FBC Securities (Private) Limited

(Registered Stockbroker) - Member of the Zimbabwe Stock Exchange

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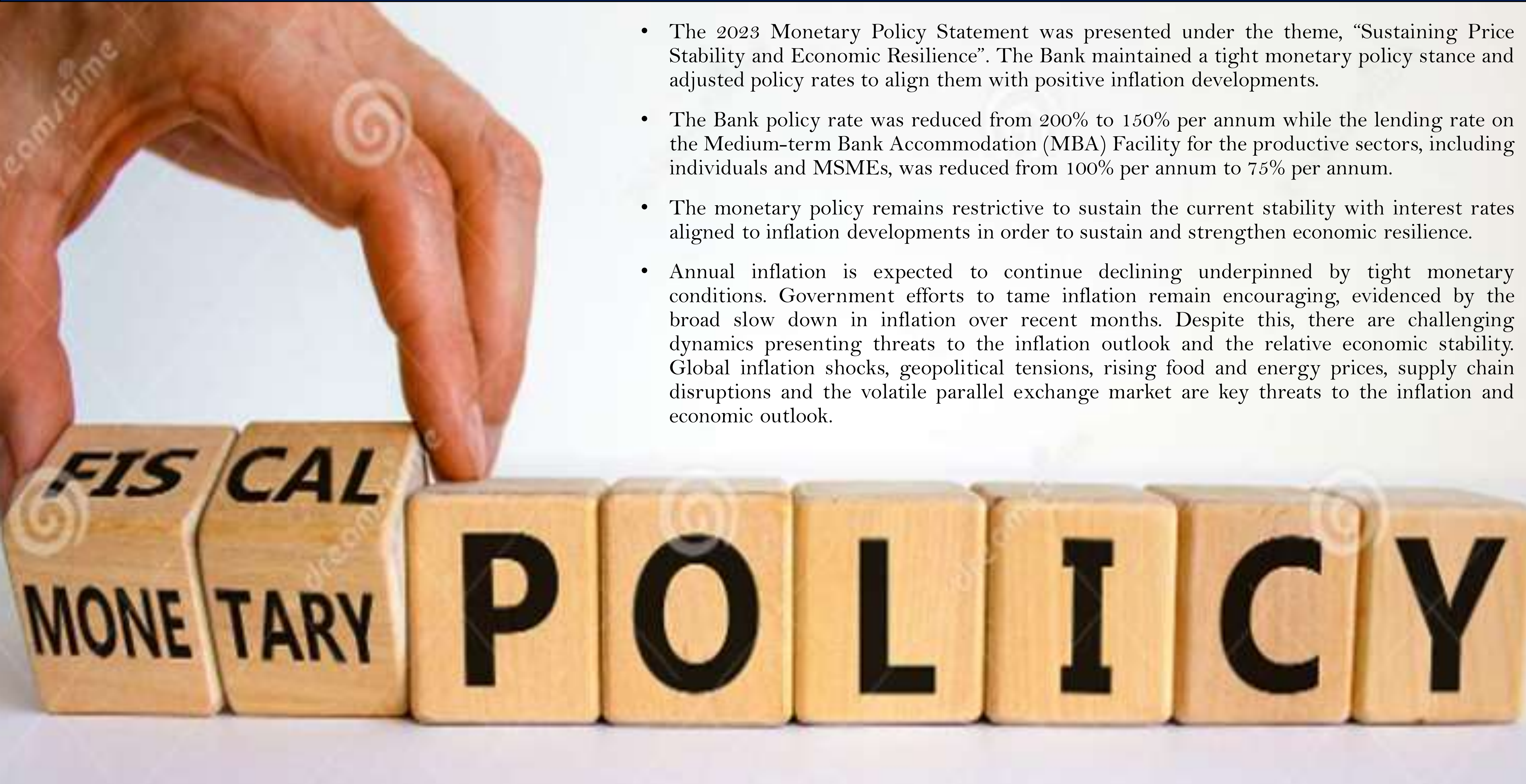
2023 Monetary Policy Review & Analysis:

Contractionary measures marginally eased

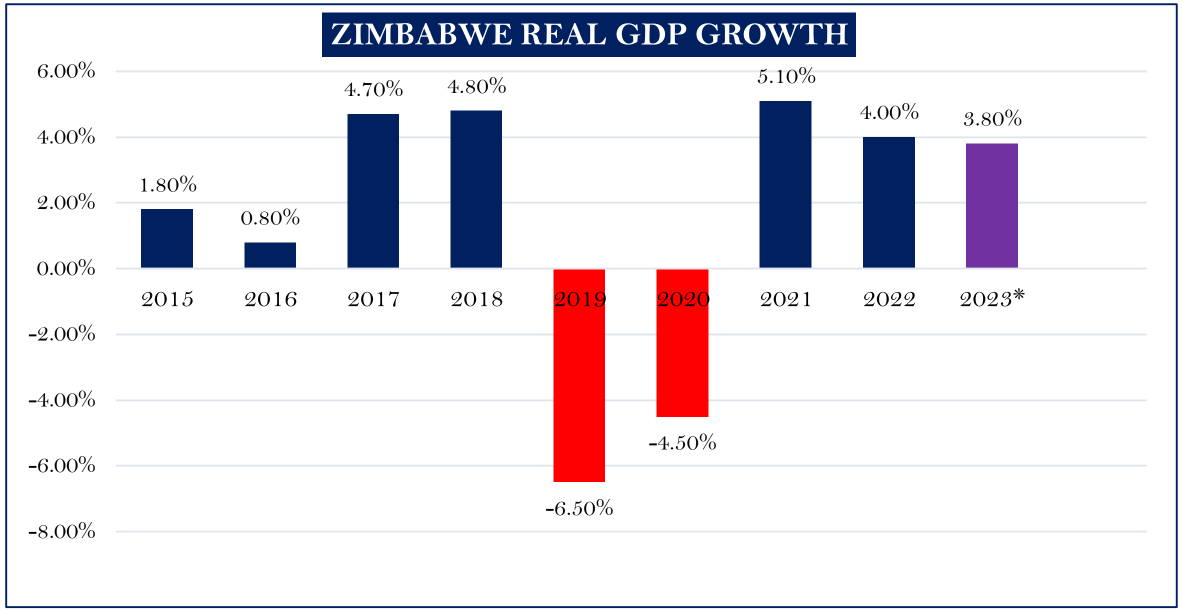
OVERVIEW



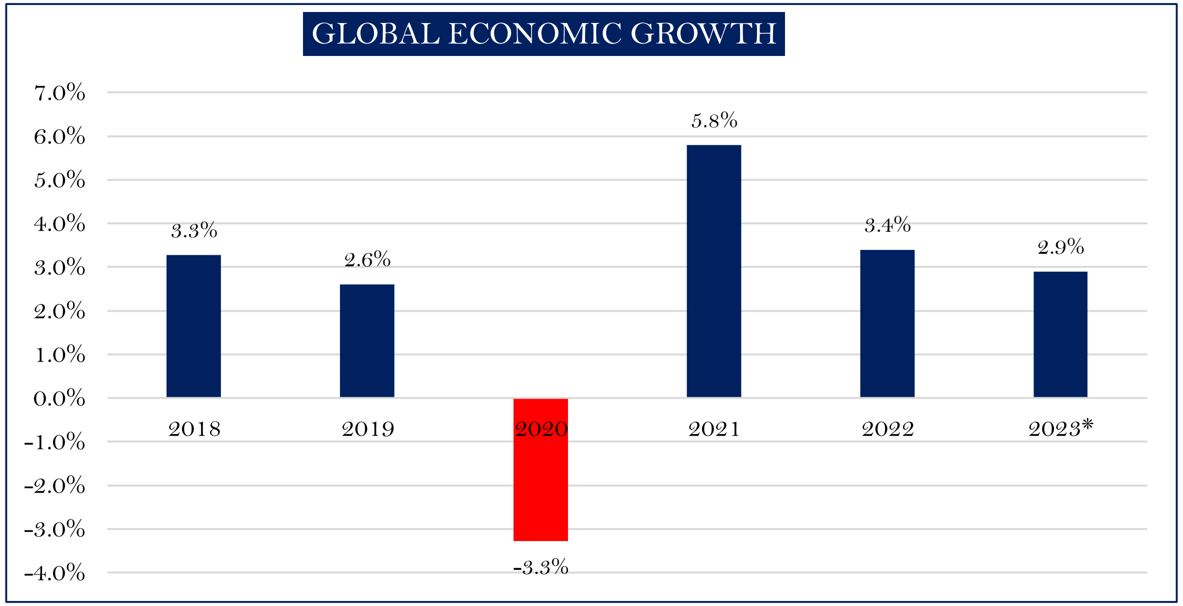
- The 2023 Monetary Policy Statement was presented under the theme, "Sustaining Price Stability and Economic Resilience". The Bank maintained a tight monetary policy stance and adjusted policy rates to align them with positive inflation developments.
- The Bank policy rate was reduced from 200% to 150% per annum while the lending rate on the Medium-term Bank Accommodation (MBA) Facility for the productive sectors, including individuals and MSMEs, was reduced from 100% per annum to 75% per annum.
- The monetary policy remains restrictive to sustain the current stability with interest rates aligned to inflation developments in order to sustain and strengthen economic resilience.
- Annual inflation is expected to continue declining underpinned by tight monetary conditions. Government efforts to tame inflation remain encouraging, evidenced by the broad slow down in inflation over recent months. Despite this, there are challenging dynamics presenting threats to the inflation outlook and the relative economic stability. Global inflation shocks, geopolitical tensions, rising food and energy prices, supply chain disruptions and the volatile parallel exchange market are key threats to the inflation and economic outlook.

