



Reviewing the Monetary Policy and Its Impact on Investment

Presentation

By

Dr K. Mlambo

Deputy Governor, Reserve Bank of Zimbabwe

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Outline

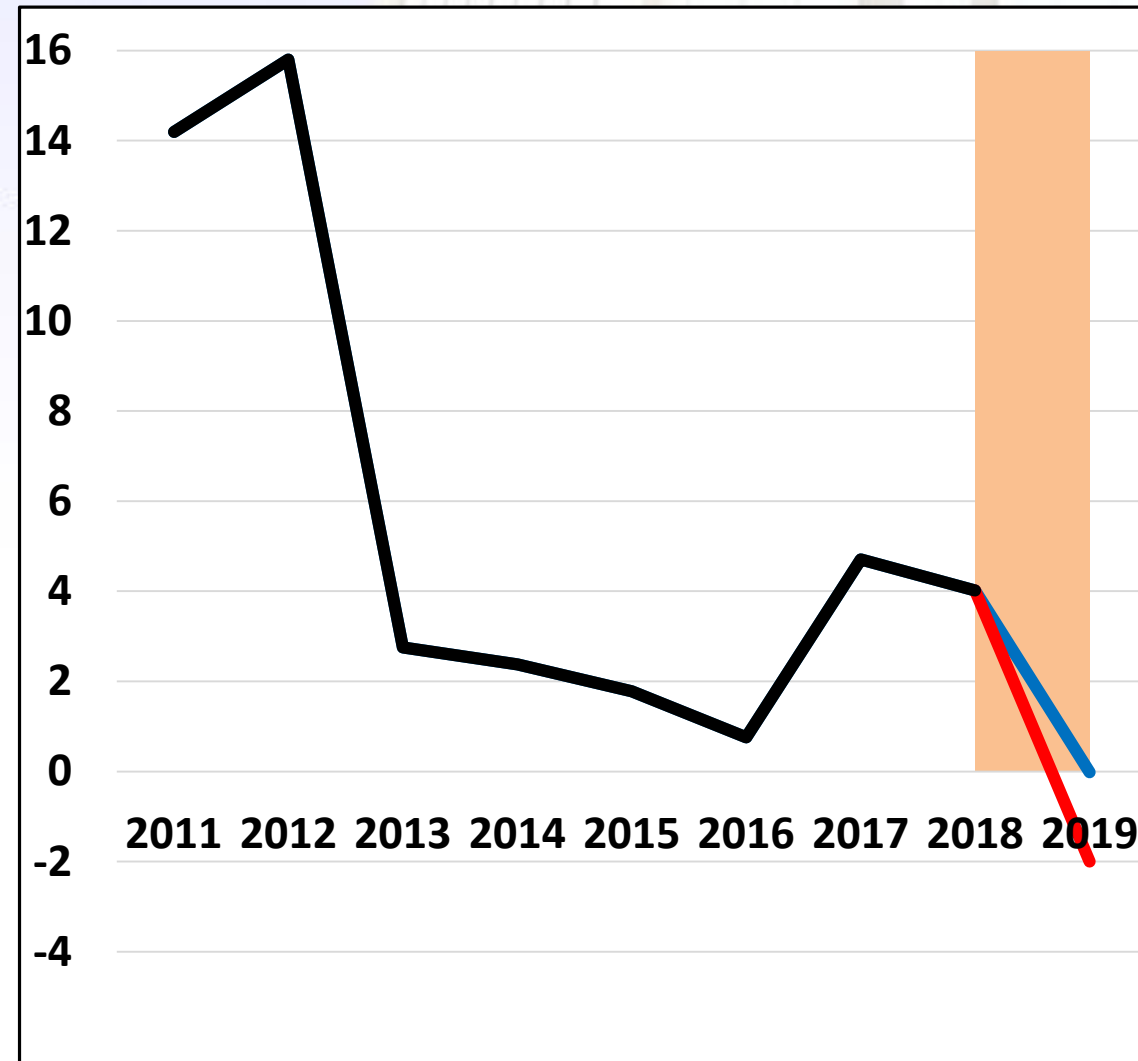
- Shifts in Macroeconomic Fundamentals since September 2018.
- Monetary Policy Objectives and Measures
- Selected Macroeconomic Developments since 20 February 2019
- Domestic Growth and Inflation Outlook
- Framework for Future Monetary Policy



