PLATINUM SECURITIES PVT LTD

(Member of the Zimbabwe Stock Exchange)

Investor Note

2018 Monetary Policy Statement Highlights

07 February 2018

Executive Summary

The Reserve Bank Governor Dr J P Mangudya released the 2018 Monetary Policy Statement "MPS" on Wednesday the 7th of January 2018 which constitutes the first MPS under the new political dispensation with new President and cabinet of Zimbabwe. The MPS was released under the theme **"Enhancing financial sector stability to promote business confidence".** The Statement comes at a time when the economy is experiencing renewed hope and confidence ushered in by the new economic dispensation, following the formation of a new leaner cabinet by His Excellency, the President in November 2017. It is at this point in time that the country has struck the right chord for economic transformation through opening up the economy for business. The Central Bank is convinced that opening up of the economy will attract investments, foreign and domestic, that is required to increase production, jobs, fiscal space, exports and eventually the happiness index for Zimbabweans. In light of the above, the Central Bank proposed various measures to enhance the financial sector and promote business confidence (which we shall highlight). To put the measures into context we shall start by giving a summarized review of some of the measures that the RBZ adopted in 2017.

2018 Monetary Policy (Measures) Highlights

1. Evaluation of the 2017 Policy Interventions

The central bank reviewed some of the policy measures it adopted in 2017 and came up with the key highlights below:

a) Nostro Stabilization Facilities

- The intervention by the Bank in the foreign exchange market through drawdowns from the nostro stabilization facilities amounting to US$1.1 billion during 2017 immensely assisted to stabilise the forex market and to sustain financing of various critical imports.

b) Performance and Impact of the Export Incentive Scheme

- The Bank established the US$200 million and US$300 million export incentive facilities which are monetized by bond notes. Since its inception in 2016, the export incentive scheme has enhanced competitiveness of Zimbabwe's exports and this has significantly contributed to the growth of exports which grew by 36% from US$2.8 billion in 2017.

c) Afreximbank Backed Interbank Market Facility (AFTRADES)

- The Aftrades facility, which was established in 2015 at a limit of US$200 million went a long way in alleviating liquidity shortages during 2017. The facility will run for another two years until February 2019. Total trades amounted to US$399.5 million in 2017.

d) Savings Bond

- The Bank introduced 7% tax-free Savings Bonds in September 2017 to mop up excess liquidity within the market and provide foreign investors with an investment platform. As at the end of 2017, a total of US$165 million had been raised through Savings Bonds.

e) Usage of Electronic and Mobile Banking Systems (Plastic Money)

- The growth in the use of plastic money, away from cash transactions, was phenomenal in 2017 to the extent that more than 96% of the $97.5 billion - from the 1 billion transactions - processed in the entire country in 2017 were through electronic and mobile banking systems.

f) Financial Inclusion & Sustainable Economic Development Facilities

- In the 2017 Mid-term Monetary Policy, the Bank introduced nine (9) productive finance facilities earmarked for promoting production (exports, gold, tourism, horticulture) business linkages and empowerment facilities (youth, women, people with disabilities, tertiary students). As at the end of 2017, total disbursements under all the facilities amounted to US$122 million, with over 50% being for capital expenditure.

g) Financial Literacy

- As part of increasing awareness of the integrated approach to financial education and financial inclusion, the Bank in collaboration with development partners, conducted a number of financial literacy stakeholders workshops during 2017. As at end December 2017, around 75% of the population was financially literate.

h) Credit Infrastructure

- The Bank has made significant progress in enhancing the credit infrastructure through the establishment of a Credit Registry and operationalising the Collateral Registry. The improvement in the credit reporting environment is expected to improve the general credit culture across economic sectors.

i) Credit Registry

- As at 31 December 2017, the Credit Registry system had a total of 350,000 banking sector credit records, which are updated on a continuous basis. There are currently 104 subscribers in the Credit Registry system comprising of banks, Microfinance Institutions and other nonbank subscribers.

j) Collateral Registry

- The Movable Property Security Interests Act [Chapter 14:35] was gazetted in July 2017 paving the way for establishment of the Collateral Registry. Numerous preparatory activities have been successfully undertaken including the drafting of Movable Property Security Interests Regulations. It is anticipated that the Regulations shall be gazetted during the first quarter of 2018 and the Collateral Registry will be operational by 30 June 2018.

k) Development of Financial Institutions

- Developmental financial institutions play a critical role in the provision of long-term financing for the reconstruction and expansion of the physical and social infrastructure. Against this background, the Bank is pleased to note the significant progress in the transformation of Industrial Development Corporation of Zimbabwe (IDCZ) into a development financial institution as a critical factor in the re-industrialisation agenda through provision of industrial financing and enterprise development for small, medium and large enterprises.

l) Basel II/III Implementation

- The Bank continued to provide tailored technical assistance to banking institutions to capacitate the sector in the implementation of Basel II. Meanwhile, the Basel Committee on Bank Supervision concluded the outstanding components of the Basel III framework in December 2017.

