



UPDATE ON RESERVE MONEY

As at 4th June 2020

Introduction

1. Growth in reserve money over the first quarter of 2020 was well within the Monetary Targeting Framework set by the Bank's Monetary Policy Committee (MPC). The MPC set a limit of 15% on reserve money growth, consistent with a monthly inflation target of 5%.
2. Reserve money was ZW\$13.39 billion as at 4th of June 2020, a decline of ZW\$437.66 million, from ZW\$13.82 billion recorded in the week ending 29th of May 2020.
3. The decrease in reserve money over the week was reflected in declines of ZW\$435.60 million and ZW\$65.78 million in RTGS balances and other deposits, respectively.
4. Partially offsetting these declines were increases of ZW\$42.25 million and ZW\$21.46 million in required reserves and currency in circulation, respectively.

Table 1: Reserve Money Developments (ZW\$ Millions)

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	Week Ending 29 May-20	Week Ending 4 June-20
Currency* in Circulation	1,077	1,137	1,217	1,309	1,341	1,456	1,478
Banking System Reserves	8,352	7,254	7,089	8,789	10,218	12,082	11,689
<i>Required (Statutory) Reserves</i>	<i>918</i>	<i>1,041</i>	<i>1,083</i>	<i>1,205</i>	<i>1,233</i>	<i>1,387</i>	<i>1,429</i>
<i>Excess Reserves (RTGS balances)</i>	<i>7,434</i>	<i>6,213</i>	<i>6,006</i>	<i>7,584</i>	<i>8,895</i>	<i>10,696</i>	<i>10,260</i>
Other Deposits@	905	851	1,082	1,616	929	286	220
Reserve Money	10,335	9,241	9,388	11,714	12,487	13,824	13,386
Memorandum Items							
Currency Issued/Reserve Money Ratio	10.4%	12.3%	13.0%	11.2%	10.7%	10.5%	11.0%
Currency/Deposits Ratio	2.7%	2.7%	2.5%	2.2%	2.1%	N/A	N/A

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	Week Ending 29 May-20	Week Ending 4 June-20
Monthly Change in RTGS Balances	38.8%	-16.4%	-3.2%	26.3%	18.5%	-1.2%	-4.1%
Monthly Change in Reserve Money	27.3%	-10.4%	1.4%	24.8%	6.6%	-1.3%	-1.2%
Government Deposits at RBZ (Stock)	1,399	3,164	3,368	2,874	3,001	2,085	2,850
Monthly Inflation	16.6%	2.2%	13.5%	26.59%	17.64%	N/A	N/A
Inter-Bank Exchange Rate	16.77	17.35	17.95	25.00	25.00	25.00	25.00

**Currency – refers to bank notes and coins issued by the Reserve Bank*

N/a – not yet available

@ Other Deposits are mainly proceeds of drawdowns from foreign currency loans which are advanced to Fidelity Printers & Refiners (FPR) to purchase gold from the gold producers. The amounts are, therefore, purely accounting entries which do not represent money creation.

Causes of Change in Reserve Money

5. Drawdowns and on-lending activities under the Mid-Term Bank Accommodation (MBA) window are within an aggregate MPC approved amount of ZW\$2.5 billion between March and May 2020, meant to augment banks' credit to the productive sectors of the economy to re-boot production so that the economy becomes self-sufficient, particularly in the wake of the COVID-19 pandemic.
6. Government deposits at the Bank declined to ZW\$2.85 billion as at week ending 4th June 2020, from its peak of ZW\$3.37 billion in February 2020. This reflects increased expenditures, which partly increases market liquidity.
7. The increase in currency issued, which was in response to the demand for currency by the transacting public, was offset by a decline in the banks' RTGS balances.

Exchange Rate and Inflation Linkages

8. Depreciation in the exchange rate, observed over the past few weeks, was largely a result of behavioral and other non-monetary factors such as negative perceptions, adverse expectations, speculative tendencies of economic agents and tracking of the Old Mutual Implied exchange rate (OMIR), which was quoted at around ZW\$140/USD over that period.
9. The depreciation was divorced from economic fundamentals, as it occurred immediately after the opening of the tobacco selling season, which is traditionally associated with stability and appreciation of the local currency. In addition, the introduction of the ZW\$10 and ZW\$20 notes did not represent increase in money supply but a substitution effect – from electronic dollars to physical notes.
10. Price determination in the economy by businesses is being established on the basis of expectations about the depreciation of the exchange rate and prices that will exist in the future. This forward pricing system or practice of front-loading anticipated exchange rates in the current prices based on fear factor, is detrimental to the economy, as it leads to self-fulfilling depreciation in the exchange rate, with negative knock-on effects on prices.

Outlook

11. In the outlook period, the Bank will continue to keep the growth levels of reserve money within thresholds that are consistent with the Monetary Targeting Framework, designed to fight inflation and exchange rate pressures.

Reserve Bank of Zimbabwe

12 June 2020