MONETARY POLICY STATEMENT

ISSUED

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

By

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1. INTRODUCTION AND BACKGROUND

1.1 This Monetary Policy Statement issued in terms of Section 46 of the Reserve Bank Act (Chapter 22:15), is presented at a time when the economy is exposed once again to financial and economic vulnerabilities emanating from the continued fragility of the global economy, due to weak global growth and emerging financial turbulences.

1.2 Adverse developments in the global economy continue to orchestrate knock on effects on emerging and developing economies through negative external shocks. The impact of these turbulences that has had debilitating effects on global capital markets are currently being transmitted to developing countries such as Zimbabwe particularly amplified by increased globalization and regionalism.

1.3 Zimbabwe remains susceptible to the vagaries of the adverse external macroeconomic environment, particularly within the aegis of the multiple currency system which is typified by limited macroeconomic policy instruments. In essence, lack of potent policy instruments to absorb both domestic and external shocks relegates Zimbabwean policy makers to mere observers and pray that global developments remain favourable.

1.4 The pertinent question for Zimbabwe which we should grapple with in 2012 is whether the country can sustain the growth trajectory witnessed since the onset of the multicurrency system in the face of stalling global economic activity, under the same monetary regime. Despite limited integration with the capital markets in advanced economies, the costs and risks of a fall from the country’s growth path attained in the past 3 years remain disconcertingly high.

1.5 Although the Zimbabwean economy is projected to further grow by 9.4% in 2012, downside risks in the form of firming global food and fuel prices, amplified by the likelihood of a drought affecting the country and some parts of the region, will potentially have adverse ramifications on the budget.

1.6 In view of the country’s high commodity dependency, declines in global activity and commodity prices will have inescapable consequences for the country’s export earnings, and hence its output, incomes, and fiscal revenues. Diaspora remittances and investment flows are likely to weaken, with knock-on effects on domestic demand, banking sector liquidity and loan quality, resulting in more difficult credit conditions.

1.7 Under the multicurrency system, the country has virtually lost monetary policy autonomy, making it difficult for the country to intervene with appropriate stimulus packages in the event of exogenous shocks. As a result, the onus should be on caution and preparation for action, being conscious of the absence of adequate foreign exchange reserve buffers to respond to exogenous shocks.

1.8 The meaningful recovery of the Zimbabwean economy is also contingent upon increased financial intermediation by the country’s banking sector. The intermediary role of banks remains critical in the re-deployment of surplus investible funds into key productive sectors of the economy. This is particularly so given persistent liquidity challenges that have lingered in the economy since the introduction of the multiple currency system.

1.9 Against the background of serious developmental constraints imposed by persistent liquidity challenges, this Monetary Policy accords great prominence to policy measures geared at promoting financial sector stability to ensure the safety and soundness of the banking system. As such, the theme of this Monetary Policy Statement is ***Ensuring Financial Sector Stability.*** Accordingly, the need to strengthen financial regulation and supervision to mitigate underlying risks that have accompanied the multiple currency system ranks high on our priorities.

1.10 Within this context, this Monetary Policy, therefore, treads a fine line between addressing the domestic economic challenges and exogenous shocks from the adverse effects of an impending global downturn.

2. GLOBAL ECONOMIC DEVELOPMENTS

2.1 Global economic activity slowed down from 5.1% in 2010 to 3.8% in 2011 on account of the negative repercussions of the sovereign debt crisis that engulfed the Euro Zone and the US as well as a severe earthquake that hit Japan earlier in the year. These adverse developments have in turn occasioned uncertainty over global economic performance in the outlook.

Table 1: Summary of World Output

	2008	2009	2010	2011	2012F	2013F
World Output	2.8%	-0.7%	5.1%	3.8%	3.3%	3.9%
Emerging and Developing Economies	6.0%	2.8%	7.3%	6.2%	5.4%	5.9%
Advanced Economies	0.1%	-3.7%	3.1%	1.6%	1.2%	1.9%
Latin America & Caribbean	4.3%	-1.7%	6.1%	4.6%	3.6%	3.9%
Sub-Saharan Africa	5.6%	2.8%	5.4%	4.9%	5.5%	5.3%

Source: World Economic Outlook Update (January 2012)

2.2 In the backdrop of the sovereign debt crisis, economic activity in advanced economies slowed down in 2011 culminating in a mild recession in the euro zone. Concerns about sovereign debt sustainability in the European Monetary Union are becoming increasingly endemic. The recent contagion to countries initially thought to have relatively solid public finances can potentially dampen economic growth prospects initially anticipated.

Table 2: Debt and Other Indicators for Selected Advanced Economies -Oct 2011

Country	Total Debt	GDP at Constant Prices	Total Debt/GDP	Per Capita Debt	Total Debt/Exports
	(US$bn)	US$bn	Percent	US$	Percent
Greece	465.0	207.7	223.9	41,082.8	2,052.2
Italy	2,447.2	1,563.0	156.6	40,461.4	545.8
Japan	14,223.0	6,982.8	203.7	111,595.9	1,636.2
Portugal	230.9	201.7	114.5	21,694.5	472.1
Spain	932.5	859.8	108.5	20,235.5	368.6
USA	15,071.7	13,287.9	113.4	48,178.2	82.0

Source: World Economic Outlook (September 2011)

2.3 It is evident that the Euro-zone and Japan are in debt distress with countries such as Spain, Greece and Portugal, and Italy having very high debt to GDP ratios of over 100% and debt to export ratios of over 300%. This implies that these countries would find it extremely difficult to repay their loans within a short period of time.

2.4 The moderation of global demand for goods and services is envisaged to retard economic growth. This is a result of aggressive fiscal consolidation measures instituted to ensure long-term fiscal and debt sustainability in some major economies, tight financing conditions and low confidence levels as a result of concerns over sovereign debt risks. In addition, the adverse impact of early supply-chain disruptions following the earthquake that hit Japan earlier in the year, and high commodity prices, also negatively affected global economic recovery.

2.5 Notwithstanding these negative global developments, economic activity in emerging market economies remains relatively strong, underpinned by increased domestic demand and increased external trade with rapidly growing Asian countries such as China and India. Against this background, growth is estimated to have expanded by 4.9%, in the Sub-Saharan Africa region in 2011, also immensely benefiting from robust private and public consumption.

2.6 Despite moderation in output growth, economic activity in emerging market economies remains elevated. The decline in commodity prices and the slow-down in global growth have had a mitigatory effect on inflationary pressures.

Implications of the Global Developments on SADC and Zimbabwe

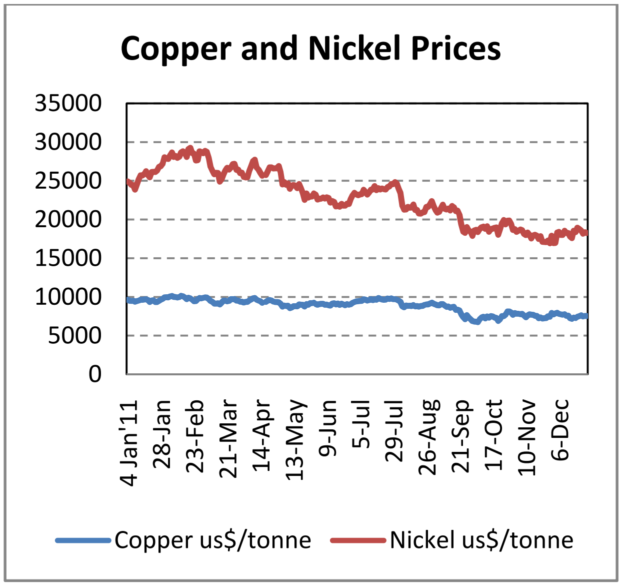
2.7 Subdued global economic recovery and the sovereign debt crisis in the Euro-zone have combined to increase the fragility of economic activity in the region, given the strong economic and trade synergies between SADC and Europe.

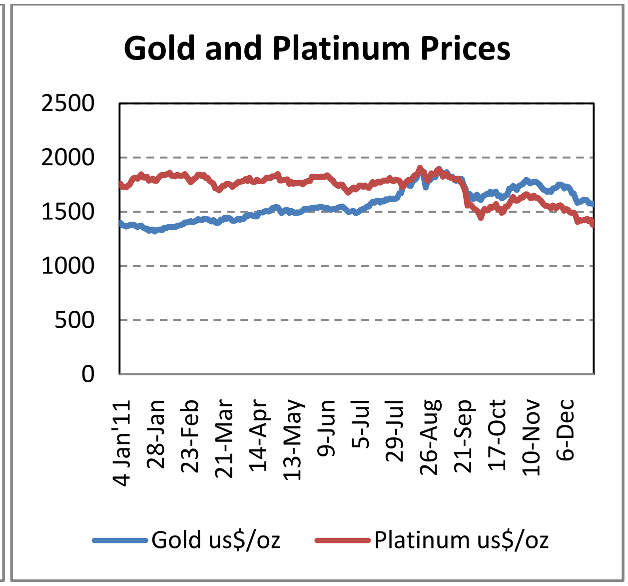
2.8 The negative effects of the sovereign debt crisis have largely been transmitted through declining trade opportunities as global trade shrinks, remittances, aid, and foreign direct investment (FDI) flows. In addition, the deterioration in terms of trade occasioned by depressed international commodity prices also affects commodity dependent countries in the region such as Zimbabwe.

