MONETARY POLICY STANCE AND INFLATION OUTLOOK

PRESENTATION AT THE PARLIAMENT PRE-BUDGET SEMINAR

BY

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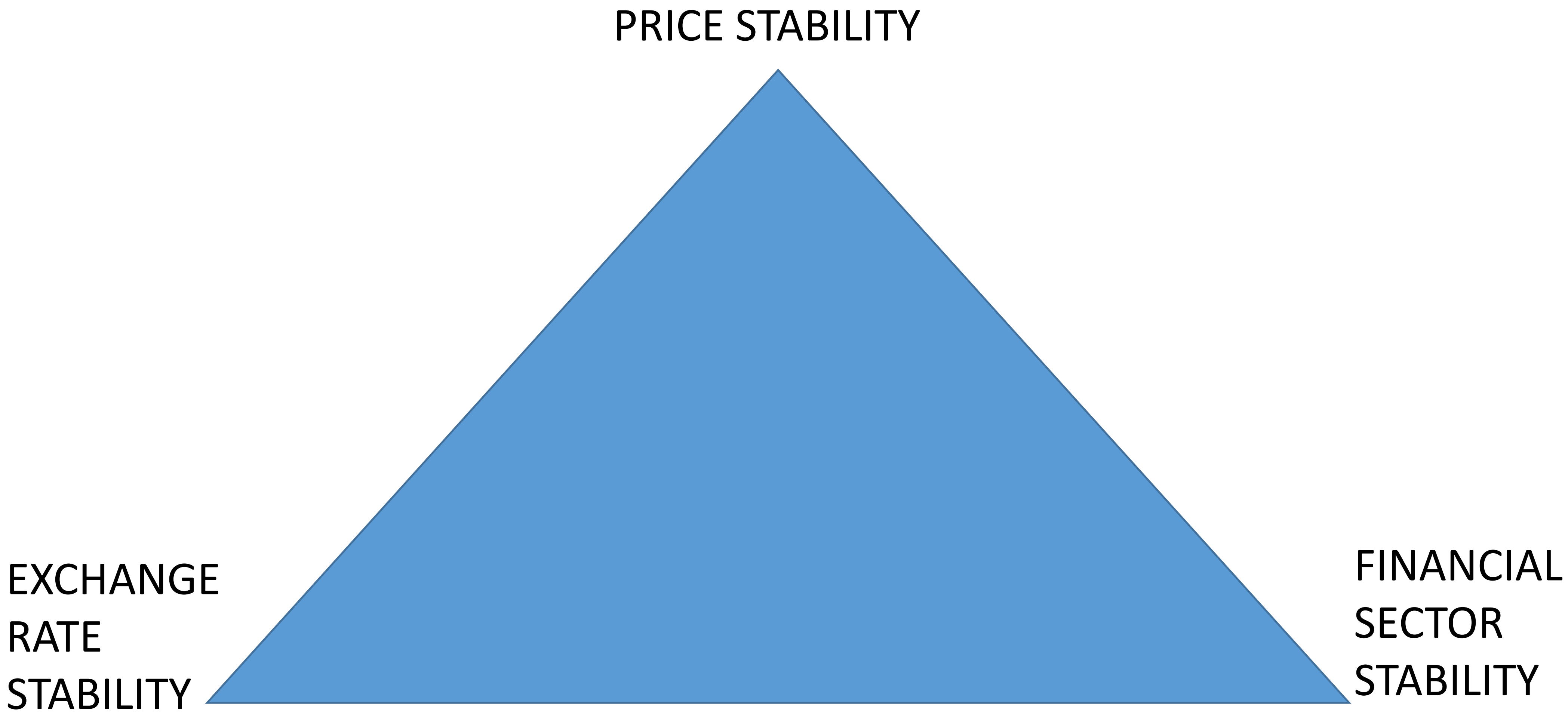
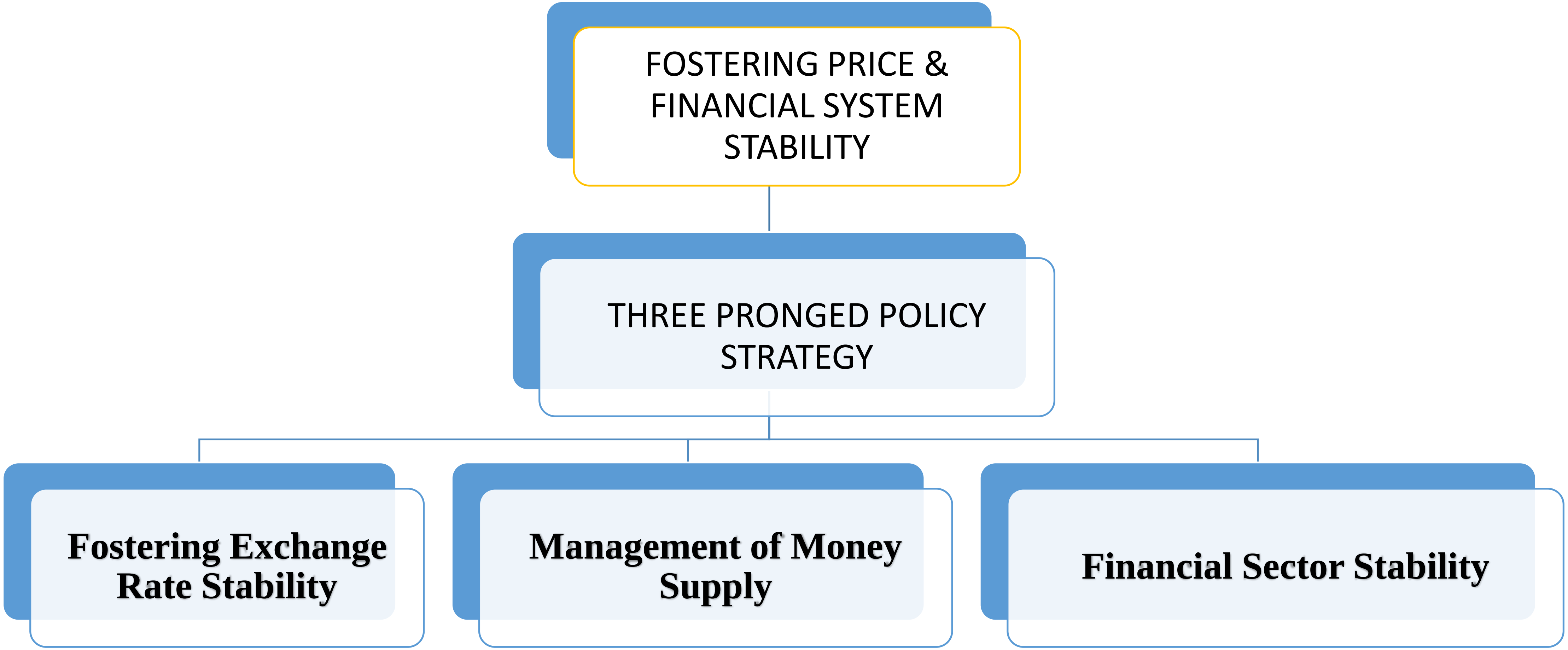
PRESENTATION OUTLINE

