Zimbabwe to introduce Zimbabwe Bond Notes: reactions and perceptions of economic agents within the first seven days after the announcement

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By

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Abstract

The study analysed the reactions and perceptions of Zimbabwean economic agents following the announcement of the impending introduction of the Zimbabwe Bond Notes. The analysis was done through primary data collection in which a structured questionnaire was administered to 145 economic agents within the first seven days after the announcement. The following are the major findings: majority of the surveyed Zimbabwean economic agents, totalling 109 representing 75% of the sample said they were frightened by the announcement. A total of 95 respondents (which accounted for 66% of the total sample) indicated that the introduction of the Zimbabwe Bond Notes will negatively impact on their business operations and/or economic activities. To minimise the possible negative impacts of Zimbabwe Bond Notes on their economic activities, economic agents were going to (i) withdraw all the US dollars from their local (Zimbabwean) bank accounts, (ii) keep all their US dollars safely in their homes or even under the pillow and (iii) do nothing! Given free choice and without any coercion to choose between US dollars and the Zimbabwe Bond Notes as the medium of exchange, majority of respondents totally 136 (representing 94% of the sample) said they will prefer and demand US dollars, while only two respondents (representing 1% of the sample) said they will demand the Bond Notes. A total of seven respondents (representing 5% of the sample) said they will demand both US dollars and Zimbabwe Bond Notes. The major disadvantages of the introduction of Bond Notes into the economy includes (i) not convertible, (ii) discourages imports, (iii) discourages investments, (iv) inflationary, (v) erodes confidence in the financial system, (vi) promotes black (parallel) market in foreign currency. The introduction of the the Zimbabwe Bond Notes will have a negative and severe impact on the economic activities of Zimbabwe as represented by declines in exports, manufacturing activities, investment and deposit banking; and an increase in inflation. Majority of respondents amounting to 135 out of the 145 interviewees (representing 93% of the sample) said that if the authorities are determined to continue and implement the policy contrary to the views by the general business community and ordinary Zimbabwean citizens, then the best they can do is to inject the US$200 million into the economy as United States of America dollars (US$).

[1] The views expressed are solemnly of the author, and do not necessarily represent the views of University of Zimbabwe and its associated units!

Introduction

> *"People are rushing to the bank to withdraw whatever they can as the significant concern is that people's hard-earned savings which are currently hard currency-dominated may soon be changed into a denomination of soft currency"*
> *(Mr. Busisa Moyo, President of Confederation of Zimbabwean Industries (CZI), The Sunday Mail, 15 May 2016).*

The demand for money is derived from its key functions as a store of value, medium of exchange, unit of account and a means of deferred payment. As such, the demand for money is a question of how much economic agents are willing to hold their wealth in the form of real cash balances at point in time and what motivates them to do so. The discussion around money starts on the definition and motive of holding money. According to Friedman (1992), money is whatever or anything that "... is generally accepted in exchange for goods and services; accepted not as an object to be consumed but as an object that represents a temporary abode of purchasing power to be used for buying still other goods and services." In practice, the definition of money is derived from its key four functions. Firstly, money can be demanded by rationale economic agents due to the function it serves well as a medium of exchange. In this context, money is used as a means to purchase (buy) goods and services, and also in the business of selling goods and services. As a medium of exchange, money eliminates the need for double coincidence of wants and brings efficiency in the economic system. Secondly, money function as a store of value whereby it affords economic agents the opportunity to perform inter-temporal transfer of value from one period to another as it allows them to transfer purchasing power from one period to another. Thirdly, money functions as a unit of account as it provides a yardstick for measuring the relative worth of a wide variety of goods and services. Lastly, money functions as a means of deferred payments whereby it allows economic agents to by on credit.

