2012 MID-TERM

MONETARY POLICY STATEMENT

ISSUED

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

BY

DR. G. GONO

GOVERNOR

RESERVE BANK OF ZIMBABWE

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1. INTRODUCTION AND BACKGROUND

1.1 This Monetary Policy Statement issued in terms of Section 46 of the Reserve Bank Act (Chapter 22:15), is presented against the background of elevated global turbulences occasioned by the Euro-debt crisis which continue to buffet developing and emerging market economies. The slow-down in the global economy has in turn depressed international commodity prices, thereby amplifying external sector vulnerabilities in Zimbabwe.

1.2 These adverse global developments have combined with, tight domestic liquidity conditions, limited access to offshore lines of credit, frequent power outages and a huge debt overhang to take steam off the recovery momentum gained since the adoption of multiple currencies in 2009.

1.3 The country is also saddled with an unsustainable external debt burden which is currently estimated at over US$10 billion. This huge debt overhang continues to undermine the economy's ability to attract offshore credit at competitive rates. This adverse development poses serious developmental challenges as credit lines are critical in supporting industrial recapitalization, given attendant liquidity shortages in the domestic economy.

1.4 In addition, the promulgation of economic empowerment regulations have dented confidence in the banking sector whose intermediary role remains integral in the attainment of fast paced economic growth. Well-functioning financial markets are an essential link in the transmission of monetary policy to the economy and a critical foundation for sustained economic growth and stability.

1.5 Notwithstanding significant strides made in stabilizing the economy, the multiple currency era has been epitomized by transitory deposits in the banking sector, short term loans, market illiquidity and lack of money market instruments. Additionally, the increase in cash based transactions, financial disintermediation, settlement risk and asset quality vulnerability, remain worrisome.

1.6 Indiscipline in the banking sector has once again reared its ugly head. This is evidenced by increased abuse of depositors' funds as well as the endemic over-stepping of operational mandates by money lending institutions. Indeed history is repeating itself as the current challenges faced by the banking sector are reminiscent of the episodes experienced over the period 2003-2004.

2. ECONOMIC DEVELOPMENTS: 2003 - 2008

Financial Sector Developments 2003 to 2004

2.1 Before I took office in December 2003, the Zimbabwean banking sector was characterized by poor corporate governance and risk management systems, high levels of insider trading as evidenced by indecent loans to related parties, coupled with over indulgence in speculative non-core banking activities, inadequate capitalization, lax prudential supervision and regulatory forbearance.

2.2 These levels of indiscipline severely undermined the financial sector with negative effects on economic growth. Against this background, the Reserve Bank adopted measures to minimize moral hazard, instil market discipline and restore sanity in the financial sector.

2.3 As a result of the Reserve Bank's rigorous supervisory efforts, deep seated structural and operational deficiencies in numerous banks were exposed as liquidity and solvency challenges took their toll on these institutions.

2.4 Consistent with the Bank's mandate to maintain financial stability, provide guidance to the banking sector and promote economic activity through price and exchange rate stability, appropriate remedial measures were instituted.

2.5 In this regard, the Reserve Bank undertook prompt supervisory action against banking institutions, which were found to be unsafe and unsound. Consequently, in 2004, nine financial institutions namely Barbican Bank Limited, CFX Bank Limited, CFX Merchant Bank, Intermarket Banking Corporation Limited, Intermarket Building Society, Intermarket Discount House, Royal Bank of Zimbabwe Limited, Time Bank Zimbabwe Limited and Trust Bank Corporation Limited were placed under recuperative curatorship.

2.6 In addition, Barbican Asset Management, Century Discount House and Rapid Discount House were placed under liquidation in the same year. First National Building Society was subsequently placed under final liquidation in 2005.

2.7 In view of the problems that affected the banking sector, the Reserve Bank of Zimbabwe came up with various measures, including, the Troubled Bank Resolution Framework (TBRF). The

TBRF was established in January 2005 to effectively deal with problem banks.

2.8 Essentially, the Troubled Financial Institutions (Resolution) Act which was promulgated in January 2005 established the legal framework in terms of which the Troubled Bank Resolution Framework and the Zimbabwe Allied Banking Group (ZABG) were operationalized.

2.9 The establishment of the Zimbabwe Allied Banking Group was an important step in addressing financial stability and safeguarding depositors’ funds. It marked the beginning of a new era in the history of the Zimbabwean financial and banking sector.

2.10 The Zimbabwe Allied Banking Group (ZABG) was created as a special purpose vehicle which facilitated the conversion of assets in the troubled banks into equity. Troubled banks that qualified were then converted into a single entity known as ZABG. The creation of this new institution was meant to avoid the reputation risk which the collapsed banks faced.

2.11 These strategies were to a greater extent, instrumental in restoring financial stability in the country. The following banks were amalgamated into ZABG:

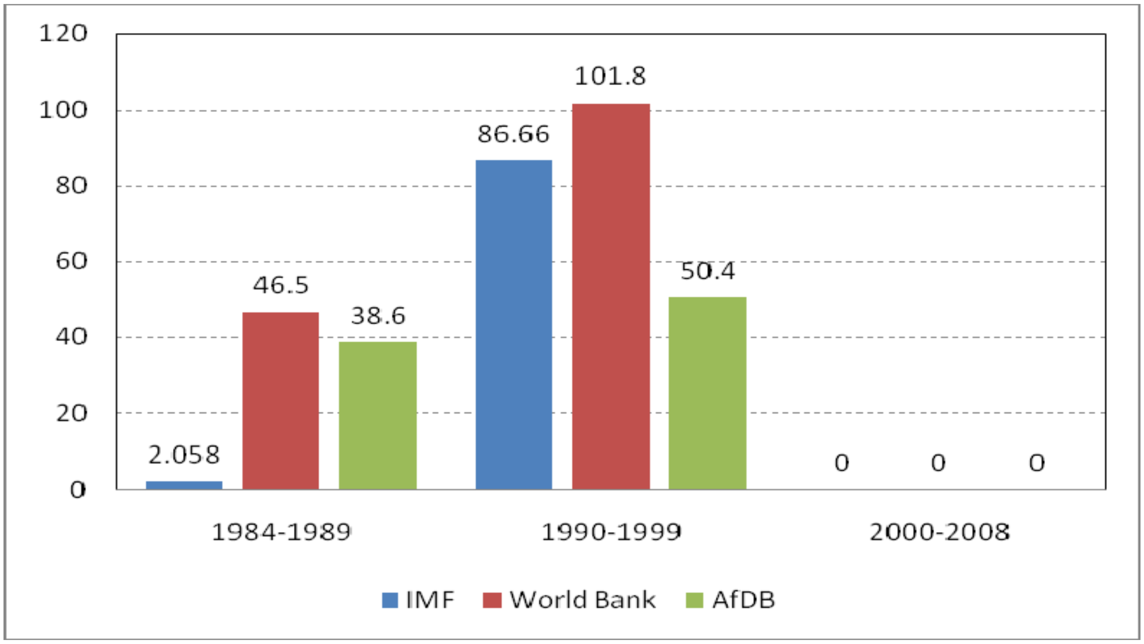
i. Royal Banking Corporation Limited;
ii. Trust Banking Corporation Limited; and
iii. Barbican Banking Corporation Limited.

Intervention Measures

2.12 Against the background of deteriorating macroeconomic conditions, typified by declining export performance, and dwindling foreign exchange reserves, the country defaulted on external payments to both bilateral and multilateral creditors since the turn of the century.

2.13 Consequently, severe remedial measures were adopted culminating in the suspension of balance of payments, budgetary and donor support to Zimbabwe. Notably, disbursements on on-going projects in the education, health, transport, agriculture, water and sanitation were suspended immediately.

Figure 1: Disbursements by Multilateral Financial Institutions (US$M)



2.14 Within this context, the Government of Zimbabwe failed to meet fiscal obligations from budgetary allocations which were severely eroded by rising inflation. As such, the financing of recurrent and capital expenditures presented serious challenges to Government.

2.15 These negative developments threatened to bring the country's social service delivery system and the economy at large to a complete halt, thereby further impoverishing the Zimbabwean people.

2.16 It is against this background that Government stepped in to save the situation through various interventions by the Reserve Bank of Zimbabwe.

