



FREQUENTLY ASKED QUESTIONS ABOUT THE BOND NOTES

10 November 2016

1. What are Bond notes and are they not a currency?

Bond notes are financial instruments, guaranteed by an international financial organization to the tune of US\$200 million, issued at par with the US Dollar (1:1). Bond notes are issued as an incentive to exporters of goods and services and are available for use by the transacting public within Zimbabwe. Bond notes will be redeemable for US dollars or any other currency within the multi-currency system.

2. Are Bond notes not Zimbabwe dollars, and won't there be a conversion rate of the Bond note against the US dollar?

Bond notes are not Zimbabwe dollars for they are not a currency but financial instruments, issued at par with the US Dollar. Bond notes will be used as medium of exchange in the same manner that Bond coins are being used. They will be available for use by the transacting public. Bond notes will have the same value as the US Dollar.

3. What guarantee do we have that the Government will not direct the RBZ to print Bond notes which are in excess of the US\$200 million facility?

Bond notes derive their value from the US\$200 million Facility, which caps the amount of Bond notes to be issued at the facility amount. The Bank cannot issue Bond notes in excess of the limit. The Bank can only issue Bond notes against export performance up to a limit of US\$200 million. The partners involved are reputable institutions that have a name and international rating to protect. The Bank is putting in place an independent body to monitor the issue of Bond notes and information relating to Bond notes in an open and transparent manner.

4. When are Bond notes coming into circulation?

Bond notes are expected to start circulating by the end of November 2016. The Bank is making every effort to ensure that the general public understands the purpose and features of Bond notes before their circulation.

5. In which country are the Bond Notes being printed?

Bond notes are being printed outside Zimbabwe in accordance with an agreement that has safeguards against abuse. The identity of the printers and their nationality are protected by confidentiality agreements signed between the Bank and the printers.

6. Why can't Bond notes be used in other countries?

Bond notes cannot be used in other countries. Just like the currencies of the Common Monetary Area which include South Africa, Namibia, Swaziland and Lesotho, whose currencies are pegged 1:1 with the Rand, they are not legal tender outside their borders, but the Rand is in all member countries. Bond notes are also an anti-money laundering tool that is useful in guarding against externalization of the US dollar.

7. Why is the country introducing Bond notes instead of injecting the US\$200 million facility directly into the economy?

The Zimbabwean economy has continued to suffer from foreign exchange malpractices since the adoption of the multi-currency system in 2009. The foreign exchange malpractices include externalisation, capital flight, hoarding of US Dollar cash and looting by unscrupulous businesses and individuals. Bringing in Bond Notes will mitigate against such malpractices and other vices that have become entrenched in the economy. Bond notes will therefore preserve the value of Zimbabwe's foreign exchange reserves up to the maximum limit of the facility.

8. For how long will the Export Incentive Scheme be in Place?

The Export Incentive Scheme will be in place until the maximum limit of the Facility amount of US\$200 million is reached. Exporters are encouraged to improve their businesses and benefit from the scheme through increased export earnings. Each Bond note in the economy will be evidence of exports within the economy and will

represent a proportion of up to 5% of the foreign exchange earned by the country, thereby sustaining the multi-currency exchange system.

9. What is the life span of Bond Notes?

Bond Notes will remain in existence as long as the facility guaranteeing their existence is in place. They will also remain in circulation as long as the economic fundamentals required to issue a local currency are not in place. Such economic fundamentals include: minimum foreign exchange reserves equivalent to one (1) year of import cover; balanced and sustainable government budget; sustainable interest rates; high consumer and business confidence; sustainable level of inflation; and healthy job market.

10. What has caused the postponement of the introduction of the Bond notes into the market from October to November?

The delay has been necessitated by the need to ensure that the public is made aware of the purpose and features of Bond notes before they come into circulation.

11. What has prompted the Bank to introduce only \$2 and \$5 Bond notes, leaving out the larger denominations?

The Bank has considered and taken note of the public's concerns, fear, anxiety and skepticism surrounding Bond notes which are all about trust and confidence within the economy. The Bank has decided to introduce smaller denominations of bond notes of \$2 and \$5 which will compliment bond coins in dealing with issues of change and small purchases of goods and services.

12. Why is the Bank not bringing back the Zimbabwe dollar and are Bond notes not one way of bringing back the Zimbabwe dollar through the back door?

It is critical to emphasise that the macroeconomic fundamentals or conditions for the return of the local currency or Zimbabwe dollar are not yet in place. The introduction of Bond notes, therefore, does not mark the return of the Zimbabwe dollar through the back door. Currently, the key economic fundamentals or conditions for the return of the local currency are not yet in place. These include: minimum foreign exchange reserves equivalent to one (1) year of import cover; balanced and sustainable

government budget; sustainable interest rates; high consumer and business confidence; sustainable level of inflation; and healthy job market.

