# 2024 MONETARY POLICY STATEMENT

**BACK TO BASICS:** RECALIBRATING THE MONETARY POLICY FRAMEWORK TO ANCHOR CURRENCY, EXCHANGE RATE AND PRICE STABILITY

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## SECTION ONE

## INTRODUCTION AND BACKGROUND

1. This Monetary Policy Statement, which is issued in terms of Section 46 of the Reserve Bank Act [Chapter 22:15] comes at a time when the economy is experiencing growth in an inflationary economic environment. The exchange rate and inflation volatilities experienced in the economy in the recent past are inimical to the sustenance of the local currency under the multi-currency system, which demands predictability, convertibility, transactional convenience, and reliable store of value properties. As a result of the cumulative depreciation of the local currency, the Zimbabwe dollar banknotes have become too small and inconvenient for the transacting public given the price levels obtaining in the economy.

2. In addition, there is a problem of change for foreign currency transactions. This challenge has compelled some retailers to devise ways of circumventing the problem, including resorting to either using shop coupons or forcing consumers to buy small items such as sweets, chocolates, and pens outside their shopping plans. This sometimes presents some challenges to shops when customers are not willing to accept coupons or sweets instead of change. The Bank has also witnessed a growing trend of some retailers, wholesalers, and banks refusing to accept soiled or torn US$ notes, much to the inconvenience of consumers.

3. The EL-Nino-induced drought, which has turned out to be more severe than initially anticipated is expected to impact negatively on the domestic economy's growth trajectory. The dry spell and high temperatures experienced since the beginning of February 2024 have greatly affected the 2023/24 summer crop which was generally fair in January 2024. The domestic growth trajectory will also be affected by a slowdown in commodity prices, and subdued aggregate demand. However, other sectors such as construction and tourism will remain on a positive growth path and even support the economy's resilience.

4. The subdued growth of the economy will further be exacerbated by the pass-through effects of the big global funding squeeze which has seen global interest rates remaining elevated amid lingering inflationary pressures. In addition, geo-political factors characterised by the wars in Ukraine and Gaza with their concomitant adverse implications for global trade and supply-side logistics remain a drag on global economies, including Zimbabwe.

5. Given the above concerns, the Bank is recalibrating its monetary policy framework to re-anchor price and exchange rate stability and to boost confidence in the local currency. The Bank's priority policy focus is critical for supporting the economy's growth prospects through the restoration of stability, convertibility, and transactional convenience of the local currency. In addition, fostering the continued use of the local currency plays an important role in the multi-currency basket.

6. The recalibrated monetary policy stance will be supported by strong macroeconomic fundamentals as attested by the continued favourable balance of payments, fiscal stability, optimal money supply management, and a safe and sound banking sector. The country's foreign currency generation capacity has remained robust with a total of US$11.0 billion foreign currency having been received in 2023, albeit slightly lower than the US$11.4 billion received in 2022. The foreign currency receipts for January and February 2024 amounted to US$2.2 billion compared to US$1.8 billion received during the same period in 2023, representing a 23% increase.

7. The robust foreign currency receipts supported the improved foreign currency deposits in the banking sector, foreign currency circulating in the economy, and overall aggregate demand.

8. In line with global trends, the country's monetary and financial conditions have also remained tight with the local currency constituting just under 20% of the total money supply in the economy. As such, the observed growth in monetary aggregates has

mainly been attributed to the impact of exchange rate movements. The financial sector has remained safe, sound, and adequately capitalised to ably support the envisaged growth trajectory.

9. Moreover, confidence in the banking sector has been growing as evidenced by sustained growth in foreign currency deposits in correspondent banks from around US$400 million in 2018 to US$2.4 billion in 2023. The optimal mix of the Zimbabwe and US dollars under the multi-currency system, therefore, needs to be supported to anchor the growth trajectory of the economy and enhance the domestic foreign exchange resource mobilisation in the context of the big global funding squeeze.

10. Against this background, this Monetary Policy Statement primarily focuses on immediate measures necessary to boost the demand for local currency in the multi-currency economy, fostering a stable and sustainable exchange rate, rebuilding market confidence and policy credibility and supporting a stable and sustainable economy as enshrined in Vision 2030 and (National Development Strategy 1) NDS1.

11. The rest of the Statement is organised as follows: Section Two assesses the effectiveness of previous monetary policy measures; Section Three highlights the recent global and domestic economic developments and outlook; Section Four provides financial sector developments; Section Five provides the new monetary; policy stance for the next six months; Section Six outlines the economic and inflation outlook; and lastly Section Sevent concludes the Monetary Policy Statement.

# SECTION TWO

# ASSESSMENT OF PREVIOUS MONETARY POLICIES

12. The Monetary Policy measures implemented by the Bank since July 2023 have assisted in supporting economic resilience and mitigating speculative attacks on the foreign exchange markets. The Bank maintained a tight monetary policy stance typified by high interest rates, tight liquidity management, and management of foreign exchange to foster price and exchange rate stability in the economy. An evaluation of the policies implemented since July 2023 is .

## Interest Rate Policy

13. The Bank continued to review the Bank policy rate in line with inflation trends in the economy. The review of the Bank policy rate from 150% to 130% per annum was driven by the sustained decline in inflation in the economy. The high interest rates have gone a long way to curb speculative borrowing which was exacerbating pressure for foreign currency.

14. Monthly inflation declined from a peak of 12.1% in June 2023 to an average of 2.1% up to December 2023. However, inflation peaked at 55.3% in March 2024, from about 47.6% in February 2024, mainly driven by the pass-through effects of exchange rates.

15. The potential negative impact of high interest rates on economic growth was, however, addressed through the Medium-Term Bank Accommodation (MBA) facility which had relatively lower interest rates pegged at 75% per annum. This facility has gone a long way in supporting the productive sectors of the economy.

## Gold coins and Gold-backed digital tokens

16. The Bank continued to use value preservation instruments which included gold coins and Gold-Backed Digital Tokens (GBDTs) to manage liquidity. A total of 39,103 gold coins of various denominations with a cumulative value of ZW$63.47 billion and US$0.8 million, had been sold as of 31 March 2024. The bulk of gold coin sales (78%) were taken up by corporates while individuals accounted for 22%.

17. A total of 1,624 gold coins were redeemed by customers between 25 January 2023 and 31 March 2024, of which 1,447 coins and 177 coins were for US$2.46 million and ZW$700.4 million, respectively. All coins which were redeemed by customers were resold to the market.

18. To increase the divisibility and affordability of gold coins, the Bank introduced Gold-Backed Digital Tokens (GBDT) measured in milligrams, which is one hundredth of a gram.

19. The Bank is currently issuing Gold-Backed Digital Tokens on tap basis. As of 31 March 2024, a cumulative total of 1163 applications were processed, purchasing tokens valued at ZW$466.99 billion and US$5.0 million. The cumulative total amount of gold purchased was 917,278,972 milligrams (equivalent to 917.2814 kg of gold) as shown in Table 1.

**Table 1: Gold Tokens Issuances-as of 31 March 2024**

| Date | Bids | Units Sold (mg) | ZW$ Sales Value | US$ Sales Value |
|---|---|---|---|---|
| May-23 | 348 | 266,967,413 | 30,640,507,714.07 | 3,155 |
| Jun-23 | 212 | 54,652,930 | 18,580,144,742.54 | 4,560 |
| Jul-23 | 30 | 3,404,181 | 1,274,507,245.42 | 80 |
| Aug-23 | 29 | 5,038,032 | 1,636,676,380.76 | 5,003,200 |
| Sep-23 | 30 | 20,127,868 | 7,821,881,845.49 | 8,517 |
| Oct-23 | 50 | 23,579,941 | 9,842,487,408.28 | 310 |
| Nov-23 | 35 | 22,921,827 | 9,600,064,905.32 | 202 |

| Date | Bids | Units Sold (mg) | ZW$ Sales Value | US$ Sales Value |
|---|---|---|---|---|
| Dec-23 | 44 | 50,934,632 | 22,708,413,948.54 | 666 |
| **Total 2023** | **776** | 523,846,336 | **102,104,684,190.42** | 5,020,689 |
| Jan-24 | 84 | 129,457,176 | 88,436,117,288.67 | 20 |
| Feb -24 | 141 | 168,835,906 | 148,230,739,818.75 | 22 |
| Mar-24 | 160 | 95,139,554 | 133,238,590,655.77 | 0 |
| **Total 2024** | **385** | **393,432,636** | **364,891,890,388.75** | **42** |
| **Grand Total** | **1163** | **917,278,972** | **466,996,574,579.17** | **5,020,731** |

20. As of 31 March 2024, a total of 69,949,215 GBDT had been redeemed at a value of US$4.146 million and ZW$1.6 billion. This represents under 10% of the total GBDT issued, a reflection that most of the instruments were purchased as a store of value.

## Statutory Reserves

21. The Bank continued to review the statutory reserve requirements in line with the tight monetary policy stance. To this effect, the statutory reserve requirements on both local and foreign currency demand and call deposits were standardised to 15% in September 2023, while savings and time deposits were maintained at 5%. The reserve requirements continue to play a key role in mopping up liquidity and supporting financial stability in the economy.

## Foreign Exchange Inflows

22. The Bank's foreign currency management has continued to support the generation of foreign currency in the economy. Reflecting these developments, the country's foreign currency receipts have remained high compared to historical averages, notwithstanding the marginal decline of 3.7% in 2023 compared to 2022 as shown in Table 2.

**Table 2:Total Foreign Currency Receipts (US$ millions)**

| Type of Receipts | 2023 (US$) | % Contribution | 2022 (US$) | % Contribution | % Change |
|---|---|---|---|---|---|
| Export Proceeds | 6,043.20 | 55% | 7,268.20 | 64% | -16.90% |
| International Remittances | 3,010.90 | 27% | 2,795.20 | 24% | 0.13 |
| Diaspora Remittances | 1,873.90 | 17% | 1,658.40 | 15% | 13% |
| NGOs Remittances | 1,137.00 | 10% | 1,136.80 | 10% | 0% |
| Loan Proceeds (Private) | 1,454.20 | 13% | 1,020.80 | 9% | 42.50% |
| Income receipts | 111.9 | 1.00% | 145.4 | 1% | -23% |
| Foreign Investment | 375.6 | 3.40% | 184.9 | 1.60% | 103% |
| **TOTAL** | **10,995.80** | **100%** | **11,414.40** | **100%** | **-3.70%** |

*Source: RBZ, 2024*

23. Foreign currency inflows have shown signs of strong recovery during the first two months of 2024. The foreign currency receipts for January and February 2024 amounted to US$2.2 billion compared to US$1.8 billion received during the same period in 2023, representing a 23% increase, driven by strong exports and remittances.

## Money Market Liquidity

24. The Bank continued with its tight monetary policy stance during the past eight months, with excess liquidity being mopped through the issuance of Non-negotiable Certificates of Deposit (NNCDs). The Bank tightened the open market operations to mop-up excess liquidity by introducing 7, 14, 21 and 31-day maturity buckets for NNCDs in August 2023. In this regard, the level of NNCDs fluctuated between ZW$251 billion and ZW$1.1 trillion during the past eight months.

25. Further efforts to manage liquidity saw the Bank issuing RBZ instruments as collateral instead of cash cover for foreign currency structures undertaken with banks.

## The Auction System

26. In 2023, the Bank consolidated the Main Auction and the Micro, Small, and Medium Enterprises (MSMEs) Auction into a Retail Foreign Exchange Auction system with a weekly maximum limit of US$5 million. The Bank successfully held 48 Retail Auctions in 2023 bringing the cumulative total to 172 since inception in June 2020 to 12 January 2024, when the Auction System was discontinued.

27. The Bank allotted a total of US$410.2 million in 2023 under the retail auction system, representing around 70.2% of total bids submitted. Cumulative allotments of the retail auction system since its inception in July 2020 amounted to US$4.12 billion by the time the Auction was discontinued, as shown in Table 3.

**Table 3: Retail Foreign Exchange Auctions as of 12 January 2024**

| Date | US$ Total Bids | US$ Allotted | Share of Allotted |
|---|---|---|---|
| 2020 | 645,295,466.94 | 624,933,976.75 | 96.8% |
| 2021 | 2,031,648,018.52 | 1,971,446,836.20 | 97.0% |
| 2022 | 1,220,873,179.99 | 1,114,154,170.51 | 91.3% |
| 2023 | 583,189,900.56 | 410,186,516.39 | 70.2% |
| **GRAND TOTAL** | **4,481,006,566.01** | **4,120,721,499.85** | **91.9%** |

28. In 2023, raw materials dominated the allotments accounting for US$188.8 million, which was 51% of total allotments. Machinery and equipment were second at 17% with an allotment of US$61.47 million. The residual 32% went towards payment for consumables, pharmaceuticals, and other critical needs of the economy.

## Wholesale Foreign Exchange Auction System

29. Since the introduction of the wholesale foreign exchange auctions on 7 June 2023, the Bank held 34 auctions. Table 4 shows developments in the wholesale auction market.

**Table 4: Wholesale FX Auction Results – 12 January 2024**

| Date | Bids Received | US$ Total Bids | US$ Allotted | Share of Allotted |
|---|---|---|---|---|
| June-23 | 82 | 67,379,364.00 | 59,569,210.00 | 88.4% |
| July-23 | 99 | 66,591,250.00 | 58,102,450.00 | 87.3% |
| Aug -23 | 75 | 86,883,231.96 | 84,451,231.96 | 97.2% |
| Sept -23 | 76 | 75,388,562.05 | 74,206,462.05 | 98.4% |
| Oct -23 | 95 | 89,919,718.96 | 89,919,718.96 | 100.0% |
| Nov- 23 | 75 | 68,808,762.08 | 66,646,262.08 | 96.9% |
| Dec - 23 | 39 | 33,548,345.86 | 32,048,345.86 | 95.5% |
| **Total** | **541** | **488,519,234.91** | **464,943,680.91** | **95.1%** |

30. Cumulatively, the Bank allotted US$464.9 million, under the Wholesale Foreign Exchange Auction System, representing around 95.1% of total bids submitted. The Bank has, however, also delayed the settlement of the Wholesale auction of around US$80.9 million since discontinuation of the Auction System.

31. The Bank also availed US$20.2 million to the *Bureaux de Change* to facilitate formal access to foreign currency by individuals, and small to medium-scale enterprises.

## SECTION THREE

# RECENT ECONOMIC AND INFLATION DEVELOPMENTS

### Global and Regional Economic Developments

32. Global growth is now forecasted to remain relatively stable at 3.1% in 2024, an improvement from the initially anticipated 2.9% on account of improved growth prospects in advanced economies. The projected global growth is well below the historical (2000–19) average of 3.8%. Advanced economies are expected to slow from 1.5% in 2023 to 1.4% in 2024, on account of both the tight fiscal and monetary policies which are impacting growth. Emerging markets and developing economies are projected to maintain a 4% growth in 2024. Sub-Saharan Africa is projected to grow by 3.8% in 2024 from an estimated growth of 3.1% in 2023.

33. The intensifying geo-political conflicts and the growing intensity and frequency of extreme weather events coupled with the tight global financial conditions driven by the need to contain inflation, particularly in advanced economies, have increased the underlying global risks and vulnerabilities and may further impact growth in the outlook period.

**Table 5: Global Growth Projections (%)**

| | 2022 | 2023 | 2024 |
|---|---|---|---|
| **World Output** | 3.5 | 3.1 | 3.1 |
| **Advanced Economies** | 2.6 | 1.6 | 1.5 |
| **USA** | 1.9 | 2.5 | 2.1 |
| **Euro Area** | 3.4 | 0.5 | 0.9 |
| **Emerging Markets and Development Economies (EMDEs)** | 4.1 | 4.1 | 4.1 |
| **China** | 3.0 | 5.2 | 4.6 |
| **Sub-Saharan Africa** | 4.0 | 3.3 | 3.8 |
| **South Africa** | 1.9 | 0.6 | 1.0 |
| **Zimbabwe** | 6.5 | 5.5 | 3.5 |

*Source: IMF, World Economic Outlook, January 2024*

## Global Inflation

34. Global inflation is forecast to decline steadily, from 6.9% in 2023 to 5.8% in 2024, due to tight monetary policy, coupled with lower international commodity prices. As a result, most countries are now winding down the policy tightening cycles which have reached a plateau, prompting most central banks to keep policy rates unchanged.

35. Risks to the outlook are more balanced than they were six months ago on account of the resolution of US debt ceiling tensions and the decisive action taken by the Swiss and US authorities, to contain financial turbulence. The likelihood of a hard landing has, therefore, receded. The balance of risks to global growth has, however, tilted to the downside. More climate and geopolitical shocks could cause additional food and energy price spikes.

36. The intensifying geoeconomic fragmentation could constrain the flow of commodities across markets, causing further price volatility and complicating the green transition. In particular, the disruption of shipping in the Suez Canal and the

Red Sea creates uncertainty and could result in delays in the delivery of goods as ships reroute to alternative and much longer routes, thus, pushing up the shipping costs. Economies in Europe are concerned that this could trigger another episode of rising inflation.

## Real Sector Developments

37. In 2023, the domestic economy is estimated to have grown by 5.5%, a slowdown from 6.5% realised in 2022. The growth was 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.

38. The mining sector, which has become the biggest contributor to foreign currency receipts 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. Gold deliveries to Fidelity Gold Refinery (FGR) amounted to 30,106.71 kilograms in 2023 despite a slowdown in deliveries in the first and second quarters of the year. Cumulative gold deliveries to FGR by the end of 2023 are shown in Table 6.

**Table 6: Cumulative Gold Deliveries to FGR for 2023 (kg)**

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total 2023 |
|---|---|---|---|---|---|
| Primary producers/kg | 2,514.44 | 3,005.54 | 3,109.74 | 2,815.49 | 11,445.21 |
| Small Scale producers/kg | 3,679.64 | 4,981.40 | 5,175.13 | 4,825.32 | 18,661.50 |
| Total | **6,194.08** | **7,986.94** | **8,284.87** | **7,640.81** | **30,106.71** |

*Source: FGR, 2024*

39. Small scale producers remain the major producers accounting for 62% of the deliveries whilst primary producers accounted for 38%.