Recent Changes in Macroeconomic Fundamentals after September 2018



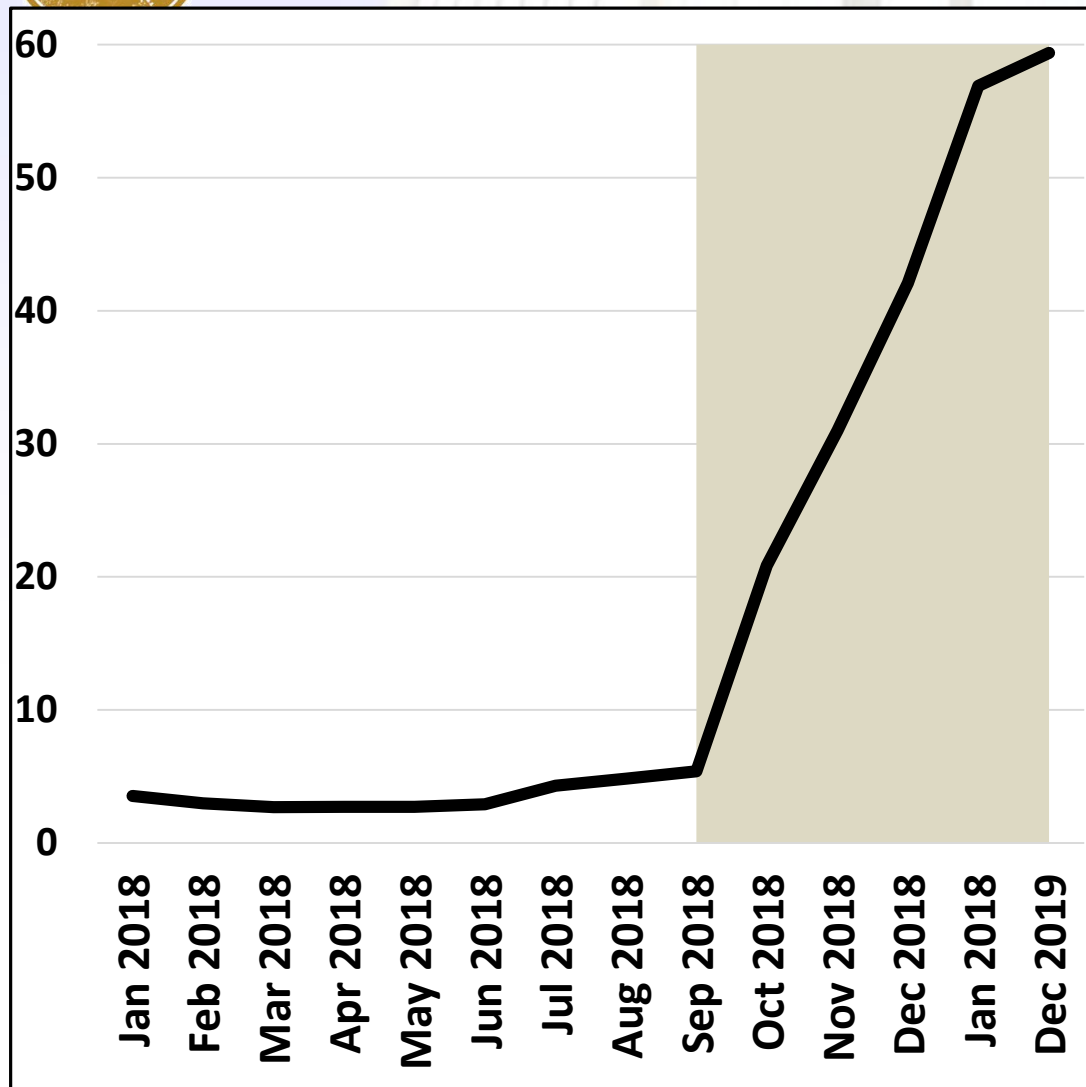
Slow down in Economic Growth



- Fundamentals shifts since Sep. 2018
- Revisions in 2019 growth projections from 3.1% to -0.2% account of:
 - i. Climate risk factors (drought & the cyclone)
 - ii. high inflation and
 - iii. Fiscal compression
- IMF also projecting (-ve) growth of **-2%** in 2019



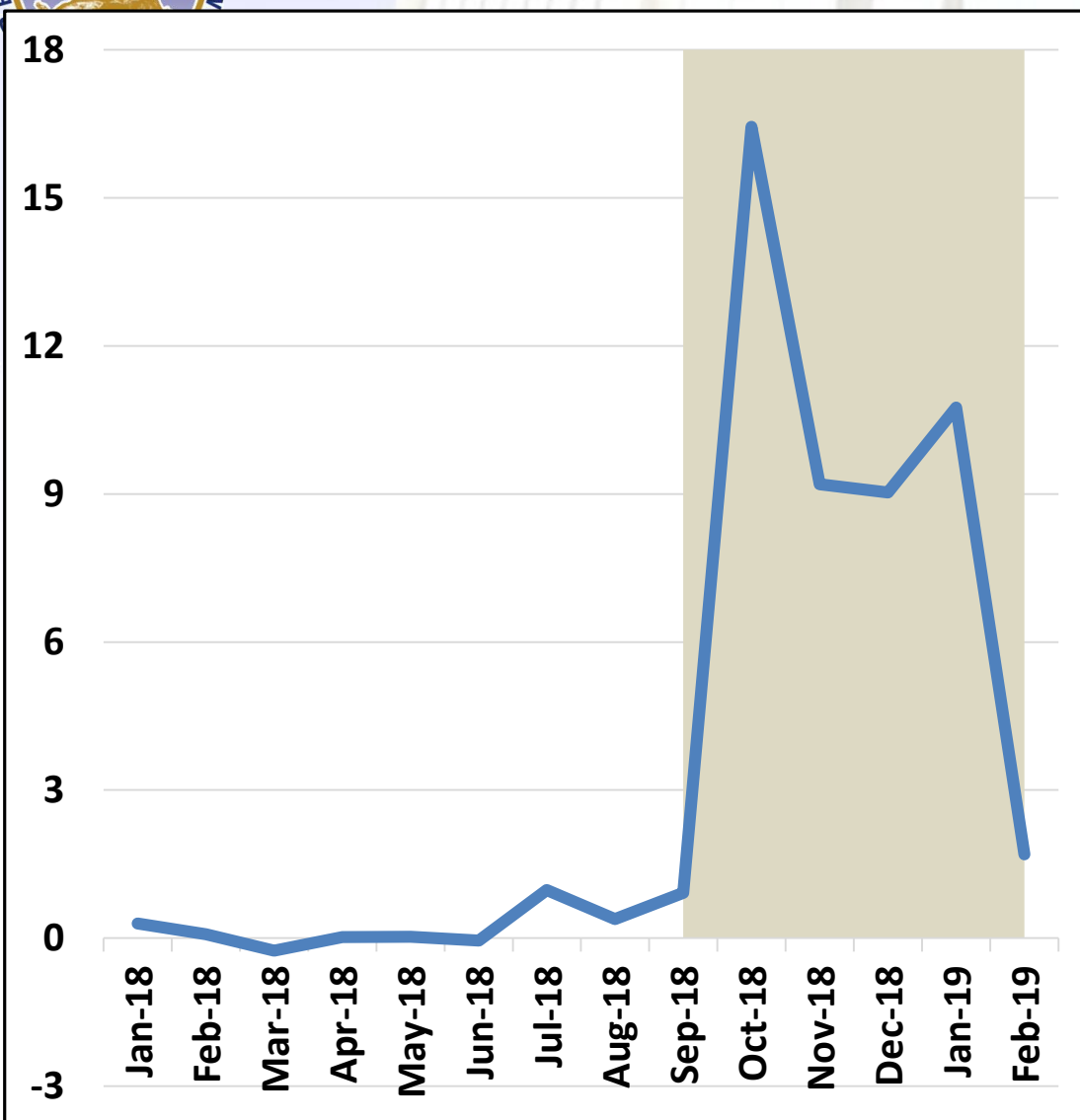
Spike in Annual Inflation (%)



