



UNPACKING THE MONETARY POLICY AND ITS IMPLICATIONS ON THE ECONOMY

27 MARCH 2019

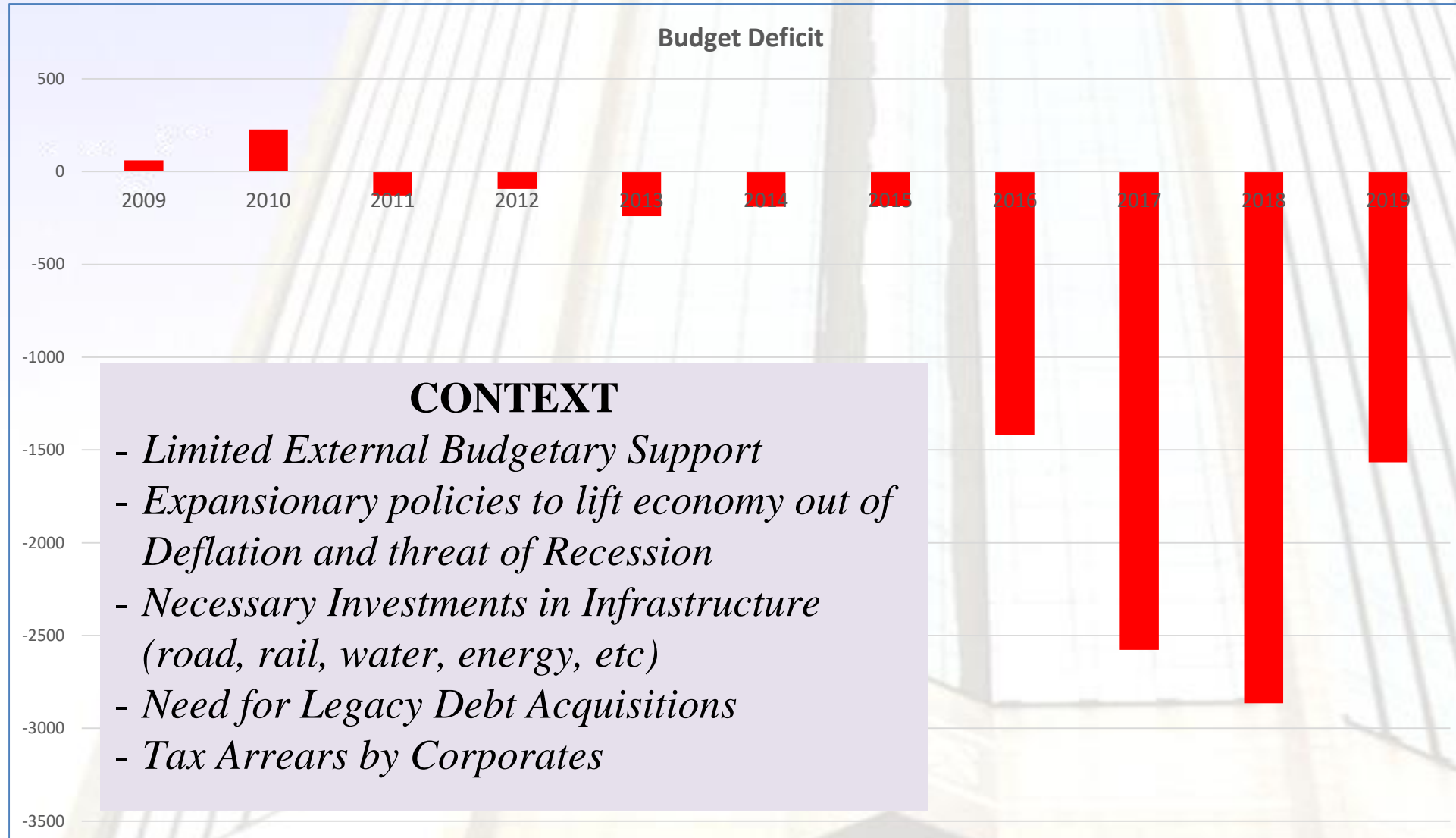


Background to the Feb 2019 Monetary Policy

- The February 2019 Monetary Policy Statement was presented against the background of:
 - 2019 Budget Announcement – which signaled strong commitment by Gvt to Fiscal Consolidation,
 - thus enabling the Central Bank to undertake market reforms;
 - Crippling foreign exchange shortages and attendant challenges and symptoms –
 - as exporters and other recipients of FX held on to their forex (1:1 not competitive);
 - Threat of re-dollarization of the economy;
 - Loss of Government revenues due to use of USD as the Unit of Accounting;
 - No clear Unit of Accounting;
 - Low investor, business and consumer confidence.



