JANUARY 2018

2018 MONETARY POLICY STATEMENT

ENHANCING FINANCIAL STABILITY TO PROMOTE BUSINESS CONFIDENCE

RESERVE BANK OF ZIMBABWE

BY DR. J P. MANGUDYA

GOVERNOR

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SECTION 1
INTRODUCTION AND EXECUTIVE SUMMARY

This Monetary Policy Statement is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15] which requires the Bank to issue a statement containing a description of the monetary policy to be followed by the Bank during the next succeeding six months, and a statement of the reasons for those policies; a statement of the principles that the Bank proposes to follow in the implementation of the monetary policy; and an evaluation of the monetary policy and its implementation for the last preceding six months.

The Statement comes at a time when the economy is experiencing renewed hope and confidence ushered in by the new economic dispensation, following the formation of a new leaner cabinet by His Excellency, the President, in November 2017. This renewed hope and confidence would need to be supported by going back to basics to restore business confidence and to foster discipline within the national economy. Accordingly, this Monetary Policy Statement seeks to buttress this confidence trajectory by putting in place measures that gradually liberalise the foreign currency market in order to indicate that the country is ‘open for business’.

The Bank has continued to make concerted efforts to address cash shortages, which are a direct reflection of the tight foreign currency macro-economic environment that is exacerbated by the transmission impact of the persistent fiscal deficit on the financial sector. Addressing this current macro-economic imbalance requires a sharp rise in foreign exchange reserves and an improvement in the fiscal balance. It is against this backdrop that the interventions by the Bank in the foreign exchange market through nostro stabilisation facilities have greatly assisted the economy to meet the ever growing demand for foreign exchange and, in doing so, stabilising parallel market activities and sustaining the financing of critical imports such as fuel, electricity, cash, medicines and essential consumer goods. In addition, policy interventions to promote exports continue to bear fruit as evidenced by the continued narrowing of the current account deficit. In this regard, Zimbabwe’s current account balance is now within the international best practice range and also consistent with macroeconomic convergence targets under the SADC and COMESA guidelines.

This, notwithstanding, the country's high import dependency continues to exert pressure on foreign exchange earnings, thus fueling parallel market activities for foreign exchange. This economic situation is compounded by the growing fiscal deficit which remains the major driver of increased deposits or money supply in the banking sector, creating foreign currency liquidity shortages in the economy and causing inflationary pressures through domestic monetary emission on the RTGS platform.

Opening up of the economy to business is therefore the most sustainable cure for the major challenges the country is facing. Opening Zimbabwe for business means attracting investment, foreign and domestic, that is required to increase production, jobs, fiscal space, exports and eventually the happiness index for Zimbabweans. It moves the economy beyond stabilisation. Opening up the economy also calls for local business to improve on their efficiencies and competitiveness in order to brace for competition from foreign investors.

The Bank is convinced that by opening up the economy for business, the country has struck the right chord for the sustainable transformation of the economy. It is in this optimistic context that the Bank is coming up with measures to gradually open the foreign currency market in order to restore investor confidence within the economy under the new narrative to open Zimbabwe for business. Specifically the measures presented in this Statement are meant to address the following:

i. Further promoting the use of mobile and electronic payment systems (plastic money);
ii. Enhancing the use of the local generated RTGS funds to generate exports;
iii. Improving the foreign currency market;
iv. Enhancing rewards to exporters and reducing cost of doing export business;
v. Providing generators of forex assurances of ease of access to foreign currency;
vi. Enhancing foreign currency retention threshold;
vii. Enhancing nostro stabilisation facilities to provide assurances to foreign exchange earners of forex availability and to meet the import requirements of essential commodities;
viii. Improving ease of access to productive facilities;
ix. Addressing the needs of the diasporans;
x. Reinforcing the arrears clearance and re-engagement programme;

xi. Providing guidance on the continuation of the multi-currency system;
xii. Providing guidance on the Presidential Amnesty on externalised assets and funds; and
xiii. Providing update on the acceptability of the 99-year land leases as collateral at banks.

The rest of this Monetary Policy Statement is organised as follows: Section 2 reviews the previous monetary policy actions and policy interventions. Section 3 reviews the global and regional economic developments. Section 4 looks at the balance of payments developments, Section 5 discusses monetary and inflation developments. Section 6 gives developments in the financial sector. Section 7 presents new measures to enhance financial stability and confidence within the economy, while Section 8 is the conclusion of the Statement.

SECTION 2

EVALUATION OF 2017 MONETARY POLICY INTEVENTIONS

a) Nostro Stabilisation Facilities

The intervention by the Bank in the foreign exchange market through drawdowns from the nostro stabilisation facilities amounting to US$1.1 billion during 2017 immensely assisted to stabilise the forex market and to sustain financing of critical imports such as fuel, electricity, medicines, fertilisers, agro-chemicals, soya crude oil for cooking oil, cash imports and raw materials for industry. Drawdowns from these facilities together with the utilization of bond notes in an amount of $290 million as at end December 2017 went a long way to stabilise shortages of cash in the country. The worst could have happened especially in September 2017 had it not been for the positive impact of the nostro stabilisation facilities on the economy.

A good number of firms in the manufacture of food products, packaging, fertilisers, agro-chemicals and fuel distribution have greatly benefitted from the nostro stabilisation facilities and the Statutory Instrument that was put in place by Government to support local production.

b) Performance and Impact of the Export Incentive Scheme

In order to ensure that Zimbabwean exports are competitive under the auspices of a dollarized economy, the Bank established the US$200 million and US$300 million export incentive facilities which are monetised by bond notes. Since its inception in 2016, the export incentive scheme has enhanced competitiveness of Zimbabwe's exports and this has significantly contributed to the growth of exports which grew by 36% from US$2.8 billion in 2016 to US$3.8 billion in 2017

Table 1 shows the cumulative export incentive and bond notes disbursed, and export receipts generated since inception of the export incentive scheme in May 2016.

Table 1: Cumulative Export Receipts & Incentive Amounts (5 May 2016 – 31 Dec 2017)

Sector	Export Receipts (USD)	Incentive Amounts (USD)	Bond Notes issued to Banks (USD)
Mining excluding Gold	2,645,809,356	58,268,089	56 000 000
Services	744,571,608	37,233,513	35 000 000
Agriculture excluding greenleaf Tobacco	426,171,579	21,308,579	20 000 000
Manufacturing	342,711,939	18,016,967	17 500 000
Other	37,152,463	1,857,624	1 800 000
Subtotal	**4,196,416,945**	**136,684,772**	**130,300,000**
Tobacco Growers	1,202,247,760	59,700,402	59 700 402
Gold - Producers	1,282,023,093	59,313,208	59 200 000
Diaspora Remittances	782,193,277	41,504,573	40 999 600
Grand Total	**7,462,881,075**	**297,202,955**	**290,200,000**

Source: RBZ

c) Afreximbank Backed Interbank Market Facility (AFTRADES)

The Bank has continued to use Aftrades as its Lender of Last Resort window and for promoting interbank finance facility. The Aftrades facility, which was established in 2015 at a limit of US$200 million went a long way in alleviating liquidity shortages during 2017. The facility will run for another two years until February 2019. Total trades amounted to US$399.5 million in 2017.

d) Savings Bonds

The Bank introduced 7% tax-free Savings Bonds in September 2017 to mop up excess liquidity within the market and, in so doing, providing investors with a platform for increasing savings within the country.

As at the end of 2017, a total of US$165 million had been raised through Savings Bonds. The Bank enhanced the features of the Savings Bonds in December 2017 to include Prescribed Asset Status it order to enhance its marketability.

e) Usage of Electronic and Mobile Banking Systems (Plastic Money)

The Bank is encouraged by the quantum leap in the usage of electronic and mobile banking systems (plastic money) by the Zimbabwean banking public.

The Bank's plastic money policy thrust has been a resounding success in the economy as exhibited by the unprecedented increases in values, volumes, devices and access points. This is largely attributable to collaborative efforts, commitment, action and market innovation which have continued to drive the plastic money revolution.

The growth in the use of plastic money, away from cash transactions, was phenomenal in 2017 to the extent that more than 96% of the $97.5 billion - from the 1 billion transactions - processed in the entire country in 2017 were through electronic and mobile banking systems as shown in Table 2 below. Figures 1 and 2 show the distribution of payment systems by value and volume, respectively.

Mobile payments constituted the bulk of payment streams in volume terms in 2017. In value terms, the RTGS constituted the largest contribution at more than 63% as shown in Table 2. On a comparison basis aggregate electronic means of payments in terms of values and volumes grew significantly by 41% and 164%, respectively, in 2017. This growth can be attributed to the high usage, increased infrastructure and diversity of innovative payment systems products or services approved during the period under review.

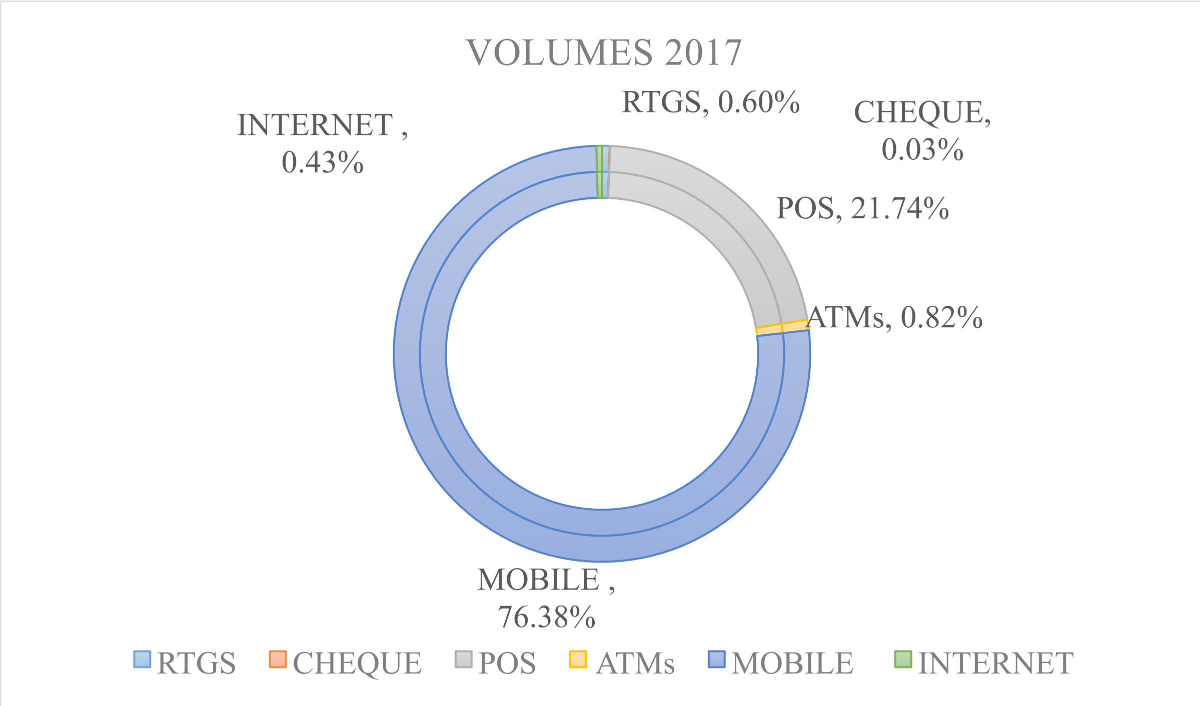
Table 2: Payment System Transactional Activities for 2016 and 2017

PAYMENT STREAMS	2016	%age	2017	Proportion of Total 2017
	Values			
RTGS	48,109,325,214.79	69.51%	61,719,667,657.05	63.28%
CHEQUE	113,083,273.59	0.16%	69,437,643.79	0.07%
POS	2,898,437,870.85	4.20%	6,635,840,710.92	6.77%
ATMS	2,283,533,146.98	3.32%	427,973,605.99	0.44%
CASH WITHDRAWALS	74,83687,051	10.84%	3647133052	3.69%
MOBILE	5,815,862,225.76	8.38%	18,020,733,457.33	18.46%
INTERNET	2,503,914,145.97	3.61%	7,021,588,382.39	7.29%
TOTAL VALUE	**69,207,842,928.94**	**100%**	**97,542,374,509.48**	100.00%
	Volumes			
RTGS	2,901,664	0.76%	5,903,136	0.58%
CHEQUE	347,735	0.09%	320,341	0.03%
POS	52,407,464	13.65%	214,857,784	21.22%
CASH	16,252,259	4.25%	24,675,581	2.43%
ATMs	12,332,547	3.20%	8,098,497	0.79%
MOBILE	298,586,190	77.78%	754,742,123	74.52%
INTERNET	1,110,366	0.27%	4,248,650	0.43%
TOTAL	**383,938,226**	**100%**	**1,012,846,112**	**100%**

Real Time Gross Settlement (RTGS) System

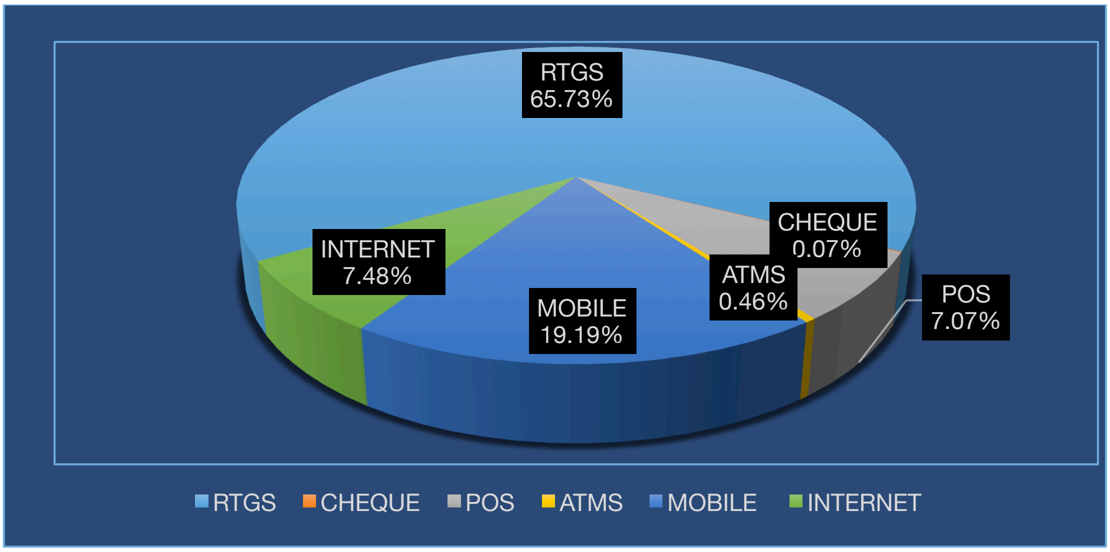
A total of 5.9 million transactions valued at US$61.7 billion were processed through the RTGS system during the year 2017. The RTGS volumes and values increased by 103% and 28%, respectively, compared to the same period in 2016. Figure 3 illustrates the RTGS activities over the past nine years.

