HIGHLIGHTS OF THE FEBRUARY 2021 MONETARY POLICY STATEMENT

Staying on Course in Fostering Price and Financial System Stability

by

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THRUST OF THE FEBRUARY 2021 MONETARY POLICY STATEMENT

- Safeguard, maintain and sustain the current stability in inflation and exchange rate experienced since July 2020
- Buttress the previous monetary policy measures which have served the country well
- Complement current fiscal policy measures announced in the 2021 National budget
- Support and anchor achievement of the NDS1 Objectives
- Address emerging risks to monetary policy and its transmission to the real economy. These risks include:
  - Renewed risks from Covid-19 and its associated new variants
  - Renewed inflationary pressures
  - Increased demand for forex on the auction system
  - Inadequate remuneration of bank deposits
  - Low aggregate demand

KEY ACHIEVEMENTS OF THE PREVIOUS MONETARY POLICY STATEMENT

- The Bank's three pronged approach to fostering price stability has served the country very well and needs to be buttressed through continued:

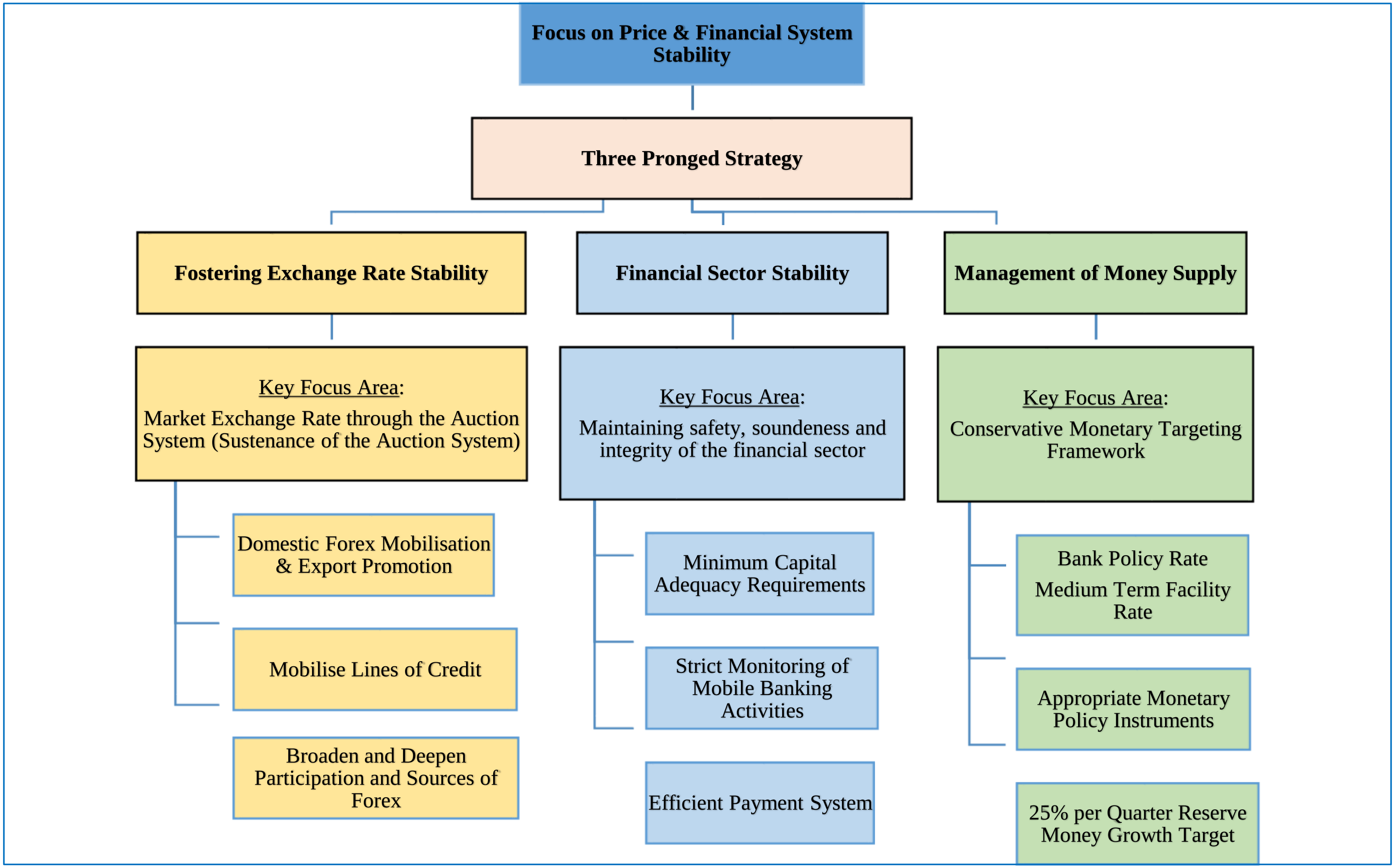
  i. Discovery of a market exchange rate through the auction system to achieve price and exchange rate stability

