

Extract from Hansard (uncorrected)

In the National Assembly – Wednesday 10th April 2024

**MINISTERIAL STATEMENT
LAUNCH OF A NEW CURRENCY**

THE MINISTER OF FINANCE, ECONOMIC DEVELOPMENT AND INVESTMENT PROMOTION (HON. PROF. M. NCUBE): Thank you Madam Speaker Ma'am, for allowing me to stand in this august House regarding the recent Monetary Policy Statement Announcement which has resulted in the launch of a new currency.

The Governor of the Reserve Bank of Zimbabwe presented the Monetary Policy Statement on the 5th of April 2024 in terms of Section 46 of the Reserve Bank Act. The major import of the Monetary Policy Statement is to address the exchange rate and inflation volatilities which have largely been driven by factors such as high demand for foreign currency as a store value, reduced confidence due to continued currency volatility seen in recent months, and a widening margin between the interbank and the parallel market exchange rates.

Other factors included the reduced use of the local currency for domestic transactions and finally factors such as the lack of certainty and predictability on the exchange rate front. These are some of the factors impacting exchange rate and inflation volatilities.

To ensure long-term macro stability, the RBZ announced currency reforms which will be complemented by other fiscal and additional monetary measures to restore currency and exchange rate stability. The new policy framework will be implemented sequentially to ensure lasting stability, certainty and predictability, thereby achieving the desired impact of influential monetary currency and exchange rate stability.

Madam Speaker Ma'am, let me take this opportunity to highlight the summary of the major contents of the Monetary Policy Statement.

Madam Speaker, the Reserve Bank introduced a structured currency which is generally defined as a currency that is pegged to a specific exchange rate or currency basket and backed by a bundle of foreign exchange assets such as gold for example. This means that the Central Bank can only issue domestic notes and coins when fully backed by a foreign reserve currency or foreign exchange assets and that the currency is fully convertible into the reserve currency on demand. The structured currency is anchored by a composite or basket of foreign currency and precious metals and in our case, mainly gold which is held as reserves for this purpose by the Reserve Bank.

Let me now turn on to the currency swap and conversion mechanism. The new currency known as the Zimbabwe Gold (ZiG) became effective on 5th April, 2024, therefore banks have already begun to convert the current Zimbabwe balances into the new currency. Madam Speaker, the swap rate is guided by the closing interbank exchange rate and the price of gold in the London bullion market as at 5 April, 2024. The local currency is being converted into ZiG or Zimbabwean Gold by first of all converting the Zimbabwe dollar balances as at 5 April, 2024 to USD balances at the end of the day at exchange rate of 1:33 903. So that is the first phase of the process. Then second, converting the equivalent resultant USD balances into ZiG balances at a rate of 1:13.56 ZiG. So, US\$1 per 13.56 ZiG, that is the exchange rate.

If I can pause a little further to explain; 1 ZiG Madam Speaker, is equivalent to 1mg of gold and that amounts to about USD 6c and when we work that one out, you will see why you end up with an exchange rate of US\$1 to 13.56 ZiG. It all starts from the international London bullion gold price. This rate is being used to make a legitimate conversion of all Zimbabwe dollar deposits in the banking sector, all Zimbabwe dollar loans and advances made by the sector, all Zimbabwe dollar Treasury bills and all outstanding auction allotments, all export surrender obligations, all prices of goods and services in Zimbabwe dollars and any other Zimbabwe dollar denominative obligations.

Madam Speaker, on conversion of all current Zimbabwean dollar balances, banks are renaming all the current Zimbabwe dollar accounts as ZiG accounts. The old gold backed digital coin or token accounts, with the acronym GBDT accounts are no longer called ZiG accounts but are now known as GBDD accounts. All Zimbabwe dollar notes and coins held by account holders are being credited into their ZiG accounts using the applicable conversion factor which I have already described.

The banks will continue to accept these deposits for a period of 21 days after 5 April 2024, but Madam Speaker, I have been made aware that we may even need to extend that period. That is okay so that we can give our citizens, especially in the rural areas that need to travel and be able to convert their Zimbabwe dollars into ZiG currency.

The Reserve Bank has made special arrangements for those without bank accounts to swap their Zimbabwe dollar notes and coins at POSB and AFC commercial bank within 21 days, obviously after 5th April, 2024. Madam Speaker, in instances where the cash holding to be exchanged is above ZWL100 000, banks shall apply the requisite ‘know your customer or KWC’ and customer due diligence principles.

