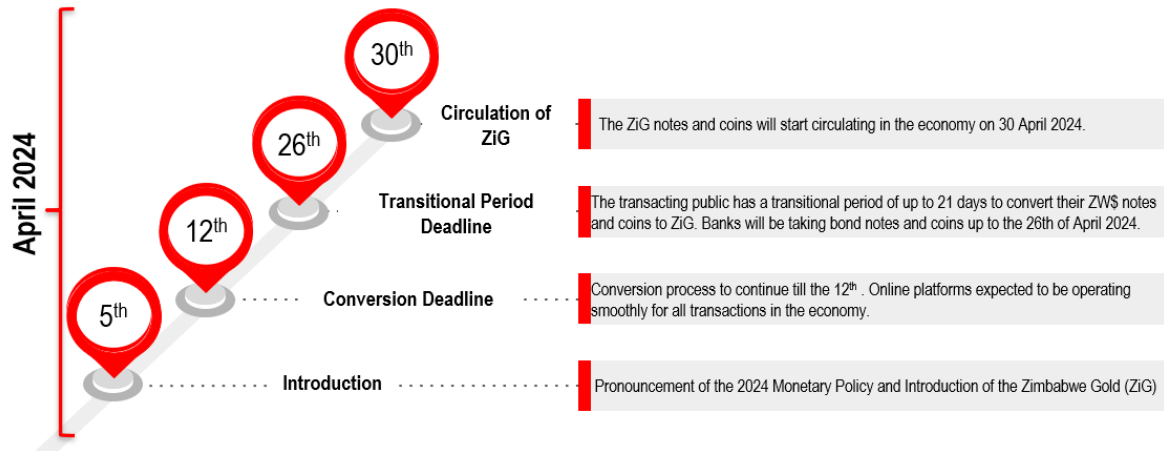


ECONOMIC AND MARKET REVIEW

ZIMBABWE 2024 MONETARY POLICY STATEMENT REVIEW

Announcement Date: 05 April 2024

Introduction of ZiG Timeline & Deadlines



Interest Rate Policy

Bank Policy Rate

Recalibrated to 20% from 130%

Bank Deposit Facility

7.5% below the Bank policy rate

Time Deposit

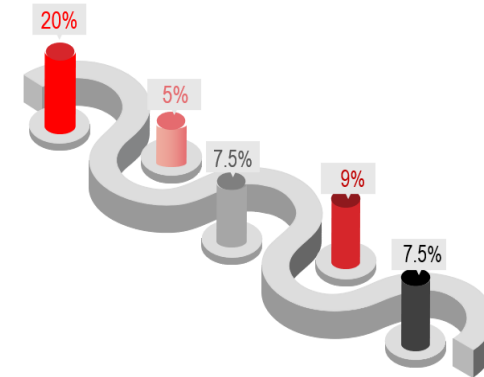
7.5% below the bank deposit facility of 12.5%

Overnight Accommodation Rate

Was set at 5% above the Bank policy rate.

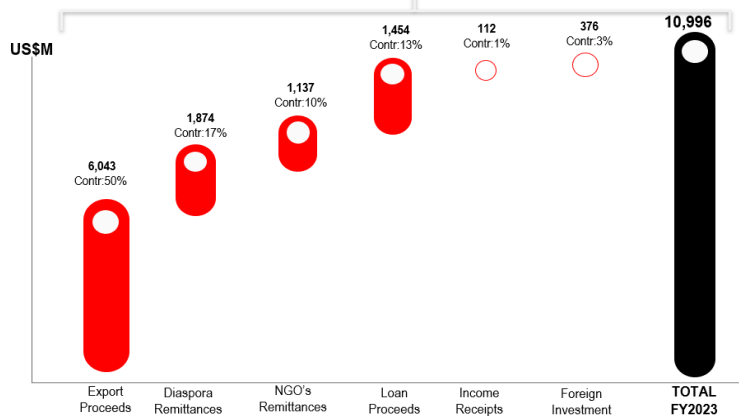
Minimum Savings Rate

9% below the bank deposit facility of 12.5%



2023 Foreign Currency Receipts by Source

2023 vs 2022: -3.70%



2024 Multi-Currency Split Target (USD vs ZiG)



70:30 in favour of USD from the current 85:15 split

2024 Projected Inflation (Targets)

Annual Inflation



FY2024

Month on Month



FY2024

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1. New Monetary Policy Measures

