



**JULY 2015**

**MID-TERM MONETARY POLICY STATEMENT**

***BEYOND STABILIZATION***

**BY**

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## **INTRODUCTION**

This Monetary Policy Statement, issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15], is presented at a time when the stability of the banking sector has substantially improved mainly as a result of policy measures put in place by Government and the Reserve Bank to deal with economic challenges of non-performing loans (NPLs), limited circulation of liquidity, low consumer and business confidence, and lack of competitiveness besetting both the financial sector and the economy at large.

The policy measures put in place by the Reserve Bank to address the challenges included the introduction of the Interbank Support Facility which has lender of last resort characteristics to deal with temporary liquidity requirements of banks. The facility which is supported by the African Export-Import Bank (Afreximbank) under the Afrximbank Trade Debt Backed Securities (Afrtrades) initiative has gone a long way to calm and tame the banking sector by enhancing the solvency of banks.

The other milestone was the establishment of the Zimbabwe Asset Management Corporation Pvt Ltd (ZAMCO) to deal with the legacy or historical NPLs caused by funding mismatches and unsustainable interest rates that typified the severe hyper inflationary psyche that devastated Zimbabwean citizens and transcended into the multi-currency system era. The Reserve Bank's goal here is financial

restructuring that is to lower debt-serving costs and extend maturities by converting short-term, high-interest bank loans to low-interest long-term ZAMCO bonds for the resuscitation of eligible entities.

Furthermore, the Bank introduced the credit reference system and amendments to the Banking Act to mitigate against future occurrences of indiscipline by both borrowers and banks. Notably, the introduction of bond coins to address price competitiveness through small denomination coins and demonetisation of the local currency unit are envisaged to disseminate correct signals and to provide the necessary confidence of our resolve to continue with the multiple currency system.

In addition, the Reserve Bank has lived up to its undertaking to ensure that the financial sector remains safe and sound and that it is freed from distressed banks by 30 June, 2015. To this end, the Bank has implemented measures to strengthen the banking sector, and is putting appropriate measures through amending the Banking Act to decisively deal with errant banks.

Relatedly, Zimbabwe achieved full compliance with the Financial Action Task Force (FATF) anti-money laundering and counter financing of terrorism (AML/CFT) requirements in February, 2015. This development bodes well for the country's financial system

integrity, both for purposes of boosting foreign investor confidence and for transacting with global financial institutions.

Table 1 below summaries the matrix of the measures introduced and still in the process of being implemented by the Reserve Bank.

**Table 1: Summary of Policy Measures Implemented by RBZ**

POLICY	POLICY OBJECTIVES	PROGRESS TO DATE
1. Interbank/ Aftrades facility	To improve the circulation of liquidity within the banking sector to mitigate against bank failures as a result of temporary liquidity challenges.	Issuance of Aftrades started on 19 March 2015; Target is to raise US\$200 million; Five banks have invested in Aftrades; Total Aftrades issued to date amount to US\$120 million; Three banks have borrowed from the facility; Total loans advanced amount to US\$84 million.
2. Zimbabwe Management Corporation (ZAMCO) Asset	To mitigate against NPLs from dragging down the economy.	To date ZAMCO has acquired and restructured US\$ 157 million.
3. Bond Coins	Promotion and enhancing price competitiveness through the introduction of small denomination coins to resolve the problem of change.	1c, 5c, 10c, 25c issued on 9 December 2014 50c issued on 31 March 2015; Total coins procured US\$10,000,000

POLICY	POLICY OBJECTIVES	PROGRESS TO DATE
4. Demonetization	To promote consumer and business confidence by providing credibility to the multiple currency system and legally retiring the local unit.	Statutory Instrument 70 promulgated on 12 June 2015; Budget for the program US\$20 million; Program started on 15 June 2015; Expected to end 30 September 2015; Amount converted to date US\$4.0 million; Cash paid out to walk-in customers US\$301,000.
5. Credit Reference Bureau (CRB)	To cleanse the banking sector of bad debts through improving information asymmetry and credit risk	A credit registry and credit reference system unit has been set up at RBZ.
6. Distressed banks	To free the banking sector of distressed banks by 30 June 2015	Distressed banks closed because the shareholders failed to capitalize their operations and meet depositors' requirements.
7. Extension of Absolute amnesty on exporters	To identify non-recoverable exports of \$108 million with a view to allowing exporters to start on a clean slate.	The extension which ended on 31 March 2015 achieved the objective since \$104 million worth of CDI export forms were acquitted.
8. Absolute amnesty on importers	The policy was meant to allow importers to start on a clean slate by acquitting Bills of Entry with a value close to USD5.8 billion.	The policy achieved its intended objective since banks were granted the authority to acquit all outstanding advance payments covering the period 2009 to end of December 2013. To date, USD5.6 billion has been cleared under the amnesty.

The positive effects of the above policy measures on strengthening the stability of the banking sector gives us enthusiasm and optimism about

putting the economy on a sustained recovery path. This together with the policy measures announced by the Minister of Finance and Economic Development on the ease and cost of doing business in Zimbabwe should drive the agenda to go beyond stability by focusing on enhancing production and productivity for a sustainable solution to the challenges besetting the economy. It is against this background that the theme of this Monetary Policy Statement is Beyond Stabilisation. Beyond Stabilisation because the economy is hungry for development. It needs to be fed by production and productivity. We need to competitively grow the economy by a minimum of 5% per annum.

Production and productivity enhances liquidity (and reserves), fiscal space, capacity to service loan obligations, employment, and thus help the economy to grow beyond stabilisation. Going beyond stabilisation requires a serious paradigm shift to fully exploit what God abundantly endowed the nation with; land, minerals, natural resources and our most important asset, the people. Key success factors that are needed to go beyond stabilisation include dedication, determination, discipline and sincerity. Disciplined and sincere enough to ensure that policies that are not supportive of production and productivity are minimised and/or not tolerated.

Ramping up production and productivity requires “walking the talk” through the implementation of Cabinet approved policy measures that are supportive of increased production. These measures or tools include further opening up the economy for investment and tourism

consistent with the current liberalised national economy; joint ventures with public enterprises such as CSC, GMB; implementation of the special economic zones; open tourism policy; removal of obstacles that inhibit exports; targeted productive lending; reduction in the cost of doing business and/or improving the ease of doing business; and the promotion of Diaspora investments.

Measures to improve the business climate in Zimbabwe are already beginning to bear fruit as is evidenced by the country's improved rating on the World Economic Forum's 2014 Competitiveness report and the moves to resuscitate of entities such as Cairns Holdings, Blue Ribbons, Cottco, etc. In this respect, current efforts to streamline costs of doing business are expected to enable the country to further enhance its appeal as a prime investment and tourist destination.

Continued efforts to improve the business climate are expected to attract investment and tourism in support of ZimAsset's key priority of promoting value addition and product beneficiation, in line with SADC's initiatives to promote industrialization in the region. In turn, industrialization is expected to help shed off import dependence and enable the country to build adequate foreign exchange reserve buffers required to cushion the economy from adverse external shocks.

On the international front, the positive global economic outlook in advanced economies continues to underpin prospects for quicker

macroeconomic recovery in developing and emerging market economies, such as Zimbabwe. In particular, developments in major trading partner countries and their prospects in the area of imports, exports, tourism, remittances and investment capabilities, have a strong bearing on the country's economic growth prospects.

## **GLOBAL ECONOMIC DEVELOPMENTS**

Global economic activity remains moderate, typified by uneven prospects among countries and regions of the world. Economic activity in advanced economies is on a rebound, while growth prospects for some large emerging market and developing economies have somewhat weakened. In particular, the endemic depreciation of currencies, coupled with the redistributive and differential effects accompanying the decline in oil prices, has significantly transformed the global economic landscape in the recent past.

### **Advanced Economies**

Economic activity in advanced economies gathered momentum in 2015, largely benefiting from stronger recovery in the US, which instituted tight monetary policy measures. In this regard, the US economy is projected to expand from a growth of 2.4% in 2014 to 2.5% in 2015.

On the other hand, advanced economies in the Euro-area continue to pursue accommodative monetary policy measures, a development that has occasioned capital flight and the subsequent appreciation of the US\$. On the back of the expansionary monetary policy stance adopted by Eurozone countries, interest and inflation rates have remained close to sub-zero levels. Consequently, advanced economies are projected to grow from 1.8% in 2014 to 2.1% in 2015 and 2.4% in 2016.

Consequently, Zimbabwe continues to suffer from the negative effects of the US dollar appreciation, which has undermined export competitiveness on the back of relatively high domestic cost structures currently obtaining in the economy.

### **Emerging Market and Developing Economies**

Major emerging market economies and oil exporters are experiencing a slowdown in economic activity on account of the widespread depreciation of currencies coupled with general commodity price deflation. The depreciation of currencies, in trade-weighted terms is, however, partially offset by the weakening of the euro and the yen, a development that has offered modest prospects for competitiveness gains that are typically promotive of exports.

Despite structural adjustments and policy efforts to address financial vulnerabilities, economic growth in China is expected to decelerate from 7.4% in 2014 to 6.8% and 6.3% in 2015 and 2016 respectively. The slowdown in China's economic activity is attributed to the decline in fixed investment growth. In India, activity is buoyed by stronger

confidence, as government implements a reform agenda with oil prices helping to contain vulnerabilities. As a result, economic growth in India is projected to increase from 7.3% in 2014 to 7.5% in 2015 before stabilizing at 7.5% in 2016.

Broadly, the decline in global oil prices has benefited Asian economies as evidenced by improving fiscal and current account balances which facilitated the easing of monetary policy in India, Pakistan and Sri Lanka. Notwithstanding the positive spill-over effects attributed to the oil price decline, economic activity in emerging market and developing economies is projected to slow-down from 4.6% in 2014 to 4.2% in 2015 before somewhat rebounding to 4.7% in 2016.

### **Sub-Saharan Africa**

On the back of the retreat in international commodity prices, Sub-Saharan African countries are projected to realize an economic slow-down from 5.0% in 2014 to 4.4% in 2015 before recovering to 5.1% in 2016. Oil producing economies notably, Angola and Nigeria have experienced declining oil revenues with negative repercussions on profitability and fiscal revenues.

Against the background of economic developments in major regions of the world, global economic activity is projected to decelerate from 3.4% in 2014 to 3.3% in 2015, before picking up to 3.8% in 2016. Table

2 below shows global economic growth for the various regions of the world.

**Table 2: Global Economic Growth (Rates) %)**

	2013	2014	2015f	2016f
<b>World Output</b>	3.4	3.4	3.3	3.8
<b>Advanced Economies</b>	1.4	1.8	2.1	2.4
<b>US</b>	2.2	2.4	2.5	3.0
<b>Emerging Market &amp; Developing Economies</b>	5.0	4.6	4.2	4.7
<b>Japan</b>	1.6	-0.1	0.8	1.2
<b>China</b>	7.7	7.4	6.8	6.3
<b>India</b>	6.9	7.3	7.5	7.5
<b>Sub-Saharan Africa</b>	5.2	5.0	4.4	5.1
<b>Zimbabwe</b>	4.5	3.2	1.5	3.5
<b>Latin America &amp; the Caribbean</b>	2.9	1.3	0.5	1.7

Source: World Economic Outlook Update (July 2015), ZIMSTAT and RBZ projections

Recent economic developments in Greece characterized by the closure of banks for three weeks to avert a run on the banks, following failure to meet external loan repayments to creditors and the IMF is a good case study for our national economy. The geopolitical response by EU and IMF to bail out Greece has prevented what could have been a great test for the European Monetary Union.

