MONETARY POLICY STATEMENT

ISSUED

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

By

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GOVERNOR

RESERVE BANK OF ZIMBABWE

JULY 2011

TABLE OF CONTENTS

1. INTRODUCTION AND BACKGROUND

1.1 This Monetary Policy Statement is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act (Chapter 22:15), which requires that the Monetary Authorities set out the country's Monetary Policy for the next 6 months.

1.2 Since my last Statement in January 2011, significant gains have been made on the economic and inflation fronts, with annual inflation falling progressively over the last 5 months, from 3.5% in January 2011, to 2.5% in May.

1.3 Monthly inflation has also slowed down to 0.1% in May 2011, having peaked at 1% in January 2011. Deceleration in monthly inflation is significant, in that it suggests sustained dissipation of inflationary pressures in the economy, barring unanticipated external shocks.

1.4 The gains on inflation enabled industry to plan and expand production, as evidenced by estimated real economic growth of 8.1% in 2010, and a further projection of 9.3% in 2011.

1.5 Anticipated growth in the global economy, in 2011, coupled with continued firming of international commodity prices, should further boost domestic production, with further spin-off benefits on employment levels, enhanced per capita incomes and improved standards of living.

1.6 These positive outcomes have rested on the continued resilience of the country's solid banking and financial sector, which has remained generally safe and sound, notwithstanding isolated cases of magnified vulnerability due to near-fraudulent behavior by some errant bank management.

1.7 The Central Bank, notwithstanding its serious undercapitalization, will remain vigilant and resolute in ensuring that the country's banking system is freed of all man-made blemishes.

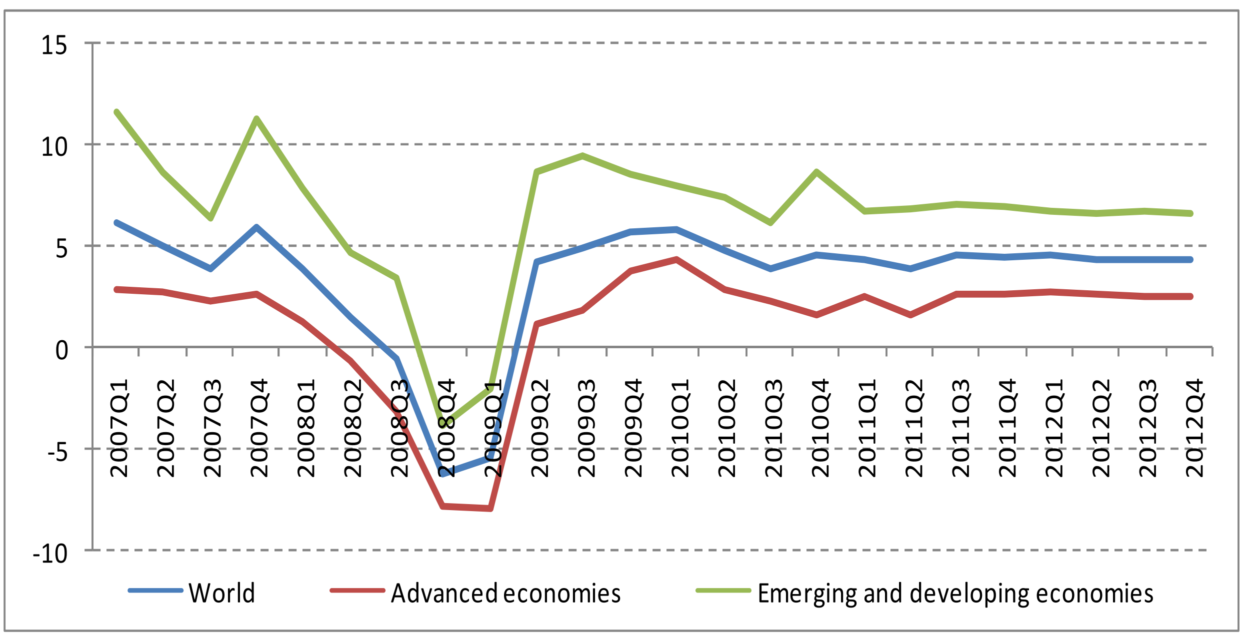
2. GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK FOR 2011

2.1 The global economy has continued to grow, although conditions vary significantly across different parts of the world. In the first quarter of 2011, the global economy grew at an annualized rate of 4.3% and is projected to have slowed down in the second quarter, but would rebound in the last half of the year.

2.2 The anticipated slow down in economic activity in the second quarter of 2011 is attributed to the fiscal and financial sector vulnerabilities, weakening aggregate demand, particularly in advanced economies, surging oil prices, declining real incomes and the after-effects of the March 2011 Japanese earthquake and tsunami.

2.3 In the outlook period, the growth forecasts for 2011-12, however, will remain broadly positive, mainly driven by strong growth potential in emerging and developing economies and relatively accommodative macroeconomic conditions across advanced economies.

Global Economic Developments and Projections



Source: IMF World Economic Outlook Update, June 2011

3. ZIMBABWE: REAL SECTOR OVERVIEW AND OUTLOOK

Real GDP

3.1 The economy is estimated to have grown by 8.1% in 2010, up from 5.7% in 2009. In 2011, the economy is further projected to grow by 9.3%, underpinned by strong performance in agriculture, 19.3%, and mining, 44%.

Agriculture

3.2 The agricultural sector is expected to grow by 19.3% in 2011, driven by tobacco, sugar, cotton and sugar.

Crop and Livestock production in "000" tonnes

Crop	Weight	2010 Actual Production	2011 Projections
Tobacco	25.5%	123.4	178
Maize	14.0%	1328	1,451
Beef	10.2%	95	91
Cotton	12.5%	268	285
Sugar	6.8%	334	370
Horticulture	6.5%	43	45
Poultry	4.8%	45	60
Groundnuts	3.2%	186	231
Wheat	3.6%	41.5	48
Dairy (m lt)	2.9%	47	71
Coffee	2.1%	3	3
Soya beans	1.9%	70	84
Tea	1.9%	15	20
Paprika	1.1%	4	4
Pork	0.8%	9	15
Wildlife	0.6%	56	47
Sorghum	0.6%	132	95
Barley	0.4%	48	48
Sheep & goats	0.3%	0.5	2
Sunflower	0.2%	14	12
Ostriches	0.1%	16	17
Total	100%	33.9%	19.3%

Mining

3.3 The mining sector is projected to grow by 44% in 2011, underpinned by positive growth rates in all minerals except for diamonds, black granite and asbestos. In addition, the sector is also benefiting from the improved macroeconomic environment and rising international commodity prices.

3.4 Furthermore, mining houses are also benefiting from improved power supply following the prioritization and subsequent ring-fencing of miners for targeted power supply by ZESA. As at end of April 2011, ZESA Holdings had ring-fenced the country's 22 major miners.

3.5 The continued firming of commodity prices on the international market is expected to lead to increased output of minerals such as gold and platinum.

3.6 The mining sector's capacity utilization is also expected to increase to about 60% levels by end of 2011, up from the current 45–50% level.

Quarterly Average Mineral Prices

	Second Quarter 2010	Second Quarter 2011	% change
Nickel/t	22 510.56	24 319.36	8.0%
Gold/ounce	1 162.90	1 505.94	29.5%
Platinum/kg	1 169.50	1 783.57	10.1%

Source: Bloomberg

3.7 The mining sector, however, continues to face the following challenges:

i. Lack of funds for recapitalisation and re-furbishment of mining equipment, mainly due to the liquidity constraints in the economy;

ii. Unsustainably high costs of production;

iii. Uncompetitive investment environment, underpinned by the prevailing political uncertainties;

iv. Skills shortage; and

v. Lingering uncertainties around compliance with the country's Economic Empowerment and Indigenization requirements.

Annual Mineral Production

	2010 Actual	2011 Forecast
Gold (kg)	9 620	13 000
Nickel (t)	6 133	8 400
Coal (t)	2 668 183	3 000 000
Asbestos (t)	2 030	0
Chrome (t)	516 776	610 000
Platinum (kg)	8 639	12 000
Paladium (kg)	6 916	9 600
Black Granite (t)	169 318	168 000
Diamonds	8 435 584	8 200 000

Manufacturing

3.8 Capacity utilization in several sub-sectors has generally stagnated due to delays in disbursements of the anticipated lines of credit through the Zimbabwe Economic Trade Revival Facility (ZETREF). The manufacturing sector is, however, estimated to grow by 5.7% in 2011.

3.9 The sector continue to face the following major challenges:

i. Antiquated plant equipment and machinery;
ii. Low effective demand;
iii. Liquidity constraints;
iv. High competition from imports; and
v. High cost of borrowing.

3.10 These challenges have led to de-industrialisation across the country, especially in Bulawayo. A number of companies closed down in the past two years. Examples include Radar Castings, Zimcast, Zimglass, Foseco, Kariba Battery Manufacturers, BOC Gases, Mutare Board and Paper Mills, Hunyani Paper Mills, as well as the Bulawayo and Norton Paper plants.

3.11 In addition, 19 clothing and textile companies, 63 motor industries and 3 construction companies closed in Bulawayo. A Government Inter-ministerial Committee was set up, to come up with ways to revive closed, as well as distressed companies.

Transport and Equipment

3.12 The sub activity is affected by cheap imports. Firms particularly affected include Willowvale Mazda Motor Industries, Dunlop and AVM Africa.

Tourism

3.13 International tourist arrivals in all major world sub regions, recorded growths in the first quarter of 2011, except the Middle East and North Africa, which were rocked by national protests and uprisings.

3.14 Tourist arrivals to Zimbabwe, South America and South Asia, Sub-Sahara Africa and Central and Eastern Europe grew by 16%, 15%, 13% and 13% respectively, in the first quarter of 2011, compared to the same period last year.

3.15 Tourist arrivals to Zimbabwe increased by 16%, from 252 878 recorded in the first quarter of 2010, to 293 233 recorded during the first quarter of 2011.

Tourist Arrivals to Zimbabwe by Source Market Regions during the First Quarter 2011

Source Market	2011	2010	%Change
AFRICA	257 447	226 075	14%
AMERICA	7 720	6 057	27%
ASIA	8 636	5 589	55%
EUROPE	14 496	11 351	28%
MIDDLE EAST	1 027	490	110%
OCEANIA	3 907	3 316	18%
GRAND TOTAL	**293 233**	**252 878**	**16%**

3.16 The growth in arrivals is partly due to continued efforts by the Zimbabwe Tourism Authority to market Zimbabwe as a safe destination under the brand **'Zimbabwe: A World of Wonders'**.

3.17 The strong performance of tourism in 2011 is, however, expected to be weighed down by the following:

i. Non-implementation of the open skies policy;
ii. Deteriorating road and rail network;
iii. Congestion at Beitbridge boarder post;
iv. Lack of access to VISA card facilities at some tourist sites; and
v. Unavailability of lines of credit to improve the quality tourism products among other factors.

INFLATION DEVELOPMENTS

3.18 During the period January to June 2011, Zimbabwe's annual inflation has generally been decelerating and remained lower than inflation rates prevailing in the region.

3.19 The table below shows inflation profiles for selected countries in the SADC region, as well as for the USA.

Annual Inflation for SADC Countries and USA (%)

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Jan 2010	-4.8	6.2	6.1	5.1	10.9	9.6	7.8	2.6
Feb 2010	-0.7	5.7	6.1	6.8	9.6	9.8	8.2	2.1
Mar 2010	3.6	5.1	6	7.1	9.0	10.2	8.3	2.3
Apr 2010	4.6	4.8	7.1	9.1	9.4	9.2	8.1	2.2
May 2010	6.0	4.6	7.8	12.7	7.9	9.1	7.8	2.0
June 2010	5.3	6.9	7.7	14.5	7.2	7.8	7.5	1.1
July 2010	4.1	6.7	7.0	16.0	6.3	8.4	7.3	1.2
Aug 2010	3.6	3.5	6.7	17.1	6.6	8.2	7.2	1.1
Sept 2010	4.2	3.2	7.0	15.3	4.5	7.7	7.0	1.1

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Oct 2010	3.6	3.4	7.2	15.3	4.2	7.3	6.7	1.2
Nov 2010	4.2	3.6	7.2	15.1	5.5	7.1	6.4	1.1
Dec-2010	3.2	3.5	7.4	16.6	5.6	7.9	6.3	1.5
Jan-2011	3.5	3.7	7.9	16.5	6.4	9.0	6.6	1.6
Feb-2011	3.0	3.7	8.5	15.2	7.5	9.0	7.0	2.1
Mar-2011	2.7	4.1	8.5	13.8	8.0	9.2	7.2	2.7
Apr-2011	2.7	4.2	8.2	12.8	8.6	8.8	7.1	3.2
May-2011	2.5	4.6	8.3	11.4	8.6	9.7	7.0	3.6
Jun-2011	2.9	n/a	7.7	10.0	10.9	9.0	n/a	n/a

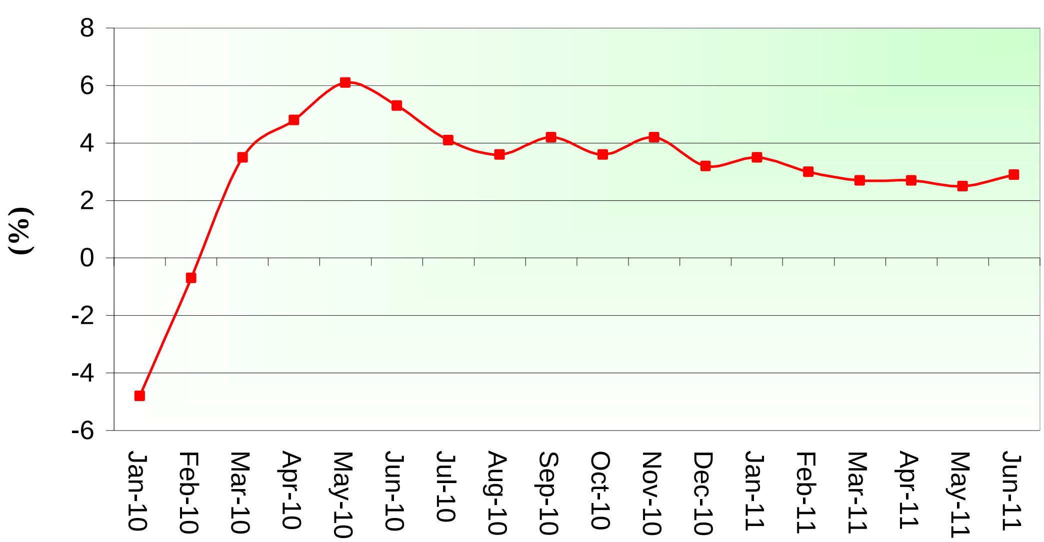
Source: Country Central Bank Websites, 2011

3.20 The low inflation is attributed to improved confidence in the economy, which translated into increased activity across the major productive sectors.

Annual Inflation

3.21 Annual headline inflation which has been on a downward spiral since January 2011, rose for the first time in 2011, from 2.5% in May to 2.9% in June 2011.

