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MONETARY POLICY STATEMENT

BY

DR. J. P. MANGUDYA

GOVERNOR

RESERVE BANK OF ZIMBABWE

"ECONOMIC TRANSFORMATION THROUGH TRANSPARENCY AND ACCOUNTABILITY"

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SECTION 1

INTRODUCTION

This Monetary Policy Statement is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15]. The strategies and prudential policy measures in this Statement are intended to transform the economy through **rebalancing it away from being a consumptive or supermarket economy to a productive one; and away from the high incidence of capital flight characterised by the externalisation of export sales proceeds to one that safeguards its hard earned foreign exchange resources.** This is necessary in order to give impetus to effectively deal with the negative inflation (or deflation) environment besetting the economy. Rebalancing the economy would also need to involve transformation in human capabilities in terms of mind set, to move away from the current short-termism approach besetting the national economy to long-term strategies that include harnessing of youth and creation of jobs.

Whilst comprehensive economic transformation is a daunting task in view of the current impediments that include adverse developments in the global economy, external shocks due to climate change, an expensive U.S. dollar, etc, Government has made major strides towards embracing economic transformation. The milestones or strides include the 10 point economic reform agenda, rapid results approach framework for the ease of doing business, banking sector reforms, business friendly indigenisation frameworks and the re-engagement and external debt clearance initiative.

Transformation, like charity, begins at home. It requires national collective responsibility to transform from within in order to stimulate the economy through plugging gaps and loopholes. This is the best way to boost confidence and enhance liquidity within the national economy. We have, as a nation, lot of room for improvement on this front. **Illicit financial flows (IFFs) are our major leaks.** The issue is not necessarily that too little money flows into Zimbabwe. Rather it is what consumers and businesses do with that money. Too often it is spent on unproductive uses, IFFs (trade mispricing, externalising of export sales proceeds and remittance of unproductive and unsanctioned investments), etc. **Such funds leave Zimbabwe without circulating in the economy. We are exporting liquidit**y. **We therefore need a national "plugging the leakages approach" to transform the economy.** To plug the economy from IFFs, tax evasion, porous border posts, smuggling and non-repayment of loans. This needs high level of self-discipline and compliance to non-negotiable values of transparency and accountability.

Transparency and accountability in the utilisation of scarce financial resources is very necessary to make sure that money circulates within the economy for public good and economic transformation. According to Lynne Twist "money is only useful when it is moving and flowing, contributed and shared, directed and invested in that which is life affirming". This assertion by Lynne Twist is fundamental to the Zimbabwean economy. We need, as a nation, to apply money efficiently and legitimately in order to make it circulate i.e. "moving and flowing" as observed by Lynne Twist in her book, "The Soul of Money".

This Monetary Policy Statement therefore presents the Reserve Bank's (the "Bank" or "RBZ") response to foster its key mandate of financial sector and price stability within the context of the above imperatives. This mandate would be achieved, inter alia, by;

i. enforcing discipline in the utilisation of financial resources within the multi-currency system;

ii. promoting financial inclusion;
iii. addressing the cost of finance; and
iv. giving direction to the financial sector on the implementation of the socially and economically desirable value chain principle of the indigenisation and economic empowerment policy framework.

The Bank is convinced that a conducive financial environment encourages savings mobilisation, productive investment and international competitiveness of domestic producers and, thus, contributes towards the broader national objective of sustainable economic diversification and transformation as envisaged under Zim Asset.

For the avoidance of doubt, the Bank has no objection with the bonafide uses of money or foreign exchange by both individuals and business. What we are very much against and deeply concerned about is the abuse of hard earned financial resources through illicit financial flows (or capital flight), smuggling and misappropriation of bank loans. Remittance of dividends and profits, for example, is bonafide but the remittance of revenue is not at all bonafide. These nefarious activities are short- circuiting or draining the financial system and creating liquidity shortages. We cannot carry on like this as a country. We need to draw a line in the sand and never cross it. We need to go back to basics.

Developing prudential policy measures to deal with the above narratives is therefore critical to address the major challenges facing the national economy of unemployment, tight liquidity, lack of capital formation and lack of confidence.

The current scenario in Zimbabwe, for example, where firms, especially those in the extractive sectors, and individuals are externalizing funds including export sales proceeds defies economic logic. This situation, which is not sustainable, requires the Bank to put in place prudential measures that aim to enforce discipline and transparency in the use of scarce financial resources, minimise economic haemorrhage from capital flight (or illicit financial flows), mitigate systemic risk, reduce business cycle volatility, increase liquidity, increase macroeconomic stability and enhance social welfare. Prudent measures are critical for economic transformation and to improve transparency and accountability by closing gaps and loopholes arising from inconsistencies and inadequate prudential measures.

Given the positive correlation between financial inclusion and economic developments, the Bank shall also unveil in this Statement policy interventions to promote financial inclusivity and proper functioning of the financial system. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sectors of disadvantaged and low income segments of society. The United Nations defines the goals of financial inclusion as follows:

i. Access at reasonable cost by all households to a full range of financial services, including savings or deposits, payment and transfer services, credit and insurance;
ii. Sound and safe institutions governed by clear regulation and industry performance standards;
iii. Financial and institutional sustainability to ensure continuity and certainty of investment; and
iv. Competition to ensure choice and affordability for consumers.

The Bank, together with numerous stakeholders, have put in place a financial inclusion strategy that we believe would go a long way to help people improve their lives.

Similarly, the Bank is continuing with efforts to address the cost of doing business in this country through reviewing the interest rate guidelines. The review is also intended to encourage the banking public to entrust banks with their funds and/or savings.

The recently publicised indigenisation policy frameworks constitute a significant milestone in the history of the country. The frameworks are business friendly. They are promotive of investment. They are flexible and clear to put into practice. This Statement shall provide direction on the implementation of the socially and economically desirable principle of the indigenisation and economic empowerment policy framework in as far as it relates to the financial sector and the applicability of the compliance and empowerment levy where applicable.

In view of the foregoing, the key purpose of this Monetary Policy Statement is to provide policy direction for transforming the national economy to a productive and disciplined one through;

i. Prudential measures to deal with market indiscipline and imperfection known as the pecuniary externality in an open economy in order to curb the destabilisation effect of illicit financial flows, smuggling and or capital flight;
ii. Financial inclusion strategies to promote the availability of banking and payment services to the entire population without discrimination;
iii. Financial intermediation policies to promote the efficient allocation of financial resources;
iv. Enhancement of the multi-currency system to promote trading of the other currencies in the basket; and
v. Provision of policy advice on the resuscitation of an Economic Crimes Court, revitalisation of agriculture and ease of doing business.

The rest of this Monetary Policy Statement is organised as follows; Section 2 discusses global economic developments in order to give the regional and international context that heavily influences economic developments in Zimbabwe. Section 3 discusses Zimbabwe balance of payments developments. Section 4 looks at the developments in the financial sector. Section 5 discusses inflation developments. Section 6 analyses the impact of policy measures implemented by the Bank in its quest to develop monetary policy tools outside the conventional tools. Section 7 looks at the financial sector regulatory framework. Section 8 presents the national financial inclusion strategy. Section 9 provides policy measures to transform the economy. Section 10 discusses policy advice in line with Section 6 (g) of the RBZ Act [Chapter 22:15]. Section 11 is the Conclusion.

SECTION 2

GLOBAL ECONOMIC DEVELOPMENTS

Global economic activity in 2015 continued to face elevated financial market volatility and a marked slowdown in developing and emerging market economies. In particular, lingering uncertainty that preceded the U.S. interest rate increase depressed global economic activity for the greater part of 2015. In the Eurozone, global economic activity remained uneven, as economies such as the United Kingdom (UK) somewhat recovered.

On the other hand, developing and emerging market economies, particularly China, Russia and Brazil faced significant challenges that dampened growth prospects in 2015. Constrained import absorptive capacity from China which is experiencing a managed economic slowdown, occasioned the accumulation of commodity inventories, a development that depressed metal prices.

Reflecting the effect of declining commodity prices, inflationary pressures in advanced, emerging markets and developing economies remained muted while real effective exchange rate fluctuations have been unusually high over the recent past.

In its October 2015 World Economic Outlook (WEO) report, the International Monetary Fund (IMF) projected global economic growth at 3.1% in 2015, compared to the July 2015 projection of 3.3%. Table 1 below shows global economic developments and growth projections.

Table 1: Global Economic Developments and Outlook (%)

	2013	2014	2015 (Estimate)	2016 (Projection)
World Output	**3.3**	**3.4**	**3.1**	**3.6**
Advanced Economies	1.1	1.8	2.0	2.2
US	1.5	2.4	2.6	2.8
Japan	1.6	-0.1	0.6	1.0
Emerging Market & Developing Economies	**5.0**	**4.6**	**4.0**	**4.5**
China	7.7	7.3	6.8	6.3
India	6.9	7.3	7.3	7.5
Sub-Saharan Africa	**5.2**	**5.0**	**3.8**	**4.3**
Zimbabwe	4.5	3.8	1.5	2.7
Latin America & the Caribbean	**2.9**	**1.3**	**-0.3**	**-0.8**

Source: World Economic Outlook Update (October 2015), Ministry of Finance & RBZ projections

Despite subdued global economic activity, the world economy is expected to modestly recover by 3.6% in 2016. This primarily reflects the expected narrowing of attendant divergences in economic activity and growth patterns across major economies in 2016. Improvements in the global economic outlook is attributed to the projected acceleration of activity in the US economy, coupled with the consolidation of recent gains in the Eurozone and Japan.

Accommodative monetary policy, low oil prices and in some instances, real exchange rate depreciation are expected to spur economic performance in the Eurozone in 2016.

Economic growth in China is estimated to have declined to 6.8% in 2015 and projected to further decelerate to 6.3% in 2016, as the economy is expected to continue drifting from an investment towards consumption-led growth. Accordingly, the country's fixed asset investment growth has been slowing down in recent years, although it remains the key driver of aggregate demand. Discernible progress has, however, been made towards promoting a more market-based financial system, improved government finances, gradual floating of the exchange rate and levelling of the playing field between state-owned enterprises and the private sector.

On the back of the negative repercussions of the slowdown in China on commodity demand, activity in Sub-Saharan African economies is estimated to have decelerated from 5% in 2014 to 3.8% in 2015. Additionally, the tightening of global financial conditions in the wake of an interest rate increase in the U.S. and other frontier market economies further dampened economic activity in the region.

In Southern Africa, economic growth prospects for South Africa, Angola, Botswana, Zambia and Zimbabwe remained vulnerable to the downturn in international commodity prices, the depreciation of domestic currencies (except for Zimbabwe) and deteriorating electricity supply conditions. Against this background, export earnings and fiscal revenues declined somewhat for these commodity exporting countries.

Potential Impact of US Interest Rate Hike on Zimbabwe

Following the decision by the US to end the quantitative easing policy, the Federal Reserve Bank of America (the Fed) raised interest rates by twenty-five basis points, in December, 2015. The rise in the interest rate in the USA is expected to have an impact on the global economy, through its effects on both short term and long-term interest rates. In turn, changes in long-term interest rates have a bearing on exchange rates, asset price developments as well as capital flows.

In the Zimbabwean context, the US interest rate hike is likely to be transmitted to the domestic economy mostly through the trade and financial channels. The anticipated strengthening of US dollar emanating from the interest rate hike will potentially result in a further slowdown in prices of commodities that act as safe investment havens, notably gold and platinum. The decline in the price of these precious metals, will further dampen export receipts, a development that has an undermining effect on domestic liquidity conditions and economic growth prospects at large.

On the other hand, a stronger US dollar relative to Zimbabwe's trading partner currencies may result in increased imports of cheaper goods. This expenditure switching effect may further compound the country's external sector position. The further strengthening of the US dollar, however, confers advantages to entities that can affordably acquire capital goods to retool their operations particularly from countries such as South Africa, China and Brazil, whose currencies have depreciated over the recent past.

Zimbabwe, has limited options to cushion itself from the vulnerabilities associated with the recent US interest rate hike. The absence of an exchange rate policy to deal with the overvalued real effective exchange rate, implies that the country has to strengthen self-discipline to undertake fiscal and internal devaluation policies in order to enhance competitiveness in the domestic economy.

Implications of China's Economic Slowdown

The Chinese economy has been growing at a rapid pace for the past thirty years, over the recent past, the Chinese economy has, however, slowed down primarily on account of slower fixed asset investment growth especially in real estate and manufacturing sectors which face oversupply problems.

The decline in China's stock markets, which began in June 2015, coupled with the 4.5% devaluation in the local unit, had adverse spill-over effects in other world economies. These contagion effects were largely transmitted through marked declines in equity markets, commodity markets, and increased exchange rate volatility around the globe. These negative developments are expected to fully manifest themselves through lower commodity prices. In particular, the fall in oil prices is likely to hurt oil exporting countries through lower revenues. On the other hand, a decline in commodity prices attributed to slackening demand from China will likely hurt commodity dependent economies such as Zimbabwe.

Commodity Price Developments

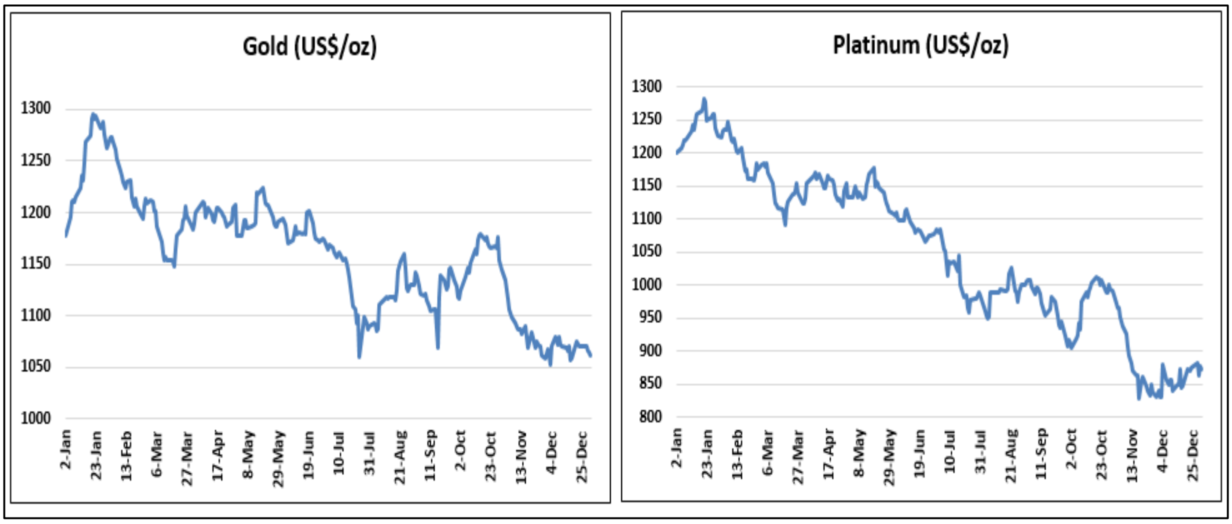
On the back of anemic global economic growth and the slowdown in China, gold, platinum, copper, and nickel prices declined in 2015. The strengthening of the US$ also eroded the demand for precious metals as alternative investment assets. Importantly, the improved supply of base metals resulted in the accumulation of inventories, a development that further dampened commodity prices. Food prices also registered declines, largely on account of favourable yields in major crops across the world.

Gold and Platinum Prices

Precious mineral prices declined in 2015, mainly underpinned by the sustained strengthening of the U.S. dollar coupled with prolonged speculation surrounding the U.S. interest rate hike and reduced financial risks associated with depressed crude oil prices. These developments undermined the appeal of precious minerals as safe investment assets. Against this backdrop, gold and platinum prices retreated by 14.6% and 30.9% respectively, in 2015, as shown in Figure 1 below[1].

[1] The reported gold, platinum, nickel, copper and Brent crude oil price changes are extracted from the World Bank Commodities Price Data (The Pink Sheet), 2 October 2015 http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1111002388669/829392-1420582283771/Pnk_1015.pdf

Figure 1: Gold and Platinum Prices for 2015



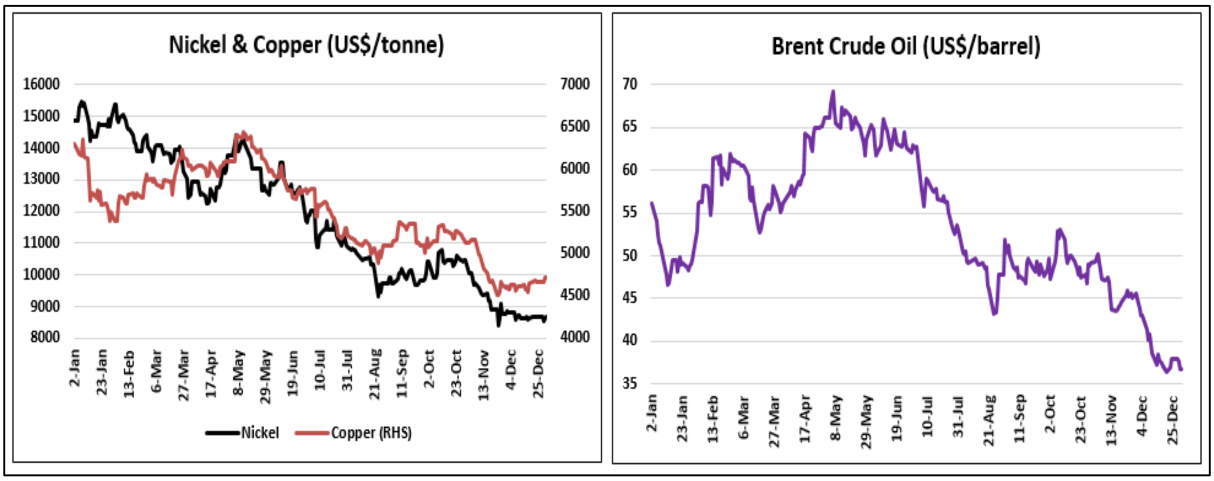
Source: Bloomberg

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.

