# Zimbabwe Bond Notes and Their Possible Long-term Legacy

*Tinashe Nyamunda analyses the Reserve Bank of Zimbabwe's efforts to address the liquidity shortage in the country.*

Zimbabwe's export incentive scheme was introduced to encourage exports and address the liquidity crunch in the country. If, for example, tobacco exporters accept bond notes, they receive a five percent incentive in addition to their export earnings. But in a country with a serious shortage and rationing of foreign exchange, accepting bond notes whose value against the US dollar is uncertain in the immediate-to-long term is not really a choice. Barely a month after the initial introduction of the infamous bond notes under the so-called "export incentive scheme," the Reserve Bank of Zimbabwe (RBZ) has disbursed more bond notes currency into Zimbabwe's financial system. On 28 November 2016, the RBZ introduced $10 million, followed by a further $7 million and $12 million barely a month later, bringing the full amount in circulation to $29 million. Fully aware of predictions that the introduction of bond notes would result in hyperinflation, the RBZ has resorted to disbursing the pseudo currency on a "drip feed" basis. Contrary to earlier popular belief that bond notes would immediately trigger hyperinflation, their slow introduction has not even resolved the cash shortages. But does this translate to a proper management of currency emanating from fears of hyperinflation? What follows is my opinion on what bond notes have meant for the Zimbabwean economy in the first month of their introduction and their possible long term legacy.

Zimbabwe's new bond notes

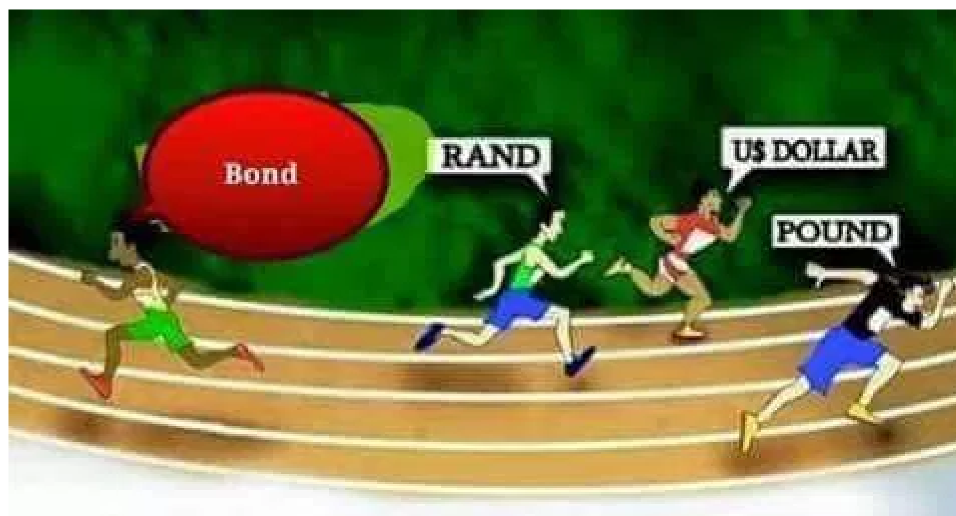
**The liquidity crunch and general forecasts on bond notes**

The introduction of bond notes of the equivalent of $29 million has done little to resolve the liquidity crunch facing the country. Given the withdrawal of foreign exchange by the RBZ, people have little option but to accept the limited bond notes dispersed, with a need for more of the proposed $75 million to be injected into the market. However, this is not a tacit approval of their introduction. Many believe that bond notes are the RBZ's way of mopping up US dollars from the market for use by the government since it cannot use them to pay for imports. This simply means that the "drip feed" basis of the RBZ is the reverse injection of bond notes to replace US dollars taken out. But this process still represents money creation; therefore some have begun calling the RBZ the "Reverse" Bank of Zimbabwe.

Media reports reveal how ZANU PF recently purchased over 365 double cab vehicles and buses from South Africa for its 2018 election campaign. In an economy starved of foreign currency, it is anyone's guess where the money came from. The state is using the RBZ to mop up foreign currency for its use while using the "drip-feed" bond note supply basis to delay the adverse effects of using the pseudo-currency. The recently-concluded ZANU PF conference is estimated to have cost around US$ 4 million with many supplies provided from South Africa. So, while the US dollar is mopped from people's bank accounts and disappears from ordinary transactions, how sustainable will the drip-feed system be? The $12 million worth of bond notes was released just in time to cover the salaries of the military and police while other civil servants such as teachers, less important or threatening to ZANU PF, will only get their money after Christmas.

**The Real Problem in the Zimbabwean Economy**

The above discussion of the unfolding cash crisis is only a mere glimpse into the deepening challenges that Zimbabwe continues to face. The cash crisis did not result from poor monetary policies but from very limited production for export in the crisis-burdened Zimbabwean economy. So these financial measures from the RBZ will not provide any solutions either. Even the incentive under statutory instrument 62 meant for Import Substitution Industrialisation (ISI) only brought limited benefits compared with the damage caused by Minister of Indigenisation's policy inconsistencies earlier in the year, for instance, leading to many company closures. Coupled with the legislation that made it easier for companies to retrench without many financial restrictions, there was a net job and investment loss in the Zimbabwean economy. In short, the problem was political as policy inconsistencies undermined and discouraged investment, leading to serious job losses in a country were ISI is difficult to stimulate because of severely constrained capacity and poor business environment.




Will the introduction of bond notes in Zimbabwe take the country in the wrong direction?

To stimulate the Zimbabwean economy, the answer lies, not in any fiscal or monetary interventions but a real shift in governmentality. This is impossible to achieve under a regime led by a nonagenarian whose main aim was to maintain power for the better part of his 36-year rule. It is easy to see why the real legacy of the bond notes is likely to be that of funding ZANU PF activities and elections by mopping up hard currency to fund import requirements as the economy plunges further. Whether or not they can sustain this and even crawl towards 2018, the potential effects of the injection of more bond notes under pressure to offset the liquidity shortages may eventually exceed the targeted $70 million and influence the political scene in unpredictable ways. In short, it appears that bond notes are much less of an "export incentive" for the economy but have immediately benefited ZANU PF by providing it with a monopoly over the foreign currency in circulation and that saved in people's bank accounts. The replacement bond notes have not offset cash shortages, but have simply worsened people's circumstances as they are forced to accept a currency they do not trust and whose value is uncertain. Bond notes increasingly appear as a hidden tax for ZANU PF's 2018 elections and an import facility for itself and its elites.

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**The views expressed in this post are those of the author and in no way reflect those of the Africa at LSE blog or the London School of Economics and Political Science.**

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