MONETARY POLICY STATEMENT

ISSUED

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

BY

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RESERVE BANK OF ZIMBABWE

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INTRODUCTION

1. My maiden Monetary Policy Statement as Acting Governor, is issued in terms of **Section 46 of the Reserve Bank Act (Chapter 22:15).** This follows the strategic postponement of the 2013 Mid-Term Monetary Policy Statement, which was necessitated by the need to allow the National Budget to set the fiscal policy tone.

2. Nevertheless, I present this Monetary Policy Statement at a time when the country's economic landscape is facing increasing challenges. Notably, the economic slow-down currently experienced, has been magnified by subdued external demand coupled with the deterioration in domestic macroeconomic conditions.

3. Despite these attendant challenges, I remain optimistic that the economic prospects for Zimbabwe will not disappoint, provided we decisively and holistically implement all the ingredients as embodied in Zim-Asset.

Current Challenges

4. The country remains saddled with the following attendant challenges among others:

i. A **severe and persistent liquidity crunch** which has made it very difficult for local productive sectors to access sufficient credit to oil the wheels of our economy;

ii. **Lack of competitiveness of locally produced goods** due to high costs of production resulting in the huge importation of finished goods, hence the widening current account deficit;

iii. **Infrastructure bottlenecks especially around key economic enablers such as energy, transport, communication. These bottlenecks have** eroded of viability and competitiveness of local producers in key economic sectors; and

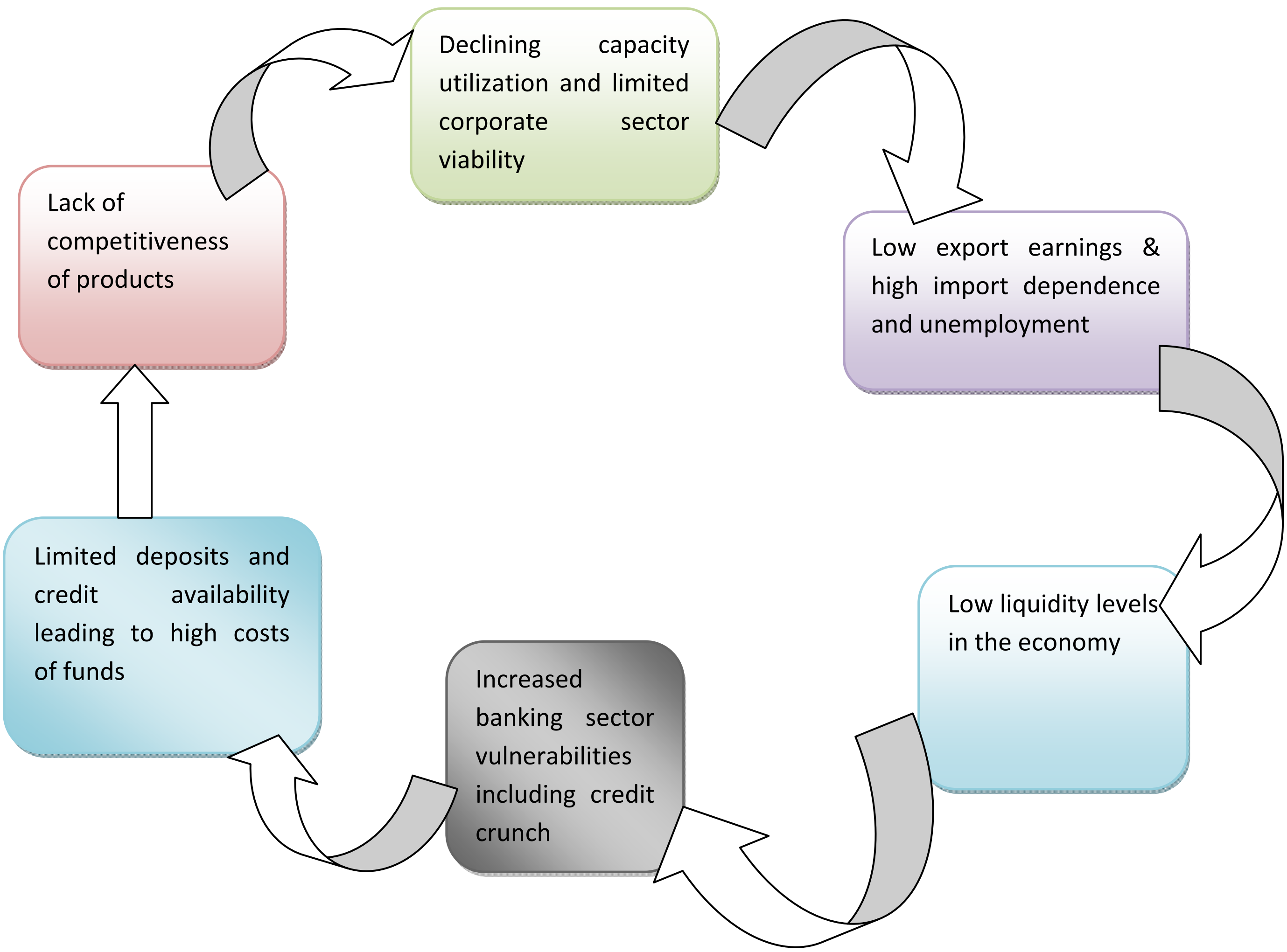
iv. **Inadequate and often erratic service delivery** from parastatals and local authorities.

5. These challenges have resulted in low industrial capacity utilization, accentuated by widespread company closures, deterioration in the external sector position, and rising formal unemployment.

6. Importantly, the deterioration in both domestic and external macroeconomic conditions, and the resultant deepening of liquidity shortages has resulted in a vicious liquidity cycle.

7. The vicious liquidity cycle depicted below has been compounded by international commodity price deflation that has had negative repercussions on export earnings.

Figure 1: Vicious Liquidity Cycle



8. As such, the country's high commodity dependence has conspired with huge import absorption to drain the banking sector of the liquidity largely realized from the following key sources:

- Export earnings;
- Diaspora remittances;
- Offshore credit facilities;
- Foreign Direct Investment (FDI); and
- Portfolio investment inflows.

9. These negative developments have magnified liquidity shortages in the economy with increased banking sector vulnerabilities, particularly in the absence of an effective lender of last resort. Against this background, this Monetary Policy Statement attaches great prominence on measures aimed at maintaining the stability of the banking sector whilst at the same time enhancing its key intermediary role.

10. In this regard, **the theme of this Monetary Policy Statement is "the restoration of** the **role of the Central Bank in efforts to enhance financial intermediation"**.

11. Notably, measures embodied in this Monetary Policy statement are geared at enabling the financial sector to be the fulcrum of economic growth by effectively play its intermediary role. This will be realized through the creation of an enabling environment supportive of effective mobilization of surplus investible funds for re-deployment to the following key clusters of the economy as enunciated in Zim Asset:

i. Food Security and Nutrition;
ii. Social Services and Poverty Eradication;
iii. Infrastructure and Utilities; and
iv. Value Addition and Beneficiation.

ROLE OF THE RESERVE BANK OF ZIMBABWE

12. Against the background of the limited role played by the Reserve Bank since the introduction of the multiple currency system, the Honourable Minister of Finance and Economic Development, in his 2014 National Budget instituted bold measures to restore **the role of the Central Bank**.

13. The Central Bank applauds these bold strides aimed at situating the Reserve Bank in its rightful position as an important institution in the financial sector and the economy at large.

14. The capitalisation of the Bank will enable it to be the Banker of Government, play its role of Lender of Last Resort and participate more significantly in the development of the interbank market, which will enhance increased lending to key productive and export sectors of the economy.

Banker to Government

15. The Reserve Bank will resume its role as the banker to Government, implying that all Government deposits will be channelled to the Central Bank. The Bank will also be responsible for raising funding for Government as and when the need arises.

Lender of Last Resort (LOLR)

16. On any normal trading day, financial institutions may experience a mismatch between their receipts and payments. When payments exceed receipts, the financial institution in short can either raise funds in the inter-bank market or dispose off some of its liquid assets. In the event that the position still remains short, financial institutions normally revert to the Lender of Last Resort facility offered by the Central Bank.

17. It is against this background that Government, through the Ministry of Finance and Economic Development, has undertaken to adequately fund the resuscitation of the Lender of Last Resort Facility of between US$150 million to US$200 million..

18. With a well funded Lender of Last Resort facility, the Reserve Bank will **accommodate solvent banking institutions** experiencing temporary liquidity challenges against acceptable collateral as

specified in the Banking Act [Chapter 24:20] and the Reserve Bank of Zimbabwe Act [Chapter 22:15].