Keynes (1936), one of respective economic scholars, argues that there are three motives why rational economic agents would want to hold money at any particular point in time. These three motives are (i) transactions motive, (ii) precautionary motive and (iii) speculative motive. The transaction motive emanates from the fact that payments and receipts are not synchronized, and as such people would want to always have cash with them as a means to provide convenience when transacting (planned transactions). The precautionary motive emanates from unforeseen uncertainty or eventualities which in most cases will require expenditure but at the same time happens when the time for receipts is in the distant future. As such, an economic agent need to always have cash to deal with these unavoidable expenditures which may be caused by either challenges that should be overcome, or opportunities to be taken advantage of. Lastly, the speculative motive emphasis the opportunity cost of holding money balances. According to this motive rationale economic agents will as much as possible put their money in interest bearing options such as a bank account if the interest rate in high or keep the cash for other speculative purpose.

In any economic situation, economic agents will prefer to have money so as to lubricate their economic activities, whether the demand for money will be backed by Friedman's theory or Keynes' propositions. Thus the issuance of any money or anything which will mimic the functions of money in any society will always draw the attention of the majority citizens of that society. The announcement of the impending Zimbabwe Bond Notes[2] by Reserve Bank

[2] Zimbabwe Bond Notes and Bond Notes will be interchangeably used!

of Zimbabwe (RBZ) on 4th May 2016 resulted in a lot of reactions and perceptions from various economic agents across the country, and some beyond the borders. This action research paper[3] provides an analysis of these reactions and perceptions.

Zimbabwe's money use in perspective

Prior to 1980 Zimbabwe used the Rhodesian dollar which was replaced by the Zimbabwe dollar (ZW$) in 1980. However, hyperinflation[4] eroded the value of the Zimbabwe currency. The country first breached the benchmark for hyperinflation in March 2007 when it rose above the 50% threshold (Brulliard, 2008). The last hyperinflation officially reported figure by the Zimbabwe National Statistics Agency[5] (ZimStat) was 231 million percent in July 2008. Despite this figure being high, leading Zimbabwe economists Tony Hawkins and Kanyenze disputed these figures and instead argued that inflation rate was higher than that official rate. However, Hanke (2008) contends that in November 2008, Zimbabwe's hyperinflation peaked at 89.7 sextillion percent. In an effort to reduce the high face value paper denominations, the Zimbabwe dollar was redenominated three times in a space of less than three years. This procedure of redenomination was also termed "cutting or slashing zeros" by the Reserve Bank of Zimbabwe (RBZ).

First redenomination[6] was done in August 2006 where Z$1, 000 was redenominated to one dollar and this introduced the second dollar (ZWN). The operation of slashing the first three zeros was termed 'Sunrise I' by the RBZ (Chagonda, 2010). New bank notes and coins were introduced and replaced the then prevailing Zimbabwean dollar. Hyperinflation continued to bedevil the economy and in 2007 it was above 20,000% per month (Reserve Bank of Zimbabwe, 2008a).

On 30 July 2008 the RBZ announced another redenomination of the Zimbabwean dollar. The RBZ slashed a further ten zeros in what they termed 'Sunrise II' (Chagonda, 2010). The second redenomination was effected from 1st August 2008, with ZW$10 billion worth ZW$1, (Chagonda, 2010). The new currency code was ZWR .The RBZ issued the new coins valued Z$5, Z$10 and Z$25 and banknotes valued Z$5, Z$10, Z$20, Z$100 and Z$500. Despite the efforts to redenominate the Zimbabwe dollar, inflation continued to surge in and the RBZ continuously printed higher value bank notes with ten zeros reappearing by end of 2008. By mid-November 2008 inflation had peaked to a monthly rate of 79.6 billion percent (Central Statistics Office, 2009). According to Hanke and Krus (2012) the hyperinflation in Zimbabwe is ranked the second highest after the 1946 hyperinflation in Hungary in the world history.

On 2nd February, 2009, the RBZ announced that 12 zeros were further slashed: Z$1,000,000,000,000 (third) Zimbabwean dollar was redenominated to one (fourth) dollar in an operation termed 'Sunrise III' by RBZ, (Chagonda, 2010). The RBZ introduced new bank

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[3] Action research is either research initiated to **solve** an immediate problem or a reflective process of progressive problem solving.