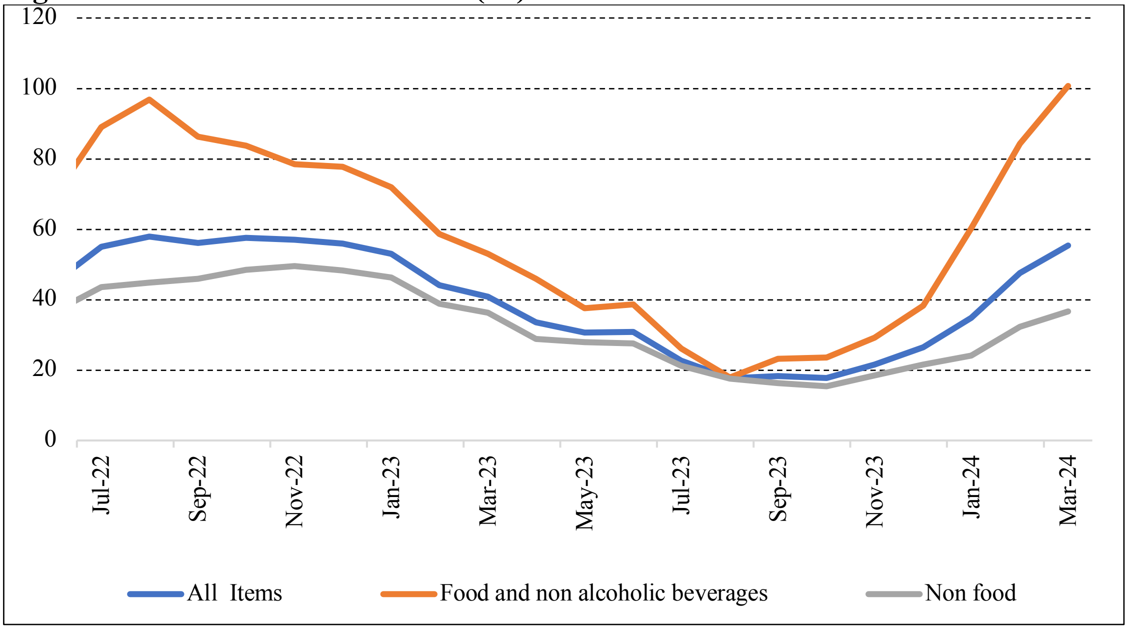
40. In 2024, the El Nino-induced drought will significantly weigh down economic growth prospects. The drought brought on by El Nino, which has proved to be more severe than envisaged, is predicted to have a detrimental effect on the growth trajectory of the domestic economy. The 2023–24 summer crop, which was largely fair in January 2024, has been significantly negatively impacted by the dry spell and high temperatures that have been prevalent since the beginning of February 2024. The direction of domestic growth will also be adversely impacted by a downturn in commodity prices and a reduction in aggregate demand. Other sectors, including tourism and construction will, however, continue to grow favourably and even contribute to the resilience of the economy.

## Inflation Developments

41. Inflation pressures dissipated from June 2023 because of bold monetary and fiscal measures implemented by both the Bank and Government. The measures 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. These measures resulted in tight liquidity in the market which gave rise to benign inflation conditions. As a result, annual inflation decelerated from 30.9% in June 2023 to 17.8% in October 2003. Annual inflation, however rebounded to 26.5% in

December 2023 and remained elevated at 47.6% in February 2024 driven by the weakening of the exchange rate, as shown in Figure 1.

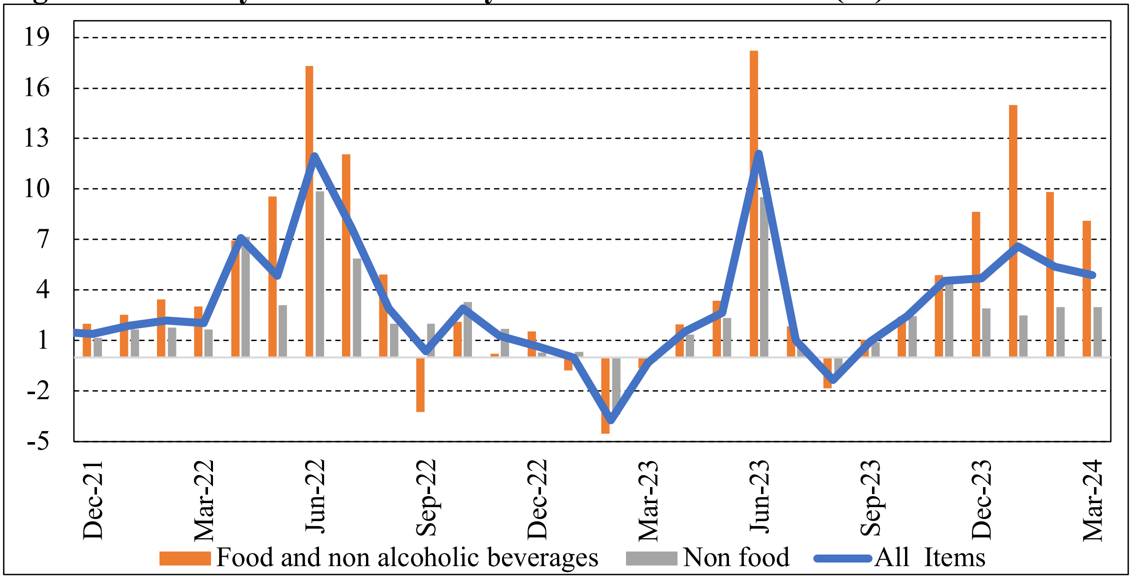
**Figure 1: Annual Inflation Profile (%)**




*Source: ZIMSTAT, 2024*

42. Month-on-month inflation also declined from a peak of 12.10% in June 2023 to -1.3% in August 2023. Driven by the exchange rate volatility, the month-on-month inflation rebounded to 4.7% in December 2023 and 5.4% in February 2024. Figure 2 shows the trend in month-on-month inflation since December 2021.

**Figure 2: Monthly inflation January 2022 to December 2023 (%)**




*Source: ZIMSTAT, 2023*

43. Monthly food inflation fell from a peak of 18.23% in June 2023 to -1.8% in August 2023 and rebounded to 15.01% in December 2023, before decelerating to 9.83% in February 2024. Food inflation exhibited a high volatility in 2023, attributed to speculative pricing and greed inflation which led to Government lifting restrictions on imports of some basic food items and grain.

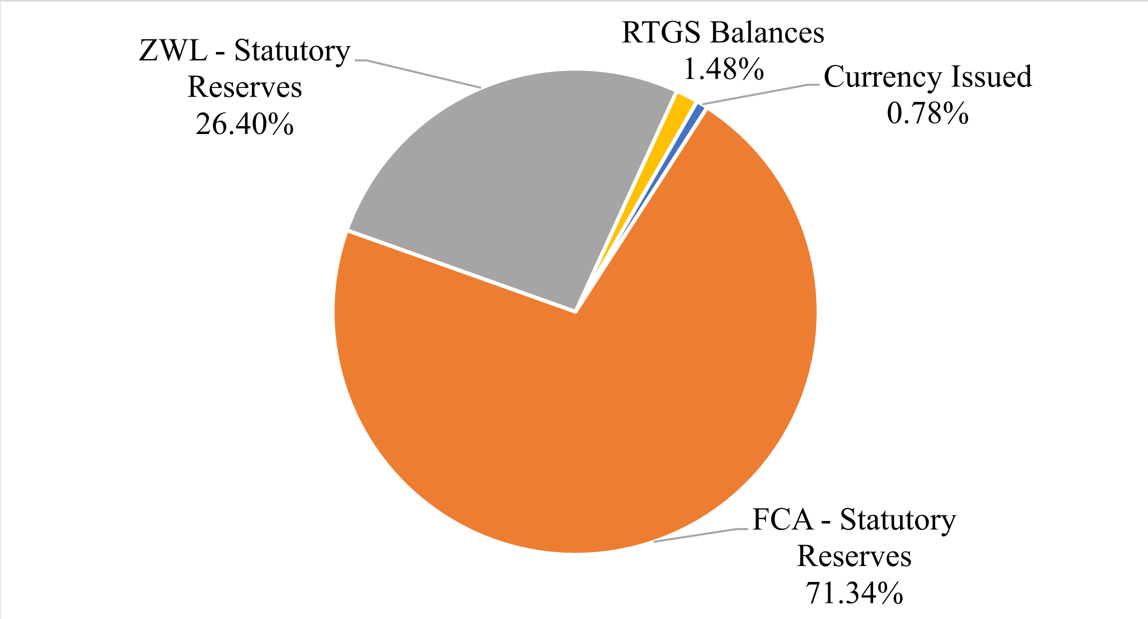
44. Monthly non-food inflation which also fell from 9.53% in June 2023 to -1.12% in August 2023, before reaching 2.90% by December 2023, was largely driven by housing, water, electricity, gas, and other fuels. The overly low monthly inflation in August 2023 was attributed to the appreciation of the exchange rate on both the parallel and interbank markets due to tight liquidity in the market. The non-food inflation stood at 2.98% in February 2024 and slightly increased to 3% in March 2024.

## Reserve Money Developments

45. Reserve money stock stood at ZW$2.021 trillion as at December 2023, compared to ZW$1.064 trillion recorded in June 2023. The increase largely reflected the expansion of ZW$748.44 billion in statutory reserves. The expansion in statutory

reserves was on the back of increases of ZW$570.05 billion and ZW$350.96 billion in foreign and local currency statutory reserves, respectively. Statutory reserves, both in local and foreign currency, constituted about 98% of total reserve money, as shown in Figure 3.

**Figure 3: Components of Reserve Money as at the end December 2023**




*Source: RBZ, 2023*

## Local Currency Statutory Reserves

46. The local currency statutory reserve balances increased from ZW$190.38 billion on 3 July 2023 to ZW$594.82 billion as of 29 February 2024. The increase in the statutory reserve balances partly reflected the change in the reserve requirement ratio as well as the growth in the deposit base. The Bank will continue to adjust the ratios in line with the thrust of monetary policy.

## Foreign Currency Statutory Reserves

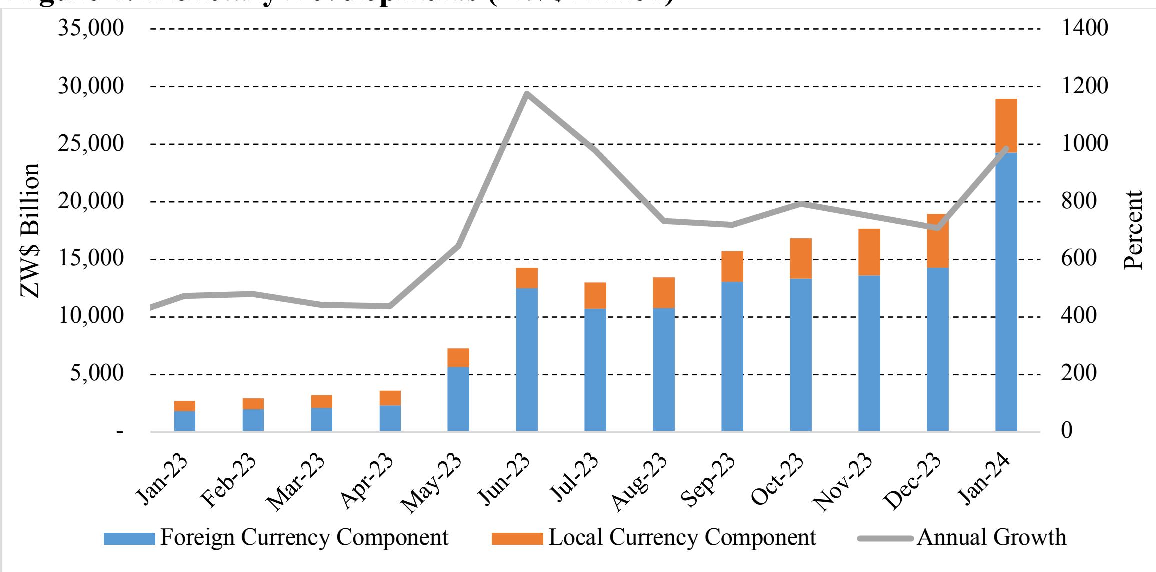
47. The Bank standardized statutory reserve requirements on all deposits by an upward adjustment on the ratio for foreign currency demand and call deposits to 15% and maintaining 5% for time deposits in September 2023. As a result, foreign currency statutory reserve balances increased from US$152.86 million on 8 September 2023

to US$215.96 million as of 29 February 2024. The Bank will continue to monitor changes in the deposit base and respond with policy adjustments accordingly.

## Broad Money Developments

48. Broad money (M3)[1] amounted to ZW$18.870 trillion as at end-December 2023, compared to ZW$14.271 trillion recorded in June 2023. In January 2024, broad money (M3) stock stood at ZW$29.248 trillion. The increase largely reflected an expansion of ZW$3.176 trillion in transferable deposits. The money stock was composed of foreign currency deposits, accounting for 83.01%, local currency deposits constituting 16.94%, and local currency in circulation, 0.05%.

**Figure 4: Monetary Developments (ZW$ Billion)**




*Source: Reserve Bank of Zimbabwe, 2023*

49. On an annual basis, broad money grew by 708.87% in December 2023, from ZW$2.338 trillion in December 2022. The growth was largely driven by an increase of ZW$12.824 trillion in foreign currency deposits. The growth in foreign currency deposits was on the back of real expansion in foreign currency accounts coupled with exchange rate depreciation.

[1] Provisional

50. The annual broad money growth in local and foreign currency is shown in Table 7.

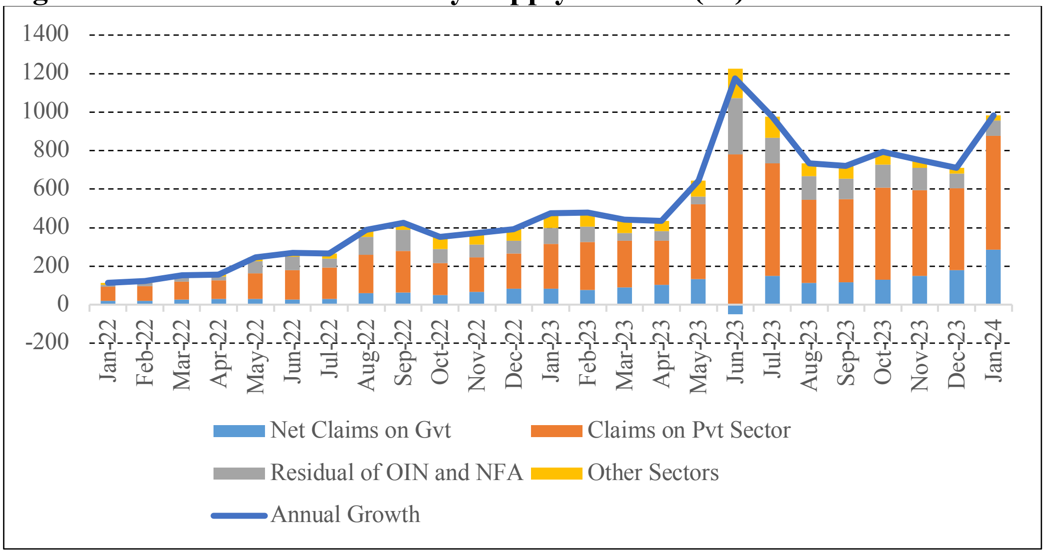
**Table 7: Components of Money Supply Growth**

| | LC component (ZW$ billion) | Annual growth | FC component (ZW$ billion) | Annual growth |
|---|---|---|---|---|
| Dec 2022 | 888.83 | 249.76% | 1449.40 | 555.14% |
| Mar 2023 | 1 122.25 | 278.67% | 2 073.07 | 608.20% |
| Jun 2023 | 1 787.82 | 327.07% | 12 487.66 | 1 681.21% |
| Sep 2023 | 2 688.52 | 317.89% | 13 025.54 | 922.58% |
| Dec 2023 | 4 638.37 | 421.85% | 14 276.21 | 884.97% |
| Jan 2024 | 4 967.84 | 445.44% | 24 280.28 | 1 259.05% |

*Source: Reserve Bank of Zimbabwe, 2024*

51. On the asset side, annual growth in M3 largely reflected nominal changes in credit to the private sector and net claims on Government of ZW$9.948 trillion (914.08%) and ZW$3.598 trillion (758.12%), respectively.

**Figure 5: Contributions to Money Supply Growth (%)**

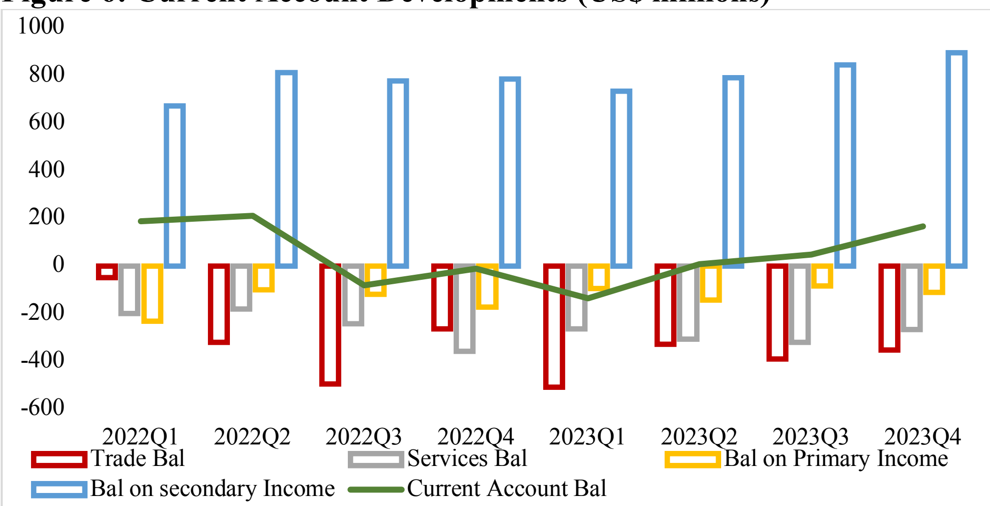



*Source: Reserve Bank of Zimbabwe, 2024*

## Balance of Payments Developments

52. The Bank's preliminary estimates point to the current account balance having narrowed to a surplus of approximately US$125.6 million in 2023, compared to a surplus of US$305.0 million recorded in 2022. This followed a widening of the merchandise trade deficit, largely driven by relative growth in imports in the face of moderating exports as most global commodity prices weakened. The current account balance was further weighed down by services and primary income accounts that also registered deficits. Nevertheless, remittances and other transfers (secondary income flows) continued to demonstrate resilience.

**Figure 6: Current Account Developments (US$ millions)**




*Source: RBZ, 2024*

## Merchandise Exports

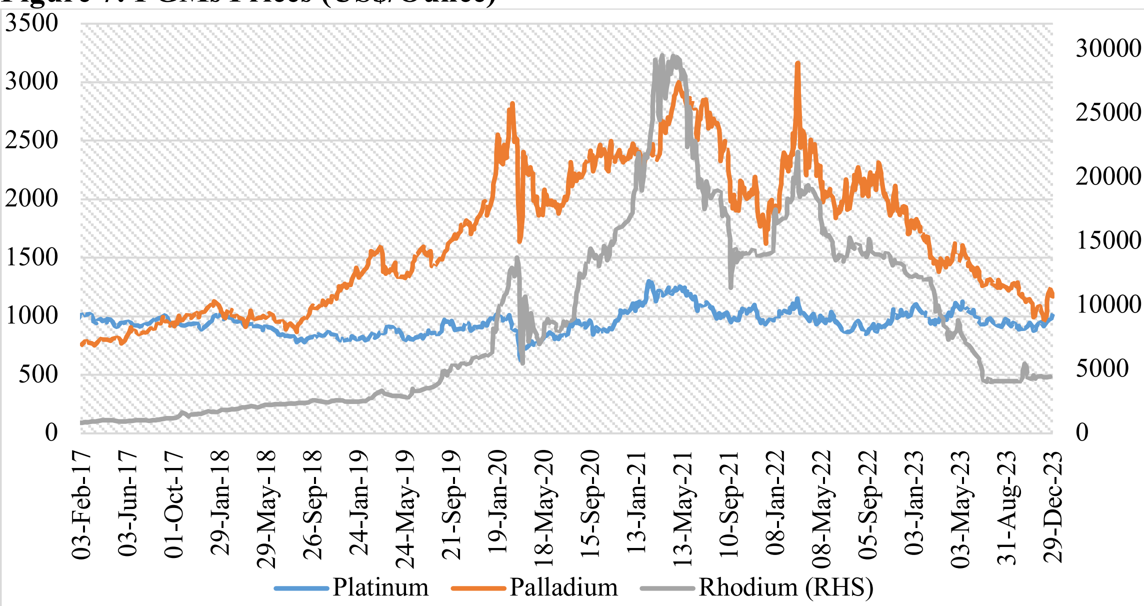
53. Merchandise exports are estimated to have decreased by 0.8%, from US$7.0 billion in 2022 to US$6.9 million in 2023, largely weighed down by subdued mineral exports. The decline in mineral exports was, however, partially offset by increases in agricultural and manufactured exports.

