

8 In my recent Monetary Policy Statement I indicated that there were six undercapitalized banking institutions namely; Ecobank, Kingdom Bank, Royal Bank, ZABG, Genesis Investment Bank and ReNaissance Merchant Bank.

9 I am happy to inform the market that a number of these institutions have since taken concrete steps to regularise their capital positions.

10 **Ecobank Zimbabwe** has now complied with the minimum capital requirement, with a capital position of **\$13.82 million**, against the prescribed minimum capital requirement of \$10 million for merchant banks. This follows a capital injection of \$2.2 million on 3 August 2011 by Ecobank Transnational Incorporated. A

consortium of local shareholders has also injected \$2.9 million currently awaiting allotment.

11 Meanwhile, **Genesis Investment Bank** has now been sold to a consortium of new shareholders. The new shareholders have made an undertaking to adequately recapitalize the bank within a period of three months once the regulatory approvals have been secured, and the attendant corporate governance procedures consummated.

12 The Governor will be meeting **Kingdom Bank** next week to receive the positive news emanating from their recapitalisation initiatives.

13 The Reserve Bank will continue to closely monitor all undercapitalised banking institutions in the interest of financial stability and banking sector confidence.

CONCLUSION

14 Over the years, the Reserve Bank has periodically published its performance evaluation criteria and prudential guidelines to foster objectivity, transparency,

consistency and accountability in the execution of its prudential supervision mandate.

15 Stakeholders are hereby assured that the Reserve Bank remains vigilant in monitoring all forms of banking vulnerabilities arising from endogenous and exogenous sources of risk. The Bank will continue to refine its supervision methodologies and techniques in line with international best practice, and lessons learnt from the recent global financial crisis.

DR. G. GONO
GOVERNOR
5 AUGUST 2011