Base Metal Prices

Base metal prices remained depressed over the period of review as evidenced by the decline in nickel and copper prices. In this regard, nickel and copper prices declined significantly by 41.3% and 20.5%, respectively, on account of progressive inventory build-ups stemming from slackening demand from China. Similarly, crude oil prices retreated by 21.2% during the same period, largely underpinned by subdued demand and excess supply.

Figure 2: Nickel, Copper and Brent Crude Oil Prices



Source: Bloomberg

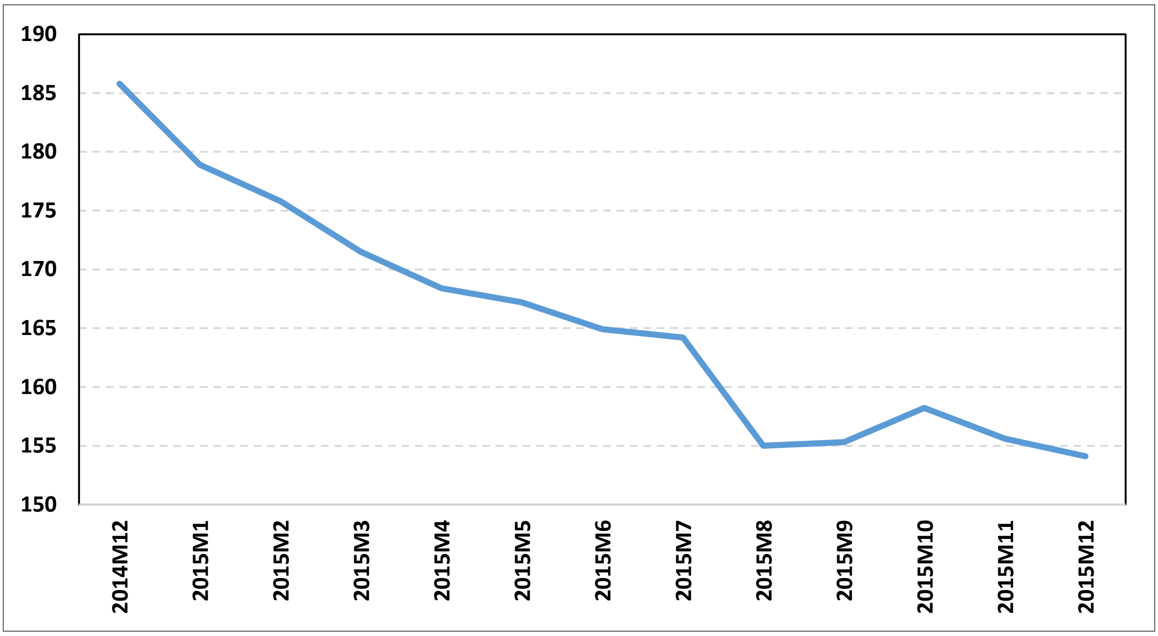
Energy prices have generally been on a declining trend largely as a result of the marked drop in international oil prices. Figure 2 above shows the evolution in crude oil prices. According to the World Bank, the ongoing European Central Bank's expanded quantitative easing program is anticipated to spur the demand for most industrial metals and in the process boost their prices in the medium term. Oil prices are expected to average US$61.2/barrel in 2016, as supply growth moderates.

Food Prices

International food prices, as measured by the United Nations' Food and Agriculture Organization (FAO) Food Price Index, have declined since September 2014 as shown in Figure 3. The decline in food prices was occasioned by ample supply conditions, a slump in energy prices and concerns over China's economic slowdown. International cereal prices have been under downward pressure since early 2015, amid large inventories and generally improved crop prospects.

During 2015, Food and Agriculture Organisation (FAO) Food Price index averaged 164.1 points, nearly 19% less than in 2014, marking the fourth consecutive annual decline, as shown in Figure 3 below. Abundant supplies in the face of depressed world demand and an appreciating US dollar are the key factors that weakened food prices in 2015. However, the Elnino 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.

Figure 3: FAO Nominal Food Price Index (2004=100)2



Source: Food and Agriculture Organisation (FAO)

Commodity price developments for precious and base metals have implications on Zimbabwe's external sector position as the country's exports are dominated by primary commodities from the mining and agricultural sectors. Weaker prices for precious and base metals imply lower export and fiscal revenues for Zimbabwe, while depressed oil and food prices have a moderating effect on the country's fuel and food import bill.

[2] The FAO Food Price Index is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average prices of five major commodity groups, i.e cereals, meat, dairy products, vegetable oils and sugar.

SECTION 3
ZIMBABWE BALANCE OF PAYMENTS DEVELOPMENTS

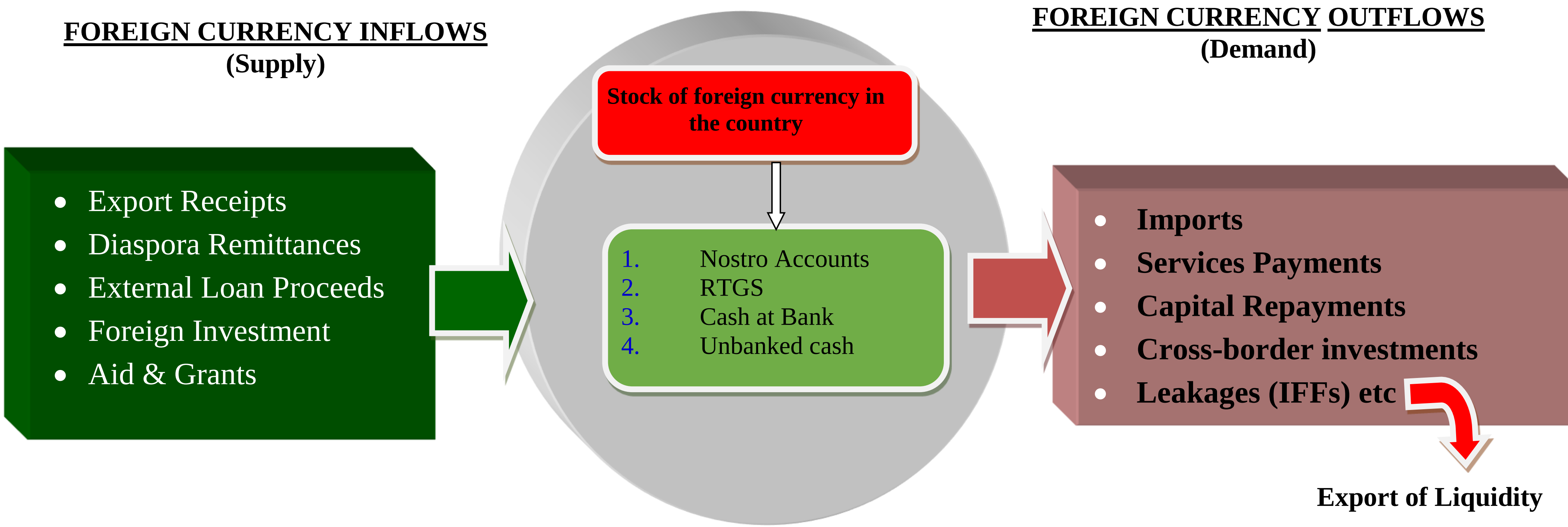
Within the context of the multi-currency system, the levels of liquidity in the national economy largely depends on the balance of payments developments (BOP). This is why the Zimbabwean economy is referred to as an open economy. It is open to, and strongly influenced by, outside economic factors which are components of the balance of payment i.e. exports, imports, diaspora remittance, capital inflows, etc, as indicated in Figure 4 below.

Figure 4 shows the broad components of the BOP or balance of international payments, which represent a summation of the country's current demand and supply of the claims on foreign currencies and of foreign claims on its currency.

The transactions include payments for the country's exports and imports of goods, services, financial capital and financial transfers. When all components of the BOP accounts are included they must sum to zero with no overall surplus or deficit. A BOP surplus (or deficit) is accompanied by an accumulation (or decumulation) of foreign exchange reserves by the Central Bank.

The key in Figure 4 is for the country to put in place measures to plug the leakages in order to increase foreign exchange reserves and in so doing increasing liquidity.

Figure 4 Measures to Plug Leakages

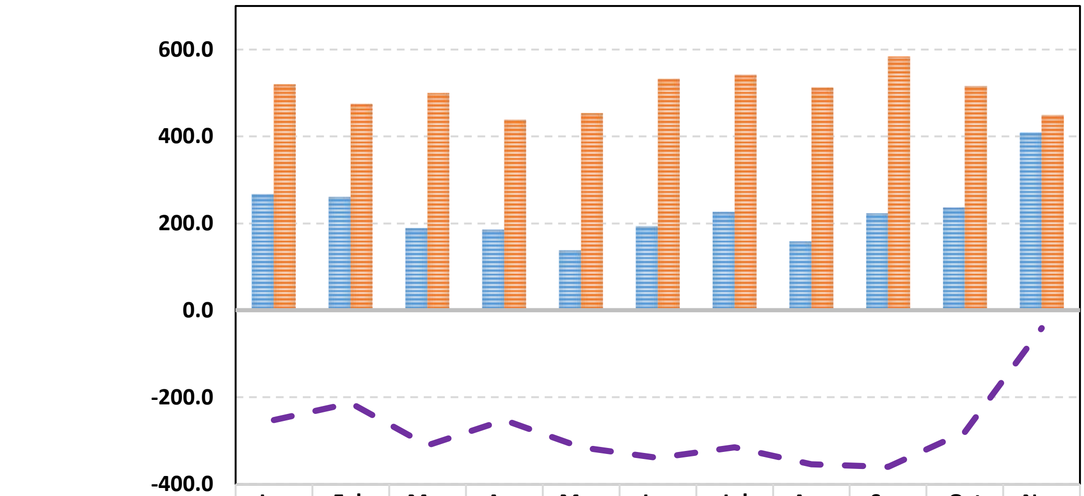


- Foreign currency inflows contribute positively to the stock of forex in the country.
- Foreign currency outflows deplete the stock of foreign currency in the country.
- Economic transformation requires "a plugging the leakages approach" to mitigate against the export of liquidity through IFFs, trade mispricing and unsanctioned unproductive investments.

Reflecting the effects of the downturn in international commodity prices and the deceleration in economic activity in Zimbabwe, merchandise exports for the period January to November, 2015 declined by 12.2% from US$2.8 billion in 2014 to US$2.5 billion in 2015.

Concomitant with the slowdown in economic activity, and widespread industrial under-capacity utilization, imports declined by 5.8% from US$5.9 billion for the period January to November 2014 to US$5.5 billion over the corresponding period in 2015. Figure 5 below shows the merchandise trade developments for the first eleven months of 2015.

Figure 5: Merchandise Trade for 2015 (US$ Million)



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Exports	267.0	260.8	188.8	185.8	138.0	193.1	226.3	158.3	223.5	236.2	408.1
Imports	519.6	474.4	499.3	438.4	452.9	532.4	541.6	512.2	583.7	515.8	449.1
Trade Balance	-252.6	-213.7	-310.6	-252.6	-315.0	-339.3	-315.3	-354.0	-360.2	-279.6	-41.0

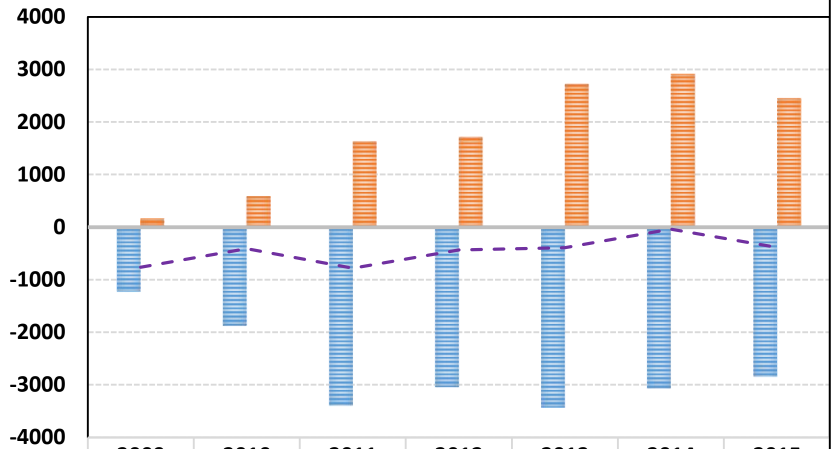
Source: ZIMSTAT

Despite the slowdown in total merchandise trade, imports surpassed export revenues culminating in the incurrence of a trade deficit in 2015. This resulted in the marginal worsening of the trade balance by a marginal 0.3%, from a deficit of US$3.02 billion recorded during the period January to November 2014 to a deficit of US$3.03 billion in 2015.

The country's import absorption remains high relative to export performance, a development that has undermined efforts to sustainably build adequate foreign exchange reserve buffers and improve domestic money supply conditions. More significantly, a huge import bill has essentially drained foreign exchange resources realized from exports, credit lines, and remittances, thereby further tightening liquidity conditions with constraining effects on economic growth potential. The sustained excess of imports over exports is exacerbated by the incidences of IFFs that impose a constraint on current account performance, which has continued to record sizeable deficits over the past few years. The country is consuming much more than it is producing and hence a current account deficit.

On the capital account, surpluses realized were underpinned by reliance on private sector debt creating capital flows. The capital account, however, slowed down reflecting the effects of debt repayments falling due and subdued foreign direct investment inflows. Capital and current account developments in 2015 culminated in the deterioration in the overall balance of payments deficit from US$40.3 million in 2014 to an estimated deficit of US$385.8 million in 2015. (See Figure 6 and Table 2 below).

Figure 6: Overall Balance of Payments (US$ Million)



	2009	2010	2011	2012	2013	2014	2015
CURRENT ACCOUNT	-1224	-1878	-3386	-3042	-3431	-3065	-2839
CAPITAL ACCOUNT	167	587	1633	1722	2723	2915	2454
Overall Balance	-761	-407	-783	-435	-392	-40	-386

Source: RBZ, Ministry of Finance & Zimstat

Table 2: Balance of Payments Summary (US$M)

	2012	2013	2014	2015
	Actual	**Actual**	**Estimate**	**Projection**
Current Account Balance	**-3,042.42**	**-3,432.23**	**-2,837.2**	**-2,839.4**
Trade Balance	**-2902.0**	**-3,114.64**	**-2,748.0**	**-3,125.0**
Exports F.O.B	**3,808.20**	**3,694.23**	**3,558.29**	**2,910.0**
Agriculture	979.56	1,047.49	981.18	844.1
Mining	2,189.10	2,055.78	1,977.04	1,598.9
Manufacturing	549.23	487.01	510.27	467.2
Imports F.O.B	**6,710.23**	**6,808.88**	**6,306.25**	**6,035.0**
Food	730.58	658.06	352.29	566.6
Fuel	1,365.66	1,364.70	1,393.58	1,217.5
Capital Account Balance	**1,721.80**	**2,723.36**	**2,919.1**	**2,453.7**
Errors And Omissions	885.28	513.5	-122.2	0.0
Overall Balance	**-435.34**	**-392.36**	**-40.28**	**-385.8**

Source: RBZ, Ministry of Finance & Zimstat

Table 3 below shows performance of key liquidity sources over the period 2009 to 2015.

Table 3: Sources of Market Liquidity – Supply Side (USD M)

Category	2009	2010	2011	2012	2013	2014	2015	2009-2015	% contr
Banked Export Receipts	1,618	2,287	3,281	4,454	4,535	3,678	2,894	**22,747**	**59%**
International Remittances[3]	727	993	1,831	2,030	1,822	1,756	1,962	**11,121**	**29%**
External Loans	28	43	167	477	688	825	684	**2,912**	**8%**
Income receipts	104	66	237	291	203	77	41	**1,019**	**3%**
Foreign Investments[4]	9	0	152	250	400	162	128	**1,101**	**3%**
Total	**2,486**	**3,389**	**5,668**	**7,502**	**7,648**	**6,498**	**5,709**	**38,900**	**100%**

Source: Reserve Bank of Zimbabwe Records

Evidently, exports remain the dominant source of market liquidity contributing 59% over the period 2009 to 2015, followed by international remittances which contributed 29% to total foreign exchange inflows. External loans and income receipts has remained relatively low.

In 2015, Diaspora remittances amounted to USD935 million which is about 48% of total remittances which were about USD2 billion as shown in Table 4.

[3] International Remittances includes Diaspora, NGOs, Embassies and other International Organisations (IOs).