Annual Inflation Profile (%)

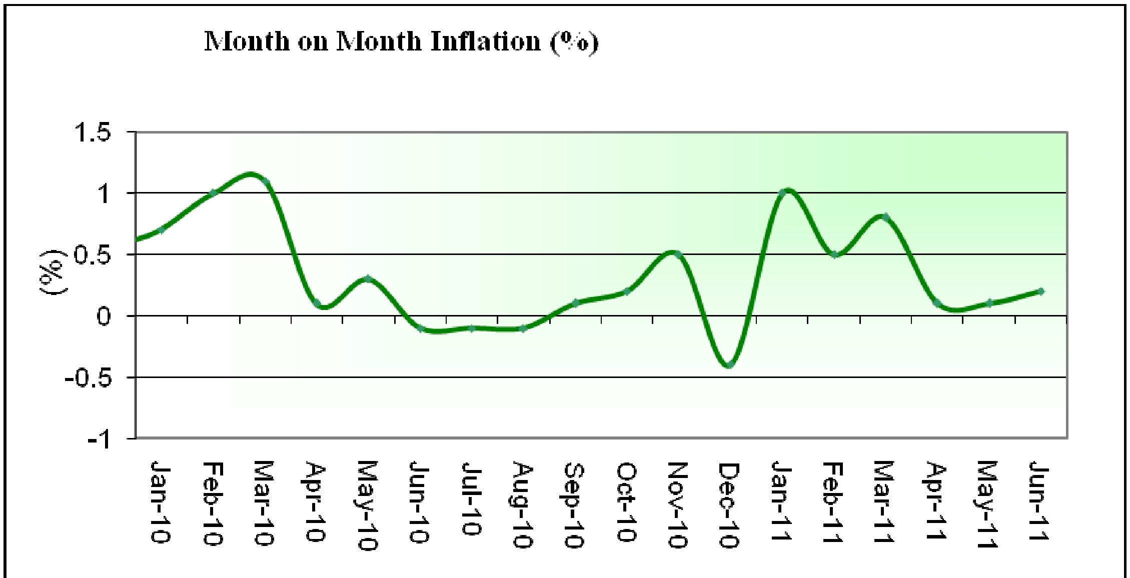


Source: ZIMSTAT, June 2011

3.22 The surge in annual inflation was driven by both food and non food inflation. Annual food inflation accelerated from 2.3% in May to 3% in June, while annual non food inflation rose from 2.6% in May to 2.8% in June 2011.

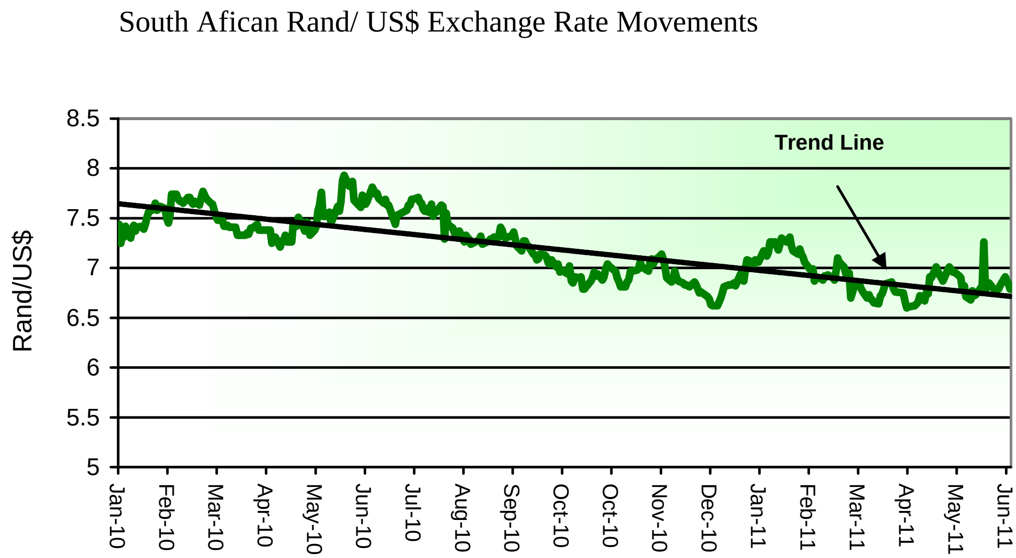
Month on Month Inflation

3.23 Monthly inflation eased from 1% in January, to 0.5% in February before stabilizing at 0.1% in April and May 2011 and increasing marginally to 0.2% in June.



Source: ZIMSTAT, June 2011

3.24 The stabilization of the rand/US$ exchange rate, averaging around 6.9 in the first 6 months of 2011, has helped dissipate inflationary pressures in the economy.



Source: South African Reserve Bank, 2011

3.25 Inflationary pressures, however, continue to emanate from significant increases in international oil prices, following supply disruptions in some major oil producers in North Africa and the Middle East.

3.26 Global food prices, which are projected to continue firming in the short to medium term, also pose additional risks to domestic inflation.

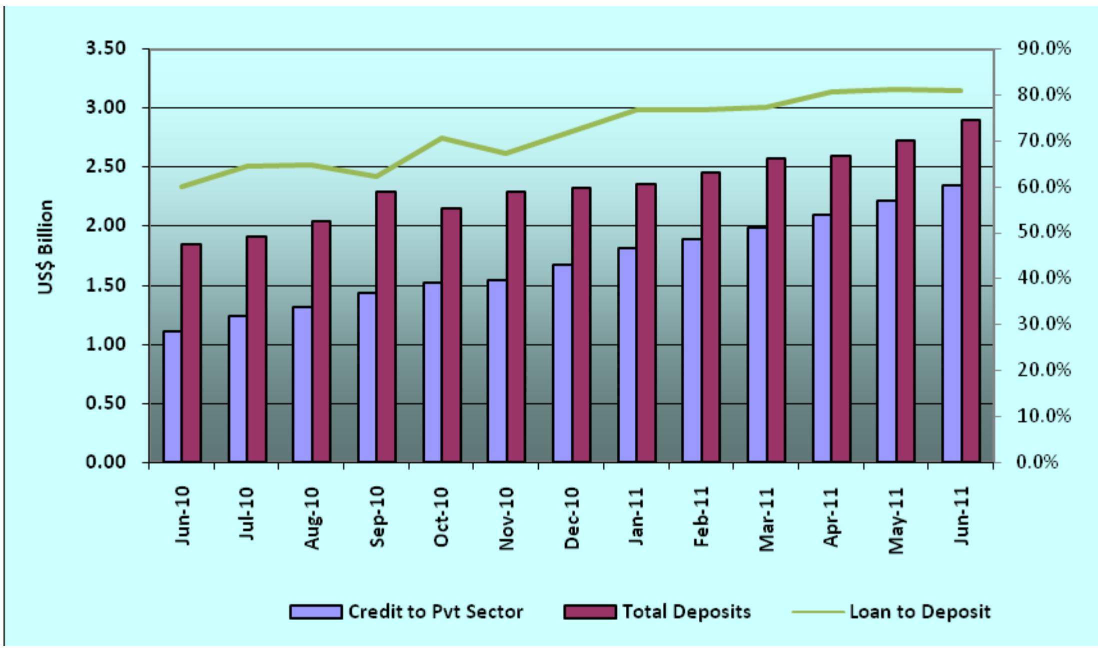
4. MONETARY AND FINANCIAL SECTOR DEVELOPMENTS

MONETARY AGGREGATES

4.1 Broad money, as defined by deposits held by banks, continued on an upward trend reflecting both improved deposit base and increased lending by banks.

4.2 Total deposits held by banks grew by US$572.1 million to US$2 899.7 million in June 2011 from US$2 327.6 million in December 2010.

Levels of Deposits and Credit to the Private Sector



4.3 Credit to the private sector grew by US$670.2 million to US$2 347.4 million in June from US$1 677.2 million in December 2010, translating to a loan to deposit ratio of 81%.

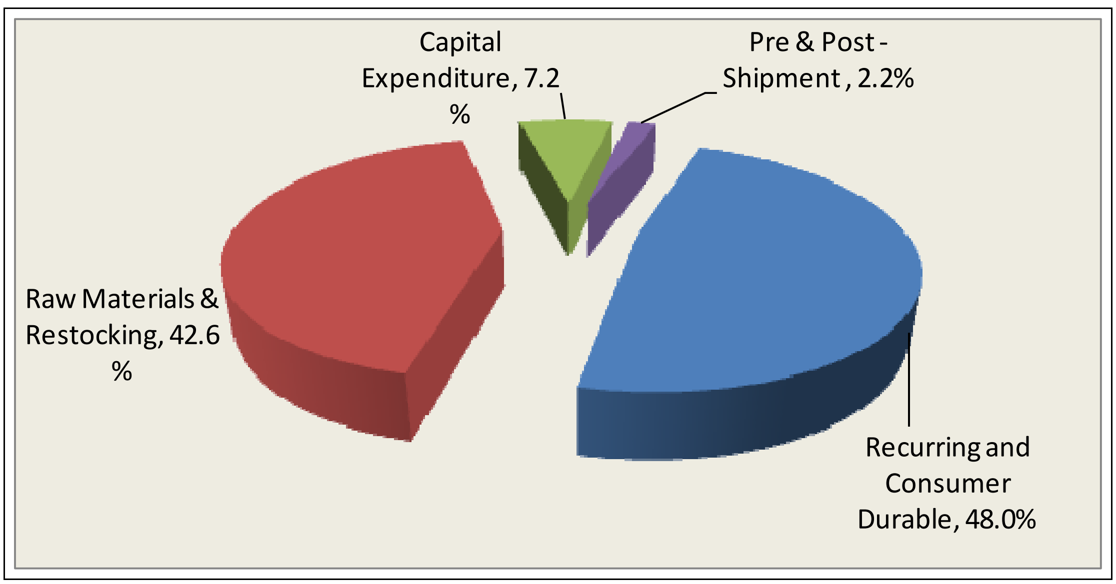
4.4 Notwithstanding the improvement in economic activity, the country continues to experience liquidity challenges, which have manifested themselves through high proportions of transitory deposits and costly short term loans. As at end of May 2011, saving, demand and short term deposits constituted 90.1% of the total deposits.

4.5 Sectoral distribution of bank Loans and advances shows that the non-productive sectors of the economy, distribution, services and individuals received the lion's share of bank credit, of around 40%. Agricultural sector, received 21.2%; manufacturing, 19.8%; mining, 6.8%; transport and communication, 4.6%; construction, 2.1%; and other sectors, 6.6%.

4.6 Due to the high cost and short term nature of credit, funds have largely been sourced for financing non-productive expenditures. Utilization has been largely used to finance recurrent expenditures and consumer durables, 48%; raw material, 42.6%; capital investments, 7.2%; and pre-shipment finance, 2.2%.

4.7 Reflecting the dominance of non-productive borrowing in the economy, consumptive imports were estimated at US$2.7 billion in 2010, which translates to 59% of the non-food import bill.

Utilization of Bank Credit by Purpose



4.8 Reflecting the dominance of non-productive borrowing in the economy, consumptive imports were estimated at US$2.7 billion in 2010, which translates to 59% of the non-food import bill.

4.9 The allocation of much of the bank credit towards consumptive and recurrent expenditures, with less than 10% of credit going towards capital investments, continues to inhibit the economy from realizing its full growth potential.

4.10 Furthermore, the financial sector has been impeded by an inactive money market due to low liquidity levels in the market coupled with the absence of securities such as Treasury bills. Treasury bills are highly regarded as risk free instruments for collateral purposes.

4.11 The only instrument which dominates the money market are short-term bankers' acceptances, which are priced at exorbitant interest rates of between 20% and 36%.

4.12 In addition, local firms have been facing challenges in accessing external financing, on the backdrop of high effective interest rates, due to perceived country risk and stringent requirements such as credit guarantees, capital deposits, as well as over-cautious attitude of potential foreign investors.

4.13 On balance, however, notwithstanding the on-going macroeconomic challenges, the Central Bank has noted steady improvement in the level financial intermediation in the economy, as evidenced by a steady rise in the level of support by banking institutions to key productive sectors of the economy, since the introduction of the multi-currency system.

4.14 In spite of the liquidity constraints, the market has also seen an improvement in the tenure of loans offered, particularly mortgage financing, with some building societies now offering facilities of up to ten years.

FINANCIAL SECTOR DEVELOPMENTS

4.15 The banking sector remained largely safe and sound, in spite of the challenges experienced by a few non-systemic banking institutions.

4.16 The Central Bank has, however, noted with great concern the resurgence of some structural and operational deficiencies reminiscent of the 2004-2006 banking sector crisis at a few weak and troubled banking institutions.

4.17 Prior to 2003, an adverse macroeconomic environment, weak supervisory approaches, and regulatory forbearance gave rise to a number of fundamental flaws in the operations of banks. By 2004, the structural and operational deficiencies manifested themselves in a number of ways including the following:

a) Shift from core banking business to speculative transactions;

b) Abuse of bank holding company structures to evade regulation via a web of sinister and sister companies;

c) Poor corporate governance, risk management practices and insider dealing;

d) abuse of depositors' funds in pursuit of incestuous self aggrandizement schemes;

e) holding companies with wafer thin capital bases;

f) Rapid local and regional expansion with no proper internal controls, and adequate capacity; and

g) Disregard of prudential laws and regulations.

4.18 Compared to the rest of the world, bank failures in Zimbabwe have always been unique as they are attributable to internal abuse, as opposed to non-performing third-party loans.

4.19 The Reserve Bank placed Renaissance Merchant Bank under curatorship on 2 June 2011, following a determination that the bank was operating in an unsound and unsafe manner. The following gross irregularities were noted:

a) breakdown in good corporate governance practices, including overbearing influence of founding members and major shareholders in the operations of the bank;

b) abuse of group structures to circumvent regulation on permissible activities;

c) the bank was technically insolvent and its going concern status was threatened by incessant losses; and

d) the bank had created an illusion of capitalisation using borrowed and depositors' funds.

4.20 The Curator assumed charge of the operations of the bank, following the suspension of the powers of management and directors in terms of ***Section 55 of the Banking Act [Chapter 24:20].***

4.21 The Curator is expected to make a determination and make recommendation on the way forward regarding the resolution of the institution's challenges.

ARCHITECTURE OF THE BANKING SECTOR

4.22 As at 30 June 2011, the country's banking sector remained well diversified, with 26 operational banking institutions as tabulated below:

Structure of the Banking Sector

Type of institution	Number
Commercial Banks*	17
Merchant Banks	4
Building Societies	4
Savings Bank	1
Finance Houses	0
Discount Houses	0
Total Banking Institutions	**26**
Asset Management Companies	16
Microfinance Institutions	132

**Excludes Barbican Bank which was re-licensed but is not yet operational and includes Interfin Bank Limited formerly a merchant bank.*

4.23 In addition to banking institutions, there were 16 licensed Asset Management Companies and 132 operating microfinance institutions under the supervision of the Reserve Bank.

4.24 Three Asset Management Companies dominated the asset management sector, commanding over 60% of funds under management as at 30 June 2011.

4.25 Regarding the microfinance sector, we note with concern continuing reports of ruthless lending activities and abusive collection practices by some microfinance providers.

4.26 Such practices militate against the noble objectives of microfinance, which are financial and social inclusion of the disadvantaged segments of our society and attendant poverty alleviation.

4.27 Accordingly, microfinance institutions are urged to maintain the highest standards of integrity when conducting their lending activities. In this regard, microfinance institutions should adhere to internationally agreed **Client Protection Principles** as follows:

a. ***Avoidance of Over-Indebtedness.*** Microfinance institutions should take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness.

b. ***Transparent and Responsible Pricing***. The pricing, terms, and conditions of financial products (including interest charges, all fees, etc.) should be transparent and be adequately disclosed in a form understandable to clients. Responsible pricing means that pricing, terms, and conditions are set in a way that is both affordable to clients and sustainable for microfinance institutions.

c. ***Appropriate Collections Practices***. Debt collection practices of microfinance providers should not be abusive or coercive.

d. ***Ethical Staff Behavior***. Staff of microfinance providers should observe high ethical standards in their interaction with microfinance clients. Microfinance institutions should ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.

e. ***Mechanisms for Redress of Grievances***. Microfinance institutions should have in place timely and responsive mechanisms for complaints and problem resolution for their clients.

f. ***Privacy of Client Data***. The privacy of individual client data should be respected in accordance with relevant laws and regulations.

4.28 As the supervisory authorities for the microfinance sector, we stand ready to deal with deviant behavior in the interest of financial stability.

RECENT DEVELOPMENTS IN THE BANKING SECTOR

Ecobank Zimbabwe Limited

4.29 Premier Banking Corporation has rebranded to Ecobank Zimbabwe Limited and was granted a commercial banking licence. The institution is currently preparing the requisite infrastructure for the commencement of commercial banking operations.

Unbundling of ZABG

4.30 Following the unbundling of ZABG Bank, Royal Bank, Barbican Bank and Trust Banking Corporation were re-registered with effect from 1 September 2010, with ZABG retaining its commercial banking licence.

