MONETARY POLICY STATEMENT

FOCUSING ON PRICE AND EXCHANGE RATE STABILITY

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SECTION ONE: INTRODUCTION AND BACKGROUND

1. This Monetary Policy Statement is issued in terms of Section 46 of the Reserve Bank Act (Chapter 22:15). It discusses the measures and policies being pursued by the Bank. The measures and policies are aimed at accomplishing the Bank's 2020 key strategic focus areas of ensuring exchange rate and price stability, the smooth functioning of the interbank foreign exchange market and providing support to economic activity without endangering the important objective of reducing and stabilising inflation in the short to medium term.

2. The Statement comes at a time when the main thrust of the Bank is to stabilise the economy by bringing down inflation and to stabilising it, after the initial burst of high inflation that followed from the liberalisation of the exchange rate and fiscal consolidation in 2019. Stabilising the negative shocks - cost of adjustment - that emanated from the economic reforms that the country went through in 2019 in its quest to right-size or rebalance the economy is necessary for rebuilding confidence within the Zimbabwean citizenry and for creating a conducive economic environment for sustainable growth.

3. Specific measures that the Bank is pursuing to stabilise the economy include:
   i. Implementing the monetary targeting framework geared at addressing inflation and exchange rate volatility;
   ii. Enhancing transparency on the interbank market in order to provide efficiency in the foreign exchange market;
   iii. Injecting additional cash to address cash shortages; and
   iv. Promoting confidence in monetary policy through effective communication and forward guidance to anchor the public's

expectations, which are the epicentre of inflationary developments in Zimbabwe.

4. Consistent with the Bank's policy thrust of ensuring exchange rate and price stability, the economy managed to achieve a sustained decline in month-on-month inflation since October 2019 and relative stability in the exchange rate. This trend is consistent with a positive macroeconomic outlook for the country which is set to grow by around 3% in 2020. Month – on – month inflation is expected to be well below 5% by year-end.

5. The Bank is committed to ensuring that the above fundamentals are achieved through the Bank's use of monetary targeting framework to achieve price stability whilst at the same time addressing the emerging challenge of depressed aggregate demand.

6. Focussing on confidence building through effective communication by the Bank has also become extremely important in view of the fact that a key factor that causes inflation in Zimbabwe is people's expectations of future inflation. These non-monetary factors are grounded on the public's past negative experiences with inflation.

7. In addition, the Bank is committed to improving the depth and efficiency of the interbank foreign exchange market with a view to enhance its efficacy and thus ensuring a credible, predictable and sustainable exchange rate determination framework. This will produce stability and enhance confidence in the foreign currency market.

8. The current measures being pursued by the Bank are a culmination of policies and decisions made by the Bank's Monetary Policy Committee (MPC), and

communicated to the public through the past four press releases. The Bank is pleased with the concerted effort of the MPC which has assisted to improve policy transparency, predictability and certainty through its focus on the core mandate of the Bank.

9. The rest of the monetary policy statement is organised as follows: Section 2 provides the recent monetary policy measures, including decisions and policies made by the Bank's MPC. Section 3 discusses the general economic outlook and inflation. The statement also includes Annexures highlighting domestic and international economic developments underpinning monetary policy decisions.

SECTION TWO: MONETARY POLICY MEASURES AND MPC DECISIONS

10. In the Monetary Policy Statement of October 2019, the Bank made a number of critical policy initiatives, which principally include liquidity management framework, de-dollarisation process, reviewing of minimum capital requirements of banks and the setting of the Bank policy rate. The Bank also advised of gradually injecting additional notes and coins into the economy to lessen the inconvenience caused by the shortages of physical cash to the transacting public. In addition, the Bank introduced credit enhancing measures to incentivise and encourage banks to lend long-term.

11. The policy measures that the Bank shall pursue in the conduct of Monetary Policy are as follows:

Liquidity Management

12. The level of liquidity or money supply in the economy as measured by total banks' deposits stood at ZW$34.5 billion as at 31 December 2019, composed of ZW$22.0 billion (64%) in local currency and ZW$12.5 billion (US$785 million) or 36% in foreign currency. It is this liquidity or stock of money that is the key focus area that the Bank is mandated to manage to ensure that it does not cause inflation and/or bring volatility to the exchange rate.

13. Focusing on liquidity management becomes even more critical especially in the context under which around 50% of this ZW$34.5 billion is concentrated on only 200 entities whilst the majority of the Zimbabwean population is struggling to make ends meet in an economy with a huge output gap.

14. The Bank is therefore committed to the full implementation of the monetary targeting framework to regulate the amount of money supply in the economy and align it with the desired inflation and exchange rate levels. This framework will be operationalised through the use of existing open market operations tools that include Treasury Bills, Savings Bonds, Corporate Bonds, Statutory Reserve Requirements and specific liquidity management instruments to deal with the uneven distribution of deposits in the economy.

15. As at 31 December 2019, the outstanding Savings Bonds were ZW$1.9 billion, down from ZW$2.2 billion recorded over the same period in 2018. The statutory reserve balances amounted to ZW$918 million as at 31 December 2019, representing 129% increase from the ZW$401.5 million 2018 position.

Enhancing the Reuters Forex Interbank Market Tracker System

16. The main aim of the Reuters foreign exchange market tracker system that the Bank is putting in place is to improve the operation and efficiency of the foreign exchange market through a more transparent foreign exchange trading platform.

17. As advised by the Bank, the electronic deal tracker system under the Reuters platform went live on a trial basis on 2 December 2019.

18. Accordingly, the next step is for banks to become market makers in the user-test environment to make sure that the new trading platform can handle the tasks in the live environment.

19. The Bank shall set aside appropriate foreign exchange resources to intervene and stabilize the market, as may be required once the enhanced interbank foreign exchange market becomes operational.

20. The Bank is also undertaking a further refinement of the activities of bureaux de change with an objective of strengthening their operations.

Credit Enhancing Measures

21. The MPC operationalised credit enhancing measures through the creation of a Medium-term Bank Accommodation (MBA) window to support banks with productive sector funding requirements. A total of ZW$800 million had been disbursed under the MBA window as at 31 December 2019. This amount is within the MPC's initial target of ZW$1 billion agreed in 2019.

22. At its meeting on 14 February 2020, the MPC agreed to review the limit under MBA window to ZW$1.5 billion in order to cater for the winter agricultural preparations.

23. In administering this facility, the Bank shall ensure that appropriate measures are put in place to limit its impact on inflation and the exchange rate. As emphasized by the MPC, access to the MBA window depends on the quantum of medium and long-term productive lending undertaken by banking institutions.

24. In this regard, banking institutions are encouraged to re-orient their lending portfolios to the productive sectors of the economy. Banking institutions are further encouraged to partner with the private sector players across the value

chains, as part of the strategy to increase productivity and export earnings in the national economy.

25. Financial institutions are also expected to increase their support to the micro, small and medium enterprises (MSMEs) in order to deepen financial inclusion. Support to the MSME sector has the potential to promote value addition to the key sectors of the economy through diversification, export earnings and import substitution, which are all critical for increased economic output.

26. Implementation of the Collateral Registry by June 2020 will enable the MSMEs to leverage on their movable assets to access funding from formal financial institutions. In this regard, banking institutions and microfinance institutions are required to submit to the Bank detailed strategies to support the productive sector during the period 2020-2021. The strategy document should be submitted to the Bank by 30 June 2020.

Bank Policy Rates

27. Following MPC deliberations, the Bank reduced its Policy Rate on overnight accommodation from 70% to 35%, effective 20th November 2019, in order to promote confidence in the economy and minimise non-performing loans.

28. At its meeting on 14 February 2020, the MPC resolved to maintain the Policy Rate at 35 percent per annum.

29. The interest rate on the Medium-term Bank Accommodation (MBA) facility was maintained at a level that reflects the yield on the open market for Treasury Bills which is currently at between 15 to 18 percent per annum. The

Bank through the MPC will continue to proactively guide the market on the expected path of interest rates as part of its efforts to build on policy transparency and confidence.

Availability of Cash for Transactional Activities

30. Following the MPC decision in October 2019 to increase the quantity of bank notes and coins in circulation to try and reduce the inconvenience being faced by the public in accessing their cash at banks, the Bank has imported additional bank notes and coins to ameliorate this challenge.

31. An additional amount of ZW$150 million was disbursed in the last quarter of 2019 to give a total of ZW$1.1 billion worth of notes and coins in circulation in the country as at 31st December 2019. This ZW$1.1 billion represents 3.2% of total banking sector deposits of ZW$34.5 billion as at 31 December 2019. As per normal banking practice, the notes and coins were sold to local banks for distribution to clients in exchange for RTGS balances, so as to neutralize any expansion of money supply and therefore, inflation. Accordingly, the cash injections to date have not increased money supply and thus managing inflationary pressures.

32. The Bank will continue to gradually increase the notes and coins to the desired optimal proportion of bank notes and coins in circulation of up to 10 percent of deposits agreed by the MPC to meet cash demand. Moreover, the Bank will gradually introduce notes in larger denominations to improve efficiency and convenience to the public.

Review of Minimum Capital Requirements

33. A strong capital base is pivotal to banking institutions' ability to contribute meaningfully to economic growth and development through effective

financial intermediation. More importantly, capital enhances a banking institution's capacity to cushion against losses. On-going reviews of minimum capital levels ensure banking institutions continue to play a meaningful role and contribute to the economic turnaround strategies of the economy. Currently, the economy requires significant investment to retool industry, including funding road construction and electrical power production to facilitate industry activities.

34. Pursuant to the Bank's MPC release of 22 January 2020, the minimum capital requirements for the banking sector have been reviewed to ZW$ equivalent of the following USD amounts:

Table 1: New 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

35. The effective date of compliance with the new minimum capital requirements is 31 December 2020. For new applications for bank or microfinance licenses, the new minimum capital requirements are applicable with immediate effect. Banking institutions are therefore required to submit capital plans to the Bank by 30 June 2020, clearly indicating their chosen strategic

group as well as proposed strategies for compliance with the set capital thresholds.

De-dollarisation Framework

36. Following the gazetting of Statutory Instruments 33 and 142 of 2019 that provided the de-dollarisation framework for the country to trade exclusively in local currency (mono-currency), the Bank is encouraged by the positive de-dollarisation process that has been taking place in the country.

37. The Bank believes that the macroeconomic signals that include fiscal and monetary discipline, prospects of positive economic growth and lower inflation are improving to support a gradual de-dollarisation process within a timeframe of 5 years. This is in line with other countries' experiences on de-dollarisation.

38. The foreign currency deposits as a proportion of money supply went down to 37% by 31 December 2019, whilst foreign currency denominated loans in the banking sector stood at 22% of total banks' loans and advances as at 31 December 2019.

39. The use of the local currency for transacting purposes has also continued to go up, reaching a total amount of ZW$459.6 billion from 189 million transactions for the full year 2019.

