

MID-TERM MONETARY POLICY STATEMENT

FOSTERING PRICE STABILITY

21 AUGUST 2020

TABLE OF CONTENTS

TABLE OF FIGURES.....	3
List of Tables.....	4
SECTION 1: INTRODUCTION	5
SECTION 2: RECENT MONETARY POLICY MEASURES.....	8
Introduction of the Foreign Exchange Auction System.....	8
Measures to Support the Auction System	10
Bank Policy Rate.....	10
Open Market Operations Instruments.....	10
Productive Sector Facility.....	11
Reserve Requirements	11
Monetary Targeting Framework.....	11
Addressing Cash Challenges.....	11
SECTION 3: NEW MONETARY POLICY MEASURES.....	13
Supporting the Auction from Domestic Forex Resources.....	14
SECTION 4: OUTLOOK AND CONCLUSION.....	23
Conclusion.....	24
ANNEXUTRE: MACROECONOMIC AND FINANCIAL DEVELOPMENTS.....	26
Global Developments.....	26
Domestic Developments	27
Foreign Currency Receipts and Payments.....	28
Foreign Currency Payments	29
Balance of Payments Developments and Outlook.....	30
NATIONAL PAYMENT SYSTEMS DEVELOPMENTS	56

TABLE OF FIGURES

<u>Figure 1: Exchange Rate Convergence Under the Auction System</u>	8
<u>Figure 2: Inflation Development and Outlook</u>	20
<u>Figure 3: Month-on-month Inflation</u>	24
<u>Figure 5: Composition of Money Supply</u>	30
<u>Figure 7: Trend of Banking Sector Deposits (ZW\$ billions)</u>	35
<u>Figure 8: Composition of Deposits as at 30 June 2020</u>	36
<u>Figure 9: Prudential Liquidity Ratio Trend (%)</u>	37
<u>Figure 10: Composition of the Banking Sector Assets as at 30 June 2020</u>	38
<u>Figure 11: Trend in Banking Sector Loans & Advances (\$m)</u>	39
<u>Figure 12: Sectoral Distribution of loans as at 30 June 2020</u>	39
<u>Figure 13: Trend in NPL Ratio</u>	40
<u>Figure 14: Income Mix – 30 June 2020</u>	41
<u>Figure 15: DTMFIs Performance Indicators, Dec 2018 – June 2020</u>	43
<u>Figure 16: Quarterly Credit Registry Inquiries by Banks and</u>	53

List of Tables

<u>Table 1: Foreign Currency Retention Thresholds</u>	14
<u>Table 2: Minimum Capital Requirements</u>	16
<u>Table 3: World Economic Growth (%)</u>	22
<u>Table 4: Total Foreign Currency Receipts (USD millions)</u>	25
<u>Table 5: Foreign Payments by Sector in USD (01 Jan – 30 June 2020)</u>	26
<u>Table 6: Monthly Inward Diaspora Remittances (USD)</u>	27
<u>Table 7: Reserve Money Developments (Zw\$ Millions)</u>	28
<u>Table 8: Architecture of the Banking Sector</u>	32
<u>Table 9: Financial Soundness Indicators</u>	33
<u>Table 10: Financial Inclusion Indicators – December 2016 to June 2020</u>	52
<u>Table 11: NPS Transactional Values July 2019 – June 2020</u>	55
<u>Table 12: NPS Transactional Volumes (in millions) July 2019 – June 2020</u>	56

SECTION 1: INTRODUCTION

1. This Monetary Policy Statement outlines the monetary policy stance being pursued by the Bank in the second half of 2020. The Statement also reviews the monetary policy measures implemented in the first half of the year, with particular focus on measures to contain the impact of the COVID-19 pandemic on price and exchange rate stability. In addition, the Statement outlines the current global and domestic economic developments and implications on the economic outlook.
2. The national economy, like the rest of economies across the globe, is experiencing economic and social turbulence induced by the outbreak of the COVID-19 pandemic. The prolonged COVID-19 induced disruptions to global production and trade have been more than initially anticipated and have worsened the global economic outlook, with adverse effects on domestic economic performance. Consequently, the global economy which was initially anticipated to decline by 3.9% in 2020 is now expected to decline by 4.9%. These developments have seen central banks across the globe easing monetary policies as well as taking deliberate measures to balance financial stability while supporting economic recovery.
3. The domestic economic decline was further exacerbated by negative perceptions that continued to prevail during the first half of the year. Resultantly, business entities resorted to the practice of forward pricing to hedge against exchange rate volatility, notwithstanding improving economic fundamentals as reflected in healthy fiscal and balance of payments positions.

4. It is against the above context that the Bank's monetary policy stance has been reinvigorated to foster price and exchange rate stability through the introduction of a transparent foreign exchange auction system on 23 June 2020 and strict adherence to the monetary targeting framework.
5. The introduction of the Dutch foreign exchange auction system has so far achieved its key objective of price stability and has greatly assisted in creating transparency in the management of foreign exchange and in price discovery of the market exchange rate. This has restrained the speculative pass-through effects of the exchange rate on the pricing of goods and services in the economy. Sustaining the auction system is therefore crucial in fostering price stability in the economy.
6. Whilst the Bank is encouraged by the fact that some business entities have realigned their pricing models to the auction determined exchange rate, other entities are not complying and charging for goods and services at rates higher than the auction rate despite accessing foreign exchange from the auction. Such practice of forward pricing of the exchange rate goes against the positive outlook on the exchange rate that is showing consistent signs of convergence as evidenced by the continued narrowing of the bands between the highest and lowest foreign currency bids and the reduction in the parallel exchange rate premium to below 15%.
7. The resultant stability and predictability in the exchange rate is envisaged to help stabilise prices of goods and services. Consequently, annual blended inflation that stood at 485.27% is projected to taper-off over the remaining part of the year as inflationary pressures continue to ease. The supportive measures put in place by the Bank to sustain the auction, including strict adherence to the monetary targeting framework, suspension of mobile money

agents for bulk transactions and improved monitoring of electronic transactions have also started to bear fruit as evidenced by the muted activity on the foreign exchange parallel market.

8. The stability and predictability of the exchange rate have been supported by the buoyant external sector, which continues to exhibit resilience as evidenced by a stable trend in performance of exports and international remittances, notwithstanding the adverse impact of COVID-19. The country recorded a positive foreign currency net position of US\$1.3 billion for the six months ending 30 June 2020, compared to a deficit of US\$738.7 million for the same period in 2019. Sustained export performance is critical for the steady supply of foreign currency needed to sustain the economy.
9. The financial sector has also continued to exhibit resilience as evidenced by strong banking sector balance sheets and minimum systemic risks. In addition, all banking institutions are compliant with the prescribed minimum capital requirements.
10. This Statement, therefore, lays out additional measures to support price and exchange rate stability in the economy. The rest of the Monetary Policy Statement is organised as follows: Section 2 evaluates the recent monetary policy measures, including decisions and policies made by the Bank's MPC and Section 3 outlines the additional measures to buttress and sustain the auction system as well as supporting economic recovery. Section 4 discusses the outlook and conclusions from the Statement. Finally, the Statement contains an annexure discussing international and domestic macroeconomic and financial developments underpinning monetary policy decisions.

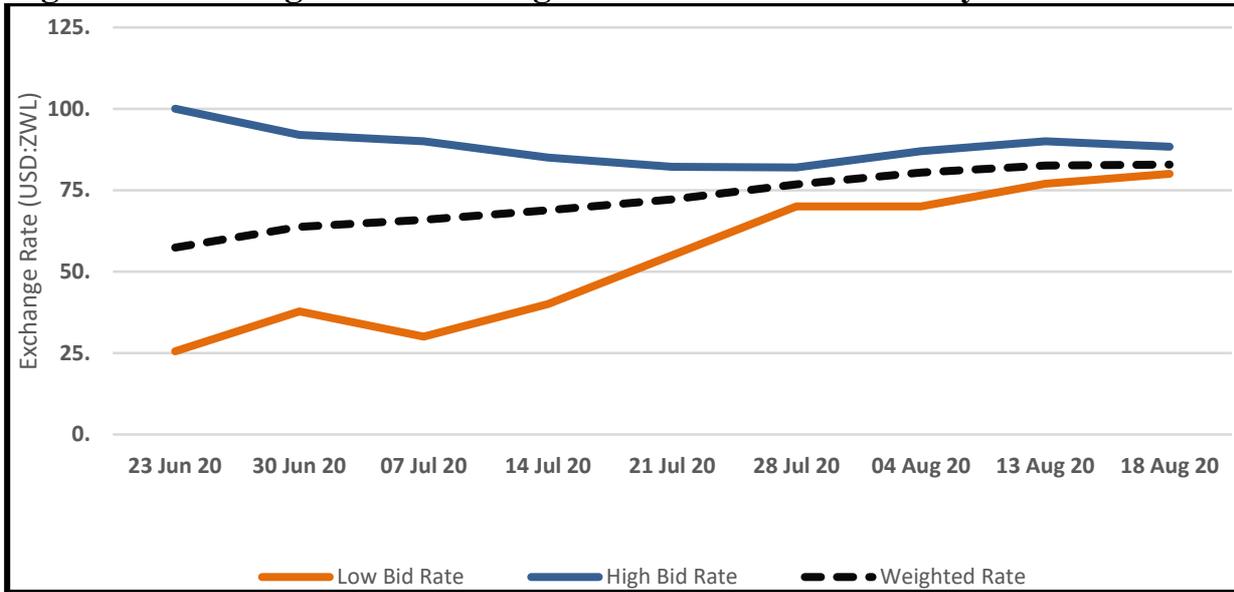
SECTION 2: RECENT MONETARY POLICY MEASURES

11. Since the last Monetary Policy Statement issued in February 2020, the Bank, through the Monetary Policy Committee (MPC), implemented a number of measures aimed at ensuring exchange rate, price and financial stability in the economy, while supporting real economic activity. In particular, the Bank implemented the following key policies:

Introduction of the Foreign Exchange Auction System

12. In response to the volatility in the pricing of goods and services due to the rising parallel exchange rate premium, the Bank replaced the fixed exchange rate system, which had the domestic currency pegged at ZW\$25 per US dollar, with a foreign exchange auction system.
13. Since its introduction on 23 June 2020, a total of US\$137.4 million has been allotted against bids for US\$157.8 million at the end of 9th auction on 18 August 2020. Effectively the auction system has to date served 87.1% of the formal foreign exchange market demand. Total foreign currency allotments have ranged between US\$10.3 million and US\$18.8 million per auction.
14. The foreign exchange auction system has greatly assisted in improving transparency in the foreign currency market and has facilitated the discovery of a market-based exchange rate. In addition, the system has been critical in fostering exchange rate and price convergence over time. The dispersion between the highest and lowest bid rates on the auction system has been converging towards the weighted average exchange rate, while the parallel market premium has remained suppressed. The dispersion between the highest and lowest bid rates, which was around 75 points at the beginning of the auction had fallen to about 8 points after the ninth auction.

Figure 1: Exchange Rate Convergence Under the Auction System



17. The same is true for the parallel market exchange rate that fell from the range of ZW\$95 to ZW\$120 : US\$ at the commencement of the auction system to the current range of ZW\$85 to ZW\$110 : US\$ as shown in Figure 1 above. The parallel exchange rate premiums have thus plummeted from about 300% before the introduction of the auction system to the international known levels of between 5 to 15% as of the second week of August 2020.

