Monthly Financial Sector Bulletin

Issue No. 66, February 2019: Establishment of Interbank Market Abolishes Bond Note/US$ Parity

COVER PICTURE: A landmark development during the month was Reserve Bank of Zimbabwe Governor Dr John Mangudya's presentation of the long-awaited Monetary Policy Statement themed "Establishment of an Interbank Foreign Exchange Market to Restore Competitiveness" on the 20th of February 2019. The key highlight of the policy was the establishment, with immediate effect of an inter-bank foreign exchange market in Zimbabwe to formalise the trading of RTGS balances and bond notes with US$ and other currencies on a willing-buyer, willing-seller basis through banks and Bureaux de change. This was an acknowledgement by the Reserve Bank that the current monetary arrangements, if maintained, could pose the risk of a costly re-dollarisation of the economy which would move the economy into a recession. Another highlight was Government's issuance of Statutory Instrument 33 of 2019, also known as Presidential Powers Temporary Measures) (Amendment of Reserve Bank of Zimbabwe Act and Issue of Real Time Gross Settlement Electronic Dollars (RTGS Dollars) Regulations, 2019. The instrument pertains to issuance and legal tender of RTGS Dollars and conferred the RBZ the "sole power to issue or cause to be issued electronic currency in Zimbabwe. In the picture are RBZ Governor Dr John Mangudya and Finance Minister Professor Mthuli Ncube, the two men who were largely responsible for the policy changes. Cover Picture © MyZimbabwe.co.zw

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The MFSB is a monthly roundup of key Zimbabwean financial sector developments produced by SoundGarden Publishing, a provider of proprietary data, business intelligence and analytical content supporting decision-making in financial markets.

SINCE SEPTEMBER 2013: For six solid years, the Monthly Financial Sector Bulletin (MFSB) has been consistently providing reliable aggregated financial sector information enabling industry professionals and other stakeholders to make data-driven decisions!

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SELECTED VITAL STATISTICS AT A GLANCE

General Statistics	
Year-on-year Inflation for **February 2019**	59.39 % (**January: 56.90%**)
Annual Inflation at End of 2019	5%
Average Inflation for 2019	22.4%
Projected 2019 Gross Domestic Product (GDP) Growth	3.1% (AfDB – 4.2%; World Bank – 3.7%)
Budget for 2019	US$8.16 billion
2018 Manufacturing Sector Capacity Utilisation	48.2% (2017 – 45.1%) (2016 - 47.4 %0 (2015 - 34.3%)
Projected Trade Deficit for **2018**	US$1.6bn (Exports – $4.9bn; Imports – $6.3 bn)
Zimbabwe's Foreign Direct Investment (FDI) – **2017**	US$235m (2016 - US$319 m (US$421m - 2015)

Statutory Ratios	
Formula	**Ratio**
Minimum Capital Adequacy Ratio:(Total Qualifying Capital/Total Risk Weighted Assets) x 100	12%
Minimum Liquidity Ratio:(Total Liquid Assets/Total Liabilities to the Public) x 100	30%

Deposits, Loans and Lending Ratios	
Total Banking Sector Deposits (**30 June 2018**)	US$9.53 billion (US$8.48 billion – **31 December 2017**)
Total Banking Sector Loans & Advances (**30 June 2018**)	US$4.08 billion (US$3.80 billion – **31 December 2017**)
Loans-to Deposit Ratio (**30 June 2018**)	43.53% (31 December 2017 – 44.81%)
Banking Sector Non-Performing Loans (NPLs) (**30 June 2018**)	6.22%(7.08% - **Dec 2017** & Peak 20.45% as at 30 Sept 2014)
Total Banking Sector Assets (**30 June 2018**)	US$12.35 billion (**31 Dec 2017** - US$11.25 billion)

Sources: Mainly the Monetary Policy Statement (RBZ), National Budget & Various other Industry Sources

Editorial Comment

Product Innovation & Channel Development: Uncertainty Continues to Stifle Product Development

Product development initiatives increased marginally from two in January to three in February. While in the previous month, activity was limited to promotions, in the period under review the range broadened to include a launch, an enhancement and a promotion each. The trend was however opposite with channel development which decreased from two in January to a single initiative in February. Overally, product development initiatives continued to suffer from the uncertainty in the market spawned by ongoing reforms as, financial institutions focused on survival strategies. Uncertainty in the economy was also heightened by the delay in the presentation of the Monetary Policy Statement (MPS), apparently due to unconfirmed disagreements between the Minister of Finance and the Reserve Bank of Zimbabwe on the direction of currency reforms.

Executive Management/Board Changes: Insurance Insider heads for IPEC

The departure of Grace Muradzikwa from NicozDiamond Insurance Limited at the end of February was a notable development given that she was a long-standing CEO and also one of the few if not only woman leading a listed company. Of more significance was the possibility of her becoming the IPEC commissioner, a position for which the MFSB believes she is eminently suited because of her vast experience in the insurance sector.