[4] Foreign investments includes investment income and royalties earned from offshore

Table 4: International Remittances 2009 to 2015 (USD M)

Receipt Code	2009	2010	2011	2012	2013	2014	2015	Total
International Organisations (IOs)	433	590	1,279	1,382,	1,034,	919	1,027	6,664
Growth Rate	-	36%	117%	8%	-25%	-11%	12%	
Diaspora Remittances	294	403	552	649	788	837	935	4,458
Growth rate	-	37%	37%	18%	21%	6%	12%	
Total International Remittances	727	993	1,831	2,030	1,822	1,756	1,962	11,121
Growth Rate	-	37%	84%	11%	-10%	-4%	12%	

Source: Reserve Bank of Zimbabwe Records

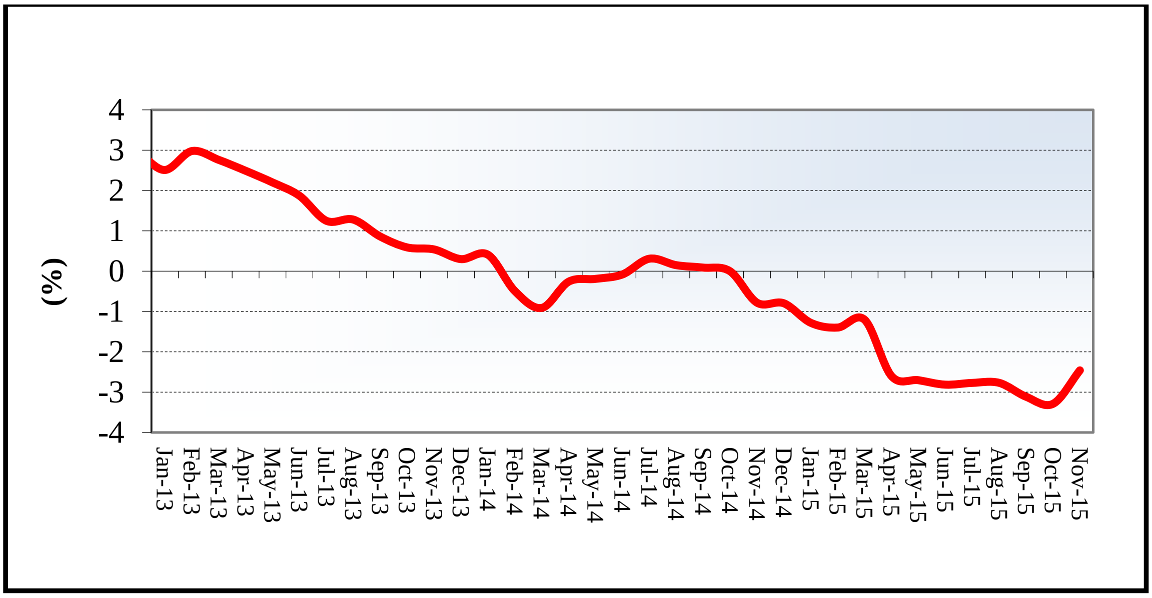
SECTION 4

INFLATION DEVELOPMENTS

Reflecting the constraining effect of tight liquidity conditions, inflation has remained in the negative territory since the fourth quarter of 2014. In this regard, annual headline inflation decelerated from -1.3% in January 2015 to a lowest rate of -3.3% in October 2015, before accelerating slightly to -2.5% in December 2015. Annual headline averaged -2.4% for the period January to November 2015.

The persistent negative inflationary mode is underpinned by the continued deflating effects on both food and non-food prices, against the backdrop of waning aggregate demand due to significant externalization taking place in the country. Figure 7 below shows the annual headline inflation profile for the period November 2014 to November 2015.

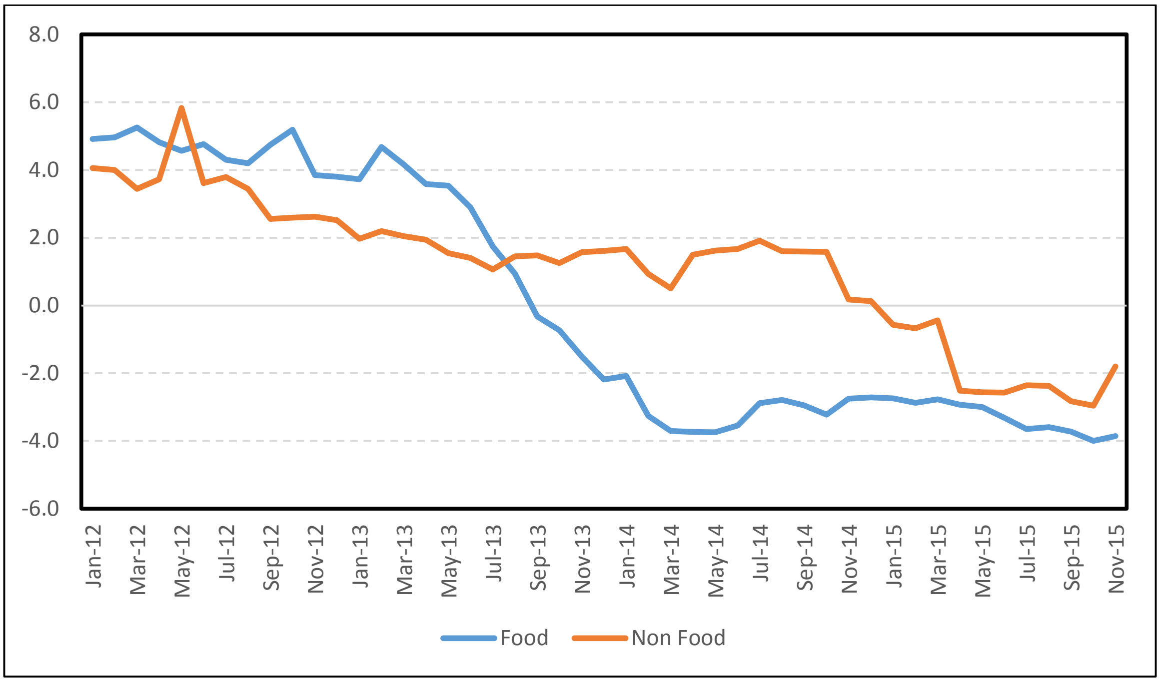
Figure 7: Annual Inflation Profile (%)



Source: ZIMSTAT, December 2015

The deceleration in inflation is exhibited in both food and non-food inflation trends, as shown in Figure 8 below.

Figure 8: Trends in Annual Food and Non-Food Inflation Rate (%)



Source: ZIMSTAT, December 2015

The slowdown in food inflation experienced in 2015 was mainly driven by the fall in prices of bread and cereals; meat; vegetables and oils and fats sub-categories. Other sub-categories that contributed to the decline in food inflation include milk, cheese and eggs; fish and sea food, and non-alcoholic beverages. Regarding non-food inflation, declines in housing, water, electricity, gas and other fuels; furniture, household equipment and maintenance; transport and communication contributed to the negative rate.

In view of these developments, Zimbabwe remains the only country with negative inflation in the SADC region, as shown in the Table 5

Table 5: Annual Inflation Rates for Selected SADC Member Countries and USA (%)

	Zimbabwe	SA	Botswana	Mozambique	Tanzania	Zambia	Malawi	USA
Nov-2014	**-0.8**	5.8	4.3	1.8	5.8	8.1	23.7	1.3
Dec-2014	**-0.8**	5.3	3.7	1.9	4.8	7.9	24.2	0.8
Jan-2015	**-1.3**	4.4	3.6	2.8	4.0	7.7	21.2	-0.1
Feb-2015	**-1.4**	3.9	2.8	4.0	4.2	7.4	19.7	0.0
Mar-2015	**-1.2**	4.0	2.8	3.1	4.3	7.2	18.2	-0.1
Apr-2015	**-2.6**	4.5	3.1	2.0	4.5	7.2	18.8	-0.2
May-2015	**-2.7**	4.6	3.0	1.3	5.3	6.9	19.5	0.0
Jun-2015	**-2.8**	4.7	3.1	1.4	6.1	7.1	21.3	0.1
Jul-2015	**-2.8**	5.0	3.1	1.5	6.4	7.1	22.2	0.2
Aug-2015	**-2.8**	4.6	3.1	2.3	6.4	7.3	23.0	0.2
Sep-2015	**-3.1**	4.6	3.0	2.7	6.1	7.7	24.1	0.0
Oct-2015	**-3.3**	4.7	3.1	4.7	6.3	14.3	24.7	0.2
Nov-2015	**-2.5**	4.8	2.9	6.3	6.6	19.5	24.6	0.5

Source: Country Central Bank Websites, 2015
n/a- not available

As previously alluded to, the Bank is committed to addressing negative inflation by plugging leakages of liquidity from the economy. During the course of 2015, for example US$684 million was externalized by individuals for various purposes that include donations, investments, account transfers etc. In addition, US$1.2 billion export sales proceeds were externalized by firms. Circulating this liquidity within the national economy has a great multiplier effect and has a positive contribution to boosting aggregate demand.

SECTION 5

MONETARY POLICY DEVELOPMENTS

Whilst the multi-currency system (or dollarization) is an inhibiting factor to the full conduct of monetary policy by the Bank, the Bank has not been found wanting. It has managed to develop monetary policy tools consistent with dollarization, and outside the conventional tools of monetary policy. The non-conventional tools include the African Export Import Bank Trade Backed Facility (AFTRADES) which has a lender of last resort characteristics, the Zimbabwe Asset Management Corporation (ZAMCO) which has stimulus package characteristics, interest rate guidelines, introduction of small denomination coins (bond coins) and demonetisation.

Usage of these tools by the Bank has managed to stabilise and strengthen the banking sector as detailed below.

Aftrades

The US$200 million Lender of Last Resort Type Facility underwritten by the African Export-Import Bank (Afreximbank) under the Afreximbank Trade Debt Backed Securities (AFTRADES), was a game changer in addressing financial stability through providing a liquidity support window for banks at RBZ. This facility supported banks in an amount of US$178.8 million as at 31 December 2015, for tenors of up to 2 years maturing on 13 February 2017, with initial support granted on 19 March 2015.

This facility also brought discipline in the financial market as no funds are granted without security. The interest rates under this facility are a good benchmark for managing domestic interest rates as the Aftrades interest rates are basically the base lending rates and reflect the marginal cost of funds. Surplus banks earn interest of around 6.5% per annum whilst borrowing banks are charged interest rate of around 8.5% per annum.

Zimbabwe Asset Management Corporation

The Zimbabwe Asset Management Corporation (ZAMCO) has made notable progress in fulfilling its mandate of cleansing banks' balance sheets through acquisition and restructuring of non-performing loans. As at 31 December 2015, ZAMCO had acquired and restructured non-performing loans totalling **$357 million** from a number of banking institutions.

ZAMCO has acquired and restructured loans for distressed companies that have good turning around prospects. These companies are in critical sectors of the economy such as mining, agro-processing and manufacturing. The restructuring involved extending the loan repayment period, grace periods for capital repayment and reducing interest rates and in some instances converting debt to equity.

ZAMCO is optimistic that the acquisition and restructuring of loans for the affected companies, will firmly set them on a path to return to viability in the short to medium term, thereby supporting employment and economic transformation. Some of the major companies whose debts have been restructured and taken over by ZAMCO include the following:

Table 6 Companies Taken Under ZAMCO

Company	**Amount**
RioZim	33,772,100
Cottco	29,875,091
Hwange	14,868,435
Cairns	6,924,164
Border Timbers	6,666,919
CSC	2,197,737
Global Horizons	1,041,041
TOTAL	

A total of eighteen (18) NPLs amounting to **$77.4 million** are at various stages of evaluation. Further, ZAMCO, in conjunction with judicial managers, is at advanced stages of concluding restructuring transactions of four (4) companies, with combined value of $31 million. Finalization of these transactions will mark the completion of the first phase of NPLs acquisitions.

In the first quarter of 2016, focus will be on all other eligible NPLs outside the top 100 with a minimum amount of $50,000. **In that regard, banking institutions are required to ensure that loan and security files as well as business plans in respect to NPLs they wish to sell to ZAMCO in the second phase are in place to facilitate the due diligence and asset review processes.**

Small Denomination Coins (Bond Coins)

The introduction of bond coins on 18 December 2014 for promoting divisibility of money was necessary to enhance price competitiveness and to enable the conduct of sub-dollar transactions. Given the low levels of employment in the country, lack of change or small denomination coins was very regressive as the poor were bearing the brunt of dollarization at the expense of business. They were paying more in proportionate terms.

An amount of US$10 million of bond coins is in circulation in the economy. The coins which are widely used throughout the economy are a good store of value as they are indexed to the US$. They trade one to one or at par with the US$. The coins are not susceptible to exchange losses in the wake of the fall or depreciation of emerging market currencies to the US$ that have seen the Rand depreciating by 45% between December 2014 and January 2016 from R11.4 to the US$ to the current level of R16. This is, therefore, not surprising that consumers had to switch from rand coins to bond coins. This is quite permissible and rational under a multi-currency system which provides a wider range of choice for mitigating exchange loses.

Demonetisation of the Zimbabwean Dollar

The demonetisation of the Zimbabwe dollar which was announced by the Minister of Finance and Economic Development in the 2014 National Budget, as well as, in the Mid-term Fiscal Review, and in the Monetary Policy Statement of January 2015, commenced on 15 June 2015 and ended on 30 September 2015. The purpose of demonetization of the local unit was to promote consumer and business confidence by providing credibility to the multi-currency system and legally retiring the Z$. A Statutory Instrument was promulgated to that effect on 12 June 2015. An amount of US$9 million out of a budget of US$20 million was converted at the closure of the demonetization program.

The Bank is currently working with the Deposit Protection Corporation (DPC) to ensure that account holders whose balances were held with closed banks are paid. DPC is expected to fully pay out these beneficiaries by the end of April 2016.

SECTION 6

BANKING SECTOR DEVELOPMENTS

Architecture of the Banking Sector

The banking sector exhibited positive developments in 2015 as evidenced by its sustained safety and soundness, satisfactory with respect of metrics such as capital adequacy, liquidity and profitability, among others. In particular, the sector benefitted from concerted efforts by the Reserve Bank and Government to promote the resilience of the sector, bolster confidence and improve regulatory oversight to enhance the sector's capacity to adequately support economic activity. As at 31 December 2015, there were 18 operating banking institutions as shown in the table 7 below.

Table 7 Operating Bank Institutions

Type of Institution	Number
Commercial Banks	13
Merchant Banks	1*
Building Societies	4
Savings Bank	1
Total Banking Institutions	**19**

*****_Tetrad under provisional judicial management of the Deposit Protection Corporation_

In addition, the following institutions are also under the purview of the Reserve Bank:

Table 8

Credit-only Microfinance Institutions	155
Deposit-taking Microfinance Institutions	3
Development Institutions	2

During the last quarter of 2015, the Reserve Bank licensed the National Building Society Limited (wholly owned by the National Social Security Authority) and three (3) deposit taking microfinance institutions namely, Getbucks Financial Services (Private) Limited, African Century Leasing Company and Collarhedge Finance (Private) Limited.

Getbucks Financial Services Limited and African Century Leasing Company commenced operations in January 2016 while National Building Society Limited and Collarhedge Finance (Pvt) Ltd are finalising the administrative and infrastructural facilities in readiness for operations. The entrance of more players in the financial sector bodes well for efforts aimed at promoting the deepening of financial markets.

Capitalisation

The banking sector's capitalization levels continued to improve as reflected by the increase in the aggregate core capital base from \$811.2 million as at 31 December 2014 to \$982.5 million as at 31 December 2015. The increase was primarily underpinned by improved retention of earnings, as well as fresh capital injection at some banking institutions. As a consequence, all operating banking institutions (*excluding Tetrad Investment Bank*), were in compliance with the prescribed minimum capital requirements by year end.

Two (2) banking institutions, CBZ Bank and CABS Building Society, had already surpassed the \$100 million minimum capital requirement for the Tier 1 strategic group, which is effective in 2020, while three, Stanbic, BancABC and Standard Chartered, had capital levels above \$50 million as indicated in Table 9.

Table 9

Institution	Core Capital as at 31 December 2015 (USD million)	Prescribed Minimum Capital requirements (USD million)
CBZ Bank*	205.68	25
Stanbic Bank	86.06	25
BANC ABC	67.89	25
Standard Chartered Bank	57.36	25
Barclays Bank	46.43	25
Ecobank	44.40	25
Steward Bank	42.23	25
NMB Bank	42.09	25
MBCA Bank	41.31	25
FBC Bank	39.29	25
ZB Bank	38.99	25
Agribank	35.30	25
Metbank	33.82	25
MERCHANT BANKS		
Tetrad Investment Bank *(Under Judicial Management)*	(24.52)	25
BUILDING SOCIETIES		
CABS Building Society	108.55	20
FBC Building Society	34.98	20
ZB Building Society**	15.68	20

** including CBZ Building Society*
*** Society being merged with ZB Bank*

Most banking institutions have indicated a preference for Tier 1 segment (minimum capital of $100 million by 2020), to be achieved through a combination of organic growth and fresh capital injection. The Bank continues to monitor implementation of banking institutions' capital plans to ensure compliance with the 2020 minimum capital requirements. On an ongoing basis, banking institutions are, therefore, expected to continuously review their capital positions to assess adequacy to cover the risks assumed in the intermediation role.

Earnings

The banking sector remained profitable, with a reported aggregate net profit of $127.47 million for the year ended 31 December 2015. A total of 15 out of 18 operating banking institutions recorded profits. In a few institutions, increased provisioning for bad and doubtful debts, however, weighed down on their performance resulting in losses.

Financial Intermediation

As at 31 December 2015, total banking sector deposits grew by 11.2% to US$5.6 billion whilst and loans amounted to $3.9 billion, respectively. Against the background of the sluggish growth in credit, the loan to deposit ratio declined from 78.4% as at 31 December 2014 to 68.8% by the end of December 2015 as indicated in Figure 9 below.

