



**Zimbabwe to introduce Zimbabwe Bond Notes:
reactions and perceptions of economic agents
within the first seven days after the
announcement**

MEFMI POLICY SEMINAR

By

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Outline

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Introduction

"People are rushing to the bank to withdraw whatever they can as the significant concern is that people's hard-earned savings which are currently hard currency-dominated may soon be changed into a denomination of soft currency"

(Mr. Busisa Moyo, President of Confederation of Zimbabwean Industries (CZI), The Sunday Mail, 15 May 2016).

Introduction

- The demand for money is derived from its key functions as a store of value, medium of exchange, unit of account and a means of deferred payment.
- Keynes (1936), argues that there are three motives why rational economic agents would want to hold money at any particular point in time. These three motives are (i) transactions motive, (ii) precautionary motive and (iii) speculative motive.
- Thus the issuance of any money or anything which will mimic the functions of money in any society will always draw the attention of the majority citizens of that society.

Introduction

- The announcement of the impending Zimbabwe Bond Notes by Reserve Bank of Zimbabwe (RBZ) on **4th May 2016** resulted in a lot of reactions and perceptions from various economic agents across the country, and some beyond the borders.
- This paper provides an analysis of these reactions and perceptions with the first **7 days** after the announcement.

Zimbabwe's money use in perspective

- Prior to 1980 Zimbabwe used the Rhodesian dollar which was replaced by the Zimbabwe dollar (ZW\$) in 1980.
- However, hyperinflation which peaked in 2008 eroded the value of the Zimbabwe currency.
- In an effort to reduce the high face value paper denominations, the Zimbabwe dollar was redenominated three times in a space of less than three years. This procedure of redenomination was also termed “cutting or slashing zeros” by the Reserve Bank of Zimbabwe (RBZ).

Zimbabwe's money use in perspective

- Thus, in total 25 zeroes had been slashed from the Zimbabwean currency within a period of three years.
- Despite all the efforts to redenominate the currency, the value of money continued to fall and Zimbabwean dollar continued to diminish.
- Zimbabwe adopted a multicurrency system in January 2009 to curb rampant hyperinflation.
- Multicurrency system brought about new challenges, among others: (1) shortage of small change in the form of coins, and (2) over-pricing (or mispricing) due to shortage of coins in the economy.
- Due to these two challenges, the RBZ introduced a special set of coins called bond coins which started circulating on 18th December 2014.

Proposed introduction of the Zimbabwe Bond Notes

- On the 4th of May 2016, the Reserve Bank of Zimbabwe (RBZ) issued a press statement (hence forth The Press Statement) entitled “Measures to deal with cash shortages whilst simultaneously stabilising and stimulating the economy”.
- RBZ claims that cash shortages we due to, among others:
 1. 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.
 2. Low levels of use of plastic money and the real time gross settlement (RTGS) platforms. Zimbabwe is predominantly a cash economy.
 3. Low levels of local production to meet consumer demand, leading to higher demand for foreign exchange to import consumer goods.
 4. Low consumer and business confidence as reflected by high appetite by both consumers and business to keep cash outside the banking system.
 5. Inefficient distribution and utilization of scarce foreign exchange resources.

Proposed introduction of the Zimbabwe Bond Notes

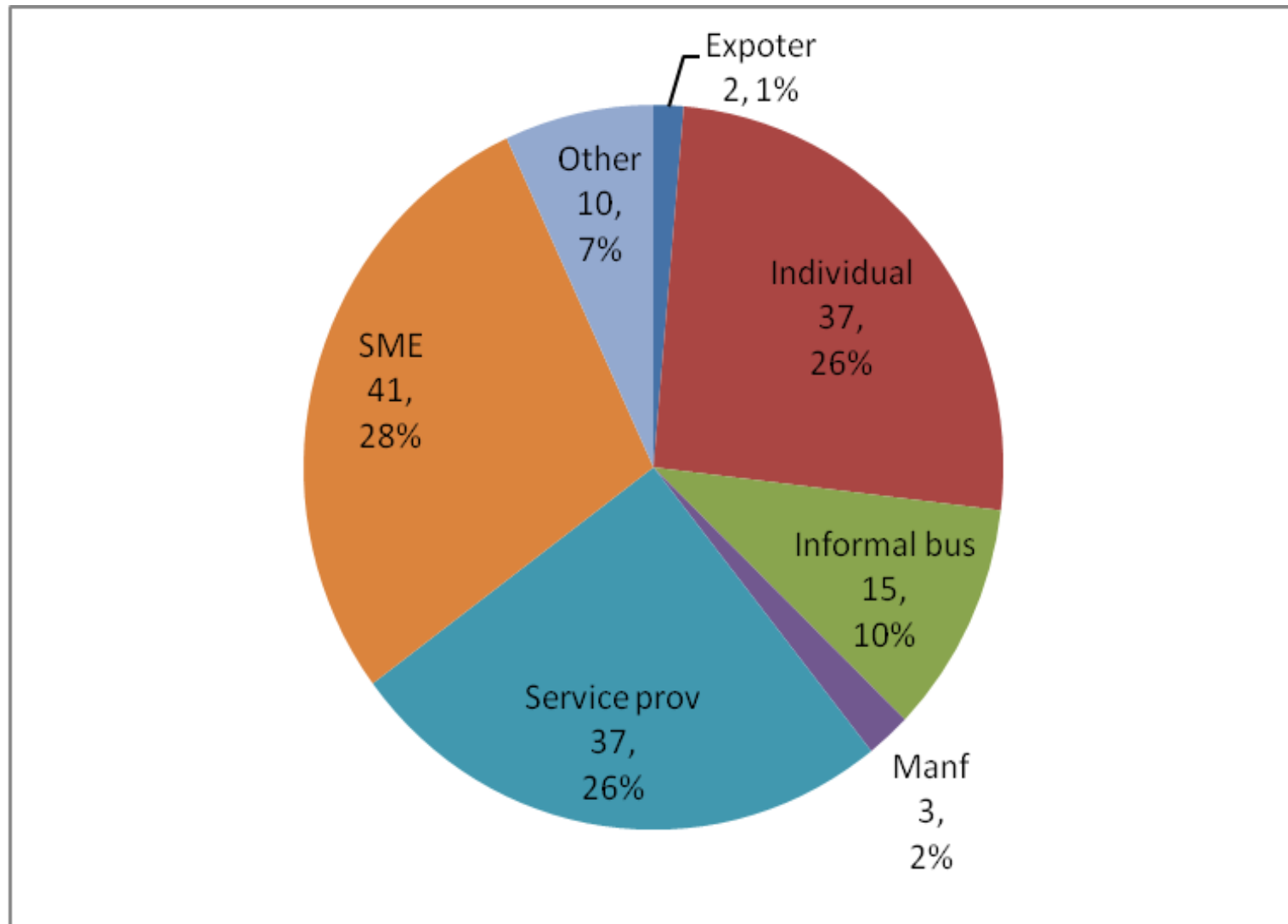
- Furthermore, The Press Statement alludes to the fact that the strong US\$ continues to make Zimbabwe to be:
 - ✓ High cost producing country,
 - ✓ Very expensive tourist destination,
 - ✓ A fertile ground for capital flight and/or externalization, and
 - ✓ Dependent on the USD cash for almost all domestic transactions. 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.
- In an effort to deal with the above challenges, the RBZ in its wisdom said it 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 5% on all foreign exchange receipts, including tobacco and gold sale proceeds”.

