2017 MID-TERM MONETARY POLICY STATEMENT

PRODUCE AND CREATE

RESERVE BANK OF ZIMBABWE

2 August 2017

Table of Contents

List of Figures

List of Tables

OVERVIEW

This Monetary Policy Statement is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15] which requires the Bank to issue a statement containing an evaluation of the monetary policy of the last preceding six months and a description of the policy measures to be followed by the Bank during the next succeeding six months.

The first half of the year 2017 witnessed a turnaround of the national economy at a time when inflation, underpinned by an expansionary fiscal policy stance, crept out of deflation in February 2017 after two and a half years of a prolonged episode of negative inflation to reach 0.31% in June 2017. The economy is thus expected to grow by 3.7% in 2017 largely driven by agriculture, mining and tourism. Whilst agricultural output is projected to grow by 21.6%, on account of a combination of favourable rainfall season and the positive financial impact of the Presidential and Command agricultural input programmes, the mining and tourism sectors are on the rebound due to stability in the international commodity prices and price competitiveness, respectively.

The favourable agricultural season has a positive spill-over effects on the agro-processing industry. This, together with the revival of around 350 firms in the manufacturing sector that are benefiting under the Government's localisation policy which is supported by Statutory Instrument 64 of 2016 has seen the manufacturing sector enhancing capacity utilization. Some firms in the food processing and packaging sub-sectors are now operating at above 70% of capacity. Prioritisation of foreign exchange allocations by the Bank to these firms continues to greatly assist the localization process and enhancing local production and exports.

It is against this backdrop that the Bank's supply-side funding initiatives to enhance production, productivity and exports were put in place at the beginning of the year. The funding initiatives include the export finance facility, business linkages fund, tourism support facility, cross border facility, gold support facility, women empowerment fund, youth empowerment fund, fund for people with disabilities and the horticulture support facility. These funding programmes together with the export incentive scheme aimed at enhancing export competitiveness have assisted to inculcate export culture as sine qua non for the sustenance of dollarisation/multi-currency system and to enhance production and productivity.

Focusing on foreign exchange generation and the production of goods and services is essential, not least because foreign exchange is a critical factor of production especially under dollarisation and when the country is internationally isolated as evidenced by Zimbabwe's limited access to foreign finance. The country needs to produce and create foreign exchange to finance its needs that include fuel, electricity, loan repayments, portfolio investments flows and raw materials for industry. There is no substitute for hard work to generate and enhance the supply of foreign exchange, especially given the country's external position which is already weakened by more than 16 years of economic and financial isolation. We are by ourselves – a situation that compels us as Zimbabweans to pull together – to be closer together - and focus on nation building, and reducing the power of negativity.

Efficient utilisation of foreign exchange therefore becomes essential in a situation in which the demand for foreign exchange is higher than supply, and exacerbated by lack of foreign finance. It is the discrepancy or mismatch between the supply and demand for foreign exchange, in a dollarised Zimbabwean economy, that cause cash shortages and scarcity premiums of between 5 – 25% in the informal or parallel markets. The scarcity premiums or discounts are thus a symptom of excess demand for foreign exchange. It is therefore not the mediums of exchange – U.S dollar cash, bond notes, plastic money or the real time gross settlement (RTGS) – that cause premiums in the parallel markets or the multi-pricing system. It is the disequilibrium or mismatch between the domestic quantity of money (local dollars) and the supply of foreign exchange (foreign dollars) that cause cash shortages and, resultantly the scarcity premiums and the multi-pricing system. This means that the market views the intrinsic value of the dollar in Zimbabwe being lower than the foreign dollar. In coming up with solutions to cash shortages, focus should therefore be on the sources of money creation (or supply) and its utilization and not on the mediums of exchange.

The lower supply of U.S. dollars (foreign dollars) is attributable mainly to limited access to foreign finance, declining foreign investor confidence which has reduced capital flows and the indiscipline-induced leakages of forex through illicit transactions and other nefarious activities that include rent seeking behaviour. The root cause of excess demand for forex, on the other hand, is emanating mainly from increases in money supply as a result of greater spending by Government, money creation – loans and overdrafts – by banks. It is these external and domestic imperatives or fundamentals that need to be addressed to bring equilibrium and resolve the challenges besetting the economy.

Bringing equilibrium or rebalancing the economy therefore requires action to increase the export of goods and services whilst simultaneously reducing fiscal deficit to sustainable levels and executing structural reforms that increase investor confidence and transform the state owned enterprises. These measures are critical to deal with the confidence deficit which is also a major source of gross market indiscipline – rent seeking behaviour, corruption, illicit flows, side marketing –

within the national economy. Whilst the Bank is using a number of initiatives including non-traditional home-grown monetary policy tools and the export incentive scheme to address export competitiveness to stabilise the economy, the other two imperatives are outside the purview of Monetary Policy.

Other essential policy measures to enhance consumer and business confidence include structural reforms related to the ease and cost of doing business, reorganisation of state owned enterprises, enforcement of law and order and the issuance of bankable 99-year leases. Increasing and diversifying export receipts from the current situation where about 85% of foreign exchange in Zimbabwe comes from five (5) products - tobacco, gold, platinum, chrome and diamonds – is also critical.

On re-engagement, clearance of the country's external debt arrears to the African Development Bank, World Bank and European Investment Bank remains high on the Bank's agenda, following the clearance of the arrears to the International Monetary Fund on 20 October 2016. Clearance of arrears to these three international financial institutions (IFIs) is expected to reduce Zimbabwe's negative country risk premium which is essential to unlock new external sources of financing for the country. Whilst funding for the clearance of arrears to the IFIs has been secured, the arrears shall be expunged in synchrony with the execution of the structural reform measures presented in the 2017 Midterm Budget Review Statement by the Minister of Finance and Economic Development.

It is against the above imperatives that the policy measures in this Monetary Policy Statement will be implemented to enhance business confidence, bring sanity in the utilisation of scarce foreign exchange resources and to further promote exports, production and productivity across all the sectors of the economy.

SECTION 1
REVIEW OF PREVIOUS MONETARY POLICY MEASURES

1. FINANCIAL SECTOR STABILITY

Aftrades as Lender of Last Resort

The Afreximbank Trade Debt-Backed Securities (Aftrades) facility of US$200 million has been a game changer in revitalising banking sector stability in Zimbabwe. This facility which operates and functions as a window of lender of last resort at the Bank has assisted surplus banks to deploy their excess liquidity through transferring Zimbabwe's country risk to Afreximbank. Deficit banks have been able to borrow from the window for managing their liquidity positions to assist their customers. Total trades under this facility amounted to US$981 million from the effective date of the facility on 13 February 2015 to 30 June 2017.

Multi-Currency System

The multi-currency system which was adopted by Government in 2009 is here to stay up until the economic fundamentals for the return of the local currency have been attained. Government and the Bank have consistently advised of the following preconditions for the return of the local currency.

i. Sustainable foreign exchange reserves equivalent to one year import cover;
ii. Sustainable Government budget;
iii. Demonstrable consumer and business confidence;
iv. Health of the job market; and
v. Average industrial capacity utilisation of above 75%.

It is common knowledge that the above fundamentals are still low to support the return of the local currency.

ZAMCO

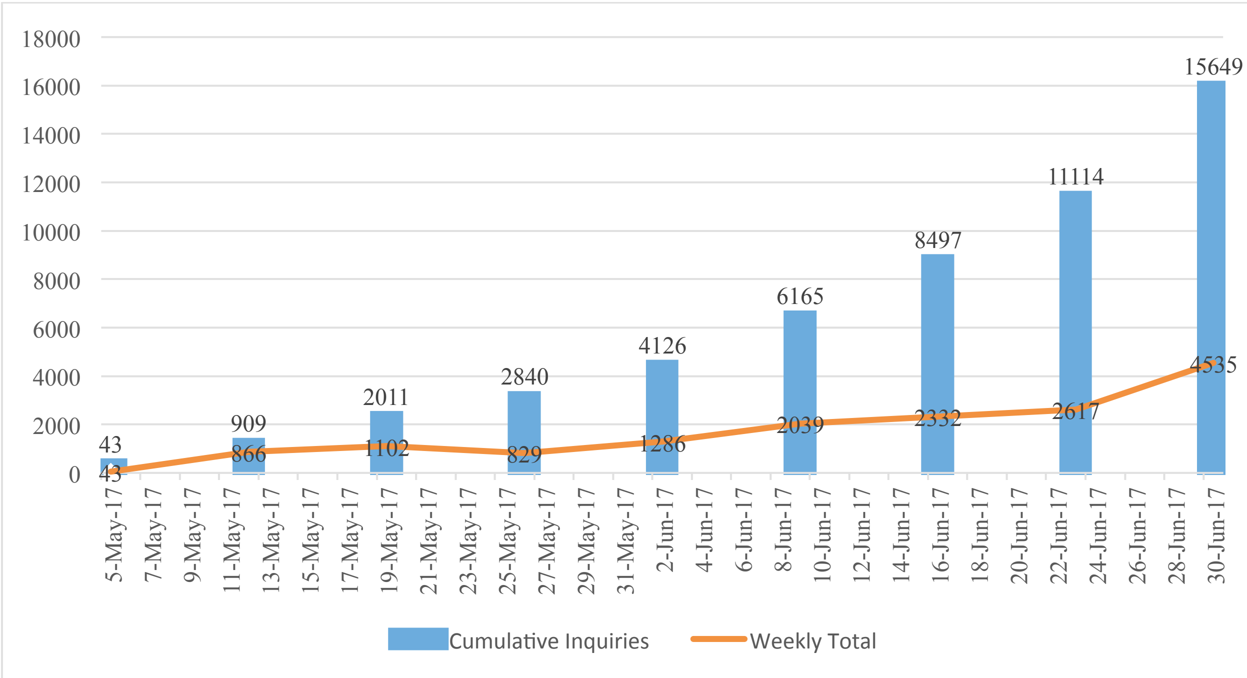
The Zimbabwe Asset Management Corporation (ZAMCO) has lived to the Bank's expectation to reduce the non-performing loans (NPLs) in the banking sector from 20.45% in 2014 to 7.98% as at 30 June 2017 through the acquisition, management and restructuring of NPLs. The reduction in NPLs is gravitating towards the Bank's desired benchmark of between 5 - 7.5%. ZAMCO has significantly stabilised the banking sector after acquiring NPLs of $568.3 million from all banks as at 30 June 2017. The performance of some of the firms that benefitted from ZAMCO's acquisition of NPLs has been remarkable.

Credit Registry System

The uploading of bank loan records to the registry is almost complete following successful implementation of the Credit Registry. As at 30 June 2017, banking institutions had submitted 361,154 or 97.06% of banking sector loans.

To date registered subscribers in the credit registry include banks and microfinance institutions. Inquiries made by the subscribers have continued to increase since access to the Credit Registry began in May 2017, as indicated below.

Figure 1: Credit Registry Enquiries



Source: Reserve Bank of Zimbabwe, 2017

Meanwhile, the Reserve Bank has commenced activities on phase 2 of the credit registry implementation programme which entail a co-option of microfinance institutions and other credit providers as data providers.

Going forward, awareness programs on the Credit Registry will be conducted and the Bank is working on providing convenient access to consumer reports by individuals and corporate borrowers.

In the long run an improvement in the credit reporting environment is expected to improve the general credit culture across all economic sectors, and thereby substituting the scope of ZAMCO in mitigating NPLs and enhancing financial sector stability.

Collateral Registry

The passage of the Movable Property Security Interests Bill through Parliament and Senate during the first half of 2017 was a significant milestone towards the enhancement of the credit infrastructure pillar for financial inclusion.

As part of the preparations for establishment of the Collateral Registry, the Bank, in collaboration with banking institutions and microfinance institutions will engage stakeholders through outreach programmes.

Meanwhile, banking institutions and the microfinance sector are expected to prime their systems and re-orient credit practices in order to take full advantage of the collateral registry system, which is anticipated to promote financial inclusion.

Basel II/III

Banking institutions have significantly aligned their risk systems and capital strategies with the Basel II capital framework.

Embracing the Basel II capital framework as a minimum guide is necessary to improve the quality, consistency and transparency of capital, and reduce pro-cyclicality, as well as enhance liquidity management. Looking beyond compliance with Basel II and prioritising it as a critical pillar for attainment of strong capital positions enables banking institutions to meaningful participate in the economy.

Going forward, the Bank shall continue to engage banking institutions and provide guidance as well as training on Basel II/III implementation.

International Financial Reporting Standard 9

Further to my January 2016 Monetary Policy Statement regarding the adoption and implementation of International Financial Reporting Standard (IFRS) 9, banking institutions have continued to enhance their systems towards effective compliance with the Standard, whose effective date is 1 January 2018.

To ensure effective and smooth implementation of the standard, collaborative efforts between the Reserve Bank, banking institutions, Public Accountants & Auditors Board, Institute of Chartered Accountants Zimbabwe, and accounting firms have gathered momentum. An IFRS9 Implementation Working Group and Sub-Committees have been established.

The Sub- Committees, namely; Transitional Arrangements & Stakeholder Awareness, Models and Capacity Building; and Disclosures & Policies, have already commenced work on the technical aspects of IFRS 9 implementation to ensure a smooth transition.

2. FOREIGN EXCHANGE MANAGEMENT

Utilisation of Foreign Currency

Total foreign currency receipts for the country amounted to USD2.96 billion during the period January to June 2017 as shown in Table 1 below.

Table 1: Global Foreign Currency Receipts (US$ million)

Type of Receipt	2017	2016	% Change
Export Proceeds	1,656.0	1,448.3	14.34%
International Remittances	714.3	779.5	-8.37%
Loan Proceeds	478.0	329.7	44.9%
Income receipts	103.8	142.0	-26.9%
Foreign Investment	6.8	32.8	-79.27%
Total	2,958.9	2,732.30	8.3%

Source: Reserve Bank of Zimbabwe, 2017

In line with the current foreign exchange management framework, USD2.1 billion was utilised for various foreign payments through banks. The balance of USD887 million (30%) was received and administered by the Reserve Bank through the Foreign Exchange Management System.

Consistent with the need to efficiently allocate and utilize foreign currency in a manner that enhances productivity within the economy, the foreign exchange received in the first half of 2017 was allocated and utilized as follows:-

Table 2: Utilisation of the foreign currency receipts

Product	Bank Allocations Administered through banks/markets (USD)	RBZ Supplementary Funding Administered through RBZ (USD)	Total (USD)
Fuel	183,449,356	192,970,000	**376,419,356**
Loan Repayment	130,233,661	89,541,111	**219,774,772**
Machinery and Equipment Spares	105,751,567	31,666,693	**137,418,260**
Card Transactions	112,920,999	-	**112,920,999**
Electricity	81,207,204	39,530,000	**120,737,204**
Fertilizer	68,188,405	41,570,000	**109,758,405**
Other Machinery and Equipment	71,918,618	37,424,969	**109,343,587**
Industrial Chemicals	64,388,754	30,407,426	**97,796,180**
Grain &Wheat	50,965,940	60,220,000	**111,185,940**
Mining Equipment	56,953,674	14,567,901	**71,521,575**
Gold Producers	-	85,790,000	**85,790,000**
Packaging Materials	46,241,931	11,440,884	**57,682,814**
Medicals & Pharmaceuticals	42,775,423	37,310,000	**80,085,423**
Assorted Groceries	49,270,725	1,305,599	**50,576,323**
Vehicles	45,704,151	2,316,605	**48,020,755**
Steel	43,837,106	2,602,687	**46,439,793**
Animal and Vegetable Oils	28,323,221	15,072,777	**43,395,999**
Agricultural Equipment	36,643,652	3,407,691	**40,051,342**
IATA & Airlines	13,500,000	43,750,000	**57,250,000**
Professional Fees	37,445,404	1,788,341	**39,233,744**
Rice	32,684,771	5,126,478	**37,811,249**
Subscriptions/Membership	34,784,849	2,583,965	**37,368,814**
Cash Imports	40,000,000	100,000,000	**140,000,000**
Sub Total	**1,377,189,410**	**850,392,854**	**2,227,882,264**
Other	**695,118,828**	**36,190,000**	**731,308,828**
Total	**2,072,308,238**	**886,582,854**	**2,958,891,092**

Source: Computerised Exchange Control Batch Application System

Export Incentive Scheme

In order to enhance competitiveness and boost the country's export earnings, the Bank introduced the Export Incentive Scheme (EIS) in May 2016. Since inception of the scheme, cumulative foreign currency receipts amounted to US$4.9 billion, 4%

higher than the same period prior to the introduction of the export incentive scheme. This indicates a positive impact that EIS has had on foreign currency receipts, particularly from exports that went up by 14%.

As at 30th June 2017, a total of S$175.0 million had been paid out under the export incentive scheme in the form of bond notes against a payable amount of $187.7 million. Table 7 shows the distribution of the export incentive scheme entitlement since inception.

Table 3: Cumulative Foreign Currency Inflows and Export Incentive Entitlements by Sector (5 May 2016 – 30 June 2017)

Sector	**Total Foreign Currency Receipts**	**Total Incentives**		**Grand Total**
		5%	**2.5%**	
Mining	1,939,939,695	4,590,652	35,720,825	40,311,477
Services	511,063,873	25,553,199	-	25,553,199
Agriculture	337,476,391	16,873,820	-	16,873,820
Manufacturing	246,359,584	12,317,979	-	12,317,979
Other	29,154,138	1,457,707	-	1,457,707
Total	**3,063,993,681**	**60,793,357**	**35,720,825**	**96,514,182**
Tobacco (Green Leaf)	818,360,515	51,101,425	-	51,101,425
Gold - Paid through Bank	607,313,823	6,661,051	12,345,789	19,006,840
Diaspora Remittances	423,156,957	21,157,848	-	21,157,848
Grand Total	**4,912,824,976**	**139,713,681**	**48,066,614**	**187,780,294**

Source: Reserve Bank of Zimbabwe, 2017 * From March 2016

The need to increase exports requires that the country continuously develops strategies to support exporting entities. Lessons from the impact of the EIS on export growth, suggest the need for continued support of the industry to export and generate foreign exchange for the sustenance of the multi-currency system. The export subsidy is an important monetary policy tool to manage internal devaluation for export competitiveness.

3. FINANCIAL INCLUSION STRATEGY

The implementation of the National Financial Inclusion Strategy has continued with the nine thematic working groups focusing on execution of strategies to achieve the set financial inclusion goals and objectives. Funding facilities, which are accessible through participating banking and microfinance institutions, have been established to promote the inclusion of targeted beneficiaries.

In addition, an Educational Loan facility which will be administered through six participating institutions has been put in place. The facility is targeted at the 125,000 students at the 21 universities in Zimbabwe.

Export Credit Guarantee Scheme

The extension of credit insurance and guarantee facilities by the Export Credit Guarantee Corporation (ECGC) has significantly contributed to financial inclusion and the promotion of exports by SMEs.

Consumer Protection

The Consumer Protection Framework, which sets out the minimum consumer protection standards for financial service providers under the Bank purview, was issued to the market on 26 June 2017. Consumer protection, is particularly important in view of the ever-increasing complexity and diversity of the range of products and services offered by financial institutions through traditional and digital channels. Going forward, the Reserve Bank will be strengthening its capacity to implement market conduct supervision and enforce the Consumer Protection Framework provisions.

Warehouse Receipt System and the Commodities Exchange

The Ministry of Agriculture, Mechanisation and Irrigation Development and the Bank are working on the establishment of a robust Warehouse Receipt System and the Commodities Exchange.

The warehouse receipt system will enable access to affordable finance for small holder farmers, while enhancing their risk management particularly reduction in post-harvest losses.

The commodities exchange will address information asymmetry on the prices of agricultural produce, and enhance the protection of small holder farmers from unscrupulous middlemen.

Tracking Financial Inclusion

The Bank is coordinating tracking of financial inclusion targets. The tracking system comprises monitoring of progress and evaluation of the various financial inclusion initiatives.