54. During the year under review, mineral exports, which constitute about 80% of the country's merchandise exports, declined by 7.0% to US$5.2 billion, from US$5.5 billion in 2022.

## Platinum Group of Metals (PGMS)

55. The decrease in mineral exports was predominantly caused by the continuous decline of key commodity prices, primarily influenced by the diminished global growth prospects. Notably, palladium and rhodium prices experienced sharp contractions during the period despite the stability of platinum prices, leading to a decreased export value for the platinum group of metals (PGMs), as shown in Figure 7.

**Figure 7: PGMs Prices (US$/Ounce)**




*Source: Johnson Matthey Database*

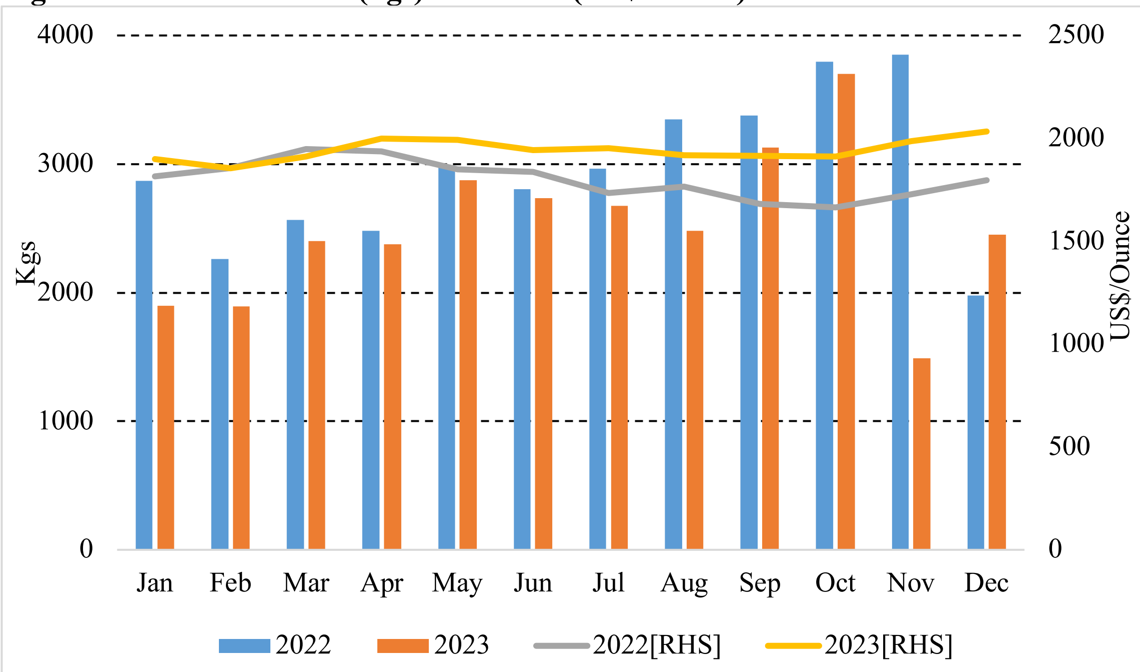
56. The price decline for PGMs was mainly attributable to abundant supplies in the face of deteriorating global macroeconomic conditions which generated subdued demand. The decline in demand also emanated from increased substitution in the automotive and glass industries, favouring alternative metals over palladium and rhodium. As a result, exports of PGMs witnessed a substantial decline of 36.9%, in value terms, from US$2.2 billion in 2022 to US$1.4 billion in 2023.

## Gold Exports

57. While gold exports benefitted from higher global prices amid safe-haven demand, they were weighed down by the more significant volume decline caused by lower production during 2023. Gold deliveries to Fidelity Gold Refinery (FGR) were 30 106.7 kg during 2023, 14.7% lower than the 35 280.1 kg delivered in 2022, as shown in Figure 3. The decline in deliveries was due to reduced output occasioned by power outages and attendant disruptions from heavy rains, which negatively impacted on mining operations during the early months of the year.

58. In addition, the domestic gold pricing framework, affected by exchange rate misalignments also contributed to the decline in deliveries to FGR from small-scale miners. Gold exports are thus estimated to have declined by approximately 11%, from US$1 997.8 million in 2022 to US$1 784.2 million in 2023.

**Figure 8: Gold Purchases (kgs) and Price (US$/Ounce)**




*Source: Fidelity Gold Refinery, 2024*

## Lithium Exports

59. The Zimbabwean lithium industry has witnessed significant capital investments due to the global transition to clean energy. Various projects are underway in the country, ranging from resource evaluation to commissioning stages. Notable production has already commenced at Bikita Minerals (Sinomine), Prospect Lithium Zimbabwe (formerly Acadia), Sabi Star (Maxi Mindi), Kuvimba (Sandawana), and Zulu Lithium. As a result of these developments, lithium exports surged by 854.7%, from US$70.6 million in 2022 to US$674.0 million in 2023.

## Agriculture Exports

60. Agriculture exports grew by 24.9%, from US$1 067.4 million in 2022 to US$1 333.1 million in 2023. The positive trend was mainly driven by the exceptional performance of tobacco, sugar, and crocodile hides. Tobacco exports increased by 27.8%, reaching U$1 183.8 million in the period under review, compared to US$926.1 million in 2022. This followed a very good season during which the

country produced a record high 297 million kilograms in 2023, compared to 211 million kilograms produced in 2022.

## Manufactured Exports

61. The year 2023 witnessed a notable increase of 19.1% in manufactured exports to US$430.7 million, from US$361.8 million recorded in 2022. This was primarily driven by the significant rise in tobacco cigarette exports, which saw a remarkable surge of 64.1% from US$64.5 million in 2022 to US$105.9 million. Additionally, the export of refined sugar posted a substantial growth of 46.2% to US$28.3 million in 2023, from US$19.4 million in 2022.

62. The growth of sugar and cigarette exports was predominantly fuelled by improved access to foreign markets and the efforts of industry players in the respective sectors towards developing external markets. However, the competitiveness of manufactured exports continued to be hampered by challenges such as high production and market development costs and obsolete machinery and equipment.

## Merchandise Imports

63. During 2023, merchandise imports are estimated to have risen by 4.9% to US$8 527.8 million, from US$8 131.8 million in 2022. Increased fuel, machinery, electricity, and grain imports drove the growth. As the economy expands, its capacity to accommodate imports that support the production process also grows.

## Foreign Payments Performance

64. Foreign payments were mainly channelled towards the importation of raw materials and capital goods which are critical in sustaining industry capacity utilization. In addition, capital remittances increased significantly by 51% driven by portfolio disinvestments and external loan repayments.  Table 8 shows foreign payments by category.

**Table 8: Foreign Payments by Category in US$ Millions (Jan –Dec 2023)**

| Category | 2022 | 2023 | % Variance | Contribution 2022 | Contribution 2023 |
|---|---|---|---|---|---|
| **Merchandise Imports (excl. energy)** | **4,529** | **4,908** | **8%** | **53%** | **53%** |
| - Raw Materials & Intermediate Goods | 1,379 | 1,629 | 18% | 16% | 17% |
| - Capital Goods | 1,878 | 1,954 | 4% | 22% | 21% |
| - Consumption & Manufactured Goods | 1,272 | 1,325 | 4% | 15% | 14% |
| **Energy (Fuel & Electricity)** | **1,834** | **1,949** | **6%** | **21%** | **21%** |
| - Fuel | 1,675 | 1,774 | 6% | 19% | 19% |
| - Electricity | 159 | 175 | 10% | 2% | 2% |
| **Service Payments** | **888** | **960** | **8%** | **10%** | **10%** |
| - Technical, Professional & consultancy | 465 | 455 | -2% | 5% | 5% |
| - Software | 108 | 137 | 27% | 1% | 1% |
| - Other (tourism, edu, freight etc) | 315 | 368 | 17% | 4% | 4% |
| **Income Payments (Profits, Dividends)** | **558** | **334** | **-40%** | **6%** | **4%** |
| - Dividends | 428 | 169 | -60% | 5% | 2% |
| - Interest Payments | 16 | 39 | 146% | 0.20% | 0.40% |
| - Other (Salaries, Expats, Rental) | 114 | 126 | 10% | 1% | 1% |
| **Capital Remittances (Outward)** | **614** | **928** | **51%** | **7%** | **10%** |
| - External Loan Repayments | 485 | 766 | 58% | 6% | 8% |
| - Disinvestments | 44 | 86 | 94% | 0.50% | 0.90% |
| - Foreign Investment | 84 | 76 | -10% | 0.98% | 0.80% |

| Category | 2022 | 2023 | % Variance | Contribution 2022 | Contribution 2023 |
|---|---|---|---|---|---|
| **Other Payments** | **169** | **247** | **47%** | **2.00%** | **2.60%** |
| - Card Payments | 143 | 209 | 46% | 2% | 2.24% |
| - Refunds | 26 | 38 | 48.2% | 0.30% | 0.41% |
| **Total** | **8,591** | **9,325** | **8.5%** | **100%** | **100%** |

*Source: RBZ, 2024*

65. Food imports registered a 15.0% increase, from US$519.9 in 2022 to US$597.9 million in 2023, driven by growth in grain imports, notably, maize, rice, and wheat. While the country's wheat production has significantly gone up, the country continues to import hard wheat for blending. Lower import prices for crude soya oil, edible oils, and fertilisers, however, moderated the overall import bill.

## Services Trade

66. Services exports increased by 0.75%, from US$453.3 million in 2022 to US$456.7 million in 2023 driven by the continued recovery in the tourism sector, following the Covid-19 induced disruptions. On the other hand, services imports rose by 9.5%, from US$1 436.8 million in 2022 to US$1 573.5 million in 2023, largely on account of growth in travel, transport, and other business services imports. Freight services increased in line with growing merchandise imports.

## Secondary Income Flows

67. Secondary income inflows increased by 7%, from US$3.080 billion in 2022 to US$3.297 billion in 2023. The increase was due to higher inward remittances from the diaspora. Personal transfers increased by 9.7% to US$2.162 billion in 2023, from US$1.971 billion in 2022. Diaspora remittances through the official channel amounted to US$1.873 billion, a 16% increase from the US$1.617 billion received during the same period in 2022.

68. International remittances received through the normal banking system on behalf of International Organizations (NGOs) amounted to US$1,136 million maintaining the same level as the previous year.

## Stock Market Developments

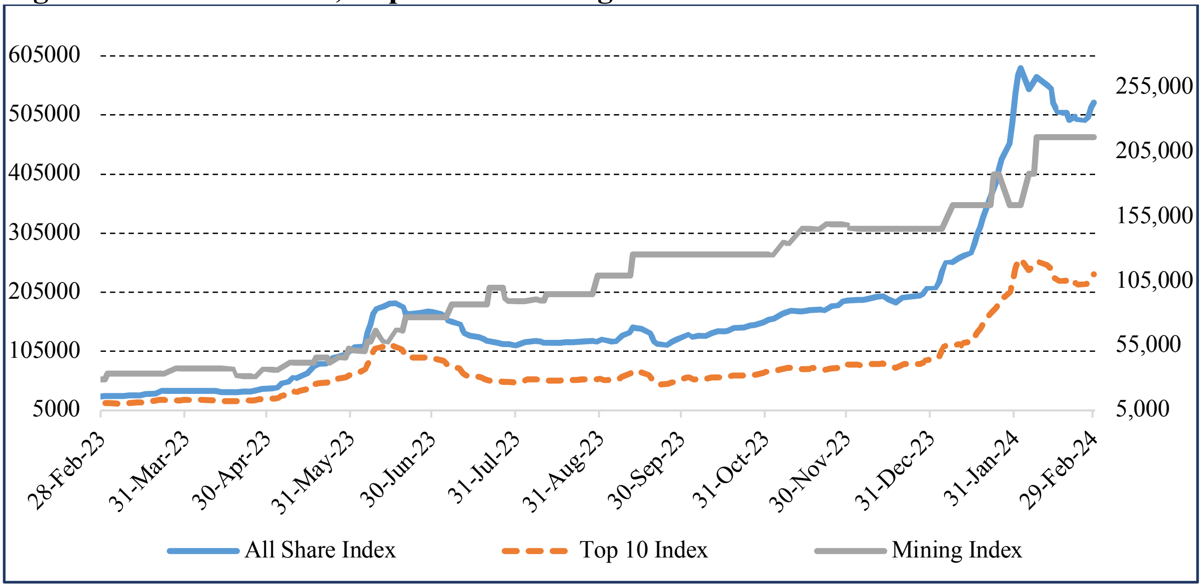
69. The period June 2023 to December 2023, was characterised by mixed trading, with the Zimbabwe Stock Exchange (ZSE) registering some losses in June and July before recovering to close the year in a bearish trend.

70. The All Share, Medium Cap and Small Cap indices closed the year at 210 833.92 points, 920 516.25 points and 5 483 703.77 points, compared to June 2023 positions of 171 408.90 points, 436 363.92 points and 1 911 327.14 points, respectively. The Top 10 Index, however, declined from 93 034.57 points to 90 085.91 points.

71. The resource index also added 89.11% to close at 145 542.27 points during the period under review. On a year-on-year basis, the All Share, Top 10, Medium Cap and Small Cap indices gained 981.54%, 631.74%, 2 412.16% and 1 113.06%, from 19 493.85 points, 12 311.13 points, 36 642.44 points and 452 056.95 points recorded in the comparable period last year, respectively. In the same vein, the mining index also added 471.03%, from 25 487.77 points recorded in December 2022.

72. Figure 9 shows the developments of the ZSE All Share, Top 10 and Mining indices for the period December 2022 to December 2023.

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



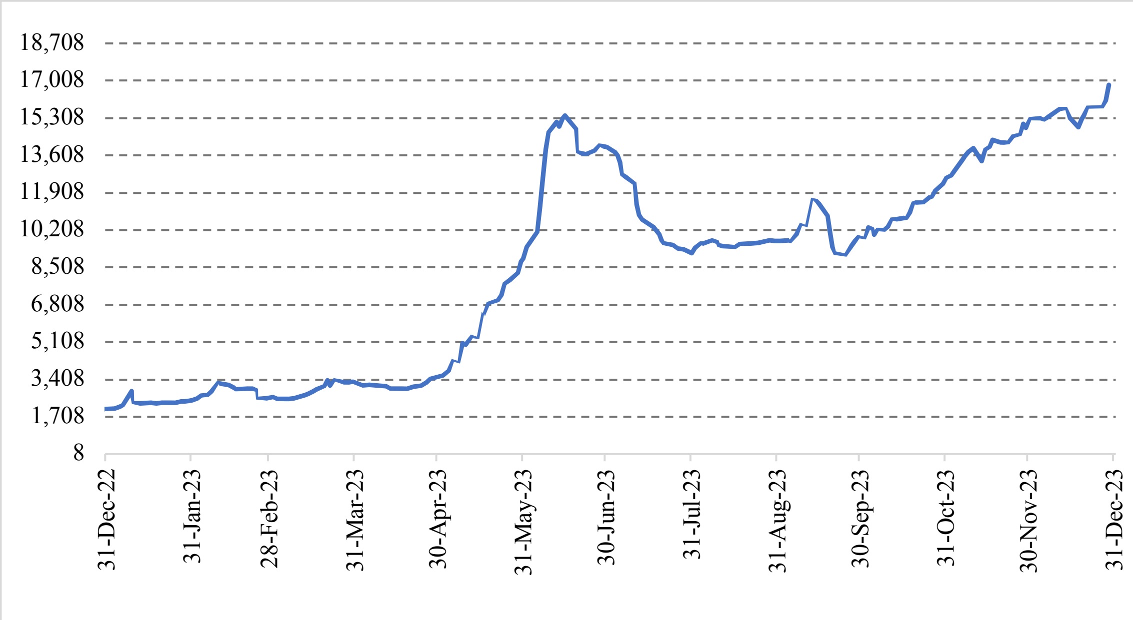

*Source: Zimbabwe Stock Exchange, 2024*

## Market Capitalisation

73. As a result of improved trading activity, the market gained 20.20%, or ZW$2.825 trillion worth of capitalization to close at ZW$16.812 trillion, compared to ZW$13.987 trillion recorded in June 2023. On a year-on-year basis, the ZSE capitalization added 722.20%, from ZW$2.045 trillion recorded in December 2022.

74. Figure 10 shows the evolution of market capitalization for the period 31 December 2022 to 31 December 2023.

**Figure 10: ZSE Market Capitalisation (ZW$ billion)**

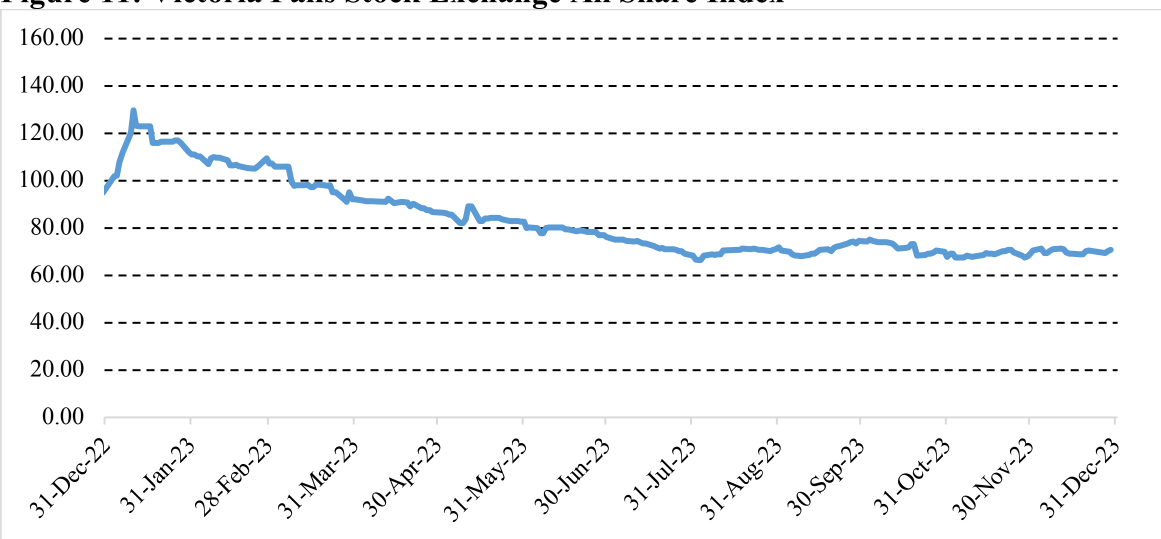



*Source: Zimbabwe Stock Exchange, 2024*

## Victoria Falls Stock Exchange (VFEX)

75. Negative investor sentiments on the VFEX dominated the second half of 2023. In line with these developments, the VFEX All Share index lost 7.25% close at 70.64 points, from 76.17 points recorded in June 2023. On an annual basis, the VFEX All Share index lost 25.50%, from 94.83 points recorded in December 2022.

