MONETARY POLICY STATEMENT

STAY THE COURSE

By

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GOVERNOR

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SECTION ONE

INTRODUCTION AND BACKGROUND

1. This Monetary Policy Statement (MPS) is issued in terms of Section 46 of the Reserve Bank Act (Chapter 22:15) which requires the Governor of the Reserve Bank of Zimbabwe (the Bank) to issue a statement outlining the monetary policy stance for the subsequent six months, the reasons for the policies and an evaluation of the previous period monetary policy measures.

2. Since the last monetary policy statement issued in August 2021, the Bank has remained steadfast and resolute in its quest to foster domestic macroeconomic and financial system stability. Notwithstanding the Covid-19 induced effects on inflation and wider macroeconomic stability, year-on-year inflation went down from a peak of 837.5% in July 2020 to 60.7% in December 2021.

3. The conservative monetary targeting framework currently being pursued by the Bank has seen quarterly growth in reserve money being successfully contained within the desired targets throughout 2021. The quarterly growth targets in reserve money were reduced from 20% to 10% in the last quarter of 2021, signalling a tighter monetary policy stance in response to resurging inflationary pressures and adverse exchange rate expectations. As such, reserve money ended the year 2021 at ZW$25.9 billion, compared to a maximum threshold of ZW$29 billion for the last quarter of 2021. As a result of the tightening, annual growth in broad money (M3) also fell from a peak of 507.9% in January 2021 to 131.8% by December 2021.

4. The banking sector remained safe and sound with demonstrable capacity for increased support to the recovery of the economy even in the face of vulnerabilities induced by the Covid-19 pandemic. The banking sector asset quality also remained satisfactory with the average non-performing loans

(NPLs) to total loans ratio of 0.94% as at 31 December 2021, against an acceptable international benchmark of 5%.

5. The resurgence of inflationary pressures at the end of 2021, which saw annual inflation closing the year at 60.7%, mainly as a result of the parallel exchange rates pass-through effect on domestic inflation that continues to bedevil the economy, makes the exchange rate pass through an important consideration for to this Monetary Policy Statement. Thus, whilst the auction exchange rate depreciated from ZW$85 per US$1 for much of 2021 to close the year at ZW$108 per US$1, the parallel market premiums which rose to between 40% and 90% exerted significant inflationary pressures on the economy.

6. The pass-through effects of the exchange rate movements on inflation required the Bank to take prompt measures to dampen the inflationary pressures in order to sustain the downward trend in the month-on-month inflation, witnessed in the last three months. The sustenance of the current tight monetary policy is thus anticipated to usher further stability on the exchange rate and inflation in 2022.

7. Evidence from high frequency data on industry performance points to an improved outlook in 2022. Economic growth is projected at 5.5% in 2022 while annual inflation is expected to decline to between 25% and 35% by end of 2022, from 60.7% in December 2021. The ongoing progress in vaccinations against Covid-19 and a return to normal business will revive and boost economic activity and set the economy on a sustained growth trajectory in 2022 and beyond.

8. The Bank commends the Monetary Policy Committee (MPC) for being proactive in providing the necessary guidance on monetary policy. The Bank also commends business for supporting the restoration of macroeconomic

stability, observance of the monetary policy measures and heeding of the Bank's call to refrain from manipulating or driving the exchange rate downwards as a means of discouraging consumers to transact in local currency, by preferring foreign currency over local currency, Equally, the Bank commends the Government for complementing the monetary policy measures through appropriate fiscal consolidation and for widening the use of the local currency which is necessary to anchor inflation. The complementarity between fiscal and monetary policy is key in efforts to control inflation, as well as improving macroeconomic stability in the economy.

9. While the domestic economic outlook is favourable, the weaker than initially anticipated global economic outlook, due to the new Omicron Covid-19 variants, poses threats to the pace of domestic economic recovery particularly in the tourism industry and on some commodity prices. In addition, rising energy prices and supply disruptions which have resulted in higher and more broad-based inflation in the United States and many emerging markets and developing economies present significant pass-through effects to the domestic inflation. Against this backdrop, the measures contained in this Statement will ensure that the Bank stays the course on tightening monetary policy to curb inflation, while ensuring that the ongoing domestic economic recovery is supported, notwithstanding the pandemic.

10. The rest of the Statement is organised as follows: Section two assesses the effectiveness of previous monetary policy measures; Section three highlights the recent economic developments; Section four provides financial sector developments; Section five provides the Balance of Payments developments; Section six provides the new monetary policy measures for

the next 6 months; Section seven provides the economic and inflation outlook; and lastly Section eight concludes the Statement.

SECTION TWO

ASSESSMENT OF PREVIOUS MONETARY POLICY MEASURES

11. The monetary policy measures implemented by the Bank have helped to restore macroeconomic stability in the economy. Annual inflation declined from 348% in December 2020 to 60.7% in December 2021. The exchange rate remained stable at about ZW$85 per US$1 for the greater part of 2021, notwithstanding the temporary volatility experienced in the last quarter of 2021. The parallel market exchange rate premium also widened in the last quarter of the year to between 40% and 90% on account of the high demand for foreign currency which was driven by an increase in aggregate demand emanating mainly from the good agricultural outrun and general increase in economic activity and exports.

12. The monetary targeting framework adopted by the Bank has gone a long way in anchoring exchange rate and inflation expectations. The growth in reserve money supply has remained constrained and within the monetary targeting framework growth rates and in line with domestic economic fundamentals and the need to support sustainable economic growth.

13. The measures that were being pursued by the Bank during the last six months of 2021 included the following:-

Interest Rate Policy

14. The Bank maintained its policy rate at 60% during the last quarter of 2021 to contain speculative demand within the economy.

15. In order to encourage domestic production, the Bank maintained the Medium-Term Bank Accommodation Facility which was introduced in November 2019. The interest rate on the facility was increased from 30% to 40% in October 2021. Cumulative disbursements under the facility as at 31 December 2021 stood at ZW$7.5 billion while the outstanding amount was ZW$3.9 billion. The Bank's Medium-Term Accommodation Facility has also helped to enhance productivity and ensured availability of goods in the economy.

Statutory Reserve Requirements

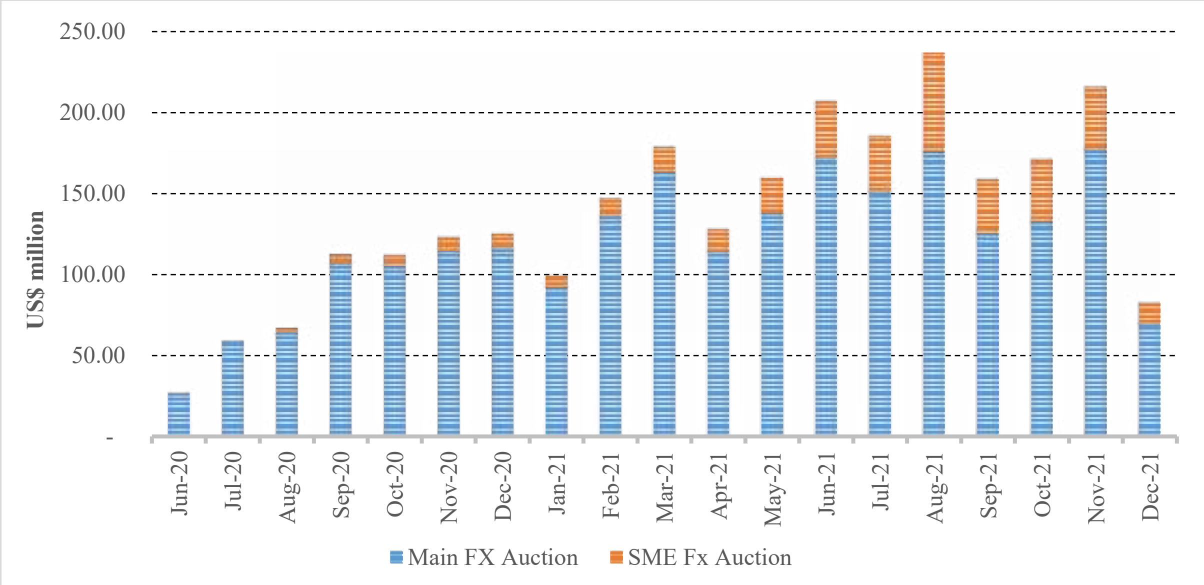
16. The Bank further tightened its monetary policy stance by adjusting statutory reserve requirements of banks in October 2021. The statutory reserve ratio for demand and call deposits was increased from 5% to 10%, while the ratio for time deposits was maintained at 2.5%. Consequently, statutory reserve balances rose from ZW$9.58 billion as at 28 October 2021 to ZW$20.0 billion as at 31 December 2021.

Foreign Exchange Auction System

17. The foreign exchange auction system, which is now in its second year, continues to play a critical role in bringing transparency, inclusivity and stability in the trading of foreign currency in the economy. As at 31 December 2021 the Bank had successfully conducted 77 Main and 71 SMEs Auctions from its inception on 23 June 2020. In 2021, US$1.97 billion was allotted, representing 97% of total bids submitted to the auction. This amount represents around 30% of total foreign payments processed by banks in 2021.

18. As a reflection of the importance of the SMEs sector, the share of allotments of the SMEs Auction to total allotments grew from 8% in first quarter of 2021 to 19% in the fourth quarter of 2021 as shown in Figure 1.

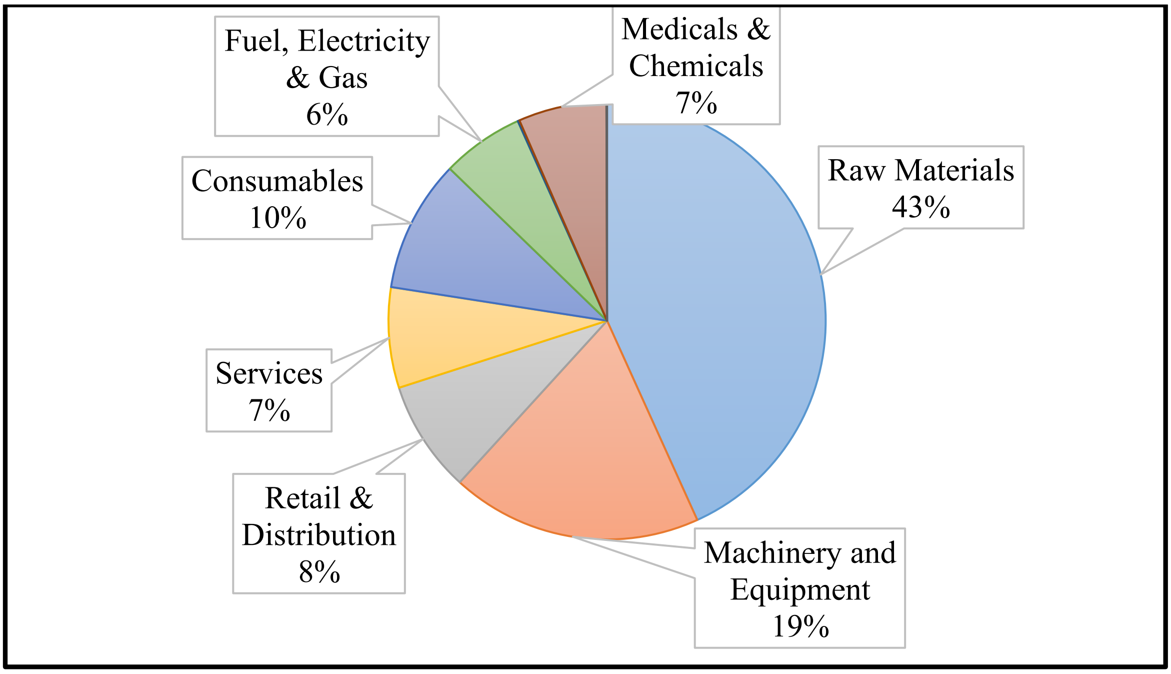
Figure 1: Foreign Exchange Auctions Allotments in 2020-2021



Source: RBZ

19. There was a marked increase in the number of participants on the auction system as applicants rose from about 500 at the beginning of 2021 to reach a peak of just over 2,000 by year-end. The auction system has provided essential liquidity to key productive sectors of the economy, leading to enhanced capacity utilisation and significant import substitution. Most of the auction allotments went towards imports of raw materials, machinery and equipment as well as other consumables for industry.

Figure 2: Foreign Currency Allotments to Productive Sectors



Source: RBZ

Foreign Exchange Receipts

20. The country recorded its highest ever foreign currency receipts of US$9.7 billion in 2021, an increase of 53.5% from 2020, as shown in Table 1. This performance, which dwarfs the previous record of US$7.6 billion recorded in 2013, is attributable to increased international commodity prices, increased international remittances and the gold incentives put in place by the Government.

Table 1: Total Foreign Currency Receipts (US$ million)

Type of Receipt		Year 2021 (US$ Million)	Year 2020 (US$ Million)	% Change
Export Proceeds		6,194.70	3,718.80	66.6%
International Remittances	Diaspora Remittances	1,430.14	1,002.10	42.7%
	NGOs	975.16	647.75	50.5%
Loan Proceeds		876.06	845.21	3.6%
Income receipts		118.93	56.85	109.2%
Foreign Investment		91.14	40.06	127.5%
TOTAL		**9,686.13**	**6,310.76**	**53.5%**

Source: RBZ

Foreign Payments Performance

21. For the year 2021, banks processed foreign payments amounting to US$6.99 billion. This represents a 45.2% increase in foreign payments from US$4.82 billion recorded for the same period in 2020. The upward trajectory in foreign payments was largely on account of increased foreign currency supply from the auction system and exports, consistent with the increased capacity utilisation in industry. Table 2 shows foreign payments, by category, for the same period in 2021 and 2020.

