



GOVERNOR'S MEMORANDUM

TO

FINANCIAL INSTITUTIONS:
FINE – TUNING OF
MONETARY POLICY

9 OCTOBER 2006

1. INTRODUCTION

1.1 The banking sector, the corporate community and the general public will recall that, in January 2006, the Reserve Bank announced that it was adopting the half-yearly cycle of monetary policy announcement in line with statutory requirements.

1.2 It was also clarified then that, quarterly updates will be issued in between the bi-annual monetary policy announcements.

1.3 With the third quarter having ended on the 30th of September, 2006, this Statement seeks to fine tune the monetary policy framework in line with our announced cycles.

1.4 With inflation reduction remaining the overriding objective of the Central Bank, it has become necessary that additional measures be

implemented, so as to stabilize the economy in the medium term.

- 1.5 Against this background, the following fine-tuning measures have been introduced with immediate effect:

2. MONETARY POLICY MEASURES

FINANCIAL SECTOR STABILIZATION BOND

- 2.1 Following representations by players in the banking industry, the Reserve Bank has adopted the following policy positions:

- (a). Successive reduction of statutory reserves;
- (b). De-linking of capital requirements from the exchange rate.

- 2.2 In order to ensure that the financial sector further strengthens its medium to long term asset position, the

Reserve Bank has introduced a 5 year financial sector stabilization bond, which each licensed institution will hold as a performing asset in its books, with effect from Monday the 16th of October, 2006.

2.3 The features of this bond are:

- (a). It counts as a collateral asset for accommodation purposes;
- (b). The annual coupon rate is variable, as given below:

Year 1: 500%

Year 2: 250%

Year 3: 100%

Year 4: 25%

Year 5: 10%

(c). The holding thresholds on balance sheet size as at 30 September 2006, will be:

- Commercial banks: 10%;
- Merchant banks: 7.5%;
- Finance Houses: 5%;
- Building Societies: 5%;
- Discount houses: 5%; and
- Asset Management Companies: 2.5%.

BANK BORROWING FROM INDIVIDUALS AND CORPORATES

2.4 The Central Bank is aware that, in their quest to evade paying Statutory Reserves, some banks have been found window-dressing their liabilities position, by re-packaging large deposits from corporates and from certain wealthy individuals as “loans” to the banks.

2.5 Such “loans” would, thus, be “creatively” excluded in the calculation of Statutory Reserves, effectively undermining the effectiveness of monetary policy.

2.6 With immediate effect, therefore, banks are directed to cease any such fictitious loans, which must be included in the determination of statutory reserves.

2.7 The Central Bank will, through its Bank Licensing Supervision and Surveillance Division, be conducting audits and follow-ups. Where non-compliance is detected, punitive action will be taken to correct such wayward behaviour.

INTEREST RATE POLICY

ACCOMMODATION RATES

2.8 With immediate effect, the Central Bank has raised accommodation rates from **300% to 500% for Secured** and from **350% to 600% for Unsecured lending**.

2.9 Please note that this adjustment is not contestable in terms of the **‘In-duplum Rule’**. We discourage any bank intending to contest this issue from borrowing from the Central Bank.

3. SUPPORT FACILITY FOR AGRICULTURE

3.1 Monetary Authorities reaffirm continued support for the funding of the agriculture sector through Agriculture Sector Productivity Enhancement Facility (ASPEF).

3.2 Dam construction and accelerated irrigation projects remain high on the Central Bank’s funding agenda. However, projects not supported by vouchers, contracts and proper accounting records will not receive funding from the Reserve Bank.