  ii. Maintenance of a safe, sound, credible and stable financial sector; and

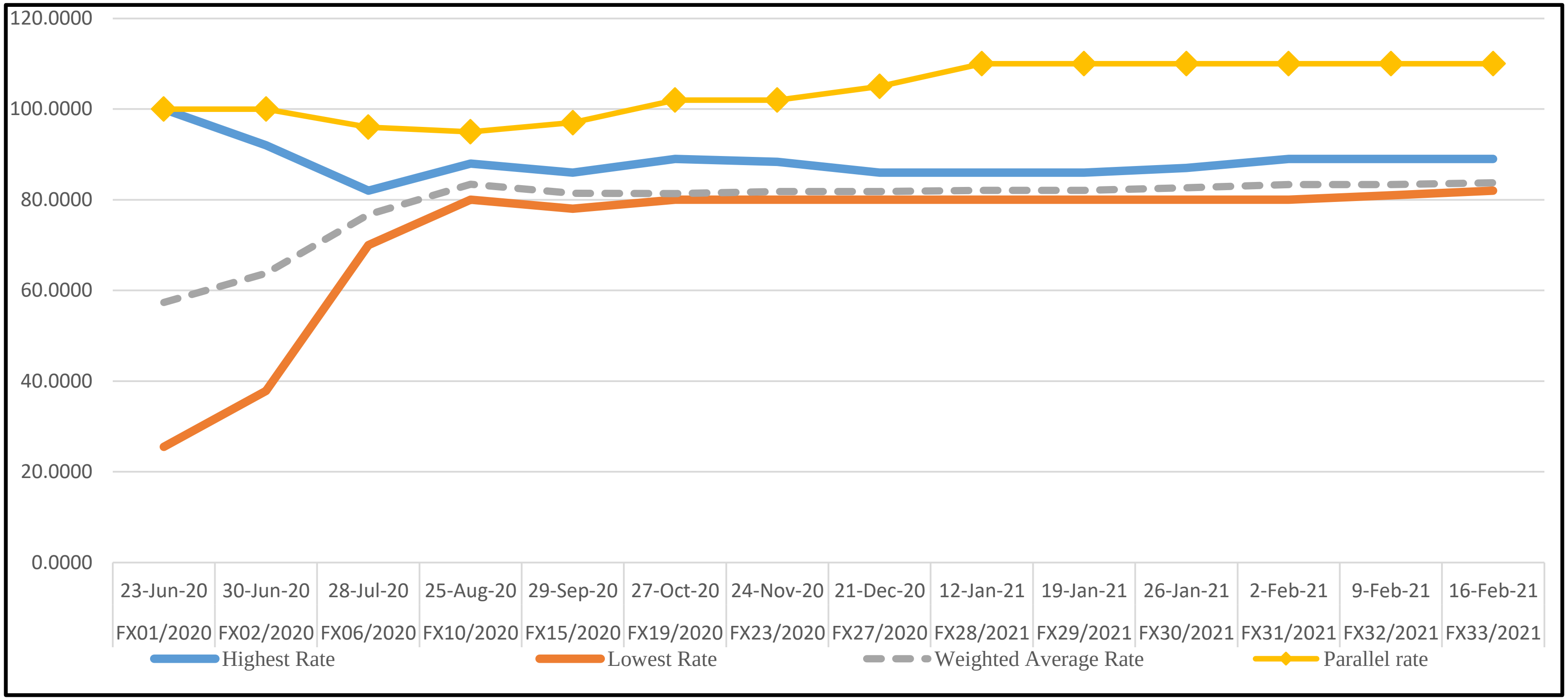
  iii. Pursuit of a more conservative monetary targeting framework to keep inflation and the exchange rate under check.

