



ZIMBABWE

## **PRESS STATEMENT**

### **STATEMENT BY HON. PROF. MTHULI NCUBE, MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT ON ESTABLISHMENT OF THE CURRENCY STABILISATION TASK FORCE**

#### **MEASURES TO STABILISE THE EXCHANGE RATE AND REDUCE INFLATION**

Distinguished Captains of Banking and Industry, Members of the Press, Ladies and Gentlemen.

I am addressing you today against a background of recent exchange rate volatility, which has translated into unsustainable levels of inflation. In this regard, Government is taking measures to stabilise the exchange rate and to bring down inflation to sustainable levels in order to achieve macro-economic stability.

Macro-economic stability is an essential component of the Transitional Stabilisation Programme, critical for economic growth and the achievement of the goals set out in H.E.'s Vision 2030.

In order to stabilise the exchange rate and hence, to lower inflation, the Government has decided to implement a holistic package of key policy measures. In this regard, a **Currency Stabilisation Task Force** has been set up. This will be spear-headed by the **Ministry of Finance and Economic Development and the Reserve Bank of Zimbabwe**, and will include members of the MPC and PAC.

The Task Force will be chaired by the Minister of Finance and will meet at least once a week to review the conditions in the markets, monitor the behaviour of key variables such as the exchange rate and inflation, and to ensure that the measures that I outline below are expeditiously implemented. The Task Force will put in place additional policy measures, where necessary.

Let me now give you a broad outline of the measures that have been agreed to and that are currently under implementation:

## **I. FOREIGN EXCHANGE MANAGEMENT AND INTRODUCTION OF A MANAGED FLOATING EXCHANGE RATE SYSTEM:**

Zimbabwe has had no transparent and effective foreign exchange trading platform for a long time. Consequently, official rates have not been effectively determined, while a thriving parallel market has developed. To correct this anomaly, an electronic forex trading platform based on the Reuters system is being immediately put in place. This platform will allow foreign exchange to be traded freely amongst the banks and permit a true market exchange rate to be determined.

The Bureaux de Change, will also participate on this platform through their Authorised Dealers. The trading rules of the Bureaux de Change are being liberalised so that they can conduct all wider range of transactions.

The RBZ will continue to be a significant player in the market, providing liquidity to stabilise the exchange rate, where necessary. This mechanism will be immediately operational. All the

foreign exchange requirements will be available through the interbank market which will use a market determined exchange rate.

The specific steps and measures to be taken by Government and key stakeholders to ensure the success of this system are as follows:

**1. COMMERCIAL BANKS:**

- a. INTERBANK MARKET WILL BE OPERATIONALISED BASED ON REUTERS SYSTEM. ALL BANKS ARE INVITED TO JOIN AND MARKET WILL BE STARTED BY "COALITION OF WILLING". THE TRADING RULES FOR THE FUNCTIONING OF THIS MARKET HAVE ALREADY BEEN AGREED TO.
- b. BANKS WILL BE THE MARKET MAKERS. THE REUTERS SYSTEM WILL GENERATE A DAILY EXCHANGE RATE IN AN A.M. AND P.M. FIX.
- c. BANKS WILL CHARGE BUREAUX VERY THIN MARGINS ON TRANSACTIONS WHICH ARE ROUTED THROUGH THEM AS THE AUTHORISED DEALERS.

**2. BUREAUX DE CHANGE:**

- a. BUREAUX ARE TO BE IMMEDIATELY LIBERALISED AS PER RBZ RULES WHICH ARE READY FOR IMPLEMENTATION. THERE WILL BE NO LIMIT ON BUREAUX ABILITY TO FINANCE IMPORTERS.
- b. BUREAUX WILL BE MARKET TAKERS. THEY CAN TRADE FOREIGN EXCHANGE AT +/- 5% OF DAILY FX FIX.
- c. BUREAUX SHALL HAVE A MINIMUM FLOAT OF USD 20,000.
- d. BUREAUX SHALL HAVE ACCESS TO PHYSICAL CASH AVAILABLE FROM RBZ SUBJECT TO DAILY LIMITS. CASH PURCHASES CAN BE PAID FOR IN ZWL AT 1:1 OR USD AT DAILY EXCHANGE RATE. ALL BUREAUX REQUIREMENTS SHALL BE DEMAND DRIVEN.

e. BUREAUX CAN USE EXCESS USD TO PURCHASE ZWL CASH FROM RBZ.

**3. RESERVE BANK OF ZIMBABWE:**

a. WILL MONITOR DAILY EXCHANGE RATE AND INTERVENE AS NECESSARY.

b. SHALL RELEASE FX INTO THE INTERBANK MARKET BASED ON A WELL-DEFINED FX STABILISATION POLICY.

c. SHALL MAINTAIN A FULLY OPERATIONALISE REUTERS TRADING DESK IN TRADING ROOM SO THAT BIDS/OFFERS BY BANKS ON REUTERS SYSTEM CAN BE MONITORED AND INFLUENCED IF REQUIRED.

d. WILL LIBERALISE USE OF FREE FUNDS FOR IMPORTATION OF GOODS AND SERVICES. THIS PROCESS HAS ALREADY COMMENCED WITH DIRECT FUEL IMPORTS. OTHER MEASURES TO LIBERALISE THE USE OF FREE FUNDS ARE BEING CONSIDERED.

e. SHALL RELEASE ANY SURPLUS FUNDS BEYOND WHAT IS REQUIRED FOR SERVICING ESSENTIAL DEBT AND OTHER PRIORITY GOVERNMENT USES INTO THE INTERBANK MARKET ON A DAILY BASIS.