Financial inclusion indicators as at 31 March 2017 reflect a general improvement in access to formal financial services by target groups such as women, SMEs and youth, as shown below:

Table 4: Financial Inclusion Indicators.

Indicator	December 2016	March 2017
No. of SMEs with bank accounts	71,730.00	72,757.00
Total value of loans to SMEs	$131,685,957.63	$135,832,659.41
No. of women with bank accounts	769,882.77	814,593.00
Total value of loans advanced to agriculture	$292,737,124.45	$571,457,257.54
No. of loans to the youth	38,400.00	48,615.00
Total value of loans to the youth	$58,408,296.37	$65,286,644.97

Source: Reserve Bank of Zimbabwe, 2017

Low cost accounts

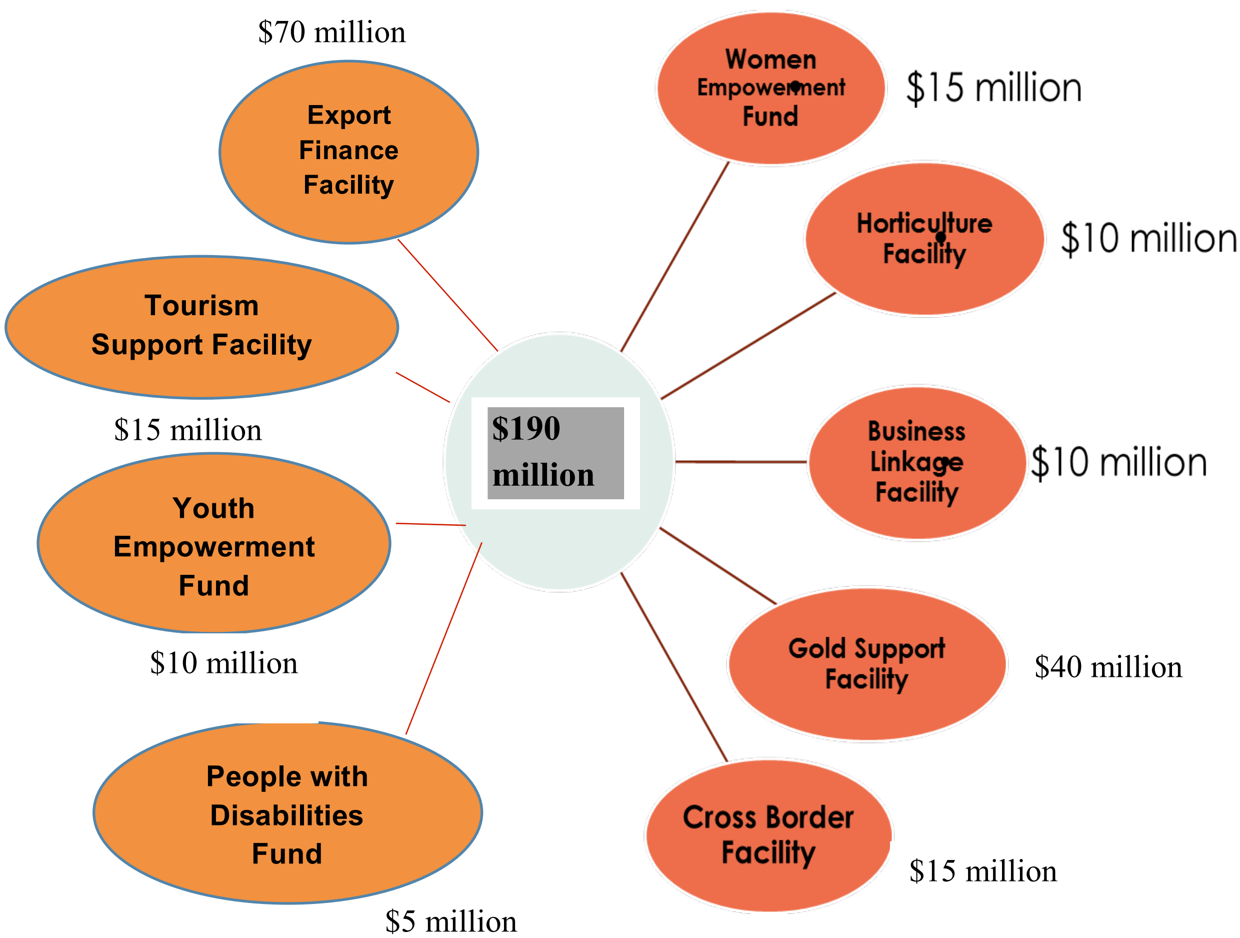
Banking institutions continue to record increases in the opening of low cost or 'no frills' accounts with minimum affordable requirements. As at 31 March 2017 a total of 1.3 million low cost accounts had been opened, up from 229,264 as at 31 March 2016.

4. PRODUCTIVE & EMPOWERMENT FINANCING

The Bank has put in place a number of facilities to promote exports, tourism, production and the empowerment of students, youth, women and people with disabilities as shown below in Figure 2.

The uptake of these facilities which started at a slower rate has substantially improved to the extent that the gold development facility drawdowns had reached 75% by the end of June 2017, whilst that for horticulture, cross border, women and business linkages was at 25% utilisation level.

Figure 2: Export, Productive & Empowerment Facilities

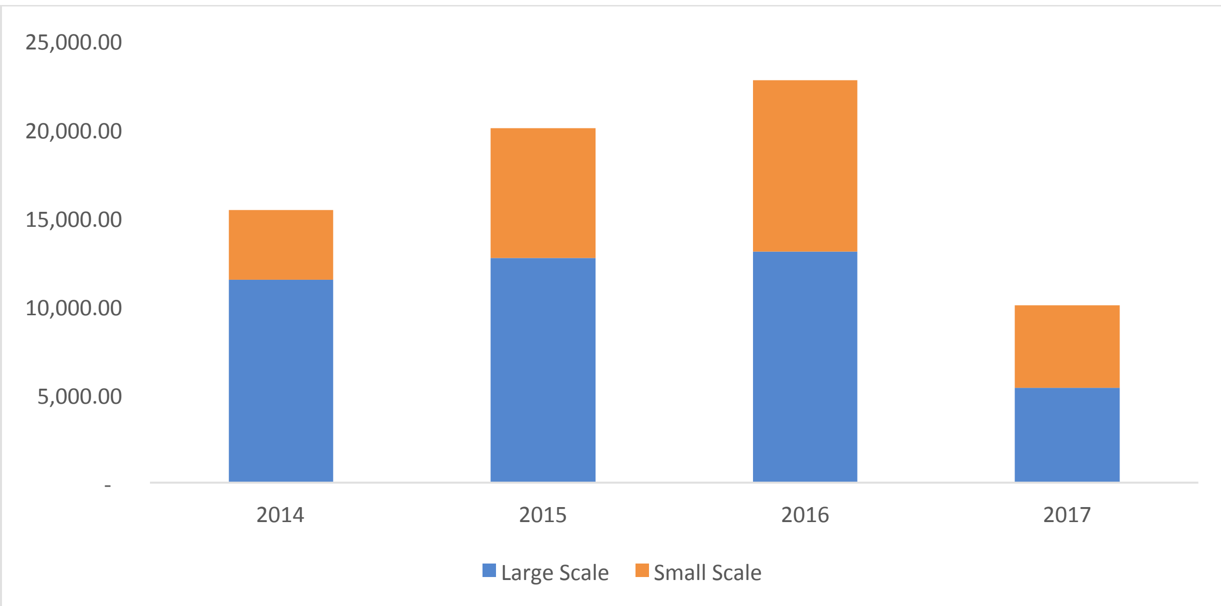


Gold Production

Gold deliveries to Fidelity Printers and Refiners (FPR) which hit ten tonnes during the first half of 2017, grew by 3.9% compared to the same period last year. More gold deliveries to FPR are expected in the second half of the year as producers continue to access the gold support facility. The Bank expects gold deliveries to FPR to reach the targeted 25 tonnes by year-end.

The small scale sector continues to grow in its contribution to gold production accounting for about 45% of total deliveries in 2016 and 2017.

Figure 3 Gold Deliveries 2014 to June 2017 (kg)



Source: FPR, 2017

This sector is benefitting from the US$40 million Gold Support Facility being administered through Fidelity Printers and Refiners. As at mid-July 2017, about US$30.2 million had been disbursed under the facility.

Beneficiation of Precious Metals

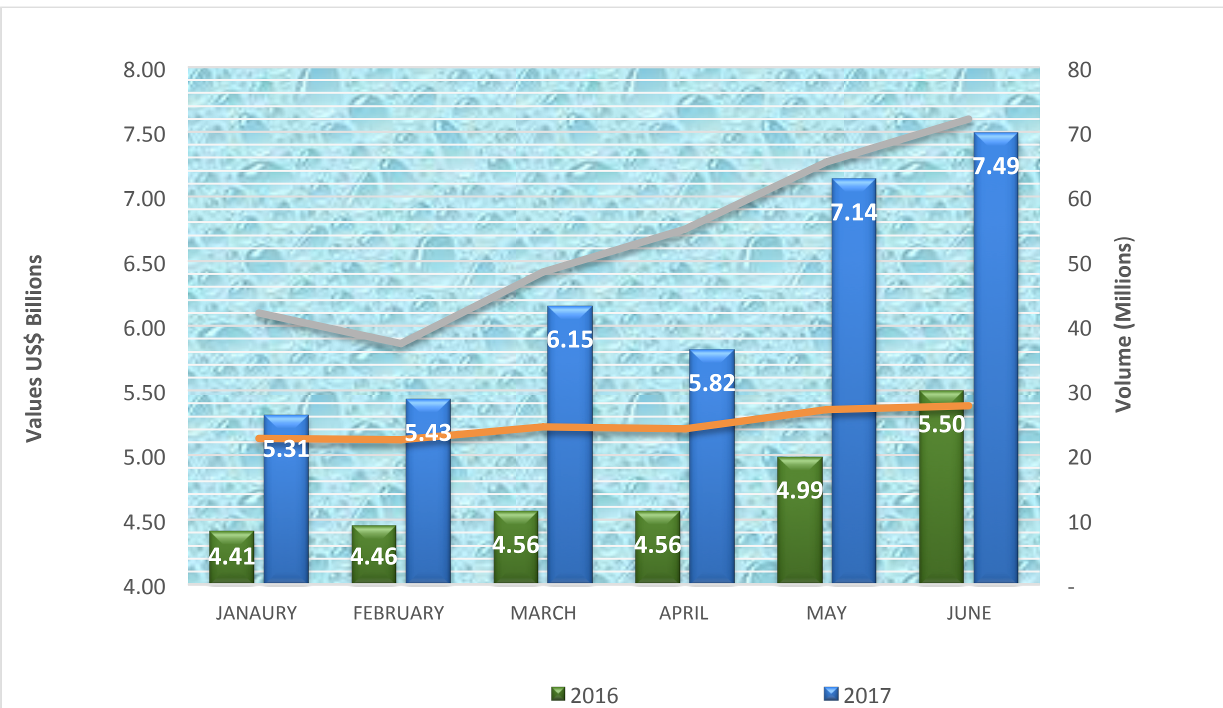
5. NATIONAL PAYMENT SYSTEMS DEVELOPMENTS

Electronic Payments

The Bank remains committed and focussed on achieving a cash-lite society through the promotion of e-payments – cards, mobile banking, internet banking and electronic transfers – and to deepening oversight, supervision and operational efficiencies of the national payment systems.

Going digital is the best way of beating cash queues at banks, a development that is evidenced by the fact that electronic payment systems aggregate values and volumes rose exponentially by 23% and 131%, respectively, during first half of 2017, compared to the same period in 2016 as shown in Figure 4.

Figure 4: Comparative of Aggregate Electronic Payment Values for 2016 and 2017

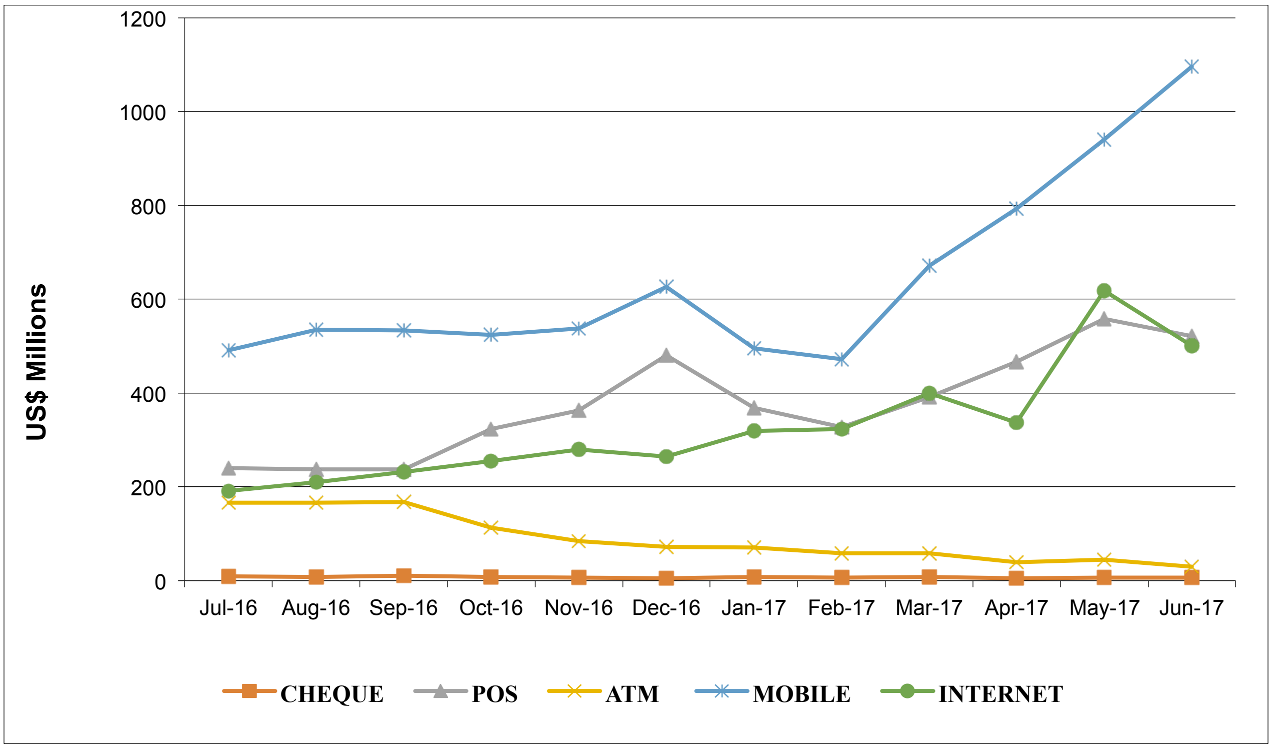


Source: Reserve Bank of Zimbabwe, 2017

Retail Payment Systems Development

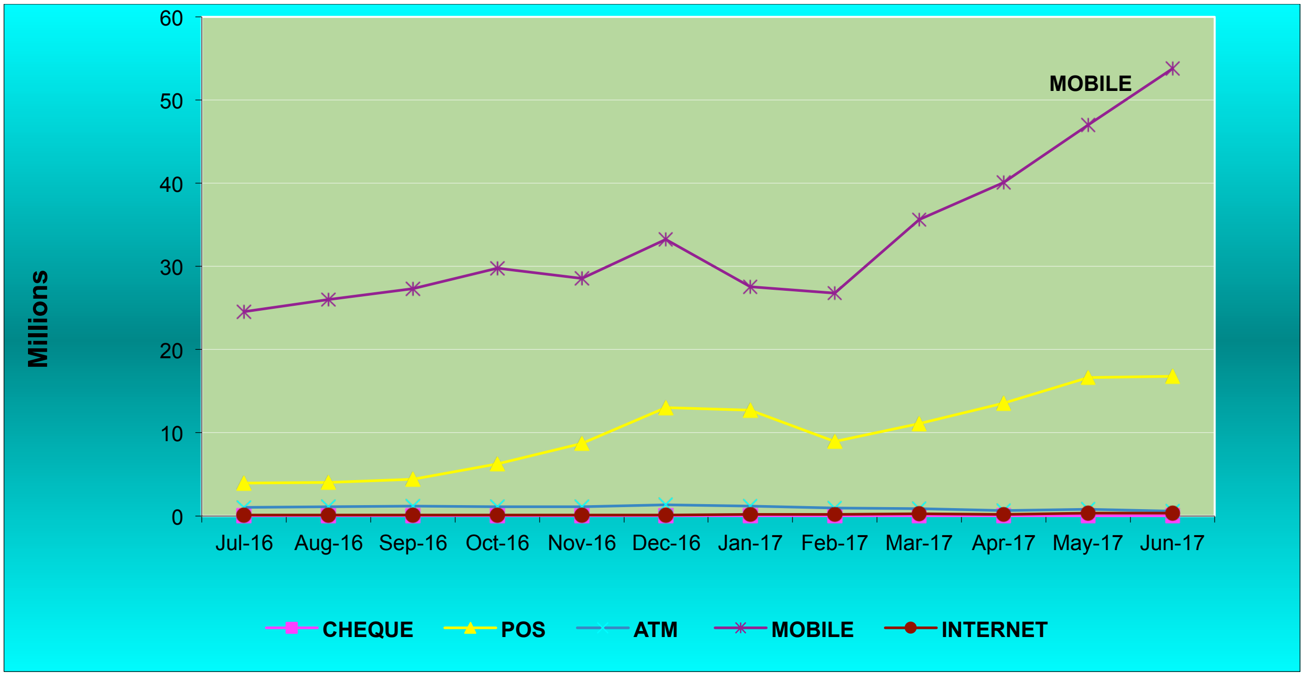
Retail payment streams remained the cornerstone of financial accessibility by the majority of the transacting public. This is evidenced by an upward trend of retail payment systems values and volumes during the first half of 2017 as shown in Figures 5 and 6.

Figure 5: Retail Payment Stream Values from July 2016 to June 2017



Source: Reserve Bank of Zimbabwe, 2017

Figure 6: Retail Payment Stream Volumes from July 2016 to June 2017



Source: Reserve Bank of Zimbabwe, 2017

Financial market participants continued to increase access points for the convenience of the transacting public in the usage of non-cash methods and enabling access to financial products and services, as shown in Table 5.

