RESERVE BANK OF ZIMBABWE

MID-TERM MONETARY POLICY STATEMENT

STAYING THE COURSE TO PRICE STABILITY

By

JOHN PANONETSA MANGUDYA

GOVERNOR

9 AUGUST 2023

TABLE OF CONTENTS

TABLE OF FIGURES

LIST OF TABLES

SECTION ONE: INTRODUCTION AND BACKGROUND

1. This Mid-Term Monetary Policy Review Statement (the Statement) is issued at a time when the economy is on the right track toward sustained price and exchange rate stability. The measures in this Statement are, therefore, primarily aimed at ensuring that the country stays on course or continues to hold on to the right path of the progress that it has attained on the price and financial stability fronts. Precisely, the Statement, which is issued in terms of Section 46 of the Reserve Bank Act [Chapter 22:15], will evaluate the monetary policy stance and policies pursued by the Bank in the past six months ended 30 June 2023 and outline the monetary policy stance to be pursued by the Bank in the next six months.

2. The country experienced significant exchange rate depreciation between April and June 2023 driven by both demand and supply factors, which exerted significant pass-through to inflation. The demand factors mainly reflected elevated demand for foreign currency for store-of-value purposes. The effect of the high demand for foreign currency on the economy was coupled with the sudden decline in the demand for local currency due to speculative behaviour, including exchange rate indexation at excessively undervalued or over-depreciated exchange rates. In addition, supply factors emanating from a transitory decline in foreign currency receipts on account of declining export commodity prices such as the Platinum Group of Metals (PGMs). The adverse supply trends have, however, since reversed.

3. The bold policy intervention measures instituted by the Government and Bank for tackling the transitory price and exchange rate volatility have gone a long way in arresting the instabilities and bringing the much-needed normalcy in the price and exchange rate dynamics and calmness in domestic markets. This normalcy will be critical to anchor the robust economic growth projected at 5.3% in 2023, supported by a good performance by the agriculture and mining sectors, recovery in tourism and expected improvements in electricity generation in the second half of the year.

4. The country's macroeconomic fundamentals have remained strong to support and sustain the current price and exchange rate stability as attested by the continued favourable balance of payments, low growth in money supply, and a safe and sound banking sector. Precisely, the country's balance of payments current account has been in a surplus position since 2019 and is projected to close the year 2023 with a surplus of US$274.5 million. On the monetary front, money supply growth has been under control as evidenced by the slow growth in local currency lending since January 2023.

5. Similarly, the financial sector has remained safe and sound with adequately capitalised institutions that can underwrite lending to support the growth trajectory. The strong monetary and financial position has been corroborated by sustained fiscal stability where the Government continues to manage its fiscal position within internationally acceptable ranges of fiscal deficits of below 3%.

6. The strong macroeconomic fundamentals obtaining in the economy suggest that the exchange rate instability witnessed between May and June 2023 was not a result of monetary factors but a reflection of adverse behavioural factors and insatiable demand for foreign currency by economic agents. The measures instituted by the Bank, which include further liberalisation of the exchange rate, tighter monetary policy and the introduction of gold coins and gold-backed digital tokens are bearing fruit as evidenced by the current firming and relatively stable exchange rate dynamics.

7. The ongoing intervention in the foreign exchange market through the wholesale auction system is exerting a dual effect of mopping up excess liquidity and re-establishing the optimal mix of the dual currencies, thus sustaining the current exchange rate and price stability. As a result of the adroit policy measures, the country witnessed a significant correction in the exchange rate which had overshot

its equilibrium. The correction in the exchange rate has led to a concomitant correction in prices.

8. As a result, the steep increase in month-on-month inflation from 15.7% in May to 74.5% in June 2023, significantly reversed in July 2023 to minus 15.3%. Similarly, the annual inflation which had risen from 86.5% in May 2023 to 175.8% in June 2023, fell to 101.3% in July 2023.

9. The Bank remains confident that the continued sale of gold coins and gold-backed digital tokens will sustainably take away steam from the store-of-value demand for local currency during the short to medium term, with positive spinoffs on the substance of the obtaining price and exchange rate stability. Furthermore, the Bank's strategic resolve for continued monetary prudence will add further impetus to the positive prospects of the local currency over the medium term. In addition, the ongoing monitoring and surveillance by the Financial Intelligence Unit (FIU) will effectively minimise incidences of exchange rate manipulation and abnormal pricing practices.

10. The rest of the Statement is organised as follows: Section two assesses the effectiveness of previous monetary policy measures; Section three highlights the recent economic developments; Section four provides financial sector developments, Section five covers Balance of Payments developments and outlook, Section six provides the new monetary policy stance for the next six months, Section seven outlines the economic and inflation outlook and lastly Section eight concludes the Statement.

SECTION TWO: ASSESSMENT OF PREVIOUS MONETARY POLICY

11. The Monetary Policy measures announced in February 2023 have gone a long way to foster stability in the economy as reflected by the sustained decline in annual inflation from 101.5% in January to 75.2% in April 2023. The economy, however, saw a re-emergence of inflationary pressures in the economy during the second quarter of 2023, mainly driven by exchange rate depreciation. The exchange rate depreciated on account of a temporal foreign currency shortages as commodity prices declined, while the demand for foreign currency for store-of-value purposes increased.

12. In view of the above, a combination of supply and demand management policy measures instituted by Government and the Bank, coupled with market discipline measures instituted by the FIU were critical to stabilise the market and foster confidence in the economy.

Money Market Liquidity

13. The tight monetary policy stance adopted by the Bank was maintained throughout the first half of 2023. The Bank continued to mop up excess liquidity from the market through the issuance of Non-Negotiable Certificates of Deposit (NNCDs). In this regard, the outstanding NNCDs as of 14 July 2023 amounted to ZW$163.5 billion.

Lender of Last Resort Facility

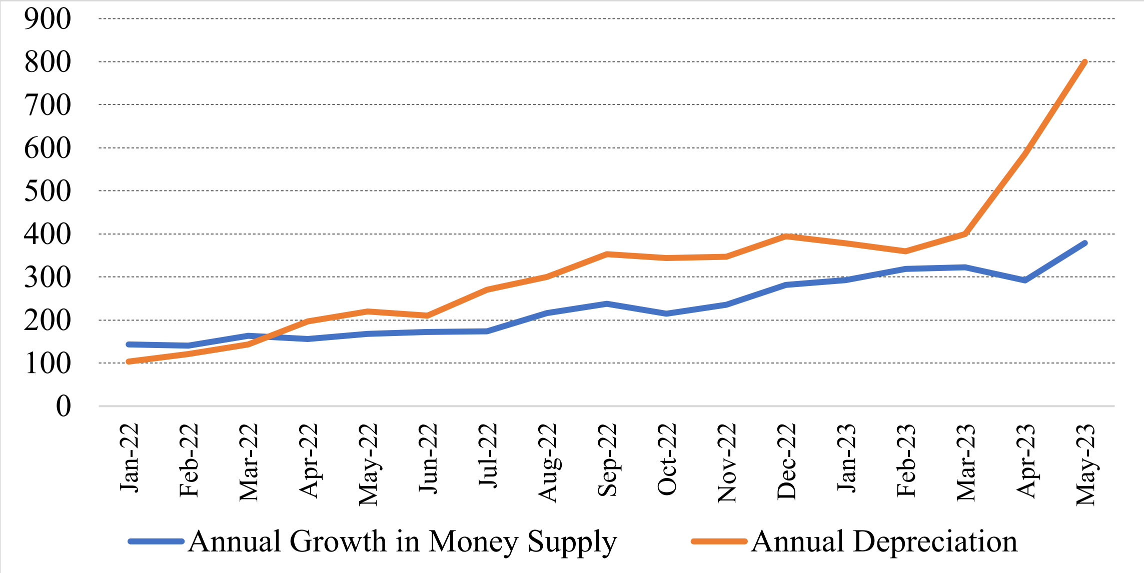
14. The month of June 2023 saw significant depreciation of the exchange rate which coincided with the second Quarterly Payment Date (QPD) for corporate taxes. Significant liquidity was withdrawn from the market through the QPD and most banks saw their liquidity levels dwindling resulting in three banks approaching the Bank for support through the lender of last resort (LOLR) facility. The outstanding amount under the LOLR facility was ZW$32.5 billion as of 14 July 2023.

Bank Policy Rates

15. The Bank policy rate which had been pegged at 150% per annum since February 2023, was reviewed downwards by the Monetary Policy Committee (MPC) to 140% effective 1st April 2023, in line with the downward trend in annual inflation. However, the re-emergence of exchange rate volatility witnessed from mid-April 2023, reversed the downward inflation trajectory thus compelling the MPC to review the Bank policy rate upwards, from 140% to the current level of 150% per annum.

16. The increase in the policy rate was moderate as the Bank noted that exchange rate depreciation and inflation pressures were not emanating from increased money supply due to borrowing for speculative purposes. As shown in Figure 1, the exchange rate depreciation witnessed in May 2023 was de-linked from developments in the money-supply growth nexus.

Figure 1:Annual M3 Growth (ZWL Component) Vs ZWL Depreciation (%)



Medium-Term Bank Accommodation Facility (MBA)

17. The MBA which was introduced in 2019 has immensely supported the productive sectors of the economy. The outstanding balance as of 14 July 2023 was ZW$36.5 billion. The MBA rate has been adjusted in tandem with the benchmark Bank policy rate in response to inflation developments. As such, the lending rate for MBA Facility for the productive sectors, including individuals and MSMEs is currently at 75% while the Bank policy rate is at 150% after the upward adjustments of interest rates on 6 June 2023 following the resurgence of inflation pressures in the economy.

18. The continued alignment of the MBA rate with the policy rate is important to curb arbitrage borrowing opportunities from the window. The Bank continues to monitor the MBA window to ensure that it is not used for speculative purposes.

Micro, Small, and Medium Enterprises (MSMEs) Facility

19. To avert the collapse of the MSME sector, which was adversely affected by the Covid-19 pandemic, the Bank introduced the MSME facility. This intervention,

which is availed to the MSME sector through banks is offered at 75%. The outstanding amount under this facility was ZW$2.1 billion as at 14 July 2023.

Deposit Interest Rates

20. Consistent with the expected inflation profile, savings and time deposit rates in local currency was reduced from 40% and 80% per annum to 30% and 50%, respectively on 1 February 2023. The Bank maintained the minimum deposit rates on savings and time deposits at 30% and 50% per annum, respectively since 1 February 2023. This is critical to support the savings culture in the country.

Statutory Reserves

21. The Monetary Policy Committee (MPC) reviewed upwards the statutory reserve requirements on local currency deposits, with effect from 7 June 2023. Statutory reserve requirements for local currency demand and call deposits were increased from 10% to 15%, while savings and time deposits were maintained at 5%. The statutory reserve balances increased from ZW$109 billion on 1 June 2023 to ZW$197.28 billion as of 14 July 2023 partly due to the policy change as well as the increase in the local currency deposit base, emanating from FX purchases.

22. Foreign currency statutory reserve requirements for demand and call deposits were maintained at 10%, while savings and time deposits were maintained at 5%. Reflecting increased deposits in foreign currency accounts, foreign currency statutory reserve balances increased from US$70.34 million on 6 June 2023 to US$158.82 million as of 14 July 2023.

Gold Coins and Gold-Backed Digital Tokens

23. The gold coins, which were introduced as an alternative store of value, continued to be a critical monetary policy instrument, mopping up over ZW$35 billion from a total of 36,059 coins as of 14 July 2023. The first maturity after the 180 days vesting period was 25 January 2023 and only 769 gold coins (2% of the total sold) have been redeemed so far, bearing testimony that it is indeed considered a store-of-value.

24. To complement the sale of physical gold coins and expand the value-preserving instruments available in the economy, enhance the divisibility of the investment instruments and widen their access and usage by the public, the Bank introduced Gold-Backed Digital Tokens (GBDT) on 12 May 2023. The GBDT is fully backed by physical gold held by the Bank.

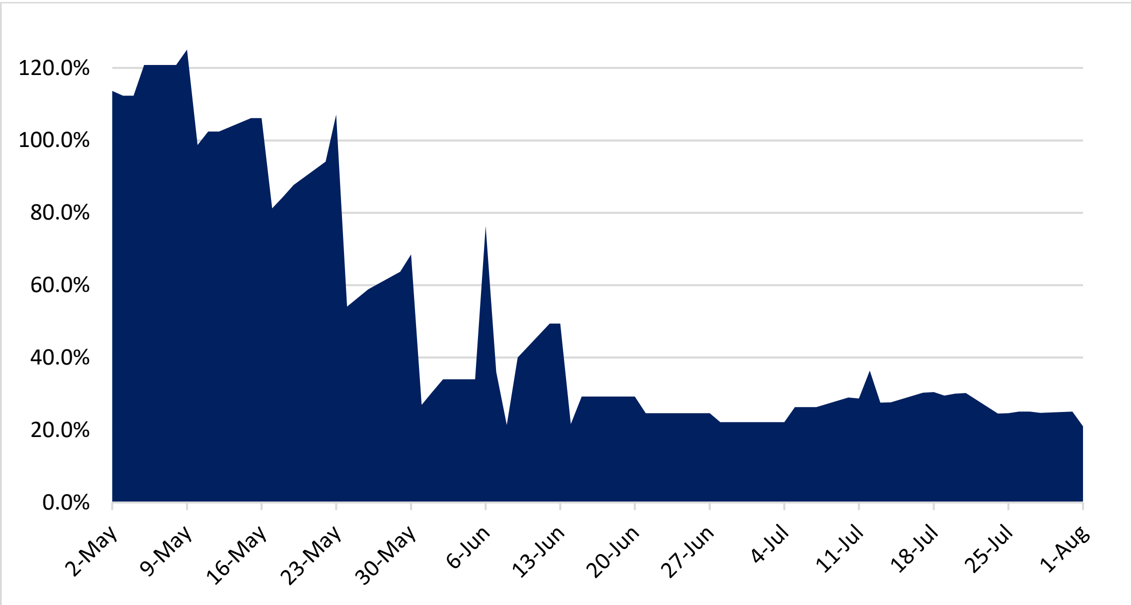
25. As at 21 July 2023, the Bank had conducted 11 issuances of GBDT, receiving a total of 590 applications to purchase tokens valued at ZW$50.50 billion and US$7,794.87. The Bank, therefore, issued 325,024,524 milligrams equivalent to 325.02 kgs of gold.

Foreign Exchange Market

26. The Bank continued to enhance the efficiency and operations of the foreign exchange market by strengthening the Willing-Buyer Willing-Seller trading arrangement. The introduction of the wholesale foreign exchange auction to address the supply side in the interbank foreign exchange market on the back of the recent liberalization of the exchange rate has seen the parallel market exchange rate premium declining significantly from more than 100% during May 2023 to below 20% and this is expected to narrow further as the parallel market exchange rate appreciates.

27. These interventions in the foreign exchange market supported by tight monetary policy, have resulted in the elimination of foreign exchange distortions and arbitrage opportunities in the economy. The local currency has as a result begun appreciating against the US dollar since mid-June 2023, as the market corrects towards the market clearing equilibrium. The ZW$/US$ exchange rate gained from ZW$6,926.58 as at 21 June 2023 to ZW$4,771.38 as at 19 July 2023. Figure 2 shows developments in the foreign exchange market for the period from September 2021 to July 2023.

Figure 2:Exchange Rate Premium (%) Official versus Parallel Market Exchange rate May 2023 to Aug 2023



Source: RBZ and Market Intelligence Surveys, 2023

28. In the short term, the Bank will continue implementing tight monetary policy measures to ensure the parallel market premiums remain at acceptable international levels of less than 20%.

Foreign Currency Auction

29. During the first seven months of 2023, the Bank allotted a total of US$382.93 million through the Retail Auction System, representing 69.45% of total bids submitted. Since inception of the Auction System in June 2020, a total of US$4.09 billion has been allotted, representing 85% of the total bids submitted.