3.3 It is also hereby made very clear that payment in retrospect for work done years back, shall not be entertained.

4. LENDING TO OTHER PRODUCTIVE SECTORS

- 4.1 The Reserve Bank's interventionist approach and high involvement in directing lending to agriculture has largely been a result of the transitional lag of the implementation of the land reform programme and bringing on board the 99-year leases.
- 4.2 With the Reserve Bank having played a more dominant role in agriculture, it is expected that banks in the market tangibly demonstrate commitment to the development of the country through significant support to other complementary sectors of the economy.
- 4.3 Whilst it is not the intention of Monetary Authorities to force banks to lend to specific sectors, the minimum expectation is that each bank's lending asset portfolio must reflect a balanced presence across the key sectors of the economy, as exemplified below:

Recommended Lending Asset Orientation

Sector	Industry Average (actual July, 2006)	Desired Concentration
Agriculture	25%	30%
Mining	3%	15%
Manufacturing	11%	15%
SMEs	0.01%	10%
Tourism	5%	10%
Rest of the Sectors	55.99%	20%
Total	100%	100%

4.4 It is not the intention of the Central Bank to go the legislative route to compel banks to lend to certain sectors.

4.5 It is the expectation of Monetary Authorities that there will be a balanced sectoral support using the scarce resources available.

- 4.6 As Monetary Authorities, we urge that priority should go to exports but without neglecting the non-exports sector.
- 4.7 The Central Bank will examine the source and application of funds including the application of provisions and profits in all lending institutions.
- 4.8 If it is deemed that the industry is not meaningfully transforming its balance sheet positions to support productive activities in the economy, appropriate remedial measures will be adopted.

5. STOCK EXCHANGE

- 5.1 Activities on the Zimbabwe Stock Exchange have become a cause for extreme concern to Monetary Authorities, as the ZSE has become a platform for creating vast amounts of paper-wealth without real productive activities on the ground.

5.2 Through policy coordination with the Fiscal Authorities, appropriate instruments will be developed to reorient the ZSE more towards productive activities. In terms of the payment system, whose domain resides with Monetary Authorities, the following measures have been put in place:

ZSE Transactions

5.3 All stock exchange transactions above \$50 000,00 shall be through Zimbabwe Electronic Transfer and Settlement System (ZETSS), for both individuals and corporates. All players in the financial sector are expected to abide by this new requirement with immediate effect.

5.4 In liaison with Tax Authorities, Monetary Authorities will soon be insisting that every transaction above the \$ 50 000,00 limit contain the tax payer's number. The drawer and payee's tax numbers are to be captured on the instrument of payment, whether it be by personal

cheque, bank cheque or RTGS. It will be mandatory to capture the tax numbers, as tax authorities reserve the right to enquire.

IDENTITY OF ZSE INVESTORS

5.5 All stock market transactions must identify the actual investors and where nominees are involved, stock brokers must disclose the people behind them. This disclosure is only to the Reserve Bank and not to the public.

5.6 This requirement is for the purpose of ensuring that people on the international prohibited list (money launderers and financiers of international terrorism) are not given an investment sanctuary in our economy. Every so often, the Central Bank works in collaboration with worldwide bodies who circulate lists of prohibited investors, under the Global fight against terrorism and we are obliged to comply.

5.7 In order to remove the veil of secrecy that is now prevalent in our Stock Market transactions and to avoid accommodating the adverse fungibility of certain share transactions, the Reserve Bank has fully activated the electronic surveillance of all financial transactions, whose IT systems are now in place and operational.

5.8 Limits for which transaction disclosure to the Reserve Bank is required are as follows:

Investor	Threshold
Individuals and nominees	\$100 000
Corporates	\$ 1 000 000

6. PRESCRIBED ASSET RATIOS FOR INSURANCE COMPANIES AND PENSION FUNDS

6.1 The Reserve Bank will work closely with the Regulators of the Insurance and Pension Funds

Industry to ensure that at all times, the prescribed asset ratios are complied with.

- 6.2 Through this collaborative effort, defaulters will be brought to book and stern measures taken to ensure compliance.

