PRESS RELEASE

DELIBERATIONS OF THE MONETARY POLICY COMMITTEE (MPC)

Introduction

1. The Monetary Policy Committee (MPC) of the Reserve Bank of Zimbabwe held its fourth meeting on 17 January 2020 and deliberated on a number of issues that include the recent inflation and exchange rate developments and outlook, further developments on implementation of the Reuters electronic trading platform for the foreign exchange interbank market, measures to maintain stability of the local currency and the banking sector and interest rate management. The MPC agreed on the following decisions and policies:

Inflation Developments and Outlook

2. The MPC was pleased with the recent inflation trend which has consistently shown a downward trajectory in month-on-month inflation since October 2019. The month-on-month inflation ended the year within close range of the MPC end 2019-year target of 15 percent. Given the Bank's key focus on price and exchange rate stability in 2020, the MPC expects the month-on-month inflation to continue decelerating and forecasts it to close the first quarter in single digit levels. This trend would see the year-on-year inflation coming down to about 50 percent by December 2020.

Exchange Rate Stability

3. The stability of the exchange rate witnessed over the past four months, starting from September 2019, was a result of measures taken in 2019 to manage money supply. This stability has significantly assisted in anchoring inflation expectations emanating from benchmarking of domestic prices to exchange rate movements. The observed exchange rate stability was on account of adherence to monetary targeting, coupled with improved confidence in the use of the local currency and enhanced foreign currency inflows.

4. The MPC directed the Bank to continue implementing the monetary targeting policy so as to anchor expectations on inflation and exchange rate movements.

Foreign Exchange Trading System

5. The MPC is pleased to note that the electronic deal tracker system under the Reuters platform went live on a trial basis on 2 December 2019. The main aim of the framework is to improve the operation and efficiency of the foreign exchange market through a more transparent price discovery process set by market makers. This system marks a significant step towards further liberalisation of foreign currency trading and is in support of the move towards the complete liberalisation of the current account, including the sourcing of funds for the importation of strategic commodities.

6. The Committee noted with satisfaction that as at 31st December 2019, an aggregate amount of US$1.5 billion had been traded on the interbank market. The MPC agreed that the Bank should set aside appropriate foreign exchange resources to intervene and stabilize the market, as may be required once the enhanced interbank market become fully operational in the near future. The

MPC also resolved to strengthen the operations of bureaux de change by further liberalising their trading activities under a framework to be supervised by the Bank.

Minimum Capital Requirements for Banks

7. The MPC noted the need for banks to hold sufficient capital to ensure continued stability and soundness of the financial services sector, as well as ensuring that banks continue to be able to underwrite financial transactions that are necessary for improving production and productivity. In this regard, minimum capital requirements for banks have been reviewed by the Bank to ZW$ equivalent to the following USD amounts.

Type of institution	**Minimum Capital Requirements in ZW$ Equivalent to :-**
Tier 1 - Large Indigenous Commercial banks & all foreign banks	**USD30 million**
Tier II - Commercial banks, Merchant banks, Building societies, Development banks, Finance & Discount houses	**USD20 million**
Tier III - Deposit-taking Microfinance banks	**USD5 million**
Credit Only Microfinance Institutions	**USD25,000**

8. To give banks the time to comply with these requirements, the effective date for compliance with the new minimum capital requirements is 31 December 2020.

Interest Rates

9. The MPC resolved to maintain the Bank Policy Rate on Overnight Accommodation at 35 percent. The interest rate on the Medium-term Bank Accommodation (MBA) facility shall continue to reflect the yield on the Treasury Bills auction rate which is currently at between 15 to 18 percent. The MPC emphasized that access to the MBA window crucially depends on the quantum of medium and long-term productive lending undertaken by banking institutions.

Productive Sector Funding

10. The MPC is pleased to note that a total of ZW$800 million has so far been disbursed under the MBA window created to support banks with productive sector funding requirements. This amount is well within the Committee's initial target of ZW$1 billion agreed in 2019. The Bank shall continue to administer this facility, while taking appropriate measures to limit its impact on inflation and the exchange rate. Moreover, the Bank shall revise the facility in line with the country's developmental aspirations and inflationary outlook. The need for funding of the winter crop season through commercial banks in the immediate future was noted by the Committee.

The Availability of Cash for Transactional Activity

11. Following its decision in October 2019 to increase the quantity of bank notes and coins in the local market to try and reduce the premium being incurred on cash and to give the public more access to their cash balances with financial institutions, the Bank has imported additional bank notes and coins to the tune

of ZW$400 million. An amount of ZW$150 million was disbursed in the last quarter of 2019 to give a total of ZW$1.1 billion of notes and coins in circulation in the country as at 31st December 2019. This ZW$1.1 billion of notes and coins in circulation, represents 3.2% of total banking sector deposits of ZW$34.5 billion as at 31 December 2019. As per normal banking practice, these funds were sold to local banks for distribution to clients in exchange for RTGS balances, so as to neutralize any expansion of money supply and therefore, inflation.

12. The MPC agreed that it should maintain its plan of getting the proportion of bank notes and coins in circulation up to 10 percent of deposits and that the Bank should consider the introduction of notes in larger denominations in line with inflation trends.

Government Subsidies

13. The MPC agreed to uphold its position that Government subsidies, such as the gold incentive, should be financed from the national budget without recourse to central bank financing. The Committee noted that failure to adhere to this principle would destabilise exchange rates and disrupt the inflation management program adopted by the Bank.

Building of Foreign Currency Reserves

14. The MPC noted with satisfaction the increase in foreign exchange flows into the country in 2019. In addition, it was noted that despite the liberalisation of the current account, imports had declined and a technical surplus in the balance

of payments was achieved. The Committee recognized the need to gradually build up gold and foreign currency reserves to boost confidence in the domestic currency as well as strengthen investor sentiment.

Thank You

John Panonetsa Mangudya

Governor

Date: 22 January 2020