4.31 The transfer of assets from ZABG to the respective individual banking institutions was completed in December 2010.

4.32 Trust Banking Corporation and Royal Bank commenced operations on 13 December 2010 and 21 February 2011 respectively, whilst Barbican Bank Limited is yet to commence operations.

STATUS OF BANKING SECTOR CAPITALISATION

4.33 As at 30 June 2011, 19 out of 25 operational banking institutions (excluding POSB) were in compliance with the prescribed minimum capital requirements.

4.34 The table below shows the capitalization status of the banking sector as at 30 June 2011.

Capitalisation Status of the Banking Sector as at 30 June 2011

	Institution	Declared Core Capital - 30 June 2011	Required Minimum Capital
Commercial Banks			
1.	CBZ BANK	51,606,168.49	12,500,000.00
2.	STANDARD CHARTERED BANK	44,311,083.33	12,500,000.00
3.	BARCLAYS BANK	31,984,463.00	12,500,000.00
4.	STANBIC BANK	31,040,475.28	12,500,000.00
5.	BANCABC	30,090,587.02	12,500,000.00
6.	ZB BANK	21,841,502.31	12,500,000.00
7.	FBC BANK	18,532,629.62	12,500,000.00
8.	NMB BANK	18,489,414.66	12,500,000.00
9.	INTERFIN BANK	18,253,127.77	12,500,000.00
10.	METROPOLITAN BANK	18,210,304.00	12,500,000.00
11.	MBCA BANK	16,648,731.90	12,500,000.00
12.	TN BANK	13,676,775.81	12,500,000.00
13.	AGRIBANK	13,578,959.86	12,500,000.00
14.	TRUST BANK	13,407,981.91	12,500,000.00
15.	KINGDOM BANK	2,789,515.53	12,500,000.00
16.	ROYAL BANK	1,006,460.48	12,500,000.00
17.	ZABG BANK	(14,391,244.49)	12,500,000.00
Merchant Banks			
18.	TETRAD INVESTMENT BANK	10,812,345.74	10,000,000.00
19.	ECOBANK (formerly Premier)	8,716,234.79	10,000,000.00
20.	GENESIS INVESTMENT BANK	(525,537.11)	10,000,000.00
21.	RENAISSANCE MERCHANT	Under Curatorship	
Building Societies			
22.	CBZ BUILDING SOCIETY	19,273,878.50	10,000,000.00
23.	CABS	18,805,685.73	10,000,000.00
24.	FBC BUILDING SOCIETY	11,636,674.82	10,000,000.00
25.	ZB BUILDING SOCIETY	12,621,770.81	10,000,000.00
Savings Bank			
26.	POSB	9,585,552.71	-

4.35 As at 30 June 2011, 15 out of 16 asset management companies were compliant with the minimum paid-up equity capital requirement of $500,000.

4.36 Despite various regulatory extensions on capitalisation deadlines and numerous calls for market oriented solutions including mergers and acquisitions a few banking institutions are not yet in compliance capital requirements.

4.37 In addition, the Reserve Bank has noted that some banking institutions were bringing in fictitious equity partners to the Reserve Bank, to buy time.

4.38 Banking institutions should not mistake the Reserve Bank's extension of the recapitalization deadlines to facilitate materialization recapitalization initiatives, as indulgence regulatory forbearance.

4.39 Banking institutions and asset management companies without realistic recapitalization plans should forthwith surrender their banking licenses. Going forward, the Reserve Bank is going to meet all undercapitalised banking institutions, together with their boards and shareholders, to determine the way forward on a case by case basis.

Status of Undercapitalised Institutions

4.40 Out of the six non-compliant banking institutions as at 30 June 2011, 3 institutions were granted special dispensations to comply with minimum capital requirements as shown in the table below:

Institution	Capital Position as at 30 June 2011	Compliance Deadline	Comments
KINGDOM BANK	**$2.79 million**	**7 February 2012**	Intends to raise **$15 million** through rights offer and private placement by **31 October 2011**.
ROYAL BANK	**$1.01 million**	**30 September 2012**	Negotiating with three potential investors to raise $11 million by **30 September 2011.**
ZABG	**($14.39 million)**	**30 September 2012**	Potential investors who intend to acquire 60% shareholding have conducted due diligence and negotiations are in progress.

4.41 Genesis Investment Bank is critically under-capitalised with negative capital of $525,537.11 as at 30 June 2011.

4.42 Previous capital raising initiatives with foreign investors were not successful. The bank is, however, pursuing discussions with various potential local investors.

4.43 As at 30 June 2011, Ecobank Zimbabwe had a core capital of $8,716,234.79 which is below the prescribed minimum capital requirement of $10 million for merchant banks. The bank is in the process of regularising its capital position

FINANCIAL INCLUSION

4.44 The Reserve Bank always stands ready to facilitate financial innovation and inclusion initiatives as it contributes positively to economic development. The development of new products such as e-banking brings customer convenience, safety in delivery channel, greater geographic reach and lowers transaction costs to the banking public.

4.45 Pursuant to the calls by Reserve Bank for banks to formulate strategies to reach the unbanked sections of the population, most banks upgraded their core banking systems.

4.46 The enhanced ICT platforms enabled most banks to introduce internet and mobile banking services and products such as account balance enquiries, bill payments and money transfers.

4.47 Electronic banking is fast becoming popular in the banking industry as transactions can be carried out faster and in a safe, convenient and secure manner.

4.48 Banking institutions have partnered with mobile operators to provide various mobile banking and other electronic-based products to the previously un-banked and marginalized communities.

BASEL II IMPLEMENTATION ACTION PLAN

4.49 The Reserve Bank adopted a gradual approach to Basel II implementation to allow for a smooth transition and enable banking institutions to build the requisite capacity to operate in a Basel II environment.

4.50 The Reserve Bank laid the foundation for Basel II Implementation through the rolling out of Risk Based Supervision (RBS) and issuance of a number of Prudential

Guidelines focusing on specific aspects of Pillars I to III.

4.51 With effect from 2004, all banking institutions were required to allocating capital for Market risk and Operational risk using the standardised approach of the current Basel II. Some of the main guidelines covered Corporate Governance, Risk Management, Securitisation, and Financial Disclosure. To date, the only outstanding component toward full implementation of Basel II in Zimbabwe is Credit Risk.

4.52 In January 2011, the Reserve Bank then issued the **Technical Guidance on the Implementation of the Revised Capital Adequacy Framework in Zimbabwe** to the market.

4.53 The Reserve Bank has now finalised the Basel II Implementation Action Plan in which, banks shall, at a minimum, adopt the Modified Standardised Approach (MSA) for credit risk, and Alternative Standardised Approach (ASA) for operational risk. Adoption of the advance approaches is subject to satisfactory Supervisory Validation by the Reserve Bank.

4.54 With respect to the MSA banking institutions are required to develop or revise their internal rating systems, if necessary, to ensure reliable and accurate mapping to the new Supervisory Rating System (SRS).

4.55 Banks should submit to the Reserve bank by 30 September 2011, documentation that outlines the development of the rating systems and derivation of the mapping procedure to the SRS.

4.56 Full Implementation of the revised framework shall commence on 1 January 2012 and finalized by 1 January 2013.

4.57 Thus all banking institutions are required to commence a parallel run of the revised Framework with effect from 1 January 2012. During 2012, all banks will be required to perform three Basel II pilot runs, for which the reference dates will be 31 March, 30 June and 30 September 2012. The Bank advises that the banking sector should migrate to full Basel II as at 1 January 2013.

4.58 The period between now and January 2013 should be utilized for planning, obtaining approvals and addressing procedural requirements for Basel II implementation.

4.59 With effect from 1 January 2013, all banks will be required to comply with Basel II. As from that date, Basel I will no longer be available to any bank.

4.60 As part of their technical and operational preparations banks are encouraged to prioritise capacity building of concerned implementing officials in their internal roadmaps.

4.61 The table below indicates the milestones which shall guide the implementation of Basel II in Zimbabwe.

Road map for the implementation of Basel II

	Activity / Action	**Description**	**Date of Completion**
1.	Designation of a coordinator and formation of Basel II Implementation Committee	a) Coordinator to serve as a focal point for coordinating activities internally and communicating with Reserve Bank. b) The coordinator could be Chief Finance Officer or Head of Risk Management or Head of Credit or Head of Basel II Implementation Unit. c) The Committee members should comprise managerial personnel representing relevant departments within the banking institution. d) The committee should be chaired by a senior level officer preferably MD/CEO and comprise of at least 5 members. **Terms of Reference** of the committee: a) Apply the implementation road map to their banking institutions; b) Communicate issues related to Basel II implementation to their management and Reserve Bank; c) Devise capacity building programs for the bank etc	July 2011

	Activity / Action	Description	Date of Completion
2.	Communicating action plan / roadmap	The bank's action plan/roadmap of implementing Basel II will be formally communicated to the Reserve Bank. The communication will define a) Internal steps & timeframe for the adoption of Basel II. b) Data needs, necessary structures, processes and systems in areas such as: o Corporate governance o Risk assessment o Credit risk o Operational risk o Market and other risks o Economic Capital o Disclosures o Supervisory review. c) Adoption of various approaches for credit, market and operational risk, supervisory review process.	30 July 2011
3.	Capacity building	Reserve Bank workshop targeted at responsible officials of banking institutions.	September 2011 and on-going
4.	Reserve Bank issues new formats of reporting templates	Preparation of reporting formats and circulating the same for banks	30 September 2011
5.	Preparation and issuance of internal policies and procedures	Prime database in preparation for shifting to Basel II. Bank submits to Reserve Bank policies and procedures including ICAAP and credit risk rating system as well as indicate how internal rating scales map to the Supervisory Rating Scale.	30 October 2011
6.	Approval of individual plans by the Reserve Bank	Finalization of specific approaches to be adopted by each bank.	30 November 2011
7.	Parallel run of present regulation on capital adequacy and Basel II	Parallel run of the current framework with Basel II approaches. Banks to continue calculation of minimum capital requirements as per existing regulation and simultaneous calculation of capital ratios under Basel II, for reference dates 31 March, 30 June, 30 September 2012.	Commence parallel run with effect from 1 January 2012 to 31 December 2012
8.	Quantitative impact study on progress	Review and monitoring of the proceedings and compliances and taking necessary	July 2012 and ongoing

	Activity / Action	Description	Date of Completion
		action(s).	
9.	Issuance of final technical guidance, reporting templates and final approval of banks' internal policies	Final approval of banks' internal policies and any necessary adjustments to RBZ policies, guidelines and reporting templates.	31 December 2012
10.	Full adoption of Basel II	Banking institutions required to migrate to the full Basel II.	1 January 2013

THREATS TO FINANCIAL STABILITY

4.62 Banking sector liquidity remains a challenge due to the short-term nature of deposits, the absence of an active inter-bank market and lender of last resort facility at the Reserve Bank.

4.63 The Reserve Bank noted that following the introduction of the multi-currency system some banking institutions have been concentrating on restructuring and other cost cutting measures at the expense of staff training and upgrading of banking systems.

4.64 There are limited budgetary allocations for training in such areas as risk management and compliance. The Reserve Bank encourages banking institutions to prioritise training as this has a bearing on the stability of the institutions.

4.65 Some banking institutions are operating with archaic core banking systems. Going forward, the Reserve Bank shall be visiting all banking institutions to evaluate suitability of their core banking systems in relation to the nature and complexity of their operations.

4.66 There have been some improvements in physical security arrangements in banking institutions. In spite of the Reserve Bank recommendations on enhancement of security, some banking institutions still have weak physical security systems.

MEASURES TO ENHANCE FINANCIAL STABILITY

Risk-Based Supervision

4.67 The Reserve Bank's supervisory framework will continue to be underpinned by Risk-Based supervision methodologies, which places emphasis on the accurate determination of the risk profiles of banking institutions and adequacy of risk management systems.

4.68 Various supervisory techniques are employed to promote the safety and soundness of the banking including off-site surveillance, on-site examinations and stress-testing.

4.69 The Risk-Based Supervision framework also provides for on-going interaction among supervisors, banks and external auditors through prudential meetings.

Definition of Minimum Capital

4.70 In an endeavour to dispel ambiguity on the definition of regulatory minimum capital in banking institutions, the Banking Act has been amended through the incorporation of a definition of minimum capital in line with international standards.

4.71 'Minimum capital' shall mean capital representing a permanent commitment of funds by the shareholders of the banking institution (net of any loans and advances given to an insider and borrowed capital) which is available to meet losses incurred without imposing a fixed unavoidable charge on the institution's earnings and includes such of the following elements as are available to the institution after making any required deductions-

a. Issued and fully paid up ordinary shares or common stock;
b. Paid up non cumulative irredeemable preference shares;
c. Reserves consisting of –
    i. Non- repayable share premiums;
    ii. Disclosed reserves created by a charge to net income in the financial year immediately preceding the current one;

iii. Published retained earnings for the current year including interim earnings, where these have been verified by external auditors; and

iv. Such other elements as may be prescribed from time to time.

Multidisciplinary Financial Stability Committee

4.72 In keeping with the spirit of the Common Market for Eastern and Southern Africa (COMESA) framework for financial stability, the Reserve Bank along with other central banks, adopted a comprehensive framework for assessing financial system stability.

4.73 In terms of this framework, the Reserve Bank has initiated the establishment of the Multidisciplinary Financial Stability Committee comprised of local supervisory agencies and other stakeholders.

4.74 The focus and thrust of this committee will be to facilitate early identification of potential sources of risk to stability and promote adoption of preventive and timely remedial policies.

Co-operation with local Supervisors

4.75 The financial sector supervisory agencies namely Insurance and Pension Commission (IPEC), Deposit protection Board (DPB), the Securities Exchange Commission (SEC) and the Reserve Bank signed a Memorandum of Understanding to enhance co-operation and co-ordination of supervisory activities.

Basel II and III Enhancements

4.76 Basel Committee on Banking Supervision issued some enhancements to the Basel II Framework (Basel III) which the Reserve Bank has since embraced.

4.77 The Reserve Bank will incorporate the changes with respect to minimum Tier 1 and Capital Adequacy ratios, liquidity coverage ratio and net stable funding ratio in the Basel II Implementation Technical Guidance already issued.

Proposed Amendments to Banking Laws

4.78 Due to the challenges that were associated with the resolution of troubled banks especially the lengthy curatorship periods, the Reserve Bank has proposed improvement to the legal and regulatory framework.

4.79 In most countries there are on-going efforts to develop or enhance separate insolvency regimes for dealing with failed banking institutions.

4.80 The proposed amendments cover the following additional areas:

a) corporate governance and compliance;
b) troubled bank resolution;
c) consolidated supervision;
d) financial disclosure;
e) prompt corrective action programme; and
f) Basel II amendments.

Troubled and Insolvent Banks Policy

4.81 The Reserve Bank, in liaison with the IMF, has enhanced the Troubled and Insolvent Banks Policy to facilitate timely identification, rehabilitation and resolution of problem banks.

4.82 According to the policy, the Reserve Bank will ensure that non-compliant institutions exit the market with minimal disruption to the banking sector and inconvenience to the public.

5. BANK CHARGES AND INTEREST RATES

BANK CHARGES

5.1 As Monetary Authorities, we recognize and commend efforts by some banks to promote financial inclusion of previously underbanked and unbanked sections of the communities, through the introduction of low cost products and services such as card-based and mobile banking products.

5.2 We, however, note with concern that bank charges remain high, and tend to discourage use of formal banking channels by the banking public, which is not only detrimental to the banking sector long term viability, but to the overall performance of the economy.

5.3 The table below shows the range in the levels of bank charges being levied by commercial banks.

Bank Charges as at 30 June 2011

Category of Service	Minimum		Maximum	
Cash Withdrawal	0.10%	$1.00	1.5%	$25.00
ATM Withdrawal	0.35%	$1.00	1.0%	$25.00
Cheque Book Fee (per 25 leaf book)	-	$4.00	-	$11.50
Inter Account Transfer	-	$0.50	-	$2.00
Ledger Fees	0.10%	$1.00	0.30%	$250.00
Monthly Administration Fee	-	$0.00	-	$40.00
RTGS	0.05%	$1.00	0.50%	$20.00
Certificate of Balance	-	$0.50	-	$5.00

Note: These are the charges quoted by banks in their business conditions. The actual charges to the customers may, however, be much higher than these quotations.

