2021 MID-TERM MONETARY POLICY STATEMENT

FOSTERING PRICE STABILITY

BY

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GOVERNOR

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SECTION ONE

INTRODUCTION AND BACKGROUND

1. This Monetary Policy Statement (the Statement) comes at a time when Government has ably shown steadfast commitment to sustaining the economic reform momentum. Despite the difficulties caused by the Covid-19 pandemic, the economy is on the rebound.

2. The close coordination between fiscal and monetary authorities, as shown by the sustained fiscal discipline and tight monetary conditions, coupled with the smooth operation of the Foreign Exchange Auction System, have fostered macroeconomic stability.

3. Accordingly, inflationary pressures in the economy have dissipated, thus creating a conducive monetary and financial environment essential to supporting the envisaged growth of 7.8% in 2021 and a robust economic growth in the medium term.

4. The anticipated recovery of the global economy in 2021 and the spill-over effects of the stimulus packages in the developed countries and Asia, together with the soon to be availed SDR allocations of US$650 billion into the world economy by the International Monetary Fund (IMF), are expected to have a positive trickle-down effect on the country's growth trajectory.

5. The Bank is confident that the current stability of inflation and exchange rates, supported by a buoyant external sector performance, will continue in the outlook period. The external sector performance has also been driven by strong recovery of the global economy, projected at 6% this year. The strong global economic recovery has resulted in a rally in international commodity

prices, particularly of platinum, nickel and copper. Moreover, tobacco prices have been firmer at an average price of US$2.92/kg during the just-ended marketing season compared to the previous season where the average price was US$2.55/kg.

6. On account of the strong external sector performance, foreign currency receipts have remained buoyant, with US$4.02 billion having been received in the first half of the year, compared to USD3.12 billion received over the same period in 2020, representing a 29.1% increase in foreign currency supply into the economy. Of this amount, diaspora remittances received through the formal system amounted to US$649 million, an impressive 73% increase from US$374.6 million received during the same period in 2020.

7. These positive economic developments are key in sustaining the Foreign Exchange Auction System which has had a significant impact on the national economy since its inception on the 23rd of June 2020. Commendably, the Foreign Exchange Auction System which has to date disbursed US$1.72 billion has ensured uninterrupted financing of importation of key raw materials and equipment for the productive sectors of the economy. Capacity utilisation in the manufacturing sector has, as a result, increased from 36% in 2019 to 47% in 2020 and is expected to further increase to above 61% in 2021.

8. Against this background, this Statement which is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15] reviews the monetary policy measures pursued by the Bank since the last Statement and outlines the new monetary policy measures to be followed by the Bank in the second half of the year.

9. The rest of this Statement is organized as follows: Section two provides an evaluation of the previous monetary policy statement issued in January 2021. Section three discusses the financial sector developments. Section four discusses inflation developments and outlook based on current and expected monetary and financial conditions. Section five discuses balance of payments developments and outlook. Section six gives new monetary policy measures necessary to sustain the ongoing price and financial sector stability. Section seven provides an update on disposal of Bank assets and finally section eight concludes the Statement.

SECTION TWO

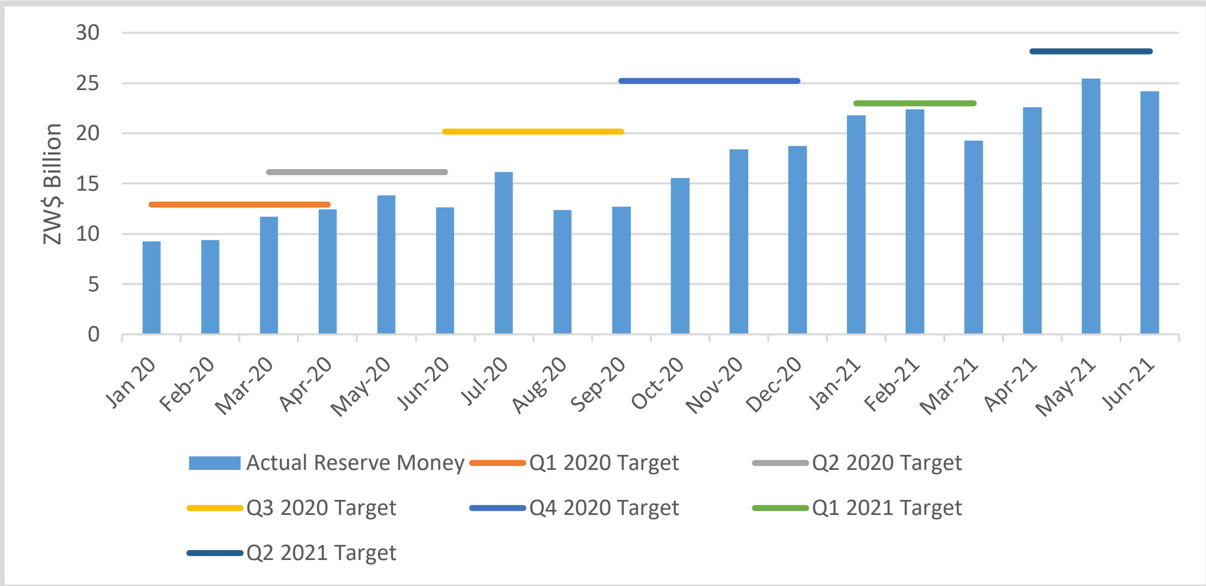
EVALUATION OF THE PREVIOUS MONETARY POLICY MEASURES

10. The Monetary Policy Committee (MPC) of the Bank maintained the Bank policy rate at 40% and the medium-term policy rate at 30% during the first half of 2021. The Bank also continued to undertake appropriate open market operations, in line with its monetary targeting framework, to ensure that money supply remained within growth enhancing and inflation neutral levels. These measures, along with the MPC's forward guidance on interest rates, have helped create and sustain the current accommodative monetary and financial conditions.

Management of Money Supply

11. The Bank put in place a reserve money growth target of 25% per quarter in 2020, which was reduced to 22.5%, beginning January 2021. In order to sustain the macroeconomic stability brought about by the restrictive monetary policy stance, the Bank further reduced the quarterly reserve money growth target to 20% for the remaining two quarters of 2021. This move was necessitated by heightened speculative pressures on the parallel market, which have a potential destabilising effect on price stability. Figure 1 shows reserve money performance for the first half of 2021 against set targets.

Figure 1: Reserve Money Developments in 2021:ZW$ billion

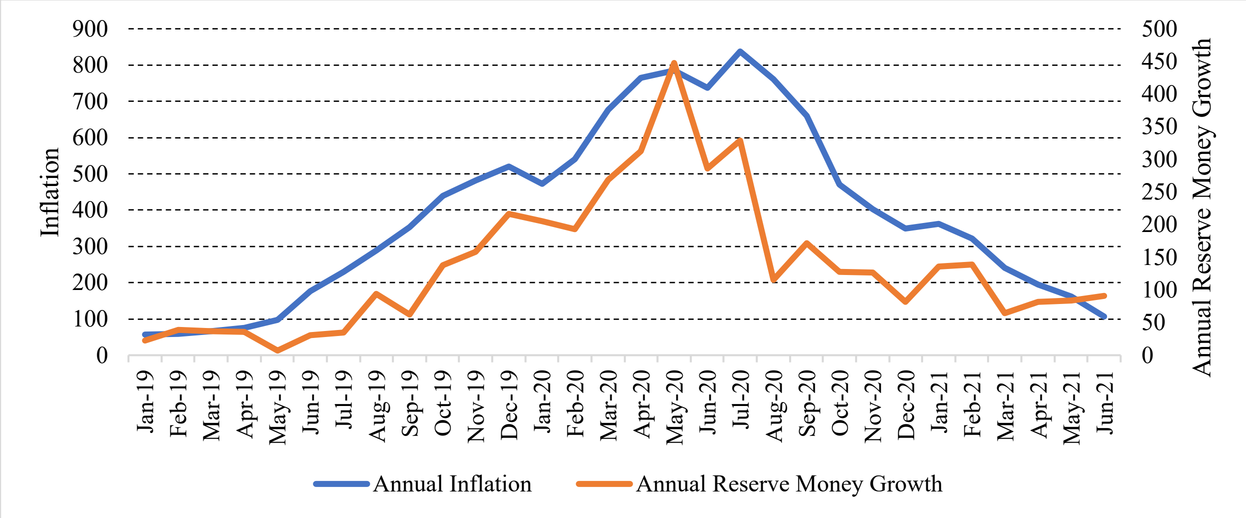


Source: RBZ

12. Following reduction in the quarterly reserve money target to 20%, reserve money will now be contained within a target of ZW$29 billion by end of September 2021, and to no more than ZW$35 billion by December 2021.

13. The Bank will continue to review the quarterly reserve money growth target, in line with inflation and exchange rate developments, as well as other macroeconomic developments. Figure 2 shows that there is a positive correlation between reserve money growth and inflation, which justifies the use by the Bank of the monetary targeting framework, among other measures and instruments to control inflation.

Figure 2: Inflation and Annual Reserve Money Growth



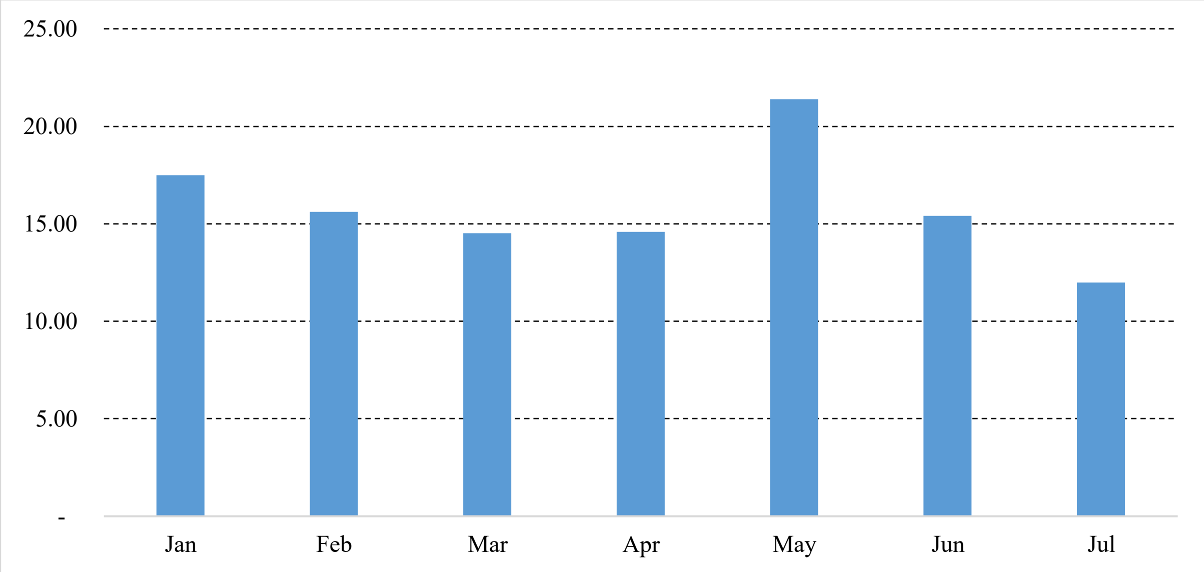
Source: RBZ & ZIMSTAT

14. As at end-June 2021, reserve money stock stood at ZW$24.17 billion, well within the target of ZW$28 billion.

Money Market Liquidity

15. As a reflection of the Bank's conservative monetary policy stance under its Reserve Money Targeting Framework, banks' average monthly liquidity position (average excess balances) at the Bank which stood at ZW$17.5 billion in January 2021 declined to ZW$14.5 billion in March 2021 and further to ZW$ 13 billion in June 2021. As at 23 July 2021, the banks' average liquidity position stood at ZW$12.6 billion. The monthly average balances trend in 2021 is reflected in Figure 3.