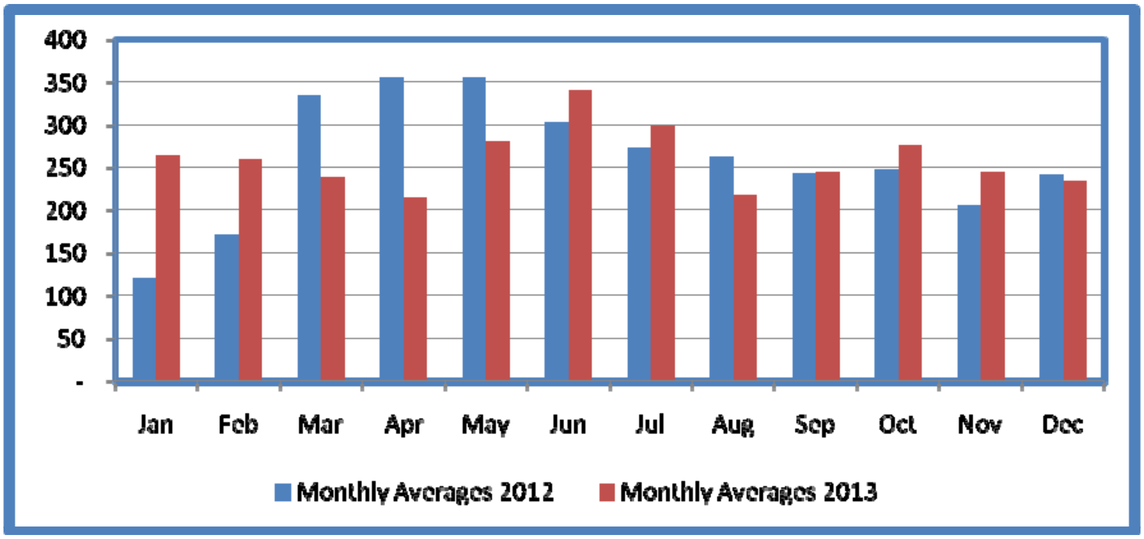
19. It is envisaged that banks will progressively reduce the quantity of precautionary cash balances they currently hold either as cash or Real Time Gross Settlement (RTGS) account balances and, therefore, provide more funding to productive sectors of the economy.

Interbank Market

20. In the absence of an active lender of last resort, the interbank market has generally remained inactive as reflected by sizeable surplus positions at some banks while other institutions experience acute liquidity shortages. To illustrate this position, average money market surpluses exceeded US$250 million in 2012 and 2013.

21. In addition, subdued inter-bank market activity was compounded by the lack of acceptable collateral on the part of banking institutions requiring interbank borrowing.

Figure 2: Average Monthly RTGS Account Balances 2012 & 2013 (US$M)



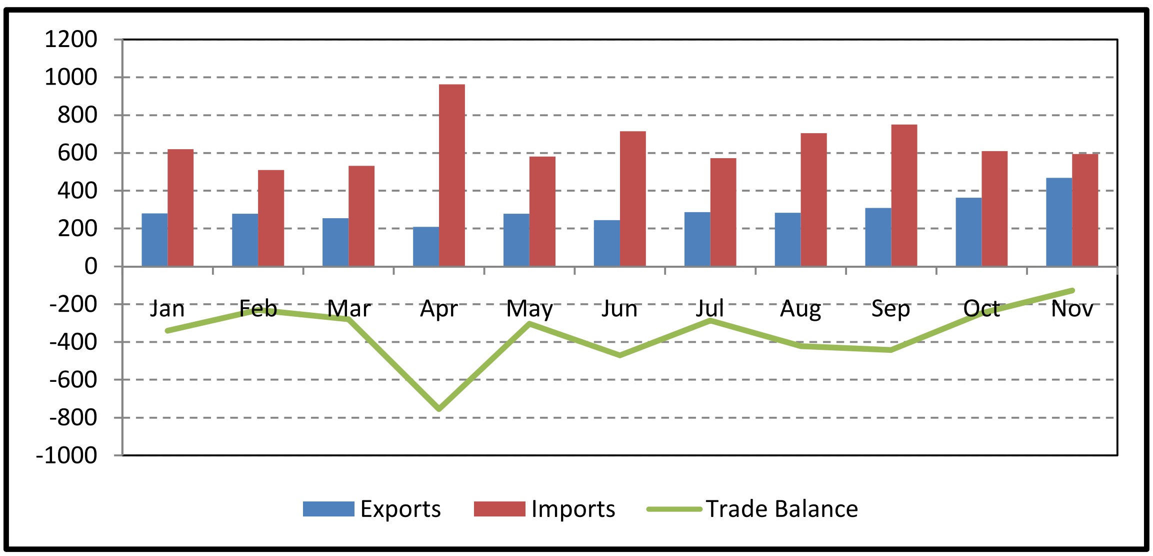
22. It is against this background that the Reserve Bank greatly appreciates the efforts made by Government, in collaboration with Afreximbank to re-activate the interbank market. Nonetheless, intricate implementation modalities on the resuscitation of the interbank market will be announced in due course.

23. Within the context of the multiple currency system, the development of domestic financial markets remains intricately bound to external sector developments. This is particularly so as balance of payments developments have a direct bearing on liquidity conditions in the domestic economy.

EXTERNAL SECTOR DEVELOPMENTS

24. The country's external sector position remains precarious on the back of uncompetitive exports and the absorption of disproportionately huge imports. Growing import dependence has largely been occasioned by widening capacity gaps in the wake of endemic company closures. Figure 3 below shows the adverse trade balance for the period January to November, 2013.

Figure 3: Merchandise Trade Jan-Nov 2013 (US$M)



Source: Zimstat

25. Reflecting the slowdown in export growth, total foreign currency receipts as reported by banks declined by 2.1% from US$7.6 billion

in 2012 to US$7.5 billion in 2013. On the other hand, the foreign payments amounted to US$8.9 billion in 2013, compared to US$8.2 billion in 2012.

26. On the back of the negative repercussions of the global economic slow-down, inflows from foreign investment, offshore credit lines, foreign aid and Diaspora remittances have remained subdued.

International Remittances

27. Notably, international money transfers received by transfer agencies (MTAs) and formal banking channels, declined markedly by 15% from US$2.1 billion in 2012 to US$1.8 billion in 2013. This notwithstanding, a considerable amount of Diaspora remittances continue to be transmitted through informal channels.

28. In order to tap into the Diaspora resources, the Reserve Bank is guided by the 2014 National Budget in recognizing the vital role played by Zimbabweans all over the world. Toward this end, work is currently underway to come up with appropriate facilities to effectively harness Diaspora savings for the development of the domestic economy.

29. Regrettably, deterioration in the external sector position, on the back of lack of balance of payments support, further amplifies liquidity

shortages obtaining in the economy. This has a constraining effect on banks' ability to mobilize and avail credit to the productive sectors of the economy, thereby dampening economic growth prospects.

OVERVIEW OF THE BANKING SECTOR

30. The banking sector has remained generally stable despite the various underlying macroeconomic challenges and institution specific weaknesses.

31. The banking sector is currently confronted with liquidity challenges which are manifesting themselves through constrained banking sector lending capabilities, high lending rates and failure to meet customer withdrawal requirements experienced by a few banking institutions.

32. Nonetheless, the few troubled banking institutions are of low systemic importance as they accounted for less than 10% of the banking sector's total assets, total deposits and total loans respectively, as at 31 December 2013.