Table 1: Foreign Exchange Auctions Data as of 21 July 2023

Date	US$ Total Bids	US$ Allotted	Share of Allotted
2020 total	**645,295,466.94**	**624,933,976.75**	**96.80%**
2021 total	**2,031,648,018.52**	**1,971,446,836.20**	**97.00%**
2022 total	**1,220,873,179.99**	**1,114,154,170.50**	**91.30%**
Jan-23	82,345,695.49	57,686,081.37	70.10%
Feb-23	82,352,443.87	76,616,769.35	93.00%
Mar-23	77,699,985.11	76,714,051.24	98.70%
Apr-23	85,184,767.82	81,185,667.39	95.30%
May-23	186,235,738.62	79,280,528.30	42.60%
Jun-23	35,809,997.09	9,865,704.61	27.60%
Jul-23	1,743,257.84	1,583,532.52	91%
Total 2023	**551,371,885.84**	**382,932,334.78**	**69.45%**
Grand Total	**4,449,188,551.29**	**4,093,467,318.23**	**92.00%**

30. With effect from 13 June 2023, the Main and SME Auctions were merged into one Retail Auction with a maximum amount of US$5 million per week. The minimum bid for the Retail Auction is US$1,500 and the maximum is US$50,000.

Wholesale Foreign Currency Auction

31. On 7 June 2023, the Bank further liberalised the foreign exchange market and introduced the Wholesale Foreign Exchange Auction in a bid to strengthen the interbank foreign exchange market under the Willing-Buyer Willing-Seller (WBWS) arrangement. Under this arrangement, the Bank auctions foreign exchange to Authorised Dealers at market-determined exchange rates for them to onward sell to their customers.

32. Since inception, the Bank has held 12 wholesale auctions, with banks submitting bids of around 32% of the amount on offer, largely due to the tight local currency liquidity conditions prevailing in the market.

Table 2: Wholesale FX Auction Results - 20 July 2023

Date	Bids	Weighted Auction Rate (AR)	US$ Total Bids	US$ Allotted	Share of Allotted
7-Jun-23	19	4,868.52	12,993,000.00	11,080,000.00	85.28%
13-Jun-23	17	5,978.68	16,437,460.00	15,137,460.00	92.09%
16-Jun-23	14	6,713.35	10,635,904.00	6,990,750.00	65.73%
20-Jun-23	12	6,926.58	10,614,000.00	10,614,000.00	100.00%
27-Jun-23	12	6,326.59	13,107,000.00	13,107,000.00	100.00%
29-Jun-23	8	5,739.80	3,592,000.00	2,940,000.00	81.85%
4-Jul-23	11	5,395.96	4,327,000.00	3,727,000.00	86.13%
6-Jul-23	10	5,251.06	4,460,100.00	4,460,100.00	100.00%
11-Jul-23	10	4,998.84	5,830,000.00	5,640,000.00	96.74%
14-Jul-23	10	4,883.82	5,295,000.00	4,845,000.00	91.50%
18-Jul-23	15	4,771.39	11,597,990.00	11,597,990.00	100.00%
20-Jul-23	11	4,537.49	6,383,500.00	5,705,700.00	89%
Total	**149**		**105,272,954.00**	**95,845,000.00**	**91%**

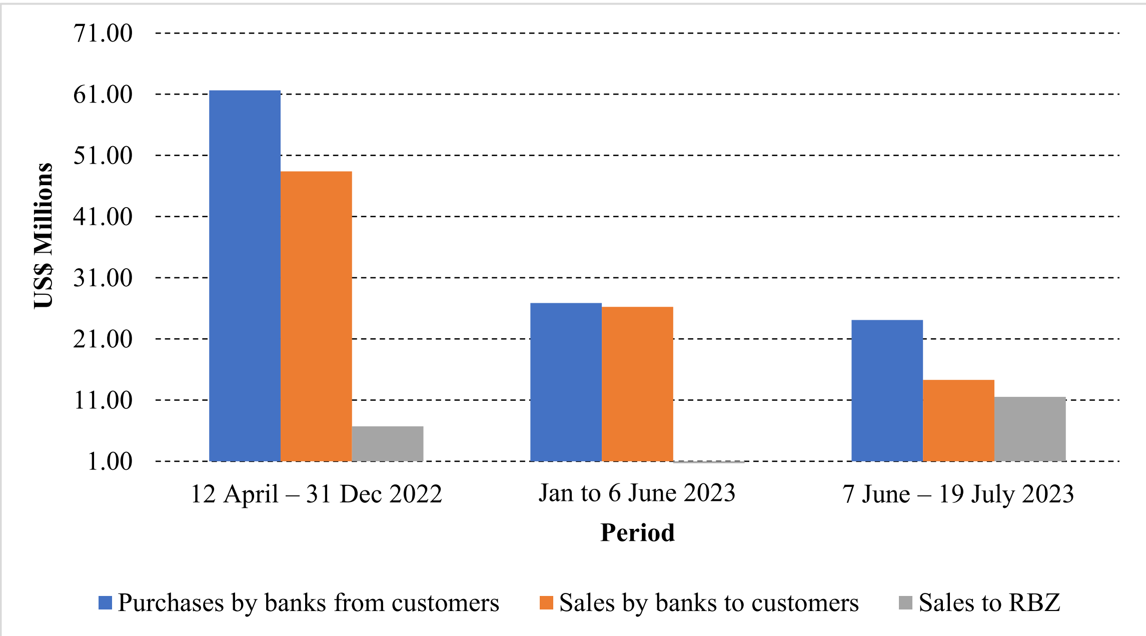
33. The Bank has allotted US$95.85 million under the Wholesale Foreign Exchange Auction, representing 91% of the total bids submitted. On average 12 bids were received per auction, with bids that were way below the market rates, not allotted as they presented arbitrage threats.

34. The Wholesale Foreign Exchange Auction System has strengthened the interbank foreign exchange market under the Willing-Buyer Willing-Seller (WBWS) and remained central to the determination of the market exchange rate.

Willing-Buyer Willing-Seller Market

35. To complement the Wholesale Foreign Exchange Auction, banks have also been buying foreign currency from the market for trading on the Interbank Foreign Exchange Market. Cumulative purchases and sales on the Willing-buyer Willing-seller market in 2023 were US$112.57 million and US$107.19 million, respectively.

Figure 3: Interbank Market Activity



Bureaux de Change

36. As from 2 January 2023 to 30 June 2023 a cumulative total of US$10.5 million was traded through the Bureaux de Change, as shown in Table 3.

Table 3: Trading by Bureaux De Change: 02 Jan to 30 June 2023

DESCRIPTION	AMOUNT (US$)	% CONTRIBUTION
PERSONAL TRAVEL ALLOWANCE	4,613,812	44%
DOMESTIC UTILIZATION	4,450,844	43%
EDUCATION	490,538	5%
BUSINESS TRAVEL ALLOWANCE	385,301	4%
INVENTORY	208,530	2%
SOCIAL WELFARE	109,521	1%
SUBSCRIPTIONS	77,995	1%
SPARES & MACHINERY	38,347	0%
MEDICAL	31,229	0%
AIR FARES	14,563	0%
RAW MATERIALS	19,116	0%
SOFTWARES	15,914	0%
OTHER	2,930	0%
PENSION	220	0%
TOTAL	**10,458,860.84**	**100%**

Foreign Currency Receipts

37. The positive trajectory in foreign currency receipts continued during the first half of 2023, with total receipts increasing by 3.5% to US$ 5.595 billion compared to US$ 5.405 billion during the comparable period in 2022. The increase in foreign currency receipts was driven by exports (55%) and diaspora remittances (16%), as shown in Table 4.

Table 4: Total Foreign Currency Receipts as at 30 June 2023 (US$ Millions)

Type of Receipt		2023		2022		% Change
		Amount (US$ Millions)	% Contribution	Amount (US$ Millions)	% Contribution	
Export Proceeds		3,055	55%	3,420	63%	-10.7%
International Remittances	Diaspora Remittances	919	16%	797	15%	15.3%
	NGOs	514	9%	575	11%	-10.5%
Loan Proceeds		919	16%	428	8%	114.6%
Income receipts		63	1%	82	2%	-23.7%
Foreign Investment		127	2%	104	2%	22.1%
TOTAL		**5,596**	**100%**	**5,406**	**100%**	**3.5%**

Source: RBZ 2023

SECTION THREE: RECENT ECONOMIC AND INFLATION DEVELOPMENTS

38. Reflecting waning global economic growth prospects, the IMF's World Economic Outlook July 2023 is now forecasting a GDP decline from 3.5 % in 2022 to 3.0 % in 2023. The decline would be mainly driven by advanced economies whose growth is expected to fall from 2.7 % in 2022 to 1.5 percent in 2023. Global headline inflation is, however, expected to start to moderate from 8.7% in 2022 to 6.8% in 2023, benefiting from lower commodity prices, particularly oil.

39. Despite the recent volatility in the exchange rate, the domestic economic prospects remain robust with economic growth projected at 5.3% in 2023, up from the initial forecast of 3.8%. This growth is on account of better performance by agriculture, mining, ICT and tourism, supported by expected improvements in electricity generation in the second half of the year.

40. The strong growth in the agricultural sector is driven mainly by projected growth in maize, tobacco, wheat, and cotton. Maize output is expected to be more than 2 million tonnes in 2023, up from 1.5 million tonnes in 2022. Tobacco output reached a record high of 295 million kilograms in 2023.

41. The mining sector also continues to support growth, benefiting largely from ongoing investments in lithium production, following a rise in global demand for the manufacture of batteries for electrical vehicles.

42. Gold deliveries that had been affected by incessant rains, particularly for small-scale and artisanal miners, during the beginning of the year have shown significant improvement. Cumulative gold deliveries stood at 14 181 kg by June 2023, as shown in Table 5.

Table 5: Gold Deliveries for 2023

	Jan	Feb	Mar	Apr	May	Jun	Total
Primary Producers (Kg)	935	756	823	903	1,070	1,033	**5,520**
Small Scale Producers (Kg)	961	1,139	1,579	1,473	1,806	1,702	**8,661**
Total (Kg)	**1,896**	**1,895**	**2,403**	**2,377**	**2,876**	**2,735**	**14,181**
Average price (USD/Oz)	1,899	1,855	1,913	1,974	1,993	1,944	1,910

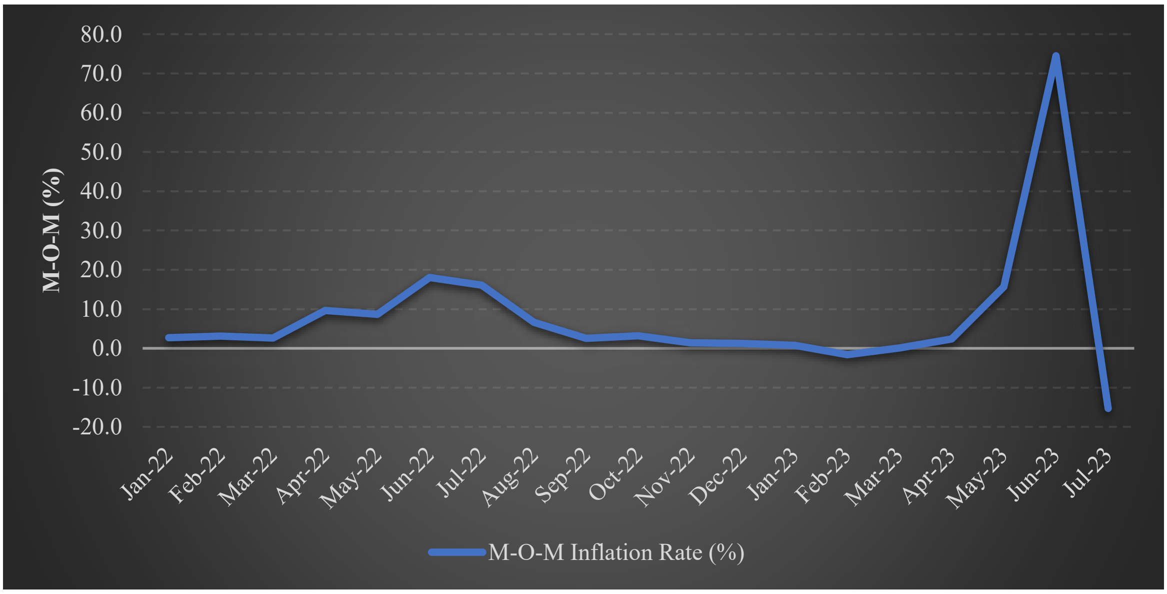
Source: Fidelity Gold Refineries, 2023

INFLATION DEVELOPMENTS

43. Inflation maintained a downward trend declining from 101.5% in December 2022 to 75.2% in April 2023, on account of tight monetary conditions. Inflationary pressures, however, re-emerged from April to June 2023, driven mainly by exchange rate depreciation. Accordingly, inflation increased to 86.5% and 175.8% in May and June 2023. Similarly, monthly inflation which was stable since the beginning of the year rose in May to 15.7% and peaked at 74.5% in June 2023.

44. Inflationary pressures, however, dissipated following the recent bold measures put in place by Government and the Bank, which included the liberalisation of the exchange rate supported by the takeover of the Bank's external liabilities and the requirement for duties and taxes to be paid in local currency which increased the demand for the local currency. As a result of the appreciating exchange rate, monthly inflation declined from the peak of 74.5% in June 2023 to minus 15.3% in July 2023 as shown in Figure 4.

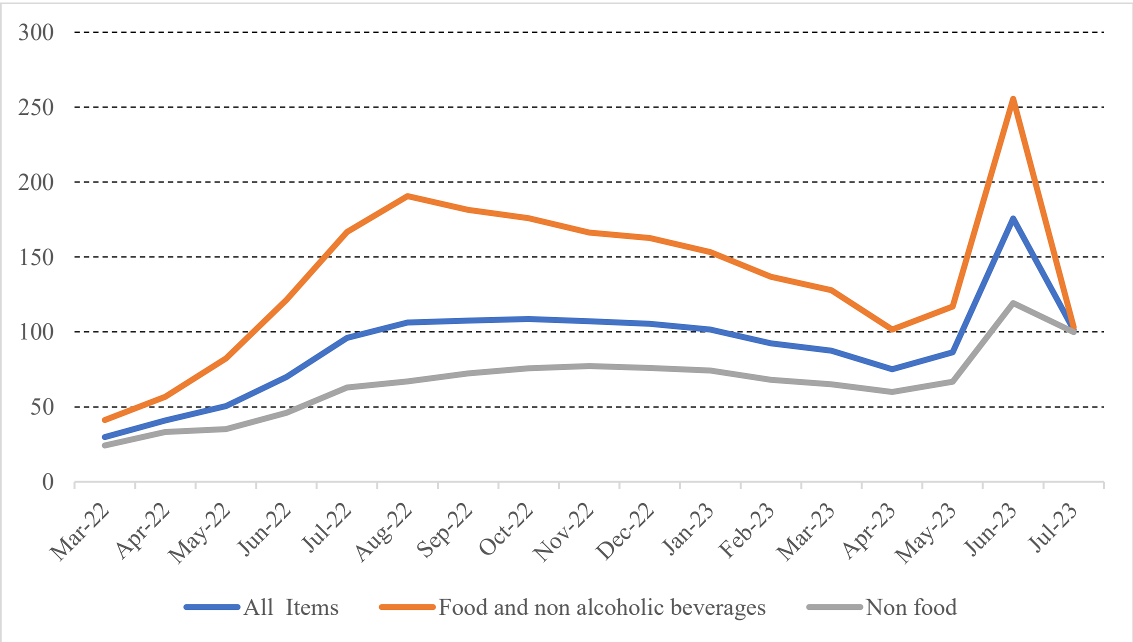
Figure 4: Monthly Inflation Developments (%)



Source: ZIMSTAT, 2023

45. Similarly, annual inflation which rose sharply in June 2023 to 175.8% reversed sharply to 101.3% in July 2023 and is expected to progressively decline in the near term as the measures took full effect.

