



2024

# Analysis of the Monetary Policy Statement (MPS)



## **1. Introduction**

The doctrine of Monetarism underscores the importance of the money supply in circulation in the economy as the primary driver of economic growth. It advocates for stable prices through prudent monetary policy. A monetary policy is a list of actions to be taken by a country's central bank to influence how much money is in the economy and how much it costs to borrow. Monetarists believe that inflation is always and everywhere a monetary phenomenon. Therefore, central banks worldwide, including the Reserve Bank of Zimbabwe (RBZ), have the crucial role of maintaining low inflation, stabilizing the local currency, and fostering resilient domestic financial markets. This role is instrumental in ensuring economic stability and growth. In light of the preceding, the RBZ, under the stewardship of a new Governor, Dr. John Mushayavanhu, presented the highly anticipated 2024 Monetary Policy Statement (MPS) on the 5th of April 2024. As such, guided by the primary objectives of a central bank, ZIMCODD here provides an analysis of the proposed 2024 monetary policy measures, recognizing the significant impact they will have on the economy.

## **2. Brief Background**

After a decade of dollarization, Zimbabwe started implementing currency reforms in October 2018, separating nostro-foreign accounts (FCA) and the local Real Transfer Gross Settlement (RTGS) balances. In early February 2019, all the RTGS balances comprising bond notes and coins, mobile money, and bank balances were recalibrated into an RTGS dollar. However, the RTGS dollar, which became a fully-fledged local currency after the promulgation of Statutory Instrument 142 in June 2019, has struggled to maintain its value against hard currencies like the US dollar (USD). Between 2019 and 2023, the monetary policy, notably exchange rate management, was largely inconsistent, with the RBZ adopting and switching various mechanisms, including, among others, a free-float, managed float, fixed regime, Dutch Foreign Currency Auction System, and Willing-Buyer Willing-Seller (WBWS) interbank market. This contributed to a lack of public trust and market confidence in the local unit, thus fuelling currency substitution and depreciation. Statistics show that in the successive years 2020, 2021, 2022, and 2023, the local unit lost 80%, 25%, 84%, and 89% of its value against the USD in the formal market, respectively. Fast forward to 2024, the local unit (ZWL) remained on a free fall, sliding by a staggering 70%, on average, in both formal and alternative (parallel) markets, in only three (3) months. This ZWL decline has significantly fuelled price inflation, which jumped to 55.3% in March 2024 from 26.5% in December 2023.

## **3. Key Highlights**

The following are the key highlights from the 2024 Monetary Policy Statement (MPS):

- Introduced a new “structured currency” termed ZiG (Zimbabwe Gold). ZiG banknotes and coins will be issued in denominations of 1ZiG, 2ZiG, 5ZiG, 10ZiG, 20Zig, 50ZiG, 100ZiG, and 200ZiG.

- ZiG shall always be anchored and fully backed by a composite basket of foreign currency and precious metals (mainly gold) reserves.
- RBZ has recalibrated the Bank policy rate from 130% to 20% per annum, consistent with the new monetary policy framework.
- Statutory Reserve Requirements (SRR) for demand deposits in ZiG and savings and time deposits in ZiG remain standardized at 15% and 5%, respectively.
- 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.
- The government will make it mandatory for companies to settle at least 50% of their tax obligations on Quarterly Payments Dates (QPDs) in ZiG.
- Banking and microfinance institutions must submit a plan by 30 June 2024 outlining the measures to facilitate the financial inclusion of persons with disabilities (PWDs).

## **4. Analysis of Proposed Measures**

### **4.1 New Structured Currency**

According to the RBZ, a “structured currency” is a currency that is pegged to a specific exchange rate or currency basket and backed by a bundle of foreign exchange assets like gold. This new “structured currency” termed Zimbabwe Gold (ZiG) has immediately replaced the Zimbabwe dollar (ZWL) as legal tender for settling all transactions and debts, private and public. The ZiG will form part of the multicurrency basket and circulate with other currencies like USD. All ZWL banknotes, ZWL bank balances, ZWL mobile money accounts, and ZWL prices will be converted into ZiG using an exchange rate determined by the global price of gold as of 4 April 2024 and the ZWL interbank rate as of 5 April 2024.

