



**2016 MID-TERM MONETARY POLICY STATEMENT**

**BY**

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***WALK THE TALK TO RESTORE TRUST AND  
CONFIDENCE***

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## **SECTION 1**

### **BACKGROUND AND CONTEXT**

This Mid-Term Monetary Policy Statement is issued in terms of **Section 46 of the Reserve Bank Act (Chapter 22:15)**. The major objectives of this Statement are to highlight the global and domestic financial developments; to provide an assessment of the monetary policy measures taken by the Bank in May 2016 to stabilize the economy; to present new measures to restore confidence within the economy; and to offer policy advice to deal with the fiscal and current account deficits in order to change Zimbabwe's economic narrative to production and productivity which is very vital or imperative to restore trust and confidence within the national economy.

The policy measures presented in this Statement are designed to augment the measures taken by the Bank in May 2016. The new measures include the elimination of administrative hurdles of contracting offshore loans, resuscitation of the credit guarantee scheme to enhance local production by small to medium scale enterprises, putting in place nostro stabilization facilities to deal with delays in the remittance of outgoing foreign payments, promotion of internal devaluation using market-based mechanisms to restore competitiveness in the national economy, and encouraging the fast-track elimination of bottlenecks that are hampering the ease of doing business within the economy especially in the export production sectors.

The measures and policy advice which are well aligned to those presented by the Honourable Minister of Finance and Economic Development in the Mid-Term Fiscal Review Statement are designed to deal with the structural imbalances that continue to stress the economy. The structural imbalances are evidenced by the large current account and fiscal gaps generated by the difficult internal and

external conditions, a legacy of dollarisation policy inconsistencies/contradictions, policy slippages and procrastination in the implementation of critical Government policies. These imbalances are further exacerbated by adverse weather conditions and weak investor sentiment leading to the under performance of the national economy.

The under performance of the economy which started in 2012 - three years after dollarisation - is also greatly attributable to the legacy of policy inconsistencies/contradictions when the country went into dollarisation in March 2009, by default and not by design, to tame hyperinflation. This was soon after the formation of the Government of National Unity in February 2009. The policy inconsistencies/contradictions which were secondary to the political settlement include over liberalisation of both the current and capital accounts at a time when the country had very limited access to foreign finance due to debt overhang, and non-conducive investment climate due to sanctions and unattractive domestic investment policies; wrong choice of trading currency and; failure to benchmark with regional comparators to maintain competitiveness.

It is therefore a combination of the current internal and external imbalances and historical challenges that need to be urgently addressed for the proper functioning of the multi-currency exchange system that, de facto, is currently totally dominated by the use of US\$. This situation requires the nation to do things differently and **WALK THE TALK** to transform the economy by changing the narrative from consumption to production. The economy is hungry for production and productivity. With the public sector wage and salary bill being one of the highest in the world at more than 90% as a share of fiscal revenue and inflation at -1.4% being low or in negative territory (deflation) for two years now since 2014, real wages and salaries have increased, crowding out capital and social



expenditure – thus undermining the economy’s capacity to enhance employment and to be competitive.

The business climate, on the other hand, affected by limited access to foreign finance; unfinished business on land security tenure and investment regulations; and high input costs, has not been conducive to attracting the much needed domestic and foreign investment. In addition the increasing fiscal gap in the absence of external financing has led to a decline in private sector activity and a reduction in domestic credit as financial institutions try to contain foreign exchange induced demand pressures attributable to lending activities.

As if the above harsh conditions are not enough, the economic impact of the El-Nino induced drought also increased the need for imports to reduce food insecurity, whilst the decline in mineral prices depressed export proceeds. In addition, amid low investor sentiment, the appreciation of the US\$ induced higher than expected demand for this currency, reduced remittances in US\$ terms, especially from South Africa and the United Kingdom (following Brexit) and generated speculation. With South Africa being Zimbabwe’s main trading partner - accounting for around 50% of total trade - where the rand depreciated against the US\$, competitiveness has also been severely eroded.

Whilst efforts taken by Government to deal with the above fragile economic situation have been commendable, a stronger than anticipated impact of exogenous shocks highlighted above continued to exacerbate the economic slowdown and precipitated the decline in fiscal space and the cash shortage situation.

**Walking the Talk** within the above context of weak economic conditions requires policy precision and urgent implementation of necessary reform measures to

transform the economy. The process won't be easy but must be done. It requires national sacrifice, sincerity and integrity. It requires the ability to share the adjustment or transformation burden across the board and between the fiscal and monetary policies. Reliance on one policy instrument to manage the current structural imbalances would not be sustainable to transform the economy and to restore trust and confidence.

Overall, transforming the economy from a consumptive to a productive one requires fiscal discipline, production discipline, policy discipline, and message/communication discipline (speaking with one voice) in order to achieve the optimal levels of economic turnaround depicted by the following economic functional identities:

- i. **Liquidity** =  $f^*(Exports/Forex Earnings)$*
- ii. **Exports /Import Dependence** =  $f(Production)$*
- iii. **Production** =  $f(Investment Climate/Incentives/ Ease of Doing Business)$*
- iv. **Investment Climate** =  $f(Policy Measures/Policy Consistency)$*

The rest of this Monetary Policy Statement is organized as follows; Section 2 discusses external sector developments and their implications on domestic economic activities. Section 3 looks at the status of the financial sector. Section 4 discusses the impact of policy measures introduced by the Reserve Bank in May 2016. Section 5 provides new policy measures to enhance confidence and production in the economy. Section 6 provides policy advice and Section 7 is the Conclusion. The Appendixes provide an update on the re-engagement, a brief RTGS and Nostro concepts within the context of the multicurrency exchange system and an update on closed banks.

*\* f is read as function of*

## **SECTION 2**

### **EXTERNAL SECTOR AND INFLATION DEVELOPMENTS**

#### **Global Economic Developments**

Global economic recovery has remained fragile with adverse consequences on developing economies like Zimbabwe. The situation has been exacerbated by the referendum outcome which approved Britain's exit (Brexit) from the European Union.

The Brexit vote has deepened economic, political and institutional uncertainty within the EU, threatening the growth momentum witnessed in the first half of the year. This uncertainty has negatively affected investor confidence and financial market conditions. Moreover, the bumpy adjustment in China also continues to undermine sustained global economic recovery.

The recent global economic developments, have compelled the International Monetary Fund (IMF) to downwardly revise the initial global economic growth projections for 2016, by 0.1 percent, on account of the negative macroeconomic consequences, especially in advanced European economies. Consequently, the IMF is now projecting the global economy to grow by 3.1 percent in 2016 and 3.4 percent in 2017. Table 1 below shows recent global economic developments and projections for 2016 and 2017:

**Table 1: Global Economic Developments and Outlook (%)**

	Actuals		Projections		Diff. from April 2016 Proj.	
	2014	2015	2016	2017	2016	2017
<b>World Output</b>	3.4	3.1	3.1	3.4	-0.1	-0.1
<b>Advanced Economies</b>	1.9	1.9	1.8	1.8	-0.1	-0.2
<b>US</b>	2.4	2.4	2.2	2.5	-0.2	0.0
<b>Eurozone</b>	0.9	1.7	1.6	1.4	0.1	-0.2
<b>Japan</b>	0.0	0.5	0.3	0.1	-0.2	0.2
<b>Emerging Market &amp; Developing Economies</b>	4.6	4.0	4.1	4.6	0.0	0.0
<b>China</b>	7.3	6.9	6.6	6.2	0.1	0.0
<b>India</b>	7.2	7.6	7.4	7.4	-0.1	-0.1
<b>Sub-Saharan Africa</b>	5.1	3.3	1.6	3.3	-1.4	-0.7
<b>Zimbabwe</b>	3.8	1.1	<b>1.2</b>	<b>5.6</b>	-	-
<b>Latin America &amp; the Caribbean</b>	1.3	0.0	-0.4	1.6	0.1	0.1

Source: IMF World Economic Outlook Update (19 July 2016), Ministry of Finance and Economic Development and RBZ projections

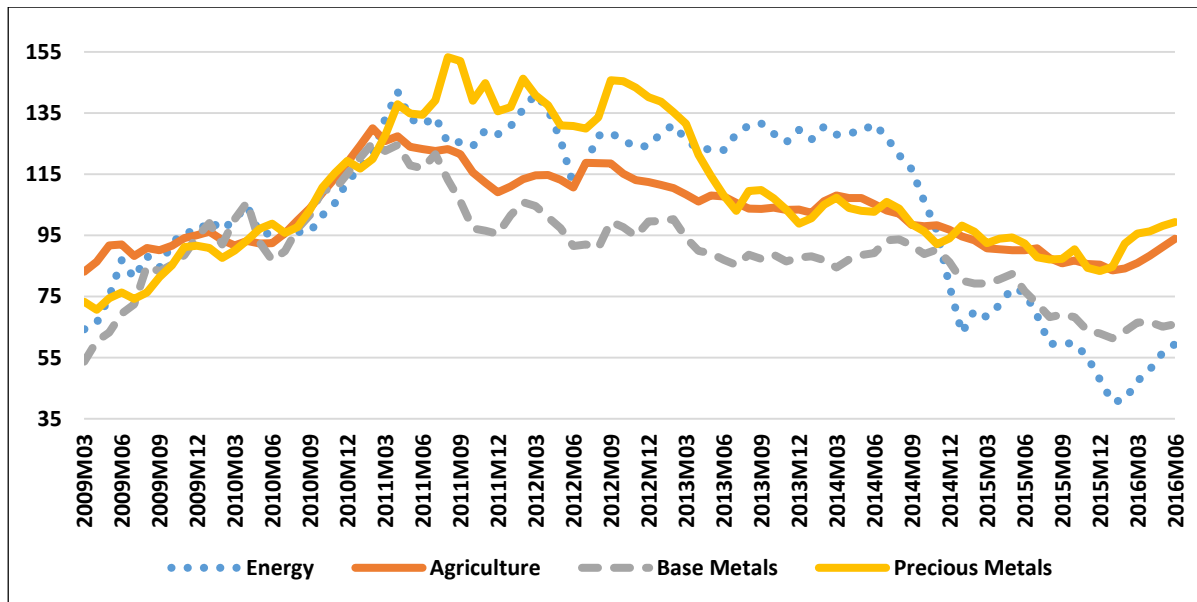
Growth in Sub-Saharan Africa is expected to decelerate from 3.3% in 2015 to 1.6% in 2016, representing a 1.4% decline from the initial forecasts in April 2016. This slowdown is primarily driven by the downturn in international commodity prices and Brexit fallout. Moreover, economic growth prospects for regional economies, notably, South Africa, Botswana and Zambia remain vulnerable to the downturn in international commodity prices and the depreciation of domestic currencies.

### **International Commodity Price Developments**

International commodity prices have generally remained subdued over the recent past mainly on account of weakening growth prospects in China, the world's largest metal consumer. This notwithstanding, global commodity prices reflected a modest recovery, albeit from a low base, during the first half of 2016 on the

backdrop of transient stabilisation of global markets. Figure 1 shows global commodity indices for the period March 2009 to June 2016.

**Figure 1: Commodity Price Indices (2010 = 100)**



*Source: World Bank Commodity Price Data*

Specifically, gold prices firmed by 16.3%, from an average price of US\$1 096.68/oz in January 2016 to US\$1 274.99/oz in June, 2016. Similarly, platinum increased by 15.3% from US\$853.65/oz in January 2016 to US\$984.45/oz in June, 2016.

### **Base Metals and other commodity prices**

Base metals recorded a steady recovery during the first half of 2016, boosted by production cuts and renewed demand. In this context, over the period January to June 2016, copper and nickel prices picked by 3.7% and 4.8% to US\$4 634.34/tonne and US\$8 888.43/tonne.

Crude oil prices, which declined to record low levels in January 2016, recovered steadily to average US\$49.83/barrel in June, 2016. Discussions among major oil

producers (Russia, Saudi Arabia, Venezuela and Qatar) to curtail crude oil production shored up oil prices.

Agricultural commodity prices increased by 12.5% in the first half of 2016 owing to the adverse effects of the El Nino weather conditions due to relatively high inventory levels.

### **Implications of global economic developments on domestic economic activity**

The effects of the weak global economy are being transmitted to the local economy mainly through depressed commodity prices and weakening trading partner currencies on the back of a relatively strengthening US\$.

The sustained low commodity price environment, particularly for precious minerals and base metals have implications on the domestic economy as the country mainly depends on primary and semi-processed minerals. Weaker prices for precious and base metals imply lower export revenues for Zimbabwe, while depressed oil and food prices have a moderating effect on the country's fuel and food import bill.

Moreover, the strengthening of the US\$, coupled with sustained low commodity prices environment, has weakened growth prospects of the country's major trading partners, notably South Africa, Botswana and Zambia. This development has resulted in sustained depreciation of these countries' domestic currencies to the detriment of Zimbabwe's trade competitiveness.

Resultantly, the manufacturing sector in Zimbabwe has continued to lose competitive ground. The exchange rate based loss in competitiveness has conspired with other supply side rigidities affecting the economy to intensify the influx of relatively cheaper imports into the economy.

## **BALANCE OF PAYMENTS DEVELOPMENTS**

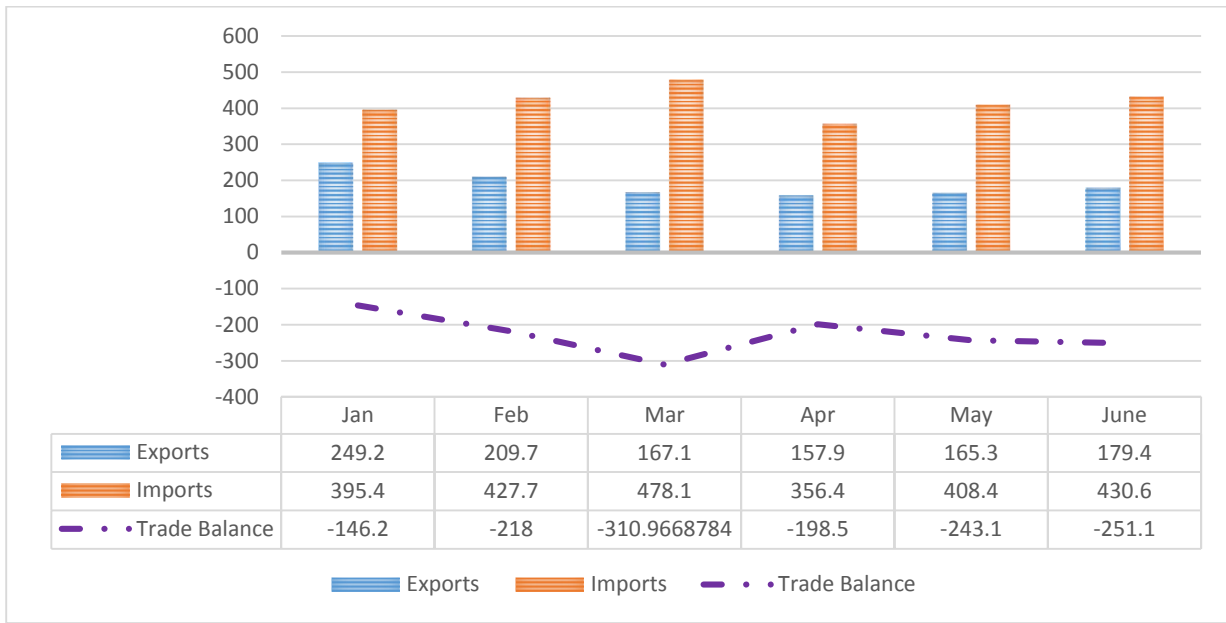
### **Merchandise Trade Developments**

The economy has continued to be affected by sustained mismatches between export receipts and imports as evidenced by the disproportionate import absorption relative to exports especially for the period 2008-2015; a sign of weak economic fundamentals and over liberalisation of current and capital accounts. Figure 3 shows the Zimbabwe's merchandise exports, imports and real GDP growth over the period 1990-2015. The graph also shows the sensitiveness of the economy to various shocks and vagaries, including droughts.