5.4 In this regard, we urge banks to continue to review their cost structures and pricing policies in a manner that is sustainable to both the banks themselves and their customers.

5.5 Banks are encouraged to focus on building sustainable levels of income from core business sources, such as interest income, which are reliable and stable, as opposed to non-recurring incomes such as bank charges.

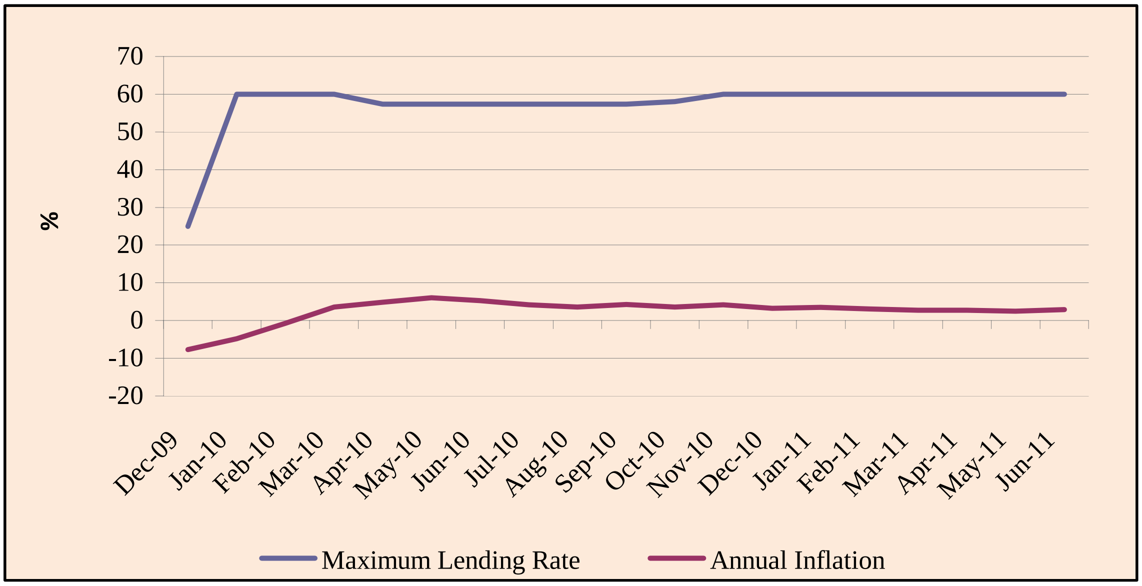
INTEREST RATES

5.6 As Monetary Authorities, we also note with concern the widening disparity between interest paid on deposits and lending rates, as shown in the table below.

Period	Savings Deposits (%)	3-Months Deposits (%)	Average Lending Rate (%)
Jan-10	2.5-5.0	10.0	30.6
Feb-10	2.5-5.0	15	30.6
Mar-10	2.5-5.0	17.5	30.6
Apr-10	2.5-5.0	17.5	29.3
May-10	2.5-5.0	17.5	29.3
Jun-10	2.5-5.0	17.5	29.3
Jul-10	2.5-5.0	17.5	29.3
Aug-10	2.5-5.0	17.5	29.3
Sep-10	2.5-5.0	17.5	29.3
Oct-10	1.0-5.0	9.5	29.6
Nov-10	1.0-5.0	8.3	30.6
Dec-10	1.0-5.0	8.3	30.6
Jan-11	1.0-5.0	9.3	30.6
Feb-11	1.0-5.0	9.3	30.6
Mar-11	1.0-5.0	8.3	30.6
Apr-11	3.2-5.0	8.6	30.6
May-11	2.7-5.0	8.6	30.6
Jun-11	2.6-5.0	8.6	30.6

5.7 In view of these widening disparities, we strongly implore once again, the players in the financial sector, to act as responsible citizens and play their part towards reinforcing efforts to achieve sustainable economic growth by encouraging use of formal banking channels, fostering a savings culture in the economy and playing their key role of efficient financial intermediation.

Real Positive Interest Rate Margins



5.8 The above chart reflects an anomalous situation, where reduction in inflation has only benefited banks, instead of the ordinary borrowers and consumers.

5.9 Against this background, the Reserve Bank has come under immense pressure from its principals in Government, as well as from the borrowing public and corporates, to intervene.

5.10 As Monetary Authorities, we are on record for repeatedly stating that our most preferred policy option is for market forces-driven allocation and pricing of banking sector products and services.

5.11 Ideally, lending rates should be linked to inflation in a manner that results in positive real rates, as well as taking into account specific risk premium of different borrowers.

5.12 With the sustained decline in annual inflation, from above 6% in may 2010 to 2.9% by June 2011, as Monetary Authorities, we would have expected banks to reduce their lending rates to reflect positive gains in one of the key factors in the determination of interest rates. This is also particularly in view of the stability in the financial sector.

MORAL SUASION ON INTEREST RATES

5.13 It is not the Reserve Bank's intention to legislate interest rate levels in the economy, or for that matter, reintroduce interest rate controls.

5.14 In order for the economy to benefit from low inflation and reduction in risk factors brought about by stability in the financial sector, the Central Bank continues to impress upon banks to ensure that their lending rates are linked to inflation.

5.15 In this regard, the following framework for lending rates is proposed:

Lending Rates = f(Inflation + Cost of Funds, Risk Factors, etc)

5.16 The proposed margin above inflation is to take account of the risk premium of the different borrowers, as well as other factors that maybe critical in the bank's interest rate determination formulae.

PRUDENTIAL LIQUIDITY RATIOS

5.17 In order to ensure that banks remain in a position to meet their short-term liabilities as they fall due, the prudential liquidity ratio is increased with immediate effect, from the current 20% to 25%.

5.18 As monetary Authorities, we continue to urge Government to consider introducing a wide range of debt instruments on the money market, in order to give financial institutions more flexibility in managing their liquid asset portfolios.

5.19 Currently, due to absence of secure market instruments, such as Treasury bills, Government stocks, bonds and bills, banks are forced to keep their liquid assets in the form of cash balances with banks abroad, as reflected by rising RTGS mirror account balances.

6. MONEY MARKET DEVELOPMENTS

6.1 Activity in the money market remained generally subdued due to the absence of tradable instruments. The only instruments available in the market are bankers acceptances, which most institutions are holding to maturity.

6.2 The most widely traded instruments in the money market would be treasury bills, Central Bank bills, parastatal paper and bills of exchange. There are no Treasury bills in the market as the Government is operating on a tight cash budgeting framework, and therefore, not borrowing. This has hampered the deepening and development of the money and capital markets.

6.3 The unavailability of short-term tradable instruments has forced financial institutions to leave large unutilized balances on RTGS as well as in their Nostro accounts. Ordinarily, this money would be held in near-liquid and interest earning assets and instruments, such as treasury bills, Central Bank paper and other tradable instruments.

6.4 In this regard, RTGS balances, which had fallen from US$166 million at the end of January 2011 to US$103 million at the end of April, have gradually risen to almost $200 million by end-June 2011. The increase in RTGS balances is largely attributable to lack of alternative short-term tradable instruments on the market, among other factors.

ENHANCING THE LENDER OF LAST RESORT FACILITY

6.5 One of the major functions of the Reserve Bank of Zimbabwe (RBZ) as stipulated in Section 6 of the Reserve Bank of Zimbabwe Act [Chapter 22:15] is “to foster the liquidity, solvency, stability and proper functioning of Zimbabwe’s financial system”.

6.6 The Central Bank ensures this through effective banking supervision and surveillance as well as availing liquidity through the lender of last resort (LOLR) facility.

6.7 Prior to 2009, the RBZ played the LOLR function through the intra-day facility as well as through the overnight accommodation to banks experiencing short-term liquidity challenges. The Bank was able to provide the required funds due to its ability to create money.

6.8 The adoption of multiple currencies in the country, in February 2009, resulted in the Central Bank being unable to play the critical role of lender of last resort as its balance sheet could not allow, and the Bank could no longer issue currency.

6.9 The Government availed US$7 million to the Bank for the lender of last resort function, in December 2010. The facility was opened to the banks in February 2011, with acceptable collateral being Deeds of Transfer on immovable property.

6.10 Since its inception, no draw down has been made on the facility largely due to the complicated nature of the collateral. The collateral has other inherent costs especially relating to perfection which involves bond evaluation and registration.

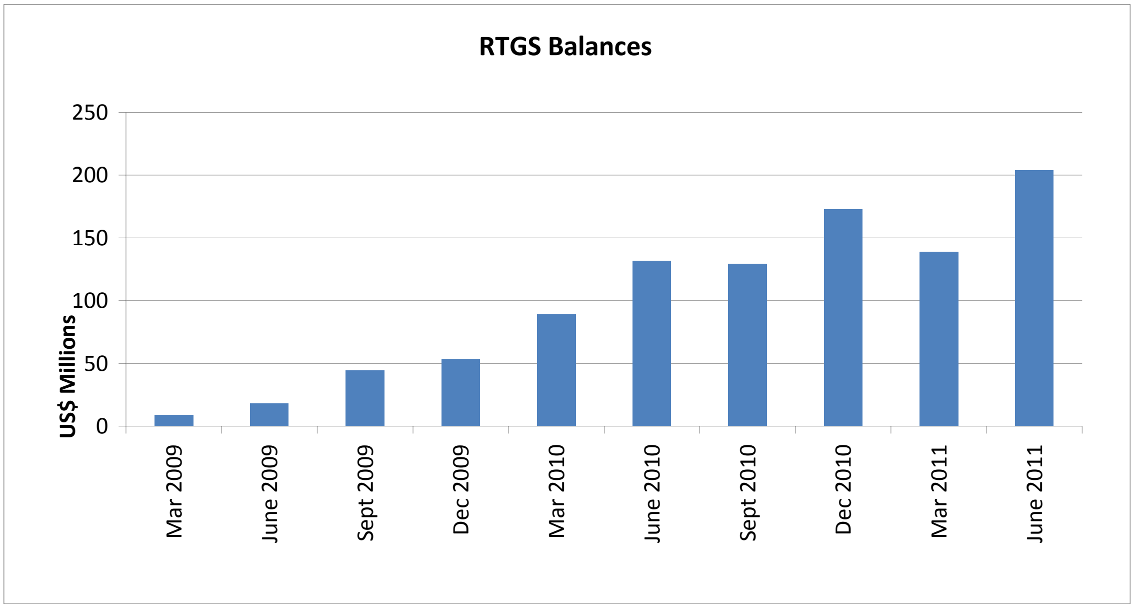
6.11 Following the unfortunate developments at Renaissance Merchant Bank, there has been a flight of deposits to institutions perceived to be ‘safe’, especially the foreign owned banks.

6.12 The flight of deposits, which is estimated around $1.2 billion has created a liquidity challenge mostly at the indigenous banks which have, however, been at the forefront of lending to the productive sectors of the economy.

6.13 Loan to deposit ratios of local banks stood at 80% as at 10 June 2011 compared to 66% for the foreign owned banks, with one of the foreign-owned institution having a ratio of as low as 31%.

6.14 The continued flight of deposits would, therefore, adversely affect the lending activities of the local banks.

6.15 The Central Bank is concerned that there is some liquidity which is lying idle in some banks as reflected by end of day Real Time Gross Settlement (RTGS) surpluses amounting to $176 million, as at 6 July 2011.



6.16 The large balances remaining on financial institutions' RTGS positions also reflect the non-existence of a functional money market. In the absence of short-term tradable securities, financial institutions are forced to keep most of the liquid assets in the form of cash.

6.17 The limited LOLR fund (US$7 million), with its complicated collateral, has also seen banks being more prudent by keeping unnecessarily large balances of liquid assets in cash, especially given that most of their liabilities are demand deposits.

6.18 Ordinarily, financial institutions keep liquid assets in a combination of cash as well as short-term liquid and tradable instruments. If the money market was functional and tradable securities were available, the balances remaining on RTGS as well as in Nostro accounts would be much lower.

6.19 A fully functional money market would allow those banks experiencing liquidity challenges to dispose their short-term securities or use them as collateral for inter-bank borrowing. After exhausting these two avenues, the institution would then rely on the lender of last resort.

6.20 In this regard, it is therefore necessary to enhance this facility by increasing the available amount so that in the event of a system-wide market shortage, it will be fully covered.

ISSUANCE OF MARKET STABILISATION BILLS

6.21 There has been an outcry from the public over the non-payment of interest on deposits by the banking sector, especially when average lending rates are in the region of 30%. Banks have argued that most of the deposits are short-term in nature and therefore transitory.

6.22 Banks have also argued that the money market is non-functional and they are forced to maintain liquid assets in the form of cash on RTGS or in the Nostro accounts which do not earn any interest.

6.23 In order to resuscitate the money market and ensure the LOLR is sufficiently enhanced, the Central Bank is considering the idea of issuing market stabilization bills, which will be underwritten by foreign banks.

6.24 These bills would have features which include acceptability for collateral on the overnight window, security for inter-bank transactions, prescribed and liquid asset status.

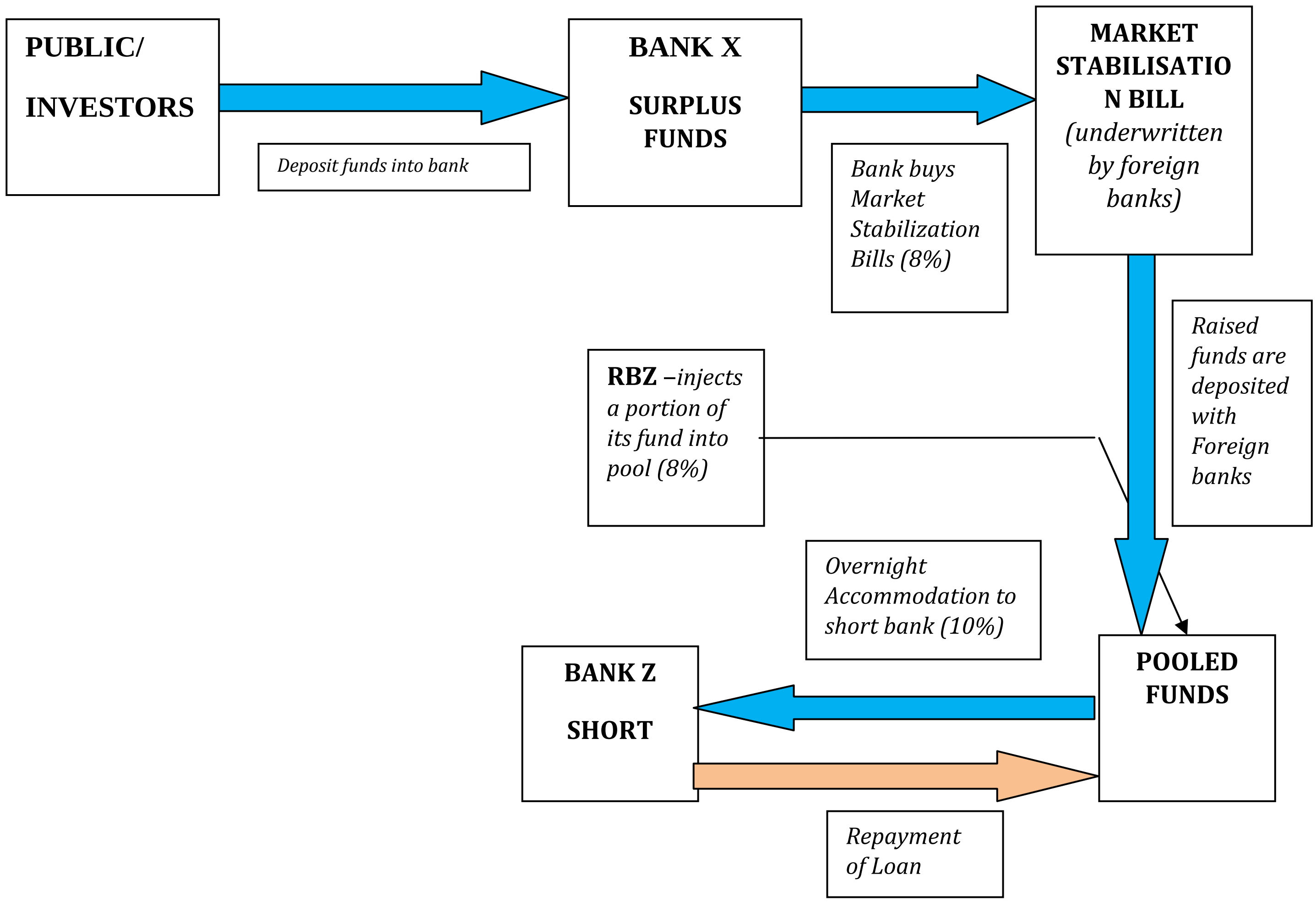
6.25 For purposes of transparency, the RBZ would not handle the funds raised from the issuance of the Bills. Instead, the funds would be held at the guaranteeing institutions. The RBZ would also put in some funds towards the pooled fund.