International Commodity Price Developments

2.9 International commodity prices which started the year on a solid footing benefiting from the recovery of the global economy and accompanying demand in 2010, however, lost this momentum in the second half of 2011. In particular, commodity prices for platinum, copper and nickel retreated in the second half of 2011, on the back of the impact of the sovereign debt crisis on the performance of Euro-zone and US economies.

Figure 1: Commodity Prices



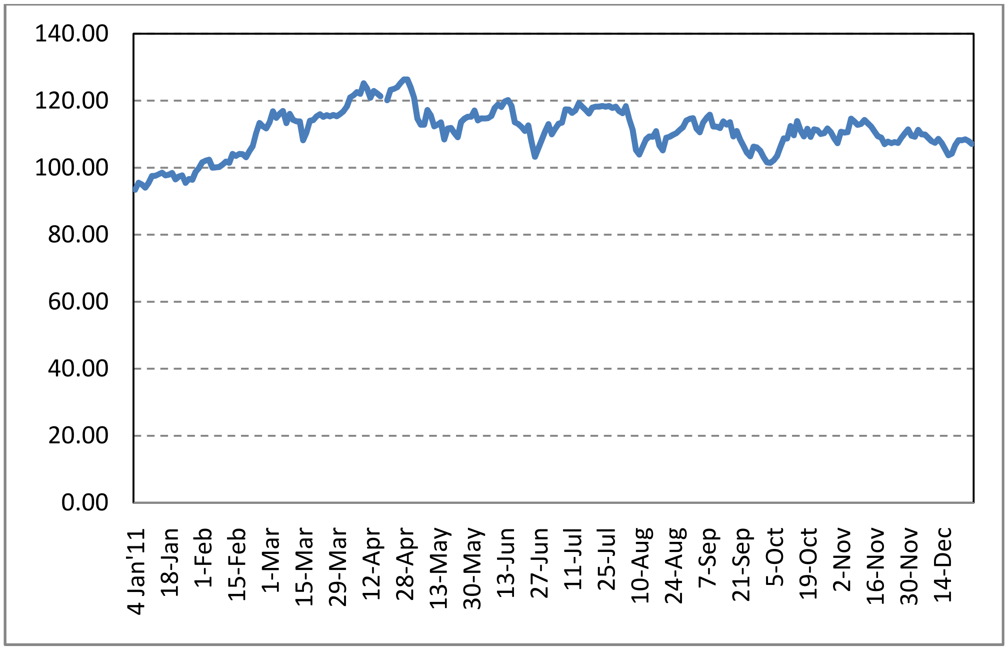


Source: Bloomberg

2.10 Gold prices, however, remained buoyant largely benefiting from the weakening of the US$, which increased its demand as a safe investment haven. On the other hand, crude oil prices firmed to levels above the US$100/barrel mark, on the back of political instability experienced in North Africa and the Middle East for the greater part of 2011.

2.11 Despite the marginal retreat in commodity prices as shown in the graphs above, international commodity prices remained favourable.

Figure 2: Crude Oil Prices US$/barrel



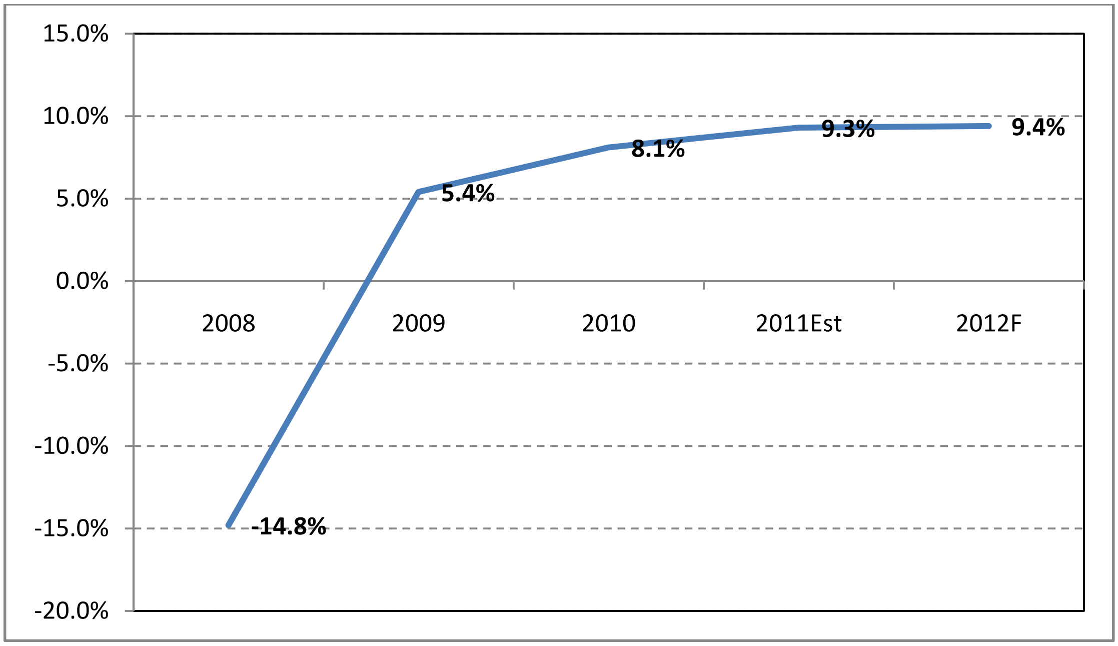
Source: Bloomberg

3. ECONOMIC OUTLOOK

3.1 Against the background of relatively favourable commodity prices coupled with a stable macroeconomic environment, the Zimbabwean economy which grew by 8.4% in 2010 is estimated to have grown by 9.3% in 2011. Expansion in economic activity in 2011 was underpinned by growth in mining (25.8%), agriculture 7.4%), finance and insurance (24%), distribution and tourism (10.3%) and manufacturing (3.5%).

3.2 The recovery in the manufacturing sector, however, remains sluggish on the back of lack of long term finance to recapitalize operations as well as the negative repercussions of frequent power outages.

Figure 3: GDP Growth (%)



Source: Ministry of Finance

3.3 Economic activity is projected to further grow by 9.4% in 2012, underpinned by strong performance in finance, 23%; mining, 15.9%; tourism, 13.7%; and agriculture, 11.6%. Downside risks to the outlook, however, include the following:

i. The likelihood of an unfavourable agriculture season characterized by delays in the distribution of subsidized inputs, late onset of the rainy season and mid season dry spells;

ii. Erratic power supply and rising utility costs;

iii. Dilapidated infrastructure;

iv. Uncertainty with regards to the implementation of the indigenization and economic empowerment policy;

v. Political uncertainty surrounding the impending elections; and

vi. Slow-down in export demand as global economic activity decelerates.

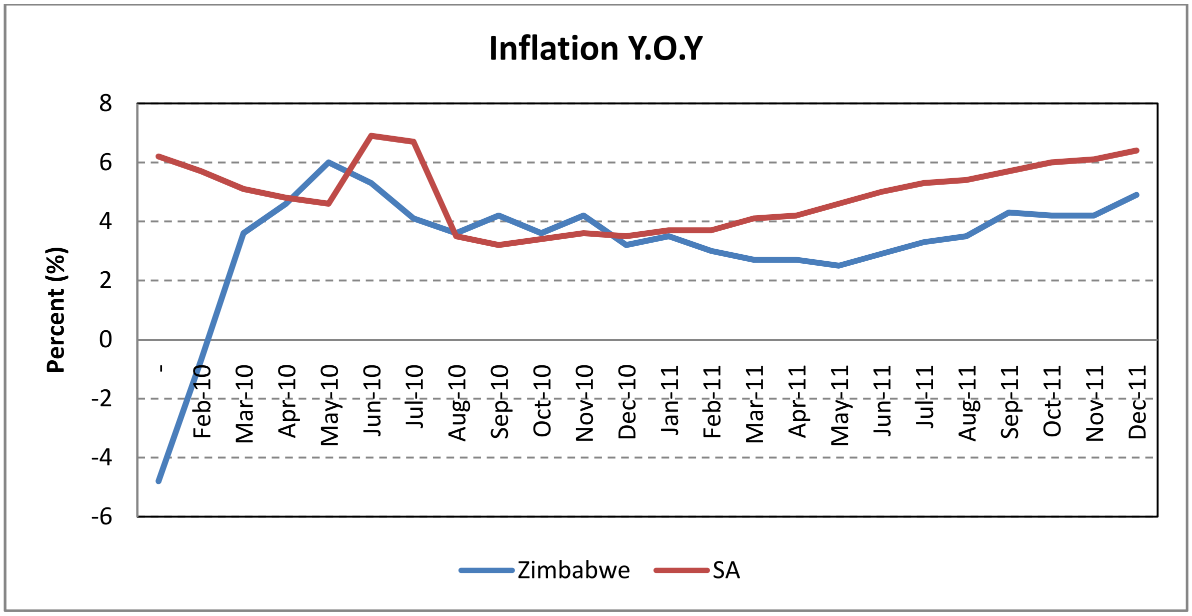
3.4 Price stability experienced under the multiple currency system also provided an enabling business environment in 2011.

Inflation Developments

3.5 Reflecting sustained price stability that has typified the multiple currency system, annual inflation remained low and stable in 2011 at levels below 5%. As depicted in the figure below, annual headline inflation which stood at 3.5% in January 2011, decelerated significantly to 2.5% in May 2011. Inflation, however, took an upward trend, rising to 4.9% in December 2011.