Figure 9

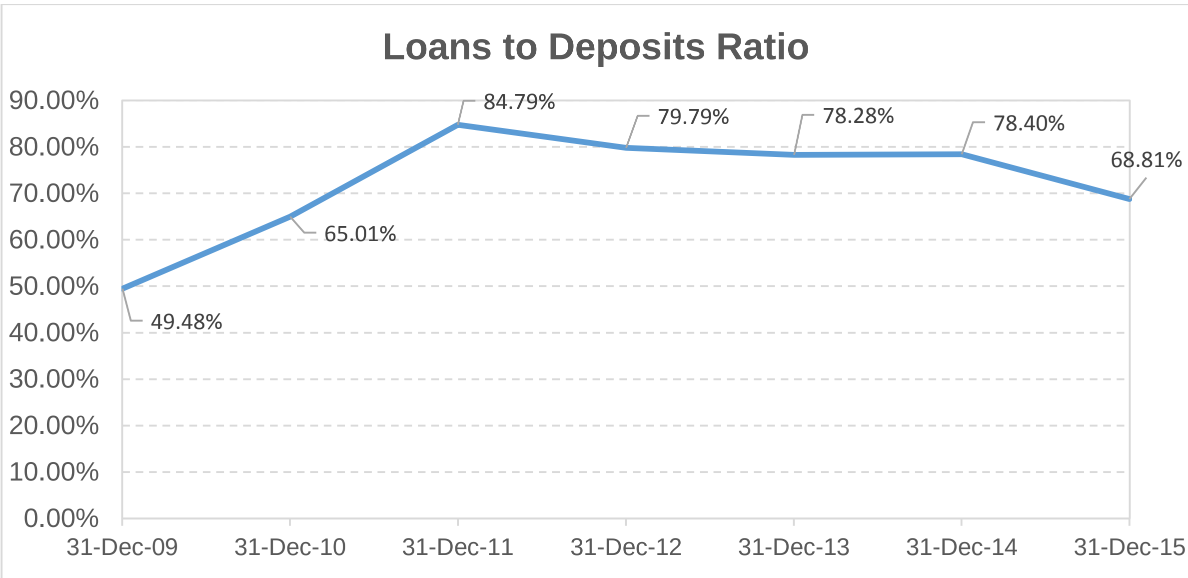
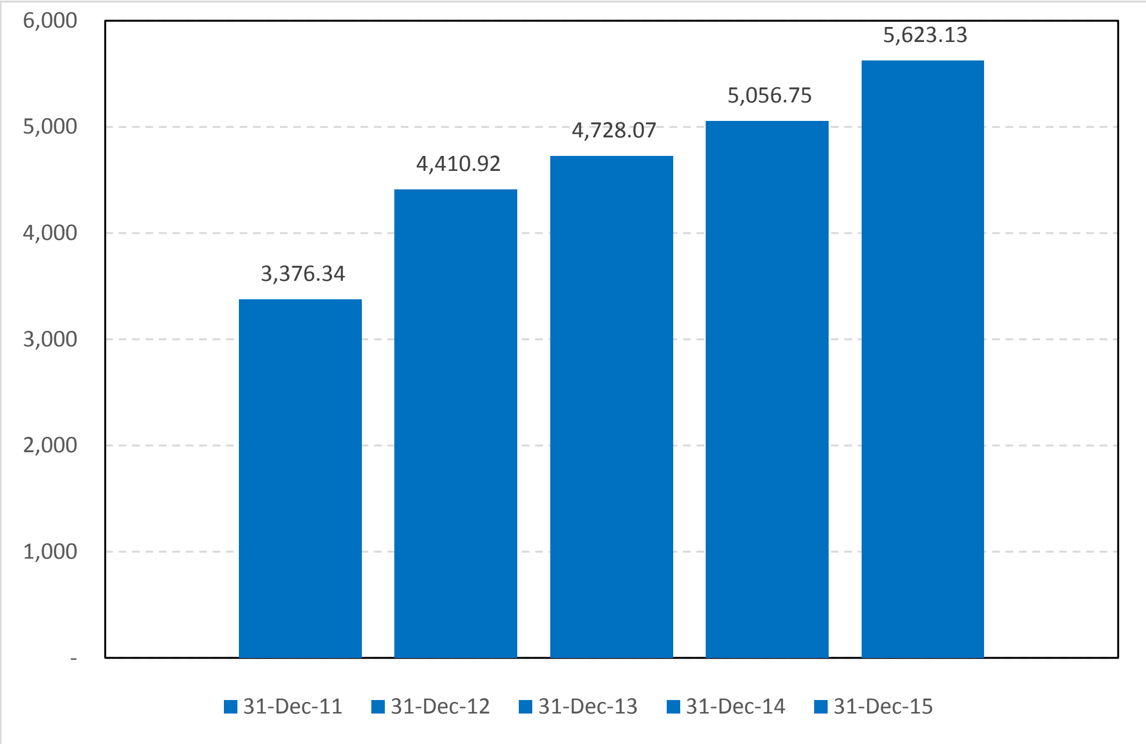


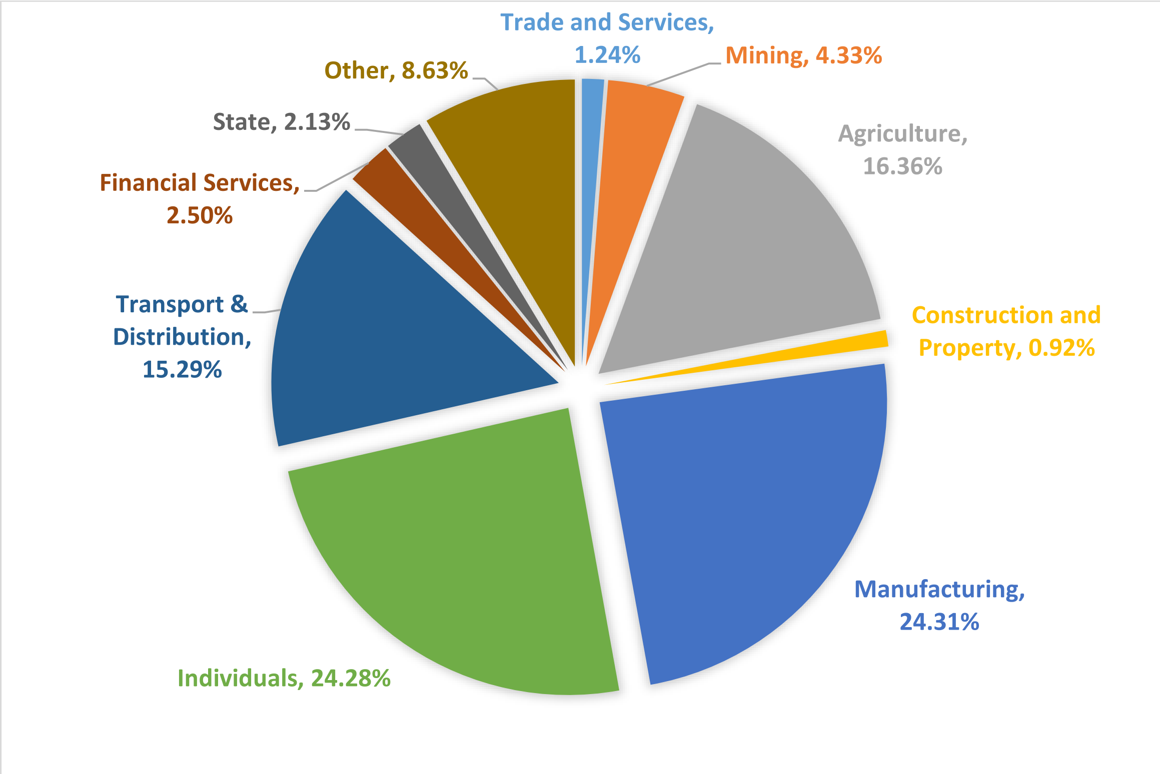
Figure 10 below shows the deposit trends from December 2011 to 31 December 2015.

Figure 10: Banking Sector Deposits- December 2011 to December 2015 (US$ M)



Banking sector deposits are dominated by demand and time deposits, which accounted for 46.2% and 33.8% of total deposits, respectively, as at 31 December 2015. The tenure of deposits has generally improved and largely stabilised over the past year, allowing banks to plan their funding arrangements and credit extension around a higher level of core deposits. The distribution of the banking sector lending to the various sectors as at 31 December 2015 is as indicated in the Figure 11 below.

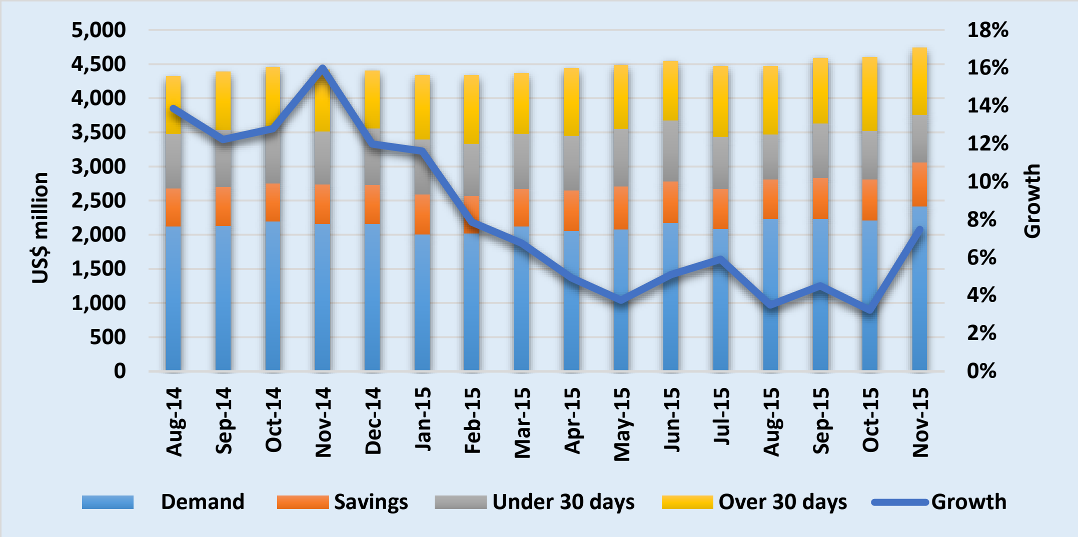
Figure 11: Sectoral Distribution of Credit as at 31 December 2015



The banking sector remains largely constrained in meeting the long-term funding requirements of capital intensive sectors such as construction and mining. Meanwhile, the Bank expects banking institutions to continue to re-orient their lending towards productive and export sectors of the economy such as horticulture and mining in order to boost output and generation of foreign exchange earnings.

Broad money supply grew by 7.5% in November 2015 compared to a growth of 12% recorded in November 2014. This lower growth is attributable to the slowdown in economic activity, coupled with attendant external sector imbalances. As a consequence, annual growth in broad money **(as measured by the stock of bank deposits, excluding interbank deposits)** stood at US$4.7 billion at the end of November 2015 as shown in Figure 12.

Figure 12: M3 Annual Level and Growth Rate



Source: Reserve Bank of Zimbabwe

The reactivation of the interbank market through the Aftrades facility, as well as other financial sector measures continue to improve monetary conditions in the economy. The Aftrades facility has also gone a long way in enhancing financial intermediation through the increased participation of banks on the interbank market. Furthermore, the fruition of various financial reform measures instituted by the Bank is expected to further boost confidence in the financial sector, resulting in improved deposit mobilization, critical for the revival of the economy.

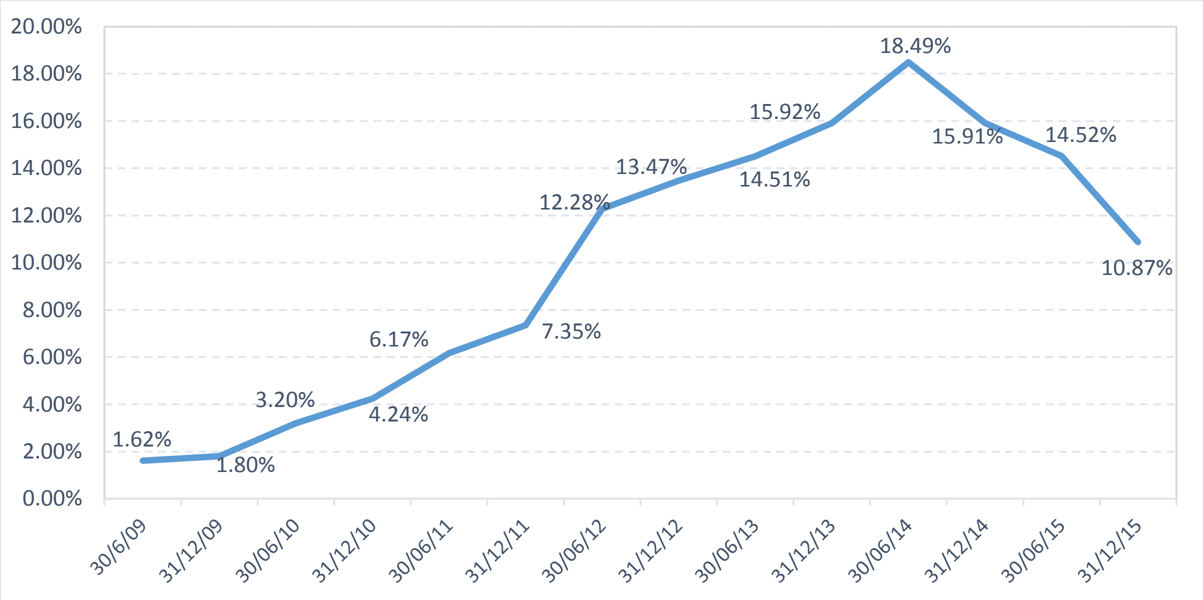
Domestic Credit

Domestic credit is on a recovery path following the coming on board of ZAMCO and Aftrades. These measures have resuscitated confidence in the domestic money market and provided comfort for banks to resume lending to the private sector.

Non-Performing Loans

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. The graph below shows the trend in NPLs from 2009 to 31 December 2015.

Figure 13: Non-Performing Loans as at 31 December 2015

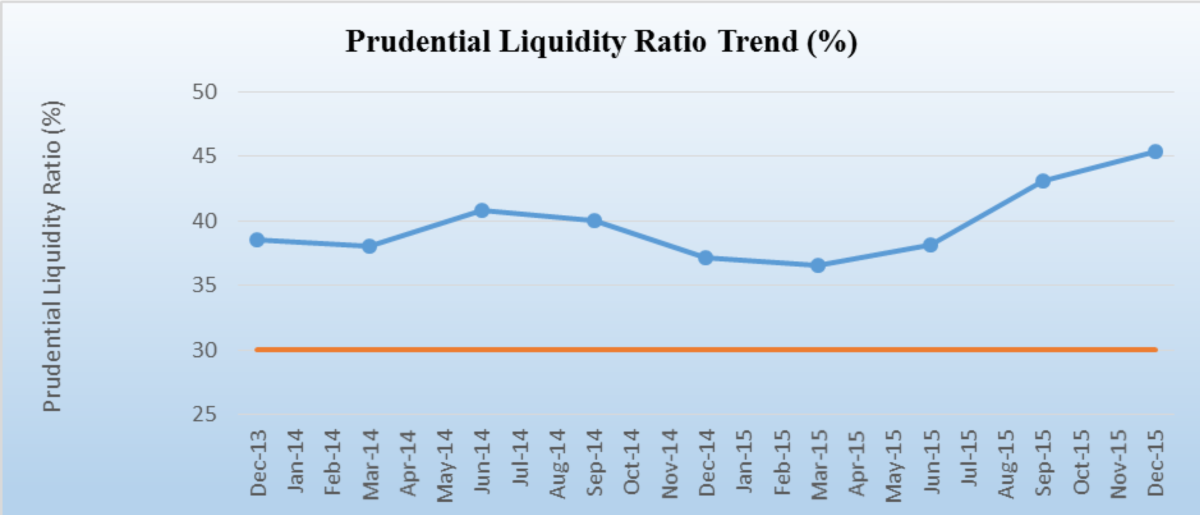


The institution of various resolution policy measures by banks, the assumption of qualifying NPLs by ZAMCO and the establishment of a credit reference bureau are expected to further reduce the level of NPLs. Towards this end, banking institutions are working towards reducing their NPL ratios to levels below 10% and 5% by 30 June 2016 and 31 December 2016, respectively.

Banking Sector Liquidity

During 2015, the average prudential liquidity ratio for the banking sector surpassed the minimum regulatory requirement of 30%. As a result, the banking sector average prudential liquidity ratio as at 31 December 2015 stood at 45.4% as indicated in the Figure 14.

Figure 14

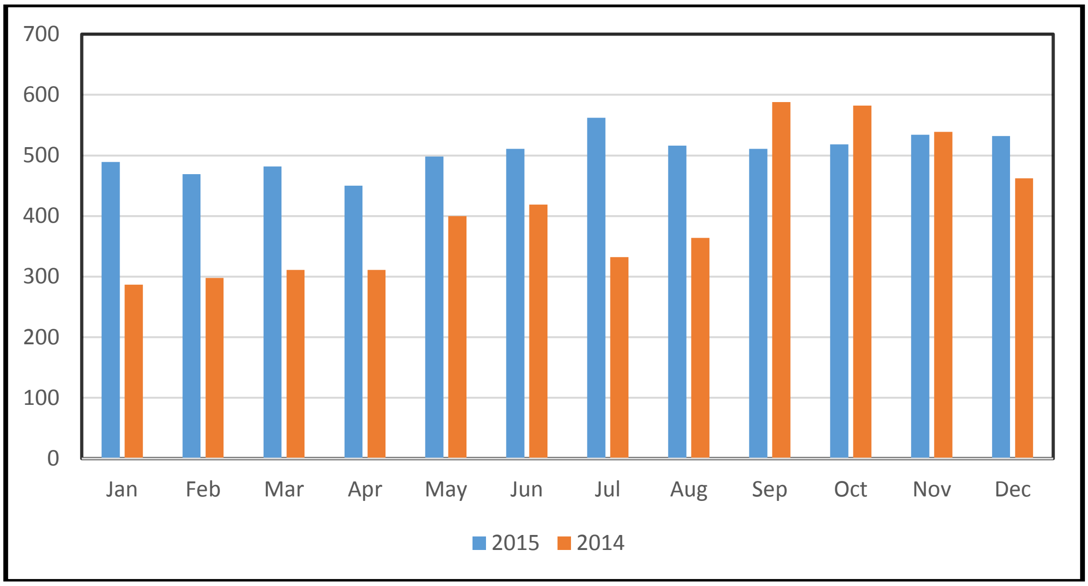


	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Actual	38.56	38.08	40.86	39.99	37.18	36.61	38.14	43.13	45.43
Minimum PLR	30	30	30	30	30	30	30	30	30

Money Market Liquidity

Monthly RTGS account balances averaged US$506 million in 2015 compared to US$408 million in 2014 as shown in Figure 15 below.

Figure 15: Monthly Average RTGS Account Balances (US$ million)



Source: RBZ

Basel II Standards

There has been notable improvements in risk management standards and capital planning processes as reflected in the Internal Capital Adequacy Assessment Process (ICAAP) reports submitted by banking institutions. However, the Bank has noted some differences in coverage, depth and quality of the ICAAP reports across banking institutions.

In order to address the identified gaps in some of the reports, the Bank is finalising guidance to the banking sector on the minimum standard required in developing ICAAP reports. The guidance is meant to elaborate on the structure and coverage required in the reports in line with international best practice. The guidance will be issued to the market by 31 March 2016.

