



2024 MONETARY POLICY STATEMENT SYNOPSIS

1.0 INTRODUCTION

- 1.1 The newly appointed Governor of the Reserve Bank of Zimbabwe, Dr. J. Mushayavanhu presented the much-awaited 2024 Monetary Policy Statement (MPS) on 05 April 2024 under the theme “**Back to Basics: Recalibrating the Monetary Policy Framework to Anchor Currency, Exchange Rate and Price Stability**”.
- 1.2 The MPS came on the backdrop of high inflation, as well as exchange rate and currency instability. The overarching goal of the MPS was therefore, to strengthen the national currency, stabilising the exchange rate, enhancing policy credibility, bolstering market confidence, and supporting a sustainable macroeconomic environment in line with Vision 2030 and National Development Strategy 1 (NDS1) aspirations.
- 1.3 The MPS sought to address strategic issues that included currency and exchange rate stability; financial stability; efficient and sustainable money supply growth; foreign exchange mobilisation and reserve accumulation; and promoting increased demand for the local currency.
- 1.4 In terms of Inflation outlook, the Reserve Bank projects that inflation expectations should be firmly anchored towards the observed trend of domestic USD inflation, which is expected to be below 1% month-on-month and between 2 and 5% annually.

2.0 MONETARY POLICY STRATEGIC FOCUS AREAS AND MEASURES

2.1 Adoption of Market Determined Exchange Rate System

- 2.1.1 To ensure currency and exchange rate stability, the Reserve Bank has replaced the auction system by a refined interbank foreign exchange market under a willing-buyer-willing-seller (WBWS) trading arrangement where trading liquidity will be provided using the 25% surrender proceeds from exports.
- 2.1.2 Following this development, all outstanding auction allotments will be converted into ZiG and issued out as non-interest-bearing non-negotiable certificates of deposits (NNCDs) at the current interbank exchange rate, with a maturity of 24 months at an interest rate of 7.5% per annum to allow beneficiaries to maintain the value of their proceeds.

- 2.1.3 All outstanding payments for foreign exchange purchased by Treasury under the 25% surrender requirement will be converted to a ZiG denominated instrument with a tenor of one (1) year at an interest rate of 7.5% per annum.

2.2 Efficient and Optimal Money Supply Management

- 2.2.1 The Reserve Bank has introduced the following measures to ensure that price and exchange rate stability is maintained:
- a. Reserve money growth will be contained within the limits of growth in gold and
 - b. foreign currency reserves
 - c. Tight monetary policy stance will be maintained to ensure sustainability of the monetary anchor.
 - d. Quasi-Fiscal Activities will be discontinued, and interest rates will be aligned with positive real rates and exchange rate expectations.
 - e. Statutory limits on Reserve Bank Lending to the Government will be strictly adhered to.

2.3 Introduction of New Structured Currency

- 2.3.1 The Reserve Bank has introduced a structured currency called Zimbabwe Gold (ZiG) to Zimbabwean dollar, which is pegged to a specific exchange rate or currency basket and backed by a bundle of foreign exchange assets (potentially including gold).
- 2.3.2 The structured currency is anchored by a composite basket of foreign currency and precious metals (mainly gold) held as reserves for this purpose by the Reserve Bank.

Foreign currency balances will be accumulated through market purchases from the 25% surrender requirements as well as sale of some precious metals received as royalties.

As at 5 April 2024, the Reserve Bank's reserve asset holdings comprised of USD 100 million in cash and 2,522 kg of gold (worth US\$185 million) totalling to US\$285 million to back the entire local currency component of reserve money which currently stands at ZW\$2.6 trillion requiring full (100%) cover of gold and cash reserves amounting to US\$90 million.

- 2.3.3 The starting exchange rate is USD/ZiG 13.5616 determined by the prevailing closing interbank exchange rate as at 5 April 2024 and the London PM Fix price of gold as at 4 April 2024.
- 2.3.4 In terms of foreign exchange liquidity management, foreign currency retention thresholds remain standardised at 75% across all sectors except for small-scale gold producers.
- 2.3.5 On interest rate policy, the Reserve Bank recalibrated the Bank policy rate from 130% per annum to 20% per annum consistent with the new monetary policy

framework. Minimum savings and time deposits interest rates on ZiG are set at 9% and 7.5% below the Bank deposit facility rate of 12.5%, respectively. Minimum interest rates on FCA deposits remain unchanged at 1% and 2.5% for savings and time deposits, respectively.

- 2.3.6 Under open market operations (OMO), the Reserve Bank indicated that they will be carried out to ensure that reserve money will always be fully backed by a corresponding composite basket of reserve assets comprising precious minerals (predominantly gold) and foreign currency balances.
- 2.3.7 Regarding statutory reserve requirements, for demand deposits in ZiG and savings and time deposits in ZiG they shall remain standardised at 15% and 5%, respectively. For foreign currency demand deposits, they have been increased from 15% to 20% with effect from 8 April 2024 while for foreign currency time and savings deposits, they remain at current level of 5%.
- 2.3.8 In order to alleviate bank charges, the Reserve Bank indicated that banks will not charge monthly bank maintenance or service charges for individual bank accounts with a conservative daily balance of US\$100 and below or its equivalent in ZiG for a period of up to 30 days.