[4] The chapter adopted the definition of hyperinflation from Cagan (1956) who defines it as a price level rise of at least fifty percent per month. However, Hanke (2008) defines it as a situation where the year on year inflation exceeds the 12, 875 percent.

[5] Formerly, Central Statistical Office (CSO)

[6] Redenomination of the currency is when an old unit of the currency is replaced by a new unit and a fixed number of old units are converted to one new unit (MirHosseini and Rad, 2011)

notes with face values of Z$1, Z$5, Z$10, Z$20, Z$50, Z$100 and Z$500 and the currency code was ZWL. Thus, in total 25 zeroes had been slashed from the Zimbabwean currency within a period of three years.

Hyperinflation became unbearable and the highest single denomination that was printed was a 100 trillion dollar note. The note was printed in a bid to try to give people the required bills. According to Chagonda (2010), upon the introduction of this note on 16th January 2009, it was only worth thirty United States of America dollars (US$30) on the parallel market. However, the new bills could not solve some of the problems then which included the need to carry large batches of notes when going to conduct purchases in shops, but rather the bills presented challenges in trade and accounting due to the high volumes of money.

Despite all the efforts to redenominate the currency, the value of money continued to fall and Zimbabwean dollar continued to diminish. As a result of the continued downfall of the value of money, people refused to use the Zimbabwe dollar (Reserve Bank of Zimbabwe, 2013, Hanke, 2008, and Daily Telegragh, 2008). Brulliard (2008) added that those people who accepted the Zimbabwe dollar in exchange of goods and services were found revising their prices upwards on an hourly basis or even shorter than an hour. These price changes were an actual reflection of the black market exchange rate of Zimbabwe dollar with the U.S. dollar and other foreign currencies.

Adoption of the multicurrency system

Zimbabwe adopted a multicurrency system in January 2009 to curb rampant hyperinflation. This was done through a program of officially licensing retailers to accept foreign currency. In April 2009 the Zimbabwean dollar was abandoned after the legalization of foreign currency use by the Reserve Bank of Zimbabwe. The dollarization of the economy brought about benefits in terms of curbing the runaway inflation and bringing sanity into the monetary system. Following the introduction of multicurrency with an aim of counteracting the hyper inflationary pressures on the Zimbabwe dollar, shortage of change and overpricing were some of the new challenges introduced by the multicurrency system. This saw businesses rounding-off prices or giving consumers vouchers, sweets or cigarettes in place of change (Bankers Association of Zimbabwe, 2014). Thus, the multicurrency system has brought about new challenges and some of the major challenges were (1) shortage of small change in the form of coins, and (2) over-pricing (or mispricing) due to shortage of coins in the economy.

Due to these two challenges, the Reserve Bank of Zimbabwe (RBZ) introduced a special set of coins called bond coins in 2014. According to Bankers Association of Zimbabwe (BAZ), the primary goal of the introduction of the coins was to ensure the divisibility of money. The main intention was to avert challenges in change and mispricing of goods (Bankers Association of Zimbabwe, 2014). In order to ensure and satisfy one of the four functions of money as a means of exchange, the coins were hedged against the United States dollar thus bringing the United States cents with the bond coins equivalent. This was done as a means to buttress the confidence from the public's point of view with regards to the use of coins, given that the US currency commands the highest confidence among various economic agents in Zimbabwe. The bond coins stated circulating on 18th December 2014 with an initial unveiling of $10 million worth of coins in denominations of 1c, 5c, 10c, and 25c. According to the Reserve Bank of Zimbabwe (RBZ), the $10 million worth of coins were equivalent to two percent of total current bank deposits and these were expected to be maintained below ten percent. The 50c coins were released in March 2015. However, the circulation of these bond coins is limited to Zimbabwe because they are non-convertible internationally.

