

DETERMINANTS OF BANKING SECTOR CONFIDENCE IN ZIMBABWE

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Abstract

The Zimbabwean banking sector has been experiencing a prolonged confidence crisis, which commenced two decades ago; depositors are continually channelling funds through the informal sector, thereby disrupting the role of banks in financial intermediation. Deposits are increasingly becoming transitory, clearly manifesting low public confidence in the banking system. Using the Random Utility Theory, the research study critically assessed the main determinants of banking sector confidence in Zimbabwe. The Probit regression modelling approach was used as an estimation technique. Structured questionnaires were used to collect data from the central bank, bank managers, and clients. The study's findings revealed that deposit protection schemes, financial inclusion and corporate governance are crucial in building and maintaining public confidence in banks.

Keywords: Depositors, Determinants, Public confidence, Probit regression, Financial intermediation, Random utility theory, Banking system

JEL Classification: C01, C21, C50, G21, O16

Introduction

There is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the people's trust (Roosevelt, 1993). This statement underscores the central role of confidence in maintaining a robust and stable financial system. The financial sector is inherently fragile, with its stability hinging on trust and confidence from all participants. Consumer trust is widely regarded as an anchor for a competitive and stable economy, forming the foundation of a strong financial system. Instances like the Great Depression of 1933 and the Global Financial Crisis of 2008 have repeatedly demonstrated the catastrophic effects of eroded confidence, as depositors and investors questioned the viability of financial systems (Gerali and Passacantando, 2007). Confidence is, therefore, a marker of stability and a critical determinant of financial resilience.

Globally, a lack of confidence in the banking sector has had profound consequences, including disruptions in financial intermediation and economic slowdown. Armstrong (2012) propounded that low confidence amplifies vulnerabilities, jeopardizes investments, and diminishes economic growth. This reality became particularly apparent in the aftermath of the 2008 financial crisis, during which confidence in banking systems plummeted to unprecedented levels. This crisis served as a wake-up call for financial institutions, highlighting the significance of consumer trust in economic systems and emphasizing the need for financial systems to deliver with integrity and transparency (Shim, Serido and Tang, 2013).

The Zimbabwean banking sector has not been immune to these challenges. For over a decade, it has grappled with a prolonged crisis of confidence, characterized by cash shortages, withdrawal limits, long queues, and bank failures (Mataranyika, 2015). These failures, often coupled with the closure of banks and placement under curatorship, have profoundly shaken public trust. Dhliwayo (2015) highlights that the banking public in Zimbabwe has endured

significant psychological, emotional, and financial trauma, with many depositors losing their life savings and some accounts being frozen.

A notable period of relief came in 2009 with the introduction of the multi-currency system, which curtailed hyperinflation and stabilized the economy (Kramarenko *et al.*, 2010). This policy initially restored a measure of confidence, as evidenced by a 31.8% increase in deposits within six months (KPMG, 2012). However, new challenges emerged; including liquidity constraints, poor governance practices, and inadequate risk management, further eroding confidence (Dzomira, 2016). These issues were exacerbated by high bank charges, negligible interest on deposits, and punitive lending rates (Kupakuwana, 2018).

Efforts by the Reserve Bank of Zimbabwe (RBZ) to stabilize the sector, including the introduction of bond notes and increased capital requirements, have met with limited success. Instead, these measures have been met with widespread anxiety, as they reminded the public of the hyperinflation era (Worton, 2017). The persistence of cash shortages and the circulation of substantial sums outside the formal banking system (\$6 billion as of 2018) signal deep-seated mistrust. Even internationally, Zimbabwe's banking system has faced scepticism, with high-risk premiums demanded for short-term funds (RBZ Monetary Policy Statement (MPS), 2018)

The challenges faced by Zimbabwe's banking sector have not only disrupted financial intermediation but also incentivized alternative financial solutions, such as mobile money services, further diminishing the sector's relevance. Despite these challenges, consumer trust remains a crucial area that requires focus. Without it, the banking sector cannot fulfil its role as a financial safety net or contribute meaningfully to economic recovery and growth (Sandada and Magobeya, 2016).

