RESERVE BANK OF ZIMBABWE

MID-TERM MONETARY POLICY STATEMENT

RESTORING PRICE AND EXCHANGE RATE STABILITY

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 of Zimbabwe Act [Chapter 22:15] (the Act). The Act requires the Governor of the Reserve Bank of Zimbabwe (the Bank) to issue a statement that evaluates prior period monetary policy measures and outlines the monetary policy stance and policies for the subsequent six months, including the motivation for any new policies.

2. Accordingly, this Statement highlights the recent developments in monetary, external and banking sectors as well as policy measures the Bank is implementing in pursuit of price, exchange rate and financial system stability which are the key mandates of the Bank. More importantly, the Statement also outlines the monetary policy stance to be followed by the Bank in the second half of 2022.

3. Domestic economic growth has remained robust and is projected at 4.6% in 2022, down from the initial forecast of 5.5%. The downward revision was necessitated by the continued global and domestic inflationary pressures, global geopolitical tensions and the consequences of the ongoing global warming and the COVID-19 pandemic.

4. In order to address the domestic inflationary pressures mainly attributable to the movement in the parallel foreign exchange premiums, Government and the Bank implemented bold measures to deal with factors driving exchange rate volatility and inflation. The measures announced by the President on 7

May 2022 managed to instill discipline and curb speculative behaviour, particularly on the stock market.

5. In addition, subsequent measures taken by the Bank to increase interest rates and introduce gold coins as an alternative stable investment product for store of value and mopping up excess liquidity from the economy have gone a long way in preserving the value of the local currency, reducing liquidity in the market and reducing foreign currency demand on the parallel market and thus stabilising the exchange rate and prices.

6. On its part, Government has taken steps to review its procurement approach to minimise the practice of forward exchange rate pricing that was being pursued by its suppliers of goods and services. The Bank applauds this move by Government to deal with issues affecting exchange rate stability while at the same time ensuring value for money.

7. In the period ahead, monthly inflation, which is the most felt component of price changes in the economy, is expected to continue to decelerate as measures put in place by the Bank and Government to keep inflation under check continue to bear fruit. However, annual inflation could increase in the short term as a result of the lower base effect in 2021 and subsequently decelerate in line with declining month-on-month inflation.

8. The rest of the Statement is organised as follows: Section two carries an assessment of the effectiveness of previous monetary policy measures; Section three highlights the recent economic developments; Section four focuses on financial sector developments; Section five highlights balance of

payments developments; Section six specifies the new monetary policy stance for the next six months; Section seven provides the economic and inflation outlook; and lastly Section eight concludes the Statement.

SECTION TWO

ASSESSMENT OF PREVIOUS MONETARY POLICY

9. The first half of the year 2022 saw emerging inflationary pressures in the economy driven by external and domestic factors. Government and the Bank reacted by implementing bold fiscal and monetary policy measures to stabilise the situation. As a result of the measures, month-on-month inflation, which had increased to 30.7% in June 2022, decelerated to 25.6% in July 2022. The exchange rate has also largely stabilised during the month of July 2022 following the implementation of the tight monetary policy measures.

Temporary Suspension of Lending by Banks

10. Following the announcement by the President on 7 May 2022 to the effect that far reaching measures to stabilise the economy were adopted, the Bank temporarily suspended lending by banks in order to allow comprehensive investigations by the Financial Intelligence Unit (FIU) into abuses of commercial bank loan facilities by business entities.

11. The investigations by the FIU showed significant abuse of loan facilities by borrowers through arbitrage, multi-dipping, borrowing on behalf of third parties and diversion of foreign exchange obtained through the foreign exchange auction system to parallel market activities.

12. The investigations exposed 15 entities as abusers of bank credit and resulted in those entities being penalised. The investigations further revealed that suppliers of goods and services to Government were also a major contributor to the depreciation of the exchange rate on the parallel market as they were using forward foreign exchange rates in the pricing of their goods and services even after being paid by Government in advance. The continued monitoring, tightening of regulations and imposition of punitive measures against offenders by the FIU is expected to go a long way in reducing speculative behaviour in the economy.

Bank Policy Rates

13. The Bank policy rates have been continuously reviewed since the beginning of the year in line with exchange rate and inflation developments. The policy rate was increased from 60% in January 2022 to 80% at the end of April 2022 and further to 200% on 24 June 2022. The increase in policy rates and its alignment to the minimum lending rate has gone a long way in reducing speculative borrowing and stabilising the exchange rate.

Medium Term Bank Accommodation (MBA) Facility

14. The Bank has maintained the Medium Term Bank Accommodation Facility since November 2019 in order to support strategic productive sectors such as grain production and SMEs. Ensuring self-sufficiency in strategic products has become more critical in the wake of global supply disruptions such as the COVID-19 pandemic, the Russia-Ukraine conflict and global warming.

15. To curtail arbitrage, the MBA rate was reviewed from 40% in January 2022 to 50% in April 2022 and further to 100% on 24 June 2022. While the Bank is cognisant that the hike in the MBA rate may negatively affect borrowing by genuine productive entities, its alignment to the policy rate was crucial to avoid arbitrage borrowing from other lending windows. The MBA window remains active and available to support the productive sectors of the economy. A cumulative total of ZW$8.0 billion has been disbursed under the facility, with an outstanding balance of ZW$6.0 billion as of 22 July 2022. The MBA Facility has largely benefited the agriculture sector, especially summer and winter cropping.

Micro, Small and Medium Enterprises (MSMEs) Facility

16. The facility was introduced in June 2021 during the Covid-19 pandemic to support the working capital and capital expenditure needs of the MSMEs sector. As at 22 July 2022, a total of ZW$986.6 million had been disbursed to various beneficiaries through banks and microfinance institutions.

Statutory Reserves

17. Statutory reserve requirements continue to play a major role in the tight monetary policy stance of the Bank by limiting the available resources for credit creation. In this regard, the statutory reserve ratio for demand and call deposits was kept at 10% whilst that of time deposits also remained unchanged at 2.5% during the first half of 2022.

18. An increase in broad money saw statutory reserve balances increasing from ZW$20.11 billion on 31 January 2022 to ZW$28.89 billion as of 22 July 2022.

Deposit Interest Rates

19. As part of measures to promote savings, the deposit rates for ZW$ savings were reviewed upwards from 12.5% to 40% per annum, while time deposits rates were increased from 25% to 80% per annum, effective 1 July 2022.

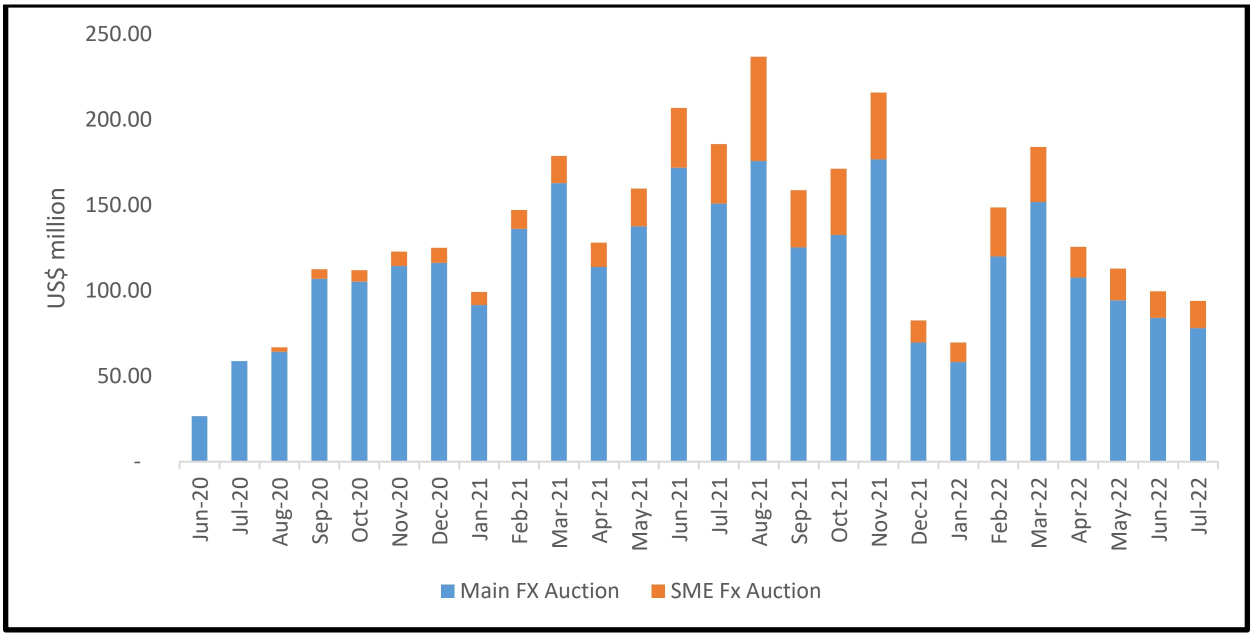
Foreign Exchange Market

20. To support an efficient market for foreign exchange, the Bank has moved to eliminate the gap between the auction and the willing-buyer willing-seller exchange rates. It is the Bank's view that the willing-buyer willing-seller exchange rate is a good indicator of the foreign exchange rate in the economy. The parallel market exchange rates are to a large extent influenced by speculative sentiments and forward pricing behaviour, especially by providers of goods and services to Government.

21. Since the introduction of the auction system on 23 June 2020, the Bank has successfully held 104 Main and 98 SME auctions, as of 26 July 2022. In 2022, the Bank allotted about US$834.7 million, representing about 91% of the total bids submitted to the auction as of 26 July 2022.

22. The SMEs sector continues to receive a considerable amount of funds from the auction system, with a share of about 17% in the first half of 2022, compared to a share of 11% in the same period in 2021 as shown in Figure 1.

Figure 1: Foreign Exchange Auction Allotments in 2020-2022 (US$m)



23. The average number of bids per auction was about 1 450 per week during the first half of 2022, lower than the average of 2 000 bids per week in the fourth quarter of 2021. The reduction in the number of bids is attributable to the introduction of the willing-buyer willing-seller foreign exchange trading mechanism (with some applicants who used to rely on the foreign exchange auction system now accessing foreign currency through that system) and effective monitoring by banks and Exchange Control authorities.

24. To enhance market confidence, the Bank has cleared the backlog of all allotted amounts in respect of Auctions FX94 to FX102 and is in the process of settling the ring-fenced backlog from Main auctions 83 to 93, amounting to US$169 million, with a view to clearing it within a short space of time.

25. The amounts that have been allocated at successive auctions have increased over time for both the Main and SMEs auctions. A total amount of US$3.43

billion had been allotted at the auctions as at 26 July 2022, with US$2.93 billion having been allotted at the Main auction and US$498.07 million at the SMEs auction.

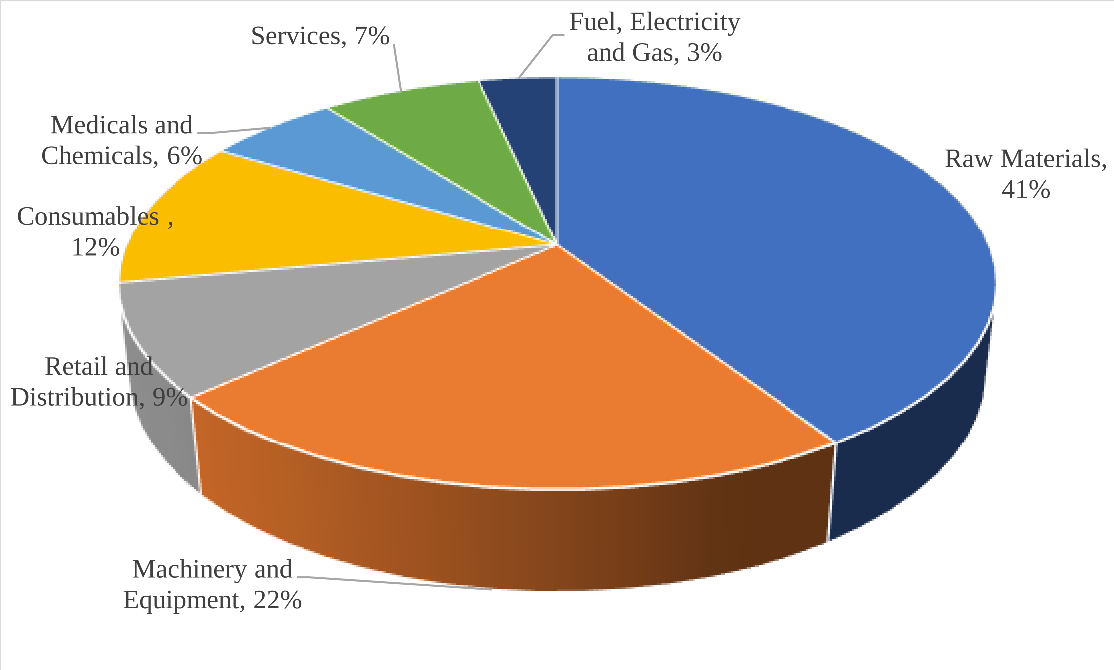
26. Details of the weekly auction allotments are shown in Table 8.

