PRESS STATEMENT

MEASURES TO DEAL WITH CASH SHORTAGES WHILST SIMULTANEOUSLY STABILISING AND STIMULATING THE ECONOMY

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STATEMENT OF THE CASH SHORTAGES CHALLENGE

1. The shortage of USD cash in the country as evidenced by queues at some banks and automated teller machines (ATMs) is attributable to a number of intertwined factors that include:

    a. The dysfunctional multi-currency system as a result of the strong USD. In the case of Zimbabwe, the USD has become to be more of a commodity, a safe haven currency or asset than a medium of exchange.

    b. Low levels of use of plastic money and the real time gross settlement (RTGS) platforms. Zimbabwe is predominantly a cash economy.

    c. Low levels of local production to meet consumer demand, leading to higher demand for foreign exchange to import consumer goods.

    d. Low consumer and business confidence as reflected by high appetite by both consumers and business to keep cash outside the banking system.

    e. Inefficient distribution and utilization of scarce foreign exchange resources.

2. The strong USD continues to make Zimbabwe to be:

    a. High cost producing country,

    b. Very expensive tourist destination,

    c. A fertile ground for capital flight and/or externalization, and

    d. Dependent on the USD cash for almost all domestic translations. The USD has replaced all the other currencies in multi-currency basket, namely the

Rand, Euro, the British Pound, Yuan, Pula, Australian Dollar, Indian Rupee and Japanese Yen.

3. The adverse impact of the above factors has continued to put pressure on the country's balance of payments position. Whilst the country experienced balanced trade prior to 2003, as exports were aligned to imports, the situation changed from 2004. Since then, the country has continuously experienced trade deficits, which have increased from moderate levels of around USD400 million during 2004-2006 to the unsustainable levels of USD2.5 billion between 2011 and 2015. The persistent trade deficits has continued to drain liquidity and/or cash from the country.

4. The commendable improvement in the production of gold and tobacco by small scale producers is also contributing to the current high demand for cash as these producers demand cash from their banks immediately after selling their produce.

5. Drought induced import requirements have also increased the competing demand for foreign exchange. To date, around USD80 million has been utilised for the importation of grain. The increase in these imports is at a time when the international commodity prices for Zimbabwe's main export items, gold, platinum and diamonds are depressed.

SOURCES OF LIQUIDITY

6. Zimbabwe's sources of liquidity is from four major sources, namely exports of goods and services, diaspora remittances, offshore lines of credit and foreign direct investment.

7. Of these, the major source is exports, of which around 80% of exports (USD2.6billion) is from five products, namely, tobacco, gold, platinum, diamonds and ferrochrome.

8. Over 40% of Zimbabwe's exports are to South Africa and around 60% of imports are from South Africa. Around 70% of tourists to Zimbabwe come through South Africa. As such, South Africa is an important trading partner to Zimbabwe and a major source of foreign exchange.

9. However, the currency utilisation levels under the multi-currency system has continued to be skewed towards the USD as shown in the table below.

Currency	**2009**	**2013**	**2014**	**2015**	**2016**
USD	49%	50%	60%	70%	95%
Rand	49%	50%	40%	30%	5%
Other	2%	-	-	-	-

MONETARY POLICY MEASURES

10. In order to resolve the cash shortages in the economy whilst at the same time stabilizing and stimulating the economy, it is essential to go back to basics of;

    a. Restoring the fundamental principles of the multi-currency system through increasing the availability and usage of the other currencies within the multi-currency basket. The multi-currency system was designed to minimize concentration risk of exerting pressure on one currency in an economy,

    b. Ensuring that foreign exchange is efficiently utilised and managed within the context of its supply and demand as opposed to the current laissez faire policy, and

c. Incentivising local production and generation of foreign exchange in furtherance of the 'Make and Buy Zimbabwe ' philosophy as advocated by the Buy Zimbabwe Campaign.

11. It is on the premises of the above context that the following market friendly policy measures are being put in place to deal with the cash shortages whilst simultaneously addressing the challenge of lack of competitiveness of the country on both local production and external trade.

Restoring and Promoting the Multi-Currency System

12. In order to restore and promote the wide-spread usage of currencies in the multi-currency basket, with effect from 5 May 2016, 40% of all **new** USD foreign exchange receipts from export of goods and services, including tobacco and gold sale proceeds, shall be converted by the Reserve Bank at the official exchange rate to Rands and 10% to Euros. This policy measure is designed to ensure that we spread the demand for cash amongst a wide range of currencies and in order to mitigate against concentration risk.

    This framework shall not apply to diaspora remittances and non-governmental organizations, where such receipts shall continue to be treated as free funds in line with existing framework. This policy does not also affect the operation of the existing accounts.