- Inflation spike in Oct. 2018 leading to adverse inflation expectations.
- YoY increase inflation
Sept. 2018 → 5.3%
Oct. 2018 → 20.9%
Feb. 2019 → 59.4%
- Inflation expectations driven by BM rates



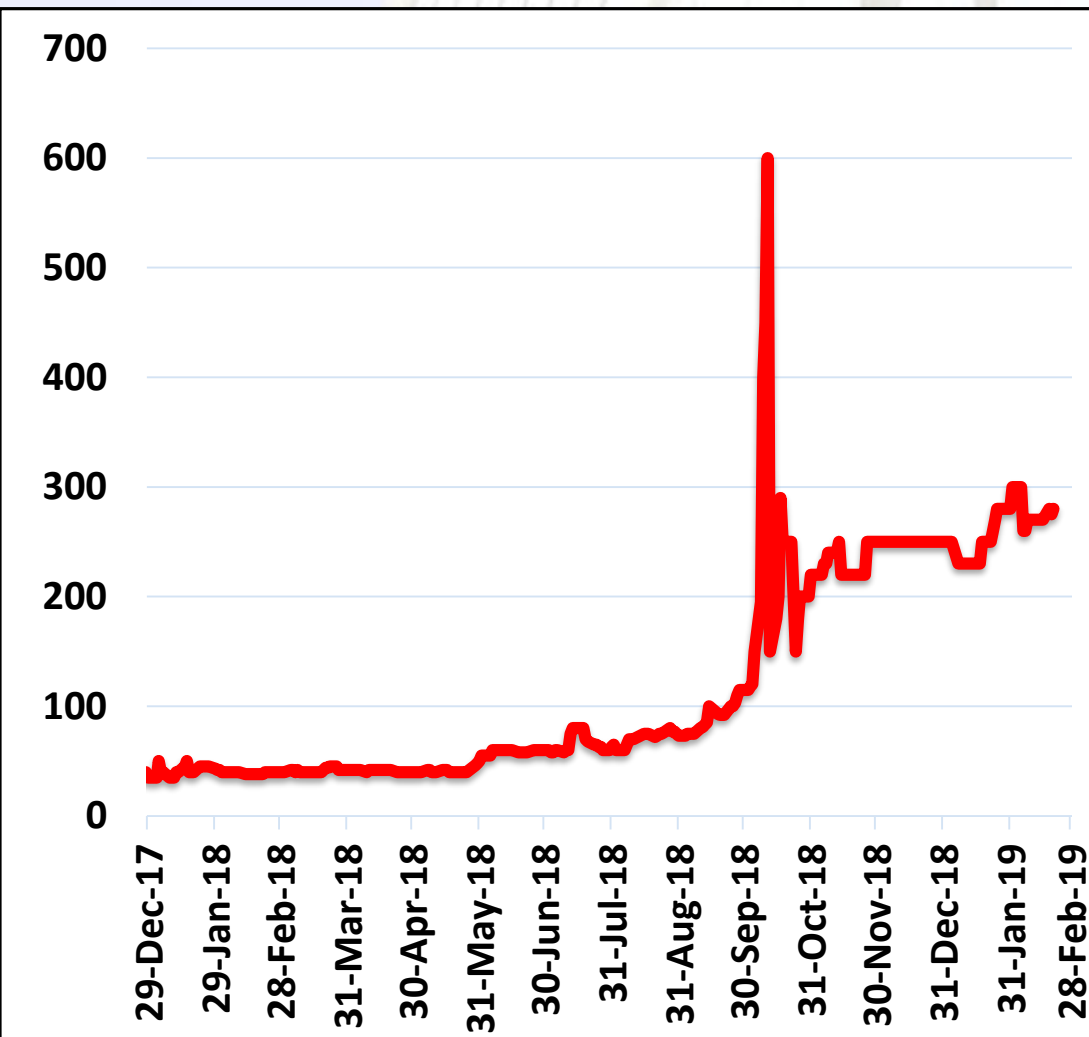
Tapering in Month-on-Month Inflation



- M-o-M inflation spike in Oct. 2018 (16.4%); and Jan 2019 (10.8%)
- M-o-M inflation declined in Feb 2019 (1.7%) due to:
 - Fiscal consolidation
 - Enhanced revenue collections
 - Weak aggregate demand.