18. The re-direction of the foreign currency demand pressure from the parallel market to the auction, coupled with improved foreign currency supply and the Bank’s contractionary monetary growth stance, will assist in fostering price stability. The subsequent introduction of the auction system for SMEs, running concurrently with the main auction, will further support current efforts to improve the management of foreign exchange in the economy.

Measures to Support the Auction System

19. The Bank has also put in place the following supply side measures to support the auction:
- a. Allowing direct participation of exporters on the auction at their preferred reserve prices;
 - b. Engagement of banks to participate on the auction;
 - c. Upward reviewing of the foreign exchange retention for gold producers to 70% for them to enhance production;
 - d. Arranging foreign lines of credit on behalf of Government to supplement domestic-generated foreign exchange, and
 - e. Liberalisation of the use of free funds.
20. The above measures have continued to see a steady flow of funds to support the auction.

Bank Policy Rate

21. In order to curb speculative borrowing and manage foreign exchange pressures, the Bank reviewed the Bank Policy rate upwards from 15% to 35%. This was to reduce excess liquidity on the market which could be channelled towards purchasing of foreign currency thus putting pressure on the exchange rate.

Open Market Operations Instruments

22. The Bank introduced an exchange rate linked Open Market Operations (OMO) instrument settled in local currency, to allow those with excess liquidity to preserve value without destabilising the exchange rate. The instrument, over and above compensating for exchange rate losses, also carries an interest rate of 5% per annum. This instrument which shall also be listed on the Zimbabwe Stock Exchange is expected to mop up the excess

liquidity and ease the exchange rate pressures in the economy. In the same vein, the Bank has encouraged banking institutions to come up with similar value preserving instruments for their customers.

Productive Sector Facility

24. The Bank continued to support the productive sectors through its Medium-term Lending Facility to support banks with productive sector funding requirements. A total of ZW\$2.6 billion had been disbursed to banks as at 30th June 2020. Whilst this Facility is necessary to enhance productivity, it needs to be continuously reviewed to manage the risk of increasing reserve money in the economy.

Reserve Requirements

25. The Bank reviewed the reserve requirements from 5% to 2.5% to enable banks to increase credit to the productive sectors of the economy.

Monetary Targeting Framework

26. The Bank remained committed to the monetary targeting framework as a way of containing money supply growth to curb inflationary pressures in the economy. The Bank, through the MPC, has been aggressive in containing reserve money growth below the target growth of 50% by year end. The Bank has also been transparently publishing reserve money statistics as part of its forward guidance and communication strategy.

Addressing Cash Challenges

27. In response to the increasing demand for cash by the transacting public, the Bank introduced higher denominations of ZW\$10 and ZW\$20 in the banking system. In addition, the cash withdrawal limits were reviewed upwards from

ZW\$300 to ZW\$1000 per week to provide transactional convenience to the public.

28. The Bank implemented various regulatory and supervisory measures to maintain financial stability. These measures were aimed at ensuring that banking institutions continue to support the real economy, as well as minimising the adverse impact of the COVID-19 pandemic on the sector.
29. The banking sector has also implemented various strategies to cushion its customers and maintain stability and these include moratoria on repayment of loans and a freeze or reduction of service fees.

SECTION 3: NEW MONETARY POLICY MEASURES

A. SUSTENANCE OF THE FOREIGN EXCHANGE AUCTION

30. The foreign exchange auction system has managed to minimise the volatility in the exchange rate which was the principal driver of price instability in the economy. Accordingly, the auction or market exchange rate has continued to be below the parallel exchange rates of between ZW\$95 -120 : US\$ that the market was using before the introduction of the auction system on 23 June 2020. This positive development on the exchange rate has thus significantly stabilised prices in the national economy and should be sustained.

31. In order to continue fostering price stability through increasing availability of foreign currency on the auction, the Bank is putting in place the following measures that take account of the fact that participation on the auction is open to all entities irrespective of whether or not they are exporters and, as such, any shortfalls to meet entities' foreign exchange requirements will be met through the auction:

Standardisation of Export Retention

32. Given the positive impact of the auction system in price stability and the need to sustain the auction, all export retention thresholds for all exporters will be at a standard level of 70% with immediate effect.

33. In addition to this equity principle on export retention thresholds, the 30 day liquidation period of unused funds has been reviewed upwards to 60 days from the day of receipt of funds. This is essential to enable exporters to better manage and plan their cashflows.

Supporting the Auction from Domestic Forex Resources

34. Following the decision to allow the use of free funds in the pricing of goods and services in the economy, the Bank is encouraged by the growth of the foreign exchange balances in the domestic foreign currency accounts, from US\$352.4 million in January 2020 to US\$404.8 million as at end of July 2020.
35. In order to ensure that some of the domestic-generated foreign currency is utilised to sustain the auction, with immediate effect and going forward, 20% of the foreign currency receipts of providers of goods and services shall be liquidated at the point of depositing in the Domestic FCAs.
36. For the avoidance of doubt, all existing balances in the Domestic FCAs will not be affected by this policy.
37. This policy measure shall also not apply to recipients of free funds including individuals, embassies, non-governmental organisations, tobacco and cotton producers and Domestic FCAs for fuel companies.

Foreign Currency Trading by *Bureaux de Change*

38. The Bank is further liberalising the activities of *bureaux de change* to enable them to enhance their business by increasing the exchange rate spread from the current 3.5% to up to 5.0% above the auction rate. The *bureaux de change* will be required to sell at the auction at their reserve price, 80% of their balances held every Monday.

Compliance with Auction Rates

39. The Bank has noted with concern malpractices by certain business entities that are charging for goods and services at rates way above the rate obtaining

on the auction to the detriment of the consumers. Such malpractices are counter-productive and negate the objective of price stability.

40. In order to curb such delinquent behaviour and to enforce compliance, the Bank is proceeding to establish a toll free line through which the public/consumers will report to the Bank such malpractices and other foreign currency related transgressions.

B. BANK POLICY RATE

41. In line with the MPC resolutions of 13 August 2020, the Bank Policy Rate for overnight accommodation shall remain at 35% per annum, whilst the rate for the Medium-term Lending Facility shall be 25% per annum with immediate effect.

C. BANKING INSTITUTIONS CAPITALISATION PLANS

42. Cognisant of the prevailing challenging environment exacerbated by the negative impact of the COVID-19 pandemic, the Bank is extending the deadline for compliance with the requirement for meeting the minimum capital levels, as indicated in Table 2 below, by one year from 31 December 2020 to 31 December 2021. In this regard, banking institutions are required to submit to the Bank updates of capitalisation plans by 31 December 2020 and 30 June 2021.

Table 2: Minimum Capital Requirements

Type of Institution	Minimum Capital Requirements in ZW\$ Equivalent to :-
TIER 1 - Large Indigenous Commercial Banks & all Foreign Banks	USD30 million
TIER II - Commercial Banks, Merchant Banks, Building Societies, Development Banks, Finance & Discount Houses	USD20 million
TIER III - Deposit-Taking Microfinance Banks	USD5 million
Credit Only Microfinance Institutions	USD25,000

43. Banking institutions are also required to continue to assess the adequacy of their economic capital levels against their risk profiles. Particular attention should be given to credit risk, operational risk and business risk, which have been significantly increased by the COVID-19 pandemic.

D. MEASURES TO ADDRESS DEFICIENCIES IN MOBILE BANKING

44. The forensic audit to assess the integrity, compliance and efficacy of mobile money platforms and transactions in Zimbabwe has revealed significant weaknesses in the systems of the mobile payment operators, namely Ecocash, OneMoney, Telecash and Mycash.
45. The critical weaknesses that cut across the four mobile payment platforms are:
- i. Non-adherence to KYC principles, characterised by, among other issues, creation of mobile money accounts using fictitious and unverified identification particulars;

- ii. Creation of money on the platforms (overdrafts and fraudulent / fictitious credits) which is not backed by balances in the Mobile Money Trust Accounts;
 - iii. System infrastructure inadequacies and weak Anti Money Laundering controls;
 - iv. Failure to comply with, including willful disregard for, regulatory directives;
 - v. Connivance between mobile money operator employees and customers to delay or illegally bypass account freeze orders;
 - vi. Failure to deduct or remit statutory taxes; and
 - vii. Rampant abuse of agent, super-agent and bulk payment wallets for purposes of trading on the foreign exchange parallel market.
46. On the basis of the forensic audit findings and recommendations, the following measures to address the shortcomings shall be implemented with immediate effect:

Individuals

47. Transactions by individuals shall be pegged at ZW\$5,000 per day. Individuals shall be allowed to undertake Person to Person transfers, Person to Merchant payments for goods and services, settlement of bills and purchase of airtime.
48. Following the suspension and freezing of agent and bulk-payer wallets on 27 June, 2020, mobile money operators have allowed illegal foreign currency dealers to use multiple individual wallets as a means to bypass the transaction limits and continue with their illicit transactions. Mobile money operators shall, with immediate effect, close all multiple wallets, and allow just one wallet per individual.

Merchants

49. Retailers and other service providers will be permitted to continue operating merchant wallets to allow the public to pay for goods and services.
50. Merchants shall not be allowed to make payments from their wallets. E-value held in merchant wallets shall be liquidated to the merchant's bank account.
51. In this regard, mobile money operators shall have systems in place to ensure automatic liquidations from the merchant wallets to the merchant bank accounts. This measure shall ensure that mobile payment platforms are not used for store of value but shall be restricted for transacting purposes in furtherance of financial inclusion in the economy.

Agents

52. Agent wallets are no longer serving any legitimate purpose and were now being used primarily for illegal foreign exchange transactions. Agents' mobile money wallets are therefore abolished, with immediate effect.
53. Agents currently holding value in suspended and frozen wallets shall be allowed to liquidate the funds to their bank accounts, upon the Financial Intelligence Unit (FIU) having satisfied itself of the legitimacy of the source of funds.

Bulk payment accounts

54. Mobile payment operators have been turning a blind eye and have even actively encouraged the abuse of bulk payment wallets for illegal foreign currency transactions, thus earning lucrative transaction fees in the process.

55. Going forward, bulk payment wallets will be approved by regulatory authorities for limited use, primarily for low value transactions and humanitarian funds disbursements to vulnerable members of society.
56. Any other bulk payment transactions, such as payment of salaries and wages, should be processed through normal banking channels.

Other corrective measures

57. The Bank, as regulator of mobile payment services, and the FIU, as the agency responsible for enforcing anti money laundering standards, will consider the findings and recommendations of the forensic report, in detail, and come up with comprehensive corrective measures for implementation by mobile payment operators, to ensure compliance, integrity and efficacy of mobile money transactions.
58. For identified serious breaches, appropriate regulatory and disciplinary measures will be instituted against delinquent mobile money operators and / or any culpable individuals, in accordance with the law.

Interoperability

59. On 27 March 2020, the Government passed the Banking (Money Transmission, Mobile Banking and Mobile Money Interoperability) Regulations, under Statutory Instrument 80 of 2020. The new law is intended to facilitate integration of payment systems and promote efficiency of payment services, for the convenience of the transacting public.
60. Pursuant to the statutory instrument, the Bank designated Zimswitch Technologies (Private) Limited (Zimswitch) as a national payment switch,

and required all payment service providers, including mobile payment operators, to be connected thereto.

61. With all banks and some mobile payment operators already connected to Zimswitch, connectivity by all payment service providers is expected to be completed by 30 September 2020.