Methodology

- Primary data was collected using structured questionnaire from 145 respondents who were randomly through emails and face-to-face interviews.
- A total of 100 questionnaires were administered through face-to-face interviews while 50 questionnaires were distributed and completed electronically through email.
- Majority of respondents were from areas surrounding Harare (mainly the central business district (CBD) and the small and medium enterprise (SME) hub of Siyaso (in Mbare area of Harare) to fill in questionnaires.
- The data collection was done during the seven days covering 5th to 11th May 2016.

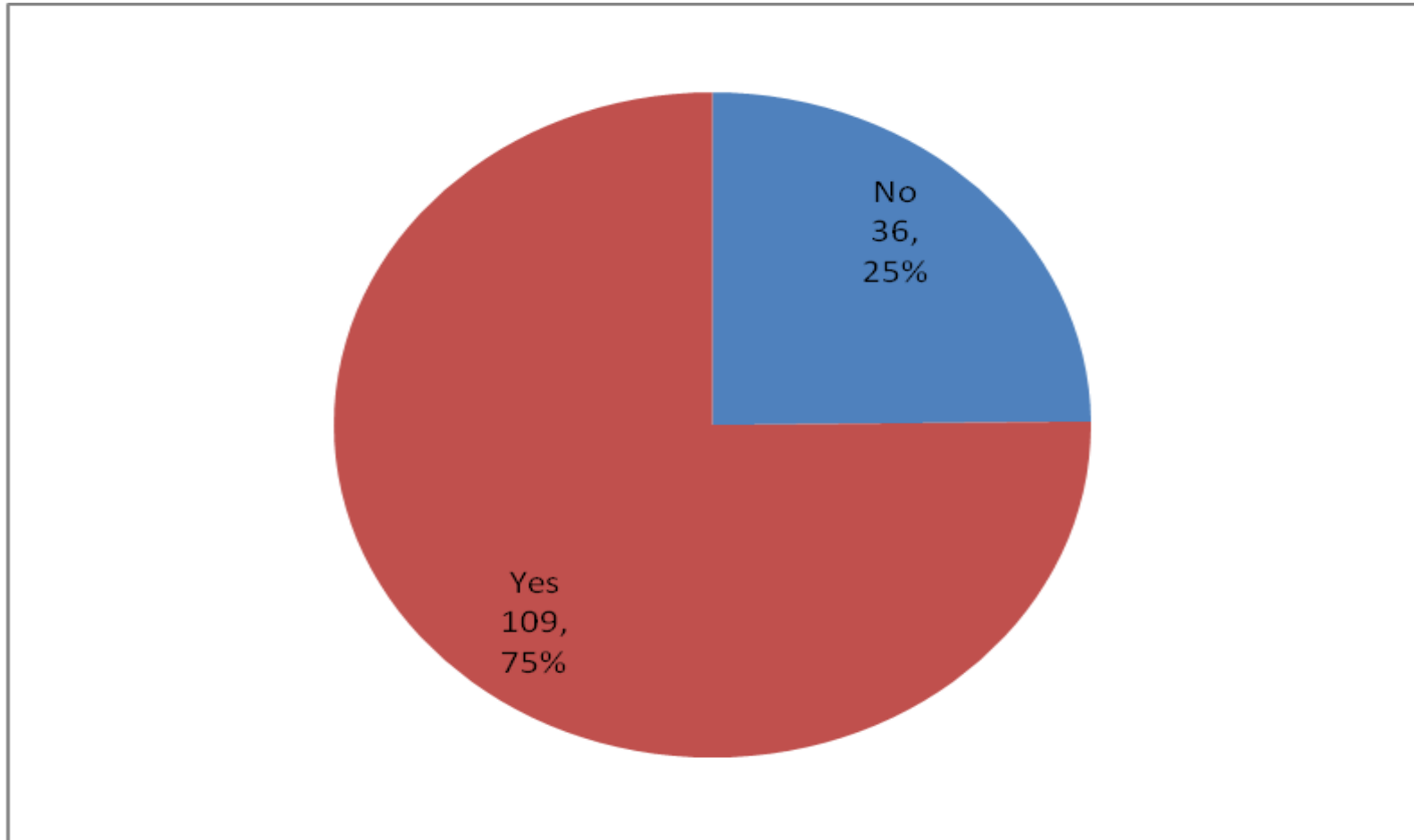
Major Findings

Nature of respondents' economic activities

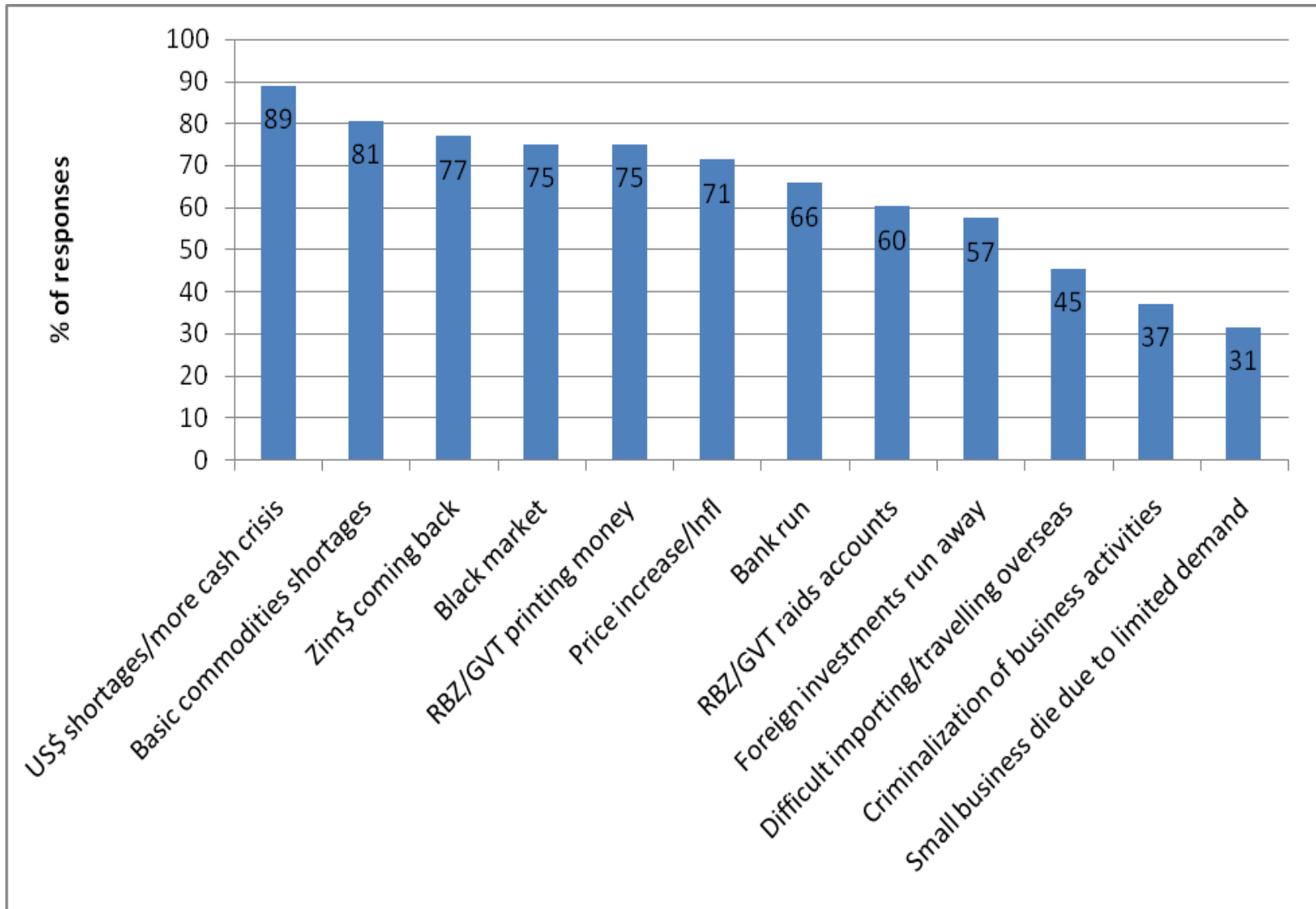


Impact of the Zimbabwe Bond Notes announcement

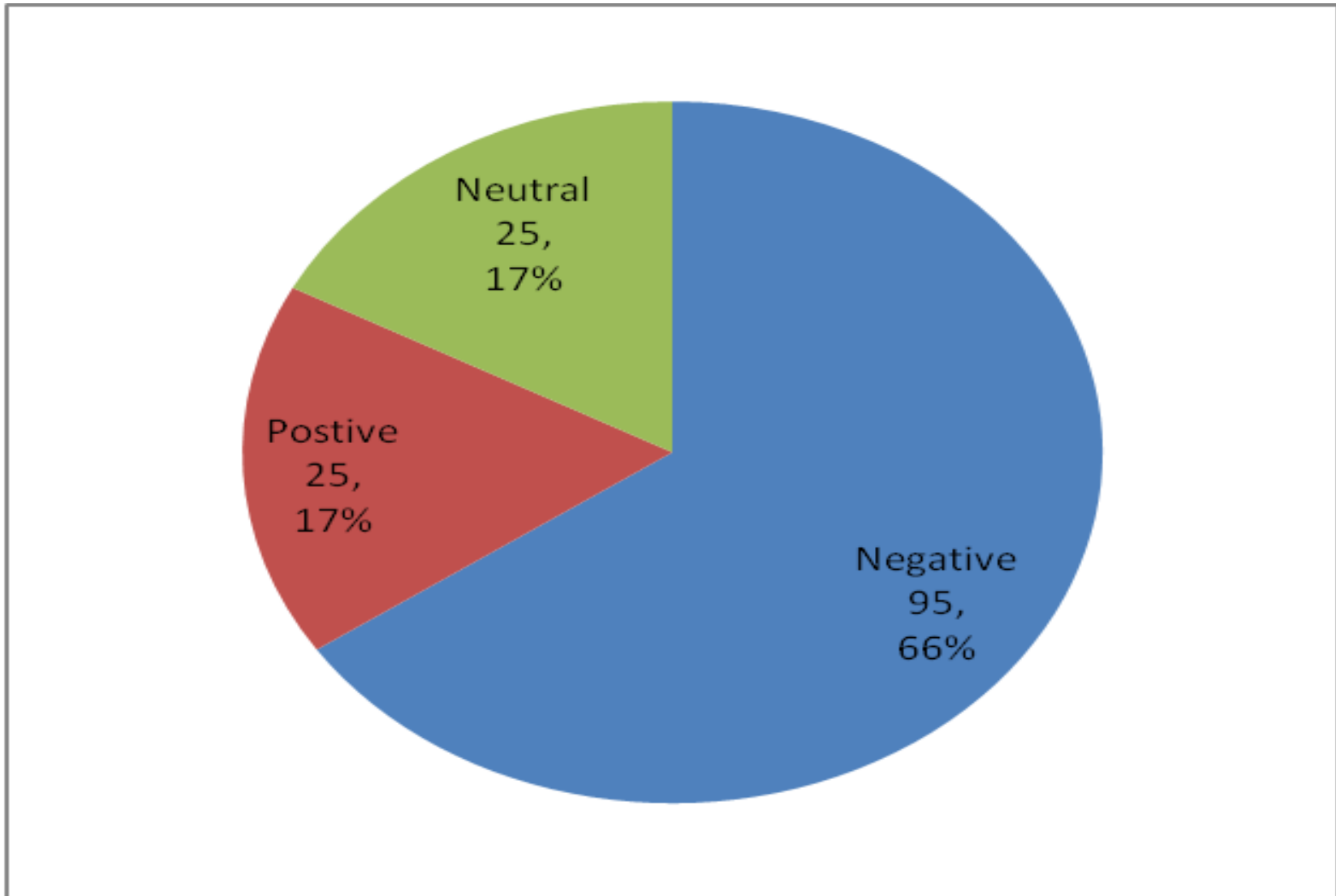
- Respondents were asked whether the announcement of the introduction of the Zimbabwe Bond Note brought fear or panic to them or their institutions