Figure 1: Distribution of Payment Systems Volumes 2017



Source: RBZ

Figure 2: Payment Systems Values for 2017



Source: RBZ

Figure 3: Total RTGS Transactional Activities from 2009 to 2017

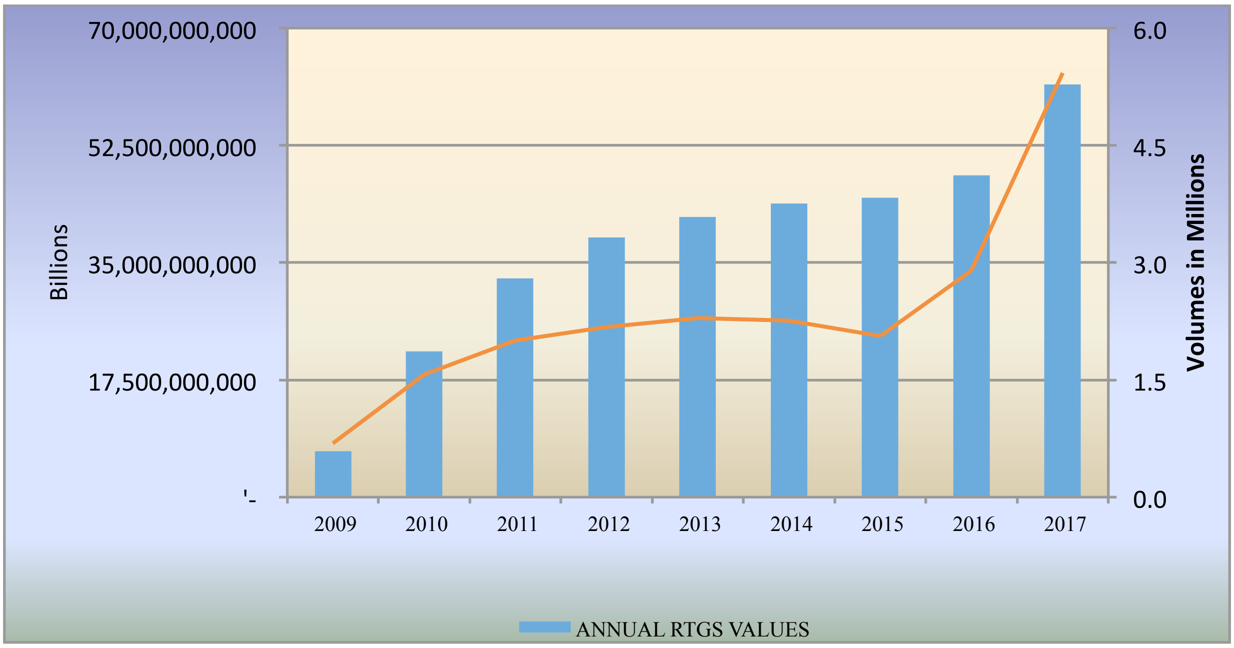
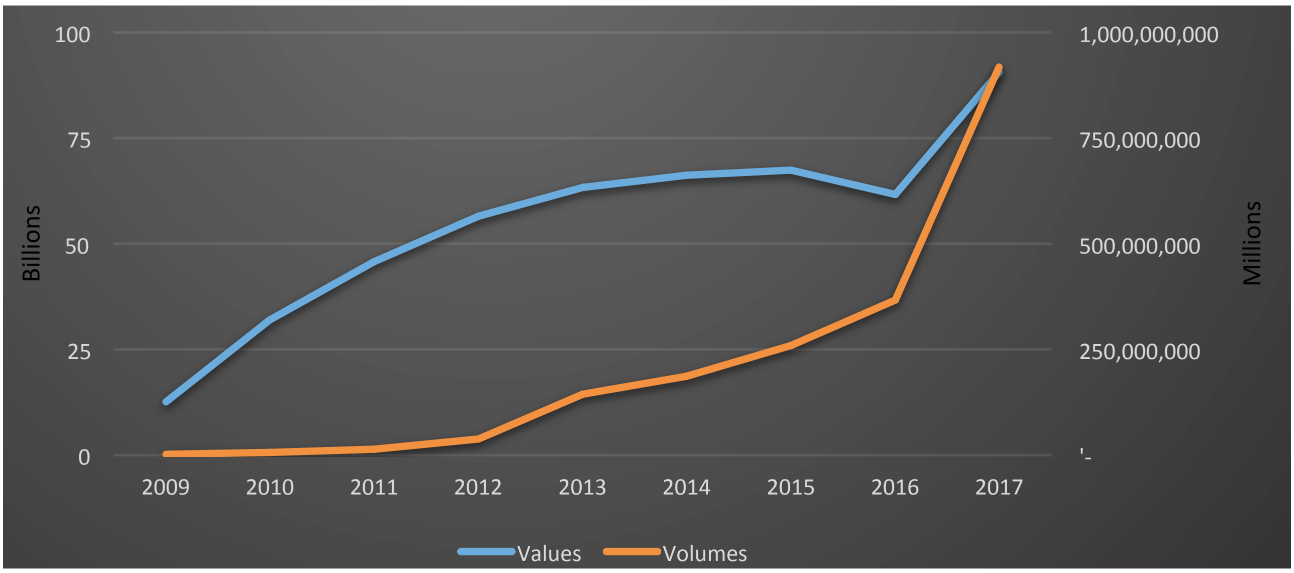


Figure 4: Total Electronic Transactional Payments from 2009 to 2017



The number of point of sale (POS) deployed increased significantly by 84% to 59,939 in 2017. All access points recorded a positive growth during the year under review except ATMs as shown in Table 3.

Table 3: Payment Access Points and Devices for 2016 and 2017

Payment Systems Access Points				% Change for 2016/17
	2016	2017	Difference	
Mobile Money Agents	40,590	44,793	4,203	10%
ATMs	569	563	-6	-1%
POS	32,629	59,939	27,310	84%
NFC	-	6,063	5,902	
QR Code	1065	7,075	6,010	564%
Payment Systems Access Devices				
Debit Cards	3,127,153	4,281,683	1,154,530	37%
Credit Cards	16,030	17,411	1,381	9%
Prepaid Cards	43,288	63,987	20,699	48%
Mobile Payment Subscribers	3,279,049	4,611,608	1,332,559	41%
Internet Banking Subscribers	168,339	277,674	109,335	65%

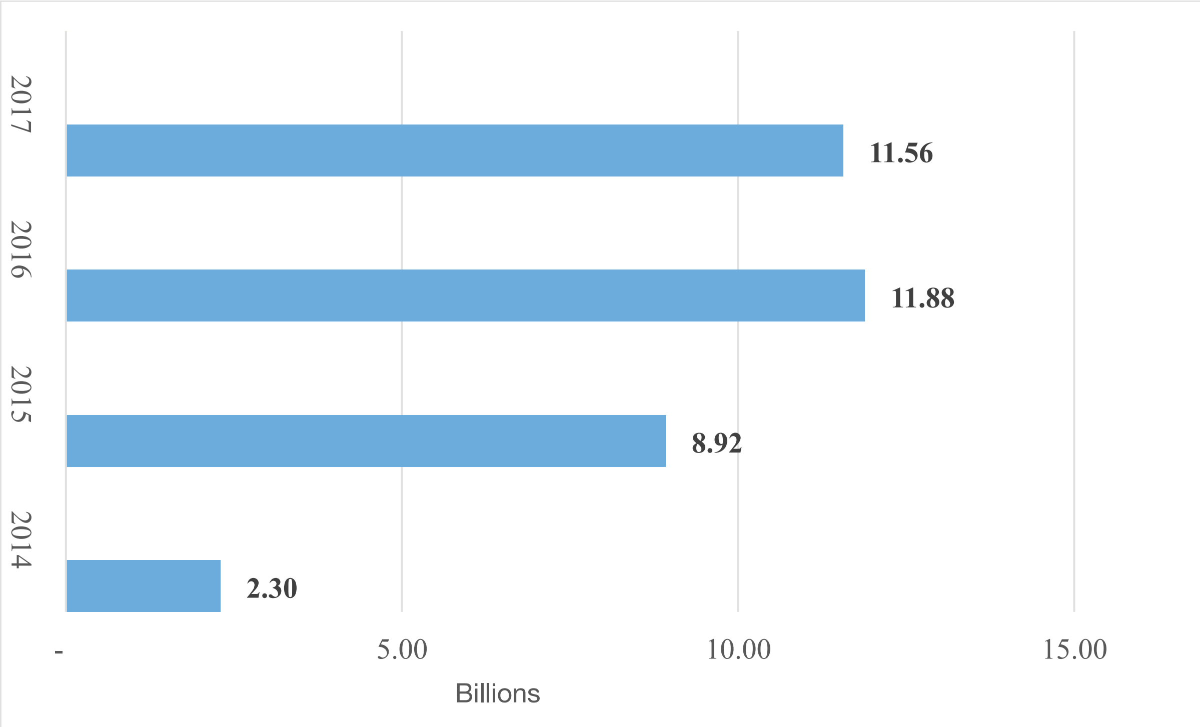
The value of Mobile Financial Services (MFS) transactions for the year stood at US$18 billion, an increase of 210% from the US$5.8 billion recorded in 2016. The volume of MFS transactions also increased by 153% to 754.7 million in 2017 from the 298.6 million recorded in 2016.

Regional Payments Developments

The Central Bank is committed to regional payment system initiatives and has encouraged banks and other payment service providers to utilise the SADC Integrated Regional Electronic Settlement System (SIRESS) platform to settle regional cross-border transactions.

Since the implementation of SIRESS in July 2013, the number of local banks participating on SIRESS has risen to 15 whilst transactional values have also increased as shown in Figure 5.

Figure 5: SIRESS Transaction Values (ZAR billion)



Notwithstanding, the positive developments in the transactional activities on SIRESS, more still needs to be done to increase customer awareness and understanding of the payment platform's benefits. Accordingly, financial institutions are urged to implement the appropriate education and awareness programs to bolster the use of the SIRESS platform.

f) Financial Inclusion & Sustainable Economic Development Facilities

In the 2017 Mid-term Monetary Policy, the Bank introduced nine (9) productive finance facilities earmarked for promoting production (exports, gold, tourism, horticulture) business linkages and empowerment facilities (youth, women, people with disabilities, tertiary students). These financial inclusion and empowerment facilities targeting groups such as women, SMEs and youth have played a significant role in ensuring access to formal financial services by these marginalised groups in support of the National Financial Inclusion Strategy.

As at the end of 2017, total disbursements under all the facilities amounted to US$122 million, with over 50% being for capital expenditure. Disbursement under the gold support facility amounted to US$74 million. This facility together with the periodic onsite monitoring by the Gold Mobilisation Technical Committee greatly contributed to the increase in gold deliveries to Fidelity Printers and Refiners (FPR) from 21.439 tonnes in 2016 to 24.843 tonnes in 2017, with small scale gold producers accounting for 53% of total gold output as shown in Table 4.

