The 2023 Monetary Policy Statement at a Glance

Sustaining Price Stability and Economic Resilience

The Bank maintained a tight monetary policy stance and adjusted policy rates to align them with positive inflation developments to consolidate and sustain the current price stability and resilience of the domestic economy.

Global Economic Developments and outlook

- The global economy is anticipated to slowdown in 2023 due to tight monetary conditions, lagged effects of the Covid-19 pandemic and global supply chain disruptions from the Russia-Ukraine conflict.
- Commodity prices are expected to moderate as global demand weakens.
- The adverse global developments are likely to have spill-over effects on the domestic economy through trade, imported inflation and financial linkages.

Domestic Economic Conditions

- Economic activity remains robust supported by strong foreign currency receipts, including diaspora remittances.
- Annual inflation is expected to continue declining underpinned by tight monetary conditions.
- Further liberalization of the FX market has helped anchor expectations.
- The BOP current account remains in a surplus position driven by robust export performance and remittances.
- The banking sector and national payments system remain safe and sound.

Aligning domestic inflation with the dual currency structure of the economy

- It is essential that domestic inflation reflects the significant foreign currency inflows in the economy by adopting the blended inflation as the country's reference inflation and to reflect the dual currency structure for the following reasons:
    - Total forex receipts at US$11.6 billion in 2022 were the highest FX inflows ever received in the country.
    - About 70% of domestic expenditure is in US dollars; and
    - Foreign currency deposits and loans constitute about 65% of total banking sector deposits.

Key Macroeconomic and Financial Statistics

- Projected slowdown in global GDP growth from 3.4% in 2022 to 2.9% in 2023.
- Projected slowdown in domestic GDP growth from 4.0% in 2022 to 3.8% in 2023.
- Projected end-period blended annual inflation for 2023 of 10-30%.
- Current account balance for 2022 stood at a surplus of US$305 million.
- Total forex receipts stood at US$11.6 billion against payments of US$8.6 billion.
- Cumulative auction allotments stood at US$3.7 billion as at 31 December 2022 which the Bank has settled in full.
- Total banking deposits were ZW$2.29 trillion as of 31 December 2022, being 65% FX deposits and 35% ZW$ deposits.
- Total banking sector loans and advances were ZW$1.29 trillion, being 64% FX and 36% ZW$.
- Loan to deposit ratio was 55.67% as at 31 December 2022.
- The average non-performing loans (NPLs) ratio for the banking sector was 1.58% as at 31 December 2022.
- Diaspora remittances increased by 14% in 2022 to US$1.66 billion.

NEW MONETARY POLICY MEASURES, EFFECTIVE 1 FEBRUARY 2023

Review of Interest rates

- Bank policy rate reduced from 200% to 150% per annum, to align with the inflation outlook.
- The lending rate on the Medium-term Bank Accommodation (MBA) Facility for the productive sectors, including individuals and MSMEs, reduced from 100% per annum to 75% per annum.
- The prevailing Bank policy rate maintained as the minimum lending rate for all banks.
- Minimum deposit rates on savings and time deposits adjusted to 30% and 50% per annum, respectively.
- Minimum deposit interest rate on FCA savings and time deposits maintained at 1% and 2.5% per annum, respectively.

Standardisation of Statutory Reserve Requirements

- Foreign currency demand and call deposits, 10%.
- Foreign currency time and savings deposits, 5%.
- Domestic currency demand and call deposits, 10%.
- Domestic currency time deposits, 5%.

Increasing and standardising retentions on exports receipts and Domestic Sales in Foreign Currency

- Export retentions have been increased and standardised at 75% across all sectors, including firms listed on the Victoria Falls Stock Exchange (VFEX).
- Foreign currency retention on domestic sales in foreign currency has been increased to 85%.

Further Liberalisation of the Foreign Exchange Market

- The Willing-Buyer Willing-Seller (WBWS) and the auction system will continue to complement each other.
- The WBWS continues to act as the interbank exchange rate.
- The WBWS to be strengthened and further liberalisation through FX sales to Banks and *bureaux de change* through auction on a wholesale basis.
- The auction system continues to act as a foreign currency re-distribution mechanism to gauge foreign currency demand in the economy.
- The limit for the WBWS will remain at US$100,000 per entity in line with the Foreign Exchange Auction System limits for secondary users.

Other Monetary Policy Measures

- The incremental export incentive scheme has been suspended for both exporters and firms listed on the VFEX.
- Export of foreign currency cash and gold coins reviewed upwards from US$5,000 to US$10,000.
- The maximum amount of local currency notes and coins that may be taken out of the country is an equivalent of one thousand USD at the prevailing interbank exchange rate.
- Exporters with overdue export receipts are now entitled to retain 50% of their export receipts and liquidate the balance into local currency at the prevailing WBWS exchange rate.
- Export of demonetized and old notes has been limited to not more than 100 pieces of each denomination.

Inflation Outlook and Forward Guidance on Interest Rates

- Monthly blended inflation is expected to average below 1.5% in 2023.
- Annual blended inflation is expected to decline progressively to reach 10%-30% by year-end.
- Policy rates are expected to be aligned to the implied ZW$ inflation path and end the year 2023 between 30%-60%.

MONETARY POLICY ANCHOR

- Continued use of interest rates to regulate the cost of money and aggregate demand conditions to achieve the inflation objective.
- Continued use of gold coins and the auction system as part of open market operations (OMO) to stabilise the exchange rate in order to minimise the exchange rate pass through to domestic prices.
- Regular interventions in the foreign exchange market through forex sales to banks through auction on a wholesale basis

from the surrender portion of foreign exchange receipts to smoothen exchange rate shocks.

- Efficient liquidity management of government finances to continue to support these two anchors of inflation.

Financial sector policies

- Minimum capital requirements for all categories of banking institutions and microfinance institutions have been maintained.
- The single currency and the overall foreign exchange risk exposure limits shall be maintained at 10% and 20% of net capital base, respectively, and reviews would be done on a case-by-case basis, depending on a bank's specific requirements.

The key message from the 2023 Monetary Policy Statement

- **Monetary policy remains restrictive to sustain the current stability with interest rates aligned to inflation developments in order to sustain and strengthen economic resilience.**

- **Inflation has moderated but remains under close watch by the Monetary Policy Committee (MPC) of the Bank.**

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GOVERNOR

2 February 2023