MONETARY POLICY STATEMENT

"ESTABLISHMENT OF AN INTER-BANK FOREIGN EXCHANGE MARKET TO RESTORE COMPETITIVENESS"

RESERVE BANK OF ZIMBABWE

20 FEBRUARY 2019

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INTRODUCTION

Since the last Monetary Policy Statement on 1st October 2018, Zimbabwe has witnessed significant changes on the economic front. The economy took a different course of direction from a positive economic trajectory to an inflationary environment. This situation needs immediate redress in order to restore value for money. The foreign exchange premiums on the parallel market which ranged from 1.40 to 1.80 to the US dollar in September 2018 increased to the current levels of between 3.00 to 4.00. This movement in forex premiums has had negative pass-through effects on inflation which increased particularly from the September year-on-year level of 5.4% to 20.9% in October and closed the year at 42.09%.

On the positive side, the separation of bank accounts into NOSTRO FCAs and RTGS FCAs has yielded positive results as reflected by the significant increase in the Nostro FCAs to US$451.2 million as at 31st January 2019, compared to US$240.5 million at the beginning of October 2018, a growth of 87.6%.

The significant shift in economic fundamentals during the last quarter of 2018 also increased the practice by retailers of charging goods and services on the basis of a multi-tier pricing system, where a single product has different prices depending on the mode of payment e.g. USD cash, electronic payment, mobile money and bond notes. This situation has continued to put pressure on the country's balance of payments position.

The current pricing structure indicates that the majority of transactions in the economy are now largely being conducted in electronic money and bond notes at an implied parallel market exchange rate of around 3.0 to 3.5 to the USD. In this respect, continuing to use the USD as a unit of account in the economy, when its value has drifted away from the value of the RTGS denominated money supply has brought forth a number of challenges. The challenges include multi-tier pricing by business, speculative pricing, loss of government revenue, valuation and accounting difficulties, asset-liability mismatches and negative investor confidence.

The current monetary arrangements, if maintained, could pose the risk of a costly re-dollarisation of the economy which will move the economy into a recession. This is evidenced by the fact that some businesses are already gradually reducing prices due to low demand in the economy. Moreover, some of those charging in foreign currency have also been experiencing reduced demand for their products and are, thus, reverting to pricing in RTGS and/or bond notes.

Exporters on the other hand, are fast becoming uncompetitive as the export incentive scheme has been eroded by the forex premiums induced inflation. Such a scenario is not conducive for enhancing exports and diaspora remittances. Introduction of a market determined mechanism for trading of US dollars with RTGS balances and bond notes has become imperative. Similarly, without a formal guidance on the relative values of the RTGS, bond notes and the USDs, the transacting public is currently being prejudiced through ad hoc pricing by businesses which factor in different implied parallel market exchange rates in their pricing systems. This needs to be corrected.

This Statement, therefore, presents policies aimed at establishing a trading mechanism of RTGS balances and bond notes with international currencies through establishing an inter-bank foreign exchange market to restore domestic competitiveness and promote growth. The measures are also meant to strengthen demand for the domestic forms of payment and to preserve foreign currency for external payments purposes that include importation of goods and services, foreign dividend payments, business and personal travel and servicing of country's external obligations. The measures in this Statement are necessary to preserve the purchasing power of RTGS money and to restore export competitiveness within the economy.

The rest of the monetary policy statement is organised as follows. Section two discusses the new monetary policy measures. Section three discusses the outlook and conclusion. The statement also contains an Annex which looks at the global and domestic economic and financial developments.

SECTION TWO
NEW MONETARY POLICY MEASURES

1. Establishment of an Inter-bank Foreign Exchange Market

The Bank has taken note of the excellent contributions from the business community, bankers, the academia, the media and members of the public on the need to establish an inter-bank foreign exchange market to formalise the selling and buying of US$s through banks and bureaux de change. This is essential in order to bring sanity in the foreign currency market whilst at the same time promoting exports, diaspora remittances and investments for the good of our national economy.

The Bank considered the implications - accounting, financial, economic, legal and social - that are embedded in the establishment of an inter-bank forex market within the context of the current national payment systems made up of RTGS, mobile payment platforms, point of sale (POS), bond notes and coins.

After taking account of the implications and putting in place safeguards to maintain stability in the forex market, the Bank is, with immediate effect, **establishing an inter-bank foreign exchange market in Zimbabwe to formalise the trading of RTGS balances and bond notes with US$s and other currencies on a willing-buyer willing-seller basis through banks and bureaux de change under the following framework:**

i. Denominating the existing RTGS balances, bond notes and coins in circulation as RTGS dollars in order to establish an exchange rate between the current monetary balances and foreign currency. The RTGS dollars thus become part of the multi-currency system in Zimbabwe. The legal instrument to give effect to this has been prepared.

ii. The RTGS dollars shall be used by all entities (including government) and individuals in Zimbabwe for the purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions.

iii. The use of RTGS dollars for domestic transactions will eliminate the existence of the multi-pricing system and charging of goods and services in foreign currency within the domestic economy. In this regard, prices should remain at their current levels and or to start to decline in sympathy with the stability in the exchange rate given that the current monetary balances have not been changed. In this respect, the RBZ will commit all its efforts to use the instruments at its disposal to maintain stability of the exchange rate.

iv. The Bank has arranged sufficient lines of credit to enable it to maintain adequate foreign currency to underpin the foreign exchange market. This is essential to restore the purchasing power of RTGS balances through safeguarding price stability emanating from the pass-through effects of exchange rate movements.

v. Foreign currency from the inter-bank market shall be utilised for current bonafide foreign payment invoices except for education fees.

vi. All foreign liabilities or legacy debts due to suppliers and service providers such as the International Air Transport Association (IATA), declared dividends, etc shall be treated separately after registering such transactions with Exchange Control for the purposes of providing the Bank with sufficient information that will allow it to determine the roadmap for orderly expunging the legacy debt.

vii. Foreign currency requirements for Government expenditure and other essential commodities that include, fuel, cooking oil, electricity, medicines and water chemicals shall continue to be made available through the existing letters of credit facilities and/or the Foreign Exchange Allocations Committee.

viii. Banks shall report activities of the inter-bank foreign currency market to the Bank that shall closely monitor the foreign currency trades on a daily basis using the form and format stipulated by the Bank.

ix. Bureaux de change shall be authorised to purchase foreign currency without limits but shall be limited to sell foreign currency for small transactions such as subscriptions, business and personal travel up to a maximum aggregate daily limit of US$10 000 per bureau de change. Like with banks, bureaux de change and their agents shall report their activities of the inter-bank on a daily basis as required by the Bank.

x. In order to allow exporters to benefit from the inter-bank foreign currency market and to promote uninterrupted supply of forex in the economy, the export retention thresholds which are in line with regional practice shall be as follows:

Table 1: Current and Proposed Retention Thresholds

Sector	Level
Manufacturing	80
Gold (Large scale producers)	55
Gold (Small scale producers)	55
All other minerals	50
Tobacco & cotton merchants (for input schemes)	80
Tobacco & cotton growers	30
Horticulture	80
Transport	80
Tourism	80

xi. Similarly, in order to enhance liquidity within the foreign currency market, exporters shall be entitled to utilise their retained export receipts within 30 days, after which the unutilised export receipts will be offloaded into the market at the prevailing market exchange rate.

xii. All international remittances and individual funds received from offshore shall continue to be treated as free funds.

2. Local Settlement of Nostro FCA Transfers

Given the successful completion of the separation of RTGS FCAs and Nostro FCAs, the Bank is, with effect from 25th February 2019, putting in place a local Nostro FCAs settlement platform to allow for domestic inter-bank settlement of Nostro FCA transfers.

3. Liquidity Management

To anchor price stability, the Bank shall aggressively intervene in the market to sterilize liquidity so as to help contain inflationary and exchange rate pressures. The Bank will also implement a monetary targeting framework, with monetary aggregates as operational targets for monetary policy. Under this framework, the

Bank will appropriately target growth in base money with a view to help stabilize and anchor macroeconomic stability. The existing monetary policy instruments, including continued issuance of savings bonds and changes in the statutory reserve requirements, will be instrumental in achieving the reserve money target. The fiscal stance taken by Government to reduce recourse to Central Bank overdraft and to limit the overdraft to statutory levels will provide further impetus on the Bank's ability to contain pressures in the goods and foreign exchange market.

4. IFRS 9 Implementation

Following the initial publication of International Financial Reporting Standard (IFRS) 9 compliant interim financial statements for the period ended 30 June 2018, banks will be publishing 2018 year–end accounts by 31 March 2019. The implementation of IFRS 9 represents a significant milestone in financial stability enhancement due to the forward-looking nature of provisions set under the new standard.

5. Macro-Prudential Policy Framework

As part of ongoing initiatives to strengthen the stability and resilience of the financial system, the Bank is putting in place a macro-prudential policy framework which will be operational by 30 June 2019. The framework provides for effective macro-prudential tools, appropriate governance, transparency, and accountability arrangements that facilitate identification of the build-up of systemic risks, and monitoring thereof, to ensure appropriate measures are taken in a timely manner.

6. Anti-money Laundering Measures

Zimbabwe is party to various international legal instruments that require countries to put in place robust Anti Money Laundering and Counter Financing of Terrorism (AML/CFT) frameworks, to prevent the financial system from being misused by criminals for purposes of money laundering, financing of terrorism or other illicit purposes.

Banks and Designated Non-Financial Businesses and Professions (DNFBPs), including lawyers, accountants, estate agents, casinos and precious stone and precious metal dealers, play a key role in identifying and reporting of suspected cases of money laundering and related criminal activity within the financial system.

Banks have reached acceptable levels in the implementation of AML/CFT requirements. Going forward, the Bank's Financial Intelligence Unit will be placing greater focus towards ensuring compliance by DNFBPs, including through invocation of administrative penalties prescribed under the Money Laundering and Proceeds of Crime Act. The Bank calls upon all stakeholders with various roles in the fight against money laundering, including agencies involved in the identification, investigation and prosecution of money laundering cases, to work diligently to improve the effectiveness of the country's AML/CFT regime.

7. Cyber Risk Management

The Bank is aware that cyber risk will keep changing due to the evolution of cyber threats in the country and indeed across the globe. Financial institutions and individuals are increasingly being exposed to cyber-attacks which have become more sophisticated, frequent, targeted and difficult to identify The Bank urges payment services providers and banks board of directors and senior management to;

i. Intensify their efforts and take responsibility for setting, overseeing the strategy and ensure that cyber risks are accorded due consideration;
ii. Update cyber security policies, strategies and frameworks and submit the same to the Central Bank by 31 March 2019;
iii. Ensure that Information Technology (IT) objectives include maintaining the capacity to effectively anticipate, identify and recover from cyber security attacks for overall IT resilience; and
iv. Immediately make a report whenever an institution becomes aware of cyber security incidences within its system which adversely impact on the customers or the ecosystem.

8. Migration to Euro Mastercard Visa (EMV) Technology

Further to the cyber security guidance, market participants are required to migrate to Euro MasterCard and Visa (EMV) standards to ensure enhanced card security features to curb cyber related activities. Currently, over 80% of the card infrastructure in the country is now EMV compliant. Financial institutions should therefore ensure that all cards issued in the market are EMV compliant by 31 March 2019.

SECTION THREE
ECONOMIC OUTLOOK AND CONCLUSION

The inter-bank foreign exchange system will have significant positive effects on the economy's external and fiscal sectors, domestic production and on the welfare of citizens. The system is envisaged to go a long way in rebalancing the economy and setting it on a sustainable growth trajectory. As such, Zimbabwe's short to medium term macroeconomic outlook following the implementation of the inter-bank market will derive character from sustained positive growth, external sector sustainability and increased capacity utilization in the productive sectors of the economy.

In particular, the new framework is set to bring certainty, predictability and functionality to the economy's foreign exchange market. This, in turn, will address the valuation and unit of account difficulties that has been constraining investment flows into the country. In this regard, investment inflows are projected to improve going forward and this will drive growth on account of opening of new businesses as well as improved availability of foreign exchange for domestic industries.

Furthermore, the fair alignment of the exchange rate is set to trigger an expenditure switching effect across the economy which will benefit local producers, thereby, limiting imports of consumptive goods and services. Similarly the measures are set to encourage export growth as the market determined exchange rate improves external competitiveness of domestic producers that include tobacco and cotton growers.

On the fiscal front, the inter-bank foreign currency system is envisaged to enhance fair valuation of imports at points of entry. This has potential to significantly improve government revenues and enhance sustainability of the country's fiscal balance.

Overall, the measures contained in this Statement are expected to improve the competitiveness of the economy by appropriately rewarding exporters whilst at the same time reducing price distortions and arbitrage within the domestic market. The Bank commits all its efforts to reduce inflation within growth enhancing levels, while minimizing the adverse effects of a tight monetary framework in order to enhance production and productivity in the country.

I THANK YOU.

JOHN MANGUDYA
GOVERNOR

ANNEX

ANNEXURE I

GLOBAL AND DOMESTIC ECONOMIC AND FINANCIAL CONDITIONS UNDERPINNING CURRENT MONETARY POLICY DECISIONS

Global and Regional Economic Developments

Global economic activity is estimated to have moderated to 3.0% in 2018 from 3.1% in 2017, occasioned by softened recoveries in trade and manufacturing activity. Recovery in international trade and investment has tapered while trade disputes, particularly between the U.S. and China, remained elevated despite negotiations to ease the tensions and broker a favourable deal. In addition, a strengthening U.S. dollar, elevated financial market volatility, and rising risk premiums, in part, exacerbated capital outflow and currency pressures in some emerging market and developing economies (EMDEs) resulting in substantial financial market vulnerabilities. The table below summarizes global economic growth developments and prospects for selected regions and countries.

