MONETARY POLICY STATEMENT

STRENGTHENING THE MULTI-CURRENCY SYSTEM FOR VALUE PRESERVATION & PRICE STABILITY

01 OCTOBER 2018

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SECTION 1: EXECUTIVE SUMMARY

This Monetary Policy Statement is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15], which requires the Governor of the Reserve Bank to produce a Statement of Monetary Policy giving an account of the monetary policy measures pursued in the preceding six months and the new measures to be pursued in the subsequent six months' period. The Monetary Policy Statement thus gives the Bank an opportunity to reflect on its past achievements and the basis to further fine-tune the financial system in order to achieve the Bank's mandate of maintaining price and financial stability which is the bedrock for economic development.

The Statement comes at a time when the economy is expanding on account of high consumer demand, increased business confidence within the national economy and positive expectations following the peaceful completion of the electoral process and the subsequent formation of a new lean cabinet led by His Excellency, President E. D. Mnangagwa. The country showed strong resilience to adverse inflationary pressures and speculative tendencies which characterized the run-up to the harmonized election period. Moreover, the economy has also been resilient to the negative effects of escalating foreign currency premiums, which have been a key driver of inflationary pressures.

Developments during the first half of 2018 were encouraging. We are optimistic that the economy will surpass the initial growth projection of 4.5%, and register growth of around 5% this year. This optimism is underpinned by better-than-anticipated performance across the key sectors of the economy, in particular agriculture, mining, tourism and manufacturing during the first six months of the year. In agriculture, tobacco outperformed initial projections to record output of 250 million kilograms in 2018. This is the highest tobacco output ever produced in Zimbabwe. This compensated for the expected lower maize output due to poor rainfall patterns at the beginning of the rainy season. In the first half of 2018, there was also significant growth realized in respect of gold, platinum, chrome and coal, among other key minerals. The good performance in agriculture and mining is expected to result in spillover effects in other sectors of the economy, such as manufacturing, distribution and services, thus cumulatively resulting in expanded national output in 2018.

The Bank has continued to work on efforts to improve the foreign currency situation currently bedeviling the economy, while at the same time keeping in check the adverse inflationary expectations emanating from the parallel market activities and multiple pricing mechanisms which are a result of deep seated disparities within the economy. The Reserve Bank has been working on supply-side measures to address some of the disparities through the nostro stabilisation facilities, which saw some improvement in the foreign currency situation in the economy. Demand pressures attributable to fiscal imbalances have, however, continued to increase the supply of money within the economy, thereby eroding the gains and putting too much pressure on prices and the foreign currency market as evidenced by the thriving parallel market rates. Despite these pressures, the Bank expects inflation to remain within the SADC healthy inflation benchmark of not exceeding 7%.

The Bank is also encouraged by the quantum leap in the usage of plastic money, electronic and mobile money payment systems, by the Zimbabwean public. Specifically, the Bank's plastic money policy thrust has been a resounding success as shown by the unprecedented increases in value, volume, devices and access points, which has seen the usage levels rising to above 95 percent of retail transactions - now one of the highest in the region. Government will continue to invest heavily in expanding the electronic payment infrastructure, as the economy continues to move towards a cash-lite society.

The positive expectations under the new Administration provide an antidote for anchoring the adverse inflationary expectations and negative investor perceptions, which had characterized the economy in the past years in undermining the economy's growth potential. Indeed, the country is witnessing a paradigm shift both on the economic policy and political fronts, which is critical in breathing a new growth impetus to the economy. The package of reforms that have been put in place by Government since November last year provides a strong springboard upon which the economy is showing great signs of sustained recovery. Accordingly, this Monetary Policy Statement seeks to cement these reforms, by putting in place measures to strengthen the multi-currency system in order to safeguard financial and price stability which is important for sustainable economic growth envisaged in Vision 2030 of becoming a middle income country with a per capita income of US$3500 that equates to a Gross Domestic Product (GDP) of around US$65 billion. Strengthening the multi-currency system is also critical as the economic pre-requisites to contemplate currency reforms are not yet in place.

It is against this background that the Bank shall continue with its supply-side efforts, aimed primarily at increasing the productive capacity of the economy and foreign currency generation, while continuing to advocate for the reduction of fiscal imbalances as a panacea for right sizing or rebalancing the economy. Measures in this Monetary Policy Statement would therefore need to be supported by a package of measures to reduce fiscal imbalances that are exerting pressure on money supply and hence inflation as a result of increased consumer spending which in turn requires increased foreign currency inflows. The country needs to live within its means.

SECTION 2: POLICY MEASURES

1. Strengthening the Multi-Currency System by introducing separate FCA accounts for Nostro and RTGS funds.

In February 2018, the Bank introduced a policy that requires banks to ring-fence foreign currency for foreign exchange earners that include international organizations, diaspora remittances, free funds, export retention proceeds and loan proceeds. Numerous enquiries received by the Bank point to the fact that this policy has not been implemented by some banks on a transparent basis that promotes confidence within the economy. With immediate effect, all banks are therefore directed to effectively operationalise the ring-fencing policy on Nostro foreign currency accounts by separating foreign currency accounts (FCAs) into two categories, namely Nostro FCAs and RTGS FCAs.

Accordingly all banks are directed to use their know-your-client (KYC) principles to comply with this directive to separate the accounts without requiring their clients to complete any other documentation other than for new bank accounts. Banks have been provided with a period of up to 15 October 2018 to fully comply with this policy measure. Banks are also expected to provide reasonable deposit rates on the Nostro FCAs in line with international best practice on such accounts.

This policy measure is expected to encourage exports, diaspora remittances, banking of foreign currency into the Nostro FCAs and to eliminate the commingling or dilution effect of RTGS balances on Nostro foreign currency accounts. The relationship between the two categories of the FCAs shall continue to be at parity. This is essential in order to preserve value for money for the banking public and investors during the transition to a more market based foreign currency allocation system that shall be implemented once the economic fundamentals are appropriate to do so.

As a further support to this measure and to provide credit enhancement or deposit protection for the Nostro FCAs, the Reserve Bank is finalising discussions with the

African Export-Import Bank (Afreximbank) towards a US$500 million Nostro Stabilisation Guarantee Facility (NSGF) to provide Nostro FCA holders with assurance that foreign currency shall be available when required by the account holders. The NSGF which will be similar to the AFTRADES Facility that guarantees interbank trading in Zimbabwe is targeted to be in place by the end of October 2018.

For the avoidance of doubt, foreign currency in the Nostro FCAs pertains to free funds, diaspora remittances, international organisations' remittances, portfolio investment inflows, loan proceeds and export retention proceeds. It is also essential to note that all exporters retain 100% of their export proceeds with the exception of gold producers that retain 30% of export proceeds; platinum, diamonds and chrome 35% and; 20% for tobacco and cotton producers.

2. Credit Lines for Strategic Requirements

The Bank has finalised putting in place facilities in an amount of US$500 million to cater for importation of strategic requirements that include fuel, electricity, cooking oil, wheat, packaging, etc. The facilities are from Gemcorp US$250 million, Afreximbank US$150 million and Afrigrain US$100 million. These facilities are over and above the US$100 million from CDC/Standard Chartered Bank, US$100 million from Ecobank, US$30 million from IDC of South Africa to Agribank and US$25 million from the African Development Bank (AfDB) to CABS Building Society.

The Bank is also negotiating with a number of international financial institutions for medium to long term financial facilities that are needed to continue to bring sanity in the foreign exchange market and to assist in the sustainable recovery of the economy. This is in addition to the external resource mobilisation programme being vigorously pursued by Monetary Authorities to clear the country's external debt arrears to various creditors.

3. Foreign Payment Transactions.

In order to minimize incidents of externalization of foreign currency, the following measures, which are in line with international best practice, have been put in place for banks and the banking public to adhere to:-

(i) Use of Letters of Credit (LCs) for high value transactions.

(ii) All imports to be supported by invoices whose banking details match with the payee's name and bank account details.

(iii) Strict adherence by banks to customer due diligence (CDD).

(iv) Export proceeds to be remitted on a timely basis in line with existing rules and regulations.

4. Purchase of Fuel in Zimbabwe by Foreign Truckers in Foreign Currency

It has come to the attention of the Bank that foreign truckers plying the Zimbabwean routes are involved in foreign currency arbitrage activities in Zimbabwe by trading in the parallel market of foreign currency and purchasing fuel in Zimbabwe at the official rate of exchange. In order to deal with this rent seeking behaviour, with immediate effect, all foreign truckers plying the Zimbabwean routes shall pay for their fuel in Zimbabwe in foreign currency.

The same shall apply to foreign traders buying goods in Zimbabwe for sale in the neighbouring countries.

5. Purchase of Gold by Jewelers in Foreign Currency.

The current policy provides that where a jeweler purchases gold from Fidelity Printers and Refiners (FPR) using RTGS funds, upon export of the jewelry, the jeweler retains 35% of the gross export value for own use. The 65% balance is transferred to the Reserve Bank Nostro account for national requirements.

In order to mitigate against arbitrage opportunities or abuse of this facility, with immediate effect, all purchases of gold by Jewelers from FPR shall be in foreign currency and that Jewelers shall retain 100% of their export proceeds.

6. Settlement of Capital Gains Tax in Foreign Currency when using Offshore Funds.

In February 2018, the Bank introduced a policy that allows individuals, with justification, to sell their immovable properties to buyers using offshore funds and, in some instances, to retain the sale proceeds offshore provided prior Reserve Bank approval is obtained. The policy has been well received by the real estate sector and the Bank wishes to enhance the efficacy of this policy by ensuring that all sellers of immovable property to buyers with offshore funds are required to pay Capital Gains Tax from offshore sources into a ZIMRA Designated Nostro FCA. Evidence of payment shall be required during ZIMRA interviews to enable issuance of tax clearance certificate.

7. Cross Border Investment and Offshore Capital Raising Initiatives.

The Reserve Bank fully supports the presence of local businesses in the region and across the globe for purposes of expanding markets and raising funds to support local operations.

In order for the country to derive maximum benefits from offshore investments undertaken by local entities, going forward, all offshore investments in the form of offshore holding companies intending to dispose of part of their shares to foreign investors shall be required to repatriate all the realized proceeds to Zimbabwe. In cases where the offshore holding company intends to expand into other countries, a minimum portion of raised capital equal to the level of dilution should be remitted to Zimbabwe to support local operations.

8. Introduction of Statutory Reserve Requirement to mop up excess liquidity

Given the increased creation of money within the economy mainly as a result of fiscal imbalances, the Bank shall be introducing the statutory reserves requirement with effect from 1 November 2018 at a level of 5% on RTGS FCAs on a weekly compliance basis in order to mop up excess liquidity from the market.

The AFTRADES window shall remain in place as a lender of last resort facility to cater for financial institutions that require accommodation.

The Table below shows the statutory reserve requirement levels for some of the countries in the region and beyond for comparison purposes.

Statutory Reserve Percentages for Selected Countries

Southern African Countries	Reserve Ratio (%)
Angola	19.00
Malawi	15.50
Mauritius	9.00
Mozambique	15.00
Tanzania	8.00
Zambia	5.00
South Africa	2.50
Egypt	14.00
Ghana	10.00
Nigeria	22.50
Euro Zone	1.00
China	15.50
United States of America	3.00

9. Issuance of Treasury Bills (TBs) Through an Auction System.

In order to promote transparency in the issuance of TBs, with effect from 1 November 2018, the Bank shall be inviting tenders on behalf of Government, for investors to participate in the auction system of TBs.

10. **Continuation of RBZ Savings Bonds**

The Bank shall continue to use Savings Bonds for mopping up excess liquidity from the market. As at 31 August 2018 the Savings Bonds had raised $1.5 billion.

11. Construction Finance Facility.

The Reserve Bank has expanded the productive sector facilities to include the establishment of a $50 million Construction Finance Facility for retooling and working capital requirements for the construction industry in line with the growing economy. This facility, like all other facilities, shall be disbursed through normal banking channels with an all-inclusive interest rate of 10%.

12. Strengthening the Monetary Policy Committee

The Bank is in the process of strengthening the Monetary Policy Committee (MPC) to provide an effective process for Monetary Policy in line with best practice.

13. Capitalisation of Banking Institutions

As the capital deadline approaches, banking institutions are required to revisit their respective capitalisation plans to ensure compliance with their preferred strategic tier capital requirements on the set date, and submit revised plans to the Reserve Bank by 30 June 2019. For the avoidance of doubt, the following minimum capital requirements shall apply with effect from January 2020:

Minimum Capital Requirements

Segments	Type of Institution	Capital Requirements		Activities
		Current	Proposed	
Tier I	Large Indigenous Commercial banks & all foreign-owned banks	$25 million	$100 million	Core banking activities plus additional services such as mortgage lending, leasing & hire purchase.
Tier II	Commercial banks, Merchant banks, Building societies, Development banks, Finance & Discount houses	$25 million	$25 million	Core banking activities only
Tier III	Deposit-taking Microfinance banks	$5 million	$7.5 million	Deposit-taking Microfinance activities
Tier IV	Credit-only MFIs	$20,000	$50,000	Credit-only microfinance business

SECTION 3: CONCLUSION

The policy measures proffered in this Statement are designed to boost confidence and transparency in the foreign currency market and to rein in inflation by mitigating against rent seeking behaviour and mopping up excess liquidity within the economy. The measures are necessary as a starting point towards right sizing or rebalancing the economy. Rebalancing the economy requires tough and painful measures to deal with the root causes of the economic challenges facing the Zimbabwean economy. A package of measures that includes reducing fiscal imbalances to manage high consumer spending; increasing productivity and exports; fast-tracking the State Owned Enterprises reform programme and enhancing access to foreign finance are the most critical policy measures that are required to right sizing the economy. Currency reforms without the implementation of these tough but necessary measures will be tantamount to putting the cart before the horse which will produce undesirable unintended consequences.

