RESERVE BANK OF ZIMBABWE

2023 MONETARY POLICY STATEMENT

Sustaining Price Stability And Economic Resilience

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GOVERNOR

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SECTION ONE

INTRODUCTION

1. This Monetary Policy Statement (MPS) is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15] and details evaluation of the current monetary policies of the Bank and outlines the new policy measures to be pursued by the Bank in the next 6 months with a view to achieving price and financial sector stability.

2. The MPS comes at a time when the global economy is projected to record a slowdown in economic growth as a result of tight monetary conditions as central banks fight inflation, declining investment, lagged effects of the Covid-19 pandemic and global supply chains disruptions and rising commodity prices emanating from the Russia-Ukraine conflict. In its January 2023 World Economic Outlook update, the International Monetary Fund (IMF) projects that global Gross Domestic Product (GDP) growth in 2023 will slow to 2.9 percent, compared to a 3.4 percent 2022. The adverse global developments are likely to have spill-over effects on the domestic economy through trade, imported inflation and financial linkages.

3. On the domestic front, the current tight monetary policy stance has allowed the Bank to anchor inflation and exchange rate expectations through measures designed to sustain price and exchange rate stability. The monetary policy measures implemented in 2022 also provided some resilience in the economy against both domestic and global shocks and headwinds. This has seen inflation trending down, especially in the last quarter of 2022 as business confidence, industry activity and exports improved significantly. More importantly, foreign currency receipts reached

an all-time high of US$11.6 billion in 2022 against total foreign currency payments of US$8.6 billion, thus, significantly contributing to foreign currency liquidity in the economy.

4. The gold coins introduced by the Bank in July 2022 also significantly contributed to exchange rate and price stability. The coins have proved to be an effective open market instrument for mopping up excess liquidity in the economy and a retail investment product for preserving value for investable funds. The combination of tight monetary policy through high policy rates and the liquidity-mopping effects of the gold coins and the foreign exchange auction system played a pivotal role in achieving price and exchange rate stability in the economy.

5. While the current high-interest rates have managed to stabilise prices and the exchange rate by anchoring expectations and curbing speculative transactions, they need to be aligned with the declining inflation path experienced since the last quarter of 2022. In essence, the current high-interest rates may present a risk of discouraging private sector borrowing in local currency and contracting economic growth in the medium to long term, especially in the wake of the anticipated slowdown in global economic activity.

6. These developments underscore the need to review monetary policy in sync with inflation to balance macroeconomic stability and boost industrial activity and economic growth. The Bank will thus stay the course of the current monetary policy stance to consolidate and sustain the current stability, resilience and growth trajectory gains, while simultaneously strengthening financial intermediation and curbing speculative borrowing.

7. Against this background, this Policy Statement, outlines measures required to ensure that the monetary policy stance remains tight enough to sustain the current stability, while preserving the country's growth prospects and an optimal mix of the dual currency basket. The measures are specifically aimed at ensuring that inflation and exchange rate pressures are firmly under control, whilst economic activity remains robust.

8. The rest of the Statement is organised as follows: Section two evaluates the previous monetary policy measures; Section three highlights the recent economic developments; Section four provides an insight of financial sector developments; Section five highlights the external sector developments; Section six details the new monetary policy measures; Section seven outlines the inflation outlook and provides forward guidance on interest rates and Section eight concludes the Monetary Policy Statement.

SECTION TWO

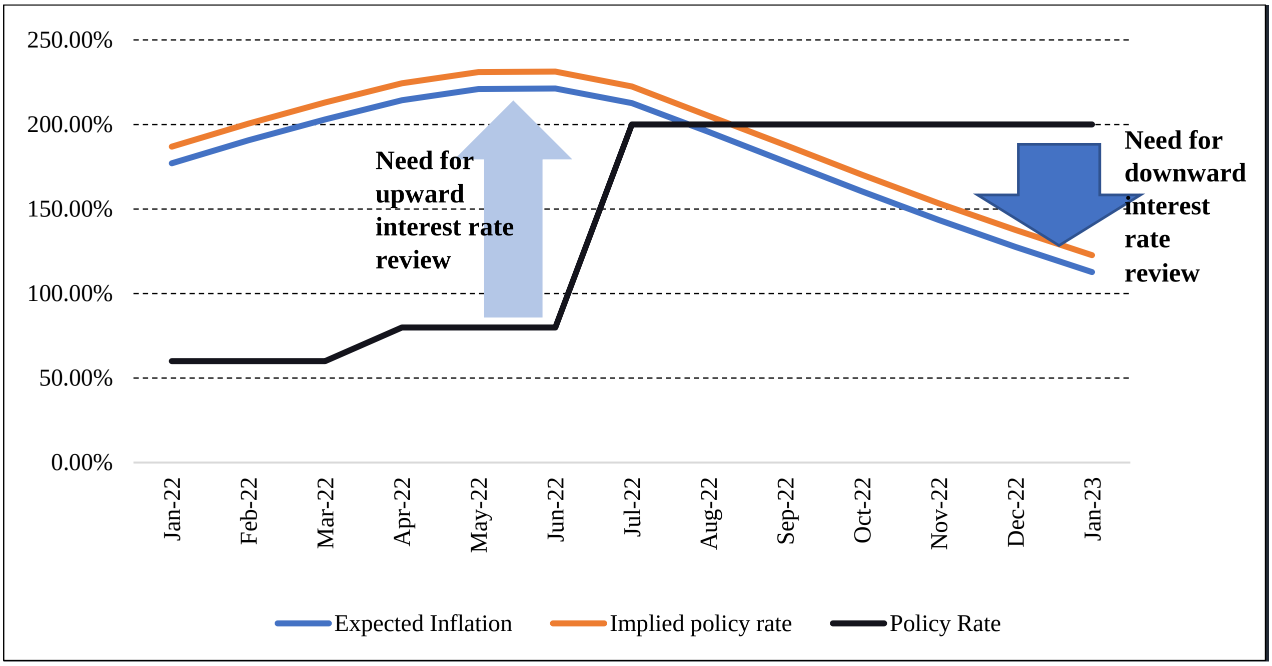
ASSESSMENT OF PREVIOUS MONETARY POLICY MEASURES

9. The monetary policy measures implemented by the Bank since the issuance of the Mid-Term Monetary Policy Statement in July 2022 have proved to be effective. Inflationary pressures significantly dissipated leading to general stability in prices and the exchange rate. Notably, month-on-month inflation, which reached a peak of 30.7% in June 2022 decelerated to less than 2.5% by end of 2022. The upward trajectory of annual inflation in 2022 has since reversed since September 2022, although it remains high largely due to the base year effect. The exchange rate has to a large extent stabilised, and the parallel market premium fell to less than 20% by the end of 2022.

Interest Rate Policy

10. The Bank has been maintaining a tight policy stance since July 2022 with the Bank policy rate pegged at 200% to contain speculative borrowing. The review was also done to ensure positive real rates in line with expected inflation as shown in Figure 1.

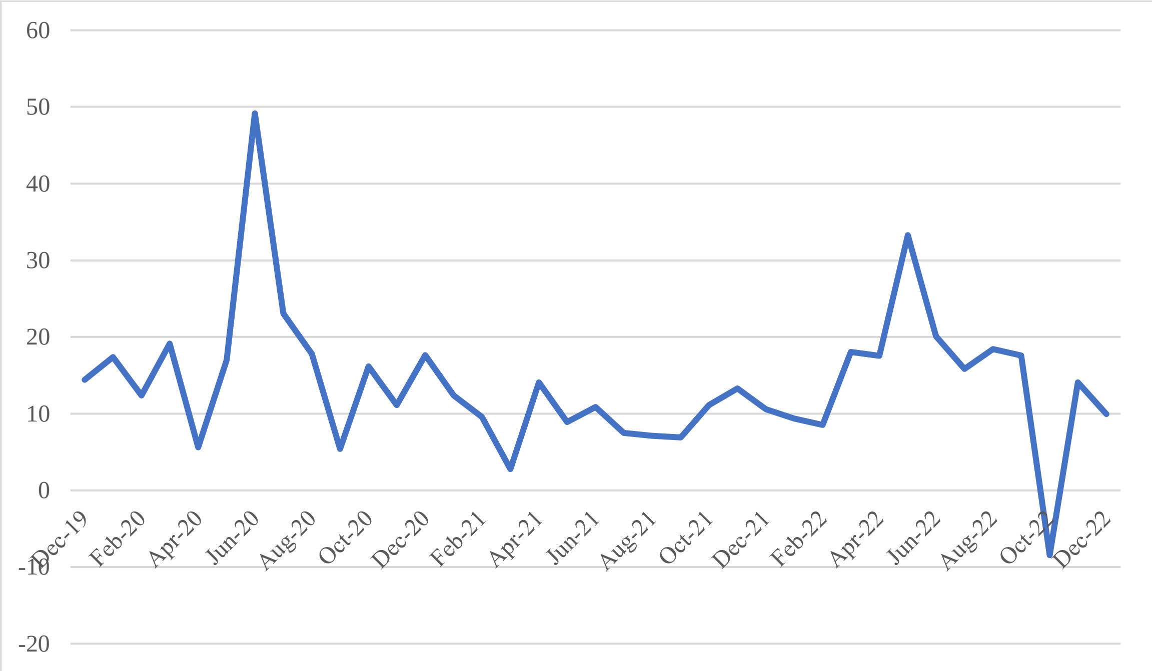
Figure 1: Inflation and Interest Rate Trends in 2022



11. Figure 1 shows the interest rate trends versus the expected inflation trend that was obtained in June 2022 when the decision to increase the interest rates was taken. By end of May 2022, expected inflation was above 200% compared to the Bank policy rate of 80%, thus underlining the need for an immediate review.

12. The upward review in interest rates has resulted in a reduction in speculative borrowing, which saw the month-on-month growth in credit to the private sector declining from 33.28% in May 2022 to a negative 9% in October 2022, before recovering to 9.96% in December 2022.

Figure 2: Month-on-Month Growth in Credit to Private Sector (%)



Source: RBZ, 2023

13. The unintended consequence of high interest rates has been the shift by bona fide borrowers from Zimbabwean dollar-denominated loans to foreign currency loans, resulting in the banks' loan book being dominated by foreign currency loans. The proportion of foreign currency-denominated loans increased from about 37.0% in December 2021 to 64.2% in December 2022.

14. In this context, the need to synchronise monetary policy with inflation is critical to preserving stability and the country's potential output growth. The synchronization is also important to maintain the optimal mix of currencies in the dual currency basket and avoid arbitraging between the currencies in the dual currency basket.

Medium-Term Bank Accommodation (MBA) Facility

15. The productive sectors continued to benefit from the Medium-term Bank Accommodation (MBA) facility ensuring that economic growth remains robust even under tight monetary conditions. As such, the MBA window remains necessary to continue stimulating the critical productive sectors of the economy especially with fears of a global recession intensifying.

16. In this regard, a cumulative amount of ZW$14 billion was disbursed while the outstanding balance was ZW$8 billion as at 30 December 2022. The interest rate of 100% set in June 2022 has become the rate upon which most productive lending facilities by banks are benchmarked.

Micro, Small and Medium Enterprises (MSMEs) Facility

17. The intervention by the Bank to assist the MSME sector following challenges that emanated from the Covid-19 pandemic managed to keep some small businesses afloat. Cumulative disbursements under the facility amounted to ZW$1.7 billion at the end of 2022.

Open Market Operations Instruments

18. In pursuit of the tight monetary policy stance, daily excess balances of banks remained at ZW$100.0 million during the second half of the year 2022 with any excess liquidity mopped up through the issuance of Non-Negotiable Certificates of Deposit (NNCDs).

19. The outstanding level of NNCDs as at 30 December 2022 stood at ZW$231 billion. The increased levels of NNCDs partly reflect the low lending

activities of banks following the increase in interest rates which saw the Bank policy rate raised to 200% in June 2022.

20. To further manage liquidity injections arising from foreign exchange structures, the Bank introduced RBZ Collateral Bills with tenor matching the maturity of the structure.

Mosi-oa-Tunya Gold Coins

21. The Bank introduced gold coins in July 2022 as both an alternative retail investment product for value preservation in the dual currency system and a liquidity mopping instrument over and above the foreign exchange auction system. The gold coins have been well received with 25 188 coins valued at ZW$20 billion having been sold as at 13 January 2023. The bulk of gold coins, 84% were bought by corporates while purchases by individuals accounted for 16%.

22. The gold coins have a vesting period of 180 days after which the Bank can buy them back from the investors. Table 3 shows the gold coins sales as at 13 January 2023.

Table 1: Gold Coins Sales-as at 13 Jan 2023

Details	Cumulative Sales
One Oz Gold Coin	15,526
½ Oz Gold Coins	2553
¼ Oz Gold Coin	2782
1/10 Oz Gold Coin	4327
Total	**25,188**

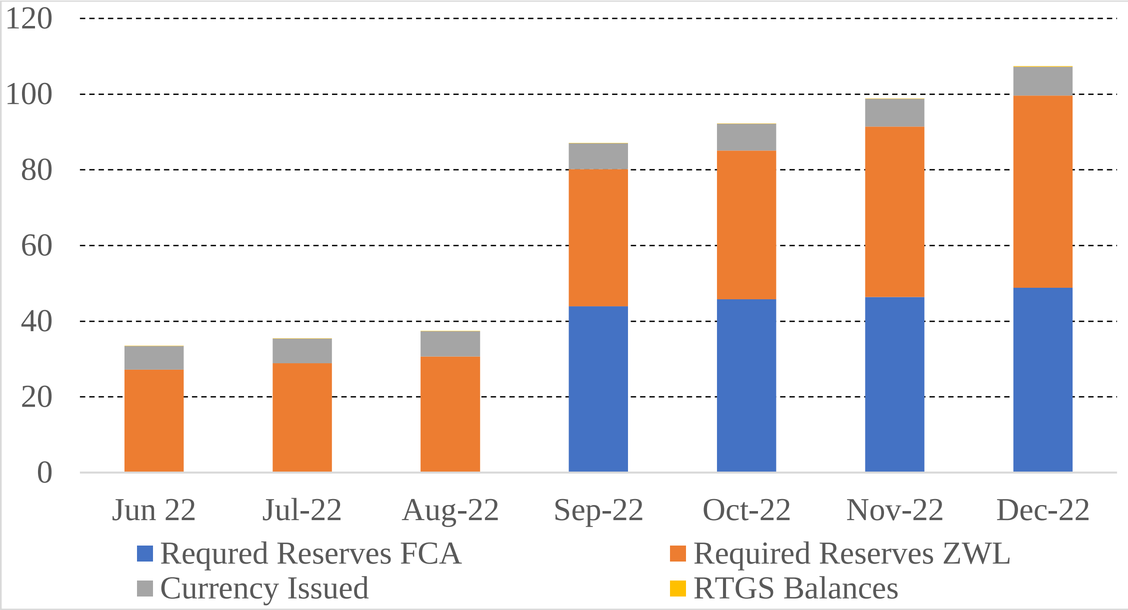
23. To cater for those with lower savings, the Bank introduced smaller denominations in November 2022. As at 13 January 2023, the smaller denominations accounted for 38% of all sales. The Bank will continue to avail gold coins on a demand driven basis as it seeks to promote a savings culture and provide alternative investment instruments to the public in the dual currency system.

Statutory Reserves

24. The levying of statutory reserves on foreign currency-denominated deposits, which came into effect on 1 September 2022, saw a significant build-up in reserve money. Since then, the foreign currency component of statutory reserves has continued to escalate due to the impact of exchange rate depreciation. As at 30 December 2022, foreign currency statutory reserve balances stood at US$70 million, ZAR 45 million, BWP 0.3 million and Euro 0.2 million.

25. The increase in statutory reserves, which now constitute more than 90% of reserve money, signifies further tightening of monetary policy to the extent that the reserves are locked up at the Bank and are not available for on-lending by banking institutions. Figure 3 shows the composition of statutory reserves.

Figure 3: Components of Reserve Money (ZW$ Billion)

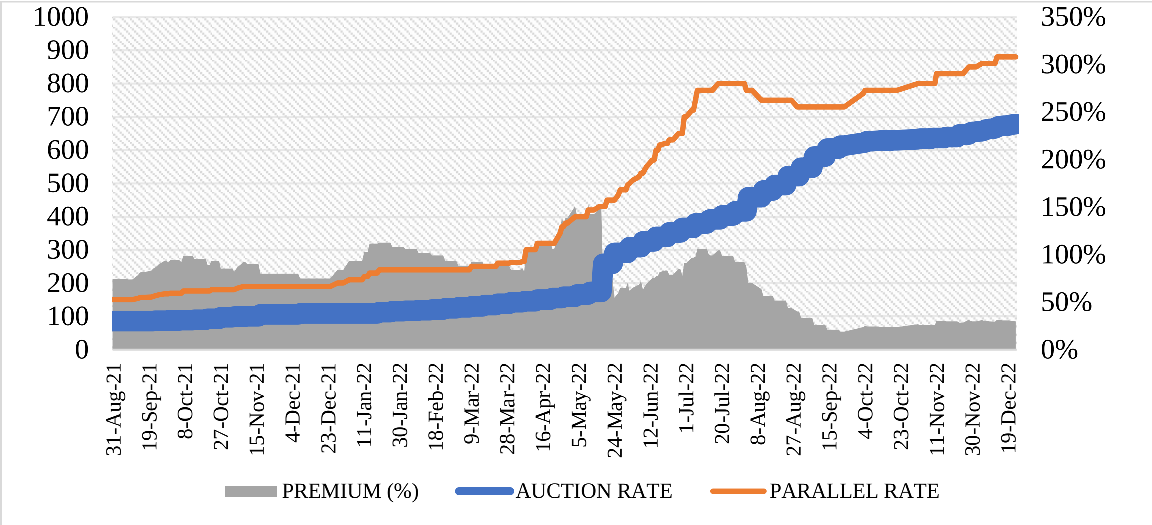


Liberalisation of the Foreign Exchange Market

26. The further liberalization of the foreign exchange market through the introduction of the willing-buyer willing-seller (WBWS) interbank market for foreign exchange has gone a long way to assist in price discovery of the equilibrium exchange rate and to augment the foreign exchange auction system.

27. The liberalisation of the foreign exchange market saw the parallel market exchange rate premium declining to less than 20%, thus enhancing the scope for convergence of the official and the parallel market exchange rate as shown in Figure 4.

Figure 4: Exchange Rate Movements



Source: RBZ, 2023

Foreign Exchange Auction System

28. The foreign exchange auction system remained a key source of foreign currency for the economy, fostering stability in both the foreign exchange and goods markets. The foreign exchange market was generally stable during the second half of 2022, as reflected by stability in the goods market.

29. In 2022, a total amount of US$1.1 billion was allotted on the foreign exchange auction, representing 91% of the total bids submitted. Since the introduction of the auction system, cumulative allotments amounted to US$3.7 billion as at 31 December 2022. The share of the MSMEs sector continued to increase from 17% during the first half of 2022 to 22% in the second half of 2022.