Table 5: Payment Systems Access Points and Devices as at 30 June 2017

PAYMENT SYSTEMS ACCESS POINTS				
	Mar-17	**Apr-17**	**May-17**	**Jun-17**
Mobile Banking Agents	40,540	40,892	41,562	42,102
ATMs	557	558	556	562
POS	40,011	40,613	42,534	44,586
PAYMENT SYSTEMS ACCESS DEVICES				
Debit Cards (‘000)	3,359.50	2,901.00	3,842.90	3,780.30
Credit Cards	16,945	17,165	17,235	17,510

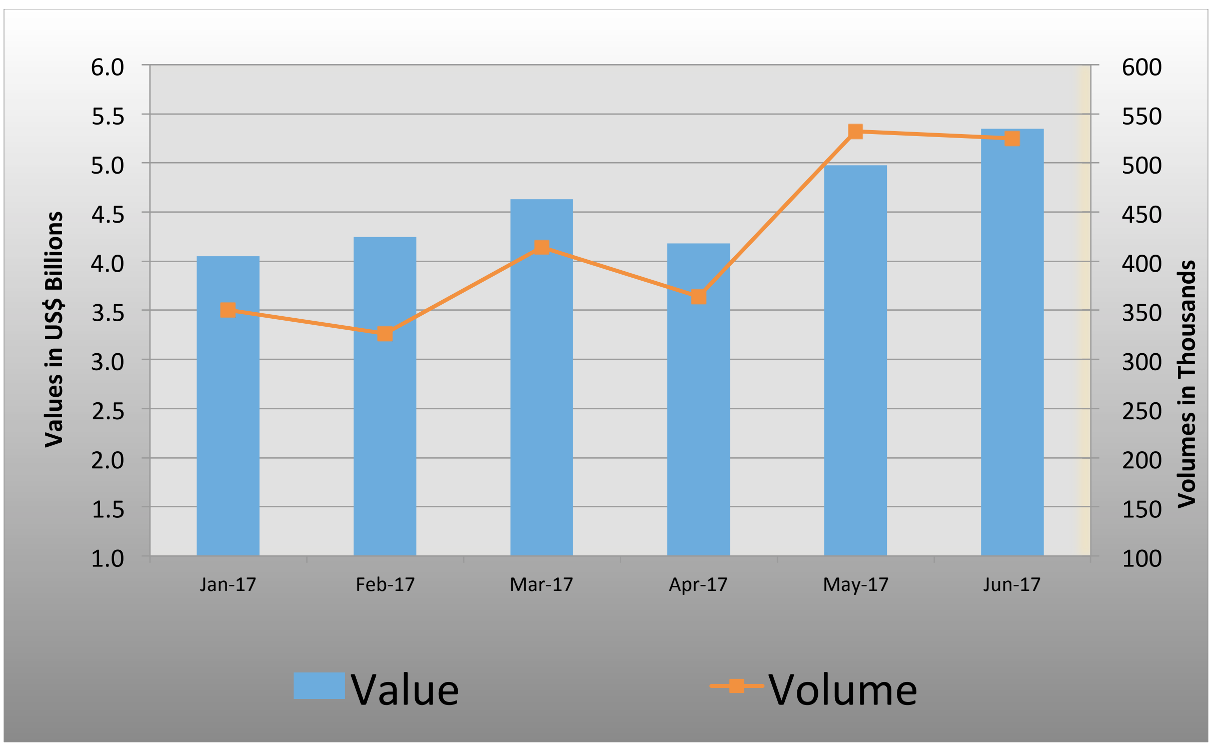
Prepaid Cards	46,593	47,621	49,201	52,384
Mobile Banking Subscribers (‘0000)	3,214.00	3,267.10	3,304.90	3,353.90
Internet Banking Subscribers	177,920	205,529	184,980	181,225

Source: Reserve Bank of Zimbabwe, 2017

RTGS

Transactions handled through the Real Time Gross Settlement (RTGS) continued to grow as shown below. A cumulative total of 2.5 million transactions valued at US$27.4 billion were settled through the RTGS system from 3 January to 30 June 2017 accounting for just above 70% of total transactions in the economy.

Table 6: RTGS Activity – January to June 2017



SECTION 2
GLOBAL DEVELOPMENTS

The world economy continued to face multiple challenges of a both short and medium term nature resulting in restrained global growth for the year 2016. The challenges included uncertainty regarding the medium to long term economic implications of Brexit; economic rebalancing in China and declining terms of trade in commodity exporting economies, following subdued commodity prices. In addition, non-economic factors in the form of geopolitical and political uncertainty in some regions weighed in negatively on global economic activity. Reflecting the challenges that beset many countries, the global economy is estimated to have slowed to a growth of 3.1 % in 2016, from 3.2 % registered in 2015.

The growth outlook for 2017, however, is brighter as global economic activity is projected to pick-up largely driven by the continued improvements in investment and strong global demand. The International Monetary Fund (IMF) projects that global economic growth will be 3.5% in 2017, up from 3.1 % estimated for 2016. Global economic growth is projected to further increase to 3.6 % in 2018, led by better growth performance across almost all the major regions. Table 7 shows global economic growth developments for selected regions and countries.

Table 7: Global Economic Growth & Outlook (%)

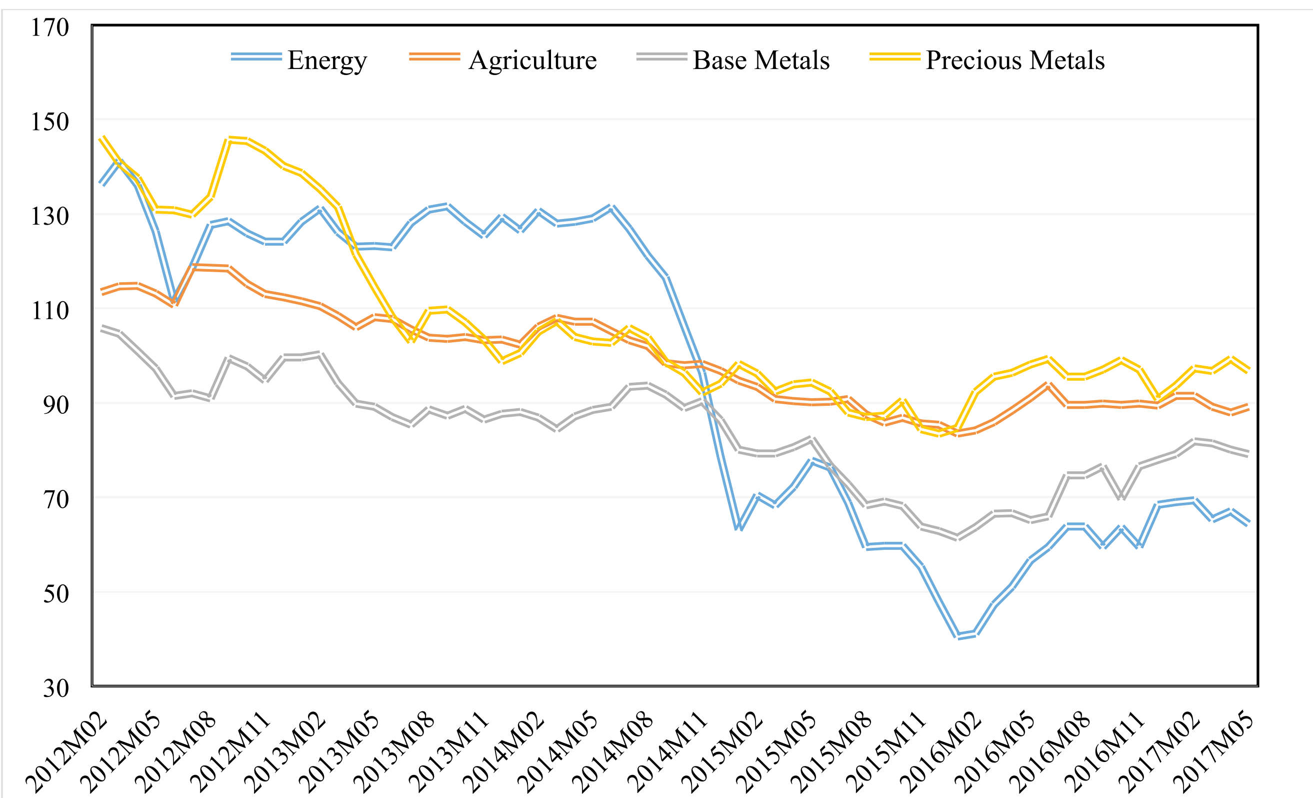
	Actuals		Projections	
	2015	2016	2017	2018
World Output	3.2	3.1	3.5	3.6
Advanced Economies	2.1	1.7	2.0	2.0
US	2.6	1.6	2.3	2.5
Eurozone				
Japan	0.5	1.0	1.2	0.6
Emerging Market & Developing	4.0	4.1	4.5	4.8
China	6.9	6.7	6.6	6.2
India	7.6	6.8	7.2	7.7
Sub-Saharan Africa	3.4	1.4	2.6	3.5
Latin America & the Caribbean	0.0	-1.0	1.1	2.0

Source: IMF World Economic Outlook (April 2017)

Commodity Price Developments

International commodity prices have partially recovered from the rock-bottom levels that were reached at the beginning of 2016, although they remain depressed compared to the levels that were attained in 2012. Energy, base metal and agricultural prices declined, whilst precious metal prices increased between January and May 2017. Commodity prices for the period from January 2012 to May 2017 are shown in Figure 7.

Figure 7: Commodity Price Indices (2010 = 100)

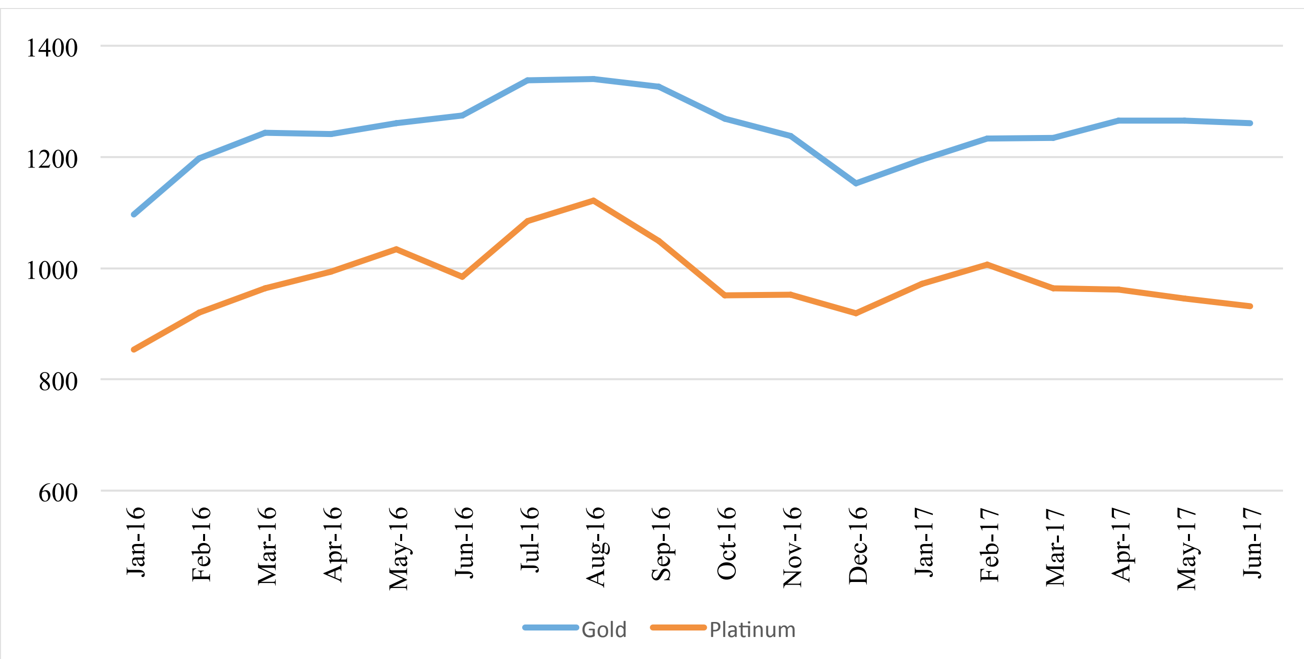


Source: World Bank Commodity Prices, 2017

Precious Metals Prices

Gold prices have been rallying up on account of safe haven rising by 5.5 % from January 2017 to June 2017 as shown in Figure 8. The price at the end of June was US$1,260.57/oz. Expectations of further US interest rate increases this year and receding political uncertainty is envisaged to weigh down gold prices going forward. Platinum prices also fell during the month of June 2017, declining to US$931.5/oz from US$972.5/oz which was recorded in January 2017, amid weak investment demand. The World Bank projects precious metal prices to decline in the short to medium term, as benchmark interest rates rise and safe-haven buying falls.

Figure 8: Precious Minerals Prices: January 2016 – June 2017 (US$/ounce)

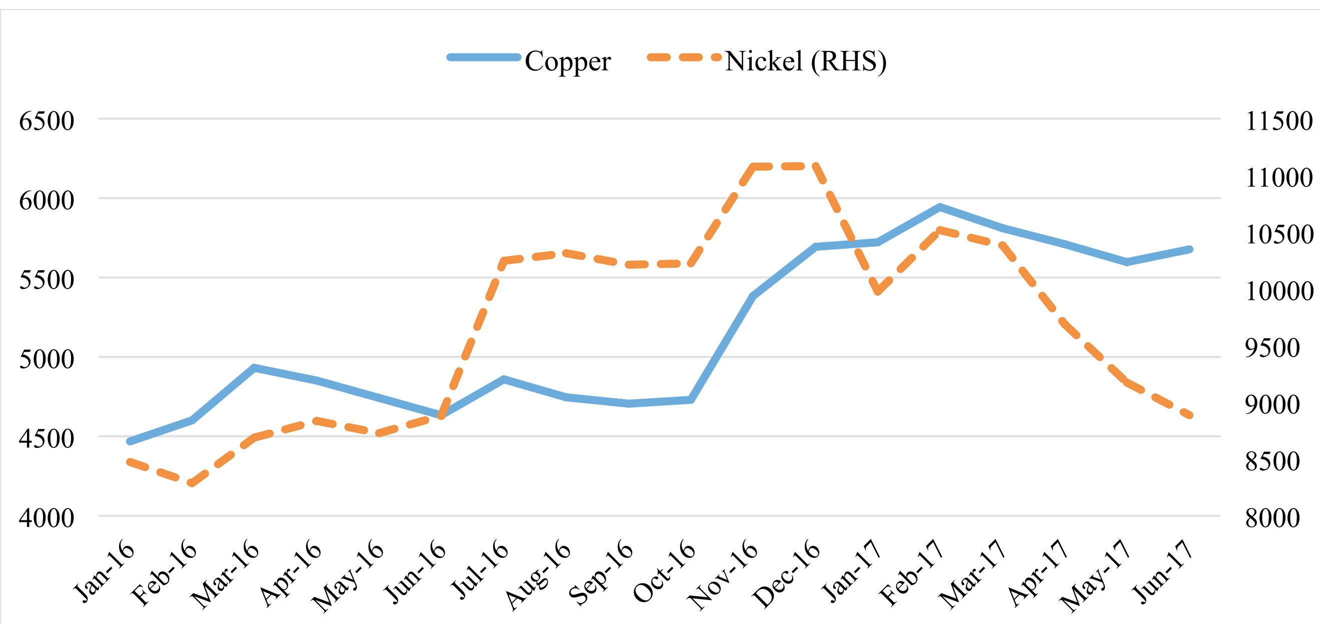


Source: Bloomberg, 2017

Base Metals Prices

Base metal prices were generally subdued during the period from January to June 2017, with nickel and copper registering declines of 10.9 % and 0.7 %, respectively. The decline reflected investor expectations of weakening global demand, particularly in China, due to credit tightening in the Asian giant's economy. The downward trend in nickel prices was driven by increasing supply from major producers, Indonesia and the Philippines, which together accounted for about 30 % of global mine production. Indonesia has relaxed its ban on the export of unrefined nickel ores. On a year to date basis, copper prices have declined by 0.7 % to US$5,679.75 per tonne on concerns of a slowing Chinese economy. Figure 9 shows developments in base metal prices since the beginning of the year.

Figure 9: Base Metal Prices (US$/tonne) January 2016 – June 2017



Source: Bloomberg, 2017

Brent Crude oil Prices

Rapid investment recovery in the US oil shale sector is likely to continue tipping the market into surplus during the remaining part of 2017.

ZIMBABWE EXTERNAL SECTOR DEVELOPMENTS

Zimbabwe has been absorbing huge amounts of imports, particularly of a finished nature since the adoption of the multi-currency system in 2009. Merchandise import growth continued to surpass the growth in merchandise exports, drawing the much needed foreign exchange or cash from the economy. This was against the backdrop of limited external inflows, undermining the country's balance of payments performance.

Balance of Payments

Total merchandise exports stood at US$ 1,130.2 million for the period January to May 2017, about 19% higher than the US$948.6 million realized in the comparable period in 2016. Merchandise imports increased by 4% from US$2,071.2 million recorded during the first five months of 2016 to US$2,149.9 million during the same period in 2017.

	2015 Actual	**2016 Estimate**	**2017 Projection**
A. Current Account	**-1,520.6**	**-552.8**	**-651.1**
Trade Balance	-2,365.9	-1,461.5	-1,449.9
Exports	3,614.2	3,701.4	3,925.7

Imports	5,980.1	5,162.9	5,375.6
Balance on services	**-1,137.1**	**-867.1**	**-891.0**
Receipts	386.7	396.7	407.1
Payments	1,523.8	1,263.8	1,298.1
Balance on goods and services	**-3,503.0**	**-2,328.6**	**-2,340.9**
Balance on goods, services, & primary income	**-3,661.8**	**-2,506.9**	**-2,501.9**
B. Capital Account Balance	**398.4**	**242.3**	**250.0**
C. Financial Account:	**-1,014.1**	**-544.7**	**-655.4**
D. Net Errors and Omissions	**-108.2**	**234.1**	**254.2**

Table 8: Balance of Payments Developments (US$ million)

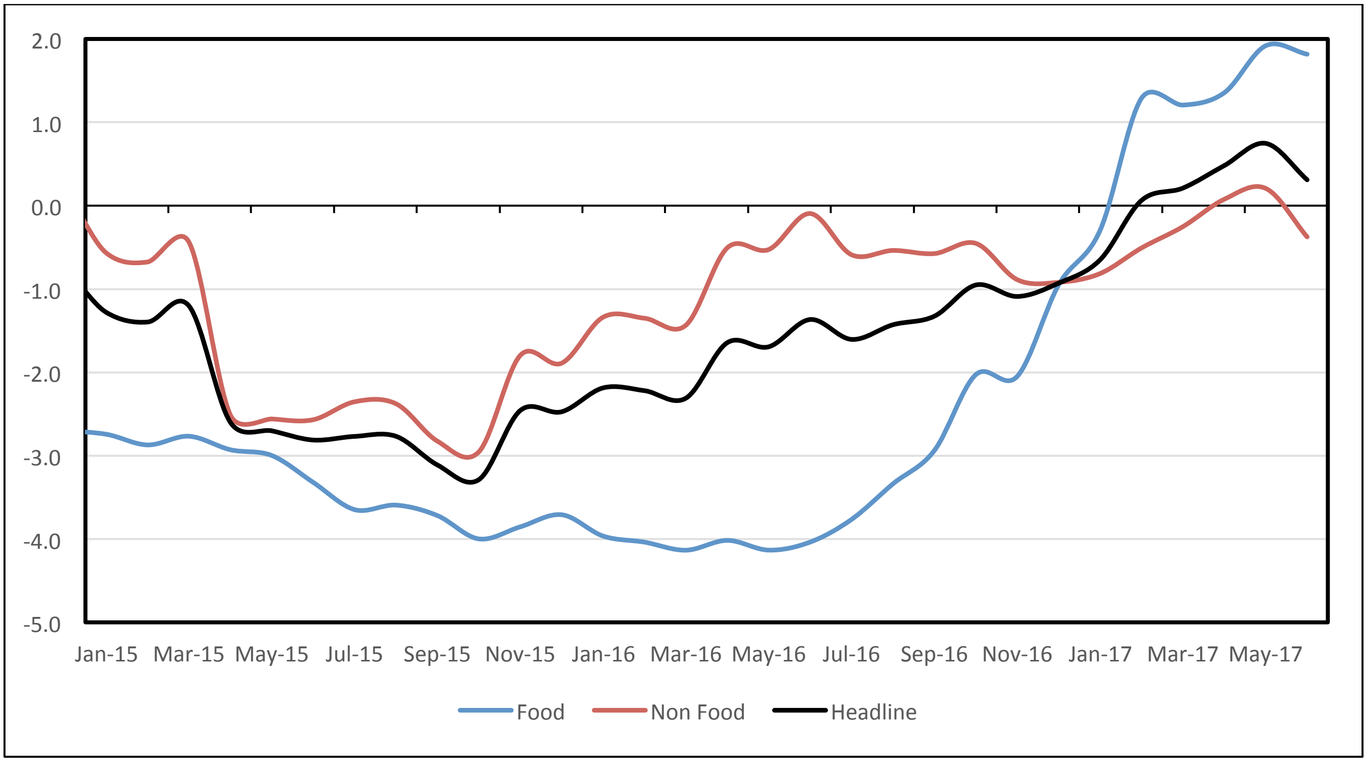
The developments on merchandise trade resulted in an improvement in the country's trade balance from a deficit of US$1,019.7 million in the first five months of the year, compared to a deficit of US$1,123.6 million for the same period in 2016. Similarly, the current account deficit narrowed down, from US$1,520.6 million in 2015 to US$552.8 million in 2016 and is projected at US$651.3 million for the whole of 2017 as shown in Table 8. The improvement in the current account deficit was partly on account of the decline in the import bill, as a result of the various measures being implemented to enhance local production.