6.26 The decision to award accommodation will be done by a nominated Committee, which will comrise three (3) members from the Bankers Association of Zimbabwe, three (3) from the underwriters and two (2) from the RBZ.

6.27 An institution experiencing liquidity challenges would access the funds from the pool at agreed interest rates.

6.28 The diagram below shows the movement of funds between the different institutions.

ENHANCING MARKET LIQUIDITY



6.29 Once banks have a market instrument, they will be able to undertake inter-bank transactions, secure overnight accommodation, RTGS, Zimswitch and clearing house transactions.

6.30 It is assumed that the fund will be self-financing, with lending to banks experiencing shortages being undertaken at proposed rates of around 10%.

6.31 Work is under way to explore ways of implementing this idea, and the market will be advised in due course.

7. NATIONAL PAYMENT SYSTEM OVERVIEW

7.1 The national payment systems continued to exhibit stability and resilience, during the six months ending June 2011. The Reserve Bank's objective is to ensure that payment systems continue to operate in a safe, sound and efficient manner, with minimum risk.

7.2 In this regard, the Central Bank will continue to exercise its oversight function through monitoring and collaboration with various stakeholders.

Clearing and Settlement

7.3 As at the end of June 2011, the RTGS membership increased to twenty five (25) active participants, while the Cheque Clearing House membership also increased to 18 banks, following the admittance of Royal Bank.

7.4 During the period under review, ReNaissance Merchant Bank Limited was temporarily suspended from the RTGS system following its placement under Curatorship.

7.5 All clearing banks managed to honour their collateral requirements in the cheque clearing house.

7.6 In addition, the collateral levels held by the Reserve Bank are sufficient to cover individual obligations in the event of any failure to settle.

Cards Infrastructure

7.7 The Reserve Bank calls upon payment and banking sector players to work closely to increase the population of Point of Sale (POS) in the country.

7.8 This is against a background where there are only 3,132 POS machines in the country, with the majority of them concentrated in urban centres.

Payment System Initiatives

7.9 With the revolution in telecommunication sector, the environment for efficient electronic payments has been laid.

7.10 In this regard, the Bank will continue to support the establishment of new products and payment system initiatives that embrace the principle of financial inclusion.

7.11 However, as a matter of policy and to manage risk, the Bank will ensure that any payment system initiative operates through a regulated financial institution, in line with the National Payment Systems Act.

7.12 In order to achieve the full benefits of a well functioning payment system, we urge banks and other relevant stakeholders to continue working together.

National Payment Systems Statistics

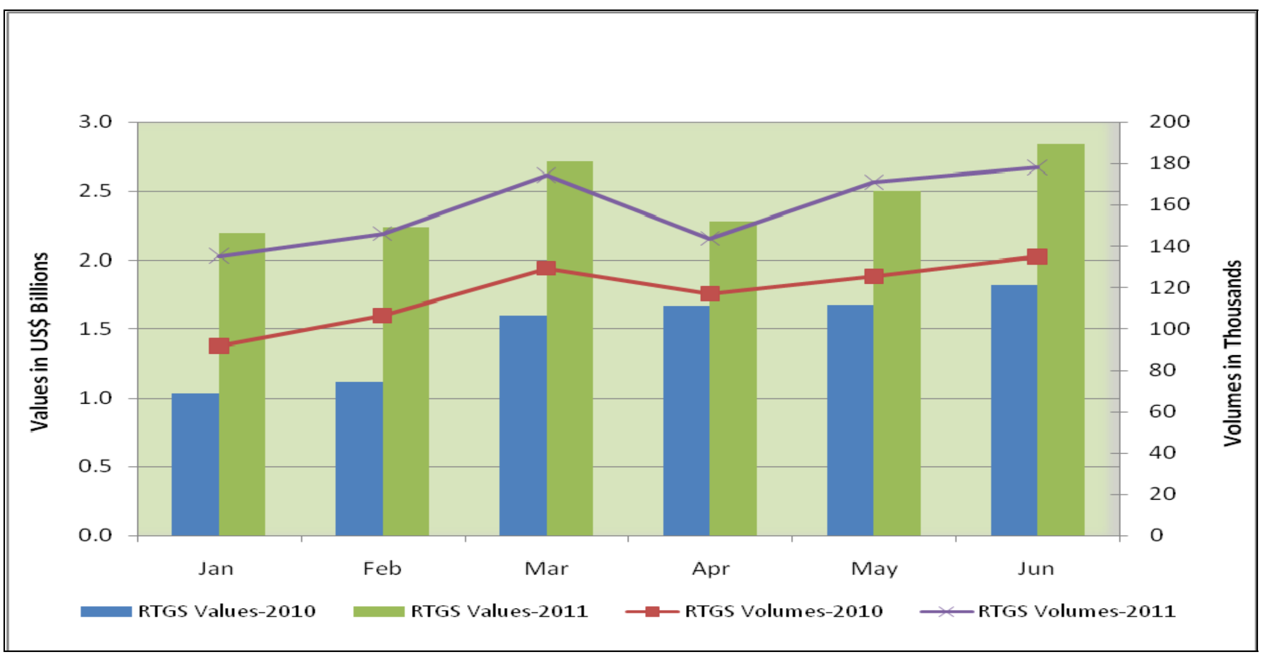
7.13 All payment streams performed remarkably well during the first half of the year, as both volumes and values have registered increases.

Large Value Payment Stream

7.14 The total value of RTGS transactions processed during the half year ending June 2011 amounted to USD 14.8 billion, an increase of 66% from USD8.9 billion recorded in the same period in 2010.

7.15 The corresponding volumes increased by 35% to 948 207 in the half year ending June 2011, from 704 575 during the same period last year.

Monthly RTGS Value and Volumes (2011)



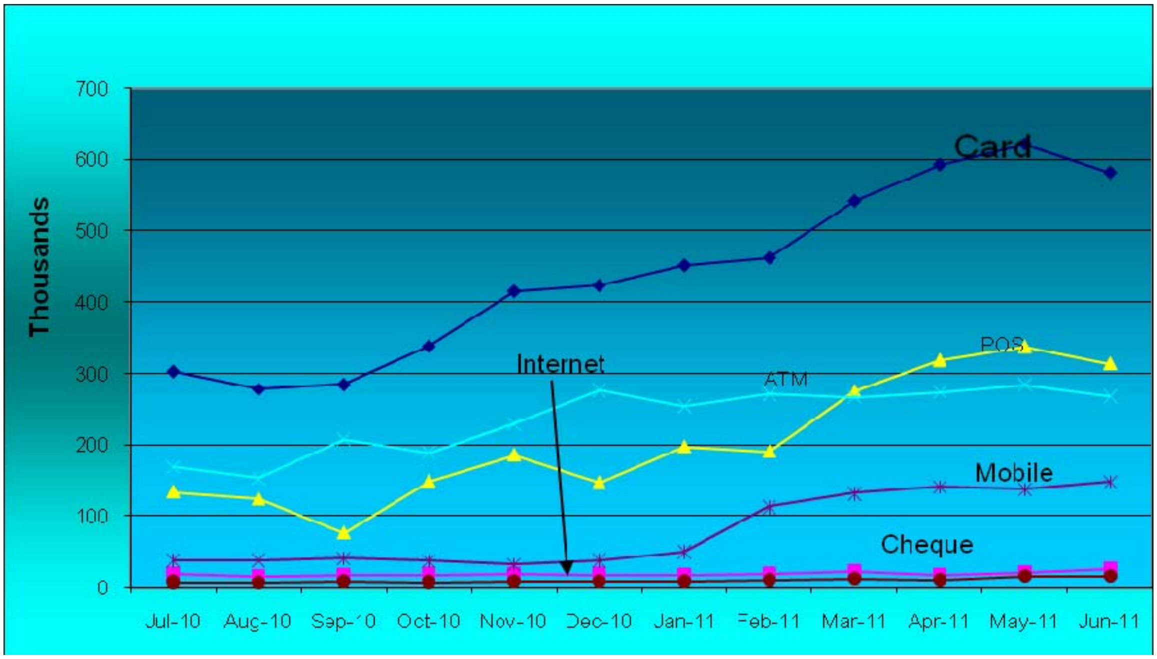
Retail Payment Stream

7.16 Electronic retail payments registered a total value of US$649 million for the six months ending June 2011, compared to US$190 million recorded for same period in 2010. This represented an increase of 242%. ATM values constituted 57% of the total retail transactions.

7.17 The cheque values for the half year ending June 2011 went up to US$30 million which is an increase of 80% from the same period last year. The corresponding volumes of transactions amounted to 122 000 compared to 68 000 for the comparable period last year.

7.18 Since January 2011 mobile payments have registered a marked growth in volumes due to deliberate efforts by the banking community together mobile network operators and other relevant stakeholders to promote the use of mobile phones as a channel for payment systems.

Retail Payment Volumes



7.19 Detailed statistical information on large value and retail payment streams activities for the year to date ending June 2011 are shown below.

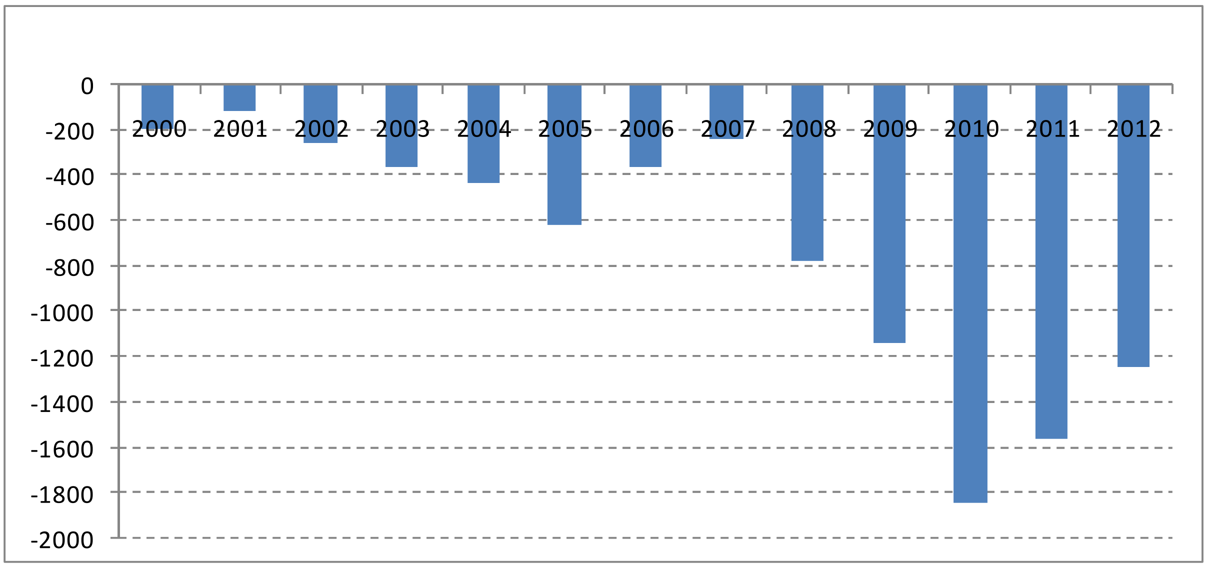
TRANSACTION ACTIVITY						
PAYMENT STREAM	**YTD JUNE 2011**	**Jun-10**	**Jun-11**	**% OF THE TOTAL FOR MAY 011**	**% INCREASE / DECREASE FROM LAST MONTH**	**% INCREASE/ (DECREASE) FROM LAST YEAR SAME MONTH**
	VALUES IN USD					
RTGS	27,610,524,515.89	1,815,313,080	2,844,445,569.69	107.70%	14%	57%
CHEQUE	57,490,879.53	3,665,627.83	6,005,443.46	0.23%	15%	64%
POS	110,334,273.02	4,617,092.42	15,611,348.52	0.59%	-0.2%	238%
ATMS	593,119,340.85	18,006,734.00	58,560,497.33	2.22%	-21%	225%
MOBILE	2,129,326.87	88,075.42	208,495.85	0.01%	-15%	137%
INTERNET	345,171,455.28	31,766,306.54	34,470,684.97	1.31%	-25%	9%
TOTAL	**28,724,227,145.44**	**1,873,456,916.11**	**2,959,302,039.82**			
	VOLUMES					
RTGS	1,812,096	134,945	178,125	18.40%	4%	32%
CHEQUE	235,421	14,963	25,586	2.64%	25%	71%
POS	2,454,528	114,562	313,899	32.43%	-7%	174%
ATMs	2,849,097	137,235	244,635	25.27%	-14%	78%
MOBILE	934,318	29,508	61,497	6.35%	-56%	108%
INTERNET	124,114	9,545	14,734	1.52%	-7%	54%
TOTAL	**8,409,574**	**440,758**	**838,476**			

8. EXTERNAL SECTOR DEVELOPMENTS

8.1 The country's external sector position remains under-pressure, notwithstanding high demand for tradables, firming commodity prices, general macroeconomic stability, and improvement in capital flows.

8.2 The country continues to grapple with a huge current account deficit of about US$1 565 million projected in 2011, representing 19.4% of GDP, due to a disproportionately large amount of imports against subdued exports. The current account deficit will further worsen if oil and food prices continue to rise.

Current Account Deficit (2000-2012)

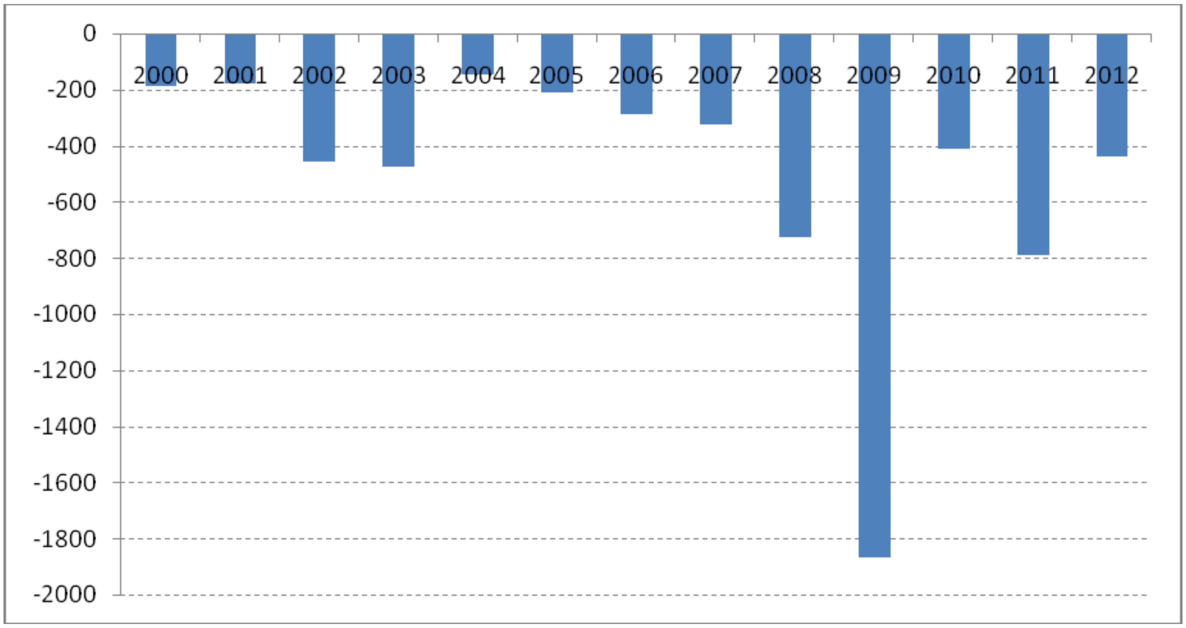


Source: Reserve Bank of Zimbabwe

8.3 Although the capital account is projected to increase from a surplus of US$617.5 million in 2010 to US$775.4 million in 2011, the surplus is not enough to offset the projected current account deficit for 2011 and 2012.