2.17 These interventions which were exactly in the mould of bail out packages and quantitative easing measures currently instituted in the US and the EU, were geared at evoking a positive supply response and arrest further economic decline.

2.18 Additional interventions targeted the education and health sector to ensure the smooth running of examinations and the provision of ambulances to major referral hospitals.

2.19 Other agricultural sector interventions supported winter wheat production, irrigation rehabilitation, acquisition of agricultural equipment, sorghum production, and the summer crop program.

2.20 Despite numerous intervention measures undertaken by Government through the Reserve Bank of Zimbabwe, economic activity continued to decline progressively with inflation peaking at 231 million percent by July 2008. Other challenges that affected the economy include the following:

- Frequent power outages;

- Cash shortages;
- Acute foreign currency shortages;
- Skills flight;
- Vibrant parallel market for goods and foreign exchange;
- Erratic fuel supplies;
- Endemic speculative and rent seeking behaviour; and
- Rapid rise in production costs.

2.21 In addition to this compendium of challenges, the value of the local currency declined precipitously as speculative activities intensified. Against this background, transactions were increasingly undertaken in foreign currencies which were more stable and predictable.

3. CURRENT CHALLENGES FACING THE ECONOMY

3.1. Despite significant strides attained by the Zimbabwean economy under the multiple currency system, new challenges have emerged to undermine its efficacy. There are similarities in challenges between the period 2003 to 2008 and the period 2009 to date. The following are the major challenges that the economy is currently facing:

i. Policy reversals and inconsistencies;

ii. Indiscipline in the financial sector;
iii. Deterioration of infrastructure.
iv. Adverse global economic developments;
v. Difficult external sector position;
vi. Persistently recurrent liquidity challenges;
vii. The negative effect of sanctions;
viii. Widespread closure of companies; and
ix. Limited fiscal space.

3.2. Both periods (pre and post multicurrency system) experienced the following challenges; lack of fiscal space, liquidity shortages, indiscipline in the banking sector, and frequent power outages. The adverse effects of the global economic crisis are currently affecting Zimbabwe.

Global Economic Developments

3.3. The global economy, which has been showing embryonic recovery signs in the first quarter of 2012, is facing renewed threats from events in Europe coupled with geopolitical uncertainties affecting oil production in the Middle East.

3.4. Against the background of these elevated vulnerabilities, global economic activity is projected to decelerate from 3.9% in 2011 to an estimated 3.5% in 2012, before rebounding to 3.9% in 2013.

Table 1: Summary of World Output

	2010	2011	2012F	2013F
World Output	5.3%	3.9%	3.5%	3.9%
Advanced Economies	3.2%	1.6%	1.4%	1.9%
U.S	3.0%	1.7%	2.0%	2.3%
Central & Eastern Europe	4.5%	5.3%	1.9%	2.8%
Euro Area	1.9%	1.5%	-0.3%	0.7%
Emerging/Developing Countries	7.5%	6.2%	5.6%	5.9%
Latin America & Caribbean	6.2%	4.5%	3.4%	4.2%
Sub-Saharan Africa	5.3%	5.2%	5.4%	5.3%

Source: IMF, World Economic Outlook (July 2012)

3.5. The worsening Euro-zone debt crisis, high government debt and budget deficit levels in the United States have occasioned concomitant economic slow downs in China and India, the world's largest commodity consumers.

3.6. Against this background, Sub-Saharan Africa is projected to register a modest growth of 5.4% in 2012, some marginal improvement from the 5.2% registered in 2011. This reflects limited exposure of countries in the region to the spill-over effects of the Euro zone crisis. Deterioration in global macroeconomic conditions continues to depress international commodity prices.

International Commodity Price Developments

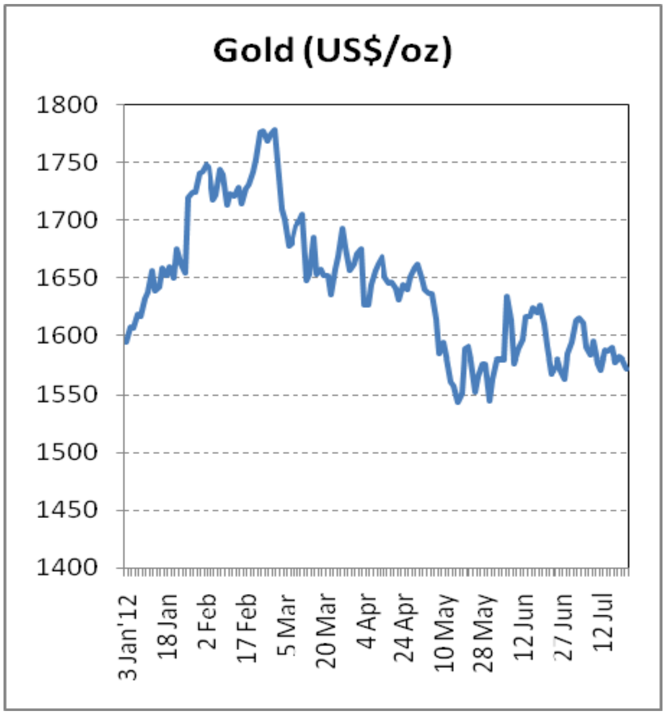
3.7. Deceleration of economic activity in China and India, the largest consumers of commodities, has dampened commodity prices as attested to by the commodity price deflation experienced in the first half of 2012.

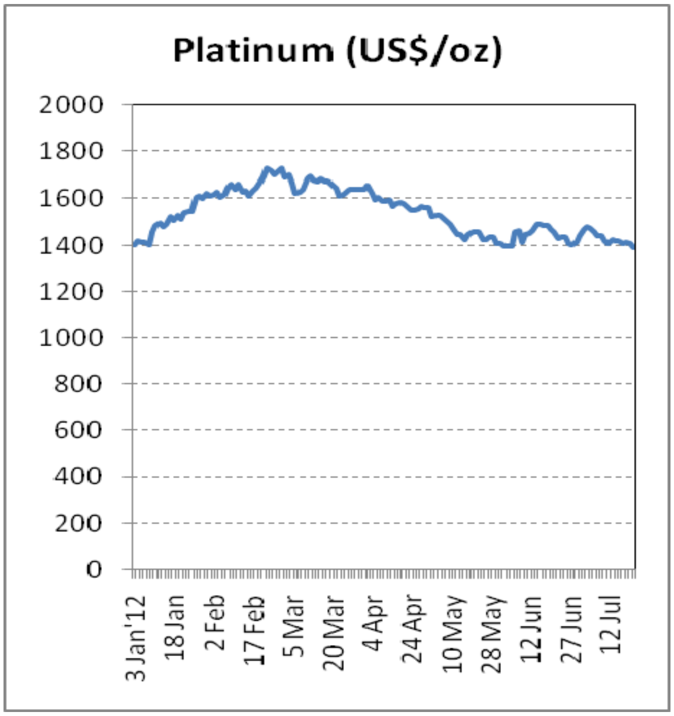
3.8. Metal prices, which registered considerable gains during the first quarter of 2012, decelerated during the second quarter of the year below their end 2011 levels. The decline in metal prices was particularly sharp in May 2012 as the debt crisis in Europe intensified and China's growth slowed down markedly.

In consequence, the prices for gold and platinum retreated sharply on subdued global demand. This development is expected to negatively impact on the country's export earnings and the external sector position at large.