The country, however, continued to be a net borrower of foreign capital over the years, resulting in the financial account registering surpluses. The surplus, however, narrowed down from US$1 014.1 million in 2015 to US$544.7 million in 2016 and is projected at US$655.4 million in 2017. This is largely a reflection of the declining short and long term loans which have been driving the financial account surpluses.

SECTION 3
INFLATION DEVELOPMENTS

The annual headline inflation rate, which had been in deflation since September 2014, moved into positive territory from -0.65% in January 2017 to 0.31% in June 2017 as a result of the expansionary fiscal policy stance which saw fiscal deficit rising to US$1.4 billion in 2016. The fiscal deficit which emanated mainly from drought related expenditures, legacy debt and agricultural expenditures was mainly financed from domestic sources through the issuance of Treasury Bills (TBs) and reliance on the Reserve Bank overdraft facility. This increased the quantity of money in circulation. Figure 10 shows the annual headline inflation profile for the period January 2015 to June 2017.

Figure 10: Annual Inflation Rate (%)



Source: ZIMSTAT, July 2017

The year-on-year food inflation accelerated sharply from -0.30% in January 2017, to 1.92% in May 2017. The surge in food inflation was attributable to intermittent food shortages before the harvesting period, which began in April 2017, as well as to production constraints in the food manufacturing industry. Annual food inflation, however, decelerated from 1.92% in May 2017 to 1.82% in June 2017, reflecting the increased output of grains. The 2016/17 bumper harvest is expected to dampen food prices. On account of the good agriculture season, significant price declines were recorded for bread and cereals, meat, fruit, vegetables, oils and fats, and milk, cheeses and eggs in June 2017.

Annual non-food inflation moved into positive territory, increasing from -0.82% in January 2017 to 0.08% in April 2017, before peaking at 0.21% in May 2017. The increase was driven by the firming of the South African rand and international oil prices. The recent fall in international oil prices and softening of the rand, however, induced deflationary pressures which resulted in annual non-food inflation receding back into negative territory to -0.37% in June 2017.

Inflation Outlook

Inflation outturn in the remaining half of 2017 will be influenced mainly by domestic fiscal developments, foreign exchange availability, international oil prices and the US dollar/South African rand exchange. Figures 11 and 12 show the developments in the US dollar/rand exchange rate and international oil prices for the period from June 2013 to June 2017.

Figure 11: Developments in US$/ZAR Exchange Rate and International Oil Prices

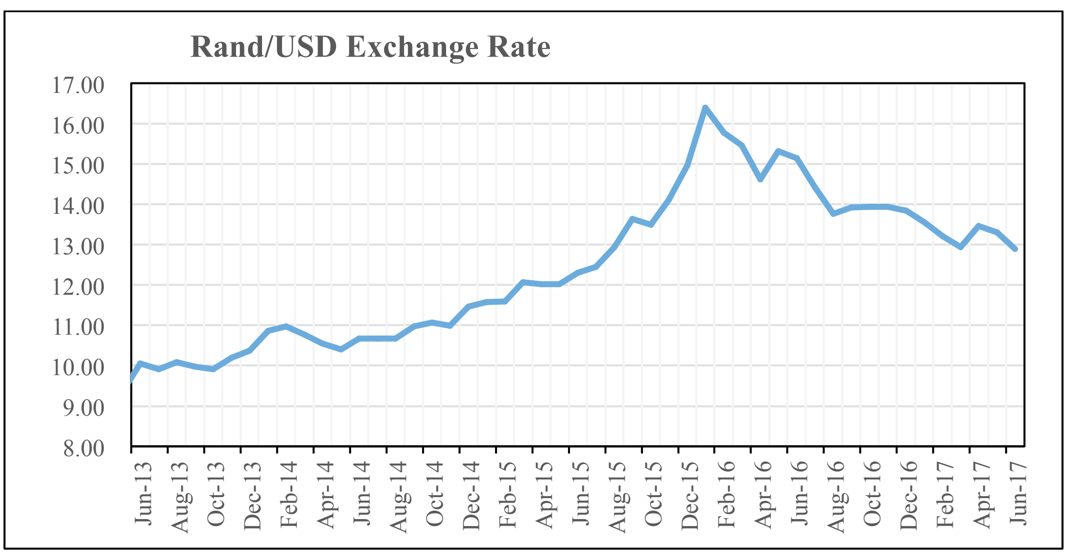
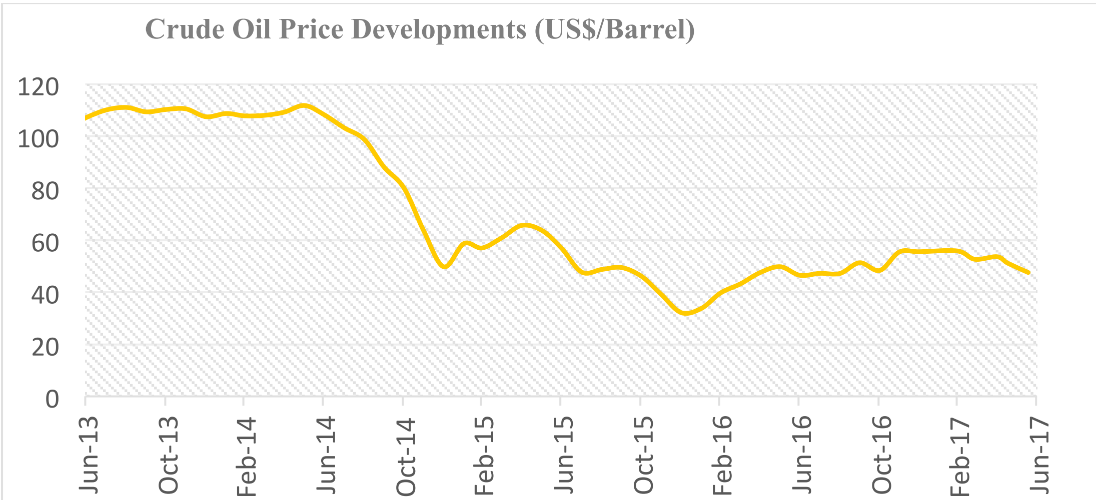


Figure 12: Crude Oil Prices



Overall, inflation is expected to remain in the positive territory in 2017, with annual average inflation projected at between 2% and 3%, which is in line with the Southern African Development Community (SADC) inflation benchmark of between 3% to 7%.

The Bank shall continue to monitor and manage downside risks to inflation emanating from domestic factors particularly the pass-through effect of a fiscal induced foreign currency shortages on premiums and multiple pricing practices in the domestic economy.

Table 9: Annual Inflation rates for selected SADC Member Countries and USA (%)

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Jun-2016	-1.4	6.3	2.7	19.7	5.5	21.0	22.6	1.0
Jul-2016	-1.6	6.0	2.7	20.7	5.1	20.2	23.5	0.8

Aug-2016	-1.4	5.9	2.6	22.0	4.9	19.6	22.8	1.1
Sept-2016	-1.3	6.1	2.6	24.9	4.5	18.9	21.2	1.5
Oct-2016	-1.0	6.4	2.7	25.5	4.5	12.5	20.1	1.6
Nov-2016	-1.1	6.6	2.9	26.8	4.8	8.8	19.9	1.7
Dec-2016	-0.1	6.8	3.0	23.7	5.0	7.5	20.0	2.1
Jan-2017	-0.1	6.6	3.1	20.6	5.2	7.0	18.2	2.5
Feb-2017	0.1	6.3	3.4	20.9	5.5	6.8	16.1	2.7
Mar-2017	0.2	6.1	3.5	21.6	6.4	6.7	15.8	2.4
April-2017	0.5	5.3	3.4	21.3	6.4	6.7	14.6	2.2
May-2017	0.7	5.4	3.5	20.5	6.1	6.5	12.3	1.9
June-2017	0.3	5.0	3.5	18.1	5.4	6.8	11.3	1.6

Source: Country Central Bank Websites, 2017

SECTION 4

FINANCIAL SECTOR DEVELOPMENTS

Performance and Condition of the Banking Sector

The performance of the banking sector was satisfactory over the half year to 30 June 2017. Total assets were $9.65 billion, while capitalisation and profitability indicators reflect improved performance.

Total deposits increased by 6.71%, from $6.55 billion as at 31 March 2017 to $6.99 billion as at 30 June 2017. The aggregate/ average financial soundness indicators for the review period are provided in Table 10.

Table 10: Financial Soundness Indicators

Key Indicators	Benchmark	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Total Assets (US$bn)	-	8.01	8.25	8.73	8.88	9.65
Total Loans (US$bn)	-	3.73	3.65	3.69	3.59	3.64
Net Capital Base (US$bn)	-	1.22	1.24	1.34	1.37	1.38b
Total Deposits (US$bn)	-	5.91	6.14	6.51	6.55	6.99
Net Profit (US$m)	-	67.97	111.78	181.06	50.34	100.59
Return on Assets (%)	-	0.98	1.57	2.26	0.69	1.26

Key Indicators	Benchmark	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Return on Equity (%)	-	3.53	8.94	12.64	3.65	6.80
Capital Adequacy Ratio (%)	12	23.45	23.71	23.70	26.66	26.89
Loans to Deposits (%)	70	63.08	59.45	56.64	54.82	52.11
Non-Performing Loans Ratio (%)	5	10.05	10.74	7.87	8.39	7.95
Provisions to Adversely Classified Loans (%)	-	69.87	68.05	68.51	65.86	126.29
Liquidity Ratio (%)	30	52.47	54.15	61.91	60.20	66.87
Cost to Income Ratio (%)		84.23	82.75	79.20	76.58	72.50

Source: Reserve Bank of Zimbabwe

Banking Sector Capitalisation

The aggregate core capital increased by 1.81% from US$1.22 billion as at 31 March 2017 to US$1.24 billion as at 30 June 2017, on the back of improved earnings performance. The capital adequacy and tier 1 ratios of 26.89% and 24.02% as at 30 June 2017, respectively, were above the required minima.

All banking institutions were adequately capitalised and complied with minimum capital requirements in Table 11.

Institution	Core Capital as at 31 March 2017 (US$ million)	Core Capital as at 30 June 2017 (US$ million)	Prescribed Minimum Capital (US$ million)
CBZ Bank	**237.58**	**238.90**	25
Stanbic Bank	**114.05**	**120.75**	25
BancABC	**77.19**	**74.35**	25

Table 11: Capitalisation Levels of Banks

FBC Bank	**62.45**	**63.99**	25
Barclays Bank	**62.11**	**67.55**	25
Ecobank	**58.15**	**64.86**	25
ZB Bank	**57.16**	**60.32**	25
NMB Bank	**51.87**	**53.85**	25
Agribank	**51.04**	**52.35**	25
MBCA Bank	**48.93**	**50.57**	25
Steward Bank	**46.08**	**46.16**	25
Metbank	**39.28**	**39.87**	25
CABS Building Society	**126.59**	**114.44**	20
FBC Building Society	**43.16**	**43.75**	20
ZB Building Society	**17.12**	**17.36**	20
National Building Society	**20.81**	**20.57**	20
POSB	**42.87**	**44.88**	-
Total	**1,219.08**	**1,241.25**	**-**

Source: Reserve Bank of Zimbabwe

Earnings

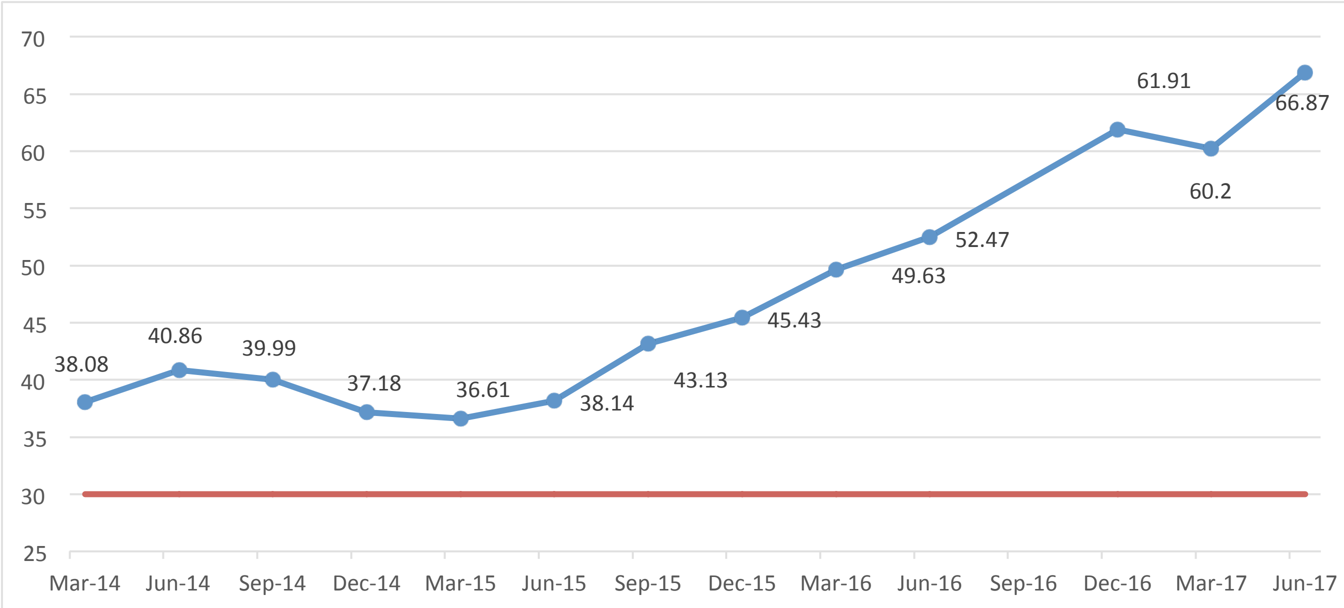
The net profit for the half year ended 30 June 2017 amounted to $100.59 million, representing an increase of 47.99%, from $67.97 million reported in corresponding period in 2016. Eighteen (18) out of nineteen (19) operating banking institutions recorded profits during the period ended 30 June 2017.

To ensure sustainable profitability, banking institutions should implement adaptable business models which are sufficiently solid and resilient over time, by further interrogating their value chains, with a particular focus on efficiency enhancement initiatives.

Banking Sector Liquidity

The average prudential liquidity ratio for the banking sector of 66.87% as at 30 June 2017, was above the regulatory requirement of 30%. Figure 13 shows the trend in the banking sector average prudential liquidity ratio since March 2014.

Figure 13: Prudential Liquidity Ratio Trend (%)



Source: Reserve Bank of Zimbabwe, 2017

The high average prudential liquidity ratio is largely reflective of the cautious lending approach adopted by banking institutions especially under the context of foreign exchange shortages. Lending exacerbates the demand for forex.

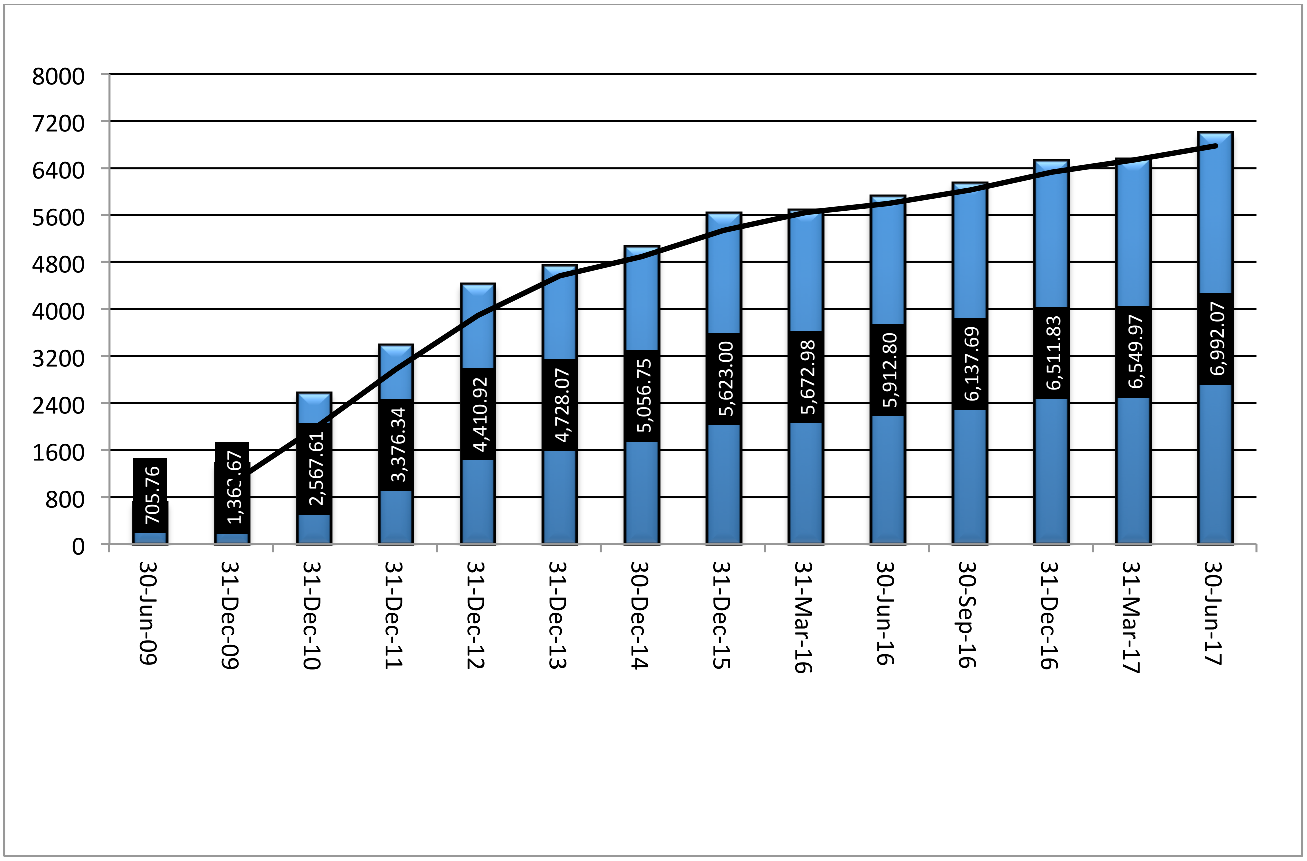
Notwithstanding the high average prudential liquidity ratios recorded across the sector, the banking industry continued to experience underlying shortages of physical US dollar cash. The cash constrains are a manifestation of the structural challenges facing the economy including the high fiscal recurrent expenditures, particularly employment related costs, which result in increased demand for cash.

Meanwhile, banking sector deposits[1] went up by 6.71% over the quarter. Figure 14 shows the trend of banking sector deposits over the period 30 June 2009 to 30 June 2017.

---

[1] These banking sector deposits include interbank deposits, government deposits and deposits by non-residents.

