MONETARY POLICY STATEMENT

STAYING ON COURSE IN FOSTERING PRICE AND FINANCIAL SYSTEM STABILITY

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INTRODUCTION AND BACKGROUND

1.1 This Statement provides an evaluation of the progress in the implementation of monetary policies enunciated in the previous Monetary Policy Statement of August 2020 and outlines the monetary policy measures to be pursued by the Bank in the next six months to buttress and sustain the obtaining price and exchange rate stability since the introduction of a monetary targeting framework and a functioning foreign exchange auction system. The measures contained in the Statement are also consistent with the objectives of the National Development Strategy 1 (NDS1).

1.2 The Statement comes at a time when the global economy is grappling with the debilitating effects of the Covid-19 pandemic which are causing incredible human and economic hardships across the country and around the world. These challenges have seen most central banks adopting monetary easing, by taking accommodative measures to keep their economies afloat. The Bank has also responded to the global and domestic economic conditions in a forward-looking manner to sustain the country's productive capacity and fostering price, exchange rate and financial sector stability.

1.3 Measures taken by the Bank during the second half of 2020, that included adhering to conservative monetary targeting framework, strengthening mobile banking regulations and putting in place a foreign exchange auction system, were critical in stabilising the economy from the ravages of inflation. These measures were underpinned by strong fiscal discipline, which eliminated government recourse to central bank financing. These measures rescued the economy from an otherwise worse decline of 6.5% that had been projected for 2020 to a decline of 4.1%.

1.4 While prospects for a faster recovery in economic performance in 2021 are high, on account of a strong balance of payments position and good agriculture season, the down-side risks cannot be overlooked. A new wave of the Covid-19 pandemic and its adverse impact on the economy are a cause for concern. The new variant of the pandemic has caused global economic and social difficulties, contributing to the re-introduction of stricter lockdown measures in Zimbabwe and posing potential devastating effects on the country's health system, labour force and the economy at large. The apparent challenges that go with the pandemic include more diversion and re-allocation of resources by Government towards the additional requirements of the health sector, an over-stretched and psychologically challenged labour force and constrained operating business environment.

1.5 Notwithstanding these Covid-19 related challenges, the Bank remains optimistic that the expected economic growth of 7.4% in 2021 is achievable. The Bank also projects annual inflation to close the year at below 10%. The measured optimism is based on the expected significant growth of the agricultural output in 2021, as a result of the good rainy season, fiscal sustainability and the Bank's focus on price and financial system stability. It is in this context that the primary focus of this Statement is to ensure that inflation is under control and that the foreign exchange auction system is sustained to support the growth of the economy.

1.6 The rest of this Statement is organized as follows: Section two provides an evaluation of the previous Monetary Policy Statement issued in August 2020. Section three gives new Monetary Policy Measures necessary to ensure that the Bank stays on course on fostering price and financial sector stability. Section four discusses the economic outlook based on current and expected monetary and financial conditions. Section five concludes the Statement. The

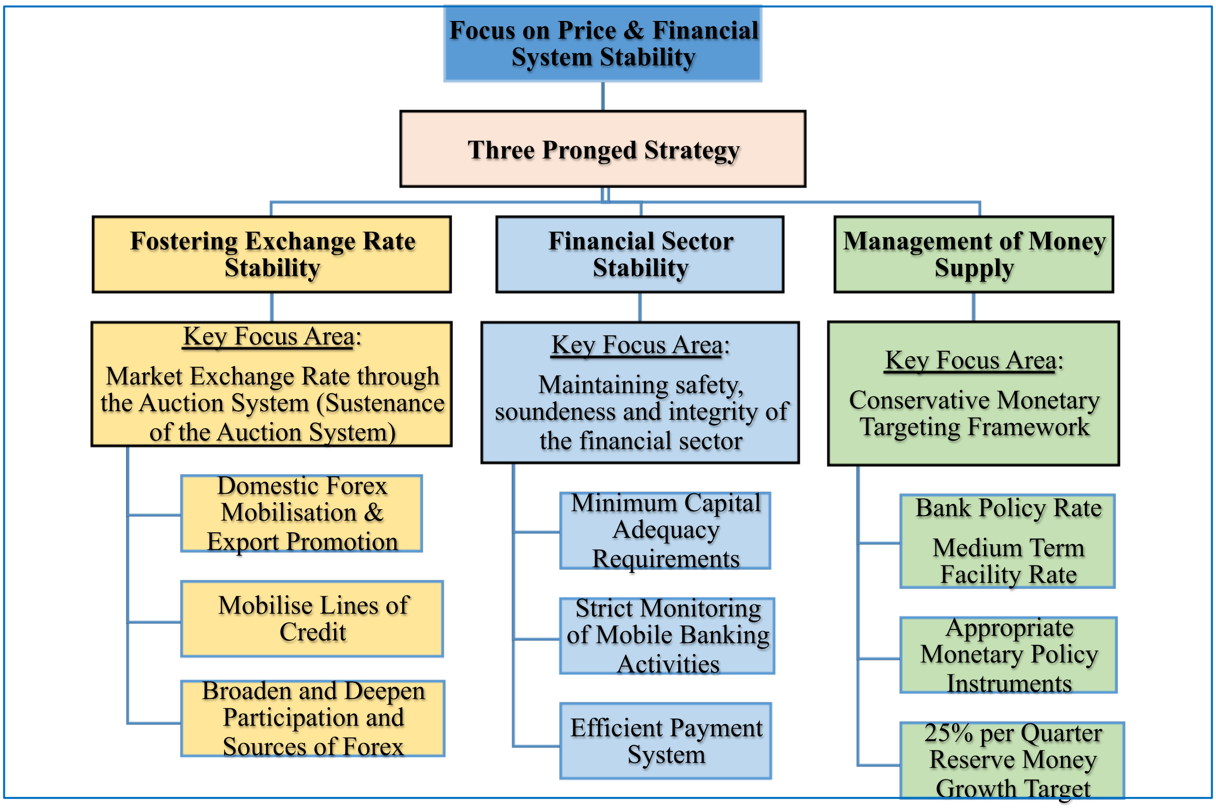
Statement also contains an annexure discussing economic and financial developments underpinning the new monetary policy decisions.

SECTION TWO

EVALUATION OF THE PREVIOUS MONETARY POLICY MEASURES

2.1 A number of milestones, especially on attainment of macroeconomic stability and the restoration of confidence, have been achieved following the implementation of appropriate and effective policies in 2020. The Bank adopted a three- pronged approach to stability and growth, centred on (i) the discovery of a market exchange rate through the foreign exchange auction system to achieve price and exchange rate stability; (ii) maintenance of a safe, sound, credible and stable financial sector; and (iii) pursuit of a more conservative monetary targeting framework to keep inflation and the exchange rate under check.

Figure 1: Reserve Bank of Zimbabwe Strategic Policy Framework

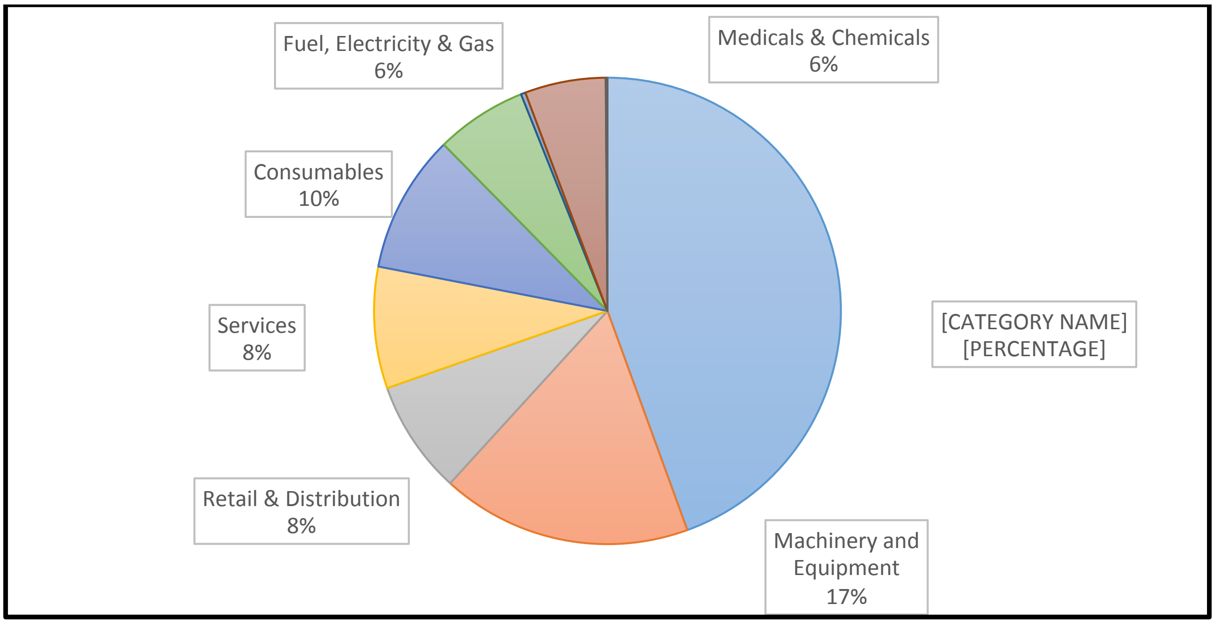


Sustenance of the Foreign Exchange Auction System

2.2 The foreign currency auction system has assisted in the discovery of an appropriate and stable market-based exchange rate for the country. Whilst more still needs to be done in this area, the evident stability of the exchange rate, following the introduction of the foreign exchange auction system on 23 June 2020, has minimised distortions in pricing by curtailing speculative pricing and parallel market exchange rate indexation of prices by businesses. Consequently, the parallel exchange rate premium has reduced to a tolerable band of up to 20%, consistent with experiences in other countries. In addition, the establishment of an appropriate market-based exchange rate system has assisted in dampening pressures on inflation.

2.1 An amount of US$795 million had been allotted as at 9 February 2021 since the introduction of the foreign exchange auction system. A significant proportion of the total amount allotted has been earmarked for strategic sectors for imports of essential goods, especially raw materials, equipment, pharmaceuticals, chemicals, fuel and electricity. To date, more than 70% of total foreign currency allotted has gone towards import of raw materials, machinery and equipment while other essential and strategic imports, including pharmaceuticals and chemicals, fuel and electricity have, taken around 11% of the total allotments.

Figure 2: Distribution of Foreign Currency in the Auction as at 9 February 2021



2.2 Since its introduction, the foreign exchange auction system has gone through a number of refinements to plug observed loopholes, taking into account valuable contributions and suggestions from the market. In all efforts, the goal has been to ensure the sustenance of the system through enhancing the supply of foreign currency into the formal market, while maximizing the system's allocative efficiency without undermining the proper functioning of the market.

2.3 Export earnings have been the main source of funds for the auction through voluntary liquidations and the surrender requirements on exports and domestic foreign currency transactions. Of the total amount allotted on the auction to date, more than 70% has come from surrender requirements on exports and domestic foreign transactions. The upward review in the surrender ratio for exporters from 30% to 40% and the removal of the 60-day liquidation requirement on unutilised export earnings in January this year was meant to increase the supply of foreign currency onto the auction from the exporters, and at the same time providing flexibility in the usage of foreign currency earnings.

2.4 Working closely with banks, the Bank has managed to resolve the glitches and payment backlogs experienced last year by some banks' customers in the settlement of funds from the auction. The Bank has agreed with banks to ensure that foreign currency allotments are settled within 14 days from the date of auction. This clearing period will enable the Bank and banks to fund the allotments and for banks to undertake the requisite background checks on their customers, where necessary.

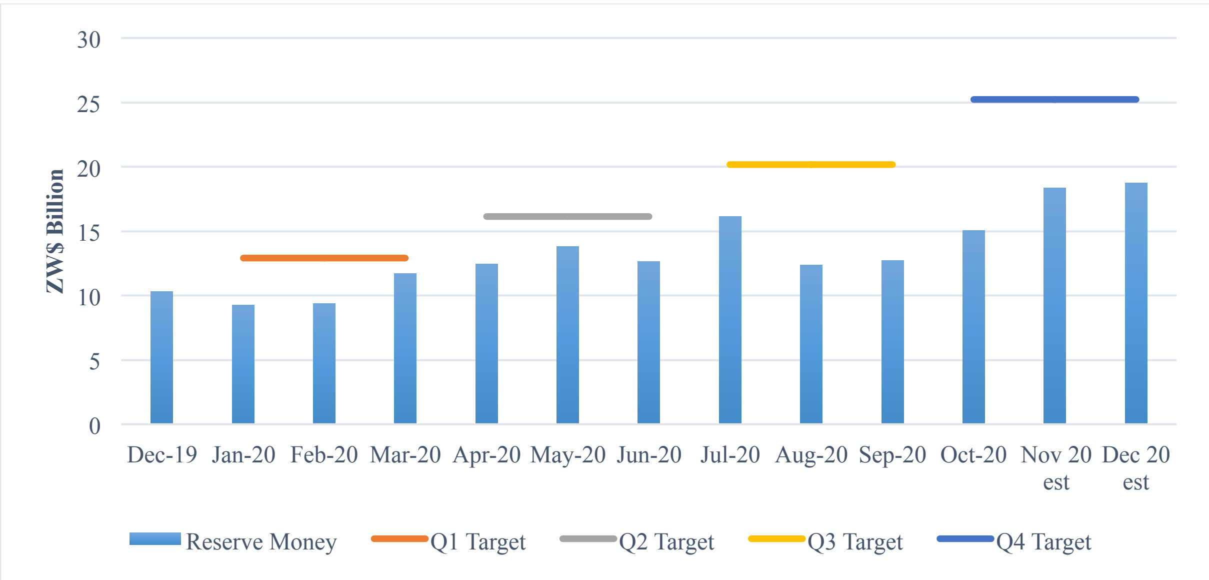
Management of Money Supply

2.5 The Bank has continued to successfully implement a conservative monetary targeting framework in order to contain money supply growth, reduce pressure on the exchange rate and stem inflationary pressures in the economy. In this regard, the Bank achieved a conservative quarterly growth in reserve money of 18.6% in 2020, against a target of 25% per quarter.

2.6 Containment of reserve money way below the set quarterly targets is attributable to the Bank's active mopping-up program through open market operations and the strong fiscal consolidation measures that have seen Government completely refraining from resorting to the overdraft window at the Central Bank.

2.7 As at end of December 2020, reserve money was ZW$18.76 billion, compared to a year-end target of ZW$25.20 billion. Figure 3 shows reserve money developments in 2020.

Figure 3: Reserve Money Developments



Source: Reserve Bank of Zimbabwe, 2020

Liquidity Management

2.8 In line with its conservative monetary targeting framework, the Bank escalated its open market operations from October 2020 by aggressively mopping up excess liquidity through the issuance of short-term open market operations (OMO) savings bonds at 5% per annum interest. As at 31December 2020, the outstanding OMO savings bonds stood at ZW$14.1 billion, representing significant amounts of sterilized excess liquidity.

2.9 The OMO savings bonds complemented the existing 7% savings bonds with tenor ranging from 1 year to 5 years and a 30-day rediscount window. The outstanding amount of the 7% savings bonds stood at ZW$5.6 billion as at 31December 2020. In order to allow banks to increase their lending to the productive sectors of the economy during the Covid-19 pandemic, the Bank reduced the statutory reserve requirement from 4.5% to 2.5% in June 2020, among other response measures.

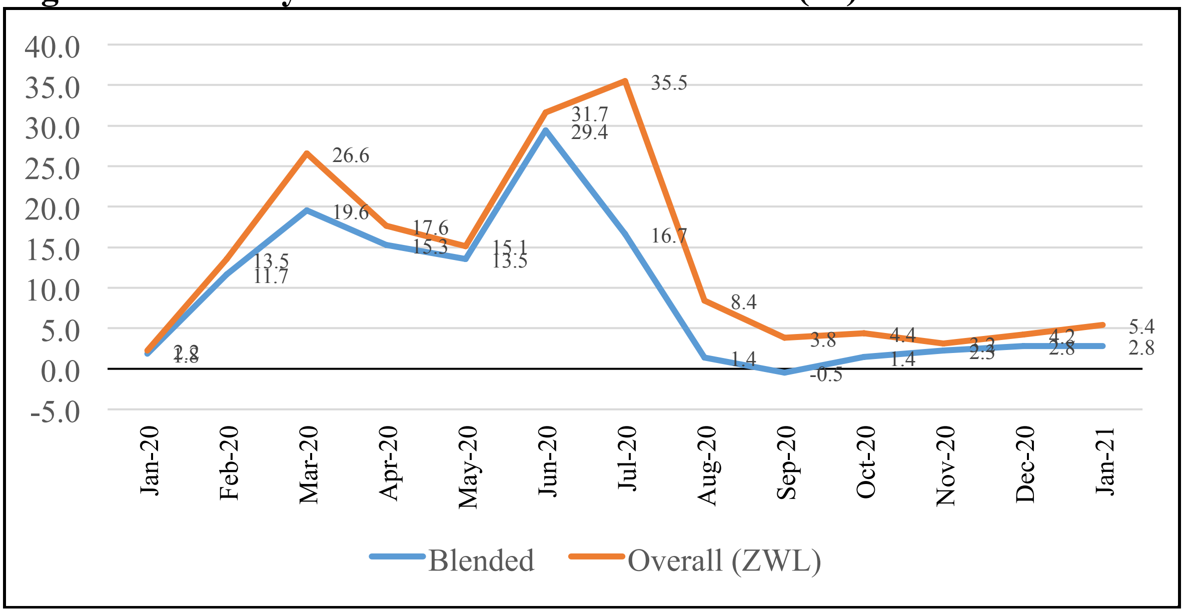
Inflation Developments

2.10 Due to strong monetary policy measures being implemented by the Bank, especially keeping reserve money growth under check and the improved efficiency in the allocation of foreign currency through the foreign exchange auction system, both overall and blended inflation have been on a downward trajectory since the second half of 2020.