- Current Monetary Policy Focus
- Measures to sustain foreign exchange auction system
- Measures to maintain price stability
- Trends in Monetary Statistics
- Inflation Outlook
- Conclusion

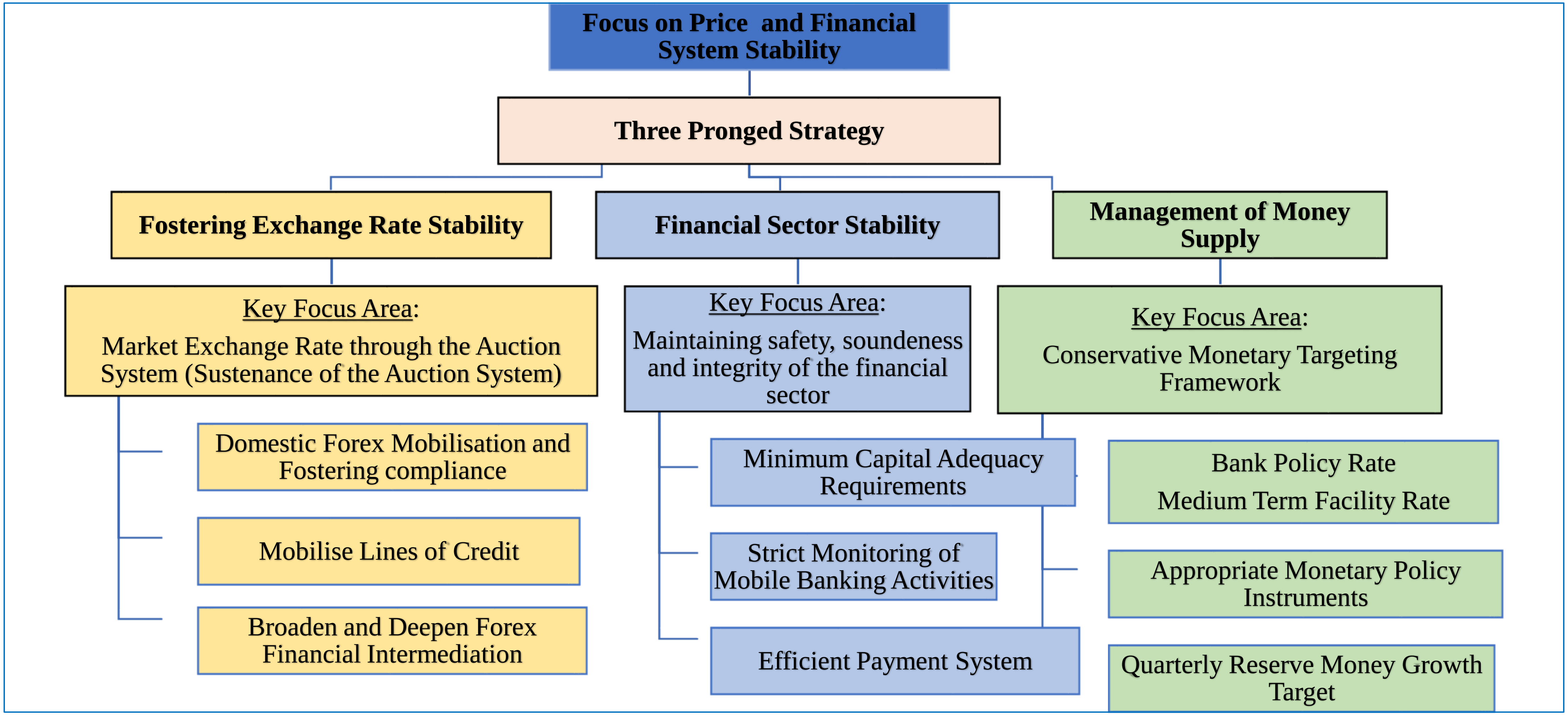
CURRENT MONETARY POLICY FOCUS



CURRENT MONETARY POLICY STRATEGY



KEY MONETARY POLICY FOCUS AREAS TO UNDERPIN THE NATIONAL DEVELOPMENT STRATEGY (NDS1)