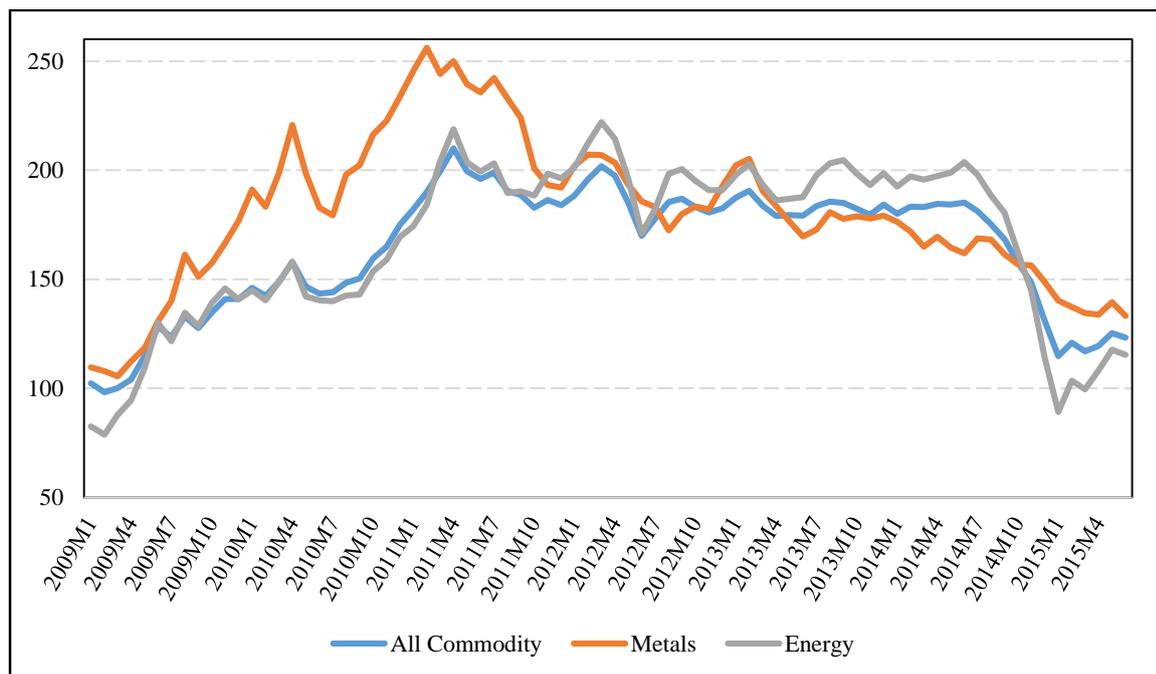
In addition, the crash in the Chinese stock market experienced in the first week of July, 2015 that resulted in a loss of US\$3.2 trillion by investors, presents downside risk to the Asian giant's growth prospects. As a result, the demand for commodities may remain subdued, with dampening effects on the recovery of commodity prices. This is likely to have repercussions on commodity dependent economies such as Zimbabwe, through lower export and fiscal revenues.

### **Commodity Price Developments**

Global Commodity prices have generally declined since their peak in February 2011 as evidenced by the 48% drop in the IMF's Global commodities index from 256.23 in February, 2011 to 133.17 as at June, 2015.

As shown in Figure 1 below, the retreat in global commodity prices since 2011 was largely underpinned by weakening metal and energy prices against the background of sluggish economic recovery in advanced economies and subdued economic activity in emerging market and developing economies in the aftermath of the global financial crisis.

**Figure 1: Commodity Price Indices**



Source: IMF Primary Commodity Prices.

In 2015, subdued global economic activity has had dampening effects on the recovery prospects of international commodity prices. Table 3 below shows commodity prices for gold, platinum, copper, nickel and crude oil. The decline in crude oil prices since mid-2014 has, however, significantly transformed economic developments on a global scale.

## Crude Oil

Crude oil prices which peaked at US\$112/barrel in June 2014 declined markedly by 55.6% to US\$49.78/barrel in January 2015. The decline in oil prices since mid-2014 was largely underpinned by changes in underlying supply and demand conditions. The strengthening of the U.S. dollar and a shift in output policy by the Organization of Petroleum Exporting Countries (OPEC) has, however, amplified the decline in oil prices.

**Table 3: International Commodity Prices**

<b>Period</b>	<b>Gold</b>	<b>Platinum</b>	<b>Copper</b>	<b>Nickel</b>	<b>Crude Oil</b>
<b>2015</b>	<i>US\$/ounce</i>	<i>US\$/ounce</i>	<i>US\$/tonne</i>	<i>US\$/tonne</i>	<i>US\$/barrel</i>
<b>January</b>	1,250.74	1,242.12	5,827.55	14,820.60	49.78
<b>February</b>	1,229.14	1,200.03	5,654.85	14,539.48	58.71
<b>March</b>	1,179.51	1,139.59	5,929.73	13,715.91	57.02
<b>April</b>	1,197.33	1,149.65	6,016.48	12,781.25	61.06
<b>May</b>	1,197.50	1,142.95	6,272.98	13,610.00	65.69
<b>June</b>	1,181.85	1,089.98	5,832.75	12,773.18	63.75
<b>% Change (Jan-June)</b>	<b>(5.5)</b>	<b>(12.2)</b>	<b>0.1</b>	<b>(13.8)</b>	<b>28.1</b>

Source: Bloomberg

Despite the sharp decline, oil prices have since firmed up to US\$64/barrel by June 2015 as a result of declining inventories and supplies in US owing to scheduled refinery maintenance in US rigs. Additionally, supply disruptions in the Middle East, the world's largest oil producers emanating from geopolitical tensions supported the recovery in oil prices towards the end of the first half of 2015.

### **Base Metals**

Nickel prices continued on a downward trend reflecting the accumulation of inventories occasioned by slackening demand from China, the world's largest commodity consumer. It is against the background nickel prices declined by 13.8% from US\$14,820.60/tonne

in January 2015 to US\$12,773.18/tonne in June 2015. In Zimbabwe, the break-even price for nickel is US\$12,500/tonne. As such, further declines in nickel prices undermines the viability of nickel mining houses.

On the other hand, copper prices which had firmed to US\$6,272.98/tonne in May 2015, marginally declined to US\$5,832.75/tonne in June. The dwindling of stockpiles occasioned by supply disruptions in Peru, due to labour disputes, however, exerted upward pressures on copper prices. In the outlook, additional stimulus measures instituted by China to grow the Asian's giant economy, are expected to boost the metal's future demand.

### **Platinum and Gold**

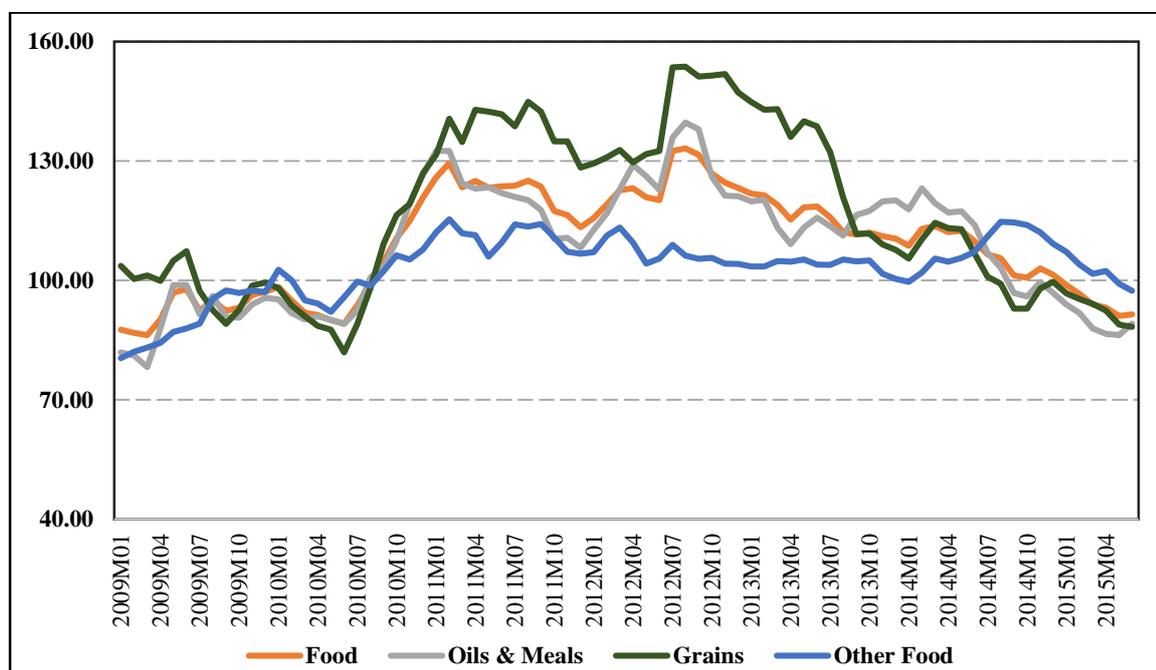
Platinum prices declined by 12.2% from US\$1,242.12/oz in January 2015 to US\$1,089.98/oz in June, 2015 reflecting the effects of subdued activity in the global automotive industry and improved supplies from South Africa.

The progressive appreciation of the US\$ has eroded gold's attractiveness as an alternative investment asset. As a consequence, gold prices declined by 5.5% from US\$1,250.74/oz in January 2015 to US\$1,181.85/oz in June, 2015.

## Food Prices

Reflecting improved harvests, food prices have declined as shown by the fall in the respective index in Figure 2 below. The decline in food prices is expected to filter through to easing food inflation in deficit countries, such as Zimbabwe.

**Figure 2: Food Price Index**



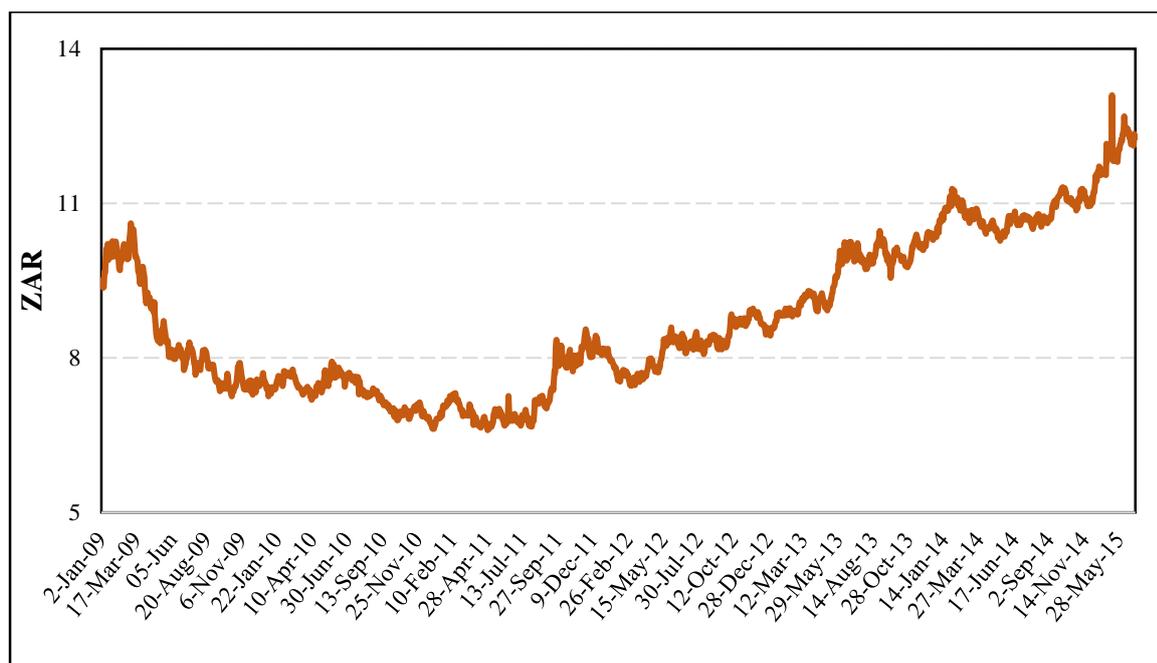
Source: Bloomberg

Commodity price developments realized since the beginning of the year have impacted on export earnings and imports for developing countries in the region. This has resulted in exchange rate movements for major currencies, as foreign exchange reserves have concomitantly adjusted to take account of these developments.

## Exchange Rate Developments

The decline in oil prices has had asymmetrical effects on oil exporters and oil importers with exchange rates implications, which became more pronounced at the beginning of the year. In the sub-region, the South African rand and the Zambian kwacha have depreciated markedly, with negative implications on the competitiveness of Zimbabwe's exports in these major destinations. Figure 3 below shows the progressive depreciation of the South African rand in nominal terms.