Spike in Parallel Market for Foreign Currency ...and Persistence of Foreign Currency Scarcities



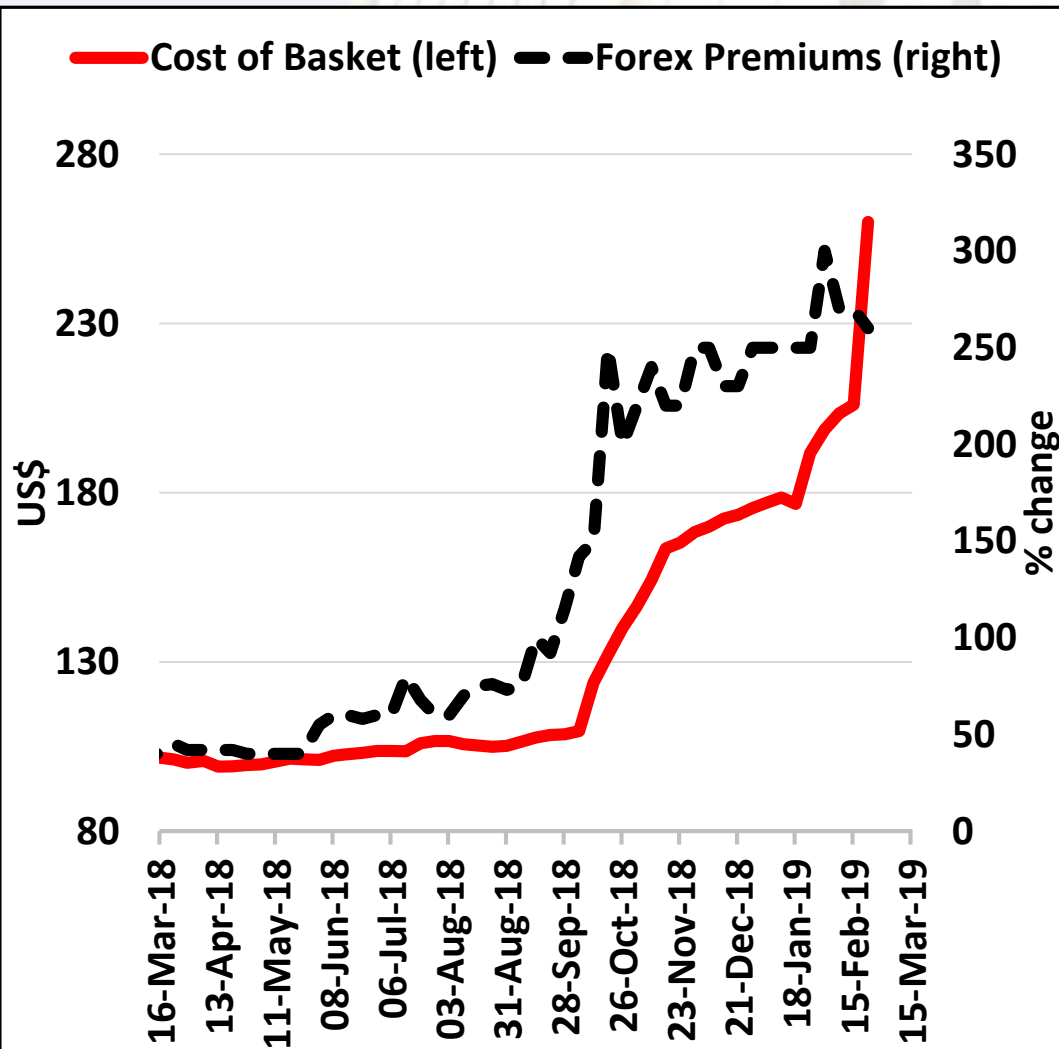
➤ Spike in Forex premiums spiked in Oct. 2018 → 600% due to:

- i. Speculative behaviour in the foreign exchange market
- ii. Persistent shortages of foreign currency

➤ Thereafter, premiums stabilised to between 200% and 300%.



Exchange Rate Premiums Driving Cost of Consumer Basket



➤ High correlation (0.92) between premiums in the parallel market and the cost of a consumer basket (sampled by an RBZ survey).



Widespread Multi-tier Pricing

- Separation of bank accounts in October 2019 intensified multi-tier pricing: for bond notes, bond coins; real time gross settlement (RTGS) balances; and USD
- 1:1 exchange rate no longer tenable: discouraging forex holders from disposing trading at the official rate.
- Pricing difficulties: RTGS and Bond Note inflation escalating whilst foreign currency prices remained largely unchanged or declined for some goods & services.



Monetary Objectives and Measures



Monetary Policy Objectives

- Objectives of the Feb. 2019 MPS::
 - i. **Value preservation** of RTGS balances, bond notes & bond coins by curbing inflation
 - ii. To allow earners of foreign currency to get a **fair value** for their foreign currency
 - iii. To **correct distortions** in the foreign currency market (1:1 not tenable)
 - iv. **Curb multi-tier pricing** (different prices for different modes of payments)
 - v. Strengthening the demand for settlement of transactions in local dollars & to preserve foreign currency for external payments.
- Other challenges the MPS sought to address include speculative pricing, loss of government revenue, valuation & accounting difficulties, asset-liability mismatches & negative investor perceptions.



