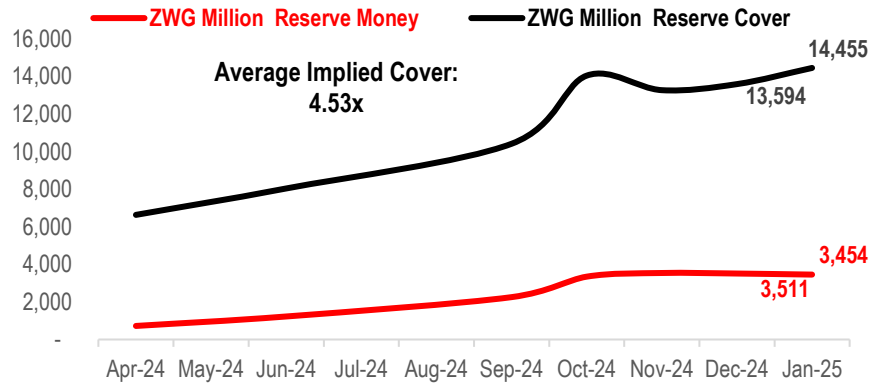


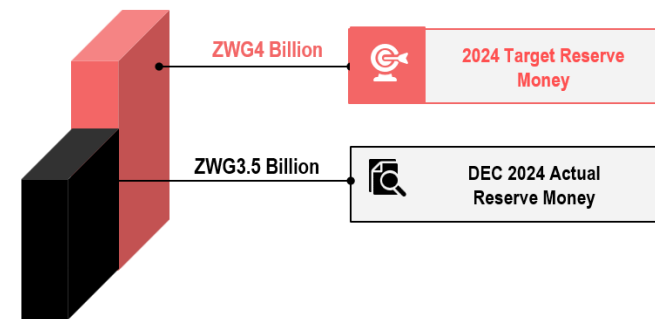
ECONOMIC AND MARKET REVIEW

ZIMBABWE 2025 MONETARY POLICY STATEMENT REVIEW Announcement Date: 06 February 2025

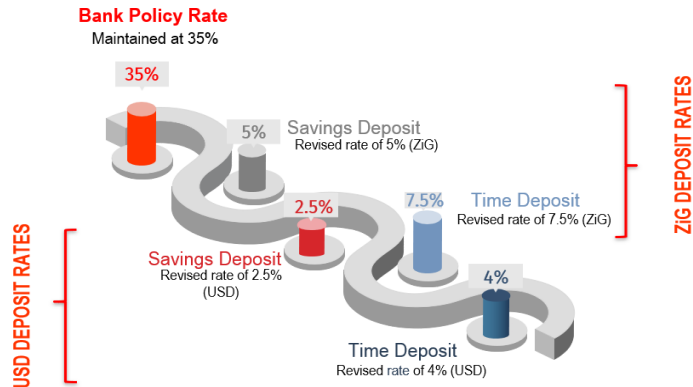
ZWG Reserve Money versus Reserve Cover



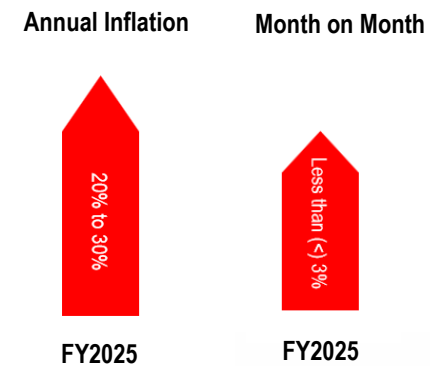
2024 Target Reserve Money vs Actual Reserve Money