Let me turn to the issuance of the new notes and coins. The introduction of the new structured currency naturally requires the issuance of new bank notes to facilitate transactions in the economy, specially to cater for small transactions and to ensure the availability of change. ZiG notes and coins shall be issued in denominations made out of 1 ZiG, 2 ZiG, 5 ZiG, 10 ZiG, 20 ZiG, 50 ZiG, 100 ZiG and 200 ZiG which will be distributed through the usual normal banking channels and will be fully covered by the quantity and value of gold and foreign currency held as reserves.

Madam Speaker, ZiG shall at all times be anchored and fully backed by a composite of basket of reserves comprising foreign currency and precious metals mainly gold, I repeat, but there are also diamonds which are received by the Reserve Bank as part of the in-kind royalties and kept in the vaults of the bank.

Foreign currency balances will be accumulated through market purchases, and from the 25% surrender requirements as well as sale of some precious metals received as royalties. As of 5 April, 2024, the bank which is the RBZ had reserve assets of US\$100 million in cash and 2522kg of gold valued at about US\$185 million to back the entire local currency component of reserve money which currently stands at 2.6 trillion as of Friday, requiring full cover of gold and cash reserves amounting to US\$90 000 000.

Let me pause here and explain. Madam Speaker, the reserve money as of Friday last week was ZWL2.6 trillion. Converting this at the exchange rate of 33 000 average which was at the interbank rate, that gives you US\$90 million. So really, the value of the notes and coins in circulation was only US\$90 million. When you compare this to the value of the cover which is US\$185 million in gold plus US\$100 million that is US\$285 million worth of cover. That is more than enough. So, the gold and cash reserve holdings with the bank represents more than three times cover for the local currency being issued.

Madam Speaker, the intervening exchange rate shall be determined also by the inflation differential between ZiG and USD inflation rates and the movement in the price of the basket of precious minerals held as reserves. The weights will be determined by the composition of reserve assets.

I now turn to interest rates. Madam Speaker, the bank policy rate has been adjusted from 130% per annum to 20% per annum consistent with the new Monetary Policy Framework. The overnight accommodation interest rate has been set at 5% above the bank policy rate, and the bank deposit facility interest rate has been set at 7,5% rate below the bank policy rate, thus giving a starting interest rate corridor of between 11% and 25% per annum. Savings and time deposit interest rates of ZiG are set at 9% and 7.5% below the bank deposit facility rate of 2.5% respectively while interest rates on FCA deposits remain unchanged at 1% and 2.5% for savings and time deposits respectively.

Let me turn to the issue of bank charges. Cognisant of the calls by the banking public for reasonable bank charges, with immediate effect, bank charges have been scrapped for both FCA and ZiG deposit accounts that maintain a consecutive minimum daily balance of USD100 and below or its equivalent in ZiG for a period of up to 30 days. This will avoid incidences of low-cost accounts being charged maintenance fees to the point where accounts reach negative balances, and in the process prejudice depositors and discourage potential savings. With this summary, I hope that Members will appreciate what has been done here in terms of introduction of the new monetary regime. The main issue being the introduction of a new currency, but also seeing the drop in interest rates among other measures. It is also a critical step towards our long term de-dollarisation agenda. It is our hope that this will bring the much-needed currency stability. Thank you.

[End of Ministerial Statement]

[The Minister then dealt with questions from MPs]

HON. BAJILA: Thank you Madam Speaker. Thank you Minister for the statement. The statement from the Central Bank indicated that these balances will begin to work from 30th April. Civil servants are expecting their salaries from 18th April, how will civil servants get their monies between that period of 18th to 30th of April? In what currency will it be?

HON. DR. MUTODI: I have three or so questions. Hon. Minister, we understand that where currency is backed by gold or any commodity, there may be external shocks. How do you intend to deal with external shocks? Also, you mentioned that banks must apply the know your customer to depositors with 100 000 cash, but look, 100 000 cash is simply \$3. 00 if it is converted to USD. Why doing this Hon. Minister? My last question is that how is the Central Bank going to ensure that lending rates continue to be at par with inflation, given that if they are below inflation, they will cause speculative borrowings.

My last question is that how is the Central Bank going to ensure that lending rates continue to be at par with inflation, given that if they are below inflation, they will cause speculative borrowing. Thank you, Madam Speaker.