Corporate Actions: Forex Shortages Worsen Country Risk Profile

The announcement by Untu Capital Limited that the African Guarantee Fund ("AGF") had suspended its guarantee in respect of the MFI's Notes Issuance Programme, citing the current economic environment in the country and the failure by the Company to remit guarantee fees, was a key highlight of the month. AGF had guaranteed the Notes up to 50% and this perturbing development was a manifestation of how foreign currency shortages and political risk were heightening the country risk profile, making it difficult for guarantors such as the African Guarantee Fund to underwrite Zimbabwean risk. The debilitating shortage of foreign currency liquidity clearly threatened the viability of businesses and this obviously sent alarming signals to other lenders and guarantors who might be forced to reconsider their exposure to Zimbabwe. This was seen as having the effect of narrowing down sources of funding and where funding remained available, an increase in cost due to risk premiums was inevitable. Meanwhile, this development made it difficult for institutions that were currently negotiating financing deals with foreign financiers as they were likely to consider suspending negotiations until further notice.

External Finance: Lines of Credit and Grant Finance/AID: Govt draws down on China Eximbank Facility

The terms of the U$153 million loan facility by China Eximbank for the project to upgrade and modernise the Robert Gabriel Mugabe International Airport, part of which was drawn-down during the period under review demonstrate the generous nature of the borrowing costs, hence the term concessional. The facility has a seven-year grace period, an annual 2 percent interest rate, 0.25 percent commission fees and management fees pegged at the same rate. It has a tenure of 20 years inclusive of the seven-year grace period.

Fiscal, Public Debt & Investment Issues: Forex Duty on Designated Goods to Continue

The revelation by the Zimbabwe Revenue Authority (ZIMRA) that it would continue charging duty in foreign currency on designated goods despite the liberalisation of the exchange rate, was not only seen as discriminatory but inconsistent with the new currency regime. However Government viewed this as an important demand management tool for instance in respect of motor vehicle imports and as a way of raising foreign currency for its own needs, so this position was unlikely to change in the foreseeable future.

Policy/Regulatory /Legal Developments: Interbank Market formalises FX Trading

A landmark development during the month was Reserve Bank of Zimbabwe Governor Dr John Mangudya's presentation of the long-awaited Monetary Policy Statement themed "Establishment of an Interbank Foreign Exchange Market to Restore Competitiveness" on the 20th of February 2019. The key highlight of the policy was the establishment, with immediate effect of an inter-bank foreign exchange market in Zimbabwe to formalise the trading of RTGS balances and bond notes with US$ and other currencies on a willing-buyer, willing-seller basis through banks and Bureaux de change. This was an acknowledgement by the Reserve Bank that the current monetary arrangements, if maintained, could pose the risk of a costly re-dollarisation of the economy which would move the economy into a recession

Another highlight was Government's issuance of Statutory Instrument 33 of 2019, also known as Presidential Powers Temporary Measures) (Amendment of Reserve Bank of Zimbabwe Act and Issue of Real Time Gross Settlement Electronic Dollars (RTGS Dollars) Regulations, 2019. The instrument pertains to issuance and legal tender of RTGS Dollars and conferred the Reserve Bank of Zimbabwe the "sole power to issue or cause to be issued electronic currency in Zimbabwe." However, a confusing aspect of this statutory instrument was its reference to the fact "that every enactment in which an amount is expressed in United States dollars shall, on the and after effective date, be construed as reference to the RTGS dollar, at parity with the United States dollar, that is to say, at a one-to-one rate."

Economist and former Government advisor Professor Ashok Chakravarti urged market players not to be worried too much by the legalities of the situation as he believed that "the market leads and the law follows because the law is very slow to change." "There is no question of 1:1, the RTGS is now a local currency, it will trade against the US dollar and find its own rate. I suspect the rate equilibrium will be between 3 and 3.5. There might be something in SI 33 of 2019, if they are inappropriate for the market, they need to be changed so let's not worry too much about the legalities of it. The critical thing is that the monetary policy has removed the 1:1 and people can exchange the money legally because the problem was the parallel market which was creating distortions. We cannot just say as long as you keep the money in your account it is 1:1 and the moment you choose to trade in forex it is not. The reality is the RTGS and the Bond are local currency, they have an exchange rate with the US dollar which will be determined by the market," he said.

Meanwhile, the Reserve Bank of Zimbabwe reportedly shot down an urgent request by banks to raise interest rates and transaction charges, arguing the move would trigger inflationary pressures. There was a danger however, that If interest rates and bank charges remained capped against the background of galloping inflation, bank profitability would come under sustained pressure especially considering that these institutions were holding on to Treasury Bills, which are fixed-income instruments.

Customer Service, Public Relations Management & Networking Initiatives: It's the Politics Stupid!
As part of its international re-engagement efforts, on February 13, 2019, the Zimbabwean government signed a contract with an American consulting firm, Ballard Partners Inc, under which the latter would lobby on behalf of the Zimbabwean government and provide advice on communication strategy. Zimbabwe was expected to pay an annual fee of USD500 000 for a period of two years. This decision to employ a public relations firm to lobby for the scrapping of United States sanctions was however seen as futile as observers said the real solution lay in implementing political and economic reforms.

Domestic Lending & Financing Perspectives: Putting the Money Where the Mouth Is
During the period under review, Strive Masiyiwa put his money where his mouth is by launching the ZWL$100 million Masiyiwa Rural Challenge Fund to support rural businesses and other entrepreneurs focusing on rural areas in Zimbabwe. The minimum loan amount was set at $1000 while the maximum was pegged at $10 000 and the loans would not attract collateral, while the maximum interest rate was 5 percent, and repayments would go into a revolving fund. The impact of the fund was likely to be meaningful given the fact that entrepreneurs would undergo training before accessing the loans. If more business leaders follow Masiyiwa's example, this will have a transformative impact on the financing of small businesses and on rural economies in the country.