Table 1: Foreign Exchange Auction Data as of 26 July 2022

Date	FX market Week	Lowest bid (LB)	Highest bid (HB)	Weighted Auction Rate (AR)	US$ Total Bids	US$ Allotted
2020-21 Total					**2,676,943,485.46**	**2,596,380,812.95**
Jan-Mar 2022					**420,796,325.51**	**402,475,532.75**
April-June 2022					**404,340,175.17**	**338,225,073.84**
5-Jul-22	FX101/2022	358.0000	405.0000	379.2280	19,749,893.72	19,678,200.34
5-Jul-22	SMEFX95/2022	357.0000	405.0000	379.2280	3,747,679.66	3,714,582.77
12-Jul-22	FX102/2022	368.6400	424.0000	391.5339	19,506,514.99	19,506,514.99
12-Jul-22	SMEFX96/2022	366.0000	420.0000	391.5339	4,109,266.59	4,053,982.01
19-Jul-22	FX103/2022	382.0000	450.0000	403.4048	19,685,492.47	19,161,542.54
19-Jul-22	SMEFX97/2022	385.0000	442.0000	403.4048	3,867,264.37	3,762,731.31
26-Jul-22	FX104/2022	399.0000	490.0000	416.2890	19,865,492.03	19,787,360.03
26-Jul-22	SMEFX98/2022	398.0000	500.0000	416.2890	4,430,341.14	4,321,097.28
2022 TOTAL					**920,098,445.65**	**834,686,617.86**
GRAND TOTAL					**3,597,041,931.11**	**3,431,067,430.81**

27. The productive sectors of the economy continue to receive most of the funds allotted at foreign currency auctions, with more than 65% of the allotments going towards supporting those sectors. As at 26 July 2022, 41% of the total allotments financed raw materials, whilst 22% funded capital goods such as plant, machinery and equipment with 3% being allocated to fuel, electricity and gas.

Figure 2: Distribution of Foreign Currency Allotments at Auctions as of 26 July 2022



Source: Reserve Bank of Zimbabwe, 2022

Willing-Buyer Willing-Seller Foreign Exchange Trading System

28. The Bank introduced the willing-buyer willing-seller foreign exchange market trading system on 12 April 2022, in line with Government policy to move towards a more liberalised exchange rate. As at 29 July 2022 the cumulative foreign exchange purchases and sales through the system stood at US$18.7 million and US$17.1 million respectively, resulting in cumulative banks' holdings of about US$1.6 million, as shown in Table 2.

Table 2: Willing-Buyer Willing-Seller Interbank Market Activity 2022 (US$)

Transaction	As at 29 July 2022
Cumulative Purchases by banks	18,685,552.90
Cumulative Sales by banks	17,090,708.96
Holdings by banks	**1,594,843.94**

29. The average interbank exchange rate as of 28 July 2022 was US$1:ZW$443.88, a depreciation of about 50% from US$1:ZW$220.09 on 12 April 2022. During the first half of 2022, the Bank sold a total of US$16.5 million to *bureaux de change* for onward sale to the public to cover small transaction requirements such as travel and medicines.

Mosi-oa-Tunya Gold Coin Trading

30. Following the resolution by the Monetary Policy Committee on 24 June 2022 to introduce gold coins into the Zimbabwean market as an alternative stable investment product for value preservation, the Bank released the first batch of 2000 gold coins into the market on 25 July 2022. The gold coins are being sold through authorised dealers, the Bank and its subsidiaries namely Aurex (Private) Limited and Homelink (Private Limited. The gold coins have the following specifications: -

i. Denomination -1 Oz (for the time being);
ii. Material - Gold;
iii. Purity - 22 karats (91.67%);
iv. Diameter - 32 mm;
v. Weight - 33.93g;
vi. Shape - Round;

vii. Edge Type – Reeded, with serial number engraved;

viii. Quality Proof; and

ix. Thickness - 2.63mm.

31. The gold coin, which is sold with an accompanying bearer certificate, has the following characteristics:

i. Liquid Asset Status;

ii. Prescribed Asset Status;

iii. Can be used as collateral;

iv. Tradable; and

v. Can be bought back (after 180 days) at the instance of the holder.

32. The price of the gold coins is determined by the London Bullion Market Association (LBMA) PM Fix gold price plus a margin of 5% to cover the production and distribution costs. The price of the gold coin on the date of initial release, 25 July 2022, was US$1,823.80 or ZW$805,745.35 in local currency. Fluctuations will be experienced on the US$ and ZW$ prices as a result of the movement in the international price of gold and the exchange rate.

33. As at 10 August 2022, 4475 gold coins had been sold realising ZW$3.7 billion of which 90% was paid in local currency and the balance in foreign currency, and evenly distributed throughout the agents.

34. The high demand for the gold coins will assist in mopping up liquidity from the market and thus strengthen the demand and enhance the value of the local currency. The Bank shall continue to release additional gold coins into the market on an ongoing basis in line with demand.

Foreign Exchange Mobilisation

35. The Bank is working with its local and external partners to unlock offshore lines of credit to support the country's foreign currency needs. Letters of Credit (LCs) issuances under the Afreximbank US$150 million facility, as well as bank facilities continued to bridge the balance of payments gap for the country through providing a critical liquidity lifeline to the local industry. LCs worth about US$145 million were issued during the first seven months of 2022.

36. The Bank has also approved around US$70 million worth of LCs which are in the pipeline for the importation of essential commodities such as raw materials, plant and equipment, wheat, fertilisers and agro-chemicals.

Foreign Currency Receipts

37. Total foreign currency receipts for the period 1 January to 30 June 2022 amounted to **US$5.45 billion** compared to **US$4.07 billion** received during the same period in 2021, representing a **33.6%** increase. This shows a significant growth in receipts during the first half of the year. Table 3 shows the foreign currency receipts by source.

Table 3: Total Foreign Currency Receipts for January – June 2022 (USD Millions)

Type of Receipt		Year 2022	Year 2021	% Change
Export Proceeds		3,467.40	2,354.20	47.3%
International Remittances	Diaspora Remittances	797.27	650.50	22.6%
	NGOs	574.75	462.62	24.2%
Loan Proceeds		428.35	505.15	-15.2%
Income receipts		73.77	79.59	-7.3%
Foreign Investment		103.89	22.35	364.8%
Total		5,445.43	4,074.41	33.6%

Source: Exchange Control Records (2022)

International Remittances

38. International remittances comprise transfers by Zimbabweans in the Diaspora and International Organisations. As at 30 June 2022, total international remittances amounted to US$1.372 billion, an increase of 23% from the US$1.113 billion recorded during the same period in 2021. Of the total amount, diaspora remittances amounted to USD797 million, a 23% increase from US$650 million received during the same period in 2021.

39. International remittances received through the normal banking system on behalf of International Organizations amounted to US$575 million, an increase of 24% from US$463 million recorded during the same period in 2021.

Foreign Payments Performance

40. For the first half of 2022, banks processed foreign payments amounting to US$3.78 billion. This represents a 19% increase in foreign payments from US$3.19 billion recorded for the same period in 2021. The upward trajectory in foreign payments was largely on account of increased global prices for fuel and electricity. Table 4 shows foreign payments, by category, for the same period in 2021 and 2022.

Table 4: Foreign Payments from January to June 2021/2022 (US$ Millions)

Category	Year 2022	Year 2021	% Variance	Contribution 2022	Contribution 2021
Merchandise Imports (excl. energy)	**2,046.9**	**1,848.9**	**11%**	**54%**	**58%**
- Consumption & Manufactured Goods	607.7	895.1	-32%	16%	28%
O/W Food Items	*125.5*	*179.5*	*-2%*	*3%*	*6%*
Beverages	*8.2*	*10.0*	*-0.1%*	*0.2%*	*0.3%*
Medical Goods/Pharmaceuticals	*51.1*	*61.8*	*-0.3%*	*1%*	*2%*
Manufactured Goods	*422.8*	*643.9*	*-7%*	*11%*	*20%*
- Capital Goods	829.4	625.6	33%	22%	20%
- Intermediate Goods	609.8	328.2	86%	16%	10%
Energy (Fuel & Electricity)	**738.6**	**410.7**	**80%**	**20%**	**13%**
- Fuel	690.9	353.7	95%	18%	11%
- Electricity	47.7	57.1	-16%	1%	2%
Service Payments	**385.3**	**254.3**	**52%**	**10%**	**8%**
- Technical, Professional & consult	195.7	95.7	104%	5%	3%
- Software	39.9	33.8	18%	1%	1%
- Other (tourism, education, freight etc)	149.8	124.8	20%	4%	4%
Income Payments (Profits, Dividends)	**326.7**	**263.7**	**24%**	**9%**	**8%**
- Dividends	268.8	211.4	27%	7%	7%
- Interest Payments	8.5	6.6	29%	0.2%	0%
- Other (Salaries, Expatriates, Rental)	49.4	45.7	8%	1%	1%
Capital Remittances (outward)	**210.2**	**320.5**	**-34%**	**6%**	**10%**
- External Loan Repayments	160.8	268.2	-40%	4%	8%
- Disinvestments	17.0	30.6	-45%	0.4%	1%
- Foreign Investment	32.5	21.7	50%	0.9%	0.68%
Other Payments (International Cards & Refunds	**75.3**	**92.5**	**-19%**	**2.0%**	**2.9%**
Total	**3,783.1**	**3,190.5**	**19%**	**100%**	**100%**

Source: Exchange Control Records (2022)

SECTION THREE

RECENT ECONOMIC AND INFLATION DEVELOPMENTS

41. Global growth prospects have remained fragile owing to geo-political tensions, rising inflation and tighter financial conditions, global warming and the COVID-19 pandemic. In its July 2022 World Economic Outlook Update, the IMF revised global growth downwards to 3.2%, from the initial estimate of 4.9% in January 2022, with prospects in the short-term remaining gloomy and highly uncertain.

42. Global prices of commodities, for which Russia and Ukraine are key exporters, have remained significantly higher in 2022 than in the previous year. Food prices, particularly wheat, are projected to significantly increase in 2022, reaching an all-time high in nominal terms owing to the ongoing Russia-Ukraine conflict.

43. Precious metal prices rose in the first half of 2022, although at a slower pace than in the previous year, owing to uncertainties around the ongoing conflict in eastern Europe and subsequent sanctions imposed on Russia, which developments have boosted the appeal of gold as a safe-haven. Furthermore, growing concerns over high inflation have also prompted investors to shift from riskier assets to precious metals as a safe haven. However, the gains in price increases are being moderated by the U.S Federal Reserve Bank's hawkish monetary policy stance.

44. On the domestic front, growth prospects for 2022 remained robust at 4.6% compared to the initial projection of 5.5%, largely due to the underperformance of the 2021/22 agricultural season. Growth for 2022 will mainly be driven by mining and construction activities and accommodation and food services. The anticipated increase in international commodity prices is also expected to further support strong growth in the mining sector, particularly, in gold, diamond and PGMs sub-sectors.