DOMESTIC ECONOMY

- Adverse global developments are likely to have spillover effects on the domestic economy through trade, imported inflation and financial linkages. Global GDP growth is projected to slow down from 3.4% in 2022 to 2.9% in 2023 due to elevated inflation, rising interest rates, reduced investment and the consequences of the ongoing Russia-Ukraine war. Central Banks are expected to continue tightening monetary policies to fight inflation, stoking fears that the restrictive stance could tip the world economy into a recession.
- Domestic GDP growth is projected to slow from 4% in 2022 to 3.8% in 2023, sustained primarily by mining, agriculture and enhanced activity in the manufacturing, wholesale and retail trade sectors. The deceleration has been attributed to the uncertain global economic outlook and potential adverse domestic factors.
- China's anticipated increase in economic activity in 2023 will bode well for global commodity prices, however, demand concerns remain prevalent as economies grapple with elevated inflation and increasing borrowing costs. Favorable commodity prices, coupled with increased output and ongoing government support presents opportunity for growth in the mining sector for 2023.
- The agricultural sector is poised for recovery owing to the normal to above normal rainfall expected in the current season. Government has also undertaken climate proofing measures under the National Accelerated Irrigation Rehabilitation Programme, as well as the restructuring and transformation of agriculture systems to improve the viability and productivity of the sector. This, coupled with timely access to adequate government and private inputs will drive growth in 2023.
- The local economy, however, continues to face downside risks to growth owing to erratic power supply, currency and inflation volatility, high borrowing costs, depressed aggregate demand and an uncertain global economic outlook.



Source: RBZ, FBC SECURITIES RESEARCH



Source: IMF, FBC SECURITIES RESEARCH

ANCHORING INFLATIONARY PRESSURES…

- Tight monetary stance
- Relatively stable foreign exchange market
- Strengthened government procurement processes
- Mopping up of excess liquidity
- Stable global commodity prices

- Global inflation shocks
- Imported inflation
- Rising food and energy prices
- Supply chain disruptions
- Exchange rate volatility
- Money supply pressures

