

# NEWS FLASH : MID TERM BUDGET



Presented by the RBZ on 21 AUGUST 2020

DEAR CLIENT,

MONETARY POLICY MEASURES and ANALYSIS

Policy Measures Comment	Comment
<p><b>Liquidation of Domestic Forex Receipts</b></p> <ul style="list-style-type: none"> <li>• <b>With effect from 21 August 2020 and going forward, 20% of the foreign currency receipts of providers of goods and services shall be liquidated at the point of depositing in the Domestic FCAs.</b></li> <li>• <b>All existing balances in the Domestic FCAs will not be affected by this policy.</b></li> <li>• <b>Recipients of free funds including individuals, embassies, non- governmental organisations, tobacco and cotton producers and Domestic FCAs for fuel companies will also be excluded.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Liquidating 20% of these balances might see a reduction in banked FX</li> <li>• 20% of FX received through electronic means (swipe and transfers payments) will be liquidated and contribute to the foreign exchange auction.</li> <li>• Liberalisation of the use of free funds.</li> </ul>



<p><b>Foreign Currency Trading by Bureaux de change.</b></p> <ul style="list-style-type: none"> <li>• <b>Bureaux de change to be allowed to increase the exchange rate spread from the current 3.5% to up to 5.0% above the auction rate.</b></li> <li>• <b>The bureaux de change will be required to sell at the auction at their reserve price, 80% of their balances held every Monday.</b></li> </ul>	<p><b>Impact Analysis-</b></p> <ul style="list-style-type: none"> <li>• <i>The above measures should work towards increasing the foreign currency dealings on the local Auction system.</i></li> <li>• <i>Should have a positive effect on the growth of economic activity.</i></li> <li>• <i>Measures will enhance the value of the Zimbabwe dollar as a store of value and reduce demand for foreign currency thus enhancing current measures for stabilization of the exchange rate and to stabilise prices.</i></li> </ul>
<p><b>New Monetary Policy Supportive Measures</b></p> <ul style="list-style-type: none"> <li>• <b>Individuals to be allowed to make Person to Person transfers, Person to Merchant payments for goods and services and settlement of bills and purchase of airtime.</b></li> <li>• <b>With immediate effect Mobile money operators shall close all multiple wallets and allow just one wallet per individual.</b></li> <li>• <b>Retailers and other service providers will be permitted to continue operating merchant wallets to allow the public to pay for goods and services.</b></li> <li>• <b>Merchants shall not be allowed to make payments from their wallets. E-value held in merchant wallets shall be liquidated to the merchant's bank account.</b></li> <li>• <b>Agents of mobile money wallets abolished with effect from 21 August 2020.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Measures to manage and limit funds to be channeled for parallel market activities.</li> </ul> <p><b>IMPACT ANALYSIS</b></p> <ul style="list-style-type: none"> <li>• <i>Measures should result in the curtailment of speculative tendencies relating to the use of the mobile money platforms.</i></li> <li>• <i>Reduce impact of mobile money transactions so as to manage parallel market exchange rate to contain inflationary pressures in the economy.</i></li> </ul>

<p><b>Bank Policy Rate</b></p> <ul style="list-style-type: none"> <li>• <b>The Bank Policy Rate for overnight accommodation shall remain at 35% per annum, whilst the rate for the Medium-term Lending Facility shall be 25% per annum with immediate effect.</b></li> </ul>	<ul style="list-style-type: none"> <li>• The lower Bank Policy Rate to stabilize the local currency and increase borrowing, production, and increase export proceeds.</li> </ul>
<p><b>Management of Covid 19 allowances for Public Sector Employees</b></p> <ul style="list-style-type: none"> <li>• <b>The Bank is directing all banks to adhere to the requirements to open domestic FCA accounts to enable the public sector employees to access their US\$ allowances.</b></li> <li>• <b>Banks are directed to submit returns to the Bank by 31 August 2020 on their banking programme(s) that they have put in place to address the requirement for ease of access to COVID-19 allowance by the public sector employees.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Following the directive to banks to open domestic FCA accounts, there is likely to be increased traffic in banks.</li> </ul>

## **Conclusion**

The re-direction of the foreign currency demand pressure from the parallel market to the auction, coupled with improved foreign currency supply will assist in fostering price stability. The subsequent introduction of the auction system for SMEs, running concurrently with the main auction, will further support current efforts to improve the management of foreign exchange in the economy.

Please do not hesitate to contact us for further assistance on the above.

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