- This approach has resulted in:
  - Reduced the parallel market exchange rate premiums to a band of around 20% consistent with experiences in other countries
  - Containment of money supply growth to below the target of 25% per quarter
  - Sustained disinflation from 837.5% in July 2020 to 362.5% in January 2021.
  - Restoration of order in mobile banking platforms

RBZ Strategic Monetary Policy Framework



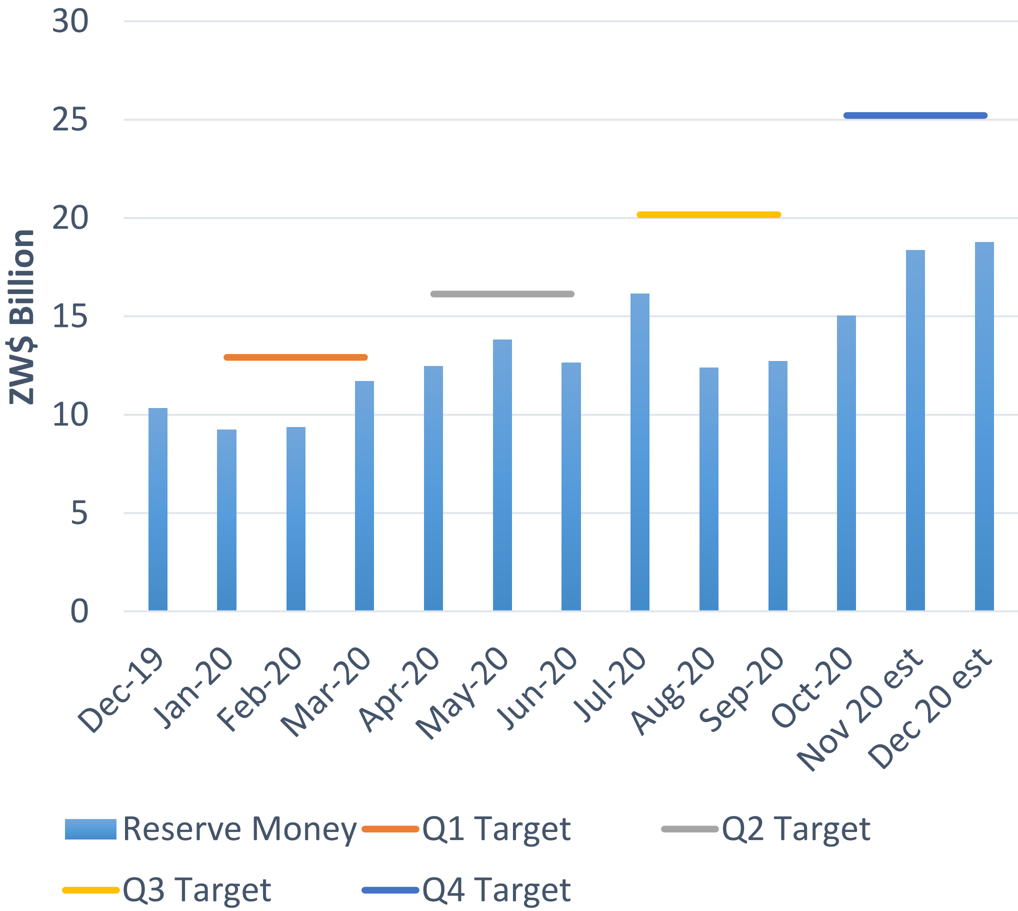
EXCHANGE RATE STABILITY & CONVEGENCE



➢A total of US$833m was allocated through the Auction system as at 16 Feb 2021