Table 2: Foreign Payments from January to December 2021

Category	2021	2020	% Variance	Contribution 2021	Contribution 2020
Merchandise Imports (excl. energy)	**4,090.9**	**2,751.1**	**49%**	**59%**	**57%**
- Raw materials, pharmaceuticals & food	1,712.3	1,283.2	33%	24%	27%
- Capital Goods	1,473.1	987.3	49%	21%	21%
- Intermediate Goods	905.5	480.6	88%	13%	10%
Energy (Fuel & Electricity)	**982.3**	**646.2**	**52%**	**14%**	**13%**
- Fuel	856.8	509.8	68%	12%	11%
- Electricity	125.4	136.3	-8%	2%	3%
Service Payments	**635.7**	**516.2**	**23%**	**9%**	**11%**
- Technical, Professional & consult	281.1	243.8	15%	4%	5%
- Software	75.2	71.6	5%	1%	1%
- Other (tourism, education, freight etc)	279.4	200.8	39%	4%	4%
Income Payments (Profits, Dividends)	**462.1**	**343.6**	**34%**	**7%**	**7%**
- Dividends	328.4	234.3	40%	5%	5%
- Interest Payments	11.9	20.9	-43%	0.2%	0%
- Other (Salaries, Expats, Rental)	121.7	88.4	38%	2%	2%
Capital Remittances (outward)	**645.4**	**450.9**	**43%**	**9%**	**9%**
- External Loan Repayments	556.3	398.2	40%	8%	8%
- Disinvestments	55.0	28.7	92%	0.8%	1%
- Foreign Investment	34.1	24.0	42%	0.5%	0.50%
Other Payments (International Cards and Refunds)	**173.2**	**107.2**	**62%**	**2.5%**	**2.2%**
Total	**6,989.5**	**4,815.2**	**45.2%**	**100%**	**100%**

Source: RBZ

22. Consequently, significant increases in foreign currency receipts relative to foreign payments resulted in significant increases in foreign currency (FCA) deposits in the banking sector to an average of US$1.7 billion in 2021.

Interbank Foreign Exchange Market

23. The interbank market also continued to be a key source of foreign currency outside the auction system. To this end, foreign exchange traded outside the

auction, excluding sales to bureaux de change, rose by 72% to US$1.86 billion in 2021.

The Weekly US$50 *Bureau de Change* Facility

24. The Bank introduced this facility in the second half of 2021, on 30 August 2021, to cater for the general foreign currency requirements for the public at the official exchange rate. A total amount ofUS$23.1 million was disbursed to 461 908 individuals as at 31 December 2021. The Bank was of the considered view that this facility would meet the small foreign currency requirements of the public for, among other things, medical expenses and fuel at the official exchange rate and thus improving the supply of foreign exchange in the market.

25. Whilst the facility has gone a long way in assisting the needy, the facility has been highjacked by those that seek to make arbitrage profits. This behaviour calls for the Bank to review the facility.

Foreign Exchange Mobilisation

26. The Bank continued to negotiate for offshore lines of credit to support the foreign exchange auction system, refinance existing obligations as well as meeting the country’s balance of payments requirements in 2021. In this regard, the Bank arranged a US$150 million Letter of Credit (LC) facility from the African Export-Import Bank (Afreximbank) which helped in reducing pressure on the auction. The Bank is also pleased by the role the

banks played in availing to their clients LCs and foreign currency advances from their own positions to the tune of US$375 million.

27. The ultimate solution to the country's foreign currency situation is not borrowing but increased production, improved productivity and efficient mobilisation of domestic financial resources.

SECTION THREE

RECENT ECONOMIC AND INFLATION DEVELOPMENTS

28. The domestic economic recovery is expected to continue albeit at a slower rate of 5.5% from 7.8% recorded in 2021. This development is consistent with global trends where the International Monetary Fund projects the global economy to grow by 4.4% in 2022 compared to 5.9% in 2021, as rising Covid-19 cases, supply chain disruptions and higher inflation hamper economic recovery.

29. Many economies around the globe are experiencing rising inflationary pressures due to continuing disruptions in global supply chains amid the Covid-19 pandemic, turmoil in the labour markets, rising oil prices and strong consumer demand following the reopening of some economies, among other things.

30. The United States of America Consumer Price Index, for example, increased to 7% in December 2021 from low digit levels of close to 1%. Similarly, the Eurozone recorded its highest inflation rate of 4.9% since the formation of the monetary union, with German inflation at a 29-year high of 5.2%. The rise in US inflation has been largely driven by increased money supply growth in the economy caused by the US government stimulus expenditure and support against Covid-19. For Sub-Saharan Africa the surge in inflation was mainly driven by food inflation, which accounts for about 40% of the region's consumption basket.

31. The IMF perceives that inflation risks will remain skewed to the upside and could be sustained further if pandemic-induced supply-demand mismatches continue, leading to more sustained price pressures and rising inflation expectations. As a result, the IMF has called on central banks to respond quickly if the risks of rising inflation expectations become more apparent.

32. Domestically, the business community, notably, the Chamber of Mines of Zimbabwe and Confederation of Zimbabwe Industries (CZI) are bullish about the economic prospects in 2022. For instance, the state of the Mining Industry Report suggests that the mining business confidence index recorded an increase from 9.8% in 2021 to 17% in 2022. The report also noted that about 42% of the respondents in the mining sector expect to ramp up production by over 40% in 2022.

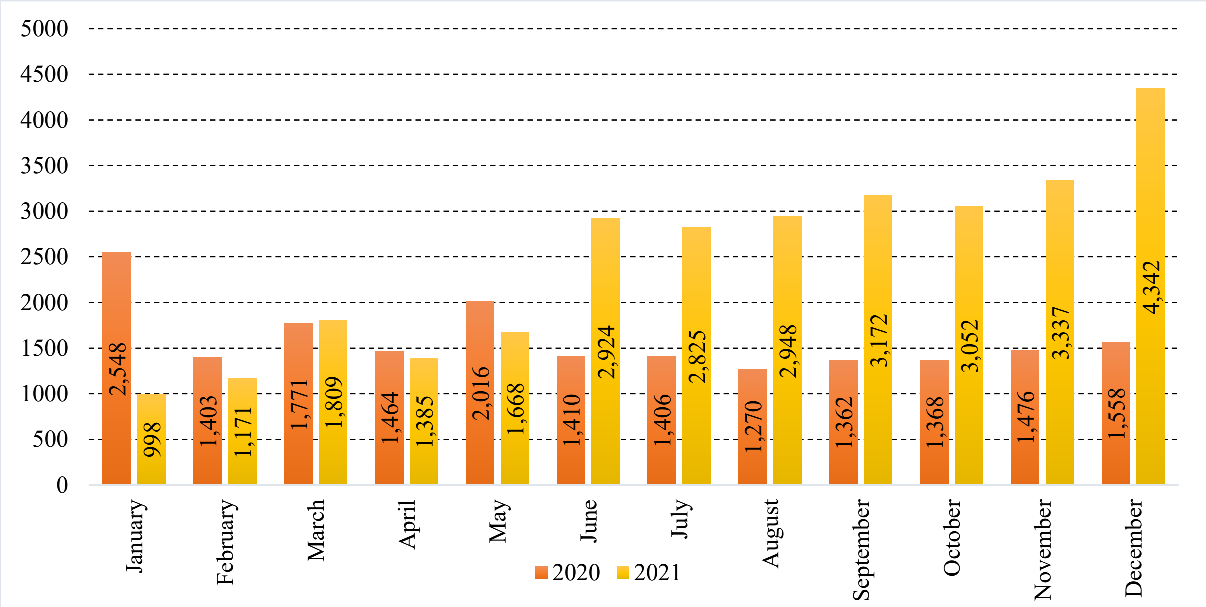
33. The positive sentiments on the economy by the business community suggest that the expected robust economic growth envisaged in 2022 is attainable. Economic growth would be driven by construction, mining as international commodity prices increased as well as accommodation and food services in line with easing of Covid-19 restrictions.

Gold Deliveries

34. In the mining sector, gold deliveries to Fidelity Gold Refiners (FGR) jumped from 19 052.65 kgs delivered in 2020 to 29 629.61 kgs delivered in 2021. This represents an increase of 55.51% or 10 576.96 kgs. The increase is mainly attributable to the 5% gold incentive given to those delivering at least 20kg to FGR and an incremental of 2 percentage points for each ton delivered to FGR.

35. During the same period, primary gold producers delivered a total of 11 159.00 kgs, compared to 9 738.75 kgs delivered over the same period in 2020. This shows a 14.58% or 1 420.25 kgs year on year growth in terms of primary producer deliveries. Deliveries from small-scale gold producers also increased from 9 313.89 kgs during the period January to December 2021 compared to 18 470.61 kgs during the same period in 2020. This represents a year-on-year growth of 98.31% or 9 156.72 kgs.

Figure 3: Comparison of Gold Deliveries to FDR in 2021 and 2020

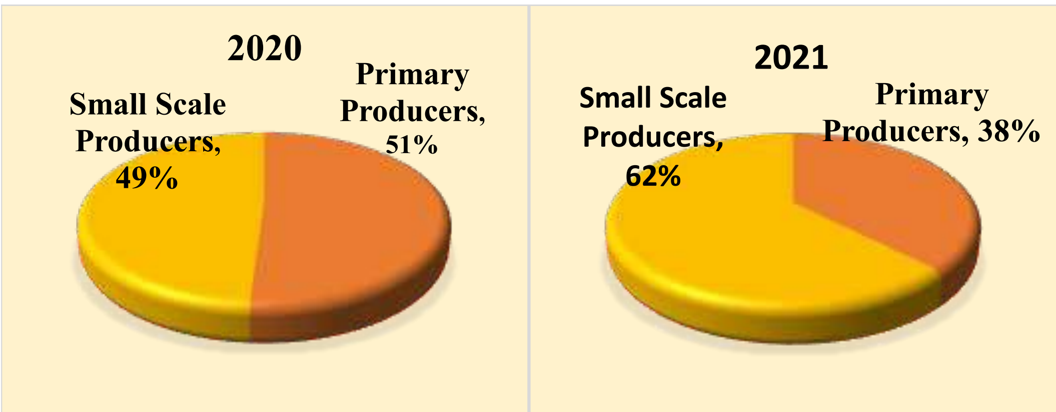


Source: RBZ

Sectoral Performance of Gold Deliveries to FGR

36. For the year 2021 small scale producers contributed 62% of the total gold deliveries to FGR compared to 49% in 2020, whereas primary producers contributed 38% in 2021 which was less than the 51% which was achieved in 2020, as highlighted in Figure 4.

Figure 4: Sectorial Performance for Gold Producers



Source: RBZ,2021

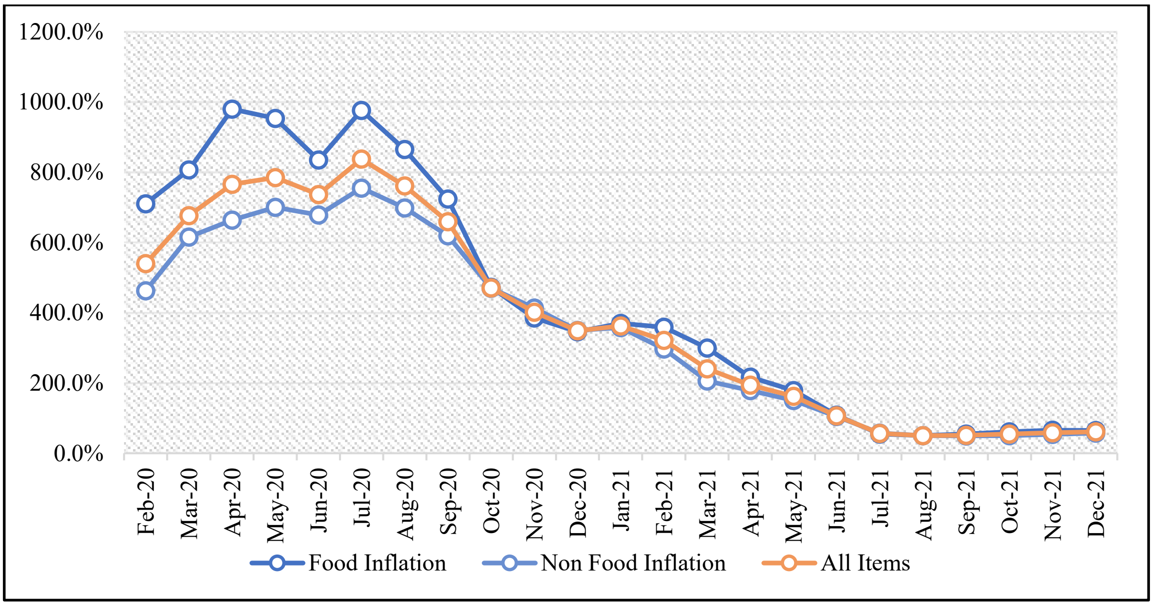
Manufacturing Sector Performance

37. The manufacturing sector performance is estimated to have increased in 2021 following volume recoveries across most subsectors that include foodstuffs, chemical and petroleum products, drinks & beverages, tobacco and non-metallic mineral products, supported by the stable economic environment, the auction system that provided the much needed forex, declining inflation as well as localisation of value chains. As a result, locally produced goods now constitute above 80% of retail sales in the country.

Inflation Developments

38. The country has made significant progress in containing inflation since July 2020. As a result, annual inflation declined from a peak of 837.5% in July 2020 to 50.3% in August 2021. The decline in inflation resulted from the implementation of appropriate disinflationary monetary policies and from fiscal consolidation. The resurgence of inflationary pressures at the end of 2021, which saw annual inflation closing the year at 60.7%, is a result of the parallel exchange rates pass-through effects in inflation.

Figure 5: Annual Inflation



Source: Zimstat 2021

39. Decline in both annual food and non-food inflation contributed to the fall in headline inflation in 2021. Annual food inflation decreased from 369.43% in January 2021 to end 2021 at 64.91%. Likewise, annual non-food inflation decelerated from 357.69% in January 2021 to 57.74% in December 2021. In addition to the tight monetary and fiscal policies, the auction system, improved global economic activity, partly due to the relatively relaxed Covid-19 lock-down measures and the global vaccination, helped to resuscitate supply chains, which resulted in improved economic activity in the domestic economy.