Performance of the Microfinance Sector

The Microfinance sector recorded an increase in total loans from $162.2 million as at 30 June 2015 to $173.3 million as at 30 September 2015. The microfinance sector is highly concentrated with top twenty microfinance institutions contributing 89.1% ($154.5 million) of the microfinance sector's total loans.

National Payment Systems

The National Payment Systems continued to be the prime mover of funds in the economy through its integral payment, clearing and settlement roles. The Bank is cognisant of the need to maintain a sound, efficient and safe payment system, underpinned by continuous technological enhancements and risk management processes that are consistent with international best practices.

Real Time Gross System (RTGS) Upgrade

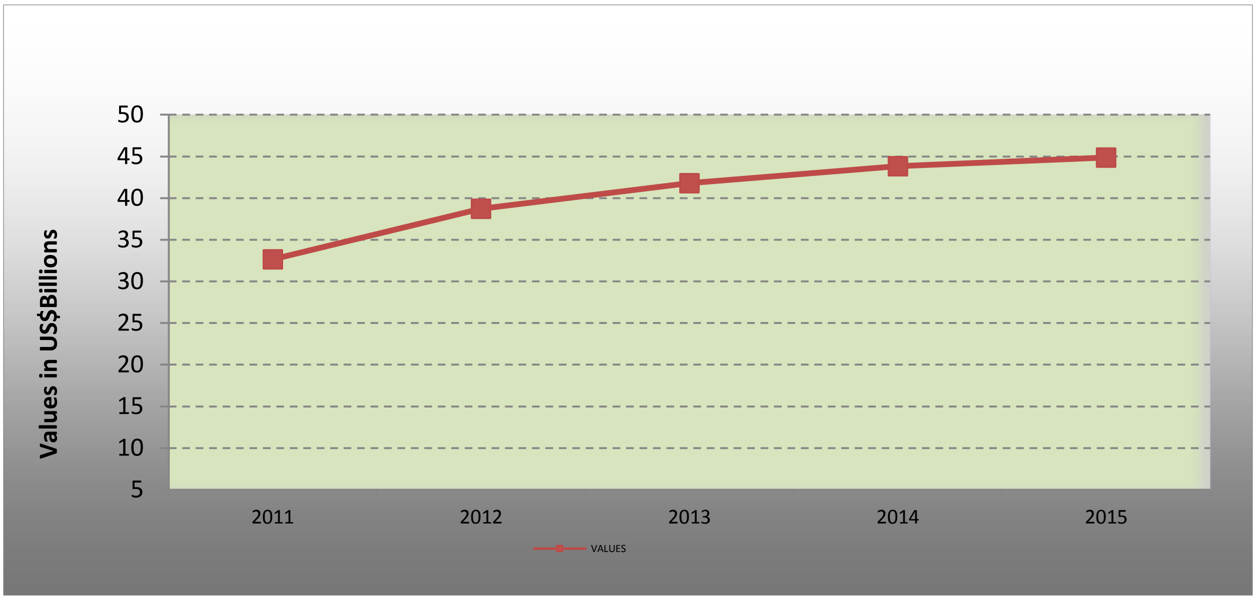
The Bank remains committed to the modernization of the country's payment systems. Accordingly, the Bank in close collaboration with the banking sector, successfully implemented and launched the RTGS Version 6.3.1 upgrade on 21 November 2015.

The upgraded RTGS is expected to continue to contribute to the efficient operation of financial service system in the economy. Notably, digital financial services are a key driver to achieve financial access thereby contributing to financial inclusion and stability. It is, therefore, imperative for the market and key stakeholders to continue promoting the use of electronic means of payment that are cost effective and efficient for the benefit of the transacting public.

National Payment Statistics

The country continues to witness a steady growth in payment systems as depicted by transactional activities on various streams which aggregated USD57 billion in 2015.

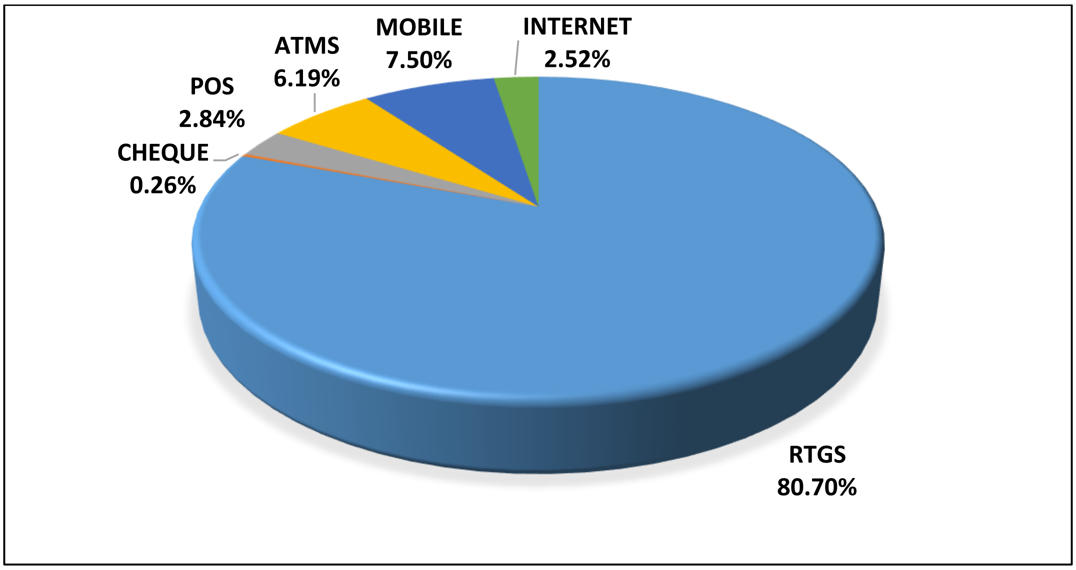
Figure 16: Annual RTGS System Transaction Values



Source: RBZ

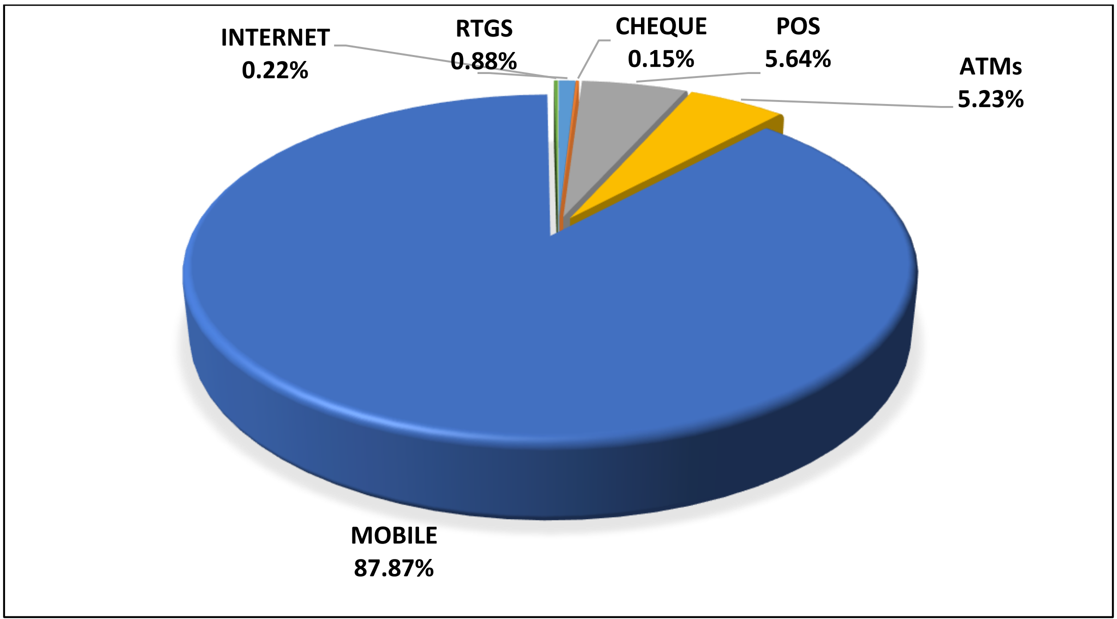
In 2015, the activity distribution of payment methods was skewed towards the RTGS system, which accounted for 80.3% of total value. Mobile payments on the other hand accounted for 87.9% in terms of volumes of transactions processed. Figures 17 and 18 shows the proportional distribution of payment system methods in 2015.

Figure 17: 2015 Transactions Values Proportions



Source: RBZ

Figure 18: 2015 Transaction Volume Proportions



Source: RBZ

SECTION 7
FINANCIAL SECTOR REGULATORY FRAMEWORK

Credit Reference System

The Bank has made significant progress, towards the establishment of a credit reference bureau (CRB). The adjudication process, which was in line with public procurement rules and regulations, has been completed and the contract for setting up the CRB system was awarded to a renowned company at a cost of around US$1.8 million. The credit reference databank will be housed at the Bank. All banking institutions and microfinance institutions will be mandated to provide credit information both positive and negative, to the databank. In terms of the model adopted by the Bank, all private credit bureaus will be able to access, at a fee, information from the databank.

Due to the confidentiality nature of banking sector information and to ensure the integrity of the credit reference databank, any person seeking to conduct any activity which involves the collection and dissemination of credit information from banking institutions, deposit taking microfinance institutions and microfinance institutions should conform to minimum requirements set by the Reserve Bank.

In this regard, the Bank shall accredit private credit reference bureaus to enable them to also collect and/or obtain credit information from the financial institutions.

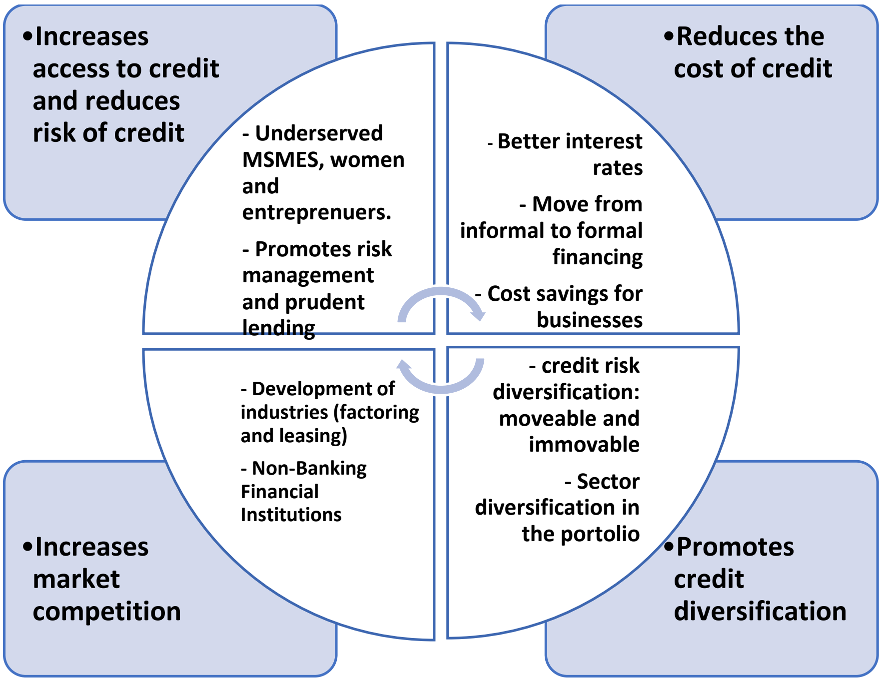
Establishment of a Collateral Registry System

Empirical studies have shown that, in developing economies, 78% of the capital stock of businesses is typically in movable assets such as machinery, equipment or receivables, and only 22% in immovable property (Alvarez de la Campa, 2011). As such, these economic agents, such as SMEs and households, find themselves with **“dead capital”**, in the form of moveable assets which they are unable to utilize as collateral.

It is against this background that more than 35 countries across the world have established collateral registry systems, as a way of promoting the use of movable collateral by lenders in order to increase access to credit. Notably, African countries that established collateral registries include Burundi, Ghana, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, South Africa and Zambia

The benefits of establishing Collateral Registry are depicted in the diagram below:

Figure 19:



Towards this end, the Bank is working on measures to enhance the range of acceptable and qualifying collateral security in line with international best practices through the establishment of a **collateral registry** for movable property such as machinery, automobiles, inventory, and account receivables, among others.

The Bank has also created a unit within its structures that will file notices of security interests in qualifying movable properties and determine priority in a borrower's collateral, so that lenders find movable property as acceptable security.

Amendments to the Banking Act and Reserve Bank Act

Further to my July 2015 Monetary Policy Statement, I am pleased that 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. The new framework has also, amongst others, promotes good governance by punishing those that abuse depositors funds, enhanced the oversight role of the Bank and empowered the Bank to take prompt corrective action in problem bank resolution.

This enhanced framework will complement the Bank's efforts to ensure a sound financial system and to provide the necessary confidence to the banking public.

Adoption of New and Revised Auditing and Financial Reporting Standards

As stakeholders would be aware, a number of Auditing and Financial Reporting Standards have been revised and re-issued since the Global Financial Crisis. The 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.* Some of the standards that were issued are given in Table 10.

Table 10

Name	Description	Effective Date
Auditing Standards		
ISA 700 (Revised)	Forming an opinion and reporting on financial statements	16-Dec-16
ISA 701 (New)	Communicating Key Audit Matters in the Independent Auditor's Report	16-Dec-16
ISA 705 (Revised)	Modifications to the opinion in the independent auditor's report	16-Dec-16
ISA 706 (Revised)	Emphasis of Matter paragraphs and Other Matter Paragraphs in the Independent Auditor's Report;	16-Dec-16
ISA 570 (Revised)	Going Concern	16-Dec-16
ISA 260 (Revised)	Communication with those charged with governance	16-Dec-16
Accounting Standards		
IFRS 7	Financial Instruments – Disclosures	Annual periods beginning on or after 1 January 2016
IFRS 9	Financial Instruments	Annual periods beginning on or after 1 January 2018
IFRS 15	Revenue from contracts with customers	Annual periods beginning on or after 1 January 2018
IFRS 16	Leases	Annual periods beginning on or after 1 January 2019

Banking institutions and their respective auditors should prepare banking institutions and their respective auditors for transitioning, in light of the implementation challenges that the market will face. The standard setting bodies have acknowledged that implementation of the standards may prove operationally challenging and costly and may require significant lead-time to implement.

In this regard and in view of the need to ensure consistent implementation of standards, the Reserve Bank is working with the Public Accountants & Auditors Board (PAAB) in coming up with the implementation road map for the new and revised standards.

Legal and Policy Guidelines

In view of the need to continuously enhance and clarify the regulatory framework to the market, the Bank will be issuing the Oversight Framework and Recognition Criteria, as well as the Electronic Payments Guidelines before the end of the first quarter of 2016. The introduction and operationalization of these guidelines will help in fostering continued financial stability and effective risk management in the payment systems.

Framework for Supervision of Domestic –Systemically Important Banks

The Basel Committee on Banking Supervision developed a framework for the supervision of Domestic- Systemically Important Bank (D-SIBS) in 2012 due to the adverse side-effects of externalities they impose on the local economy, should they fail. The process of identifying these D-SIBS takes into account the following:

a) Size;
b) Substitutability / financial institution infrastructure;
c) Interconnectedness; and
d) Complexity.

The framework recommends two approaches to dealing with D-SIBS, namely increasing the loss absorbency capacity of the D-SIBS through increased capital and intensive supervision. In line with the Basel Committee on Banking Supervision recommendations, the Reserve Bank shall develop a banking sector specific framework for identifying and dealing with D-SIBS by 30 June 2016.

SECTION 8
NATIONAL FINANCIAL INCLUSION STRATEGY

In order to facilitate a systematic and coordinated approach to financial inclusion initiatives in the country, the Bank, in collaboration with relevant stakeholders, has developed a National Financial Inclusion Strategy. The overarching objective of the Strategy is to deepen financial intermediation for the marginalised and the unbanked to have access to appropriate financial services during the Strategy period of 2016 - 2020.

The well-recognised direct correlation between financial inclusion and economic development necessitates deliberate policy interventions to promote financial inclusivity and proper functioning of the financial system. An inclusive financial system promotes financial sector development through a combination of depth, access and efficiency, and the level of activity of capital markets.

Access to and usage by economic agents of a wide range of financial products and services that meet their unique needs at affordable cost, is critical in stimulating financial savings and investment, and therefore economic activity and growth, while mitigating systemic risk and promoting financial stability.

An inclusive financial system facilitates mobilization of financial resources circulating in the informal sector, which positively impacts on liquidity in the economy. The 2011 and 2014 FinScope Consumer surveys and the 2012 FinScope SMME Survey revealed that 23% of Zimbabwe’s adult population was financially excluded, only 30% of Zimbabwe’s adult population made use of banking services as at 2014 and only 14% of SMME owners are banked.

