2019 MID TERM MONETARY POLICY STATEMENT

TRANSITION TO NORMALCY

BY

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13 SEPTEMBER 2019

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SECTION ONE

INTRODUCTION

1. This mid-term Monetary Policy Statement comes at a time when the country is implementing a number of policy reforms to strengthening fiscal sustainability, reducing inflation and promoting a flexible exchange system and lay the foundation for sustainable private sector-led economic transformation.

2. The inflationary pressures emanate from; (i) the lagged effects of monetization of past fiscal deficits, (ii) the ongoing and necessary correction of long decades of mispricing and across the board subsidization of many goods and services including foreign currency, fuel, electricity, etc. which resulted in foreign currency shortages, spiralling parallel exchange rate premiums and speculative pricing, thus posing the risk of a costly re-dollarization of the economy.

3. To restore normalcy in the foreign currency market and stabilise the ensuing inflationary pressures, we formalised the trading of foreign currency by introducing the inter-bank foreign exchange market and licencing of bureaux de change in February 2019. Subsequent to that, Government took a deliberate and bold move of removing the multiple-currency system through Statutory Instrument (SI) 142 in June 2019.

4. These measures are meant to restore confidence and macroeconomic stability, strengthen economic fundamentals and to create a conducive business environment. The policy measures were also buttressed by additional strategies to manage liquidity in the economy and keeping

inflation under check, including the recent upward review of the Bank rate from 15% to 50%, which is meant to curtail speculative borrowing.

5. As a result of ongoing policy measures, we have seen the parallel market exchange rate starting to converge with the interbank rate, as foreign currency flows to the formal market improve.

6. As the country get over the pass-through effects of the ongoing re-alignment of domestic prices that include fuel and electricity, we should see inflationary pressures beginning to recede, as retailers adjust their prices in line with the relative stability of the inter-bank market and falling parallel exchange rate premiums and as prices re-align to depressed or subdued effective demand.

7. A more positive outlook on exchange rate and inflation is, therefore, expected in the medium to long term, as the necessary supportive policy interventions and conditions are already in place, including the following:

   i. The discontinuation of Central Bank financing of Government deficits to curtail money supply growth. This allows for successful monetary targeting and is a precondition for a stable exchange rate and inflation.
   ii. The upward review of the Bank rate, which is expected to continue curtailing speculative borrowing to purchase foreign currency on the foreign exchange market.
   iii. The implementation of a tight monetary regime when necessary, coupled with a flexible exchange rate system. The flexible exchange rate will assist in absorbing external shocks and ensuring that the external position is sustainable. The strict control of money supply through monetary

targeting framework is expected to anchor inflation expectations and further stabilise the exchange rate.

iv. Lastly, the introduction of measures supportive of the local currency system will allow the Central Bank to regulate the quantity of money in the economy in line with levels of economic activity. The current shortage of physical cash has led to a supply and demand disequilibrium, and arbitrage opportunities for differential pricing models, depending on the mode of payment, thereby creating distortions in the pricing mechanism. Shortages of cash excludes the informal sector, the rural people and senior citizens from fully participating in economic activity.

8. It is our considered view that the policies being pursued by Government will undoubtedly tame the inflationary pressures currently bedevilling the economy. As such, this Statement proposes additional confidence building measures, including the timeous and effective communication of economic and monetary developments to help anchor inflation expectations.

9. As monetary authorities, we strongly believe that the country's underlying fundamentals are in the right direction and must be buttressed by strong commitment and implementation of the policy measures to boost economic growth and to guarantee exchange rate and price stability. Moreover, the need for continuing structural reforms across all sectors of the economy remains critical for the country to realize the envisaged vision of becoming an upper middle class economy by 2030.

10. The rest of the monetary policy statement is as follows: Section 2 provides the Review of the recent monetary policy measures, Section 3 highlights the current monetary policy measures and lastly, the Annexures Section

highlight the international and domestic developments underpinning this monetary policy statement.

SECTION TWO

REVIEW OF THE RECENT MONETARY POLICY

11. In the Monetary Policy Statement of February 2019, the Bank announced a number of milestone policies, which principally include the establishment of the inter-bank foreign exchange market and the designation of the RTGS dollar as a unit of accounting for both the private and government sectors in the economy.

12. The Bank also adopted the monetary targeting framework for monetary policy. Together with the subsequent removal of the multiple currency system and upward review of the Bank rate in June 2019, the policies have had significant positive impact on the economy, especially with regard to restoration of sanity and stability.

13. The introduction of the interbank foreign currency market was meant to address the foreign currency grid-lock arising from widening parallel market activities by harnessing foreign exchange through the formal market. As a result, about US$ 799.0 million worth of foreign currency has been traded on the interbank market since its introduction.

14. Whilst the adverse side effects of the policies to restore macroeconomic stability were anticipated, it is essential to note that the measures are now beginning to bear fruit, with some stability being observed on both the availability and price of foreign currency, with some significant positive spill over benefits to the prices of goods and services in the economy. Other

supporting policy measures included reviewing the export retention thresholds to more favourable levels, consistent with the new foreign currency market reforms.

15. In response to the fiscal and monetary reforms, the country witnessed an improvement in the current account balance during the first half of 2019, due to import compression following the expenditure-switching effects of the introduction of the exchange rate, which has seen consumption moving away from imported products to domestically produced goods.

16. The current account deficit narrowed from a peak of US$2.7 billion in 2011 to US$1.4 billion in 2018 and is projected to further contract to US$597.2 million in 2019. This development augurs well with easing of pressures on the foreign currency demand and exchange rate stability.

17. The Bank has, however, gone a long way to contain money supply growth through mopping up of excess liquidity and reducing central bank financing of government deficits. Similarly, the exchange rate depreciation has been contained and the interbank rate has stabilised following the removal of the multiple currency system in June 2019.

18. Notwithstanding these measures, annual inflation escalated from about 5.39 percent in September 2018 to 175.5 percent in June 2019, mainly reflecting the exchange rate price indexation in an environment of high premiums in the parallel market. Since the abolishment of the multicurrency system and re-introduction of the Zimbabwe dollar in June 2019 as well as the upward reviewing of the Bank policy rate, the inflation pressures are expected to dissipate. Both the annual and monthly inflation are expected to moderate over time.

SECTION THREE

NEW MONETARY POLICY MEASURES

19. The re-introduction of the Zimbabwean dollar presents renewed scope for the Bank to conduct effective monetary policy. Accordingly, the Bank shall vigorously pursue its primary objective of maintaining price and financial stability, while complementing fiscal policy in line with the country's objective of becoming an upper middle income country by 2030.

20. The following policy tools will be used to guide the Bank's monetary policy operations:

i. Introduction of USD-denominated Savings Bonds

21. In order to promote a savings culture and to provide reasonable return on FCA Nostro account deposits and USD cash held by individuals and firms, the Bank is with immediate effect, introducing USD-denominated Savings Bonds alongside the current ZWL$ denominated Savings Bonds, with the following features:

    (i) Interest rate of 7.5% per year;
    (ii) Minimum tenure of one year;
    (iii) Tax Exemption, in line with Government policy;
    (iv) Liquid Asset Status;
    (v) Tradable; and
    (vi) Acceptable as collateral for overnight accommodation by the RBZ.

    The interest rate on the ZWL$ Savings Bonds shall soon be reviewed to take account of developments on the domestic Treasury Bill market and to motivate banks to provide meaningful return on local currency deposits.

ii. Easing Cash Shortages

22. The re-introduction of the local currency and the subsequent withdrawal of the US Dollar as a transactional currency implies that the Bank should issue adequate notes and coins to support economic activity. The increase in the demand for physical cash has worsened cash shortages, as reflected by unending queues at most banks in the country. In addition, visitors to the country including tourists are failing to access cash for their domestic transactions, as they are supposed to buy local currency cash from banks or bureaux de change. Failure to get cash is undermining the confidence in the local currency as well as forcing economic agents to resort to the illegal transactions in foreign currency and to selling cash at a premium.

23. Our estimation, based on the country's historical cash levels and practises in neighbouring countries, shows that the currency in circulation should be between 10-15% of broad money supply. Accordingly, without prejudice to our cash-lite society drive which has served the country very well, the Bank will continue to inject additional notes and coins on a gradual basis, to support productive and lessen the inconvenience caused by physical cash shortages to the transacting public. The cash injections will not result in an increase in money supply as banks will use their existing RTGS balances to exchange for cash.

iii. Liquidity Management

24. A tight monetary growth target will continue be implemented to promote stability in the exchange rate and inflation.

25. To support this, the Bank will take the necessary open market operations (OMO) and utilise the instruments at its disposal to ensure that a tight reserve money programme is implemented aimed at keeping reserve money growth rate to no more than 10% by end of 2019. Given the recent increase in reserve money, this will entail a reduction in reserve monetary growth.

vi. Credit Enhancing Policies

26. The Bank remains concerned about the depressed levels of productivity and their implications on both exchange rate stability and potential output of the economy. In this regard, and consistent with the monetary targeting framework, the Bank will introduce measures and incentives to encourage banks to increase long term lending to enhance credit to the private sector to support economic growth.

27. Under this framework, banking institutions with loan maturities of above two years in their loan portfolios will be able to use their commercial loan instruments as collateral for borrowing from the Reserve Bank. This measure is meant to break the cycle of short-termism in the credit market as well as encourage banks to promote long term savings on their portfolios.

28. In addition, the Bank will also be deepening financial inclusion, particularly aimed at enhancing access to finance by SMEs in consideration of their growing role in the economy. The Bank shall, therefore, only intervene on a targeted basis to support the productive sectors of the economy under its special productive sector financing window in its role as the lender of last resort to stimulate economic activity. The interest rate

under the productive sector financing window shall be linked to the Treasury Bill rate as determined by the market.

v. Capitalization of Banks

29. Banking institutions must continuously evaluate their capital adequacy in relation to their risk profiles in view of the changing operating environment. Against this background, all banking institutions are therefore expected to proactively reinforce their economic capital levels in order to ensure that the institution's risks are well covered. Going forward, all Tier 1 banking institutions are required to hold core capital of at least ZWL$ 200 million by December 2020 in order to support risks associated with their business activities.

30. The minimum capital requirements for banking institutions under Tier 2 and Tier 3 shall remain at the current levels and shall be reviewed next year.

vi. Forward Guidance

30 The country is moving towards bringing inflation under control and lowering it over time after the initial burst of high inflation that followed from the liberalisation of the exchange rate. In this regard, it is important for the Bank to pursue the following:

(a) Overnight Bank Rate

31 Providing forward guidance on the major macroeconomic indicators, including the desired and expected path of interest rates, exchange rates and inflation. In this regard, the Bank's rate for overnight borrowing has

been revised upwards from 50% to 70% to take account of developments on inflation and the exchange rate. The Bank expects inflation to start declining after the current high inflation cycle ends, as attested by ebbing exchange rate depreciation pressures, following the removal of the multi-currency system.

b) RBZ Board and the Monetary Policy Committee

32. Government has put in place a new Board of Directors and a Monetary Policy Committee (MPC) with effect from September 2019, following the expiry of the tenure of the current Board, which served the Bank for its full statutory tenure of four years.

c) Effective Communication

33. The Bank will be transparent in its monetary policy interventions in order to anchor inflation expectations. In addition, the Bank shall also strengthen communication with relevant stakeholders, including through the timely publication of monetary and the Bank's balance sheet data. This will be aimed at promoting a two-way feedback mechanism that strengthens stakeholder understanding of monetary policies.

CONCLUSION AND OUTLOOK

34. The economy is transitioning to stabilisation. Measures put in place by Government to strengthening fiscal sustainability and promoting a flexible exchange rate system have therefore set the right conditions for a sustained economic recovery and growth.

35. The current levels of broad money supply of around ZLW$15 billion and the country's monthly foreign exchange receipts of US$400 million, coupled with fiscal consolidation, should ideally go a long way in stabilising the exchange rate and containing the pass-through effects of exchange rate depreciation to inflation.

36. Consequently, inflation is expected to stabilize to lower levels, after the current cycle, which is largely influenced by the base effect and adverse expectations or low confidence levels, has passed. The confidence dividends from stable inflation and exchange rates will help anchor adverse inflation expectations.

37. Right sizing the economy was therefore a necessary step to transform the economy towards a market based system which is consistent with the national aspiration to become an upper middle income country by 2030. This aspiration requires the country to increase productivity, competitiveness, exports, confidence and social cohesion.