Table 2: Global Economic Growth & Outlook (%)

	2016	2017	2018 Estimate	2019 Projection
World Output	**2.4**	**3.1**	**3.0**	**2.9**
Advanced Economies	**1.7**	**2.3**	**2.2**	**2.0**
US	*1.6*	*2.2*	*2.9*	*2.5*
Euro Area	*1.9*	*2.4*	*1.9*	*1.6*
Japan	*0.6*	*1.9*	*0.8*	*0.9*
Emerging Market & Developing	**3.7**	**4.3**	**4.2**	**4.2**
China	*6.7*	*6.9*	*6.5*	*6.2*
India	*7.1*	*6.7*	*7.3*	*7.5*
Sub-Saharan Africa	**1.3**	**2.6**	**2.7**	**3.4**
Zimbabwe[1]	*0.6*	*4.7*	*4.0*	*3.1*
Latin America & the Caribbean	**-1.5**	**0.8**	**0.6**	**1.7**

Source: World Bank: Global Economic Prospects (January 2019 Update)

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

In 2019, global economic growth is projected to decelerate to 2.9% as economic activity remains anaemic on the backdrop of slowing global trade, coupled with tightening of monetary policy in advanced economies.

Economic growth has weakened in most advanced economies, save for the United States, where expansionary fiscal policy is enhancing activity. Economic activity in all major advanced economies is projected to ease towards potential output levels in the medium term, mainly attributed to falling capacity and the interest rate pressures that will emanate from the withdrawal of monetary accommodation. The Eurozone's growth eased to 1.9% in 2018, from 2.4% registered in 2017, mainly as a result of the fall in export earnings emanating from a stronger euro and lower external demand. Growth in the Eurozone is projected to further decelerate to 1.6% in 2019 owing to tighter monetary policy and the moderation in growth of global trade.

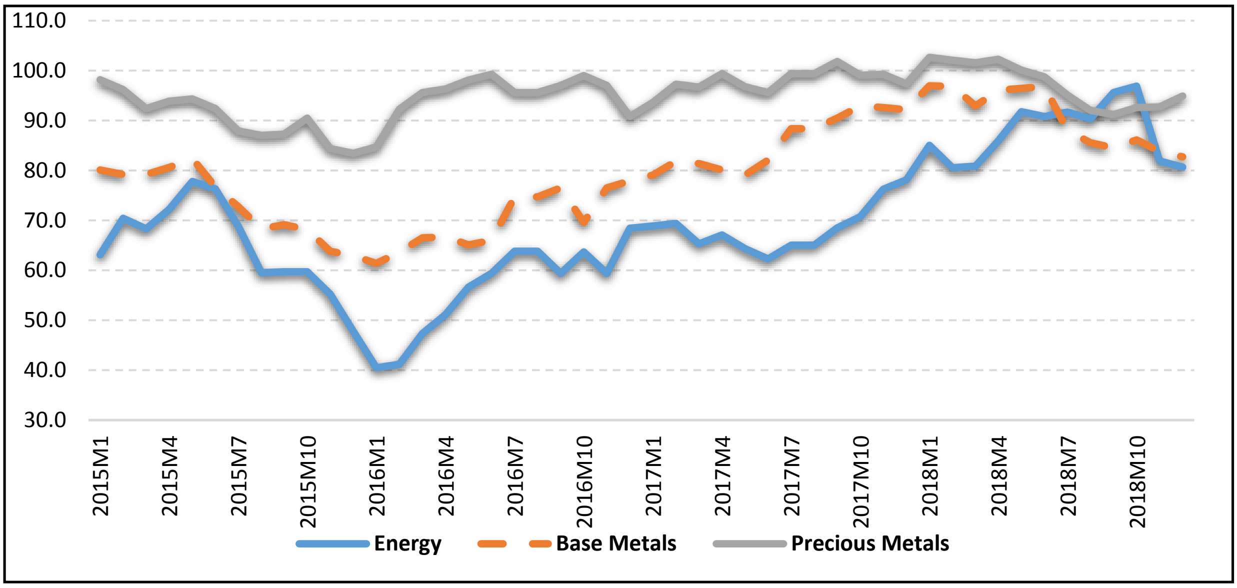
Japan's growth momentum slowed to an estimated 0.8% in 2018, down from 1.9% in 2017, mainly attributed to adverse weather conditions and natural disasters. In 2019, economic activity is expected to recover from natural setbacks experienced in 2018 and growth is projected to increase to 0.9% in 2019. In China, activity remains robust, but downside risks are increasing in a context of heightened trade tensions with the United States. Growth is projected to decelerate to 6.2% in 2019, slightly below previous projections as a result of weaker exports.

Economic growth in sub-Saharan Africa for 2018 is estimated at 2.7%, up from 2.6% in 2017, is expected to further increase to 3.4% in 2019, with a high degree of variation across countries. Growth is mainly be supported by firmer commodity prices. Potential downside risks include rising public debt, financial sector strains and low external buffers. Public debt is high not only in oil exporting countries but in many fast-growing economies as well. Zimbabwe's growth rate, which significantly outpaced average Sub-Saharan region's growth rate in 2017 and 2018, will slow down marginally to 3.1% in 2019, owing to the contractionary impact of austerity measures and economic reforms.

Commodity Price Developments

International commodity prices generally fluctuated in 2018, with precious metals weighed down by weak investment demand and a strengthening United States dollar. Energy prices recovered in response to stable demand and falling stocks. In particular, prices for crude oil fluctuated noticeably in the second half of 2018, mainly due to supply factors, with sharp declines toward the end of the year. Base metals were hurt by weak demand outlook from China and escalating trade tensions between the United States and China, including the imposition of tariffs on a range of products. The World Bank, however, projects commodity prices to stabilize in 2019 following sharp movements in 2018.

Figure 1: Commodity Price Indices (2010 = 100): 2015 to 2018



Source: World Bank 2019

Precious Metal Prices

Precious metals were generally subdued in 2018, occasioned by weak safe haven demand and a generally stronger dollar owing to interest rate hikes by the Federal Reserve during the year. These developments significantly raised opportunity costs of holding precious metals such as gold and platinum. Furthermore, a general waning in global tensions diminished safe haven demand for precious metals. The moderation in commodity prices calls for increased production in commodity dependent economies such as Zimbabwe, so as to compensate for the potential revenue losses.

Base Metals

Base metal prices which firmed in the first half of last year fell sharply in the second half following the imposition of broad-based tariffs by the United States on China's imports. Intensified trade tensions involving these economies have raised market concerns about global trade and investment prospects and as a result, they have clouded the outlook for demand for most commodities. Particularly, industrial metals have been particularly responsive to these concerns given their many uses in the manufacture of tradable goods, with some metals such as nickel falling sharply.

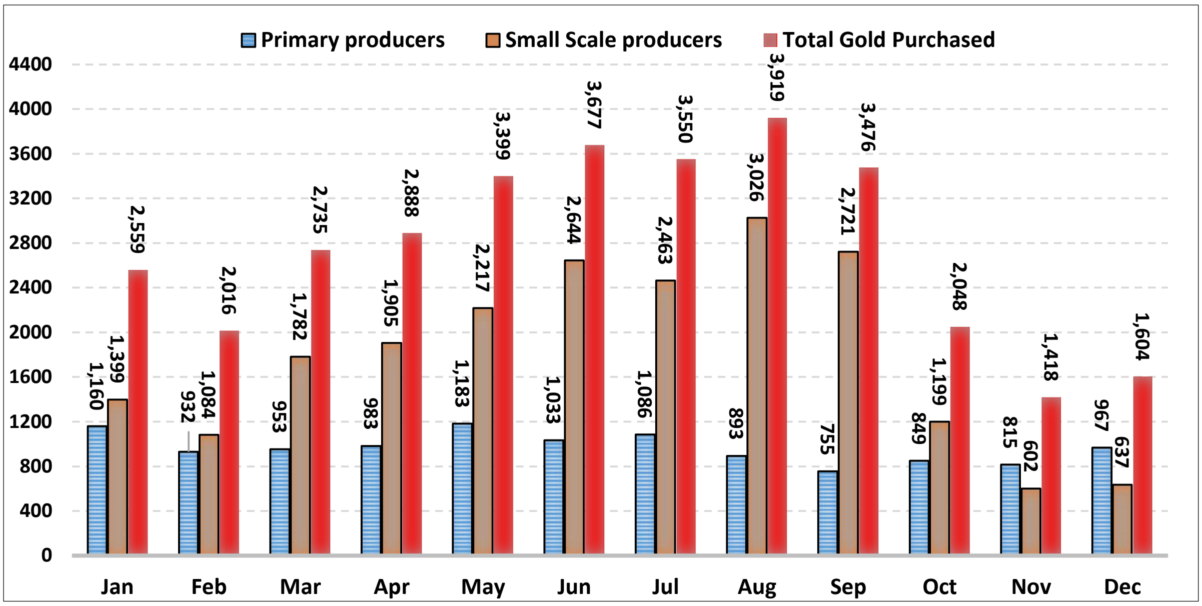
Crude Oil Prices

Oil prices averaged $68/barrel in 2018, amid robust global oil consumption and supply-side factors. Ongoing declines in production in Venezuela and market concerns about the impact of U.S. sanctions on Iran contributed to strong crude oil prices, which peaked at $86/barrel in early October 2018. However, prices fell sharply in November after the United States announced temporary waivers to the sanctions on Iran for eight countries, including China and India. The decline in prices also reflected continued rapid growth in oil production in the United States, as well as a substantial increase in supply by the Organization of the Petroleum Exporting Countries (OPEC) and the Russian Federation. The World Bank projected oil prices to average $67/barrel in 2019. The anticipated decline in oil prices will help dissipate inflation in Zimbabwe, which is threatened by domestic factors associated with foreign exchange shortfalls in the economy.

Gold Deliveries to Fidelity Printers & Refineries

In 2018, gold deliveries to Fidelity Printers & Refiners reached 33.2 tonnes, a record high for the country, which also surpassed the year's target of 30 tonnes. This represents a 33.9% increase from 24.8 tonnes delivered in 2017. Notably, small scale producers, despite facing a plethora of challenges, continued to dominate the country's gold deliveries, accounting for 65.3% of the total deliveries, with the primary producers contributing the remainder. Deliveries of gold by small scale producers increased by 64.5% from 13.2 tonnes in 2017 to 21.7 tonnes in 2018.

Figure 2: Gold Deliveries to Fidelity Printers (Kgs): Jan to Dec 2018



Source: Fidelity Printers and Refineries (FPR), 2018

The marked increase in gold deliveries was realized against the background of strong Government and RBZ support and incentives to further boost production and exports.

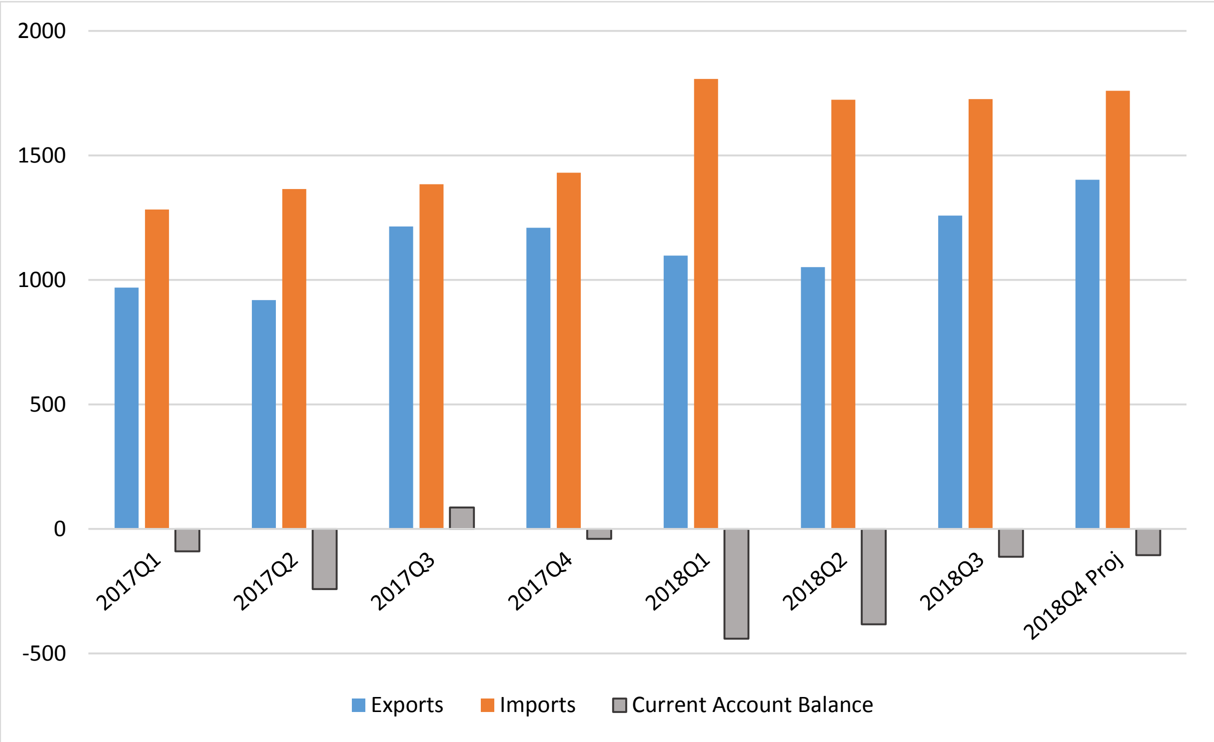
ANNEXURE II
BALANCE OF PAYMENTS DEVELOPMENTS

The country's external sector position has largely remained under considerable pressure, due to excessive foreign currency demand against the foreign currency inflows. This pressure is manifested through persistent and large trade and current account deficits that the economy has been recording since 2009. While exports of goods and services have been on an upward trend, this has been offset by the increase in imports of goods and services on the back of domestic supply gaps and rising international oil prices.

Current Account

The current account deficit sharply deteriorated from US$246 million in the first three quarters quarter of 2017 to US$935.8 million for the same period in 2018, reflecting a surge in imports against a background of subdued exports. The annual deficit is estimated to have widened to $1 029 million in 2018 compared to US$286.2 million in 2017.

Figure 3: Merchandise Trade Developments (US$ million)



Source: RBZ BOP Database

Merchandise exports increased by 9.8% from US$3 103 million in the first three quarters of 2017 to US$3 407.4 million for the same period in 2018 underpinned by growth in both mineral and manufactured exports. Mineral exports accounted for 60.5% of the total merchandise exports while agriculture and manufactured exports accounted for 22.6% and 16.9% of the total exports, respectively.