Figure 14: Gross Banking sector deposits (30 June 2009- 30 June 2017)



Source: Reserve Bank of Zimbabwe, 2017

Interest Rates

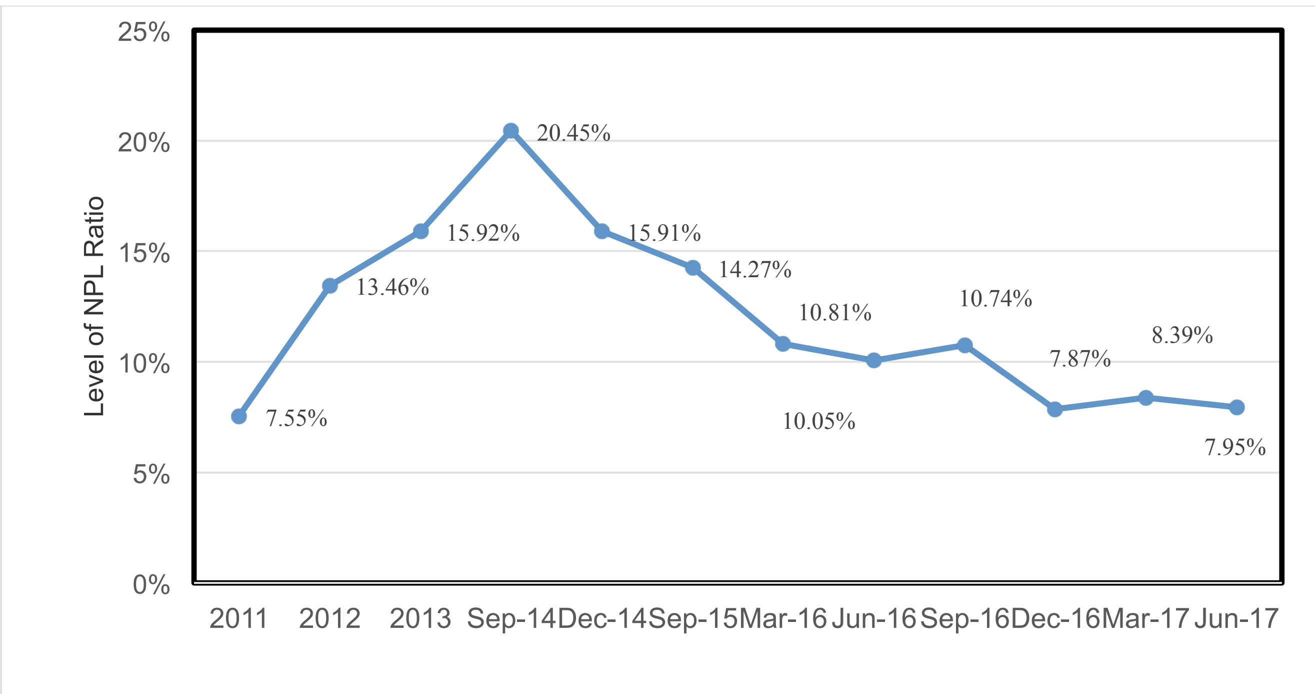
The Reserve Bank is pleased to advise that banking institutions have reduced their lending interest rates and bank charges to promote provision of affordable banking services and access to credit. As at 30 June 2017, the average maximum effective lending rate was 11.94% compared to 15.7 % as at the end of December 2016.

The Reserve Bank shall continue collaborative engagements with banking institutions to boost credit to the productive sectors of the economy. In addition, banking institutions are required to adequately disclose and communicate their respective effective lending rates to their borrowers.

Non-Performing Loans (NPLs)

There has been a notable improvement in the quality of the banking sector loan portfolio over the year. Figure 15 shows the trend in NPLs from 2011 to 30 June 2017.

Figure 15: Non-Performing Loans as at 30 June 2017



Source: Reserve Bank of Zimbabwe, 2017

The improvement in NPL ratios is largely attributed to enhanced credit risk management practices at some banks and disposal of loans to ZAMCO amounting to $898.57 million as at 30 June 2017.

Developments in the Microfinance Sector

The microfinance sector registered an increase in total assets (6.13%) and total loans (4.34%) to $291.89 million and $215.24 million, respectively, during the quarter ended 31 March 2017. Table 12 shows the trend in loans and assets from June 2016 to March 2017.

Table 12: Total Loans and Assets in the MFI Sector (December 2015 - March 2017)

	Jun 16	Sep 16	Dec 16	Mar 17
Number of Licensed Institutions	168	169	185	180
Total Loans (US$m)	183.40	200.80	206.28	215.24
Total Assets (US$m)	250.97	255.32	275.04	291.89
Total Deposits (DTMFIs) (US$m)	1.60	2.10	4.19	5.12
Number of Savings Accounts (DTMFIs)	522	1,060	1,411	1,993
Portfolio at Risk (PaR>30 days)* (%)	9.81	6.11	8.34	7.52
Number of Active Clients	251,553	263,806	290,552	257,498
Number of Outstanding Loans	285,466	279,148	352,225	620,728
Number of Branches	600	595	659	648

Source: Reserve Bank of Zimbabwe

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

The top 20 microfinance institutions account for 84.91% of total sector loans. The number of active accounts in the sector were 257,498 as at 31 March 2017, down from 290,552 as at 31 December 2016.

Deposit-taking MFIs' total assets grew by 57.85% over the year, from $53.50 million as at 31 March 2016 to $84.45 million as at 31 March 2017, while total loans increased by 9.75% from $44.62 million as at 31 March 2016 to $48.97 million as at 31 March 2017.

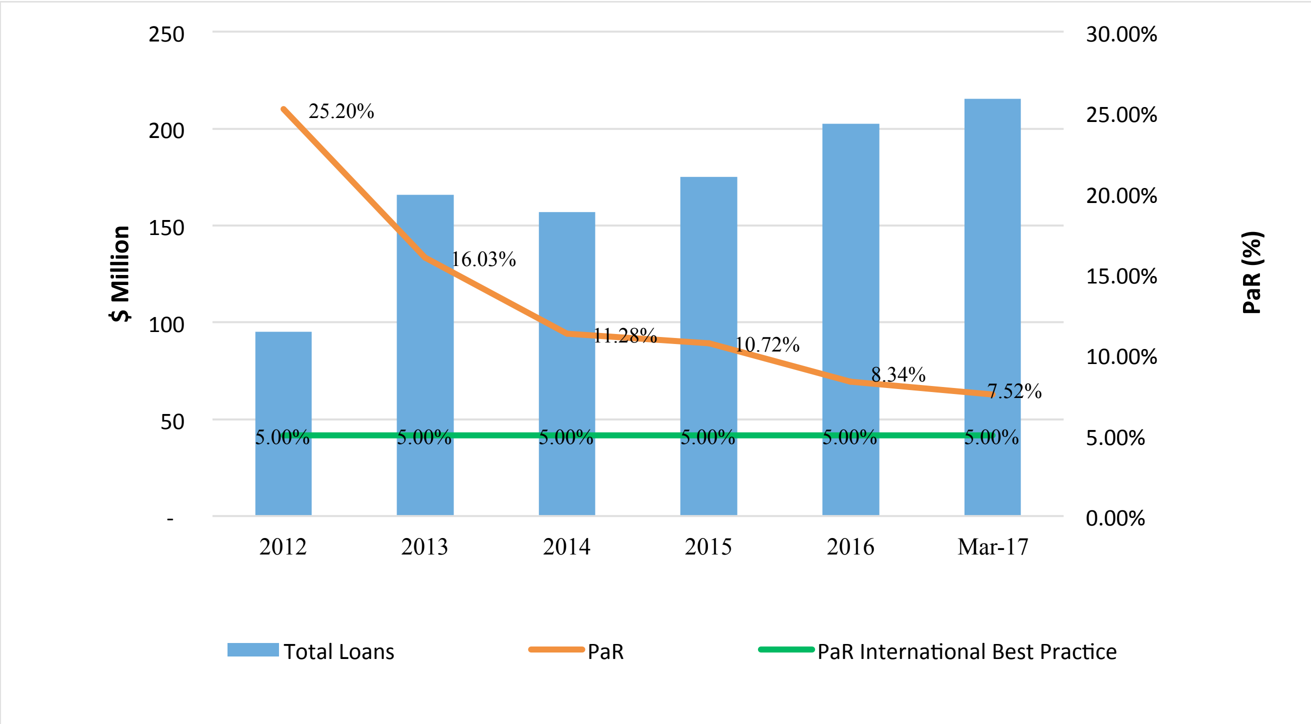
Total net profit for the four operating deposit taking microfinance institutions amounted to $2.56 million for the quarter ended 31 March 2017, compared to $1.69 million which was recorded for the quarter ended 31 March 2016.

From a gender perspective, the number of active women clients has been on an upward trend and reached 38.92% of the total loan book as at 31 March 2017 from 41.9% as at 31 March 2016.

While the microfinance sector continues to face high credit risk, the portfolio quality for the entire industry, as measured by the Portfolio at Risk (PaR>30 days) ratio, has improved since December 2012 from a peak of 25.20%, to 7.52% as at 31 March 2017, against international best practice of 5%.

Portfolio at risk (PaR) in the Deposit Taking MFIs sub-sector improved during the period, from 17.90% in March 2016 to 7.68% as at 31 March 2017. The trend in the MFI sector PaR ratio over the years is Figure 16.

Figure 16: Trend in the MFI sector

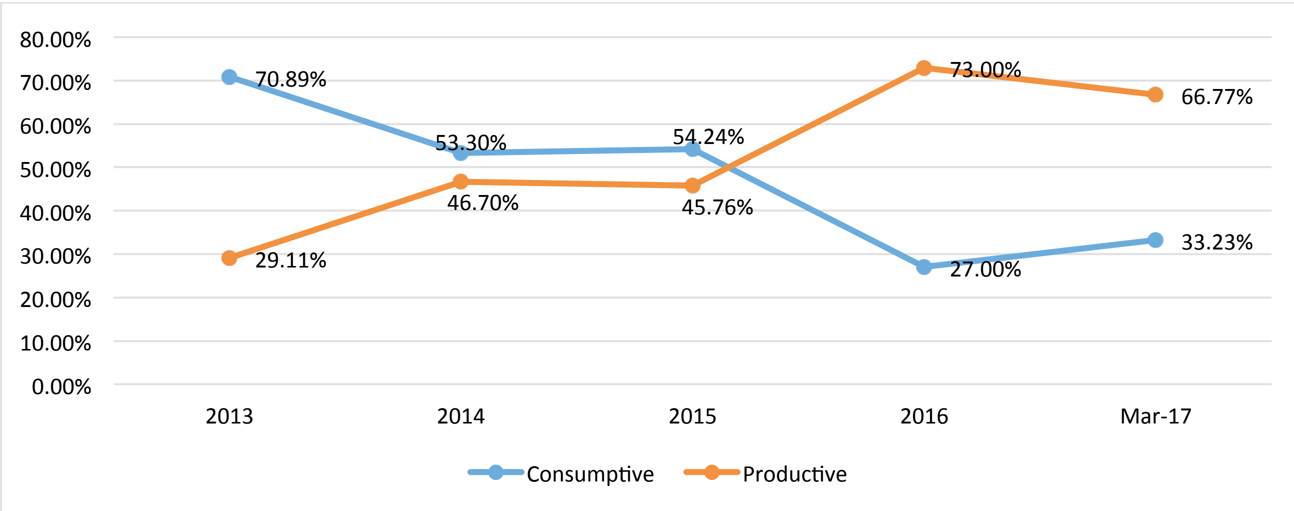


Source: Reserve Bank of Zimbabwe, 2017

Distribution of Loans

A number of microfinance institutions have increased support to the SME sector, through agricultural value chain financing and provision of working capital requirements. As at 31 March 2017, loans to the productive sector amounted to $143.72 million representing 66.77% of the sector's total loans as indicated in Figure 17.

Figure 17: MFIs distribution of loans as at 31 March 2017



Source: Reserve Bank of Zimbabwe, 2017

Microfinance Revolving Funds

The ability of microfinance institutions to provide tailored client-specific financial services, and traverse the multi-dimensional complexities of the poverty phenomenon, makes microfinance a powerful multi-faceted approach to sustainable development.

As part of efforts to support the microfinance sector and facilitate lower lending rates by microfinance institutions, the Reserve Bank has established a $10 million Microfinance Revolving Fund which will be administered by the Zimbabwe Microfinance Fund.

The revolving fund which is earmarked for the productive sector is expected to give impetus to sustainable economic growth as this will provide an opportunity for the low income and marginalized groups to participate in economic activity.

Interest Rate Charges

Cognisant of the catalytic role that microfinance institutions play in poverty reduction and financial inclusion, the Reserve Bank issued Circular No. 02/2017 to all microfinance institutions requiring them to align their lending rates to ensure that the effective lending rate, inclusive of all administrative costs, does not exceed 10% per month.

The Reserve Bank noted with concern that a few microfinance institutions, are still charging interest rates above 10% per month. The Reserve Bank takes great exception to non-compliance and appropriate supervisory action will be instituted.

Building Sustainable Microfinance Institutions

Microfinance institutions are urged to continue to be more innovative and provide a wider array of micro-financial services to the low income and marginalised groups in line with the National Financial Inclusion Strategy and evolving consumer tastes including micro housing; micro-leasing; and micro-insurance among others.

Microfinance institutions should also develop comprehensive consumer education systems to promote transparency and minimise conflict between the institution and its clients. Microfinance institutions should continue to prime up their risk management and corporate governance in order to build sustainable microfinance institutions which are supportive of inclusive economic growth.

Microfinance institutions are required to put in place robust ICT management information systems that can assist MFIs to better manage their credit risk and to access concessional funding availed by the Reserve Bank and other development agencies.

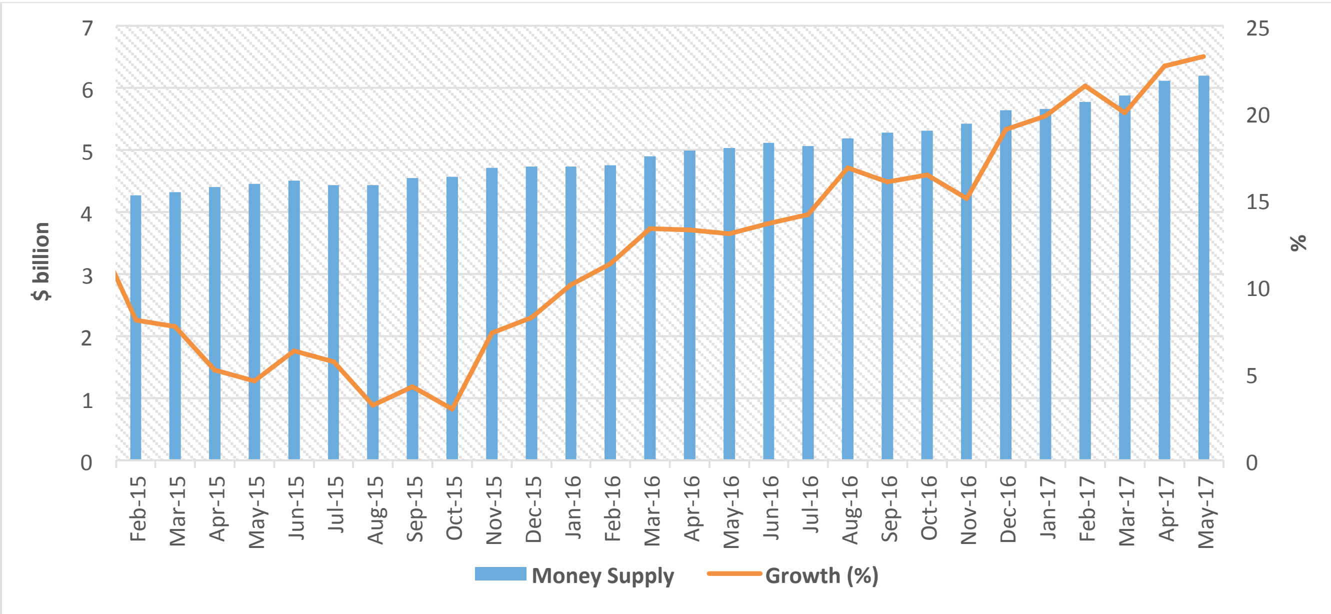
SECTION 5
MONEY AND CAPITAL MARKETS DEVELOPMENTS

MONETARY DEVELOPMENTS

Annual broad money supply[2] amounted to $6 200.3 million in May 2017, representing an annual growth rate of 23.24% from the US$5 031.3 million recorded in May 2016. The growth was on the back of an increase of 29.85% in transferable deposits, which was partially offset by declines of 14.28% in negotiable certificates of deposits and 0.07% in time deposits.

Figure 18: Annual Broad Money Supply Growth Rates and Levels

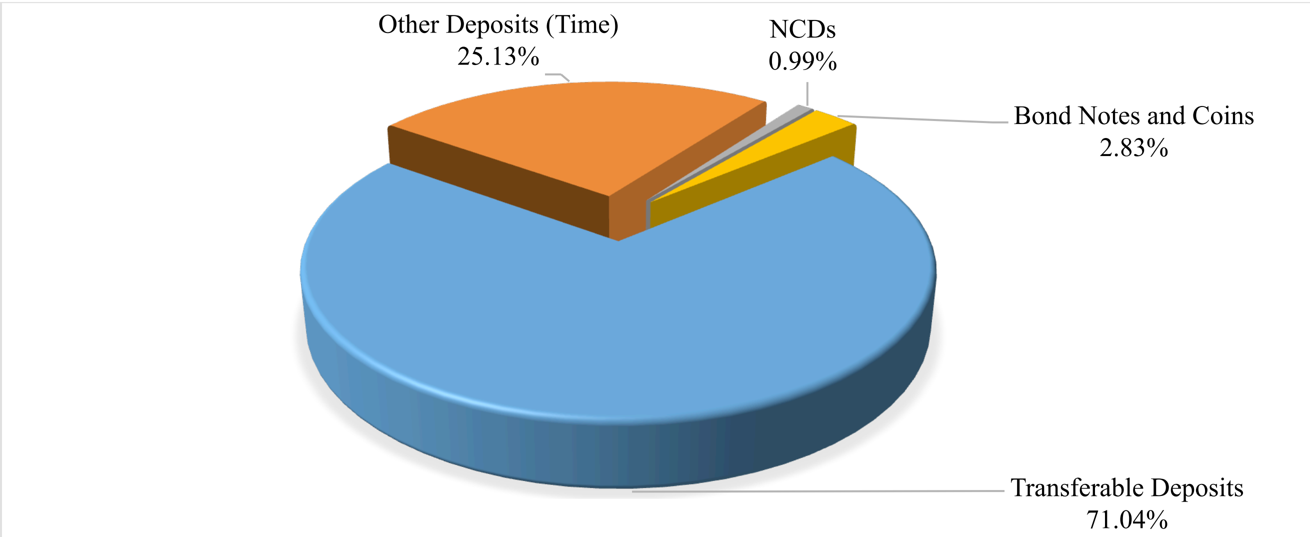
[2] Broad money supply is defined as total deposits in the banking system less inter-bank and government deposits.



Source: Reserve Bank of Zimbabwe, 2017

On a month on month basis, broad money supply increased by 1.37%, from $6 116.8 million in April 2017 to $6 200.3 million in May 2017 as shown in Figure 19. Broad money, however, continued to be dominated by deposits that are short-term in nature. As at end of May 2017, transferable deposits which consist of demand and savings deposits, constituted 71% of broad money as shown in Figure 19. In this regard, banking institutions cannot provide meaningful medium to long term credit required by industries, due to the short-dated nature of the deposits.

