@FBCHoldings

# 2024 Monetary Policy Review & Analysis

## Introduction

- On April 05, 2024, the Reserve Bank Governor presented the 2024 Monetary Policy, themed "Recalibrating The Monetary Policy Framework To Anchor Currency, Exchange Rate And Price Stability".
- This analytical report is prepared in response to the 2024 Monetary Policy Statement Measures. The purpose of this report is to provide an analysis and assessment of the potential implications and impacts of the policy changes.

## Scope and Limitations:

The analysis presented in this report is based on the information available up to the date of publication. Any subsequent developments or modifications to the policy may not be reflected in this document. The findings and recommendations are contingent upon the accuracy and completeness of the data and information used in the analysis. Any changes or inaccuracies in the underlying data may affect the validity of the conclusions drawn.

## Assumptions

The analysis involves certain assumptions about the interpretation and implementation of the policy. Any deviation from these assumptions may alter the outcomes outlined in this report. This report assumes that the policy measures will be implemented as stated and any amendments or revisions may impact the accuracy of the analysis.

## External factors

External factors, including but not limited to economic conditions, geopolitical events, and unforeseen circumstances, may influence the outcomes presented in this report. The report does not account for events beyond the control of the organization ("FBCH"), which may impact the overall success or effectiveness of the policy.

## Future Changes:

The policy landscape is dynamic, and changes may occur in response to feedback, public opinion, or evolving circumstances. Future modifications to the policy may necessitate a re-evaluation of the conclusions presented in this report.

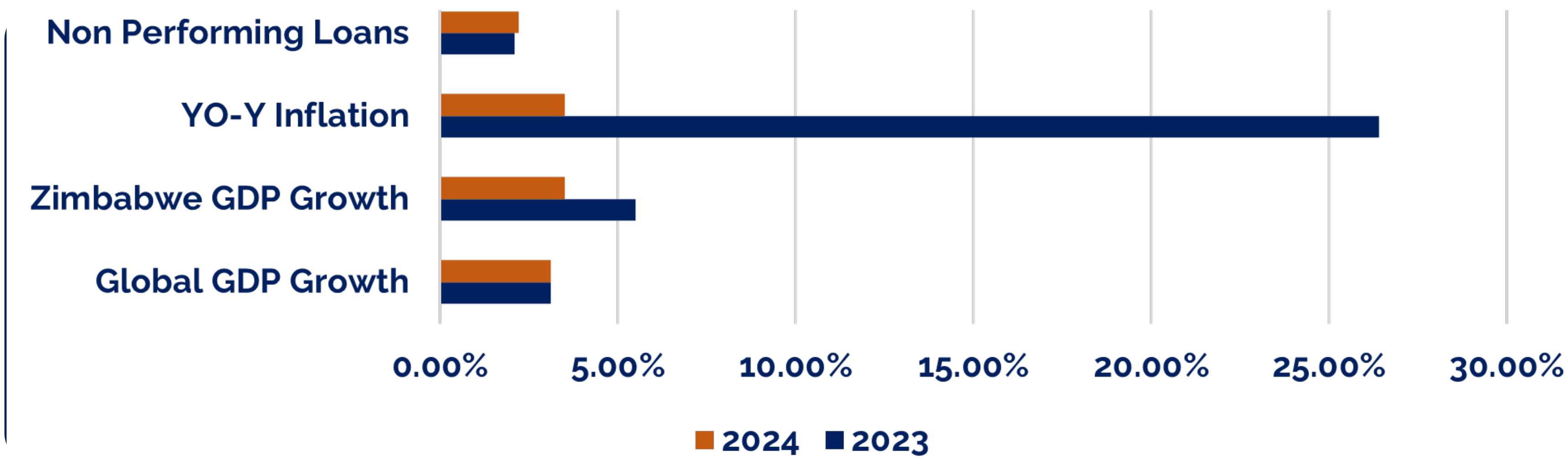
## Expertise and Consultation:

This report is based on the expertise of the analysts involved and the information available at the time of preparation. External consultations and expert opinions may provide additional insights not covered in this document.