Official statistics indicate that the ZiG is backed by RBZ reserve asset holdings constituting US\$100 million in cash and 2.5 tonnes of gold (worth US\$185 million). The combined US\$285 million worth of reserve assets is adequate to provide full cover of reserve money in the system, totalling ZWL2.6 trillion or US\$90 million equivalence. Zimbabwe has been gradually building gold reserves since it changed payment modalities of royalties, where 50% is now settled in the physical form of the minerals. Apart from the accumulation of gold reserves, the ZiG is backed by foreign currency (USD) reserves accumulated through involuntary export surrender requirements. Exporting companies will continue to cede 25% of their export proceeds in exchange for ZiG. To support the value of the structured currency, the Treasury will also demand that corporate taxes be settled using ZiG.

It means that from now on, ZiG's money supply growth will only be limited to the growth of RBZ's reserve asset holdings, ceteris paribus. So, hypothetically, this arrangement could restrict the ability of authorities to print ZiG willy-nilly. If this holds, the gold-backed ZiG will become a stable currency, thus clamping ongoing rapid dollarization of the economy. Generally, gold is considered a safe haven investment during downturns and financial crises because of its long history of use as a store of value. Its properties are helping it achieve this status: malleability, portability, aesthetic appeal, virtual indestructibility, universal acceptance, liquidity, and rarity.

Also, the officially shared specimen ZiG notes have a quick-response (QR) code that an imaging device can read. This likely indicates that authorities will soon adopt advanced technologies like blockchain and distributed ledger technologies. These technologies guarantee transparency and efficiency of transactions and are even difficult to disrupt. This ensures that all transactions are safely recorded, as no documents can be falsified since all data is immutable – anyone cannot modify it. This will circumvent the dangers of reliance on centralized, traditional database systems, which are highly prone to manipulation, may be hacked, and are susceptible to genuine human errors.

Nevertheless, for the ZiG to succeed, authorities also need to adopt advanced technologies in gold production tracking & monitoring to minimize the chances of gold leakages and illicit trading. Traceability measures help curb criminality as information such as the exact source of gold, holder of gold buying license, and amount of taxes paid on gold exports can be collected and analyzed. The current rampant illicit gold trading, as reported by Al Jazeera's Gold Mafia documentary,<sup>1</sup> if not curtailed, will militate against the accumulation of gold reserves, which are crucial in supporting the value of the “structured currency.” With an adverse economic outlook, for instance, subdued global mineral commodity prices threatening the value of export receipts coupled with the El-Nino-induced drought that has affected the 2023/24 summer cropping season, there will be enormous spending pressure on the Treasury to cushion the vulnerable groups and the economy in general. Just like it is the norm globally, the Treasury will need help from the RBZ (money printing) to meet the demand of the pending humanitarian and economic crisis. The increase in ZiG money supply will only be permissible if there are enough gold reserves; hence, there is a need for a whole-of-government approach to curb illicit gold trading. Otherwise, the expected increase in import bill will render the ZiG worthless.

Again, the ZiG concept will require frequent auditing of physical gold and USD cash reserves backing the currency by reputable and independent audit institutions. Suppose there are no trusted audits of the quantum of gold reserves in RBZ vaults versus issued structured currency (ZiG).

In that case, the tokens risk suffering the same fate as bond coins and notes, which RBZ reportedly introduced under a US\$200 million facility provided by Afreximbank.<sup>2</sup> The market started to reject bond coins and notes like \$2, \$5, and \$50 partly because authorities have printed more than they reported backing this surrogate currency, thereby causing increased depreciation pressures. There is also a need to provide strong guard rails against gold leakages from the RBZ vaults, which can be caused by theft and fraud by unscrupulous public officials.

More so, there is a need to set up public trust and investor confidence-building measures. These include, among others, massively reducing leakages of public resources by curbing public corruption, maintaining policy consistency, adopting a participatory approach to economic governance (multistakeholder consultations), and garnering adequate political will to swiftly implement a robust reform agenda (economic, governance, institutional, structural, land tenure systems reforms, etc.). This robust reform agenda is critical to improving government efficiency, strengthening institutional & regulatory frameworks, improving social fairness & inclusion, and eliminating prevailing excessive pricing distortions to reduce the cost of production, increase market competition, and spur innovation.