The Bank is therefore pleased that these monetary policy measures are coming at a time when Government has made it a priority to deal with fiscal imbalances that continue to put pressure on inflation, the financial sector and the foreign currency market. Commitment by Government to deal with the adverse effects of fiscal deficit on the economy is critical to contain the significant mismatches between the electronic money balances and foreign currency reserves. This is quite urgent and essential because the genesis of money creation and pressure on the currency is fiscal. Money creation is not caused by mediums of exchange that include mobile banking platforms (Ecocash, OneMoney, Telecash), internet banking, RTGS or bond notes. Mediums of exchange are used to facilitate trade of goods and services or to withdraw or access money from banks and other banking platforms. Mediums of exchange per se do not increase the quantity or stock of money in an economy.

The Bank is encouraged by the positive response by exporters to the export development initiatives that the Bank has put in place. The growth in export production and exports has been significant. The same is true for the financial inclusion initiatives that the Bank has been pursuing through timely provision of targeted empowerment facilities to interest groups such as women, SMEs, the youth and the disabled. These facilities have had significant impact in supporting broad-based and inclusive growth for both local consumption and export generation. As part of the National Financial Inclusion Strategy, the Women's Microfinance Bank and Empower Bank are now operational. These special banks will help in improving access to formal financial services by women and youth, who fall under the country's marginalised groups, and hence the majority of the previously financially excluded population.

The Bank and the Ministry of Finance and Economic Development are continuing to give priority to the re-engagement programme on the basis of the 2015 Lima, Peru, arrangement for the clearance of external debt arrears which are a great hindrance to accessing long term finance from the International Financial Institutions (IFIs) for sustainable economic development. Detailed debt sustainable models and options are being examined to ensure that in the short to medium term the arrears are settled.

I THANK YOU

JOHN PANONETSA MANGUDYA
GOVERNOR

ANNEXURE

SECTION 1: GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

The global expansion that began about two years ago seems to have plateaued and become less balanced, amid rising tensions over international trade, particularly between the US and its biggest trading partner China. In the latest *World Economic Outlook July 2018* update, the International Monetary Fund (IMF) projects global growth rates at about 3.9 percent for both 2018 and 2019, but there is increased risk of worse outcomes for the near term.

GDP growth remains generally strong in advanced economies, but it has slowed in many of them, including countries in the Euro area, Japan, and the United Kingdom. In contrast, the United States GDP growth continues to grow faster than potential and job creation is still robust, driven largely by recent tax cuts and increased government spending. Table 1 shows global economic growth developments for selected regions and countries.

Table 1: Global Economic Growth & Outlook (%)

	2015	2016 Estimate	2017 Projection	2018 Projection	2019 Projection
World Output	3.2	3.2	3.6	3.9	3.9
Advanced Economies	2.1	1.7	2.2	2.4	2.2
US	2.6	1.5	2.2	2.9	2.7
Euro Area	2.0	1.8	2.1	2.2	1.9
Japan	1.2	1.0	1.5	1.0	0.9
Emerging Market & Developing Economies	4.1	4.3	4.6	4.9	5.1
China	6.9	6.7	6.8	6.6	6.4
India	7.6	7.1	6.7	7.3	7.5
Sub-Saharan Africa	3.4	1.4	2.6	3.4	3.8
Zimbabwe*	1.1	0.7	3.7	4.5	5.0
Latin America & the Caribbean	0.1	-0.9	1.2	1.6	2.6

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

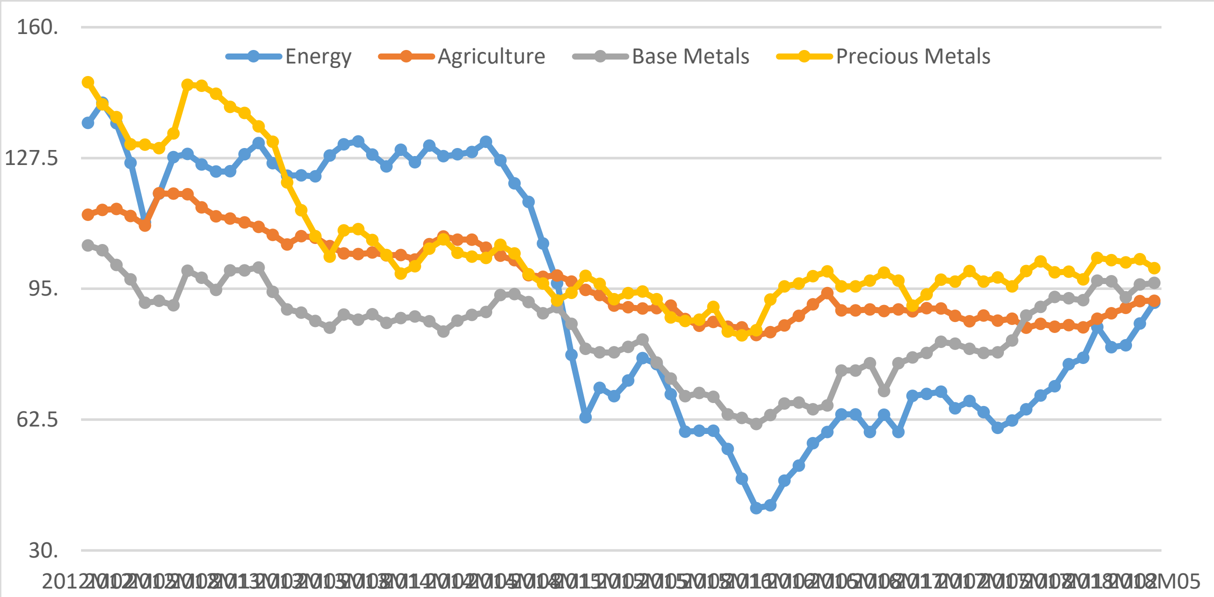
The projected global growth, particularly in advanced economies, is a positive development for Zimbabwe, given that they constitute the largest proportion of the final destinations of the country's agricultural and mineral exports. Strong growth in emerging and sub-Saharan African economies also presents additional opportunities for the country to diversify exports and increase continental trade. Overall growth in sub-Saharan Africa is projected to exceed that of population over the next couple of years, allowing per capita incomes to rise in many countries. Despite some recovery in commodity prices, however, growth will still fall short of the levels registered during the commodity boom of the 2000s, indicating unutilized potential for growth in many countries.

Commodity Price Developments

Accelerating global growth with the attendant rising demand are driving broad-based price increases for most commodities in 2018, as well as the forecast of higher commodities prices in the medium term. This development bodes well for commodity exporters including Zimbabwe, on the one hand, but may also signal increasing inflation pressures through increased energy prices, particularly fuel, on the other.

Commodity prices strengthened in first quarter of 2018, although they generally remained below their 2011 peaks. More specifically, energy, base metals, precious metals and agriculture surged between January and May 2018, largely due to strong demand, amid tightening global supplies. Commodity price indices for the period from January 2012 to May 2018 are shown in the figure below.

Figure 1: Commodity Price Indices (2010 = 100)



Source: World Bank

In light of the anticipated firming international prices, more efforts should be geared towards diversification of the economy away from over-reliance on commodity exports in the medium to long term. Currently, the economy relies mainly on exports of unprocessed and semi-processed raw commodities such as gold, tobacco and platinum, as the country's foreign exchange lifeline. In this regard, the Bank continues to monitor global developments in commodity prices in view of their direct implications for foreign exchange liquidity in the economy. Expansion in domestic output and exports will be critical to neutralize the inflationary impact of energy prices.

Precious Metals

Gold and platinum prices increased by 4 percent and 6 percent, respectively, on stronger safe haven and investment demand of the metals, due to expectations of rising global inflation, growing geopolitical tensions, and a weaker US dollar. The World Bank notes that the upside risks to the price forecasts include deepening geopolitical tensions, delays in central bank rate increases, and a weaker than expected US dollar. On the other hand, the downside risks include stronger global economic growth, rising equity markets, and anticipated easing in geopolitical tensions.

SECTION 3: DOMESTIC ECONOMIC DEVELOPMENTS

Developments during the first half of 2018 suggest that the economy will surpass the initial growth projection of 4.5%, and register growth in excess of 5% this year. Better-than-anticipated performance has been recorded across most key sectors of the economy such as agriculture, mining and manufacturing, among others, during the first six months of the year. Tobacco outperformed initial projections by 5%, with the output now expected to reach 250 million kilograms in 2018, well in excess of the previous all-time high of 235 million kilograms achieved in 1999. Over the first six months of 2018, there was also significant expansion in gold, chrome and coal, among other key minerals, which cumulatively warrant upward revision of earlier economic projections.

As at 15th August 2018, cumulative tobacco output amounted to 248.2 million kilograms, which is 35% higher than what was sold during the same period in 2017. The 2018 output raked in a total of US$725.9 million, which is 30% higher than the US$547 million realized in 2017.

Table 2: Cumulative Tobacco Sales as at 15th August 2018

	2018	2017	Variance (%)
Total Quantity Sold (million Kgs)	248.2	184.3	35
Total Value (US$ million)	725.9	547.0	33
Average Price (US$)/Kg	292	297	-1.4

Source: TIMB, 2018

The sterling performance in tobacco was on the back of an increase in the number of growers in 2018, from below 100 000 farmers to more than 140 000 farmers in the current season; increase in the number of players under the contract farming arrangements; and a positive response to the export incentives offered by the Bank towards tobacco production.

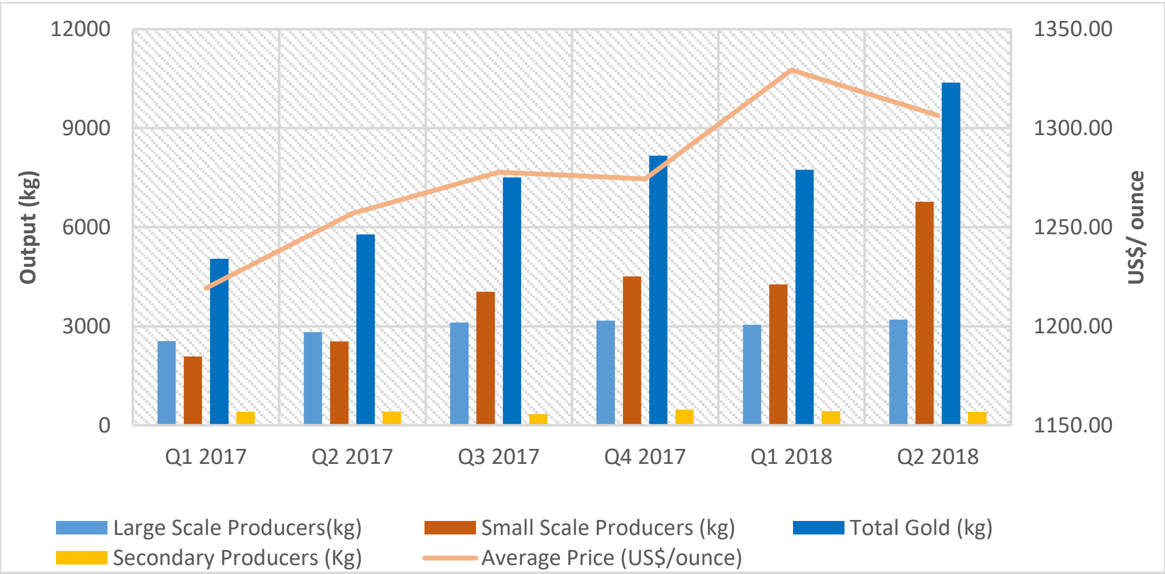
In the mining sector, the first half of 2018 shows that gold has been performing well above initial projections. Chrome and coal have also shown significant deviations above initial projections, which further warrants an upward review of mining output growth projections for 2018.

Table 3: Mineral Production: Q2 2018 and 2017

	Q2 2018	Q1 2018	Q2 2017	Variance Q2 2018 & Q2 2017 (%)	Cumulative Jan-June 2018	2017 Outturn
Gold (kg)	10 373	7 741	5 784	79.3	18 113	26 494
Chrome (tonnes)	503 879	411 446	352 239	43.1	915 325	1 673 998
Coal (tonnes)	1 041 043	880 477	909 124	14.5	1921 520	2 928 038
Nickel (tonnes)	4 018	4 747	4 551	-11.7	8 765	16 617
Platinum (kg)	3 438	3 744	3 693	-6.9	7 182	14 258
Palladium (kg)	2 816	3 087	3 047	-7.6	5 903	11 822
Diamonds (Carats)	1 001 851	902 616	820 752	22.1	1 904 468	2 507 862

Source: Ministry of Mines and Chamber of Mines, 2018

Figure 2: Quarterly Gold Output Trends: 2017-2018

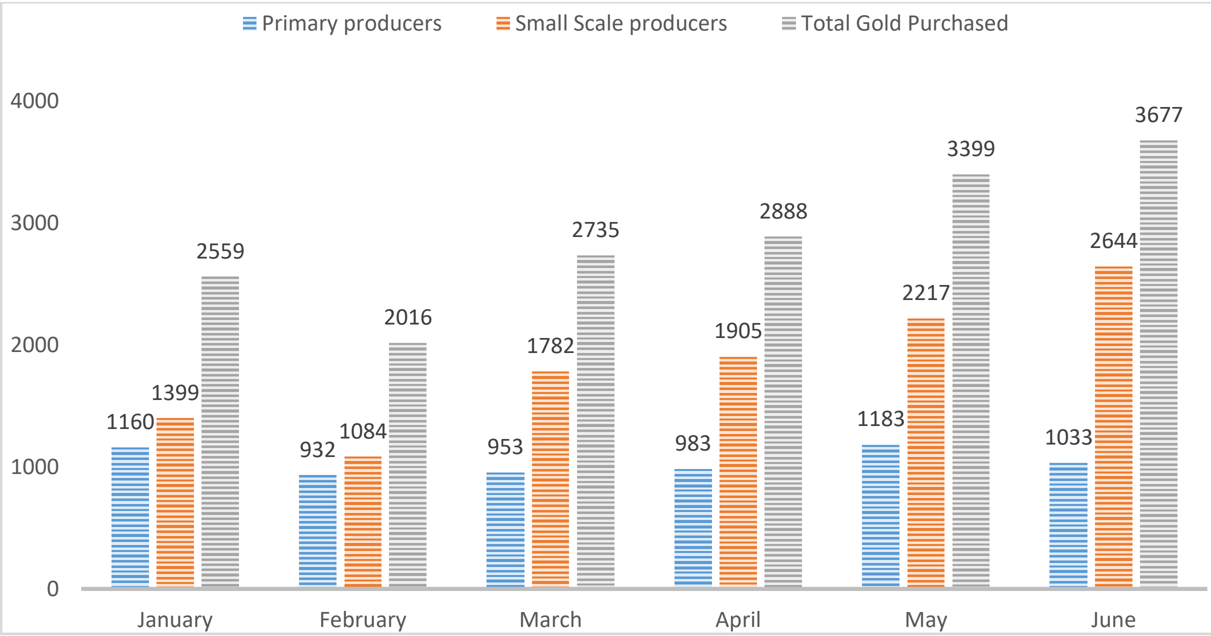


Source: Fidelity Printers and Refineries, Ministry of Mines; Chamber of Mines 2018

Gold Deliveries to Fidelity Printers & Refineries (FPR)

Joint efforts by Government and the Bank to increase gold production and mobilisation, particularly from small scale miners are bearing fruit, as evidenced by the phenomenal growth in gold deliveries to Fidelity Printers and Refineries (FPR), where 17.3 tonnes of gold were delivered during the first half of the year, compared to about 10 tonnes over the same period in 2017. The interventions, through the US$150 million Gold Development Fund to assist small scale gold miners, coupled with joint compliance monitoring by the Gold Monitoring Committee, a collaborative effort between the Ministry of Mines and Mining Development, Ministry of Home Affairs and the Reserve Bank of Zimbabwe.

