MONETARY POLICY STATEMENT

ISSUED

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

BY

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1. INTRODUCTION AND BACKGROUND

1.1 We meet once again in the context of this Monetary Policy Statement which is issued in terms of **Section 46 of the Reserve Bank Act (Chapter 22:15),** and is presented against the background of a **slowdown in economic activity**, not just in Zimbabwe but the world over.

1.2 Distinguished colleagues, the deterioration in global economic conditions coupled with constraints **in the domestic economy,** notably the negative effects of sanctions, adverse weather conditions and underlying liquidity shortages imposed constraints on the growth of the Zimbabwean economy.

1.3 As a result of these adverse developments, significant steam has been taken off the economic growth momentum attained between 2009 and 2011 and all signs at hand point to a very difficult 2013 if we continue to operate on a “business as usual” mode..

1.4 The emerging risks are heavily inclined towards the downside, thereby significantly dimming the country’s economic growth prospects. **The situation has further been compounded by**

perennial lingering challenges which have remained deep-seated in the economy over the past decade or so.

Lack of Progress in Resolving Economic Challenges

1.5 **Most of you will recall participating in the shaping up of my maiden Monetary Policy Statement issued in December 2003. In that statement, I** outlined **the economic challenges that** we saw as affecting sustained growth and prospects of the Zimbabwean economy at that time (please refer to Appendix 1)

1.6 It is instructive that **these challenges have not changed much as at 1 January 2013 except in the area of politics where the country now enjoys greater peace and tranquility** than then, a product of the Inclusive Government of the last 4 years. Admittedly, lack of progress in addressing the bulk of these underlying challenges, is visible.

1.7 Notwithstanding, these attendant challenges, great scope still exist to leverage on the same strengths and advantages which I pointed out in that **maiden Monetary Policy Statement in December 2003**:

1.8 The strengths and positives are outlined in Appendix 2 still remain valid today and we should take advantage of them in order **to move our economy to emerging market status.**

1.9 Turning to the present and, on the external sector front, **the Euro-zone sovereign debt crisis that has plunged the global economy into a recession has also resulted in the dwindling of trade opportunities**. These negative developments have precipitated the **volatility** of international commodity prices. Consequently, the global economic slow-down has magnified the country's external sector vulnerabilities through declining export prices, particularly for some primary commodities.

1.10 These adverse commodity price developments combined with limited access to offshore lines of credit, compound the country's external sector position with serious ramification on the vulnerability of banks.

1.11 For the upteenth time, let me state the usual and dare I say major sources of liquidity for us are:

a. Exports;
b. Diaspora inflows;
c. Foreign direct investment;

d. Lines of credit; and
e. Portofolio inflows.

1.12 The stability of the country’s banking sector has, thus remained susceptible to adverse **liquidity conditions** that are inextricably linked to external sector developments, particularly under the multiple currency system. Most importantly, the cost of capital has remained high as evidenced by high lending rates as well as high bank charges.

1.13 If follows, therefore, ladies and gentleman that any internal attack on any of the five major sources of liquidity will continue to impose considerable adverse effects on the recovery of the economy hence the need for stakeholders to take heed when we speak from a point of knowledge.

1.14 High lending rates have also discouraged borrowing by the key productive sectors of the economy, while high bank charges have militated against initiatives to **meaningfully mobilize savings**. It is against this background that the intermediary role played by the financial sector has been severely undermined, thereby, further constraining the country’s economic growth prospects.

2. It is further against this background that the attainment of the overarching objective of maintaining financial sector stability in a manner that is promotive of sustained economic growth and development remain central to pronouncements embodied in this Monetary Policy Statement.

3. INTERNATIONAL ECONOMIC DEVELOPMENTS

3.1 In the aftermath of the negative repercussions of the slow-down in global economic activity, precipitated by the Euro-zone sovereign debt crisis, relative stability has been restored in international financial markets. This largely reflects the impact of policy measures enunciated by major central banks and governments particularly in the Euro-area including what they refer to as quantitative easing, company bail outs and subsidies.

3.2 Notwithstanding these positive strides, global economic recovery **remains weak and fragile** on the back of lingering policy uncertainty, coupled with on-going economic and fiscal adjustment initiatives in advanced countries, and the **unwinding of credit booms in emerging economies.**

3.3 Despite extra-ordinary ameliorative measures geared at combating the recession that has gripped advanced economies, such as quantitative easing, company bailouts, (BACOSSI operations) and company subsidies, re-acceleration of economic activity in advanced economies still remains elusive. This reflects the adverse effects of lingering uncertainty about the course of policy coupled with tight financial conditions, and ongoing fiscal consolidation.

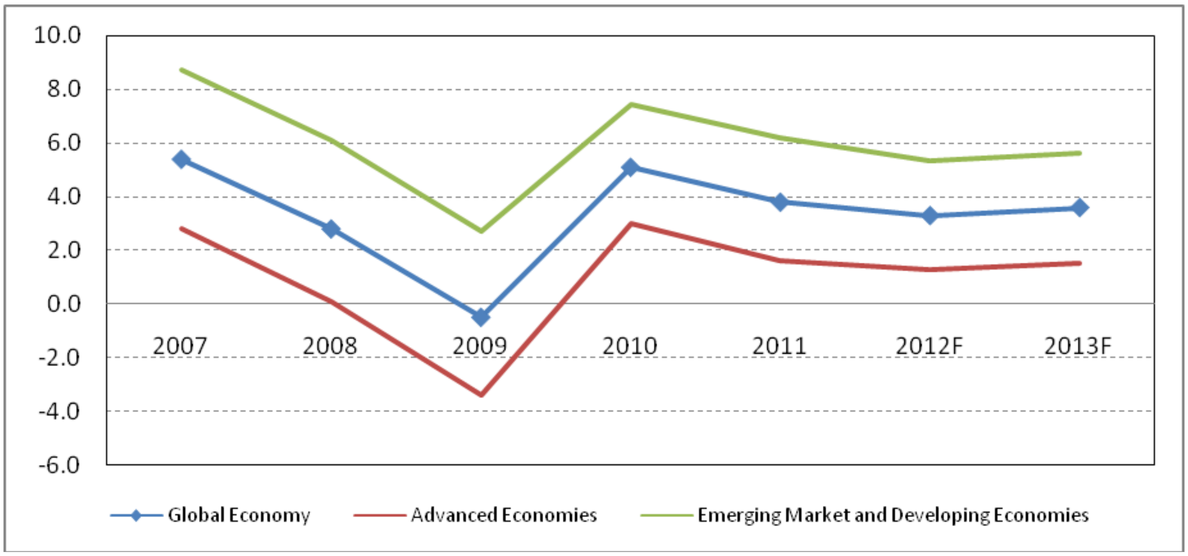
3.4 The aversion of the destabilizing effects of the fiscal cliff in the US is expected to provide marginal growth impetus to the US economy and global economic activity at large. The US fiscal cliff entailed the anticipated sharp decline in the budget deficit that could have occurred in January 2013 due to increased taxes and spending cuts as required by the US Budget Control Act of 2011.

3.5 Admittedly, such a move, however, could have resulted in a deeper recession in the US economy than is the case now, with dampening effects on global economic recovery.

3.6 Against this background, economic activity in advanced economies is projected to marginally grow from 1.3% in 2012 to 1.5% in 2013.

3.7 In turn, the negative spill-over effects of subdued activity in advanced economies coupled with deteriorating macroeconomic conditions, depressed economic activity in emerging market economies in 2012. Accordingly, growth in global economic activity is projected to modestly improve from 3.3% in 2012 to 3.6% in 2013 as shown in Figure 1 below.

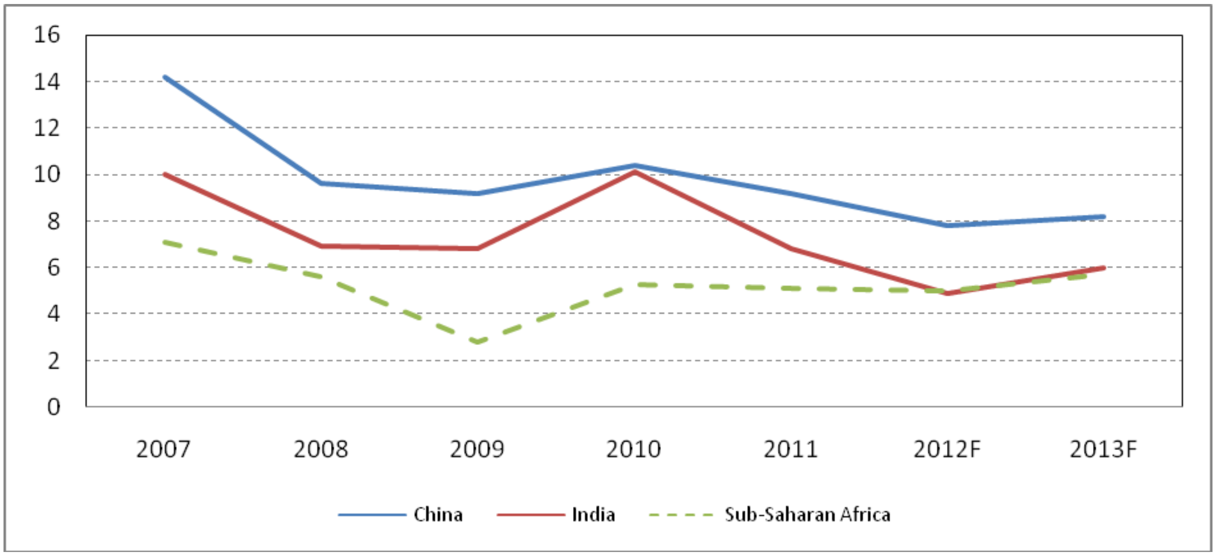
Figure 1: Global Economic Growth (%)



Source: World Economic Outlook, October 2012

3.8 Subdued import demand from both advanced and emerging market economies, imposed constraints on economic activity in developing countries in the Sub-Saharan African region as shown in Figure 2 below.

Figure 2: Economic Growth (China, India & Sub-Saharan Africa)



Source: World Economic Outlook, October 2012

3.9 The decline in world trade growth has also manifested itself through the volatility in international commodity prices for platinum, nickel and copper, among others. This notwithstanding, widespread diversification of exports cushioned some countries in Sub-Saharan Africa from the negative effects of weak demand. In consequence, economic growth in Sub-Saharan Africa is projected to expand from 5% in 2012 to 5.7% in 2013.