Monetary Policy Measures

Establish an Interbank Market for Foreign Currency to

- ✓ To allow for trading of RTGS dollars with foreign currencies
- ✓ Exchange rate management would initially be in the form of a managed float
- ✓ Trading of RTGS dollars with foreign currency in local banks permissible for bona fide priority payments; and
- ✓ RBZ would avail seed capital to kick start foreign currency trading for local banks
- ✓ 15% of daily trades would be reserved for capital repatriation.



Monetary Policy Measures:

Increase forex availability in the interbank market

Category of Exporter	Exporter Retention (%)	Sale to RBZ (%)
Manufacturing	80	20
Large Scale Gold Producers	55	45
Small Scale Gold Producers	55	45
All other minerals	50	50
Agriculture, Horticulture	80	20
Transport and other services	80	20

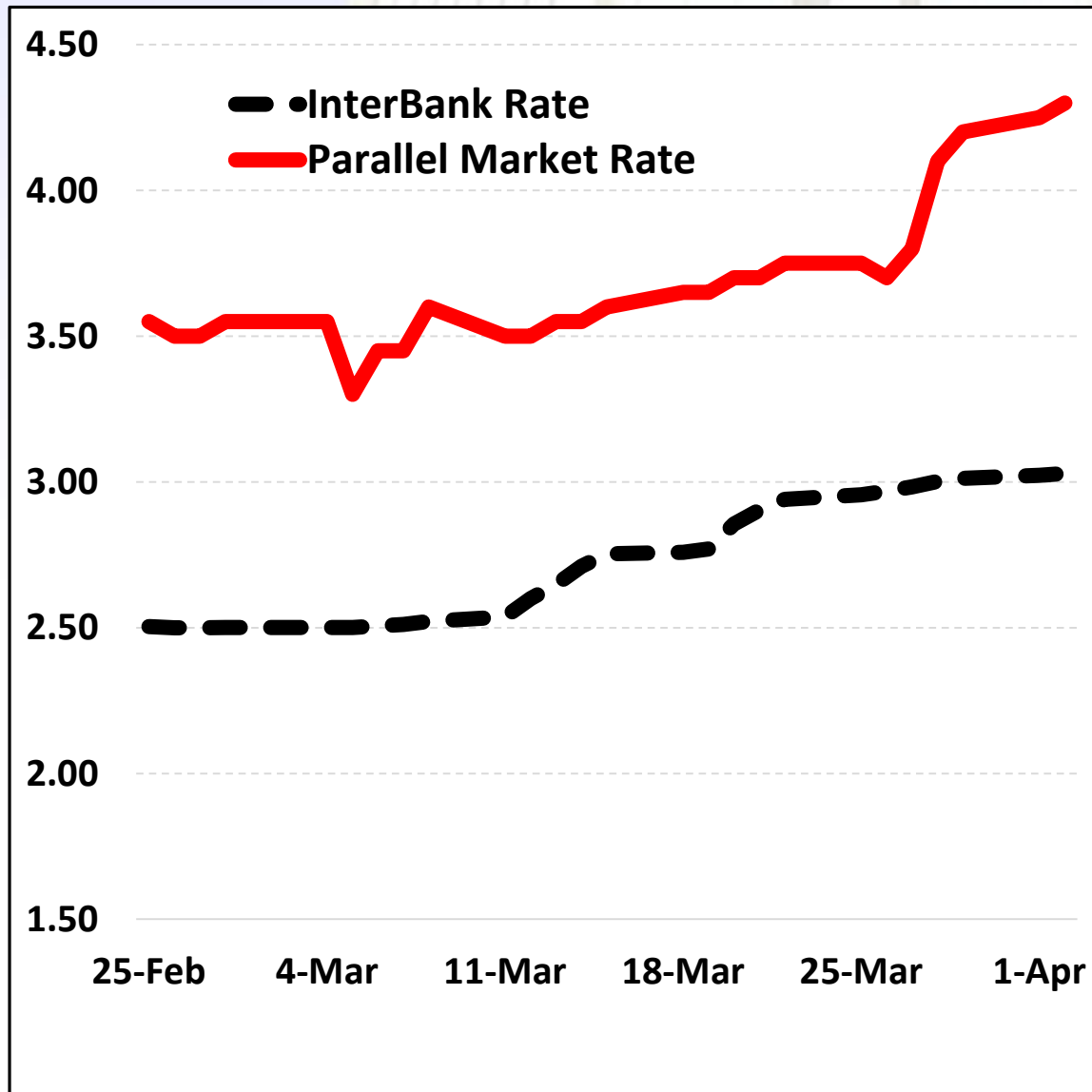
- The export retention thresholds revised to allow exporters to benefit from the inter-bank foreign currency market and to promote uninterrupted supply of forex in the interbbank.
- RBZ buys surrendered forex at the market determined exchange rate.



