Group Economics &Corporate Strategy
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ANALYSIS & IMPLICATIONS OF THE FEBRUARY 2022 MONETARY POLICY STATEMENT

"STAYING ON COURSE"

FEBRUARY 2022

POLICY MEASURE

1. MONETARY TARGETING FRAMEWORK

i. With immediate effect, the Central Bank reviewed downwards the quarter on quarter reserve money target from 10% to 7.5% for the quarters ending March and June 2022, which target will be reviewed thereafter.

ii. The Bank will also continue with its aggressive liquidity management policy by aligning its Open Market Operations (OMOs) to liquidity injections by Government to avoid excess liquidity in the banking system emanating mainly from payments for infrastructural development projects.

COMMENT

- *Reducing the quarterly reserve money growth by 2.5 percentage points is a welcome initiative in a bid to curb inflation pressures in the economy - unbridled reserve money growth fuels inflation.*
- *In addition, the Open Market Operations will also help to mop up excess liquidity held in bank accounts – this excess liquidity has often been used to fuel alternative market activities.*
- *Meanwhile, the Government still has obligations that entail significant liquidity injection going forward, a case in point being salary reviews for the civil service – salary and allowance increases have already been approved in a bid to improve the purchasing power of civil servants given the loss of value occasioned by inflation.*

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2. INTEREST RATE POLICY

The Bank policy rate and the Medium Term Accommodation (MBA) Facility interest rate will be maintained at the current levels of 60% and 40%, respectively.

- *With the latest year on year inflation rate being as high as 60.61% as at January 2022, maintaining the bank policy rate and medium term accommodation rate at 60% and 40% respectively, will help to manage speculative borrowing in the economy.*
- *However, the trade-off remains that higher interest rates have the effect of reducing consumption of financial products which are mostly financed through borrowings, e.g. mortgages, motor vehicles, furniture and other assets. This can have negative spillover effects on production and employment levels, hence economic growth.*

2.1. STATUTORY RESERVE REQUIREMENTS

i. The Bank shall maintain statutory reserve requirements for demand/call deposits & savings and time deposits at current levels of 10% and 2.5%, respectively, to promote savings and time deposits, while discouraging unproductive credit creation.

ii. Maintaining minimum deposit rates for savings and time deposits at 10% and 20%, respectively, to preserve value for local currency deposits.

- *Given the high inflation pressures, the prevailing savings and investment rates remain below the prevailing inflation rate, and thus the real rate of return remains negative, a trend which adversely impacts efforts towards encouraging savings and investments.*
- *In addition, for the Government to promote a savings culture in the economy, there is also need to deal with legacy issues of policy inconsistency, towards enhancing trust and confidence.*
- *Furthermore, there remains a need for the Central Bank to balance the act between mopping "excess" liquidity in the market, and ensuring that financial institutions can continue to discharge their mandate(s). Too much mopping of liquidity may potentially pose the risk of crippling banking functions, e.g. facilitating payments, and credit creation – and this may worsen the already rather low confidence.*

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3. PROMOTING THE USE OF DOMESTIC CURRENCY

To support and promote the use of the local currency in the country, the Bank has put the following:

i. Increasing foreign exchange availability to fuel service stations designated by the Zimbabwe Energy Regulatory Authority (ZERA) to sell fuel in local currency;

ii. Building foreign exchange reserves to provide the necessary back-up support for the local currency to enhance its attractiveness through setting aside 5% of the foreign exchange available for the auction system;

- *This is a noble initiative, but naturally a lot depends on the implementation thereof.*
- *Fuel is at the centre of economic activity in Zimbabwe, and its price and availability are important determinants of cost structures as well as production and pricing of goods and services. The currently prevailing situation, wherein fuel is readily available on USD service stations but rather scarce on ZWL sites, does a huge disservice to the de-dollarisation initiative – in fact, it promotes re-dollarisation.*
- *However, there will be need to have mechanisms in place to guard against abuse of the facility – some operators may access forex for supplying fuel in local currency, but still continue to sell the product in forex, i.e. double-dipping.*
- *The forex auction market does require significant support in order to help stabilize the exchange rate. The prevailing situation wherein there is a huge backlog of winning bids still awaiting allotments several weeks afterwards, is not healthy, as businesses can end up being driven to access forex from the alternative market in order to ensure operations are not disrupted.*

4. Other initiatives

To increasing the limit on mobile banking transactions as follows: -

i. The Central Bank Policy Rate for overnight accommodation was increased from the 35% to 40% per annum with immediate effect.

ii. The medium-term lending rate for the productive sector lending from 25% to 30% per annum with immediate effect.

iii. Person to business from ZW$20,000 to ZW$25,000 per transaction with a maximum limit of ZW$100,000 per week;

iv. Person to person from ZW$5,000 to ZW$10,000 per transaction with a limit of ZW$70,000 per week;

- *Increasing the withdrawal limit will improve the convenience of the banking public to some extent. The limit remains rather low however because ZW$5,000 cash translates to less than US$25 using prevailing alternative market exchange rates of above 1:200 – even at the prevailing official auction rate, ZW$5,000 is equivalent to just above US$40.*

- *Low cash withdrawal limits tend to perpetuate the practice of charging premiums on cash. This will also continue to promote hoarding of cash, thus reducing cash deposits in the financial sector.*

v. Increasing the cash withdrawal limit for the banking public from ZW$2,000 to ZW$5,000 per week.