30. The tightening of monetary policy and the introduction of the WBWS have seen the number of bids received on the auction declining from an average of 1,450 to around 250 during the second half of 2022. Similarly, the value

of bids declined from weekly averages of around US$35 million during the first quarter of 2022 to US$12 million in the last quarter. Table 1 shows the details of the auction allocations as at 13 January 2023.

Table 2: Foreign Exchange Auctions Data as of 13 January 2023

Date	FX market Week	The highest	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
July-Sept 2022					254,226,897.02	239,249,287.62
Oct-Dec 2022					141,509,782.29	134,204,276.30
2022 Total					**1,220,873,179.99**	**1,114,154,170.51**
10-Jan-23	FX125/2023	670.0000	740.0000	705.4164	13,392,117.05	10,269,285.89
10-Jan-23	SMEFX119/2023	670.0000	740.0000	705.4164	1,001,434.07	786,897.36
2023 TOTAL					**14,393,551.12**	**11,056,183.25**
GRAND TOTAL					**3,912,210,216.57**	**3,721,591,166.71**

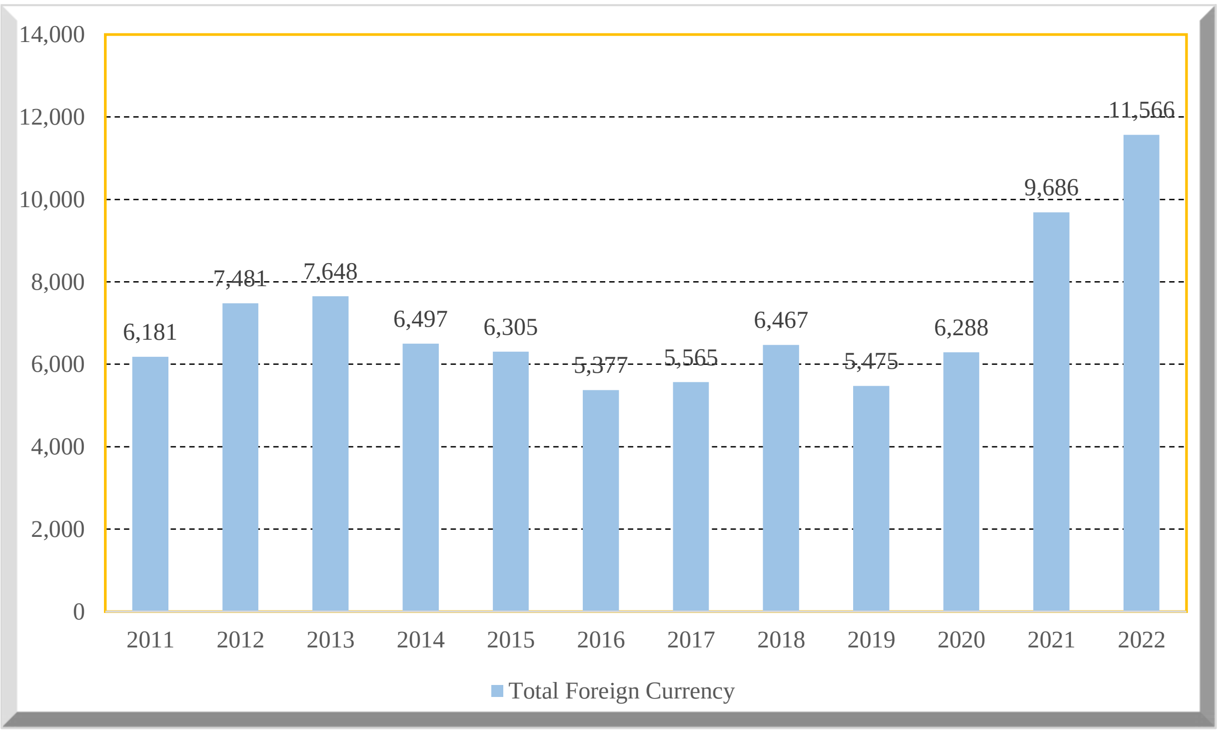
Clearance of Foreign Exchange Auction Backlog

31. To enhance confidence in the foreign exchange market and meet the requirements of users of foreign exchange, the Bank cleared all allotment backlogs and is now current with allotments. Going forward, the Bank will ensure that allotted funds are settled within 14 days from the date of the auction as per the Foreign Exchange Auction Rules.

Foreign Exchange Inflows

32. The measures being implemented by the Bank have also created a conducive environment for foreign currency generation in the economy as reflected by a continued upward trajectory in foreign currency receipts. Total foreign currency receipts for the period January to 31 December 2022 amounted to US$11.6 billion million compared to US$9.9 billion received during the same period in 2021, representing a 17.3% increase. This speaks to the strong and encouraging growth in the level of receipts during the year, which under normal circumstances should be supportive of stability of the exchange rate. Figure 5 shows the sustained increase in foreign currency receipts since 2019.

Figure 5: Annual Foreign Currency Inflows Trend (US$ Millions)



Source: RBZ, 2022

Foreign Exchange Mobilisation

33. The Bank mobilized US$800 million (including Letters of Credit (LCs) from local, regional and international partners to support the foreign exchange auction system as well as to meet the country's balance of payments requirements in 2022.

34. The issuances of LCs under the African Export-Import Bank (Afreximbank) US$150 Million Facility, as well as banks' own facilities continued to support the balance of payments position of the country as they provided critical foreign currency liquidity in the economy. LCs worth about US$198 million were issued under both the Afreximbank Facility and banks' own facilities.

35. The revolving Afreximbank LC Facility was revised to a limit of US$50 million in December 2022. The Bank is working with Afreximbank to operationalise the revised facility and ensure that participating banks start issuances of the LCs in support of production, manufacture or acquisition of raw materials, equipment, fertilisers and agrochemicals during the first quarter of 2023.

Performance of *Bureaux de Change*

36. *Bureaux de Change* continue to play a critical role in ensuring that foreign exchange for small transactions is readily availability. As from January to December 2022, a cumulative total of US$40 million was purchased through *bureaux de change* and foreign currency sales for various payments amounting to US$29.8 million. Table 2 shows the breakdown of *bureau de change* sales in 2022.

Table 3: *Bureau de Change* Sales – January to December 2022

DESCRIPTION	AMOUNT (US$)	% CONTRIBUTION
DOMESTIC UTILIZATION	17,922,709	60%
PERSONAL TRAVEL ALLOWANCE	7,509,782	25%
INVENTORY	1,875,760	6%
EDUCATION	673,202	2%
SUBSCRIPTIONS	479,389	2%
BUSINESS TRAVEL ALLOWANCE	458,589	2%
CHILD UPKEEP AND MAINTENANCE	232,143	1%
LIQUIDATION	187,581	1%
SPARES AND MACHINERY	133,413	0%
AIRFARES	115,956	0%
MEDICAL	83,390	0%
RBZ SALE	73,544	0%
RAW MATERIALS	52,110	0%
SOFTWARE FEES	11,240	0%
LICENCE FEES	3,270	0%
PROFESSIONAL/ TECHNICAL	1,750	0%
CROSSBORDER	500	0%
CONFERENCE FEES	400	0%
PENSION	40	0%
TOTAL	**29,814,768**	**100%**

Source: RBZ, 2022

Central Bank Digital Currency (CBDC) Project

37. The Bank's CBDC Project continued to progress steadily in line with the envisaged CBDC Road Map. In this regard, in November 2022, the Bank rolled out a consumer survey that intends to solicit opinions on the design and nature of the CBDC and its overall acceptance/acceptability by stakeholders.

38. The survey is still open and the public is encouraged to submit responses online to provide critical inputs to the CBDC Road Map. As at 23 January 2023, the Consumer Survey had received 2286 responses since its launch on 10 November 2022. The Bank is encouraged by the positive responses received so far which will be critical in informing the CBDC adoption.

SECTION THREE

DOMESTIC ECONOMIC DEVELOPMENTS

Real Sector Developments

39. The economy is estimated to have grown by 4.0% in 2022 underpinned by remarkable growth in the mining and quarrying sectors, wholesale and retail trade, accommodation and food service industry, electricity production and construction services, among others. The positive performance of these sectors more than offset the drought-induced output decline sustained by the agriculture sector in 2022.

40. Economic growth is forecast at 3.8% in 2023, largely premised on the anticipated increase in mining output supported by the favourable international commodity prices. The recovery of the agriculture sector, following the drought-induced fall in outturn thus far, is also expected to contribute significantly to growth in 2023. Further, the prevailing stable economic conditions are expected to enhance activity in the manufacturing, wholesale, and retail trade sectors.

41. Downside risks to the projected growth for 2023 emanate from the low and erratic supply of electricity experienced since December 2022. The Russia-Ukraine conflict also continues to pose downside risks to economic activity on account of its impact on food and energy prices. The current efforts to stabilise and increase the availability of electricity through the addition of 600MW from Hwange Power Station are expected to ease the power supply challenge. Furthermore, the expected water inflows into Lake Kariba will also result in the resumption of normal operations at the Kariba South Power Plant.

Gold Deliveries

42. Gold deliveries to Fidelity Gold Refinery (Private) Limited (FGR) increased by 19.1% to 35,280.07 kgs for the period extending from 1 January to 30 December 2022, from 29,629.62 kgs delivered during the same period in 2021. The annual contribution by primary and small-scale gold producers increased by 0.3% and 30.4%, respectively, during the period extending from January to December 2022. The Gold Incentive Scheme put in place by Government in 2021 has had a significant effect on the deliveries of gold to FGR by the small-scale gold producers. Table 4 shows the gold deliveries as at the end of December 2022.

Table 4: Gold Deliveries (Kgs) to FGR - Jan 2021 to December 2022

	2021			2022			% Change		
Month	**Primary**	**Small Scale**	**Total**	**Primary**	**Small Scale**	**Total**	**Primary**	**Small Scale**	**Total**
Jan	642.11	355.52	997.63	814.28	2,053.66	2,867.94	26.80%	477.60%	187.50%
Feb	609.84	560.83	1,170.67	930.98	1,331.05	2,262.03	52.70%	137.30%	93.20%
Mar	1,139.42	670.07	1,809.49	1,000.91	1,563.83	2,564.74	-12.20%	133.40%	41.70%
April	752.32	632.26	1,384.58	859.44	1,621.97	2,481.41	14.20%	156.50%	79.20%
May	884.2	783.81	1,668.01	1,055.68	1,935.57	2,991.25	19.40%	146.90%	79.30%
June	1,125.60	1,798.70	2,924.30	837.12	1,968.02	2,805.14	-25.60%	9.40%	-4.10%
July	874.31	1,950.31	2,824.62	965.79	1,998.13	2,963.92	10.50%	2.50%	4.90%
Aug	1,034.54	1,913.49	2,948.03	1,086.53	2,263.25	3,349.78	5.00%	18.30%	13.60%
Sept	1,004.51	2,167.36	3,171.87	988.35	2,387.71	3,376.06	-1.60%	10.20%	6.40%
Oct	1,005.12	2,046.79	3,051.91	933.95	2,860.22	3,794.17	-7.10%	39.70%	24.30%
Nov	1,075.20	2,261.30	3,336.50	888.65	2,959.69	3,848.34	-17.40%	30.90%	15.30%
Dec	1,011.83	3,330.18	4,342.01	827.87	1,147.42	1,975.29	-18.20%	-65.50%	-54.50%
Total	**11,159.00**	**18,470.62**	**29,629.62**	**11,189.55**	**24,090.52**	**35,280.07**	**0.30%**	**30.40%**	**19.10%**

Source: Fidelity Gold Refinery (Private) Limited

Inflation Developments

43. In line with the Banks' forecasts, both annual headline and month-on-month inflation continued to slow down and closed the year at 243.80% and 2.4%,

respectively. The Bank had in its monetary policy statement of July 2022, projected annual inflation to end the year at around 250% and month-on-month inflation at 3%. The disinflationary trend continued in 2023 with month-on-month inflation declining from a peak of 30.7% in June 2022 to 2.4% in December 2022, and 1.1% in January 2023. Annual inflation also declined to 229.8% in January 2023.

44. It is, however, important to note that the ZW$ inflation is no longer a true representative of the cost of living in Zimbabwe as the country is in a dual currency system where prices and household incomes are also in both USD and local currency. In this context, Zimbabwe's inflation needs to be recalibrated to reflect the dual currency nature of incomes and prices in the economy to provide a true reflection of the cost of living in the country.

45. As at end December 2022, the FCA deposits in the banking system accounted for 64.2% of total deposits, with the remainder being ZW$ deposits. Transactional activities in the retail and wholesale sectors also points to the same structure of currency composition as shown by recent Confederation of Zimbabwe Industry (CZI) surveys, which reported that on average USD sales contribute 66% to foreign currency generation for the businesses. The dual currency structure of the economy is corroborated by estimates by the Zimbabwe National Statistics Agency (ZimStat) at Classification of Individual Consumption by Purpose (COICOP) division level as shown in Table 5.

Table 5: Proportions of Domestic Expenditure in Foreign Currency and Local Currency (%) by Consumer Price Index (CPI) Division

COICOP DIVISIONS	COICOP Weights	% of Expenditure in		Total
		USS$	ZW$	
Food and Non-Alcoholic Beverages	31.30	65.04	34.96	100.00
Alcoholic Beverages and Tobacco	4.90	87.46	12.54	100.00
Clothing and Footwear	4.35	97.77	2.23	100.00
Housing, Water, Electricity, Gas and Other Fuels	27.62	76.45	23.55	100.00
Furniture and Equipment	5.29	99.91	0.09	100.00
Health	1.42	91.08	8.92	100.00
Transport	8.39	92.51	7.49	100.00
Communication	2.65	72.98	27.02	100.00
Recreation and Culture	2.27	90.78	9.22	100.00
Education	4.25	95.38	4.62	100.00
Restaurants and Hotels	1.08	95.57	4.43	100.00
Miscellaneous Goods and Services	6.46	90.83	9.17	100.00
Total	**100.00**	**76.56**	**23.44**	**100.00**

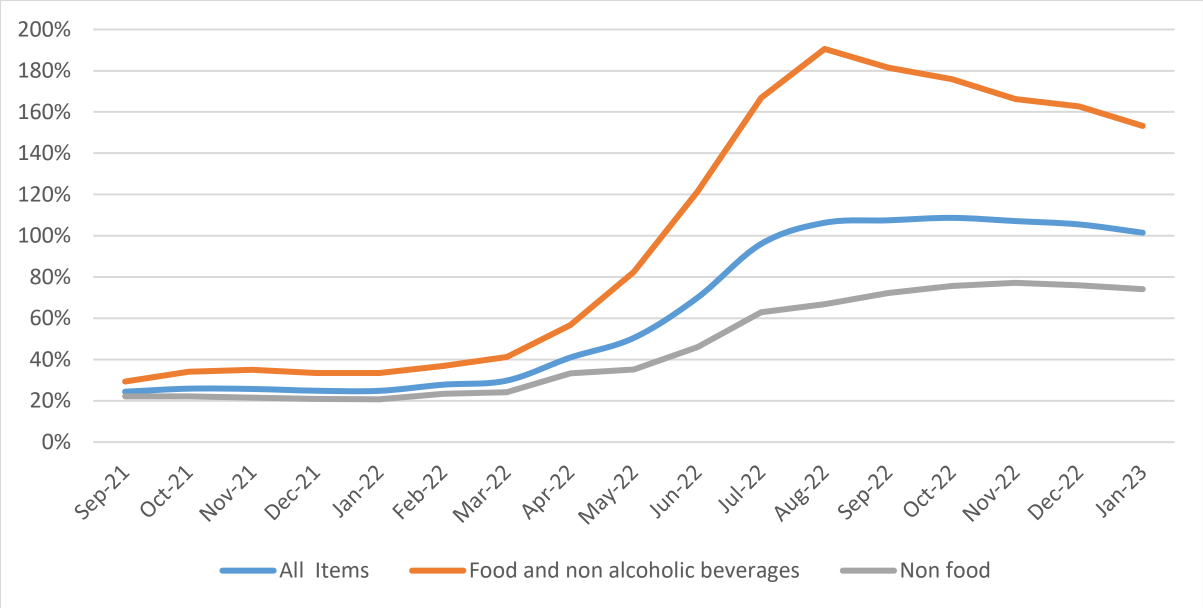
Source: ZimStat, 2023

46. As such, an inflation profile that combines US dollar and Zimbabwe dollar price dynamics, which is currently being computed by ZimStat as a blended inflation needs to be considered and recalibrated to reflect the current proportions of expenditure and incomes obtaining in the economy and adopted as the official inflation for Zimbabwe.

47. In line with the stability in general prices in the economy, the blended inflation profile, annual inflation remained relatively stable at 105.5% in December 2022 from 106.3% in August 2022. Heightened global food prices saw domestic annual food inflation elevated at an average of 132%

compared to non-food inflation average of 51.2% in 2022, as shown in Figure 6.

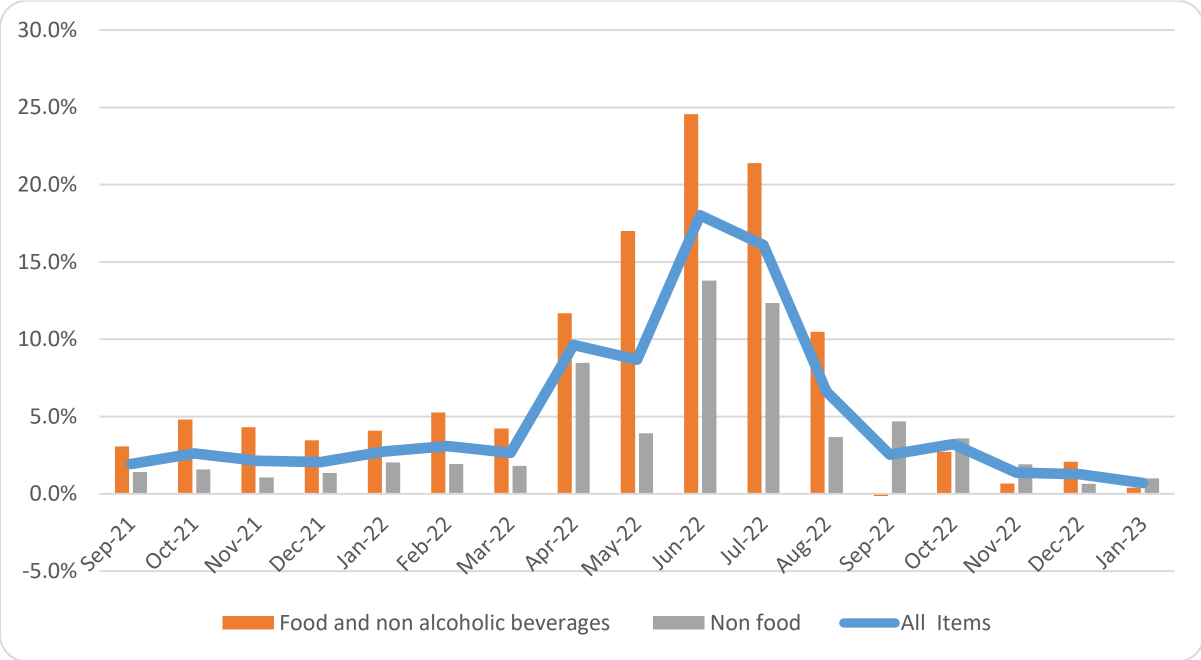
Figure 6: Annual Inflation (%) (September 2021 to January 2023)



Source: ZimStat, 2023

48. Reflecting obtaining stability in the prices, annual inflation in January 2023 stood at 101.5% from 105.5% in December 2023. Monthly inflation declined from a peak of 18% in June 2022 to close the year at 1.3% in December 2022 and was much lower at 0.7% in January 2023, as shown in Figure 7.