Table 4: Gold Deliveries (Kgs) to FPR from January to December 2017

2017			
	Primary	**Small Scale**	**Total**
Jan	923.00	713.51	**1,636.51**
Feb	768.38	686.61	**1,454.99**
March	862.54	682.83	**1,545.36**
April	866.95	622.39	**1,489.34**
May	1,045.33	874.99	**1,920.32**
June	908.11	1,045.97	**1,954.08**
July	963.62	1,127.73	**2,091.15**
August	1,109.91	1,466.39	**2,576.30**
September	1,045.97	1,448.98	**2,494.95**
October	1,098.51	1,672.11	**2,770.62**
November	1,021.78	1,288.92	**2,310.70**
December	1,053.40	1,546.16	**2,599.56**
TOTAL	**11,667.50**	**13,176.37**	**24,843.87**

Source: Fidelity Printers and Refiners

The support for tobacco through the Tobacco Industry and Marketing Board (TIMB) amounted to $28 million. This support is expected to produce 44 million kilograms of tobacco.

These facilities which are priced at all-in interest rates ranging between 7.5% for exporters and 10% for non-exporting activities have had significant impact in supporting production for both local consumption (import substitution) and export generation. The funded activities have been instrumental in developing various value chains particularly in agriculture including horticulture, mining, manufacturing and tourism. Encouragingly the facilities have resulted in improvement in financial inclusion indicators as shown in Table 5.

Table 5: Financial Inclusion Indicators - Dec 2016-17

Indicator	Dec 2016	Dec 2017	Change %
Value of loans to SMEs ($ m)	131.69	146.22	11.03%
Percentage of loans to SMEs over total loans	3.57%	3.75%	0.18%
Number of SMEs with bank accounts	71,730	76,524	6.68%
Number of Women with Bank Accounts	769,883	935,994	21.58%
Value of Loans to Women ($ m)	277.30	310.78	12.07%
Number of Loans to Youth	38,400	61,529	60.23%
Value of Loans to Youth ($ m)	58.41	138.93	137.85%
Total number of Bank Accounts	1.49 m	3.07 m	106.04%
Number of Low Cost Accounts	1.20 m	3.02 m	151.67%

Further, in line with the financial inclusion thrust, a number of banking and microfinance institutions have up-scaled their financial support to some irrigation schemes which were rehabilitated by Government. Notable impact has been recorded in Manicaland, Matabeleland, Midlands and Mashonaland provinces in respect of banana production, livestock production, mining and horticulture, respectively.

The Credit Guarantee Scheme, which is managed under the Export Credit Guarantee Company, is now fully operational. As part of efforts to strengthen the role of microfinance in the economy and up-scale the capacity of the sector to manage the empowerment facilities, the Bank embarked on capacity building of microfinance institutions on risk management, corporate governance and compliance, among others.

Most banking institutions have embraced the low cost accounts model. The number of ‘no frills’ accounts with minimum affordable requirements in the banking sector recorded a 151.67% increase from 1.20 million as at 31 December 2016 to 3.02 million as at 31 December 2017.

g) Financial Literacy

Financial literacy is key in raising awareness of financial services among economic agents particularly the marginalised groups; ensuring responsible access to and usage of financial services; and in promoting adequate protection of consumers of financial services. As part of increasing awareness of the integrated approach to financial education and financial inclusion, the Bank in collaboration with development partners, conducted a number of financial literacy stakeholders workshops during 2017. As at end December 2017, around 75% of the population was financially literate

Financial literacy capacity building programs will continue during 2018, with the assistance of development partners, including the World Bank and the International Labour Organisation. In view of the low levels of financial literacy across the population, the Bank will roll-out targeted financial education programs, which will be implemented through various delivery channels such as print and electronic media. Further, cognisant of the critical need to embed financial literacy from early childhood development in building a financially literate nation, the Bank has initiated engagement processes with stakeholders to promote appropriate financial literacy content in the education curricula.

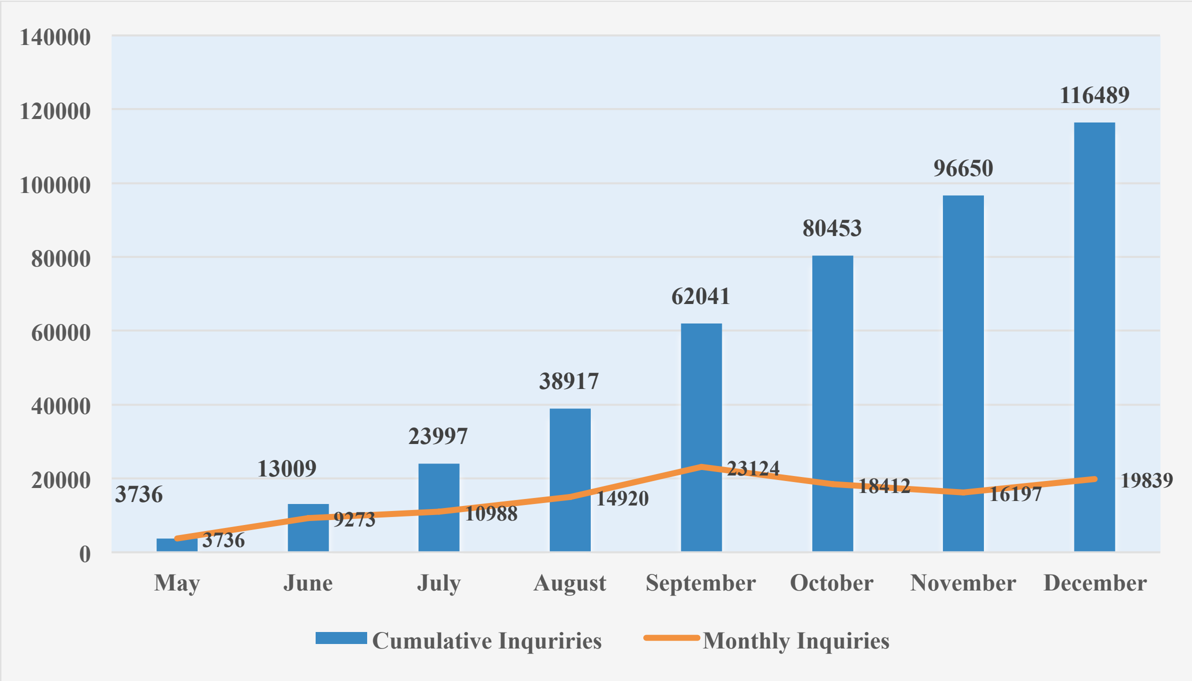
h) Credit Infrastructure

The Bank has made significant progress in enhancing the credit infrastructure through the establishment of a Credit Registry and operationalising the Collateral Registry. The improvement in the credit reporting environment is expected to improve the general credit culture across economic sectors.

i) Credit Registry

As at 31 December 2017, the Credit Registry system had a total of 350,000 banking sector credit records, which are updated on a continuous basis. There are currently 104 subscribers in the Credit Registry system comprising of banks, Microfinance Institutions and other non-bank subscribers. Utilisation of the Credit Registry continued to increase with cumulative access of 116,489 reports as at 31 December 2017 as shown in the Figure 6.

Figure 6: Cumulative Credit Registry Inquiries as at 31 Dec 2017



The process of broadening the subscriber base and data providers such as microfinance institutions and other non-bank subscribers is already in progress. Meanwhile, banking institutions and the microfinance sector are expected to prime their systems and to re-orient credit practices in order to take full advantage of the collateral registry system, which is anticipated to promote financial inclusion.

j) Collateral Registry

The Movable Property Security Interests Act [Chapter 14:35] was gazetted in July 2017 paving the way for establishment of the Collateral Registry. Numerous preparatory activities have been successfully undertaken including the drafting of Movable Property Security

Interests Regulations. It is anticipated that the Regulations shall be gazetted during the first quarter of 2018 and the Collateral Registry will be operational by 30 June 2018.

k) Developmental Financial Institutions (DFIs)

Developmental financial institutions play a critical role in the provision of long-term financing for the reconstruction and expansion of the physical and social infrastructure. Against this background, the Bank is pleased to note the significant progress in the transformation of Industrial Development Corporation of Zimbabwe (IDCZ) into a development financial institution as a critical factor in the re-industrialisation agenda through provision of industrial financing and enterprise development for small, medium and large enterprises.

The transformation of IDCZ is expected to complement initiatives by commercial banks, which are also expected to re-orient their lending in line with the developmental thrust enunciated in the National Budget Statement for 2018.

l) Basel II/III Implementation

The Bank continued to provide tailored technical assistance to banking institutions to capacitate the sector in the implementation of Basel II. Meanwhile, the Basel Committee on Bank Supervision concluded the outstanding components of the Basel III framework in December 2017. In this regard, the Reserve Bank is in the process of developing the Basel III capital and liquidity frameworks to improve the quality, consistency and transparency of capital and reduce pro-cyclicality, as well as, enhance liquidity management.

m) International Financial Reporting Standard (IFRS) 9

The Bank made significant progress in the adoption and implementation of IFRS9. A quantitative impact assessment conducted during the course of 2017 on the impact on capital levels, showed that all banking institutions remain adequately capitalized. As part of the final phase of IFRS 9 implementation, banking institutions are required to submit IFRS 9 compliant financial statements as at 31 December 2017 to the Bank by 31 March 2018.

SECTION 3
GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

The global upswing in economic activity, which started in the second half of 2016 is strengthening, supported by robust growth in emerging economies. As a result, global economic activity is projected to improve from a growth of 3.2% registered in 2016 to 3.7% in 2017 and 3.9% in 2018. Table 6 shows global economic growth developments for selected regions and countries.

Table 6: Global Economic Growth & Outlook (%)

	2014	2015	2016 Est.	2017 Proj.	2018 Proj.
World Output	3.4	3.2	3.2	3.7	3.9
Advanced Economies	1.9	2.1	1.7	2.3	2.3
US	2.4	2.6	1.5	2.3	2.7
Euro Area	0.9	2.0	1.8	2.4	2.2
Japan	0.0	1.2	0.9	1.8	1.2
Emerging & Developing Economies	4.6	4.1	4.4	4.7	4.9
China	7.3	6.9	6.7	6.8	6.6
India	7.2	7.6	7.1	6.7	7.4
Sub-Saharan Africa	5.1	3.4	1.4	2.7	3.3
Zimbabwe*	3.8	1.1	0.7	3.7	4.5
Latin America Caribbean	1.3	0.1	-0.7	1.3	1.9

Source: *IMF World Economic Outlook Update (January2018),*
**Ministry of Finance and Economic Development and RBZ projections*

Despite this development, growth remains weak in some countries, with inflation below target in most advanced economies. Growth in China, India and other parts of emerging Asia remains strong, while several commodity dependent economies in Latin America and sub-Saharan Africa show some signs of improvement.

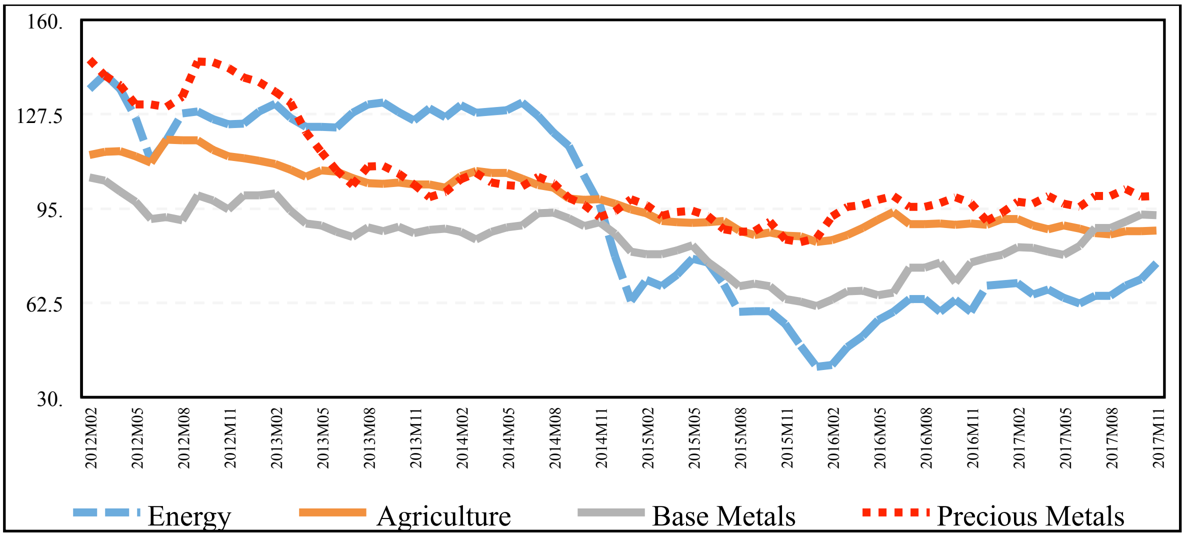
In sub-Saharan Africa, growth is estimated at an average of 2.7 percent in 2017, up from 1.4 percent recorded in 2016. Growth is expected to further increase to 3.3 percent in 2018, with sizable differences across countries. This growth remains below the previous growth rates of above 5% recorded in 2014. There are, however, mounting vulnerabilities in the region, notably, rising public debt, financial sector strains and low external buffers. Public debt is high not only in oil exporting countries but in many fast-growing economies as well.

The improved global economic performance in 2018 has spill over effects on demand for Zimbabwean commodities and hence increased economic activity in the domestic economy.