3.9. Figure 2 and 3 below shows international commodity prices for gold, platinum, nickel and copper.

Figure 2: International Commodity Prices, Gold and Platinum

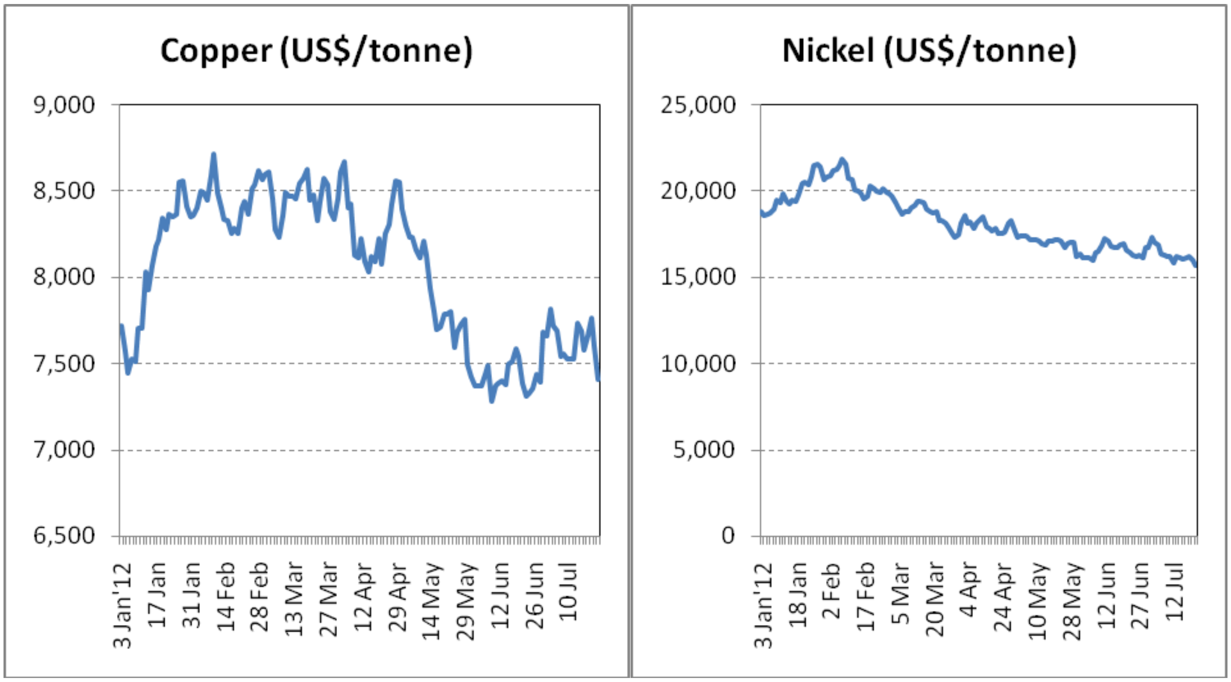




Source: BBC, KITCO

3.10. Similarly, nickel prices receded to just above US$16 100 per tonne by mid July 2012 due to slackening demand for stainless steel products and rapid restart of nickel pig iron (NPI) production in China which accounts for 40% of global stainless steel production.

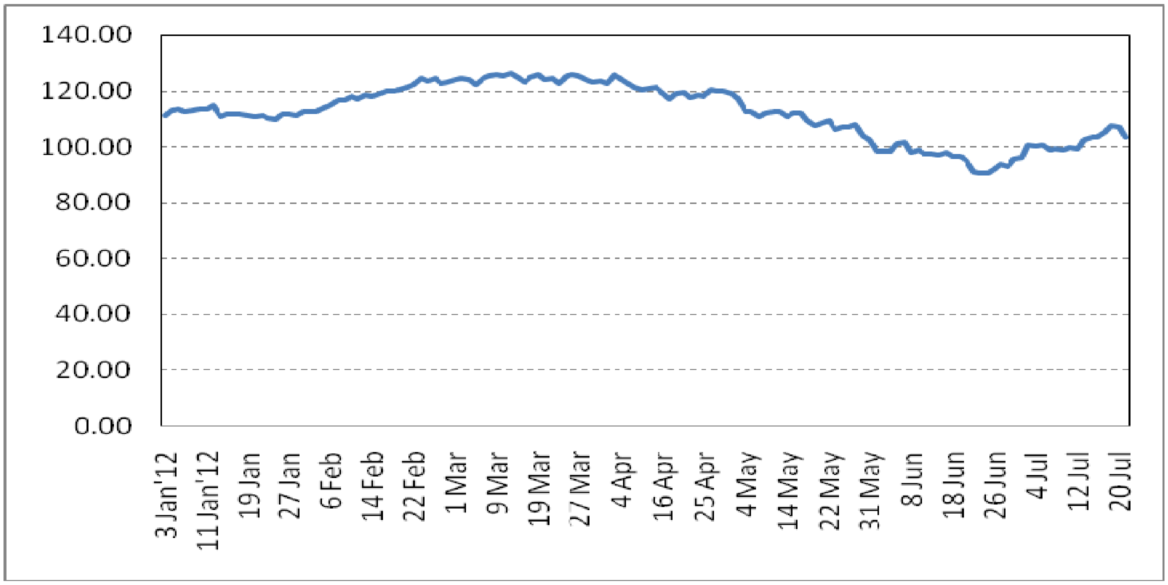
Figure 3: International Prices for Copper and Nickel



Source: BBC, KITCO

3.11. Oil prices which initially trended upwards in the first quarter of 2012, from US$104 per barrel in 2011 to nearly US$126 per barrel in March 2012, receded back to just above US$100 per barrel by mid July 2012.

Figure 4: International Oil Prices (US$/Barrel)



Source: BBC, KITCO

3.12. World oil demand which increased by 0.7% in 2011 remained weak during the first quarter of 2012 partly due to a mild winter in the northern hemisphere. Supply side concerns, notably the loss in non-OPEC production due to geo-political and technical problems, including tensions between Iran and the West over its nuclear program, have exerted renewed upward pressure on oil prices.

Balance of Payments Developments

3.13. The country's balance of payments position is projected to remain under considerable pressure in 2012, notwithstanding improved export performance.

3.14. Exports are expected to register a 13.2% growth from US$4,496 million in 2011 to US$5,090 million in 2012 (or 45% of GDP). Improved export performance in 2011 and 2012 benefited from increased gold, diamond and platinum production, as well as increased capacity utilization realized by major ferro-alloys producers.

3.15. Additionally, increased tobacco exports, continue to spur agricultural export growth. Production shortfalls in the major tobacco producing countries are expected to spur international tobacco prices, much to the benefit of tobacco exporting countries such as Zimbabwe.

3.16. The country, however, continues to absorb disproportionately huge imports to bridge attendant supply gaps in the economy. Against this background, the country's imports grew significantly by 46.5% from US$5,162 million in 2010 to US$7,562 million in

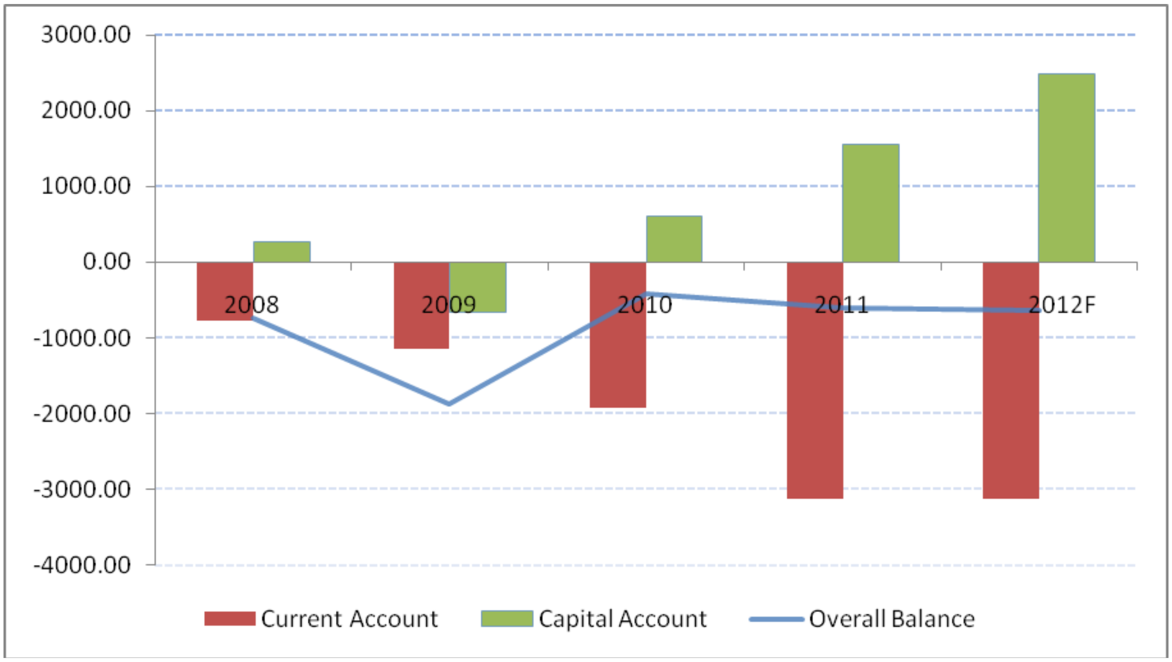
2011. Growing import dependence has gained prominence on the backdrop of low industrial capacity utilization which is currently estimated at around 50% in 2011.