8.4 Reflecting this development, the overall balance of payments (BOP) position will remain in deficit, requiring alternative sources of financing.

Overall Balance of Payments (2000-2012)



Source: Reserve Bank of Zimbabwe

8.5 Given the precarious international reserve position, the country will continue to resort to exceptional financing means, in the form of accumulation of external payment arrears.

EXTERNAL DEBT DEVELOPMENTS

8.6 Zimbabwe remains in debt distress, with a total public debt estimated at US$7 191 million as at 31 May 2011. With a debt to GDP ratio of 89.1%, the country's debt remains unsustainable, and is well above the internationally accepted debt sustainability benchmark of not more than 60% for low income countries.

8.7 The bulk of the country's external debt is owed to multilateral creditors, who account for 35% of the country's total debt. Bilateral and commercial creditors are owed 33% and 32%, respectively. Government remains the largest debtor constituting 57% of total public debt, while parastatals and the private sector account for 34% and 9%, respectively.

8.8 The huge external debt overhang continues to undermine the country's creditworthiness, underscoring the need for a sustainable debt resolution, coupled by a strategy to unlock external credit lines, particularly from the country's traditional financiers.

8.9 Going forward, effective debt management policies are required to curtail accumulating debt to unsustainable levels, while simultaneously encouraging mobilization of domestic savings and foreign direct investment into the key export and productive sectors.

External Debt and Payment Arrears (US$M: 30 May 2011)

	Debt Outstanding Disbursed	Total Arrears	Principal Arrears	Interest Arrears
I. GRAND TOTAL	**7 151**	**4 807**	**4 060**	**747**
o/w public and publicly guaranteed	**6 455**	**4 767**	**4 025**	**743**
II. Government Long Term	**4 044**	**2 440**	**1 865**	**575**
Bilateral creditors	**1 866**	**1 257**	**1 008**	**248**
Paris Club	1 597	1 190	947	243
Non-Paris Club	269	67	61	6
Multilateral creditors	**2 177**	**1 183**	**857**	**327**
III. Parastatal Long Term	**1 111**	**1 027**	**859**	**168**
Bilateral creditors	**497**	**458**	**376**	**82**
Paris Club	405	386	313	72
Non-Paris Club	92	72	63	10
Multilateral creditors	**327**	**283**	**197**	**86**
Suppliers Credits	**286**	**286**	**286**	**0**
IV. Private Long Term	**242**	**40**	**36**	**4**
V. Short Term Debt	**1 754**	**1 300**	**1 300**	**0**

Source: Ministry of Finance and Reserve Bank of Zimbabwe

SHORT-TERM TRADE FACILITIES

8.10 During the first half of 2011, External Loans Coordinating Committee (ELCC) approved short-term facilities amounting to USD1.2 billion, compared to a total of USD737.6 million over the corresponding period for 2010.

Approved ELCC Short-term Facilities Jan 2010 – Jun 2011

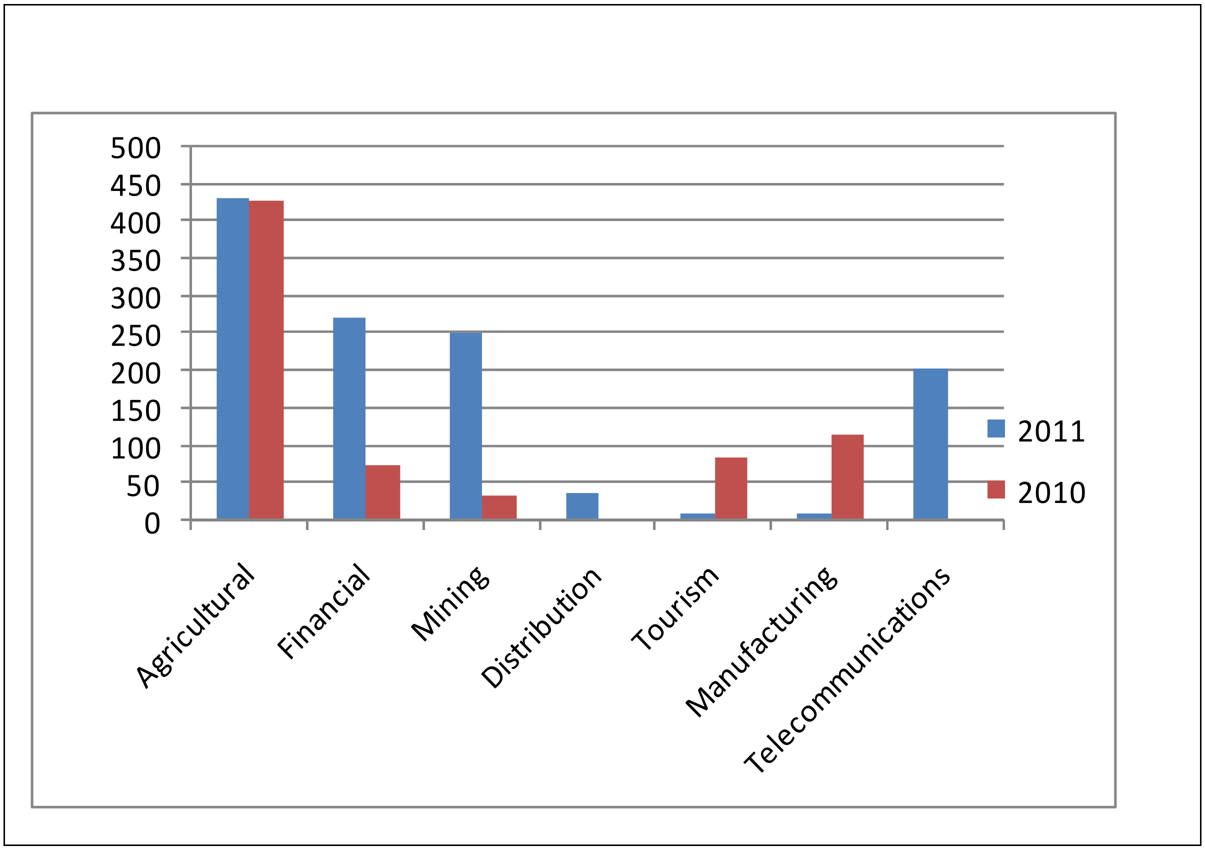
Sector	No. of Companies 2010	No. of Companies 2011	Amount Approved (US$ M) 2010	Amount Approved (US$ M) 2011	Utilized Amount (US$ M) 2010	Utilized Amount (US$ M) 2011
Agriculture	15	11	429.5	432.6	164.2	172.6
Financial	5	12	76	270.8	19.2	19.5
Mining	4	13	33.5	250.9	10	88
Tourism	4	1	83.6	10	16	Nil
Manufacturing	4	6	115	9.8	13	1.8
Telecommunication		4		202.9		202.9
Distribution		10		37.7		17.5
Total	**32**	**57**	**737.6**	**1 214**	**222.4**	**502.4**

8.11 Approvals were spread across seven economic sectors, with the agricultural and financial sectors accounting for the highest values of approved facilities of USD432.6 million and USD270.8 million, respectively. The mining sector approvals amounted to USD250.9 million.

8.12 Applications were mainly for working capital and purchase of equipment.

8.13 The telecommunications sector recorded USD202.9 million, whilst the other remaining sectors had approvals below USD50 million.

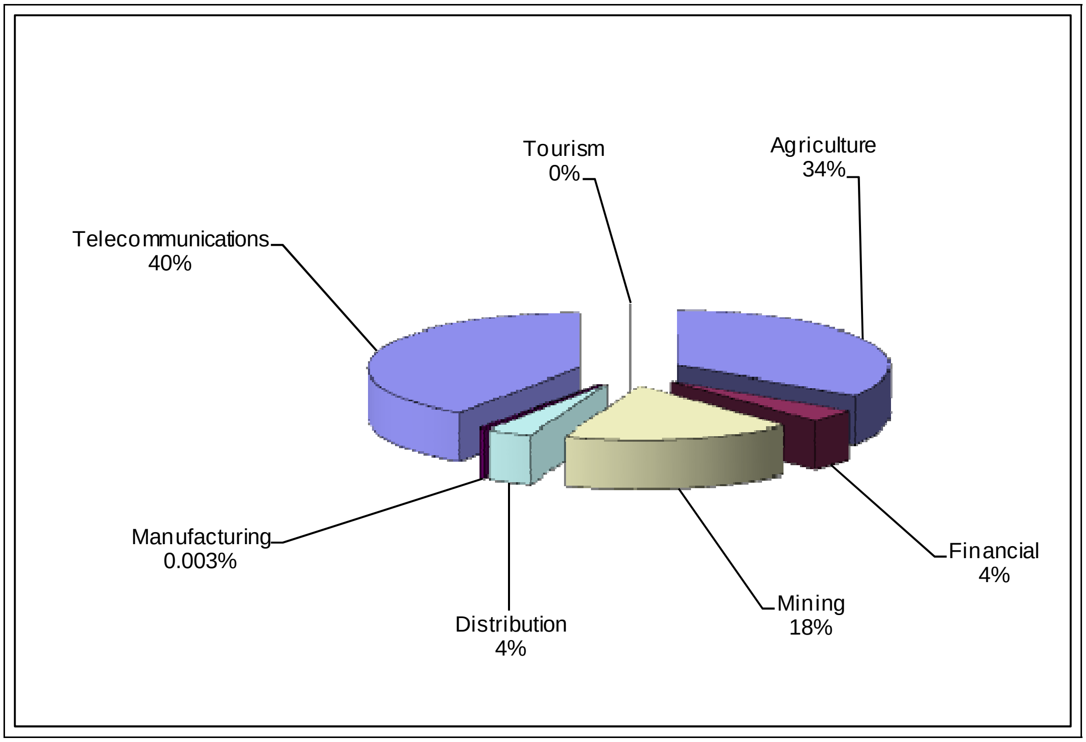
Sectoral Loan Approvals June 2011 and June 2010



Utilization of Facilities June 2011

8.14 The total cumulative drawdown for the review period amounted to USD 502.4 million, or 41% of total approved facilities. The Figure below illustrates the distribution of facility utilization on a sectoral basis.

Utilization of Facilities: January-June 2011



EXTER NAL TRADE PERFORMANCE DURING THE FIRST HALF OF 2011

Global Export Performance

8.15 During the first half of 2011, total export shipments (declared on Forms CD1)[1] amounted to USD1. 48 billion compared to USD0.87 billion which was declared during the same period in 2010, representing an increase of about 70%.

8.16 The positive export performance recorded during the first half of 2011 is largely attributable to a significant increase in mineral export shipments.

[1] Export shipments reported reflect declarations made on Forms CD1 through the Computerised Export Payments Exchange Control System (CEPECS) with Authorised Dealers. These declarations do not imply actual shipments through ZIMRA exit points as the online link between Exchange Control and ZIMRA border posts is currently non-functional and reporting is manual, thus creating a lag.

Total Monthly Export Shipments (USD)

Month	2011	2010	Variance	% Variance
January	270,250,180	178,272,800	91,977,379	51.59
February	236,197,180	154,802,532	81,394,648	52.58
March	281,311,435	173,711,833	107,599,602	61.94
April	206,894,526	121,234,945	85,659,581	70.66
May	243,593,306	110,370,101	133,223,205	120.71
June	240,688,418	133,474,102	107,214,316	80.33
Total	**1,478,935,045**	**871,866,314**	**607,068,731**	69.63

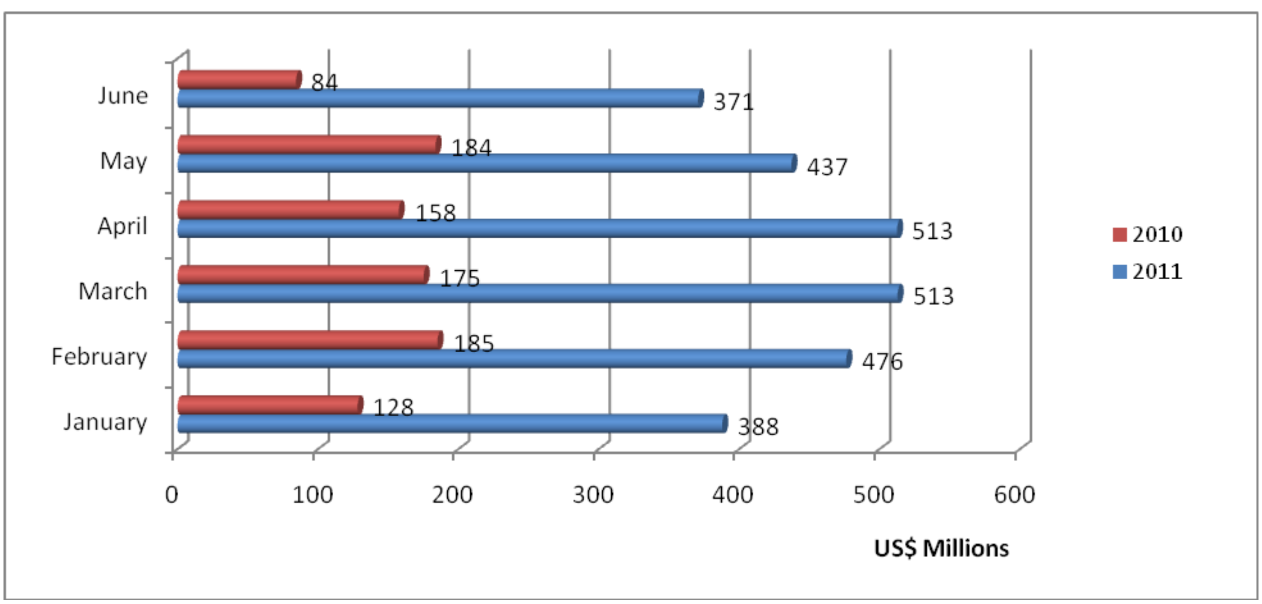
Source: Computerised Export Payments Exchange Control System (CEPECS)

FOREIGN PAYMENTS FOR THE FIRST HALF OF 2011

Global Foreign Payments

8.17 For the period 01 January to 28 June 2011, global foreign payments for various imports amounted to USD2.7 billion, thereby representing a 195% increase in foreign payments compared to USD0.9 billion declared over the same period in 2010.

Global Foreign Payments



***Source:** Computerized Exchange Control Batch Application System (CEBAS), RBZ*

8.18 This significant increase in declared foreign payments in 2011 can be attributed to the liberalization of Exchange Controls and the re-designation of foreign currency accounts which now allows Authorized Dealers to declare import payments funded from Corporate FCAs (General) and Individual FCAs (Free Funds)2.

8.19 An analysis of monthly trends for 2011 and 2010 shown in the graph below, affirms the above mentioned increase in foreign payments in the first half of the year 2011 except for the month May 2011.