I thank you

John Mangudya
Governor

ANNEXURE

GLOBAL AND REGIONAL ECONOMIC DECVELOPMENTS

31. Global economic growth is projected to slowdown in 2019, partly due to weaker performance in Europe and Asia, as well as negative effects of the trade wars between the United States and China. Furthermore, the protracted uncertainty concerning Brexit is also posing a number of risks to the Eurozone and the rest of the global economy.

32. These developments represent a drag on global trade in general, in so far as they weigh down on commodity prices. Accordingly, the International Monetary Fund (IMF), in its April 2019 update of the *World Economic Outlook (WEO)*, projected global growth for 2019 at 3.3%, down from 3.6% in 2018. Table 1 summarizes global economic growth developments and prospects for selected regions and countries.

Table 1: Global Economic Growth & Outlook (%)

	2016	2017	2018	2019 Proj.
World Output	**3.4**	**3.8**	**3.6**	**3.3**
Advanced Economies	**1.7**	**2.3**	**2.2**	**2.0**
US	1.7	2.4	2.2	1.8
Euro Area	1.6	2.2	2.9	2.3
Japan	0.6	1.9	0.8	1.0
Emerging Market & Developing Economies	**4.6**	**4.8**	**4.5**	**4.4**
China	6.7	6.8	6.6	6.3
India	8.2	7.2	7.1	7.3
Sub-Saharan Africa	**1.4**	**2.9**	**3.0**	**3.5**
Zimbabwe[1]	0.6	4.7	6.2	-3.2
Latin America & the Caribbean	**-0.6**	**1.2**	**1.0**	**1.4**

Source: *IMF World Economic Outlook (April 2019)*

[1] *Zimbabwe growth rates are from Treasury, Reserve Bank & Zimstat*

33. In line with the aforementioned global developments, regional growth prospects for the sub-Saharan Africa (SSA) remain constrained at levels below 6% across the continent. SSA economies are, however, projected to grow by 3.5% in 2019, up from 3.0% in 2018.

34. The anticipated slowdown in global growth has also affected Zimbabwe's economic prospects for 2019, being a small open economy which had already been plagued by unfortunate natural disasters such as drought and Cyclone Idai, and the impact of climate change.

35. Zimbabwe's growth prospects for 2019 are further weighed down by the persistent foreign currency shortages and constrained spending being imposed by fiscal austerity reforms, as well as the inescapable depressed demand for our exports resulting from the slowdown in the growth of the global economy.

International Commodity Price Developments

36. The international commodity prices displayed varied trends over the first 6 months of 2019, with some commodities registering gains, while others receded. Precious metal prices, particularly gold, recorded strong growth as a weaker US dollar and volatile equity markets on the back of weak US economic data heightened fears of a global economic slowdown. Furthermore, the Brexit turmoil and a dovish stance by the U.S. Federal Reserve signalled a potential slowdown in the pace of rate hikes in the 2019 outlook. These developments are likely to boost safe haven demand for precious metals, which would benefit our mineral exports.

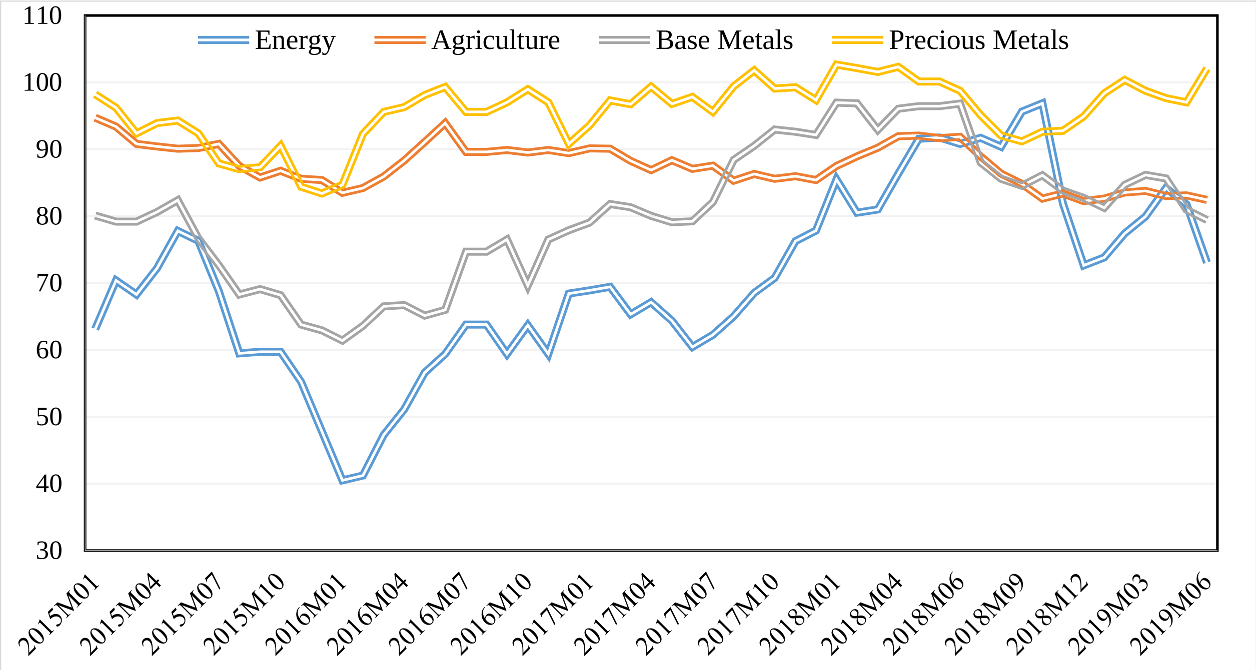
37. Already, base metal prices, which had for long been hurt by the trade wars between the United States and China, somewhat rebounded on the back of

supply disruptions in some markets. The rebound was also underpinned by fears of shortages, amid supply disruptions and the positive demand outlook prompted by the expectation of a fiscal stimulus in China.

38. Global energy prices eased, as oil prices dropped due to the increase in supply that emanated from a temporary waiver in United States sanctions on Iranian oil exports to some countries. The record-high US crude oil production also exerted downward pressure on prices. Oil prices are, however, showing some signs of recovery owing to production cuts by the Organization of Petroleum Exporting Countries (OPEC). Lower oil prices will benefit us in terms of reduced pass-through effects to domestic inflation.

39. Commodity price indices for the period from January 2015 to June 2019 are shown in Figure 1.

Figure 1: Commodity Price Indices (2010 = 100)



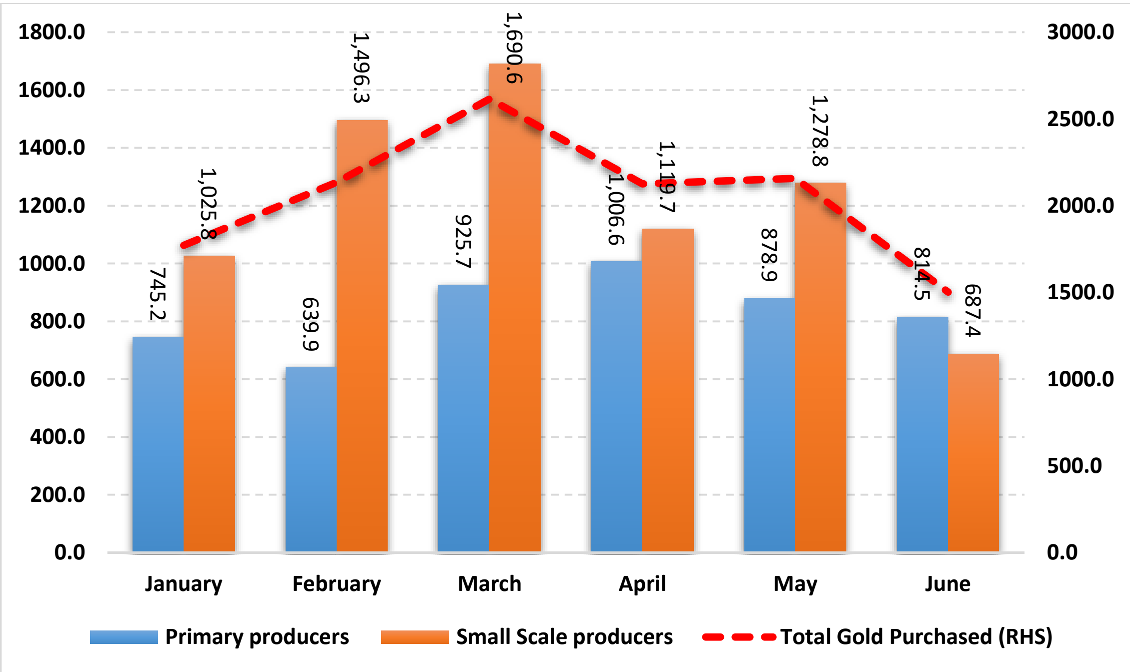
Source*: *World Bank

Gold Deliveries to Fidelity Printers & Refineries (FPR)

40. Gold deliveries to Fidelity Printers and Refineries stood at 12.3 tonnes for the period January to June 2019. This was a 40.6% decline compared to 17.3 tonnes that were delivered during the comparative period in 2018. Exchange rate, pricing and payment issues, which partly accounted for the decline in deliveries have, however, been largely resolved through the recent monetary policy measures.

41. It is, however, pleasing to note that small scale producers, despite facing a plethora of challenges, continued to dominate the country's gold deliveries, accounting for more than 60% of total deliveries. Primary producers contributed the remainder as shown in Figure 2 below:

Figure 2: Gold Purchases by Fidelity Printers and Refiners (kilograms) – January to June 2019



Source: *FPR, 2019*

Foreign Exchange Receipts

42. Total foreign exchange receipts (including exports, international remittances, offshore loan proceeds, income receipts and foreign investment proceeds) for the period January to June 2019, amounted to US$2.58 billion, compared to US$3.40 billion received during the same period in 2018, representing a 24.0% decrease. Table 2 shows foreign exchange receipts as at 30 June 2019.

Table 2: Global Foreign Exchange Receipts as at 30 June 2019 (USD Millions)

Source of Receipt	30 June 2019	30 June 2018	% Change
Mining	1,240.0	1,542.2	-19.6%
Manufacturing	80.5	70.7	13.9%
Agriculture (including Horticulture & Tobacco)	318.2	353.0	-9.9%
Tourism	62.0	89.2	-30.5%
Transport	89.2	119.8	-25.5%
Telecommunications	6.5	2.1	209.5%
General Services	20.0	30.1	-33.6%
Income Receipts	39.0	18.8	107.4%
External Loan Disbursements	207.4	574.5	-63.9%
Foreign Investment	14.4	14.6	-1.4%
International Money Transfers	504.7	581.3	-13.2%
Total foreign Currency Receipts	**2,581.9**	**3,396.3**	**-24.0%**

Source: *Exchange Control Records (2019)*

Export Shipments

43. Export shipments for the period January to June 2019 stood at US$1.90 billion, a 7.5% decrease from US$2.06 billion registered during the comparable period in 2018. Table 3 shows export shipments by sector.

Table 3: Export Shipments (USD Millions)

Sector	30 June 2019	30 June 2018	% Change
Mining	1,314.20	1,534.30	-14.30%
Tobacco	281.4	203.9	38.00%
Manufacturing	127.9	106.5	20.10%
Agriculture	112.5	70.5	59.60%
Transport	44.7	99.9	-55.30%
Horticulture	13.6	16.6	-18.10%
Tourism (Hunting)	3.3	5.8	-43.10%
Postal & Telecommunications	2.2	3.9	-43.60%
Other Services (Construction, etc)	4.4	17.5	-74.90%
Total	**1,904.20**	**2,058.90**	**-7.50%**

Source: *Exchange Control Records (2019)*

Foreign payments also declined by 3%, from US$45.8 million in 2008 to US$24.5 million in the comparable period in 2019.