Selected Macroeconomic Developments since 20 February 2019



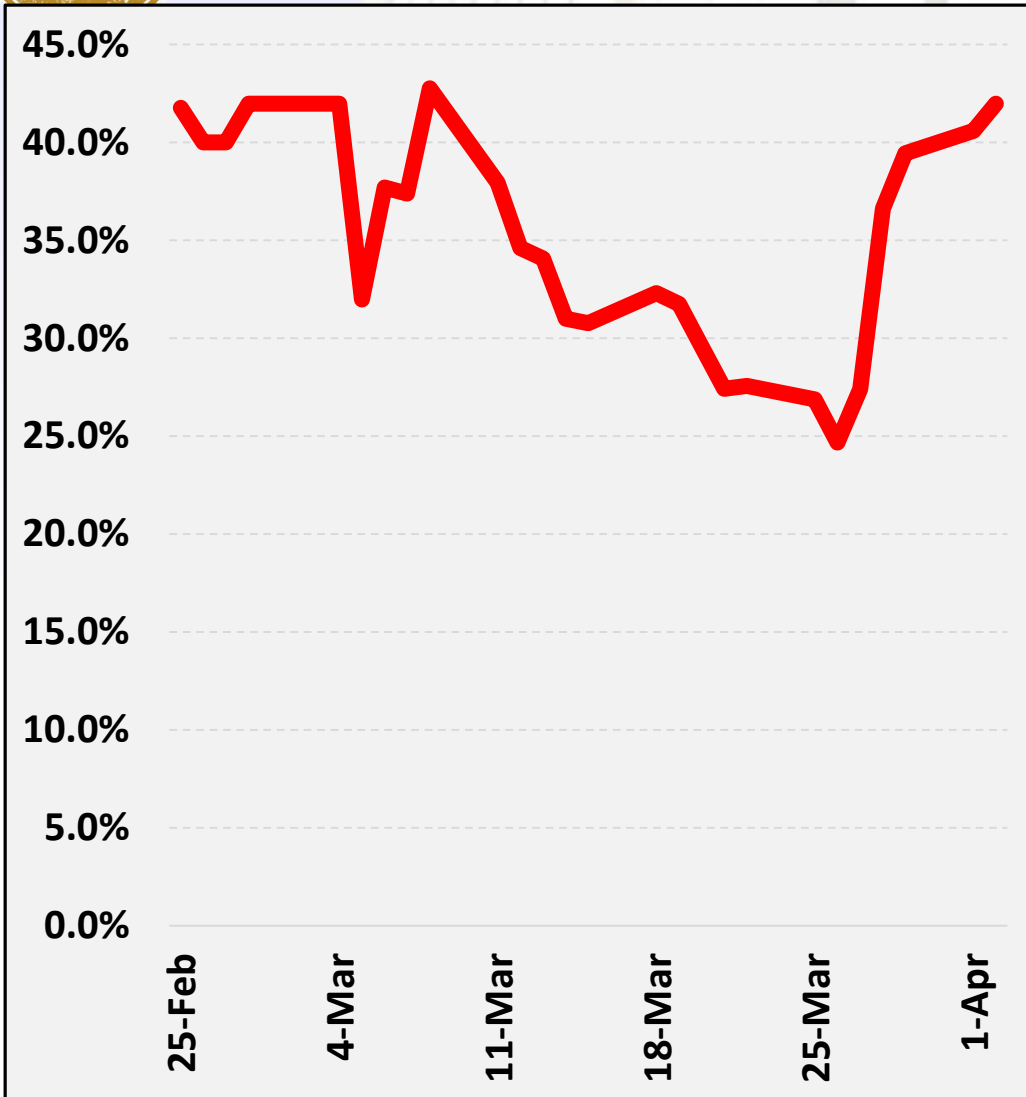
Foreign Exchange Market: Official Exchange Rate



- Initial trades started at US\$1: ZWL\$2.5
- Steady devaluation of the RTGS dollar against the USD by about 20%
- Forex shortages persisting
- Goal is to eventually unify the exchange rates in the medium term