The RBZ stated that these coins are aimed at easing the small change problem and correcting the pricing mechanism wherein prices are rounded up to a dollar or result in consumers buying more goods in compensation for change (The Herald, 2014). The bank further commented that these bond coins will ultimately benefit consumers and retailers as well as eliminating the hassle that commuters go through in trying to break up a dollar to find change. This is because the shortage of smaller denominations in the economy had seen consumers over spending as they were given sweets, cigarettes, or vouchers in place of change. In addition, businesses have found themselves rounding off prices thereby distorting the pricing system. Similarly, the Bankers Association of Zimbabwe (2014) made an assurance to the public that the coins were issued purely for small denomination shortage in the economy which has resulted in inefficiencies and costly to consumer welfare.

Proposed introduction of the Zimbabwe Bond Notes

On the 4th of May 2016, the Reserve Bank of Zimbabwe (RBZ) issued a press statement (hence forth The Press Statement) entitled "Measures to deal with cash shortages whilst simultaneously stabilising and stimulating the economy". Presenting the statement of the cash shortages challenges as the background providing the rationale for the intention to introduce the Zimbabwe Bond Notes, the Press Statement allude to the fact that the shortage of the United States of America dollar (US$ or USD) cash in Zimbabwe as evidenced by queues at some banks and automated teller machines (ATMs) is attributable to a number of intertwined factors that include (The Press Statement: p. 2-3):

- **i.** The dysfunctional multi-currency system as a result of the strong USD. In the case of Zimbabwe, the USD has become to be more of a commodity, a safe haven currency or asset than a medium of exchange.
- **ii.** Low levels of use of plastic money and the real time gross settlement (RTGS) platforms. Zimbabwe is predominantly a cash economy.
- **iii.** Low levels of local production to meet consumer demand, leading to higher demand for foreign exchange to import consumer goods.
- **iv.** Low consumer and business confidence as reflected by high appetite by both consumers and business to keep cash outside the banking system.
- **v.** Inefficient distribution and utilization of scarce foreign exchange resources.

Furthermore, The Press Statement alludes to the fact that the strong US$ continues to make Zimbabwe to be:

- **i.** High cost producing country,
- **ii.** Very expensive tourist destination,
- **iii.** A fertile ground for capital flight and/or externalization, and
- **iv.** Dependent on the USD cash for almost all domestic translations. The USD has replaced all the other currencies in multi-currency basket, namely the Rand, Euro, the British Pound, Yuan, Pula, Australian Dollar, Indian Rupee and Japanese Yen.

In an effort to deal with the above challenges, the RBZ in its wisdom said it has "...established a USD200 million foreign exchange and export incentive facility which is supported by the African Export-Import Bank (Afreximbank) to provide cushion on the high demand for foreign exchange and to provide an incentive facility of 5% on all foreign exchange receipts, including tobacco and gold sale proceeds".

The Reserve Bank of Zimbabwe (RBZ) claims that to ensure that the facility is not abused, among others, through capital flight by those who externalize cash, the facility shall be granted to qualifying foreign exchange earners in bond coins and notes which shall continue to operate alongside the currencies within the multi-currency system and at par with the US$. "The Zimbabwe Bond Notes of denominations of $2, $5, $10 and $20 shall, therefore be introduced in future, as an extension of the current family of bond coins for ease of portability in view of the size of the USD200 million backed facility. The facility shall also be used to discount trade related paper in order to provide liquidity for business trading operations", (The Press Statement, p: 6). The RBZ latter made it clay with regards to the future and said that the Bond Notes will be in the market for public use from August 2016.

Although the measure is motivated by the need to provide 'export incentive', it is general knowledge that the measure will affect majority Zimbabweans. With a citizenry population of around 14 million compared to an estimated 150,000 exporters from Zimbabwe which amounts to around 1.1% of the population, the study argues that majority of Zimbabweans; the non-exporters (accounting for the remaining (99%) of the population) will be directly impacted upon by the same measure.

It is against the above background that this paper sought to evaluate the reactions and perceptions of economic agents within the first seven days after the announcement of the policy measure. Thus, although the author is very cognisant of the fact that a number of attempts and follow ups by both the RBZ and Minister of Finance and Economic Development were done after 11th May 2016 to try and explain more and demystify the forthcoming Zimbabwe Bond Notes, the author proceeded with the study based on the reactions and perception of the first seven days given that, by nature, majority rationale people and economic agents make far reaching decisions basing on what they have had (in whatever form of interpretation) the first time a policy measure is announced.