Foreign Exchange Stabilisation and Incentive Support Facility

13. The Reserve Bank has established a USD200 million foreign exchange and export incentive facility which is supported by the African Export-Import Bank (Afreximbank) to provide cushion on the high demand for foreign exchange and to provide an incentive facility of up to 5% on all foreign exchange receipts, including tobacco and gold sale proceeds.

In order to mitigate against possible abuses of this facility through capital flight, this facility shall be granted to qualifying foreign exchange earners in bond coins and notes which shall continue to operate alongside the currencies within the multi-currency system and at par with the USD. The Zimbabwe Bond Notes of denominations of $2, $5, $10 and $20 shall, therefore be introduced in future, as an extension of the current family of bond coins for ease of portability in view of the size of the USD200 million backed facility. The facility shall also be used to discount trade related paper in order to provide liquidity for business trading operations.

Efficient and Productive Utilisation of Foreign Exchange

14. In order to promote efficiency utilisation of foreign exchange and to re-orient import demand towards productive uses, the Reserve Bank and the Business Council as represented by the Confederation of Zimbabwe Industries (CZI), Zimbabwe National Chamber of Commerce (ZNCC) and the Bankers Association of Zimbabwe (BAZ) have come up with the following foreign exchange priority list to guide banks in the distribution of foreign currency towards competing demands.

PRIORITY LEVEL	FOREIGN CURRENCY PAYMENTS CATEGORY
Priority One (HIGH)	i. Net exporters who import raw-materials or machinery to aide them to produce and generate more exports; ii. Non-exporting importers of raw materials and machinery for local production (value addition) that directly substitute import of essential finished goods; iii. Imports of critical and strategic goods such as basic food stuffs and fuel, health and agro-chemicals granted these goods are not available locally; iv. Repayments of offshore lines of credit procured to fund productive activities; v. Payments for services not available in Zimbabwe; vi. Foreign investment income remittances (profits and dividends).
Priority Two (MEDIUM)	i. Bank borrowing clients in the productive sector who engage in critical and strategic imports.
Priority Three (LOW)	i. University and college fees ii. Cash depositing clients in the retail and wholesale service industry. The customers generate cash which can either be recycled for local use or repatriated to replenish nostro accounts. iii. Other borrowing clients who have engaged in the importation of non-strategic goods.
NOT PRIORITY	i. Capital remittances from disposal of local property ii. Capital remittances for cross border investments iii. Funding of offshore credit cards iv. Importation of trinkets, low local content consumer goods and/ or goods or services readily available in Zimbabwe including non-commercial vehicles, maheu, bottled water, vegetables. v. Donations

15. This policy stance will ensure that the available foreign exchange resources are efficiently appropriated towards those sectors of the economy with capacity to generate the much needed liquidity to fund the economy's foreign payments. This will help reduce the country's import bill and at the same time enhancing production across all sectors of the economy and ensuring high local content.

16. Consistent with the need to ensure the widespread use of other currencies under the current multicurrency system, the Reserve Bank encourages that payments for various imports of goods and services are done using the currency of origin of imports for those currencies under the multi-currency system.

Cash Export and Withdrawal Limits for Individuals

In order to continue to be compliant with international best practice, with immediate effect, cash withdrawal limits shall be as follows:

	USD	Euro	Rand
Cash Withdrawal	1000	1000	20 000
ATM Withdrawal	1000	1000	20 000

Maximum cash allowed to be taken outside the country has been revised downwards from US$5 000 to the following:

	USD	EURO	Rand
Amount	1000	1000	20 000

The current policy on cash withdrawal limits for corporates remain in place.

Multi-currency pricing of goods and services

17. The restoration and promotion of the multi-currency system also calls for complimentary systems to be put in place across all sectors of the economy to support policy application and effectiveness. In this regard, the highlighted foreign currency management framework shall require the enforcement of multi-currency pricing of goods and services. This means that product pricing in shops and other service providers would need to be reflective of the multi-currency system.

    Accordingly, in view of the fact that most products in Zimbabwean shops are from South Africa, it is pertinent that shop owners and businesses should think in Rand terms as opposed to abstract USD prices.

Display of international exchange rates in all banking halls, wholesale and retail outlets

18. To ensure public awareness of the prevailing international exchange rates for transacting purposes, all Authorised Dealers (banking halls), wholesale and retail outlets, including national and local authorities and service providers shall be required to display **Exchange Rates Boards (ERBs)** for currencies under the multi-currency system somewhere visible for information for the transacting public and Reserve Bank.