m) International Financial Reporting Standard (IFRS) 9

- The Bank made significant progress in the adoption and implementation of IFRS9. A quantitative impact assessment conducted during the course of 2017 on the impact on capital levels, showed that all banking institutions remain adequately capitalized

2. Policy Measures to enhance financial stability and to promote business confidence in the economy

The Central Bank also came with a number of policy measures to enhance confidence in the economy and below are some of the highlights

a) Enhancing the Nostro Stabilisation Facilities to Support Foreign Payments

- The Bank is enhancing the Nosto Stabilisation facilities by US$400 million

b) Provision of Investment Guarantees to Protect Investors' Funds

- The Bank is working with the African Export-Import Bank (Afreximbank) to put in place a US$1.5 billion facility that is earmarked for the provision of guarantees (US$1 billion) to investments coming into the country and for liquidity support (US$500 million).

c) Provision of 7% tax-free savings bonds on non-resident transferable funds

- In order to provide return on remittable funds currently held in Non-Resident Transferrable Accounts in respect of in-country funds such as dividends and profits due to non-residents that cannot be immediately remitted as a result of the current foreign currency shortages, such funds can now be invested in tax-free savings bonds at a coupon rate of 7%. This compensation process is necessary to assure investors of returns on their idle funds seated at banks.

d) Enhanced Export Incentive Scheme for Horticulture, Cotton, Macadamia and Gold

- The current export incentive scheme that is funded by bond notes shall be maintained to promote export competitiveness at the current thresholds. The scheme which was adjusted to 12.5% for tobacco growers starting this year shall be tweaked to 10% for horticulture, cotton, macadamia and gold producers.

e) Increasing tobacco and gold support facilities

- In order to enhance foreign currency inflows from tobacco and gold production, the tobacco input finance facility has been increased from the $28 million disbursed in 2017 to $70 million, while the gold support facility has been increased from $74 million (disbursed to 255 entities) in 2017 to $150 million.

f) Establishment of Offshore Financial Service Centre

- The Bank is currently working on a legal framework to operationalize the establishment of an offshore financial service centre within the context of the Special Economic Zones (SEZ) programme. The legal framework is built on providing investors with the supportive policy environment and guidelines to pursue various investment options in the financial service centre.

g) Purchase of gold for value addition

- In order to enhance the gold industry's contribution to this value addition objective, priority shall be given to export oriented jewellery production, where the jewellery manufacturer shall retain 100% of the foreign currency generated from the value added component for use in their business operations.

h) Enhancing the Ease of Access to Productive Sector Facilities

- The Bank has put in place measures to ensure ease of access to the productive sector facilities that are earmarked for the promotion of exports, production, empowerment and business linkages.

i) Upwards Review of Threshold for Exports by Individuals

- In order to improve ease of doing export business by individuals, going forward the threshold for value of goods that can be exported by an individual without completing export forms, Form CD1, has been increased from the current US$1,000 to US$2,000. Sale proceeds would need to be repatriated into the country.

j) Upwards Review of Foreign Currency Retention Thresholds

- In recognition of the need to ensure continuous generation of foreign exchange, the foreign currency retention threshold for all services and products except gold, diamonds, platinum, chrome and tobacco remains at 100% of export receipts for exporters' use in their business operations within an extended period of up to 14 days from the receipt of funds. The retention threshold for private owned diamond firms, platinum and chrome producers has been increased from 20% to 35% whilst that for gold, public owned diamond firms and tobacco remain as per current policy.

k) Downward Review of Cost of Export Documents

- Given the need to facilitate exports at the same time affording exporters an opportunity to comply with the Presidential Amnesty on illegally externalized foreign currency and assets, the maximum fixed administrative charge to access exports documents has been reduced from $50 to $20 per export transaction.

l) Establishment of an Investment Desk to Cater for the Diasporans

- Consistent with the tenets of the ease of doing business, in an open business environment, the Bank has established a desk to assist those in the diaspora to get involved in the investment opportunities within the national economy

m) Issuance of Diaspora Tobacco & Gold Production Financing Bonds

- The tobacco and gold sectors, if sustainably and adequately funded, have the potential to generate more foreign currency for the country. The Bank has also noted that small and start-up companies in the tobacco sector are failing to access offshore funding in line with the tobacco financing order.

n) Incentive for Diaspora Investments Accounts in Zimbabwe

- In an effort to facilitate inward investments by Zimbabweans in the diaspora, going forward, Zimbabweans in the diaspora can open Diaspora Investment Accounts with local banks of their choice.

o) Payment Arrangements for the Sale of Immovable Property & Management Fees

- All receipts from the sale of immovable properties in Zimbabwe should be received into the country and accounted for through normal banking channels. Exceptions to this policy position require prior Exchange Control authority.

p) Further Promoting the Use of Plastic Money Towards a Cash-lite Society

- The Bank is further accelerating efforts towards a cash-lite society by the adoption of friendly banking and plastic money payment platforms such as tap-and-go systems and pre-funded cards to enhance the ease of transacting and ease of passage at tollgates within the country.

