The 2023 Mid-term Monetary Policy Statement at a Glance

STAYING THE COURSE TO PRICE STABILITY

The policy measures put in place by the Bank and Government have re-oriented the country onto the right track to macroeconomic stability. As such, the Bank is staying the course to price stability by maintaining the current tight monetary policy stance during the six months to December 2023, with fine tuning on open market operations to ensure attainment of the full benefits of monetary and fiscal consolidation to sustainably anchor inflation and exchange rate expectations.

Global Economic Developments and Outlook

- Global GDP is forecast to slow down from 3.5% in 2022 to 3.0% in 2023, driven mainly by reduced growth in advanced economies.
- Faltering global growth prospects continue to drive softening of global prices of key commodities.
- The adverse global developments have spill-over effects on the domestic economy through trade, imported inflation, and financial linkages.

Domestic Economic Conditions

- The domestic economic prospects remain robust with economic growth projected at 5.3% in 2023, despite the volatility in the exchange rate during the second quarter of 2023.
- The bold measures put in place by both the Government and the Bank have stabilised the exchange rate and domestic consumer prices.
- Annual inflation which rose sharply in June 2023 to 175.8% reversed considerably to 101.3% in July 2023. It is expected to progressively decline in the near term as the monetary and fiscal policy measures put in place in June 2023 take full effect.
- The liberalisation of the foreign exchange market has brought sanity and calmness to the domestic foreign exchange markets, with the parallel exchange rate premium now below 20%. The wholesale auction system has also strengthened the interbank for FX and is central to the determination of the market exchange rate.

- The external sector position remains favourable, with the country expected to register a current account surplus for the fifth consecutive year since 2019.

- The banking sector and national payments system remain resilient, safe and sound to support the envisaged growth.

Key Macroeconomic and Financial Statistics

	2022	2023
Projected Global GDP growth (%)	3.5	3.0
Projected Zimbabwe GDP (%)	6.5	5.3
Current Account Balance (US$ million)	305	275
Half-Year Forex Receipts (US$ billion)	5.4	5.6
Half-year Forex Payments (US$ billion)	3.8	4.4
Cumulative Auction allotments (US$ billion)	3.7	4.1
Proportion of Banking Sector Deposits USD % ZW$ %	 64 36	 80 20
Loan to deposit ratio (%)	56	55
Half-Year Diaspora Remittances (US$ million)	797	919
Cumulative Gold coins and Gold-Backed Digital Tokens (ZW$ billion)	20	97

NEW MONETARY POLICY MEASURES

Interest rates

- The Bank has maintained the current policy rates which will continue to be reviewed in line with inflation developments.

i. The Bank policy rate is currently at 150%;
ii. The medium-term accommodation lending rate for productive sectors including individuals and MSMEs is currently at 75%;
iii. The Bank policy rate remains the minimum lending rate for all banks; and
iv. The deposit interest rates on savings and time deposits are currently at 30% and 50% per annum, respectively.

Non-negotiable Certificate of Deposits

- The Bank shall strengthen the operation of the Non-negotiable Certificate of Deposits (NNCDs) which are being used to mop excess local currency liquidity through the introduction of NNCDs with maturity profiles of 7,14, 21 and 30 days.

Statutory Reserve Requirements

- The Statutory reserve requirements have been maintained at the current rates as follows:

i. Foreign currency demand and call deposits, 10%;
ii. Foreign currency time and savings deposits, 5%;
iii. Domestic currency demand and call deposits, 15%; and
iv. Domestic currency time deposits, 5%.

Auction System

- The foreign currency auction system remains a critical source of foreign currency for the economy. As such, the Bank shall continue with the current auction system in place and further liberalise the use of forex from the wholesale auction system by allowing banks to meet bonafide small foreign payment requirements for their customers, including individuals and Micro, Small and Medium Enterprises (MSMEs) in order to enhance financial inclusion.

Other Monetary Policy Measures

Localising Tobacco Production Financing

- There will be no restrictions on the use of locally sourced funds to support the production of tobacco in the country with immediate effect.

Regularisation of Tourism Agreements with External Partners

- The Bank is granting a moratorium to all tourism operators who have unregistered tourism agreements and unapproved offshore accounts to regularise the agreements and offshore foreign currency accounts before 31 August 2023

Gold coins and gold-backed digital tokens

- The Bank will undertake an awareness campaign in all the national provinces in preparation for Phase II (Transactional Phase) of the Gold-Backed Digital Tokens (GBDT), which is at an advanced stage. The transactional phase will complement the use of both ZW$ and US dollar in the domestic economy and run under the code or name ZiG, for Zimbabwe Gold.

Inflation Outlook and Forward Guidance on Interest Rates

- Monthly inflation is expected to continue to moderate during the second half of the year to pre-May 2023 levels of less than 3%.

- Annual inflation is also expected to continue to decline and end the year between 60% and 70%.

Policy rates are expected to be aligned with the positive inflation developments in the economy.

MONETARY POLICY ANCHOR

- The Bank will continue to:
  i. Use interest rates to regulate the cost of money and aggregate demand conditions to achieve the desired inflation levels.

  ii. Make use of Open Market Operations (OMO) that include NNCDs, gold coins, GBDT and the wholesale auction system to stabilise the exchange rate.

The key message from the 2023 Mid-Term Monetary Policy Statement

- The Bank is maintaining the current monetary policy stance and fine-tuning the open market operations to ensure the full benefits of the policy measures put in place by the Bank and Government to sustainably anchor exchange rate and inflation expectations.

- The economic fundamentals remain strong as attested by robust GDP growth, healthy BOP, fiscal sustainability, improved foreign currency receipts and continued monetary restraint.

- The strong macroeconomic fundamentals, coupled with a strong commitment by the Bank and Government to stay the course of monetary and fiscal consolidation will durably sustain the current stability of domestic consumer prices and the exchange rate.

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