MEASURES TO RESTORE CONFIDENCE,

PRESERVE VALUE AND RESTORE

MACROECONOMIC STABILITY

INTRODUCTION

1. The Zimbabwean economy recently experienced a rise in month-on-month inflation, from a monthly average of 4.5% seen in the past 12 months to 15.5% in April 2022.

2. While the recent increase in domestic inflation is substantially attributed to recent global shocks, domestic factors are also at play, mainly attributed to the pass-through effects of the recent exchange rate depreciation on the parallel market.

3. If not contained, the continued depreciation of the domestic currency against the US dollar may lead to reversal of economic stability gains achieved since the introduction of the foreign exchange auction system in July 2020.

4. Government is aware that economic fundamentals to support a stable domestic currency are currently in place as evidenced by the amount of foreign currency being generated in the economy against the quantum of local currency deposits.

5. For instance, the country generated foreign currency in excess of US$9.7 billion in 2021 compared to US$6.3 billion recorded in 2020, showing an increase of 53.5%.

6. Foreign currency earnings for the first quarter ending 31 March 2022 were US$2.4 billion representing an increase of 15.9% from US$2.04 billion generated during the same period in 2021. Resultantly, the foreign currency liquidity in the economy has continued to increase to reach the current level of US$2.4 billion, made up of foreign currency accounts (FCAs) deposits of US$1.4 billion and national reserves of US$1.0 billion.

7. Similarly, the country's fiscal position has been favourable since 2020, thus enabling Government to avoid monetisation of the budget deficit which increases money supply and inflationary pressures in the economy.

8. The existence of strong economic fundamentals imply that the recent exchange rate depreciation is driven by factors outside the obtaining economic fundamentals. *(This is comparable to the work of Economic Hitmen).* Government is therefore convinced that the recent exchange rate movements are being driven by negative sentiments by economic agents as opposed to economic fundamentals.

9. These negative sentiments have been propagating adverse expectations on future inflation and exchange rate movements, thus giving rise to

artificially high demand for foreign currency as economic agents hedge against expected high inflation.

10 Unfortunately, this practice has become a self-fulfilling process by becoming the driver of exchange rate depreciation and inflation in the economy. This vicious cycle needs to be broken.

11 Against this background, Government is putting in place the following measures to restore macro-economic stability, boost confidence in the economy, increase the appeal of the local currency, preserve value for depositors and investors and deal with market indiscipline.

12 These measures are expected to restore macro-economic stability and support the current robust economic recovery trajectory.

CONFIDENCE BUILDING MEASURES

Restoration of Lost value on Bank Deposits

13. The currency changeover of 2019 adversely affected the value of bank deposits of the banking public mainly as a result of the depreciation of the exchange rate. To address this value erosion, Government has resolved to compensate the loss of value on bank deposits to individuals who had funds in their bank accounts of US$1 000 and below as of end of January 2019.

14. The compensation for amounts less than US$1 000 has begun and will continue.

15. Currently, a framework is also being put in place to compensate individuals with bank accounts of up to US$100 000.

16. The amount required and Implementation modalities of this policy will be announced in due course guided by the Public Debt Management Act and Reserve Bank of Zimbabwe.

Clearance of Foreign auction backlog

17. Whilst considerable progress has been made in clearing the auction allotments backlog, Government is proceeding to make available sufficient resources to clear the backlog balance by the end of May 2022.

18. With immediate effect, the Reserve Bank will ensure that all foreign currency allotments are settled within a period of 14 days post auction allotment and that the auction system only allots foreign currency that is available.

Continuation of Partial Dollarisation (Dual Currency System)

19. The current partial dollarisation or dual currency system shall continue as the Government's preferred system of payment and transaction within the domestic economy under a carefully managed de-dollarisation process which is aligned to the economic fundamentals.

20. Similarly, collection of revenue in foreign currency and subsequent spending of the same shall continue in order to support critical Government programmes and projects such as importation of Covid-19 vaccines and syringes, borehole drilling equipment and completion of infrastructure projects, debt service, liquidating legacy foreign currency obligations and other foreign payment commitments.

Exchange Rate Management

21. Government is committed to a market determined exchange rate system. In this regard, the willing-buyer-willing-seller foreign exchange system put in place on 1 April 2022 shall continue to be used as a benchmark for price discovery of the exchange rate and for the smooth operation of the auction system.

22. Overtime, the auction rate and the interbank rate established through the willing-buyer-willing-seller will provide the basis for orderly unification of the exchange rate.

Reviewing the willing-buyer willing-seller trading limit

23. Since the inception of the willing-buyer willing-seller foreign exchange system, banks have managed to purchase more than they have sold

under the US$1000 foreign payment limit per day per individual.

24. With immediate effect, the amount that can be traded under this arrangement has been increased to a maximum of US$5000 per day with a limit of US$10 000 per week per individual.

Retail/ Wholesale Pricing

25. The willing-buyer-willing-seller interbank foreign currency arrangement has assisted in the price discovery mechanisms of the exchange rate in the economy.

26. In this regard, retailers and wholesalers are, with immediate effect, allowed to benchmark their pricing to the average interbank rate with a maximum allowable variance of 10%.

27. This would ensure increased discipline and a level playing field in the pricing of goods and services in the market under a dual currency system.

ADDITIONAL MEASURES TO STRENGTHEN DEMAND FOR LOCAL CURRENCY

28. Government has already announced measures to strengthen demand for local currency by allowing payment of duty, royalties and taxes in local currency. To further boost the appeal of the local currency, Government is putting in place further measures and incentives to expand the use of the local currency, consistent with the quantity of local currency in the domestic economy and in line with the envisaged de-dollarisation roadmap as follows:

Reserve Money Growth

29. Monetary policy has also remained on a tighter path as shown by continued reduction in reserve money growth targets from above 10% in 2020, to current levels of about 5% per quarter. Commendably, reserve money supply has remained under control and stable at the current level of ZW$28 billion for the past six months' period ending 30 April 2022.