FOREIGN EXCHANGE MANAGEMENT MEASURES

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Promotion of Export Receipts and Diaspora Remittances

- Liberalisation of the use of ‘free funds
- Appropriate exchange rate discovery for exporters and remittances through Auction;
- Streamlined and better export facilitation through better trade logistics

Promotion of FDI and Foreign Lines of Credit

- Favourable exchange control regulations on dividends and profits remitability
- Arranging foreign lines of credit on behalf of government in terms of the RBZ Act to keep the economy running ttimely

Enhancement of Domestic Mobilization of Foreign Currency

- Upward review of the Bureaux de Change exchange rate spread from 3.5% to 5% above auction rate
- Engagement of banks through moral suasion to participate in the auction
- Allowing direct participation of exporters in the auction

Foreign Exchange Earnings Surrender Requirements

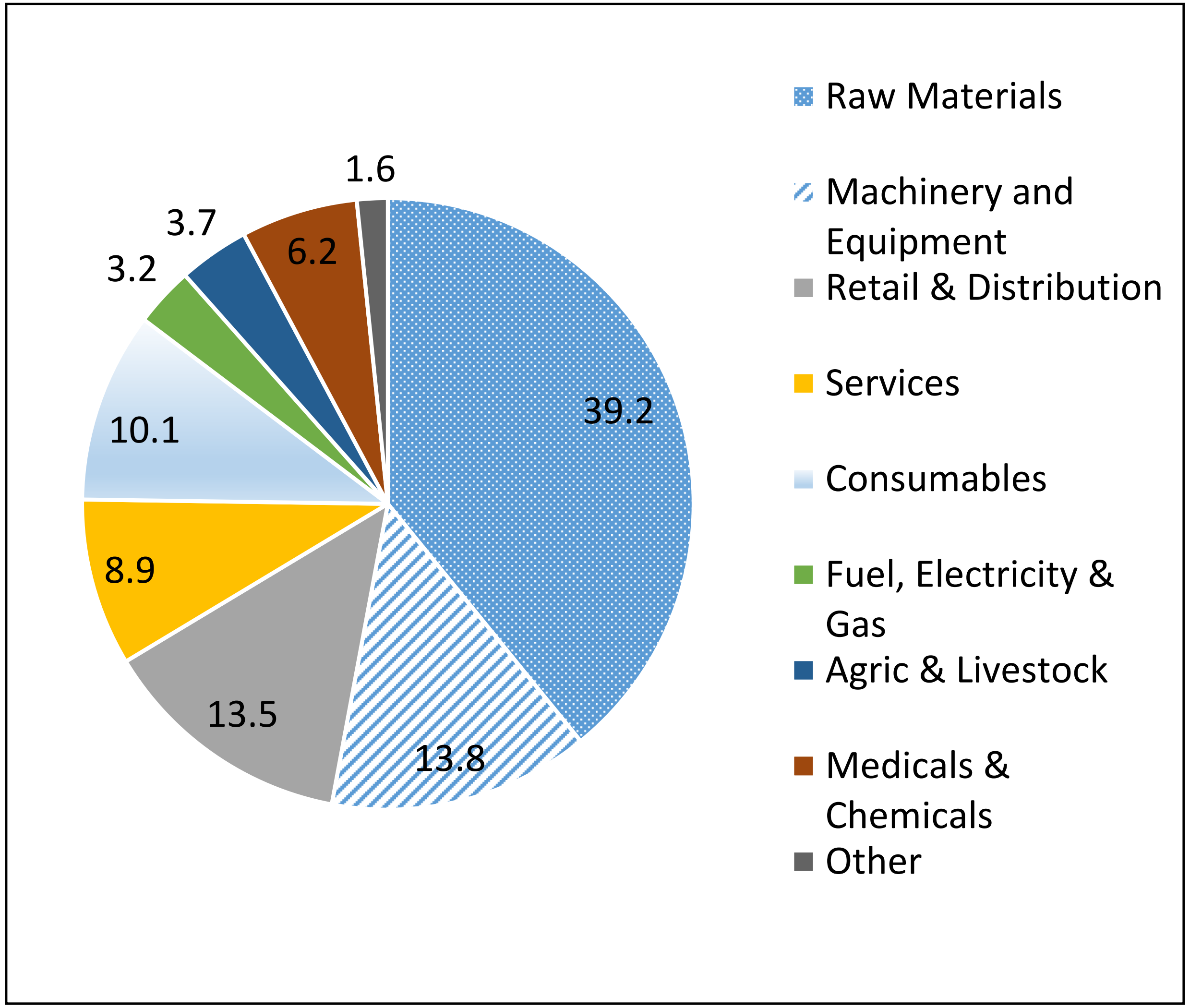
- Exporter Retention thresholds(70%)
- Retention thresholds for non-exporters(80%)
- Rationalized surrender thresholds across all exporters
- Longer retention period (60 day liquidation period)