5. PROMOTING THE USE OF DIGITAL AND ELECTRONIC BANKING

i. The Bank is encouraging the public to bank their cash and utilise these digital and electronic services that include credit and debit cards, to minimise the risk of theft and robberies associated with carrying cash on person or possession of large sums of cash at premises.

- *Promotion of usage of digital and electronic banking is a welcome development, given the increasing prevalence of digital and electronic transactions.*
- *It is important to note that most players in the financial services sector are at various stages of implementing digitalization – in fact,* ***digitalization has become a strategic imperative,*** *and the COVID-19 pandemic outbreak contributed in fast-tracking the trend, with players in the sector being called upon to minimize physical contact with customers in the wake of several national lockdown pronouncements of varying levels.*
- *However, there may be need for the Government to review the 2% Intermediated Money Transfer* Tax (IMTT*), as the tax has the effect of increasing the cost of doing business using digital platforms and tend to give an incentive for the avoidance, than encouragement of usage of digital platforms by the public, rather. For instance, some shops continue to refuse digital/electronic payments, preferring cash.*

6. REFINEMENT OF THE US$50 FACILITY ACCESSED THROUGH BUREAU DE CHANGE

i. The facility has been limited to the vulnerable members of the society, that is pensioners, senior citizens, people living with disability and those requiring forex for medical purposes.

- *For this initiative to produce the desired results, there is a need for close monitoring, otherwise abuse of the facility will continue, even with the said refinements.*
- *It is important to note that very few ordinary people have the capacity to "abuse" facilities such as this – the authorities must dig deeper to establish who is abusing the system, and bring them to book.*

EXPORT RETENTION FOR MANUFACTURING, HORTICULTURE AND CROSS-BORDER TRANSPORT

i. With immediate effect, exporters in the manufacturing, horticulture and cross border transport sub-sectors shall be eligible to retain 100% of the incremental portion of their export receipts.

- *The policy should go a long way in boosting productivity in the specified sectors, and ultimately increase the level of exports from the sectors.*
- *Growth of the sectors will be enhanced by the fact that operators will have more foreign currency for renovations and re-tooling.*

7. EXPORT RETENTION FOR TOBACCO AND COTTON GROWERS

i. The retention threshold for tobacco and cotton growers increased to 75% for the forthcoming tobacco and cotton marketing seasons. The funds retained by the growers shall continue to be treated as free funds.

- *A welcome policy initiative intended to improve viability of the tobacco and cotton growing sectors, and can help reduce instances of side marketing in these sectors.*

8. INCREMENTAL EXPORT RETENTION FOR TOBACCO MERCHANTS

i. Tobacco merchants will retain 80% on the portion of the incremental value addition repatriated into the country and 100% of proceeds from local sales of tobacco through inter-merchant sales.

- *Exporters, including tobacco producers, have always been clamouring for better foreign currency retention levels, given the wide discrepancy between the official exchange rate and the alternative market rate. The policy enhances the viability of Tobacco growers.*

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9. EXPORT RETENTION FOR TOURISM AND HOSPITALITY INDUSTRY

i. With immediate effect, players in the tourism and hospitality industry shall retain 100% of their foreign currency earnings to allow them to quickly recapitalise and procure the necessary goods and services required by tourists and travellers.

- *The tourism and hospitality industry is amongst the sectors that were hardest hit by the COVID-19 pandemic outbreak, as lockdown restrictions severely reduced travel, both domestic and international.*
- *The 100% forex retention policy is a very welcome development for operators in the sector. The move will go a long way in reviving the sector, particularly by enabling operators to re-tool.*
- **We have always pointed out that the tourism sector is one of the low hanging fruits for the Zimbabwean economy, and that opportunities abound in the sector. The increased forex retentions for the tourism sector just serves to enhance attractiveness of the industry.**

10. CAPITALISATION OF BANKING INSTITUTIONS

i. Banks and deposit-taking microfinance institutions that failed to comply with the minimum capital requirements as at 31 December 2021 shall:

   a. not be permitted to pay dividends without prior approval of the Bank until such a time they have met the new minimum capital requirement.

   b. be required to immediately submit to the Bank revised board approved capital plans and quarterly updates on capital raising initiatives

- *The RBZ notes that, as at 31 December 2021, 13 out of the 18 operating banking institutions were compliant with the new minimum capital requirements.*
- *It is important to note that, for the banking sector, failure of an institution to meet minimum capital requirements tends to send wrong and damaging signals to the market, and naturally has potential of repelling customers and investors alike.*