2.11 The headline CPI month-on-month inflation rate ended the year at below 5% as desired by monetary policy, resulting in annual inflation closing the year 2020 at 348.6%, slightly above the forecasted 300%. The CPI month-on-month inflation for January 2021, however, slightly increased to 5.4% from 4.2% in December 2020, which saw year-on-year inflation rising moderately to 362.6% in January 2021, from 348.6% in December 2020. The increase in inflation in January 2021 largely reflected the adjustments in administrative levies and charges that include electricity, municipal charges, rates and health charges, some of which are traditionally effected at the beginning of the year. The January 2021 inflation outturn was also influenced by the increase in international commodity prices for maize, wheat, fuel, crude soya oil, among others.

2.12 The blended inflation, however, remained low at an average of 2 percent since August 2020. The blended year-on-year inflation stood at 188.9 percent in December 2020, better than the 250 percent projected in the August 2020 Monetary Policy Statement. The blended annual inflation, however, marginally increased to 191.5 percent in January 2021, as a result of increases in prices as explained above. Overall, both headline and blended inflation are expected to progressively decline in 2021.

Figure 4: Monthly Overall and Blended Inflation (%)

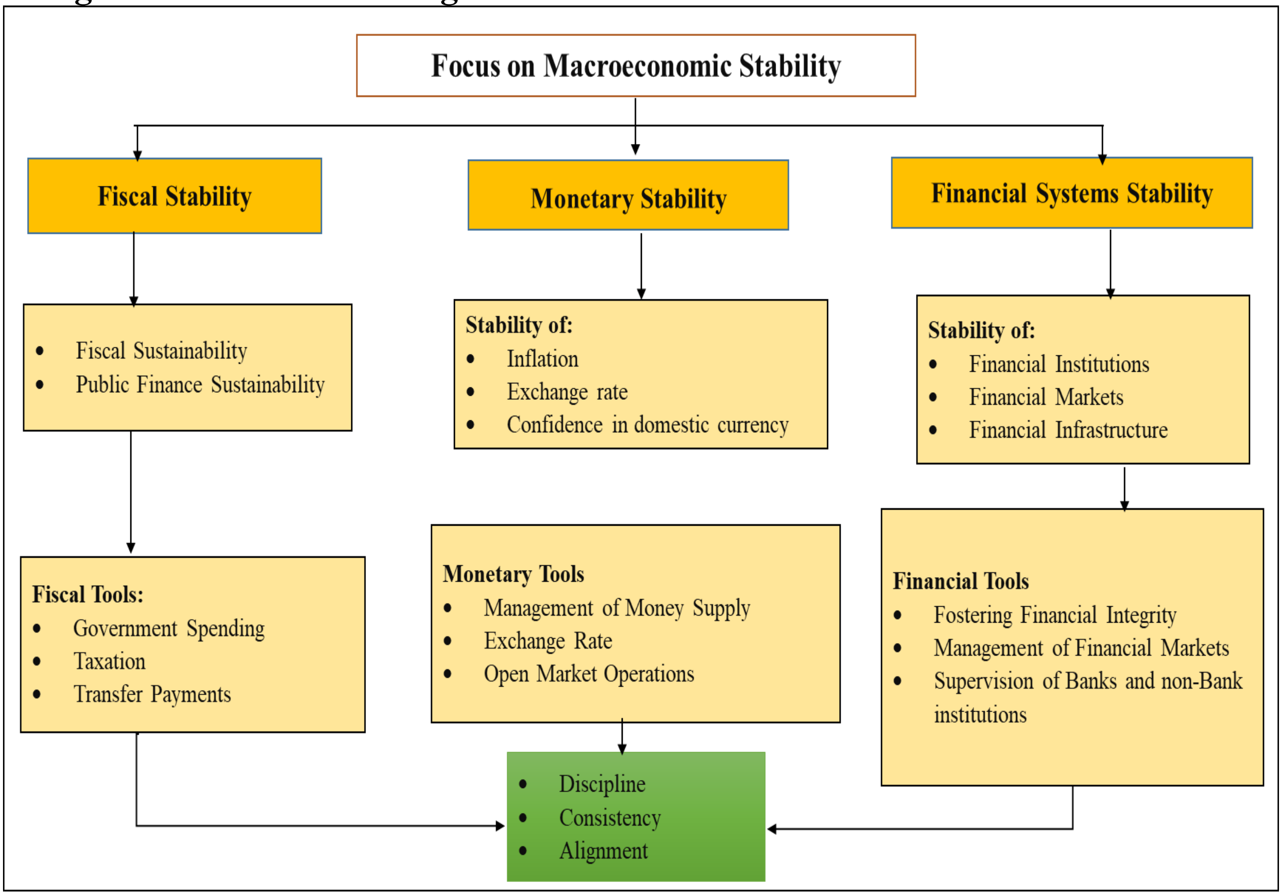


SECTION THREE

NEW MONETARY POLICY MEASURES

3.1 The current package of policy measures to deal with price and financial system stability needs to be maintained and strengthened in order to maintain macroeconomic stability. Figure 5 depicts the Bank's desired policy instruments that are necessary to maintain macroeconomic stability.

Figure 5: National Strategic Focus



3.2 From Figure 5, it is evident that the Bank's focus should be on monetary and financial system stability. Accordingly, the following measures to buttress price and financial system stability are being put in place with immediate effect:

a. Increasing the Bank policy rate for overnight accommodation from the current 35% to 40% per annum and the medium-term lending rate for the productive sector lending from 25% to 30% per annum. The decision on interest rates takes into account the current liquidity conditions in the market and the need to continue controlling speculative borrowing.

b. Increasing statutory reserves from 2.5% to 5% for demand and/or call deposits and maintaining 2.5% for time deposits. The differentiation of statutory reserves by maturity is expected to incentivise banks to hold long-term liabilities or time deposits which will facilitate long-term lending in the medium-term.

c. Maintaining the conservative monetary targeting framework in 2021. This will be achieved by reducing the quarterly reserve money growth from the 25% quarterly target in 2020 to 22.5% per quarter in 2021.The current stability in inflation and exchange rate needs to be safeguarded, maintained and sustained. The reserve money target of 22.5% is consistent with the targeted end of year inflation of below 10% and the projected 7.4% economic growth rate of the economy.

d. Increasing the cash withdrawal limits to ZW$2 000 for individuals and maintaining the current limits on mobile banking transactions at ZW$5 000 per transaction and an aggregate limit of ZW$35 000 per week. This measure will enable the transacting public to continue conducting small transactions using cash, whilst large transactions are conducted through electronic banking.

As previously advised, the Bank shall soon be introducing a ZW$50 banknote to augment the current stock of banknotes in circulation. The Bank reiterates that banknotes, new or old, do not cause inflation in an economy since they do not increase money supply. Cash payments are an alternative to other methods of transacting and do not constitute money creation. Price dynamics are influenced by the level of money supply in an economy as opposed to its composition (electronic money, transfers, cash, etc.), hence the Bank's firm commitment to keeping the level of money supply growth under control through its conservative or hawkish monetary targeting framework.

e. Maintaining and sustaining the auction system through the 40% export surrender requirement, 20% domestic foreign exchange sales proceeds surrender requirement and 15% foreign exchange contribution from the fiscus. Maintaining the foreign exchange auction system remains paramount in anchoring inflation and maintaining price and financial system stability. The Bank shall continue refining the foreign exchange auction system taking into account market fundamentals as well as closely monitoring the utilisation of funds from the foreign exchange auction system and the economy at large.

f. Putting in place a definitive programme for accounting and expunging of foreign exchange obligations under the blocked funds and foreign exchange legacy-debt framework. This framework will be designed to ensure that it is not inflationary and takes into account local and international audit requirements. Applications for qualification under this framework have been closed and the Bank and Government are at the stage of implementing resolution.

g. Maintaining the *status quo* on the minimum capital requirements for banks and microfinance institutions. The Bank is encouraged by the capital preservation measures that the banking sector has put in place towards compliance with the minimum capital requirements effective 31 December 2021. The banking sector capital raising plans are based on organic growth, mergers, consolidations and fresh capital injections.

h. Ensuring that banking institutions comply with the Banking (Savings Interest Rates) Regulations, S. I. 65A of 2020, which require every banking institution to pay interest on call, demand, savings deposits and mobile banking trust accounts at rates prescribed under the regulations. For mobile banking trust accounts, banking institutions must comply with the requirement to credit interest due on a monthly basis, proportionately to each customer's daily closing balance during each month.

i. Ensuring that Authorised Dealers or banks and foreign exchange auction system participants comply with auction rules and regulations to curb abuse of the foreign exchange auction and safeguard the auction from being abused as a breeding ground for arbitrage opportunities. Accordingly, the Bank's Exchange Control Inspectorate and the Financial Intelligence Unit (FIU) have enhanced their monitoring and surveillance on the utilisation of foreign exchange in the market to foster market discipline. Banks and mobile banking institutions are obliged to ensure that the Know Your Customer (KYC) and Customer Due Diligence (CDD) principles are complied with at all the times.

j. Establishing a Fintech Regulatory Sandbox to allow entities to list their financial products, services or solutions within a controlled environment. The Fintech Regulatory Sandbox which will be housed at the Bank will be open for financial innovation with effect from 1st March 2021. The Regulatory Sandbox guidelines are being finalised and will be accessed from the Bank's website.

SECTION FOUR

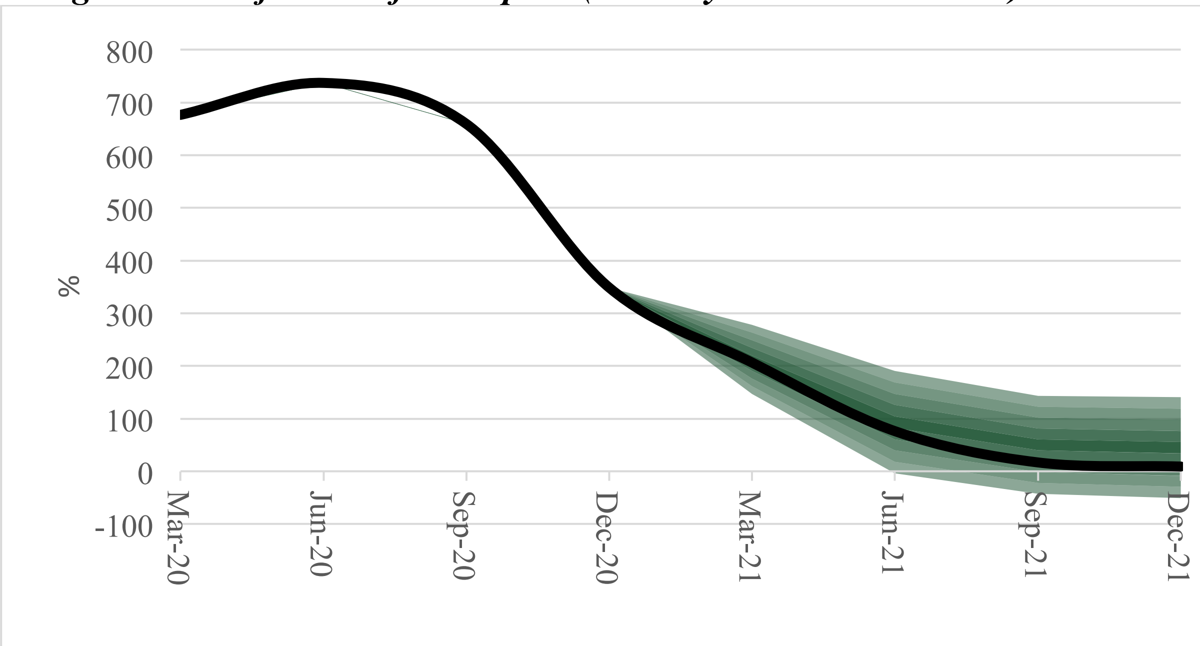
ECONOMIC OUTLOOK

4.1 The measures presented in this Statement are expected to support the attainment of the envisaged economic growth of 7.4% in 2021 and to control inflation to below 10% by end of December 2021. The Bank's focus on fostering price and financial system stability in the economy requires team effort by all Zimbabweans to enhance self-discipline and compliance, and to cherish economic progress. Thus, sustaining the current economic stability that was brought about by the conservative monetary targeting framework, the auction system, fiscal discipline and efficacy in the mobile banking system is paramount and needs to be preserved, safeguarded and sustained.

4.2 Coupled with increased food production due to a favourable agriculture season, inflationary pressures are expected to remain subdued in the short to medium term. As a result, the economy is expected to continue experiencing a gradual disinflation from the 362.6 percent annual inflation in December 2020 to below 10% by December 2021. This inflation path will be underpinned by a targeted month-on-month inflation rate of below 3%.

4.3 Figure 6 shows the envisaged inflation path where inflation progressively declines to below 10% by December 2021.

Figure 6: Projected Inflation path (January to December 2021)



4.4 The expected decline in annual inflation to single digit levels will allow banks to meaningfully remunerate depositors, while achieving positive interest rates in real terms. In this context, the Bank calls upon banking institutions to aggressively promote savings deposits by encouraging their customers to subscribe to attractive medium to long-term instruments which not only preserve value, but also enable productive sectors to borrow on a long-term basis.

4.5 Moreover, the anticipated strong balance of payments position, as a result of improved foreign currency receipts and subdued import bill due to increased local production, is also expected to assist in stabilising the exchange rate and limiting its pass-through effects to inflation. The stability in the exchange rate will further increase the flow of foreign currency into the national economy, boost domestic production and promote import substitution as we journey towards improving the welfare of Zimbabweans.

4.6 The envisaged price and exchange rate stability will also foster domestic competitiveness and anchor the much needed macroeconomic and financial sector stability necessary for improved production and productivity supportive of the aspirations of NDS1.

SECTION FIVE

CONCLUSION

4.7 Overall, Zimbabwe's economy is poised for strong growth in the short to medium term, buttressed by the resilience and hard-working of its people. The Bank would, therefore, like to express its gratitude to Zimbabweans for their resilience in these very difficult and challenging Covid-19 times. In this context, the Bank will continue to use its full range of tools to support the economy in these unprecedented challenging times to foster increased economic activity, employment, as well as price and financial sector stability.

4.8 Whilst we have so much work ahead of us to rebound the economy, the Bank expects that the current global economic uncertainties will dissipate as the roll out programmes on Covid-19 vaccines gather momentum throughout the world. Stronger economic growth within the national economy will be underpinned by sound macroeconomic policies characterised by fiscal, financial and monetary stability. Improved production and productivity will be key in sustaining the macroeconomic trajectory of growing the economy by 7.4% in 2021 and above 5% thereafter as envisaged in the NDS1. In this regard, the Bank affirms its commitment to continue ensuring a hawkish monetary policy stance, as well as sound financial conditions through its conservative monetary targeting framework.

4.9 A coordinated approach to macroeconomic policy management, coupled with hard-working, law-abiding and country-loving citizens would be key in moving the economy to achieve Vision 2030 of being an upper middle-income country. In this regard, a market friendly investment climate that supports infrastructure development, conducive financial system, credible national institutions and a sense of responsibility and accountability will be critical to contribute towards overall economic development for a brighter future for all Zimbabweans.