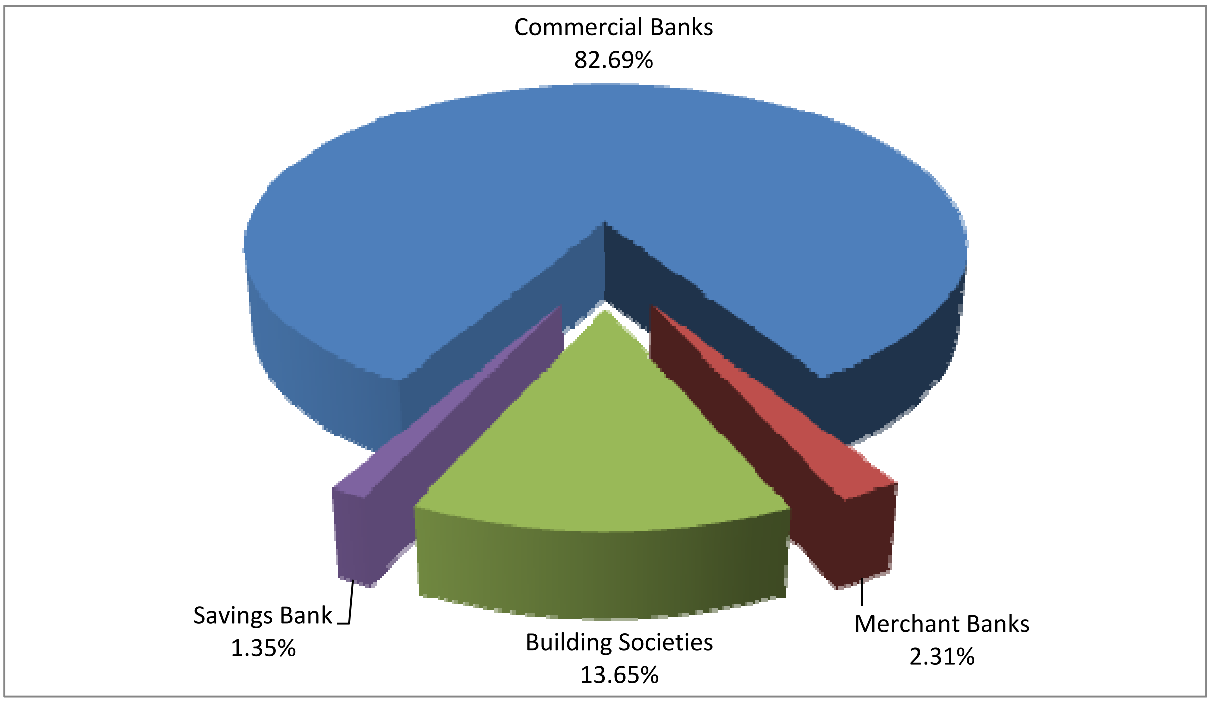
Architecture of the Banking Sector

33. Currently there are 21 operating banking institutions (including the Post Office Savings Bank (POSB), following cancellation of Trust Bank operating licence on 6 December 2013. In addition, there are 146 microfinance institutions.

Financial Intermediation

34. Total banking sector assets as at 31 December 2013, were $6.7 billion with commercial banks accounting for 82.69% as shown in the pie chart below:

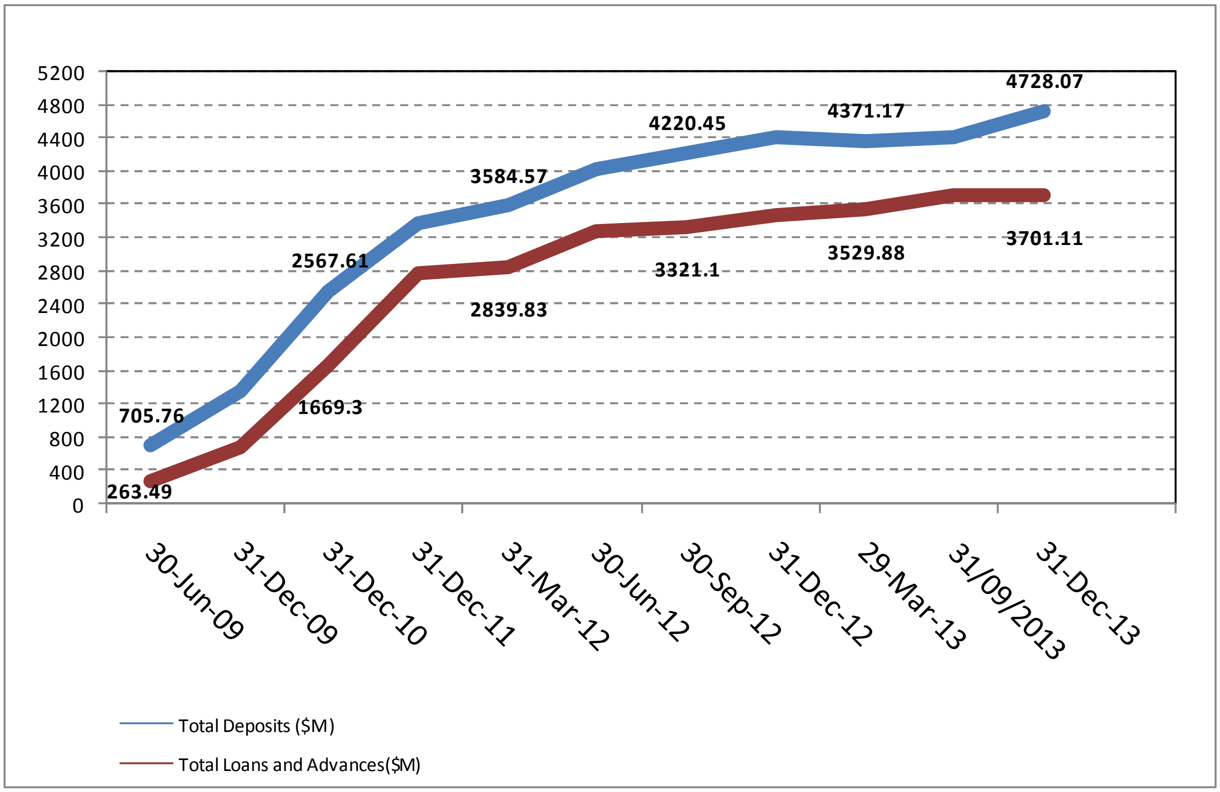
Figure 4: Sectoral Contribution to Banking Sector Assets December 2013



Deposits, Loans and Advances

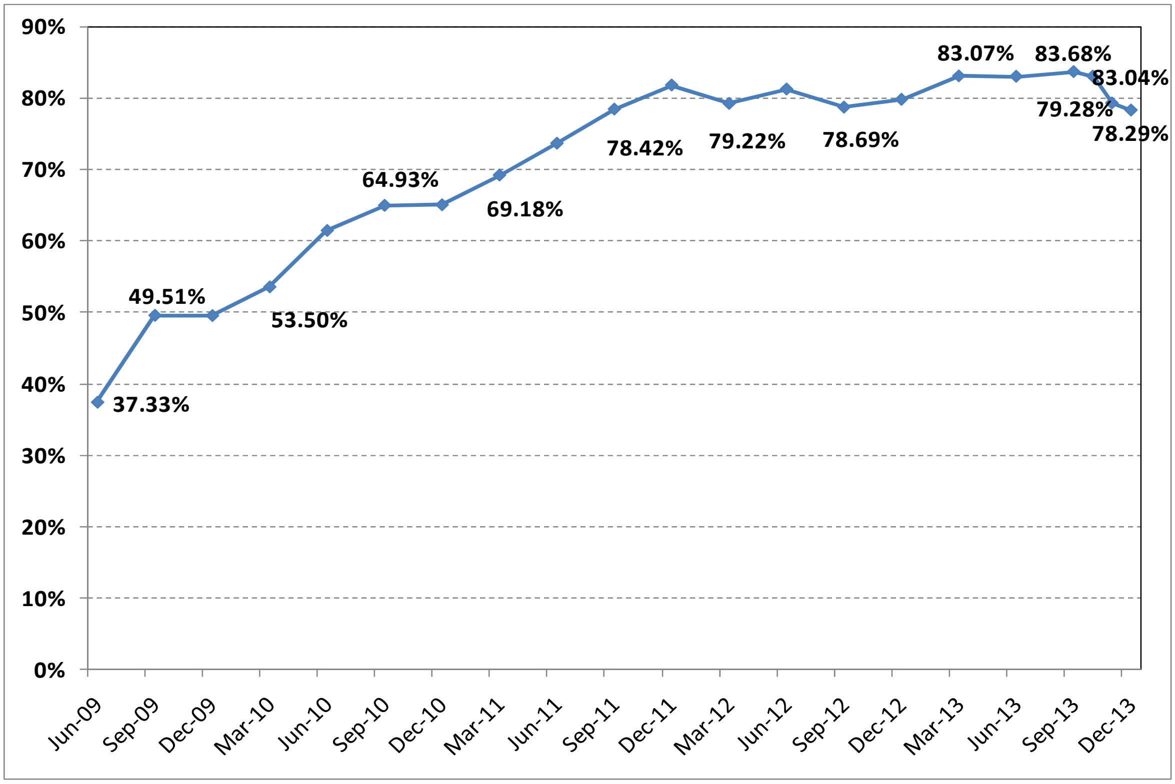
35. As at 31 December 2013, total banking sector deposits amounted to $4.73 billion while loans & advances were $3.70 billion. The graph below shows the slowdown in deposit and loan growth levels as from June 2012. This is consistent with the economic slowdown experienced over the period of analysis.