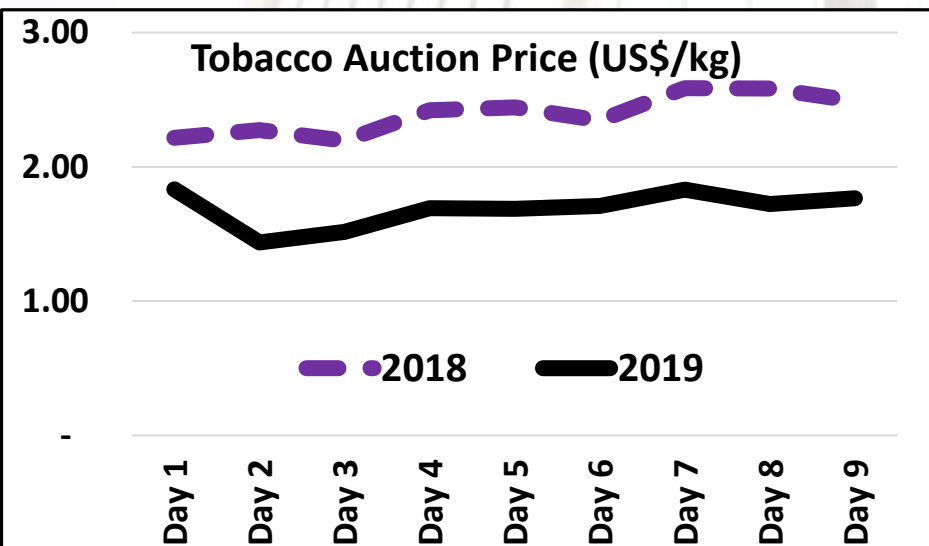
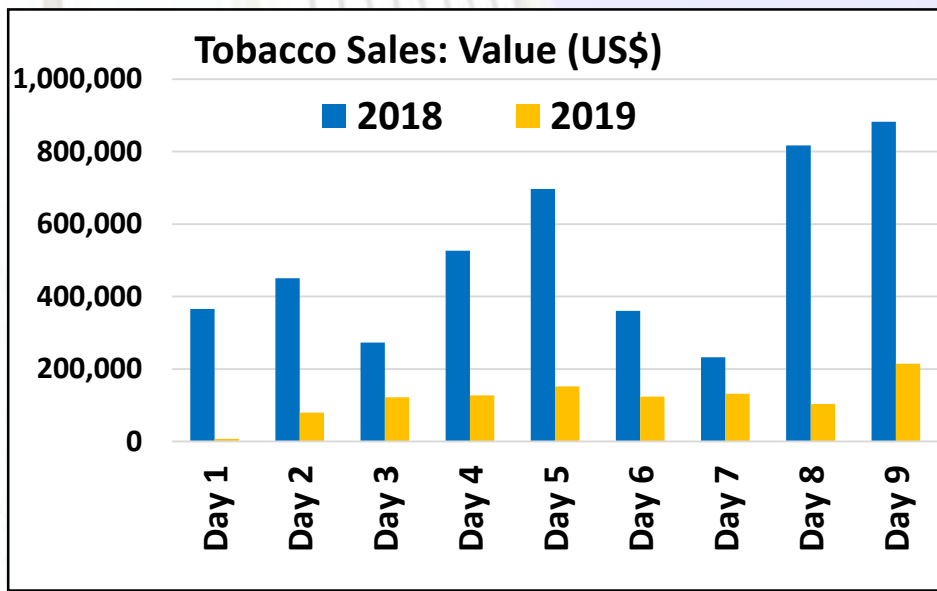
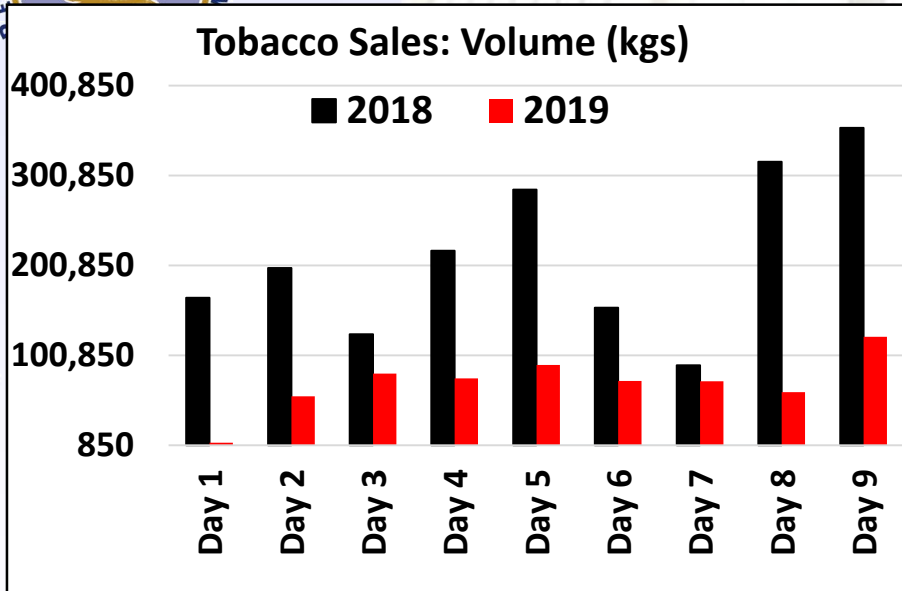
Foreign Exchange Market: Parallel Market Premiums



- ▶ The devaluation of the RTGS dollar from 1:1 to 2.5:1 curtailed the foreign currency premiums
- ▶ Foreign currency premium has averaged **35.3%** since 25 Feb. 2019 & are anticipated to remain stable in the medium to long term.
- ▶ **High exchange rate volatility can have a substantial impact investment portfolios (both in foreign & domestic currency)**



Slow start of the Tobacco Selling Season



➤ 2019 traded volumes, prices & started low but picking up.

➤ Scrapping of the 2% electronic transfer tax on all tobacco floors activities to improve trades



Inflation and Growth Outlook



Inflation Outlook

- Fiscal consolidation measures bearing fruit
 - ✓ Deceleration in money supply growth
 - ✓ stabilization of parallel exchange rates which were fuelling inflation
 - ✓ Government suspending recourse RBZ overdraft facilities