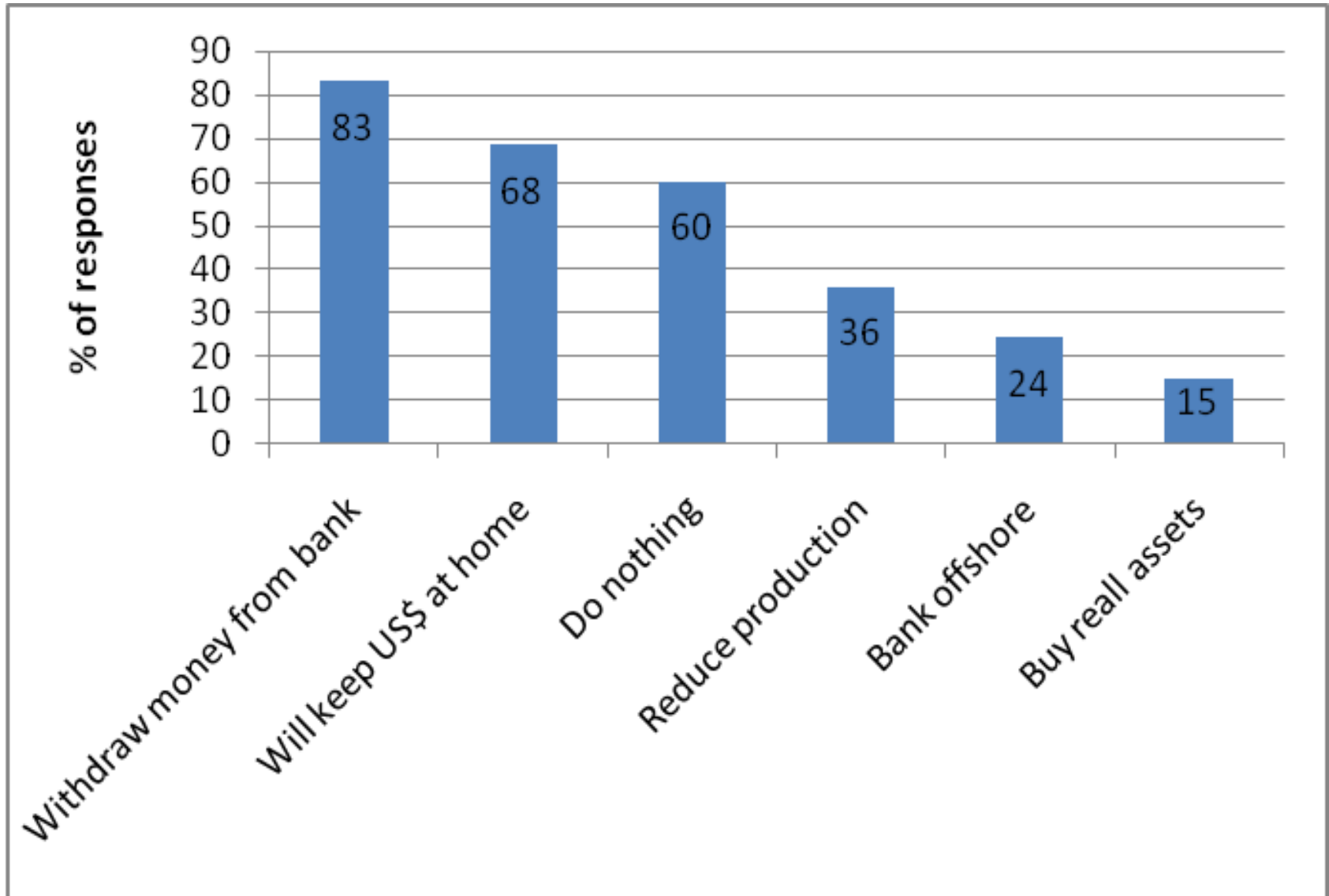
Major reasons for fear & panic of Bond Note introduction