3.6 Notwithstanding the rise in inflation between January and December 2011, Zimbabwe's annual headline inflation compares favourably with regional economies and is aligned with the SADC macroeconomic convergence target of 5%.

Figure 4: Annual Headline Inflation (%)



Source: ZIMSTAT and SARB

3.7 During 2011, notable food price increases were registered for vegetables, meat and mineral waters, soft drinks and fruit juices. Notwithstanding these adverse price developments, annual food inflation which commenced the year at 6.8%, declined to 2.3% in May 2011, before rising to 5.8% in December 2011.

3.8 On the other hand, non food inflation which stood at 2.2% in January 2011 receded to 0.6% in May, before accelerating to 4.5% by December 2011. Rising domestic electricity tariffs, gas and other fuel prices, rentals and passenger transport fares spurred non-food inflation over the period January to December 2011.

3.9 The appreciation of the South African Rand against the US$, over the period up to September 2011, also generated adverse inflationary pressures. This notwithstanding, inflationary pressures in the domestic economy were somewhat dampened by the weakening of the South African rand over the period September to November 2011 whose pass through effects are transmitted through imports.

3.10 In the outlook, inflation pressures are likely to emanate from rising global food prices, exchange rate movements between the rand and the US$ as well as rising wage demands from both the private and public sectors. The envisaged stabilization of international oil prices is, however, likely to dampen inflationary pressures in the Zimbabwean economy in 2012.

External Sector Developments

3.11 In the backdrop of favourable international commodity prices and improved industrial capacity utilization, merchandise exports increased significantly by 30.2% from US$3 380 million in 2010 to US$4 339 million in 2011. This notwithstanding, imports which grew by 23.3% from U$5 161.8 million in 2010 to US$6 365.4 million in 2011, thereby surpassing exports earnings.

3.12 This development culminated in the recurrence of an unsustainable current account deficit estimated at US$1 887 million in 2011, representing 23.4% of GDP. The financing of the current account balance has, however, remained a challenge in the backdrop of subdued capital account inflows.

3.13 Although the capital account is estimated to have improved from a surplus of US$617.5 million in 2010 to a surplus US$1 219.6 million in 2011, the inflows remain inadequate to finance the current account deficit projected for 2011. Accordingly, the overall balance of payments (BOP) position is projected to remain precariously difficult, particularly in view of reserve inadequacy and sluggish growth in manufactured exports.

3.14 It is against this background that the country continues to finance the balance of payments deficits through the accumulation of external payment arrears. This exceptional mode of financing the balance of payments militates against initiatives geared at securing long term offshore financing to support sustained economic recovery.

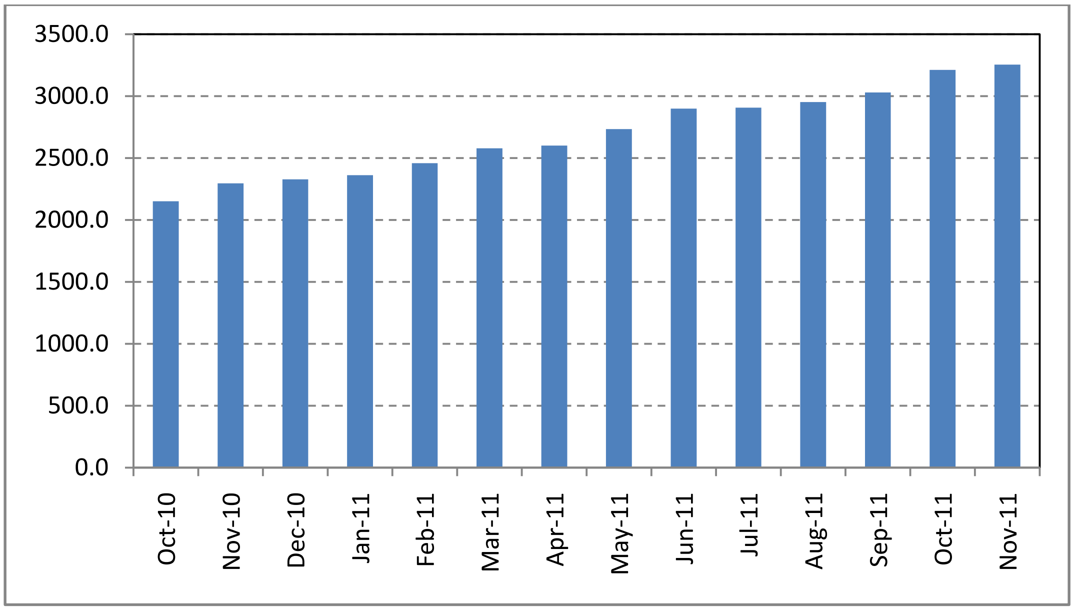
3.15 In the outlook, the dampening effect of the Eurozone debt crisis on international commodity prices, diaspora remittances, and capital inflow is expected to have negative repercussions on Zimbabwe. In addition, erratic rainfalls experienced in the 2011/12 farming season are likely to necessitate the importation of grain to augment domestic output to ensure food security. These negative developments are expected to reinforce each other to worsen the country's external sector position.

4. MONETARY DEVELOPMENTS

Monetary Developments

4.1 In the backdrop of growing depositor confidence, broad money supply, currently defined as total banking sector deposits, exhibited an upward trend, over the period January to November 2011, increasing by an average of US$88.4 million on a monthly basis.

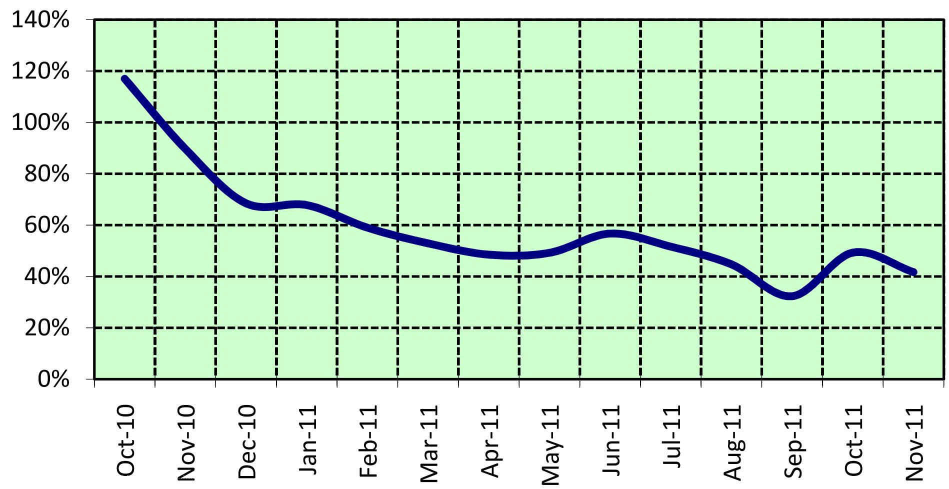
Figure 5: Deposits (US$M)



4.2 Accordingly, consolidated deposits[1] held by banks amounted to US$3 254.5 million as at 30 November 2011, representing an increase of US$958.2 million (41.7%), compared with US$2 296.3 million realized during the comparative period in 2010. Year on year growth in deposits has, however, progressively declined from 80% in September 2010 to 40% in September 2011 before marginally rising to about 50% in November 2011 as shown in the figure below.

[1] These are net of interbank deposits

Figure 6: Year on Year Growth in Deposits



Source: RBZ

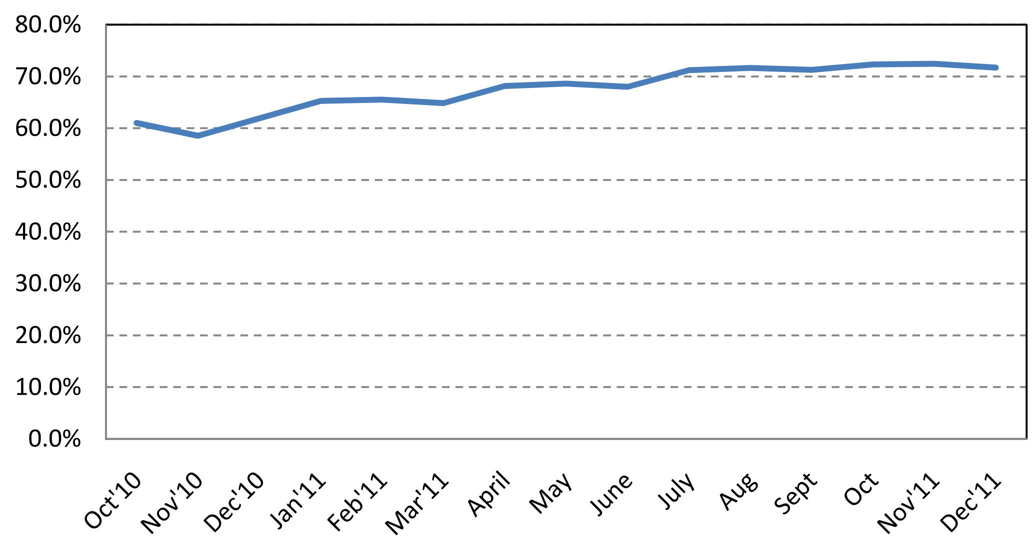
4.3 Deposits in the banking sector continue to be of a short term nature, thereby presenting worrisome vulnerabilities in the sector. In this regard, short term deposits, which comprise of demand, savings and under 30-day deposits, constituted 89.3% of the total deposits in the banking sector as at 30 November 2011. The high concentration of short term transitory deposits partially reflects that economic agents are largely using the banking system for facilitating salary payments rather than deliberate and planned savings.