Commodity Price Developments

3.10 Commodity prices increased slightly in early 2012 on the back of recovering market confidence as well as better-than expected global growth in the first quarter. Nonetheless, the renewed setbacks to global recovery in the second quarter of 2012, particularly in a number of major emerging market economies, notably China and India, affected commodity prices through contraction in current and prospective demand as well as the cost of shipping inventories.

3.11 Commodity prices for Zimbabwe's major mineral export commodities, notably gold and platinum performed relatively well during 2012. This notwithstanding, nickel and copper prices remained largely subdued in 2012 as shown in Table 1 below.

Table 1: International Commodity Prices 2012

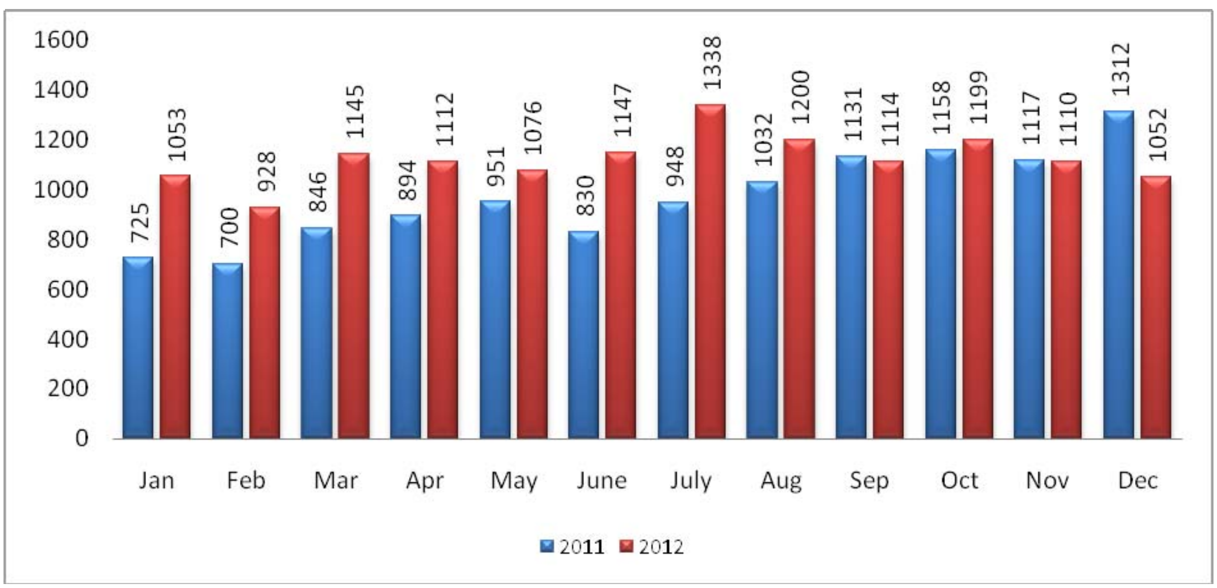
	Jan	March	June	Sept	Dec
Gold (US$/ounce)	1,656	1,676	1,595	1,743	1,696
Nickel (US$/tonne)	19,849	18,664	16,510	17,294	17,830
Copper (US$/tonne)	8,054	8,459	7,422	8,090	8,041
Platinum (US$/ounce)	1,507	1,657	1,444	1,621	1,613
Oil (US$/barrel)	112	124	96	113	109

Source: BBC and KITCO

3.12 On the other hand, gold prices firmed by 2.2% from an average of US$1,656/oz in January 2012, to an average of US$1,696/oz in December 2012. Gold prices continue to benefit from the metal's safe haven status, particularly in view of global economic turbulences that characterized the greater part of 2012.

3.13 Against the backdrop of buoyant gold prices, gold deliveries to Fidelity Printers and Refiners in Zimbabwe, improved by 15.7% from 11,645.26 kgs in 2011 to 13,474.31 kgs in 2012 as shown in Figure 3 below.

Figure 3: Gold Deliveries 2011 and 2012



Source: Fidelity Printers and Refiners

3.14 This notwithstanding, gold deliveries in 2012, fell short of the initial target of 15 tonnes.

3.15 Similarly, platinum prices firmed markedly by 7% from an average of US$1,507/oz in January 2012, to US$1,613/oz in December 2012. The temporary firming of platinum prices in 2012 is also attributed to supply disruptions in South Africa, on account of the industrial action that affected the country's platinum mining industry.

3.16 Conversely, nickel and copper prices remained subdued in 2012, on the back of accumulated inventories coupled with weak demand by China. Global commodity markets were adversely affected by the faltering economic growth and weakening import demand in China, which absorbs over 40% of the world's base metal consumption.

3.17 On the other hand, oil prices which peaked at US$126/barrel in March 2010, due to geopolitical tensions in the Middle East, retreated to US$109/barrel in the third quarter of 2012.

3.18 Oil prices declined in response to depressed demand in the wake of the global economic slow-down, rising supply, especially in non-

OPEC countries and the accumulation of commercial stocks in OECD countries.

4. BALANCE OF PAYMENTS DEVELOPMENTS

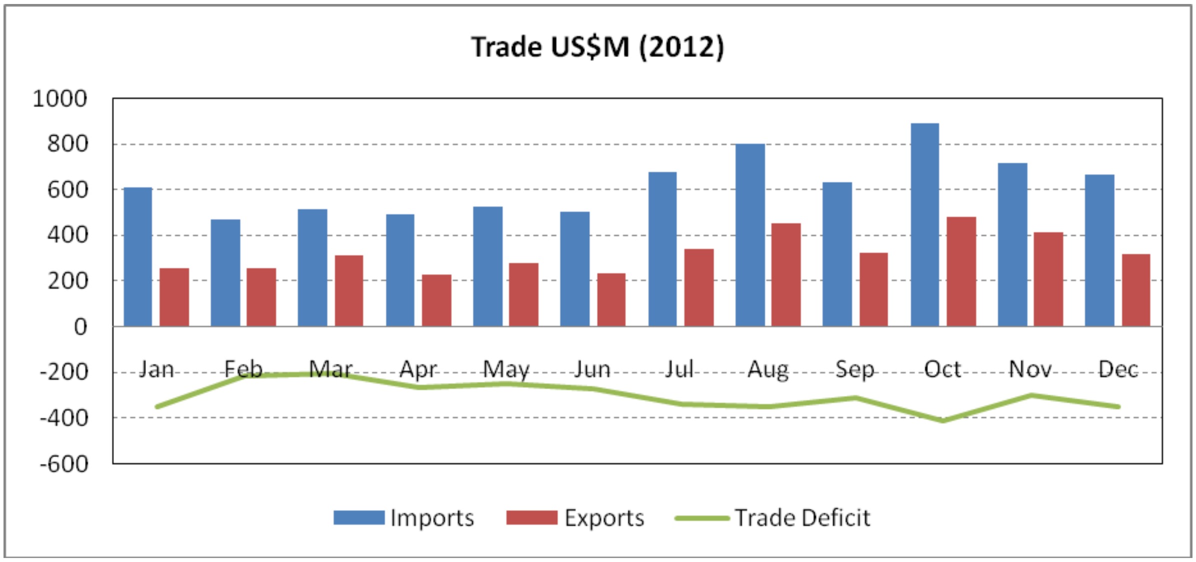
4.1 Reflecting the negative repercussions of commodity price volatility, the Zimbabwe's external sector position has remained under considerable pressure. Moreover, the growing import dependence that the country has continued to experience on the back of persistent supply gaps occasioned by industrial under-capacity utilization, has undermined external sector performance.

4.2 In contrast, the recovery in exports has remained anemic reflecting limited foreign direct investment inflows as well as volatile international commodity prices for nickel, platinum, copper, and diamonds among others.

4.3 It is against this background that merchandise trade remained heavily inclined towards imports of finished consumer goods and vehicles. In consequence, exports realized over the period January to December 2012 amounted to US$3,884 million, which compares unfavourably with imports of US$7,484 million[1] realized over the comparable period as shown in Figure 4 below.

[1] Import statistics as reported by Zimstat include freight and insurance.

Figure 4: Imports and Exports 2012 (US$M)

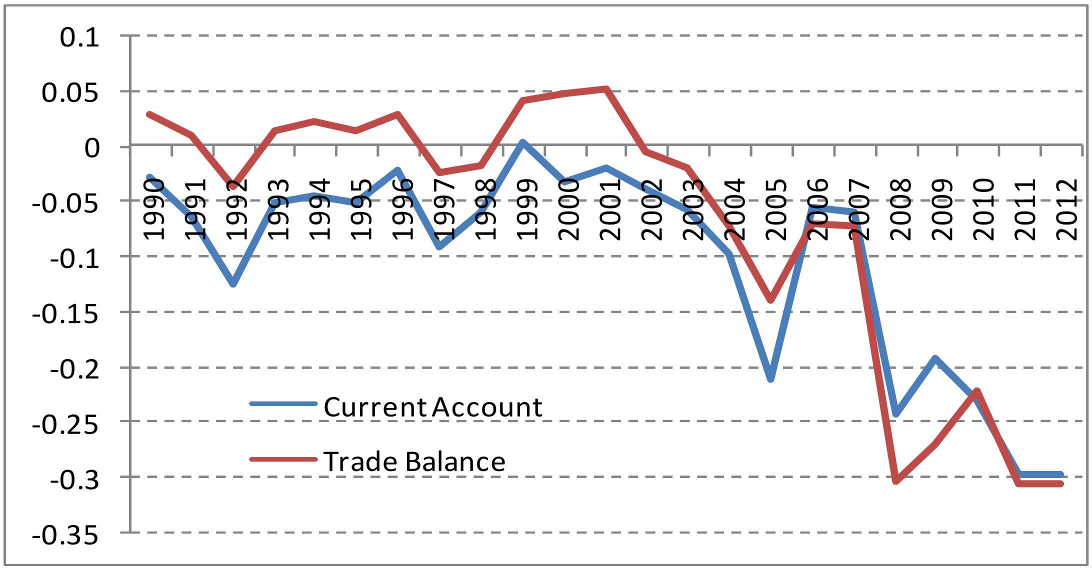


Source: Zimstat

4.4 This negative development has culminated in the incurrence of a substantial trade deficit amounting to US$3,600 million in 2012 as shown in Figure 4 above.