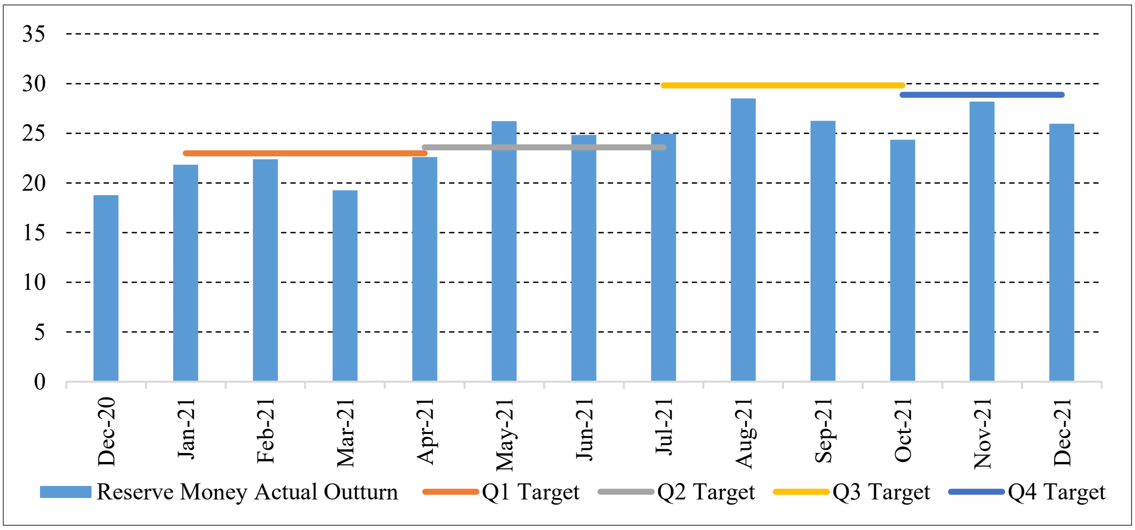
40. Whilst annual inflation responded positively to policy measures, the nascent instability in the exchange rate, which saw the widening of foreign exchange premiums in the second half of 2021, pushed up monthly inflation above the targeted 2%. Both monthly food and non-food inflation, which had been falling in the first half of the year, assumed an upward trend in line with forex premiums in the second half of 2021.

Monetary Developments

41. The Bank continued to implement a conservative monetary targeting framework to contain money supply growth and avert attendant pressures on exchange rate and inflation. In this regard, quarter on quarter reserve money growth target for 2021 was progressively reduced from 22.5% during the first two quarters of 2021 to 20% in the third quarter, and further down to 10% in the fourth quarter of the year. The downward revision was necessitated by the need to further tighten monetary policy in response to resurgence of inflationary and exchange rate pressures in the economy.

42. The successive revisions in quarter-on-quarter growth targets saw reserve money being reduced to ZW$25.49 billion as at the end of December 2021, well within the fourth quarter target of ZW$28.9 billion. The quarter-on-quarter reserve money growth rate fell by 1.14%, against a target of 10%. This was despite the once-off increase in statutory reserves following the upward revision of the statutory reserve requirement ratio for demand/call deposits from 5% to 10%. Figure 6 shows reserve money developments throughout the year 2021.

Figure 6: Reserve Money Developments (ZW$ Billions)



Source: RBZ

43. The year-end reserve money stock of ZW$25.49 billion translated to a year on year growth of 38.26%, which was a decline of 43.44 percentage points from 81.70% recorded in December 2020. Despite the relatively high money multiplier in the economy, of about 10, the decline in the rate of annual growth in reserve money saw broad money (M3) annual growth rate also falling from 508% in January 2021 to 132% by December 2021.

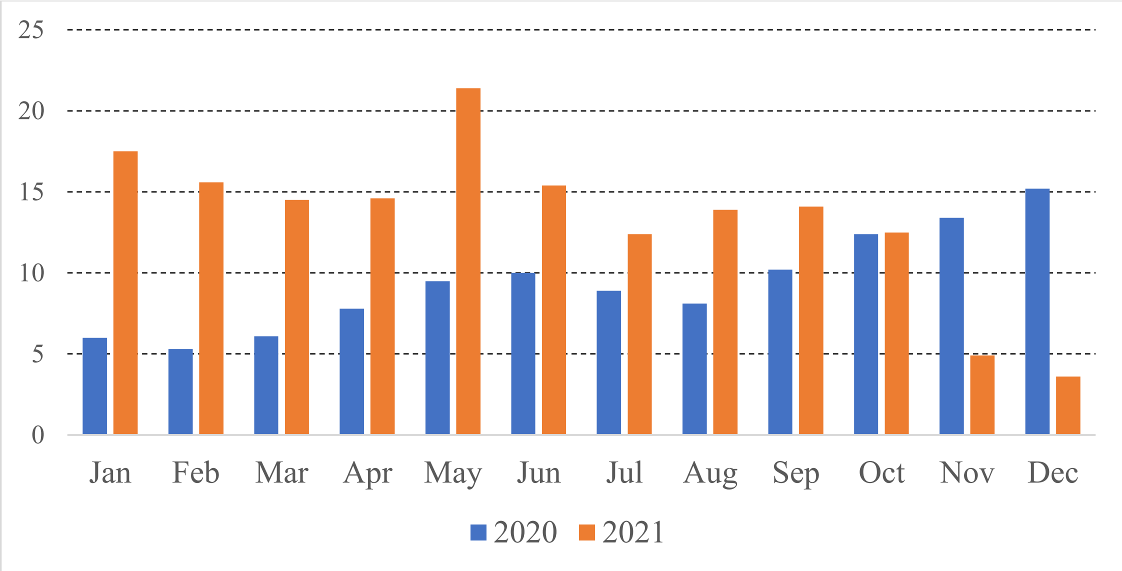
Money Market Liquidity

44. In view of the set targets, a tight liquidity management framework was adopted which resulted in average monthly banks' balances at the Bank declining from ZW$12.6 billion in December 2020 to ZW$3.6 billion in December 2021.

45. The desired liquidity levels in the market were largely achieved through the issuance of Non-Negotiable Certificates of Deposit (NNCDs) introduced in June 2021. In this regard, the Bank discontinued the issuance of the 7%

Savings Bonds and OMO bills. The outstanding stock of NNCDs as at 31 December 2021 was ZW$37.6 billion. The trend in monthly average balances for 2020 and 2021 are depicted in Figure 7.

Figure 7: Monthly Average Balances (ZW$ Billion)



Source: RBZ

46. Money market interbank trading remained low as most banks had surpluses on their positions although the liquidity levels varied from one institution to the other with a few institutions accounting for the bulk of the funds.

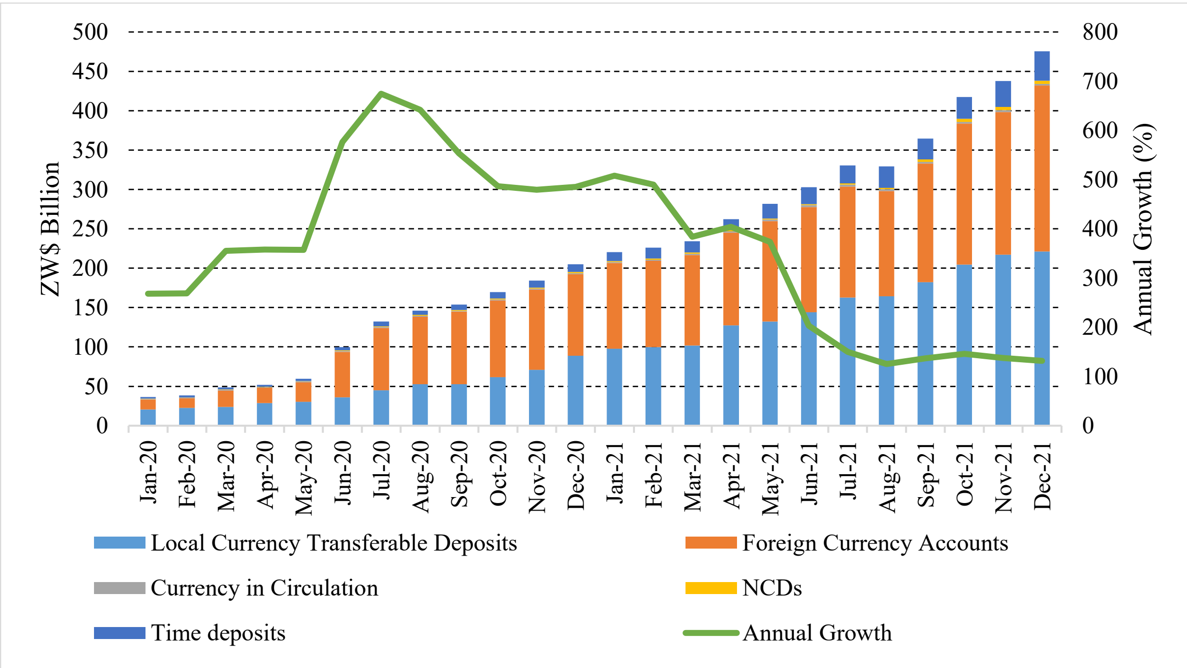
47. To manage liquidity frugally, the Bank and the Ministry of Finance and Economic Development set-up a Liquidity Management Committee comprising staff from both institutions. The Committee meets monthly to deliberate on liquidity issues guided by the policies announced by the MPC.

48. During 2022, market liquidity will largely be influenced by developments on net Government transactions including decisions on funding for the purchase of agricultural produce as well as foreign exchange transactions.

49. Broad money was made-up of local currency transferrable deposits, 46.54%; foreign currency deposits, 44.33%; time deposits, 7.87%; negotiable certificates of deposits, 0.78%; and currency in circulation, 0.49%.

50. Local currency deposits in broad money registered an annual growth of 161.21% in 2021, while currency in circulation increased by 93.86%. Foreign currency deposits grew year on year by 103.13%, from ZW$103.73 billion in December 2020 to ZW$210.70 billion in December 2021, largely due to an increase in the value of FCAs from an equivalent of US$1.27 billion in December 2020 to US$1.94 billion in December 2021. Figure 8 shows monetary developments between January 2020 and December 2021.

Figure 8: Monetary Developments



Source: RBZ

Stock Market Developments

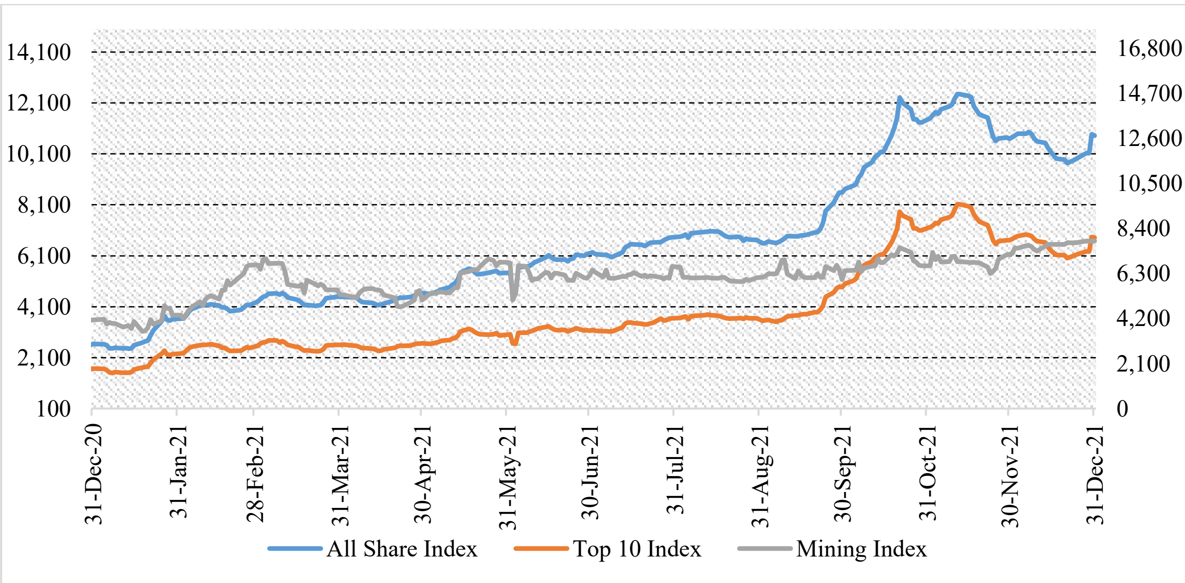
51. The larger part of the year 2021 was characterised by profit taking and portfolio re-balancing, largely in some selected counters with strong balance

sheets. The bullish sentiments exhibited on the Zimbabwe Stock Exchange (ZSE) in 2021, resulted in a 314.37% increase in market capitalisation to end the year at ZW$1 317.21 billion, compared to ZW$317.88 billion recorded in December 2020.

52. In view of the above developments, during the same reporting period, the All Share, Top 10, Small Cap and mining indices registered gains of 310.51%, 307.51%, 3 280.46% and 89.05%, respectively, to close at 10 822.36 points, 6 811.43 points, 402 753.21 points and 7 815.37 points, respectively.

53. Figure 9 shows the developments of the ZSE All Share, Top 10 and Mining Indices for the period December 2020 to December 2021.