Figure 3:Monthly Banks' Average Liquidity Position at RBZ (ZW$ million)



Source: RBZ

Open Market Operations

16. The Bank's open market operations were largely undertaken through the issuance of the 7% Savings Bonds which were then complemented by the introduction of the 5% OMO Savings Bonds in October 2020. The 7% Savings Bonds were issued for tenor ranging from one year to three years, with the option to discount after 30 days, while the 5% OMO Savings Bonds had tenor of up to 7 days.

17. As the market liquidity continued to increase, a new instrument, the zero percent Non-Negotiable Certificate of Deposit (NNCD) was introduced at the beginning of June 2021. This instrument replaced the 5% OMO Savings Bond. The NNCD ensured that the Bank meets its reserve money targets, culminating in the MPC reducing the quarterly reserve money growth rate from 22.5% to 20% from the June 2021 quarter.

18. To avert any gridlocks in the payment system arising from the open market operations, banks can access the balances mopped in NNCDs as long as they utilise the funds and their excess balances are within their set limit. This system has worked exceptionally well and has also resulted in increased intermediation as banks are now deploying some of their excess (idle) balances for lending to their customers and purchase of Government securities.

Productive Sector Support Facilities

19. The Bank introduced the Medium-term Bank Accommodation Facility in November 2019 largely focused on supporting agricultural production. Support was extended for the Winter Wheat Planting Programme during the 2020 season and this helped in the realisation of a decent wheat crop of over 161 432 metric tonnes, enough to cover more than 5 months of the country's requirements. This saw the country saving foreign currency as millers were able to access local wheat. It is therefore imperative that such support programmes are implemented to substitute imports.

20. The outstanding amount under the Medium-term Bank Accommodation Facility stands around ZW$4.13 billion. In May 2021, the MPC approved an additional ZW$2.5 billion for winter wheat farming.

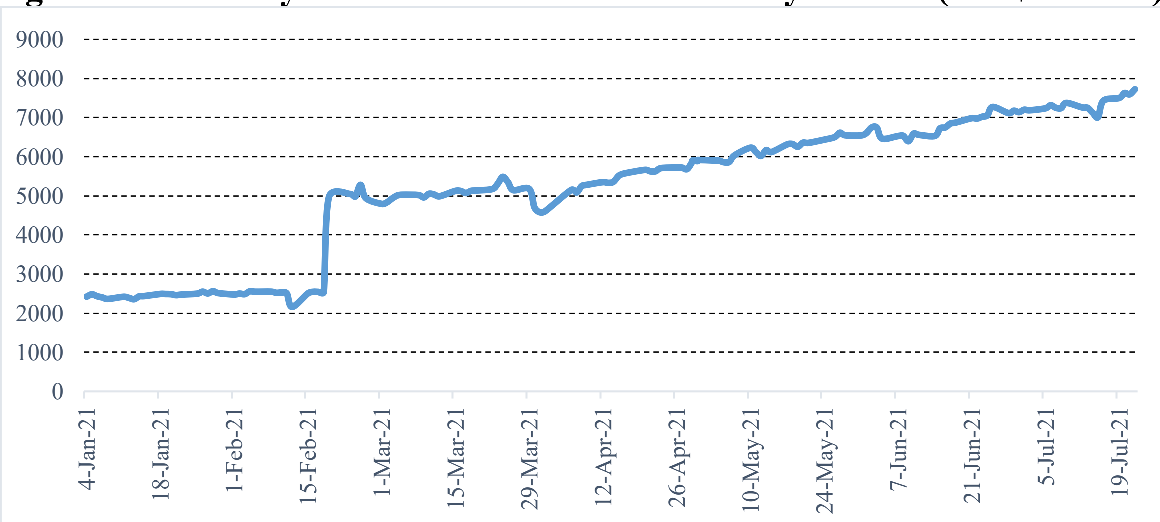
21. Following the debilitating impact of the Covid-19 induced lockdowns on the micro, small and medium enterprises (MSMEs), the MPC introduced a ZW$500 million facility to cater for the funding requirements of MSMEs. The facility is available for up to 12 months for working capital and up to 3 years for capital expenditure. The facility is accessed through banks, microfinance banks as well as credit only microfinance institutions.

22. The interventions by the Bank are available through the banking sector at an interest rate determined by the MPC and currently pegged at 30% per annum. Banks and other lenders participating in these facilities are expected to charge a maximum margin of 10 percentage points above the rate charged by the Bank, in this case, not exceeding 40% per annum.

Statutory Reserve Ratios

23. As part of its operations under the Reserve Money Targeting Framework, the Bank adjusted statutory reserve ratios in February 2021, from 2.5% to 5% for local currency demand and call deposits, whilst the ratio for time deposits was maintained at 2.5%. In this regard, statutory reserve balances which stood around ZW$2.5 billion in February 2021 rose to ZW$7.8 billion as at 23 July 2021. This growth reflects the transitory nature of deposits in the banking sector as most of the banks' liabilities to the public are largely demand and call deposits. The statutory reserves growth trajectory is highlighted in Figure 4.

Figure 4: Statutory reserves from Jan 2021 23 July to 2021 (ZW$ million)



Source: RBZ

Payment of Interest on Deposits

24. In recognition of the role played by savings and deposits in the economy and the need to support financial inclusion and development, the Bank engaged the Bankers Association of Zimbabwe on the need to comply with Statutory Instrument 65A of 2020 on the payment of interest on savings accounts. As a result, effective 1st July 2021, banking institutions scrapped bank charges on savings accounts and fixed term deposits and also agreed to offer minimum interest rates as shown in Table 1.

Table 1: Interest on Savings and Fixed Term Deposits

	ZW$	USD
Savings Accounts	Minimum of 5% per annum	Minimum of 1% per annum
Fixed Term Deposits	Minimum of 10% per annum	Minimum of 2.5% per annum

Source: RBZ

25. The Bank, in consultation with the Deposit Protection Board, is exploring mechanisms to protect foreign currency deposits. In addition, consultations are also ongoing to encourage banks to leverage on the foreign currency deposits to enhance financial intermediation for the benefit of the economy. These measures will allow the circulation of the US$1.7 billion currently sitting in FCA accounts, to promote growth and development.

Introduction into Circulation of Z$50 Banknote

26. In order to improve efficiency and convenience to the public, the Bank introduced ZW$50 banknotes into the national economy on the 7th of July 2021. All banknotes and coins issued by the Bank since 2016 remain legal tender in Zimbabwe. The banknotes and coins have not expired and hence the behaviour by some traders to reject some of the notes in circulation to

the detriment of members of the public is deplorable and an unfair way of conducting business. That wayward behaviour is spurred by negative ulterior motives which are associated with arbitrage and the practice of not banking money. The Bank encourages the public not to be short-changed by such traders and to report such unbecoming behaviour to the Bank or the Financial Intelligence Unit (FIU) or the Zimbabwe Republic Police for corrective action to be taken against such malpractices.

Foreign Exchange Auction System

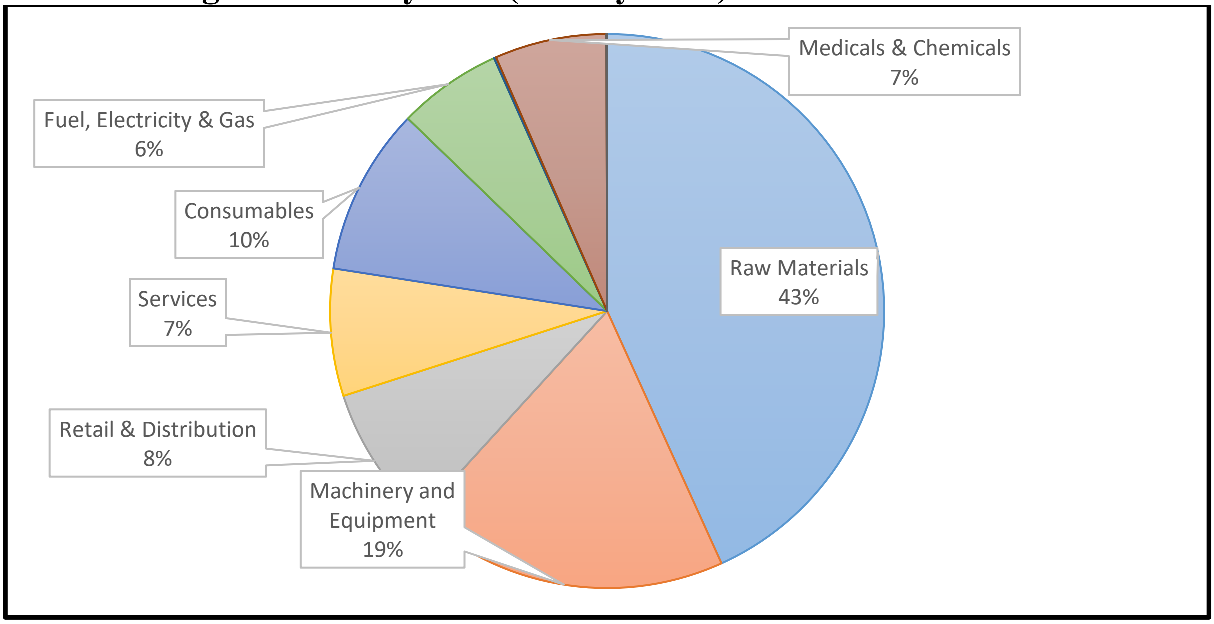
27. The Foreign Exchange Auction System, which attained its first anniversary on 23 June 2021, has contributed immensely in bringing transparency in the trading of foreign currency as well as the stability in the exchange rate which has culminated in price stability.

28. After 56 Main and 50 SMEs auctions, a total of US$1.72 billion had been allotted as at 27 July 2021, representing 98% of total bids submitted to the auction. Reflecting the importance of the SMEs sector, the share of allotments of the SME Auction to total allotments grew from 3.5% in the third quarter of 2020 to about 14% in the second quarter of 2021.

29. The efficient allocation of foreign currency through the Foreign Exchange Auction System has contributed to increased confidence and growth in economic activity. Encouragingly, the Foreign Exchange Auction System continues to support the productive sectors of the economy with more than 70% of foreign exchange allotted going towards these critical sectors.
Those in the manufacturing sector accounted for 17 out of the top 20 auction beneficiaries during the period under review. Figure 5 shows the distribution

of foreign currency through the Foreign Exchange Auction System by end of July 2021.