E. MANAGEMENT OF COVID-19 ALLOWANCES FOR PUBLIC SECTOR EMPLOYEES

62. In view of the continuous challenges faced by the public sector employees to access their COVID-19 allowances, the Bank is directing all banks to adhere to the requirements to open domestic FCA accounts to enable the public sector employees to access their US\$ allowances in the manner and form as expected by Government and the employees.
63. Banks should make it easy for these public servants to have access to foreign exchange cards and to permit them to transact in the normal course of business like any other ordinary customers of banks with adherence to the usual Know Your Customer (KYC) principles.
64. Accordingly, banks are directed to submit returns to the Bank by 31 August 2020 on their banking programme(s) that they have put in place to address the requirement for ease of access to COVID-19 allowance by the public sector employees.

F. BUSINESS CONTINUITY

65. The COVID-19 pandemic has presented businesses with many unforeseen challenges due to its rapid spreading and global reach, which necessitates

improvement and continuous review of banking institutions' business continuity plans to better prepare for the impact the pandemic.

66. In this regard, banking institutions are required to submit updated business continuity plans (BCPs) by 30 October 2020. The revised BCPs should include:
- a) adequate measures for infection control in the workplace;
 - b) preparedness for large-scale remote working of staff;
 - c) customers prompt access to their funds;
 - d) critical systems, functions and staff;
 - e) continued compliance with regulatory reporting requirements
 - f) alternate business sites; and
 - g) data back-up and recovery.

G. CREDIT RISK

67. The COVID-19 pandemic and the attendant lockdowns to contain the spread of the pandemic has impacted negatively on the cash flows of many consumers and businesses. The identification of risk concentrations from an overall portfolio perspective is therefore paramount during this pandemic. In particular reviewing sectoral concentrations of loans is critical given that the pandemic has affected various sectors differently.
68. Against this background, with effect from 30 September 2020, banking institutions are required to submit monthly credit reports on the status of each of their top twenty loans/exposure and a clear strategy for action where there is deterioration in quality of the concerned loan.

H. CYBER RISK AND CONSUMER PROTECTION

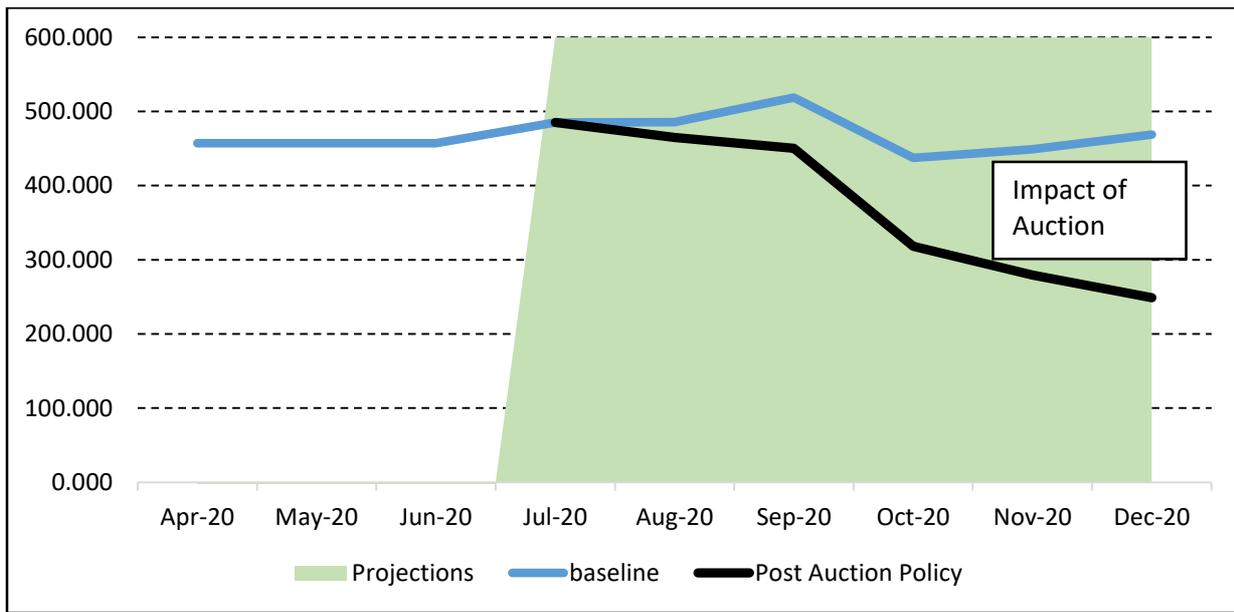
69. The COVID-19 pandemic has made a compelling case for digital banking. Accelerated digitisation by banking institutions in the wake of COVID-19 and the remote working arrangements have expanded the attack surface of banks' information technology networks. Critical business functions are more exposed to opportunistic and targeted cyber-attacks by criminals and thus increasing consumer protection risks.
70. Cyber and anti-fraud controls are critical for banking institutions during and post COVID-19. Banking institutions are called upon to remain alert to such threats and activate appropriate risk management responses and to conduct ongoing consumer education campaigns.
71. Banking institutions should review the adequacy of their ICT systems. Accordingly, banking institutions are required to submit to the Bank updated cyber risk management policies by 30 October 2020, taking into account COVID-19 experiences to date.

SECTION 4: OUTLOOK AND CONCLUSION

Economic Outlook

72. The measures contained in this Statement will foster stability in prices and exchange rate consistent with the trend that has been witnessed since adoption of the foreign exchange auction system in June 2020. The Bank is committed to containing fluctuations in the exchange rate within a low band through market-based means and monetary policy instruments under its purview, notably, reserve money targeting.
73. The ensuing stability of the exchange rate will enhance the value of the Zimbabwe dollar as a store of value in an environment where business and consumers use the exchange rate as the nominal anchor. This will in turn help reduce demand for foreign currency for store of value and thus enhancing current measures to stabilise prices.
74. Reflecting recent developments on the foreign exchange auction, blended annual inflation is forecast to gradually fall to 249% by December 2020 and further to single digit levels by December 2021. The liquidity mopping effect of the auction coupled with continued restraint on money supply growth is expected to dampen inflationary pressures in the economy culminating to a sustained trajectory in the year-on-year inflation as shown in the post auction policy scenario in Figure 2.

Figure 2: Inflation Development and Outlook



Conclusion

75. The stability in prices and exchange rate witnessed since the adoption of the auction system will go a long way in fostering stability and predictability in price and exchange rate dynamics. This stability is necessary to support and boost the country's productivity levels that is critical to ensure self-sustenance and increasing employment.

76. Concerted efforts are obviously required from all stakeholders to play their part in avoiding some of the vices which have been driving the parallel market exchange rate and propagating inflationary pressures in the economy. These vices include the speculative and short-termism tendencies and indiscipline particularly relating to the use of the mobile money platforms which compelled Government to take drastic measures to suspend agent-based mobile transactions and subsequent abolishment of agent mobile money wallets in terms of this Statement.

77. The Bank remains committed to foster price stability through containing money supply growth to anchor inflation expectations and contain fluctuations in the market-based exchange rate within sustainable bands. Fostering price stability is *sine qua non* to boost confidence within the economy and for enhancing production and productivity.

I THANK YOU

**JOHN P. MANGUDYA
GOVERNOR**

ANNEXUTURE: MACROECONOMIC AND FINANCIAL DEVELOPMENTS

Global Developments

1. The global economy is now projected to decline by 4.9% in 2020, as a result of the COVID-19 pandemic, which has disruptive and negative implications for global trade channels, business and tourism travel, capital flows and commodity prices.
3. The world economy is, however, forecasted to rebound by 5.4% in 2021, on account of worldwide restoration of consumer and investor confidence. Table 1 summarises global economic growth developments and prospects for selected regions and countries.

Table 3: World Economic Growth (%)

	2018	2019	2020 Proj.	2021 Proj.
World Output	3.6	2.9	-4.9	5.4
Advanced Economies	2.2	1.7	-8.0	4.8
<i>o/w: United States</i>	2.9	2.3	-8.0	4.5
<i>Euro-Area</i>	1.9	1.3	-10.2	6.0
<i>Japan</i>	0.3	0.7	-5.8	2.4
Emerging Market & Developing Economies	4.5	3.7	-3.0	5.9
Asia	6.3	5.5	-0.8	7.4
<i>China</i>	6.7	6.1	1.0	8.2
<i>India</i>	6.1	4.2	-4.5	6.0
SSA	3.2	3.1	-3.2	3.4
<i>Nigeria</i>	1.9	2.2	-5.4	2.6
<i>South Africa</i>	0.8	0.2	-8.0	3.5

Source: IMF World Economic Outlook, June 2020

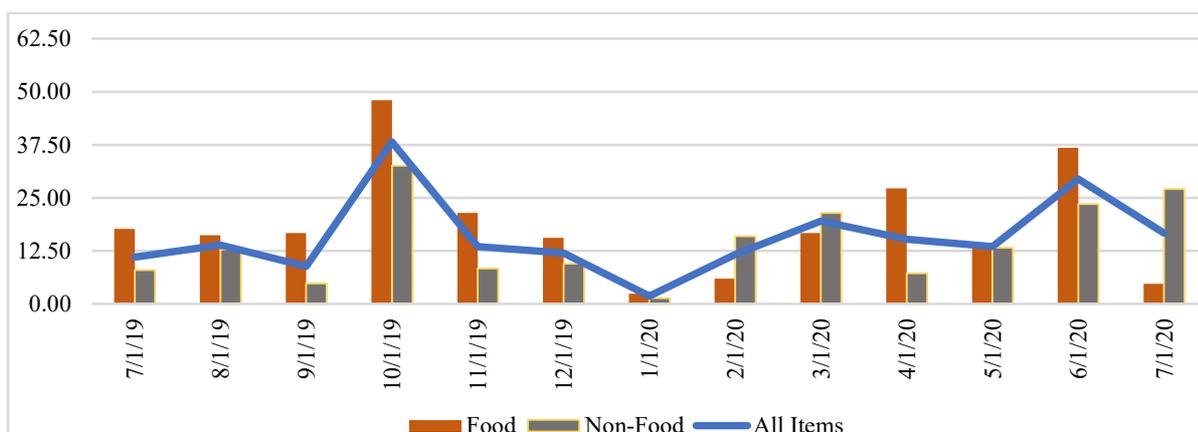
Domestic Developments

4. The economy was initially projected to grow by 3% in 2020, driven by anticipated positive performances in the key sectors. However, due to COVID-19 and another drought year, the economy is now projected to contract by 4.5%, with the declines cutting across all sectors of the economy.

Inflation

5. Following adoption of dual currency pricing, it became essential and reasonable that inflation in Zimbabwe is measured on a blended or composite basis to reflect changes in both local currency and USD prices. Accordingly, the blended month-on-month inflation declined from 29.1% in June 2020 to 16.6% in July 2020 as shown in Figure 2 below. Foreign exchange transactions in the economy have increased following Government's policy to allow the use of foreign exchange on domestic transactions at the onset of COVID-19 containment measures.
6. The decline in overall monthly blended inflation in July 2020 was mainly on account of decreases in food inflation. Blended monthly food inflation declined from 36.8% in June to 4.77%. The decline in food prices mainly reflect stability in the foreign exchange market where the producers of foodstuffs are accessing forex at the auction rate. The parallel exchange rate has stabilised following adoption of the foreign exchange auction, thus pointing to subdued inflationary pressures in the outlook.