Figure 3: Gold Purchases by Fidelity Printers and Refiners (kgs) – January to June 2018



Source: *FPR, 2018*

It is pleasing to note that small scale producers accounted for 64 percent of the delivered 17.3 tonnes of gold to FPR. On the back of performance displayed in this period, the country remains on course to meet the target of 30 tonnes for the year 2018.

There was also significant increases in the output of diamond, chrome and coal, witnessed during the first half of 2018. Diamond output during the first half of 2018 stood at 1.904 million carats, significantly higher than the 1.388 million carats produced during the first half of 2017. Chrome ore output also increased to 503 879 tonnes in Q2 2018, from about 411 446 tonnes in Q1 2018, and was 43% above the production realised during the same period in 2017. In addition, coal output, at 1.041 million tonnes during the second quarter of 2018, was 14.5% more than the 0.909 million tonnes produced in the comparable period of 2017. Cumulatively, coal output in the first half of 2018, stood at 1.921 million tonnes, which is about 51% above the 1.272 million tonnes registered during the same period in 2017.

There are notable positive developments in the manufacturing sector, characterized by setting up of new plants by some companies, as well as expansions and resuscitation of production, by others, especially in the foodstuffs, beverages, and metal and metal products sub-sectors. This was largely in response to the thrust taken by Government, to open up the economy for business in addition to increased throughput of raw materials from the agriculture sector, following various funding and support mechanisms from Government.

Balance of Payments Developments

The country's external sector position is showing signs of improvement on account of policy measures being taken by the Reserve Bank to boost exports, while moderating imports into the economy. Following these measures, the current account deficit to GDP ratio declined from a peak of 20.4 percent in 2011 to about 1.8 percent in 2017, mainly on account of improved export performance, coupled with slowdown in non-essential imports.

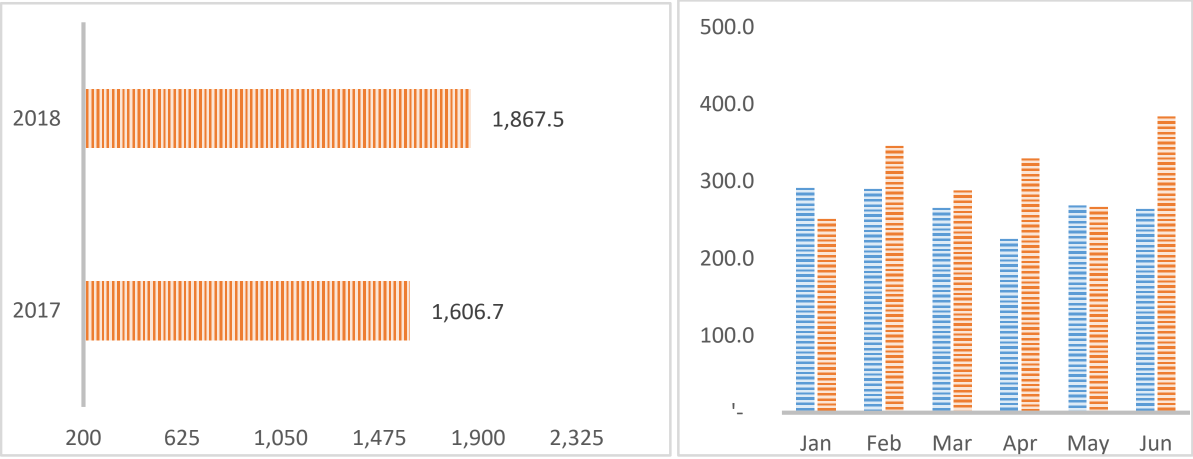
The export incentive scheme has continued to produce desired result of increasing exports across all the sectors of the economy as shown in the Table below.

Table 4: Summary of all Incentives as from 2016 to 21 September 2018

Type	Year 2016	Year 2017	Year 2018	Total
Export Incentive	**51,845,778.30**	**84,838,993.35**	**79,297,301.34**	**215,982,072.99**
of which: Mining	*20,380,486.96*	*37,887,602.22*	*31,864,714.43*	*90,132,803.62*
Manufacturing	*7,439,413.87*	*10,577,553.25*	*11,838,030.58*	*29,854,997.71*
Agriculture	*8,854,618.58*	*12,453,960.22*	*15,588,097.03*	*36,896,675.84*
Tourism	*3,755,538.57*	*8,250,788.67*	*6,515,752.11*	*18,522,079.35*
Transport	*5,089,081.75*	*8,379,798.99*	*5,830,672.08*	*19,299,552.83*
Services	*5,407,871.96*	*6,350,433.05*	*6,895,683.58*	*18,653,988.59*
Communication	*607,918.59*	*546,228.77*	*294,883.38*	*1,449,030.74*
Construction	*3,564.43*	*1,087.87*	*5,625.00*	*10,277.29*
Retail and Distribution	*307,283.58*	*391,540.29*	*463,843.14*	*1,162,667.02*
Tobacco Export Incentive	*29,371,935.40*	*30,383,471.80*	*93,591,272.33*	*153,346,679.53*
Diaspora Export Incentive	*8,148,766.34*	*33,355,806.66*	*21,765,757.95*	*63,270,330.95*
Gold Export Incentive	*11,205,386.79*	*55,744,624.70*	*243,676,015.08*	*310,626,026.57*
Total Incentives	**100,571,866.83**	**204,322,896.50**	**438,330,346.70**	**743,225,110.03**
Total Foreign Currency Receipts	**2,996,013,682.68**	**4,615,660,107.87**	**4,985,005,805.08**	**12,596,679,595.64**

Through these efforts, merchandise exports for the first half of 2018 stood at US$2.47 billion, a 36.5 percent increase from US$1.81 billion realized over the corresponding period in 2017. The increase was underpinned by growth in gold, platinum, chrome and tobacco exports.

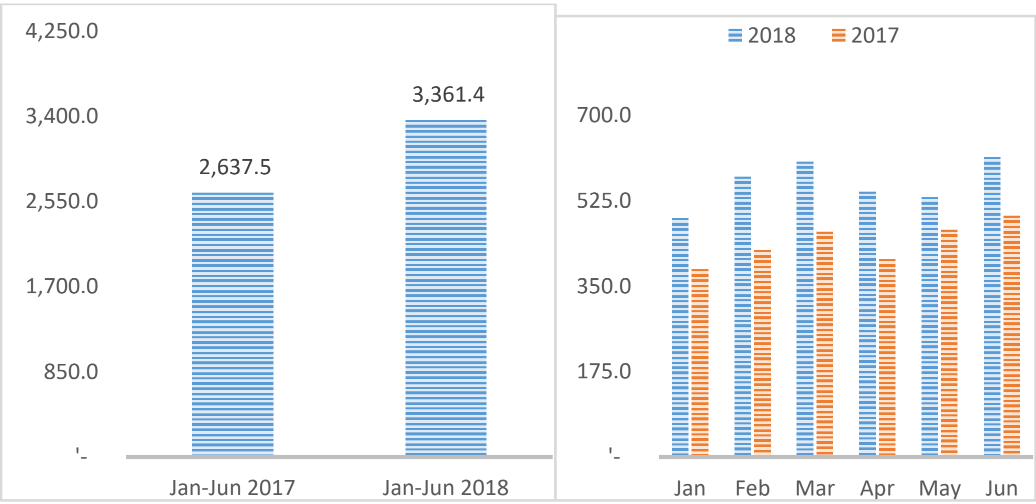
Figure 4: Merchandise Exports (US$ millions) January - June 2017 & 2018



Source: *Zimstat, 2018*

Merchandise imports for the period January to June 2018, however, amounted to US$3,361.4 million, a 27.5 percent increase from US$2,637.5 million realized over the comparative period in 2017, as shown in the figure below.

Figure 5: Merchandise Imports January-June 2017 & 2018 (US$m)



Source: ZIMSTAT & RBZ Computations

Major Exports and Imports

The bulk of the country's exports comprise among others gold, flue-cured tobacco, ferrochrome, nickel, chrome, and diamonds, altogether contributing about 88 percent of export earnings for the period January to June 2018, as shown on the table below.

Table 5: Exports Classified by HS Code (US$) & Share of Total exports for January-June 2018

Commodity	Values (US$) Jan-June	Shares
Gold	692,286,241	28%
Platinum	566,935,332	23%
Nickel mattes	282,873,384	11%
Nickel ores and concentrates	207,132,142	8%
Flue-cured tobacco (Virginia)	178,243,087	7%
Ferro-chromium	135,651,190	5%
Chromium ores and concentrates	54,391,194	2%
Industrial diamonds	40,090,123	1%
Jewelry	34,347,587	1%
Black tea fermented	16,160,843	1%
Granite	14,462,307	1%
Coke and semi-coke of coal	13,774,235	1%
Others	229,225,188	9%
Total	**2,465,572,493**	100%

Source*: Zimstat & RBZ Calculations*

The bulk of the country's imports were made up of fuel (24%), electricity (3%), maize (1%), medicines (1%) and vehicles (1%) (See Table 6 below).

Table 6: Major Import Commodities: January - June 2018

Commodity	Values (US$)	Shares
Diesel	507,030,293	15%
Unleaded petrol	267,353,576	8%
Electrical energy	111,093,854	3%
Crude soya bean oil	64,657,839	2%
Rice	62,224,913	2%
Durum wheat	49,328,343	1%
Maize (Excluding Seed)	42,254,513	1%
Medicaments	40,666,809	1%
Vehicles	39,105,626	1%
Ammonium nitrate	34,690,001	1%
Aviation Spirit	32,495,502	1%
Urea	32,471,498	1%
Herbicides	30,911,784	1%
Others	2,047,115,448	61%
Total	**3,361,400,000**	

Source: Zimstat & RBZ Computations

Current Account Developments

The current account deficit is estimated to have slightly improved from US$591 million in 2016, to US$316.1 million in 2017. The deficit is, however, expected to widen in 2018 as the country absorbs more imports, particularly raw materials that are needed as feedstock for the expanding economy and equipment to improve on competitiveness. The table below shows a snapshot of the balance of payments developments from 2015 to 2018.