Bank Lending

4.4 In concordance with the expansion in the country's deposit base, total credit to the private sector grew by 84.3% or US$1 317.9 million, from US$1 563.9 million in November 2010 to US$2 881.9 million in November 2011.This development though promotive of private sector led growth still falls short of credit required to support fast paced economic growth that meaningfully creates jobs and uplift the general standards of living for the generality of Zimbabweans.

4.5 Against the background of expanded credit and growth in the deposit base, the loan to deposit ratio[2] increased appreciably from 61.9% as at 31 December 2010 to over 71.7% by the end of December 2011. If offshore lines of credit are included the loans to deposit ratio for December 2011 exceeds 87%.

Figure 7: Loan to Deposit Ratio



Source: RBZ

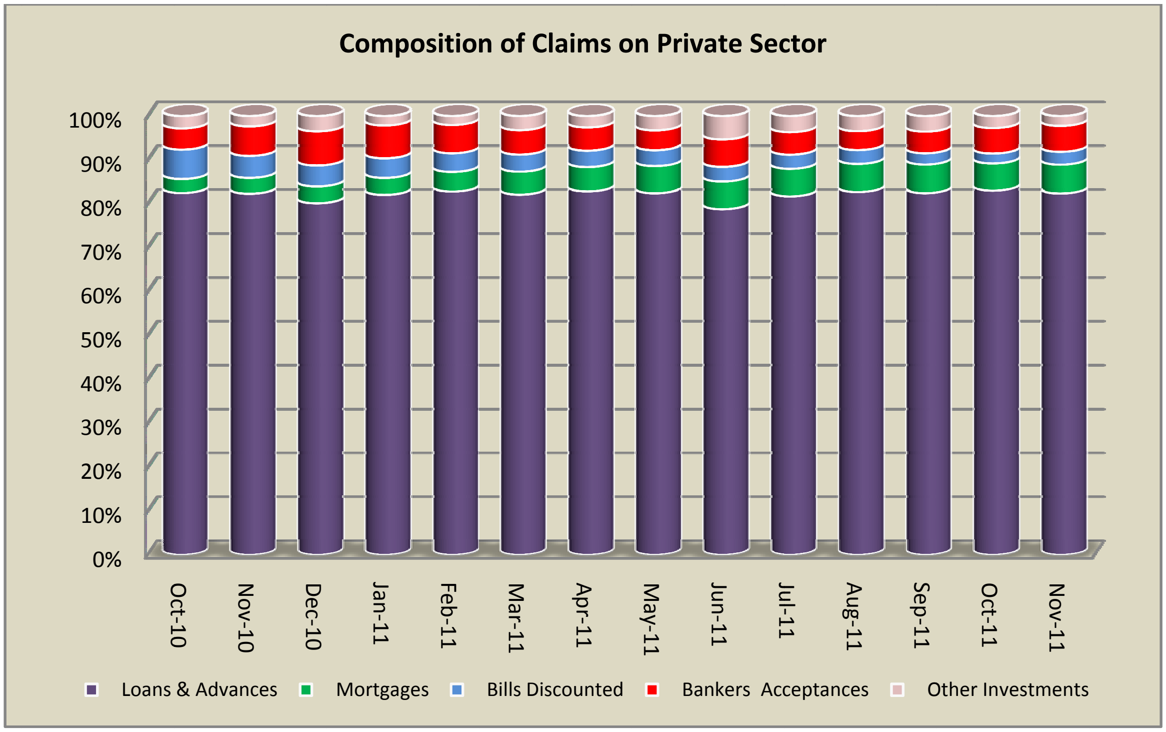
4.6 Consistent with the transitory nature of deposits coupled with the attendant liquidity challenges, banking sector credit has also largely been short-term in nature.

[2] Loans exclude offshore lines of credit

Private Sector Credit

4.7 Credit to the private sector comprised of loans and advances, 83%; mortgages, 6.2%; banker's acceptances, 5.8%; other investments, 2.7%; and bills discounted; 2.3%.

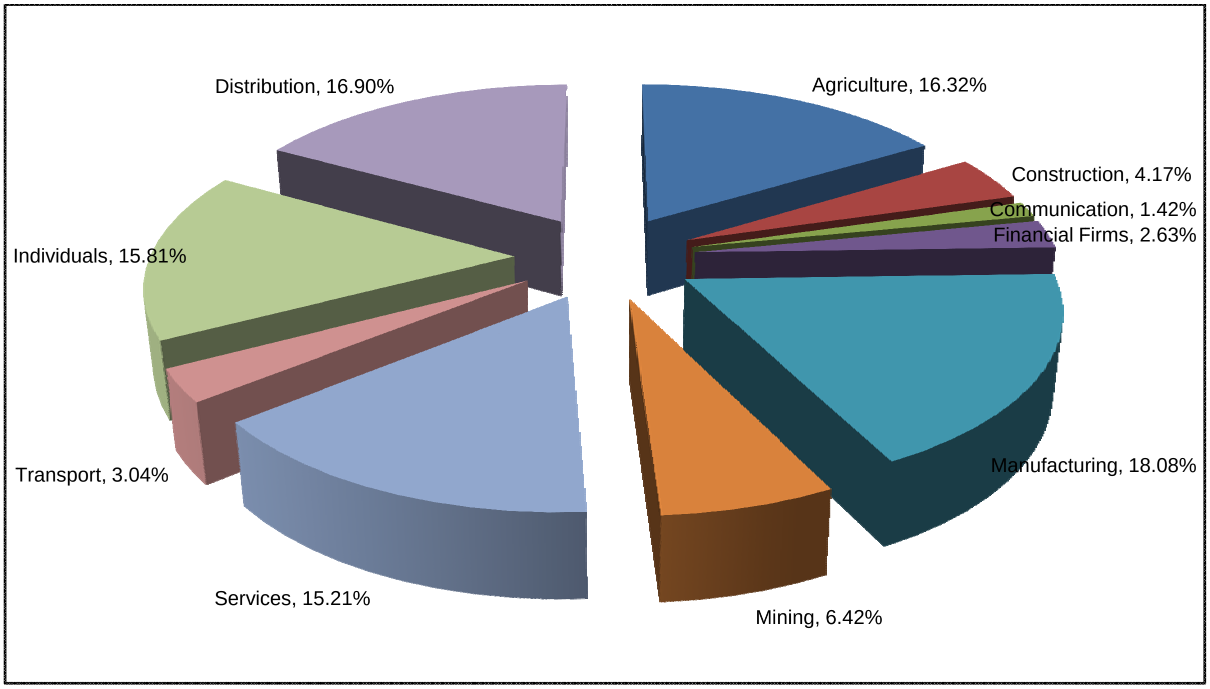
Figure 8: Composition of Claims on Private Sector



Sectoral Distribution of Credit

4.8 Loans and advances extended by the banking sector largely benefited the distribution (17%), agriculture (16%), and manufacturing (18%), communication (16%), services (15%), and mining (6.4%) sectors, while total loans and advances to individuals amounted to 15%.

Figure 9: Sectoral Distribution of Loans and Advances as at 2 December 2011



Interest Rates

4.9 Lending and investment rates quoted by banks have remained relatively high, largely sustained by persistent liquidity shortages, high credit demand, high associated risks, limited lines of credit and the absence of an active money market.

4.10 The absence of a functioning money market has resulted in the widening of interest rate range quoted by banks. As at end of October 2011, nominal lending rates quoted by banks ranged between 8% and 32% with most banks quoting lending rates of around 20%. Time deposit rates, however, ranged between 0.15% and 17%.

4.11 Notwithstanding the realization of positive real interest rates on investment deposits, term deposits have remained low on the backdrop of high opportunity cost of holding the deposits.

4.12 Despite high lending rates charged by banks, savings and demand deposits, which constitute the bulk of the deposits, continue to attract low interest rates and high transaction charges. This negative development continues to militate against efforts geared at promoting a savings culture among the banking public. In turn this compounds the country's liquidity situation which also hamstrings the economic recovery process.

5. FINANCIAL SECTOR DEVELOPMENTS

5.1 The banking sector remained in a safe and sound condition in 2011 notwithstanding underlying risks posed by the operating environment notably volatile deposits, absence of an active inter-bank market and lack of an effective lender of last resort function, market illiquidity, cash based transactions and limited access to external credit lines.

5.2 The weak and troubled banks in the sector are few, small and of low systemic importance. Collectively, as at 31 December 2011, these institutions **had a combined market share below 5%** in terms of total assets, deposits and loans, as depicted in the table below:

Table 3: Market Share of Weak and Troubled Banks

Institutions	Market Share of Assets	Market Share of Deposits	Market Share of Loans
Strong Banks	95.86%	97.33%	96.16%
Weak & Troubled Banks	4.14%	2.67%	3.84%

5.3 Despite attendant challenges, the banking sector experienced marked improvement in its intermediary role, which has resulted in improved financial support to the key productive sectors of the economy.

5.4 The Reserve Bank has, however, noted with concern the gradual deterioration in asset quality as reflected by the level of non-performing loans which is now trending towards the watch list category. Asset quality challenges can potentially heighten liquidity risks given the current operating environment where credit is largely financed by volatile short term deposits. In this regard, it is imperative that banking institutions enhance their credit risk management systems with special emphasis on credit assessment, origination, administration, monitoring and control standards.