In this context, the study sought to critically assess the key determinants of confidence in the Zimbabwean banking sector. Ultimately, it sought to provide actionable insights to strengthen public confidence enhance the resilience of the banking system and provide a roadmap for rebuilding trust in Zimbabwe's financial system. The remainder of the paper is organised as follows: Section II presents a review of literature; Section III presents the main objective of the study. Section IV outline significance of the study. Section V describes the methodology. Section VI presents and discusses the findings of the study. Section VII presents the conclusion of the study. Finally, recommendations are presented in Section VIII.

Review of Literature

Banking sector confidence is a crucial determinant of the stability and efficiency of financial systems, particularly in economies like Zimbabwe's, which have experienced significant financial instability. Confidence in the banking sector is influenced by various factors, including macroeconomic conditions, regulatory frameworks, the quality of bank governance, and the level of trust depositors have in banks. Among the primary determinants are inflation rates, interest rates, exchange rate volatility, political stability, and public perceptions of financial institutions. High inflation, political instability, or a weak regulatory environment can undermine depositor confidence, while strong governance, transparency, and robust economic policies tend to enhance trust in the banking system (Guntara, 2020; Ascarya, 2020).

Theoretical Review

Several theories provide a framework for understanding confidence in the banking sector. First, the Information Asymmetry Theory, introduced by Akerlof (1970), suggests that confidence is diminished when depositors have less information than banks about the safety of their deposits,

leading to mistrust. This lack of information creates a knowledge gap that causes uncertainty, thereby affecting the willingness of depositors to trust the banking system. Second, the Signalling Theory, developed by Spence (1973), posits that banks can signal their strength and reliability through transparent reporting, adherence to regulations, and maintaining adequate capital reserves. This helps reduce depositor uncertainty by providing clear indicators of financial stability, thus boosting confidence. Third, the Trust-Based Theory of Financial Intermediation, as revised by Diamond (1984), highlights the critical role of trust in banking operations. Trust mitigates uncertainty and risk in financial transactions, facilitating smoother intermediation between depositors and borrowers, which in turn strengthens confidence in the banking sector.

Additionally, the Random Utility Theory, initially introduced by Thurstone (1927) and extended by McFadden (1974), provides a behavioural perspective on decision-making under uncertainty. This theory posits that individuals make decisions by weighing the utility or value of each available option, factoring in probabilities of outcomes influenced by personal preferences and available information. In the context of the banking sector, depositor confidence can be viewed as a function of perceived utility derived from engaging with a bank versus the perceived risks. For instance, depositors evaluate the benefits of services offered, transparency, and institutional stability against potential risks such as liquidity challenges or governance issues. This decision-making process underscores the importance of creating an environment where banks consistently signal reliability, reduce informational gaps, and build trust to enhance depositor confidence.

By integrating these theoretical perspectives, it becomes clear that restoring and maintaining confidence in the banking sector requires addressing both informational asymmetries and trust dynamics while ensuring that depositors perceive greater utility in engaging with formal banking institutions. This comprehensive approach provides a theoretical foundation for assessing determinants of banking confidence and crafting effective strategies for improvement.

Empirical Review

Several empirical studies have sought to understand and address confidence in the banking sector, both globally and within Zimbabwe, with varying methodologies and findings. Globally, Alamsyah *et al.* (2020) found that depositor trust in Indonesia is largely driven by perceptions of bank safety, governance, and macroeconomic stability. Similarly, Anbil (2018) emphasized that effective stigma management during crises and transparency can prevent panic withdrawals. Ascarya (2020) identified the critical role of exchange rate stability in bolstering banking confidence, while Gadzo *et al.* (2019) in Ghana highlighted credit and operational risks as primary determinants of depositor trust. Guntara (2020) explored the effects of interest rates and inflation, noting a strong link between inflation and reduced confidence.

In Zimbabwe, Munoangira and Kaja (2016) investigated strategies to enhance public confidence in the banking sector, focusing on regulatory frameworks and bank-specific factors like governance and service delivery. Their findings emphasized the importance of strengthening financial safety nets and enhancing depositor access to funds to rebuild trust. Similarly, Sandada and Magobeya (2016) identified structural assurances, service recovery, and benevolence as key determinants of consumer trust in Zimbabwean banks, with trust significantly eroded due to past economic instability and financial mismanagement.