Table 7: A Snapshot of the Balance of Payments Developments (US$ million)

	2015	2016	2017*	2018**
A. Current Account	**-1557.3**	**-591.3**	**-316.1**	**-636.1**
Balance on goods	**-2402.6**	**-1500.0**	**-1306.9**	**-1612.8**
Exports	3577.5	3662.9	4286.3	4685.6
Imports	5980.1	5162.9	5593.2	6298.4
Balance on services	**-1137.1**	**-867.1**	**-677.8**	**-538.4**
Receipts	386.7	396.7	418.9	505.7
Payments	1523.8	1263.8	1096.7	1044.1
Balance on Primary Income	**-158.8**	**-178.3**	**-160.6**	**-136.4**
Balance on Secondary Income	**2141.1**	**1954.1**	**1829.3**	**1651.4**
Secondary income: Receipts	2164.7	1979.7	1858.4	1681.5
o/w Workers Remittances	1253.2	1102.8	1013.4	1004.7
NPISHs	790.4	750.3	713.1	538.2
Secondary income: Payments	23.6	25.6	29.1	30.0
B. Capital Account	**398.4**	**242.3**	**278.3**	**208.8**
Net Lending(+)/Net Borrowing(-)(Balance from CA & KA)	**-1158.9**	**-349.0**	**-37.7**	**-427.3**
Net Lending(+)/Net Borrowing(-)(Balance from FA)	**-1643.4**	**-526.6**	**-332.3**	**-852.6**
Direct Investment (Net)	-399.2	-343.0	-246.0	-470.3
Portfolio Investment (Net)	-122.8	80.1	100.9	-54.0
Other Investment: Loans (Net)	-1075.5	-259.9	-174.8	-320.2
D. Net Errors and Omissions	**-484.5**	**-177.6**	**-294.6**	**-425.4**

Source: *RBZ, Ministry of Finance & Zimstat*

'* estimate; **projection

Financial Account Developments

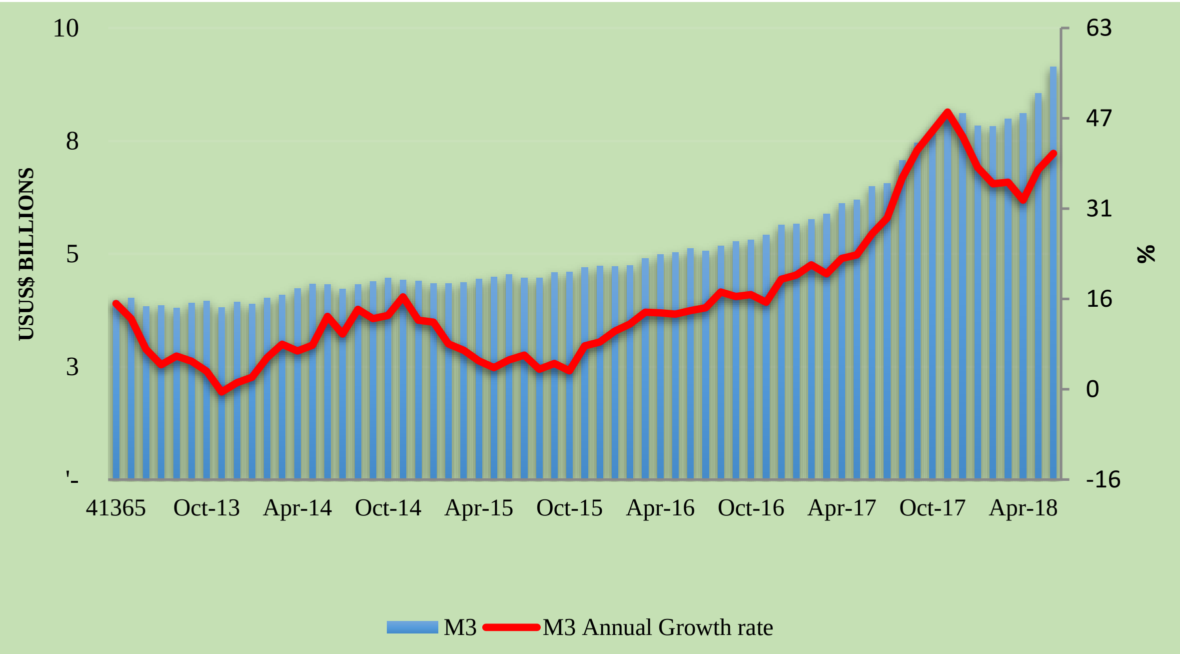
The country's current account deficit, though now less than US$1 billion, remains unsustainable as it is being financed mostly by debt creating flows in the form of loans being contracted by both the private and public sectors. On a net basis, the financial account shows that the country continues to be a net borrower of foreign capital over the years. The country has mainly been relying on offshore private sector lines of credit to finance its balance of payments.

SECTION 2: MONETARY AND INFLATION DEVELOPMENTS

Monetary Developments

Broad money[1] was estimated at $9 140.89 million, as at June 2018. The annual growth rate, which had fallen significantly, from close to 50% in November 2017 to 32% in April 2018, rose to 40.81% in June 2018. The growth reflected expansions in demand deposits, 93.31%; and negotiable certificates of deposits (NCDs)2, 1.79%. Time deposits, however, declined by 5.18%. The stock of bond notes and coins in circulation also increased by 14.2% from $331.94 million in December 2017, to US$379.20 million by June 2018. This was in tandem with increases in export earnings over the same period.

Figure 6: Money Supply



Source: Reserve Bank of Zimbabwe, 2018

In terms of composition, broad money was made up of demand deposits, 79.16%; time deposits, 15.96%; currency in circulation, 4.15%; and negotiable certificates of deposits, 0.73%. The expansion in money supply was mainly explained by increases in domestic credit, largely spurred by growth in credit to Government. Credit to the private sector has remained relatively subdued as a result of the shortages of foreign exchange within the economy. Developments in credit to Government continued to reflect persistent budget deficits and the increased reliance by Government on domestic sources of financing, through Treasury bill

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[1] Beginning January 2017, broad money is redefined using IMF's Monetary and Financial Statistics Manual of 2000. The major change is the exclusion of Government deposits held by banks from broad money.

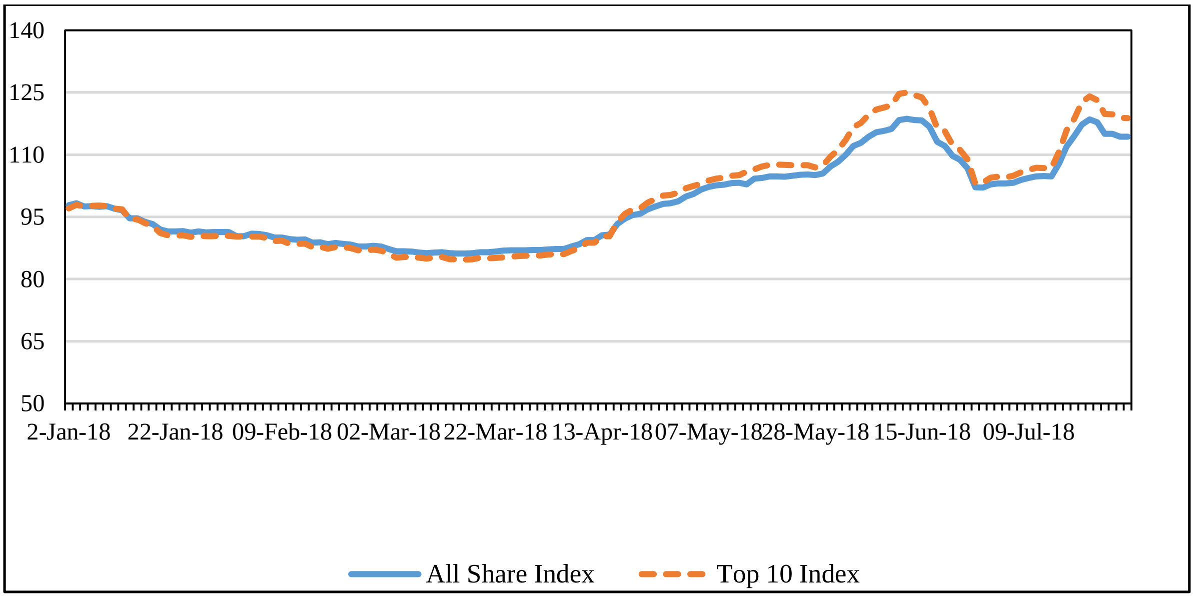
2 NCDs are also referred to as securities included in broad money.

issuances, as well as bank loans and advances. Net credit to Government from the banking system has, therefore, expanded from $6 277.47 million in December 2017 to $7 703.13 million in June 2018.

Stock Market Developments

During the period January 2018 to July 2018, the Zimbabwe Stock Exchange (ZSE) experienced significant growth in trading activity, resulting in a 14.32% increase in the All-Share Index (ASI), to 114.32 points at the end of July 2018. The Top 10 Index, gained 18.84% to 118.84 points over the same period, as shown on the figure below.

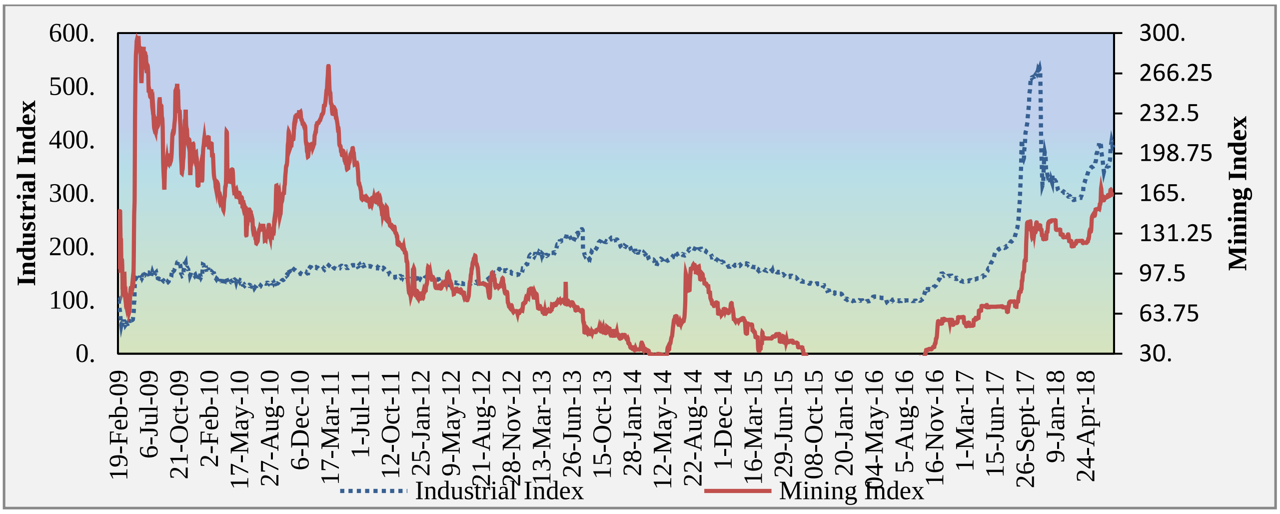
Figure 7: ZSE All Share and Top 10 Indices



Source: Zimbabwe Stock Exchange 2018

The industrial and mining indices gained 15.38% and 15.16%, to 384.25 points and 163.99 points as at 31st July 2018, respectively, from their positions in December 2017. On a year-on-year basis, the industrial and mining indices grew by 89.05% and 136.16 points, respectively, as shown below.

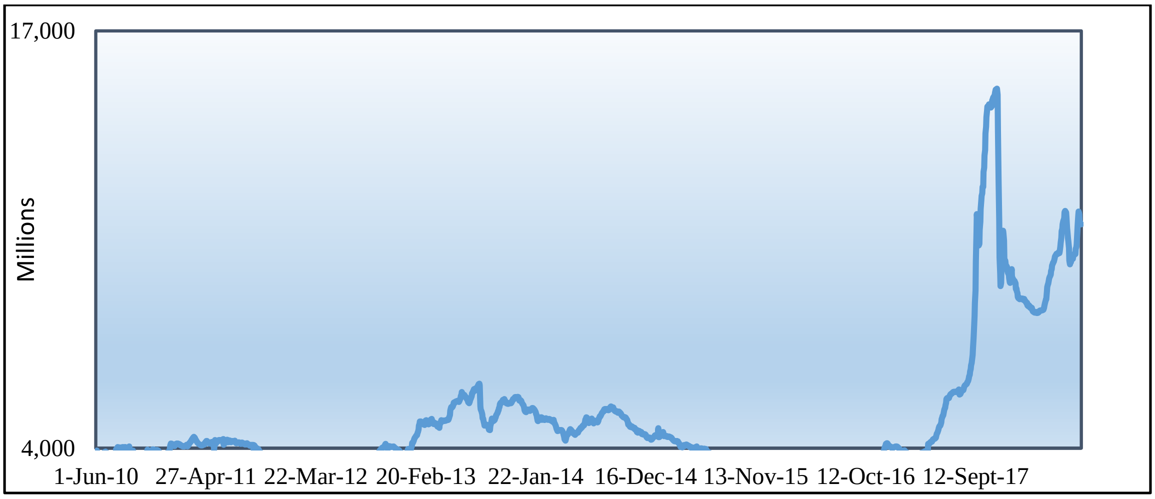
Figure 8: Industrial and Mining Indices



Source: Zimbabwe Stock Exchange 2018

As a consequence of improved trading activity on the local bourse during the seven months to July 2018, the ZSE capitalization gained by 14.51%, to \$10.97 billion, from \$9.58 billion as at end of December 2017. This represented an increase of 90.45% over the year. These developments are depicted in the figure below.

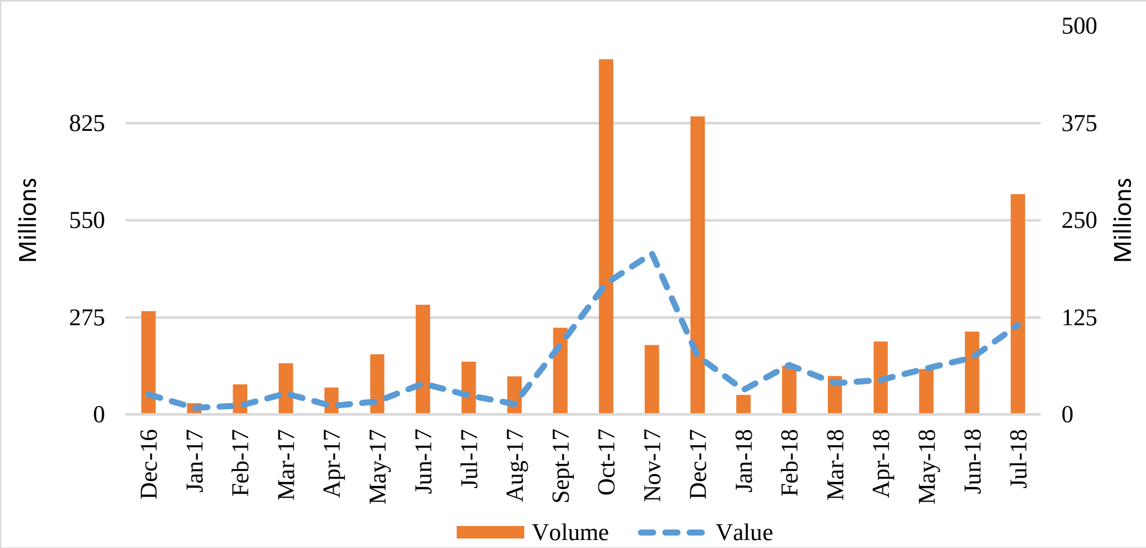
Figure 9: Market Capitalization



Source: Zimbabwe Stock Exchange 2018

Over the period January to July 2018, cumulative volume of shares traded grew by 54.4% to 1.5 billion shares, representing an increase of 206.14% to \$427.11 million in value.

