## SECTION TWO

## EVALUATION OF THE PREVIOUS MONETARY POLICY MEASURES

10. The Monetary Policy Committee (MPC) of the Bank maintained the Bank policy rate at 40% and the medium-term policy rate at 30% during the first half of 2021. The Bank also continued to undertake appropriate open market operations, in line with its monetary targeting framework, to ensure that money supply remained within growth enhancing and inflation neutral levels. These measures, along with the MPC's forward guidance on interest rates, have helped create and sustain the current accommodative monetary and financial conditions.

### Management of Money Supply

11. The Bank put in place a reserve money growth target of 25% per quarter in 2020, which was reduced to 22.5%, beginning January 2021. In order to sustain the macroeconomic stability brought about by the restrictive monetary policy stance, the Bank further reduced the quarterly reserve money growth target to 20% for the remaining two quarters of 2021. This move was necessitated by heightened speculative pressures on the parallel market, which have a potential destabilising effect on price stability. Figure 1 shows reserve money performance for the first half of 2021 against set targets.

18. To avert any gridlocks in the payment system arising from the open market operations, banks can access the balances mopped in NNCDs as long as they utilise the funds and their excess balances are within their set limit. This system has worked exceptionally well and has also resulted in increased intermediation as banks are now deploying some of their excess (idle) balances for lending to their customers and purchase of Government securities.

**Productive Sector Support Facilities**

19. The Bank introduced the Medium-term Bank Accommodation Facility in November 2019 largely focused on supporting agricultural production. Support was extended for the Winter Wheat Planting Programme during the 2020 season and this helped in the realisation of a decent wheat crop of over 161 432 metric tonnes, enough to cover more than 5 months of the country's requirements. This saw the country saving foreign currency as millers were able to access local wheat. It is therefore imperative that such support programmes are implemented to substitute imports.

20. The outstanding amount under the Medium-term Bank Accommodation Facility stands around ZW$4.13 billion. In May 2021, the MPC approved an additional ZW$2.5 billion for winter wheat farming.

21. Following the debilitating impact of the Covid-19 induced lockdowns on the micro, small and medium enterprises (MSMEs), the MPC introduced a ZW$500 million facility to cater for the funding requirements of MSMEs. The facility is available for up to 12 months for working capital and up to 3 years for capital expenditure. The facility is accessed through banks, microfinance banks as well as credit only microfinance institutions.

**Payment of Interest on Deposits**

24. In recognition of the role played by savings and deposits in the economy and the need to support financial inclusion and development, the Bank engaged the Bankers Association of Zimbabwe on the need to comply with Statutory Instrument 65A of 2020 on the payment of interest on savings accounts. As a result, effective 1st July 2021, banking institutions scrapped bank charges on savings accounts and fixed term deposits and also agreed to offer minimum interest rates as shown in Table 1.

**Table 1: Interest on Savings and Fixed Term Deposits**

| | ZW$ | USD |
|---|---|---|
| **Savings Accounts** | Minimum of 5% per annum | Minimum of 1% per annum |
| **Fixed Term Deposits** | Minimum of 10% per annum | Minimum of 2.5% per annum |

**Source: RBZ**

25. The Bank, in consultation with the Deposit Protection Board, is exploring mechanisms to protect foreign currency deposits. In addition, consultations are also ongoing to encourage banks to leverage on the foreign currency deposits to enhance financial intermediation for the benefit of the economy. These measures will allow the circulation of the US$1.7 billion currently sitting in FCA accounts, to promote growth and development.

**Introduction into Circulation of Z$50 Banknote**

26. In order to improve efficiency and convenience to the public, the Bank introduced ZW$50 banknotes into the national economy on the 7th of July 2021. All banknotes and coins issued by the Bank since 2016 remain legal tender in Zimbabwe. The banknotes and coins have not expired and hence the behaviour by some traders to reject some of the notes in circulation to

a move that has reduced the repayment burden and unlocked capacity to avail more resources for balance of payments support to the economy.

37. The Bank has also put in place a US$150 million Letter of Credit (LC) facility with Afreximbank, which will see participating banks issue letters of credit to their qualifying clients to import essential raw materials and other inputs to support the current growth trajectory. The LCs will go a long way in easing pressure on the Foreign Exchange Auction System as some of the critical imports will be financed under this arrangement.

**Interbank Foreign Exchange Market**

38. Apart from the Foreign Exchange Auction System which accounts for around 30% of the total market foreign exchange transactions, the interbank foreign exchange market continues to be operational using the auction determined foreign exchange rate. The interbank foreign exchange market traded around 7% of total market transactions from January to July 2021. Around 63% of the market transactions are processed through bank customers’ foreign currency accounts.

## SECTION THREE

## FINANCIAL SECTOR DEVELOPMENTS

39. The banking sector has remained stable, safe and sound, despite the disruptive impact of the Covid-19 pandemic. Government support and regulatory relief measures implemented thus far, have cushioned the economy and muted the potential adverse impact to the banking sector's performance. The measures ensured continued orderly functioning of the financial markets, continuous flow of credit and fostered financial sector stability.

40. As at 30 June 2021, the banking sector comprised 13 commercial banks, five building societies, and one savings bank. In addition, there were 178 credit-only microfinance institutions, eight deposit-taking microfinance institutions and two development financial institutions under the purview of the Bank.

### Condition and Performance of the Banking Sector

41. The banking sector financial soundness indicators are depicted in Table 2.

minimum capital requirements which are effective 31 December 2021. The strategies being pursued by banking institutions to comply with the new minimum capital requirements are largely based on organic growth and capital injection by the shareholders.

**Banking Sector Loans and Advances**

44. Total banking sector loans and advances increased by 73.27% from ZW$82.41 billion as at 31 December 2020 to ZW$142.79 billion as at 30 June 2021. During the period under review, financial intermediation remained stable as reflected by a loans to deposits ratio of 45.84%. This position reflects that there is scope for banking institutions to enhance their financial intermediation role.

45. The banking sector continued to support the productive sectors of the economy, as reflected by the ratio of loans to productive sectors to total loans 80.89% as at 30 June 2021, and as further shown in the Figure 6.

49.39% increase from ZW$204.13 billion reported as at 31 December 2020. Meanwhile, the average prudential liquidity ratio for the banking sector remained largely stable at 66.89%, which was above the minimum regulatory requirement of 30%. The high average prudential liquidity ratio largely reflects the conservative approach to lending by the sector.