45. In addition, anticipated growth in tourism due to recovery in international tourism following the lifting of global Covid-19 mandatory quarantine requirements and the resumption of meetings, incentives, conferences and exhibitions (MICE) is expected to spur growth in the sector in 2022.

46. Downside risks to economic activity in 2022 remain due to the impact of the ongoing Russia –Ukraine conflict, particularly its effect on food and energy prices and their transmission to the domestic economy.

Gold Deliveries

47. Gold deliveries to Fidelity Gold Refinery (Private) limited (FGR) for the period 1 January 2022 to 30 June 2022 were 15,972.52 kgs, compared to 9,954.67 kgs delivered during the same period in 2021. This represents a year-to-year variance (increase) of 60.45% or 6,017.85 kgs. Table 5 shows the gold deliveries as at 30 June 2022.

Table 5: Gold Deliveries (Kgs) to FGR - Jan 2021 to June 2022

	Year 2021			Year 2022			
Month	**Primary**	**Small Scale**	**Total**	**Primary**	**Small Scale**	**Total**	**% Change**
Jan	642.11	355.52	997.62	814.28	2,053.66	2,867.94	187.48%
Feb	609.84	560.83	1,170.66	930.98	1,331.05	2,262.03	93.23%
March	1,139.42	670.07	1,809.49	1,000.91	1,563.83	2,564.75	41.74%
April	752.32	632.26	1,384.59	859.44	1621.97	2,481.41	79.22%
May	884.20	783.81	1,668.01	1,055.68	1935.57	2,991.25	79.33%
June	1,125.60	1,798.70	2,924.30	837.12	1,968.02	2,805.13	-4.08%
July	874.31	1,950.31	2,824.62	965.79	1,998.13	2,963.91	4.93%
August	1,034.54	1,913.49	2,948.03				
September	1,004.51	2167.36	3,171.86				
October	1,005.12	2046.79	3,051.91				
November	1,075.20	2,261.30	3,336.50				
December	1011.83	3330.18	4,342.01				
TOTAL	**11,159.00**	**18,470.61**	**29,629.60**	**6,464.19**	**12,472.24**	**18,936.43**	

48. Total deliveries during the first half of 2022 were 60.45% or 9.954.67 kgs more than what was achieved over the same period in 2021. At this rate, the Bank's projection of delivery 35 000 tonnes is within reach. To ensure that

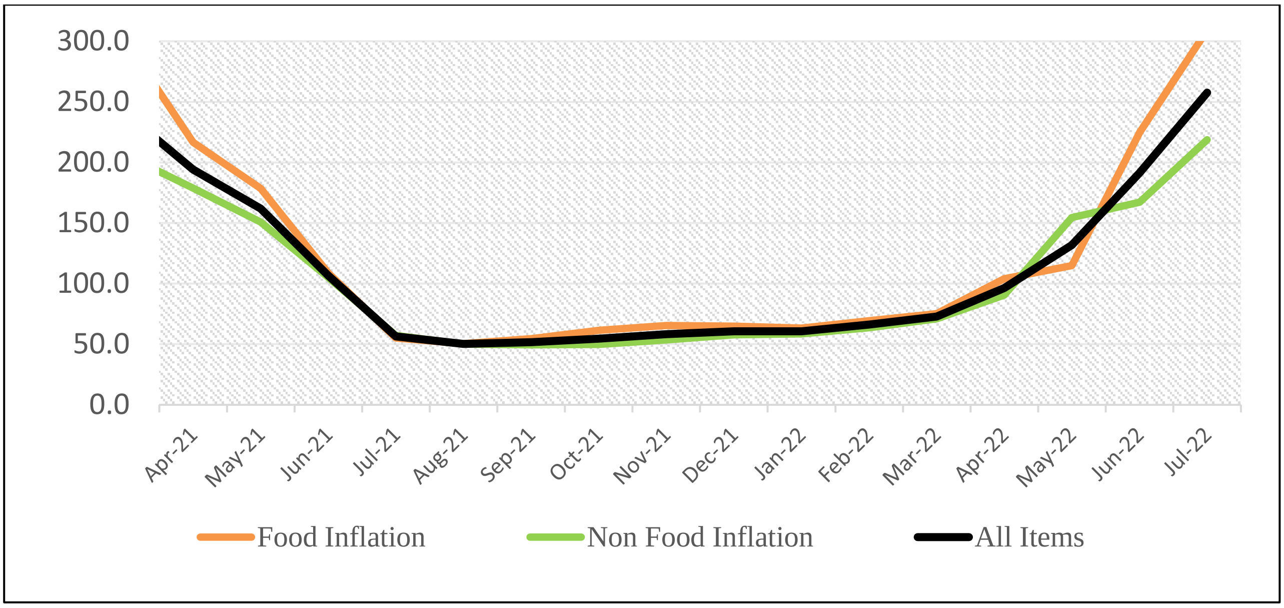
the set target is achieved, there is need to maintain the incentives and complement them with increased monitoring of gold producers to reduce leakages into the parallel market.

Inflation Developments

49. The economy has been experiencing inflationary pressures since the beginning of 2022. Headline inflation increased from 60.7% in January 2022 to 256.9% in July 2022. This was partly driven by external factors, particularly the Russia-Ukraine conflict, which impacted negatively on import prices of raw materials, food and liquid fuels.

50. On the domestic arena, adverse inflation expectations and exchange rate depreciation were also some of the major drivers of inflation in the first half of 2022.

Figure 3: Annual Inflation



Source: ZIMSTAT

51. The recent stabilisation measures have, however, resulted in the slowdown in monthly inflation, from 31.7% in June to 25.6% in July 2022. In addition, the shift towards a more liberalised exchange rate, through the introduction of the willing-buyer/willing-seller foreign exchange trading system in May 2022, has significantly reduced the parallel market exchange rate premium, from about 140% to the current 60% as at the end of July 2022.

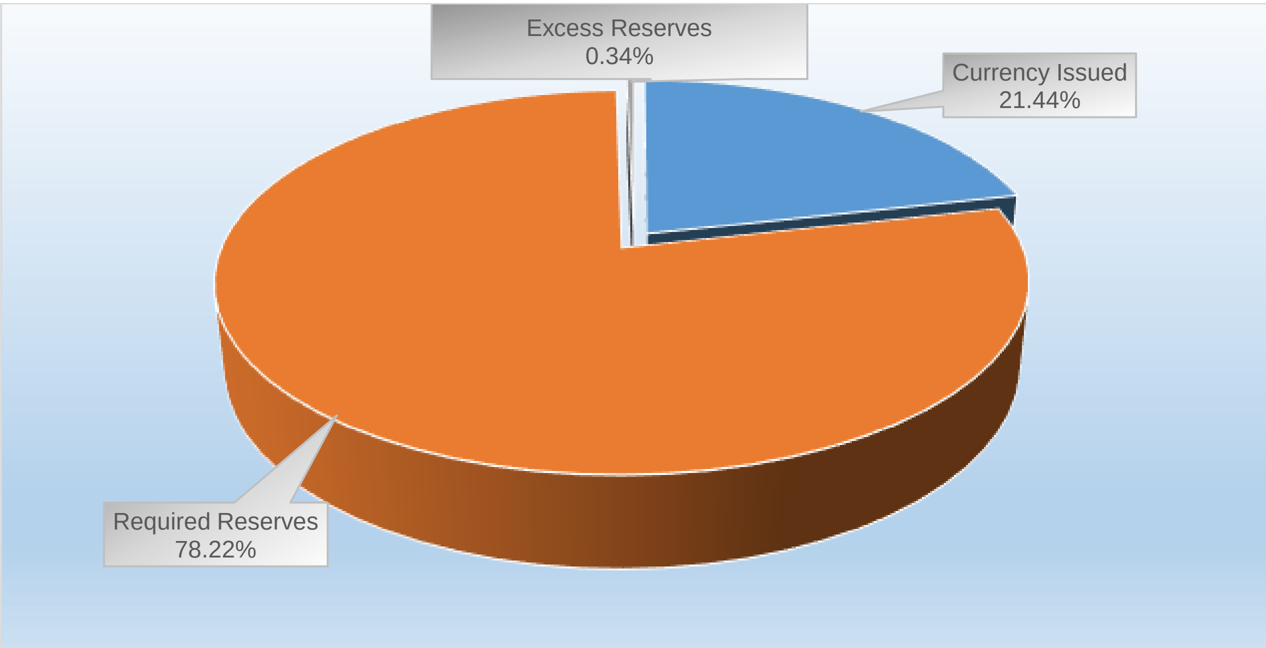
RESERVE MONEY DEVELOPMENTS

52. The Bank has maintained its tight monetary stance to control inflationary and exchange rate pressures emanating from global and domestic shocks. Reserve money stock amounted to ZW$33.55 billion as at 30 June 2022 largely due to increases in statutory reserves. Since the beginning of the second quarter of 2022, statutory (or required) reserves have been increasing in response to significant build-up in banking sector deposits. The increase in statutory reserves is in line with the thrust of tightening monetary policy

as the reserve balances are sterilised at the Bank and are not available for lending by banks.

53. As at end of June 2022, more than 78% of the stock of reserve money was in the form of statutory reserves, while currency issued by the Bank and banks' liquidity positions at the RBZ (RTGS balances) constituted the balance, as shown on Figure 4.

Figure 4: Components of Reserve Money as at end of June 2022



Source: RBZ

54. Excess reserves (RTGS balances at the Bank) declined from 55.06% in June 2021 to 0.34% in June 2022, largely reflecting tighter liquidity conditions as a result of mopping up operations and issuance of non-negotiable certificates of deposits (NNCDs).

55. The Bank continued to implement a conservative monetary targeting framework to contain money supply growth and avert attendant pressures on exchange rate and inflation. As a result, quarter on quarter reserve money

growth targets for 2021 were achieved and progressively reduced from 22.5% during the first two quarters of 2021, to the current 0% growth. The downward revision was necessitated by the need to further tighten monetary policy in response to resurgence of inflationary and exchange rate pressures.

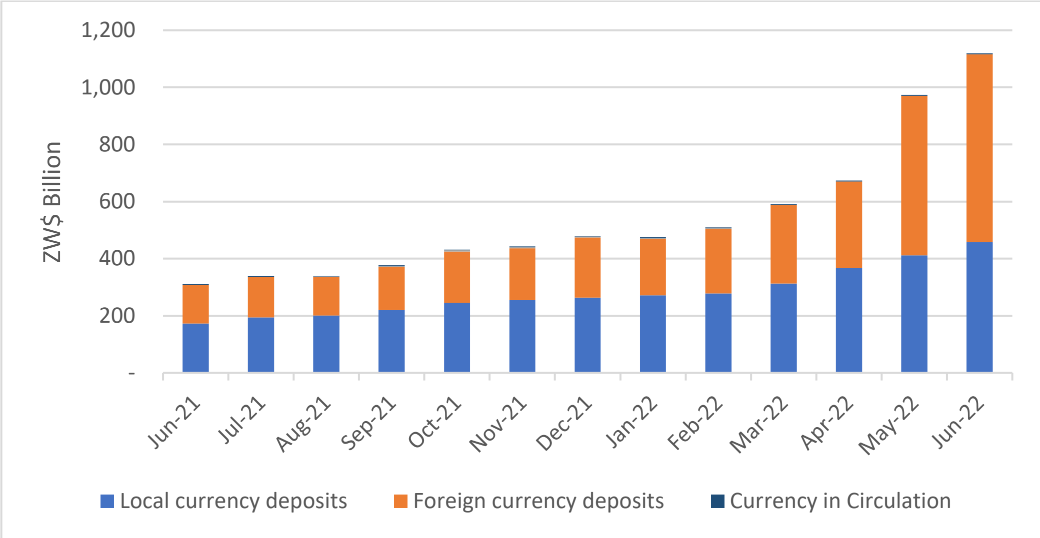
MONETARY DEVELOPMENTS

56. Broad money increased by 15.25% to ZW$1 119.70 billion in June 2022, compared to ZW$973.50 billion recorded in May 2022. The increase reflected an expansion of ZW$98.75 billion and ZW$49.40 billion in foreign currency deposits and local currency component, respectively.