**Figure 11: Victoria Falls Stock Exchange All Share Index**

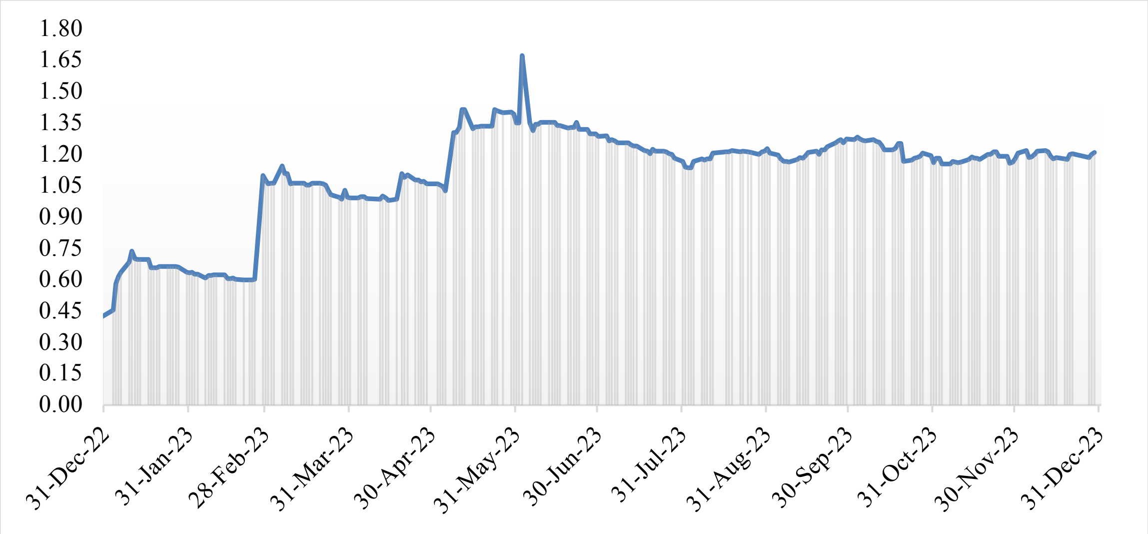



*Source: Victoria Falls Stock Exchange, 2024*

## Market Capitalization

76. During the second half of 2023, market capitalisation declined by 6.02%, or US$77.39 million to US$1.21 billion, compared to US$1.29 billion recorded in the first half of 2023. On an annual basis, however, market capitalization added 172.13%, from US$0.44 billion recorded in the comparable period in 2022.

**Figure 12: VFEX Market Capitalisation in billions of US$.**

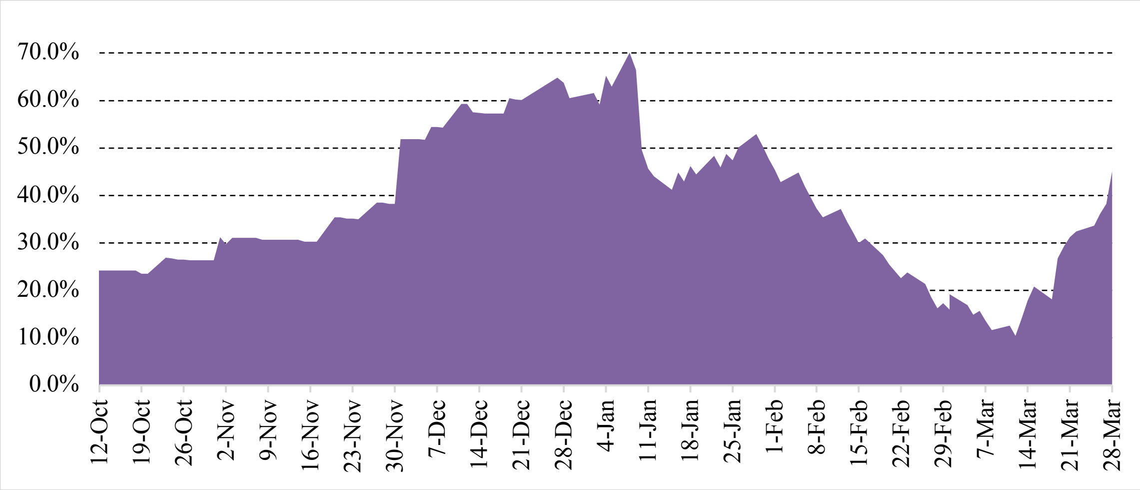



*Source: Victoria Falls Stock Exchange, 2024*

## Foreign Exchange Market Developments

77. The introduction of the wholesale foreign exchange auction, coupled with other monetary and fiscal policy measures, resulted in the parallel market premium declining to below 30% for the greater part of the second half of 2023. The trend, however, reversed when the premium widened to above 50% in December and January 2024 driven by excessive demand for foreign exchange. The parallel market premium has declined to below 20% since February 2024 as shown in Figure 13.

**Figure 13: Exchange Rate Developments**




*Source: Reserve Bank of Zimbabwe, 2024*

# SECTION FOUR

# CONDITION AND PERFORMANCE OF THE BANKING SECTOR

## Condition and Performance of the Banking Sector

78. The banking sector has witnessed general stability and continues to be safe and sound. The sector has demonstrated resilience to shocks emanating from the dynamic operating environment and remains a key catalyst for inclusive and sustainable economic growth. Stability in the sector is attributed to a raft of stabilisation measures by fiscal and monetary authorities.

## Banking Sector Architecture

79. The architecture of the banking sector remains unchanged as shown in Table 9.

**Table 9: Banking sector architecture**

| **Type of Institution** | **Number** |
|---|---|
| Commercial Banks | 14 |
| Building Societies | 4 |
| Savings Bank (POSB) | 1 |
| **Total Banking Institutions** | **19** |
| **Non-Bank Financial Institutions Under the Supervision of Reserve Bank** | |
| Credit-only-MFIs | **219** |
| Deposit-taking MFIs | **8** |
| Development Financial Institutions (SMEDCO, IDBZ, IDCZ and AFC Land & Development Bank) | **4** |
| **Total Other Institutions** | **231** |
| **Total Number of Institutions** | **250** |

## Financial Soundness Indicators

80. Banking sector performance remained robust with adequate capital and liquidity buffers, satisfactory asset quality and sustained profitability, among other key financial soundness metrics as depicted in Table 10.

**Table 10: Financial Soundness Indicators**

| Key Indicators | Benchmark | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 |
|---|---|---|---|---|---|---|
| **Total Assets (ZW$ trillion)** | - | 3.81 | 5.68 | 27.28 | 28.36 | 34.41 |
| **Total Loans & Advances (ZW$ trillion)** | - | 1.29 | 1.97 | 10.19 | 9.70 | 11.26 |
| **Net Capital Base (ZW$ trillion)** | - | 0.75 | 1.01 | 5.95 | 6.36 | 7.77 |
| **Core Capital (ZW$ trillion)** | - | 0.61 | 803.08 | 5.05 | 5.10 | 6.31 |
| **Total Deposits (ZW$ trillion)** | - | 2.29 | 3.17 | 14.66 | 16.08 | 19.47 |
| **Net Profit (ZW$ trillion)** | - | 0.50 | 207.25 | 4.55 | 4.67 | 5.77 |
| **Return on Assets** | - | 17.43% | 4.92% | 26.11% | 23.69% | 23.97% |
| **Return on Equity** | - | 54.33% | 16.62% | 74.60% | 55.63% | 68.99% |
| **Capital Adequacy Ratio** | 12% | 37.15% | 41.05% | 40.48% | 43.15% | 37.34% |
| **Tier 1 Ratio** | 8% | 26.92% | 27.85% | 35.35% | 27.28% | 25.77% |
| **Loans to Deposits Ratio** | - | 55.67% | 62.09% | 55.96% | 52.01% | 49.27% |
| **NPLs Ratio** | 5% | 1.58% | 3.30% | 3.62% | 2.34% | 2.09% |
| **Liquidity Ratio** | 30% | 59.50% | 57.65% | 59.88% | 61.74% | 60.53% |

*Source: Reserve Bank of Zimbabwe, 2024*

## Banking Sector Capitalisation

81. As at 31 December 2023, the banking sector was adequately capitalized and all banking institutions complied with the prescribed tier 1 and capital adequacy ratios of 8% and 12%, respectively, as shown in Table 11.

**Table 11: Banking Sector Capitalisation Levels by Institution**

| Institution | Capital Adequacy Ratio | Tier 1 Ratio |
|---|---|---|
| **Commercial Banks** | | |
| AFC Commercial Bank | 31.22% | 29.00% |
| BancABC | 33.32% | 24.37% |
| First Capital Bank | 33.35% | 23.67% |
| CBZ Bank | 23.13% | 15.26% |
| Ecobank | 39.24% | 33.66% |
| FBC Bank | 16.86% | 13.49% |
| Nedbank | 28.80% | 23.60% |
| Metbank | 69.13% | 69.13% |
| NMB Bank | 29.29% | 28.00% |
| Stanbic Bank | 25.27% | 21.71% |
| Standard Chartered Bank | 27.94% | 15.82% |
| Steward Bank | 41.33% | 31.50% |
| Time Bank | 85.87% | 57.25% |
| ZB Bank | 21.87% | 20.60% |
| **Building Societies** | | |
| CABS | 37.49% | 24.98% |
| FBC Building Society | 31.94% | 26.94% |
| National Building Society | 14.32% | 14.18% |
| ZB Building Society | 56.68% | 56.60% |
| **Saving Banks** | | |
| POSB | 44.03% | 27.39% |

*Source: Reserve Bank of Zimbabwe, 2024*

82. Aggregate core capital increased from ZW$5.05 trillion as at 30 June 2023 to ZW$6.31 trillion as at 31 December 2023 due to organic growth. Retained earnings from some banking institutions were largely driven by revaluation gains from investment properties and translation gains from foreign currency-denominated assets.

83. Banking institutions are currently pursuing various measures to bolster their capital levels as part of ongoing efforts to ensure that they have adequate economic capital commensurate with their risk profiles and to ensure ongoing compliance with minimum capital requirements.

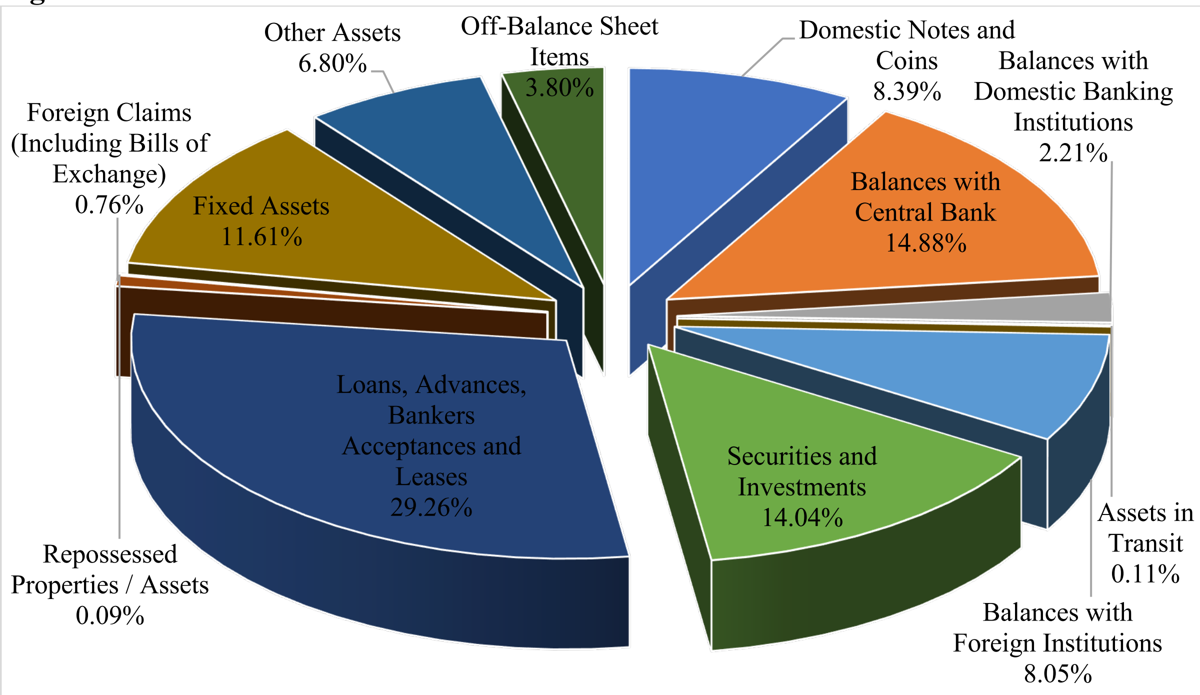
84. External audits of banking institutions for the year ended 31 December 2023 are currently underway. The Bank will leverage on the audit reports to conduct capital

verification examinations to confirm the banks' declared capital positions as at 31 December 2023.

## Banking Sector Asset Structure

85. Total banking sector assets increased from ZW$27.28 trillion as at 30 June 2023 to ZW$34.41 trillion as at 31 December 2023 as shown in Figure 14.

**Figure 14:Asset Mix as at 31 December 2023**

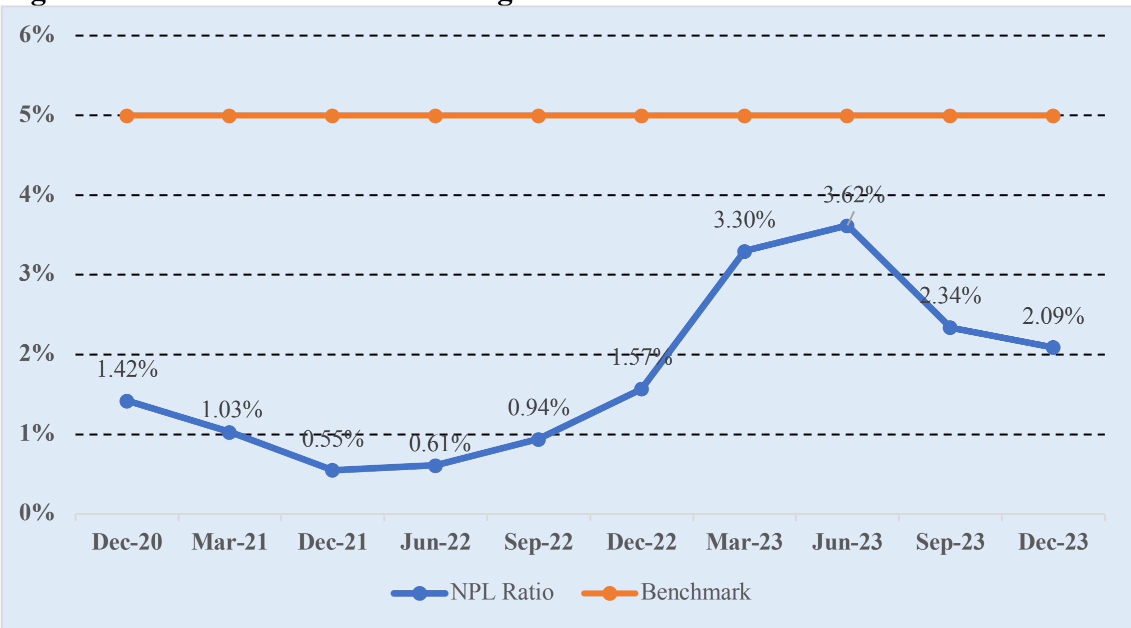



*Source: Reserve Bank of Zimbabwe, 2024*

## Asset Quality

86. Banking sector asset quality remains satisfactory. As at 31 December 2023, the aggregate non-performing loans to total loans ratio (NPL) of 2.09% was within the internationally acceptable threshold of 5%. The ratio improved from 3.62% as at 30 June 2023 reflecting continued sound credit risk management practices and strong internal controls within the banking sector. Figure 15 shows the trend in the level of NPLs from December 2020 to December 2023.

**Figure 15: Trend in Non- Performing Loans**

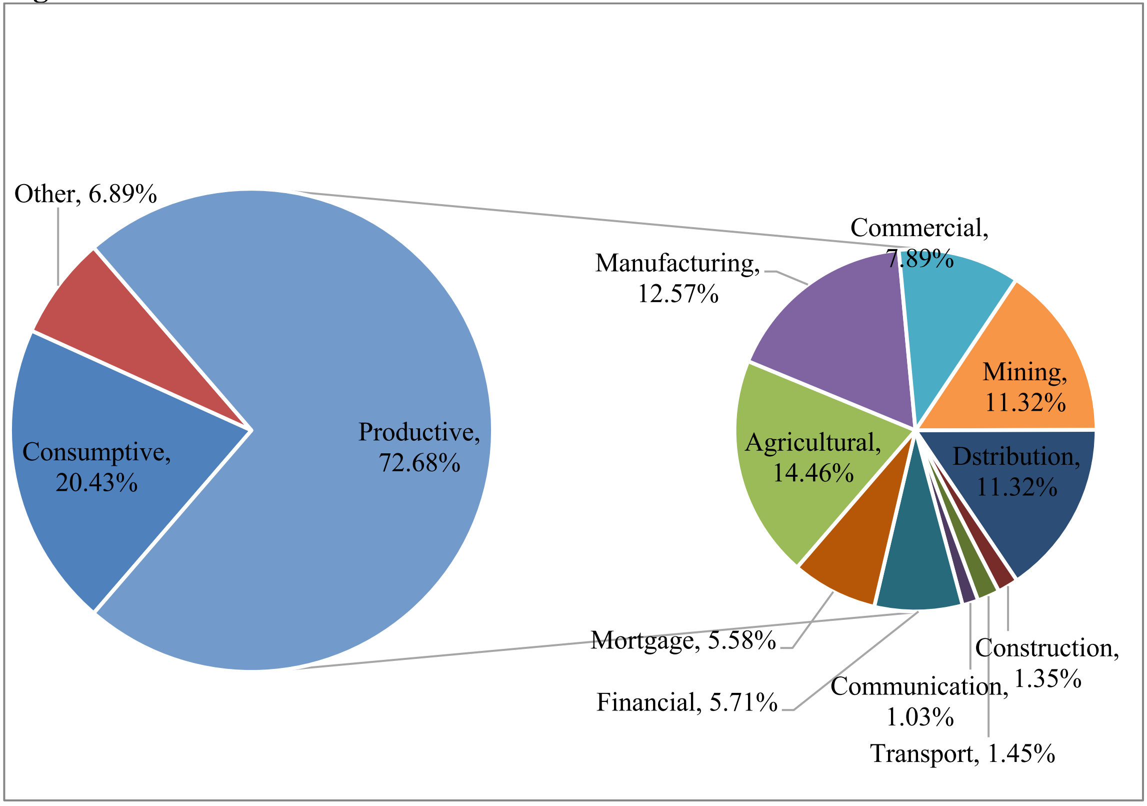



*Source: Reserve Bank of Zimbabwe, 2024*

## Banking Sector Loans and Advances

87. As at 31 December 2023, aggregate banking sector loans and advances amounted to ZW$11.26 trillion, representing a 10.50% increase from ZW$10.19 trillion reported as at 30 June 2023. The increase was largely attributed to an increase in foreign currency-denominated loans, which accounted for 84.67% of the sector's loan book. The banking sector continued to support the funding requirements of the productive sectors of the economy as evidenced by loans to the productive sectors, which constituted 72.68% of total loans as at 31 December 2023. Figure 16 shows the sectoral distribution as at 31 December 2023.