2.4 Promoting Increased Demand for the Local Currency

- 2.4.1 In order to foster demand for the local currency, Government will make it mandatory for companies to settle at least 50% of their tax obligations on Quarterly Payments Dates (QPDs) in ZiG.
- 2.4.2 The Reserve Bank noted that with immediate effect, prices for goods and services shall be converted using the conversion rate and thereafter quoted in ZiG, for the transacting public's convenience. In addition, all entities other than banks and mobile network operators (MNOs) were given seven days from 5 April 2024 to have completed the configuration of their systems to conduct business in ZiG.

3.0 NECF VIEWS AND RECOMMENDATIONS

- 3.1 The new monetary policy framework is a welcome development as it ensures a sound and stable macroeconomic environment conducive for business and growth. What remains key is the implementation of the proposed measures by the Reserve Bank.
- 3.2 The introduction of the new structured currency, ZiG, is highly welcome. However, accumulation of adequate stocks of gold and other reserves will enable the Reserve Bank to foster confidence in the ZiG. Strategies such as putting a threshold on gold exports, enforcing the surrender of royalties and minimising leakages may suffice. Transparency (open reserves audits) and policy consistency will also be key in building confidence in the new currency. The independent audits on the availability of reserves will be key in convincing the market that indeed there is gold at the Reserve Bank to back up the ZiG.

Moreover, an annual audit may be too far for starters; bi-annual assessments may be useful in bolstering the much-needed confidence.

There is also need to address foreign exchange leakages from the economy which have always been perpetuated by unscrupulous elements in the business sector and individuals as well as cartels in the economy fuelling the parallel market. To this end, a monetary compliance taskforce that may be comprising of Financial Intelligence Unit, the Zimbabwe Anti-Corruption Commission (ZACC) and Treasury may be needed to address these rogue elements in the economy affecting foreign exchange mobilisation and reserves accumulation.

The other enemy of currency accumulation is loss of confidence in the banking sector which has caused a lot of citizens to keep their cash holdings outside the banking system making it difficult to account for and leverage such inflows as the diaspora inflows. The move to the exempt low balances in accounts from paying monthly fees will go a long way to encourage the banking culture and build confidence therefrom by consistent stability of the sector and policy.

It is essential for state institutions to adopt the ZiG currency and ensure that all payments for public goods, services, and taxes are made using the ZiG. Additionally, to maintain public trust, the Reserve Bank must adhere to its commitment to keep the money supply governed by the preferred reserves and avoid making unbacked growth of money supply.

To ensure acceptability of the ZiG in the economy, the notes should be issued without delays to avoid overdependence of the USD in conducting market transactions which is already at a high rate of over 85% in the economy.

To further support the exchange rate stabilisation efforts by the Reserve Bank, Treasury may need to accelerate the Debt Clearance Arrangements.

- 3.3 The starting exchange rate of the USD/ZiG makes the currency stronger than the currencies of the country's major trading partners in the Region specifically South Africa. This calls for the need to put in place supportive policy measures that enhance the competitiveness of the country's exports. This will enhance the country's capacity to generate foreign currency needed to anchor the ZiG.
- 3.4 In terms of financial sector stability, the Reserve Bank needs to strengthen its surveillance capacity to effectively monitor compliance to reserve requirements and avoid bank failures. Financial sector stability anchors on transparency, good governance, good accounting, and audit functions as well as maintaining good credit assets quality. The economy has maintained an average of below 2.5% in Non-Performing Loans and this is a positive by international standards. The banking sector has had some challenges in reporting in terms of reporting currencies vis-vis inflation reporting where business argued that the blended inflation may not be a true reflection of the events transpiring in the economy. There has always been an outcry by business of a feedback mechanism from the local currency to the USD (compounded by the shortage of small denominations) which has tended to put pressure on the local USD inflation, a

situation not consistent with global USD inflation rates. This will need further open probing with stakeholders to maintain the current sector stability and to ensure the ZiG-USD blended inflation reporting does not cause further challenges on financial reporting.

- 3.5 The Reserve Bank may need to further widen the interest differentials to encourage savings and avoid an over-demand of currency for transactional purposes. The addressed list of currency instability drivers left out the role of excessive money supply driven primarily by the need to support agriculture inputs subsidies and funding of major infrastructure projects especially roads. The bank must stick to the No Quasi-Fiscal Activities option and Treasury should therefore look at other options to fund long term capital projects, and these may include utilising the favourable bank policy rates to accumulate capital on the markets.
- 3.6 The Reserve Bank should enhance its capability to accurately time OMO operations to effectively tackle inflationary pressures. Furthermore, it is vital for the Reserve Bank to strengthen its monitoring and analysis processes to swiftly detect inflationary factors, enabling the execution of suitable OMO instruments in a timely manner.