Figure 9: ZSE Developments

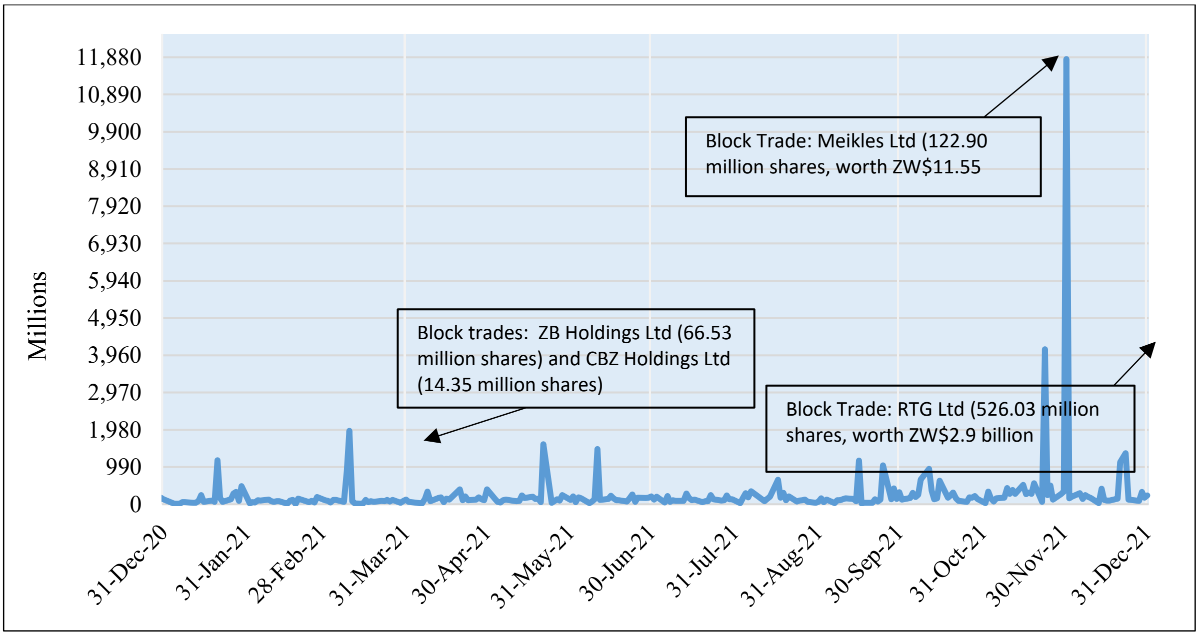


Source: Zimbabwe Stock Exchange 2021

Market Turnover

54. As a consequence of improved trading, coupled with a significant number of block trades registered on the local bourse during year under review, the cumulative volume and value of shares traded increased by 109.64% and 276.50% to 7.84 billion shares and ZW$65.24 billion, compared to 3.74 billion shares and ZW$17.33 billion recorded in the previous year, respectively.

Figure 10: ZSE Market Turnover



Source: Zimbabwe Stock Exchange, 2021

55. Foreign investors' participation improved over the period under review, reflected by cumulative net inflows of ZW$9.74 billion realized in 2021, compared to net inflows of ZW$5.01 billion registered in the previous year.

SECTION FOUR

CONDITION AND PERFORMANCE OF THE BANKING SECTOR

56. The banking sector remained safe and sound with demonstrable capacity for increased support to the recovery of the economy. As at 31 December 2021, operating institutions in the banking sector comprised 13 commercial banks, five (5) building societies, and one (1) savings bank. In addition, there were 168 credit-only microfinance institutions, eight (8) licensed deposit-taking microfinance institutions and three (3) development financial institutions under the purview of the Bank.

57. AFC Land & Development Bank of Zimbabwe Limited was granted authority to commence operations on 18 October 2021.

Financial Soundness Indicators

58. The banking institutions remain resilient and well capitalized as reflected by the financial soundness indicators depicted in Table 3.

Table 3: Financial Soundness Indicators

Key Indicators	Benchmark	Dec - 20	Jun - 21	Sep -21	Dec - 21
Total Assets (ZW$ billion)	-	349.59	486.4	569.99	762.96
Total Loans & Advances (ZW$ billion)	-	82.41	142.79	175.60	229.94
Net Capital Base(ZW$ billion)	-	53.18	72.90	84.58	122.85
Core Capital(ZW$ billion)		40.75	53.66	63.39	100.83
Total Deposits(ZW$ billion)	-	204.13	304.95	367.02	476.35
Net Profit(ZW$ billion)	-	34.24	15.09	25.39	59.29
Return on Assets	-	13.55	4.78	8.23	12.04
Return on Equity	-	45.54	18.71	31.87	43.16
Capital Adequacy Ratio (%)	12	34.62	35.32	35.34	32.86
Tier 1 Ratio (%)	8	22.65	25.05	26.78	26.54
Loans to Deposits Ratio (%)	70	39.45	45.84	46.87	48.27
NPLs Ratio (%)	5	0.3	0.55	0.61	0.94
Liquidity Ratio (%)	30	73.06	66.89	62.87	64.37

Source: RBZ

Banking Sector Capitalization

59. The banking sector remained adequately capitalized, with the banking sector average capital adequacy and tier one ratios of 32.86% and 26.54%, respectively, above the regulatory minima of 12% and 8%, respectively. The aggregate core capital increased by 59.11% from ZW$63.39 billion as at 30 September 2021 to ZW$100.83 billion as at 31 December 2021.

Compliance with the New Minimum Capital Requirements

60. In January 2020, the Bank increased minimum capital requirements for the various classes of banking institutions as part of measures to promote the resilience of the financial sector. Further, cognizant of the prevailing challenging environment exacerbated by the negative impact of the Covid-

19 pandemic, the Bank extended the deadline for compliance with the requirement for meeting the minimum capital levels from 31 December 2020 to 31 December 2021.

61. As at 31 December 2021, out of the 18 operating banking institutions (excluding POSB with no statutory minimum capital requirement), 13 banking institutions complied with the new minimum capital requirements, for their chosen capital tier segment as indicated in Table 4 below:

Table 4: Capitalisation of Banking Institutions

Institution	Declared Core Capital as at 31 Dec 2021(ZW$)	Declared Core Capital US$ Equivalent* (US$1: 108.66600)	Status of Compliance**
AFC Commercial Bank	1,627,598,960.77	14,977,996.44	**Non-Compliant**. Granted extension to 31 December 2022 to complete the recapitalisation process
BancABC	3,857,847,252.17	35,501,879.63	Compliant
CBZ Bank	14,033,487,153.68	129,143,312.11	Compliant
Ecobank	7,209,157,298.00	66,342,345.33	Compliant
FBC Bank	4,774,327,639.44	43,935,799.97	Compliant
First Capital Bank	8,449,194,109.14	77,753,797.04	Compliant
Metbank	14,492,258,483.83	133,365,160.07	Compliant
Nedbank Zimbabwe	2,538,164,207.13	23,357,482.63	**Non-Compliant**. Extension was granted to 30 June 2022 to allow due processes for a rights issue
NMB Bank	4,250,870,083.85	39,118,676.35	Compliant
Stanbic Bank	11,217,776,947.04	103,231,709.52	Compliant
Standard Chartered Bank	3,380,772,132.66	31,111,590.86	Compliant
Steward Bank	3,461,396,304.28	31,853,535.64	Compliant
ZB Bank	5,743,968,503.73	52,858,930.15	Compliant
BUILDING SOCIETIES			
CABS Building Society	9,549,660,011.44	87,880,846.00	Compliant
CBZ Building Society	(4,537,715,673.28)	(41,758,375.88)	**Non-Compliant**. Amalgamation of CBZ Bank and CBZ Building Society was approved. Processes to complete the amalgamation are underway.
FBC Building Society	2,654,925-,702.67	24,431,981.51	Compliant
National Building Society	406,339,153.81	3,739,340.31	**Non-Compliant**. Granted extension to 31 March 2022 to complete the recapitalization process
ZB Building Society	1,105,212,656.45	10,170,731.01	**Non-Compliant**. The holding company, ZBFH, is mulling the merger of ZB Bank & ZB Building Society.
SAVINGS BANK			
POSB	2,074,053,503.64	19,086,499.03	No prescribed minimum capital requirement

** The required minimum capital as at 31 December 2021 was ZW$ equivalent to US$30 million for Tier 1 banking institutions and US$20 million for building societies*

62. Banking institutions bolstered their capital positions through organic growth including recapitalisation of revaluations gains on investment properties as well as capital injection by shareholders.

63. As indicated above, AFC Commercial Bank, Nedbank and NBS were granted extensions ranging from 3 to 12 months to allow consummation of capital raising initiatives which are currently underway. In addition, merger proposals will also address the minimum capital requirements for some building societies. The Bank is confident that the remaining institutions will meet the minimum capital requirements by 31 December 2022.

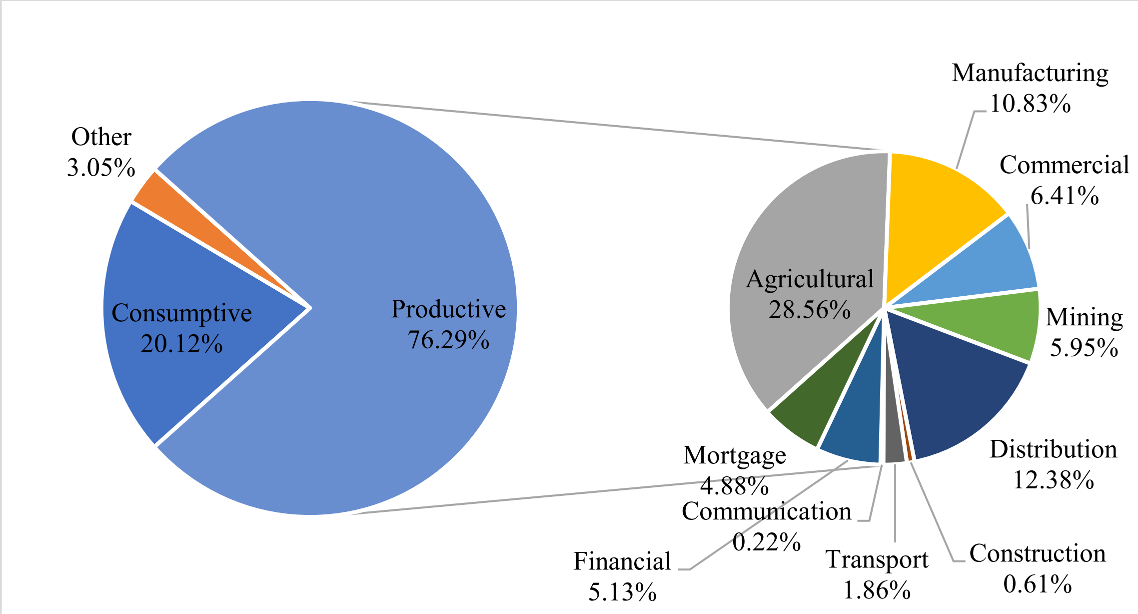
64. The above declared capital positions as at 31 December 2021 are being subjected to external audit reviews as part of the annual financial audits of banking institutions. The Bank will also conduct a capital verification exercise during the year to ascertain the declared capital positions.

Banking Sector Loans and Advances

65. Total banking sector loans and advances increased by 61% from ZW$142.79 billion as at 30 June 2021 to ZW$229.94 billion as at 31 December 2021, largely attributed to the translation of foreign currency denominated loans. As at 31 December 2021, foreign currency denominated loans constituted 36.87% of total banking sector loans, an increase from 30.16% reported as at 30 June 2021.

66. During the period under review, financial intermediation improved from 45.84% recorded in June 2021 to 48.27% as at 31 December 2021. The banking sector continued to support the productive sectors of the economy as evidenced by loans to the productive sector constituting 76.29% of total loans as at 31 December 2021, as shown in Figure 11.

Figure 11: Sectoral Distribution of Loans as at 31 December 2021



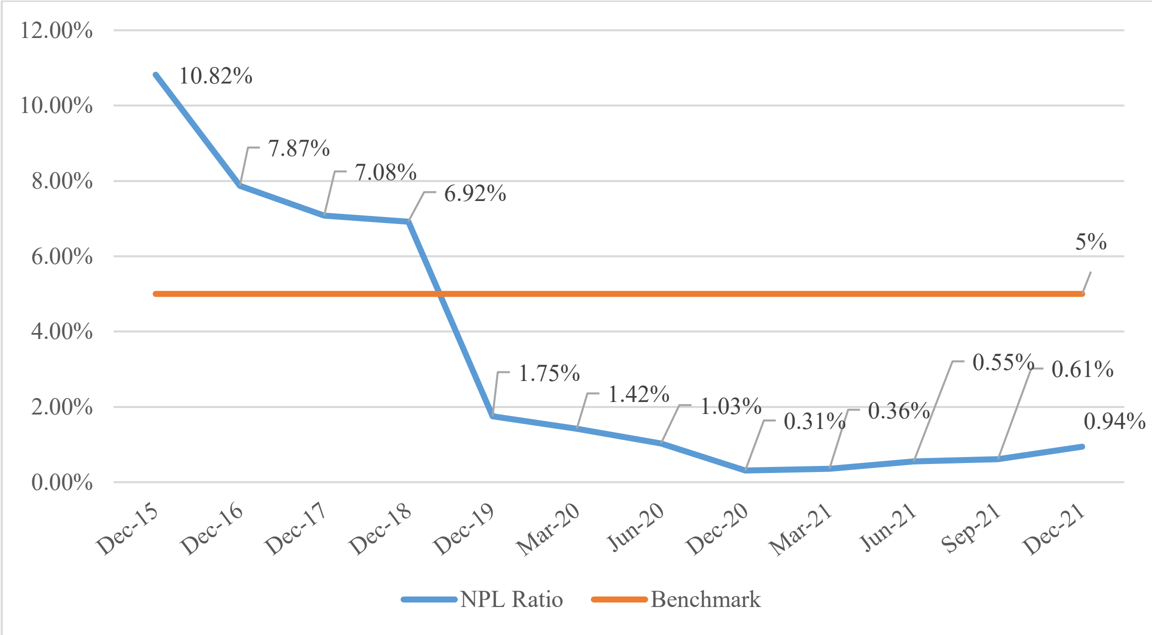
Source: RBZ

67. The demand for loans is expected to continue improving in line with the incremental recovery of economic activity from the Covid-19 pandemic.

Asset Quality

68. The banking sector asset quality remains satisfactory with the average non-performing loans (NPLs) to total loans ratio of 0.94% as at 31 December 2021, against the generally acceptable international threshold of 5%. Figure 12 shows the trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2015 to December 2021.