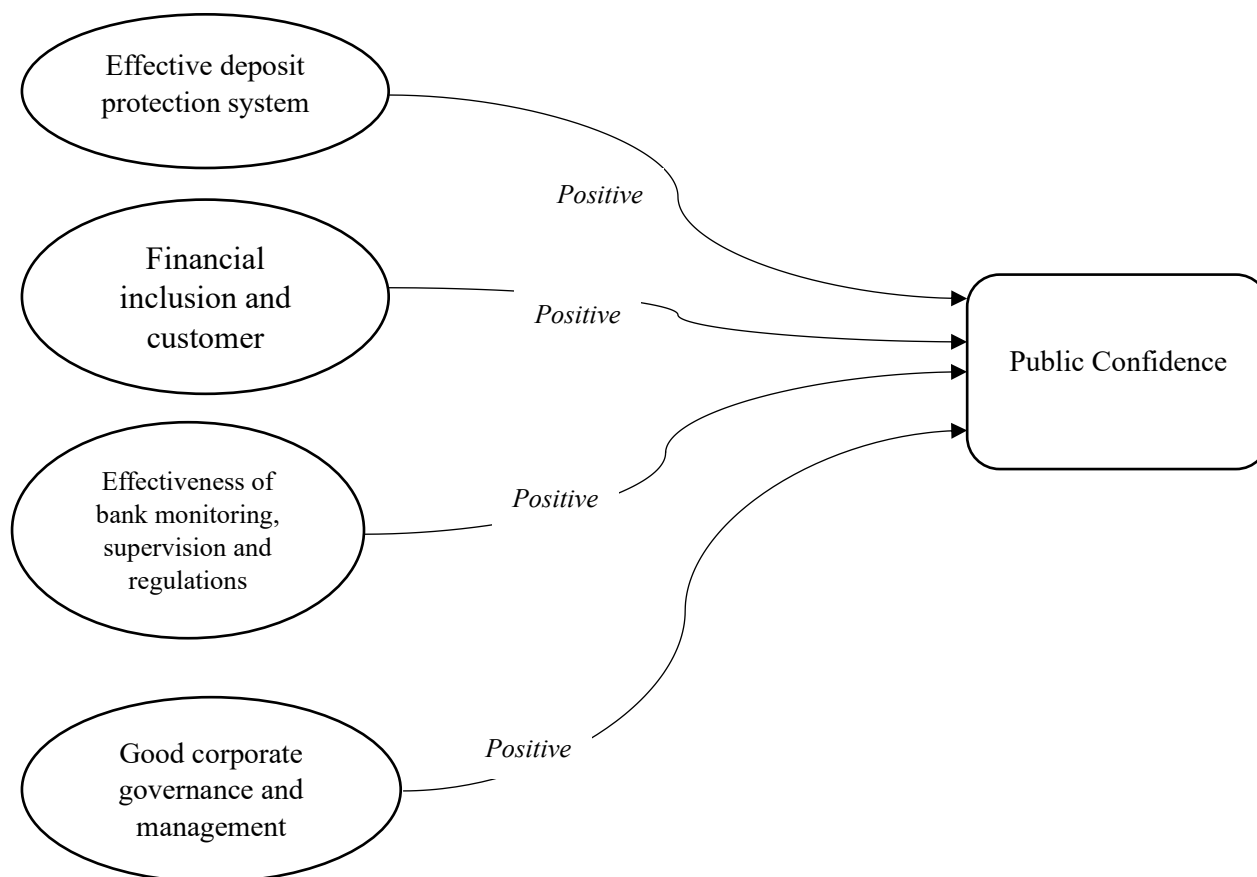
These empirical insights align with this study's focus on critically assessing the determinants of confidence in Zimbabwe's banking sector but differ in scope and methodology. For instance, while Munoangira and Kaja (2016) primarily analysed regulatory strategies, this study extends

to evaluating depositor behaviours and preferences, utilizing quantitative methodology. Additionally, the current study incorporates theoretical frameworks like Random Utility Theory to analyse consumer decision-making under uncertainty, providing a more nuanced understanding of the interplay between trust and banking sector policies.