Over the period January to June 2016, merchandise exports declined by 8.7%, from US\$1,232.3 million realized in 2015 to US\$1,125.0 million in the corresponding period in 2016. Similarly, merchandise imports for the period January to June 2016 amounted to US\$2,496.6 million, a 14.4% decline from US\$2,917.1 million realized over the comparative period in 2015.

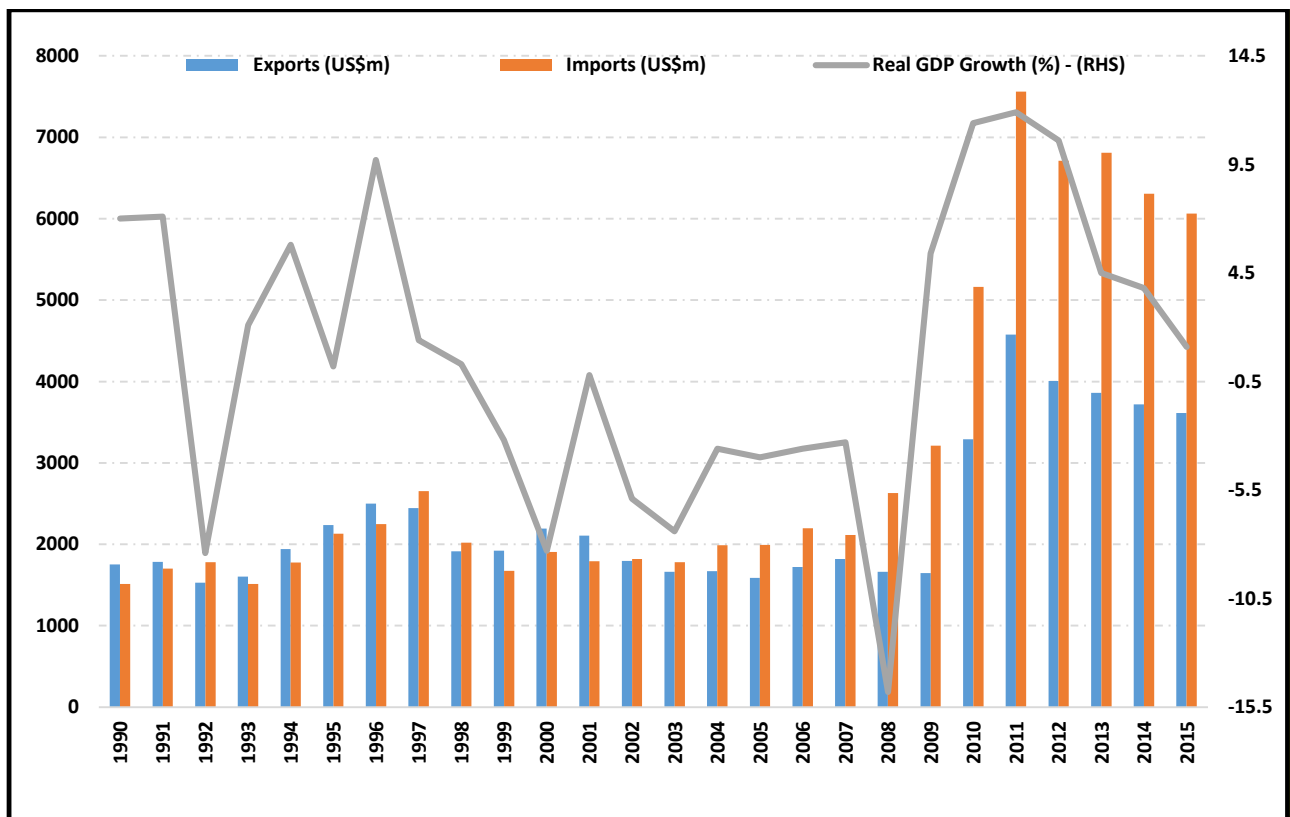
Figure 2 shows monthly merchandise exports and imports development for the period January to June 2016.

**Figure 2: General Merchandise Trade for Jan – Jun 2016 (US\$m)**



Source: ZIMSTAT

**Figure 3: Merchandise Exports, Imports, Real GDP Growth & 990 – 2015**



Source: RBZ & Zimstat



The decline in export and import performance is a reflection of the overall slowdown in economic activity, emanating from the drought induced contraction in agriculture, depressed commodity prices, suppressed capacity utilization in the manufacturing sector, as well as continued difficulties in accessing external lines of credit.

A combination of foreign currency management measures, including the prioritization of imports announced by the Reserve Bank in May 2016 and restrictions on selected imports by the Ministry of Industry and Commerce in July 2016, as well as the effects of a stronger US\$ on the country's terms of trade are expected to lead to a 0.9% decline in the import bill in 2016. Food imports (maize and wheat) are, however, expected to surge owing to the El Nino induced drought that ravaged the Southern African region, including Zimbabwe.

Continued reliance on imports of finished goods is unsustainable as it undermines current efforts to resuscitate domestic industrial production, leading to significant trade and current account deficits.

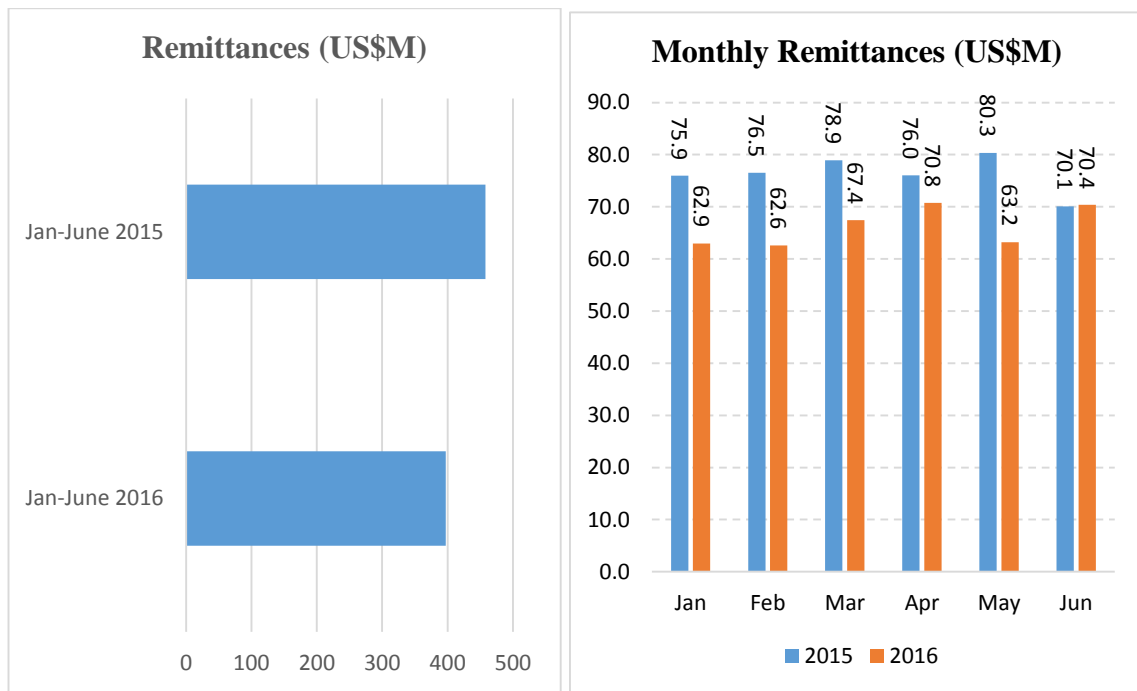
### **International Remittances**

The continued appreciation of the US\$ against regional currencies has also affected the dollar denominated value of remittance inflows, particularly from South Africa, which have over the years been a significant source of foreign currency in the country. The weakening of the South African rand against the US\$, imply that Zimbabweans who are in South Africa are no longer in a position to send the same amount of money in US\$ they used to remit back home. The rand value remittances have gone down in US\$ terms.

This is evident from the decline in diaspora remittances of 13% from US\$457.9 million for the period January to June 2015 to US\$397.3 million in the

corresponding period in 2016. This development has, therefore, affected general market liquidity in the economy with adverse effect on aggregate demand and sustained economic recovery.

**Figure 4: Diaspora Remittances: January to June 2015 & 2016**



**Source: RBZ**

### Foreign Private Capital Flows

Private sector offshore external loans have been an integral source of liquidity in the economy since adoption of the multi-currency exchange system in 2009. These loans, as opposed to equity injection, have mostly been utilized for working capital and capitalization.

In the period from January 2016 –June 2016, the Bank approved and registered a total of 156 facilities with a monetary value of US\$976.4 million. As is the norm, the agriculture sector has the highest contribution of 49% which is mostly buoyed by the tobacco sector. A comparison with the same period in 2015 shows that as

at 30 June 2015, a total of 185 facilities had been approved with total monetary value of US\$1.2 billion.

It is evident that due to the perceived unfavourable investment climate in Zimbabwe, investors have since devised a method to mitigate this perceived risk by using loans to finance their investments in the country as opposed to equity financing. This is also particularly true for some significant investors who have resorted to using the Engineering Procurement and Construction (EPC) model of investment as opposed to cash injection or equity into Zimbabwe like what they do in other countries such as Angola, Ethiopia, Mozambique, Zambia and Nigeria. Table 2 below shows monthly private sector loan approvals for 2015 and 2016.

**Table 2: Comparison of Loan Approvals per Month in 2015 and 2016**

Month	2016		2015	
	Number of Facilities	Approved Amount (USD Millions)	Number of Facilities	Approved Amount (USD Millions)
January	28	27.4	18	98.8
February	21	133.1	28	129.8
March	29	126.6	52	170.4
April	18	73.9	31	373.9
May	23	427.5	24	111.3
June	39	187.8	32	278.5
<b>TOTAL</b>	<b>158</b>	<b>976.4</b>	<b>185</b>	<b>1,162.7</b>

Source: RBZ

### Foreign Payments

For the period January to 30 June 2016, banks processed, on a cashflow basis, total outgoing payments amounting to US\$2.7 billion. This represents a 24% decline from US\$3.5 billion for the same period in 2015.

All categories of outgoing foreign payments as indicated in Table 3 experienced decreases. This is attributable to the limited foreign exchange reserves within the

economy and the positive effect of the import compression policies which promote the importation of critical goods and services not available on the local market.

**Table 3: Outgoing Foreign Payments (Jan-June 2015/2016)**

Category	2016	2015	Variance	Share 2016	Share 2015
Consumption Goods	667	851	-22%	25%	24%
Capital & Intermediate Goods	650	777	-16%	24%	22%
Fuel & Electricity	356	514	-31%	13%	15%
Service Payments	580	656	-11%	22%	19%
Capital and Income Payments	418	716	-42%	16%	20%
<b>Total Outflows</b>	<b>2,672</b>	<b>3,515</b>	<b>-24%</b>	<b>100%</b>	<b>100%</b>

**Source: RBZ**

### **Current and Capital Account Developments**

The current account deficit is projected to narrow down, from a deficit of US\$1,519 million in 2015, to a deficit of US\$1,069 million in 2016, partly on account of the projected decline in the import bill. The projected decline in imports in 2016 is mainly a result of the various measures being implemented to compress imports as well as the economic slowdown which has reduced the country's import absorptive capacity.

A sustained current account deficit poses significant challenges as the country relies on export revenues to generate liquidity to support domestic economic activity. In this regard, the need to attract both domestic and foreign investment to rejuvenate industry and generate adequate foreign exchange reserves to cushion

the economy from external vulnerabilities, remains integral to economic revival efforts.

The capital and financial account balance is also projected to decline from a surplus of US\$1,632 million in 2015 to a surplus of US\$845 million in 2016, as a result of the projected decline in private sector offshore loans. The projected decline in private sector offshore loans reflects the reduced absorptive capacity of the private sector in concomitance with weakening economic activity.

Foreign direct investment (FDI) into the country is also projected to decline in 2016. This underscores the need to build investor confidence to attract foreign capital which is critical for growth.

The overall balance of payments position is projected to deteriorate from a deficit of US\$25.8 million in 2015 to a deficit of US\$224.0 million in 2016. Table 4 below shows balance of payments developments and projections for 2016.

**Table 4: Balance of Payments Developments (US\$ million)**

	2012	2013	2014	2015	2016
	Actual	Actual	Actual	Estimate	Projection
<b>Current Account Balance</b>	<b>-1,838.9</b>	<b>-2,539.2</b>	<b>-2,247.5</b>	<b>-1,519.4</b>	<b>-1,069.2</b>
<b>Trade Balance</b>	<b>-2,706.3</b>	<b>-2,947.1</b>	<b>-2,589.1</b>	<b>-2,448.1</b>	<b>-1,890.4</b>
<b>Exports F.O.B</b>	<b>4,004.0</b>	<b>3,861.8</b>	<b>3,717.2</b>	<b>3,614.2</b>	<b>3,551.7</b>
<i>Agriculture</i>	979.6	1,047.5	981.2	1,015.9	911.4
<i>Mining</i>	2,384.9	2,223.3	2,113.4	2,089.2	2,133.2
<i>Manufacturing</i>	549.2	487.0	532.8	417.1	412.8
<b>Imports F.O.B</b>	<b>6,710.2</b>	<b>6,808.9</b>	<b>6,306.3</b>	<b>6,062.3</b>	<b>5,442.1</b>
<i>Food</i>	730.6	658.1	352.3	586.3	629.1
<i>Fuel</i>	1,365.7	1,364.7	1,393.6	1,460.9	1,455.9
<b>Capital Account Balance</b>	<b>1,515.0</b>	<b>1,687.6</b>	<b>2,095.8</b>	<b>1,632.3</b>	<b>845.2</b>
<i>Errors And Omissions</i>	-111.3	656.2	111.5	-138.6	0.0
<b>Overall Balance</b>	<b>-435.3</b>	<b>-195.4</b>	<b>-40.3</b>	<b>-25.8</b>	<b>-224.0</b>

Source: RBZ, Ministry of Finance & Zimstat

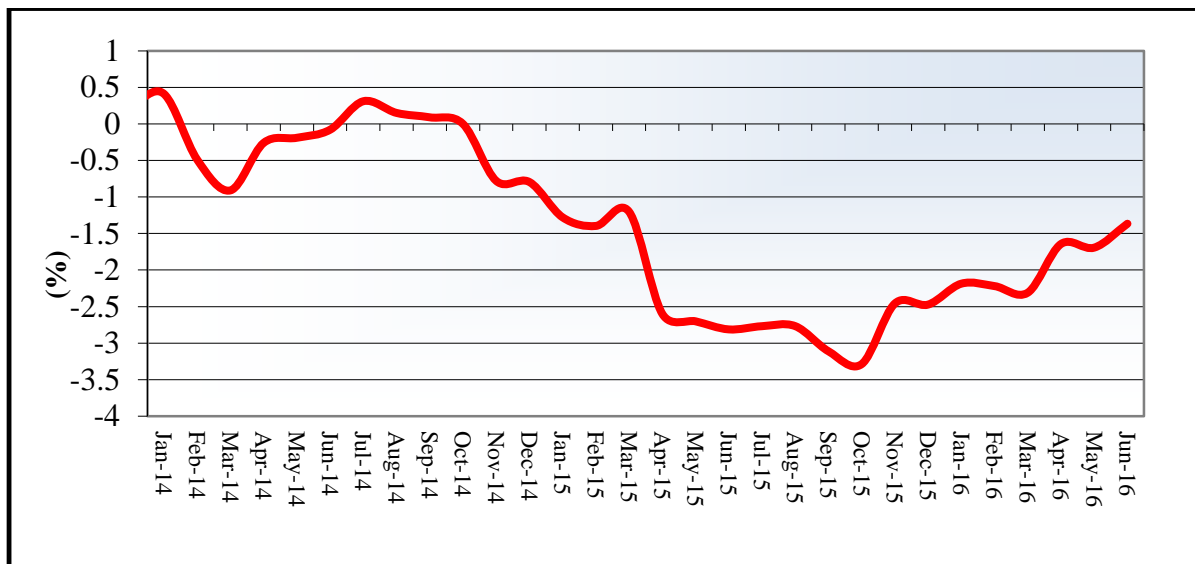
Within the context of the multiple currency system, monetary and liquidity developments in the country remain closely linked to developments on the balance of payments. The external sector is a critical source of liquidity in the economy and it is against this backdrop that the Bank introduced the export incentive scheme to boost the country's export earnings, which have been a significant source of liquidity.