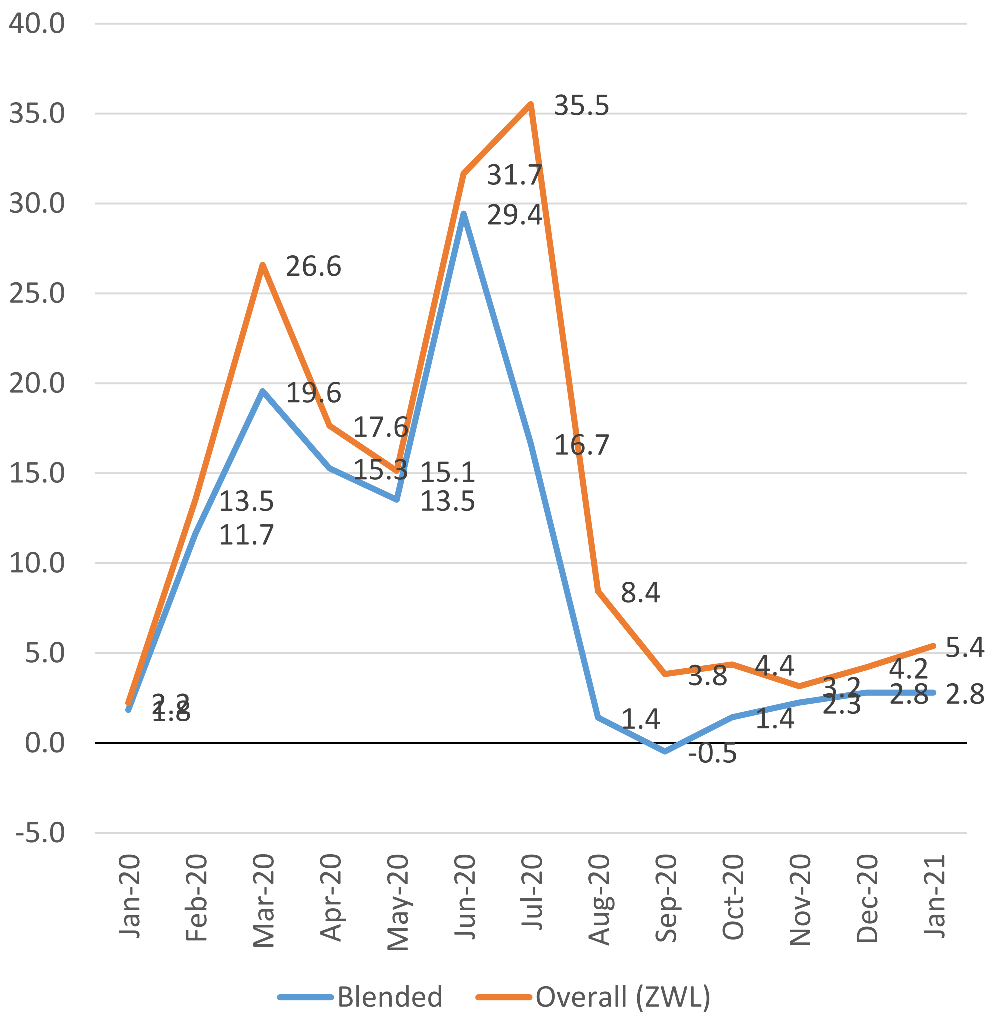
➢70% of forex allotments were for imports of raw materials and equipment, whilst 11% was used to import other strategic imports.

CONSERVATIVE MONEY SUPPLY MANAGEMENT



- Bank achieved a quarterly growth in reserve money of 18.6% in 2020, against a target of 25% per quarter.
- Reserve money at ZW$18.76 billion in December 2020, compared to a year-end target of ZW$25.20 billion.
- Active open market operations with ZW$ 14.1 mopped since October 2020.