Figure 2: Month-on-month Inflation



Source: Zimstat, 2020

Foreign Currency Receipts and Payments

7. Total foreign currency receipts for the period January to 30 June 2020 amounted to USD3.16 billion, of which USD1,96 billion were export proceeds. During the corresponding period in 2019, total foreign currency receipts amounted to USD2.69 billion, of which USD1,86 billion were export proceeds.
8. The increase of 17.4% in total foreign currency receipts in the first quarter of 2020 as shown in Table 4 below was mainly driven by the increase in international remittances, drawdowns on lines of credit and increase in exports.

Table 4: Total Foreign Currency Receipts (USD millions)

Source		Jan-June 2020	% Contribution	Jan-June 2019	% Change
Export Proceeds		1,955.7	62%	1,864.5	4.9%
International Remittances	Diaspora Remittances	374.6	12%	298.4	26%
	NGOs	331.1	10%	260.1	27%
Loan Proceeds		454.6	14%	211.3	115%
Income receipts		29.9	0.9%	40.4	-26%
Foreign Investment		17.8	0.6%	19.1	-7%
TOTAL		3,163.7	100%	2,693.8	17.4%

Source: Exchange Control Records and Bank Supervision Application System (BSA)

Foreign Currency Payments

9. From January to 30 June 2020, foreign payments reported by Authorised Dealers amounted to USD1,84 billion. This represents a 5.9% decrease from USD1,96 billion recorded during the same period in 2019. Mining and Agriculture sectors registered fair increase of 24% and 58% respectively in foreign payments made relative to the previous year's payments with the exception of the manufacturing, services, retail & distribution and individuals sectors which recorded a decrease of about 16%, 21%, 8% and 1% respectively.

Table 5: Foreign Payments by Sector in USD (Jan – June 2020)

Sector	2020	2019	% Variance
Services	481,156,320	610,936,943	-21
Retail and Distribution	478,832,447	518,461,573	-8
Manufacturing	341,543,884	405,465,529	-16
Mining	397,039,217	319,655,580	24.2
Agriculture	118,898,621	75,200,971	58
Individuals	21,877,414	25,394,058	-14
Total	1,839,347,903	1,955,114,654	-5.9

Source: CEBAS Foreign Payments Reporting System, RBZ

Balance of Payments Developments and Outlook

10. Reflecting favourable foreign currency performance during the first half of the year, albeit under a harsh operating environment, the country's balance of payments is projected to remain favourable, driven by improvements in exports and diaspora remittances.

11. As at 30 June 2020 total International Remittances amounted to US\$705 million, representing a 26% increase from 2019's figure of US\$558 million during the same period. Of the total amount, diaspora remittances amounted to US\$374 million, a 25% increase from US\$298 million received during the same period in 2019. International remittances received through the normal banking system on behalf of International Organizations (NGOs) amounted to US\$331 million, a 27% increase from previous year of US\$260 million. Table 6 shows month on month Diaspora remittances (person to person remittances) for the year 2019 and 2020.

Table 6: Monthly Inward Diaspora Remittances in USD (Jan - July)

	2020	2019	Variance %
January	60,487,920	44,567,757	36
February	69,216,134	41,778,076	66
March	61,138,089	62,414,369	-2
April	30,906,845	49,227,045	-37
May	66,742,096	53,896,272	24
June	85,849,311	46,525,102	85
July	91,852,638	51,255,845	79
Total	466,193,033	349,664,465	33

Source: Exchange Control and Bank Supervision Application System (BSA)

MONETARY GROWTH

12. Growth in reserve money continues to be contained within the Bank's Monetary Targeting Framework, which is consistent with the Monetary Policy Committee's targeted reserve money growth of below 50 percent per quarter in 2020. In line with this policy framework, reserve money declined to ZW\$11.81 billion as at week ending 14th August 2020, from ZW\$16.66 billion recorded at the end of July 2020, largely reflecting decreases of banks' liquidity positions (i.e. banks' balances at RBZ).

13. The decrease in reserve money since the introduction of the auction system has largely been attributable to purchases of foreign exchange at the new auction rates; general increase in Government deposits which absorbs market liquidity as a result of increased revenue collections; and tight liquidity conditions which saw banks increasingly utilising their deposit balances at the Bank. The Table below shows developments in reserve money since the beginning of 2020.

Table 1: Reserve Money Developments (ZW\$ Millions)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Week Ending 7 Aug-20	Week Ending 14 Aug-20
Currency Issued by RBZ*	1,137	1,217	1,308	1,341	1,456	1,671	1,898	1,948	1,948
Banking Sector Deposits at RBZ	7,254	7,089	8,789	10,199	12,082	10,420+	11,453	10,536	9,584
<i>Statutory (Required) Reserves</i>	1,041	1,083	1,205	1,214	1,387	890	1,050	1,041	1,136
<i>Banks' RTGS Liquidity</i> Ω	6,213	6,006	7,584	8,895	10,696	9,529	10,403	9,495	8,447
Other Deposits@	861	1,075	1,608	920	277	582	3,312	870	282
Reserve Money π	9,251	9,381	11,705	12,460	13,815	12,673	16,662	13,354	11,814
Memorandum Items									
Currency Issued/Reserve Money	12.3%	13.0%	11.2%	10.8%	10.5%	13.2%	11.4%	14.6%	16.5%
Currency in Circulation**/Deposits	2.7%	2.5%	2.2%	2.0%	1.9%	1.5%	1.6%	1.6%	1.4%
Monthly Change in RTGS Balances	-16.4%	-3.3%	26.3%	18.5%	19.0%	-16.8%	-10.2%	-8.7%	-10.9%
Monthly Change in Reserve Money	-10.4%	1.4%	24.8%	6.5%	10.9%	-10.6%	-2.0%	-19.9%	-11.5%
Government Deposits at RBZ) ψ	3,144	3,347	2,847	2,967	2,092	8,509	7,073	8,881	8,367
Other Deposits at RBZ (FPR a/c)								2,324	2,216
Monthly Inflation	2.2%	13.5%	26.59%	17.64%	15.13%	31.66%	35.53%	N/A	N/A
Inter-Bank Exchange Rate	17.35	17.95	25.00	25.00	25.00	57.36	76.76	80.47	82.56

Notes:

1. Amount also reflects re-classification of FPR's foreign exchange deposit, which was previously included in reserve money. This deposit has no effect on reserve money as previously advised.

* Currency Issued – refers to bank notes and coins issued by the Reserve Bank of Zimbabwe.

** Currency in Circulation – refers to the currency circulating outside the banking system. This excludes currency held in the vaults of banks.

Ω These are deposits that banks place in the Real Time Gross Settlement (RTGS) System for purposes of meeting their inter-bank transactions.

π Figures may reflect positions as at last Friday of the month. See Monthly Reviews for month-end positions.

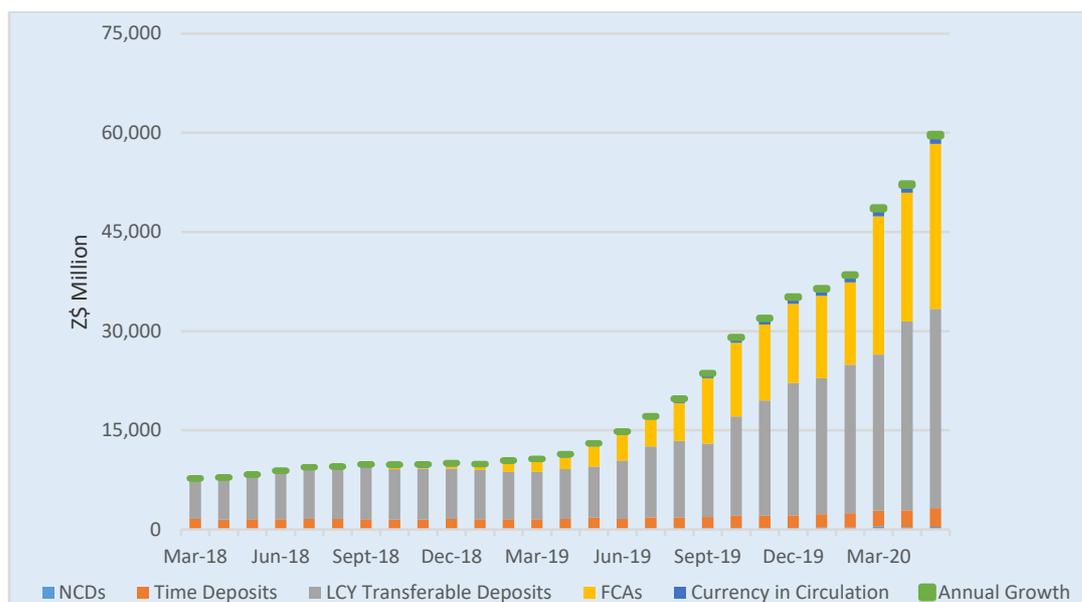
@ Other Deposits are mainly proceeds of drawdowns from foreign currency loans which are advanced to Fidelity Printers & Refiners (FPR) to purchase gold from the gold producers. The amounts are, therefore, purely accounting entries which do not represent money creation. With effect from 7th August 2020, this foreign exchange deposit will now appear as a memorandum item.

ψ Provisional.

N/A - not yet available.

14. As at May 2020, broad money (M3) stood at ZW\$59.5 billion, of which ZW\$33.16 billion (56.10%) was in local currency deposits and ZW\$24.98 billion (42.01%) constituted foreign currency deposits. Growth in broad money during the first five months of 2020 was significantly explained by the impact of exchange rate depreciation on the foreign currency component of the deposits (FCAs).
15. The movement of the inter-bank exchange rate, from ZW\$17.35/USD in January 2020 to ZW\$25.00/USD in May, resulted in an increase in the foreign currency component of broad, merely on account of the 44% depreciation in the exchange rate.
16. The adoption of the foreign exchange auction system, which has seen the exchange rate re-aligning from ZW\$25/USD in May 2020 to ZW\$82.9/USD on the auction of 18th August 2020, will lead to further increases in the foreign currency component of broad money.
17. In addition, foreign currency deposits in the banking system have been improving due to inflows from the tobacco selling season, as well as the harnessing of foreign currency into formal channels, following the policy to allow use of free funds in settling domestic transactions.
18. The increase in currency in circulation from ZW\$953.2 million in January 2020 to ZW\$1.1 billion by May 2020 was in line with increased demand for money in the economy for transactions purposes, in the inflationary environment. Figure 5 shows developments in the components of broad money, since 2018.

Figure 3: Composition of Money Supply



Source: Reserve Bank of Zimbabwe, 2020

19. Domestic credit grew by 36.73% from ZW\$27.82 billion in December 2019 to ZW\$39.06 billion in May 2020, largely due to an increase in credit to the private sector, from ZW\$11.1 billion to ZW\$21.58 billion, over the same period.
20. Net credit to Government remained constant around Z\$W14 billion over the first 5 months of the year, reflecting reduced recourse by Government to domestic bank sources of finance. Government recorded a budget surplus of around ZW\$800 million for the first half of 2020.

CONDITION AND PERFORMANCE OF THE BANKING SECTOR

21. Notwithstanding the unprecedented challenges occasioned by the COVID-19 pandemic, the banking sector remained financially stable. On its part, the Bank implemented regulatory and supervisory measures to maintain financial stability. These measures were aimed at ensuring that banking institutions

continue to support the real economy, while minimizing the impact of the COVID-19 pandemic on the sector.