Table 4: Foreign Payments for the period January - June (US$)

Sector	2019	2018	Variance	% change
Retail and distribution	502,217,299	751,994,098	(249,776,799)	(33)
Services	431,190,305	630,818,095	(199,627,789)	(32)
Manufacturing	398,997,907	607,317,193	(208,319,286)	(34)
Mining	308,100,910	342,612,098	(34,511,188)	(10)
Agriculture	74,043,223	110,008,909	(35,965,686)	(33)
Individuals	24,471,477	45,789,744	(21,318,267)	(47)
Total	**1,739,021,121**	**2,488,540,137**	**(749,519,016)**	**(30)**

Source: *Exchange Control Records (2019)*

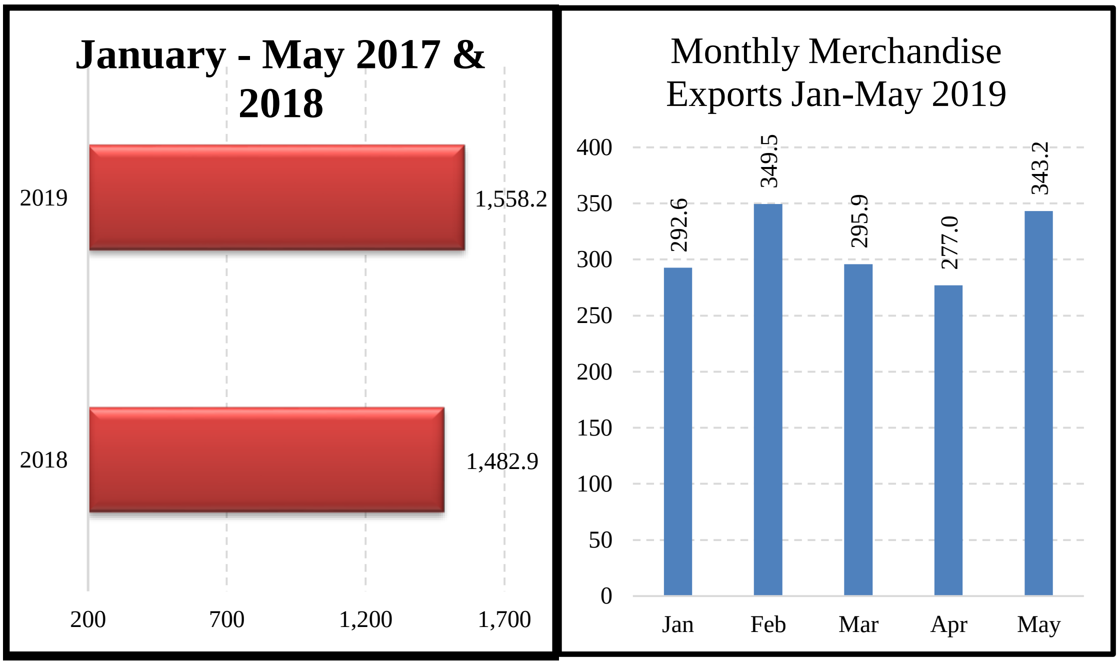
BALANCE OF PAYMENTS DEVELOPMENTS

44. The country's external sector position is showing signs of improvement, with the current account deficit projected to narrow further by end of 2019. This is largely on account of a slowdown in imports, against a background of an improvement in the country's export earnings.

45. The current account, for the first time since the adoption of the multicurrency, registered a surplus in the first quarter of 2019, reflecting a sharp contraction in imports, against a moderate increase in export exports.

46. Cumulative exports for the five-month period up to May 2019 stood at US$1,558.2 million, a 5.1% increase from US$1,482.9 million realized in the comparable period in 2018. The increase in exports was bolstered by higher export earnings for nickel, tobacco, diamonds and jewellery.

Figure 3: Merchandise Exports (US$ m) January - May 2018 & 2019



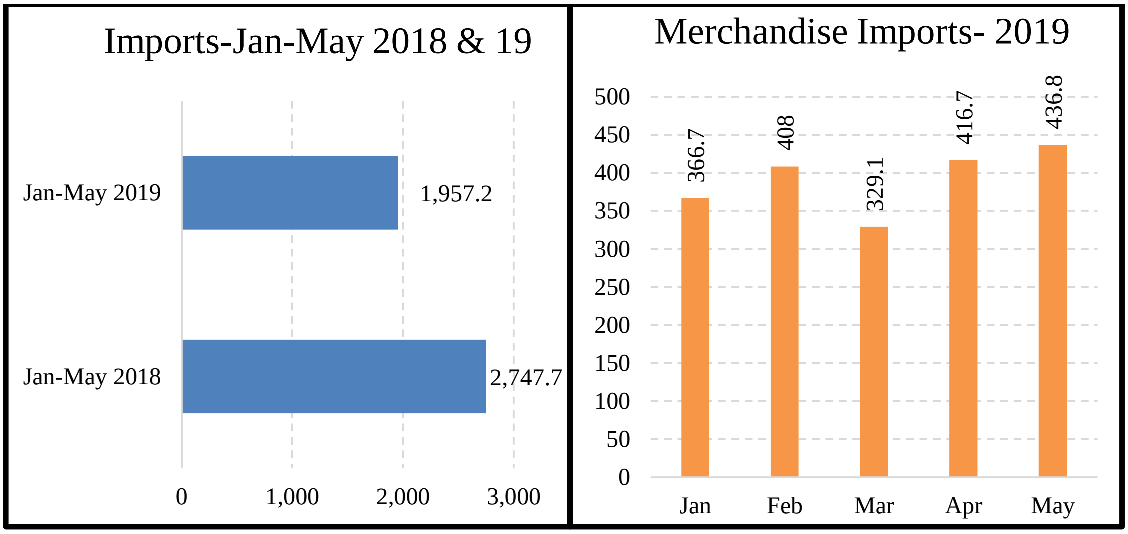
Source: *Zimstat, 2019*

Major Exports and Imports

47. The country's exports for the period January to May 2019 were mainly destined for the South African, Asian and European markets. South Africa continues to be the major destination for the country's total merchandise exports, absorbing about 46%. Major exports to South Africa include platinum group of metals (PGMs), gold and nickel, among others.

48. On the contrary, merchandise imports for the first five months of 2019 sharply declined from US$2,747.7 million in the comparative period in 2018 to US$1,957.2 million, a 28.8% decline as shown as shown in Figure 4.

Figure 4: Merchandise Imports January-May 2018 & 2019 (US$m)



Source: *ZIMSTAT & RBZ Computations*

49. Imports for the period January to May 2019 were mainly composed of diesel (18.8%), petrol (9.3%), medicines (2%) and crude soya bean oil (1.4%).

50. The country continues to source most of its imports from South Africa and its fuel from Singapore. During the period January to May 2019, the country's imports were mainly obtained from South Africa (34.9%), Singapore (28.7%), China (9.2%), India (2.6%) and the UK (2.4%).

51. The cumulative trade deficit between January and May 2019 stood at -$399 million which is a significant improvement from a deficit of -$1,264.8 million, incurred in the same period in 2018.

52. Merchandise imports have been declining due to foreign exchange shortages and the effects of the austerity measures being implemented by Government. This has resulted in the narrowing of the trade deficit since September 2018.

EXCHANGE RATE DEVELOPMENTS

53. The introduction of the new currency has greatly assisted in reducing the premium between the parallel market rate and official exchange rate from above 60% to current levels of around 5-10%. The graph below depicts the developments in the interbank and the parallel exchange since the introduction of the interbank market in February 2019.

Figure 5: Exchange Rate Developments: February - May 2019

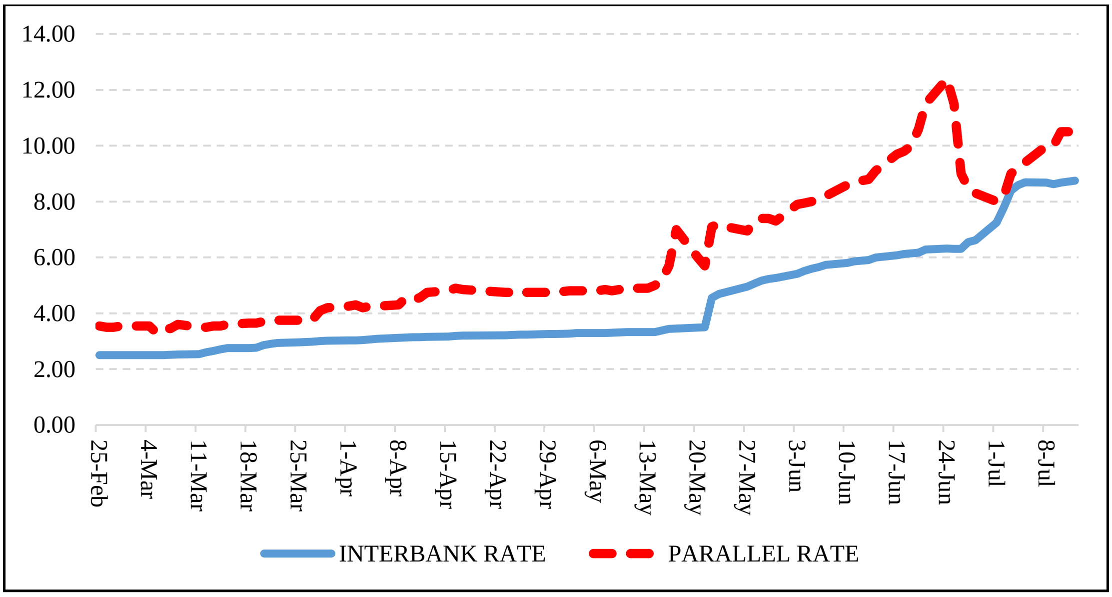
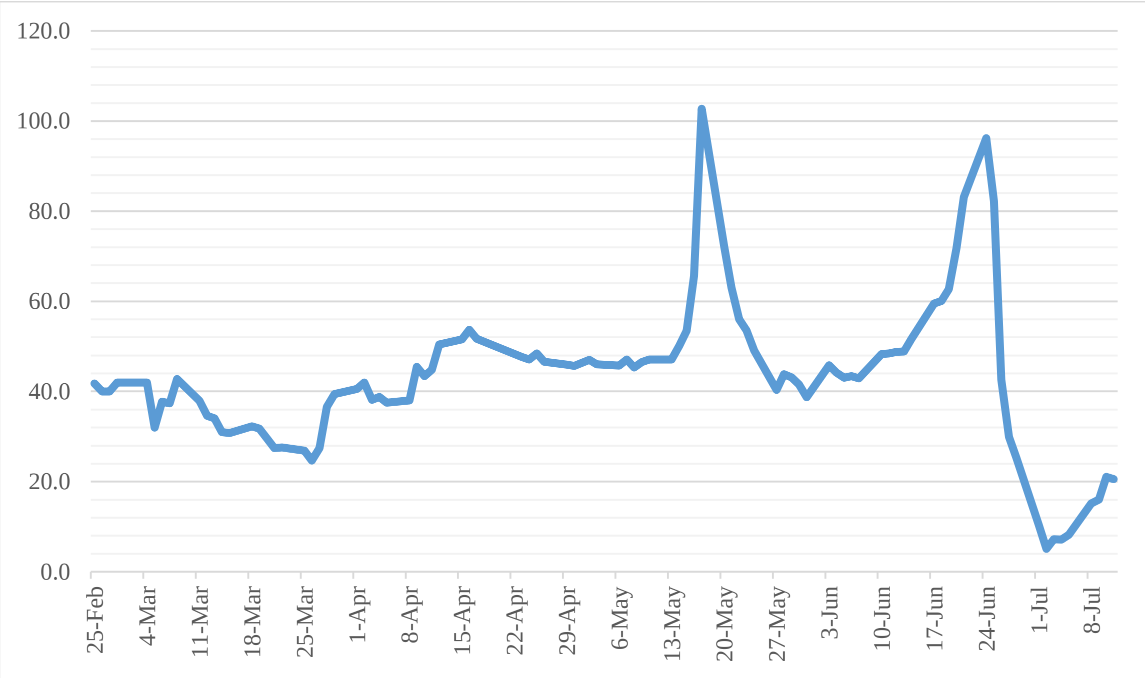


Figure 6: Parallel Market Premium (%)



Source: *RBZ, 2019*

54. The use of letters of credit to support critical imports such as fuel and cooking oil is also assisting to reduce the demand for foreign currency, which would arise in the event of once-off payments and thus assisting in stabilizing the exchange rate.

MONETARY DEVELOPMENTS

Reserve Money

55. The Reserve Bank of Zimbabwe has adopted the Monetary Targeting framework to curtail the rise in money supply as a way of dealing with inflationary pressures in the economy. Under this framework, the Bank will use base money as the operating target of policy, and this has been pegged at 8-10% by year end. In this regard, Reserve Money recorded year on year growth of 7.05% in May 2019, down from 36.11% in April 2019. The slowdown in reserve money growth is largely attributed to active liquidity mopping by the Central Bank through saving bonds issuances, as well as RBZ foreign exchange sales to the inter-bank market. If this path is

maintained, the country would meet its reserve money growth target of 10% by year end.

