**STATEMENT ON THE INTRODUCTION OF ZIMBABWE DOLLAR BY HON MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT: PROF MTULI NCUBE: 2 JULY 2019**

**Introduction**

1. The country has been using the multicurrency monetary system since 2009, dominated by the US$ and the South African Rand, among the British Pound, Euro, Chinese Yuan and Botswana Pula. In its early stages, the multicurrency system brought some stability in terms of inflation.
2. However, the multicurrency system stifled growth, as the country could not utilise monetary instruments to influence economic activity, and gradually lost competitiveness compared to major trading partners.
3. The situation was worsened by recurrent unfavourable weather conditions, low commodity prices and high appetite for importing. This resulted in declining foreign currency inflows, liquidity and cash shortages, as well as confidence challenges.
4. Government in response, introduced the bond notes as an export incentive to promote exports and substitute imports. However, the initiatives were not supported by fiscal discipline. The resulting fiscal deficits were financed through Treasury Bills and recourse to the Central Bank’s overdraft window.
5. The financing of the expanding fiscal deficits combined with widening trade deficit, exerted pressure on the foreign exchange market. This resulted in the resurgence of the parallel market whose exchange rate become the anchor of pricing of goods and services in the economy and the attending inflation.
6. In view of these economic imbalances, Government in October 2018, introduced the Transitional Stabilisation Programme, which seeks to address major policy reform areas required for stabilisation, rebuilding and transforming the economy to an Upper Middle Income status by 2030. One of the key pillars being currency reform.

**Currency Reform**

1. Government, through two Monetary Policy Statements of 1 October 2018 and 20 February 2019, set the tone for implementing currency reforms necessary for supporting fiscal consolidation and growth promotion.
2. In order to reduce the impact of the shocks, the currency reform took a gradual process. It started with the October Statement, which separated the FCA and RTGS accounts. The purpose was to encourage exports, diaspora remittances, banking of foreign currency and to eliminate the dilution effect of RTGS balances on Nostro FCAs.
3. This was followed by differential pricing of fuel in January 2019 and finally liberalisation of the country’s foreign currency market, through discarding the fixed 1:1 exchange rate peg between the US$ and the Bond note through the 20 February 2019 Monetary Policy Statement.
4. Concurrently, a new currency called the RTGS dollar, made up of electronic balances in banks and mobile platforms, bond notes and coins was introduced through SI 33 of 2019.
5. The intention was to strip the US dollar as a medium of exchange and serve more as a reserve currency. Simultaneously, the RTGS dollar was expected to assume all other functions of a domestic currency.
6. However, since its adoption, the RTGS Dollar has continuously lost value against the US Dollar at a pace of, on average, approximately 1% per day. On February 25, the official interbank rate stood at US$/RTGS$ 2.5, and climbed to US$/RTGS$ 6.28 as at June 21. On the parallel market, rates climbed from US$/RTGS$ 3.5 to US$/RTGS$ 13 during the same period.
7. The devaluation has been accompanied by rampant inflation in RTGS terms, with many goods and services now being effectively pegged to parallel market rates. As at May, month-on-month inflation stood at 12.54%, and year-on-year inflation at 97.85%. At the same time, prices in US Dollar terms remained flat, or even decreased.
8. Further, there were persistent shortages of foreign currency for productive activities, constraining production and investment, as well as promoting speculative tendencies and capital flight.
9. These developments suggested that the monetary arrangements were not sustainable, and self-dollarisation was gaining momentum. However, a scenario of formal re-dollarisation was undesirable for the following reasons:

* Fiscal constraints: Re-dollarisation requires the compensation of salaries in US Dollars. Given tight fiscal space, nominal salaries had to be revised downwards to socially unacceptable levels.
* Loss of competitiveness: The US Dollar was appreciating against the currencies of Zimbabwe’s major trade partners, which made Zimbabwean wages and final products too expensive to compete. This resulted in trade imbalances, which was harmful to local industry.
* Liquidity crises: Given the scarcity of US dollars in the formal market, smooth transacting could not be guaranteed.
* Loss of monetary instruments: Monetary policy could not effectively manage business cycles and cushion the economy against temporary shocks.
* Vulnerability to sanctions: Accessibility of US dollar is constrained by restrictive measures affecting transactions with international banks.

1. There was, therefore, an urgent need for Zimbabwe to introduce its own fully-fledged currency and to formally end the multi-currency regime, through the introduction of SI 142 of 2019, which was further operationalised by the Exchange Control Directive RU102/2019.

1. The directive was issued in terms of Section 35 (1) of the Exchange Control Regulations Statutory Instrument 109 of 1996.