Conceptual framework of the study

The conceptual framework of the study is shown in figure 1 below:

Figure 1: Conceptual Framework



Source: *Cull, Lemma and Sorge (2000)*

The conceptual framework in figure 1 draws upon the works of Cull, Lemma, and Sorge (2000) with adjustments made to fit Zimbabwe’s banking system, as well as those of Kibirango (1999). They also asserted that by increasing depositor’s confidence in the banking system, credible explicit deposit insurance could increase the level of deposits and number of depositors. Kibirango (1999) also asserted that confidence levels could be measured in terms of increase in deposits on one hand and number of persons using the banking system on the other hand.

Many studies have investigated the concept of confidence in different contexts with varying conclusions on what factors can be regarded as influential in the development of confidence. However, empirical literature assert that majority of determinants of banking sector confidence hovered around effective deposit protection scheme, financial inclusion, good corporate governance and effective bank monitoring, supervision and regulations (Ameur and Mhiri, 2013). These variables are expected to have positive influence on the public confidence of the citizenry in the banking sector

Objective of the study

The primary objective of the study is to identify the key determinants of public confidence in the Zimbabwean banking sector.

Significance of the study

This study holds substantial relevance for the banking sector in Zimbabwe, which continues to grapple with challenges in establishing and maintaining public confidence. By identifying the determinants of banking sector confidence, the research aims to contribute to the development of a more resilient and trustworthy financial system. Given the limited empirical literature specific to Zimbabwe’s banking environment, this study will enrich the body of knowledge with contextually grounded insights.

Furthermore, the findings are expected to guide banking institutions in prioritizing strategic areas that influence public trust, thereby enhancing product uptake and deposit mobilization. The study also seeks to illuminate the role of the Reserve Bank of Zimbabwe and the operational practices of commercial banks that can be leveraged to reinforce institutional credibility and systemic stability.

Methodology

This section presents the sources of data, and the variables chosen for the model and describes the probit regression model used to assess the determinants of banking sector confidence.

Probit Regression Model

In this study, the analytical model tied customer decision and utility maximization problems together. It is first assumed that customers choose on alternatives, by considering the expected comparative advantages from participating in the activity, which will be compared with respect to the other alternatives. This was analysed using the random utility theory described as follows:

The Random Utility Theory by McFadden (1974) posits that people generally choose what they prefer; however, when they do not, their choices can be explained by random factors. An individual chooses an alternative which maximizes utility. Suppose there is a customer and is being asked if s/he has confidence in the banking system, the dependent variable is defined such that:

$$Y_i = \begin{cases} 1 & \text{if yes} \\ 0 & \text{if no} \end{cases} \text{ for person } i \dots\dots\dots (i)$$

The linear model could be used to fit this model. In this case we would have:

$$Y_i = \beta_0 + \beta_1 X_i + e_i \dots\dots\dots (ii)$$

$$Y_i \equiv E(y_i) = \beta_0 + \beta_1 X_i \dots\dots\dots (iii)$$

Where X_i are factors that influence public confidence, β_0 ; β_1 are regression parameters and e_i as a random, independent error term.

By defining the probability that individual i chooses to be satisfied and the complement of this probability, the former will use the notation p_{i1} and the later p_{i2} . Given these notations, the predicted choice probabilities are:

$$p_{i1} = \Pr[y_i = 1] = \Pr [Yes] \text{ and } \dots\dots\dots (iv)$$

$$p_{i2} = \Pr[y_i = 0] = \Pr [No] \dots\dots\dots (v)$$

It should be noted that $p_{i2} = 1 - p_{i1}$, given the definition of what is meant by expectation it should also be noted that:

$$E(y_i) = (1)p_{i1} + (0)p_{i2} = p_{i1} \dots \dots \dots (vi)$$

Combining equation (vi) with equation (iii), it was concluded that

$$P_{i1} = \beta_0 + \beta_1 X_i \dots \dots \dots (vii)$$

Equation (vii) is typical of a Probit regression model and thus the errors term should satisfy classical assumptions. To capture effects of different individual variables in the Zimbabwean entire financial system, the Probit regression model was presented as follows:

$$P(Y_i = 1/0) = \beta_0 + \beta_i X_i + \mu \dots \dots \dots (viii)$$

Where P is the probability of an individual having confidence in the banking sector, β_i is the vector of parameters to be estimated, X_i is the vector of independent explanatory variables estimated to influence public confidence and μ is the error term. A Probit model states that the functional correlation between the probability of an increase in public confidence and the list of numerous explanatory variables assumed to affect public confidence. The deduced efficient association between the binary dependent variable (having confidence in the banking sector or not) and a list of regressors for the study is as follows:

$$\text{Pr}(\text{PC} = 1/0) = \beta_0 + \beta_1 \text{DPS} + \beta_2 \text{FI} + \beta_3 \text{BMSR} + \beta_4 \text{CGM} + \mu_i \dots \dots \dots (ix)$$

Where:

- Pr - is the probability that an individual has been affected or not.
- β_i - are the coefficients to be estimated
- PC - Public confidence
- DPS - Effective deposit protection system
- FI - Financial inclusion and customer expectations of financial services and products
- BMSR - Effectiveness of bank monitoring, supervision and regulations
- CGM - Good corporate governance and management
- μ_i - The error term.

The maximum likelihood estimation (MLE) method was used to estimate the Probit model. The MLE procedure yields unbiased, asymptotically efficient, and normally distributed regression coefficients (Tigist, 2010).

Choice of Variables

The variables in this study were selected based on availability of data and their relevance to understanding public confidence in the banking sector. The choice of the variables was also guided by theoretical and empirical literature on determinants of banking confidence and their interrelationship. The variables are explained below, along with their a priori expectations.

The dependent variable, public confidence (PC), captures the extent to which depositors trust and rely on the banking system. It was assessed using a five-point Likert scale, evaluating factors such as trust in financial institutions, perceptions of safety, and the willingness of depositors to engage with banking services. Public confidence is anticipated to increase with

improvements in governance, regulatory frameworks, financial inclusion, and safety nets (Sandada and Magobeya, 2016; Munoangira and Kaja, 2016).

The independent variables were measured based on their theoretical and practical influence on public confidence. Effective deposit protection systems (DPS) play a pivotal role in minimizing risks of bank runs and enhancing trust by safeguarding depositors' funds in the event of bank failures. When deposit insurance coverage is sufficient and pay-outs are prompt, public confidence is expected to rise (Munoangira and Kaja, 2016; Cull *et al.*, 2000). Similarly, financial inclusion and customer expectations (FI) examine the accessibility of banking services and the alignment of these services with consumer needs. Greater financial inclusion and satisfaction with service quality are positively associated with increased trust (Demirguc-Kunt *et al.*, 2015).

Furthermore, good corporate governance and management (CGM) are critical for maintaining transparency, accountability, and ethical practices within banking institutions. Strong governance mitigates risks of mismanagement and fraud, thereby enhancing depositor confidence (Armstrong, 2012; Dzomira, 2016). Another key variable, effectiveness of bank monitoring, supervision, and regulation (BMSR), focuses on the role of regulatory frameworks in ensuring compliance, mitigating risks, and penalizing malpractice. Rigorous regulation fosters trust and minimize systemic crises (Ascarya, 2020; Gadzo *et al.*, 2019).

The choice of these variables is determined by their significance to financial stability and public trust. For example, DPS addresses depositor safety, a critical variable in Zimbabwe's volatile financial environment. FI tackles the challenge of accessibility in an underbanked landscape, while CGM and BMSR focus on operational soundness and regulatory integrity. These variables, collectively, provide a robust framework for analysing and improving public confidence in Zimbabwe's banking sector.

Data sources

Secondary data was collected from journal articles, newspaper articles, the internet and textbooks. The primary data used to run a probit regression model was obtained from the bank officials, bank clients, Senior Executives at the Reserve Bank of Zimbabwe (RBZ), Deposit Protection Corporation (DPC) and the Bankers' Association of Zimbabwe (BAZ) for the period 2009-2020.