3.17. Similarly, the country's import bill is projected to rise further by 8% to US$8, 215 million in 2012 (or 75% of GDP) on the back of drought induced food imports. This coupled with net service and income outflows will culminate in the incurrence of an unsustainable current account deficit projected at US$3.1 billion in 2012 (or 26% of GDP).

3.18. Successive capital account surpluses amounting to US$1,561 million realized for 2011 and US$2,483 million projected for 2012 remain inadequate to finance respective current account deficits. Consequently, these current and capital account developments culminated in the incurrence of an overall balance of payments deficit amounting to US$593.3 million in 2011 and a further deficit of US$638.7 million projected for 2012 as shown in figure 6 below.

3.19. The country continues to finance balance of payments deficits through the accumulation of external payment arrears, a development which is indicative of an unsustainable external sector position.

Figure 5 : Balance of Payment Position (US$M)



Source: Reserve Bank of Zimbabwe and Zimstats

3.20. Against the background of relatively subdued long term capital inflows and perpetual reserve inadequacy, these adverse balance of payments developments will have severe haemorrhaging effects on the country's foreign exchange resources and accentuate attendant liquidity shortages, particularly in the current multiple currency system. A difficult balance of payments position drains the domestic economy of the much-needed foreign exchange and curtails deposit and credit growth.

Liquidity Shortages

3.21. Persistent liquidity shortages in the economy continue to undermine the country’s ability to maintain and sustain the robust economic growth achieved since the introduction of the multicurrency system.

Sources of Liquidity

3.22. It is noteworthy that, within the auspices of a multiple currency regime, where the Reserve Bank does not issue currency, liquidity sources are limited. In this respect, the country’s liquidity situation is contingent upon developments on the external sector front.

3.23. Under the multiple currency system major sources of liquidity include:

i. Export earnings
ii. Diaspora remittances;
iii. Offshore credit lines;
iv. Foreign direct investment inflows;
v. Portfolio investment inflows; and
vi. Confidence in the economy

3.24. Efforts to improve the country’s liquidity conditions should thus place great prominence on improving confidence in the banking sector.

3.25. Improved confidence is usually accompanied by increased investment inflows which in turn support key productive and export sectors. This will result in improved liquidity conditions which support sustained growth.

Banking Sector Challenges

3.26. In the wake of resurgent financial sector indiscipline, Interfin Bank was placed under recuperative curatorship on 11 June 2012 for a period of six months.

3.27. Interfin Bank Limited was not in a safe and sound financial condition, due to inadequate capitalization, concentrated shareholding and abuse of corporate structures, high level of non-performing insider and related party exposures, chronic liquidity and income generation challenges, as well as violation of banking laws and regulations.

3.28. On the other hand, Genesis Investment Bank voluntarily surrendered its licence in line with section 14(4) of the Banking

Act [Chapter 24:20]. This followed its failure to meet the minimum capital requirements.

3.29. The governance malpractices that have also affected Money lending institutions, saw operating licenses for two institutions notably, McDowell's International and All Angels being cancelled.

Architecture of the Banking Sector

3.30. As at 30 June 2012, the number of operating banking institutions (including POSB) declined to 25 from 26 following the voluntary surrender of a banking license by Genesis Investment Bank. One merchant bank converted into a commercial bank on 15 May 2012.

3.31. At the same date, there were 16 asset management companies and 172 microfinance institutions under the supervision of the Reserve Bank. The structure of the banking sector is shown in the Table 2 below.

Table 2: Structure of the Banking sector

Type of institution	Number
Commercial Banks	18
Merchant Banks	2
Building Societies	4
Savings Bank	1
Finance Houses	0
Discount Houses	0
Total Banking Institutions	**25**
Asset Management Companies	16
Microfinance institutions	172

Capital Bank Limited (formerly ReNaissance Merchant Bank Limited)

3.32. It is heartening to note that the successful recapitalisation of ReNaissance Merchant Bank by the National Social Security Authority (NSSA), resulted in the Reserve Bank uplifting curatorship of ReNaissance Merchant Bank on 2 March 2012.

3.33. As part of the bank’s turnaround and re-branding strategy, the institution’s name was changed from ReNaissance Merchant Bank Limited to **Capital Bank Corporation Limited.**

Ecobank Zimbabwe Limited

3.34. Ecobank Zimbabwe Limited was granted authority to commence commercial banking business effective 15 May 2012, in terms of Section 16 of the Banking Act [Chapter 24:20]. This follows the institution's compliance with the minimum regulatory capital requirement of $12.5 million for commercial banks.

Metbank Limited (formerly Metropolitan Bank)

3.35. The Reserve Bank approved the name change from Metropolitan Bank Limited to **Metbank Limited** with effect from 23 March 2012.

Microfinance and Money Lending Institutions

3.36. As Monetary Authorities, we note with concern numerous malpractices by microfinance institutions ranging from engagement in non-permissible activities, inadequate disclosure of business conditions, usurious lending rates of as high as 50% per month or 600% per annum simple interest (or 12,874.5% compounded) and abusive debt collection practices including disposal of pledged collateral without following due legal processes.

3.37. In addition, we have established cases of some microfinance and money lending institutions that are illegally taking deposits from unsuspecting members of the public.

3.38. As I stated in my Circular to Money lending and Microfinance and Institutions dated 4 June 2012, failure by money lending and microfinance to comply with laws and regulations governing the conduct of their business as stipulated by the Reserve Bank, will lead to the imposition of appropriate supervisory action, including cancellation of operating licences. To date, Reserve Bank has cancelled licenses for two Money lending institutions namely McDowell's International and All Angels.

3.39. In this regard, the Reserve Bank will intensify onsite visits to all banks and money lending institutions in order to reduce incidences of unscrupulous behaviour and governance malpractices.

i.

INTEREST RATE SPREAD AND HIGH BANK CHARGES

3.40. On the back of varied sources of credit lines secured on and offshore by banks, significant discrepancies in deposit and lending rates have characterized the multiple currency era.

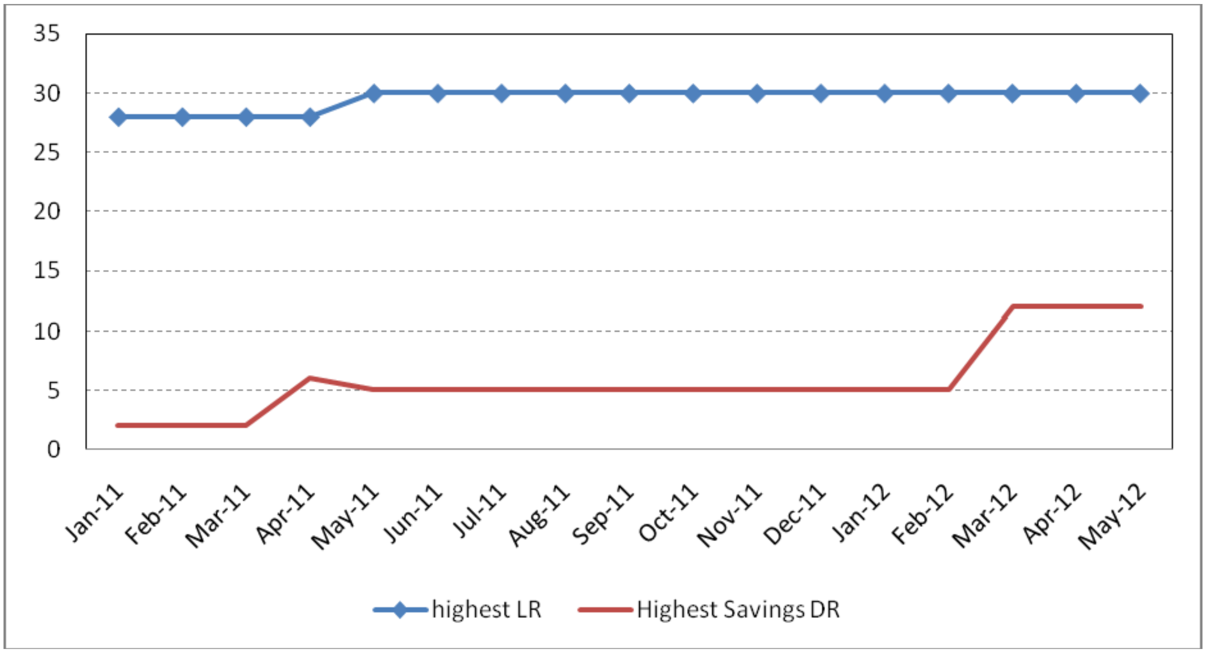
3.41. In this regard, large banks that have a wide deposit base have been quoting deposit rates ranging from 0.15% to 6%, while on the other hand smaller banks have been quoting deposit rates ranging from 8% to 16% in order to attract deposits.