7. PARASTATALS AND LOCAL AUTHORITIES

- 7.1 In light of our varied experiences over the last 18 months, some parasatals and local authorities have developed seemingly perpetual reliance on the Reserve Bank for support, unacceptably surrendering their cash-flow planning and survival needs to us.
- 7.2 It has become necessary to institute stringent measures that restrict and forbid **non-performing** parastatals and local authorities from accessing Central Bank support.

- 7.3 Parastatals and local authorities are hereby advised that their first port of call for financial assistance shall be their parent Ministry.
- 7.4 Those that immediately come to mind are Air Zimbabwe, ZINWA, ZESA, GMB, ARDA, and ZISCO.
- 7.5 Parent Ministries and management responsible for these institutions are hereby advised to seriously take note of this position.
- 7.6 We are, however, happy that some of the institutions, such as the National Railways of Zimbabwe (NRZ) and Zimbabwe United Passenger Company (ZUPCO), are beginning to perform and self-sustain.
- 7.7 Banking institutions are urged to play a complementary role in instilling sound financial management systems and corporate governance standards in the parastatals sector as a condition for lending.

8. BANK CAPITAL REQUIREMENTS

8.1 We are pleased to report that all financial institutions declared full compliance with capital requirements as at 30 September, 2006. Below is a table showing the capital declared by each banking institution.

CAPITAL POSITION OF BANKS & ASSET MANAGERS AS AT 30 SEPTEMBER 2006

BANKING INSTITUTION	CAPITAL REQUIRED	DECLARED CAPITAL LEVEL AS AT 30/09/06
COMMERCIAL BANKS(14)		
AGRIBANK	Z\$1.0 Billion	4,965,000,000
BARCLAYS BANK	Z\$1.0 Billion	9,412,583,928
CBZ BANK *	Z\$1.0 Billion	6,552,631,901
CFX BANK	Z\$1.0 Billion	2,587,300,993
FBC BANK	Z\$1.0 Billion	2,991,790,983
INTERMARKET BANK *	Z\$1.0 Billion	138,727,231
KINGDOM BANK *	Z\$1.0 Billion	4,093,020,010
MBCA BANK	Z\$1.0 Billion	5,234,784,381
METROPOLITAN BANK	Z\$1.0 Billion	1,051,589,524
NMB BANK	Z\$1.0 Billion	2,244,245,391
STANBIC BANK	Z\$1.0 Billion	7,835,975,801
STANDARD CHARTERED BANK	Z\$1.0 Billion	6,243,805,033
ZABG BANK	Z\$1.0 Billion	2,440,281,633
ZB BANK	Z\$1.0 Billion	4,307,976,596
MERCHANT BANKS (5)		
AFRICAN BANKING	Z\$750 Million	2,099,487,875

BANKING INSTITUTION	CAPITAL REQUIRED	DECLARED CAPITAL LEVEL AS AT 30/09/06
CORPORATION		
GENESIS INVESTMENT BANK	Z\$750 Million	1,459,252,499
INTERFIN MERCHANT BANK	Z\$750 Million	2,065,913,479
RENAISSANCE MERCHANT BANK	Z\$750 Million	2,831,083,126
PREMIER BANKING COPRPORATION	Z\$750 Million	3,421,662,831
BUILDING SOCIETIES (4)		
BEVERLEY BUILDING SOCIETY	Z\$750 Million	1,914,461,592
CABS	Z\$750 Million	11,721,526,640
FBC BUILDING SOCIETY	Z\$750 Million	3,861,358,159
INTERMARKET BUILDING SOCIETY	Z\$750 Million	2,444,468,978
FINANCE HOUSES (2)		
ABC ASSET FINANCE	Z\$750 Million	1,311,410,689
TRUSTFIN	Z\$750 Million	813,097,974
DISCOUNT HOUSES (5)		
DISCOUNT COMPANY OF ZIM	Z\$500 Million	1,045,798,559
HIGHVELD DISCOUNT HOUSE	Z\$500 Million	851,326,229
INTERMARKET DISCOUNT HOUSE	Z\$500 Million	1,172,708,739
NDH	Z\$500 Million	819,282,761
TETRAD	Z\$500 Million	862,643,392

- Capital position is as at 31 August 2006.