Figure 12: Trend in Non- Performing Loans



Source: RBZ

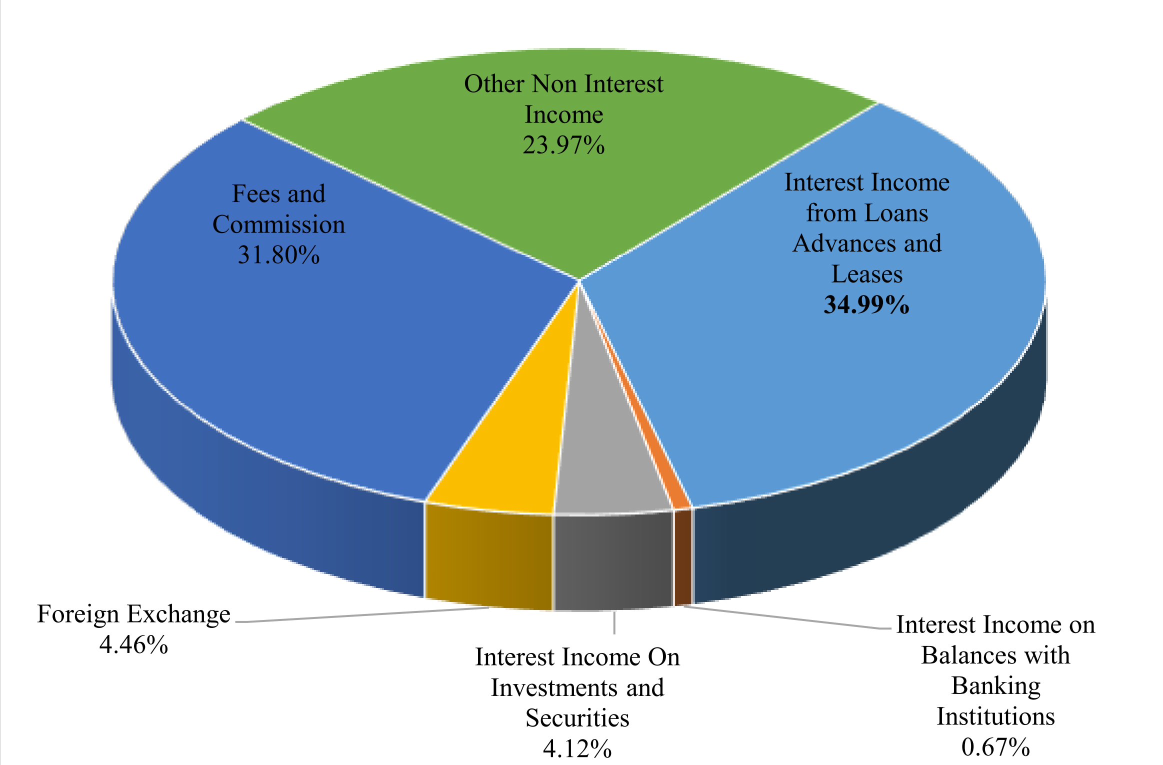
69. The impact of the disruptive effects of Covid-19 on asset quality turned out to be less severe than initially envisaged. Banking institutions continued to enhance and adopt sound credit risk management systems and internal controls.

Banking Sector Profitability

70. Profitability for the banking sector has overally improved. For the year ended 31 December 2021, the banking sector reported unaudited aggregate profit of $59.29 billion, an increase of 69.63% from a profit of $34.95 billion reported for the corresponding period in 2020.

71. During the year under review, interest income from loans and advances contributed 34.99%, compared to 17.82% in December 2020, of the total income, an indication of a shift towards the traditional sources of revenue such as income from financial intermediation activities, which is considered stable and sustainable. Figure 13 shows banking sector income mix as at 31 December 2021.

Figure 13: Banking Sector Income Mix as at 31 December 2021



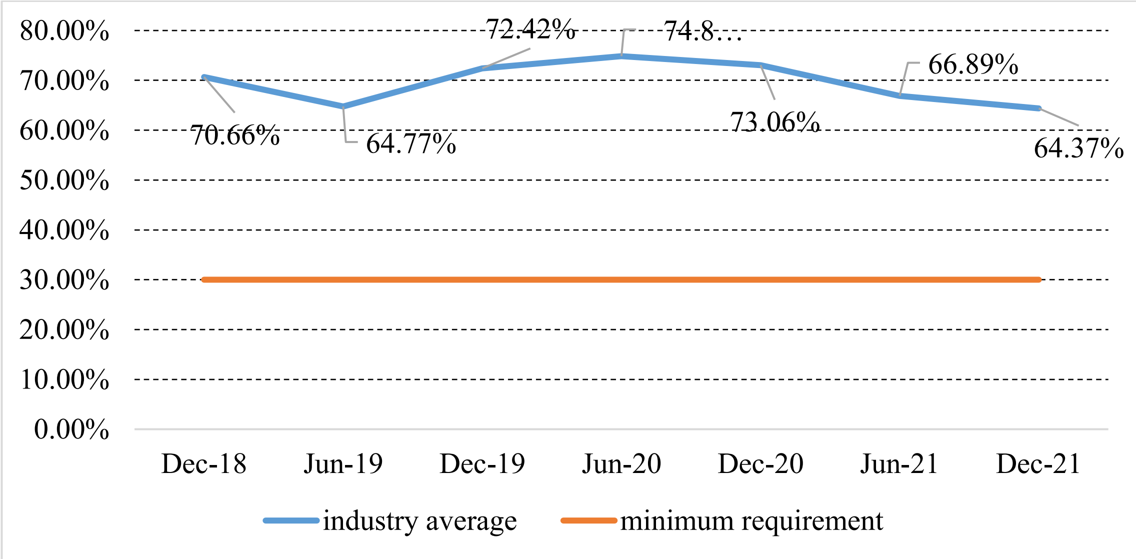
Source: RBZ

72. Non-interest income was driven by fees and commissions due to increased transactional volumes on digital platforms in the wake of Covid-19, as well as initiatives by banking institutions to promote the use of plastic money. Translation gains on foreign currency denominated assets, as well as, revaluation gains from investment properties also contributed to the growth in other non-interest income.

Banking Sector Deposits and Liquidity

73. The average prudential liquidity ratio was 64.37% as at 31 December 2021, against the minimum regulatory requirement of 30%, largely reflecting high stock of liquid assets in the sector. The trend in the liquidity ratio from 31 December 2018 to 31 December 2021 is shown in Figure 14.

Figure 14: Prudential Liquidity Ratio Trend



Source: RBZ

74. Total deposits amounted to ZW$476.35 billion as at 31 December 2021, which represented a 29.79% increase from ZW$367.02 billion reported as at 30 September 2021.

Deposit Rates

75. As part of measures to promote savings, in October 2021 the interest rates for ZW$ savings and time deposits were increased from 5% and 10% per annum to 7.5% and 20% per annum, respectively. All banking institutions were required to adjust the minimum deposit rates for savings and time deposits with effect from 28 October 2021.

76. Banking institutions are paying interest rates for savings and fixed deposits for both local accounts and foreign currency accounts in compliance with Statutory Instrument 65A of 2020. The Bank will continue to monitor banking institutions' terms and conditions of business activities to ensure adherence to fair business practices.

Protection of Foreign Currency Denominated Accounts (FCAs)

77. The Deposit Protection Corporation (DPC) implemented an explicit deposit protection scheme for the Foreign Currency Denominated Accounts (FCAs) with effect from 31 December 2021. This policy followed extensive consultations with stakeholders including the Bankers Association of Zimbabwe, the Bank and the Ministry of Finance and Economic Development.

78. The FCA maximum cover level is US$1,000.00 (one thousand United States dollars) per deposit class per each banking institution and US$500.00 (five hundred United States dollars) per deposit class per deposit-taking microfinance institution with effect from 1 January 2022.

Sustainability

79. Globally, sustainable banking practices are becoming the future in banking. The public increasingly expects financial institutions to demonstrate a sense of purpose that extends beyond merely profit.

80. The Bank is cognisant of the critical role that financial institutions play in supporting sustainable and resilient growth by integrating environmentally and socially responsible business decisions into their corporate strategies.

81. In this regard, the Bank continues to work closely with a number of financial institutions in the implementation of the Sustainability Standards & Certification Initiative (SSCI) being driven by the European Organization for Sustainable Development (EOSD).

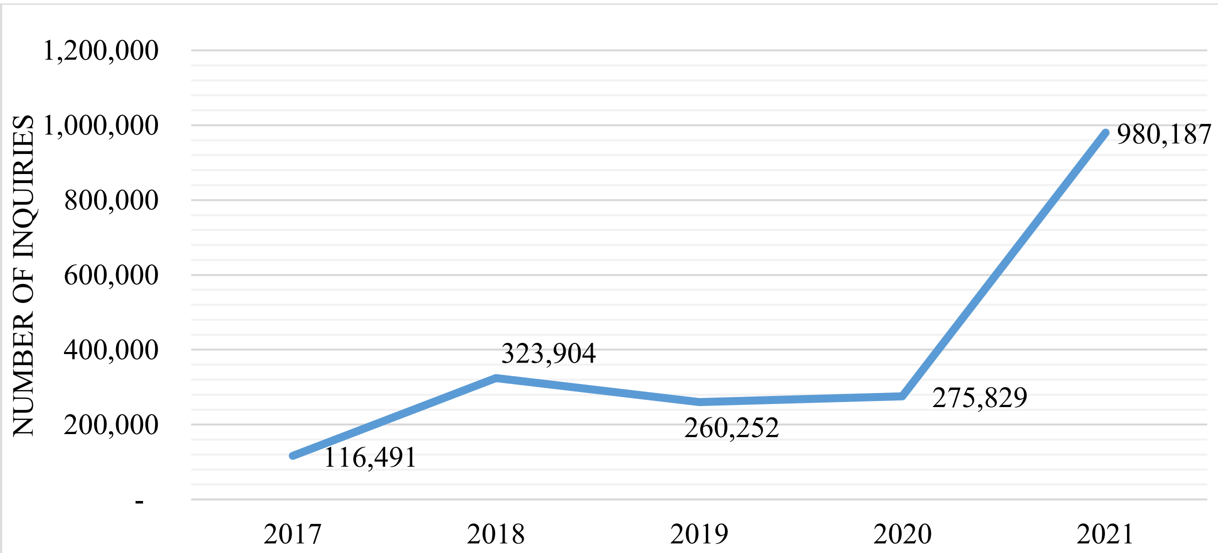
82. As at 31 December 2021, nine (9) banking institutions were participating under the central bank led Sustainability Standards and Certification Initiative, while three (3) microfinance institutions were accepted into SSCI.

83. The participating institutions have made commendable progress in implementing the key pillars of SSCI. Notably, they have refined their mission/purpose statements and high impact goals to ensure they are aligned to the country's developmental objectives and goals.

Credit Registry System

84. The online Credit Registry System continues to complement and facilitate provision of digital financial services, such as automated lending, and effective management of credit risks by the banking sector. The Credit Registry received a total of 980,187 enquiries in 2021, up from 275,829 in 2020 reflecting increased usage as the credit registry system matures. The trend in inquiries from 2017 to 2021 is shown in Figure 15.

Figure 15: Trend of Inquiries for 2017-2021



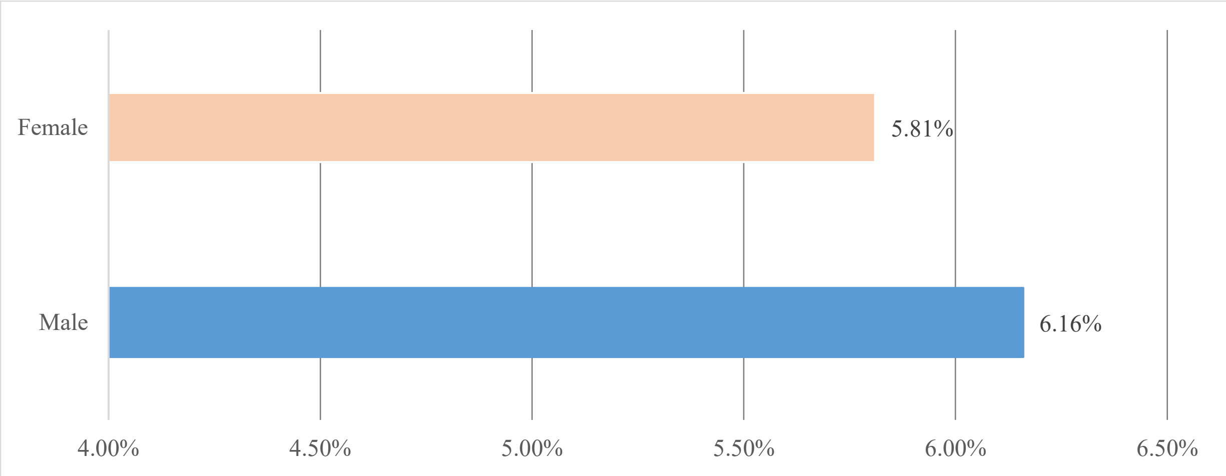
Source: RBZ

85. As at 31 December 2021, the Credit Registry had 558 272 active loan contracts, with individuals' records accounting for 98.29% of the records in

the Credit Registry. In terms of gender distribution, male and female borrowers constituted 68.36% and 31.64% of loan contracts in the Credit Registry, respectively.

86. Meanwhile, in the Credit Registry database 5.81% of loans granted to female borrowers were delinquent contracts which were 90 days past due within 12 months from the date of issuance, compared to male borrowers who had 6.16% of their loans in arrears, as shown in Figure 16.

Figure 16: Percentage of Delinquent Loan Contracts by Gender



Source: RBZ

Collateral Registry

87. Significant progress has been made towards the operationalisation of the Collateral Registry. Following some delays occasioned by the Covid-19 pandemic, the Bank successfully conducted the first User Acceptance Testing of the Collateral Registry in December 2021. The second and final testing session is now scheduled for January and February 2022 and shall involve banking institutions and microfinance institutions.

88. The Bank is targeting to go live soon after the second User Acceptance Testing when the vendor has considered stakeholder input on system functionalities during the first quarter of 2022.