3.42. Compared to deposit rates, lending rates which were quoted by banks have always been high in the multicurrency era, ranging between 5% and 35% for both individual and corporate borrowings. The weighted average lending rate has ranged between 14% and 20% during the last four months.

3.43. The low deposit rates coupled with high bank charges are not conducive to attracting savings. On the other hand, the relatively high lending rates discourage borrowing by the productive sectors, thereby inhibiting the growth of the economy.

3.44. It has been ascertained that for a person earning around US$200 per month, and making two withdrawals from the bank incurs bank charges amounting to 15% of the total deposit, which is a high tax in depositors.

Figure 6: Lending and Savings Rates



4. MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

Total Banking Sector Assets

4.1. Despite adverse balance of payments developments, total banking sector assets grew by 17.3% from $**4.74 billion** as at 31 December 2011 to **$5.56 billion** as at 30 June 2012. The sector's assets mainly comprised of loans and advances (53.41%), fixed assets (9.42%), balances with the Reserve Bank (7.20%) and balances with foreign banking institutions (6.98%).

Total Banking Sector Deposits

4.2. The country's deposits continue to be largely of a short term nature. As at 30 June 2012, growth in money supply defined as total banking sector deposits including interbank deposits were **$4.02 billion[1],** representing a 31.8% increase from $3.05 billion as at 31 December 2011.

4.3. On an annual basis, the growth in deposits has, however, slowed down, recording a growth of 16.7% in June 2012 compared to a growth of 56.5% over the same period last year.

4.4. Growth in banking sector deposits was largely driven by annual increases in time deposits of over 30-day, 96.18%; under 30-day, 13.54%.

4.5. The significant increase in time deposits partially reflects the shifting of economic agents from non-interest earning balances to interest earning deposits. This is because banks have been quoting demand and savings rates that are below 3.8% whilst time deposits attracted rates quoted were as high as 24%.

[1] When excluding the interbank deposits and offshore lines of credit the figure reduces to USD3.59 billion.

4.6. Despite the higher growth in time deposits, the deposit base continues to be dominated by transitory deposits, a development which negatively impacts on the intermediary role of banks. Naturally, short term deposits cannot support industry as it requires long term financing (of 2-5 years), to recapitalize their operations.

Total Banking Sector Loans & Advances

4.7. Against the background of a short term deposit base coupled with limited access to external lines of credit as well as high liquidity risks, lending by banks has been largely short term in nature. This has deprived the economy of capital intensive projects which are imperative for sustainable economic growth.

4.8. In concomitance with expansion in deposits, banking sector loans and advances amounted to **$3.27 billion** as at 30 June 2012, representing a growth of 18.5% from **$2.76 billion** as at 31 December 2011.

4.9. Loans and advances were dominated by commercial banks with a market share of **82.92%** of total loans, amounting to **$2,712.07 million**, and building societies with a market share of **10.59%** amounting to **$346.21 million**.

Sectoral Distribution of Credit

4.10. The banking sector has continued to provide support to various sectors of the economy and households. As at 30 June 2012, the sectoral distribution of credit is depicted in the table below:

Table 3: Sectoral Distribution of Credit (%)

Sector	30 Jun 2011	30 Sept 2011	31 Dec 2011	30 Jun 2012
Services	16.90	14.13	17.94	18.62%
Individuals	8.55	9.63	14.74	18.00%
Manufacturing	21.97	19.59	19.96	16.66%
Agriculture	18.61	17.61	18.11	15.06%
Distribution	13.26	18.77	7.19	9.44%
Communication	1.80	2.05	1.30	6.32%
Mining	5.98	6.07	5.67	5.64%
Construction	1.91	4.15	4.31	4.35%
Financial Firms	5.17	3.00	2.88	3.41%
Transport	5.84	4.99	2.58	2.50%
Total	**100.00**	**100.00**	**100.00**	**100.00**

4.11. On the backdrop of short term financing, loans and advances from the banking sector largely financed recurrent expenditures and private consumption.

4.12. It is worrisome that lending to individuals, which presumably is for consumption expenditure, has been rising exponentially from 8.6% of total credit in June 2011, to 18% in June 2012. The rise of loans to individuals is at the expense of agriculture, which has declined from 18.6% to 15% and distribution which also declined from 13% to 9.4% in June 2011 to June 2012, respectively.

4.13. The short term lending, coupled with subdued capital inflows, has deprived the economy of investments in capital intensive projects which are imperative for sustainable economic growth.

MONEY MARKET DEVELOPMENTS

4.14. The Bank has been advocating for the issuance of Government paper in the form of Treasury Bills, which can also be used as collateral security in the inter-bank market as well as the lender of last resort function.

4.15. The lack of investment instruments on the domestic money market has forced banks to hold significant balances either in cash or RTGS accounts. Reflecting the lack of activity in the money market, surpluses in the form of idle RTGS balances rose from US$120 million, to US$243 million and US$300 million in January February and June 2012, respectively.

4.16. Against this background, the July 2012 Mid Term Fiscal Policy Review Statement announcement of Government's intention to issue short dated instruments is a bold step in the right direction. The issuance of Government paper will resuscitate the non-functional money market and re-activate the interbank market while at the same time resolving the Government's seasonal cashflow challenges.

4.17. In the same vein, Government converted the outstanding statutory reserve obligations of the Reserve Bank, amounting to US$83.4 million, into stocks of 2, 3 and 4 years, at coupon rates of 2.5%, 3% and 3.5%, respectively on 1 March 2012. The first coupon payment on the Government stocks amounting to US$1.268 million was made on 2 July, 2012.

Lender of Last Resort

4.18. A functioning lender of last resort (LOLR) facility plays a pivotal role in the provision of liquidity to banks experiencing short term liquidity challenges.

4.19. As such, the Honourable Minister of Finance in the July 2012 Mid Term Fiscal Review Statement announced that Government approved the establishment of a US$150 million Lender of Last

Resort Fund, under which, private investors are expected to contribute US$120 million.

4.20. The Reserve Bank recognises the progress that has been made in laying the groundwork for the reactivation of the LOLR facility in view of short term liquidity challenges being faced by some banks. In addition, the simultaneous issuance of the short term instruments will assist in the proper functioning of the facility, whilst acting as guidelines on the interest rate structure in the economy.

NATIONAL PAYMENTS SYSTEMS

4.21. The national payment systems continued to exhibit stability and resilience, during the period under review. The Bank’s goal is to ensure that payment systems are available without interruption, meet all users' needs, and operate at minimum risk and reasonable cost.

4.22. As such, the Central Bank will continue to deepen its role through increased monitoring and collaboration with various stakeholders in order to maintain safety, soundness and stability in of the payment systems.

4.23. Notably, all payment streams registered increases during the first half of 2012 in both volume and value terms. Participation in the different payment streams continued to increase as financial institutions seek to provide various payment alternatives to the transacting public.

Risk Management

4.24. As overseers of payment systems, the Reserve Bank encourages financial institutions to continue developing risk management processes that are rigorous and comprehensive to respond to current and future risks brought about by the rapid pace of technological innovations.

Promotion of Electronic Means of Payments

4.25. The Central Bank remains concerned with the high usage of cash in the economy and will continue to collaborate with various stakeholders to promote the use of other forms of payment, especially cards.

4.26. While we acknowledge the efforts made so far in the adoption of card payment streams, mobile and internet banking by the financial sector players and relevant stakeholders, there is still scope to increase the momentum.

4.27. In this regard, all the key sectors of the economy are encouraged to embrace electronic payment mechanisms so as to limit the use of cash which is inefficient, risky and costly to the country.