40. These measurements of the proportion of the use of the local currency in the economy show that the country is on a right trajectory to de-dollarisation.

41. The Bank shall therefore continue to provide incentives to promote and defend the use of the local currency within the economy in order to support the de-dollarisation process

Use of Free Funds

42. The use of free funds in Zimbabwe has always been allowed since time in memorial, it has remained virtually unchanged. The unfettered or unrestrained use of free funds is in line with regional and international best practice as free funds are outside the Exchange Control territory of the country. Free funds play a catalytic role in enhancing confidence in the foreign exchange market and in promoting economic development. They constitute around 30% of Zimbabwe's total export receipts.

43. Free funds are made up of diaspora remittances, funds remitted into the country by international organisations, embassies, non-governmental organisations (NGOs), donations and any other funds realised by individuals from offshore activities.

44. The Bank would therefore like to reassure all holders of free funds that their funds are very safe and secure in Zimbabwe. The same is true for all other foreign currency accounts and that the current export retentions are being maintained at their current levels. The Bank has therefore no appetite at all to temper with the legal status of the public's foreign currency accounts.

45. Allowing the use of free funds within the national economy for the payment of customs duties on selected products, paying for emergency passports, procurement of basic commodities such as food items and fuel, under the direct fuel (DFI) scheme, should not be misconstrued as going back to dollarization, but rather, as common good for the country to promote the inflow of free funds from the diaspora and necessary to buttress the confidence that is needed under the de-dollarisation process.

Blocked Funds (or Foreign Currency Legacy Debt)

46. Government, through the Bank, is committed to orderly settlement of blocked funds - cash flows generated in Zimbabwe by foreign entities that could not be repatriated to foreign suppliers due to foreign exchange shortages - or commonly referred to as foreign exchange legacy liabilities (or debt).

47. To date, Exchange Control has processed and validated blocked funds in an amount of US$1.2 billion from 730 applications out of 1080 requests. Of those processed, 299 transactions with a value of US$861 million were rejected for various reasons ranging from double-dipping to lack of supporting documentation. The balance of 350 transactions with a value of US$457 million are being processed for finalisation by 29 February 2020.

48. The validated blocked funds exclude the legacy foreign exchange obligations of US$361 million under the RBZ Debt Assumption Act.

Sustainable Financing & Climate Related Risks

49. Globally, sustainable finance has become one of the emerging issues in the financial services sector, calling for integration of environmental, social and governance standards into the process of providing financial services.

Sustainability standards facilitate strong corporate performance of financial institutions and promote alignment of corporate strategies to national development priorities.

50. To date, eight (8) banking institutions have embraced the Sustainability Standards and Certification Initiative, which is being driven by the European Organisation for Sustainable Development under the Global Sustainable Finance Network. Meanwhile, the Bank shall develop a Sustainable Finance Framework which will, inter alia, define the long-term objectives of the country's financial sector in relation to inclusive green financing and sustainable financing.

51. Further, changes in global or regional climate patterns, with global warming being the main aspect of climate change, is a current reality with most parts of the world experiencing extreme weather conditions such as drought, flooding and tropical cyclones. Zimbabwe has not been spared from the vagaries of climate change and remains vulnerable. The economy's mainstay is agriculture hence the need to monitor and manage climate related risks.

52. The banking industry is not immune, given the potential wide-ranging consequences from climate change. The effects of climate risk could impact banks' products that include loans and investments. This underscores the need to manage climate related risk like any other significant risks and integrating material climate change related risks and opportunities into financial institutions' business risks and investment decisions.

53. In the process of responding to the environmental and climate challenges, there are both opportunities for growth and vulnerabilities for the financial system. Boards of banking institutions are expected to expand their oversight

to include greater focus on promotion of inclusive and sustainable growth. Against this background, banking institutions are required review their risk management systems and ensure that they appropriately identify, measure, monitor and control climate related risks.

54. The Bank shall provide guidance in terms of disclosure requirements in this regard to ensure clear, comparable, and consistent information about the risks and opportunities presented by climate change.

Financial Technology

55. Further to the advice in the 2019 Mid Term Monetary Policy Statement, the Bank has embarked on several initiatives to establish the Fintech agenda. The Bank is in the process of finalizing a regulatory sandbox framework. 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. The operationalization of the framework will thus promote competition and efficiencies through innovation.

56. Technology and innovations have significantly altered the financial landscape and the way financial institutions offer services and products. In this regard, banking institutions are required to upgrade their ICT systems consistent with the developments in the Fourth Industrial Revolution. In addition, banking institutions should explore new technologies and business models to enable the institutions to compete in the digital age and come up with innovative banking products.

Cyber –Security

57. As financial systems increasingly become more reliant on information technology for delivery of products and services, there is heightened probability of cyber-attacks. Given the highly dynamic cyber threat, banking institutions are required on an ongoing basis to ensure that they have robust ICT systems and sufficient safeguards to deal with cyber risks.

SECTION THREE: CONCLUSION AND OUTLOOK

58. The Bank is positive about the outlook of the Zimbabwean economy which is expected to grow by 3% in 2020 on account of increased international prices of key minerals produced in Zimbabwe, namely gold, platinum and palladium, and coupled by the stable foreign exchange generation capacity of the economy. The Bank is also confident that this year's agricultural outturn will be much better than initially anticipated due to improved rains received in January and February in most parts of the country.

59. We are confident that the Bank's policy mix whose key ingredients are monetary discipline and an efficient foreign exchange market will be effective in stabilising consumer prices and the exchange rate. The stable exchange rate, is then set to anchor the country's disinflation programme through which monthly inflation is forecast to close the first quarter in single digit levels of below 5%. This trend would see the year-on-year inflation coming down to around 50 % by December 2020.

60. The confidence dividends from preserving the anchors of macroeconomic stability, notably, inflation and exchange rate stability will help to manage inflation expectations and foster a conducive environment for increased production and productivity within the national economy, thus underpinning the thrust of the 2020 National Budget.

I THANK YOU

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ANNEXURE: ECONOMIC AND FINANCIAL CONDITIONS UNDERPINNING MONETARY POLICY DECISIONS

GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

61. Global economic activity is estimated to have slowed down in 2019, partly due to slower global manufacturing and trade activity, weaker performance in Europe and Asia, as well as the negative effects of the trade war between the United States and China. Moreover, the prolonged uncertainty regarding Brexit posed vulnerabilities to the Eurozone and the rest of the global economy. In particular, the slower global manufacturing and trade activity weighed down on commodity prices.

62. Accordingly, the International Monetary Fund (IMF), in its January 2020 update on the World Economic Outlook (WEO), estimated global growth for 2019 at 2.9%, down from 3.6% in 2018. Table 2 summarizes global economic growth developments and prospects for selected regions and countries.

Table 2: Global and Regional Economic Growth & Outlook (%)

		Estimate	Projection
	2018	2019	2020
World Output	**3.6**	**2.9**	**3.3**
Advanced Economies	**2.2**	**1.7**	**1.6**
US	2.9	2.3	2.0
Euro Area	1.9	1.2	1.3
Japan	0.8	1.0	0.7
Emerging Market & Developing Economies	**4.5**	**3.7**	**4.4**
China	6.6	6.1	6.0
India	6.8	4.8	5.8
Sub-Saharan Africa	**3.2**	**3.3**	**3.5**
Zimbabwe[1]	3.4	-6.5	3.0
Latin America & the Caribbean	**1.1**	**0.1**	**1.6**

Source: IMF World Economic Outlook (WEO): January 2020 Update

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

63. Global growth is, however, projected to improve modestly to 3.3% in 2020, largely boosted by indications that manufacturing activity and global trade are on a recovery path. In addition, a shift to accommodative monetary policy in a number of advanced economies and positive US-China trade negotiations and the conclusion of Brexit are expected to positively impact on global growth. Downside risks in the form of elevated geopolitical tensions between the United States and Iran as well as social unrest in other countries, however, continue to linger and if they materialize, could result in dampening sentiments and lead to lower global growth than projected.

64. Growth in advanced economies is estimated to have slowed to 1.7% in 2019 and is projected at 1.6% in 2020, mainly on account of a return to a neutral fiscal stance in the United States and the civil unrest in Hong Kong. In emerging market and developing economies, growth also decelerated to 3.7%% in 2019, from 4.5% in 2018 and is projected to improve to 4.4% in 2020. The growth in emerging markets and developing economies will be anchored on a number of factors, including an improvement in the global trade environment, as well as absence of geopolitical tensions in some regions. In sub-Saharan Africa, growth is estimated to have improved slightly, from 3.2% in 2018 to 3.3% in 2019 and is projected to further increase to 3.5% in 2020, largely driven by growth in non-resource-intensive countries.

65. Meanwhile, the Zimbabwean economy contracted in 2019 by an estimated 6.5%, weighed down by exogenous shocks in the form of the El-Nino induced drought and the destruction caused by Cyclone Idai. These developments compromised economic activities and electricity generation, with extended effects on other sectors, pushing the economy into a recession. The situation

was aggravated by foreign currency shortages and constrained demand due to the on-going fiscal reforms.