Figure 10: ZSE Market Turnover



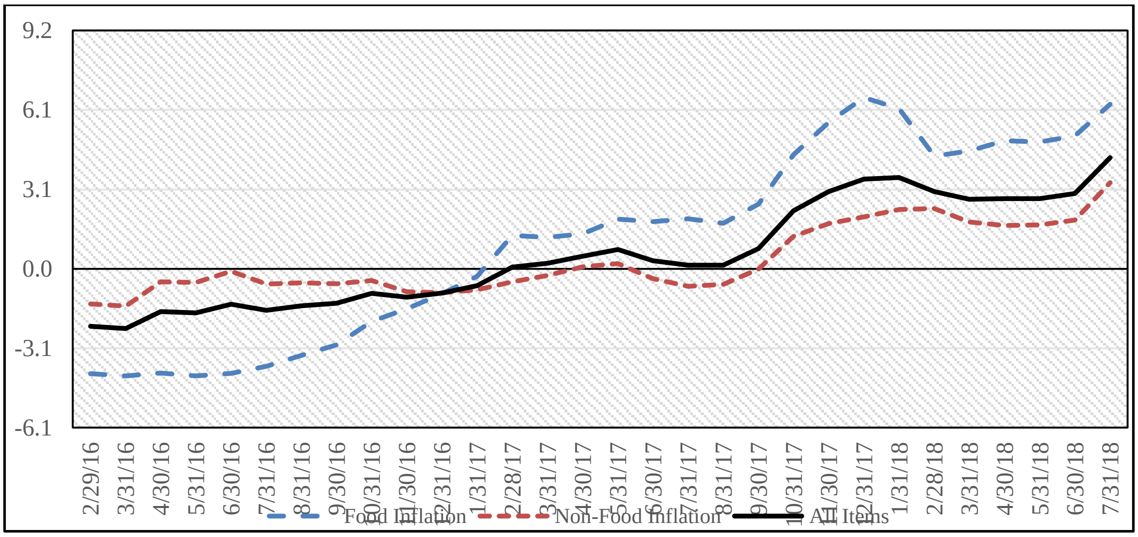
Source: Zimbabwe Stock Exchange 2018

Foreign investor participation improved, as reflected by cumulative net inflows of $65.69 million, over the first seven months of 2018, compared to cumulative net outflows of $27.43 million during the same period last year. Foreign investors' dominance on the ZSE was underpinned by renewed confidence in the country's economic prospects.

Inflation Developments

The annual headline inflation stood at 4.3% in July 2018, from levels below 3% since the beginning of the year. During the seven months to July 2018, inflation averaged 3.11%, compared to 0.19% in the same period in 2017, largely driven by both food and non-food inflation. The continued shortages of foreign exchange in the economy, has continued to exert pressure on the foreign currency market, leading to parallel market activities, which have pass-through effects on prices.

Figure 11: Annual Inflation Profile (%)



Source: Zimstat, 2018

Annual food inflation, which had fallen to close to 4% at the beginning of 2018, surged to 6.35 % in July 2018, notwithstanding significant bumper harvests recorded in most food crops. A general price increase was recorded for all food categories in July 2018, with the largest contribution observed for meat, following cattle disease outbreaks in some parts of the country, as well as cost push factors in poultry production. In addition, increases in the bread and cereals could be attributed to the rise in international prices of wheat and consumables required in the production processes of these products.

Month-on-month inflation increased from low levels of -2.5% in March 2018, to 3.8% in July 2018, also driven by both food and non-food factors. The increase in monthly food inflation in July 2018, was largely due to increases in the prices of oils and fats, meat, and confectionery. Non-food inflation also increased across many sub-categories, with the largest increases recorded for education; restaurants and hotels; and recreation and culture. Despite the increase in the annual inflation rate to 4.3% in July 2018, the country's inflation remains within the SADC health inflation benchmark of below 7%, required for macroeconomic convergence.

Table 8: Regional Annual Inflation Trends

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Jul 2017	0.14	4.6	3.4	16.2	5.2	6.6	10.2	1.7
Aug 2017	0.14	4.8	3.4	14.4	5.0	6.3	9.3	1.9
Sep-2017	0.78	5.1	3.2	10.8	5.3	6.6	8.4	2.2
Oct-2017	2.2	4.8	3.0	8.4	5.1	6.4	8.3	2.0
Nov- 2017	3.0	4.6	2.9	7.2	4.4	6.3	7.7	2.2
Dec-2017	3.5	4.7	3.2	5.7	4.0	6.1	7.1	2.1
Jan-2018	3.5	4.4	3.1	3.8	4.0	6.2	8.1	2.1
Feb-2018	3.0	4.0	3.2	2.9	4.1	6.1	7.8	2.2
Mar-2018	2.7	3.8	2.8	3.1	3.9	7.1	9.9	2.4
Apr-2018	2.7	4.5	3.4	2.3	3.8	7.4	9.7	2.5
May-2018	2.7	4.4	3.3	3.3	3.6	7.8	8.9	2.8
Jun-2018	2.9	4.6	3.1	4.4	3.4	7.4	8.6	2.9
Jul-2018	4.3	5.1	3.1	4.7	3.3	7.8	9.0	2.9

Source: Country Central Bank Websites

Inflation Outlook

Measures being taken by Government to reduce fiscal imbalances which are exerting pressure on both the financial sector and foreign currency market are expected to bear fruit in reducing or tapering aggregate demand which is the main source of consumer spending. This together with renewed market confidence and continuous concerted efforts by the Bank to secure lines of credit to supplement foreign receipts from exports and diaspora remittances, are expected to rebalance the economy and contain inflation with the regional acceptable range. The Bank therefore inflation to remain below 7% for the rest of the year.

SECTION 3: FINANCIAL SECTOR DEVELOPMENTS

Financial institutions that were operating as at 30 June 2018 are shown in the table below.

Table 9: Architecture of the Banking Sector

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	**19**
Credit-only-MFIs	188
Deposit-taking MFIs	6
Development Financial Institutions (SMEDCO and IDBZ)	2

Two (2) deposit taking microfinance institutions (DTMFIs), the Zimbabwe Women's Microfinance Bank and Empower Bank Limited commenced operations during the period under review bringing the total number of DTMFIs to six (6) as at 30 June 2018. These two institutions are expected to significantly contribute to increased access to financial services by target groups, including women and youth.

Performance of the Banking Sector

Condition and performance of the banking sector was considered satisfactory for the period ended 30 June 2018, as reflected by adequate capitalisation, improved earnings performance and asset quality. The table below shows trends in financial soundness indicators.

Table 10: Financial Soundness Indicators

Key Indicators	Benchmark	Jun-17	Dec-17	Mar-18	Jun-18
Total Assets	-	$9.65bn	$11.25bn	$10.95bn	$12.35bn
Total Loans	-	$3.64bn	$3.80bn	$3.78bn	$4.08bn
Net Capital Base	-	$1.38bn	$1.58bn	$1.61bn	$1.61bn
Total Deposits	-	$6.99bn	$8.48bn	$8.24bn	$9.53bn
Net Profit	-	$100.59m	$241.94m	$85.58m	$176.09m
Return on Assets	-	1.26%	2.61%	0.92%	1.75%
Return on Equity	-	6.80%	15.48%	5.19%	11.16%
Capital Adequacy Ratio	12%	26.89%	27.63%	27.91%	26.32%
Loans to Deposits	70%	52.11%	44.81%	45.88%	43.53%
Non-Performing Loans Ratio	5%	7.95%	7.08%	7.06%	6.22%
Provisions to Adversely Classified Loans	-	126.29%	90.26%	106.96%	139.69%
Liquidity Ratio	30%	66.87%	62.62%	62.37%	68.45%
Cost to Income Ratio		72.50%	75.36%	68.58%	67.59%

Capitalisation

The banking sector aggregate core capital increased by 1.13%, from $1.37 billion as at 31 December 2017 to $1.38 billion as at 30 June 2018, on the back of improved earnings performance. As at 30 June 2018, the banking sector remained adequately capitalised and capital held by banking institutions was considered sufficient against risks, as reflected by average tier 1 and capital adequacy ratios of 22.70% and 26.32%, respectively. All banking institutions were in compliance with the prescribed minimum capital requirements as shown in the Table below.

Table 11: Banking Sector Capitalisation (USD million)

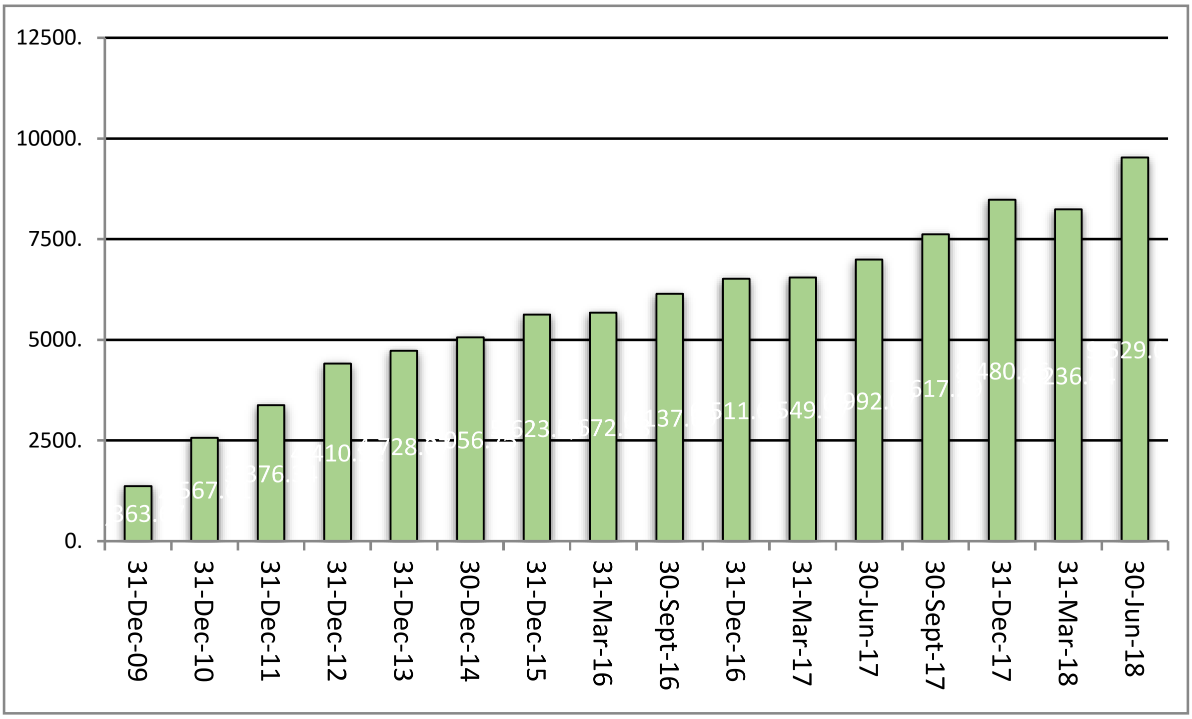
Institution	Core Capital as at 31 December 2017	Core Capital as at 30 June 2018	Prescribed Minimum Capital
CBZ Bank & Society	218.41	173.33	25
Stanbic Bank	135.52	135.89	25
Barclays Bank	79.22	96.02	25
Ecobank	73.95	90.83	25
BancABC	75.96	80.05	25
ZB Bank & Society	83.54	78.81	25
FBC Bank	70.37	77.57	25
Steward Bank	71.91	77.2	25
Standard Chartered Bank	71.34	76.29	25
NMB Bank	61.31	65.52	25
Nedbank Zimbabwe	54.52	58.18	25
Agribank	55.54	55.76	25
Metbank	44.99	44.86	25
BUILDING SOCIETIES			
CABS Building Society	127.75	128.53	20
FBC Building Society	47.48	46.36	20
National Building Society	43.84	42.42	20
SAVINGS BANK			
POSB	53.83	57.3	-
Total	**1,369.48**	**1,384.94**	**-**

Banking institutions are making significant progress towards meeting the 2020 minimum capital requirements. In terms of the capitalisation plans submitted by banking institutions, all locally owned commercial banking institutions have indicated plans to operate as tier 1 banking institutions together with foreign-owned banking institutions which are required to maintain minimum capital of $100 million. As at 30 June 2018, three (3) banking institutions were already compliant with the 2020 minimum capital requirements.

Banking Sector Deposits

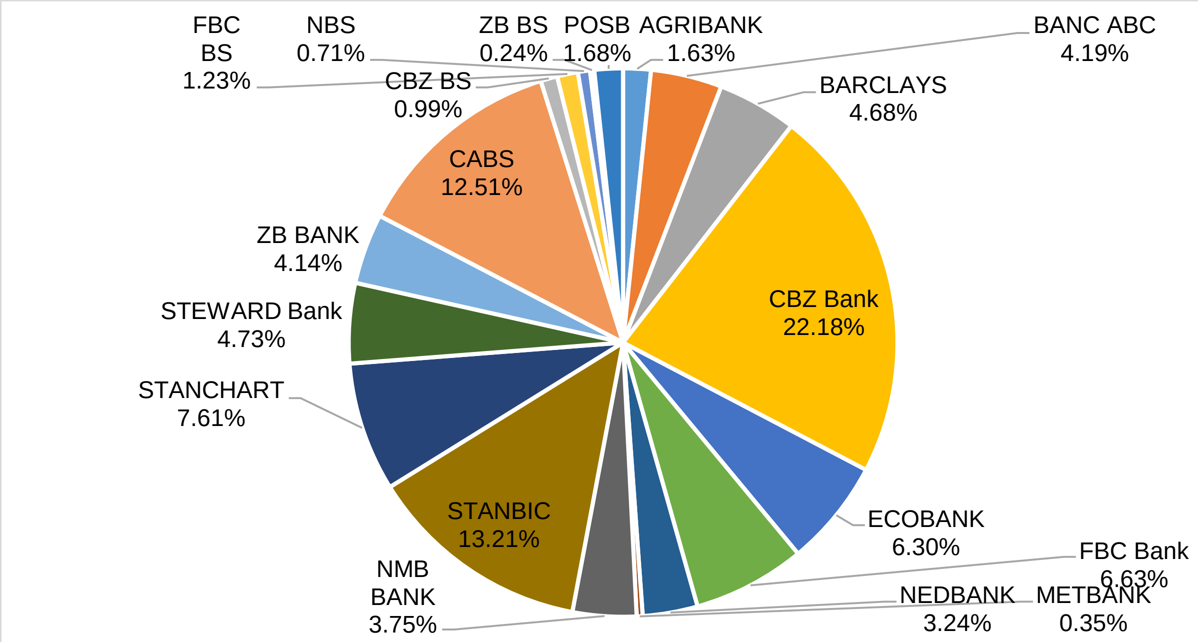
Total banking sector deposits amounted to \$9.53 billion as at 30 June 2018, representing an increase of 12.38%, from \$8.48 billion reported as at 31 December 2017. The figure below shows the trend of banking sector deposits over the period 31 December 2009 to 30 June 2018.