Exports are estimated to have registered an 11.5% growth to US$4 809.9 million in 2018, from US$4 313.0 million in 2017 as mineral, agriculture and manufactured exports all increased. Gold, flue-cured tobacco, nickel, ferrochrome, chrome, industrial diamonds, jewellery, cotton, platinum and cane sugar dominated the country's export basket, contributing above 80% of the country's exports.

Merchandise imports increased from US$4 031.5 million in the first three quarters of 2017 to about US$5 258.7 million during the same period in 2018 largely reflecting a growing economy. The country's major imports were fuel (diesel and petrol), electricity, machinery, raw materials and vehicles. In 2018, merchandise imports are estimated to have registered a moderate growth of 28.45%, from US$5 462.2 million in 2017 to US$7 018.4 million in 2018. The growth in imports was largely driven by non-food imports. Fuel imports increased on account of rising crude oil prices and increased consumer and industrial demand.

Services Account Developments

Services exports improved during the first three quarters of 2018 while imports sharply dropped. Driven by travel and transport, services exports are estimated to have increased by 15.5% from US$337.9 million in 2017 to US$390.1 million in 2018. Transport exports increased in line with increasing merchandise trade while activity in the tourism and travel sector has gone up since end 2017 with most hotels reporting huge improvement in room occupancy levels.

On the other hand, services imports collapsed from US$837.9 million in the first three quarters of 2017 to US$619.4 million for the same period in 2018 driven by declines in travel, transport and other business services. Imports of services are largely being affected by foreign currency challenges. The increase in services export receipts coupled with a decline in services imports payments resulted in the improvement in the services account balance.

Services imports are estimated to have declined by 18.5% from US$1 092.7 million in 2017 to US$890.4 million in 2018, largely reflecting acute foreign currency shortages that the country is facing. On the other hand, services exports are estimated to have increased by 25.4% from US$418.9 million in 2017 to US$525.1 million in 2018, underpinned by freight and travel.

Primary Income Account Developments

The country has consistently registered a negative balance on its primary income account, implying that the country is a net importer of capital. This account mainly records non-resident transactions on returns to labour and capital in the form of compensation of employees, interest on scheduled payments, dividends and re-invested earnings.

Secondary Income Account Developments

Secondary income flows are second largest contributor of foreign currency to the country after exports. The account mainly records transfers to Non-Profit Institutions Serving Households (NPISHs) and personal transfers; i.e. transfers that a migrants makes to the country of origin.

Secondary income account receipts slightly decreased in 2018 following declines in personal remittances. Personal remittances declined in 2018 possibly reflecting in-formalisation of remittances flows in light of the foreign currency shortages in the country. Exchange rate depreciation in major the source countries (SA and UK) also had an effect. Transfers to NIPISHs, however, increased in 2018 particularly in 2018 Q2 probably on account of elections related inflows.

Financial Account Developments

The country remained a net importer of capital with the financial account balance widening in 2018, on account of increased foreign direct investment inflows. Inflows of short and long term debt and portfolio investment inflows were however subdued. Net debt creating inflows declined from US$685.4 million in 2017 to US$418.4 million in 2018. Net foreign direct investment into the country is estimated to have increased from US$307.2 million in 2017 to US$456.6 million in 2018.

Foreign Currency Receipts

The Global Foreign Currency for the period January – December 2018 amounted to **US$6.3 billion** compared to **US$5.5 billion** received during the same period in 2017, representing a **13.9%** increase in foreign currency supply. The table below shows Global foreign currency receipts by source;

Table 3: Global Foreign Currency Receipts (USD million)

Type of Receipt		Week 52 2018	% Contribution	Week 52 2017	% Contribution	% Change
Export Proceeds		4,264.7	68%	3,556.2	64%	19.9%
International Remittances	Diaspora Remittances	597.4	9%	695.3	13%	-14%
	NGOs	530.4	8%	682.5	12%	-22%
Loan Proceeds		826.1	13%	533.5	10%	55%
Income receipts		59.3	1%	57.0	1%	4%
Foreign Investment		22.8	0%	25.4	0%	-10%
TOTAL		**6,300.7**	**100%**	**5,549.9**	**100%**	**13.5%**

Source: Exchange Control Records and Bank Supervision Application System (BSA)

Export proceeds contributed **68%** of the total global receipts for the fifty-two weeks of 2018, while international money transfers accounted for about **17%**. Export proceeds have continued to be the major source of liquidity for the country

International Remittances declined by 19% from US$1.4 billion received in 2017 to US$1.1 billion received in 2018. Of the US$1.4 billion, Diaspora remittances contributed US$619, 2 million, a decline of 11.4% as compared to US$699 million received in 2017. The decline of diaspora remittances is mainly attributed to the preference to send in-kind, remittances by the Diaspora, and the interception of remittances in South Africa by cross border traders. South Africa contributes about 34% of the total Diaspora remittances.

Private Sector Debt

In the year 2018, Exchange Control approved and registered a total of 140 external loan facilities with a monetary value of US$1.28 billion. A 3% increase in the total approvals from the US$1.23 billion recorded in 2017, was observed as shown on the table below.

Table 4: External Loan Approvals per Sector

Sector	2017 Facility Approvals (US$)	2018 Facility Approvals (US$)	Variance (US$)	Variance (%)
Agriculture	828,165,567	801,593,999	-26,571,568	-3%
Financial	38,106,000	204,370,000	166,264,000	81%
Tourism & Hospitality	4,261,000	14,137,800	9,876,800	70%
Services	30,335,000	12,386,608	-17,948,392	-100%
Energy	252,444,000	40,615,000	-211,829,000	-100%
Retail & Distribution	37,187,879	356,225	-36,831,654	-100%
Mining	40,211,940	114,126,237	73,914,297	65%
Manufacturing	4,104,590	88,264,140	84,159,550	95%
Transport	931,797	5,421,652	4,489,855	83%
Construction	3,850,395	1,774,195	-2,076,200	-117%
TOTAL	**1,239,598,168**	**1,283,045,857**	**43,447,689**	**3%**

Source: External Loans and Exchange Control Review Committee Database

The sectoral spread of borrowings improved in 2018, with sectors such as Finance, Manufacturing, Tourism and Transport recording more than 50% increase in monetary value and number of facilities from 2017. Overall, Tobacco Finance facilities dominated the loans with a 63% contribution.

Actual External Loan Drawdowns

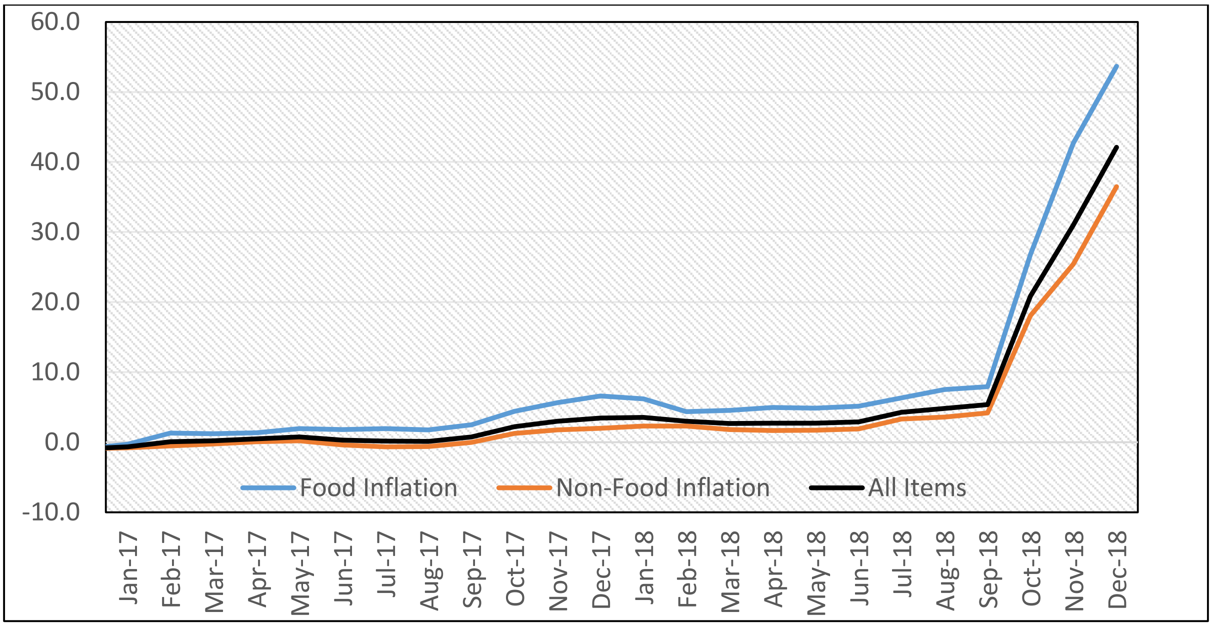
In the year 2018, local borrowers received loan proceeds amounting to US$844.9 million. It should be noted, however, that this figure includes drawdowns from facilities that were approved in previous years.

ANNEXURE III

INFLATION DEVELOPMENTS

The annual headline inflation, which had been largely trending below 5% for the greater part of 2018, spiked to 21% in October 2018 and further to 42.1% in December 2018, as inflation pressures builds in the economy. The price hikes in October were due to excessive speculative behavior, unrelated to economic fundamentals, which also saw unjustified increases in parallel market rates for foreign exchange. It is anticipated that these speculative bubbles will collapse in the medium term, as the economy adjusts and self-corrects to policy stimuli.

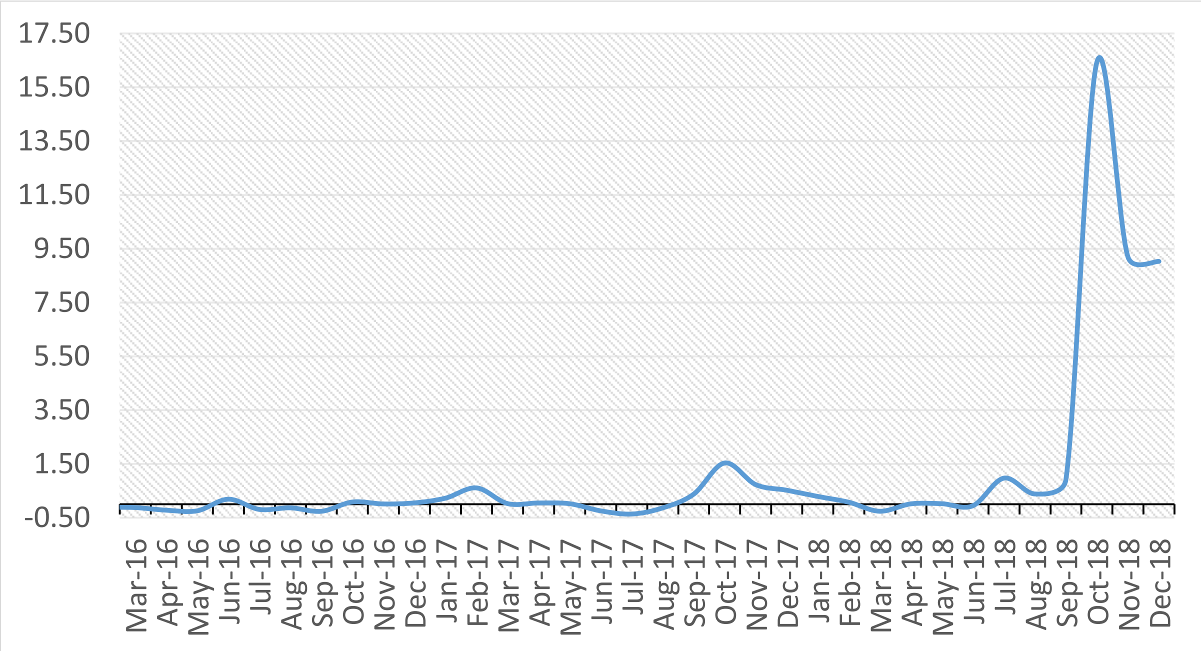
Figure 4: Annual Inflation Profile (%)



Source: Zimstat, 2018

The end of the year saw both food and non-food prices spiraling up, across most categories of the consumer basket. Most discernible price increases were observed in categories that have a significant import content, reflecting the sourcing of foreign exchange from alternative markets due to shortages. Month-on-month inflation, which had remained largely below the 1.5% threshold throughout the year, escalated 16.4% in October 2018, before subsiding to 9.0% in December 2018, on the back of both food and non-food drivers. Government is instituting a wide range of fiscal and monetary measures, aimed at keeping inflation in check.

Figure 5: Month-on-Month Inflation %



Source: Zimstat, 2018

The spike in inflation calls for concerted national efforts to fight the scourge, so as to engineer growth and stability across the markets. The recent fuel price increase, while temporarily inflationary in the short term, will be neutralized by supply side gains, as well as by positive payoffs from on-going economic reforms in the fiscal and monetary sectors. The anticipated fall in international oil prices will also see inflationary pressures relenting, buttressed by other positive external developments.