I THANK YOU AND MAY GOD BLESS YOU ALL AND MAY GOD BLESS ZIMBABWE

JOHN PANONETSA MANGUDYA
GOVERNOR

ANNEXURE: ECONOMIC AND FINANCIAL SECTOR DEVELOPMENTS UNDERPINNING MONETARY POLICY DECISIONS

5 GLOBAL DEVELOPMENTS

5.1 The global economy is expected to significantly recover from the negative growth rate of 3.5 percent recorded in 2020 to a positive growth of 5.5 percent in 2021 and 4.2 percent in 2022. The 0.3 percentage point upward revision in the 2021 projected growth is premised upon improved economic activity, resulting from an envisaged effective Covid-19 vaccination programme. In addition, there are also expectations of more support from fiscal policy in some large economies, such as the US and Japan. Table 1 summarises global economic growth developments and prospects for selected regions and countries.

Table 1: Global Economic Growth Rates & Outlook (%)

Country/Group Name	2019	2020 Estimate	2021 Projection	2022 Projection
World Output	**2.8**	**-3.5**	**5.5**	**4.2**
Advanced Economies	**1.6**	**-4.9**	**4.3**	**3.1**
o/w: United States	*2.2*	*-3.4*	*5.1*	*2.5*
Euro-Area	*1.3*	*-7.2*	*4.2*	*3.6*
Japan	*0.3*	*-5.1*	*2.4*	*2.4*
Emerging Market & Developing Economies	**3.6**	**-2.4**	**6.3**	**5.0**
Asia				
o/w: China	*6.1*	*2.0*	*7.9*	*5.6*
India	*4.2*	*-8.0*	*11.5*	*6.8*
Sub Saharan Africa	**3.2**	**-2.6**	**3.2**	**3.9**
o/w: Nigeria	*2.2*	*-3.2*	*1.5*	*2.5*
South Africa	*0.2*	*-7.5*	*2.8*	*1.4*
****Zimbabwe***	*-6.0*	*-4.1*	*7.4*	*5.5*

Sources: *IMF, World Economic Update, January 2021 *ZIMSTAT and MoFED*

5.2 The significant recovery in the global economy in 2021 will go a long way in boosting consumption and therefore prices, particularly of primary commodities, which are the key exports for Zimbabwe. The projected increase in oil prices will, however, exert pressure on domestic prices through retail petrol prices. Table 2 shows the evolution of international prices for selected commodities, during the year 2020.

Table 2: International Commodity Prices: January –December 2020

2020	Gold	Platinum	Copper	Nickel	Brent crude oil
	US$/oz	*US$/oz*	*US$/tonne*	*US$/tonne*	*US$/barrel*
Jan	1,582.53	966.50	5,543.50	12,696.50	56.52
Feb	1,618.10	875.50	5,568.75	12,147.00	51.39
Mar	1,606.80	762.32	4,797.00	11,235.00	25.39
Apr	1,679.65	762.50	5,061.00	11,853.00	26.44
May	1,727.18	832.50	5,332.50	12,120.00	35.31
Jun	1,769.40	812.00	6,038.00	12,790.00	41.62
Jul	1,969.80	905.00	6,446.50	13,756.00	43.37
Aug	1,956.60	930.00	6,728.00	15,414.00	45.82
Sep	1,885.15	878.00	6,610.00	14,385.00	42.36
Oct	1,878.83	854.00	6,694.50	15,256.00	34.47
Nov	1,767.25	971.00	7,674.50	16,343.00	47.58
Dec	1,891.10	1,075.00	7,741.50	16,540.00	51.72

Source: World Bank and Bloomberg, 2020

6 INFLATION DEVELOPMENTS

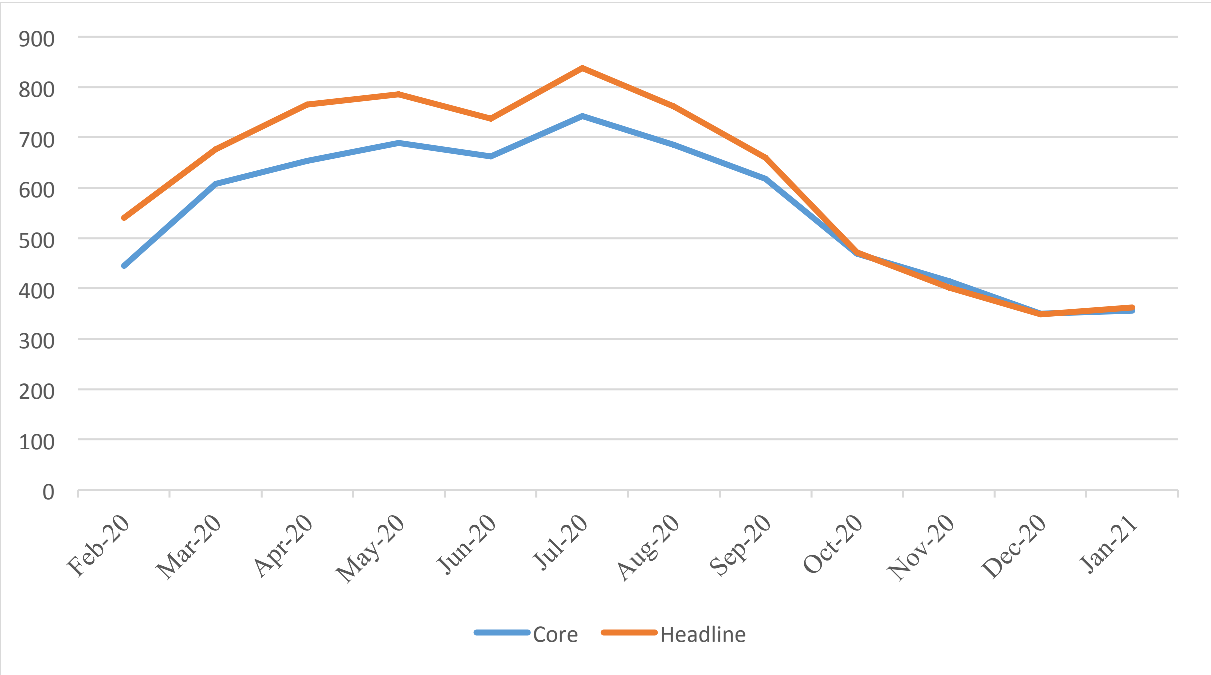
Headline vs Core Inflation

6.1 Annual headline inflation which peaked at 837.5 percent in July 2020, decelerated further to 362.6 percent in January 2021. This was largely attributable to the stability in the foreign exchange market. Both annual food and non-food inflation declined significantly. Annual food inflation decelerated from 976.7 percent in July 2020 to 639.9 percent in January 2021. Similarly, annual non-food inflation fell from 755.3 percent in July 2020 to 357.6 percent over the same period.

6.2 As a result, core inflation, which measures the underlying inflation pressures by excluding changes in prices for certain volatile components in price indexes including food and fuel prices have been consistently on a downward trend. The removal of these volatile categories of food and fuel yields a steadier measure of inflation, and thus is more likely to reflect the overall trend change in the economy's general price level. Most often changes in food and fuel prices are not related to a trend change in the economy's overall price level but related to temporary factors, that are quickly reversed and so do not require a monetary policy response.

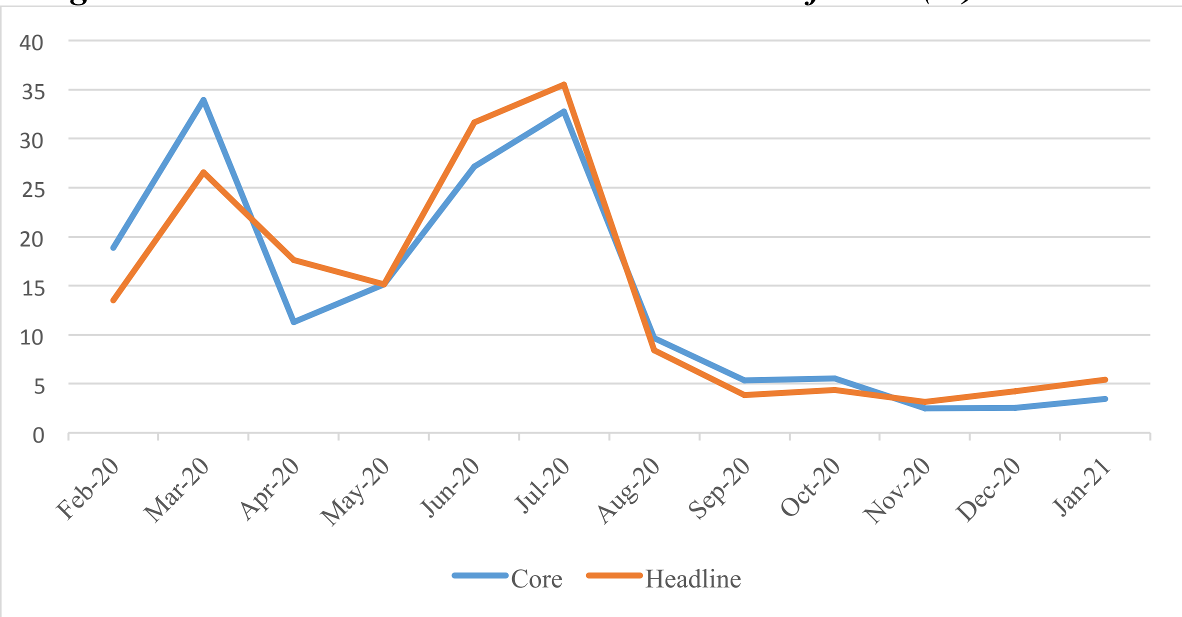
6.3 Annual core inflation declined from 742.3 percent in July 2020 to 356.1 percent in January 2021, pointing to a persistent decline in permanent and underlying inflation pressures. Figure 7 shows the trends in annual headline and core inflation.

Figure 7: Annual Headline and Core Inflation February 2020 to January 2021



6.4 Similarly, month-on-month core inflation has been on a downward trend since July 2020 in line with overall monthly inflation. Overall month-on-month inflation declined from a peak of 35.5 percent in January 2020 to 5.4 percent in January 2021 while, core inflation fell from 32.7 percent in July 2020 to 3.4 percent in January 2021. Importantly, monthly core inflation has been consistently and significantly lower than headline inflation since November 2020, signaling lower underlying inflation pressures in the economy. Figure 8 shows the trends in month-on-month headline and core inflation.

Figure 8: Month-on-Month Headline and Core Inflation (%)



7 BALANCE OF PAYMENTS DEVELOPMENTS

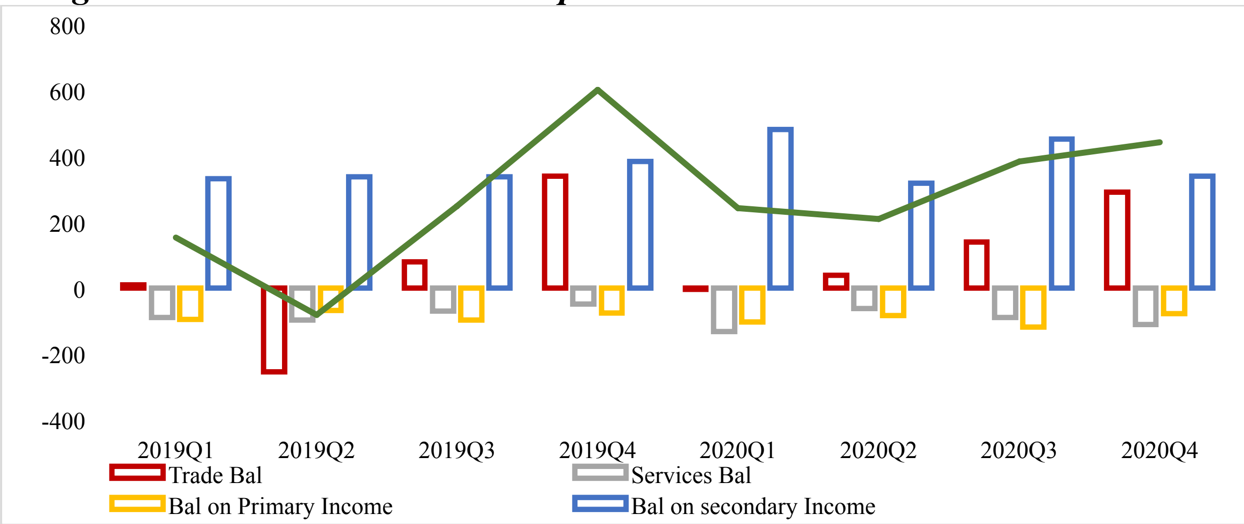
7.1 The country's external sector position continued to improve, with the current account remaining in surplus in 2020. Preliminary estimates show that the current account improved from a surplus of US$0.9 billion in 2019, to a surplus of US$1.1 billion in 2020. The strong external sector position was spurred by merchandise exports which increased by 5.8%, from

US$4.7 billion in 2019 to US$4.9 billion in 2020. Export performance was largely driven by increases in exports of the platinum group metals (PGMs), amid improved palladium and rhodium prices. The increase was, however, partially offset by declines in exports of gold, tobacco, manufactured goods, chrome ore and diamond.

7.2 Merchandise imports are estimated to have registered an increase of 5.1% to US$4.7 billion in 2020, from US$4.5 billion in 2019, notwithstanding sharp declines in imports of energy, notably electricity, fuel, raw materials, machinery, manufactured goods and vehicles in the second quarter of 2020. This was mainly due to the impact of Covid-19 restrictions domestically and externally. Food imports, however, increased by 204%, from US$194.3 million in 2019 to US$591.6 million in 2020, on the back of increases in maize, wheat and rice imports. Maize imports sharply rose from US$26.7 million in 2019 to US$297.8 million in 2020, reflecting the impact of two consecutive drought years.

7.3 The services sector was mainly affected by the Covid-19 pandemic, with both exports and imports well below pre-pandemic levels. Services exports contracted from US$603.2 million in 2019 to US$331.4 million in 2020, owing to the sharp contraction in travel, subdued transport and other business services exports. The containment measures imposed by governments in response to the Covid-19 pandemic limited the movement of people into and out of the country. Similarly, services imports declined by 15.3%, from US$909.1 million in 2019 to US$769.6 million in 2020, owing to coronavirus induced disruptions. Figure 9 shows current account developments.

Figure 9:Current Account Developments



Source: RBZ and Zimstat Estimates

7.4 The current account is projected to remain in surplus position in 2021, albeit at a somewhat reduced margin as improved foreign direct investment inflows and other capital flows are envisaged to shore-up imports of goods and services as the economy recovers.

7.5 Capital transfer receipts which principally constitute the capital account are estimated to have registered significant growth in 2020 to US$312.6 million, compared to US$52.8 million received in 2019. This, phenomenal growth was attributed to the increase in humanitarian assistance following natural catastrophes, including Cyclone Idai and the Covid-19 pandemic.

7.6 Similarly, the country's financial account position is estimated to have posted a surplus of US$955.6 million in 2020, compared to US$308.5 million in 2019. Going forward, the country is expected to benefit from large-scale investments in the mining sector.

Total Foreign Currency Receipts

7.7 The total foreign currency receipts for the period January to December 2020 amounted to US$6.3 billion compared to US$5.5 billion received during the same period in 2019, representing a 14.9% increase in foreign currency supply. Table 3 shows total foreign currency receipts by source.

Table 3:Total Foreign Currency Receipts (USD million)

Type of Receipt		**Year 2020 (*US$ Million*)**	**Year 2019 (*US$ Million*)**	**% Change**
Export Proceeds		3,696.30	3,614.88	2.3%
International Remittances	Diaspora Remittances	1,002.10	635.67	57.6%
	NGOs	647.75	519.42	24.7%
Loan Proceeds		845.21	593.25	42.5%
Income receipts		56.85	59.12	-3.8%
Foreign Investment		40.06	52.47	-23.7%
Total		**6,288.26**	**5,474.80**	**14.9%**

Source: Bank Supervision Application System, and Exchange Control Records

Export Shipments Performance

7.8 Cumulative export shipments, including Tourism and Cross Border Road Freight as at 31 December 2020, amounted to US$4.7 billion compared to US$4.6 billion declared during the same period in 2019. This represents an increase of 0.3% in 2020. Table 4 shows sectoral export shipments performance for 2020 and 2019.