Government Budget Deficit Challenge

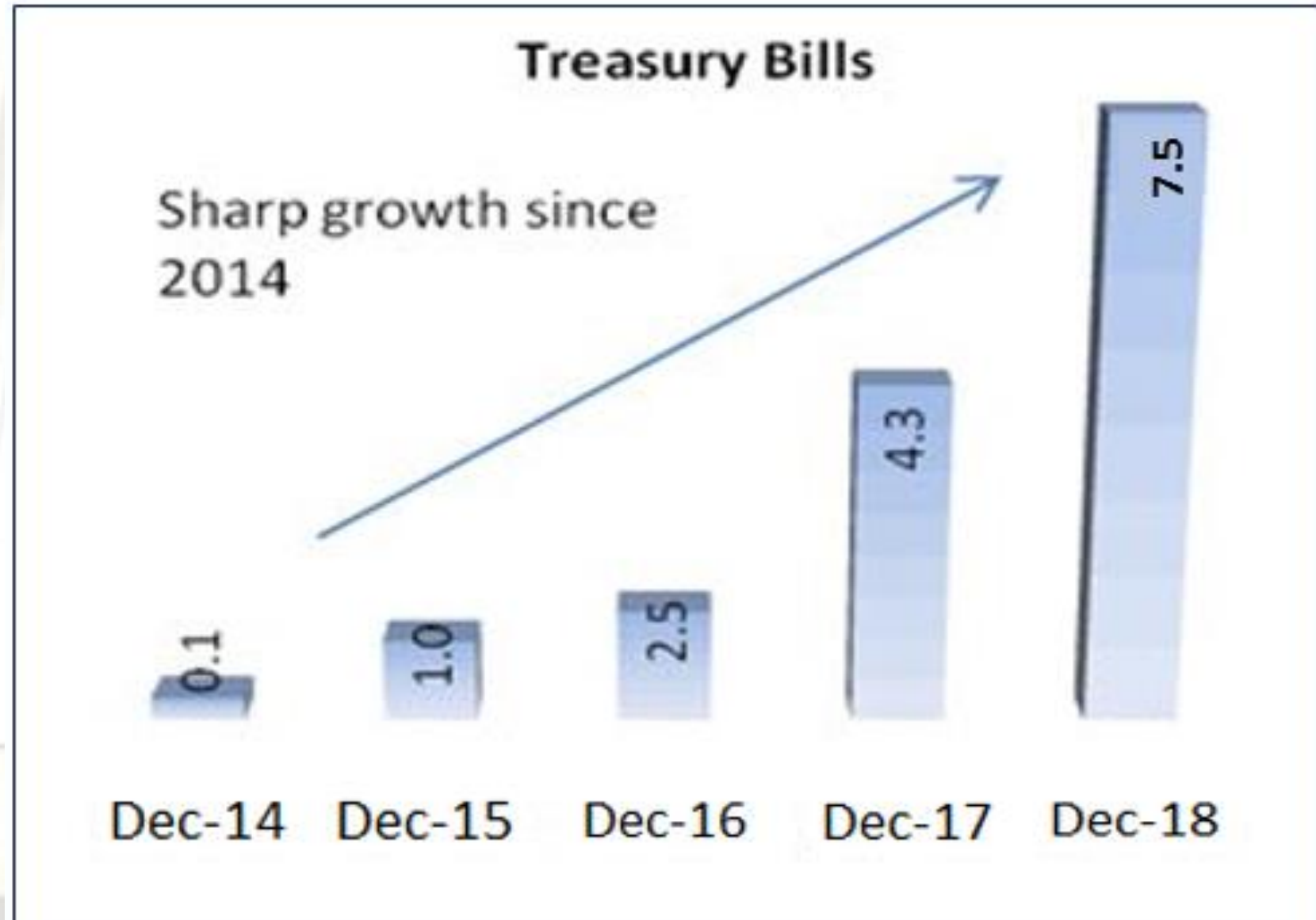


- At the heart of the economy's fundamental economic challenge was an **unsustainable Budget deficit;**
- Compounded by its **domestic bank financing** mode.



