

MONETARY POLICY STATEMENT SUMMARY

FEBRUARY 2016

- ◆ The current Monetary policy was announced on the back of serious economic challenges facing the economy including:
 - Serious liquidity challenges (banking institutions failing to adequately satisfy customers international payments),
 - Sluggish economic performance (El Nino conditions, low commodity prices and constrained infrastructure),
 - Failure by the Government to meet fiscal targets (2015 revenues amounted to USD 3.5 billion against a target of USD 3.7 billion) and
 - High cost of doing business due to the continued appreciation of the USD (economy’s anchor currency)

- ◆ In an attempt to curb the continued deterioration in the operating environment, below are some of the policy interventions proposed by the Reserve Bank and the expected implications.

POLICY AREA	KEY ISSUES	IMPLICATIONS ON ECONOMY & BANK BUSINESS
Prudential Measures to Mitigate Against Illicit Financial Flows	<ul style="list-style-type: none"> ◆ Reserve Bank statistics are showing that during the period January to December 2015, a total of US\$684 million was remitted outside Zimbabwe or externalised by individuals. <p>With immediate effect, the following measures will be adopted</p> <ol style="list-style-type: none"> 1. Free Funds ◆ The Reserve Bank is dispensing with the word free funds. 2. Reporting of Suspicious Transaction ◆ All suspicious transactions are to be reported to the Central Bank before processing of the outgoing transactions by financial institutions. 3. Promotion of Plastic Money and Bank Transfers ◆ Banks should promote the use of plastic money and bank transfers ◆ Clients intending to withdrawal above USD 10000 to give notice of not less than a day to their bankers 4. Strict Customer Due Diligence ◆ Financial institutions should observe strict CDD, KYC principle and high level consciousness to ensure 	<ul style="list-style-type: none"> ◆ Although, the recommended measures will to some extent assist in improving the current liquidity challenges, however, more focus should be targeted at the mobilization of foreign currency receipts through addressing of export uncompetitive issues.

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	<p>that all local and cross border transactions, including settlement of foreign payments by credit and debit cards, are bonafide, to the extent possible and practicable.</p> <p>5. Report of Foreign Bank and Financial Accounts</p> <ul style="list-style-type: none"> ◆ Each person, subject to the jurisdiction of the Zimbabwean financial system, having an interest in or has authority over one or more financial accounts or securities or investments in a foreign country should report, through normal banking channels, to RBZ if the aggregate value of such accounts or securities at any point in a calendar year exceeds US\$10 000. ◆ Going forward, any offshore investments would require prior Bank approval. <p>6. Monitoring the Operations of Offshore Related Companies</p> <ul style="list-style-type: none"> ◆ In recent years, the Reserve Bank has observed increased service payments between related companies, especially holding companies and their subsidiaries or sister companies. ◆ In order to guard against externalisation by related companies through service payments, management fees, technical fees, service fees or by whatever name they come under, shall not exceed an aggregate of 3% of revenue and shall require the Reserve Bank approval. ◆ In addition, the Central Bank shall, with immediate effect, be conducting onsite and ex-post validation of the operation of these companies. <p>7. Registration of Service Agreements by State-owned Enterprises</p> <ul style="list-style-type: none"> ◆ The Reserve Bank is committed to promoting good corporate governance in state-owned enterprises with transactions which usually go through the Government procurement procedures. In this regard, the registration of external service agreements by state-owned enterprises will now require support letters from line Ministries where the value of the contract is below the State Procurement Board's minimum threshold as well as tender approval from the State Procurement Board for values in excess of the minimum threshold. Subsequent payments can be made for a period of one year without seeking prior Exchange Control approval. <p>8. Penalties for non-compliance</p> <ul style="list-style-type: none"> ◆ Any financial institutions found to be in complicity by systematically turn a blind eye to any suspicious transactions or any of the prudential measures in this Statement shall be fined or penalised in terms of Sections 7, 8 and 9 of the Money Laundering and Proceeds of Crime Act [Chapter 9:24]. 	
<p>Measures to Improve Liquidity and Minimise Payment Gridlocks</p>	<p>1. Upward Review of Nostro Limits</p> <ul style="list-style-type: none"> ◆ Nostro limits increased from 5% to 10% of the bank's total deposits. <p>2. Purchase of Rands and Other Currencies by RBZ</p> <ul style="list-style-type: none"> ◆ Banks are being directed to purchase Rands and/or any other currencies within the multi-currency basket from the banking public at the official exchange rate for onward selling to RBZ. This measure is 	<ul style="list-style-type: none"> ◆ The high trade deficit gap will continue to counter the potential impact of reviewing the Nostro limit.