Figure 5: Distribution of Foreign Currency through the Foreign Exchange Auction System (27 July 2021)



Source: RBZ

30. Ramping up of production has also been necessitated by the increase in investment, given that the foreign exchange auctions have so far outlaid around US$325.0 million which has been utilised by businesses to capitalise their operations.

31. Similarly, the response by the country's manufacturing sector to the Foreign Exchange Auction System has been quite encouraging with 65 – 70% of products in the retail sector now being produced locally - a significant leap in import substitution. Other entities are venturing into the export market.

32. Increased capacity utilisation by industry has resulted in an increase in the demand for foreign currency on the Foreign Exchange Auction System. This

saw demand rising from about US$30 million per week in December 2020 to around US$45 million per week in July 2021.

Statutory Instrument 127 of 2021

33. In a bid to curb arbitrage and speculation with foreign currency obtained from the Foreign Exchange Auction System, Government gazetted the Presidential Powers (Temporary Measures) (Financial Laws Amendment) Regulations, 2021, Statutory Instrument 127 of 2021 (SI 127) to enable the Bank to levy civil penalties against abusers of Foreign Exchange Auction System, among other things. It is the view of the Bank that SI 127 will continue to foster discipline in the market and safeguard the stability that has so far obtained in the economy.

34. In line with the Bank's Press Statement of 15 June 2021, efforts to foster compliance in terms of SI 127 shall be limited to outliers that wantonly abuse the Foreign Exchange Auction System, manipulate the exchange rate and do not comply with exchange control rules and regulations.

35. Through investigations by the Financial Intelligence Unit (FIU) and the Bank, 27 entities have so far been fined for failure to adhere to the rules of the auction system and flouting the exchange control rules and regulations.

Foreign Exchange Mobilisation

36. The Bank continues to engage its offshore partners to unlock critical external funding to support the economy. Notwithstanding the adverse impact of the Covid-19 pandemic to mobilise foreign finance required in the economy, the Bank successfully restructured its obligations with the African Export-Import Bank (Afreximbank) during the first half of 2021 into a longer-term facility,

a move that has reduced the repayment burden and unlocked capacity to avail more resources for balance of payments support to the economy.

37. The Bank has also put in place a US$150 million Letter of Credit (LC) facility with Afreximbank, which will see participating banks issue letters of credit to their qualifying clients to import essential raw materials and other inputs to support the current growth trajectory. The LCs will go a long way in easing pressure on the Foreign Exchange Auction System as some of the critical imports will be financed under this arrangement.

Interbank Foreign Exchange Market

38. Apart from the Foreign Exchange Auction System which accounts for around 30% of the total market foreign exchange transactions, the interbank foreign exchange market continues to be operational using the auction determined foreign exchange rate. The interbank foreign exchange market traded around 7% of total market transactions from January to July 2021. Around 63% of the market transactions are processed through bank customers' foreign currency accounts.

SECTION THREE

FINANCIAL SECTOR DEVELOPMENTS

39. The banking sector has remained stable, safe and sound, despite the disruptive impact of the Covid-19 pandemic. Government support and regulatory relief measures implemented thus far, have cushioned the economy and muted the potential adverse impact to the banking sector's performance. The measures ensured continued orderly functioning of the financial markets, continuous flow of credit and fostered financial sector stability.

40. As at 30 June 2021, the banking sector comprised 13 commercial banks, five building societies, and one savings bank. In addition, there were 178 credit-only microfinance institutions, eight deposit-taking microfinance institutions and two development financial institutions under the purview of the Bank.

Condition and Performance of the Banking Sector

41. The banking sector financial soundness indicators are depicted in Table 2.

Table 2: Financial Soundness Indicators

Key Indicators	Benchmark	June-20	Dec -20	Mar-21	June -21
Total Assets (ZW$ Billion)	-	193.56	349.59	406.22	486.45
Total Loans & Advances (ZW$ Billion)	-	37.77	82.41	105.23	142.79
Net Capital Base (ZW$ Billion)	-	29.47	53.18	64.21	72.90
Total Deposits (ZW$ Billion)	-	97.40	204.13	241.74	304.95
Net Profit (ZW$ Billion)	-	13.46	34.24	6.58	15.09
Return on Assets (%)	-	10.53	13.55	0.96	4.78
Return on Equity (%)	-	27.38	45.54	5.90	18.71
Capital Adequacy Ratio (%)	12	61.72	34.62	30.04	35.32
Tier 1 Ratio (%)	8	34.35	22.65	19.43%	25.05
Loans to Deposits (%)	70	37.71	39.45	43.53	45.84
Non-Performing Loans Ratio (%)	5	1.03	0.31	0.36	0.55
Liquidity Ratio (%)	30	74.85	73.06	68.36	66.89

Source: RBZ

Banking Sector Capitalisation

42. The banking sector remained adequately capitalized, with aggregate core capital of ZW$57.54 billion as at 30 June 2021, an increase of 8.09%, from ZW$53.18 billion as at 31 December 2020. The banking sector average capital adequacy and tier one ratios of 35.32% and 25.05% respectively, were above the regulatory minima of 12% and 8%, respectively.

43. In line with the Monetary Policy Statement of August 2020, banking institutions submitted updated capital plans to the Bank as at 30 June 2021, which were reviewed for credibility. The Bank established that banking institutions are making significant progress towards meeting the new

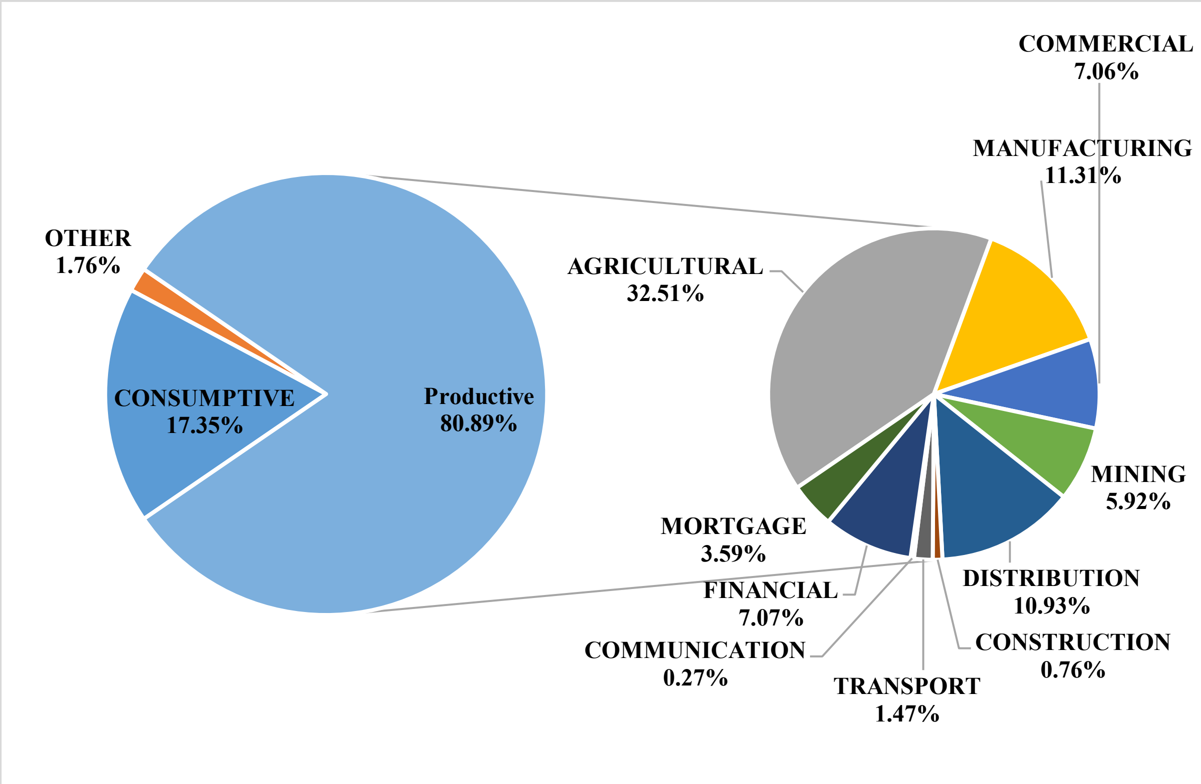
minimum capital requirements which are effective 31 December 2021. The strategies being pursued by banking institutions to comply with the new minimum capital requirements are largely based on organic growth and capital injection by the shareholders.

Banking Sector Loans and Advances

44. Total banking sector loans and advances increased by 73.27% from ZW$82.41 billion as at 31 December 2020 to ZW$142.79 billion as at 30 June 2021. During the period under review, financial intermediation remained stable as reflected by a loans to deposits ratio of 45.84%. This position reflects that there is scope for banking institutions to enhance their financial intermediation role.

45. The banking sector continued to support the productive sectors of the economy, as reflected by the ratio of loans to productive sectors to total loans 80.89% as at 30 June 2021, and as further shown in the Figure 6.

Figure 6: Sectoral Distribution of Loans as at 30 June 2021

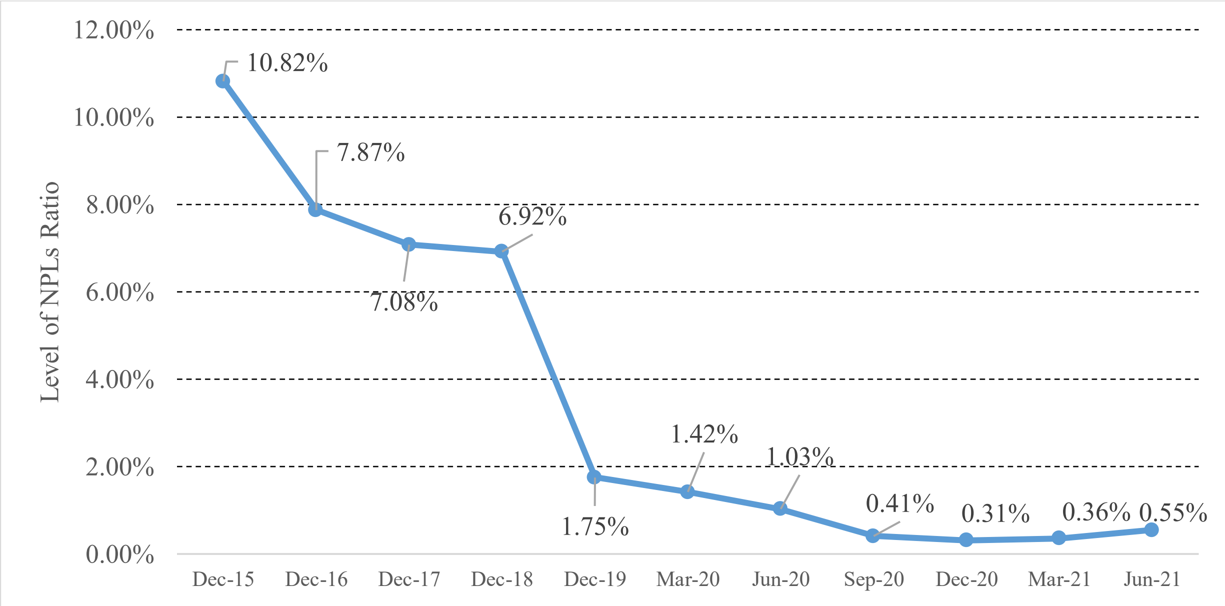


Source: RBZ

Asset Quality

46. The performance of loan portfolios of banking institutions was satisfactory as reflected by the average non-performing loans (NPLs) to total loans ratio which remained low at 0.55% as at 30 June 2021, against the international benchmark of 5%, reflecting sound credit risk management systems and internal controls. In the outlook period, credit risk is expected to remain low.