**Enhancement of Credit Infrastructure**

50. The enhanced credit referencing environment has improved credit risk management in the sector by providing timeous and reliable credit information. The Credit Registry recorded a significant increase in enquiries from 813,298 as at 30 June 2021 to 1,317,853 as at 30 June 2021.

51. The Credit Registry held over 1.45 million records, of which 524,342 were active loan accounts. Individual records represented 98% of the active loan records in the Credit Registry. Registered subscribers currently accessing the Credit Registry were 209 as at 30 June 2021.

52. With respect to operationalising the Collateral Registry, the Bank has commenced working on the system prototype together with BSystems Limited of Ghana, following a successful tender process. The definition of business specifications which guides the vendor in the implementation process have been completed.

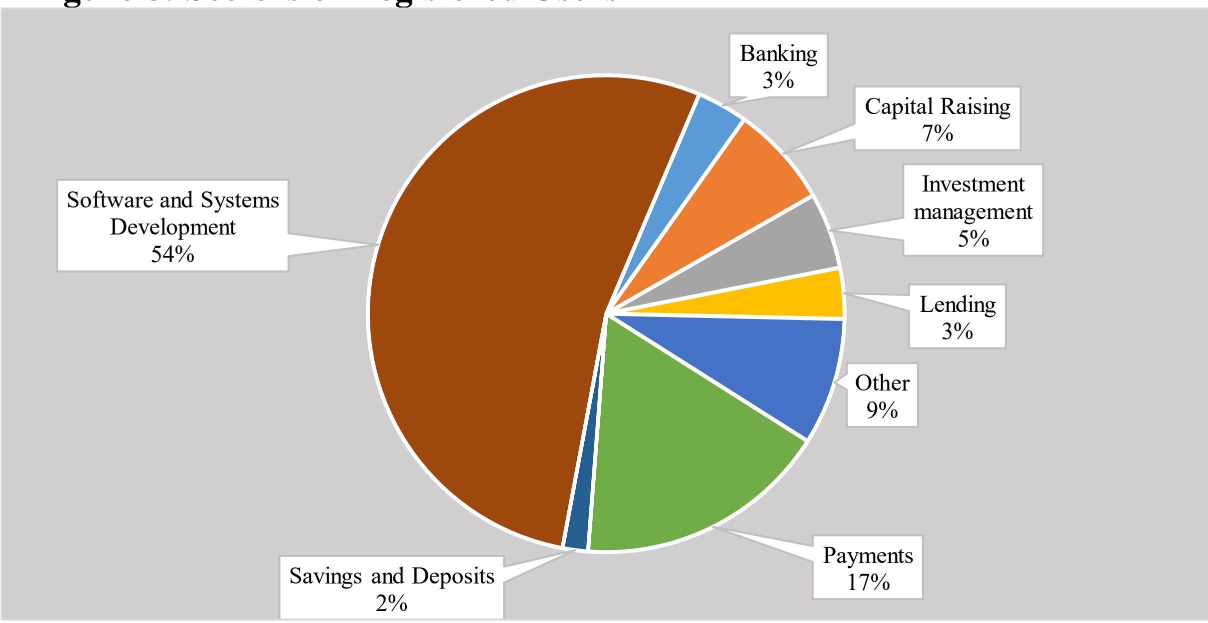
**Financial Inclusion Indicators**

53. Access and usage of financial services and products continued on an upward trajectory with the increased adoption of digital platforms, on the back of high mobile penetration rate in the country. The number of active mobile money subscribers increased from 5.2 million to 6.4 million active

does not destabilise Zimbabwe's financial system. To this effect, the Bank formed a Fintech Unit responsible for researching and monitoring Fintech developments in the country. To foster responsible innovation, the Bank established a Regulatory Sandbox in March 2021, which provides a platform for testing new financial innovations in a regulated environment before the technology is ushered to the market.

62. Since the launch of the Sandbox in March 2021, the Bank has witnessed 58 Fintech registrations on the online portal and an additional 14 applications at various stages. In addition, about 859 unique visitors from 45 countries including Zimbabwe have also visited the platform to date. Registered users come from various sectors with the largest share of users in Software and systems development, 54%; payments, 17%; capital raising, 7%; investment management, 5%; among others shown in the figure 8.

**Figure 8: Sectors of Registered Users**




**Source: RBZ, 2021**

63. The Fintech Regulatory Sandbox is open for innovations and the Guidelines are accessible on the Bank's website.

64. The Bank has also received a number of expressions of interest from Fintech service providers who are eager to support the Bank with the roll out of Fintech services. The Bank is, however, cautious about the potential impact of digital currencies, given the sensitivities around currency issues in the national context. As such, the Bank will remain guided by international developments on Fintech issues and guidance from the IMF and the SADC Committee of Central Bank Governors (CCBG).

**National Payments Systems**

65. The national payment system remained stable and resilient during the first half of 2021, underpinned by a robust regulatory oversight, reliable and efficient financial market infrastructure to weather the negative impact of Covid-19.

66. The value of digital payment systems (DPS) grew by 245% during the first half of 2021 compared to the same period in 2020. Volumes, on the other hand, fell by 27%, as shown in Figure 9.

68. The recently launched “Digital Economy for Zimbabwe Country Diagnostic Report by World Bank (March 2021)” acknowledged that the country has achieved 96% digital transactions against 4% cash largely due to a well-developed payment system.

**Cyber Security**

69. While the Bank considers cybersecurity to be a critical component in the provision of digital financial services, there has been threats to financial stability due to the rise in cyber risk, as the economy witnessed increased interconnectivity financial ecosystems and digitalisation. Cyberattacks present dangers to the functioning of financial infrastructures, confidentiality, integrity and availability of data, thereby creating both reputational and direct financial risks.