Literature review

Theoretical framework

The theoretical framework which fits in this study revolves around theories of money demand. In as much as the RBZ announced the introduction of the Zimbabwe Bond Notes in future, the majority of economic agents will be affected by their associated with the demand for money as they will demand money or Bond Notes because of their functions and/or because of the three motives as enumerated by Keynes (1936).

Among the famous theorists on money demand is Irving Fisher (1911) who developed the quantity theory of money and portrayed it with a simple mathematical representation given by MV=PY. Where M is the quantity of money (money supply), V is the velocity of money (that is, the average number of times in a given period (normally a year) that a given monetary unit (e.g., a given $10 note) changes hands across different economic agents), P is the price level and Y is the aggregate output. A rearrangement of the equation results in the final equation given by M^d=kPY which implies that money demand is solemnly determined by the level of transactions generated by the level of economic activities (PY) and the level of institutions in the economy that affect the way economic agents conduct business and thus V and k. According to this theory, interest rates do not affect demand for money.

The liquidity reference theory of money demand by Keynes (1936) emphasized the importance of interest rate in the determination of money demand. The author believed that economic agents hold money due to the three motives of transaction, precautionary and speculative. The major contribution by Keys (1936) was based on speculative motive. According to him, although the transactions and precautionary demand for money were considered to be a function of the current income, speculative holdings depended on the expected return from holding uncertain capital assets such as bonds, where the expected returns could be expressed as some function of the rate of interest on long-term bonds.
The views of Tobin (1958) are that rational economic agents will keep a portfolio of assets which consists of both bonds and money. The author argues that an investor is faced with problem of dividing his/her financial assets in the form of money (which earns zero interest) and interest bearing assets like bonds. Tobin employed indifference curve analysis to suggest that individuals will attempt to maximize utility and satisfaction from their asset-holding according to their relative tastes for risk and expected return on bonds. According to the theory, risk lovers are likely to hold all bonds, while majority of economic agents given that they are risk averse, will hold a diversified or balanced portfolio. In summary, besides income and interest rates, expected risk is also included as a key determinant of money demand under Tobin's portfolio balance approach.

Baumol (1952) and Tobin (1956) individually and separately came to the same conclusion that transaction demand for moeny is also dependent on the interest rate. Their analysis starts with a hypothetical individual who receives income at the beginning of a period (e.g., 1st day of the month) and incurs expenditures throughout the period (i.e., 1st day of the month upto 30th/31st of the same month). On the 1st day of the following month, the individual will again receive income and the situation is repeated. Each conversion (that is buying or selling bonds) necessarily involves transaction costs such as brokerage fees for mediating the sale, loss of time expressed in money and also loss of income which other alternatives assets bear. Converting bonds into cash less frequently means more less transactions costs but high opportunity costs due to the fact that money will not be bearing interests, but sitting idle under the pillow. Conversely, a decision to hold less cash implies frequent conversions from bonds to cash, and as such more transactions costs. With the above two scenarios, a rational individual will choose an amount of money that minimises total costs which are composed of the sum of transaction costs (costs of conversion) and opportunity costs (loss of alternative income). Thus, the amount of reserve money depends not only on income but also on the interest rate which influences the level of opportunity costs.

Milton Friedman's (1956) modern version of the quantity theory of money considers the quantity theory of money as the demand for money in a generalized asset portfolio framework, with economic agents aiming to maximize utility or satisfaction. According to him, money demand is determined by same factors that influence the demand for any other asset. The author went on to employ the theory of asset demand which shows that the demand for money should be a function of the resources available to economic agents (their wealth) and the expected return on other assets relative to the expected return on money. The author did not assume the return on money to be zero but instead he assumed that it depends on checkable deposits, among other factors.