Interest Rate Policy



2025 Projected Inflation (Targets)



ECONOMIC AND MARKET REVIEW

1. New Monetary Policy Measures

New Measure	Policy Outcome Target	Likely Outcome
<p>a) Downward Review of Exporters' Foreign Currency Retention Threshold</p> <ul style="list-style-type: none"> - The foreign currency retention level for exporters has been reduced from 75% to 70%, with immediate effect. - This implies that the effective surrender portion of export proceeds has been increased from 25% to 30%. 	<ul style="list-style-type: none"> - Augmenting the supply of foreign currency on the Interbank foreign exchange market. - Foreign currency reserves needed to anchor the ZWG. 	<ul style="list-style-type: none"> - To partially achieve the desired outcome. - Potential working capital challenges for exporting companies in turn reducing or adversely impacting export proceeds base. - Potential under invoicing by companies in a bid to manage working capital flows (liquidity).
<p>b) Introducing a US Dollar Denominated Deposit Facility (USDDDF)</p> <ul style="list-style-type: none"> - Exporters with no immediate use of the ZWG equivalent for the additional 5% export proceeds surrender requirement will have an option to invest in US Dollar Denominated Deposit Facility (USDDDF) - Exporters can withdraw in ZWG on demand at the prevailing interbank exchange rate on the settlement date. 	<ul style="list-style-type: none"> - To protect Exporters against Exchange Rate Risk 	<ul style="list-style-type: none"> - To partially achieve the desired outcome. - Extent and or level of protection against Exchange Rate Risk is dependent on the interest rate quoted (interest accrued) on the USDDF investment vs premium (between official and alternative market rate) during the period (horizon) the export proceeds were invested.
<p>c) Refinement of Foreign Exchange Management System</p> <ol style="list-style-type: none"> Clarification of the Interbank Foreign Exchange Trading Guidelines – Authorised dealers to move from the 5% trading margin set at the inception of the Willing-Buyer Willing-Seller Market to on-sell foreign exchange at a margin consistent with international best practices. Removal of Limits on Foreign Exchange Trading – Limits of US\$500,000 and US\$100,000 for Primary and Secondary users of foreign exchange, respectively, per week, per entity were removed with immediate effect. Review of Prepaid International Debit and Credit Cards Limit - Reviewed upwards the annual limit from US\$500,000 to US\$1,000,000. Foreign Currency Exposure Limits - Reserve Bank to set upper limits to facilitate winding down, by banking institutions, that are currently over-exposed in foreign currency. 	<ul style="list-style-type: none"> - Align interbank market with international best practices. - Efforts to liberate the Exchange Rate. - Reduce the use of foreign currency cash for cross-border transactions. - To allow ZiG to gain prominence in the multicurrency system. 	<ul style="list-style-type: none"> - To likely achieve the desired outcome. - Removal of the 5% trading margin and aligning with international best practices indicates efforts towards liberating the Exchange Rate. - Removal of Limits on Foreign Exchange Trading for both Primary and Secondary users to improve exchange rate discovery and liquidity on the interbank market.

