RESERVE BANK OF ZIMBABWE

2024 MID-TERM MONETARY POLICY REVIEW STATEMENT AT A GLANCE

Consolidating Currency Stability To Sustain Low Inflation and a Stable Exchange Rate

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30 AUGUST 2024

OVERVIEW

1. The Mid-Term Monetary Policy Review Statement comes when the country has been experiencing relative currency stability following the introduction of the structured currency, ZiG, and the recalibrated monetary policy framework on 5 April 2024.
2. Inflationary pressures have been contained as reflected by the month-on-month ZiG inflation of -2.4%, 0.03%, -0.1% and 1.4% for May, June July and August 2024, respectively. The exchange rate has also remained stable since 5 April 2024.
3. The price and exchange rate stability have been supported by the country's robust foreign currency receipts, which increased by 9.5% in the first half of 2024, compared to the same period in 2023.
4. The strong foreign currency receipts continued to support the country's balance of payments position, which is anticipated to record a current account surplus for the sixth consecutive year since 2019. A strong external sector position will in turn foster sustained exchange rate stability.
5. The financial sector and national payment systems have remained safe and sound to support seamless financial transactions in the economy.
6. The favourable monetary and financial conditions have created a conducive environment for sustained economic growth which is projected to be 2% in 2024.
7. The Reserve Bank's monetary policy stance and the ZiG currency have, therefore, served the country well in fostering price and exchange rate stability and engendering confidence in the economy.
8. The Mid-term Monetary Policy Review Statement, therefore, aims to consolidate the positive developments in the economy and mitigate emerging risks to currency stability.

POLICY CONTEXT

Global Economic Developments and Outlook

9. The global economy is expected to grow by 3.2% in 2024 and 3.3% in 2025. The anticipated global economic growth rates are way below the historical average of 3.8%, reflecting the tight monetary conditions as economies fight to reduce inflation.

10. Nonetheless, economic recovery is still on track, driven by firming world trade, spurred by strong exports from Asia, particularly in the technology sector.

11. Global inflation is projected to decline from 8.7% in 2022 to 5.8% in 2024, due to tighter monetary policies and lower international commodity prices.

12. Global risks are likely to emanate from intensifying geopolitical tensions and the possibility of higher interest rates due to heightened inflation.

Domestic Economic Conditions

13. 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.

14. The exchange rate has been relatively stable, thus, reducing the pass-through effect to domestic inflation. Reflecting exchange rate stability, inflation has been relatively stable with month-on-month inflation at less than 1% consecutively for three months from April to July 2024.

15. The exchange rate and inflation stability have provided a strong impetus for boosting the country's growth potential in the outlook period.

External sector Developments

16. The country's external sector position has remained favourable notwithstanding the anticipated slowdown in the economy in 2024.

17. Foreign currency receipts increased by about 10% to US$6.15 billion between January and June 2024, compared to US$5.61 billion over the same period in 2023, driven by the growth in export receipts and diaspora remittances.

18. Reflecting the observed improvement in foreign currency receipts, estimates indicate that the current account balance had a surplus of US$19.2 million in the first half of 2024, compared to a deficit of US$13.8 million in the comparable period in 2023.

Key Macroeconomic and Financial Indicators

Economic Indicators

	2023	2024
Global GDP Growth	3.1%	3.2%
Zimbabwe GDP Growth	5.3%	2%
Current A/C Balance (US$ million)	133.9	44.5
Non-Performing Loans (NPLs) as of June	3.6%	2.0%
	Jan-June 2023	**Jan-June 2024**
Forex Receipts (US$ billion)	5.61	6.15
Remittances (US$ billion)	1.4	1.6

Inflation Figures

	May	June	July	August
ZiG Month on-Month	-2.4%	0.03%	-0.1%	1.4%
USD Month on-Month	0.1%	-0.3%	-0.1%	0.2%
USD Year-on-Year	3.5%	3.8%	3.6%	3.7%

Reconstitution of the Liquidity Management Committee

19. The Liquidity Management Committee comprising the Ministry of Finance and the Reserve Bank was reconstituted to effectively manage liquidity in the economy.
20. 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.