**Figure 16: Sectoral Distribution of Loans as at 31 December 2023**

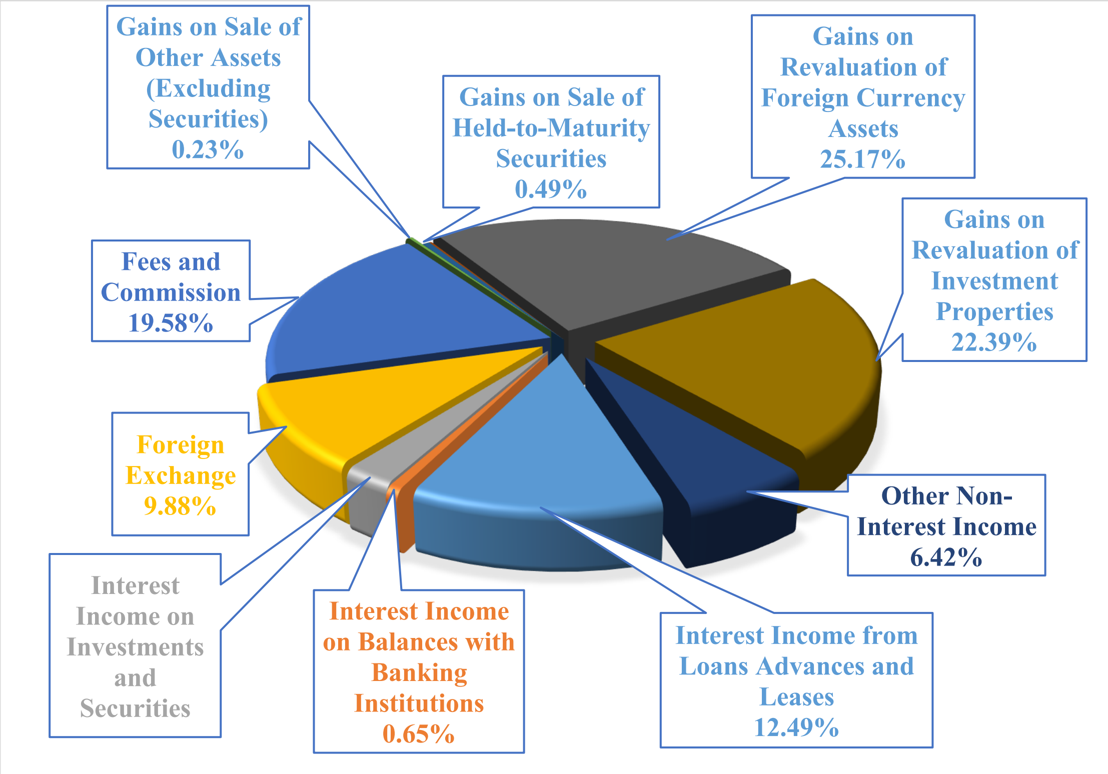



*Source: Reserve Bank of Zimbabwe, 2024*

## Banking Sector Profitability

88. The banking sector remains profitable. All banking institutions registered profits with reported aggregate profits of ZW$5.77 trillion for the year ended 31 December 2023, compared to ZW$503.13 billion reported in 2022. The growth in the banking sector income largely emanated from non-interest income, which accounted for 84.27% of total income (ZW$10.45 trillion) as at 31 December 2023. The income mix for the sector is depicted in Figure 17.

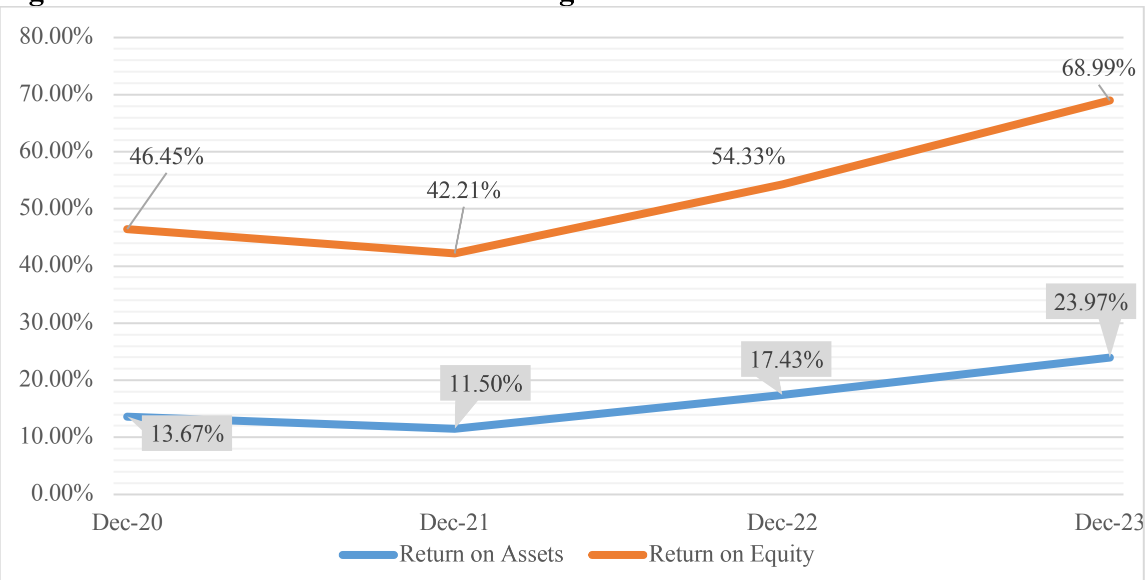
**Figure 17: Banking Sector Income Mix as at 31 December 2023**




*Source: Reserve Bank of Zimbabwe, 2024*

89. The return on assets and return on equity ratios were 23.97% and 68.99% as at 31 December 2023, compared to 17.43% and 54.33% as at 31 December 2022, respectively shown in Figure 18.

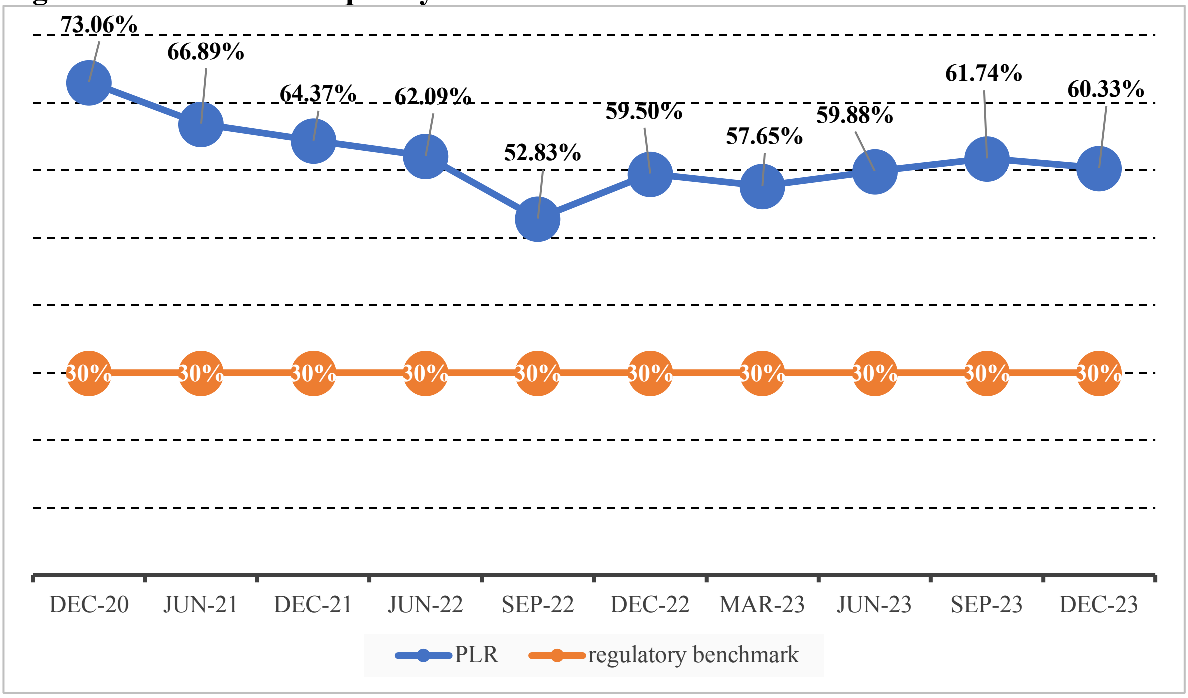
**Figure 18: Returns on Assets and Earnings as at 31 December 2023**




## Banking Sector Deposits and Liquidity

90. Reflecting high stock of liquid assets, the banking sector's average prudential liquidity ratio was 60.33% as at 31 December 2023. The trend in the prudential liquidity ratio from 31 December 2020 to 31 December 2023 is shown in Figure 19.

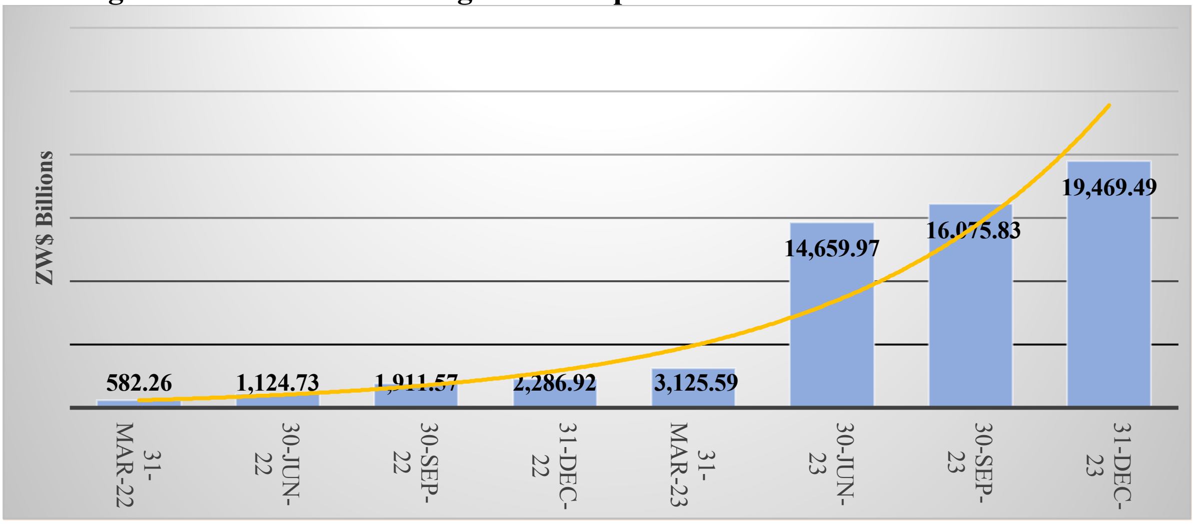
**Figure 19: Prudential Liquidity Ratio Trend**




*Source: Reserve Bank of Zimbabwe, 2024*

91. Total banking sector deposits continued on an upward trajectory from ZW$14.66 trillion reported as at 30 June 2023 to ZW$19.47 trillion as at 31 December 2023, mainly driven by translation of foreign currency-denominated deposits due to exchange rate movements. Foreign currency deposits accounted for 77.09% of total deposits as at 31 December 2023. The trend of banking sector deposits over the period 31 March 2022 to 31 December 2023 is shown in Figure 20.

**Figure 20: Trend in Banking Sector Deposits**




*Source: Reserve Bank of Zimbabwe, 2024*

## Climate Risk Management

92. Climate risk management continues to be a key supervisory focus area for the Bank. Thus, the Bank continues to institute a series of measures to improve banking institutions' risk management and supervisory practices pertaining to climate-related risks.

93. Following the issuance of Guideline No.01-2023/BSD: Climate Risk Management in April 2023, the Bank conducted a survey to assess progress made by financial institutions in operationalizing the provisions of the Guideline. The results from the survey show that most banking institutions have to date conducted some assessments to determine the impact of climate risk on their balance sheets and have developed climate risk management policies and put in place appropriate governance arrangements, including board and senior management oversight. Limited availability of climate-related data and climate stress testing capabilities were noted as some of the challenges being faced. Against this background, the Bank will continue to work closely with the banking sector and other relevant

stakeholders in enhancing industry skills and capacity to manage climate-related risks.

94. In December 2023, the Bank was accepted as a member of the Network for Greening the Financial System (NGFS). The main objective of the NGFS is to improve the global response required to meet the Paris Agreement's climate change goals, as well as to improve the role of the financial system in risk management and capital mobilization for green and low-carbon projects in the context of ecologically sustainable development. It is envisaged that NGFS membership will significantly positively impact the management of climate-related risks in the country.

## Liquidity Coverage Ratio Standard

95. Banking institutions are at various stages of developing and reinforcing requisite policies, processes, models, and systems (including management information systems) following the issuance of **Prudential Standard No:02-2022/ BSD: Guidance on the Implementation of the Liquidity Coverage Ratio (LCR)** in December 2022. The Bank has determined, from reports hitherto received from banks, that the banking sector has sufficient liquidity to meet short-term obligations as measured by the LCR.

96. Going forward, the Bank has noted the need to customise some of the LCR parameters, taking cognizance of the domestic operating environment. As previously communicated, the objective of the Standard is to promote the short-term resilience of the liquidity risk profile of banking institutions.

## Enhanced Risk Management Guideline

97. The Bank has enhanced **Prudential Standard No. 1-2006/BSD Risk Management** taking cognisance of emerging risks such as Climate and Cyber risks, as well as amplified risks on the back of dynamic domestic and global

operating landscapes. The reinforcements place greater emphasis on governance, risk management arrangements, and processes, paying due regard to processes of the Board and Senior Management oversight including risk culture and risk appetite, compliance, and strategic risk management. The guideline will be issued by 30 April 2024.

## Review of Microfinance Licensing & Supervisory Framework

98. In line with the Reserve Bank's mandate to provide supportive regulatory interventions to ensure the microfinance sector continues to support entrepreneurship development and improvement of livelihoods under the National Financial Inclusion Strategy (NFIS) II, the Bank is in the process of reviewing the current licensing and supervisory framework for both credit-only and deposit-taking microfinance institutions to ease the licensing requirements and ensure effective financial surveillance.

## Performance of the Microfinance Sector

99. Microfinance institutions continue to play a significant role in promoting financial inclusion and driving sustainable economic development. As at 31 December 2023, there were 238 registered microfinance institutions, comprising 230 credit-only microfinance institutions, and eight (8) deposit-taking microfinance institutions (DTMFIs). Seven (7) out of the total eight (8) DTMFIs were operational, while one (1) was still in the process of putting together the requisite infrastructure to commence deposit-taking microfinance business.

## Microfinance Outreach

100. The number of active clients accessing loans through microfinance institutions increased by 12.21% from 298,023 as at 30 June 2023, up to 334,423 as at 31 December 2023. The industry also recorded an 8.88% increase in the number of women accessing loans from 137,063 up to 149,235 as at 31 December 2023, and the value of loans to female borrowers over the same period increased by 82.22% from ZW$157.32 billion to ZW$286.67 billion as at 31 December 2023.

## Microfinance Sector Capitalization

101. The microfinance sector registered a 32.77% increase in aggregate equity from ZW$301.14 billion as at 30 June 2023 to ZW$399.83 billion as at 31 December 2023. The increase was attributable to organic growth, fresh capital injection by some microfinance institutions' shareholders and currency translation gains.

102. A total of 35 credit-only microfinance institutions were non-compliant with the minimum capital requirements of ZW$ equivalent of US$25,000. The non-compliant institutions are putting in place re-capitalization strategies to comply with the prescribed minimum capital requirements and enhance their capacity to underwrite more meaningful business.

103. Four (4) out of seven (7) operational DTMFIs were non-compliant with the new minimum capital requirement of ZW$ equivalent to US$5 million for deposit-taking microfinance institutions. This was largely attributable to persistent losses since inception by the respective DTMFIs, thereby depleting institutions' capital. The Bank continues to engage the institutions and shareholders of the non-compliant DTMFIs as they implement various capital-raising initiatives.

## Loan Portfolio

104. Total loans for the microfinance sector increased by 78.93% from ZW$418.37 billion as at 30 June 2023, to ZW$748.60 billion as at 31 December 2023. The aggregate industry total loans of ZW$748.60 billion comprised ZW$342.57 billion (54.97%) for consumptive loans and ZW$337.13 billion (45.03%) for productive loans. The sector registered a deterioration in the loan portfolio quality as reflected by the portfolio-at-risk (>30 days) ratio of 10.43% as at 31 December 2023, up from 7.20%. This underscores the need to enhance credit risk management within the microfinance sector.

## Profitability

105. The microfinance sector registered significant progress with an aggregate net profit of ZW$402.64 billion for the year ended 31 December 2023, from ZW$12.10 billion recorded during the comparable period in 2022. The increase was largely attributed to the revaluation of trading assets held in foreign currency.

## Deposits Mobilisation

106. Confidence in the deposit-taking microfinance subsector continues on an upward trend as reflected by a 104.72% increase in deposits over the review period from ZW$53.35 billion as at 30 June 2023 to ZW$109.22 billion as at 31 December 2023.

## Sustainable Banking Practices

107. Sustainability has become a key factor in creating strong, resilient, and inclusive financial institutions that contribute meaningfully to sustainable economic development and greening of the financial sector. The Bank remains resolutely focused on promoting the adoption of sustainable banking practices within the financial services sector. It is against this background that the Bank continues to work 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.

108. To date, 14 out of 19 banking institutions are participating under the SSCI and are at various stages of implementation while more institutions have expressed interest in undergoing the certification program.

## NATIONAL FINANCIAL INCLUSION STRATEGY II IMPLEMENTATION

109. Financial inclusion remains a key priority area that facilitates positive wealth creation and a key driver to sustainable and inclusive economic development,

towards the country's 2030 Vision of an "**Upper Middle- Income Economy"**, 'leaving no one and no place behind'.

## Financial Literacy & Consumer Education

110. The main strategic vision of the National Financial Inclusion Strategy (NFIS) II is to promote increased usage of financial services. Low levels of financial literacy, including digital financial literacy, have contributed to lower uptake and usage of financial services. In this regard, and as part of the implementation of NFIS II, there is increased focus on financial literacy with the view to facilitate acquisition of knowledge and skills that promote responsible financial behaviour and enables consumers to make informed financial decisions.

111. The Bank, in collaboration with other stakeholders, is conducting financial literacy programs on various platforms including, schools, women groups, churches, businesspeople forums, and communities in the rural areas. Further, the Bank has also embarked on financial inclusion campaigns and community engagements across the country's provinces through various platforms including the National Development Strategy 1 programmes spearheaded by the Ministry of Finance, Economic Development and Investment Promotion, and sensitisation outreach programs on consumer rights and digital financial services, with Postal Telecommunication Regulatory Authority of Zimbabwe (POTRAZ), Consumer Council of Zimbabwe and Consumer Protection Commission of Zimbabwe.

112. In addition to financial literacy initiatives by the Bank, financial institutions were urged to adopt the '**finance plus**' approach to the provision of financial services by combining financial services and products with non-financial services incorporating financial literacy programs.