Table 4: Export Shipments Performance by Sector (US$ Millions)

Sector	**2020**	**2019**	**% Change**
Mining	**3,291.80**	**2,838.90**	**15.95%**
Platinum	*1,773.2*	*1,209.8*	*46.57%*
Gold	*994.7*	*1,058.2*	*-6.00%*
Chrome ore + Ferrochrome	*231.5*	*265.9*	*-12.94%*
Diamonds	*126.1*	*125.6*	*0.40%*
Other minerals	*166.30*	*179.40*	*-7.30%*
Tobacco	782.4	860.8	-9.11%
Manufacturing	244.7	314.8	-22.27%
Agriculture	158.5	344.8	-54.03%
Transport	124.0	191.6	-35.28%
Horticulture	29.3	27.3	7.33%
Postal & Telecommunications	11.7	12.7	-7.87%
Other Services (Construction, etc)	9.3	32.0	-70.94%
Tourism (Hunting)	1.9	19.3	-90.16%
Total	**4,653.60**	**4,642.20**	**0.25%**

Source: Exchange Control Records (2021)

Gold Performance

7.9 Gold deliveries to Fidelity Printers and Refiners (FPR) for the period 1 January 2020 to 31 December 2020 were 19.05 tonnes as compared to 27.66 tonnes during the same period in 2019, representing a year to year decline of 31%. Table 5 shows gold deliveries to FPR in 2019 and 2020. In value terms, gold exports declined by 6% from US$1.1 billion in 2019 to US$994.7 million in 2020. The lower decline in value terms was due to higher gold prices realised in 2020 compared to 2019.

Table 5:Gold Deliveries to FPR (Kgs)

	2019			2020		
	Primary	Small Scale	Total	Primary	Small Scale	Total
Jan	745.24	1025.75	1770.99	734.24	1813.63	2541.88
Feb	639.85	1496.27	2136.12	706.74	696.40	1403.13
March	925.74	1690.63	2616.37	709.04	1061.66	1770.70
April	1006.64	1119.72	2126.35	735.38	728.92	1464.30
May	878.85	1278.77	2157.62	806.28	1209.61	2015.89
June	814.48	687.39	1501.87	869.99	539.58	1409.58
July	930.20	1846.44	2776.65	747.96	658.41	1406.36
August	813.10	1933.55	2746.65	851.89	418.32	1270.21
September	840.10	1964.14	2804.24	976.67	385.48	1362.14
October	858.02	1544.09	2402.11	894.74	473.10	1367.84
November	864.35	977.02	1841.36	894.68	581.56	1476.24
December	864.94	1914.97	2779.92	811.14	747.22	1558.36
TOTAL	10181.50	17478.74	27660.26	9738.75	9313.89	19052.63

7.10 The volatility in gold deliveries to FPR during 2020, is attributed to subdued performance by small scale producers as deliveries from primary producers relatively mirrored that of 2019. Side marketing of the precious metal could have contributed to the decline in gold deliveries. In 2020 small scale producers contributed 48.89% of the total gold deliveries to FPR compared to 63.19% in 2019 where as primary producers contributed 51.1% in 2020.

7.11 Future efforts to increase gold deliveries to FPR shall include enhanced capacitation of gold producers, coupled with rigorous monitoring of gold production and marketing and security to miners.

7.12 The unbundling of FPR into two entities, a gold refinery and a printing company is also expected to enhance gold production given that the gold producers will be involved directly in the operations of the gold production through their 60% shareholding in the gold refining business.

International Remittances

7.13 International remittances comprise transfers by International Organisations for humanitarian assistance and the Zimbabwean Diaspora. As at 31 December 2020, total International Remittances amounted to US$1.7 billion, an increase of 43% from US$1.2 billion recorded during the same period in 2019

7.14 In the year 2020, diaspora remittances amounted to US$1.0 billion, a 58% increase from previous year of US$635.7 million. The increase in diaspora remittances is mainly due to liberalisation of the use of free funds in the country and improved channelling of remittances through formal channels. International remittances received through the normal banking system on behalf of International Organizations (NGOs) amounted to US$647.8 million in year 2020, a 26% increase from previous year of US$519.4 million.

7.15 Table 6 indicates diaspora remittances for period January to December for the years 2019 and 2020.

Table 6: International Remittances Inflows 2019 and 2020 (US$)

Month	Year 2020	Year 2019	% Change
January	60,607,249	44,567,757	36
February	69,230,034	41,778,076	66
March	61,172,535	62,414,369	-2
April	30,920,048	49,227,045	-37
May	66,815,291	53,896,272	24
June	85,849,311	46,525,102	85
July	91,853,269	51,255,846	79
August	92,835,172	51,493,743	80
September	98,384,807	52,538,456	87
October	103,084,503	59,818,518	72
November	104,241,599	54,389,450	92
December	137,106,271	67,768,833	102
Total	**1,002,100,086**	**635,673,465**	**58**

Performance of External Loans

7.16 In 2020, loan facilities with a value of US$1.3 billion was approved by Exchange Control whilst in 2019 the offshore loans approved stood at US$1.0 billion, representing a 32% increase in terms of loan approvals.

7.17 The sectoral concentration is skewed towards the agriculture sector accounting for more than 50% in both years, mainly on account of offshore tobacco financing facilities. Table 7 shows external loan approvals per sector for 2019 and 2020.

Table 7: External Loan Approvals per Sector for 2019 and 2020

	2020		2019	
Sector	**Approved Amount (US$ M)**	**Percentage Sectoral Contribution**	**Approved Amount (US$ M)**	**Percentage Sectoral Contribution**
Agriculture	737.6	55.11	802.9	79.10
Construction	293.8	21.95	2.9	0.28
Financial	220.1	16.44	119.5	11.78
Mining	38.7	2.89	25.9	2.55
Tourism &	20.9	1.56	8.4	0.83
Transport	13.7	1.02	11.4	1.12
Manufacturing	11.1	0.83	18.8	1.85
Retail &	2.1	0.15	1	0.10
Services	0.8	0.06	0.9	0.0
Energy	0.0	0	23	2.28%
Communication	0.0	0	0	0.00
TOTAL	**1,338.6**	**100.00%**	**1,014.8**	**100.00**

Source: Exchange Control Records

Foreign Payments Performance

7.18 For the period January to 31 December 2020, banks processed foreign payments amounting to US$4.5 billion. This represents a 3% increase from US$4.4 billion recorded for the same period in 2019. Table 8 shows foreign payments for the same period in 2020 and 2019.

Table 8: Foreign Payments for the year 2020 vs 2019

Category	2020	2019	% Variance	Contribution 2020	Contribution 2019
Merchandise Imports (excl. energy)	**2,622.7**	**2,357.3**	**11%**	**58%**	**53%**
- Consumption Goods	1,211.9	946.0	28%	27%	21%
- Capital Goods	947.3	943.1	0%	21%	21%
- Intermediate Goods	463.5	468.1	-1%	10%	11%
Energy (Fuel & Electricity)	**586.0**	**483.7**	**21%**	**13%**	**11%**
- Fuel	451.3	370.6	22%	10%	8%
- Electricity	134.8	113.1	19%	3%	3%
Service Payments	**502.5**	**550.1**	**-9%**	**11%**	**12%**
- Technical, Professional & consult	269.4	231.0	17%	6%	5%
- Software	59.9	57.2	5%	1%	1%
- Other (tourism, education, freight etc.)	173.2	261.9	-34%	4%	6%
Income Payments (Profits, Dividends)	**322.5**	**224.6**	**44%**	**7%**	**5%**
- Dividends	231.2	121.2	91%	5%	3%
- Interest Payments	13.8	30.5	-55%	0.30%	1%
- Other (Salaries, Expats, Rental)	77.5	72.9	6%	2%	2%
Capital Remittances (outward)	**403.2**	**660.1**	**-39%**	**9%**	**15%**
- External Loan Repayments	351.7	636.1	-45%	8%	14%
- Disinvestments	28.1	16.6	70%	0.60%	0%
- Foreign Investment	23.4	7.4	215%	0.50%	0.17%
Other Payments	**98.0**	**131.3**	**-25%**	**2.20%**	**3.00%**
- Card Payments	65.9	122.4	-46%	1%	3%
- Refunds	32.1	8.9	261%	0.70%	0.20%
Total	**4,534.8**	**4,407.0**	**2.90%**	**100%**	**100%**

Source: CEBAS Foreign Payments Reporting System, RBZ

7.19 Payments for import of goods and services account for approximately 82% of the country's foreign payments, indicating the country's dependence on imported goods and services. Although there was an increase in global foreign payments, there was some significant decrease capital remittances in 2020 relative to 2019, mainly on account of external loan repayments.

8 STATUS AND PERFORMANCE OF THE BANKING SECTOR

8.1 The banking sector continued to play a critical role of supporting businesses during the pandemic. Despite the varied impact of Covid-19 on the different sectors of the economy, the banking sector demonstrated resilience to various shocks, as reflected by the satisfactory performance during the year ended 31 December 2020. The satisfactory performance of the banking sector was bolstered by policy interventions by the Bank, which provided a cushion from the immediate impact of the pandemic.

8.2 During the year ended 31 December 2020, banking institutions transitioned to a largely remote work environment without notable disruptions in the provision of services and products.

Banking Sector Architecture

8.3 Table 9 shows the operational banking institutions and other non-banks under the supervision of the Bank as at 31 December 2020.

Table 9: Architecture of the Banking Sector as at 31 December 2020

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank (POSB)	1
Total Banking Institutions	**19**
Other Operational Institutions under the supervision of Reserve Bank	
Credit-only-MFIs	209
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO & IDBZ)	2
Total Other Institutions	**216**

8.4 Two licenced deposit-taking microfinance institutions, Ndoro Microfinance and CashBox Financial Services are yet to commence operations as they are putting in place the necessary infrastructure for commencement of business. Lion Microfinance Limited, which was placed under curatorship on 26 July 2019 had its curatorship uplifted on 30 September 2020 and commence deposit-taking microfinance business, with effect from 23 November 2020.

Performance of the Banking Sector

8.5 The performance of the banking sector was satisfactory during the year ended 31 December 2020, as reflected by the improvement in the key risk and performance indicators. The financial soundness indicators for the review period are provided in Table 10.

Table 10: Financial Soundness Indicators

Key Indicators	Benchmark	Dec-19	June-20	Sept -20	Dec-20
Total Assets (ZW$ Billion)	-	60.64	193.56	284.37	349.59
Total Loans & Advances (ZW$ Billion)	-	12.63	37.77	56.76	82.41
Net Capital Base (ZW$ Billion)	-	9.75	29.47	42.06	53.18
Total Deposits (ZW$ Billion)	-	34.50	97.40	154.47	208.90
Net Profit (ZW$ Billion)	-	6.41	13.46	23.37	34.24
Return on Assets (%)	-	8.99	10.53	12.50	13.55
Return on Equity (%)	-	33.02	27.38	39.92	45.54
Capital Adequacy Ratio (%)	12	39.56	61.72	47.16	34.62
Tier 1 Ratio (%)	8	27.87	34.35	27.61	22.65
Loans to Deposits (%)	70	36.60	37.71	36.75	39.45
Non-Performing Loans Ratio (%)	5	1.75	1.03	0.41	0.31
Liquidity Ratio (%)	30	72.42	74.85	71.69	73.06

Capitalisation

8.6 As at 31 December 2020, total banking sector core capital of ZW$40.85 billion, reflected an increase of 94.08%, from ZW$20.99 billion as at 30 June 2020. The growth was mainly attributed to growth in retained earnings, bolstered by revaluation gains from foreign exchange denominated assets and investment properties.

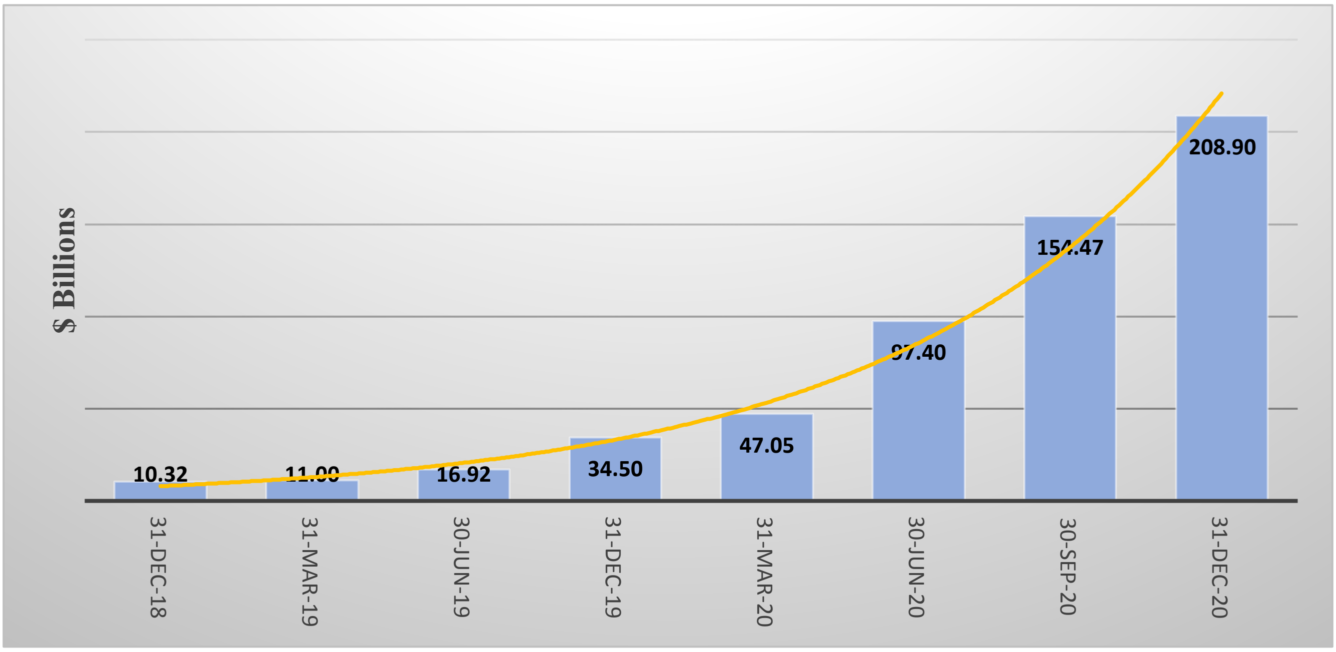
8.7 Capital positions remain strong with the banking sector average capital adequacy and tier 1 ratios of 34.6% and 22.7% as at 31 December 2020, were above the regulatory minima of 12% and 8%, respectively. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios.

8.8 Following extension of the deadline for banking institutions to comply with the new minimum capital levels effective 31 December 2021, all banking institutions submitted updates of their capitalisation plans as at 31 December 2020. Banking institutions have registered significant progress towards meeting the new capital requirements.

Banking Sector Deposits

8.9 Total banking sector deposits increased by 114.5%, from ZW$97.40 billion reported as at 30 June 2020, to ZW$208.9 billion as at 31 December 2020 The deposits were made up of ZW$125.3 billion (60%) in foreign currency and ZW$83.5 billion (40%) in local currency. The increase in total deposits was mainly attributable to revaluation of foreign currency denominated deposits. The trend of banking sector deposits over the period 31 December 2018 to 31 December 2020 is shown in Figure 10.

Figure 10: Trend Of Banking Sector Deposits



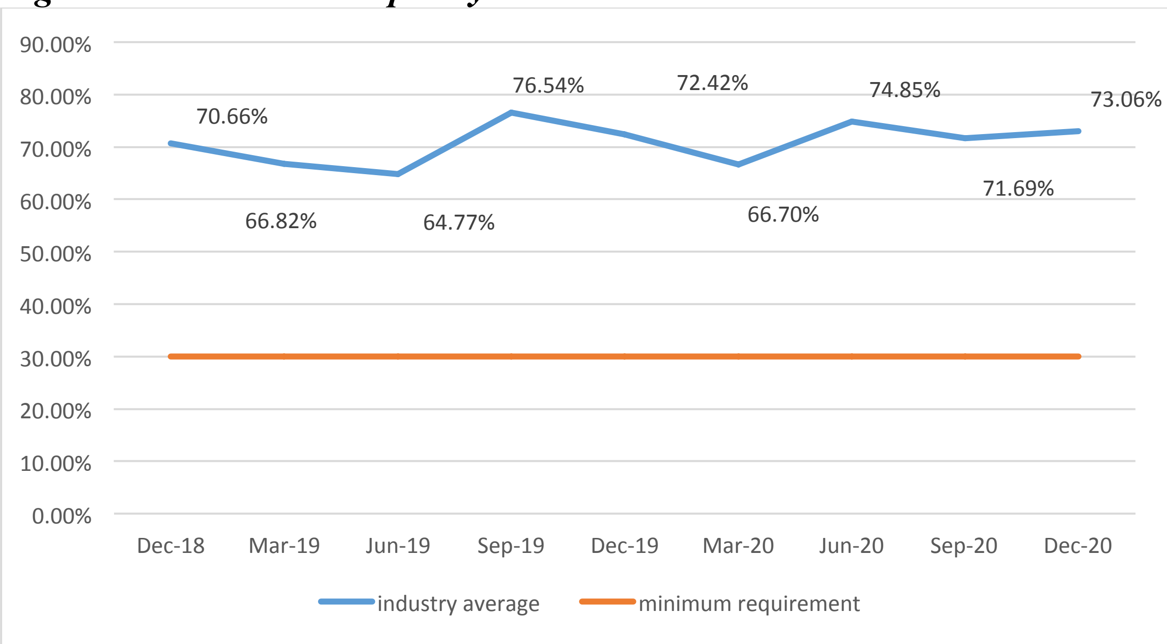
Source: Reserve Bank of Zimbabwe, 2020

8.10 The commercial banking sub-sector deposits amounted to ZW$189.8 billion, which accounted for 91.0% of the total banking sector deposits as at 31 December 2020.