Government Budget Deficit Challenge – *Sharp Growth in TBs*

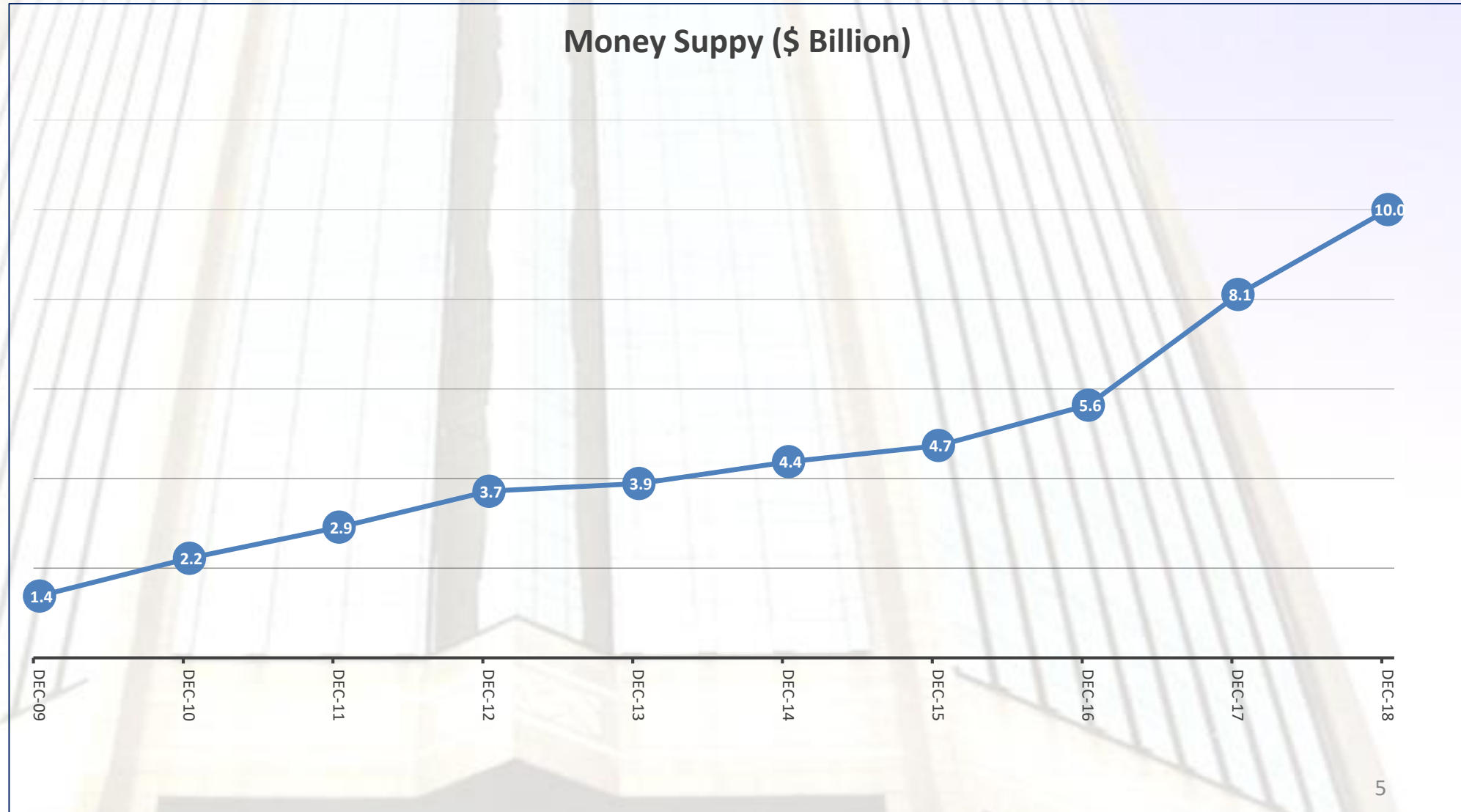
- Part of the Budget deficit has been financed through issuance of **Treasury Bills** and recourse to the **Central Bank Financing**.
- Also TBs for Domestic Arrears Clearance; Legacy Debts; and ZAMCO.