## **4.2 Interest Rate Policy**

The Bank (RBZ) has recalibrated the Bank policy rate from 130% per annum to 20% per annum. As alluded to earlier, the ZWL was on a free fall, forcing the RBZ to set high benchmark policy rates to maintain positive real interest rates and encourage borrowing for both investment and consumption. Also, high policy interest rates were meant to tame speculative lending and borrowing in the economy. Be that as it may, high market interest rates increase the cost of borrowing, sustain stock market volatility, reduce disposable incomes, and limit the growth of aggregate consumer spending. With the launch of a new currency, it was inevitable for authorities to reduce their policy rate significantly. As long as the growth of the ZiG money supply remains in tandem with the growth rate of economic activity in the real sector, currency and price volatility will be curtailed, leading to low interest rates supporting production. The Bank has set the overnight accommodation interest rate at 5% above the Bank policy rate to promote responsible economic borrowing.

In addition, the Bank has set minimum savings and time deposit interest rates on ZiG at 9% and 7.5% below the Bank deposit facility rate of 12.5%, respectively. Also, minimum interest rates on foreign currency accounts (FCA) deposits remain unchanged at 1% and 2.5% for savings and time deposits, respectively. These actions were likely taken to help lure depositors to keep money aside for long-term goals while earning interest. Lucrative interest on deposits ensures that excess money held by the public is kept in the bank rather than being used for speculative purposes.

In other words, the higher the deposit interest rate, the greater the opportunity cost of holding non-interest-bearing cash.

However, these interest rates on deposits must be above the inflation level. Otherwise, they will unlikely to lure economic agents into banking their excess ZiG funds. This is because when interest rates lag behind the inflation level, the value lost due to increased prices is much higher than the value gained on interest-earning ZiG deposit accounts. As such, there is no incentive for the public and investors to keep their extra money in such accounts in an inflationary environment. They would rather chase value by investing their free funds in riskier assets like stocks or buying USDs in the parallel market.

### **4.3 Statutory Reserve Requirements (SRR)**

The 2024 MPS highlighted that the statutory reserve requirements (SRR) for demand deposits in ZiG and savings and time deposits in ZiG will remain standardized at 15% and 5%, respectively. SRRs are needed to build adequate liquidity in the banking sector; a lack thereof creates a financial imbalance in case of an untoward incident like fraud, which can lead to a risk of financial instability. Considering this, one can conclude that SRRs are crucial in building trust and confidence in the banking sector as investors and the public get assurances that their money is secured through reserves. More importantly, SRRs are used for liquidity management by the central bank, where a high SRR ratio means a large portion of deposits is locked in the RBZ's vaults and, therefore, are not available for on-lending by banks, thus constraining credit creation and expansion by commercial banks.

Also, the RBZ increased the statutory reserve ratio for foreign currency demand deposits from 15% to 20%, effective 8 April 2024. The policy stance is meant to foster continued financial sector stability in the face of increased lending in foreign currency. The Bank will implement measures to enhance foreign exchange liquidity, moderate foreign currency exposures, and mitigate payment gridlocks in the banking sector. However, SRRs are mostly non-interest-bearing. As such, a high SRR poses a high opportunity cost to banks, prevents full utilization of savings in the economy, and increases the cost of financial intermediation.

#### **4.4 Alleviating Bank Charges**

The 2024 MPS proposed that banks should 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 up to 30 days. This is a commendable policy move by RBZ, as exorbitant bank charges have increased the opportunity cost of maintaining a small account, discouraging potential savings and pushing poor citizens from formal banking channels. More must be done to reduce excessive bank charges that have become an albatross in fulfilling the National Financial Inclusion Strategy.

#### **4.5 Banking Services for People with Disabilities (PWDs)**

For a long time, PWDs have faced limited access to financial services. It is commendable that the 2024 MPS set out initiatives to address this anomaly and align with regional and global trends. For instance, banking institutions and microfinance institutions are now required to facilitate the PWDs' access to and usage of financial services through appropriate infrastructure, both physical and information communication technology. This will go a long way in ensuring inclusive economic growth and development in line with Vision 2030 of leaving no one and no place behind.

### **5. Conclusion**

The RBZ launched a structured currency termed Zimbabwe Gold (ZiG). The value of ZiG will be anchored by foreign currency accumulated through export surrender requirements and gold reserves from in-kind mining royalties. If well implemented and underpinned on transparency and accountability, this arrangement of backing the ZiG with reserve assets has excellent potential to bring a lasting solution to Zimbabwe's decades-old currency conundrum. A stable currency helps power industrial production, fuel employment creation, leads to stable and affordable prices, and subdues poverty and income inequalities.