57. The money stock was comprised of foreign currency deposits, 58.76%; local currency deposits, 40.93%; and currency in circulation, 0.31%.

58. Figure5, shows monetary developments for the period June 2021 to June 2022.

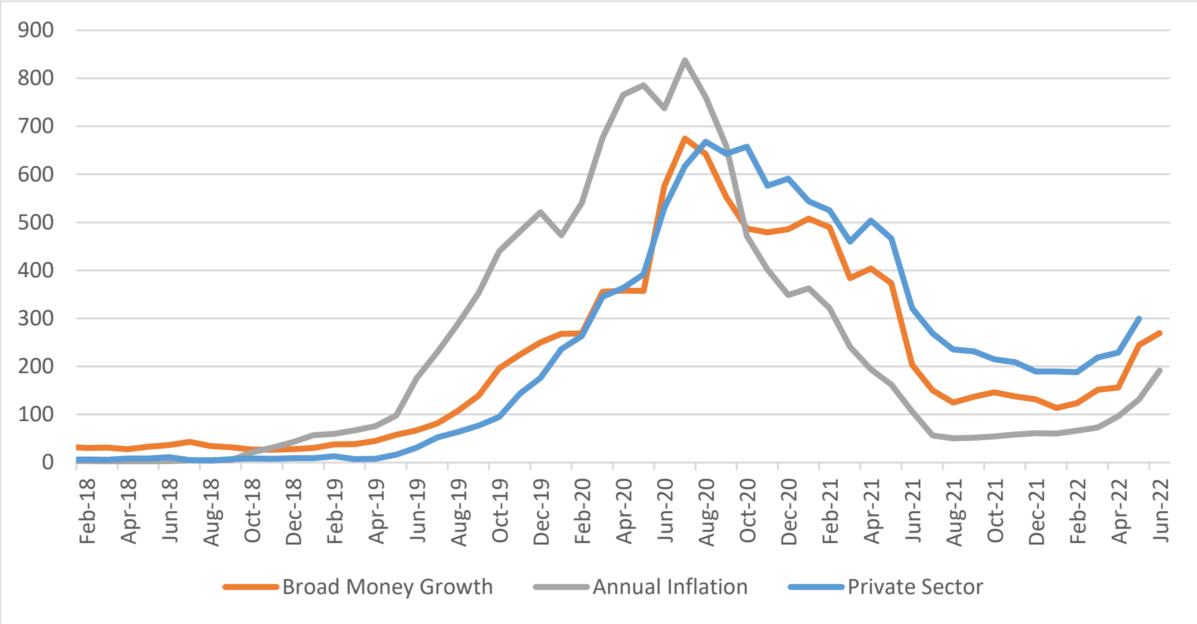
Figure 5: Monetary Developments



Source: Reserve Bank of Zimbabwe, 2022

59. Broad money grew by 269.62% on an annual basis, an increase from 203.48% realised in June 2021. The local currency component of broad money grew by 172.77% while foreign currency deposits increased by 392.32%, also reflecting movements in the exchange rate and increase in exports.

Figure 6: Money Supply Growth and Inflation



Source: Reserve Bank of Zimbabwe, 2022

60. The annual growth in broad money of 269.62% was largely due to increases of 351.69% and 342.21% in credit to the private sector and net claims on Government, respectively. Net credit to Government included drawdowns of Special Drawing Rights (SDR) reserves.

STOCK MARKET DEVELOPMENTS

Zimbabwe Stock Exchange (ZSE)

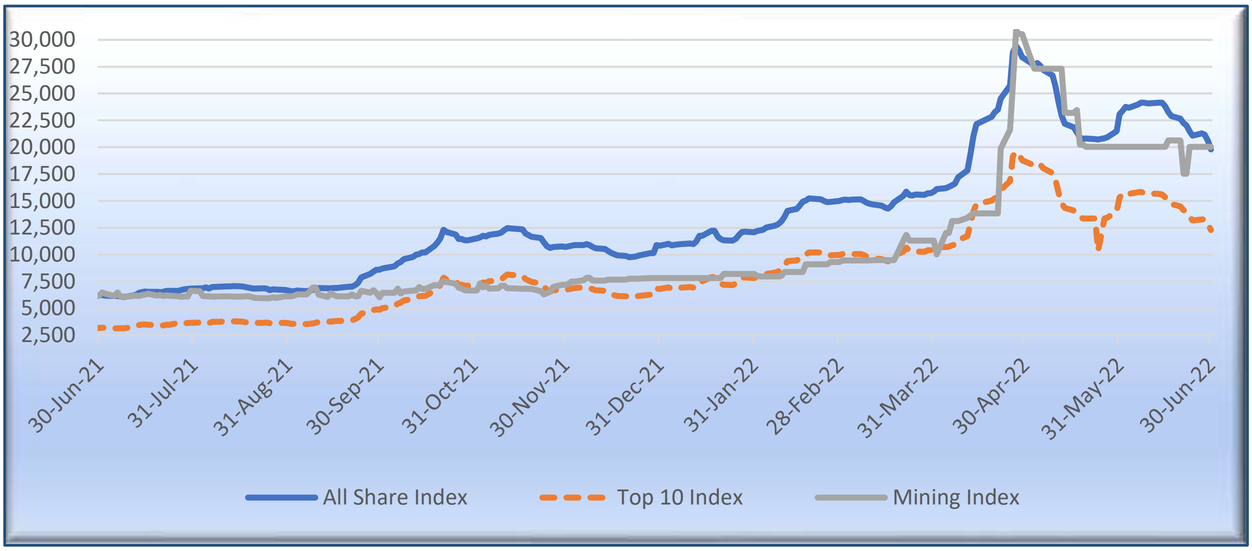
61. During the second quarter of 2022 bullish sentiments characterised the Zimbabwe Stock Exchange (ZSE). Trading activity was skewed towards medium to small counters associated with high trading volumes. This resulted in increases in all the major indices, with the Medium Cap, All Share, Small Cap, Top 15 and Top 10 indices increasing by 51.35%, 24.80%, 23.08%, 18.99% and 17.16%, respectively, to close at 39 627.35 points,

19791.94 points, 513 602.97 points, 13 721.95 points and 12 273.75 points, respectively.

62. The resource index also gained 77.35% during the same period to close at 20 021.24 points, compared to 11 289.34 points recorded in the previous quarter. On a year-on-year basis, the Top 10, Top 15, All Share, Small Cap and Medium Cap indices increased by 289.09%, 275.03%, 219.49%, 170.13% and 129.43%, respectively, from 3 154.44 points, 3 658.89 points, 6 194.88 points, 190 131.50 points and 17 272.09 points recorded in June 2021, respectively.

63. Figure 7 shows the developments of the ZSE All Share, Top 10 and Mining Indices for the period June 2021 to June 2022.

Figure 7: ZSE All Share, Top 10 and Mining Indices

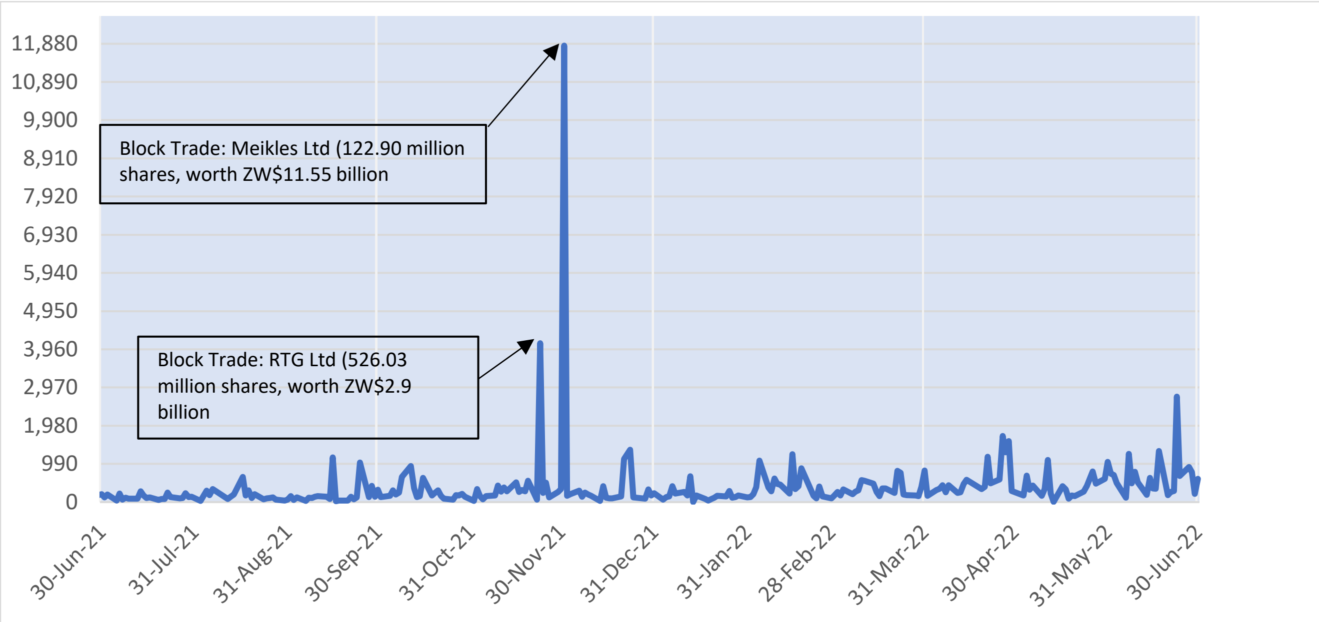


Source: Zimbabwe Stock Exchange 2022

Market Turnover

64. Owing to limited investment options available on the money market, the cumulative volume and value of shares traded increased by 85.14% and 71.86% to 660.11 million shares and ZW$34.15 billion, respectively.

Figure 8: ZSE Market Turnover (ZW$ millions)



Source: Zimbabwe Stock Exchange, 2022

65. However, foreign investor participation, as measured by its contribution to value of shares traded, declined to 3.26%, compared to 7.51% recorded in the first quarter of 2022. Concomitantly, net foreign position worsened to negative ZW$4 437.44 million, from negative ZW$325.07 million recorded during the quarter ended 31 March 2022.

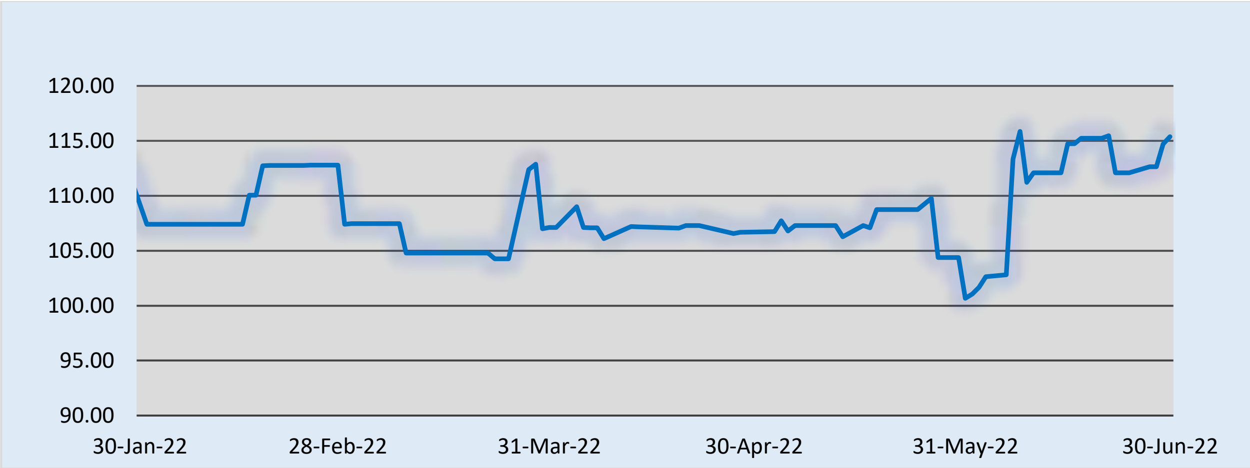
Market Capitalisation

66. The positive trading exhibited on the local bourse in the second quarter of 2022 resulted in the ZSE gaining ZW$474.43 billion, or 24.15% worth of capitalisation to close at ZW$2 439.17 billion. On a year on year basis, market capitalisation increased by 227.33%, from ZW$745.18 billion recorded in the quarter ending June 2021.

