MONETARY POLICY STATEMENT

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RESERVE BANK OF ZIMBABWE

"Stimulating Economic Growth and Bolstering Confidence"

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SECTION I: INTRODUCTION AND EXECUTIVE SUMMARY

This Monetary Policy Statement is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15] which requires the Bank to formulate and implement monetary policy for the country. The main objective of this Monetary Policy Statement is to present policies that **stimulate the national economy with a vision for Zimbabwe to regain its status of being the Bread Basket of Africa.** This is achievable through the national mission **to enhance production and productivity** across the board within the context of the **New Normal** that is characterised by several domestic and global economic and geopolitical considerations.

This Monetary Policy Statement also seeks to assess the measures instituted by the Bank since May 2016, including the introduction of an export incentive scheme financed through bond notes, among other policy interventions geared at **promoting domestic output and productivity (supply-side reforms)** that are necessary to increase jobs and exports, ensure monetary and financial sector stability, promote formalisation of the economy, and to reduce poverty.

The prospects of achieving the objective of stimulating the national economy has been made brighter by the expected good outturn of the 2016/2017 agricultural season which is coming soon after the devastating El Nino induced drought of 2015/2016. This positive agricultural outturn is expected to be a catalyst or springboard for transforming Zimbabwe's growth model to move away **from being a consumptive economy to a productive and high exporting country.** This new economic development model calls for fundamental structural reforms in addressing the nation's high gearing or leverage ratio, perceived negative investment environment, lack of export competitiveness, fiscal consolidation, institutional and market indiscipline, formalisation of the economy and expanding the role of small to medium scale enterprises (SMEs).

A number of policy measures are being implemented to transform Zimbabwe's growth model in line with ZimAsset. Chief among them being the ease and cost of doing business reforms being championed by the Office of the President and Cabinet, the Public Finance Management Framework by the Ministry of Finance and Economic Development, the Special Economic Zones by the Ministry of Macro-Planning and Investment Promotion, localisation of domestic industrial production through Statutory Instrument 64 of 2016 promulgated by the Ministry of Industry and Commerce and the foreign exchange management measures put in place by the Bank.

Moreover the introduction of an export incentive scheme financed through bond notes has seen a positive response, particularly from tobacco and gold producers. According to the Tobacco Industry and Marketing Board (TIMB), tobacco farmers have increased the hectarage under this agricultural season by around 10% from 97 000 hectares planted in 2015/2016 to 107 000 hectares with an expected output of 200-215 million kilograms of greenleaf tobacco. The gold sector has also responded positively to the incentive scheme and the monitoring process by the Gold Mobilisation Committee resulting in the increase in gold delivered to Fidelity Printers and Refiners (FPR) by 17% from 18.3 tonnes in 2015 to 21.4 tonnes in 2016. Gold delivery to FPR, which excludes the gold from Platinum Group Metals (PGMs), is expected to be 25 tonnes in 2017.

The positive spin-offs from the recent removal of Zimbabwe from the International Monetary Fund (IMF) remedial measures, following successful clearance of its arrears to the Fund in October 2016, are also expected to go a long way in reducing Zimbabwe's country risk, thus attracting the much needed foreign investment.

Completion of the clearance of external debt arrears to the rest of the international financial institutions – African Development Bank (AfDB), World Bank and European Investment Bank (EIB) – is expected to further reduce the country's debt burden that continues to be an albatross on Zimbabwe's access to foreign finance for the past 16 years now at a time when other emerging markets have been making tremendous strides in their economic transformation. As a consequence, Zimbabwe has lagged behind and needs to catch up with its peers.

The implementation and effect of Brexit in Europe will have an impact on the trade relationship between Britain and the rest of Europe and also between Africa and Europe. Also the depreciation of the British Pound following the vote to leave the EU will affect the size of remittances to countries such as Zimbabwe. In addition, the rebalancing of the Chinese economy between production and consumption has direct impact on Zimbabwe's exports of primary products (mainly minerals) to China.

In view of the above, this Monetary Policy Statement aims at taking opportunity of the expected good agricultural season **to change the course of the economy** through instituting additional policy measures and in some cases reforming current policies with a view to enhance financial stability, bolster business sentiment and increase output and exports in 2017 and beyond. This opportunity should not be squandered.

Measures in this Monetary Policy Statement that are geared to stimulate this economic growth agenda are summarised below:

1. Measures to strengthen the stability of the financial sector by extending the US$200 million African Export-Import Bank (Afreximbank) Trade Debt-Backed Securities (Aftrades) facility which operates on the lines of the lender of last resort at the Bank for local banks.

2. Putting in place a US$70 million nostro stabilisation facility to deal with the delays in processing of outgoing payments by banks.

3. Measures to reduce the cost of doing business by reducing lending rates charged by banks from an upper limit of 15% to 12% per annum, and by reducing charges on the use of plastic money to as low as 10 cents for small purchases of $10 and below.

4. Measures to promote efficiency and discipline in the utilisation of foreign currency by ensuring that banks comply with the foreign exchange priority guidelines.

5. Measures to strengthen the resuscitation of firms under ZAMCO through the provision of working capital to deserving cases through normal banking channels.

6. Measures to promote exports by revamping the horticulture finance facility and enhancing the gold development facility from US$20 million to US$40 million.

7. Putting in place facilities to cater for the requirements of bonafide cross-border traders registered with recognised cross-border associations through normal banking channels and Easylink.

8. Strengthening the parity of bond notes to the US$ by meeting foreign exchange demand attributable to bond notes deposits.

9. Making available up to US$35 million for spearheading funding requirements under the National Financial Inclusion Strategy to meet the needs for women, SMEs, business linkages/ value chain activities.

10. Financial integrity to combat money laundering and ensuring that offshore accounts for Zimbabwe entities are closely monitored to avoid tax invasion and transfer pricing.
11. Operationalisation of the Credit Registry to enhance financial stability and improve financial intermediation by banks.
12. Strengthening the farmers stop order system to curb side marketing and attract funding for agriculture.

These measures would be complemented by policy advice on measures necessary to support a sustained economic recovery anchored on the good agricultural season.

The rest of this Policy Statement is organized as follows; Section 2 reviews the global economic developments. Section 3 looks at the balance of payments developments. Section 4 looks at Inflation, Monetary and Financial sector developments. Section 5 gives highlights on the National Payment System. Section 6 presents new measures to stimulate the economy and bolster confidence. Section 7 gives policy advice. Section 8 is the conclusion of the Statement.

SECTION 2: GLOBAL DEVELOPMENTS

Economic activity is projected to pick up in 2017 and 2018 following a slowdown in 2016. Global growth is projected to rise from 3.1% in 2016, to 3.4% in 2017 and 3.6% in 2018. Recovery in global growth stems from improvements in some large emerging market and low income economies that were stressed in 2016. Better prospects in the United States, Europe, China and Japan are also expected to lift up growth.

Notwithstanding the global recovery, vulnerabilities include rising aversion towards globalisation, trade and immigration, widespread high levels of public and private debt, the ongoing climate change which especially affects low-income countries; and continuing slow growth and deflationary pressures as well as non-economic factors in the form of geopolitical and political uncertainty in some regions.

Table 1 shows economic growth developments and the revised projections for selected regions and countries for 2016 and 2017.

Table 1: Global Economic Growth & Outlook (%)

	Actuals		Estimate	Projections	
	2014	**2015**	**2016**	**2017**	**2018**
World Output	**3.4**	**3.2**	**3.1**	**3.4**	**3.6**
Advanced Economies	**1.9**	**2.1**	**1.6**	**1.9**	**2.0**
US	2.4	2.6	1.6	2.3	2.5
Euro Area	0.9	2.0	1.7	1.6	1.6
Japan	0.0	0.5	0.9	0.8	0.5
Emerging Market &	**4.6**	**4.0**	**4.1**	**4.5**	**4.8**
China	7.3	6.9	6.7	6.5	6.0
India	7.2	7.6	6.6	7.2	7.7
Sub-Saharan Africa	**5.1**	**3.4**	**1.6**	**2.8**	**3.7**
Zimbabwe	3.8	1.1	0.6	1.7	-
Latin America & the	**1.3**	**0.0**	**-0.7**	**1.2**	**1.1**

Source: IMF World Economic Outlook Update (January 2017), Ministry of Finance and Economic Development and RBZ projections

Sub-Saharan Africa (SSA)'s growth prospects are expected to improve on account of normalization of conditions in large economies that experienced macroeconomic strains. Oil production in Nigeria is projected to increase due to security improvements. Growth in the region is projected to rise from 1.6 % in 2016 to 2.8% and 3.6% in 2017 and 2018; respectively.

The risks to global growth in the outlook period calls for accelerated implementation of monetary, fiscal and structural policies tailored to country circumstances in order to spur productivity and output.

Commodity Price Developments

Commodity prices generally declined over the recent past mainly on account of weakening growth prospects in China, the world's largest metal consumer. This, notwithstanding, commodity prices modestly recovered on the backdrop of transient stabilisation of global markets during the first quarter of 2016.

Commodity price developments for precious and base metals have implications on Zimbabwe's external sector position as the country mainly exports primary and semi-processed minerals.

Precious Metal Prices

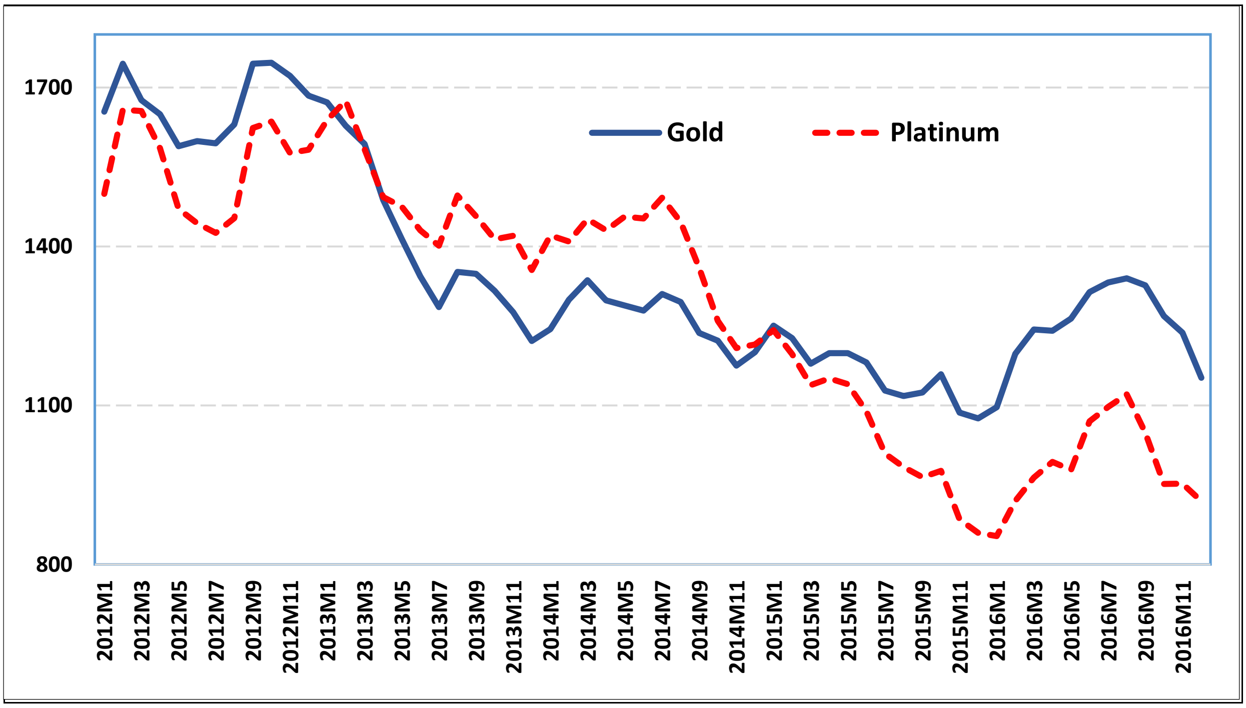
Precious metal prices firmed during the period January to December 2016 on account of strong investment demand and safe haven buying amid continued low interest rate policies.

Accordingly, monthly average gold prices recovered from a low of US$1 096.68/oz in January to a pick of US$1 152.35/oz in December 2016. However, prices slipped in late September and early October on growing expectations that the U.S. Federal

Reserve would raise interest rates in December 2016.The gold prices further declined, after a rise of interest rates on 4 December 2016.

Similarly, platinum prices recorded a modest recovery in 2016, firming by 7.7% from a monthly average of US$853.65/oz in January to US$919.47/oz in December 2016. The modest recovery in platinum prices was supported by exchange rate developments of the South African rand and tightening physical supply of the commodity.

Figure 1: Precious Minerals Prices (US$/oz): Jan 2012 - Dec 2016



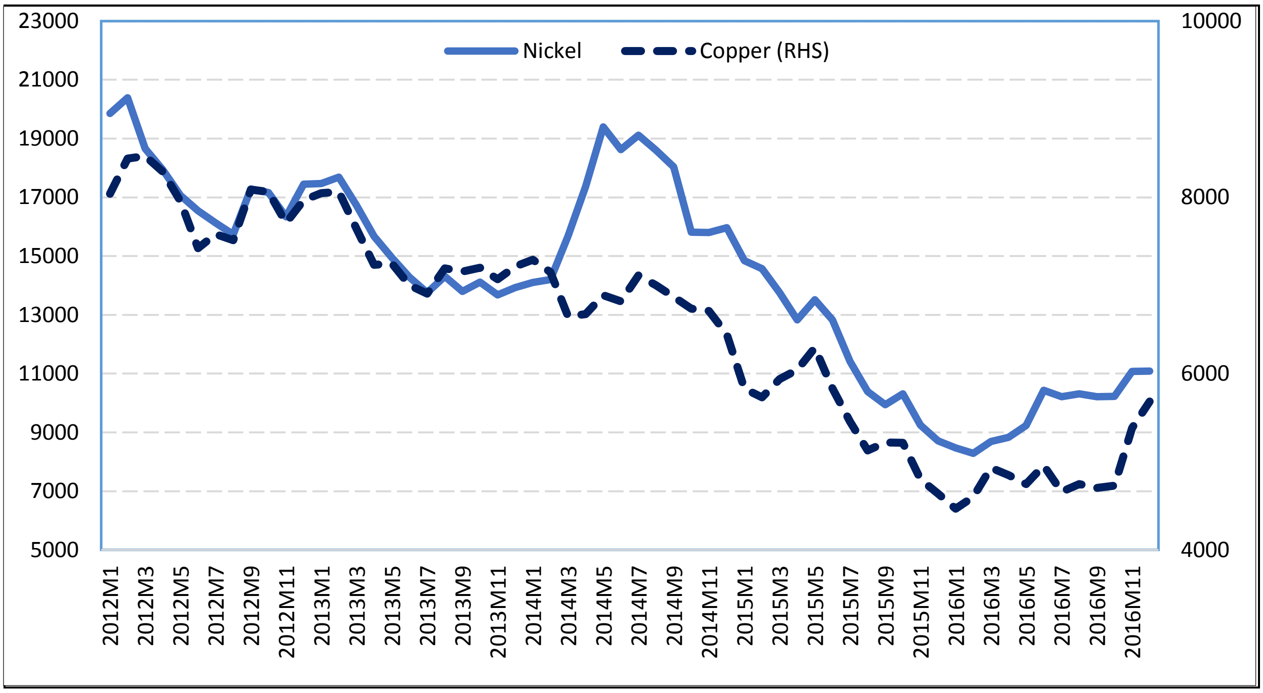
Source: World Bank Commodity Price Data

Notwithstanding the firming gold and platinum prices, they are still way below the levels realised in 2012.

Base Metal Prices

Over the period January to December 2016, copper and nickel monthly average prices picked by 24.4% and 30.8% to US$5 693.16/tonne and US$11 082.63/tonne, respectively, as shown in Figure 2 below.