5.5 Despite well-documented benefits that accompanied the adoption of multiple currencies, a new set of challenges for the banking sector including frauds and robberies has emerged. Within this context, the Reserve Bank issued a circular on enhancement of security arrangements at branches in 2009. Whilst satisfactory response to this call has been recorded in the urban areas, the Reserve Bank notes that there is great scope to enhance security arrangements by banks in outlying branches. This is evidenced by numerous incidences where outlying branches have been targeted by robbers.

5.6 It is against this background that the Reserve Bank urges banking institutions to tighten security systems in all branches to mitigate operational risks that have affected banks under the multiple currency system.

ARCHITECTURE OF THE BANKING SECTOR

5.7 As at 31st December 2011, there were 26 operational banking institutions (including POSB), 16 asset management companies and 157 microfinance institutions under the supervision of the Reserve Bank.

Table 4: Structure of Banking Sector

Type of institution	Number
Commercial Banks*	17
Merchant Banks	4
Building Societies	4
Savings Bank	1
Finance Houses	0
Discount Houses	0
Total Banking Institutions	26
Asset Management Companies	16
Microfinance institutions	157

*Excludes *Barbican Bank which was re-licensed but is not yet operational.*

RECENT DEVELOPMENTS IN THE BANKING SECTOR

Barbican Bank

5.8 Following the unbundling of ZABG, Barbican Bank was re-licensed together with Royal Bank and Trust Bank. Barbican Bank has, however, not been able to resume operations within the 12 months period provided in section 14 (1) (i) of the Banking Act [*Chapter 24:20*].

5.9 In view of the expiry of Barbican Bank's licence on 30 September 2011, the Reserve Bank notified the bank of its intention to cancel the banking licence in terms of the provisions of the Banking Act. The bank appealed to the Minister of Finance and the Reserve Bank is still awaiting the Minister's response.

Renaissance Merchant Bank Limited

5.10 Pursuant to the expiry of the initial six-month curatorship period on 2 December 2011, the Reserve Bank extended the period of curatorship to 3 February 2012. The curatorship period has now been extended to 3 March 2012 to enable the Curator to finalise recapitalization initiatives currently underway.

STATUS OF BANKING SECTOR CAPITALISATION

5.11 As at 31 December 2011, **20** out of **25** operating banking institutions (excluding POSB) were in compliance with the prescribed minimum capital requirements, while all the 16 asset management companies were compliant with the minimum capital requirement of $500,000. The table below shows the capitalization status of the banking sector as at 31 December 2011.

Table 5: Capitalization of the Banking Sector as at 31 December 2011

INSTITUTION	Declared Core Capital as at 31 December 2011	Prescribed Minimum Capital
COMMERCIAL BANKS		
CBZ BANK	65,219,416.00	12,500,000.00
STANCHART	53,204,639.00	12,500,000.00
BARCLAYS BANK	33,374,247.00	12,500,000.00
BANCABC	32,075,487.14	12,500,000.00
STANBIC BANK	31,974,967.00	12,500,000.00
ZB BANK	20,695,741.00	12,500,000.00
NMB BANK	19,788,114.00	12,500,000.00
MBCA BANK	19,484,022.00	12,500,000.00
METROPOLITAN BANK	17,955,298.00	12,500,000.00
FBC BANK	16,824,331.00	12,500,000.00
INTERFIN BANK	16,275,804.88	12,500,000.00
AGRIBANK	14,144,691.57	12,500,000.00
TN BANK	13,380,596.00	12,500,000.00
TRUST BANK	12,764,043.00	12,500,000.00
KINGDOM BANK	4,203,203.00	12,500,000.00
ROYAL BANK	3,422,410.00	12,500,000.00
ZABG BANK	(15,348,157.00)	12,500,000.00
MERCHANT BANKS		
TETRAD INVESTMENT	12,726,213.00	10,000,000.00
ECOBANK	10,883,265.00	10,000,000.00
GENESIS INVESTMENT	(3,204,691.00)	10,000,000.00
RENAISSANCE	(Under Curatorship)	
BUILDING SOCIETIES		
CBZ BUILDING SOCIETY	22,705,129.00	10,000,000.00
CABS	14,351,109.00	10,000,000.00
FBC BUILDING SOCIETY	13,545,567.00	10,000,000.00
ZB BUILDING SOCIETY	13,401,494.58	10,000,000.00
SAVINGS BANK		
POSB	10,797,887.00	-

5.12 **Kingdom Financial Holdings Limited** (KFHL) has now concluded an agreement with Afrasia Bank Limited (ABL) domiciled in Mauritius where ABL will inject equity capital of $9.5 million.

5.13 Following this injection, Kingdom Bank will be in compliance with the minimum capital requirements. In addition, the bank is in the process of raising supplementary capital of $10 million.

5.14 The Reserve Bank has noted that despite several extensions of **recapitalisation** deadlines, **a few banking institutions have failed to conclude their recapitalisation initiatives.** As such there is no prudential basis for the continued existence of such entities.

5.15 Accordingly, the undercapitalised institutions should do the honourable thing and **voluntarily surrender their licences** to the supervisory authorities, failing which they will be dealt with in line with the **Reserve Bank's Troubled and Insolvent Bank Resolution Policy**.

5.16 As you may recall, from my previous Monetary Policy Statements, the Reserve Bank granted several recapitalisation deadline extensions to allow for the finalization of the various lethargic and protracted recapitalization initiatives that were purportedly at various stages of implementation.

5.17 We note as Supervisory Authorities, that these troubled banking institutions are conspicuously oblivious of the clear global trends towards consolidation among banks.

5.18 Since 2005, the Reserve Bank has advocated for consolidations through mergers and acquisitions as laudable market-oriented solutions to troubled banking institutions.

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

5.20 Accordingly, all non-compliant institutions, including those previously issued with special dispensations for **compliance with minimum capital requirements, have up to 14 February 2012 to** finalise their recapitalisation initiatives or consummate their mergers and acquisitions.

5.21 **By no later than 29 February 2012**, the Reserve Bank shall engage those institutions that would have failed to identify credible partners and conclude the recapitalization transactions. The Reserve Bank will deal decisively, with all non compliant institutions in terms of the **Troubled and Insolvent Bank Policy by no later than 31 March 2012.**

5.22 **It follows that, with effect from 1 April 2012**, any banking institution that is not compliant with the minimum capital requirements shall not be allowed to conduct banking business.

5.23 For the avoidance of doubt, all dispensations for compliance with minimum capital requirements granted to non-compliant institutions are hereby revoked with immediate effect, and superseded by the timeframes detailed herein.

STRENGTHENING THE TROUBLED BANK RESOLUTION FRAMEWORK

5.24 Globally, the robustness of the legal framework has been noted to be a fundamental factor in determining the efficacy of the bank resolution framework.

5.25 Our past experiences have shown that the current bank resolution framework, as contained in several statutes including the Banking Act, Deposit Protection Corporation Bill, Troubled Financial Institutions (Resolution) Act, Companies Act, and Insolvency Act is out of sync with best practice.

5.26 As Regulatory Authorities, the Reserve Bank, in liaison with other key stakeholders, is committed to ensuring that the legal and regulatory framework for the banking sector remains relevant and robust to deal with current and future challenges.

5.27 In pursuit of this objective, the Banking Laws will be amended to strengthen the Troubled and Insolvent Bank Resolution Framework incorporating Prompt Corrective Actions (PCAs).

ENHANCEMENT OF BANKING SECTOR STABILITY

Risk-Based Supervision

5.28 The Reserve Bank's supervisory framework will continue to be underpinned by Risk-Based supervision methodologies, which place emphasis on the accurate determination of the risk profiles of banking institutions and adequacy of risk management systems. The Risk-Based Supervision framework also provides for on-going interaction among supervisors, banks and external auditors through prudential meetings.

5.29 Risk-Based Supervision provides a solid foundation for implementation of the Basel II/III framework.

Effective Supervision of Banking Groups

5.30 A number of banking institutions have used associate entities in their group structures as conduits for indulgence in regulatory arbitrage, and engagement in non-permissible activities. A number of banking institutions have used associate entities in their group structures as conduits for indulgence in regulatory arbitrage, and engagement in non-permissible activities.

5.31 The unfounded litigations on the legality and scope of the Reserve Bank's jurisdiction over Bank Holding Companies clearly demonstrates the level of ignorance of the provisions of Banking Laws by the shareholders.

5.32 For the avoidance of doubt, it must be noted that the Reserve Bank is empowered under section 45(1) (a) of the Banking Act [Chapter 24:20], to monitor and supervise associates of banking institutions including their holding companies.

5.33 As Monetary Authorities, we reiterate that Bank Holding Companies are still subject to oversight by the Reserve Bank. As such, no person shall obtain significant shareholding holding in or be appointed to the board/ senior management of a Bank Holding Company without the approval of the Reserve Bank.

5.34 The Reserve Bank will continue to apply the consolidated supervision approach in order to control the risks associated with financial conglomerates.

Stress Testing

5.35 The Reserve Bank already requires banking institutions to conduct periodic stress testing, for own internal use, as part of their risk management practices and processes as stipulated in its various prudential guidelines.

5.36 Going forward, **with effect from quarter ending 31 March 2012, every banking institution would be required to submit stress test results to the Reserve Bank within 30 days from the end of each quarter.**

5.37 Meanwhile, the Reserve Bank will continue to conduct independent stress tests, using its own methodologies, to gauge the potential vulnerability of individual banks and the entire banking system.