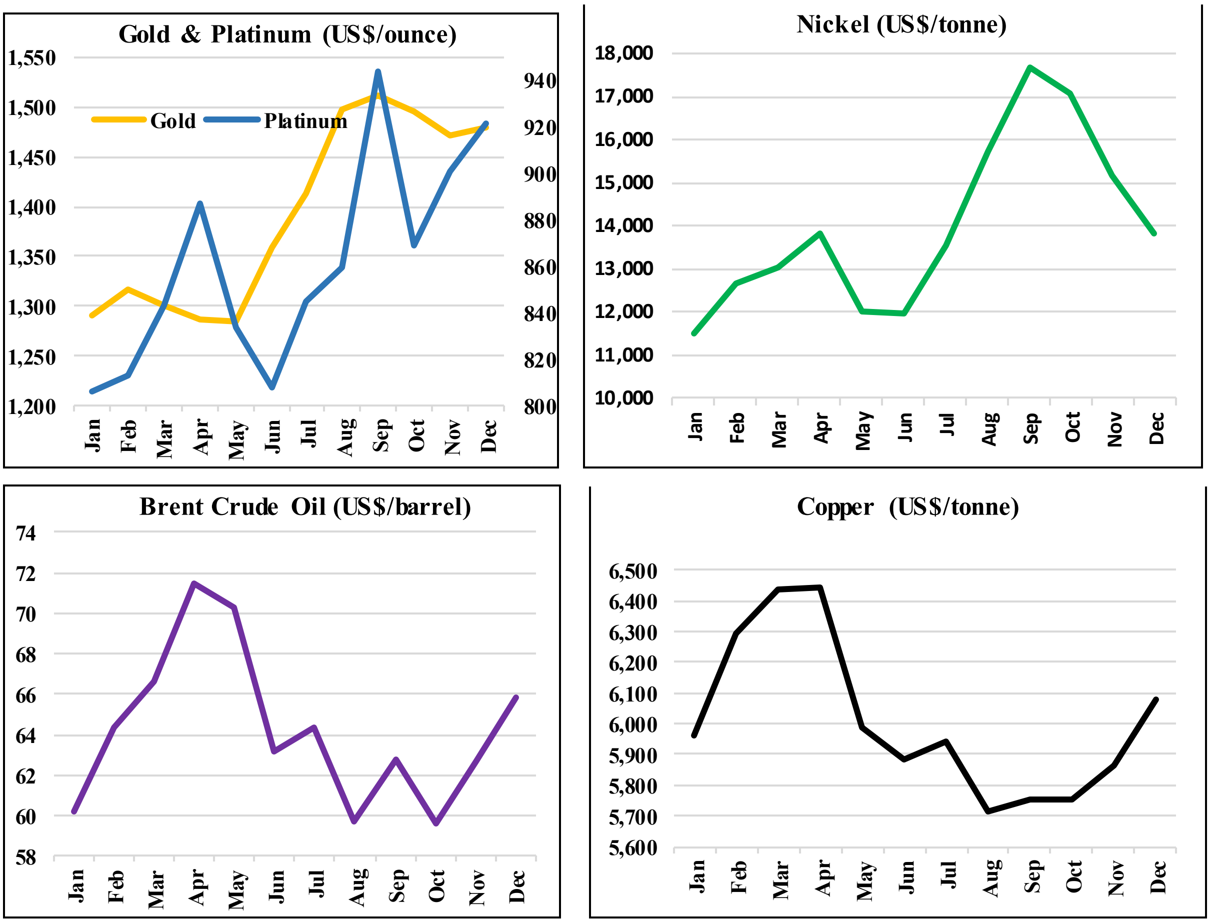
International Commodity Price Developments

66. International prices of major commodities increased in 2019. Base metals posted price increases despite downswings during the year, occasioned by supply factors in some markets, coupled with risks posed by the protracted trade tensions between the US and China. In particular, nickel prices firmed by more than 20%, largely due to strong demand for electric vehicles that use batteries made from the base metal. Furthermore, the positive demand outlook prompted by prospects of fiscal stimulus in China, the world's largest consumer of base metals, supported the prices of metals, including copper.

67. Precious metal prices were also strong and breached the US$1,500.00 per ounce mark in the third quarter of 2019, supported by the safe haven demand, as monetary policy easing by the Federal Reserve induced investors to shift focus to gold bullion as a safe haven and alternative investment asset. In addition, prospects of slower global growth and escalating trade tensions between the US and China supported the firming up of prices of precious metals. Figure 1 shows the evolution of international prices for selected commodities for the period January to December 2019.

68. Brent crude oil prices were generally firmer during the year, largely on account of tight supply conditions occasioned by production disruptions in the Middle East and the decision by the Organization of Petroleum Exporting Countries (OPEC) to continue with their production cuts. In addition, crude oil production in the United States was weaker compared to levels attained in 2018.

Figure 1: International Commodity Prices: January - December 2019



Source: World Bank and Bloomberg, 2019

69. The World Bank projects oil prices to average about US$58.00 per barrel in 2020, about 3.4% lower than the 2019 average, primarily reflecting the weaker global economic outlook, and therefore weaker demand for oil.

BALANCE OF PAYMENTS DEVELOPMENTS AND OUTLOOK

70. The country's Balance of Payment position showed signs of improvement, with the current account improving from a deficit of US$1387.98 million in 2018 to a surplus of US$311.2 million in 2019. This was due to a sharp decline in imports. Exports, however, registered a marginal decline. Some of the hardest hit imports, however, are key inputs into the domestic production process, such as chemicals and electricity.

71. Cumulative merchandise exports are estimated at US$4.5 billion for 2019, about 3% down from US$4.7 billion in 2018, largely weighed down by lower agriculture and mineral exports, tobacco and gold in particular. Sustained power outages, persistent fuel shortages, foreign currency challenges and high operational costs amid rising inflationary pressures, among other factors, adversely affected production in the mining sector and consequently mineral exports.

72. Merchandise imports contracted by about 27% to US$4.8 billion in 2019, from US$6.6 billion in 2018. The contraction was largely attributable to subdued economic activity and weak aggregate demand, mainly on account of foreign currency shortages. Furthermore, the expenditure switching effects that followed the liberalization of the exchange rate resulted in imports being relatively more expensive and beyond the reach of some potential importers.

73. Food imports shrank significantly by 33.6% to US$299.4 million in 2019, from US$451.2 million in 2018. The huge decline in food imports was largely due to foreign currency shortages, which saw the country importing US$6.6 million worth of maize grain in the first three quarters of 2019, compared to US$37 million in the first three quarters of 2018. Maize imports are,

however, estimated to have increased by 86.2% from US$37.9 million in 2018 to about US$70.6 million in 2019.Wheat imports declined by 42.5%, from US$117.2 million in 2018 to about US$67.4 million in 2019. Similarly, rice imports slumped by 52.5%, from US$125.4 million in 2018 to US$59.6 million in 2019.

74. Foreign direct investment declined from US$717.1 million in 2018 to US$259 million in 2019. Similarly, net portfolio investment inflows declined significantly from US$54.7 million in 2018 to US$3.7 million in 2019, the decline in both FDI and portfolio investment was, in large part, due to heightened perceived country risk.

75. Debt creating flows were also on the decline as most of the approved loans contracted by Government were not disbursed because of accumulated arrears. Private sector long and short term loan inflows also remained low, marginally increasing from US$48.3 million in 2018 to US$49.3 million in 2019. This was in sympathy with both the contraction in the economy, which reduced its ability to absorb additional loans and the high country risk mostly associated exchange rate volatility.

Foreign Currency Receipts

76. The total foreign currency for the period January to December 2019 amounted to US$6.88 billion, compared to US$7.21 billion received during the same period in 2018. This represented a 4.4% decrease in foreign currency supply. The table below shows total foreign currency receipts by source.

Table 3: Foreign Currency Receipts (USD million)

Type of Receipt		Year 2019	Year 2018	% Change
Export Proceeds		3,897.18	4,391.98	-11%
International Remittances	Diaspora Remittances	635.43	619.25	2.6%
	NGOs	521.16	570.26	-9%
Loan Proceeds		1,717.37	1,538.53	12%
Income receipts		62.63	63.18	-1%
Foreign Investment		54.27	24.58	121%
TOTAL		**6,888.04**	**7,207.78**	**-4.4%**

Source: Bank Supervision Application System, and Exchange Control Records

Gold Performance

77. Gold deliveries to Fidelity Printers and Refiners (FPR) for the period January to 31 December 2019 were 27.66 tonnes, a decline of 17% from 33.29 tonnes recorded during the same period in 2018. The national gold target for 2019 was 35 tonnes.

Table 4: Gold Deliveries to Fidelity Printers & Refiners (FPR) in Kgs

	2018			2019			
	Primary	**Small Scale**	**Total**	**Primary**	**Small Scale**	**Total**	**% change**
January	1,159.82	1,399.13	2,558.96	745.24	1,025.75	1,770.99	-31%
February	931.72	1,083.82	2,015.55	639.85	1,496.27	2,136.12	6%
March	953.35	1,781.75	2,735.10	925.74	1,690.63	2,616.37	-4%
April	982.96	1,904.59	2,887.55	1,006.64	1,119.72	2,126.35	-26%
May	1,182.75	2,216.73	3,399.49	878.85	1,278.77	2,157.62	-37%
June	1,032.59	2,643.97	3,676.56	814.48	687.39	1,501.87	-59%
July	1,086.39	2,463.44	3,549.82	930.20	1,846.44	2,776.65	-22%
August	893.38	3,026.04	3,919.42	813.10	1,933.55	2,746.65	-30%
September	755.11	2,720.87	3,475.98	840.10	1,964.14	2,804.24	-19%
October	849.30	1,199.13	2,048.44	858.02	1,544.09	2,402.11	17%
November	815.43	602.30	1,417.73	864.35	977.02	1,841.36	30%
December	967.26	636.65	1,603.91	864.94	1,914.97	2,779.92	73%
TOTAL	**11,610.06**	**21,678.42**	**33,288.51**	**10,181.51**	**17,478.74**	**27,660.25**	**-17%**

78. The decline is attributable to electricity challenges coupled with inadequate equipment for small scale miners to access deep gold reefs and gold leakages through smuggling.

79. Future efforts to increase gold deliveries to FPR shall include enhanced capacitation of gold producers and formalisation of artisanal miners, coupled with rigorous monitoring of gold production and marketing.

International Remittances

80. International remittances comprise transfers by International Organisations for humanitarian assistance and the Zimbabwean Diaspora. Diaspora remittances amount to USD635 million, a 2.6% increase from previous year of USD619 million. International remittances received through the normal banking system on behalf of International Organizations (NGOs) amounted to USD521 million, a 9% decline from previous year of USD570 million. Table 5 indicates diaspora remittances for period January – December for the years 2018 and 2019.

Table 5: Diaspora Remittances Inflows 2018 and 2019 (Jan – Dec)

Month	Year 2019 (US$)	Year 2018 (US$)	% Change
January	44,567,757	52,908,760	-16%
February	41,778,076	52,666,687	-21%
March	62,414,369	57,448,487	9%
April	49,227,045	53,245,111	-8%
May	53,896,272	57,369,539	-6%
June	46,525,102	48,989,452	-5%
July	51,255,846	48,801,517	5%
August	51,493,743	51,957,976	-1%
September	52,538,456	46,488,027	13%
October	59,818,518	50,005,927	20%
November	54,353,351	46,329,214	17%
December	67,564,848	53,036,263	27%
Total	**635,433,382**	**619,246,960**	**2.6%**

Performance of Offshore Loans

81. The country's ability to attract offshore lines of credit has remained curtailed due to the perceived country risk. In 2019, a decline of 21% in the monetary value of private sector external loans approved by Exchange Control, was experienced compared to 2018 performance.

Table 6: Offshore Loans of Various Sectors

Sector	2019		2018	
	Approved Amount (US$ M)	Percentage Sectoral Contribution	Approved Amount (US$ M)	Percentage Sectoral Contribution
Agriculture	802.9	79.1%	801.6	62.48%
Financial	119.5	11.78%	204,4	15.93%
Energy	23.1	2.28%	40.6	3.17%
Transport	11,4	1.12%	5.3	0.42%
Mining	25.9	2.55%	114.1	8.90%
Tourism	8.4	0.83%	14.1	1.10%
Manufacturing	18.8	1.85%	88.3	6.88%
Construction	2.9	0.28%	1.7	0.14%
Retail	1.0	0.10%	0.4	0.03%
Services	0.9	0.08%	12.8	0.97%
Communication	0	0.00%	0	0.00%
TOTAL	**1,014.8**	**100.00%**	**1,282.9**	**100%**

Balance of Payments Outlook

82. The current account is expected to remain in surplus in 2020 on account of a recovery in exports and stable secondary income flows. In addition, foreign exchange shortages and positive expenditure switching effects of the liberalized foreign exchange regime are expected to result in compressed imports, further supporting a current account surplus. The financial account however, is expected to remain fragile characterized by huge scheduled repayments for offshore facilities, against subdued inflows due to the perceived high country risk. Non- debt creating inflows, notably, Foreign

Direct Investment (FDI) are also projected to remain low in the short term on account of perceived country risk profile.