## ZIMBABWE INFLATION DEVELOPMENTS

Annual headline inflation remained in the negative territory, albeit accelerating from -2.19% in January 2016 to -1.4% in June 2016. The continued decline in prices in 2016 was driven by both food and non-food inflation, underpinned by

the sustained depreciation of the South African rand; subdued international oil prices; and waning domestic demand. Figure 5 below shows the annual headline inflation profile for the period January 2014 to June 2016.

**Figure 5: Annual Inflation Profile (%)**



*Source: Zimstat, July 2016*

Annual food inflation which averaged -4% over the period January to June 2016, was weighed down by declines in the prices of meat; bread and cereals; milk, cheese and eggs; oils and fats; and vegetables, among others, owing to improved supplies and competition from cheaper imports.

Declines in prices of housing, water, electricity, gas and other fuels; furniture and household equipment; transport; clothing and footwear among others, however, continued to weigh down on non-food inflation, which remained in the negative during the period under review.

Education is the only sector that registered significant increases during the last 12 months under the non-food category.

Zimbabwe's inflation remains the lowest and the only one in the negative territory in the SADC region, as shown in Table 5 below.

**Table 5: Annual Inflation rates (%) for selected SADC Countries and USA**

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
<b>Jan-2016</b>	<b>-2.2</b>	6.2	2.7	11.3	6.5	21.8	23.5	1.4
<b>Feb-2016</b>	<b>-2.2</b>	7.0	3.0	12.2	5.6	22.9	23.4	1.0
<b>Mar-2016</b>	<b>-2.3</b>	6.3	3.0	13.6	5.4	22.2	22.1	0.9
<b>Apr-2016</b>	<b>-1.6</b>	6.2	2.8	17.3	5.1	21.8	20.1	1.1
<b>May-2016</b>	<b>-1.7</b>	6.1	2.8	18.3	5.2	21.3	21.5	1.0
<b>Jun-2016</b>	<b>-1.4</b>	6.3	2.7	19.7	5.5	21.0	22.6	1.0

*Source: Country Central Bank Websites, 2016*

### **Inflation Outlook**

Inflation is expected to remain broadly subdued in 2016. On one hand, the persistent weakening of the South African rand against major currencies, coupled with the low aggregate demand, are likely to continue exerting further downward pressure on domestic prices.

On the other hand, the anticipated increase in electricity and communication tariffs, the upward movements in food prices emanating from the drought induced food shortfalls, and the resurgence of oil prices experienced since mid-January 2016, if sustained, are expected to induce inflationary pressures in the economy.

In addition measures taken by the Central Bank, including the prioritization of imports, are expected to restrict the importation of cheap finished goods and are likely to have a positive impact on inflation in the medium term



## **SECTION 3**

### **FINANCIAL SECTOR DEVELOPMENTS**

#### **Structure of the Banking Sector**

The banking sector is composed of 14 operating commercial banks, including POSB, 4 building societies, 4 deposit taking microfinance and 164 credit only microfinance institutions. The sector has demonstrated remarkable resilience on the back of a strong solvency position, largely due to proactive supervisory interventions by the Reserve Bank to, inter-alia, ensure that banks have adequate and high quality capital; cleanse the banking sector of toxic assets and weak banks.

National Building Society Limited (NBS) commenced operations on 18 May 2016. With an estimated 1.5 million people on the national housing waiting list, the entry of an additional player is expected to boost the provision of housing, especially to low income groups and other vulnerable members of society.

Further to the provision of housing loans by building societies, commercial banks have also scaled up their mortgage lending activities since 2014. As at 30 June 2016, six (6) commercial banks, including POSB, were offering mortgage finance, with tenors ranging from 10 to 20 years. Meanwhile, Lion Microfinance Limited was licenced on 31 May 2016, bringing the number of licensed deposit-taking microfinance institutions to four (4).

#### **Performance and Condition of the Banking Sector**

Table 6 below shows the trend of the financial soundness indicators for the sector

**Table 6: Key Financial Sector Indicators**

Key Indicators	June -15	Dec -15	Mar -16	Jun-16
Total Assets (US\$b)	\$7.59	\$7.83	\$7.79bn	\$8.01
Total Loans (US\$b)	\$3.97	\$3.87	\$3.81bn	\$3.73
Net Capital Base (US\$b)	\$1.01	\$1.14	\$1.16bn	\$1.21
Core Capital (US\$m)	\$899.10	\$982.5	\$976.25m	\$1.04
Total Deposits (US\$b)	\$5.45	\$5.62	\$5.67bn	\$5.91
Net Profit (US\$m)	\$34.01	\$127.47	\$38.54m	\$67.79
Return on Assets	0.63%	2.11%	0.42%	0.98%
Return on Equity	3.26%	10.96%	2.79%	5.54%
Capital Adequacy Ratio	19.68%	21.31%	22.34%	23.28%
Loans to Deposits	72.84%	68.86%	67.19%	63.11%
Non-Performing Loans Ratio	14.25%	10.82%	10.81%	10.05%
Liquidity Ratio	44.95%	45.35%	48.96%	52.47%
Cost to Income Ratio	90.76%	84.40%	86.30%	84.25%

Source: RBZ

### **Banking Sector Capitalization**

The banking sector's aggregate core capital increased by 5.80% from US\$982.50 million as at 31 December 2015 to US\$1.04 billion as at 30 June 2016, on the back of improved earnings performance.

The banking sector average capital adequacy and tier 1 ratios of 24.17% and 21.51% as at 30 June 2016, respectively, were above the minimum required capital adequacy and tier 1 ratios of 12% and 8%, respectively. As at 30 June 2016, all banking institutions were adequately capitalized and in compliance with prescribed minimum capital requirements as shown in Table 7 below.

**Table 7: Capital adequacy levels for individual banks 30 June 2016**

<b>Institution</b>	<b>Core Capital as at 30 June 2016 (US\$</b>	<b>Prescribed Minimum Capital requirements (US\$</b>
<b>COMMERCIAL BANKS</b>		
CBZ Bank*	<b>212.72</b>	25
Stanbic Bank	<b>96.47</b>	25
BANC ABC	<b>65.58</b>	25
Standard Chartered Bank	<b>59.96</b>	25
ZB Bank	<b>53.82</b>	25
Steward Bank	<b>49.76</b>	25
Barclays Bank	<b>49.71</b>	25
Ecobank	<b>48.67</b>	25
NMB Bank	<b>45.16</b>	25
FBC Bank	<b>43.01</b>	25
MBCA Bank	<b>41.56</b>	25
Metbank	<b>39.45</b>	25
Agribank	<b>34.49</b>	25
<b>BUILDING SOCIETIES</b>		
CABS Building Society	<b>92.29</b>	20
FBC Building Society	<b>37.48</b>	20
National Building Society	<b>22.37</b>	20
ZB Building Society**	<b>15.97</b>	20
<b>SAVINGS BANK</b>		
POSB	<b>34.15</b>	

*\*includes CBZ Building Society      \*\*Society being merged with ZB Bank*

Most banking institutions have set deadlines to comply with the December 2020 capital requirements, largely through increased recapitalization of retained earnings, following improvement in asset quality and subsequent decrease in loan loss provisions. As at 30 June 2016, six (6) other institutions had core capital levels above US\$50 million.

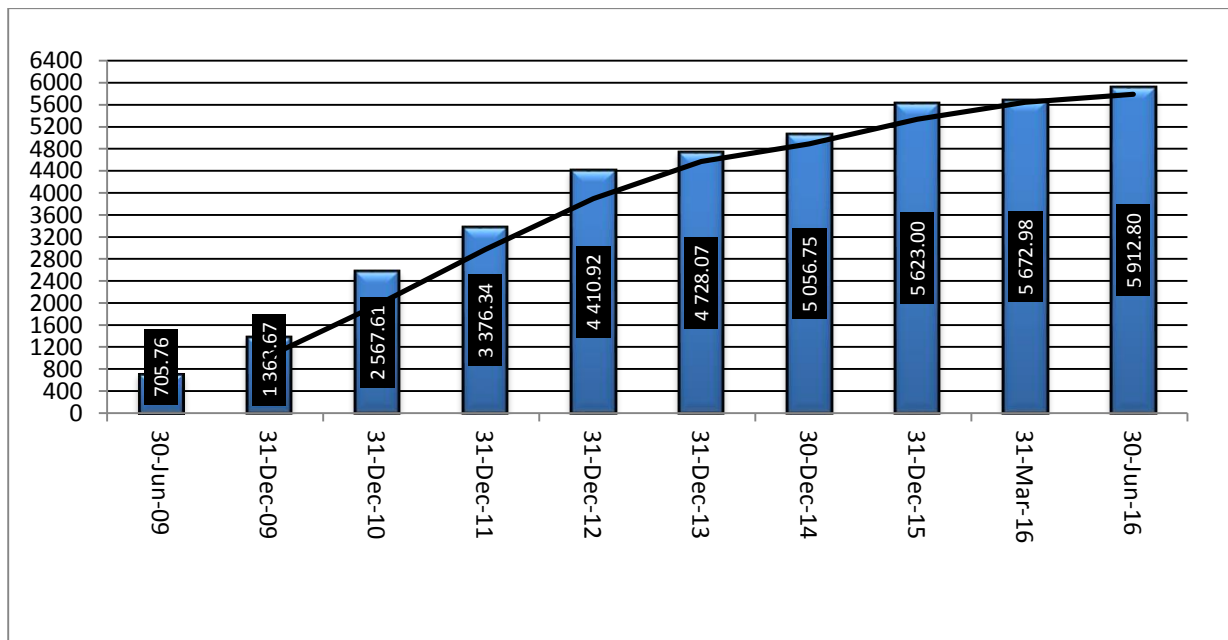
Banking institutions are therefore urged to continue with the recapitalisation initiatives and consolidate the gains recorded to date. The Reserve Bank will

continue to monitor progress towards compliance with the 2020 minimum capital requirements.

**Banking Sector Deposits**

Total banking sector deposits increased by 5.2% to US\$5.9 billion as at 30 June 2016, from US\$5.6 billion as at 31 December 2015. Figure 6 below shows the trend of banking sector deposits over the period 30 June 2009 to 30 June 2016.

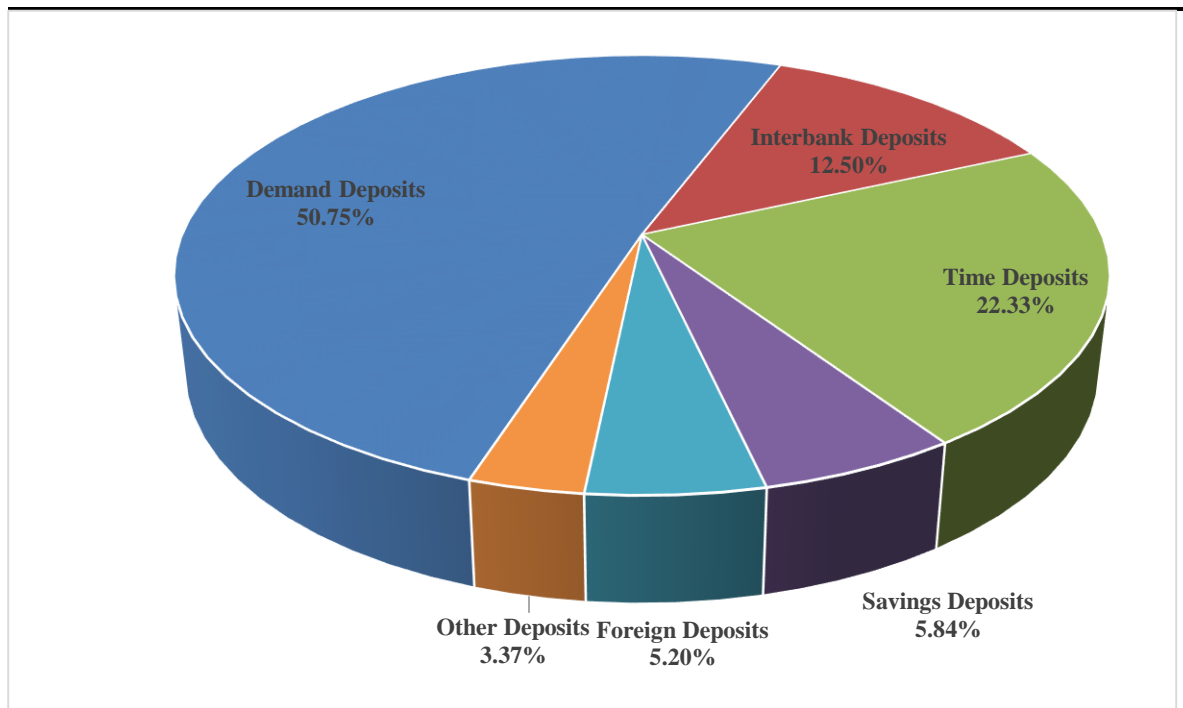
**Figure 6: Trend of Banking Sector Deposits: June 2009 – June 2016(US\$ millions)**



Source: RBZ

The composition of total banking sector deposits as at 30 June 2016 under Figure 7 below

**Figure 7: Composition of Deposits as at 30 June 2016**



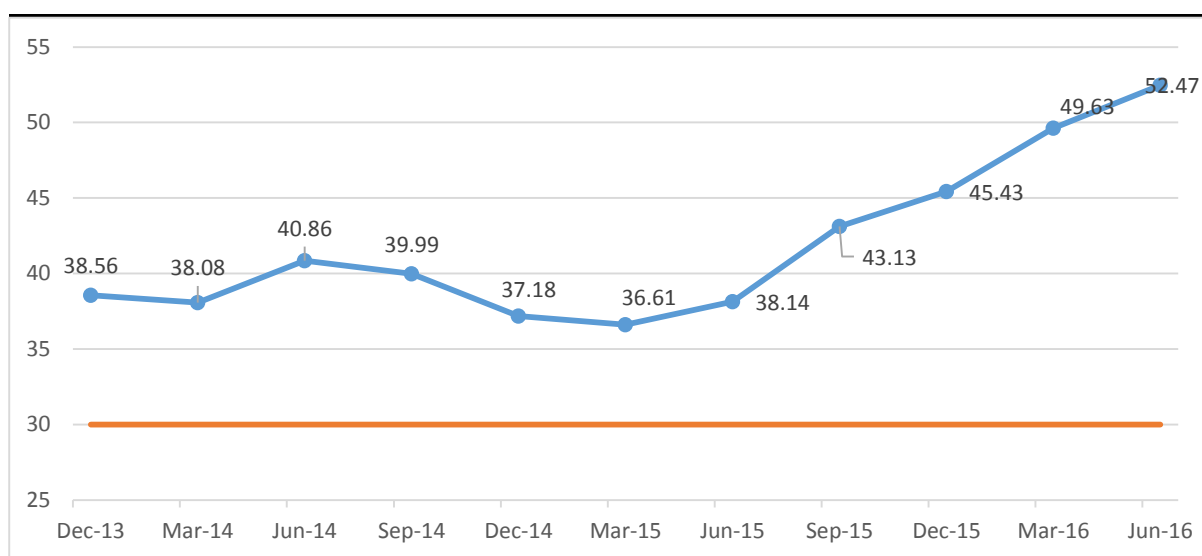
Source: RBZ

During the period January to June 2016 however, the banking sector was exposed to cash shortages largely as a result of macroeconomic challenges facing the country, including lack of fiscal space and the current account deficit.

### **Banking Sector Liquidity**

The banking sector average prudential liquidity ratio, at 52.47% as at 30 June 2016, was above the regulatory minimum requirement of 30%. Eighteen banks were compliant with the prudential liquidity ratio as at 30 June 2016. Figure 8 shows the trend in the banking sector average prudential liquidity ratio since March 2014.