Figure 5: Annual Inflation Developments



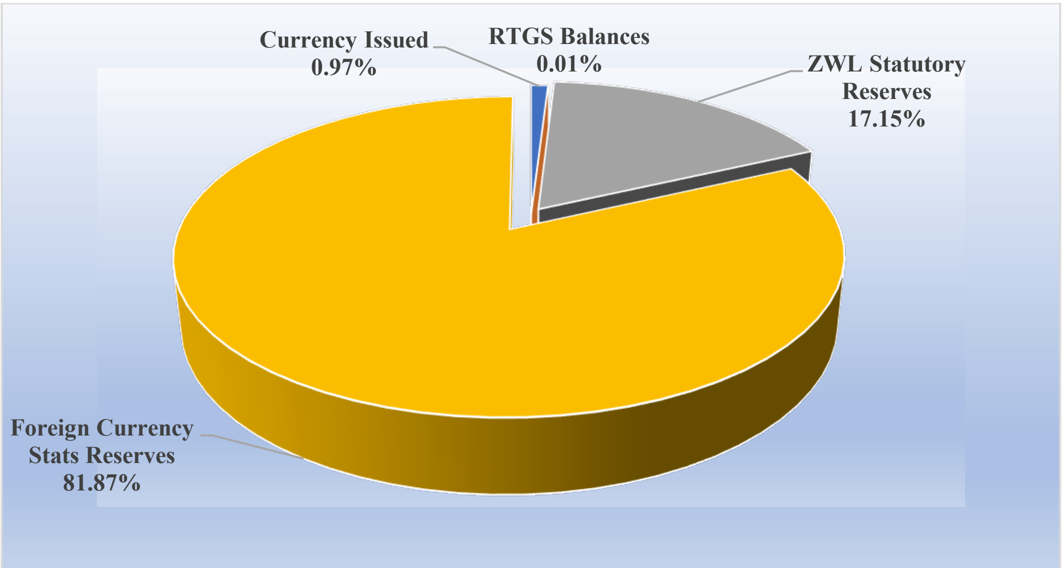
Source: ZIMSTAT, 2023

RESERVE MONEY DEVELOPMENTS

46. Reserve money stock stood at ZW$1 064.89 billion in June 2023, compared to ZW$104.04 billion recorded in December 2022. The increase was largely due to real growth in foreign currency statutory reserves as well as valuation changes associated with exchange rate depreciation. Of the 923.51% growth in reserve money for the period December 2022 to June 2023, 764.06% was attributed to valuation changes. The inter-bank exchange rate moved from ZW$684.3339 per US$1 as at the end of December 2022 to ZW$5 739.80 per US$1 as at the end of June 2023.

47. In US dollar terms, the value of foreign currency-denominated statutory reserves increased from US$66.19 million in December 2022 to US$157.25 million in June 2023. The local currency statutory reserves increased from ZW$58.75 billion in December 2022 to ZW$182.61 billion in June 2023. As a result, total statutory reserves (local and foreign currency components), constituted 99.02% of total reserve money, as shown in Figure 6.

Figure 6: Components of Reserve money as at the of end June 2023



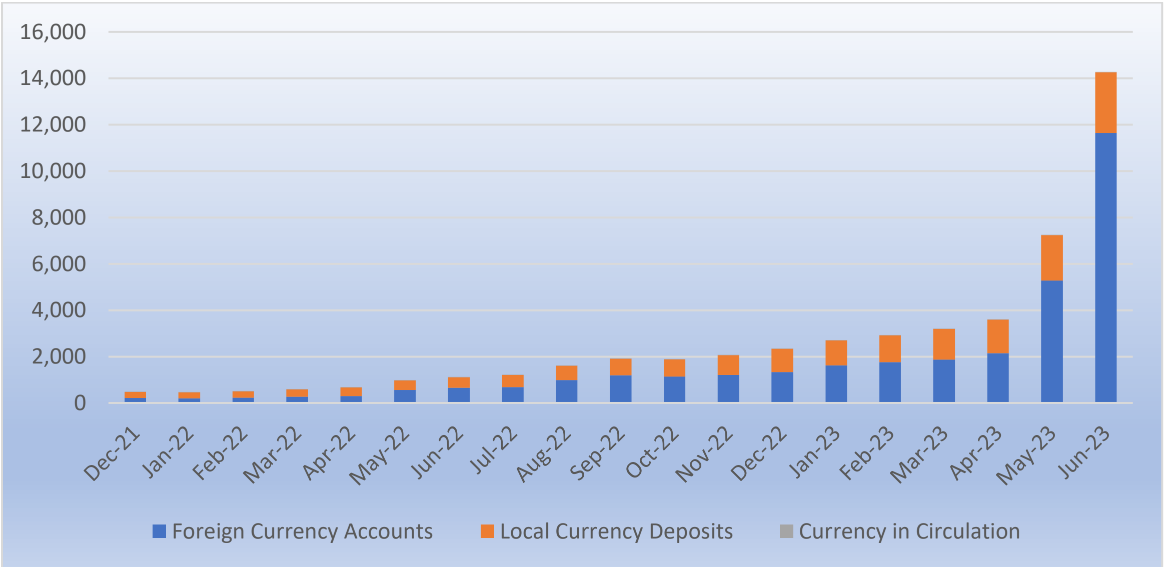
Source: Reserve Bank of Zimbabwe, 2023

BROAD MONEY DEVELOPMENTS

48. Broad money (M3) amounted to ZW$14 275.48 billion as at the end of June 2023, compared to ZW$2 338.23 billion recorded in December 2022. The increase largely reflected an expansion of ZW$10 977.60 billion in foreign currency accounts deposits, reflecting exchange rate movement.

49. Foreign currency deposits constituted 81.51% of total money supply as of June 2023, while local currency deposits accounted for 18.43%, and currency in circulation, 0.06%. Figure 7 shows monetary developments for the period December 2021 to June 2023.

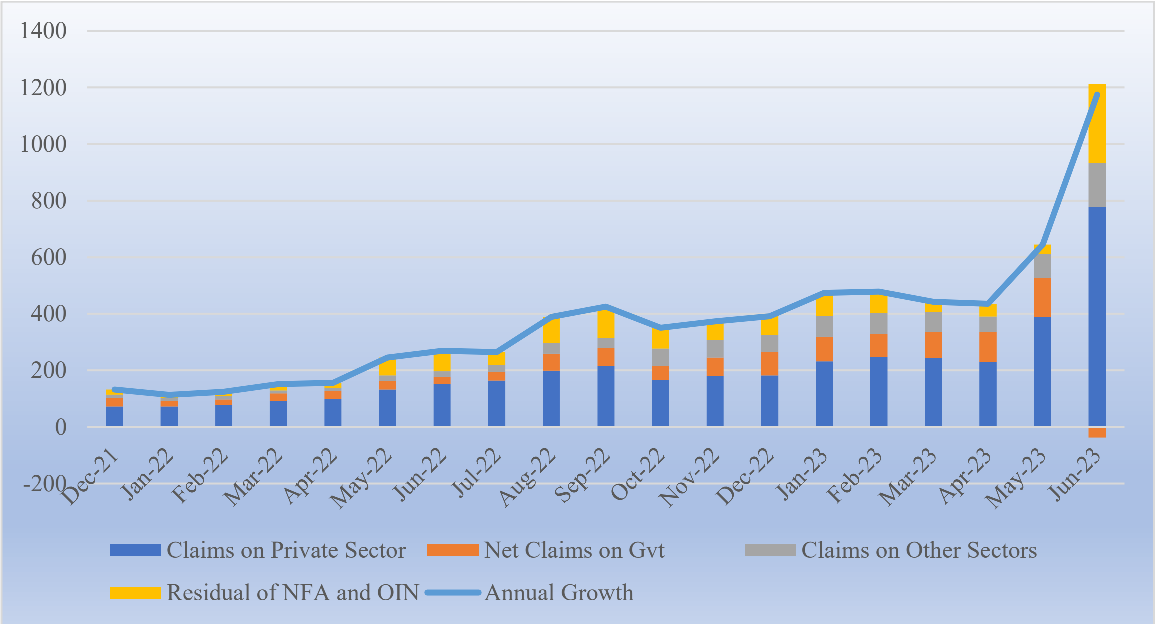
Figure 7: Monetary Developments (ZW$ Billion)



Source: Reserve Bank of Zimbabwe, 2023

50. On an annual basis, broad money grew by 1 174.94% in June 2023, largely reflecting exchange rate movements. As such, the increase in foreign currency accounted for 980.36 percentage points of the 1 174.94% annual increase in money supply. Local currency deposits contributed 194.19 percentage points to the annual increase in broad money (M3).

Figure 8: Contributions to Money Supply Growth (%)



Source: Reserve Bank of Zimbabwe, 2023

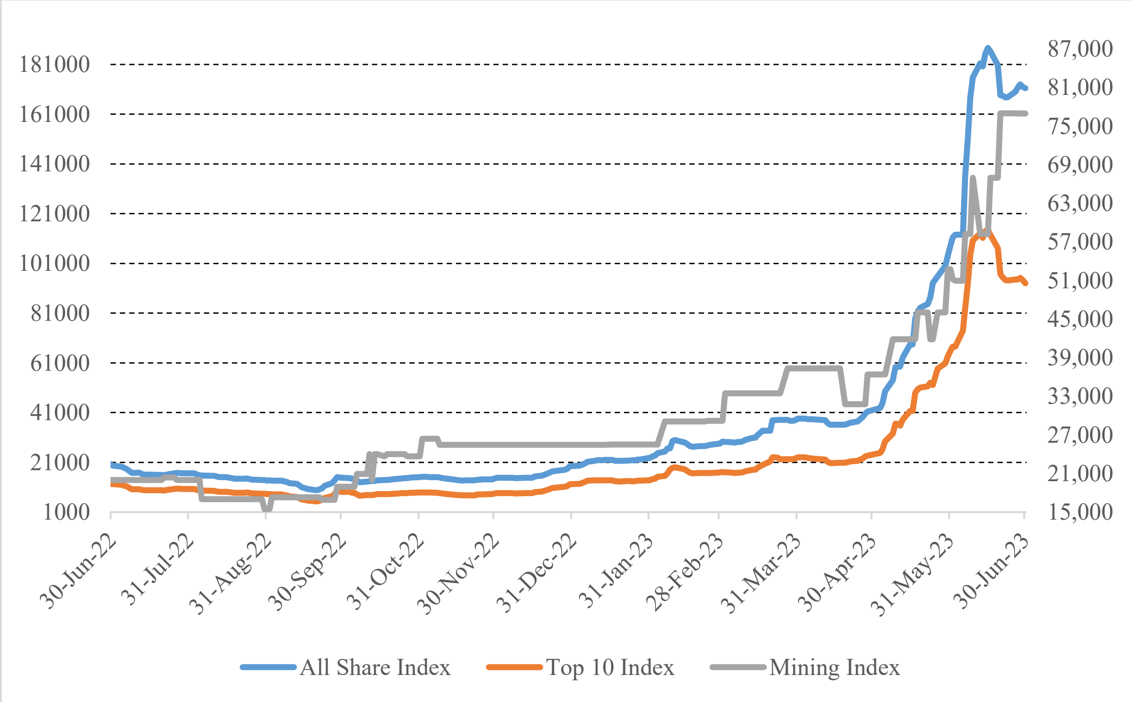
STOCK MARKET DEVELOPMENTS

51. During the first half of the year 2023, the Zimbabwe Stock Exchange (ZSE) was largely characterized by high speculative tendencies as investors sought safe haven in some selected stocks with strong balance sheets, in line with limited investment options on the money market. Consequently, all the major indices registered gains, with the ZSE All Share, Top 10, Medium Cap and Small Cap indices adding 779.30%, 655.69%, 1 090.87% and 322.81% to close at 171 408.90 points, 93 034.57 points, 436 363.92 points and 1 911 327.14 points, from 19 493.85 points, 12 311.13 points, 36 642.44 points and 452 056.95 points recorded as at end of December 2022, respectively.

52. In the same vein, the resource index increased by 106% to close at 76 960.49 points, compared to 25 487.77 points recorded as at the end of 2022. On a year-on-year basis, the ZSE All Share, Top 10 and Mining Indices gained 766.05%, 658% and 284.39%, from 19 791.94 points, 12 273.75 points and 20 021.24 points

recorded in June 2022, respectively. Figure 9 shows developments of the ZSE All Share, Top 10 and mining indices for the period June 2022 to June 2023.

Figure 9: ZSE All Share, Top 10 and Mining Indices

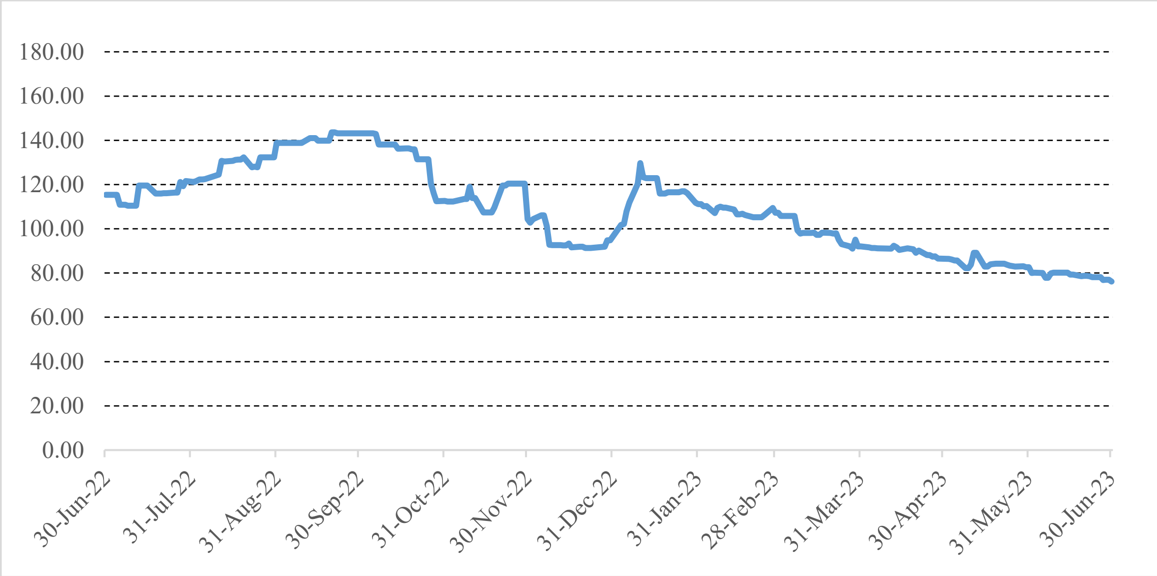


Source: Zimbabwe Stock Exchange, 2023

Victoria Falls Stock Exchange (VFEX)

53. The Victoria Falls Stock Exchange (VFEX) was characterized by bearish sentiments during the period under analysis. As a result, the VFEX All Share index declined by 30.56% to close the second half of 2023 at 76.17 points, from 109.69 points recorded in December 2022. On an annual basis, the VFEX All Share index lost 33.99%, from 115.39 points recorded in June last year.

Figure 10: Victoria Falls Stock Exchange All Share Index



Source: Victoria Falls Stock Exchange, 2023

Market Capitalization

54. Despite the bearish sentiments that characterized the VFEX during the first half of 2023, market capitalization rose by 202.51% to US$1.29 billion, compared to US$424.83 million recorded in December 2022. The increase in VFEX capitalization was largely attributed to a notable number of new listings, beginning in the year 2023. This culminated in an increase in the number of outstanding issued shares on the VFEX market.

SECTION FOUR: CONDITION AND PERFORMANCE OF THE BANKING SECTOR

55. The banking sector continued to demonstrate resilience on the back of a broad range of complementary fiscal and monetary stabilisation measures, to foster and enhance price and financial stability. Banking institutions continue to adapt to the dynamic operating environment by reconfiguring their business models, including the digitisation of banking services. This has gone a long way in providing convenient and modern banking services to the banking public, as well as fostering inclusivity. The architecture of the banking sector 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 Reserve Bank	
Credit-only-MFIs	208
Deposit-taking MFIs	8
Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank)	4
Total Other Institutions	**220**
Total Number of Institutions	**239**

Financial Soundness Indicators

56. Banking sector performance remained satisfactory, as reflected by adequate capitalisation, strong asset quality, adequate liquidity and sustained profitability, among other key financial soundness metrics as depicted in Table 7.