Currency, Pricing and Liquidity Perspectives: Inflationary Pressures Build Up
During the period under review, a number of developments which testified of the inflationary pressures that continued to build up in the economy as a result of price increases emanating from a misaligned exchange rate, took place. The price increases continued to seriously erode incomes, thereby curtailing disposable incomes. This was expected to ultimately impact negatively on growth prospects, employment and fiscal revenues:

- The Zimbabwe Association of Funeral Assurers (ZAFA) said it had consented to a request for premium review by all its members, in order to preserve the value of funeral policies as well as maintain the standard and quality of services provided to its clients. The Association said it had assented to the premium review cognisant of the changes in the economic fundamentals underpinning service delivery.

- Medical aid societies under the banner of the Association of Healthcare Funders (AHFoZ) agreed to increase fees payable to healthcare services providers by 30 percent with effect from 11 February 2019. In a related development, First Mutual Health said it was set to increase medical aid monthly contributions by 34 percent with effect from March1, 2019 as it sought to track spiraling drug and hospital fees, which it said had increased by over 300 percent and at least 100 percent, respectively.

- Zimbabwe Newspapers (1980) Limited, a government owned Media Company advised its customers of new cover prices for all its publication with effect from 10 February 2019, citing it as a mitigatory measure in the face of increasing costs of production. Prices of flagship publications such as The Herald and Sunday Mail increased by 100%.

- The increase in the price of coal from US$65 per tonne to US$195 per tonne impacted negatively on tobacco farmers' cost of curing and put pressure on the need for a viable tobacco price to be paid to the farmers.

Meanwhile, prices of real assets rose in late February as property and land investors adjusted values to reflect the recent devaluation of the local currency. The introduction of the new local quasi-currency, RTGS dollar, brought with it the need to revalue assets for companies that had toed the official 1:1 fixed exchange rate policy line set by the central bank in November 2016.

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PRODUCT LAUNCH/ENHANCEMENT INDEX (PLEI)

- FBC Insurance Company limited, a subsidiary of FBC Holdings, launched a low cost Usage Based insurance product called MyDRIVE. A first of its kind in Zimbabwe, it allows clients to enjoy cost savings hinged on customised and fair insurance premium charges based on the customer's actual annual mileage. The product is available for individuals, corporates, schools and churches. The insurance company said clients interested in signing up for the service could text "Less" to 0786 257 574/5/6 and an FBC representative would call back or they could visit their nearest FBC Insurance or FBC Bank branch countrywide for assistance. Commenting on the new development, FBC Holdings Brand Manager Roy Nyakunuwa said, "The pricing scheme for the world-class and affordable FBC Insurance MyDRIVE Usage Based Insurance deviates from that of traditional motor insurance. It provides a wide spectrum of client segments the freedom to enjoy fair and affordable insurance pricing. The innovative solution provides customised comprehensive insurance cover which allows customers to save up to 50% on their vehicle insurance premiums in line with kilometres covered."

- CBZ Bank announced that its SmartCash offering was now linked to EcoCash. "Now you can transact for up to $1000 per day, with your CBZ SmartCash account now with greater value. Open your SmartCash account for just $5 today," said the banking franchise of CBZ Holdings Limited and a member of the Deposit Protection Corporation.

PRODUCT PROMOTION INDEX (PPI)

- EcoCash introduced the 10 Day Tax Cash Back Promotion under which users of the mobile money platform got 50% cashback on their transaction tax (IMT). "Send money with EcoCash, exceed your daily target and get 50% IMT Tax Cash Back on every taxable value you send above your target. Example: If your target is $400 and you send $420 you will get back 50% of the tax you were to pay for the $20 above your target," said EcoCash, as Cassava Smartech company.

SUMMARY: PRODUCT LAUNCH & PROMOTION INITIATIVES

#	Organization	Product /Promotion	Product/Service Category	Sub-sector	Type of Initiative
1	FBC Insurance Co Ltd	MyDRIVE (Usage-based Insurance)	Motor vehicle insurance	Insurance	Product Launch
2	CBZ Bank	SmartCash Account	Consumer Banking	Banking	Product Enhancement
3	EcoCash	10 Day Tax Cash Back Promotion	Mobile Money	Mobile Money	Product Promotion

CHANNEL DEVELOPMENT/RATIONALISATION ACTIVITY

- EcoCash, a Cassava Smartech company, partnered with ZUVA to facilitate payment for fuel using the EcoCash FCA Wallet at Zuva Grange and Groombridge service stations. One can cash-in US$ into their FCA wallet at any Econet Shop nationwide.

	SUMMARY:CHANNEL EXPANSION/RATIONALISATION ACTIVITY			
#	Institution	Sector	Type of Initiative	Description
1	EcoCash	Mobile Money	Agent Recruitment	EcoCash FCA Wallet Fuel Payments.

ICT DEVELOPMENTS

- ZB Bank carried out a system maintenance and upgrade exercise from 12 February to 15 February 2019 designed to improve its customers' banking experience. The bank advised that service disruption could be experienced on its online, ZIMSWITCH and cards platforms and asked those requiring assistance to contact it on 0772 560 117 or 0732 560 117 or through social media platforms. The customers were also fee to visit their nearest ZB Bank branch.