**Figure 8: Prudential liquidity ratio Dec 2013 - June 2016**



Source: RBZ

Notwithstanding the high average prudential liquidity ratio, the banking sector has been experiencing cash challenges. The worsening trade deficit and an inclination towards holding and externalising physical cash have continued to drain cash from the economy, and the adverse effects are transferred to the banking sector manifesting in cash shortages at banking institutions.

In response to this liquidity constraint, the Reserve Bank adopted a number of policy measures to ameliorate the cash challenges including importing cash, the promotion of the usage of plastic money and the use of other currencies within the multi-currency basket and cash withdrawal limits.

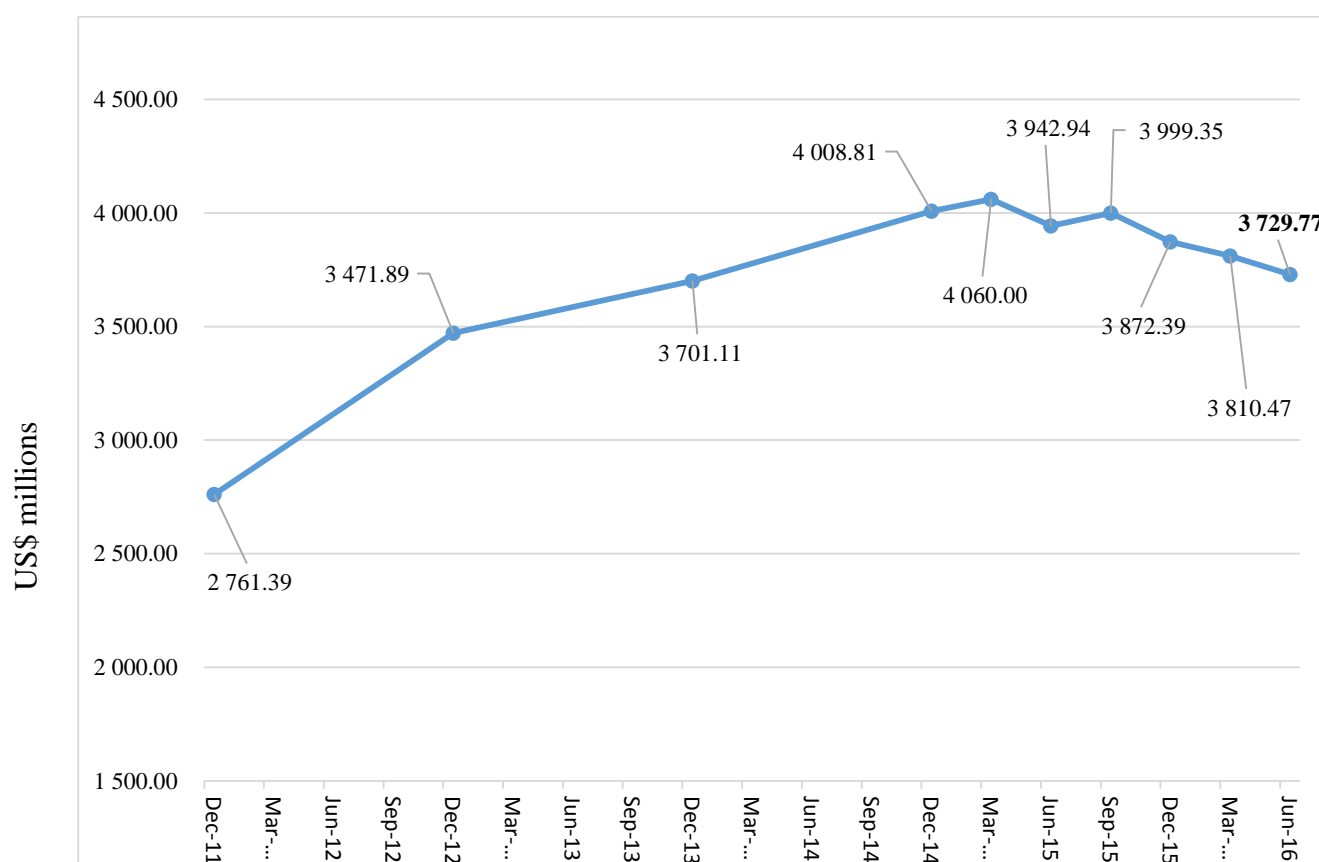
### **Banking Sector Loans and Advances**

Banking sector loans and advances declined from \$4 billion as at 30 June 2015 to US\$3.7 billion as at 30 June 2016, largely as a result of cautious and prudent lending measures by banking institutions in response to the operating environment that requires banks to contain foreign exchange induced demand

pressures attributable to lending activities. Disposal of non-performing loans to ZAMCO has also significantly contributed to the reduction in the banks' loan portfolios.

Figure 9 below shows the trend of banking sector loans and advances from 31 December 2011 to 30 June 2016.

**Figure 9: Trend of Banking Sector Loans & Advances: Dec 2011 - June 2016**

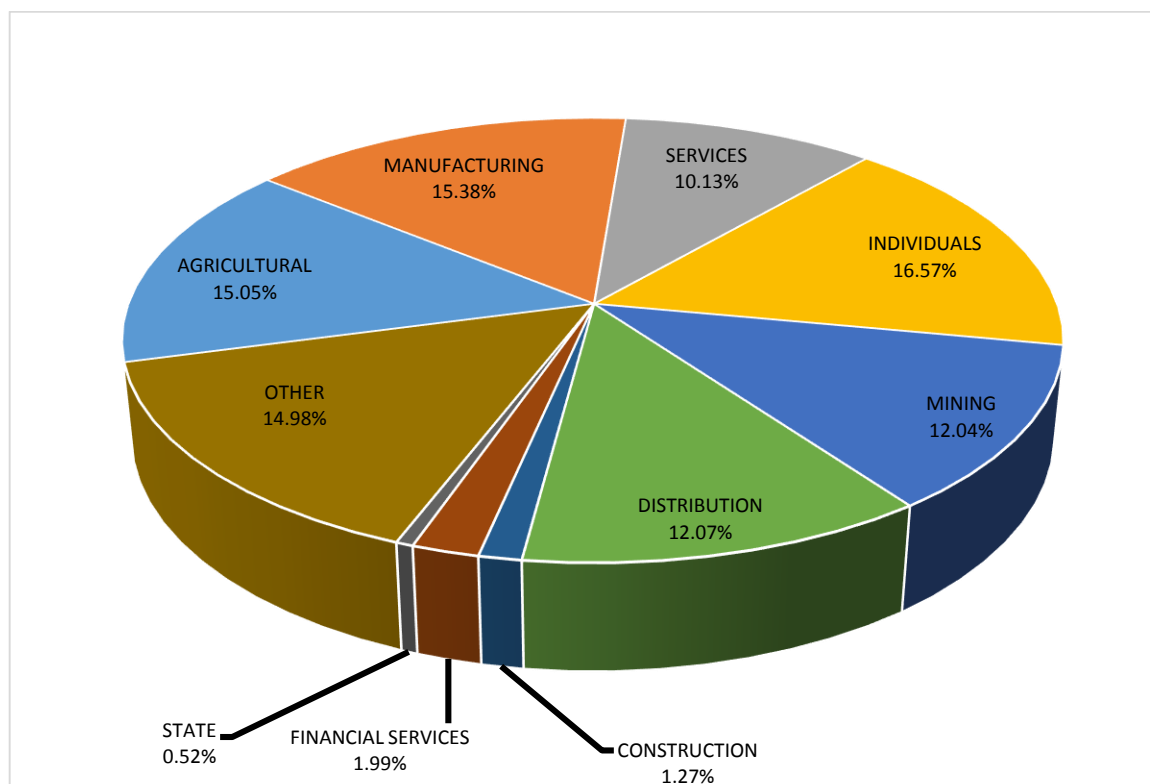


Source: RBZ

### **Sectoral Distribution of Loans and Advances**

Lending to individuals, manufacturing and agriculture continued to dominate the banking sector loan portfolio during the first half of 2016, as shown in Figure 10. It is important to note that some of the lending to individuals is for business purposes, especially agricultural activities.

**Figure 10: Sectoral Distribution of Credit as at 30 June 2016**



Source: RBZ

The Reserve Bank is pleased to note that banks have scaled up their funding support to Micro, Small and Medium Scale Enterprises (MSME) in line with the Bank's guidelines. The measures aimed at increasing support to the MSME sector include MSME funding targets for achievement over a 3 to 5 year period, establishment of dedicated MSME Business Units and provision of training in areas such as entrepreneurship and human resources management. These initiatives will go a long way in ensuring that the sector is adequately supported and realises its full potential.

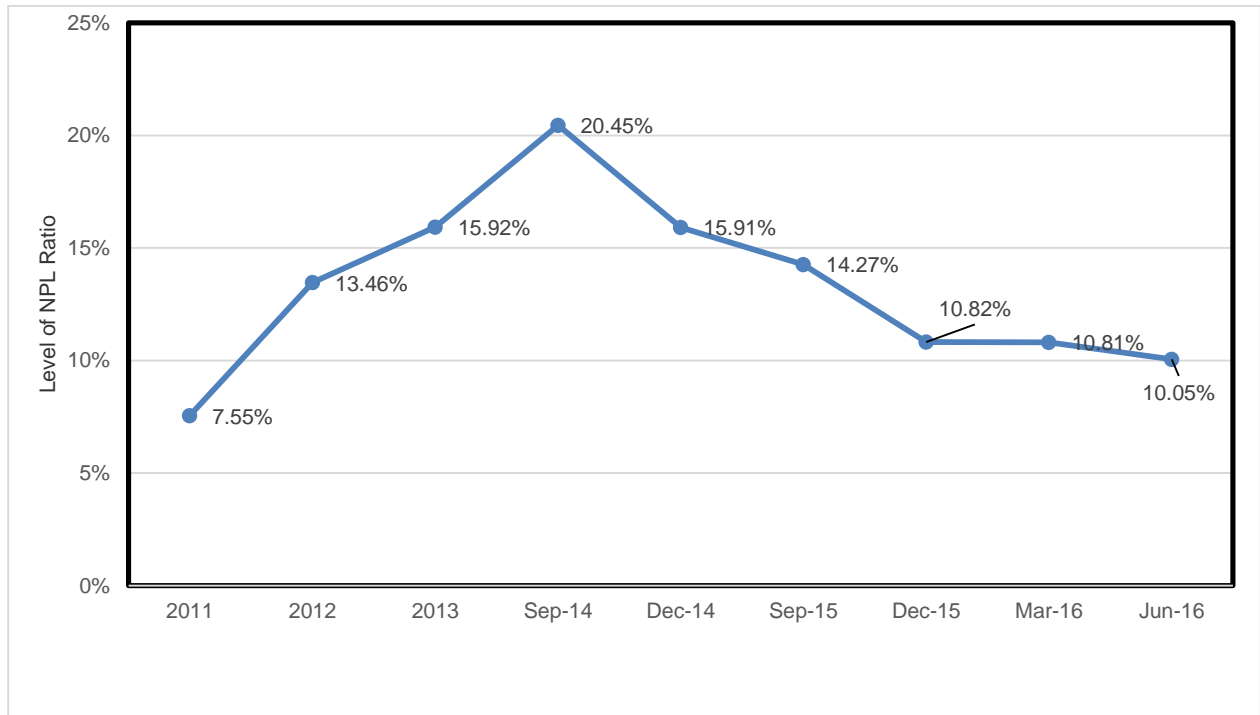
### **Non-Performing Loans**

There has been an improvement in the level of banking sector non-performing loans (NPLs) to 10.05% as at 30 June 2016, from 10.82% as at 31 December 2015



and a peak of 20.45% as at 30 September 2014. Figure 11 below shows the trend in NPLs from 2011 to 30 June 2016.

**Figure 11: Non-Performing Loans as at 30 June 2016**



Source: RBZ

The declining trend in NPLs is a reflection of the successful efforts by banks to reduce their exposure to non-performing assets, including strengthening of credit risk management systems and intensified collections and workout plans, among others.

The establishment of ZAMCO in 2014 also paved way for banking institutions to hive off non-performing assets to the asset management company and free up the balance sheet to underwrite more business. ZAMCO continues to discharge its mandate of purchasing qualifying NPLs from banking institutions, with a total of US\$528.4 million worth of loans purchased as at 30 June 2016.

In the Monetary Policy Statement of July 2015, the Reserve Bank set target thresholds for banking institutions to reduce non-performing loans to 10% and 5% in June 2016 and December 2016, respectively. I am pleased to advise that as at 30 June 2016, significant progress has been made in meeting the NPL ratio targets, with 13 out of 19 banking institutions, having met the June 2016 target of 10%. Five (5) banking institutions were already within the December 2016 target of 5%. The remaining banks are instituting various measures to improve the quality of their credit portfolio.

It is envisaged that the gradual decline in interest rates, enhancement of credit infrastructure (establishment of credit reference system and collateral registry) and ongoing macroeconomic stabilization measures, should result in further improvement in banks' asset quality. Further, it is anticipated that, with a credit reference system, interest rates charged to borrowers will be reflective of their risk profiles and there will no longer be any justifiable basis for banks to charge high risk premiums to compensate for lack of credit information.

### **Earnings Performance**

Notwithstanding the adverse operating macroeconomic environment, the banking sector has remained profitable, recording an aggregate net profit of US\$68.0 million for the period ended 30 June 2016, from US\$34.0 million in the corresponding period in 2015. Seventeen out of eighteen operating banking institutions recorded profits during the period ended 30 June 2016.

The increase in profitability was largely driven by lower loan loss provisions, in line with improving asset quality, lower interest expenses, as well as continued realignment of cost structures at most institutions. Banking institutions are taking various measures to enhance their earnings capacity through embracing

technology in banking which is more cost efficient than traditional approaches to banking.

### **Interest Rates**

As part of measures to instill confidence in the banking sector, stabilize and stimulate the economy, the Reserve Bank has been engaging the banking sector to reduce lending interest rates to a maximum of 15% agreed in May 2016. To that end, I am pleased to report that most banking institutions have heeded the call resulting in a continued decline in lending rates, however, there some banks which are still lending at rates above the 15% agreed threshold. These banks are urged to reduce their lending rates to levels below the threshold.

The Reserve Bank continues to monitor the levels of lending rates through ongoing supervisory activities, while banking institutions are required to adequately disclose and communicate the effective lending rates to their borrowers. The envisaged lower interest rate environment will go a long way in reducing the cost of capital and thus improve the competitiveness of our products on the international markets.

### **Performance of the Microfinance Sector**

Total loans for the microfinance sector as at 30 June 2016 were \$183.4 million, a marginal decline from \$187.2 million as at 31 December 2015. The trend in the performance indicators of credit only microfinance institutions is as indicated on Table 8.

**Table 8: Performance of Microfinance Institutions: March 2015 –June 2016**

	<b>Mar 15</b>	<b>Jun 15</b>	<b>Sep 15</b>	<b>Dec 15</b>	<b>Jun 16</b>
<b>Number of licensed institutions</b>	143	147	155	152	164
<b>Total loans</b>	\$163.53 m	\$162.20 m	\$173.31 m	\$187.16 m	\$183.40 m
<b>Total Assets</b>	\$202.58 m	\$208.76 m	\$207.74 m	\$225.13 m	\$250.97 m
<b>Portfolio at Risk (PaR&gt;30 days)*</b>	12.05%	13.31%	9.05%	10.72%	9.88%
<b>Number of Active Clients</b>	189,028	224,300	198,371	202,242	251,553
<b>Number of Outstanding Loans</b>	195,641	281,547	224,055	262,627	285,466
<b>Number of Branches</b>	499	495	475	571	600

Source: RBZ

As at 30 June 2016, the microfinance sector was highly concentrated, with the top 20 microfinance institutions controlling 86.97% of total microfinance sector loans. While productive lending is still below consumptive lending, the sector has registered notable re-orientation of the microfinance lending portfolios towards productive lending. Consumptive lending declined from 70.9% of total loans in 2013 to 54.0% as at 30 June 2016.

### **Legal & Regulatory Developments**

The Banking Amendment Act No. 12 of 2015 which was gazetted on 13 May 2016 seeks to enhance financial sector stability and boost market confidence. The new regulatory framework encompasses a comprehensive framework that will promote

consumer protection, enhance corporate governance and risk management within banking institutions, as well as, facilitate speedy resolution of problem banks through enhanced authority of the Reserve Bank to deal with problem banks.