Banking Sector Architecture

22. The composition of the banking sector under the supervision and oversight of the Bank remained largely unchanged over the period under review, with the number of institutions distributed as shown below.

Table 8: Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	19
Other Institutions under the supervision of Reserve Bank	

Credit-only-MFIs	225
Deposit-taking MFIs*	8
Development Financial Institutions	2
Total Other Institutions	235

* Includes Lion Microfinance Limited (under Curatorship)

23. Ngoro Microfinance (Private) Limited and Cashbox Financial Services Microfinance Bank (Private) Limited, which were licensed as Deposit-Taking Microfinance Institutions in September 2019 and February 2020, respectively,

are yet to commence operations as they are putting in place the necessary infrastructure for commencement of business.

PERFORMANCE OF THE BANKING SECTOR

24. The performance of the banking sector was considered satisfactory during the period ended 30 June 2020, as evidenced by the financial soundness indicators provided in Table 9 below.

Table 9: Financial Soundness Indicators

Key Indicators	Benchmark	June-19	Dec-19	Mar-20	June -20
Total Assets	-	\$23.54bn	\$60.64bn	\$98.79bn	\$193.56bn
Total Loans & Advances	-	\$6.17bn	\$12.63bn	\$19.42bn	\$37.77bn
Net Capital Base	-	\$3.31bn	\$9.75bn	\$14.25bn	\$29.47bn
Total Deposits	-	\$16.92bn	\$34.50bn	\$47.05bn	\$97.40bn
Net Profit	-	\$929.95m	\$6.41bn	\$1.99bn	\$13.46bn
Return on Assets	-	5.11%	8.99%	2.44%	10.53%
Return on Equity	-	20.95%	33.02%	8.67%	27.38%
Capital Adequacy Ratio	12%	32.64%	39.56%	41.83%	61.72%
Tier 1 Ratio	8%	27.24%	27.87%	27.87%	34.35%
Loans to Deposits	70%	36.49%	36.60%	41.28%	37.71%
Non-Performing Loans Ratio	5%	3.95%	1.75%	1.42%	1.03%
Liquidity Ratio	30%	64.77%	72.42%	66.71%	74.85%

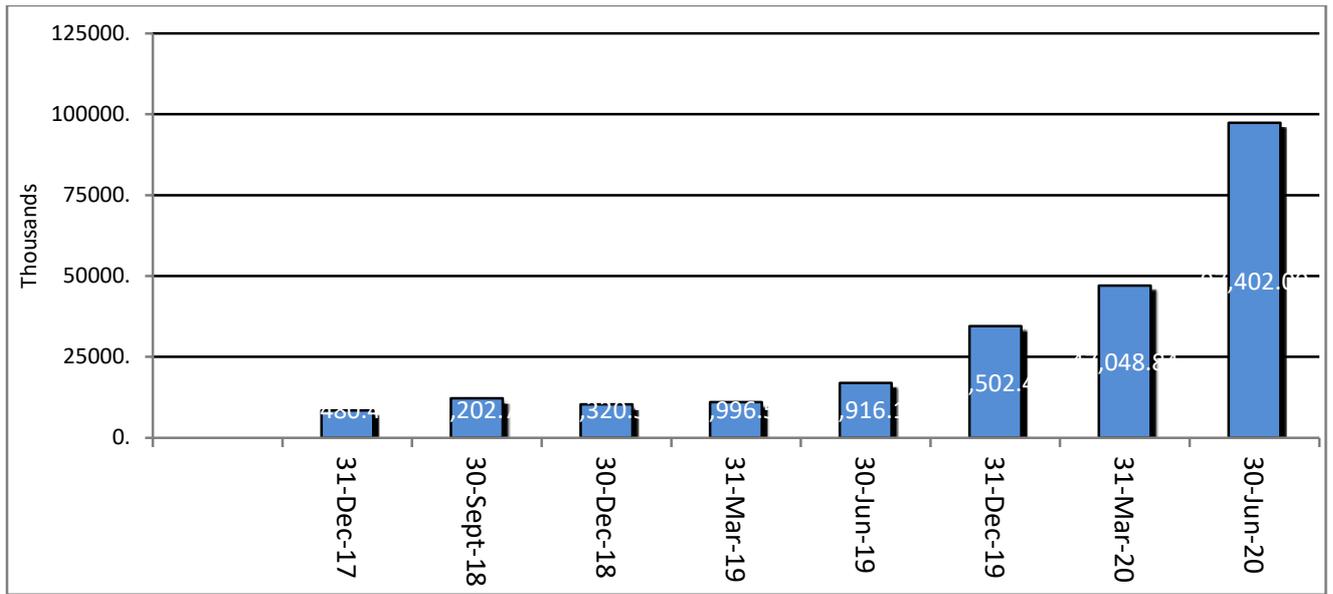
Capitalisation

26. As at 30 June 2020, the banking sector aggregate core capital was ZW\$20.99 billion, representing an increase of 180.99%, from ZW\$7.47 billion as at 31 December 2019. The growth in banking sector aggregate capital was mainly attributed to growth in retained earnings, buoyed by revaluation gains from foreign exchange denominated assets, following movements in the foreign exchange rate with the introduction of the foreign exchange auction in June 2020.
27. The banking sector average capital adequacy and tier 1 ratios of 61.72% and 34.35% as at 30 June 2020, respectively were above the regulatory minima of 12% and 8%, respectively. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios.

Banking Sector Deposits

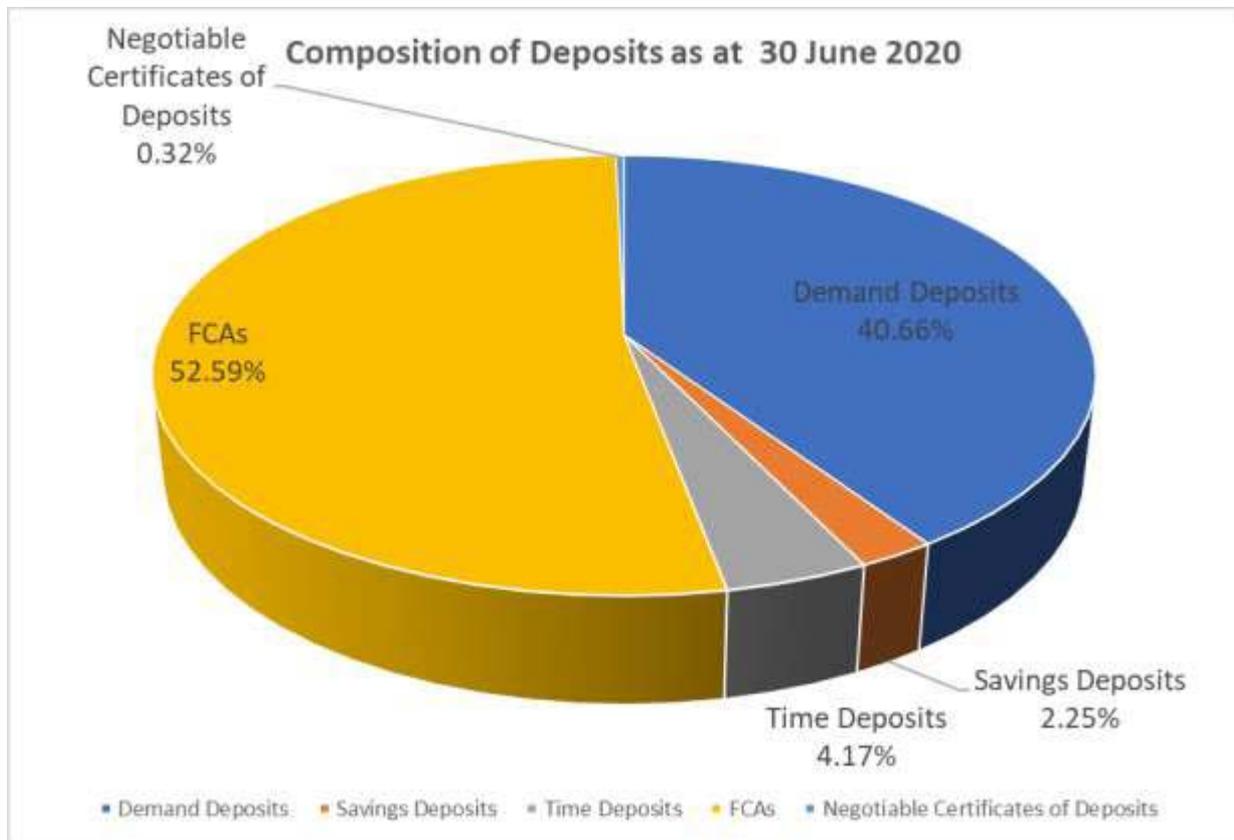
28. Total banking sector deposits amounted to \$ZW97.40 billion as at 30 June 2020, representing an increase of 182.32%, from \$ZW34.5 billion as at December 2019. The increase in the deposit base was mainly attributable to revaluation of foreign currency denominated deposits. The trend of banking sector deposits over the period 31 December 2017 to 30 June 2020 as shown in Figure 6.

Figure 6: Trend of Banking Sector Deposits (ZW\$ billion)



29. The deposit base is dominated by FCA and local demand deposits, which accounted for 52.59% and 40.66%, of total deposits, respectively, as shown in Figure 7 below.

Figure 7: Composition of Deposits as at 30 June 2020

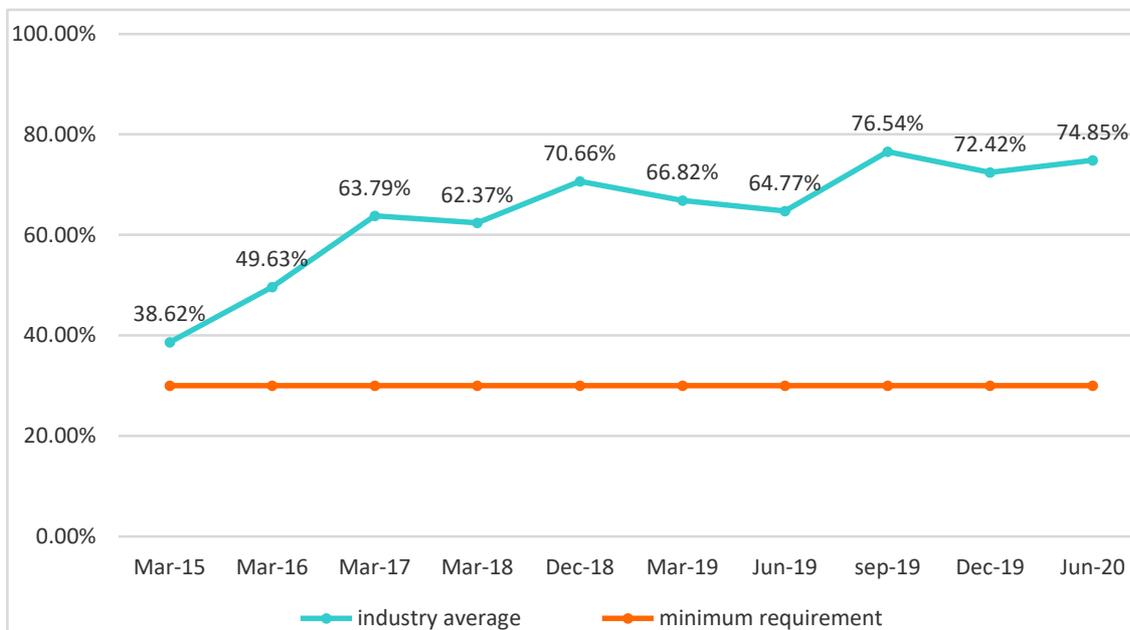


30. As at 30 June 2020, the commercial banking sub-sector deposits accounted for 91.54% of total deposits.

Banking Sector Liquidity

31. Figure 8 below shows a relatively stable and steadily rising trend in the banking sector average prudential liquidity ratio from March 2015 to June 2020.