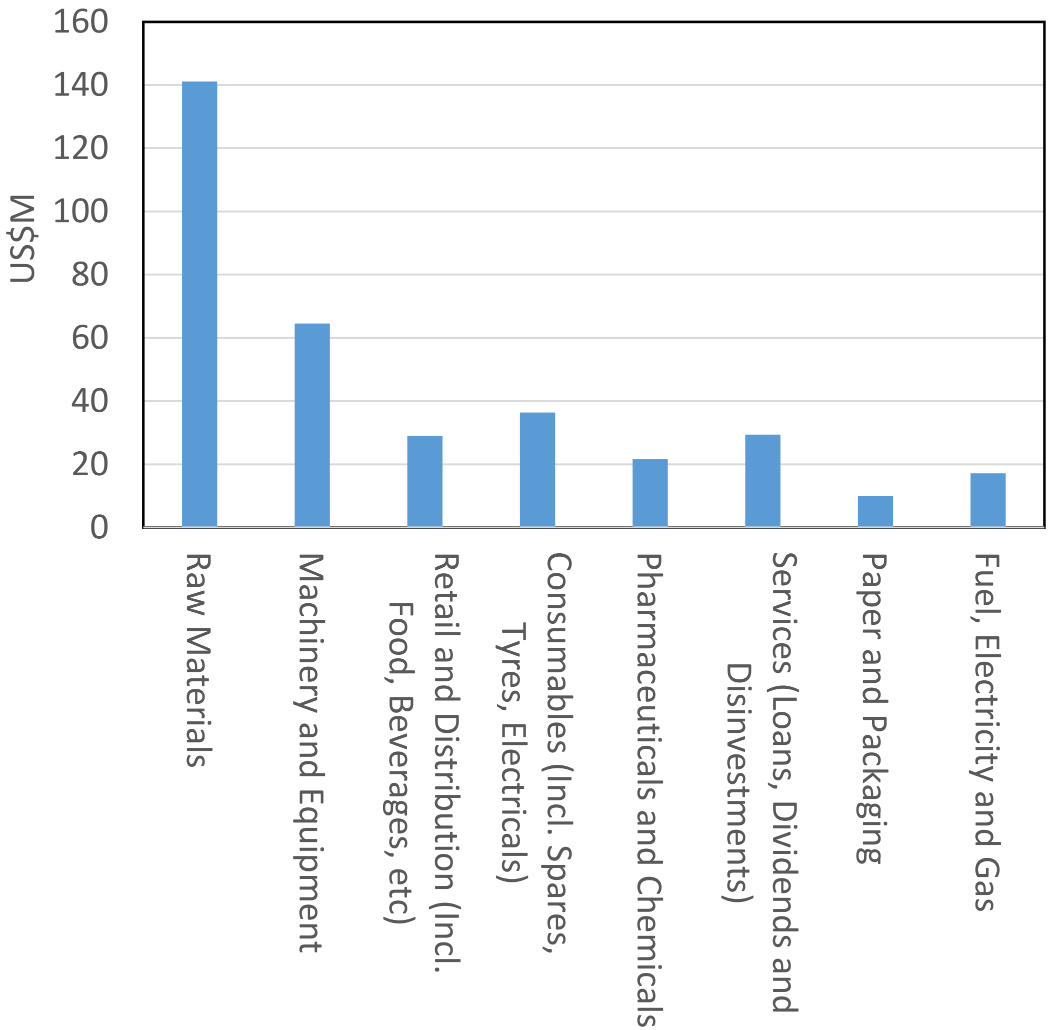
FOREIGN CURRENCY RECEIPTS AND PAYMENTS JANUARY -SEPTEMBER 2020

	2020	2019	% Change
Receipts (US$M)	4,756.1	4,218.3	12.7%
Exports (US$M)	2,662.1	2,489.1	7.0%
Diaspora Remittances (US$M)	657.7	453.7	45%
EMBASSIES & NGOs (US$M)	473.5	380.8	24%
Payments (US$M)	3,165	3,146	0.6%