ANNEXURE IV

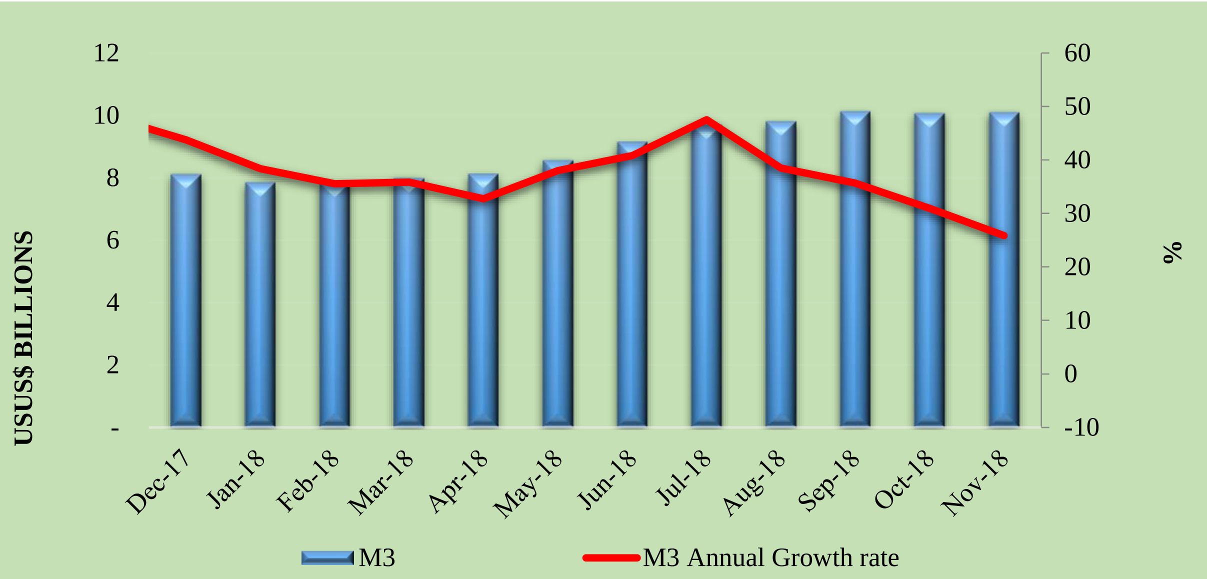
MONETARY DEVELOPMENTS

Generally, annual growth in money supply has been on a downward trend since July 2018, largely reflecting slowdown in accommodation to Government, fiscal consolidation, as well as Central Bank efforts to mop up excess liquidity from the market. Liquidity sterilization efforts through the Bank's savings bonds, have continued to bear fruit, mopping up a total of $1.96 billion worth of liquidity, since their introduction in September 2017.

Annual broad money2 growth fell from close to 50% in July 2018, to 28.8% by November 2018, reaching a stock of US$10 093.66 million as of the same month. The growth in money supply was reflected in a 36.3% increase in narrow money, of which, transferable deposits grew by 35.62%; while currency in circulation gained by 48.65%. Partially offsetting the increase in narrow money during the period under review, were declines in negotiable certificates of deposits (NCDs) and time deposits, of 21.8% and 1.6%, respectively.

[2] Beginning January 2017, broad money is redefined using IMF's Monetary and Financial Statistics Manual of 2016. The major change is the exclusion of Government deposits held by banks from broad money.

Figure 6: Money Supply



Source: Reserve Bank of Zimbabwe, 2018

The country's money supply, however, continues to be dominated by transitory deposits, as evidenced by its composition by end of November 2018, where transferable deposits were 80.45% of total broad money; time deposits, 14.17%; currency in circulation, 4.88%; and negotiable certificates of deposits, 0.50%.

This short term money does not auger well for investment, as it falls short of the medium to long term credit requirements of most industries, which are need to re-tooling, refurbishment and new capital investments.

ANNEXURE V

FINANCIAL SECTOR DEVELOPMENTS

Banking Sector Architecture

There were 19 operating banking institutions as at 31 December 2018, as shown in the table below.

Table 5: Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	**19**
Other Institutions under the supervision of Reserve Bank	
Credit-only-MFIs	199
Deposit-taking MFIs	6
Development Financial Institutions	2
TOTAL	**226**

Performance of the Banking Sector

The banking sector remained generally stable as reflected by adequate capitalisation and improved earnings performance for the period ended 31 December 2018. However, asset quality deteriorated as reflected by increase in the average non-performing loans to total loans ratio during the period under review. The table below shows trends in financial soundness indicators.

Table 6: Financial Soundness Indicators

Key Indicators	Benchmark	Dec-17	Jun-18	Sept-18	Dec-18
Total Assets		$11.25bn	$12.35bn	$13.31bn	$13.98bn
Total Loans & Advances		$3.80bn	$4.08bn	$4.00bn	$4.22bn
Net Capital Base		$1.58bn	$1.61bn	$1.72bn	$1.83bn
Total Deposits		$8.48bn	$9.53bn	$9.57bn	$10.32bn
Net Profit		$241.94m	$176.09m	$283.98m	$389.85m
Return on Assets		2.61%	1.75%	2.61%	4.57%
Return on Equity		15.48%	11.16%	16.80%	20.59%
Capital Adequacy Ratio	12%	27.63%	26.32%	27.79%	30.27%
Loans to Deposits	70%	44.81%	43.53%	41.8%	40.71%
Non-Performing Loans Ratio	5%	7.08%	6.22%	6.69%	8.39%
Tier 1 Ratio	8%	23.97%	24.16%	22.68%	23.84%
Liquidity Ratio	30%	62.62%	68.45%	70.66%	68.00%
Cost to Income Ratio		75.36%	67.59%	66.85%	70.01%

Capitalisation

The banking sector remained adequately capitalised with average tier 1 and capital adequacy ratios of 23.84% and 30.27%, respectively. The banking sector aggregate core capital increased by 15.32%, from $1.37 billion as at 31 December 2017 to $1.58 billion as at 31 December 2018, largely due to organic capital growth. All banking institutions were compliant with the prescribed minimum capital requirements as shown in the table below.

Table 7: Banking Sector Capitalisation ($ million)

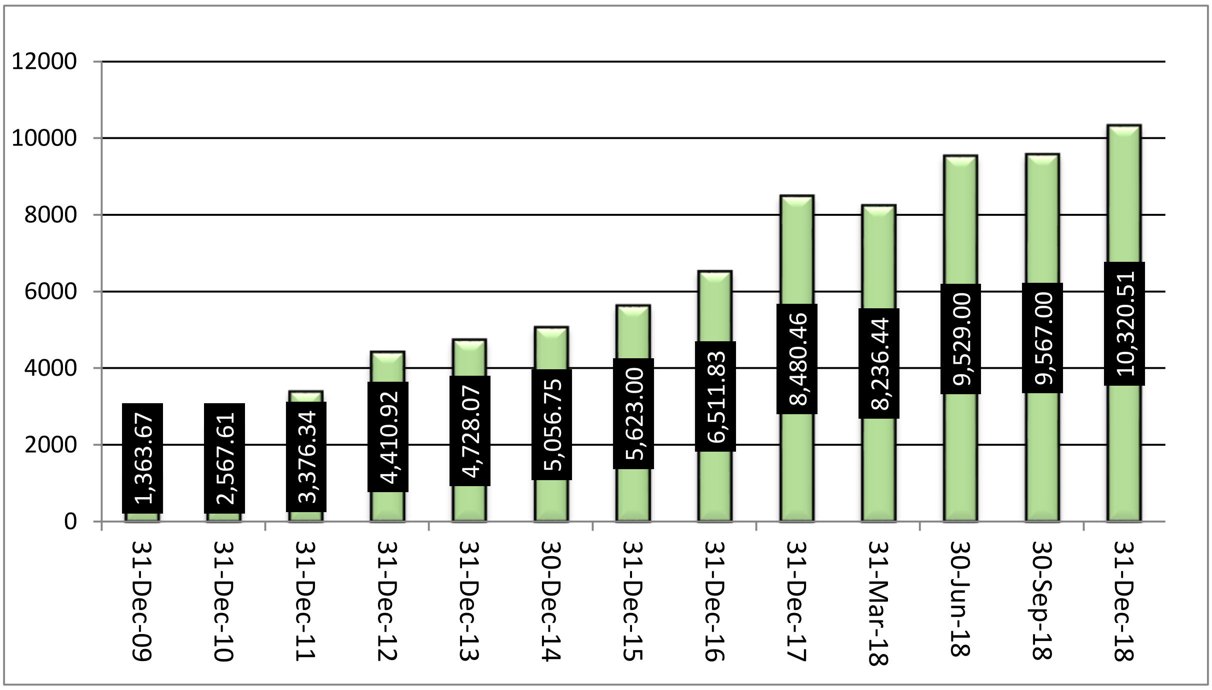
Institution	**Core Capital as at 31 December**	**Core Capital as at 31 December**	**Prescribed Minimum Capital**
CBZ Bank & Society	218.41	168.15	25
Stanbic Bank	135.52	162.22	25
Barclays Bank	79.22	107.17	25
Ecobank	73.95	104.14	25
FBC Bank	70.37	93.64	25
ZB Bank & Society	83.54	87.94	25
BancABC	75.96	86.72	25
Steward Bank	71.91	86.58	25
Standard Chartered Bank	71.34	84.84	25
NMB Bank	61.31	76.72	25
Agribank	55.54	74.36	25
Nedbank Zimbabwe	54.52	70.01	25
Metbank	44.99	65.88	25
BUILDING SOCIETIES			
CABS Building Society	127.75	146.45	20
FBC Building Society	47.48	47.07	20
National Building Society	43.84	46.03	20
SAVINGS BANK			
POSB	53.83	69.33	-
Total	**1,369.48**	**1,577.25**	**-**

The challenging macroeconomic environment underscores the need for banking institutions to implement capital preservation strategies.

Banking Sector Deposits

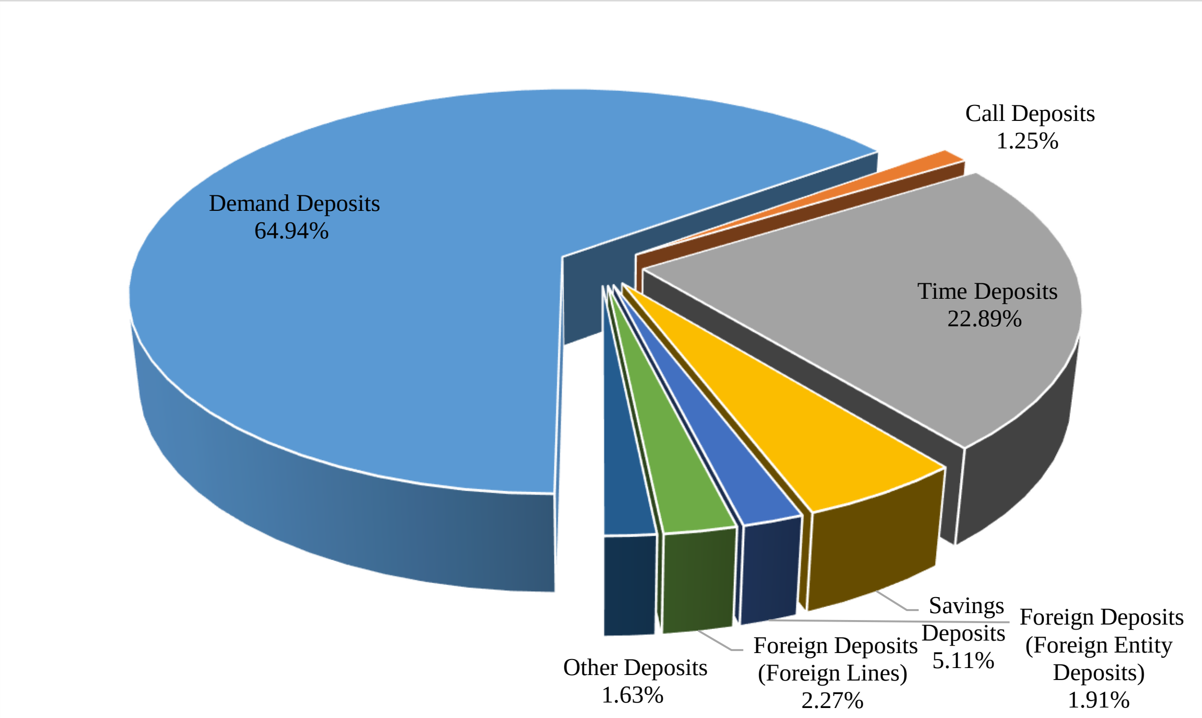
Total banking sector deposits amounted to $10.32 billion as at 31 December 2018, up from $8.48 billion as at 31 December 2017. The figure below shows the trend in the banking sector deposits over the period 31 December 2009 to 31 December 2018.

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



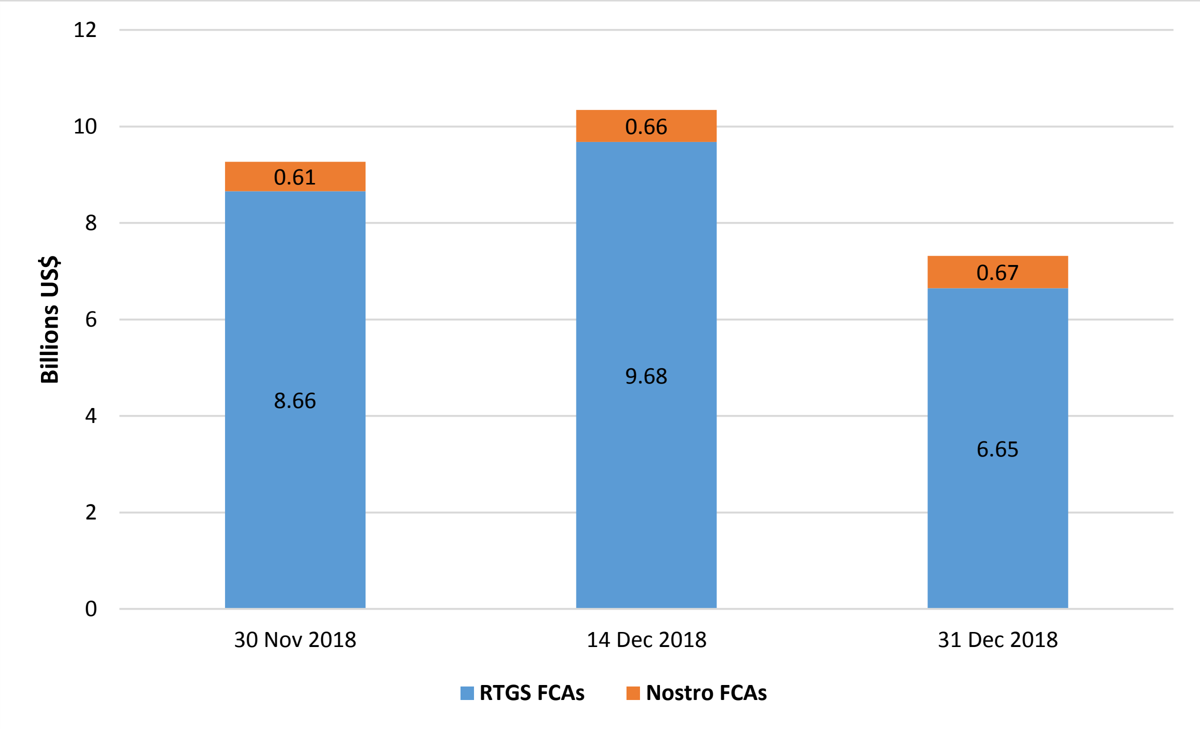
The banking sector was predominantly funded by demand deposits which accounted for 64.94% of total deposits as at 31 December 2018. The composition of total banking sector deposits as at 31 December 2018 is depicted in the figure below.