4.5 The excessive reliance on imports, particularly of a finished nature, against subdued export performance, has resulted in the incurrence of unsustainably high current account deficits as shown in Figure 5 below.

Figure 5: Trade and Current Account Balances (1990-2012)



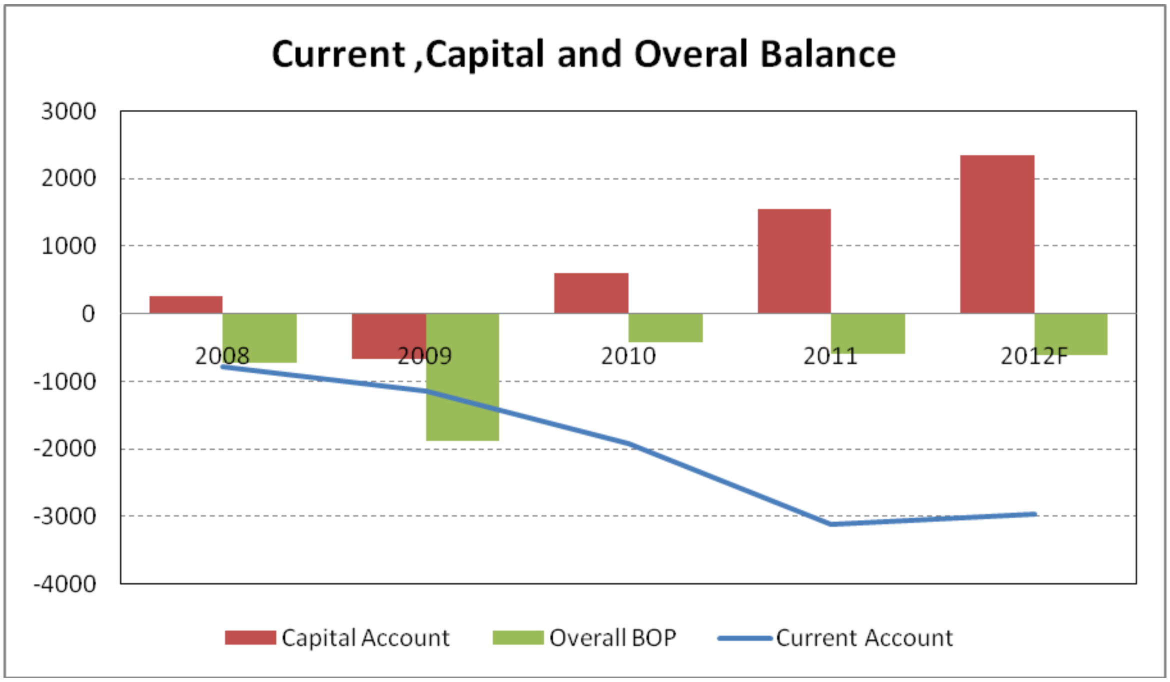
Source: Reserve Bank of Zimbabwe and Zimstat

Financing of Current Account Deficit

4.6 Financing of the current account deficit has remained a challenge, as the capital inflows are inadequate to finance the burgeoning current account deficit. The country is relying mostly on non-concessional debt flows to finance current account transactions, which exacerbates the country's already precarious external debt position.

4.7 Non-debt creating capital inflows, notably Foreign Direct Investment (FDI) and portfolio investment have remained subdued on the back of the intensification of the Indigenization initiatives that gathered substantial momentum in 2012. As a result, the country's overall balance of payments has remained in deficit estimated at US$498.1 million in 2012 as shown in Figure 6 below.

Figure 6: Balance of Payments (US$M)



Source: RBZ and Zimstat

4.8 Admittedly, the subdued global economic performance projected for 2013, is envisaged to depress international commodity prices with adverse effects on the country's external sector position.

4.9 These adverse balance of payments developments will continue to undermine efforts to expand the country's bank deposit base which supports lending activities and the attainment of sustained economic growth at large.

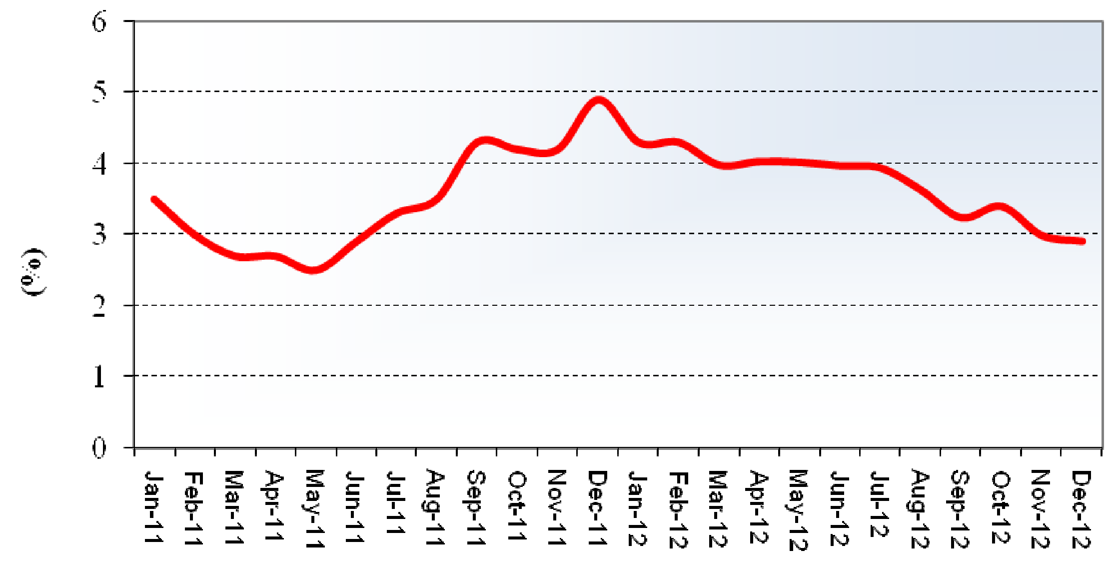
5. INFLATION DEVELOPMENTS

5.1 Economic stability as indicated by price movements has an important bearing on production costs, export competitiveness, the balance of payments developments and economic activity at large.

5.2 Adverse inflationary pressures have remained subdued on the back of tight liquidity conditions, depressed aggregate demand and stable international oil and world food prices. Against this background the country's year on year inflation closed the year at 2.91% in 2012 as shown in the Figure 7 below.

5.3 The inflation outturn of 2.91% realized in December 2012 compares favourably with initial projections of 4%. In the medium to long term, inflation developments in the domestic economy will remain inextricably bound to evolution in international oil prices, world food prices, the US$/rand exchange rate, import tariffs and the level of aggregate demand in the economy.

Figure 7: Annual Inflation Profile (%)



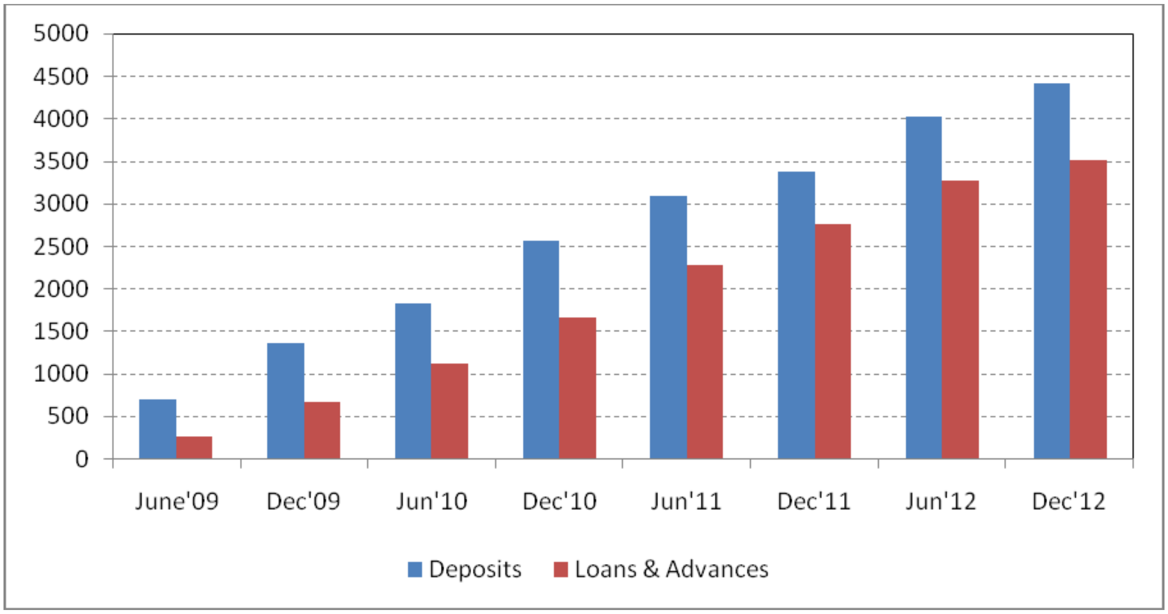
Source: ZIMSTAT, January 2013

6. FINANCIAL SECTOR DEVELOPMENTS

Banking Sector Deposits, Loans and Advances

6.1 Despite adverse external sector developments, banking sector deposits gradually increased in 2012. Expansion in the deposit base is attributed to improvements in financial intermediation realized since the inception of the multicurrency system as shown the Figure 8 below:

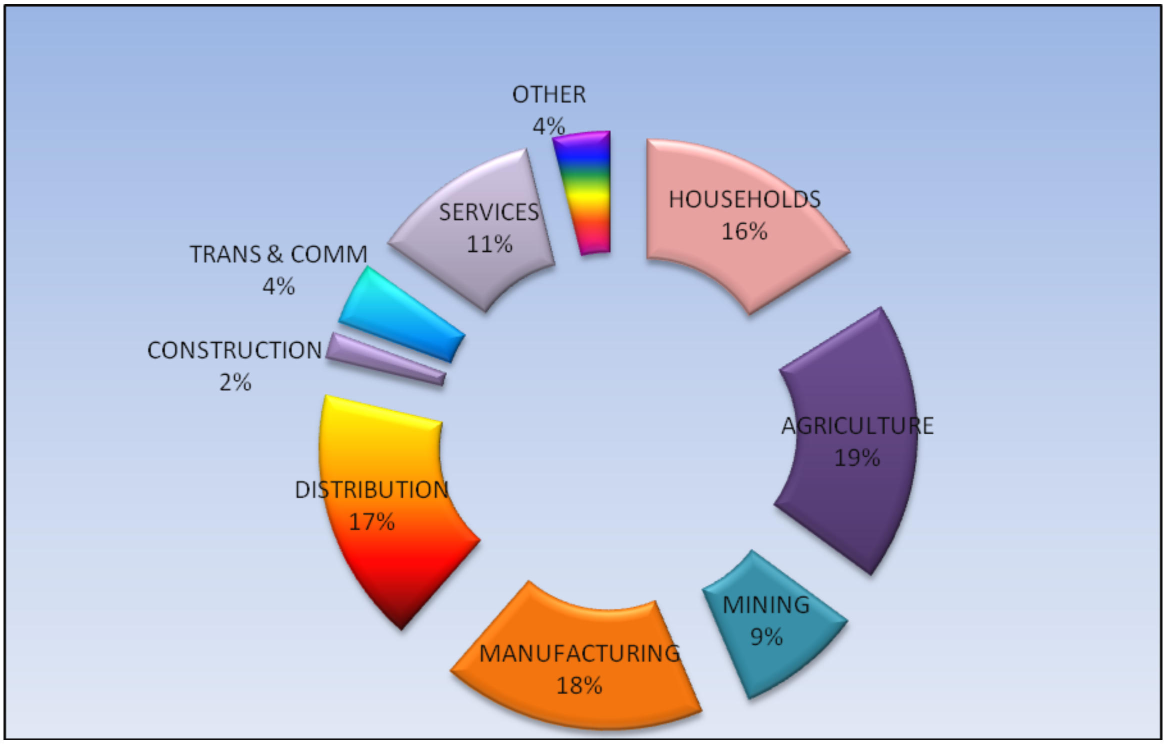
Figure 8: Bank Deposits, Loans and Advances (US$M)



6.2 In consequence, deposits in the banking sector increased appreciably by 30.7% from US$3,376 million in 2011 to US$4,411 million in 2012. Concomitantly, loans and advances increased by 27.5% from US$2,761 million in 2011 to US$3,519 million in 2012. The loans to deposits ratio, however, marginally declined from 81.79% to 79.79% during the comparative period.

6.3 Notably, loans and advances remained **largely short term in nature and channeled towards the financing of working capital with limited funding going towards capital investments**.

Figure 9: Composition of Credit to the Private Sector



6.4 As depicted in Figure 9 above, the lion's share of loans and advances were deployed towards financing agriculture (19%), manufacturing (18%), distribution (17%), households (16%) and services (11%). Regrettably, the mining, construction, transport and communications sub-sectors, accessed relatively smaller proportions of loans and advances extended by banks in 2012.

Banking Sector Overview

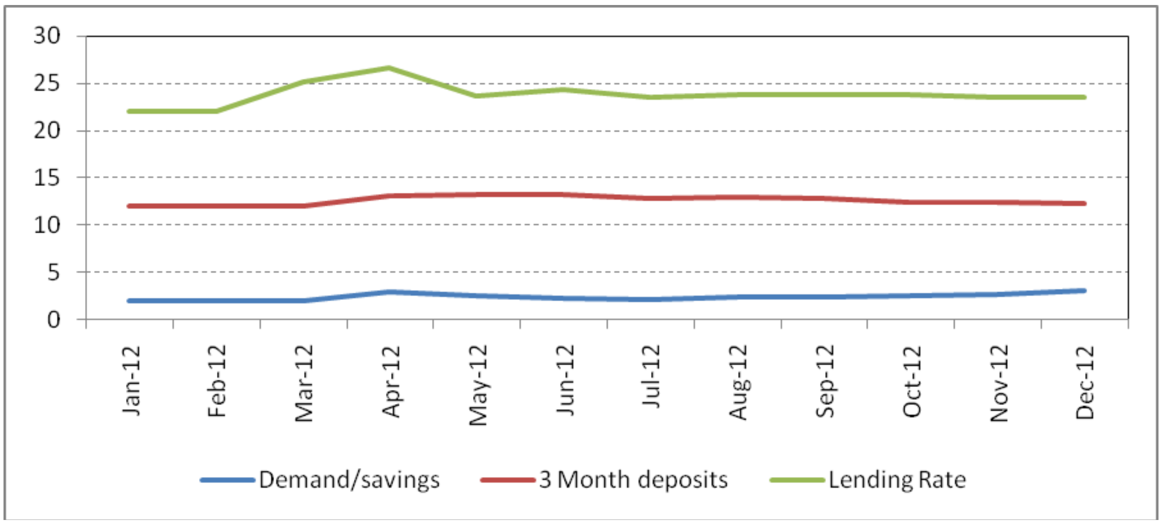
6.5 Attendant liquidity shortages coupled with the absence of an active inter-bank market, limited access to affordable external credit lines and absence of Lender of Last Resort compounded the domestic operating environment for banks. This notwithstanding, the country's banking sector remains generally safe and sound. This is despite the challenges faced by Royal Bank and Genesis Investment Bank.

6.6 Admittedly, underlying risks associated with adverse macroeconomic developments and mismanagement at some banks provided fertile ground for potential liquidity challenges and capital insolvency. Against this background, the Reserve Bank continues to vigilantly monitor and rigorously apply risk based supervisory techniques geared at facilitating the early detection of potential bank fragilities.

Interest Rate Developments

6.7 Lending rates quoted by banks in 2012 remained high, in the backdrop of deep-seated liquidity shortages as a consequence of limited access to external credit lines and adverse balance of payments developments. **The lending rates also reflected high premiums charged by some banks, irrespective of their cost structures.**

Figure 10: Average Deposit and Lending Rates (%)



6.8 Against this background, lending rates charged by banks in 2012 averaged over 22% per annum as shown in Figure 10 above. This compares unfavourably with deposit rates which averaged below 4% per annum in 2012.

Architecture of the Banking Sector

6.9 As at 31 December 2012, there were 22 operating banking institutions, (excluding Interfin which is under curatorship, Royal

Bank which is under liquidation), 16 asset management companies and 150 microfinance institutions under the supervisory purview of the Reserve Bank. The structure of the banking sector is shown in the Table 2 below.

Table 2: Architecture of Zimbabwe's Banking Sector

Type of Institution	Number
Commercial Banks	16
Building Societies	3
Merchant Banks	2
Savings Banks	1
Total Banking Institutions	**22**
Assets Management Companies	16
Microfinance Institutions	150

Recent Developments in the Banking Sector

6.10 Although the banking sector as a whole has been adversely affected by the aforementioned two or so weak and troubled banks, these institutions are small and of low systemic importance, in terms of the volume of assets, loans and deposits falling under their ambit. Their troubled status did not, therefore, affect the entire banking sector as would have been the case if they were large banks.

TROUBLED BANKS

Barbican Bank

6.11 Barbican Bank failed to meet the extended deadline of 31 July 2012 for recapitalization and resumption of banking business. Accordingly, the Reserve Bank made a recommendation in terms of section 14 (1)(i) of the Banking Act [Chapter 24:20] to the Minister of Finance for cancellation of Barbican Bank's licence.

Interfin Bank (Under Curatorship)

6.12 Following the placement of Interfin Bank under recuperative curatorship last year, and the subsequent expiration of the initial curatorship period, the Interfin Bank Curatorship was extended by a further six (6) months to 11 June 2013. The extension was necessitated by the compelling need to enable the Curator to conclude potential recapitalization deals and corporate governance issues at the bank.

Genesis Investment Bank (Under Liquidation)

6.13 Subsequent to the surrender of its licence on 11 June 2012 in line with Section 14(4) of the Banking Act [Chapter 24:20] after failing to meet minimum capital requirements, Genesis Investment Bank is now under liquidation. This follows the granting of a Final Order by the High Court on 8 November 2012. Suffice to state that its deposit base of $1.6 million accounted for an insignificant 0.04% of total banking sector deposits as at 8 June 2012.

Royal Bank

6.14 Similarly, Royal Bank surrendered its licence on 27 July 2012 after failing to navigate around operational challenges emanating from the following:

a) Undercapitalisation;
b) Chronic liquidity challenges;
c) High levels of non-performing loans;
d) Persistent losses;
e) Poor management information systems;
f) Poor board and senior management oversight; and
g) Gross violation of laws and regulations.

6.15 The bank's total deposits amounted to $5.6 million which constituted 0.13 % of total banking sector deposits of $4.18 billion as at 27 July 2012.

6.16 Notwithstanding the surrender of Royal Bank's licence, the Reserve Bank allowed it to follow through a recapitalization deal with external parties. The protracted nature and eventual collapse of the recapitalization initiatives, however, left Royal bank in an awkward position, where it was neither under curatorship nor under liquidation, at a time when the creditors' funds remained locked up in the bank.

6.17 In view of this and the need to ensure an orderly exit of the bank, the Reserve Bank has since appointed a Provisional Liquidator and duly lodged an application with the High Court to this effect.

Enhanced Troubled Bank Resolution Policy Framework Roll- Out

6.18 In view of the need to enhance financial stability, the Reserve Bank will be rolling out to the sector the Enhanced **Troubled and Insolvent Bank Policy (TIBP) Framework** during the first half of 2013.

6.19 The Policy provides a framework, underpinned by fair, consistent, transparent, cost effective and timely problem resolution principles to be followed by any troubled banking institutions.

6.20 The process of rolling out the TIBP Framework is integral in efforts geared at creating a comprehensive understanding of the pillars underpinning a framework, of supervisory assessment methodology, as well as the benchmarks to be used when effecting various corrective options.

BASEL II/III Implementation

6.21 Following a market wide assessment of the state of preparedness and implementation progress undertaken at the end of 2012 the Reserve Bank noted that banking institutions have made significant progress towards compliance with Basel II/III requirements and any weaknesses found are being addressed.

Stress Testing

6.22 The Reserve Bank has noted significant improvement in banking institutions stress testing frameworks over the last two quarters in terms of coverage, depth and analysis. As Monetary Authorities, we encourage boards and senior management to continue to refine their stress testing tools for assessing vulnerabilities as well as for early warning purposes.

6.23 This is particularly so, as stress tests are proven to be effective risk management tools and as such should be pro-actively embedded in business processes rather than merely as a regulatory formality.

ACCREDITATION OF CREDIT REFERENCE BUREAUS

6.24 Following receipt of numerous expressions of interest by private sector players to establish credit bureaus, the Reserve Bank is currently seized with the development of an accreditation framework. **The completion of the framework which is targeted for March 2013, will pave way for the commencement of operations by accredited bureaus**.

