



PRESS STATEMENT

ON THE

CASH SITUATION

AND

STABILISATION MEASURES

BY

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1. INTRODUCTION AND BACKGROUND

1.1 The cash situation in the economy remains an area of policy priority to the Central Bank.

1.2 The rise in inflation, increases in salaries and the disruption in the smooth circulation of local currency by cash hoarders, parallel market dealers and other illegal traders, continue to conspire to create the cash shortages currently prevailing in the economy.

1.3 As Monetary Authorities, we recognise the plight of the majority of depositors and the general public as they seek to carry out their genuine day-to-day transactions.

1.4 In the same vein, however, the Central Bank would have failed to carry out its statutory

responsibilities if we ignored the destabilising effects of cash dealers and the negative forces that we unearthed during SUNRISE II.

1.5 As Monetary Authorities, we once again assure the Nation, that we are in full control of the currency situation in the Country, and it is never our intention, nor is it part of our philosophy, to cause unnecessary pain to fellow Zimbabweans.

1.6 In this regard, the Central Bank will continue to formulate and implement tangible solutions to the challenges that the financial sector is currently facing for the benefit and convenience of the public.

2 LESSONS DRAWN FROM SUNRISE II

2.1 Following the implementation of SUNRISE II, noticeable respite was breathed into the market,

as people accessed cash though others failed to do so ahead of the festive season.

2.2 SUNRISE II also richly enlightened us to better understand the following peculiarities characterising our financial system:

- (a). Our countrywide surveys indicate that high inflation and frequent salary adjustments tend to accelerate the demand for cash, as employees would want to immediately convert their earnings into cash to allow them to buy goods and services ahead of anticipated future price increases. The critical learning point we got on this is that, as Monetary Authorities, we need to continuously align cash withdrawal limits and currency denominations to anticipated changes in prices.

- (b). Through various under-hand schemes, supported by covert complicity by some banks, companies and some individuals were beating the set cash withdrawal limits by operating multitudes of accounts within same banks and across different institutions.
- (c). There is growing evidence suggesting that part of what we see as cash queues at banks is partly an indication of inflated demand for cash, as some depositors have developed a perpetual habit of withdrawing their entire savings, even if they have no immediate need for the cash.
- (d). Indiscipline, smuggling of minerals, corruption and speculation have become **endemic** in our economy and this is now disrupting the free circulation of cash in the economy.

- (e). Some of the big companies including wholesalers, retailers, fuel dealers, cellular network providers, newspaper houses and some bus operators have become the epicentres of economic destabilisation.
- (f). A number of these institutions are abusing their status as high-volume cash spinners to become notable parallel market players. It was surprising to note that some of these cash spinners were among the top cash withdrawers from banks.
- (g). The Central Bank also noted a steady erosion of ethical banking practices, where banks have observing and in some cases facilitating malpractices by their clients particularly through side banking arrangements.

2.3 Other causes of the cash shortages are:

- (a) Widespread informalisation of the economy.
- (b) Hyperinflationary pressures
- (c) Periodic rise in demands-school fees/elections.
- (d) Parallel market activities for forex, fuel, basic commodities and corruption/smuggling of minerals, fertilizers, etc.
- (e) Sub-economic national policies in the area of subsidies especially with regard to forex, fuel, grain and fertilizer purchases that are creating room for price-arbitrages which benefit only a few with access to such commodities.
- (f) Long judicial back-logs, weak prosecution and lenient sentences to offenders.
- (g) Sanctions and their impact on money printing facilities.

- (h) Low denominations relative to demand for cash and inflationary pressures.
- (i) Size of our budget.

2.4 Equipped with this critical information the Central Bank is working flat to correct the underlying structural mis-alignments in the financial sector, some of which had resulted in the inflated demand for currency that we are seeing today.

2.5 In order to deal decisively with the cash situation in the economy, the Central Bank is implementing the following interim relief measures.

3. NEW MEASURES

3.1 With effect from Friday, 18th January 2008, the Reserve Bank is releasing the following bearer cheque denominations into circulation:

\$1 million;

\$5 million; and

\$10 million

4 CASH WITHDRAWAL LIMITS

4.1 Further, to provide relief and convenience to the transacting public, daily cash withdrawal limits for individuals have been increased **from the current \$50 million to \$500 million per day.** This measure also takes effect from Friday, 18th January 2008.

4.2 The cash withdrawal limit for corporates, has also been increased to **\$500 million per day**, with effect from Friday, the 18th of January, 2008.