Figure 5: Banking Sector Loans and Deposits as at 31 December, 2013



36. Notwithstanding the deceleration in deposit growth, the loans to deposit ratio increased from 37.33% in June 2009 to 78.29% as at 31 December 2013 as shown in the graph below.

Figure 6: Loans to Deposits Ratio June 2009 to December 2013

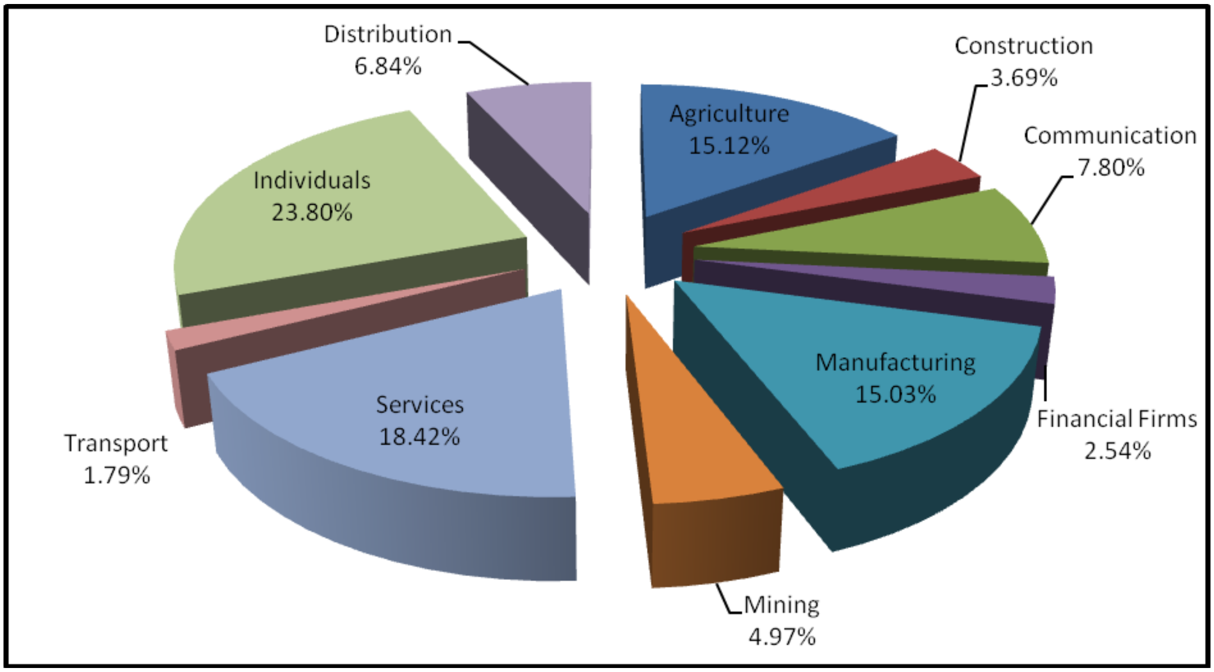


37. The predominance of short-term deposits has constrained the banking sector's potential to provide effective financial intermediation to productive sectors of the economy. The tenor of lending has remained confined to the short-term at a time when the productive sectors require long-term funding for re-tooling.

Sectoral Distribution of Credit

38. The sectoral distribution of credit as at 31 December 2013 is depicted in the chart below:

Figure 7: Sectoral Distribution of Credit



39. The scenario where lending to individuals constitutes the highest proportion of total lending reflects attendant macroeconomic challenges currently experienced. In addition, this development exposes the structural fragilities in the sector, particularly in view of the consumptive nature of the lending and widespread de-industrialisation in the economy.

Non-Performing Loans (NPLs)

40. It is also notable that undercapitalised banks are saddled with high levels of non-performing loans. In addition, the ever-greening of non

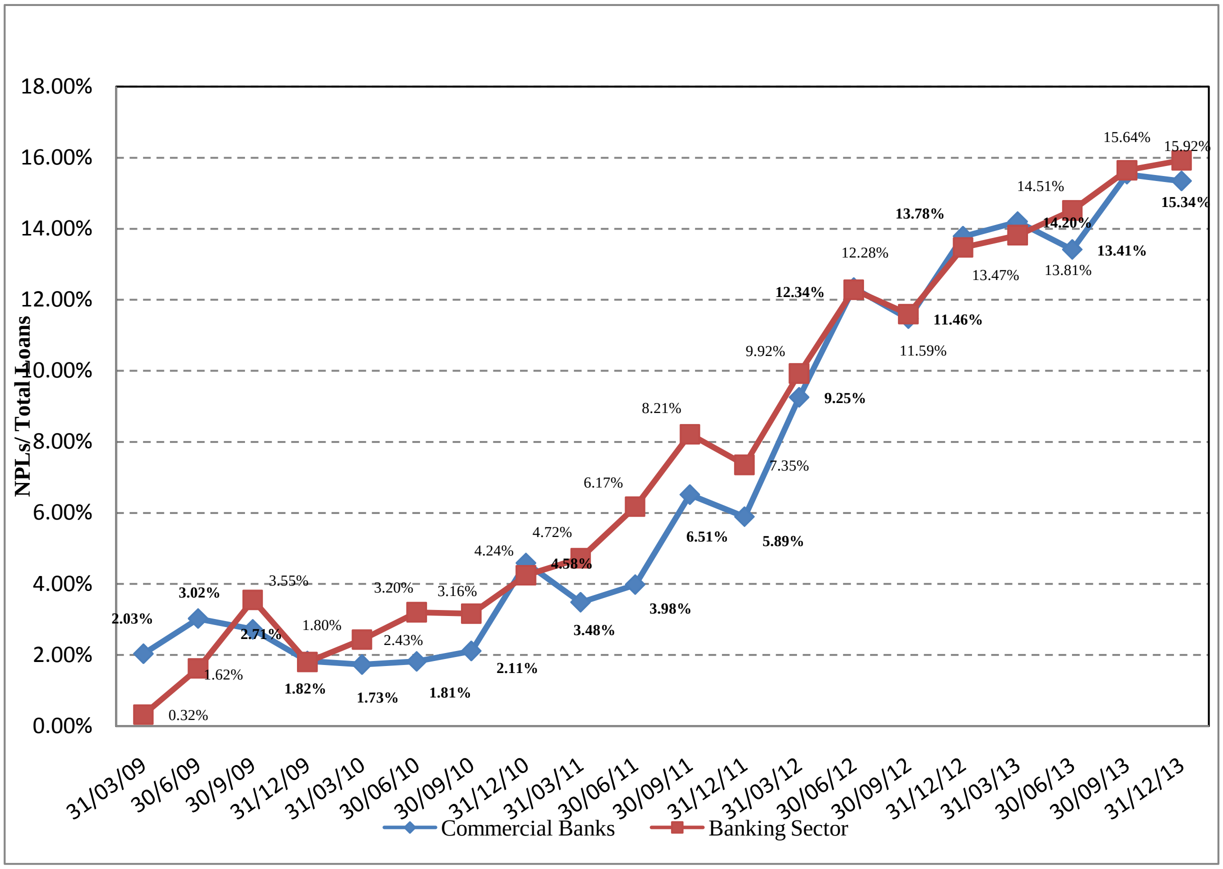
performing loans has resulted in the understatement of the level of provisions for bad and doubtful debts, thereby overstating the respective institutions' earnings and capital positions.

41. As such, banking institutions are required to set aside adequate provisions that reflect the level of credit risk in their loan portfolio. Within this context, the banking sector's average non-performing loans to total loans ratio (NPLs/TLs ratio) stood at 15.92% as at 31 December 2013.

42. The deteriorating asset quality is also reflective of the adverse operating macroeconomic environment and institution-specific deficiencies. In addition, the mismatch between long-term funding requirements for the productive sectors and short-term volatile deposits has exacerbated asset quality vulnerabilities.

43. In addition, we have also noted the continued abuse of loans and advances by related parties (particularly, directors and shareholders) which has resulted in huge levels of **non-performing insider loans**. The trend of banking sector NPLs / TLs ratio is depicted in the graph below.

Figure 8: Banking Sector Non-Performing Loans 2009 to 2013



Current Developments in Banking Sector Capitalisation

44. A strong capital base is pivotal to banks' ability to contribute meaningfully to economic growth and development through effective financial intermediation. Importantly, capital enhances a banks' capacity to attract deposits and acts as a cushion against losses.