**Figure 3: Rand/US\$ Exchange Rate**



Source: Reuters

In concomitance, Zimbabwe's implied real effective exchange rate has continued to appreciate by around 45%, reflecting the progressive loss of export competitiveness. In the absence of the exchange rate as a

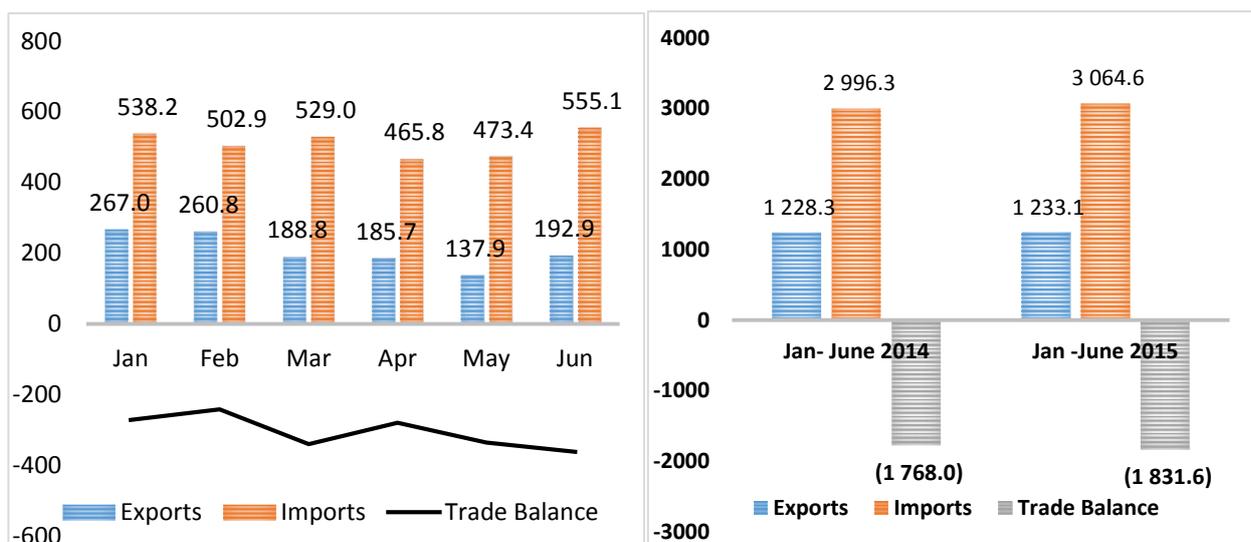
policy instrument, the need to reduce domestic production costs to enhance competitiveness cannot be over-emphasized.

## BALANCE OF PAYMENTS DEVELOPMENTS

### Merchandise Trade Developments

Despite the adverse effects of declining commodity prices and the appreciation of the US\$ against the country’s major trading partner currencies, exports for the period January to June 2015 increased by 0.4% from US\$1,228.3 million in 2014 to US\$1,233.1 million in 2015. Imports, however, increased by 2.3% from US\$2,996.3 million for the period January to June 2014 to US\$3,064.6 million in 2015. Figure 4 below shows the merchandise trade developments for the period January to June 2015.

**Figure 4: General Merchandise Trade (US\$ Million)**

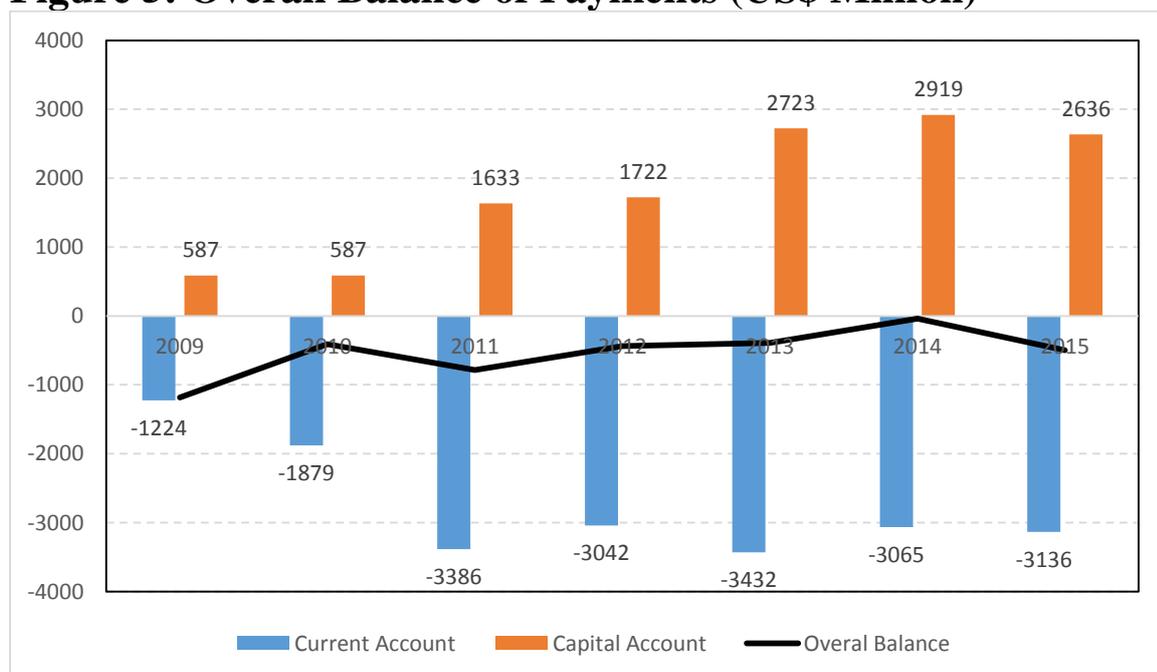


Source: Zimstat

Against the background of the deceleration in exports which was surpassed by import growth, the trade deficit widened from US\$1,768 million in the first half of 2014 to US\$1,831.6 million over the comparable period in 2015. It is against the background of high import absorption that liquidity conditions have remained tight with constraining effects on the attainment of potential growth. In turn, the widening trade balance is projected to weigh down the current account deficit in 2015.

On the capital and financial account, the private sector has managed to secure both short term and long term credit lines largely to capitalize their operations. This has moderated the impact of low disbursements on public sector external loans. Resultantly, the capital account has continued to register surpluses as shown in Figure 5 below.

**Figure 5: Overall Balance of Payments (US\$ Million)**



Source: RBZ, Ministry of Finance and Zimstat

Efforts to attract foreign direct investment inflows, which are essentially non-debt creating, are critical for the successful resuscitation of industrial production. It is also expected that the sustenance of current efforts to improve the conditions of doing business coupled with the resuscitation and re-opening of local companies such as Cairns Holdings, Rio-Zim, CAPS and Blue Ribbon among others, will help attract capital flows into Zimbabwe. This will result in improvements to the balance of payments through the compression of imports.

Developments on the current and capital account alluded to in the foregoing, resulted in the incurrence of a marginal deficit position on the overall balance of payments, as shown in Table 4 below.

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

	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>
Current Account Balance	-3,042.42	-3,432.23	-3,065.33
Trade Balance	-2,902.04	-3,114.64	-2,747.97
Exports F.O.B	3,808.20	3,694.23	3,558.29
<i>Agric</i>	979.56	1047.49	981.18
<i>Mining</i>	2,189.10	2,055.78	1,977.04
<i>Manufacturing</i>	549.23	487.01	510.27
Imports F.O.B	6,710.23	6,808.88	6,306.25
<i>Food</i>	730.58	658.06	352.29
<i>Fuel</i>	1,365.66	1,364.70	1,393.58
Capital Account Balance	1,721.80	2,723.36	2,914.66
Errors And Omissions	885.28	316.51	110.39
<b>Overall Balance</b>	<b>-435.34</b>	<b>-392.36</b>	<b>-40.28</b>

Source: RBZ, Ministry of Finance and Zimstat

The deterioration in the overall balance of payments in 2015 (from US\$ 40 million to US\$ 499 million) reflects the offsetting effects of external debt obligations falling due in 2015.

Within the context of the multiple currency system, balance of payments developments remains a critical determinant of the expansion in the country's banks' deposit base (=liquidity) and domestic money supply at large. This situation is attributable to the fact that the country is only able to increase its liquidity (=deposits) through exports, diaspora remittances, foreign investments (including portfolio investments) and external lines of credit (including grants) which are attributes of the balance of payments.

These sources of foreign exchange remain key, directly impacting on the expansion of the country's deposit base, and the availability of loanable funds to productive sectors. They are therefore the liquidity life lines of national economy, which need to be jealously guarded against and to be seriously promoted for sustainable economic recovery.

Since the adoption of multiple currencies in 2009, export earnings accounted for over 61% of the country's liquidity, followed by Diaspora and International remittances (27%), external loans and foreign direct investment (FDI), accounting for 13% as shown in Table 5.

**Table 5: Sources of Market Liquidity (US\$M)**

Category	2009	2010	2011	2012	2013	2014	2015	% Contr
							Jan - June	
Export Proceeds	1,613	3,244	4,416	3,808	3,694	3,558	1,826	61%
Diaspora Remittances & IOs <sup>1</sup>	711	629	1,798	2,028	1,887	1,756	933	27%
External Loans	28	43	167	477	688	825	328	7%
Income receipts <sup>2</sup>	104	66	237	291	203	77	26	3%
Foreign Investment <sup>3</sup>	9	0	152	250	400	162	96	3%
<b>Total</b>	<b>2,465</b>	<b>3,982</b>	<b>6,770</b>	<b>6,854</b>	<b>6,872</b>	<b>6,378</b>	<b>3,209</b>	<b>100%</b>

Source: Reserve Bank of Zimbabwe

In view of the integral role played by export earnings in the generation of foreign exchange resources or liquidity, there is great need to put in place deliberate measures to promote production across the whole spectrum of the economy. This is critical to generate the much-needed export earnings to improve liquidity conditions whilst simultaneously substituting or displacing imports. In this regard, export facilitation and promotion remains critical.

<sup>1</sup> *Diaspora Remittances includes MTAs, NGOs, Embassies and other IOs.*

<sup>2</sup> *Income Receipts include investment income and royalties earned from offshore investments by residents*

<sup>3</sup> *Foreign Investment inflows relate to equity injections in the form of cash remittances and excludes injections through importation of technology, i.e. plant, machinery and equipment*

## **POLICY MEASURES TO ENHANCE FOREIGN EXCHANGE GENERATION (LIQUIDITY)**

### **Export Incentives are a Critical Pre-requisite**

Outward-oriented export promotion strategies have gathered substantial momentum in macroeconomic management throughout the world. In this context, the Reserve Bank is desirous to improving liquidity within the national economy through the promotion of exports by putting in place targeted export support measures detailed below.

### **Export Finance Scheme**

The Reserve Bank shall, through normal banking channels, establish a window to provide affordable pre and post-shipment export financing.

The successful establishment of this scheme will see pre-shipment credit being extended by commercial banks to exporters for the purchase of raw-materials or finished products upon presentation of confirmed export orders or letters of credit. The credit will help respective exporters meet specific export obligations. Under this scheme, banks would extend credit to exporters and receive refinancing under the interbank market facility, with the Reserve Bank playing a regulatory and oversight role under the scheme.

Post-shipment finance, on the other hand, shall be granted to exporters after shipment of goods. Such a credit facility helps exporters avoid

the waiting period between shipping of goods and the receipt of payment. Banks will recover loan repayments from export proceeds.

### **Export Diversification**

The generation of foreign exchange resources in Zimbabwe is heavily dependent on the activity on the tobacco auction floors. As such, the liquidity position greatly mirrors the performance of the tobacco season, with foreign exchange inflows declining significantly during the tobacco off-season period and vice versa. The vulnerability of the country's liquidity conditions to tobacco inflows underlines the need to explore ways of export diversification or widening the range of critical products that the country exports. In this regard, the country would need to take advantage of the normalisation of relations with the European Union to expand horticultural and other exports in which the country has competitive and comparative advantages.

Given that there is a ready market for flowers, fruits and vegetables, the Reserve Bank shall be working closely with the Agricultural Marketing Authority, the Horticulture Promotion Council and banks to put in place a facility for the deliberate promotion of targeted horticulture exports.

The enhancement of mineral exports will also help to diversify the export base. It is against this background that approval by Cabinet on the lifting of the ban on the export of chrome ore, environmentally

friendly river bed mining and/or river drenching is greatly appreciated. To this end, expeditious exportation of these minerals will go a long way to bring into the economy the much needed liquidity as the tobacco season comes to an end.