## Financial Inclusion Indicators

113. Access to credit improved during the year ended 31 December 2023 as indicated by the significant increase in the real value of loans to women, which registered a 90.50% increase from ZW$378.71 billion as at 30 September 2023, to ZW$721.43 billion as at 31 December 2023. The increase was partly attributed to the operationalisation of the collateral registry system which facilitates the usage of moveable assets particularly by women who previously lacked collateral to secure funding from financial institutions.

114. As at 31 December 2023, loans to women accounted for 7.76% of total banking sector loans, up from 4.48% in the previous quarter. In addition, real value of loans to MSMEs and Youth increased from ZW$326.97 billion and ZW$278.49 billion as at 30 September 2023, to ZW$461.39 billion and ZW$292.85 billion as at 31 December 2023, respectively.

115. The proportion of loans to MSMEs compared to total banking sector loans increased from 3.87% to 4.96%, while the proportion of loans to Youth compared to total banking sector loans marginally declined from 3.29% to 3.15% for the same period.

116. The number of active bank accounts marginally declined from 8.02 million as at 30 September 2023, to 7.69 million as at 30 December 2023, whilst low cost accounts increased from 3.5 million to 3.75 million during the same period. Table 12 below shows the trend in the movement of the financial inclusion indicators during the review period.

**Table 12: Financial Inclusion Indicators as at 31 December 2023**

| Indicator | Dec 22 | March 23 | June 2023 | Sept 23 | Dec 23 |
|---|---|---|---|---|---|
| Number of Loans to MSMEs | 24,987 | 25,162 | 93,070 | 94,670 | 93,404 |
| Nominal Value of loans to MSMEs (ZW$ Million) | 49,714.31 | 74,604.99 | 43,385.29 | 387,133.62 | 583,745.54 |
| Inflation-adjusted - Value of loans to MSMEs (ZW$ Million) | 14,461.92 | 39,768.12 | 24,679.00 | 326,970.96 | 461,385.98 |
| Average loans to MSMEs as % of total bank loans | 4.15 | 3.87 | 4.58 | 3.87 | 4.96 |
| Number of Loans to Women | 177,671 | 165,459 | 206,886 | 200,894 | 185,326 |
| Nominal Value of Loans to Women (ZW$ Million) | 49,854.41 | 84,043.37 | 34,507.00 | 448,389.80 | 912,752.09 |
| Inflation-adjusted Value of Loans to Women (ZW$ Million) | 14,502.68 | 44,799.24 | 19,629.00 | 378,707.60 | 721,429.09 |
| Average loans to women as a % of total bank loans | 4.16 | 4.36 | 3.64 | 4.48 | 7.76 |
| Number of Loans to Youth | 65,098 | 71,429 | 54,309 | 65,587 | 57,216 |
| Nominal Value of Loans to Youth (ZW$ Million) | 37,629.77 | 55,616.63 | 25,760.00 | 329,728.37 | 370,514.03 |
| Inflation-adjusted Value of Loans to Youth (ZW$ Million) | 10,946.52 | 29,646.39 | 14,653.00 | 278,486.80 | 292,850.17 |
| Average loans to the youth as a % of total bank loans | 3.14 | 2.88 | 2.72 | 3,29 | 3.15 |
| Total number of Active Bank Accounts (Million) | 7.36 | 7.23 | 7.33 | 8.02 | 7.69 |
| Number of Low-Cost Bank Accounts (Million) | 4.35 | 3.34 | 2.35 | 3.5 | 3.75 |

117. The Bank will continue to take a collaborative approach to the implementation of NFIS II with the view to empowering all Zimbabweans towards building resilient

and sustainable livelihoods through increased uptake and usage of appropriate, affordable, sustainable and high quality formal financial services and products.

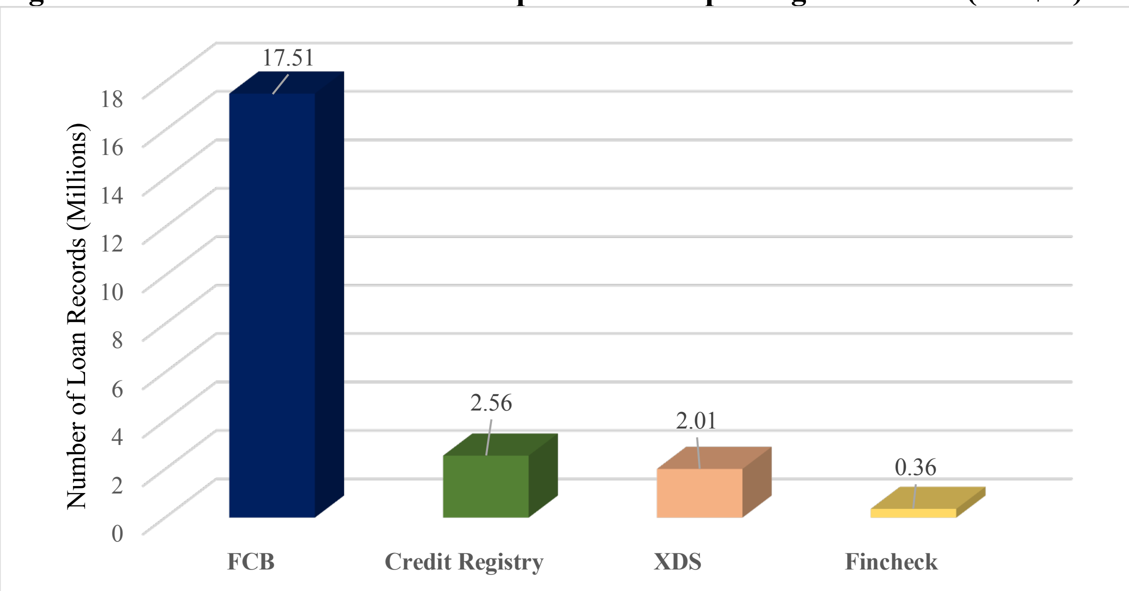
## CREDIT INFRASTRUCTURE

### Credit Information Sharing Environment

118. Credit information sharing among lending institutions, which is facilitated by the Credit Registry and the private credit bureaus continued to make notable contributions to the efficient operation of the credit markets, to financial inclusion and financial sector stability over the year to 31 December 2023.

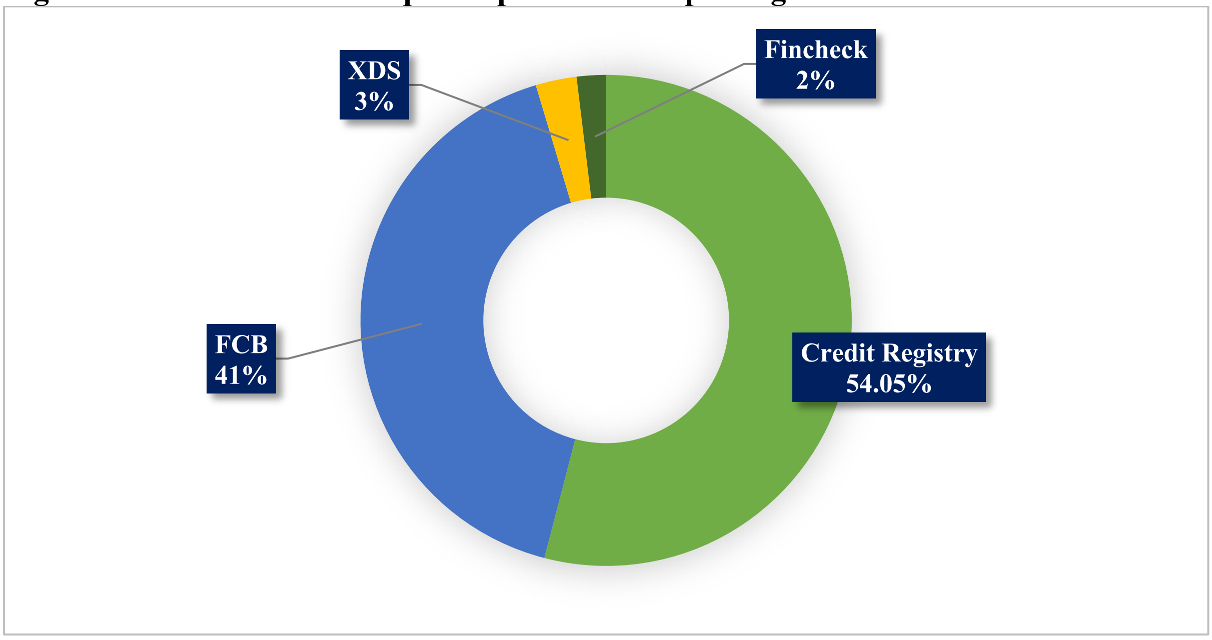
119. Financial institutions can now readily access comprehensive credit information from the databases of the Credit Registry and the credit bureaus as part of the credit screening and risk management strategies. This includes measures to strongly mitigate against the risk accumulating non-performing loans. As at 31 December 2023, the credit reporting institutions in the country held a combined total of 22.44 million searchable records. The cumulative records per institution are indicated in Figure 21.

**Figure 21: Cumulative Loan Records per Credit Reporting Institution (ZW$m)**



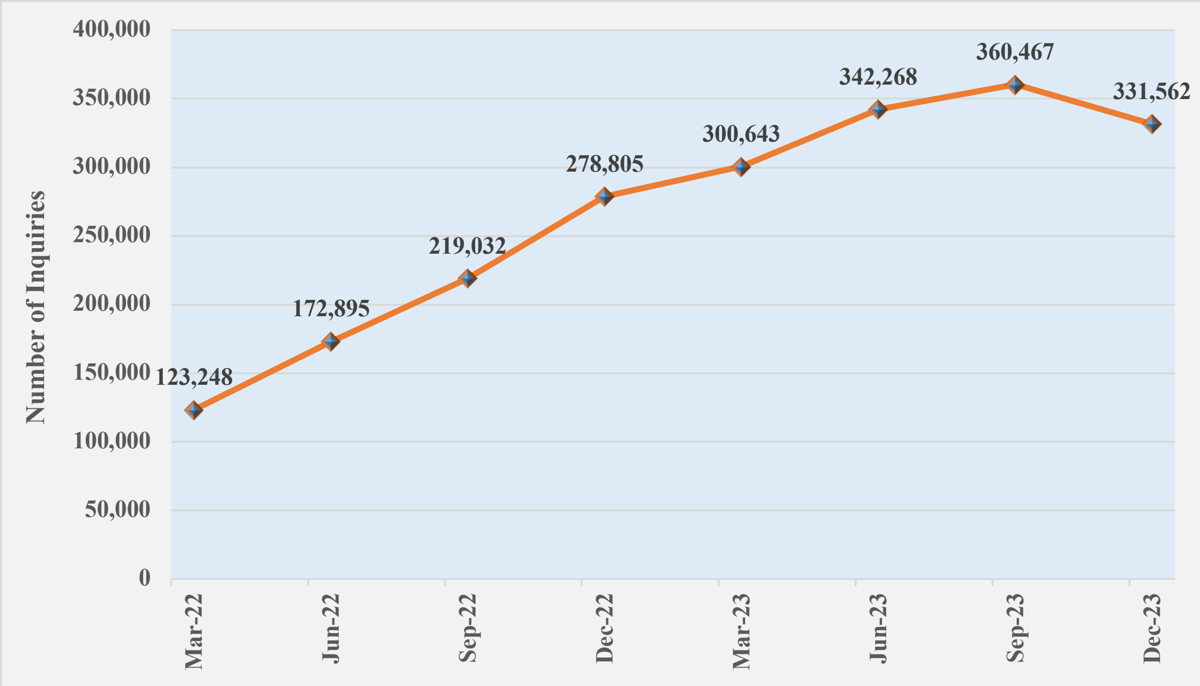
120. Lending institutions are encouraged to search the different credit bureaus as they hold different types of records which are important for lending decisions. The distribution of enquiries across the credit reporting institutions is shown in Figure 22.

**Figure 22: Distribution of Inquiries per Credit Reporting Institution**




121. Statistics from the Credit Registry show an upward trend in the quarterly enquiries as at 31 December 2023, having grown by 18.92% from 278,805 as at 31 December 2022 as shown in Figure 23.

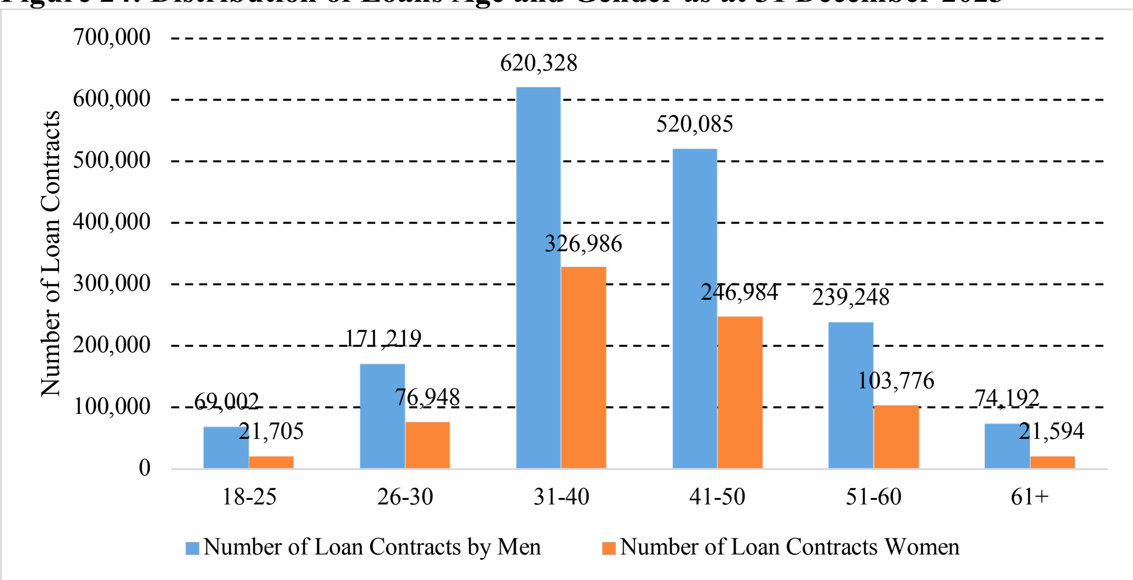
**Figure 23: Credit Registry Usage Status on Quarterly Basis**




*Source: Reserve Bank of Zimbabwe, 2024*

122. The distribution of loans to individual borrowers by age and gender in the Credit Registry as at 31 December 2023 is indicated in Figure 24.

**Figure 24: Distribution of Loans Age and Gender as at 31 December 2023**

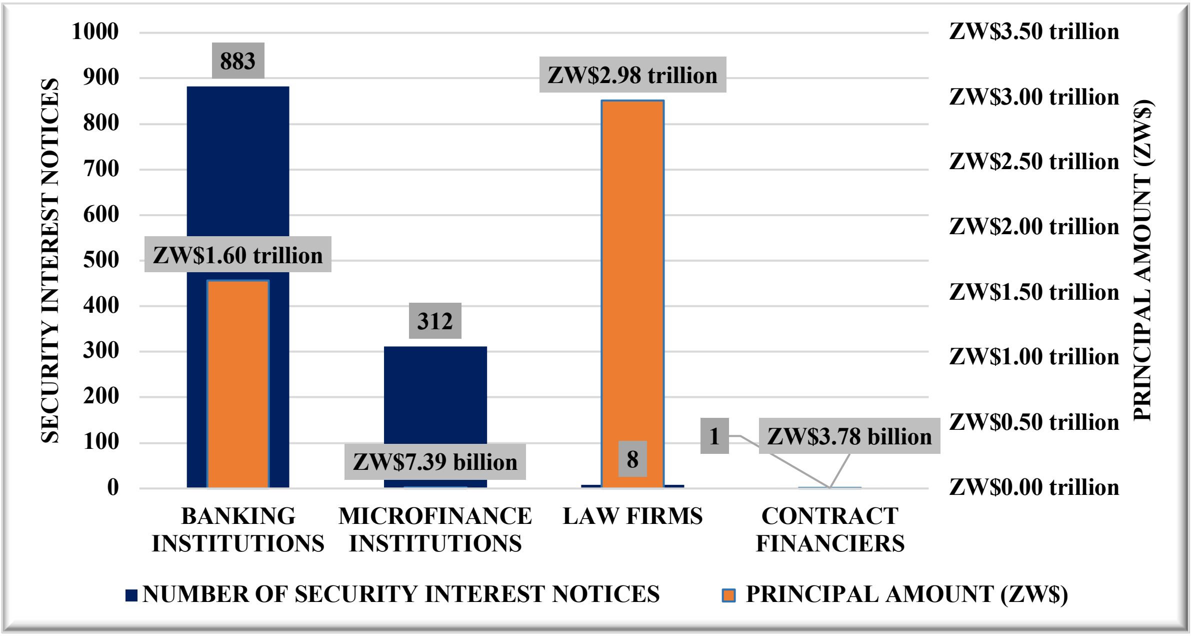


## Collateral Registry Update

123. The establishment of the Collateral Registry in November 2022 in terms of the Moveable Property Interest Act [*Chapter 14:35*] marked a significant step in the Bank's efforts to enhance the credit infrastructure. The Collateral Registry serves to facilitate commerce and industry by enabling individuals and businesses to utilize their movable property as collateral to access credit. As at 31 December 2023, 57 institutional users were utilising the system including banks, microfinance institutions, contract financiers, and law firms.

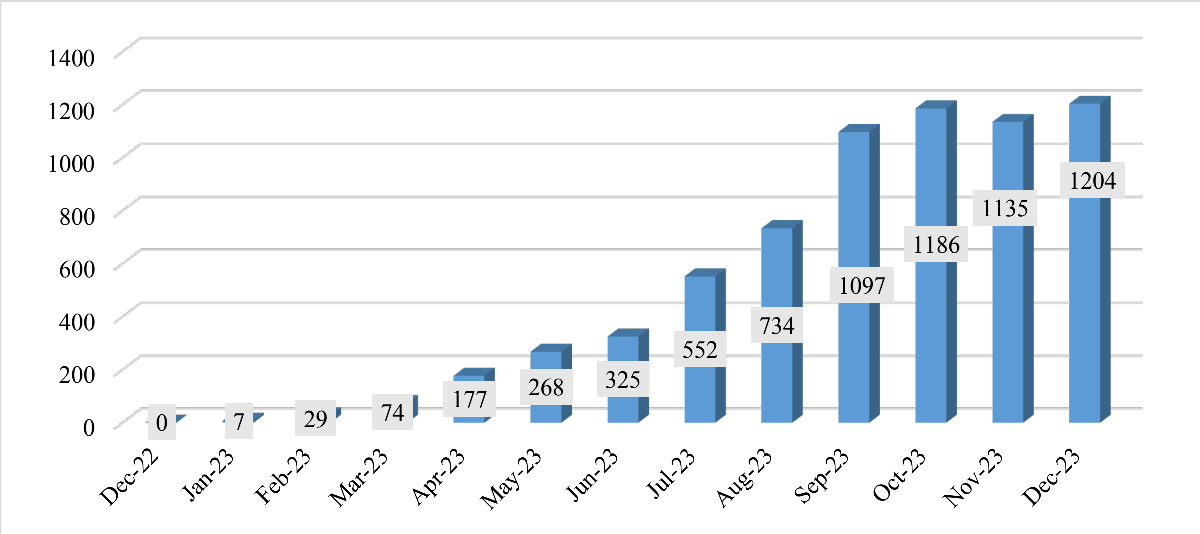
124. The Collateral Registry system recorded 1,204 active registered security interests with a total loan amount of ZW$4.59 trillion as at 31 December 2023 as shown in Figure 25.