Figure 19: Composition Broad Money



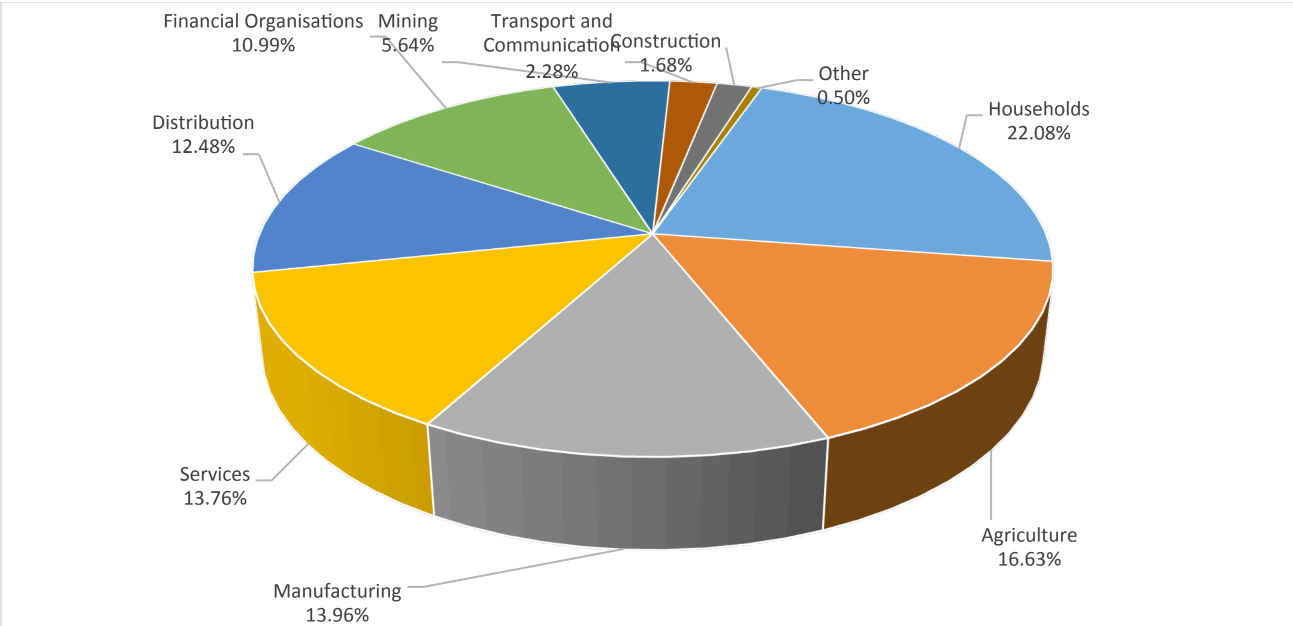
Source: Reserve Bank of Zimbabwe, 2017

Domestic Credit

Domestic credit recorded an annual increase of 21.10%, from $6 978.7 million in May 2016 to $8 451.4 million in May 2017. The growth was largely due to a 38.67% annual expansion in net credit to Government. The surge in net credit to government is consistent with increased recourse by Government to domestic sources of financing, on the back of reduced revenue collections. In addition, the growth in credit to government, reflected banks' holding of Treasury bills, which are largely purchased at a discount on the secondary market.

Credit to the private sector recorded a modest growth of 1.99%, from $3 426.9 million in May 2016 to $3 495.1 million in May 2017. The sectoral distribution of credit to the private sector was as follows: households, 22.08%; agriculture, 16.63%; manufacturing, 13.96%; services, 13.76%; distribution, 12.48%; financial organisations, 10.99%; mining, 5.64%; transport and communication, 2.28%; construction, 1.68%; and other, 0.50%, as shown in Figure 20.

Figure 20: Distribution of Credit by Sector



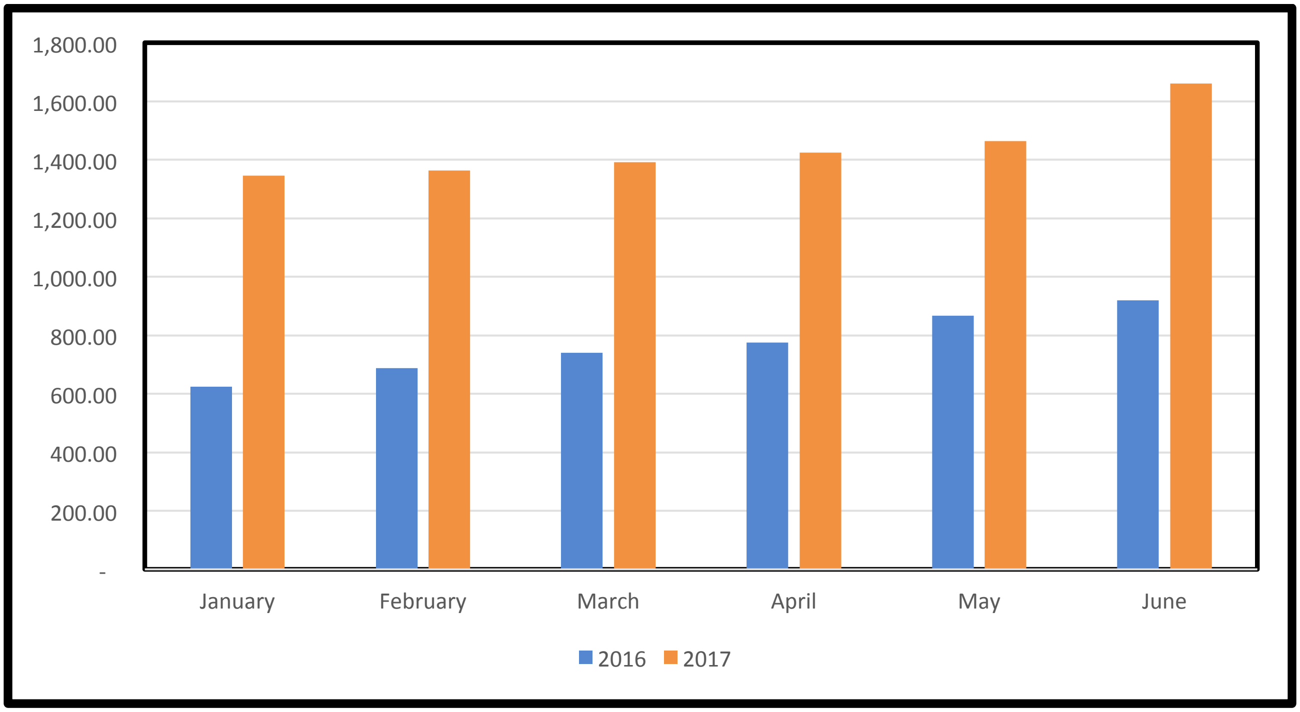
Source: Reserve Bank of Zimbabwe, 2017

Reflecting the transitory nature of deposits and liquidity risks in the market, most of the credit to the private sector was utilised for recurrent expenditures, 40.3%; inventory build-up, 28.3%; and consumer durables, 15.6%. Fixed capital investment, accounted for only 14.3%.

Money Market Liquidity

During the first half of 2017, monthly RTGS account balances averaged US$1 421.9 million, compared to US$768.9 million over the same period in 2016, as shown in Figure 21.

Figure 21: Average Monthly RTGS Account Balances (US$ million)



Source: Reserve Bank of Zimbabwe, 2017

Government Securities

Treasury Bills

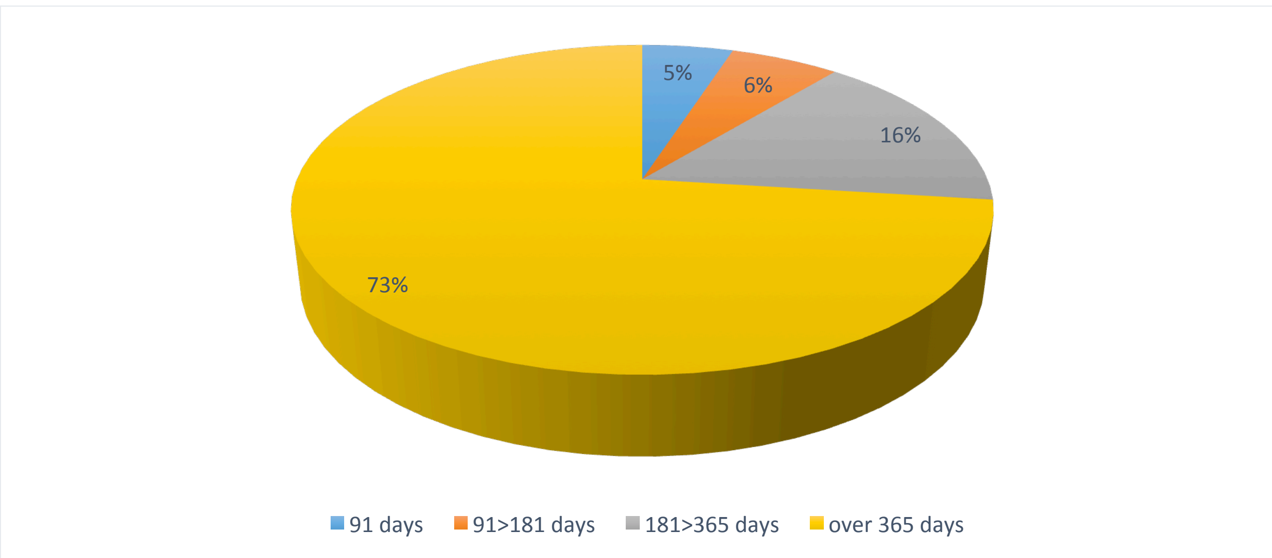
The stock of yreasury bills and bonds as at 30 June 2017 amounted to $2.5 billion. The bulk of these TBs were issued for expunging the Banks's legacy debt under the Reserve Bank Debt Assumption Act ($826.8 million), capitalisation of institutions where Government has interest ($262.7 million), Government programmes including drought related expenditures ($531.2 million), ZAMCO ($568.3 million) and Government recurrent expenditure ($312 million).

It is evident from this utilisation analysis that TBs have substantially been developmental in nature and productive in as far as the final beneficiaries of the TBs were private sector firms that were owed by Government for various services rendered. Such payments assisted the firms to resuscitate their business operations. Notwithstanding this developmental aspect of TBs, it is critical, going forward, that an equilibrium position of a sustainable fiscal deficit is ascertained to ensure that TBs do not crowd out foreign exchange in the market.

Government Securities by Tenure

Around 73% of the total outstanding Government domestic debt instruments mature beyond 365 days, leaving a balance of 27%, which matures within 365 days as highlighted in Figure 22.

Figure 22: Government Securities by Tenor as at 30 June 2017



Source: Ministry of Finance and Reserve Bank of Zimbabwe, 2017

Bond Market

The first debt listing on the Zimbabwe Stock Exchange (ZSE) in 20 years was undertaken by Getbucks in April 2017, after Securities Exchange Commission (SECZ) approved the listing of debt securities on the ZSE in June 2016. Listing of securities promotes the standardization and flow of information through disclosure requirements, which in turn enhances the price discovery process and improves transparency in prices.

Modalities of listing of long-term Government securities are, however, still under consideration. Listing of long-term Government securities broadens the investor base in those securities, with potential to lower the cost of borrowing.

Zimbabwe Stock Exchange (ZSE)

Bullish sentiments were experienced on the local bourse during the first half of 2017. The mainstream industrial index gained 35.6% to 195.97 points, whilst the resources index put on 19.3% to 69.79 points as at 30 June 2017, as highlighted in Table 13. The bull-run has largely been driven by the market which is seeking a good return, given the low interest rates obtaining on the money market and an alternative home pending repatriation of sales and dividends.

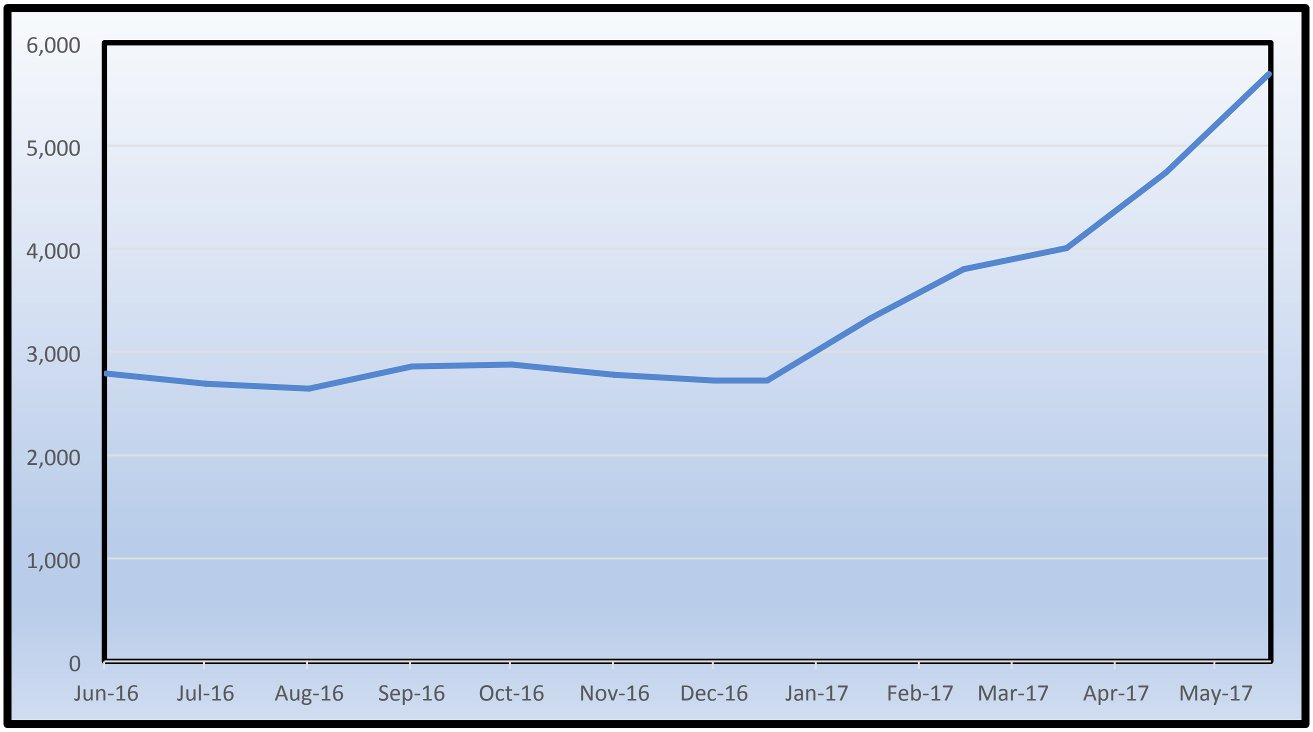
Table 13: ZSE Indices as at 30 June 2017

	30-Dec-16	30-Jun-17	%CHANGE-YTD
INDUSTRIAL INDEX (POINTS)	144.53	195.97	**35.59**
MINING INDEX (POINTS)	58.50	69.79	**19.30**
MARKET CAPITALISATION (US$M)	**4,007.96**	**5,695.20**	**42.10**

Source: Zimbabwe Stock Exchange, 2017.

Total market capitalization increased by 42.1% to US$5.70 billion as at 30 June 2017, in line with the increase in both the industrial and mining counters as shown in Figure 23.

Figure 23: ZSE Total Market Capitalization (US$ Million)



Source: Zimbabwe Stock Exchange, 2017.

Capital flight characterized the local bourse during the period under review, as foreign sales amounting to US$58.28 million outweighed foreign purchases of US$27.77 million, resulting in a net capital outflow of US$30.51 million.

Retail Payment Systems Guidelines

Following sustained development of innovative retail payment systems in the economy, the Bank has issued the Retail Payment Systems Guidelines (please see attached Appendix).

The Guidelines are intended to foster the design and development of sound practices in the implementation of electronic retail payment systems as well as instruments leveraging on the available technology to provide more efficient and secure payment services in the market. These Guidelines are also expected to go a long way in promoting the usage of electronic means of payments in a prudent, inclusive and customer friendly manner.

Players in the market are called upon to familiarise themselves with the Guidelines which take effect from 1 August 2017, so as to ensure the requisite compliance.

The Bank has initiated the process of reviewing the National Payment Systems Act (Chap 24:23 of 2001) in order to enhance the legal and regulatory framework, taking cognizance of developments in the market.

SECTION 6

POLICY MEASURES

The following policy measures are expected to address investor confidence, efficient allocation of foreign exchange, stabilisation of the country's nostro position, export competitiveness, stabilisation of the financial sector and the promotion of a savings culture and efficient circulation of money.

1. Establishment of a Portfolio Fund

The Bank has noticed that repatriation of foreign exchange for securities related transactions is taking a long time to be processed by banks despite such transactions being on the first category of the priority list for the allocation of foreign exchange. In order to address this challenge, the Bank is establishing a Zimbabwe Portfolio Investment Fund ('the Fund") to facilitate the efficient repatriation of portfolio related funds to foreign investors invested specifically on the Zimbabwe Stock Exchange (ZSE).

The rationale for setting up the Fund stems from the fact that foreign investors have traditionally played a significant role on the ZSE which is one of the most diverse and long established markets on the continent. Foreign portfolio flows have provided both liquidity and stability on the market which has been positive for not only listed firms but the country as a whole. The Bank's view is that a well-functioning capital market provides a strong signal for potential sources of foreign investment and for promoting the integrity and efficiency of the stock market. The Fund is therefore essential to re-establish confidence on the ZSE by demonstrating that there is a pathway for foreign investors to realise their gains, stimulate active trading and build a vibrant market with efficient and accurate price discovery and generally to demonstrate that Zimbabwe is open for business.

Following discussions with the Securities and Exchange Commission and some stockbrokers, the Fund shall be in place with effect from 1 September 2017 on the basis of the following salient framework:

(i) The Fund shall initially focus on the collection and repatriation of foreign funds related to portfolio equity purchases and sales, with the scope of the Fund to include the repatriation of dividends at a later date. Such dividends would then be serviced on a pro-rata basis.

(ii) Opening of a dedicated Portfolio Investment Fund at two designated commercial banks for the receipt of all portfolio investment proceeds into Zimbabwe and the repatriation of foreign investors' proceeds from the ZSE. The Bank shall place an initial seed capital of US$5 million in this Fund to kick-start the repatriation mechanism and improve investor confidence.

(iii) The Bank shall have an oversight role for monitoring purposes and to maintain integrity and transparency in the functioning of the Fund.

(iv) All incoming and outgoing portfolio funds, going forward, to be collected and pooled into the Fund, with payments made on a first-in-first-out basis and, if required, on a pro rata basis in line with funds available in the Fund post contribution. Excess funds raised will be allocated to clear the backlog with capital gains prioritised over dividends.

2. Nostro Stabilisation Facility

The Bank has negotiated for an enhanced nostro stabilisation facility of US$600 million from Afreximbank to manage the cyclical nature of Zimbabwe's foreign exchange receipts. This facility shall be available for drawdown after the closure of the tobacco selling season by the end of August 2017.

Together with the efficient foreign exchange measure in (3) below, this nostro stabilization facility shall ensure that the revival of firms is strengthened and that critical imports of fuel and electricity are assured.

3. Efficient Utilisation of Foreign Exchange

In order to ensure that the nostro stabilisation facility is supported by a continuous stream of export receipts, and by so doing, improve the efficient utilisation of foreign exchange and bring equity in the foreign exchange market, foreign exchange receipts from platinum and chrome shall be treated in the same manner as gold, diamonds, tobacco and cotton. This policy measure, which is with immediate effect, is consistent with best practice in other jurisdictions that include Angola and Nigeria where fuel foreign exchange receipts are managed by the central banks, just like what diamonds are to the Bank of Botswana and copper to the Bank of Zambia.

4. Standby Facility to Support Export Competitiveness

The use of foreign exchange as a domestic currency in Zimbabwe under dollarisation/multi-currency system demands and dictates that Zimbabwe needs to adopt an export strategy similar to China's "open-door" export strategy, as analysed by an economist, Arvind Panagariya (2003), or what an American writer, David A. Lake (1989) referred to as "Export, Die or Subsidize" strategy.

The Bank subscribes to this philosophy of "Export, Subsidise or Die" strategy in noting that foreign exchange is a critical factor of production especially under the context where foreign exchange is also a domestic currency in Zimbabwe within the multi-currency system. Zimbabwe needs to produce and create exports. Foreign exchange must be earned and spent wisely in order to survive. There is no substitute for this narrative as the country's external position is already weakened by more than 16 years of economic and international isolation. We cannot further isolate ourselves by doing nothing and undermining the economy by perpetuating market indiscipline.