Performance of the Microfinance Sector

89. The microfinance industry continued to register resilience and growth in key performance indicators following the relaxation of Covid-19 related-restrictions on the economy. The number of active clients accessing loans through microfinance institutions increased by 10.66% from 288 561 as at 31 December 2020, to 307 673 as at 31 December 2021. The industry also recorded an increase in the number of women accessing loans during the year from 116 043 to 146 253 as at 31 December 2021. The value of loans to female borrowers, over the same period increased by 241.10% from $673.22 million to $2.30 billion as at 31 December 2021.

Microfinance Sector Capitalisation

90. During the year ended 31 December 2021, deposit taking microfinance institutions have been implementing various initiatives aimed at strengthening their capital levels and conform to the new minimum capital requirement of US$5 million which was effective 31 December 2021. Institutions have made varying progress towards compliance as shown in the Table 5:

Table 5: Banks Capital Adequacy Status

Institution	Declared Capital as at 31 December 2021 (ZW$)	Declared Capital US$ Equivalent* (US$1:108.6660)	Status of Compliance
African Century Limited	534,874,192.80	4,822,185.35	**Non-Compliant** To meet through organic growth.
GetBucks Microfinance Bank Limited	142,994,535.60	1,315,908.71	**Non-compliant** To meet through rights issue and organic growth
Success Microfinance Bank Limited	117,645,025.60	1,082,629.58	**Non-Compliant** To meet through shareholder capital injections.
Zimbabwe Women's Microfinance Bank Limited	359,022,480.00	3,303,908.12	**Non-Compliant** To meet through shareholder capital injections.
EmpowerBank Limited	254,067,830.33	2,338,061.86	**Non-Compliant** To meet through shareholder capital injections.
Lion Microfinance Limited	98,096,130.00	902,730.66	**Non-Compliant** To meet through shareholder capital injections and organic growth

**The required minimum capital as at 31 December 2021 was ZW$ equivalent to US$5 million for Deposit-taking microfinance institutions.*

91. It was noted that losses incurred by a few of the DTMFIs since inception has inhibited the growth while the disruptive effects of Covid-19 pandemic impacted on the general performance of some institutions.

92. The Bank is satisfied with the various recapitalisation initiatives being pursued as reflected by African Century Limited's capital position that is marginally below the regulatory threshold while other DTMFIs are envisaged to comply by December 2022.

93. A total of 28 credit-only microfinance institutions were non-compliant with the minimum capital requirements of US$25 000 effective 31 December 2021. The non-compliant institutions are putting in place re-capitalisation strategies in order to comply with the requirements and to facilitate underwriting of more meaningful business.

94. The microfinance sector registered a 231.56% increase in aggregated equity from $1.68 billion to $5.57 billion as at 31 December 2021. The increase was attributed to organic growth and fresh capital injection by some microfinance institutions.

Loan Portfolio

95. The microfinance sector registered a 262.69% increase in total loans from ZW$2.01 billion as at 31 December 2020, to ZW$7.29 billion as at 31 December 2021. The loan portfolio quality deteriorated as evidenced by the deterioration of the portfolio-at-risk (>30 days) ratio from 8.34% to 10.06% as at 31 December 2021.

Profitability

96. Aggregate net profit for the sector increased by 427.16% from ZW$384.77 million to ZW$2,03 billion for year ended 31 December 2021. The increase was largely attributed to improved operational efficiency as reflected by an improvement in the average operational self-sufficiency (OSS) ratio from 111.86%, to 168.63% for year ended 31 December 2021, against the international benchmark of 100%.

97. The improvement in OSS indicates an improvement in the income generation capacity of the microfinance institutions in the wake of relaxation of the national Covid-19 lockdown restrictions.

DTMFI Subsector Deposits

98. Aggregate deposits for the DTMFIs sub-sector deposits increased by 105.09% from $442.98 million as at 30 June 2021 to $908.50 million as at

31 December 2021. While the deposit levels remain generally low, the trend in the level of deposits in the sector is indicative of increasing confidence by the low-income groups and marginalised in deposit-taking microfinance institutions.

99. The average prudential liquidity ratio of 101.32% as at 31 December 2021 compares favourably with the minimum prudential requirement of 30%. The high average prudential liquidity ratio largely reflects the conservative approach to lending by the sector.

Financial Inclusion Indicators

100. Digitisation of financial services continues to play a pivotal role in driving access and usage of financial services during the Covid-19 induced lockdown. The number of active mobile money subscribers increased from 4.05 million to 4,13 million active subscribers during the review period.

101. As at 31 December 2021, banks and deposit-taking microfinance institutions availed loans to MSMEs, women and the youth by banks valued at ZW$10.28 billion, ZW$14.39 billion and ZW$6.25 billion compared to ZW$7.16 billion,

Financial Inclusion Strategy

102. Following the end-term of the National Financial Inclusion Strategy Number 1 (NFIS I) on 31 December 2021, drafting of NFIS II is currently underway. As part of the development of an evidence-based National Financial Inclusion Strategy Phase II, a consultant, FinMark Trust, has been engaged to conduct both the FinScope Micro, Small and Medium Enterprises (MSME) Survey and the FinScope Consumer Survey with a view to determining the effectiveness of the strategies deployed under NFIS I, as

well as providing baseline statistics for setting financial inclusion targets for NFIS II.

103. The MSME and the Consumer FinScope Surveys are running concurrently with the drafting of the National Financial Inclusion Strategy Phase II. The NFIS II seeks to address the challenges and gaps noted in the NFIS 1, with more focus on usage, quality of financial services, fintech & product innovation, financial inclusion data disaggregation and sustainability.

104. During the year, the Bank will circulate the bi-annual National Financial Inclusion Bulletin covering financial inclusion activities undertaken by banking and microfinance institutions during the period under review, to promote usage of financial services by the underserved segments.

NATIONAL PAYMENT SYSTEMS

105. Notwithstanding the COVID-19 pandemic, the national payment systems remained safe, sound and stable during 2021. There was notable increase in the use of available digital channels by the transacting public and the Bank enhanced security issues on these platforms to protect customers.

106. Digital payment systems transaction values continued on the exponential growth trajectory with a 218% increase from ZW$2.5 trillion recorded in 2020 to ZW$7.8 trillion in 2021. Transaction volumes, on the other hand, were on a declining trend, falling by 24% decline to 1.4 billion. (See Annex 1 and 2 for monthly data).

Real Time Gross Settlement (RTGS) System

107. The RTGS system, which caters for large value transactions, registered improved performance following the upgrade implemented during the last quarter of 2021.

108. The value of transactions going through RTGS rose by 217% from ZW$1.6 trillion in 2020 to ZW$4.9 trillion in 2021. Volumes recorded a growth of 16% from 10.8 million to 12.4 million during the period under review.

Mobile Banking

109. The Bank is satisfied with developments on mobile money interoperability, which witnessed a steady upward trend in the figures, with average monthly growth of 21% and 16% in volumes and values.

110. The Bank remains committed to continuous public education and awareness on the use of interoperable digital payments in its endeavour to promote financial inclusion and a cash-lite society.

Cyber Security

111. With increased digital transactions in the country, the Bank sustained heightened attention to the threat of cyber-attacks on payment systems. The Bank continued to emphasise the need for financial institutions to implement effective risk management measures to mitigate cyber risk in line with the Risk-Based Cyber Security Framework.

112. The Bank further insured that financial institutions complied with the SWIFT Customer Security Controls Framework for Cybersecurity management with emphasis on mandatory and advisory security controls.

113. To further enhance and safeguard the card system from cyber -attacks, banks are required to ensure that their cards are Euro Mastercard and Visa compliant. In this regard, the Bank encourages financial services providers to phase out non-EMV complaint cards.

114. While it is encouraging to note that the number of EMV compliant cards rose from 720 233 in 2020 to 1 935 663, there are still over 3.2 million non-compliant cards and the Bank implores financial services providers to work diligently to reduce that number to ensure effective consumer protection.

SWIFT ISO 20022 Standard

115. The Bank further reminds financial services providers of the impending changes under SWIFT ISO 20022 international standard for exchanging electronic messages which are scheduled to commence on 30 November 2022 with a parallel run up to November 2025 after which the current MT messages will be phased out.

116. The Bank would like the banking industry to move as a market with a view to starting testing by mid-2022 and going live with the rest of the SWIFT global community in the last quarter of 2022 as scheduled.

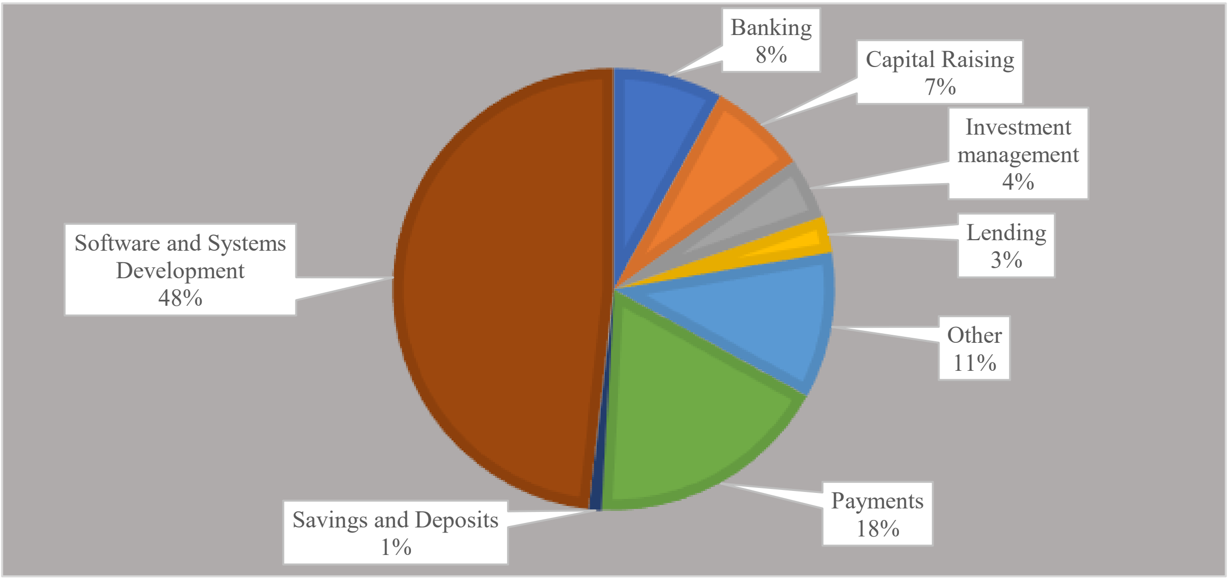
117. On AML-CFT, the Bank encourages board of directors of banks to continuously acquaint themselves with their responsibilities with regards to AML-CFT issues as articulated in the AML-CFT Risk-Based Guideline - Annexure 1.

FINTECH DEVELOPMENTS

118. The Fintech Regulatory Sandbox (the Sandbox) launched by the Bank in March 2021 continued to garner interest evidenced by the growing number of registrations on the platform. As at 31 December 2021, the Sandbox had received 112 registrations on the online portal and a further 31 applications at various stages. Registered users came from various sectors with the largest share of users in software and systems development, 48%; payments, 18%;

capital raising, 7%; investment management, 4%; among others shown in Figure 17 below.

Figure 17: Sectors of Registered Users



Source: RBZ

119. The Sandbox provides a controlled environment where financial innovations can be tested. The Bank expects to embark on regulatory testing with promising Sandbox applications in the near future. The details of approved Sandbox applications will be shared with the public via the Bank's website. The Sandbox remains open for innovations and the guidelines are available on the Bank's website.

120. Pursuant to Government's announcement in November 2021 on the country's preference to introduce the central bank digital currency (CBDC) as opposed to cryptocurrencies, the Bank is actively exploring the feasibility of adopting a Zimbabwean CBDC including specific design considerations, opportunities and risks to the monetary and financial system. In this context, the Bank is developing a clear roadmap for adopting CBDC, encompassing

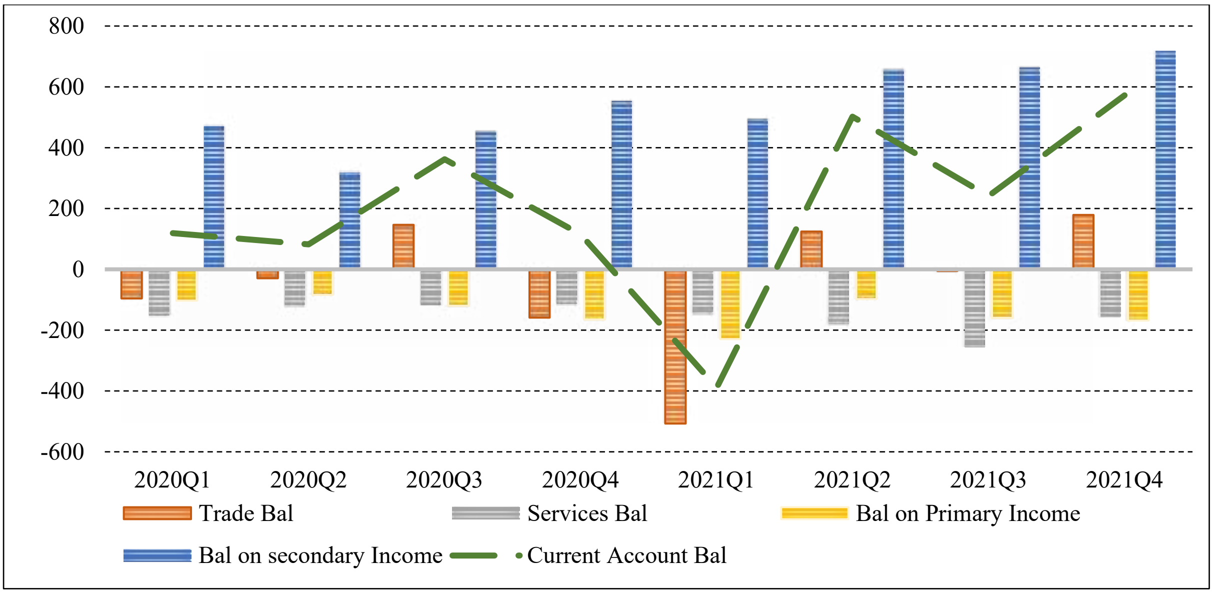
the feasibility and assessment stage currently taking place, policy design stage based on results of the feasibility study and implementation modalities. The Bank shall keep the public informed through periodic updates on the progress of the CBDC programme.