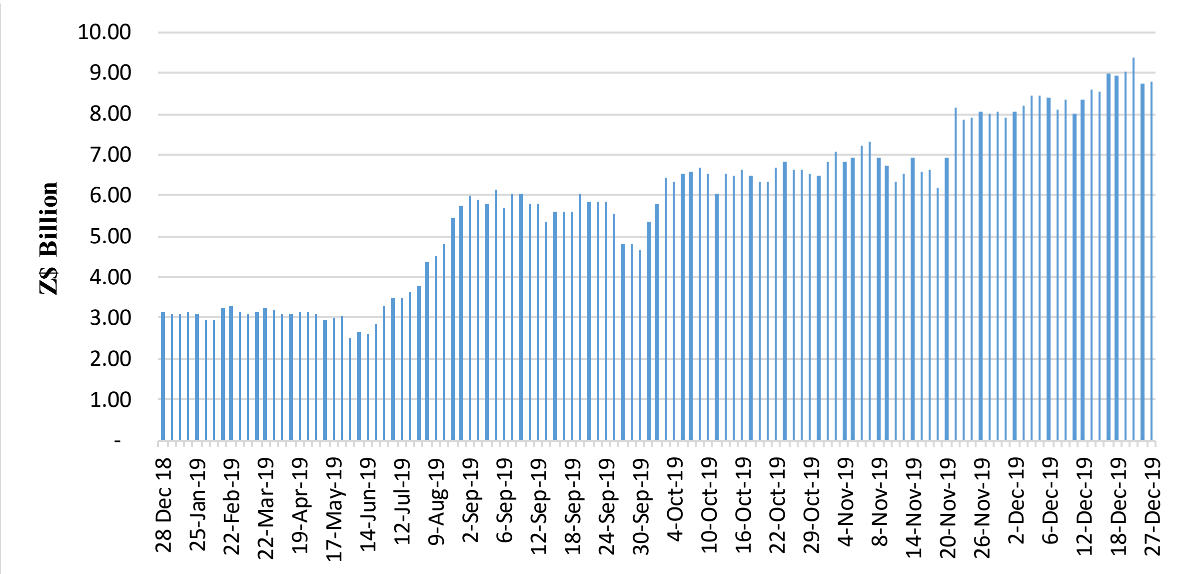
MONETAY DEVELOPMENTS

Reserve Money developments

83. Subsidies on fuel, electricity, grain and other essentials, particularly in the first half of 2019, caused an increase in reserve money, which rose from Z$3.3 billion at the end of December 2018 to an estimated Z$8.8 billion in the last week of December 2019.

84. The need to support domestic cash transactions also saw currency issued by the Bank rising from Z$0.5 billion in December 2018 to Z$1 billion in December 2019, thus partly contributing to growth in reserve money.

Figure 2: Reserve Money Developments (ZW$ billion)

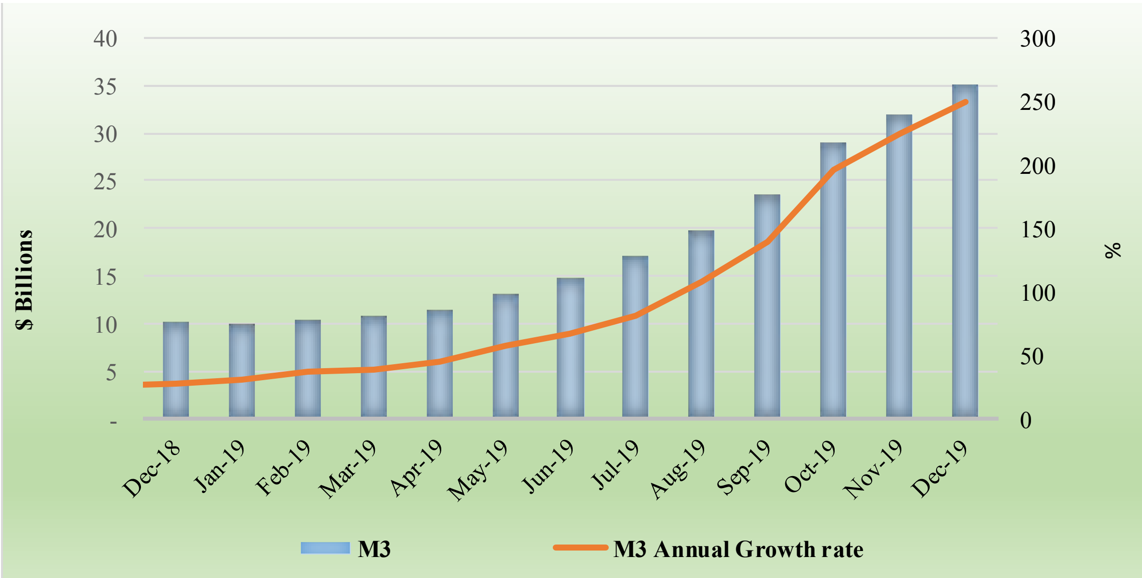


85. Reserve money went down towards the end of December 2019. Implementation of the monetary targeting framework saw month-on-month reserve money growth declining from 19.1 % in November 2019 to 7.9% in December 2019, and this trend is expected to continue into 2020.

Money Supply (M3) developments

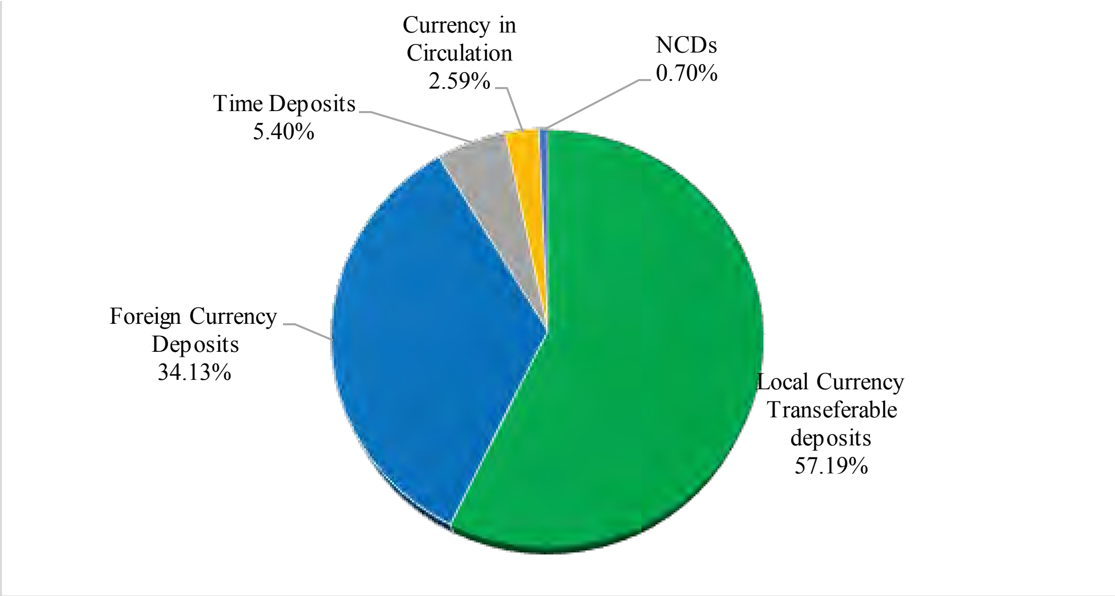
86. Over the year to December 2019, broad money (M3) grew by close to 250% to reach Z$35 billion, from Z$10 billion in December 2018. The growth in M3 reflected increases in negotiable certificates of deposits (NCDs), 316.46%; transferable deposits, 302. 32%; currency in circulation, 80.46%; and time deposits, 25.12%.

Figure 3: Broad Money (M3) Developments



87. Broad money was largely composed of deposits in domestic currency, 57.19%, while foreign currency deposits constituted 34.13% of the total, as shown in Figure 4.

Figure 4: Composition of Money Supply



Source: Reserve Bank of Zimbabwe, 2019

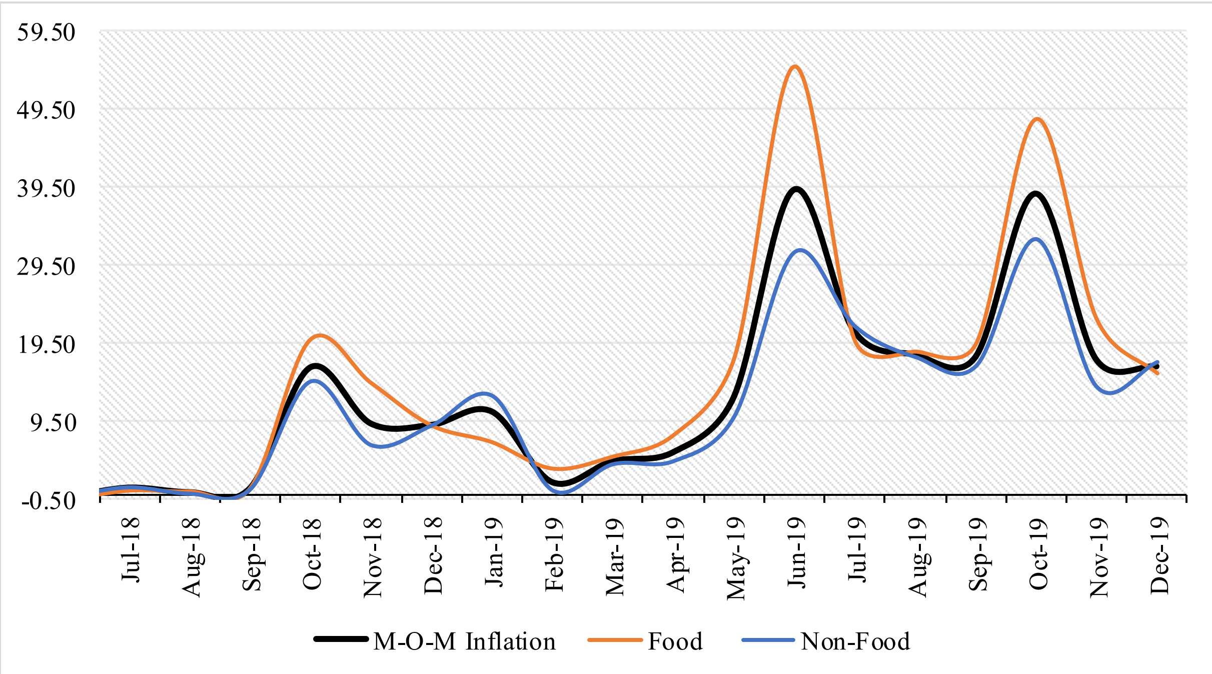
88. In view of the tight monetary policy stance that the Bank has adopted, signified by a strict reserve money program, money supply growth in the economy is expected to be reduced to annual growth levels of around 60% by end 2020, consistent with a projected real GDP growth of 3% in 2020.