Figure 12: Trend of Banking Sector Deposits (USD)



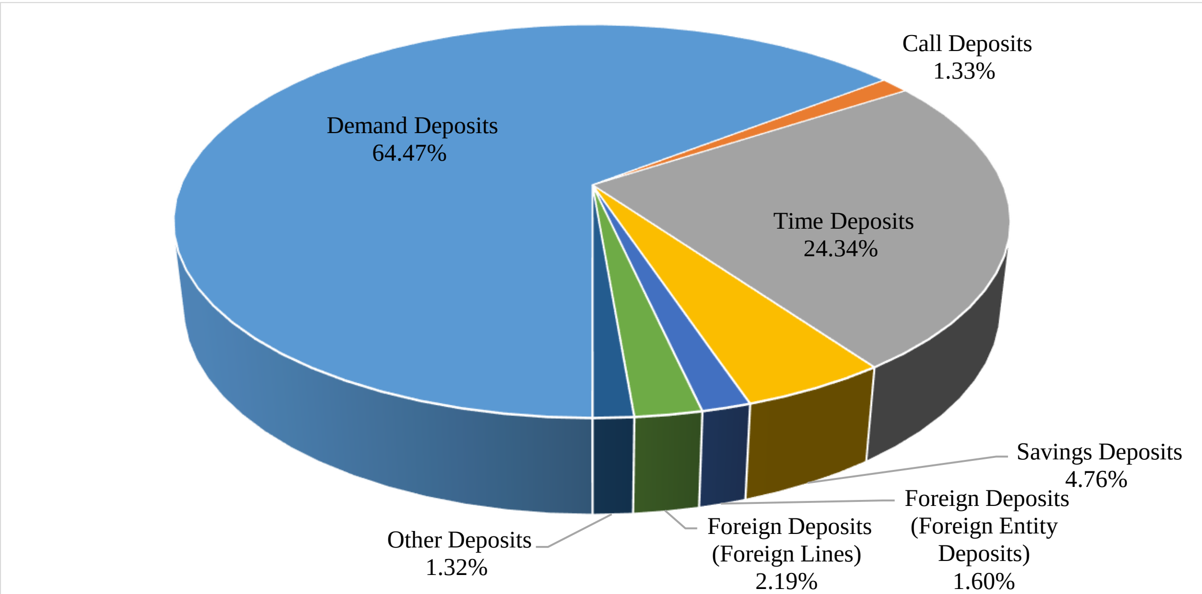
The figure below shows the distribution of deposits across banking institutions as at 30 June 2018.

Figure 13: Distribution of Deposits across Banking Institutions



The banking sector was predominantly funded by demand deposits which accounted for 64.47% of total deposits as at 30 June 2018. The composition of total banking sector deposits as at 30 June 2018 is depicted in the figure below.

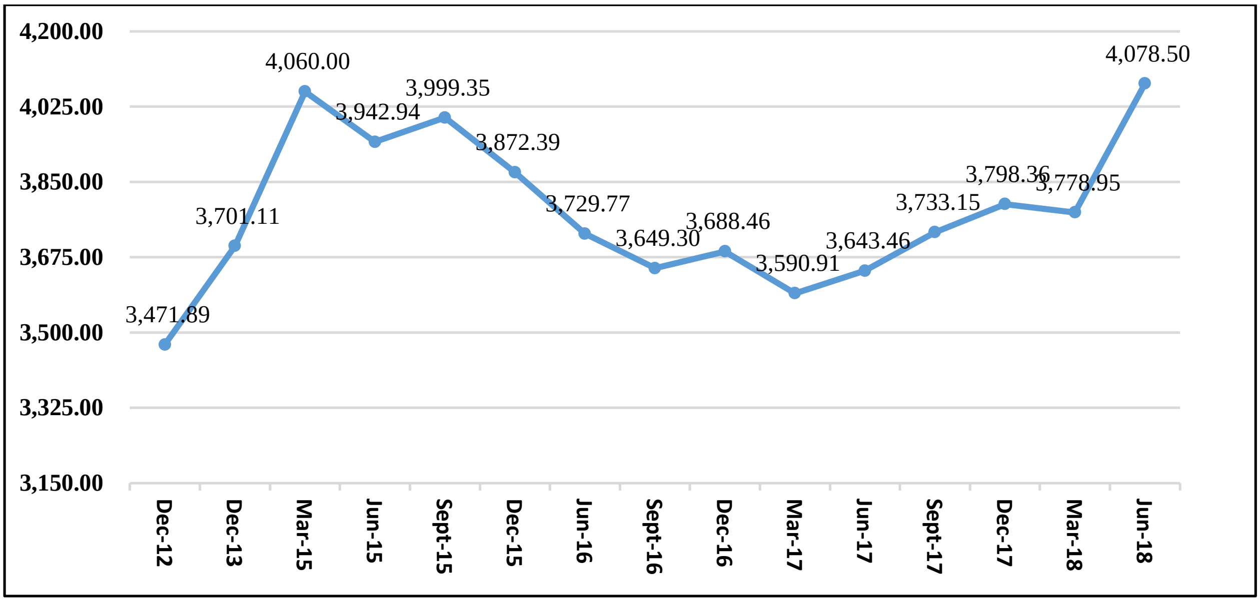
Figure 14: Composition of Deposits as at 30 June 2018



Loans and Advances

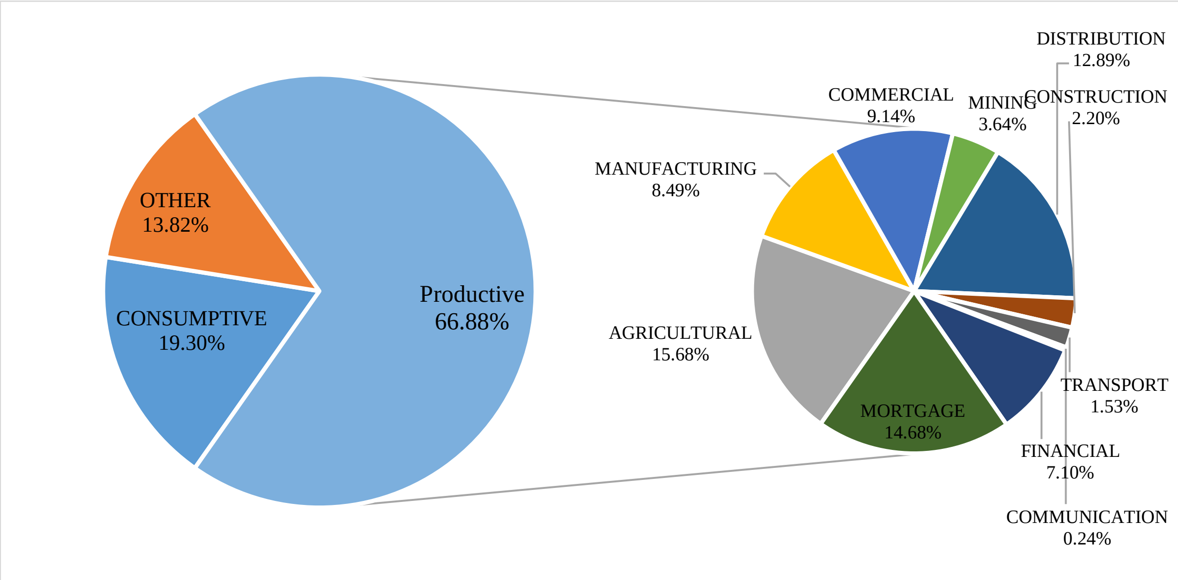
Total banking sector loans and advances increased by 7.37%, from $3.80 billion as at 31 December 2017 to $4.08 billion as at 30 June 2018. The figure below shows the trend of banking sector loans and advances from 31 December 2014 to 30 June 2018.

Figure 15: Banking Sector Loans & Advances



As at 30 June 2018, productive sector lending constituted 66.88% of total loans as shown in the diagram below.

Figure 16: Sectorial Distribution of loans as at 30 June 2018

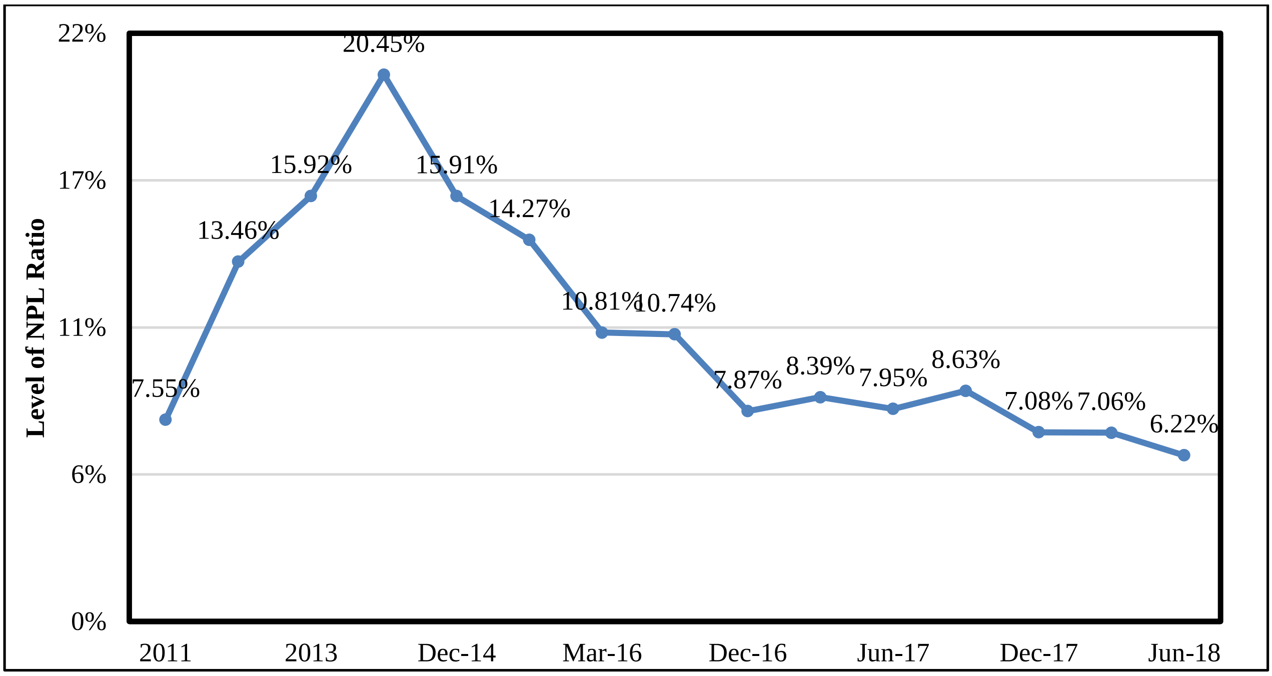


As the economy rebounds, banking institutions are urged to ensure that lending rates are supportive of economic recovery to enhance productive sector lending.

Loan Portfolio Quality

The quality of the banking sector loan portfolio continues to improve as reflected by the ratio of non-performing loans (NPLs) to total loans of 6.22% as at 30 June 2018, from 7.08% as at 31 December 2017. The trend in the level of non-performing loans from 2011 to June 2018 is indicated in the figure below:

Figure 17: Trend in Non-Performing Loans 2011 – June 2018



The improvement in asset quality was largely attributed to the combined impact of continued enhancement in the banks' credit risk management systems, use of the Credit Registry, as well as disposals of NPLs to ZAMCO. The sustained reduction in NPLs is expected to continue strengthening banks' balance sheets thus enhancing banking sector's safety and soundness.

Earnings Performance

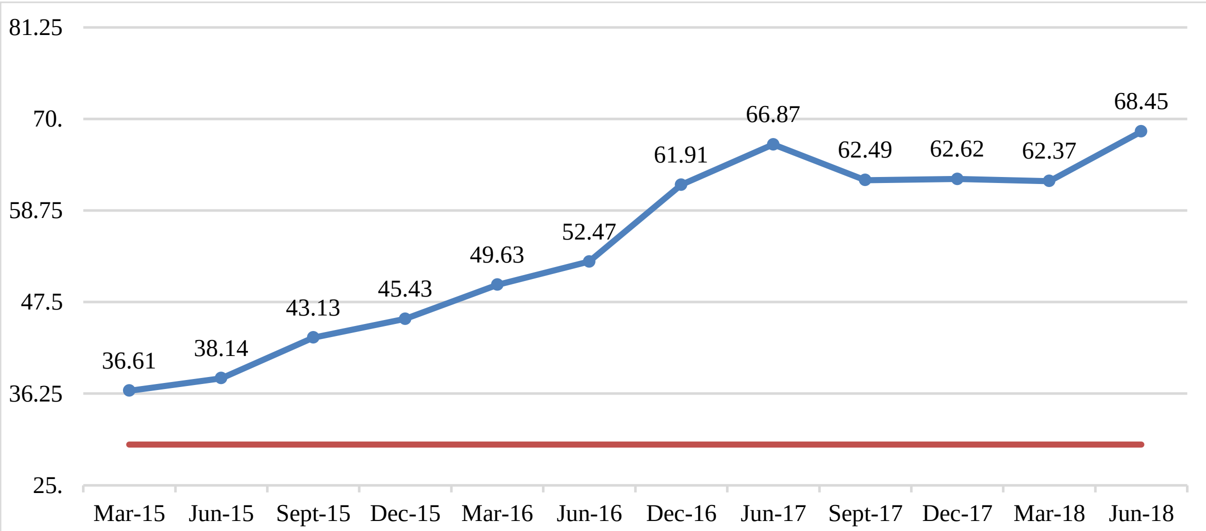
The banking sector recorded improved earnings during the period under review with an aggregate net profit of $176.09 million for the six (6) months ended 30 June 2018, representing a 75.06% increase from $100.59 million reported in the corresponding period in 2017.