ASSET MANAGER	REQUIRED CAPITAL	DECLARED CAPITAL 30/09/2006
ABC ASSET MANAGEMENT P/L*	Z\$100 Million	159,049,396
ALPHA ASSET MANAGEMENT	Z\$100 Million	121,487,236
EQUIVEST NOMINEES	Z\$100 Million	519,284,504
FIDELITY ASSET MANAGEMENT	Z\$100 Million	141,671,083
IMARA ASSET MANAGEMENT	Z\$100 Million	350,191,519
KINGDOM ASSET MANAGEMENT *	Z\$100 Million	288,281,104
LEGEND ASSET MANAGEMENT	Z\$100 Million	107,189,797
PREMIER ASSET MANAGEMENT	Z\$100 Million	194,623,879
PURPOSE ASSET MANAGEMENT	Z\$100 Million	493,720,449
TFS MANAGEMENT COMPANY P/L *	Z\$100 Million	191,917,776
MBCA CAPITAL MANAGEMENT	Z\$100 Million	136,136,322
SYFRETS ASSET MANAGEMENT *	Z\$100 Million	261,630,000
TN ASSET MANAGEMENT	Z\$100 Million	308,817,581
INFINITY ASSET MANAGEMENT	Z\$100 Million	264,632,856
OLD MUTUAL ASSET MANAGERS	Z\$100 Million	249,537,585
CBZ ASSET MANAGEMENT	Z\$100 Million	1,780,734,546
ZIMNAT ASSET MANAGERS *	Z\$100 Million	164,375,157

** Capital position is as at 31 August 2006.*

8.2 The period between now and December 2006, will see the Central Bank concentrating effort on verification of

the declared amounts and stern action will be taken against an institution that will be found wanting in this regard.

8.3 To this end, we remind banks that the Central Bank does not have an appetite for Curatorships, which means that any institution in breach of the regulatory requirements on capital adequacy, asset quality, management and board deficiency, earnings deficit, liability mis-match and general compliance shortfalls of any nature will go straight into liquidation.

8.4 This stance is borne from our previous approach which tried to nurse ailing institutions into perpetuity, via unwarranted curatorships.

9. CASH WITHDRAWAL LIMITS

9.1 We wish to remind the banking public of the cash withdrawal limits as follows:

- i. Individuals: \$100 000,00

ii. Corporates: \$750 000,00

- 9.2 In the case of demonstrable need for cash, such as requirements by farmers to pay wages in cash beyond the above set limits, banking institutions are advised to only issue such cash against auditable wage schedules showing national identification numbers of beneficiaries and farm owners and physical address.
- 9.3 All high value cash handlers in urban areas (those transacting at least \$ 5 million a day), are required to bank their money on a daily basis. These companies are expected to keep records of daily cash/cheque transactions and bank deposits thereof.
- 9.4 Special arrangements are being made for institutions like Grain Marketing Board (GMB), Cotton Company of Zimbabwe (Cottco) and others who make large pay-outs to their clients to reconfigure their operations so that they use cash free modes of payment.

- 9.5 Such arrangements will be made public once all the consultations are finalized.
- 9.6 All other companies who exchange cheques for cash in order to by-pass the cash limits are committing an offence and will be dealt with accordingly for breaching National Payments cash limits.
- 9.7 We wish to emphasize that if banking players allow themselves to be used as conduits for breach of these limits, they would have themselves to blame when stern corrective measures are taken.
- 9.8 We are aware of certain corporates and individuals who are in the habit of withdrawing cash up to these limits on a daily basis from multiple banks for speculative purposes.
- 9.9 This habit must stop and banking institutions must report all suspicious high frequency cash withdrawal transactions to the Reserve Bank of Zimbabwe's Anti-

money Laundering and Promotion of Bank Use Division.