Sampling Technique and Procedure

The sample size for this study was determined based on the principle of adequacy for statistical analysis and relevance to the study objectives. Considering the diverse stakeholders in Zimbabwe's banking sector, the target population included corporate bank clients, retail bank clients, bank officials, regulatory bodies, and key institutions involved in financial stability. A total of 200 questionnaires were distributed, reflecting a balance between depositor perspectives and institutional insights. This approach ensured comprehensive coverage of opinions and experiences related to public confidence in the banking sector.

The sampling technique employed was stratified random sampling. The population was first divided into strata based on stakeholder categories, including corporate clients, retail clients, bank officials, and regulatory authorities. Stratified random sampling was chosen to ensure representation from each stratum, thereby enhancing the generalizability of the findings. Within each stratum, participants were randomly selected to minimize bias and capture diverse viewpoints.

Sampling Frame

The sampling frame consisted of corporate bank clients (32 respondents), retail bank clients (140 respondents), bank officials (16 respondents), and representatives from key regulatory and oversight institutions, including the Reserve Bank of Zimbabwe (4 respondents), the Deposit Protection Corporation (4 respondents), and the Bankers Association of Zimbabwe (4 respondents). The total sample size of 200 was deemed sufficient for achieving reliable and meaningful results in the context of this study.

Reliability and Validity

Pilot testing was used to check the reliability of the instrument. Questionnaires were pre-tested before use to determine the suitability of the questionnaire and improve it in terms of question content, wording, sequence, form and layout. The questionnaire was also tested to check if there were any difficult questions and instructions. This was done through the presentation of the instrument to a sample of Bankers and Central bank Staff. Necessary corrections were made before administering the research instrument to the targeted respondents

Estimation of the Probit Model

The probit model was estimated using Stata statistical software version 12, which is well-suited for handling binary outcome variables and provides robust tools for regression analysis.

The distribution of the questionnaires is detailed in Table 1 below.

Table 1: Questionnaire Distribution

Sampling Frame	Number of Questionnaires
Corporate bank clients	32
Retail bank clients	140
Bank officials	16
Reserve Bank of Zimbabwe	4
Deposit Protection Corporation	4
Deposit Protection Corporation	4
Total	200

Source: Researchers' Own Computations

Table 1 indicate that, out of the 200 questionnaires sent, 173 were returned completed giving an overall response rate of 86.5%. According to Mugenda and Mugenda (2008), a response rate of 50% is considered adequate for analysis and reporting, 60% is good, and a response rate of 70% or more is very good. Therefore, the high response rate of 86.5% in this study was sufficient to draw reliable conclusions.

Findings and Discussion

A Probit regression model with *four independent variables (deposit protection, financial inclusion, corporate governance, bank monitoring)* was regressed against the dependent variable *public confidence*; the results are presented in Table 2 below.

Table 2: Probit Estimation Results

Public confidence	Coef.	Robust Std. Err.	z	P> z
Deposit protection	0.0004	0.0002	2.5000	0.0120**
Financial inclusion	1.3254	0.6479	2.0500	0.0410**
Corporate governance	2.7376	0.5857	4.6700	0.0000***
Bank monitoring	0.9961	0.5605	1.7800	0.0760*
_cons	-4.4773	1.3308	-3.3600	0.0010***
Wald chi2(4)	43.0300			
Prob > chi2	0.0000			
Pseudo R ²	0.6853			

Source: Researchers' own analysis using Stata 14

Note: *= significant at 1%, **= significant at 5%, *= significant at 10%**

The findings of study indicate that deposit protection, financial inclusion and corporate governance are statistically significant at the 5% level whilst bank monitoring and supervision was weakly statistically significant at the 10% level. However, its true estimated coefficients are parameters of the latent model; therefore, interpretations cannot be ascertained from the Probit model coefficients. This led to estimation of marginal effects, which are essential in interpreting the true estimated coefficients.

Interpretation of Pseudo coefficient of multi-determination (R²)

In Table 2, the Pseudo R² is 0.6853, which implies that about 68.53% of the variation in the public confidence is mainly explained by deposit protection, financial inclusion and corporate governance. The probability value of the overall model (Prob >chi² =0.0000) indicate that the overall model is statistically significant at 1% significance level. Moreover, the Wald statistic confirms that deposit protection, financial inclusion, corporate governance, and bank monitoring and supervision jointly explain the variation in public confidence.