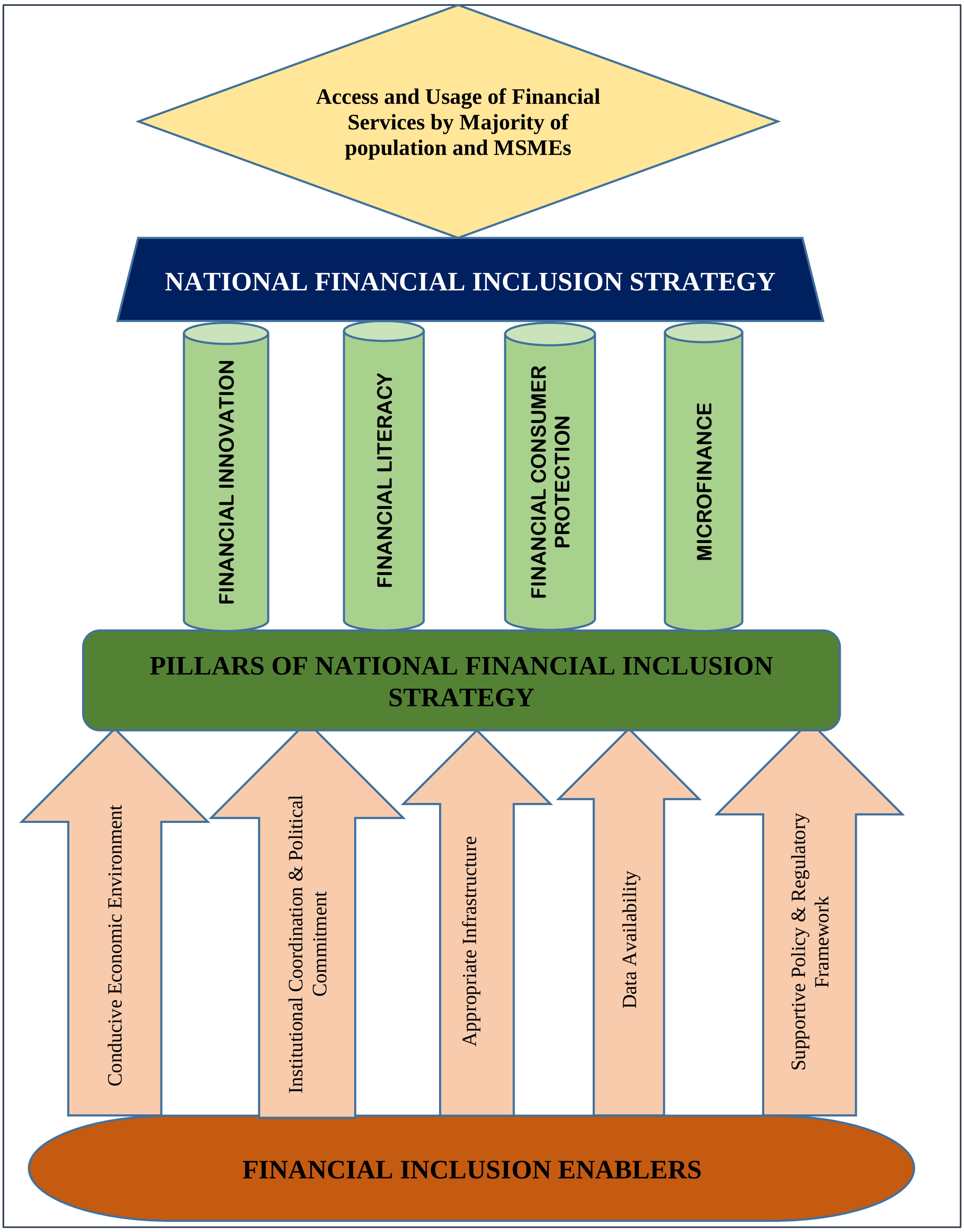
Financial inclusion gaps have been pronounced among some special groups who are currently under-served including micro, small and medium enterprises, small scale agricultural sector, women and youths. The 2014/5 making access possible supply-side diagnostic study revealed a decline in the actual usage of banking services between 2011 and 2014 notwithstanding the increase in the number of banked adults during the same period.

Against this background, there is need for increased responsiveness of the providers of financial services to the unique needs of financial consumers in the country.

Financial Inclusion Strategy Pillars and Core Enablers

The Strategy addresses the broad barriers to financial inclusion through implementation of key priority measures with a view to reducing the level of financial exclusion. The Strategy is anchored by four pillars supported by a number of enablers as shown in Figure 20 below.

Figure 20



i. **Financial innovation** has enabled financial institutions to reduce the costs associated with the brick and mortar model and infrastructure constraints. This entails financial institutions taking advantage of new information and communication technologies to reach out to the excluded segments of the population.

Increasingly, agent banking and e-banking are being recognized as efficient and cost effective delivery channels of financial products and services. To this end, the Bank has approved the adoption of agent banking models by banks seeking to increase proximity of financial services products and services to clients, including in rural areas.

Against this background, all banking institutions are required to explore the agent banking model. Banks may engage the following persons/ entities as their agents:

a. Registered microfinance Institutions;
b. Cooperative Societies regulated under Cooperative Society Act; [Chapter 24:05];
c. Courier and Mailing Service Companies registered under the Ministry of Posts & Telecommunication;
d. Companies registered under 'The Companies Act [Chapter 24:03];
e. Agents of Mobile Network Operators;
f. Offices of rural and urban local Government institutions;
g. Educated individuals capable of handling IT based financial services;
h. Agents of insurance companies; and
i. Owners of pharmacies, chain shops and petrol pumps/ gas stations.

The Bank will issue detailed guidelines to govern the establishment and operations of bank agents by 31 March 2016.

ii. **Financial literacy** programs enable consumers of financial products and services to acquire knowledge, skills, attitude and behaviour to be aware of financial opportunities, make informed choices in line with their circumstances and take effective action to improve their welfare.

A financial literacy framework will be issued by 30 June 2016. The framework will ensure that various consumers of financial products are empowered to responsibly interface with financial institutions as well as enforce their rights. In terms of the framework banking institutions will be required to develop and implement financial literacy programmes for the various segments of their customers. Further, in order to ensure that financial literacy is inculcated at an early stage, banking institutions are required to open accounts for school children with special features including no minimum balance, attractive interest rates and no charges.

The Bank will conduct national financial literacy programmes mainly targeted at special groups such as school-going children, MSME entrepreneurs, women entrepreneurs, youth and vulnerable adults such as pensioners and less literate adults. The availability of information is critical in facilitating inclusion of all Zimbabweans in economic activities particularly those in remote areas. In this regard, information centres will be established in the various districts of the country. Information and services that will be accessible from the centres include remittances, financial information, and information on health, agriculture and markets. This will have far reaching implications on productivity in agriculture, employment creation, rural sector development and financial inclusion.

The information centres may also be used by banks as agents in their banking operations.

iii. **Consumer protection** is an important pillar in the implementation of the National Financial Inclusion Strategy, as it promotes consumers' confidence in the financial system particularly among the low-income households, as well as stimulate healthy competition and responsible pricing. The Bank is currently developing Consumer Protection Prudential Standards to be issued by 31 March 2016. The Standards seek to promote greater transparency and minimize information asymmetry between consumers and financial service providers and to address the protection of the rights of consumers through, inter alia, effective redress mechanisms to enhance public confidence in the financial system.

In line with the above development, by 30 June 2016, all banking institutions should have in place board approved institutional ethical standards, code of conduct and customer charter.

iv. **Microfinance** is by nature targeted at low income households and micro, small and medium enterprises (bottom of the pyramid). Accordingly microfinance is highly relevant to the Zimbabwean macroeconomic context where the majority of the population falls in the low income segment, and the business landscape is now tilted towards small scale enterprises.

Table 11 below shows the trend in key performance indicators for the microfinance institutions in Zimbabwe.

Table 11

	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15
Number of licensed institutions	135	147	143	147	155
Total loans (million)	$151.8	$157.0	$163.5	$162.2	$173.3
Total Assets (million)	$210.1	$202.7	$202.6	$208.8	$207.7
Portfolio at Risk (PaR>30days)	12.1%	11.3%	12.1%	13.3%	9.1%
Number of Clients	220,357	205,282	189,028	224,300	198,371
Number of Loans	257,542	257,542	195,641	281,547	224,055
Number of Branches	482	473	499	495	475

To enable this sector to assist on furthering access to financial products, the following services are necessary from microfinance institutions;

a) Microfinance institutions must prime their operations and governance structures in order to qualify to access funding from Zimbabwe Microfinance Wholesale Fund at concessionary interest rates;
b) Microfinance institutions and moneylenders, are required to be responsible in their lending activities and should lower their interest rates to avoid condemning borrowers into debt traps;
c) Microfinance institutions may act as agents of banks to ensure that the underserved particularly in rural areas, have access to financial services;
d) Microfinance institutions must re-orient their loan portfolios from consumptive lending towards financing the productive sectors; and
e) Microfinance institutions should adopt technology driven distribution channels to extend their outreach particularly in rural areas.

Priority Areas and Specific Strategic Measures

Development of specific measures and targets that enable prioritisation of the currently under-served and marginalized population groups is at the core of any financial inclusion agenda. The Bank is **passionate and committed** to ensure that more SMEs, Women, Youth and the rural population have access to mainstream financial institutions.

Micro, Small and Medium Enterprises (MSMEs) Development

In recognition of the importance of MSMEs in the country's economic growth agenda, the Bank is committed to the development of a vibrant MSME sector in order to boost employment and export generation. The majority of MSMEs lack adequate infrastructure and funding to enhance business operations, and properly structure and drive their business towards viability. As such, there is significant scope for banks to understand the specific needs of MSMEs and upscale their financial schemes and products appropriate for the MSMEs.

In view of the increasing important role being played by small businesses and the informal sector in the growth of economy, banks should increase support to this sector in all areas of the economy through the development of innovative demand-driven financial products. Against this background, the following policy measures will be implemented:

a) Every banking institution should establish a dedicated MSME business unit which should be adequately capacitated;
b) Every banking institution shall follow a separate business strategy in financing MSME loans with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process;

c) Priority shall be given to MSMEs operating in rural areas;

d) In order to effectively serve the MSMEs, there is need for a target based credit initiative by banks. Banking institutions are required to set their annual target lending to MSMEs categorised by gender, enterprise size and business sector among other variables, and submit their targets to the Reserve Bank by 31 March 2016;

e) Banking institutions that meet their MSME lending targets will qualify for the incentives that will be advised in due course;

f) In addition, banking institutions should develop programmes aimed at capacitating SMEs and enhance their entrepreneurial and financial skills to effectively and efficiently manage their businesses;

g) Banking institutions should adopt value chain financing models to facilitate increased business opportunities for SMEs in all sectors of the economy;

h) The Bank will facilitate capacity building programs for financial institutions to enable them to develop innovative and appropriate financial products and services for MSMEs;

i) Strengthening the linkages and relationship of the MSMEs to industrial associations in order to enhance formalisation and create forums for exchange of information.

Cluster Financing

Developing countries, such as Bangladesh, have successfully used the cluster model in the development of MSMEs. The model entails the identification and grouping of MSMEs in a locality involved in similar business activities (eg horticulture or dairy) into a cluster. Capacity building and credit programs are tailored to the specific needs of the cluster.

The Small and Medium Enterprises Development Corporation (SMEDCO) would need to identify clusters that can be nurtured throughout all the districts of the country. This is critical in ensuring that the diverse funding needs of the MSMEs are attended to in our collective endeavour to reshape the future economy of Zimbabwe in the path towards sustainable growth. SMEDCO will be required to link the identified clusters with financial institutions for their funding and advisory requirements. SMEDCO, banking institutions and microfinance institutions will be required to arrange training on entrepreneurship development where the Reserve Bank will play a supporting role. The institutions will be required to incorporate the implementation status of such programs in their annual reports.

Group Lending Model

Banks and microfinance institutions should continue to adjust their lending methodologies to enable them to adequately serve the various segments of the population including rural areas.

In this regard, banks and microfinance institutions should explore the group lending approach particularly in the rural areas where the sense of belonging to the community is an important factor to the performance of a borrowing member in a group. Such a model has been instrumental in rural development in some developing countries.

Women Economic Empowerment

The Bank will continue to champion financial inclusion as a key step towards achieving women economic empowerment. Women are currently largely excluded from formal financial services. The Finscope survey of 2012 indicated that 57% of the business owners are women, and women constitute the 51% of the Zimbabwean population.

The participation of the Zimbabwean women in the mainstream economy is critical in attaining sustainable economic growth and poverty reduction. It is against this background that the Bank is embarking on strategies to enhance women access to financial services. To facilitate enhanced participation of women in the development of the country, priority shall be given to potential women entrepreneurs in respect of MSME credit disbursement.

Banking institutions should consider establishing separate 'Women Entrepreneurs' Dedicated Desk' with necessary and suitable manpower and provide advice and training on MSME financing. In addition, banking institutions should submit to the Reserve Bank on a quarterly basis, detailed information on women accessing financial services, with effect from quarter ending 30 June 2016.

In addition, the following measures will be undertaken to improve the level of financial inclusion among women:

a) Establishment of a revolving women empowerment fund which will be availed at affordable interest rates to support projects managed by women;
b) Strengthening women entrepreneurs' human capital by developing appropriate entrepreneurial education and training opportunities by SMEDCO and banking institutions;
c) Raising awareness of financial products and financial services among women through consumer education and financial literacy programs by the Bank; and
d) Enhancing the capacity of financial institutions to better serve women entrepreneurs.

In line with this, banks are required to apply gender-sensitive risk and credit assessment methodologies.

Agriculture and Rural Financing & Development

Zimbabwe is an agro-economy with agriculture contributing about 12% of the country's GDP in 2014 and more than 60% of inputs to the manufacturing sector. Access to financial services particularly by smallholder farmers, however, remains a major bottleneck to agricultural performance in Zimbabwe.

Given the significance of the agriculture sector to the economy, banking institutions are required to scale up their lending support to the agricultural sector. The Agricultural Marketing Authority (AMA) is called upon to identify and promote the development of vibrant markets and linkages.

The main thrust of Government is:

a) to make the nation self-sufficient in food through increasing production of all crops;
b) ensure a profitable and sustainable agricultural production system and improve farmers' income generation capacity;
c) reduce excessive dependence on any single crop to minimize risk;
d) increasing cropping intensity and yield; and
e) create opportunities for establishing agro-processing and agro-based industries.

In this regard, **the Bank is developing an Agricultural & Rural Credit Policy.** The policy aims to make agricultural credit more disciplined and methodical, easily available to all the farmers and all areas with a view to expand banking services to rural areas and maximizing use of agricultural land. The policy covers the major sectors of agriculture including crop, livestock, and fish production, agri-equipment, irrigation equipment, grain storage and marketing.

In complementing Government efforts to revolutionalise agriculture through introduction of modern farm-mechanization, improvement in production yields, promotion of better market access, and integration of farming with other diverse markets, banking institutions should provide more innovative and sustainable value- chain financing products to small holder farmers and rural farmers.

In order to ensure the country's self-sufficiency and food security and boost exports, banking institutions should prioritise lending for the production of the following crops:

a) Maize;
b) Cotton;
c) Tobacco; and
d) Horticulture.

Total lending to agriculture should constitute a minimum of 20% of a banking institution's total loan portfolio. Banking institutions are required to report on a quarterly basis information on their agricultural portfolios with effect from quarter period ending 30 June 2016. The detailed variables to be reported will be provided by the Reserve Bank in due course.

Youth Economic Empowerment

Youth in Zimbabwe and in developing countries generally, are disproportionately affected by high levels of unemployment largely explained by low levels of financial inclusion. Youth are excluded from formal financial services largely due to negative stereotypes about youth who are considered high risk-takers, cannot provide collateral, have limited business and life experience and lack a track record or credit history. This is in addition to the other demand side constraints affecting all consumers of financial services.

Access to financial services could help youth become economically active, start their own enterprises, finance education, and engage productively within their communities. The following are some of the measures provided in the national financial inclusion strategy to economically empower the youth.

a) Incorporation of financial literacy programs for the youth in the National Financial Literacy Strategy;
b) Establishment of a youth empowerment window by all financial institutions;
c) Banking institutions to develop appropriate collateral substitutes in order to address the challenge of security among youth borrowers;
d) Capacitation of vocational training centres across the country to ensure well trained graduates are in a position to apply their knowledge on start-ups; and
e) Ensuring that regulatory frameworks and policies are youth friendly and protective of youth rights in order to increase youth financial inclusion.

SECTION 9
POLICY MEASURES

Prudential Measures to Mitigate Against Illicit Financial Flows

Illicit financial flows (IFFs) and other capital flight remittances constitute a major constraint to development financing in Africa. IFFs which include trade mispricing and bulk cash movement cause heavy loses in government revenues, foregone investment, financial fragility and lost output. In the case of Zimbabwe, the financial haemorrhage from capital flight is exacerbated by the openness of the economy which is susceptible to regional disruptive arbitrage activities (as businesses in the region scramble to get access to US$s from a dollarised Zimbabwe).

In view of the above, the current practice in Zimbabwe of distinguishing foreign exchange between free funds and non-free funds under a multi-currency system economic environment is a great misnomer which is a breeding ground for IFFs. **All funds under the multi-currency system are fungible. Such funds lose identity when commingled i.e. when mixed in the banking system and/or on person.**

There is no difference between the US$ earned from exports and the US$ earned from employment or from the diaspora. They are all US$s which should be utilised in accordance with best practice, a practice that safeguards the financial system from illicit uses, combat money laundering and thereby improving market confidence and liquidity for the productive sectors of the economy.

Bank statistics show that during the period January to December 2015, a total of US$684 million was remitted outside Zimbabwe or externalised by individuals under the auspices of free funds for various dubious and unwarranted purposes that include remittance of donations to oneself, offshore investments, externalisation of export sales proceeds by corporates through individual accounts leading to pervasive tax evasion and externalisation. **This rampant export of liquidity is not sustainable.**

In view of the foregoing and in an effort to improve transparency in the utilisation **of scarce financial resources, the Bank is putting in place, with immediate effect, the following measures to close the gaps and loopholes** arising from inconsistencies and inadequate enforcement of rules on financial transparency and accountability, which in some instances, bodes around embezzlement of national resources and ignorance.

1. **Free Funds**

   Dispensing with the concept of free funds under a multi-currency system. As already stated above, the term free funds under a dollarized economy is a misnomer which brings distortion and lack of transparency in the use of foreign exchange resources. Free funds terminology was relevant under the Z$ era. The concept of free funds has become a fertile breeding ground for IFFs. Getting rid of that pseudo foreign exchange classification was therefore long overdue.

2. **Reporting of Suspicious Transactions**

   All suspicious transactions as generally reported by financial institutions under the Suspicious Transaction Reports (STRs) should now be reported to RBZ before processing of the outgoing transactions by financial institutions. The current fait accompli of ex-post reporting is not useful because the country is continuously losing liquidity much to the detriment of the economy.