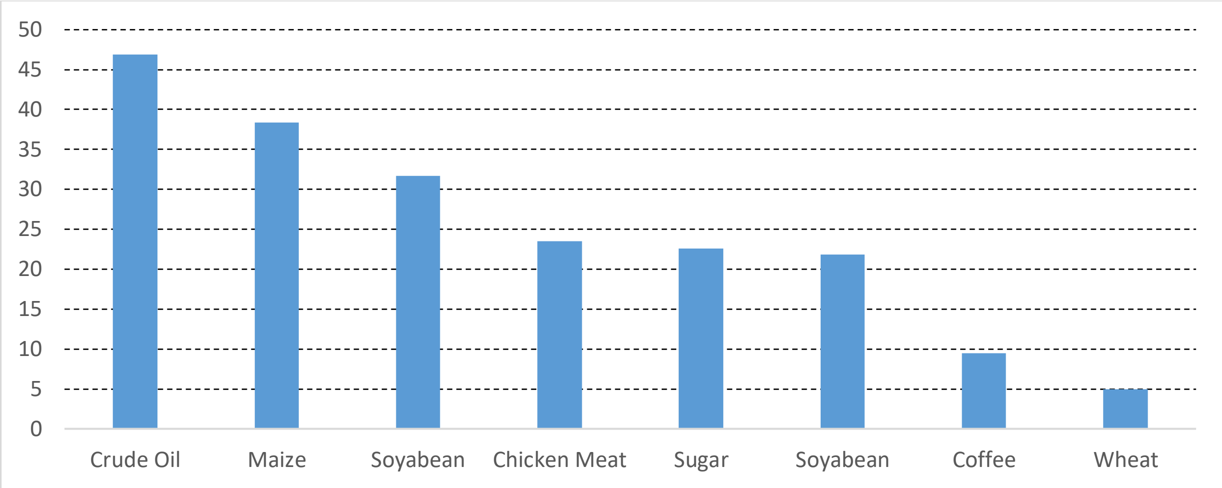
70. To mitigate against the increase in cyber risk, the Bank issued a comprehensive Risk-Based Cyber Security Framework to regulated entities under its supervision as part of efforts to promote financial stability, inclusion and integrity.

**Interoperability**

71. Following the promulgation of Statutory Instrument 80 of 2020 on interoperability, the Bank is pleased with the convenience brought in the movement of funds across players particularly during this new normal brought about by covid-19 pandemic.

negatively on domestic inflation directly and indirectly through increases in production and distribution costs.

**Figure 13: International Oil & Food Price Changes (January to June 2021)**




**Source: World Bank, 2021**

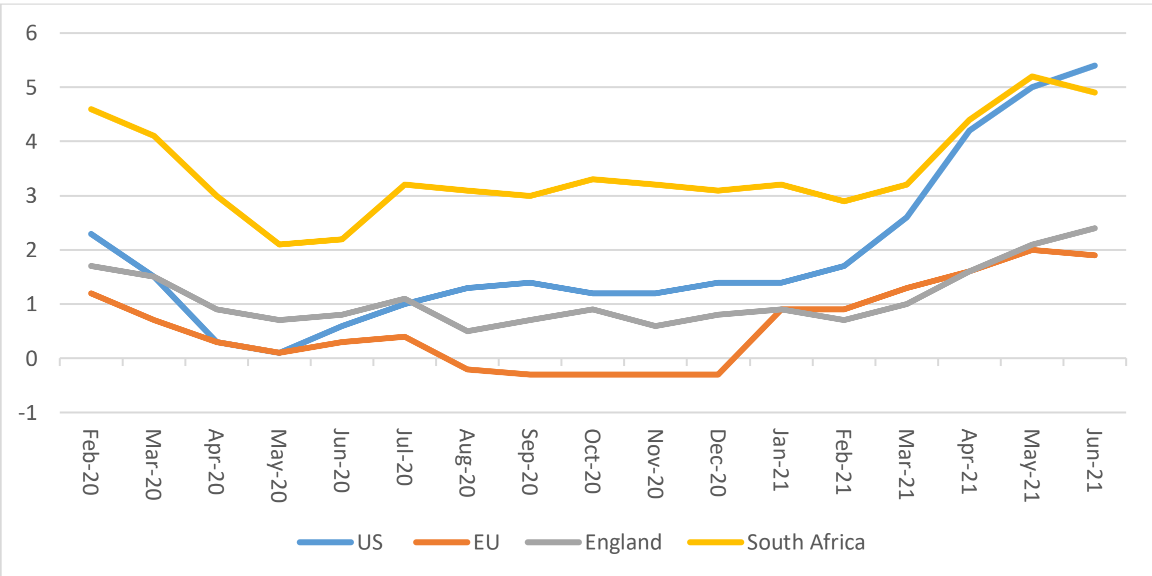
75. Recent empirical evidence shows that global oil and food prices contribute significantly to domestic inflation in most Sub-Saharan African countries. The contribution of international commodity price shocks to domestic inflation is greater for countries that have higher oil intensity and huge food imports. The recent sharp increase in international food prices has already slowly started to feed into domestic consumer prices in some regions as retailers, unable to absorb the rising costs, are passing on the increases to consumers.

76. International food prices are expected to increase by about 25 percent in 2021 from 2020, before stabilizing in 2022. A pass-through of 20 percent (13 percent in the first year and 7 percent in the second) would, thus, imply an increase in consumer food price inflation of about 3.9 percentage points and 2.1 percentage points on average in 2021 and 2022, respectively for Zimbabwe. An additional one percentage point to the 2021 global consumer food inflation could be added by the higher freight rates.

77. It is in view of these shocks, and in particular the international agriculture prices, that the Bank continues to be committed to supporting Government efforts aimed at ensuring food self-sufficiency for all commodities which can be grown locally including maize, soya-bean and wheat. In this regard, and despite increases in international prices for most agriculture products since January 2021, the impact on domestic food prices was largely neutralized owing to the bumper maize and traditional grains harvest recorded in 2021.

78. In addition, global inflation had been on a rise since January 2021 as shown by increases in United States of America (USA), European Union (EU), England and South Africa among others, bringing to the fore the importance of foreign inflation spillovers which reflect imported inflation from other countries to nations with high import requirements such as Zimbabwe. Annual inflation in USA rose to 5.4% in June 2021 the highest in several years, while South Africa's inflation was 5.2% for May 2021, the highest in 30 months.