Commodity Price Developments

International commodity prices continued their recovery from the rock-bottom levels registered at the beginning of 2016, although they remained depressed compared to the levels that were attained in 2012. More specifically, energy, base metals, precious metals and agricultural commodity prices showed some resilience in 2017 due to strong demand, particularly from China's property, infrastructure, and manufacturing sectors and amid various supply bottlenecks globally. Figure 7 shows trends in commodity price indices.

Figure 7: Commodity Price Indices (2010 = 100): 2012 to November 2017



Source: World Bank

Precious Metal Prices

Gold prices rallied in 2017, mainly on account of their safe haven status amid geopolitical tensions and the weakening of the U.S. dollar. On the other hand, platinum prices largely traded unchanged in 2017, on the back of weak investment demand.

Base Metal and Crude Oil Prices

Base metal prices firmed in 2017, underpinned by strong demand from China, on account of positive economic growth outlook for the Asian's giant economy, the world's largest consumer of base metals. Furthermore, supply concerns in some of the world's base metal producers supported international prices for base metals.

Crude oil prices also firmed, buoyed by declining global inventories as a result of efforts by OPEC to curb production. In addition, supply concerns in the Middle East that emanated from geopolitical tensions between oil rich countries and strong global demand, supported oil prices.

SECTION 4
BALANCE OF PAYMENTS DEVELOPMENTS

Consistent with developments in the sub-Saharan African economies, the country's external sector position is showing signs of improvement, on account of policy measures being taken by Government and the Reserve Bank to boost exports and contain the import demand.

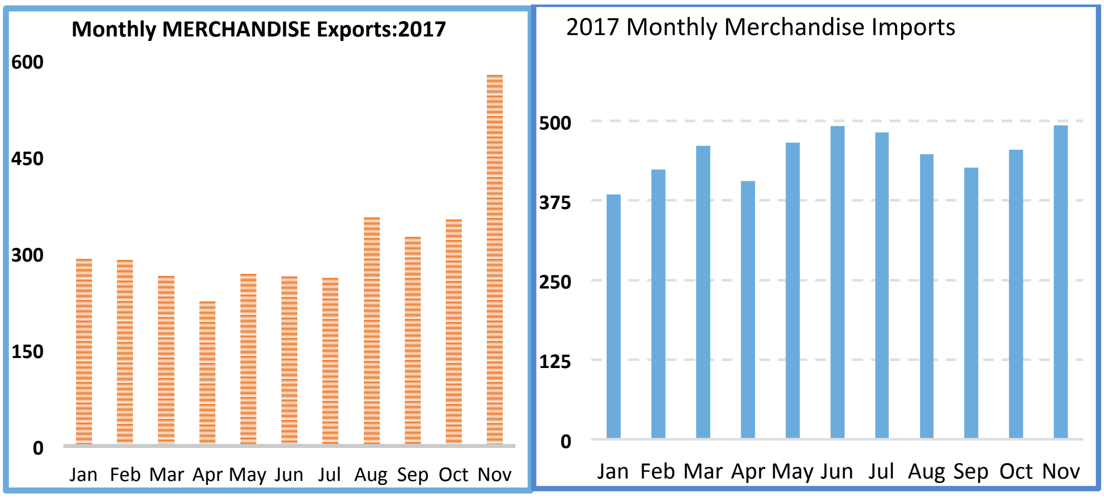
Merchandise Trade Developments

Over the period January to November 2017, total merchandise trade (exports and imports) stood at US$8,408.5 million, representing a 15.8% increase from US$7,262.5 million recorded over the corresponding period in 2016. The increase was on account of increases in merchandise exports and imports of 36.8% and 4.5%, respectively. Consequently, for the period under review, the country's trade deficit narrowed from US$2,181.6 million in 2016 to US$1,456.7 million in 2017. A narrowed trade deficit reduces pressure on foreign exchange reserves.

Merchandise exports for the period January to November 2017 increased by 36.8%, from US$2,540.4 million realized in 2016 to US$3,475.9 million in 2017, as illustrated in Figure 8.

The increase in the year on year merchandise exports was mainly on account of increases in exports of nickel (mattes, ores & concentrates), gold, ferrochrome and black tea. Exports composition remained unchanged showing Zimbabwe's dependence on the export of commodities.

Figure 8: Merchandise Exports and Imports (US$ m)



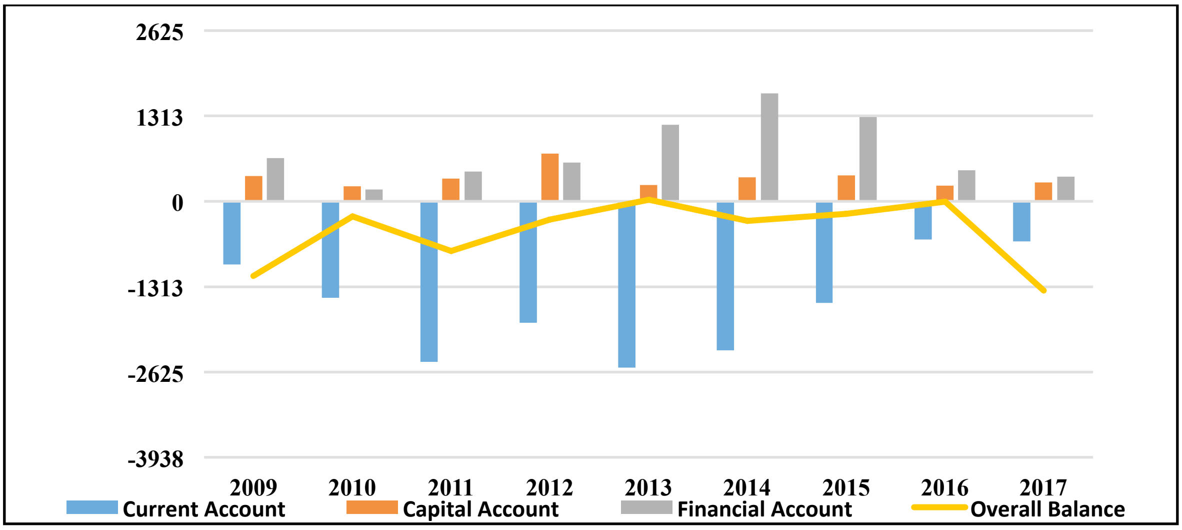
Source: ZIMSTAT

Gold, flue-cured tobacco, nickel (mattes, ores & concentrates) ferrochrome and diamonds dominated the country's exports, contributing about 80% of total export earnings. The country's exports were mainly destined for the SADC region with South Africa and Mozambique absorbing 62.8% and 10.5%, respectively. The country's major exports to South Africa include platinum group of metals (PGMs), gold and nickel. These commodities are further exported to their final destination by South Africa.

Total merchandise imports for the period January to November 2017 amounted to US$4,932.6 million, a 4.5% increase from US$4,722.0 million realized over the corresponding period in 2016. The increase in merchandise imports was mainly attributable to increases in importation of energy (fuel and electricity), maize seed, machinery, fertilizers and medicines. The country sourced its imports mainly from South Africa (40.5%), Singapore (22.4%), China (8.8%), Zambia (2.5%) and Japan (2.5%).

Reflecting the combined effects of positive developments on merchandise trade in 2017 and the need to boost domestic production for both export and local consumption through importation of raw materials and intermediate goods, the current account deficit is estimated to have slightly increased from US$591.3 million in 2016 to US$618.1 million in 2017.

Figure 9: Balance of Payments Developments: 2009- 2017



Source: RBZ

International Money Transfers

For the year 2017, inward international remittances amounted to US$1.4 billion compared to US$1.6 billion received in 2016 representing an 11% decrease. Of the US$1.4 billion, Diaspora remittances amounted to US$698.9 million. The Bank is encouraged by the trend where Authorised Dealers are investing in enabling technologies that broaden financial inclusion, reduce remittances cost and increase remittance access points for the convenience of senders and recipients. These efforts towards formalization of remittances is key in building sufficient capacity for leveraging on the developmental impact of remittances.

Foreign Currency Receipts on a Cash Basis

Consistent with improvement in export generation, global foreign currency receipts, on a cash basis, for the year 2017 amounted to US$5.6 billion, compared to US$5.5 billion received during the same period in 2016, representing a 1.4% increase in foreign currency receipts into the economy. Table 7 shows the breakdown of foreign currency receipts by source.

Table 7: Foreign Currency Receipts (2016 and 2017)

Type of Receipt	2017 US$ millions	2016 US$ millions	% Change
Export Proceeds	3,519.70	2,994.00	17.6%
International Remittances	1,412.01	1,589.96	-11.2%
Loan Proceeds	545.49	519.49	5.0%
Income receipts	58.87	332.70	-82.3%
Foreign Investment	26.98	48.97	-44.9%
TOTAL	**5,563.05**	**5,485.12**	**1.4%**

Source: RBZ

Foreign Currency Utilisation on a Cash Basis

While total foreign currency receipts increased and remain comparable relative to receipts in other countries in the region, the benefits of such receipts continue to be outweighed by the country's huge import bill. In 2017, global foreign payments amounted to US$4.81 billion, representing a 6% decline from US$5.14 billion recorded in 2016. Table 8 shows foreign payments for 2016 and 2017.

Table 8: Foreign Payments 2016 and 2017(US$ Millions)

Category	2017	2016	Change %	Contribution 2017
Merchandise Imports (excl. energy)	2,641.9	2,587.3	2%	55%
- Consumption Goods	1,055.9	1,310.1	-19%	22%
- Capital Goods	802.6	664.6	21%	17%
- Intermediate Goods	783.3	612.7	28%	16%
Energy (Fuel & Electricity)	735.9	757.0	-3%	15%
Service Payments	782.1	1,091.9	-28%	16%
- Technical, Professional &	286.4	527.7	-46%	6%

Category	2017	2016	Change %	Contribution 2017
consult				
- Software	44.9	73.2	-39%	1%
- Other (tourism, education, freight etc)	450.8	490.9	-8%	9%
Income Payments (Profits, Dividends)	155.7	147.5	6%	3%
Capital Remittances (outward)	489.1	546.0	-10%	10%
- External Loan Repayments	418.7	423.2	-1%	9%
- Disinvestments	53.3	117.7	-55%	1%
- Cross Border Investment	17.1	5.1	236%	0%
Other Payments	4.2	7.8	-47%	0.1%
Total	4,808.8	5,137.5	-6%	100%

Source: RBZ

Although there was a decline in foreign payments in 2017 relative to 2016, payments for capital and intermediate goods increased, against a notable decline in payments for consumption/manufactured goods. This development points to efficient utilisation of foreign currency towards the productive sectors of the economy, in line with various Government strategies anchored on promoting domestic production. The Bank shall, therefore, continue to enhance the current compliance-monitoring framework to ensure continued allocation of foreign exchange in terms of the Foreign Exchange Priority List Guideline towards the productive sectors in order to increase exports whilst at the same time providing assurances to the earners of foreign exchange of the availability of their funds on demand.

Financial Account Developments

The financial account balance continued to narrow down in 2017, on account of declining inflows of short and long term debt, subdued foreign direct and portfolio investment inflows. Net debt creating inflows declined from US$1,014.1 million in 2015 to US$544.7 million in 2016 and US$315.6 million in 2017. Similarly, net foreign direct investment into the country is estimated to have declined from US$343 million in 2016 to US$235.4 million in 2017, while net portfolio investment inflows declined from - US$80 million to - US$41 million. Government is putting in place measures to promote both foreign direct investment and portfolio investment.

SECTION 5
MONETARY AND INFLATION DEVELOPMENTS

Monetary conditions have generally remained accommodative and supportive of real economic activity. Broad money[1] recorded an annual growth of 47.97%, from $5 420.01 million in November 2016 to $8 020.03 million in November 2017. The growth was reflected in increases in transferable (demand) deposits, 58.99%; and negotiable certificates of deposits (NCDs)[2], 51.57%. Time deposits, however, declined by 1.18%.