- First Capital Bank (formerly Barclays Bank of Zimbabwe Limited) issued a notice on branch closure and unavailability of service between1 and 3 March 2019 to facilitate an information technology system migration. "We advise our valued customers, clients and other stakeholders that our banking halls and service centres will be closed on 1 and 2 March 2019 for a major IT System migration. Mobile and Internet banking, as well as card services will not be available during the migration period. Our banking halls will offer extended banking hours till 17:00hrs on Wednesday 27 February 2019 to accommodate customer requirements and minimise any inconvenience that may be caused by service unavailability during the migration period. Normal banking service will resume on Monday 4 March 2019. Should you require any assistance during the migration period, feel free to call our contact centre on (024) 2 250579. We sincerely apologize for any inconvenience that this may cause," said the bank.

EXECUTIVE MANAGEMENT/BOARD CHANGES

- NicozDiamond Insurance Limited (NDIL) managing director Grace Muradzikwa said she would be leaving the company at the end of February 2019, after leading the short term insurance firm for 16 years. Muradzikwa was to be replaced by Tristar Insurance Company managing director David Nyabadza. "It is true I will be leaving NicozDiamond at the end of this month...I made a formal announcement to our staff members on Tuesday (19 February 2019)," she said. Although she did not reveal her future plans, the market was awash with rumours that Muradzikwa could be appointed the new Insurance and Pensions Commissions (IPEC) Commissioner, taking over from Tendai Karonga who resigned in May 2018 after falling out with the regulator's board. Boardroom and management changes at the short-term insurance firm, which has operations in Zimbabwe, Mozambique and Malawi, began in 2018 when First Mutual Holdings Limited (FMHL) acquired an 80.92 percent stake in NDIL that was previously held by the National Social Security Authority (NSSA).

CORPORATE ACTIONS

- On the 5th of February 2019 Untu Capital Limited issued a cautionary statement regarding the suspension of the African Guarantee Fund guarantee. "Note-holders of the Untu Capital Limited's ("Untu Capital" or "the Company") Notes Tranche 2 ISIN Number ZWFSE0000202, and Tranche 3 ISIN ZWFSE 0000203 that were issued in terms of its Programme Memorandum dated 01 December 2017, issued and listed on the Financial Securities Exchange ("FINSEC') are hereby notified of the suspension of the African Guarantee Fund ("AGF") guarantee. AGF have cited the current economic environment in the country and the failure by the Company to remit their Guarantee fees out of the country. The Company has so far failed to secure foreign currency allocations to remit the Guarantee Fees. The Company shall continue to engage the Reserve Bank of Zimbabwe, through its bankers, for an allocation of foreign currency for the amounts due on the AGF Guarantee. Please also be advised that the Company is currently working with the Trustee of the Noteholders and plans to increase the security offered. Note-holders will be advised as soon as this is finalised. Accordingly, Note-holders are advised to exercise caution and should consult their professional advisors before dealing in the Company's Notes," said Thandiwe Ndlala on behalf of the Board of Directors.

EXTERNAL FINANCING: LINES OF CREDIT AND GRANT FINANCE/AID

- Government said it had drawn-down $45.9 million, representing 30 percent of the total project cost for upgrading and modernisation of the Robert Gabriel Mugabe International Airport. The project will cost $153 million, which is being provided as a concessional loan facility by China Eximbank. "In terms of the upgrade and modernisation of the Robert Gabriel Mugabe International Airport, we have so far drawn-down 30 percent of the total project cost. It was drawn-down sometime in mid-December (2017) and it is being used for site mobilisation as well as procurement of equipment," said Civil Aviation Authority of Zimbabwe (CAAZ) director of airports Tawanda Gusha. The concessional loan facility has a seven-year grace period, an annual 2 percent interest rate, 0.25 percent commission fees and management fees pegged at the same rate. It has a tenure of 20 years inclusive of the seven-year grace period.

- President Emmerson Mnangagwa said Zimbabwe had never asked for a bailout package from China, but instead sought investments. He however was hopeful for a line of credit from South Africa. "We started engaging South

Africa earlier this year when we had the cooking oil shortage. We have the Nepad (New Partnership for Africa's Development) fund which is structured to assist member states who find themselves having problems and it is administered by South Africa. So you can apply to the fund there for a line of credit to be advanced to you and you will pay back later. You can apply to that fund to be assisted to deal with the challenges you are facing. So it is on those bases that we contacted South Africa," Mnangagwa said, adding that they realised during the negotiations for Nepad funds that it would take a long time before the funds could be disbursed so they asked for South Africa's assistance instead. "With regards to the Nepad fund, South Africa has no final say. It has to go to a committee which will look at it and it would take a lot of time. Then because of the nature of relations between us and South Africa, we said to South Africa can you give us lines of credit. So this is why discussions between the South African minister of finance, our own finance minister (Professor Mthuli Ncube) and the governor of Reserve Bank of Zimbabwe started," Mnangagwa said during an interview with journalists from the private press at State House in Harare on Wednesday, 30th of January 2019.