Establishment of a Monetary Policy Implementation, Monitoring, and Evaluation Committee (MPIMECO)

21. 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.
22. 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.
23. 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.

Refinements of Monetary Policy Based on Stakeholder Inputs

24. The Reserve Bank assessed the stakeholder concerns which also helped in the refinement of the monetary policy measures.
25. Accordingly, 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.

Currency Acceptance and Stability

26. The ZiG currency was fully embraced by businesses and accepted by the transacting public for both transactional and savings (store of value) purposes.
27. Indications from the online perception survey conducted by the Reserve Bank since mid-April 2024 across the 10 provinces of Zimbabwe, show a progressive improvement in the acceptance of ZiG from 61% in April to 80% in May and 91% in June 2024.
28. Reflecting a stable exchange rate, inflationary pressures have dissipated as shown by the month-on-month ZiG inflation of -2.4%, 0.03%, and -0.1% for May, June, and July 2024, respectively.
29. Cash availability also continues to improve as the Reserve Bank injects more notes and coins into the market.
30. The Reserve Bank has already released ZiG notes and coins into the market, in the denominations of ZiG 1, ZiG 2, ZiG 5, ZiG10, and ZiG 20.
31. The Reserve Bank also introduced the swipe facility for ZiG at Homelink and cash kiosks at bus termini to increase outreach and access to cash, especially by the commuting public.

Financial Conditions

32. The banking sector has been able to comfortably support the economy's productive sectors by providing working capital. As of 30 June 2024, productive sector loans accounted for 72.01% of total loans.
33. Interest rates have also remained closer to the desired corridor, with banks charging between 24% and 35%.
34. 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.

Financial and Payment Systems Stability

35. The banking sector remains stable, safe, and sound and has demonstrated the capacity to withstand shocks emanating from the dynamic operating environment.
36. The banking sector's performance remained strong, with sufficient capital and liquidity buffers, while profitability, asset quality, and liquidity metrics remained sturdy and stable.
37. The banking sector average capital adequacy ratio and tier 1 ratios were 40.13% and 46.15%, respectively, well above the prescribed minimum capital adequacy ratios of 12% and tier 1 ratio of 8%, respectively.
38. The country's National Payment System has also remained safe and stable thus allowing a seamless transition into the new monetary system.
39. 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.
40. 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.

MONETARY POLICY STANCE

41. The stability in the exchange rate has greatly assisted in anchoring inflation expectations, given the strong pass-through of the exchange rate depreciation to inflation. In this context, the Reserve Bank is happy with the stability of the exchange rate thus far.

42. In this regard, the Reserve Bank will take forward the following monetary policy stance to entrench currency stability.

A. Monetary Policy Framework

43. The Reserve Bank will continue to use a hybrid monetary anchor with the exchange rate as an intermediate target.
44. To sustain stability, the Reserve Bank will ensure that reserve money remains under check and only increases in line with increases in reserve assets that back it.

B. Interbank Foreign Exchange Market

45. The Reserve Bank has been strategically intervening in the market using 50% of the surrender export proceeds to ensure that bonafide and genuine pipeline demand from banks is satisfied.
46. The Reserve Bank will continue to participate in the foreign exchange market to liquefy the foreign exchange market with 50% of the 25% export surrender to ensure operational flexibility within the supply and demand dynamics.

C. Cash Availability

47. The Reserve Bank is satisfied by the general acceptance and uptake of ZiG in the economy. To ensure increased circulation of ZiG in the economy the following measures will be undertaken:

    i. Increase the injection of cash in line with demand while preserving the ongoing initiatives to entrench the country's cash-lite economy;
    ii. Continue to inject more small ZiG denominations into the economy to ease the problem of change and eliminate the rounding up of prices by businesses;

iii. Work to smoothen the glitches that have been observed in the distribution of cash and ensure that ZiG reaches the remote and rural areas and the informal markets to effectively foster financial inclusion; and

iv. Expand 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.