Enhanced Use of Electronic Payments for Local Transactions

19. The Reserve Bank has noted with concern that some Wholesalers and Retailers are operating without POS machines in their outlets. This scenario exacerbates demand for cash as consumers will be compelled to look for the required amount of cash to transact with them. Accordingly, all retailers, wholesalers, businesses, local authorities, utilities, schools, universities, colleges, service stations, informal sector among others are, with immediate effect required to install and make use of the requisite POS machines, so as to reduce the demand for cash in the economy.

20. All Utilities and Municipalities are also mandated to promote the use of plastic money by installing the POS machines in their banking halls. This requirement also applies to Government Departments and Public Entities that provide services on cash basis to the public, such as Ministry of Home Affairs' Registrar General Department (Passport fees), Zimbabwe Road Authority (Toll gate fees) and Government Hospitals.

21. Banks and Payment Services Providers are also directed to ensure that appropriate electronic payment systems such as card, point of sale (POS), mobile and internet are availed to all businesses as a matter of priority.

22. Banking sector players through appropriate structures such as the Electronic Payment Association of Zimbabwe (EPAZ) should ensure that the current POS arrangements and strategies are revised for the benefit of all stakeholders.

23. Pursuant to the same, the banking sector is urged to ensure that the POS infrastructure is deployed in an optimal manner. This is in light of the fact that, among the over 17 000 POS machines currently in the country, they are concentrated in a few businesses or shops mostly in urban areas such as Harare and Bulawayo.

24. In view of the limited number of POS devices in the country, all stakeholders – current and prospective are implored to work towards increasing the quantum of POS machines.

25. To this end, every business in all geographical areas and sectors of the economy must have a point of sale per till machine or purchase point.

Enhancing Efficiency and Interoperability

26. Payment systems providers, participating banks, and key stakeholders are further urged to continue to enhance efficiency and interoperability of systems. This will go a long way in enhancing convenience, usage and stability to the transacting public.

Consumer Education and Awareness

27. All payment system players and key stakeholders are urged to actively undertake necessary education and awareness campaigns to encourage usage of non-cash means of payments in the economy.

SADC Regional Payments

28. For the country to fully benefit from the SADC infrastructure, all payments destined for South Africa and other participating countries should be executed through SIRESS.

29. This follows the live launch of the SIRESS system in 2013, where Zimbabwean banks are already participants on the regional system which settles in South African Rand (ZAR).

30. Currently the following countries including Zimbabwe are already operational on the SIRESS system - Lesotho, Malawi, Mauritius, Namibia, South Africa, Tanzania, Swaziland and Zambia.

Configuring RTGS System into Multicurrency

31. Following the announcement in the January 2016 Monetary Policy, the process to configure the RTGS system into multi-currency is already underway. initially the following currencies will be enabled in addition to the existing USD:

    i. ZAR (South African Rand)
    ii. EUR (Euro currency)

The system will go live on 13 June 2016.

Promotion of Financial Inclusion

32. The Reserve Bank is pleased with banks' positive response to the call to promote the inclusiveness of the financial sector through the opening of low cost accounts (Basic "No Frills" Savings Accounts), with minimum or no maintenance charges. As part of ongoing collective efforts to restore confidence in the financial system, promote a savings culture and deposit growth in the economy, and enhance

access to financial services by the majority, banks should continue to explore ways of continuing to reduce bank charges.

33. In order, to further promote financial inclusion, banks are urged to reduce the maximum lending rates from 18% to 15%. Furthermore, the Bank has noted reduced lending activities by banks, leading to excess balances as reflected by high positions on Real Time Gross Settlement (RTGS). This is not consistent with the quest to grow the economy. Accordingly, the Bank is working on a framework of introducing the non-negotiable certificate of deposit so as to redirect idle financial resources towards productive activities.

Promoting Savings Culture

34. The traditional savings culture, where the banking public used to deposit money for a specific return has been eroded over the years, thereby undermining the savings culture in the country. This scenario has undermined potential growth of the economy as excess funds could not be deployed to productive activities. In this regard, the central bank has, with immediate effect, requested all banking institutions to open special savings products with the following features:

i. A minimum balance of US$10 000 or Euro 10000 or ZAR 20 000;
ii. Minimum term structure of 6 months;
iii. Annual compounded interest rate of 5% on USD and Euro balances and 10% on Rand deposits, and
iv. Tax free.

CONCLUSION

35. The above measures are expected to go a long way to easing the cash shortages in the economy whilst at the same time reducing import dependence through promoting local production and exports. These measures also restore the multicurrency system and fosters confidence in the banking sector, through the

use of a variety of currencies and promotion of a savings culture. These measures which are in the national interest should be strictly enforced by the banking public with outliners fined for non-compliance. Overall, the Bank remains committed to ensure stability of the monetary system, which is necessary for sustained economic growth.

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