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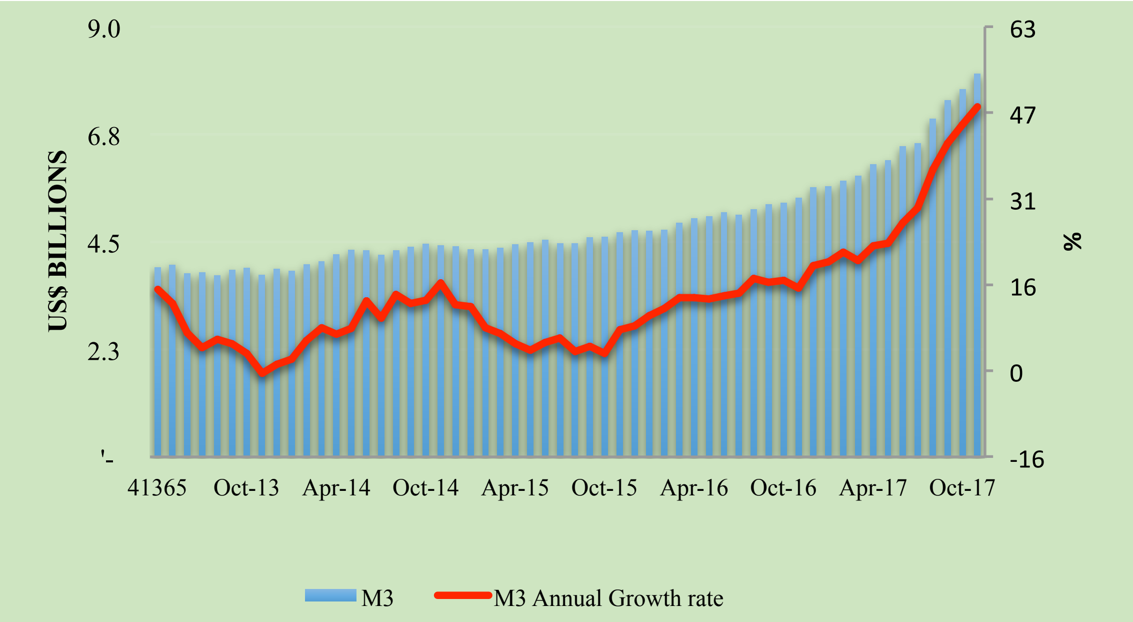
[1] Beginning January 2017, broad money is redefined using IMF's Monetary and Financial Statistics Manual of 2000. The major change is the exclusion of Government deposits held by banks from broad money.
[2] NCDs are also referred to as securities included in broad money

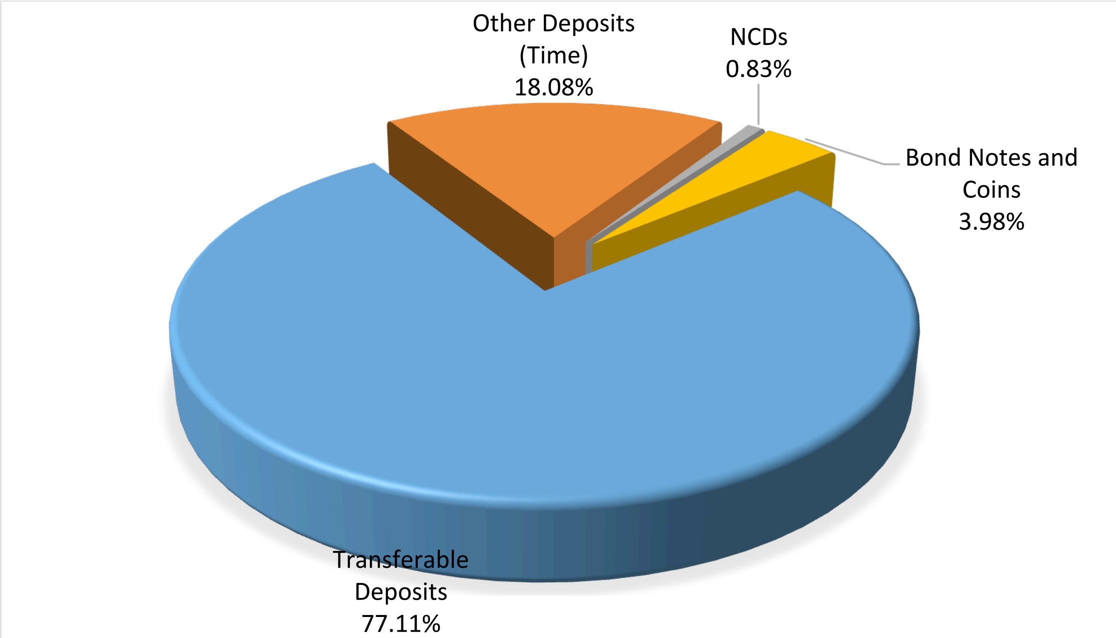
Figure 10: Monetary Developments



Source: Reserve Bank of Zimbabwe, 2017

Transferable or transitory deposits, at 77.11% of total deposits, continued to dominate money supply. These are made up of demand and savings deposits. During the period under review, broad money was made up of transferable or transitory deposits, 77.11%; time deposits, 18.08%; currency in circulation, 3.98% (bond notes and coins); and negotiable certificates of deposits, 0.83%.

Figure 11: Composition of Broad Money



Source: Reserve Bank of Zimbabwe, 2017

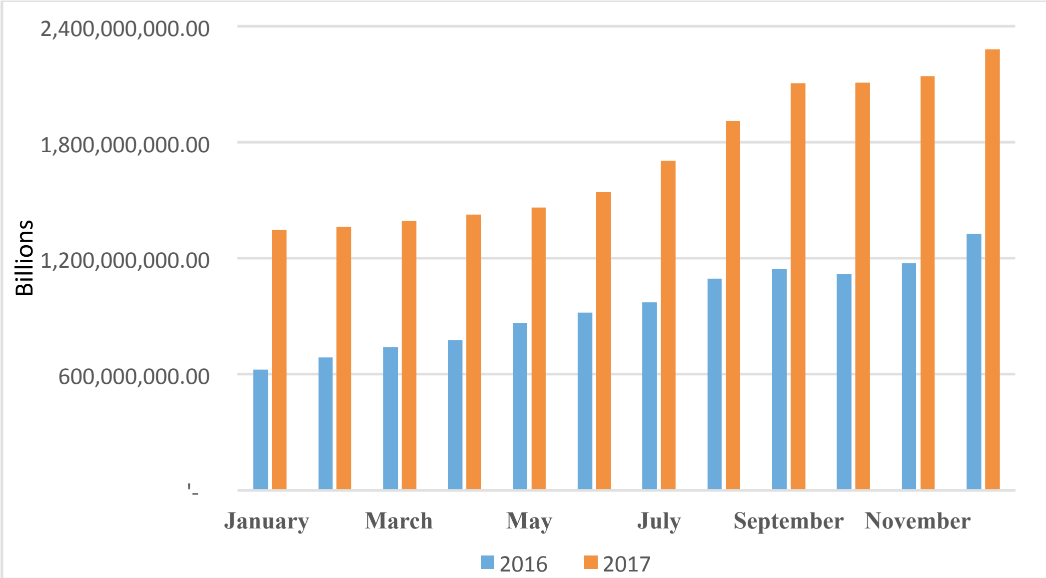
Domestic Credit

Bank lending to local economic agents grew by 44.31%, from $7 554.07 million in November 2016 to $10 637.23 million in November 2017. Of this growth, net credit to Government rose by 70.45% to $6 271.02 million, while credit to the private sector rose by 6.97% to $3 705.5 million. The increase in credit to Government continues to reflect increased reliance by Government on the banking sector to finance its budget deficit.

The substantial increase in money supply is therefore a reflection of the expansionary fiscal stance which has continued to increase RTGS money from $954 in 2016 to US$1,732 million in 2017 as shown in Figure 12.

The increase in the RTGS position was largely driven by increased Government financing through the overdraft at the central bank and the issuance of Treasury Bills and Bonds, which increased from $3.2 billion in 2016 to $5.2 billion at the end of 2017. The increase of around $2 billion largely arose from securities issued for Government projects which include the financing of grain producers as well as for financing agriculture.

Figure 12: Average Monthly RTGS Account Balances



Under dollarization financing of the deficit should ideally be from foreign sources in order to mitigate the domestic creation of money which is not matched by foreign exchange. It is in this context that the Bank will continue to ensure that the level of money supply is supportive of the desired inflation target of between 3-7%, consistent with the SADC macroeconomic convergence target for inflation.

Developments on Zimbabwe Stock Exchange (ZSE)

Bullish trends were experienced on the local bourse during 2017 as the mainstream industrial index gained by 130.4% to 333.02 points whilst the resources index put on 143.42% to 142.4 points. Speculative tendencies largely drove the resurgence of the stock market in 2017. Reflecting this, the total market capitalization rose to well over US$15.2 billion in November 2017, before retreating to US$9.6 billion by year end. The stock market, however, experienced net capital outflow of US$101 million from foreigners.

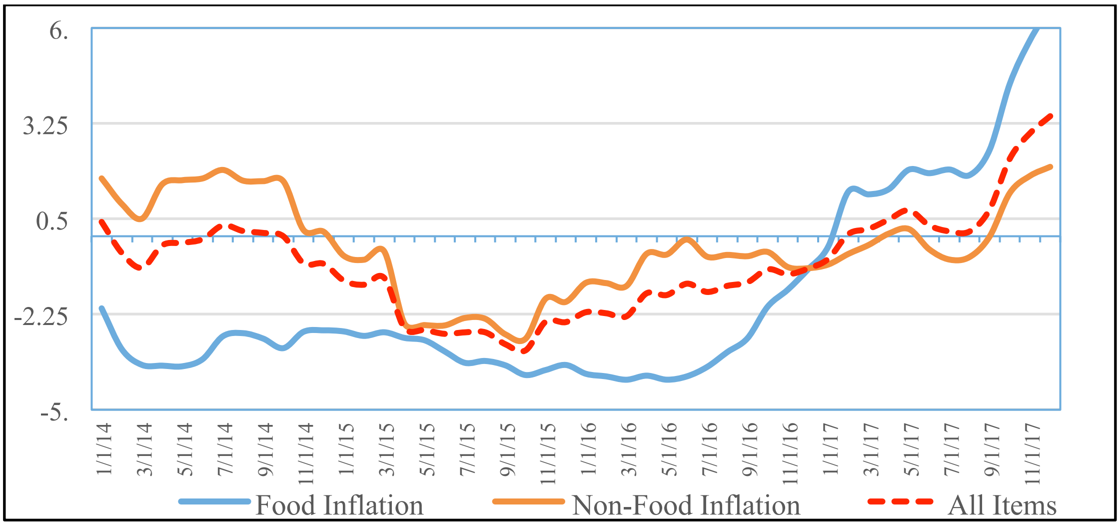
Table 9: ZSE Indices as at 31 December 2017

	31-Dec-16	31-Dec-17	CHANGE (%)
Industrial Index	144.53	333.02	130.42
Mining Index	58.50	142.40	143.42
Market Capitalisation (US$m)	4,007.96	9,580.57	139.04

Inflation Developments

Since climbing out of deflation in February 2017, annual headline inflation has remained in the acceptable range to close the year at 3.46%. The average inflation for 2017 was 1%.

Figure 13: Annual Inflation Profile (%)



Source: Zimstat, 2018

The positive rate of inflation, as reflected in increases in prices of most commodities, was on the back of speculative and profiteering tendencies; pass-through effects of parallel market premiums on foreign exchange; shortages of some imported basic commodities; as well as some external factors such as firming South African rand and strengthening oil prices.

Food Inflation

Food inflation surged from -0.30% in January 2017 to 5.65% in November 2017, before accelerating further to 6.60% in December 2017. The increase in food inflation was largely driven by prices of meat; vegetables; and fish. Decline in the prices of bread and cereals, responding to the 2016/17 bumper harvest, however, partially offset the price increases in other categories.

The increase in food inflation was partly due to supply factors, particularly in relation to meat, poultry and fish, while the sourcing of foreign exchange on alternative markets escalated the production costs. Reduced livestock slaughters due to improved pastures and the impact of the avian flu on poultry production, negatively affected the supply of beef, pork and chicken.

Non-Food Inflation

Annual non-food inflation also accelerated from -0.82% in January 2017 to close the year at 2.0%, largely driven by increases in the furniture and household equipment; recreation and culture; and clothing and footwear subcategories. Increases in non-food prices were largely induced by the parallel market premiums on foreign exchange.

Regional Inflation Developments

Zimbabwe's inflation rate, hitherto the lowest in SADC, is now comparable with low inflation countries such as Botswana and Tanzania, as shown in Table 10.

Table 10: Regional and International Annual Inflation Trends

	Zim	SA	Bots	Moz	Tanz	Zamb	Mal	USA
Jan	-0.1	6.6	3.1	20.6	5.2	7.0	18.2	2.5
Feb	0.1	6.3	3.4	20.9	5.5	6.8	16.1	2.7
Mar	0.2	6.1	3.5	21.6	6.4	6.7	15.8	2.4
Apr	0.5	5.3	3.4	21.3	6.4	6.7	14.6	2.2
May	0.7	5.4	3.5	20.5	6.1	6.5	12.3	1.9
Jun	0.3	5.1	3.5	18.1	5.4	6.8	11.3	1.6
Jul	0.14	4.6	3.4	16.17	5.2	6.6	10.2	1.7
Aug	0.14	4.8	3.4	14.35	5.0	6.3	9.3	1.9
Sep	0.78	5.1	3.2	10.76	5.3	6.6	8.4	2.2
Oct	2.2	4.8	3.0	10.7	5.1	6.4	8.3	2.0
Nov	3.0	4.6	2.9	7.2	4.4	6.3	7.7	2.2
Dec	3.5	n/a	3.2	5.7	4.0	6.1	n/a	2.1

Source: ZIMSTAT, Country's Central Banks, 2017

The annual inflation of 3.5% for December 2017 is within the SADC convergence benchmark of between 3 to 7 %.

Inflation Outlook

In the outlook period, the risk of inflation would be mitigated by the positive domestic and international goodwill, following the new economic and political dispensation in the country, which is already having some dampening effects on speculative tendencies, as well as on adverse inflationary expectations. On the other hand, external factors such as further strengthening of the South African rand; the US dollar; high demand for imported goods and services; and surge in oil prices, may continue to put pressure on domestic prices.