- President Emmerson Mnangagwa on 9 February 2019 met Trade and Development Bank (TDB) president Admassu Tadesse, and the financial institution made a commitment to arrange lines of credit worth at least $500 million. TDB has also been roped in as the advisory bank for the US$3 billion Batoka power project, which is being jointly developed by Zimbabwe and Zambia at Batoka Gorge along the Zambezi River. "TDB is organising lines of credit, especially as a result of our interaction with Belarus around the economy. TDB is coming in as the advisory bank for the Batoka Power Project, possibly next month, TDB is doing an agreement with the RBZ for $500 million worth of credit lines to Zimbabwe," Deputy Chief Secretary to the President and Cabinet George Charamba said after the meeting.

FISCAL, PUBLIC DEBT & INVESTMENT ISSUES

- Finance and Economic Development Minister Professor Mthuli Ncube on 7 February 2019 held a meeting with a team from the International Monetary Fund (IMF), which was in the country to discuss a range of issues including the country's debt and arrears clearance plan. Professor Ncube said this on the sidelines of his presentation to students of the National Defence Course, Intake 7 of 2018, at the Zimbabwe National Defence University in Mazowe. "...The arrears clearance roadmap involves closer working relationships with the IMF, World Bank and the African Development Bank (AFDB). As I speak, I just met them (IMF officials) before I came to speak here at the Defence College and we have been very open, very transparent, very constructive in our conversations about our reform agenda (and) where the economy is headed. All that is part of the arrears clearance roadmap, you cannot get to the roadmap without talking to the three institutions, so arrears clearance, is part of the roadmap," said Professor Ncube. Government said it planned to clear the arrears though "bridging finance" which was set to be obtained from the creditors. Talks between Government and the creditors regarding the bridging finance were already in motion and were expected to be concluded in a year. "We just need to work harder to make sure that we access the bridging resources for that. In terms of the bridging resources themselves, of course we are having conversations with the creditors themselves because that is where we can get the cheapest funding. The cheapest funding you can ever get is from themselves (the World Bank, IMF and African Development Bank) and there are mechanisms through which this can be done and we are working on that; we are having a conversation on that," said Professor Ncube.

- Varun Beverages was declared a special economic zone, as Government sought to incentivise the firm that is reportedly planning to put up a new $23 million plant. The beverages manufacturer has already set up a $40 million beverages plant that produces a range of products that include Pepsi, Mirinda, Mountain Dew and 7Up. In June 2018, the company launched its plant, which has an installed capacity of 600 000 bottles. " It is hereby notified that, in terms of Section 20 (1) of the Special Economic Zones Act (Chapter 14:34), the Zimbabwe Special Economic Zones Authority declared Varun Beverages (Zimbabwe) (Private) Limited as a special economic zone," said Zimbabwe Special Economic Zones Authority chief executive officer Edwin Kondo in an Extraordinary Government Gazette dated February 8, 2019. "They are expanding; they are putting a plant which is worth more than $23 million and they have to improve their reach out in the country, their access. They also want to improve exports because they have already started exports so a special economic zone, really, grants them corporate tax relief not

VAT relief for a period of five years," Industry and Commerce Minister Nqobizitha Mangaliso Ndlovu said on Friday, 15th February 2019.

- Zimbabwe's trade deficit for the 11 months to December 2018 stood at $2.4 billion, as the value of imports continued to outstrip the value of exports, mostly unprocessed raw materials. According to statistics from the Zimbabwe National Statistics Agency (Zimstat), Zimbabwe imported goods worth $6.3 billion between February and December 2018, from $4.9 billion recorded during the same period in 2017. This was against exports that came in at $3.9 billion, representing an increase of 14 percent from $3.4 billion worth of exports recorded in 2017. However, the growth was not enough to offset the ballooning import bill.

- The Zimbabwe Revenue Authority (ZIMRA) said it would continue charging duty in foreign currency on goods designated to pay in foreign currency despite the liberalisation of trading of the United States dollar exchange rate against Real Time Gross Settlement (RTGS) Dollars and all other currencies in the multi-currency basket. In late 2018, the Government promulgated Statutory Instrument 252A of 2018, which provides for the payment of duty for selected goods, including luxury motor vehicles, in forex to discourage usage of hard currency on luxury commodities. "The Statutory Instrument is the law that has to be repealed first. Until it is repealed, ZIMRA will continue collecting duty on selected goods in foreign currency," ZIMRA Commissioner General Manager Ms Faith Mazani said on 25 February 2019.

POLICY/REGULATORY/LEGAL DEVELOPMENTS

- The Reserve Bank of Zimbabwe reportedly shot down an urgent request by banks to raise interest rates and transaction charges at a crisis meeting held in Harare early February 2019, arguing the move would trigger inflationary pressures. In the face of rapidly rising costs after bank workers demanded and won a 42% cost of living adjustment, the banking sector approached the central bank for permission to increase interest rates and fees. Prompted by concern that the 42% wage increase would eat into their static earnings, the financial institutions called an urgent meeting with central bank. In March 2017, the RBZ capped key interest rates at 18%, set mortgages at 12% and lowered charges on electronic transactions while productive loans were set at 12% per annum. These static interest rates are obtaining against the background of the rising rate of inflation, which stood at 42% in December 2018, although leading economist Steve Hanke puts it at over 230%. Although the Bankers Association of Zimbabwe (BAZ) denies that banks had requested an interest rate increase, sources in the banking sector maintained that a request was made. If interest rates and bank charges remain capped against the background of galloping inflation, bank profitability will come under sustained pressure especially considering that these institutions are holding on to Treasury Bills, which are fixed-income instruments.

