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Zimbabwe currency crisis continues

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Zimbabwe's continuing currency crisis appears to be once more deteriorating. While the distrust of the public is a problem for the "bond" coins and bank notes issued as an interim currency by the government, the Presidential Powers Act may be about to create yet another crisis.

According to the Amendment of the Reserve Bank of Zimbabwe Bond Notes of the Presidential Powers Act, the notes will expire after 180 days from their issuance unless they are confirmed by an Act of Parliament that has yet to come. This presumably applies to the coins as well.

Zimbabwe's bond coins and bank notes are theoretically pegged to the U.S. dollar and backed by a $200 million loan from the African Export-Import Bank, or Afreximbank. The Zimbabwe currency isn't being accepted for international transactions by anyone. The bank notes are accruing interest due to Afreximbank at some future date. Many merchants discount the bond coins and bank notes by 70 percent of their face value, if they accept them at all.

In November 2015, depositors could withdraw up to $10,000 US at banks or $3,000 from Automatic Teller Machines daily. Today, daily withdrawals are limited to a maximum of $100 per day or $300 a week, depending on the bank.

Initially, bond coins were issued in denominations of 1, 5, 10 and 25 cents on Dec. 18, 2014. A 50-cent coin followed in March 2015, with a ringed bimetal dollar bond coin and two low-denomination bank notes being introduced on Nov. 28, 2016. Only about $15 million (US) in value of the $50 million available to back them have been issued to date.

During February, Standard Chartered Bank, a leading bank in the country, canceled the use of its Visa debit cards outside Zimbabwe due to what the bank called "increasingly scarce foreign currency resources."

Zimbabwe nostro accounts are accounts held in foreign countries or foreign banks on behalf of local banks and are used to facilitate foreign exchange and trade transactions. The Feb. 8 issue of *News Day* quoted financial expert Persistence Gwanyanya as saying, "I think we are beginning to see a difference between real time gross settlement (RTGS) money and nostro accounts."

Gwanyanya believes the RTGS money is becoming, what he calls, the "new Zimbabwean dollar" since it is only used domestically.

The Feb. 7 *Zimbabwe Daily* newspaper reflected the concerns of the public, saying: “Due to the general lack of confidence in the surrogate currency, there is much fear that its value will crumble much in the same way as the Zimbabwe dollar tumbled against foreign currencies. Bond notes are not being kept for future transactions but used to transact immediately.”

You know it’s getting bad when the Zimbabwe government is paying gold miners five percent above the spot price of that metal in an effort to stop the metal from being smuggled out of the country.

Steve Hanke is a professor of applied economics at Johns Hopkins University and director of the Troubled Currencies Project for the Cato Institute. On Feb. 6 ,the Bloomberg news service quoted Hanke as saying, “Zimbabwe is no longer a pure dollarized system, but a mixed system, one that is bound to fail. More bond notes will only add fuel to the demand for hoarding of what is viewed as being the superior currency and store of value in Zimbabwe, the U.S. dollar. As the issuance of bond notes increases in response to the hoarding frenzy, the premium on dollar notes to bond notes will widen and so will the distortions in the economy.”

Other currencies now being circulating in Zimbabwe include the Australian dollar, Botswana pula, Chinese yuan, Japanese yen and South African rand.