Figure 8: Prudential Liquidity Ratio Trend (%)



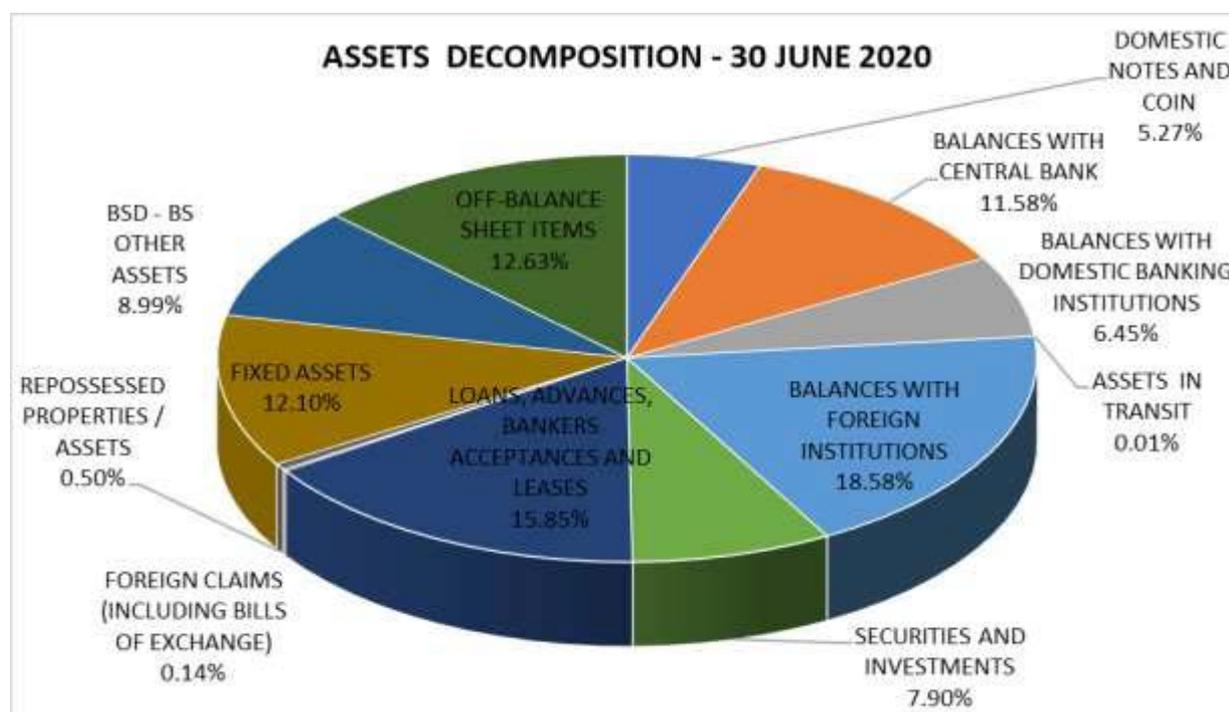
32. The average prudential liquidity ratio for the banking sector was 74.85% as at 30 June 2020. The high average prudential liquidity ratio was partly due to a cautious lending approach being adopted by banking institutions.

Banking Sector Assets

33. Total assets were ZW\$193.56 billion as at 30 June 2020, and largely comprised balances with foreign institutions, loans & advances, balances with

central bank, and off-balance sheet items, which constituted 18.58%, 15.85%, and 12.63% of total assets, respectively, as shown below:

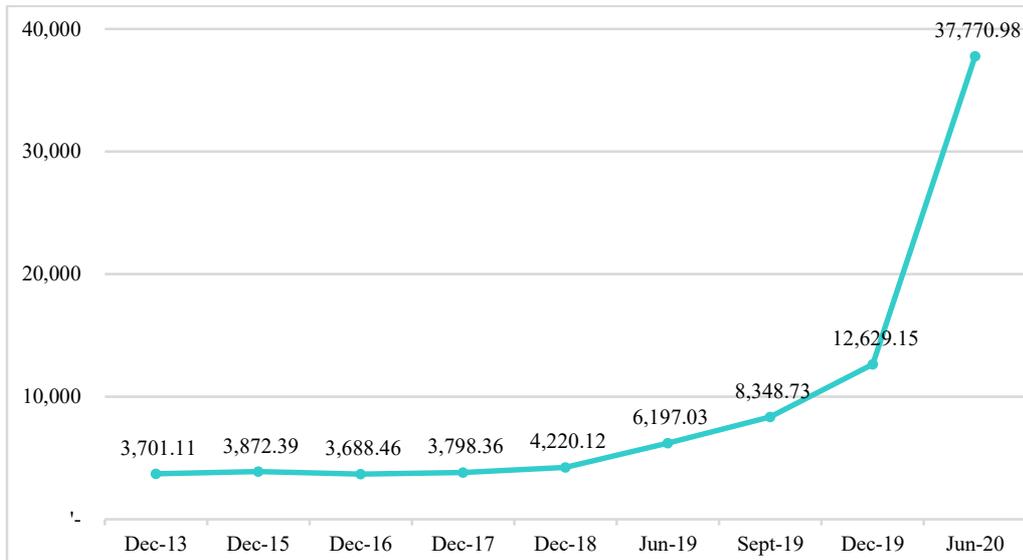
Figure 9: Composition of the Banking Sector Assets as at 30 June 2020



Loans and Advances

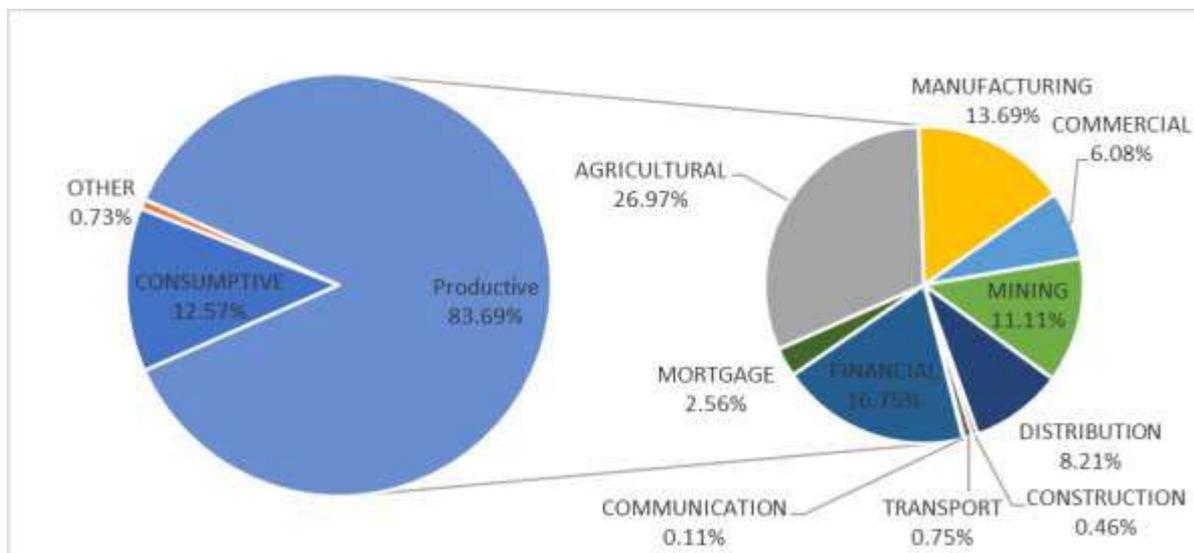
34. Total banking sector loans and advances increased by 94.49%, from ZW\$19.42 billion as at 31 December 2019 to ZW\$37.77 billion as at 30 June 2020. The growth in total banking sector loans and advances is largely attributed to the translation of foreign currency denominated loans at the prevailing interbank exchange rate, which moved upwards in June 2020, following the introduction of the foreign exchange auction system. Figure 10 below shows the trend in the total banking sector loans and advances from December 2013 to June 2020.

Figure 10: Trend in Banking Sector Loans & Advances (ZW\$m)



35. Loans to productive sectors of the economy constituted 83.69% of total banking sector loans as at 30 June 2020, as shown in the diagram below.

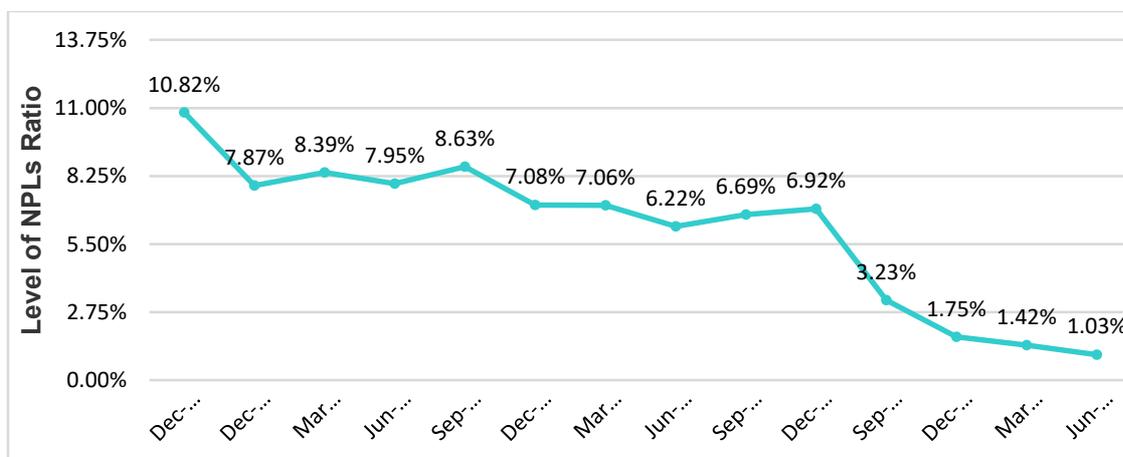
Figure 11: Sectoral Distribution of Loans as at 30 June 2020



Loan Portfolio Quality

36. The quality of the banking sector loan portfolio continued to improve, as reflected by an improvement in the non-performing loans (NPLs) to total loans ratio, from 1.75% as at 31 December 2019 to 1.03% as at 30 June 2020. Figure 13 below shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2015 to June 2020.