- Reserve Bank of Zimbabwe Governor Dr John Mangudya presented the long-awaited Monetary Policy Statement themed "Establishment of an Interbank Foreign Exchange Market to Restore Competitiveness" on the 20th of February 2019. The key highlight of the policy was the establishment, with immediate effect of an inter-bank foreign exchange market in Zimbabwe to formalise the trading of RTGS balances and bond notes with US$ and other currencies on a willing-buyer, willing-seller basis through banks and Bureaux de change. Other related highlights of the policy:

    - An increase in the Nostro FCAs to US$451.2 million as at 31st January 2019, compared to US$240.5 million at the beginning of October 2018, a growth of 87.6%

    - An acknowledgement by the Reserve Bank that the current monetary arrangements, if maintained, could pose the risk of a costly re-dollarisation of the economy which would move the economy into a recession

    - Acknowledgement that introduction of a market determined mechanism for trading of US dollars with RTGS balances and bond notes had become imperative.

- Without formal guidance on the relative values of the RTGS, bond notes and the USD, the transacting public was being prejudiced through *ad hoc* pricing by businesses, which factor in different implied parallel market exchange rates in their pricing systems.

- Foreign currency requirement for Government expenditure and other essential commodities that include fuel, cooking oil, electricity, medicines and water chemicals shall continue to be made available through the existing letters of credit facilities and/or the Foreign Exchange Allocations Committee. This will be funded through Export Surrender Retentions.

- Introduction of a local Nostro FCAs settlement platform to all for domestic inter-bank settlement of Nostro FCA transfers with effect from 25th February 2019.

- Over 80% of the card infrastructure in the country is now Euro Mastercard Visa (EMV) compliant but financial institutions should ensure that all cards issued in the market are EMV compliant by 31 March 2019.

- Government issued Statutory Instrument 33 of 2019, also known as Presidential Powers Temporary Measures) (Amendment of Reserve Bank of Zimbabwe Act and Issue of Real Time Gross Settlement Electronic Dollars (RTGS Dollars) Regulations, 2019. The instrument pertains to issuance and legal tender of RTGS Dollars and conferred the Reserve Bank of Zimbabwe the "sole power to issue or cause to be issued electronic currency in Zimbabwe." However, a confusing aspect of this statutory instrument is its reference to the fact "that every enactment in which an amount is expressed in United States dollars shall, on the and after effective date, be construed as reference to the RTGS dollar, at parity with the United States dollar, that is to say, at a one-to-one rate."

CUSTOMER SERVICE, PUBLIC RELATIONS MANAGEMENT & NETWORKING INITIATIVES

- EcoCash a division of Cassava Smartech on 20 February 2019 launched a real-time digital rewards programme that is designed to incentivise its clientele with up to 15 percent of value transacted. Dubbed the "EcoCash Rewards" initiative, which is powered by Cashback APP Africa, intends to enhance the value proposition at the same time stimulating the use of mobile money amongst cash users and merchants. Starting on the 22nd of February 2019, EcoCash users will be able to earn up to 15 percent of value back as EcoCash Reward Points. EcoCash customers automatically accumulate points, which they can redeem for value into their EcoCash wallet after completing a transaction and the facility is accessed under the "make payment" option, where clients that will have managed to collect sufficient points will have money transferred directly into their wallet. The Econet Wireless Zimbabwe (EWZ) owned company highlighted that a customer can earn up to 15 percent in EcoCash Reward points of value transacted depending on their selected merchant, a move that is anticipated to unlock exceptional value between consumers and merchants through incentivisation for frequent purchases. EcoCash CEO, Natalie Jabangwe, said the EcoCash Rewards programme is a form of payback to their customers' loyalty and will be a permanent feature on the EcoCash wallet and will award customers according to their spending levels. "We are excited to introduce EcoCash Rewards as a permanent feature to our valued and loyal customers. Through data intelligence, we can understand our customers' buying patterns overtime track their loyalty to our platform and connect this with linkages to our merchant network, by mapping those value points within the EcoCash ecosystem," she said.

- On February 13, the Zimbabwean government signed a contract with an American consulting firm, Ballard Partners Inc, with Foreign Affairs and International Trade minister Sibusiso Moyo signing on behalf of the Zimbabwean Government while Brian Ballard - a prominent lobbyist in Washington DC and president of the Ballard Partners Inc – signing for the consultancy. According to the terms of the contract, the US Company will lobby on behalf of the Zimbabwean government and provide advice on communication strategy. Zimbabwe will pay annual fee of USD500 000 for two years. The decision to employ a public relations firm to lobby for the scrapping of United States sanctions is seen as futile as the real solution lies in implementing political and economic reforms.

INDUSTRY AWARDS AND ACHIEVEMENTS

- Cell Insurance Company Limited received an initial BBB+ rating from Global Credit Ratings (GCR), valid until December 2019. The rating reflected Cell Insurance's strong balance sheet as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management. "This has been supported by capital injections over the past three years, coupled with well contained credit and market risk exposures. Given efforts to safeguard capital through enhanced earnings generation, combined with existing buffers, risk-adjusted capitalisation is expected to trend within a very strong range over the horizon," GCR said.