***Introduction of Mono Currency***

1. Under the new framework, all domestic transactions are now settled in Zimbabwe dollars, the sole legal tender in Zimbabwe that is represented by bond notes and coins and electronic currency, that is, RTGS dollars.
2. This effectively means the use of foreign currency to settle domestic transactions has been removed and the basket of multi-currencies, that is, USD, GBP, ZAR, EUR, BWP, JPY, CNY, AU$ and Indian Rupee shall only be used to settle international payments or those services exempt from this requirement as per Section 3 of Statutory Instrument 142 of 2019.
3. Similarly, the pricing on all domestic goods and services, including the displaying of prices in all outlets in Zimbabwe, shall be effected and/ or displayed in the local unit of account.
4. The operation of Nostro FCAs shall remain in place for purposes of receiving offshore funds and to facilitate foreign payments.
5. In cases where local service providers e.g. transporters, consulting firms, etc, are paid from offshore sources for services rendered locally, such funds shall continue to be deposited into the Nostro FCAs.
6. These funds in Nostro FCAs will retain their foreign currency status and shall continue to be utilised for the settlement of international transactions. In cases where the holder of such an account intends to settle domestic transactions, they shall be required to liquidate their foreign currency account balances to the interbank on a willing seller willing buyer basis.
7. Foreign currency cash withdrawals by corporates have been restricted. However, on deserving cases such as road toll fees, corporates may withdrawal cash subject to Banks applying the Know Your Customer (KYC) principles.
8. Individuals shall continue to hold US Dollars in their Nostro FCA as well as withdraw cash up to a daily limit of US$1000, as was previously the case.
9. The Government through the RBZ has assumed all **legacy debts** arising from the changeover from the 1:1 exchange rate between RTGS and US Dollar as announced through Exchange Control Directive RU28 of February 2019.
10. All RTGS Dollars representing the legacy debt shall be moved from commercial banks to the RBZ which will reduce the amount of Zimbabwe Dollars in circulation by about **$1.2 Billion,** thus strengthening the value of the Zimbabwean Dollar. This is further going to be supported by the review of the overnight accommodation window which has been pegged at 50% per annum.
11. The Reserve Bank shall sell 50% of the foreign exchange realised from surrender requirements to the interbank market to complement Letters of Credit for the importation of essential commodities that include fuel, cooking oil and wheat.
12. With effect from 25 June 2019, authorised dealers (Banks and Bureaux de Changes) are permitted to buy and sell foreign currency without any limit in terms of the amount and margins. This has effectively made our foreign exchange market freely floating.
13. The payment arrangements and foreign currency retention periods for large scale gold producers shall continue as before. However, small scale gold producers with Nostro FCAs shall not be subjected to the 30 day retention period.
14. Tobacco growers are entitled to receive 50% of their sales proceeds in United States Dollars, deposited into their Nostro FCAs, however, in the event that the tobacco grower intends to meet local obligations, the sale proceeds must first be converted to Zimbabwe Dollars through the interbank foreign exchange market.
15. Where there is need for tobacco merchants to disburse working capital to contracted farmer, the proceeds shall be deposited into the grower’s Nostro FCA (Special) which can be opened with a bank of their choice. The tobacco farmer shall then liquidate the proceeds from the Nostro FCA (Special) to meet local obligations. The current cotton marketing arrangements shall continue to operate.
16. Investors who purchase dual listed shares on the Zimbabwe Stock Exchange (ZSE) shall only sell the shares on the ZSE or on an external stock exchange after a vesting period of ninety (90) days from the date of initial purchase.
17. To encourage and facilitate the flow of foreign currency, diaspora remittances shall continue to be received in foreign currency. The recipients shall have the option to receive remittances in cash or sell their remittances on a willing seller willing buyer basis to Bureaux de Change and Authorised Dealers or deposit into Individual Nostro FCA.

Hon. Prof. Mthuli Ncube

**Minister of Finance and Economic Development**

3 July 2019

**Frequently Asked Question and Answers**

**26 JUNE 2019**

1. **Please explain to me what the Statutory Instrument entails.**

The Government of Zimbabwe through the Minister of Finance and Economic Development issued Statutory Instrument (SI) 142 of 2019, which abolished the multicurrency system and designated the Zimbabwe dollar as the sole currency for legal tender purposes in the country with effect from 24th June 2019. The SI 142 of 2019 specifically entails the following:

i. Introduction of the Zimbabwe dollar;

ii. Abolition of the multicurrency system;

iii. Designated bond notes and coins as well as electronic currency as Zimbabwe dollar;

iv. Maintenance of Domestic Nostro Foreign currency for effecting foreign payments; and

v. Maintenance of import duty or Value Added Tax for luxuries in foreign currency.