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	<p>intended to ameliorate the burden of exchange loses on consumers.</p> <p>3. Review of Pricing of External Loans</p> <ul style="list-style-type: none"> ◆ In order to encourage long term external borrowings for productive purposes, the pricing structure for external loans has been aligned with the domestic interest rates ranging from 6%-10% per annum. ◆ However, tobacco financing, shareholder loans and notional vendor finance shall remain the same as per existing external borrowing guidelines <p>4. Single investor limit increased from 10% to 15% on ZSE</p> <ul style="list-style-type: none"> ◆ With immediate effect, a single investor is now permitted to acquire up to 15% of listed shares per counter up from 10% <p>5. Review of 40% threshold for foreign investors on ZSE, to 49%</p> <ul style="list-style-type: none"> ◆ In order to align the Exchange Control threshold of 40% to the indigenisation policy framework, foreign investors can now acquire listed shares on ZSE up to 49% per counter. <p>6. Upward Review of Full fungibility status from 40% to 49%</p> <ul style="list-style-type: none"> ◆ Consistent with the indigenisation policy, full fungibility for selected counters is hereby increased from 40% to 49%. Prior Exchange Control approval shall, however, be required for full fungibility status. <p>7. Profit Sharing in Mining, Agriculture and Manufacturing Sectors</p> <ul style="list-style-type: none"> ◆ In order to rejuvenate the productive sectors of the economy mainly the mining, agriculture and manufacturing sectors through innovative structured finance models, going forward, foreign investors are now permitted to inject capital into local entities with the view of participating in the risk and return of the company (profit sharing). It should, however, be noted that the funds to be provided under these profit sharing models are not equity or debt funds. Such arrangements would require prior Bank approval. <p>8. Enhancement of the RTGS System to Cater for Multiple Currencies</p> <ul style="list-style-type: none"> ◆ The Bank is finalising the upgrade of the RTGS platform to handle multiple currencies to conform to the multi-currency system. Each currency would be transacted on its own for effective management of foreign currency risks. <p>9. Open Tender System on Government Securities</p> <ul style="list-style-type: none"> ◆ In order to enhance transparency in capital markets, the Bank is finalising plans to introduce an open tender system in the trading of Government securities. This together with the planned listing of the securities on the stock exchange shall go a long way in raising fresh capital for economic transformation. 	
Measures to Reduce Cost of	1. Lending Rates And Bank Charges	◆ Support for the SME's remain key towards

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Funding & Improve Productivity	<ul style="list-style-type: none"> ◆ Against this background, all banking institutions are required to abide by the interest rate guidelines and to ensure that the all-inclusive interest rate for productive lending does not exceed 15% per annum. Default interest rates should not exceed 18% on productive lending. ◆ Banking institutions are also required to adequately disclose and communicate the effective lending rates and associated charges to the borrowers in order to enhance consumer awareness. ◆ Similarly, microfinance institutions and moneylenders are required to be responsible in their lending activities by desisting from charging usurious rates which condemn borrowers into debt traps. <p style="text-align: center;">2. Zero Charges on Basic “No Frills” Savings Accounts</p> <ul style="list-style-type: none"> ◆ In order to promote the use of banking system and bolster confidence, banking institutions should not levy administrative charges on basic “no frills” savings accounts <p style="text-align: center;">3. Upscaling MSME Banking</p> <ul style="list-style-type: none"> ◆ Banking institutions are encouraged to focus their attention on MSMEs by developing and implementing SME specific lending models and policies. ◆ Banking institutions are required to set their annual target lending to SMEs categorised by gender, enterprise size and business sector among other variables, and submit their targets to the Reserve Bank by 31 March 2016. 	<p>economic development.</p>
Measures to Enhance Gold and Diamond Production	<ol style="list-style-type: none"> 1. Gold Production <ol style="list-style-type: none"> a. Decriminalisation of gold possession <ol style="list-style-type: none"> i. Fidelity Printers and Refiners to buy gold from artisanal miners on a ‘no questions asked basis’ through mobile buying centres to be deployed across the country; ii. FPR to issue permits to buyers to cover mining areas that have high activity of artisanal miners; and iii. FPR, shall in the process, gradually develop a database and account for production by artisanal miners 2. Diamond Production <ol style="list-style-type: none"> a. Increased access to long term and working capital financing in an amount of US\$30 million by the ZCDC is underway from development financial institutions for ZCDC to ramp up diamond production. b. Capacitating Aurex (Pvt) Limited to enhance value addition of diamonds supplied by ZCDC. c. All the diamond export sales proceeds by ZCDC would be accounted for by the Reserve Bank in a 	<ul style="list-style-type: none"> ◆ Weakening of commodity prices on the International markets will continue to counter the impact of productivity enhancing measures that authorities are implementing