45. There is significant correlation between capital and profitability, lending rates, bank charges, shareholders commitment, liquidity,

competitiveness, quality of management & discipline, credit extension capabilities, and infrastructure enhancement, among other factors.

46. It is also noteworthy that in most cases, banking institutions that are lowly capitalized resort to abuse of depositors' funds to meet operating expenses.

47. In the Mid-Term Monetary Policy Statement of July 2012, the Reserve Bank, following approval by the Ministry of Finance and Cabinet, announced new minimum capital levels in order to foster a sound financial system capable of supporting economic growth

Risk Management and Establishment of Mortgage Financing

48. Lending to the construction sector has remained notably low, accounting for about 4% of total banking sector lending as at 31 December, 2013.

49. In view of the foregoing, the extension of the exemption from income tax to receipts and accruals on all mortgage finance by the Honourable Minister of Finance and Economic Development, in the 2014 National Budget Statement with effect from 1 January 2014 is a welcome development, critical for national housing delivery.

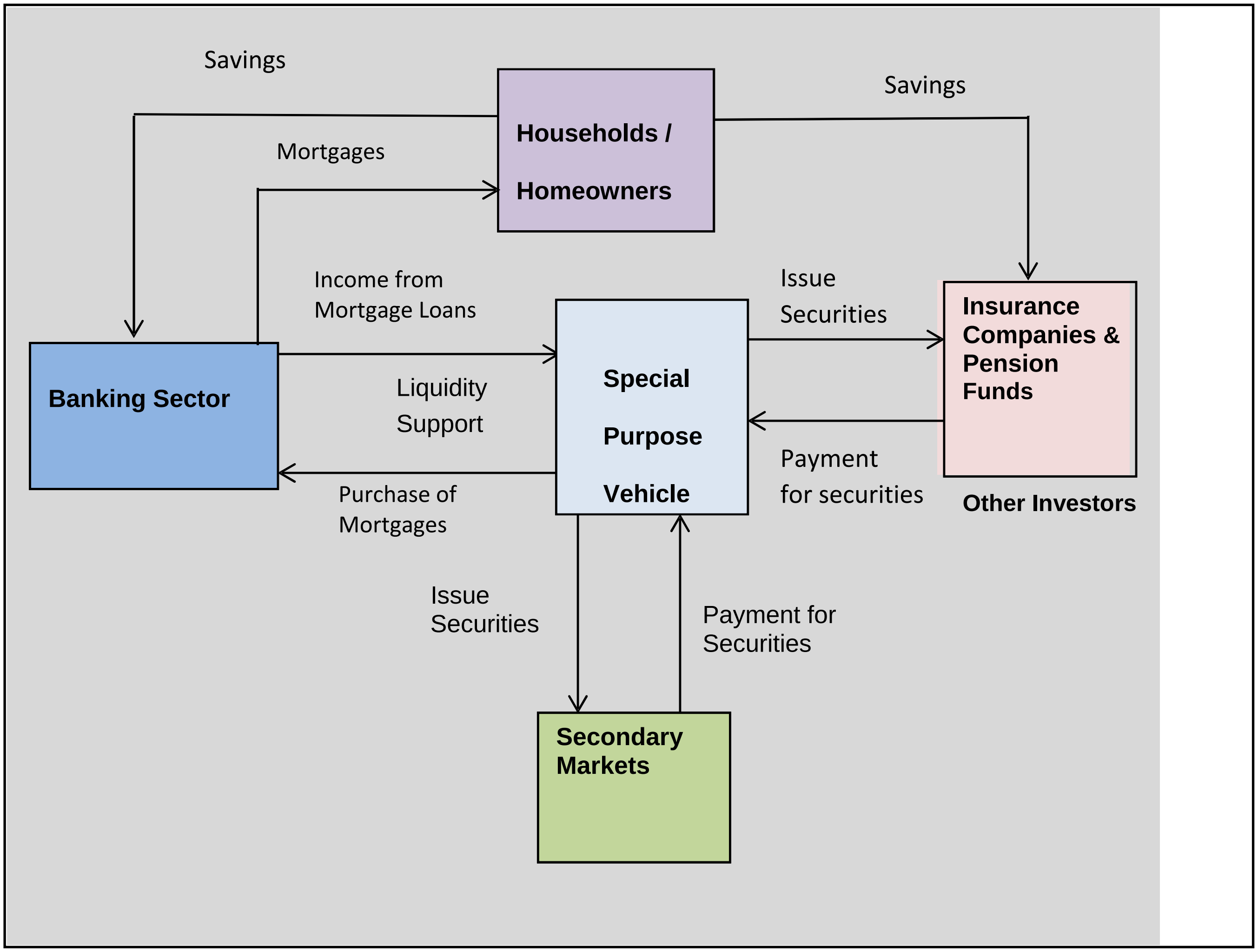
50. Accordingly, banking institutions are expected to take advantage of this initiative to offer mortgage banking products through the establishment of dedicated mortgage departments. The realization of this objective, however, entails that banking institutions put in place adequate risk management systems.

Securitization of Mortgage Loans

51. Securitization is generally defined as a series of financial transactions designed to maximize cash flow and reduce risk for debt originators. The securitisation of mortgage loans entails the development of a secondary mortgage market for the sale of securities collateralized by income streams from mortgage loans.

52. A secondary mortgage market allows financial institutions to sell mortgages, giving them new funds to offer more mortgages to borrowers. Essentially, an efficient secondary mortgages market connects low-cost capital to housing projects, increases liquidity for lenders, and improves financial risk management for lenders and investors. A generic securitization framework is depicted in the diagram below.

Figure 9: Securitization Framework



Supervisory Cooperation

53. The emergence of bank holding companies and financial conglomerates with operations in banking and non-bank financial services has increased complexities for the regulatory authorities.

54. This has brought to the fore, the need for supervisory cooperation and coordination in order to minimize the scope for regulatory arbitrage. Supervisory cooperation is important for effectively supervising domestic and international groups and for sound crisis management planning.

55. In view of these developments, financial regulators comprising the Reserve Bank of Zimbabwe, Insurance & Pensions Commission, Securities & Exchange Commission of Zimbabwe and the Deposit Protection Corporation established the Multidisciplinary Financial Stability Committee in 2011.

56. The Committee was constituted to, among other objectives; facilitate the sharing of supervisory information and exchange of views on the on-going assessment of the state of financial stability in the country in line with the COMESA Framework for Assessing and Maintaining Financial Stability.

57. The technical subcommittees under the Multidisciplinary Financial Stability Committee have been conducting financial stability assessments entailing identification and assessment of key potential risks and vulnerabilities in the financial system through the use of qualitative and quantitative methodologies. This process should culminate in the production of **the first Financial Stability Report by 31 March 2014.**

POLICY MEASURES AND ADVICE

58. In view of underlying challenges outlined in the foregoing, great prominence is given to areas revolving around the role of the Reserve Bank and the stability of the banking sector. These key measures include the following:

- The enhanced role of the Reserve Bank;
- Capitalization of banks;
- Consolidations and Mergers
- Insider Loans and Non-Performing Loans;
- Enhancement of Supervision through Amendment to the Legal Framework;
- Gold Mobilization;
- Use of electronic means of payments to enhance financial inclusion; and
- Enhancing Export Receipts.

The Enhanced Role of the Reserve Bank

59. The capitalization of the Reserve Bank will pave way for the re-establishment of the Lender of Last Resort and banker to Government functions.

Banker to Government

60. Importantly, as enunciated by the Minister of Finance and Economic Development in his 2014 National Budget, the Reserve Bank will resume its traditional function as the banker to Government. Within this context, the **Reserve Bank will host Government's Exchequer Account with effect from 31 March, 2014**.

Lender of Last Resort

61. The restoration of the Lender of Last Resort (LOLR) facility implies that an overnight accommodation rate will be announced by 31 March, 2014 and becomes applicable for the facility. **The overnight accommodation rate will be the anchor interest rate that will act as a benchmark for market rates**.

62. As market conditions improve, the Bank intends **to introduce repos and reverse repos to improve interbank trading and help ease attendant liquidity challenges**.

Interest Rate Policy

63. Since the adoption of multiple currencies in early 2009, the Reserve Bank's influence on interest rates has remained constrained. **This notwithstanding, as published by the Monetary Policy Committee**

of the Reserve Bank, the country's interest rate policy will be influenced through the proposed indicative yield curve. Though not prescriptive in nature, the proposed yield curve plays a signaling role to the direction of interest rates in the economy.