**Figure 14: Global Inflation Trends for Selected Countries (%)**

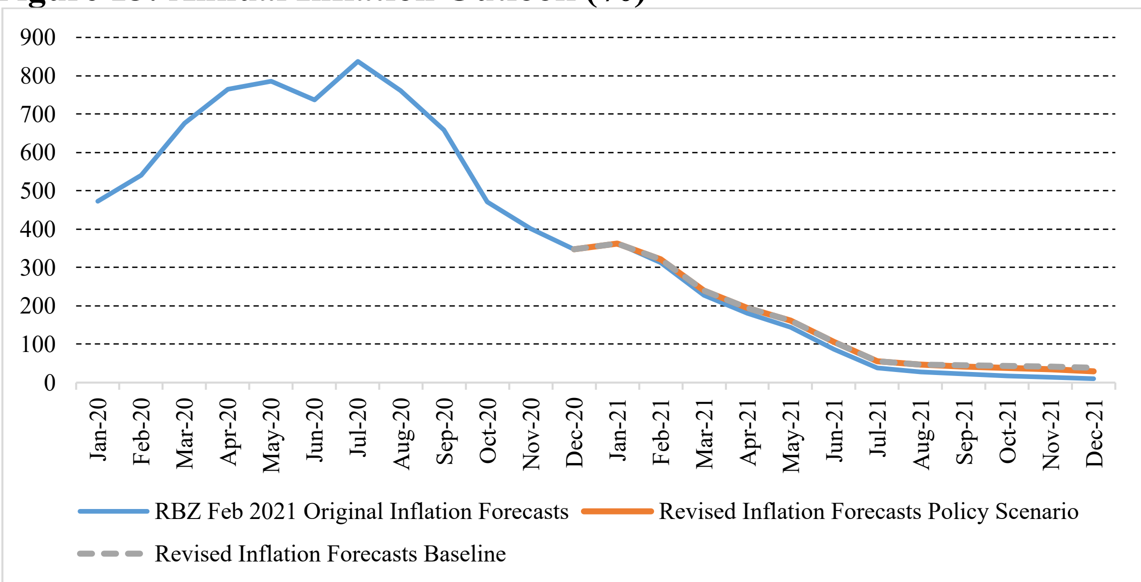



**Source: Central Bank Websites**

79. Despite the exogenous global inflation factors, the Bank, expects month-on-month inflation which reflects current inflation trends to remain stable at around 2% during the second half of 2021. Importantly, core inflation which measures trend inflation by excluding volatile CPI items such as food and fuel prices stood at 55.8% in July 2021, also pointing to sustainable deceleration of inflation pressures in the economy.

80. The deviation from the initial end period forecast of just below 10% was due to unavoidable shocks to international food and administered prices discussed above. Annual inflation is now expected to fall between 25 and 35% by end December 2021.

**Figure 15: Annual Inflation Outlook (%)**




**Source: RBZ & ZIMSTAT, 2021**

81. The ongoing price and exchange rate stability will go a long way in supporting industry in making long term investment decisions and allow the efficient

allocation of resources. In this regard, the Bank will continue to pursue strong monetary policies to sustain the current disinflationary path.

## SECTION FIVE

## BALANCE OF PAYMENTS DEVELOPMENTS AND OUTLOOK

82. Reflective of strong real sector performance, continued monetary restraint and fiscal consolidation, the country's external sector position has remained relatively strong since 2019. A strong external sector position is supportive of exchange rate stability and hence adds further impetus to the ongoing disinflation drive.

83. In addition, Zimbabwe's strengthening external position derives from the current recovery in the global economy which is expected to register strong growth of 6.0% in 2021, from an estimated negative growth rate of 3.2% in 2020.

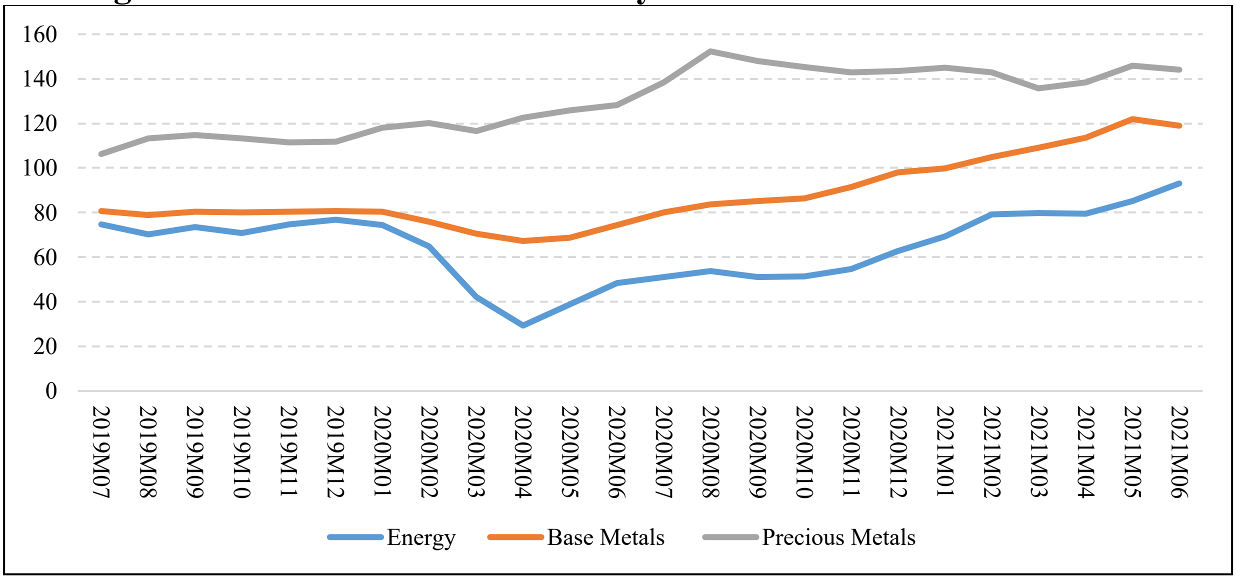
**Table 3:Global Economic Growth Rates & Outlook (%)**

| Country/Group Name | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *Estimates* | | *Projections* |
| **World Output** | **-3.2** | **6.0** | **4.9** |
| **Advanced Economies** | **-4.6** | **5.6** | **4.4** |
| *o/w: United States* | *-3.5* | *7.0* | *4.9* |
| *Euro-Area* | *-6.5* | *4.6* | *4.3* |
| *Japan* | *-4.7* | *2.8* | *3.0* |
| **Emerging Market & Developing Economies** | **-2.1** | **6.3** | **5.2** |
| **Asia** | **-0.9** | **7.5** | **6.4** |
| *o/w: China* | *2.3* | *8.1* | *5.7* |
| *India* | *-7.3* | *9.5* | *8.5* |
| **Sub Saharan Africa** | **-1.8** | **3.4** | **4.1** |
| *o/w: Nigeria* | *-1.8* | *2.5* | *2.6* |
| *South Africa* | *-7.0* | *4.0* | *2.2* |
| ***Zimbabwe** | -4.1 | 7.8 | 5.5 |

**Sources: IMF World Economic Outlook, July 2021**

84. The phenomenal recovery in the global economy is simultaneously strengthening international commodity prices with potentially positive knock-on effects on Zimbabwe's export receipts. Figure 16 below shows commodity prices indices up to June 2021.