These measures are expected to build and maintain investors, depositors and public confidence in the banking sector thereby promoting financial stability, growth, efficiency and innovation over the long term.

In line with internationally recognized principles of consumer protection and efforts to enhance market conduct, the consumer protection provisions now call for more transparency and disclosure requirements and will promote equitable and fair treatment of consumers. This will promote responsible conduct by banking institutions including protection against abuse of deposits and depositors by provision of a complaints handling mechanism. The new law is expected to promote confidence in the banking sector, increase access to financial products and services, as well as, enhance fair competition among financial service providers.

Directors of banking institutions and principal officers would now be held accountable and answerable for their actions. The Banking Act now calls for more enhanced oversight by the shareholders, directors and principal officers. The fitness and probity criteria is now specifically provided in the law. Directors, principal officers and shareholders are required to be vetted for fitness and probity prior to appointment. The law now specifically requires independent directors to be in the majority on the board as this allows for more checks and independent thought.

The Banking Act now clearly lays out statutory duties of directors. The directors duties were previously only provided for in the Companies Act [Chapter 24:03]

and are now also specifically provided for in the Banking Act. Any disregard of the corporate governance requirements or violations of the law which lead to loss of money by depositors will result in the directors being held personally liable for their actions and decisions. The new law helps boost confidence in the sector as consumers are assured that any loss that they may suffer as a result of directors' disregard of the law will be recovered from the said directors.

Previous delays in the resolution of troubled banks left many depositors severely prejudiced due to the loss in value of their deposits. This significantly contributed to the erosion of public confidence in the banking sector. The new amendments provide a detailed framework on problem bank resolution, which empowers the Reserve Bank to swiftly resolve problem banking institutions in the public interest and also places responsibilities on the Reserve Bank to protect assets of depositors during resolution. Further, these provisions enhance the stability of the financial system.

Another safety net measure for the depositors is the Deposit Protection Corporation (DPC) whose capacity will be enhanced so that it can participate more effectively in problem bank resolution. The turnaround time for the paying out to small depositors has been restricted to 60 days and pay-outs to small depositors will also be increased to US\$ 1,000. The delays tied to the timelines in the liquidation and winding up processes have now been streamlined, which will result in the winding up process of a banking institution being resolved speedily.

The Reserve Bank expects a strict culture of compliance and shall be monitoring and enforcing strict compliance with the new legal framework. The Banking Act requires banking institutions to have stand - alone risk management committees and an independent compliance function. Banking institutions with controlling companies are required to register the bank holding companies. The Reserve

Bank is developing registration requirements for controlling companies and the requisite statutory instrument will be gazetted in due course.

For a director, the tenure of appointment to the board of a banking institution is a continuous period of 10 years, such a director will not be eligible for reappointment to the board, unless at least 5 years have elapsed since he last served on that board.

Banking institutions are also required to submit their plans to comply with the new requirements in respect of any director who may have served in excess of ten years to date. Further, banking institutions should take a cue from the new limit of ten years and make suitable arrangements to facilitate rotation of directors and introduction of fresh minds and perspectives in the interests of the banking institution.

In respect of section 19(1) (a) and (b) of the Banking Act on the number of other directorships, the Reserve Bank confirms that the law now places restrictions on the number of directorships to three. An affected director may, however, bring themselves within compliance by reducing the said number of other directorships.

In respect of those who are affected and will not be able to bring themselves within compliance, banking institutions are required to provide the Reserve Bank with such information and dates on which their terms of office will be coming to an end or when they are next due for appointment by shareholders at the institution's annual general meeting.

In respect of insider loans, the Reserve Bank confirms that in terms of section 35(3) of the Banking Act, as read with section 35(10) of the Banking Act, no new insider loans may be granted before the maximum amount to be prescribed in

terms of section 35(3) of the Banking Act has been so prescribed. This will also be prescribed in due course.

### **Credit Infrastructure**

Robust credit infrastructure is critical for efficient operation of financial systems. By definition credit infrastructure is the set of laws and institutions that enable efficient and effective access to finance, stability, and socially responsible economic growth. The key elements of an effective credit infrastructure are credit reference systems; secured transactions & collateral registries; and insolvency and debt resolution frameworks.

The Reserve Bank in collaboration with Government has been seized with reforms aimed at enhancing the efficient operations of financial markets. The current initiatives to enhance credit infrastructure is expected to reduce the level of information asymmetry thus unlocking the potential for thousands of businesses to borrow, invest and grow. In addition, credit infrastructure is expected to reduce the cost of credit thus lowering the cost of doing business and promoting price competitiveness and production.

### **Credit Reference System**

The Reserve Bank is pleased to advise that the Banking Amendment Act empowering the Reserve Bank to establish a credit registry, license and supervise private credit bureaus was promulgated on 13 May 2016. The amendment also empowers the credit registry to collect credit information from participating institutions including non-regulated credit providers and utility bodies.

Subsequent to the announcement in the January 2016 Monetary Policy Statement, relating to the acquisition of Credit Registry system, a number of milestones have been achieved. I am pleased to announce that the deployment process of the credit



registry has commenced. Meanwhile, with effect from 29 August 2016, all banking institutions started providing credit test data to the Reserve Bank.

The Reserve Bank will ensure that the credit registry system is stabilized before reports are generated for the market. It is anticipated that the deployment of the credit registry system will be completed by 30 September 2016.

### **Collateral Registry and Secured Transactions**

The Reserve Bank is pleased to advise that a robust legal and regulatory framework for the collateral registry has been developed in collaboration with the Ministry of Finance & Economic Development and the World Bank. The Movable Property Security Interest Bill seeks to empower the Reserve Bank to establish a Collateral Registry and includes provisions on:

- a) the creation of security interests;
- b) perfection of security interests;
- c) priority of security interests; and
- d) enforcement of security interests.

It is anticipated that the Bill will be presented to the legislature in the last quarter of 2016. The establishment of the collateral registry will go a long way in assisting members of the public who were unable to access credit and other banking facilities for lack of immovable security.

### **Basel II Implementation**

The Reserve Bank has circulated for comments a guideline on the minimum supervisory expectation on the structure and coverage of Internal Capital Adequacy Assessment Process (ICAAP) reports. The guidance outlines key areas to be covered in ICAAP reports, including governance arrangements, strategy and

risk appetite, risk analysis, stress testing and scenario analysis, capital planning and forecasting, as well as quality assurance and adoption of the ICAAP.

### **Adoption and Implementation of IFRS 9: Financial Instruments**

Further to my January 2016 Monetary Policy Statement regarding the adoption and implementation of International Financial Reporting Standards (IFRS), I would like to advise that the Reserve Bank in collaboration with the Public Accountants & Auditors Board (PAAB) and Institute of Chartered Accountants Zimbabwe (ICAZ) are working on a roadmap for the implementation and adoption of IFRS 9: Financial Instruments, whose mandatory effective date is beginning 1 January 2018.

The new standard, which is a comprehensive response to the global financial crisis provides a logical model for classification and measurement; a single, forward-looking ‘expected loss’ impairment model; and a substantially-reformed approach to hedge accounting. IFRS 9: Financial Instruments, is expected to contribute to more robust financial reporting and assist board and senior management of banking institutions in making informed decisions, proactively manage provisions and effects on capital plans. This is expected to ultimately result in a more sound, lower-risk banking system with more efficient banks and better allocation of capital.

The new standard represents a fundamental change of approach and will require, among other, the substantial re-engineering of process and changes in accounting systems and procedures. To this end, the Reserve Bank shall be issuing guidance to the market on the implementation and adoption processes, by 30 September 2016. In this regard all banking institutions are advised to activate processes to ensure implementation of IFRS 9: Financial Instruments.

## **Recovery & Resolution Planning for Banking Institutions**

As part of measures to enhance the safety and soundness of the banking sector, the Reserve Bank is developing guidance to the banking sector on the development of recovery plans, in line with standards established by the Financial Stability Board after the Global Financial Crisis.

The benefits of recovery plans include increased awareness by banks of possible stress scenarios and enhanced ability to proactively plan for such scenarios. In addition, it assists supervisors to identify appropriate actions that can restore the viability of banks in the shortest possible time and at minimal cost.

A recovery plan should cover the following, among other elements:

- a) **Coverage:** The recovery plans should include a liquidity recovery plan, a capital recovery plan and a business continuity plan.
- b) **Governance structure:** The recovery plan must clearly articulate roles and responsibilities for all staff involved in the development of the recovery.
- c) **Group structure and key information on legal entities:** The recovery plan must identify interdependencies of an operational and financial nature among legal entities within a banking group.
  - a) **Trigger framework:** The recovery plan should identify triggers for the implementation of the plan. The triggers should be an extension of the banks' risk appetite and risk management framework for capital, liquidity and business continuity.
  - b) **Stress Scenario:** Banking institutions are required to use reverse stress testing to develop stress scenarios for capital, liquidity and business continuity. These stresses should be more severe than the stresses applied in other processes such as the ICAAP.

- c) **Recovery options:** The recovery plan must identify and prioritise suitable recovery options. The recovery options should be an extension of existing capital plans, liquidity contingent funding plans as well as business continuity and disaster recovery plans, but should allow the bank to recover from more severe stresses.

The guideline will be issued for comments to the market by 30 September 2016 and all banking institutions will be required to submit to the Reserve Bank their recovery plans by 31 December 2016.

It is anticipated that the development of robust recovery plans will enable banking institutions to adequately prepare for severe stress scenarios, thereby minimizing the risk of failure. This development, together with other financial stability measures are expected to translate to restoration of confidence in the banking sector by the banking public, whose confidence was eroded by past bank failures.

### **Financial Inclusion**

The Reserve Bank has in earnest embarked on the implementation of the National Financial Inclusion Strategy, which was launched on 11 March 2016. The implementation of various initiatives under the strategy is designed to positively impact the economic lives of target groups and communities through financial inclusion.

In order to inform the Strategy implementation process, the Reserve Bank is currently engaging key stakeholders, including government ministries, other financial sector regulators, tertiary and higher learning institutions, banking institutions, and development partners. In this regard, eight (8) thematic working groups comprising key stakeholders focusing on financial inclusion initiatives have been constituted as follows:

**Table 9: Thematic Working Groups on Financial Inclusion**

<b>Working Group</b>	<b>Terms of Reference</b>
<b>Women Financing and Development</b>	Promote development of innovative financial products for women and facilitate capacity building programs for women to improve access to financial services.
<b>SMEs Finance &amp; Development</b>	Facilitate minimisation of challenges encountered by SMEs in their efforts to be financially included, promote innovative financial products for SMEs and other capacity building programs.
<b>Rural and Agricultural Finance &amp; Development</b>	Develop and recommend agricultural finance solutions for small holder farmers and the rural community.
<b>Insurance, Pensions and Capital Markets</b>	Facilitate the development and uptake of appropriate insurance, pensions and capital market products for low income groups and ensure effective capacity building and awareness programmes.
<b>Digital Finance</b>	Promote the development of innovative and affordable digital financial products and services that promote financial inclusion.
<b>Financial Literacy and Consumer Protection</b>	Facilitate the design and implementation of tailored financial literacy strategies for special groups e.g. school children, youth, women and SMEs.  Facilitate the design and implementation of a sound framework for financial consumer protection.
<b>Microfinance Advisory Council</b>	Promote development of innovative products, delivery channels and capacity building in the microfinance sector, and positive contribution of microfinance to financial inclusivity.
<b>Youth</b>	Promote development of innovative financial products for youth and facilitate capacity building programs for youth to improve access to financial services.

### **Development of Policies and Guidelines**

The implementation of the National Financial Inclusion Strategy necessitates the development of various policies and guidelines to guide stakeholders. In this regard, the following policy documents will be issued:

### **Prudential Standards No. 01-2016/BSD: Agency Banking**

It is encouraging to note that, in keeping with the thrust of the National Financial Inclusion Strategy, a number of banks have introduced agent banking as an innovative way of reaching out to the unbanked in remote areas and to date, more than 3,000 access points have been opened.

Agency banking brings with it a number of benefits to the banking public, including improved access to banking products and services at lower costs while banking institutions are able to broaden their customer base. In addition, agents are able to augment their income through commissions earned from facilitating bank transactions.

The introduction of agency banking will be beneficial to members of the public as there will be more outreach to the areas where the public are having challenges in accessing banking facilities. In this regard, the Reserve Bank has developed Prudential Standards which outline the minimum regulatory expectations with respect to the conduct of agency banking business.

### **Financial Consumer Protection Prudential Standards**

The ever-increasing complexity and diversity of the range of products and services offered by financial institutions, and the increasing transfer of opportunities and risks to consumers call for enhanced protection of consumers of financial services. It is against this background that the Reserve Bank will be issuing Prudential Standards on Financial Consumer Protection. The prudential standards constitute minimum standards of market conduct for banking institutions to achieve acceptable consumer protection when conducting their banking business.

The standards will also increase public awareness of financial services and products, promote greater transparency and minimize information asymmetry

between financial services consumers and banking institutions. The standards also seek to ensure availability of adequate consumer redress where there are grievances.

The prudential standards are anchored on seven general consumer protection principles namely:

- i. Equitable and fair treatment of customers;
- ii. Disclosure and transparency;
- iii. Financial education and awareness;
- iv. Responsible business conduct of institutions and authorized agents;
- v. Protection of customer assets against fraud and misuse;
- vi. Protection of consumer data and privacy; and
- vii. Complaints handling and redress.

Overall, the prudential standards will foster public confidence and trust in the banking sector. Banking institutions are required to prime their risk management systems and processes to ensure compliance with the provisions of the Banking Act as amended, and the Prudential Standards which will be issued by 30 September 2016.

### **Financial Literacy Framework**

It is generally recognized that, financial education, when conducted alongside effective financial inclusion and consumer protection frameworks, enables individuals to effectively use financial products and services and to meaningfully participate in financial and economic activities.

In this regard, the Reserve Bank is developing a Financial Literacy Framework to enable the implementation of tailored financial literacy programs for target groups

such as school children, youths and women entrepreneurs and SMEs under the National Financial Inclusion Strategy.

The Financial Literacy Framework seeks to increase awareness of and access to effective financial education; determine and integrate core financial competencies; improve financial education infrastructure; identify, enhance, and share effective practices; increase individual knowledge and skills and help individuals/businesses understand financial laws and ethics.

The Framework will be issued by 30 September 2016 and all banking institutions will be required to develop and implement financial literacy programmes for the various segments of their customers to raise awareness of their products and services as well as capacitate the customers.

### **Establishment of SME Units and Women Desks**

In line with the January 2016 Monetary Policy Statement, where banks were encouraged to set up SME units and women desks, I am pleased to report that there is commendable progress in that regard. A total of 12 banks have set up SME units and eight (8) banks have established women desks, while the remaining are working on the establishment of the same.

Through the SME units and women desks, banks are now able to focus on developing products and services that meet the specific needs of MSMEs and women entrepreneurs. A significant number of banks have tailor-made products that meet the specific needs of SMEs and women entrepreneurs.



## **Collection of Disaggregated Data**

In order to achieve our overall financial inclusion target of 90% by 2020, the Reserve is currently working on targets for specific segments, including women, youth and SMEs.

To clearly understand and develop targeted initiatives aimed at promoting financial inclusion of these segments, the Reserve Bank is collaborating with various stakeholders, including development partners to establish the level of financial inclusion.

In this regard, the Reserve Bank has also designed a template with financial inclusion indicators to facilitate collection of disaggregated data from banking institutions on a quarterly basis.

## **Financial Inclusion of Women**

The level of financial exclusion of women has remained relatively higher in many countries and the exclusion rate is more pronounced in developing countries, Zimbabwe included. According to the World Bank 2014 Global Findex data, 58% of women had a bank account compared to 65% of men. This gender gap has remained at 9% for developing economies since 2011.

Statistics recently collected from the Zimbabwe banking sector revealed that lending to women constituted less than 10% of total banking sector loans and advances as at 30 June 2016.