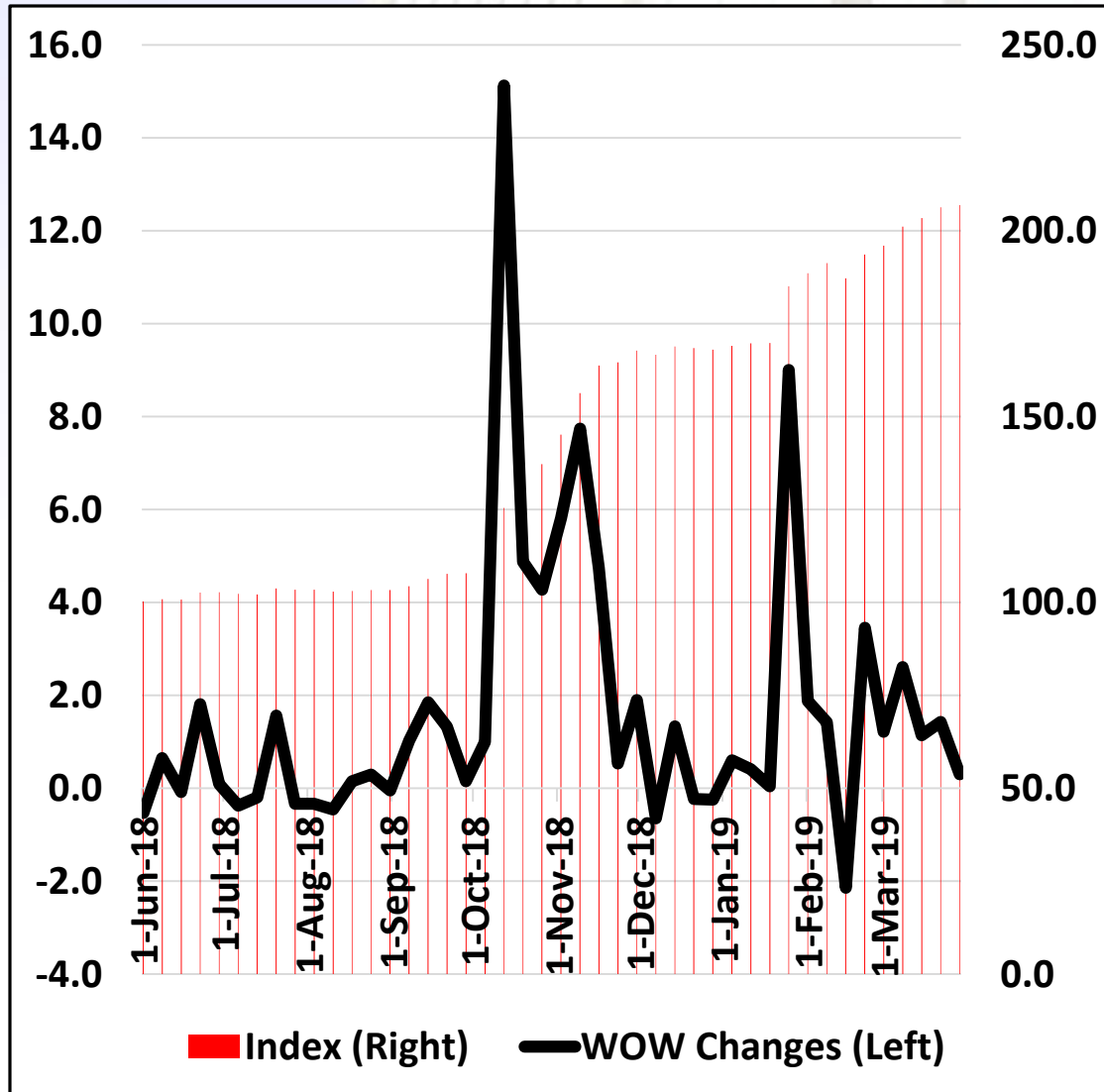
- Month-on-month inflation to continue on a downward trend

- Annual inflation anticipated to remain high in 2019 & to taper off in Nov. 2019 as the base effect diminishes

- High inflation is a concern to investors as it adversely impacts on the real return to their investments



Week on Week Price Index Changes



- Marked deceleration in the weekly price changes post Oct. 2018
- General price level to stabilise in the medium term



Future Monetary Policy Framework

- **Anchoring Inflation Expectations to foster price stability**
 - ✓ RBZ to actively intervene in the market to sterilize liquidity so as to help contain inflationary & exchange rate pressures
 - ✓ Monetary aggregates as operational targets for monetary policy
 - ✓ Target growth in base money with a view to help stabilise & anchor macroeconomic stability
 - ✓ Existing monetary policy instruments, including continued issuance of savings bonds & changes in the statutory reserve requirements, will be instrumental in achieving the reserve money target



Implications of MPS for Investors

- Interbank markets allows trade in forex to be conducted on a willing seller willing buyer basis
- Sale of foreign currency is done in terms of the revised Guidelines for Utilisation of Foreign Exchange
- The Guideline accommodates the requirements of foreign investors in terms of foreign exchange allocations and utilisation
- This is meant to facilitate repatriation of both capital and dividend income by investors for both:-
 - ✓ Portfolio Investors
 - ✓ Foreign Direct Investors
- In terms of the guideline, 15% of all foreign exchange mobilised through the interbank market is reserved for meeting foreign investor requirements at the prevailing interbank market



Implications of MPS for Investors

- Investors with outstanding remittances covering dividends, profits or capital from invested funds, can also register such debts under the **Legacy Debt and Foreign Liabilities principle**
- Registration is meant to:-
 - ✓ Account for all outstanding balances
 - ✓ Ring-fence the balances with the value preservation preposition
 - ✓ Agree on a strategy to expunge these debts in line with the value preservation preposition
- This arrangement is meant to ensure that all foreign investors get value from their investments for both the capital contribution and appreciation on the same.



Implications of MPS for Investors

- In general the MPS amplified a number of elements underlying investor confidence, namely:
 - ✓ 100% remittability of both capital and dividends
 - ✓ Ring-fencing of legacy debts (outstanding capital and dividend payments) to allow a plan on expunging these debts
 - ✓ Ring-fencing 15% of all funds on the interbank market to accommodate foreign currency requests by foreign investors



Conclusion

- **Price and Financial Stability:** we expect inflationary pressures & high premiums on the parallel market to ease
- **External mobility of capital:** 100% remittability of capital, dividends and net profits
- **Fiscal consolidation to assist with price stability:** Government to reduce recourse to Central Bank overdraft & to limit the overdraft to statutory levels to provide further impetus on the Bank's ability to contain pressures in the goods and foreign exchange market
- **Economic activity to pick up post 2019** anchored on
 - ✓ Increased agriculture, mining & manufacturing production;
 - ✓ Improved confidence on account of better ease of doing business indicators.
- **Policy consistency will be critical**

A scenic landscape featuring a waterfall cascading down a rocky cliff. A vibrant rainbow arches across the sky, its colors reflecting off the mist rising from the waterfall. The foreground is filled with the silhouettes of trees and bushes, some with bare branches and others with dark green leaves. The sky is a clear, pale blue with a few wispy clouds. The overall atmosphere is serene and natural.

THANK YOU,