Banking Sector Liquidity

8.11 The average prudential liquidity ratio for the banking sector remained high at 73.1%, reflecting in part, the cautious approach to lending by most banking institutions, especially in foreign currency.

Figure 11: Prudential Liquidity Ratio Trend



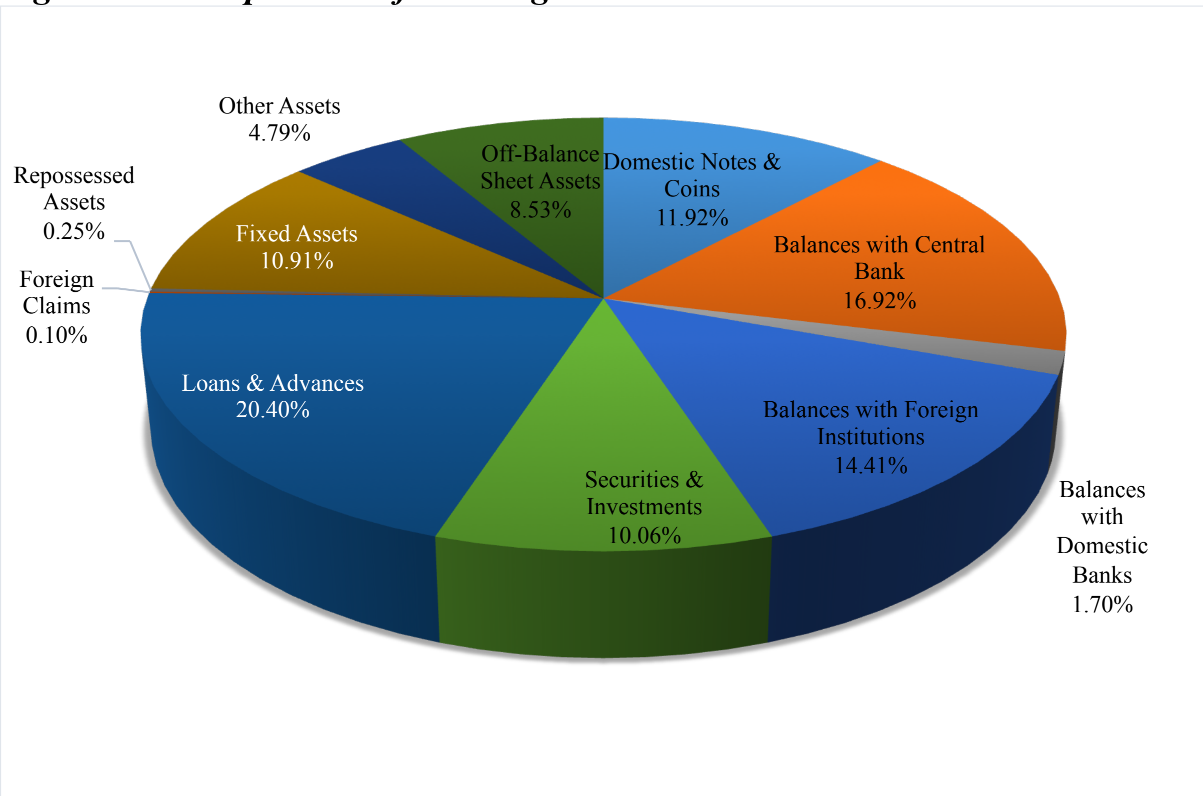
Source: Reserve Bank of Zimbabwe, 2020

8.12 As at 31 December 2020, the banking sector average prudential ratio was above the minimum regulatory requirement of 30%.

Banking Sector Assets

8.13 As at 31 December 2020, banking sector total assets amounted to ZW$349.59 billion and largely comprised loans & advances, balances with the central bank and balances with foreign institutions, which constituted 20.4%, 16.9% and 14.4%, respectively.

Figure 12: Composition of Banking Sector Assets as at 31 December 2020



Source: Reserve Bank of Zimbabwe, 2020

8.14 As at 31 December 2020, the banking sector was dominated by commercial banks in terms of total assets, total deposits and total loans as shown in Table 11.

Table 11 : Banking Sector Market Shares by Commercial Banks

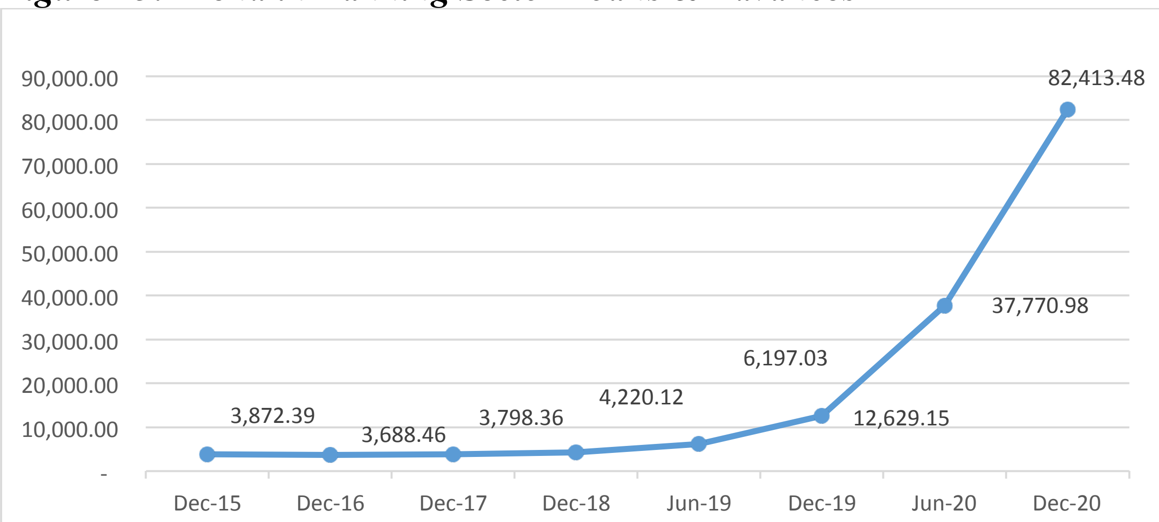
Indicator	30 June 2020	31 December 2020
Total Assets (%)	89.66	90.03
Total Deposits (%)	91.01	91.02
Total Loans and Advances (%)	85.28	87.48

Source: Reserve Bank of Zimbabwe, 2020

Loans & Advances

8.15 Total banking sector loans and advances increased 2.18 times from ZW$37.8 billion as at 30 June 2020 to ZW$82.4 billion as at 31 December 2020, largely attributed to the translation of foreign currency denominated loans. During the period under review, banking sector financial intermediation remained subdued, as reflected by a loans to deposits ratio of 39.5%, largely as a result of cautious lending approach adopted by some banking institutions. Figure 13 shows the trend in the total banking sector loans and advances from December 2015 to December 2020.

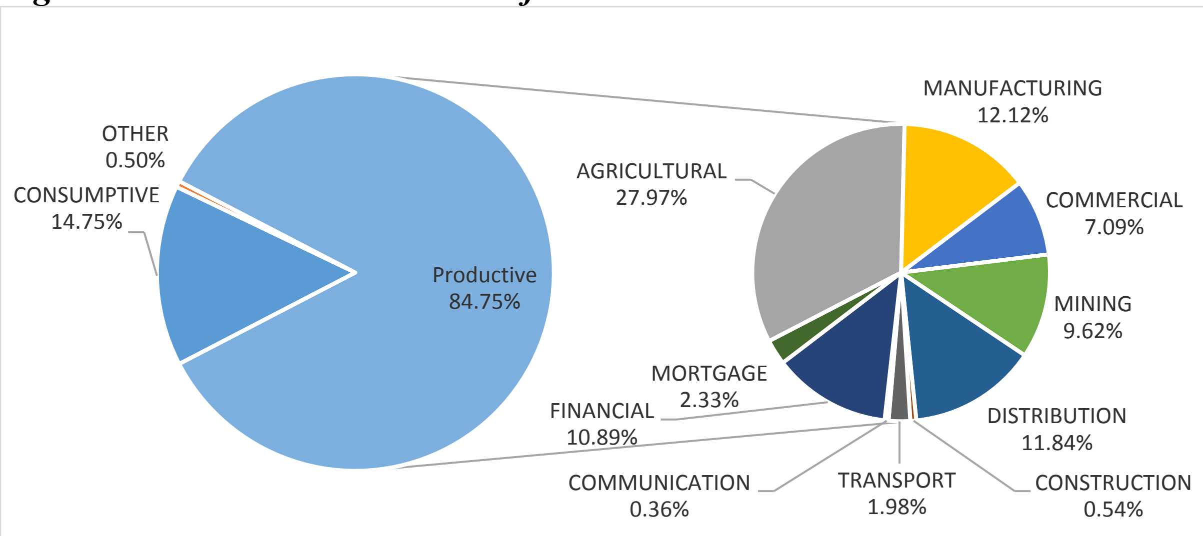
Figure 13: Trend in Banking Sector Loans & Advances



Source: Reserve Bank of Zimbabwe, 2020

8.16 Loans to productive sectors of the economy constituted 84.8% of total banking sector loans as at 31 December 2020, as shown in Figure 14.

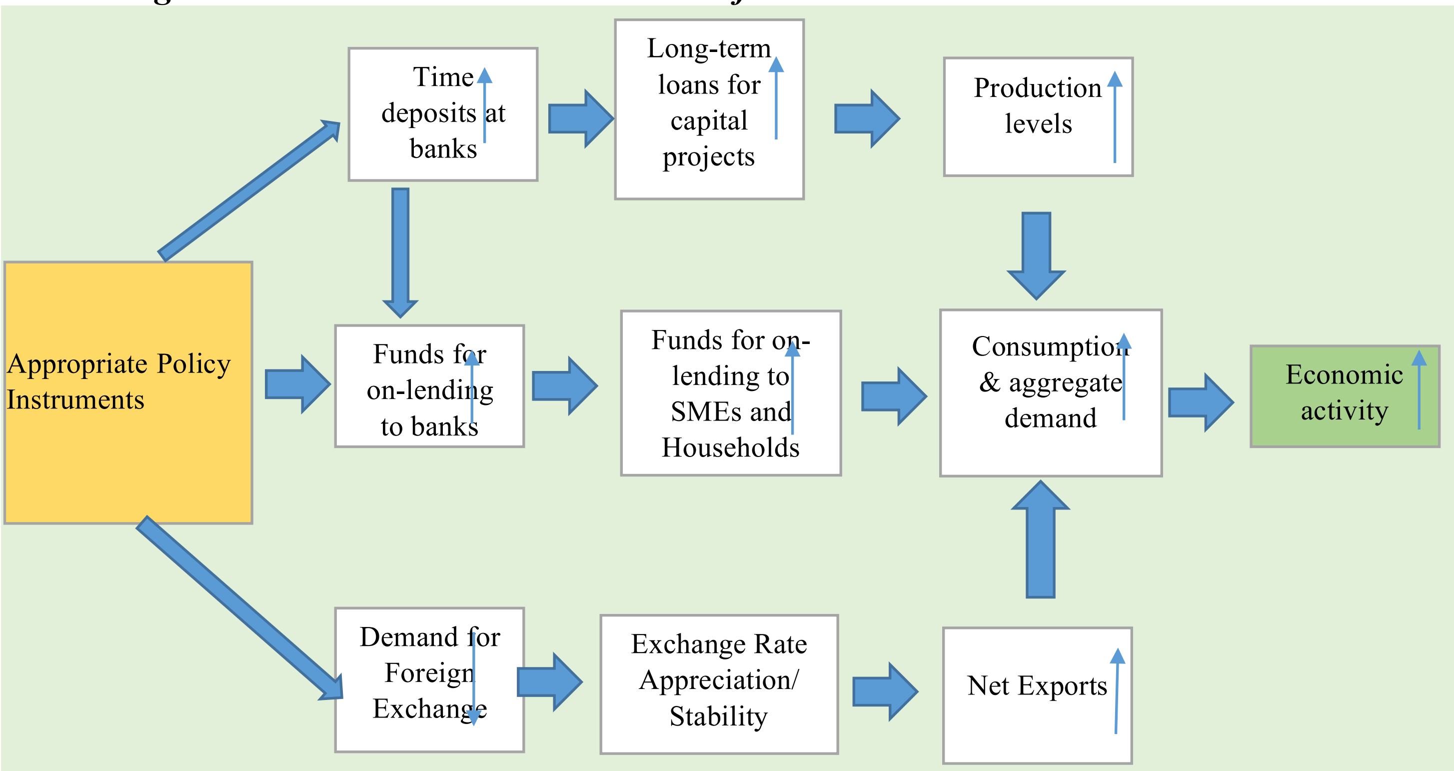
Figure 14: Sectoral Distribution of Loans



Source: Reserve Bank of Zimbabwe, 2020

8.17 The Bank's macroeconomic diagnosis suggests that consumption and investment expenditure are currently the main drivers of the country's economic output but are being weighed down by lack of long-term lending. In fact, the analysis has shown that the country has been experiencing negative growth on real credit; a situation which dampens investment and the country's growth potential. These developments underscore the need for measures that selectively redistribute liquidity through promoting long-term savings for long-term lending to the productive sector and also to households for consumption investments. The transmission mechanisms of these measures into the economy are shown in Figure 15

Figure 15: Transmission Mechanisms of Attractive Instruments

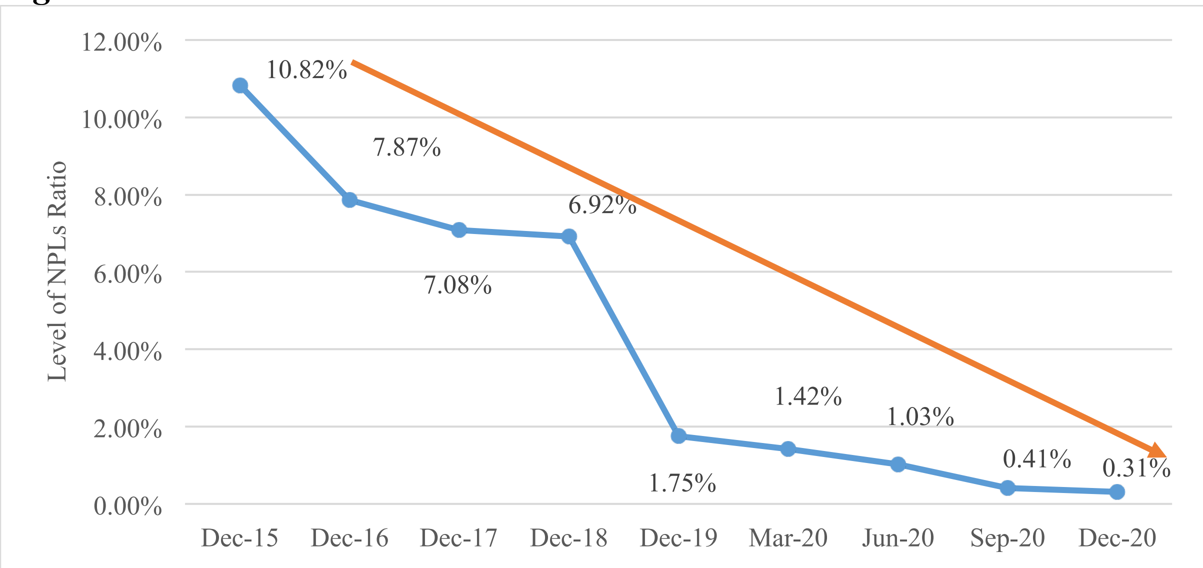


8.18 As shown in the graph above, promotion of long-term savings deposits and instruments will enhance access to longer term bank credit, which will boost household spending on consumer durables, and encourage investment by households and businesses. In turn, increased economic activity should raise incomes and savings, along with a cycle of benefits in the economy.

Loan Portfolio Quality

8.19 Banking sector loan portfolio quality continued to improve as reflected by a decline in the non-performing loans (NPLs) to total loans ratio from 1.0% as at 30 June 2020 to 0.3% as at 31 December 2020, partly reflecting the more than proportionate growth in total loans. Figure 16 shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2015 to December 2020.