HON. CHIDUWA: Thank you Madam Speaker. Hon. Speaker, the Minister said we are going to have complementary fiscal policy measures. I would want to know some of the complementary fiscal policy measures that are going to complement the Monetary Policy Statement that was announced by the Governor. The last one is that the willing buyer-willing seller ensures a market-based price discovery for the ZiG. What is Government policy regarding the Zimbabwe Stock Exchange counters that were suspended due to implied

exchange rate like Old Mutual and PPC? I am asking this because we are really concerned with the way the Zimbabwe Stock Exchange is performing. I submit.

HON. MATEWU: Thank you Madam Speaker. I want to thank the Minister for his Statement. I just have only two questions. The Hon. Minister mentioned that we have in reserve about US90 million worth of Zimbabwean dollar. Does this figure include the money that is being converted, and the Minister said there is enough money to cover that in the reserves? Have you considered that banks are converting Zimbabwean dollars already in people's accounts into ZiG? Is that money covered? How many Zimbabwean dollars do we have in circulation inclusive of that that is in the bank, inclusive of the money that people hold in their bank accounts? Is that all covered by the reserves that we have?

Lastly, are you going to allow citizens to purchase Central Government services such as passports, number plates, such as if you want a licence in ZiG? Thank you.

***HON. P. ZHOU:** What plans are there that will make sure that all the Zimbabweans understand the importance of ZiG which is backed by gold? What plans are there so that all of us understand how it works and how it functions? I am happy that we have come here, we are few, but the whole country needs to understand the medium of communication that you are going to use. When this money was unveiled, the prices of groceries have gone up, especially sugar and all the basics. What plans are there that these groceries should come down to where they were already because we are working with 5 April, but those people have gone further? ZiG will come when the market has been distorted already and its value will not be recognised. I thank you.

HON. PROF. M. NCUBE: First of all, I recognise Hon. Bajila and thank him for his question regarding how things will be handled. He is under the impression that ZiG will only begin to work at the end of the month, 30th April 2024 and yet civil servants will start receiving their salaries from the middle of the month, around 18th April 2024.

I am happy to say that his understanding is incorrect. ZiG is already effective and civil servants will be able to receive their salaries on time on 18th April, 2024. What RBZ mentioned really was the issue of availability of hard cash being available later, at least by the 30th of April. That is the issue, but in terms of receiving electronic payments into their accounts, civil servants will be able to receive these by 18th April or any time because ZiG is already operational.

Hon. Mutodi posed a very good question on how we will be able to deal with external shocks if a currency is backed by hard assets such as gold. What we have done is that we will build in a mechanism in anticipation of these shocks. What is happening is that our exchange rate is being driven, not just by the price of hard assets like gold but also, we take into account what we call effective exchange rate which is the inflation differentials between our country and other countries. That inflation differential is also known as the purchasing power parity. What happens is that when there is a shock, those shocks usually show up in inflation shocks. So, by taking into account those inflation differentials, we are able to take into account part of the shocks.

The Z\$100 000 is that not too low – it translates to about US\$3, yes this has been raised from the public and I am pleased that we will look into it and maybe we need to raise the threshold here. It is correct that the 100 000 is on the low side. We should not be bothering depositors. Certainly, that is a good point.

How will we ensure that lending rates remain real, in other words they remain above inflation rate all the time so that they do not end up exacerbating the inflationary pressures. We will make sure that when this happens, the correct way to run a monetary policy is always

to ensure that we have a positive real interest rate. The interest rate must always remain above the inflation rate. We will ensure that this is the case. In addition to that, we will apply the design of the structured currency which is that we cannot increase domestic liquidity before increasing the reserves in the first place. That must also be applied in addition to the interest rate policy that Hon. Mutodi refers to.

I now turn to Hon. Chiduwa in terms of the complementary fiscal measures – what measures shall we announce to complement the Monetary Policy Statement. We have a few, but I should not announce them here in Parliament. I will just give an indication. What we have announced for sure is that 50% of the company taxes, corporate taxes will be in ZiG to increase the demand for our currency. We will be very specific when we make the announcement as to which fees and which taxes will be paid in ZiG beyond the request that corporates pay in domestic currency. We will make an announcement in the fullness of time. I will beg for his indulgence on this one and not to make it in Parliament today but we already have an idea.