ECONOMIC AND MARKET REVIEW

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<p>d) Sustainable Accumulation of Gold and Foreign Currency Reserves</p> <p>Reserves accumulation strategy of 2025, to shift focus towards building-up a buffer of usable official reserves to adequately cover ZiG and to meet regional benchmarks of months of import cover.</p>	<ul style="list-style-type: none"> - To ensure stability of the exchange rate. - Continued accumulation of reserves to cover ZiG reserve money in the economy. 	<ul style="list-style-type: none"> - To likely achieve the desired outcomes. - Ensuring that any additional money supply is 100% backed, will likely result in the desired outcome of ensuring stability of the exchange rate being achieved. - Given current trust deficit around currency, it is important for annual audits on backing reserves to be done timely and transparently in a bid to restore market confidence. 																				
<p>e) Interest Rates</p> <ul style="list-style-type: none"> - Bank Policy Rate - will be maintained at the current level of 35% per annum and reviewed by the Monetary Policy Committee (MPC), from time to time. - Minimum Deposit Interest Rate were reviewed upwards as follows: <table border="1" data-bbox="33 906 949 1029"> <thead> <tr> <th data-bbox="33 906 262 943">Currency</th> <th colspan="2" data-bbox="262 906 607 943">Saving Deposit Rates</th> <th colspan="2" data-bbox="607 906 949 943">Time Deposit Rates</th> </tr> <tr> <td></td> <th data-bbox="262 943 434 970">Old</th> <th data-bbox="434 943 607 970">New</th> <th data-bbox="607 943 779 970">Old</th> <th data-bbox="779 943 949 970">New</th> </tr> </thead> <tbody> <tr> <td data-bbox="33 970 262 997">ZiG Deposits</td> <td data-bbox="262 970 434 997">3.5%</td> <td data-bbox="434 970 607 997">5%</td> <td data-bbox="607 970 779 997">5%</td> <td data-bbox="779 970 949 997">7.5%</td> </tr> <tr> <td data-bbox="33 997 262 1029">USD Deposits</td> <td data-bbox="262 997 434 1029">1%</td> <td data-bbox="434 997 607 1029">2.5%</td> <td data-bbox="607 997 779 1029">2.5%</td> <td data-bbox="779 997 949 1029">4%</td> </tr> </tbody> </table>	Currency	Saving Deposit Rates		Time Deposit Rates			Old	New	Old	New	ZiG Deposits	3.5%	5%	5%	7.5%	USD Deposits	1%	2.5%	2.5%	4%	<ul style="list-style-type: none"> -To support the current tight monetary policy stance. - To promote a banking and savings culture in the economy. 	<ul style="list-style-type: none"> - To partially achieve the desired outcome. - Reviewed rates too low to spur savings and investment amid inflation and exchange rate risk in the local currency.
Currency	Saving Deposit Rates		Time Deposit Rates																			
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ZiG Deposits	3.5%	5%	5%	7.5%																		
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<p>f) Statutory Reserves</p> <p>- Statutory reserve ratios have been maintained at 30% for demand deposits and 15% for savings and fixed deposits in both local and foreign currency.</p>	<p>To support the current tight monetary policy stance.</p>	<p>To likely achieve the desired outcome.</p>																				
<p>g) The Targeted Finance Facility (TFF) and Access to WBWS Interbank Foreign Exchange Market</p> <ul style="list-style-type: none"> -The TFF was extended (in addition to the productive sectors) to wholesalers and retailers to enable them to restock. - Beneficiaries of the funds can access the WBWS Interbank Foreign Exchange Market to access the requisite foreign currency, upon submitting invoices to support their critical import requirements. 	<ul style="list-style-type: none"> -To address working capital challenges recently experienced by retailers and wholesalers. -To support the productive sector. 	<p>To likely achieve the desired outcome.</p>																				

ECONOMIC AND MARKET REVIEW

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<p>h) Currency Management</p> <ul style="list-style-type: none"> - The Bank is working on enhancing the quality and design of ZiG bank notes in line with international standards. - The rollout of the improved high quality ZiG notes to be communicated in due course. 	<ul style="list-style-type: none"> - Ensure the optimal distribution of ZiG notes in the economy. - Ease of access in the remote areas. 	<p>To likely achieve the desired outcome.</p>
<p>i) Functional and Presentation Currency – Financial Reporting</p> <ul style="list-style-type: none"> - The Bank, following consultations with the Public Accountants and Auditors Board (PAAB), requires that all entities adopt a common presentation currency, ZiG, for reporting purposes, with immediate effect. - Including for the 2024 audited financial statements. 	<p>To ensure comparability of financial statements.</p>	<p>-To not achieve the desired outcome.</p> <ul style="list-style-type: none"> - Changing reporting currency back to local currency to likely confuse stakeholders and users of financial statements for investment purposes. - Company forecasts and valuations can be difficult and distorted amid inflation and currency fluctuations. - Increase cost of doing business, through additional translation costs from functional currency to Reporting currency.
<p>j) Liquidity Management</p> <ul style="list-style-type: none"> - The Reserve Bank continues to closely monitor liquidity levels and development. - Operational interventions by the Reserve Bank in the money market to be guided by the need to balance stability and growth. 	<p>To ensure optimal liquidity and guarantee the smooth and efficient operation of the national payments system.</p>	<p>To likely achieve the desired outcome.</p>
<p>k) Promoting Inter-Bank Market Trading</p> <p>The bank is working with the Bankers Association of Zimbabwe (BAZ) to resuscitate a vibrant inter-bank money market to enhance the monetary policy transmission channel in the economy.</p>	<p>To move from accommodating individual banks in short positions to settling the net market position through the “Lender of Last Resort” window.</p>	<p>It is too soon to see the policy impact in the absence of guidelines.</p>
<p>l) Bank and Transaction Charges</p> <ul style="list-style-type: none"> - Point of Sale (POS) transactions for amounts less than US\$5 or its equivalent in ZiG are exempted from transaction charges. - To ensure that banks continue to strictly adhere to a policy compelling them to exempt from bank charges, all accounts that maintain a balance below US\$100 or its equivalent in ZiG. - The Bank is also working with BAZ and Payment Service Providers to come up with mechanisms to minimise bank charges and encourage use of e-cash to promote ZiG. These mechanisms will be finalised and communicated before the end of the first half of 2025. 	<p>Affordable and reasonable bank charges.</p>	<p>-To likely achieve the desired outcome.</p> <p>-To encourage banking and financial inclusion, through avoiding unnecessary depletion of account values to bank charges.</p>