Figure 8: Composition of Deposits as at 31 December 2018



As at 31 December 2018, total Nostro FCA deposits amounted to $673.81 million, representing 6.53% of total deposits. The Nostro FCA depositors are predominantly constituted by corporate deposits amounting to $654.77 million, representing 97.17% of total Nostro FCA deposits, as at 31 December 2018. The level of Nostro FCAs and RTGS FCAs deposits, since the separation of the two (2) categories in October 2018 is shown below.

Figure 9: Composition of Deposits By nature of Currency



As at 31 December 2018, the number of corporate RTGS FCA depositors was 214,094 valued at $8.67 billion, while the number of individual RTGS FCA depositors, amounted to 3.24 million valued at $894.54 million. Of the 3.24 million individual depositors 95.98% held deposit balances of less than $1,000.00 each, with an average balance of $80, accounting for a total $213.42 million.

On the other hand, corporate RTGS FCA depositors (1,884) holding balances in excess of $500,000 constitute 83.64% ($7.25billion) of total corporate RTGS deposit of $8.67 billion as at 31 December 2018. The table below shows a breakdown of total deposits by balance category;

Table 8: Total Nostro FCA and RTGS FCA Balances Summary as at 31 December 2018

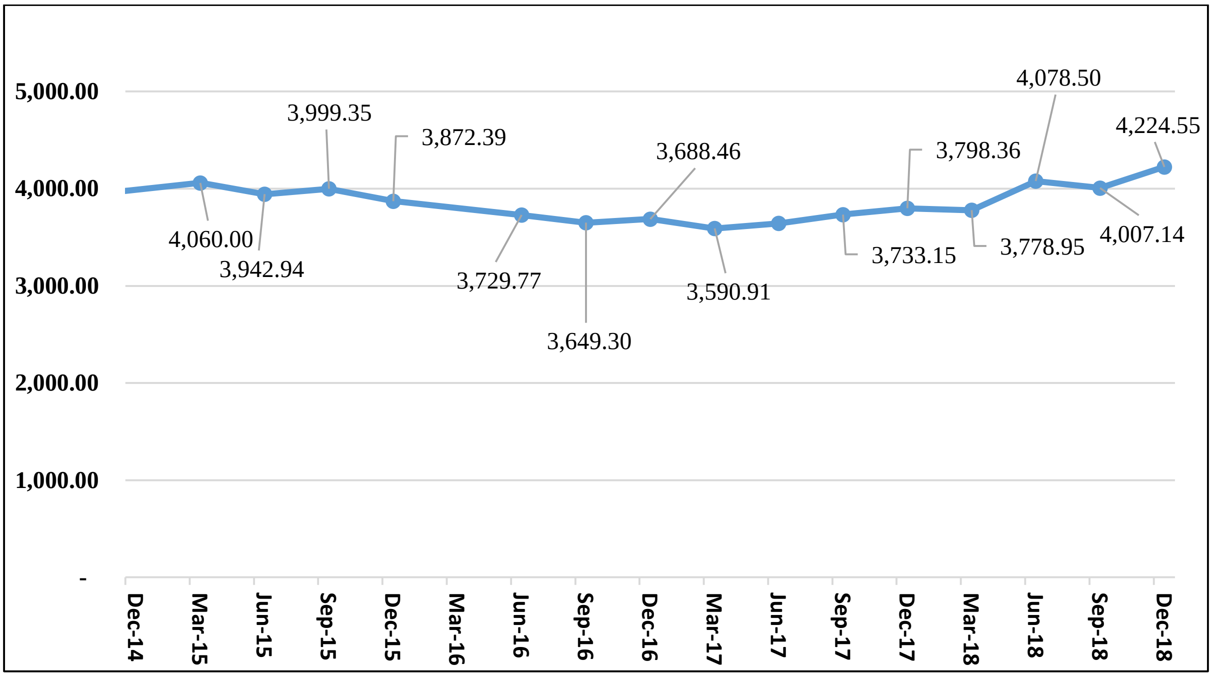
	RTGS FCA		NOSTRO FCA	
	Number	**Value ($)**	**Number**	**Value ($)**
<1,000	3,113,699	213,417,633	111,069	4,036,509
1,001-5,000	284,552	369,048,704	16,769	11,380,851
5,001-10,000	26,637	162,785,867	2,030	9,743,790
10,001-20,000	15,008	198,562,426	1,612	19,202,170
20,001-50,000	8,846	269,736,735	1,084	32,469,786
50,001-100,000	3,551	243,288,370	458	31,959,006
100,001-200,000	2,136	295,089,016	270	37,429,252
200,001-300,000	1,018	210,202,651	96	23,236,315
300,001-500,000	809	309,775,981	84	31,728,454
500,000+	1,919	7,291,261,403	161	472,627,663
TOTAL	**3,458,175**	**9,563,168,786**	**133,633**	**673,813,796**

Going forward, it is envisaged that the number of Nostro FCA depositors will increase, driven by increases in the tobacco and mineral production, as well as financial inclusion efforts.

Loans and Advances

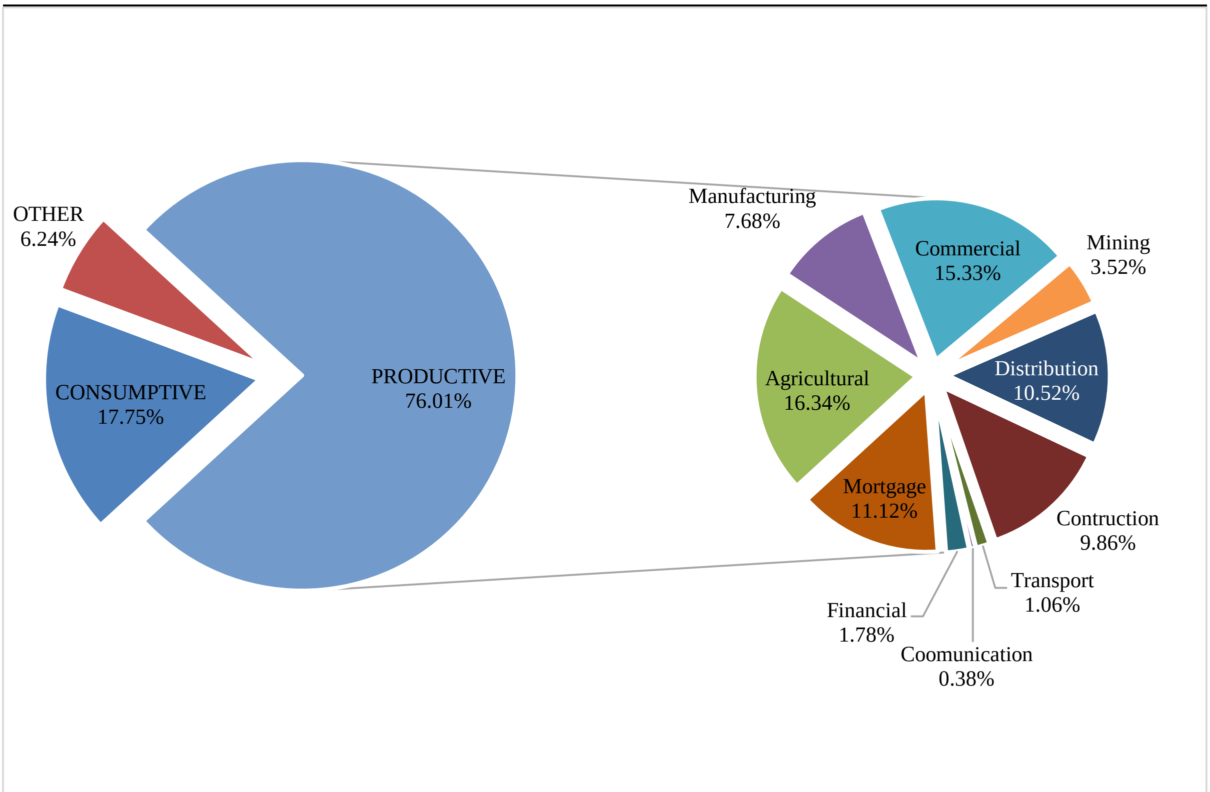
Total banking sector loans and advances increased by 11.05%, from $3.80 billion as at 31 December 2017 to $4.22 billion as at 31 December 2018. The figure below shows the trend of banking sector loans and advances from 31 December 2014 to 31 December 2018.

Figure 10: Loans and Advances



Lending to the productive sector increased over the year, from 73.64% to 76.01% of total loans as at 31 December 2018. The increase is largely attributable to lending to the agricultural sector which increased from 14.7% to 16.39% and other segments including state owned enterprises from 12.1% to 20.1 %. The chart below shows the breakdown of lending to the productive sector.

Figure 11: Sectoral Distribution of loans as at 31 December 2018

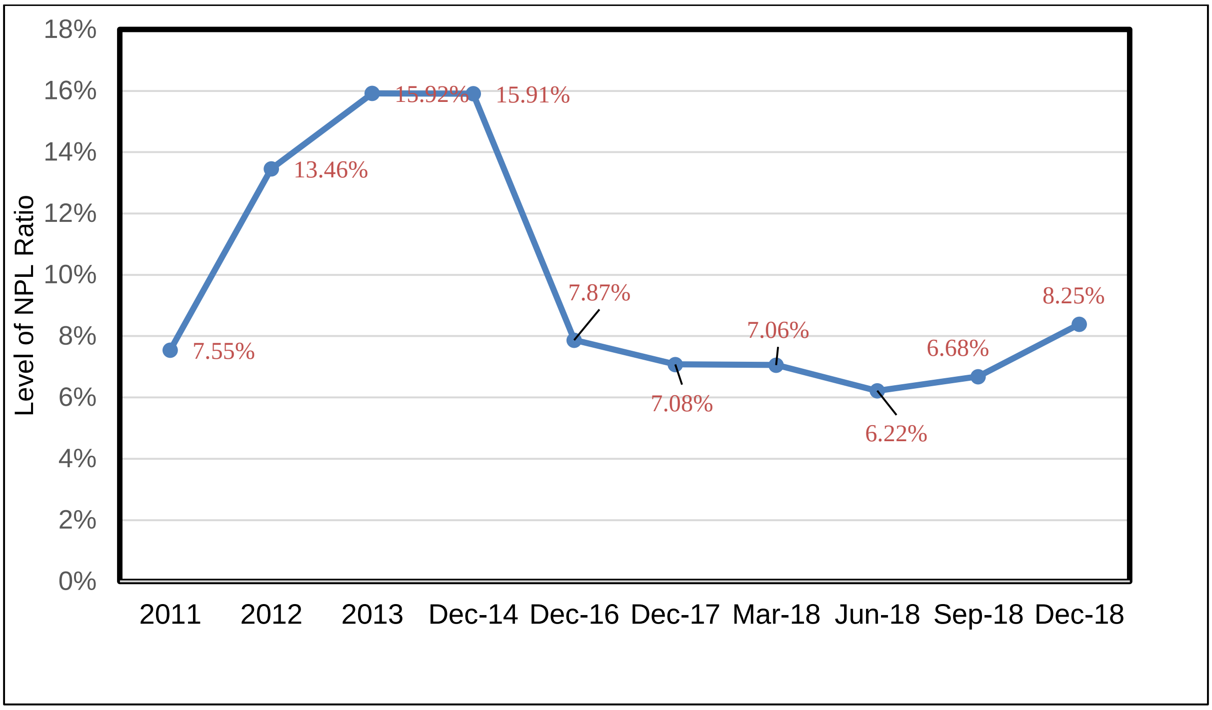


The loans to deposit ratio decreased from 44.81% to 40.1% over the year ended 31 December 2018, reflecting low lending levels. This position reflects that there is scope for banking institutions to increase lending to various sectors of the economy to spur economic revival.

Loan Portfolio Quality

Credit risk in the banking sector portfolio increased during the period under review as reflected by the ratio of non-performing loans (NPLs) to total loans of 8.25% % as at 30 December 2018, from 7.08% as at 31 December 2017. The increase in NPLs is largely a reflection of forward looking credit risk management tools adopted by banks in line with the IFRS 9 accounting standards, resulting in improvement of the banks' risks controls and provisions coverage.
The trend in the level of non-performing loans from 2011 to 31 December 2018 is indicated in the figure below.