Banking Sector Liquidity

The average prudential liquidity ratio for the banking sector was 68.45% as at 30 June 2018 against the minimum regulatory requirement of 30%, largely as a result of the cautious lending approach adopted by most banks against the background of shortages of foreign currency exchange. Excess creation of loans and advances in this foreign currency scarcity environment exacerbate foreign exchange shortages.

Trend in the banking sector average prudential liquidity ratio since March 2015 is shown in the figure below.

Figure 18: Prudential Liquidity Ratio Trend (%)



Deposit Insurance Payments

As at 30 June 2018, 11,845 out of 54,909 depositors by number had been compensated out of the Deposit Insurance Fund (DPF), whilst in monetary terms about $3.27 million (51%) 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 (CBIs) under liquidation.

Table 12: Deposit Insurance Payments as at 30 June 2018

Name of Institution	Total Depositors	No. of Depositors paid	Exposure Deposits payable at $500($)	Value of Depositors paid ($)	% paid to exposure	Gross Deposits
Royal Bank	5,453	3,107	472,207	357,054	76%	2,566,938
Trust Bank	2,958	418	328,516	147,675	45%	11,482,101
Genesis	86	62	11,810	8,821	75%	1,426,912
Allied Bank	9,228	1,535	1,248,307	535,994	43%	14,316,614
Interfin Bank	13,021	691	918,814	263,767	29%	137,336,569
Afrasia	24,163	6,032	3,439,276	1,953,651	56%	18,559,590
Total	**54,909**	**11,845**	**6,418,930**	**3,266,962**	51%	**185,688,727**

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

DEVELOPMENTS IN THE MICROFINANCE SECTOR

The microfinance sector registered improved performance during the period under review, largely due to rationalisation of operations by some microfinance institutions and increased efforts on deposit-mobilisation by some deposit-taking microfinance institutions (DTMFIs). The trend in the key performance indicators in the microfinance industry over the year to June 2018 is shown in the table below.

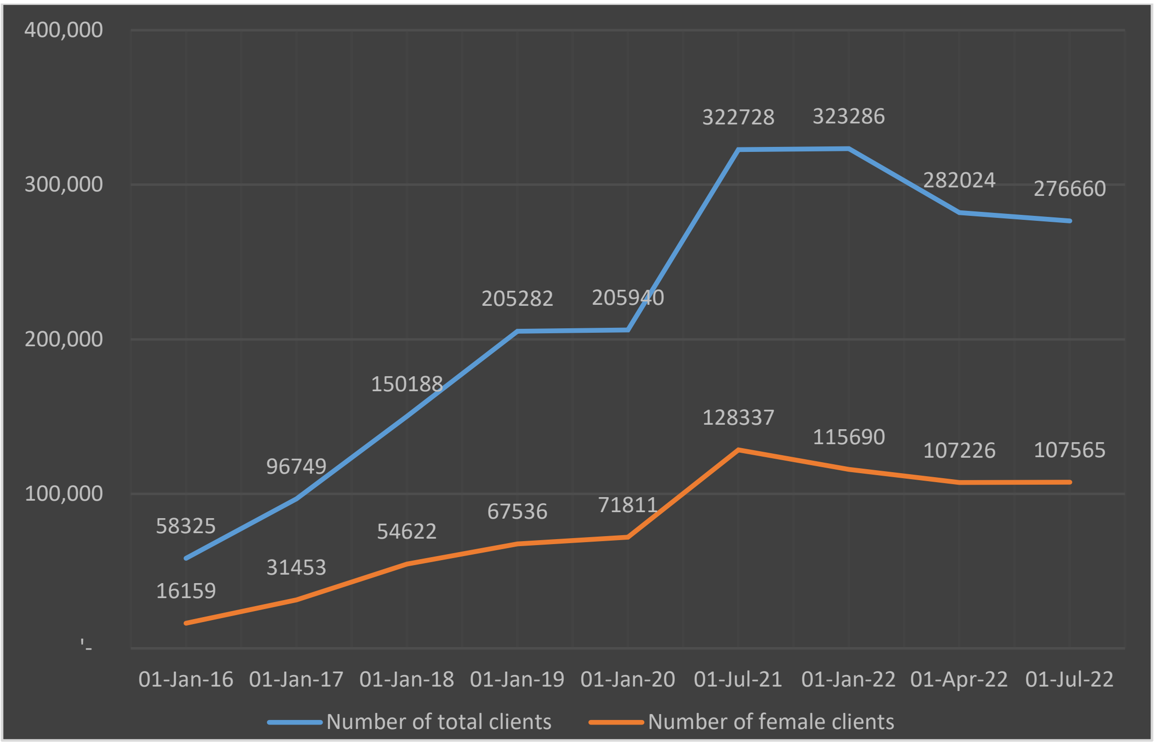
Table 13: Key Microfinance Performance Indicators (June 2017 – June 2018)

Indicator	Jun 17	Dec 17	Mar 18	June 18
Number of Licensed Institutions	187	183	190	194
Total Loans (US$m)	229.44	254.04	272.95	297.52
Total Assets (US$m)	297.85	333.27	360.46	412.29
Total Equity (US$m)	130.25	130.22	142.94	138.15
Net Profit (US$m)	13.98	21.64	9.08	13.67
Average Operational Self-Sufficiency (OSS)	150.49%	135.80%	142.92%	154.76%
Total Deposits (DTMFIs) (US$m)	6.62	6.41	11.84	15.34
Number of Savings Accounts (DTMFIs)	2,265	7,226	8,668	10,202
Portfolio at Risk (PaR>30 days)	6.46%	7.34%	9.55%	10.15%
Number of Active Loan Clients	322,728	323,286	282,024	276,660
Number of Outstanding Loans	372,837	415,979	296,544	297,843
Number of Branches	698	682	676	660

The microfinance industry registered a 29.67% year-on-year increase in total loans, from $229.44 million as at 30 June 2017, to $297.52 million as at 30 June 2018, constituting 6.01% of the total banking sector loans. The industry, however, registered a deterioration in portfolio quality over the year with portfolio at risk (PaR) ratio of 10.15% as at 30 June 2018 up from 7.34% as at 31 December 2017, largely due to weak credit risk management within some MFIs.

Total loans for the DTMFI sub-sector amounted to $66.94 million, representing a market share of 22.56% of the total microfinance sector loans as at 30 June 2018. As at 30 June 2018, female borrowers accounted for 38.88% of the total microfinance active clients. The figure below indicates the trends in access to microfinance loan by women borrowers.

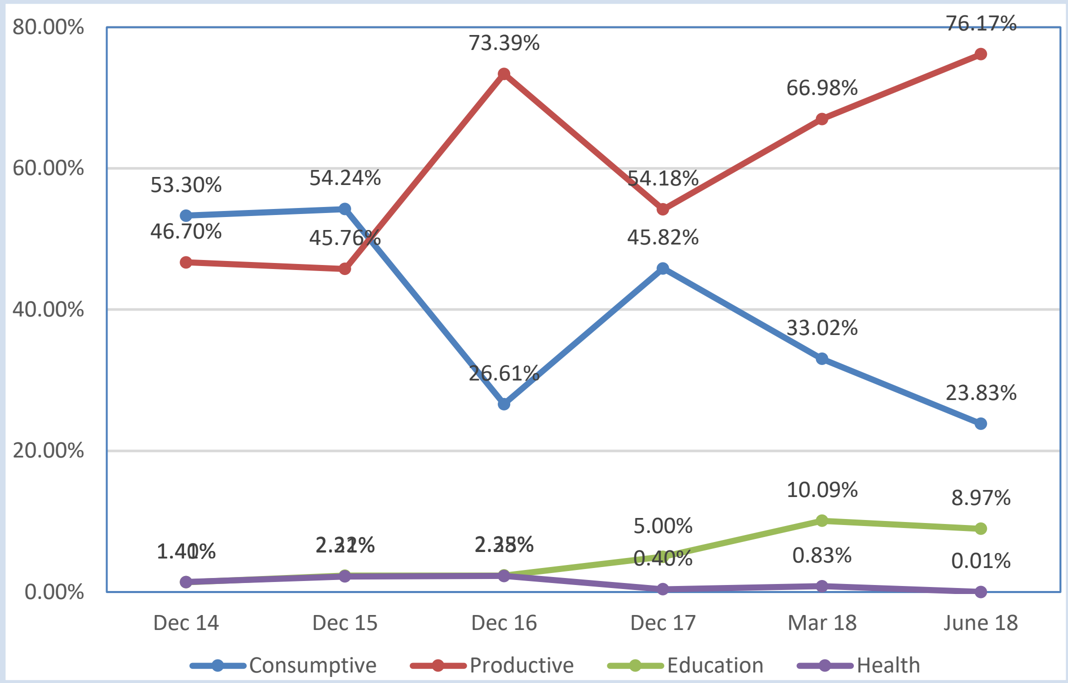
Figure 19: Growth of Active & Women Clients



Distribution of Loans

As at 30 June 2018, loans to the productive sector of $226.61 million accounted for 76.16% of the total sector loans, up from 54.18% as at 31 December 2017. The figure below shows the trend in the distribution of loans from December 2014 to June 2018.

Figure 20: Microfinance Industry – Distribution of Loans



Loans for educational and health purposes remained subdued, accounting for 8.97% and 0.01%, respectively, of the total microfinance sector loans.

Profitability

The microfinance industry registered a 1.65% marginal decrease in net profit over the year from $13.98 million for period ended 30 June 2017, to $13.67 million for the period ended 30 June 2018. The average operational self-sufficiency ratio (OSS) improved to 154.76% as at 30 June 2018 from 150.49% as at 30 June 2017. The OSS ratio of 154.76% was above the break-even point of 100%, indicating that the industry is still operationally sustainable.

Zimbabwe Women's Microfinance Bank

The Zimbabwe Women's Microfinance Bank Limited (ZWMB) was authorized to commence deposit-taking microfinance business with effect from 31 May 2018. The primary target market for the bank are women.

EmpowerBank Limited

EmpowerBank Limited, whose primary target market is the youth, was authorized to commence deposit-taking microfinance business effective 5 July 2018. ZWMB and

EmpowerBank are expected to play a pivotal role in the economy through enhanced financial deepening and financial inclusion.

The Credit Guarantee Scheme

In order to improve the capacity of Export Credit Guarantee Corporation (ECGC) to underwrite more business and enhance its risk absorption capacity, an additional $10 million was injected into ECGC as capital.

Update on Measures to Promote Financial Stability & Economic Growth

Financial Inclusion

Significant progress with regards to implementation of National Financial Inclusion Strategy (NFIS) has been recorded in areas of financial literacy, consumer protection, delivery channels, low cost bank accounts, loans to various segments, micro-insurance, financial services exchange for MSMEs, micro-pensions, among others, as will be summarised below.

Level of Access to Financial Services

An improvement in the level of access to financial services continues to be recorded as reflected in the financial inclusion indicators in the table below:

Table 14: Financial Inclusion Indicators – December 2016 to June 2018

Indicator	Dec 2016	June 2017	Dec 2017	June 2018
Value of loans to SMEs	$131.69 m	**$136.39 m**	**$146.22 m**	**$168.25m**
Number of SMEs with bank accounts	71,730	**79,484**	**76,524**	**81,369**
Number of Women with Bank Accounts	769,883	**856,472**	**935,994**	**1,612,820**
Value of Loans to Women	$277.30 m	**$303.84 m**	**$310.78 m**	**$360.68m**
Number of Loans to Youth	38,400	**56,926**	**61,529**	**68,756**
Value of Loans to Youth	$58.41 m	**$77.09 m**	**$138.93 m**	**$126.64m**
Total number of Bank Accounts (including low cost accounts)	1.49 m	**2.91 m**	**5.51 m**	**5.58m**
Number of Low Cost Accounts	1.20 m	**1.56 m**	**3.02 m**	**3.56m**

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

Financial Inclusion Empowerment Facilities

As at 16 August 2018, a total of $238.30 million had been disbursed under the $451.51 million production and empowerment facilities. The table below shows utilisation of the facilities:

Table 15: Empowerment Facilities Utilisation

Loan Facility	**Facility Limit ($)**	**Total Utilisation ($)**	**Utilization Level %**
Business Linkages	10m	11.36m	**113.63**
Export Finance	100m	75.15m	**75.15**
Educational Loan	50m	1.17m	**2.34**
Horticulture Promotion	10m	4.36m	**43.56**
FPR Gold Support	150m	107.15m	**71.71**
Women Empowerment	15m	2.84m	**18.96**
Tobacco (TIMB)	70m	19.27m	**27.53**
Soya Beans Facility	25m	15.64m	**72.74**
Persons With Disability	5m	0	**0**
Zimbabwe Micro Finance	10m	1.0m	**10.00**
Youth Empowerment	10m	0.33m	**3.35**
Tourism Facility	15m	0.03m	**0.20**
Total	**470m**	**238.3m**	**50.70**

The facilities which are available at concessionary rates have had significant impact in supporting production, reinvigorating various value chains particularly in agriculture and boosting exports.

Banks are encouraged to continue innovating on products and services to serve the marginalized sectors including partnering with providers of innovative funds such as Venture Capitalists, Green Financiers and hybrid funders.