Table 7: Financial Soundness Indicators

Key Indicators	Benchmark	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Total Assets ($tn)	-	1.94	3.11	3.81	5.68	27.28
Total Loans & Advances ($tn)	-	0.60	1.01	1.29	1.97	10.19
Net Capital Base ($tn)	-	0.35	0.54	0.75	1.01	5.95
Core Capital ($tn)	-	0.28	0.44	0.61	0.80	5.05
Total Deposits ($tn)	-	1.12	1.91	2.29	3.17	14.66
Net Profit ($tn)	-	0.18	0.34	0.50	0.21	4.55
Return on Assets	-	8.67%	16.48%	17.43%	4.92%	26.11%
Return on Equity	-	31.60%	53.19%	54.33%	16.62%	74.60%
Capital Adequacy Ratio	12%	33.87%	35.45%	37.15%	41.05%	40.48%
Tier 1 Ratio	8%	18.84%	23.97%	26.92%	27.85%	35.35%
Loans to Deposits Ratio	-	53.69%	52.83%	55.67%	56%	55%
NPLs Ratio	5%	1.50%	1.41%	1.58%	3.30%	3.62%
Liquidity Ratio	30%	60.78%	59.51%	59.50%	57.65%	59.88%

Banking Sector Capitalization

57. As at 30 June 2023, the banking sector was adequately capitalized and all banking institutions were in compliance with the prescribed tier 1 and minimum capital adequacy ratios of 8% and 12%, respectively. The average capital adequacy and tier 1 ratios were 40.48% and 35.35%, respectively.

58. Aggregate core capital increased from $611.11 billion as at 31 December 2022 to $5.05 trillion as at 30 June 2023. The growth in core capital was mainly attributed to capitalisation of retained earnings. The retained earnings for some banking institutions are largely composed of revaluation gains from investment properties and translation gains from foreign exchange-denominated assets.

59. As at 30 June 2023, fifteen (15) out of 18 banking institutions (excluding POSB) reported core capital levels that was above the minimum capital requirements as shown in Table 8.

Table 8: Banking Sector Capitalisation Levels

Institution	Reported Core Capital as at 30 June 2023 (ZW$)	Reported Core Capital 30 June 2023 ** (US$)	Capital Adequacy Ratio (CAR). (Min 12%)	Compliance Status
COMMERCIAL BANKS				
AFC Commercial Bank	228,481,595,385.56	39,806,570.03	37.17%	Compliant
BancABC	185,557,005,916.16	32,328,152.90	20.86%	Compliant
First Capital Bank	195,409,479,574.26	34,044,672.70	27.48%	Compliant
CBZ Bank	457,094,633,576.87	79,636,040.31	20.58%	Compliant
Ecobank	320,360,900,889.71	55,813,986.30	35.85%	Compliant
FBC Bank	324,467,654,842.01	56,529,474.08	20.49%	Compliant
Nedbank	235,164,498,779.95	40,970,880.27	46.40%	Compliant
Metbank	665,123,169,344.68	115,879,232.95	78.11%	Compliant
NMB Bank	266,130,254,841.21	46,365,802.93	27.87%	Compliant
Stanbic Bank	551,853,335,593.19	96,145,111.43	24.31%	Compliant
Standard Chartered Bank	114,412,040,320.69	19,933,119.28	43.58%	Compliant on CAR and Non-Compliant with the prescribed minimum core capital
Steward Bank	217,816,814,889.39	37,948,528.33	50.35%	Compliant
Time Bank	3,197,923,519.16	557,149.32	65.24%	Compliant on CAR and Non-Compliant with the prescribed minimum core capital
ZB Bank	348,682,807,786.56	60,748,291.70	22.16%	Compliant
BUILDING SOCIETIES				
CABS	566,087,904,508.32	98,625,089.58	44.17%	Compliant
FBC Building Society	140,056,441,210.69	24,400,943.65	41.67%	Compliant
National Building Society	123,871,993,860.57	21,581,253.36	24.55%	Compliant
ZB Building Society	25,821,970,809.20	4,498,760.99	46.36%	Compliant on CAR and Non-Compliant with the prescribed minimum core capital
SAVINGS BANK				
POSB	79,337,623,371.34	13,822,376.61	40.19%	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 (US$1: 5,739.7961) as at 30 June 2023*

60. Standard Chartered Bank's compliance will be addressed through the acquisition of the banking institution by FBC Holdings Limited (FBCH), which is currently being finalised.

61. ZB Building Society capitalisation is also dependent on the outcome of the current strategic initiatives within the Group.

62. 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 conduct banking activities.

63. As previously communicated, the deadline for compliance with the minimum capital requirements by non-compliant banks was extended by a further 12 months to **31 December 2023**, to allow for the completion of the recapitalisation processes.

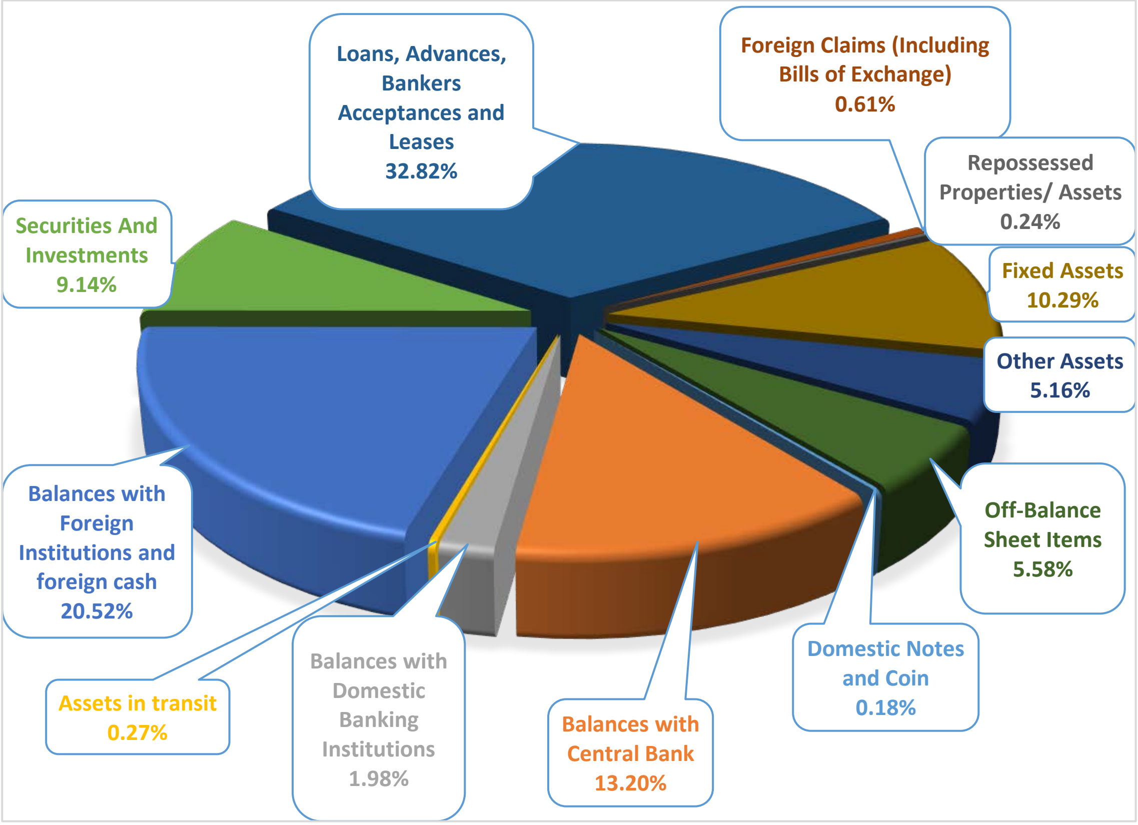
64. Banking institutions are employing a number of capital preservation strategies, which include investing in gold coins and investment properties, lending in US$, as well as maintaining a portion of their capital in US$.

65. The Bank continues to monitor capitalisation of banking institutions, given that a well-capitalised banking sector is an engine for sustainable economic growth and development

Banking Sector Asset Structure

66. Total banking sector assets increased from $3.81 trillion as at 31 December 2022 to $27.28 trillion as at 30 June 2023 as shown in Figure 11.

Figure 11: Digital: Asset Mix as at 30 June 2023



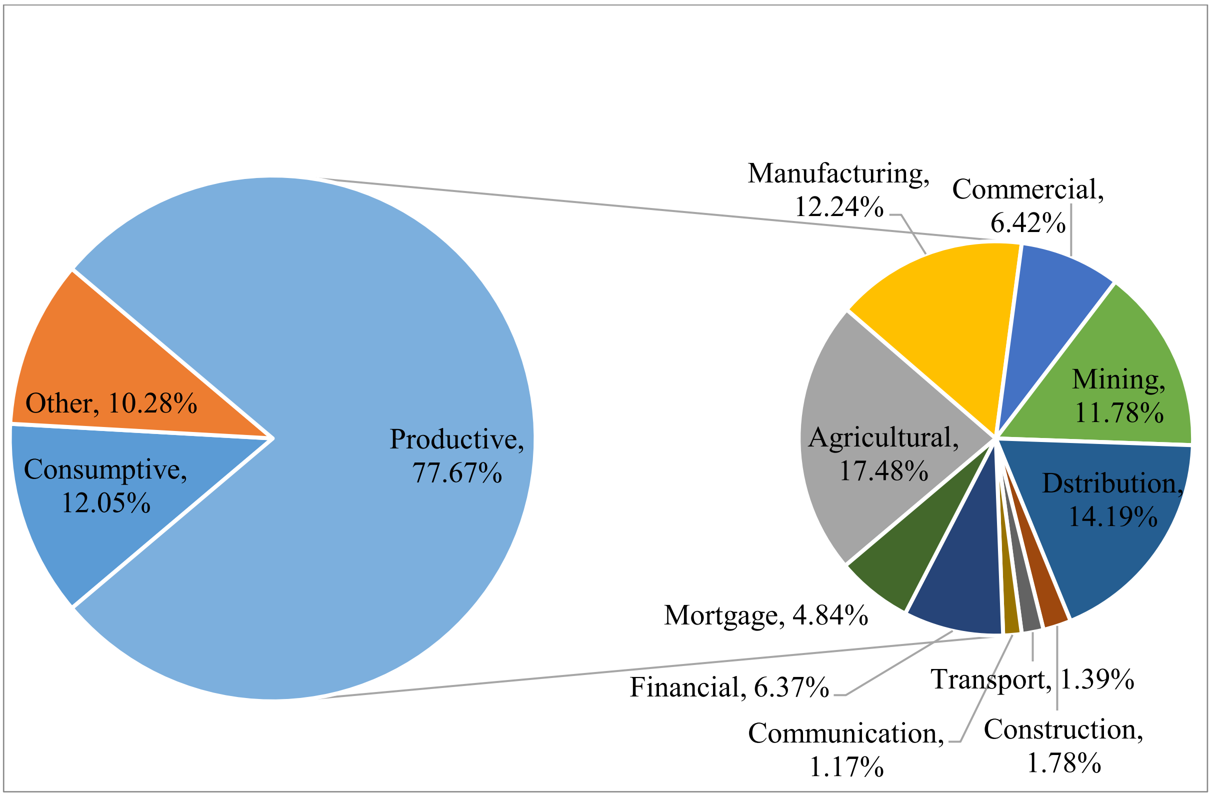
Banking Sector Loans and Advances

67. Aggregate banking sector loans and advances increased by 7.9 times from $1.29 trillion as at 31 December 2022 to $10.19 trillion as at 30 June 2023. The increase was largely attributed to an increase in foreign currency-denominated loans, which constituted 94% of the sector's loan book.

68. Total loans to total deposit ratio for the banking sector remained relatively stable at 55% as at 30 June 2023 from 55.67% at the end of 2022. The foreign currency loans to foreign currency deposits ratio was 60% during the same period.

69. The banking institutions continued to contribute to economic recovery and growth by channelling resources to the productive sectors of the economy. The loans to the productive sectors constituted 77.67% of total loans as at 30 June 2023. Figure 12 shows the sectoral distribution as at 30 June 2023.

Figure 12: Sectoral Distribution of Loans as at 30 June 2023

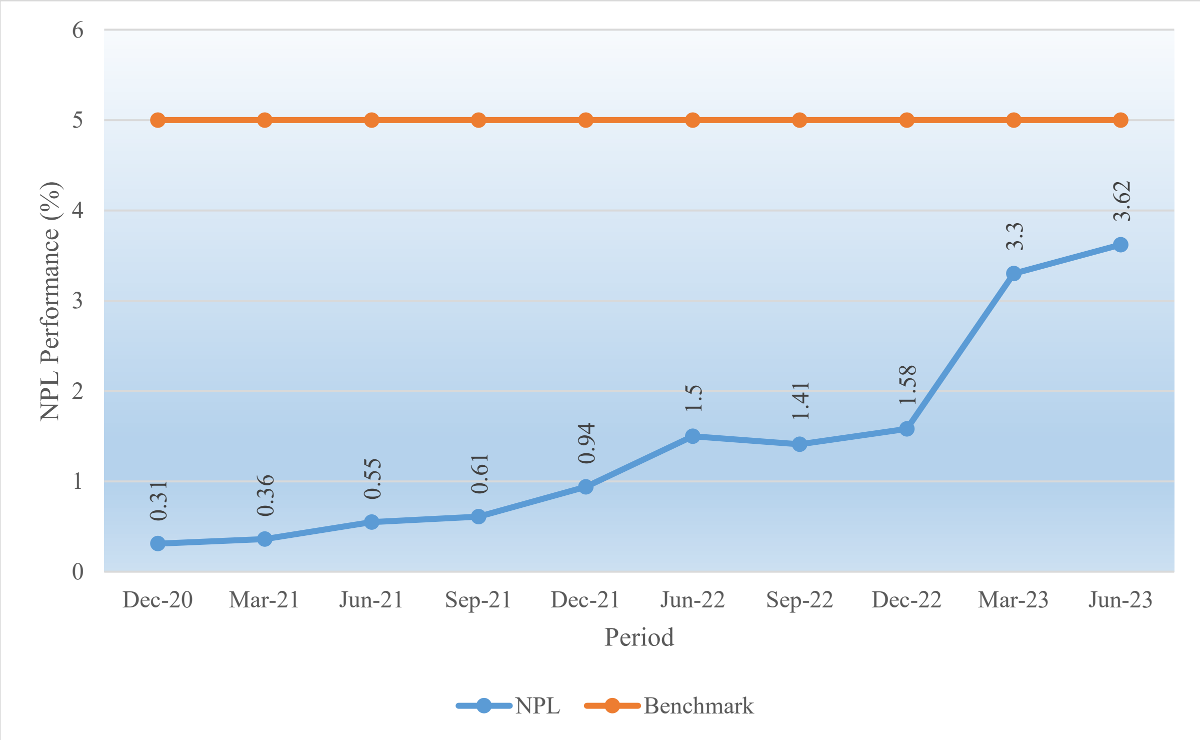


Source: Reserve Bank of Zimbabwe

Asset Quality

70. Asset quality remains satisfactory. The aggregate non-performing ratio (NPL) of 3.62% as at 30 June 2023 was within the Bank's risk appetite, as well as the internationally acceptable threshold of 5%. The ratio increased from 1.58% as at 31 December 2022 owing largely to revaluation effects on foreign currency denominated non-performing loans. Figure 13 shows the trend in the level of NPLs from December 2020 to June 2023.