Figure 7: Trend in Non- Performing Loans: December 2015- June 2021



Source: RBZ

Zimbabwe Asset Management Company (ZAMCO)

47. The role of the Zimbabwe Asset Management Company (ZAMCO) in improving the banks' asset quality has been phenomenal. The acquisition of NPLs by ZAMCO helped improve and enhance the capital adequacy and earnings of banks through removal of toxic assets and replacing them with risk free assets (treasury bonds) thus providing earning assets that could be used to unlock liquidity as security.

48. ZAMCO has managed to pay off its obligations of ZW$1.2 billion to Government ahead of the sunset time of 2025 and plans to wind off its operations in line with section 57A of the Reserve Bank of Zimbabwe Act are underway.

Banking Sector Deposits and Liquidity

49. Aggregate deposits amounted to ZW$304.95 billion (51% in local currency and 49% in foreign currency) as at 30 June 2021, which represented a

49.39% increase from ZW$204.13 billion reported as at 31 December 2020. Meanwhile, the average prudential liquidity ratio for the banking sector remained largely stable at 66.89%, which was above the minimum regulatory requirement of 30%. The high average prudential liquidity ratio largely reflects the conservative approach to lending by the sector.

Enhancement of Credit Infrastructure

50. The enhanced credit referencing environment has improved credit risk management in the sector by providing timeous and reliable credit information. The Credit Registry recorded a significant increase in enquiries from 813,298 as at 30 June 2021 to 1,317,853 as at 30 June 2021.

51. The Credit Registry held over 1.45 million records, of which 524,342 were active loan accounts. Individual records represented 98% of the active loan records in the Credit Registry. Registered subscribers currently accessing the Credit Registry were 209 as at 30 June 2021.

52. With respect to operationalising the Collateral Registry, the Bank has commenced working on the system prototype together with BSystems Limited of Ghana, following a successful tender process. The definition of business specifications which guides the vendor in the implementation process have been completed.

Financial Inclusion Indicators

53. Access and usage of financial services and products continued on an upward trajectory with the increased adoption of digital platforms, on the back of high mobile penetration rate in the country. The number of active mobile money subscribers increased from 5.2 million to 6.4 million active

subscribers during the period under review, underpinned by the Bank's efforts to promote electronic payments and a cash-lite society.

54. The value of loans availed to MSMEs, women and the youth by banks and deposit-taking microfinance institutions increased from ZW$3.01 billion, ZW$3.28 billion and ZW$1.94 billion as at 31 December 2020, to ZW$3.96 billion, ZW$5.03 billion and ZW$2.71 billion as at 31 March 2021, respectively.

Sustainable Financing

55. There is a shift globally towards prioritising the sustainability agenda, against the realisation that strong and resilient institutions contribute meaningfully to sustainable economic development and attainment of Sustainable Development Goals (SDGs) by 2030.

56. The Bank continues to work closely with local financial institutions in the implementation of the Sustainability Standards & Certification Initiative (SSCI) being driven by the European Organisation for Sustainable Development (EOSD). The participating institutions have registered significant progress in comprehending the key pillars of SSCI.

Legal & Regulatory Developments

57. The Bank continues to strengthen the regulatory framework in line with its mandate of promoting financial stability. On 6 November 2020, the Banking (Amendment) Regulations No. 5 of 2020 was gazetted. The amendment aligns the Banking Regulations S. I. 205 of 2000 to the Banking Act [Chapter 24:20] following amendments effected in 2015 and provide for the minimum capital requirements and enhanced corporate governance standards.

58. The amendments reduce significant interest threshold from 10% to 5% in line with the new section 15B (1) of the Banking Act, increase the maximum shareholding that an ordinary company can have in a banking institution from 10% to 25% in line with the new threshold limits in section 15A (1) of the Banking Act, provide for the disclosure of interests form as required under the new section 20B of the Banking Act and provide additional prudential limits for lending to insiders and their related interests. In addition, the amendment provides for the previously announced minimum capital requirements for banking institutions which are effective 31 December 2021.

59. Banking (Amendment) Regulations Statutory Instrument 63 of 2021 was gazetted on 5 March 2021 to increase the maximum amount that may be lent to a related party without the conditions specified under section 35 of the Banking Act.

Business Continuity & Digitisation

60. The Bank has noted that Covid-19 has accelerated and deepened the use of technology in the provision of financial services in the banking sector for convenience of the banking public. In addition, banking institutions have successfully transitioned to the virtual operating model. The digitization of the financial services, however, has heighted cyber security risk. In this regard, banking institutions are mandated to enhance cyber risk management systems, including upgrading core banking systems and information access security controls on an on-going basis.

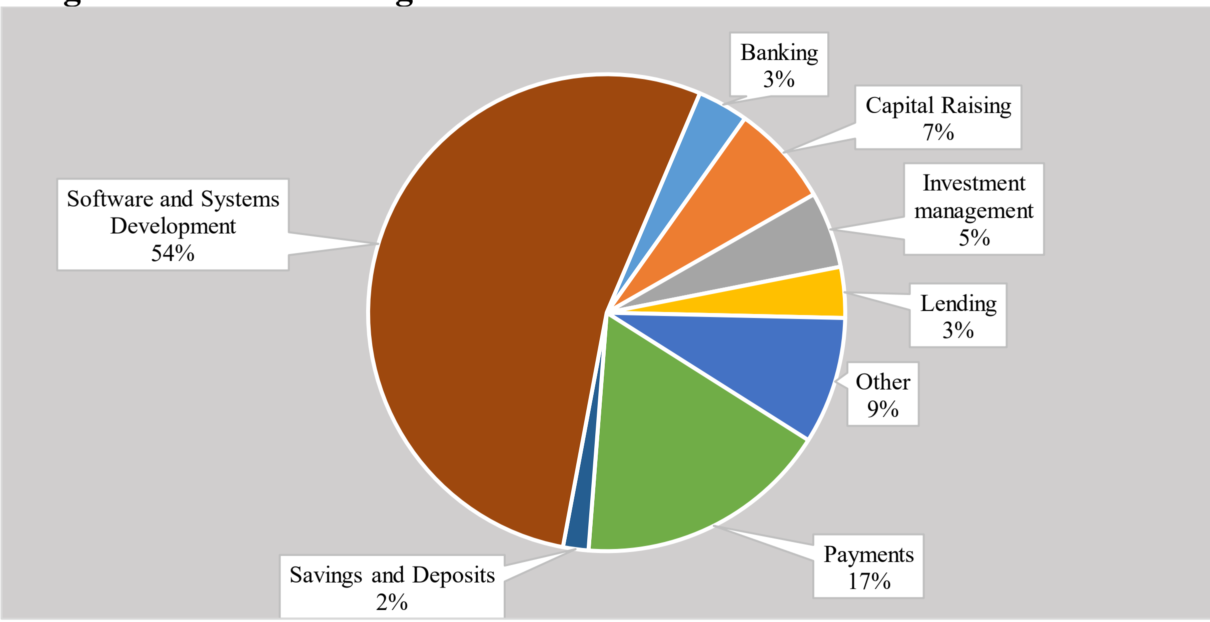
Fintech Developments

61. The Bank is cognisant of the speed at which financial technology is evolving globally and has taken a proactive approach to ensure financial innovation

does not destabilise Zimbabwe's financial system. To this effect, the Bank formed a Fintech Unit responsible for researching and monitoring Fintech developments in the country. To foster responsible innovation, the Bank established a Regulatory Sandbox in March 2021, which provides a platform for testing new financial innovations in a regulated environment before the technology is ushered to the market.

62. Since the launch of the Sandbox in March 2021, the Bank has witnessed 58 Fintech registrations on the online portal and an additional 14 applications at various stages. In addition, about 859 unique visitors from 45 countries including Zimbabwe have also visited the platform to date. Registered users come from various sectors with the largest share of users in Software and systems development, 54%; payments, 17%; capital raising, 7%; investment management, 5%; among others shown in the figure 8.

Figure 8: Sectors of Registered Users



Source: RBZ, 2021

63. The Fintech Regulatory Sandbox is open for innovations and the Guidelines are accessible on the Bank's website.

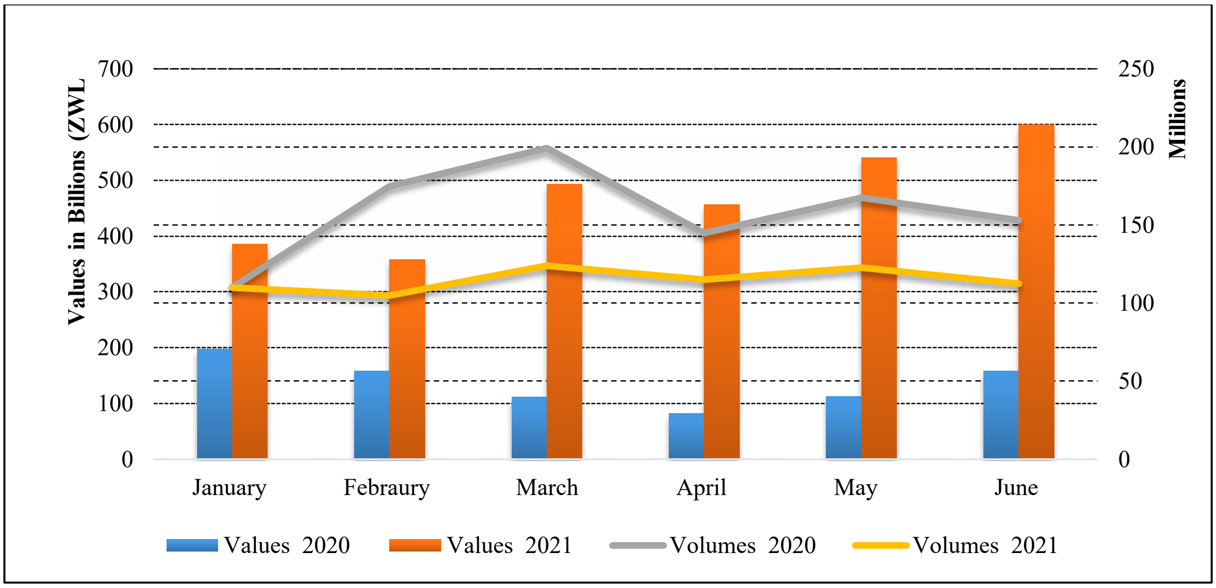
64. The Bank has also received a number of expressions of interest from Fintech service providers who are eager to support the Bank with the roll out of Fintech services. The Bank is, however, cautious about the potential impact of digital currencies, given the sensitivities around currency issues in the national context. As such, the Bank will remain guided by international developments on Fintech issues and guidance from the IMF and the SADC Committee of Central Bank Governors (CCBG).