ECONOMIC AND MARKET REVIEW

New Measure	Policy Outcome Target	Likely Outcome
<p>m) Promoting Digital Payments & Use of Points of Sale (POS) Machines</p> <ul style="list-style-type: none"> - Banks and Payments System Providers (PSPs) are directed with immediate effect to ensure that every business account (new and existing) is issued with a Point of Sale (POS) machine or any other approved digital mechanism which can facilitate transactions in both ZIG and USD. - Advises all Local Authorities and other licencing entities to ensure that all applicants for trading licences (individuals or corporates) have a bank account and a functional POS machine at the point of licencing and/or renewal. 	<ul style="list-style-type: none"> -To enhance digital transactions in the economy. - To promote the use of normal banking channels on all domestic trading transactions. 	<ul style="list-style-type: none"> -To likely achieve the desired outcome. - Successful implementation of the measure to improve financial inclusion.
<p>n) Discriminatory Pricing Practices in Telecommunications</p> <ul style="list-style-type: none"> - The industry players have agreed to rationalise their pricing structures (after the bank engaged POTRAZ & TOAZ), to avoid discriminatory pricing practices against ZIG in preference for USD transactions. - The Bank, through the Financial Intelligence Unit (FIU) will continue to monitor adherence to this requirement by TOAZ members. 	<p>Allow customers to purchase internet data packages (among others) using their currency of choice.</p>	<ul style="list-style-type: none"> -To partially achieve the desired outcome. - Improve demand of the local currency.
<p>o) Capital Flows Management – Trade and Investment Facilitation</p> <p>In line with regional standards, the Reserve Bank, as part of its reorientation of the strategic thrust, has, therefore, created new structures that ensure:</p> <ul style="list-style-type: none"> ✓ Macro-prudential management of cross-border capital flows. ✓ Effective risk-based surveillance of cross-border capital flows. ✓ Robust cross-border reporting systems to effectively track foreign currency flows. ✓ Simplification of foreign exchange transactions administration for ease of doing cross-border trading and investment. 	<p>Management of Capital flows – offsetting systemic risk externalities.</p>	<p>To likely achieve the desired outcome.</p>