GLOBAL FOREIGN CURRENCY TRANSACTIONS

Global Foreign Currency Receipts

8.20 Global Foreign Currency receipts for the period 01 January to 17 June 2011 amounted to USD2. 6 billion, which is more than double the USD1.2 billion received during the same period in 2010. Export proceeds (reflecting Forms CD1 acquittals) accounted for over 60% of the global foreign currency receipts which amounted to USD1.6 billion compared to USD0.8 billion received during the same period in 2010.

Global Foreign Currency Receipts (USD)

Category	YEAR 2011		YEAR 2010		% CHANGE
	Value (USD)	% CONTR	Value (USD)	% CONTR	
Export Proceeds	1,560,410,131	61%	809,925,596	69%	93%
Loan Proceeds	97,920,000	4%	25,613,021	2%	282%
Free funds	640,386,414	25%	281,367,987	24%	128%
Income receipts	142,050,926	6%	49,474,537	4%	187%
Capital investments	132,204,517	5%	-	0%	100%
Total	**2,572,971,988**	**100%**	**1,166,381,141**	**100%**	**121%**

Source: Bank Application System, RBZ

[2] In the last Monetary Policy Statement of January 2011, foreign currency accounts were re-designated to ensure full reporting to Exchange Control on the utilisation of foreign exchange from these accounts for all cross-border payments. Prior to this, reporting of foreign payments were only limited to funds emanating from Corporate FCAs (Exports), hence there was an under-declaration of foreign payments to the Reserve Bank.

FOREIGN CURRENCY REMITTANCES

Foreign currency Receipts from the Diaspora

8.21 Declared foreign currency receipts from the Diaspora through licenced Bureaux de Change amounted to USD135 million as compared to USD110.5 million realized during the same period in 2010, representing a 22% increase.

8.22 This remarkable growth in Diaspora receipts sustained during the year 2011 was largely attributable to improved operating environment and confidence inducing policy initiatives.

Foreign Currency Receipts from the Diaspora (USD)

	2009	2010	2011
January	10,619,415	19,366,100	22,675,176
February	13,227,489	18,264,636	23,480,738
March	11,413,077	17,224,623	22,448,885
April	15,238,910	21,954,936	25,432,557
May	15,527,675	20,070,014	24,528,147
June	11,589,597	13,657,713	16,469,477
Total	**77,616,163**	**110,538,022**	**135,034,981**
Growth Rate		**42%**	**22%**

POLICY MEASURES TO ENHANCE FOREIGN EXCHANGE MONITORING AND MANAGEMENT, AND IMPROVE MARKET LIQUIDITY

Remittance of Sale Proceeds from Disposal of Immovable Property

8.23 It is important to note that due to tight foreign exchange liquidity conditions in the domestic market exacerbated by the absence of Balance of Payments support, the Capital Account remains regulated. The world over, the Capital Account is very susceptible to shocks in the form of capital flight.

8.24 Furthermore, having studied the current negative implications of wholesale remittances on the BOP, offshore remittances arising from the disposal of immovable property shall require prior Exchange Control approval.

8.25 In this regard, remittances arising from disposal of immoveable property as categorized below, shall be eligible for 100% remittance:-

i. formal emigration;
ii. deceased estates whose beneficiaries are resident outside Zimbabwe;
iii. individual foreigners with documentary proof of transferring funds into Zimbabwe for the purchase of immoveable property

8.26 In order to manage capital outflows which impact negatively on the Balance of Payments position and liquidity on the local market, remittances arising from disposal of immoveable property by residents shall be remittable in tranches over a one year period.

8.27 Detailed operational modalities on this framework shall be issued to Authorised Dealers in due course.

Property Related Remittances (2009-2011)

Name of Bank	**Amount (USD)**
MBCA	11,539,906.00
Premier Bank	1,516,016.00
Kingdom Bank	735,190.00
Stanbic	335,947.00
Barclays Bank	179,492.00
ZABG	47,295.00
CFX Bank	4,480.00
Standard Chartered	4,310,354.00
Renaissance	1,227,242.00
FBC Bank Ltd	438,630.00
NMB Bank Ltd	242,415.00
CBZ Bank Ltd	74,958.00
ZB Bank Ltd	22,072.00
Totals	**20,674,001.00**

Source: Computerised Exchange Control Batch Application System (CEBAS), RBZ

8.28 Research has shown that such remittances have no matching counterparty transactions. Most of these properties were purchased utilizing funds sourced from the domestic market and such properties remain a capital item in the country's balance sheet. Sale of such properties for purposes of remitting the proceeds offshore prejudices the country of its capital proceeds even if the property remains in Zimbabwe.

8.29 It is for this reason that all stake holders in the real estate sector are hereby reminded that previous and current documented Exchange Control policy dictates that all non-residents wishing to purchase property in Zimbabwe, should register their intentions with Exchange Control first, before the conclusion of the transaction with the seller of the property.

8.30 Furthermore, having studied the current negative implications of wholesale remittances on the BOP position, offshore remittance of proceeds arising from the disposal of immovable property shall require prior Exchange Control approval.

8.31 Detailed operational modalities on this framework shall be issued to Authorized Dealers in due course.

Authorized Dealership Licensing Arrangements

8.32 The liberalisation of the Exchange Control framework in 2009 culminated in the delegation of authority to Authorized Dealers to administer foreign exchange transactions in line with this liberalized framework. This delegated authority, now allows Authorized Dealers to process certain transactions, with the exception of Capital Account transactions, without Exchange Control approval.

8.33 In a dynamic environment characterised by continued changes and emergence of new global issues, it is imperative for Exchange Control to incessantly build capacity in Authorized Dealers to enhance effective handling of foreign exchange transactions. Therefore, to ensure that Authorized Dealers are fully equipped to exercise this delegated authority, new licencing arrangements for Authorized Dealership authority shall be applied as follows:-

- All Authorized Dealers shall be issued with renewable Authorized Dealership Certificates which shall be valid for a period of one year. The registration process shall be outlined in the Exchange Control regulations due for promulgation.

- Authorized Dealers shall also ensure that all their Exchange Control staff undergo training, which shall be conducted by the Reserve Bank. Training may attract a cost recovery fee which shall be charged by the Reserve Bank.

Inter-Departmental Coordination in Banks

8.34 As Monetary Authorities, we continue to observe with concern the absence of clear operational structures within banks, vis-à-vis the demarcation of Exchange Control and Treasury functions. This absence of clearly defined structures has been the source of widespread Exchange Control violations that have arisen from certain transactions ordinarily requiring prior Exchange Control approval, being implemented without meeting procedural requirements.

8.35 In the process, the Exchange Control function through which Authorized Dealers are supposed to administer the delegated Exchange Control functions as per Exchange Control Act, has been compromised.

8.36 In order to bring normalcy and exterminate these violations, and ensure congruency and consistency of these structures with the existing foreign exchange framework, Authorized Dealers are directed to ensure that all Exchange Control related transactions conducted through Treasury meet set Exchange Control guidelines by seeking confirmation from their Exchange Control departments.

Current and Capital Account Liberalization

8.37 As highlighted in previous Monetary Policy Statements, in line with SADC Protocol on Liberalization of Trade and Exchange Controls, the liberalized Exchange Control Framework has come in the form of full Current Account convertibility and free movement of foreign currency within and across borders.

8.38 In order to cushion the economy from external shocks and guard against capital flight, the Capital Account has not been fully liberalized. However, investment income from inward investments is freely remittable. The restrictions on the Capital Account are being managed in a manner that promotes investor confidence and facilitates and allows free movement of capital.

Transactions Requiring Exchange Control Approval

8.39 Whilst the liberalised Exchange Control Framework has made significant progress in boosting viability of local enterprises and investor confidence, it is disheartening to note that, there are incidences of Exchange Control violations where certain transactions ordinarily requiring Exchange Control approvals are not referred to Exchange Control.

8.40 In order to curb this malpractice, Exchange Control is reminding Authorized Dealers of the following list of transactions requiring Exchange Control approvals/registration;

Capital Account Transactions

8.41 Applications pertaining to the receipt or payment of capital transfers and/or acquisitions, disposal of non financial assets as well as transactions associated with changes of ownership in foreign financial assets and liabilities of the country, must form the basis for specific application to Exchange Control. These relate to:-

- Disinvestment proposals
- Dilution proposals
- Mergers and Takeovers
- Cross Border Investments
- Dual listing of shares
- Restructuring and Rights Issue of Shares
- Sale of immovable property to foreigners
- Remittance of sale proceeds from sale of immovable property
- All agreements involving local and foreign parties
- Temporary and permanent export of household and personal effects;
- Import and export of cash.
- Any other transactions which fall outside the Exchange Control Guidelines.

On-line Declaration of Cross border Payments

8.42 In order to ensure full disclosure of cross border payments and the need to have accurate BOP statistics, Authorized Dealers are directed to ensure that all such payments are captured on the Computerised Exchange Control Batch Application System (CEBAS) within 24 hrs of effecting the payment.

Externalisation of Foreign Currency through Inter-FCA transfers

8.43 In accordance with the liberalisation of Exchange Control framework, funds held by individuals have been categorized as "free funds" meaning that no restrictions apply on the withdrawal and utilization of these funds.

8.44 The Monetary Authorities have noted with concern the rampant inter-FCA transfers, especially movement of funds from Corporate FCA (Exports) into Corporate FCA (General) for ease of externalisation of foreign currency or tax evasion.

8.45 In order to curb such externalization and manage the flow and legitimacy of export proceeds, Authorized Dealers are directed to ensure that there is no inter-FCA transfer of funds from Corporate FCA (Exports) into Corporate FCA (General) and vice-versa.

Full Scope Inspections and Compliance

8.46 The liberalization of the Current Account meant that the Reserve Bank delegated Exchange Control authority to Authorized Dealers. Evidence from the routine Exchange Control full scope inspections conducted to date, the Monetary Authorities note with concern the presence of various Exchange Control violations committed by Authorized Dealers.

Capital Account Violations

- Unauthorized acquisition of shares held by foreign investors in local institutions;
- Repatriation of disinvestment proceeds without prior Exchange Control approval**;**
- Opening of offshore offices and establishment of crossborder investments without prior Reserve Bank approval;

- Securitization of external loans using domestic capital assets (commercial/ industrial property and equities/shares)
- Non submission of performance returns on approved crossborder investments.

Current Account Violations

- Non-remittance of export proceeds and depositing of such funds in unauthorized offshore accounts (externalisation);
- Under declaration of export proceeds (i.e. smuggling);
- Non-acquittal of Bills of Entry (Imports) – incurrence of import payments with no counterpart goods or services coming into Zimbabwe;
- Non-declaration of nostro accounts – Authorized Dealers have correspondent bank accounts which are not registered with Exchange Control;
- Non declaration and registration of external loans which are below the USD5 million thresholds to External Loans Coordinating Committee.
- Submission of inaccurate Exchange Control returns to the Reserve Bank.

8.47 In an effort to enhance compliance with Exchange Control Rules and Regulations, the Monetary Authorities, through its Exchange Control will step up full scope inspections. Authorized Dealers' selected branches will be advised of the dates for the inspections through their head offices.

Cash Repatriations

8.48 Following the adoption of the multi-currency system, the country has continued to receive and accumulate hard currency and notes and coins, necessitating banks to repatriate surplus cash resources to fund their nostro accounts and realize value.

8.49 Given the need to ensure compliance with Exchange Control guidelines in respect of cash repatriation, the Reserve Bank has been inundated with applications of this nature.

8.50 In order to expedite cash shipments by banks and avoid bureaucratic delays, all cash repatriations shall be witnessed by the Authorized Dealer's internal audit/risk departments. Authorized Dealers must, however, continue to seek Exchange

Control authority for all cash repatriations.

Restoration of Real-Time Exports Monitoring Between RBZ, Authorized Dealers, ZIMRA and NECI

8.51 The role of the Reserve Bank in the facilitation of exports includes ensuring that all commercial exports (shipments) are declared for Balance of Payment reporting purposes and the full accounting for exports receipts of goods and services.

8.52 The declaration of export shipments and accounting of export proceeds is facilitated and monitored through the Computerised Export Payment Exchange Control System (CEPECS) which was commissioned in 2004. The CEPECS system is a highly secured web-based platform where the Reserve Bank, Authorized Dealers, the Zimbabwe Revenue Authority (Customs and Excise) and the National Economic Conduct Inspectorate (NECI) can inter-face real time and on-line for the purposes of monitoring and accounting for the country's declared export shipments.

8.53 As a result of limited budget resources, there has been lack of maintenance of the system in terms of replacing obsolete computers at all ZIMRA points of exit. In order to effectively monitor and account for the export shipments and proceeds, there is urgent need for Treasury to consider the replacement of the obsolete computers and restore the vital link between the Reserve Bank, Authorized Dealers, ZIMRA and NECI.

8.54 Lack of functional CEPECS linkage between the Reserve Bank, Authorized Dealers, ZIMRA and NECI would result in the following undesirable national consequences:-

- ZIMRA not being online to confirm the actual shipment of exports declared to Exchange Control through Forms CD1
- Failure to discharge the Forms CD1 on-line by ZIMRA means that the Reserve Bank cannot confirm that the exports left the country hence can only report declared exports.
- Under-reporting of actual shipments has a negative bearing on accounting for actual foreign currency receipts, which has an adverse impact on market liquidity.

- Systems failure would inconvenience exporters in that they would have to deal with manual documents, thereby delaying the export process. Some unscrupulous exporters could use fake Forms CD1 as manual forms can easily be tempered with.
- Risk profiling of exporters would be difficult to implement due to lack of readily available performance reports.
- The balance of payments statistics would not reflect the true and fair value of exports because of possible under declaration of export volumes and prices.

PROMULGATION OF AMENDED EXCHANGE CONTROL REGULATIONS

8.55 In line with the introduction of the multi-currency system and the liberalisation of current account transactions, the Reserve Bank revisited provisions of current Exchange Control legislation, to bring them in conformity with the new system. The proposed legal framework now awaits promulgation.

8.56 The Reserve Bank is advised through the Ministry of Finance that work on the new legislation is being finalized and will be promulgated soon.

9. POLICY ADVICE ON INDIGENIZATION AND EMPOWERMENT

9.1 Government has enacted the Indigenization and Economic Empowerment Act, which primarily seeks to ensure that indigenous people of this country are more involved in economic activity, through ownership and increased participation in the use of the country's resources.

9.2 In the interest of enriching current debate around the issues of Indigenization and Economic Empowerment, the Reserve Bank of Zimbabwe has released, together with this Monetary Policy Statement, a Supplement detailing our modest contribution to the debate.

9.3 The Bank fondly believes that the implementation of the indigenization and economic empowerment strategies should be done in a manner that immediately reduce poverty and enhance societal welfare. The program should ensure growth and equitable re-distribution of wealth across broad spectrum of societal groups notably, women, youth, chiefs, and physically handicapped, among others.

9.4 In this regard, the Bank is advocating for a sectoral approach to the implementation of the law, paying particular attention to the sensitivities that characterize firms in different sectors of the economy, such as the financial, mining, manufacturing and agriculture, while at the same time emphasizing and prioritizing empowerment ahead of equity and ownership.

9.5 Under the framework that prioritizes economic empowerment, Government can ensure that indigenous people supply inputs into the country's production processes, by introducing procurement regulations that deliberately favour indigenous Zimbabweans. This strategy effectively empowers indigenous people to control downstream industrial activities through the supplying of raw materials, inputs, and other goods and services, particularly to foreign-owned companies.

9.6 The proposed economic empowerment measures place great prominence on wealth creation and value addition through broad-based participation of the indigenous people, as opposed to redistribution of the country's already existing stock of wealth.

9.7 They also envisage a gradual approach to attainment of the company ownership thresholds by indigenous Zimbabweans, in a manner that ensures sustainable empowerment and minimal disruption to economic activity and much-needed inflows of foreign capital.

9.8 Under the empowerment-led indigenization initiatives, companies will, thus, be required to source a specified proportion of their inputs, raw materials and spares from indigenous entities, with thresholds varying from sector to sector, depending on the cost structure of each specific sector or sub-sector.