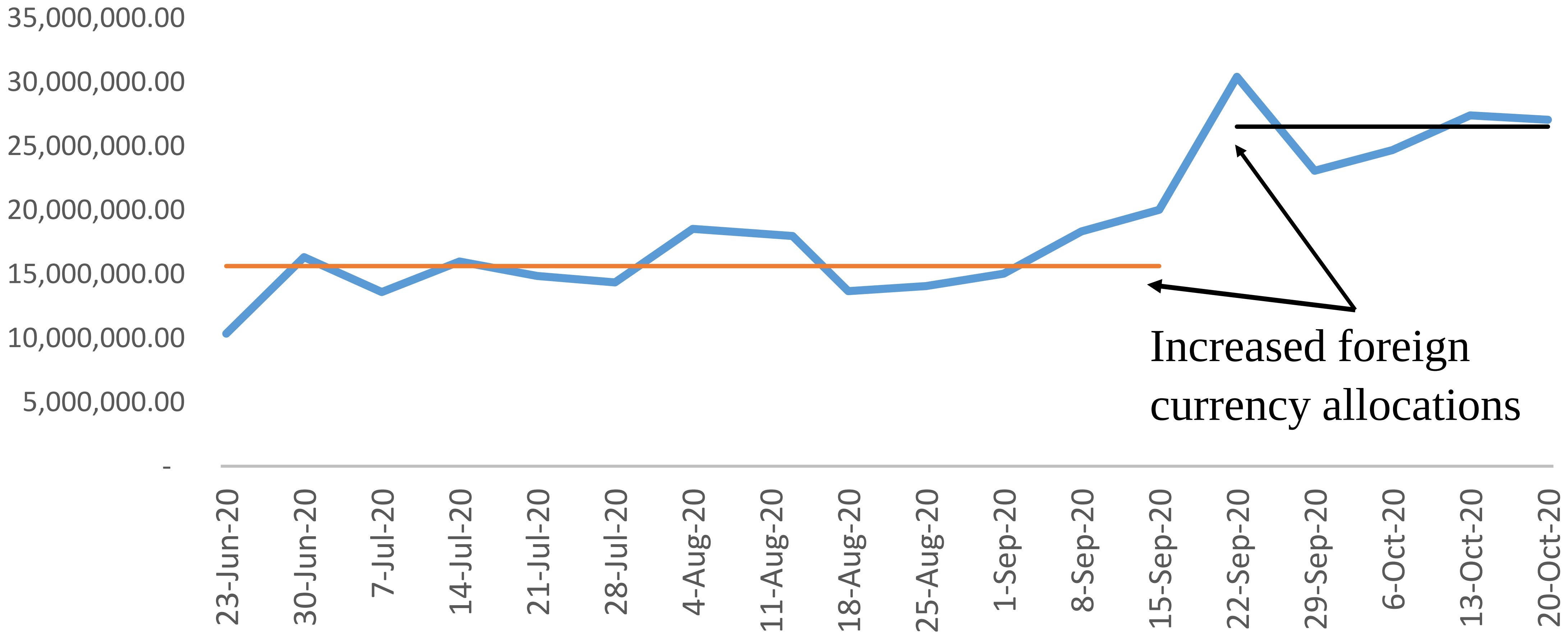
- The country’s exports have performed favourably notwithstanding the challenging operating environment under Covid-19
- Strong external sector performance will be key in sustaining exchange rate and currency stability going forward.

PRO-GROWTH FOREIGN CURRENCY ALLOCATION SYSTEM

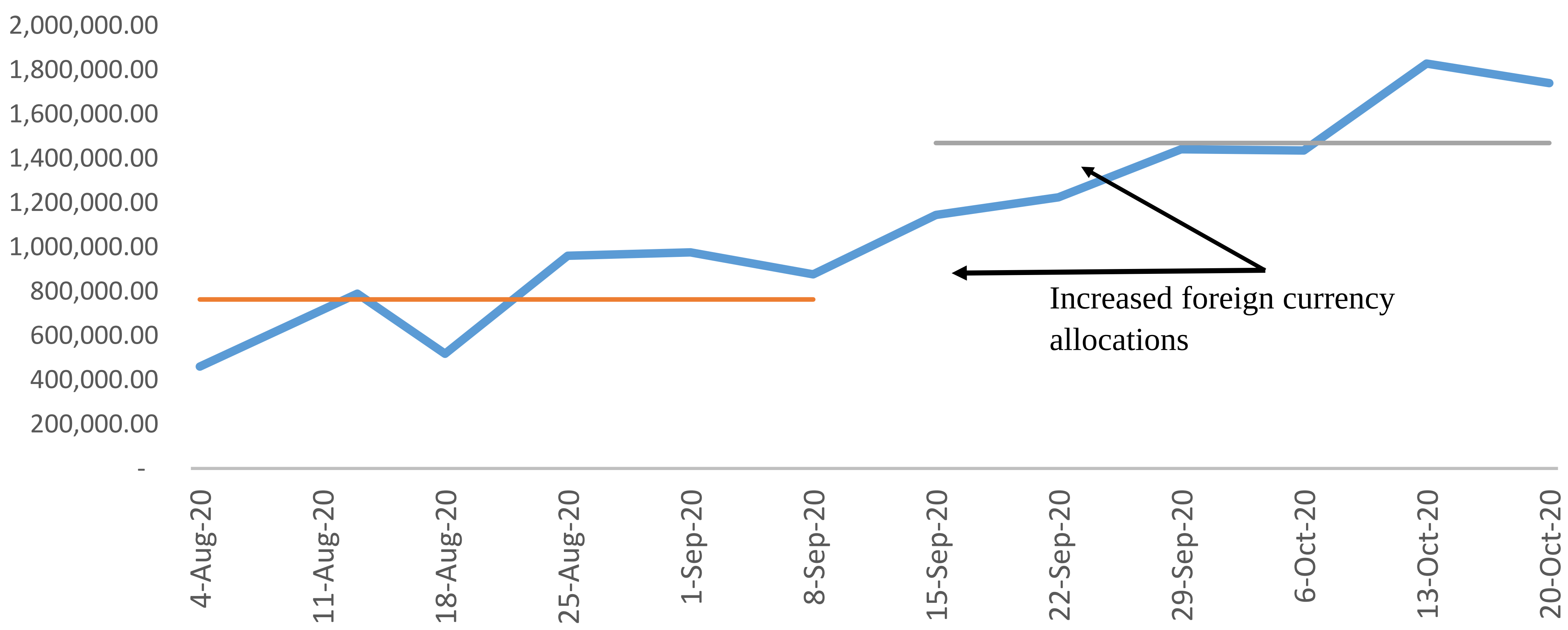




Trends in Foreign Currency Allocations-Main Auction



Increased Foreign Currency Allocations to SMEs



MONETARY GROWTH MEASURES

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Use of Bank Policy Rates to anchor inflation expectations and support economic activity