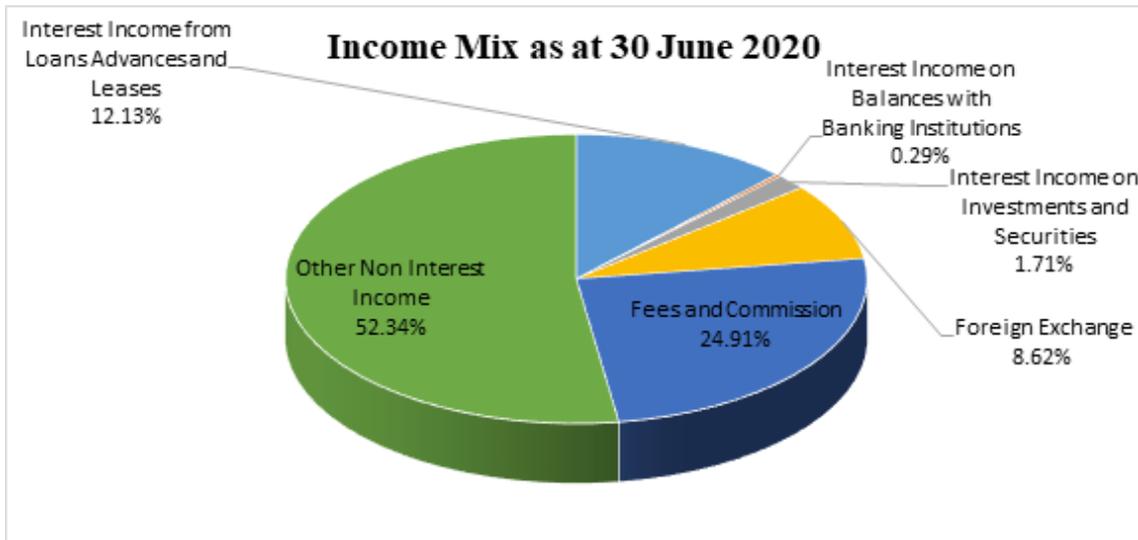
Figure 12: Trend in NPL Ratio



Earnings Performance

37. During the period under review, all banking institutions were profitable, with aggregate profit of ZW\$13.46 billion for the half year ended 30 June 2020, up from ZW\$79.40 million for the corresponding period in 2019. The key revenue drivers were other non-interest income, mainly from revaluation gains on foreign currency assets. The figure below shows the income mix as at 30 June 2020.

Figure 13: Income Mix – 30 June 2020



OPERATIONAL RISK MANAGEMENT

38. The Bank has put in place a sector-wide complaints tracking mechanism as part of consumer protection. All banking and microfinance institutions are now required to electronically log complaints they receive from clients into a Complaints Return on the Consumer Protection Module in the Bank Supervision Application (BSA) System.
39. Submissions for the half year ended June 2020 revealed that complaints received by banking and microfinance institutions largely related to failed transactions (14%), delayed transfers (11.62%), and ZIPIT transfer challenges (8.64%).

SUSTAINABILITY STANDARDS

40. The Bank is collaborating with the European Organization for Sustainable Development (EOSD) in embedding sustainability standards in the financial sector under the Sustainability Standards Certification Initiative (SSCI).

41. Pursuant to a Memorandum of Understanding signed in July 2019 between the EOSD and the Bank, six (6) banking institutions are participating and are implementing the Standards. Participating banking institutions are now working on their Purpose Statements and High Impact Goals, which are aligned to the country's developmental objectives.

CONDITION AND PERFORMANCE OF DEPOSIT-TAKING MICROFINANCE INSTITUTIONS

42. As at 30 June 2020, there were eight (8) registered deposit-taking microfinance institutions (DTMFIs), comprising of five operating institutions, two licenced but yet to commence operations, as well as one under curatorship.

Performance of the DTMFIs

43. The DTMFI sub-sector remained generally stable and resilient as evidenced by adequate capitalization and growth in total assets. However, the sub-sector recorded heightened exposure to credit risk, as well as low business volumes and operating losses, mainly due to the COVID-19 pandemic-induced restrictions.

44. Table 13 below shows the DTMFI sub-sector's performance indicators as at 30 June 2020.

Table 13 : DTMFIs Performance Indicators, Dec 2018 – June 2020 (ZWS\$)

Key Indicators	Dec-18	June 19	*Dec 19	*March 2020	*June 2020
Total Assets	\$138.16m	\$158.35m	\$258.63m	\$403.40m	\$843.04m
Total Loans & Advances	\$84.40m	\$97.44m	\$88.83m	\$120.81m	\$134.33m
Core Capital	\$60.46m	\$86.10m	\$128.34m	\$178.81m	\$300.98m
Net Capital Base	\$63.78m	\$86.10m	\$145.54m	\$218.25m	\$482.98m
Total Deposits	\$23.85m	\$15.29m	\$35.95m	\$68.02m	\$83.09m
Net Profit	-\$0.029m	\$10.32m	\$17.39m	\$0.17m	\$119.79m
Average Operational Self-Sufficiency Ratio	89.27%	119.15%	122.57%	97.66%	241.80%
Average Return on Assets	-9.16%	-0.61%	-0.27%	-1.87%	0.96%
Average Return on Equity	-8.40%	2.66%	9.53%	-0.49%	7.04%
Portfolio at risk Ratio (> 30 days)	13.51%	10.34%	11.02%	8.86%	16.97%

**figures exclude Lion Microfinance which is under curatorship.*

45. Lion Microfinance Limited, which was placed under curatorship by the Bank on 26 July 2019 due to critical undercapitalisation and weak corporate governance systems, had its curatorship extended to 30 September 2020, to allow for finalization of the recapitalisation process, audit verification of the institution's financial condition and rectification of corporate governance and risk management systems.

Capitalisation

46. All the five (5) operating DTMFIs were compliant with the minimum regulatory capital requirement of ZW\$5 million. The DTMFIs submitted capitalisation plans to comply with revised capital requirements of an equivalent of USD5 million for DTMFIs, which reflect a need for fresh capital injections.

Asset Quality

47. Asset quality in the sub-sector deteriorated as evidenced by the increase in the Portfolio at Risk (>30 days) ratio, from 11.02% as at 31 December 2020 to 16.97% as at 30 June 2020, mainly due to the COVID-19 pandemic-induced restrictions, which affected borrowers' businesses performance, ability of DTMFIs' loans officers to make collections, as well as failure by some clients from the informal sector to resume operations following relaxation of national lockdown regulations as they are unregistered.

Earnings performance

48. Aggregate net profit increased ten (10) times to ZW\$119.79 million for the six (6) months ended 30 June 2020, from ZW\$10.32 million for the corresponding period in 2019, largely driven by revaluation gains on investment properties. However, three (3) DTMFIs reported losses during the six months ended 30 June 2020, due to the negative impact of the COVID-19 pandemic, coupled with the prevailing adverse operating environment.

Performance of credit only microfinance institution

49. Microfinance business remained generally subdued over the half-year to June 2020 due to the impact of the COVID-19 pandemic and the social distancing protocols which have reduced the demand for microfinance loans and client

visits as most of the microfinance clients, in particular, the micro, small and medium enterprises remain largely closed for business.

50. Most credit-only microfinance institutions did not have robust business continuity plans and the advent of the COVID-19 pandemic disrupted microfinance business operations. The situation was exacerbated by lack of robust ICT systems and digital platforms, particularly among the credit-only microfinance institutions which in turn has militated against effective and efficient delivery of microfinance services.
51. Preliminary COVID-19 impact assessment reports submitted by both credit-only institutions indicate that the pandemic is expected to have a significant impact on microfinance business in Zimbabwe. The credit only microfinance institutions face a myriad of challenges emanating from the COVID-19 pandemic. The challenges include liquidity challenges, increased portfolio risk and inability to underwrite any meaningful business, which in turn has the potential to impact negatively on the sustainability of the sector.

LEGAL AND REGULATORY DEVELOPMENTS

Review of the Single Obligor Limit

52. In order to enhance support to the productive sector in light of the COVID-19 pandemic, the Bank, temporarily increased the single obligor limit from 25% to 35%, subject to a banking institution meeting the requirements of the Banking Act [*Chapter 24:20*], the Banking Regulations S.I. 205 of 2000 and internal policies. The relaxation was with effective 21 May 2020.
53. Banking institutions are currently submitting quarterly reports on all facilities granted in excess of the single obligor limits.

Proposed Changes to the Legal Framework

54. In line with its mandate of promoting financial stability, the Bank continued to strengthen the regulatory framework and direct its supervisory efforts towards the promotion of a safe, stable and sound financial system in Zimbabwe.
55. The Bank is working with the Deposit Protection Corporation and Ministry of Finance and Economic Development to consider further enhancing banking laws on cross-border banking, bank resolution and crisis management to align it with good practices.
56. The proposed amendments to the Banking Regulations S. I. 205 of 2000, to provide for matters that require to be prescribed under the Banking Act including the new minimum capital requirements, are under review by the Attorney General's Office.

Enhancement of Prudential Standards

57. The Bank continues to monitor implementation of **International Financial Reporting Standard 9**, which provides for forward-looking provisioning requirements and expanded disclosure requirements. The standard significantly reinforces bank risk management and market discipline.
58. Local regulatory authorities have provided various coordinated responses to the pandemic in order to mitigate against potential significant increase in credit risk on previously performing loans due to the COVID-19 pandemic. These measures include loan restructuring and repayment moratorium. In light of these developments, banking institutions continue to ensure that underlying impairment credit risk models are validated annually in accordance with regulatory requirements.

59. In further efforts to enhance financial stability, the Bank developed a Framework for Domestic Systemically Important Banking Institutions, which was issued in March 2020. The framework articulates relevant regulatory measures for the identification, monitoring and management of systemic risks arising from the distress of local systemically important institutions.
60. The Bank has developed a framework for the implementation of Basel III Liquidity Standards, covering Liquidity Coverage and Net Stable Funding ratios. The framework is designed to enhance local metrics for the management of liquidity risk, aligning them with international best practice.

Supervisory Response to COVID-19 Pandemic

61. The COVID-19 pandemic has given rise to unprecedented challenges that have affected virtually every aspect of modern life. Economic uncertainties and risks to overall banking sector's soundness increased during the first half of 2020, reflecting partly the impact of COVID-19 containment measures.
62. On 23 March 2020, Statutory Instrument 76/2020 – Declaration of State of Disaster - COVID-19 was issued. The COVID-19 Prevention, Containment and Treatment Regulations SI 77/2020 were simultaneously issued with the declaration of national disaster. The Public Health (COVID-19 Prevention, Containment and Treatment) (National Lockdown) Order, 2020, was published on the 29 March 2020 in Statutory Instrument 83 of 2020, declaring a national lockdown to contain the spread of the COVID-19 formidable infectious disease.
63. Following these national measures, the Bank implemented regulatory and supervisory measures to maintain financial stability. These measures were

aimed at ensuring that banking institutions are able to continue to support the real economy, while minimizing impact of the COVID-19 pandemic on the sector.

64. The Bank issued Circular 02/2020 providing guidance on enforcing social distancing and enhanced hygiene practices to prevent spread of COVID-19. Banking institutions were required to promote digital banking and ensure that adequate business continuity measures were in place.
65. In addition, Circular 03/2020 was issued by the Bank providing further guidance and measures including restructuring of facilities of customers negatively affected by the pandemic. Banks were directed to ensure that consideration is given only to facilities that were performing prior to the challenges associated with the COVID-19.
66. The banking sector has also implemented various strategies to cushion its customers and maintain stability and these include moratoria and/or reduction in service fees. Despite restrictions on movement during the National Lockdown, banks ensured that the banking public continued to access banking services through the medium of digital platforms.
67. Banking institutions submitted their business continuity plans to the Bank and activated their business continuity arrangements, which entailed banks operating with minimum number of staff to ensure customers continue to access selected banking services.
68. As institutions implemented their business continuity arrangements, banking halls were temporarily closed to ensure that both customers and employees are protected from the spread of the disease. As the nation moved to Level 2 of the

COVID-19 lockdown effective 4 May 2020, banking institutions opened most branches to ensure that customers continue to access banking services.