**Figure 25: Value of Registered Securities as at 31 December 2023**



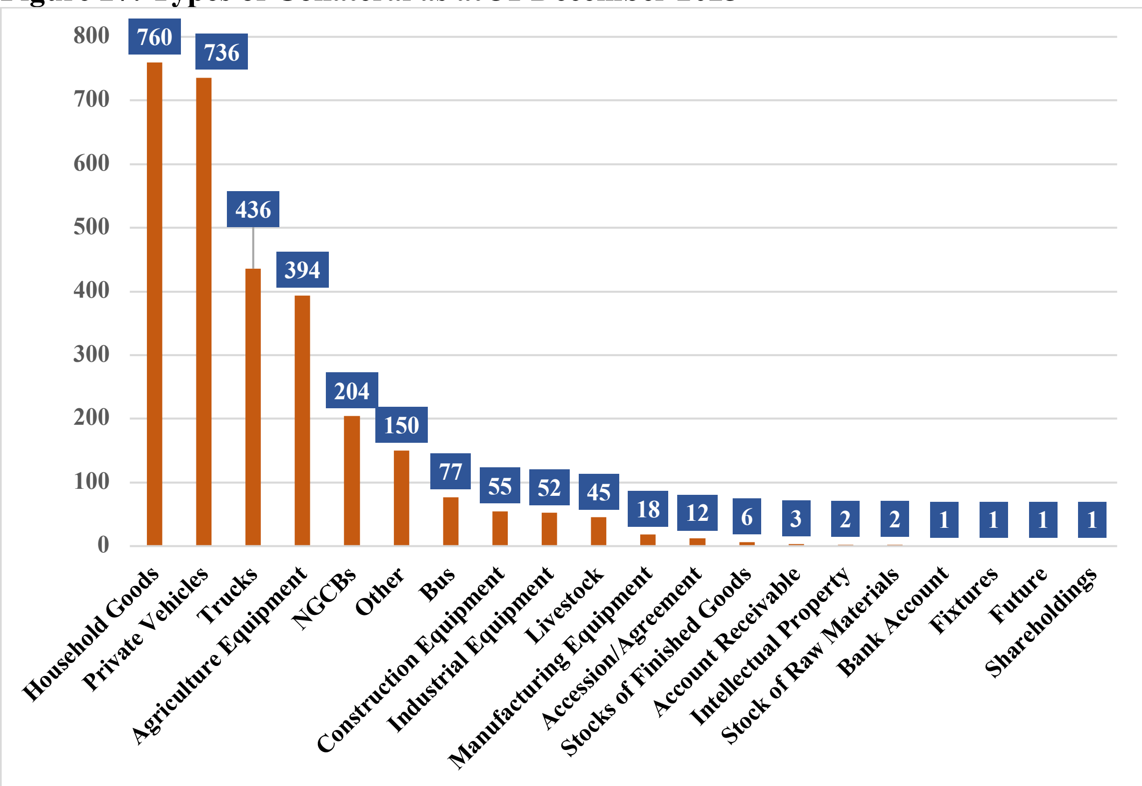

125. The number of security interest registrations has been on an upward trend since inception, closing the year at 1204, as indicated in Figure 26.

**Figure 26: Number of Security Interest Notices as at 31 December**



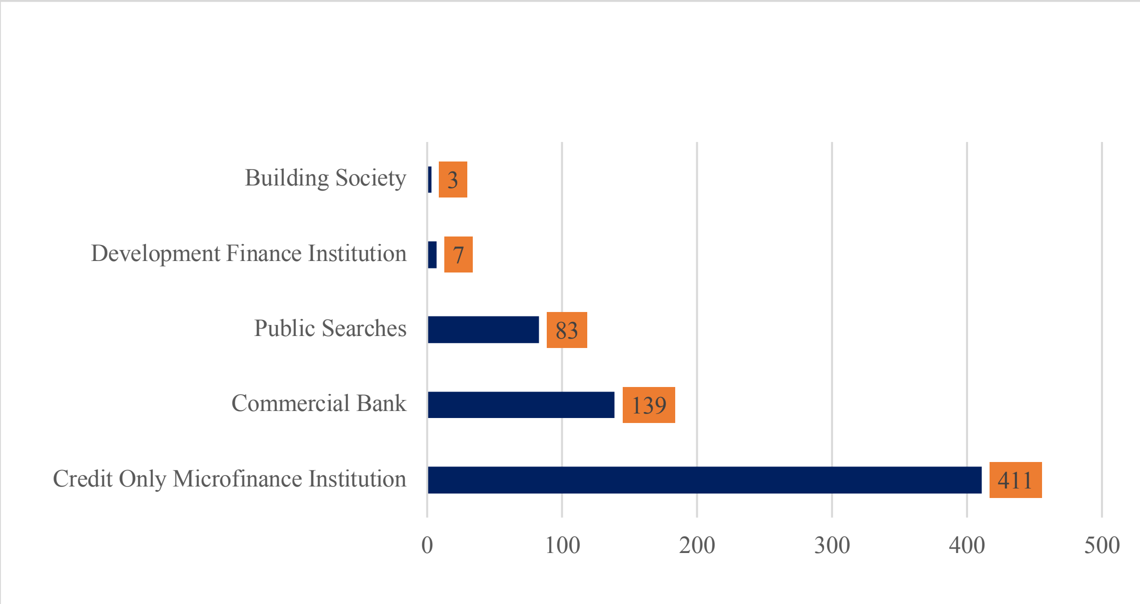

126. Movable assets accepted as collateral by lending institutions range from household goods, private vehicles, trucks, agricultural equipment to shares as shown below.

**Figure 27: Types of Collateral as at 31 December 2023**




127. As at 31 December 2023, MFIs registered the highest number of security interest searches as shown in Figure 28.

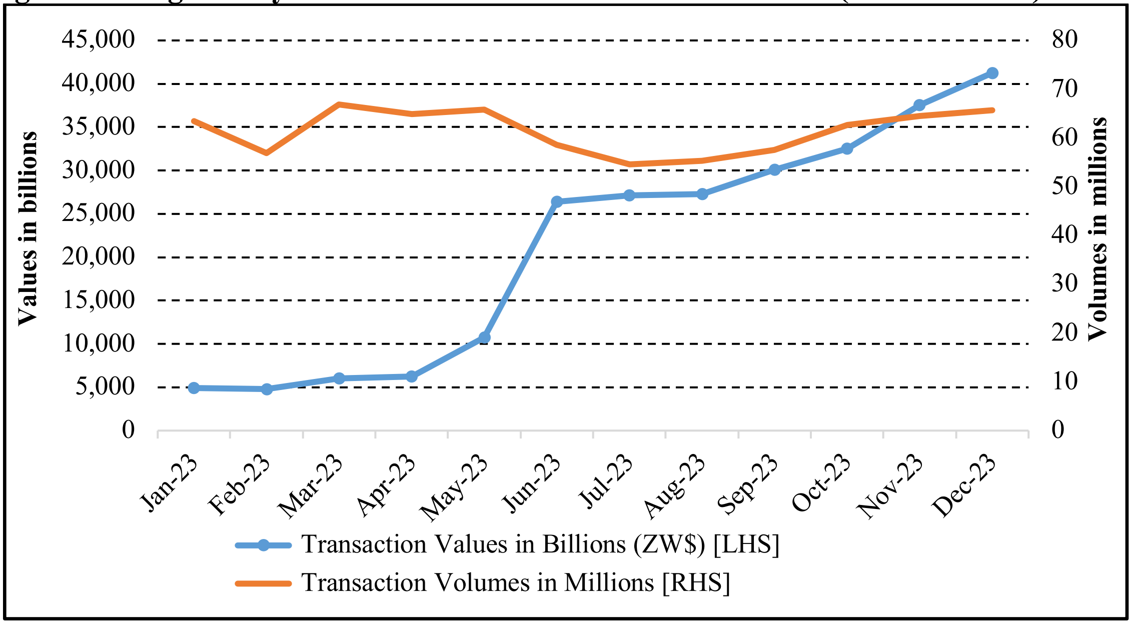
**Figure 28: Searches by Client as at 31 December 2023**




## NATIONAL PAYMENT SYSTEMS DEVELOPMENTS

128. The payment system services sector comprising of 12 financial market infrastructures (FMIs) and 24 participant banks, remained sound, and safe, and recorded significant improvements. Aggregate digital payments transaction values continued on an upward trajectory in 2023, increasing by a monthly average of 24%. Transaction volumes, however, declined by a marginal 1% monthly as shown in Figure 29.

**Figure 29: Digital Payments Transaction Values and Volumes (Jan-Dec 2023)**




**Digital Payments Include RTGS, Card, Mobile Money, Mobile Apps, & Online platforms*

***December 2023 statistics are estimates.*

129. In 2023, a total of 736.84 million transactions valued at ZW$255.13 trillion were processed through the national payment system.

## Real Time Gross Settlement System (RTGS)

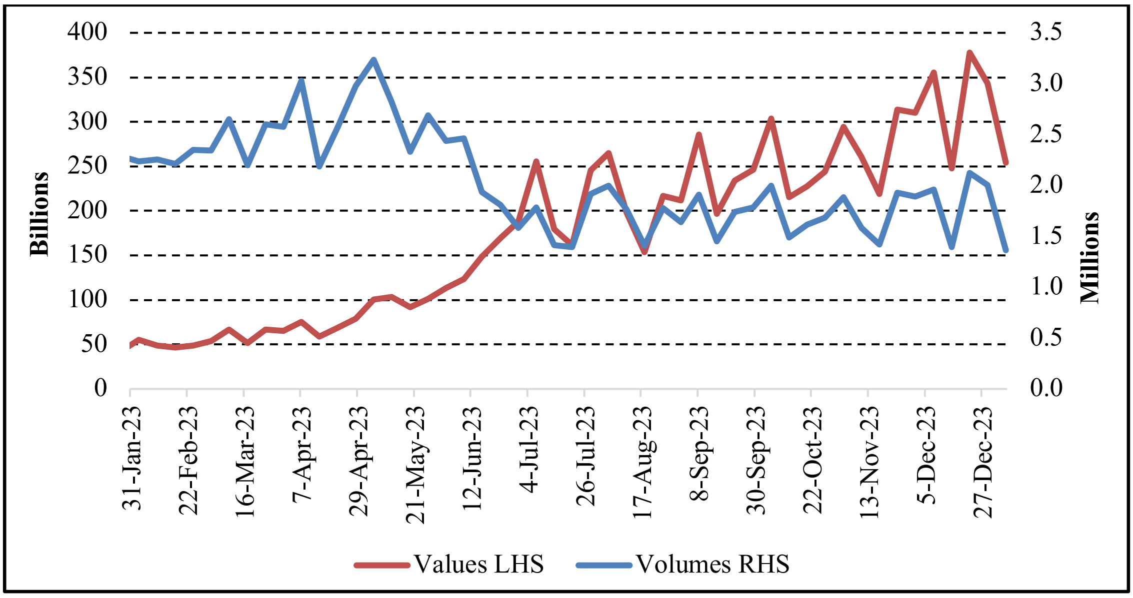
130. A total of 11.57 million transactions valued at ZW$161.86 trillion were processed through the RTGS system in 2023. The SADC-RTGS system celebrated 10 years of processing cross-border payments in 2023. Since inception, over 3.2 million transactions valued at ZAR12.63 trillion have been settled on the platform.

131. In 2023, Zimbabwean commercial banks processed ZAR5.55 billion worth of transactions on the SADC-RTGS system, an increase of 29% from 2022, while the volume declined by 22% to 4,103 transactions**.**

## Interoperability

132. The interoperability transactions values processed for retail digital transactions continued to trend upwards, reaching ZW$342.96 billion by end of December 2023, as shown in Figure 30.

**Figure 30: Interoperability Transactions: Values and Volume - Jan 23 to Dec 23**




## Access Devices and Points

133. All-access devices, except debit cards and internet banking subscribers, recorded growth during the second half of 2023, as shown in Table 13.

**Table 13: Payment Access Points and Devices as of December 2023**

| VOLUMES | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23** | % CHANGE |
|---|---|---|---|---|---|---|---|
| **PAYMENTS SYSTEMS ACCESS POINTS** | | | | | | | |
| ATMs | 415 | 404 | 403 | 412 | 412 | 412 | -0.7% |
| POS | 134,420 | 137,213 | 137,380 | 137,691 | 138,312 | 138,865 | 3.3% |
| MPOS | 29,302 | 30,136 | 29,911 | 29,734 | 29,479 | 29,774 | 1.6% |
| **PAYMENTS SYSTEMS ACCESS DEVICES** | | | | | | | |
| Debit Cards | 6,443,812 | 5,824,038 | 5,400,225 | 5,431,127 | 5,526,738 | 5,609,639 | -12.9% |
| Credit Cards | 16,649 | 17,003 | 17,150 | 17,119 | 17,873 | 18,266 | 9.7% |
| Prepaid Cards | 140,684 | 141,223 | 213,983 | 164,184 | 165,247 | 165,743 | 17.8% |
| Mobile Banking Subscribers | 8,305,879 | 8,209,582 | 8,146,645 | 8,120,539 | 8,912,045 | 9,313,087 | 12.1% |
| Internet Banking Subscribers | 473,095 | 477,099 | 453,998 | 456,458 | 421,473 | 432,009 | -8.7% |

****December 2023 statistics are based on estimates.**

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

134. The payment services sector has made considerable progress in strengthening AML-CFT measures in line with international standards and regulatory requirements. The Bank continues to implore the mobile money operators to increase their compliance.

## Cyber Security and SWIFT Customer Security Programme Self-Assessment

135. The widespread use of digital financial services platforms has increased the risks of cyber-attacks. Financial services providers are encouraged to put in place robust cyber security systems as enshrined in the Risk-based Cyber Security Guide for Payment Services (2020). Institutions should also be alert to new and evolving cyber threats.

136. Market players successfully implemented SWIFT Cybersecurity Controls within the required timeframe with a record of 99% compliance.

## Card, POS and ATMs EMV Compliance

137. The Bank is pleased to advise that the market has achieved 100% EMV compliance for POS machines and 91% and 89% for ATMs and cards, respectively. These efforts will go a long way towards reducing the cyber security incidents related to card frauds.

138. The Bank urges the remaining few banks and two mobile money providers using non-EMV compliant cards to expeditiously work towards full compliance.

## SWIFT ISO 20022 Migration from MT Messages

139. The Bank is pleased with the work undertaken by the banking community towards ensuring full compliance with the outstanding SWIFT Cross Border payment processes for the ISO 20022 program. We urge all the banks to aim to migrate fully during the first half of 2024.

## New Initiatives

140. In line with its mandate to provide a conducive environment for Fintech developments, the Bank received forty-six (46) applications on product initiatives from both financial institutions and prospective payment system providers. The applications comprised of 17 product additives and enhancements, 21 enquiries, 4 were referred to other regulators, 3 were not approved while 1 was work in progress.

# SECTION FIVE

# NEW MONETARY POLICY STRATEGIC FOCUS AREAS

141. Government and the Bank have made significant strides in sustaining an optimal currency mix in the multi-currency system. The exchange rate and inflation volatilities experienced in the economy continue to threaten the prospects of the local currency under the multi-currency system.

142. Given the above, the Bank is recalibrating its monetary policy framework to address the current state of price and exchange rate instability in the economy. This policy stance is informed by two strategic policy pillars of restoring price and exchange rate stability, and re-monetising the local currency for it to serve its role as a medium of exchange and a store of value. The policy also seeks to rebuild market confidence and trust, as well as Bank policy credibility.

143. The Monetary Policy Strategic Focus Areas are as follows;

## 1. Currency and Exchange Rate Stability:

Currency and exchange rate instability has largely been driven by:

- High demand for foreign currency as a store of value.
- Reduced confidence due to continued currency volatility in recent months, and the widening margin between the interbank and parallel market exchange rates.
- Reduced use of the local currency for domestic transactions.
- Lack of certainty and predictability on the exchange rate front.

In view of the above, the Reserve Bank will introduce a foreign exchange management system that guarantees the successful restoration of currency and exchange rate stability.

## 2. Financial Sector Stability:

- The banking industry is safe and sound, with sufficient buffers for capital and liquidity, good asset quality, and steady profitability.

- Accordingly, the Reserve Bank's oversight and financial surveillance framework will be reinforced to improve the current state of the banking sector and foster a culture of discipline and compliance.

### 3. Money Supply Growth:

- Unchecked base money growth causes inflation and undermines the stability of exchange rates.
- With this framework, the Reserve Bank intends to strategically manage money supply growth through a disciplined culture in sync with improved economic activity and increased reserves in the form of gold and foreign currency balances.

### 4. Foreign Exchange Mobilisation and Reserve Accumulation:

- The Reserve Bank will consistently maintain a comfortable and steady buffer of foreign reserves to ensure that the new currency is at all times fully covered by reserves.
- Resource mobilisation and accumulation will be a key focus of the new monetary policy framework.
- Financial surveillance will be strengthened in order to stop foreign exchange leakages.

### 5. Promoting Increased Demand for the Local Currency

- The economy has, of late, been moving towards full dollarisation, as the US dollar has continued to dominate the weaker ZW$, with over 80% of market transactions now conducted in US dollars.
- Public outcry over excessive bank charges, problem of change, rejection of soiled US$ notes, and inconvenience of small ZW$ denominations has rendered the ZW$ ineffective as a store of value and means of exchange.
- Increased demand for local currency will enhance its stability and role as a store of value and medium of exchange.

- This Monetary Policy Statement has introduced new measures to increase demand for the local currency.

## NEW MONETARY POLICY MEASURES

144. Following the recalibration of the Bank's policymaking framework, the New Monetary Policy measures are intended to achieve the following objectives which are consistent with regional and global best practices:

    a) A solid and stable national currency.
    b) A stable and sustainable exchange rate.
    c) Robust policy credibility and restoration of market confidence.
    d) A stable and sustainable macro economy as enshrined in Vision 2030 and NDS1.

145. The new policy framework will be implemented sequentially to ensure lasting stability, certainty, and predictability thereby achieving the desired impact on financial, monetary, currency, and exchange rate stability.

146. The sequential approach will be anchored on five policy measures:

    a) Adoption of a market-determined exchange rate system.
    b) Efficient and optimal money supply management.
    c) Introduction of a new structured currency.
    d) Anchoring local currency on reserves backed by gold and foreign currency balances.
    e) Other support measures and obligations in response to market demands.

### a) Adoption of Market Determined Exchange Rate System

147. The auction system has been replaced by a refined interbank foreign exchange market under a willing-buyer-willing-seller (WBWS) trading arrangement. Following this development, a transparent price discovery mechanism is now in place in the interbank market. The Bank will continue to provide trading liquidity to the market using the 25% surrender proceeds from exports.

### b) Efficient and Optimal Money Supply Management

148. The Bank's money supply management policy thrust will ensure that reserve money growth is contained within the limits of growth in gold and foreign currency reserves. The Bank will continue to maintain a tight monetary policy stance to ensure sustainability of the monetary anchor. Efficient management of liquidity and money supply will entail the discontinuation of all Quasi-Fiscal Activities, and alignment of interest rates with positive real rates and exchange rate expectations. The Bank will strictly adhere to Statutory limits on Bank Lending to the Government.