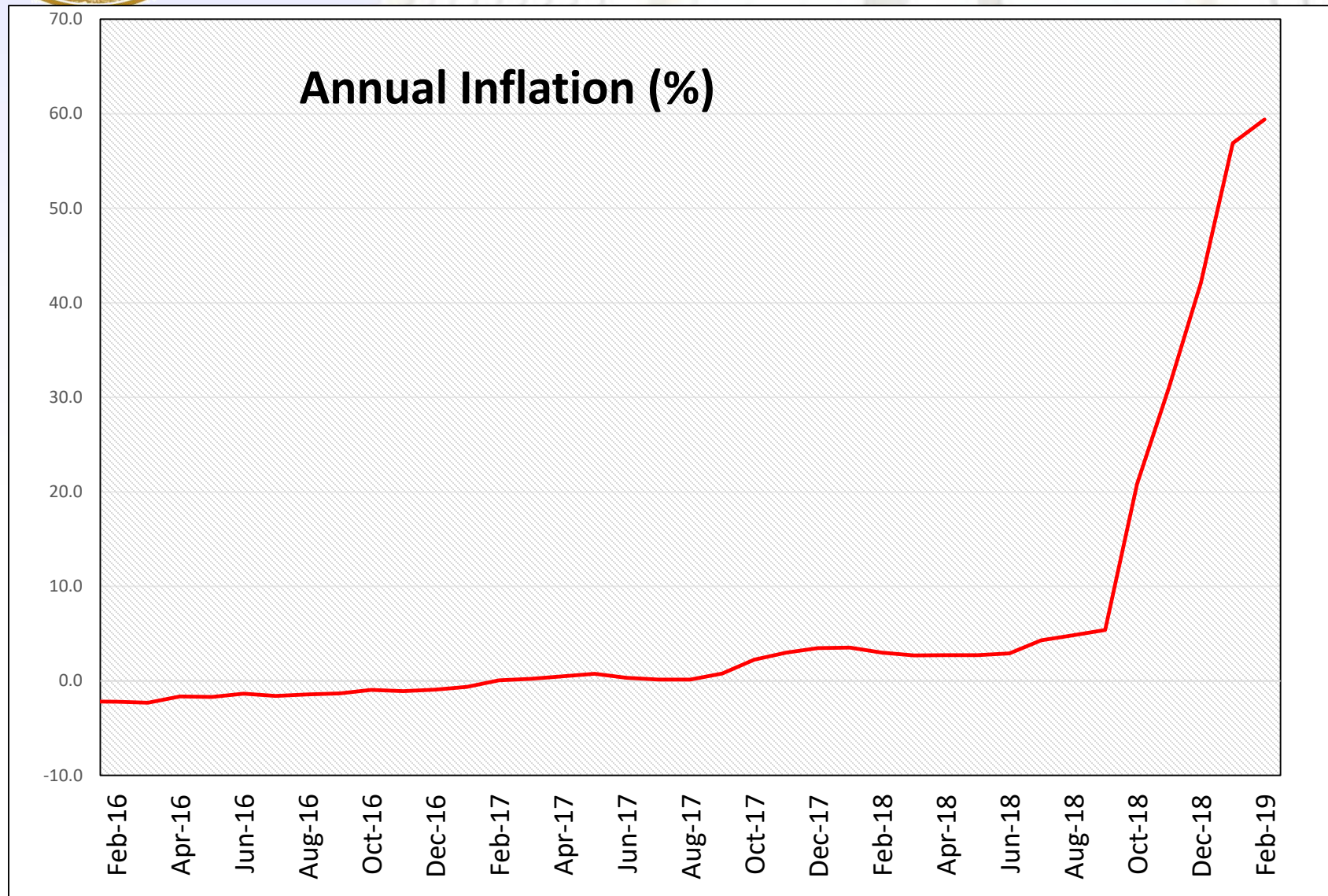
Rapid Increase in Money Supply

- Excessive Reliance on RBZ Financing resulted in **Money Creation (RTGS)**





Spike in Annual Inflation



- The spike in Annual Inflation continued in February 2019, accelerating to 59.4%, from 42.09% in December 2018.
- The inflation momentum expected to dissipate from April going forward.
- The Central Bank is instituting monetary control measures to fight inflation.



FEBRUARY 2019 MONETARY POLICY STATEMENT

- **Major Objectives of Feb 2019 MPS:**

- Establish an inter-bank foreign exchange market to restore competitiveness and promote growth.
- Correct the price distortions in the foreign exchange, as well as goods markets.
- Strengthen demand for domestic forms of payment and preserve forex for external payments.
- Improve export competitiveness through sale of export proceeds at market determined rates.



Inter-Bank Foreign Exchange Market

- Liberalization of the inter-bank foreign exchange market (*trading of FX against local currency - RTGS balances, other electronic balances, mobile money and bond notes*);
- Trading at the ruling inter-bank market rate, through banks and bureaux de change;
- The RTGS dollars is the Unit of Account;
 - Settlement Currency
 - Reference for Pricing;



Inter-Bank Foreign Exchange Market

- The Reserve Bank provided seed money to kick start trading on the inter-bank foreign exchange market;
- Going forward, the market is expected to self-finance through continuous trading;
- It is expected that the foreign exchange in the economy shall be utilized to meet foreign payment requirements,
 - domestic transactions will be settled using the local currency;
- FX requirements for certain Strategic Imports such as fuel, cooking oil, electricity, medicines and water chemicals to continue.



FEB 2019 MPS – Other Measures

- **Liquidity Management Framework** - the RBZ will implement a Monetary Targeting framework, with specific monetary targets to achieve the Bank's inflation objectives.
- **Macro-Prudential Policy Framework** - which provides for more effective macro-prudential tools, appropriate governance, transparency, and accountability arrangements that facilitate identification of the build-up of systemic risks, and monitoring thereof, to ensure financial stability.