Empirical review

There is scanty of empirical research on the exact area understudy given that it is a rare situation to ever happen in many (if any) economic societies. Thus, the only previous study which is closer to the current research in that it looked at Bond Coins which fall in the same family as Bond Notes is the one by Makochekanwa and Chimhete (forthcoming), while the rest of the studies reviewed concentrated more on the demand for actual money. The study by Makochekanwa and Chimhete (forthcoming) investigated the effectiveness of bond coins as a solution to change shortage, and mispricing challenges faced by businesses and the transacting public in Zimbabwe. The study employed a questionnaire approach in which they interviewed 150 economic agents. The analysis found a significant positive relationship between bond coin adoption and change problem alleviation. The authors concluded that the bond coins were successful in addressing challenges of small change in Zimbabwe. However, the analysis found an insignificant relationship between small change alleviation and overpricing. This shows that bond coins have not been successful in addressing overpricing in Zimbabwe. With regards to the extent of bond coins adoption by businesses and the transacting public in Harare CBD, the paper established that the uptake of bond coins by businesses and the transacting public have been successful to a larger extent with evidence from customers from Harare's CBD supermarkets. Specifically, evidence from the research established that 80% of the respondents preferred bond coins to rand coins, with 86.67% of the respondents preferring bond coins to vouchers. The research further established that 86% of the research participants preferred bond coins to gifts while 98.67% of the respondents confirmed that small businesses accepted bond coins and 98% of respondents further confirmed that they can transact with bond coins with large businesses. The paper concluded that the introduction of bond coins in Zimbabwe successfully solved the problem of small change though the same introduction of bond coins failed to solved the problem of over-pricing.

In a research by Makochekanwa (2007), the author investigated the demand for money for Zimbabwe during the hyperinflation period. The research employed monthly data for the period covering February 1999 to December 2006. The paper found that both interest rate and rate of change in prices were relevant variables for explaining the variations in the demand for real cash balances in Zimbabwe during the period studied.

The paper by Munoz (2006) investigated the demand for money in Zimbabwe using monthly data for the period 1998:1 – 2004:12. The author employed time series econometrics in which broad money (M3), domestic consumer price index (CPI), real gross domestic product (GDP), the 3-month deposit interest rate and the parallel (black) market foreign exchange rate were the major explanatory variables. The study found a stable money demand function which exhibited a long run income elasticity of around 0.5 in line with Baumol-Tobin expectations.

Nyawata (2001) employed time series data analysis in the form of error correction model to investigate the determinants of demand for money in Zimbabwe, and at the same time analyses the extent to which the process of financial liberalization might have caused instability in monetary aggregates. The author estimated money demand functions for both narrow money (M1) and broad money (M2) for the period covering 1975 to 1998. The study found that money demand remained stable even after a regime shift which was represented by a shift from financial repression to financial liberalization under the Economic Structural Adjustment Programme (ESAP) economic reform of 1991 to 1995.

Methodology

To achieve the stated aim, the research collected primary data from 145 respondents who were randomly through emails and face-to-face interviews. Majority of respondents were from areas surrounding Harare (mainly the central business district (CBD) and the small and medium enterprise (SME) hub of Siyaso (in Mbare area of Harare) to fill in questionnaires. The data collection was done during the seven days covering 5th to 11th May 2016. Structured questionnaires were used to gather information from the respondents. A total of 100 questionnaires were administered through face-to-face interviews while 50 questionnaires were distributed and completed electronically through email. The use of structured questionnaires was necessary as the researcher wanted to obtain as much comparable and objective information regarding respondents' reactions and perceptions as possible. This also ensured the data collected was specific and precise. Data was then analysed by means of simple excel spreadsheets.