Figure 12: Trend in Non-Performing Loans 2011 – 31 December 2018



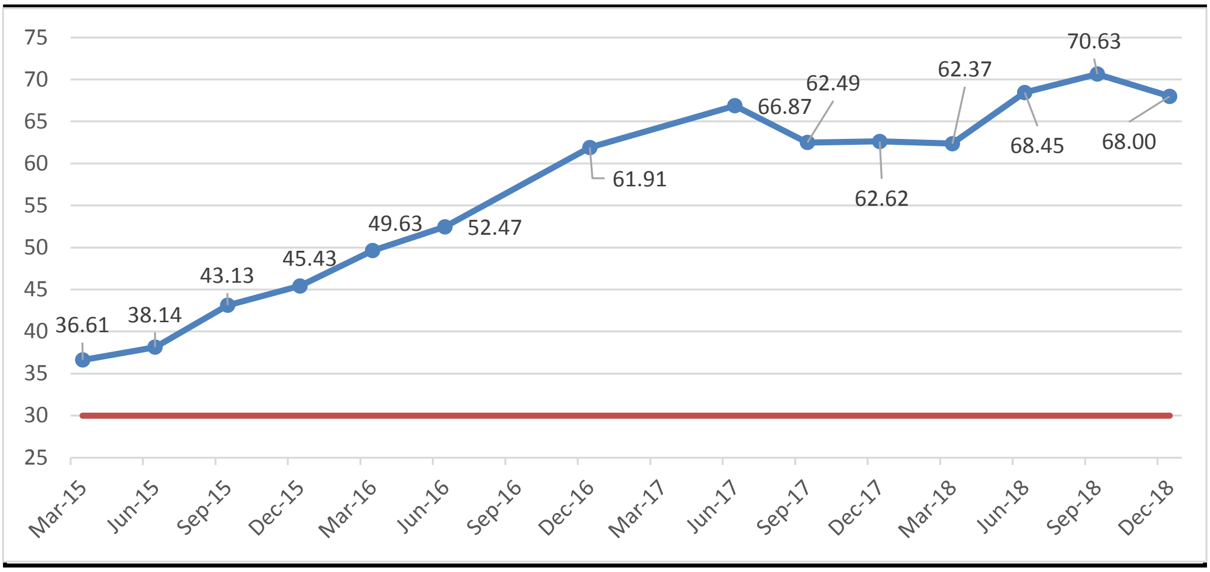
Earnings Performance

All banking institutions, with the exception of one, reported profits for the year ended 31 December 2018, with a 61.06% increase in aggregate profits from $241.94 million in 2017 to $389.85 million in 2018.

Banking Sector Liquidity

All banking institutions were compliant with the minimum prudential liquidity ratio of 30% as at 31 December 2018, with the exception of two (2) institutions. The average prudential liquidity ratio for the banking sector was 68.00% as at 31 December 2018, against the minimum regulatory requirement of 30%. Trend in the banking sector average prudential liquidity ratio since March 2015 is shown in the figure below.

Figure 13: Prudential Liquidity Ratio Trend (%)



The high average prudential liquidity ratio is largely attributed to substantial holdings of securities and investments, and cautious approach to lending by most banking institutions.

Deposit Insurance Payments

As at 31 December 2018, 15,313 out of 54,909 depositors by number had been compensated out of the Deposit Protection Fund, administered through the Deposit Protection Corporation. In monetary terms $3.61 million (56%) had been paid against an exposure of $6.4 million. The table below provides a synopsis of deposit insurance payments in respect of the six (6) failed contributory banking institutions under liquidation.

Table 9: Deposit Insurance Payments as at 31 December 2018

Name of Institution	Total Depositors	No. of Depositors paid	Exposure Deposits payable at $500($)	Value of Depositors paid ($)	% of Total deposits	Gross Deposits
Royal Bank	5,453	3,111	472,207	358,654	76%	5,538,805
Trust Bank	2,958	1,041	328,516	169,877	52%	11,482,102
Genesis	86	62	11,810	8,821	75%	1,426,913
Allied Bank	9,228	1,539	1,248,307	536,503	43%	14,316,614
Interfin Bank	13,021	2,738	918,814	325,373	35%	137,336,570
Afrasia	24,163	6,822	3,439,276	2,212,152	64%	18,559,591
Total	**54,909**	**15,313**	**6,418,930.43**	**3,611,380**	**56%**	**188,660,595**

All the above institutions are under final liquidation by the Deposit Protection Corporation.

Banking Sector Developments

Tetrad Investment Bank

Provisional Judicial Management for Tetrad Investment Bank was uplifted on 30 October 2018, following a successful conclusion of a scheme of arrangement involving conversion of debt to equity, which resulted in the institution's capital being in compliance with the regulatory minimum of $25 million for merchant banks.

The banking institutional is, however, not yet operational as the bank's board is working to address issues before commencement of operations including shareholding structure, corporate governance arrangements, risk management systems and availability of working capital.

ANNEXURE VI

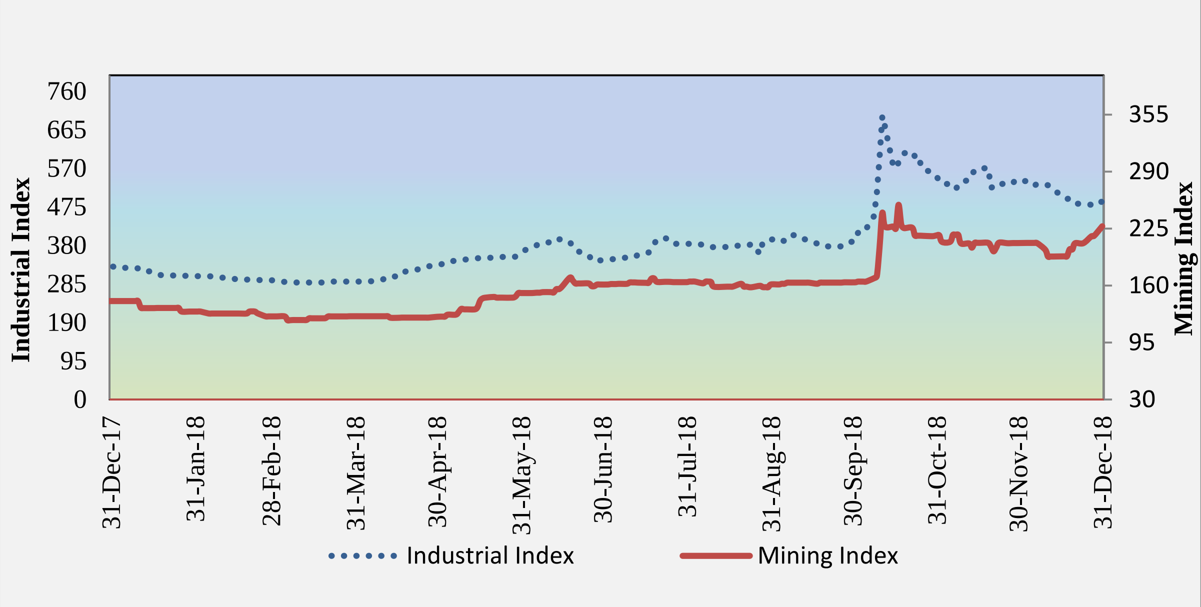
DEVELOPMENTS ON THE ZIMBABWE STOCK EXCHANGE

The year 2018, saw the Zimbabwe Stock Exchange (ZSE) experiencing generally bullish sentiment, with the industrial and mining indices rising from 333.02 points and 142.40 points, respectively, at the end of December 2017, to 699.89 points and 242.81 points, in October 2018. The growth was partly attributed to strong performance on some blue chip counters, coupled with hedging tendencies against perceived losses of value on parallel market rates and inflation. Although activity on the stock market declined in December 2018, in line with trends during the festive season, year-on-year, however, both the industrial and mining indices grew significantly by 46.28% and 59.91%, respectively.

The Top 10 Index, which tracks share price developments of wealth preserving counters, gained 45.02% to reach 145.02 points at the end of 2018. By breaking the 100 points benchmark, it implies that blue-chip stock prices at 31 December 2018 have surpassed prices at the beginning of the year, when the index was introduced.

Figure below shows developments in the industrial and mining indices for the period 31 December 2017 to 31 December 2018.

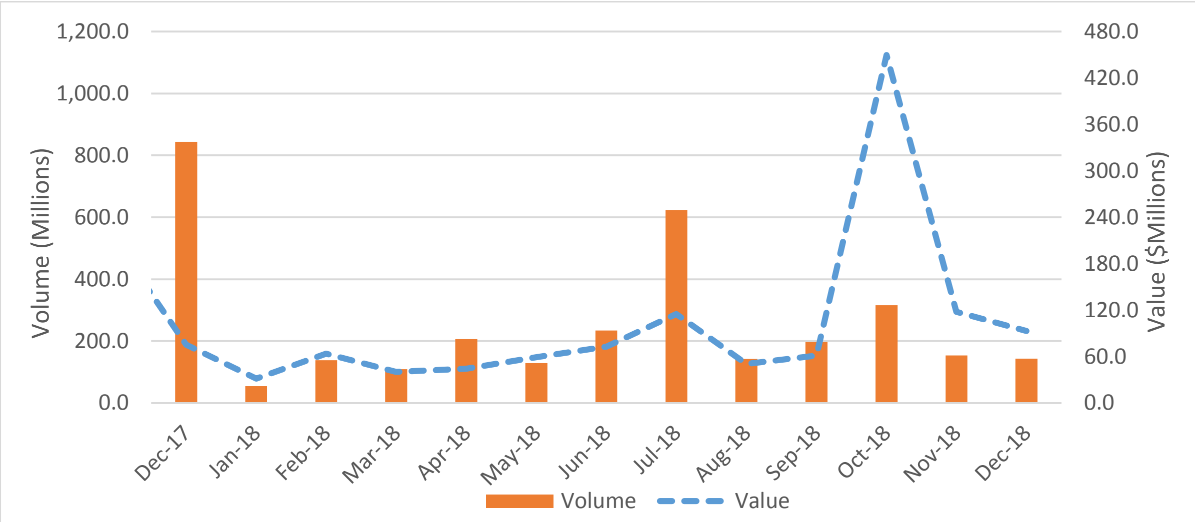
Figure 14: Zimbabwe Stock Exchange Indices



Source: Zimbabwe Stock Exchange, 2019

As a consequence of improved investor appetite in blue-chip counters, the cumulative value of shares traded increased by 72.77% to $1.20 billion, up from $0.69 billion realized in 2017. Volume of shares traded, however, declined by 27.30% to 2.45 billion shares, from 3.37 billion shares registered the previous year. The cumulative net capital inflows amounted to $51.61 million in 2018, compared to cumulative net outflows of $99.99 million in 2017.

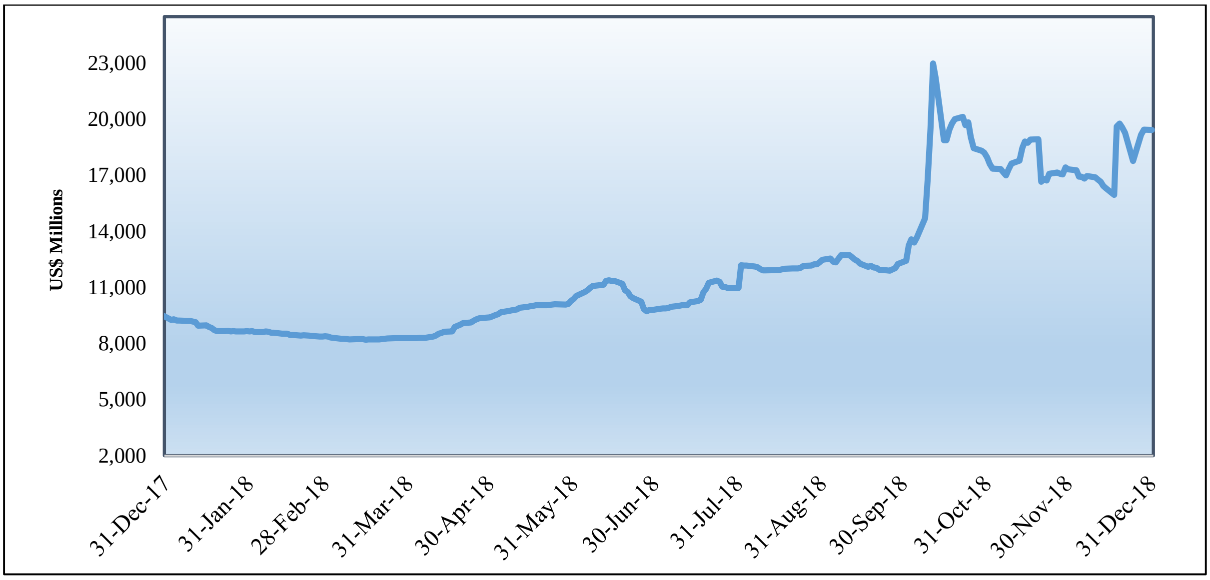
Figure 15: ZSE Market Turnover



Source: Zimbabwe Stock Exchange, 2019

In line with significant increases in share prices across many counters, market capitalization trended upwards, reaching peak levels of close to $23 billion in October 2018, before moderating to around $19 billion by the close of the year.

Figure 16: Market Capitalization



Source: Zimbabwe Stock Exchange, 2019

The launch and operationalization of an online and mobile platform, Capital Trade (C-Trade) in the second half of 2018, is expected to improve trading activity on the Zimbabwe Stock Exchange (ZSE). This development is set to further deepen financial inclusion in the capital markets, riding on the countrywide mobile network platforms, which have attracted subscribers from the width and breadth of the economy.

ANNEXURE VII

STATUS AND CONDITION OF MICROFINANCE SECTOR

The microfinance sector continued to play a significant catalytic role in the financial inclusion agenda and the attainment of the Sustainable Development Goals (SDGs). As at 31 December 2018, a total of 205 microfinance institutions were operational. The microfinance sector continued on a growth trajectory during the period under review. Positive growth was recorded in outreach, loan portfolio size, equity funding, and deposit mobilisation.

Performance of Deposit-Taking Microfinance Institutions

The six (6) operating Deposit-Taking Microfinance Institutions (DTMFIs) continue to play a significant role in promoting access to formal financial services by marginalised segments. Zimbabwe Women's Microfinance Bank and EmpowerBank commenced operations in 2018 with mandates to primarily focus on financial inclusion of women and youth respectively. The trend in the key performance indicators for the DTMFIs is indicated in the table below:

Table 10: Trend in the Key Performance Indicators for the DTMFIS

Key Indicators	Dec-17	Jun-18	Sept-18	Dec-18
Total Assets	$88.36m	$100.28m	$128.23m	$138.16m
Total Loans & Advances	$62.02m	$68.80m	$79.26m	$84.40m
Net Capital Base	$39.20m	$40.09m	$62.24m	$63.78m
Total Deposits	$6.41m	$15.35m	$21.00m	$23.85m
Net Profit	$2.25m	$965,250.19	-$939,080.58	-$29,488.44
Operating self-sufficiency ratio	126.30%	116.83%	76.22%	89.27%
Average Return on Assets	-4.63%	1.27%	-6.23%	-9.16%
Average Return on Equity	-3.61%	3.20%	-6.00%	-8.40%
Portfolio risk Ratio (> 30 days)	11.30%	16.54%	9.56%	13.51%

Status of Capitalisation

The capital levels for the Deposit-Taking Microfinance Institutions sub-sector grew from $39.20 million in 2017 to $63.78 million as at 31 December 2018. However, one institution's capital level was in breach of the minimum prescribed capital requirement of $5 million and shareholder efforts are underway to regularise the capital position of the institution.