PRICE STABILITY



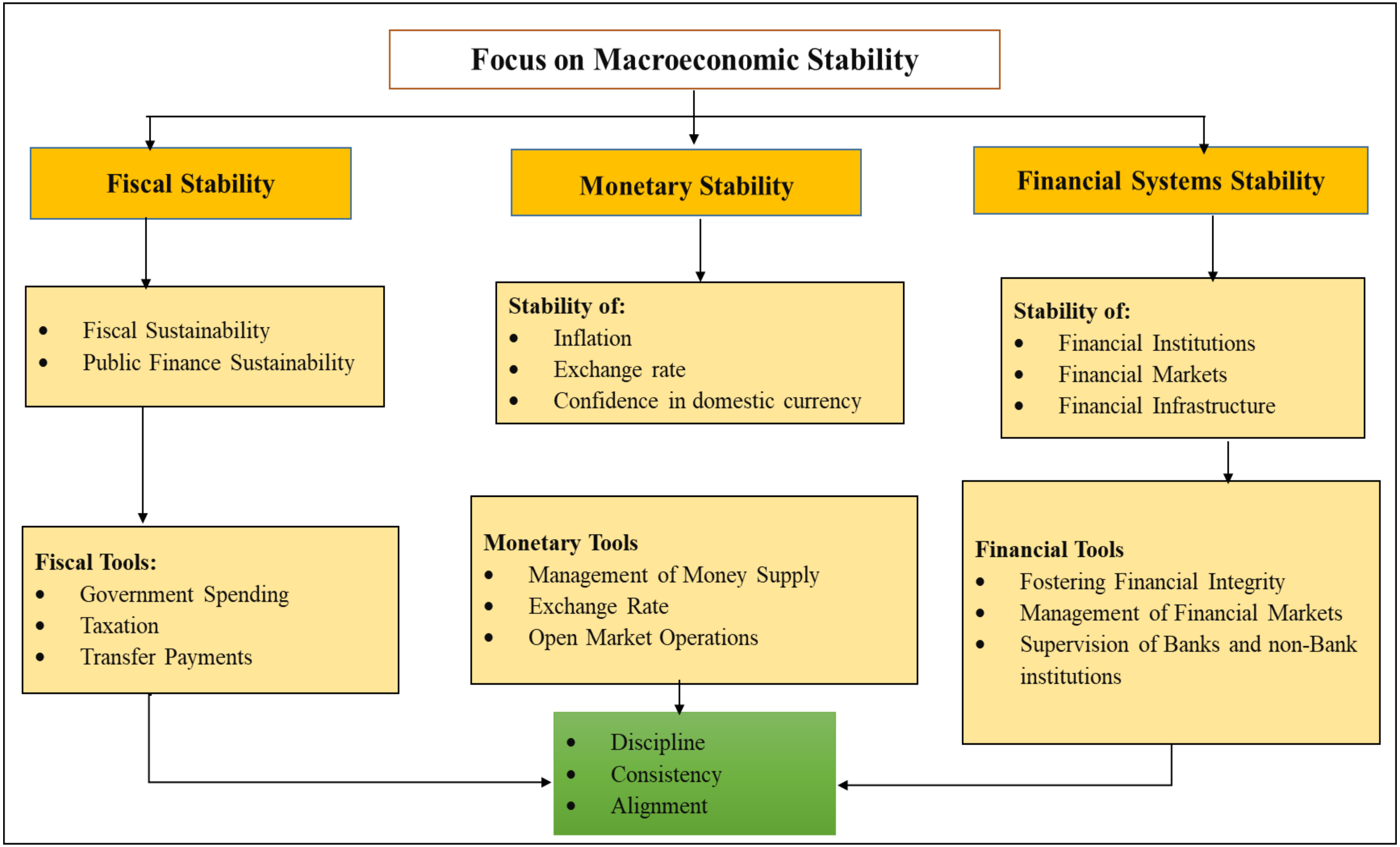
- ZW$ monthly inflation significantly dropped from a peak of 35.5% in July 2020 to below 5%, while blended inflation fell from 29.4% to below 2% (negative 0.5% in September 2020).

- Slight increase in January 2021 inflation which prompted some of the measures.

- Favourable agriculture season to contain food prices.

- ZW$ and blended monthly inflation expected to converge in the second half of 202, reflecting durable stability

ROLE OF RBZ IN THE NATIONAL STRATEGIC FOCUS



Measures to Buttress Previous Policies and Address Emerging Risks

i. Bank policy rate for overnight accommodation increased to 40% up from 35%; and Midterm lending rate for productive sector now 30% up from 25%.
   - ***Rates increase aimed to keep speculative borrowing in check***

ii. Statutory reserve requirements for demand and call deposits set at 5% up from 2.5%, while reserve requirements for time deposits remain at 2.5%.
   - ***The differentiation aims at incentivizing banks to hold long-term liabilities***.

iii. Quarterly target reserve money growth rate reduced to 22.5% from 25%, consistent with targeted annual inflation of below 10% and economic growth of 7.4% in 2021.

Policy Measures for 2021 Cont'd

i. Cash withdrawal limits increased to ZW$2,000 for individuals, while limits for mobile banking transactions remain unchanged at ZW$5,000 per transaction and ZW$35,000 weekly.