f. SHALL PROVIDE THE MINISTRY OF FINANCE AND MPC WITH PRECISE DATA ON DAILY/WEEKLY FOREX INFLOWS AND ESTIMATED AMOUNTS AVAILABLE FOR RELEASE INTO THE INTERBANK MARKET.

g. WILL DISCONTINUE USE OF LC'S GRADUALLY AND ENCOURAGE ALL IMPORTERS, INCLUDING FUEL IMPORTERS, TO ACCESS FX THROUGH THE INTERBANK MARKET. IN THE INTERIM ALL LC'S SHOULD BE ISSUED AT DAILY INTERBANK RATE.

h. WILL WORK WITH MAJOR IMPORTERS TO ASSESS AND SMOOTH THEIR FX DEMAND.

i. WILL WORK WITH SMALL BANKS WHO DO NOT HAVE SIGNIFICANT EXPORTER CLIENTS TO ACCESS FOREX FROM THE INTERBANK MARKET.

## **II. SUPPORTING MEASURES RELATING TO MONEY SUPPLY, LIQUIDITY MANAGEMENT AND INTEREST RATES:**

To support the success of the new foreign exchange management system, the following measures are to be put in place. It should be noted that all these measures are part of our de-dollarization Road Map. So they will be introduced in a phased but time bound manner.

Government is cognisant of the fact that unrestrained increases in money supply are one of the fundamental causes of inflation and the depreciation of the exchange rate. Indeed, hyper-inflation prior to 2009 was caused precisely by this factor. In view of this the existing framework of fiscal and monetary discipline will reinforced as follows:

### **1. MINISTRY OF FINANCE:**

- a. WILL MAINTAIN CASH BUDGETING FRAMEWORK TO MINIMISE FISCAL DEFICIT. IN LINE WITH THIS GOAL. IT SHOULD BE NOTED THAT GOVERNMENT HAS A CASH SURPLUS OF OVER ZWL3 BILLION.
- b. WILL PROJECT REVENUE AND EXPENDITURE FOR THE FULL FINANCIAL YEAR AND ANNOUNCE ITS TB ISSUANCE CALENDAR, IF SUCH FINANCING IS REQUIRED.
- c. ENSURE THAT ALL TB ISSUANCE FOR OPEN MARKET OPERATIONS WILL BE APPROVED BY THE MONETARY POLICY COMMITTEE.
- a. WILL SMOOTHEN EXPENDITURE DISBURSEMENTS SO THAT LARGE OR LUMPY ZWL PAYMENTS ARE NOT BUNCHED WHICH WOULD DISRUPT THE FOREIGN EXCHANGE MARKET.

- b. UNDERPIN THE USE OF THE ZWL BY IMPLEMENTING THE PAYMENT OF ALL TAXES, DUTIES, FEES AND OTHER GOVERNMENT CHARGES IN ZWL IN A PHASED BUT TIME BOUND MANNER.

## **2. RESERVE BANK OF ZIMBABWE:**

- a. WILL TERMINATE THE GOLD INCENTIVE FACILITY ONCE THE REUTERS SYSTEM BECOMES FULLY FUNCTIONAL AND A UNIFIED EXCHANGE RATE IS UNIFIED.
- b. INTRODUCE MINIMUM INTEREST RATES ON ALL DEPOSITS, INCLUDING TRUST ACCOUNTS UNDERPINNING MOBILE BANKING WALLETS, TO INCENTIVIZE SAVINGS AND ENCOURAGE HOLDING OF THE DOMESTIC CURRENCY.
- c. MOP UP EXCESS LIQUIDITY BEING HELD BY CORPORATES AND OTHER LARGE HOLDERS OF ZWL IN THE BANKING SYSTEM BY INTRODUCING SHORT TERM OMO CORPORATE BILLS WITH ATTRACTIVE FEATURES.

## **III. OTHER REGULATORY MEASURES:**

To ensure the success of the economic measures outlined above, certain regulatory changes will also be put into effect as a matter of urgency:

- a. **PENALTIES:** Our laws and enforcement regime are not as effective as they should be when it comes to crimes relating to foreign exchange and financial fraud. The current legal and institutional framework relating to curbing of trading on the parallel market is quite inadequate. Government will be reviewing all the laws and institutional framework in order to bring them in line with international best practices and more importantly, monitor the effectiveness of institutions charged with implementing the laws. The sanctions framework for illegal foreign exchange trading, will be enhanced to provide for

a range of effective proportionate and dissuasive sanctions, including more stringent criminal, civil and administrative penalties.

b. **MOBILE MONEY PLATFORMS:** While mobile money platforms have made a significant contribution to facilitating trade and payments in the country, they have also become an instrument which is being used by unscrupulous businesses to illegally trade foreign exchange and undermine the economy. The RBZ is, therefore, currently reviewing all the regulations covering such platforms. In particular, it is intended to:

- Place limits on daily bulk payer transactions.
- Ensure compliance with the 2% IMTT on bulk payers.

Additionally, the daily returns being submitted by the mobile platforms to the Financial Intelligence Unit of the RBZ will be scrutinised very carefully by the Currency Stabilisation Task Force to ensure that all transactions are legitimate and are in accordance with the financial regulations in place.

Finally, I would like to state that as the financial authorities of the country, it is our duty to undertake a strong communications drive to explain all the measures we are introducing, and their intended outcomes. Otherwise, misinformation from the social media begins to rule the day. I can assure you that it is the determination of this Government under the strong leadership of H.E. E.D. Mnangagwa, to work closely with all stakeholders to achieve exchange rate stability, reduce inflation, and by the end of this year put in place all the necessary building blocks to achieve high rates of growth, poverty reduction, and the other goals of Vision 2030.

## **MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT**

11 March 2020