



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

ZIMBABWE

FSSR Follow Up Technical Assistance—
Implementation of the Basel II/III Capital
Framework

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Summary Technical Assistance Report Monetary and Capital Markets Department

Zimbabwe: FSSR Follow Up Technical Assistance—Implementation of the Basel II/III Capital Framework

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The *Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The Financial Sector Stability Review (FSSR), which was conducted in November 2018, identified areas requiring improvement and technical assistance in Zimbabwe's regulatory and supervisory frameworks, including the need to strengthen the capital framework for the banking sector. With the support of the IMF, the Reserve Bank of Zimbabwe (RBZ) is planning to implement Basel III capital standards, considering Zimbabwe's specific circumstances and applying proportionality. The mission reviewed Zimbabwe's capital framework, which includes laws and regulations, identified areas for updating capital requirements, and discussed them with the RBZ management. The mission also made recommendations for drafting amendments that align primarily with the Basel III capital framework, particularly focusing on standardized approaches.

Keywords: Zimbabwe, banking regulation, capital requirements, Basel Framework, central banks
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Background

As a follow up to the Financial Sector Stability Review (FSSR), a Technical Assistance mission from the Monetary and Capital Markets Department of the International Monetary Fund conducted a virtual mission from May 8 to 19, 2023. The purpose of the mission was to assist the Reserve Bank of Zimbabwe (RBZ) on implementing the Basel II/III capital framework, considering Zimbabwe's specific circumstances, and applying proportionality. Toward this objective, the mission: (i) reviewed Zimbabwe's prudential capital framework, which includes laws and regulations, (ii) identified areas for updating capital requirements; (iii) discussed these areas with the RBZ management; and (iv) made recommendations for drafting amendments that align primarily with the Basel III framework, particularly focusing on standardized approaches.

Summary of Findings

The mission worked with the RBZ supervisory team to enhance their capacity in preparing to draft updates for capital requirements based on the Basel III framework. Zimbabwean banks calculate capital for credit risk using the Basel I regime, and for market and operational risk use Basel II standardized approaches. Since 2012, the RBZ has been conducting a parallel run of banks' capital calculations based on a modified Basel II approach for credit risk. During the mission, international standards, best practices, and main challenges were discussed with RBZ management and relevant supervisors focusing on Basel III standardized approaches for credit, operational and market risks, capital definition, leverage ratio, large exposures, and capital conservation buffer.

Summary of Recommendations

The mission provided several recommendations for drafting capital regulations. It was recommended to draft a new version of capital definition in line with Basel III requirements, to advance capital requirements for credit, market, and operational risk in line with Basel III standardized approaches, to update the requirements for leverage ratio, and to introduce the conservation buffer. As the RBZ regulation on large exposures deviates from the Basel Framework, the mission proposed to update this regulation and limits as a priority.

The mission focused on capacity building of the RBZ's supervisory team. All activities taken during this mission were targeted to ensure that the management of the RBZ Banking Supervision Division and supervisors are ready to lead and start implementing the Basel III capital framework. The mission highlighted concrete steps that should be considered in drafting new regulations. The RBZ committed to draft the regulations' package which will be reviewed during the next TA mission.