5.38 The Reserve Bank will hold Prudential Meetings to discuss banking institutions' stress test results. Banking institutions that fail stress tests and have no demonstrable mitigatory measures in place will be subjected to appropriate supervisory action by the Central Bank.

Enterprise-wide Risk Management

5.39 Banking institutions are again encouraged to manage risk in a coordinated and integrated way across the entire business. The Reserve Bank is calling upon banking institutions to build capacity in this regard.

Enhancement of Corporate Governance

5.40 The resurgence of corporate governance ills that be-devilled our financial services sector during 2003/4 period and caused a near-collapse of the banking sector is likely to erode financial sector stability and confidence in the banking system.

5.41 Recent developments at ReNaissance Merchant Bank are a case in point. Depositors' funds were siphoned under a well orchestrated and calculated fraudulent intricate web of related party transactions.

5.42 In view of the corporate governance deficiencies prevalent in owner-managed institutions, the Reserve Bank wishes to remind the banking sector that no shareholder with a 10% stake or more shall form part of management of the banking institution or bank holding company, or be chairperson of the board.

5.43 All banking institutions are expected to comply with this requirement on an on-going basis. To reinforce these requirements, the Reserve Bank will re-issue **enhanced Corporate Governance Guidelines No. 01-2012/BSD, which will be circulated to the market no later than 31 March 2012.**

Credit Reference Bureau

5.44 The Reserve Bank welcomes efforts by Government as announced by the Minister of Finance in the 2012 National Budget presentation on the need to establish a Credit Reference Bureau. Its establishment will help the banking sector to manage the growing credit risk by limiting borrower leverage.

5.45 As Monetary Authorities we once again reiterate calls for all relevant key players to set up a credit reference bureau.

Disclosure Requirements

5.46 As part of on-going efforts to promote transparency and enhance market discipline, the Reserve Bank, with immediate effect, shall publish, on its web-site, on a quarterly basis, the performance of each banking institution.

5.47 The Reserve Bank will, however, discuss with banking institutions' management, the performance of their respective institutions prior to posting the same on the web site to ensure accuracy and objectivity of the status reports.

Prudential Liquidity Ratios

5.48 The Prudential Liquidity Ratios (PLRs) **will be raised from the current 25% to 27.5% by 31 March 2012 and 30% by end of May 2012.**

FINANCIAL STABILITY ASSESSMENT FRAMEWORK

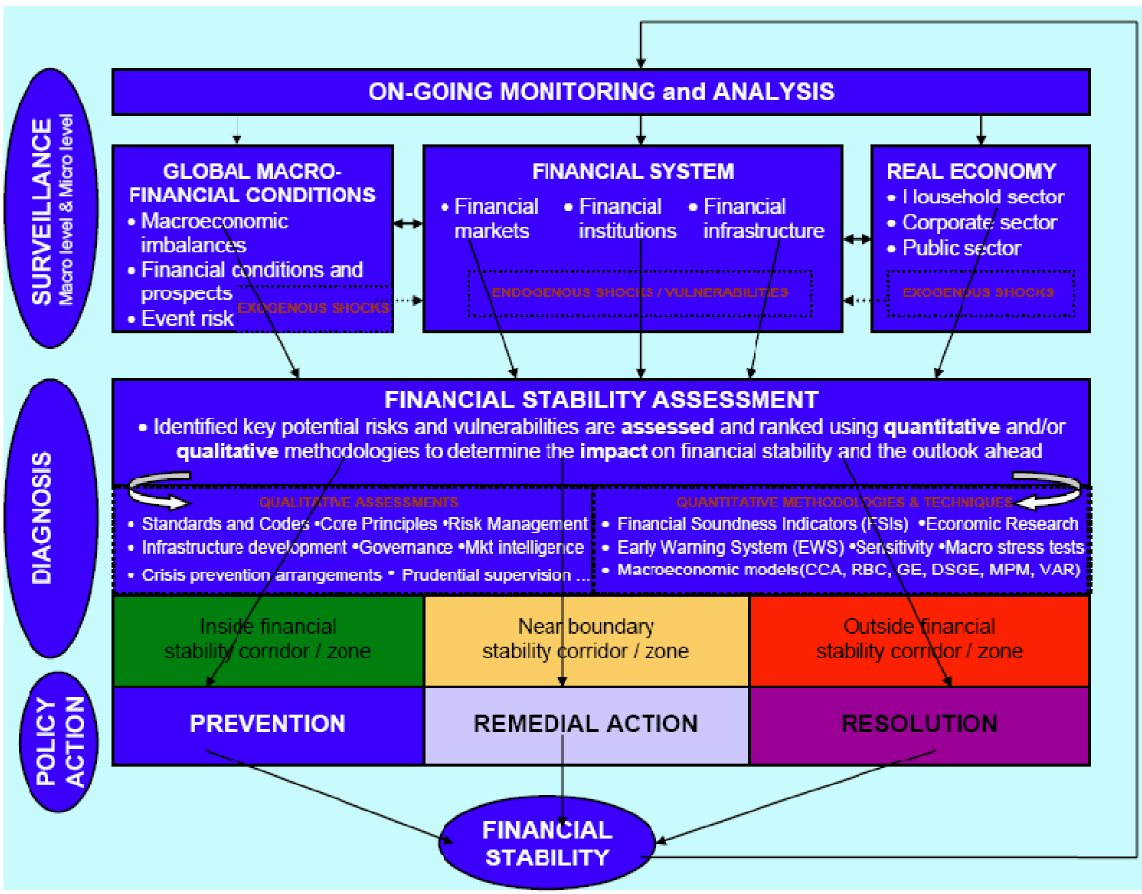
5.49 Financial stability is regarded as an important economic policy objective in most countries. The recent global financial crisis has drawn increased attention on the need for rigorous on-going financial stability assessments.

5.50 There is consensus among policymakers, market practitioners, and academics that financial system stability is affected by factors endogenous to the financial system as well as the exogenous factors.

5.51 As such, a comprehensive framework for financial stability assessment should take into account inter-linkages between the external sector, domestic sector and the financial sector.

5.52 The COMESA Framework for Assessing and Maintaining Financial Stability developed in 2009 anchored on three schematic stages: on-going surveillance, diagnostic assessment and policy action, takes into account the sectoral interlinkages as shown in the diagram below.

Figure 10: Conceptual Framework for Financial Stability Assessment



5.53 Zimbabwe being a member of COMESA has adopted the COMESA Framework for Financial Stability Assessment in its entirety.

5.54 Regulatory authorities will henceforth periodically conduct rigorous assessments of the state of financial stability using Quantitative and Qualitative methodologies. A wide range of analytical tools and techniques including macro-prudential analysis, macro-stress testing, and scenario analysis will be adopted.

5.55 A formal framework for financial stability assessment will:

- facilitate early identification of sources of risks (to stability) and of potential vulnerabilities that could threaten financial stability;
- promote rigorous, accurate and systematic assessment of the present degree of financial stability as well as the outlook ahead;
- facilitate the evaluation of ability of the financial system to absorb shocks should the risks identified materialize;
- provide lead time for appropriate policy responses; and
- promote adoption of preventive and timely remedial (risk mitigation) policies and/or restore the system to stability (via resolution of problems) when preventive and remedial action fail.

5.56 As Monetary authorities, we are mindful of the fact that financial stability is dependent on the collective stability of all components of the financial system including financial markets, financial institutions and the financial infrastructure, as well as the real sector and global developments.

5.57 The intertwining relationships between these financial sub-sectors, the real economy, and the global financial system, create a dangerous amplification mechanism and vicious feedback loops that can lead to a crippling effect to our domestic economy.

5.58 In Zimbabwe, the general belief that "light-touch" regulation and market discipline for other financial services players other than banks would suffice, was proved wrong in the case of ReNaissance Merchant Bank, which highlighted the need for "a systemic dimension" to financial sector regulation.

5.59 The existence of fragmented supervision between the Central Bank and other financial sector regulators presents potential loopholes and fertile ground for regulatory arbitrage to the detriment of financial sector stability.

5.60 Cognisant of the intricate inter-connectedness of all facets of the financial system, the real economy and the global financial markets, and in a bid to close the regulatory gaps, the sectoral Supervisory Authorities in Zimbabwe have constituted a Multi-disciplinary Financial Stability Committee.

Multi-disciplinary Financial Stability Committee

5.61 The Reserve Bank, the Insurance and Pensions Commission (IPEC), the Securities Commission (SEC), and the Deposit Protection Board (DPB) have now jointly constituted a Multi-disciplinary Financial Stability Committee.

5.62 The Committee shall be chaired on a quarterly rotational basis by the four financial services regulators, namely Reserve Bank, IPEC, SEC, and the Deposit Protection Board. The Reserve Bank will provide the Secretariat Services to the Committee.

5.63 The financial services regulators have already signed a Memorandum of Understanding (MoU) to formalise their co-operation.

Contingency Planning

5.64 An appropriate framework for financial stability assessment requires policy actions to be taken in the event of potential risks crystallising.

5.65 Thus, the Reserve Bank and other key stakeholders will be working on a framework for contingency planning and systemic crisis management incorporating a set of identified policies, actions and processes necessary for the prevention, management and containment of banking systemic distress.

5.66 Banking institutions will be required, in terms of the framework, to establish contingency plans for the management and control of risk exposures. The plans will also provide preventative measures and promote proactive management and control of any business interruption.