69. Further, with the recent surge in the number of COVID-19 cases, a number of banking institutions are temporarily closing some branches to facilitate deep cleaning and disinfecting of branches and testing of staff members. Banking clients are being encouraged to make use of digital platforms.
70. A preliminary analysis of the impact of the COVID-19 pandemic revealed general slowdown in business volumes, constraints in meeting loan repayments particularly in the MSME and informal sectors and increased costs attributable to the COVID-19 protection measures for both staff and clients.

Capital Bank Corporation Limited (Under Provisional Liquidation)

71. Capital Bank was placed under provisional liquidation on 30 January 2019. The Provisional Liquidator is pursuing confirmation of the liquidation order, as well as verification of assets and liabilities of the institution.

FINANCIAL INCLUSION

72. Implementation of the National Financial Inclusion Strategy (2016 – 2020), through various initiatives targeting previously marginalized segments is now in its final year. The Bank is in the process of conducting a review of the first phase of the National Financial Inclusion Strategy (NFIS). The report, together with the results of pending formal independent reviews will inform the development of the NFIS Phase II.
73. The first phase of the Strategy implementation has come to an end at a time when the world is gripped with the COVID-19 pandemic, which is threatening to reverse the financial inclusion gains that had been registered particularly for

vulnerable low-income groups. Targeted priority segments under the Strategy are experiencing cash flow challenges as a result of lock-down measures imposed to prevent the uncontrollable spread of the virus.

74. The pandemic has necessitated new business models, which call for intensive training on the required new skills, including online marketing. Further, the unavoidable job losses are likely to result in growth of the informal sector. Relevant policy actors and stakeholders are urged to optimally coordinate efforts and render appropriate targeted support to minimise suffering of those affected.
75. Further, the pandemic has presented an opportunity for Government to accelerate formalization and sustainability of the MSMEs sector during and post-COVID-19 period. As part of interventions to compensate for loss of income during the COVID-19 lockdown periods, Government established a ZW\$18 billion economic stimulus package aimed at providing liquidity support to the productive sectors including registered micro, small and medium enterprises (MSMEs).
76. Financial inclusion has proven to be a powerful solution in times of health and economic crises hence NFIS implementing stakeholders are urged to continue to strengthen their efforts to financially include the vulnerable segments of our population.

Financial Inclusion Indicators

77. Supply-side data collected by the Bank from the banking sector continues to reflect an upward trajectory in the levels of access to financial services by the lower income and under-served segments as shown in the table below.

Table 14: Financial Inclusion Indicators – December 2016 to June 2020

Indicator	Dec 2016	Dec 2017	Dec 2018	June 2019	Dec 2019	March 2020	June 2020
MSMEs							
Value of loans to MSMEs (ZW)	\$131.69m	\$146.22m	\$169.96m	\$178.92m	\$462.98m	\$1,457.47b	\$2,899.69b
MSMEs loans as % of total loans	3.57%	3.75%	3.94%	2.99%	3.92%	4.66%	7.65%
Number of MSMEs with bank accounts	71,730	76,524	100,644	111,498	116,467	121,945	253,908
Women							
Number of Bank Accounts held by Women	769,883	935,994	1,736,285	2,215,214	2,152,185	2,251,300	2,536,558
Value of Loans to Women (ZW)	\$277.30m	\$310.78m	\$432.36m	\$446.40m	\$586.74m	\$841.19m	\$1,183.16m
Loans to women as a % of total loans	7.52%	7.96%	10.57%	10.90%	15.59%	4.25%	3.12%
Youth							
Number of Loans to Youth	38,400	61,529	69,421	154,091	189,658	144,676	126,002
Value of Loans to Youth (ZW)	\$58.41m	\$138.93m	\$104.43m	120.68m	\$188.71m	\$669.51m	\$964.86m
loans to the youth as a % of total loans	1.58%	3.56%	2.55%	5.26%	6.09%	3.38%	2.55%

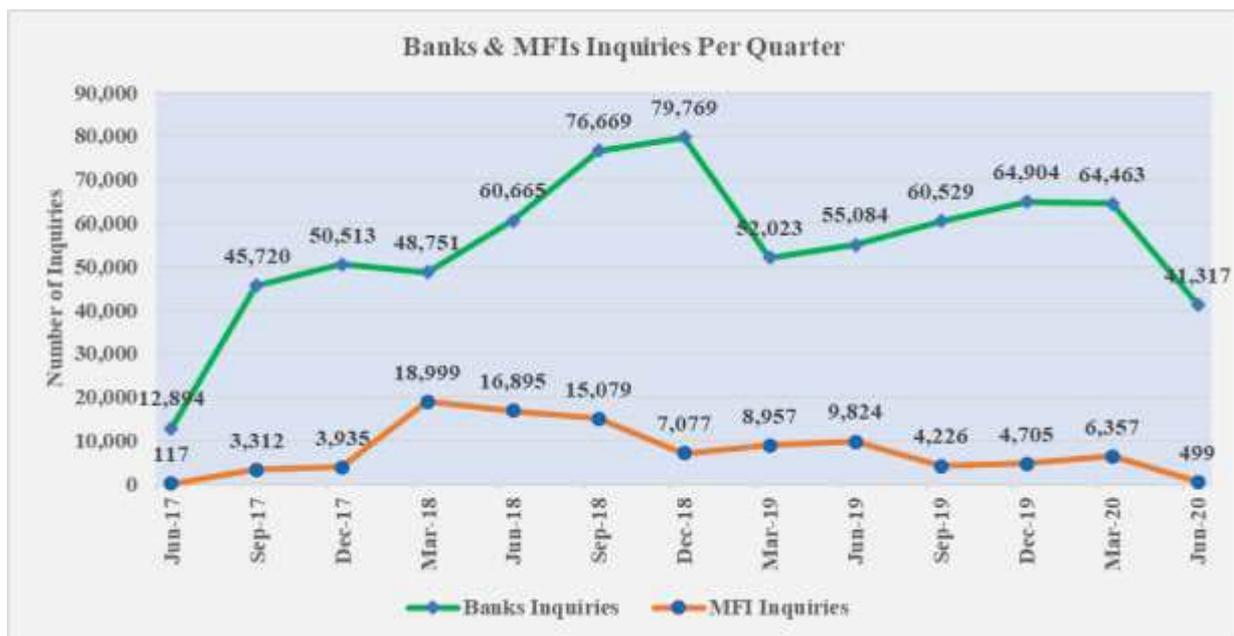
78. There was, however, a notable drop in the number of loans to youth (12.91%) during the quarter ending 30 June 2020, which is attributable to the COVID-19 induced lockdown.

CREDIT INFRASTRUCTURE

Credit Registry

79. The Bank and credit bureaus continued to improve the credit referencing environment during the period under review. Credit reporting systems have been increasingly embraced by banks, microfinance institutions (MFIs) and other non-financial institutions. The Bank has successfully tested a monitoring module, which is expected to further promote credit risk management in the sector as lenders are automatically notified about significant changes or updates on selected customers such as new facilities or repayments to other lenders.
80. Banks and MFIs continued to utilise the Credit Registry for loan application screening purposes and ongoing credit risk management during the period under review, albeit with a notable decline during the month of April as the national lockdown commenced. The utilisation trend for the past two years is indicated in Figure 14 below:

Figure 14: Quarterly Credit Registry Inquiries by Banks and MFIs



81. The Reserve Bank is continuously encouraging the banks to make use of technology when assessing credit worthiness of borrowers. One such technology is the use of Application Programming Interfaces.

Collateral Registry

82. The implementation of the Collateral Registry awaits completion of the procurement process, which was delayed as a result of the COVID-19 pandemic.

83. Once implemented, the Collateral Registry is expected to enable households and MSME`s to leverage on their movable assets to access funding from formal financial institutions.

FINANCIAL TECHNOLOGY

84. As part of measures to promote the adoption of financial technologies, the Bank is set to operationalise the Regulatory Sandbox Framework after a consultative process with major stakeholders. The framework will be issued to the market for comments before being finalised and rolled out later in the year.

85. The framework will outline the qualification, application and evaluation criterion for entities to be admitted into the sandbox. The sandbox provides an opportunity for innovators to connect to banks and other financial system players.

NATIONAL PAYMENT SYSTEMS DEVELOPMENTS

86. Aggregate values and volumes of national payment systems transactions for the year to date ending June 2020 amounted to ZW\$1 trillion and 2.5 billion, respectively.

87. RTGS system transactions values and volumes increased by 54% to ZW\$91.3 billion from ZW\$59.3 billion and 36% to 0.9 million from 0.6 million in June 2020, respectively from the previous month.

88. Tables 15 and 16 below show the monthly transactional activities in the respective payment streams for the preceding twelve months ending June 2020:

Table 15: NPS Transactional Values July 2019 –June 2020

MONTH	VALUES IN Z\$ BILLIONS							
	RTGS	Card	ATM	POS	Mobile	Internet	Values Total	Total Change
Jul-19	23.31	1.84	0.04	1.81	9.14	3.30	39.43	
Aug-19	23.60	2.22	0.04	2.18	11.08	3.49	42.61	8%
Sep-19	30.33	3.08	0.05	3.03	15.11	5.34	56.94	34%
Oct-19	39.41	3.69	0.07	3.62	16.59	6.24	69.62	22%
Nov-19	40.87	4.27	0.07	4.20	13.54	7.20	70.14	1%
Dec-19	49.58	5.79	0.10	5.70	19.36	8.72	89.25	27%
Jan-20	47.84	5.35	0.12	5.24	21.32	9.65	89.51	0%
Feb-20	41.64	5.57	0.14	5.43	22.59	9.63	85.00	-5%
Mar-20	60.80	7.52	0.27	7.25	28.00	14.41	118.26	39%
Apr-20	47.53	4.23	0.08	4.15	18.30	11.48	85.77	-27%
May-20	59.27	7.78	0.35	7.43	24.85	19.59	119.27	39%
Jun-20	91.31	10.27	0.52	9.75	26.04	25.84	163.73	37%
TOTAL	555.49	61.61	1.83	59.78	225.91	124.90	1,029.53	

Table 16: NPS Transactional Volumes (in millions) July 2019 –June 2020

MONTH	RTGS	Card	ATM	POS	Mobile	Internet	Total Volumes	Total Change
Jul-19	0.98	20.56	0.10	20.47	170.82	0.64	213.57	
Aug-19	0.87	22.01	0.09	21.92	179.86	0.54	225.28	5%
Sep-19	1.01	22.81	0.06	22.75	200.44	0.68	247.76	10%
Oct-19	1.08	23.26	0.06	23.19	206.62	1.10	255.31	3%
Nov-19	0.98	25.96	0.23	25.74	152.92	2.04	207.87	-19%
Dec-19	1.00	28.19	0.39	27.80	146.32	1.27	204.97	-1%
Jan-20	0.94	23.85	0.20	23.65	140.73	0.67	190.05	-7%
Feb-20	0.92	21.85	0.20	21.65	149.67	0.65	194.93	3%
Mar-20	1.07	22.82	0.23	22.59	173.06	0.66	220.44	13%
Apr-20	0.52	11.08	0.04	11.04	131.19	1.00	154.86	-30%
May-20	0.67	14.94	0.23	14.71	150.94	0.71	182.20	18%
Jun-20	0.91	14.71	0.29	14.42	135.52	1.39	167.24	-8%
TOTAL	10.96	252.03	2.11	249.92	1,938.10	11.35	2,464.48	0%

**The cheque has not been a preferred payment instrument during the COVID-19 lockdown period.*

RESERVE BANK OF ZIMBABWE

AUGUST 2020