National Payments Systems

65. The national payment system remained stable and resilient during the first half of 2021, underpinned by a robust regulatory oversight, reliable and efficient financial market infrastructure to weather the negative impact of Covid-19.

66. The value of digital payment systems (DPS) grew by 245% during the first half of 2021 compared to the same period in 2020. Volumes, on the other hand, fell by 27%, as shown in Figure 9.

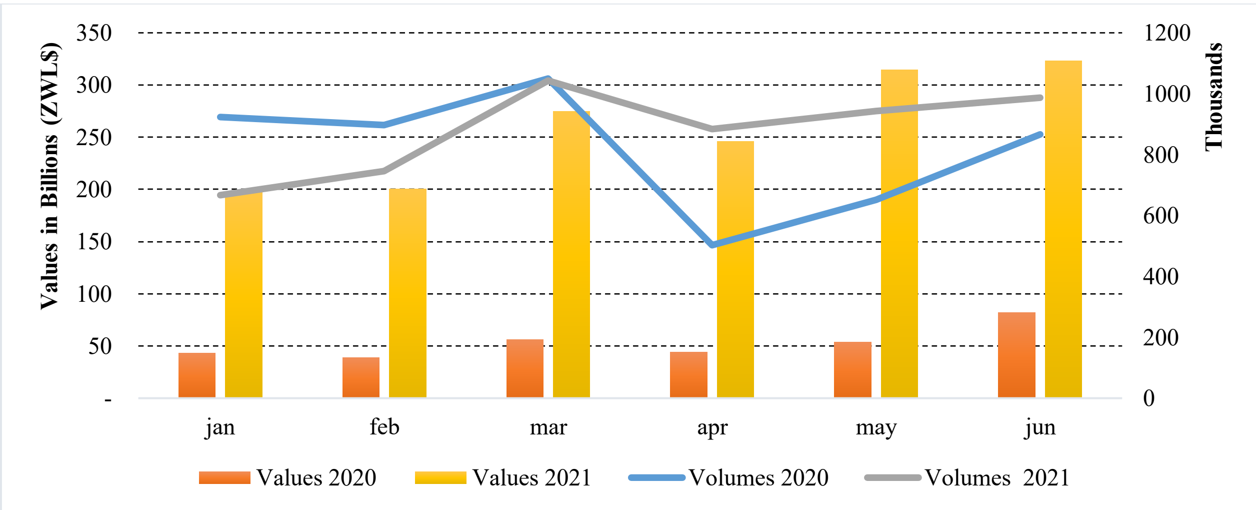
Figure 9:Comparative DFS Monthly Values and Volumes for Six Months ended June 2021



Real Gross Settlement System (RTGS)

67. A total of 5.3 million transactions valued at ZW$1.56 trillion were processed through ZETSS during the first half of 2021.

Figure 10: RTGS Values & Volumes for the Six Months ended June 2021 and 2020



68. The recently launched “Digital Economy for Zimbabwe Country Diagnostic Report by World Bank (March 2021)” acknowledged that the country has achieved 96% digital transactions against 4% cash largely due to a well-developed payment system.

Cyber Security

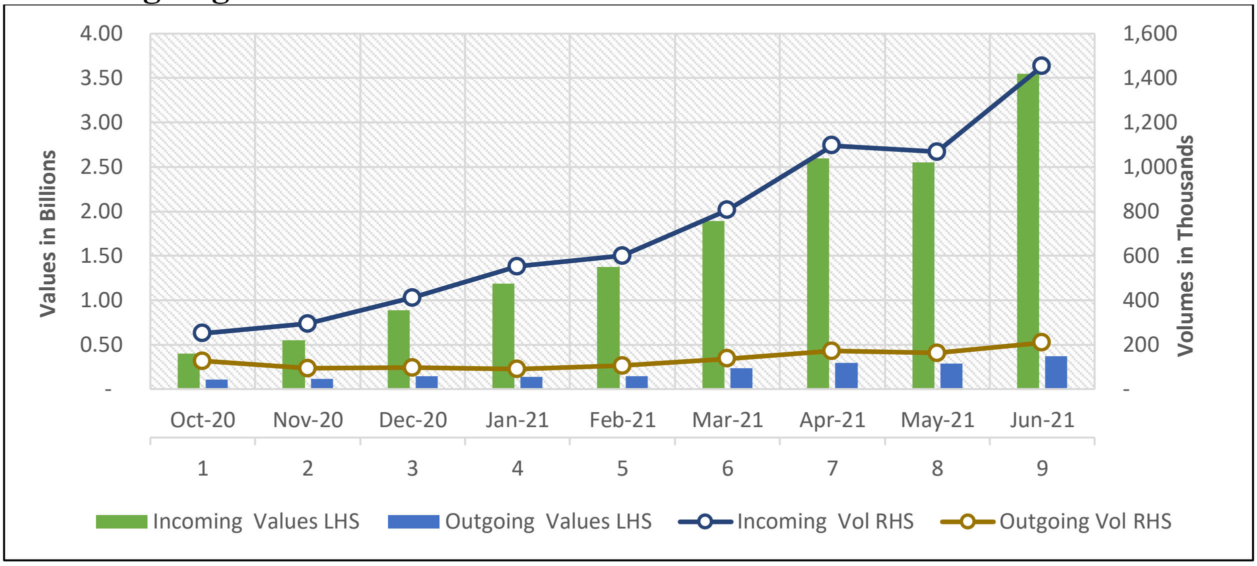
69. While the Bank considers cybersecurity to be a critical component in the provision of digital financial services, there has been threats to financial stability due to the rise in cyber risk, as the economy witnessed increased interconnectivity financial ecosystems and digitalisation. Cyberattacks present dangers to the functioning of financial infrastructures, confidentiality, integrity and availability of data, thereby creating both reputational and direct financial risks.

70. To mitigate against the increase in cyber risk, the Bank issued a comprehensive Risk-Based Cyber Security Framework to regulated entities under its supervision as part of efforts to promote financial stability, inclusion and integrity.

Interoperability

71. Following the promulgation of Statutory Instrument 80 of 2020 on interoperability, the Bank is pleased with the convenience brought in the movement of funds across players particularly during this new normal brought about by covid-19 pandemic.

Figure 11: Mobile Money Interoperability Values Incoming and Outgoing from October 2020 to June 2021



Source: RBZ

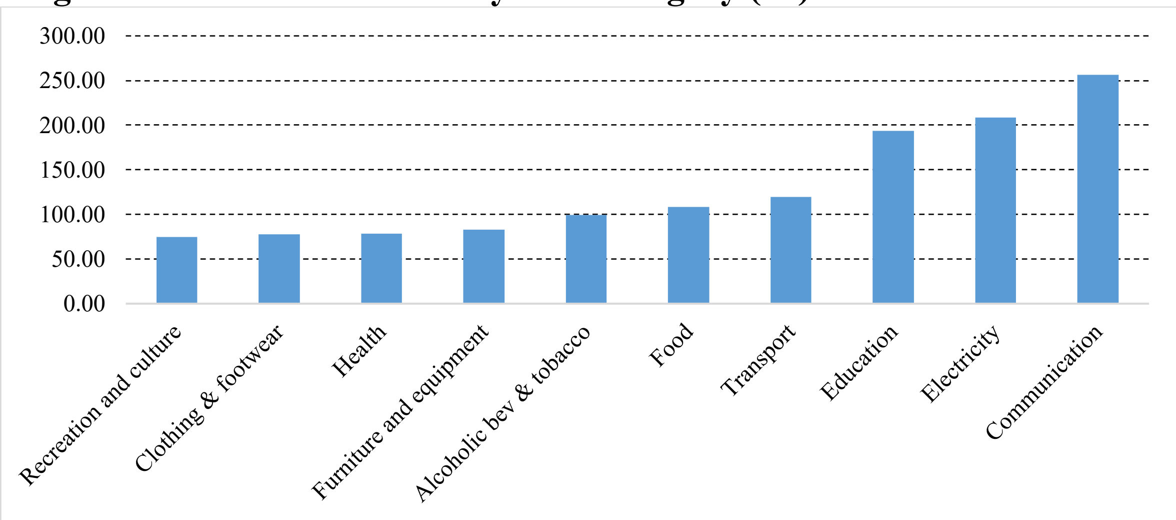
SECTION FOUR

INFLATION DEVELOPMENTS AND OUTLOOK

72. In the previous monetary policy statement, the Bank projected inflation to decline to 55% by July 2021. Encouragingly, the policies being implemented by Government and the Bank have managed to anchor inflation expectations as attested by a significant decline in inflation from 837.5% in July 2020 to 56.4% in July 2021.

73. Reflecting stability in the exchange rate, notable price increases in 2021 have mainly been recorded in regulated services including electricity, education, communication, and transport as shown in Figure 12.

Figure 12: Annual Inflation by CPI Category (%)

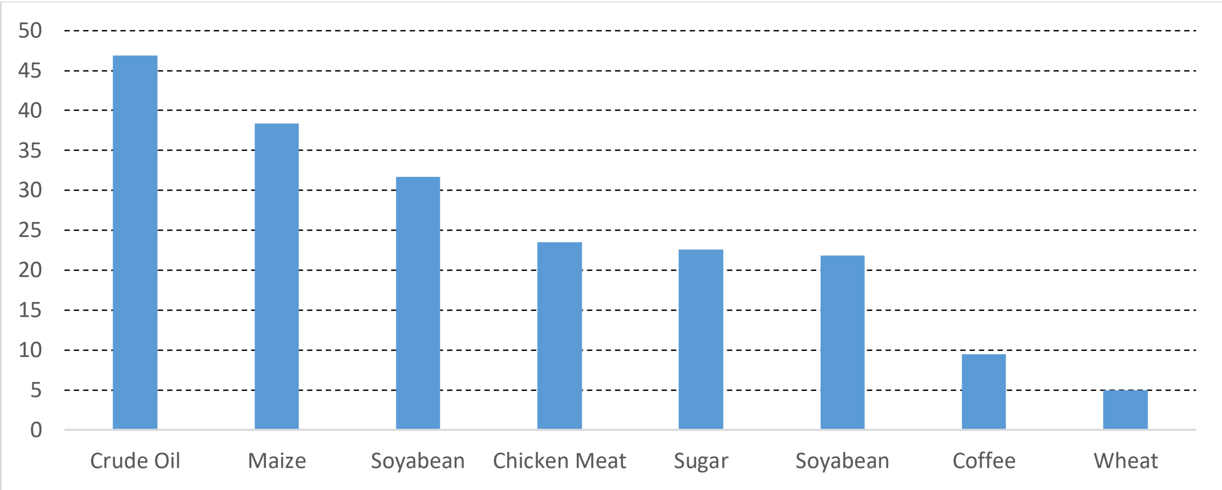


Source: ZIMSTAT,2021

74. The increase in international oil and food prices also explained the rise in domestic prices during the period under review. The international prices of oil and most agriculture products rose by more than 20% since January 2021, as shown in Figure 13. International crude oil price rose from an average of US$48.73 per barrel in December 2020 to US$71.80 in June 2021, impacting

negatively on domestic inflation directly and indirectly through increases in production and distribution costs.

