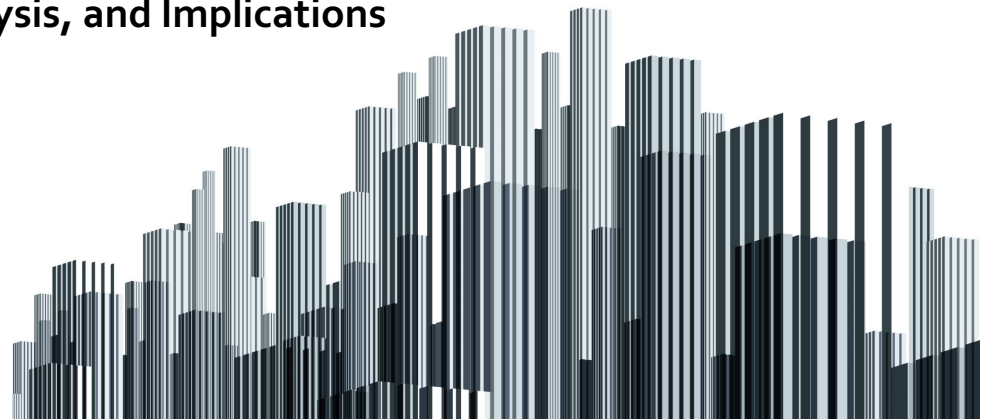




BACK TO BASICS: RECALIBRATING THE MONETARY POLICY FRAMEWORK TO ANCHOR CURRENCY, EXCHANGE RATE AND PRICE STABILITY

RBoZ 2024 Monetary Policy: Key Points, Analysis, and Implications

5 April 2024



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Highlights, Analysis and Implications

Introduction:

- On April 5, 2024, the Reserve Bank of Zimbabwe (RBoZ) released a Monetary Policy Statement (MPS) with the primary objective of addressing the prevailing issues of price and exchange rate instability.
- This document provides an analysis of the MPS and its implications for the economy. It is important to note that this analysis is based on the information available up to April 5, 2024.

Key Objectives:

The MPS is built on two pillars:

1. Restoring Price and Exchange Rate Stability: The RBoZ aims to address the issues of currency instability, reduced confidence, decreased usage of the local currency, and the lack of certainty and predictability regarding the currency's value.
2. Remonetizing the Local Currency: The MPS seeks to rebuild market confidence, trust, and policy credibility, with a focus on achieving a solid and stable national currency, a sustainable exchange rate, robust policy credibility, and a stable macroeconomy in line with Vision 2030 and NDS1.

Measures and Commentary:

Adoption of a Market Determined Exchange Rate:

- The RBoZ introduced a market-determined exchange rate in January 2024, discontinuing the previous practice of official forex auctions.
- The success of this measure depends on allowing market forces to determine prices and reducing market distortions, which is expected to lead to increased foreign currency trades through official platforms.

Efficient and Optimal Money Supply Management:

- The RBoZ aims to contain reserve money within the limit of the growth of gold reserves at the bank.
- A continuation of a tight monetary stance is emphasized, while uncontrolled quasi-fiscal operations will not be entertained.
- The management of money supply is crucial in addressing currency devaluation and inflationary pressures.

Highlights, Analysis and Implications

Measures and Commentary:

❑ Introducing a Structured Currency:

- The RBoZ is introducing a structured currency, referred to as ZiG, which will be pegged to a specific exchange rate or currency basket and backed by a bundle of foreign exchange assets, including precious metals like gold.
- The value of ZiG will be guided by the movement in gold prices and market price discovery mechanisms.
- Banks are expected to operationalize the implementation of ZiG under the guidance of the RBoZ.

❑ Currency Conversion and Swap:

- The economy will continue operating under a multicurrency system until 2030.
- Banks are required to comply with conversion requirements, and all systems and payment points should facilitate a seamless transition to the new currency.
- The swap rate for ZiG will be determined by the interbank exchange rate and the price of gold.
- Individuals without bank accounts have a limited time to deposit, exchange, or swap their ZWL cash at designated banks.
- Banks will accept old ZWL notes for a specified period, while businesses outside of banks will have a separate timeframe to configure their systems for ZiG transactions.