**Figure 16:International Commodity Price Index**




**Source: IMF, 2021**

85. Reflecting the strong external sector performance, foreign currency receipts amounted to US$4.02 billion in the first half of the year, compared to US$3.12 billion received over the same period in 2020, representing a 29.1% increase in foreign currency supply. Table 4 shows cumulative foreign currency receipts for six months ended June 2020 and 2021.

**Table 4: Total Foreign Currency Receipts (US$ millions)**

| Type of Receipt | | June 2021 (US$ Million) | June 2020 (US$ Million) | % Change |
|---|---|---|---|---|
| Export Proceeds | | 2,305.70 | 1,909.1 | 20.8% |
| **International Remittances** | Diaspora Remittances | 649.47 | 374.6 | 73% |
| | NGOs | 462.62 | 331.1 | 40% |
| Loan Proceeds | | 505.15 | 454.6 | 11% |
| Income receipts | | 79.59 | 29.9 | 166% |
| Foreign Investment | | 22.35 | 17.8 | 25% |
| **TOTAL** | | **4,024.88** | **3,117.1** | **29.1%** |

**Source: RBZ**

86. The rally in commodity prices, however, brings with it a downside risk emanating from increasing global energy prices with adverse implications for the country's energy import bill. This notwithstanding, the foreign exchange gains from improved exports are projected to outweigh the corresponding losses from the incremental energy import bill. This, in effect, is envisaged to mute the possible negative implications of higher global petroleum prices on both inflation and external sector resilience.

87. Reflecting this positive global and domestic economic outlook, merchandise exports are expected to maintain strong growth. The projected export performance is reflective of the export shipments for the first half of the year. Precisely, cumulative export receipts as at 30 June 2021 were US$2.31 billion compared to US$1.91 billion received during the same period in 2020. This represents an increase of 20.8% in 2021 shown table 5.

**Table 5: Export Receipts by Sector (US$ Millions)**

| Sector | 2021 | 2020 | % Change |
|---|---|---|---|
| **Mining** | **1,902.9** | **1,380.7** | **37.8%** |
| *Platinum* | *1,180.9* | *509.1* | *132.0%* |
| *Gold* | *309.9* | *235.0* | *31.9%* |
| *Chrome ore + Ferrochrome* | *39.4* | *38.1* | *3.4%* |
| *Diamonds* | *68.2* | *17.7* | *285.3%* |
| *Other minerals* | *304.5* | *580.8* | *-47.6%* |
| Manufacturing | 71.9 | 188.5 | -61.9% |
| Tobacco | 137.9 | 145.6 | -5.3% |
| Transport | 87.1 | 96.4 | -9.6% |
| Agriculture | 75.9 | 67.6 | 12.3% |
| Horticulture | 14.5 | 12.1 | 19.8% |
| Postal & Telecommunications | 2.8 | 6.0 | -53.3% |
| Other Services (Construction, etc) | 7.1 | 8.5 | -16.5% |
| Tourism (Hunting) | 5.6 | 3.7 | 51.4% |
| **Total** | **2,305.7** | **1,909.1** | **20.8%** |

**Source: RBZ Exchange Control Records**

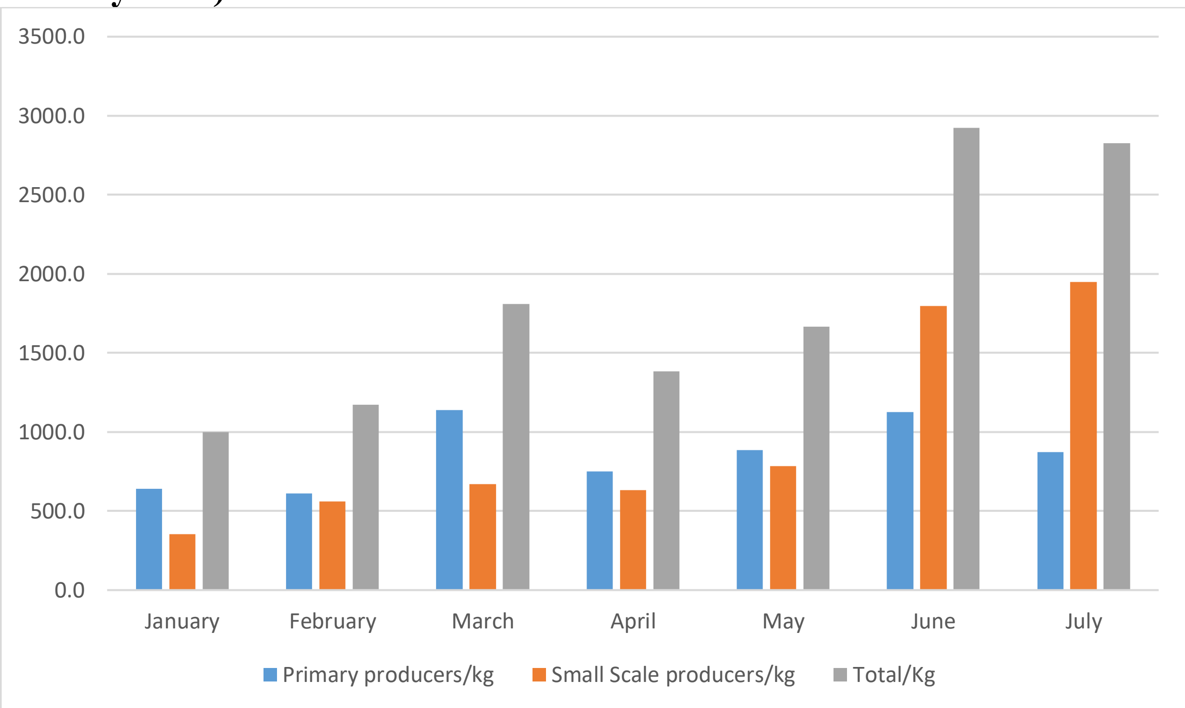
88. Gold exports in 2021 are forecasted to be higher than in 2020 on account of the recently introduced 2.5 - 5% gold delivery incentive and the COVID 19 induced restriction that could have curtailed gold leakages through smuggling. There was a remarkable surge in gold deliveries to Fidelity Printers and Refiners (FPR) in the months of June and July 2021 as shown in Table 6 and Figure 17. June 2021 gold deliveries to FPR were 2 924.3 kg compared to 1 409.6 kg delivered in June 2020. Similarly, gold deliveries for July 2021 stood at 2 824.6 kg compared to July 2020 deliveries of 1 406.4 kg.