Figure 2: Nickel & Copper Prices (US$/tonne): Jan 2012 - Dec 2016



Source: World Bank Commodity Price Data

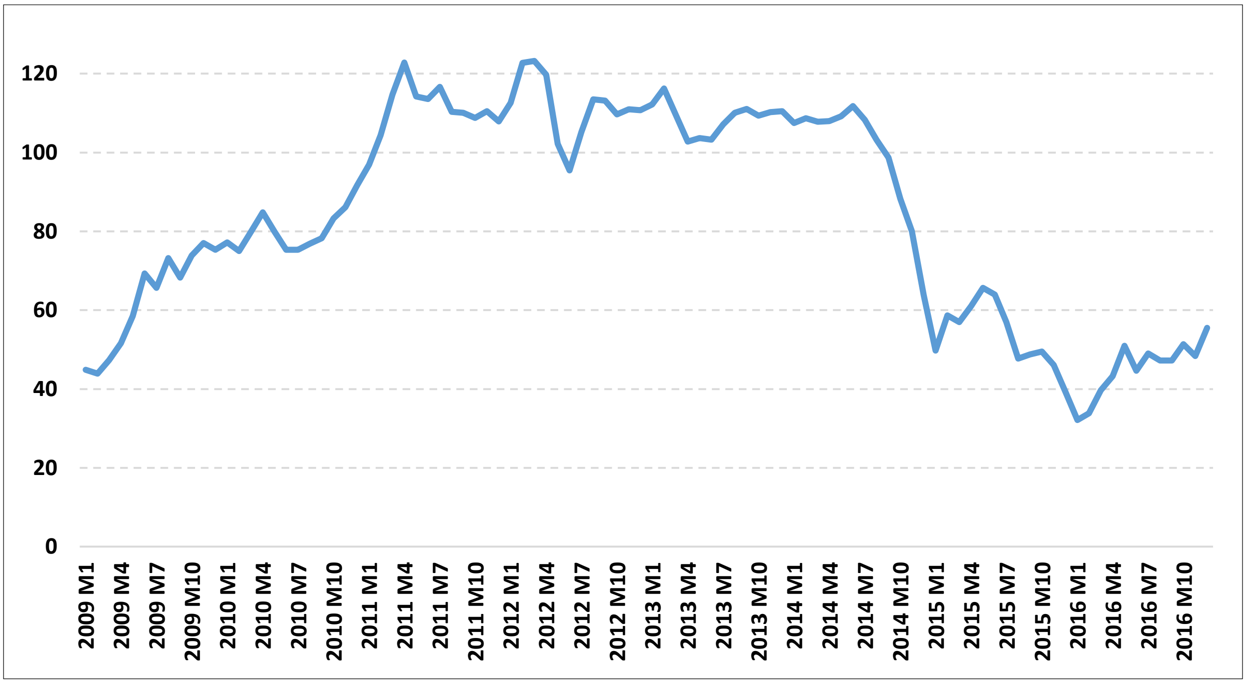
Policy efforts in China, the world's largest consumer of base metals to boost the commodity-intensive infrastructure and construction sectors was a key driver of demand in 2016. Nickel prices were also supported by strong stainless steel demand and potential loss of Philippines ore output due to environmental mine audits. The Philippines government recommended suspending 55 percent of the country's nickel production, or more than 10 percent of global supply.

Crude Oil Prices

Crude oil prices, which declined to record low levels in early 2016, recovered steadily to average US$55.48/barrel in December, 2016. Crude oil prices were, however, volatile, falling from a high of US$50/barrel in early June to below US$47/barrel in September 2016, on weak demand and recovering supply.

Crude oil prices later rebounded to above US$50/barrel in early October following an Organization of the Petroleum Exporting Countries (OPEC) agreement to limit output to between 32.5 and 33.0 million barrels per day. Figure 3 below shows the evolution in crude oil prices since 2009.

Figure 3: Brent Crude Oil Prices (US$/Barrel): Jan 2009 - Dec 2016



Source: World Bank Commodity Price Data

SECTION 3: ZIMBABWE EXTERNAL SECTOR DEVELOPMENTS

The country's external sector slightly improved on account of import compression measures taken by Government. Sustained improvement in the external sector, however, continue to be hampered by factors such as the continued appreciation of the USD, low commodity prices and diminished direct and portfolio investments.

Balance of Payments

Over the period January to December 2016, merchandise exports decreased by 6.9%, from US$3,614.2 million realized in 2015 to US$3,365.8 million during the corresponding period in 2016. Similarly, merchandise imports for the period January to December 2016 at US$5,350.9 million, declined by 11.7% from US$6,062.3 million realized over the comparative period in 2015.

Export performance was mainly driven by increases in the volume of gold exports attributable to the export incentive being paid to gold producers by the Reserve Bank and the positive effect of the Gold Monitoring Committee.

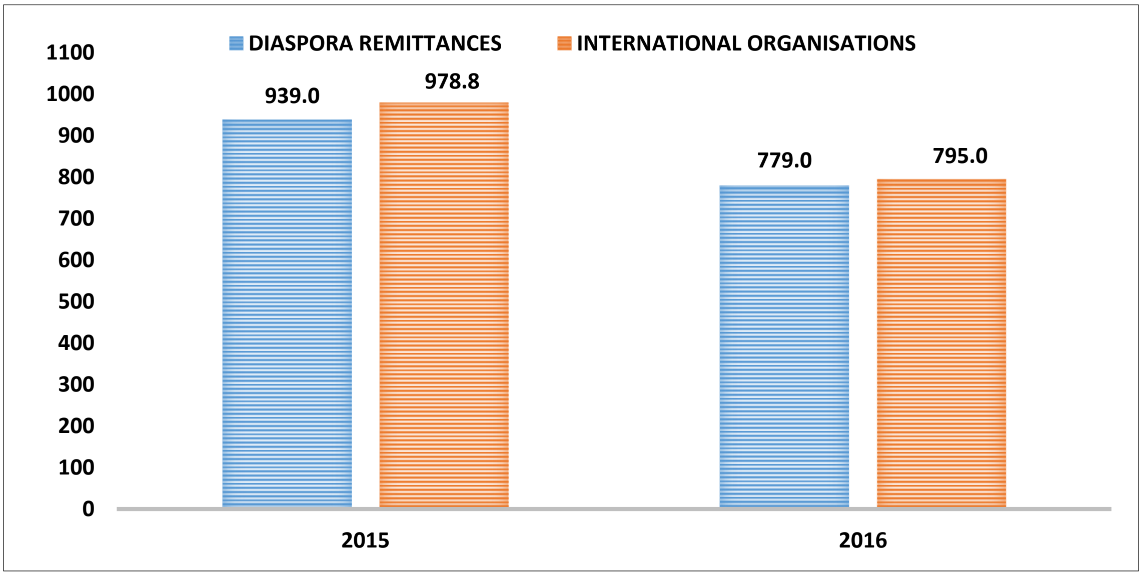
A combination of foreign currency management measures announced by the Bank in May 2016 and import management measures by the Ministry of Industry and Trade, as well as the effect of a stronger U.S. dollar on the country's terms of trade, in part, explain the declining import bill in 2016.

In 2016, food imports (maize and wheat), however, surged owing to the El Nino induced drought that destroyed crops in the Southern African region, including Zimbabwe. Continued reliance on imports of finished goods is unsustainable as it undermines current efforts to resuscitate domestic industrial production, leading to significant trade and current account deficits.

Driven by merchandise trade developments, the current account deficit is estimated to have narrowed down by about 15.5%, from a deficit of US$1,519.4 million in 2015, to a deficit of US$1,283.9 million in 2016, partly on account of the projected decline in the import bill.

Remittances, which are also a major source of import financing declined by 17.9% in 2016, from US$1,917.7 million received in 2015 to US$1,574.0 million in 2016. Of the total amount received in 2016, US$779.0 million reflects remittances from the Diaspora while remittances from International Organizations (NGOs) amounted to US$795.0 million.

Figure 4: Remittances (US$m)



Source: RBZ

The decline in Diaspora remittances is attributed to the poor performance of the global economy, the depreciation of the South African Rand (South Africa contributes about 34% of the total Diaspora remittances) and the increasing preference of the Diaspora to send remittances in kind and through informal channels. The introduction of Diaspora Remittance Incentive Scheme (DRIS) is expected to increase the remittances sent through formal channels.

Despite these efforts geared towards containing the country's import bill, export growth has not been adequate to surpass that of imports, resulting in an estimated US$1985.1 million negative trade balance in 2016. This situation is not sustainable.

Table 2: Balance of Payments Snapshot (US$m)

	2013	2014	2015	2016	2017
	Actual	Actual	Actual	Est	Proj
Current Account Balance	**-2,539.2**	**-2,247.5**	**-1,519.4**	**-1,283.9**	**-826.5**
Trade Balance (Goods)	**-2,947.1**	**-2,589.1**	**-2,448.1**	**-1,985.1**	**-1,537.3**
Merchandise Exports F.O.B	**3,861.8**	**3,717.2**	**3,614.2**	**3,365.8**	**3,669.5**
Of which, Agriculture	*1,047.5*	*981.2*	*1,015.9*	*1,036.3*	*1,113.5*
Mining	*2,223.3*	*2,113.4*	*2,089.2*	*1,910.1*	*2,098.6*
Manufacturing	*487.0*	*532.8*	*417.1*	*325.1*	*360.7*
Merchandise Imports F.O.B	**6,808.9**	**6,306.3**	**6,062.3**	**5,350.9**	**5,206.8**
Of which, Food	*658.1*	*352.3*	*586.3*	*629.1*	*375.2*
Fuel	*1,364.7*	*1,393.6*	*1,460.9*	*1,455.9*	*1,539.5*
Capital & Financial Account	**1,687.6**	**2,095.8**	**1,632.3**	**891.2**	**711.2**
Errors And Omissions	*656.2*	*111.5*	*-138.6*	*206.3*	*0.0*
Overall Balance	**-195.4**	**-40.3**	**-25.8**	**-186.4**	**-115.2**

Source: RBZ, Ministry of Finance & Zimstat

Financing of the Current Account Deficit

The current account deficit continues to be mainly financed through private sector offshore loans against the backdrop of subdued direct and portfolio investment in the economy. While private sector foreign loans have continued to be a major source of liquidity in the economy since the adoption of the multicurrency system in 2009, they also continue to increase the country's gearing or leveraging ratio. This scenario is to be improved by encouraging equity as opposed to solely rely on loan finance.

External Loans Developments

The Reserve Bank approved and registered a total of 247 facilities with a monetary value of USD1.8 billion in 2016. Agriculture received the largest, accounting for 47% of loan approvals during 2016, largely driven by tobacco finance facilities which are renewed seasonally. Telecommunication companies have also managed to negotiate for considerable amounts of credit from offshore lenders and hence accounted for 8% of total loan approvals in 2016.

Table 3: External Loan Approvals by Industry/Activity: Jan-Dec 2016

Industry/Activity	Number of Facilities	Approved Amount US$m	Percentage Contribution
Agriculture	64	886.8	48%
Communication	5	143.7	8%
Construction	8	7.5	0%
Energy	7	109.7	6%
Financial	30	383.7	21%
Individuals	4	0.1	0%
Manufacturing	25	52.6	3%
Mining	20	45.1	2%
Retail & Distribution	27	70.9	4%
Services	23	130.2	7%
Tourism & Hospitality	15	10.0	1%
Transport	19	26.0	1%
Total	247	1,866.3	1

Source: RBZ

The need to increase the country's power generation capacity saw the country mobilising close to US$109 million earmarked for power generation projects during 2016. This development is envisaged to improve the country's power generating capacity with positive knock on effects on productivity and the balance of payments.

Table 4: Comparison of Loan Approvals per Month in 2015 and 2016

	2016		2015	
Month	**Number of Facilities**	**Approved Amount (US$m)**	**Number of Facilities**	**Approved Amount (US$m)**
January	28	27.4	18	98.8
February	21	133.1	28	129.8
March	29	126.6	52	170.4
April	18	73.9	31	373.9
May	23	427.5	24	111.3
June	39	187.8	32	278.5
July	11	95.7	30	102
August	18	35.1	25	132.4
September	19	44.9	35	62
October	10	372.8	31	154
November	22	203.1	17	169.6
December	7	115.4	24	33.5
TOTAL	**247**	**1866.3**	**347**	**1,816.2**

Source: RBZ

The value of loan approvals increased by a marginal 1.5% from US$1,816.2 million in 2015 to US$1,843.3 million approved in 2016. Notwithstanding the US$1,843.3 billion worth of external loan facilities approved during 2016, drawdowns during the year amounted to US$509.6 million and this also included drawdowns on facilities approved in previous years. This low drawdowns arose mainly from some borrowers who failed to access the funds due to failure to meet drawdown conditions from external lenders.

Net foreign direct investment flows are estimated to have declined from US$399.2 million in 2015, to US$254.7 million in 2016, while portfolio investment declined from a surplus of US$122.8 million to a deficit of US$26.0 million.

Reflecting developments on both the current and capital account, the overall balance of payments position is estimated to have deteriorated from a deficit of US$25.8 million in 2015 to a deficit of US$186.4 million in 2016. This phenomenon reflects an unsustainable economic situation of funding capital projects using loans as opposed to equity. The danger with this scenario is that debt would become unsustainable as exports are mortgaged towards debt repayments.

Foreign Cash Payments and Receipts

Total foreign currency cash receipts for the year 2016 amounted to US$5,408.0 million compared to US$6,260.3 million received during the same period in 2015, representing about 13.6% decline in liquid foreign currency supply. The table below shows total liquid foreign currency receipts by source.

Table 5: Total Foreign Currency Receipts (US$m)

Type of Receipt	2016	2015	% Change
Export Proceeds	2,956.2	3,383.2	-12.6
International Remittances	1,572.0	1,917.7	-18.0
Loan Proceeds	509.6	756.1	-32.6
Income receipts	319.6	58.1	450.1
Foreign Investment	50.6	145.2	-65.2
TOTAL	**5,408.0**	**6,260.3**	**-13.6**

Source: RBZ

Foreign Cash Payments

For the year 2016, Authorised Dealers processed foreign payments amounting to US$5,128.0 million. This represents a 29.0% decline from US$7,181.0 million for the same period in 2015. The decline in foreign payments is attributed to the enhanced management of foreign currency which is being implemented through the import priority list guideline to Authorised Dealers.

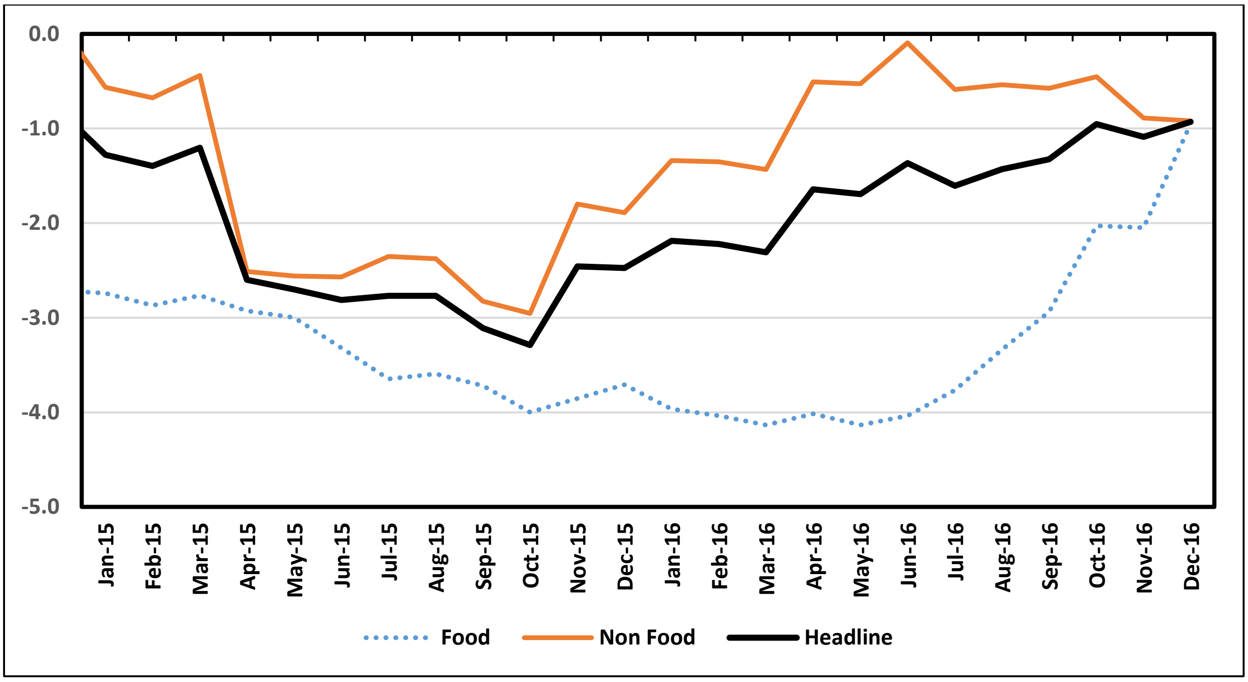
In addition, the import containment measures introduced through Statutory Instrument 64 of 2016 also assisted in the reduction of the foreign payments. Furthermore, the Reserve Bank has adopted various measures to curb externalisation and an enhanced compliance framework for market players which has seen import payments significantly reduced.

SECTION 4: INFLATION, MONETARY AND FINANCIAL DEVELOPMENTS

Inflation Developments

Annual headline inflation remained in the negative territory in 2016, averaging -1.56% for the year, despite accelerating from -2.19% in January 2016 to -0.9% in December 2016. The increase in inflation was driven by both food and non-food inflation. Food inflation rose from -3.96% in January 2016 to -0.95% in December 2016, while non-food inflation accelerated from -1.3% to -0.92% during the same period. Figure 5 below shows the annual headline inflation profile for the period January 2015 to December 2016.

Figure 5: Annual Inflation Rate (%)



Source: ZIMSTAT

Deflationary pressures, however, still persisted in the economy, largely underpinned by competition from cheap imports; international oil price slump as well as low disposable income.

The low food inflation in 2016, mainly driven by declines in prices of milk, cheese and eggs; meat; fruits; vegetables and oils and fats, largely reflected increased competition in the retail sector as well as continued availability of basic commodities in the market. Other sub-categories that contributed to the decline in food inflation include; bread and cereals; fish and sea food; and non-alcoholic beverages. Following significant increases in the price of sugar, there were also corresponding increases in the price of commodities in which sugar is an ingredient. This significantly offset the price declines in other food categories.

Non-food inflation was weighed down by the decline in sub-categories such as housing, water, electricity, gas and other fuels; furniture, household equipment and maintenance. Transport and communication also contributed to the negative inflation in 2016, while the increase in education inflation partially offset the declines.

Following these developments, Zimbabwe remains the only country with negative inflation in the SADC region, as shown in the Table 6 below.