### **Mobilisation of Development Finance by the Reserve Bank**

In addition to the establishment of the pre-and-post shipment finance window, the Reserve Bank is also mobilising development financial resources to finance capital projects that are necessary to enhance production within the country. It is against this background that the Reserve Bank has managed to negotiate with development financial institutions like PTA Bank, the African Export-Import Bank (Afreximabnk) and the Development Bank of Belarus for various project finance facilities in an amount of US\$210 million.

Projects to be financed under this initiative would be made available to entities with both the ability and willingness to repay through normal banking channels. The Reserve Bank is gradually expanding its role under this development finance programme in order to go beyond stabilisation and to ensure debt sustainability.

## **Removal of Prior Exchange Control Authority on Non-Sales Exports**

Currently, exporters are required to seek prior Exchange Control authority for the exports of machinery for repair and return, samples, goods for replacement, and wrongly supplied goods. In order to expedite the process of raising Forms CD1 for the these exports, Authorized Dealers shall raise and approve the requisite Forms CD1 without prior Exchange Control approval.

Prior Exchange Control authority shall, however, be required for all samples by Mining Houses, as well as equipment being exported for exhibition purposes.

## **Synchronization and Harmonization of Export Authorization**

There is great need to synchronize and streamline the issuance of export permits by various regulatory authorities in order to reduce export barriers. Whilst some export permits are necessary for phytosanitary and other special considerations like food security, some export permits would need to be scrapped as they have outlived their usefulness in a liberalized foreign exchange environment. Export permits increase the cost of doing business and can be a hive of corruption. Under normal circumstances, the CD1 export form should suffice for recording and accounting for exports. Export permits for the export of furniture, wood products, some non-essential agricultural products, etc, for example, governed by old statutory instruments promulgated in 1977, 1995 and 1996 need to be scrapped and /or streamlined. The Reserve

Bank shall work closely with relevant export licence issuing authorities to find ways of reducing export barriers

## **Facilitation of Diaspora Remittances**

Over the last few decades, the role of remittances as a stable source of foreign exchange has increased among developing economies. This trend is largely attributed to the increase in migrant workers from developing to developed countries. Remittances by their counter-cyclical nature, help alleviate poverty in developing countries through enhancing household consumption.

In recognition of the critical role that international remittances play in economic development, the Reserve Bank has instituted policies to effectively mobilise Diaspora remittances. The realization of this objective has led the Reserve Bank to review the following money transfers regulatory framework.

## **Review of the Money Transfers Regulatory Framework**

The introduction of the enhanced policy on international remittances through the Authorised Dealer with Limited Authority (ADLA) in April 2015, resulted in the registration of 30 Money Transfer Agencies. The new policy improved confidence in the use of formal channels to transfer remittances, resulting in the processing of more applications to provide remittance services.

Importantly, the ADLA framework encourages financial inclusion by embracing electronic money transfers into electronic depositories like the e-wallet and debit cards. This development has helped to increase accessibility of remittances and banking, even to the rural areas.

In this regard, the Reserve Bank is currently working on a centralised payment gateway system for the Money Transfer Agencies to facilitate formalisation of remittance inflows and effective accounting and monitoring of Diaspora remittance inflows.

### **Revision of Debt to Equity Ratio for Greenfield Investments**

Currently, foreign investors are required to inject debt which is equal to equity in the event that the investor intends to fund the project through a shareholder's loan. The policy is aimed at instilling a level of commitment by the foreign investor.

In view of the need to support capital intensive projects in line with ZimAsset aspirations, with immediate effect, foreign investors intending to undertake capital intensive greenfield projects are allowed to finance 100% of their projects using debt.

In addition, capital intensive projects supportive of ZimAsset that shall be permitted to be financed 100% using debt are power generation, infrastructure development (buildings, dams, roads, rail), mining and manufacturing of goods. The contracting of debt shall, however, be

consistent with external borrowing guidelines governing borrowings by related parties.

### **Utilisation of Offshore Loan Facilities**

Banks that receive offshore facilities for on-lending will be required to report to Exchange Control on the utilisation of the facilities through submission of the names of local companies that accessed the facilities and amounts disbursed thereon. This is meant to monitor utilisation of external loans by the end users of the offshore facilities.

In this regard, inspections will be conducted on-site, by physically visiting the premises of the Authorized Dealer or the ADLA to verify and check all cross border transactions conducted to ensure that they comply with Exchange Control rules and regulations. Likewise, Exchange Control will also monitor cross border transactions conducted by Authorised Dealers through off-site assessments.

## **MONETARY AND BANKING SECTOR DEVELOPMENTS**

The banking sector has demonstrated resilience against major shocks and has significantly contributed to the economic transformation of the real economy. The sector is poised for growth with improved capacity to support the economy arising from policy initiatives being implemented by Government and the Reserve Bank.

## **Structure of the Banking Sector**

As at 30 June 2015, there were 18 operating banking institutions, comprising thirteen (13) commercial banks, three (3) building societies, one (1) merchant bank, one (1) savings bank and 147 microfinance institutions. This follows the cancellation of the banking licence for AfrAsia Bank Zimbabwe Limited on 24 February 2015.

The Reserve Bank has also under its purview the Small & Medium Enterprises Development Corporation (SEDCO) and the Infrastructure Development Bank of Zimbabwe (IDBZ), following amendments to the Banking Act, [Chapter 24:20] to provide for their supervision by the Reserve Bank.

## **Deposit Taking Microfinance Licences**

In its efforts to promote financial inclusion the Reserve Bank established an additional banking class (deposit taking microfinance institution) dedicated to support low income and micro, small & medium enterprises. In this regard, the Reserve Bank has so far issued two deposit taking microfinance licences to African Century Limited which is finalising the infrastructural and operational requirements before commencement of business, and to Getbucks Financial Services (Pvt) Ltd. which has been operating as a credit only microfinance institution.

## Capitalisation

The banking sector's aggregate core capital base increased significantly by 19% from \$753.3 million reported as at 30 June 2014 to \$899.10 million as at 30 June 2015. Growth in the aggregate core capital position was largely underpinned by increased retained earnings. As at 30 June 2015, all operating banking institutions were in compliance with the prescribed minimum capital requirements as shown in Table 6 below.

**Table 6: Bank Capital Levels**

INSTITUTION	Core Capital as at 31 December 2014 (USD million)	Core Capital as at 30 June 2015 (USD million)	Prescribed Minimum Capital Requirements (USD million)
<b>COMMERCIAL BANKS</b>			
CBZ BANK*	175.34	188.72	25
STANBIC BANK	79.73	82.79	25
STANDARD CHARTERED	61.90	58.11	25
BANCABC	63.33	64.43	25
BARCLAYS BANK	41.67	43.15	25
NMB BANK	37.01	40.00	25
MBCA BANK	36.21	38.85	25
STEWARD BANK	43.92	41.26	25
ECOBANK	36.89	41.26	25
METBANK	24.62	33.74	25
ZB BANK	9.56	31.14	25
FBC BANK	31.84	33.26	25
AGRIBANK	12.37	36.47	25
<b>MERCHANT BANKS</b>			
TETRAD INVESTMENT BANK (Under Provisional Judicial Management Liquidation)	(31.73)	(32.70)	25
<b>BUILDING SOCIETIES</b>			
CABS BUILDING SOCIETY	92.82	99.72	20
FBC BUILDING SOCIETY	29.54	32.74	20
ZB BUILDING SOCIETY	15.58	15.20	20

\* including CBZ Building Society

Government recapitalised Agribank (\$30 million) and ZB Bank Limited (\$20 million) in May 2015, and the institutions are now compliant with respective minimum capital requirements. Processes are underway to merge ZB Building Society with ZB Bank Limited.

Similarly, Metbank's financial condition has improved, with core capital position of \$33.74 million as at 30 June 2015, which is now above the minimum core capital requirement of \$25 million. Improvements in the bank's liquidity position is attributed to balance sheet re-structuring, strategic re-alignment towards a property development banking model, and cost containment measures among other initiatives.

### **Banking Sector Performance**

The banking sector remained profitable with an aggregate net profit of \$43.01 million (excluding Tetrad Investment Bank – under provisional judicial management) for the half year ended 30 June 2015, up from \$26.53 million during the corresponding period in 2014.

A total of 14 out of 18 operating banking institutions recorded profits for the half-year ended 30 June 2015. Losses which were recorded by the remaining institutions were mainly attributed to increased levels of provisions. These provisions have been narrowing over the period under review.

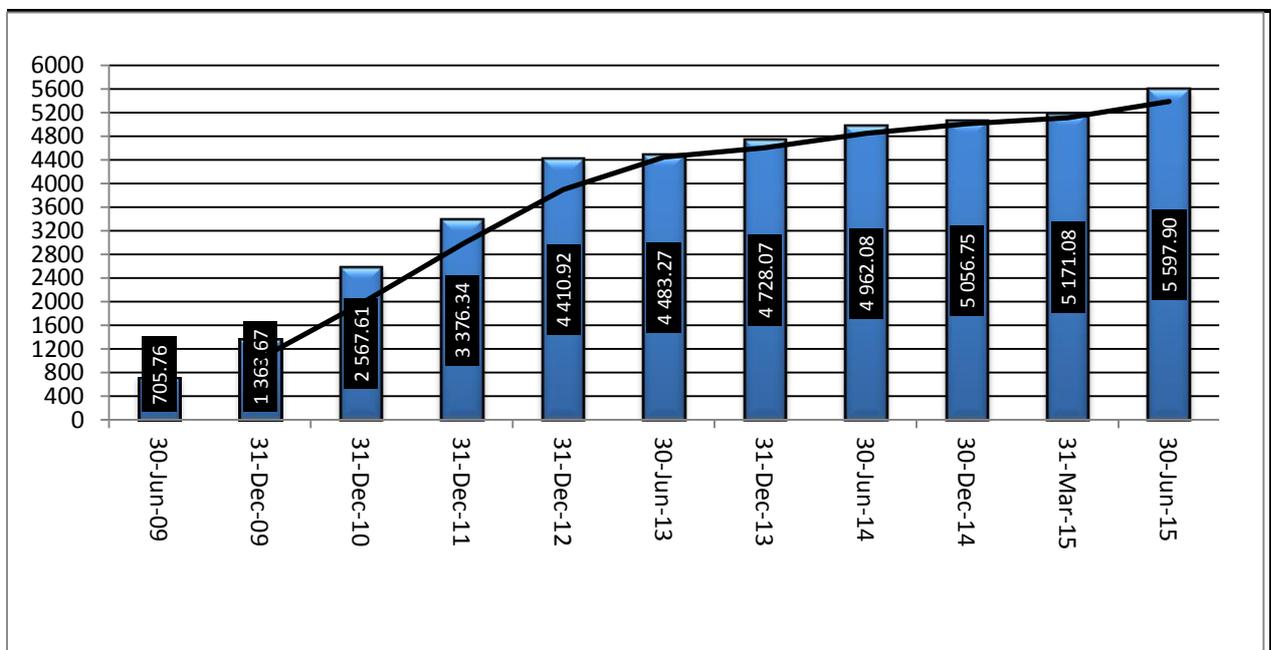
To enhance earnings performance, a number of banking institutions continue to rationalise operating costs, while simultaneously

implementing revenue enhancing measures which include growth of non-funded income through introduction of new technology driven products and corporate finance structures.

### Financial Intermediation (Deposits & Loans)

Total banking sector deposits have continued on an upward trajectory, increasing by 14.2% from \$4.9 billion as at 30 June 2014 to \$5.6 billion as at 30 June 2015. As at 30 June 2015, loans and advances amounted to \$4.0 billion, translating into a loans to deposit ratio of 71.4 %. Figure 6 below shows the trend of banking sector deposits over the period 30 June 2009 to 30 June 2015.