6.25 **Credit bureaus are an important element of a financial system** and in Zimbabwe, the following immense benefits are expected:

i. Overcoming existence of asymmetric information between borrowers and lenders;

ii. Gathering reliable information on potential borrowers, notably past repayment behavior which is key in the determination of credit risks, thereby reducing problems of adverse selection; and

iii. Reduction of default rates through the development of payment histories or “reputation collateral” used in securing more competitive loan rates.

6.26 In the medium term, Authorities will put in place a legal framework providing for regulation and supervision of credit reference bureaus.

BANKING SECTOR CAPITALIZATION

6.27 Consistent with pronouncements enshrined in the 2012 Mid Term Monetary Policy Statement, all banking institutions submitted their detailed recapitalization plans to the Reserve Bank by 30 September 2012, which were evaluated for credibility.

6.28 Subsequently, the Reserve Bank engaged the respective banking institutions on the feasibility of their recapitalization plans. Generally, the recapitalization plans hinged on rights issues, mergers and consolidations, organic growth and fresh capital injections from both local and foreign investors.

6.29 In the interest of transparency and accountability, I am pleased to report that a total of **14 banking institutions** met the 31 December 2012 minimum threshold, as shown in the table below:

Table 3: Capitalization Levels – Compliant Banks

BANK	LEVEL OF CAPITALISATION
CBZ Bank Limited	$111.79 million
Standard Bank	$56.50 million
Stanbic Bank	$45.62 million
BancABC	$38.42 million
Barclays Bank	$34.30 million
ZB Bank	$32.34 million
Kingdom Bank	$28.79 million
Ecobank	$28.18 million
FBC Bank	$27.97 million
MBCA Bank	$27.14 million
TN Bank	$26.90 million
CABS	$26.76 million
Tetrad	$25.19 million
NMB Bank	$25.01 million

6.30 **Five (5) banking institutions** with significant progress towards compliance, in terms of the credibility of their capitalization plans, are as tabulated hereunder:

Table 4: Capitalization Levels: Significant Progress Towards Compliance

BANK	LEVEL OF CAPITALISATION
Agribank	$22.64 million
FBC Building Society	$18.97 million
Trust Bank	$18.70 million
Metbank	$17.70 million
ZB Building Society	$14.56 million

6.31 **Two (2) banking institutions** have recapitalization plans in need of further improvement to render them credible as stated in the Table 5 below:

Table 5: Capitalization levels: Recapitalization Plans in Need of Improvement

BANK	LEVEL OF CAPITALISATION
ZABG Bank	$15.80 million
Capital Bank	$7.50 million

6.32 The recapitalization plans were considered credible and are expected to come to fruition post the 31 December 2012 deadline.

Nonetheless, recapitalization plans for two banking institutions require further refinements to render them credible.

6.33 To this end and in line with the decision taken by Cabinet last year, the Reserve Bank has authority to deal with the situation pertaining to individual banks on a case by case basis.

6.34 As regulatory Authorities, however, we have noted with concern self praise pronouncements of compliance in the press by banking institutions.

6.35 Forthwith, banking institutions should **cease making unilateral self exaltations in any media as regards compliance with prudential requirements** including minimum capital, without seeking prior Reserve Bank approval. Any such unsanctioned declarations will attract appropriate regulatory action.

6.36 At all times, banking institutions will be required to comply with the applicable minimum prudential requirements in respect of Asset Quality, Management and Corporate Governance; Liquidity, and Earnings.

6.37 Additionally, banking institutions that exhibit significant weaknesses in their **overall or any CAMEL component i.e. rated**

"5" (critical); will automatically be put on an accelerated capitalization program, and will be subjected to a higher prudential capital ratio (PCR).

BANKING SECTOR VISION 2020

6.38 The Reserve Bank has finalized a blue print of its Banking Sector Vision 2020. The vision is centered around the pursuance of banking sector solvency and stability to anchor sustained economic growth and development. Within this context, the Reserve Bank envisions a banking sector by December 2020 with the following key features, characteristics and capabilities:

a. A thriving banking sector with functional Lender of Last Resort and active interbank market;
b. The establishment of universal banks and an integrated framework;
c. Adequately capitalized and competitive banking sector with the ability to support the funding needs of the economy;
d. Banks with ability to attract significant financial resources from both local and international sources;
e. More inclusive banking sector with improved outreach to the currently un-banked and under banked sections of the population;
f. Increased interoperability of banking platforms, mobile networks, and other key national information databases;

g. Robust legal and regulatory framework benchmarked to international best practice; and
h. Cashless society characterized by electronic and mobile banking;

7. OTHER POLICY ISSUES AND ADVICE

Rating of Banks

7.1 As provided in our regulation, banking institutions should subject themselves to annual external credit rating assessments by Credit Rating Agencies accredited by the Reserve Bank.

Bank Charges and Interest Rates

7.2 Zimbabweans across the board are agreed that the level of bank charges is out of line with international best practice. In this regard, the Central Bank has been pre-occupied with the designing of a framework that ensures self-regulation by the banks. As the custodians of information on banks, the role of the Central Bank in the designing of this framework was integral.

7.3 It is heartening to note that after 75 days of negotiations, the Reserve Bank and the banking sector came up with an agreed framework which will see substantial reduction in bank charges. The agreed Memorandum of Understanding (MOU) is due for signing today 31 January 2013.

ENHANCED CORPORATE GOVERNANCE

7.4 The global financial crisis and its dampening effects on global economic activity, which almost brought the international financial system to a screeching halt, was largely attributed to failures and weaknesses in corporate governance arrangements.

7.5 While the targets of the governance related enhancements that followed are primarily financial institutions in developed countries, the principles being promoted are beneficial and instructive to emerging economies such as Zimbabwe.

7.6 This is particularly so, as the banking sector in Zimbabwe continues to witness flawed corporate governance practices and arrangements designed to undermine efforts by the regulatory authorities to ensure sustained financial sector stability.

7.7 Some, particularly local banking institutions continue to show total disregard for sound corporate governance practices resulting in some founding directors **‘dipping their fingers’** into depositors’ funds. The problem has been compounded by the existence of complex corporate structures within banking groups and financial conglomerates which are used as conduits for regulatory arbitrage and siphoning of depositors' funds.

7.8 It is against the background of these negative developments that the Reserve Bank will continue to reinforce the adoption of sound corporate governance practices.

7.9 Moreover, any standards on corporate governance issued by the Central Bank will be periodically reviewed to ensure continued relevance. In this regard, the Reserve Bank will shortly be issuing Corporate Governance Standards which will replace the Guideline No. 01 -2004 /BSD on Corporate Governance in its entirety.

Cross-Border Banking Supervision

7.10 The emergence of regional banks with significant market share across Africa, coupled with experiences from the global financial crises, call for adequate and effective supervision of cross-border banking groups.

7.11 In response to these developments, regulatory authorities on the continent have already embraced a regional approach to supervision and regulation, in order to strengthen cross-border supervision and supervisory cooperation. As such, efforts are currently underway to formalize the requisite implementation structures.

7.12 Within this context, the Reserve Bank will continue to strengthen its supervisory capacity and cooperate with other regulators on the continent in the adoption of international best practices and ensuring that all cross border banking groups are effectively supervised.

Microfinance Sector

7.13 Microfinance institutions are once again reminded that the Reserve Bank will not hesitate to cancel operating licenses and to 'blacklist' directors of institutions that fail to comply with laws and regulations governing the conduct of their businesses, including directives and instructions issued by the Reserve Bank.

7.14 Members of the public are also reminded that currently, **all registered microfinance institutions are non-deposit taking.** As such, institutions and members of the banking public are advised to desist from dealing with unscrupulous microfinance institutions as they risk losing their hard earned savings to corrupt and greedy individuals.

7.15 Going forward, all microfinance institutions **are required to justify interest rates and all other charges levied on borrowed funds as well as adequately disclose their business conditions**. The following additional measures will also be instituted in the Microfinance sector **by 31 March 2013**:

i. Finalization of Microfinance Bill;
ii. Consumer Awareness programs; and
iii. Establishment of the Microfinance Advisory Council.

Financial Inclusion

7.16 Access to financial services remains a challenge for the marginalized Zimbabwean communities, particularly in remote parts of the country. In this regard, the Reserve Bank **created scope for the operation of Micro-Finance Banks to provide credit lines to marginalized borrowers at the lower end of the market**.

7.17 The realization of the over-arching objective of financial inclusion, however, requires that investors both domestic and foreign take advantage of this window and invest in Micro-finance banks. This will undoubtedly accelerate our goal to mainstream the previously marginalized communities into the formal banking system.

SUPPORT TO SMALL TO MEDIUM SCALE ENTERPRISES (SMES)

7.18 The contraction of economic activity and the accompanying de-industrialization has been experienced since the turn of the century has occasioned the proliferation of SMEs. SMEs contribute to output and employment creation and they are also a nursery for the larger firms of the future. The most successful developing country over the last 50 years, Taiwan is built on a dynamic SME sector.

7.19 The SMEs sector requires adequate funding to unlock its potential as a source of rapid economic growth, poverty reduction, bridging current supply gaps in the economy, and uplifting living standards in Zimbabwe. The take off of the SMEs sector in the mining, manufacturing and services sector requires that the banking sector re-align its loan portfolio to accommodate the SMEs sector.

7.20 Given the benefits of a vibrant SME sector to the economy, it is imperative that banks are supportive of this sector through tailored products including loans and advances especially supply contract and order financing.

7.21 Generally, SMEs are defined on the basis of three characteristics as shown in table 4 below:

Table 6: Characteristics of SMEs

Factor	Indicator
Asset base	$10,000 to $2m
Employment	5 to 20 people
Annual Turnover	$30,000 to $5m

7.22 Given the foregoing **banking institutions are required to re-orient their portfolios such that loans to the SME sector should constitute at least 30% of the total loan book.** The Reserve Bank will conduct monthly assessments to monitor compliance and any institution found wanting, will face severe penalties.

7.23 Given the current banking sector loans of $3.5 billion as at 31 December 2012, an allocation of 30% to the SME sector will translate to loans of $1.05 billion. Assuming $40,000 is granted to each SME borrower, a total of between 25,000-30,000 clients would benefit thus creating or sustaining more than half a million jobs per annum. As the loans grow each year, we envisage corresponding increases in the number of jobs created or people empowered by the banking sector.

