IMPLICATIONS ON THE CURRENCY REFORMS ON BUSINESS

PRESENTATION TO THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ZIMBABWE

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Introduction & Challenges of the Multicurrency System

- In February 2009, Zimbabwe adopted the multicurrency system with the objective of stabilising the economy following a period of hyperinflation.
- Although the multicurrency system served the country reasonably well at the time, it brought the following challenges:
  - Loss of export competitiveness;
  - De-industrialisation due to cheap imports;
  - Externalisation of foreign currency;
  - Limited foreign currency circulation in the formal market;
  - Price distortions due to multi-tier pricing systems with preference to forex; and
  - Lack of independent monetary policy due limited monetary policy tools.

Currency Reforms

- Zimbabwe has taken a multi-pronged approach to currency reforms aimed at moving away from the crippling challenges associated with dollarisation.
  - Separation of FCA accounts and RTGS accounts in October 2018 - set the tone for the implementation of currency reforms;
  - Liberalisation of the exchange rate – establishment of an Inter-Bank Foreign Currency market (February 2019);
  - Setting up of a market based framework for determination of the exchange rate; and
  - Abolishment of the multi currency regime and re-introduction of the local currency in June 2019.

SI 142 of 2019

- The Statutory Instrument (SI) 142 of 2019 specifically entails the following:

  - Introduction of the Zimbabwe dollar;
  - Abolition of the multicurrency system;
  - Designation of bond notes and coins as well as electronic currency as Zimbabwe dollar; and
  - Requirement that domestic Nostro Foreign currency accounts be used strictly for foreign payments transactions.

Management of Foreign Currency Accounts & Cash Withdrawals

- Funds in the Nostro FCAs are utilised for external payments of goods and services and the FCAs shall continue to be funded from offshore.
- Funds in the Nostro FCAs can only be liquidated to the bank in exchange for local currency in cases where the account holder intends to transact locally.
- With the exception of NGOs, Embassies and International Organisations, its no longer permissible for residents to settle domestic transactions in foreign currency through inter Nostro FCA transfers.
- Domestic Nostro FCAs, however, can only be used to settle foreign related payments.

	Account Designation	Source of Funds
1.	Nostro FCA (Exports)	Export proceeds from offshore only.
2.	Nostro FCA (Offshore Loans)	Offshore loan proceeds only.
3.	Nostro FCA (Investments)	Offshore funds provided by a foreign investor and investment returns realised from cross border/ offshore investments undertaken by resident investors.
4.	Nostro FCA (Domestic)	Foreign currency cash deposits funded from local trade before 24 June 2019.
5.	Individual/ Corporate Non-Resident Nostro FCA	Funded from offshore sources by non-residents.
6.	Individual Nostro FCA	Funded with diaspora remittances, donations from non-residents and foreign currency cash deposits.
7.	Non-Governmental Organisation, Embassies & International Organisations Nostro FCA	Funded with funds sourced from offshore.
8.	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

Corporates

- **Cash withdrawals for purposes of toll fees, business travel allowance, medical travel expenses and other deserving cases is allowed.**
- **The limit has been removed and Banks apply Know Your Customer (KYC) & Customer Due Diligence (CDD) for the deserving cases.**

Individuals

- **Individuals are permitted to make cash withdrawals for external travel and to meet external subscriptions such as DSTV.**

- ***Note should be taken that the country is limited in terms of cash imports due to restrictions placed by correspondent banks as a result of de-risking and the need to comply with international protocols on anti-money laundering and financing of terrorism. In this regard, local banks' capacity to meet demand for withdrawals is limited.***

TRANSACTIONS BY NGOs, EMBASSIES & INTERNATIONAL ORGANISATIONS

- Non-Governmental Organisations (NGOs), Embassies and International Organisations receive their funding from offshore.
- In this regard, this special segment is allowed to pay their employee salaries in foreign currency into an individual employee's Individual Nostro FCA.
- NGOs, Embassies and International Organisations are also permitted to transfer funds from their **Nostro FCAs to Nostro FCA (Domestic) or Individual Nostro FCA** when paying for goods or services provided by a resident (local) supplier.
- This special group is also allowed to make foreign currency withdrawals from their Nostro FCAs, however, the foreign currency cash should be sold to the bank in exchange for Zimbabwean dollar in cases where this special group wants to pay for goods and services using cash.
- **Note:** The country still encourages the use of plastic and electronic money in line with international best practices.

TRANSACTIONS BY THE TOURISM SECTOR

- In terms of Statutory Instruments 323A and 323B, players in the tourism sector are designated as Tourism Operators which are permitted to receive foreign currency payments from non-residents (foreign tourists).
- Effectively, tourism players **can receive payments in foreign currency from foreign tourists** when paying for non-consumptive and consumptive tourism services and goods respectively.
- Such receipts are credited into a Nostro FCA (Exports) of the local service provider and the relevant exports formalities such as TRAS 1 and 2 should be strictly observed.
- However, tourism operators are not allowed to pay local suppliers of goods and services in foreign currency.
- The operation of Special Nostro FCA (Transitory) to facilitate downstream payments remains in place and prior Exchange Control approval is required for the operation of such FCAs.