The Reserve Bank of Zimbabwe urges players in the deposit-taking microfinance sub-sector to continue to raise capitalisation levels in order to create capacity to underwrite significant business across economic sectors.

Total Loans and Deposits

Total loans and deposits increased from $62.02 million and $6.41 million as at 31 December 2017 to $84.40 million and $23.85 million as at 31 December 2018, respectively. The growth in the loans has largely been financed by deposits, lines of credit and shareholder loans.

Earnings Performance

Profitability in the sector remained subdued during the year. The earnings performance was largely weighed down by start-up costs in the newly established deposit-taking microfinance institutions. New entities typically need 2 to 3 years to build their portfolios in order to attain sustainable critical mass and break-even.

Outreach

Total number of DTMFIs branches increased by 69% from 16 in 2017 to 27 as at 31 December 2018. The subsector recorded a 302% growth in the number of account holders from 6,441 in 2017 to 25,906 as at 31 December 2018.

Performance of Credit-Only Microfinance Institutions

The microfinance sector's total assets registered a 58.30% growth in over the year from $211.83 million as at 30 September 2017 to $335.33 million as at 30 September 2018, driven by the growth in total loans. The trend of the performance indicators in the credit-only microfinance sub-sector is indicated in the table below.

Table 11: Key Performance Indicators, September 2017 to September 2018

Indicator	Sept -17	Sept-18
Number of Licensed Institutions	184	194
Total Loans (US$m)	175.41	272.13
Total Assets (US$m)	211.83	335.33
Total Equity (US$m)	92.65	126.04
Net Profit (US$m)	10.42	11.27
Average Operational Self-Sufficiency (OSS)	151.08%	114.80%
Portfolio at Risk (PaR>30 days)* (%)	6.52%	15.65%
Number of Active Loan Clients	235,885	278,583
Number of Outstanding Loans	244,155	312,680
Number of Branches	675	755

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

Microfinance Outreach

The sector continued to make inroads in the financial inclusion space with the sector registering a 18.10% increase in the number of active clients over the year from 235,885 as at 30 September 2017, to 278,583 as at 30 September 2018. The number of women borrowers has been on an upward trend over the review period with women borrowers accounting for 53.20% of the total active clients in the microfinance industry, up from 40.28% recorded in September 2017.

Access to the Reserve Bank Empowerment facilities such as the Women Empowerment Facility and the Business Linkage Facility has contributed significantly to the increase in the number of women borrowers. Microfinance institutions can accelerate their outreach into the remote rural areas with innovative products by embracing mobile banking services and collaborating with mobile network operators through the framework of agency.

Capital & Funding

The microfinance sector registered a 36.04% increase in aggregate equity over the review period from $92.65 million as at 30 September 2017, to $126.04 million as at 30 September 2018. However, the sector's equity was under threat from increased portfolio at risk and high operational costs. Lack of long-term sustainable funding continues to militate against increased outreach and impact of credit-only microfinance institutions on the low income and marginalised. Microfinance shareholders are therefore urged to inject additional capital in order to come up with stronger, more sustainable and well-funded institutions.

Lending and Portfolio Quality

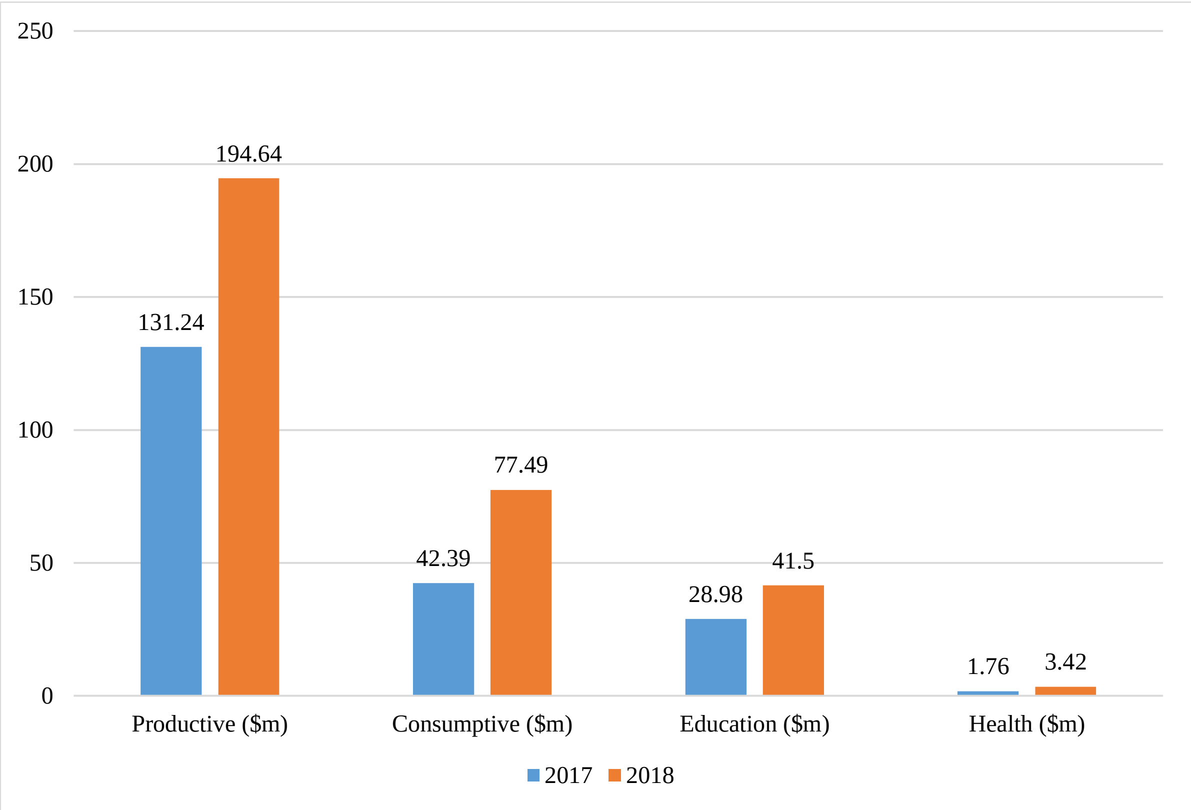
The sector registered a 55.14% increase in total portfolio over the year from $175.41million as at 30 September 2017, to $272.13 million as at 30 September 2018 on the back of increased demand for micro-credit by both micro and small enterprises as well as individuals.

The sector registered a deterioration in portfolio quality over the year with portfolio-at-risk (>30 days) (PaR) ratio of 15.65% as at 30 September 2018, up from 6.52% as at 30 September 2017, against the international benchmark of 5%. The deterioration in the asset quality was partly driven by increased over-indebtedness and multi-borrowing among microfinance borrowers against declining disposable income.

Distribution of Loans

Loans to the productive sector of $194.64 million as at 30 September 2018, accounted for 71.52% of the total credit-only microfinance sub-sector loans of $272.13 million. The figure below shows the distribution of loans for 2017 and 2018.

Figure 17: Loan Distribution 2017 – 2018



The Reserve Bank urges the sector to leverage on technology and partner with other financial service providers in order to expand their credit portfolios and offer other products such as micro-insurance and micro-pensions.

Profitability

The credit-only microfinance sub-sector registered a 8.16% increase in net profit over the year from $10.42 million for period ended 30 September 2017, to $11.27 million for the period ended 30 September 2018. The average operational self-sufficiency ratio (OSS)3 for the sector deteriorated to 114.80% as at 30 September 2018, down from 151.08% as at 30 September 2017. The OSS ratio of 114.80% was above the break-even point of 100%, indicating that the sector is still operationally sustainable.

Social Performance Management

In line with international best practice and standards, the Reserve Bank of Zimbabwe will be implementing Social Performance Management to facilitate microfinance institutions aligning their social objectives and financial objectives in providing access to finance to the poor and marginalised. During the course of 2019, the Reserve Bank will develop a Social Performance Management Framework to provide guidance on the evaluation of the impact of microfinance service on the target marginalised groups.

[3] OSS is the ratio of an MFI's operating revenues to its operating expenses including financial costs and impairment losses on loans.

ANNEXURE VIII

FINANCIAL INCLUSION

The Reserve Bank continues to collaborate with other stakeholders in implementing various initiatives to enhance access to formal financial services by the majority of the people. Following the launch of the National Financial Inclusion Strategy in March 2016, there has been notable progress regarding access to formal financial services by the targeted groups such as women, MSMEs and the youth as shown by the indicators below.

Figure 18: Financial Inclusion Indicators - Dec 2016-18

Indicator	Dec 2016	Dec 2017	June 2018	Sept 2018	Dec 2018
Value of loans to MSMEs	$131.69m	$146.22 m	$168.25m	$131.83m	$169.96m
% of loans to MSMEs over total loans	3.57%	3.75%	3.57%	3.84%	3.94%
Number of MSMEs with bank accounts	71,730	76,524	81,369	97,527	100,644
Number of Women with Bank Accounts	769,883	935,994	1,612,820	1,528,704	1,736,285
Value of Loans to Women	$277.30m	$310.78m	$360.68m	$384.55m	$432.36m
Number of Loans to Youth	38,400	61,529	68,756	74,165	69,421
Value of Loans to Youth	$58.41m	$138.93 m	$126.64m	$146.79m	$104.43m
Total number of Bank Accounts	1.49m	3.07m	5.58m	5.81m	6.73m
Number of Low Cost Accounts	1.20m	3.02m	3.56m	3.31m	4.67m

Financial Inclusion Empowerment Facilities

Access to funding is a critical component of financial inclusivity. The Reserve Bank of Zimbabwe and the banking institutions continues to avail funding targeted at various priority groups under the National Financial Inclusion

Strategy. As at the end of 2018, Revolving Empowerment Facilities amounting to $501.1 million had been put in place. However, uptake has remained low at 55% largely due to low financial literacy, inadequate entrepreneurial skills as well as the prevailing foreign currency shortages.

The injection of additional capital in Export Credit Guarantee Corporation (ECGC) to enable it to provide credit guarantee support to Micro Small and Medium Enterprises (MSMEs) as well as the operationalisation of the Collateral Registry are expected to facilitate increased access to finance for productive purposes by MSMEs lacking acceptable collateral. It is encouraging to note that as at 31 December 2018, a total of ten (10) financial institutions had accessed credit guarantees through ECGC.

Reserve Bank also acknowledges efforts by banking and microfinance institutions in the provision of financial services to the target segments under the National Financial Inclusion Strategy using their own resources.

Financial Literacy

Financial literacy is one of the key pillars of the National Financial Inclusion Strategy. The Reserve Bank of Zimbabwe acknowledges efforts by financial institutions as well as other stakeholders in raising awareness of financial services among the targeted segments. The Reserve Bank of Zimbabwe urges financial institutions to continue to invest in financial literacy programs focusing on various concepts and skills including financial planning, budgeting, saving and debt management skills, as well as promoting the understanding of consumer rights and responsibilities.

Sustainable Financing

To date, eight (8) financial institutions have confirmed their readiness to participate in the Sustainability Standards and Certification Initiative for Financial Institutions, an initiative of the European Organisation for Sustainable Development under the Global Sustainable Finance Network. The Reserve Bank of Zimbabwe urges banking institutions to incorporate sustainability principles in their business operations to promote positive development impact on society as well as protection of the environment as they conduct their banking business.

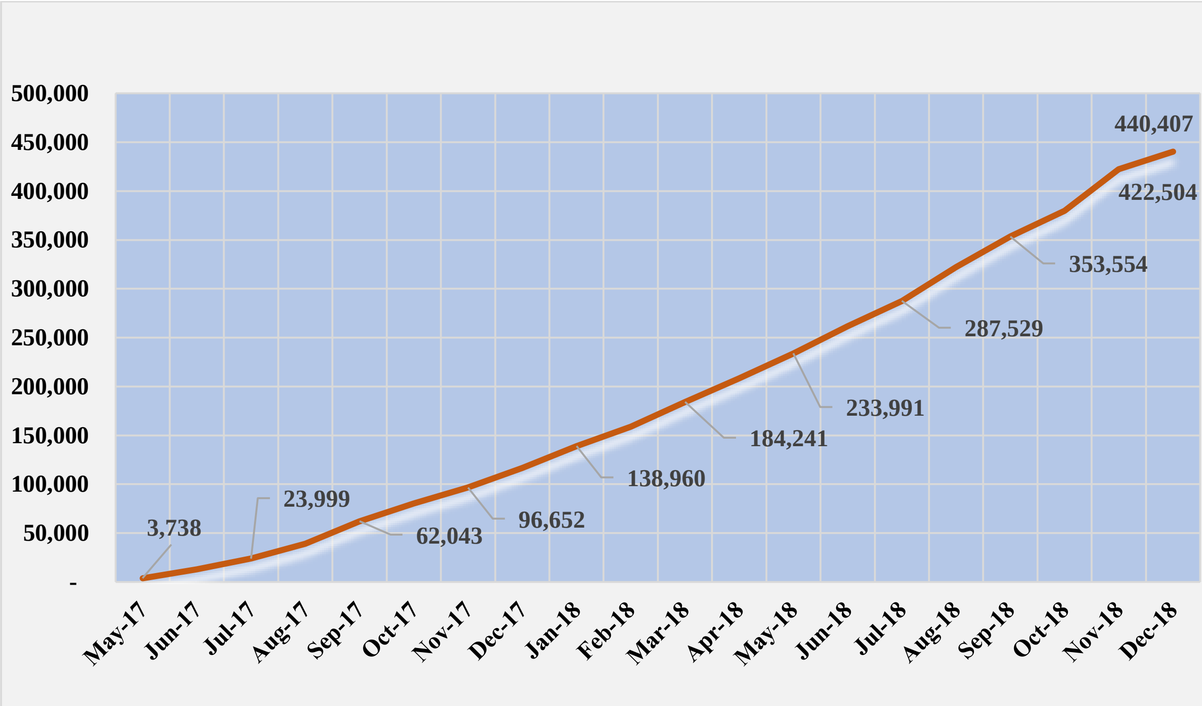
Credit Infrastructure

The credit infrastructure in Zimbabwe continued to improve as reflected by the favourable assessment in the World Bank's 2019 Doing Business Report covering the 2018 period, against the background of increased coverage for the credit registry and credit bureaus as well as depth of credit information