89. The Bank is committed to the implementation of the Monetary Targeting Framework, and going forward, the Bank is targeting reserve money growth of 10-15 percent by end 2020, which is consistent with end of year inflation target of around 50%.

INFLATION DEVELOPMENTS

90. Monthly inflation consecutively declined for two months since reaching a peak of 38.8% in October 2019 to 16.6% in December 2019. The slowdown in monthly inflation was on account of the decline in non-food inflation, which more than offset the moderate increase in food inflation. Figure 5 below shows the recent trends in month-on-month inflation.

Figure 5: Month-on-Month Inflation Profile (%)

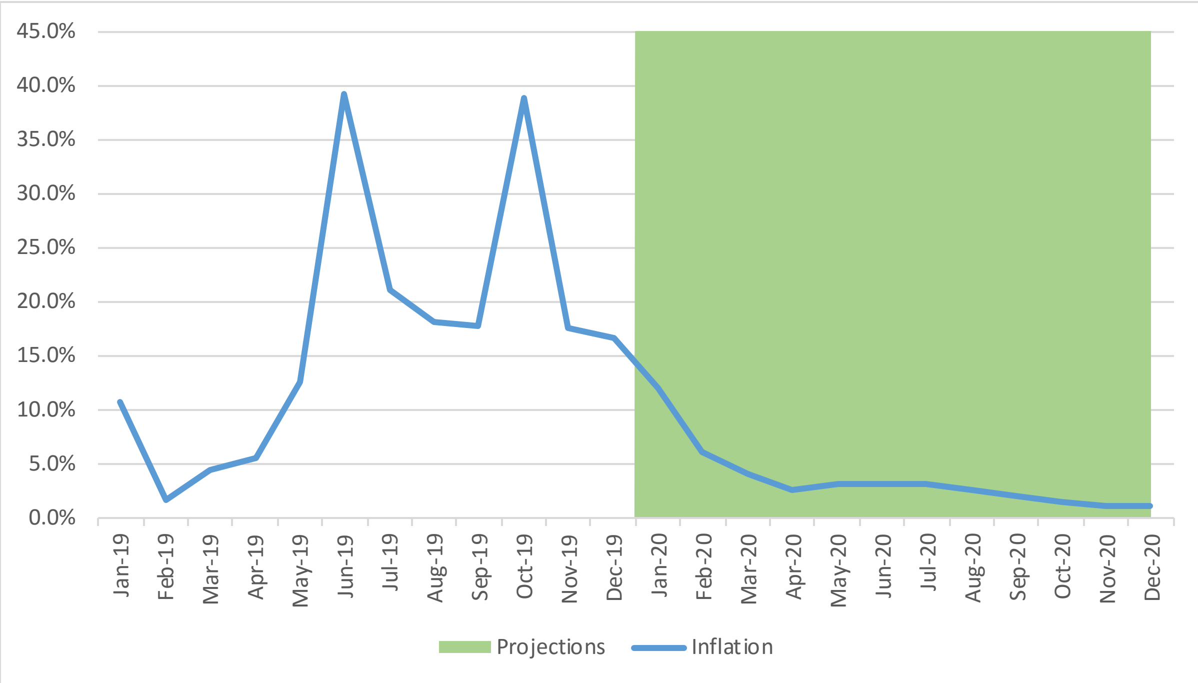


Source: *Zimstat, 2020*

91. The observed peaks in inflation in June and October 2019, reflect exchange rate adjustment shocks to the economy following the introduction of the new currency as well as speculative attack on the currency. The containment of inflation pressures in the outlook is contingent upon the successful stabilisation of the exchange rate as a path to price stability.

92. Monetary restraint, coupled with a stable exchange rate is set to anchor the country's disinflation programme through which monthly inflation is set to gravitate towards single digit by December 2020. Figure 6 shows the projected month-on-month disinflationary path.

Figure 6: Actual and projected Month-on-Month Inflation



BANKING SECTOR DEVELOPMENTS

93. The banking sector plays a significant role in the economic and developmental trajectory of the Zimbabwean economy. The Bank continues to strengthen its tools for promoting financial sector stability as well as complementing Fiscal Policy reforms. The architecture of the banking sector is shown in Table 7:

Table 7: 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 the Reserve Bank	
Development Financial Institutions	2
Deposit-taking Microfinance Institutions	6
Credit-only Microfinance Institutions	206
Total	**233**

Performance of the Banking Sector

94. The banking sector performed satisfactorily during the year ended 31 December 2019, as reflected by improved capital levels and earnings performance, as well as satisfactory asset quality and liquidity.

95. A combination of foreign currency and investment property revaluation gains buoyed overall sector profitability during the year ended 31 December 2019. The financial soundness indicators for the period under review are provided in the Table 8.

Table 8: Financial Soundness Indicators

Key Indicators	Benchmark	Dec-18	Jun-19	Sep-19	Dec-19
Total Assets ($ bn)	-	13.98	23.54	40.99	60.64
Total Loans & Advances ($ bn)	-	4.22	6.17	8.35	12.63
Net Capital Base ($ bn)	-	1.83	3.31	5.35	9.75
Total Deposits ($ bn)	-	10.32	16.92	21.51	34.50
Net Profit ($ bn)	-	0.43	0.93	2.09	6.41
Return on Assets (%)	-	4.57	5.11	7.91	8.99
Return on Equity (%)	-	20.59	20.95	26.85	33.02
Capital Adequacy Ratio (%)	12.00	30.27	32.64	41.24	39.56
Tier 1 Ratio (%)	8.00	23.84	27.24	27.92	27.87
Loans to Deposits (%)	70.00	40.71	36.49	38.82	36.6
Non-Performing Loans Ratio (%)	5.00	6.92	3.95	3.23	1.75
Liquidity Ratio (%)	30.00	70.66	64.77	76.54	72.42

Capitalisation

96. The banking sector remained adequately capitalized with the average capital adequacy and tier 1 ratios of 39.56% and 27.87% as at 31 December 2019, respectively, above the regulatory minima of 12% and 8%, respectively. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios.

97. There was a growth in aggregate core capital of $7.47 billion as at 31 December 2019, representing a 220.60% increase from $2.33 billion as at 30 June 2019. The growth in capital was mainly attributed to capitalisation of retained earnings.

98. As at 31 December 2019, all banking institutions were compliant with the prescribed minimum capital requirements as shown in Table 9 below.

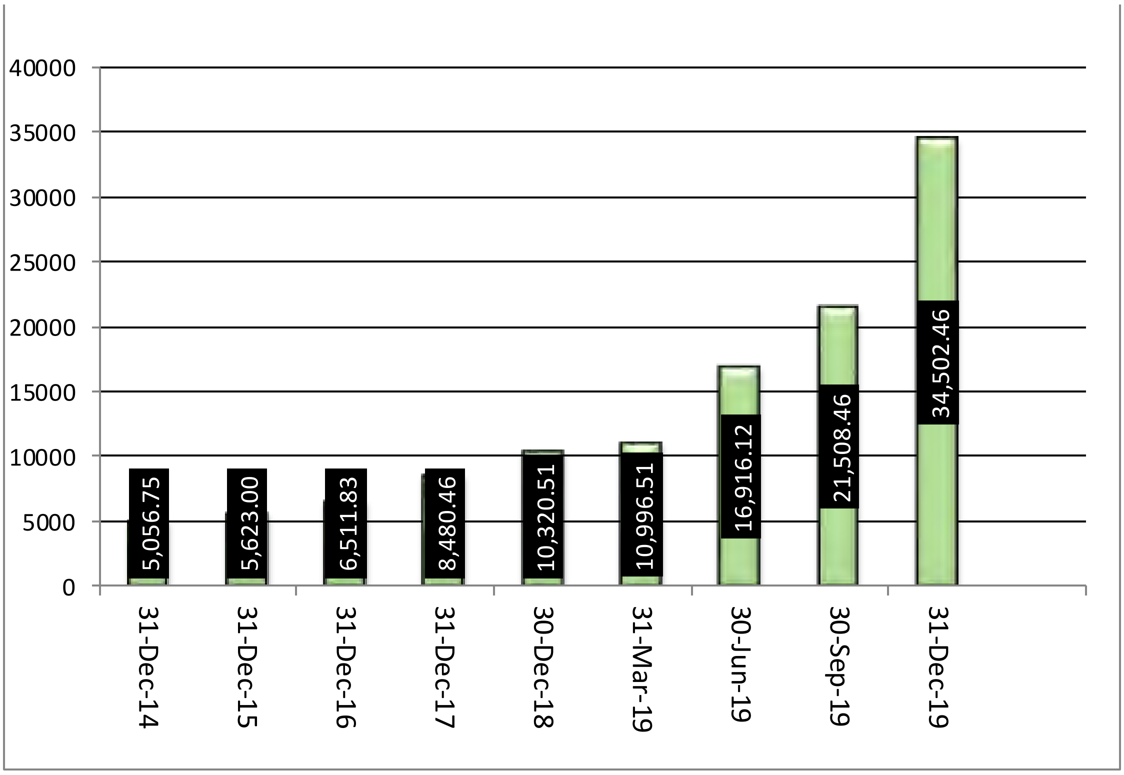
Table 9: Banking Sector Capitalisation ($ million)

Institution	Core Capital as at 30 June 2019 ($m)	Core Capital as at 31 Dec 2019 ($m)	Prescribed Minimum Capital requirements ($m)
Metbank	67.00	2,612.10	25
Ecobank	424.31	757.37	25
CBZ Bank & Society	268.08	712.57	25
Stanbic Bank	186.39	650.53	25
First Capital Bank	174.52	385.30	25
BancABC	73.96	348.49	25
FBC Bank	166.25	316.27	25
Nedbank Zimbabwe	80.68	312.68	25
NMB Bank	150.85	205.20	25
Agribank	73.55	201.67	25
ZB Bank & Society	106.00	189.58	25
Standard Chartered Bank	118.76	168.65	25
Steward Bank	82.84	130.19	25
BUILDING SOCIETIES			
CABS Building Society	172.90	332.96	20
FBC Building Society	47.23	70.25	20
National Building Society	50.63	67.90	20
SAVINGS BANK			
POSB	73.25	109.28	-
Total	2,328,.56	7,470.98	-