❑ Acceptance of Old Notes:

- Banks will continue accepting old ZWL notes for the next 21 days, starting from April 5, 2024.
- Other businesses outside banks will have a 7-day period to configure their systems for transacting in ZiG.
- The highest ZiG note, worth approximately US\$14.75, aims to enhance the usage of the local currency.

Highlights, Analysis and Implications

Measures and Commentary:

❑ Anchor of the Currency:

- The new currency, ZiG, will be fully backed by a composite basket of reserves, including foreign currency and precious metals such as gold.
- The backing fundamentals are expected to provide stability for the currency.
- Authorities need to ensure consistency in supporting the necessary measures and building confidence in the currency.

❑ Exchange Rate Management System:

- The starting exchange rate for ZiG will be determined by the prevailing interbank exchange rate and the price of gold.
- The intervention exchange rate will be influenced by the inflation differential between ZiG and USD inflation rates.
- The movement in the price of the basket of precious minerals held as reserves will also impact the exchange rate.

❑ Foreign Exchange Liquidity Management:

- The central bank will allocate 50% of foreign currency proceeds from surrender requirements for strategic interventions in the foreign exchange interbank market.
- This proactive approach aims to stabilize currency fluctuations and increase liquidity in the interbank market.
- The remaining foreign currency will be used for the government's foreign currency obligations and building foreign exchange reserves.

❑ Interest Rate Policy:

- The bank policy rate has been recalibrated from 130% per annum to 20% per annum, in line with the new monetary policy.
- The impact of this reduction on the re-denominated currency will depend on the future inflation profile.
- In the short term, inflation is expected to be higher than 20%.

Highlights, Analysis and Implications

Measures and Commentary:

❑ FCA Deposits:

- The document states that FCA deposits will remain unchanged at 1% and 2.5% for savings and time deposits, respectively.
- This measure aims to maintain stability in the foreign currency accounts held by banks.

❑ Open Market Operations (OMO):

- OMO is discussed as a means of mopping up liquidity in the market.
- OMO will continue to be carried out to ensure that reserve money is always fully backed by a corresponding composite basket of reserve assets.

❑ Extension of NNCDs Tenures:

- The extension of non-interest-bearing non-negotiable certificates of deposits (NNCDs) tenures is expected to aggravate bank liquidity positions.
- The document highlights the potential impact of this measure on bank liquidity and the need for moderate foreign currency exposures.

❑ Statutory Reserve Requirements:

- Statutory reserve ratio for foreign currency demand deposits will be increased from 15% to 20% to reduce the amount available for banks to lend.
- This measure aims to strengthen the new ZiG currency and enhance foreign exchange liquidity.
- The bank policy rate has been recalibrated from 130% per annum to 20% per annum, in line with the new monetary policy. The impact of this reduction on the re-denominated currency will depend on the future inflation profile.
- The statutory reserve requirements for foreign currency time and savings deposits shall, however, remain at the current level of 5%.

Highlights, Analysis and Implications

Measures and Commentary:

Treasury Bills Denominated in ZWL:

- Treasury bills denominated in ZWL will be converted to ZiG, and their rates will be adjusted accordingly.
- There is an envisioned downward adjustment of discount rates in line with the new interest rate policy.

Alleviating Bank Charges:

- Banks will no longer charge monthly maintenance or service fees for individual bank accounts with a conservative daily balance of US\$100 or its equivalent in ZiG.
- This measure aims to reduce non-interest income and support marginalized individuals in the economy.

Other Supporting Measures and Bank Obligations:

- Include mandatory payment of tax obligations in ZiG currency, the conversion of outstanding auction allotments and payments for foreign exchange, the use of gold-backed digital tokens, the reconfiguration of the national payment system, and the domestic pricing of goods and services.
- These measures aim to promote demand for the local currency, boost confidence, and facilitate the transition to ZiG.

Conclusion:

- The 2024 MPS measures introduce significant changes to the currency system and aim to address macroeconomic challenges.
- The analysis highlights the potential implications of these measures and emphasizes the need for consistent support and confidence-building initiatives to ensure the success of the new currency.
- The analysis of the 2024 monetary policy measures outlined highlights their potential implications on liquidity, lending, demand for the local currency, and financial sector stability.
- It is evident that the primary intention behind these measures is to provide significant support for the new currency and foster economic stability.



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