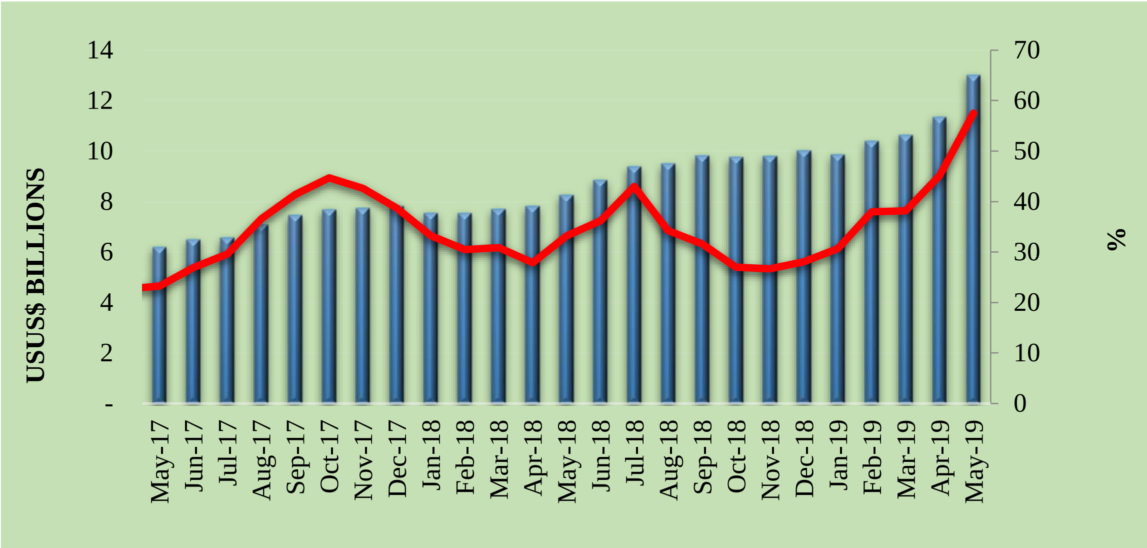
Figure 7: Reserve Money Developments

Source: *RBZ, 2019*

56. To contain money supply growth, Government instituted other complementary measures from the fiscal side. On this note, the RBZ lending to Government has not increased, reflecting fiscal consolidation measures being pursued by Government since the second half of 2018, under the Transitional Stabilisation Programme (TSP).

57. Broad money supply, however, recorded a year on year growth of 57.51%, from $8 258.92 million in May 2018 to $13 009.04 million in May 2019. The growth, partly reflects expansion in Foreign Currency Account (FCA) deposits, caused by the movement of the exchange rate, from 1:1 to about 1:8. The re-denomination of the foreign currency positions into local currency resulted in inflated balances, hence the increase in money supply.

Figure 8: Broad Money Supply (M3)



Source: *RBZ, 2019*

Private Sector Credit

58. Credit to the private sector which has remained largely subdued, grew on an annual basis by 16.20%, from $3 800.88 million in May 2018 to $4 416.52 million in May 2019. This growth is, however, not sufficient to propel GDP on a growth trajectory.

Net Foreign Assets (NFA)

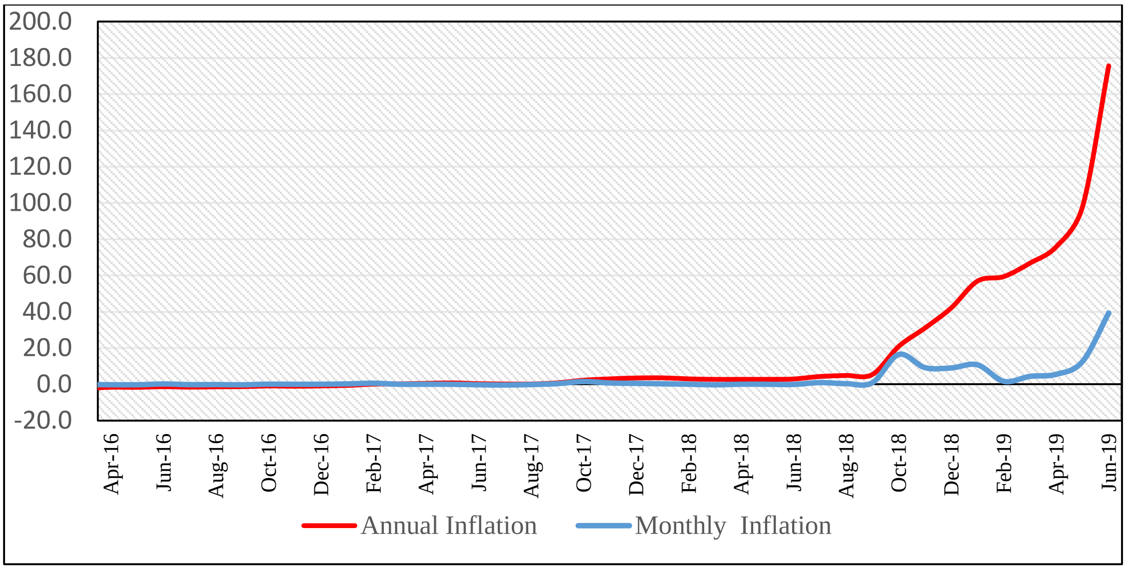
59. The overall net foreign assets (NFA) position worsened, due to contraction of new external loans to support importation of fuel, electricity, drugs and other essentials, coupled with the effect of exchange rate depreciation. This resulted in the Net International Reserves (NIR) position of the RBZ, at –US$1 748 million in May 2019, exceeding the June 2019 Staff Monitored Program (SMP) target of –US$1 267 million.

INFLATION

60. Inflation remains the major challenge facing the economy at the moment. Annual headline inflation accelerated from 56.9% in January 2019 to

175.5% in June 2019. The inflation developments mainly reflected exchange rate adjustments, following a phased approach to currency reforms, which culminated in the simultaneous abolishment of the multicurrency regime and re-introduction of the Zimbabwe dollar, on 24 June 2019. Figure 9 shows the recent trends in inflation.

Figure 9: Annual Inflation Profile (%)



Source: *Zimstat, 2019*

61. The apparent spike in inflation in June 2019, in particular, reflected continued speculative pricing tendencies; the factoring in of exchange rate depreciation; implicit benchmarking of prices in US dollars; as well as deliberately high and unfair prices in RTGS, ostensibly aimed at forcing consumers to pay for goods and services in foreign currency. These speculative tendencies were significantly addressed by the abolition of the multicurrency system, and we expect the practices to have subsided by the end of July 2019.

62. Stability in the foreign exchange market, following the introduction of the local currency and successful fiscal consolidation efforts by Government,

have laid a strong foundation for a disinflationary trend in the economy. Further, the Bank is now in a position to effectively implement monetary policy to contain inflation.

63. Despite the elevated risks to inflation, emanating mainly from adverse inflation expectations and some lingering price distortions, which require fine tuning, the Bank is fully committed to containing money supply growth, to ensure long-term price stability in the economy.

64. Though inflation is likely to remain elevated in the near-term and even breach the 200% mark, we expect annual inflation to start declining from October 2019, and to moderate by the end of the year.

65. The major outstanding challenge in winning the inflation battle, is to ensure that funding for inescapable Government expenditures, such as grain imports, fuel and summer cropping working capital requirements, are contained within budget, so as to minimize recourse to potential inflationary Central Bank financing.

FINANCIAL SECTOR DEVELOPMENTS

66. Despite the operational challenges in the macro-economic environment, the banking sector remains safe and sound.

67. The improved financial strength registered by the banking sector is on the back of various Government led policies and programmes, as well as strategic measures being implemented by the Reserve Bank of Zimbabwe, to bolster public confidence in the sector.

68. The Government's elevated efforts to clear international debts and re-engagement with the international community, is expected to attract fresh external lines of credit and unlock liquidity for the sector.

69. A strong financial system is considered critical to ensure a meaningful financial intermediary role and spur the much needed economic growth.

70. In light of the above, all financial soundness indicators depicted satisfactory condition and performance of the banking sector as at 31 March 2019, as evidenced by adequate capitalisation, expanded asset base, satisfactory asset quality and earnings performance.

71. Such resilience has been mainly attributable to financial stability enhancements by the Reserve Bank, including operationalisation of the credit reference system, supported by appropriate strategic responses by banking institutions, notably; cost rationalisation, enhanced risk management, and technological innovation.

BANKING SECTOR ARCHITECTURE

72. As at 30 June 2019, the number of operating banking institutions were nineteen (19), comprising thirteen (13), commercial banks, five (5) building societies, and one (1) savings bank as shown below.

Table 5 : Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	**19**
Other Institutions under RBZ Supervision	
Development Financial Institutions	2
Deposit-taking Microfinance Institutions	6
Credit-only Microfinance Institutions	204
Total	**231**

PERFORMANCE OF THE BANKING SECTOR

73. The banking sector remained generally stable and continued to exhibit resilience, buoyed by adequate capitalisation, sustained earnings performance, satisfactory asset quality and improved liquidity position for the period ended 30 June 2019.

74. There is, however heightened exposure to foreign exchange rate risk, which has impacted on the earnings positions of a few institutions. The financial soundness indicators for the period under review are provided in the Table 6 below.

Table 6: Financial Soundness Indicators

Key Indicators	Benchmark	June-18	Dec-18	Mar-19	June-19
Total Assets	-	$12.35bn	$13.98bn	$15.40bn	$23.54bn
Total Loans & Advances	-	$4.08bn	$4.22bn	$4.44bn	$6.17bn
Net Capital Base	-	$1.61bn	$1.83bn	$2.09bn	$3.31bn
Total Deposits	-	$9.53bn	$10.32bn	$11.00bn	$16.92bn
Net Profit	-	$176.09m	$425.26m	$78.05m	$929.95m
Return on Assets	-	1.75%	4.57%	1.37%	5.11%
Return on Equity	-	11.16%	20.59%	4.92%	20.95%
Capital Adequacy Ratio	12%	26.32%	30.27%	30.74%	32.64%
Tier 1 Ratio	8%	24.16%	23.84%	27.67%	27.24%
Loans to Deposits	70%	43.53%	40.71%	40.43%	36.49%
Non-Performing Loans Ratio	5%	6.22%	6.92%	5.58%	3.95%
Liquidity Ratio	30%	68.45%	70.66%	66.82%	64.77%

Capitalisation

75. The banking sector remained adequately capitalized, with aggregate core capital of $2.33 billion as at 30 June 2019, representing a 47.63% increase from $1.58 billion as at 31 December 2018. The growth in capital was mainly attributed to capitalisation of retained earnings. As at 30 June 2019, all banking institutions were compliant with the prescribed minimum capital requirements as shown in Table 7 below.

Table 7: Banking Sector Capitalisation ($ million)

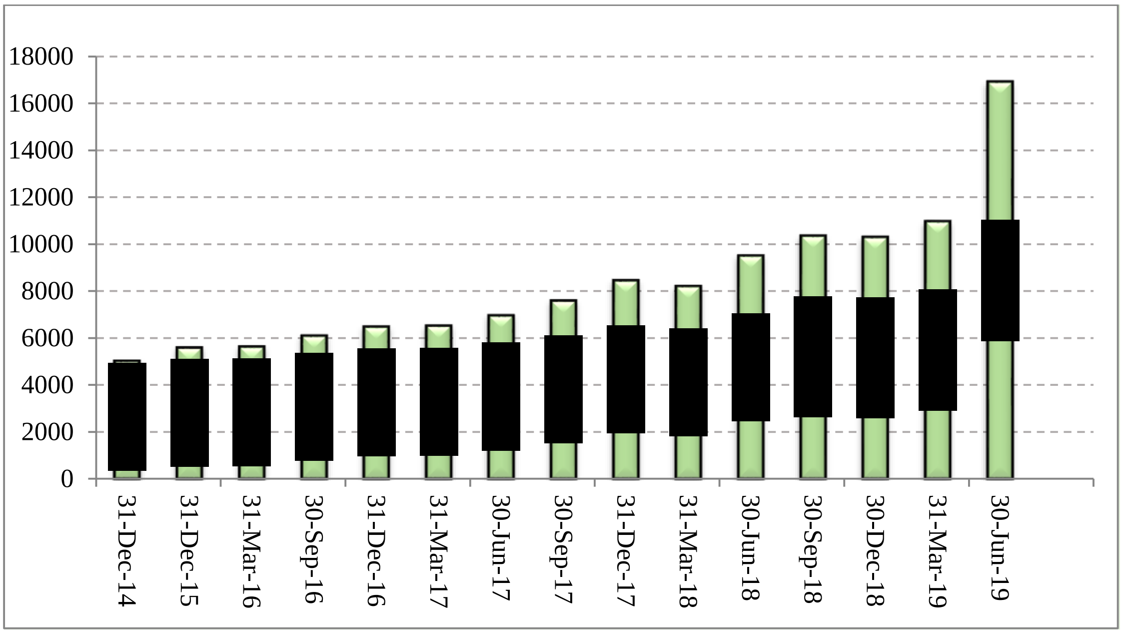
Institution	Core Capital as at 31	Core Capital as at 30 June 2019	Prescribed Minimum
CBZ Bank & Society	168.15	268.08	25
Stanbic Bank	162.22	186.39	25
First Capital Bank	107.17	174.52	25
Ecobank	104.14	424.31	25
FBC Bank	93.64	166.25	25
ZB Bank & Society	87.94	106.00	25
BancABC	86.72	73.96	25
Steward Bank	86.58	82.84	25
Standard Chartered	84.84	118.76	25
NMB Bank	76.72	150.85	25
Agribank	74.36	73.55	25
Nedbank Zimbabwe	70.01	80.68	25
Metbank	65.88	67.00	25
BUILDING			
CABS Building	146.45	172.90	20
FBC Building Society	47.07	47.23	20
National Building	46.03	50.63	20
SAVINGS BANK			
POSB	69.33	73.25	-
Total	1,577.25	2,328.56	-

76. The average capital adequacy and tier 1 ratios of 32.64% and 27.24% as at 30 June 2019, respectively, were above the regulatory minima of 12% and 8%, respectively. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios.