Credit Registry

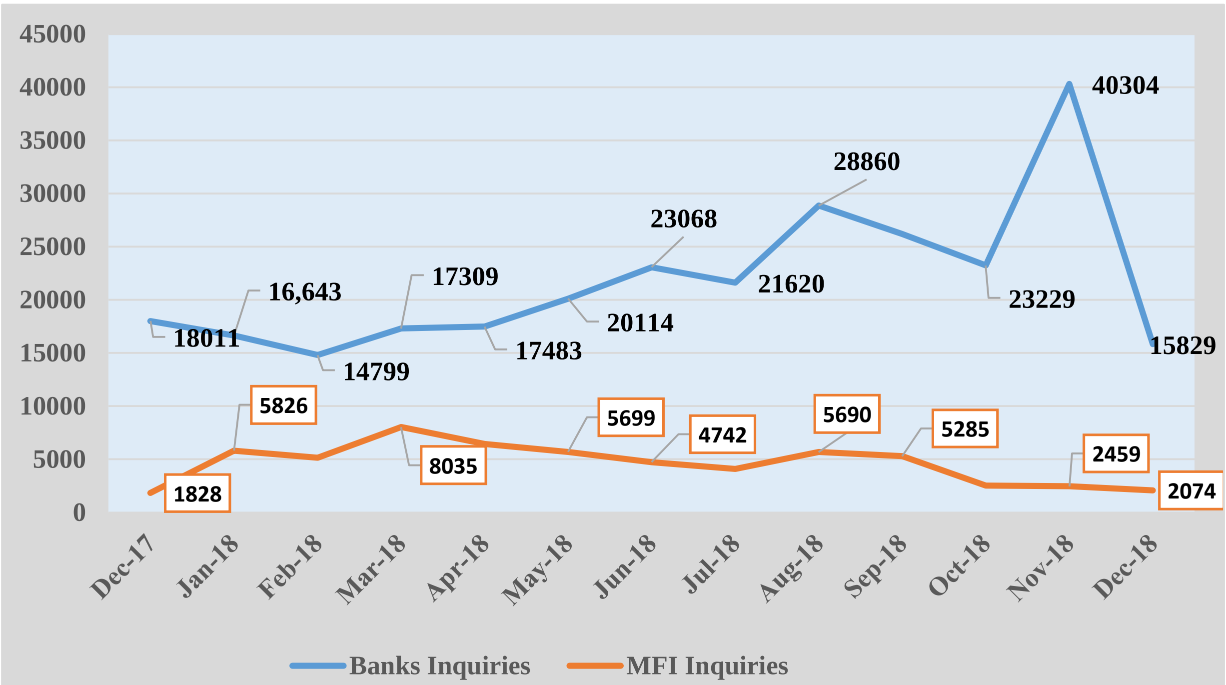
As at 31 December 2018, the Credit Registry held 845,672 records of which 563,420 were active loan accounts. Individual records represented 99% of the active loan records. Total subscribers closed the year at 165, up from 104 in 2017. Credit Registry usage levels by subscribing institutions have increased steadily to a cumulative 440,407 reports as at 31 December 2018 as shown in the figure below.

Figure 19: Cumulative Credit Registry Inquiries: May 2017 - Dec 2018



A further outliner of the month by month enquiries is shown in the table below:

Figure 20: Monthly Inquiries by Banks and MFIs



In an endeavor to improve services offered by the system, the Credit Registry is in the process of implementing value-added products, which are expected to enhance credit risk management for lending institutions, facilitate in-depth analysis of the credit data held in the credit registry database for micro and macro prudential supervision as well as promote efficiency of credit registry processes. Further, the Credit Registry will intensify the process of collecting and reporting information from microfinance institutions during 2019 in order to deepen the database and provide more comprehensive information for credit decision-making by lenders.

Going forward, financial institutions are expected to leverage on the credit registry data to make data driven insights and decisions such as risk based pricing and development of new products and services. The credit data will also promote the formulation of data driven policies relating to financial inclusion, micro and macroprudential analysis and financial stability. The enhanced credit reporting environment will aid in promoting responsible lending practices, reduce over indebtedness and lower credit costs, as credit service providers are now able to better understand their customers using verifiable credit data.

Collateral Registry

The Collateral Registry is expected to facilitate borrowers such as SMEs and individuals to pledge movable assets as collateral for borrowings, while providing lenders with access to information on any prior pledges on movable assets offered as collateral. The software for the collateral registry system is expected to be acquired and deployed during the course of 2019.

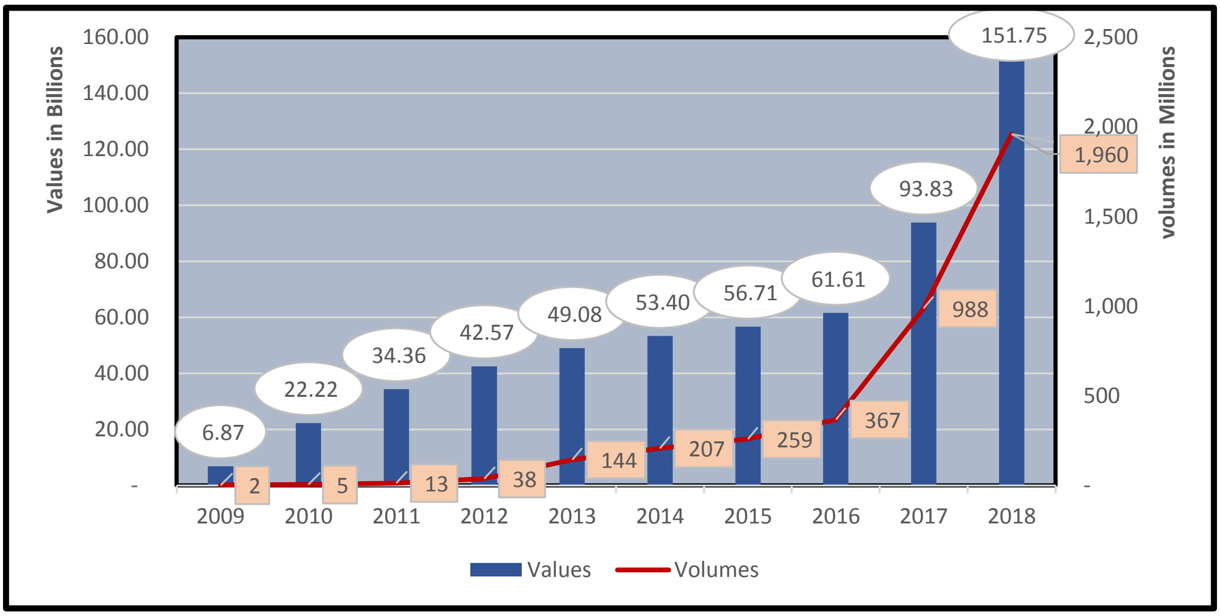
ANNEXURE IX

NATIONAL PAYMENT SYSTEMS

The payment services sector remained generally stable, safe, resilient and sound, despite some isolated challenges in the environment during the year 2018. This was largely attributable to the on-going oversight efforts by the Central Bank, as well as development and implementation of sound risk management measures by market players.

In 2018, payment systems registered a growth of 61.7% in transaction values to US$151.75 billion, and 98% in volume terms to 1.96 billion transactions.

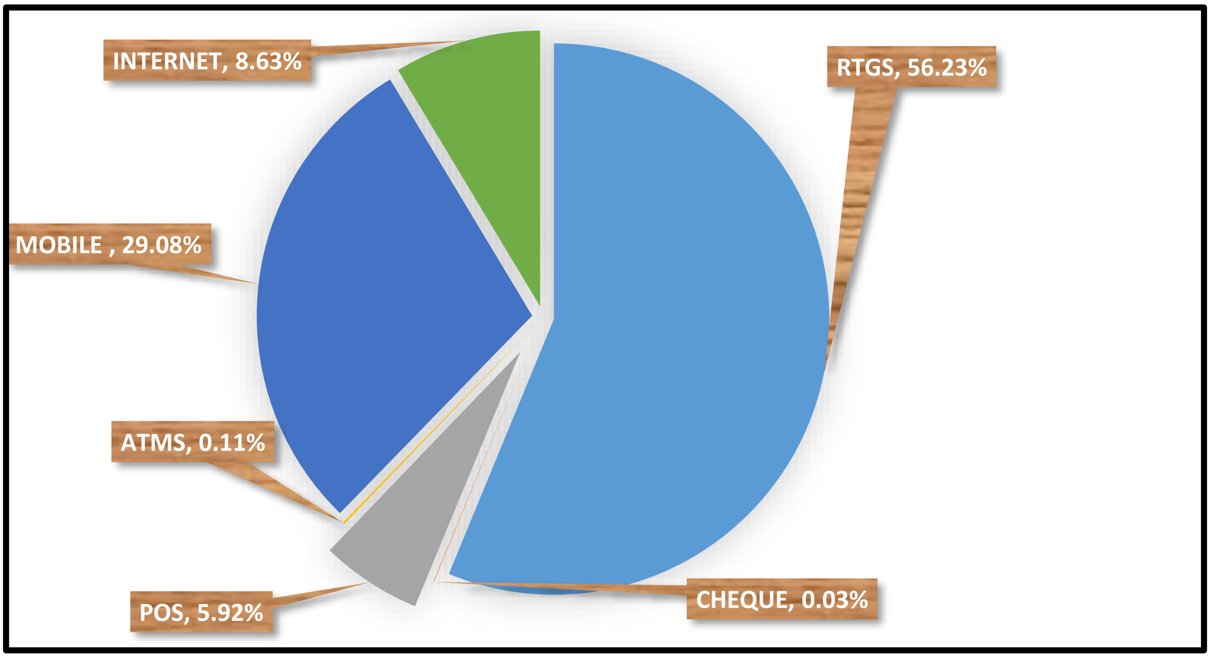
Figure 21: Annual Electronic Transactional Activities from 2009- 2018



Analysis of Payment Systems Activities

The national payment stream is characterised by large value (Real Time Gross Settlement) and small value (mobile financial services, cheque, automated teller machines, point of sale and internet). The diagram below shows the architecture of the payment, clearing and settlement with proportional representation of transactional activities in the economy during the year 2018.

Figure 22: Structure of Aggregate Payment Stream Values -2018



During the period under review the payment streams recorded positive growth with the exception of cheques and ATM transactions. An aggregate of 6.4 million transactions valued at US$85 billion were settled through the RTGS system during 2018 representing an increase of 8% and 38%, respectively, from the previous year.

Mobile financial services transactional activities went up by 145% to US$44 billion from US$18 billion whilst volumes increased by 121% to 1.7 billion from 755 million in 2017. Internet transactions increased by 8.63% to US$13 billion in 2018.

SWIFT Security Customer Program

The SWIFT Security Customer Program launched in 2016 has gained momentum and continues to be updated to enhance the existing security controls. The security controls are kept under constant monitoring to take into account emerging and evolving cyber threats.

To ensure the effectiveness of these controls, SWIFT has developed an attestation and compliance process which requires users to self-attest compliance against the mandatory security controls. As at the end of 2018, most banks had put in place all mandatory controls that were required at the time of their respective attestation.

SWIFT has also announced additional updates to the Customer Security Controls Framework through the KYC registry Self Attestation commencing in July 2019. Therefore, as mandated by SWIFT and supported by the Central Bank, all institutions are required to fully comply by December 2019 and expeditiously implement the requisite controls as well as observe these measures on an ongoing basis to counter any cyber security threats.

Payment System Capacity

The payments, clearing and settlement sector is going through a period of unusually rapid evolution and growth. Market players have enhanced the payment systems infrastructure capacity to handle currently high volumes. The safety and stability of the payment systems infrastructure and related technology hinges on the effective management of system capacity on an on-going basis. Inadequately addressed capacity issues could result in operational and strategic risks, potentially affecting the ecosystem.

Cognisant of that and to ensure financial stability in the ecosystem, market players should continuously plan and invest in enhancing their infrastructure capacity in tandem with the increasing electronic transactions.

Payment Systems Oversight Activities

Overall oversight activities focused on monitoring and evaluation of the large value and retail payment systems on a risk sensitive basis. Pursuant to that, measures undertaken by system operators were largely adequate and ensured the efficient and safe functioning of the payment system.

Notwithstanding that, the following key areas were noted and require further attention and monitoring:

Corporate governance – mobile payment providers are still to operate as legal entities in line with Retail Payment Systems Guideline instead of being strategic business units. This compromises effective supervision and independence of the mobile financial services.

Payment system providers are, therefore, urged to comply with the Guidelines for Retail Payment Systems and Instruments of 2017 which requires institutions to regularise their governance structures by end of year 2019.

International Standards maintenance – there is limited appreciation of key recognised standards such as the principles of financial market infrastructures (PFMIs) and financial action task force (FATF). This is largely due to inadequate training and awareness.

Banks and payment services providers should continuously train all staff to ensure a better understanding, effective and consistent application of standards across the board.

Consumer protection - concerns related to delayed query resolutions, consumer education and awareness, and lack of full transparency on some key information continue to be registered thus impacting negatively on the confidence levels.

Payment services providers should;

i. Enforce timely resolution of consumer queries as per approved policies;
ii. Continue educating their customers on the products and cyber-crime related issues;
iii. Enhance their systems to inform the consumer in advance before committing to the services, especially charges, thereby promoting transparency as opposed to the current set up.