4.3 Corporate bodies are called upon to negotiate tailor-made banking arrangements for their employees so as to enable them to enjoy the increased cash withdrawal limit for individuals.

4.4 As Monetary Authorities, we have been, and shall remain alert to the special needs of our farmers, as well as some mining operations, which have genuine requirements for cash to pay for their employees who may not have direct access to banking facilities.

5 ANTIMONEY LAUNDERING LAWS

5.1 In terms of section 11 of the *Bank Use Promotion and Suppression of Money Laundering Act* [Chapter 24:24], businesses and traders are required to deposit their daily cash takings into the formal banking system by the next business day.

5.2 We also call upon all businesses and service providers to accept non-cash means of payment available in the economy as it is bad and an unfair business practice to insist on cash payments only.

5.3 Such practices may compel authorities to institute strict and deterrent measures.

5.4 In the same vein, we call upon fellow Zimbabweans to shun self-destructive practices such as cash hoarding, parallel market trading and other illegal activities which disrupt the flow of currency to and from the banking system.

6 EXPECTED IMPACT OF MEASURES

6.1 As Monetary Authorities, we are confident that the above interventions will eradicate the prevailing queues, freeing up people to concentrate on gainful productive activities.

6.2 Over the outlook period, greater focus will be placed on measures that will tackle the high inflation imbalance currently prevailing in the economy.

6.3 With low and stable inflation, the symptomatic problems of cash shortages, export underperformance and the general decline in the standards of living for the majority of our people will become a thing of the past.

6.4 It is against this background that the Reserve Bank will continue to make the clarion call for unity of purpose in increasing our overall national productivity levels as the lasting weapon against inflation.

7. FINANCIAL SECTOR CONFIDENCE AND CORPORATE GOVERNANCE

7.1 On a separate but related note which touches on the **credibility** or otherwise of the Bank, the last two weeks have witnessed sustained negative comments on the Central Bank's internal systems and corporate governance procedures.

7.2 A grossly serious misrepresentation of facts and reality on the ground; infact, the opposite of the truth has been made against the Reserve Bank by those who are infact supposed to represent it and project facts as they stand and nothing else.

7.3 The result of such shocking utterances and misrepresentations has been to shake the

confidence of the banking public, the industry and some of our key stakeholders who know us better.

7.4 It would be sub-judice, improper on our part and unprocedural for the Reserve Bank to comment further on matters that are before the courts, except to assure the Nation that when the whole truth, supported by appropriate due diligence, documentation and chronology of events is eventually revealed, **as revealed it will be**, the receding confidence of some stakeholders will be hoisted to unprecedented levels.

7.5 To this end, the financial sector is urged to uphold the highest forms of corporate governance standards for which we are well known as a Central Bank.

7.6 Whatever the Banks and us do, it must withstand inter-generational scrutiny, must withstand any investigation by any competent authority from any quarter, foe and friend, within and outside our borders. This is the commitment to which the Governor and his team wish to see and are happy to subject themselves at the Central Bank and in the entire financial Sector.

8. SPECIAL PROGRAMME FOR OUR UNIFORMED FORCES

8.1 Our experiences under Sunrise I and II has also vividly pointed to the need for special financial arrangements to be made to bring banking services closer to our Uniformed Forces, given

their contextual deployments, countrywide, as part of their National Duty.

8.2 To this end, I am pleased to report that in due course, a special programme will be unveiled to cater for the special needs of this critical sector.

9. NEED FOR HIGH LEVELS OF CORPORATE SOCIO-ECONOMIC RESPONSIBILITY

9.1 As Monetary Authorities, we wish to point out that whilst the introduction of higher denominations will solve the cash shortages, there may be the unintended consequence of rising temptations for Business to raise minimum prices on some commodities to the highest cash denomination.

9.2 When this happens, the whole objective of solving the cash shortages and to bring convenience to the people will be defeated.

9.3 Against this background, we call upon Business and all the other service providers in the economy to exercise greatest levels of corporate socio-economic responsibility and resist this unsustainable, and unjustifiable temptation.

10. TRANSMISSION OF ECONOMIC DATA

10.1 As Monetary Authorities, we would like to also take this opportunity to urge those whose responsibility it is to measure and publish economic data in our economy to timeously do so, particularly in the area of inflation data.

10.2 Under the current scenario, economic players are feeding their planning systems based on wild guesstimates that are way out of line with reality, further compounding the imbalances in the economy.

10.3 As a Nation, we should not shy away from genuine areas where our collective efforts should, and will sure address.

Thank You.

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