



**PRESS STATEMENT ON THE DELIBERATIONS
OF THE MONETARY POLICY COMMITTEE
(MPC)**

28-29 OCTOBER 2019

RESERVE BANK OF ZIMBABWE

INTRODUCTION

1. The Reserve Bank of Zimbabwe's Monetary Policy Committee (MPC) held its inaugural meeting on 28 and 29 October 2019 at the Bank Chambers. During its deliberations, the Committee noted a number of issues that require urgent implementation for attainment of macroeconomic stability for sustainable development.
2. In particular, the Committee focused its attention on the recent economic developments, inflation trends, cash challenges in the economy, exchange rate and foreign exchange inflows and outflows, as well as the interbank market and national payment issues.

GENERAL ECONOMIC OUTLOOK

3. The Committee noted that key basic economic fundamentals remain sound, and in place for the country to meet its stabilization and development objectives. Thus, notwithstanding the projected contraction in Gross Domestic Product (GDP) growth by around 6.5% in 2019 on account of the twin climatic shocks, the devastating drought and cyclone Idai, the foreign exchange generation capacity of the economy is still sufficient to support a stable exchange rate.
4. This is also reflected in the projected narrowing of the current account deficit to 1.5% by end of year, and if sustained, this is a positive trend for the Balance of Payments position.
5. The Committee also noted that the country's potential growth rate (which is what the economy can produce with its current capacity) is still strong and needs to be buttressed by appropriate structural policies to ensure sustainable growth.

INFLATION

6. The Committee noted with concern the continued inflationary pressures in the economy. However, these are projected to recede in the outlook period as attested by the recent decline in monthly inflation from 39.26% in June 2019 to 18.07% in August and further to 17.72% in September 2019. A monthly rate of 10-12% is projected for the year end.

7. Current inflation trends are largely driven by inflation expectations and temporal shocks from speculative pricing as well as the recent increase in reserve money. The Committee also noted that inflationary trends are not demand driven as aggregate demand remains subdued. In this regard, the Committee underscored the following measures to anchor inflation expectations:
 - i. Limiting the exchange rate pass through effect to inflation by stabilising the exchange rate and boosting confidence in the local currency;
 - ii. Enhancing confidence to reverse adverse inflation expectations;
 - iii. Putting in place a credible disinflationary programme which targets attainment of the desired inflation path in the short term.

MONEY SUPPLY

8. The Committee noted that the increase in reserve money by 80% during the first 8 months of 2019, when compared to the December 2018 position, caused instability in the exchange rate and resulted in the increase of domestic prices of goods and services. In this regard, the Committee agreed to implement measures to ensure that money supply growth is contained within levels that will ensure exchange rate stability and inflation reduction.
9. In particular, the Committee noted with satisfaction the decrease in reserve money by a 10 percentage points in September 2019 from the August 2019 position and agreed to continue on this trend to ensure that reserve money growth is contained to 50% for the full year 2019.
10. In addition, the Committee noted that the unequal distribution of money supply, which is heavily skewed toward a few corporates is the main challenge within the economy as opposed to the general level of money supply. This is on the basis that the majority are struggling to afford basic commodities and banks are also constrained by their liquidity levels, while the productive sectors are short of liquidity.
11. In this regard, the Committee resolved to address the challenge of unequal distribution of money supply through appropriate money market instruments which will re-distribute liquidity. To this end, the Committee agreed that measures will be put in place to direct

this excess liquidity to the productive sectors, in particular towards the funding of the 2019-20 agricultural season, through the banking system.

12. Going forward, the Committee will uphold strong commitment to reserve money targeting to contain the effects of money supply growth on exchange rate depreciation and its pass-through effects to inflation.

CASH CHALLENGES

13. The Committee noted that the level of physical cash in the economy is inadequate to meet transactional demand, considering that the current proportion of cash to broad money supply of 4% is low compared to regional and international levels of 10-15%. This low ratio has resulted in an undesirable cash premium which the Committee would like to see eliminated.
14. In this regard, the Committee noted with satisfaction the fact that the domestic economy in 2019 achieved new heights in terms of the utilization of electronic systems for market transactions. However, the Committee felt that there was a need to boost the domestic availability of cash for transactional purposes through a gradual increase in cash supply over the next six months.
15. The Committee also noted the need to review upwards the cash withdrawal limits to ease the burden on the transacting public. This additional cash injection will be carried out through the non-inflationary exchange of RTGS money for physical cash.

EXCHANGE RATE

16. The Committee noted that the current exchange rates may not reflect economic fundamentals based on the balance of payments position. The recent trend in the depreciation of the exchange rate was in part occasioned by an increase in reserve money and adverse inflation expectations.
17. In this regard, the Committee agreed to put in place measures that will minimise monetary shocks and enable the exchange rate to gravitate towards its equilibrium path.

THE INTERBANK MARKET

18. The Committee agreed that the efficiency of the interbank foreign exchange market remains a critical variable for the stabilisation of the exchange rate. Accordingly, it agreed to the need for deepening and widening interbank market trading activities so as to attain the desired efficient operation of the market. This should ensure a stable exchange rate and efficient foreign exchange allocation through the market.
19. The Committee took note that to ensure transparency and effective monitoring, the Reserve Bank will shortly introduce the Reuters system for foreign exchange trading by all banks. Furthermore, the Committee underscored the need for banks to put available foreign exchange balances on the market for trading purposes. In this respect the Reserve Bank will also make efforts to increase the flow of foreign exchange to the market.
20. The Committee also noted that the volume of trades conducted on the interbank market to date are significant but calls for further improvements. In this regard, it underscored the need for further refinement of the activities of the interbank market. The envisaged refinement, will include broadening the scope of the permissible products that Bureaux de Change can offer to compliment the activities of banks under a well-regulated operational framework.

CONCLUSION

21. Overall, the Committee is committed to see efficient, stable and competitive financial markets with minimal obstacles and regulations for sustainable economic development.
22. The Committee remains convinced that if strict fiscal and monetary discipline are maintained, it will be possible to achieve low inflation and stability within the shortest possible time.

END OF STATEMENT

29 OCTOBER 2019