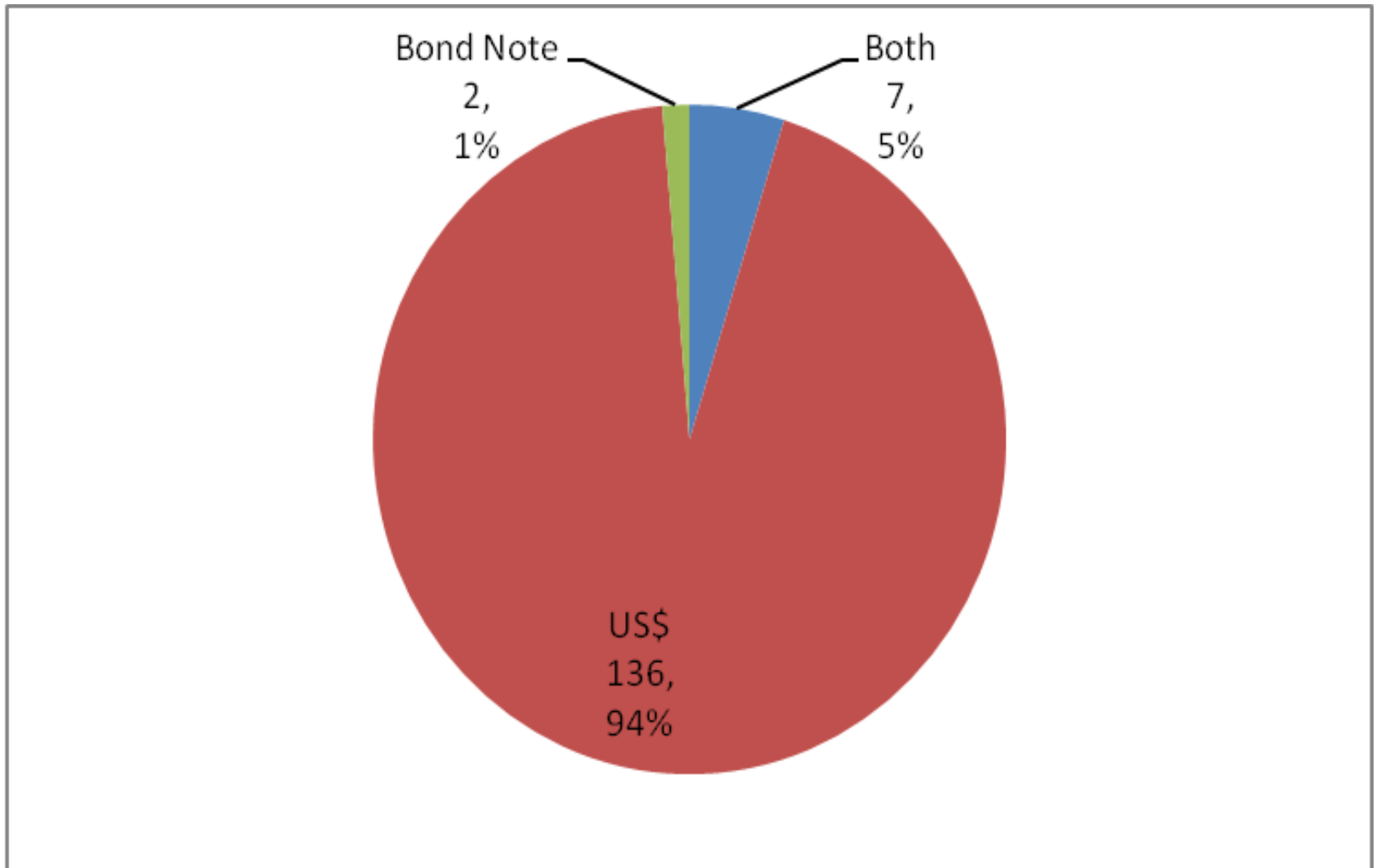
Potential impact of Zimbabwe Bond Notes of economic activities