Figure 13: International Oil & Food Price Changes (January to June 2021)



Source: World Bank, 2021

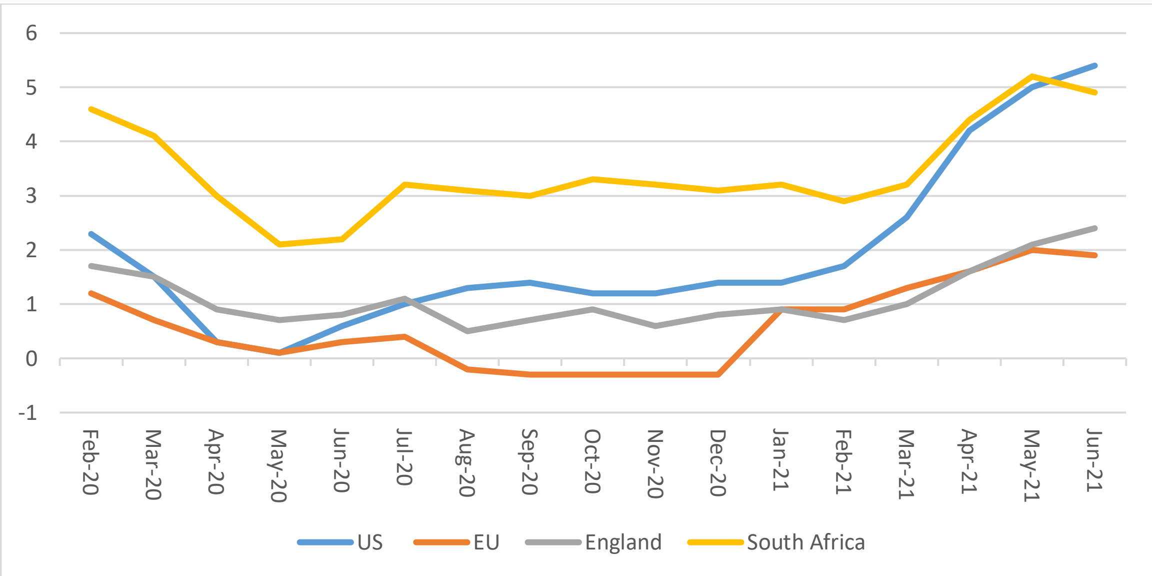
75. Recent empirical evidence shows that global oil and food prices contribute significantly to domestic inflation in most Sub-Saharan African countries. The contribution of international commodity price shocks to domestic inflation is greater for countries that have higher oil intensity and huge food imports. The recent sharp increase in international food prices has already slowly started to feed into domestic consumer prices in some regions as retailers, unable to absorb the rising costs, are passing on the increases to consumers.

76. International food prices are expected to increase by about 25 percent in 2021 from 2020, before stabilizing in 2022. A pass-through of 20 percent (13 percent in the first year and 7 percent in the second) would, thus, imply an increase in consumer food price inflation of about 3.9 percentage points and 2.1 percentage points on average in 2021 and 2022, respectively for Zimbabwe. An additional one percentage point to the 2021 global consumer food inflation could be added by the higher freight rates.

77. It is in view of these shocks, and in particular the international agriculture prices, that the Bank continues to be committed to supporting Government efforts aimed at ensuring food self-sufficiency for all commodities which can be grown locally including maize, soya-bean and wheat. In this regard, and despite increases in international prices for most agriculture products since January 2021, the impact on domestic food prices was largely neutralized owing to the bumper maize and traditional grains harvest recorded in 2021.

78. In addition, global inflation had been on a rise since January 2021 as shown by increases in United States of America (USA), European Union (EU), England and South Africa among others, bringing to the fore the importance of foreign inflation spillovers which reflect imported inflation from other countries to nations with high import requirements such as Zimbabwe. Annual inflation in USA rose to 5.4% in June 2021 the highest in several years, while South Africa's inflation was 5.2% for May 2021, the highest in 30 months.

Figure 14: Global Inflation Trends for Selected Countries (%)

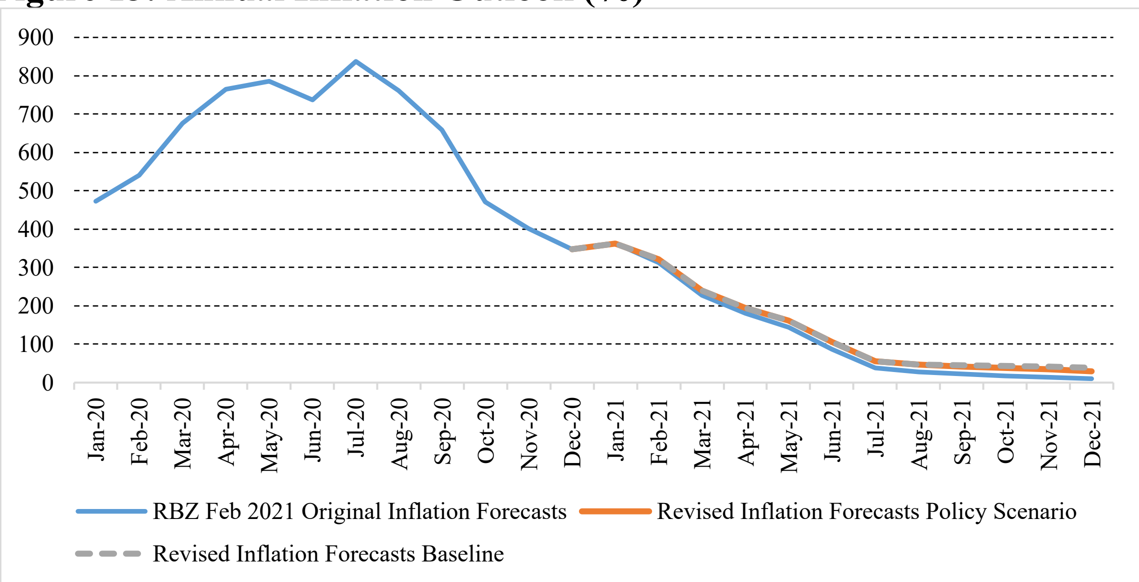


Source: Central Bank Websites

79. Despite the exogenous global inflation factors, the Bank, expects month-on-month inflation which reflects current inflation trends to remain stable at around 2% during the second half of 2021. Importantly, core inflation which measures trend inflation by excluding volatile CPI items such as food and fuel prices stood at 55.8% in July 2021, also pointing to sustainable deceleration of inflation pressures in the economy.

80. The deviation from the initial end period forecast of just below 10% was due to unavoidable shocks to international food and administered prices discussed above. Annual inflation is now expected to fall between 25 and 35% by end December 2021.

Figure 15: Annual Inflation Outlook (%)



Source: RBZ & ZIMSTAT, 2021

81. The ongoing price and exchange rate stability will go a long way in supporting industry in making long term investment decisions and allow the efficient

allocation of resources. In this regard, the Bank will continue to pursue strong monetary policies to sustain the current disinflationary path.

SECTION FIVE

BALANCE OF PAYMENTS DEVELOPMENTS AND OUTLOOK

82. Reflective of strong real sector performance, continued monetary restraint and fiscal consolidation, the country's external sector position has remained relatively strong since 2019. A strong external sector position is supportive of exchange rate stability and hence adds further impetus to the ongoing disinflation drive.

83. In addition, Zimbabwe's strengthening external position derives from the current recovery in the global economy which is expected to register strong growth of 6.0% in 2021, from an estimated negative growth rate of 3.2% in 2020.

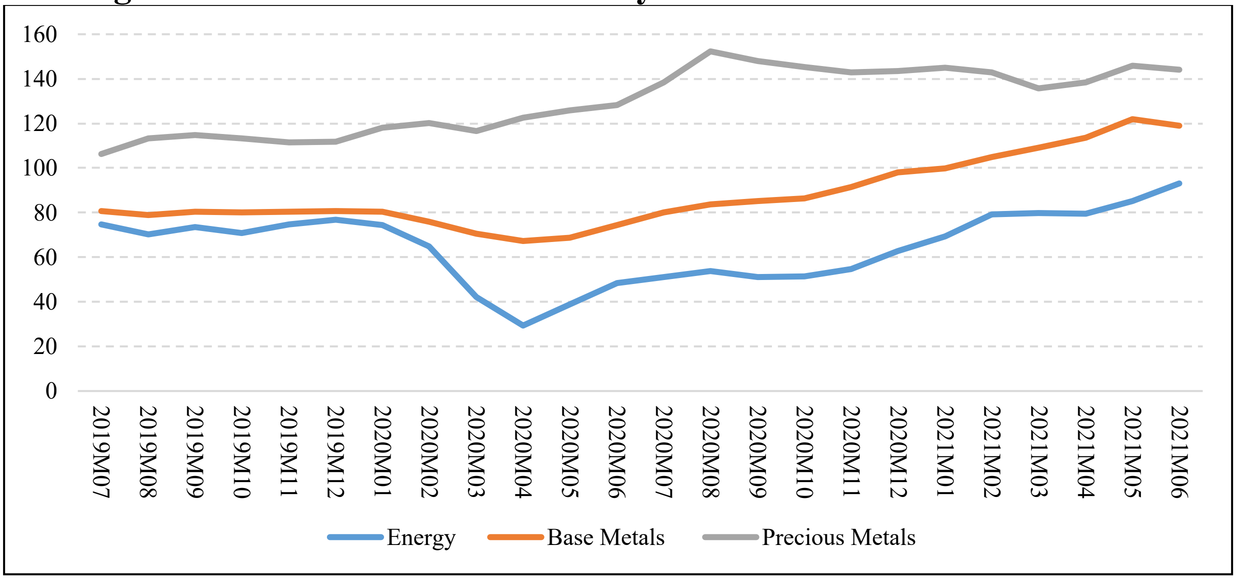
Table 3:Global Economic Growth Rates & Outlook (%)

Country/Group Name	2020	2021	2022
	Estimates		*Projections*
World Output	**-3.2**	**6.0**	**4.9**
Advanced Economies	**-4.6**	**5.6**	**4.4**
o/w: United States	*-3.5*	*7.0*	*4.9*
Euro-Area	*-6.5*	*4.6*	*4.3*
Japan	*-4.7*	*2.8*	*3.0*
Emerging Market & Developing Economies	**-2.1**	**6.3**	**5.2**
Asia	**-0.9**	**7.5**	**6.4**
o/w: China	*2.3*	*8.1*	*5.7*
India	*-7.3*	*9.5*	*8.5*
Sub Saharan Africa	**-1.8**	**3.4**	**4.1**
o/w: Nigeria	*-1.8*	*2.5*	*2.6*
South Africa	*-7.0*	*4.0*	*2.2*
***Zimbabwe**	-4.1	7.8	5.5

Sources: IMF World Economic Outlook, July 2021

84. The phenomenal recovery in the global economy is simultaneously strengthening international commodity prices with potentially positive knock-on effects on Zimbabwe's export receipts. Figure 16 below shows commodity prices indices up to June 2021.

Figure 16:International Commodity Price Index



Source: IMF, 2021

85. Reflecting the strong external sector performance, foreign currency receipts amounted to US$4.02 billion in the first half of the year, compared to US$3.12 billion received over the same period in 2020, representing a 29.1% increase in foreign currency supply. Table 4 shows cumulative foreign currency receipts for six months ended June 2020 and 2021.