Financial Sector Consumer Protection Regulations

7.24 The Reserve Bank will, in liaison with the **proposed Banking Sector Ombudsman,** issue financial sector **Consumer Protection regulations before 30 June, 2013**.

7.25 The regulations will ensure that consumers receive information that will allow them to make informed decisions, are not subject to unfair and deceptive practices, and have access to recourse mechanisms to resolve disputes when transactions go wrong.

Banking Amendment Bill, 2013

7.26 I am pleased to report that the proposals to amend the current banking laws have culminated in the Banking Amendment Bill 2013, which will be implemented by 31 March, 2013. We, therefore urge all stakeholders to familiarize themselves with the provisions of this Bill.

Broad Objectives

7.27 Briefly, the proposed new law seeks to amend the Banking Act [*Chapter 24:20*] to enable it to deal more effectively with developments in the banking sector and, in particular, to achieve the following objects:

a) to improve the corporate governance of banking institutions;

b) to make banking institutions more responsive to their customers' needs and to encourage the resolution of disputes between banks and their customers;

c) to introduce greater transparency in the shareholding and operations of banking institutions;

d) to allow banking regulators to monitor and regulate bank holding companies;

e) to increase co-operation between the different financial regulatory authorities; and

f) to provide for the establishment of an international financial centre.

Synopsis of the provision

7.28 The proposed new law sets out the responsibilities of directors and senior management of banking institutions and controlling companies in relation to banking institutions. These accountable persons will have a fiduciary duty, and will be obliged to act in good faith, with due care, efficiently and free of any conflicting interests.

7.29 In the event of reckless, negligent, or fraudulent conduct/omission, legal action may be taken against them on behalf of depositors and creditors who may have suffered loss.

7.30 In terms of the amendments, companies that have control over banks (controlling companies) will now require registration by the Reserve Bank.

7.31 The new law will provide legal support to formalised cooperation and information sharing between the Reserve Bank with other regulatory bodies such as the Securities Commission, Insurance and Pensions Commission and the Deposit Protection Corporation.

This is key in facilitating effective supervision of systemically important financial institutions and minimise regulatory arbitrage.

7.32 The amendments also propose the establishment of a Financial Sector Development Council, consisting of representatives from all financial regulatory authorities. The Council's function will be to ensure proper collaboration between the regulatory bodies.

7.33 Consistent with consumer protection initiatives, the new law will establish the office of a financial ombudsperson to mediate and resolve disputes between financial institutions and their customers. The function will be carried out by the Reserve Bank. In addition, the new law seeks to provide for enhanced disclosure of terms and conditions of business by banking institutions.

7.34 In terms of the proposed law, the Minister may issue regulations on the registration and supervision of credit reference bureaux. The establishment of credit reference bureaux is critical in the management of credit risk by banking institutions and minimise over-indebtedness by members of the borrowing public.

7.35 It is anticipated that the legislative process will be completed expeditiously in order to give effect to the proposed provisions.

8. ISSUANCE OF GOVERNMENT SHORT TERM INSTRUMENTS

Treasury Bill Issuances

7.1. In line with the pronouncements embodied in the July 2012 Mid-Term Fiscal Policy Review, Government issued short-dated Treasury instruments. The issuance of short dated instruments was aimed at addressing persistent systemic liquidity challenges, unequal distribution of liquidity and the shortage of appropriate instruments for use as collateral in inter-bank trading. The short-dated paper was also expected to be instrumental in determining the money market reference interest rate.

7.2. Despite the vigorous lobbying by banks, participation in all the five auctions was very low. This notwithstanding, Government will undertake additional Treasury Bill auctions in 2013 on dates to be announced soon.

Lender of Last Resort

7.3. To enable the Central Bank to function effectively in the development of the money market, the lender of last resort facility has to be in place to facilitate the smooth functioning of money markets. To date, Treasury has been unable to provide the Central

Bank with this fund despite several promises to do so. It is anticipated though, that this matter will be resolved soon.

Short-term Trade Facilities

7.4. During the year 2012, the External Loans Coordinating Committee (ELCC) approved short-term facilities amounting to US$3.3 billion as compared US$2.69 billion approved in 2011 as shown in Table 4 below.

7.5. Approvals during the year 2012 were spread across nine sectors of the economy, with the financial and agricultural sectors accounting for the highest values of US$1.13 billion and US$976.8 million respectively.

7.6. Regrettably, the utilization of approved facilities remained low at 33% in 2012. This compares unfavourably with utilization figures of US$1.28 billion or 47% of total approved facilities realized in 2011.

Table 7: Approved ELCC Short-term Facilities Year (2011 and 2012)

Sector	No. of Companies 2011	No. of Companies 2012	Amount Approved (US$ Million) 2011	Amount Approved (US$ Million) 2012	Utilized Amount (US$ Million) 2011	Utilized Amount (US$ Million) 2012
Agriculture	16	42	457.4	976.8	293.8	**446.5**
Financial	31	34	955.5	1130.7	377	**366.6**
Mining	16	25	295.8	340.5	122.7	**105.3**
Tourism	7	5	22.9	14.7	3.6	**2.8**
Manufacturing	26	61	386	101.5	60	**20.3**
Telecommunication	9	5	474.9	286.4	394.9	**91.2**
Distribution	60	74	97.8	159	28.6	**50.8**
Transport	Nil	2	Nil	0.9	Nil	**Nil**
Energy	Nil	2	Nil	319	Nil	**Nil**
Total	**165**	**250**	**2690.3**	**3329.5**	**1280.6**	**1083.5**

7.7. The decline in utilization levels reflects the effects of failure by the borrowers to meet stringent conditions precedent on the facilities and availability of alternative sources of financing.

7.8. Stringent borrowing requirements are also prompted by the country's external debt overhang. In this regard, the expeditious resolution of the country's external debt should continue to rank high on Government's priorities.

8. MOBILE FINANCIAL SERVICES (MFS) DEVELOPMENTS

8.1. The Zimbabwean economy has benefited immensely from the introduction of mobile banking services. Evidently, the customer base has expanded appreciably. This positive development has been accompanied by greater access to products such as remittance transfers, which may prompt existing customers to increase their use of banking services.

8.2. As Monetary Authorities we advise that mobile money transfers services are merely a payment system or delivery channel which does not amount to deposit taking. Accordingly, mobile money transfers should operate on a credit push principle where all e-money value is backed by pre-funded balances which are held in banking institutions.

8.3. Notwithstanding the bold strides attained in the provision of mobile banking services, immense opportunities for growth in mobile payments abounds, particularly in view of the rapid rise in penetration rates.

8.4. As such, banks are urged to leverage on this impelling development in the area of mobile banking as an effective distribution network for financial products to various segments of the transacting public.

Review of Legal and Regulatory Framework

8.5. In the line with the provisions of the National Payment Systems Act [Chapter 24:23] as well as the need for alignment with best international practices, the need to review the legal and regulatory framework cannot be over-emphasized. In this regard, as Monetary Authorities, we are currently seized with the drafting of appropriate guidelines and policies in the following areas:

a. Payment systems oversight guideline to be finalised by 30 June 2013;
b. E-money and electronic payments guideline to be issued by end of September 2013.; and
c. Agency banking guideline to be finalized by 31 December 2013.

8.6. The finalization and operationalisation of these guidelines is envisaged to provide strong impetus to current efforts aimed at fostering financial stability and effective payment systems oversight.

8.7. In line with these developments, the Central Bank will continue to consult widely with other regulatory bodies and relevant stakeholders including Ministry of Finance, Ministry of Transport and Communications, Ministry of ICT, Post and Telecommunication Regulatory Authority of Zimbabwe (POTRAZ) and Bankers Association of Zimbabwe (BAZ) in the development of payment systems in the country. Meanwhile, a memorandum of understanding between the RBZ and POTRAZ will be finalized by end of first quarter 2013.

International Best Practices

8.8. The negative effects of the global financial crises have necessitated increased collaboration among regulators in the adoption of common standards across financial market infrastructures worldwide.

8.9. In this regard, the Bank for International Settlements (BIS) through the Committee on Payment and Settlement Systems (CPSS) and International Organisation for the Securities Commission (IOSCO) strengthened and harmonized the standards which culminated in twenty four (24) Financial Market Infrastructures (FMIs)

Principles issued in April 2012. The 24 FMI principles include the following among others:

i. Legal and Governance;
ii. Risk Management;
iii. Clearing and Settlement; and
iv. Efficiency and Transparency.

8.10. The Central Bank will guide the market on the implementation of the principles to ensure full compliance as well as adherence. As such, we urge banks and other critical infrastructure providers to familiarize themselves with the principles availed on the BIS website (http://www.bis.org/publ/cpss101a.pdf). .

8.11. As overseers of payment systems we are fully committed to the implementation of the revised principles which should ensure that our payment systems remain consistent with international best practices.

Interoperability and Infrastructure Sharing

8.12. Interoperability is defined as the ability of different systems, networks, applications and other infrastructure of different entities to interlink and work in congruence effectively and efficiently.

8.13. Patently, one of the major setbacks in the development of electronic means of payment and financial inclusion is the limited culture of sharing payment systems infrastructure.

8.14. In this regard, we continue to encourage interoperability and sharing of infrastructure across various institutions. Shared infrastructure is an avenue that has potential to bridge the cost and access gaps that hinder the efficient delivery of financial service.

8.15. Essentially, **relationships between financial institutions and payment system providers should be complimentary rather than acrimonious.**

8.16. In this regard, payment system providers **including mobile network operators are implored to accommodate all banking institutions on their platforms to ensure that interoperability and sharing of infrastructure across various institutions is achieved**.

Payment Systems Pricing Strategy

8.17. The promotion of greater financial inclusion and stability entails the adoption of realistic pricing strategies in order to increase confidence levels in the payment systems. The ultimate objective in the development of payment systems is to ensure that financial services are affordable, safe, accessible, and convenient to consumers.

8.18. As such, an intricate balance has to be struck between the pricing policies within our oligopolistic market structures and building a sustainable confidence level in the services offered. **Accordingly, payment system providers such as mobile network operators are directed to review their charges by end of March 2013**.

Risk Management

8.19. The Central Bank remains vigilant to the challenges that come with developments in retail payment systems including mobile financial services.

8.20. In order to address the concerns regarding possible money laundering activities in mobile money transfers a number of measures are already in place including the requirement of sim card registration.