### c) Introduction of New Structured Currency

149. The Reserve Bank is introducing a structured currency which is generally defined as a currency that is pegged to a specific exchange rate or currency basket and backed by a bundle of foreign exchange assets (potentially including gold). This means that a Central Bank can only issue domestic notes and coins when fully backed by a foreign "reserve" currency or foreign exchange assets and that the currency is fully convertible into the reserve currency on demand.

150. The structured currency being introduced is anchored by a composite basket of foreign currency and precious metals (mainly gold) held as reserves for this purpose by the Reserve Bank.

151. The strong macroeconomic fundamentals currently prevailing in the economy, as reflected by persistent surpluses in the balance of payments, fiscal sustainability, and a bullish mining sector will support the local currency.

### (i) Currency Conversion and Swap

152. The two most important factors necessary in enhancing the optimal currency mix in a multi-currency economy are transactional convenience and exchange rate stability to guarantee the store of value function in local currency and related savings instruments.

153. With effect from 5 April 2024, banks shall convert the current Zimbabwe dollar balances into the new currency which shall be called Zimbabwe Gold (ZiG) to foster simplicity, certainty, and predictability in monetary and financial affairs. The new currency will co-circulate with other foreign currencies in the economy.

154. The swap rate will be guided by the closing interbank exchange rate and the price of gold as at 5 April 2024. The swap rate shall be used to make legitimate conversions of all ZW$ deposits in the banking sector; all ZW$ loans and advances made by the sector; ZW$ treasury bills; all outstanding auction allotments; all export surrender obligations; all prices of goods and services in ZW$; and any other ZW$ denominated obligations.

155. On conversion of all current ZW$ balances, banks are directed to rename all the current ZW$ accounts as ZiG accounts. Gold-backed Digital Token (GBDT) accounts will no longer be called ZiG accounts but will be known as GBDT accounts.

156. All ZW$ notes and coins held by account holders will be credited into their ZiG accounts using the applicable conversion factor. The banks will continue to accept these deposits for a period of 21 days after 5 April 2024.

157. The Reserve Bank has made special arrangements for those without bank accounts to swap their ZW$ notes and coins at POSB and AFC Commercial Bank within 21 days after 5 April 2024.

158. In instances where the cash holding to be exchanged is above ZW$100,000, banks shall apply the requisite know your customer (KYC) and Customer Due Diligence (CDD) principles.

### (ii) Issuance of New Bank Notes and Coins

159. The introduction of the new structured currency will naturally require the issuance of new bank notes to facilitate transactions in the economy, whilst maintaining the Bank's policy of a cash-lite economy. These notes shall be issued gradually in the market to cater for small transactions and to ensure the availability of change, thus,

mitigating the use of retail vouchers in the local economy. As such, the proposed denominations will bring convenience to the transacting public.

160. Accordingly, ZiG notes and coins shall be issued in denominations made up of 1ZiG, 2ZiG, 5ZiG, 10ZiG, 20Zig, 50ZiG, 100ZiG, and 200ZiG which will be distributed through the usual normal banking channels and, will be fully covered by the quantity and value of gold and foreign currency held as reserves. The currency denominations are also informed by the intervening exchange rate of the ZiG to the US$.

### (iii) Anchor of the Currency

161. ZiG shall at all times be anchored and fully backed by a composite basket of reserves comprising foreign currency and precious metals (mainly gold), received by the Reserve Bank as part of in-kind royalties and kept in the vaults of the Bank. Foreign currency balances will be accumulated through market purchases from the 25% surrender requirements as well as sale of some precious metals received as royalties.

162. As of 5 April 2024, the Bank has reserve assets of **USD 100 million in cash and 2,522 kgs of gold (US$185 million) to** back the entire local currency component of reserve money which currently stands at **ZW$2.6 trillion requiring full (100%) cover of gold and cash reserves amounting to US$90 million.** The gold and cash reserve holdings currently with the Bank represent more than **3 times cover** for the local currency being issued.

### (iv) Exchange Rate Management System

163. The starting exchange rate shall be determined by the prevailing closing interbank exchange rate as at 5 April and the London PM Fix price of gold as at 4 April 2024.

164. The intervening exchange rate shall be determined by the inflation differential between ZiG and USD inflation rates and the movement in the price of the basket

of precious minerals held as reserves. The weights will be determined by the composition of reserve assets.

165. To ensure the sustainability of the exchange rate system, the following measures will be strictly implemented:

- Strict adherence to the Statutory limit on Bank lending to the Government.
- Ensuring that the quantum of reserve money is fully backed by the equivalent gold and foreign currency reserves.
- Maintaining a tight monetary policy stance to ensure the sustainability of the monetary anchor.
- Ensuring that up to 50 percent of the liquidated surrender forex receipts, are channelled to support the forex market, while retaining the balance to meet Government foreign currency needs.
- Implementation of strict liquidity management to smoothen liquidity shocks that cause spikes in the exchange rate; and
- Continued fostering of super demand for the local currency by Government through a mandatory requirement for companies to settle at east 50% of their tax obligations on Quarterly Payments Dates (QPDs) in ZiG.

### (v) Foreign Exchange Liquidity Management

166. Notwithstanding the new currency arrangement, effective management of liquidity in the market remains key in stabilizing the exchange rate and inflation.

167. The Bank will use 50% of the foreign currency proceeds from surrender requirements for strategic interventions in the foreign exchange interbank market. The remaining foreign currency will be available to satisfy the Government's foreign currency obligations in exchange for ZiG and to build foreign exchange reserves for the Reserve Bank. Foreign currency retention thresholds remain standardised at 75% across all sectors, except for small-scale gold producers.

### (vi) Interest Rate Policy

168. The Bank has recalibrated the Bank policy rate from 130% per annum to 20% per annum consistent with the new monetary policy framework.

169. The overnight accommodation interest rate has been set at 5% above the Bank policy rate and the Bank deposit facility interest rate at 7.5% below the Bank policy rate, thus giving the starting interest rate corridor of between 11% to 25% per annum.

170. The Bank policy rate and the corresponding interest rate corridor will be reviewed by the Monetary Policy Committee (MPC) from time to time in line with inflation developments.

171. Savings and time deposits interest rates on ZiG are set at 9% and 7.5% below the Bank deposit facility rate of 12.5% respectively, while interest rates on FCA deposits remain unchanged at 1% and 2.5% for savings and time deposits, respectively.

### (vii) Open Market Operations (OMO)

172. Going forward, open market operations will be carried out to ensure that reserve money will always be fully backed by a corresponding composite basket of reserve assets comprising precious minerals (predominantly gold) and foreign currency balances.

173. All the current non-interest-bearing non-negotiable certificates of deposits (NNCDs) in ZiG beyond the optimal liquidity level and those encumbered by existing foreign currency structures will be converted into tenors of 1 year and above.

### (viii) Statutory Reserve Requirements

174. The statutory reserve requirements for demand deposits in ZiG and savings and time deposits in ZiG remain at 15% and 5%, respectively. In order to foster continued financial sector stability in the face of increased lending in foreign currency, measures will be put in place to enhance foreign exchange liquidity, moderate foreign currency exposures and mitigate against payment gridlocks in the banking sector.

175. In this regard, the Bank is increasing the statutory reserve ratio for foreign currency demand deposits from 15% to 20% effective 8 April 2024. The statutory

reserve requirements for foreign currency time and savings deposits shall, however, remain at the current level of 5%.

### (ix) Treasury Bills Denominated in ZW$

176. All treasury bills previously issued in ZW$ will be converted to ZiG and the rate adjusted accordingly.

### (x) Alleviating Bank Charges

177. Cognisant of calls by the banking public for affordable and reasonable bank charges, the Bank is with immediate effect directing all banking institutions to put exemption clauses on monthly maintenance or service charges for both FCA and ZiG deposit accounts that maintain a consecutive minimum daily balance of US$100 and below or its equivalent in ZiG for a period of up to 30 days. This will avoid incidences of low-cost accounts being charged maintenance fees to the point where accounts reach negative balances and, in the process, prejudice depositors and discourage potential savings.

178. The Bank shall continue to monitor the pricing of banking products and services, as well as enforce the pricing framework agreed upon with the Bankers Association of Zimbabwe (BAZ). It is envisaged that as banking institutions embark on accelerated digital transformation, the institutions will achieve operational efficiencies which will impact positively on the cost of some banking services.

## d) Other Supporting Measures and Bank Obligations

179. The following measures will be strictly implemented to support the new monetary policy framework:

### (i) Promoting Increased Demand for Local Currency

180. Statutory Instrument 218 of 2023 restored the use of multicurrency in the settlement of any transactions until 31 December 2030. Accordingly, the Bank will

prepare a structured roadmap to gradually promote the increased use of the new local currency as we move towards 2030.

181. In order to foster demand for the local currency, Government will make it mandatory for companies to settle at least 50% of their tax obligations on Quarterly Payments Dates (QPDs) in ZiG. The Bank will continue with its strict liquidity management in order to mitigate against shocks that cause spikes in the exchange rate.

182. Overall, the increased role of the local currency will support and sustain the current macroeconomic stability and economic resilience despite the recurrence of global and domestic shocks. The Bank working in collaboration with Government will continue to provide forward guidance to the market in promoting the wide use of ZiG.

### (ii) Auction Allotments Obligations

183. Following the establishment of a refined interbank foreign exchange market, all outstanding auction allotments will be converted into ZiG and refunded to recipients at the current interbank exchange rate. This will allow the new system to start on a clean slate using the interbank foreign exchange system. The refund will entail conversion of all outstanding auction allotments into a two (2) year ZiG denominated instrument at an interest rate of 7.5% per annum.

184. This process will allow the beneficiaries to maintain the value of their proceeds under the new framework.

### (iii) Outstanding Payments for Auction Surrender Obligations

185. All outstanding payments for foreign exchange purchased by Treasury under the 25% surrender requirement will be converted to a ZiG denominated instrument with a tenor of one (1) year at an interest rate of 7.5% per annum.

### (iv) Gold Coins and Gold Backed Digital Tokens (GBDTs)

186. The gold coins and GBDTs shall continue to be used as investment instruments and to manage liquidity in the economy to ensure a stable exchange rate. In this regard, the issuance of both higher and smaller denominations of gold coins will continue as an open-market-operation investment instrument for value preservation.

187. As already indicated above, the Gold-backed Digital Tokens (GBDT) will no longer be called ZiG but named GBDT.

### (v) Reconfiguration of National Payment Systems

188. In preparation of the structured currency, it is important that stakeholders involved in the payment systems sector are ready to onboard the new ZiG currency. The same will be expected in the rest of the economy as transactions will henceforth be undertaken in ZiG. Banks have already configured their systems to accommodate ZiG to undertake transactions in the economy.

189. By April 8, 2024, Mobile Network Operators (MNOs), who are essential to the National Financial Inclusion Strategy, will also be expected to ensure that all of their customers can effortlessly transition from ZW$ wallets to ZiG wallets.

### (vi) Domestic Pricing of Goods and Services

190. Once the local currency is redenominated in Zimbabwe Gold (ZiG), all domestic traders are expected to consistently modify their pricing strategy to account for the currency reforms from the Bank.

191. Within seven days from 5 April 2024, all entities other than banks and MNOs are expected to have completed the configuration of their systems to conduct business in ZiG.

## e) Financial Stability Measures

192. The stability of financial institutions is critical given the increased lending in foreign currency in the economy to avoid yesteryear bank non-performing loans challenges. In this regard, the Bank reiterates and emphasises the following:

### (i) Compliance With Minimum Capital Requirements

193. The Bank has maintained the minimum capital requirements for all categories of banking institutions and microfinance institutions as follows:

**Table 14: Minimum Capital Requirements**

| Type of institution | Minimum Capital Requirements in ZiG Equivalent to: |
|---|---|
| TIER 1 - Large Indigenous Commercial Banks & all Foreign Banks | US$30 million |
| TIER II - Commercial Banks, Merchant Banks, Building Societies, Development Banks, Finance & Discount Houses | US$20 million |
| TIER III - Deposit-Taking Microfinance Banks | US$5 million |
| Credit Only Microfinance Institutions | US$25,000 |

194. 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 approved by the Bank.

### (ii) Foreign Currency Exposure Limits

195. The single currency and the overall foreign exchange risk exposure limits are critical macro-prudential tools for managing foreign exchange risk. In this regard, the limits shall be maintained at 10% and 20% of the net capital base, respectively.

196. As prescribed in the Third Schedule to the Banking Regulations S. I. 205 of 2000, reviews would be done on a case-by-case basis, depending on a banking institution's specific requirements.

### (iii) Climate Risk Management

197. Climate Risk Management and sustainability issues have become critical for value-driven financial institutions. In line with the requirements of **Guideline No.01-2023/BSD: Climate Risk Management**, financial institutions are required to submit by 30 April 2024, the board-approved Climate Risk Management Strategies incorporating risk appetite, risk management frameworks including the approach to the identification, measurement, and monitoring of climate-related risks; as well as internal control and reporting arrangements.

### (iv) Sustainable Banking Practices

198. The adoption of sustainability principles is increasingly becoming a key pillar to the sustainable growth of economies. Against this background, the Bank continues to work constructively with banking institutions to ensure that the transition to a more sustainable, environmentally, and socially responsible financial sector becomes a reality.

199. Under the above and with effect from the quarter ending 31 March 2024, Boards of banking institutions are required to ensure that sustainability considerations are integrated into the institution's overall business strategy and are part of the agenda for board meetings. In addition, the board should integrate sustainability into the board governance system.

200. Furthermore, to foster sustainability literacy, banking institutions' boards are also encouraged to conduct workshops on sustainability issues, such as climate change trends, climate risk and sustainable finance, among others.

## e). Financial Inclusion Measures

201. The Bank continues to support financial inclusion to support sustained inclusive growth in the economy. Under this noble cause, the Bank will put the following measures:

### (i) Digital Financial Literacy

202. Financial literacy is key to the increased usage of financial services by marginalised communities, and to increasing the depth and breadth of financial

services outreach. With effect from 30 June 2024, all banking and microfinance institutions are required to put in place programs that facilitate digital financial literacy of their target market to facilitate increased usage of financial services in line with the strategic vision of the National Financial Inclusion Strategy II.

### (ii) Facilitating Access to Banking Services for People with Disabilities

203. Persons with disabilities have long faced limited access to financial services. To address this irregularity and align with regional and international trends, banking institutions and microfinance institutions are required to facilitate access to and usage of financial services by persons with disabilities through appropriate infrastructure, both physical and information communication technology.

204. Banking institutions and microfinance institutions will be required to submit a plan by 30 June 2024 outlining the measures to be taken to facilitate the financial inclusion of persons with disabilities.

### (iii) Consumer Protection Framework

205. All banking and microfinance institutions are required to establish, implement and maintain effective and transparent procedures for the reasonable and prompt handling of customer complaints. The procedures should facilitate complaints resolution promptly in line with principles of the Consumer Protection Framework No. 01-2017/BSD.

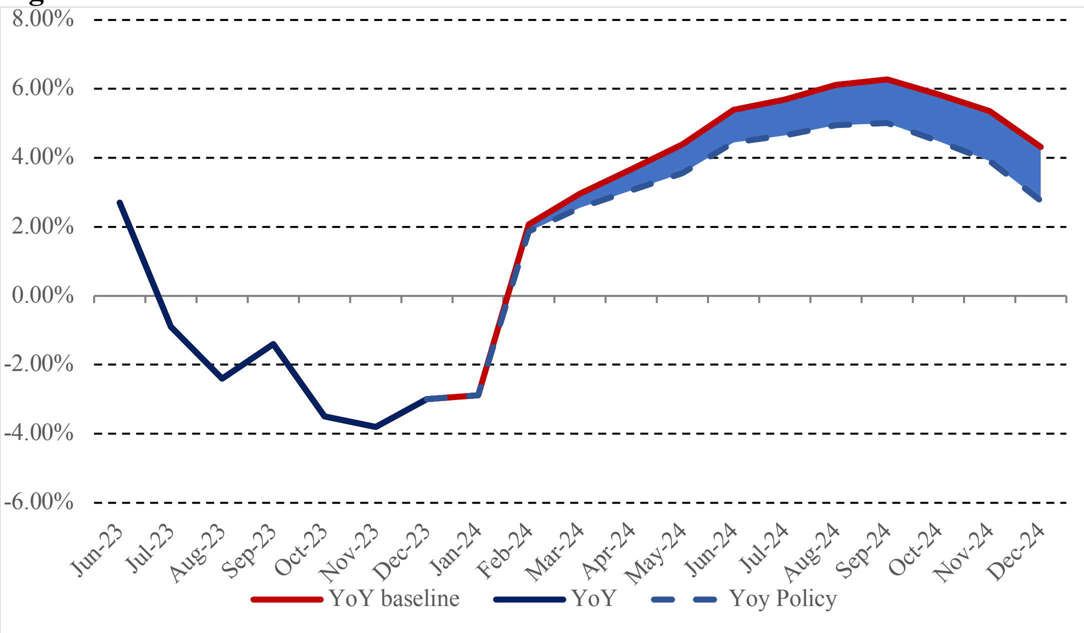
206. As part of the ongoing implementation and monitoring of the consumer protection framework, all banking and microfinance institutions are required to generate a quarterly report, to be prescribed by the Bank, for submission with effect from 31 March 2024.

# INFLATION OUTLOOK

207. The introduction of a structured currency should result in the dissipation of inflationary pressures in the short to medium term. As such, monthly inflation rates are expected to be well below 1% as the currency will be anchored on stable foreign currency and commodities. Importantly, the inflation profile is expected to mirror the current trend of the domestic USD inflation which averaged 5.03% in 2023.

208. In the near term, reflecting the current inflationary pressures, inflation is expected to be elevated in the first quarter and dissipate in the medium term in line with stability in ZiG. As such, despite an expected bump in inflation in the near term, annual inflation is expected to close the year below 5%. Figure 31 shows the anticipated inflation profile of a central and upper forecast.

**Figure 31: Domestic USD Inflation Trend 2023 and Outlook in ZiG for 2024**



209. Exogenous shocks emanating from increased geo-political fragmentation and skirmishes along major global shipping lanes may result in increased prices of oil and other imported commodities. These developments may also result in a resurgence of inflationary pressures in the global economy with a significant pass-through to the domestic economy.

## SECTION SEVEN

## CONCLUSION

210. The new structured currency is anticipated to restore confidence in the local currency and hence safeguard the dual currency system which, to date, has served the country very well. This will go a long way in fostering simplicity, credibility, certainty, and predictability in monetary and financial affairs.

211. The Reserve Bank also remains committed to pursuing a tight monetary policy to guarantee price and exchange rate stability which are the key ingredients necessary to sustain the desired optimal currency mix in the economy. The Reserve Bank's commitment to strict adherence to the full principles of ZiG, including full backing of reserve money will sustain the currency stability.

212. Overall, the increased role of the local currency will support and sustain the current macroeconomic stability and economic resilience despite the recurrence of global and domestic shocks. The Reserve Bank working in collaboration with Government will continue to promote increased use of the local currency by 2030.

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

**THANK YOU AND GOD BLESS ZIMBABWE**

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