SECTION FIVE

BALANCE OF PAYMENTS DEVELOPMENTS

121. The country's external sector fundamentals continued to exhibit resilience as evidenced by strong current account performance in 2021. Preliminary estimates point to a current account surplus position of US$926.8 million in 2021, representing a 36.6% increase from US$678.3 million recorded in 2020. The resilient secondary income flows and strong merchandise export growth, supported the current account surplus during 2021. Figure 18 shows current account developments for the four quarters of both 2020 and 2021.

Figure 18: Current Account Developments (US$ millions)



Source: RBZ Estimates

Merchandise Exports

122. Merchandise exports are estimated to have increased by 28.0% to US$6 315.2 million in 2021, from US$4 931.9 million in 2020, driven by increases in mineral and agriculture exports, while manufactured exports remained subdued.

123. Mineral exports underpinned merchandise export growth in 2021, growing by an estimated 38.4% from US$3 654.1 million realized in 2020, to

approximately US$5 057.5 million in 2021. On the global front, safe-haven demand in the face of Covid-19-induced loose monetary and fiscal policies supported prices for gold and other precious minerals.

124. Additionally, supply disruptions for Platinum Group Metals (PGMs) in Russia and South Africa during the first half of 2021, largely on account of Covid-19 restrictions on the back of strong demand, helped bolster global PGM prices. Similarly, the relative easing of Covid-19 restrictions in China and other industrialized countries shored up demand for base metals, and hence supported their prices. Table 6 shows some selected average commodity prices for 2020 and 2021 as well as outlook for 2022.

Table 6: Selected International Commodity Prices and Outlook

			Actual	Estimate	Projections
	Commodity	**Unit**	**2020**	**2021**	**2022**
Precious Metals	Gold	us$/oz	1,770	1,795	1,750
	Platinum	us$/oz	883	1,091	1,000
	Palladium	us$/oz	2,197	2,450	2,021
	Rhodium	us$/oz	8,710	18,074	14,800
Base Metals	Copper	us$/tonne	6,174	9,317	8,800
	Nickel	us$/tonne	13,787	18,465	17,750
	Zinc	us$/tonne	2,266	3,003	2,822
	Lead	us$/tonne	1,825	2,200	2,100
	Aluminium	us$/tonne	1,704	2,473	2,700
Brent Crude Oil	Brent Crude Oil	us$/barrel	42	71	74
Grains	Maize	us$/tonne	165	260	225
	Wheat	us$/tonne	228	282	250

World Bank Price Database, 2022 & KITCO

125. Agriculture exports are estimated to have grown by 7.7% from US$871.7 in 2020 to US$939.1 million in 2021 led by tobacco exports, largely on account of the good agricultural season the country experienced. Manufactured exports, however, remained somewhat subdued, weighed down by lower jewellery and sugar exports amid low competitiveness and consequently loss of key markets.

Merchandise Imports[1]

126. Merchandise imports significantly increased by 28.7%, from US$5 070.9 million in 2020 to US$6 525.3 million in 2021, mainly driven by increases in fuel, machinery and raw material imports. The increase in imports was reflective of a growing economy whose import absorptive capacity was increasing. Increasing crude oil, edible oils and fertilizer prices also drove imports higher. Food imports decreased on account of reduced maize imports following a good agricultural season.

Services

127. Trade in services continued to be negatively impacted by the Covid-19 pandemic. Resultantly, service exports are estimated to have contracted by 34.9%, from US$331.4 million in 2020 to US$215.9 million in 2021, owing to sharp contraction in travel, subdued transport and other business service exports. Covid-19 containment measures imposed by national governments, limited the movement of people across nations. On the other hand, service imports firmed by 14.2%, from US$836.3 million in 2020 to US$955.2 million in 2021.

Secondary Income Flows

128. As at 31 December 2021 total International Remittances amounted to US$2.405 billion, an increase of 46% from US$1.650 billion that was recorded in 2020. Of the total amount, diaspora remittances amount to US$1.430 billion, a 43% increase from US$1.002 billion received during the same period in year 2020.

[1] Imports are now higher than previously estimated following the upward revision of fuel imports from 2020 to date by one of the key data providers.

Table 7: Diaspora Remittances Inflows 2021 and 2020

Month	Year 2021	Year 2020	% Change
January	81,920,000	60,607,249	35%
February	93,424,551	69,230,034	35%
March	125,389,958	61,172,535	105%
April	110,381,374	30,920,048	257%
May	115,575,293	66,815,291	73%
June	123,810,002	85,849,311	44%
July	121,095,703	91,853,269	32%
August	122,909,525	92,835,172	32%
September	128,879,170	98,384,807	31%
October	126,889,655	103,084,503	23%
November	128,155,750	104,241,599	23%
December	151,705,297	137,106,271	11%
Total	**1,430,136,278**	**1,002,100,086**	**43%**

Source: RBZ

Capital and Financial Account Developments

129. The capital account remained in positive territory during 2021, on the back of continued official capital transfers from the country's development partners. Preliminary estimates indicate that approximately US$301.4 million in capital transfers was received in 2021. This represented a marginal increase from US$299.7 million received in 2020.

130. The economy is estimated to have recorded net portfolio investment outflows of approximately US$73.9 million in 2021. The financial account is estimated to have closed 2021 in a net lending (surplus) position of US$438.9 million, a slight decline from the net lending position of US$496.6 million realized in 2020.

Table 8: BOP Summary (US$ millions)

	2019	2020	2021 Est
A. Current Account	**920.5**	**678.3**	**926.8**
Balance on Goods	**174.4**	**-139.1**	**-210.2**
Exports	4663.7	4931.9	6315.2
Imports	4489.3	5070.9	6525.3
Balance on Services	**-305.9**	**-504.9**	**-740.3**
Exports	603.2	331.4	215.7
Imports	909.1	836.3	956.1
Balance on Primary Income	**-338.8**	**-472.9**	**-655.7**
Credits	15.4	7.6	6.6
Debits	354.2	480.5	662.3
Balance on Secondary Income	**1390.7**	**1795.2**	**2533.0**
Credits	1413.4	1828.3	2569.8
Debits	22.7	33.1	36.8
B. Capital Account	**314.5**	**299.7**	**301.4**
Credits	314.5	299.7	301.4
Debits	0.0	0.0	0.0
Net Lending(+)/Net Borrowing(-)(Balance from CA & KA)	**1235.0**	**978.0**	**1256.6**
C. Net Lending(+)/Net Borrowing(-)(Balance from FA)	**30.9**	**496.6**	**438.9**
Direct Investment[2]	**-247.1**	**-153.9**	**-108.5**
Portfolio Investment	**-3.7**	**81.6**	**73.9**
Other Investment	**317.0**	**656.5**	**-655.9**
Special Drawing Rights	**0.0**	**0.0**	**961.0**
Reserve assets	**-35.3**	**-87.6**	**1129.5**
D. Net Errors and Omissions	**-1204.1**	**-481.4**	**-658.4**

Source: RBZ

[2] **(-inflows, + outflows)**

SECTION SIX

NEW MONETARY POLICY MEASURES

131. The current inflationary pressures within the national economy require the Bank to further tighten monetary policy to stem exchange rate volatility and anchor inflation expectations, whilst at the same time safeguarding the ongoing recovery of the economy. In this context, the Bank is putting in place the following measures to curb inflationary pressures, stabilise the exchange rate and support the recovery of the economy from the effects of the Covid-19 pandemic: -

Monetary Targeting Framework

132. The tight monetary targeting framework will remain in place to sustainably anchor inflation expectations and curtail the speculative demand for foreign currency which has exerted pressure on the exchange rate and prices since the last quarter of 2021. To achieve this, the Bank has, with immediate effect, reviewed downwards the quarter-on-quarter reserve money target from 10% to 7.5% for the quarters ending March and June 2022, which target will be reviewed thereafter. The revised quarterly reserve money growth target is consistent with the envisaged economic growth rate of 5.5% in 2022 and the expected year-end inflation of 25-35 %.

133. The Bank will also continue with its aggressive liquidity management policy by aligning its Open Market Operations (OMOs) to liquidity injections by Government to avoid excess liquidity in the banking system emanating mainly from payments for infrastructural development projects.

Interest Rate Policy

134. The Bank last reviewed the interest rates in October 2021 to curb speculative borrowing. In order to avoid further build-up on inflationary pass-through effects currently emanating from exchange rate indexation and the elevated global inflation pressures, the Bank policy rate and the Medium Term Accommodation (MBA) Facility interest rate will be maintained at the current levels of 60% and 40%, respectively. The Bank, through the Monetary Policy Committee (MPC), will continue monitoring monetary and financial conditions and their implications on interest rate policy for possible future adjustments.

Statutory Reserve Requirements

135. The Bank shall maintain statutory reserve requirements for demand/call deposits and savings and time deposits at current levels of 10% and 2.5%, respectively, to promote savings and time deposits, while discouraging unproductive credit creation.

Exchange Rate Policy and Auction System

136. The Bank shall continue to fine tune the exchange rate policy which is premised on the foreign exchange auction system to focus on exchange rate flexibility and promotion of external competitiveness as well as tackling rent-seeking behaviour.

The refinement of the foreign exchange auction system shall be buttressed by:

a) Strict adherence to and enforcement of the Know Your Customer (KYC) and Customer Due Diligence (CDD) principles and requirements by banks when processing forex bids and intra-bank transfers on behalf of their customers;

b) Timeous settlement of auction bid allotments within a period of two weeks; and
c) Allotment of foreign currency on the basis of available foreign exchange to avoid incidences of settlement backlogs.

Promoting the Use of Domestic Currency

137. The current system in the country, where local currency, the Zimbabwe dollar, is used as a functional currency together with foreign currencies for payment for goods and services is ideal for promoting growth and competitiveness of the economy. The use of the local currency has helped the economy to grow by 7.8% in 2021 following the increased local currency backed aggregate demand that was necessitated by increased agricultural output and expansion in Government infrastructural projects.

138. The past experience of the country is quite instructive that promotion of use of local currency is beneficial. In 2009 the country legislated a fixed exchange rate under the auspices of dollarisation. Electronic or virtual currency was commingling with physical foreign currency and the two were at par. With hindsight, what was supposed to have been done then was to allow the local currency to be part of the basket of currencies as evidence on the ground shows that the country did not have sufficient foreign exchange liquidity to meet its foreign currency commitments even under dollarisation.

139. Legislation of a fixed exchange rate, as was the case in 2009 when the US$ was introduced as the currency of transaction, is not ideal for any economy as it renders the economy uncompetitive and a supermarket economy and gives the wrong impression that foreign currency is a domestic currency which is earned without exporting.

140. Foreign currency needs to be earned from foreign sources such as exports and remittances and competitiveness of local production becomes very essential to promote exports, and stability of the local currency is key to promote investment and for value preservation.

141. It is for the foregoing reasons that promoting the broader use of the Zimbabwe dollar needs to be embraced by all in the country and all players within the economy to minimise the sentimental value of holding on to the past dollarisation era which was fraught with its own challenges. Those challenges incapacitated the country to service all its foreign obligations which have now been assumed by Government under Blocked Funds legislative provisions carried in the Finance Act No. 7 of 2021. Dollarisation is therefore not a panacea to sustainably and competitively develop the country.

142. It is thus imperative to broaden the transactions for which the local currency would be used for payments in the economy for purposes of enhancing competitiveness and increasing production and productivity. In any case the financial system is largely constituted of local currency, with around 56% of total deposits being local currency and the balance of 44% being foreign currency deposits, which shows that there is no sufficient foreign currency liquidity to support dollarisation in Zimbabwe. It is for this reason that the Bank encourages the business community that pays part of its local expenses in foreign currency to ensure that such payments are proportionate to their foreign exchange receipts for there to be harmony in the national payment systems.

143. Against this background, the Bank applauds the decision taken by Government to allow payment of 50% of royalties by exporters in local currency and part-payment of duties and taxes in local currency for imported vehicles as well as levying taxes in foreign and local currency proportionately to the export retention levels.

144. The Bank is therefore putting in place the following additional measures to support and promote the use of the local currency in the country:

a) Increasing foreign exchange availability to fuel service stations designated by the Zimbabwe Energy Regulatory Authority (ZERA) to sell fuel in local currency.
b) Maintaining minimum deposit rates for savings and time deposits at 10% and 20%, respectively, to preserve value for local currency deposits.
c) Building foreign exchange reserves to provide the necessary back-up support for the local currency to enhance its attractiveness through setting aside 5% of the foreign exchange available for the auction system.
d) Increasing the limit on mobile banking transactions as follows: -
    a. Person to business from ZW$20 000 to ZW$25 000 per transaction with a maximum limit of ZW$100 000 per week; and
    b. Person to person from ZW$5 000 to ZW$10 000 per transaction with a limit of ZW$70 000 per week.
f) Increasing the cash withdrawal limit for the banking public from ZW$2000 to ZW$5000 per week.

Promoting the Use of Digital and Electronic Banking

145. The Bank is encouraged by the tremendous effort being made by banks to enable cashless transactions through digital and electronic banking services to their customers, more so during this Covid-19 pandemic. The Bank is

therefore encouraging the public to bank their cash and utilise these digital and electronic services, that include credit and debit cards, to minimise the risk of theft and robberies associated with carrying cash on person or possession of large sums of cash at premises.

Refinement of the US$50 Facility Accessed through Bureaux de Change

146. The Bank availed the US$50 Facility to assist members of the public to access foreign currency for small domestic purchases and payments at the official exchange rate through bureaux *de change* which are allowed to charge up to 10% over the cost of funds. The Bank, has however, noted, with concern the abuses of this Facility by some members of the public.