9.10 Penalties for any such violations, including complicity with offenders, will result in the review of an institution's banking licence.

9.11 Banking institutions are also advised that, with immediate effect their **compliance record**, discipline and uprightness in observing the country's laws and Central Bank regulations including anti-money laundering and anti-terrorism laws will be used as a score card for the **annual reviews** of their banking licences.

9.12 Banks are, therefore, expected to take fiduciary and negligence responsibility over money laundering and speculative activities of their clients under the "know-your-client" principles.

9.13 The onus will be on the banks to prove that they were genuinely unaware of their client's illegal activities and

source of wealth or purpose to which frequent cash withdrawals and bank cash deposits were going to or coming from, respectively.

9.14 Any form of pressure or threat which is brought upon bank managers by their clients or enticements to break the cash transaction rules must be reported to the Central Bank and the account concerned frozen until such freeze has been cleared by the Reserve Bank of Zimbabwe and proper client/bank relations and procedures re-established.

9.15 This means that, with immediate effect, all banking institutions will be required to obtain a Certificate of Compliance annually, before 31 January of each year.

9.16 The public will be advised through a notice to be published within a fortnight of 31 January and external auditors of banks will be required to include the **compliance clearance certificate** in their audit reports to the public.

9.17 No banking institution's accounts will be complete or published without this certificate which guarantees the institution's continued existence for business in Zimbabwe.

9.18 The Registrar of Banking Institutions, reserves the right to withdraw, cancel, or temporarily suspend the operation of any bank that is in serious violation of the relevant statutory or regulatory provisions caused by any of its branches or in conjunction with associated companies such as Holding, Asset Management and other institutions.

10. SUNRISE 2

10.1 The market is informed that the Reserve Bank is at an advanced stage in the preparation for Sunrise 2.

10.2 The recent distribution of vehicles to various ministries should not fool the banking public into thinking that the matter is taking a back seat.

10.3 Phases of currency reforms will be implemented for as long as would be required until the job has been done.

10.4 With the experience the Central Bank has had from Sunrise 1, future phases will be done at short notices.

11. FOREIGN CURRENCY MOBILISATION

11.1 Considerable efforts continue to be made in the mobilisation of foreign exchange which has resulted in the procurement of adequate agricultural inputs for the coming season.

11.2 We urge those charged with logistical responsibilities to ensure that these inputs are fairly and timeously distributed to the needy throughout the country as the weather waits for no farmer.

EXPORT INCENTIVES

11.3 With immediate effect, the Reserve Bank has adopted a targeted export incentives scheme, based on the well-proven 80/20 rule.

11.4 The targeted support framework will thus primarily focus on those 20% of exporters who collectively account for at least 80% of the country's overall foreign exchange inflows.

11.5 This approach which will be implemented without necessarily relegating the other exporters will, however, be based on actual performance or agreed projected export performance and guaranteed surrender to the Monetary Authorities outside the mandatory 25%.

11.6 Access of the facility will be in the form of working capital support at favourable interest rates depending on values of currency delivered or promised to be delivered.

11.7 Tobacco and other agricultural players are already catered for via ASPEF and other delivery bonuses and retentions.

FUEL AND ELECTRICITY: Energy Stabilization Fund

11.8 The country's energy sector requires urgent redress so as to support productive activities.

11.9 Fuel, for instance, remains inadequate for everyone, particularly for leisure requirements, though there is enough for critical elements of the economy, such as agriculture.

11.10 Because of the absolute necessity to guarantee electricity and fuel availability, we should ensure that the country has adequate fuel and power.

11.11 In this regard, it is expected that 10% of all exports shall be directed into an Energy Sector Stabilization Fund whose modalities are being worked out and will be unveiled to the market in due course.

11.12 To ensure accountability and transparency, the Energy Sector Stabilisation Fund will be under the control of an entity comprising the Bankers Association of Zimbabwe, NOCZIM, the Ministry of Energy and the Reserve Bank of Zimbabwe.