Victoria Falls Stock Exchange (VFEX)

67. During the second quarter of 2022, the Victoria Falls Stock Exchange (VFEX) traded in a positive trajectory. This resulted in the VFEX All Share Index gaining 7.72%, from 107.12 points recorded in the previous quarter to 115.39 points in the second quarter ending June 2022 as shown in Figure 9.

Figure 9: Victoria Falls Stock Exchange ASI



Source: Victoria Falls Stock Exchange, 2022

Market Capitalisation

68. Reflecting the positive sentiments on the VFEX, market capitalisation increased by US$19.59 million or 7.72% during the second quarter, from US$0.25 billion recorded in the previous quarter to US$0.27 billion.

SECTION FOUR

CONDITION AND PERFORMANCE OF THE BANKING SECTOR

69. The banking sector remained safe and sound with demonstrable capacity for increased support for the recovery of the economy, notwithstanding the challenges in the operating environment.

70. As at 30 June 2022, the banking sector comprised 13 commercial banks, five (5) building societies, and one (1) savings bank. In addition, there were 183 credit-only microfinance institutions, eight (8) licensed deposit-taking microfinance institutions and four (4) development financial institutions under the purview of the Bank.

Financial Soundness Indicators

71. Key banking sector financial soundness indicators remained satisfactory as depicted in Table 6.

Table 6: Financial Soundness Indicators

Key Indicators	Benchmark	Dec – 20	Jun – 21	Dec - 21	Jun- 22
Total Assets	-	$349.59bn	$486.45bn	$762.96bn	$1.94 trillion
Total Loans & Advances	-	$82.41bn	$142.79bn	$229.94bn	$603.14bn
Net Capital Base	-	$53.18bn	$72.90bn	$122.85bn	$349.48bn
Core Capital		$40.75bn	$53.66bn	$100.83bn	$284.74bn
Total Deposits	-	$204.13bn	$304.95bn	$476.35bn	$1.12 trillion
Net Profit	-	$34.24bn	$15.09bn	$59.29bn	$181.25bn
Return on Assets	-	13.55%	4.78%	12.04%	8.67%
Return on Equity	-	45.54%	18.71%	43.16%	31.60%

Key Indicators	Benchmark	Dec – 20	Jun – 21	Dec - 21	Jun- 22
Capital Adequacy Ratio	12%	34.62%	35.32%	32.86%	33.87%
Tier 1 Ratio	8%	22.65%	25.05%	26.54%	18.84%
Loans to Deposits Ratio	70%	39.45%	45.84%	48.27%	53.69%
NPLs Ratio	5%	0.31%	0.55%	0.94%	1.50%
Liquidity Ratio	30%	73.06%	66.89%	64.37%	60.78%

Source: Reserve Bank of Zimbabwe, 2022

Banking Sector Capitalisation

72. As at 30 June 2022, the banking sector was adequately capitalised. The banking sector average capital adequacy and tier one ratios were 33.87% and 18.84%, respectively, and above the regulatory minima of 12% and 8%, respectively.

73. Aggregate banking sector core capital increased by 179.29% from $100.83 billion as at 31 December 2021, to $284.74 billion as at 30 June 2022. Growth in core capital was mainly attributed to capitalisation of retained earnings.

74. Banking institutions continue to implement various capitalisation initiatives to bolster their capital positions including mergers, organic growth of capital and capital injection by shareholders. The Bank is monitoring progress periodically to ensure on-going compliance with minimum capital requirements.

Banking Sector Loans and Advances

75. Aggregate banking sector loans and advances increased 2.64 times from ZW$229.94 billion as at 31 December 2021 to ZW$603.14 billion as at 30

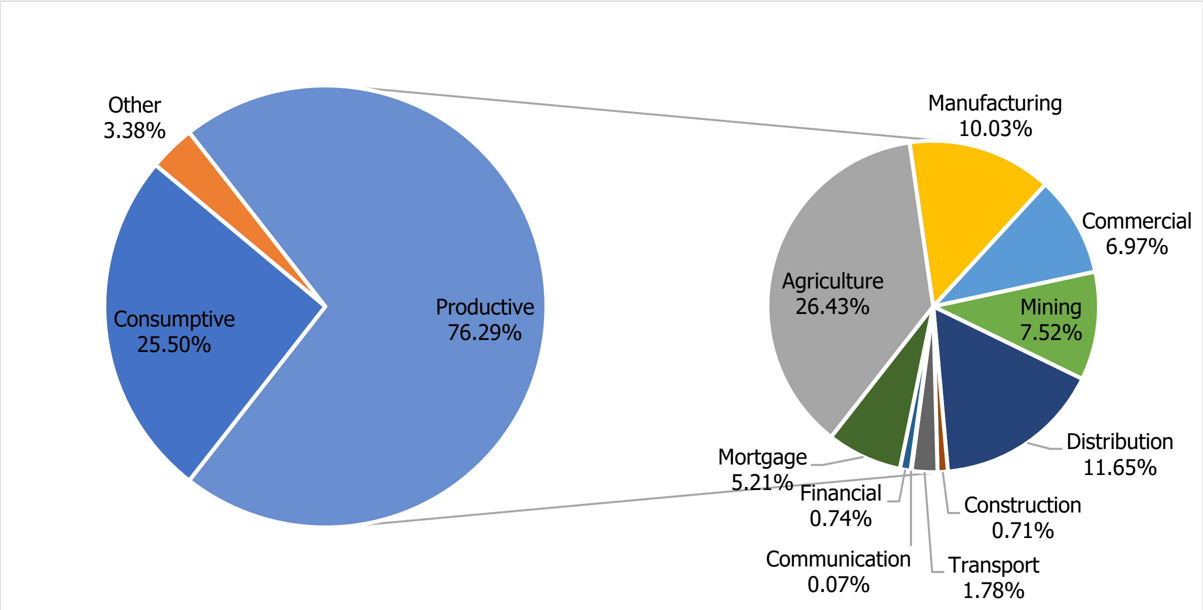
June 2022, largely attributed to the translation of foreign currency denominated loans.

76. As at 30 June 2022, foreign currency denominated loans constituted 65.87% of total banking sector loans, an increase from 36.87% reported as at 31 December 2021.

77. During the period under review, financial intermediation as measured by loans to deposit ratio, improved from 48.27% recorded as at 31 December 2021, to 53.69% as at 30 June 2022.

78. The banking sector continued to support the productive sectors of the economy as evidenced by loans to the productive sectors constituting 76.29% of total loans as at 30 June 2022, as shown in Figure 10.

Figure 10: Sectoral Distribution of Loans as at 30 June 2022



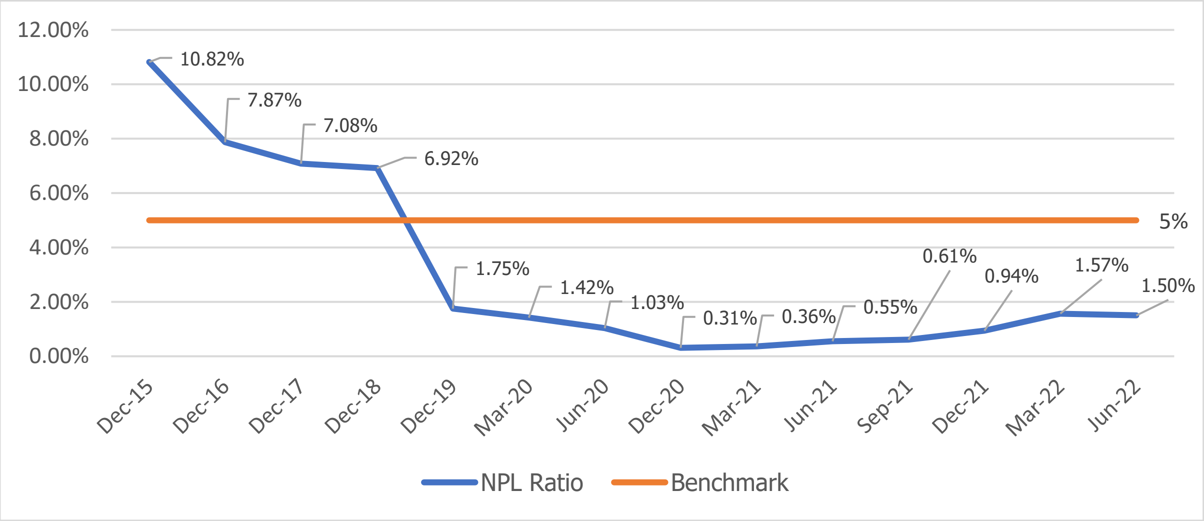
Source: Reserve Bank of Zimbabwe

Asset Quality

79. Banking sector asset quality remained satisfactory. As at 30 June 2022, the average non-performing loans (NPLs) to total loans ratio for the banking sector was 1.50%, against the generally acceptable international threshold of 5%.

80. Figure 11 shows the declining trend in the level of non-performing loans to total loans ratio (NPLs ratio) from December 2017 to June 2022.

Figure 11: Trend in Non- Performing Loans



Source: Reserve Bank of Zimbabwe

81. Banking institutions continue to enhance and adopt sound credit risk management systems and internal controls to minimise potential non-performing loans against the background of a challenging operating environment.

82. The Bank will continue monitoring asset quality on an ongoing basis to ensure healthy balance sheets of banking institutions.

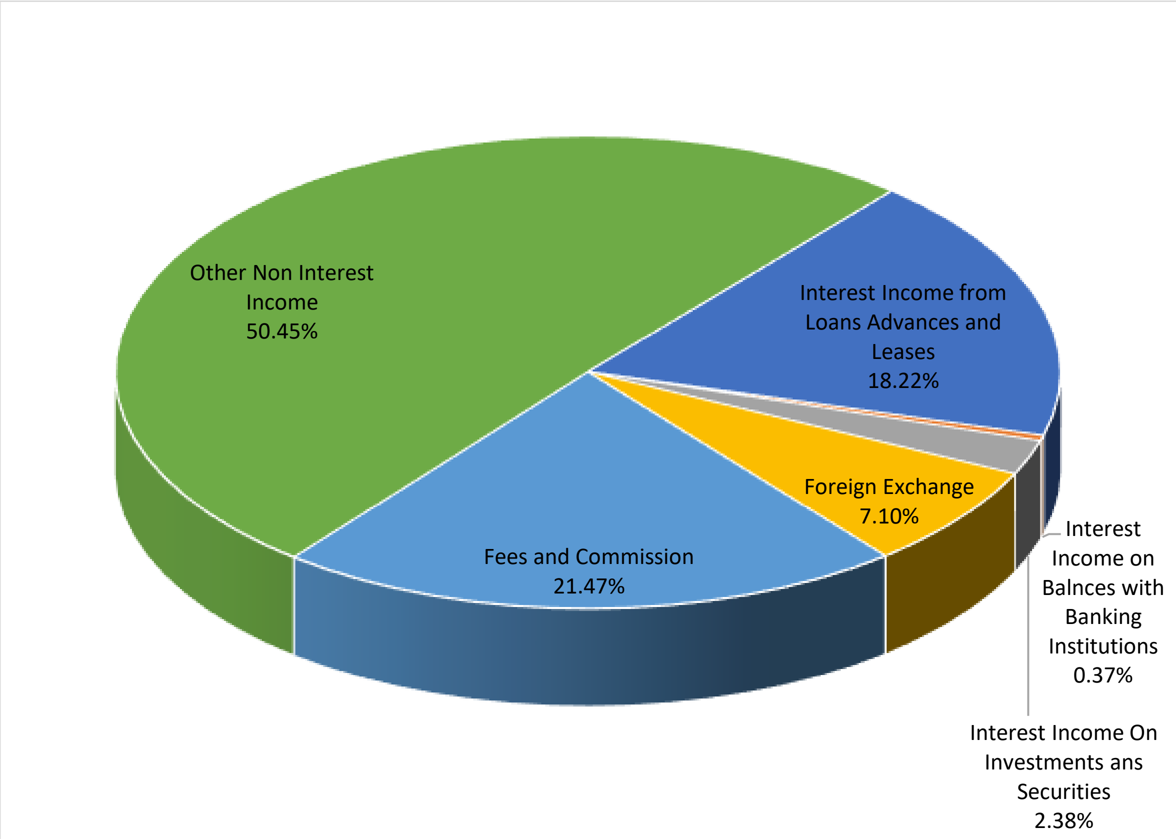
Banking Sector Profitability

83. The banking sector recorded un-audited aggregate profits of ZW$181.25 billion for the half-year ended 30 June 2022, a 12fold increase from aggregate profits of ZW$15.09 billion reported in the corresponding period in 2021.