- The Megafest Eastern Region Awards were held on the 15th of February 2019 at Holiday Inn Mutare under the theme "Think Fast, Think Smart, Think Disruptive". Winners from the financial sector lined up as follows:

Category	Second Runner-Up	First Runner-Up	Winner
Financial Institution supporting SMEs		FBC Bank	Steward Bank
Versatile and Disruptive Organisation of the Year			Steward Bank Nyaradzo Funeral Assurance
Best Social Investment		Metbank	
Manager of the Year	Arthur Mupunga Lovemore Diya		

DOMESTIC LENDING & FINANCING PERSPECTIVES

- Econet Wireless Founder and Executive Chairman Strive Masiyiwa and his wife Tsitsi launched a $100 million Challenge Fund to support rural businesses and other entrepreneurs focusing on rural areas in Zimbabwe as part of their extensive philanthropic work in Zimbabwe and across Africa. The fund was financed from their personal resources and would be disbursed as loans through Steward Bank, a member of the Econet Group. "My wife and I have decided to set up a special fund of $100 million over five years for Re-Imagine Rural Zimbabwe. We have also challenged our friends in the philanthropy community to join us to expand it across Africa. The fund, which is our own personal money, will be disbursed as loans through Steward Bank. The money will support projects from rural entrepreneurs or those entrepreneurs willing to focus on rural areas," said Masiyiwa in a statement issued on 6 February 2019. He said 1.25 percent of the fund would be set aside for Matabeleland, women would be getting a minimum of 50 percent while traditional businesses like stores and grinding mills would not be eligible for support. The other conditions are that the minimum loan will be $1000 while the maximum is $10 000. The loans will not attract collateral, the maximum interest is 5 percent, and repayments will go into a revolving fund. Additionally, all entrepreneurs must undergo training before accessing the loans and there will be no political lobbying for support. Masiyiwa said Steward Bank would soon set up a special team for the Masiyiwa Rural Challenge Fund. "I want to use this initiative to challenge global donors to support mass entrepreneurship in Africa by putting my own money into what I believe. My wife is currently on a major drive to get this concept adopted by other philanthropists, so we can push into other African countries," he said.

- Government, through the Zimbabwe Women's Microfinance Bank on 25 February 2019 signed a Memorandum of Understanding with Life Brand Agriculture Services targeted at empowering women through castor bean farming. Under the agreement, Life Brand Agriculture Services will supply castor bean seeds while the bank finances the project. Women Affairs, Gender, Community Development Minister Sithembiso Nyoni officiated at and witnessed the signing ceremony.

CURRENCY, PRICING & LIQUIDITY PERSPECTIVES(CP & LP)

- The Zimbabwe Association of Funeral Assurers issued a press release advising of an impending premium review by its members. "In order to preserve the value of funeral policies as well as to maintain the standard and quality of services provided to its clients, the Zimbabwe Association of Funeral Assurers (ZAFA) has consented to a request for premium review by all its members. The Association assented to the premium review cognisant of the changes in the economic fundamentals underpinning service delivery. "Members of ZAFA will be making individual announcements to their respective clients detailing the intended premium review," said the association which represents the interests of 10 funeral assurers.

- First Mutual Health said it was set to increase medical aid monthly contributions by 34 percent with effect from March1, 2019 as it sought to track spiraling drug and hospital fees. In a letter to corporate clients dated January 29, First Mutual said it had borne huge costs in the last four months as it had to pay more to service providers, who had been arbitrarily increasing prices. "During the past four months, we have noted a significant increase in the cost of health services. Drug and sundry costs have gone up over 300 percent while hospital fees have increased by at least 100 percent. The Scheme has been absorbing the costs while continuing to engage service providers in an effort to find a viable solution... In view of the need to continue offering service that meets your expectations, we will increase contributions by 35 percent with effect from March 1, 2019," read the letter.

- The annual inflation rate at the end of January increased to 56.90 percent from the December 2018 figure of 42.09 percent. Meanwhile, the month-on-month inflation rate in January 2019 was 10.75 percent, having gained 1.72 percentage points on the December 2018 rate of 9.03 percent. This meant that prices of goods and services as measured by the all items Consumer Price Index (CPI) increased by an average rate of 10.75 percent from December 2018 to January 2019. Annual inflation shot up in October 2018 on market perception that a Reserve Bank of Zimbabwe directive for separation of nostro and Real Time Gross Settlement (RTGS) accounts meant a shift from the 1:1 exchange rate policy for official forex allocations for basic imports. The Zimbabwe National Statistics Agency (Zimstat) said the latest inflation rate meant prices as measured by the Consumer Price Index (CPI) were adjusted by an average of 56.90 percent in the twelve months to January 2018.

- Deposits into Nostro FCAs increased to about US$600 million, following the decision to separate them from RTGS FCAs, according to Reserve Bank of Zimbabwe (RBZ) Deputy Director for Economic Research Dr Nebson Mupunga. "In the same account, we were depositing RTGS and US dollars, there was pressure in terms of actual US dollar. That is why as the central bank we took the decision to separate the accounts so as to preserve value and so as to attract those with actual hard cash to deposit in the banking sector and this has actually started paying dividends as you see. Now nostro FCA deposits are on an increase to around US$600 million from maybe around US$130 million," said Dr Mupunga on the 18th of February 2019 during a breakfast meeting organised by the Employers Confederation of Zimbabwe (EMCOZ).