The Bank will, therefore continue to closely monitor price movements, and take pre-emptive and corrective measures to contain inflation to the SADC target of between 3.7% by year-end. Anticipated reduction in food imports and food prices, following the bumper harvest in the 2016/17 agricultural season, and the average 2017/18 cropping season, will dampen prices and moderate inflation during year.

SECTION 6
FINANCIAL SECTOR DEVELOPMENTS

Nineteen banking institutions were operating as at 31 December 2017, as shown in Table 11.

Table 11: Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	**19**

In addition, the institutions indicated in Table 12 are also under the purview of the Reserve Bank.

Table 12: Other Operating Institutions

Credit-only-MFIs	178
Deposit-taking MFIs	4
Development Financial Institutions (SMEDCO and IDBZ)	2

Performance of the Banking Sector

The performance of the banking sector was satisfactory over the year to 31 December 2017, as reflected by the improvement in the key risk and performance indicators. Total assets increased to $11.25 billion while capitalisation and profitability indicators also reflect improved performance. The financial soundness indicators for the review period are provided in Table 13.

Table 13: Financial Soundness Indicators

Key Indicators	Benchmark	Dec-16	Jun-17	Sep-17	Dec-17
Total Assets	-	$8.73bn	$9.65bn	$10.26bn	$11.25bn
Total Loans	-	$3.69bn	$3.64bn	$3.73bn	$3.80bn
Net Capital Base	-	$1.34bn	$1.38bn	$1.43bn	$1.58bn
Total Deposits	-	$6.51bn	$6.99bn	$7.62bn	$8.48bn
Net Profit	-	$181.06m	$100.59m	$160.73m	$241.94m
Return on Assets	-	2.26%	1.26%	1.89%	2.61%
Return on Equity	-	12.64%	6.80%	11.15%	15.48%
Capital Adequacy Ratio	12%	23.70%	26.89%	26.98%	27.63%
Loans to Deposits	70%	56.64%	52.11%	49.01%	44.81%
Non-Performing Loans Ratio	5%	7.87%	7.95%	8.63%	7.08%
Provisions to Adversely Classified Loans	-	68.51%	126.29%	83.37%	90.26%
Liquidity Ratio	30%	61.91%	66.87%	62.49%	62.62%
Cost to Income Ratio		79.20%	72.50%	77.02%	75.36%

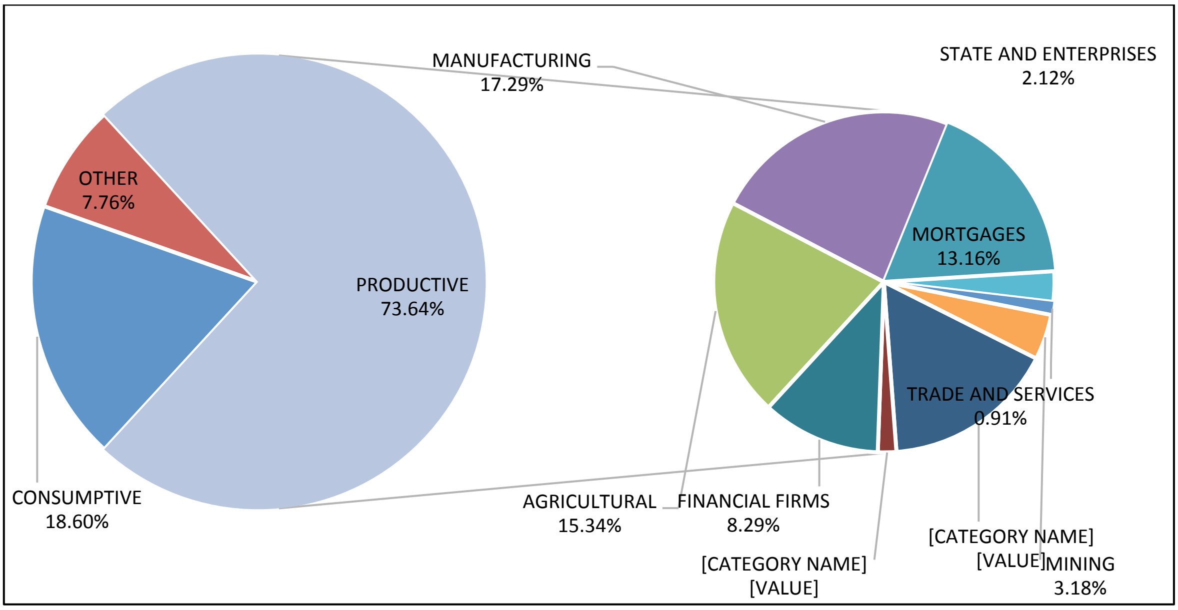
Banking Sector Deposits

As shown in Table 13, banking sector deposits (including inter-bank deposits) increased by 26.47%, from $6.99 billion as at 30 June 2017 to $8.48 billion as at 31 December 2017. The notable increase in deposits was partly attributable to increased export receipts, expansionary impact of government expenditure and multiplier effect of new deposits.

Loans and Advances

Banking sector loans and advances increased from $3.69 billion as at 30 June 2017 to $3.80 billion as at 31 December 2017. Banking institutions have continued to support the productive sectors of the economy. Lending to the productive sectors constituted 73.64% of total sector loans as at 31 December 2017 as shown in Figure 14.

Figure 14: Sectoral Distribution of Loans as at 31 December 2017



Capitalisation

The aggregate core capital increased by 10.48%, from $1.24 billion as at 30 June 2017 to $1.37 billion as at 31 December 2017, on the back of improved earnings performance. All banking institutions are in compliance with minimum capital requirements as shown in Table 14.

Table 14: Banking Sector Capitalisation (US$ million)

Institution	Core Capital as at 30 June 2016 (US$ million)	Core Capital as at 31 Dec 2017 (US$ million)	Prescribed Minimum Capital requirements (US$ million)
CBZ Bank*	**238.9**	**218.41**	25
Stanbic Bank	**120.75**	**135.52**	25
Barclays Bank	**67.55**	**79.22**	25
BancABC	**74.35**	**75.96**	25
Ecobank	**64.86**	**73.95**	25
Steward Bank	**46.16**	**71.91**	25
Standard Chartered Bank	**66.68**	**71.34**	25
FBC Bank	**63.99**	**70.37**	25
ZB Bank	**60.32**	**65.16**	25
NMB Bank	**53.85**	**61.31**	25
Agribank	**52.35**	**55.54**	25
MBCA Bank	**50.57**	**54.52**	25
Metbank	**39.87**	**44.99**	25
BUILDING SOCIETIES			
CABS Building Society	**114.44**	**127.75**	20
FBC Building Society	**43.75**	**47.48**	20
National Building Society	**20.57**	**43.84**	20
ZB Building Society	**17.36**	**18.38**	20
SAVINGS BANK			
POSB	**44.88**	**53.83**	-
Total	**1,241.25**	**1,369.48**	**-**

* *including CBZ Building Society*

All banking institutions were adequately capitalised as at 31 December 2017. The average capital adequacy and tier 1 ratios were 27.63% and 23.97%, against the required minimum of 12% and 8%, respectively.

Housing Development

The provision of housing is a critical pillar in the infrastructure eco-system of an economy. In this regard, the Reserve Bank opened up the building society segment to allow other banking institutions such as commercial banks, to offer mortgages to deepen the sector. As at 31 December 2017, the banking sector funded a total of 5,700 new housing units valued at $172.08 million and is projected increase to 11,611 units valued at $365.63 million as at 31 December 2018 as indicated in the Table 15.

Table 15: Projected Housing Development

	Actual 31.12.17		**Projected 31.12.18**	
Category	**No of units**	**Value ($)**	**No of units**	**Value ($)**
High Density	3,843	53,299,678	7,975	207,901,869.24
Medium Density	910	42,812,586	2,820	73,464,304.54
Low Density	905	57,526,175	743	57,270,886.34
Sub-Total	**5,658**	**153,638,439**	**11,537**	**338,637,060**
Commercial	42	18,442,315	74	26,988,807.30
Grand Total	**5,700**	**172,080,754**	**11,611**	**365,625,867**

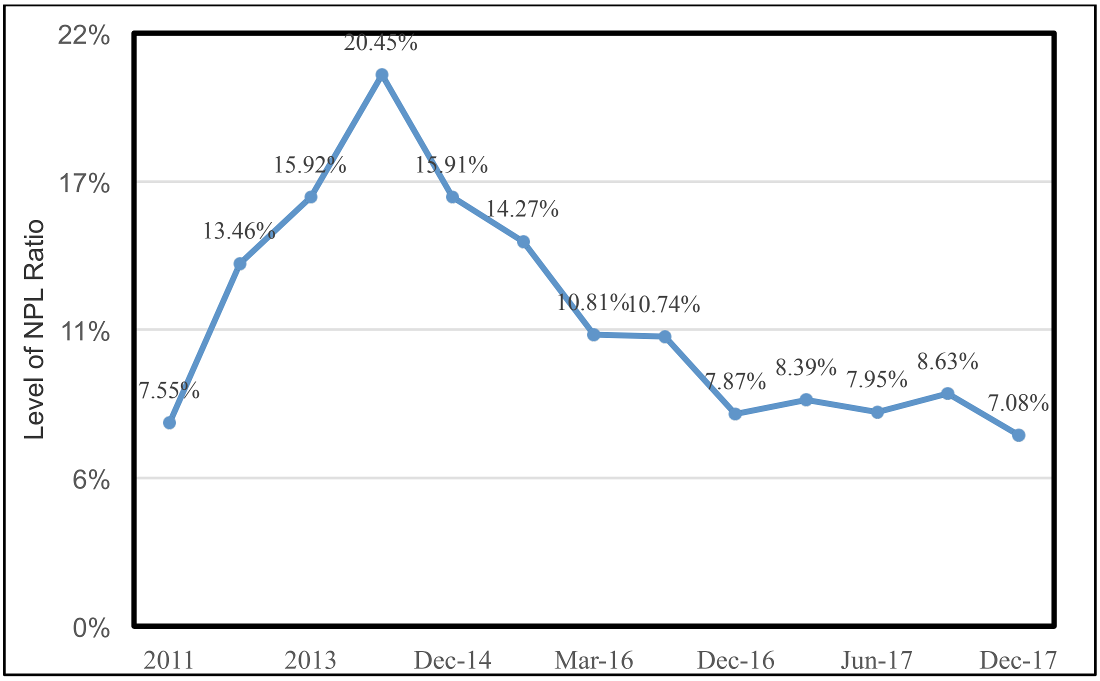
It is encouraging to note that the highest number of housing units continues to be targeted at low income households in the high density areas. Significant imbalances, however, exist in the housing market, wherein demand outstrips supply and to this end, the banking sector plays a central role in bridging this gap. Against this background, banking institutions are urged to come up with innovative affordable mortgage funding models in order to meet the ever increasing housing demand.

Non-Performing Loans

The quality of the banking sector loan portfolios has improved over the years. The ratio of non-performing loans (NPLs) was 7.08% as at 31 December 2017, down from 7.87% as at 31

December 2016 as banks continue to strengthen their credit risk management systems, in the aftermath of balance sheet clean up through disposals of NPLs to ZAMCO.

Figure 15: Trend in Non-Performing Loans 2011 – December 2017



ZAMCO

As at 31 December 2017, ZAMCO had acquired NPLs amounting to $987 million. These acquisitions have assisted banks to clean up their balance sheets so that they are better able to support the economy through provision of credit. ZAMCO has now embarked on the Resolution and Recovery phase of its operating cycle. In this phase, all efforts are devoted towards implementing recovery strategies and collecting from the borrowers whose NPLs have been acquired by ZAMCO.

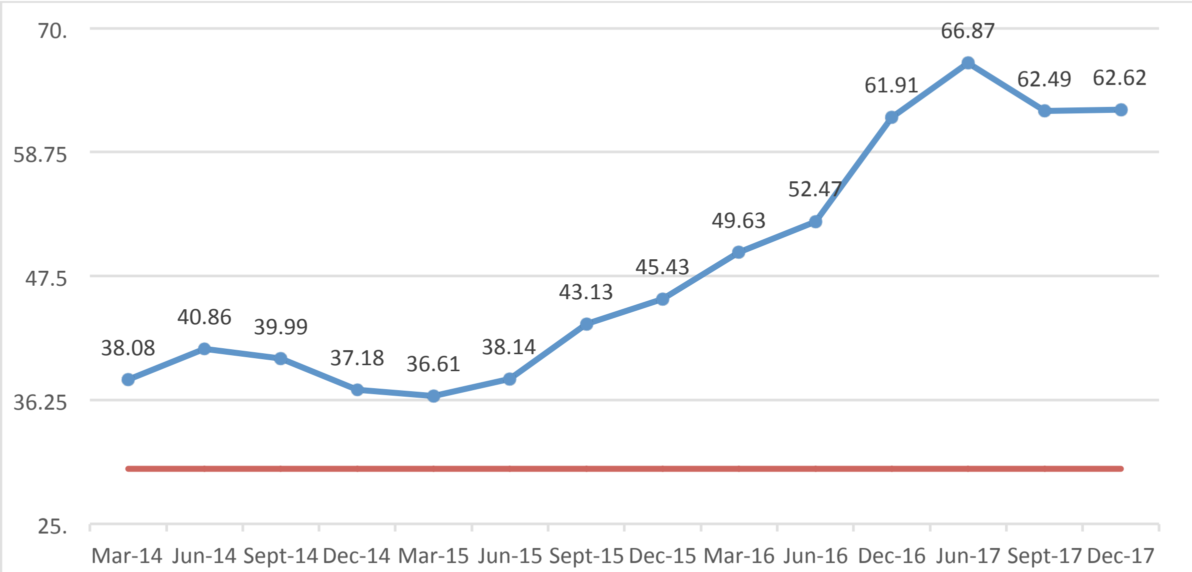
Earnings

The net profit for the period ended 31 December 2017 amounted to $241.94 million, representing an increase of 33.91%, from $181.06 million reported in the corresponding period in 2016. Eighteen (18) out of 19 operating banking institutions recorded profits during the period ended 31 December 2017.

