



NATIONAL ECONOMIC CONSULTATIVE FORUM

**2024 MID-TERM MONETARY POLICY REVIEW
STATEMENT SYNOPSIS**

1.0 INTRODUCTION

- 1.1 On 30 August 2024, the Governor of the Reserve Bank of Zimbabwe, Dr. J. Mushayavanhu announced the 2024 Mid-Term Monetary Policy Review Statement (MPS) under the theme ***"Consolidating Currency Stability to Sustain Low Inflation and a Stable Exchange Rate"***.
- 1.2 The review MPS sought to evaluate the performance and effectiveness of the monetary policy measures outlined in the April 2024 Monetary Policy Statement. This review MPS also pronounced the monetary policy stance to be pursued by the Reserve Bank in the next six-month period (July-December 2024).

2.0 Domestic Monetary and Economic Developments

- 2.1 The review MPS notes that relative currency stability has been achieved since the introduction of the ZiG currency and recalibrated monetary framework on 5 April 2024. Inflation has been controlled, with ZiG month-on-month inflation stabilizing between -2.4% and 1.4% for May to August 2024, respectively. The exchange rate has remained stable, supported by a 9.5% rise in foreign currency receipts in the first half of the year, which has strengthened the country's external sector, maintaining a current account surplus for the sixth consecutive year.
- 2.2 The adoption of ZiG has been widespread as public acceptance of the currency grew from 61% in April 2024 to 91% by June 2024, as reported by an online perception survey conducted by the Reserve Bank. The Reserve Bank has ensured a steady supply of ZiG notes and coins, including the introduction of swipe facility for ZiG at Homelink and cash kiosks at bus termini to improve accessibility, especially for the commuting public.
- 2.3 Economic activity has remained robust, notwithstanding the projected slowdown in economic growth from 5.3% in 2023 to 2% in 2024, reflecting the impact of the El Nino-induced drought conditions.
- 2.4 The banking sector remains stable, with high capital adequacy and liquidity ratios well above regulatory thresholds. By June 2024, 72.01% of total loans were directed to the productive sectors, with interest rates between 24% and 35%. The ZiG loan-to-deposit ratio at about 52.51% in June 2024 has also been contained well below the international thresholds of less than 70%, consistent with the tight monetary policy stance being pursued by the Reserve Bank.
- 2.5 The aggregated digital payments transaction values for the six months ending 30 June 2024 were on an upward trajectory, increasing by a monthly average of 33%, whilst volumes remained static. Following the introduction of ZiG, the

usage of the new currency has increased, resulting in a shift in the Real-Time Gross Settlement (RTGS) values ratio between the USD and local currency to 61:39.

- 2.6 The Liquidity Management Committee comprising the Ministry of Finance, Economic Development and Investment Promotion and the Reserve Bank was reconstituted to effectively manage liquidity in the economy. The Committee meets every week to assess the level of liquidity in the market and determine the necessary level of intervention by way of mopping excess liquidity in the economy.
- 2.7 The Reserve Bank established a Monetary Policy Implementation, Monitoring and Evaluation Committee which keeps track of the key indicators to promptly identify emerging risks and ensure timely response by the Reserve Bank. The MPIMECO developed a Governor's Dashboard which helps to provide early and daily warning signals on key monetary policy and financial sector developments and occasion appropriate and timely application of risk mitigation/management measures by the Central Bank. The Reserve Bank will in due course publish, on a weekly basis, some of the high-frequency indicators as a forward guidance to the market on monetary policy implementation and its effects on currency and general macroeconomic stability.

3.0 MONETARY POLICY MEASURES

- 3.1 The Reserve Bank will take forward the following monetary policy stance to entrench currency stability.
- 3.1.1 Monetary Framework:** The Reserve Bank will continue to use a hybrid monetary anchor with exchange rate targeting to maintain currency stability. Reserve money growth will align with asset growth.
- 3.1.2 Interbank Foreign Exchange Market:** The Reserve Bank will maintain liquidity through its intervention by using 50% of surrender export proceeds to meet genuine demand.
- 3.1.3 Cash Availability:** More ZiG notes and small denominations will be injected to enhance cash availability, particularly in rural and informal sectors. This involves expanding initiatives such as the Homelink Swipe for ZiG kiosks and related arrangements to other provinces, towns, and business centres to increase the wide usage of ZiG.
- 3.1.4 Interest Rate Policy:** The Bank rate remains at 20%, with a tight policy stance to sustain financial and inflation stability. Corresponding interest rate corridor will be maintained at 11-25%.
- 3.1.5 Statutory Reserves:** The statutory reserve ratios for call and demand deposits will remain at 15% for local currency and 20% for foreign currency, while savings and time deposits hold at 5% for both currencies.