Banking Sector Deposits

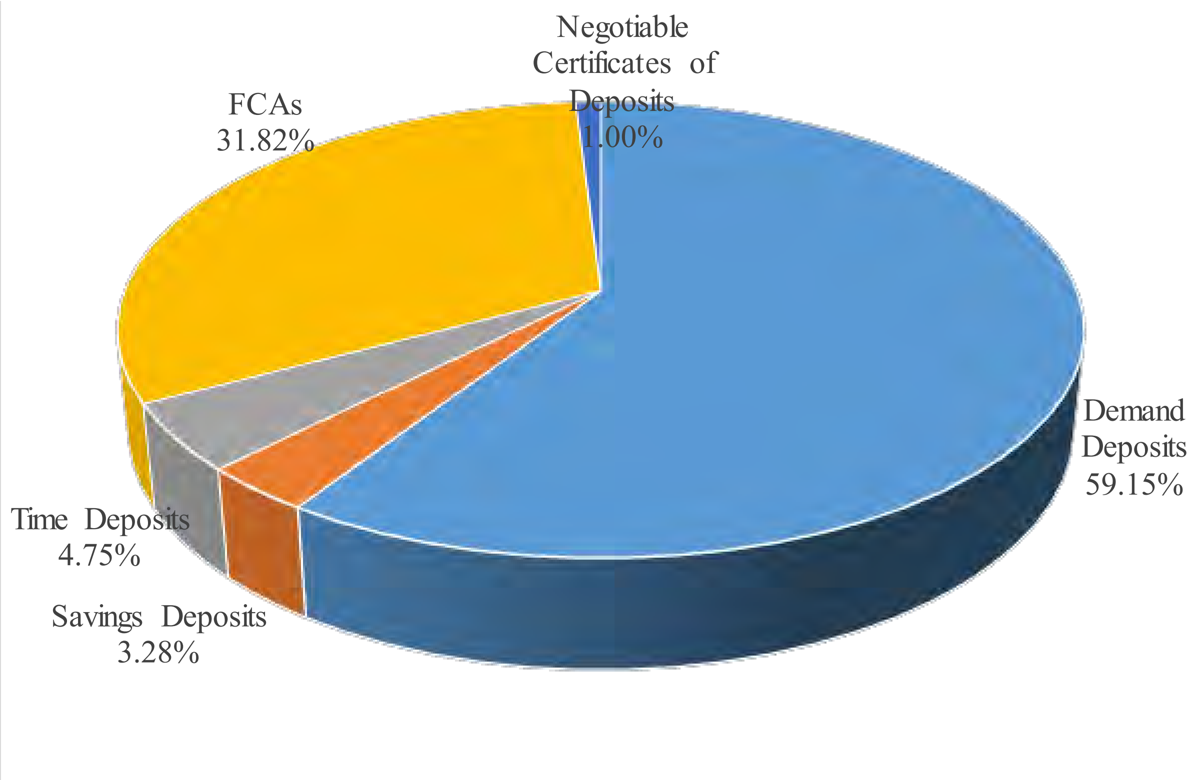
99. Total banking sector deposits amounted to $34.50 billion as at 31 December 2019, an increase of 103.66% from $16.92 billion as at 30 June 2019. Figure 7 shows the trend of banking sector deposits over the period 31 December 2014 to 31 December 2019.

Figure 7: Trend of Banking Sector Deposits ($ million)



100. The increase in the deposit base during the period under review is attributable to rise in demand and foreign currency denominated deposits. The deposit base for the banking sector is dominated by demand and FCA deposits which accounted for 59.15% and 31.82% of the total non-bank deposits, respectively, as shown in the Figure 8.

Figure 8: Composition of Deposits as at 31 December 2019

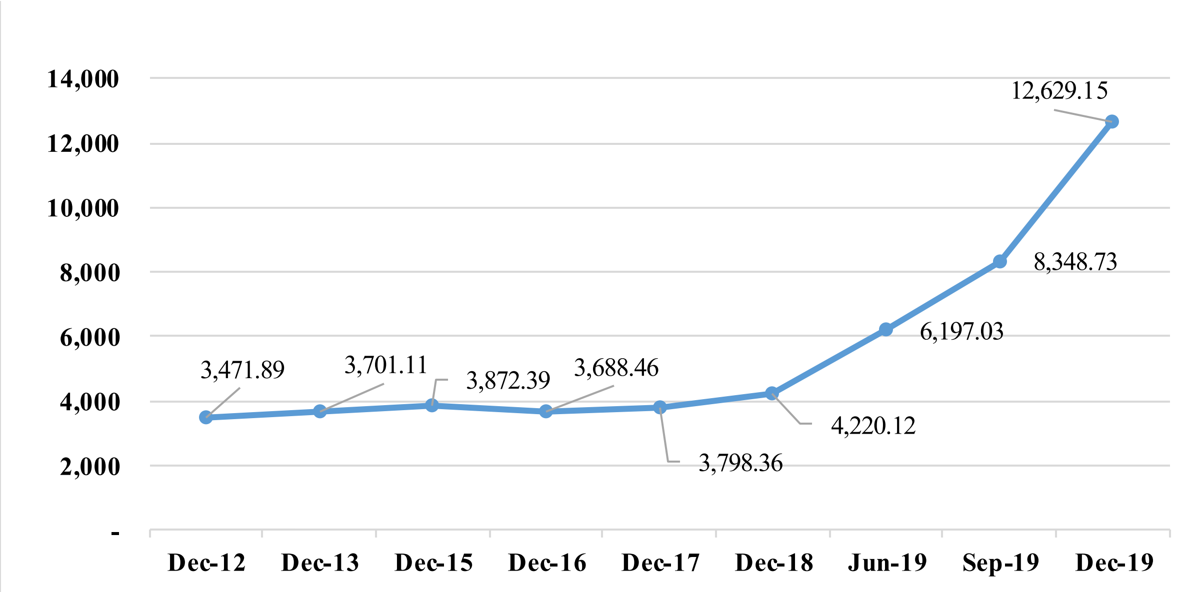


Loans and Advances

101. Total banking sector loans and advances increased by 104.70%, from $6.17 billion as at 30 June 2019 to $12.63 billion as at 31 December 2019. The total banking sector loans and advances also include foreign currency denominated loans, whose translation partly explains the growth in total loans during the period under review.

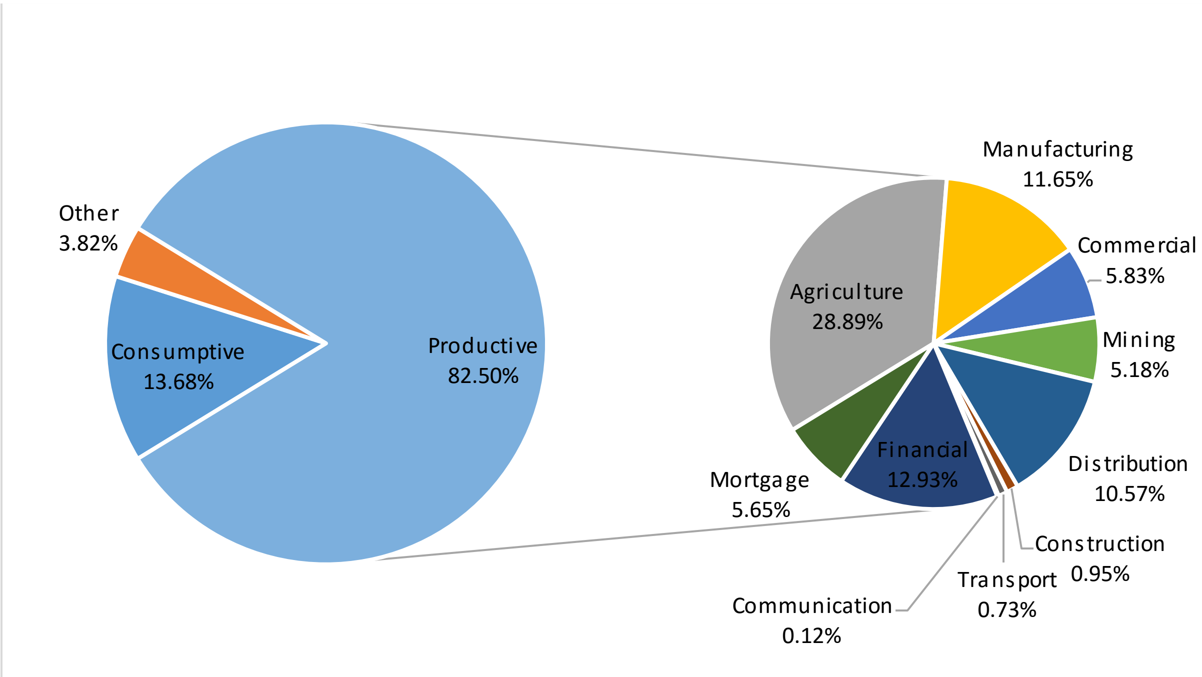
102. The level of banking sector financial intermediation has, however, remained subdued as reflected by the loans to deposits ratio of 36.60%, largely as a result of cautious lending approach adopted by some banking institutions. Figure 9 shows the trend in the total banking sector loans and advances.

Figure 9: Banking Sector Loans & Advances (2014 to 2019 ($m)



103. Loans to productive sectors of the economy constituted 82.50% of total sector loans as at 31 December 2019, as shown in Figure 10.