Banking Sector Deposits

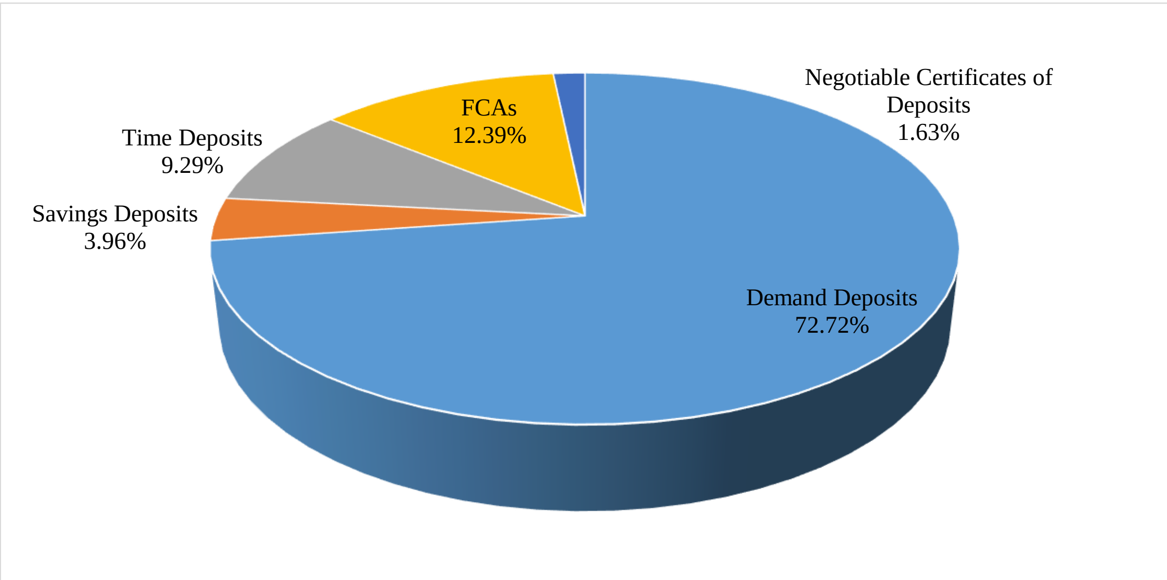
77. Total banking sector deposits amounted to $16.92 billion as at 30 June 2019, an increase of 63.95% from $10.32 billion as at 31 December 2018. The figure below shows the trend of banking sector deposits over the period 31 December 2014 to 30 June 2019.

Figure 10: Trend of Banking Sector Deposits ($ million)



78. The increase in the deposit base during the period under review is mainly attributable to the revaluation of foreign currency denominated deposit balances. The deposit base for the banking sector is dominated by demand deposits which accounted for 72.72% ($10.13 billion) of the total non-bank deposits, as shown in the figure below.

Figure 11: Composition of Deposits as at 30 June 2019

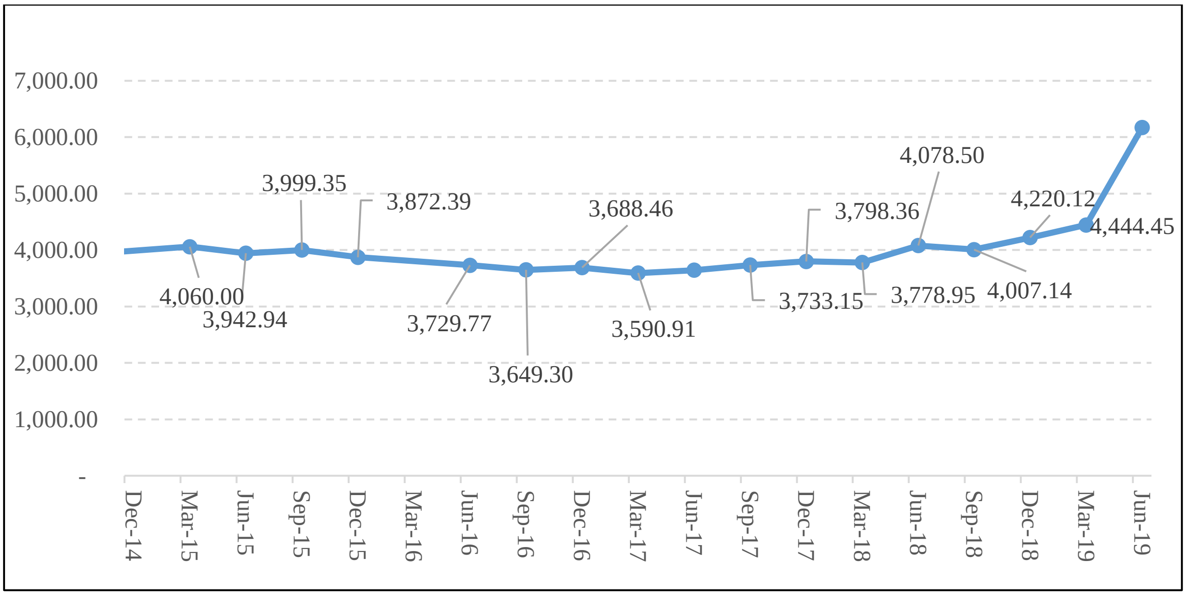


Loans and Advances

79. Total banking sector loans and advances increased by 46.21%, from $4.22 billion as at 31 December 2018 to $6.17 billion as at 30 June 2019. The total banking sector loans and advances also include foreign currency denominated loans, whose translation partly explains the growth in total loans during the period under review.

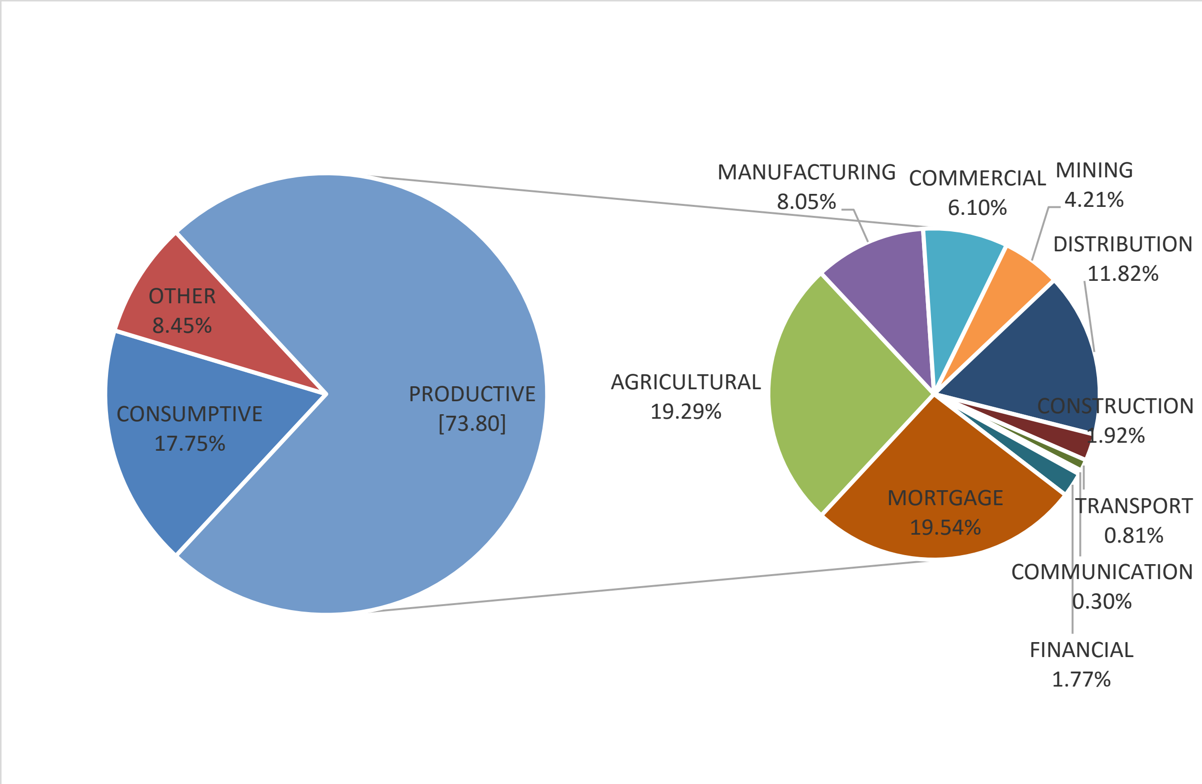
80. The level of the banking sector financial intermediation has, however remained subdued as reflected by the loans to deposits ratio of 36.49%, largely as a result of cautious lending approach adopted by some banking institutions. Figure 12 below shows the trend in the total banking sector loans and advances.

Figure 12 : Banking Sector Loans (Dec 2014 - June 2019 ZWL$M



81. Loans to productive sectors of the economy constituted 73.80% of total sector loans as at 30 June 2019, as shown in the diagram below.

Figure 13 : Sectoral Distribution of loans as at 30 June 2019

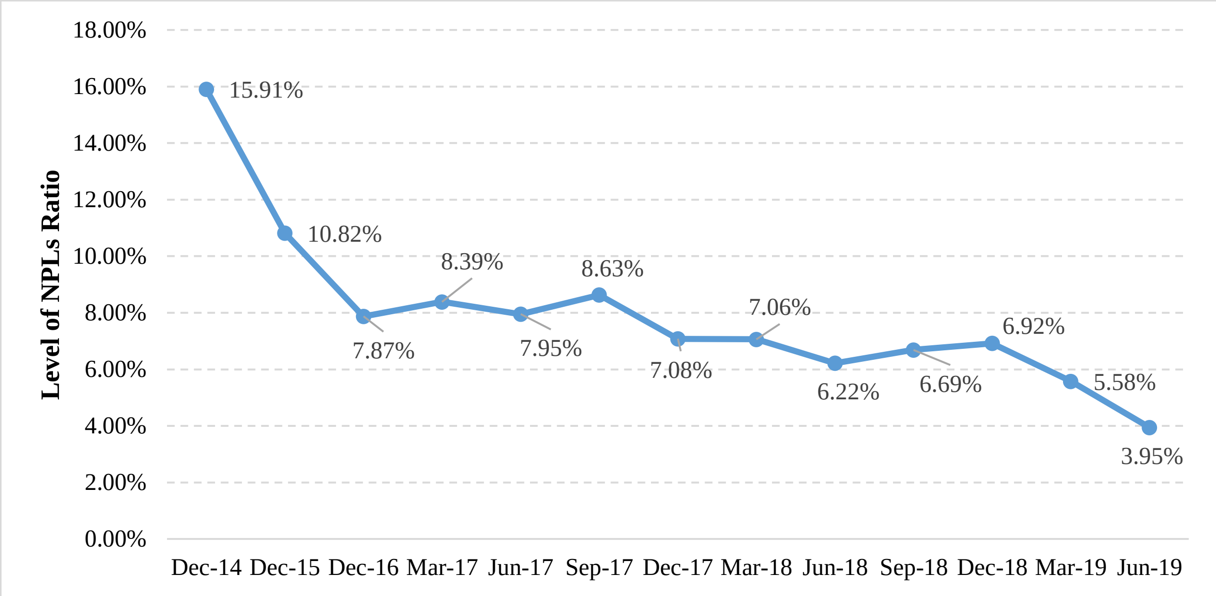


Loan Portfolio Quality

82. The quality of the banking sector loan portfolio continued to improve, reflected by the decline in the non-performing loans (NPLs) to total loans, from 6.92% as at 31 December 2018 to 3.95% as at 30 June 2019. The improvement in the NPLs ratio, was a result of a combination of an increase in total banking sector loans and advances coupled with a 30% decrease in the total non-performing loans from $348.83 million as at 31 December 2018 to $243.78 million as at 30 June 2019.