Issuance of Treasury Bills

64. The successful resuscitation of the Lender of Last resort function requires that deficit institutions intending to resort to the Central Bank for overnight accommodation have acceptable collateral. In this regard, the Reserve Bank will issue TBs with rates aligned to the proposed indicative yield curve alluded to in the foregoing.

65. The issuance of TBs will achieve the twin objectives of providing acceptable collateral for banks, while simultaneously raising funds for Government to bridge short term financing gaps. The Reserve Bank expects to issue TBs as soon as other related modalities have been finalized.

Banking Sector Capitalization: Way Forward

66. Against the background of attendant challenges in the macroeconomic environment and in conformity to the Minister's pronouncement in the 2014 National Budget Statement to maintain

the current levels of banks' capitalisation, the Reserve Bank hereby affirms that capital levels will remain as per the thresholds obtaining in December 2012, as shown in table below.

67. Capital requirements remain at current levels of US$25 million for Commercial Banks, US$25 million for Merchant Banks, US$20 million of Building Societies, US$15 million for Discount and Finance Houses and US$5 million for Microfinance Banks. Nevertheless, compliance with Cabinet approved levels have now been moved to 31 December 2020 as shown in the table below:

Table 1: New Capital Thresholds

	31 Dec 2012	31 Dec 2020
Commercial Banks	$25m	$100 m
Merchant Banks	$25 m	$100 m
Building Societies	$20 m	$80 m
Finance Houses	$15 m	$60 m
Discount Houses	$15 m	$60 m
Microfinance Banks	$5 m	$10 m
Microfinance Institutions	$5,000	$25,000

68. In this regard, all banking institutions are required to submit to Reserve Bank, comprehensive recapitalisation plans to meet the new deadline, by 30 June, 2014. As such, the Reserve Bank will monitor and evaluate progress made by banks towards attainment of capital milestones as outlined in their respective recapitalization plans.

69. Importantly, the Reserve Bank urges banking institutions to continue their efforts to strengthen their capital positions in order to maintain relevance in the economy. By building and maintaining adequate capital, banks are able to play a supportive role by mobilizing surplus investible funds on the money and capital markets for deployment to productive sectors for the realization of the key objectives of Zim Asset.

Capital Adequacy

70. Capital adequacy measures the sufficiency of the bank's capital in relation to the risk inherent in the institution's operations. The level of risk is determined by the nature, scope and complexity of banking operations. Capital adequacy is thus an important determinant of the financial condition of banks.

71. In cognisance of the importance of capital adequacy, the Basel Committee on Banking Supervision (BCBS), has consistently refined the International Convergence of Capital Measurement and Capital Standards in order to reflect the changes in the complexities of banking risks. The on-going refinements which have culminated in the issuance of Basel ll & Basel lll in 2006 and 2010 respectively are aimed at improving the quality and quantity of capital held by banks.

72. In addition to the internationally agreed capital adequacy thresholds, the capital standards provide scope for regulatory authorities to set stricter standards for their jurisdictions depending on the country circumstances.

73. In line with international norms, our determination of the minimum capital requirements and capital adequacy ratios takes cognisance of the risks inherent in the operating environment and intermediation role that banks are expected to play. Resultantly, the minimum capital requirements have been progressively reviewed in tandem with the general macro-economic environment.

Basel II Implementation

74. The Reserve Bank is pleased to advise that all banking institutions have put in place the general framework and main tenets of the Basel II framework. Since March 2012, the Reserve Bank has been monitoring the stability of banking institutions' systems under the parallel run phase of Basel II implementation.

75. A survey conducted in October 2013 indicated that most banking institutions have made significant progress towards full implementation of the framework although there are still some aspects of the framework which need to be enhanced.

76. Banking institutions are, therefore, required to ensure full adoption of the revised provisioning regime, set up operational validation frameworks and enhance outstanding aspects of their Internal Capital Adequacy Assessment Programs (ICAAPs) as well as internal stakeholder training (including board members) by 31 March 2014.

Prudent Deployment of Capital and Liquidity

77. The Reserve Bank has noted that banking institutions with balance sheets skewed towards **non-liquid assets, notably land and buildings** are facing serious liquidity and earnings challenges.

78. Such illiquid balance sheet structures have constrained revenue generation capacity, a development that has resulted in the abuse of depositors' funds to meet operating expenses. It is against this background that the Reserve Bank will closely monitor compliance with the required **maximum fixed asset ratio of 25%.**

Consolidations and Mergers

79. Some banking institutions are facing challenges including under-capitalisation, high levels of non-performing loans, poor earnings performance and liquidity constraints.

80. The Reserve Bank has also observed that some banking institutions have capitalization plans which lack credibility and substance and seem to be designed, in some cases, to buy time. Notably, some banks are taking years to finalize their capitalization.

81. Further, we have noted with concern that there are some banking institutions that are reluctant to consolidate their operations or merge with other institutions where this is considered to be a viable option.

82. Banking institutions are required to ensure finality in the implementation of their capitalisation plans in a timely fashion and not wait for their condition to deteriorate to a point of no return. Notably, potential suitors are not interested in injecting their money in a bank with serious challenges.

83. In view of the foregoing, the Reserve Bank will expect banking institutions facing challenges to immediately take concrete steps towards the implementation of the following:

a) Consolidate and/or merge;
b) Dilution of shareholding by potential investors; and
c) Converting their banking licences to deposit taking microfinance institutions (microfinance banks).

84. Where a banking institution has failed to resolve its challenges, the Reserve Bank will institute appropriate supervisory action.

85. Banking institutions should adopt robust corporate governance policies, and practices commensurate with their risk profile. The Reserve Bank, in conjunction with the Ministry of Finance and Economic Development, are proposing amendments to the legal and regulatory framework to promote effective resolution of troubled banks.

Insider Loans and Non-Performing Loans

86. The growth in non-performing loans within insider loans is a worrisome development. Notably, as at 31 December, 2013, the level of total insider loans in the banking system was $175.3 million (including Interfin). Of these insider loans $117.4 million (66.97%) was non-performing. The growth in non-performing loans within insider loans is a worrisome development.

87. Previously, the Reserve Bank would net out insider loans from banks; capital. This measures, however, was not effective in deterring banks from extending insider loans.

88. Against the background of this negative development, the following measures should be taken with immediate effect:

i. **Henceforth**, **no bank shall grant loans to insiders and related interests (**as defined in the Banking Regulations, SI 205 of 2000) except where such credit is granted as part of the employees' conditions of service and is available to other employees.

ii. Individuals and companies may, however, access loans from other banking institutions where they are not classified as insiders or related parties;

iii. All boards of banking institutions **should review the existing levels of insider loans, ensure adequate provisioning and report insider loans to the Central Bank;** and

iv. **Existing insider loans should not be renewed or rolled over** and banking institutions should take measures to ensure repayments are made in terms of the facility.

89. Further, banking institutions are required to set aside adequate provisions that reflect the level of credit risk in their loan portfolio. Any violation of the above measures will attract a penalty in terms of the relevant provisions of the Banking Act.

90. Additionally, we recognize the need to deal with the issue of over-indebtedness at household level which has negative social and economic consequences.

91. On the other hand, the Reserve Bank urges clients of banking institutions to comply with repayment terms of their loan agreements with the banks so that banks can continue to provide the much needed finance required to support the growth of the economy.

Credit Reference Bureaus

92. In view of the deterioration in asset quality, the Reserve Bank and the Ministry of Finance and Economic Development are in the process of finalizing the legal framework for credit reference bureaus which will strengthen credit risk management in banking institutions and assist in reducing over-indebtedness.

93. Credit reference bureaus play a critical role in the management of credit risk by banking institutions and help minimise over-indebtedness by borrowing members of the public. In this respect, the Reserve Bank has drafted a credit reference bureau accreditation framework, which outlines minimum requirements.

Enhancing Risk Management Through Stress Testing

94. We reiterate that banking institutions are required to continue to strengthen their risk management systems, which has been an underlying problem at most of the banks reporting high levels of non-performing loans.

95. Within this context, **stress-testing should form an integral part of banks' risk management tools** as it provides an early warning signal to bank management to adverse unexpected outcomes related to a variety of risks.

96. Stress testing results should be factored into key strategic decisions. We **expect bank boards to ensure that stress-testing results are part of their information packs**. In addition, stress-testing frameworks should also be enhanced to include other variables such as liquidity and interest rates.