Figure 7: Month-on-Month Inflation (%)



Source: ZimStat, 2023

49. The inflation developments largely reflect movements in the exchange rate as prices in USD have been relatively stable and, in some instances, declining. This points to the need to sustain exchange rate stability to anchor inflation expectations and stabilize prices under the dual currency environment.

Monetary Developments[1]

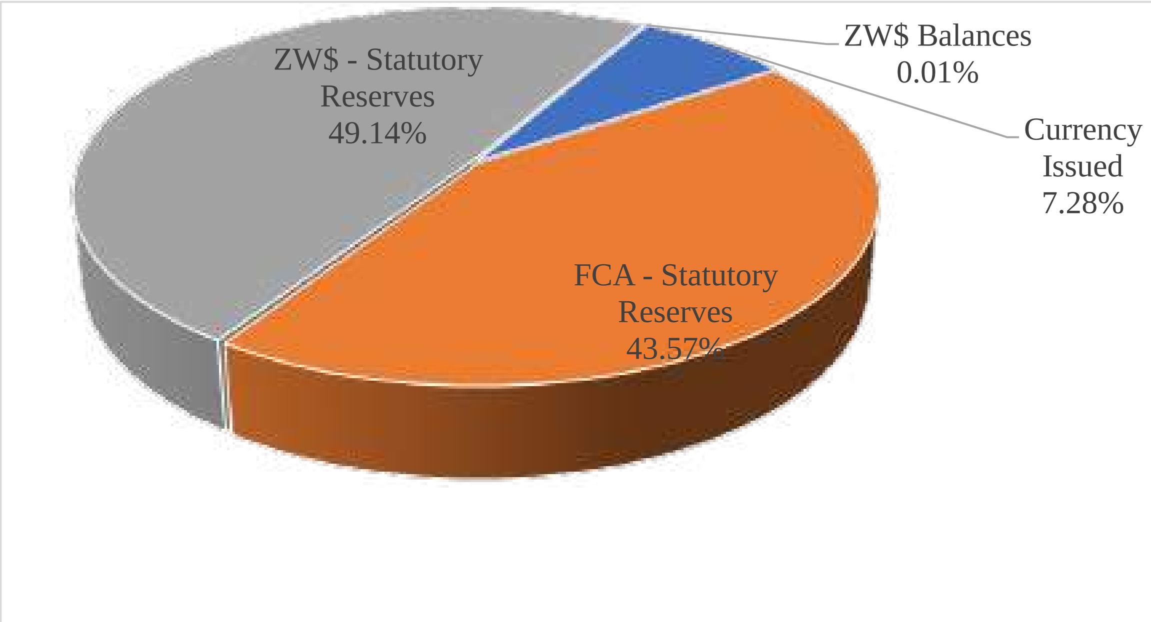
50. Reserve money stock stood at ZW$104.04 billion as at 31 December 2022, compared to ZW$33.55 billion recorded as of 30 June 2022. The increase was largely due to the levying of statutory reserves on foreign currency accounts (FCA) deposits, which began on the 1 September 2022. The local currency equivalent of the statutory reserves has been increasing with

[1] Provisional monetary statistics pending finalization of the RBZ audit process.

changes in the exchange rate, thus explaining the significant build-up in reserve money, which was witnessed in the last quarter of 2022.

51. As a result, statutory reserves, both in local and foreign currency, now constitute over 90% of total reserve money, as shown in Figure 8.

Figure 8: Components of Reserve money as at the end December 2022



Source: RBZ, 2022

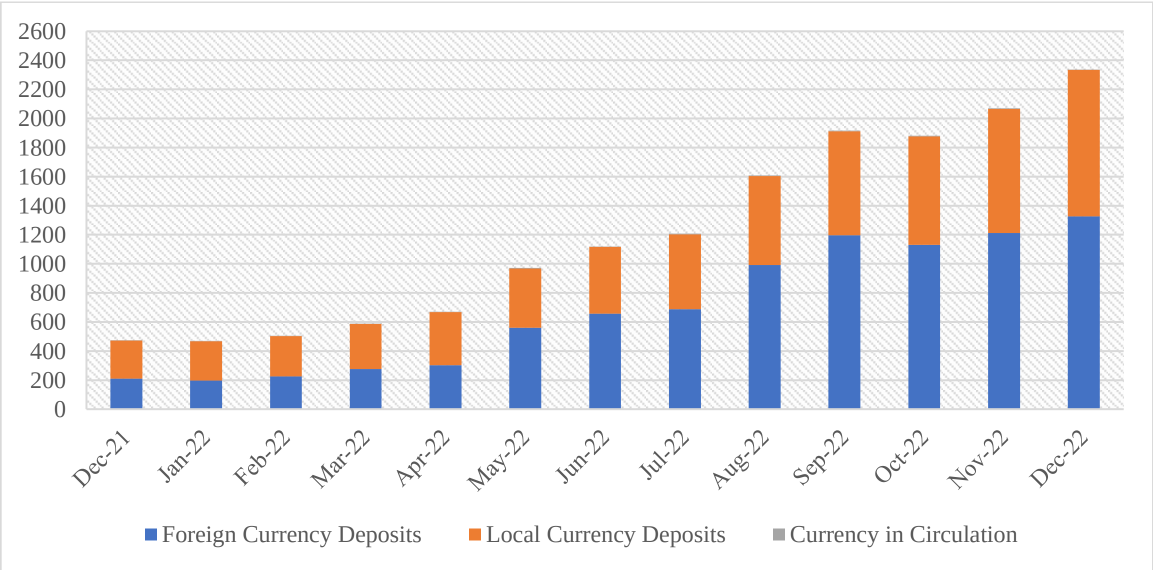
52. The increase in statutory reserves, however, signifies the tightening of monetary policy since these reserves are locked up at the Bank, and are not available for on-lending by banks.

53. Excess bank reserves (ZW$ balances at the Bank) declined from levels of around ZW$14 billion in 2021 to less than ZW$100 million (or 0.1% of reserve money) by end-December 2022, signifying further tightening of liquidity conditions in the economy.

54. Broad money (M3) amounted to ZW$2 338.26 billion as at end-December 2022, compared to ZW$1 119.70 billion recorded in June 2022. The increase largely reflected a rise of ZW$669.70 billion in foreign currency accounts (FCA) deposits, due to revaluation arising from exchange rate movement. The inter-bank exchange rate moved from ZW$370.9646 per US$1 in June 2022 to ZW$684.3339 per US$1 by end of December 2022, thus affecting the local currency equivalent of the FCA deposits. The Zimbabwe dollar-denominated deposits also rose by ZW$548.08 billion between June 2022 and December 2022, largely reflecting credit creation by banks.

55. As a result, foreign currency deposits, at 56.88% of the total money supply as at December 2022, now dominate money supply, with local currency deposits constituting 43.04% of money supply, while currency in circulation accounted for the remaining 0.18%. Figure 9 shows monetary developments for the period December 2021 to December 2022.

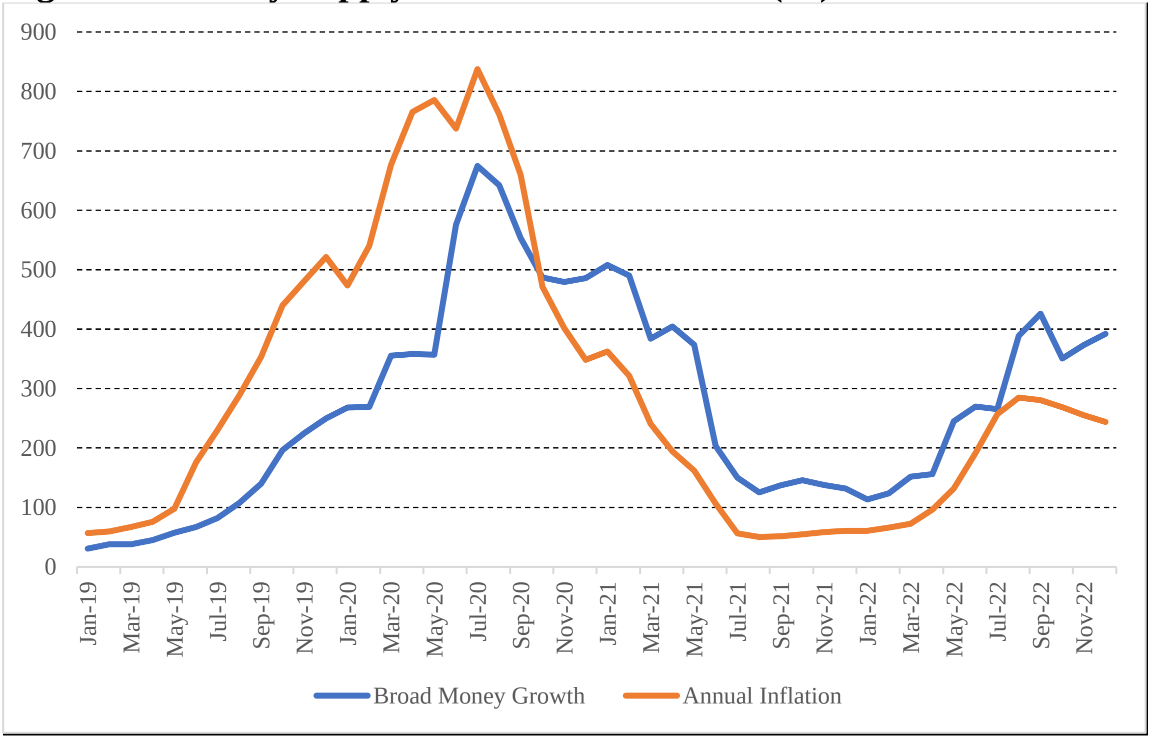
Figure 9: Monetary Developments (ZW$ Billion)



Source: RBZ, 2022

56. Broad money grew by 391.88% on an annual basis, an increase from 131.86% realised in December 2021. Largely reflecting the impact of exchange rate movements, foreign currency deposits increased by 530.07%, thereby contributing 234.96 percentage points to the 391.88% annual increase in money supply. Local currency deposits also went up by 283.63% on a year-on-year basis, contributing 156.53 percentage points to the annual increase in broad money (M3). Figure 10 shows the relationship between broad money and inflation.

Figure 10: Money Supply Growth and Inflation (%)



Source: RBZ, 2022

57. Underpinning the growth in M3 were increases of ZW$391.69 billion (or 470.65%) and ZW$865.52 billion (or 388.25%) in net claims on Government and credit to the private sector, respectively. Of the ZW$391.69 billion increase in net claims on Government, ZW$137.31 billion was due

to the accounting treatment of the utilization of Special Drawing Rights (SDRs), which does not reflect actual lending to Government by the Bank.

58. Credit to the private sector was mainly channelled to agriculture and households, which received 24.86% and 22.10% of the total credit, respectively. The manufacturing and distribution sectors received 13.24% and 12.62%, respectively.

59. Credit to the private sector was largely utilized for inventory build-up, 32.72%; other recurrent expenditures, 31.62%; and fixed capital investments, 16.25%.

Stock Market Developments

60. During the period June 2022 to December 2022, the Zimbabwe Stock Exchange (ZSE) traded in negative territory. As such, the All Share, Top 10, Top15, Medium and Small Cap Indices declined largely due to low trading associated with the festive season. The mining index, however, added 27.30% to close the month of December 2022 at 25 487.77 points, compared to 20 021.24 points recorded in June 2022.

61. On a year-on-year basis, the ZSE All Share, Top 10 and Mining Indices added 80.13%, 80.74% and 226.12%, from 10 822.36 points, 6 811.43 points and 7 815.37 points recorded in December 2021, respectively. Figure 11 shows the developments of the ZSE All Share, Top 10 and Mining Indices for the period December 2021 to December 2022.

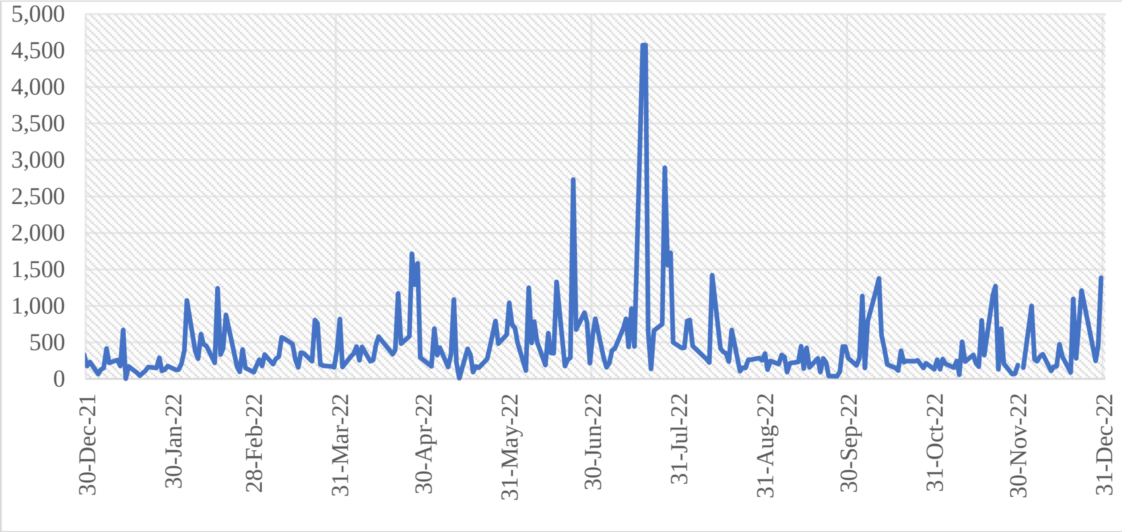
Figure 11: ZSE All Share, Top 10 and Mining Indices

Source: ZSE, 2022

Market Turnover

62. During the second half of 2022, trading activity was concentrated in some selected wealth-preserving counters. As such, turnover value increased by 84.40% to ZW$81.56 billion, despite a 70.71% decline in the volume of shares traded, amounting to 1.28 billion shares. This compares to ZW$44.23 billion and 4.37 billion shares recorded in the same period last year, as shown in Figure 12.

Figure 12: ZSE Market Turnover (ZW$ Millions)



Source: ZSE, 2022

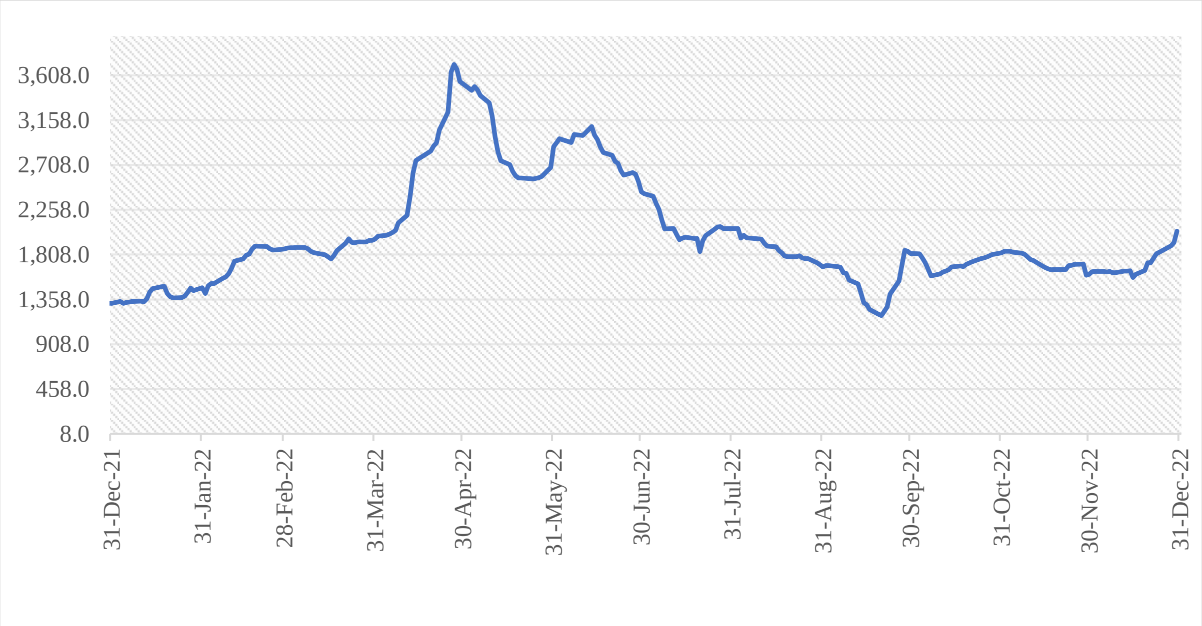
63. The proportion of foreign purchases to the value of shares traded worsened to 10.98%, from 40.27% recorded during the comparable period in 2021.

Market Capitalization

64. Owing to the negative trading exhibited on the local bourse, coupled with the de-listing of some counters, the ZSE lost 16.17%, or ZW$394.30 billion worth of capitalization to ZW$2 044.87 billion in December 2022, from ZW$2 439.17 billion in June 2022.

65. On a year-on-year basis, the ZSE capitalization added 55.24%, from ZW$1 317.21 billion recorded in December 2021. Figure 13 shows market capitalization developments for the period December 2021 to December 2022.