MONETARY POLICY MEASURES

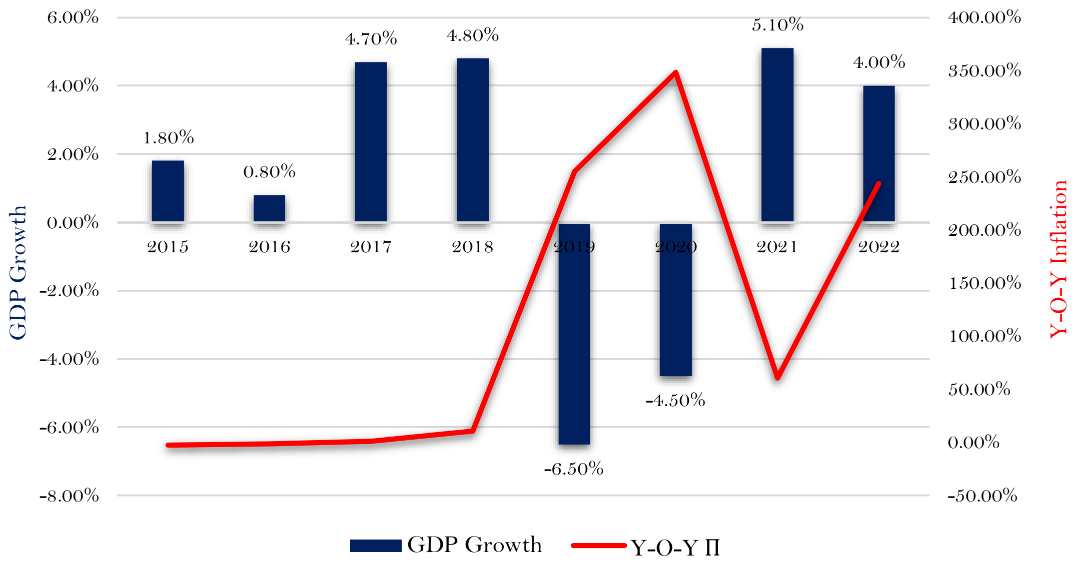
Measure	Our thoughts…….
1. **Downward review of bank policy rate to 150%**	Total loans and advances jumped 114% from Jun 2022 to Dec 2022 despite elevated interest rates of 200%, whilst loans to deposit ratio increased by a marginal 3.69% comparing Jun 2022 and Dec 2022. Baring inflationary pressures in the second half of 2022, appetite for borrowing remains high from the business community. An analysis of banking sector loans and advances and loans to deposit ratio developments following May 2022 measures indicates insignificant influence of interest rates around 150%/200% to effective borrowing demand. In addition, the productive sector, individuals and MSME dominate majority of banking sector loans. At an interest rate of 75%, there will be unlimited demand for RTGS loans, factoring inflation altitudes and alternative market rate developments.
2. **Downward review of minimum deposit rates to 30%(savings), 50% (time deposits)**	A deposit interest rate below inflation rate means negative real return, hence is suboptimal. Any savings/ time deposit rate circa 50% before factoring bank charges and service fees is not sufficient to stimulate a desirable savings culture in the economy. Total banking sector deposits increased 104% comparing Jun 2022 and Dec 2022, however this was a decrease in real terms incorporating inflation which closed the year at 243.8% (Y-O-Y) post hike of these rates to around 80%.
3. **Maintenance of gold coins issuance**	As an open market operation tool, gold coins have effectively reduced excess liquidity that was chasing few dollars in the economy. At a time when the investment community has limited quality assets, gold coins have provided a relatively efficient alternative, thereby reducing aggregate concentration risk. However, an individual penetration ratio of 16% is low. Incentives targeted at individual investors may be a worthwhile consideration to ensure an even holding distribution which is developmental in the economy.

MONETARY POLICY MEASURES CONT'…..

