WILL ZIG GUARANTEE PERMANENT STABILITY: IIZ, NOV 2024

PERSISTENCE GWANYANYA-RBZ MPC & MD (BULLION GRP)

GENERAL SENTIMENT

- Reflecting on the local currency journey since 2016, its tempting to think of permanent stability as elusive;
  - Episodes of instability are normally followed by temporary stability on account of interventions
  - The recent experiences-2023 & the year so far-are telling
- Given the losses suffered on account of volatilities, it will take a lot of convincing for mkt to believe again

IS ZiG THE ANSWER?

- Arguably, we are past the era of gold-backed currencies
- Today its fashionable to think of currencies as backed by confidence
- However, in our case where confidence has bottomed to historic low, on account of hyperinflation experiences insisting that the same confidence will drive stability is preposterous

RENEWED HOPE

- The motivation for structuring a currency around foreign reserves- gold, precious minerals & forex is to guarantee convertibility
- With convertibility its easy to think of a currency that delivers the store of value & unit of account among other characteristics of money
- This is how ZiG is expected to renew the hope in local currency

ZiG PERFORMANCE SO FAR

- The general consensus is that the mkt embraced ZiG on its introduction on 5 April 2024, despite teething problems
- The average monthly increase in ZiG M3 to July 2024 of 50.71% could be viewed as reflecting increased ZiG acceptance
- ZiG Mo+NNCDs increased from ZWG1.239bn (~US$90m) on 5.04.24to ZWG3.841bn (US$277m) as at 13.09.24
- However, beyond the acceptance stage, it appears the economic design was not ready to cope with de-dollarisation pressures

SLOW INTEREVENTION

- Admittedly, monetary authorities were slow to intervene as pressure on ZiG was mounting
- Ideally, a structured currency is not self-executing but relies on timeous interventions
- That's why it seems ironic that ZiG was depreciating when gold prices were increasing

EFFICACY OF MPC INTEREVENTIONS

- Clearly, the 27 Sept interventions were necessary to deal with excess liquidity
- These tightening measures include;
  - Increase of ZiG bank rate from 20% to 35%
  - Standardisation of ZiG & US$ demand & call deposits statutory reserve ratios to 30% from 20% & 15% respectively
  - Increase of ZiG & US$ savings & time deposits statutory reserve ratios to 15% from 5%

RATE DEPRECIATION

- Importantly, the MPC depreciated the ZiG through injection of US$50m in the interbank mkt @ ~US$1:25 from~US$1:14.
  - This was necessary as the mkt expect Gvt was already operating around the depreciated rate
- Importantly, the Committee allowed for greater flexibility of the ZiG to support efficient price discovery

REJECTION EFFECT

- Tightening doesn't deal with rejection effect, which is made possible by the operation of multiple currency regime
- Currency rejection happens on the back of diminishing confidence levels
- Permeant stability is only achievable if the rejection effect is dealt with

UNDERWRITING ZiG

- To deal with rejection effect there is need to underwrite the ZiG through supper demand
- Robust use case, established around wider options for the ZiG is necessary
- Gvt is the best to drive the demand for ZiG through taxes, duties, statutory and user fees
- We expect Treasury to increasingly pivot towards ZiG the 2025 Budget

CONFIDENCE BOOST

- Increased appetite for ZiG by Gvt is seen as a confidence boosting measure
- But it also means Gvt has to increasingly rely on the surrender funds/interbank mkt for its forex requirements
- It also measures supporting financial inclusion measures e.g review of IMTT are necessary
- Enhancing the efficiency of the interbank mkt is equally important

MARKET DEVELOPMENT

- The need to develop alternative ZiG denominated investment products ease pressure on the US$ esp as a store of value cannot be overemphasised
- This speaks to mkt deepening & widening as we try to address the value preservation needs of the economy
- RBZ is seized with this

PERMANT STABILITY STILL POSSIBLE

- Despite its challenges, permanent stability for ZiG is still possible
- The interbank trades are peaking, as reserves are increasing
- RBZ recently reported that reserves have increased to US$509m, surpassing the deposits of ZWG12bn (US$469m)
- Measures to underwrite the ZiG will be a major boost for the currency
- So are the mkt development efforts

TIGHT MONETARY POLICY

- RBZ is committed to maintain tight monetary policy stance typified by growth in reserve money of 5-7%
- This implies the following;
  - aggressive mopping up of liquidity through NNCD
  - Development of Treasury retail instruments to complement the NNCDs
- Conservative fiscal policy

GVT COMMITMENT

- Commendably, Gvt is committed to support the stability measures through;
- Balanced budget for 2025
- Restructuring of short-term debt
- Judicious liquidity mgt through Liquidity Mgt Committee
- Driving the demand for ZiG

MULTIPLE CURRENCY ENFORCEMENT

- The multiple currency system is in operation until 2030
- As we dedollarise, measures to support increased use and acceptance of ZiG are necessary
- Enforcement of compliance by FIU is seen as supporting these measure
- Equally, there is need to progressively remove exemptions on the multiple currency system

CONCLUSION

- As we return to stability, we should be prepared to trade off growth
- Already Treasury has revised down growth to 2% from 3.5% as the economy grapples with external forces & is expected to downsize
- The mkt is feeling tightness in the economy as the economy rightsizes through correction of past excesses