13. Why are farmers, who are not into tobacco farming being excluded from the Export Incentive scheme?

The Export Incentive Scheme is targeted at all foreign currency earners in order to increase foreign exchange into the country to sustain the multi-currency exchange system. The foreign exchange earners include:-

- i. Tobacco Growers;
- ii. Diamond and Gold Producers;
- iii. Diaspora remittances;
- iv. Exporters of goods (Manufacturing, Mining, Agriculture, Horticulture); and
- v. Exporters of Services (Tourism, Transport, Hunting, Posts and telecommunications).

The facility is currently not available to non-exporters.

14. Is my US dollar account going to be converted to a Bond Note account?

There will be no conversion of US dollar accounts into Bond note accounts, as Bond notes will be deposited into or withdrawn from the existing US dollar accounts.

15. How will the Bond notes reflect in my account which will be having US dollars?

Bond notes which are at par (1:1) with the US dollar will be deposited into one's US Dollar account where one can transact electronically through RTGS and other means, make foreign payments for imports or use their debit cards for payments.

16. Are we going to be paid salaries in Bond notes?

Salaries will continue to be paid in the currency they are currently being paid, into one's bank account, in particular US dollars. Upon withdrawals banks have an option to pay in any one of the legal tenders in the multi-currency basket depending on availability.

17. Is the Reserve Bank realistic in saying that Bond notes will avert externalization?

Bond notes are local financial instruments which can only be used for transactions in Zimbabwe hence cannot be externalised. They cannot be used anywhere else in the world. The Bank has also put in place some measures to deal with externalisation of cash, including limits on the amount of cash which can be exported by a person.

18. If the Bond notes are for exporters how will the ordinary person get them?

Whilst Bond notes are earned as an export bonus by exporters, they will be introduced to the financial market each time export receipts are received in the country. The exporter's bank will credit the exporter's account with the US dollar amount of the export incentive, and receive Bond notes from the Reserve Bank as payment for the incentive credited to the exporter's account. Bond notes will then be available for use by both exporters and non-exporters, corporates and individuals through normal banking and daily transactional activities.

19. With the cash crisis and the introduction of Bond notes what guarantee do we have that Commercial banks will give us other currencies which are in the basket, particularly when we are traveling out of the country?

Bond Notes are redeemable for any other currency within the multi-currency system. In this regard, one can redeem the Bond notes for USD, ZAR, Euro, Yen, Australian dollar, Yuan, Pula and Rupee at any bank or any Easylink Branch of Homelink. This effectively means the public has a choice of either keeping or transacting in the Bond notes or converting them to other currencies when the need arises.

20. What effect will Bond Notes have on investor confidence since they are only being used in the country?

The investor will not be negatively affected by the Export Incentive Scheme. The Bank would like to reassure the public that Bond notes which would be introduced to support exporters are a necessary export incentive/bonus scheme aimed at encouraging domestic production for export, especially given the external shocks of low international commodity prices and the strong US Dollar. The economy has to generate liquidity in this uncompetitive environment while at the same time ensuring that the incentive is preserved from externalisation by unscrupulous businesses. **The**

multi-currency system is here to stay. It needs to be supported by more exports of goods and services.

21. Where to Redeem Bond Notes?

Bond Notes are redeemable for any other currency within the multicurrency system. In this regard, one can redeem the Bond notes for USD, ZAR, Euro, Yen, and Australian dollar, Yuan, Pula and Rupee at any bank or any Easylink Branch of Homelink.

22. Will any questions be asked upon redemption of Bond Notes?

The process will be done on a no questions asked basis, however, banks are required to report any suspicious transactions to the Central Bank in terms of Anti Money Laundering requirements.

23. As banks fall in the middle between the monetary authority and the customer what power do they have to cushion excess allocation, suppose government at some point deem it necessary to increase the notes allocation?

There is no excess allocation possible under the Export Incentive Scheme, given that each bank will reconcile for exports receipts coming through their accounts and the amount due to them in Bond notes as per the policy. Bond notes will be issued through banks against export performance.

24. What factors beyond exports are precedent for an increase in bond notes circulation beyond the \$200 million cap?

There are no other factors precedent for an increase in Bond notes in circulation beyond the US\$200 million cap. If there are no exports there will be no be Bond notes. The issuance of Bond notes will, therefore, depend on the performance of exports.

25. At what point in the chain the currency being used may be converted to bond notes?

There is no intention of converting any currency being used into Bond notes. The country will continue using the multi-currency system until the conditions for the return of the local currency are met.

26. Also are there any stipulations about how the withdrawal limits currently imposed may be relaxed with the introduction of bond notes?

The current withdrawal limits are quite in line with international and regional best practice. The focus of the Bank is continuing with the promotion of a less cash society through the use of electronic money. This is critical in order to preserve foreign exchange reserves.

27. Is there any sense of how the banks are being guided by the Reserve Bank?

The Reserve Bank meets with local banks regularly to deliberate on pertinent issues and as such, all banking institutions are regularly being guided accordingly on the issues at hand.

RESERVE BANK OF ZIMBABWE

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