It is, therefore, critical for women to have access to the full range of financial products and services, including credit, savings and micro-insurance which are essential to fully develop their productive assets to facilitate graduation of their income-generating activities from survival level into viable businesses.

In this regard, all banking institutions are required to submit to the Reserve Bank, **by 31 December 2016**, their 2017 targets for lending and other financial products and services targeted at women, including accompanying capacity building activities such as tailored financial literacy or other training programs. Banks should also capitalize on available funding from regional and international funders targeting women.

### **Value Chain Financing Model**

The Reserve Bank has partnered with key stakeholders, including financial institutions, government ministries/departments and development partners and is operationalising the value chain financing model through implementing projects that can be replicated across the country. The initial focus is on **small-scale agriculture** and **rural financing** and beneficiaries will be supported in **groups / clusters**.

Each model project is expected to address the following minimum expectations:

- i. Production requirements;
- ii. Financing;
- iii. Capacity building programs;
- iv. Access to markets;
- v. Access to an information centre; and
- vi. Use of digital finance, agent banking etc. as enablers.

The model projects are envisaged to have high impact in transforming people's lives and will involve many actors along the value chain.

## **Financial Inclusion Commitments under the Maya Declaration**

As a way of demonstrating the country's commitment towards defined financial inclusion targets, Zimbabwe has submitted commitments under the Maya Declaration.

Maya Declaration represents the world's first commitment platform which enables Alliance for Financial Inclusion member institutions to make concrete financial inclusion targets, implement in-country policy changes, and regularly share progress updates.

It provides a mechanism that allows policymakers to apply positive peer pressure to promote financial inclusion. This public declaration will ensure that initiatives aimed at promoting an inclusive financial sector are developed and implemented within the stated timelines.

Zimbabwe made financial inclusion commitments in the following areas:

- i. National Financial Inclusion Strategy;
- ii. Financial Literacy and Consumer Protection;
- iii. Digital Financial Services;
- iv. Financial Infrastructure; and
- v. Gender.

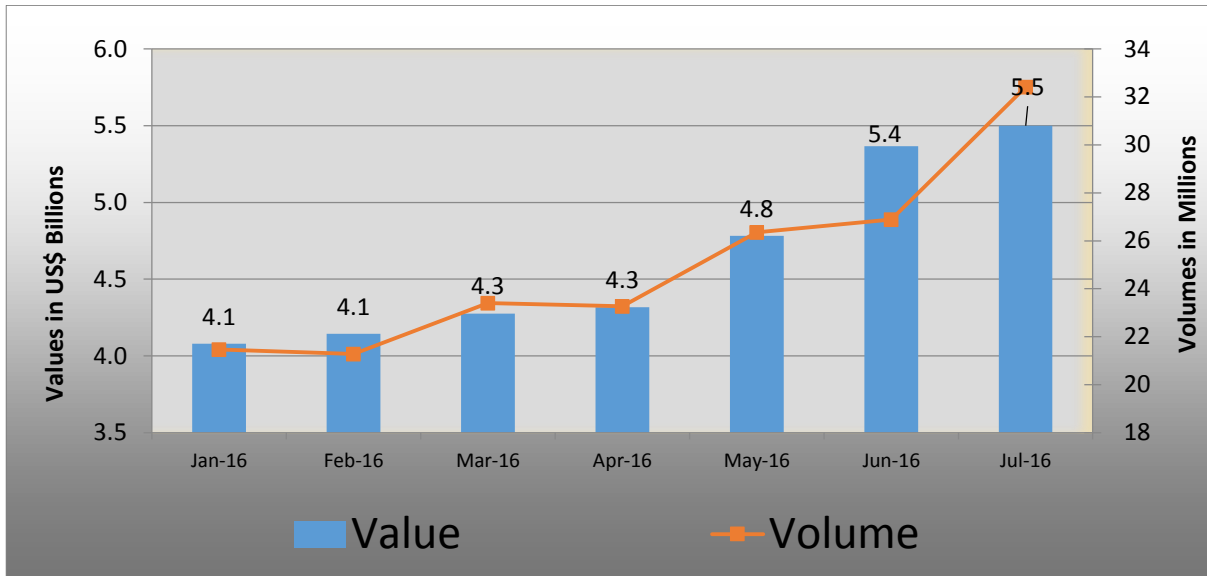
## SECTION 4

### IMPACT OF POLICY MEASURES TAKEN BY RBZ IN MAY 2016

In response to the myriad of challenges besetting the economy, the Reserve Bank introduced the following measures in May 2016 to deal with the scourge of imports and cash shortages within the national economy whilst at the same time promoting exports of goods and services in order to increase liquidity in the economy;

- i. **Promotion of cashless payment systems that include the use of plastic money through point of sale (POS) machines, on-line banking, transfers and other electronic banking systems.** The uptake of these electronic payment systems has been quite satisfactory, with total electronic payments having increased from US\$4.1 billion in January 2016 to US\$5.5 billion in July 2016, as shown in Figure 12 below. The increase in the usage of plastic money is testimony of the efforts by banks to promote electronic payments to make it easier and cheaper for the banking public to use cards. Efforts are also being made by the Reserve Bank, Zimswitch, financial institutions and mobile banking providers to ensure that a stable infrastructure to support the electronic payment system is available.

**Figure 12: Total Electronic Payments**



Source: RBZ

- ii. **Limitation on cash withdrawal amounts to US\$1000 for individuals and US\$10 000 for corporates per day in line with international best practice.** Despite the recurrence of queues in banking halls on Government paydays, cash shortage has subsided especially in view of the surge in the use of cashless payment systems and the fact that the Bank is continuously importing cash to service the market. In addition, and in order to strike a balance between the availability and demand for cash, banks have had to put their internal prudential limits to manage the physical shortage of cash.

The Reserve Bank has also invoked the Bank Use Promotion Act [Chapter 24:24] to ensure that traders bank their surplus cash in line with policy. This exercise has greatly assisted in compelling some of the unscrupulous traders, who had never bothered to bank their cash since the introduction of dollarisation in 2009, to use the banking system.

iii. **Prioritisation of imports to ensure that foreign exchange is utilised efficiently on productive imports of goods and services** as per the import priority list shown in Table 10. Adherence to this policy objective has started to bear fruit as non- essential imports like water and vegetables have gone down whilst local production of import substituting products including plastics, recharge cards and confectionaries is going up. The Reserve Bank has on its part put in place a foreign currency committee to have an oversight role on the management of foreign exchange in compliance with the import priority list and for the purposes of supplementing forex resources through banks for essential imports such as fuel, electricity and grain from forex receipts of gold and other minerals retained by RBZ under the auspices of local content regulations.

Sustainability of this local content biased policy measure is dependent on the country’s capability to continuously enhance forex receipts through the ease of doing business.

**Table 10: Foreign Payments Priority List Guidelines**

PRIORITY LEVEL	FOREIGN CURRENCY PAYMENTS CATEGORY
<b>Priority One (HIGH)</b>	<ul style="list-style-type: none"> <li>i. Net Exporters who import raw-materials or machinery to aide them to produce and generate more exports;</li> <li>ii. Non-exporting importers of raw materials and machinery for local production (value addition) that directly substitute import of essential finished goods;</li> <li>iii. Imports of critical and strategic goods such as basic food stuffs and fuel, health and agro-chemicals granted these goods are not available locally;</li> </ul>

PRIORITY LEVEL	FOREIGN CURRENCY PAYMENTS CATEGORY
	<ul style="list-style-type: none"> <li>iv. Repayments of offshore lines of credit procured to fund productive activities;</li> <li>v. Payments for services not available in Zimbabwe;</li> <li>vi. Foreign investment (Capital disinvestments, profits and dividends).</li> <li>vii. Remittance of rental income from properties owned by non resident Zimbabweans and foreign investors who would have purchased property using funds originating from offshore and transferred through normal banking channels</li> <li>viii. Remittance of pension income for non-resident Zimbabweans who formally emigrated from Zimbabwe</li> <li>ix. Importation of packaging material not available in Zimbabwe</li> <li>x. University and college fees.</li> </ul>
<p><b>Priority Two (MEDIUM)</b></p>	<ul style="list-style-type: none"> <li>i. Bank borrowing clients in the productive sector who engage in critical and strategic imports.</li> <li>ii. Capital remittances from disposal of local property for elderly people.</li> </ul>
<p><b>Priority Three (LOW)</b></p>	<ul style="list-style-type: none"> <li>iii. Cash depositing clients in the retail and wholesale service industry. The customers generate cash which can either be recycled for local use or repatriated to replenish Nostro accounts.</li> <li>iv. Other borrowing clients who have engaged in the importation of non-strategic goods.</li> </ul>

PRIORITY LEVEL	FOREIGN CURRENCY PAYMENTS CATEGORY
<b>Not Priority</b>	<ul style="list-style-type: none"> <li>i. Capital remittances from disposal of local property</li> <li>ii. Capital remittances for cross border investments</li> <li>iii. Funding of offshore credit cards</li> <li>iv. Importation of trinkets, low local content consumer goods and/ or goods readily available in Zimbabwe including non-commercial vehicles, maheu, bottled water, tomatoes, vegetables.</li> <li>v. Payments for services available in Zimbabwe</li> <li>vi. Donations</li> </ul>

iv. **Introduction of an export incentive scheme of up to 5% to promote the export of goods and services. Given that the multi-currency foreign exchange system is here to stay and that its sustainability is dependent on the economy's capacity and ability to generate foreign exchange to meet its domestic and foreign requirements, development and promotion of foreign exchange revenue streams such as exports of goods and services and diaspora remittances, is therefore critical to enhance foreign exchange reserves of the country.**

The above reality together with the country's trade deficit of around US\$2.5 billion per annum requires a substantial policy shift to promote exports in view of lack of competitiveness of Zimbabwean exports due to global shocks that include the strong US\$, sharp decline in commodity prices and tighter global financial conditions.



It is against the above background that Government, through the Reserve Bank of Zimbabwe, introduced the performance related export bonus scheme of up to 5% to be awarded to exporters of goods and services to address the challenges of low productivity and promote exports with the overall aim of liquefying the multi-currency exchange system.

The funding mechanism of the export incentive scheme will be through bond notes in order to preserve the offshore US\$200 million counter-cyclical facility that has been arranged to support the export bonus scheme from externalization and/or capital flight which has continued to negatively affect the economy since dollarization in 2009. The bond notes will be zero-coupon, tax-exempt debt instruments.

The issuance of bond notes has a self-control mechanism in that when there are no exports there will be no bond notes. The bond notes will be gradually released into the economy in sympathy with export receipts through normal banking channels up to a maximum ceiling of the facility of US\$200 million. The ceiling would be attained when total exports are around US\$6 billion. At the rate at which the country is exporting and based on statistics in Table 11, we anticipate that bond notes equivalent to around US\$75 million will be in the market by the end of December 2016.

The bond notes which will start to circulate by end October 2016 will be at par with the US\$ (i.e. one to one) and will be used and treated in the same manner as bond coins. In simple terms exporters will receive the incentive proceeds in US\$ and the incentive will be credited to their US\$ accounts in US\$ currency. An exporter will then transact through RTGS, make foreign payments for imports of goods and services and transact freely within the

multi-currency exchange system. It is also important to note that bond notes shall not be forced on people who do not like them.

The Bank has heard and taken note of the public's concerns, fear, anxiety and skepticism of bond notes which all boils down to the general lack of trust and confidence within the economy. The Bank is addressing the concerns by planning to introduce smaller denominations of bond notes of \$2 and \$5. In addition the Bank has proposed for the setting up of an independent board to have an oversight role on the issuance of bond notes in the economy.

Doing nothing to incentivise exporters of goods and services whilst at the same time desiring to maintain the multi-currency exchange system is not only contradictory but also imprudent.

It is critical to emphasise that the introduction of bond notes does not mark the return of the Zimbabwe dollar through the back door. The macroeconomic fundamentals or conditions for the return of the local currency are not yet right to do so.

Key economic fundamentals or conditions for the return of the local currency are as follows:

- a) Minimum foreign exchange reserves equivalent to one (1) year of import cover;
- b) Balanced and sustainable government budget;
- c) Sustainable interest rates;
- d) High consumer and business confidence;
- e) Sustainable level of inflation; and

f) Healthy job market.

The country is still very far from attaining these economic fundamentals.

**Table 11: Foreign Currency Inflows and Export Incentive Entitlements  
(May-Sep 2016)**

Sector	Total Foreign Currency Receipts (USD Equivalent)	Total Incentives		Grand Total
		5%	2.50%	
Mining	491,390,342	692,141	6,988,128	7,680,269
Agriculture excl Tobacco	53,557,175	2,677,859	-	2,677,859
Manufacturing	41,819,954	2,090,998	-	2,090,998
Services	94,086,317	4,704,316	-	4,704,316
Other	4,973,380	248,669	-	248,669
Tobacco - Value Addition	54,991,836	2,749,592	-	2,749,592
Total Banks	740,819,003	13,163,574	6,988,128	20,151,702
Tobacco Growers (Green Leaf Purchases)*	566,332,848	28,316,642	-	28,316,642
Gold Producers	211,469,223	4,334,321	3,119,570	7,453,891
<b>Grand Total</b>	<b>1,518,621,074</b>	<b>45,814,537</b>	<b>10,107,698</b>	<b>55,922,235</b>

Source: RBZ

\* Tobacco figures are for the entire selling season i.e. 30 March – 20 August 2016

#### v. Gold Deliveries to Fidelity Printers and Refiners

As at 30 June 2016, delivery to Fidelity Printers and Refiners was 9.6 tonnes of gold compared to 8.1 tonnes delivered during the same period in 2015, representing an increase of 18%. Including gold processed from Platinum Group Metals (PGMs) amounting to 1.1 tonnes between January and June 2016, total gold production during the period amounted to 10.7 tonnes.

The projected annual gold delivery for 2016 is 24 tonnes. In this regard, the half year delivery of 10.7 tonnes indicates that the targeted 24 tonnes is achievable as more gold is usually produced during the second half of the year.

Table 12 below shows gold deliveries to Fidelity Printers & Refiners as at 30 June 2016 including gold from PGMs.

**Table 12: Gold Deliveries to Fidelity (kgs) as at 30 June 2016**

	2015			2016			% change
	Primary	Small Scale	Total	Primary	Small Scale	Total	
<b>Jan</b>	809	375	<b>1,184</b>	868	590	<b>1,458</b>	<b>23</b>
<b>Feb</b>	751	401	<b>1,152</b>	877	698	<b>1,576</b>	<b>37</b>
<b>Mar</b>	970	506	<b>1,476</b>	932	635	<b>1,567</b>	<b>6</b>
<b>Apr</b>	797	604	<b>1,400</b>	928	713	<b>1,641</b>	<b>17</b>
<b>May</b>	830	567	<b>1,397</b>	1,087	602	<b>1,689</b>	<b>21</b>
<b>Jun</b>	980	593	<b>1,573</b>	953	743	<b>1,696</b>	<b>8</b>
<b>PGM (Gold)</b>	392	-	<b>392</b>	1,068	-	<b>1,068</b>	<b>172</b>
<b>Total</b>	<b>5,527</b>	<b>3,046</b>	<b>8,573</b>	<b>6,714</b>	<b>3,982</b>	<b>10,695</b>	<b>25</b>

Source: Fidelity Printers

The specific factors that have contributed to an increase in gold output during the first half of 2016 include:

- a) The reduction in royalties from 5% to 3% on incremental output with a cap of 5% for large scale primary producers, and from 3% to 1% for small scale and artisanal miners;
- b) The firming of international gold prices, from an average of US\$1 181.21 per ounce in the first quarter to about US\$1 259.35 per ounce during the second quarter of 2016;

- c) The relative stability of power availability in the second quarter of 2016.
  - d) The 5% export incentive scheme introduced by the Reserve Bank in May 2016; and
  - e) Sterling efforts being implemented by the gold mobilization and monitoring committee.
- vi. **Resuscitating of Aurex, a RBZ subsidiary, after an injection of US\$1.2 million for the procurement of state of the art diamond** cutting and polishing equipment from India. The new plant, with a cutting and polishing capacity of between 2500 and 10 000 carats of rough diamonds per month, depending on the stone size, has now been in operation since August 2016. The company is currently involved in the development of external markets for cut and polished diamonds, an effort which seeks to bring more revenue to the fiscus and create local employment.