Table 6: Annual Inflation rates for selected SADC Member Countries &USA (%)

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Nov-2015	-2.5	4.8	2.9	6.3	6.6	19.5	24.6	0.5
Dec-2015	-2.5	5.2	3.1	10.6	6.8	21.1	24.9	0.7
Jan-2016	-2.2	6.2	2.7	11.3	6.5	21.8	23.5	1.4
Feb-2016	-2.2	7.0	3.0	12.2	5.6	22.9	23.4	1.0
Mar-2016	-2.3	6.3	3.0	13.6	5.4	22.2	22.1	0.9
Apr-2016	-1.6	6.2	2.8	17.3	5.1	21.8	20.1	1.1
May-2016	-1.7	6.1	2.8	18.3	5.2	21.3	21.5	1.0
Jun-2016	-1.4	6.3	2.7	19.7	5.5	21.0	22.6	1.0
Jul-2016	-1.6	6.0	2.7	20.7	5.1	20.2	23.5	0.8
Aug-2016	-1.4	5.9	2.6	22.0	4.9	19.6	22.8	1.1
Sept-2016	-1.3	6.1	2.6	24.9	4.5	18.9	21.2	1.5
Oct-2016	-1.0	6.4	2.7	25.5	4.5	12.5	20.1	1.6
Nov-2016	-1.1	6.6	2.9	26.8	4.8	8.8	19.9	1.7
Dec-2016	-0.9	n/a	3.0	25.3	5.0	7.5	n/a	n/a

Source: Country Central Bank Websites, 2016

Inflation Outlook

Inflation is expected to move into positive territory in 2017 for the first time since September 2014, on the back of anticipated increase in international oil prices and domestic sector recovery. There are strong indications that oil supply will fall on the global market, following the agreement by oil producing nations to cut production in 2017. This positive trajectory is expected to be reinforced by the general recovery of the economy in 2017 on account of the expected strong agricultural outturn which is going to increase disposable income.

In view of the above factors, the Bank projects inflation of around 1 to 2% in 2017.

FINANCIAL SECTOR DEVELOPMENTS

Performance and Condition of Banking Sector

The banking sector continued to remain safe and sound. The financial soundness indicators as at 31 December 2016 are shown in Table 7 below:

Table 7: Financial Soundness Indicators

Key Indicators	Dec-2015	Mar-2016	Jun-16	Sep-16	Dec-16
Total Assets	$7.83bn	$7.79bn	$8.01bn	$8.25bn	$8.73bn
Total Loans	$3.87bn	$3.81bn	$3.73bn	$3.65bn	$3.69bn
Net Capital Base	$1.14bn	$1.16bn	$1.22bn	$1.24bn	$1.34bn
Total Deposits	$5.62bn	$5.67bn	$5.91bn	$6.14bn	$6.51bn
Net Profit	$127.47m	$38.55m	$67.97m	$111.78m	$181.06m
Return on Assets	2.11%	0.50%	0.98%	1.57%	2.26%
Return on Equity	10.96%	3.29%	3.53%	8.94%	12.64%
Capital Adequacy Ratio	21.31%	22.34%	23.45%	23.71%	23.70%
Loans to Deposits	86.07%	67.17%	63.08%	59.45%	56.64%
Non-Performing Loans Ratio	10.82%	10.81%	10.05%	10.74%	7.87%
Provisions to Adversely	69.22%	77.36%	69.87%	68.05%	68.51%
Liquidity Ratio	48.09%	49.63%	52.47%	54.15%	61.91%
Cost to Income Ratio	84.24%	84.67%	84.23%	82.75%	79.20%

Source: RBZ

The sector performed satisfactorily as measured by capital adequacy and profitability as discussed hereunder.

Banking Sector Capitalisation

The banking sector is safe and sound with strong capital cushion that may be utilized in times of stress. The banking sector's aggregate core capital increased by 7.48%, from $1.07 billion to $1.15 billion during the quarter ended 31 December 2016 on the back of satisfactory earnings performance.

As at 31 December 2016, all operating banking institutions were in compliance with the prescribed minimum capital requirements. The table below indicates the banking sector capitalization levels as at 31 December 2016.

Table 8: Banking sector capitalization levels as at 31 December 2016

Institution	Core Capital as at 31 December 2015 (US$m)	Core Capital as at 31 December 2016 (US$m)	Prescribed Minimum Capital requirements (US$m)
CBZ Bank*	205.7	**246.6**	25.0
Stanbic Bank	86.1	**107.8**	25.0
BANCABC	67.9	**71.4**	25.0
FBC Bank	39.3	**60.2**	25.0
Barclays Bank	46.4	**57.3**	25.0
ZB Bank	39.0	**55.1**	25.0
Standard Chartered	57.4	**54.0**	25.0
Ecobank	44.4	**52.1**	25.0
Steward Bank	42.2	**49.5**	25.0
NMB Bank	42.1	**48.2**	25.0
MBCA Bank	41.3	**45.5**	25.0
Agribank	35.3	**45.4**	25.0
Metbank	33.8	**40.0**	25.0
BUILDING			
CABS Building Society	108.6	**117.6**	20.0
FBC Building Society	35.0	**40.8**	20.0
National Building	-	**21.9**	20.0
ZB Building Society**	15.7	**16.9**	20.0

Institution	Core Capital as at 31 December 2015 (US$m)	Core Capital as at 31 December 2016 (US$m)	Prescribed Minimum Capital requirements (US$m)
SAVINGS BANK			
POSB	41.4	**40.5**	-

Source: RBZ

*** including CBZ Building Society**

**** Society being merged with ZB Bank**

Capital adequacy ratio, a measure for solvency stood at 23.7% as at 31 December 2016 which is well above the regulatory threshold of 12%. All banks complied with the minimum required capital adequacy and tier 1 ratios of 12% and 8%, respectively. The Reserve Bank is monitoring implementation of the banking institutions' capital plans and progress towards compliance with the 2020 minimum capital requirements.

Earnings

The banking sector remained profitable during the year ended 31 December 2016, with an aggregate net profit of $181.06 million, an increase of 42.36% from $127.47 million reported for the corresponding period in 2015. The increase translated to improved average return on assets and return on equity from 2.07% and 11.03%, to 2.26% and 12.64%, respectively.

All operating banking institutions recorded profits during the period ended 31 December 2016. The increase in profitability was largely driven by lower loan loss provisions in line with improving asset quality, lower interest expenses, as well as continued realignment of cost structures at most institutions.

Interest income continued to be the major income driver constituting 58.40% of total income of $1.05 billion for the period ended 31 December 2016 while salaries &

employment benefits dominated total costs for banking institutions as they accounted for 42.53% of total banking sector costs.

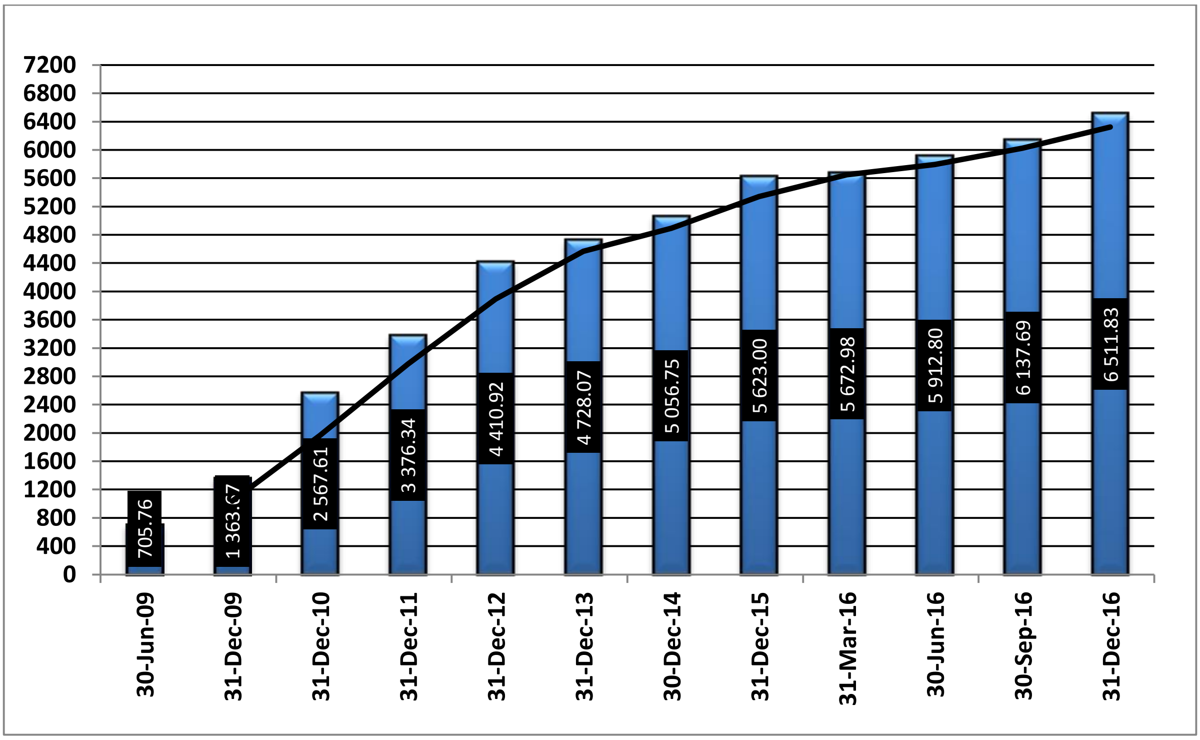
Banking institutions continue to implement various measures to enhance their earnings capacity through embracing technology in banking which is more cost efficient than traditional approaches to banking as well as adoption of agency banking models, while instituting cost containment measures.

Financial Intermediation

Banking Sector Deposits

Total banking sector deposits increased by 6.10%, from $6.14 billion as at 30 September 2016 to $6.51 billion as at 31 December 2016.The figure below shows the trend of banking sector deposits over the period 30 June 2009 to 31 December 2016.

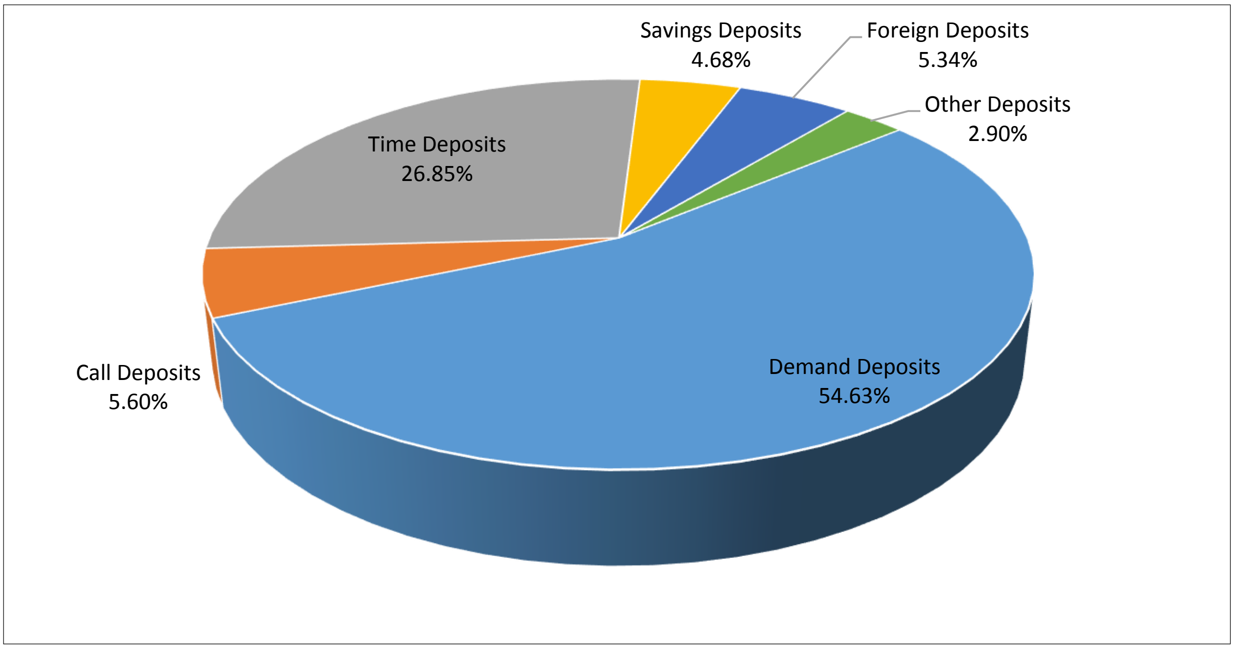
Figure 6: Trend of Banking Sector Deposits



Source: RBZ

The commercial banking sub-sector accounted for 82.02% of the banking sector deposits and 74.18% of the total banking sector loans as at 31 December 2016. The composition of total banking sector deposits as at 31 December 2016 is depicted below.

Figure 7: Composition of Deposits as at 31 December 2016



Source: RBZ

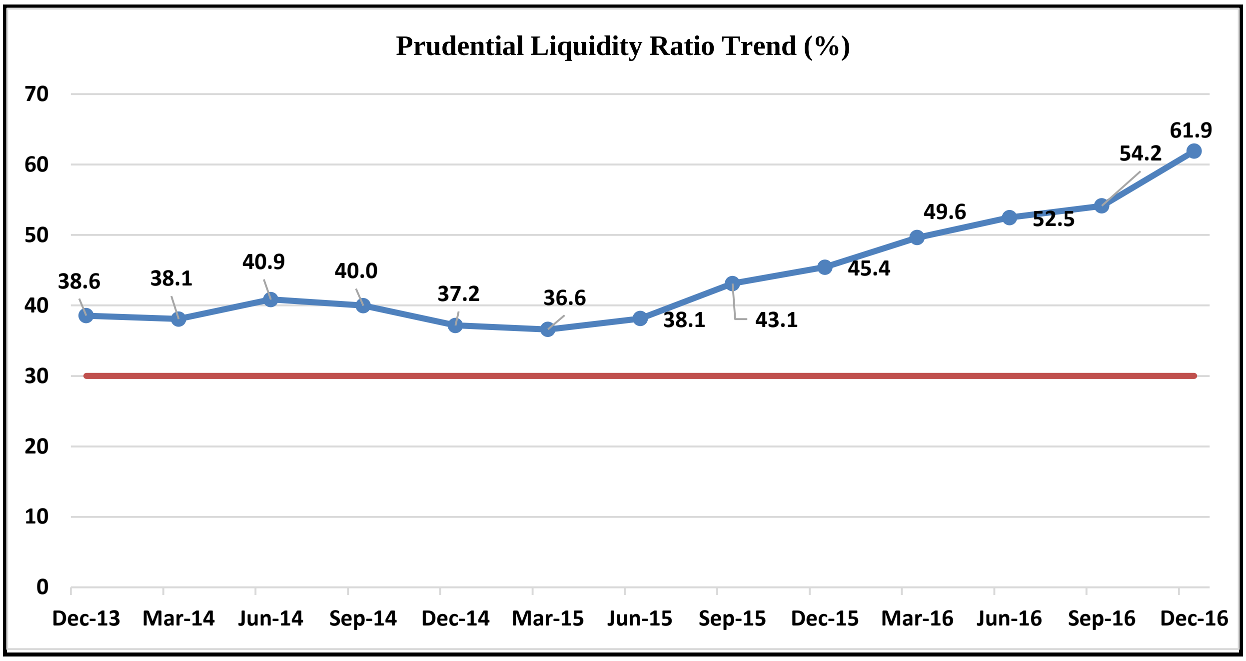
Banking sector deposits were dominated by demand and time deposits, which accounted for 54.63% and 26.85% of total deposits, respectively, as at 31 December 2016.

Banking Sector Liquidity

The average prudential liquidity ratio for the banking sector was 61.91% as at 31 December 2016, above the stipulated minimum regulatory requirement of 30%. All operating banks were compliant with the prudential liquidity ratio as at 31 December

2016. The graph below shows the trend in the banking sector average prudential liquidity ratio since March 2014.

Figure 8: Prudential liquidity ratio Dec 2013-December 2016



Source: RBZ

Notwithstanding the high average prudential liquidity ratios recorded across the sector, the banking industry continued to experience underlying physical US$ cash challenges on the back of high demand for cash by the banking public. However, the Bank has been promoting the use of plastic money resulting in significant use of same and decline in the demand for physical cash.