PRUDENTIAL CREDIT SYSTEMS

Sustainable Banking

I am pleased to advise that the Reserve Bank of Zimbabwe has been admitted to membership of the Sustainability Standards and Certification Initiative (SSCI) Council with effect from 1 September 2018. The SSCI is responsible for developing policies and programmes aimed at facilitating sustainable economic development and growth.

The Reserve Bank shall be issuing a framework to guide the financial sector on the adoption of sustainability principles and sustainability indicators in financial reporting. Sustainability principles require financial institutions to subscribe to the Triple Bottom Line concept – People, Planet, Profit. Sustainable banking integrates environmental, social and governance (ESG) criteria into traditional banking which entails meeting present day needs without compromising those of future generations.

Credit Registry System

As at 31 July 2018, the Credit Registry held over 570,000 records of which 434,485 were active loan accounts. Individual records represented 99.12% of the active loan records in the credit registry database. Total subscribers were 158 as at 31 July 2018, comprising all banking institutions, 135 MFIs (including SMEDCO), and 4 non-banking institutions.

The Credit Registry usage levels by subscribing institutions increased steadily to a cumulative total of 287,525 reports as at 31 July 2018. Inquiries by banking institutions constituted 83.53% of the inquiries conducted as at 31 July 2018. Following the stabilization of the credit registry system, the Reserve Bank has entered Phase 2 of the implementation process where MFIs will be able to submit credit data to the credit registry. It is anticipated that MFIs credit data will be available in the live database by 31 March 2019.

As part of efforts to raise awareness on the various initiatives being implemented to improve the credit environment in the country, the Reserve Bank has held stakeholder workshops across the country.

Supervision of Credit Bureaus

The Reserve Bank is finalising regulatory and oversight framework to guide the operations of credit bureaus. The regulations will ensure the institutions continue to contribute in a positive manner to the improvement of the credit referencing environment and the stability of the financial system.

Collateral Registry

Following the promulgation of the Movable Property Security Interest Act in July 2017, the Reserve Bank is finalising operationalisation of the Collateral Registry.

Macro-Prudential Policy Framework

The Reserve Bank is implementing the Basel III capital and liquidity framework which is designed to improve the quality, consistency and transparency of capital and reduce pro-cyclicality, as well as, enhance liquidity management.

The Reserve Bank is also prioritising the development of financial stability assessment models and early warning tools. These include macro-stress tests and inter-bank contagion models.

International Financial Reporting Standard (IFRS) 9

The implementation of International Financial Reporting Standard 9 (IFRS 9) has now been concluded. In this regard, banking institutions were required to publish the June 2018 interim financial statements which are based on IFRS9. It is envisaged that disclosure requirements and expected credit loss approach embedded in IFRS 9 will enhance bank risk management and reinforce market discipline.

SECTION 5: DEVELOPMENTS ON NATIONAL PAYMENTS SYSTEM

The growth in the use of electronic means of payment was phenomenal and aggregated to $64.7 billion for six months ended June 2018, representing 216% increase compared to the same period in last year. In value terms, the Real Time Gross Settlement System (RTGS) constituted the largest contribution at 58% whilst mobile payments constituted the bulk in volume terms at 84% out of a total 856 million transactions. The significant usage of mobile banking and internet platforms indicate that the banking public's confidence in the usage of plastic money which resonates very well with the Bank's vision of a cash-lite society by 2020.

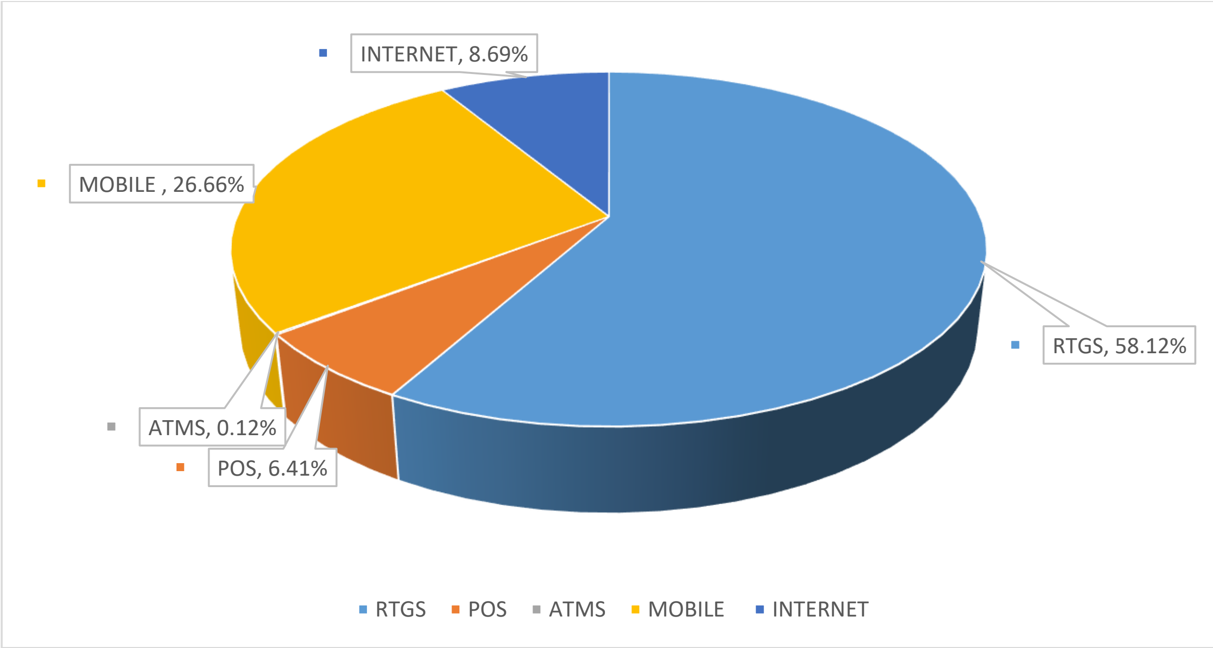
The payment system landscape continued to witness significant growth and development due to the emergent role of information and communication technology innovations. This was evidenced by the transactional activity increases for electronic payment channels in value and volume terms during the first half of 2018. Aggregate transactions values and volumes increased by 216% and 227% respectively as indicated in the table below;

Table 16: E-payment Streams:- Values and Volumes for the six months period ended June 2017/8

PAYMENT STREAMS	**2017** *January to June*	2018	Proportion of Total June	% Change
VALUES				
RTGS	14,499,231,288.40	37,637,564,118.55	58.12%	159.58%
POS	1,583,489,239.03	4,151,729,138.56	6.41%	162.19%
ATMS	118,617,660.73	77,972,379.51	0.12%	-34.27%
MOBILE	2,828,024,721.20	17,268,033,670.82	26.66%	510.60%
INTERNET	1,456,553,800.54	5,628,587,532.29	8.69%	286.43%
TOTAL VALUE	**20,485,916,709.90**	**64,763,886,839.73**	**100.00%**	**216.14%**
VOLUMES				
RTGS	1,420,517	3,220,722	0.38%	126.73%
POS	47,685,061	130,085,342	15.20%	172.80%
ATMs	2,170,358	1,652,192	0.19%	-23.87%
MOBILE	140,846,148	717,947,730	83.89%	409.74%
INTERNET	896,416	2,931,865	0.34%	227.07%
TOTAL VOLUME	**193,018,500**	**855,837,851**	**100.00%**	**343.40%**

A total of 3.2 million transactions valued at US$37.6 billion were processed through the RTGS system during the six months ended June 2017. This represented 25% and 31% increases respectively. The mobile payment channel was second highest with 13% and 14% increases in volumes and values aggregating to 15 million and USD5 billion correspondingly. In proportion terms a total of 58% is constituted by RTGS values whilst the remaining 42% was from other payment channels as shown in the figure below.

Figure 21: Proportion of Payment Systems Transactional Values for six months ended June 2018



In volume terms, more than 99% of payments were through electronic and mobile banking platforms with mobile banking constituting 84%. This has significantly contributed to the increase in financial inclusion through mobile banking which now stands at more than 80%. In terms of regional comparison, it is pleasing to note that Zimbabwe is now amongst the leading countries in the use mobile banking products.

Payment Access and Devices

It tandem with the increase in both volume and value of plastic money transactions, the economy continued to witness a sustained growth in payment systems devices and access points as shown in the Table below.

Table 17: Payment Access and Devices for the period ended June 2018

PAYMENT SYSTEMS ACCESS POINTS						
Description	**Fourth Quarter ending December 2016**	**First Quarter ending March 2017**	**Second Quarter ending June 2017**	**Third Quarter ending September 2017**	**Quarter ending December 2017**	**Quarter ending March 2018**
Mobile Banking Agents	40,590	40,540	42,102	44,793	47,838	48,812
ATMs	569	557	562	563	561	563
POS	32,629	40,011	44,805	50,418	59,939	70,960
PAYMENT SYSTEMS ACCESS DEVICES						
Debit Cards	3,127,153	3,359,455	3,780,389	4,186,957	4,281,683	4,471,819
Credit Cards	16,030	16,945	17,510	17,806	17,411	17,268
Prepaid Cards	43,288	46,593	52,384	62,517	63,987	68,180
Active Mobile Banking Subscribers	3,279,049	3,214,001	3,353,916	3,821,865	4,611,608	4,907,500
Internet Banking Subscribers	168,339	177,920	205,104	250,681	277,674	286,222

Mobile banking agents increased to 48,812 in the first quarter ending 31 March 2018 from 47,838 reported in the fourth quarter ended 31 December 2017. Point of Sale (POS) population increased to 70,960 from 59,939 in line with the promotion of electronic means of payment and ATM population increased to 563 from 561. Out of 9.6 million registered mobile money transfer, 4.9 million were active mobile financial services subscribers compared to 4.6 million registered subscribers recorded in the previous quarter.

NPS Strategic Framework

The Reserve Bank is currently seized with reviewing the National Payment Strategic Framework (NPSF) which is targeted for the next 10 years. In line with that, the Reserve Bank envisions a payment services sector by 2030 with the following key features, characteristics and capabilities:

i. Advanced payment systems infrastructure leveraging on new technological developments;
ii. Cash-lite society characterized by digital financial services; and,
iii. A robust legal and regulatory framework benchmarked to international best practice among others.

To this end, it is important to note that developments in payment, clearing and settlements systems dovetail well with the government‘s policy of achieving a middle income economy by year 2030.

Cyber Security Threat

Cyber security risk has emerged as a major recognised risk globally and our economy is no exception. This is primarily due to the increasing reliance on information and communication technology by businesses and the evolving sophistication of cybercrimes. Globally, the frequency in the type and number of cyber related crimes, breaches, attempts, attacks and intrusions continue to grow unabated.

The most common cybercrimes in Zimbabwe are card cloning, fraud, identity theft, money laundering through electronic vandalism among others. A number of internet users have encountered spam emails, phishing attempts and fake websites via malware and key-logger attempts and even via USB sticks that may have been infected with viruses that once accessed a defrauded person. Given the magnitude of the challenge at hand, it is imperative for all stakeholders across the divide to collaborate with a view to addressing the cyber-security risk. The Central Bank is of the view that the ethos of effective corporate governance supported by appropriate information technology security risk management measures can be a strong foundation towards successful protection against cybercrime. Refer to Annexure attached.

Migration to Euro Mastercard Visa (EMV) Technology

Linked to the cyber security concern, the Central Bank has been encouraging the market players since 2016 to migrate to Euro MasterCard and Visa standards (EMV) which ensure enhanced card security features. Payment service providers and the banking community have made significant progress towards EMV migration following the project launched in November 2016. Notably, most institutions have completed the required processes and successfully implemented the EMV technology and standards. The purpose of the migration from magnetic strip cards to EMV cards is to enhance security for card payments and prevent any possible cybercrime. The Central Bank urges those institutions, which have not yet complied to expeditiously implement the requisite EMV standards to protect the customer and the entity itself. It is therefore expected that all card infrastructure should be compliant with EMV standards by 31 December, 2018.

Consumer Protection Agenda

Financial institutions are reminded that the Guideline for Retail Payment Systems and Instruments issued to the market in August 2017, requires all regulated entities to uphold consumer protection rights across all their payment systems services.

The Guideline explicitly require that consumers receive information that will allow them to make informed decisions, are not subject to unfair and deceptive practices, and have access to recourse mechanisms to resolve disputes. Providers are urged to avail the requisite training to their staff members to ensure compliance with the Guideline in its entirety.

Payment System Capacity

The Central Bank has noted significant improvement in payment systems' capacity enhancements over the last six months in terms of infrastructure investment and development though there are some existing glaring gaps. As Regulatory Authorities, we encourage the financial institutions and payment systems providers' management to continue investing and leveraging on the new technological developments to maintain financial stability. More importantly, system capacity is one of the cornerstones for effective risk management strategy and as such should be pro-actively embedded in business processes rather than merely as a regulatory formality. As volumes of transactions increase there is a need to have the requisite system capacity to handle such positive developments.

Regional Payment Streams

The SADC Integrated Regional Electronic Settlement System (SIRESS) has made progress, moving from single currency settlement system (Rand settlement) into a multicurrency settlement system, with the US Dollar as the additional currency of settlement. Settlement in

US Dollars on the current platform is expected to go live in October 2018.The introduction of the USD transactional channel on the SIRESS platform is an important milestone for the country given the current multi-currency policy. This is expected to consolidate progress and catalyze developments within the economy. The aggregate transactions increased by 29% to ZAR 7.5 billion in value terms whilst volumes declined to 5454 transactions representing 21% decrease during the six months ended June 2018. In view of the progress to date, the Reserve Bank will continue to strengthen its supervisory capacity and cooperate with other regulators in the region for the adoption of international best practices and ensuring that all cross border financial entities are effectively supervised. We therefore continue to urge individuals and companies to utilise the available infrastructure that bring the requisite efficiency and cost reduction.