POLICY AREA	HIGHLIGHTS & ANALYSIS
Introduction of the Zimbabwe dollar as the mono legal tender	Through SI 142 of 2019, the Minister of Finance declared the Zimbabwe dollar - comprising of, and at par with, the RTGS$, Bond Notes and Bond Coins - as the sole legal tender for the country. The move, which effectively discontinued the multi-currency system, was seemingly made in order to stop the noticeable, spontaneous re-dollarization of the economy – which we highlighted as a major downside risk to the ongoing reforms in our analysis of the February 2019 Monetary Policy. *However, the policy change, although in line with the steps towards de-dollarization, appeared to have been done ahead of the attainment of the necessary conditions for the introduction of a local currency. In fact, in the 2017 Mid Term Monetary Policy statement, the RBZ noted that… the preconditions for the return of the local currency are:* *i. Sustainable foreign exchange reserves, equivalent to one year import cover,* *ii. Sustainable Government budget,* *iii. Demonstrable consumer & business confidence,* *iv. Health of the job market, and* *v. Average industrial capacity utilisation of above 75%.* *Meanwhile, now that the policy change has been made, it is therefore critical for the policy makers to expedite efforts to attain the necessary conditions that will support the Zimbabwe dollar, stabilise the exchange rate and eventually decouple the US dollar/ exchange rate from pricing decisions. In fact, given the country's high dependency on imports and the generally high unregulated informal sector, decoupling the US dollar from pricing mechanisms is likely to take longer, and will largely depend on the authorities' ability to foster exchange rate stability and predictability as well as ensure consistent availability of foreign currency at commercially viable rates on the interbank foreign currency market. Sectors that are largely dependent on imported materials and merchandise are likely to be most affected by the policy change, in the short term.*
Transfer of Legacy Debts to the Reserve Bank of Zimbabwe	The RBZ advised banks to transfer, to the central bank, counterparty funds for the foreign currency historical and legacy debts that Government is assuming, through the RBZ, at a rate of 1:1. *The move is meant to eliminate mismatches and exchange losses on banks', companies' and some households' balance*

POLICY AREA	HIGHLIGHTS & ANALYSIS
	sheets. It will also strengthen the financial system, whilst at the same time increasing the Government's external debt position. Meanwhile, the central bank noted that the transfer of funds to the central bank is expected to result in a withdrawal of $1.2 billion from the money market and, thus a tightening of liquidity conditions. This may in turn result in both a hike in interest rates and settlement gridlock on the national payments system. However, given the multiplicity of options available to raise the funds, among them early liquidation of money market investments, disinvestment from the stock market, liquidation of foreign currency holdings, borrowing from the central bank itself through the overnight window or money market, disposal of property and utilisation of funds from Treasury Bill maturities, the ultimate drain of liquidity from the money market may be less severe.
Upward review of the RBZ Overnight Accommodation Rate	In our analysis of the February 2019 Monetary Policy we highlighted that *"the interest rate peg, against the high levels of inflation and limited foreign currency liquidity, may result in increased borrowing in RTGS$ for the purposes of buying foreign currency. This will expose the RTGS$ to speculative attacks, thereby threatening the sustainability of the exchange rate liberalisation…"* Thus, following the rapid deterioration of the RTGS$, the central bank increased the overnight accommodation rate from 15.0% to 50.0%, as part of measures to thaw speculative borrowing. *However, given the current levels of inflation, and the adverse inflation expectations, the new central bank rate, to which banks should ordinarily benchmark their lending rates, still appears too low to influence significant changes in consumer behaviour. Additionally, given that the economy is in a recession – with a projected contraction of -5.2% in 2019 (IMF), banks are likely to find it difficult to make wholesale changes to their lending interest rates, as doing so may result in a resurgence in non-performing loans. Banks are, therefore, likely to be guided by their individual cost of funds and borrower profiles in pricing their loan products. Nevertheless, a hike in interest rates will certainly adversely affect borrowers through increased debt settlement obligations.*
Removal of Administrative Limits on Foreign Currency Market	The central bank removed the daily limit of USD10,000 for Bureau De Change. It also abolished the 5.0% spread (2.5% margin) on foreign currency trades. *This move is meant to enhance, and increase opportunities for, foreign currency trading.*