84. Growth in banking sector income was largely spurred by non-interest income, which constituted 79.03% of total income [2021: 51.81%]. Non-interest income comprised mainly revaluation gains from investment properties (25.77%), fees and commissions (21.47%), as well as translation gains on foreign currency denominated assets (20.38%).

85. The income mix for the sector is depicted in Figure 12.

Figure 12: Banking Sector Income Mix as at 30 June 2022



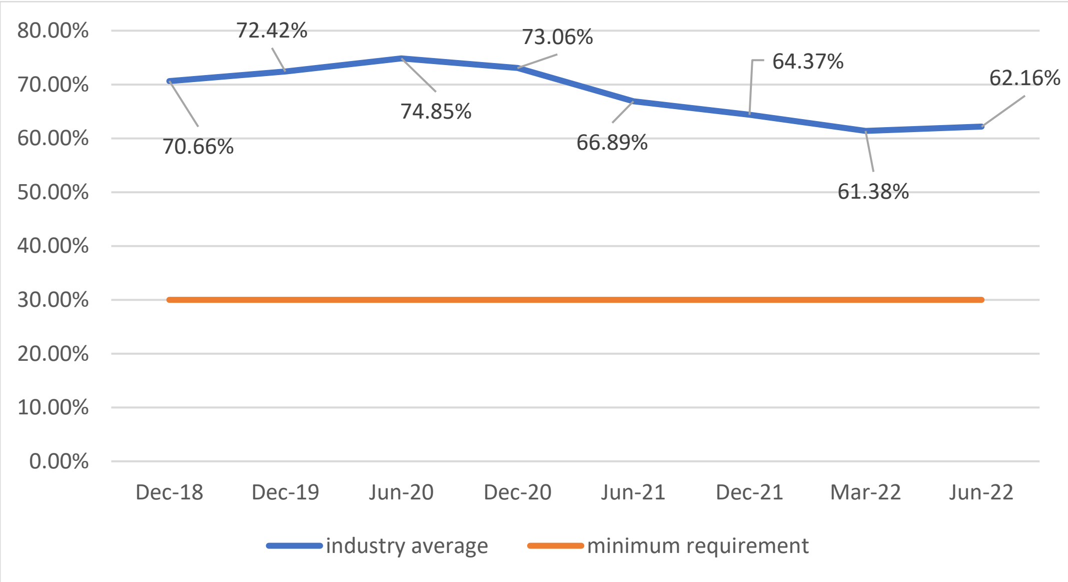
Source: Reserve Bank of Zimbabwe

86. During the half year period to 30 June 2022, interest income from loans and advances contributed 18.22% compared to 40.96% of the total income in June 2021.

Banking Sector Deposits and Liquidity

87. The average prudential liquidity ratio was 62.16% as at 30 June 2022, 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 30 June 2022 is shown in Figure 13.

Figure 13: Prudential Liquidity Ratio Trend



Source: Reserve Bank of Zimbabwe

88. Total deposits increased from ZW$476.35 billion as at 31 December 2021 to ZW$1.12 trillion as at 30 June 2022.

Sustainability

89. Fostering sustainability has become critical in the changing landscape for the banking sector, following a realisation that strong and resilient banking institutions contribute meaningfully to sustainable economic development and attainment of Sustainable Development Goals (SDGs) by 2030.

90. The National Development Strategy (NDS) 1 is very specific on adoption of the sustainability standards, as one of the key pillars for promoting financial sector stability in Zimbabwe and as such, banking institutions are encouraged to embrace and adopt sustainable banking practices.

91. The Bank continues to work closely with all financial institutions in the implementation of the Sustainability Standards & Certification Initiative (SSCI) being driven by the European Organisation for Sustainable Development (EOSD). The pilot participating institutions have registered significant progress in comprehending the key pillars of SSCI.

Sustainability and Climate Related Risks

92. In line with the Bank's February 2022 Monetary Policy Statement, banking institutions were required to embed sustainability and climate related risks in their corporate governance and risk management frameworks and systems.

93. The Bank has to date, received responses by banking institutions regarding measures taken and progress being made in incorporating sustainability and climate related risks into their operations and governance frameworks.

94. A review of the submissions by banking institutions indicates that some banks have made progress through development of sustainability frameworks and related policies, reconstitution of board committees and

amendment of terms of reference for committees charged with sustainability issues and risks.

95. It was however, noted that, there is still scope to enhance the adoption of sustainability principles across the sector as some institutions still lack the perspective of a holistic approach to sustainability, only focusing on climate related issues.

96. In line with the need to enhance sustainability supervision and regulation and to keep pace with the shift towards sustainable banking practices, the Bank will continue to engage the financial institutions and provide the necessary guidance.

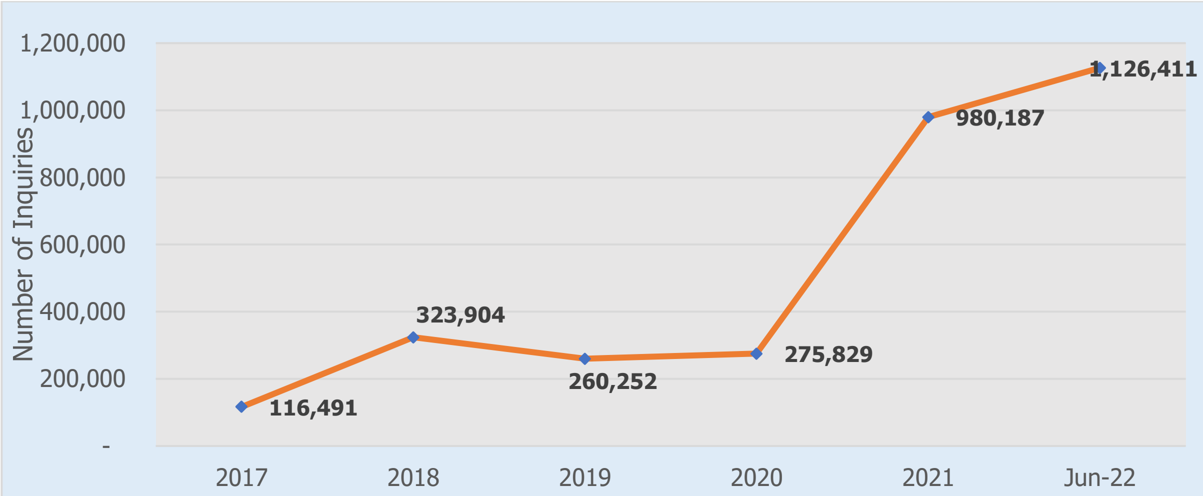
Credit Infrastructure

Credit Registry

97. The sustained availability and growth of the Credit Registry System continues to play a critical role in provision of credit and effective management and ongoing monitoring of credit in the sector.

98. The Credit Registry System registered a total of 1,126,411 enquiries as at 30 June 2022, up from 980,187 as at 31 December 2021 reflecting increased usage as the adoption of the Credit Registry System improves over time. The trend in inquiries from 2017 to June 2022 is shown in Figure 14.

Figure 14: Trend of Inquiries for 2017- June 2022



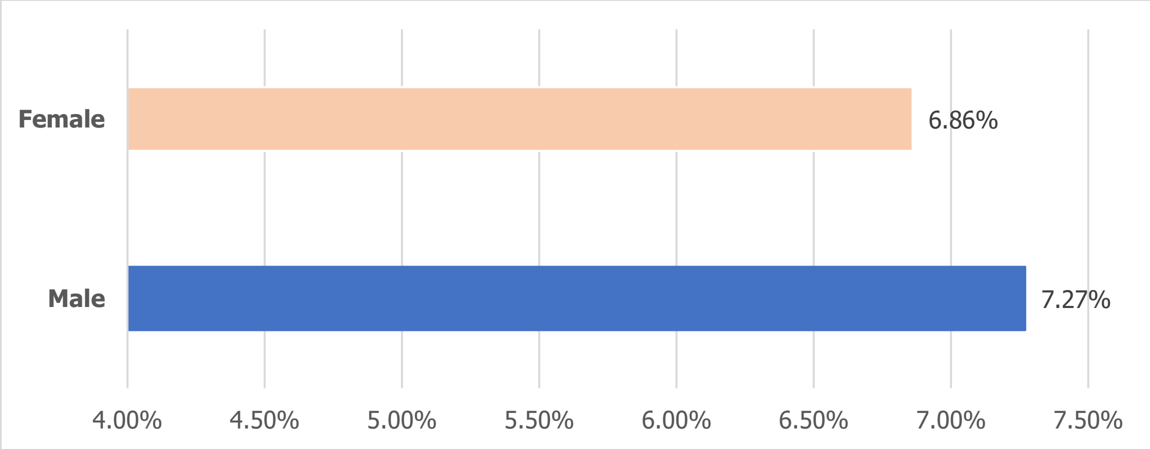
Source: Reserve Bank of Zimbabwe

99. The Credit Registry had 541,488 active loan contracts as at 30 June 2022, with individuals' records accounting for 97.93% of the records.

100. Gender distribution of loans is generally skewed towards male borrowers who constituted 68.31% while female borrowers constituted 31.69% of loan contracts in the Credit Registry.

101. The Credit Registry database indicates that only 6.86% of total loans granted to female borrowers were delinquent compared to 7.27 % for male borrowers, as shown in Figure 15.

Figure 15: Percentage of Delinquent Loan Contracts by Gender



102. The Credit Registry has commenced engagements with microfinance institutions to bring them on board as data providers. It is anticipated that microfinance institutions data will further enrich and broaden the scope of credit registry database.

Collateral Registry

103. The Bank is targeting to conduct the final pilot testing of the Collateral Registry System with stakeholders during the month of August 2022. The Collateral Registry system is expected to centralise the database of movable assets accepted by banks and MFIs as collateral for secured loans. The new system will facilitate access to credit and encourage economic activity and contribute towards stimulating growth to the various economic sectors.

Microfinance Sector Capitalisation

104. As at 30 June 2022, all the seven (7) operating deposit taking microfinance institutions (DTMFIs) were at various stages of capital raising initiatives towards compliance the new minimum capital requirement of ZW$ equivalent to US$5 million.

105. The compliance date for deposit-taking microfinance institutions was extended to 31 December 2022, and the institutions are required to submit quarterly reports on the capitalization initiatives and strategies to meet the new minimum capital requirements.

106. The aggregate core capital for the DTMFI sub-sector was $14.31 billion as at 30 June 2022, up from $1.43 billion as at 31 December 2021, largely driven by fresh capital injections, as well as organic growth.

DTMFI Deposits

107. The DTMFIs) registered a 53% increase in total deposits, from $908.50 million in December 2021to $1.39 billion during the first half of 2022. The average prudential liquidity ratios remain high above the prudential requirement of 30%, indicating the cautious approach the sub-sector has been taking towards lending. There is therefore scope for the sub sector to enhance lending and support the financing needs of MSMEs.