q) Curbing of Multi-Pricing System & Refusal of Plastic Money

- Government is putting in place measures to curb the multi-pricing system within the economy. Multi-pricing and refusal to accept plastic money is counter-productive to the successful and unparalleled efforts achieved so far in the promotion and usage of plastic money in Zimbabwe.

r) Strengthening Financial Credibility

- In line with the lending powers of the Bank to Government as provided for in Section 11 1(a) of the Reserve Bank Act [Chapter 22:15], the Bank is putting in place measures to ensure that the lending limit to Government does not exceed the regulated 20% of the previous year's revenue of the State.

s) Strengthening of Liquidity Management Systems

- To ensure stability of the monetary system, the Bank is strengthening its liquidity management systems to mop RTGS money and make it more attractive for investment.

t) Acceptance of 99-Year Land Leases as Security by Banks

- In line with the current economic dispensation's aspiration to transform agriculture into viable business proposition and taking into account of the significant improvements made by Government on the 99-year leases to enhance the security of tenure of the lease and making it bankable and transferrable, the Bank has agreed with banking institutions for them to accept the 99-year leases as security for accessing credit from financial institutions in line with the provisions of the leases.

u) Policy Note on the Continuation of the Multi-Currency System

- Government's policy stance on currency reform that pertains to de-dollarisation is well documented as was clearly articulated by his Excellency, the President. Government is quite aware that the most important economic fundamentals that the country would need to achieve before any currency reform begins are a healthier foreign exchange buffer sufficient to cover at least 3 months of imports and reducing fiscal deficit to sustainable levels as defined in the Reserve Bank of Zimbabwe Act.

v) Policy Note on the Presidential Amnesty on Externalised Forex and Assets

- Following the announcement of the Presidential Amnesty on externalised foreign currency and assets by His Excellency, the President, the Bank is encouraged by the overwhelming response from Zimbabweans desiring to comply with the amnesty arrangements. The responses have been positive from both individuals and corporates in respect of foreign currency (and not decommissioned or demonetised local currency) that was externalized by or omission or under the liberalized Exchange Control framework with such foreign currency banked offshore or used to acquire foreign assets

w) Policy Note on Accelerated Arrears Clearance and Re-Engagement Programme

- In line with the new economic order, Government is intensifying the re-engagement process with the international community to improve international relations and to resolve the external payment arrears to the remaining International Financial Institutions (IFIs) as well as bilateral creditors.

CONTACTS

SALES TEAM:

Fidelis Chimhuka **+263-772-432-693**
(Stockbroker)
fidelis@platinumgroupe.com

Tonderai Marira **+263-772 627 782**
(Stockbroker)
tonderaim@platinumgroupe.com

Don Masaiti **+263-772-768-363**
(Stockbroker)
don@platinumgroupe.com

RESEARCH TEAM

Tonderayi Mapika **+263-773-863-402**
(Research Analyst)
tonderai@platinumgroupe.com

Princess Mazumba **+263-771-030-198**
(Research Analyst)
princess@platinumgroupe.com

Tatenda Chigome **+263-776-697-671**
(Research Analyst)
tatenda@platinumgroupe.com

23 Quorn Ave, Mt Pleasant, Harare
Telephone:+263-4-308109
E-Mail: research@platinumgroupe.com

DESCLAIMER

Analyst Disclosure

The analyst(s) who prepared this research report hereby certifies that all of the views and opinions expressed in this research report accurately reflect the research analyst's personal views about the subject investment(s) and issuer(s) and further that no part of the analyst's(s') compensation by way of remuneration by the employer, client and investments was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Conflict of Interest

It is the policy of Platinum Groupe (Pvt) Limited and its subsidiaries that research analysts may not be involved in activities in a way that suggests that they are representing the interests of any member of Platinum Groupe (Pvt) Ltd or its clients if this is reasonably likely to appear to be inconsistent with providing independent investment research. In addition, research analysts' reporting lines are structured so as to avoid any conflict of interests.

General

This information has been drawn from sources we believe to be reliable. The accuracy or completeness of the information is not guaranteed, nor in providing it, does Platinum Groupe (Pvt.) Ltd. assume completeness of any information contained herein. Recipients of this report shall be solely responsible for making their own independent investigation of the business, financial conditions and prospects of the companies referred to in the report. All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Members of Platinum Groupe (Pvt) Ltd may act as placement agent, advisor or lender, make a market in, or may have been a manager or a co-manager of, the most recent public offering in respect of any investments or issuers referenced in this report. Members of Platinum Groupe (Pvt) Ltd or their respective directors and employees may own the investments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. This report is intended solely for clients and prospective clients of members of Platinum Groupe (Pvt) Ltd and is not intended for, and may not be relied on by, retail customers or persons to whom this report may not be provided by law. This report is for information purposes only and may not be reproduced or distributed to any other person without the prior consent of a member of Platinum Groupe (Pvt) Ltd. Unauthorised use or disclosure of this document is strictly prohibited. By accepting this document, you agree to be bound by the foregoing limitations.