PLATINUM SECURITIES PVT LTD
(Member of the Zimbabwe Stock Exchange)

Investor Note

Mid-Term Monetary Policy Statement August 2015

Executive Summary

The Governor of the Reserve Bank of Zimbabwe Dr John Mangudya announced the 2015 Mid Term Monetary Policy under the theme **"*Beyond Stabilisation.*"** This theme is premised on going beyond a strengthening and stabilised banking system towards enhancing productivity for a sustainable solution to the challenges besetting the economy. The measures instituted include the capping of lending rates for borrowers according to different levels of credit risk, ensuring a steady progress in improving credit risk management through the Credit Reference system, improving activity in the interbank market, tackling the high level of non-performing loans, enhancing domestic liquidity through increased efforts of promoting exports such as provision of pre and post shipment financing through the Export Credit Guarantee Company and amendments to the banking act. The table below summarizes some of the policy measures that have been implemented by the Reserve Bank of Zimbabwe.

Table 1: Policy Measures by the RBZ

Policy	Policy Objective	Progress to Date
1. Interbank Aftrades Facility	To improve circulation of liquidity in the banking sector to mitigate against failures as a result of temporary liquidity challenges	Issuance of Aftrades started on the 19th of March 2015: Target is to raise US$200 million: Five Banks have invested in Aftrades: Total Aftrades issued to date amount to US$120 million: Three Banks have borrowed from the facility: Total loans advanced amount to US$84 million.
2. Zimbabwe Asset	To mitigate NPL's against	To date ZAMCO has

Management Corporation (ZAMCO)	dragging down the economy	acquired and restructured US$157 million.
3. Bond Coins	Promoting and enhancing price competitiveness through the introduction of small denomination coins to resolve the problem of change	1c, 5c, 10c, 25c issued on 9 December 2014. 50 cents issued on 31 March 2015. Total coins procured US$10,000,000
4. Demonetization	To promote consume and business confidence by providing credibility to the multicurrency system and legally retiring the local unit.	SI promulgated on 12 June 2015: Budget for the program US$20 million. Program started on 15 June 2015; Expected to end 30 September 2015: Amount converted to date US$4 million: Cash paid to walk in customers US$301,000
5. Credit Reference Bureau (CRB)	To cleanse the banking sector of bad debts through information asymmetry and credit risk	A credit registry and credit reference system unit has been set up at the RBZ
6. Distressed Banks	To free Banking Sector of any distressed banks by 30 June 2015.	Distressed Banks failed because shareholders failed to capitalize their operations and meet depositor's requirements.
7. Extension of absolute amnesty on exporters	To identify non-recoverable exports of US$108 million with a view to allowing	The extension which ended on 31 March 2015 achieved the objective since US$104 million worth of CDI export forms were acquitted.

8. **Absolute amnesty on importers**	The policy was meant to allow importers to start on a new slate by acquitting Bills of Entry with value close to about US$5.8 billion	The policy achieved its intended objective since banks were granted the authority to acquit all outstanding advance payments covering the period 2009 to end of December 2013. To date US$5.6 billion has been cleared under the amnesty

Mid-Term Monetary Policy Measures and Implications

Policy	Implications
Export supporting measures • Establishment of a window to provide pre and post-shipment export financing upon presentation of export orders. The primary tool to achieve this shall be the provision of the Export Credit Guarantee Company (ECGC). The company has now been fully capitalized to meet the regulated minimum capital requirements and the Board of Directors has been fully constituted. • Mobilizing development finance of $210million to finance capital projects to enhance production from PTA bank, Afrexim and Development Bank of Belarus. • Removal of prior Exchange Control Authority on non-sales exports such as export of machinery for repair and return, samples, good for replacement and wrongly supplied goods.	• The RBZ appears to be taking significant strides towards promoting exports. The ECGC has been capacitated by the Reserve Bank to allow it to issue insurance cover to exporters as well as guarantees for loans accessed by the exporters. The ECGC cover shall protect the bank from loss on account of their lending to exporters. • We expect this facility to provide some fluidity in export operations as it has been instituted in such a way as to highly ensure that exporting companies with viable orders are not incapacitated by lack of funding whilst at the same time protecting the lending banks.
Diaspora remittances • The Reserve Bank is working on a centralized	• Diaspora remittances are an