Profitability and Sustainability

108. Aggregate net profit for the microfinance sector for the period ended 31 March 2022 was $1.72 billion, up from $596.71 million for the comparative period in 2021. The significant increase in profitability was mainly driven by interest income buoyed by a 21.70% growth in loan portfolio, as well as cost containment measures.

109. The sector remains operationally self-sufficient as reflected by the operational self-sufficiency (OSS) ratio of 220.75% as at 31 March 2022, up from 210.09% in December 2021 against the international benchmark of 100%.

Lending in Foreign Currency by Microfinance Institutions

110. In an effort to facilitate improved access and usage of foreign currency by the low income and vulnerable but economically active communities and their micro and small enterprises, the Bank has been approving applications by microfinance institutions to lend in foreign currency.

111. Microfinance institutions have been urged to ensure that they strengthen their Know Your Customer and risk management systems to ascertain the source of foreign currency for loan repayments.

112. As at 30 June 2022 a total of 44 microfinance institutions, comprising 42 credit-only microfinance institutions, and two (2) deposit-taking microfinance institutions, were authorised to lend in foreign currency. As at 30 June 2022, the authorised institutions provided access to foreign currency loans to 31,173 borrowers, amounting to US$5,830,471.03 for various productive projects.

Financial Inclusion Strategy

113. The MSME and the Consumer FinScope Surveys, which had been running concurrently have now been completed. The preliminary results for both surveys indicate that notable progress has been made towards closing the financial exclusion gap among the vulnerable groups, namely, women, youth, micro, small and medium enterprises, and the rural and small-scale farmers.

114. The progress and milestones achieved under the National Financial Inclusion Strategy number I (NFIS I) are largely attributed to the various strategies implemented by the Bank and are a clear demonstration of impact of collaborative efforts among the various financial inclusion implementing partners.

115. The results of the FinScope surveys will be used to fine-tune the strategies under NFIS II whose main objective is to empower all economically active Zimbabweans and facilitate building of resilient and sustainable livelihoods through not only access to, but usage of quality, affordable and appropriate financial services on a sustainable basis.

116. In this regard, collaboration among stakeholders, including financial sector regulators, financial institutions, government departments and ministries, private sector and development partners, will be enhanced under NFIS II to ensure financial inclusion contributes to the attainment of an Upper Middle-Income economy by 2030.

117. The National Financial Inclusion Strategy II is expected to be launched in the third quarter of 2022 after incorporating the results of the two FinScope Surveys.

Cyber Resilience

118. The Bank conducted the inaugural annual cybersecurity maturity assessments in February 2022 focusing on banks' preparedness to prevent, detect, contain and respond to threats to information assets and understand the vulnerability area and the current initiatives to close any gaps.

119. The assessment noted a wide spectrum of initiatives in the sector to address cyber governance, protection and detection gaps. The review also noted the scope for banking institutions to continue to strengthen response, resumption and recovery mechanisms if a cyberattack were to occur.

120. Against this background and in view of the evolving cyber threat landscape, the Bank will enhance its Cyber Risk Management Framework during the last half of 2022 to provide clear guidance on cyber governance expectations

with emphasis on threat information sharing, testing, resolution and recovery mechanisms.

Cloud Computing

121. Over the last few years the Bank has noted the banking sector extensively using outsourcing as a means for reducing costs and achieving certain strategic objectives, particularly in the cloud banking and computing area. This position results in banks being exposed to various risks including strategic risk, reputation risk, compliance risk, operational risk and legal risk.

122. In this regard, the Bank shall develop an outsourcing prudential standard to provide guidance to banks to adopt sound risk management practices for effective oversight, due diligence and management of risks arising from such outsourcing activities.

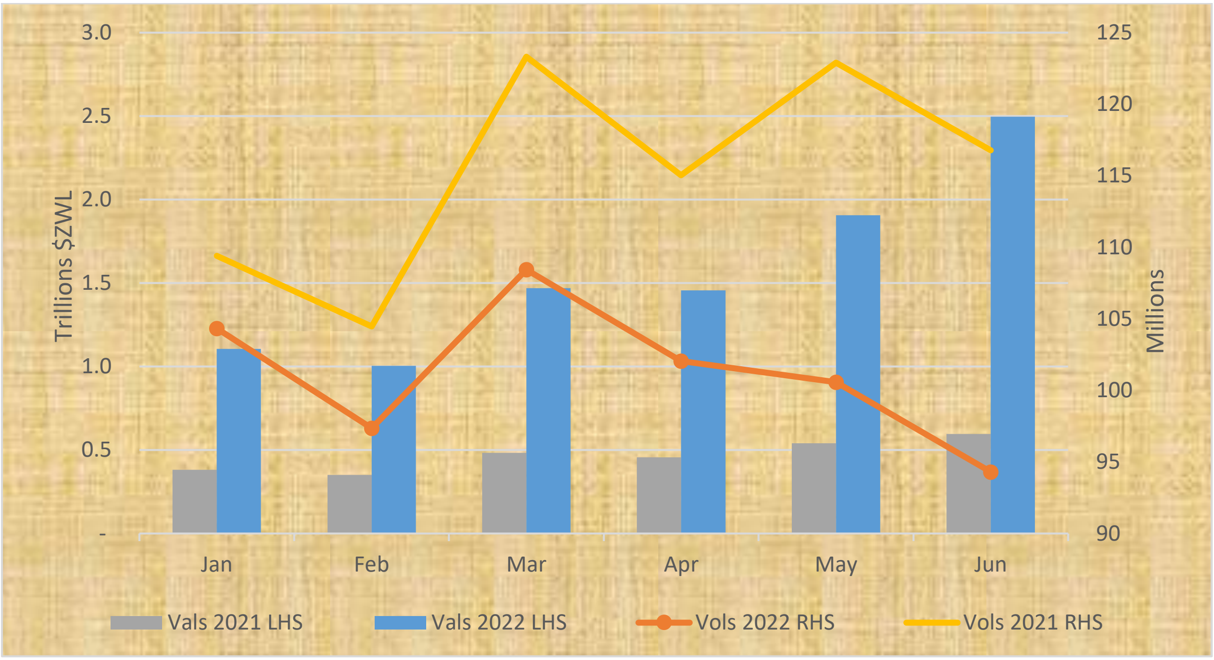
123. At a minimum, the guidelines will emphasise the need for an outsourcing strategy, governance and risk management as well as relevant policies and procedure manuals. Institutions shall be expected to conduct thorough due diligence reviews with the assistance of qualified auditors, as applicable.

124. The guidelines shall be informed by the Data Protection Act [Chapter 11:12] and best practices and standards across the global financial system.

NATIONAL PAYMENT SYSTEMS

125. During the period under review, the value of digital payment systems grew by 233% compared to the same period of 2021, whilst volumes decreased by 13%, as shown in Figure 16.

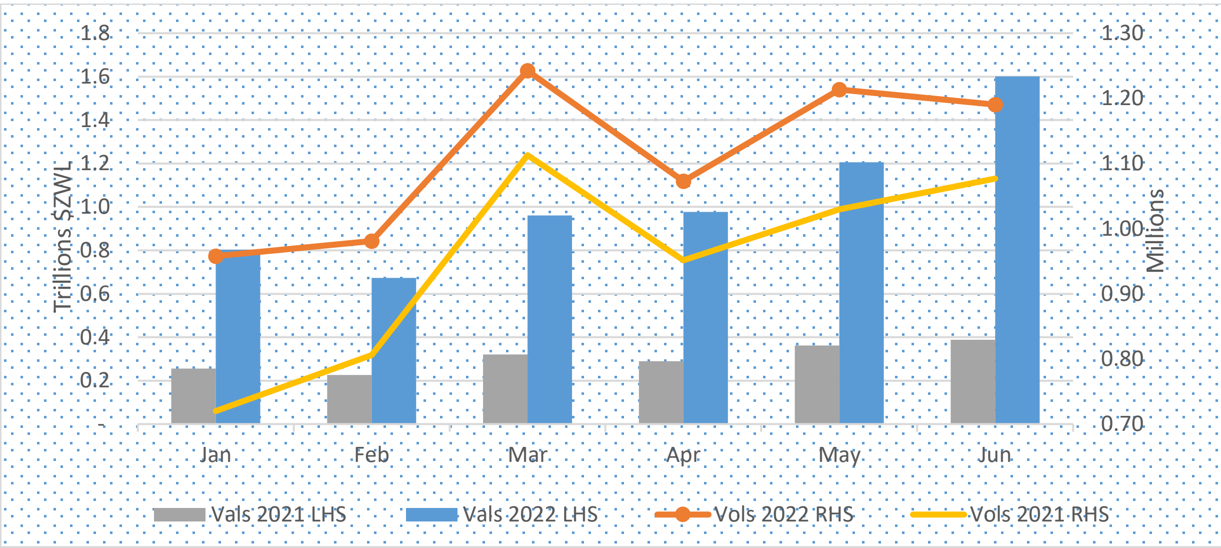
Figure 16: Comparative Monthly Electronic Transaction Values and Volumes for Six Months Ended June 2021/2022



Zimbabwe Electronic Transfer and Settlement Systems (ZETSS - RTGS)

126. During the first half of 2022, the highest growth in electronic payments occurred on the high value system (RTGS) with 6.7 million transactions valued at ZW$6.2 trillion, representing increases of 238% and 17% in value and volume, respectively, compared to the same period in 2021.

Figure 17: RTGS Values and Volumes for the Six Months ended June 2022/2021



Interoperability

127. The retail payment systems interoperability focuses on the direct transfers processed through mobile, internet, POS, and ATM platforms integrated into the national switch.

128. The cumulative interoperability transactional values increased by 231% to ZW$442 billion during the period January to June 2022 compared to the same period in 2021. Volumes, on the other hand, grew by 15% to 79 million during the period under review as shown in Figure 18.

Figure 18: Retail Payment Systems Interoperability for January to June 2021/2022

Payment System Compliance Issues

129. In view of the heightened digitalisation and increased interconnectivity between systems and institutions, cyber risk rises and creates potential threat to domestic financial stability. In this regard, the Bank has ensured that the SWIFT Customer Security Controls Framework (CSCF) are being implemented under the Swift Customer Security Programme. Eighteen banks are already fully compliant with the CSCF while 10 are partially compliant.

130. Under the Swift ISO 20022 Migration, an international standard for replacing the payments messages by SWIFT for all banks worldwide, the local market is expected to start the migration of SWIFT cross-border transactions by 30 November 2022 with a parallel run up to November 2025, after which the current MT messages will be phased out.

131. Compliance with the Euro Visa- Mastercard (EMV) chip technology now stands at 49% for cards, 63% for ATMs and 56% for POS machines. The Bank urges all payment systems providers and participants to work towards full EMV compliance to reduce fraud risk and increase security for the transacting public.

132. Under the Risk-Based AML–CFT Framework, the Bank continued to enforce a risk-based approach on payment system providers and participants, by ensuring that those entities and products presenting the highest risks received a proportionately higher level of oversight/supervision.

133. The Bank requires that mobile money operators fully comply and enforce anti-money laundering and counter-financing of terrorism measures. Board involvement in AML/CFT issues is critical.