Figure 10: Sectoral Distribution of loans as at 31 December 2019



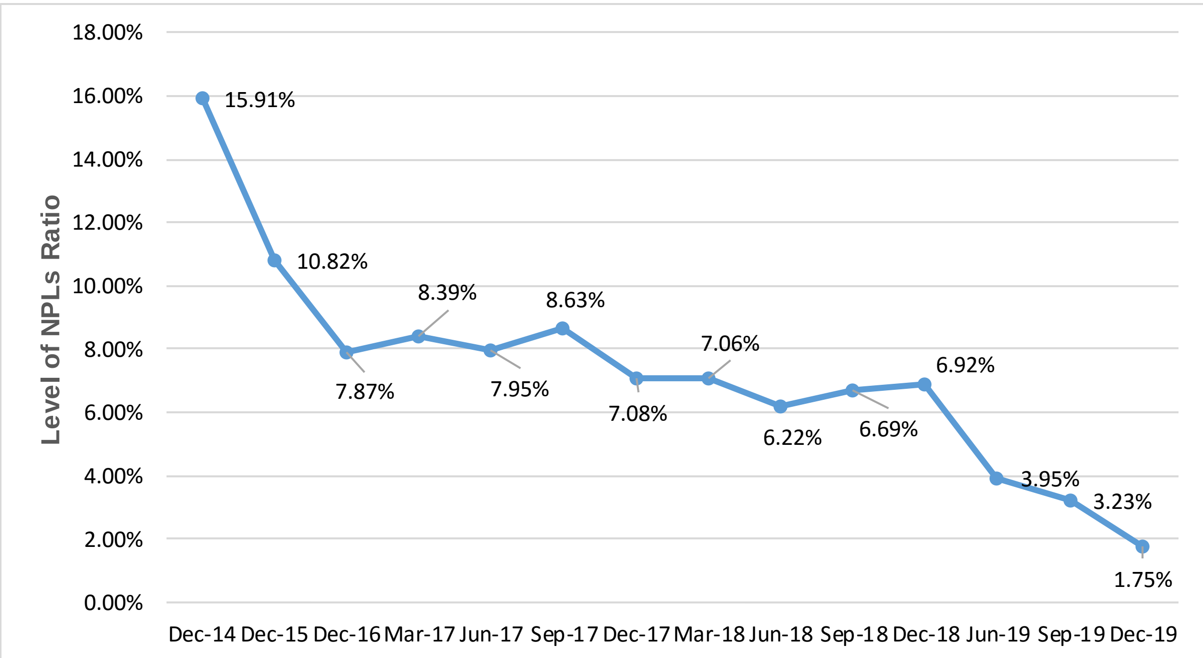
Loan Portfolio Quality

104. The quality of the banking sector loan portfolio continued to improve, reflected by the decline in the non-performing loans (NPLs) to total loans, from 3.95% as at 30 June 2019 to 1.75% as at 31 December 2019.

105. The improvement in the NPLs ratio was mainly driven by an increase in total banking sector loans and advances during the period under review, as well as decline in total non-performing loans from $245.65 million as at 30 June 2019 to $221.62 million as at 31 December 2019.

106. Figure 8 shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2014 to December 2019:

Figure 11: Non-Performing Loans to Total Loans Ratio Dec 2014 – Dec 2019

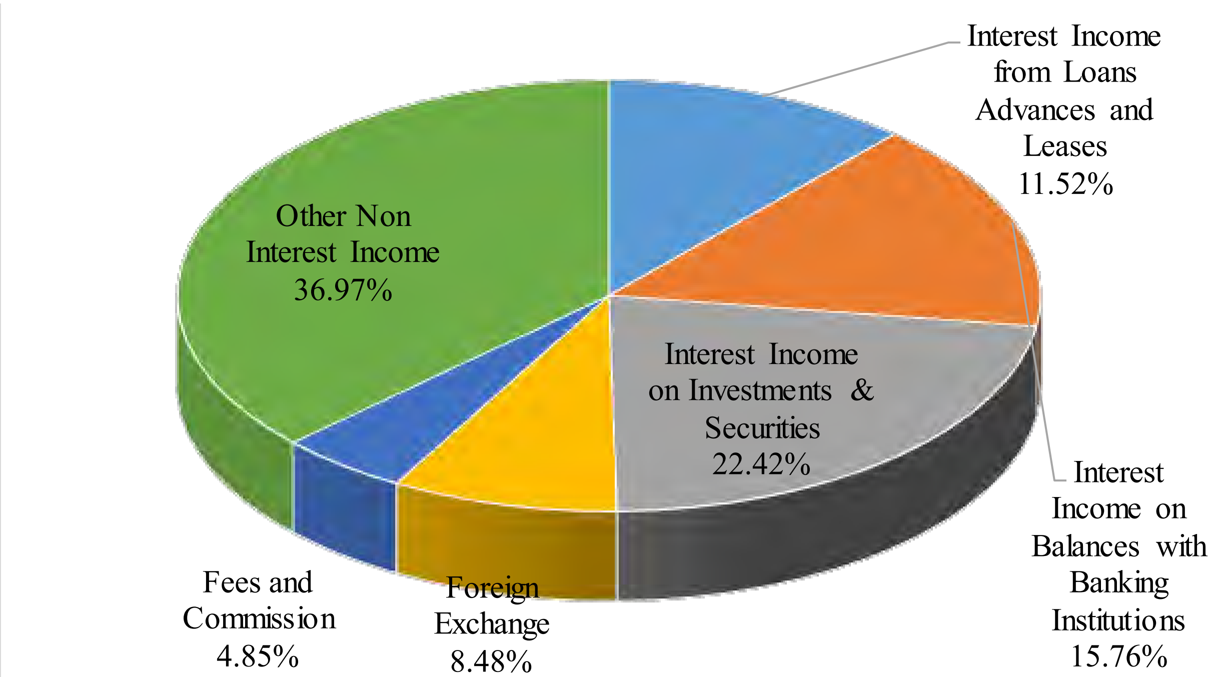


Earnings Performance

107. During the period under review, all banking institutions were profitable, with aggregate profit of $6.41 billion for year ended 31 December 2019, up from $389.85 million for the period ended 31 December 2018.

108. The growth in net income was largely attributed to revaluation of foreign currency denominated assets and investment properties. Consequently, other non-interest income was the key revenue driver in the sector during the period under review, followed by interest income from investments and securities, as shown in Figure 12.

Figure 12: Income mix as at 31 December 2019



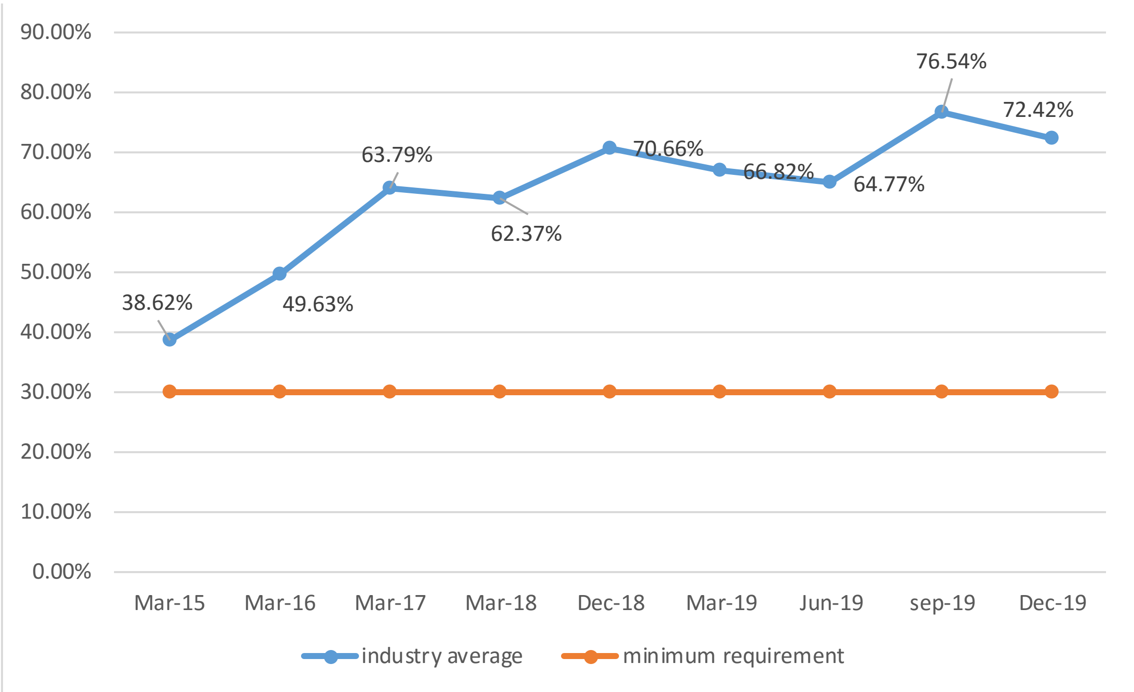
Banking Sector Liquidity

109. The average prudential liquidity ratio as at 31 December 2019 was 72.42% compared to 64.77% as at 30 June 2019. One (1) banking institution was non-compliant with the minimum prudential liquidity ratio of 30%. The non-

compliant banking institution is taking measures to ensure compliance with the minimum prudential liquidity ratio.

110. Figure 13 shows the trend in the banking sector average prudential liquidity ratio from March 2015 to December 2019.

Figure 13: Prudential Liquidity Ratio Trend (%)



111. The prudential liquidity ratio has remained high reflective of the cautious approach to lending by most banking institutions.

Enhancement of the Legal Framework

112. The regulatory framework for supervision of banks is currently under review to enhance consolidated supervision, cross border co-operation and crisis management. Accordingly, proposals for the amendments to the Banking Act

[Chapter 24:20] and the Reserve Bank of Zimbabwe Act *[Chapter 22:15]* will be made to align with developments in the sector as well as best practice.

113. Amendments to the Deposit Protection Corporation Act *[Chapter 24:29]* are also being considered to incorporate the liquidation framework for banking institutions.

114. The winding up framework of the Companies & Other Business Entities Act *[Chapter 24:31]*, which repealed the Companies Act *[Chapter 23:03]* gazetted on 15 November 2019, will not be applicable to banking institutions.

Microfinance Amendment Act (2019)

115. The Microfinance Amendment Act [Chapter 24:30] Amendment No.6 of 2019 was enacted in November 2019. Key provisions of the Act include refinement of classes of institutions eligible for licensing, strengthening of supervision and oversight, amendment of the tenure of licence, establishment of a Microfinance Advisory Council, among other provisions.

116. The Act now recognises only two classes of microfinance institutions, that is, the credit-only microfinance institutions and deposit-taking microfinance institutions. The period of registration for all microfinance institutions is now perpetual, subject to cancellation in terms of the provisions of the Act. There is no longer a requirement for renewal of licences.

117. Every person who was registered as a moneylender or corporate microfinancier before the Microfinance Amendment Act may continue to

operate until the expiry of the registration certificate, whereupon an application for a perpetual licence may be made in terms of the Act.

118. All microfinance institutions whose licences have expired are required to apply under the new requirements. Once an application is made, such microfinance institutions may continue operating pending the granting or the refusal of the application.

119. The Microfinance Amendment Act has enhanced corporate governance requirements for microfinance institutions, including spelling out statutory duties of directors and principal officer of a microfinance institution as follows:

    a. Duty to act bona fide i.e. in good faith;
    b. Duty to avoid conflict of interest;
    c. Duty to possess and maintain knowledge and skill reasonably expected for a person holding a similar appointment; and
    d. Duty to exercise due care in carrying out his or her functions.

120. All microfinance institutions are required to ensure that they have put in place sound corporate governance and risk management structures in order to ensure compliance with the Act. The Microfinance Amendment Act restricts shareholding in a microfinance institution by any person to not more than 25%.

121. Microfinance institutions are, therefore, required to regularise their shareholding structures in line with the provisions of the Act. Any application for a microfinance licence will be considered on the basis of the Microfinance Act, as amended.

Policy Framework for Domestic Systemically Important Banks

122. The failure of large banking institutions that are either highly interconnected, with less substitutable products or high complexity, can lead to the paralysis of the economy. Local banking institutions whose distress might lead to market wide disruption in the provision of financial services are known as domestic systemically important banks (D-SIBs).