New Measure	Policy Outcome Target	Likely Outcome
<p>a) Adoption of Market Determined Exchange Rate System</p> <ul style="list-style-type: none"> - The auction system has been replaced by a refined interbank foreign exchange market under a willing-buyer-willing-seller (WBWS) trading arrangement. - The Bank will continue to provide trading liquidity to the market using the 25% surrender proceeds from exports. 	<ul style="list-style-type: none"> -Transparent price discovery mechanism. -Market determined exchange rate. 	<p>To likely achieve the desired outcome.</p>
<p>b) Efficient & Optimal Money Supply Management</p> <ul style="list-style-type: none"> -Discontinuation of all Quasi-Fiscal Activities, and alignment of interest rates with positive real rates and exchange rate expectations. - Bank will strictly adhere to Statutory limits on Bank Lending to the Government. 	<ul style="list-style-type: none"> - Containing the money creation cycle. - Manage and or avoid excess money supply. 	<ul style="list-style-type: none"> -To partially achieve the desired outcome. -Strict adherence to statutory limits on RBZ lending to the Government, will require significant discipline and independence from the bank, especially on completely discontinuing Quasi-Fiscal activities.
<p>c) Introduction of New Structured Currency</p> <p>The structured currency being introduced is anchored by a composite basket of foreign currency and precious metals (mainly gold) held as reserves for this purpose by the Reserve Bank.</p>	<ul style="list-style-type: none"> -Price and Exchange Rate Stability. -Restoration of market confidence in the local currency. 	<ul style="list-style-type: none"> -To likely achieve the desired outcome. -Ensuring that any additional money supply is 100% backed, will likely result in the desired outcome being achieved. -Given current trust deficit around currency, it is important for annual audits on backing reserves to be done timely and transparently in a bid to restore market confidence.
<p>d) Currency Conversion & Swap</p> <p>With effect from 5 April 2024, banks shall convert the current Zimbabwe dollar balances into the new currency which shall be called Zimbabwe Gold (ZiG).</p> <p>-The swap rate will be guided by the closing interbank exchange rate and the price of gold as at 5 April 2024.</p>	<ul style="list-style-type: none"> - Enhancing the optimal currency mix, in a multi-currency economy. 	<ul style="list-style-type: none"> - To likely achieve the desired outcomes.

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<p>- The swap rate shall be used to make legitimate conversions of all ZW\$ deposits, obligations, investments, auction allotments, export surrender obligations, and prices of goods and services.</p> <p>-All ZW\$ notes and coins held by account holders will be credited into their ZiG accounts using the applicable conversion factor, or a period of 21 days after 5 April 2024.</p>		
<p>New Measure</p>	<p>Policy Outcome Target</p>	<p>Likely Outcome</p>
<p>e) Issuance of New Bank Notes & Coins</p> <p>ZiG notes and coins shall be issued gradually in denominations made up of 1ZiG, 2ZiG, 5ZiG, 10ZiG, 20Zig, 50ZiG, 100ZiG, and 200ZiG.</p>	<p>-To cater for small transactions and to ensure the availability of change.</p> <p>-Bring convenience to the transacting public.</p>	<p>To likely achieve the desired outcome.</p>
<p>f) Anchor of the Currency (100% Cover Requirement)</p> <p>-As at 5 April 2024, the Bank's reserve asset holdings comprise of US\$100m in cash and 2,522 kg of gold (worth US\$185 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.</p> <p>- The total amount of gold and cash reserve holdings of US\$285 million represents more than 3 times cover for the ZiG currency being issued.</p>	<p>-To back the structured currency.</p> <p>-To ensure convertibility to reserves on demand.</p>	<p>To likely achieve the desired outcome.</p>
<p>g) Exchange Rate Management System</p> <p>-The starting exchange rate shall be determined by the prevailing closing interbank exchange rate as at 5 April and the London PM Fix price of gold as at 4 April 2024.</p> <p>-The intervening exchange rate shall be determined by the inflation differential between ZiG and USD inflation rates and the movement in the price of the basket of precious minerals held as reserves.</p>	<p>To ensure stability of the exchange rate.</p>	<p>To likely achieve the desired outcome.</p>