Figure 16: Trend in NPL Ratio

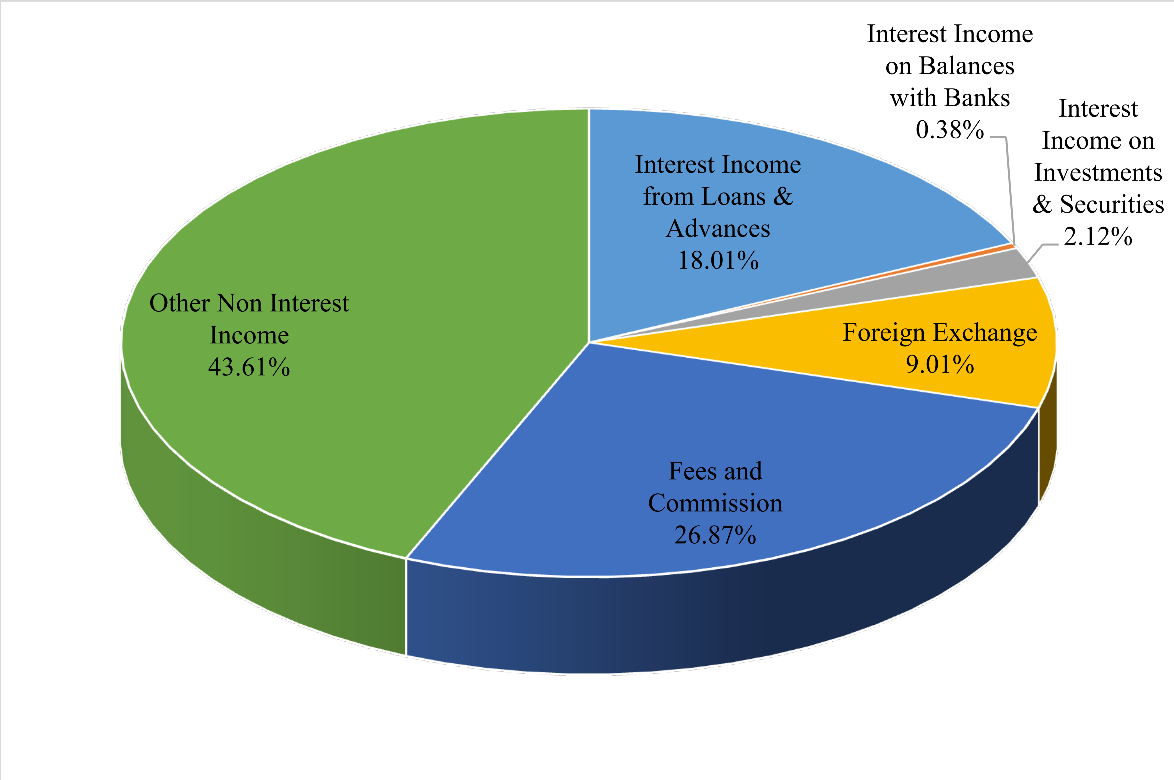


Source: Reserve Bank of Zimbabwe, 2020

Earnings Performance

8.20 During the year ended 31 December 2020 all banking institutions were profitable, with aggregate banking sector profits for the period of ZW$34.2 billion, an increase from ZW$6.4 billion reported for the corresponding period in 2019. The growth in income is largely attributable to non-interest income which constituted 79.5% of total income. Non-interest income mainly comprised other non-interest income (translation gains on foreign currency denominated assets, revaluation gains from investment properties) as well as fees and commissions. The income mix is as shown in Figure 17.

Figure 17: Income Mix - 31 December 2020



Source: Reserve Bank of Zimbabwe, 2020

8.21 Banking sector profitability as measured by the return on assets and return on equity ratios improved from 9.0% and 33.0% as at 31 December 2019, to 13.6% and 45.5% as at 31 December 2020, respectively.

Sustainability Standards & Certification Initiative (SSCI)

8.22 Building a resilient and sustainable banking system that supports sustainable growth and development remains a key focal regulatory priority. The number of institutions participating in the Sustainability Standards & Certification Initiative (SSCI) increased during the course of 2020. As at the end of January 2021, nine (9) banking institutions had applied to participate in the SSCI of which seven (7) were already implementing. The institutions that are at implementation stage were in the process of refining their organizational performance standards including High Impact Goals, to align with the national development priorities as espoused in the National Development Strategy 1.

8.23 Implementation of the SSCI is expected to support financial institutions to remain strong and resilient in a dynamic operating environment, as well as clearly align their corporate goals with national development priorities, including addressing the challenges posed by the outbreak of the Covid-19 pandemic, and other unforeseen disruptions.

Performance of the Microfinance sector

8.24 The microfinance sector plays a critical role in promoting access to finance to the marginalised segments and in supporting the micro, small and medium enterprises. During the year ended 31 December 2020, the performance of the microfinance sector was subdued due to the disruptive effects of the Covid-19 pandemic.

8.25 A total of 31 microfinance institutions ceased operations during the course of 2020 citing viability challenges arising from constrained funding and low business volumes compounded by the Covid-19 pandemic. The 'high-touch' business model adopted by a number of microfinance institutions, which entails physical visits and meetings with clients, presented challenges during the Covid-19 pandemic with respect to disbursement of loans and collections of repayments.

Performance of Deposit-Taking Microfinance Institutions (DTMFIs)

8.26 During the half year ended 31 December 2020, the deposit-taking microfinance sub-sector remained generally stable and resilient. The subsector reported improvements in key financial stability indicators as shown in Table 12:

Table 12: Performance Indicators for DTMFIs

Key Indicators*	**Dec-19**	**March-20**	**June-20**	**Sept- 20**	**Dec - 20**
Total Assets (ZW$ Million)	258.63	403.40	843.04	1 090.0	1 520.0
Total Loans & Advances (ZW$ Million)	88.83	120.81	134.33	191.08	320.87
Core Capital (ZW$ Million)	128.34	178.81	300.98	494.45	524.15
Net Capital Base (ZW$ Million)	145.54	218.25	482.98	615.85	783.57
Total Deposits (ZW$ Million)	35.95	68.02	83.09	144.56	239.11
Net Profit (ZW$ Million)	17.39	0.17	119.79	125.11	140.48
Average OSS ratio (%)	122.57	97.66	241.80	171.10	128.11
Average Return on Assets (%)	6.73	0.04	14.21	16.75	9.27
Average Return on Equity (%)	9.53	0.49	7.04	7.98	9.74
Average Prudential Liquidity Ratio (%)	132.43	191.37	134.06	92.56	91.73
Portfolio at risk Ratio (> 30 days) (%)	11.02	8.86	16.97	7.58	6.53

***Excluding Lion Microfinance whose curatorship was uplifted on 30 September 2020 and resumed operations on 23 November 2020.**

Status of Capitalizations

8.27 All the six (6) operating DTMFIs were compliant with the minimum regulatory capital requirement of ZW$5 million. The aggregate capitalisation levels for the DTMFI sub-sector improved as reflected by a 74.2% increase in core capital from ZW$300.98 million as at 30 June 2020 to ZW$524.2 million as at 31 December 2020. The increase was largely attributed to organic capital growth coupled with fresh capital injections in the relatively new DTMFIs.

8.28 DTMIs are working towards complying with the new minimum capital requirement of the local currency equivalent of US$5 million effective 31 December 2021.

Total Loans and Deposits

8.29 The DTMFI sub-sector recorded a 138.9% growth in total loans from ZW$134.3 million to ZW$320.9 million during the half year ended 31 December 2020. Credit risk as measured by Portfolio at Risk (PaR) ratio (>30 days) improved from 17.0% to 6.5% during the same period. The improvement was due to relaxation of Covid-19 induced restrictions which enabled clients to resume operations as well as enhanced collection efforts by DTMFIs. Total DTMFIs sub-sector deposits increased by 187.8%, from ZW$83.1 million as at 30 June 2020 to ZW$239.1 million as at 31 December 2020. There is still need for the subsector to grow its deposit base to sustainable levels.

Earnings Performance

8.30 The sub-sector's earnings performance for the year ended 31 December 2020 improved as evidenced by the improvement in operational self-sufficiency and return on equity ratios. Aggregate DTMFI sector profits for the year ended 31 December 2020 amounted to ZW$140.5 million, representing a seven times increase from ZW$17.4 million reported for the corresponding period in 2019. The growth was largely driven by revaluation gains on investment properties. Operational self-sufficiency and return on equity ratios improved from 122.6% and 9.5% to 128.1% and 9.7%, respectively.

Outreach

8.31 The sub-sector's outreach as measured by the number of active clients marginally improved by 3.6% from 128,535 as at 30 June 2020 to 133,148 as at 31 December 2020. The marginal growth is attributed to the impact of Covid-19 lock down measures which have restricted economic activity of MSMEs and individual business who are the target segments for DTMFIs.

LEGAL AND REGULATORY DEVELOPMENTS

Amendments to the Banking Regulations S. I. 205 of 2000

8.32 In line with its mandate of promoting financial stability, the Bank continues to strengthen the regulatory framework and direct its supervisory efforts towards the promotion of a safe, stable and sound financial system in Zimbabwe. In this regard, amendments were effected to the Banking Regulations, S.I. 205 of 2000.

8.33 The Banking (Amendment) Regulations No. 5 of 2020 was gazetted on 6 November 2020. The amendments align the Banking Regulations to the Banking Act [*Chapter 24:20*] following amendments effected in 2015 and provide for the minimum capital requirements, and enhance corporate governance standards as follows:

a) reducing significant interest threshold from 10% to 5% in line with the new section 15B (1) of the Banking Act;

b) increase the maximum shareholding that an ordinary company can have in a banking institution from 10% to 25% in line with the new threshold limits in section 15A (1) of the Banking Act;

c) provide for the disclosure of interests form as required under the new section 20B of the Banking Act;

d) provide additional prudential limits for lending to insiders and their related interests; and

e) provide for the previously announced minimum capital requirements for banking institutions which are effective 31 December 2021.

Proposed Regulations to the Microfinance Act [Chapter 24:30]

8.34 Following the amendment to the Microfinance Act [Chapter 24:30] through the Microfinance Amendment Act No. 6 of 2019, Regulations are being developed to provide for all matters that require to be prescribed, including capital, shareholding limits and asset quality. The Regulations will also cover loan provisioning as well as minimum standards of corporate governance and risk management practices.

Enhancement of Prudential Standards

Basel III Liquidity Standards

8.35 The development of a framework for the implementation of Basel III Liquidity Standards, covering the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) was successfully completed. The Bank has commenced a consultative process with the banking sector as part of the steps to operationalise these standards by 31 December 2021.

8.36 The LCR is designed to ensure short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient unencumbered high-quality liquid assets to survive a significant stress scenario lasting for one month. The NSFR seeks to promote resilience of banks over a longer time horizon by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.

FINANCIAL INCLUSION

8.37 The Bank has reviewed the implementation of the first phase of the National Financial Inclusion Strategy (2016-2020) and will publish the National ***Financial Inclusion Journey (2016-20) Report***. The report will outline the progress made in improving access to financial services through digital financial services, product innovation, financial literacy and consumer protection, establishment of low cost bank accounts, and establishment of women desks and SME units in most of the banking institutions.

8.38 Meanwhile, the Bank has commenced the drafting of the second phase of the National Financial Inclusion Strategy (NFIS 2) and will be engaging key stakeholders in order to develop a comprehensive strategy supportive of the National Development Strategy 1. The National Development Strategy 1 identifies financial inclusion as a critical catalyst in promoting inclusive economic growth and attainment of the country's vision of a "Prosperous & Empowered Upper Middle Income Society" by 2030.

8.39 NFIS2 will also focus on addressing challenges identified during NFIS1 while ensuring that the unique financial needs of the marginalised and vulnerable groups continue to be adequately catered for. Banks, microfinance institutions, capital market operators, pensions and insurance companies as well as mobile network operators, are expected to continue exploring innovative ways of delivering sustainable and quality financial services to the marginalised segments as well as take measures to promote consumer education and financial literacy to enable the transacting public to make informed financial decisions.

Level of Access to Financial Services

8.40 Since the launch of the NFIS1 in 2016, the Bank has noted a remarkable improvement in the level of access to financial services as reflected in the financial inclusion indicators in Table 13.

Table 13: Financial Inclusion Indicators 2020

Indicator	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Mar 2020	Jun 2020	Sept 2020	Dec 2020
Value of loans to MSMEs (ZW$ Million)	131.69	146.22	169.96	462.98	1,457.47	1,321.34	2,032.41	3,013.85
Average loans to MSMEs as % of total bank loans	3.57	3.75	3.94	3.92	4.66	3.49	3.57	3.66
Number of MSMEs with bank accounts	71,730	76,524	111,498	116,467	121,945	121,872	145,237	139,902
Number of Women with Bank Accounts	769,883	935,994	1,736,285	2,152,185	2,251,300	2,536,558	2,506,671	2,570,835
Value of Loans to Women (ZW$ Million)	277.30	310.78	432.36	586.74	841.19	1,183.16	2,450.56	3,280.61
Average loans to women as a % of total bank loans	7.52	7.96	10.57	15.59	4.25	2.93	4.31	3.98
Number of Loans to Youth	38,400	61,529	69,421	189,658	144,676	126,002	77,697	71,832
Value of Loans to Youth (ZW$ Million)	58.41	138.93	104.43	188.71	669.51	964.86	1,725.16	1,947.52
Average loans to the youth as a % of total bank loans	1.58	3.56	2.55	6.09	3.38	2.32	3.03	2.36
Total number of Active Bank Accounts (Million)	1.49	3.07	6.73	7.62	8.46	8.63	8.32	8.64
Number of Low Cost Bank Accounts (Million)	1.20	3.02	4.67	4.97	5.17	5.30	5.05	5.85

Source: Reserve Bank of Zimbabwe, 2020

8.41 The total number of active bank accounts has continued to increase on the back of an increase in the number of low-cost accounts offered by banking institutions to the low income segments during the first phase of NFIS.

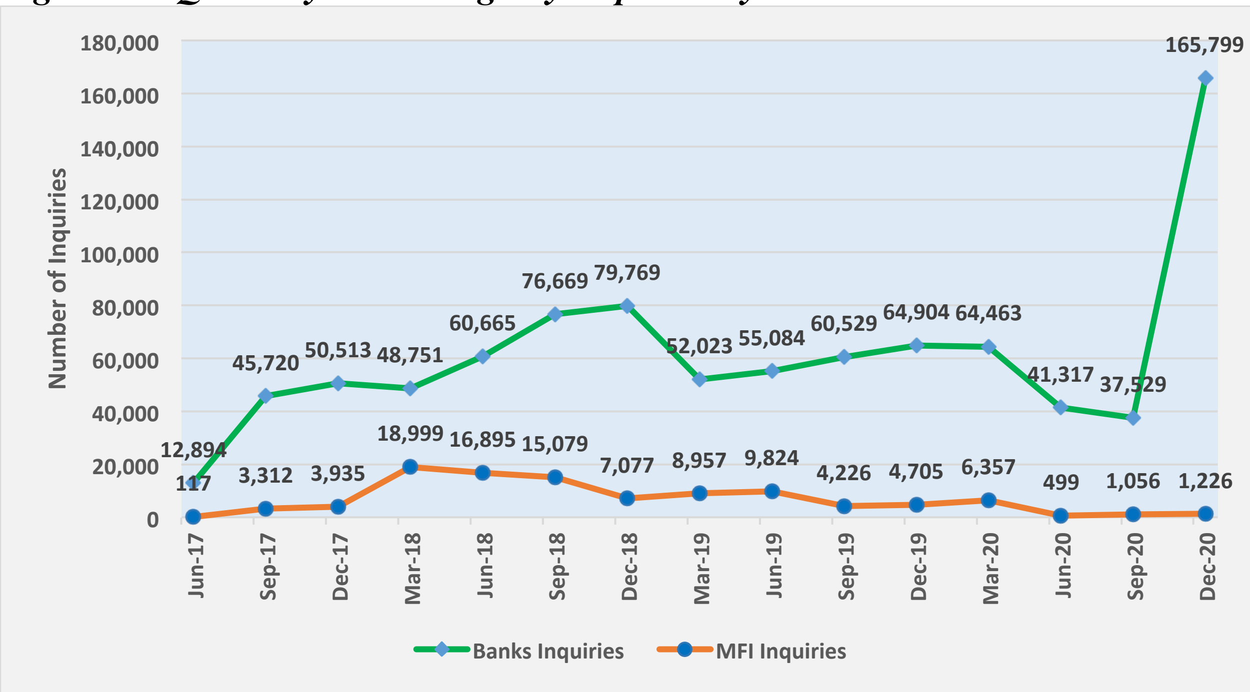
8.42 The number of accounts opened by women and MSMEs increased from less than 800,000 and 80,000 in 2016 to over 2.5 million and almost 140,000 in 2020, respectively, largely as a result of increased gender and MSMEs initiatives by the Bank and other stakeholders. Lending to target segments such as women, the youth and MSMEs also increased, largely due to a number of targeted financial inclusion interventions.