Coefficients and Marginal Effects

The marginal effects results are presented in Table 3 below.

Table 3: Marginal effects results

Variable	dy/dx	Std. Err.	z	P> z
deposit protection	0.0002	0.0001	2.6900	0.0130**
financial inclusion	0.4839	0.1950	2.4800	0.0130**
corporate governance	0.8221	0.0961	8.5600	0.0000***
bank monitoring	0.3943	0.2247	1.7500	0.0790*

Source: Researchers' own analysis using Stata 14

Note: *= significant at 1%, **= significant at 5%, *= significant at 10%**

Marginal effects measure changes in the probability of the dependent variable following a change in the independent variables. They were calculated from predictions of a previously fit Probit model at fixed values of some covariates. The researchers interpreted parameter value using probabilities because Probit model works with maximum likelihood parameter.

Analysis of the Coefficients

The Deposit Protection Scheme

Deposit protection is positive with a coefficient of 0.0002 and statistically significant at the 5% level. The positive effect implies that if deposit protection scheme increases towards boosting public confidence, keeping other factors constant. This result suggests that an increase in deposit protection scheme by a 0.01 will result in a 0.0002 increase in the probability of increasing public confidence. The findings are in line with Safakali and Guryay (2007) who asserts that deposit insurance systems, are one component of the banking and financial systems safety net which seeks to promote banking sector stability and build confidence. Similarly, the results concur with the Diamond and Dyvbig (1983) who found that deposit insurance limits the negative effects of bank runs and subsequent bank failures in an economy.

Financial inclusion, new products and services

The study findings revealed that financial inclusion is positive and statistically significant at the 5% level. This implies 0.4839 increases in the probability of public confidence if financial inclusion increases by 0.01, *ceteris paribus*. The results concur with Ongore and Kusa (2013) who argued that innovation in financial services, products and mobile banking have the potential to improve the relationships between banks and consumers by reaching remote corners of the world where the majority of the under banked and the unbanked population reside.

Corporate Governance and Management on building Confidence

The results of the study indicated that corporate governance has a positive coefficient and statistically significant at the 1% level. This implies that a 0.01 increase in good corporate governance practice will lead to 0.8221 probability increase in public confidence. This conforms to Chowdhury (2009) who asserts that the management of a banking institution must exhibit impeccable integrity and professionalism in their conduct to engender public confidence in the safety of their deposits. Similarly, Enoch *et al.* (2002) asserts that in the establishment of the banker customer relationship, depositors look for a number of attributes such as corporate governance structures and risk management practices of the banking institution. Furthermore, these findings converge with Berger, Imbierowicz and Rauch (2012) who found out that defaults are strongly influenced by a bank's ownership structure.

Bank monitoring, Supervision and Regulations

Bank monitoring and supervision was found to be statistically insignificant at the 5% level of significance, which makes bank monitoring and supervision of less importance in bolstering public confidence in the Zimbabwean banking sector. This concurs with Gale (2010) who asserts that tougher bank regulations may have positive benefits as they may reduce the consequences of market freezes, however, they may encourage banks to become smaller to avoid systemic capital requirements, and they may reduce contagion, but they may not be relied on to reduce the risk of bank failure.

Conclusion

The study concluded that the main determinants of banking sector confidence in Zimbabwe are an effective deposit insurance system, financial inclusion and customer expectations of financial services and products, good corporate governance and management.

Recommendations

The study recommended that commercial banks should rebrand, provide high proficient technologies to client and seek external investors to enhance stability within the banking sector. The supervisory body should encourage insurance cover, closely monitor banks and conduct public awareness campaigns to restore public confidence.

There is a need for future research on institutional and technological factors influencing banking sector confidence in Zimbabwe, such as the role of digital banking, fintech, and governance reforms. Additionally, there is a need for more country-specific research studies to better understand the interplay between local political dynamics and depositor behaviour. Comparative studies across similar emerging markets could also provide valuable insights into how Zimbabwean-banking sector can strengthen confidence amidst economic challenges. Expanding the research methodology to include personal interviews with key stakeholders in the banking industry may also offer a more nuanced understanding of trust dynamics in the sector.

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