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New Measure	Policy Outcome Target	Likely Outcome
<p>h) Foreign Exchange Liquidity Management</p> <ul style="list-style-type: none"> - The Bank will use 50% of the foreign currency proceeds from surrender requirements for strategic interventions in the foreign exchange interbank market. - Foreign currency retention thresholds remain standardised at 75% across all sectors except for small-scale gold producers. 	<p>Effective management of liquidity in the market.</p>	<p>To likely achieve the desired outcome.</p>
<p>i) Interest Rate Policy</p> <p>The Bank has recalibrated the Bank policy rate from 130% per annum to 20% per annum consistent with the new monetary policy framework.</p> <ul style="list-style-type: none"> -The Overnight accommodation interest rate has been set at 5% above the Bank policy rate. -Bank deposit facility interest rate at 7.5% below the Bank policy rate. -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%. -Minimum interest rates on FCA deposits remain unchanged at 1% and 2.5% for savings and time deposits, respectively. 	<p>Align it to the new Monetary Policy Framework.</p>	<ul style="list-style-type: none"> -To likely achieve the desired outcome. -20% is high and attractive, and will likely spur demand and or investments in ZiG monetary assets, as long as inflation levels are manageable.
<p>j) Open Market Operation (OMO)</p> <p>All the current non-interest-bearing non-negotiable certificates of deposits (NNCDs) in ZiG beyond the optimal liquidity level and those encumbered by existing foreign currency structures will be converted into tenors of 1 year and above.</p>	<p>Management of Liquidity to ensure reserve money is fully backed.</p>	<p>To likely achieve the desired outcome.</p>
<p>k) Statutory Reserve Requirements</p> <p>Increased the statutory reserve ratio for foreign currency demand deposits from 15% to 20% effective 8 April 2024. The statutory reserve requirements for foreign currency time and savings deposits shall, however, remain at the current level of 5%.</p>	<p>Ensure financial sector stability amid the increase in Foreign Currency lending.</p>	<ul style="list-style-type: none"> -To likely achieve the desired outcome. -Manage creation of domestic (nostro) US dollars.
<p>l) Alleviating Bank Charges</p> <p>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.</p>	<p>Affordable and reasonable bank charges.</p>	<ul style="list-style-type: none"> -To likely achieve the desired outcome. -To encourage banking and financial inclusion, through avoiding unnecessary depletion of account values to bank charges.