BASEL II IMPLEMENTATION

5.67 The Reserve Bank has noted that most banking institutions have made significant progress in their Basel II preparations. The Reserve Bank will continue to engage banks in order to facilitate smooth implementation of banking institutions' Basel II plans as well as provide necessary guidance through seminars and workshops.

5.68 The Reserve Bank has recalibrated the regime of provisions for loan losses to bring them in line with the Reserve Bank’s 10-tier Supervisory Rating System contained in Guideline No.1-2011/BSD: Technical Guidance on the Implementation of the Revised Capital Adequacy Framework in Zimbabwe.

5.69 The revised provisioning levels, which become operational **with effect from 1 March 2012 are meant to ensure that loan loss provisions remain sufficient to absorb expected losses**.

MICROFINANCE INSTITUTIONS

5.70 There are 157 licensed microfinance institutions operating under the supervision of the Reserve Bank. The microfinance sector in Zimbabwe is currently facing a number of challenges including insufficient funding, inadequate IT infrastructure and absence of a Credit Reference Bureau.

5.71 As part of the initiatives to improve the availability of funding to the sector, the Zimbabwe Association of Microfinance Institutions (ZAMFI), spearheaded the establishment of a microfinance wholesale fund. The fund is expected to provide a source of affordable wholesale funding for the Microfinance Sector.

5.72 The Reserve Bank is currently working on an appropriate Performance Evaluation Framework to enable evaluation of the impact of microfinance activities and facilitate appropriate policy intervention.

Undesirable Methods of Conducting Business

5.73 The Reserve Bank continues to receive complaints from microfinance clients regarding unethical and undesirable business practices such as inadequate disclosure of business conditions and abusive debt collection practices including disposal of pledged collateral without following due legal procedures.

5.74 As Supervisory Authorities, we are also concerned that some Microfinance Institutions are illegally taking deposits from members of the public, which are disguised as bilateral loans, thus posing a threat to financial stability.

5.75 Moneylenders are not deposit taking institutions. Members of the public are hereby advised against dealing with such unscrupulous institutions.

5.76 Microfinance Institutions are sternly warned that failure to comply with laws and regulations when conducting microfinance activities will lead to the imposition of appropriate supervisory action, including cancellation or non-renewal of licences.

Microfinance Core Client Protection Principles

5.77 Microfinance institutions are once again urged to observe the internationally agreed Core Client Protection Principles (CCCP) for microfinance in conducting their microfinance business.

Timely Renewal of Microfinance Licences

5.78 Microfinance Institutions are hereby reminded that operating licences should be renewed at least two months before date of expiry. Failure to renew the operating licence before expiry will render the activities of the concerned microfinance illegal.

Draft Microfinance Bill

5.79 A Draft Microfinance Bill is currently under consideration by the Reserve Bank, the Ministry of Finance and other microfinance stakeholders. The Bill once promulgated is expected to address some of the problems facing the sector such as tenure of licences, consumer protection issues and transparent pricing in line with international developments in the microfinance sector.

FINANCIAL INCLUSION

5.80 There is growing consensus that financial inclusion - access to financial services at a reasonable cost to the majority of the population - is critical for economic growth and development, poverty alleviation and the attainment of the Millennium Development Goals (MGDs).

5.81 The Reserve Bank has keen interest in promoting an inclusive financial system and is working closely with key stakeholders in that regard.

5.82 As Monetary Authorities, we are pleased to note the increasing number of banking institutions venturing into mobile banking. As at 31 January 2012, fifteen (15) banking institutions had introduced mobile banking products in partnership with mobile network operators in majority of the cases as shown below.

Table 6: Mobile Banking Products Introduced By banks

	Institution	Mobile Network Operator	Mobile Banking Platform / Brand Name
1.	FBC Bank	Net One/ Telecel	ZIPIT */ One Wallet
2.	Kingdom	Telecel	Kineto Mobile/Kingdom Cellcard
3.	POSB	Net One/ Telecel	ZIPIT
4.	CABS	Net One/ Telecel	ZIPIT / Textacash
5.	Metropolitan	Net One/ Telecel	ZIPIT, Metbank mobile
6.	FBC Building Society	Net One/ Telecel	ZIPIT
7.	Interfin	Net One/ Telecel	ZIPIT
8.	Barclays		Inbuilt Plaform
9.	TN Bank	Econet	Ecocash
10.	Tetrad	Telecel	e-Mali
11.	CBZ	All	E-Tranzact /CBZ mobile/ ZIPIT
12.	Stanchart	Net One/ Telecel	ZIPIT
13.	Trust	All	E-Tranzact/Bank at Ease
14.	ZB		E-Solutions
15.	ZABG		E-Solutions

* ZIPIT * - ZIMSWITCH based platform. Currently eight banks are on the platform with a target of including all banks which are members of Zimswitch.

5.83 The Reserve Bank requires all banking institutions to put in place appropriate risk management structures and processes to facilitate on-going monitoring of all risks associated with mobile banking products and other electronic service delivery channels.

5.84 **All banking institutions are required to seek prior approval of the Reserve Bank before launching new products**. As part of the approval process, the applicant bank is required to secure the relevant sign offs by their new product development committee or department, risk management, internal audit, compliance and the board. Where external parties are involved, appropriate Service Level Agreements should be put in place to stipulate the roles and responsibilities of all parties.

Lender of Last Resort (LOLR)

5.85 As Monetary Authorities, we remain indebted to the Minister of Finance for his support in concerted efforts geared at resuscitating the lender of last resort (LOLR) function of the Central Bank. This is evidenced by the recent injection of US$20 million to further boost the LOLR facility. This amount is over and above the existing US$7 million. Once the funds have been transferred to the Reserve Bank's accounts, banks with the requisite collateral can start accessing it. Additionally, the advanced negotiations with Afreximbank are envisaged to culminate in the further boosting of the LOLR facility by an additional US$80 million.

5.86 We would also like to implore the market players to deal amongst themselves as we continue to observe that while some banks are facing liquidity challenges, others are sitting on large balances on their RTGS accounts or in their Nostro accounts.

Nostro Accounts

5.87 A worrisome development has emerged in the banking sector, whereby some banks are maintaining huge idle balances in their Nostro accounts. This development has occurred at a time when liquidity conditions have remained tight in the domestic economy. Against the background of this regrettable development, **we urge banks to release some of these balances held with foreign banks to the local market to improve the liquidity situation and support key productive sectors of the economy**.

STATUTORY RESERVE BALANCES

5.88 In his Press Statement on the Post Budget Developments in the Economy, the Honorable Minister of Finance announced that Treasury would be issuing instruments to deal with the outstanding amounts of Statutory Reserve balances at the Reserve Bank. These amounts to US$83.4 million. The Ministry of Finance in close collaboration with the Reserve Bank is working on the appropriate modalities.

6. NATIONAL PAYMENT SYSTEMS

6.1 During 2011 the financial system witnessed a significant growth of electronic transactions with US$ 34 billion achieved representing an increase of 56% from US$22 billion recorded in the 2010.

Real Time Gross Settlement (RTGS) System

6.2 Total RTGS system values amounted to US$33 billion for the year 2011, an increase of 51% from US$21 billion recorded in the year 2010. The total volume of transactions for the same period were 2 million and 1.6 million respectively representing a 28% increase as shown in figure below.

RETAIL PAYMENT STREAMS

Cheque Payment Stream

6.3 The cheque payment stream remained available to a selected group of customers on a Know Your Customer basis consistent with the risk profile of the payment stream.

6.4 A total of 259 000 transactions valued at US$65 million were cleared in 2011, compared to 174 000 transactions valued at US$42 million in 2010. This represents increased values and volumes of 52% and 49%, respectively.

Automated Teller Machines (ATMs)

6.5 Transactions processed through ATMs amounted to US$905 million during the year 2011, an increase of 190% from US$312 million recorded for in the year 2010. ATM transactions constituted 56% of the total retail transactions in terms of value, indicating a high propensity of cash usage by the transacting public.

6.6 We therefore, encourage the market to move towards the use of other electronic means of payment which are now available in the country to reduce the risk of moving around with cash.

Point of Sale (POS)

6.7 In 2011, POS machines recorded an aggregate of 4.2 million transactions when compared to 1.3 million in 2010. The values registered increased concomitantly by 384% to US$249 million as compared to US$51 million.

6.8 Within this context, banking sector players and key stakeholders are urged to increase the population and spread of POS machines throughout the country to facilitate transactions of a retail nature and for the effective reaching out of communities in outlying areas.

Mobile Payments

6.9 Reflecting increased use of mobile banking facilities, the value of mobile payment transactions increasing by 575% to US$8.1 million in 2011 from

US$1.2 million in 2010. Similarly, the volume of mobile payment transactions increased phenomenally by 446% to 2.3 million in 2011from 0.4 million in 2010

Internet Banking

6.10 Internet banking constitutes 30% of the total retail values. During 2011, internet values increased significantly by 132% to US$532 million from US$230 million in 2010. Concomitantly, volumes increased from 85 000 in 2010 to 196 000 in 2011.

Measures to Alleviate Market Liquidity Challenges

6.11 The Money Market is currently inundated with challenges resulting from the worsening liquidity, delayed cash payments and illegal externalization of cash.

6.12 In line with the Honourable Minister of Finance's Press Statement on Post Budget Developments in the Economy, issued on 25 January 2012, there is need to institute staggering payments for **High Value Transactions** in order to allow banks sufficient time to prepare for such transactions.