RTGS Transactional Activities

4.28. Total RTGS system values amounted to US$19.8 billion for the period January to June 2012 while in volume terms, 1.15 million transactions were registered.

4.29. Total monthly RTGS system transaction values amounted to US$3.4 billion for June 2012, an increase of 20% from US$2.8 billion recorded in June 2011.

OTHER ECONOMIC CHALLENGES

Narrow Export Base

4.30. The country's export earnings mainly composed of mineral exports which constitute about 60% of total exports in 2012. Of these minerals, more than 50% are from Platinum Group of Metals

(PGMs) which are mainly produced by Zimplats, a subsidiary of Implats of South Africa.

4.31. This phenomenon exposes the country to disturbances in the major exporting companies or international commodity prices which will have a devastating effect on the country’s export earnings and financial inflows.

4.32. Against this background, there is need to adopt deliberate policy measures that promote diversification of the country’s export basket and shed off commodity dependence in order to broaden the country’s export base.

Policy Reversals and Inconsistencies

4.33. Perennial policy reversals and inconsistencies continue to pose a major threat to the achievement of solid, sustained and balanced economic growth in the country. Mixed signals have emerged within Government with negative effects on corporates, households and the investor community at large.

4.34. For instance, lack of clarity on major policy issues such as the Indigenization and Empowerment Act and varied views over its implementation have sapped confidence in the economy.

Sanctions

4.35. Sanctions imposed on Zimbabwe continue to impede critical capital inflows such as aid, short and long term loans, thus, compounding the already precarious liquidity situation in the country. The sanctions are also impeding access to commercial and trade finance, as both Government and private sector's access to foreign loans is curtailed.

4.36. In addition, the existence of sanctions continues to portray an artificially bad country image which attracts high risk premium on offshore lines of credit, and eventually scare away potential creditors, as they anticipate a credit squeeze in the future.

Informalization of the Economy

4.37. The progressive contraction of the Zimbabwean economy in the new millennium occasioned the emergence of a vibrant informal sector which acted as a safety net for redundant labour. The closure of companies which intensified under the multiple currency system gave rise to a vibrant informal sector.

4.38. Regrettably, an estimated US$2 billion is currently circulating outside the formal banking system to finance transactions in the informal sector. As a result, banks' capacity to mobilize investible funds for deployment to key productive sectors has been severely compromised.

4.39. In addition, a large informal sector prejudices Government of tax revenues, thereby undermining the potency of fiscal policy, the only effective macroeconomic policy tool under the multiple currency system.

Capitalization of the Reserve Bank

4.40. The Central Bank is currently unable to perform its mandated role under the multicurrency system due to inadequate capital. As such, Treasury should recapitalize the Central Bank. The resource constraints currently affecting fiscal performance, however, undermines the Government's ability to adequately fund central bank operations.

Lack of Stimulus Package and Seignorage

4.41. Zimbabwe is operating a cash budget system in which Government expenditure is strictly aligned with tax revenues generated. In the event of any crisis occasioned by exogenous shocks, the country lacks proactive mechanisms to deal with the crisis on the back of limited fiscal space. Other countries are able to implement stimulus packages in order to mitigate the effects of the crisis.

4.42. Government’s options in a multicurrency environment to deal with shocks are confined to external borrowing. This option is, however, currently not applicable due to lack of budgetary and balance of payments support on account of accumulated external payment arrears.

Power Outages

4.43. Persistent power outages continue to have serious repercussions on efforts to achieve sustainable economic growth in the medium to long term. The reliable supply of power is supportive of unfettered industrial production which is integral in efforts to improve capacity utilization and close attendant supply gaps in the economy.

4.44. In the past decade, domestic power generation capacity has fallen far below demand as a result of lack of maintenance of aging generation plants, and transmission and distribution facilities, as well as disruptions in the supply of coal for generation. Only 1,000 Megawatts out of the 2,000 Megawatts of installed generation capacity is currently available, resulting in intermittent power supplies.

Lack of Competitiveness of Zimbabwe's Products

4.45. Over the past decade, Zimbabwe's products significantly lost competitiveness in the domestic, regional and international markets. This negative development is largely attributed to relatively high production.

4.46. The erratic supply of water and electricity ultimately translates into high production costs, resulting in delivery delays and lose of export competitiveness.

4.47. Some producers are forced to utilize generators to power their plant operations. As a consequence, production costs incurred ends up more than trebling when compared to costs otherwise incurred when power supplies are reliable.

4.48. Zimbabwe's competitors notably, South Africa also produces Genetically Modified (GMO) at low costs compared to Zimbabwean products. Some of these products find their way onto the Zimbabwean market, thereby, out-competing domestically produced goods.

4.49. Under the General Import and Export License, all finished products can be imported including tomatoes, onions, apples, oranges, chicken and milk products (the list is endless). It is against this background that Zimbabwe imported finished products to the tune of US$5,419.2 million in 2011 compared to only US$1,308.7 million in 1999.

4.50. In consequence, Zimbabwean products have been crowded out with dampening effects on efforts to rejuvenate the country's industrial production. It is against this background that significant de-industrialization has been experienced with the manufacturing sector's contribution to GDP contracting significantly from 25% in the 1990s to current levels of 15%.

4.51. As a result, a number of companies are closing down resulting in increased unemployment. The most affected sub-sectors are clothing and footwear, transport and equipment and chemicals.

4.52. Only a few sub-sectors such as drinks, tobacco and beverages, communication and financial services, are performing relatively well.

4.53. At the moment, our retail shops are filled with finished goods imported from South Africa and beyond. These are goods which we used to produce in yesteryears and export to the region and other parts of the world.

Lack of Confidence

4.54. The freezing of Zim-dollar deposits eroded the transacting public's confidence in the banking system. Accordingly, there is an unusually strong preference to hold and transact in cash instead of making use of the banking system.

4.55. This has combined with the greater informalization of the Zimbabwean economy to keep inordinate amounts of cash circulating outside the banking system. Against this background, the critical intermediary role played by banks in allocating surplus funds to deficit units of the economy has been adversely affected.

4.56. The exorbitant banks charges currently levied by banks as well as negligible interest rates offered on deposits have also conspired to severely dent the confidence of the banking public.

Gold Leakages

4.57. The liberalization of gold marketing in March 2009, has partly contributed to the current rampant smuggling of gold in the country, which is prejudicing the government of significant revenue inflows and liquidity to the formal banking sector.

4.58. Zimbabwean gold deposits are on the surface which allows easy extraction and therefore attracts many players who do not need major capital equipment to extract. As a result many players both legal and illegal are extracting the metal.

5. POLICY ADVICE

INDIGENIZATION IN THE BANKING INDUSTRY

5.1. The implementation of Indigenization and Economic Empowerment regulations in the banking sector should be done in a manner that preserves confidence since any adverse developments in the banking sector could grind economic activity to a screeching halt.

5.2. This is particularly so, given that regional and international banks in the local banking industry play a pivotal role in providing the vital link between the domestic economy and the international community, particularly through correspondent banking relationships.

5.3. This notwithstanding, we commend Government's initiatives to re-engage in view of the Indigenization and Economic Empowerment regulations as espoused in the July 2012 Mid- Term Fiscal Policy Review. As such, we are gratified to note that some aspects of the

Indigenization and Economic Empowerment Regulations are receiving attention with a view to harmonize and fine- tune pertinent issues.

5.4. As such, the implementation of the Indigenization and Economic Empowerment provisions cannot be done in isolation of the Banking Act and Regulations, the Reserve Bank of Zimbabwe Act, the Exchange Control Act and Regulations, the Companies Act, Zimbabwe Investment Authority (ZIA) Act, Mines and Minerals Act, and all other already exisiting legal instruments.

Multi-Disciplinary Financial Stability Committee

5.5. Consistent with the financial stability thrust and the COMESA Framework for Assessing and Maintaining Financial Stability, developed in 2009, the Reserve Bank, the Insurance and Pensions Commission (IPEC), the Securities Commission (SEC), and the Deposit Protection Board (DPB) constituted a Multi-disciplinary Financial Stability Committee.

5.6. We are pleased to advise that the inaugural Multi-disciplinary Financial Stability Committee meeting was held on 24 April 2012. Two sub-committees, namely, Technical Committee for Financial

Stability and Supervisory and Regulatory Co-operation, were constituted accordingly.