The Policy measures entails that economic agents can hold foreign currency in Nostro Accounts and Free Funds as before but will need to change the foreign currency in local banks and bureaux de change into local currency for domestic transactions.

Individuals and corporates can, however, make foreign payments using funds in their FCAs.

***N.B: One can withdraw up to US$1000 daily but to use it locally you have to change it/liquidate at a commercial bank or bureaux at the prevailing interbank rate.***

1. **In what currency will prices be quoted in?**

Since the Zimbabwe dollar is now the sole legal tender, according to SI142/19 and RU102/2019, all prices of goods and services sold within Zimbabwe will be quoted in that currency (except for Airline tickets, [need to confirm with Exchange Control if it is the only exception])).

1. **Will remittances (money sent by relatives and friends outside Zimbabwe) be receivable in Zimbabwe dollars, if sent through Western Union or any other Money Transfer Agencies?**

You can still receive your money sent as foreign exchange through Western Union, Money♠gram and all the registered Money Transfer Agencies. The recipients have three options: first, they can receive it in cash. Second, they can sell the cash to a Bureau de Change or to banks on a willing buyer willing seller basis. Third, they can deposit the cash into their individual Nostro FCA (Domestic) accounts.

1. **I receive remittances through the FCA, can I withdraw them in foreign exchange?**

There are two types of Nostro accounts for individuals. There is what is called Nostro FCA and what is called Individual Nostro FCA. Nostro FCA is the one where you have to withdraw the money as Zimbabwe dollars. But with Individual Nostro FCA, you can withdraw your money as foreign exchange, at the discretion of the bank, through the “Know Your Customer” (KYC) principle.

1. **Am I allowed to buy foreign exchange to use in a foreign country and how many times can one apply within a given period?**

Yes, you can buy forex on the interbank market to use in a foreign country, after providing your bank or Bureau de Change with required travel documentation. The limit of export of cash in person or baggage remains US$2 000 per exit. [Need to check with Exchange Control on documents required and frequency of applications]

1. **Can I send and receive money locally between FCA accounts?**

Not anymore. Actually you can only send and receive money between 2 FCAs (if the transaction was done before 24th June, 2019) up until the end of this month. Thereafter, it will not be possible.

“………existing Nostro FCA (Domestic) shall be allowed to receive deposits up to 30 June 2019 to enable account holders to deposit their cash holdings realised from trade undertaken before 24 June 2019.”

1. **How much can I withdraw from my USD account at the bank per day?**

The current withdrawal limit for individuals remains at US$1000 per day.

Individuals are still able to withdraw their cash from their individual accounts and banks are, in line with international best practice, expected to apply the KYC and AML/CFT principles.

“Further to our Directive, the Reserve Bank wishes to advise that contrary to certain information being circulated on social media, cash withdrawals by individuals are still permissible and the policy position hasn’t changed”.

1. **Why has the Reserve Bank increased interest rates to 50% p.a?**

Even though interest rates will remain negative in real terms, the increase in the overnight interest rates will likely make monetary assets more attractive relative to alternative assets in the near term. The attendant increase in borrowing rates will also discourage borrowing for speculative purposes.

1. **Why have the Authorities made the Zimbabwean dollar the sole legal tender?**

This will likely reduce pressure on foreign currency demand, hence reducing the uptick in domestic prices.

1. **How will visitors who do not hold bank Accounts locally or Ecocash transact as they may not get cash upon converting their foreign exchange.**

Visitors are expected to make use of bureaux de change and commercial banks to convert their foreign exchange into local currency before making domestic transactions.

**DIRECTIVE ISSUED IN TERMS OF SECTION 35 (1) OF THE EXCHANGE CONTROL REGULATIONS STATUTORY INSTRUMENT 109 OF 1996**

# **Administration of Foreign Currency Accounts**

* 1. Authorised Dealers are advised that the operation of Nostro FCAs shall remain in place for purposes of receiving offshore funds and to facilitate foreign payments. The following Foreign Currency Accounts shall remain in operation;