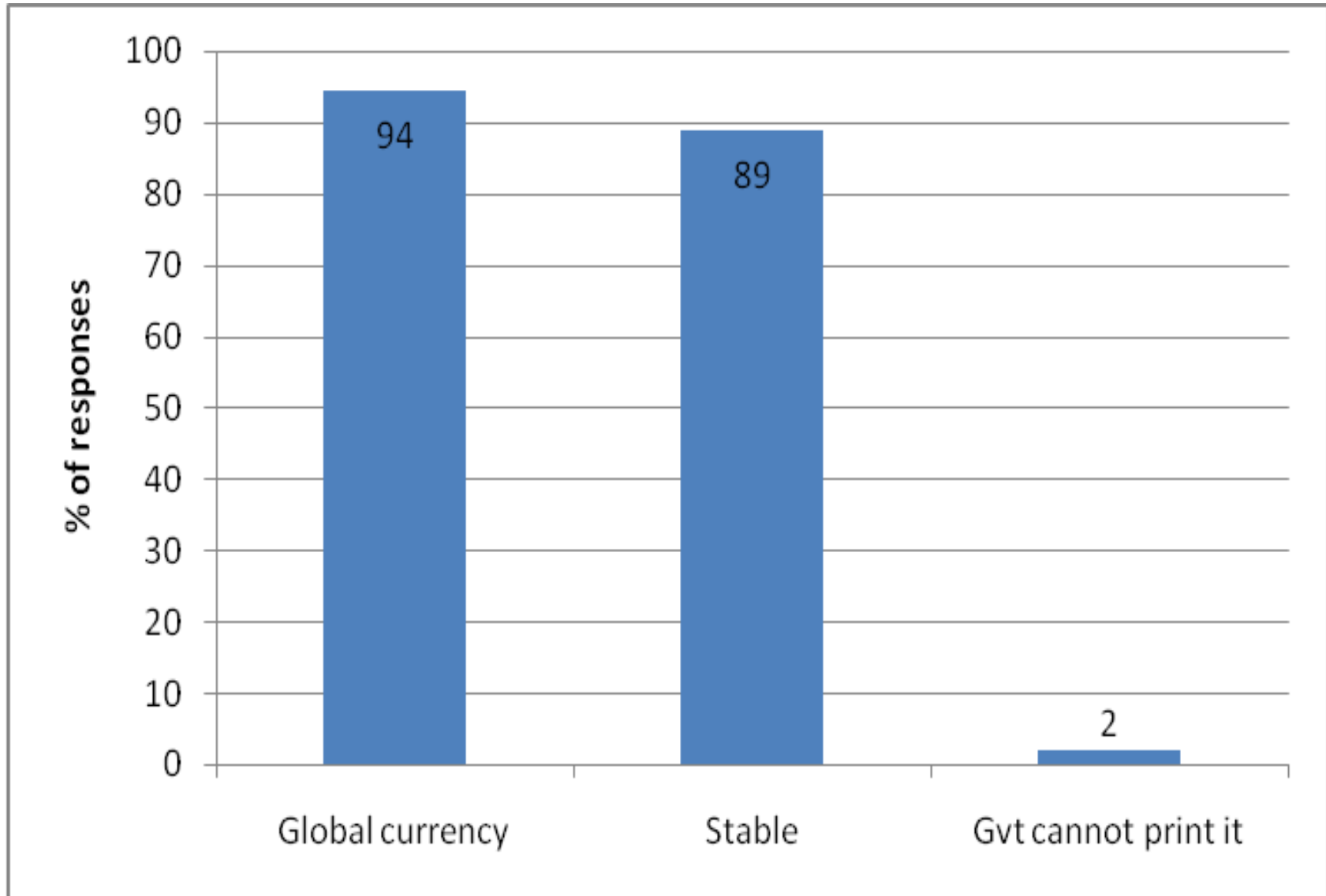
Measures to minimize negative impact of bond notes