Liquidity

The average prudential liquidity ratio of 62.62% for the banking sector as at 31 December 2017, was above the regulatory requirement of 30%. All banks were compliant with the minimum prudential liquidity ratio as at 31 December 2017. Figure 16 shows the trend in the banking sector average prudential liquidity ratio since March 2014.

Figure 16: Prudential Liquidity Ratio Trend (%)



Notwithstanding the high average prudential liquidity ratios recorded across the sector, the underlying foreign currency shortages due to structural challenges in the economy have also affected the banking industry. Various measures, including the increased usage of digital platforms, are envisaged to ease the demand for physical cash.

Deposit Insurance Payments

As at 31 December 2017, a total of 11,744 out of 54,909 depositors by number had been compensated out of the Deposit Protection Fund in respect of the failed contributory institutions under liquidation. In monetary terms $3.2 million was paid, which represents 50% of the total exposure of $6.4 million. Table 16 provides a synopsis of deposit insurance payments for the period under review.

Table 16: Deposit Insurance Payments as at 31 December 2017

	Total Depositors	Gross Deposits ($ m)	Exposure (Deposits payable at $500)	No. of Depositors Paid to Date	Value of Deposits paid ($'000)	% Paid to Exposure
Royal Bank	5,453	2.57	472,207	3,105	356	75.5%
Trust Bank	2,958	11.48	328,516	415	146	44.6%
Genesis	86	1.43	11,810	62	9	74.7%
Allied Bank	9,228	14.32	1,248,307	1,529	534	42.8%
Interfin Bank	13,021	137.34	918,814	682	260	28.3%
AfrAsia	24,163	18.56	3,439,276	5,951	1,936	56.3%
Total	**54,909**	**185.69**	**6,418,930**	**11,744**	**3,241**	**50.5%**

The deadline for Genesis depositors to receive compensation from the deposit protection fund lapsed on 30 June 2017 in terms of section 38(5b) of the Deposit Protection Corporation Act [Chapter 24:29]. Payments in respect of liquidation will, however, remain in force in accordance with the framework and parameters as provided in the Companies Act [Chapter 24:03] as read together with the Insolvency Act [Chapter 6:04].

Financial Stability Stress Tests

As part of measures to promote financial sector stability, the Reserve Bank in collaboration with the World Bank and other financial sector regulators, shall assess the effectiveness of existing frameworks to respond to crisis situations in line with international best practices, during the first quarter of 2018. Further, in keeping with its mandate of promoting financial stability, the Reserve Bank shall conduct comprehensive financial stability stress tests on the banking sector in September 2018 to assess impact and resilience of their portfolios and ultimately capital and liquidity.

OTHER DEVELOPMENTS IN THE BANKING SECTOR

Barclays Bank of Zimbabwe Limited

FMB Capital Holdings Plc of Malawi acquired 81% of Barclays Bank Plc Shares in Afcarme in October 2017, resulting in an effective shareholding of 42.68% in Barclays Bank of Zimbabwe.

Time Bank of Zimbabwe Limited

The Bank and Time Bank of Zimbabwe Limited have had historical disputes, which have been the subject of various litigation and Time Bank has not been operating as a banking institution. A resolution has since been reached and Time Bank will resume banking operations subject to prior inspections by the Bank to ensure that the institution puts in place the necessary capital and banking systems and structures.

Zimbabwe Women Microfinance Bank

The Women's Bank, which was licenced on 14 September 2017 as a deposit-taking microfinance institution, is finalising the relevant processes, systems and infrastructure in preparation for a pre-opening assessment by the Bank before the institution is authorised to open its doors to the public. It is envisaged that the institution will contribute towards the financial inclusion agenda and play an important role of engendering a savings culture among low-income groups.

Legal Developments

The Bank, in collaboration with the Ministry of Finance is working on a Microfinance Amendment Bill. The Bill seeks to address the following among other issues:

a) provide for perpetual licences for deposit-taking microfinance institutions, subject to cancellation in the event of breach of the law, in the same manner as other banking institutions;

b) extend the tenure of the licence for credit-only microfinance institutions from the current one year to five years; and

c) enhance corporate governance systems and risk management practices within the microfinance sector.

Performance of the Microfinance Sector

The performance of the microfinance sector remained largely stable over the year, in terms of both outreach and loan portfolio growth. The performance of the sector is expected to improve on the back of anticipated improvements in operating environment in the outlook period. A comparison of the key microfinance sector indicators for December 2016 and 2017 is provided in Table 17.

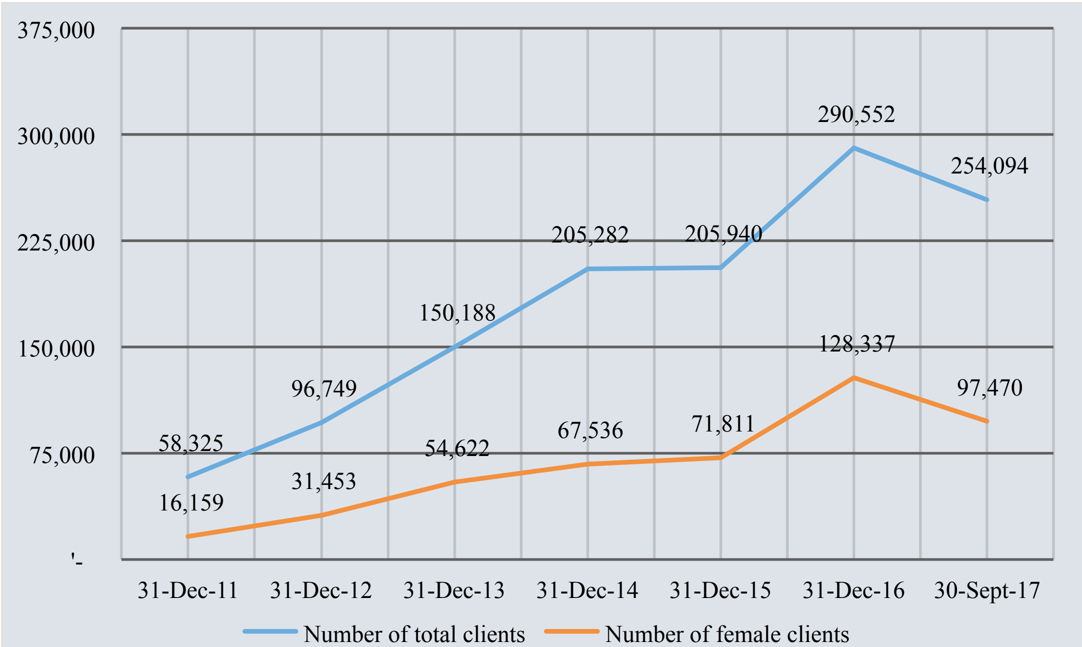
Table 17: Microfinance Performance Indicators, Sept 2016 – Sept 2017

Indicator	Sept 16	Dec 16	Mar 17	Jun 17	Sept 17
Number of Licensed Institutions	169	185	180	187	189
Total Loans (US$m)	200.80	206.28	215.24	229.44	238.60
Total Assets (US$m)	255.32	275.04	291.89	297.85	341.17
Total Deposits (DTMFIs) (US$m)	2.10	4.19	5.12	6.62	5.65
Number of Savings Accounts (DTMFIs)	1,060	1,411	1,993	2,265	2,848
Portfolio at Risk (PaR>30 days)* (%)	6.11	8.34	7.52	6.46	7.68
Number of Active Clients	263,806	290,552	257,498	322,728	254,094
Number of Outstanding Loans	279,148	352,225	620,728	372,837	295,547
Number of Branches	595	659	648	698	681

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

The microfinance sector registered a 33.68% growth in total assets over the year from $255.21 million as at 30 September 2016 to $341.17 million as at 30 September 2017. The four (4) operational DTMFI had a market share of 25.32% of the total microfinance sector loans as at 30 September 2017. Women continue to benefit from facilities that are targeted at the marginalized and low income, with loans to the women accounting for 38.36% of the total sector loan book. Figure 17 indicates the trend in microfinance women borrowers.

Figure 17: Growth of Active & Women Clients



For the nine months ended 30 September 2017, credit only microfinance institutions posted an aggregate profit of $13.34 million while the deposit taking microfinance institutions' sub-sector recorded $1.27 million. A total of forty-six credit-only microfinance institutions posted losses largely due to unsustainably high cost structures and high levels of delinquent loans, while in the DTMFI subsector, one (1) institution posted losses largely due to the absorption of start-up costs. The industry Operating Self Sufficiency ratio 123.95% is above the break-even point of 100%, indicating that the microfinance sector in Zimbabwe is sustainable.

SECTION 7
POLICY MEASURES TO ENHANCE FINANCIAL STABILITY AND TO PROMOTE BUSINESS CONFIDENCE IN THE ECONOMY

In order to enhance business confidence and credibility under the 'Zimbabwe is open for business' narrative, supportive monetary and fiscal measures are essential to walk the talk to improve the monetary environment which is characterized by tight foreign currency liquidity. The panacea for the challenge of tight foreign currency is to increase production, exports, foreign direct investment, diaspora remittances, loans and putting in place measures to protect investors' funds. In line with this narrative and to enhance the ease of doing business in the economy, the following measures are being put in place with immediate effect to gradually liberalise the foreign currency market and promote business confidence.

1. Enhancing the Nostro Stabilisation Facilities to Support Foreign Payments

The Bank is enhancing the Nosto Stabilisation facilities by US$400 million to support the following:

a) To provide assurances that international remittances and individual foreign currency inflows received through normal banking channels are available for use when required by the owners;

b) To meet the foreign exchange requirements for the importation of essential requirements that include fuel, medications, electricity, cash imports, and industrial raw materials for the manufacture of cooking oil, other food products, packaging, exports, etc.

c) Refining the operation of the Portfolio Investment Fund by ensuring that all portfolio investment inflows are ring-fenced to meet the portfolio investment outflows which shall be processed by giving priority to capital before capital appreciation (profits) and dividends. This policy measure is necessary to augment the current US$5 million that has been provided in the Fund as seed capital and to further provide assurances to investors that Zimbabwe is open for business.

2. Provision of Investment Guarantees to Protect Investors' Funds

The Bank is working with the African Export-Import Bank (Afreximbank) to put in place a US$1.5 billion facility that is earmarked for the provision of guarantees (US$1 billion) to investments coming into the country and for liquidity support (US$500 million). Such guarantees and liquidity support are necessary to protect investors' funds from country risk, and in doing so, enhancing investor confidence.

3. Provision of 7% tax-free savings bonds on non-resident transferable funds

In order to provide return on remittable funds currently held in Non-Resident Transferrable Accounts in respect of in-country funds such as dividends and profits due to non-residents that cannot be immediately remitted as a result of the current foreign currency shortages, such funds can now be invested in tax-free savings bonds at a coupon rate of 7%. This compensation process is necessary to assure investors of returns on their idle funds seated at banks.

4. Enhanced Export Incentive Scheme for Horticulture, Cotton, Macadamia and Gold

The economy's foreign currency inflows are on a positive trajectory, largely on account of increasing export receipts that grew by 36% in 2017 from the 2016 level. It is therefore important to sustain this momentum for increased foreign currency inflows. Accordingly, the current export incentive scheme that is funded by bond notes shall be maintained to promote export competitiveness at the current thresholds. The scheme which was adjusted to 12.5% for tobacco growers starting this year shall be tweaked to 10% for horticulture, cotton, macadamia and gold producers.

5. Increasing tobacco and gold support facilities

In order to enhance foreign currency inflows from tobacco and gold production, the tobacco input finance facility has been increased from the $28 million disbursed in 2017 to $70 million, while the gold support facility has been increased from $74 million (disbursed to 255 entities) in 2017 to $150 million.

Financing tobacco and gold and other exportable products such as horticulture, mining, tourism, etc, using RTGS funds seated at banks is beneficial for generating foreign exchange for the country. Further, and in line with the tobacco finance order, deserving tobacco merchants shall be granted authority by the Bank to use RTGS money to purchase tobacco from the auction floors. This dispensation shall also apply to deserving cotton merchants.

6. Establishment of Offshore Financial Service Centre

The Bank is currently working on a legal framework to operationalize the establishment of an offshore financial service centre within the context of the Special Economic Zones (SEZ) programme. The legal framework is built on providing investors with the supportive policy environment and guidelines to pursue various investment options in the financial service centre.