It is against this philosophy and building on the success of the 2.5 - 5% export incentive/subsidy scheme in securing and increasing the export of goods (by 14%) and services and diaspora remittance since May 2016, that the Bank found it imperative to extend and enhance the export incentive scheme by US$300 million under a standby liquidity support from Afreximbank. The Standby Liquidity Support, which is separate from the Nostro Stabilisation Facility, shall be used to back the bond notes that are going to be issued to monetise this subsidy scheme. As like under the US$200 million facility, the Bank will release the bond notes into the market on a drip-feed basis.

The Bank views the export incentive scheme or subsidy scheme as an important monetary policy tool for internal devaluation to deal with export competitiveness. As a result of this scheme a number of firms are now back on the export market.

5. Aftrades as Lender of Last Resort

Following the maturity and full settlement of the US$200 million initial African Export-Import Bank Trade Backed Securities (Aftrades) on 13 February 2017 and the positive impact it had on the interbank market, the Bank has renewed the facility at an enhanced level of US$400 million for another two years to mature in 2019. Already more than 75% of that amount has been subscribed.

This facility is the Bank's lender of last resort window wherein the Zimbabwe country risk is transferred offshore to Afreximbank. The facility has managed to bring stability within the banking sector over the past three years as banks are able to borrow from this window to support their liquidity requirements through the Bank.

6. Export of Cash

The carrying of foreign currency cash on person per exit from Zimbabwe has been reviewed to an equivalent of US$2000 per individual per exit. Amounts in excess of this amount require prior authorisation from Exchange Control through normal banking channels. For avoidance of doubt, confiscation of funds belonging to diplomatic staff in Zimbabwe is not Government policy.

7. Addressing the Inefficient Circulation of Money

In monetary economics, circulation is the continuing use of money for transactions. Thus, money in circulation is the total value of money (coins and paper money) that has ever been issued minus the amount that has ever been removed from the economy by a central bank. More broadly, money in circulation is called narrow money, referred to as M0. Money is meant to circulate for the well-being of any economy.

The current stock of money in circulation in Zimbabwe is made up of bond coins ($25 million), bond notes ($175 million) and multi-currencies dominated by the U.S. dollar at approximately $800 million, to give a total of around $1 billion. This quantity of money in the economy is quite sufficient to support the usable bank balances, as measured by the RTGS balances, currently sitting at around $1.6 billion within the banking system. The amount of money in circulation is around 62.5% of

RTGS balances and/or 15.5% of the total deposits as measured by M2 of around $6.2 billion.

For all intents and purposes, and in line with international best practice, the money in circulation in the Zimbabwean economy is sufficient to support money supply as measured by M0, M1 or M2. What therefore makes the situation in Zimbabwe unique is that money in the economy is not circulating efficiently within the formal economy. Its confined to the informal sector and/or the parallel markets.

The inefficient circulation of money is significantly causing shortages of cash in the formal economy and the banks. The Bank is concerned about this practice which has crept into the economy which can be attributable to a number of factors, chief among them being rent seeking behaviour, externalisation motives since the U.S. dollar is a highly sought-after currency, corruption and lack of confidence which is induced by indiscipline.

Whilst the Bank has intensified the enforcement of the Bank Use Promotion Act [Chapter 24:24] to promote compliance with the laws of the country which is in line with AML/CFT framework, dealing with this scourge of indiscipline requires high level of self-discipline and national common purpose built on shared values to safeguard the country's hard earned foreign exchange resources that are critical to oil and stabilise the economy for the common good. We need to jealously guard foreign exchange earnings which is the most critical factor of production world-over.

To minimise abuse of cash, it is essential that,
(i) the Zimbabwe Revenue Authority (ZMRA) should ensure that the exportation of cash, including bond notes, by travellers is within the authorised limits,

(ii) banks should ensure that business point of sale (POS) machines are not linked to individuals' accounts. This malpractice or financial indiscipline is negatively affecting the tax base as business accounts reflect little business while most of the transactions are being reflected in individual accounts.

(iii) adherence to the cash-back current policy in place, and

(iv) going digital, embracing plastic money, to avoid queuing for cash at banks and in order to preserve foreign exchange for foreign payments.

The Bank has received valuable contributions from various sectors in the country that include civic society, churches and members of Parliament on additional support measures to enhance the circulation of money within the economy and to guard against money laundering. The Bank shall be implementing the proposed measures at the appropriate time.

8. Savings Bonds

To encourage individuals, families, households, small and medium enterprises, schools, universities, public and private institutions, corporates, churches and investors in general, to start saving and to nurture a culture of saving and building national wealth the Bank has developed a savings bond which offers simplicity and guaranteed returns with minimum investment from as little as $100 with no commission, agency or service fees.

The Savings Bonds will help to accelerate the empowerment of the banking public by providing an investment instrument with high yielding returns as well as offering safe and secure investment. The Savings Bonds will be made available, through banks, selected agencies and electronically on a platform to be established. The bonds will be accepted as collateral on all borrowings and convertible to cash on a simple open and transparent fixed conversion rate on any trading day.

Salient features

(i) Fixed Rate Savings Bonds,

(ii) Rolling maturities of one year, two years, three years and five years,

(iii) Simple interest rate of 7%,

(iv) Minimum investment amount of $100,and

(v) Tax free on interest earned.

9. Transformation of the Status of IDC

Sustainable development in the next 15 years starting 2015 to 2030, following the adoption of the Sustainable Development Agenda in the form of the 17 Sustainable Development Goals (SDGs) to which Zimbabwe is a signatory, is being largely underpinned by innovative domestic financing, through Central Banks and Development Finance Institutions (DFIs), the world over.

In Zimbabwe, while we have the Infrastructure Development Bank of Zimbabwe (IDBZ) and Agribank, both falling under RBZ supervision as DFIs, supporting infrastructure and agriculture development, respectively, there is an apparent vacuum of a similar institution operating to support industrial development. However, a re-look at the mandate of the Industrial Development Corporation of Zimbabwe (IDC), shows that it was created as a DFI for industrial development, even though it has largely not operated as such, but has to a large extent become a player and competitor in the private sector space.

IDC is a Development Finance Institution (DFI) established in 1963 under the Industrial Development Corporation (IDC) Act [*Chapter 14:10*]. The mandate of the corporation as provided for in the Act is summarised as:

- to establish and conduct any industrial undertaking;
- to facilitate, promote, guide and assist in the financing of new industries and industrial undertakings; and schemes for the expansion, better organization and modernization of existing industries;
- to assist and support the development of small-scale or medium-scale industries (SMEs);
- to implement policies of the Government in regard to decentralization of industry and choice of technology for industrial development;
  to undertake the development of management and technical expertise in the carrying out of operations in industries and industrial undertakings, including the development of expertise in project analysis, evaluation of investment opportunities and the provision of consultancy services; and
- to take such measures as may be necessary or expedient to enable the Corporation to exercise direct and effective control over enterprises in which it has made an investment.

IDC has the power to :
(a) to promote or assist in the promotion of companies for conducting industrial operations in Zimbabwe or any other country;

(b) to lend or advance money to, to acquire an interest in or to provide, or by underwriting or otherwise to assist in the subscription of, capital for, any company engaged in or proposing to establish or to expand or modernize any such industry or industrial undertaking ....; among other powers.

In order to realise the industrial development mandate of IDC, there is need for the IDC to transform itself and operate along the lines like other development finance institutions such as the IDC of South Africa. The Bank is of the view that it is now high time for IDC to contribute meaningful to the Zimbabwe Agenda for Socio-Economic Transformation (ZimAsset) through the following:

(i) To operate as a DFI in order to facilitate industrial development in Zimbabwe, under the RBZ supervision just like the IDBZ and Agribank.

(ii) To prioritize its core mandate of providing industrial financing and enterprise development for both large corporate and small and medium enterprises (SMEs).

(iii) To prime its risk management techniques to promote sound financial and investment decisions. Enhancement of risk management and corporate governance practices will not only improve delivery on the mandate but will also enhance the risk profile of the DFI, thereby enhancing its capacity to raise funding from local and offshore financiers.

(iv) To decentralise its operations across all the 10 Provinces of the country, in order to promote inclusivity and localisation of Industrial development initiatives. Decentralisation will also enable the IDC to identify and support viable investment opportunities in strategic sectors of each province and monitor these closely.

(v) To establish a robust programme for capacity building in all its investment projects and support to private sector enterprise development.

(vi) To actively pursue strategic financial, technical, and technological partnerships, that will promote the achievement of its industrial development mandate.

10. Reduction of Licence Fees for Authorised Dealers with Limited Authority

The Bank recognises Diaspora remittances as a key and reliable source of liquidity for the country and continues to find ways to improve the remittances market. In an effort to enhance the ease of doing business and increase competition in the remittances market, the licence fees for Authorised Dealers with Limited Authority (ADLAs) have been reviewed downward with effect from 1st August 2017 as indicated in Table 14.

Table 14: New licensing Fees for ADLAs

	Old Fees ($)		**New Fees ($)**	
	Initial	**Renewal**	**Initial**	**Renewal**
Head office	1000	800	500	250
Branch	400	200	200	100
Rural Branch	200	100	50	50

The reduction of licensing fees is intended to increase competition in the remittances market and increase remittance access points. The market is, however, encouraged to embrace available technologies and provide options for receipt of remittances into digital wallets, to enhance convenience to remittance recipients as well as and foster financial inclusion.

11. Efficient and Effective Management of Foreign Exchange

In order to ensure the efficient and effective utilisation of foreign exchange, Authorised Dealers are being reminded to continue to exercise financial discipline and integrity in the allocation of foreign exchange among competing demands. In this regard, Authorised Dealers should prioritise the importation of raw materials and other inputs, critical for increasing local production and exports, a key component for the revival of the national economy.

12. Diaspora Remittances Incentive (DRIS)

The Diaspora Remittances Incentive (DRIS) has attracted international remittances to flow through formal channels, but informal remittances are still high. The remittances market also has a high appetite for cash as the majority of recipients are not banked. In order to enhance financial inclusion for remittances recipients, the Bank shall increase the DRIS for remittances received through banking or wallet accounts from 3% to 10%, with effect from August 2017. The incentive for Money Transfer Agencies and remittances received as cash shall remain at 2% and 3%, respectively.

SECTION 7

CONCLUSION

The major conclusion to be derived from this Monetary Policy Statement is the need to change the cash shortages narrative to foreign exchange shortages. This change of narrative is essential in order for the nation to focus on foreign exchange as the critical missing resource or factor of production which needs policy interventions to rebalance the economy. Reducing the challenges facing the economy to a symptom of cash shortages is negating the fundamental structural and indiscipline challenges facing the economy and gives a wrong impression that cash shortages are caused by banks and the Bank. Changing the narrative to foreign exchange shortages therefore brings out the correct position that the economy is not producing and exporting enough to meet its requirements and that the shortage of forex is exacerbated by market indiscipline. This common understanding is necessary in order to come up with shared solutions to the well-known challenges besetting the economy.

As a dollarized/multi-currency isolated economy, Zimbabwe needs to produce and create its own foreign exchange to meet the needs of its economy that include providing adequate foreign exchange backup for money in circulation especially as represented by RTGS balances in order to minimise and reduce the scarcity premiums or discounts of 5 - 25% currently prevailing in the parallel markets and thus enhance both consumer and business confidence.

Plugging the leakages of foreign exchange through putting in place measures to mitigate illicit financial flows and other nefarious activities, and bolstering the regulatory and supervisory framework to deal with anti-money laundering is critical to promote efficient utilisation and circulation of the existing foreign exchange resources. Plugging leakages requires self-discipline and adherence to good corporate governance. It needs transparency and accountability.

Furthermore, structural reform measures that include reducing fiscal deficit to sustainable levels and improving the business operating environment are necessary to restore policy credibility and economic stability.

Dealing with the two great forces at play - fiscal deficit and market indiscipline - in the national economy is critical. Whilst fiscal deficit is necessitating the creation of money the wayward market indiscipline is withdrawing that money from the system thereby undermining the efficient circulation of money.

It is precisely for the double-edged solution of foreign exchange as a resource to deal with both domestic and external stability that the policy measures in this statement are presented to provide part of the solution to improve the economy's competitiveness and restore investor confidence.

The Bank is also determined to the re-engagement and arrears clearance programme in order to reduce Zimbabwe's high country risk premium which together with the execution of structural reforms are key to unlocking external financing.

Execution of the policy measures presented in this Monetary Policy Statement and the acceleration of the implementation of structural reforms that are needed to create a conducive business environment for private sector led-growth would support economic growth from the expected 3.7% in 2017 to around 5% in 2018. Inflation is expected at 2% - 3% by year end, which is in line with the Southern African Development Community (SADC) inflation benchmarks of 3% - 7%.

We remain optimistic that through working closer together, Zimbabwe, being the best kept secret in Africa, shall overcome its challenges through the localisation of production, enhancing self-discipline and promotion of exports. Indeed we need to produce and create value to sustain the turnaround of the economy.

Dr J P Mangudya
Governor
Reserve Bank of Zimbabwe

2 August 2017

APPENDIX

GUIDELINES

FOR

RETAIL PAYMENT SYSTEMS

AND INSTRUMENTS

CONTENTS

1 Scope and Objectives

1.1. Prudent management of payment schemes is critical to ensure safety and soundness in the national payment system and the general functioning of the financial system as well as wider acceptance and success of retail payment modes or instruments, and ultimately support of economic development.

1.2. Accordingly, this Guideline aim to provide a framework to support the development of retail payment systems and retail payment instruments in Zimbabwe by ensuring the safety and soundness of payment schemes and products, thereby enhancing users' confidence in electronic payment means and increasing their use by the population at large.

1.3. In the light of the development of innovative means of payment using new technologies, these Guidelines have a special focus on electronic systems and the use of e-money, while addressing retail instruments in general and promoting consistency of treatment for all payment instruments in the country.

1.4. To this end, any entity wishing to operate a retail payment system and/or issue and manage a retail payment instrument must comply with the authorization requirements established by the Reserve Bank of Zimbabwe ("Reserve Bank") under these Guidelines and/or any additional measures adopted by the Reserve Bank. To the same end, the standards for the management of retail payment systems, the outsourcing of parts of relevant activities and the use of agents are covered in the guidelines.

1.5. These Guidelines are issued in line with the Reserve Bank of Zimbabwe mandate over the national payment system as stipulated under the Reserve Bank of Zimbabwe Act [Chapter 22:15] and the National Payment Systems Act [Chapter 24:23].

1.6. These Guidelines do not confer on any entity the right to conduct deposit taking business, which may only be conducted by licensed and supervised deposit taking institutions (DTIs) by the Reserve Bank of Zimbabwe.

1.7. These Guidelines do not apply to virtual currencies and should by no means be read to imply any authorization of the issuance or management of such currencies in the country by the Reserve Bank.

2 Definitions

2.1. *Acquirer* means the payment service provider (PSP) processing payments on behalf of a merchant.

2.2. *Agent* means a person acting in the name and on behalf of, and so representing one or more PSP issuing a retail payment instrument *vis-à-vis* users. The issuing PSP is subject to all relevant Zimbabwe rules on principal-agent relationship. By virtue of the agency agreement, the agent is permitted to conduct solely and specifically the services indicated in the agreement.

2.3. *Banking services account* means an escrow account relating to electronic value movement by banked customers through wallet to bank or bank to wallet.

2.4. *E-money* means electronically, including magnetically, stored monetary value in any device or instrument or server as represented by a claim on the issuer, which is issued on receipt of funds for the purpose of making payment transactions and which is accepted as a means of payment by persons other than the issuer. This includes e-money stored in a device such as a SIM card or a server and accessible via mobile, telephone, internet or other access devices, cards, and other similar products but excludes any electronic means to only permit transfers to/from a deposit or current account.

2.5. *Escrow account* means a form of account held by a bank into which e-money is deposited and for proper accounting of the funds as agreed by the parties. This includes trust and banking services accounts all managed by the same trustees.

2.6. *Issuer* means a PSP duly authorized, individually or jointly by the Reserve Bank to issue and manage retail payment instruments. In an instrument or similar scheme where e-money is stored, this is the entity which receives payment in exchange for value distributed in the scheme and which is obligated to pay or redeem transactions or balances presented to it. These shall include deposit taking institutions and any other entity registered by the Reserve Bank.

2.7. *Infrastructure sharing* is the use of existing and future physical, virtual properties by two or more operators or issuers subject to an agreement specifying relevant technical and commercial terms and conditions.

2.8. *Merchant* means any person that accepts retail payment instruments, as well as e-money as payment for their goods and services.

2.9. *Operator* means the entity that provides and manages a retail payment system.

2.10. *Outsourcing* means the contracting or sub-contracting of one or more activities relating to the operation of a system or the issuance and management of a payment instrument to an independent third party. Such third party provides services to the issuer.

2.11. *Payment* ***S****ervice Provider* (PSP) means an entity that provides services enabling funds to be deposited and withdrawn from an account; payment transactions involving transfers of funds; the issuance and/or acquisition of payment instruments such as cheques, e-money, credit cards, debit cards; remittances and other services central to the transfer of funds.

2.12. *Remittance service provider* means an institution that accepts cash and other payment instruments in one location and pays a corresponding sum in cash or other form to a beneficiary in another location by means of a communication, a message, transfer or through a clearing network to which the remittance service provider belongs.

2.13. *Retail payment instrument* means any tangible or intangible device or mechanism that enables a n individual or entity to obtain money, goods or services, or to otherwise make payment or transfer money, regardless of whether the user holds an account or not. These include, but are not limited to, funds transfers initiated by any paperless device (such as automated teller machine, points of sale, internet, telephone, mobile devices, payment cards, including those involving storage of E-Money, and transfers executed by remittance services, both domestically, regionally and internationally.

2.14. *Retail Payment System* comprises the technical infrastructure; participants; instruments; for clearing and settlement; business relationship arrangements (such as bank-customer relationships, rules, procedures, the applicable legal framework and governance arrangements) that put together, provide overall environment within which typically a large volume relatively low value payments are posted, authorised, processed, cleared and settled.

2.15. *Scheme* means the rules, standards and procedures governing the operational framework permitting the operation of the retail payment system and instrument and the linking of all stakeholders.

2.16. *Trust account* means an escrow account relating to electronic value movements through deposits and withdrawals by merchants, agents, billers and other customers.

2.17. *User* means any person who uses a retail payment instrument or any person to whom e-money has been issued

2.18. Virtual *currency* means a digital representation of value that can be digitally traded and functions as (1) a medium of exchange; and/or (2) a unit of account; and/or (3) a store of value, but does not have legal tender status (i.e., when tendered to a creditor, may be valid and legal offer of payment) in any jurisdiction. It is distinct from e-money, which is a digital representation of currency used to electronically transfer value denominated in currency.

2.19. *Wallet* means a user's holding in an escrow account.

3 Authorization

3.1. No operator can operate a system or an issuer can issue and manage retail payment instruments unless it has been authorized by the Reserve Bank.

3.2. In order to be authorized, an applicant shall submit to the Reserve Bank all information and documents that the Reserve Bank shall from time to time require for this purpose in accordance with its Recognition Criteria and Oversight Framework under the National Payment Systems Act and other applicable laws or legal statutes.

3.3. Authorization and Approval or Approved shall refer to sanctioning by Reserve Bank of Zimbabwe and in some cases by market players through recognised self-regulatory bodies (SRO) under the jurisdiction of the Reserve Bank.

4 Governance

4.1 An operator or an issuer shall establish adequate governance arrangements, which are effective and transparent, to ensure the continued integrity of its scheme or product, which shall include, among others, the following:

Fulfillment by all shareholders, directors, managers and agents of the fit and proper criteria requirements as established by the Reserve Bank and include the following minimum requirements:

i. Honesty, integrity and reputation (fairness and ethical behaviour)
ii. Competence and capability
iii. Financial soundness and solvency

4.2 The above matters will be considered in respect of the persons, for the functions and duties to be undertaken by any of these persons that are involved in any payment systems regulated activities.