Figure 13: Market Capitalisation (ZW$ billions)

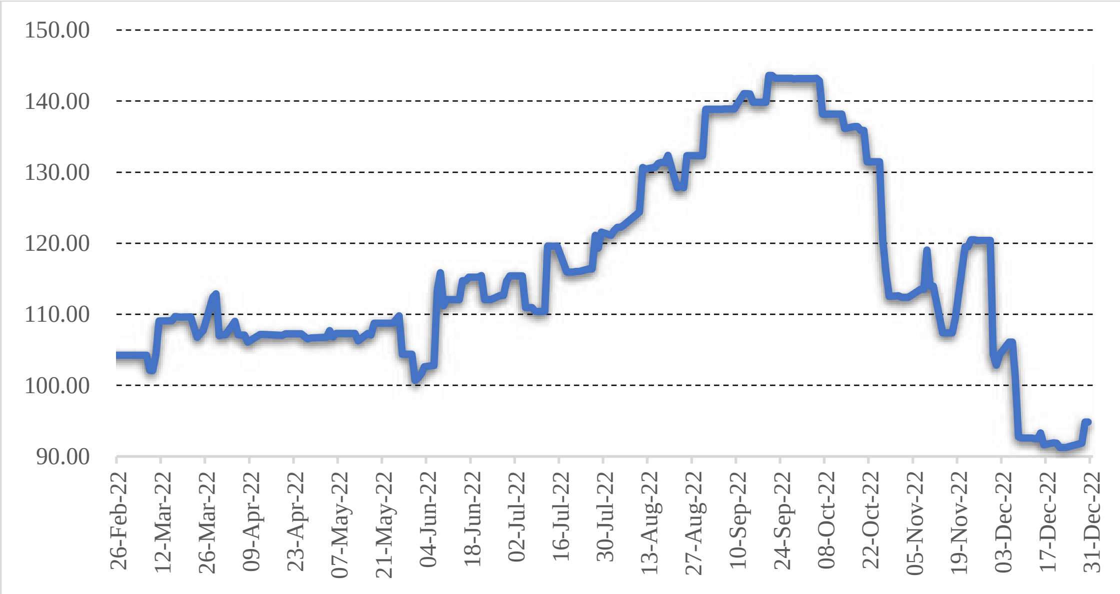


Source: ZSE, 2022

Victoria Falls Stock Exchange (VFEX)

66. The Victoria Falls Stock Exchange (VFEX) exhibited bearish sentiments during the period under analysis. Resultantly, the VFEX All Share Index declined by 17.82% to close the month of December 2022 at 94.83 points, from 115.39 points recorded in June 2022. On an annual basis, the VFEX All Share Index lost 13.55%, from 109.69 points recorded in December 2021, as shown in Figure 14.

Figure 14: Victoria Falls Stock Exchange All Share Index



Source: VFEX, 2022

Market Capitalization

67. The VFEX Market capitalization increased by 55.48% to US$0.42 billion in December 2022, from US$0.27 billion recorded in June 2022.

SECTION FOUR: BANKING SECTOR AND NATIONAL PAYMENTS DEVELOPMENTS

CONDITION AND PERFORMANCE OF THE BANKING SECTOR

68. The banking sector remains safe and sound and continues to play an important role in the recovery and growth of the economy. The current banking sector architecture is shown in Table 6:

Table 6: Banking Sector Architecture

Type of Institution	Number
Commercial Banks	14
Building Societies	4
Savings Bank (POSB)	1
Total Banking Institutions	**19**
Other Financial Institutions Under the Supervision of the Reserve Bank	
Credit-only-MFIs	188
Deposit-taking MFIs	7
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	4
Total Other Institutions	**199**
Total Number of Institutions	**218**

69. The number of building societies reduced from five (5) to four (4) following the merger between CBZ Bank and CBZ Building Society, effective 30 September 2022 and consequently the cancellation of the building society's licence.

70. Following the Bank's pre-opening inspection which assessed Time Bank's readiness to conduct banking business, the banking institution was authorized to recommence some banking business effective 27 October 2022, bringing the number of operating commercial banks to 14. Time Bank was authorised to conduct limited banking activities and is not permitted to

take deposits from the public in line with its business strategy and having regard to the institution's risk management structures and processes, level of capitalisation, as well as corporate governance arrangements.

Financial Soundness Indicators

71. The banking sector remains well capitalized with adequate levels of liquidity, high earnings performance and low levels of non-performing loans. Key banking sector financial soundness indicators are depicted in Table 7.

Table 7: Financial Soundness Indicators

Key Indicators	Benchmark	Dec- 21	Mar-22	Jun-22	Sep-22	Dec-22
Total Assets	-	$762.96bn	$969.24bn	$1.94tn	$3.11tn	$3.81tn
Total Loans & Advances	-	$229.94bn	$320.36bn	$603.14bn	$1.01tn	$1.29tn
Net Capital Base	-	$122.85bn	$170.00bn	$349.48bn	$535.96bn	$746.30bn
Core Capital	-	$100.83bn	$138.21bn	$284.74bn	$438.11 bn	$611.11bn
Total Deposits	-	$476.35bn	$582.26bn	$1.12tn	$1.91tn	$2.29tn
Net Profit	-	$59.29bn	$27.05bn	$181.25bn	$342.28bn	$503.13bn
Return on Assets	-	12.04%	3.39%	8.67%	16.48%	17.43%
Return on Equity	-	43.16%	12.43%	31.60%	53.19%	54.33%
Capital Adequacy Ratio	12%	32.86%	35.16%	33.87%	35.45%	37.15%
Tier 1 Ratio	8%	26.54%	26.97%	18.84%	23.97%	26.92%
Loans to Deposits Ratio	60%	48.27%	55.02%	53.69%	52.83%	55.67%
NPLs Ratio	5%	0.94%	1.57%	1.50%	1.41%	1.58%
Liquidity Ratio	30%	64.37%	61.38%	60.78%	59.51%	59.50%

Banking Sector Capitalization

72. As at 31 December 2022, the banking sector was adequately capitalized, with all banking institutions in compliance with the prescribed minimum capital adequacy ratio of 12% and tier 1 ratio of 8%. The average capital adequacy and tier 1 ratios were 37.15% and 26.92%, respectively.

73. Aggregate core capital increased by 114.62% from ZW$284.74 billion as at 30 June 2022 to ZW$611.11 billion as at 31 December 2022. The growth in core capital was mainly attributed to the capitalisation of retained earnings (including revaluation gains from investment properties, translation gains from foreign exchange-denominated assets) and capital infusion by shareholders.

74. The banking sector capital position is considered adequate to absorb unexpected shocks or losses as well as ensuring business continuity.

75. Fifteen (15) out of 18 banking institutions (excluding POSB) reported core capital levels that comply with minimum capital requirements as shown in Table 8.

Table 8: Core Capital levels as at 31 December 2022.

Institution	Reported Core Capital as at 31 Dec 2022 (ZW$)	Reported Core Capital 31 Dec 2022 ** (US$)	Capital Adequacy Ratio (CAR). (Min 12%)	Compliance Status
COMMERCIAL BANKS				
AFC Commercial Bank	22,524,556,486.52	32,773,307.10	32.51%	Compliant
BancABC	21,581,976,221.21	31,401,849.57	26.11%	Compliant
First Capital Bank	25,604,119,031.15	37,254,081.18	27.55%	Compliant
CBZ Bank	69,507,843,789.03	101,134,151.59	23.27%	Compliant
Ecobank	42,023,653,281.55	61,144,559.95	27.16%	Compliant
FBC Bank	27,996,177,012.50	40,734,533.77	20.85%	Compliant
Nedbank	22,955,495,314.57	33,400,324.57	33.93%	Compliant
Metbank	79,718,887,152.76	115,991,254.78	83.14%	Compliant
NMB Bank	30,195,883,396.61	43,935,114.12	22.64%	Compliant
Stanbic Bank	83,986,179,273.98	122,200,179.48	29.40%	Compliant
Standard Chartered Bank	16,729,741,368.53	24,341,831.19	39.14%	Compliant on CAR and Non-Compliant on the prescribed minimum core capital
Steward Bank	23,653,963,114.51	34,416,597.62	50.42%	Compliant

Institution	Reported Core Capital as at 31 Dec 2022 (ZW$)	Reported Core Capital 31 Dec 2022 ** (US$)	Capital Adequacy Ratio (CAR). (Min 12%)	Compliance Status
Time Bank	$4,352,829,141.00	6,333,381. 36	83.47%	Compliant on CAR and Non-Compliant on the prescribed minimum core capital
ZB Bank	38,284,515,215.16	55,704,101.21	21.93%	Compliant
BUILDING SOCIETIES				
CABS	59,498,052,324.14	86,569,870.61	30.20%	Compliant
FBC Building Society	15,281,358,097.20	22,234,428.55	40.05%	Compliant
National Building Society	14,216,018,409.36	20,684,355.64	37.44%	Compliant
ZB Building Society	11,110,787,941.31	16,166,234.64	56.20%	Compliant on CAR and Non-Compliant on the prescribed minimum core capital
SAVINGS BANK				
POSB	6,236,675,367.21	9,074,384.09	41.30%	No prescribed minimum capital requirement

** The prescribed minimum capital requirements is ZW$ equivalent to US$30 million for Tier I banking institutions and US$20 million for Tier II banking institutions including building societies.*
*** Willing buyer willing seller exchange rate (interbank rate) (US$1: 687.2836) as at 31 December 2022*

76. Standard Chartered Bank is finalising its recapitalization processes pending the disposal of the institution by its shareholders, while the capital position of ZB Building Society is dependent on the outcome of the current strategic initiatives within the Group. In line with the approval to recommence banking business, Time Bank was permitted to gradually meet the prescribed minimum capital requirements in terms of its strategy which provides for a phased approach to conducting banking activities.

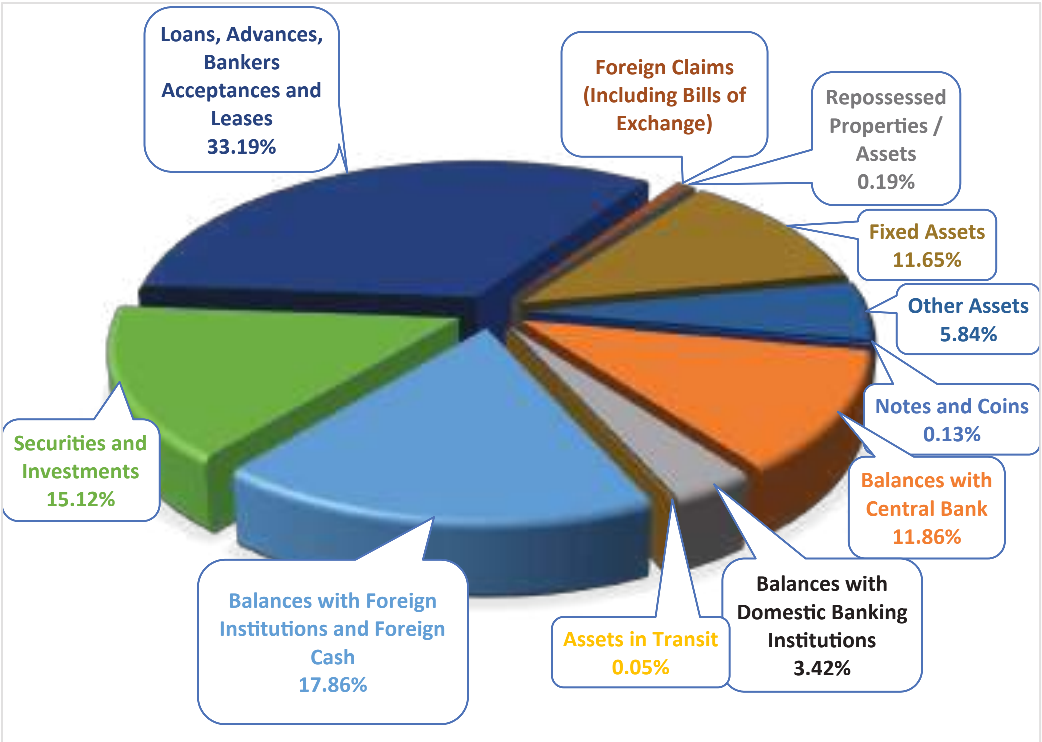
77. The Bank will continue to monitor progress periodically to ensure on-going compliance with prescribed minimum capital requirements. Meanwhile, independent external audits for the financial year ended 31 December 2022 are underway. The external audits and the capital verification exercise by the Bank will confirm the core capital levels declared by banking institutions as at 31 December 2022, with banks having been given authority by the

Bank to use the interbank rate or the auction rate in finalizing their 2022 financials.

Banking Sector Assets Structure

78. Total banking sector assets amounted to ZW$3.81 trillion as at 31 December 2022, up from ZW$768.46 billion as at 31 December 2021. The dominant assets on the bank balance sheets are loans and advances (31.81%), securities and investments (14.49%) and balances with the central bank (11.37%) as shown in Figure 15.

Figure 15: Assets Mix as at 31 December 2022



Banking Sector Loans and Advances

79. Aggregate banking sector loans and advances increased by 114.46% from ZW$603.14 billion as at 30 June 2022 to ZW$1.29 trillion as at 31 December

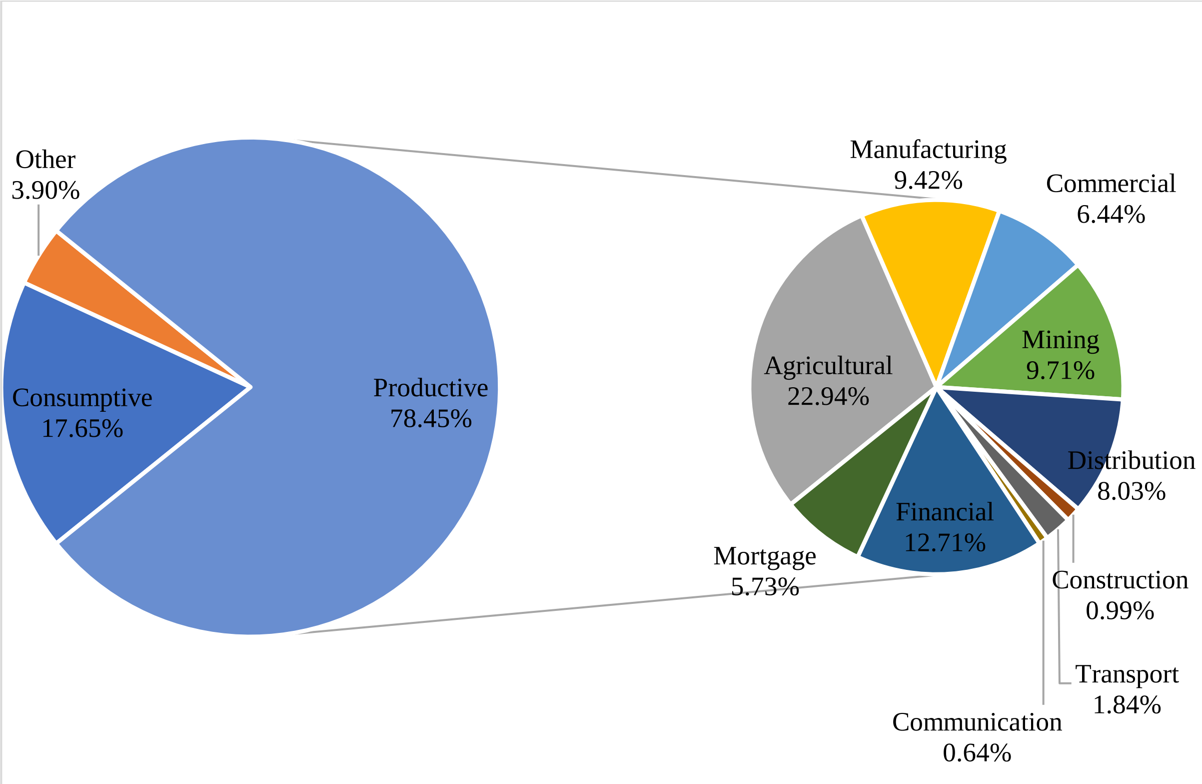
2022. The increase was largely attributed to an increase in foreign currency-denominated loans, leading to the increase in their proportion from 65.87% as at 30 June 2022 to 78.20% of total banking sector loans.

80. The level of financial intermediation as measured by total loans to total deposit ratio, improved from 52.83% recorded as at 30 June 2022, to 55.67% as at 31 December 2022. The foreign currency loans to foreign currency deposits ratio as at 31 December 2022 was 62.69% whilst the ZW$ loans to deposit ratio was 41.40% as at the same reporting date.

81. The banking institutions continue to play an important role in supporting the productive sectors which contribute towards economic recovery and growth. The loans to the productive sectors constituted 78.45% of total loans as at 31 December 2022 up from 71.12% reported as at 30 June 2022.

82. Figure 16 shows the sectoral distribution of loans as at as at 31 December 2022.

Figure 16: Sectoral distribution of loans as at 31 December 2022



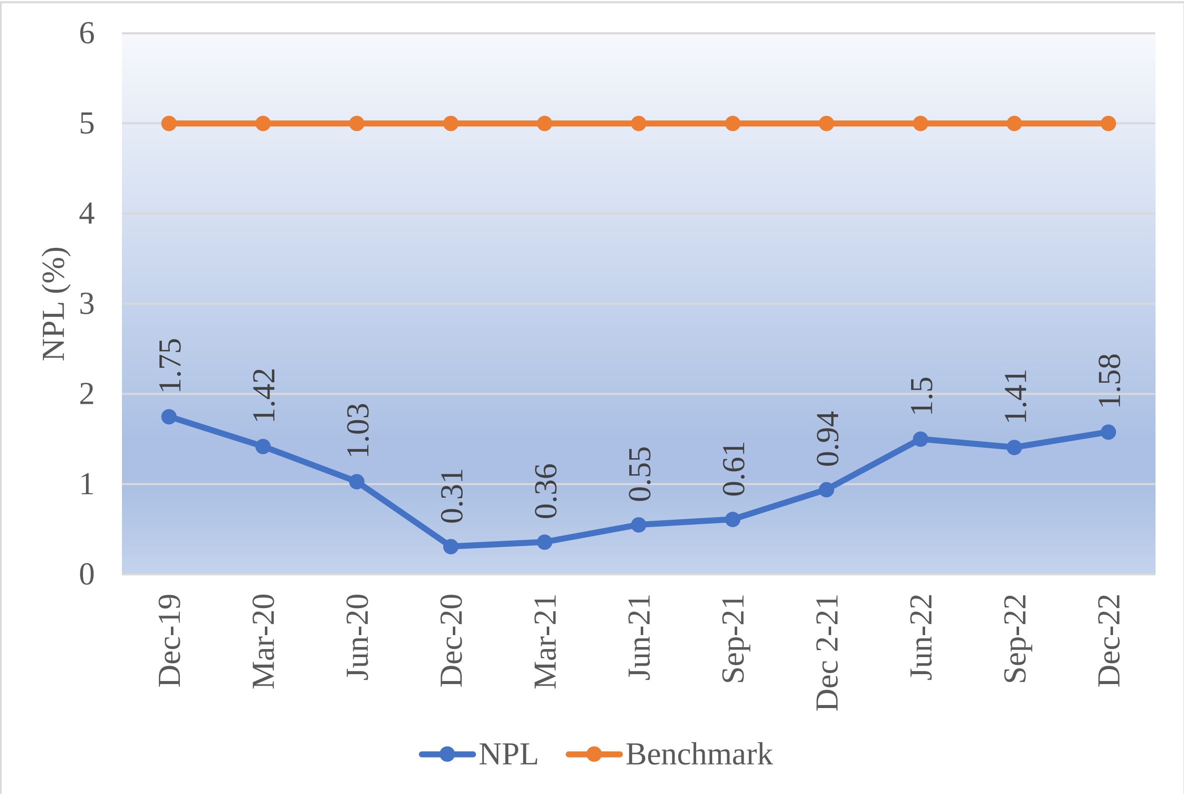
Source: RBZ

Asset Quality

83. Banking sector asset quality is satisfactory as non-performing loans (NPLs) have remained stable at low levels. As at 31 December 2022, the average NPLs to total loans ratio for the banking sector was 1.58%, comparing favourably with the generally acceptable international threshold of 5%.