**Figure 6: Total Banking Sector Deposits (2009 – 2015)**



Source: Reserve Bank of Zimbabwe

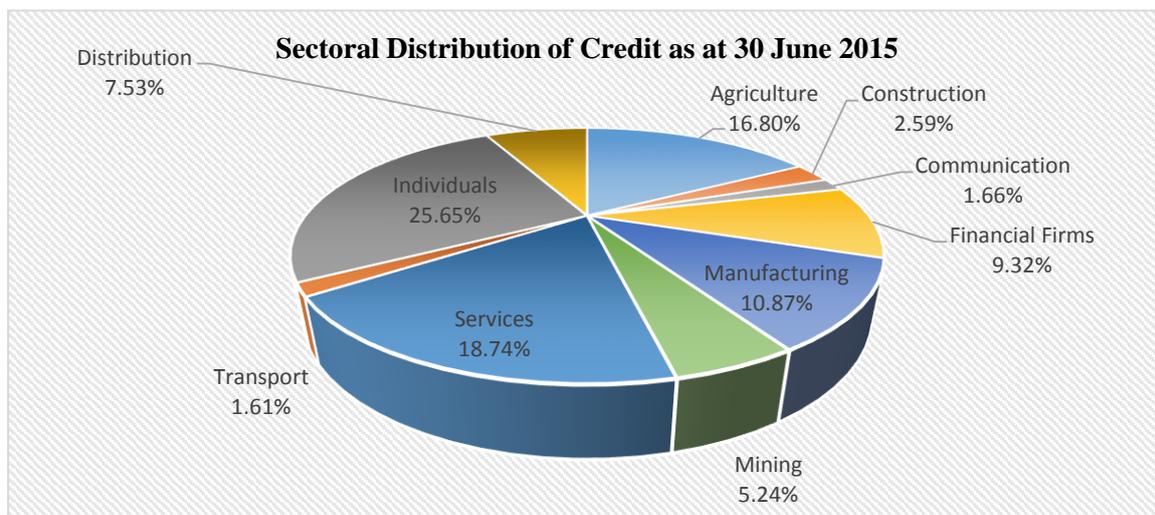
Bank deposits were largely dominated by demand deposits, which accounted for 55.49% of total deposits. These demand deposits are

relatively short-term in nature, with constraining effects on banking institutions' ability to meet the long-term funding requirements of key productive sectors.

## Sectoral Distribution of Loans and Advances

Total banking sector loans and advances increased marginally from \$3.8 billion as at 30 June 2014 to \$4.0 billion as at 30 June 2015. The banking sector's lending remains largely skewed towards the individuals sector as indicated in the diagram below.

**Figure 7: Sectoral Distribution of Loans and Advances**



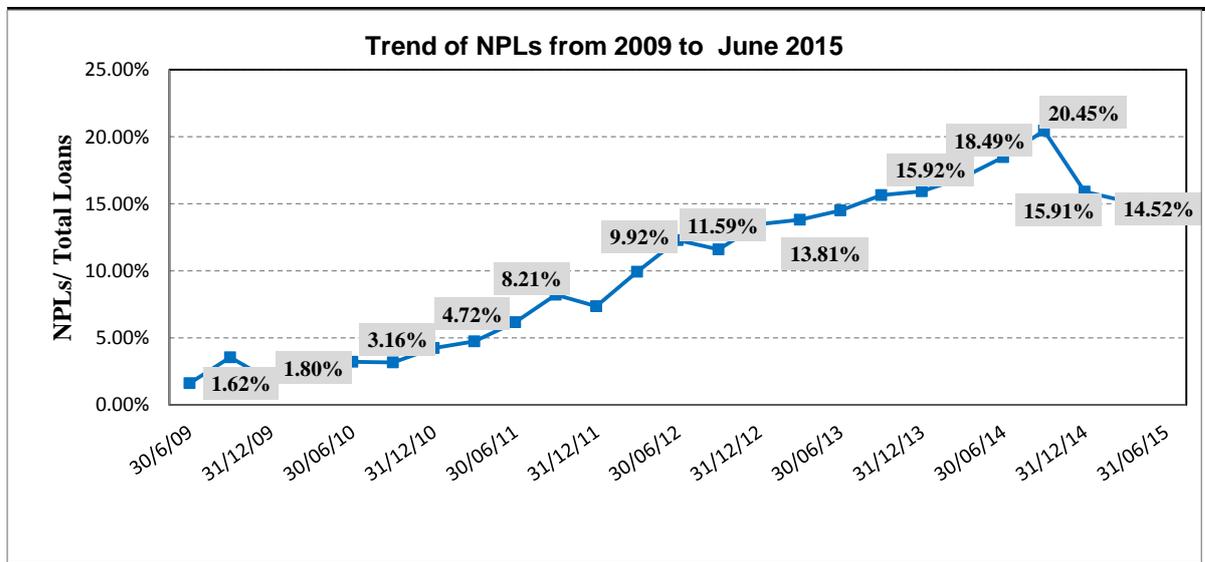
Source: Reserve Bank of Zimbabwe

Depressed lending to capital intensive sectors such as construction, communication, mining and the manufacturing sector is reflective of the limited capacity of banking institutions to provide long-term funding as well as the short term nature of deposits.

## Non-Performing Loans

The banking sector's aggregate ratio of NPLs to total loans improved from a peak of 20.45% in June 2014 to 14.52% as at 30 June 2015. The exclusion of Tetrad which is under provisional judicial management, further improves the ratio to 13.15%. Figure 8 below shows the trend in NPLs from 2009 to June 2015.

**Figure 8: Non-Performance Loans (NPLs)**



Against a background of high levels of NPLs, and their economy-wide implications, the Reserve Bank has instituted holistic measures to resolve non-performing loans in the banking sector. In addition, banking institutions have instituted various measures to resolve the NPLs including the formation of dedicated loan recovery units, refining of credit underwriting standards as well as restructuring of some facilities.

## **Interbank Market**

The US\$200 million interbank facility underwritten by the African Export-Import Bank (Afreximbank) under the Afreximbank Trade Debt Backed Securities (Afrades) is now operational. The facility has gone a long way in addressing persistent liquidity challenges that were affecting the financial sector.

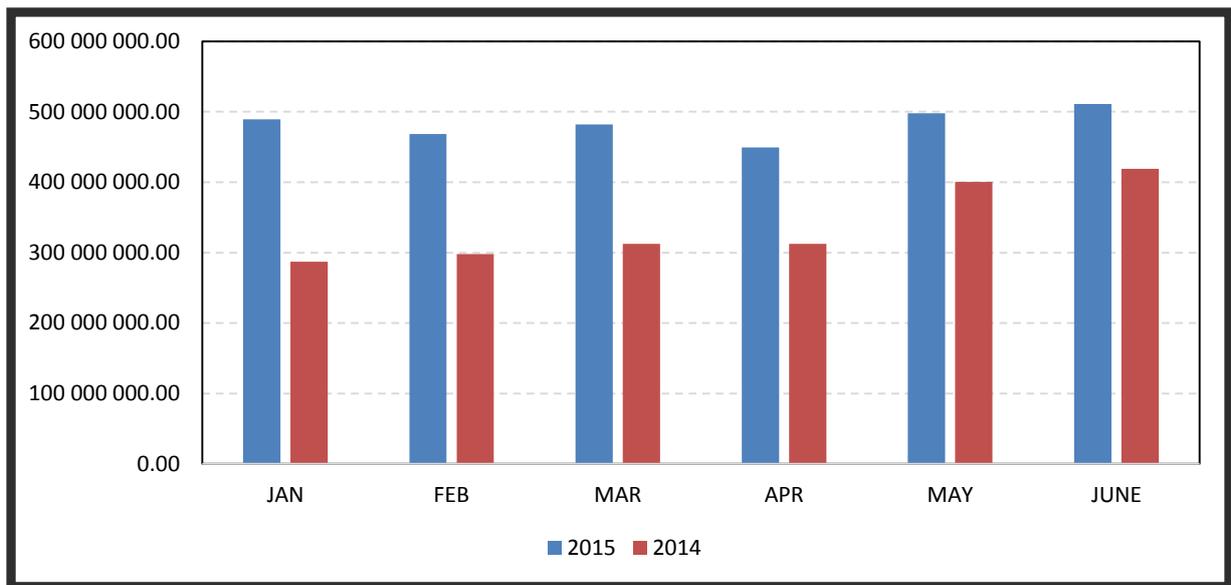
To date, Afrades bonds amounting to US\$120 million have been issued and the final maturity of the instruments is 13 February 2017. Total disbursements to date under this facility for a tenor of 180 days amount to US\$84 million.

The Bank is satisfied with the performance of the facility as it has managed to unlock idle bank balances for the benefit of financial institutions and the entire economy.

## **Money Market**

Liquidity in the market as measured by total RTGS account balances averaged US\$483 million between January and June 2015 compared to US\$338 million over the same period in 2014. This trend was largely underpinned by the slowdown in lending by banks and the increase in deposits. Figure 9 below shows the comparison between 2015 and 2014.

**Figure 9: RTGS Balances**



Source: Reserve Bank of Zimbabwe

## Bond Coins

The Reserve Bank is very grateful to all stakeholders from the retail, transport, informal traders, consumers and business organizations who have made the bond coins initiative a success.

As highlighted when we introduced bond coins in December 2014, the 50c coin was introduced on 31 March 2015, to circulate alongside the smaller denominated coins that were introduced on 18 December 2014. Acceptance of the bond coins has also benefitted from the progressive weakening of the South African rand, as the transacting public prefer to minimize exchange losses by shifting to the use of bond coins.

Evidently, the introduction of bond coins has resulted in price correction processes that have benefited the transacting public, as small

change is now easily available. The Bank continues to implore business to further realign their prices for the benefit of the consumers.

### **Demonetisation of the Zimbabwean Dollar**

The demonetization of the Zimbabwe dollar started in earnest on 15 June 2015, following the promulgation of Statutory Instrument 70 of 2015. The process is scheduled to run up to 30 September 2015.

The Bank is satisfied with how the demonetization program has progressed so far. Zimpost has assisted in serving cash customers in some of the areas without banks through its wide branch network. Notably, frantic efforts are being made by the Bank to deal with customers of closed banks and is liaising with the Deposit Protection Corporation in this regard.

### **National Payment Systems**

The National Payment Systems were safe owing to an effective oversight and supportive legal system. This was underpinned by the implementation of best practices and collaborative efforts with key stakeholders.

### **Financial Inclusion**

Over the years, the Reserve Bank and other key stakeholders have made deliberate policy initiatives to render financial inclusion a reality to the majority of the currently marginalized Zimbabweans. This has culminated in the 69% inclusion rate as per the FinScope Report

(2014). New payment systems have come on board especially in the mobile money systems. Table 8 below shows the number of devices and action points available in the country.

**Table 7: Access Points and Devices**

	Access Points			Access Devices			
Period	ATMS population	POS population	Mobile Banking Agents	No of Debit Cards	No of Credit Cards	Prepaid Cards	Registered Mobile Subscribers
Dec-14	538	12,612	25,618	3,613,781	9,547	28,881	6,060,630
Jun-15	536	15,908	30,274	2,309,402	10,531	25,763	6,230,738
%Change	-0.4%	26.1%	18.2%	-36.1%	10.3%	-10.8%	2.8%

Source: Reserve Bank of Zimbabwe

In view of the above, the Bank continues to encourage the use of electronic payment methods through the growth of access points and devices by the financial institutions in collaboration with the key stakeholders.

### **Zimbabwe Asset Management Corporation**

The Zimbabwe Asset Management Company (ZAMCO), was established to deal with the challenge of non-performing loans (NPLs) in the banking sector, which largely emanated from funding mismatches and unsustainable interest rates occasioned by the ripple effects of the transition from the Z\$ era economy to the multiple currency system economy.

Since the establishment of ZAMCO, satisfactory progress has been

made in dealing with historic NPLs, consistent with its mandate. In order to strengthen institutional arrangements and processes critical in operationalizing ZAMCO, the IMF provided technical assistance to ZAMCO during the first half 2015.

In addition to acquiring and resolving NPLs from banks, ZAMCO will also play an instrumental role in resuscitating distressed companies that can potentially be viable. This will be done through implementation of appropriate debt relief and debt restructuring measures. The ultimate objective is to prevent the unnecessary closure of companies and accompanying job losses. The goal of Government and the Reserve Bank, is therefore, to prevent companies from winding their operations and needless increases in unemployment. ZAMCO is therefore effectively complementing DIMAF under the Ministry of Industry and Commerce to resuscitate distressed companies.

### **Market-Wide Acquisition of NPLs**

Based on its phased approach to the acquisition of NPLs, ZAMCO has been focusing on the acquisition of the top 100 NPLs across the entire banking sector during the period under review. The top 100 NPLs amounted to \$188 million, which accounted for 77 % of the total portfolio that had been offered for sale to ZAMCO in the first phase. To date ZAMCO has acquired US\$157 million of NPLs and is currently at an advanced stage in concluding the restructuring of transactions of four distressed companies through acquisition of their

bank debts (i.e. NPLs) amounting to \$58 million. These transactions are expected to be consummated before the end of the third quarter of 2015.