Benefits of the New Monetary Policy Measures

- The establishment of an inter-bank foreign exchange market
 - Efficient allocation of foreign currency more
 - improve supply of foreign exchange;
 - restore export competitiveness;
 - eliminate market distortions; and
 - unlock the growth potential of the economy.
- The formal use of RTGS dollars as a unit of account;
 - eliminate multiple pricing and other distortions; while preserving foreign currency for foreign payments.
- The Bank is committed to the inter-bank foreign exchange market principles, and only intervenes in cases of market failures and other malpractices that may harm price and financial stability.

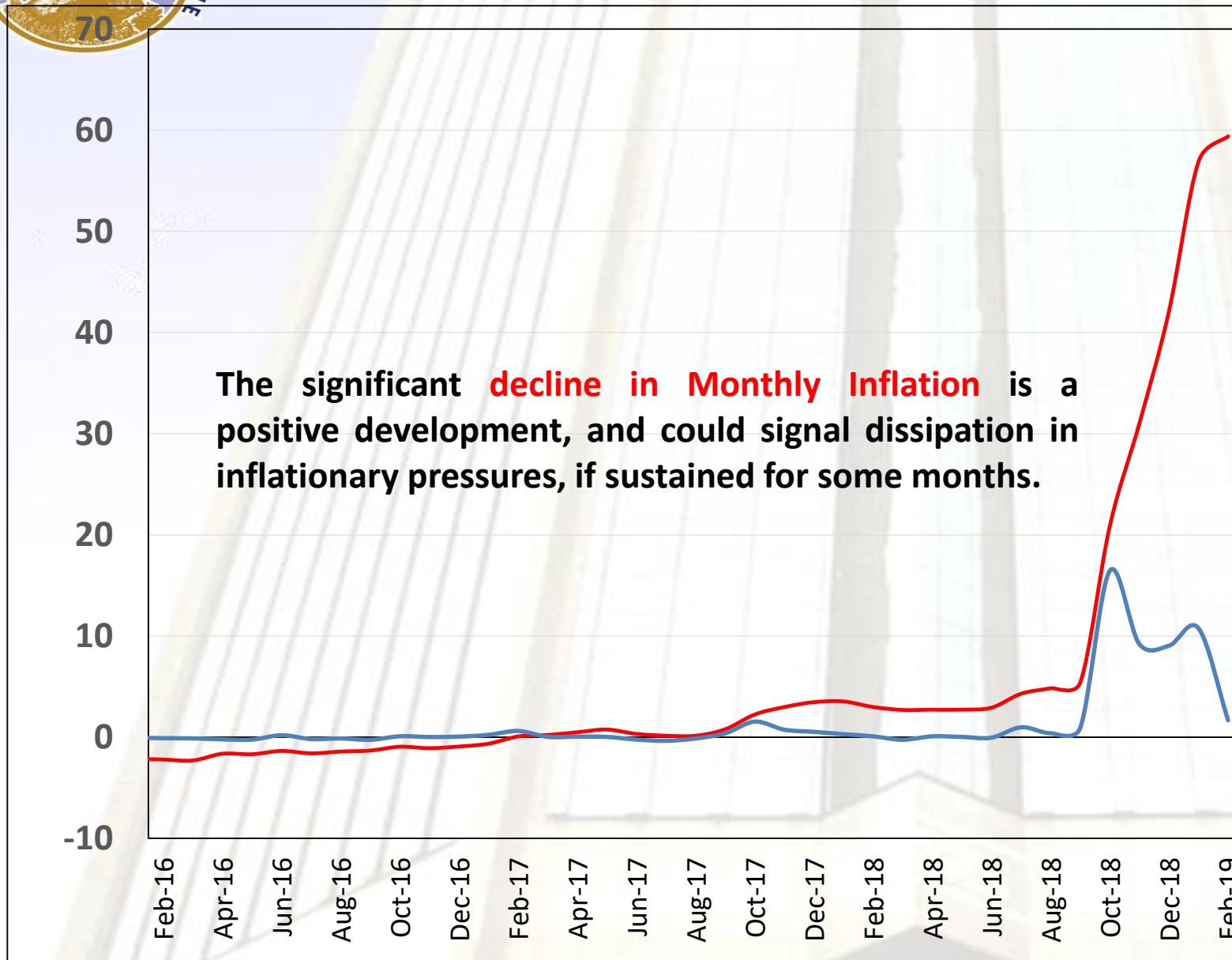


ACCOUNTING AND REPORTING CONSIDERATIONS

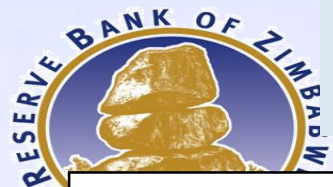
- The Bank considered the accounting, financial and reporting implications that are embedded in the establishment of an inter-bank forex market
- The RTGS dollars shall be used by all entities (including government) and individuals in Zimbabwe for the purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions
- Foreign liabilities or legacy debts due to suppliers and service providers such as the International Air Transport Association (IATA), declared dividends, etc. shall be treated separately after registering such transactions with Exchange Control