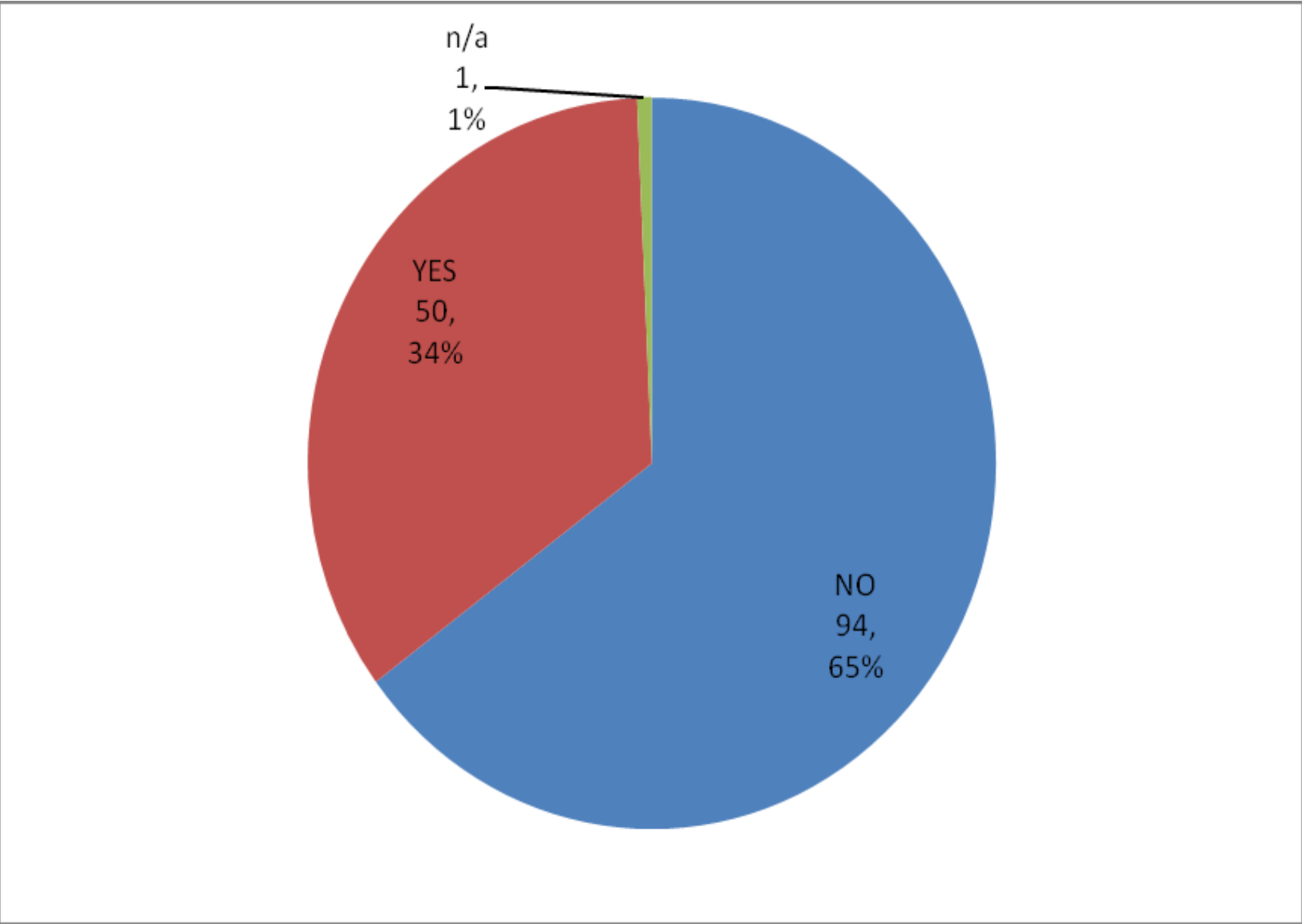
The medium of exchange to be demanded



Reasons for choosing US dollars when compared to Bond Notes



Extent to which economic agents will continue keeping US dollars in local banks



Possible advantages and disadvantages of Bond Notes to economic activities

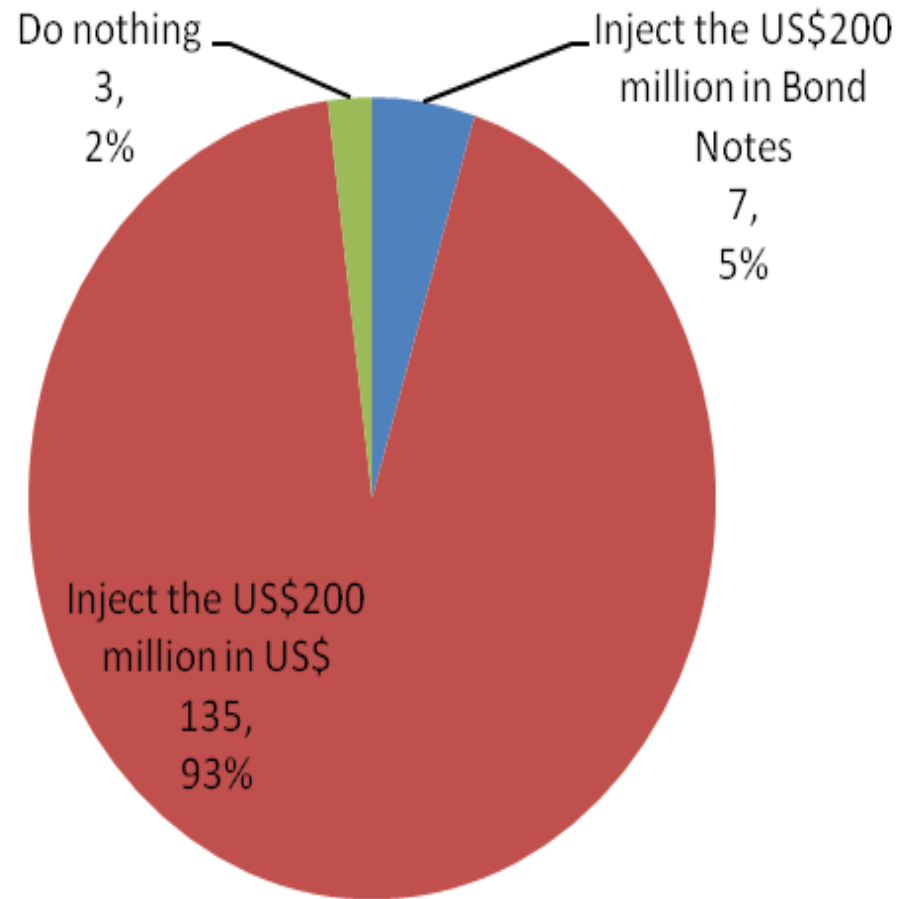
Advantages	Freq	% of respondents	Disadvantages	Freq	% of respondents
Eases cash shortages	75	91	Not convertible/international	75	57
Gvt can print own money	1	1	Discourage investors	16	12
Encourages use of plastic money	1	1	Discourages imports	45	34
Cannot be externalized	3	4	Erodes confidence in financial system	25	19
Improve bus' transactions	16	20	Inflation	37	28
			Promotes black market	21	16
Total	82	100	Total	132	100