123. Cognisant of this and in line with international best practice, the Bank has adopted a set of principles that constitute the D-SIB framework. The objectives of this policy framework focus on putting in place relevant regulatory measures for the identification, monitoring and management of local systemically important institutions.

124. The policy framework presents the following:

i. the assessment methodology for the identification of D-SIBs;
ii. the additional prudential measures covering additional capital requirements;
iii. frequency of monitoring; and
iv. other supervisory requirements.

125. Banking institutions designated as D-SIBs shall be required to, inter-alia, maintain additional capital buffers that should be met with Tier 1 capital. The aim of the additional capital requirements is to ensure that the D-SIBs have a higher share of their balance sheet funded by instruments that reinforce the resilience of the institution as a going concern. The D-SIB policy framework will be issued to the market by 31 March 2020.

Macro-prudential Policy Framework

126. As part of ongoing financial stability assessments, the Bank is in the process of operationalising the Macro-Prudential Policy Framework, which facilitates identification of vulnerabilities in the financial system, as well as ability to withstand aggregate shocks, taking into account macro-financial linkages.

Financial Inclusion

127. Implementation of the National Financial Inclusion Strategy (NFIS) through various initiatives targeting previously marginalised segments is now in its 5th year.

128. Following the launch of the NFIS in March 2016, the Bank has continued to scale up collaborations with other key stakeholders such as government ministries, tertiary institutions, development partners, financial service providers, industry and umbrella bodies.

129. A review of the NFIS journey travelled so far, reveals that significant progress has been recorded in the areas of financial product diversification, innovation and human centred design of financial services and delivery channels; digital finance, financial literacy, consumer protection, opening of low cost bank accounts, access to financial products and services by various target segments, access to micro-insurance products as well as increased participation of lower income groups on the capital markets.

130. The Bank is now collaborating with stakeholders in reviewing the first phase of the implementation of the NFIS as well as crafting the NFIS Phase II.

131. Banks, MFIs, Non-banking financial institutions & MNOs, continue to explore innovative ways of delivering financial services to the marginalised segments through leveraging on technology.

132. Innovations such as mobile banking, digital finance, psychometric credit scoring models, biometric technology, value chain financing, group lending, micro insurance, micro business and housing loans, etc are increasing access to, usage and quality of finance for low-income clients.

Level of Access to Financial Services

133. A remarkable improvement in the level of access to financial services has been noted as reflected in the financial inclusion indicators in the Table 10.

Table 10: Financial Inclusion Indicators – December 2016 to Dec 2019

Indicator	Dec-16	Dec-17	Dec-18	Jun-19	Sep-19
Value of loans to SMEs ($ m)	131.69	146.22	169.96	178.92	230.06
% of loans to SMEs over total loans	3.57	3.75	3.94	3.15	2.90
Number of SMEs with bank accounts	71,730	76,524	111,498	81,369	112,634
Number of Women with Bank Accounts	769,883	935,994	1,736,285	2,241,506	2,265,650
Value of Loans to Women ($ m)	277.3	310.78	432.36	446.4	492.79
Number of Loans to Youth	38,400	61,529	69,421	154,091	141,976
Value of Loans to Youth ($ m)	58.41	138.93	104.43	329.23	467.75
Total number of Bank Accounts (millions)	1.49	3.07	6.73	7.098	7.13
Number of Low Cost Accounts (millions)	1.2	3.02	4.67	3.81	4.57

134. The total number of bank accounts has continued to increase on the back of an increase in low cost accounts, as banks heed calls by the Bank to open low cost accounts with light KYC requirements.

135. Access to finance by target segments such as women, youth and MSMEs has continued to increase, largely as a result of a number of financial inclusion initiatives by the Bank. The growth in the number of accounts opened by women from less than 1 million in 2016 to over 2 million in 2019 is attributed to increased focus on women friendly focused financial services and products by banking institutions.

136. Following deliberate efforts by both the government and the private sector, Zimbabwe has fully embraced digital financial services resulting in over 90% of the transactions now being electronic.

137. Electronic transaction volumes increased from two million in 2009 to over two billion in 2019, (1,000 times in 10 years) while value of electronic transactions also increased from $7 billion in 2009 to $430 billion in 2019, (an increase of 60 times in 10 years).

138. As Monetary Authorities we urge members of the public to continue to make use of formal banking channels to transact, as these are secure.

Outreach Programmes

139. The Bank continues to participate as well as collaborating with stakeholders in various outreach programs aimed at raising awareness to members of the public about available financial products and services as well as financial inclusion initiatives.

Sources of data for credit worthiness assessment

140. The Bank continues to urge credit providers to make use of alternative data to provide financial services to MSMEs. Credit reporting service providers and lending institutions can leverage on the vast amounts of digitized alternative data including transactional (payments) data, behavioural data and social media data to determine capacity and willingness to repay loans.

141. This data can also be used to provide granularity on customer preferences and behaviours, which can help in designing new financial products and services.

142. Mindful of this development, the Bank is encouraging credit reporting service providers to explore innovative ways of using alternative data to promote access to credit particularly for those that are credit invisibles and operate in the informal sector.

NATIONAL PAYMENT SYSTEMS

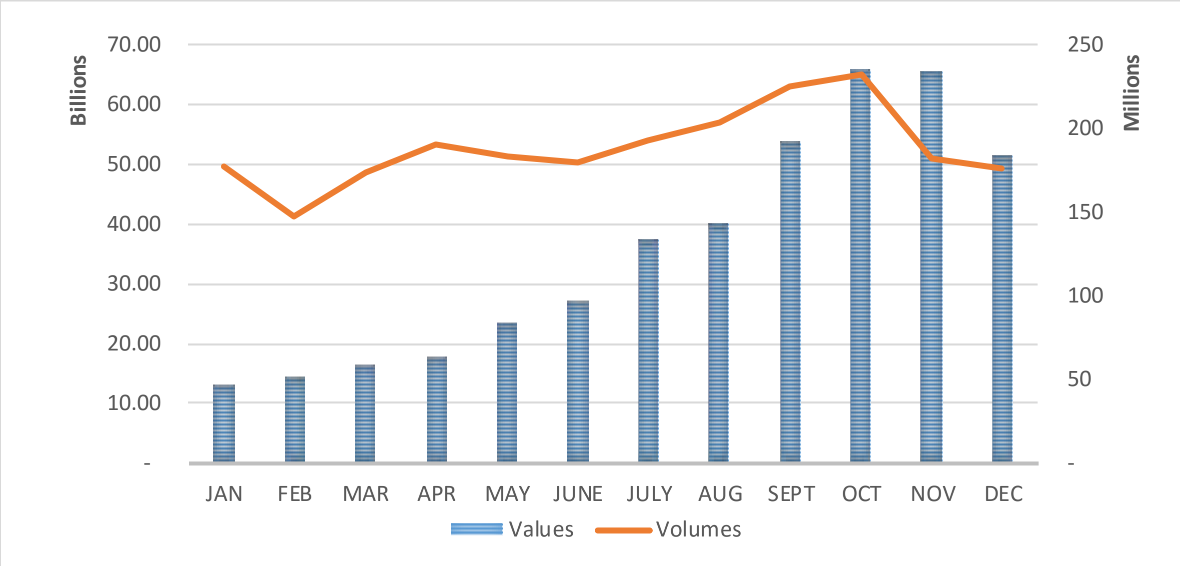
143. The Bank continued to ensure that the National Payment System (NPS) is safe, secure, efficient and cost-effective on the back of a number of measures instituted. These included oversight, supervision, research, licensing and operational activities.

144. At the same time the Bank continued to place priority on stakeholder engagement as a means to achieving strategic objectives in the national payment systems arena.

145. As previously reported, a number of initiatives continue to be enforced and undertaken to protect consumers and ensure compliance with international security standards, such as EuroPay, MasterCard and Visa (EMV) and the SWIFT Customer Security Programme.

146. The volumes and values for digital financial transactions trended upwards by an average of 1 % and 13 % per month, respectively, during the period January to December 2019 as shown in Figure 14.

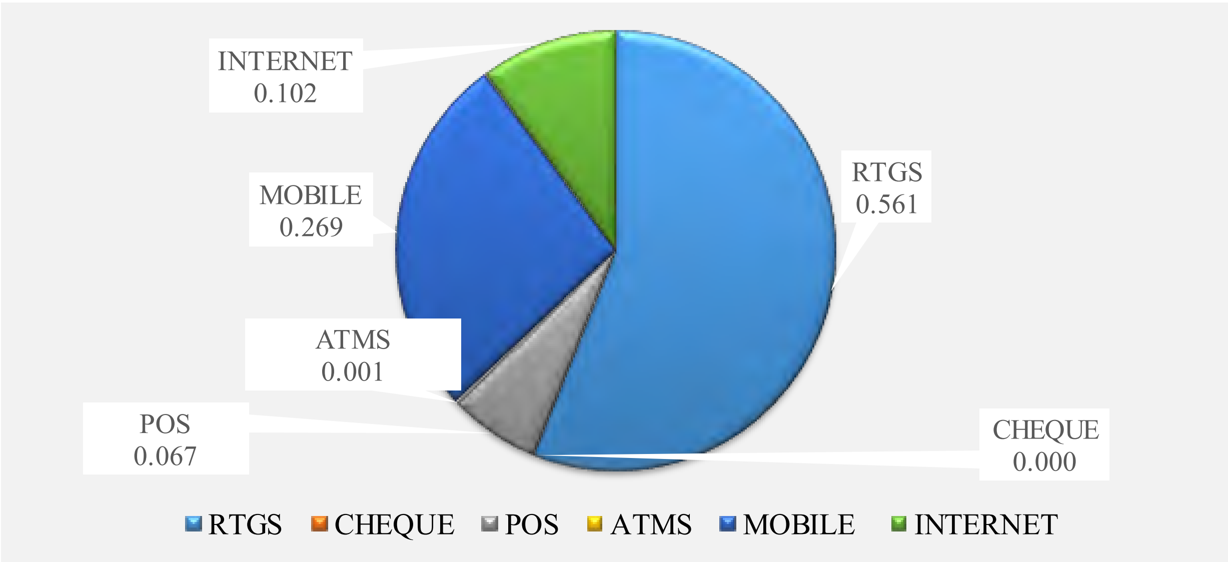
Figure 14: Electronic Transactional Activities from January-December 2019



147. The national payment streams are characterised by both large value (Real Time Gross Settlement) and small value (mobile financial services, cheque, automatic teller machines and point of sale).

148. Figure 15 shows the architecture of the payment, clearing and settlement system with proportional representation of transactional activities in the economy during the year 2019.

Figure 15: Structure of Aggregate Payment Stream Values -2019



RESERVE BANK OF ZIMBABWE

FEBRUARY 2020