Coming to another question and a very important one, what we will do with the counters on the Stock Exchange that were suspended because under the Zimbabwe dollar scenario, their prices were contributing to the parallel market activities. This is how we determine things to be and we felt that this ought to be suspended from the market because that fungibility was really creating challenges in terms of managing the exchange rate system. So, we suspended that and also took away the fungibility characteristics of the stocks. I am happy to say that the issue is under review as I speak and we are making announcements soon on this matter. I do not want to commit specific action but this is under review.

It is an issue because pensioners want to be able to put some value to their pensions from those specific stocks and some of the pensions, these are large holdings and the pensioners are saying look, we need to put some value. The book value that we last entered into the books was when the stocks were publicly trading but since then we have had an opportunity to make any adjustments. So, it is affecting the value of these pensions, but also affecting value of liquidity of the pensions. So, we are reviewing this.

I now turn to Hon. Matewu who asked about - what does the US\$90 million include and secondly, is there adequate cover in a way? The US\$90 million really is the reserve money in circulation which is M-zero. Perhaps if you are referring to issues such as the NMCDs, those are not immediately available because we have quarantined these using long term dated Instrument design where the NMCD would be available in a year's time but in the interim, we will pay an interest to the bank. We have quarantined it that way. We have also quarantined the backlogs from the auction as well through a similar mechanism where we are issuing long dated Instruments. That money is not available immediately. It does not mess up the liquidity projection and the design of the currency. We believe that we have enough cover of this US\$90 million without difficulty at all.

You also heard Treasury announcing that in addition to what the RBZ is declaring as reserves of US\$285 million, we have an additional US\$300 in Treasury which we stand ready to assist the Central Bank if there is a shock to the system.

On purchase of goods and services in ZiG, this is similar to the question from Hon. Chiduwa. My answer is similar, which is that in the fullness of time we will announce specific services that can be purchased in ZiG as we seek to promote the demand for our local currency. The statement is coming. If I can request the indulgence of Hon. Matewu and this will be announced. We want you to pay some of the services you mentioned in ZiG. Just be patient with me and we will make the announcement sooner.

I now turn to Hon. Zhou who wanted to really make sure we do not leave anyone behind when it comes to educating the public about this new currency. People in rural and urban areas must feel that they are receiving adequate information on how this new currency works. I want to assure Hon. Zhou that we are going to do everything to make sure that this is the case. Putting in place a blitz campaign between the Ministry of Finance, RBZ and Ministry of Information, this communication seeks to do that, which is to educate the public and give them the necessary information on how ZiG works. As Government, we would want this to be acceptable that citizens have got confidence and you can only build that confidence if you communicate and explain how it works in simple language.

I was suitably impressed seeing some video that was recorded which went viral and is explaining ZiG in very simple language in Shona. I thought this is exactly how we should be communicating to the public out there about the design of such a currency. It is that type of communication that we want to promote, especially in our rural folk to ensure that they gain the confidence in this new currency, understand how it works and they are not left behind.

Hon. Zhou also mentioned that there were some issues in terms of pricing just prior to the introduction of the currency. Some prices were pushed up and will this not affect the operation of the ZiG well, we will take a look at these issues to see what is happening here. In fact, I am already aware of a situation where some retailer of bread for example; prior to the introduction of ZIG, a loaf of bread was trading for US\$1, the price of a dollar in ZIG is 13.56, but the price of bread was rounded off to 14. There should be no rounding off as it is not a good idea. That is a price increase and means that the bread is now \$1, 3c or 5c as opposed to just \$1. So, we are quite aware of this issue and we are following up with some of the companies to do a proper translation and not to round up, which is contributing to a price increase. So, I agree with her, it is a statement well-made and we are following up on that. I thank you for the question.

HON. MATEWU: On a point of order Madam Speaker. Yesterday I raised a point of national interest and the Speaker agreed that all my questions would be answered by the Hon. Minister of Finance. So, we expect the Hon. Minister of Finance to answer the questions of these members and not just of five members. I thank you.

HON. TOGAREPI: Minister, my question is, when I was doing something in town this afternoon, when ZIG and the transformation of the currency was announced, those street people had run away. However, this afternoon they were back. What measures have you put in place to seriously deal with any manipulation or any abuse of our currency as government to defend our currency?