3. **Promotion of Plastic Money and Bank Transfers**

   Banks should promote the use of plastic money and bank transfers to minimise the unnecessary burden on consumers of carrying and paying in cash. Accordingly in order to uphold the integrity of the banking system that takes account of customer due diligence (CDD), know your customer (KYC) principle and the lead time for the importation of cash by banks to liquefy the economy, prior reasonable notice of not less than a day should be given to financial institutions for all cash withdrawals of an equivalent amount of above US$10 000. Other jurisdictions, including USA, have resorted to the management of currency/cash transactions by enforcing maximum reportable cash limits that can be carried on person and/or withdrawn from financial institutions to guard against money laundering.

4. **Strict Customer Due Diligence**

   Financial institutions should observe strict CDD, KYC principle and high level consciousness to ensure 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.

5. **Report of Foreign Bank and Financial Accounts**

   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.

6. **Monitoring the Operations of Offshore Related Companies**

In recent years, the Bank has observed increased service payments between related companies, especially holding companies and their subsidiaries or sister companies. Whilst some of the arrangements are meant to result in cost savings from group shared services, some corporates have been inflating service fees in order to externalise foreign currency. It is evident that some local entities are being used as cost centres. Such unwarranted behavior is punishable in terms of (8) below.

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 Bank approval. In addition, the Bank shall, with immediate effect, be conducting onsite and ex-post validation of the operation of these companies.

7. **Registration of Service Agreements by State-owned Enterprises**

The 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.

8. **Penalties for non-compliance**

   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].

Measures to Improve Liquidity and Minimise Payment Gridlocks

1. **Upward Review of Nostro Limits**

   Increasing financial institutions' nostro limits from 5% to 10% of the bank's total deposits.

2. **Purchase of Rands and Other Currencies by RBZ**

   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 intended to ameliorate the burden of exchange loses on consumers.

3. **Review of Pricing of External Loans**

   The current pricing structure for external loans does not sufficiently reward long term lenders to such an extent that the majority of external lenders are now preferring the provision of short term loans which does not augur well with the long term capital requirements of the economy.

   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.

Tobacco financing, shareholder loans and notional vendor finance shall remain the same as per existing external borrowing guidelines.

4. **Single investor limit increased from 10% to 15% on ZSE**

   Current Exchange Control policy allows a single foreign investor to acquire listed shares on Zimbabwe Stock Exchange (ZSE) up to 10% per counter.

   In order to promote portfolio investments by foreign investors on ZSE with the overall objective of enhancing market liquidity, going forward a single investor is now permitted to acquire up to 15% of listed shares per counter.

5. **Review of 40% threshold for foreign investors on ZSE, to 49%**

   In terms of existing Exchange Control policy, foreign investors' overall ownership in a listed company is 40%. 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.

6. **Upward Review of Full fungibility status from 40% to 49%**

   Current Exchange Control policy allows full fungibility of 40% on selected listed counters. The policy is aimed at ensuring maintenance of shares on the ZSE register, hence encouraging participation by local investors.

   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.

7. **Profit Sharing in Mining, Agriculture and Manufacturing Sectors**

   Currently, the productive sector of the economy is facing challenges in accessing sustainable financing required to increase productivity. The absence of long term and affordable financing structures are partly responsible for low capacity utilisation obtaining in the economy.

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 nor debt funds. Such arrangements would require prior Bank approval.

8. **Enhancement of the RTGS System to Cater for Multiple Currencies**

The Bank is finalising the upgrade of the RTGS platform to handle multiple currencies to conform with the multi-currency system. Each currency would be transacted on its own for effective management of foreign currency risks. For the avoidance of doubt, the Zimbabwe multi-currency system is made up of nine currencies, namely the United States Dollar, South African Rand, Euro, British Pound Sterling, Chinese Yuan/Renmimbi, Botswana Pula, Australian Dollar, Indian Rupee and the Japanese Yen. These are all Zimbabwe's trading currencies, with the US$ being the settlement currency for the RTGS and CSD systems.

9. **Open Tender System on Government Securities**

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 Funding & Improve Productivity

1. **Lending Rates And Bank Charges**

   The Bank is pleased to advise that following the announcement of guidelines on interest rates in the July 2015 Monetary Policy Statement, banking institutions have adjusted their lending rates for both existing and new borrowers with effect from 1st October 2015.

   However, the Bank has noted that lending interest rates at some banks remain high and unsustainable when the default interest rates and other ancillary charges are levied. **Current penalty rates of between 20 to 35% are against economic transformation.** 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 in line with the agreed parameters and the interest rate philosophy under Aftrades and ZAMCO. 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.** To this end, the Reserve Bank is engaging the microfinance sector to relook their pricing models and re-orient their lending portfolios towards the productive sector.

On their part, borrowers are strongly reminded to exhibit credit discipline and adhere to the facility terms and conditions to avoid going into the default category which attracts penalty charges. **The banking public should cherish the culture of good stewardship and repaying culture to enhance self-discipline which ensures that money circulates within the economy.**

2. **Zero Charges on Basic "No Frills" Savings Accounts**

   In an endeavour to promote access to banking services by a majority of Zimbabweans, the Bank in the past urged that banking institutions to offer basic accounts with minimum maintenance charges.

   However, the Bank has noted that banks were compensating by charging different types of charges which resulted in the depletion of clients' savings with banks. The levying of charges on savings accounts dissuades people from investing their surplus funds in the banking sector. **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**. The Bank shall continue to monitor bank charges to ensure that they do not become a barrier to access financial services.

3. **Upscaling MSME Banking**

   In view of the recent structural shift in the economy which gave rise to a large and expanding Micro Small Medium Enterprises (MSMEs) sector, banks have an important role to serve the domestic growth drivers particularly with focus on productivity in Small to medium enterprises (SMEs). Against this background, banking institutions are encouraged to focus their attention on MSMEs by developing and implementing SME specific lending models and policies.

While we note the current efforts by the banking sector to support the SME sector, financial institutions are urged to up-scale lending to this sector. There is scope for banks to convert the current constrains in the SME sector into opportunities for their sustainable business growth.

Banks are urged to capacitate **their strategic business units that manage SME business.** In order to effectively serve the SMEs, there is need for a target based credit initiative by banks. 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.**

In particular, banking institutions are encouraged to work with MSMEs linked to the value chain of their corporates and leverage on the relationships to better manage and control their credit exposures. In addition, banking institutions should reinforce these initiatives with **capacity building** among the MSMEs clients, to facilitate running of viable businesses and implementation of business best practice.

4. Reduction of Annual Branch Fees in Rural Areas

The Bank has noted that the establishment of remittance access points in the rural areas remains very low. A high concentration of access points in rural areas would increase competition and force the cost of remittances down and ultimately reduce dependency on informal remittances channels and promote financial inclusion.

Currently Authorised Dealers with Limited Authorities (ADLAs) are required to pay annual branch fees, initially at US$400 and US$200 per year thereafter.

In order to increase remittances access points in rural areas, the ADLA branch fees in rural areas is reviewed downwards to, initially at USD100 and USD50 per year thereafter, to make the cost of establishing ADLA branches in rural areas sustainable.

Measures to Enhance Gold and Diamond Production

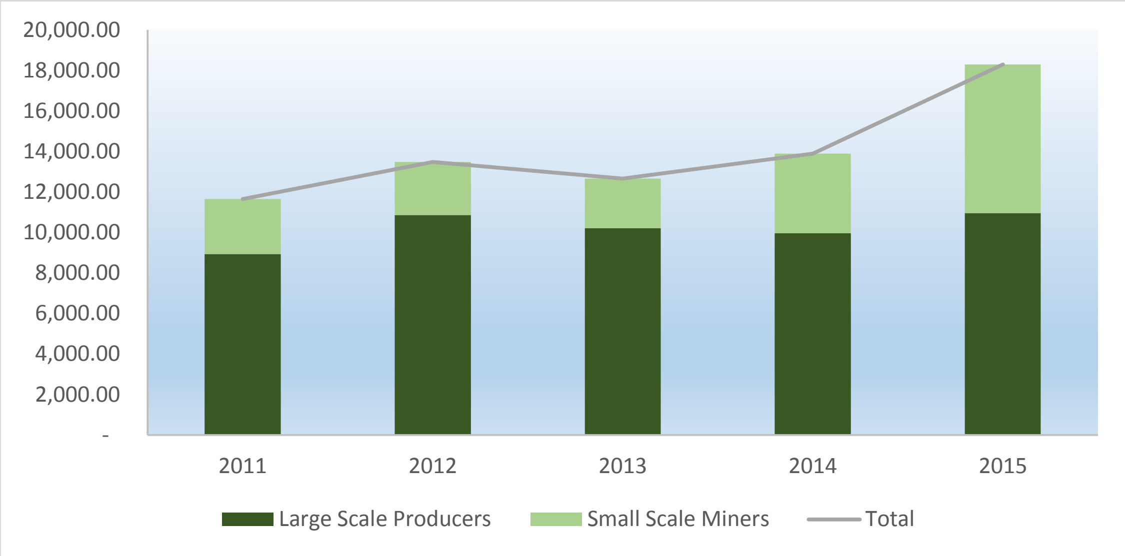
1. Gold Production

In view of the need to boost export earnings and accumulate foreign exchange reserves, the need to enhance the country's gold production ranks high on the Bank's priorities. Importantly, increased gold production is envisaged to meaningfully contribute to the recovery of the sector and the economy at large.

Despite the decline in international gold prices by over 40% realized over the past three year, gold deliveries to Fidelity Printers and Refiners (FPR) has been steadily rising in concomitance with rising production levels. Against this background, gold production as indicated in Figure 16 increased by 34% from 13.9 tonnes in 2014 to 18.6 tonnes in 2015 and earning the country around US$692 million. The expansion in gold output was underpinned by the increased contribution of the small scale sector from an average of 25% realized over the past five years to about 40% in 2015.

Increase gold output by small scale miners largely benefited from concerted efforts in monitoring of the sector by the Gold Mobilisation Committee comprising officials from the Ministry of Mines and Mining Development, the Zimbabwe Republic Police's Border Patrol Unit and the Reserve Bank of Zimbabwe. The good performance by the small scale sector also reflects that sector's positive response to the decrease in royalty fees effected by Government during the course of the year.

Figure 21: Gold Production in Kgs (2011-2015)



Source: Fidelity Printers and Refiners

In order to boost production in the gold sector, the Bank is committed to continue engaging its international financial partners to avail affordable long-term financial resources to support increased activity in the sector. So far, the Bank, has availed US$25 million financing facility to the gold sector during the second half of 2015.

In a bid to address viability concerns in the sector, Government settled outstanding obligations to gold miners under the RBZ Debt Assumption Act in 2015, through the issuance of treasury bills. The Bank expects that the issuance of these treasury bills will go a long way to unlock liquidity to the gold sector and boost confidence in the economy. The Bank is also aware of other attendant challenges affecting both the small scale and large scale miners. In this regard, corrective measures are being instituted to deal with these impediments.

Gold Production Policy Measures

In order to attain targeted gold output of 24 tonnes in 2016, the Bank will institute the following deliberate measures geared at boosting production:

Increasing access to long-term financing by continuing to source affordable long term external funding for the mining sector. The Bank is, therefore, targeting to deploy more resources to the gold sector.

Mechanisation of the small scale sector - The Bank, through Fidelity Printers and Refiners, is finalizing engagements with suppliers of mining equipment targeted at small scale miners. Emphasis is on coming up with appropriate support arrangements.

Decriminalisation of gold possession - In order to increase gold deliveries to Fidelity Printers and Refiners (FPR) from small scale and artisanal miners that have for a long time been disenfranchised due to the criminalization of many of their activities as a result of stringent laws, the Bank is putting in place the following measures which are compliant with the responsible gold trading scheme.

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

Continuous Monitoring

The Bank will tighten the monitoring of gold sector players including custom millers in view of continued reports of illegal activities, poor record-keeping and under-reporting to Fidelity Printers and Refiners as well as overpricing of their services to miners.

2. Diamond Production

The Bank is deeply concerned about the failure of the diamond subsector to contribute to meaningful development of the economy like what happens in other regional countries where diamonds revenue contribute up to 30% of fiscal revenue. Unlike gold and tobacco which have significantly contributed to the liquidity in the economy, diamonds have been a great disappointment.

The Bank is therefore strongly supportive of Government initiative to consolidate the mining of diamonds in the country. This was long overdue. The consolidation is critical to enhance transparency and accountability in the contribution of this precious mineral to fiscus and economic development.

In order to attain a diamond target output of 6 000 000 carats as projected in the 2016 National Budget through the consolidated company, the Bank, in close liason with the Zimbabwe Consolidated Diamond Company (ZCDC), the Ministry of Mines and Mining Development and MMCZ, shall institute the following deliberate measures.

i. 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.
ii. Capacitating Aurex (Pvt) Limited to enhance value addition of diamonds supplied by ZCDC.
iii. All the diamond export sales proceeds by ZCDC would be accounted for by the Bank in a transparent manner similar to gold under Fidelity Printers and Refiners. **The Bank's great desire is to ensure that ZCDC grows and become what FPR is to RBZ. These two, FPR and ZCDC, should become agents for economic transformation in Zimbabwe.**

Policy Measures to Comply With Indigenisation Policy

Following the gazetting of the Notice on Frameworks, Procedures and Guidelines for implementing the Indigenisation and Economic Empowerment Policy, it is imperative that the Bank provides an in-depth illustration of the operationalization of the guidelines as they relate to the empowerment credits or quotas that contribute towards the 51% indigenisation threshold as is required by law under Section 3(5) of the Indigenisation and Economic Empowerment (IEE) Act and Section 5(4) of the IEE Regulations.

In order to be eligible for the empowerment credits as stipulated in the Notice of Gazette, affected financial institutions would be expected to comply with the imperatives given in Table 12 for **Pathway 1**. Levels of some of the subheads are still being finalised.

Table 12

Financial Sector:- Compliance Through the Socially and Economically Desirable Objectives (Credits/Quotas)

Sector/Criteria as per Notice of Gazette	Target/Measurement	Maximum Empowerment Credit/Quota (%age Points)
1. Lending to Agriculture and/or Energy	Minimum of 20% of the financial institution's total loan portfolio	8
2. Lending to small, medium and micro enterprises (SMMEs)	Minimum of 5% of the financial institution's total loan portfolio	2
3. Lending To Youth Programmes	Minimum of 5% of the financial institution's total loan portfolio	2
4. Lending To Women Programmes	Minimum of 5% of the financial institution's total loan portfolio	2
5. Lending To Low Cost Housing	Minimum of 5% of the financial institution's total loan portfolio	4
6. Support to Vocational Training	x% of profit after tax contribution towards the development of vocational training	4
7. Preferential Local Procurement	At least 50% procurement of the institution's domestic requirements from local companies (e.g. uniforms, stationery, etc.)	4
8. Carbon Neutral Environment	Minimum of 2% of loan book for financing or implementing renewable energy projects that offset the amount of carbon dioxide emission e.g. reforestation, planting trees, solar energy, etc.	2
9. Enterprise Development	Minimum of x% of profit after tax contribution towards training of SMMEs, incubator models, early payment to SMMEs, etc	1
10. Educational Bursaries	x% of profit after tax contribution towards educational support (e.g. BEAM)	1
11. National Economic Empowerment Charter	x% of profit after tax contribution towards corporate social responsibility programmes e.g. drilling of boreholes, children's homes, etc.	1
Total credits towards attaining the 51% indigenisation & empowerment threshold		31

The alternative to the above is for an institution to comply through **Pathway 2** of rebate earnings deductible from the compliance and empowerment levy as presented in the Gazette, General Notice 1 of 2016.

SECTION 10

POLICY ADVICE

1. RESUSCITATION OF AN ECONOMIC CRIMES COURT

There is urgent and compelling need for Government to resuscitate an Economic Crimes Court in order to ensure that the “plugging the leakages approach” advocated in this Monetary Policy Statement is legally supported.

The investigation and prosecution of crimes involving strategic minerals like gold and diamonds, for example, necessitates the seizure by the state of the recovered minerals which are then kept as exhibits to be used in the trial.

The current congestion in the criminal resolution system, results in protracted processes before finalisation of economic crime cases. During this process the country lacks access to the resources which could be generated from the liquidation of the looted products or exhibits.

The problem is further compounded by the fact that both the Precious Stones Trade Act [Chapter 21:06] and the Gold Trade Act [Chapter 21:03] provide for elaborate procedures to be followed upon the conviction of a felon before the precious stones are forfeited to the State. The minerals concerned have to be delivered to the Secretary for Mines who has to publicise their existence by way of publication in the Gazette. The Secretary has to wait for any claims to the minerals for two (2) months. If a credible claim is received, then the minerals are surrendered to the claimant. If there is a disputed claim, the matter is referred to the High Court after twenty one (21) days.

What this calls for therefore, is the institution of a mechanism which expedites the disposal of economic crimes involving minerals so that the exhibits are quickly put at the disposal of the State.

As was the case when Economic Crimes Court were first introduced in 2003, the specialised Economic Crimes Court would be administratively set up using existing legislation. They would be introduced using the existing court structure i.e. as a division within the Regional Magistrates Courts and as a Division within the High Court.

Special rules could be promulgated to simplify procedure and facilitate expeditious conclusions of cases. Economic crime cases dealing with minerals would thus be removed from the long queue of cases in the normal courts and dealt with in the specialised courts created for the purpose. The economic crimes courts will reduce the time frames within which minerals are held unproductively as exhibits in the justice system, all for the benefit of the nation.

2. REVITALISING AGRICULTURE FOR ECONOMIC TRANSFORMATION & POVERTY REDUCTION

Agriculture is key to economic recovery, income growth and overall economic transformation. This is the import of the statement by the African Development Bank President, Dr Akinwumi Adesina, at the Feeding Africa Conference in Dakar, Senegal when he said "when agriculture is managed with modern production technologies and appropriate input and output markets, it is transformative and it wipes out poverty and overhauls entire rural economies."

In view of the foregoing, it is therefore necessary that after the implementation of the Fast Track Land Reform by Government, the next step should be to restore and preserve productivity on the farms in order to create real wealth and jobs. This should be done by capacitating farmers through the extension of affordable credit, training, technical expertise as well as assessing the number of productive and unproductive farms for efficient allocation of scarce resources.

