PRESS STATEMENT

RESOLUTIONS OF THE MONETARY POLICY COMMITTEE MEETING HELD ON 27 AUGUST 2021

The Monetary Policy Committee (MPC) of the Reserve Bank of Zimbabwe (the Bank) met on the 27th of August 2021 and deliberated on recent economic and financial developments and their implications on monetary policy.

The Committee noted with satisfaction the strong economic growth which is envisaged to be strengthened by the favourable global economic outlook and the US$961million SDR allocation from the International Monetary Fund (IMF) on 23 August 2021.

In particular, the Committee welcomed the impressive performance of foreign currency receipts which increased by 32% to US$5.09 billion as at 7 August 2021 compared to US$3.85 billion received during the same period in 2020. On the other hand, cumulative foreign exchange payments increased by 42% to US$3.59 billion as at 7th August 2021 compared to US$2.52 billion for the same period in 2020. The significant increase in foreign currency receipts is critical for sustaining the foreign exchange market and fostering exchange rate stability.

Against this background, the MPC emphasised the need for staying the course of the current monetary policy stance which has proven to be effective in combating inflation and fostering monetary stability in the economy. Commendably, the prudent monetary policy stance has seen year-on-year inflation dropping from 837.5% in July 2020 to 50.2% in August 2021.

The Committee agreed on the following resolutions for sustaining the current downward inflation trajectory and exchange rate stability, while supporting the foreign exchange auction system and the robust economic growth for 2021 and beyond:

a. Maintaining the Bank policy rate at 40% per annum and the interest rate on the Medium Term Bank Accommodation Facility at 30% per annum;

b. Maintaining the reserve money target at 20%, with the desire and view to achieving a lower level of monetary expansion by year end, particularly if inflation and other macroeconomic developments make it necessary and prudent to do so.

c. Upholding the measures pronounced in the recent Mid-Term Monetary Policy Statement in relation to expunging the foreign exchange allotment backlog of around US$175 million. The MPC urged the Bank to clear the backlog in a month’s time to enable the Bank to operate the auction system within the set rules of funding auction allotments within two weeks from the date of auction. The MPC also emphasised the need for banks to avoid the use of overdrafts to fund auction allotments except in exceptional circumstances in support of productive sector activities.

d. Refining the foreign exchange auction system to enhance its purpose as a dependable and efficient mechanism of availing foreign currency to the economy by aligning the auction bidding process to the ultimate beneficial ownership concept as follows:

    i. Maintaining the US$500 000 and US$20 000 maximum bid limits for primary producers under the main auction and SMEs auction, respectively;

    ii. Capping bid limits for secondary users, consumables and services at US$100 000 under the main auction; and

    iii. Encouraging the business community and banks to ensure that they exercise customer due diligence on all foreign exchange transactions in compliance with international best practices.

e. Further liberalising the operations of *bureaux de change* to promote financial inclusion by allowing them to process small value foreign currency transactions of up to US$50 per person per week on the basis of individual identities, with charges and commissions levied by the *bureaux de change* not exceeding 10% per transaction.

f. Urging banks to encourage their clients to invest in interest bearing and value-preserving financial instruments available at the Bank, including time deposits and exchange rate indexed bonds.

John P. Mangudya
Governor
30 August 2021