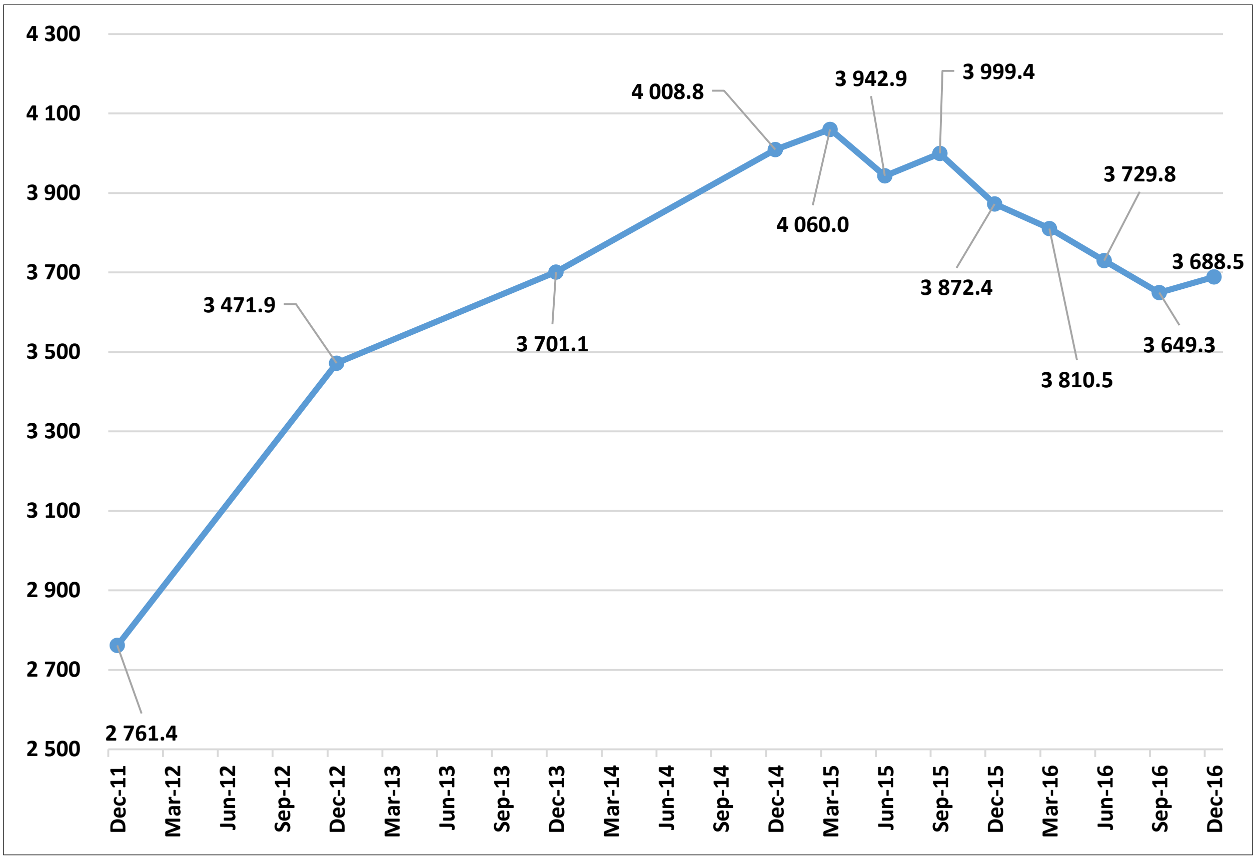
The Reserve will continue with efforts to implement measures aimed at addressing the liquidity challenges that have been experienced by the banking sector during 2016.

The opening up of the tobacco floors during the first quarter of 2017 will boost the country's foreign exchange earnings and this is expected to go a long way in ameliorating the liquidity challenges in the market. In addition, the various initiatives by Government to improve ease of doing business and the re-engagement process are expected to improve the flow of FDI into the country.

Loans & Advances

Credit growth in the banking sector has remained subdued during 2016. Banking sector loans and advances marginally increased from $3.65 billion reported as at 30 September 2016 to $3.69 billion as at 31 December 2016. Figure 9 below shows the trend of banking sector loans and advances from 31 December 2011 to 31 December 2016.

Figure 9: Trend of Banking Sector Loans (US$m)

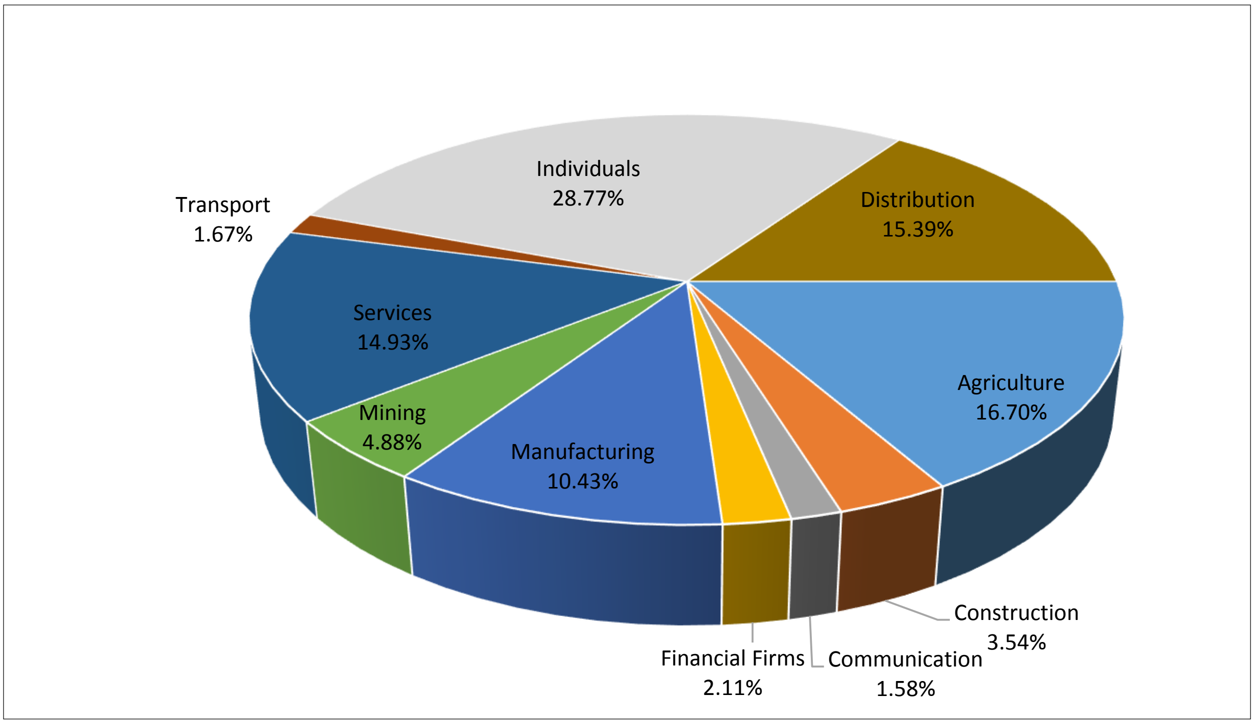


Source: RBZ

Sectoral Distribution of Loans and Advances

The distribution of credit remained largely unchanged from the first half of the year with lending to individuals, services and agriculture sectors continuing to dominate the banking sector loan portfolio as indicated in figure 10 below:

Figure 10: Sectoral Distribution of Credit as at 31 December 2016



Source: RBZ

Banking sector funding to the productive sectors of the economy, such as mining and manufacturing continues to be constrained by the short - term liability structures of banking institutions' balance sheets. The sectorial distribution of credit underscores the need for banking institutions to continue to re-orient their lending towards productive and export sectors of the economy.

Housing and Infrastructure Development

The development of housing and infrastructure sectors is crucial for sustainable growth of the economy. There is currently a gap in the provision of housing and the banking sector plays a central role in bridging this gap. In 2016, building societies funded a total of 1,531 new units valued at $75.02 million as indicated in the table below.

Table 9: New Housing Units Funded In 2016

Category	Units	Value (US$)
High Density	796	16,133,268.05
Medium Density	116	6,309,523.24
Low Density	564	35,086,980.67
Sub-Total	**1,476**	**57,529,771.96**
Commercial	55	17,487,304.97
Grand Total	**1,531**	**75,017,076.93**

Source: RBZ

It is encouraging to note that the highest number of housing units funded during 2016 were targeted at low income households in the high density areas. However, there is further scope for building societies to re-engineer their business models, mobilise funding and forge partnerships with relevant partners to offer affordable housing units. In this regard, building societies are required to submit detailed plans by **31 March 2017**, on the housing development projects and units they will be undertaking in 2017 and 2018.

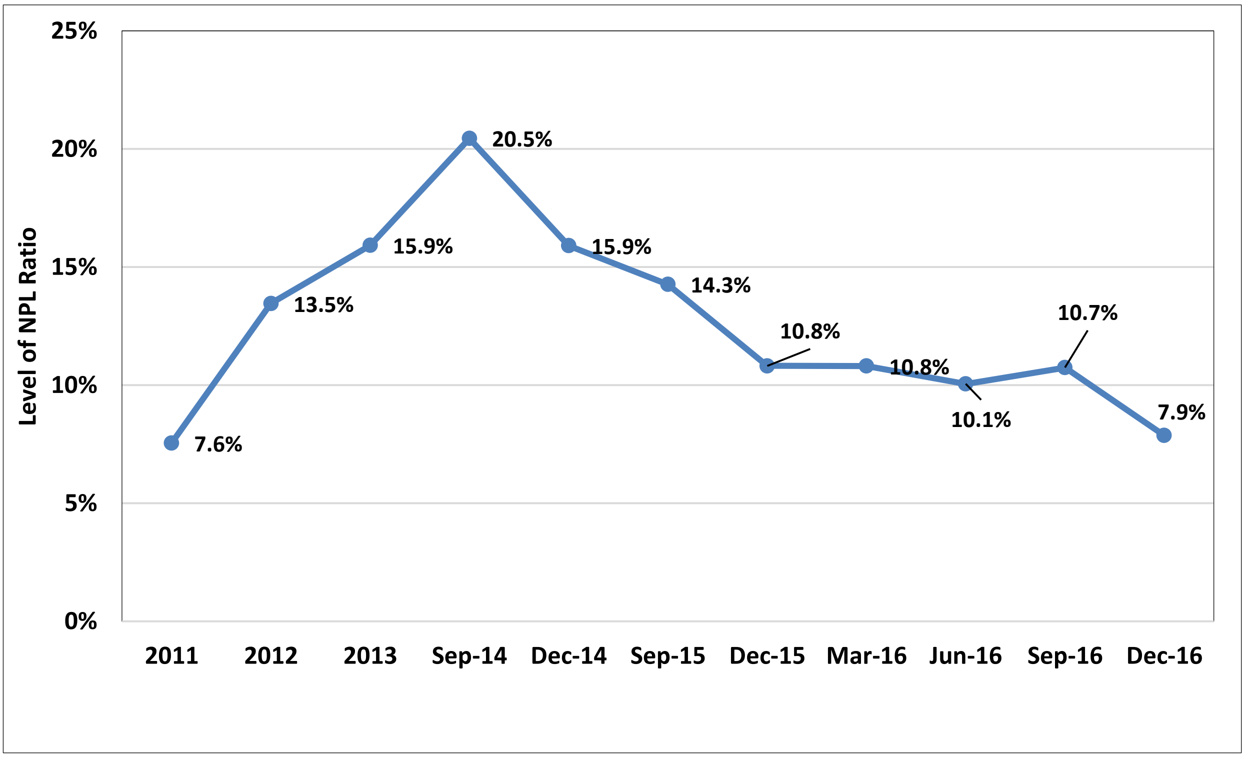
Microfinance institutions on the other hand are challenged to develop innovative housing micro-finance in line with developments in other countries. Microfinance for housing is believed to progressively upgrade poor families' homes. Such upgrades will entail building a home in incremental steps by improving existing infrastructure rooms including adding a room, or installing water or electricity.

As at 31 December 2016, the portfolio in mortgage business by building societies ranged between 40% and 73% signifying the need to align to the recommended thresholds of **80%** previously announced by the Reserve Bank.

Non-Performing Loans

The level of non-performing loans (NPLs) has declined from a peak of 20.45% in the ratio of NPLs to total loans to **7.87% as at 31 December 2016.** This is attributable to the combined impact of the various policy measures instituted by the Bank and initiatives by banking institutions during the year 2016. These measures include enhanced credit management systems and collection efforts, as well as disposal of qualifying NPLs to the Zimbabwe Asset Management Company (ZAMCO), among other measures. The graph below shows the trend in NPLs from 2011 to 31 December 2016.

Figure 11: Non-Performing Loans as at 31 December 2016



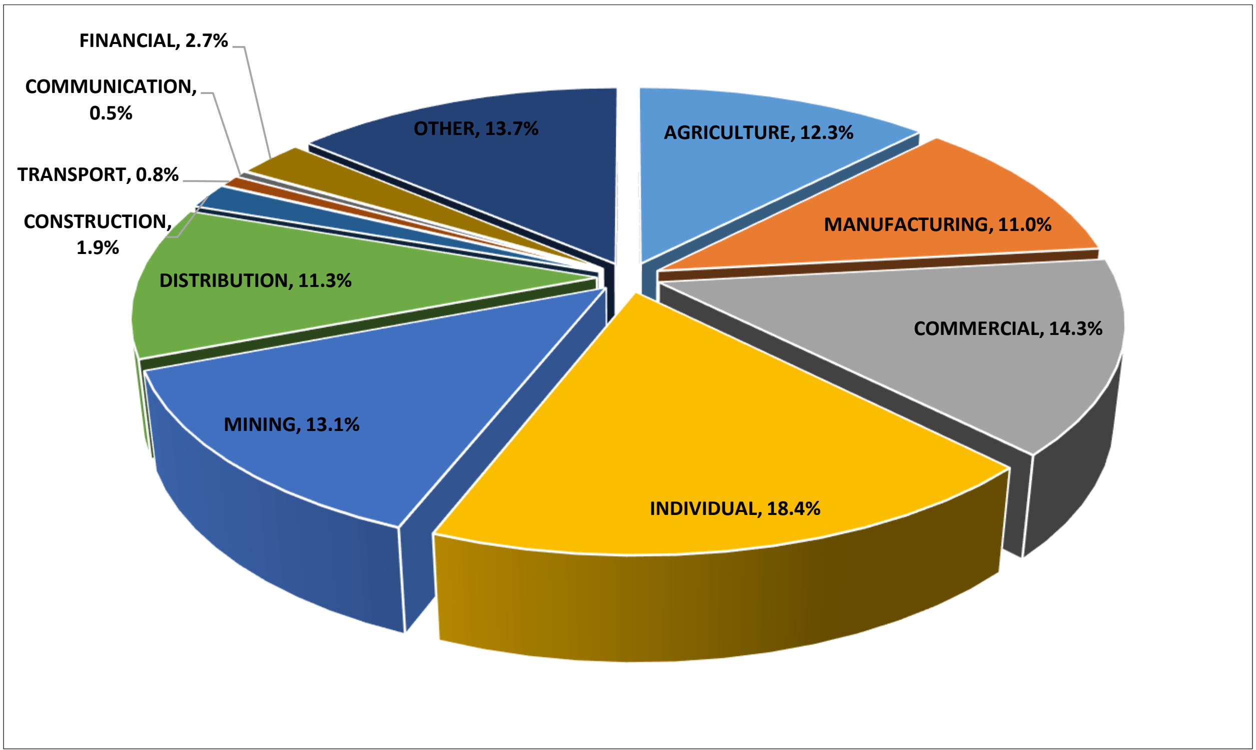
Source: RBZ

Sustainable reduction in NPLs in banks' balance sheets is beneficial to the economy. In this regard, the Reserve Bank is monitoring closely the NPL trends of each banking institution to ensure that they remain at acceptable levels. The level of NPLs is expected to continue trending downwards in response to a number of holistic NPL resolution policy measures by the Reserve Bank aimed at fostering responsible borrowing culture including the establishment of a Credit Registry. **Going forward, all banking institutions will be required to obtain a credit history report of a prospective borrower from the Credit Registry before granting credit.**

Sectoral Distribution of NPLs

As at 31 December 2016, sectors with the largest proportions of NPLs were individuals, commercial, mining and agriculture sectors, which constituted 18.41%, 14.30%, 13.13% and 12.28% of total non-performing loans, respectively. The chart below shows the sectoral distribution of NPLs.

Figure 12: Distribution of NPLs by Sector as at 31 December 2016



Source: RBZ

UPDATE ON CLOSED BANKS AS AT 31 DECEMBER 2016

Allied Bank

The bank was closed on 8 January 2015 following surrender of the banking license by the institution's board on 6 January 2015. The bank was placed under final liquidation on 6 March 2015 and the Deposit Protection Corporation (DPC) was appointed liquidator of the bank. As at 31 December 2016, US$529,640 had been collected from various debtors whilst US$584,596 had been realised from the disposal of government stock and movable assets against claims amounting to US$15.7 million that were accepted by the Master of the High Court. The Corporation has so far paid US$526,193 to depositors, as compensation under the Deposit Protection Scheme (DPS), being 42.15% of the total insured amount.

AFRASIA Bank Limited

AFRASIA Bank Zimbabwe Limited, whose license was cancelled on 24 February 2015 after the institution's board surrendered the license was placed under final liquidation on 29 April 2015 and the DPC was appointed liquidator. As at 31 December 2016, DPC distributed a total of US$2.95 million to preferred creditors namely, employees, NSSA, ZIMDEF and ZIMRA. A total of US$1.89 million has been reimbursed to depositors from the Deposit Protection Fund (DPF) representing 54.99% of the total insured amount for the bank.

Interfin Bank Limited

The bank which went into curatorship in 2012 was closed on 31 December 2014 after failing to trade out of critical liquidity and solvency challenges amid futile recapitalization attempts. The bank was placed under final liquidation on 4 March 2015 and DPC was appointed liquidator of the bank. As at 31 December 2016, a total of US$6.5 million had been recovered from a total loan book of US$167.3 million of which US$90.6 million are related party loans. The first interim liquidation and distribution account was approved by the Master of High Court on 18 May 2016. Thereafter, US$520,875 was paid to preferred creditors namely NSSA, ZIMRA, ZIMDEF and former employees. The corporation has so far paid US$248,320 to depositors of the bank under the DPS.

Trust Bank Limited

The bank was closed on 6 December 2013 after failing to trade out of liquidity and solvency challenges. A final liquidation order was granted by the High Court on 19 May 2016. The DPC was appointed liquidator and the first creditors meeting was held on 21 July 2016. Claims worth US$9 million were provisionally accepted by the Master of Court. To date, a total of US$4.6 million had been collected from a gross loan book of US$18 million. About 42.57% of the insured deposits have been reimbursed to the depositors out of the DPF.