HON. MUSHORIWA: Madam Speaker, the President, on 6 February, indicated that we were going to a structured currency and my first question is that if the President said it was the road map, why is it that the RBZ failed to ensure availability of the notes when the changeover was done. Secondly, why is it that the communication by the RBZ itself was actually so poor to the effect that it has caused confusion amongst the citizens of this country. Then tied to that Hon. Minister, you had indicated that the fiscal measures that you are going to come up with, you will do them in due course, but if we had followed the pronouncement by the President who had said that both the Monetary and Fiscal Policy were coming up with the complementary, one would have expected that these two statements should have come close to each other and that sort of creates some confusion. Lastly, what is it that government is going to do because as you are aware Hon. Minister, monetary issues are based more on perception rather than reality? There is now a joke going around the country and on social media, what is it that you are going to do to curb the perception that the ZIG will just follow the same consequences faced by the bond note? I thank you.

THE MINISTER OF FINANCE, ECONOMIC DEVELOPMENT AND INVESTMENT PROMOTION (HON. PROF. NCUBE): Thank you Hon. Mushoriwa. I want to thank Hon. Togarepi for his question where he said that he has noticed that some street traders are back in the street corners and they may start attacking our domestic currency again. I thank him for that information. I received similar information as well as early this afternoon. We are going to send out our law enforcement agency to do their work on a blitz to make sure that these vendors are dealt with. They are cleared off the streets and then the heavy fines are also imposed on those who are caught trading in the parallel market. It is illegal. Therefore, if it is illegal, then the law has to take its course. I am also urging our law enforcement agency to move with speed to deal with this matter. We cannot allow it.

I will now turn to Hon. Mushoriwa regarding the delays perhaps that the notes should have been ready earlier than announced. Well, you know that it is a major exercise of introducing a new currency. Many things have been put in place, and even printing a currency is a logistical nightmare, it is not an easy thing to do. Again, if he could be patient and bear with the Reserve Bank of Zimbabwe, they have really done their best in making sure that everything is ready. For instance, we have to change the system in terms of balances which I described. Some of you are already experiencing that because you have ZiG accounts, you have to print new money. You have to make sure that the gold in our case is in place, diamonds are in place and there are just so many variables that need to be dealt with to issue a structure of currency.

Madam Speaker, it is not surprising that may be one or two things did not happen as anticipated, and on time. It is just a complex issue but I think that the public will understand and I hope Hon. Mushoriwa will also understand.

I now turn to the second issue that he raised regarding the announcement of fiscal measures that this should have been done simultaneously. Not necessarily Madam Speaker Ma'am. If you notice, we only announced one issue in that Statement which had to do with 50%, the rule that 50% of the corporate taxes should be paid in domestic currency. That is the only thing that was really announced on the fiscal front. There will be more coming through. You know, we have just gone through what I will call a very gruelling period Madam Speaker Ma'am since the announcement of the 2024 Budget with various tax measures and so forth, making adjustments, sugar content tax, this and that. We did not want as fiscal authorities, to start announcing further things on the fiscal front. We have just gone through that. We think the industry is fairly comfortable now. We want to make sure they are accountable so that they can continue to employ more people to grow export and so forth.

Madam Speaker Ma'am, personally, I did not want to start imposing further fiscal measures immediately. We will do those gradually overtime but something is coming. That is the reason why we held back on announcing a few fiscal measures after having gone through fiscal measures through the 2024 Budget.

On the perception of the currency, that perception is very important. He is right, a currency also depends on both fundamentals and perception, how it is and how it is managed. We will do everything to educate the public as to why this currency is strong in the way it is structured. We have reserves that guarantee the notes and coins in circulation. We are saying those notes and coins in circulation which is known as reserve money should never be increased before the reserves are increased in the first place, so that matching mechanism really guarantees the stability that citizens are always looking for. We believe that this is a very good desire and if you have got gold in there as one of the elements, gold has been

stable and citizens believe in the value of gold. It has been stable for a while and in fact, it has been performing strongly in the last few years.

We believe that educating the public about the design of the currency, how it has been put together will give them a level of confidence. I would like to urge Hon. Mushoriwa to be confident about ZiG and use it all the time. It is his currency; it is my currency and it is everybody's currency. We should all be proud of it. After all, a country derives its social pride from the flag, national anthem and also from its currency. I thank you Madam Speaker.

THE TEMPORARY SPEAKER: Thank you Hon. Minister for your presentation. I would also like to thank you for answering some of our questions.