5.7. Going forward the committee shall:

ii. Facilitate early identification of sources of risk (to stability) and of potential vulnerabilities that could threaten financial stability;

iii. Promote rigorous, accurate and systematic assessment of the present degree of financial stability as well as the outlook ahead;

iv. Evaluate the ability of the financial system to absorb shocks should identified risks materialize;

v. Provide the lead time for appropriate policy responses; and

vi. Promote adoption of preventive and timely remedial policies and/or restore the system to stability when the preventive and remedial measures fail.

ADVICE ON BALANCE OF PAYMENTS CHALLENGES

5.8. The adoption of ZAADDS is a bold stride in the amicable resolution of the country's debt burden. This notwithstanding, there is need to expedite the implementation of ZAADDS in order to unlock credit lines critical for the rejuvenation of the Zimbabwean economy.

5.9. Within this context, the Reserve Bank keenly awaits the outcome of recent engagements with the IMF on the possibility of commencing a Staff Monitored Program (SMP).

5.10. The resolution of debt under ZAADDS, the adoption of an SMP and sustained macroeconomic stability would allow offshore financiers to fund medium to long term projects, particularly to the export sectors. This will result in increased foreign exchange inflows into the country, thereby improving the country's balance of payments position and accelerate economic recovery.

6. MONETARY POLICY MEASURES

BANK CHARGES AND INTEREST RATES

6.1. Cognisant of the need to balance viability of the banking sector and accessibility to affordable banking services, the Reserve Bank has over the years advocated and adopted policies that promote market determined bank charges and interest rates for the sector's products and services.

6.2. The Reserve Bank, however, continues to receive complaints from the transacting public regarding the high service charges and lending rates being levied by banking institutions and low interest rates payable on savings and current accounts.

6.3. As Monetary Authorities, we urge banks to rationalize their interest rate structures and bank charges by reducing lending rates and bank charges so as to encourage the banking public to increase deposits.

6.4. In the absence of self-regulation, Authorities will be left with no alternative but to take appropriate action on the banks ignoring this warning.

6.5. Against this background, the Reserve Bank in collaboration with the Bankers Association of Zimbabwe will be developing a standardised format of disclosure requirements for bank charges and interest rates.

6.6. Banking institutions shall be required to publish their charges in the prescribed disclosure format on a quarterly basis, and a consolidated report of banking institutions shall be published on the Reserve Bank website on a quarterly basis. This would promote comparability and reduce information asymmetry.

BANKING SECTOR CONSOLIDATIONS

6.7. The Reserve Bank is on record advocating that banking institutions with unrealistic chances of meeting the capital requirements should opt for merger and/or acquisitions by a healthy bank, failing which, appropriate supervisory action will be taken in terms of the Troubled Bank and Insolvent Resolution Framework.

6.8. A fragmented banking system characterized by numerous weak and undercapitalized banks will not only increase the vulnerability of the financial system but also of the economy as a whole.

6.9. As Monetary Authorities, we note that some banking institutions are oblivious of recent global trends towards bank consolidations spurred by increased globalization, technological advances, liberalization and competition.

6.10. Against the background of capital inadequacies, small institutions are using depositors' funds to finance branch expansions and meet operating costs.

6.11. Mergers and acquisitions have become a major strategic option for banking, aimed at entrenching a strong, efficient and diversified financial sector that ensures the safety of depositors' funds, plays an active developmental role in the economy, and competes effectively in the global financial system.

NEW CAPITAL REQUIREMENTS

6.12. The Reserve Bank is increasing the minimum capital requirements of banking institutions as follows:

Table 4: New Capital Requirements

Category	**Current Minimum Capital**	**New Minimum Capital Required**
Commercial Banks	$12.5 million	$100 million
Merchant Banks	$10 million	$100 million
Building Societies	$10 million	$80 million
Finance Houses	$7.5 million	$60 million
Discount Houses	$7.5 million	$60 million
Microfinance Banks	$1 million	$5 million

6.13. The Reserve Bank is proposing a **phased plan** for enforcement of capital requirements for **all banking institutions** as follows:

i. Comply with **25%** of the prescribed minimum equity capital for its class of banking business by **31 December 2012**;

ii. Comply with **50%** of the prescribed minimum equity capital for its class of banking business by **30 June 2013**;

iii. Comply with **75%** of the prescribed minimum equity capital for its class of banking business **by 31 December 2013;** and

iv. Comply with **100%** of the prescribed minimum equity capital for its class of banking business **by 30 June 2014.**

6.14. The new capital requirements will strengthen both local and international banks so that they play a meaningful role in the development of the economy.

6.15. The eligible **capital components** for minimum capital purposes as defined in the Banking Act are:

i) paid up share capital;

ii) share premium;

iii) audited retained earnings; and

iv) current year retained earnings verified by the banking institution’ external auditors.

6.16. Every banking institution whose minimum paid - up equity capital does not comply with the respective prescribed level will be required to **submit a detailed recapitalisation plan** to the Reserve Bank by **30 September 2012**, for its consideration and approval, indicating amounts to be raised and time frames.

6.17. The above capital components conform **to the Basel III provisions which** introduce **a more stringent definition of, and qualifying criteria for minimum capital.**

6.18. The increases in minimum capital levels for banking institutions has been necessitated by the dynamic nature of the financial landscape, regulatory requirements, increasing competition and economic uncertainties, which has placed an unprecedented pressure on banks to be adequately capitalised at all times.

Adequate capitalisation is now a source of competitive advantage.

Motivation for New Capital Levels…

6.19. Internationally, there is a strong consensus among policymakers on the need for higher minimum capital requirements for banks in order to foster a more stable financial system.

6.20. Resultantly, regulators across the globe have increased minimum capital requirements for banks to strengthen their resilience to real and perceived exogenous and endogenous shocks.

6.21. The current operating environment for banking institutions is characterized by insignificant external funding, low disposable incomes, high interest rates and high operational costs. Further, low industry capacity utilization and illiquidity in the economy owing to depressed supply of credit is exacerbating pressure on interest rates.

6.22. Given the current minimum capital requirements, banking institutions' capacity to support significant economic activities is constrained. For instance, for a commercial bank to comply with the prudential lending limit of 25% of the bank's capital base, the bank may only lend up to $3.125 million per borrower. Consequently, given the current levels of capitalization, the banking industry will be able to support the funding requirements of a few borrowers.

6.23. Global experience indicates that the contribution of weak banks to Gross Domestic Products (GDP) is negligible underscoring the need to ensure that banking institutions in Zimbabwe are adequately resourced to play a meaningful role in economic development.

6.24. Contribution of banks to GDP varies across jurisdictions as illustrated by the domestic credit provided by the banking sector to the private sector in the table below.

Table 5: Some Country Indicators in Selected Countries

Country Name	Area (Km^2)	Population Size (million)	GDP (billions)	Number of Banks	Domestic Credit by Banking Sector (% of GDP)	
					2009	2010
South Africa	1,228,376	50.60	408.00	32	184.4	182.2
Nigeria	923,768	160.00	238. 92	25	36.9	36.3
Sudan	2,505,810	33.42	100.00	32	20.0	20.5
Tanzania	947,400	42.75	58.55	45	18.1	20.9
Uganda	241,550	33.47	42.15	26	11.8	17.1
Kenya	580,370	39.00	32.19	42	43.1	51.0
Mozambique	799,380	22.95	24.86	16	22.3	24.1
Zambia	752,614	13.05	20.04	23	18.5	18.9
Namibia	824,290	2.28	14.60	5	44.7	48.4
Malawi	118,000	13.07	12.98	12	32.0	28.4
Zimbabwe	390,757	13.50	10.07	25	12.3	20.4
Lesotho	30,344	2.20	3.03	4	12.8	13.7

Source: World Bank, IMF

6.25. It has now become apparent that at the current level of capitalization, banking institutions are not adequately geared to sustain and propel the economy’s recovery momentum.

6.26. Fewer, strong and adequately capitalized banking institutions are better placed to meet the funding requirements of a country’s economic agents than numerous weak and inadequately capitalised institutions.

6.27. South Africa with a GDP of over $400 billion in 2011 is supported by 32 banking institutions. In contrast, Zimbabwe with a GDP of around $10 billion has 26 operating banking institutions.