Tetrad Investment Bank (Tetrad)

The DPC was appointed the Provisional Judicial Manager (PJM) of Tetrad Investment Bank with effect from 1 July 2015. Since the appointment of DPC as the PJM, about US$16.2 million has been recovered from the various debtors out of a gross loan book of US$56.7 million. The recoveries comprise of cash US$5.48 million; properties US$8.95 million and Treasury Bills US$1.8 million. At the second Tetrad Bank creditors' meeting held on 24 and 25 September 2015 in Harare and Bulawayo, respectively, the creditors passed a resolution authorising the PJM to proceed to implement a scheme of arrangement in terms of section 191 of the Companies Act [Chapter24:03].

The scheme of arrangement, which is expected to be consummated in the first quarter of 2017 involves the conversion of debt to equity. An anchor shareholder would still be required thereafter to inject working capital into the bank. As at 31

December 2016, DPC had paid out a total of US$3.17 million of insured deposits in closed banks as depicted in the table below.

The deposit insurance payments as at 31 December 2016 are indicated below:

Table 10: Deposit insurance payments as at 31 December 2016

Name of Institution	Total Number of Depositors	Gross Deposits (US$)	Deposits payable at US$500	No. of Depositors paid to date	% of Depositors paid to date	Value of Deposits paid (US$)	% Paid to Exposure
Royal Bank	5,453	2,566,938	472,207	3,101	56.9	355,345.0	75.3
Trust Bank	2,958	11,482,101	328,516	397	13.4	139,843.1	42.6
Genesis	86	1,426,912	11,810	62	72.1	8,821.0	75.0
Allied Bank	9,228	14,316,614	1,248,307	1,497	16.2	526,193.0	42.2
Interfin Bank	13,021	137,336,569	918,814	634	4.9	248,320.2	27.0
AfrAsia	24,163	41,804,881	3,439,276	5,808	24.0	1,891,306.8	55.0
Total	**54,909**	**208,934,018**	**6,418,930**	**11,499**	**20.9**	**3,169,829.4**	**49.4**

Source: RBZ

Microfinance as a Catalyst for Financial Inclusion

Microfinance has been identified as an important pillar of financial inclusion which has the capacity to provide a wide array of financial services to the previously marginalized and unbanked sections of the population, through job creation, funding of MSMEs, and home industries, which are largely shunned by banks.

Cognisant of the correlation or nexus between microfinance and economic development, and the catalytic role of microfinance in mitigating poverty, facilitating women empowerment and enhancing financial inclusion, the Reserve Bank will continue to work very closely with the industry to facilitate access to finance by the micro, small, and medium enterprises.

Architecture of the Microfinance Sector

There were four (4) deposit-taking microfinance institutions (microfinance banks) namely African Century Limited, Getbucks Microfinance Bank, Success Microfinance Bank (formerly Collarhedge Finance) and Lion Microfinance Bank. This was over and above the 181 registered credit-only microfinance institutions.

The sector recorded a total of US$158 million in loans and advances as at 31 December 2016. The trend in the performance indicators of credit only microfinance institutions is as indicated on Table 11.

Acquisition of Microking Finance

Following the successful acquisition of MicroKing Finance (Private) Limited by Microcred SAS of France and AfricInvest Financial Sector Limited of Mauritius in May 2016, the institution changed its name to Microcredit Zimbabwe (Private) Limited. The additional shareholders equity in excess of $3 million injected by the shareholders brings in critical financial support to the institution and will enhance Microcred's role in the provision of financial access to support the micro, small and medium enterprises sector of the economy.

Table 11: Key Performance Indicators

	16-Mar	16-Jun	16-Sep	16-Dec
Number of Licensed Institutions	159.00	164.00	165.00	181.00
Total Loans	$87.46 million	$136.47 million	$155.33 million	$158.01 million
Total Assets	$175.92 million	$181.90 million	$187.42 million	$205.90 million
Portfolio at Risk (PaR>30 days)*	11.43%	9.88%	8.75%	12.06%

Number of Active Clients	185,471.00	187,249.00	204,162.00	222,007.00
Number of Outstanding Loans	209,906.00	221,162.00	214,793.00	327,539.00
Number of Branches	591.00	580.00	575.00	639.00

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

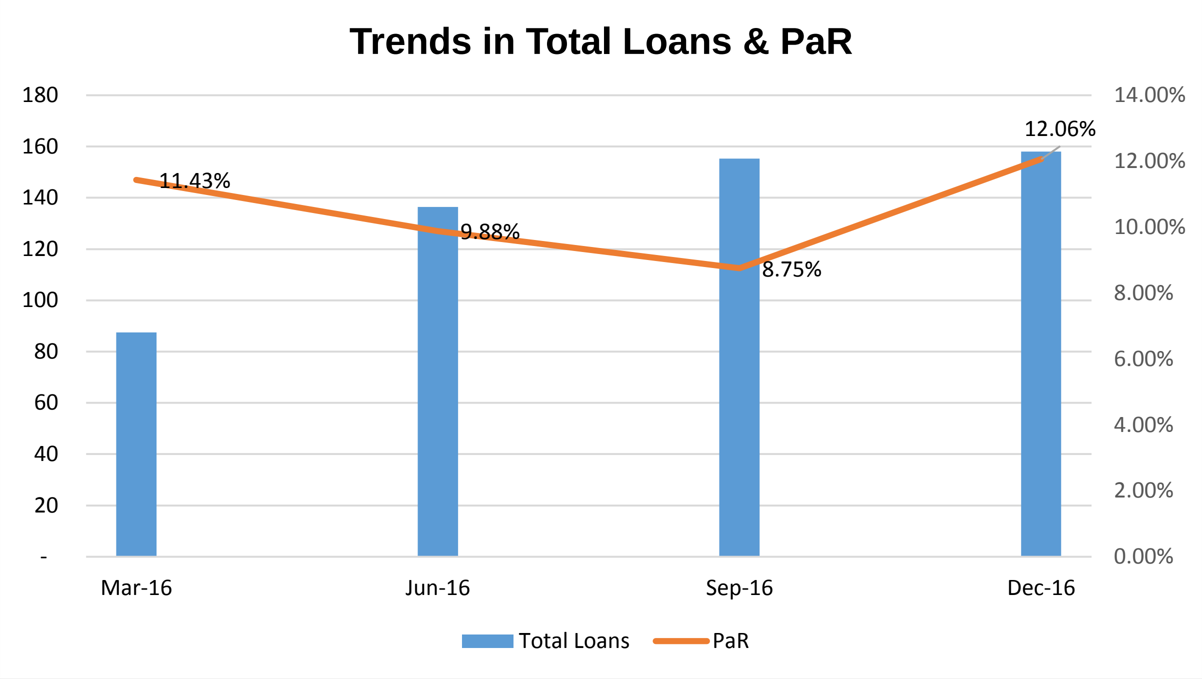
Portfolio Quality

The sector has witnessed an improvement in the portfolio quality, as measured by the Portfolio at Risk (PaR>30 days) since December 2012, with year on year PaR significantly improving from 25.2 % as at 31 December 2012, to 8.75% as at 30 September 2016. However, the ratio increased over the quarter ended 31 December 2016 to 12.06% largely due to non-performance of salary based loans. The trend in the PaR ratio is shown below in Figure 13 below:

Role of Microfinance in Economic Development

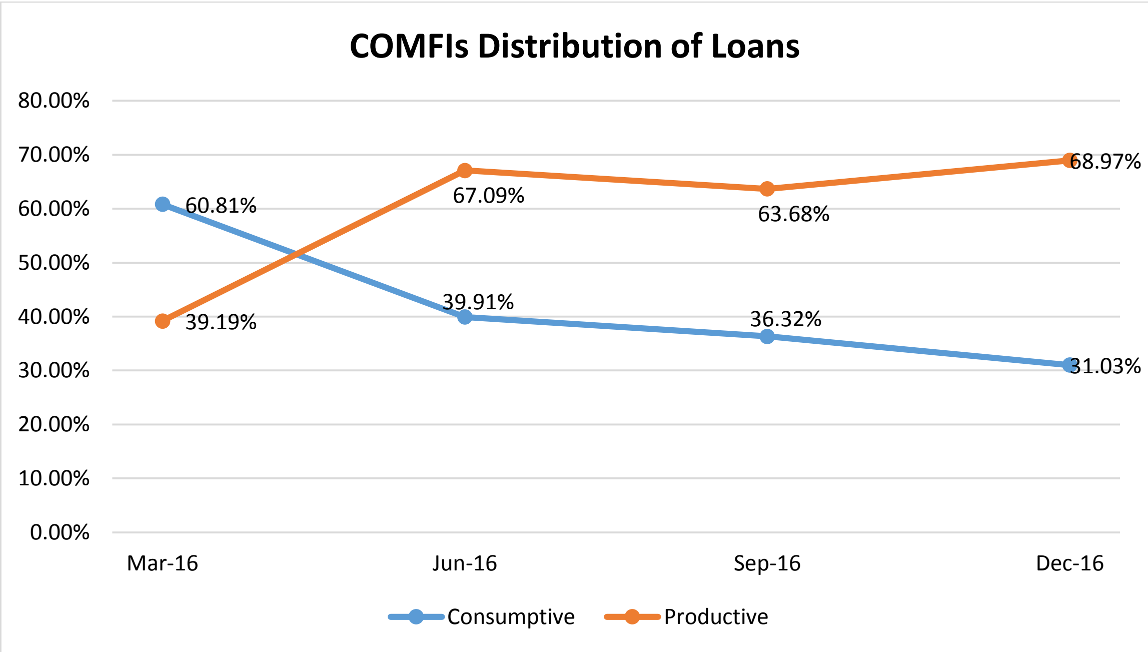
A significant shift in the lending dynamics of microfinance institutions was noted during the year with lending to the productive sector constituting 69% of the total sector's loans as at 31 December 2016. Figure 14 shows the trend in the distribution of loans.

Figure 13: PaR ratio



The figure below shows the trend in the distribution of loans from March 2016 to December 2016.

Figure 14: Distribution of Loans



Source: RBZ

Going forward, the Reserve Bank will capitalize on the institutional knowledge base and accumulated experience of the microfinance institutions to facilitate implementation of the National Financial Inclusion Strategy through microfinance institutions. Microfinance institutions are encouraged to leverage on mobile technology and provide their clients with a wider array of financial products through agent banking and mobile banking.

Microfinance institutions are required to strengthen their corporate governance structures and risk management systems in order to build sustainable financial institutions that can grow and provide financial services on a permanent basis to an increasing proportion of the low income and marginalized groups. Further, microfinance institutions are required to protect their clients from over-indebtedness through responsible lending and compliance to the industry code of conduct.

Microfinance Diagnostic Study

The Reserve Bank, in collaboration with the World Bank has commissioned a microfinance diagnostic review of the microfinance sector. The main objective is to provide baseline data on the microfinance industry which will inform policy and development of supportive legal and regulatory frameworks, and financial services infrastructure requirements conducive for the sustainable development of the microfinance sector in Zimbabwe. Results of the diagnostic review which are currently being finalised will provide input into the formulation of coordinated activities towards building a robust and sustainable microfinance sector in Zimbabwe.

Community Information Centres

The Ministry of Information, Communication Technology, Postal and Courier Services and the Universal Postal Union (UPU) together with other developmental agencies (UNICEF, UNDP) are developing community information centres through rehabilitating ZimPost Office buildings throughout the country which are currently underutilised.

The target is to have a community information centre in every district of the country. This is expected to go a long way in facilitating access to formal financial services in marginalised areas through provision of relevant information. The Reserve Bank will be leveraging on the community information centres to disseminate information and promote and facilitate financial inclusion initiatives. In addition to providing information to communities, the information centres may be used as agents of banking institutions, thereby facilitating access to financial services.

Opening of Low Cost Accounts

I am pleased to report that significant progress has been recorded by banks regarding opening of low cost or 'no frills' accounts with very low Know Your Customer (KYC) requirements and minimal bank charges. Low income groups, who are the target under the National Financial Inclusion Strategy are now able to open bank accounts, which facilitates access to other formal financial services. There has been an increase in low cost accounts across the banking sector in 2016 from 229,264 as at 31 March 2016 to 412,383 as at 30 September 2016 and 1,230,052 as at 31 December 2016.

Training on SME Financing

The MSMEs sector in Zimbabwe plays a critical role in economic development through job creation, and poverty alleviation. The MSMEs FinScope Survey of 2012 revealed that MSMEs in Zimbabwe employed approximately 5.7 million people, the majority of whom are women. In addition, it is estimated that the MSME sector is contributing more than 60% to the country's GDP.

It has, however, been noted that most financial service providers do not have the requisite knowledge and skills to finance SMEs. In this regard, there is need to reorient financial institutions towards approaches that are different from the traditional approach used for the corporate sector. These new approaches require financial institutions to establish proper strategies, oversight mechanisms and analytics while introducing products and services that are suitable for the sector.

In this regard, banking institutions and microfinance institutions should make deliberate and structured efforts to understand the peculiarities of the sector, through appropriate training and be able to develop products that suit the needs of SMEs.

The Reserve Bank of Zimbabwe will complement by partnering with development institutions to facilitate training of financial services providers in the area of SMEs financing during the first quarter of 2017.

Financial Literacy Programs

During the year 2017, the Reserve Bank of Zimbabwe will partner with relevant stakeholders and implement structured financial literacy programs guided by the Financial Literacy Framework which is being developed. The Financial Literacy and Consumer Protection Diagnostic study conducted by the World Bank in 2014 revealed that although the level of general literacy was very high in Zimbabwe, financial literacy is very low.

Financial literacy is an important element in promoting higher levels of financial inclusion and it is one of the four pillars of the National Financial Inclusion Strategy.

In this regard, a number of financial literacy programs will be implemented and these will take a three –pronged approach as follows:

a. **Provision of Information**: Targets the general public through the dissemination of information on financial products, using inter-alia, the print media, booklets, websites, and third party publications.

b. **Schools Programs:** Targets primary and secondary school students and promotes money management through school adoption program in collaboration with the Ministry of Primary and Secondary Education and Ministry of Higher and Tertiary Education, and financial institutions.

c. **Outreach Programs**: Targets rural societies, women, youth, persons with disabilities, and MSMEs, to be carried through workshops and seminars, participations at expos, trade fairs, road shows, and collaboration with MNOs to disseminate information through bulk SMS.

National Financial Inclusion Strategy

The Bank is in the process of implementing various initiatives under the National Financial Inclusion Strategy aimed at positively impacting the economic lives of target groups and communities. Deliberations of the thematic working group constituted to spearhead the financial inclusion strategy revealed that many financial institutions have instituted a number of initiatives targeting the identified priority groups in the National Financial Inclusion Strategy i.e. SMEs, women, small holder farmers and the youth. The initiatives include the development of innovative products targeting women and the youth, innovative products for group savings (mukando), and training and capacity building programs.

Implementation of the value chain financing model, with particular focus on small-holder farmers, is also underway. The program has identified irrigation schemes around the country that were rehabilitated by Government but are lacking funds to meet working capital requirements. As part of measures to address the challenge of markets for the farmers, the model is leveraging on the database maintained by the Agricultural Marketing Authority (AMA) of registered off-takers for various crops that can be potentially grown at the rehabilitated irrigation schemes.

In addition, the Department of Agricultural Extension Services (Agritex) of the Ministry of Agriculture, Mechanisation & Irrigation Development personnel who are stationed in the districts where there are irrigation schemes will provide required technical support. Encouraged by the support of the various actors along the value chain, banking and microfinance institutions have begun to identify irrigation schemes, which are considered quick-win projects and have the support of various actors along the value chain.

Banking institutions are in the process of partnering relevant actors along the value chain to provide the required funding and capacitation. In addition development partners such as Zimbabwe Agricultural Development Trust (ZADT) are availing funds earmarked for supporting small-holder agricultural value chain actors while, some banking institutions have partnered with microfinance institutions with better capacity to manage such projects.

Going forward, the program will be expanded to include other productive sector value chains in the economy. It is envisaged that the value chain model will enable increased SMEs participation and contribution in the implementation of national projects such as road construction through provision of required products and services, thus creating new market opportunities.

Women Financial Inclusion and Gender-Disaggregated Data

It has been noted that, lack of gender-disaggregated data is generally a major constraint in designing policies that respond to the challenges faced by women in accessing financial services and products. As indicated in the last Monetary Policy Statement, the Reserve Bank of Zimbabwe collaborated with New Faces New Voices- Zimbabwe Chapter and GIZ to commission an in-depth gender deep dive analysis using FinScope Survey data of 2011 to 2014. The study was concluded and results are now available.

The deep dive sought to determine uptake and usage of financial services between women and men in terms of (i) the type of services they have or use, and (ii) the drivers of uptake and usage, and their respective trends, as well as identify opportunities to improve women access to financial services in Zimbabwe.

The deep dive study established that the level of access to formal financial services for women increased from 35% in 2011 to 68% in 2014. The gap between women and men declined from 5% to 2%. The study also established that there was a marginal increase in the level of banked adult women from 23% in 2011 to 27% in 2014. Increased inclusion has largely been driven by access to other formal, non-bank financial services mainly mobile financial services, which more than tripled from 12% in 2011 to 41%, for women in 2014.