### **Credit Reference System (CRS)**

To complement ZAMCO's efforts and bridge attendant information asymmetry in the banking sector, the Reserve Bank has established a credit registry and a credit reference system (CRS) unit within its Bank Supervision Division. The credit registry is mandated to promote efficient, timely and accurate credit information sharing, thereby enhancing credit risk management, governance systems and fostering credit discipline in the market.

The implementation of the credit reference system is expected to rid the market of serial defaulters, deal with the generally lax credit culture which is currently rampant in the country and reduce over indebtedness. Additionally, the CRS will also provide positive data that is expected to promote access to credit; as positive credit history and reputation which can be effectively used as "collateral".

Essentially, the CRS will collect credit information from all banking institutions and microfinance institutions and serve as a databank for licensed private credit reference bureaus. Going forward, the Reserve Bank will continue to engage relevant stakeholders to create awareness as well as undertake capacity building and training for the stakeholders

with a view to promote a sound credit culture in the economy as the economy moves beyond stability.

### **Distressed Banks**

In the Monetary Policy Statement of January 2015, Reserve Bank of Zimbabwe made an undertaking to ensure that the financial sector was free from distressed banks by 30 June 2015.

The Reserve Bank had categorised five (5) banking institutions as troubled banks in 2014. Of these institutions, Interfin Bank Limited, Allied Bank and AFRASIA Bank Zimbabwe Limited had their licences cancelled after the institutions failed to trade out of chronic liquidity and solvency challenges, leaving Metbank and Tetrad Investment Bank in this distressed bank category.

### **Metbank**

The financial condition of Metbank has improved following the implementation of various measures aimed at strengthening the bank's capital and liquidity position. These measures include strategic realignment, balance sheet restructuring, liquidity mobilisation and cost containment strategies.

### **Tetrad**

With respect to Tetrad Investment Bank, the bank is under the provisional judicial management of the Deposit Protection Corporation (DPC).

## **MicroKing**

There has been significant progress regarding MicroKing, a wholly owned microfinance subsidiary of AfrAsia Bank Zimbabwe Limited (in liquidation). Microking has secured an investor, Microcred and AfricInvest, a consortium of investors who intent to inject \$22 million.

The proposed investment in MicroKing will result in a stronger microfinance institution, which is sufficiently resourced to contribute significantly to financial inclusion. In addition, the consortium has put in place a development program that should allow them to retain all employees of MicroKing.

## **Performance of Microfinance Sector**

Total loans for the sector increased from \$157 million as at 31 December 2014 to \$163.5 million as at 31 March 2015. The increase is largely attributable to increased lending to existing customers with less focus on new clients by the microfinance institutions as a way of managing delinquency levels in their portfolios.

Growth of the microfinance sector, however, continues to be constrained by funding challenges on the back of general market illiquidity and high cost of funding. This notwithstanding, there has been a general decline in the level of interest rates charged by microfinance institutions reflecting improving access to concessional funding from international development funders, as well as intensified competition for clients.

Despite the downward trend, interest rates and other charges by levied microfinance institutions remain relatively high. There has been a notable improvements in the level of compliance with regulatory requirements, including compliance with capital requirements and submission of statutory returns by microfinance institutions.

The Reserve Bank, however, continues to receive complaints from members of the public relating to inadequate disclosure of terms and conditions of loans granted by some MFIs and high interest rates and charges. In this regard, all microfinance institutions are required, on an ongoing basis, to comply with the Microfinance Act [Chapter 24:29] and internationally accepted microfinance core client protection principles.

### **Amendments to the Banking Act [Chapter 24:20]**

It is heartening to note that the proposals to amend the banking laws have progressed significantly. The process has, however, taken time on the back of engagement of internal stakeholders. Technical assistance provided by the IMF and the World Bank on this matter has been positive. This Banking Amendment Bill will amend the Banking Act [Chapter 24:20] to enable it to achieve the following objectives:

- i. to improve the corporate governance of banking institutions including specifying the statutory duties of directors and senior managers of banking institutions;
- ii. to make banking institutions more responsive to their customers'

- needs and to encourage the resolution of disputes between banks and their customers;
- iii. to introduce greater transparency in the shareholding and operations of banking institutions;
  - iv. to create civil and criminal liability for abuse of depositors' funds, negligence or recklessness conduct of banking business and for breach of statutory duties of directors and senior managers of banking institutions;
  - v. to provide for the establishment of credit reference bureaus and a credit registry within the Reserve Bank;
  - vi. to allow the Reserve Bank to monitor and regulate bank holding companies;
  - vii. to increase co-operation between the different financial regulatory authorities;
  - viii. to effectively empower the Reserve Bank to deal with bank resolution; and
  - ix. to align banking laws and ensure that there are no inconsistencies in laws governing banking institutions

## **FINANCIAL SECTOR POLICY MEASURES**

### **Interest Rate Guidelines**

In view of high interest rates currently obtaining in the economy, there is scope for reduction to ensure that lending rates are supportive of economic recovery. In this regard, banks are urged to reduce their cost structures to enable them to contribute to the reduction of the cost of

doing business in Zimbabwe.

Within the broader policy to streamline costs of doing business and stimulate economic activity through affordable credit facilities in the domestic banking system, the following interest rate guidelines given in Table 7 have been agreed between the Bankers Association of Zimbabwe (BAZ) and the Reserve Bank.

**Table 8: Interest Rate Guidelines**

Category	Lending Rates
<b>Lending to Productive Sectors</b>	
Prime Borrowers with Low Credit Risk	6% - 10% p.a
Borrowers with Moderate Credit Risk	10% - 12% p.a
Borrowers with High Credit Risk	12% - 18% p.a
<b>Housing</b>	
Housing Finance	8% - 16% p.a
<b>Consumptive</b>	
Consumptive Lending	10% - 18% p.a
<b>Default Rate</b>	3-8% above the interest rate charged to the borrower

Banking institutions are required to effect the above lending rates for both existing and new borrowers, with effect from 1 October 2015.

Essentially, banks thrive when business is both willing and able to timely repay their loans. It is against this background that the above interest rate parameters have been developed.

The downward review in bank charges and interest rates are envisaged to achieve the key objectives of stimulating aggregate demand, promote the resuscitation of industry, improve the cost of doing business and support sustained economic growth and development and thereby going beyond stabilisation.

The agreed interest rate guidelines should also act as an incentive for borrowers to timely service their loans, improve their risk rating and access cheaper financing from banks. Overall, this interest rate structure is expected to benefit both banks and the banking public.

### **Lending Portfolio Re-orientation**

As the economy expands, a greater quantum of resources should be channelled to support the productive sectors of the economy (agriculture, manufacturing, mining, tourism and construction) in order to unleash the economic growth process.

Banking institutions should therefore re-orient their lending towards productive and export sectors such as horticulture and mining that generate foreign exchange enabling Zimbabwe to exploit its competitive and comparative advantages in these areas.

## **Development of a Bond Market in Zimbabwe**

The world-over, the bond market plays a critical role in the mobilisation of long term financing for Government, quasi Government and the private sector needs. In the wake of serious liquidity constraints facing the productive sectors of the economy due to the short-term nature of bank loans, the bond market can play a significant role in availing long-term for development of the economy. Due to high levels of non-performing loans, banks have increasingly reduced their lending to the productive sectors with most of them focusing on individual salary-based consumptive lending. It is against this background that the bond market has a major role to play to fill the financing gap. The productive sectors of the economy require long-term funding to replace antiquated and obsolete machinery and employ modern cost-effective production techniques that enhance production and product competitiveness.

In the 2014 National Budget, the Hon Minister of Finance and Economic Development accorded Government and Quasi-Government bonds special features like tax exemption, prescribed and liquid asset status and Government guarantees to make them more attractive to investors. In the same vein, in order to increase foreign participation in the bond market, in September 2014, the Reserve Bank removed the 40% participation limit on primary issuance as well as the inhibition to participate in the secondary market. It is also critical to note that there

are no restrictions for foreigners to remit their disinvestment proceeds and dividends/coupons.

The major participants in the bond market include local institutional investors such as pension funds and insurance companies, and foreign investors. The bond market would be an avenue for the intermediation process through the mobilization of long-term savings and channelling them to the needy productive sectors of the economy. Liquidity is critical in the secondary bond market to allow investors to move in and out of their positions without challenges. Once affordable funding has been availed to the productive sectors of the economy, the Reserve Bank expects improvement in capacity utilization and an increase in exports-a major source of the much needed liquidity.

In view of the above, the Reserve Bank shall therefore be working closely with other stakeholders that include the Ministry of Finance and Economic Development, the Zimbabwe Stock Exchange, Insurance and Pensions Commission, Securities Exchange Commission of Zimbabwe, Chengetedzai Securities Depository, and banks to establish a vibrant, well-structured bond market in Zimbabwe to fund self-liquidating projects. A vibrant and liquid bond market will also facilitate the development and deepening of the domestic financial system.

## **Non-Performing Loans Target**

The initiatives to enhance overall credit quality in the banking sector and clear the non-performing loans in the sector have progressed smoothly. ZAMCO has started the process of cleansing the toxic assets from the bank's balance sheet while the full operationalization of the credit reference system by the end the year is expected to address information asymmetry challenges. These measures will clear the banking sector of serial defaulters while concomitantly fostering a sound credit culture.

Against this background, all banking institutions are expected to work towards a target NPL ratio of less than 10% by 30 June 2016 and 5% by 31 December 2016.

## **Financial Inclusion**

In order to complement efforts by the Reserve Bank, all banking institutions are urged to embark on cost efficient initiatives and to adopt models that make banking more accessible to the public and enable banks to reach out to all communities. The Reserve Bank is also urging banking institutions to enhance the opening of low cost deposit accounts.

Further, banking institutions are also called upon to be proactive by working on shared infrastructure initiatives with a view to enhancing

efficiencies and reduce operating costs. Such initiatives include cash management, ATMs, data warehouse and archiving, mail, and transport logistics.

The streamlining of service costs by banks will neatly dovetail into current initiatives by the Reserve Bank to enhance financial inclusion whilst simultaneously reducing the cost of doing business and improve on competitiveness.

In view of the above, all banking institutions should submit to the Reserve Bank by 31 December 2015, three-year board approved Financial Inclusion Plans, with respect to their targets relating to branch network, agencies, account numbers, technology, no frills accounts and other specific suite of products and appropriate pricing among others. All banking institutions are also required to implement tailored consumer education programs for their customers.

The Reserve Bank will also require new applications for banking licences to be accompanied by credible financial inclusion plans as part of the licensing criteria.

## **Credit Risk Management**

Banks are required to conduct a review of their credit risk management systems and submit to the Reserve Bank, detailed action plans aimed at maintaining quality loan portfolios to levels where NPLs are within

acceptable best practice benchmark of 5%.

## **Basel II Implementation**

Going forward, banks are required to submit half year updates utilizing data as at 30 June 2015, on the status of their ICAAP targets outlined in the ICAAP reports submissions as at 31 March 2015. The updates must be submitted by 30 September 2015.

## **Construction and Housing Development**

The economic revival process hinges on the provision of infrastructural development. This is particularly so as construction and housing development the world over, is a key barometer for economic activity. In this regard, financial institutions should gear up their efforts to ensure that they play a meaningful role to the turnaround of the Zimbabwean economy through deploying meaningful financial resources to this catalyst sector.