7. Purchase of gold for value addition

The jewellery industry remains key in promoting value addition which is in sync with Government policy on mineral beneficiation. In order to enhance the gold industry's contribution to this value addition objective, priority shall be given to export oriented jewellery production, where the jewellery manufacturer shall retain 100% of the foreign currency generated from the value added component for use in their business operations. Approved jewellery manufacturers to meet local demand shall be availed not more than 3 kgs per quarter through Fidelity Printers and Refiners under a properly monitored arrangement to guard against abuse of this facility.

8. Enhancing the Ease of Access to Productive Sector Facilities

The Bank has put in place measures to ensure ease of access to the productive sector facilities that are earmarked for the promotion of exports, production, empowerment and business linkages. This measure is necessitated by the need to address concerns raised by both business and individuals on the difficulties confronted in accessing these facilities. It is therefore necessary to ensure that final beneficiaries have ease access to funding for them to expeditiously promote production and exports.

9. Upwards Review of Threshold for Exports by Individuals

In order to improve ease of doing export business by individuals, going forward the threshold for value of goods that can be exported by an individual without completing export forms, Form CD1, has been increased from the current US$1,000 to US$2,000. Sale proceeds would need to be repatriated into the country.

10. Upwards Review of Foreign Currency Retention Thresholds

In recognition of the need to ensure continuous generation of foreign exchange, the foreign currency retention threshold for all services and products except gold, diamonds, platinum, chrome and tobacco remains at 100% of export receipts for exporters' use in their business operations within an extended period of up to 14 days from the receipt of funds. The retention threshold for private owned diamond firms, platinum and chrome producers has been increased from 20% to 35% whilst that for gold, public owned diamond firms and tobacco remain as per current policy.

11. Downward Review of Cost of Export Documents

The current charges based on Exchange Control's flagging system on the exports of non-compliant exporters are high. Given the need to facilitate exports at the same time affording exporters an opportunity to comply with the Presidential Amnesty on illegally externalized foreign currency and assets, the maximum fixed administrative charge to access exports documents has been reduced from $50 to $20 per export transaction.

12. Establishment of an Investment Desk to Cater for the Diasporans

There has been increased calls for the establishment of a desk to facilitate Zimbabweans in the diaspora to participate in the development of their country through mobilizing investments into all sectors of the economy. Already, there has been a positive response to these calls as evidenced by the numerous enquiries from Diasporans and international investors. Consistent with the tenets of the ease of doing business, in an open business environment, the Bank has established a desk to assist those in the diaspora to get involved in the investment opportunities within the national economy.

13. Issuance of Diaspora Tobacco & Gold Production Financing Bonds

Tobacco and gold exports contribute significantly to the country's export receipts. The tobacco and gold sectors, if sustainably and adequately funded, have the potential to generate more foreign currency for the country. The Bank has also noted that small and start-up companies in the tobacco sector are failing to access offshore funding in line with the tobacco financing order.

In order to allow Zimbabweans in the diaspora to participate fully, or on a twinning arrangement basis, in the turnaround of the country's economy and exports generation, the Bank has opened up the issuance of well secured Tobacco and Gold Production Financing Bonds to diaspora investors.

The Diaspora Tobacco Production Financing Bond will be issued to Zimbabweans in the diaspora to finance tobacco production. Bond holders will be paid capital plus interest as single bullet payment at the end of the tobacco season.

The Diaspora Gold Production Financing Bond will be issued to Zimbabweans in the diaspora to finance gold production by small scale gold miners. Coupon payments will be made on monthly basis as gold is sold to Fidelity Printers and Refiners.

14. Incentive for Diaspora Investments Accounts in Zimbabwe

In an effort to facilitate inward investments by Zimbabweans in the diaspora, going forward, Zimbabweans in the diaspora can open Diaspora Investment Accounts with local banks of their choice. The accounts which shall be for savings/investment purposes or for holding funds earmarked for undertaking investment projects in Zimbabwe, shall be funded from offshore and shall be entitled to a 7% Diaspora Remittance Incentive from the RBZ over and above the interest offered by the bank. These accounts shall be ring-fenced against comingling with RTGS money.

15. Payment Arrangements for the Sale of Immovable Property & Management Fees

The Bank has noted the irregular execution of Zimbabwean immovable property sales, where settlement of funds is being done offshore. Stakeholders in the property market sector are advised that such practices are not consistent with current Exchange Control rules and regulations. Accordingly all receipts from the sale of immovable properties in Zimbabwe should be received into the country and accounted for through normal banking channels. Exceptions to this policy position require prior Exchange Control authority.

Similarly, the current policy that limits the annual payment of management, technical or consultancy fees to 3% of annual revenue shall continue to apply to all businesses with exceptions requiring prior Exchange Control approval.

16. Further Promoting the Use of Plastic Money Towards a Cash-lite Society

The Bank is further accelerating efforts towards a cash-lite society by the adoption of friendly banking and plastic money payment platforms such as tap-and-go systems and pre-funded cards to enhance the ease of transacting and ease of passage at tollgates within the country. This measure is intended to further promote the use of plastic money which significantly grew by 210% in 2017 from the 2016 position to reach a coverage of more than 80% of total retail transactions in the country.

17. Curbing of Multi-Pricing System & Refusal of Plastic Money

Government is putting in place measures to curb the multi-pricing system within the economy. Multi-pricing and refusal to accept plastic money is counter-productive to the successful and unparalleled efforts achieved so far in the promotion and usage of plastic money in Zimbabwe. Businesses will need to be reminded to show respect to consumers and to exercise self-discipline under the new economic dispensation. It is against this background that the 2018 Finance Bill which has now gone through Parliament and now awaits approval by the Senate is making these malpractice of multi-pricing and the refusal of plastic money illegal.

18. Strengthening Financial Credibility

In line with the lending powers of the Bank to Government as provided for in Section 11 1(a) of the Reserve Bank Act [Chapter 22:15], the Bank is putting in place measures to ensure that the lending limit to Government does not exceed the regulated 20% of the previous year's revenue of the State. This measure is necessary in order to comply with good corporate governance and to mitigate the unintended consequences of excess Government overdraft on the economy.

19. Strengthening of Liquidity Management Systems

To ensure stability of the monetary system, the Bank is strengthening its liquidity management systems to mop RTGS money and make it more attractive for investment. The

Bank will achieve this through issuance of medium-term government paper to improve monetary policy stance on the economy by signalling and developing a yield curve which also helps in the development of a local bond market. Already the Bank has issued a 7% savings bond, whose uptake has been satisfactory, raising $165 million in three months, October to December 2017.

Further, the reintroduction of an auction system for Treasury Bills and Bonds will bring in transparency as well as allow a discernible yield curve to be developed. The Bank is also assessing the possibility of reintroducing Open Market Operation (OMO) tools during the course of the year in order to deal with excess liquidity in the market.

20. Acceptance of 99-Year Land Leases as Security by Banks

In line with the current economic dispensation's aspiration to transform agriculture into viable business proposition and taking into account of the significant improvements made by Government on the 99-year leases to enhance the security of tenure of the lease and making it bankable and transferrable, the Bank has agreed with banking institutions for them to accept the 99-year leases as security for accessing credit from financial institutions in line with the provisions of the leases.

21. Policy Note on the Presidential Amnesty on Externalised Forex and Assets

Following the announcement of the Presidential Amnesty on externalised foreign currency and assets by His Excellency, the President, the Bank is encouraged by the overwhelming response from Zimbabweans desiring to comply with the amnesty arrangements. The responses have been positive from both individuals and corporates in respect of foreign currency (and not decommissioned or demonetised local currency) that was externalized by commission or omission or under the liberalized Exchange Control framework with such foreign currency banked offshore or used to acquire foreign assets.

The response to date demonstrates the willingness by corporates and individuals to comply with these arrangements. Already, bank deposits have been increasing on account of funds being channelled into the formal system, as corporates and individuals take heed of the amnesty to repatriate externalized funds and/or deposit funds in the banking system. The

Bank is offering 7% tax-free savings bonds for funds to be repatriated under the amnesty dispensation where funds were externalised under the auspices of free funds.

It is essential to note that the requirement for the disclosure of foreign assets as is required by the Amnesty is in compliance with international best practice and is therefore not unique to Zimbabwe. Almost all jurisdictions make such disclosures mandatory. In any case, all payments need to be bonafide to satisfy the Know Your Customer (KYC) and Customer Due Diligence (CDD) banking principles. The Amnesty which pertains to externalised foreign currency and assets bought outside Zimbabwe using foreign currency that belonged to Zimbabwe through acts or commissions as given below does not affect funds and assets acquired by Zimbabweans in the diaspora.

i. Export of any currency above permissible thresholds;
ii. Smuggling of gold or other precious stones;
iii. Non-repatriation of export proceeds due to the country;
iv. Undervaluation of exports and overvaluation of imports and retention of funds offshore;
v. Trade mis-invoicing by importers to evade customs duties, VAT, or income taxes;
vi. Non-return of temporary exports and disguised exports of samples;
vii. Payments for imports of goods and services whose corresponding value has not been received into the country;
viii. Remittance of funds used for investments offshore without Exchange Control approval;
ix. Offshore retention of funds realised from sale of local assets for example, shares in local companies to foreign residents;
x. Offshore retention of investment income such as dividends, profits and management fees due to the country;
xi. Remittance of funds for repayment of fictitious offshore loans;
xii. Fictitious and unreasonable management fees and technical fees;
xiii. Settlement of purchase prices offshore, for an immoveable property situated in Zimbabwe;
xiv. Operation of illegal offshore bank accounts by individuals and companies funded from Zimbabwe;

xv. Offshore retention of sale proceeds realised from smuggled goods or minerals; and

xvi. Any other unauthorised offshore retention of funds without Exchange Control approval.

22. Policy Note on the Continuation of the Multi-Currency System

Government's policy stance on currency reform that pertains to de-dollarisation is well documented as was clearly articulated by his Excellency, the President. Government is quite aware that the most important economic fundamentals that the country would need to achieve before any currency reform begins are a healthier foreign exchange buffer sufficient to cover at least 3 months of imports and reducing fiscal deficit to sustainable levels as defined in the Reserve Bank of Zimbabwe Act. These fundamentals which are critical to ensure free convertibility are still weak or fragile for a currency reform. It is against this reality that the country continues to use the multi-currency system.

In future, when the said economic fundamentals become strong, the road map for currency reform in Zimbabwe will be predicated or tailor-made along the currency board (CB) and/or gold standard (GS) mechanisms that are stringent monetary rules, the two special features of which are high credibility of monetary authorities and the existence of self-adjustment (non-discretionary) mechanism.

The CB and GS systems have a mechanism that links the demand and supply of money to the balance of payments which is essential for convertibility and for the quick elimination of imbalances within the economy. These systems basically take the form of a monetary 'constitution' which is characterised by a higher level of credibility and confidence.

23. Policy Note on Accelerated Arrears Clearance and Re-Engagement Programme

In line with the new economic order, Government is intensifying the re-engagement process with the international community to improve international relations and to resolve the external payment arrears to the remaining International Financial Institutions (IFIs) as well as bilateral creditors. In this regard, Government will follow the previously agreed process for clearing external payment arrears to IFIs, which was endorsed by the IFIs and Bilateral Creditors at a meeting held on the side lines of the Annual Meetings of the IMF and World Bank in Lima, Peru, in October 2015.

The successful resolution of arrears to IFIs will pave way for Government to negotiate debt restructuring mechanisms with the Paris Club creditors. The ensuing improvement in economic activity following successful re-engagement will significantly reduce the country's risk premium and unlock offshore credit lines at affordable interest rates. Access to foreign finance, which has been significantly limited over the past seventeen years now, is critical to increase foreign currency buffer for the country.

In addition, Government will also be in a position to actively engage the donor community to complement Government support to targeted social and developmental programmes. The envisaged high economic growth rates to be experienced will go a long way for the country to sustain appropriate debt levels, increase fiscal space, jobs, production and exports.

SECTION 8
CONCLUSION

The narrative “open for business” means that Zimbabwe is ready and willing to embrace a paradigm shift to attract investors, both local and foreign, for the total transformation of the economy in respect of increased production, jobs, exports, fiscal space, access to capital and foreign finance. Improvement in these economic variables will greatly benefit the monetary environment and, in doing so, enhancing financial stability and confidence within the national economy. A healthy foreign exchange buffer will strengthen the value of RTGS funds and gradually reduce cash shortages.

“Open for business” is not just a narrative. It calls for a dramatic change in the conduct of business from the business as usual approach. We need to walk the talk to re-balance the economy through a tight rein on fiscal deficit - increasing revenue collections and holding expenditures constant - whilst at the same time enhancing Zimbabwe’s access to foreign finance and increasing foreign inflows from exports and international remittances. These measures will be buttressed by accelerating the arrears clearance and re-engagement programme under the Lima, Peru, principles of engagement with the International Financial Institutions and Development Partners.

The policy measures enunciated in this Statement should therefore be seen as the initial move to gradually open the foreign currency market to show that Zimbabwe is open for business. 2018 should therefore be a defining year for Zimbabwe. The future of Zimbabwe is in our hands.

I THANK YOU

DR J. P. MANGUDYA
GOVERNOR