147. In this regard, the Bank is refining the US$50 Facility, with immediate effect, to limit it to the vulnerable members of the society, that is pensioners, senior citizens, people living with disability and those requiring forex for medical purposes.

Export Retention for Manufacturing, Horticulture and Cross-Border Transport

148. On account of the high import requirements embedded in the manufacturing, horticulture and cross-border transport sub-sectors of the economy, with immediate effect, exporters in the manufacturing, horticulture and cross-border transport sub-sectors shall be eligible to retain 100% of the incremental portion of their export receipts.

149. The export base for these sub-sectors have also been refined to incorporate their high import requirements.

Export Retention for Tobacco and Cotton Growers

150. The financing models for tobacco and cotton require a refinement of the export retention threshold to increase participation by small scale growers and to boost tobacco and cotton production in the country. Accordingly, the retention threshold for tobacco and cotton growers shall be increased to 75% for the forthcoming tobacco and cotton marketing seasons. The funds retained by the growers shall continue to be treated as free funds.

Export Retention for Tourism and Hospitality Industry

151. In order to respond to the adverse effects of COVID-19 on the tourism sector, which was hard-hit by the pandemic not only in Zimbabwe but the world over, with immediate effect, players in the tourism and hospitality industry shall retain 100% of their foreign currency earnings to allow them to quickly recapitalise and procure the necessary goods and services required by tourists and travellers.

Incremental Export Retention for Tobacco Merchants

152. Tobacco merchants will retain 80% on the portion of the incremental value addition repatriated into the country and 100% of proceeds from local sales of tobacco through inter-merchant sales.

Capitalisation of Banking Institutions

153. Cognisant of the disruptive effects of covid-19 and the need to complete banks' capital raising processes currently underway, the Bank has extended, on a case by case basis, the compliance deadline to 31 December 2022 for banks and deposit taking microfinance institutions that failed to meet the capitalization requirement by 31 December 2021.

154. Banks and deposit-taking microfinance institutions that failed to comply with the minimum capital requirements as at 31 December 2021 shall;

a) not be permitted to pay dividends without prior approval of the Bank until such a time they have met the new minimum capital requirement; and
b) be required to immediately submit to the Bank revised board approved capital plans and quarterly updates on capital raising initiatives.

Cloud Computing

155. The Bank is supportive of the initiatives being pursued by banking institutions in exploring the benefits of technological advancements such as cloud banking services as a means of fulfilling their business and operational requirements. In this regard, banking institutions planning to adopt cloud services are required to**:**

a) take proactive steps and consider the new risk universe associated with data access, confidentiality, integrity, sovereignty, recoverability, auditing, legal and regulatory compliance; and
b) ensure that independent audits and/or expert assessments of cloud service outsourcing arrangements are conducted by qualified auditors, as part of due diligence reviews.

Monitoring Compliance

156. With effect from 31 March 2022, every banking institution and its controlling company shall be required to conduct a quarterly compliance risk self-assessment in the form and template provided by the Bank.

Sustainability and Climate Related Risks

157. In an effort to enforce sustainability practices in the financial sector to foster a strong, resilient and inclusive financial system, the Bank has directed banks to:

   a. integrate their sustainability principles, including those covering environment and climate related issues and social areas, into their corporate governance framework and risk management systems and practices; and
   b. ensure that their boards have a representative(s) with the requisite qualifications, competence and experience to provide adequate guidance on sustainability issues.

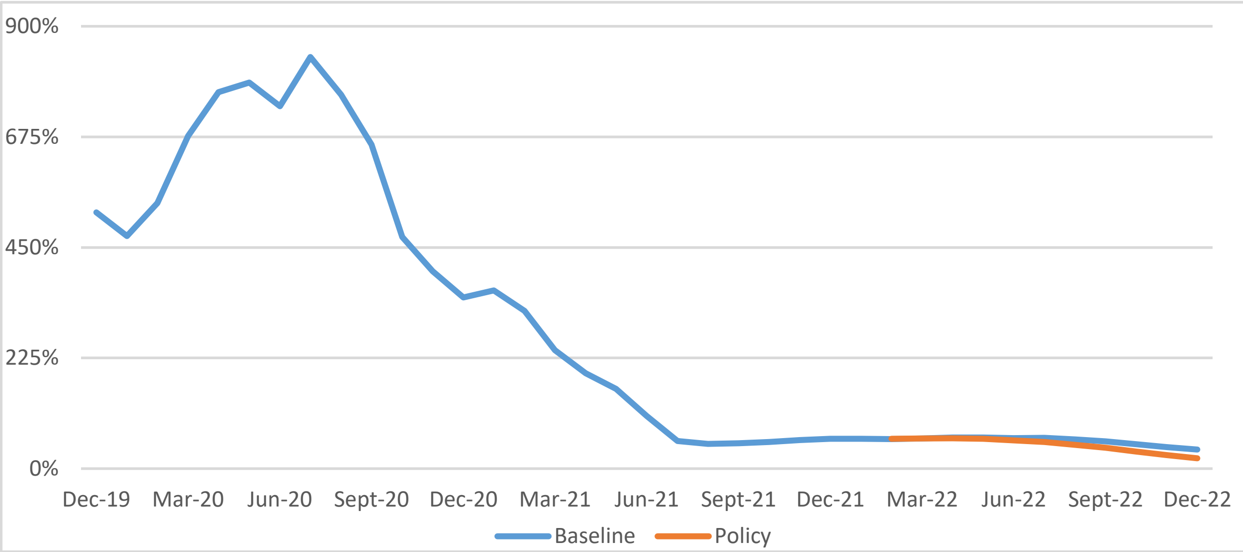
SECTION SEVEN
ECONOMIC AND INFLATION OUTLOOK

158. The tight monetary policy stance pronounced in this Statement will support the on-going real economic recovery growth of 5.5% expected in 2022 and higher potential growth rates in the medium to long term, consistent with NDS1 and Vision 2030. This, coupled with the on-going strong coordination between fiscal and monetary policy and recovery of the global economy from the covid-19, will sustain the envisaged domestic growth rate in the outlook

period. Moreover, the significant increase in locally produced goods to current levels of over 80%, coupled with policies announced in this Statement, is expected to reduce inflationary pressures in the economy.

159. More specifically, the envisaged sustained tighten monetary policy stance will go a long way in anchoring price spectrums in the economy. As a result, month-on-month inflation is expected to be reduced to below 4% in the first quarter of the year and to average below 3% in the second half of 2022. This path is expected to reduce the country's annual inflation rate to a range of 25-35% by end of December 2022 as shown below in Figure 19.

Figure 19: Inflation Outlook



Source: RBZ

160. The tight monetary stance will be buttressed by a strong liquidity management programme being administered jointly by the Bank and Fiscal Authorities. In this regard, the Bank is pleased with the Fiscal Authorities' efforts in managing the liquidity implications of Treasury outlays. Going forward, Treasury and the Bank will continue to strengthen the Liquidity Management Committee, which is made up of the Bank and Treasury staff to ensure proper sequencing and sterilisation mechanisms to maintain monetary stability.

161. Surveillance activities will also be enhanced to curb malpractices and cases of breaches of the Bank Use Promotion Act, currency manipulation and abuse of the auction system by some individuals and business entities.

SECTION EIGHT

CONCLUSION

162. The Bank's focus to further tighten monetary policy is necessary to stem inflationary pressures and anchor inflation and exchange rate expectations within the national economy. Controlling inflation is essential to preserve the value of the local currency and to minimise the appetite for quick conversion of the local currency into foreign currency – behaviour caused by past experiences.

163. The Bank strongly believes that attaining exchange rate and price stability is achievable under the current monetary policy stance which is supported by a complementary fiscal policy. Further decline in inflation will go a long way in preserving the value of local currency as well as increasing the demand for local currency and minimising appetite for quick conversion of local currency into foreign currency.

164. In addition, the enhancement of the liquidity management programme with well-timed sequencing and sterilisation mechanisms implemented by the Bank and Treasury through the Liquidity Management Committee will ensure that the twin policy objectives of stability and growth are met.

165. Overall, the anticipated decline in inflation and the ensuing macroeconomic stability will go a long way in enhancing the country's happiness index which had been subdued in previous years due to macroeconomic instabilities worsened by catastrophes such as Cyclone Idai, Covid-19 and climatic shocks.

166. The effectiveness and predictability of monetary policy requires the support of consumers and business. In this regard, the Bank is encouraged with the continuous moral suasion engagements which it has established with the business community to find lasting solutions to stabilising the local currency and improve trust within the economy. This is critical for the common good of the economy in pursuing common objectives which is fundamental for unity of purpose.

I Thank You

John P Mangudya
Governor

ANNEX 1 MONTHLY TRANSACTION VALUES 2020 AND 2021

TRANSACTION VALUES IN BILLIONS							
MONTH	RTGS	ATM	POS	Mobile	Internet	Values Total	Total Change
Jan-20	47.84	0.12	21.04	21.32	9.65	99.97	20%
Feb-20	41.64	0.14	5.43	22.59	9.63	79.43	-21%
Mar-20	60.80	0.27	7.25	28.00	14.41	110.73	39%
Apr-20	47.53	0.08	4.15	18.30	11.48	82.35	-26%
May-20	59.27	0.35	7.43	24.85	19.59	112.64	37%
Jun-20	91.31	0.52	10.37	26.04	25.84	158.21	40%
Jul-20	127.74	1.03	14.74	26.03	35.20	211.42	34%
Aug-20	143.04	1.55	14.95	27.22	34.51	227.51	8%
Sep-20	203.17	1.96	18.25	26.44	41.96	291.79	28%
Oct-20	198.86	2.16	22.48	42.77	46.27	312.55	7%
Nov-20	236.23	2.15	23.94	36.60	54.80	353.72	13%
Dec-20	302.66	1.94	30.06	45.28	67.04	446.98	26%
TOTAL 2022	**1,560.10**	**12.27**	**180.10**	**345.44**	**370.38**	**2,460.00**	
Proportion	**20.0%**	**0.2%**	**2.3%**	**4.4%**	**4.7%**	**31.5%**	
Jan-21	255.55	2.30	21.04	35.35	66.62	380.87	-15%
Feb-21	226.34	2.29	22.88	36.43	63.60	351.54	-8%
Mar-21	320.42	3.32	28.57	44.52	86.46	483.30	37%
Apr-21	288.96	2.81	30.07	44.13	90.58	456.55	-6%
May-21	361.43	3.19	36.77	49.75	89.47	540.60	18%
Jun-21	388.76	3.20	38.54	51.44	115.15	597.08	10%
Jul-21	379.66	2.49	45.81	57.57	145.03	630.55	6%
Aug-21	397.54	4.09	52.85	60.91	159.21	674.59	7%
Sep-21	477.93	4.18	52.26	64.14	181.19	779.71	16%
Oct-21	481.18	3.84	53.17	65.33	197.97	801.49	3%
Nov-21	621.90	4.88	56.03	63.44	252.41	998.65	25%
Dec-21	747.04	4.71	67.90	66.81	232.16	1,118.62	12%
2021 TOTAL	**4,946.70**	**41.28**	**505.89**	**639.82**	**1,679.85**	**7,813.54**	
Proportion	**63.3%**	**0.5%**	**6.5%**	**8.2%**	**21.5%**	**100.0%**	
2021 Change	**217%**	**237%**	**181%**	**85%**	**354%**	**218%**	

ANNEX 2 MONTHLY TRANSACTION VOLUMES 2020 AND 2021

TRANSACTION VOLUMES IN MILLIONS							
MONTH	RTGS	ATM	POS	Mobile	Internet	Total Volumes	Total Change
Jan-20	0.94	0.35	12.02	95.46	1.00	109.77	-38%
Feb-20	0.92	0.20	21.65	149.67	0.65	173.08	58%
Mar-20	1.07	0.23	22.59	173.06	0.66	197.62	14%
Apr-20	0.52	0.04	11.04	131.19	1.00	144.73	-27%
May-20	0.67	0.23	14.71	150.94	0.71	167.63	16%
Jun-20	0.91	0.29	14.42	135.52	1.39	153.14	-9%
Jul-20	0.92	0.25	15.79	121.07	0.79	139.48	-9%
Aug-20	0.79	0.25	13.54	127.31	0.70	143.83	3%
Sep-20	0.91	0.31	15.52	125.26	0.78	142.79	-1%
Oct-20	0.99	0.40	19.14	191.15	0.74	212.41	49%
Nov-20	0.97	0.43	17.58	102.54	0.76	122.28	-42%
Dec-20	1.10	0.45	19.97	165.29	0.82	187.63	53%
TOTAL 2020	**10.71**	**3.43**	**197.97**	**1,668.46**	**10.00**	**1,894.40**	
Proportion	**0.7%**	**0.2%**	**13.7%**	**115.8%**	**0.7%**	**131.5%**	
Jan-21	0.72	0.35	12.02	95.46	0.87	109.41	-42%
Feb-21	0.81	0.53	12.31	90.08	0.75	104.47	-5%
Mar-21	1.11	0.75	15.18	105.27	1.00	123.32	18%
Apr-21	0.95	0.61	15.18	97.25	1.04	115.04	-7%
May-21	1.03	0.66	16.51	103.71	0.99	122.91	7%
Jun-21	1.08	0.58	14.80	99.35	0.98	116.79	-5%
Jul-21	1.03	0.55	15.22	102.59	0.98	120.37	3%
Aug-21	1.05	0.48	14.39	105.30	0.96	122.17	1%
Sep-21	1.19	0.49	15.40	105.81	2.09	124.99	2%
Oct-21	1.11	0.43	18.21	107.29	2.34	129.39	4%
Nov-21	1.14	0.48	17.44	99.31	2.32	120.69	-7%
Dec-21	1.22	0.52	20.03	106.47	2.56	130.79	8%
TOTAL 2021	**12.44**	**6.43**	**186.68**	**1,217.89**	**16.88**	**1,440.33**	
Proportion	**0.9%**	**0.4%**	**13.0%**	**84.6%**	**1.2%**	**100.0%**	
2021 Change	**16%**	**87%**	**-6%**	**-27%**	**69%**	**-24%**	

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