8.21. To further mitigate the risks mobile money transfer services also have approved transactional limits which are in line with risk and market developments.

8.22. The Central Bank encourages all payment and financial services providers to continue developing risk management processes that are rigorous and comprehensive to respond to current and future risks brought about by the rapid pace of technological innovations.

Exchange Control Measures to Enforce Timeous acquittal of forms CD1/CD3/TR2

8.23. Export receipts remain a critical component of the country's foreign exchange generating avenues. In the absence of sustainable foreign investment flows, moderate remittances and limited foreign aid, the mobilization and full accounting of exports becomes a critical component of the country's strategies.

8.24. Failure to fully account for such receipts compounds the country's liquidity situation. As such, all exporters must, therefore, obligate themselves towards timeous acquittal of their export proceeds.

8.25. In this regard, a penalty regime for failure to timely acquit export proceeds, and also other banking sector misdemeanors, shall be announced in due course.

8.26. Additionally, Government has requested the Central Bank to come up with an applicable legislation to ensure that cash based exports, namely, tobacco and other crops and minerals are regulated. Accordingly, pronouncements on these regulations will also be made in due course.

LOAN CONTRACTION PROCEDURES

8.27. The contraction of credit lines and loans in Zimbabwe are undertaken through the External Loans Coordination Committee (ELCC). The ELCC has been empowered by Government to use stipulated guidelines in debt contraction with a view to monitor the country's indebtedness to the rest of the world.

8.28. Notwithstanding laid down procedures in the contraction of credit lines which strictly requires prior ELCC approval, there are incidences where credit lines are contracted on behalf of Government outside the purview of the ELCC or involvement of the Reserve Bank of Zimbabwe.

8.29. Against this background, all institutions both in the private and public sectors need to send their loan applications through the ELCC for prior approval. This will ensure that residence of Zimbabwe contract debt in a structured and coordinated way to avoid the continued contraction of non-concessionary debt which will sink the country deeper into a debt trap.

8.30. This also applies to the various vendor financing schemes that have emerged over the recent past as well as Indigenization and Economic Empowerment Loans contracted outside the country which are above US$5 million.

MONEY LAUNDERING

Counterfeit Money

8.31. Under the multiple currency system, the proliferation of counterfeit notes has gathered pace in a worrisome manner. Mostly, fake notes in United States Dollars and South African rands are circulating in Harare, Bulawayo and other parts of the country.

8.32. In this regard, we urge the transacting public and retailers alike, to be on the constant look out for fake notes. Against this background, there is need for the general public to familiarize themselves with the security features of all the currencies presently accepted as media of exchange in Zimbabwe. On the other hand, corporates and retailers should adopt the requisite technology that assist in note detection.

8.33. As Monetary Authorities, we sternly warn those who are in this illegal business of printing fake notes that the long arm of the law will definitely catch up with them. The circulation of fake notes affects business transactions as the acceptability of higher denominations becomes compromised.

Suspicious Transactions

8.34. As embodied in the Reserve Bank Act, our functions are confined to monetary and financial matters of the economy. Additionally, the conduct of financial transactions the world over, are also governed by the United Nations Convention on Suppression of Financing of Terrorism (1999), and the Convention Against Transnational Organised Crime, otherwise known as the Palermo Convention.

8.35. In the Zimbabwean context, the following pieces of legislation govern legitimacy of money and its uses:

a. The Bank Use Promotion and Suppression of Money-Laundering Act (Chapter 24:24);
b. The Serious Offences (Confiscation of Profits) Act (Chapter 9:17); and
c. The Suppression of Foreign and International Terrorism Act (Chapter 11:21).

8.36. Within this context, the general public is warned against undertaking suspicious transactions that are in direct violation of the above international and domestic legislative provisions.

8.37. We acknowledge that all conventions have been signed and that the country is compliant with all conventions on anti-money laundering and financing of terrorism.

Indigenization and Economic Empowerment

8.38. All banks should observe the laws of the country including the Indigenization and Economic Empowerment laws. In this regard, the Reserve Bank is working together with the Ministry of Indigenization and Economic Empowerment to ensure that compliance with appropriate laws is done in an orderly manner.

8.39. The process to indigenize the banks should, however, take cognizance of the sensitivities around the operation of the banks to restore confidence, trust and stability in the sector.

Engagement of the International Community

8.40. As Monetary Authorities, we appreciate efforts to come on board the Zimbabwean ship by the Multilateral and regional financial institutions. In this respect the IMF has since lifted suspension of technical assistance to the country, while the country's relations with the World Bank, the African Development Bank (AfDB) and of late the European Investment Bank (EIB) continue to strengthen.

Bilateral Investment Protection and Promotion Agreements (BIPPAS)

8.41. The restoration of respect for the sanctity of Bilateral Investment Protection and Promotion agreements (BIPPAS) is a welcome development. This positive development will undoubtedly enhance the country's appeal as a safe and prime investment destination in the sub-region.

9. CONCLUSION

9.1. The financial sector remains the prime mover of meaningful and inclusive economic development processes through its indispensable intermediary role. Within this context, the maintenance of a sound, efficient and safe banking sector remains critical in effective financial intermediation in Zimbabwe.

9.2. As such, the policy measures embodied in this statement are envisaged to situate the banking sector in its rightful position as the fulcrum of economic growth and development, through strong and adequately capitalized operations. The ultimate objective is to ensure the efficient mobilization and redeployment of investible funds to support key productive sectors whose survival is contingent upon the availability of loanable funds.

9.3. The efficient mechanism of mobilizing and allocating investible funds will undoubtedly accelerate economic growth, create employment opportunities and invariably enhance the living standards of the generality of the citizenry.

9.4. Additionally, adequately capitalized and sound banks provide important positive externalities, as mobilizers of surplus funds, efficient allocators of resources, and providers of liquidity and payment services. It is against this background that the Reserve Bank remains engrossed and pre-occupied with fostering capital adequacy and the avoidance of an undercapitalized banking sector.

9.5. Most importantly, the building of adequate capital buffers by banks will enable them to build confidence in the banking public, mop up substantial liquidity circulating outside the banking system and support the meaningful re-orientation of the economy onto a sustained growth path.

9.6. Moreover, the Sub-region has gathered substantial momentum towards deepening regional integration within the auspices of SADC and COMESA. Against this background, the country's financial sector will be more susceptible to adverse regional and global economic developments as the Sub-region and the African continent, converges towards a global village.

9.7. The effects of regional integration and increased susceptibility to global challenges, coupled with the envisaged recovery of the Zimbabwean economy in the foreseeable future requires that **Authorities be pro-active in the adoption of measures that improve capital adequacy, liquidity, solvency, and the safety and soundness of the country's banking sector**.

9.8. Undoubtedly, the amalgamation of these factors, points to the unbridled need to strengthen the country's banking sector and arrest the further collapse of financial institutions and the unnecessary loss of depositors' funds.

9.9. This coupled with the increased use of well-regulated mobile banking services will propel the Zimbabwean economy onto a sustainable growth trajectory.

9.10. Under the envisaged Vision 2020, the country's banking sector is expected to be vibrant, viable, strong and stable enough to anchor sustained economic growth and development.

I THANK YOU

DR. G. GONO
GOVERNOR
RESERVE BANK OF ZIMBABWE
31 JANUARY 2013

APPENDIX 1

THE CHALLENGES …

a) Hyper-inflation 525.8% (October 2003) and 619.5% (November 2003);

b) Shortage of foreign currency for critical imports;

c) Price, interest and exchange rate distortions in the economy;

d) Reduced corporate sector viability due to high interest rates, distorted exchange rates and supply bottlenecks;

e) Declining levels of both local and foreign investment;

f) Industrial production capacity under-utilization and diminished export performance;

g) Low savings and "short-termism" in investment decisions;

h) High unemployment levels;

i) Negative economic growth rates, de-industrialization, and the accelerated informalization of the formal sector;

j) Reduced confidence among investors and the citizenry of this country;

k) Weaker economic empowerment, especially of the poor and marginalized, accompanied by worsening poverty levels;

l) Contradictions between official policies and actions on the ground;

m) The HIV/Aids pandemic;

n) Structural weaknesses at policy implementation levels;

o) Unstable energy supplies;

p) Persistent high Government budget deficits and debt overhang;

q) Growing incidents of public and private sector corruption;

r) High perceived country risk and reduced international creditworthiness;

s) Deteriorating and over-burdened urban and rural infrastructure;

t) Strained relations with some countries, the international donor and financial community;

u) Strained transport, telecoms and housing infrastructure;

v) Unpredictable weather patterns and related droughts;

w) Quasi-fiscal indebtedness with their side-kick effects on the budget deficit;

x) Under-utilization of some acquired land due to resource constraints;

y) Bran-drain; and

z) Disintegration of social structures and norms of existence due to various pressures.

APPENDIX 2

a. Zimbabweans are a very resilient people, tolerant, hard working, highly literate and resourceful
b. The country has a resilient economy which is still working, albeit, at a lower capacity than its full potential;
c. Save for their frustrations with resource constraints, a strong agrarian culture and love for the soil has gripped the country and its people;
d. There is a strong and growing high level business mentality and entrepreneurial spirit amongst the local population;
e. The country has a highly educated population and most able workforce;
f. There exists a functional infrastructure base in need of some minimal investment to raise its standard;
g. Ingredients exist for a strong, tigerish economic base founded on intellectual capital, a diverse mineral base, tourism, banking, and manufacturing sectors with unparalleled potential;
h. Zimbabweans are a generally peaceful and highly tolerant people who have often displayed incredible ability to solve their own social and political challenges, whatever the magnitude;

i. Despite high levels of HIV/Aids infections, the country's HIV/Aids prevention programs remain effective and credible internationally;
j. A sound financial sector with strong regional and international links;
k. A reputation of quality as a country – from our climate to the quality of our tobacco/sugar/coffee/beef/flowers and many other products;
l. A determined and growing indigenous private sector; and
m. A committed, vibrant and principled political, business, academic, labour and civil society leadership.