84. Figure 17 shows the trend in the level of NPLs ratios from December 2019 to December 2022, signifying the positive role played by the Zimbabwe Asset Management Company (ZAMCO) and the improved credit risk management strategies being implemented by banks to contain NPLs.

Figure 17: Trend in Non- Performing Loans



85. ZAMCO wound down its operations on 31 August 2022, more than a year before its sunset period of 31 December 2023.

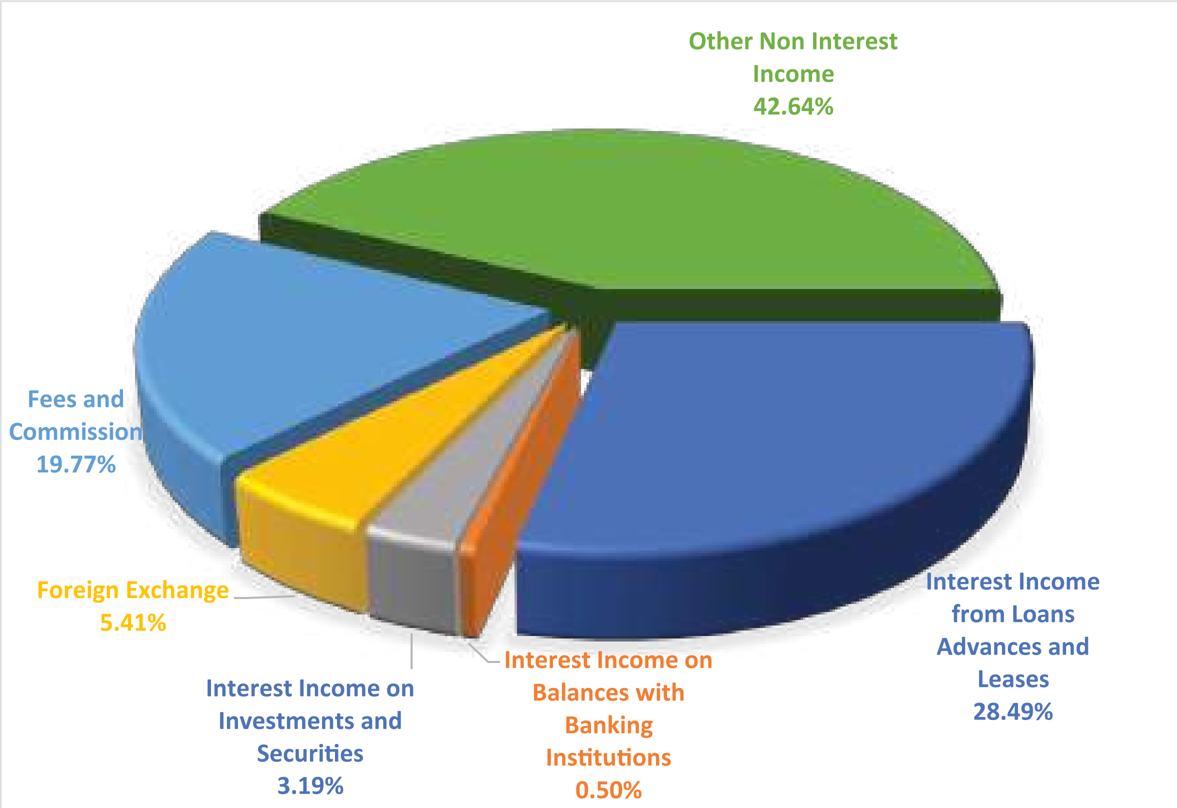
Banking Sector Profitability

86. All banking institutions were profitable with reported aggregate profits of ZW$503.13 billion for the year ended 31 December 2022, a 748.59% increase from ZW$59.29 billion reported in the corresponding period in 2021.

87. The growth in the banking sector income largely emanated from non-interest income, which constituted 67.82% of total income as at 31 December 2022, up from 54.35% reported in the corresponding period in 2021.

88. The income mix for the sector is depicted in Figure 18.

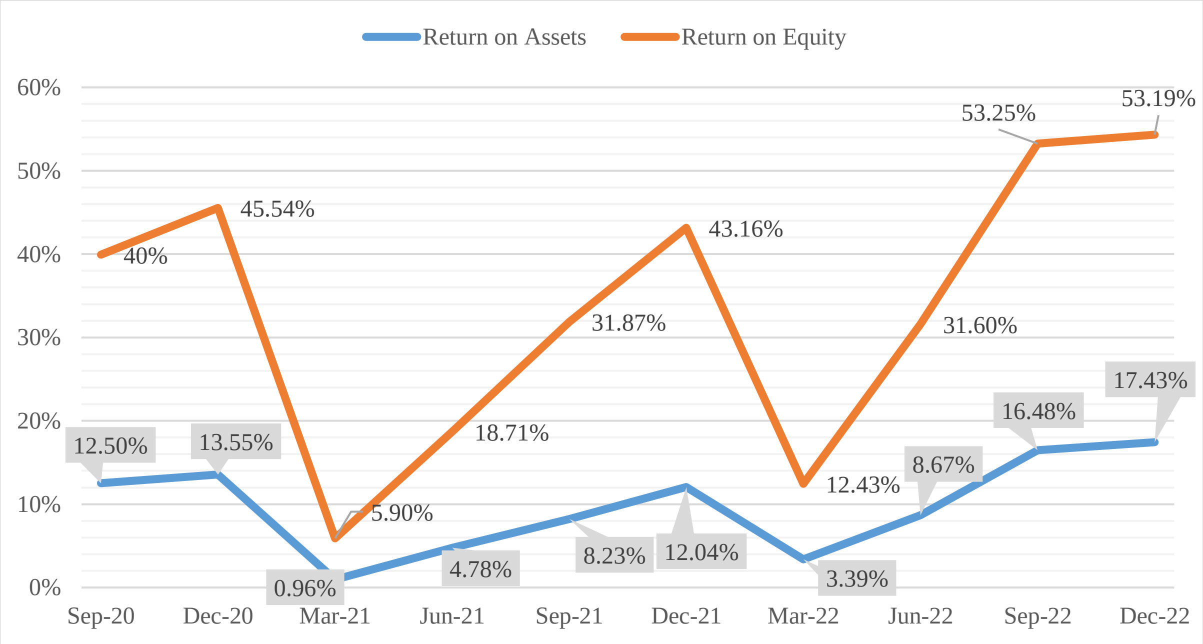
Figure 18: Banking Sector Income Mix as at 31 December 2022



89. The total non-interest income mainly consists of revaluation gains from investment properties (62.88%), fees and commissions (29.15%) and translation gains on foreign currency-denominated assets (7.98%).

90. The return on assets and return on equity ratios were 17.43% and 54.33% as at 31 December 2022, compared to 11.50% and 42.21% as at 31 December 2021, respectively. The trend of banking sector performance over the period 30 September 2020 to 31 December 2022 is shown in Figure 19.

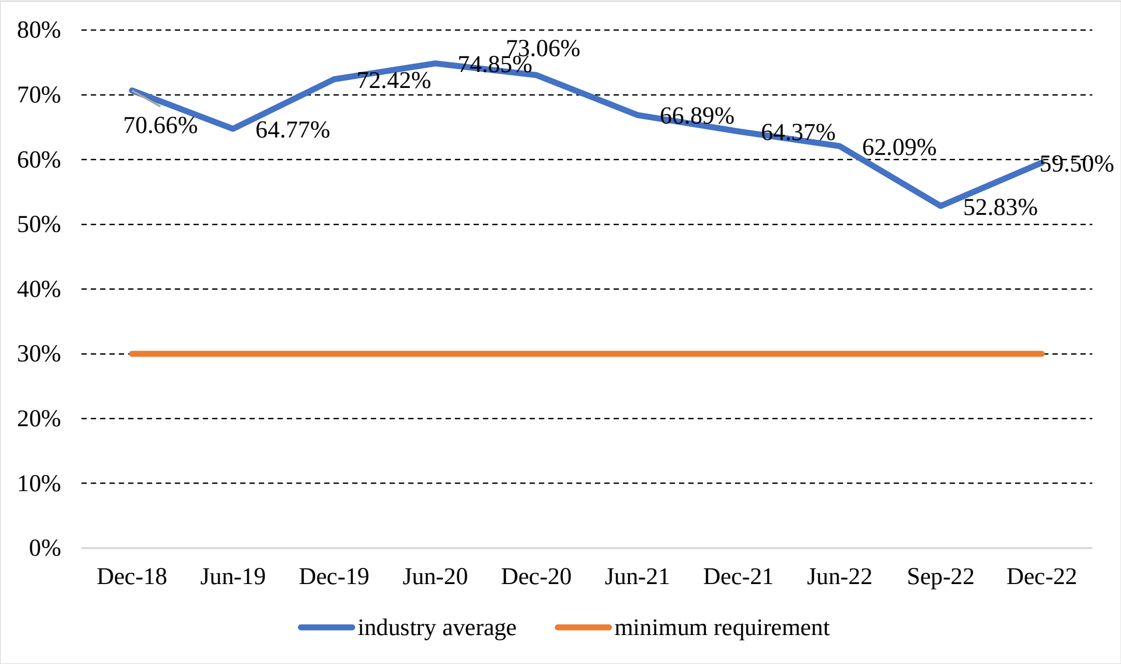
Figure 19: Banking sector performance



Banking Sector Deposits and Liquidity

91. The average prudential liquidity ratio was 59.50% as at 31 December 2022, largely reflecting high stock of liquid assets in the sector. The trend in the liquidity ratio from 31 December 2018 to 31 December 2022 is shown in Figure 20.

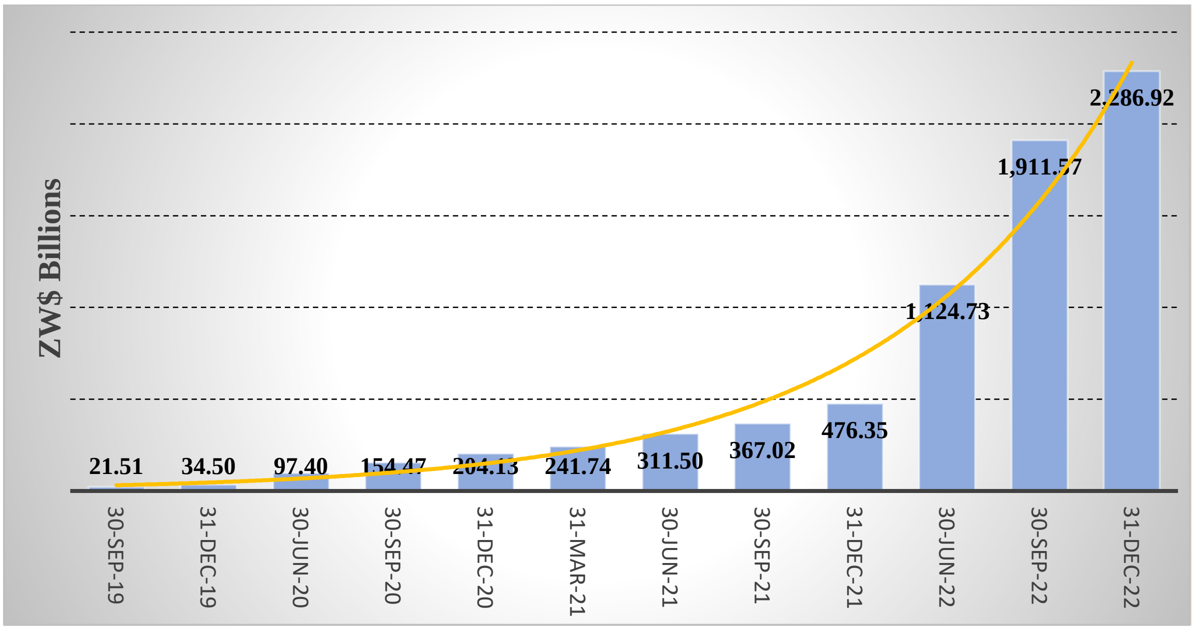
Figure 20: Prudential Liquidity Ratio Trend



92. Total deposits increased by 103.57% from ZW$1.12 trillion as at 30 June 2022 to ZW$2.28 trillion as at 31 December 2022 mainly driven by growth in foreign currency deposits. Commercial banking sub-sector deposits constituted 91.15% of total banking sector deposits.

93. Foreign currency deposits accounted for 64.24% of total deposits as at 31 December 2022. The trend of banking sector deposits over the period 30 September 2019 to 31 December 2022 is shown in Figure 21.

Figure 21: Trend in Banking Sector Deposits



Bank Charges

94. The pricing model agreed between the Bank and Bankers Association of Zimbabwe (BAZ) in May 2022, will continue to guide the review of transactional charges and service fees. Banking institutions are urged to maintain a balance between business viability and the provision of affordable and accessible products and services in the spirit of promoting financial inclusion and the use of electronic means of payments.

95. The Bank shall continue to monitor the terms and conditions of business activities to ensure adherence to fair business practices and reasonable pricing in line with the Banking Act, and the Consumer Protection Framework.

Climate Risk Management

96. Climate change is one of the major emerging risks to financial stability. The Bank remains alive to the impact of climate-related risks on the banking sector through macro and microeconomic transmission channels. In this regard, various initiatives are underway to ensure that the risk is identified, mitigated and effectively managed.

97. In the outlook, the Bank will be focusing on the identification of climate risk key drivers and transmission channels in the banking sector, assessing the impact of climate risk on macroeconomic variable, and development of climate risk management policy framework.

Enhancement of Liquidity Profile Resilience

98. As part of the efforts the promote the short-term resilience of the liquidity profile of banking institutions, the Bank is implementing Basel III Liquidity Standards, including the Liquidity Coverage Ratio (LCR).

99. To this end, the Bank issued Prudential Standard No: 02-2022/BSD: Guidance on the Implementation of the Liquidity Coverage Ratio in December 2022. The main objective of the Standard is to ensure that banking institutions have an adequate stock of unencumbered high-quality liquid assets that can be converted easily or immediately into cash to meet liquidity needs in stress situations.

100. Banking institutions have been requested to submit implementation plans before the end of February 2023, that incorporate the development /

reinforcement of policies, processes, models and systems to ensure the availability of requisite capacity to facilitate sound determination of the components of LCR computation.

Sustainability

101. Globally, sustainability is a subject rising on the agenda of the financial services sector's and the adoption of sustainability principles is considered an essential lever for achieving social, economic and environmental goals in most economies.

102. Cognizant of the role that financial and non-financial institutions play and contribute to inclusive, sustainable economic development, the Bank continues to work closely with several financial institutions in the implementation of the Sustainability Standards & Certification Initiative (SSCI) being driven by the European Organization for Sustainable Development (EOSD).

103. As at 31 December 2022, 12 banking institutions, including one (1) deposit-taking microfinance institution, were participating under the Bank-led Sustainability Standards and Certification Initiative (SSCI).

104. Given the noted benefits of ingraining sustainability considerations in the financial sector, the Bank will continue to raise awareness on the importance of sustainability and recommend more financial institutions embrace the adoption of sustainable banking practices. The Bank, thus, urges banking institutions to be adaptive, enhance capacity in the area of sustainability and become sustainability centric.

Financial Inclusion

105. The National Financial Inclusion Strategy II 2022-2026 (NFIS II) was launched on 31 October 2022 following an extensive collaborative and consultative process.

106. The main focus of the NFIS II is to increase the usage of formal financial services by the target segments, and in this regard, banking institutions and digital financial services will continue to play a critical role in deepening financial inclusion.

107. An implementation plan to operationalise the NFIS II is now in place and Financial Literacy, Consumer Education and Consumer Protection will be key in promoting financial knowledge and confidence among target segments in the uptake and usage of formal financial services.

108. A Monitoring and Evaluation Framework has also been developed to track the implementation of the National Financial Inclusion Strategy, on an ongoing basis.

Supervision of Large SACCOS

109. The 2022 FinScope Consumer Survey revealed that savings and credit co-operatives societies (SACCOS), which constitute a significant segment of the microfinance sector played a key role in savings mobilisation among the grassroots communities.

110. In this regard, as part of the implementation of the NFIS II, the Bank will continue with its engagements with the Ministry of Women Affairs, Community, Small and Medium Enterprises Development in the development of the SACCOS and in strengthening supervisory oversight in line with regional and global standards.

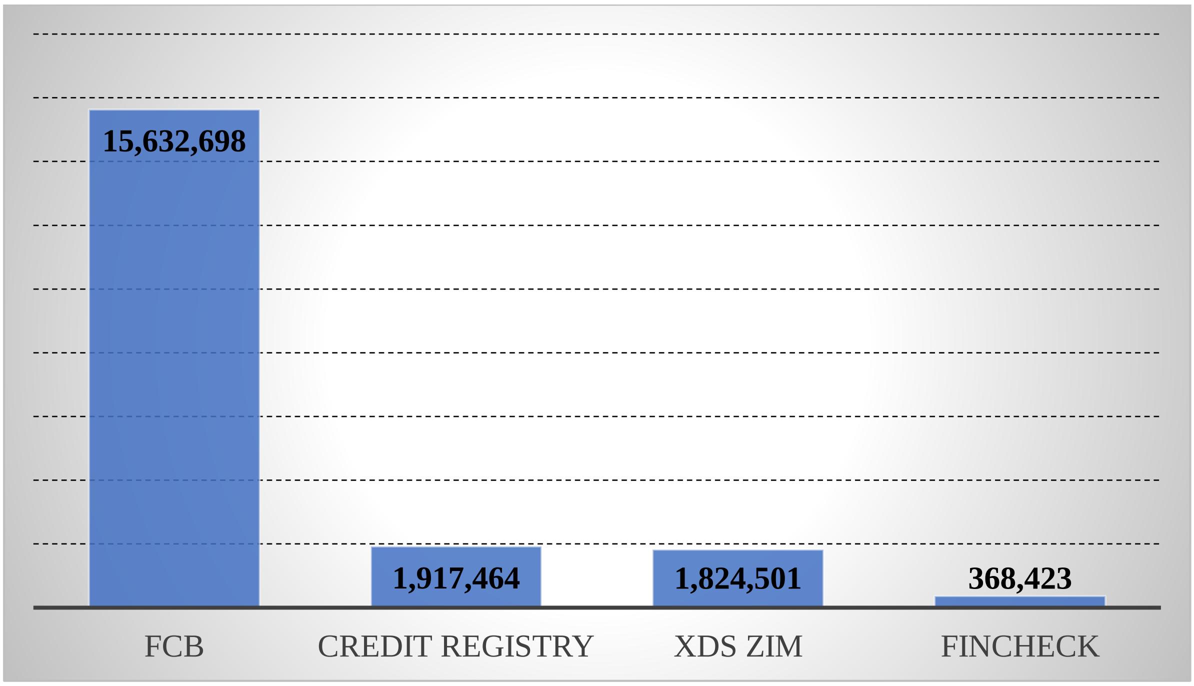
Credit Infrastructure

Credit Information Sharing Environment

111. The sustained availability and growth of the credit data both at the Credit Registry and the three private credit bureaus continue to play a critical role in the origination and ongoing management of credit risk in the financial sector.