6.13 In order to facilitate country-wide smooth payment transactions as well as curbing illegal externalization of cash, all Financial Institutions are being called upon to moderate **instant cash withdrawals to a maximum of US$10,000.**

6.14 Cash withdrawals for High Value Transactions that are above US$10,000 would require the following Notice Periods;

Table 7: Notice Periods for High Value Cash Withdrawals

Amount USD	Required Notice Period to the Bank
10,001 – 20,000	24 hrs (1 working day)
20,001 – 30,000	48 hrs (2 working days)
30,001 – 40,000	72 hrs (3 working days)
40,001 – 50,000	96 hrs (4 working days)
50,001 and above	120 hrs (5 working days)

6.15 To compliment these measures, the banking public is strongly encouraged to use the Real Time Gross Settlement system (RTGS), Credit Cards and other approved electronic money transfer systems in settling their day-to-day financial transactions.

7. Tightening of Anti Money Laundering Measures

7.1 In line with the Reserve Bank's mandate under the Bank Use Promotion and Suppression of Money Laundering Act [Chapter 24:24] and pursuant to the country's international AML / CFT obligations, the Reserve Bank is stepping up the fight against money laundering.

7.2 The Reserve Bank has an obligation to ensure that the country's financial system does not become either a safe haven or conduit for proceeds of crime as this would tarnish the country's image.

7.3 The advent of dollarization and the country's predominantly cash economy have opened up the country to increased money laundering risk from criminals, both local and foreign, both individuals and organized syndicates.

7.4 The Reserve Bank is responding to the increased threat by tightening anti-money laundering measures to ensure that banks and other designated institutions comply with AML / CFT requirements to prevent the institutions from being used to facilitate money laundering.

7.5 The law requires banks and other designated institutions such as insurance companies, asset managers, stockbrokers, and casinos to implement stringent anti money laundering measures and to report all suspected cases of money laundering and terrorist financing to the Central Bank's financial intelligence unit.

7.6 The Reserve Bank has noted with concern that some banks and designated institutions are not complying with their AML /CFT statutory obligations and, in particular, are not submitting Suspicious Transaction Reports to the financial intelligence unit. The Reserve Bank would like to sound a warning that all the delinquent institutions will soon be brought to book and dealt with in terms of the law.

7.7 Zimbabwe's membership of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) obliges it to implement the FATF "Forty plus Nine" recommendations. These are measures designed to strengthen and harmonize member countries' legal and institutional AML / CFT frameworks to ensure a coordinated regional and international approach in the fight against money laundering and terrorist financing.

7.8 The Reserve Bank is working closely with Government and with national law enforcement agencies to implement the FATF standards and ensure that the country does not become the weakest link in the regional and international fight against money laundering and terrorist financing.

8. POLICY ADVICE

ESTABLISHMENT OF AN INTERNATIONAL FINANCIAL CENTRE

8.1. The Honourable Minster of Finance in his 2012 National Budget announced the concept of cluster-driven growth strategy in which provinces will be developed according to their respective resource endowments. Zimbabwe has over the last decade been receiving adverse publicity a situation that has been compounded by the enactment of the repressive Zimbabwe Democracy Economic Recovery Act 2001, which has aggravated the deterioration in the country’s macroeconomic conditions.

8.2. It is pleasing to note that Government has already agreed to the establishment of an International Financial Centre. In this respect, the Ministry of Finance together with the Reserve Bank are seized with the drafting of the Legal and Administrative Framework. The IFC will provide a conducive environment for foreign direct investment through the free flow of capital and improved market liquidity.

GOLD TRADING POLICY

8.3. Following the liberalisation of trade in gold in February 2009, Monetary Authorities have noted with great concern, an increase in illegal trade in Gold that has also given birth to rampant smuggling of our country's precious minerals.

8.4. Regrettably, numerous individuals and companies that are in possession of Gold Buying Permits are misusing these permits and smuggling this precious mineral, thereby prejudicing the National Economy of the export earnings.

8.5. In view of this negative development, as Monetary Authorities, **we take this opportunity to remind the Mining Sector to adhere to the current policy on trade of gold.**

SECURITISATION OF ZIMBABWE ASSETS

8.6. In view of persistent liquidity challenges that have conspired with limited access to offshore credit lines to hamstring the attainment of fast paced growth, serious considerations must be accorded to asset securitization as a viable option to address recurrent liquidity challenges in Zimbabwe. Securitization of Zimbabwe's assets can be structured in such a way that financial resources can be mobilized in aid of the following;

i.) Mobilize resources for the development of infrastructure;

ii.) Raise funds for investment purposes;

iii.) Settle or restructure national debt;

iv.) Alleviate liquidity challenges that the financial sector is facing;

v.) Transform maturity profiles of deposits, from short to medium or long term;

vi.) Pool resources that are backed by domestic assets, for sustainable empowerment of the people.

Special Purpose Vehicle

8.7. The securitization of national assets including mineral resources can be structured through a **Special Purpose Vehicle (SPV).** The SPV is a legal entity specifically and solely created for the purpose of holding the assets sought to be transferred by the originator and the issuance of securities. It therefore acts as an intermediary between the originator and investor.

Securitization Anchored on Real Estate

8.8. In Zimbabwe, both residential and commercial real estate are mostly mortgage free, however, these are illiquid assets. There is, therefore, need to unlock the economic potential of these assets by securitizing and transforming them into liquid assets through **real estate-backed security** (**REBS**) that will represent a claim on the cash flows from equity investments in local companies ear-marked for indigenization. Funds to purchase these equities can be obtained from offshore sources and backed by real estate in Zimbabwe.

8.9. The offshore loans can be secured from international investors who are looking for investments in emerging markets and diversifying from US dollar backed assets.

8.10. REBS can be based on residential and commercial properties. A residential property-backed security (RPBS) will be secured by single or several household real estates in the same neighbourhood. A commercial property-backed security (CPBS) will be secured by commercial and industrial properties, such as apartment buildings, retail or office properties, hotels, private schools, industrial and commercial sites.

8.11. **This securitization structure will be private sector driven and voluntary.**

8.12. This proposed resource mobilization and investment structure will dilute the impact of sanctions and bring significant liquidity into the economy, thereby laying a suitable foundation for economic recovery, whilst indigenizing the economy.

8.13. This will represent a broad based economic empowerment program which would also create employment and additional wealth.

Mineral Based Securitization

8.14. Zimbabwe is endowed with vast mineral wealth which remains largely untapped; in order to unlock value from the country's mineral wealth, mining claims can be used as a form of payment to cooperating partners that clear Zimbabwe's debt. In this regard mineral claims in the gold, platinum and ferro-alloys sub sectors can be securitized.

8.15. This option involves external new borrowing by the country to retire the totality or part of external debt, using identified public assets as collateral. Valuation of these assets, in foreign currency, gives an indication of how much the country can borrow under this option. The same concept can be applied to the post reform agriculture sector.

Agriculture and Mining Mechanization

8.16. The nation will recall that the agricultural mechanization program spearheaded by the Reserve Bank laid a solid foundation for improved agricultural production and enhanced the country's food security. The program was, however, not completed to cater for all the potential beneficiaries countrywide. To further consolidate the bold strides attained by this program, it is our recommendation that the responsible Ministry should attach prominence to the completion of this program.

8.17. This is particularly so because there are many would- be beneficiaries who were not accommodated during the agricultural mechanization phases undertaken with the assistance of the Reserve Bank, yet they have a dying need of agricultural machinery. Against this background, we urge Government to resume the mechanization program with the support of Treasury, through the fine-tuning of the previous phases of the program with special attention to ensuring equity in terms of geographical or beneficiary selection.

8.18. In the same vein, the importance of the mining sector in its contribution to the Gross Domestic Product and the indigenization and economic empowerment process which should promote the Small to Medium Scale Entreprises (SMEs) cannot be over-emphasized. Against this background, we recommend that Government through the appropriate Ministry should embark on a mining sector mechanization program that will see a coordinated tie -up of owners of mining claims, producers of machinery and those who market the minerals.

8.19. The Reserve Bank also urges Local Authorities to move with speed to deal decisively with the resurgence of cholera and typhoid. Our experience in 2008 with such epidemics makes it very painful when lives are lost needlessly. The meaningful recovery of the Zimbabwean economy is centered around the well-being of the generality of the population of which good health is an important aspect.

9. CONCLUSION

9.1 The successful orientation of the Zimbabwean economy on a sustained recovery and growth path requires that the country's unsustainable external debt be resolved expeditiously. Delays in the resolution of the country's external debt continue to militate against efforts by both the public and private sectors to mobilize external lines of credit to recapitalize their operations and finance critical projects.

9.2 An effective debt resolution strategy if timely implemented will undoubtedly unlock the much needed external lines of credit under any monetary regime. The resolution of the country's external debt is thus a vital cog in adequately complementing policy measures geared at attaining an all-encompassing economic recovery process that is inclusive and sustained.

9.3 In addition, the need for an adequately capitalized financial system in supporting private sector led growth cannot be over-emphasized. As Monetary Authorities we, therefore, urge banking institutions to ensure that their operations are adequately capitalized in order to meaningfully mobilize savings for on lending to the productive sectors of the economy and ensure financial sector stability.

9.4 We also urge banking institutions to move with the times and embrace new financial products such as mobile banking and e-banking in order to effectively reach out to the unbanked sections of our country that reside in outlying areas where the physical banking infrastructure is under-developed.

THANK YOU

DR. G. GONO

GOVERNOR

RESERVE BANK OF ZIMBABWE

JANAURY 2012