   ***A ZW$50 note to be introduced soon, to smoothen the payment system*.**

ii. Source for liquidity of auction system would be 40% export surrender requirements, 20% domestic forex exchange sales proceeds surrender requirements, and 15% forex contribution from the fiscus.

iii. Putting in place a definitive programme for accounting and expunging of foreign exchange obligations under the blocked funds and foreign exchange legacy-debt framework.

Banking Institutions Specific Measures and Other Policies

i. Maintaining the *status quo* on the minimum capital requirements for banks and microfinance institutions

ii. Ensuring that banking institutions comply with the Banking (Savings Interest Rates) Regulations, S. I. 65A of 2020

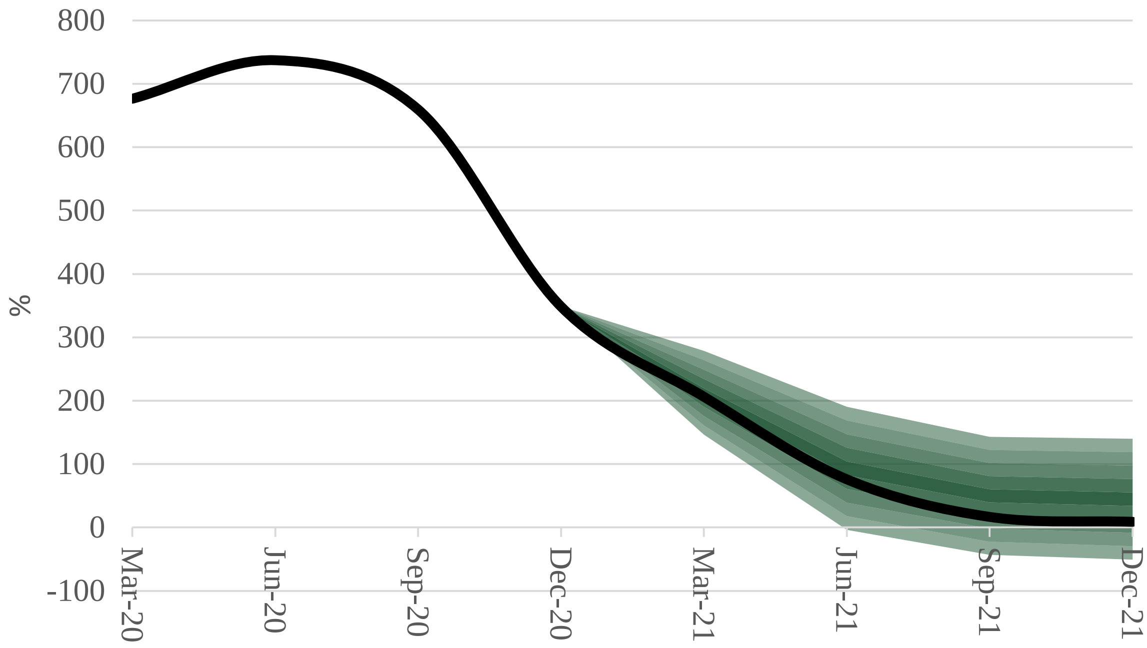
iii. Ensuring that banks and foreign exchange system participants comply with auction rules and regulations to curb abuse of the foreign exchange auction and safeguard the auction from being abused as a breeding ground for arbitrage opportunities

iv. Establishing a Fintech Regulatory Sandbox to allow entities to list their financial products, services or solutions within a controlled environment.

ECONOMIC OUTLOOK

- New measures to ensure the achievement of the envisaged growth of 7.4% in 2021;
- Increased food production due to a favourable agriculture season, to support exports, reduce imports and ease pressure on the fiscus
- Anticipated strong balance of payments position, is expected to assist in stabilising the exchange rate and limiting its pass-through effects to inflation.
  - Current account surplus of US$1.1 billion recorded in 2020 and the trend is expected to continue in 2021

ANNUAL INFLATION OUTLOOK -2021



- Both ZW$ End of Year Inflation and Blended inflation expected to end the year 2021 below 10%.

- Annual average inflation will be a bit high reflecting the high annual inflation at the beginning of the year

	ZWL	Blended
End period Annual Inflation (%)	9.04	8.0

Thank You and May God Bless You and May God Bless Zimbabwe.