Figure 13: Trend in Non- Performing Loans

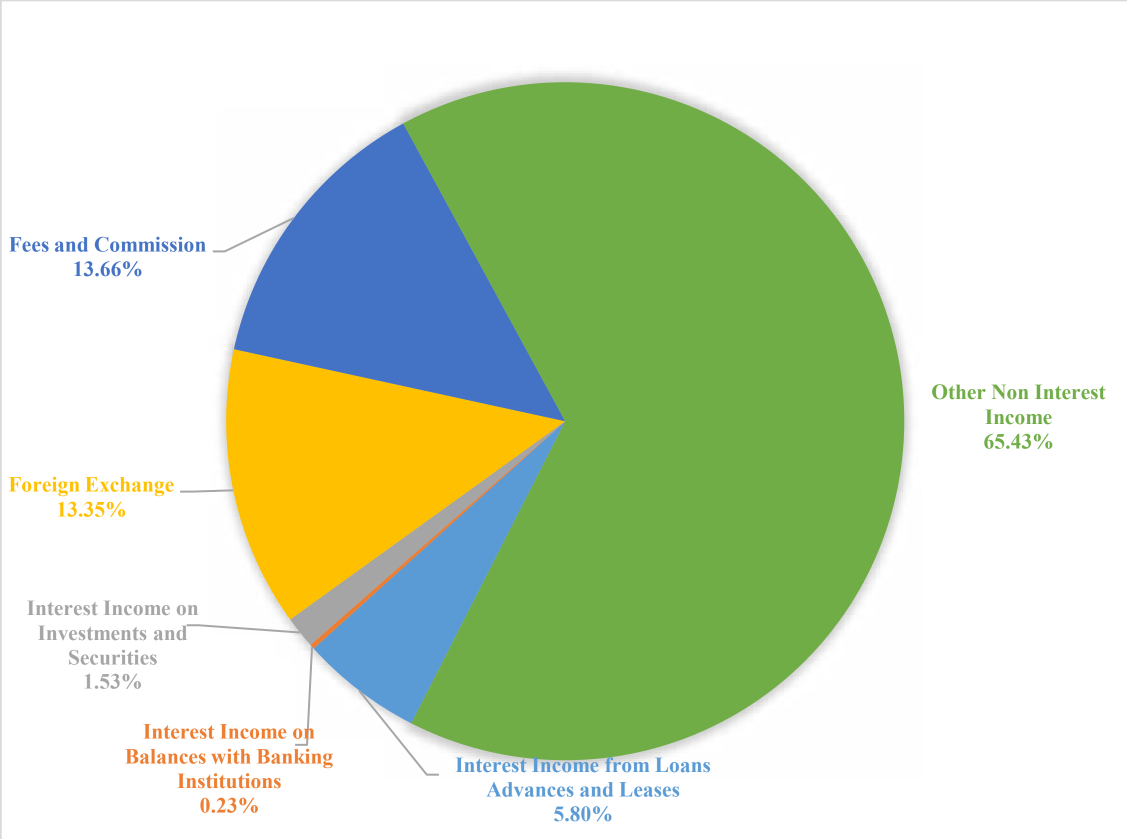


71. The Bank will continue to monitor credit risk in the sector.

Banking Sector Profitability

72. All banking institutions were profitable with reported aggregate profits of $4.55 trillion for the period ended 30 June 2023, compared to $181.25 billion reported in the corresponding period in 2022. The growth in the banking sector income largely emanated from non-interest income, which constituted 92.51% of total income ($6.01 trillion) as at 30 June 2023. The income mix for the sector is depicted in Figure 14.

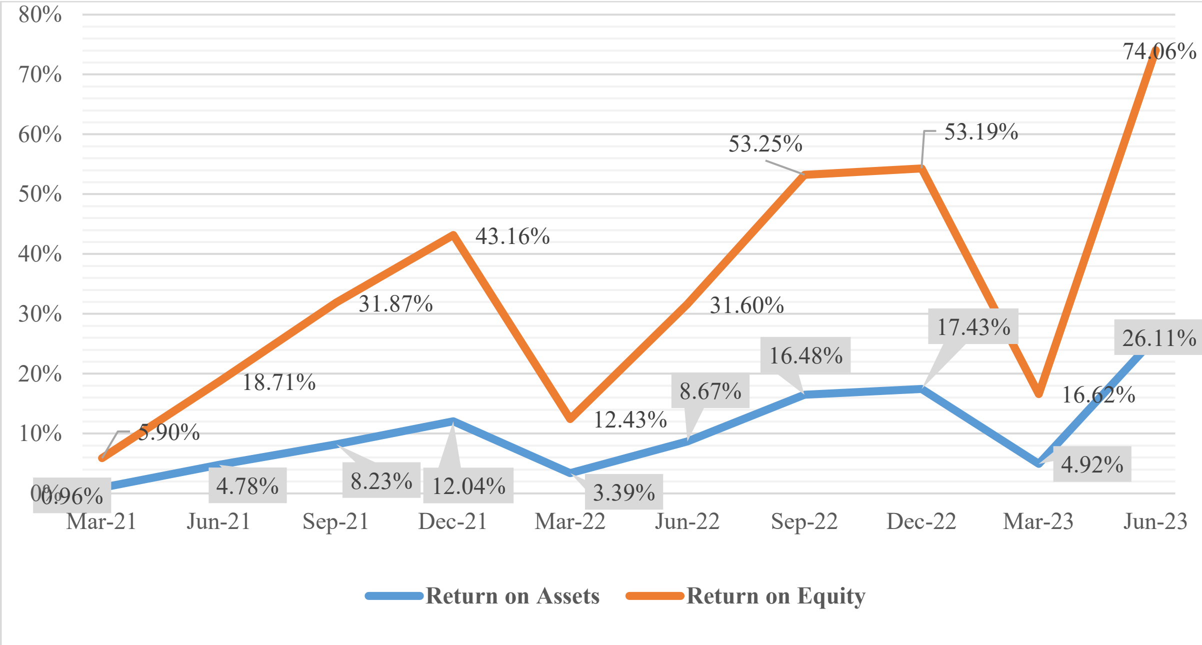
Figure 14: Banking Sector Income Mix as at 30 June 2023



73. Reflecting the movement in the exchange rate, the total non-interest income ($5.56 trillion) mainly consists of revaluation gains from investment properties (70.78%), fees and commissions (14.78%) and foreign exchange gains (14.45%).

74. The return on assets and return on equity ratios were 26.11% and 74.60% as at 30 June 2023, compared to 8.67% and 31.60% as at 30 June 2022, respectively. The trend of banking sector profitability indicators over the period 31 March 2021 to 30 June 2023 is shown in Figure 15.

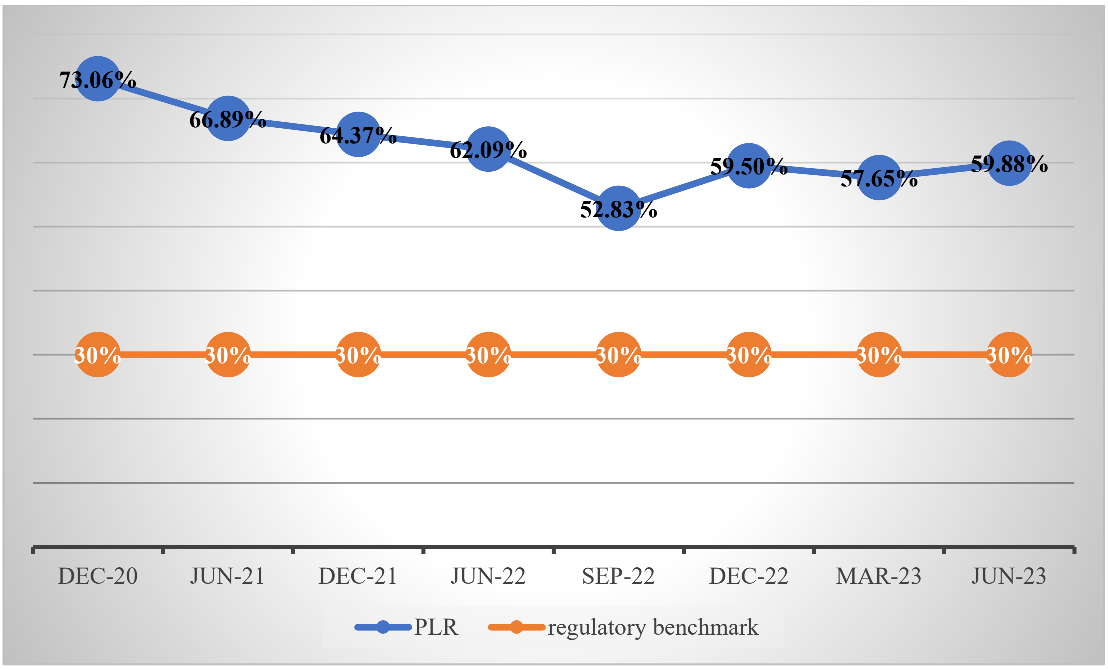
Figure 15: Returns on Assets and Earnings as at 30 June 2023



Banking Sector Deposits and Liquidity

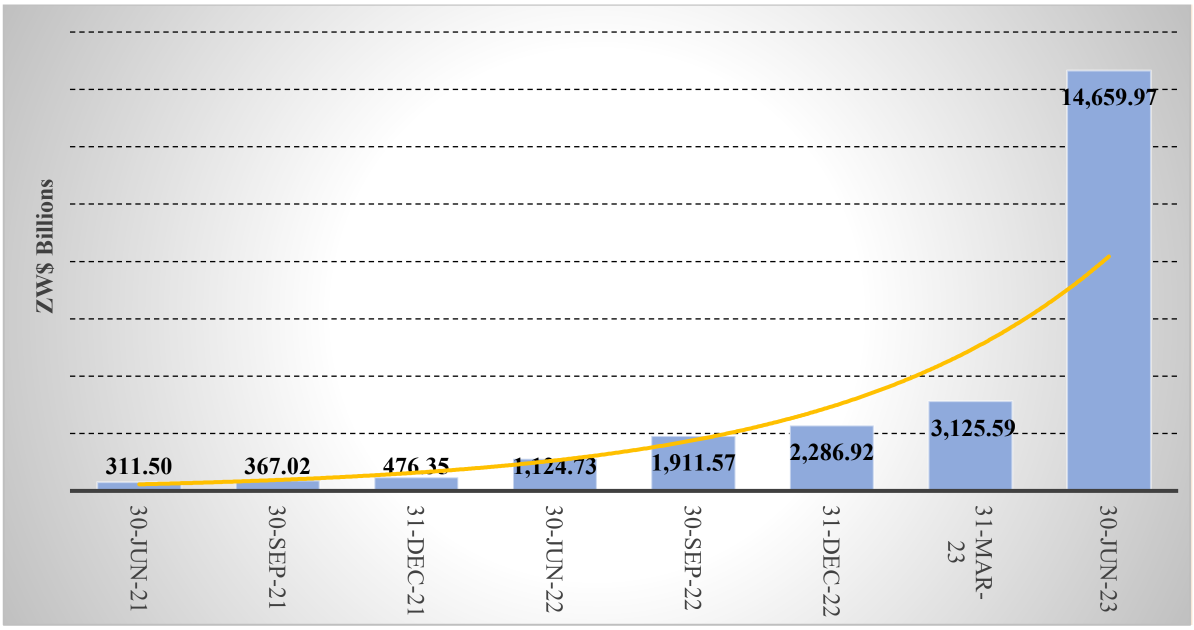
75. As at 30 June 2023, the sector's average prudential liquidity ratio was 59.88%, largely reflecting high stock of liquid assets in the sector. The trend in the prudential liquidity ratio from 31 December 2020 to 30 June 2023 is shown in Figure 16.

Figure 16: Prudential Liquidity Ratio Trend



76. Total deposits increased from $2.29 trillion as at 31 December 2022 to $14.66 trillion as at 30 June 2023. The increase was mainly driven by growth in foreign currency deposits. Commercial banking sub-sector deposits constituted 87.75% of total banking sector deposits. Foreign currency deposits accounted for 88% of total deposits as at 30 June 2023. The trend of banking sector deposits over the period 30 June 2021 to 30 June 2023 is shown in Figure 17.

Figure 17: Trend in Banking Sector Deposits



Banking Sector Developments

Bank Charges

77. Having regard to the need to strike a balance between business viability and the provision of affordable and accessible products and services in the spirit of promoting financial inclusion, the Bank continues to monitor bank charges, in collaboration with the Bankers Association of Zimbabwe.

78. Against this background and cognizant of the relative exchange rate stability in the economy, the pricing model agreed between the Bank and Bankers Association of Zimbabwe in May 2022 will be maintained. The said pricing model allows consideration of a review periodically, having regard to factors affecting such pricing including exchange rate movements.

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

Climate Risk Management

80. The Bank issued a Climate Risk Management Guideline to the banking sector in April 2023 in line with international developments. The Guideline seeks to strengthen the resilience of the banking system to climate-related risks by promoting the development and implementation of sound climate risk management practices and methodologies, taking cognisance of physical and transition risks associated with climate risk.

Model Risk Management

81. Banking institutions are increasingly relying on modelling in most aspects of their decision-making on the back of a more complex and diverse range of activities

that include risk management, capital adequacy calculations, pricing of loans, and stress testing.

82. In line with best practice, the Bank issued a Model Risk Management Prudential Standard in July 2023. The Standard provides for sound development, implementation, and rigorous model validation as vital elements of model risk management in regulated institutions.

Contingency Planning

83. The Bank, in collaboration with other domestic financial sector regulatory agencies under the auspices of the Multidisciplinary Financial Stability Committee, is in the process of operationalizing the Contingency Planning & Systemic Crisis Management Framework. The Framework seeks to strengthen crisis preparedness capabilities through requisite institutional arrangements, resolution planning, techniques, strategies, funding arrangements, and cross-border cooperation, in line with best practices. Enhancement of the legal framework is also underway.

Sustainability

84. Sustainability is transitioning to the fore of the global financial landscape by becoming a strategic priority, against the realisation that strong, resilient and sustainable institutions contribute meaningfully to inclusive sustainable economic development and attainment of Sustainable Development Goals (SDGs).

85. In this regard, the Bank remains resolutely focused on the implementation of sustainable banking practices in the financial sector and is working closely with the sector in the implementation of the sustainability standards under the Sustainability Standards & Certification Initiative (SSCI) being driven by the European Organization for Sustainable Development (EOSD). It is envisaged that

sustainability-certified institutions will play a catalytic role in the growth and sustainable development of the economy.

86. As at 30 June 2023, 14 banking institutions including, one (1) deposit-taking microfinance institution (Zimbabwe Women's Microfinance Bank Limited) were participating under the Central Bank-led Sustainability Standards and Certification Initiative.

87. In light of the envisaged benefits of sustainability certification, participating banking institutions have scaled up efforts to accelerate the implementation process and to build the requisite capacity at the management and board level.

Draft Microfinance Regulations

88. The proposed Microfinance Regulations, necessary for the Microfinance Act [*Chapter 24:30*] now await gazetting. The draft Microfinance Regulations are aimed at operationalizing certain sections of the Microfinance Act including minimum capital, shareholding limits and asset quality requirements.

89. Additional proposals are being made to shareholding and governance regulatory framework to provide different thresholds for credit-only institutions which are usually financed through entity's shareholders as opposed to institutions that are funded through deposit-taking.

Regulatory Framework for Bank Resolution

90. The Bank, in liaison with the Deposit Protection Corporation, has completed the drafting of the enhanced legal framework for bank resolution and crisis management. The draft layman's Bill will now be undergoing peer review with the International Monetary Fund and the International Association of Deposit Insurers.

Performance of the Microfinance Sector

91. Microfinance is increasingly considered a key instrument in the implementation of effective and sustainable strategies aimed at poverty alleviation and inclusive economic development. The microfinance sector in Zimbabwe continues to contribute towards the attainment of Zimbabwe's 2030 Vision of 'an Upper Middle-Income Society by 2030' through the provision of essential financial services to low-income and marginalised communities and their micro and small enterprises.

92. On aggregate, the sector registered growth in all the main performance indicators over the review period, including loan portfolio, capitalization level, profitability and deposits mobilization by the deposit-taking microfinance subsector. As at 30 June 2023 there were 216 registered microfinance institutions, comprising 208 credit-only and eight (8) deposit-taking microfinance institutions.