- Bank Policy Rate maintained at 35%
- Medium Term Lending Facility slightly increased to 25%
- Statutory Reserve ratio kept at 2.5% to ensure sufficient funds to banks for lending to the productive sectors of the economy

Conservative Monetary Targeting Framework

- 25% per Quarter Reserve Money Growth Target
- Average monthly Reserve Money contained below ZW$13 billion since January 2020
- Weekly publications of Reserve Money to enhance transparency

Attractive money Instruments and other measures to curb speculative activity

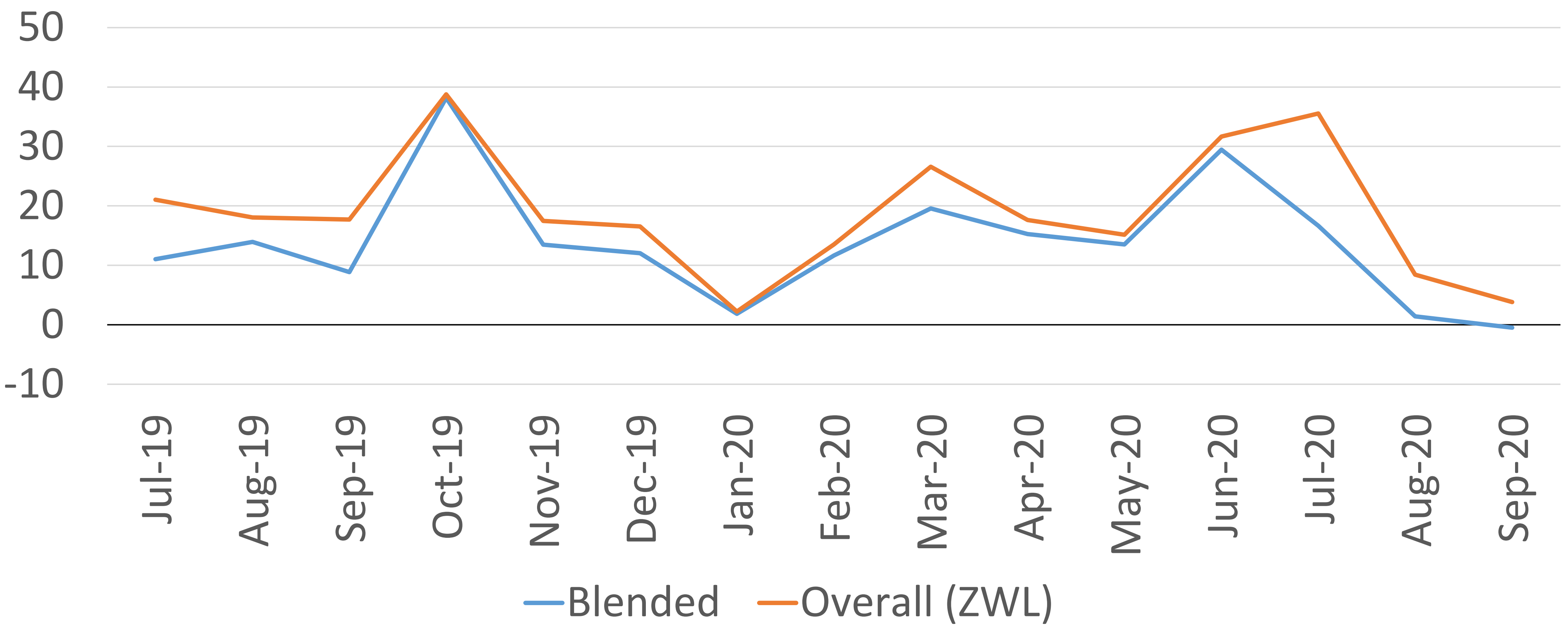
- Strict Monitoring of Mobile Banking Activities
- Exchange Rate Indexed Bills/ Bonds
- Mobile money transactions capped at $5000 per individual per day
- Abolishment of Mobile money agents’ wallets

RESERVE MONEY DEVELOPMENTS (JAN-OCT 2020)

- Transparency in reporting reserve money figures to anchor inflation expectations

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Week Ending 16 Oct-20
Currency Issued by RBZ	1.22	1.31	1.34	1.46	1.67	1.90	2.06	2.14
Banking Sector Deposits at RBZ	7.09	8.79	10.20	12.08	10.42	11.46	10.06	15.34
Statutory (Required) Reserves	1.08	1.21	1.21	1.39	0.89	1.05	1.24	1.49
Banks' RTGS Liquidity	6.01	7.58	8.90	10.70	9.53	10.41	8.83	13.85
Other Deposits	1.08	1.61	0.92	0.28	0.58	2.79	0.26	0.08
Reserve Money	9.38	11.71	12.46	13.82	12.65	16.15	12.38	17.55