89. Small scale gold producers contributed 52.8% of the total gold deliveries to FPR during the first seven months of 2021 which compares favourably with the 55.8% delivered for the same period in 2020.

Table 6 Gold Deliveries To Fidelity Gold Refiners (Jan-Jul)

| | | Primary producers/kg | Small Scale producers/kg | Total/kg |
|---|---|---|---|---|
| Jan | 2021 | 642.11 | 355.52 | 997.62 |
| | 2020 | 734.24 | 1,813.63 | 2,547.88 |
| Feb | 2021 | 609.84 | 560.83 | 1,170.66 |
| | 2020 | 706.74 | 696.40 | 1,403.13 |
| Mar | 2021 | 1,139.42 | 670.07 | 1,809.49 |
| | 2020 | 709.04 | 1,061.66 | 1,770.70 |
| Apr | 2021 | 752.32 | 632.26 | 1,384.59 |
| | 2020 | 735.38 | 728.92 | 1,464.30 |
| May | 2021 | 884.20 | 783.81 | 1,668.01 |
| | 2020 | 806.28 | 1,209.62 | 2,015.89 |
| June | 2021 | 1,125.60 | 1,798.70 | 2,924.30 |
| | 2020 | 870.00 | 539.58 | 1,409.58 |
| July | 2021 | 941.11 | 1,950.31 | 2,824.62 |
| | 2020 | 747.96 | 658.41 | 1,406.37 |
| **TOTAL** | **2021** | **6,094.59** | **6,854.69** | **12,779.29** |
| | **2020** | **5,309.63** | **6,708.22** | **12,017.85** |

**Figure 17: Gold Deliveries to Fidelity Printers and Refiners (January to July 2021)**

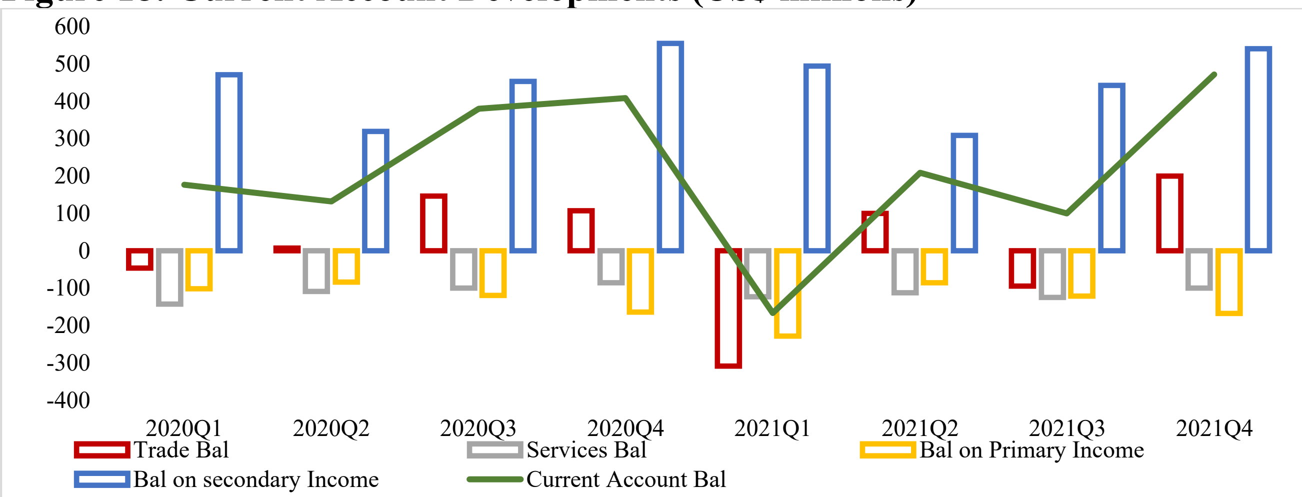



**Source: Fidelity Printers and Refiners, 2021**

90. Agricultural exports, led by tobacco, are expected to positively respond to the favourable climatic conditions during the 2020-2021 agricultural season. Manufactured exports are similarly expected to rebound, spurred by the anticipated recovery in production.

91. In tandem with envisaged GDP growth of 7.8% and strengthening global petroleum prices, merchandise imports are projected to increase by 21.7% to US$5,743.0 million in 2021, from US$4,719.9 million in 2020. This increase is projected to be driven by increases in fuel, machinery and raw material imports. Food imports will, however, be lower than in 2020 on account of reduced maize imports, following the good 2020/21 agricultural season.

**Figure 18: Current Account Developments (US$ millions)**




**Source: RBZ and ZIMSTAT Estimates**

92. As shown in Figure 18, diaspora remittances and other transfers, which constitute the secondary income account are projected to continue driving the current account balance as was the case in 2020. Personal transfers from Zimbabweans in the diaspora are expected to remain steady and resilient, as the economies in key source markets recover from the Covid-19 induced slow-down and investments from Zimbabweans in the diaspora rebounds.

Table 6 indicates diaspora remittances received through the formal system for period January – June for the years 2021 and 2020.

**Table 7: Inflows of Cash Diaspora Remittances 2021 and 2020**

| Month | Year 2021 | Year 2020 | % Change |
|---|---|---|---|
| January | 81,915,569 | 60,607,249 | 35% |
| February | 93,424,551 | 69,230,034 | 35% |
| March | 125,389,958 | 61,172,535 | 105% |
| April | 110,381,374 | 30,920,048 | 257% |
| May | 115,575,293 | 66,815,291 | 73% |
| June | 122,783,439 | 85,849,311 | 43% |
| **Total** | **649,470,184** | **374,594,466** | **73%** |

**Source: RBZ**

93. Foreign payments processed by banks on the hand, amounted to US$2.9 billion for the six months ended 30 June 2021, representing a 45.5% increase from US$2 billion recorded during the same period in 2020 as shown Table 7. Consequently, foreign currency deposits in the banking sector have increased and now stand at US$1.7 billion.