**Table 1: Foreign Currency Accounts**

|  |  |  |
| --- | --- | --- |
|  | **Account Designation** | **Source of Funds** |
|  | **Nostro FCA (Exports)** | Export proceeds from offshore only. |
|  | **Nostro FCA (Offshore Loans)** | Offshore loan proceeds only. |
|  | **Nostro FCA (Investments)** | Offshore funds provided by a foreign investor and investment returns realised from cross border/ offshore investments undertaken by resident investors. |
|  | **Nostro FCA (Domestic)** | Foreign currency cash deposits funded from local trade before 24 June 2019. |
|  | **Individual/ Corporate Non-Resident Nostro FCA** | Funded from offshore sources by non-residents. |
|  | **Individual Nostro FCA** | Funded with diaspora remittances, donations from non-residents and foreign currency cash deposits. |
|  | **Non-Governmental Organisation, Embassies & International Organisations Nostro FCA** | Funded with funds sourced from offshore. |
|  | **Nostro FCA (Transitory)** | Funded with funds that are in transit from offshore awaiting transfer to the ultimate beneficiaries.  **NB: The funds are in transit and the FCA is typically for law firms, real estate agents, insurance companies, Money Transfer Agencies and tourism players.** |

* 1. The Nostro FCA (Domestic) was funded from local foreign exchange transactions. In view of these new policy measures where the Zimbabwe dollar shall be the sole legal tender, existing Nostro FCA (Domestic) shall be allowed to receive deposits up to 30 June 2019 to enable account holders to deposit their cash holdings realised from trade undertaken before 24 June 2019.
  2. In cases where local service providers e.g. transporters, consulting firms, etc, are paid from offshore sources for services rendered locally, such funds shall continue to be deposited into the Nostro FCA (Domestic).
  3. Funds in all these accounts listed in Table 1 will retain their foreign currency status and shall continue to be utilised for the settlement of international transactions. In cases where the holder of such an account intends to settle domestic transactions, they shall be required to liquidate their foreign currency account balances to the interbank on a willing seller willing buyer basis.

# **Foreign Currency Cash withdrawals**

* 1. Authorised Dealers are advised that the foreign currency cash withdrawals by corporates have been removed. However, on deserving cases such as road toll fees, such withdrawals shall be governed by the need to adhere to the Know Your Customer (KYC) principles that take into account international best practice of compliance to Financial Action Task Force (FATF) on Anti-Money Laundering and Counter Finance of Terrorism (AML/CFT).
  2. For individuals, the current practice shall remain in force with Authorised Dealers also required to apply the usual KYC and AML/CFT standards.

# **Administration of Legacy Debts**

* 1. Authorised Dealers are hereby directed to transfer to the Reserve Bank, all RTGS Dollar balances in relation to legacy debts registered with the Reserve Bank in fulfillment of Exchange Control Directive RU28 dated 22 February 2019.

# **Measures to Enhance the Interbank Market**

# **Retention Thresholds and Period for Export Receipts**

* + 1. Authorised Dealers are advised that the retention thresholds for export receipts and tobacco and cotton offshore loan drawdowns shall remain in place as previously communicated under Exchange Control Directive RU28 dated 22 February 2019. For ease of administration, the retention thresholds are restated as follows;

**Table 2: Retention Thresholds for Export Receipts & Loan Drawdowns**

|  |  |  |
| --- | --- | --- |
| **Category of Exporter** | **Exporter Retention** | **Sale to RBZ** |
| Manufacturing | 80% | 20% |
| Large Scale Gold Producers | 55% | 45% |
| Small Scale Gold Producers | 55% | 45% |
| All other minerals | 50% | 50% |
| Tobacco and cotton merchants offshore loans for input schemes (production) | 100% | 0% |
| Tobacco and cotton offshore loans for purchase of the crop | 0% | 100% |
| Agriculture, Horticulture | 80% | 20% |
| Transport and other services | 80% | 20% |

* 1. Authorised Dealers are also reminded that the retention period within which an exporter is entitled to utilize their retained export receipts remains within 30 days from the date of receipt. As per Exchange Control Directive RU28 dated 22 February 2019, all unutilized balances shall after the 30 day retention period, be offloaded into the interbank market at the prevailing market exchange rate and reported to Exchange Control on the Daily Return on Interbank Trading Transactions.

# **Foreign currency for the interbank market**

* 1. In order to enhance interbank market trading, Authorised Dealers are advised that the Reserve Bank shall sell 50% of the export retention due to the Central Bank to the interbank market. Letters of Credit shall continue to be utilised for importation of essential commodities that include fuel, cooking oil and wheat.

# **Removal of US$10,000 limit on Bureaux de Change transactions**

* 1. In order to deepen the operations of the interbank foreign exchange market and to enhance the operations of Bureaux de Change, with effect from 25 June 2019, Bureaux de Change are now permitted to buy and sell foreign currency without any limit in terms of the amount.