Microfinance Sector Capitalization

93. The microfinance sector registered a 596.83% increase in aggregated equity from $35.91 billion as at 31 December 2022 to $250.23 billion as at 30 June 2023. The increase was attributed to organic growth and fresh capital injection by some microfinance institutions.

Capitalisation of Deposit-taking Microfinance Institutions

94. Three out of seven operating DTMFIs were compliant with the minimum capital requirement of ZW$5 million as at 30 June 2023, and these were African Century Limited, InnBucks Microbank and Success Microfinance Bank. The non-compliant DTMFIs are at various stages of capital raising initiatives and they continue to submit on a quarterly basis, updates on their re-capitalisation initiatives.

95. As at 30 June 2023, the aggregate core capital for the DTMFI sub-sector was $131.32 billion, a significant increase from $29.49 billion as at 31 December 2022.

The increase was largely driven by fresh capital injections, as well as organic growth.

96. A total of 170 out of 208 credit-only microfinance institutions were compliant with the minimum capital requirements of ZW$ equivalent of USD25,000. The non-compliant credit-only microfinance institutions are putting in place re-capitalization strategies to comply with the requirements and to facilitate the underwriting of more meaningful businesses.

Loan Portfolio

97. Total loans for the microfinance sector increased by 672.66% from ZW$46.01 billion as at 31 December 2022, to ZW$355.50 billion as at 30 June 2023. The sector registered an improvement in the loan portfolio quality as evidenced by a decrease in the portfolio-at-risk (>30 days) ratio from 10.95% to 9.48% over the same period.

Profitability

98. The microfinance sector registered significant progress with an aggregate net profit of $145.52 billion for six months ended 30 June 2023, from $4.93 billion recorded during the comparable period in 2022. The increase, which exceeded the annual inflation of 175.8% as at 30 June 2023, was largely attributed to improved operational efficiency as reflected by an improvement in the average operational self-sufficiency (OSS) ratio to 230.39% for the six months ended 30 June 2023 from 202.50% registered in the comparative period in 2022, against the international benchmark of 100%.

Deposits Mobilisation

99. Aggregate deposits for the deposit-taking microfinance sub-sector increased by 456.89% from $9.58 billion as at 31 December 2022, to $53.35 billion as at 30 June 2023. While the deposit levels remain low, the trend in the level of deposits in the sector reflects growing consumer confidence in the sector.

National Financial Inclusion Strategy II Implementation

100. Financial inclusion remains a key priority area and a strategic goal for financial markets development, and a major driver for inclusive economic development in line with the country's development aspirations as outlined in the National Development Strategy 1, under the mantra '***leaving no one and no place behind***'.

101. Following the launch of the National Financial Inclusion Strategy II on 31 October 2022, the Bank continues to champion a number of initiatives as part of the NFIS II implementation process.

Financial Literacy Program

102. Financial Literacy is one of the pillars of financial stability as it equips consumers of financial services with knowledge and skills to make more informed financial decisions. Given that improving financial literacy is a long-term behavioural change, the Bank will continue to champion and coordinate financial literacy programs among both adult consumers of financial services and young people.

103. Financial literacy programs were held in four (4) provinces under the Global Money Week celebrations from 6-31 March 2023. The Bank continued to receive and provide financial literacy to visiting school children. Further, the Bank has embarked on financial inclusion campaigns across the country's provinces through various platforms including the NDS I dissemination programmes spearheaded by the Ministry of Finance and Economic Development

104. The Bank is developing a National Financial Literacy Framework to facilitate a coordinated approach to financial literacy. Engagement with various stakeholders is currently underway before finalizing the framework.

Thematic Working Group Meetings

105. As part of a coordinated approach to implementing financial Inclusion, NFIS II Thematic Working Groups Meetings were held in June and July 2023 to finalise the activities for the ten thematic areas under NFI II.

Financial Inclusion Indicators

106. Following the launch of National Financial Inclusion Strategy II in October 2022, there has been notable progress in access to formal financial services by the targeted groups such as women, SMEs and youth. The financial inclusion indicators in the Table 9 reflect the improvement since December 2021.

Table 9 Financial Inclusion Indicators

Indicator	Dec-21	Mar-22	Jun-22	Sept-22	Dec 22	March 23	June 2023
Number of Loans to MSMEs	35,224	22,657	37,590	13,461	24,987	25,162	9,307
Nominal Value of loans to MSMEs (ZW$ Million)	10,280.92	13,928.18	34,021.15	39,909.51	49,714.31	74,605.00	433,852.86
Average loans to MSMEs as % of total bank loans	3.9	4.63	5.54	4.33	4.15	3.87	4.58
Number of Loans to Women	173,810	178,897	189,861	188,815	177,671	165,459	206,886
Nominal Value of Loans to Women (ZW$ Million)	14,666.06	16,296.10	42,972.89	43,861.11	49,854.41	84,043.37	345,070.99
Average loans to women as a % of total bank loans	5.57	5.42	7.00	4.76	4.16	4.36	3.64
Number of Loans to Youth	75,188	77,864	85,562	66,432	65,098	71,429	54,309
Nominal Value of Loans to Youth (ZW$ Million)	6,249.97	8,132.97	12,717.06	18,633.57	37,629.77	55,616.63	257,604.92
Average loans to the youth as a % of total bank loans	2.37	2.7	2.07	2.02	3.14	2.88	2.72
Total number of Active Bank Accounts (Million)	8.17	7.76	6.95	8.31	7.36	7.23	7.33
Number of Low-Cost Bank Accounts (Million)	4.78	4.83	4.22	3.69	4.35	2.34	2.35

107. While the FinScope Consumer and MSME surveys indicate significant progress on the access strand, in terms of usage, utilization of financial services by the marginalised groups remains low. Loans to MSMEs, women and youth as at 30

June 2023 accounted for 4.58%, 3.64% and 2.72% of total bank and microfinance loans. Various initiatives are underway to increase the usage of financial services among the marginalised groups.

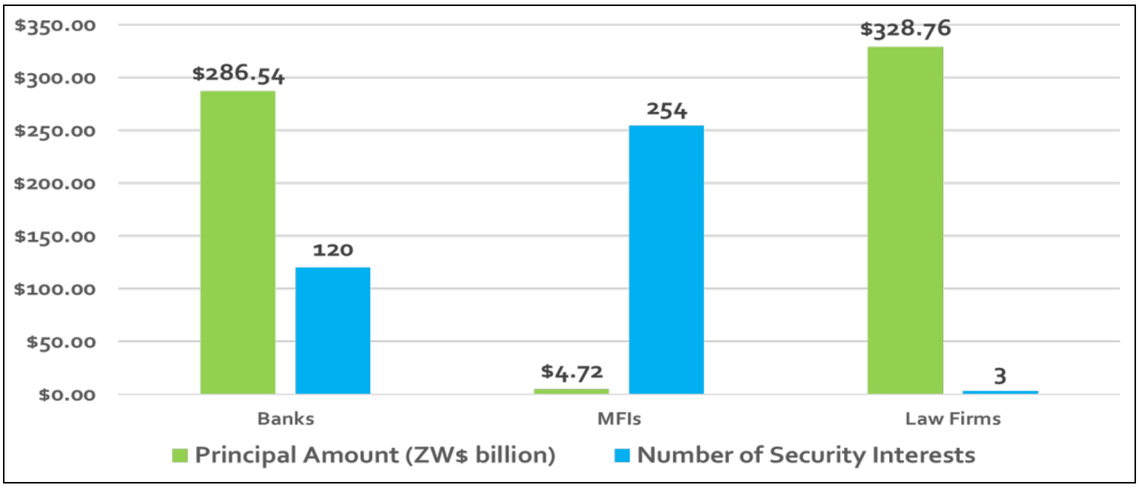
Collateral Registry Update

108. Cognisant of the need for access to credit for the greater part of the country's population, the Bank launched an online Collateral Registry in terms of the Movable Property Security Interest [*Chapter 14:35*].

109. As at 30 June **46 institutional users** had been registered in the system since the commencement date was gazetted on 4 November 2022. Registered institutions include banks, microfinance institutions and law firms.

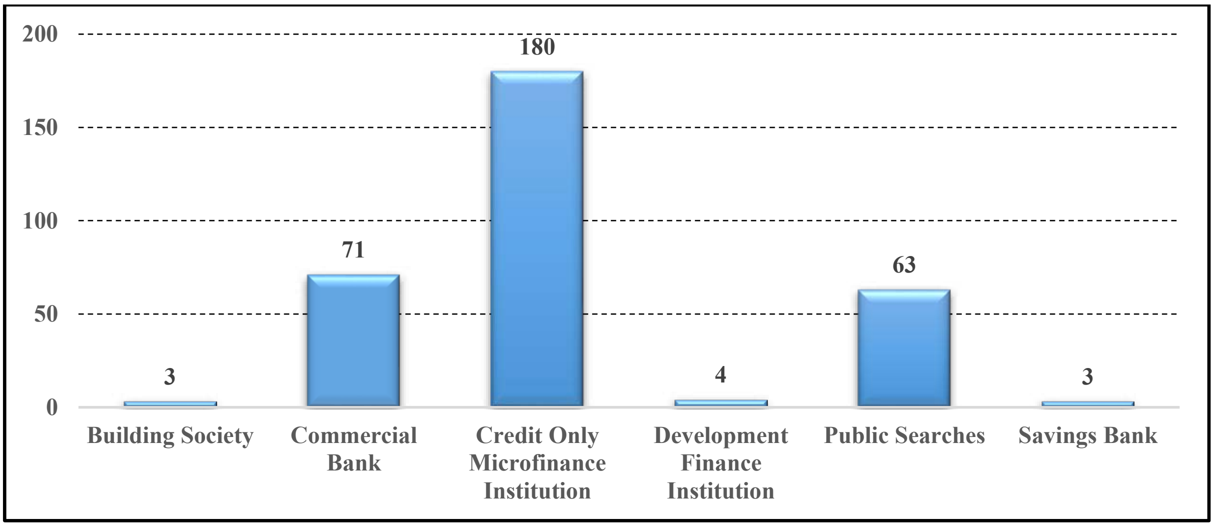
110. The Collateral Registry system recorded **377 active registered security interests** with a total loan amount of ZW$620.02 billion as at 24 July 2023 as shown in Figure 18.

Figure 18: Value of Registered Securities as at 24 July 2023



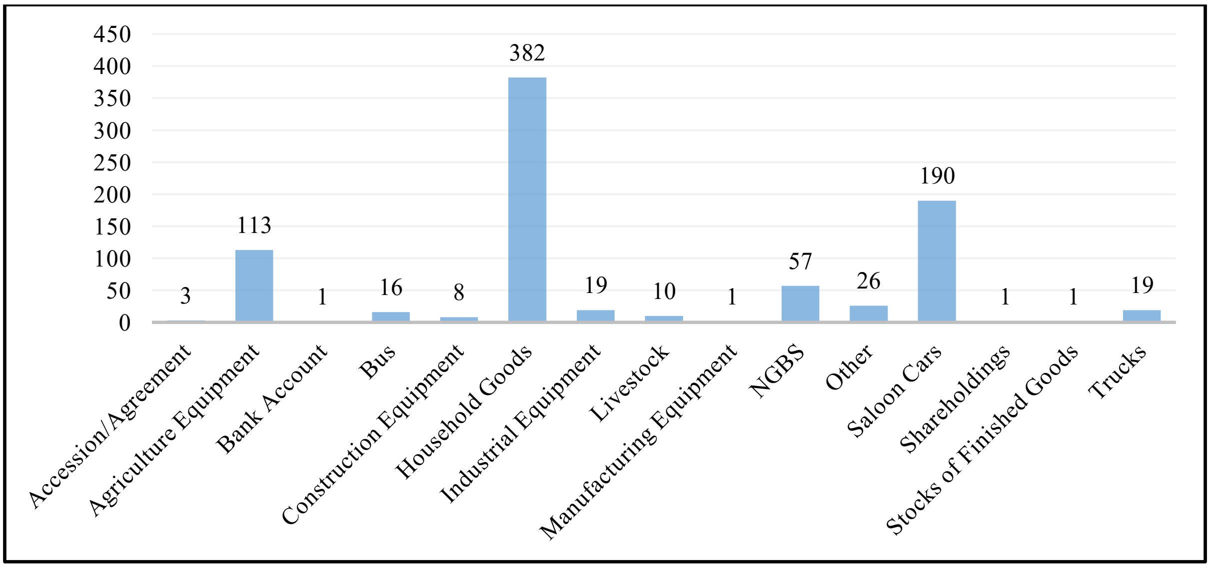
111. In addition, 323 searches were conducted during the same period as shown in Figure 19:

Figure 19: Searches by Client as at 24 July 2023



112. The types of collateral registered in the system are shown below.

Figure 20: Types of Collateral



113. The operationalisation of the collateral registry marks a critical milestone in access to credit and will facilitate borrowing opportunities for micro, small to medium enterprises in the outlook period.

114. As part of its communication strategy to promote awareness and ensure effective operationalization of the Collateral Registry, the Bank conducted training and

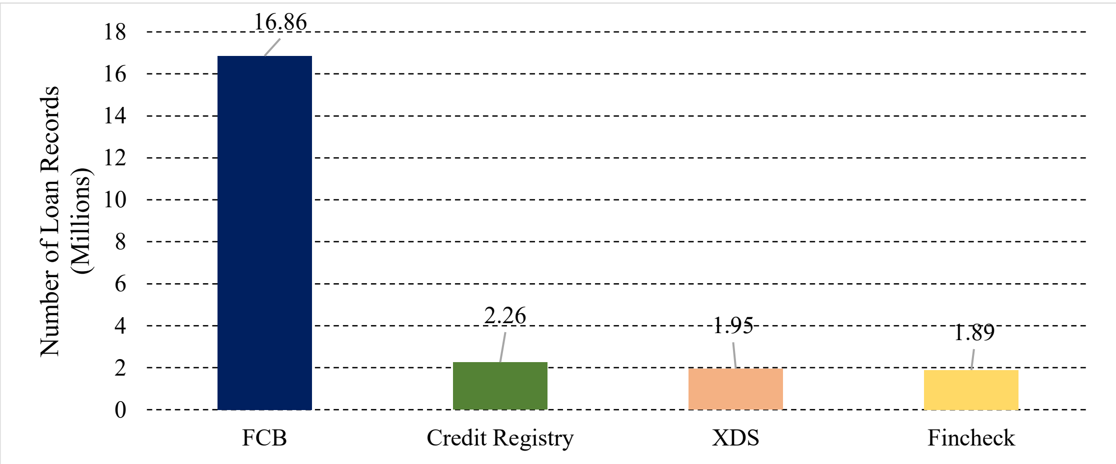
awareness workshops in Harare, Bulawayo, Gweru, Masvingo, Mutare and Beitbridge between April and July 2023.

115. The workshops targeted banking institutions, microfinance institutions, MSMEs and Law firms. The Bank will continue to drive the communication strategy to ensure awareness and full adoption of the Registry across the country.

Credit Information Sharing Environment

116. The credit databases at the Credit Registry and the three private bureaus continue to offer reference points for lenders to check the credit worthiness of clients during origination and through the cycle of the loans. The four credit reporting institutions in the country held 22.96 million searchable records as at 30 June 2023. Figure 21 indicates the cumulative records per institution.

