The Reserve Bank of Zimbabwe Governor, on 17 February 2019, presented the 2020 Monetary Policy Statement outlining the measures and policies being pursued by the Bank aimed at accomplishing the 2020 key strategic focus of ensuring exchange rate and price stability, the smooth functioning of the interbank foreign exchange market and providing support to economic activity. This brief note provides the policy highlights as well as key changes since the September 2019 Monetary Policy Statement and the January 2020 Monetary Policy Committee Statement.

FOCUS AREA	**POLICY HIGHLIGHTS**	**COMMENTS**
Macroeconomic Fundamentals	○ Expects month-on-month inflation to fall below 5.0% by end 2020. ○ Expects year-on-year inflation of 50% by year end. ○ Maintained the 2020 economic growth forecast of 3.0%.	The central bank aptly identified and summed the actions and steps required to attain the desired macroeconomic stability, including extending and increasing the Medium-Term Bank Accommodation window to ZWL1.5 billion, reassuring of holders of free funds and mandating banks and microfinance companies to submit detailed strategies to support the productive sectors during the 2020-21 season. The central bank expects inflation to fall on the back of monetary targeting framework implementation, confidence building and stability in the foreign exchange market. The recent sharp deceleration in the headline month-on-month inflation rate from 16.6% in December 2019 to 2.23% in January 2020 appears to support the central bank's views on price stability. However, given that this was mainly due to the reintroduction of subsidies, and considering the prevailing downside risks to the inflation outlook, more and decisive policy action would be needed in-order to steer the economy towards a sustainable disinflation path.
Monetary Policy Conduct	○ To focus on fostering exchange rate and price stability through reserve money targeting. ○ Expects reserve money growth to be within 10-15%.	The central bank will operationalise the reserve money targeting framework through using existing tools such as Treasury Bills, Savings Bonds, Corporate Bonds, Statutory Reserve Requirements and specific liquidity management instruments. This policy intention largely points to a tightening of liquidity on the money market. However, policy implementation may remain difficult

	○ To inject additional cash into the economy, including higher denomination notes.	as a result of the expansionary fiscal policy being pursued by the fiscal authorities, the uneven distribution of liquidity, investor preferences and the increasing informalisation of the economy.
Reuters Forex Interbank Market System	○ Banks to become market makers in a user test environment.	The Reuters system is expected to enhance transparency, communication and ultimately, price discovery. There will also be a need to put in place trading mechanisms that effectively attract buyers and sellers of foreign currency to the formal market.
Banks Capitalisation	○ Affirmed the new minimum capital requirements, which come into effect on 31 December 2019. ○ Also invited banks to submit recapitalisation plans by 30 June 2020.	The increase in minimum capital requirements may result in mergers and acquisitions, as well as downgrade of licenses by those institutions that would have failed to raise additional capital. Nevertheless, the move will transform the sector and strengthen those institutions that would have been able to meet the new minimum capital requirements.
De-dollarization	○ The central bank believes that the macroeconomic signals are improving to support a gradual de-dollarization process within a timeframe of 5 years.	It appears the authorities are moving towards a more gradual approach to de-dollarization. It is, therefore, important that the authorities largely stabilise the economy, in the interim period, whilst simultaneously putting in place the market-based tools that will foster a sustainable and long term move towards a local currency. In fact, empirical evidence shows that inflation rates below 10%, local currency denominated investment instruments that guarantee positive returns, mandatory use of the local currency for all local transactions, sizeable foreign currency reserves, general consumer confidence in the policies, among others, are some of the necessary ingredients for a successful and sustainable de-dollarization program.

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