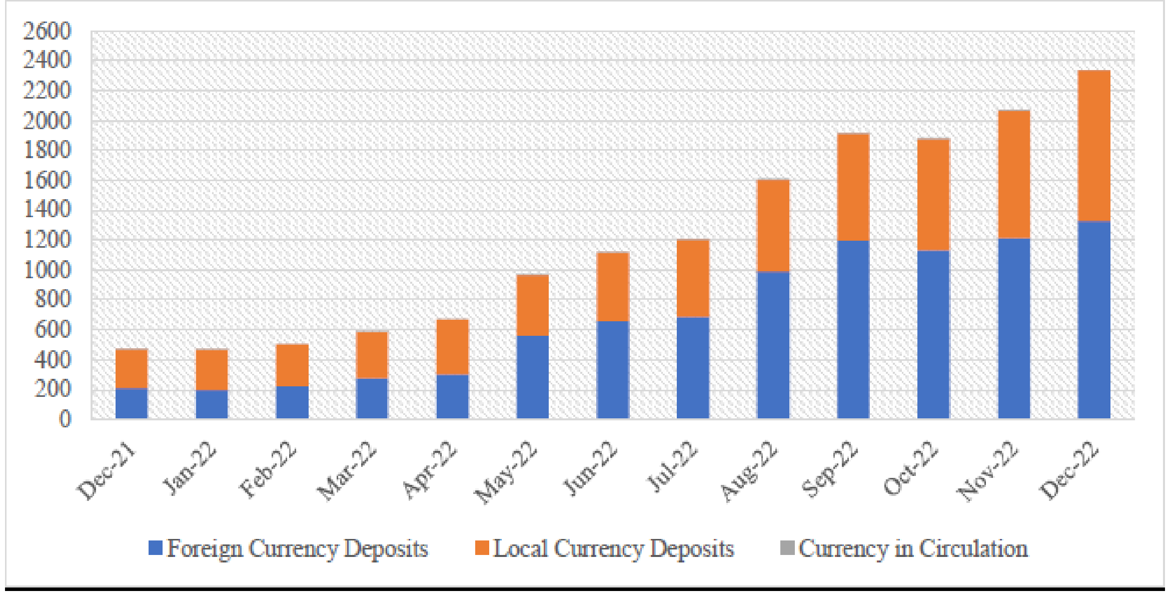
	Measure	Our thoughts…….
4.	**Foreign exchange supply to the interbank market**	The inefficiency/ imbalance of the interbank market (WBWS) can only be addressed by a market determined price. Availing foreign currency to banks and Bureaux de Change may not be the panacea to the inefficiency of the platform. Ultimately it may be the creation of a secondary foreign exchange market platform with similar challenges and limitations.
5.	**Standardization of retention thresholds to 75% including VFEX firms**	Zimbabwe's economic structure is a mixed economy with a bias on command elements. The use of retention thresholds is an easy way of creating foreign currency for the government. Nonetheless, the biggest challenge is the determination of an optimal threshold desirable for both the government and the exporting community. We have witnessed policy inconsistencies and policy missteps on this variable and as a tool to promote strategic planning and attract foreign direct investment, the government needs to ensure consistency around retention thresholds as opposed to constant reviews.
6.	**Standardization of statutory reserves**	As a contractionary measure, statutory reserves are of paramount importance in sterilizing excess liquidity in the economy. It is encouraging that these reserves will be reviewed regularly by the MPC monitoring prevailing liquidity conditions.
8.	**Retention on foreign currency domestic sales now 85%**	The economy has dollarized in the informal sector and semi-dollarized in the formal sector. This is a reassuring development that will ultimately increase foreign currency accumulation by the retail sector thereby easing foreign currency demand in formal platforms like the auction system and interbank market.

CONCLUSION & FORWARD LOOKING

GDP GROWTH & Y-o-Y INFLATION



MONETARY DEVELOPMENTS (ZW$ BILLION)



- Contractionary measures implemented by government from May 2022 anchored potentially inflationary pressures and exchange rate volatility. The 2023 Monetary Policy Statement seems to be a continuation of the stance taken by the government in 2022, with some moderations to relieve corporates and acknowledging dollarization penetration.
- Baring potential adverse effects of the election, favourable outturns in inflation and exchange rate volatility are attainable. An election year is usually associated with limited investment as economic players apply a wait and see approach to efficiently strategize post elections.
- Government contracts and payments thereof have been influential in driving alternative market rate dynamics. Acknowledgement by government and strict measures around these contracts and payments is a welcome initiative.
- Dollarization is now a reality and majority of companies are recording increased hard currency revenues. The government should take cautious cognizance of this development, providing an enabling environment that will foster economic growth and development.
- We anticipate a general bullish sentiment on the stock market, however gains may be moderated by inflation tightening measures that the government is pursuing. A number of ZSE and VFEX listed companies are trading at a discount to intrinsic valuations creating efficient value pockets.

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