This report is intended for informational purposes only and does not constitute legal, financial, or professional advice. FBCH disclaims any liability for actions taken based on the contents of this report.

## Overview

- The greater part of 2023 was characterized by inflationary pressures, exchange rate volatilities, high cost of borrowing and erratic power supply that culminated into a complex operating environment.
- Despite these setbacks, the economy as reported remained resilient, with an anticipated growth trajectory, albeit lower than the initially anticipated growth of 3.5% in 2024, due to the impact of the El-Nino induced drought which has turned out to be more severe than initially envisaged.
- Global growth is forecasted to be steady at 3.1% in 2023 and 2024, respectively, albeit well below historical average growth rates.
- Global risks and vulnerabilities have increased on account of tight monetary and financial conditions, funding squeeze, intensifying geo-political tensions, growing adverse weather events, and supply chain disruptions.
- The underlying global risks are likely to weigh down global growth prospects with spill-over effects on the domestic economy.
- The 2024 Monetary Policy Framework seeks to address the following:
  - Currency and exchange rate stability
  - Financial Sector Stability
  - Strategic management of money supply growth
  - Foreign exchange mobilization and reserve accumulation
  - Promotion of local currency use
- The key highlights of the new monetary policy measures include:
  - Introduction of a new structured currency;
  - Adoption of a market determined exchange rate
  - Efficient and optimal money supply management
  - Issuance of new bank notes and coins
  - Anchoring the new currency with foreign currency and precious minerals
  - Institution of a new exchange rate management system
  - Introduction of a new foreign exchange liquidity management system
  - Review of the interest rate regime to factor new currency changes
  - Revision of statutory reserve requirements to factor new currency changes
  - Alleviation of bank charges on daily bank balances of $100 and below
  - Settlement of QPDs in local currency to the tune of 50%
  - Conversion of unpaid auction allotments to an NNCD instrument
  - Re-configuration of the National Payment System




Key Macroeconomic Indicators

+263 772 419 693 • +263 772 152 647 •
220 or 080 800 25/6 ( For Econet Subscribers Only)
help@fbc.co.zw
+263 242 704481/2 • 761198 • 756685 • 754232 • 756012
FBC.Help.Centre