Table 4: Total Foreign Currency Receipts (US$ millions)

Type of Receipt		June 2021 (US$ Million)	June 2020 (US$ Million)	% Change
Export Proceeds		2,305.70	1,909.1	20.8%
International Remittances	Diaspora Remittances	649.47	374.6	73%
	NGOs	462.62	331.1	40%
Loan Proceeds		505.15	454.6	11%
Income receipts		79.59	29.9	166%
Foreign Investment		22.35	17.8	25%
TOTAL		**4,024.88**	**3,117.1**	**29.1%**

Source: RBZ

86. The rally in commodity prices, however, brings with it a downside risk emanating from increasing global energy prices with adverse implications for the country's energy import bill. This notwithstanding, the foreign exchange gains from improved exports are projected to outweigh the corresponding losses from the incremental energy import bill. This, in effect, is envisaged to mute the possible negative implications of higher global petroleum prices on both inflation and external sector resilience.

87. Reflecting this positive global and domestic economic outlook, merchandise exports are expected to maintain strong growth. The projected export performance is reflective of the export shipments for the first half of the year. Precisely, cumulative export receipts as at 30 June 2021 were US$2.31 billion compared to US$1.91 billion received during the same period in 2020. This represents an increase of 20.8% in 2021 shown table 5.

Table 5: Export Receipts by Sector (US$ Millions)

Sector	2021	2020	% Change
Mining	**1,902.9**	**1,380.7**	**37.8%**
Platinum	*1,180.9*	*509.1*	*132.0%*
Gold	*309.9*	*235.0*	*31.9%*
Chrome ore + Ferrochrome	*39.4*	*38.1*	*3.4%*
Diamonds	*68.2*	*17.7*	*285.3%*
Other minerals	*304.5*	*580.8*	*-47.6%*
Manufacturing	71.9	188.5	-61.9%
Tobacco	137.9	145.6	-5.3%
Transport	87.1	96.4	-9.6%
Agriculture	75.9	67.6	12.3%
Horticulture	14.5	12.1	19.8%
Postal & Telecommunications	2.8	6.0	-53.3%
Other Services (Construction, etc)	7.1	8.5	-16.5%
Tourism (Hunting)	5.6	3.7	51.4%
Total	**2,305.7**	**1,909.1**	**20.8%**

Source: RBZ Exchange Control Records

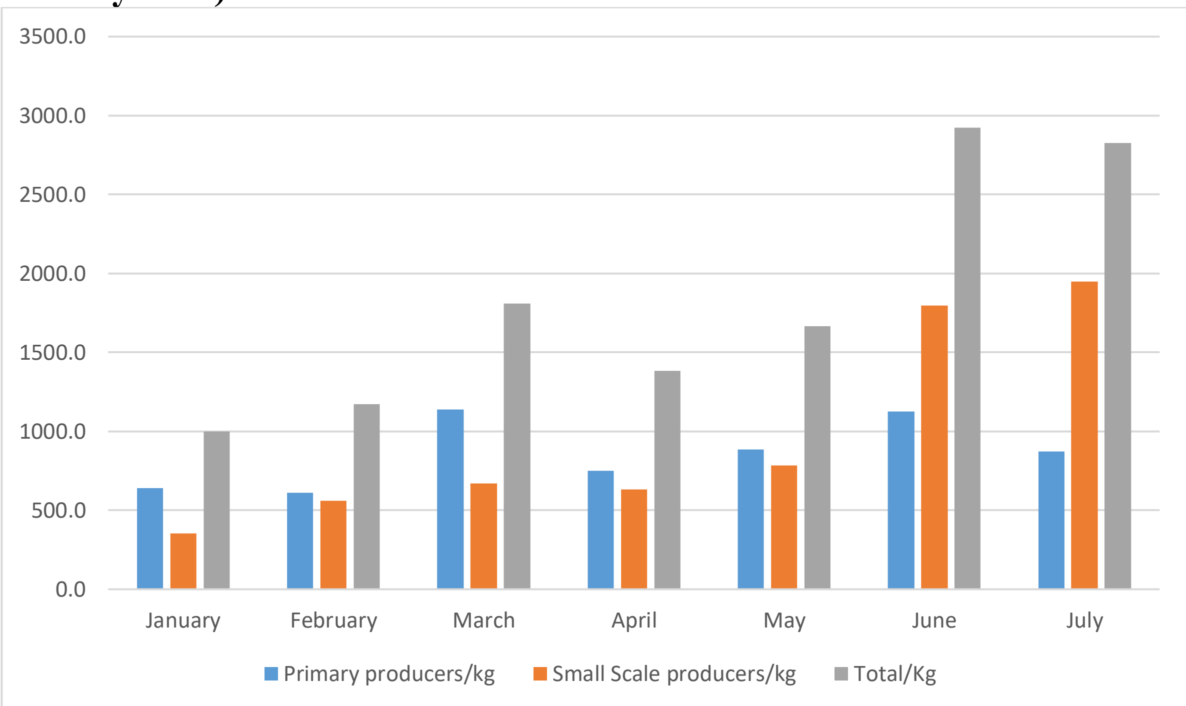
88. Gold exports in 2021 are forecasted to be higher than in 2020 on account of the recently introduced 2.5 - 5% gold delivery incentive and the COVID 19 induced restriction that could have curtailed gold leakages through smuggling. There was a remarkable surge in gold deliveries to Fidelity Printers and Refiners (FPR) in the months of June and July 2021 as shown in Table 6 and Figure 17. June 2021 gold deliveries to FPR were 2 924.3 kg compared to 1 409.6 kg delivered in June 2020. Similarly, gold deliveries for July 2021 stood at 2 824.6 kg compared to July 2020 deliveries of 1 406.4 kg.

89. Small scale gold producers contributed 52.8% of the total gold deliveries to FPR during the first seven months of 2021 which compares favourably with the 55.8% delivered for the same period in 2020.

Table 6 Gold Deliveries To Fidelity Gold Refiners (Jan-Jul)

		Primary producers/kg	Small Scale producers/kg	Total/kg
Jan	2021	642.11	355.52	997.62
	2020	734.24	1,813.63	2,547.88
Feb	2021	609.84	560.83	1,170.66
	2020	706.74	696.40	1,403.13
Mar	2021	1,139.42	670.07	1,809.49
	2020	709.04	1,061.66	1,770.70
Apr	2021	752.32	632.26	1,384.59
	2020	735.38	728.92	1,464.30
May	2021	884.20	783.81	1,668.01
	2020	806.28	1,209.62	2,015.89
June	2021	1,125.60	1,798.70	2,924.30
	2020	870.00	539.58	1,409.58
July	2021	941.11	1,950.31	2,824.62
	2020	747.96	658.41	1,406.37
TOTAL	**2021**	**6,094.59**	**6,854.69**	**12,779.29**
	2020	**5,309.63**	**6,708.22**	**12,017.85**

Figure 17: Gold Deliveries to Fidelity Printers and Refiners (January to July 2021)

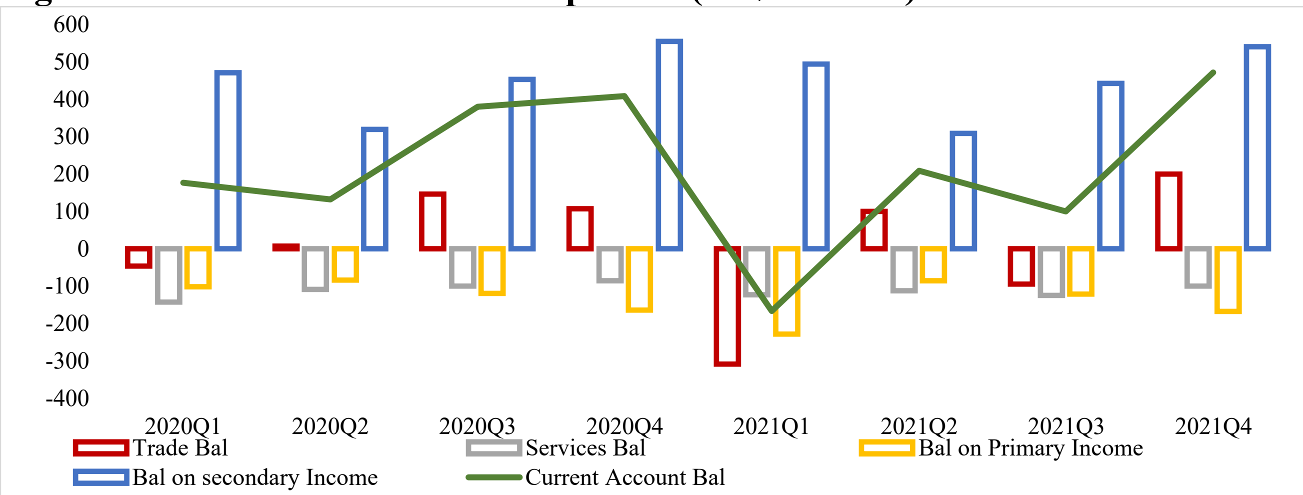


Source: Fidelity Printers and Refiners, 2021

90. Agricultural exports, led by tobacco, are expected to positively respond to the favourable climatic conditions during the 2020-2021 agricultural season. Manufactured exports are similarly expected to rebound, spurred by the anticipated recovery in production.

91. In tandem with envisaged GDP growth of 7.8% and strengthening global petroleum prices, merchandise imports are projected to increase by 21.7% to US$5,743.0 million in 2021, from US$4,719.9 million in 2020. This increase is projected to be driven by increases in fuel, machinery and raw material imports. Food imports will, however, be lower than in 2020 on account of reduced maize imports, following the good 2020/21 agricultural season.

Figure 18: Current Account Developments (US$ millions)



Source: RBZ and ZIMSTAT Estimates

92. As shown in Figure 18, diaspora remittances and other transfers, which constitute the secondary income account are projected to continue driving the current account balance as was the case in 2020. Personal transfers from Zimbabweans in the diaspora are expected to remain steady and resilient, as the economies in key source markets recover from the Covid-19 induced slow-down and investments from Zimbabweans in the diaspora rebounds.

Table 6 indicates diaspora remittances received through the formal system for period January – June for the years 2021 and 2020.

Table 7: Inflows of Cash Diaspora Remittances 2021 and 2020

Month	Year 2021	Year 2020	% Change
January	81,915,569	60,607,249	35%
February	93,424,551	69,230,034	35%
March	125,389,958	61,172,535	105%
April	110,381,374	30,920,048	257%
May	115,575,293	66,815,291	73%
June	122,783,439	85,849,311	43%
Total	**649,470,184**	**374,594,466**	**73%**

Source: RBZ

93. Foreign payments processed by banks on the hand, amounted to US$2.9 billion for the six months ended 30 June 2021, representing a 45.5% increase from US$2 billion recorded during the same period in 2020 as shown Table 7. Consequently, foreign currency deposits in the banking sector have increased and now stand at US$1.7 billion.