**Table 8: Foreign Payments from January to June 2021 (US$ millions)**

| Category | 2021 | 2020 | % Variance | Contribution 2021 | Contribution 2020 |
|---|---|---|---|---|---|
| **Merchandise Imports (excl. energy)** | **1,737.4** | **1,116.3** | **56%** | **59%** | **55%** |
| - Raw Materials & Intermediate Goods | 837.3 | 577.8 | 45% | 28% | 29% |
| - Capital Goods | 595.4 | 367.9 | 62% | 20% | 18% |
| - Consumption goods | 304.7 | 170.7 | 78% | 10% | 8% |
| **Energy (Fuel & Electricity)** | **383.3** | **251.9** | **52%** | **13%** | **12%** |
| - Fuel | 326.2 | 191.7 | 70% | 11% | 9% |
| - Electricity | 57.1 | 60.2 | -5% | 2% | 3% |
| **Service Payments** | **249.8** | **272.4** | **-8%** | **8%** | **13%** |
| - Technical, Professional & consult | 104.4 | 127.8 | -18% | 4% | 6% |
| - Software | 29.7 | 34.4 | -14% | 1% | 2% |
| - Other (tourism, edu, freight etc) | 115.7 | 110.2 | 5% | 4% | 5% |
| **Income Payments (Profits, Dividends)** | **251.9** | **120.8** | **109%** | **9%** | **6%** |
| - Dividends | 209.7 | 66.9 | 213% | 7% | 3% |
| - Interest Payments | 5.1 | 5.0 | 1% | 0.2% | 0% |
| - Other (Salaries, Expats, Rental) | 37.2 | 48.8 | -24% | 1% | 2% |
| **Capital Remittances (outward)** | **286.4** | **216.8** | **32%** | **10%** | **11%** |
| - External Loan Repayments | 248.1 | 205.5 | 21% | 8% | 10% |
| - Disinvestments | 25.2 | 6.2 | 305% | 0.9% | 0.3% |
| - Foreign Investment | 13.1 | 5.0 | 161% | 0.4% | 0.3% |
| **Other Payments (International Cards and Refunds)** | **39.3** | **48.6** | **-19%** | **1.3%** | **2.4%** |
| **Total** | **2,948.2** | **2,026.8** | **45.50%** | **100%** | **100%** |

**Source: CEBAS System, Exchange Control**

94. Taking into account of foreign receipts and payments the current account balance for 2021 is projected to remain in a surplus position, albeit at a moderated level of US$611.6 million, compared to US$1,096.3 million recorded in 2020 as shown in Table 9.

## Table 9:Balance of Payments Snapshot (2019-2021 - US$M)

| | *2019 Act.* | 2020 *Act* | *2021Q1 Act.* | *2021Q2 Est.* | *2021Q3 Proj.* | *2021Q4 Proj.* | 2021 *Proj.* |
|---|---|---|---|---|---|---|---|
| **A. Current Account Balance** | **920.5** | **1,096.3** | ***-167.1*** | *184.1* | *123.3* | *471.3* | **611.5** |
| **Trade Balance** | **174.4** | **212.2** | ***-309.4*** | ***-263.4*** | ***-66.0*** | ***199.7*** | **-439.0** |
| *Exports* | *4,663.7* | *4,931.9* | *1058.3* | *1,144.9* | *1,368.9* | *1,731.9* | *5,304.0* |
| *Imports* | *4,489.3* | *4,719.7* | *1367.7* | *1,408.3* | *1,434.9* | *1,532.2* | *5,743.0* |
| **Balance on Services** | **-305.9** | **-438.2** | ***-123.3*** | ***-122.8*** | ***-130.5*** | ***-100.1*** | **-476.8** |
| *Receipts* | *603.2* | *331.4* | *46.9* | *75.0* | *72.6* | *89.9* | *284.3* |
| *Payments* | *909.1* | *769.6* | *170.1* | *197.8* | *203.1* | *190.0* | *761.1* |
| **Balance on Primary Income** | **-338.8** | **-472.9** | ***-229.0*** | ***-86.1*** | ***-122.5*** | ***-168.7*** | **-606.4** |
| *o/w interest payments* | *227.4* | *239.7* | *62.8* | *59.9* | *57.0* | *64.8* | *244.5* |
| **Balance on Secondary Income** | **1,390.7** | **1,795.2** | ***494.6*** | ***656.5*** | ***442.4*** | ***540.3*** | **2133.8** |
| *o/w Diaspora Remittances* | *921.7* | *1,209.7* | *345.8* | *401.1* | *328.8* | *400.1* | *1475.7* |
| *Transfers to NGOs* | *491.7* | *618.6* | *157.8* | *262.2* | *123.5* | *151.5* | *694.9* |
| **B. Capital Account Balance** | ***314.5*** | **299.7** | ***32.5*** | ***76.0*** | ***85.7*** | ***106.9*** | **301.2** |
| *o/w Grants* | *314.5* | *299.7* | *32.5* | *76.0* | *85.7* | *106.9* | *301.2* |
| **Direct Investment** | **-247.1** | **-153.9** | ***-21.0*** | ***-23.2*** | ***-28.5*** | ***-35.8*** | **-108.5** |
| *Net acquisition of financial assets* | *2.4* | *-3.5* | *1.0* | *-1.2* | *3.5* | *-0.8* | *2.5* |
| *Net incurrence of liabilities* | *249.5* | *150.4* | *22.0* | *22.0* | *32.0* | *35.0* | *111.0* |
| **Portfolio Investment** | **-3.7** | **81.6** | **17.4** | **23.5** | **21.8** | **21.0** | **83.7** |
| **Other Investment** | **594.7** | **951.8** | ***21.1*** | ***17.6*** | ***-5.5*** | ***-45.3*** | **-12.1** |
| **D. Net Errors and Omissions** | ***-926.5*** | ***-604.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** |