Establishment of a Commercial Court

97. Currently commercial and banking related cases are taking long to be settled through the court system. In order to expedite the settling of these disputes there is need to establish a commercial court dedicated to adjudicating Commercial and Banking related cases. The Reserve Bank will with immediate effect engage the relevant authorities and stakeholders to address this issue.

Mortgage Financing Through Securitisation of Mortgages

98. In order to enhance the availability of funding for mortgages, the banking sector is urged to explore opportunities for the securitisation

of mortgage portfolios. Securitization will maximize the cash flows and reduce risk for debt originators.

99. In this regard, banking institutions are expected to take advantage of this development to offer mortgage banking products in addition to other banking activities through the establishment of mortgage departments.

100. In order to enhance the availability of funding for mortgages, the banking sector is urged to explore opportunities for the securitisation of mortgage portfolios.

Bank Charges and Lending Rates

101. Pursuant to the signing of a Memorandum of Understanding (MoU) between the Reserve Bank and banking institutions in January 2013, the sector recorded a decline in bank charges and lending rates.

102. On the backdrop of the non-renewal of the MoU and the need to avoid unjustified increases in bank charges and interest rate by banks, and to promote informed decision making by the banking public, the Reserve Bank will undertake the following measures:

a) Banking institutions will be required to justify increases in their charges or interest rates from the 31 October 2013 levels before approval is granted by the Reserve Bank. This will assist the regulator in monitoring ‘collusion’ on pricing as well as evaluating banks’ cost structures in relation to bank charges;

b) Banks will be required to upgrade their core banking systems and delivery systems to promote efficiency. This will assist in reducing the cost of service delivery which translates to lower charges for the banking public. The cost considerations by banking institutions should be offset by the cost savings that are reaped from efficient and automated processes;

c) Banks are also urged to be innovative in the delivery of products and services and seek to continuously improve on efficiency by leveraging on technological advancements. This will enable them to design products and tiered pricing structures which suit the circumstances of low income groups. Empirical evidence indicates that banks’ strong reliance on charges to cover operational expenses is a reflection of inefficiencies in service delivery;

d) The Reserve Bank continues to encourage interoperability and sharing of infrastructure (systems, networks and applications) across institutions. Shared infrastructure is an avenue that lowers cost and access gaps that hinder the efficient delivery of financial services;

e) The Reserve Bank will publish all banking institutions' conditions of service on its website on a quarterly basis. In addition, the banks will be required to display their conditions of service (charges and interest rates) in banking halls and also publish them periodically in circulating newspapers. These measures will increase information accessibility and promote informed decision making by consumers;

f) The Reserve Bank will develop a comprehensive consumer protection framework, incorporating consumer education and awareness; and

g) The Bank will continue to engage key stakeholders in order to advance the goals of financial inclusion and financial stability.

103. The Reserve Bank calls upon the banking sector to continue offering affordable banking services to the public in order to mobilize surplus investible funds so as to play an effective intermediary role and spur financial inclusion.

Enhancement of Supervision through Amendment to the Legal Framework

104. The Reserve Bank is working closely with the Ministry of Finance and Economic Development in reviewing the regulatory framework

applicable to banking institutions to ensure effectiveness and alignment to international best practice.

105. Amendments to the Banking Act [Chapter 24:20] have been proposed with a view to strengthening the regulatory environment. The major elements of the proposed Banking Amendments are as follows:

i. Criminal Liability

- While directors have common law duties to the company, the new provisions will **extend a fiduciary duty of care to the customers. The new provisions will also seek to introduce criminal as well as civil liability of any shareholder, director or senior manager of a banking institution, who will be found to have acted negligently or fraudulently, resulting in loss of money by depositors or failure of a banking institution;**

ii. Fit and Proper Assessment

- The Reserve Bank will by 31 March, 2014 issue an enhanced fit-and-proper person assessment framework clearly setting out the parameters for on-going fitness and probity assessments of directors and senior management;

iii. Bank Holding Companies

- Companies that have control over banks or bank holding companies will now be required to be registered by the Reserve Bank; and

iv. Registration of Credit Reference Bureaus

- In terms of the proposed law, regulations will be issued on the registration and supervision of credit reference bureaus.

Long term Funding

106. In order to align the funding requirements of borrowers and the tenure of loans, banking institutions are encouraged to continue sourcing long-term foreign lines of credit to be able to meaningfully support productive sectors of the economy.

Financial Inclusion

107. Microfinance, the world over, plays a vital role in promoting financial inclusion through availing credit, facilitating employment creation, and providing access to finance to marginalised communities.

108. The Reserve Bank has, however, noted that microfinance operations in Zimbabwe are currently skewed towards consumptive lending at

the expense of productive sector financing, thus crowding out small and medium enterprises (SMEs). The high levels of consumptive lending have also precipitated household over-indebtedness.

109. In view of this development, we encourage microfinance institutions to reorient their lending portfolios and ensure that their lending is directed more towards the productive sectors of the economy.

110. The Reserve Bank wishes to remind financial service providers that the Banking Act was amended in 2009 to incorporate Microfinance banks that largely focus on another class of banking business. Microfinance banks largely focus on provision of financial services to low income households and small to medium enterprises (SMEs).

111. As such, Microfinance Banks are now regulated in terms of the Microfinance Act (Chapter 24:29) gazetted in 2013 and are now referred to as deposit taking microfinance institutions (MFIs). In this regard, it is envisaged that MFIs will play a critical role in meeting the funding needs of SMEs.

Electronic Payments and Usage of Cards

112. The Zimbabwean economy has increasingly become a cash economy in spite of the Reserve Bank's efforts aimed at promoting electronic

means of payment. There is a notable rise in the propensity by many formal and informal corporates as well as individuals to settle transactions in cash.

113. Evidently, as at December 2013, the POS density stood at 400 machines per million, which falls short of the world average of 1300 machines. Nonetheless, the Reserve Bank targets the POS density of 600 by year end, as well as a POS machine for every till machine within 5 years.

114. The increased use of cash has seen numerous incidences of fake currencies being injected into the economy, particularly during the 2013 festive season.

115. Within this context, we urge all key stakeholders including the banking sector, payment systems providers and businesses to partner with a view to acquiring adequate Point of Sale (POS) machines to facilitate the wider spread of the gadgets.

116. Against this background, the banking sector is, therefore, urged to ensure that all clients be issued with bank cards and adopt strategies to encourage wide use of the same.

Regulation of Payment System

117. Financial innovation coupled with increased penetration rates in the mobile telecommunications sector has seen the phenomenal growth in the use of electronic means of payment.

118. Within this context the Reserve Bank through its oversight and regulatory mandate, is currently seized with coming up with an electronic-payment system regulation. The regulations will provide for the effective management and operation of all electronic means of payments, notably, cards, mobile, e-banking and internet among others.

Promotion of SMEs and Community Development

119. Cognizant of the new realities where SMEs account for significant economic activity, we encourage financial institutions and other stakeholders to increase their support to the SMEs sector.

120. The prevailing status quo where 70% of the Zimbabwean population, mostly women, derives livelihood from agriculture further calls for special focus.

121. Small holder farmers continue to be deprived of much needed agricultural funding as a result of constraints mainly related to lack of collateral. Further, most small-holder farmers lack agricultural expertise.

122. The de-industrialisation of the economy has given rise to the influx of SMEs in the manufacturing sector which requires financial and technical support. The same holds for other SMEs in the various sectors of the economy.

123. We urge development partners and financial institutions to facilitate the provision of appropriate and affordable credit to SMEs through the establishment of soft funding schemes. The schemes should incorporate a capacity building component.

124. In this regard, stakeholders are advised to take a cue from successful initiatives by some stakeholders which have made a significant positive impact on the livelihoods of communities. Developmental institutions should be adequately capacitated to provide support to the SMEs sector.

125. On the other hand, the SMEs sector is encouraged to form clusters, pool risks together in order to stand a better chance of accessing the

much-needed credit from banks. Clustering essentially, allows banks to develop an efficient tracking mechanism that is key for accountability purposes.

Gold Mobilisation

126. Prior to 2006, gold produced by both small scale and large scale miners exceeded 15 tonnes. During this time, Fidelity Printers and Refiners was the sole buyer and refiner of gold and an accredited member of the London Bullion Marketers Association (LBMA). This was largely so, as the gold output realized by the country, exceeded the 10 tonnes annual threshold required to maintain membership with the London Bullion Metal Exchange.

127. Under this arrangement, gold produced and refined in the country was directly exported at the international gold prices obtaining at the LBMA, without any middlemen or intermediary.