3.1.6 Bank Charges: The Reserve Bank has made a call for banks that are yet to align their systems to ensure that individual bank accounts with a conservative daily balance of US\$100 and below (or ZiG equivalent) for a period of up to 30 days are exempted from monthly bank maintenance or service charges do so immediately. In addition, bank charges for accounts with daily balances below US\$100 (or ZiG equivalent) will be exempt for MSMEs from 1 September 2024. Electronic transactions below US\$10 will also be exempt from charges to promote digital payments.

3.1.7 Enforcement of Pricing in ZiG: The multicurrency system remains in place, with an emphasis on settling domestic transactions in either ZiG or foreign currency.

3.1.8 Refinement of the Non-Negotiable Certificates of Deposits (NNCDs) for Outstanding Export Surrender and Auction Backlog Obligations: All outstanding payments for foreign exchange purchased by Treasury under the 25% surrender requirements and all outstanding auction allotments during the transition period from ZWL to ZiG which were supposed to be issued with NNCDs for one (1) year and 24 months, respectively have been refined from NNCDs to tradable Government bonds.

3.1.9 Liquidity Management: The Reserve Bank will continue using non-negotiable certificates of deposits (NNCDs) to manage liquidity and tighten the redemption of Gold Backed Digital Tokens. There will be no new issuances of these instruments.

4.0 OUTLOOK

4.1 The Reserve Bank is committed to ***"walk the talk"*** and ensure continued full backing of ZiG reserve money with gold, precious metals and foreign currency reserves. In this regard, inflation is expected to be below 5% by year-end, supported by strong merchandise exports projected to reach US\$7.33 billion. The banking sector is expected to continue to exhibit strong performance, ensuring macroeconomic stability.

5.0 NECF VIEWS

5.1 The 2024 Mid-Term Monetary Policy Review Statement, along with the accompanying monetary policy measures, is a commendable step by the Reserve Bank towards promoting macroeconomic stability. This strategic intervention aligns with the country's broader goals outlined in the National Development Strategy 1 (NDS1) and Vision 2030, aimed at transforming the country into an upper middle-income society. The Review Statement lays a solid foundation for sustained economic growth and development, supporting national aspirations for prosperity and stability.

- 5.2 The measures to increase the circulation of ZiG, particularly through injecting small denominations and expanding access via **Homelink Swipe** for ZiG kiosks, are commendable for promoting **financial inclusion**, especially in rural and informal sectors.
- 5.3 The **tight monetary stance**, with positive interest rates (maintaining the policy rate at 20% and the interest rate corridor at 11-25%), reflects a focus on maintaining price stability, as argued by the **Taylor Rule**, which advocates for adjusting interest rates in response to inflation deviations from the target. This policy consistency is expected to stabilize inflation expectations and support recovery, though there is a risk that maintaining such high rates might suppress credit growth in productive sectors, limiting broader economic recovery.
- 5.4 Additionally, the continued use of **non-negotiable certificates of deposits (NNCDs)** to manage liquidity is prudent for avoiding excess money supply while simultaneously allowing flexibility in foreign exchange markets. The strategy to redeem **Gold-Backed Digital Tokens (GBDT)** and **gold coins** in the customer's currency of choice reinforces confidence in the monetary system by linking reserve money to tangible assets such as gold.
- 5.5 The removal of bank charges for transactions below US\$10 and the extension of zero bank maintenance charges for balances below US\$100 to MSMEs are important steps toward promoting **digital financial inclusion**. Lowering transaction costs encourages higher usage of digital payments.
- 5.6 The enforcement of a multi-currency environment, allowing transactions in ZiG and foreign currency, is a pragmatic response to the country's **high degree of dollarization**. Theoretical literature on currency substitution suggests that the success of a local currency in such environments depends on building trust in its value and functionality as a medium of exchange. As the ZiG continues to gain acceptance, it could gradually replace the heavy reliance on the US dollar, allowing the country more policy autonomy. However, the transition needs to be managed carefully to avoid price distortions and speculative attacks on the local currency.