FBC Holdings Limited
You Matter Most

## Policy Measures & Impact

| Measure | Impact |
|---|---|
| Adoption of market-determined exchange rate | Promotes an efficient price discovery mechanism for the market.<br><br>Eliminates market distortions,creating an environment conducive for consistent pricing frameworks<br><br>The key issue has always been the disparity between the official and alternative market exchange rate.<br><br>Reduction in foreign exchange rate premiums which is good for business reporting, assessment and forecasting<br><br>A market-based pricing system promotes investments and efficient pricing systems which are good for economic growth.<br><br>If the policy measure is implemented consistently, it will potentially ensure price stability as our exchange rate will adjust in response to market forces.<br><br>A stable and market-driven exchange rate system can attract foreign investment by providing a predictable environment for investors. |
| Efficient and optimal money supply management | Promotes price stability and eliminates speculative behaviour and aggressive forward pricing tendencies which were rampant in the market.<br><br>Fixing reserve money growth to foreign currency reserves and gold can instill confidence in the currency and monetary system. This can also act as an inflation control measure by limiting money supply growth. When there is value preservation, supply of liquidity through savings, may be achieved, further enhancing the level of investments in the country.<br><br>This mechanism can enhance credibility and transparency of the country's monetary policy to both domestic and international investors, as the value of the currency is linked to tangible assets.<br><br>Predictability will come naturally when there is a clear money supply management process. There will likely be more Capital investments in a predictable environment |
| • Introduction of new structured currency<br><br>• Currency is pegged to a bundle of foreign exchange assets (foreign currency and precious minerals).<br><br>• Currency is fully convertible into the reserve currency on demand. | Goods and Services will now be priced in ZiG instead of ZWL. The multi-currency regime is however, still in operation, implying that other currencies (e.g USD) will still be legal tender. ZiG will be part of the basket of currencies.<br><br>The introduction of a new structured currency will have far-reaching implications across the economy. Planning, communication, and policy adjustments are essential in managing the transition effectively and mitigating potential risks.<br><br>The domestic economy has been characterised by high inflation, as well as exchange rate and currency instability. The economy has, of late, been moving towards full dollarisation, as the US dollar has continued to dominate the weaker ZW$, with over 80% of market transactions currently conducted in US dollars.<br><br>Against this background a stable and solid new currency may usher in certainty, predictability, limited inflationary pressures and exchange rate stability.<br><br>The introduction of the new currency (ZiG), provides an opportunity to reform and modernize our financial system , potentially increasing transparency and limiting the downside risks which have been prevalent during the last few years.<br><br>The transition to ZiG requires adjustments in banking systems, including updating software and processes. These exercises introduce operational risks which need to be closely monitored.<br><br>Public perception and uncertainties around ZiG's stability may affect adoption, use and investment spending. Consistency in policy application by government and RBZ will be key to building confidence. |
| Use of multi-currency until 31 December 2030 | An assurance around the tenor and use of a multi-currency system is a key enabler for business confidence.<br><br>For businesses engaged in international trade or investment, the use of a multi-currency system provides flexibility in conducting transactions. This policy measure also smoothens currency risk management, especially in dealing with foreign suppliers or customers.<br><br>In a multi-currency system, businesses can price goods and services in different currencies, with the liberty to apply their foreign exchange risk management skills and systems<br><br>May allow the flow of foreign investments into the country<br><br>Policy measure makes it convenient for visitors and investors who prefer to use their own respective currencies. Tourism sector a key beneficiary of this intervention<br><br>Whilst the inherent advantages of the current multi-currency system are clear, complexities in terms of managing exchange rate risk, transaction costs, and accounting issues remain apparent. |
| Currency Conversion and the Swap Rate | The conversion of the Zimbabwe Dollar balances into the new currency ZiG will be guided by the closing interbank exchange rate and the prize of gold as at 05 April 2024.<br><br>Beneficial to customers holding ZWL deposits with banks as value risk has been mitigated, given that the new currency is indexed to assets whose prices regularly align with market trends<br><br>Borrowed customers (ZWL) will now have their borrowings hardened, implying real costs when it comes to borrowing in the future<br><br>Value preservation for those that were holding assets denominated in ZWL<br><br>There are, however, possible future complications for accounting and reporting purposes<br><br>For all cash exchanges above ZW$100,000, banks shall apply the requisite "Know Your Customer" (KYC) and Customer Due Diligence (CDD) principles |
| Anchoring the new currency with foreign currency and precious minerals. | ZiG shall always be anchored and fully backed by a composite basket of reserves comprising foreign currency and precious metals (mainly gold), received by the Reserve Bank as part of in-kind royalties and kept in the vaults of the Bank. Foreign currency balances will be accumulated through market purchases from the 25% surrender requirements as well as sale of some precious metals received as royalties.<br><br>Given that the anchoring instrument is a dependant variable which is also a function of other input factors like commodity prices and general level of exports, this may complicate the anchoring mechanism in the face of external market shocks.<br><br>The key issues will be price volatility and ensuring that the stock in reserves is always aligned to the currency in circulation. |
| Increase in statutory reserve requirement for foreign currency demand deposits from 15% to 20%. | Increasing reserve requirements for foreign currency deposits can be a prudential measure aimed at enhancing the stability of the financial system.<br><br>The downside of increasing reserve requirements for foreign currency deposits is a reduction in the money supply available for lending and investment which may slow down aggregate demand and economic growth<br><br>The increase in reserve requirements may also lead to higher interest rates as banks may have to price the increased statutory reserves into pricing models. This can make borrowing more expensive for businesses and individuals. |
| At least 50% of Tax Obligations to be paid in ZiG on Quarterly Payment Dates(QPDS). | Measure will deflate inflationary pressures and increase demand for the local currency. The demand for local currency to pay taxes could impact exchange rate, especially if a significant portion of tax payments are made in local currency. This can lead to limited exchange rate volatility.<br><br>Companies that earn revenue in foreign currencies, however, may face increased currency exchange risk when converting their earnings for tax obligations and fluctuations thereof will likely increase their taxation burden. |