<table>
<tr><th>POLICY AREA</th><th>HIGHLIGHTS & ANALYSIS</th></tr>
<tr><td>Disposal of Dual Listed Shares</td><td>The central bank put a vesting period of 90 days on disposal of dual listed shares. The move is meant to address speculative trading of dual listed shares, which was also supposedly distorting the foreign currency market through implied exchange rates. This policy change, together with the possibility of firming money market interest rates, may slow down activity in these counters, and on the stock market overall. However, the medium to long term still points to a favourable performance for the stock market – particularly in view of the projected inflation trajectory – which may perpetuate negative real returns on the money market.</td></tr>
<tr><td>Administration of Foreign Currency Accounts</td><td>The RBZ advised that the operation of Nostro FCAs remain in place for the purposes of receiving offshore funds and to facilitate foreign payments. In a significant policy shift, the central bank also announced the requirement that when holders of foreign currency in designated FCA accounts want to do local payments they have to liquidate their foreign currency account balances to the interbank market on a willing seller willing buyer basis. This effectively outlaws the previous situations whereby local payments where being done through local Nostro accounts. The move is meant to improve the availability of foreign currency on the interbank market. However, with local retailers indexing Zimbabwe dollar prices at substantially higher levels, it may still remain favourable for consumers with foreign currency to directly import their goods and services from neighbouring countries, until the domestic prices adjust to parity levels. Meanwhile, the indexing of prices at substantially higher expected replacement costs largely puts more pressure on the inflation outlook.</td></tr>
<tr><td>Retention thresholds</td><td>According to the central bank, the retention thresholds remain in place as follows:
<table>
<tr><th>Sector</th><th>Exporter Retention</th><th>Sale to RBZ</th></tr>
<tr><td>Manufacturing</td><td>80%</td><td>20%</td></tr>
<tr><td>Large and small scale gold producers</td><td>55%</td><td>45%</td></tr>
<tr><td>All other minerals</td><td>50%</td><td>50%</td></tr>
<tr><td>Tobacco and cotton merchants offshore loans for input schemes</td><td>100%</td><td>0%</td></tr>
<tr><td>Tobacco and cotton merchants offshore loans for purchase of crop</td><td>0%</td><td>100%</td></tr>
<tr><td>Agriculture, horticulture</td><td>80%</td><td>20%</td></tr>
<tr><td>Transport and services</td><td>80%</td><td>20%</td></tr>
</table></td></tr>
</table>

POLICY AREA	HIGHLIGHTS & ANALYSIS
	With the exception of small-scale gold producers, the retention period was also maintained at 30 days from date of receipt. The central bank also advised that it shall sell 50% of the export retention due to the RBZ to the interbank market, *in a bid to improve availability of foreign currency liquidity. However, this will also depend on the ability of the banks to raise the requisite RTGS$ funds or secure customers with the RTGS$ to purchase the foreign currency. The aforementioned shortages of foreign currency and critical inputs such as fuel and electricity dampens exports, and overall economic, prospects for 2019.*
Letters of Credit	The central bank has put in place letters of credit amounting to US$330 million for the purposes of importation of essential commodities. *However, there is a need to ensure that such arrangements result in long term positive impact and benefits on the economy, as most previous interventions have largely had short lived impact.*

Outlook

The markets are expected to experience volatility, in the short term, as consumers adjust to the new policy measures. The medium to long term prospects of the Zimbabwe dollar largely depend on the authorities' ability to (re)build confidence through stabilising the exchange rate, fostering policy predictability and consistency, stabilising prices and reducing the inflation rate.

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