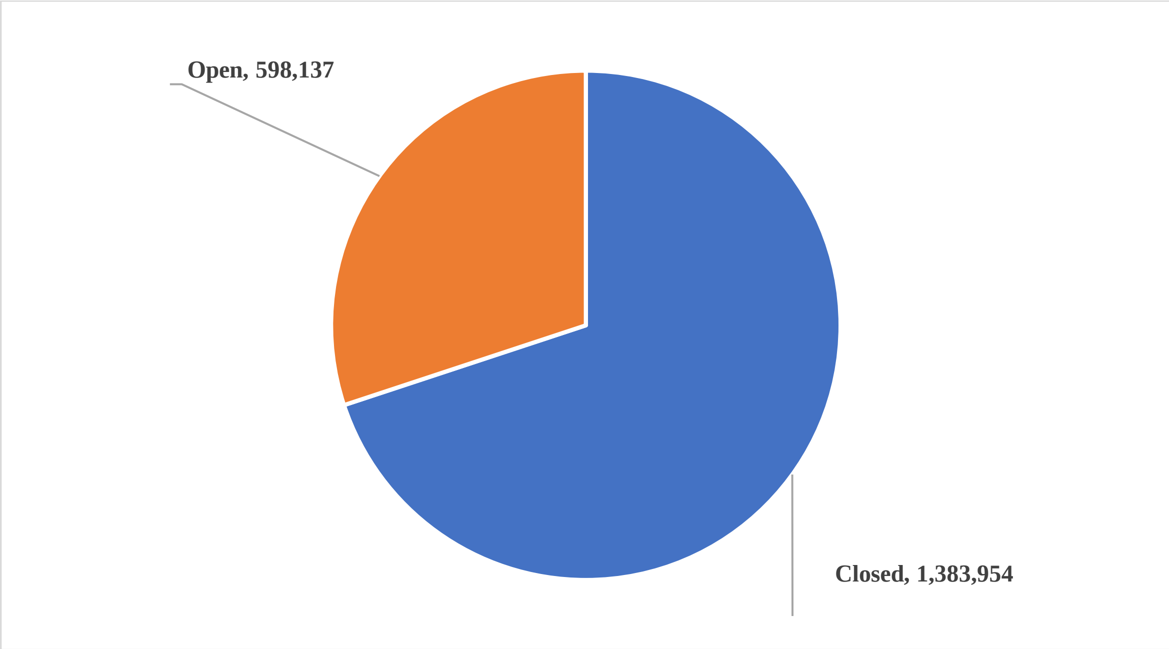
112. The four (4) credit reporting institutions in the country held over 20 million searchable records as at 31 December 2022. The entire database received more than 1.6 million enquiries during 2022 from users across various economic sectors. Figure 22 indicates the cumulative records per institution.

Figure 22: Cumulative Loan Record per Institution



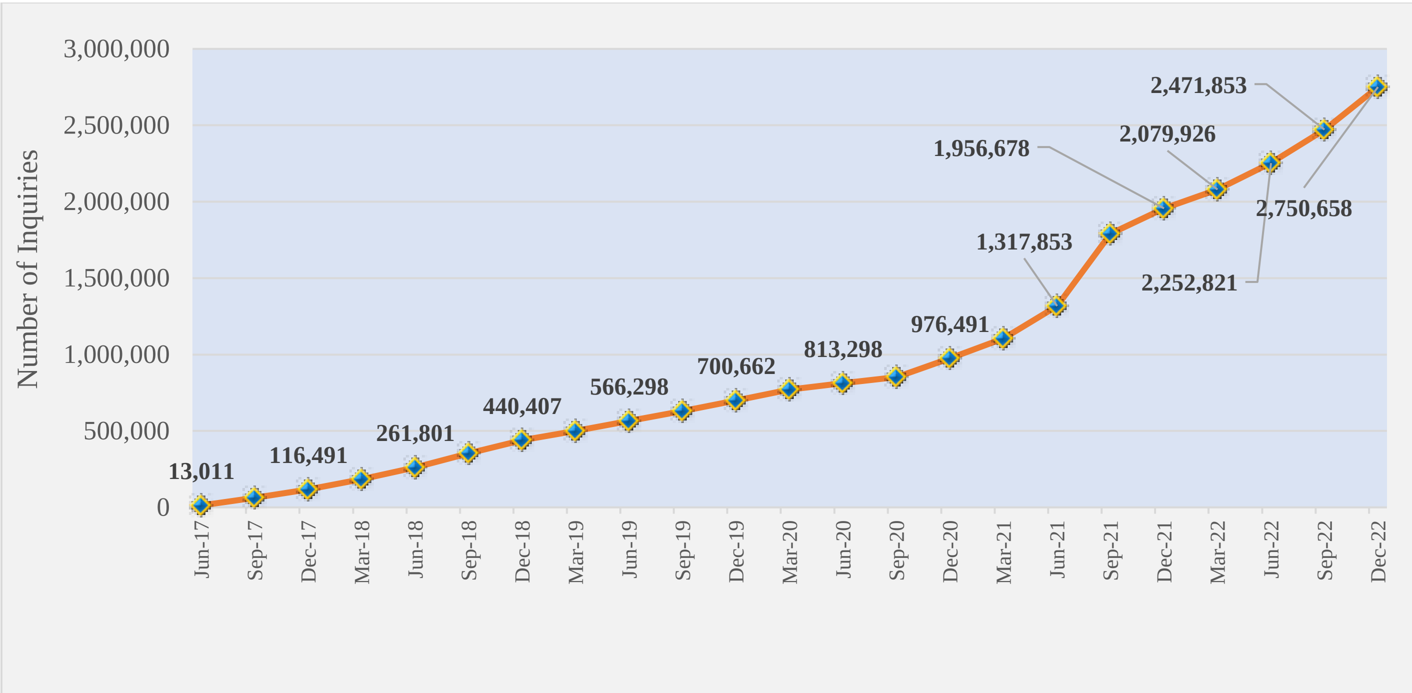
113. In the Credit Registry database, 598,137 were active loan accounts with individual records accounting for 98% of the active loan records. Registered subscribers accessing the Credit Registry were 238 as at 31 December 2022, as shown in Figure 23.

Figure 23: Credit Registry Loan Records as at 31 December 2022



114. Figure 24 indicates the phenomenal growth in Credit Registry usage since its inception.

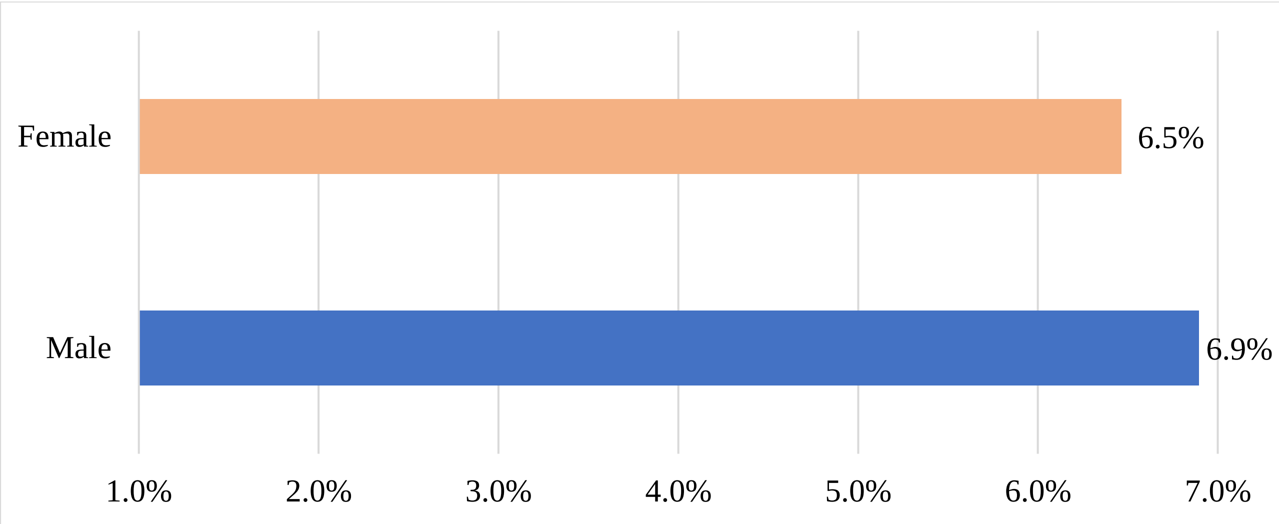
Figure 24: Credit Registry Usage Status



115. Gender distribution of loans is generally skewed towards male borrowers who constituted 68.4%, while female borrowers constituted 31.6% of loan contracts in the Credit Registry.

116. The Credit Registry database indicates that 6.5% of total loans granted to female borrowers were delinquent contracts while male borrowers have more delinquent loans at 6.9% as shown in Figure 25.

Figure 25: Percentage of Delinquent Loan Contracts by Gender



117. With effect from 1 January 2023, the Bank commenced the implementation of the Phase 2 of the Credit Registry operations which entails bringing onboard microfinance institutions as data providers. This initiative is expected to enrich and broaden the scope of credit registry database for the benefit of subscribers.

Collateral Registry

118. Following the successful launch of the Collateral Registry in November 2022, banking institutions and some microfinance institutions have since created their profiles in the Collateral Registry system in readiness to register movable security supporting borrowings. The sector has also

commenced instituting the necessary adjustments to internal policies and procedures to align with the requirements of the Collateral Registry system.

119. Starting in the first quarter of 2023, the Bank has scheduled further outreach and awareness programs for MFIs, MSMEs and other stakeholders who were not covered in the initial phase.

Deposit-Taking Microfinance Institutions' Capitalisation

120. As at 31 December 2022, the deposit-taking microfinance institutions (DTMFIs) subsector was not adequately capitalized, with only two (2) out of the seven (7) operating deposit-taking microfinance institutions being compliant with the minimum capital requirements of the ZW$ equivalent of US$5 million. The sub-sector has not been able to significantly grow its capital over the year with some of the DTMFIs posting losses since inception.

121. Aggregate core capital for the sub-sector of ZW$11.68 billion as at 31 December 2022 represents a 17.51% increase over the quarter from ZW$9.94 billion as at 30 September 2022.

122. The reported minimum capital levels for the DTMFIs as at 31 December 2022 are indicated in Table 9.

Table 9: DTMFI Sub-Sector Capitalization (*Minimum Requirement US$5m*)

Institution	Core Capital 30.09.2022 (ZW$ million)	Core Capital 31.12.2022 (ZW$ million)	Core Capital 31.12.2022 (US$ million)*	Status of Compliance
African Century Limited	3,722.79	3,836.00	**5.58**	**Compliant**
Innbucks Microbank (*formerly Ndoro Microfinance)*	2,780.52	3,675.42	**5.35**	**Compliant**
Success Microfinance Bank	1,356.72	1,830.48	**2.66**	**Non-Compliant**
Zimbabwe Women's Microfinance Bank	803.39	707.76	**1.03**	**Non-Compliant**
EmpowerBank Limited	970.11	1,332.76	**1.94**	**Non-Compliant**
GetBucks Microfinance Bank	382.43	438.15	**0.64**	**Non-Compliant**
Lion Microfinance Bank	-79.39	-143.94	**-0.21**	**Non-Compliant**

**Converted using the Willing-Buyer Willing-Seller Exchange Rate of US$1= $687.2836 as at 31 December 2022*

123. The DTMFIs need to be adequately capitalised on an ongoing basis to capacitate the institutions to play a more critical role in fostering financial inclusion. In this regard, the Boards and shareholders should remain resolutely focused on implementing measures including viable strategic options that bolster the institutions' capital levels.

Portfolio Quality

124. The total sub-sector loans of ZW$7.21 billion as at 31 December 2022 represent a 39.19% increase from ZW$5.18 billion as at 30 September 2022. Portfolio quality improved as evidenced by the decline in the Portfolio-at-Risk (PaR) ratio (>30 days) of 15.22%, down from 19.36% as at 30

September 2022. However, the ratio compares unfavourably with the international benchmark of 5%. It is, therefore, imperative for the institutions to strengthen their credit risk management practices and internal controls to improve the quality of their loan portfolios.

Earnings Performance

125. The subsector recorded an improvement in the aggregate earnings from ZW$29.49 million for the period ended 31 December 2021, to ZW$6.53 billion for the period ended 31 December 2022. The earnings performance was, however, largely driven by revaluation gains on investment properties and foreign currency-denominated assets.

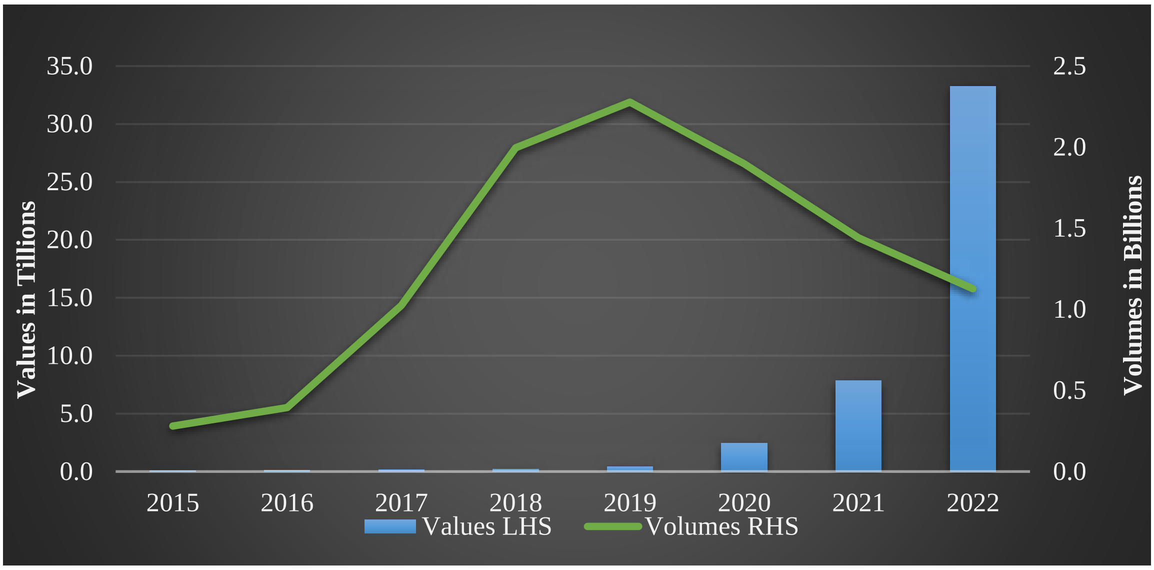
126. Four (4) institutions namely African Century limited, Getbucks Microfinance, Innbucks Microbank and Success Microfinance reported profits during the period ending 31 December 2022. This underscores the need for the institutions to review their business models and institute credible revenue enhancement measures to ensure institutional sustainability.

NATIONAL PAYMENT SYSTEMS

127. To ensure stability and compliance of the national payment systems, the Bank conducted on-site examinations and off-site analysis during the second half of 2022. Consequently, the payment systems comprising twenty-four (24) payment system providers and twenty-five (25) participant banks remained sound, safe, and stable characterized by growth in transaction activities.

128. Digital payment systems transaction values continued on an upward trajectory with a 220% growth to ZW$33.2 trillion in 2022. The volume of transactions, on the other hand, recorded a decrease of 22% to 1.13 billion during 2022, as shown in Figure 26.

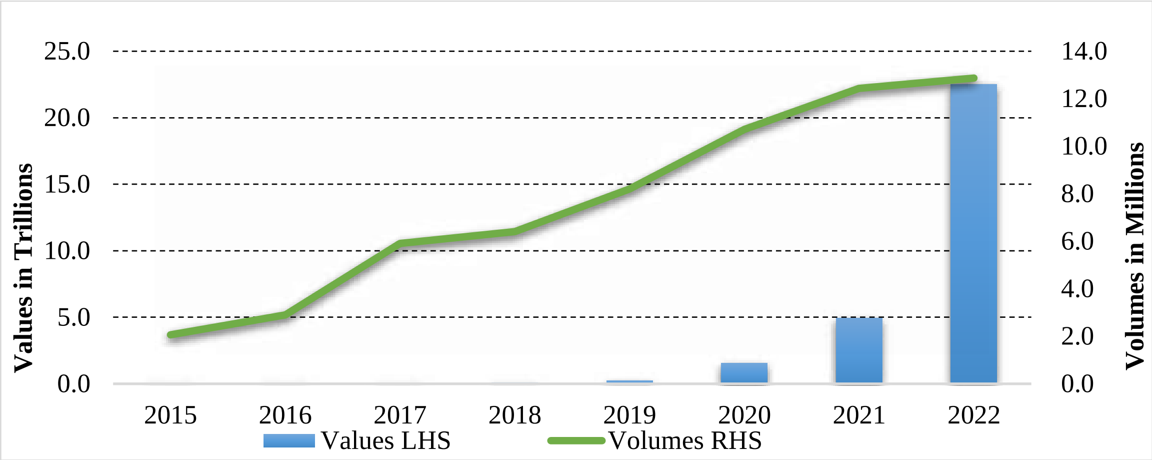
Figure 26: Digital Payment Systems Annual Values and Volumes for 2015 to 2022



Real Time Gross Settlement (RTGS)

129. The improved performance was witnessed on the Zimbabwe Electronic Transfer and Settlement System (ZETSS) also known as the Real Time Gross Settlement system. In this regard, RTGS transaction values increased by 355% to ZW$22.5 trillion in 2022 from ZW$4.9 trillion in 2021. Transaction volumes rose marginally by 3.4% to 12.9 million in 2022 compared to the previous year. Figure 27 shows RTGS annual volumes and values from 2015 to 2022.

Figure 27: RTGS Annual Values and Volumes 2015 to 2022



Cybersecurity

130. The ecosystem of cybersecurity is ever-changing and cyber-attacks continue to expand in scale and scope. In this regard, the Bank remains attentive to digital financial services whose elevated cyber security and money laundering threats have implications for financial stability.

131. The Bank encourages financial institutions to share information on cyber security through incident reporting, increase education and awareness campaigns and to collaborate with other key stakeholders involved in cyber security matters.

Euro Mastercard and Visa Compliance (EMV)

132. The Bank continues to encourage financial services providers to expedite the phasing out of non-EMV of compliant access points and devices in the market as part of enhancing cyber security risk management.

133. The market has so far only achieved 39% and 32% compliance for Cards and Point of Sale, respectively.

SWIFT ISO 20022 Requirements for Cross-Border Payments

134. The financial services industry's payment messaging systems are moving rapidly to adopt ISO 20022, which will be the new standard for SWIFT payment messages globally by 31 March 2023.