APPENDIX 3

MEMORANDUM OF UNDERSTANDING

BETWEEN

RESERVE BANK OF ZIMBABWE

AND

PARTICIPATING FINANCIAL INSTITUTIONS

PREAMBLE

a) **Whereas** in the absence of a functional lender of last resort and primary instruments to use as reference points for the setting of interest rates, Participating Financial Institutions have relied on their respective varying cost structures, in order to determine appropriate levels of fees and charges for their various banking services;

b) **Whereas** the Parties hereto hold the mutual interest and intention to rationalise, on the basis of and subject to the considerations expressed hereunder, certain of the bank charges and interest rates prevailing in the market for purposes of ensuring that bank charges and interest rates promote financial inclusion, stability and economic growth;

c) **Whereas** cognisant of the need to consult and seek a participatory resolution of the issue, Participating Financial Institutions engaged the Reserve Bank of Zimbabwe; and

d) **Whereas** the Participating Financial Institutions and the Reserve Bank of Zimbabwe (the Parties) have reached a consensus on the framework for determining bank charges and interest rates margins.

NOW THEREFORE:

The Parties agree as follows:-

1. **Interpretation**

1.1 Unless the context requires otherwise, the following terms used herein shall have the meanings ascribed to them below:

i. **"Agreement"** shall mean this Memorandum of Understanding (MoU) and any schedules and/or annexures as may be included and/or attached to it.

ii. **"Cost of Funds**" refers to a bank's cost of each component of funding, which includes, but is not limited to the reward paid to depositors and shareholders in respect of shareholders' funds and the cost of attracting such deposits as reflected in clause 4.3(f);

iii. "**Business day**" means a day on which banking institutions are open for business in Zimbabwe;

iv. **"Participating Financial Institutions"** means clearing and non clearing financial institutions in Zimbabwe which are party to this agreement;

v. "**RTGS**" means the real time gross settlement system used for electronic funds transfers; and

vi. “**EFTPOS**” means electronic funds transfer on point of sale, or point of sale (POS) in short.

vii. **“Savings Account”** refers to a deposit account held at a Participating Financial Institution which does not have any maturity date, from which withdrawals can be made, interest accrues on the account balance, and usually does not require a minimum balance.

2 COMMENCEMENT AND TERM

2.1 This Agreement shall commence with effect from **1 February 2013, with the exception of the issuance of debit cards to all account holders which shall commence on 1 March 2013,** notwithstanding the date of signature by both or any of the Parties, (“the Effective Date”) and shall endure for a period of one **(1) year,** renewable by mutual consent unless terminated by the Parties.

2.2 The Agreement shall not apply in retrospect.

3 DUTIES AND OBLIGATIONS OF THE RESERVE BANK OF ZIMBABWE

3.1 The Reserve Bank of Zimbabwe shall communicate directly with each Participating Financial Institution and shall request whatever information it deems fit from Participating Financial Institutions, individually or collectively, in order to fully execute the terms and conditions of this agreement.

3.2 The Reserve Bank of Zimbabwe in line with its supervisory mandate, shall engage Participating Financial Institutions operating outside the agreed framework for bank charges and interest rates, and shall notify the concerned institution in writing of the need to comply with the terms and conditions of this Agreement.

3.3 The Parties have agreed that appropriate supervisory action shall be taken against any defaulting Participating Financial Institution, including any sanctions deemed necessary which may constitute any of the following:

i. Monetary sanctions against the institution concerned; or
ii. Suspension of the banking licence; or
iii. Cancellation of licence.

provided that any such supervisory action shall be in line with the provisions of section 73 of the Banking Act [*Chapter 24:20*] and the aggrieved Party shall be afforded the right to be heard in line with the principles of natural justice.

3.4 The Reserve Bank of Zimbabwe and Participating Financial Institutions shall develop a standardised format of disclosure requirements to ensure that Participating Financial Institutions clearly disclose all their fees and charges in a uniform manner to enable customers to easily make informed choices and comparisons among banks.

4 DUTIES AND OBLIGATIONS OF PARTICIPATING FINANCIAL INSTITUTIONS

Disclosure Requirements

4.1 Participating Financial Institutions shall disclose all business conditions which include the following:

a) The rate of interest payable by the Participating Financial Institution on different types of deposit/investment accounts;
b) The rate of interest charged by the Participating Financial Institution on overdrafts, loans and advances; and
c) The standard terms and conditions under which it accepts deposits, allows overdrafts and offer loans and advances; and any other services.

4.2 Participating Financial Institutions shall display on an on-going basis, their conditions of business including all charges and rates of interest, in prominent places in banking halls, websites, and publish the same on a quarterly basis in two national newspapers widely circulated in Zimbabwe.

Interest Rates on Deposit/Investment

4.3 The following conditions shall apply in respect of Participating Financial Institutions’ relationships with their customers:

a) A Participating Financial Institution shall, in respect of a fourteen day call or fixed deposit account, pay interest accruing to the account on agreed contractual terms provided that such interest may be reduced, in terms of the agreement signed by the customer, which terms of the agreement shall consistent with the letter and spirit of this MoU, where the deposit is withdrawn before the maturity date.

b) Any term deposit by individual customers of one thousand United States of America Dollars (US$1 000.00) and above held over a period of at least 30 days shall attract an interest rate of at least 4% per annum provided that such deposit has been placed in a term deposit account in accordance with the terms and conditions applying to such account at a Participating Financial Institution; which terms shall be consistent with the letter and spirit of this MoU.

c) A Participating Financial Institution shall, in respect of a Savings Account, pay interest accruing to that account provided that each Participating Financial Institution is at liberty to create its own various types of Savings Accounts whose terms and conditions shall be consistent with the letter and spirit of this MoU.

d) A Participating Financial Institution that is required to pay interest in terms of Clause 4.2(c) above shall calculate and accrue interest daily and credit interest to the account concerned at the end of each calendar month subject to the deposit held in the Savings Account meeting the applicable terms and conditions on such account.

Lending Rates

e) Lending rates will be subject to a maximum rate of not more than 12.5 percentage points above a Participating Financial Institution's weighted average cost of funds.

f) It was agreed that the weighted average cost of funds shall be calculated as follows:

Deposit class(a) /total deposit base X class (a) Deposit Rate + Deposit class(b) /total deposit base X class (b) Deposit Rate +…+ Deposit class (n) /total deposit base X class (n) Deposit Rate

(*where Deposit classes are: Demand, Time, NCDs, Savings, Foreign Currency*)

g) If a loan or other advance made to a customer, fails to operate within agreed parameters as set out in the loan agreement, the Participating Financial Institution may charge a penalty interest rate not exceeding ten per cent per annum above the contractual lending rate, excluding associated collection costs including, but not limited to, legal costs at the legal practitioner-client scale.

Banking Charges

4.4 The following conditions shall apply in respect of Participating Financial Institutions' relationships with their individual customers with monthly deposits that less than or equal to $800:

	Agreed Charges
Cash Withdrawal fees	up to 0.5% of cash withdrawal amount subject to minimum charge of $2.50
Debit Card fee	First debit card free and thereafter up to $3.50. The issuing of Debit cards will be mandatory to every account holder
Ledger fees, Maintenance & Service fees, by whatever name they may be called	up to $4 per account

ATM Withdrawal fee	$2 per transaction
POS	Between $0.10 and $0.50 per transaction
Request for Statement	First statement request free per month. Subsequent requests during the same month, will attract current charges.
Cash Deposits	no charges shall be levied on cash deposits

4.5 It was agreed that Participating Financial Institutions currently levying bank charges/fees below the levels proposed in the MoU should maintain the charges/fees at the levels currently obtaining; and that charges/fees not specified in the MoU should not be increased.

4.6 The Parties agreed that the lending rates and the bank charges are subject to a review after 6 months from the Effective Date.

4.7 During the 6 months of the subsistence of the MoU, Participating Financial Institutions shall undertake extensive review and adopt possible ways of reducing operational expenses which tend to be a high contributor to the high interest rate spread.

Pensioners

4.8 Every Participating Financial Institutions shall exempt pensioners aged above 60 years from all bank charges including account maintenance fees except where such accounts are used for conducting business related activities.

Promotion of Electronic Means of Payment and Plastic Money

4.9 Every Participating Financial Institution shall promote the use of plastic money through the introduction of more e-channels, more point of sale devices, increasing the interoperability of systems and sharing of service delivery infrastructure for the convenience of the transacting public.

5 STANDING COMMITTEE

5.1 The Parties hereto shall form a standing committee which shall also incorporate officers of the Ministry of Finance.

5.2 The standing committee shall meet regularly to discuss and review issues covered by this MOU.

5.3 The standing committee shall make recommendations regarding participation and related matters pertaining to mobile network operators, including the liberalization of the gateway.

6 DISPUTE RESOLUTION

6.1 Without prejudice to rights and remedies available at law, the Parties hereto, shall use all reasonable endeavours to resolve any disputes arising out of the operation or implementation of this agreement amicably. Any dispute that is not resolved amicably between the Parties within fourteen (14) days shall be referred to the Minister of Finance who may resort, amongst other possible measures, to the issuance of a statutory instrument.

6.2 This Agreement shall be governed by, and construed in accordance with, the laws of Zimbabwe.

SIGNED on this day of 2013

For and on behalf of **BancABC Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Agricultural Development Bank of Zimbabwe**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Barclays Bank of Zimbabwe Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Capital Bank Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Central Africa Building Society**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **CBZ Bank Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **CBZ Building Society**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Ecobank Zimbabwe Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **FBC Bank Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **FBC Building Society Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Infrastructure Development Bank of Zimbabwe**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Interfin Bank Limited (Under Curatorship)**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Kingdom Bank Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **MBCA Bank Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **MetBank Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **NMB Bank Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **People's Own Savings Bank**

______________________ ____________________________

CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Stanbic Bank Zimbabwe Limited**

______________________ ____________________________

CHIEF EXECUTIVE OFFICER FINANCE DIRECTOR

SIGNED on this day of 2013

For and on behalf of **Standard Chartered Bank Zimbabwe Limited**

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CHIEF EXECUTIVE OFFICER FINANCE DIRECTOR

SIGNED on this day of 2013

For and on behalf of **Tetrad Investment Bank Limited**

______________________ ____________________________

CHIEF EXECUTIVE OFFICER FINANCE DIRECTOR

SIGNED on this day of 2013

For and on behalf of **Trust Banking Corporation Limited**

______________________ ____________________________

CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **ZB Bank Limited**

______________________ ____________________________

CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **ZB Building Society**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **Zimbabwe Allied Banking Group**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on behalf of **TN Bank Limited**

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CHIEF EXECUTIVE OFFICER **FINANCE DIRECTOR**

SIGNED on this day of 2013

For and on Behalf of the **Reserve Bank of Zimbabwe**

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GOVERNOR OF THE RESERVE BANK