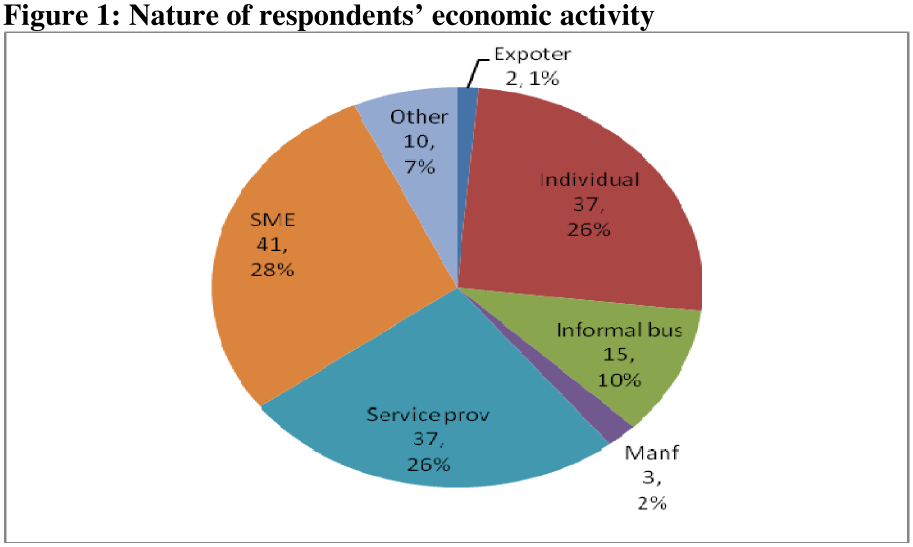
Findings

This section provides the major findings of the study as analysed from the responses which were provided by the interviewed economic agents. The findings provide summarized views, reactions and perceptions of the majority stakeholders, thus ensuring anonymity of the respondents' names or particulars.

Nature of respondents' economic activities

With regards to characteristics of the respondents, the response rate was 100% given that all (145) interviewed respondents managed to provide answers which were usable for the analysis. According to the survey results depicted in Figure 1, 28% (41 out of 145) of the respondents were small to medium enterprises (SMEs). Individual consumers and service providers were the two economic agent groups with the second highest respondents where each had a frequency of 37 respondents accounting for 26% (each) of the total sample. Respondents from informal business were 15 and accounted for 10% of the total surveyed sample.