83. Figure 14 below shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2014 to June 2019.

Figure 14 : Non-Performing Loans to Total Loans Ratio



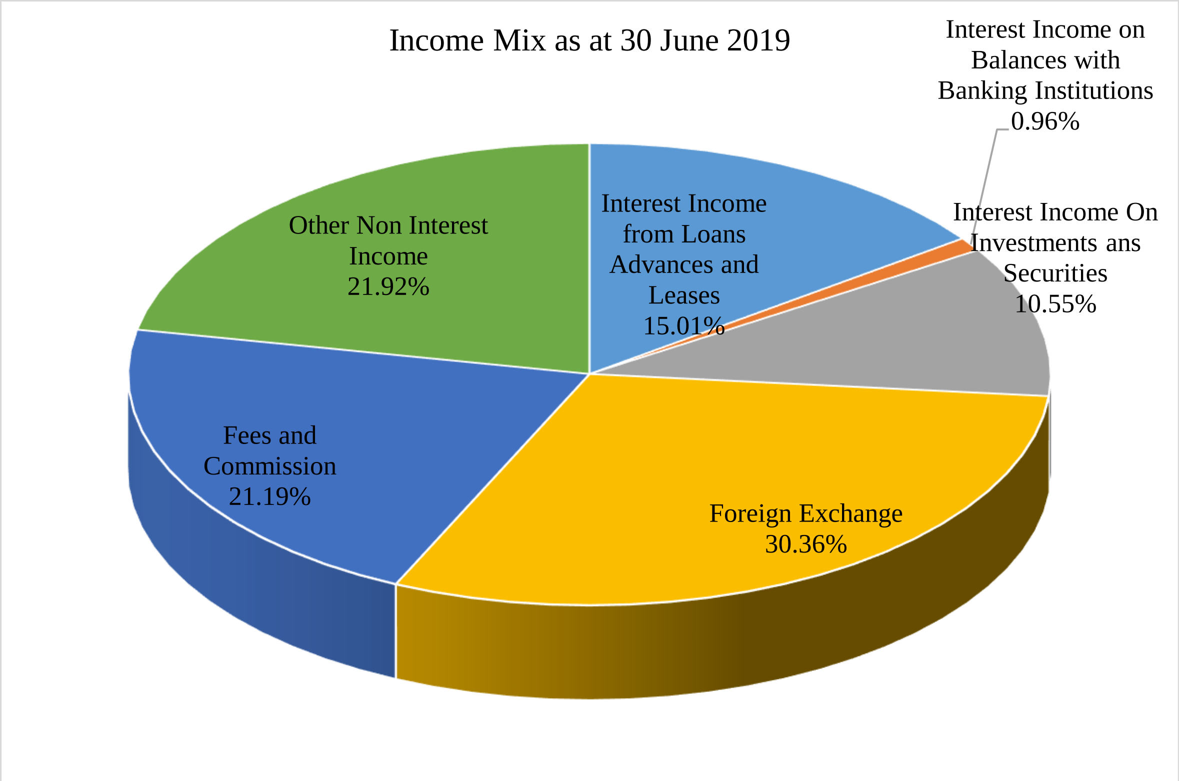
Earnings Performance

84. During the period under review, all banking institutions, except one (1) were profitable in their operations. In comparison to the corresponding period in 2018, the banking sector recorded a significant increase in aggregate profits, from $176.09 million for the half-year ended 30 June 2018 to $929.95 million for the half-year ended 30 June 2019.

85. Earnings performance was partly buoyed by foreign exchange translation gains for a number of institutions while on the contrary, the loss recorded by one (1) banking institution emanated from foreign exchange translation losses. The institution is, however, instituting measures to turn around its earnings performance.

86. Non-interest income comprising income from foreign exchange and fees & commissions were the key revenue driver in the sector during the period under review, as shown in the chart below.

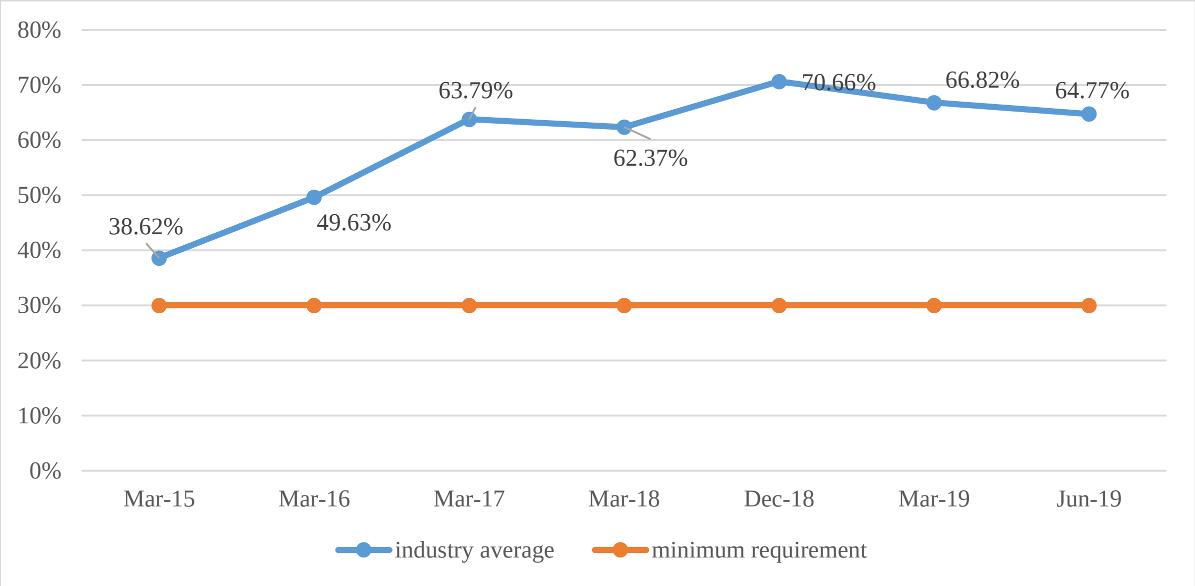
Figure 15: Income Mix as at 30 June 2019



Banking Sector Liquidity

87. The average prudential liquidity ratio as at 30 June 2019 was 64.77% compared to 70.66% as at 31 December 2018. As at 30 June 2019, two (2) banking institution were non-compliant with the minimum prudential liquidity ratio of 30%. The non-compliant banking institutions are taking measures to ensure compliance with the minimum prudential liquidity ratio. The figure below shows the trend in the banking sector average prudential liquidity ratio from March 2015.

Figure 16: Prudential Liquidity Ratio Trend (%)



88. The prudential liquidity ratio has remained high reflective of the cautious approach to lending with increased investments in securities.

STATUS OF BANKS UNDER RESOLUTION

89. The Deposit Protection Corporation (DPC) was appointed Liquidator of six (6) failed institutions currently in final liquidation; as well as Provisional Judicial Manager (PJM) of one (1) failed institution.

90. As at 30 June 2019, 22,697 out of 54,909 depositors had been compensated from the Deposit Protection Fund; representing about $3.96 million against an exposure of $6.4 million. The table below provides a synopsis of deposit insurance payments in respect of the six (6) failed banking institutions under liquidation.

Table 8: Deposit Insurance Payments as at 30 June 2019

Name of Institution	Total Depositors	No. of Depositors paid	% of Depositors paid	Exposure Deposits payable at $500($)	Value of Depositors paid ($)	% of Total deposits	Gross Deposits $
Royal Bank	5,453	3,111	57%	472,207	358,654	76%	5,538,804
Trust Bank	2,958	1,041	35%	328,516	169,877	52%	11,482,102
Genesis	86	62	72%	11,810	8,821	75%	1,426,913
Allied Bank	9,228	1,546	17%	1,248,307	540,003	43%	14,316,614
Interfin Bank	13,021	2,738	21%	918,814	325,373	35%	137,336,570
Afrasia	24,163	14,199	59%	3,439,276	2,562,931	74%	18,559,591
Total	**54,909**	**22,697**	**41%**	**6,418,930.43**	**3,965,659**	**62%**	**188,660,594**

Source – Deposit Protection Corporation

91. The table below summarizes the statuses of the seven (7) failed institutions as at 30 June 2019. Total recoveries in cash, treasury bills and properties were $96.4 million, which translate to a 36% recovery rate to date. Total dividends paid out to creditors of the six (6) failed institutions under liquidation increased by 17% from $28.6 million to $33.4 million over the quarter.

Table 9: Status of Banks under Resolution* as at 30 June 2019

Institution	Total Assets	Total Liabilities	Total Recoveries	Value Of Preferred Claims	Payments To Preferred Creditors	Dividend Paid - Concurrent Creditors	Dividend To Secured Creditors
GENESIS BANK	$2.2 m	$5.1 m	$0.62m	$170,178	$162,456	$231,000	$207,931
ROYAL BANK	$5.3 m	$12.6m	$2.85 m	$2.11 m	$938,275	Nil	$208,138
TRUST BANK	$13 m	$26.7 m	$8 m	$3.54 m	$1.5 m	$3.2m	$834,043
INTERFIN BANK	$24.3 m	$144.2 m	$41.3m	$2.36 m	$1.7m	$8.4m	$7.28 m
ALLIED BANK	$9.5 m	$34.5 m	$2.7m	$2.4 m	$142,497	Nil	-
AFRASIA BANK	$39.1 m	$61 m	$16m	$3.9 m	$3.5m	$4.8m	$157,320
TETRAD PJM lifted 30.10.18	$46 m	$66 m	$28.3 m	-	-	--	
TOTALS	$139.4 m	$350.1 m	$96.4 m	$17.14 m	$8m	$16.7m	$8.68 m

* All the institutions are under final liquidation except Tetrad whose provisional judicial management order was uplifted on 30 October 2018 and returned to its shareholders

FINANCIAL STABILITY INITIATIVES

Basel II/III Implementation

92. As part of ongoing measures to enhance the stability and resilience of the financial system, the Reserve Bank is developing local guidance on the implementation of Basel III capital and liquidity framework. The framework is designed to improve the quality, consistency and transparency of capital and reduce pro-cyclicality, as well as enhance liquidity management.

Macro-prudential policy framework

93. Pursuant to my last Monetary Policy Statement, I am pleased to advise that the Reserve Bank has developed a Macro-prudential Framework. The Framework, which provides for effective macro-prudential tools, appropriate governance arrangements, and systemic risk assessment, will be operationalised in due course.

International Financial Reporting Standard 9 (IFRS 9)

94. In a milestone development in financial reporting, all banks published IFRS 9 Compliant Financial Statements for the year ended 31 December 2018. The forward looking nature of provisioning requirements as well as expanded disclosure requirements significantly enhance bank risk management and reinforce market discipline.

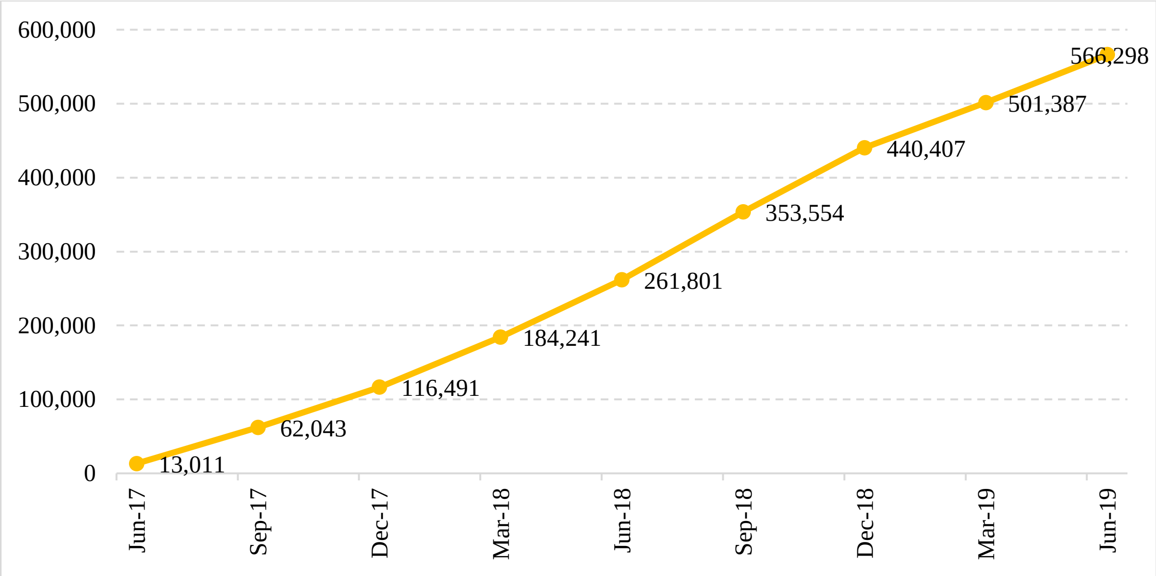
ENHANCEMENT OF CREDIT INFRASTRUCTURE

Credit Registry

95. The credit referencing environment continues to improve against the background of increased coverage for the Credit Registry and Credit Bureaus, as well as depth of credit information. As at 30th June 2019 the Credit Registry held 1,044,538 records, of which 525,967 were active loan accounts. Individual records represented 98.4% of the active loan records.