Figure 21: Cumulative Loan Records per Credit Reporting Institution

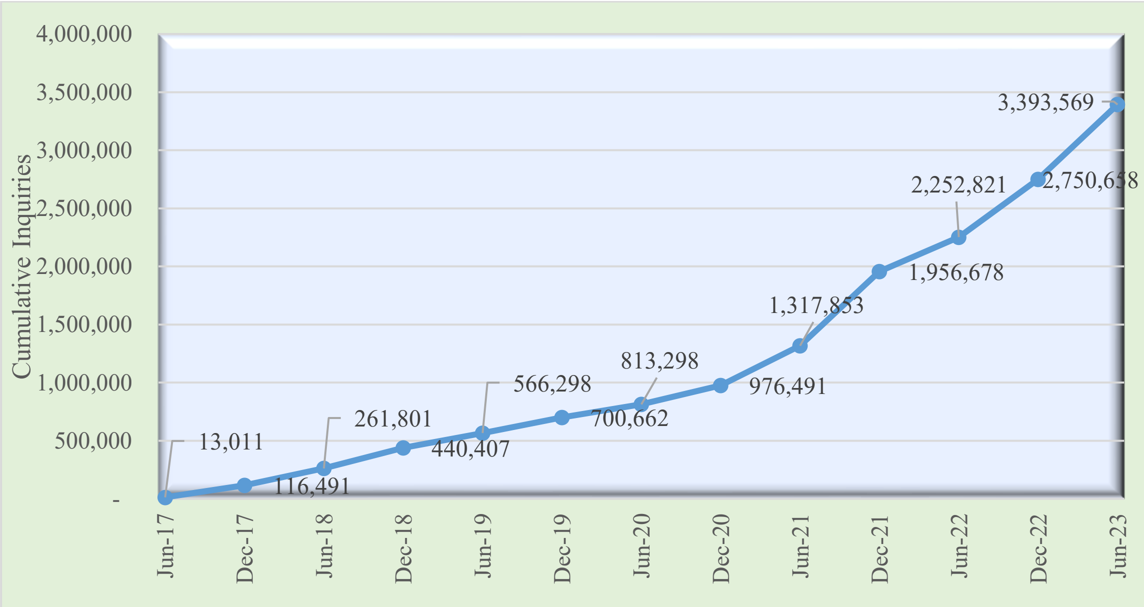


117.

118. In the Credit Registry the open and closed loan records were at 28.61% and 71.39% of the total loan records of 2.26 million as at 30 June 2023, respectively. Registered subscribers accessing the Credit Registry database were 243 as at 30 June 2023.

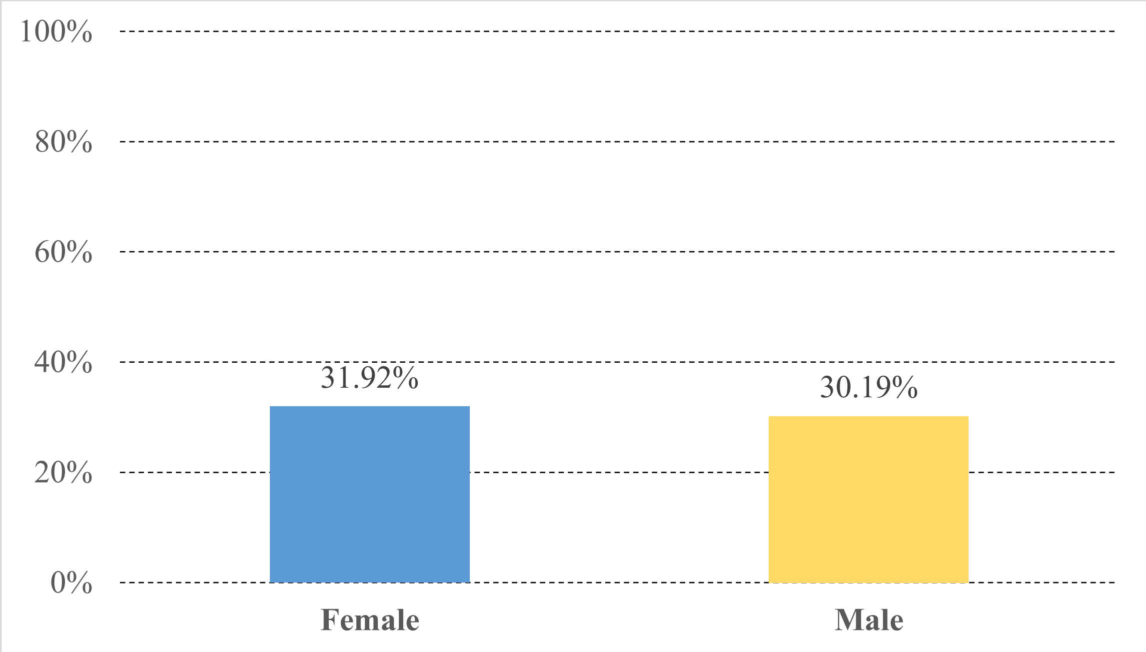
119. Credit Registry inquiries have been on an upward trajectory reflecting growth in usage as depicted in Figure 22.

Figure 22: Credit Registry Usage Status



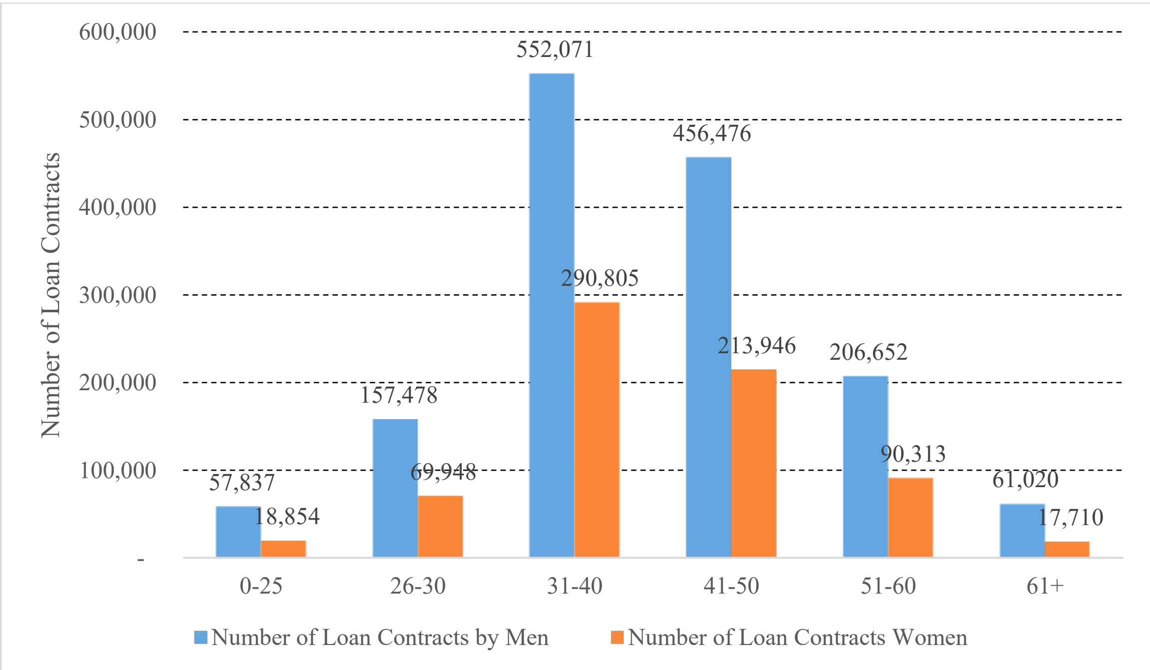
120. Gender distribution of loans is generally skewed towards male borrowers who constituted 68.01% while female borrowers constituted 31.99% of loan contracts in the Credit Registry. Over the year there were more women accessing to financial services for the first time compared to men as indicated in Figure 23.

Figure 23: New to Financing as at 30 June 2023



121. In terms of age and gender distribution, the 31-40- and 41-50-years age groups dominate the number of borrowings with male borrowers dominating in both age groups as shown in Figure 24.

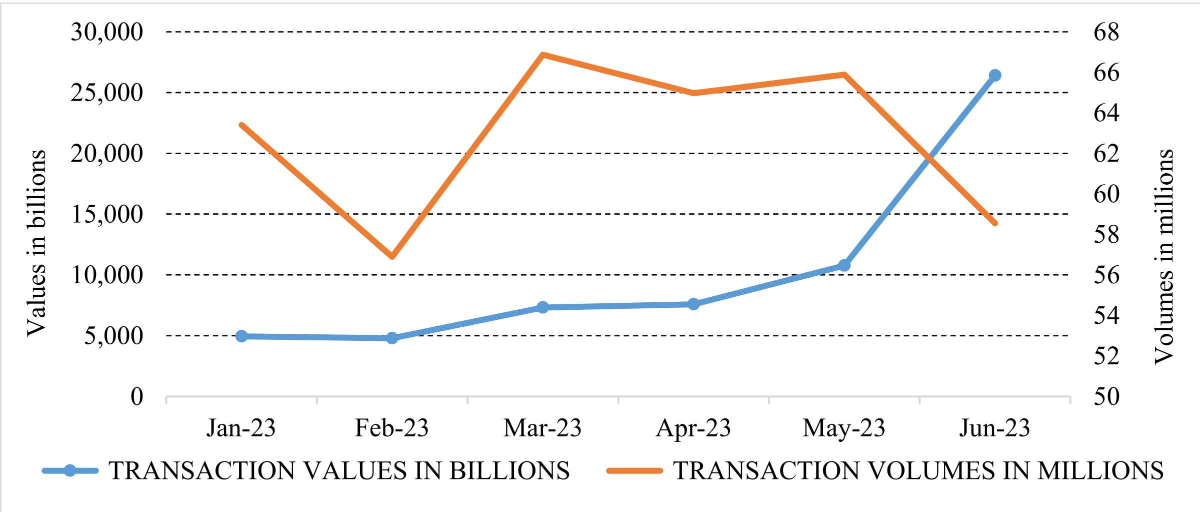
Figure 24: Credit Registry Loans by Gender and Age



NATIONAL PAYMENT SYSTEMS DEVELOPMENTS

122. The payment systems services sector comprising 24 payment system providers and 25 participant banks remained sound, safe, and recorded significant improvements. During the six months to June 2023, aggregate digital payments transaction values increased by an average of 40%, whilst volumes fell by a marginal 4% as shown in Figure 25.

Figure 25: Digital Payments Transaction Values and Volumes from Jan-June 2023



**Digital Payments Include Transactions conducted on the RTGS, Card, Mobile Money, Mobile Apps, and Online platforms*

123. During the six months to June 2023, a total of 376.6 million transactions valued at ZW$83.6 trillion were processed through the national payment system.

Real Time Gross Settlement System (RTGS

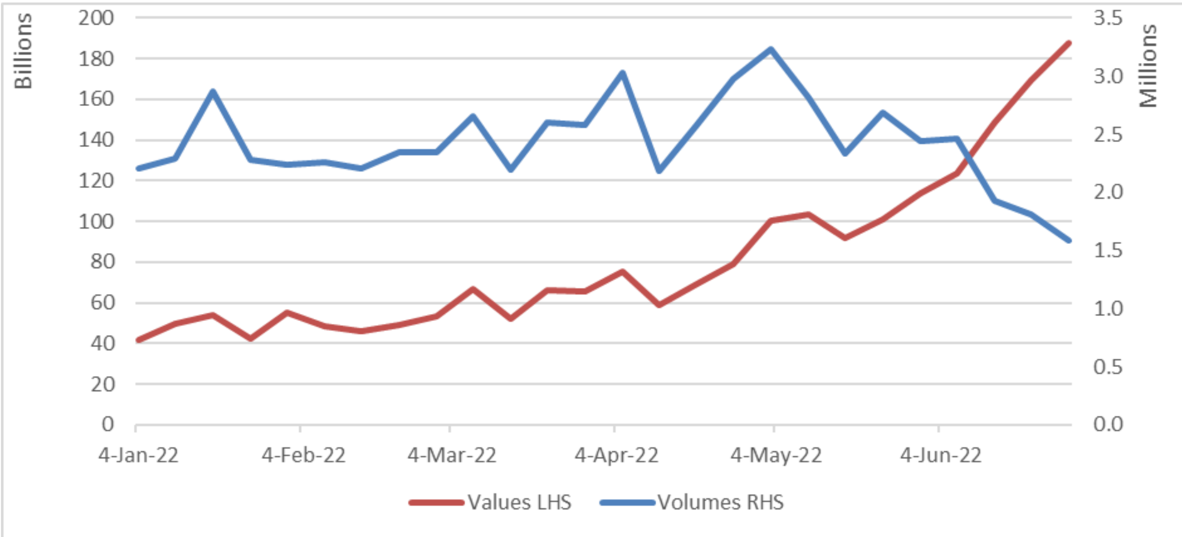
124. RTGS continues to dominate because it caters to large value transactions with a value of ZW$48.0 trillion during the first half of 2023. On the SADC Real Gross Settlement System (SADC-RTGS), the 14 Zimbabwean participant banks

processed 2,159 transactions valued at ZAR3.1 billion during the six months ended June 2023.

Interoperability

125. The country continued to witness growth in interoperability transactions with the value processed for retail digital transactions reaching ZW$187.5 billion in June 2023, as shown in Figure 26.

Figure 26: Interoperability Transactions: values and vol Jan 22 to Jun23



Access Devices and Points

126. All access devices, except credit cards, recorded growth during the period under review as shown in Table 10.

Table 10: Payment Access Points and Devices as of June 2023

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	% CHANGE
ATMs	410	410	412	412	413	413	0.24%
POS	134,746	131,927	133,205	133,527	134,454	132,171	0.69%
MPOS	30,920	30,896	30,429	30,394	30,256	30,141	-0.45%
PAYMENTS SYSTEMS ACCESS DEVICES							
Debit Cards	5,550,881	5,799,800	5,892,135	5,698,111	5,740,254	5,706,854	-0.58%
Credit Cards	15,132	15,514	15,764	15,814	16,049	16,209	1.00%
Prepaid Cards	134,363	138,963	132,684	134,848	138,034	139,690	1.20%
Mobile Banking Subscribers	7,283,840	8,125,125	7,097,833	7,554,180	7,760,726	7,915,941	2.00%
Internet Banking Subscribers	626,579	606,373	626,313	542,135	546,185	551,647	1.00%

SWIFT ISO 20022 Migration from MT Messages

127. Local financial institutions successfully upgraded their SWIFT infrastructure for incoming Cross Border Payments and Reporting plus (CBPR+) on the implementation of the ISO20022 standard, in line with the SWIFT set deadline of March 2023. Banks continue to work towards ensuring full compliance with the other outstanding SWIFT Cross Border outgoing payment processes for the CBPR+ ISO 20022 program and SADC-RTGS going live in August 2023.

Cybersecurity Management

128. To manage cyber security risk on payment cards, the market is urged to ensure that all card access devices and POS as well as MPOS access points are EMV compliant by October 2023.

Anti-Money Laundering and Counter-Financing of Terrorism (AML-CFT)

129. The Bank continues to implore the financial sector to deploy risk-based systems in their surveillance of elevated threats especially given the dynamic digital innovations taking place worldwide. Board understanding of AML/CFT issues as well as internal controls are now critical areas for oversight. The Bank continued to offer training programs to ensure compliance with AML/CFT regulations.

Pan-African Payment and Settlement System (PAPSS)

130. The Bank is implementing the PAPSS, which is a continental RTGS system being promoted by the African Export and Import Bank (Afreximbank) as the settlement bank. The payment system is meant to complement and interoperate with the existing cross-border payment schemes currently in operation. PAPSS is aimed at connecting all banks, non-banks, switches, and regional systems in Africa to enhance cross-border payment efficiency across Africa.

Consumer Protection in Digital Financial Services

131. The Bank continued to promote informed conflict resolution and management processes based on the rights, fairness, transparency and interests of consumers. The Bank continued to participate in efforts to educate the transacting public through various platforms including roadshows which have been a huge success in enhancing financial literacy and digital financial services awareness.

132. Under Fintech developments, the Bank's focus is to ensure consumers are at the center of innovation without jeopardising financial stability and in line with AML/CFT issues.

Central Bank Digital Currency and Tokenization Projects

133. Following Cabinet approval in July 2022 for the Bank to pursue the roadmap for the introduction of a Central Bank Digital Currency (CBDC), the Bank continues to make steady progress on the project. In this regard, a consumer survey was carried out during which 3,260 responses were received from the public. Notwithstanding the observed limited knowledge about CBDCs, 71.7% of the respondents confirmed their willingness to use a CBDC if the Bank introduced it. It is in this evidence-based context that the Bank proposes to take the road towards CBDC in measured stages as the result of the survey gives the Bank sufficient impetus to move to the next stage.