135. The Bank has noted that all the users of SWIFT in the country are committed to implementing the new ISO format and that testing is being undertaken to ensure readiness by the Go-live date, together with the rest of the SWIFT global community.

Implementation of AML–CFT Preventative Measures

136. The Bank remains committed to mitigating money laundering and the financing of terrorism and proliferation risks in the payment, clearing, and settlement systems. This is being undertaken through the implementation of risk-based off-site analysis and onsite examinations in line with the Money Laundering and Proceeds of Crime Act as well as Financial Action Task Force (FATF) recommendations.

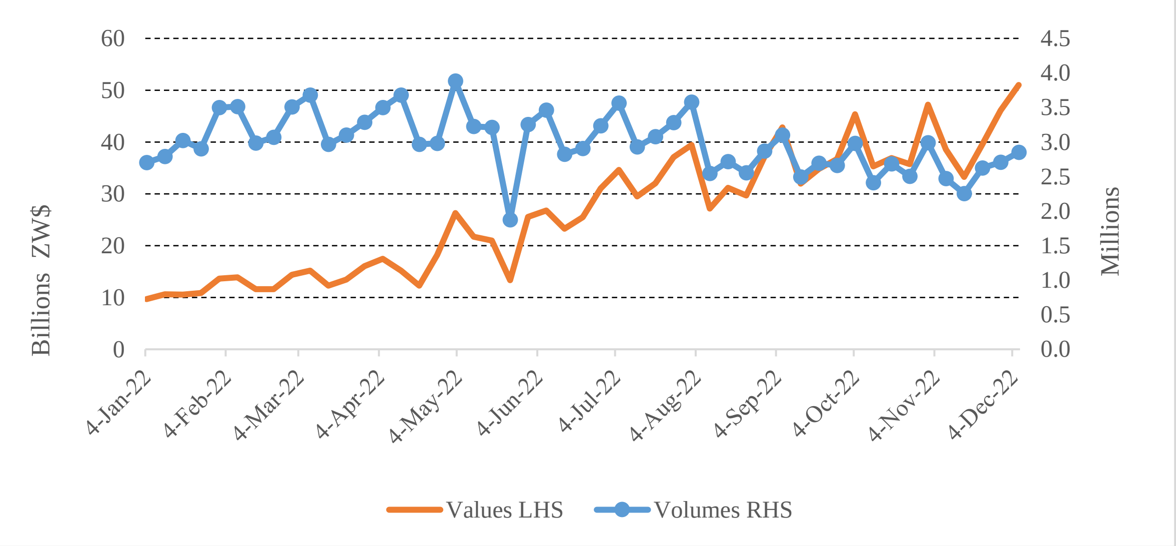
137. The Bank urges payment systems services providers to continuously monitor financial transactional activities to effectively assess and manage money laundering and terrorism financing risk as well as compliance with AML/CFT preventive measures.

138. Given the heightened volumes and cyber risks, payment service providers and banks are urged to deploy appropriate regulatory technologies (Regtech) to enhance compliance.

Interoperability

139. The direct transfers processed through mobile, internet, POS, and ATM platforms integrated into the national switch showed an upward trajectory in values and a mixed trend in volumes during 2022, as shown in Figure 28.

Figure 28: Retail Payment Systems Interoperability for 2022



Market Conduct and Consumer Protection

140. Digital financial services (DFS) have delivered substantial financial inclusion benefits and contributed immensely to economic growth and development. Among the positive impacts on consumers are improved transacting culture, convenience, and a useful management tool during natural disasters/pandemics such as COVID-19.

141. To increase consumer awareness of digital financial services, the Bank has partnered with the Post and Telecommunication Regulator Authority of Zimbabwe and the Consumer Council of Zimbabwe to conduct road shows across the country.

142. Financial services providers are encouraged to also put in place education and awareness programs that ensure the protection of consumer rights.

Licensing and New Initiatives

143. During the period under review, the Bank received fifty (50) applications from both financial institutions and other prospective payment system providers.

144. The applications are at various stages within the Bank's approval process system with twenty-four (24) product additives and enhancements approved for existing services, fifteen (15) provided with appropriate guidance, seven (7) products still work in progress whilst two (2) were rejected.

Pan African Payment and Settlement System ("PAPSS")

145. The Country signed up to the Pan African Payment and Settlement System (PAPSS) agreement in March 2022 to be part of a project which is being developed in collaboration with Afreximbank.

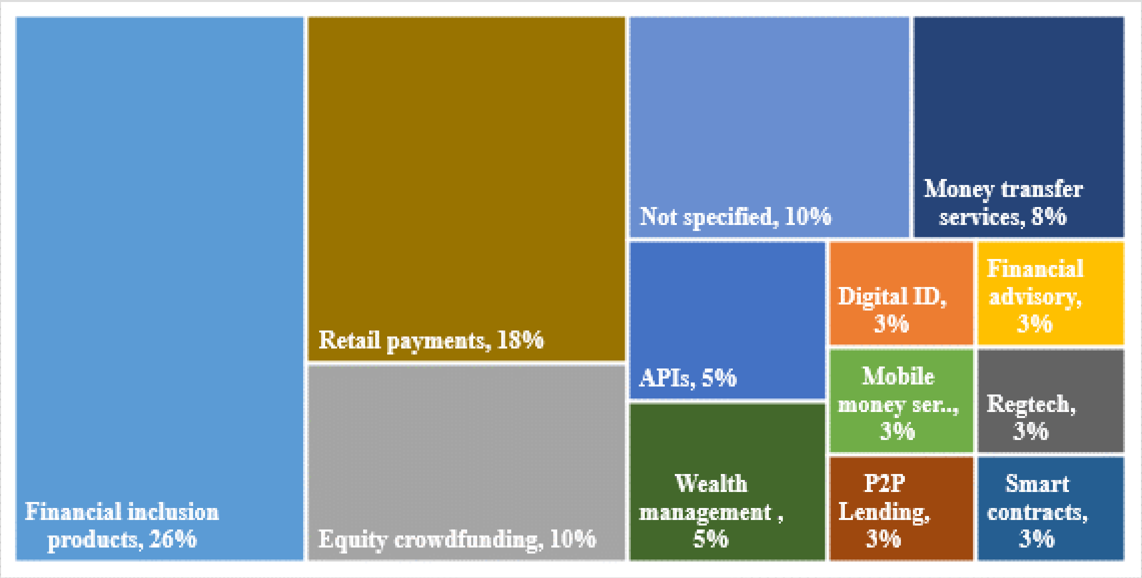
146. PAPSS is an interoperable cross-border financial market infrastructure enabling the integration of Africa's financial markets to stimulate, hasten and sustain the pace of regional integration, economic growth and development and financial inclusiveness in the continent.

147. As this is a payment system for cross-border transactions, banks will be advised of their role as they handle most of the payments.

FINTECH Regulatory Sandbox

148. As of 31 December 2022, a total of twenty-three (23) applications had been received for sandboxing while twenty (20) additional applications were at various stages of evaluation. The applications received in the Regulatory Sandbox were largely focused on financial inclusion products (26%), retail payments (18%) and equity crowdfunding (10%), as shown in Figure 29.

Figure 29: Distribution of Applications to Regulatory Sandbox as of 31 December 2022



SECTION FIVE

EXTERNAL SECTOR DEVELOPMENTS

Global and Regional Economic Developments

149. The IMF in its January 2023 world economic outlook update, projected global economic growth to moderate to 2.9 % in 2023 from 3.4% in 2022, weighed down by elevated inflation pressures, tightening global financial conditions associated with high interest rates, particularly in the US and some European economies as well as the negative spill-over effects from the Russia-Ukraine crisis. In addition, the persisting waves of the Covid-19 pandemic also continue to disrupt economic activity in some regions.

150. The global economy is projected to rebound to a 3.1% growth in 2024, supported by the reopening of Chinese economy which has paved the way for a faster global economic recovery. The IMF also projects global inflation to moderate from 8.8% in 2022 to 6.6% in 2023 and 4.3% in 2024. Table 10 shows the global and regional economic growth developments and outlook.

Table 10 Global and Regional Economic Growth & Outlook (%)

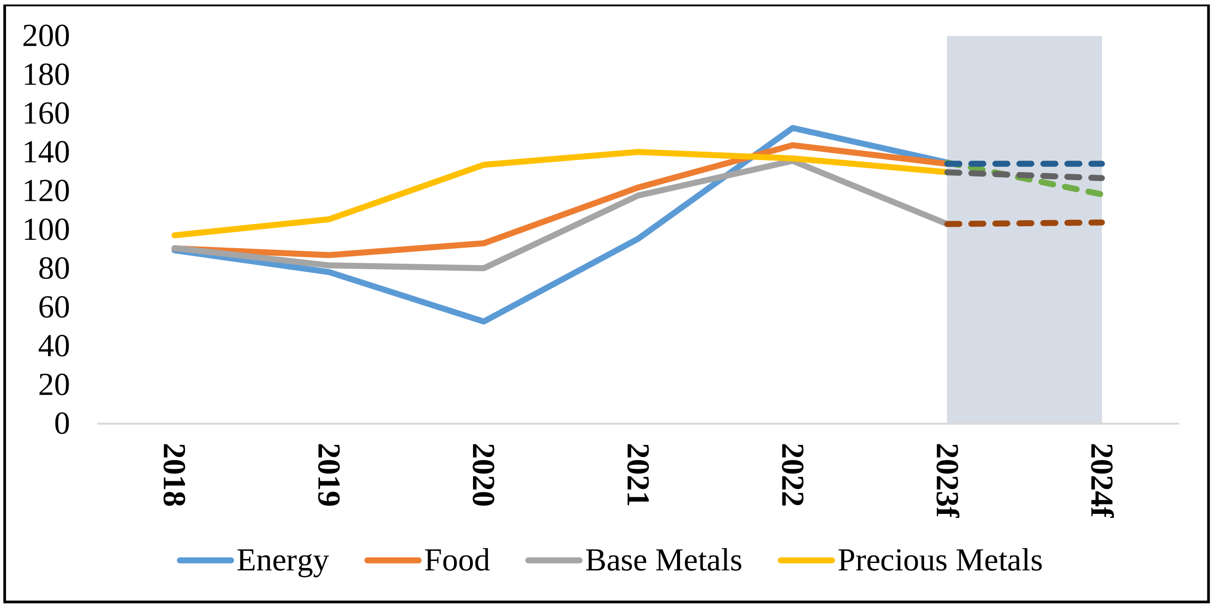
Region/Country	2021 Act.	2022 Proj.	2023 Proj.
World Output	**6.2**	**3.4**	**2.9**
Advanced Economies	5.4	2.7	**1.2**
USA	*5.9*	*2.0*	*1.4*
Euro-Area	*5.3*	*3.5*	*0.7*
United Kingdom	*7.6*	*4.1*	*-0.6*
Emerging Markets & Developing Economies	**6.7**	**3.9**	**4.0**
Emerging and Developing Asia	7.4	4.3	5.3
China	*8.4*	*3.0*	*5.2*
India	*8.7*	*6.8*	*6.1*
Emerging and Developing Europe	**6.9**	**0.7**	**1.5**
Russia	*4.7*	*-2.2*	*0.3*
Sub Saharan Africa	**4.7**	**3.8**	**3.8**
Nigeria	*3.6*	*3.0*	*3.2*
South Africa	*4.9*	*2.6*	*1.2*

Source: IMF World Economic Outlook (WEO): October 2022 Update

International Commodity Price Outlook

151. Reflecting the anticipated slowdown in the global economy, commodity prices are expected to continue moderating, a development that will weigh down on trade. Figure 30 shows developments in major commodity price indices for the year 2022 and the outlook.

Figure 30: International Commodity Price Indices Development and outlook: (Nominal US$ 2010=100)



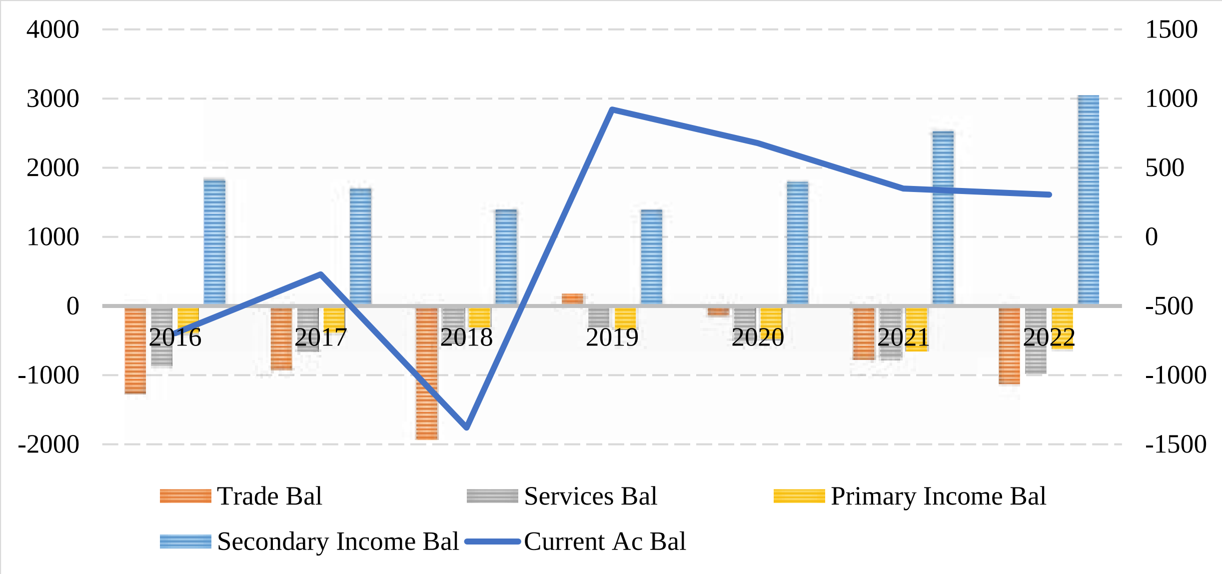
Source: World Bank and Bloomberg, 2022

Balance of Payments Developments

152. The country's external sector remained relatively strong as evidenced by a surplus current account balance estimated at US$305 million in 2022. This marks the fourth consecutive year of current account surplus since 2019. The sector benefited from resilient remittance inflows, coupled with strong export performance due to favourable commodity prices for key exports. The current account surplus is projected to gradually decline over the medium term, reflecting rising imports as the economy continues to recover and the adverse effects of the slowdown in the global economy.

153. The sustained current account surplus continues to be driven by strong remittances. The deficits in the goods, services, and primary income accounts were moderated by strong performance in the secondary account which records transfers to international organisations and individuals (remittances).

Figure 31: Current Account Developments (US$ millions)



Source: RBZ and Zimstat estimates

154. The positive balance of payment position was buttressed by robust performance in foreign currency receipts in the country which increased from US$9.86 billion in 2021 to US$11.57 billion in 2022, as shown in Table 11.

Table 11: Total Foreign Currency Receipts (US$ millions)

Type of Receipt		Year 2022 (*US$ Million*)		Year 2021 (*US$ Million*)		% Change
		Amount (US$ Millions)	% Contribution	Amount (US$ Millions)	% Contribution	
Export Proceeds		7,419.50	64%	6,371.30	65%	16.5%
International Remittances	Diaspora Remittances	1,658.36	14%	1,430.14	15%	16.0%
	NGOs	1,136.80	10%	975.16	10%	16.6%
Loan Proceeds		1,020.75	9%	876.06	9%	16.5%
Income receipts		145.45	1%	118.93	1%	22.3%
Foreign Investment		184.86	2%	91.14	1%	102.8%
TOTAL		**11,565.71**	**100%**	**9,862.73**	**100%**	**17.3%**

Exports Receipts

155. Cumulative export earnings or proceeds as at 31 December 2022 were US$7.42 billion compared to US$6.37 billion earned during the same period in 2021. This represents an increase of 16.5% in 2022. The mining sector export earnings accounted for 75.8% of the total export earnings in 2022, underlying the need for diversification and broadening of the export base. Table 12 shows export earnings/proceeds by sector as at 31 December 2022.

Table 12: Exports Earnings by Sector (US$ million)

Sector	31 Dec 2022	31 Dec 2021	% Change
Mining	5,627.50	5,011.50	12.3%
Platinum	*2,269.40*	*3,019.50*	*-24.8%*
Gold	*2,462.00*	*1,210.10*	*103.5%*
Chrome ore + Ferrochrome	*247.1*	*173.5*	*42.4%*
Diamonds	*112.8*	*244.7*	*-53.9%*
Other minerals	*536.2*	*363.7*	*47.4%*
Tobacco	968.1	575.5	68.2%
Tourism	263.6	112.7	133.9%
Manufacturing	203.1	175.8	15.5%
Transport	157.9	186.9	-15.5%
Agriculture (General)	144.6	169.1	-14.5%
Horticulture	42.1	40.1	5.0%
Postal & Telecommunications	10.1	27	-62.6%
General Services	2.5	72.7	-96.6%
Total	**7,419.5**	**6,371.3**	**16.5%**

156. Minerals underpinned merchandise exports performance in 2022, growing by 12.3%, from US$5,011 million in 2021 to US$5,627 million, on account of higher production coupled with favourable commodity prices for key commodities. Agricultural exports increased from US$784.7 million in 2021 to US$1,154.8 million in 2022, led by tobacco, following a good season.

Foreign Payments Performance

157. For the year 2022, banks processed foreign payments amounting to US$8.59 billion, representing a 23.1% increase in foreign payments from US$6.98 billion recorded for the same period in 2021. The major drivers of foreign payments are capital and intermediate goods, consistent with the increased capacity utilisation. Also of significance are foreign payments for fuel and

electricity, driven by increased global energy prices. Table 13 shows foreign payments by category for the same period in 2022 and 2021.

Table 13: Foreign Payments by Category in US$ Millions

Category	2022	2021	% Variance	Contribution 2022	Contribution 2021
Merchandise Imports (excl. energy)	4,528.60	4,083.66	11%	53%	59%
- Consumption & Manufactured Goods	1,271.58	1,707.30	-26%	15%	24%
- Capital Goods	1,878.25	1,472.16	28%	22%	21%
- Intermediate Goods	1,378.77	904.21	52%	16%	13%
Energy (Fuel & Electricity)	1,834.35	980.79	87%	21%	14%
- Fuel	1,674.98	855.35	96%	19%	12%
- Electricity	159.37	125.44	27%	2%	2%
Service Payments	888.05	639.76	39%	10%	9%
- Technical, Professional & consultancy	465.26	285.83	63%	5%	4%
- Software	108.15	74.85	44%	1%	1%
- Other (tourism, edu, freight etc)	314.64	279.08	13%	4%	4%
Income Payments (Profits, Dividends)	557.61	462.00	21%	6%	7%
- Dividends	427.78	328.43	30%	5%	5%
- Interest Payments	15.87	11.88	34%	0%	0%
- Other (Salaries, Expats, Rental)	113.95	121.69	-6%	1%	2%
Capital Remittances (Outward)	613.99	640.82	-4%	7%	9%
- External Loan Repayments	485.40	551.39	-12%	6%	8%
- Disinvestments	44.27	54.99	-19%	1%	1%
- Foreign Investment	84.32	34.44	145%	1%	0%
Other Payments	168.51	173.09	-3%	2%	2%
- Card Payments	142.88	135.32	6%	2%	2%
- Refunds	25.63	37.77	-32%	0.3%	0.5%
Total	8,591.12	6,980.12	23.1%	100%	100%

Services Trade

158. Trade in services recovered from the Covid-19 shock with travel, passengers transport and other key services trending up. Resultantly, services exports increased from US$215.7 million in 2021 to US$453.3 million in 2022. Services imports similarly rose from US$965.4 million in 2021 to US$1,436.8 million in 2022. Travel services picked up, following the relaxation of the Covid-19 containment measures with people now moving freely across borders. Freight services also increased in line with increasing merchandise exports and imports.