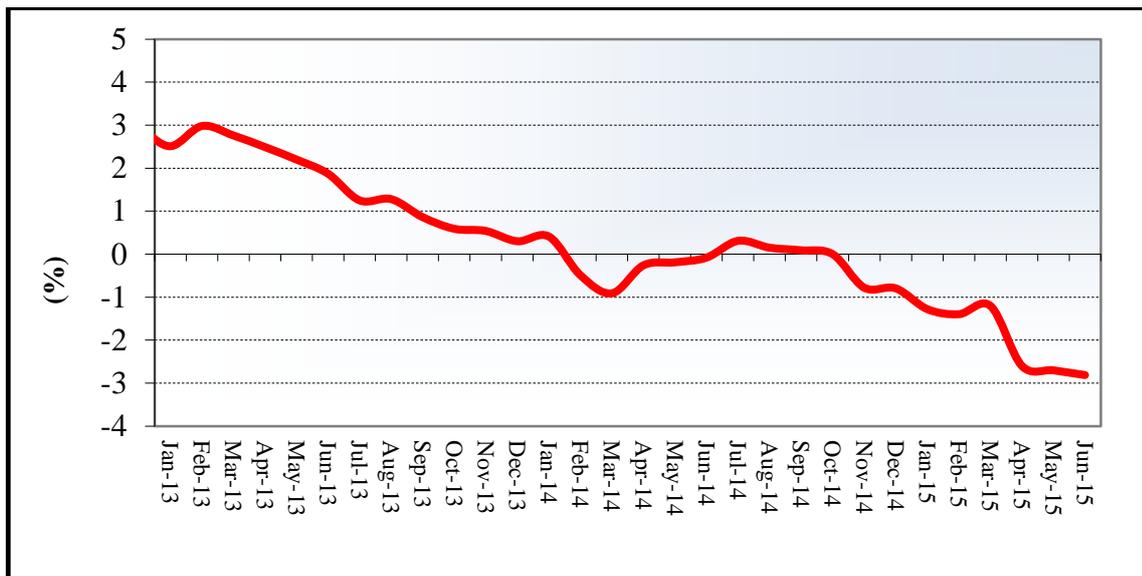
## **INFLATION DEVELOPMENTS**

On the back of tight liquidity conditions (leading to depressed aggregate demand) and the need to enhance price competitiveness, the country registered negative inflation in June 2015, from the last quarter in 2014. Annual headline inflation remained in sub-zero levels, declining from -0.001% in October 2014 to -2.80% in June 2015.

The negative inflation which is sustained by the on-going downward correction and re-alignment of both food and non-food prices shows that there has been a deliberate move by local producers to reduce prices of goods and services in line with our observation that the reduction in prices was necessary to maintain and enhance competitiveness of local products. Whilst there is an element of deflation embodied in the reduction of the price level due to tight liquidity conditions, the decrease in prices was and is still necessary on the back of high local cost structures compared to those obtaining in the region. For instance, the Grain Marketing Board (GMB) buys a ton of maize at US\$390 against a regional parity price is around US\$265. A reduction from US\$390 to US\$265 of 32% which would be quite significant would not be deflationary but a necessary move for price alignment and competitiveness.

Figure 10 below shows the annual headline inflation profile for the period January 2013 to June 2015 that takes into account the above fundamentals.

**Figure 10: Annual Inflation Profile (%)**



Source: Zimstat, June 2015

Annual food inflation was largely weighed down by declines in the prices of vegetables, bread and cereals, meat, and oils and fats, among other food items. Non-food inflation developments were also underpinned by decreases in tariffs for communication; housing, water, electricity, gas & other fuels; and furniture and equipment, among others.

### **Inflation Outlook**

In the short to medium term, evolution in international oil prices, US\$/rand exchange rate, domestic and regional food output, as well as the level of aggregate demand and the continued need to enhance price competitiveness, will continue to underpin domestic inflation developments.

Inflation is therefore expected to remain in sub-zero levels through to the end of the year, mostly on account of depressed aggregate demand and the on-going price correction mechanisms that have seen prices adjusting downwards to maintain price competitiveness.

## **DEVELOPMENTS ON RBZ SUBSIDIARIES**

### **The Re-Orientation of Homelink (Pvt) Ltd**

The Reserve Bank of Zimbabwe has re-oriented Homelink (Pvt) Ltd to enhance its ability to mobilize diaspora remittances both for consumption and investment purposes. Essentially, Homelink was established to play a lead role in offering competitive and best practice solutions to Diasporans.

Pursuant to this objective and in response to indications gathered from consultative missions in the Diaspora, Homelink has established four (4) strategic business units (SBUs), namely Proplink, Easylink, Masterlink and Investlink. These SBUs primarily established to strategically develop and deliver consumption and investment products to Zimbabweans in the Diaspora.

Proplink is focused on industrial, commercial and residential development for the Diaspora. The company will also develop shopping malls, factories, office complexes, schools, hospitals and resort facilities. The development of these facilities will be financed

through Diaspora Property Development Bonds with subscribers in the Diaspora having the option for equity participation.

In addition, Proplink will also construct low cost houses and offer stands and mortgage loans to Diasporans. Currently, construction of 180 residential properties in Harare is underway in Tynwald and Marbelreign and projects for Bulawayo, Mutare, Masvingo, Norton and Kadoma are in the pipeline. Proplink also offers convenient medical and funeral assurance, property insurance and real estate management for the Diaspora and their relatives in Zimbabwe.

On the other hand, Easylink, offers both inward and outward international money transfer services. In addition, Easylink provides convenient consumption products such as ZESA electronic prepaid tokens, Medical and Funeral Assurance in all its 29 branches and through the Web (internet) for relatives of Zimbabweans in the Diaspora.

Master Link creates a platform through which Homelink products become visible, especially in Zimbabwean Diaspora concentrated countries. Masterlink will also establish worldwide international offices in the main catchment areas to effectively interact with the Diaspora and provide investment opportunities and information to Diaspora.

Investlink, spearheads investment needs of the Diaspora and integrate with key economic ministries and liaise with industry bodies to package and market Zimbabwe's Investment Catalogue to the Diaspora, especially but not limited to Dormant but Viable manufacturing industries that need resuscitation.

Investlink through its Diaspora Direct Investment (DDI) product offering, provides important and beneficial linkages with Government for Diasporans to exploit investment opportunities abounding in mining, energy, tourism, manufacturing, agricultural and money and capital markets.

### **Export Credit Guarantee Company (ECGC)**

ECGC plays an important role in the economy by promoting exports through the provision of export credit insurance and guarantee facilities to exporters to enhance their competitiveness on the international market. Other products offered are domestic credit insurance, Zimra bonds and guarantees and general insurance.

ECGC has now been fully capitalized to meet the regulated minimum capital requirements and the Board of Directors has been fully constituted.

Some exporters are facing challenges of not being paid in time by the consignees for various reasons and are subjected to penalties.

It is against this background that ECGC has been capacitated by the Reserve Bank to allow it to issue insurance cover to exporters, as well as guarantees for loans accessed by the exporters. Specific insurance cover shall also be issued by the ECGC to cover export shipments as per requirements of the exporters.

The ECGC cover shall protect the bank from loss on account of their lending to exporters. Such guarantees to be designed by the ECGC will encourage banks to provide pre and post-shipment export finance.

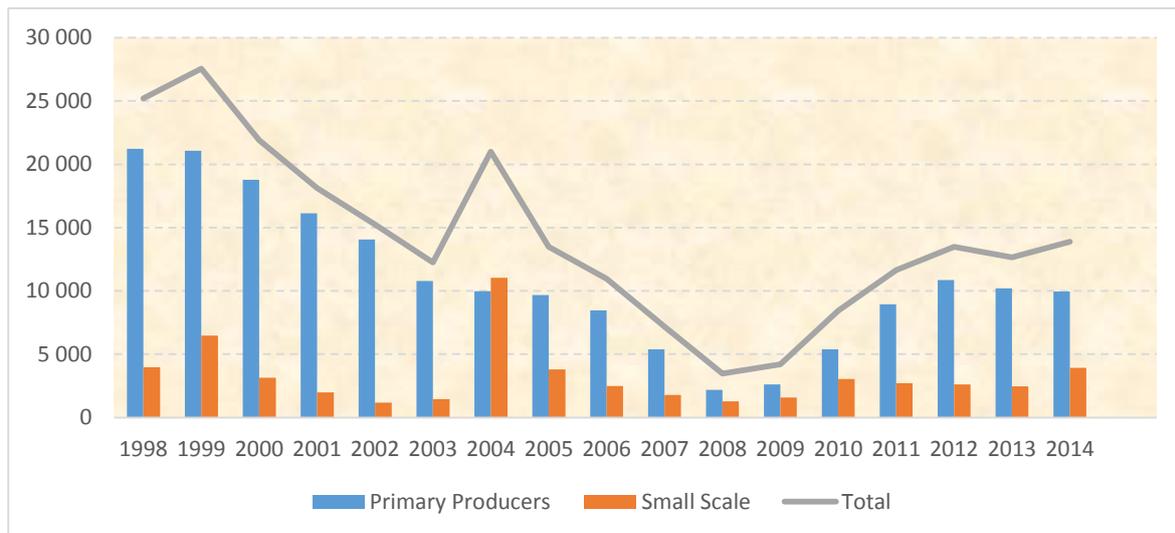
### **Fidelity Printers and Refiners: Gold Deliveries**

In recognition of the important role played by minerals in the national country, ZimAsset is anchored on the mobilization of mineral resources to fund national developmental projects. The Bank's broad policy action areas especially focusing on gold revolve around enhancing the country's production as well as building national foreign exchange reserves. The Bank will continue with its collaborative efforts with the Ministry of Mines and Mining Development to ensure the country's precious mineral is accounted for appropriately.

### **Gold Production**

Despite the decline in international prices, gold production which had fallen to around 3,471kgs in 2008 has been steadily increasing since 2009 to reach a level of 13,900 kgs in 2014, as shown in Figure 11 below.

**Figure 41: Gold Production 1998-2014 (Kgs)**



Source: Fidelity Printers & Refiners (FPR), excludes gold produced under PGMs.

Over the past five years large scale producers have contributed 75% to total gold production, while the balance (25%) was accounted for by small scale miners. Increased monitoring efforts by the Gold Mobilization Committee, Ministry of Mines, the Reserve Bank and the Zimbabwe Republic Police’s Border Patrol Unit, has seen the contribution of small scale miners increasing steadily this year to current averages of 37%.

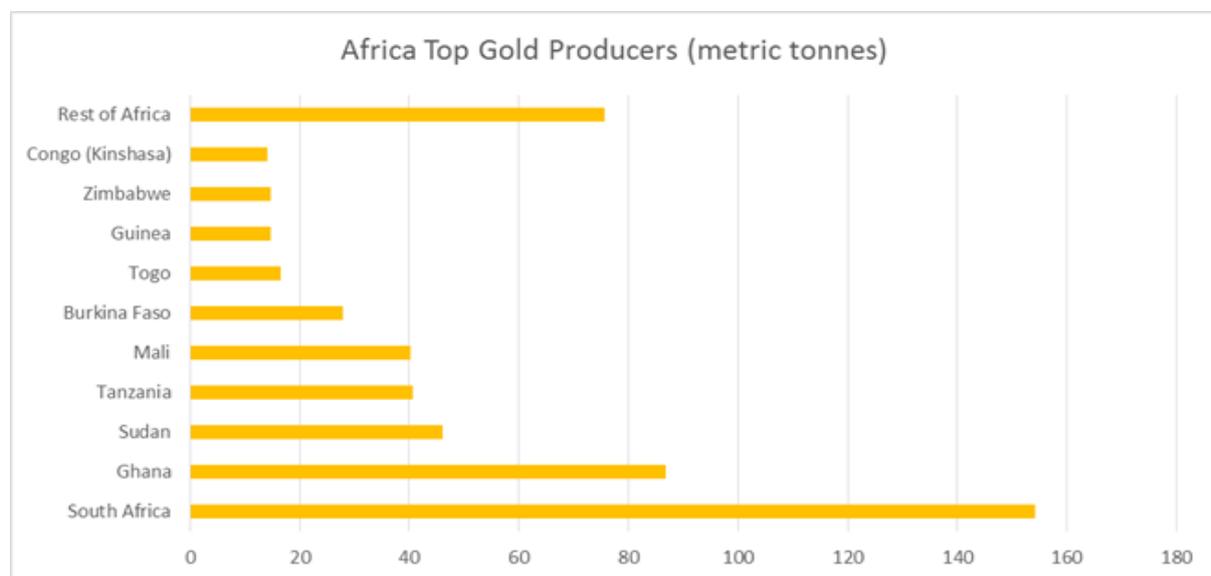
Gold deliveries during the first half of 2015 were 8,181.16 kgs, and if the current trend deliveries continues, gold production for the whole year would surpass 13,899.9 kgs achieved in 2014 to around 16 tons. The Bank is making concerted efforts to facilitate gold production in the country through the arrangement of financing facilities which also include the mechanization of small-scale producers’ operations. To date, US\$ 5 million has been disbursed for this purpose through FPR.