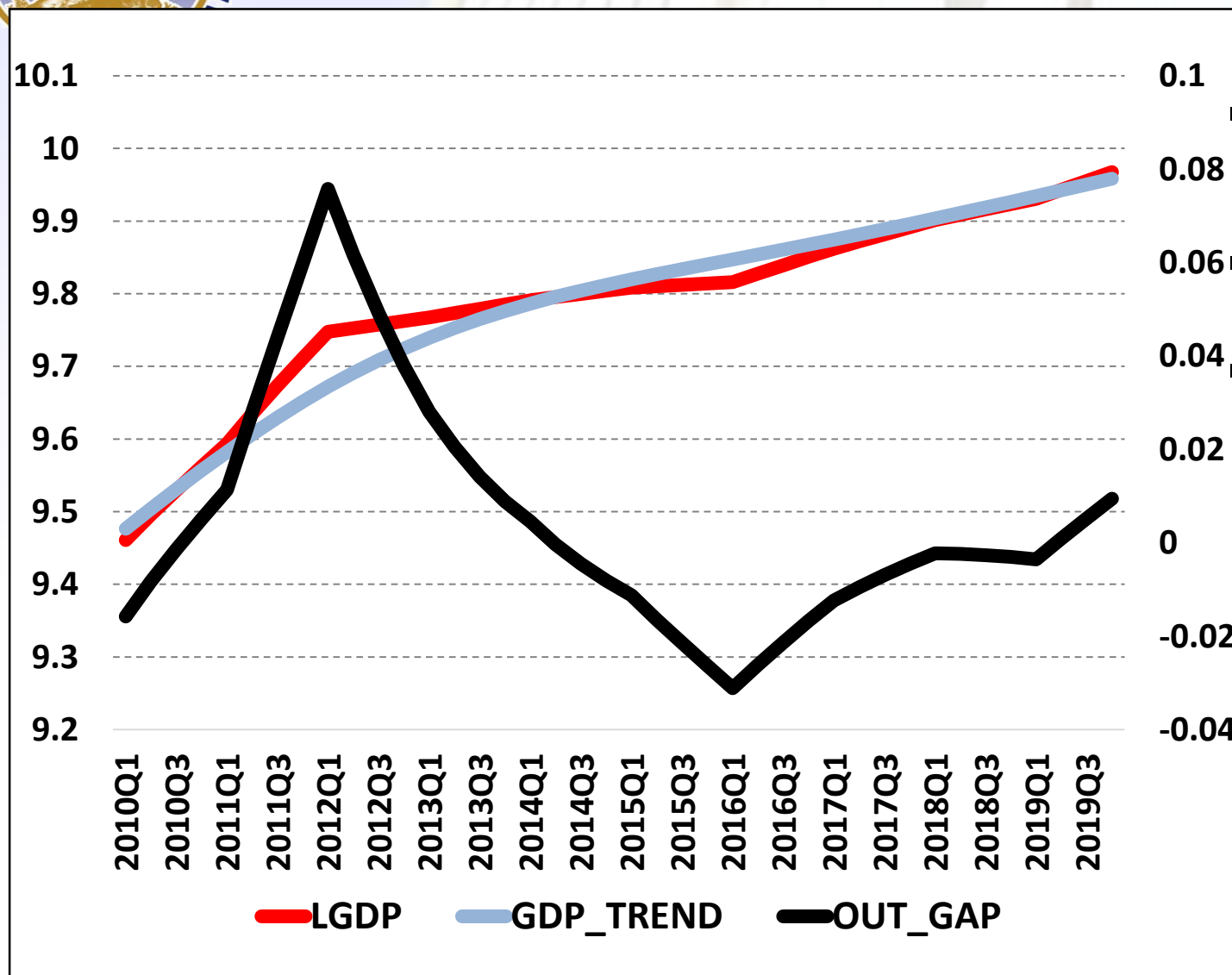
INFLATION TRENDS RECEDING



- ❖ Inflationary pressures mainly driven by
 - i. Adverse expectations;
 - ii. Exchange rate premium; and
 - iii. Past high money supply growth.
- Increase also due to base effect.
- Aggregate demand remain subdued



