NATIONAL COMPETITIVENESS COMMISSION

Enhancing Zimbabwe's Global Competitiveness

ANALYSIS OF THE IMPACT OF THE 2024 MID -TERM MONETARY POLICY ZIMBABWE'S COMPETITIVENESS

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1.0 INTRODUCTION

1.1 The Reserve Bank of Zimbabwe (RBZ) Governor announced the 2024 mid-term Monetary Policy Review Statement on 30 August 2024. The recalibrated 2024 Monetary Policy Statement (MPS) on 5th April 2024 came at the backdrop of a depreciating local currency and skyrocketing inflation.

1.2 The Review comes at a time when the economy experienced stability after the introduction of the ZiG until August 2024. However, the stability in exchange rate and inflation is now under threat from the recent developments in the black-market exchange rate.

1.3 This analysis is in line with its mandate of facilitating the creation of a competitive business environment through the development, coordination, and implementation of key policy improvements. The likely impact of the policy review on competitiveness is highlighted below.

2.0 IMPACT ON COMPETITIVENESS

Exchange Rate Policy

2.1 The current exchange rate policy has brought stability on the foreign exchange market and therefore improves predictability and enhances competitiveness. Notwithstanding the positive developments, it is critical to note that the country is experiencing exchange rate misalignment with official interbank rate of 1USD:13.87ZWG against the average parallel market rate of 1USD: 23ZWG giving a premium of above 50%, as of 05 September 2024. This has huge implications on improving trust in the banking system and boosting confidence, thereby negatively impacting competitiveness.

2.2 Minimum interference by the authorities is being witnessed towards eliminating the well-established and thriving informal market. This interference continues to distort the exchange rate from being reflective and this limits the Central Bank's efforts to unlock free funds from the private sector. This implies that the Government continues being the sole supplier of foreign currency on the formal market, evidenced by the MPS review acknowledging that 50% of export surrender value is being supplied to the formal market to improve foreign currency supplies. This continues to constrain supply of foreign currency on the formal market, hence negatively impacting on the competitiveness of the country.

2.3 The Commission recommends that the export surrender value should be a temporary measure, a truly reflective exchange rate that will unlock free funds from the private sector. The Government should exert its efforts on export promotion through incentives to increase foreign currency inflows and do away with the surrender value to improve export competitiveness, which is a more flexible exchange rate that enhances the competitiveness of exports and makes imports more expensive, potentially improving the trade balance.

2.4 It is important to note that formal businesses are complying with the non-reflective interbank exchange rate through increasing USD prices to compensate for exchange rate losses. This also exacerbates shortage of USD in the formal market as the public is discouraged from USD purchases.

Inflation Control

2.5 The RBZ should be commented for managing to control inflation both through tightening money supply and stabilizing the exchange rate. This conserves the purchasing power, lures investment, improves certainty in the market and enhances decision making and overall competitiveness. However, low economic activity is being witnessed as there is low liquidity in the market.

2.6 Interest rate of between 24% and 35% versus month-on-month inflation of 1.4% is a disincentive to investment loans. Similarly, high interest rates increase business costs and hinders their competitive advantage. The Commission acknowledges the Monetary Authority's discretionary measures to tame inflation.

2.7 However, there is need to reach a point of convergence in order to stimulate economic activity and enhance competitiveness.

Financial Sector Stability

2.8 The introduction of the Zimbabwe Gold (ZiG) in April 2024 has improved confidence in the local currency, evidenced by an increase in its acceptance from 61% in April to 80% in May and 91% in June 2024. Confidence in the local currency has been a challenge since the collapse of the Zimbabwean dollar in 2008. The improvement in acceptance boosts the much-needed confidence in the banking sector and this enhances transactions, economic activity and competitiveness. Policies aimed at strengthening the banking sector increases confidence, encouraging both domestic and foreign investment, thereby competitiveness.

2.9 Notwithstanding the positive developments, it is critical to note that the country is experiencing exchange rate volatility with official interbank rate of 1USD:13.87ZWG against the average parallel market rate of 1USD:23ZWG as at 05 September 2024. This has huge implications on improving trust in the banking system and boosting confidence, thereby negatively impacting competitiveness.

Non-Performing Loans (NPLs)

2.10 Improvement of NPLs from 3.6% between January and June 2023 to 2.0% same period in 2024 improves financial soundness of banks, hence their competitiveness. This also makes more loanable financial resources available to the productive sector cheaper as the default risk is reduced. This is evidenced by the banking sector's ability to support the productive sectors by providing working capital amounting to 72.01% of total loans as of 30 June 2024. This avails capital for retooling and investment in more efficient production methods, improving productivity and competitiveness.

Digital and Financial Inclusion

2.11 Initiatives to promote digital banking or financial inclusion increases economic participation and competitiveness. The aggregated digital payments transaction values for the six months ending 30 June 2024 were on an upward trajectory, increasing by a monthly average of 33%, having positive bearing on competitiveness. This highly commendable.

Exemption of Bank Charges

2.12 Scrapping of monthly bank maintenance or service charges for individual bank accounts with a conservative daily balance of US$100 and below or its equivalent in ZWG for a period of up to 30 days is welcome. Extension of this facility to Micro, Small and Medium Enterprises (MSMEs) with effect from 1 September 2024 improves competitiveness of MSMEs in their endeavour to pursue growth.

Transaction Charges

2.13 Transaction charges are a source of cost both to businesses and the transacting public. Scrapping of transaction charges for transactions below USD10 or its equivalence in local currency is a welcome move towards enhancement of competitiveness. However, increasing the threshold can yield better results towards enhancing competitiveness.

Refinement of the Non-Negotiable Certificates of Deposits (NNCDs) for Outstanding Export Surrender and Auction Backlog Obligations

2.14 All outstanding payments for foreign exchange purchased by Treasury under the 25% surrender requirements and all outstanding auction allotments during the transition period from ZWL to ZWG, which were supposed to be issued with NNCDs for one (1) year and 24 months, respectively have been refined from NNCDs to tradable Government bonds. This brings relief to affected companies as they can now access their working capital early. This improves their liquidity position and avails funds for investment in other viable instruments of choice, thereby enhancing their competitiveness.

3.0 CONCLUSION

3.1 The MPS review shows progress towards improvement of national productivity and competitiveness. The Central Bank's consideration of feedback from key economic sectors is very essential.

3.2 Reconstitution of the Liquidity Management Committee and establishment of a Monetary Policy Implementation, Monitoring and Evaluation Committee (MPIME), which keeps track of the key indicators to promptly identify emerging risks and ensure timely response are commendable proactive approaches to ensure the current stability in the macroeconomic environment is maintained to harness the full benefits from a stable macroeconomic environment.

3.3 Maintenance of the current stability and enhancement of economic activity to the long term have a great potential to lure investment, improve productivity, and ultimately the country's competitiveness. The RBZ is urged to timeously support the local currency through close monitoring of the developments on the parallel market rate. This also helps to instil confidence towards unlocking free funds from the private sector.