96. Total subscribers as at 30 June 2019 were 174, from 162 as at 30 September 2018, comprising 18 banking institutions, 152 MFIs (including SMEDCO), Depositor Protection Corporation and 3 non-banks. Credit Registry usage levels by subscribing institutions increased steadily to a cumulative 566,298 reports as at 30 June 2019.

Figure 17: Cumulative Credit Registry Inquiries: June 2017 – June 2019



97. In a bid to augment efficiency of the Credit Registry, the Reserve Bank implemented value-added products aimed at facilitating in-depth analysis of credit data for risk management and policy making purposes.

Collateral Registry

98. The Reserve Bank is in the process of establishing a Collateral Registry to operationalize the Movable Property Security Interests Act [Chapter 14:35]. The Collateral Registry is expected to promote access to credit by marginalised and financially-excluded groupings.

99. The procurement process of suitable software for the Collateral Registry is ongoing and the system is expected to be acquired and deployed during the course of 2019. The Collateral Registry Regulations to operationalize the Movable Property and Security Interests Act will be finalised in line with operational specifications of the deployed collateral registry system.

FINANCIAL TECHNOLOGY (FINTECH)

100. The world has experienced a proliferation of technology and innovations that have significantly altered the financial landscape and the way financial institutions offer services and products. This has the potential to promote economic growth and development.

101. Zimbabwe has not been spared from these technological innovations, which are significantly altering the financial landscape. The Reserve Bank recognises the important role of fin-tech and innovation and the need to harness and leverage on the technology advancements to enable the financial services industry to offer wide range of products and services.

102. Notwithstanding the benefits, the new technological innovations bring to the fore additional risks that should be mitigated in a manner that balances innovation and financial stability. This underscores the significance of constantly reflecting on the emerging fin-tech trends and broader changes affecting the financial services industry.

103. As a result of the technological developments, there has been a surge in the number of enquiries and proposals from local and foreign companies intending to offer Financial Technology (Fintech) services and products in the country.

104. The Reserve Bank has embedded innovation and technology transformation in the core of it operations. The Reserve Bank is thus committed to promoting a legal and regulatory environment supportive of innovation and the adoption and usage of Fintech by financial institutions while ensuring attendant risks are identified and mitigated.

105. Against this background, a National Fintech Steering Committee comprising government line ministries, government departments and regulatory agencies was constituted to provide strategic policy direction in the Fintech space.

106. In addition, an Interagency Fintech Working Group (IFWG), comprised of technical staff across government line ministries, government departments and regulatory agencies as well as relevant stakeholders was constituted. The IFWG is supported by the following thematic working committees:

a) Legal/Regulatory;
b) Crypto Assets and Digital Currencies;
c) Innovation/Technical; and
d) Consumer Protection.

107. The objective of this collaborative effort is to come up with a National Fintech Strategy. Notably, there is need to put in place a regulatory framework to avoid regulatory arbitrage, create an enabling environment for Fintech as well as a consistent approach in understanding and regulating Fintech, build consumer awareness and education and establish institutional arrangements to ensure a coordinated approach among stakeholders.

OTHER DEVELOPMENTS IN THE BANKING SECTOR

Lion Microfinance Limited

108. Lion Microfinance Limited was placed under the management of a Curator with effect from 25 July 2019, for a period of three months in terms of the Microfinance Act [*Chapter 24:29*]. The decision followed a determination that the institution was not in a sound financial condition mainly due to critical undercapitalization and weak corporate governance. The Deposit Protection Corporation was appointed curator of Lion Microfinance Limited.

Lending rates

109. The inflationary pressures in the obtaining macroeconomic environment have resulted in negative real returns. Against this background and coupled with the increase in overnight interest rate to 50%, most banking institutions have revised their lending rates upwards to sustain operations. Banking institutions also took cognisance of the likely negative impact of high interest rates on borrowers' repayment capacity.

110. The lending rates reported by banking institutions range from 18% to 35% per annum for individual loans and 12% to 25% per annum for productive loans including mortgage loans.

111. The Reserve Bank, however, continues to urge banking institutions to ensure provision of affordable banking services and increased access to credit through maintenance of fair business practices and adherence to responsible pricing taking into account the application of the know your customer (KYC) principles on an on-going basis.

Afrexim Bank Initiative, Africa's Due Diligence Data, MANSA Platform

112. During the period under review, the Reserve bank signed a Verifer Charter with Afrexim bank in order to contribute and access data from the MANSA platform.

113. The goal of MANSA platform is to facilitate access to information necessary for conducting Know Your Customer (KYC), Anti – Money Laundering (AML) and Counter Terrorism evaluations thereby reducing compliance costs with respect to African trade and project finance transactions thereby opening opportunities to access finance from international investors and potential business partners.

Legal Developments

The Microfinance Bill, 2018

114. The Bill is still undergoing the parliamentary process. The Microfinance Bill, 2018 was published on 21 December 2018. The Bill will amend the Microfinance Act [*Chapter 24:30*] to achieve the following objectives:

a) to provide for perpetual licences for deposit-taking microfinance institutions and credit only MFIs, subject to cancellation in the same manner as traditional banking institutions;
b) to reduce confusion and overlapping, the Bill will amend the Microfinance Act to recognise only two institutions in the microfinance sector, i.e. credit-only microfinance institutions and deposit-taking microfinance institutions; and
c) to enhance corporate governance and risk management practices within the microfinance sector.

Proposed Amendments to the Banking Regulations

115. In order to align the Banking Regulations SI 205 of 2000 with the Banking Act, proposals for amendment of the Banking Regulations are under consideration of the following aspects:

a) reducing significant interest threshold from 10% to 5% in line with the new section 15B (1) of the Banking Act;

b) increasing the maximum shareholding that an ordinary company can have in a banking institution from 10% to 25% in line with the new threshold in section 15A (1) of the Banking Act. The Banking Act was amended in 2015 to increase the threshold from 10% to 25%;

c) providing for the disclosure of interests form as required under the new section 20B of the Banking Act; and

d) providing for the maximum amount, which can be lent to an insider without board approval.

PERFORMANCE OF THE MICROFINANCE SECTOR

116. In line with its role as a pillar of the National Financial Inclusion Strategy and a driver of sustainable economic development, the microfinance sector continued to make significant inroads in empowering the low income and marginalised groups through provision of innovative financial products and other non-financial services.

117. As at 31 March 2019, the microfinance sector had a total of 210 microfinance institutions comprising of 204 credit-only microfinance institutions and six (6) deposit-taking microfinance institutions.

118. A summary of the key performance indicators for the microfinance sector is indicated in the table below.

Table 10 : Microfinance Sector, Key Performance Indicators

Indicator	Mar-18	June-18	Sep -18	Dec-18	Mar-19
Number of Licensed Institutions	190	196	200	205	210
Total Loans ($m)	272.95	297.52	351.39	387.87	443.12
Total Assets ($m)	360.46	412.29	463.56	490.22	533.05
Total Equity ($m)	142.94	138.15	187.87	197.85	200.38
Net Profit ($m)	9.08	13.67	9.98	16.62	4.98
Average Operational Self-Sufficiency (OSS)	142.92%	154.76%	114.45%	153.11%	142.29%
Total Deposits (DTMFIs) ($m)	11.84	15.35	21.00	23.85	25.65
Number of Savings Accounts (DTMFIs)	8,668	10,196	24,386	68,258	73,258
Portfolio at Risk* (PaR>30 days)	9.55%	10.15%	15.51%	10.51%	8.02%
Number of Active Loan Clients	282,024	276,660	288,858	349,341	402,295
Number of Female Borrowers	107,226	107,566	153,980	161,023	160,074
Number of Outstanding Loans	296,544	297,843	323,129	393,219	440,032
Number of Branches	676	660	781	750	807

*** Portfolio at Risk [30] days-***The value of all loans outstanding that have one or more instalments of principal past due more than [30] days. This includes the entire unpaid principal balance, including both the past due and future instalments, but not accrued interest. It also includes loans that have been restructured or rescheduled.*

Microfinance Outreach

119. The microfinance sector registered a 15.16% increase in the number of active clients over the quarter from 349,341 as 31 December 2018, to 402,295 as at 31 March 2019, with women borrowers accounting for 39.79% of the total number of active clients. Women borrower's accessed 25.17%

($111.54 million) of the total microfinance sector loans of $443.12 million as at 31 March 2019.

Capital and Funding

120. Funding continues to be the major challenge militating against increased outreach and development of sustainable financial institutions for the low income and the marginalised, as the majority of microfinance institutions lack anchor institutional investors. The sector registered a marginal increase in aggregate equity over the review period from $197.85 million as at 31 December 2018, to $200,30 million as at 31 March 2019.

121. The Reserve Bank continues to encourage **consolidation in the sector and attraction of institutional anchor investors in order to come up with stronger,** well**-funded microfinance** institutions that are able to contribute more meaningfully to the national development agenda.

122. The deposit-taking microfinance institutions (DTMFI) subsector registered an improvement in capitalisation over the review period from $60.10 million as at 31 December 2018, to $70.23 million as at 31 March 2019. The improvement was largely attributed to capitalisation of retained earnings by some of the DTMFIs.

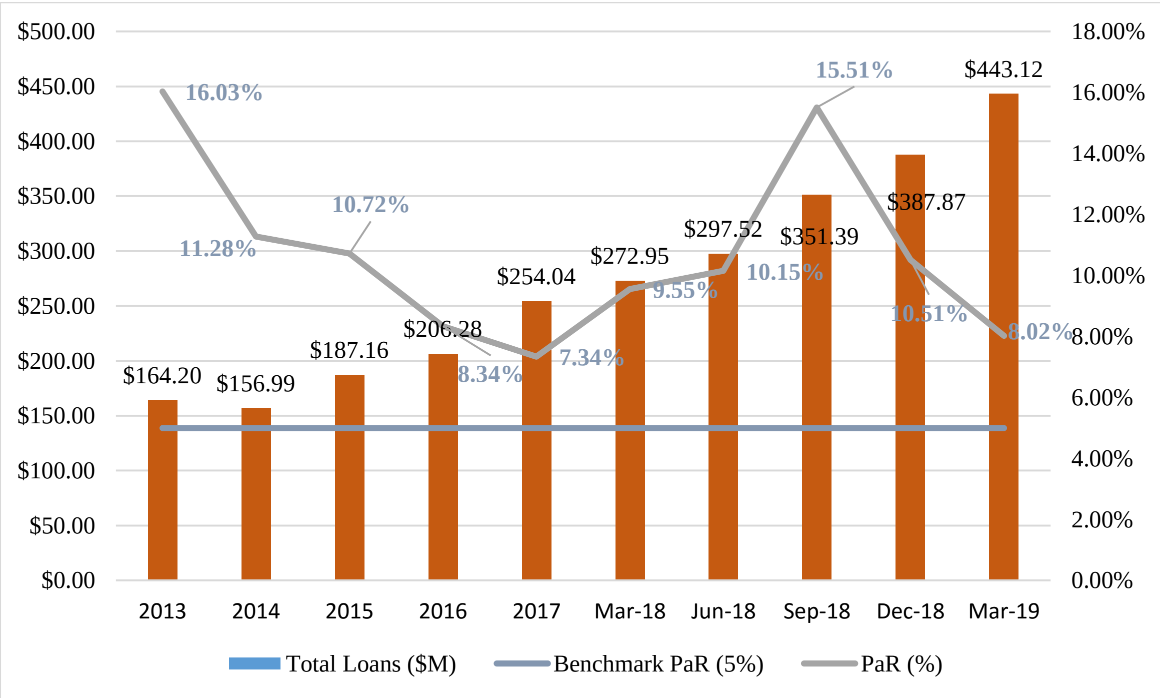
Microfinance Sector Lending and Portfolio Quality

123. Total loans outstanding for the microfinance sector amounted to $443.12 million as at 31 March 2019, up from $387.87 million as at 31 December 2018. Growth in the sector loans is hampered by limited funding within the individual microfinance institutions, which have been relying on owners' funds which are grossly inadequate to meet the demand for loans.