Aggregate Demand Conditions



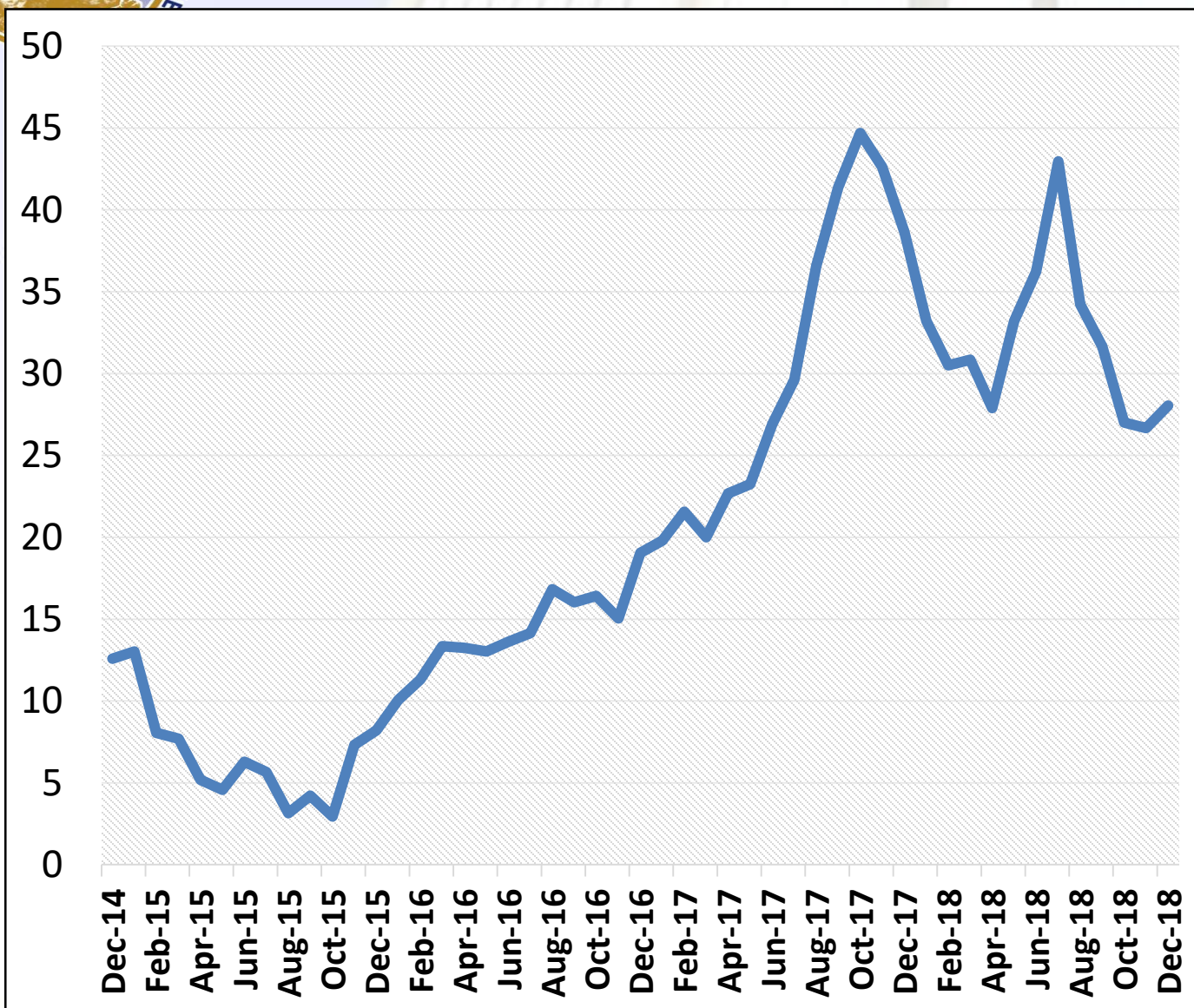
Output gap still negative

Current growth of 3.1% in 2019

This will be below potential output levels of around 5.0%.



Annual Money Supply Developments



- Broad money supply growth peaked at 47.5% in July 2018.
- Growth in broad money decelerated to 23.7% by December 2018.
- If the decline in money supply growth is sustained –inflation will stabilise.



POLICY CONGRUENCY AND COMPLEMENTARITY

- Monetary Policy does not work or seek to achieve results in isolation.
- It works best with the support and complementarity with other domestic policies – Prudent Fiscal Policy; Industrial Policy anchored at Value Addition; development oriented Social Policy; etc.
- In particular, the success of Monetary Policy largely depends on its complementarity and congruency with Fiscal Policy.
- The fiscal consolidation and austerity measures being implemented by Government creates a conducive environment for monetary policy to focus on the core objective of Price and Financial Stability, including a stable and predictable Exchange Rate.