30. Therefore, with immediate effect, the quarterly reserve money growth will be further reduced to 0% per quarter.

Proportion of taxes payable in local currency

31. Government reaffirms its commitment for exporters to pay more of their taxes in domestic currency; this is currently under review.

Tax incentives for using local currency

32. Government is, with immediate effect, putting in place a differential taxation system for the Intermediate Money Transfer Tax (IMTT) as follows:

i. 2% would continue to apply to local currency transfers; and

ii. All domestic foreign currency transfers to attract the Intermediate Money Transfer Tax (IMTT) of 4%.

33. Foreign payments settled through the willing-buyer willing-seller and foreign exchange auction system shall remain exempt from the IMTT.

Foreign Currency Cash Withdrawal Levy

34. There is a preference to withdraw foreign currency for transaction purposes, thereby undermining IMTT collections, given that cash withdrawals are not liable to IMTT.

35. In order to discourage the withdrawal of cash which is traded on the parallel market, the cash withdrawal levy for amounts above US$1000 will with immediate effect, be reviewed from the current 5 cents per transaction to 2%.

Settlement of foreign currency tax obligations in local currency (ZIMRA rate)

36. The settlement of the local currency component of the foreign currency tax obligations for duty, royalties and other tax heads will, with immediate effect, be at the interbank rate established through

the willing-buyer willing-seller exchange rate system.

37. Similarly, liquidation of the surrender portion of export proceeds will, with immediate effect, be settled at the willing-buyer willing-seller exchange rate.

MEASURES TO FOSTER MARKET DISCIPLINE

Suspension of Third-Party Country payment on Foreign Payments

38. In order to continue to foster market discipline within the foreign payment, banks shall, with immediate effect, not process third-party country foreign payments.

39. The third-party foreign payments are susceptible to illicit financial flows which prejudice the country of its hard-earned foreign currency resources.

Suspension of lending by banks

40. In order to minimise the creation of broad money that is prone to abuse for purposes of manipulating the exchange rate for financial gains, and to allow current investigations, lending by banks to both the Government and the private sector is hereby suspended with immediate effect, until further notice.

Fostering discipline on the Stock Market (Zimbabwe Stock Exchange)

41. Government has noted regulatory weaknesses in the custodial system of the Zimbabwe Stock Exchange sub-systems which are fueling parallel market

activities. The current system allows clients to sell shares and then transfer the proceeds to third parties for purposes of trading forex.

42. In addition, brokers can transfer funds from one client sub-account to another, which have become the basis for fueling parallel market activities. In view of this challenge, the following measures are being put into place, with immediate effect, to foster discipline on the Zimbabwe Stock Exchange:

i. Inter account transfers between client sub account with a broker are now prohibited;
ii. Third party funding of client sub-accounts is no longer permitted;
iii. Transfer out of a client sub account with a broker shall only be allowed to the customers' bank account and not to third parties; and
iv. The Zimbabwe Stock Exchange will have powers to undertake regular and continuous

monitoring of broker transactions, share trading and custodial changes. For this purpose, an electronic monitoring system will be established in Zimbabwe Stock Exchange urgently. The Securities and Exchange Commission will continue to undertake the overall regulatory role, including oversight of the Zimbabwe Stock Exchange.

Review of Capital Gains Tax for Short Term Investments on the Stock Exchange

43. Capital gains tax are currently standardised at a rate of 20% at the time of sale. This flat rate does not encourage long-term holding of stocks and shares. As a result, the stock market has been characterised by speculative bubbles as some investors speculate and take the profits to the parallel market for value preservation.

44. Accordingly, to promote long term investments on the stock market, Government has, with immediate effect, reviewed capital gains tax for shares held for a period not exceeding 270 days to 40% in line with individual maximum marginal tax rate for Pay as You Earn (PAYE).

45. This measure will deter short term speculative buying and selling of shares. The capital gains tax will remain at 20% for long term investors beyond 270 days.

Enhancing market discipline

46. The security agents of Government and the Financial Intelligence Unit shall, with immediate effect, enhance their roles to effectively monitor financial transactions in order to address the delinquent arbitrage behavior in the economy.

47. Civil penalties shall be substantially reviewed upwards to ensure that such behaviour is discouraged. Appropriate legal changes shall also be instituted to elevate some of the financial crimes to become criminal offences which automatically attract jail sentence.

Opening up of the Public Transport System

48. Government is proceeding to open up the public transport system for other players in order to complement the services being provided by ZUPCO, in line with the reduction in Covid-19 cases and the subsequent opening up of the economy. To compliment the above measures, Government will allow for the duty free importation for a period of 12 months, for vehicles which meet regulations to be issued.

49 The liberalisation of the public transport system shall be done under terms and conditions to be published by Government. The Police would need to ensure that law and order is adhered to as the behaviour on our roads needs to be seriously attended to. Non adherence to the rules and regulations to be gazetted would not be tolerated.

CONCLUSION

50 The above policy measures will buttress the current monetary and fiscal policy stance which have proved effective in sustaining the positive economic growth trajectory.

51 Therefore, the envisaged stability in the exchange rate and inflation will go a long way in ensuring a durable macroeconomic environment amenable to supporting robust economic growth, foster prosperity and ensuring equitable distribution of

wealth and guaranteeing that no one and no place is left behind.

52 In this regard, the measures pronounced in this statement will go a long way in boosting confidence by addressing the loss of value on individual savings that arose as a result of currency reforms, dealing with market indiscipline, incentivising the use of the local currency and minimising exchange rate distortions. Government will review the impact of these measures.

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