CREDIT INFRASTRUCTURE

Credit Registry

8.43 The Bank noted a stable progression in the usage of both the Credit Registry and private bureaus during the course of 2020 as both banks and MFIs continue to rely on the credit infrastructure for their ongoing credit risk management processes. Figure 18 highlights the level of enquiries in the Credit Registry by banks and microfinance institutions over the year.

Figure 18: Quarterly Credit Registry Inquiries by Banks and MFIs



Source: Reserve Bank of Zimbabwe, 2020

Collateral Registry

8.44 The Bank has successfully identified a Collateral Registry software provider, in line with the national procurement laws and regulations. The implementation process has since commenced. It is anticipated that the deployment of the Collateral Registry system will be completed in the first half of 2021 while full operations will start before the end of the year ending 31 December 2021. The operationalization of the Collateral Registry will enable members of the public to leverage on their movable assets to access funding from financial institutions.

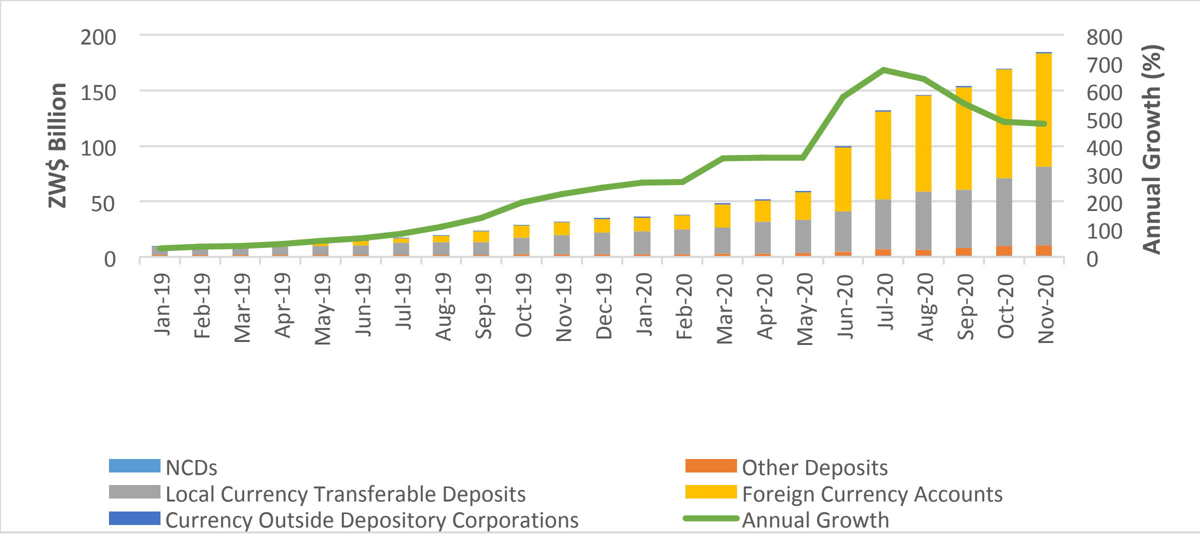
9 MONEY AND CAPITAL MARKETS DEVELOPMENTS

Monetary Developments

9.1 Money supply increased over the year, rising from ZW$36 billion in January 2020 to ZW$184 billion in December 2020. The growth in money supply was largely attributable to the impact of exchange rate movements on the 60% foreign currency component of the deposits. The exchange rate depreciated from ZW$17.35/USD in January 2020 to ZW$57/USD at the first foreign exchange auction in June, and further to ZW$81.82/USD by end of November 2020.

9.2 Consequently, foreign currency deposits increased from ZW$12.45 billion January to ZW$102.18 billion in November 2020, thus significantly accounting for the expansion in money supply. Foreign currency deposits accounted for 55.4% of money stock, while local currency deposits constituted the remainder. Figure 19 shows broad money supply components in nominal terms as well as annual growth.

Figure 19: Broad Money Developments



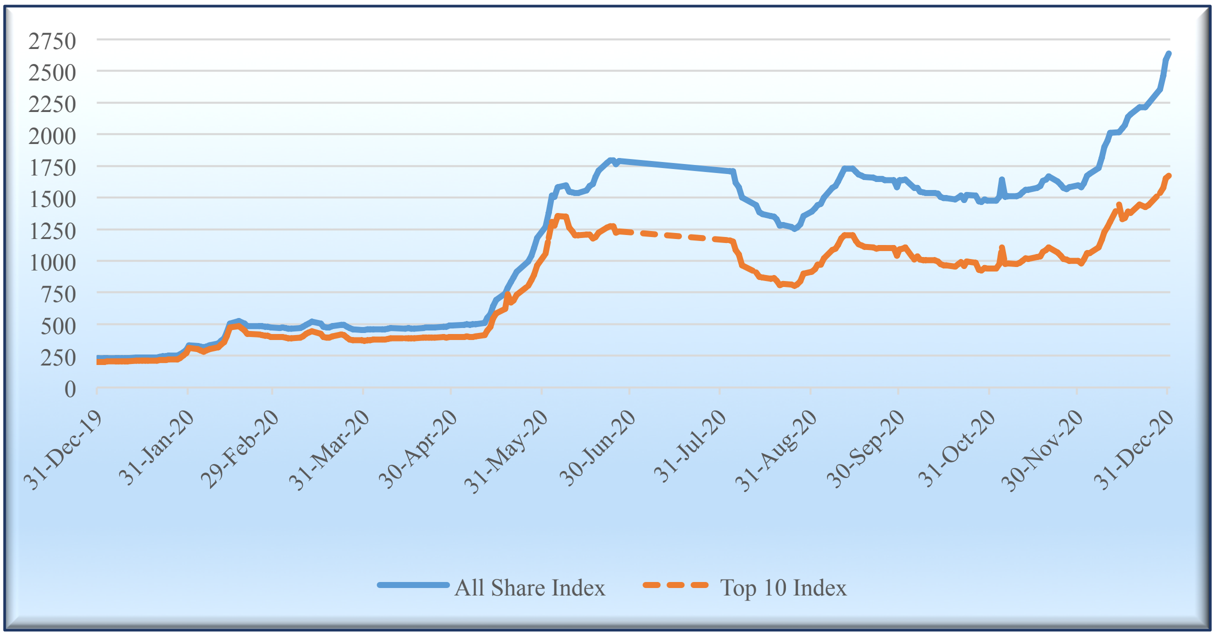
Source: Reserve Bank of Zimbabwe, 2020

Stock Market Developments

9.3 During the year 2020, the Zimbabwe Stock Exchange (ZSE) was characterized by bullish sentiments, notwithstanding the limited range of investment options and high inflation expectations in the first half of the year. As a result, market capitalisation surged by 957.8%, from ZW$30.1 billion recorded in December 2019 to end the year 2020 at ZW$317.9 billion.

9.4 In the same reporting period, the All Share and Top 10 indices grew by 1 035.5% and 709.9% to close at 2 636.34 points and 1 671.47 points, respectively. The growths were partly explained by relatively high average inflation during the first half of 2020. The figure below shows the developments of the ZSE All Share and Top 10 Indices for the period December 2019 to December 2020.

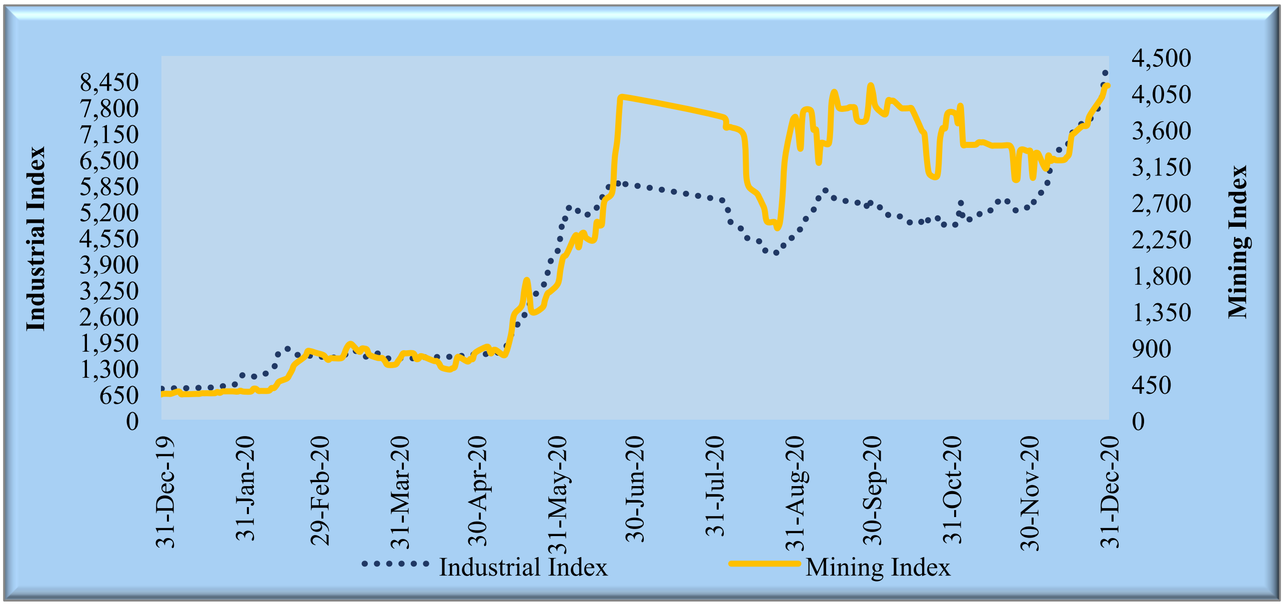
Figure 20: ZSE All Share and Top 10 Indices



Source: Zimbabwe Stock Exchange 2020

9.5 During the same period, the mining and industrial indices went up by 1 205.53% and 1 035.5% to close the year at 4 134.09 points and 8 782.18 points, respectively. Figure 21 shows developments in industrial and mining indices for the period December 2019 to December 2020.

Figure 21: Industrial and Mining Indices



Source: Zimbabwe Stock Exchange, 2020

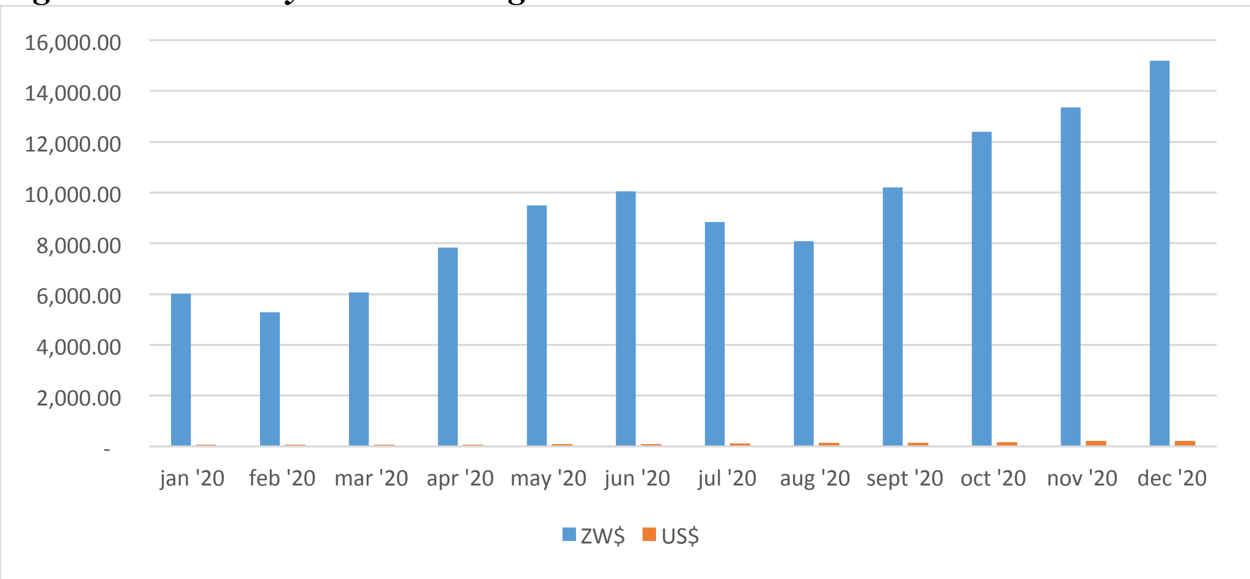
9.6 At the beginning of 2020, the ZSE introduced three new indices on the trading platform. The additional indices took the form of Top 15, Medium and Small Cap, and are intended to track developments on the three segments of the local bourse, hence assisting investors to track portfolio changes on a more granular basis.

9.7 Since inception, the Small Cap, Medium Cap and ZSE Top 15 indices increased tremendously to end the year 2020 at 11 914.14 points, 5 491.09 points and 1 976.98 points, respectively.

Money Market Developments

9.8 Average money market liquidity as measured by banks deposits at the Bank rose from ZW$6 billion in January 2020 to ZW$14.2 billion in December 2020. The rise in market liquidity was largely on account of increased Government expenditure through the reduction of its bank balance at the Bank, as well as purchases of foreign exchange for settlement of external obligations. The monthly average RTGS balances in 2020 are as depicted in Figure 22.

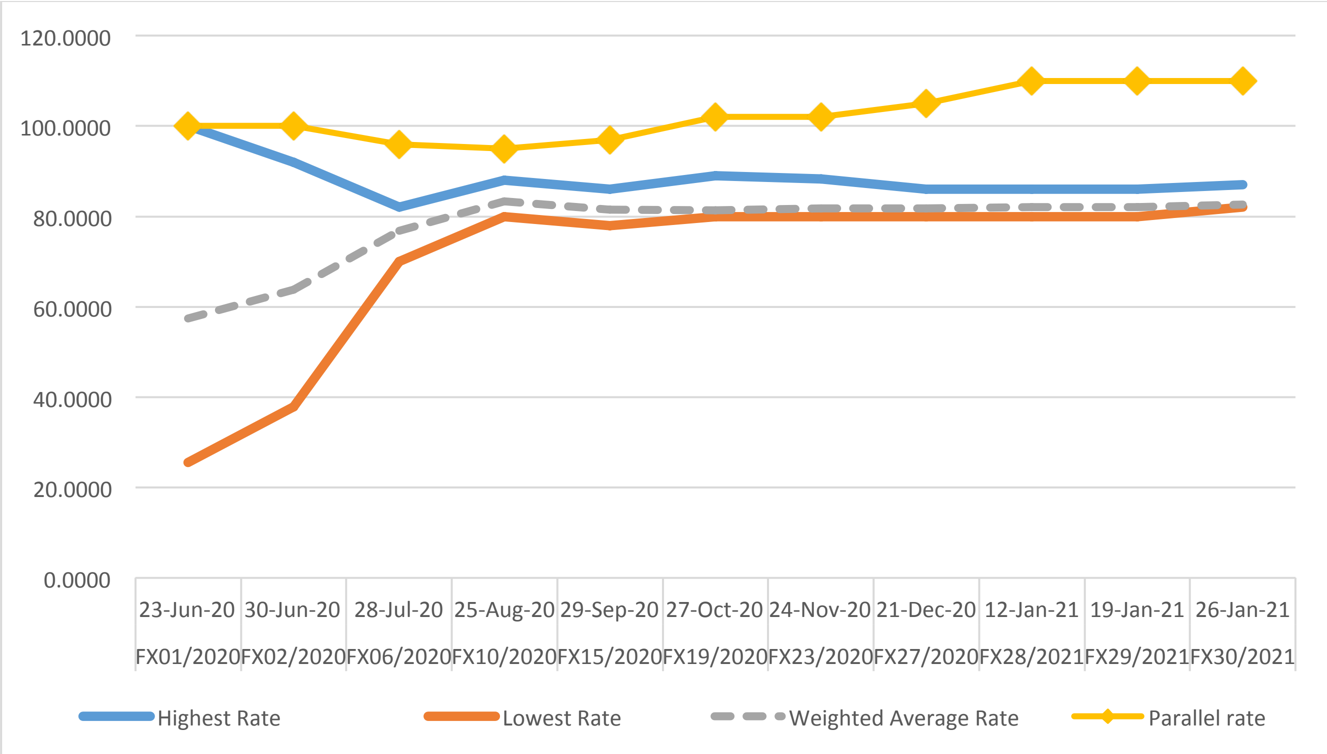
Figure 22: Monthly RTGS Average Balances



10 CURRENCY AND PAYMENT DEVELOPMENTS

10.1 The local currency remained relatively stable in the fourth quarter of 2020 at around Z$81.44 per US$1. The introduction of the Foreign Exchange Auction System on the 23rd of June 2020 saw the foreign currency exchange rates almost converging as the exchange rate premium collapsed from 300% prior to the introduction of the Auction to less than 15 during the fourth quarter of the year. Figure 23 shows exchange rate developments since the introduction of the Auction in June 2020.