payment gateway system for the Money Transfer Agencies to facilitate formalisation of remittance inflows and effective accounting and monitoring of Diaspora remittance inflows.	important source of liquidity, foreign reserves and investment sources to the country. Therefore it is critical to have systems that formalize and increase the monitoring of these cash flows.
Offshore loan facilities • Banks that receive offshore facilities for on lending will be required to report to exchange control on the names of the companies that have accessed these loans and amounts disbursed to them.	 • It is necessary to monitor utilization of external loans by the end users as misuse of these facilities compromises the credit reviews of the country's financial system. This also facilitates the RBZ in monitoring the disbursements to ensure that all the key productive sectors are able to access offshore financing.
Banking Sector highlights • As at 30 June 2015 there were 18 operating banking institutions, 13 Commercial banks, 1 Merchant bank, 1 Savings bank and 3 Building Societies. • There were 147 micro-finance institutions. • The RBZ has issued two deposit taking micro finance licenses to African Century Limited and Getbucks Financial Services. • 19% increase in banking sector core capital to $899 million. • All operating banking institutions were in compliance with the prescribed minimum capital requirements. • Total profitability was up 62% to $43.01million from the same period last year with 14 out of 18 banks indicating profitability. • Deposits were up 14% to $5.6billion whilst loans were at $4billion leading to a loan to deposit ratio of 71.4%. • NPLs were at 14.52%.	 • The capitilisation of all operating banks and the significant improvement in banking sector profitability are solid indicators of improving banking sector stability. • Of concern however is the bias in lending toward individuals due to attempts by the banking sector to improve credit risk management. This strategy however may actually see an increase in NPLs for banks after the ruling by the Supreme Court that now permits employers to dismiss employees with only a 3 month notice and salary. This has already translated to a significant number of job losses and will also lead to future defaults on individual loans for those who have been put out of employment. • Another concern is the reduction in the Loan to Deposit ratio from

	79% in January 2015 to 71% in June 2015. This is an indicator of increasing lack of aggression in bank lending. It essentially means that the much needed capital financing by the productive sector is increasingly becoming limited as banks become more conservative I lending.
ZAMCO • ZAMCO has to date acquired \$157million of NPLs and is currently in the process of restructuring the transactions of 4 distressed companies through acquisition of their bad debts.	• It is clear that ZAMCO is playing a very active role in liquidating bank's balance sheets and has thus far made commendable progress. • It appears that the company is now also active in attempts of resuscitating distressed companies that can potentially be viable. It is doing this through provision of debt relief and debt restructuring measures. This will certainly save some much needed jobs in the companies that can be assisted.
Credit Reference System • The Reserve Bank has established a credit registry and a credit reference system (CRS) unit within its Bank Supervision Division. • The CRS will collect credit information from all banking and microfinance institutions and serve as a databank for licensed private credit reference bureaus. • It is expected to be operational by the end of the year.	• Credit information asymmetry within the financial sector has considerably contributed to the high level of NPLs through encouraging multiple indebtness. The CRS shall rid the market of serial defaulters, deal with the generally lax credit culture which is currently rampant in the country and reduce over indebtedness. • It is essential to promote efficient, timely and accurate credit information sharing to enhance credit risk management, governance systems and to fostering credit discipline in the market.

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Amendments to the Banking Act

The amendments to the banking Act are meant to achieve the following objectives;
I. Improve corporate governance;
II. Improve transparency in banking shareholding and operations;
III. To create civil and criminal liability for abuse of depositors' funds, negligence or reckless conduct of banking business and for breach of statutory duties of directors and senior managers of banking institutions;
IV. To provide for the establishment of credit reference bureaus and a credit registry within the Reserve Bank;
V. To allow the Reserve Bank to monitor and regulate bank holding companies;
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• Amendments of the current Banking Act are critical in restoring confidence in the banking system.
• Confidence has been shattered particularly by the failure of the local currency during the hyper inflationary period and also the series of bank failures due to gross negligence by management, abuse of depositors' funds, high proportions of non-performing insider loans and poor corporate governance systems.
• These factors have led to a significant loss in savings which has resultantly caused banking sector deposits to be dominated by demand deposits.
• Stronger banking sector confidence is expected to increase the proportion of longer term deposits and ultimately avail longer term borrowing funds for the productive sector.
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Interest rate guide lines

The RBZ and the Bankers Association of Zimbabwe (BAZ) have set the following lending rate guidelines to be followed by ALL banking institutions effective 1 October 2015.