ECONOMIC AND MARKET REVIEW

OTHER MONETARY POLICY SUPPORT MEASURES		
<p>i. Sustainable Banking Practices - All banking institutions are required to nominate suitably qualified and/or experienced Board Sustainability Champions and advise the Reserve Bank by 31 March 2025.</p>	<p>- Enhance sustainable banking practices.</p>	<p>- To achieve the desired outcome.</p>
<p>ii. Climate Risk Management - banking institutions are required to submit to the Reserve Bank their institutional climate risk profiles as at 31 December 2024, by 31 March 2025</p>	<p>- Ensure Climate Risk Management.</p>	<p>- To achieve the desired outcome.</p>
<p>iii. Cyber Resilience in the Banking and Microfinance Sectors - all banking and deposit-taking microfinance institutions are required to conduct annual cybersecurity audits and submit audit reports to the Reserve Bank.</p>	<p>- To enhance Cybersecurity.</p>	<p>- To achieve the desired outcome.</p>
<p>iv. Risk Management Framework for Artificial Intelligence - Financial institutions are required to put in place robust risk management systems, taking into account issues of data security, ethical concerns and operational vulnerabilities.</p>	<p>- Risk Management of Artificial Intelligence.</p>	<p>- To achieve the desired outcome.</p>
<p>v. Lending Practices of Microfinance Institutions – the Reserve Bank will intensify its surveillance of microfinance institutions to ensure compliance, after complaints on predatory lending practices have been received.</p>	<p>- To ensure compliance with the Microfinance Act and Consumer Protection Framework.</p>	<p>- To achieve the desired outcome.</p>
<p>vi. Promoting Financial Inclusion in Remote and Under-served Communities – The bank, with immediate effect, exempted licencing fees for opening of branches in these areas.</p>	<p>- To promote widespread establishment of bureaux de change operators in remote and under-served communities.</p>	<p>- To achieve the desired outcome.</p>
<p>vii. Abuse of safe deposit boxes to by-pass formal banking channels - Bank is working with the Financial Intelligence Unit and other Law Enforcement Agencies to curtail such practices and encourage the use of normal banking channels.</p>	<p>- To curtail proliferation of “shadow banks”. Ensure businesses bank all or most of their cash receipts.</p>	<p>- To achieve the desired outcome.</p>

ECONOMIC AND MARKET REVIEW

2. Conclusion & Commentary

In conclusion, the 2025 Monetary Policy Statement's (MPS) main objectives were to manage inflation and exchange rate risk through currency management, tight monetary policy and enforcement of the existing monetary framework. Key among other highlights were the downward review of exporters' foreign currency retention threshold to 70% from 75%. Expected impact in the short term are working capital constraints for exporting companies amid premiums between the official and alternative market rates. Potential under invoicing in a bid to mitigate working capital constraints is a possibility in the outlook, thereby reducing reported export proceeds. Introduction of a US Dollar Denominated Deposit Facility (USDDDF) for the additional 5% threshold aimed at protecting Exporters against exchange rate risk will only work to the extent of the interest rate quoted (interest accrued) on the USDDDF investment versus premium (between official and alternative market rate) for the period of investment of the export proceeds. Removal of the 5% trading margin on authorised dealers on the interbank and moving to adopting international best practices are efforts towards improved price discovery and a liberalised exchange rate. The extension of the Targeted Finance Facility to wholesalers and retailers, combined with the removal of trading margins is a welcome development and will go a long way in enabling them to restock and sustain their operations in the outlook.

Although more policy measures were expected on promoting increased demand for the local currency, the RBZ reviewed upwards saving and time deposit rates in both ZiG and USD. Reviewed rates are too low to spur savings and investment amid inflation and exchange rate risk in the local currency. The Bank, also directed that all entities adopt a common presentation currency, ZiG, for reporting purposes, with immediate effect, including for the 2024 audited financial statements. This measure is expected to increase translation costs for businesses. Changing reporting currency back to local currency to likely confuse stakeholders and users of financial statements for investment purposes. Company forecasts and valuations can be difficult and distorted amid inflation and currency fluctuations. Notable was the exemption from transaction charges of Point of Sale (POS) transactions for amounts less than US\$5 or its equivalent in ZiG, and we expect this to aid financial inclusion going forward.



The 2025 MPS had few new measures, with most of the initiatives focusing on intensifying monitoring and ensuring compliance on already existing measures. FMW expected more measures on promoting increased demand for the local currency. Implementation framework, "the how part", on some new measures and enforcing compliance on already existing measures in the outlook will enable a more in-depth assessment of the impact of the 2025 MPS on attaining the desired outcome of Inflation and Exchange Rate Stability.

ECONOMIC AND MARKET REVIEW

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