Sustainable Solution

(not choice of Currency, BUT.....)

Strong Fiscal and Monetary Policy Discipline

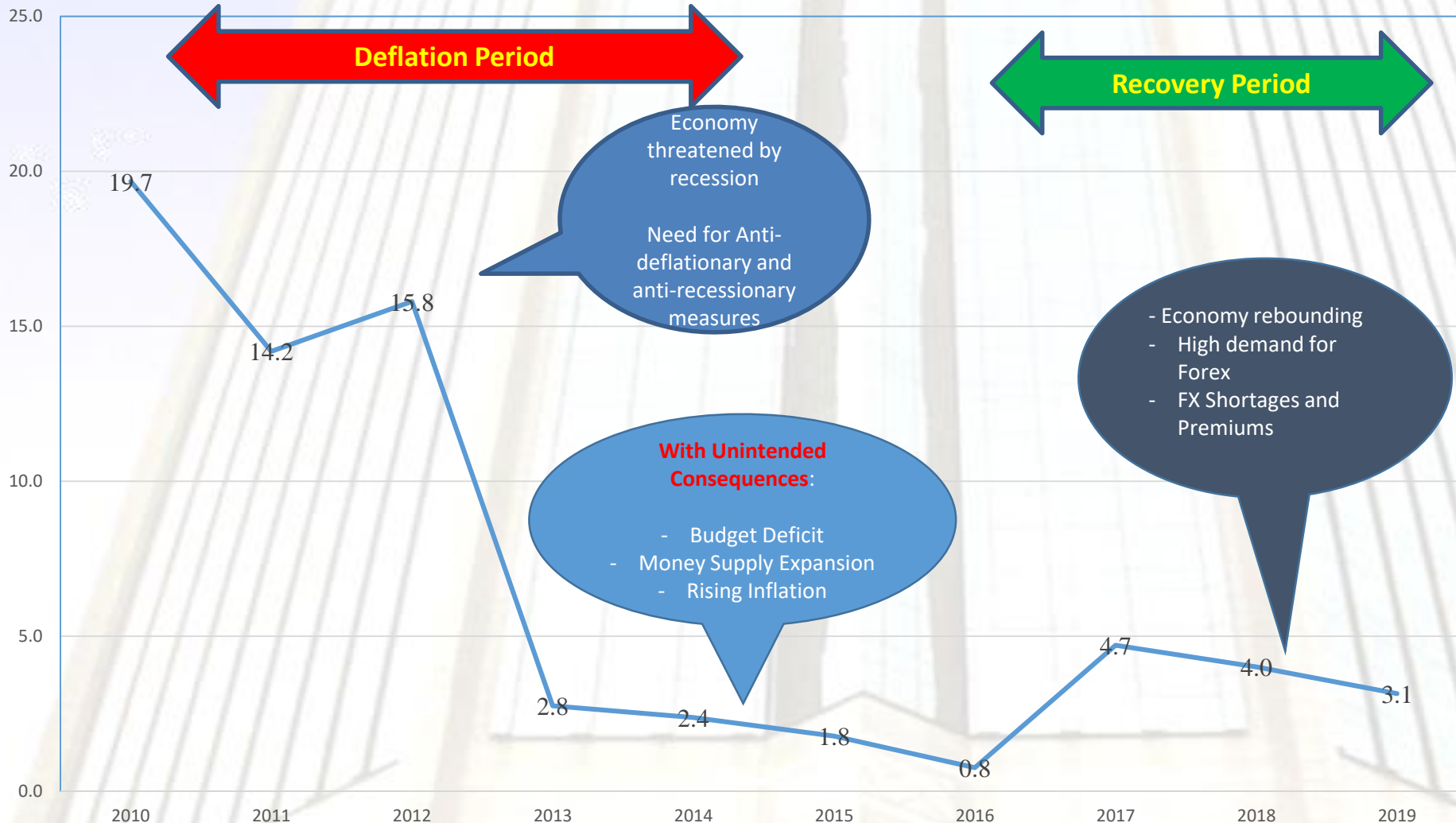
**Increased
Production**

**Increased
Exports**

**Increased
Forex
Earnings**



MACROECONOMIC TRENDS & OUTLOOK



Source: ZIMSTAT, RBZ Projections

- Reduced growth in 2018 and is largely due to foreign exchange shortages.
- Growth remains positive but subdued in 2019 due to the effect of austerity measures.
- Beyond 2019, however, fiscal consolidation and tight monetary policy will ensure sustained rapid growth.



THANK YOU!