6.0 NECF RECOMMENDATIONS

- 6.1 The following recommendations are being proposed:

- 6.1.1 Gradual Reduction in Interest Rates:** While the current tight monetary policy is necessary for stability, a gradual reduction in interest rates should be considered to stimulate borrowing in productive sectors. This could help mitigate the projected growth slowdown without triggering inflationary pressures.

- 6.1.2 Expand Financial Literacy Programs:** To sustain the increasing acceptance of ZiG, the Reserve Bank should expand **financial literacy campaigns** across the country. Educating the public about the benefits of digital transactions and savings in local currency will enhance the currency's credibility and reduce reliance on foreign currencies.
- 6.1.3 Investment in Agricultural Resilience:** Given the El Niño-induced drought's impact on economic growth, it is critical that the government invests in climate-resilient agricultural technologies. This would safeguard economic output in the face of adverse climatic conditions, providing a more stable foundation for monetary policy.
- 6.1.4 Strengthening Foreign Currency Reserves:** The country's foreign currency reserves, currently standing at USD 385 million, provide minimal import cover, far below the generally accepted benchmark of three months' worth of imports. This insufficiency undermines confidence in the ZiG and exposes the economy to external shocks and currency volatility. Comparatively, Zambia's reserves of USD 4 billion offer greater protection against external risks, supporting currency stability and investor confidence. The country's low reserves limit the Reserve Bank's ability to intervene in the currency market, exacerbating exchange rate fluctuations and inflationary pressures. To restore confidence in the financial system and strengthen the local currency, the Reserve Bank must accelerate the accumulation of foreign reserves. This can be achieved through policies aimed at boosting exports, attracting foreign direct investment (FDI), and increasing remittance inflows, providing the necessary financial buffer to manage external shocks and stabilize the currency.
- 6.1.5 Refining the Willing Buyer, Willing Seller Mechanism:** Although the refined Willing Buyer, Willing Seller mechanism has maintained relative exchange rate stability since the introduction of the ZiG in April, it has faced criticism from stakeholders. Many participants struggle to access foreign currency, as banks are primarily purchasing rather than selling it. This suggests that the exchange rate is not entirely market-driven and remains controlled. Further refinements are needed to ensure broader inclusivity and a more transparent system.
- 6.1.6 Strengthening the Monetary Policy Committee:** The creation of the Monetary Policy Implementation, Monitoring, and Evaluation Committee is a strategic move intended to enhance oversight of monetary indicators. However, this could signal to business and financial stakeholders a lack of confidence in the current Monetary Policy Committee (MPC). A more effective approach would involve reinforcing the operations of the existing MPC and expanding its mandate to include monitoring and evaluation functions. This would enhance confidence in the monetary policy framework without undermining the credibility of the current committee.

7.0 Conclusion

- 7.1 The 2024 Mid-Term Monetary Policy Review presents a well-rounded framework aimed at reinforcing currency stability and controlling inflation amidst a challenging economic environment. The Reserve Bank's strategic focus on maintaining the reserve backing of ZiG with gold and foreign currency reserves has been central to this stability. However, to fully capitalize on these gains, the monetary authorities must adopt a more flexible approach, particularly with respect to gradually reducing interest rates to spur borrowing in productive sectors and further refining liquidity management practices.
- 7.2 Additionally, increasing financial inclusion through expanded access to ZiG in rural and informal sectors, coupled with robust financial literacy programs, will strengthen public confidence in the local currency. Investments in climate-resilient agriculture will also be critical in safeguarding economic output, ensuring that monetary policy remains aligned with broader national development objectives.
- 7.3 Going forward, a stronger emphasis on rebuilding foreign currency reserves, refining the Willing Buyer, Willing Seller mechanism, and bolstering the operations of the MPC will be essential in reinforcing confidence in the monetary policy framework. The Reserve Bank's continued commitment to these measures will play a pivotal role in driving the country towards sustained economic growth, as envisioned in NDS 1 and Vision 2030.

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