FINTECH DEVELOPMENTS

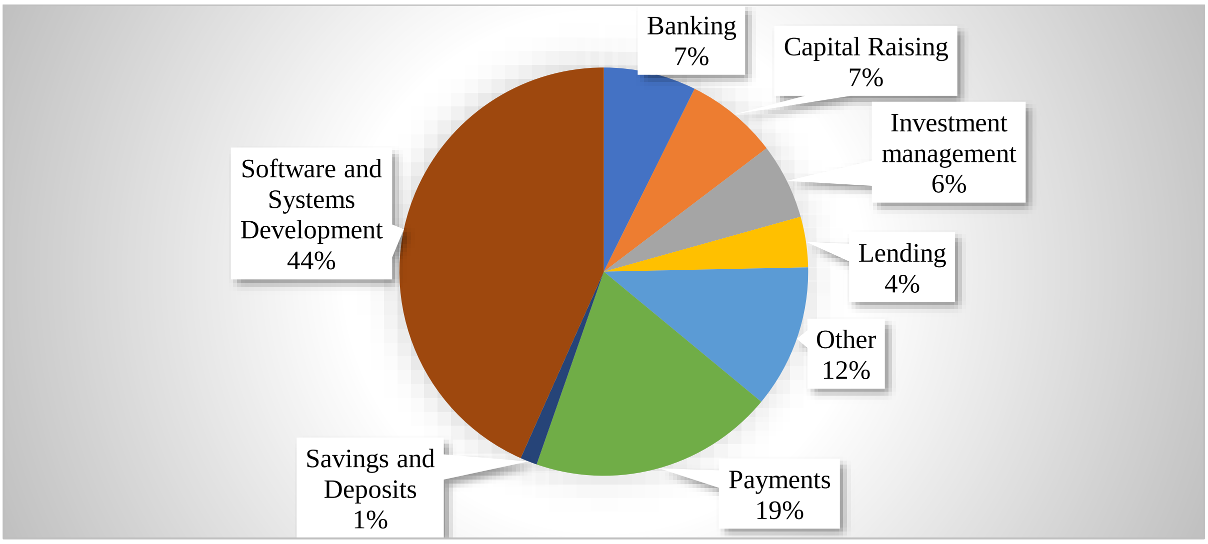
134. The Bank approved the admission of two financial technology firms into the Fintech Regulatory Sandbox (the Sandbox) namely Llyod Crowd Funding and Uhuru Innovative Solutions that are providing solutions in capital raising and money transfer, respectively. Llyod Crowd Funding has commenced its Sandbox operations and will test for a period of 12 months up to May 2023 while Uhuru Innovative Solutions will soon commence regulatory testing.

135. The initiation of regulatory testing is a signal of the Bank's commitment to promoting responsible innovation and the results are expected to provide the

Bank with critical evidence in the formation of an appropriate regulatory framework for financial technology in the country. The Bank expects to embark on regulatory testing with other promising Sandbox applications in the near future.

136. Registrations on the Fintech Regulatory Sandbox continue to be dominated by the technology sector. Meanwhile, applications to carryout sandbox testing are largely focused on financial inclusion products, retail payments and equity crowd funding which account for more than half of sandbox applications.

Figure 19: Sectors of Registered Fintech Portal Users



Source: Reserve Bank of Zimbabwe, 2022

Figure 20: Distribution of Applications to Sandbox

SECTION FIVE

BALANCE OF PAYMENTS DEVELOPMENTS

137. The current account balance is estimated to have widened to a surplus of US$387.1 million in the first half of 2022, compared to a deficit of US$97.2 million for the same period in 2021. The surplus continues to be driven by international remittance inflows coupled with merchandise exports growing faster than imports. However, deficits in the services and primary income accounts moderated the current account surplus.

Figure 21: Current Account Developments (US$ millions)

Source: RBZ and Zimstat estimates

Merchandise Exports

138. Preliminary estimates show that merchandise exports increased by 33% to US$3 516.5 million in the first half of 2022, from US$2 649.7 million for the corresponding period in 2021, spurred by increases in agriculture, mineral and manufactured goods exports.

139. Minerals underpinned merchandise exports performance in the first half of 2022, growing by 32% from US$2 193.8 million recorded for the same period in 2021 to US$2 899.0 million on account of higher production. Mineral export prices were also spurred by heightened geo-political tensions in eastern Europe and inflationary pressures in advanced economies as investors sought refuge in safe-haven assets. Gold exports benefitted from higher global prices amid safe-haven demand, coupled with higher production as incentives to producers continue to bear fruit.

140. Agricultural exports increased from US$303.2 million in the first half of 2021 to US$434.5 million in 2022 on account of larger tobacco output amid significant carryover exports from the previous season.

141. Manufactured exports increased, albeit from a lower base, from US$152.8 million in the first half of 2021 to US$183.1 million in 2022, driven by rising exports of cigarettes, refined sugar and electrical products. However, low competitiveness and high market development costs continue to hamper manufactured exports.

Merchandise Imports

142. Merchandise imports increased by 15% to US$3 746.8 million in the first half of 2022, up from US$3 249.2 million in 2021, driven by fuel, machinery, and raw material imports. As the economy expands, so does its capacity to absorb imports that feed into the production process. Increasing fuel, edible oils and fertilizer prices on account of elevated geo-political tensions also drove the import bill higher.

Services

143. Trade in services is recovering from the Covid-19 shock, with travel, passenger transport and other vital services beginning to trend up. Services exports increased from US$102.5 million in the first half of 2021 to US$175.9 million in 2022. Services imports similarly rose from US$424.5 million in 2021 to US$674.8 million in 2022. Travel services have picked up following the relaxation of the Covid-19 containment measures, with

people now moving freely across borders. Freight services (transport) have increased with increasing merchandise exports and imports.

CAPITAL FLOWS

144. Notwithstanding the health crisis brought about by the outbreak of the Covid-19 pandemic, foreign direct investment inflows improved, mainly reflecting efforts by Government to improve the investment climate through a raft of reforms and investments by major mining houses as the sector gears for the US$12 billion economy target by 2030.

145. Private sector offshore loans have continued to provide a lifeline to the economy by injecting the much-needed foreign exchange for working capital and retooling the productive sectors. Notably, the agricultural sector is the primary beneficiary of approved external loan facilities accounting for more than half of the approved loan facilities in 2022.

SECTION SIX

MONETARY POLICY STANCE FOR THE NEXT SIX MONTHS

146. The Bank will continue to implement a tight monetary policy stance for the next six months in order to sustainably anchor inflation and exchange rate expectations. The tight monetary policy path will be anchored on the following measures:

147. **Minimum Capital Requirements**

Minimum capital requirements for all categories of banks will be maintained at the current levels since almost all the banks are on a positive trajectory to achieve the prudential capitalisation levels by the deadline of 31 December 2022. The Bank will, on a case by case basis, engage and deal with those banks which may face difficulties in achieving the required minimum capital requirements.

148. **Interest Rates**

i. The current Bank policy rate of 200% will be reviewed in line with developments in monthly inflation;

ii. Medium Term Accommodation rate will also continue to be reviewed in line with monthly inflation developments and long-term productive sector funding needs; and

iii. The deposit interest rates on savings and time deposits will remain at 40% and 80% per annum, respectively, and will be reviewed in line with month-on-month inflation developments.

149. **Statutory Reserves**

Foreign currency denominated loans now constitute more than half of the total loans in the economy. To ensure continued safety and soundness of the domestic banking sector, it is crucial for banks to hold a certain proportion of the foreign currency deposits as a liquid asset buffer. In this regard, with effect from 1 September 2022, statutory reserve requirements shall be extended to foreign currency deposits at rates of 5% for call deposits and 2.5% for time and savings deposits. The differential system is to encourage banks to promote savings deposits that are necessary to support long term productive lending in foreign currency.

150. **Foreign Exchange Retention**

The foreign exchange retention thresholds shall continue at the current levels with agricultural exporters (tobacco, cotton, tea, coffee and horticulture) retaining 75% and the tourism sector retaining 100% to enable the ongoing capitalisation and recovery of the sector to continue following the adverse effects of the Covid-19 pandemic.

151. ***Bureaux de Change***

In line with the need to further liberalise the foreign exchange market, the limit on foreign exchange transactions for individuals and micro, small and medium enterprises (MSMEs) processed through *bureaux de change* has, with effect from 15 August 2022, been increased from US$500 per week to US$5 000 per transaction per month for foreign currency payments that include medical expenses, educational expenses (including student upkeep), business and holiday travel, airfares and subscriptions. *Bureaux de change* shall also continue to operate under the basis of the willing-buyer willing-seller arrangement, where there is no cap on the amount they can purchase from the sellers of foreign currency.

152. **Willing-Buyer Willing-Seller Foreign Exchange Trading Mechanism**

The limit for qualifying transactions under the willing-buyer willing-seller foreign exchange trading system has, with effect from 15 August 2022, been increased from US$10 000 to US$20 000 per transaction per week.

Qualifying foreign exchange payments under this mechanism will cater for transactions for goods and services such as raw materials, capital goods, medical expenses, education expenses (including student upkeep), business and holiday travel, airfares and subscriptions.

153. **Mosi-oa-Tunya Gold Coins**

Following the successful launch of the gold coins on 25 July 2022 and in response to public demand, the Bank shall introduce and release into the market gold coins in smaller units of a tenth ounce, quarter ounce and half ounce for sale with effect from mid-November 2022. The features, characteristics and the sale terms and conditions shall remain the same as the current trading arrangements of the gold coins in circulation.

154. **Foreign Exchange Auction System**

The foreign exchange auction remains a critical platform on which industry and commerce access foreign exchange. The auction bids will continue to be guided by the exchange rates obtaining on the willing-buyer willing-seller foreign exchange trading platform and by the available foreign currency. In this context, the foreign exchange auction system is no longer a price discovery mechanism but instead the most ideal allocative platform of foreign currency in the domestic economy given the geo-political constraints facing the local banking industry to establish an efficient interbank foreign exchange market.

155. **Central Bank Digital Currency (CBDC)**

In the Monetary Policy Statement of February 2022, the Bank advised of its intention to explore central bank digital currency (CBDC) on a phased approach pursuant to the Cabinet decision of November 2021 and taking into account global trends. Since then, the Bank has conducted study tours to countries that are advanced in CBDC endeavours and has developed a roadmap for adoption of CBDC in Zimbabwe.

156. The role of stakeholders in the CBDC journey is paramount and in that regard the Bank has developed a public consultation paper on CBDC to be released soon. The consultation paper is aimed at fostering a broad and transparent public dialogue regarding the potential benefits and risks of CBDC. The public will have a period of 90 days from the date of release to submit their comments to the Bank.

157. In addition to the consultation paper the Bank shall carry-out consumer perception surveys on CBDC. The findings of both the consultation paper and consumer survey will enable the Bank to engage in pilot programmes related to CBDC.

SECTION SEVEN

ECONOMIC AND INFLATION OUTLOOK

158. The current tight monetary policy stance, together with the favourable uptake of Mosi-oa-Tunya gold coins as an alternative stable financial product for store of value and for mopping up excess liquidity, shall continue to support the stability in the exchange rate and sustain disinflation witnessed towards the end of July 2022 and in August 2022.

159. It is essential that fiscal policy works in tandem with the monetary policy to bring down inflation. The concomitant action taken by Government to put in place value for money measures that dissuade its suppliers of goods and services from manipulating the exchange rate through forward exchange rate pricing system is therefore critical to contain inflation, especially given the significant purchasing power of Government in the economy of around 70%.

160. As such, with month-on-month inflation having declined from 30.7% in June 2022 to 25.6% in July 2022, the Bank anticipates the monthly inflation to continue to progressively decline by between 3 to 10% in the outlook period.

161. The downside risks to inflation in the outlook period include the continued geo-political tensions, global pandemics and climate change which continue to drive the surge in international food, fertiliser and oil prices.

162. On the external sector front, merchandise exports are projected to close the year 2022 at US$7 346.5 million, a 15.5% increase from US$6 359.1 million in 2021. On the other hand, merchandise imports are projected to end the year at US$8 082.3 million, 13.2% up from US$7 138.4 million in 2021, driven by increases in grain, fuel, machinery and raw material imports. International and diaspora remittance inflows are projected to continue driving the current account balance, as was the case in 2021. The current account surplus is envisaged to close at US$366.3 million in 2022, which compares favourably to the US$348.2 million that the country registered in 2021.

SECTION EIGHT

CONCLUSION

163. The Bank strongly believes that the current tight monetary policy stance complemented by the strong will by Government to putting in place measures that deal with factors that destabilise the foreign exchange market will result in exchange rate and price stability in the near and short-term.

164. Thus, the decline in month-on-month inflation is expected to continue up to the end of this year and into 2023. This is essential for value preservation of the local currency and *sine qua non* to promote its use for transactional purposes.

165. The recent positive developments in the parallel market foreign exchange premiums and the decline in monthly inflation suggest that the current monetary policy stance should be maintained. The Bank will, therefore, continuously review its monetary policy toolkit in line with monthly inflation developments.

I Thank You

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