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New Measure	Policy Outcome Target	Likely Outcome
<p>m) Promoting Increased Demand for the Local Currency</p> <p>Government will make it mandatory for companies to settle at least 50% of their tax obligations on Quarterly Payments Dates (QPDs) in ZiG.</p>	Increase demand and use of the local currency.	<p>-To likely achieve the desired outcome.</p> <p>-Expected QPDs 50% settlement in ZiG is estimated to be equivalent to US\$150m worth versus estimated ZiG in circulation of US\$80m. This mismatch is expected to increase demand for ZiG and restore its value by June.</p>
<p>n) Auction Allotments Obligations</p> <p>Following the establishment of a refined interbank foreign exchange market, all outstanding auction allotments will be converted into ZiG and refunded to recipients at the current interbank exchange rate.</p> <p>The refund will entail conversion of all outstanding auction allotments into a two (2) year ZiG denominated instrument at an interest rate of 7.5% per annum.</p>	To allow the new system to start on a clean slate.	<p>-To likely achieve the desired outcome.</p> <p>-Potential working capital challenges for companies that were still to be allocated and or allotted foreign currency.</p>
<p>o) Reconfiguration of National Payment Systems</p> <p>By April 8, 2024, Mobile Network Operators (MNOs), who are essential to the National Financial Inclusion Strategy, will also be expected to ensure that all of their customers can effortlessly transition from ZWL wallets to ZiG wallets.</p>	Timely and smooth transition from ZWL to ZiG.	To likely achieve the desired outcome.
<p>p) Domestic Pricing of Goods and Services</p> <p>Within seven days from 5 April 2024, all entities other than banks and MNOs are expected to have completed the configuration of their systems to conduct business in ZiG</p>	Timely and smooth transition from ZWL to ZiG.	To partially achieve the desired outcome. Timeline quite tight for a smoother transition.
<p>q) Compliance with Minimum Capital Requirements</p> <p>No banking institution or microfinance institution whose core capital is noncompliant with the prescribed minimum capital requirements shall pay dividends to its shareholders unless it has taken adequate steps to comply with prudential requirements, including capital adequacy, and has been approved by the Bank.</p>	To ensure banking sector compliance.	<p>-To likely achieve the desired outcome.</p> <p>-Minimum Capital Levels were also maintained to enable banks to write more new business.</p>

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2. Conclusion & Commentary

In conclusion the 2024 Monetary Policy Statement's main objective is to introduce a solid and stable national currency and restore market confidence. Key among other highlights were the currency conversion and swap of all ZWL balances (loans, deposits) to ZiG and the 21-day window for these to be concluded. Business disruptions during this period are inevitable, with some transacting platforms already down to accommodate the currency change over. Adjustment of interest rates on running loans and treasury bills in line with the new currency poses business risk for entities with ZWL exposure.

Recalibration of the bank policy rate to 20% from 130% (in line with the new currency) makes investment in monetary assets attractive as long as inflation is maintained within targets. Replacement of the Auction System by a refined interbank exchange market indicates efforts towards a 100% market determined exchange rate system, and if effectively implemented will likely align official and alternative exchange rates.

Although more policy measures were expected on promoting increased demand for the local currency, the RBZ made it mandatory for companies to settle at least 50% of their tax obligations on QPDs in ZiG. According to the governor, expected QPDs 50% settlement in ZiG (as at 30 June 2024) is estimated to be equivalent to US\$150m worth versus estimated ZiG in circulation of US\$80m (as at 5 April 2024). This mismatch is expected to increase demand for ZiG and restore its value by June, despite the weakness or loss in value that was already witnessed on the ZiG/USD exchange rate during the week ended 12 April 2024. Companies that fail to obtain ZiG (to settle the QPDs) from the market are expected to go buy from RBZ, thereby increasing foreign currency reserves for the RBZ.

Given the desired end result of managing inflationary and exchange rate pressures, the bank emphasized on maintaining a tight monetary policy in the outlook and is targeting a transaction ratio of 70:30 (in favour of USD) by year end from the current level of 85%, and ultimately a target of 50:50 by 2030. In the outlook, inflation targets of below 1% month on month and between 2% and 5% annually are also targeted by RBZ.

The new currency and monetary policy framework are in line with the bank's objectives of managing inflationary and exchange rate pressures. Awarded the necessary will power, the new measures will likely see the desired outcomes being achieved on average. Discontinuation of all Quasi-Fiscal Activities; Strict adherence to Statutory limits on Bank Lending to the Government and Annual Audits to ensure 100% cover of the currency, if implemented correctly and full transparency is adhered to, inflationary and exchange rate pressures will be managed successfully.

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