11.13 In view of the disparity in the fuel and electricity prices in relation to the cost procurement and with a view to ensuring a minimum of breakeven pricing status within these utilities. The Central Bank undertakes to engage its Principals in Government with a view to encouraging the adoption of market and

consumer sensitive, economic and self sustaining pricing models

12 MONEY TRANSFER AGENCIES (MTA)

12.1 With immediate effect, all MTA licenses are cancelled. All local accounts for these entities should be closed forthwith.

12.2 This withdrawal has been occasioned by non-performance and defiant behaviour by most players in this sector.

12.3 The list of the MTAs are:

- i. Fredex;
- ii. POSB;
- iii. Stanchart;
- iv. NMB Bank;
- v. TransAfrik;
- vi. Dollarway;
- vii. CABS;

- viii. Stanbic;
- ix. ZIMPOST;
- x. I and F;
- xi. Pacific;
- xii. Banfords;
- xiii. Currency King (Kingdom);
- xiv. CBZ;
- xv. Parlovan; and
- xvi. Interfin.

12.4 Please note that where MTA's are linked to banks, this is not a cancellation of their bankers' licences or authorized dealership.

12.5 Existing contractual arrangements with Zimbabweans in the diaspora shall be dealt with on a case by case basis.

12.6 Existing contractual arrangements between these MTAs and Zimbabweans in the diaspora shall be dealt with on a case by case basis.

12.7 In the case of any aggrieved party seeking to appeal for the continued legal holding of above licences, such appeals will only be entertained and licence(s) reinstated on the basis of strict performance and delivery targets.

12.8 Such window of appeal remains open until 31 October, 2006 but for the time-being, the public are advised that those licences are no longer valid from the date of this announcement.

12.9 Stakeholders are, therefore, advised to deal with authorized dealers only, that is, commercial and merchant banks, as well as Homelink.

13. GOLD DEALERS AND OTHER SMUGGLERS

13.1 It is known that gold dealers and other smugglers of precious metals have chosen to use the black market

fuel and DFI routes as channels to wash into the economy, proceeds of their illicit behaviors.

13.2 The appropriate arm of the law will soon catch up with them.

13.3 Fuel dealers and service stations are urged to “know-their-suppliers-well” first, like bankers are required to invoke the “know-your-customer” well concept at all times.

14 GOLD PRODUCTION

14.1 Over the past 12 months, performance in the gold sector has been below expectations, notwithstanding the positive developments on international gold prices and the increased FCA retention for large scale producers.

14.2 In the case of some large scale producers, gold deliveries to the Central Bank have continued to fall, even when their consumption of electricity and imported inputs has remained high.

14.3 It is for this reason that with immediate effect, the Reserve Bank has put in place a system of intricate precious minerals audits which will be conducted on-site at each mine by well trained and experienced experts.

SUPPORT TO SMALL SCALE GOLD PRODUCERS

14.4 Unlike large-scale producers who can now keep 75% of their proceeds in foreign currency accounts (FCAs), small scale gold producers are paid in local currency for 100% of their deliveries.

14.5 Against this background, the Reserve Bank has, with immediate effect, introduced a tailor-made support framework that caters for small-scale gold producers with the following features:

THE SUPPORT FRAMEWORK

- (a) A cost build-up model for the average small scale producer has been adopted, which would track production costs per gram delivered;

- (b) Over and above production costs, each small-scale gold producer will be paid a cost plus 30% margin support price per gram; and
- (c) Periodically the cost plus support price will be reviewed to reflect developments on the ground.

14.6 Consistent with this framework, with immediate effect, the support price for small-scale producers has been reviewed to **Z\$16000 per gram.**

14.7 This price level is expected to restore viability to the small-scale miners, who are significant contributors to the country's foreign exchange earnings.

END

DR. G. GONO

GOVERNOR

RESERVE BANK OF ZIMBABWE

9 OCTOBER 2006