## **SECTION 5**

### **POLICY MEASURES TO ENHANCE CONFIDENCE AND PRODUCTION**

The following policy measures are being put in place to enhance confidence and production in the economy, while simultaneously ensuring sustained financial stability:

- i. Ease of securing offshore loans;
- ii. Incentivising inflows from the diaspora and private unrequited transfers;
- iii. Nostro stabilisation facilities of US\$215 million;
- iv. US\$20 million gold development initiative for small scale gold producers;
- v. US\$10 million horticulture/floriculture pre- and post-shipment facility;
- vi. Resuscitation of the credit guarantee scheme;
- vii. Establishment of an offshore financial centre;
- viii. Guidance on interest rates charged by microfinance;

- i. **Ease of Securing Offshore Loans.** The current Exchange Control policy states that all external loans and commercial credit applications above US\$10 million, for both the private sector and state owned enterprises, need prior approval by the Reserve Bank.

In order to enhance the ease of securing offshore lines of credit, the threshold of external loans that do not need prior Exchange Control approval is, with immediate effect, increased to US\$20 million.

Authorised dealers will still be required to register all such loans, in the usual manner, with the Reserve Bank.

In the same vein, the banking public should ensure that all unregistered offshore facilities should be regularised with the Reserve Bank through their banks.

- ii. **Incentivising inflows from the diaspora and private unrequited transfers.** In view of the critical role of diaspora remittances in the economy and in order to enhance the remittance of such funds, the Bank shall be extending the export incentive scheme at a level of between 2.5-5% to diaspora remittances including any form of private unrequited transfers on funds remitted to Zimbabwe through normal banking channels with effect from 1<sup>st</sup> October 2016.
- iii. **Foreign Exchange/ Nostro Stabilization Facilities of US\$215 million.** In order to deal with the current delays in the processing of outgoing foreign payments by banks the Bank has managed to secure facilities in an amount of US\$215 million from international finance institutions to deal with the outgoing foreign payments backlog. In addition, negotiations are at an advanced stage to raise US\$330 million from regional sources to enhance production and improve the liquidity situation in the country
- iv. **US\$20 million gold development initiative facility to support small scale and artisanal miners.** The Reserve Bank has secured US\$20 million for Fidelity Printers and Refiners (FPR) to support small-scale and artisanal mining operations in order to increase gold production in the country.

With underground gold reserves estimated to be around 13 million tonnes, Zimbabwe's rich gold reserves are clearly under-exploited. Only 586 tons have been officially mined over the past 36 years from 1980 to August 2016 as shown in Table 13. There is therefore great scope to vigorously promote the mining of gold across the country in order to liquefy the economy.

**Table 13: Zimbabwe Gold Production (Including PGMs Gold) kgs**

<b>Year</b>	<b>Total (Volume /Kg)</b>	<b>Price/Ounce</b>	<b>US\$ Million</b>
1980	11 414.99	594.00	242.2
1981	11 539.41	400.00	164.8
1982	13 250.10	447.00	211.5
1983	14 089.90	380.00	191.2
1984	14 867.48	308.00	163.5
1985	14 691.00	327.00	171.6
1986	14 867.48	390.90	207.6
1987	14 711.97	486.50	255.6
1988	14 961.00	410.15	219.2
1989	16 018.31	401.00	229.4
1990	16 920.32	386.20	233.4
1991	17 884.53	353.15	225.6
1992	18 278.00	333.00	217.4
1993	18 599.91	391.75	233.6
1994	20 683.84	383.25	252.3
1995	23 959.00	387.00	303.1
1996	24 699.00	369.00	297.5
1997	24 225.00	387.05	268.1
1998	25 175.00	288.70	236.3
<b>1999</b>	<b>30 232.62</b>	<b>290.25</b>	229.8
2000	22 021.29	272.65	216.4
2001	18 474.00	276.50	225.5
2002	15 669.00	342.75	159.2
2003	12 446.07	417.25	152.3



2004	21 342.29	435.60	262.8
2005	13 453.45	513.00	191.1
2006	10 961.04	635.70	201.5
2007	6 797.60	836.50	140.8
2008	3 071.82	869.75	93.8
2009	4 208.11	1 087.50	155.2
2010	9 619.80	1 420.25	334.2
2011	12 992.60	1 531.00	598.7
2012	14 742.99	1 664.00	714.9
2013	14 065.23	1 204.50	638.5
2014	15 385.74	1 199.25	624.4
2015	20 022.75	1 060.00	753.3
2016	10 695.00	1 329.00	402.5
<b>Grand Total</b>	<b>587 037.62</b>	<b>633.86</b>	<b>10 418.80</b>

Source: RBZ

The gold development initiative (GDI) i.e the formalisation process of the small scale gold producers which will be executed according to responsible gold mining standards will need to be supported by fast-tracking the ease of doing business policy measures that include the reduction of cost of doing business as follows:

- a) Reduction in custom milling fees from the current US\$8 000 on the basis that when the fee was US\$2 000 there were 485 millers which were registered but now at US\$8 000 the registered millers are now around 51. The challenge is that there are many millers who cannot afford to pay the required fee of US\$8 000 but are still operating and selling their gold on the black market and/or smuggling gold out of the country.

b) Reduction of licence fee for explosives. At US\$100 about 5 000 small scale gold producers were registered and when the fee was increased to US\$2 000 only 300 registered.

c) Reduction of the Environmental Management Agency (EMA) fees.

The fee for exploiting the environment at 2% of gross revenue is extremely high. Consideration should be made to scrap this fee in order to enhance gold production.

d) Rural District Council (Land Development Tax) fees. These charges should be reviewed downwards based on ability to pay and must be determined in the context of all the other taxes, fees and charges that are applied to the mining industry.

e) Environmental Impact Assessment (EIA). The fee at between 0.8%-1.2% of total cost (with a maximum cap of US\$2 million) remains high and is a huge barrier to investment. Reducing this to a rate of 0.05% of the project cost with a reasonable upper limit of US\$50 000 would be in line with international best practice.

f) Reduction of Exploration Licenses, Claims and Related charges.

The ground fees currently levied on prospective and mining firms in Zimbabwe are exorbitant.

v. **US\$10 million horticulture and floriculture pre and post shipment facility**

Horticulture and floriculture has previously been a fast growing export source with Zimbabwe having been one of the top exporting country in Africa in the 1990s. In order to increase production and exports of this sub-sector the Bank

has arranged a facility of US\$10 million for the pre and post-shipping requirements for producers of horticulture and floriculture. The facility would be disbursed through normal banking channels.

- vi. **Resuscitation of the credit guarantee scheme.** The Reserve Bank is resuscitating the Credit Guarantee Scheme under the Export Credit Guarantee Company (ECGC) to support SMEs to increase production with effect from 1<sup>st</sup> October 2016.

The guarantee scheme, which used to be operational, was discontinued in 2002 as the guarantee limit had become too insignificant to support any meaningful business due to economic circumstances prevailing at the time. The credit guarantee scheme will address the challenge of lack of adequate and acceptable collateral, which is among the major challenges faced by marginalized groups including SMEs, women, youth, small holder farmers and rural population in accessing bank credit. The resuscitation of the credit guarantee scheme will go a long way in stimulating productive lending to the marginalized groups which will stimulate economic growth and poverty reduction.

- vii. **Guidance on interest rates charged by microfinance institutions.** Microfinance has been identified as an important pillar of the National Financial Inclusion Strategy in Zimbabwe. However, the high costs of traditional microfinance loans limit the effectiveness of microfinance as a developmental and poverty-reduction tool. The high cost of microfinance loans is partly a reflection of the high cost of funds and the high transaction cost of traditional microfinance operations associated with high volumes of small, low-value loans.

The Reserve Bank has noted with concern that while banks' lending rates have declined to an average of 15% per annum, some microfinance institutions continue to charge interest rates of over 20% per month. In this respect, microfinance institutions are expected to reduce their lending rates in the spirit of building inclusive financial systems and sustainable economic development. Accordingly, all microfinance institutions are urged to reduce their effective lending rates to a maximum of 10% per month effective, 1 October 2016. Future adjustments would need to be in tandem with the improvement on the tenure of the operating licences of microfinance institutions which are renewed on an annual basis.

- vi. Establishment of an Offshore Financial Centre.** The Bank is proceeding to putting in place mechanisms to establish an offshore financial centre as a confidence building measure under the auspices of the Special Economic Zones. Details of this initiative shall be unveiled in line with developments on the establishment of the Special Economic Zones in the country.

## **SECTION 6**

### **POLICY ADVICE**

- 1. Dealing with fiscal deficit in a sustainable manner that promotes economic growth requires a combination of the following measures;**
  - a) Leveraging and securitisation of the country's vast resources** (minerals, non-core assets, residential and commercial land) to obtain capital for development and to close the fiscal deficit. The country's enormous potential for sustained growth and poverty reduction is achievable through leveraging and securitisation of the country's generous endowment of natural resources.
  - b) Acceleration of the reform and reorganisation of state owned enterprises (SOEs)** including disposal through joint ventures and/or outright sale of some of the non-core SOEs to raise capital for development and to close the fiscal deficit. Additionally, production can be enhanced by granting investors contracts under long lease-back, build-operate-transfer (BOT) or build-own-operate-transfer (BOOT) agreements.
  - c) Putting in place an attractive investment climate to generate investment-led growth.** Investment, like people, likes security. Security of investment is a good or conducive investment climate. Security of tenure is the best form of reward or incentive for business. Putting in place a conducive investment climate, fortunately, costs almost nothing yet the cost of not having it is horrendous.
  - d) The clarification of the Indigenisation Policy by His Excellency, the President, in April 2016 was a critical milestone towards improving**

**the investment climate but the Act is yet to be aligned to the Policy.** Similarly, regularisation of the 99-year land tenure security to make it a bankable document is yet to be done. Regularisation of these two policy documents will cost almost nothing but yet taking action on them would be tremendous as it would signal that domestic and foreign investment is welcome in Zimbabwe. We need to **Walk the Talk** to see this through in order to create an investor friendly environment.

e) **Work being done by the Office of the President and Cabinet on the ease of doing business is quite commendable.** What is now needed is to **Walk the Talk** by fast-tracking the implementation of all the identified areas of improvement especially as they pertain to the regulatory environment of doing business in Zimbabwe. Business license application forms, for example, should be available on-line, identical to all applicants and processed as a routine procedure.

f) **Putting in place effective performance management systems across the board to ensure that performance commensurate with rewards** and to inculcate positive work ethics. Special government projects that include the Brazil's More Food Programme and the Directed Agriculture Programme should also be subject to this scrutiny.

2. **Dealing with the current account deficit through internal devaluation to restore competitiveness.** The use of the multi-currency exchange system puts Zimbabwe in a special circumstance that takes away the flexibility of adjusting the nominal exchange rate to maintain relative competitiveness. This unique situation is similar to the experience of countries within the Euro area, for example, which are unable to reverse a loss of competitiveness and

balance of payments imbalance through a nominal devaluation of the currency.

For countries in this predicament, the loss of competitiveness can only be reversed internally, through relative gains in the efficiency in production and or through action to reduce cost of production i.e. internal devaluation – aimed mainly at reducing wages and other related labour costs.

Historical experiences with internal devaluation have been mixed. Others have been successful whilst other “successful” internal devaluation have been accompanied by falling demand and recession. The truth of the matter is that there are always pros and cons with devaluations, whether it is nominal or internal devaluation. Management and choice of internal devaluation is therefore critical.

Whilst there is general acceptance across the board in Zimbabwe about the need for internal devaluation in the country, there is no consensus on its form and format. Statistics at the Reserve Bank shows that the country would need to gradually devalue by up to 45% over a three year period to restore competitiveness.

Internal devaluation in Zimbabwe can be achieved through two possible approaches. The *first approach* would be for reduction in wages and salaries, accompanied by a similar reduction in the cost of finance and utility charges. Once this is done, the country would need to find a comparator to benchmark with to ensure that costs would not increase again without being checked. The challenge of this approach is that it can lead to further reduction in aggregate demand and to depression and recession. An equilibrium position would therefore need to be determined for this approach to produce desirable results.

The *second approach*, which also takes account of peculiarities in Zimbabwe, would be to achieve internal devaluation by a combination of improving the competitiveness of the country's exports whilst simultaneously levelling the playing field between importers and domestic producers. This external rebalancing approach would incentivize foreign exchange earners (including all depositors) who are the generators of foreign currency whilst at the same time levying all payments of imports of goods and services (including withdrawals).

The intention of this approach would be to manage foreign exchange using market based mechanisms. There would be no charges on the use of plastic money and other electronic payment means. This approach would be neutral to net cash depositors. This will, therefore, be a market mechanism to support increased use of plastic money and for attracting foreign exchange deposits.

The downside risk of this second approach is that it would increase prices within the economy. The Bank, however, believes that the levy on imports would have a minimal effect on inflation given that the country is currently in deflation. Allowing some level of inflationary pressures in the economy would help to increase company revenues and profitability with positive multiplier effects on Government revenues, employment and GDP growth.

Most firms in Zimbabwe have already implemented or are in the process of implementing the first approach of internal devaluation of reducing wages and salaries. In view of these developments, it would be prudent to buttress the first approach by the second approach of internal devaluation to deal with the current account gap.



The Bank shall be accelerating the second approach of internal devaluation after consultations with business and consumers.

3. **Enforcement of local procurement by Government**, in line with existing local procurement rules, is essential to conserve scarce foreign exchange and create a multiplier effect to stimulate local suppliers. The increased local business activity will, in time, boost fiscal space through increased taxes.

## SECTION 7

### CONCLUSION AND OUTLOOK

The main message of this Monetary Policy Statement is that the Zimbabwean economy which is under stress as a result of harsh external conditions, structural imbalances and legacy policy inconsistencies/contradictions requires **urgent and decisive steps to generate investment-led recovery in order to revamp production across all the sectors of the economy. Walking the Talk** is critical because the large current account and fiscal gaps generated by these imbalances have inhibited private investment and restricted economic growth to as low as 1.1% in 2015 and projected at 1.2% in 2016. **Enhanced production will increase employment, fiscal space, exports, economic growth and reduce import dependence and poverty. This is the panacea to restore trust and confidence.**

Prudent fiscal policy is the main lever to deal with the internal imbalances and create an economic environment conducive to economic transformation. Accordingly, measures taken by the Bank in May 2016 and those presented in this Statement would need to be aligned to the fiscal policy measures presented by the Hon Minister of Finance and Economic Development in the 2016 Mid –Year Fiscal Policy Review Statement.

The measures would need to be supported by concessional external financing. Thus, with fresh foreign financing being an integral part of the envisaged Zimbabwe transformation agenda, completion of the re-engagement process is critical to improve Zimbabwe’s country risk premium.

The policy measures in this Statement and those announced by the Minister of Finance and Economic Development in the Mid-Year Fiscal Policy Review Statement, combined with fast-tracking re-engagement with the rest of the world

will pave way for sustained growth and development. This would lead to an increase in economic growth from 1.2% this year to high single digits over the next three years, while inflation would be limited to lower single digits and international reserves would recover significantly.

Overall, the medium term looks favourable for Zimbabwe. Strong economic policies would also have an immediate impact in increasing competitiveness and attracting investment. The financial system which is currently constrained by the environment would be enabled to allocate scarce resources to the most effective use, and support production while facilitating the build-up of foreign exchange reserves.