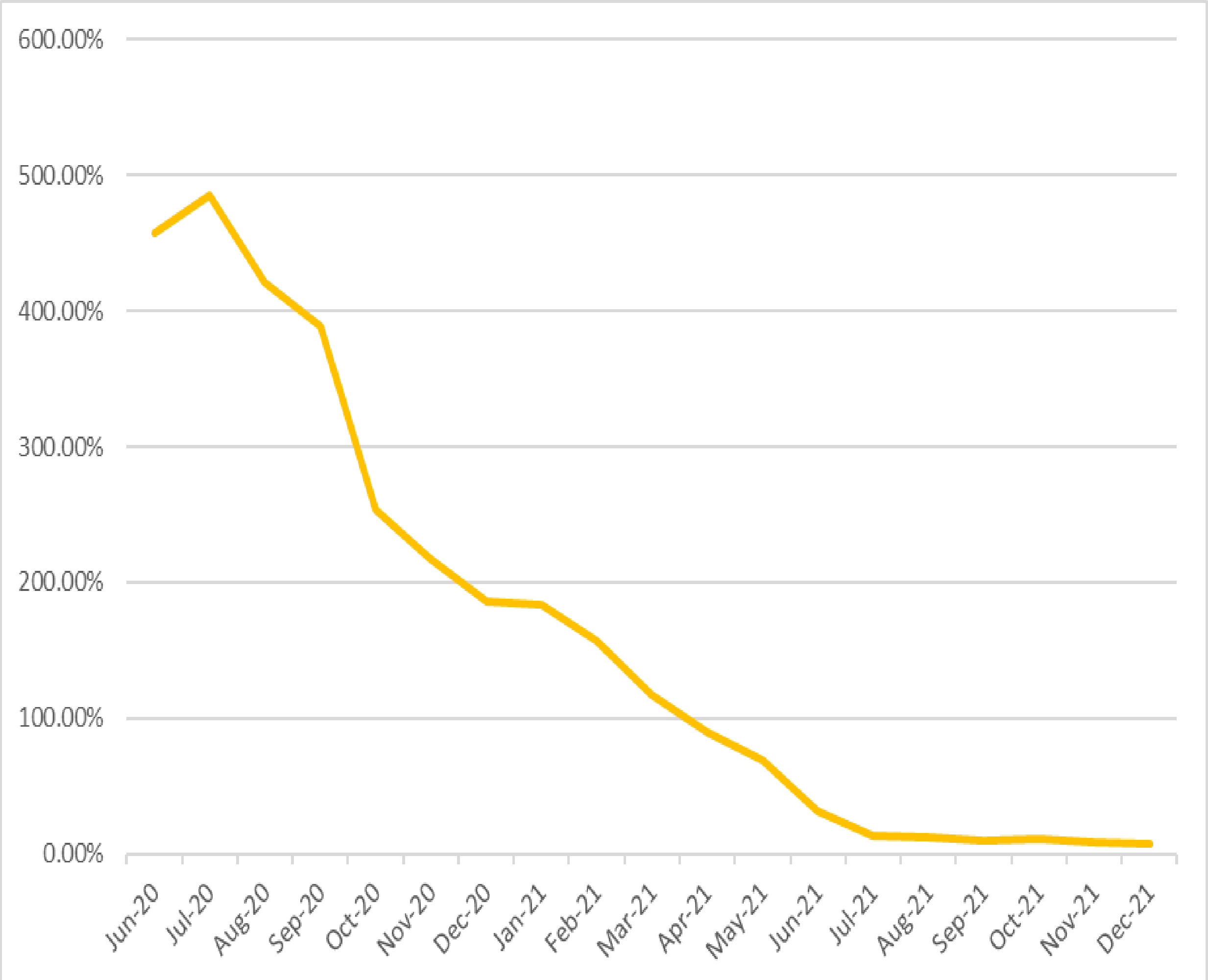
Inflation Developments



INFLATION DYNAMICS AND OUTLOOK

- The more reflective blended inflation is expected to fall below the target announced in the Mid-term Monetary Policy Statement of 250% by December 2020 and to reduce to 7.97% by December 2021