D. Interest Rate Policy

48. The Reserve Bank will continue to apply Open Market Operations (OMO) to ensure that interest rates are around the benchmark interest rate as determined by the Monetary Policy Committee (MPC) from time to time.

49. Given the stability of inflation and exchange rate, the Bank policy rate and the corresponding interest rate corridor have been maintained at 20% and 11-25%, respectively.

50. The monetary policy stance remains tight, given the positive interest rates and is consistent with maintaining financial stability, stable inflation, and supporting economic recovery.

E. Statutory Reserves

51. To ensure continued financial sector stability, the statutory reserves for call and demand deposits for local currency and foreign currency will be maintained at 15% and 20%, respectively.

52. The statutory reserve requirements for savings and time deposits remain at 5% for both currencies.

F. Bank Charges

Exemption of Bank Charges

53. The Reserve Bank has noted that most banks have stopped charging 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.
54. The Reserve Bank is calling on the banks that are yet to align their systems to do so immediately.
55. The exemption for monthly bank maintenance or service charges for accounts with a conservative daily balance of US$100 or below shall be extended to Micro, Small and Medium Enterprises (MSMEs) with effect from 1 September 2024.

Promoting Digital Transactions

56. To further promote the use of electronic means of payment, the Reserve Bank is with effect from 1 September 2024, exempt electronic transactions of less than US$10 or the ZiG equivalent from bank charges. This measure will remove the cost of using electronic means of payments by according such transactions a near-cash characteristic, consistent with the Reserve Bank's drive towards digital cash.

G. Enforcement of Pricing in ZiG

57. The Reserve Bank wishes to reiterate that the country is in a multicurrency environment and all domestic transactions must be settled in either ZiG or foreign currency, except in cases where there are explicit exemptions to sell in US dollars. In this context, all economic agents are expected to adhere to the multicurrency system in place.

H. Refinement of the Non-Negotiable Certificates of Deposits (NNCDs) for Outstanding Export Surrender and Auction Backlog Obligations

58. 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.

I. Liquidity Management

59. The Reserve Bank will in the transitional period continue to use non-negotiable certificates of deposits (NNCDs) to manage liquidity.
60. The Reserve Bank will, however, tighten the liquidation rules to ensure that the monetary policy stance remains tight enough to engender price and financial stability.
61. The Reserve Bank will continue to redeem the existing Gold Backed Digital Tokens (GBDT) and gold coins in the customer's currency of choice. There will be no new issuances of these instruments.

ECONOMIC OUTLOOK

62. The Reserve Bank remains strongly committed to 'walking the talk' of prudent money supply management and ensuring that the monetary policy stance is well-calibrated and engenders the desirable conditions of currency and exchange rate stability in the economy.
63. As a result of adherence to the key policy imperatives, the economy is envisaged to realise the expected annualised inflation path of less than 5% by year-end.

64. Merchandise exports are projected to close the year at US$7 330.4 million, a 1.8% increase from 2023, whilst merchandise imports are likely to end the year at US$8 999.4 million, a 4% increase compared to 2023.
65. The country's current account balance is expected to slightly narrow from a surplus of US$133.9 million in 2023 to a surplus of US$44.5 million in 2024.
66. The favourable balance of payments will support exchange rate stability going forward.
67. The long-run trends in financial soundness indicators suggest that the banking sector's performance is expected to remain strong, with sufficient capital and liquidity buffers, while profitability, asset quality and liquidity metrics will also remain stable.

KEY TAKEAWAYS

68. The recalibrated monetary policy framework has brought currency stability which is critical for fostering certainty and predictability in monetary and financial affairs.
69. The currency stability has also boosted confidence in the ZiG currency as indicated by the significant improvement in perceptions on its acceptance. In this context, the Reserve Bank remains steadfast in fulfilling its statutory mandate of achieving and maintaining currency, price, and financial stability.

70. The Reserve Bank through the MPC will continue to communicate its monetary policy stance to provide the appropriate guidance to economic agents, consistent with its core values of transparency and accountability to Government and the public.

THANK YOU AND GOD BLESS ZIMBABWE

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