**Source: RBZ**

## SECTION SIX

## MONETARY POLICY MEASURES FOR THE REST OF 2021

95. The obtaining macroeconomic stability, which is expected to continue to be reinforced by the positive outlook on inflation and the balance of payments position, requires the Bank to stay the course and maintain its current monetary policy position which has had positive impact on the economy. Accordingly, the following measures will anchor the Bank's monetary policy stance for the rest of this year:

i. **Interest Rates:** The Bank's overnight accommodation of 40% and the medium-term lending rate for productive sector of 30% will be maintained in the short term, in order to control money supply and curb speculative activities. The Bank shall continue to review the policy rates in response to the downward inflation trajectory.

ii. **Statutory Reserve Requirements:** The 5% statutory reserve requirement for demand and call deposits and the 2.5% reserve requirement for time deposits will be maintained in the second half of the year. This differential reserve requirement system remains necessary as an incentive structure for banks to promote savings in the economy.

iii. **Reserve Money Target:** Quarterly target for the growth of reserve money for the remaining six months of 2021 remains at 20%. This is necessary to anchor inflation expectations at sustainable levels through controlling money supply and to allow for the necessary accommodation for the growth of the economy.

iv. **Interest Rate Cap:** A cap on the interest rate at which banks can on-lend the proceeds from the Medium- term Lending Facility is also maintained at 10% above the borrowing rate to ensure recovery of the productive sectors of the economy.

v. **Accumulation of Foreign Exchange Reserves:** The Bank will start to set aside foreign exchange resources to build the country's foreign exchange reserves to anchor exchange rate stability and to cope with transitory exchange rate shocks in the national economy.

vi. **Addressing Foreign Exchange Auction Allotment Backlog:** The Bank has put in place the following measures to deal with the residual foreign exchange auction allotment backlog:

a. Utilisation of the existing letters of credit facilities for the importation of strategic commodities and capital goods in order to lessen the demand on the Foreign Exchange Auction System;
b. Supporting banks to promote financial intermediation to leverage on the current long foreign exchange position of around US$1.7 billion in the banking system; and
c. Working closely with Government to ensure that some of the foreign exchange balances in the Exchequer Account are utilised to expunge the backlog.

vii. **Addressing the Gap Between the Official and Parallel Exchange Rates:** The Bank is addressing the gap between the official and parallel exchange rates through tightening money supply, expunging the foreign exchange allotment backlog, increasing the attractiveness of the local currency so that the local currency complements rather than competes with the USD, discouraging rent-seeking behaviour and promote sustainable behaviour and fair play in the foreign exchange market and provision of forward guidance to anchor exchange rate expectations and enhance business sentiment.

viii. **Continuation of the Foreign Exchange Auction System:** The Bank is satisfied with the achievements of the Foreign Exchange Auction System which have had a significant impact on the economy over the year it has been in operation. The Bank is thus continuing with the Foreign Exchange Auction System and is determined to strengthen the system to ensure that it reflects economic and market fundamentals of supply and demand.

The auction system is open to everyone for legitimate foreign exchange transactions through the bidding process. Bids are submitted through banks by individuals and entities that require foreign currency. It is a transparent system and the Bank is only administrator of the system and does not manipulate the auction system, neither does it participate on the foreign exchange parallel market.

The Bank shall therefore continue to foster compliance and enhance monitoring of the Foreign Exchange Auction System. As a public institution, the Bank shall also maintain its stance to enhance transparency and accountability in the operation of the Foreign Exchange Auction System.

ix. **Enhancing Financial Inclusion:** The Bank is enhancing financial inclusion which is critical for inclusive growth through the development of the National Financial Inclusion Strategy Phase 2 (NFIS 2) for 2021-2025. The NFIS 2 will seek to address the challenges and gaps noted in the NFIS 1, with more focus on usage, digital financial services, quality of financial services, fintech & product innovation, financial inclusion data disaggregation and sustainability.

## SECTION SEVEN

## DISPOSAL OF BANK ASSETS

96. The Bank has been able to achieve its goal to dispose of two of its assets, Tuli Coal (Private) Limited and Transload Enterprises (Private) Limited (the jatropha/bio-diesel plant), to Government through the Ministry of Finance and Economic Development and the Ministry of High and Tertiary Education, Innovation, Science and Technology Development, respectively.

97. The Bank is nearing the final stages of the partial privatisation of FPR through offering 60% of its shareholding in the gold refinery business to producers of gold. The Bank will retain 40% in the gold refining company and 100% in the printing, minting and gold financing business.

98. It is expected that the unbundling process of FPR will be completed in 6 months' time given the need to ensure transparency, adhere to international best practice and to provide ample time to would-be new shareholders to complete the necessary due diligence.

## ACQUISITION OF SHAREHOLDING IN ZIMSWITCH

99. The Bank is proceeding to acquire 15% shareholding in Zimswitch Technologies (Private) Limited in order to spearhead interoperability of infrastructure and connection protocols of mobile money transmission providers and mobile banking providers through the national payment

switch and enhance monitoring and surveillance of the financial system in Zimbabwe.

**SECTION EIGHT**

**CONCLUSION**

100. The economy is rebounding on account of the stable macroeconomic conditions. Both the external and real sectors of the economy are expected to remain strong in the outlook period. We, therefore, need to stay the course and consolidate the current economic policy measures for stability and sustainable growth of the economy.

101. The expected positive growth of the world economy, supported by stimulus packages in the developed countries and Asia and from the IMF will buttress Zimbabwe's economic growth trajectory. In addition, the expected increase in commodity prices on account of increased global demand will enhance the country's export performance, notwithstanding the expected rise in global inflation which will have moderate pass-through effects to domestic inflation.

102. The Government has put in place elaborate measures to deal with the Covid-19 pandemic including the vaccination programme, which is one of the best in Africa. Thus whilst the economic outlook is positive, concerted efforts to continue mitigating the negative effects of the Covid-19 pandemic on the economy remain paramount to maintain the current positive economic trajectory.

103. Overall, the economy is on the right track. It is rebounding. The outlook is positive on account of the remarkable hawkish monetary policy stance being

pursued by the Bank, Government's strong fiscal sustainability and the positive global financial developments. This stable and positive macroeconomic environment points to the need for the Bank to continue with its current monetary policy stance to support the robust economic growth of at least 7.8% in 2021, while continuing to reduce annual inflation to the desired level of around 30% by the end of December 2021.

**I THANK YOU**
**MAY GOD BLESS YOU ALL**
**MAY GOD BLESS ZIMBABWE**

**JOHN PANONETSA MANGUDYA**
**GOVERNOR**