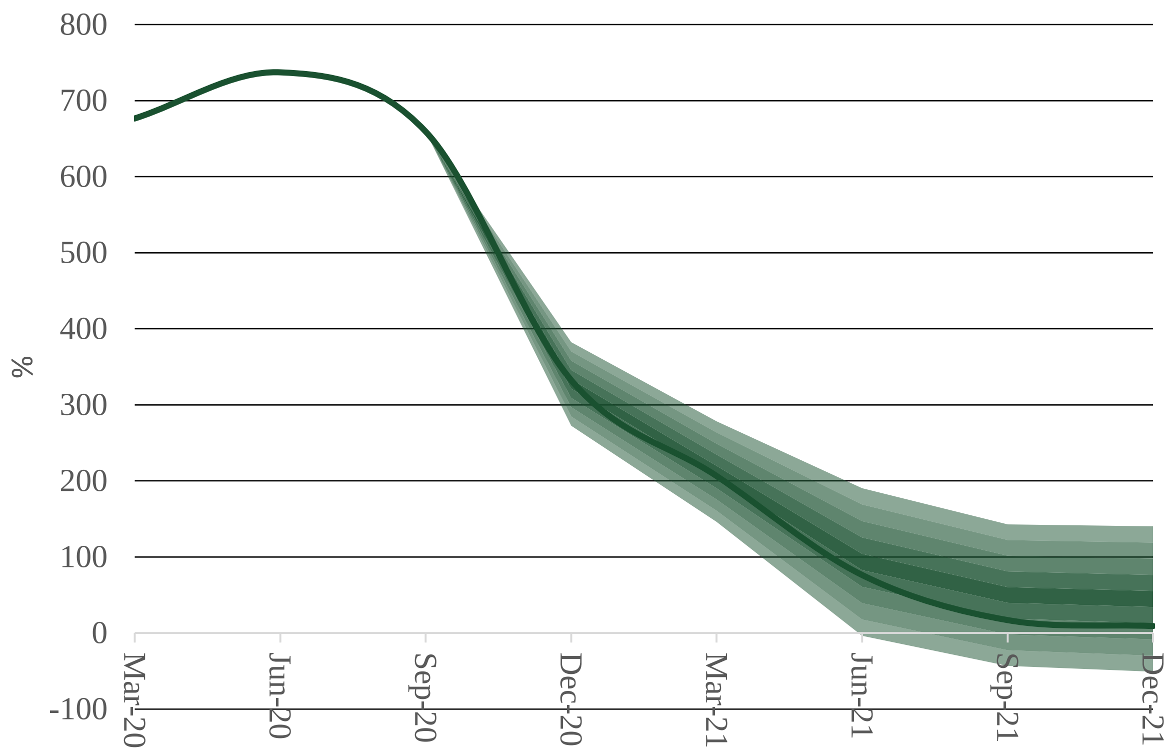
Date	ALL ITEMS CPI	MOM%	YOY%	YOY Average
Jun-20	557.2	29.44%	457.19%	
Jul-20	650.0	16.65%	485.27%	
Aug-20	659.1	1.41%	420.92%	
Sep-20	672.3	2.00%	388.12%	
Oct-20	672.0	-0.05%	253.11%	
Nov-20	685.4	2.00%	217.36%	
Dec-20	692.3	1.00%	186.12%	323.54%
Jan-21	699.2	1.00%	183.76%	
Feb-21	706.2	1.00%	156.69%	
Mar-21	713.3	1.00%	116.86%	
Apr-21	720.4	1.00%	90.01%	
May-21	727.6	1.00%	69.03%	
Jun-21	731.2	0.50%	31.24%	
Jul-21	734.2	0.40%	12.95%	
Aug-21	737.1	0.40%	11.83%	
Sep-21	740.0	0.40%	10.08%	
Oct-21	743.0	0.40%	10.57%	
Nov-21	745.2	0.30%	8.73%	
Dec-21	747.5	0.30%	7.97%	30.84%



INFLATION DYNAMICS AND OUTLOOK

- The Zimbabwe dollar inflation expected to end the year closer to Government target of 300% by end December 2020 and to 9.04% by December 2021

Month	CPI	MOM Inflation	Annual Inflation	Average Inflation
Aug-20	2,124.0	8.44%	761.03%	
Sep-20	2,205.3	3.83%	659.44%	
Oct-20	2,315.6	4.37%	471.25%	
Nov-20	2,361.9	2.00%	398.92%	
Dec-20	2,409.2	2.00%	336.64%	597.16%
Jan-21	2,457.3	2.00%	335.68%	
Feb-21	2,481.9	1.00%	287.61%	
Mar-21	2,506.7	1.00%	209.26%	
Apr-21	2,531.8	1.00%	165.51%	
May-21	2,557.1	1.00%	132.93%	
Jun-21	2,569.9	0.50%	77.82%	
Jul-21	2,580.2	0.40%	31.73%	
Aug-21	2,590.5	0.40%	21.96%	
Sep-21	2,600.9	0.40%	17.93%	
Oct-21	2,611.3	0.40%	12.77%	
Nov-21	2,619.1	0.30%	10.89%	
Dec-21	2,627.0	0.30%	9.04%	53.45%



ECONOMIC OUTLOOK

	2019 Est.	2020 Budget	2020 Proj	2021 proj
Overall GDP growth	-6.0	3.0	-4.5	7.4
Agriculture and forestry	-17.8	5.0	-0.2	11.3
Mining and quarrying	-12.4	4.7	-4.7	11
Manufacturing	-8.7	1.9	-10.8	6.4
Electricity and water	-19.2	2.1	-7.9	10
Construction	-13.9	2.3	-11.4	7.2
Distribution, Hotels and restaurants	-8.2	3.3	-7.4	6.8
Transportation and communication	12.9	2.4	3.2	7.1
Financial, banking and insurance activities	-6.1	1.2	-7.1	7.7
Administrative and support service activities	1.5	1.9	-0.5	2.5
Education and training	0.9	3.7	-7.2	12.7
Human health and social work activities	2.7	2.9	7.8	2.0
Private's education and health	1.3	3.5	-3.5	9.7
Households-related services	-2.6	3.5	-2.1	4.4
Real estate activities	-1.6	2.3	-1.8	4.7

Monetary Policy Strategy Under NDS1

- Sustaining the foreign exchange auction system to foster predictability and stability in the foreign exchange market
- Reducing inflation to single digit levels of between 3% and 7% by 2025 in line with SADC Macroeconomic Convergence Targets;
- Building reserves from less than one month import cover in 2020 to three months import cover by 2025;
- Alignment of reserve money growth to levels consistent with positive real GDP growth and;
- Sustaining Financial sector stability.

CONCLUSION

- RBZ's primary focus is to maintain price and financial system stability to foster economic development as we journey towards Vision 2030 of becoming an upper middle income country.

- Price and Financial System stability will in turn help restore the value and function of the local currency.

- Predictability and stability in prices is *sine qua non* for business planning, promoting investment and for protecting the welfare of consumers. Stability promotes and guarantees financial security.

THANK YOU