**I THANK YOU.**

**DR J P MANGUDYA**  
**GOVERNOR**

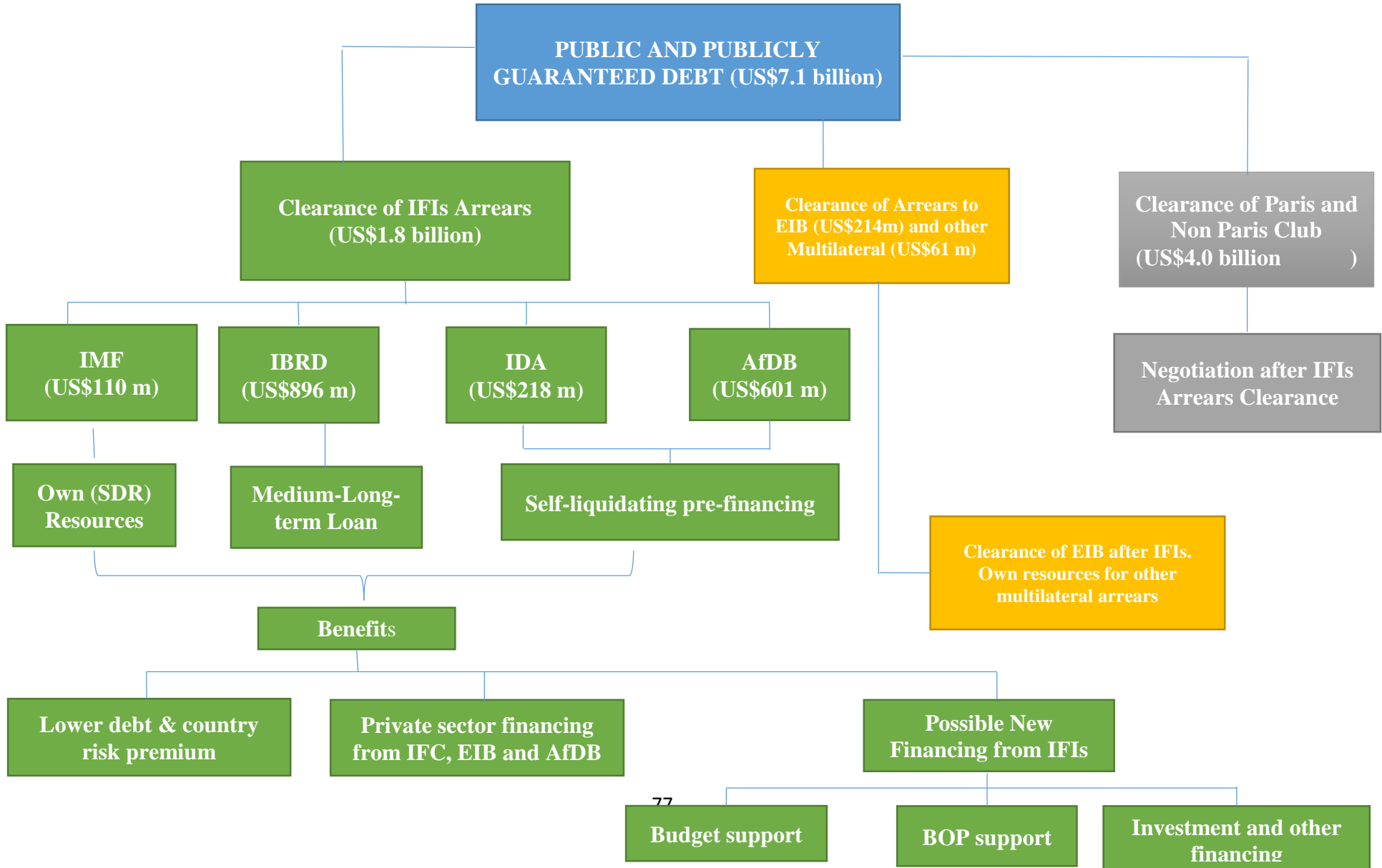
## **APPENDIX I**

### **The Re engagement Process**

Considerable mileage has been made under the re-engagement process to clear Zimbabwe's external debt arrears with the multilateral financial institutions. This process is being done for the purposes of improving Zimbabwe's country risk premium through reducing the country's debt overhang and to improve the country's access to foreign finance.

Significant work has been recorded to ensure that the country clears its external debt arrears by 31 December 2016. It is critical to note that it is Zimbabwe that owes multilateral and bilateral creditors and not vice versa as shown in the Arrears Clearance Chart below.

# ZIMBABWE ARREARS CLEARANCE PROCESS



## **APPENDIX II**

### **RTGS and Nostro Balances under the multi-currency exchange system**

A healthy discourse on funds held by the Reserve Bank under the Real Time Gross Settlement (RTGS) account and Nostro balances has been going on for some time. It is critical for the Bank to provide clarity on this scholarly debate in order to provide confidence within the market and advice on monetary aggregates in the context of dollarisation in Zimbabwe.

#### **Nostro Account**

A Nostro account is a bank account held in a foreign bank and is usually denominated in the currency of that foreign country. These accounts are opened under correspondent banking relationship, between local banks and foreign banks. Nostro accounts are used to facilitate receipts (from inflows such as export proceeds, loan disbursements) and payments (imports, external loan repayments) on behalf of the bank and its clients. The word Nostro is borrowed from Latin and means “Ours”. The foreign banks act as domestic banks’ agents abroad through the correspondent accounts, of which Nostro accounts are a part of.

Local banks also open bank accounts for foreign banks in domestic currency and such accounts are termed Vostro accounts.

#### **Real Time Gross Settlement (RTGS)**

Refers to the continuous processing, settlement of payments, transfer instructions and other obligations on an individual basis without netting debits with credits, that is, on a transaction by transaction basis in real time across the books of a central bank. An RTGS system is a system for large-value, time critical interbank funds transfers. This

system lessens settlement risk since interbank settlement happens throughout the day, rather than just at the end of the day.

## **Settlement**

Settlement refers to the completion of a payment or the discharge of an obligation in respect of funds or securities between two or more parties. It is also used to refer to the payment or discharge of interbank transactions or a series of prior existing transactions. RTGS operates on a credit push basis, that is sufficient funds are required in the paying bank's settlement account held at the Reserve Bank before a transaction can be processed successfully.

The RTGS System settlement account held at the Central Bank is a prefunded account by a paying bank(s) to facilitate interbank payments and settlements at any given time. All local banks in Zimbabwe are currently very liquid with aggregate RTGS banking industry balance amounting to around US\$1 billion.

## **RTGS Funds are not the same as Nostro Funds.**

RTGS funds are not held by banks and/or the Reserve Bank on a one to one basis with funds in the Nostro accounts. In simply terms, transactions under RTGS and Nostro accounts are independent to each other, the two accounts do not tally. This is the practice throughout the world. This stems from the fact that not all RTGS monetary balances are expended on foreign transactions. A transaction for the importation of fuel exclusively done by a local bank, for example, would reduce the Nostro position and that bank's deposits without affecting its RTGS position at the Reserve Bank.

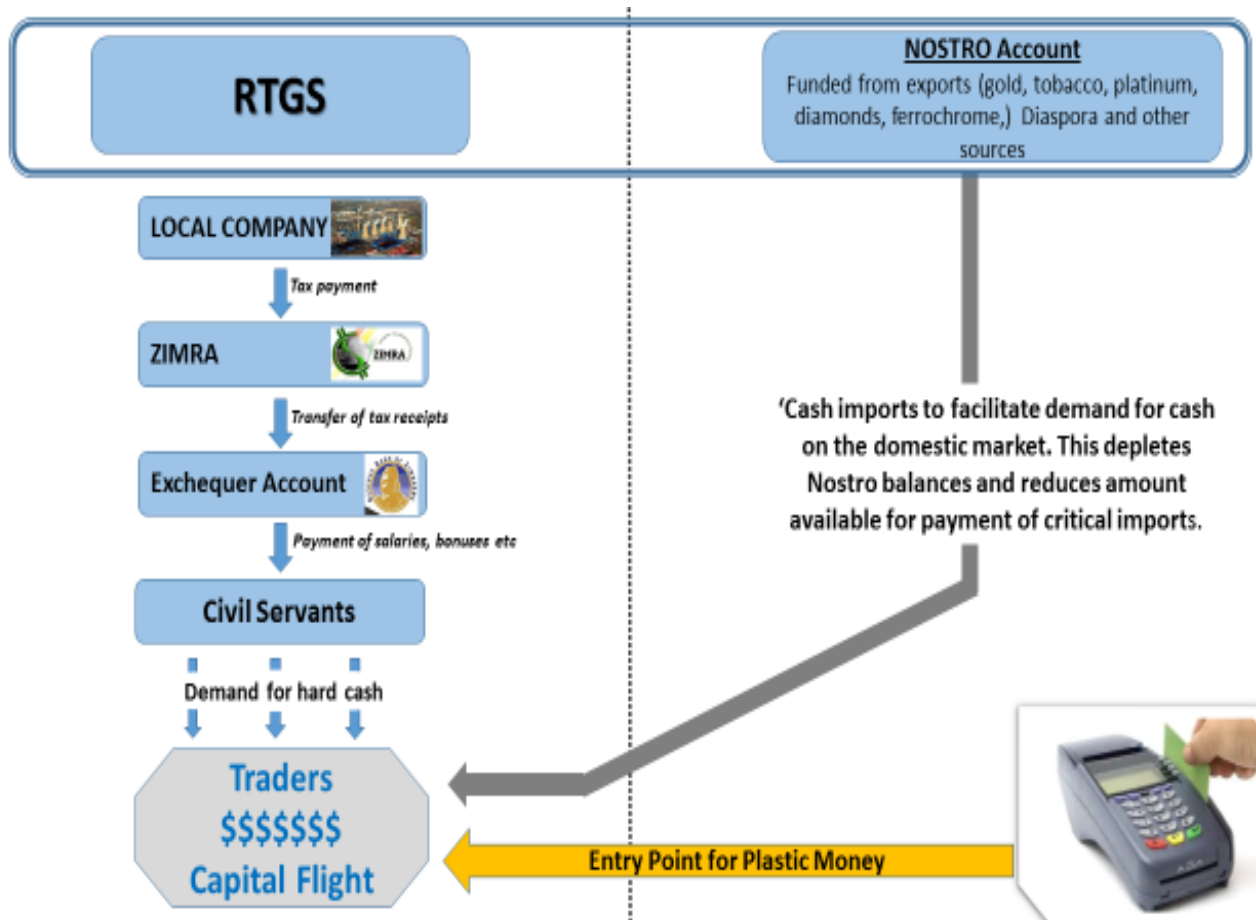
What is, however, true is that a certain proportion of funds held under RTGS should be supported by funds in the Nostro accounts at a level equivalent to the import dependence ratio. Thus, given that Zimbabwe's import dependence ratio is around

45%, the Nostro position to support the RTGS position of US\$1 billion would need to be around US\$450 million i.e. 45% of RTGS position of US\$1 billion.

It is in view of the mismatch between the expected Nostro position of US\$450 million and the current country's aggregate Nostro position of US\$250 million that RBZ had to arrange for the US\$215 million stabilisation facilities, advised in this Statement, in order to close the gap which is evidenced by delays in the remittances of outgoing foreign payments by banks. Ideally banks are expected to arrange such facilities for their clients but because of the country's limited access to foreign finance due to the high country risk premium, it has not been easy for the local banks to do so.

It is also essential to note that almost all payments to government, through ZIMRA, by tax payers are done through RTGS (as shown in the Chart below) and not physical cash or Nostro transfers but yet Government employees, like all other employees in Zimbabwe, are paid in physical cash through banks – as is evidenced by queues at banks on paydays. This mismatch which is not sustainable requires that payments within the domestic economy are mainly done through electronic transfers and by use of plastic money. This way, the country would be preserving funds in the Nostro accounts for making the much needed foreign payments for the importation of fuel, raw materials, grain, e.t.c.





## **APPENDIX III**

### **Update on Closed Banks**

As part of measures to promote financial sector stability and restore confidence in the banking sector, the Reserve Bank dealt decisively with weak banks which were negatively impacting on the overall soundness of the sector. The supervisory actions instituted culminated in the closure and liquidation proceedings as discussed hereunder.

#### **Allied Bank**

The bank was closed on 8 January 2015 following surrender of the banking licence by the institution's board on 6 January 2015. The bank was placed under final liquidation on 6 March 2015 and the Deposit Protection Corporation (DPC) was appointed liquidator of the bank.

As at 30 June 2016, \$343,966 had been collected from various debtors whilst \$584,596 had been realised from the disposal of government stock and movable assets against claims amounting to \$15.7 million that were accepted by the Master of the High Court.

#### **AFRASIA Bank Limited**

AFRASIA Bank Zimbabwe Limited, whose licence was cancelled on 24 February 2015 after the institution's board surrendered the licence was placed under final liquidation on 29 April 2015 and the DPC was appointed liquidator. As at 30 June 2016, DPC distributed a total of \$1.35 million to preferred creditors namely, employees, NSSA and ZIMDEF.

#### **Interfin Bank Limited**

The bank was closed on 31 December 2014 after failing to trade out of critical

liquidity and solvency challenges amid futile recapitalization attempts. The bank was placed under final liquidation on 4 March 2015 and DPC was appointed liquidator of the bank.

As at 30 June 2016, a total of \$6.3 million had been recovered from a total loan book of \$167.3 million of which \$90.6 million are related party loans. The first interim liquidation and distribution account was approved by the Master of High Court on 18 May 2016. Thereafter, \$520,875 was paid to preferred creditors namely NSSA, ZIMRA, ZIMDEF and former employees.

### **Capital Bank**

The Reserve Bank cancelled the operating licence for Capital Bank Corporation (formerly Renaissance Merchant Bank) on 4 June 2014 after the Board voluntarily surrendered the licence. In June 2014, National Social Security Authority (NSSA) petitioned the High Court for voluntary liquidation but the application has been opposed by the institution's other shareholders. The parties await allocation of a set down date for the hearing of the application by the High Court.

### **Trust Bank Limited**

The bank was closed on 6 December 2013 after failing to trade out of liquidity and solvency challenges. A final liquidation order was granted by the High Court on 19 May 2016. The Deposit Protection Corporation was appointed liquidator and has set a creditors meeting for 21 July 2016.

To date, a total of \$3.5 million had been collected from a gross loan book of \$18 million.

## **Tetrad Investment Bank (Tetrad)**

The DPC was appointed the Provisional Judicial Manager (PJM) of Tetrad Investment Bank with effect from 1 July 2015.

Since DPC came in on 1 July 2015, approximately \$13.5 million has been recovered from the various debtors out of a gross loan book of \$56.7 million. At the second Tetrad Bank creditors' meeting held on 24 and 25 September 2015 in Harare and Bulawayo, respectively, the creditors passed a resolution authorising the PJM to proceed to implement a scheme of arrangement in terms of section 191 of the Companies Act [Chapter24:03]. The scheme of arrangement involves the conversion of debt to equity, and that TIB be put in Final Judicial Management for a three month period to allow the Scheme of Arrangement as proposed above to be consummated.

The High Court extended the return date for provisional judicial management indefinitely to allow for the finalisation of the scheme of arrangement. As at 30 June 2016, DPC had paid out a total of \$3.11 million of insured deposits in closed banks.

The table below gives a summary of the payments made by DPC as at 30 June 2016 in the closed banks.

### **Deposit insurance payments as at 30 June 2016**

<b>Name of Institution</b>	<b>Total Depositors</b>	<b>Gross Deposits</b>	<b>Exposure (Deposits payable at \$500)</b>	<b>No. of Depositors paid to date</b>	<b>% of Depositors paid to date</b>	<b>Value of Deposits paid (\$)</b>	<b>% Paid to Exposure</b>
Royal Bank	5,453.00	2,566,938.08	472,207.00	3,097.00	56.79%	354,697.00	75.11%
Trust Bank	2,958.00	11,482,101.93	328,516.00	377.00	12.75%	133,081.00	40.51%
Genesis	86.00	1,426,912.56	11,810.00	62.00	72.09%	8,821.00	74.69%
Allied Bank	9,228.00	14,316,614.12	1,248,307.00	1,462.00	15.84%	514,097.00	41.18%
Interfin Bank	13,021.00	137,336,569.70	918,814.00	604.00	4.64%	238,672.00	25.98%
AfrAsia	24,163.00	18,559,590.79	3,439,276.00	5,708.00	23.62%	1,864,720.00	54.22%
<b>Total</b>	<b>54,909.00</b>	<b>185,688,727.18</b>	<b>6,418,930.00</b>	<b>11,310.00</b>		<b>3,114,088.00</b>	