9.9 As Monetary Authorities, we believe that the supply of raw materials and other critical inputs by indigenous Zimbabweans immediately empowers them by smoothening the ownership of the means of production, as well as mainstreaming previously disadvantaged indigenous people into active participation in all facets of economic activity.

9.10 The empowerment strategy, thus ensures that indigenous people realize immediate benefits through receipts from guaranteed supply of goods and services to companies, as opposed to waiting for annual dividend payments, which are contingent upon the companies making profits and declaring such dividends to shareholders.

9.11 To give fruitution to these suggestions, industry specific indigenous empowerment charters should be developed to recognize the peculiarities of the different sectors and industries of the economy, as a one-size-fits-all approach may run the risk of negating fundamental structural underpinnings of the economy.

9.12 When the empowerment drive has been achieved, Government could then move a gear up or accelerate ownership of companies by indigenous Zimbabweans, through a carefully planned indigenization implementation framework.

10. POLICY ADVICE ON THE LAND REFORM

10.1 The land reform programme embarked upon by Government in 2000 resulted in massive land redistribution, from the white commercial farmers to indigenous Zimbabweans. The process is irreversible, and the focus should now be on enhancing productivity within the agricultural sector, to ensure food security and restoration of Zimbabwe’s status as the bread basket of the SADC region.

10.2 It is important that Government continues to explore ways of compensating the affected farmers, as this is critical to bringing, equity, fairness and finality to the land reform programme.

10.3 Token annual budgetary allocations towards this purpose would have positive signaling effects, both domestically and externally. While it is recognized that the fiscal space is narrow, more efforts should be directed towards resource mobilization from external sources, through concessional external loans and grants.

AGRICULTURAL MASTER PLAN

10.4 To increase productivity on the farms, a holistic programme covering the entire production value chain in agriculture should, therefore, be put in place so as to avoid the current piece meal approach to addressing challenges facing the sector.

10.5 In this regard, the Reserve Bank advocates for formulation of an **Agricultural Master Plan** for the country, whose programmes should encompass the following:

- Security of tenure;
- Agricultural financing;
- Distribution mechanisms;
- Agriculture marketing and pricing;
- Contract farming;
- Loan recoveries;
- Dispute resolution mechanisms; and
- State role in rural community agriculture production.

Security of Tenure

10.6 Security of tenure for land acquired under the historic land reform programme is critical to ensure long-term agricultural planning and access to financing.

10.7 Under the current scenario, land has no value and is considered as D**ead Capital**, since it cannot be used as collateral. In this regard, we urge Government to ensure that the 99-year leases are market valued, registrable and executable, so as to enable farmers to use them as collateral against bank financing.

10.8 Security of tenure ensures that there are no disruptions to farming activities through re-allocations, multiple ownerships, fresh occupations and other disturbances related to ownership disputes.

Agricultural Financing

10.9 All efforts should be made to ensure that the land is put to maximum productive potential. In this regard, we call upon the relevant authorities in Government to double their efforts in financing the agricultural sector, through support activities such as research and development, input and chemical schemes, farm mechanization enhancement and provision of extension services.

10.10 While recognizing efforts of local banks to prioritize the agricultural sector for funding, along with other productive sectors of the economy, we continue to encourage banks to support innovative schemes such as contract farming, revolving financing schemes, and to provide guarantees in order to enable farmers to access offshore financing.

10.11 In the past, farmers used to benefit immensely from borrowing instruments such as commercial paper issued by agricultural institutions, guaranteed by Government and in some cases, underwritten by financial institutions.

10.12 In this regard, as Monetary Authorities, we urge the newly revamped Agricultural Marketing Authority (AMA) to resuscitate these financing instruments, for the benefit of the farmers.

10.13 Farming is a business, like all other forms of businesses in the economy. In this regard, taxation of profitable farmers, particularly in A2 and commercial farming categories, should be stepped up, so as to generate financial resources that could be ploughed back into the agricultural sector through the abovementioned financing schemes.

Contract Farming

10.14 Contract farming has the potential to increase overall agricultural output if properly implemented within an agreed National Framework.

Farm Sizes

10.15 In line with limits placed on multiple farm ownership, Government should also come up with maximum farm sizes to ensure that all land is fully utilized, and that equitable distribution of land is achieved.

10.16 This also increases the number of beneficiaries of the land reform programme, particularly if the one-man-one-farm policy is adhered to and enforced.

Empowering the Farmer

10.17 Throughout the world, Governments support farmers to ensure viability as well as food security.

10.18 The Central Bank has noted with concern, the currently paradox where food processing companies and middle-men traders of agricultural produce are doing extremely well, at the expense of the farmers on the ground.

10.19 If the situation is not addressed, there is likely to be gradual shift by farmers to only cash crops such as tobacco, where they have a more direct control of their marketing, away from other crops where middle-men are raking havoc.

10.20 Such patterns would leave the country seriously exposed to food insecurity, at a time when global food prices are on an upward trend.

10.21 In this regard, Monetary Authorities call for a review of the marketing and pricing mechanisms for food crops, so as to ensure that farmers get a fair compensation for their produce, and that there is continuity in the production of all agricultural crops.

10.22 In the same vein, budgetary allocations for agriculture must take cognizance of the different product and seasonal cycles in agriculture, so as to cater for the different financing and support needs for the winter and summer crops.

Farm Leasing Policy

10.23 A number of beneficiaries of the land reform program lack financial resources to undertake meaningful agricultural activities. Repossession of the land would negate one of the objectives of the programme, which was to redistribute land towards the poor and landless, so that they can uplift themselves out of poverty.

10.24 This group of farmers also does not have collateral or agricultural equipment to undertake extensive and intensive farming, largely due to lack of support from banking institutions.

10.25 While more medium to long-term financing mechanisms for such farmers are being worked out by Government, the Central Bank recommends that the farmers in this category be allowed to lease part of their land over a period not exceeding five years, where they can receive rentals from interested and well equipped lesee farmers.

10.26 During the period of the lease, farmers benefit not only financially, but also in terms of skills transfer and reclamation of their untilled idle land. This will enhance national output.

10.27 To protect land owners from unfair practices under this arrangement, the proposed lease agreements could be registered at the nearest District or Provincial Offices, in which the farmers are located.

Water Supply and Development

10.28 Zimbabwe is a land-locked country which is prone to droughts. In this regard, there is also need to fully utilize existing water bodies in various Provinces, which were built under the Give a Dam Project.

10.29 The Central Bank urges Government to facilitate the setting up of irrigation schemes, through Private-Public Partnerships (PPPs), in order to ensure increased food production throughout the year, with downstream benefits to other related projects such as fish farming.

DR. G. GONO
GOVERNOR
<u>RESERVE BANK OF ZIMBABWE</u>

JULY 2011

ANNEXURE 1: Troubled and Insolvent Bank Resolution Policy: Prompt Corrective Action Programme

CATEGORY: Capital Adequacy **CATEGORY: CAPITAL ADEQUACY** 1. **UNDERCAPITALISED BANKING INSTITUTION (Capital Adequacy Ratio (CAR) of more than 8% but less than 12%, Leverage ratio of 3% - 6%, The bank's capital is less than the prescribed minimum capital requirements)**
ACTION TO BE TAKEN a) Prohibit the banking institution from declaring or distributing any dividends, which would, in the opinion of the Reserve Bank (RBZ), result in the banking institution failing to comply with the minimum capital requirements; b) Undertake more frequent examinations of that banking institution in line with Risk Based Supervision framework; c) Prohibit payment of any management fees to any person with significant interest in that banking institution if, after making the payment, the banking institution would be undercapitalised. d) require submission of a capital restoration plan, which shall specify: i. the steps the banking institution will take to become adequately capitalised; ii. the levels of capital to be attained during the period in which the plan will be in effect; iii. how the institution will comply with the restrictions or requirements in effect under these Regulations; iv. the types and levels of activities in which the banking institution will engage in; and v. any other information as the RBZ may require to be furnished. e) prohibit the banking institution from awarding any bonuses, or increments in the salary, emoluments and other benefits of all directors and executive officers of the banking institution; and f) impose more frequent reporting.

ACTION TO BE TAKEN FOLLOWING NON-COMPLIANCE

If the institution's financial condition deteriorates or the institution fails to submit the required capital plan, the RBZ may impose any or a combination of the following:

a) prohibit the banking institution from opening new branches;

b) impose restrictions on growth of assets or liabilities of the banking institution as deemed fit;

c) the RBZ may proceed in terms of section 48 of the Banking Act.

1. **SIGNIFICANTLY UNDERCAPITALISED BANKING INSTITUTION (CAR of more than 5 % and less than 8%, Leverage ratio of more than 2% and less than 3% The bank's capital is less than the prescribed minimum capital requirements).**

ACTION TO BE TAKEN

a) take any or all the actions prescribed for undercapitalized banking institutions above; or

b) require the banking institution to alter, reduce, terminate any activity that the RBZ determines poses excessive risk to the institution; or

c) direct the banking institution to rectify the significant undercapitalization status within such periods as the RBZ may order.

ACTION TO BE TAKEN FOLLOWING NON-COMPLIANCE

If at any time, the supervisor has determined that

i. the banking institution has failed, refused and/or neglected to raise its capital to the levels necessary to rectify its significant undercapitalization; or

ii. before the end of the period specified in the corrective order, the financial condition of the banking institution continues to deteriorate,

the RBZ shall without having to wait for the expiry of that period, place institution under curatorship and/or close the banking institution.

2. CRITICALLY UNDERCAPITALIZED BANKING INSTITUTION (CAR less than 5%, Leverage ratio is below 2%. The bank's capital is less than the prescribed minimum capital requirements)

ACTION TO BE TAKEN

a) take any or all the actions prescribed for significantly undercapitalized banking institutions above;

b) Impose more frequent reporting as may be determined by the RBZ;

c) prohibit the banking institution from making any payment of interest or capital on the banking institution's subordinated debt; and

d) prohibit the banking institution from doing any of the following without the RBZ's approval:

   i. entering into any material transaction other than in the usual course of business, including any significant investment, expansion, acquisition, sale of assets, or other similar action which would result in the deterioration of the position;

   ii. extending credit for any highly leveraged transaction; and

   iii. making any change in its accounting methods.

ACTION TO BE TAKEN FOLLOWING NON-COMPLIANCE

The RBZ may:

a) appoint a curator to find solutions for the institution in reorganizations, restructurings or mergers and acquisitions; and/

(b) close the banking institution.

CATEGORY: ASSET QUALITY

1.**WATCHLIST CATEGORY-** Banking Institution with the following characteristics:

   a) Non-performing Loans (NPLs) in excess of 10% of total loans but less than 15% of total loans;

   b) Significant increase in loans to total assets ratio, or significant increase in loans to equity ratio.

ACTION TO BE TAKEN FOLLOWING NON-COMPLIANCE If the institution's financial condition deteriorates or there is no meaningful improvement the RBZ may; a) instruct that the institution's board credit committee, credit risk senior management and board of directors sign a written commitment of adherence to the corrective plan.
ACTION TO BE TAKEN a) Instruct the banking institution to: i. reduce the stock of Non-Performing Loans (NPLs), contain further deterioration in NPLs and restrict loan portfolio growth; ii. review and strengthen credit risk management policies / process / procedures/ prudential limits; iii. determine the appropriateness of skills mix of credit personnel to perform competently present and anticipated duties; and iv. submit a plan of action within a specified period in respect of upgrading credit appraisal skills and systems, reduce loan concentration.
2. **CLOSE MONITORING CATEGORY - Banking Institution with Non-performing Loans in excess of 15% but less than 25%**
ACTION TO BE TAKEN 1. take any or all the actions prescribed for watchlist asset quality category; 2. Close monitoring; 3. Restrict branch expansion / undertaking new lines of business except with the approval of the RBZ; 4. Reduce / suspend dividends; 5. Instruct the institution to appoint an advisor to revamp credit administration.
ACTION TO BE TAKEN FOLLOWING NON-COMPLIANCE The RBZ may direct that: 6. The bank should recall improperly booked loans. 7. A director(s) be removed/blacklisted for non-performing insider credits 8. Further loans to subsidiary/ related companies be stopped (where the

subsidiary/related company is unhealthy)

9. Loans to subsidiary/related company be recalled

10. Bank should divest from the subsidiary/related company where the activities of the subsidiary/ related company are inimical to the health of the bank.

However, if the financial condition deteriorates further, and the safety and soundness of the banking institution is threatened, the RBZ may institute action in terms of section 48.

3.MANDATORY REMEDIAL ACTION CATEGORY - Banking Institution with Non-performing Loans in excess of 25%

ACTION TO BE TAKEN

a) take any or all the actions prescribed under the Close Monitoring category;

b) high frequency reporting including monthly progress reports; and

c) Invoke section 48 of the Banking Act

CATEGORY: WEAK MANAGEMENT - Rated 4-5

1. Banking institution whose management exhibits the following characteristics:

a) Corporate Governance structures not properly constituted;

b) failure to conduct banking business in accordance with proper accounting and risk management practices;

c) adopting undesirable methods of banking business;

d) continuous violation of laws, rules and regulations or by laws or monetary policies;

e) squabbles among shareholders, directors and officers that impact on the safety and soundness of the banking institution;

f) long standing industrial action preventing normal/regular operations;

g) persistent whistle blowing against management, board and the bank;

h) high turnover at senior management level; and

i) conducting banking business in an unsound and unsafe manner.

ACTION TO BE TAKEN

The RBZ may take any action or a combination of the following:

a. removal of officers who are no longer fit and proper;

b. refer any suspected cases of illegal and fraudulent activities to relevant authorities;

c. the Registrar may instruct the institution to appoint directors and senior managers duly approved by the Reserve Bank within a period of as may be specified by the RBZ;

d. direct institution to review and strengthen the institution's risk management policies, procedures and skills;

e. direct institution to uphold sound corporate governance standards; and

f. monitor, through on-site examinations, the institution's compliance to the revised policy.

ACTION TO BE TAKEN FOLLOWING NON-COMPLIANCE

a) The RBZ may impose provisions of Section 48 of the Banking Act including appointment of a curator and/or closure.

CATEGORY: WEAK EARNINGS rated 4-5

Where financial losses present threats to Banking institution operations

ACTION TO BE TAKEN

1) The Registrar may take any action or a combination of the following:

a) Prohibit the banking institution from declaring or distributing any dividends, which would, in the opinion of the Registrar, result in the banking institution failing to comply with the minimum capital requirements;

b) Prohibit payment of any management fees to any person having significant interest of that banking institution if, after making the payment, the banking institution would be undercapitalised;

c) Instruct the institution to submit management accounts; and

d) Instruct the institution to submit a restoration plan demonstrating how the bank will be restored to profitability.

2) Frequent monitoring of the banking institution.

ACTION TO BE TAKEN FOLLOWING NON-COMPLIANCE

If there is no improvement in the institution's financial condition, the RBZ may take action

in terms of section 48 including appointment of a curator and/or closure of the institution.
CATEGORY: WEAK LIQUIDITY rated 4-5 **Where a banking institution exhibits any or a combination of the following:** a) violation of prudential liquidity ratios; b) failure to meet maturing liabilities; c) failure to comply with internally set liquidity risk management bench marks including the contingent liquidity plans; and d) excess reliance on Lender of Last Resort by the banking institution.
ACTION TO BE TAKEN The RBZ may take any action or a combination of the following: a) instruct the banking institution to submit a plan of action within a specified period to correct the identified deficiencies. b) impose high frequency reporting including daily, weekly, monthly progress reports depending on the severity of the liquidity problems; and c) review and strengthen liquidity risk management policies, procedures and skills.
ACTION TO BE TAKEN FOLLOWING NON-COMPLIANCE a) The RBZ may take any action in terms of section 48 including appointment of a curator and/or closure of the banking institution.
CATEGORY: COMPOSITE RATING “4” i.e. Weak and Composite Rating ‘ **“5” i.e. Critical**
ACTION TO BE TAKEN a) The institution will be dealt with in terms of the Troubled & Insolvent Banks Policy. b) The RBZ may take any action in terms of section 48 including appointment of a curator and/or closure.