Remittances

159. As at 31 December 2022 total International Remittances amounted to US$2.80 billion, an increase of 16% from 2021's figure of US$2.40 billion. Of the total amount, diaspora remittances amounted to US$1.66 billion, a 16% increase from US$1.43 billion received during the same period in year 2021.

160. Of the total diaspora remittances, 40% come from South Africa followed by the United Kingdom (25%). Table 14 shows remittance by corridor.

Table 14: Diaspora Remittances by Source

COUNTRY	TOTAL PER SOURCE COUNTRY	% Contribution
South Africa	583,375,863	40%
United Kingdom	361,681,114	25%
United States of America	158,920,458	11%
Australia	89,869,266	6%
Botswana	39,561,360	3%
Canada	41,342,011	3%
Ireland	17,157,377	1%
Germany	11,556,748	1%
New Zealand	9,463,072	1%
Malawi	8,840,620	1%
Other Countries	141,335,373	10%
Total MTAs	**1,463,103,262**	**88%**
Banking Channel	**195,256,636**	**12%**
Total	**1,658,359,898**	**100%**

Capital and Financial Account Developments

161. The capital account balance was in positive territory during the first nine months of 2022, on the back of continued official capital transfers from the country's external development partners, in support of on-going and new government projects. The capital account also continued to benefit from the support rendered by the country's Development Partners. The support was spread on development programs and projects across various priority sectors of the economy.

162. Direct investment into the country increased from US$237.5 million in 2021 to US$327.9 million in 2022, mainly reflecting efforts by Government to

improve the investment climate through a raft of reforms. Significant expansions and new projects, particularly in the mining sector, also explain the improvement in direct investment inflows.

SECTION SIX

NEW MONETARY POLICY MEASURES

163. The Bank has been using reserve money targeting as its anchor for monetary policy since 2020, until June 2022, when reserve money-inflation-exchange rate relationships began to weaken. As a result of the breakdown in the direct link between reserve money and inflation, the Bank shifted towards using a combination of interest rate and exchange rate targeting as the policy nominal anchors. The adjustment of the policy interest rate and continued sterilisation interventions through the foreign exchange auction system and sale of gold coins have been the major contributing factors towards the current downward trend in inflation.

164. This two-pronged approach to dealing with inflation should continue to be supported by an efficient liquidity management of government finances given the latter's role and size (at 70%) in our domestic economy. Efficient liquidity management is critical to support the smooth execution of the government's budget even in times of fiscal consolidation or fiscal surplus, not least because most of the suppliers to government are not borrowed entities.

165. A stable exchange rate is critical in reducing the exchange rate pass-through onto domestic prices which is inherently high in dual currency economies. The Bank will thus focus on smoothening exchange rate shocks through regular foreign currency sales to banks from the surrender portion of foreign exchange receipts in the outlook period, taking advantage of the reduced foreign currency demand on the auction system from averages of about

US$45 million per week at its peak to current levels of below US$20 million per week.

166. The Bank will continue its tight monetary policy stance in sync with expected average inflation to sustain the current stability of inflation and exchange rates. The moderation in interest rates is important and necessitated by the downward trend in the month-on-month inflation since the last quarter of 2022, which saw monthly inflation falling from 12.4% in August 2022 to 2.4% in December 2022. The Bank expects the downward trend in inflation to continue into 2023 as evidenced by the 1.1% reduction in monthly inflation in January 2023.

167. In view of the above developments and monetary policy measures that were unanimously agreed on by the Monetary Policy Committee (MPC), the Bank outlines the following specific monetary measures:

i. Interest rates

168. Consistent with the current and expected inflation outturn, the Bank will, with effect from 1 February 2023, review the policy rates as follows:

i. Reducing the Bank policy rate from 200% per annum to 150% per annum;

ii. Reducing the lending rate on the Medium-term Bank Accommodation Facility for the productive sectors of the economy (including individuals and MSMEs) from 100% per annum to 75% per annum;

iii. Maintaining the prevailing Bank policy rates as the minimum lending rates for all banks;

iv. Adjusting the minimum deposit interest rates on savings and time deposits to 30% and 50% per annum, respectively; and

v. Maintaining the minimum deposit interest rate on savings and time FCA deposits at 1% and 2.5% per annum, respectively.

ii. Standardising statutory reserves

169. Statutory reserve requirements are an important part of the Bank's tight monetary policy stance as they impose liquidity buffers on financial institutions and increase the banking sector's resilience against systemic risks. In this regard, the Bank will, with effect from 1 February 2023, standardise statutory reserve requirements on domestic currency and foreign currency deposits as follows:

i. Foreign currency demand and call deposits, 10%;

ii. Foreign currency time and savings deposits, 5%;

iii. Domestic currency demand and call deposits, 10%; and

iv. Domestic currency time deposits, 5%.

170. The statutory reserve ratios will be reviewed by the MPC from time to time depending on the market liquidity conditions to keep credit expansion under check.

iii. Gold coins

171. The use of gold coins as an open market instrument for managing liquidity will continue as part of the Bank's sterilisation interventions to achieve a stable exchange rate. The Bank has no plans to withdraw the gold coins in the short and medium term until such a time when stability starts to create a high appetite for business and consumers to hold domestic currency-

denominated assets. As such, the issuance of both higher and smaller denominations of gold coins will continue as an open-market operation (OMO) instrument and investment instrument for value preservation.

iv. Further liberalisation of the foreign exchange market

172. The foreign currency auction system remains a critical part of the foreign currency market for the economy under the dual currency system and will continue to operate alongside the willing-buyer willing-seller (WBWS) market. The limit for the WBWS will remain at US$100,000 per entity in line with the Foreign Exchange Auction System limits for secondary users.

173. As part of its foreign currency liberalization process, the Bank will support the WBWS foreign currency trading system by availing foreign currency to banks and *Bureaux de Change* from the surrender portion of foreign exchange receipts. The foreign currency will be sold to banks and *Bureaux de Change* through auction on a wholesale basis. The WBWS and the auction system will, thus, continue to complement each other with the WBWS acting as the interbank exchange rate, while the auction system continues as a foreign currency re-distribution mechanism to gauge foreign currency demand in the economy. The interbank exchange rate will continue to be based on the WBWS with traders and bureaus de change allowed a +/- 10% margin from the interbank exchange rate in line with Government policy.

v. Increasing and standardising export retention

174. The foreign currency retention thresholds on exports and domestic FCAs are key to influencing export earnings and the build-up of foreign currency reserves for the country. The Bank always strives to set the thresholds at levels that strike a balance between the promotion of production of exports and export earnings, and the accumulation of foreign reserves.

175. Given these two objectives, export retention shall be increased and standardised at a level of 75% across all sectors of the economy, including firms listed on the Victoria Falls Stock Exchange (VFEX), with effect from 1 February 2023. Given this positive development, the incremental export incentive scheme is suspended for ease of administration.

vi. Increasing and standardising foreign exchange on domestic sales in foreign currency

176. With a view to further liberalising the foreign exchange market and reducing demand for foreign currency on the auction system and interbank market, the foreign exchange retention on domestic sales in foreign currency will be reviewed upwards to 85%, with effect from 1 February 2022.

177. This requirement shall apply to all foreign exchange deposits from domestic sales of goods and services, with the exception of deposits in respect of fuel sales, NGOs funds, free funds, and government funded projects and programmes.

vii. Export of foreign currency cash and gold coins

178. In order to align Zimbabwean policies with regional and best practice, the maximum amount of foreign currency cash and gold coins that may be taken out of Zimbabwe on person or in the baggage of a person who is leaving Zimbabwe has been reviewed from US$5,000 or its equivalent in any other currency or combination of currencies, to US$10,000 or its equivalent in any other currency or combination of currencies. The relevant statutory

instrument to repeal Section 2 (c) of Statutory Instrument 57 of 2022, will be gazetted in due course to give effect to this policy review.

viii. Export of local banknotes

179. The maximum amount of Zimbabwean currency notes and coins that may be taken out of Zimbabwe on person or in the baggage of a person leaving Zimbabwe has been reviewed from twenty thousand Zimbabwean dollars to an equivalent of one thousand United States dollars, at the prevailing interbank exchange rate. The relevant statutory instrument to repeal Section 2 (b) of Statutory Instrument 57 of 2022, will be gazetted in due course to give effect to this policy review.

ix. Export of demonetized and old banknotes

180. Demonetised bank notes are notes taken out of circulation by the Bank in accordance with Section 41(2) of the Reserve Bank Act [Chapter 22:15]. Since some old and demonetised banknotes may be valuable as collector items, the limit on export of old notes that may be taken out of Zimbabwe on person or in the baggage of a person leaving the country has been limited to not more than 100 pieces of each denomination.

x. Treatment of overdue export proceeds

181. In line with the provisions of the Exchange Control Act [Chapter 22:05], exporters are under a legal obligation to repatriate the foreign proceeds from exported goods and/or services. The non-repatriation or partial repatriation of export proceeds is a punishable offence and the Bank will impose or initiate various punitive measures against non-compliant or defaulting exporters.

182. In order to incentivise exporters with overdue export receipts to repatriate the export proceeds, exporters in this category shall, with immediate effect, be entitled to retain 50% of their export receipts and liquidate the balance into local currency at the prevailing WBWS exchange rate.

xi. Compliance with minimum capital requirements

183. The current minimum capital requirements for all categories of banking institutions and microfinance institutions will be maintained. Recognising that the non-compliant institutions are at various stages in implementing their recapitalisation initiatives, the Bank will extend the compliance deadline to 31 December 2023 to allow for the completion of the recapitalisation processes currently underway.

184. In this regard, no banking institution or microfinance institution whose core capital is non-compliant with the prescribed minimum capital requirements shall pay dividends to its shareholders unless it has taken adequate steps to comply with prudential requirements, including capital adequacy and has been granted approval by the Bank.

xii. Foreign currency exposure limits

185. The single currency and the overall foreign exchange risk exposure limits shall be maintained at 10% and 20% of net capital base, respectively. As prescribed in paragraphs 28 and 29 of the Third Schedule of the Banking Regulations S. I. 205 of 2000, reviews would be done on a case-by-case basis, depending on a bank’s specific requirements.

SECTION SEVEN

OUTLOOK AND FORWARD GUIDANCE ON INTEREST RATES

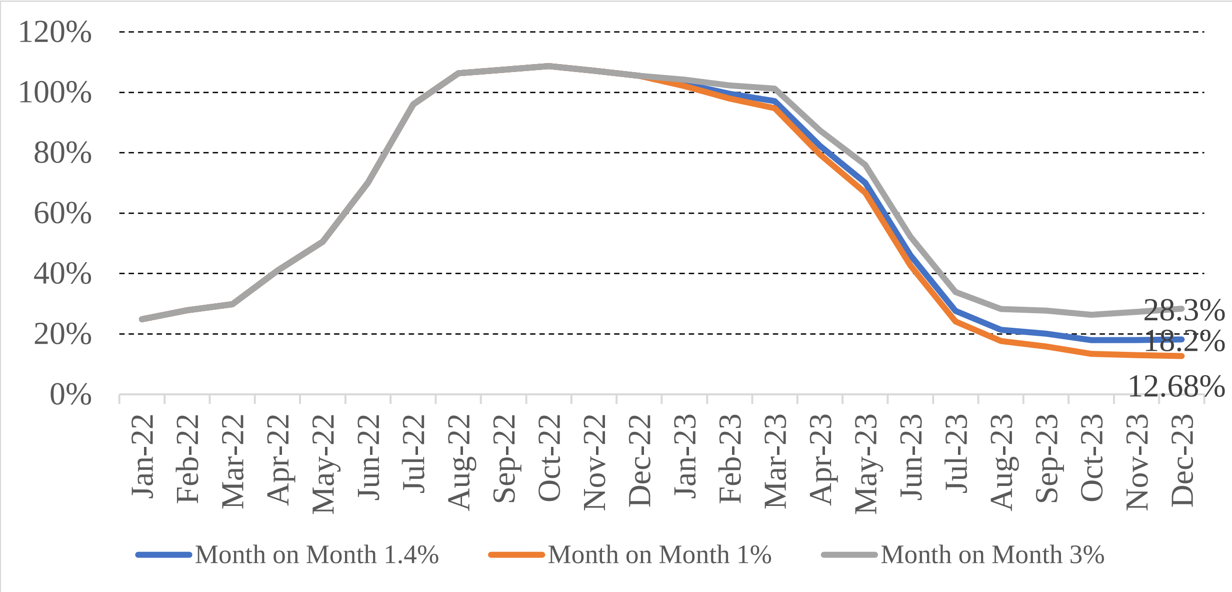
Inflation Outlook

186. The tight monetary policy stance implemented by the Bank since the second half of 2022 has anchored inflation expectations in the economy. As such, despite the heightened risks of global inflation in the outlook period, the policy scenario envisages low domestic inflation pressures with average blended month-on-month inflation of below 1.5% in 2023. In line with stable monthly blended inflation, annual inflation is expected to progressively decline to close the year in the range of 10-30%.

187. The blended inflation is the most appropriate inflation for the Zimbabwean economy in view of the increased use of foreign currency in domestic transactions within the economy and the high levels of foreign exchange deposits and loans in the banking sector of around 65%. Therefore, and as was unanimously agreed by MPC, it is essential and logical that the blended rate of inflation should be the reference rate of inflation in Zimbabwe. It is paramount that ZimStat should consider publishing the blended rate of inflation and the USD inflation rate in Zimbabwe for better policy guidance in the economy.

188. Figure 32 shows the forecast inflation path for 2023 considering alternative scenarios on month-on-month inflation outturns.

Figure 32: Blended Inflation Outlook Under Alternative Scenarios of Month-on-Month Inflations Outturns



Source: RBZ

189. The declining annual inflation projection path for 2023 is underpinned by the following broad assumptions:

a) Continued tight monetary policy stance, with interest rates aligned to the expected inflation path;
b) Strong fiscal stance including insistence on value for money in all government contracts and procurement systems;
c) Strong coordination between fiscal and monetary authorities on liquidity management;
d) Continued use of the dual currency system; and
e) Normal to above normal rainfall which will dampen food prices.

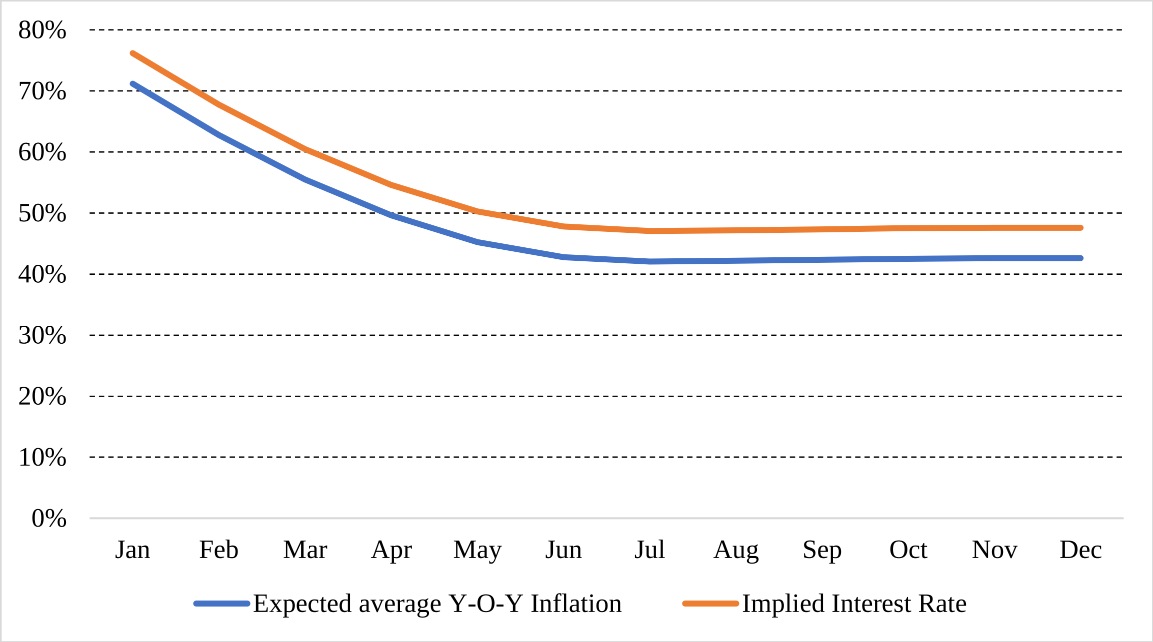
Forward Guidance on Interest Rates

190. Consistent with the expected downward trend in inflation since the last quarter of 2022, the Bank through the MPC will periodically review the

Bank policy rates in sync with the expected inflation profile. The interest rates on local currency deposits and loans will be guided by the implied expected average annual inflation on the domestic currency.

191. Taking into consideration the implied month-on-month ZWL inflation for 2023, interest rates on local currency borrowings would fall between 40-60% by the end December 2023, as shown in Figure 33.

Figure 33:Implied Interest Rate Path January-December 2023



192. The envisaged inflation and interest rate profile will support a stable exchange rate path which is expected to move in line with monthly inflation differentials between Zimbabwe and its trading partners.

SECTION EIGHT

CONCLUSION

193. The Bank expects the domestic economic outlook to remain positive notwithstanding uncertainties around the global economic outlook. Against this backdrop, the Bank shall remain committed to staying on course of a tight monetary policy stance aligned to the inflation path to balance the need to protect price stability and the country's growth potential. In this context, the policy measures in this Statement are expected to support and sustain the current macroeconomic stability and economic resilience to global and domestic shocks.

194. Going forward, the Bank and the MPC will remain resolute and alert to global and domestic headwinds to proactively deal with any emerging domestic inflation pressures in the near and medium term to ensure that the current stability is sustained.

195. I, therefore, call upon all stakeholders to continue observing good business ethics and pricing models to complement the Bank's efforts to sustain price and financial system stability which is critical for sustained and inclusive economic growth and development.

I THANK YOU

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