Potential impact of bond notes introduction on economic variables

- **Table 2:** Percentage responses on potential impact of Bond Notes on economic variables

Impact	Exports	Manufacturing	Inflation	Investment	Banking (Deposits)
Decrease	73	81	12	87	80
Increase	24	17	86	12	20
No change	0.7	0.7	2.2	0.0	0.0
Don't know	0.7	0.7	0.0	0.0	0.0
NA	0.7	0.7	0.7	0.7	0.7
Total	100	100	100	100	100

Advice to RBZ/ Gvt on Bond Notes



Conclusions

1. Majority of the surveyed Zimbabwean economic agents, totalling 109 representing 75% of the sample, said they were frightened by the announcement.
2. The Major reasons for the fear and panic of Zimbabwe Bond Notes introduction includes the perception that there will be: (i) acute shortage of the US dollar (more cash crisis), (ii) shortages of basic commodities, (iii) the coming back of Zimbabwean dollar through the back door, (iv) growth of black (parallel) market for foreign currency, (vi) money printing by RBZ/government, (vii) inflation, (viii) bank run, (ix) raiding of company (individual) accounts by RBZ/government, and (x) shunning of Zimbabwe by foreign investors, among others.

Conclusions

- 3 A total of 95 respondents (which accounted for 66% of the total sample) indicated that the introduction of Zimbabwe Bond Notes will negatively impact on their business operations and/or economic activities.
- 4 To minimise the possible negative impacts of Zimbabwe Bond Notes on their economic activities, economic agents were going to (i) withdraw all the US dollars from their local (Zimbabwean) bank accounts, (ii) keep all their US dollars (after they have withdrawn them from the bank or after cash sales etc) safely in their homes or even under the pillow and (iii) do nothing!
- 5 Given free choice and without any coercion to choose between US dollars and Zimbabwe Bond Notes as the medium of exchange, majority of respondents totalling 136 and representing 94% of the sample said they will prefer and demand US dollars, while only two respondents (representing 1% of the sample) said they will demand the Bond Notes. A total of seven (representing 5% of respondents) said they will demand both US dollars and Bond Notes.

Conclusions

6. There were three major reasons which were enumerated by respondents for their preference of US dollars over Zimbabwe Bond Notes. The respondents said that the US dollar is: (i) the major international currency used in any global transaction, (ii) stable and one can budget even for the long term.
7. 94 out of the sample 145 (or 65%) said they were not going to continue keeping the US dollar in local banks, while 34% said they will continue banking in local banks.
8. The respondents who said they were not going to keep their money in local banks, they said they will (i) immediately withdraw the money from the bank, (ii) keep the money safely at their homes, (iii) buy real assets like houses (iv) bank the US dollars in their foreign currency accounts (FCAs) outside Zimbabwe.
9. The major advantages of the introduction Zimbabwe Bond Notes into the economy includes (i) easing of cash shortages, (ii) RBZ/government can print own money, (iii) encourages use of plastic money, (iv) cannot be externalized and (v) easing business transactions.

Conclusions

10. The major disadvantages of introducing Zimbabwe Bond Notes into the economy includes the perception that they will (i) not be convertible, (ii) discourage imports, (iii) discourage investments, (iv) be inflationary, (v) erode confidence in the financial system, (vi) promote black (parallel) market in foreign currency.
11. The introduction of Zimbabwe Bond Notes will have a negative and severe impact on the economic activities of Zimbabwe as represented by predicted declines in exports, manufacturing activities, investment and deposit banking; and an increase in inflation.
12. Majority of respondents amounting to 135 out of the 145 interviewees (representing 93% of the sample) said that if the authorities are determined to continue and implement this policy contrary to the views by the general business community and ordinary Zimbabwean citizens, then the best they can do is to inject the US\$200 million into the economy as United States of America dollars (US\$).

Policy recommendation

- RBZ/government should inject the US\$200 million into the economy as United States of America dollars (US\$), and avoid injecting the money as Zimbabwe Bond Notes.
- The long run solution to the cash shortage will be determined by serious resumption of production and manufacturing activities, and accompanying exports.

Thank You

Matendwa

Siyabonga

Kea leboga

Zikomo

Muito Obrigado

Merci Beaucoup

Asante Sana!



6th July 2016

Validation Workshop. Presentation by Dr.A.
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