Farming is a business. It is now high time that the nation put in place measures that will move farmers out of subsistence practices and have them operate as formal business entities. This should be done by decisively addressing some of the challenges that continue to collectively stifle the performance of agriculture. Chief among these challenges are lack of access to affordable finance, insatiable appetite to occupy land at the expense of production, and poor supporting infrastructure for the majority of farmers.

Addressing of these challenges by Government and the financial institutions would transform farming, both small and large, into viable business for the benefit of the economy and to ensure food security.

Bringing Finality to the Land Reform to Promote Productivity

Bringing finality to the land reform programme would go a long way in addressing uncertainties that continue to adversely affect this sector from achieving its potential in transforming the economy. Some of the measures that could be taken to reduce uncertainty and increase investment and productivity in agriculture include;

i. Expediting the valuation process of the remaining farms and coming up with a financing model for compensating the previous farmers for farm improvements.
ii. Creating security of tenure so that the land can be used as collateral security in accessing financing from financial institutions. Hence the crafting of a land policy which enables the creation of a land market is key to unlocking financing through formal channels. The urgent

resolution on the bankability of 99 Year Leases will enable active participation of the financial institutions in agricultural development;

iii. Complete mapping of the newly created farming units in order to control disputes over boundaries which distract farmers from productive use of their time. The Ministry of Lands has already began using a new system which relies on the use of modern GPS to map A1 and A2 plots layouts. This is highly commendable as it enhances the security of tenure of both the A1 and A2 farmers; and

iv. Cooling off the continuing disruptions and threats to farmers, particularly in the dairy, cattle breeding, horticulture and tobacco sub-sectors.

Reducing Over- Reliance on Rain-Fed Agriculture

In line with the Climate Resilient National Water Resources and Irrigation Master Plan that the Government is implementing, there is scope for Government to dedicate more efforts towards establishment and resuscitation of irrigation infrastructure across the country in order to increase irrigable land.

The development of irrigation infrastructure allows farmers to supplement rain fed agriculture and permits continuous crop production and facilitates increased productivity. In addition, irrigation enables the country to expand agriculture activities as dry areas can be turned into highly productive areas.

Zimbabwe has a huge potential to improve agriculture activities through irrigation given the existing dams scattered across all provinces. While the capacity of water bodies was enough to irrigate 330 000 hectares in 2012, utilisation was estimated at only 135 580 hectares. As of January 2016, the country had only 78 204 under irrigation, with Mashonaland West and Central provinces having the most underutilized dams in terms of irrigation. Resuscitation of the idle irrigation infrastructure and expeditiously bring it into utilization is critical to increase production.

In the case of irrigation infrastructure, priority should also be given to the adoption of technologies such as drip and canal irrigation which use less power as compared to the overhead sprinklers. In the same vein, the use of solar powered irrigation pumps should also be encouraged to complement the hydro- and thermal power generated by the Zimbabwe Electricity and Distribution Company (ZETDC).

Furthermore, irrigation development should be accompanied with the use of greenhouse technologies that leverage on natural heat, less water, intensive application of inputs and intensive management of the production throughout the year. Intensive production also entails use of small hectarage which the farmer can afford to manage but giving out higher yields.

As part of contribution to community schemes, extractive firms should undertake rehabilitation of dams and development of irrigation infrastructure within their communities in return for the socially and economically empowerment credits. This will go a long way in ameliorating against the recurring droughts as a result of climate change and in reducing the negative consequences of floods.

Improving access to inputs and adopting good agricultural practises

Most smallholder farmers lack sufficient skills and managerial technics that are needed to produce high quality products with complex grades and standards that are required to enter lucrative markets. They use rudimentary farm technology with very low levels of farm inputs, often combined with poor agricultural practices which depletes soil nutrients. Consequently, crop yields are low and of poor quality, which leaves them with very low yields thereby reducing the crop surplus available for selling on the market.

There is therefore need to put in place an effective agricultural extension system which can reach farmers all over the countryside, whose main objective is to provide technical advice to farmers to promote the adoption of good agricultural practises, linked with the provision of appropriate improved seed varieties. To improve the effectiveness of the agricultural extension services to smallholder farmers, Government must also finance agricultural research, take the lead in controlling the spread of plant and animal diseases, strengthen the rural feeder road infrastructure and continue to strengthen land tenure rights for smallholders.

Stepping Up Mechanisation in the Agricultural Sector

Mechanisation and technological advancement have been the missing link in the efficient utilisation, preservation and value addition in the exploitation of the country's agricultural resources, particularly in the smallholder sector. There is need to continue to assist deserving farmers to mechanise their activities in order to continuously improve on productivity. Schemes like the More Food for Africa financed by Brazil should be emulated.

Other Measures to Revolutionise Agriculture

i. Providing a guarantee or risk sharing facility for banks involved in direct lending to farmers to reduce the perceived risk. The Nigerian Government, for instance, established a risk sharing facility of US$350 million under the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) during the past few years to encourage financial institutions to move into agriculture. Consequently, bank lending to agriculture increase from about 0.7% in 2011 to about 7.5% as of May 2014;

ii. Facilitating the training of bankers to understand the farming cycle and how to relate with smallholder farmers. With sufficient information with regarding to these farmers, these institutions will be in a position to increase their efforts in tailor-making their products to the needs of the smallholder farmers;

iii. Expediting the establishment of Credit Reference Bureau and Collateral Register for all farmers in the country and make the information available online. The national register of all farmers must have the biometric information to rid of corruption when farmers are accessing inputs, particularly under Government schemes;

iv. Facilitating the development of agriculture diaspora bonds to securitize remittances; and

v. Developing infrastructure that is necessary for the operation of the Warehouse Receipt System, like the Zimbabwe Agriculture Commodity Exchange (ZIMACE). This item which has been on Government agenda now needs to be brought to finality for the purposes of facilitating competitive and efficient trade in agricultural commodities and to provide reliable and timely marketing information.

vi. Expedite the crafting of legislative framework governing contract farming to all crops and livestock production activities in the country. The envisaged framework should address critical issues such as side marketing that have drastically reduced funding in the cotton industry;

vii. Create favourable macro-economic policies that facilitate growth of producer organizations that are able to enter into purchase agreements with farmers and receive financing from investors. Technical assistance providers and developmental partners can support the formation and management of these producer organizations while Governments can institute policies that support training, management, and access to markets for producer organizations. Typical of such schemes is when smallholder farmers who control about 90% of cattle take in their animals to feedlots where they are fattened for up to 90 days, then sent to an abattoir. In return, farmers can get a certificate underwritten by the abattoir to raise loans from banks. This would enable farmers to invest more in their farming enterprises;

viii. Facilitate the implementation of Value Chain Finance (VCF) where contracts and relationships can be commoditized by segments of the value chain that are closely linked. Financing can be provided against guaranteed purchase agreements with farmers. VCF allows smallholders to use guaranteed purchase agreements as collateral and secure cheaper financing; increases availability of credit, as smallholders can access finance through various contacts on the value chain; and improved accessibility, as customers can understand and utilize tailored financial offerings;

ix. Support and facilitate the establishment of affordable ICT-based platforms such as mobile or other types of platforms for disseminating farm-to-fork price information to farmers. This will allow farmers to produce what is required and reduce transaction costs for farmers. Such transparent platforms reduce information asymmetry that typically weakens smallholder producers' negotiating power;

x. Construct innovative partnerships and legislation for knowledge transfer to ensure that buyers and food companies dealing with farmers are also improving the capacity of these farmers. Innovative legislation or public private partnerships can, therefore, work together to ensure that retailers and processors are educating their farmers, and increasing the long-term capacity of agriculture;

xi. Organize farmers into groups that can collectively access input and output markets with a view to reduce transaction costs; and

xii. Strengthen farmer organizations to improve smallholders negotiating power with large buyers and food companies. Policy makers can address governance issues of such organizations by crafting legislation that increases transparency. They should also identify areas where they can assist in building farmer organizations' leadership capacity to facilitate financial inclusion.

3. ENHANCING THE EASE OF DOING BUSINESS

In line with continuous efforts by Government to improve the ease of doing business in Zimbabwe, the following policy advice matrix shown in Table 13 is critical to enhance competitiveness and foreign exchange earnings.

Table 13: Proposed Advice on Measures to Improve Ease of Doing Business and Increase Exports

POLICY ADVICE	CURRENT SITUATION & SUGGESTED ACTIONS	EXPECTED OUTCOME
Enhanced Capacitation of Trade Attachés	Zimbabwe has Embassy offices in 43 countries and four (4) Consulates in four (4) countries. Empowerment through enhanced capacitation of Trade Attachés for the provision of market information would go a long way towards increasing exports.	More bilateral trade between Zimbabwe and other countries, hence an increase in exports.
Streamlining of Excess Export Documentation	The number of documents required for an export can be reduced from the current seven (7) to four (4) as follows: 1. Bill of Lading 2. Commercial export invoice 3. Integrated Exchange Control Form CD1 4. Transit entry (South Africa's Form SAD500)	Timeous exports and reduction of export costs.
Revitalisation of the National Railways of Zimbabwe	Currently, Zimbabwean exporters mainly use road transport which is more expensive than rail transport. Revitalisation of the rail transport system would positively impact on reducing cost, thereby ensuring exporter viability and external competitiveness.	Improved exporter viability, increased exports and improved and sustained market liquidity.
Addressing Bureaucratic Bottlenecks	Bureaucratic delays on facilitation of exports promote corruption, resulting in exporters having to pay bribes. Such bribes increase costs and frustrates	Improved and sustained market liquidity, Improved ease of doing

POLICY ADVICE	CURRENT SITUATION & SUGGESTED ACTIONS	EXPECTED OUTCOME
	exporters. There is need for easily accessible guidelines on how to conduct export transactions to protect exporters from corrupt officials.	business and Reduced cost of doing business.
Incentivise the use of Rands and Yuan in the Tourism Sector	Most of the tourists coming into Zimbabwe are from South Africa and China. In this regard, there is need for Government to provide incentives, such as exemption from VAT, for the Tourism Sector for tourists paying in Rands and Yuan. This is necessary to enhance competitiveness in view of the expensive US$	Improved tourism sector viability and foreign exchange inflows.
Expeditious Approval of Annual Hunting Quotas	Approval of hunting quotas on time plays a critical role in assisting marketing actions and programs by Safari Operators. In this regard, it is recommended that the Ministry of Environment, Water and Climate should expeditiously approve annual hunting quotas by November.	Approval of hunting quotas on time plays a critical role in assisting marketing actions and programs by Safari Operators.
Review of Hunting Fees Payable to National Parks	There is a general agreement by players in the hunting industry that hunting fees being charged by Zimbabwe Parks and Wildlife Management Authority has out priced Zimbabwe from the international market. In this regard, there is need for Zimbabwe Parks and Wildlife Management Authority to consult key stakeholders and revise its hunting fees downwards.	Improved exporter viability and increased exports.
Adoption of New Technology to Combat Poaching	In order to curb the current rampant poaching, Zimbabwe should adopt modern satellites tracking systems, such as the mathematics and Unmanned Arial	Eradication of poaching, lifting of suspension on importation of elephant trophies by US Department

POLICY ADVICE	CURRENT SITUATION & SUGGESTED ACTIONS	EXPECTED OUTCOME
	Vehicles (UAVs) as a solution package for combating poaching. Relying only on rangers patrol will not solve the problem.	of Fisheries and Wildlife Services and increased exports of hunting trophies.
Free Trade & Warehousing Zone (FTWZ) Scheme	A foreign company can store its goods in Zimbabwean bonded warehouse and can later sell it to its Zimbabwean customers and export market whenever it receives the orders. The goods are allowed to be kept in warehouses of FTWZ for two years. The scheme facilitates duty free import of all goods except prohibition items and allows re-exporting without any restrictions. This scheme shall generally provide infrastructure facilities for warehousing of goods and transform Zimbabwe into a global trading-hub.	Increased export of services and improved market liquidity.
Export of Service Promotion Scheme (ESPS)	The scheme confines to the all other export service providers except hotels, cross-border transporters, restaurants and other service providers in tourism sector. The export service providers who earn a minimum of USD1 million per year shall be entitled to a 10% duty credit scrip that may be used for duty free import of capital goods. The ESPS is aimed at accelerating growth in export of service.	Increased export of services and improved market liquidity.
Horticultural Export Promotion Scheme	The exporters of vegetables, flowers, fruits and their value added products shall be entitled for duty credit scrip, which is equivalent to 5% of the FOB value of	Increased exports of goods and improved market liquidity.

POLICY ADVICE	CURRENT SITUATION & SUGGESTED ACTIONS	EXPECTED OUTCOME
	exports that will be used for duty free import of inputs or goods including capital goods. This scheme simply allows import of inputs or goods against export of some agricultural products for increasing the exports of such products.	

4. CONTINUOUS RE-ENGAGEMENT WITH BILATERAL AND MULTILATERAL CREDITORS

In view of the development constraint imposed by the country's external debt burden, Zimbabwe escalated the re-engagement process to clear external debt arrears within the context of meetings held with international financial creditors on the side-lines of the 2015 IM/World Bank annual meetings held in Lima, Peru over the period 8 to 12 October 2015. In these meetings, Zimbabwe successfully engaged the three International Financial Institutions (IFIs) namely African Development Bank (AfDB), World Bank group (WB) and International Monetary Fund (IMF) and outlined the country's strategy for clearing outstanding arrears to the IFIs.

For clarity purposes, the following arrangements have been put in place to clear the arrears of US$1.8 billion that the country owes the IFIs.

i. Utilization of the country's special drawing rights (SDR) from the IMF to repay US$110 million to the IMF;
ii. Utilisation of a bridge loan of US$819 million arranged by the African Export-Import Bank (Afreximbank) to repay AfDB (US$601 million) and the World Bank's International Development Association (IDA) (US$218 million); and
iii. Utilisation of a long term loan from a bilateral lender to repay the International Bank of Reconstruction and Development (IBRD) in an amount of US$891 million

After clearance of these arrears to the IFI's the country would then turn to bilateral creditors to negotiate and settle the country's obligation with the Paris Club. Settlement of these arrears would be done around June 2016 at a time the IFIs are expected to reach their respective decision points or board approvals. Repaying before the review of the Staff Monitored Programme (SMP) by the IMF and other proceeding processes is inconsequential. It is therefore imperative for Government to continue to re-engage the development partners for a positive outcome at the IFIs boards.

This strategy would need to be escalated and supported by putting in place policy measures that are consistent with ZimAsset and the 10 point plan. This entails coming up with a country strategy paper that spells out the necessary steps and policies that are essential for economic transformation, debt sustainability and the reduction of poverty.

SECTION 11

CONCLUSION

The key message of this Monetary Policy Statement is that Zimbabwe needs to plug the leakages of foreign exchange for the economy to undergo durable and robust transformation. The leaks of our national economy are IFFs, unwarranted remittances, smuggling, porous border posts, tax evasion and misappropriation of loan proceeds. Exporting and/or withdrawal of liquidity through these leaks is suffocating or hemorrhaging the economy to the extent of reducing aggregate demand and thus causing deflation in the economy. Plugging these leakages requires harnessing the capability and energy of everyone. It requires high level of discipline by individuals and firms, including financial institutions that process the transactions and regulatory authorities such as RBZ and ZIMRA.

If consumers and business spend their income outside of their country (through leakages), then the country must look elsewhere to make up for the loss of funds. Under normal circumstances, governments would have to inject cash into the economy which is not feasible in Zimbabwe for obvious reasons. The most reasonable and logical way to rebalance the national economy is therefore, to plug the foreign exchange leakages in the country in order to make headway in the quest for economic transformation and fighting deflation.

Notwithstanding the downside risks caused by the said leakages and the adverse external environment typified by the downturn in international commodity prices and the adverse weather conditions, immense opportunities abound for the Zimbabwean economy in the outlook period. This is largely attributable to the benefits expected from the consolidation of bold milestones made in efforts to negotiate for an amicable resolution of the country’s debt burden, expansion of gold and diamond revenue streams, implementation of the financial inclusion strategy, and plugging of foreign exchange leakages.

It is pleasing to note that the country has so far received numerous investment missions in the wake of the overwhelming endorsement of the external debt clearance program in Lima, Peru, in October last year. Within this context, the country needs to put in place pro-active strategies to leverage on these lucrative opportunities that are important to support economic transformation.

The amicable resolution of the country's external debt, is expected to significantly enhance the country's creditworthiness, resulting in the unlocking of affordable credit lines, revival of industrial activity, shedding off import dependence and generally improved liquidity conditions. Going forward, the country's productive sectors are, expected to secure affordable credit lines which translates to lower production costs and discernible gains on the competitiveness front.

Additionally, the successful resolution and restructuring of the country's external debt is expected to unlock development and project finance, critical in supporting infrastructural development and the creation of an enabling investment environment.

On the other hand, sustained financial sector stability currently obtaining in the economy, coupled with the alignment of lending rates by banks to agreed thresholds and the implementation of financial inclusion strategies is envisaged to play an integral role in efforts to foster private sector led growth.

Additionally, the invocation of Section 5 (4) of the General Regulations of the Indigenisation and Empowerment Act to promote integrated value chain process in the manufacturing and services sectors of the economy is expected to help turn around and transform the economy in 2016. In the same vein, the announcement of the Framework, Procedures, and Guidelines for the implementation of the Indigenization and Economic Empowerment Act by the Honourable Minister of Youth, Indigenization and Economic Empowerment earlier this month, is expected to bring finality to this key policy measure and in turn help attract the much- needed investment into the productive and export sectors of the economy.

The re-orientation of the Zimbabwean economy onto a sustainable and inclusive growth path is, therefore, contingent upon the consistent implementation of bold policy reform measures embodied in ZimAsset, the 10 Point Plan, the Rapid Results Approach Framework, the 2016 National Budget and this Monetary Policy Statement. **Our conviction and optimism is that the country is at a critical juncture that requires a deeper sense of responsibility, accountability and transparency by all stakeholders for economic development and transformation.**

I THANK YOU

DR. J.P. MANGUDYA
GOVERNOR
RESERVE BANK OF ZIMBABWE

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