Figure 23: Convergence of Foreign Currency Rates



Source: RBZ & Bank Market Intelligent Surveys, 2020

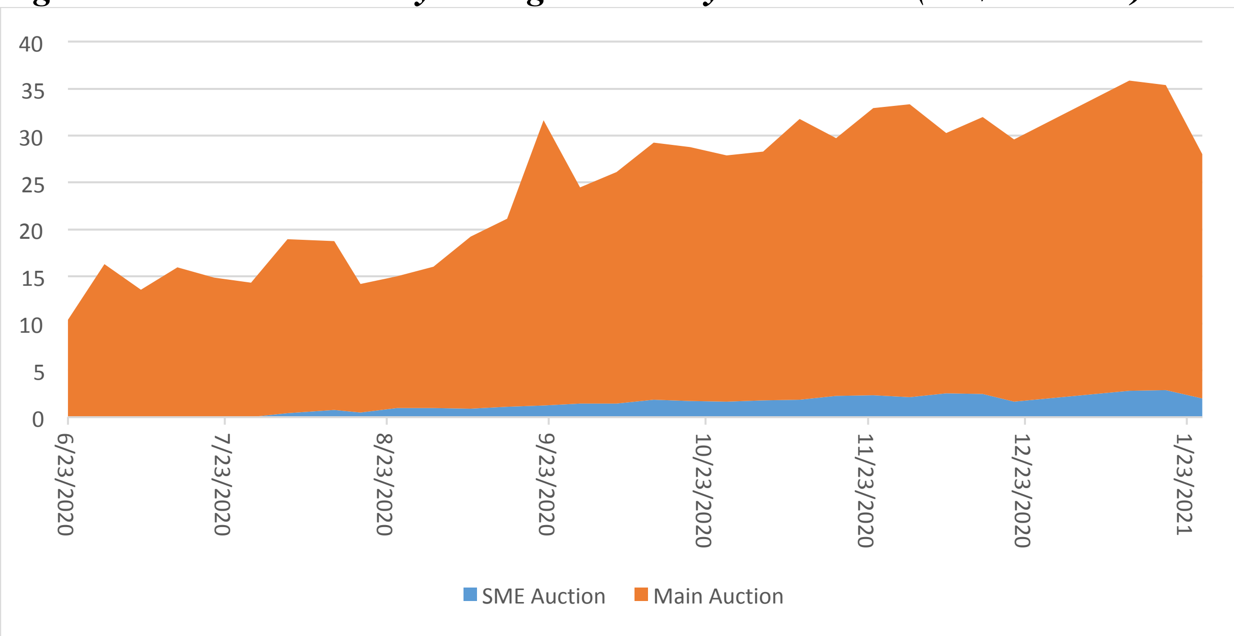
10.2 The decline in the premium led to stability in the foreign exchange market, which filtered through to the pricing of goods and services.

Developments on the Auction

10.3 As at 31 December 2020, the Bank has held 29 Main and 21 SME auctions, with a total of US$624.2 million being allotted, representing 97% of total bids received. In line with the priority list, raw materials, machinery, equipment and consumables accounted for about 70% of allotments.

10.4 Reflecting the increase in the demand for foreign exchange on the auction, allotments increased from an average of about US$18 million before October 2020 to an average of US$30 million between October and December 2020. Figure 24 shows trends in weekly foreign currency allocations.

Figure 24:Trends in Weekly Foreign Currency Allocations (US$ Millions)



Source: Reserve Bank of Zimbabwe

Interbank Foreign Exchange Market

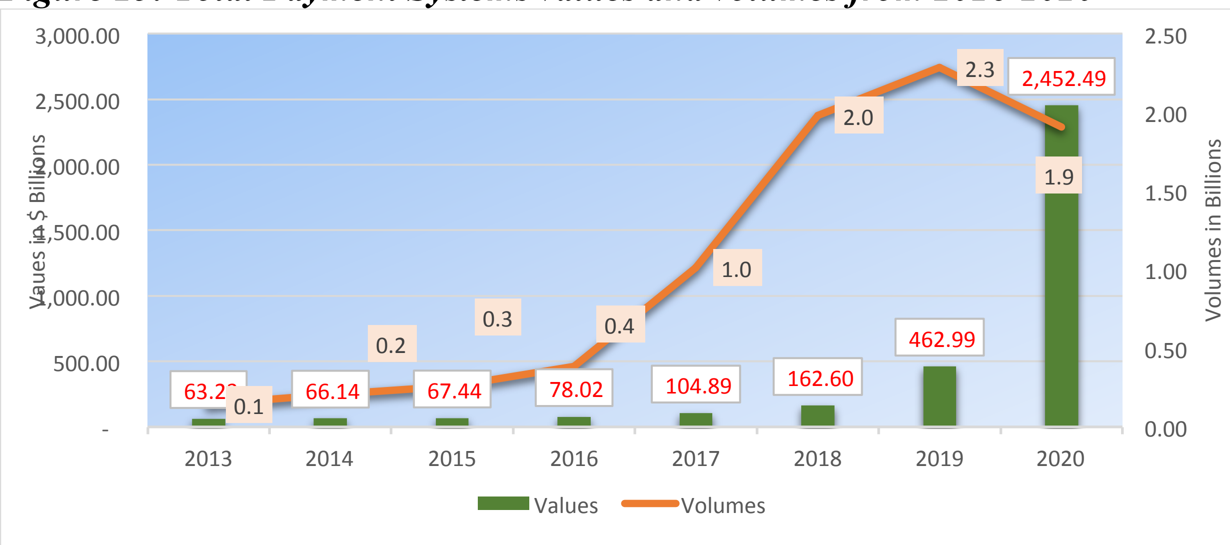
10.5 Over and above the US$624 million allocated on the auction by end December 2020, banks also traded foreign exchange within the interbank market to the tune of US$403 million.

NATIONAL PAYMENT SYSTEMS DEVELOPMENTS

10.6 The national payment systems remained safe and sound attributable to the on-going policy intervention measures, underpinned by the adoption of comprehensive regulatory framework and international best practices. In an effort to combat the spread of Covid-19, the Bank continued to encourage the public to make use of digital and electronic payment methods in conducting their financial transactions.

10.7 Total value of national payment systems transactions increased by 430% to ZW$2.45 trillion in 2020 from ZW$463 billion in 2019, while volumes declined by 16% to 1.9 billion as shown in Figure 25.

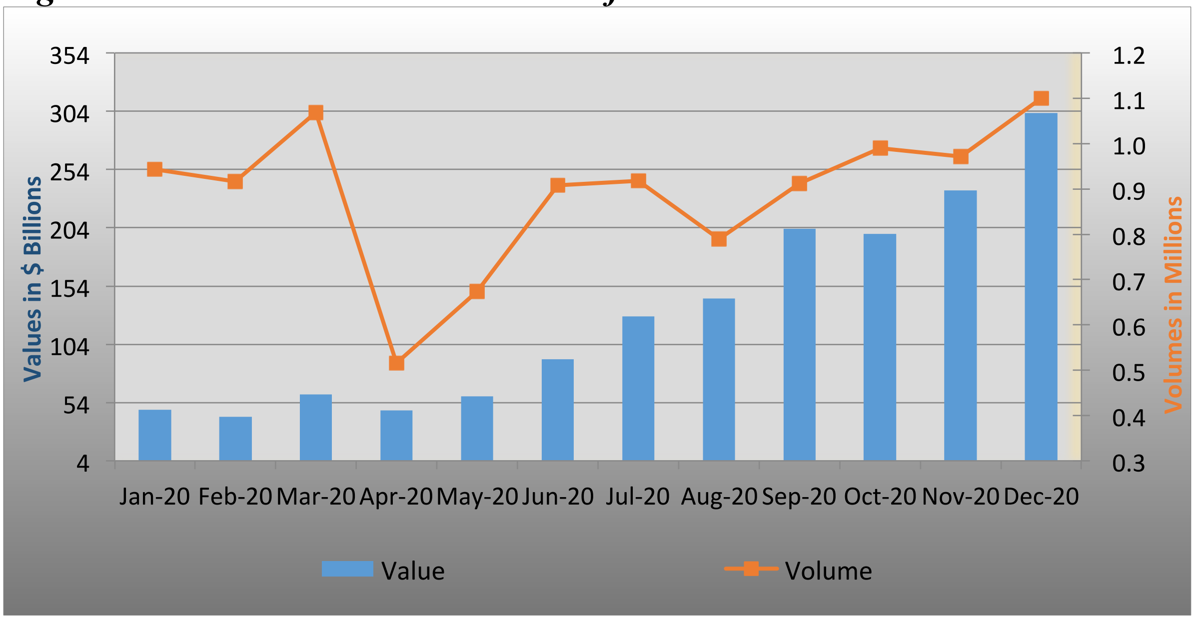
Figure 25: Total Payment Systems values and volumes from 2016-2020



The Real Gross Settlement System(RTGS)

10.8 The RTGS system had a total of 10.7 million transactions valued at ZW$1.56 trillion in 2020 representing increases of 16% and 417%, respectively.

Figure 26: RTGS Values and Volumes for the Year 2020



Financial Market Infrastructure

10.9 As at 31 December 2020, the number of regulated payment service providers were thirteen (13) while participant banking institutions were twenty-four (24) as shown in Table 14.

Table 14: Payment Platforms and Participants Banks as at 31 Dec 2020

Payment Platform	Payment Stream	Number of Direct Participant Banks
1. RTGS	High Value	24
2. CSD	High Value –Gvt Securities	19
3. *SWIFT	Foreign payment channel	24
4. *SADC-RTGS	Regional foreign payment channel	14
5. Zimswitch	National Switch	21
6. Ecocash	Retail –	16
7. One-Wallet	Retail –	6
8. Telecash	Retail	3
9. Icecash	Retail –	1
10. Mycash	Retail –	3
11. *Visa	Retail –	12
12. *Mastercard	Retail –	8
13. *Union Pay International.	Retail –	3

*Mainly for foreign transactions

Payment and Settlement Systems

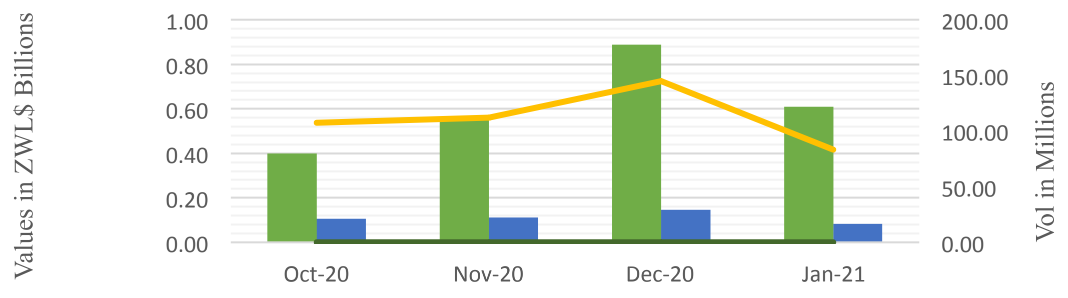
10.10 The Bank remained focussed on ensuring an uninterrupted availability of efficient, safe, secure and accessible payment systems, through the robust systems infrastructure and crisis management measures in place. The Covid-19 pandemic necessitated the triggering of the business continuity plans (BCPs) for the smooth running of systemically important and critical payment systems. Despite remote operations for some of the systems, they remained stable.

10.11 In this regard, transactions performed through cheques declined considerably while usage of digital financial services increased significantly. The Bank will continue to monitor local and cross border payments as well as other market developments and intervene appropriately to ensure systems integrity and stability.

Interoperability

9.1 Interoperability, particularly of mobile money, is yet another significant milestone achieved by the Bank during 2020. The implementation of "wallet-to-wallet" interoperability through the designated National Switch, Zimswitch Technologies P/L as from 29 September 2020 was a game changer under the national payments systems. Figure 27 shows the activities for three and half months from October 2020 to January 2021.

Figure 27: Incoming and Outgoing Values as at 15 January 2021



	Oct-20	Nov-20	Dec-20	Jan-21
Incoming Values	399,508,879.60	548,525,565.35	889,067,970.15	608,621,453.20
Outgoing Values	107,323,960.61	112,066,258.46	144,811,585.66	83,137,460.24
Incoming Volumes	107,323,960.61	112,066,258.46	144,811,585.66	83,137,460.24
Outgoing Volumes	125,914.00	92,588.00	96,026.00	54,626.00

9.2 The national switch will bring the much desired convenience to the market through shared infrastructure whilst competing on services. It is expected to play an important role in enhancing the usage of payment services, thereby deepening access and quality of financial services. The national switch will also improve the oversight role of the Bank through access to transactional information.

9.3 Accordingly, all payment services providers including mobile money providers are required to:

i. take advantage of this initiative to offer quality services by enhancing risk management systems and consumer protection mechanisms;
ii. preserve competition and innovation in the payment services sector, while optimising positive network effects that are critical to benefit users of different digital financial payment services; and
iii. act responsibly towards pricing services related to interoperability and allow the national switch to achieve economies of scale through adopting customer centric strategies.

Oversight and Risk Management

9.4 The Bank remains committed to an effective oversight and supervision of the payment services sector as part of its broad mandate. In 2020, the Bank's oversight focused on IT security, efficiency, reliability, consumer protection recourse mechanisms, data protection, responsible innovation, competition, payment systems availability, business continuity management and incidence of fraud.

9.5 Off-site surveillance and monitoring through digital dashboards and analysis of routine reports complemented the on-site examinations which were constrained by the Covid-19 lockdown measures.

9.6 Notable observations were weaknesses on governance issues and failure to implement the appropriate risk management measures on an ongoing basis. There was general failure by some senior management and boards of payment services providers to be proactive on understanding and dealing decisively with the current risk dynamics.

9.7 In this regard, all payment services providers are required to enhance their governance arrangements in line with the 2017 Guidelines on Retail Payments Systems and Instruments.

Mobile Money Operators

9.8 During the first half of 2020, the Bank commissioned a forensic audit to investigate the operations of mobile banking institutions. Results of the forensic audit were used to strengthen mobile banking regulations. The timely intervention measures by Government and the Bank in strengthening the operations of mobile banking institutions and the establishment of the national switch for interoperability brought sanity in the sector.

9.9 The Bank directed all payment systems providers to continuously monitor the transactional activities of their customers using the expanded risk-based approach to KYC. Payment systems providers were also directed to continuously take appropriate action against transgressors including reporting suspicious transactions to the Financial Intelligence Unit as expected.

Cyber Security Framework

9.10 The Bank noted that digital financial services have advanced significantly in the past few years with new initiatives largely displaced the traditional ways of financial services. With such developments there has also been increased advent of novel types of cybersecurity threats, which have resulted in some criminal conduct cutting across jurisdictions.

9.11 In this regard, there is need for all financial and payments services stakeholders to keep abreast of such cybersecurity threats and proactively formulate mitigates to ensure the financial system safe and secure. To this end, the Bank will soon issue a Cyber Security Framework to further guide the market.

Payment Channel Risk Management

9.12 According to the latest National Risk Assessment Report (2020), the common trend indicates that fraudsters were targeting financial institutions largely leveraging on the digital financial landscape. Given the high cyber threats to the financial services ecosystem, in particular, cross border payments the Bank would like market players to effectively implement the SWIFT Customer Security Program(CSP).

9.13 CSP aims to reinforce the security of the entire SWIFT ecosystem by improving the local environment security of each individual user. The same should be customised to the other payment channels to ensure coordinated and enhanced security standards. All users are therefore encouraged to continuously undertake Self-assessments against the SWIFT Customer Security Controls Framework (CSCF) annually.

9.14 The Bank is encouraged by the participation of local banks on the SADC RTGS regional payment and settlement system that was developed to facilitate funds transfers across boarders in the SADC region.

Anti – Money Laundering (AML) Guideline

9.15 Pursuant with the unwavering commitment to ensure financial stability and integrity, the Bank continued to enhance the oversight and supervisory processes by issuing a revised AML Risk-Based Oversight Guideline to payment services providers.

9.16 The AML Oversight Guideline will continue to be underpinned by Risk-Based approach methodologies, with particular emphasis on the identification and understanding of money laundering and terrorist financing risks within the payment services sector which should be informed by the national and institutional risk assessments.

9.17 The Risk-Based approach also provides a solid foundation for implementation of the Financial Action Task Force (FATF) recommendations and implementation process commensurate with the risk management measures in place.

9.18 The Bank, therefore, urges senior management and Board members of payment services providers to familiarise themselves with the Guideline and ensure compliance.

END OF STATEMENT