128. This notwithstanding, gold output declined to levels below 10 tonnes in 2007, on the back of the general contraction in economic activity. As such, Zimbabwe could not maintain its position as a member of the LBMA, thereby we have been exporting gold through South Africa for refining.

129. In line with the 2014 National Budget Statement, a wholly owned subsidiary of the Reserve Bank of Zimbabwe, was designated to resume its role as the sole buyer and exporter of gold in the country.

130. As such, Fidelity Printers and Refiners will, apply for accreditation to the London Bullion Marketers Association once they refine gold in excess of 10 tonnes per annum. Notably, the framework would pave way for the country to directly export refined gold to the international market, build gold reserve buffers as well as resuscitate the domestic jewellery industry.

131. Furthermore, the company is working on modalities of entering into hedging arrangements which will ensure that they buy gold at favourable prices even during times when the price of gold is declining

Gold Buying Centres

132. In order to ensure access by the small scale sector (including artisanal miners) to the market as well as reducing vulnerability of miners to robbers, Fidelity has buying centres at ZB Bank branches in the following towns: Harare, Bulawayo, Kadoma, Kwekwe, Gweru, Gwanda, Filabusi, Zvishavane, Masvingo and Mutare. In order to increase geographical coverage, new buying centres will be opened.

133. Fidelity Printers and Refiners is also in the process of establishing other gold buying centres in addition to the ones mentioned in the foregoing so that all the gold producing areas of the country are covered. Additionally, the Reserve Bank will also issue detailed operational modalities on how Fidelity will execute its role as the sole buyer and exporter of gold.

Gold Buying

134. Small scale producers will immensely benefit from being paid the ruling international gold price which is transparent. These new measures that enable Fidelity Printers and Refiners to buy and refine gold from all miners neatly dovetail into value addition initiatives as encapsulated in Zim Asset.

Support to the Small Scale Gold Miners

135. In order to ensure that the country benefits from enhanced gold production through the empowerment of the small scale sector, there is need to provide facilities to fund their mining activities. Banks are encouraged to increase lending to this sector.

136. Furthermore, Fidelity Printers and Refiners will also play a pivotal role in the facilitation of those investors keen to equip small scale

miners by being available to buy all the gold and administration of cession of proceeds when gold is disposed.

Monitoring of Gold Buying Operations

137. On the back of the newly introduced gold marketing framework, the following measures shall be implemented with immediate effect to enhance the monitoring of compliance of gold buying operations of Fidelity:

- All small scale gold producers in Zimbabwe, as well as Custom Millers who will be selling gold to Fidelity Printers and Refiners, shall register with Fidelity. Accordingly the Custom Millers will continue to submit monthly performance reports, detailing production and sales statistics, to the Ministry of Mines and Mining Development and will now be required to submit the same reports to the Reserve Bank and Fidelity Printers and Refiners.

138. Additionally, gold buying agents shall be required to report to Fidelity any unlicensed gold buyer who may be buying gold illegally in their catchment areas.

Gold Bonds

139. In the wake of the takeover of the Reserve Bank debt by Government, amounts owing to creditors will be settled from the fiscus. In the same vein, holders of gold bonds previously issued by the Reserve Bank will also be catered for by Government.

Timeous Repatriation of Export Receipts

140. The country continues to face persistent liquidity challenges largely on account of export performance which compares unfavourably with growing import dependence. The liquidity situation has, however, been further amplified by delays in the repatriation of proceeds by the country's exporters. Notably, overdue export receipts as at 31 December 2013 stood at **US$318 million.**

141. In view of the need to improve the country's liquidity situation exporters are required to comply with Exchange Control regulations through the timely repatriation of export proceeds.

142. The following Computerised Export Payments Exchange Control System (CEPECS) flagging framework still applies:

Table 2: Exchange Control Flagging Framework for Exporters

Number of days from date of export	Status	CEPECS Flagging	Export Documentation Access fee or penalty fee per Form (US$)
Advance payment	Not Overdue	White	5
< or = 90	Not Overdue	Green	10
91 - 120	Overdue	Orange	30
121 - 180	Overdue	Red	75
181 - 364	Overdue	Purple	150
365 and above	Overdue	Black	250

143. Additionally, Exchange Control will introduce an appropriate monitoring program to ensure compliance with the necessary regulations.

Accounting for Tourism and FDI Receipts

144. The country experienced endemic leakages of earnings in the tourism sector, particularly with regards to non-consumptive tourism. In order to effectively plug these loopholes that drained the economy of substantial tourism receipts, and ensure that the sector meaningfully contributes to foreign exchange generation, a new reporting and monitoring framework was put in place.

145. This saw the Reserve Bank introducing the Tourism Receipt Accounting System. Regrettably, we note with great concern that since the introduction of the Tourism Receipt Accounting System, a significant number of tour operators have not complied with the requirements to regularly submit Forms TRAS1 to the Reserve Bank on a monthly basis.

146. In terms of Section 35 (1) of the Exchange Control Regulations (Statutory Instrument 109 of 1996), all non-compliant tour operators are being directed to immediately regularize their positions before the close of business on Friday 14 February, 2014.

147. Similarly, the promotion of investment inflows into the country through normal banking channels entails that , all foreign investment funds be received through Corporate accounts locally opened and operated by the locally incorporated companies owned partly or wholly owned by foreign investors or through trust accounts operated by law firms.

Opening of Bank Accounts by Business Enterprises

148. The role of banks in financial intermediation is the mobilization of funds for on lending and facilitating monetary transactions. In order

to have orderly administration of cash in the country, every business enterprise is urged to open a Bank Account with any of the commercial banks.

149. This measure will ensure that all business transactions are processed through the normal banking channels and enable the Central Bank to estimate more accurately the cash in circulation at each point in time.

150. On the other hand, banks need to simplify account opening procedures and requirements in order to attract savings. This can be realized through the adoption of basic account opening requirements which comply with the Know Your Customer (KYC) principle.

Pyramid Schemes

151. The Reserve Bank notes with concern the resurgence of pyramid schemes with various names including faith clubs, wealth generation funds and ponzi schemes.

152. In view of the losses already incurred through the placement of funds with non-deposit-taking institutions, members of the public are advised to ensure that they are dealing with registered institutions and that the institution is operating within its permitted activities as approved by the Reserve Bank or the Ministry of Small and Medium Enterprises and Cooperative Development respectively.

Continued Use of Multiple Currencies

153. Consistent with Government's position as clearly articulated in the 2014 National Budget, the country will continue with the use of multiple currencies. This should put to rest the widespread speculation surrounding this subject. As such, the Reserve Bank in close collaboration with Government has no plans to re-introduce the Zim-dollar as widely speculated.

Introduction of Additional Currencies Under The Multiple Currency Framework

154. Trade and investment ties between Zimbabwe, China, India, Japan and Australia have grown appreciably. It is against this background of growth in trade and investment ties that in the 2014 National Budget, the Honourable Minister of Finance and Economic Development underscored the importance of including other currencies in the basket of already circulating currencies.

155. In this regard, we wish to advise exporters and the general transacting public that in addition to opening of accounts denominated in Botswana Pula, British Sterling Pound, Euro, South African Rand, United States Dollar, individuals and corporates can also open accounts denominated in the Australian Dollar (AUD), Chinese Yuan (CYN), Indian Rupee (INR) and Japanese Yen (JPY).

CONCLUSION

156. The resuscitation of the economy in a manner that creates jobs, entails that great prominence be attached to the sustenance of banking sector stability in order to attract savings for deployment to key productive sectors of the economy, that remain dependent on borrowed funds.

157. This is envisaged to provide substantial impetus to efforts geared at rejuvenating industrial activity plug off persistent capacity gaps that have created high import dependence. A stable macroeconomic environment combines well with financial stability to unlock the country's growth potential, create jobs, reduce poverty and uplift the livelihoods of our citizenry.

158. **The Reserve Bank stands ready to play its role** in ensuring the stability of the banking sector and effect policies **that enable greater financial** intermediation **by banks** in order to finance the productive sectors of the economy, including the unbanked and SMEs.

159. These key ingredients are envisaged to effectively orient the country, firmly on course to attain Zim Asset goals and situate the country in its rightful position as an economic force to reckon with, in the sub-region.

160. As such, it is my fervent hope that the economic recovery prospects for Zimbabwe remains bright if the country's export and growth potential is unlocked through the effective implementation of bold policy measures embodied in Zim-Asset.

I THANK YOU

DR. C.L. DHLIWAYO
ACTING GOVERNOR
RESERVE BANK OF ZIMBABWE
JANUARY 2014