6.28. Well capitalised banks have ready access to significant external funding. South Africa recorded a domestic credit to GDP ratio of 182.2% in 2010 implying that in comparison, Zimbabwe is an under-banked economy in respect of the provision of services.

6.29. It is noteworthy that Zimbabwe with an estimated population size of only 13.5 million has 25 banking institutions whilst Nigeria, with a population of around 160 million, has the same number of banking institutions. Further, South Africa with a population size of more than 3 times Zimbabwe’s population has 32 banks.

Regional Experiences…

6.30. A number of regional countries such as Algeria, Kenya, Tanzania, Uganda and Zambia have revised their minimum capital requirements in a bid to boost loanable funds and liquidity, and lower the cost of credit.

6.31. The table below shows current and proposed/revised minimum capital requirements in selected regional countries.

Table 6: Minimum Capital Requirements in the Region

Country	Bank Category	Current Capital Requirements	Revised Capital Requirements
Regional			
Algeria	All Banks	$35.5 million	$142 million
Angola	All Banks	$4 million	-
Ethiopia	Banks	$10 million	-
Kenya	Banks	$3.3 million	$11.4 million
Malawi	Commercial Banks	$5 million	-
Nigeria	Universal Banks	$180 million	-
South Africa	Commercial Banks	$39 million	-
	Mutual Banks	$ 7.8 million	
Tanzania	Commercial Banks	$3.2 million	$9.5 million
Uganda	Commercial Banks	$1.7million	$10.4 million
Zambia	Local Banks	$0.43 million	$20 million
	Foreign Banks		$100 million

6.32. In view of the revised minimum capital requirements whose objective is to have a strong and efficient banking system that is resilient, **consolidation of banking institutions is inevitable**

MICRO-FINANCE INSTITUTIONS AND MONEY LENDING INSTITUTIONS

6.33. Microfinance and money lending institutions must desist from illegally taking deposits from the public. In view of this, the Reserve Bank is strengthening its monitoring and surveillance of these institutions and failure to comply with laws and regulations governing the conduct of their business as stipulated by the Reserve Bank, will lead to the cancellation of operating licenses.

MICROFINANCE BILL

6.34. As part of the response to the inadequate legislative provisions governing the microfinance sector in Zimbabwe, a draft Microfinance Bill is being finalized. The legal drafters are in the process of incorporating comments and inputs from the technical committee comprising the Reserve Bank, Ministry of Finance, Ministry of Small to Medium Enterprises, Ministry of Justice and Parliamentary Affairs, Zimbabwe Association of Microfinance Institutions, and the World Bank (local office).

EDUCATING THE PUBLIC

6.35. The banking sector is urged to educate the public on their rights when dealing with banks to increase awareness of increased untoward behaviour by financial institutions who are investing depositors' funds in unlawful facilities.

6.36. Substantial amounts of money are being wasted when some of the institutions take depositors' funds and utilize them for non-banking purposes.

6.37. In this regard, the banking public must be warned that when a bank or any financial institution is offering very high yields as compared to the rest of the market, then it's a signal that all is not well with that institution.

6.38. As such, the public should tread with utmost caution when they detect signs of this nature. When Monetary Authorities take remedial measures or even close these institutions, depositors will lose their valuable investments without any prospects of recovery. This largely applies to Microfinance Institutions that have expanded their operations beyond their legal mandates.

UPDATE ON BASEL II/III IMPLEMENTATION

6.39. I am pleased to advise that most banking institutions have started their internal Basel II parallel runs in line with the Reserve Bank's Basel II framework. There, however, remain a few institutions that are yet to operationalise and fine-tune their rating systems in line with standards outlined in the Reserve Bank's Basel II framework.

6.40. The Reserve Bank will in this transition period continue to monitor the stability of banking institution's Basel II systems as well as provide advice and guidance through seminars and workshops for banking institutions.

6.41. In line with the objective of Basel III which seeks to address weaknesses identified in the Basel II framework during the global financial crisis, where bank capital was insufficient to cover unexpected losses, the Reserve Bank will, with effect from 1 August 2012, increase the capital adequacy and tier 1 ratios from 10% and 5% to 12% and 8%, respectively.

6.42. The revision has been made to ensure that banks hold sufficient capital buffers that are available on an on-going basis to absorb unexpected losses in view of increased banking sector risks. Banking institutions are, however, urged to continue being vigilant in monitoring risks and develop robust risk management systems as capital alone is not a panacea to all threats facing banking institutions.

Table 7: Capital Adequacy and Tier 1 Ratios

Country	Leverage ratio	Tier 1 ratio (%)	Capital adequacy ratio (%)
Angola	-	10%	10%
Botswana	-	4%	15%
Kenya	-	8%	12%
Lesotho	-	5%	8%
Malawi	-	10%	15%
Mozambique	-	-	8%
Namibia	6%	7%	10%
Rwanda	-	10%	15%
Swaziland	-	4%	8%
Tanzania	-	10%	12%
Uganda	-	8%	12%
Zambia	6%	5%	10%
Zimbabwe	6%	8%	12%

6.43. This revision is in line with regional trends. Further, banking institutions are required to strengthen and develop robust internal capital adequacy assessment programs which conform to the size and complexity of their operations.

6.44. Following representations from the banking sector, the provisioning framework in the Reserve Bank's Basel II framework has been fine-tuned as shown in the table below:

Table 8: Basel 11 Framework

Grade	Provisioning Percentage (of Exposure)
1 to 2	1%
3	2%
4	3%
5	4%
6	5%
7	10%
8	20%
9	50%
10	100%

STRESS TESTING

6.45. In my Monetary Policy Statement of January 2012, I alluded to the requirement for banking institutions to conduct periodic stress tests as part of their risk management practices and submit the results to the Reserve Bank at the end of each reporting quarter.

6.46. In this regard, banking institutions submitted to the Reserve Bank stress testing results as at 31 March 2012. The coverage and depth of the stress tests by some banking institutions still needs to be enhanced and the Reserve Bank shall continue to guide the particular banking institutions accordingly.

ISSUANCE OF GOVERNMENT PAPER

6.47. The need to expeditiously introduce short term Government debt instruments, in particular Treasury Bills of 90-365 day tenure to improve liquidity cannot be over-emphasized.. The benefits associated with issuing short dated Treasury Bills go beyond the need to support Government operations. Other benefits include the re-activation of the money market and the positive externalities generated through other financial instruments.

6.48. Against this background, Authorities are in the process of making arrangements for the issuance of Government instruments in the next fortnight.

6.49. The issuance of Issuance of Government paper is envisaged to help eliminate attendant interest rate distortions in the money and capital markets, reduce high bank charges, facilitate inter bank trading and providing a benchmark interest rate.

6.50. Once Government paper is issued, bank charges will be streamlined, lending rates will normalize and the lender of last resort window can function smoothly with requisite collateral. Within this context, inter-bank trading will also be enhanced as the institutions will have acceptable collateral in the form of the short-dated Treasury Bills.

7. CONCLUSION

7.1. The deterioration in domestic and global macroeconomic conditions experienced in 2012 has tilted risks of accelerated economic recovery to the downside. Additional challenges occasioned by declining agricultural activity as a result of the drought, commodity price deflation, persistent liquidity challenges and emerging banking sector vulnerabilities have combined to dim recovery prospects.

7.2. This notwithstanding, we remain optimistic that our resilient economy will weather the vagaries of the turbulent global economic environment.

7.3. This requires that domestic industrial activity be rejuvenated with a view to bridging attendant supply gaps and shedding off excessive import dependence. This will undoubtedly arrest the erosion of the country's deposit base as the country's external sector position improves.

7.4. As Monetary Authorities, we will remain steadfastly vigilant to safeguard depositors' funds and ensure the safety and soundness of the banking sector. This will see the banking sector continue to play its intermediary role to support the re-orientation of the Zimbabwean economy firmly onto a sustained growth trajectory.

7.5. Most importantly, the amicable resolution of the country's external debt, as encapsulated in ZAADDS coupled with the re-engagement of the IMF to commence an SMP will unlock credit lines, improve the country's creditworthiness and increase the flow of affordable lines of credit to productive sectors. This is envisaged to provide substantial impetus to efforts geared at situating Zimbabwe in its rightful position among its regional and continental peers.

THANK YOU

DR. G. GONO

GOVERNOR

RESERVE BANK OF ZIMBABWE

31 JULY 2012