In line with the Alliance for Financial Inclusion Denarau Action Plan, which requires that countries set specific financial inclusion targets for women, the National Financial Inclusion Strategy will target to increase the level of access to formal financial services of women in Zimbabwe from 68% **in 2014 to 90% in 2020 and the level of banked adult women from 27% in 2014 to 60% in 2020.**

The study established a number of issues that affect uptake of formal financial services by women, which if addressed will contribute toward improving the level of financial inclusion for women. The deep dive study indicated that the women population in Zimbabwe is generally young (about 36% of women are 30 years or younger) and therefore, financial inclusion strategies for youth are expected to increase access to finance by women.

Further, the deep-dive noted that the majority of women reside in rural areas (67%), and increasing women's access to finance will of necessity require effective financial inclusion strategies that target the rural population. Financial literacy among women was found to be very low and over 80% of women did not know where to find financial advice. This provides a business case for the establishment of information centres, and well-structured financial literacy and consumer education programs in order to engender the financial inclusion cause.

In addition to informing the development of customer-centric products specifically targeted at women, the gender-disaggregated data will facilitate further fine-tuning of the National Financial Inclusion Strategy, and the development of financial inclusion indicators for monitoring progress in the implementation of the financial inclusion strategy. In this regard, with effect from the quarter ending 31 March 2017, all banking institutions and microfinance institutions are required to incorporate in their quarterly submissions to the Reserve Bank, gender-disaggregated data for all types of financial services and products.

Zimbabwe Asset Management Corporation (ZAMCO)

As at 31 December 2016, ZAMCO had a portfolio of acquired NPLs amounting to **$812.52 million** which comprised of proprietary portfolio ($548.66 million and managed portfolio $263.86 million). ZAMCO will be commencing a third and final acquisition phase that will focus on the remaining NPLs secured by mortgage bonds. Some of the accounts that were declined in phase I and II because of non-viability of their businesses could be eligible for phase III acquisitions if they are secured by mortgage bonds.

ZAMCO will be using other resolutions methods (other than loan restructuring) to resolve loans acquired in the third phase. This third phase should clear all eligible NPLs that would be offered by the affected banking institutions and is expected to be complete **by 31 March 2017**. These acquisitions are expected to further reduce the levels of NPLs in the banking sector. After these acquisitions, ZAMCO will stop further acquisitions and focus on resolution and resuscitation. This will curb moral hazard in the banking sector and is a standard practice internationally for all asset management companies formed to resolve NPLs. Going forward, the operationalisation of the credit registry would help the economy to contain NPLs

Amendments to the Banking Act

In my last Monetary Policy Statement, I highlighted that the **Banking Act Amendment No.12 of 2015** had been gazetted. As part of the Reserve Bank efforts to promote awareness and ensure a clear understanding of the changes, there has been continuous engagements with the banking institutions on the amendments. In a number of instances, the amendments provide for a period within which banks are expected to comply and in this regard, banking institutions have submitted plans of compliance which are in line with the amendments. The Reserve Bank is pleased to note that banking institutions have already taken steps in this direction.

In line with the Banking Act Amendment No.12 of 2015, new changes were ushered including the composition of boards to include two executive directors as opposed to the requirement of one director. There are new disqualifications for appointment to the board of a bank in that no person who has served as a director of a banking institution for a continuous period of 10 years shall be eligible for re-appointment to the same board unless he or she has completed a cooling off period of at least five years. These restrictions are aimed at ensuring rotation of directors and maintenance of independence of the board members.

It is noteworthy that whilst a few banks had no internal maximum limits, most banks had already incorporated a maximum limit of tenure for their directors in order to maintain independence and allow for injection of fresh minds.

Further, the new law revised the limits with respect to holding of other directorships by directors by providing that in the case of a non-executive, he or she should not be a director of more than four other companies in Zimbabwe and in the case of an executive, he or she should not be a director of more than three other companies in Zimbabwe. The transitional provisions allow for the directors affected to hold other directorships in excess of the limits until expiry of their respective tenures.

The objective behind the limits on other directorships is to ensure that directors of banks devote sufficient time to overseeing the business and management of the bank. The Reserve Bank has noted that some banks are already compliant while others have submitted compliance plans. Following the gazetting of the Banking Amendment No. 12 of 2015, amendments shall also be effected through the Banking Regulations S.I. 205 of 2000 in order to align the Banking Act to the Regulations.

Operationalising of the Credit Registry System

The Reserve Bank is pleased to advise that the **Credit Registry system is now operational** after it went live with effect from January 2017. In line with the phased implementation approach which the Reserve Bank adopted, banking institutions are already providing their loan records to the registry and updating the records regularly with payment patterns of clients when repayments are effected.

The Reserve Bank is already on course to capture all the **414,262 loans** which are in the banking sector by 30 March 2017. As at 31 January 2017 a total of 104 000 loans or 25% had been uploaded to the system. The Credit Registry is expected to enhance the credit culture among borrowers in various sectors of the economy spurred by banking institutions, microfinance institutions and other credit providers which are required to undertake credit background checks with the registry and the private credit bureaus when considering loan applications.

The credit registry will significantly add value to banks' and microfinance institutions' credit risk management and governance systems as well as bring down the level of non-performing loans across the sector going forward. The credit registry is also a readily accessible repository for credit data which is expected to facilitate a reduction in lending rates as financial institutions can easily access and assess information and price their risks accordingly. Concomitantly, the credit registry is expected to significantly reduce the loan processing turnaround time.

With effect from January 2017, the Reserve Bank commenced the process of registering various credit providers such as banking institutions, microfinance institutions, deposit-taking MFIs and credit shops as subscribers in the credit registry system to enable them to access the credit registry database.

During the 1st quarter ending 31 March 2017, the Reserve Bank will commence the second phase of the Credit registry system implementation which entails the incorporation of other data providers such as deposit-taking microfinance institutions, microfinances, credit granting departmental stores and utility bodies. This will effectively broaden the scope of credit data warehoused by the credit registry for the benefit of all subscribers. The Reserve Bank will also embark on the process of licensing the private credit bureaus during the 1st quarter of 2017. The institutions are therefore expected to prime their operations in preparation for the rigorous licensing process and in readiness to serve the economy more effectively and efficiently.

The Reserve Bank further expects the Zimbabwe Association of Microfinance Institutions (ZAMFI) to coordinate its wide membership to ensure that they are ready for implementation and promote smooth deployment of the credit registry system to the sector. Meanwhile the Reserve Bank shall be conducting consultative regional workshops and seminars for MFIs as part of the implementation process. The Reserve Bank shall also engage with the Credit Providers Association of Zimbabwe (CPAZ) and all the other stakeholders to discuss the modalities of their participation in the credit registry.

Collateral Registry

The Bank is also pleased to advise that the Moveable Property Security Interest Bill which provides for the registration and administration of qualifying movable security for lending purposes was gazetted on 28 November 2016. The Bill provides for the following aspects among others:

a) Establishment of the Collateral Registry at the Reserve Bank;

b) Purpose and functions of the Collateral Registry;

c) Registration of notices of security interests in movable property;

d) Legal regime pertaining to registered notices of security interests;

e) Creation of security agreement;

f) Rights and obligations of parties and third – party obligors; and

g) Enforcement of security interests perfected by registration.

It is expected that the Bill will undergo the relevant parliamentary processes during the quarter ending 31 March 2017 following which the Reserve Bank in collaboration with the World Bank will identify and procure a suitable information system for running the collateral registry.

The Reserve Bank is convinced that both the credit registry and the collateral registry financial infrastructural improvements, which are also part of the Getting Credit pillar under the Ease of Doing Business Reforms, will promote access to credit by both households and productive sectors of the economy, particularly the SMEs.

Compliance Risk Management

In terms of supervisory expectations and benchmarks for 2017, banking institutions are required to adopt a more stringent risk based approach towards compliance risk management. Banks should enhance their compliance monitoring tools through the adoption of technology and appropriate compliance risk management software.

As provided for in the Banking Act, the Reserve Bank expects the compliance function to develop itself to become strategic advisors to the board and therefore should have an appropriate standing in the institution.

Basel II Implementation

In line with international best practice in capital standards, the Reserve Bank undertook on-site reviews in the last quarter of 2016 to assess banks' preparedness for Basel II/III implementation. The assessment determined that the majority of banks are now compliant with minimum requirements with Basel II requirements. These include inter-alia, credit rating systems aligned to the supervisory rating systems, operational risk, market risk, capital management, model governance and validation thereof. The Reserve Bank is monitoring progress at the few banking institutions that are still to fully comply. In light of this, **all banks will migrate to the Basel II/III compliant statutory returns effective 1 July 2017**.

During 2016, the Reserve Bank issued guidance on Minimum Supervisory Expectation on the Structure of ICAAP Reports for comments to the market. The guidance shall be finalised and released to the market by **31 March 2017.**

Preparations for Adoption of New and Revised Auditing and Financial Reporting Standards

In the previous Monetary Policy Statement, it was highlighted that the Reserve Bank would be working with the Public Accountants & Auditors Board (PAAB) in coming up with the implementation road map for the new and revised financial reporting standards. Accordingly, significant progress has been made to date and the Reserve Bank will release the final guidance on Implementation of IFRS 9 in Zimbabwe to the market by 31 March 2017.

In preparation for the implementation, banking institutions are required to ensure that they have put in place robust appropriate credit risk management processes, including an effective system of internal control and model risk governance to consistently determine adequate loan loss provisions. Banking institutions are also required to put in place comprehensive procedures and information systems to monitor the quality of their lending exposures for effective implementation of IFRS9.

SECTION 5: NATIONAL PAYMENT SYSTEM DEVELOPMENTS

The payment, clearing and settlement systems in the country remained resilient and continued to operate reliably. Coupled with the widespread growth in the infrastructure, the country has also witnessed, during the period under review, significant growth in volumes and values of transactions. Notably, aggregated electronic transactions (or e-payments) reached US$ 61.7 billion in 2016 from US$ 56.9 billion in 2015, representing a high velocity of circulation of more than 4 times of the gross domestic product (GDP) of the country.

Table 12: Electronic Payment Transactions 2009 to 2016

PAYMENT STREAMS	2009	2010	2011	2012	2013	2014	2015	2016	Proportion of Total 2016
	VALUES IN BILLIONS								
RTGS	6.82	21.73	32.67	38.72	41.80	43.83	44.87	48.11	77.9%
CHEQUE	0.01	0.04	0.06	0.07	0.14	0.13	0.14	0.11	0.2%
POS	0.01	0.06	0.25	0.74	1.45	1.53	1.72	2.90	4.7%
ATMS	0.02	0.31	0.90	1.62	2.38	3.19	3.85	2.28	3.7%
MOBILE	0.00	0.00	0.01	0.38	2.09	3.63	4.65	5.82	9.4%
INTERNET	0.02	0.12	0.53	1.10	1.36	1.22	1.61	2.50	4.1%
TOTAL VALUE	**6.88**	**22.26**	**34.42**	**42.64**	**49.23**	**53.53**	**56.85**	**61.72**	100.0%
	VOLUMES IN MILLIONS								
RTGS	0.69	1.57	2.00	2.18	2.29	2.26	2.06	2.90	0.8%
CHEQUE	0.02	0.17	0.26	0.29	0.38	0.37	0.36	0.35	0.1%
POS	0.40	1.28	4.34	8.71	12.01	13.99	14.54	52.41	14.3%
ATMs	0.33	1.98	4.14	6.78	9.63	12.14	13.41	12.33	3.4%
MOBILE	0.20	0.44	2.30	19.96	119.14	156.79	228.20	298.59	81.2%
INTERNET	0.02	0.05	0.22	0.33	0.45	0.41	0.56	1.11	0.3%
TOTAL	**1.67**	**5.50**	**13.26**	**38.24**	**143.91**	**185.95**	**259.14**	**367.69**	100.0%

Source :RBZ

A key development was realized during 2016 when POS transaction values became greater than ATM transactions for the first time under the multicurrency system. This is in line with the Bank's policy thrust towards plastic money as the country moves to a cash-lite society. During the same period POS volumes also grew by 260%.

The introduction of RTGS multi-currency system in June 2016, has seen a gradual increase in usage of the Rand and Euro currencies mainly by corporates. For the six months ending December 2016, a total value of R656 million and EUR15,7 million payments were processed through the RTGS system whilst the United States Dollar remained dominant at US$30.3 billion over the six months period, as shown in the table below.

Table 13: RTGS System Multi-Currency Values and Volumes - June to December 2016

	Values			Volumes		
MONTH	USD	ZAR	EURO	USD	ZAR	EURO
Jun-16	4,516,808,241.89	10,990,625.96	5,206,143.08	26,8132	38	22
Jul-16	3,903,052,512.88	83,463,924.23	2,667,110.94	24,2190	143	40
Aug-16	3,923,073,856.64	61,446,942.20	966,727.34	25,3747	144	47
Sep-16	4,365,017,269.65	234,355,897.39	1,225,434.57	28,8262	224	37
Oct-16	4,120,977,638.34	73,203,360.92	1,266,896.40	29,5742	198	59
Nov-16	4,614,982,328.84	92,099,666.34	2,759,311.17	35,2860	210	67
Dec-16	4,873,968,605.08	100,207,830.00	1,650,100.00	405,095	244	51
TOTAL	**30,317,880,453.32**	**655,768,247.41**	**15,741,723.09**	**2,106,028**	**1,201**	**323**

Source: RBZ

Whilst the Bank is encouraged by the increase in the volume and value of e-payments, it is imperative for the market and key stakeholders to continue promoting the spread of multicurrency payments through usage of electronic systems that are cost effective and efficient for the benefit of the economy.

Straight Through Processing (STP)

Straight-through processing (STP) enables the entire payment process for RTGS transactions to be handled electronically without manual intervention and provide tremendous benefits, including reduction in the payment processing cycles, settlement risk and operating costs. This functionality is already in place for majority of the Banks but not fully utilized to realize the benefits.

In view of that, all banks are discouraged from performing manual interventions and are therefore urged to fully ensure STP for their clients for both inward and outbound transactions. This is critical for the country to fully realize the benefits of a well-developed payment system.

Access Points and Devices

It is encouraging to note that, in keeping with the thrust of promoting electronic payments (plastic money), a number of payment service providers and banks have enhanced deployment of devices and access points. As at end of year, **32,540** Point of Sale (POS) and **40,590** agents were deployed across the country in all sectors of the economy. This momentum to grow devices and access points dovetails with the national financial inclusion policy thrust where the planned deployment is expected to reach **100,000** POS and **90,000** mobile payment agents by year **2020**.

To this end, the Central Bank will remain resolute in driving the growth of access devices and points through collaborative efforts and address any challenges that may be faced on an on-going basis, as we move towards a cash-lite society. **The transacting public is encouraged to embrace the use of electronic payment methods, so as to reduce the reliance on physical cash as a mode of payment.**

Table 14: Payment Systems Access Points and Devices

ACCESS POINTS						
Description	**September 2015**	**December 2015**	**March 2016**	**June 2016**	**September 2016**	**December 2016**
Mobile Banking Agents	32,528	33,745	34,351	35,022	37,131	40,590
ATMs	545	556	541	548	566	569
POS	16,268	16,363	17,069	19,280	24,110	32,540
ACCESS DEVICES						
Debit Cards	2,292,969	2,365,160	2,472,656	2,724,317	2,890,731	3,127,153
Credit Cards	10,809	10,854	13,036	14,299	14,813	16,030
Prepaid Cards	28,226	30,125	29,466	30,339	38,660	43,288
Active Mobile Financial services Subscribers	4,306,198	4,683,959	3,576,540	3,212,561	3,289,271	3,279,049
Internet Banking Subscribers	96,983	108,662	109,669	115,478	128,297	168,339

Source :RBZ

Mobile Financial Services

Mobile financial services have been extended to both under-banked and banked through various forms including agents thereby servicing the last mile. Currently there are over 8.9 million registered subscribers across the country while 3.3 million are substantively active. Banks and mobile payment providers are urged to continuously provide effective education and awareness to encourage optimal usage of the services available. In the same vein, providers are urged to innovate and move towards less cash based models of payment.

Affordable Financial Services

The Bank and key stakeholders continue to take cognizant of the need to strike an intricate balance between the overall fee and building a sustainable confidence level in the services offered. In view of that, the banking institutions and payment service providers are required to adequately disclose and communicate the tariffs in place to the consumers in order to enhance awareness and promote usage. ***Banks and payment systems providers are encouraged to continuously explore avenues to provide affordable financial services to the transacting public.***

Enhancing Digital Payments and Embracing E-Payroll

Whilst the Bank is pleased by the strides made by the banks and payment systems providers in the payments digitalization journey, the Bank continues to call upon all stakeholders to double their efforts for the country to reach an optimum level of a cash-lite society. The following key areas require increased momentum and attention:

a) Spread and usage of payment channels such as POS and Mobile Banking agents to all areas of the economy especially rural areas

b) Sensitization, education and awareness designed to help bridge the gap among key stakeholders highlighting opportunities and benefits offered by electronic payments.

c) Improved mechanisms to manage risks associated with electronic transactions including cybercrime

d) Empower stakeholders especially consumers to make informed decisions with regard to uptake and usage of electronic payments

e) Enhanced efficiencies of payment mechanisms and issues related to connectivity are key in this area.

f) Collaboration among key stakeholders as the culture of not sharing infrastructure will not allow a win-win situation to optimize on opportunities

Going forward, the Bank shall also be strongly advocating for e-payroll developments to transform the salary and pension payment systems in order to reduce the cash culture in Zimbabwe.