134. Given the above, the Bank has accelerated efforts toward the digitization of gold through gold-backed digital tokens (GBDT). The GBDT will primarily serve as an alternative investment instrument which shall be scaled up to be used for transactional purposes by the public. The GBDT allows investors to preserve their value, but above all allows for divisibility, as the milligram is one thousandth of a gram.

135. Similar to the physical gold coins introduced by the Bank in 2022, the GBDTs were introduced in response to continued strong domestic investor demand for convenient and reliable market-based instruments for value preservation. The GBDTs are, therefore, an added convenient instrument that allows investors to enjoy the same value preservation benefits of physical gold without the security risk and indivisibility of holding physical gold coins.

136. Given the above, the potential of the GBDTs to transform the investment and currency markets is immense. Continued uptake of the GBDTs is, therefore, envisaged to sustainably anchor inflation and exchange rate expectations.

137. On account of their effectiveness in mopping liquidity, the GBDTs have since proved to be an effective monetary policy instrument with strong potential to help restore normalcy to the domestic financial and capital markets within the short term. In addition, the divisibility nature of the digital gold tokens conforms to the national objective of leaving no one and no place behind in national development initiatives. This is again in line with the Bank's longstanding commitment towards financial inclusion as it enhances access and affordability for a wide cross-section of economic agents across all income brackets.

138. The Bank is at an advanced stage in preparations for the rolling out of GBDTs for transactional purposes in Phase II of the project under the code or name ZiG, which stands for Zimbabwe Gold. It is envisaged that the transactional phase will see GBDTs complimenting the demand for the US dollar in domestic transactions as retailers will be offered a safer, more convenient, and value-preserving medium of exchange. As such, appropriate awareness campaigns would be conducted in all provinces and districts of the country to educate the public on the use and benefits of GBDT.

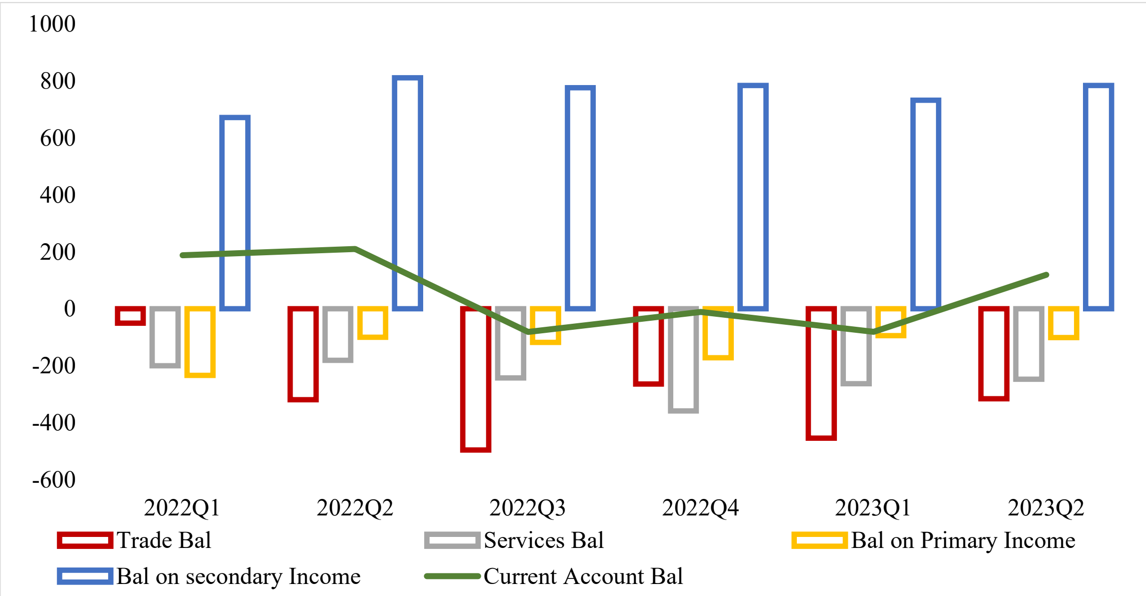
139. Consultations with various stakeholders including the Confederation of Zimbabwe Industries (CZI) and the Zimbabwe National Chamber of Commerce (ZNCC) and the Retailers Association of Zimbabwe (RAZ) have already been undertaken and banks are now configuring their systems to allow for the issuance of cards which will be denominated in ZiG.

SECTION FIVE: BALANCE OF PAYMENTS DEVELOPMENTS

140. The current account balance is estimated to have narrowed to a surplus of US$38.3 million in the first half of 2023, compared to a surplus of US$397.9 million for the same period in 2022. This followed a more significant trade deficit, as exports contracted, while imports increased. The current account was further weighed down by services and primary income account that also registered the deficits. Remittances and other transfers (secondary income flows), however, remained resilient, thereby offsetting the deficits in the services and primary income accounts.

141. This, notwithstanding, the estimated current account balance is projected to strengthen in the second half of the year on account of projected bullish tobacco, gold and lithium export performance and resilient diaspora remittances.

Figure 27: Current Account Developments (US$ millions)



Source: RBZ and ZIMSTAT Estimates, 2023

142. Merchandise exports declined by 8.2%, from US$3 479.0 million in the first half of 2022 to US$3 194.2 million for the corresponding period in 2023, mainly

weighed down by the subdued performance in mineral exports. Mineral exports, which account for the largest share of merchandise exports, declined by 12.5%, from US$2 898.9 million in the first half of 2022 to US$2 5836.8 million, during the period under review. The decline in exports followed the continued softening of key commodity prices largely on account of faltering global growth prospects.

143. The country's agricultural exports increased by 15.9%, from US$399.9 million in the first half of 2022 to US$463.5 million in 2023, during the period under review, driven by tobacco exports. Horticultural exports were, however, subdued owing to lagged effects of higher input costs for fertilizer, chemicals, fuel, packaging, and labour, which increased significantly in 2022.

144. Manufactured exports increased by 7.6%, from US$180.6 million recorded in the first half of 2022 to US$193.84 million in the corresponding half in 2023, largely driven by rising tobacco cigarette exports. Low competitiveness, which emanated from high production and market development costs and antiquated machinery, however, continued to adversely affect manufactured exports.

145. Merchandise imports registered a 3% increase, from US$3 965.3 million in the first half of 2022 to US$3 849.4 million in 2023, driven by growth in fuel, machinery, and electricity imports. As the economy expands, so does its capacity to absorb imports that feed into the production process. The country's import bill was, however, moderated by reduced crude oil, edible oils and fertilizer prices.

International Remittances

146. As at 30 June 2023, total international remittances through official channels amounted to US$1,433 million, an increase of 4% from US$1,371 million during the same period in 2022. Of the total amount, diaspora remittances amount to US$919 million, a 15% increase from US$797 million received during the same

period in the year 2022. International remittances received through the normal banking system on behalf of International Organizations (NGOs) amounted to US$514 million, an 11% decrease the from previous year of US$574 million. Of the total diaspora remittances, 29% came from South Africa followed by the United Kingdom (22%).

Foreign Payments Performance

147. The total foreign inflows of US$5.6 billion for the first six months of 2023 were against a total of foreign payments of US$4.4 billion, resulting in net foreign currency inflows of US$1.2 billion. This, coupled with restrictive monetary policy further testifies to the soundness of the economy's external and monetary fundamentals that are envisaged to sustain favourable exchange rate and inflation dynamics in the short to medium term.

148. For the first half of 2023, Authorised Dealers processed foreign payments amounting to US$4.39 billion. This represented a 14.8% increase, from US$ 3.83 billion recorded for the same period in 2022. The upward trajectory in foreign payments shows the increased capital absorptive capacity as the economy grows.

149. The foreign payments were mainly towards capital and raw materials/intermediate goods, and this has gone a long way in enhancing industry capacity utilisation. Also, of significance are foreign payments for fuel that have continued to increase driven by domestic demand thereby offsetting the positive impact of the decline in global energy prices. Table 11 shows foreign payments by category.

Table 11: Foreign Payments by Category in USD Millions (Jan –Jun 2023)

	2023	2022	% Variance	Contribution 2023	Contribution 2022
Merchandise Imports (excl. energy)	2,351.4	2,078.6	13%	54%	54%
- Raw Materials & Intermediate Goods	777.4	622.5	25%	18%	16%
- Capital Goods	951.1	837.3	14%	22%	22%
- Consumption & Finished Manufactured Goods	622.9	618.8	1%	14%	16%
Energy (Fuel & Electricity)	938.7	742.0	27%	21%	19%
- Fuel	871.0	694.0	25%	20%	18%
- Electricity	67.7	47.9	41%	2%	1%
Service Payments	421.5	384.9	10%	10%	10%
- Technical, Professional & consultancy	189.9	193.0	-2%	4%	5%
- Software	61.2	40.7	50%	1%	1%
- Other (tourism, edu, freight etc)	170.4	151.2	13%	4%	4%
Income Payments (Profits, Dividends)	150.7	327.2	-54%	3%	9%
- Dividends	86.3	269.1	-68%	2%	7%
- Interest Payments	16.4	8.5	93%	0.4%	0.2%
- Other (Salaries, Expats, Rental)	48.0	49.6	-3%	1%	1%
Capital Remittances (Outward)	418.1	216.0	94%	10%	6%
- External Loan Repayments	327.9	170.4	92%	7%	4%
- Disinvestments	49.8	17.0	194%	1.1%	0.4%
- Foreign Investment	40.4	28.7	41%	0.9%	0.75%
Other Payments	111.4	77.5	44%	2.5%	2.0%
- Card Payments	100.2	58.2	72%	2%	2%
- Refunds	11.1	19.3	-42%	0.3%	0.5%
Total	**4 391.8**	**3 826.2**	**14.8%**	**100%**	**100%**

Source: RBZ (2023)

SECTION SIX: NEW MONETARY POLICY MEASURES

150. The policy measures pursued by the Bank during the first half of the year 2023, through its implicit monetary policy anchor of a combination of using the Bank policy rates and exchange rate targeting have brought stability in prices and the exchange rate and sanity and calmness in the domestic markets. The calmness in the domestic markets ably attests to the fact that the economy is on the right track to price and exchange rate stability and the need to stay the course of the right policy mix remains critical.

151. In view of the above context, the Bank will continue to implement a tight monetary policy stance for the next six months to sustainably anchor inflation and exchange rate expectations. The tight monetary policy path will be anchored on the following measures:

Interest rates

i. The Bank policy rate which is currently at 150% will be reviewed in line with developments in the month-on-month inflation;
ii. The medium-term accommodation lending rate which is currently at 75% will also continue to be reviewed in line with inflation developments and long-term productive sector funding needs;
iii. The Bank policy rate remains the minimum lending rate for all banks; and
iv. The deposit interest rates on savings and time deposits which are currently pegged at 30% and 50% per annum, respectively, will also be reviewed in line with inflation developments.

Statutory Reserves

152. The statutory reserve requirements continue to play a significant role in mopping excess liquidity and ensuring the continued safety and soundness of the domestic

banking sector. In this regard, the current statutory reserve requirements levels on local and foreign currency demand and call deposits will remain at 15% and 10%, respectively. The statutory reserve requirements on savings and time deposits would remain at 5% across all deposits to support domestic savings. The Bank will review the statutory reserve requirements consistent with monetary and financial conditions.

Non-negotiable Certificate of Deposits

153. The Bank shall strengthen the operation of the Non-negotiable Certificate of Deposits (NNCDs) which are being used to mop excess local currency liquidity through the introduction of NNCD maturity profiles of 7,14, 21 and 30 days with immediate effect.

Gold coins and gold-backed digital tokens

154. The Bank is at an advanced stage in the preparations for the eventual rolling out of GBDT for transactional purposes in Phase II of the project under the code or name ZiG, which stands for Zimbabwe Gold. It is envisaged that the transactional phase will see GBDT complementing the use of the US dollar in domestic transactions.

155. The Bank will conduct appropriate awareness campaigns in all national provinces and districts of the country to educate the public on the use and benefits of GBDT. The GBDT are envisaged to form the basis for the development of the country's central bank digital currency (CBDC) since ZiG in its current form and design exhibits most of the characteristics of a CBDC.

Auction System

156. The foreign currency auction system remains a critical source of foreign currency for the economy. As such, the Bank shall continue with the current auction system

in place and further liberalise the use of foreign exchange from the wholesale auction system by allowing banks to meet bonafide small foreign payment requirements for their customers, including individuals and Micro, Small and Medium Enterprises (MSMEs) in order to enhance financial inclusion.

Localisation of Tobacco Production Financing

157. In terms of Section 4 of the Exchange Control (Tobacco Finance) Order, Statutory Instrument 61 of 2004, tobacco merchants are required to source offshore financing to produce and buyback green leaf tobacco. Tobacco merchants who fail to secure offshore financing are required to apply to the Bank for authority to raise funds on the local market.

158. With immediate effect, there will be no restrictions on the use of locally sourced funds to support the production of tobacco in the country.

159. Considering this development, the Exchange Control (Tobacco Finance) Order, Statutory Instrument 61 of 2004 shall be amended to take account of this change.

Regularisation of Tourism Agreements with External Partners

160. The Bank is granting a moratorium to all tourism operators who have unregistered tourism agreements and unapproved offshore accounts to regularise the agreements and offshore foreign currency accounts, with the Bank before 31 August 2023.

SECTION SEVEN: ECONOMIC OUTLOOK

161. The bold measures put in place by the Bank and Government which include a combination of the further liberalisation of the foreign exchange market, continued mopping of excess liquidity through the wholesale auction and digital gold-backed tokens coupled with measures to strengthen demand for local currency and operationalisation of the blocked funds debt assumption by Government have

stabilised the exchange rate and firmly anchored inflation expectations. The robust macroeconomic fundamentals are expected to anchor and sustain the current stability in the medium to long term.

Inflation Outlook

162. The upward trend of month-on-month inflation which sharply reversed in July 2023 to minus 15.3% is expected to continue to correct in August 2023. In the outlook, monthly inflation is expected to continue to decline with annual inflation expected to end the year between 60% and 70%.

Balance of Payments Outlook

163. On the external front, the current account surplus is envisaged to narrow slightly to US$274.5 million in 2023, from US$305.0 million in 2022, driven by robust performance in the export receipts and transfers in the form of diaspora remittances and humanitarian transfers, against the relatively elevated external payments.

164. Merchandise exports are envisaged to close the year at US$7 121.8 million, a 1.7% increase from US$7 000.2 million in 2022, driven by surging gold, lithium, diamond and tobacco exports notwithstanding subdued PGMs exports as their prices remain depressed. On the other hand, merchandise imports are projected to close the year at US$8 343.2 million, 2.6% up from US$8 131.8 million in 2022, driven by increases in grain, fuel, machinery, and electricity imports.

SECTION EIGHT: CONCLUSION

165. The economy has responded favourably to the measures put in place by Government and the Bank to address the volatility in the foreign exchange market. To ensure the full benefits of these measures and to sustainably anchor the inflation

expectations, the Bank's current monetary policy stance will be maintained during the six months to December 2023, with appropriate revisions being done in line with inflation developments.

166. More importantly, the robust macroeconomic fundamentals as attested by a healthy balance of payments, fiscal sustainability, higher manufacturing sector capacity utilisation, improved foreign currency receipts relative to foreign payments and continued monetary restraint will anchor the obtaining price and exchange rate stability in the medium to long term. In this context, the Bank strongly believes that the current stability is sustainable in the medium to long term.

I Thank You

Dr. John P Mangudya
Governor

REGISTERED OFFICES

Head Office
Reserve Bank of Zimbabwe
80 Samora Machel Avenue, Box 1283 Harare, Zimbabwe
Tel: (+263) 0242703000, +263 867 700 0477
Email: info@rbz.co.zw

Regional Office
Reserve Bank of Zimbabwe
93 Leopold Takawira, Box 399 Bulawayo, Zimbabwe
Tel: +263 8677002046, +263 0292 272 141-5
Email: info@rbz.co.zw

@ReserveBankZim @ReserveBankZim www.rbz.co.zw