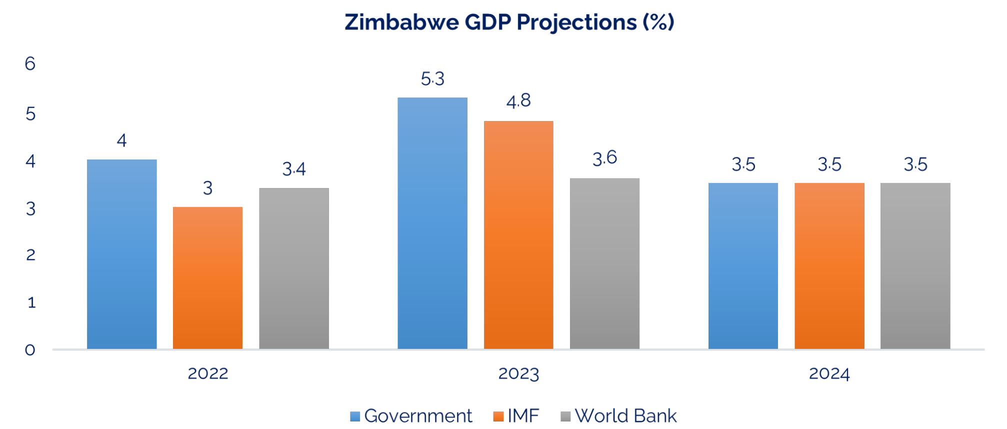
+263 772 419 693 • +263 772 152 647 •
220 or 080 800 25/6 ( For Econet Subscribers Only)
help@fbc.co.zw
+263 242 704481/2 • 761198 • 756685 • 754232 • 756012
FBC.Help.Centre