Cross Border Payment Systems

Zimbabwe is already participating on the SADC Integrated Regional Settlement Systems (SIRESS) platform while efforts to operationalize participation on the COMESA Regional Electronic Payment Settlement Systems (REPSS) are under way.

The Bank remained focused to proactively encourage the enhanced usage of electronic payment systems for cross border payments as this reduces the use of cash. The usage of SIRESS as shown in table below.

Table 15: SIRESS Transactions

SIRESS VALUES (RANDS)			
Year	ZIMBABWE	TOTAL FOR SADC	Percentage
2014	2,296,059,752.52	482,189,207,261.57	0%
2015	8,919,060,873.54	984,234,568,059.67	1%
2016	11,878,294,604.05	1,095,923,729,950.87	1%
SIRESS VOLUMES			
2014	6712	80783	8%
2015	15971	264601	6%
2016	16848	275883	6%

Source: SIRESS

The businesses and individuals conducting cross border payments within the SADC Region are therefore encouraged to use SIRESS which currently uses the Rand as the settlement currency.

SECTION 6: POLICY MEASURES TO STIMULATE THE ECONOMY & BOLSTER CONFIDENCE

The purpose of the following measures is to promote monetary and financial sector stability, bolster confidence within the economy and to stimulate production and productivity across various sectors of the national economy. These measures are necessary as the country needs to pursue a new economic development model that **is anchored on an export- led growth strategy to balance exports and imports whilst simultaneously addressing the structural rigidities besetting the economy** in order to expand output. It is against this productivity mantra or conviction that these measures are being put in place to sustain the national economy under the **New Normal.**

1. **Extension of the US$200 million African Export-Import Bank (Afreximbank) Trade Debt-Backed Securities (Aftrades) facility by a further two years to expire in February 2019.** This facility which operates and functions as a window of last resort at the Reserve Bank for local banks has been of great assistance in the Bank's mandate of maintaining financial sector stability and inclusive growth. **It has been a game changer that revitalised the banking sector in Zimbabwe**. Total trades under this facility amounted to US$641 million over a two-year period from the effective date of the facility in February 2015.

   Together with a well-capitalised Reserve Bank at US$100 million, the Aftrades facility was a great innovation to bolster confidence within the financial sector without putting pressure on the balance of payments and fiscal position of the country.

These two measures, a well-capitalised Bank and Aftrades, combined with the amended Banking Act, ZAMCO and a functional credit reference system, make the banking sector stronger and safer.

2. **Reduction in Lending Rates.** Affordable credit is very important to enhance output and productivity. Therefore, for the national economy to flourish, affordable credit must be provided to both large and small scale businesses and individuals to enable them to invest in productive activities that increase jobs, exports and reduce poverty. However, cost, accessibility and entrepreneurship remain as the most critical barriers to expanding financial reach and depth in Zimbabwe.

   The Bank has continued to engage with banking and microfinance institutions to ensure provision of affordable credit in order to boost credit to the productive sectors of the economy. Whilst the Bank is pleased to note that banking institutions have been working towards reduction in lending rates, the rates are still relatively higher when other ancillary charges and default interest rates are applied.

   In order to ensure that the banking sector continues to support the productive sectors of the economy, with effect from 1st April 2017, all banking institutions are required to ensure that lending interest rates should not exceed 12% per annum and that bank charges that include application fees, facility fees and administration fee, should not exceed 3%.

3. **Bank Charges.** As part of the on-going efforts to promote financial inclusion and to ensure that banking products and services are affordable to the banking

public, the Bank reviewed cash withdrawal charges downwards, with effect from 12 December 2016. In this regard, a proportional pricing model was adopted to replace the fixed charges in order to align cash withdrawal charges to amount withdrawn. The applicable charges for cash withdrawal were set at a maximum of 1% and 1.25% of amount withdrawn for ATM and over-the-counter, respectively as shown below.

Service	New charges inclusive of $0.05 tax
ZETSS (RTGS)	Maximum $5
ZIPIT (Electronic Funds Transfer)	$0.33 to a Maximum of $2.10
POS transactions up to $10	$0.10
POS transactions above $10	$0.45
POS own bank customer	Maximum of $0.20
POS issuer charges	Removed
ATM withdrawal	1 % of transaction value
Over the Counter withdrawal	1.25 % of transaction value
Merchant Service Commission	Maximum 1% for local transactions
Monthly administration or service fee	Maximum $5 for individuals

The above charges should, with immediate effect, also apply to small scale enterprises in order to embrace financial inclusion.

Banks are further directed to submit to the Bank, **by 28 February 2017,** a detailed report indicating their current level of charges for account maintenance and ledger fees as at 31 December 2016. The Bank shall continue to monitor bank charges to ensure access to affordable banking services and at the same time promote the use of plastic money.

4. **Interest on Savings Accounts.** The Reserve Bank is cognisant of the fact that low interest rates make it less attractive to hold savings resulting in the emergence of a consumptive driven culture. Healthy savings rates are therefore important to the economy as they make an important contribution to long-term household wealth.

   The Bank is committed to promoting greater household savings in the Zimbabwean economy. Against this background and to ensure that the banking system continues to serve as a vehicle for building savings, **all banks are required, by 31 March 2017, to review interest paid on deposits and to submit a report to the Bank detailing their deposit profiles and proposed interest rates on deposits.**

5. **Preservation of foreign exchange in nostro accounts by enforcing market and institutional discipline and domesticating the settlement of local card transactions on international card switches.** This measure has been necessitated by the need to ensure that nostro accounts are used for foreign payments and that domestic transactions are settled locally through platforms such as RTGS, ZimSwitch, VISA, Mastercard, local mobile banking and/or cash and bond notes. Utilising nostro accounts to settle domestic transactions put unnecessary pressure on the country's foreign exchange reserves that should ideally be used for international or offshore payments.

   A substantial amount of the US$206.7 million shown in Figure 15, for example, for card and DSTV transactions paid through the nostro accounts between July-December 2016 should have been settled locally and thus preserving foreign exchange for raw materials and other foreign payments that include education. In fact, card transactions – which require prefunding of nostro accounts - were the second largest user (after fuel) of foreign exchange during the second half of the year. Use of hard earned foreign currency in this manner is not sustainable for the economy.

Figure 15 also calls for market players, especially banks, to exercise discipline and rationality in the distribution of foreign exchange amongst the competing needs of the economy. **Spending more foreign exchange on DSTV subscriptions than on raw materials to produce cooking oil, for example, is not only counterproductive but also illogical.**

Similarly, Zimbabweans' appetite to externalise foreign exchange to foreign banks puts unnecessary pressure on the country's balance of payments. As reported by banks that report to the Bank of International Settlement (BIS) - bank for central banks - deposits held by Zimbabweans at these offshore banks have been on-going and currently stand at above US$600 million as shown in Figure 16. Statistics of deposits held by Zimbabweans at other banks that do not report to BIS are unknown and are therefore not included in Figure 16.

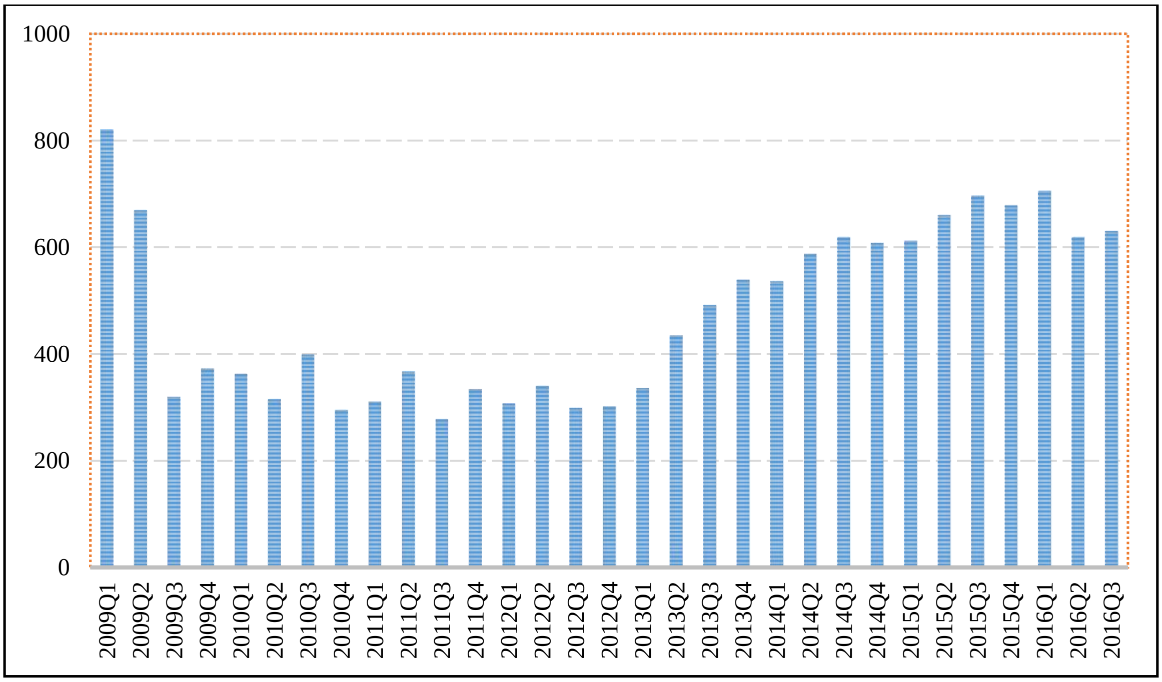
Externalisation or capital flight of this nature which may be attributable to the **use of mobile capital (foreign currency) as a medium of exchange and the lack of confidence within the domestic economy has a net effect of robbing the country of its hard-earned foreign exchange and deprives the country of jobs and growth in output.** This calls for greater introspection among those involved in this practice in order to bring jobs and cash back to Zimbabwe.

Figure 15: Nostro Utilisation by Transaction Type for the Period 01 July to 31 December 2016

FUNDING	BANK FUNDING								RBZ FUNDING		GRAND TOTAL	
TRANSACTION TYPE	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL BANK FUNDING	SHARE %	TOTAL RBZ FUNDING	SHARE %	TOTAL FUNDING (BANK+RBZ)	SHARE %
Fuel	22,142,966	30,220,925	37,534,761	41,500,440	48,969,446	42,183,150	**222,551,687**	10%	**108,903,045**	**30%**	**331,454,733**	**13%**
Card Transactions & DSTV Subscriptions	26,227,640	29,395,094	29,544,113	34,378,616	37,654,805	44,514,117	**201,714,383**	9%	**4,953,222**	**1%**	**206,667,605**	**8%**
Loan Repayment	20,574,182	12,905,275	41,551,821	41,257,287	17,993,141	22,410,342	**156,692,048**	7%	**20,731,959**	**6%**	**177,424,007**	**7%**
Maize	6,110,597	4,068,481	13,955,974	14,695,032	10,894,695	4,697,028	**54,421,807**	3%	**54,413,385**	**15%**	**108,835,191**	**4%**
Machinery and Telecoms Equipment	14,520,367	13,546,669	14,779,145	14,614,342	18,388,340	11,879,783	**87,728,647**	4%	**9,543,645**	**3%**	**97,272,292**	**4%**
Machinery and Equipment Spares	9,361,445	10,455,978	9,911,708	13,239,592	10,200,249	8,341,210	**61,510,182**	3%	**7,194,998**	**2%**	**68,705,180**	**3%**
Electricity	12,150,709	4,000,479	8,307,308	6,675,475	16,031,464	8,958,596	**56,124,030**	3%	**10,540,514**	**3%**	**66,664,545**	**3%**
Industrial Chemicals	7,717,607	9,032,621	9,236,082	13,017,917	9,223,141	11,239,892	**59,467,259**	3%	**6,273,741**	**2%**	**65,741,001**	**3%**
Assorted Groceries	10,777,669	11,446,985	13,119,177	8,984,693	7,027,961	8,178,119	**59,534,603**	3%	**2,068,424**	**1%**	**61,603,027**	**2%**
Professional Fees	8,662,117	6,428,241	7,009,532	6,077,412	5,048,185	21,015,970	**54,241,457**	3%	**5,560,724**	**2%**	**59,802,181**	**2%**
Animal and Vegetable Oils	5,790,193	7,131,170	7,668,276	6,348,460	7,275,782	6,516,430	**40,730,311**	2%	**17,627,775**	**5%**	**58,358,086**	**2%**
Other Chemicals	7,968,905	10,121,039	7,740,444	6,877,267	5,602,810	6,121,817	**44,432,283**	2%	**8,060,651**	**2%**	**52,492,934**	**2%**
Packaging Materials	6,338,684	7,427,601	9,170,348	6,894,670	7,500,174	6,800,108	**44,131,585**	2%	**5,522,605**	**2%**	**49,654,190**	**2%**
Financial Intermediation/Advisory	14,286,788	12,032,650	12,337,871	2,205,280	2,769,189	3,786,193	**47,417,970**	2%	**202,502**	**0%**	**47,620,472**	**2%**
Steel	4,161,157	6,661,123	8,031,760	8,076,910	8,574,938	6,312,235	**41,818,123**	2%	**2,599,972**	**1%**	**44,418,095**	**2%**
Fertilizer	2,166,343	1,763,185	4,152,225	7,311,050	6,572,531	6,931,812	**28,897,146**	1%	**12,648,266**	**4%**	**41,545,413**	**2%**
Vehicles	6,709,366	7,104,650	7,605,073	6,465,354	6,884,946	4,631,773	**39,401,162**	2%	**1,022,365**	**0%**	**40,423,528**	**2%**
Wheat	2,652,590	4,294,494	4,588,576	7,372,538	8,264,975	6,145,986	**33,319,160**	2%	**4,979,702**	**1%**	**38,298,862**	**2%**
Rice	2,002,175	5,497,786	6,349,682	8,111,476	6,892,488	5,910,774	**34,764,381**	2%	**2,588,150**	**1%**	**37,352,531**	**1%**
Agricultural Plant, Machinery and Equipment	2,721,537	4,866,829	4,598,761	5,571,418	6,879,620	9,863,397	**34,501,563**	2%	**2,402,610**	**1%**	**36,904,173**	**1%**
Software Licence Fees	15,201,127	6,104,421	2,978,724	3,350,306	3,150,781	2,414,150	**33,199,509**	2%	**738,714**	**0%**	**33,938,223**	**1%**
Technical Fees	4,632,211	1,938,142	1,791,348	9,637,594	10,783,915	1,656,417	**30,439,626**	1%	**779,808**	**0.20%**	**31,219,434**	**1%**
Passenger Fares_Airfares	6,488,843	6,021,730	4,468,964	631,542	278,835	605,582	**18,495,496**	1%	**8,406,036**	**2%**	**26,901,532**	**1%**
Disinvestment Proceeds_Direct	4,900,103	6,695,414	5,989,447	5,831,521	2,848,580	393,497	**26,658,563**	1%	**-**	**0.00%**	**26,658,563**	**1%**

Mining Plant Machinery and Equipment	2,157,198	4,614,091	4,059,191	4,814,303	5,810,465	2,565,030	**24,020,277**	1%	**2,613,765**	**1%**	**26,634,042**	**1%**
Other Agricultural products	1,439,482	2,067,456	3,387,364	5,507,146	6,021,125	2,844,101	**21,266,675**	1%	**5,238,466**	**1%**	**26,505,141**	**1%**
Building Materials	3,800,576	4,404,522	3,657,214	5,261,138	4,246,233	3,199,463	**24,569,147**	1%	**181,131**	**0.10%**	**24,750,278**	**1%**
Pharmaceuticals	1,525,105	2,480,830	3,368,663	3,685,545	2,681,752	1,758,488	**15,500,382**	1%	**8,801,512**	**2%**	**24,301,894**	**1%**
Freight_Combined	5,519,439	5,799,199	5,131,837	4,354,369	1,106,569	1,384,383	**23,295,797**	1%	**903,048**	**0.30%**	**24,198,845**	**1%**
SUB TOTAL	**238,707,121**	**238,527,080**	**292,025,389**	**302,748,693**	**285,577,135**	**263,259,843**	**1,620,845,259**	**76%**	**315,500,737**	**87%**	**1,936,345,998**	**78%**
Other Categories	**74,598,804**	**95,886,271**	**92,145,353**	**77,226,956**	**93,945,944**	**76,888,833**	**510,692,162**	**24%**	**45,378,066**	**13%**	**556,070,228**	**22%**
TOTAL	**313,305,925**	**334,413,351**	**384,170,742**	**379,975,649**	**379,523,079**	**340,148,676**	**2,131,537,421**	**100%**	**360,878,803**	**100%**	**2,492,416,226**	**100%**

Figure 16: Deposits held by Zimbabweans at BIS Reporting Banks (US$ Millions



Source: Bank of International Settlements Locational Banking Statistics

In view of the above, the Bank has directed all banks to ensure that the international card switches facilitate local settlement of local transactions in Zimbabwe. This arrangement will allow Zimbabwean banks to carry out interbank settlements within Zimbabwe. To this end, VISA local settlement will go live by the end of February 2017 while MasterCard local settlement will be enabled by the end of this quarter. This development is critical in saving the much needed foreign currency and bringing about enhanced efficiencies for local transactions. It is also envisaged that the domestication of settlement will result in corresponding reduction of costs for customers in line with prevailing domestic transactions.