124. The sector registered an improvement in the portfolio quality as reflected by the portfolio at risk (PaR >30 days) ratio of 8.02% as at 31 March 2019, down from 10.51% as at 31 December 2018.

125. The trend in the microfinance sector loan portfolio growth and quality is indicated in the figure below.

Figure 18: Microfinance Sector Trends in Total Loans & PaR Ratio



126. The Reserve Bank continues to **encourage microfinance institutions to adopt proper lending methodologies,** based on transparency, thorough client assessment, and financial education in order to maintain a strong portfolio quality.

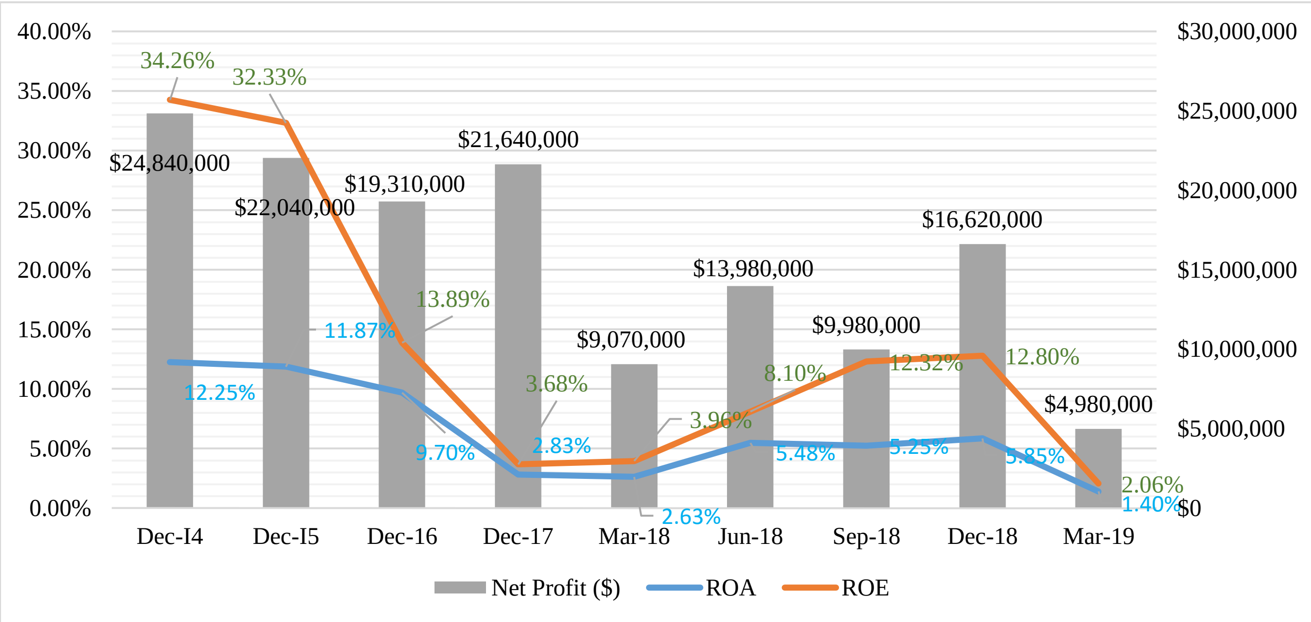
Sector Profitability

127. The microfinance sector registered a decline in profitability, with aggregate net profit of $4.98 million for period ended 31 March 2019 which represents

a 54.85% decline over the year from $9.08 million for period ended 31 March 2018.

128. The trend in the profitability of the microfinance sector is indicated in the figure below.

Figure 19: Microfinance industry- Trends in Profitability, 2014 - 2019



129. In view of the challenging operating environment, **microfinance institutions are urged to re-align their business models to bolster profitability**.

130. The microfinance sector remains operationally self-sustainable as reflected by the operational self-sufficiency ratio of 142.29% for period ended 31 March 2019. Sustainability is a cornerstone of sound microfinance as financially sustainable microfinance institutions become a permanent part of the financial system which can continue to provide financial services to the

low income and marginalised groups on a sustainable basis, beyond grants or soft loans.

FINANCIAL INCLUSION

NFIS Monitoring and Evaluation

131. Satisfactory progress has been made in the implementation of the National Financial Inclusion Strategy (NFIS). The notable areas include product diversification, innovation and human centred design of financial services and delivery channels, financial literacy, consumer protection, opening of low cost bank accounts, micro-insurance, MSMEs product offering, and increased participation of lower income groups on the capital markets. The above progress is reflected in the financial inclusion indicators in the table below:

Table 11: Financial Inclusion Indicators - Dec 2016 - March 2019

Indicator	Dec 2017	March 2018	June 2018	Sept 2018	Dec 2018	March 2019
Value of loans to MSMEs	$146.22 m	$123.10m	$168.25m	$131.83m	$169.96m	$142.38m
% of loans to MSMEs over total loans	3.75%	3.19%	3.57%	3.84%	3.94%	3.29%
Number of MSMEs with bank accounts	76,524	57,512	81,369	97,527	100,644	99,489
Number of Women with Bank Accounts	935,994	99,48 9	1,612,820	1,528,704	1,736,285	1,814,875
Value of Loans to Women	$310.78m	$316.27m	$360.68m	$384.55m	$432.36m	$428.78m
Number of Loans to Youth	61,529	59,308	68,756	74,165	69,421	176,487
Value of Loans to Youth	$138.93 m	$111.70m	$126.64m	$146.79m	$104.43m	$282.18m
Total number of Bank Accounts	3.07m	5.51m	5.58m	5.81m	5.94m	6.25m
Number of Low Cost Accounts	3.02m	3.16m	3.56m	3.31m	3.88m	4.33m

Empowerment Facilities

132. Targeted beneficiaries of financial inclusion initiatives are continuing to access the Revolving Empowerment as part of the implementation of the National Financial Inclusion Strategy. As at 1 August 2019, cumulative disbursements of $462.97 million had been made, representing 92.39% of the total funds amounting to $501.1 million.

133. In addition, the MSMEs guarantee scheme being provided through the Export Credit Guarantee Company (ECGC) is contributing to enhanced MSME uptake of financial services. As at 31 March 2019, a total of nine (9) banking institutions, four (4) Deposit Taking MFIs and 10 credit only MFIs had accessed credit guarantees through ECGC amounting to $7.54 million.

Consumer Education

134. The Reserve Bank of Zimbabwe, in collaboration with various stakeholders, continue to implement initiatives to enhance financial education and consumer protection, including the following:

a) 2019 Global Money Week Celebrations were held from 25-29 March 2019 under the theme "Learn, Save, Earn"; and

b) Issuance of consumer education material by the Reserve Bank to promote responsible access to financial services and expected positive impact of financial inclusion on the lives of beneficiaries.

SUSTAINABLE FINANCING

135. Notable progress has been recorded in the area of sustainable financing. Eight (8) institutions have confirmed their participation under the Sustainability Standards and Certification Initiative (SSCI) being implemented by the European Organisation for Sustainable Development (EOSD) and have since paid their application fees.

136. The Reserve Bank of Zimbabwe held high level meetings with each of the participating institutions and it is encouraging to note that quite a number of institutions have already embraced green financing the following are some of the interesting insights:

a) Some institutions are already working towards accessing the Green Climate Fund are currently undergoing the accreditation process.
b) Some have started evaluating potential projects for funding and these include renewable energy projects (e.g. solar projects for Universities and schools). The projects are currently few and generally limited to mining and energy segments.
c) Some institutions are incorporating greening concepts in their projects (e.g. Building societies are considering installing solar power and water heating systems at their projects).
d) Some have started the process of reviewing policies and procedures to reflect the new thrust (e.g. reducing level of support to products that have a negative effect on health to promoting other industries such as citrus and macadamia nuts, considered to have high nutritional value) while a few banks have embedded sustainability in their credit policies.
e) A few banks have introduced the use of data collection tools with key environmental indictors.

f) A few institutions have adopted sustainability reporting in their Annual Financial Statements. Sustainable financing is key to Integrated Reporting.

137. The institutions are now working on defining their High Impact Goals, which should be linked to the country's developmental aspirations and should also subscribe to the Triple Bottom Line concept – People, Planet and Profit.

138. The Reserve Bank of Zimbabwe and the European Organisation for Sustainable Development (EOSD) have since signed a Memorandum of Understanding, which provides a framework for effective cooperation and coordination between the two (2) institutions in the implementation of the Sustainability Standards and Certification Initiative (SSCI) for financial institutions in Zimbabwe.

NATIONAL PAYMENT SYSTEMS OVERVIEW

139. The national payment services sector remained safe and sound. It recorded significant improvements in key performance indicators, on the back of a number of measures instituted by the Bank. These included oversight, research, licensing and operational activities which continued to foster convenience, development and safety of transacting to the members of the public.

140. In terms of operational reliability, the payment system in country achieved an average uptime of over 95% during the period under review. The Bank continued to maintain a strong focus on ensuring the resilience of the payment system infrastructure against cyber threats.

Oversight Activities

141. In order to ensure that appropriate risk management and consumer protection measures are implemented, the Bank continued to conduct off and on-site reviews on the payment services providers to ensure compliance. Generally, the control measures implemented by these payment services providers were found to be satisfactory. Improvement measures were identified for some payment services providers to further strengthen their risk management and operational arrangements.

142. Given the policy thrust to promote electronic means of payment and cognizant of the vulnerabilities that come with it, a cocktail of risk management measures was instituted to ensure effective consumer protection, safety and system efficiency on an ongoing basis. The measures instituted included the enforcement of best practices, cybersecurity, customer security programs, Euro MasterCard and Visa (EMV) among others.

Interoperability

143. While desirous of encouraging competition and innovation in payment services which will benefit users and promote greater financial inclusion, the Bank is mindful of the costs associated with a highly fragmented retail payment market arising from non-interoperable systems. In this regard, the regulatory framework in place require the ‘existing and new payment systems operators to embrace infrastructure sharing and interoperability.

Paynet Zimbabwe

144. Following disagreement on demands for payment in foreign currency on local services provided by Paynet Zimbabwe, banks were subsequently suspended from the system. Notwithstanding the suspension, banks continue

using other payment services such as RTGS, internet, card (POS) and mobile money payments to serve the transacting public. In addition, banks have also devised mechanisms to allow for exchange of electronic payment files.

145. In line with continued innovation and to further enhance efficiency, banks are working on a fully fledged bulk payments local solution which is expected to go live end of July 2019.

Payment Systems Statistics

146. During the period January to May 2019, the electronic means of payment transactional activities amounted to RTGS$ 87 billion, from 1(one) billion transactions as shown in Table 12 below. Notably, financial transactions made via the mobile channel continued to gain traction during the period January to May 2019, leveraging on the high mobile phone penetration among the Zimbabwean population.

Table 12: Payment Streams Transactional Activities from January to June 2019

PAYMENT STREAMS	TOTAL FOR JAN-JUNE 2019	PROPORTION OF TOTAL
VALUES		
RTGS	50,113,186,253.19	57.68%
CHEQUE	18,153,190.14	0.02%
POS	7,011,707,119.88	8.07%
ATMS	78,201,111.49	0.09%
MOBILE	22,925,869,324.11	26.39%
INTERNET	6,728,741,109.57	7.75%
TOTAL VALUE	**86,875,858,108.37**	**100.00%**
VOLUMES		
RTGS	2,561,563	0.25%
CHEQUE	72,281	0.01%
POS	146,477,651	14.10%

ATMs	998,482	0.10%
MOBILE	886,272,588	85.33%
INTERNET	2,256,967	0.22%
TOTAL VOLUME	**1,038,639,532**	**100.00%**

Source: *RBZ, 2019*

147. The aggregate monthly value of digital payment transactions increased by an average of 18% to during the first five months of 2019, whilst the corresponding volumes exponentially increased by a monthly average of 23%.

Reserve Bank of Zimbabwe

13 September 2019