## Gold Production Policy Measures

Africa is one of the largest gold producing continents in the world as gold mining is carried out in approximately 38 African countries. Africa's top ten producers led by South Africa and Ghana account for 86% of Africa's gold production.

Although South Africa is by far the continent's top gold producer with Ghana coming-in as a distant second, the contribution of other African gold producers, including Zimbabwe, to the continent's total output remains significant, though untapped productive potential abounds. Figure 12 below shows Africa's top ten gold producers during 2012.

**Figure 5: Africa's Largest Gold Producers - 2012**



*Source: US Geological Survey, World Gold Council and internet.*

In particular, Zimbabwe has capacity to increase gold output to more than 30 tonnes per year. This would enhance the gold mining sector's contribution to economic recovery, through the generation of the much-needed foreign exchange resources.

## **Promotion of Gold Production**

In view of the above, the Reserve Bank is working with Government and relevant private sector stakeholders to boost gold output. These efforts are targeted at reducing gold leakages and ensuring that all gold in Zimbabwe is sold through formal channels in order to optimise the country's benefits from the precious metal. The following measures are, therefore, key to unlocking more value from the country's gold mining sector:

- a. Rationalization of charges levied to producers. These include Rural District levies, Mining Licence and Ground Rental fees, EMA Charges and MMCZ and National Parks and Wildlife mining fees;
- b. Aligning electricity tariffs on gold mining to those obtaining in other sectors like the chrome sector;
- c. Increase access to long term funding for both small scale and large scale gold producers; and
- d. Harnessing the potential of small scale and artisanal miners.

## **Decriminalisation of Gold Possession**

There is need to decriminalise the possession of gold and instead focus on engaging the artisan miners on the norms and principles of responsible gold trading in line with best practice. To this end, the Reserve Bank, in consultation with the relevant authorities, is currently working on a policy to decriminalize the possession of gold in order to

allow those in possession of gold to sell it to Fidelity Printers and Refiners.

### **Aurex (Private) Limited**

As announced in my Monetary Policy Statement of January 2015, the Reserve Bank injected capital into Aurex (Private) Limited as part of the efforts to revive and turnaround Aurex. Resultantly, Aurex has resumed operations in its core activities in the beneficiation of Zimbabwe's precious minerals and gemstones, and the cutting and polishing of diamonds.

The capital injection has significantly bolstered the company's operational capacity. As a result, capacity utilization in the jewellery line rose significantly from less than 2% in 2014 to current levels of about 20% and is positioned to further improve.

In order to increase the beneficiation and production of value added goods and create more employment in line with the company's strategic thrust and consistent with ZimAsset, additional financial support for modernization of equipment is being mobilised. The aim is to increase plant utilization capacity in the medium to long term. It is envisaged that this will result in high operational efficiency and a marked increase in the company's capacity for diamond cutting and polishing.

The company revived its diamond cutting and polishing operations in

April 2015, following the passing of enabling legislation and reduction of licensing fees. Aurex Diamonds is now licensed to cut and polish diamonds for the next 10 years. The cutting and polishing of diamonds, facilitates the creation of upstream and downstream industries, thereby creating employment. The current staff complement at Aurex stands at 94.

Efforts are underway to capacitate Aurex Diamonds to enable the country to commence exports of high value polished diamonds that attract high export revenues. As part of its strategic efforts to regain market share and competitively position itself locally and globally, Aurex is also focussing on reviving its export business, for which its jewellery products were originally set.

## **POLICY ADVICE**

### **Gridlock Resolution on Payments Within the Economy**

There is great and urgent need to take stock of the levels of indebtedness of Government to public enterprises, public enterprises to Government, public enterprises to public enterprises and Government to the private sector. It is essential to do so in order to minimize and/or remove the current serious gridlock of payments within the national economy i.e. situations where several payments each await settlement of the others.

Most entities, including Government, are behind with their statutory obligations, trade payments and bank loan repayments because they owe each other and are waiting to be paid by the others and vice versa. There is therefore great need to come up with netting payment systems resolution in order to cleanse the historical obligations of all affected entities including Government. This needs urgent attention before the payment gridlocks escalate to unsustainable levels.

### **Promoting and Targeting Productive Producers**

In order to enhance production across all sectors of the economy, the Reserve Bank is of the view that it is now high and appropriate time that only serious and productive producers should be assisted or granted resources by financial institutions and/or Government. This is critical to promote the efficient use of scarce financial resources (liquidity) and for debt sustainability purposes.

For instance, supporting 2000 serious maize farmers to produce 100 hectares per farmer with a target of 6 tons per hectare would produce 1.2 million tons of maize. The same is true for A1 and communal farmers, who, if carefully selected and funded would sufficiently produce to feed the nation. In the same vein, carefully identified ‘low hanging fruits’ in the productive sectors like manufacturing, mining and tourism, if well-funded and managed would produce wonders.

We therefore call upon both the financial institutions and Government to deliberately target resources to serious and or productive beneficiaries to encourage meaningful production across all the sectors of the economy as opposed to trying to provide too little to everyone with minimum impact.

### **Competitiveness of Zimbabwe's Products**

Valuable lessons from Greece and other Euro-zone countries that have been struggling with debt obligations on account of loss of external competitiveness, are instructive to Zimbabwe. In particular, loss of monetary autonomy and lack of exchange rate flexibility to enhance export competitiveness has brought to the fore, the need for fiscal and internal devaluation as viable policy options.

Broadly, internal devaluation entails that a country that cannot devalue its nominal exchange rate, can gain competitiveness and promote export performance through streamlining domestic costs of production. Measures to enhance competitiveness through reduction in production costs amount to a depreciation in the real exchange rate in a manner that is promotive of exports.

This is particularly important as Zimbabwe's implied real effective exchange rate is currently over-valued by an estimated 45%. This largely reflects the progressive appreciation in the US\$ underpinned by strong economic recovery in the US and accommodative monetary

policy measures adopted in most Euro-zone countries. As such, the nominal appreciation of the US\$ against major currencies has had concomitant effects on the real effective exchange rate, a development that has continued to undermine the country's export competitiveness.

Under the multiple currency system, Zimbabwe cannot effect nominal exchange rate adjustments to promote export competitiveness. In this regard, fiscal and internal devaluation become potent tools at the authorities' disposal to influence export competitiveness.

Within the context of fiscal devaluation, value added tax (VAT) can be imposed on selected imports that have close local substitutes. Simultaneously an equivalent reduction is effected on payroll taxes (such as employers' social contributions).

These two measures combine to effectively devalue the real effective exchange rate in order to promote competitiveness and narrow current account deficits in a revenue-neutral manner as has been the case in some Eurozone countries. In this respect, fiscal and internal devaluation measures should be seriously considered in Zimbabwe to improve the cost of doing business and export competitiveness.

### **Internal Devaluation**

In addition to fiscal devaluation, complementary "internal devaluation" measures targeted at reducing the cost of doing business, boosting

competitiveness, increasing productivity and fostering confidence in the economy can also be pursued.

Major cost drivers identified in Zimbabwe include labour, power, water, finance, transport and logistics, tariffs and trade taxes, taxation and information technology costs. In this regard, it is important to reduce major cost centres, as well as improve the availability and access to key utilities. It is envisaged that streamlining of charges by the relevant regulatory authorities will significantly impact on the costs of production, leading to a downward review of all prices in the economy, and hence improvement in competitiveness.

The success of fiscal and internal devaluation measures entails that the domestic banking sector prioritize the financing of companies that produce import substitutes.

### **Debt Resolution Efforts**

Since the accumulation of external payment arrears in 2000, the country's debt stock has remained a developmental constraint. The negative repercussions of the suspension of balance of payments and budgetary support by the development financial institutions to the country have been amplified under the multiple currency system where liquidity conditions have constrained economic growth.

In this context, the resolution of the country's debt burden should rank high on the country's development agenda. This is largely so, as the resolution of the country's debt remains integral to efforts geared at improving the country's credit worthiness and the effective unlocking of affordable credit lines. In this regard, Government's efforts for the re-engagement with both bilateral and multilateral creditors with a view to resolve the country's debt and arrears should be continued.

Additionally, Government's commitment to making token payments to the International Monetary Fund (IMF), World Bank, African Development Bank (AfDB) and the European Investment Bank in line with the Pari-Passu principle that require the equal treatment of creditors is highly commendable.

### **Economic Quantitative Program**

Government's performance under the International Monetary Fund (IMF) Staff Monitored Program (SMP) for the December 2014, and June 2015 Review is quite impressive under the current conditions when the country is using the multiple currency system without support from development financial institutions. The country met all the quantitative targets under the SMP as evidenced by the approval of the first and second reviews of the SMP by IMF Management in 2014.

The successor SMP is envisaged to afford the country an immense opportunity to consolidate its policy measures as embodied in ZimAsset, and strengthen its track record of implementing sound

macroeconomic and structural policy measures. Ultimately, the successful implementation of the successor SMP is expected to pave way for the country to resolve its debt with multilateral and bilateral creditors, improve infrastructure development, poverty reduction and stimulating economic growth.

## **CONCLUSION**

The theme of this Monetary Policy Statement is **BEYOND STABILISATION**. It is a passionate call for the various arms of Government to effectively implement the approved policy measures to stimulate production which is a bedrock and prerequisite to enhance liquidity, exports, fiscal space, employment, debt sustainability, and to reduce poverty. It is a clarion national call for all Zimbabweans to look and aspire to go beyond the current economic state of being a stable economy characterised by low inflation, stable banking sector and a stable currency.

The theme emanated from the view that the solution to the economic challenges besetting the nation lies in competitively enhancing production and productivity across the whole spectrum of the economy; from agriculture and mining which are the backbone of the economy; to manufacturing and tourism which are the value addition and beneficiation sectors. We need to competitively and sustainably grow

the economy by a minimum of 5% per annum. This is the philosophy behind the Africa Rising Narrative

We need to do more to increase production and productivity which is achievable by ‘walking the talk’ through implementing the Government approved production-friendly package of policies that include further opening up the economy for investment and tourism consistent with the current liberalised national economy; setting up of joint ventures, implementation of the special economic zones; open tourism policy; removal of obstacles that inhibit production and exports; targeted productive lending; reduction in the cost of doing business and/or improving the ease of doing business; and the promotion of Diaspora investments.

The theme is well typified by a few passages of scripture; namely John 5, verse 1-9, Habakkuk 2 verse 2 and Jeremiah 29 verse 11. It is, therefore, my fervent view that we all need to have faith like the paralysed man, who, even after spending 38 years by the pool at Bethesda [John 5 Verse 1-9] could get up, took his mat and walk. We need a paradigm shift to break with the past and work on production and ‘heal’ the economy. The nation needs to be comforted by the fact that the country’s vision of empowerment, enhancing beneficiation and value addition is clearly spelt out in ZimAsset and is in conformity with the teaching in Habakkuk 2 Verse 2.

Rallying on this vision and guarding against complacency through discipline, determination, dedication and sincerity, the nation can realise the good hope and future [Jeremiah 29 Verse 11] to unleash economic growth and generate jobs.

I therefore see Zimbabwe as an awakening giant of Africa from this theme and vision. The country needs to join the Africa Rising Narrative. Zimbabwe can and will rise. This hypothesis is based on the considered view that the most difficult phase in Zimbabwe's economic development path is over. The country is now on a 'take-off' phase or mode which calls for the power of positive thinking and contentment (not complacent) in keeping on moving on the steady progress made so far. Going beyond the stabilisation 'road' requires simple and decisive pragmatic solutions for unleashing economic recovery. We all have a part to play on this national recovery narrative and to remove the 'cancer' or 'potholes' of negativity and discontentment.

I therefore, remain optimistic that a little bit of unity of purpose, focus, sincerity, discipline, entrepreneurship and aggression supported by the measures presented in this Monetary Policy Statement and the Mid-Term Fiscal Review Statement presented by the Hon. Minister of Finance and Economic Development to address the ease of doing business in Zimbabwe that include reduction in utility charges (electricity, water, EMA and municipality), bank charges, development

of a bond market, export financing, enhancing of gold and horticulture production, etc, would put Zimbabwe on a strong trajectory for the recovery of the economy BEYOND STABILISATION.

**I THANK YOU AND MAY GOD BLESS ZIMBABWE**

**DR. J.P. MANGUDYA**

**GOVERNOR RESERVE BANK OF ZIMBABWE**