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	transparent manner similar to gold under Fidelity Printers and Refiners.	
Policy Measures to Comply With Indigenisation Policy	<ul style="list-style-type: none"> ◆ Empowerment credits will be earned by banks committing to lend or support targeted sectors/groups such as agriculture, energy, low cost mortgages, youths, women, SME's and preferential local procurement ◆ Total credits a banking institute could earn amounts to 31% 	<ul style="list-style-type: none"> ◆ All Indigenisation Plans are due to be submitted to Zimbabwe Investment Authority by 31 March 2016.
Balance of Payments & Liquidity Challenges	<ul style="list-style-type: none"> ◆ Major sources of liquidity supply in the country during the period 2009 – 2015 include export receipts (59%) and International remittances (Diaspora, NGOs, Embassies and other International Organisations) contributing (29%), external loans (8%) and others 4%. ◆ The huge trade balancing deficit estimating USD 3 billion per annum is the major source of the liquidity shortages in Zimbabwe. ◆ The capital account inflows, which have been greatly financing the current account deficit, significantly slowed down in 2015 thus reflecting the effects of debt repayments falling due and subdued foreign direct investment inflows. ◆ The deterioration in both the capital and current account in 2015 resulted in the widening of the overall BOP gap from US\$40.3 million in 2014 to an estimated deficit of US\$385.8 million in 2015. 	<ul style="list-style-type: none"> ◆ The continued deterioration of the BOP gap will further worsen the country's risk rating. ◆ There will be increased pressure for foreign currency in 2016 as the country is likely to import more cereals to cover the huge production gap.
Other Issues	<p>a. Slowdown in International Commodity Prices , but rising food prices</p> <ul style="list-style-type: none"> ◆ Gold and platinum prices retreated by 14.6% and 30.9% respectively, in 2015. ◆ In the medium term, precious metal prices are projected to continue on a downward spiral in response to the appreciation of the dollar as economic recovery in the US gains substantial traction. ◆ The El-Nino effect which has caused floods in some parts of Europe, the US and Asia and drought in southern Africa is likely to result in low agricultural output and global food shortages and hence rise in food prices. <p>b. Aftrades</p> <ul style="list-style-type: none"> ◆ As at 31 December 2015, US\$178.8 million has been disbursed to various banks for tenors of up to 2 years. Surplus banks earn interest of around 6.5% per annum whilst borrowing banks are charged interest rate of around 8.5% per annum <p>c. Zimbabwe Asset Management Corporation</p>	<ul style="list-style-type: none"> ◆ The trade balance position for Zimbabwe is projected to worsen in 2016 due to the price slowdown of major exports, while prices of key imports are expected to rise.

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	<ul style="list-style-type: none"> ◆ As at 31 December 2015, ZAMCO had acquired and restructured non-performing loans totalling \$357 million from a number of banking institutions. A total of eighteen (18) NPLs amounting to \$77.4 million are at various stages of evaluation d. Banking Sector Capitalization ◆ The banking sector's capitalization levels increased 21% to \$982.5 million by 31 December 2015. All commercial banks and building societies do have capital above the minimum level. ◆ The increase was primarily underpinned by improved retention of earnings, as well as fresh capital injection at some banking institutions 	
Non-Performing Loans & Credit Reference System	<ul style="list-style-type: none"> ◆ The ratio of non-performing loans to total loans declined markedly from a peak of 20.45% as at 30 September 2014 to 10.87% at 31 December 2015. ◆ Improvements in the level of NPLs in the banking sector is largely attributable to the disposal of qualifying loans to ZAMCO and the effective credit risk management strategies employed by banks including intensified collections and workout plans. ◆ Creation of a Credit Reference Bureau is still work in progress 	<ul style="list-style-type: none"> ◆ The credit risk in the economy is still very high due to the harsh operating environment
Amendments to the Banking Act and Reserve Bank Act	<ul style="list-style-type: none"> ◆ Amendments to the Banking Act and the Reserve Bank Act have been passed in both Houses of Parliament and now await Presidential assent. ◆ The new regulatory framework encompasses a comprehensive framework that will strengthen corporate governance and risk management within banking institutions. 	<ul style="list-style-type: none"> ◆ .
Adoption of New and Revised Auditing and Financial Reporting Standards	<ul style="list-style-type: none"> ◆ Changes in auditing standards are aimed at increasing transparency, accountability and ethical behaviour of auditors while the review of International Financial Reporting Standards (IFRS) are expected to bring closer alignment with the prudential impairment standards, timely recognition of expected credit losses, robust the disclosure regime and revenue recognition, among other things. 	<ul style="list-style-type: none"> ◆ Provisioning for Credit risk for banks will be elevated thus requiring the banks to book quality loans.
Framework for Supervision of Domestic –Systemically Important Banks	<ul style="list-style-type: none"> ◆ In line with the Basel Committee on Banking Supervision recommendations, the Reserve Bank is developing a banking sector specific framework for identifying and dealing with Domestic- Systemically Important Bank (D-SIBS) by 30 June 2016. 	<ul style="list-style-type: none"> ◆ Increased monitoring of target banks.
National Financial Inclusion Strategy	<ul style="list-style-type: none"> ◆ In a bid to promote Financial Inclusion, the Reserve Bank, in collaboration with relevant stakeholders, has developed a National Financial Inclusion Strategy to cover the period 2016-2020. ◆ Financial inclusion is mainly centred on financial innovation, financial literacy, consumer protection and micro finance. ◆ In line with the consumer protection pillar, by 30 June 2016, all banking institutions should have in place 	

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	board approved institutional ethical standards, code of conduct and customer charter.	