Forex Disbursements to Small Scale Gold Producers

- Small scale gold producers shall continue to receive 55% of their gold sale proceeds in foreign currency. Those with Nostro FCAs shall receive their funds in their FCAs for utilisation.

- Upon receipt of foreign currency cash payments, small scale and artisanal miners are required to sell their cash holdings to a bank or bureau de Change in exchange for local currency in cases where they intend to transact locally.

- Any payments to local suppliers for goods or services shall be settled in local currency in line with Statutory Instrument 142 of 2019.

- Large scale gold producers shall continue to receive 55% of their sale proceeds into their Nostro FCA (Exports) for utilisation towards import payments for goods and services.

Forex Payments to Tobacco & Cotton Growers

- Tobacco and cotton farmers shall continue to receive 50% of their payments for deliveries in foreign currency, which is credited into their Nostro FCAs;
- Farmers are allowed to retain their foreign currency holdings for an indefinite period in their Nostro FCAs;
- Tobacco and cotton farmers are free to make cash withdrawals from their Nostro FCAs; and
- All local supplies of goods and services shall be paid for in local currency which is now the sole legal tender in the country.

Disbursement of International Remittances

- Disbursements of international remittances shall continue to be in foreign currency to the beneficiary;

- The individual beneficiary has options to receive the funds in local currency equivalent at the prevailing interbank rate, deposit the foreign currency cash into an Individual Nostro FCA or keep the foreign currency;

- Beneficiaries of international remittances are allowed to utilise their foreign currency only for purposes of importing goods and services; and

- Use of foreign currency locally is, however, no longer permissible in line with Statutory Instrument 142 of 2019, hence the need for individual beneficiaries to sell their foreign currency to banks or Bureau de Change in instances where they want to transact locally.

Supportive Monetary Policy Measures

- In order to support the introduction of local currency the Reserve Bank of Zimbabwe issued the following supporting measures on the 24th June 2019:
  - Banks to transfer to the Reserve Bank the RTGS$/ZWL$s that they are holding as counterpart funds for the foreign currency legacy debt to Government. This measure is expected to mop around ZWL$1.2 billion from the market.
  - Adjustment of the interest rate on the Reserve Bank overnight window upwards from the current 15% per annum to 50% per annum to help fight inflation.
  - Removal of administrative limits on the operation of bureaux de change and the cap on margins on interbank foreign exchange transactions.

Supportive Monetary Policy Measures (Cont'd)

- Put a vesting period of 90 days on disposal of dual listed securities or shares purchased by investors on the Zimbabwe Stock Exchange to curb speculative tendencies and externalisation.
- Increase supply of foreign currency into interbank foreign exchange market by ensuring that at least 50% of the surrender portion of foreign currency is sold to the interbank market.
- Supply of foreign currency would be supplemented by the use of Letters of Credit (LCs) for the importation of essential commodities that include fuel, cooking oil, and wheat. The Bank put in place LCs amounting to US$330 million for this purpose.

IMPLICATIONS OF THE INTRODUCTION OF LOCAL CURRENCY

- Halting of Costly Re-dollarization –economic agents were reverting to use of US dollar as unit of account and medium of exchange;
- Improved Monetary Policy Effectiveness - use of monetary policy instruments to control inflation and maintain price stability going forward;
- Enhances ability to manage business cycles;
- Increased fiscal space – enhances tax base for Government through increased revenues from local currency based transactions;
- Management of current account deficit – allows use of exchange rate policy to enhance export competitiveness to reduce the current account deficit;
- Build up of reserves – country can build reserves as use of FX is restricted to foreign transactions only;

IMPLICATIONS OF THE INTRODUCTION OF LOCAL CURRENCY

- Strengthen demand for local currency and hence its value;
- Ensures adequate cash commensurate with the level of deposits and economic activity in the country;
- Restoration of confidence in the economy as measures yield positive results;
- The removal of the multi-currency system is expected to strengthen the interbank market, as more foreign currency is expected to be sold through formal channels;
- Reduction of the forex black market trading– rates have reduced since 24 June 2019 from as high as US$1: ZWL15 to US$1:ZWL7;
- Creates certainty which assists business in planning and decision making.
- Creates scope for increased economic activity.

LOCAL BULK PAYMENT SOLUTION

- Banks have devised alternative means of payments following disagreement on the use of the Paynet system;
- Banks are using other payment services such as RTGS, ZIPIT, internet, card (POS) and mobile money payments to serve the transacting public.
- In addition, banks have also devised mechanisms to allow for exchange of electronic payment files.
- In line with continued innovation and to further enhance efficiency, banks are working on a fully fledged bulk payments local solution which is expected to go live end of July 2019.

OUTLOOK

- The Reserve Bank undertakes to actively implement monetary policy with transparency and consistency.
- Exchange rate expected to stabilise and inflation rate to decline in the medium term.
- Fiscal Authorities to continue implementation of fiscal consolidation.
- Pricing and accounting to be easier under a single domestic currency and unified exchange rate framework.
- Bank amenable to input from all stakeholders, including Chartered Accountants.
- Support of economic stakeholders critical for the success of the currency reforms.

THANK YOU