# **Removal of the 2.5% Margin for Interbank Market Transactions**

* 1. Exchange Control advises of the immediate removal of the 2.5% margin on foreign exchange trades in the interbank market which was previously communicated under Exchange Control Directive RU80 dated 22 May 2019.

# **Payment of Small Scale Gold Producers**

* 1. Authorised Dealers are advised that the current gold marketing framework for small scale gold producers shall continue to apply. For those small scale gold producers with Nostro FCAs, the funds shall not be subjected to the 30 day retention period.

# **Payment of Large Scale Gold Producers**

* 1. Authorised Dealers are advised that the current payment arrangements for large scale gold producers shall continue to apply and the retention thresholds have remained the same as previously communicated by Exchange Control.

# **Administration of Nostro FCAs for Tobacco Growers**

* 1. In terms of Exchange Control Circular Number 5, dated 16 April 2019, tobacco growers are entitled to receive part of their sales proceeds in United States Dollars, deposited into their Nostro FCAs.
  2. Authorised Dealers are advised that this arrangement shall continue and the accounts shall continue to be administered as per the current arrangements, where tobacco growers are paid 50% of sale proceeds in foreign currency into their FCA. However, in the event that the tobacco grower intends to meet local obligations, the sale proceeds must first be converted to Zimbabwe Dollars through the interbank foreign exchange market.

# **Treatment of Offshore Loans Drawdowns for Financing Tobacco Production**

* 1. Authorised Dealers are advised that tobacco merchants shall retain 100% of funds drawn down for the purpose of financing tobacco production.
  2. Where there is need for disbursement of working capital to the contracted farmer, the proceeds shall be deposited into the grower’s Nostro FCA (Special) which can be opened with a bank of their choice. The tobacco grower shall then liquidate the proceeds from the Nostro FCA (Special) to meet local obligations.

# **Administration of Payments to Cotton Growers**

* 1. Authorised Dealers are advised that the current cotton marketing arrangements shall continue to operate.

# **Downstream Payments by Exporters**

* 1. Authorised Dealers are advised that the operation of transitory accounts shall be maintained. These accounts are, however, not transacting accounts, but shall be used for distribution of export proceeds to respective downstream beneficiaries.
  2. In order to maintain or operate transitory accounts for exporters, Authorised Dealers shall seek prior Exchange Control authority.
  3. In light of the above, Authorised Dealers are advised that producers who sell their produce for consolidation for export e.g. fresh cut flowers and macadamia nuts shall be eligible to access their foreign currency through the Special FCA framework. Funds in these accounts, shall be utilised for the settlement of international transactions. In cases where the holder of such an account intends to settle domestic transactions, they shall be required to liquidate their foreign currency account balances to the interbank on a willing seller willing buyer basis.

# **Review of Export Documentation charges**

* 1. In order to promote ease of doing business and reduce cost of export, Authorised Dealers are advised that all export documentation shall be available free of charge.

# **Trading of Dual Listed Shares**

* 1. Authorised Dealers are advised that with effect from 25 June 2019, any investor who shall purchase a dual listed share on the Zimbabwe Stock Exchange (ZSE) shall only be allowed to sell the share on the ZSE or on an external stock exchange after a vesting period of ninety (90) days from the date of initial purchase.
  2. For investors wishing to uplift dual listed shares from external bourses for purposes of selling the shares on the ZSE, such sales shall only be allowed to be executed after a period of ninety (90) days from the date of registration on the ZSE.
  3. For investors who have already acquired dual listed shares on the ZSE and are desirous of disposing of such shares, Exchange Control directs that such sales can only be allowed in instances where the shares have been purchased on or before 20 March 2019.
  4. The procedures for trading in dual listed shares on the ZSE as previously communicated by Exchange Control on 26 May 2016 shall remain operational.

# **Disbursement of International Remittances**

* 1. In order to encourage and facilitate the flow of foreign currency, diaspora remittances shall continue to be received in foreign currency. The recipients shall have the option to receive remittances in cash or sell their remittances on a willing seller willing buyer basis to Bureaux de Change and Authorised Dealers or deposit into Individual Nostro FCA.

# **Exchange Control Returns**

* 1. Authorised Dealers are reminded of the need to ensure compliance with this Directive and to continue submission of Exchange Control Returns as required. Non-compliance with any of the afore-stated provisions is a violation of the provisions of Section 5 (i) and (ii) of the Exchange Control Act [Chapter 22:05] which require persons to comply with, among others, the terms or conditions of any permit, authority, permission, direction, notice, order or other instrument made or issued under or by virtue of the Act.