Honesty, integrity and reputation (fairness and ethical behavior)

4.3 In determining the integrity of the key person (both natural and corporate), the Bank will consider matters such as, but not limited to:

i. Conviction of any criminal offence;
ii. Adverse findings or any settlement in civil proceedings;
iii. Interviews done in the course of, any existing or previous investigation or disciplinary proceedings, by the any regulator;

iv. Any proceedings of a disciplinary or criminal nature, or has been notified of any potential proceedings or of any investigation which might lead to those proceedings;

v. Contravention of any of the requirements and standards of any regulatory system;

vi. Subjection of any justified complaint relating to regulated activities;

vii. Involvement with an institution that has been refused registration, authorisation, membership or a licence to carry out a trade, business or profession, or has had that registration, authorisation, membership or licence revoked, withdrawn or terminated, or has been expelled by a regulatory or government body;

viii. Removal of the relevant licence, registration or other authority, leading to the person being refused the right to carry on a trade, business or profession requiring a licence, registration or other authority;

ix. Director, partner, or concerned in the management, of a business that has gone into insolvency, liquidation or administration while the person has been connected with that organisation or within one year of that connection;

x. Person, or any business with which the person has been involved, has been investigated, disciplined, censured or suspended or censored by a regulatory or professional body, a court or Tribunal, whether publicly or privately;

xi. Dismissal, or asked to resign and resigned, from employment or from a position of trust, fiduciary appointment or similar;

xii. Disqualified from acting as director or disqualified from acting in any managerial capacity;

xiii. In the past, the person has been candid and truthful in all his dealings with any regulatory body and whether the person demonstrates a readiness and willingness to comply with the requirements and standards of the regulatory system and with other legal, regulatory and professional requirements and standards.

Competence and Capability

4.4 In determining a person's competence and capability, the Bank shall have regard to matters including, but not limited to the person's:

i. Personal characteristics and adequate time to perform the function and meet the responsibilities associated with that function;
ii. Satisfactory past performance or expertise in the nature of the business being conducted;
iii. Appropriate range of training, qualification, skills, competence and experience to understand, operate and manage the regulated activities/financial affairs;
iv. Technical knowledge, ability personal characteristics and adequate time to perform prescribed duties for which they are engaged, and meet the responsibilities associated with that function; Recognized professional qualifications and membership of relevant professional institutions will be an added advantage to this effect.

Financial Soundness and Solvency

4.5 In determining the financial soundness of the key person (both natural and corporate), Bank will consider matters such as, but not limited to:

i. Whether the person has been the subject of any judgment debt or award, in Zimbabwe or elsewhere, that remains outstanding or was not satisfied within a reasonable period;
ii. Whether, in Zimbabwe or elsewhere, the person has made any arrangements with his creditors, filed for bankruptcy, had a bankruptcy petition served on him, been adjudged bankrupt, been the subject of a bankruptcy restrictions order (including an interim

bankruptcy restrictions order), offered a bankruptcy restrictions undertaking, had assets sequestrated, or been involved in proceedings relating to any of these.

iii. Whether there are any indicators that the person will not be able to meet its debts as they fall due;

iv. Whether relevant solvency requirements are met;

v. Whether the person has been subject to any judgment debt or award that remains outstanding or has not been satisfied within a reasonable period;

vi. Whether the person has made arrangements with creditors, filed for bankruptcy or been adjudged bankrupt or had assets sequestered;

vii. Whether the person has been able to provide the Financial Regulator with a satisfactory credit reference.

4.6 Management and shareholders should ensure capital adequacy in line with the minimum requirements at all times;

i. Clearly defined and documented organizational arrangements, such as ownership and management structure;

ii. Segregation of duties and internal control arrangements to reduce chances of mismanagement and fraud;

iii. All retail payment platforms owned by a group of companies or within a company offering other businesses should be operated as strategic business units within three years from date of approval. These platforms should operate as independent or separate or standalone legal entities within five years from date of approval.

iv. Those already recognized should migrate to the same (4.1e) within two years from the date of issuing this guideline.

4.7 The operator or issuer must implement internal policies that are compliant with Reserve Bank requirements, including at a minimum:

a. Comprehensive risk management;

b. Capital adequacy

c. Liquidity management;

d. System integrity and audit;

e. Business continuity and contingency plan;

f. Security of the network used for communication and transfers;

g. Comprehensive consumer experience and protection management;

h. Complaints, dispute management arrangements and redress mechanisms;

i. Interoperability and Infrastructure sharing;

j. Approved best practices and standards including;

    i. ICT and Technical

    ii. Governance

k. Management of agents;

l. Anti-money laundering and counter financing of terrorism

5 Operational Requirements

5.1 An operator or an issuer shall establish adequate operational arrangements for its scheme or product, which shall include:

a. rules and procedures setting out the rights, responsibilities and liabilities of the issuer, third parties providing parts of the activities in outsourcing, agents, merchants, users and any other relevant stakeholder;

b. measures to ensure safety, security and operational reliability of the scheme or product, including contingency arrangements and disaster control procedures, to be applied to all relevant systems, and platforms whether internal or outsourced;

c. adequate interfaces to ensure interoperability, i.e. that payment instruments belonging to a given scheme may be used in other systems installed by other schemes;

d. separate records and accounts for its activities related to the retail payment instrument that it provides from its other activities.

5.2 The Reserve Bank reserves the right to impose to issuers of retail payment instruments any relevant standards to ensure safe and reliable issuance and management of an instrument. More specifically, the Reserve Bank reserves the right to impose on issuers such conditions and limits on the nature of e-money products that may be offered, the quantity of e-money products that may be issued over a particular period and limits on the monetary values that may be transferred or funded to particular e-money products.

6 Capital Requirements

6.1 An operator shall be required to have an initial minimum capital of one million (United Sates Dollars) and should comply to the following requirements:

a. Submit to the Reserve Bank a certified true copy by the chairman, a director and auditors of the operator's balance sheet, showing the authorised and paid-up capital as well as any unencumbered reserve funds;

b. no part of the minimum capital of the operator or institution shall consist of borrowed funds;

c. no individual or related parties and interests may own or control, directly or indirectly, more than twenty-five per centum of the voting shares of the applicant or operator;

6.2 On an going basis or as prescribed by the Reserve Bank the following must be maintained continuously:

a. A payment systems provider should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan.

b. At a minimum, a payment systems provider should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles.

c. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirement.

6.3 An issuer or operator in operation at the coming into effect of these guidelines and not compliant shall be required to build its capital to the prescribed level not later than two years of the date of issuance of the guidelines.

7 Risk Management

7.1 An operator or issuer shall establish appropriate risk management mechanisms to mitigate financial risk and ensure safety and integrity of the payment system and relevant transfers. Likewise, it shall implement operational and security safeguards in proportion to the scale and complexity of the scheme.

7.2 An operator or issuer shall ensure that they have resources and capacity in terms of expertise, hardware, software, and other operating capabilities to deliver consistently reliable service. Measures to ensure operational reliability shall include:

a. an appropriate system(s) which is robust in its design, development, testing, implementation and monitoring;
b. strong internal controls for systems and personnel administration;
c. comprehensive and well documented operational and technical procedures to ensure operational reliability;
d. a system(s) designed with sufficient capacity which is monitored and upgraded ahead of business changes;
e. robust clearing and settlement arrangements;;
f. robust business continuity, including a reliable back-up system;
g. timely and accurate audit trail and the capability to provide statistical information and reports;
h. adequate accounting systems and proper reconciliation processes.

8 Interoperability and Infrastructure Sharing

8.1 All payment facilities to be introduced by operators shall conform to specified National Payment System requirements to attain infrastructure sharing and interoperability.

8.2 An operator or issuer shall ensure consistently that the infrastructure and technological equipment set up are interoperable and scalable as required by the Reserve Bank from time to time.

8.3 No operator or issuer shall enter into infrastructure sharing agreement without Reserve Bank approval.

9 Records Management

9.1 The payment system providers and participants shall retain manual and or electronic records regarding the payment system operations.

9.2 The minimum retention period for such records shall be ten years unless a higher minimum period is prescribed in terms of AML/CFT or electronic communications legislation in the country.

10 Outsourcing

10.1 An operator or issuer intending to outsource operational or managerial functions shall require specific authorization from the Reserve Bank.

10.2 Outsourcing of important operational or managerial functions may not be undertaken in such a way as to impair the quality of the issuer's internal controls and the ability of the Reserve Bank to monitor compliance with all obligations laid down in these Guidelines or any further measures adopted to ensure oversight of the national payment system.

10.3 For the purposes of sub-section 10.2, a function shall be regarded as important if a defect or failure in its performance, in the view of the Reserve Bank, would materially impair the continuing compliance of an issuer with the requirements of the applicable laws, these Guidelines and/or the terms of its authorization, or would otherwise substantially compromise its financial performance, or the soundness or the continuity of its services.

10.4 Once an issuer outsources important functions, it must comply with the following conditions: (i) the outsourcing shall not result in the delegation by senior management of its responsibility; (ii) the relationship and obligations of the issuer towards the users of any relevant payment instrument shall not be altered; (iii) the conditions with which the issuer is to comply in order to be authorised and remain so in accordance with these Guidelines shall not be undermined; and (iv) none of the other conditions subject to which the authorization was granted shall be removed or modified.

11 Use of Agents

11.1 When an issuer intends to offer a payment instrument to users through an agent network, it shall submit the following minimum information and documents to the Reserve Bank:

(a) criteria for appointing the agents:

i. the name, address;

ii. nature of business;

iii. company/individual profile;

iv. major source of funds;

v. Valid license/vendor number or Partnership Agreement, Certificate of Incorporation, CR14(for Corporates);

vi. Tax clearance certificates(where necessary)

vii. Capacity (e.g. Electronic float and cash to assist customers);

viii. Signed agent application form;

ix. Passport size photo of the directors;

x. Copies of directors' National Identity Documents (ID) or individual owners;

xi. Proof of residence of the directors/owners or proof of physical address for business premises (For all forms of business, proof of residence can be, bank statement or utility bill that is not older than 3 months, a valid trading license showing the business address;

xii. a copy of lease agreement for rented premises supported by landowners' ID or an affidavit with a Commissioner of Oaths or police stamp, In rural areas where this may not always be available;

xiii. a copy of ID of the landowner and a letter from the landowner confirming that they are operating from their premises;

(b) All documents submitted should be certified copies. A description of the internal control mechanisms that will be used by agents in order to comply with the obligations in relation to anti-money laundering (AML) and combating terrorist financing (CFT);

(c) The identity of directors and persons responsible for the management of the agents to be used in the provision of the services;

(d) Notwithstanding that, the minimum fitness and propriety requirements for all agents shall be applied accordingly to promote financial inclusion without compromising risk management.

(e) Copy of the agency agreement, containing at a minimum clear indication of tasks of the agents and consequent allocation of liabilities, responsibilities and duties of the agents towards the users, and the applicable liquidity and security standards.

11.2 When the Reserve Bank receives the information in accordance with sub-section 11.1, it shall review it and decide whether to authorise the agreement as contemplated or with amendments. No agent shall carry out any activities under the agency agreement prior to this being authorised. Before authorizing the agreement, the Reserve Bank may, at its discretion, take further action to verify the information received. If, after taking action to verify the information, the Reserve Bank is not satisfied that the information provided is accurate, it shall reserve the right to deny the authorization.

11.3 The principal shall ensure that agents acting on its behalf inform customers of their acting as agents of a specific principal and shall publish their list on its website.

11.4 The issuer is expected to supervise, equip and train its contracted agents. Issuer is also expected to provide compliance reports on their agents as advised by the Reserve Bank from time to time,

11.5 Exclusivity agreements shall be prohibited in so far as they limit competition in the country and/or foreclose the market. However any exclusivity agreement shall be duly submitted to the Reserve Bank for consideration. The provider must provide justification for such arrangements to be considered for approval by the Reserve Bank.

12 Liability

12.1 When an operator or an issuer relies on third parties for the performance of operational or managerial functions, they shall take reasonable steps to ensure that the requirements of these Guidelines and any further measures by the Reserve Bank are complied with.

12.2 The operator or issuer shall remain fully liable for any acts of their employees, or any agent, branch or entity to which activities are outsourced.

13 Remittances

13.1 All authorised or licensed remittances service providers, both domestic and international, for both in-bound and out-bound remittances need to be registered, licensed and are subject to regulation by the Reserve Bank.

13.2 Payment services providers, participants and agents shall ensure compliance with local and international remittances standards in line with market developments for the benefit of consumers.

14 Rights and Responsibilities of Each Stakeholder

14.1 An issuer must ensure that the rights and responsibilities of all stakeholders (including users and merchants) are clearly set out in the relevant contracts.

14.2 The terms and conditions for the use of retail payment instruments should be easily accessible and understood by the user.

14.3 An issuer shall put in place a system to maintain accurate and complete record of transactions executed by the relevant user.

14.4 At a minimum, users are required to observe the following:

a. Keep the personal identity number (PIN) confidentially;

b. Continuously familiarize with the product terms and conditions;

c. Not use or allow their gadgets to be used for illegal activities; and

d. Immediately and procedurally raise or report any anomaly observed or suspected.

15 Consumer Protection, Education and Privacy

15.1 Every issuer must continuously put in place measures to address consumer protection, privacy, education, and awareness.

15.2 The issuer should in particular ensure that it:

a. adopts general policies on safe operations, privacy of customers information, reliable and quality service, transparency of product and services, and prompt response to inquiries, complaints, refund demands and disputes;

b. ensures that users understand terms and conditions on a continuous basis;

c. puts in place effective and efficient dispute resolution mechanisms;

d. provides adequate warning statements to users and merchants on any known pending or potential threats, lost or stolen payment instruments or access devices, or fraudulent transactions.

15.3 An issuer shall provide clear terms and conditions for use of the instrument, which should be made publicly available. The issuer must obtain acknowledgement from its users and merchants prior to their participation in the scheme. In this regard automatic registration of customers is not permissible.

15.4 Details of scheme should include at a minimum:

a. type of payments and services that can be made;

b. applicable fees and charges which the user should be made aware of before conducting any payment transaction;

c. availability of user's statement;

d. procedures for reporting losses or stolen instruments/devices and means to lodge a complaint;

e. refund policies;

f. rights and responsibilities of users and merchants;

g. termination rules;

h. redemption procedures, when relevant;

i. dormancy account and unclaimed funds requirements and procedures

j. Procedures in the event of death or incapacitation of the user and a monthly return should be submitted to the Reserve Bank.

15.5 A monthly return on dormancy account should be submitted to the Reserve Bank;

15.6 Approved procedures for reversal of funds should at a minimum provide for the following:

a) Reversal of funds should be procedurally conducted immediately after the operator receives the request from the sender that the transaction was a result of genuine error.

b) The receiver of the funds should have his/her wallet account frozen by the same amount and advised immediately.

15.7 A record of all reversals should be kept and submitted to the Reserve Bank through monthly return or periodic return.

16 Prudent Management of Funds

All operators should observe the following minimum standards to ensure prudent management of funds:

16.1 An issuer shall manage the funds collected from users prudently to ensure timely refund of balances to users and payment to merchants.

16.2 Issuers shall also ensure that they have sufficient liquidity for their daily operations.

16.3 Funds collected from or on behalf of users should be deposited and managed separately from the issuer's working capital funds.

16.4 An issuer of e-money shall have funds deposited into an escrow/trust account with one or more licensed deposit taking institutions (DTIs) before e-money is issued. In fact the e-money issued must be less than or equal to the actual deposits or transfers presented for exchange.

16.5 All charges or credits should be debited or credited immediately to the customer account at the time of transaction or redemption

16.6 There should be integration of systems between the DTI and the e-money issuer to promote efficient, safe and sound payment systems.

17 Management of Escrow /Trust /Banking Services Account

17.1 An issuer of e-money or operator shall establish a trust account in a deposit taking financial institution for purposes of effective management of consumer funds.

17.2 Every trust account shall be administered by a board of trustees approved by the Reserve Bank in line with an approved constitution and trust deed.

17.3 The issuer shall ensure that, the necessary documentation to operationalize the trust account are in place and include among others the following:

a) Trust Deed, and

b) Charter or constitution

18 Reporting Requirements

18.1 An issuer shall submit or avail to the Reserve Bank:

a. Its audited financial statements, management accounts, internal and external audit reports.

b. Weekly, monthly and ad-hoc transaction reports showing, among others, transactions with agents and between agents, total number of cash in/ cash out, bills paid, transactions specified per gender age, region and any other data the Reserve Bank may from time to time consider necessary for its oversight activities.

c. Weekly and monthly reconciliation statement between the trust account balance and the total e-money in circulation.

d. Periodic and ad-hoc reports on consumer protection issues as defined by Reserve Bank.

e. Mechanism to enable on line read only functions to the platform for monitoring purposes.

19 Compliance with AML/CFT legislation

19.1 Providers of retail payment systems and instruments shall meet the requirements and comply with AML/CFT procedures, as well as regulations and guidelines issued by the Financial Intelligence Unit or Reserve Bank.

19.2 Payment system providers shall also ensure that any third party acting on their behalf or agents shall comply with relevant requirements.

19.3 The terms of this section shall not imply by any means that agents are not liable for their actions under existing legislation on AML/CFT and other relevant legislation of the country.

20 Prohibitions

20.1 An issuer shall not:

a. issue e-money at a discount;

b. use the money collected from or on behalf of users to extend loans;

c. extend credit to the user, or pay interest or profits on the e-money balances, or anything else that would add to the monetary value of the e-money;

d. associate, link or use the e-money scheme or platform to conduct or facilitate illegal activities.

e. Provide any other service not approved by Reserve Bank

20.2 Merchants and agents who are also users of e-money shall maintain a separate user account for making payments for their own behalf.

21 Measures on Electronic Transfers and Electronic Operations

21.1 Operators of electronic payment systems and issuers of retail payment instruments under these Guidelines shall comply with all relevant laws and regulations on electronic transfers, and comply with any of their requirements for irrevocability of orders, finality of payments and interoperability of systems.

21.2 Rules on authentication of payment transactions, execution of payment orders and other rules on users' protection as established by the Reserve Bank from time to time and/or relevant payment systems shall be applied.

22 Electronic Transactions Limits

22.1 The Reserve Bank, within its oversight powers, may from time to time impose limits on any kind of transactions to be executed by specific instruments, such as internet banking, card and/or mobile payments, as well as thresholds and number of transactions permitted within a certain period for individual instruments.

23 Existing Schemes, Systems or Products

23.1 Any entity offering retail payment instruments or operating retail payment systems on the effective date of these Guidelines shall structure their organization, administration, and operations to the requirements of these Guidelines within six months from the effective date of these Guidelines or any extended period as the Reserve Bank may determine.

23.2 Banks or other entities jointly providing payment services linked to bank accounts and retail payment instruments as covered by these Guidelines, shall obtain an authorization for the payment instrument or scheme covered by these Guidelines.

23.3 When submitting information and documents to seek authorization from the Reserve Bank under these Guidelines, entities seeking authorization must indicate and provide documentation on existing links between the different payment products offered, irrespective of the need for a bank account, measures in place to mitigate the risks assessed, as well as any cases of shared use of infrastructures or operations, including the use of agents for the provisions of different financial services.

24 Payment Systems Associations

24.1 Payment systems providers, participants and agents are required to establish, join and participate in the respective associations to facilitate collaboration and standardization of business conduct for the development of payment systems.

24.2 The associations should be governed by a constitution or charter approved by the Reserve Bank to ensure regulatory compliance.

Effective date of guidelines

The effective date of operation of the Guidelines is 1 July 2017

ooo0ooo