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<tr><td>Lending to Productive sectors
Low Credit Risk Borrowers
Medium Credit Risk Borrowers
High Credit Risk Borrowers</td><td>
6%-10%p.a

10%-12%p.a
12%-18%p.a</td></tr>
<tr><td>Housing Finance</td><td>8%-16%p.a</td></tr>
<tr><td>Consumptive lending</td><td>10%-18%p.a</td></tr>
<tr><td>Default rate</td><td>3%-8% above the rate charged to the borrower</td></tr>
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• The primary objective of setting the lending rates guidelines is to lower the cost of doing business in Zimbabwe, to stimulate the ailing productive sector and to improve timely servicing of loans by borrowers.
• Given that the current average minimum lending rate for the banking sector is 20%, with some banks charging rates as high as 30% we expect the interest rate guidelines to lower the cost of funding across all credit risk classes. At present the bulk of lending is inclined
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	towards individuals and also towards companies who fit in the high credit risk category due to the lack of security. As such lending rates are expected to be concentrated between 12% and 18% which are still steep but are relatively more serviceable. • Housing finance has previously averaged 15% and as such the pegging of the mortgage rates is not expected to make the burden much lighter for mortgage borrowers. • Consumptive lending has previously attracted very high lending rates given that individuals are classified as having high credit risk due to lack of security. This pegging will also bring much needed relief to cost of borrowing for consumer loans. • Ultimately this pegging of lending rates is expected to lead to a softening in Money Market rates across all institutions as they adjust the cost of their liabilities in order to preserve their margins. The signs of softening are already evident as all banking institutions are lowering their liability costs.
Development of a bond market • Establishment of a well-structured bond market to fund self-liquidating projects.	 • A vibrant bond market is essential in an economy such as that of Zimbabwe where long term funding is scarce and where lending is largely inclined toward the short term. • In light of softening money market rates, a vibrant bond market will allow exposures in attractive yielding instruments in the medium to long term. • However as much as it is

	essential to have a vibrant bond market, its success remains to be seen despite the attractive features that are likely to come with government and quasi government bonds like tax exempt, liquid and prescribed asset statuses. This is owing to the current liquidity challenges that the economy is facing. Local Pension Funds which are supposed to be major players in bond markets are currently facing their own specific challenges of contribution arrears and significant payouts due to higher than average staff retrenchments. At present the $50 million ZESA bond remains under subscribed despite having the mentioned attractive features due the above challenges.
Non-performing loans target • Target NPL ratio of less than 10% by 30 June 2016 and 5% by 31 December 2016.	• It is our considered view that the successful establishment of the credit reference system at the stipulated time, ZAMCO operations and continued conservative lending are going to go a long way in reaching the mentioned targets. Of concern however are the severe retrenchments that are currently under way across the country and the deliberation by the Ministry of Finance to cut the civil servants wage bill from about 83% to 40% which may expose banks to higher NPLs.
Financial Inclusion • All banking institutions are urged to embark on cost efficient initiatives and to adopt models that make banking more accessible to the public and enable banks to reach out to all communities. • The Reserve Bank is also urging banking	• Financial inclusion is important in a highly informalised economy as Zimbabwe to improve the deposit base. The immense success of mobile banking

institutions to enhance the opening of low cost deposit accounts and to promote infrastructure sharing. • All banking institutions should submit to the Reserve Bank by 31 December 2015, three-year board approved Financial Inclusion Plans and plans to implement all the measures mentioned above.	indicates the greater scope for business that is available to the banking sector. • Therefore broader based financial inclusion is important in restoring much lacking confidence through-out the economy as a significant populace is still wary of banking services given the series of bank failures and a loss of wealth in the hyper inflationary period.
Gold Production enhancing measures • Decriminalization of those in possession of gold. • Aligning electricity tariffs on gold mining to those obtaining in other sectors like the chrome sector; • Increase access to long term funding for both small scale and large scale gold producers.	 • These measures are meant to increase gold production and increase the extent to which small scale miners sell their gold to Fidelity Printers and Refiners. Participation of small scale miners in gold production is becoming of increasing importance given that they currently contribute about 37% of total gold production in the country. The policy measures instituted are necessary in encouraging more contributions from the miners though painting a picture that the government is willing to work together with the miners to achieve a common goal.

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