Table 8: Foreign Payments from January to June 2021 (US$ millions)

Category	2021	2020	% Variance	Contribution 2021	Contribution 2020
Merchandise Imports (excl. energy)	**1,737.4**	**1,116.3**	**56%**	**59%**	**55%**
- Raw Materials & Intermediate Goods	837.3	577.8	45%	28%	29%
- Capital Goods	595.4	367.9	62%	20%	18%
- Consumption goods	304.7	170.7	78%	10%	8%
Energy (Fuel & Electricity)	**383.3**	**251.9**	**52%**	**13%**	**12%**
- Fuel	326.2	191.7	70%	11%	9%
- Electricity	57.1	60.2	-5%	2%	3%
Service Payments	**249.8**	**272.4**	**-8%**	**8%**	**13%**
- Technical, Professional & consult	104.4	127.8	-18%	4%	6%
- Software	29.7	34.4	-14%	1%	2%
- Other (tourism, edu, freight etc)	115.7	110.2	5%	4%	5%
Income Payments (Profits, Dividends)	**251.9**	**120.8**	**109%**	**9%**	**6%**
- Dividends	209.7	66.9	213%	7%	3%
- Interest Payments	5.1	5.0	1%	0.2%	0%
- Other (Salaries, Expats, Rental)	37.2	48.8	-24%	1%	2%
Capital Remittances (outward)	**286.4**	**216.8**	**32%**	**10%**	**11%**
- External Loan Repayments	248.1	205.5	21%	8%	10%
- Disinvestments	25.2	6.2	305%	0.9%	0.3%
- Foreign Investment	13.1	5.0	161%	0.4%	0.3%
Other Payments (International Cards and Refunds)	**39.3**	**48.6**	**-19%**	**1.3%**	**2.4%**
Total	**2,948.2**	**2,026.8**	**45.50%**	**100%**	**100%**

Source: CEBAS System, Exchange Control

94. Taking into account of foreign receipts and payments the current account balance for 2021 is projected to remain in a surplus position, albeit at a moderated level of US$611.6 million, compared to US$1,096.3 million recorded in 2020 as shown in Table 9.

Table 9:Balance of Payments Snapshot (2019-2021 - US$M)

	2019 Act.	2020 *Act*	*2021Q1 Act.*	*2021Q2 Est.*	*2021Q3 Proj.*	*2021Q4 Proj.*	2021 *Proj.*
A. Current Account Balance	**920.5**	**1,096.3**	***-167.1***	*184.1*	*123.3*	*471.3*	**611.5**
Trade Balance	**174.4**	**212.2**	***-309.4***	***-263.4***	***-66.0***	***199.7***	**-439.0**
Exports	*4,663.7*	*4,931.9*	*1058.3*	*1,144.9*	*1,368.9*	*1,731.9*	*5,304.0*
Imports	*4,489.3*	*4,719.7*	*1367.7*	*1,408.3*	*1,434.9*	*1,532.2*	*5,743.0*
Balance on Services	**-305.9**	**-438.2**	***-123.3***	***-122.8***	***-130.5***	***-100.1***	**-476.8**
Receipts	*603.2*	*331.4*	*46.9*	*75.0*	*72.6*	*89.9*	*284.3*
Payments	*909.1*	*769.6*	*170.1*	*197.8*	*203.1*	*190.0*	*761.1*
Balance on Primary Income	**-338.8**	**-472.9**	***-229.0***	***-86.1***	***-122.5***	***-168.7***	**-606.4**
o/w interest payments	*227.4*	*239.7*	*62.8*	*59.9*	*57.0*	*64.8*	*244.5*
Balance on Secondary Income	**1,390.7**	**1,795.2**	***494.6***	***656.5***	***442.4***	***540.3***	**2133.8**
o/w Diaspora Remittances	*921.7*	*1,209.7*	*345.8*	*401.1*	*328.8*	*400.1*	*1475.7*
Transfers to NGOs	*491.7*	*618.6*	*157.8*	*262.2*	*123.5*	*151.5*	*694.9*
B. Capital Account Balance	***314.5***	**299.7**	***32.5***	***76.0***	***85.7***	***106.9***	**301.2**
o/w Grants	*314.5*	*299.7*	*32.5*	*76.0*	*85.7*	*106.9*	*301.2*
Direct Investment	**-247.1**	**-153.9**	***-21.0***	***-23.2***	***-28.5***	***-35.8***	**-108.5**
Net acquisition of financial assets	*2.4*	*-3.5*	*1.0*	*-1.2*	*3.5*	*-0.8*	*2.5*
Net incurrence of liabilities	*249.5*	*150.4*	*22.0*	*22.0*	*32.0*	*35.0*	*111.0*
Portfolio Investment	**-3.7**	**81.6**	**17.4**	**23.5**	**21.8**	**21.0**	**83.7**
Other Investment	**594.7**	**951.8**	***21.1***	***17.6***	***-5.5***	***-45.3***	**-12.1**
D. Net Errors and Omissions	***-926.5***	***-604.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***

Source: RBZ

SECTION SIX

MONETARY POLICY MEASURES FOR THE REST OF 2021

95. The obtaining macroeconomic stability, which is expected to continue to be reinforced by the positive outlook on inflation and the balance of payments position, requires the Bank to stay the course and maintain its current monetary policy position which has had positive impact on the economy. Accordingly, the following measures will anchor the Bank's monetary policy stance for the rest of this year:

i. **Interest Rates:** The Bank's overnight accommodation of 40% and the medium-term lending rate for productive sector of 30% will be maintained in the short term, in order to control money supply and curb speculative activities. The Bank shall continue to review the policy rates in response to the downward inflation trajectory.

ii. **Statutory Reserve Requirements:** The 5% statutory reserve requirement for demand and call deposits and the 2.5% reserve requirement for time deposits will be maintained in the second half of the year. This differential reserve requirement system remains necessary as an incentive structure for banks to promote savings in the economy.

iii. **Reserve Money Target:** Quarterly target for the growth of reserve money for the remaining six months of 2021 remains at 20%. This is necessary to anchor inflation expectations at sustainable levels through controlling money supply and to allow for the necessary accommodation for the growth of the economy.

iv. **Interest Rate Cap:** A cap on the interest rate at which banks can on-lend the proceeds from the Medium- term Lending Facility is also maintained at 10% above the borrowing rate to ensure recovery of the productive sectors of the economy.

v. **Accumulation of Foreign Exchange Reserves:** The Bank will start to set aside foreign exchange resources to build the country's foreign exchange reserves to anchor exchange rate stability and to cope with transitory exchange rate shocks in the national economy.

vi. **Addressing Foreign Exchange Auction Allotment Backlog:** The Bank has put in place the following measures to deal with the residual foreign exchange auction allotment backlog:

a. Utilisation of the existing letters of credit facilities for the importation of strategic commodities and capital goods in order to lessen the demand on the Foreign Exchange Auction System;
b. Supporting banks to promote financial intermediation to leverage on the current long foreign exchange position of around US$1.7 billion in the banking system; and
c. Working closely with Government to ensure that some of the foreign exchange balances in the Exchequer Account are utilised to expunge the backlog.

vii. **Addressing the Gap Between the Official and Parallel Exchange Rates:** The Bank is addressing the gap between the official and parallel exchange rates through tightening money supply, expunging the foreign exchange allotment backlog, increasing the attractiveness of the local currency so that the local currency complements rather than competes with the USD, discouraging rent-seeking behaviour and promote sustainable behaviour and fair play in the foreign exchange market and provision of forward guidance to anchor exchange rate expectations and enhance business sentiment.

viii. **Continuation of the Foreign Exchange Auction System:** The Bank is satisfied with the achievements of the Foreign Exchange Auction System which have had a significant impact on the economy over the year it has been in operation. The Bank is thus continuing with the Foreign Exchange Auction System and is determined to strengthen the system to ensure that it reflects economic and market fundamentals of supply and demand.

The auction system is open to everyone for legitimate foreign exchange transactions through the bidding process. Bids are submitted through banks by individuals and entities that require foreign currency. It is a transparent system and the Bank is only administrator of the system and does not manipulate the auction system, neither does it participate on the foreign exchange parallel market.

The Bank shall therefore continue to foster compliance and enhance monitoring of the Foreign Exchange Auction System. As a public institution, the Bank shall also maintain its stance to enhance transparency and accountability in the operation of the Foreign Exchange Auction System.

ix. **Enhancing Financial Inclusion:** The Bank is enhancing financial inclusion which is critical for inclusive growth through the development of the National Financial Inclusion Strategy Phase 2 (NFIS 2) for 2021-2025. The NFIS 2 will seek to address the challenges and gaps noted in the NFIS 1, with more focus on usage, digital financial services, quality of financial services, fintech & product innovation, financial inclusion data disaggregation and sustainability.

SECTION SEVEN

DISPOSAL OF BANK ASSETS

96. The Bank has been able to achieve its goal to dispose of two of its assets, Tuli Coal (Private) Limited and Transload Enterprises (Private) Limited (the jatropha/bio-diesel plant), to Government through the Ministry of Finance and Economic Development and the Ministry of High and Tertiary Education, Innovation, Science and Technology Development, respectively.

97. The Bank is nearing the final stages of the partial privatisation of FPR through offering 60% of its shareholding in the gold refinery business to producers of gold. The Bank will retain 40% in the gold refining company and 100% in the printing, minting and gold financing business.

98. It is expected that the unbundling process of FPR will be completed in 6 months' time given the need to ensure transparency, adhere to international best practice and to provide ample time to would-be new shareholders to complete the necessary due diligence.

ACQUISITION OF SHAREHOLDING IN ZIMSWITCH

99. The Bank is proceeding to acquire 15% shareholding in Zimswitch Technologies (Private) Limited in order to spearhead interoperability of infrastructure and connection protocols of mobile money transmission providers and mobile banking providers through the national payment

switch and enhance monitoring and surveillance of the financial system in Zimbabwe.

SECTION EIGHT

CONCLUSION

100. The economy is rebounding on account of the stable macroeconomic conditions. Both the external and real sectors of the economy are expected to remain strong in the outlook period. We, therefore, need to stay the course and consolidate the current economic policy measures for stability and sustainable growth of the economy.

101. The expected positive growth of the world economy, supported by stimulus packages in the developed countries and Asia and from the IMF will buttress Zimbabwe's economic growth trajectory. In addition, the expected increase in commodity prices on account of increased global demand will enhance the country's export performance, notwithstanding the expected rise in global inflation which will have moderate pass-through effects to domestic inflation.

102. The Government has put in place elaborate measures to deal with the Covid-19 pandemic including the vaccination programme, which is one of the best in Africa. Thus whilst the economic outlook is positive, concerted efforts to continue mitigating the negative effects of the Covid-19 pandemic on the economy remain paramount to maintain the current positive economic trajectory.

103. Overall, the economy is on the right track. It is rebounding. The outlook is positive on account of the remarkable hawkish monetary policy stance being

pursued by the Bank, Government's strong fiscal sustainability and the positive global financial developments. This stable and positive macroeconomic environment points to the need for the Bank to continue with its current monetary policy stance to support the robust economic growth of at least 7.8% in 2021, while continuing to reduce annual inflation to the desired level of around 30% by the end of December 2021.

I THANK YOU
MAY GOD BLESS YOU ALL
MAY GOD BLESS ZIMBABWE

JOHN PANONETSA MANGUDYA
GOVERNOR