In addition, banks are reminded to strictly adhere to the import priority guidelines to ensure that scarce foreign exchange resources are

distributed to deserving cases. The negative impression created in the market that the Bank is controlling the use of foreign exchange in the country is misplaced and mischievous of highest order. The truth of the matter is that the Bank handles around 25% of the foreign exchange receipts of the country attributable to 50% mining export receipts, 50% of tobacco value addition and 80% of green leaf tobacco and seed cotton net purchases. The balance which is the bulk, around 75% is distributed through the market via banks.

Thus, as indicated in Figure 16, out of a total of US$2.5 billion of foreign payments paid by banks for various transactions during July-December 2016, US$360.9 million (14.4%) was handled by the Bank and redistributed to the market for productive imports that include fuel, debt service payments, grain imports and raw materials especially for items under Statutory Instrument 64 of 2016.

The fact that the 14.4% of the country's foreign receipts handled by RBZ for redistribution into the market seems to have more impact in the economy is a sign of market failure. The Bank shall quickly move to redress this market failure through measures that compel banks to adhere to the import priority list and to mitigate against institutional indiscipline such as the use of more foreign exchange for personal card and DSTV transactions ahead of raw materials to produce cooking oil, for example. Financial institutions should do some soul searching and rethink on how they add value to the economy under the New Normal.

6. **Promotion of efficient circulation of bond notes within the financial market.** The Bank is encouraged by the manner in which the nation embraced bond notes. The Bank has to date issued $94 million of bond notes into the

market against an aggregate value of the export incentive of $107 million. Whilst the circulation of the bond notes represented by levels of deposits and withdrawals is also encouraging, the Bank is putting in place a redistributable measure that mitigates against skewed concentration of bond notes within the banking sector by limiting the maximum amount of bond notes that each bank should hold at any given point in time in relation to its level and type of transactions. This measure is necessary to ensure that bonds notes are distributed proportionately according to the customer base or customer profile of each banking institution.

7. **Preservation of the parity of the bond note to the US$.** The Bank is directing financial institutions to strictly observe the policy to deposit bond notes into the US$ accounts without requesting the banking public to differentiate between bond notes and US$ cash. This measure is essential to ensure that bond notes continue to trade at parity with the US$ and to reflect the fact that bond notes are supported by the US$200 million offshore facility to support the demand for foreign exchange attributable to bond notes. The foreign exchange under this facility is made available to banks in line with the import priority requirements on request from the Bank.

8. **Facility for bonafide cross border traders through the provision of foreign exchange and finance facilities** to traders registered with any recognised cross border association. In line with best practice and in order to mitigate against money laundering and to inculcate market discipline, the facilities would be made available through normal banking channels and Easylink to bona fide traders. Modalities of this facility are being finalised by the Bank and the relevant stakeholders that include banks and the cross border associations, and shall come into effect from 1st March 2017.

9. **Comprehensive review of the farmers stop order system** is being undertaken by the Bank in consultation with the relevant stakeholders. The review is in line with the pronouncement by the Ministry of Finance and Economic Development in the Budget Statement. The review is critical to curb side marketing and attract funding for agriculture which is expected to rise in 2017 on account of the fact that the 99 year land leases are now an acceptable form of security at some banks.

10. **Enhancing the gold support facility for small to medium scale producers from US$20 million to US$40 million.** This facility is being enhanced on account of the importance of the gold sector to the Zimbabwean economy and the fact that the Bank is pleased by the current utilisation of the existing facility which stands at US$12.5 million. Thus, this measure, together with the 5% export incentive scheme and the positive effect of compliance monitoring by the Gold Monitoring Committee, is designed to increase gold production from the **21.4 tonnes delivered to Fidelity Printers and Refiners in 2016 as shown in Table 16 to 25 tonnes (i.e. excluding PMGs) in 2017.**

Table 16: Gold Deliveries to Fidelity Printers & Refiners in Kgs

2015				2016				2017
	Primary	Small Scale	Total	Primary	Small Scale	Total	% change	
Jan	808.6	375.2	1183.8	868.2	590.1	1458.4	23.2	
Feb	751.4	400.6	1152.3	877.3	698.5	1575.8	36.8	
March	969.6	506.0	1475.7	932.2	635.3	1567.5	6.2	
April	796.6	603.5	1400.1	928.0	713.2	1641.2	17.2	
May	829.7	567.1	1396.7	1087.1	601.7	1688.8	20.9	
June	979.5	593.3	1572.9	953.1	742.9	1696.0	7.8	
July	934.3	667.5	1601.8	1040.6	776.4	1817.0	13.4	
August	953.0	661.3	1614.4	1185.9	745.9	1931.8	20.0	

	2015			2016				2017
	Primary	Small Scale	Total	Primary	Small Scale	Total	% change	
September	1004.7	737.5	1742.2	928.7	1012.9	1941.5	11.4	
October	956.1	752.7	1708.9	957.5	1022.8	1980.3	15.9	
November	947.4	687.1	1634.5	1043.7	1123.4	2167.1	32.6	
December	1031.7	790.4	1822.1	957.4	1017.0	1974.4	8.4	
TOTAL	10963.1	7342.3	18305.4	11759.8	9680.0	21439.8	17.0	25000

Source: RBZ

11. **Foreign exchange/nostro stabilisation facility of US$70 million** to be disbursed by the end of February 2017 in order to deal with the current delays in the processing of outgoing payments for the procurement of productive imports. The measure is necessary to augment the foreign exchange resources in the banks' nostro accounts whilst awaiting the opening of the tobacco and cotton selling season. Whilst the country has US$250 million in the nostro accounts and US$120 million in physical cash at banks, the Bank, using the model, estimates that there is around US$600 circulating in the economy. The main reason behind the substantial amount of cash circulating in the economy include the treatment of foreign currency as a store of value, low business sentiment or confidence within the economy, high informalisation and financial exclusion.

12. **Facilities to support financial inclusion.** The Bank has sourced funding from development financial institutions for the establishment of the following facilities that are designed to support several groups under the

auspices of the National Financial Inclusion Agenda. The facilities will be disbursed through normal banking channels.

a) **US$15 Million Revolving Women Empowerment Fund.** The women empowerment fund would be availed at an all-inclusive interest rate of 10% to support projects owned or managed by women. The Fund, whose operational modalities are currently being finalized, will be made available for on-lending through commercial banks, Microfinance Institutions (MFIs) and People's Own Savings Bank (POSB).

b) US$10 million Business Linkages Facility. This value chain/business linkages finance facility will be availed at concessional interest rate of 10% to support agricultural production under the value chain financing model.

c) **Revamping the US$10 million Horticultural Facility.** Only two firms have accessed this facility since its inception in July 2016. In order to promote its use, the Bank and the Agricultural Marketing Authority (AMA) have come up with revamped modalities that include the use of the facility to support horticultural production for local consumption over and above exports.

d) Educational Support Facility for students pursing studies at the Higher Education and Tertiary Institutions. Resuscitation of this facility which used to be granted through banks is necessary to ensure that educational institutional are sustainable and that students are capacitated to pursue their studies. Modalities of this facility are still under discussion with the relevant stakeholders. The facility is expected to become operational in August 2017.

e) **Scaling up operations of Microfinance Institutions** by developing sustainable partnership with banking institutions. This strategic collaboration will enable Microfinance Institutions to offer a wide range of financial products to their clients.

13. **Enhancing financial stability through macro-prudential supervision**. This will be done through early identification of vulnerabilities, proactive implementation of mitigants and timely resolution of disruptions to the smooth operation of the financial system. In this respect, the Bank is enhancing its macro-prudential assessment tools such as countercyclical capital requirements, macro-stress testing, bank contagion analysis as well as the early warning tool kit. The macro-prudential framework shall be developed by 30 September 2017. The framework will outline sound principles, tools and instruments to strengthen the resilience of the financial system and to prevent the build-up of systemic risk.

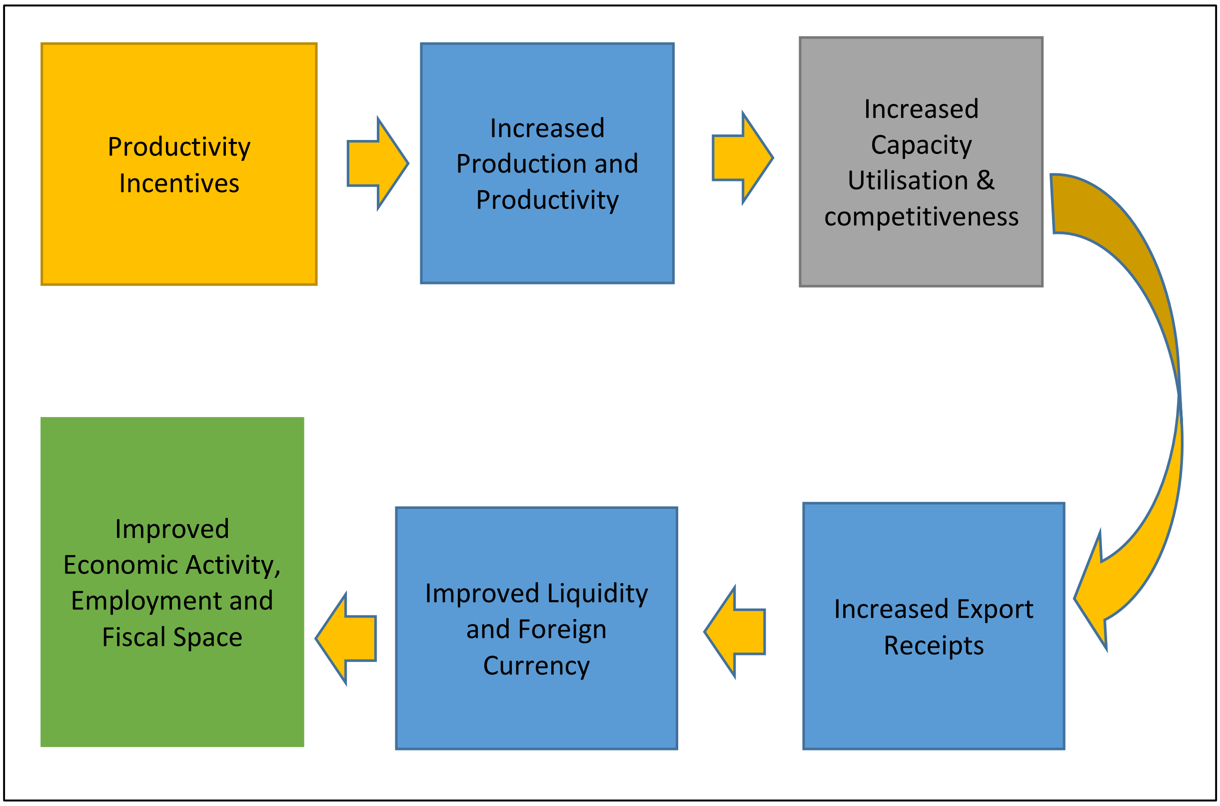
14. **Extension of the Export Incentive Scheme to Tourism and Cotton Growers.** The RBZ remains fully committed to incentivise all earners of foreign exchange with a view to pursue an export-led growth strategy that is necessary to sustain the multi-currency system. In view of the above, the Bank is extending the export incentive scheme to the tourism industry to reward the industry's contribution to foreign exchange generation. This policy stance is taken in view of the loss of competitiveness of the industry manly due to price differential between Zimbabwe and the region.

    The depreciation South African rand and other regional currencies affects the price competitiveness of the country's tourism industry considering that the bulk of inbound tourists come from Africa, particularly South Africa. In view of this, Zimbabwe becomes more expensive as a tourist destination as the US$ strengthens against the regional currencies. The export incentive scheme is therefore expected to provide some cushion to allow the tourism sector to adjust prices to remain competitive.

Similarly, the export incentive scheme of 5% is also being extended **to cotton growers** given the fact that seed cotton, like green leaf tobacco, is purchased from growers by cotton merchants using offshore lines of credit drawn in advance before shipment. Around 80% of cotton lint is exported.

15. **Export Incentive Facility for value added exports.** The Reserve Bank is encouraged by the impact of the 5% export incentive scheme in stimulating export growth and in the process boosting output, productivity and competitiveness which are essential elements for internal devaluation and for **transforming Zimbabwe's growth model to a value based economy.** The schematic diagram below shows the envisaged transmission mechanisms of the productivity incentive scheme to the national economy.

Figure 17: Transmission of Productive Incentive to National Economy



Source: RBZ

In order to ensure that the country realise desirable outcomes from the export incentive scheme, the Bank will be carrying out an economy-wide and sector based assessment of the incentive's impact on capacity utilisation, employment creation and export receipts. The exercise is geared at promoting an export-led growth strategy for value added products. This measure which is critical for export diversification i.e for the country to transform itself from a major exporter of commodities to value added products shall be dependent on the possibility of raising the requisite funding to ensure sustainability of the incentive.

16. **Fostering surveillance on combating money-laundering, tax evasion and transfer pricing** by enhancing the scope of monitoring suspicious transactions and working closely with relevant stakeholders and/or agents to make it more difficult for those engaged in such crime to profit from their

illicit activities. The ultimate goal of this effort is to protect the integrity and stability of the financial system.

SECTION 7: POLICY ADVICE

1. **Paying farmers for their produce on time.** The expected good agricultural season that is anticipated to produce around 1 500 000 – 1 800 00 tonnes of maize and other cereals from 1 595 000 hectares and seed cotton of around 100 000 tonnes requires Government to mobilise funding for the Grain Marketing Board (GMB) and Cottco to purchase grains and seed cotton from farmers upon delivery to ensure that agricultural productivity is enhanced for food security and to minimize finance costs to the farmers.

   Paying farmers on time is also a good incentive to enable them to prepare for the winter cropping programme and to increase disposable income. The other upside of this policy recommendation is the savings on foreign exchange that is expected to accrue to the country this year given that last year the country had to import grain in an amount of around US$200 million due to the adverse effects of the El Nino induced drought.

   Furthermore, agricultural produce contributes a significant proportion of around 50% of raw materials for the manufacturing sector. The take-off of agriculture is therefore critical to jumpstart the economy towards achieving the **vision of regaining the status of being the Bread Basket of Africa.** Zimbabwe has the soils, climate and the human asset to achieve this vision.

2. **Completing the implementation of policy measures to address structural reforms that relate to the ease and cost of doing business, fiscal consolidation, state owned enterprises and incentives to expand output and productivity.**

These structural reforms are quite fundamental as they are the bedrock of achieving the supply-side development goal that is anchored on the need to balance exports and imports whilst simultaneously boosting domestic demand or output. This model requires significant levels of investment financed mainly through equity as opposed to debt to mitigate against over gearing or leveraging the country. Addressing the structural reforms would therefore enhance business confidence and attract investment, both domestic and foreign investment.

It is also the Bank's assertion that addressing these structural reforms will lead to a significant increase in output which is necessary to provide the impetus for economic recovery and achieve the goals under ZimAsset. Growing income is also the sine qua non for enhancing the much needed fiscal space on a sustainable basis. Addressing the structural reforms would therefore lead to a reduction in the proportion of government expenditure to Gross Domestic Product (GDP) and also to a reduction of government wages and salaries as a proportion of tax revenue.

3. **Establishment of the Zimbabwe Export Council (ZIMEC)** as a non-incorporated body to co-ordinate and spearhead Zimbabwe's national export drive in close liaison with export promotion associations and bodies that include Zimtrade. Establishment of an Export Council is not a new concept in Zimbabwe. It was first muted in 1991 by Government through the Ministry of Industry and Commerce at the inception of Zimtrade but was never established.

   Given the current thrust of an export led growth strategy formation of ZIMEC is critical for coordinating and championing export growth and diversification for the survival of the national economy. Its objectives will be to lay down policy guidelines for developing and promoting exports and to advise Government on matters concerned with the exporting environment.

SECTION 8: CONCLUSION

Implementation of policies presented in this Policy Statement anchored on a bedrock of an expected good agricultural season coupled with gains already being realized from the recent policy measures are expected to steer the economy towards a sustainable growth path. In particular, exports which are a major source of foreign currency, are expected to significantly rebound from the current initiative to reward exporters with an export bonus scheme of up to 5%.

The Bank is convinced that addressing structural reforms that include the ease and cost of doing business, fiscal consolidation, public finance management and reorganization of state-owned enterprises is the remaining hurdle for transforming the Zimbabwean economy. This, together with the completion of the re-engagement and arrears clearance programme on the basis of the undertakings made in Lima, Peru, in October 2015 will go a long way to improve Zimbabwe's investment climate and its access to foreign finance.

Improved investment climate and access to foreign capital are essential elements to buttress the multi-currency exchange system, which has served the country very well since its adoption in 2009. It is therefore critical to note that currencies throughout the world are strengthened by productivity which is a function of investment and business sentiment. It is precisely for this reason that the Bank's assertion is that the challenges facing the country are a production phenomenon as opposed to a currency circumstance. The Bank believes in the provision of incentives, in their broader context, to expand output and productivity. Paying farmers on time for their produce, for example, is an appropriate incentive for sustainable agriculture.

Going forward, the mutually beneficial three pronged policy approach relying on monetary, fiscal and structural policies being pursued by Government and the Bank will go a long way in stimulating the economy and boosting productivity.

The country also needs to diversify its export base in order to benefit from global developments, as well as to cushion itself from the adverse effects of depressed world commodity prices.

The fate of transforming Zimbabwe's economic growth model is in our hands.

I THANK YOU
DR. J.P. MANGUDYA
GOVERNOR