



National Competitiveness Commission
"Enhancing Zimbabwe's Global Competitiveness"



Analysis Of The 2023
Mid - Term Monetary Policy Statement Review
Impact On Business Competitiveness

1.0 Introduction

- 1.1 The Governor of the Reserve Bank of Zimbabwe, Dr. J. P. Mangudya presented the 2023 MTMPS on 09 August 2023 with the theme, “***STAYING THE COURSE TO PRICE STABILITY***”. The theme is timely as the economy is currently on the right track toward sustained price and exchange rate stability. It guarantees sustainability on the right path of progress attained thus far on the price and financial stability fronts.
- 1.2 The MTMPS evaluates monetary policy stance and policies pursued by the Reserve Bank of Zimbabwe in the 1st half of 2023 and outlines the monetary policy stance to be pursued up to the end of the year.
- 1.3 To this end, the Commission provides an analysis on the anticipated impact of the 2023 Mid-Term Monetary Policy Statement (MTMPS) Review on business and overall competitiveness of Zimbabwe.

2.0 Analysis of the Mid-Term Monetary Policy Review on Competitiveness

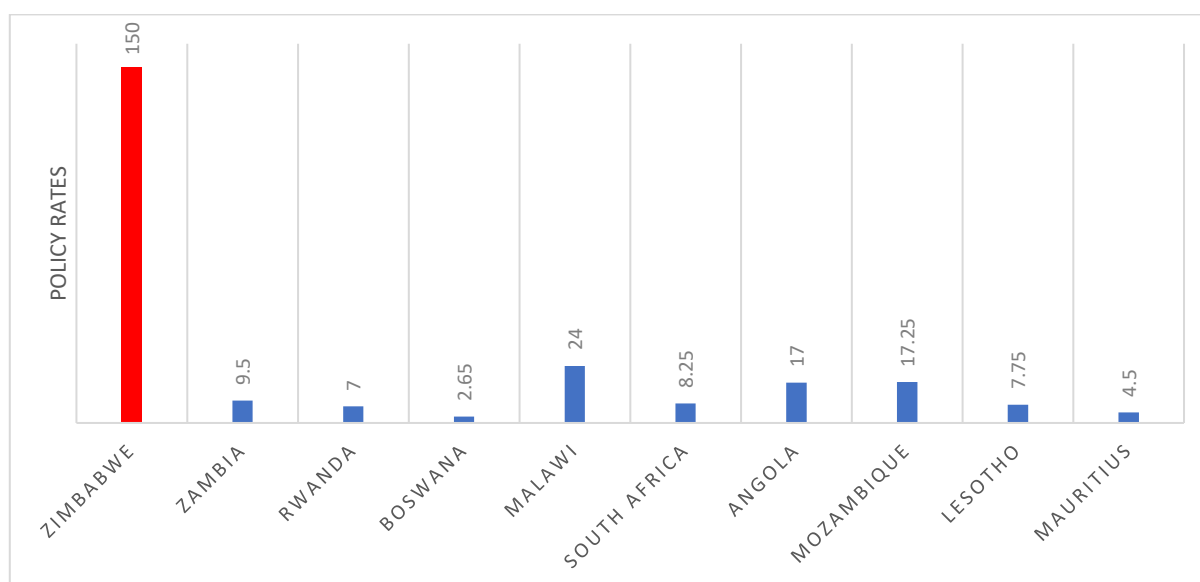
- 2.1 The World Economic Forum (WEF) in its series of Annual Global Competitiveness Reports (AGCR) classified “*macroeconomic environment*” pillar as a basic requirement sub-index for competitiveness. This means that macroeconomic environment forms the foundation of a competitive economy. Against this backdrop, the 2023 MTMPS policy was presented under the theme ‘***Staying the Course to Price Stability***’ which clearly attest that the economy is on the right track to price and exchange rate stability and calls for the need to stay the course of the right policy mix.
- 2.2 To “*Stay the course to price stability*”, the Monetary Authorities have assured the nation that they will continue to implement a tight monetary policy stance for the next six months to sustainably anchor inflation and exchange rate expectations. The tight monetary policy path will be anchored on aggressive interest rate and Open Market Operations (OMO) measures, among others:

Recommendation: *Continued implementation of tight fiscal and monetary policies to contain arbitrage and stay on the course to price and overall macroeconomic stability that promote business operations and industrial competitiveness;*

Interest Rates

- 2.3 The Commission views interest rates as one of the key determinants of investments as they provide the cost of finance for the industry. A Monetary Policy that seeks to lower interest rates is bound to enhance investment, productivity, and competitiveness.
- 2.4 Aggressive interest rates negatively impact competitiveness as they are likely to scare away investors. Investment is not just an event but a process. Potential investors require complete information to make informed investment decisions.
- 2.5 The Commission welcomes the Bank’s policy position that the medium-term accommodation lending rate and the deposit interest rates on savings and time deposits will be reviewed in line with the country’s inflation developments.
- 2.6 However, the current rate lending rates of 150% are too high to support industry, while at the same time deposits rate of 50% are too low to mobilise savings in the banking sector against annual inflation of 101.3%
- 2.7 As a result, this adversely impact on investment, reduce market competition, productivity and business competitiveness, compared to regional countries. To this end, the Commission reiterates that the bank policy rate is still aggressive when compared with other countries in the region.
- 2.8 Figure 1 depicts a summary of policy rates for Zimbabwe against comparator countries.

Figure 1: Zimbabwe’s Central Bank Policy Rates against Comparator Countries, 2023



Source: *Worldwide Central Bank Rates* (@<https://www.cbrates.com/>)

2.9 The graph shows that Zimbabwe has the highest rates than comparator countries. In fact, Zimbabwe has incomparable rates worldwide. Whereas Zimbabwe rates are at 150% Botswana has 2.5; South Africa 8.25; Zambia 9.5 and Mauritius 4.5 percent. This implies that the cost of financing is extremely high in Zimbabwe relative to other countries making it exceptionally impossible to invest in Zimbabwe. Without investment, productivity and competitiveness are obviously curtailed.

Recommendation: *Continued reduction of bank policy rates in line with competitive inflation developments in regional partners.*

Open Market Operations: Statutory Requirements and Non-Negotiable Certificates of Deposit

2.10 The objectives of the proposed Open Market Operations¹ in view of the historic money market dynamics are evident of the bank's commitment to stay on the course to price stabilization.

2.11 Stable macroeconomic environment is one of the basic requirements for competitiveness. Given that, all things equal, these measures managed to create sustainable conducive macroeconomic environment, competitiveness is expected to improve.

Recommendation: *Diligently and pro-actively apply OMO to sustain a stable macroeconomic environment.*

Gold coins and gold-backed digital tokens

2.12 The proposal to roll out Gold coins and gold-backed digital tokens (GBDT) for transactional purposes to complement the use of the US dollar in domestic transactions and conduct appropriate awareness campaigns in all national provinces and districts of the country to educate the public on the use and benefits of GBDT is a noble idea.

2.13 Increasing the modes of *store of value options* to complement available choice is likely to induce domestic investment, increase market competition, productivity, and competitiveness. However, effective application of GBDT in the domestic market is not a sole factor of limited knowledge on use and merits of the initiative but also a confidence issue. Instead of targeting awareness campaigns only the bank is also advised to come up with strategies to gain public confidence with the banking sector.

¹ i.e., the statutory requirements, and non-negotiable certificates of deposits

Recommendation: *Develop and effectively implement a twin GBDT awareness campaigns and confidence building programmes.*

Auction System

2.14 The foreign currency auction system is a critical national foreign currency regulating device. The proposal by the MTMPS to continue with the current Dutch auction system and further liberalise it is a welcome development with prospects of advancing investment, productivity and competitiveness.

Recommendation: *Continue liberalising the current auction system in place*

2.15 The proposal to enhance financial inclusion to consider bank customers, including individuals and Micro, Small and Medium Enterprises (MSMEs) is a positive development towards enhancing the country's competitiveness.



Published By:

National Competitiveness Commission
1 Adylinn Road, Agriculture House,
Corner Malborough Drive & Adylinn Road,
Malborough, Harare.

Tel: (+263) 242 313 230

Email: info@ncc.co.zw

Website: ncc-zim.co.zw

FOLLOW US!



National Competitiveness Commission