- Parallel markets remained stable on the 21st of February 2019 following the decision by Reserve Bank of Zimbabwe Governor, Dr John Mangudya to liberalise the United States dollar exchange rate against Real Time Gross Settlement balances. The black market rate for the US dollar hovered around 1: 3.5 bond notes which is the figure that was prevailing before the announcement of Monetary Policy Statement on Wednesday, 20 February 2019. The black market rate however maintained a two tier rate of the US dollar to the bond note with EcoCash transfers pegged at 1:3.8

- Banks commenced trading in foreign currency at a rate of 2.5 to the United States dollar following the decision by the Reserve Bank of Zimbabwe (RBZ) to float the currency on the 20th February 2019. On the 22nd of February 2019, the RBZ Governor told business leaders that the central bank had met with banks and agreed to start at a rate of 2.5 which was lower than the prevailing rate of around 4 on the illegal market. This is in line with indication of a "managed float", whereby banks would operate under some guidelines. "We came to a conclusion with bankers last night (Thursday, 21st February 2019) and we hope thereafter that the rate will continue to find itself," said RBZ Governor Dr John Mangudya.

- The Reserve Bank of Zimbabwe (RBZ) revealed that all the RTGS dollar balances before the promulgation of Statutory Instrument 33 of 2019 remained of the same value as the USD at 1:1. "People should not get confused, in the bank, the RTGS balances have the same value with the USD but when one wants forex at the bank, then it changes and its value is determined by the rate prevailing at the particular bank. We have not devalued the RTGS balances, but allowed people to access the forex at a rate which is competitive and allows the economy to grow. Your $1000 in the bank is still $1000. However, when you want to get US dollars, the rate and value will be determined by the market," said RBZ Governor Dr John Mangudya.

- Following the announcement of the Monetary Policy Statement, Econet Wireless issued a notice in respect of new roaming and international calling tariff effective 26 February 2019. "The Monetary Policy Statement by the Governor of the Reserve Bank of Zimbabwe on the 20th of February 2019 designated RTGS balances, Bond notes and coins as RTGS dollars, effectively differentiating the same from any other currency within the multicurrency system we operate in. The RTGS is an acceptable legal tender and medium of exchange in Zimbabwe, which trades at an exchange rate as defined on the interbank settlement system. We have certain services that require direct settlement in foreign currency: 1. Roaming Services; 2. International Outbound Calling & SMS services. In the circumstances, to enable Econet Wireless to provide the services above please be advised that with effect from midnight 26 February 2019, the charges for roaming and international outbound calling and SMS services will be adjusted to reflect the movement in the Exchange Rate as determined on the interbank settlement system. This is not a change in tariffs. The applicable tariffs for these services remain unchanged. We are simply recognising the impact of the movement in the exchange rates from 1:1 to the interbank rate as determined by the market for services that are directly procured in foreign currency,' said the country's biggest Mobile Network Operator (MNO).

- Prices of real assets rose in late February as property and land investors adjusted values to reflect the recent devaluation of the local currency. The introduction of the new local quasi-currency, RTGS dollar, brought with it the need to revalue assets for companies that had toed the official 1:1 fixed exchange rate policy line set by the central bank in November 2016. After the monetary authorities freed up the exchange rate and adopted an interbank managed floating system, prices of goods were expected to rise to reflect the new exchange rate between the two currencies as companies that had not raised prices in line with the parallel market rates took advantage of the opportune instance. This, analysts said, would stoke inflationary pressures. "On the inflation front, while most prices have already factored in the US dollar parallel market rate, a move to relax the exchange rate would likely see an upswing of commodities and services which were regulated and premised on the 1:1 exchange rate. Upward pressure on review on salaries and wages would increase inflationary pressures," Invictus Securities said.

PAN-AFRICAN DEVELOPMENTS

- FNB, South Africa's best digital bank, expanded its digital payments ecosystem by enabling consumers and sole proprietor businesses to perform and accept QR code payments using the FNB Banking App. This made FNB the first bank in South Africa to integrate QR code payments for both consumers and sole proprietor businesses on a banking app. The integration of QR code payments on the FNB Banking App which has 2.8 million active users helps customers with another simple choice in digital payments as there is no need to download any additional app. To make payment, individual FNB customers can simply enable the new FNB App 'Scan to Pay' widget on their smartphones. Alternatively, they can select the Payments option on the FNB App, login and select FNB Pay, then click on 'Scan to Pay'. Similarly, businesses will select Payments, login and click on 'Speedpoint', register and begin to utilise the service within 24 hours. Businesses have the option to display the QR Code within the FNB app, email and print the QR code, or share it via social media. There are no monthly rental or maintenance costs which makes this a cost effective means for a business to accept digital payments. Those businesses that do not bank with FNB can open an account, register and start accepting QR code payments all within the FNB App. This innovative capability is powered by Masterpass, MasterCard's digital payment service, which is interoperable with most major domestic scan-to-pay services, representing a footprint of approximately 140,000 merchants and billers. "We are excited to partner with FNB to further accelerate the adoption of digital payments in South Africa, using Masterpass' existing QR code infrastructure," says Mark Elliott, Division President, Mastercard, Southern Africa. "It furthers our goal of enabling consumers and businesses to transact anywhere, at any time or place, across any channel or device from a single app on their smartphones."