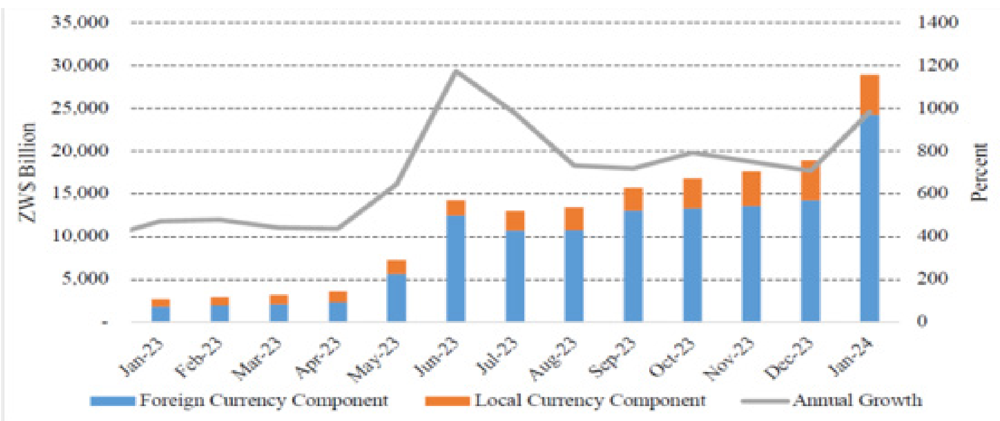
FBC Holdings Limited
You Matter Most

| Measure | Impact |
|---|---|
| | For businesses operating in multiple currencies, managing tax payments in local currency adds an administrative burden increasing compliance risk. Companies may need to deal with additional currency conversion processes and attendant administration issues.<br><br>Requiring a significant portion of tax payments in local currency may impact government foreign currency revenues. Moreso, fluctuations in exchange rates can influence the actual value of tax revenues collected in the local currency.<br><br>Companies may also face challenges in financial reporting and compliance when they have to reconcile tax payments made in different currencies with their local currency financial statements. |
| Alleviation of bank charges & monthly maintenance fees for depositors who maintain a minimum balance of US$100 or ZiG equivalent. | Reducing bank charges may improve deposit retention levels given the low levels of disposable incomes and savings. Proportion of core or sticky deposits may increase albeit low in value.<br><br>Whilst this is a plus for the depositors, reduced bank charges may lead to a reduction in non-funded income for banks. |
| Downward revision of the Bank policy rate | May spur demand for credit but capacity to lend may be limited, given the other policy measures announced which include increase in statutory reserves.<br><br>Availability of affordable funding will improve access to working capital and enhance capacity utilization of businesses, creating growth opportunities. |
| Commitment to transparency in the management of local currency money supply | Improvements in market confidence and predictability of policies, both of which minimise risks that were limiting banks and other units, with access to liquidity from availing long-term funding.<br><br>The improved availability of long-term funding if it crystalizes will be a relief to businesses who were facing a challenge of having to fund long term projects using short term funding. |
| Auction Allotments Obligations | All outstanding auction allotments will be converted into ZiG and issued out as NNCDs with a maturity of 24 months at 7.5%.<br><br>Value of proceeds preserved though there are downside risks.<br><br>Re-classification of balance sheet items from short-term to long term assets which may impact liquidity profile of those entities.<br><br>Fixed return may not be consistent with other investment assets which may be earning higher than the NNCDs, implying possible opportunity costs or mark to market losses. Opportunity cost also arises if the funds expected from the auction were meant for materials or equipment, which would have resulted in the production of goods or services with much higher returns.<br><br>Possible exchange rate losses given that the aging of the outstanding auction allotments varies per institution or customer. |
| On the 5th of April 2024, Statutory Instrument (SI) 60 of 2024 was promulgated providing the legislative framework for introducing ZiG. The key highlights of the SI include; | |
| • External Audit of Reserve Assets held by the Reserve Bank of Zimbabwe | An independent audit by external auditors of the reserve assets held by the Reserve Bank of Zimbabwe shall be conducted at least once a year. This will boost confidence in the financial services sector as the public will be informed about the reserve assets backing the ZiG |
| • Legal Status of ZiG Notes and Coins | The ZiG currency shall be legal tender in all transactions and form part of the basket of currencies currently used in the country |
| • Effect of ZiG for Accounting Purposes | By law, all assets and liabilities effectively in Zimbabwean Dollars shall be deemed valued in ZiG at the prescribed rate. This includes the discharge of financial and contractual obligations. |
| • Gold Coins and Zimbabwe Gold Backed Digital Tokens | Gold Coins and Zimbabwe gold-backed digital tokens that were already in circulation before the effective date shall remain in circulation and remain as investment assets that can be redeemed under the conditions set forth by the RBZ |

## Conclusion and Outlook

- A positive trajectory is expected on domestic economic growth, albeit lower than the initially anticipated growth of 3.5% in 2024, due to the impact of the El-Nino induced drought, geo-political tensions, depressed commodity prices and supply chain disruptions.
- Global growth is therefore forecasted to be steady at 3.1% in 2023 and 2024, respectively, albeit well below historical average growth rates. This will naturally have negative spill-over effects on our domestic economy.
- The announced monetary policy measures aimed at stabilising inflationary pressure and exchange rate volatility will help calm markets which have been in turmoil for some time.
- The effectiveness of the new Monetary Policy Measures will hinge on effective implementation, transparency and accountability.




+263 772 419 693 • +263 772 152 647 •
220 or 080 800 25/6 ( For Econet Subscribers Only)
help@fbc.co.zw
+263 242 704481/2 • 761198 • 756685 • 754232 • 756012
FBC.Help.Centre

FBC Holdings Limited
You Matter Most