Figure 1: Nature of respondents' economic activity

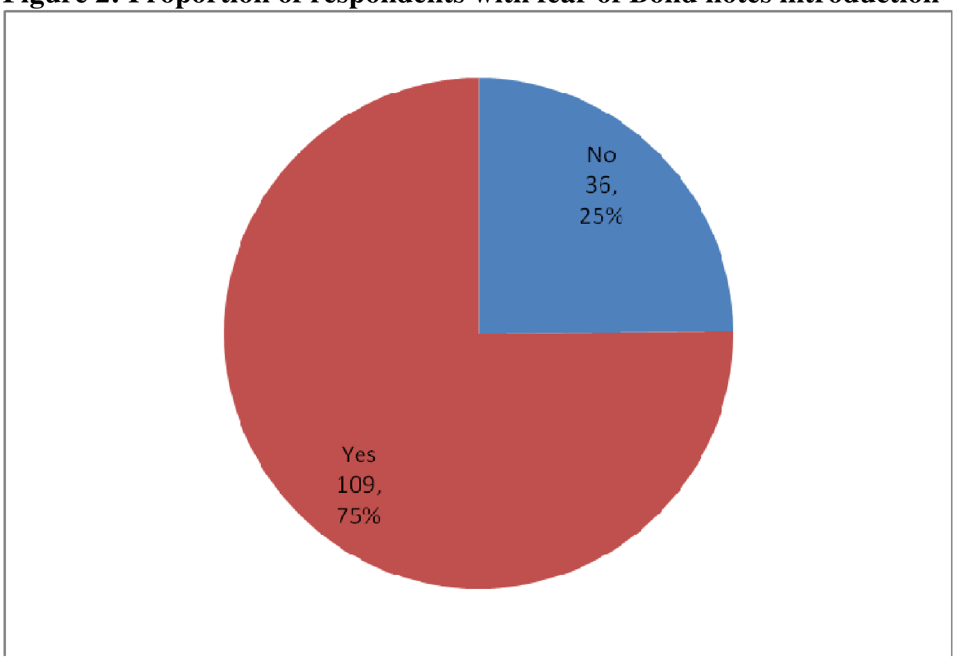


Source: Survey results

Impact of the Zimbabwe Bond Notes announcement

Respondents were asked whether the announcement of the introduction of the Zimbabwe Bond Note brought fear or panic to them or their institutions. As shown in Figure 2, majority of the surveyed Zimbabwean economic agents, totalling 109 and representing 75% of the sample said they were frightened by the announcement. The fear and panic was due to the fact that most of the people were not expecting such a move given the relatively stable banking stability and confidence which characterised the multi-currency (US dollar) regime. One-quarter of the sampled respondents however indicated that they were not at all frightened by the Reserve Bank of Zimbabwe's (RBZ) intention to introduce the Bond Note. The major reasons for the panic and fear are discussed in the next sub-section.

Figure 2: Proportion of respondents with fear of Bond notes introduction

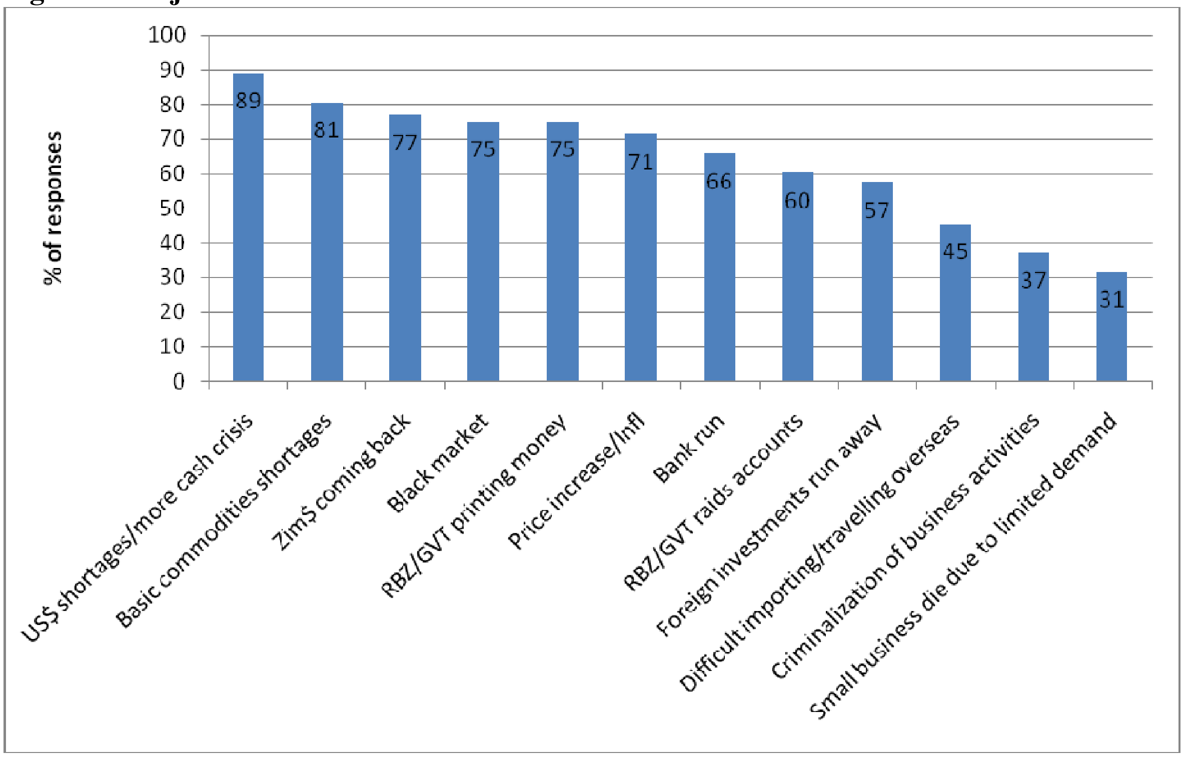


Source: Survey results

Major reasons for fear and panic of Bond Note introduction

The major reasons enumerated by majority of sampled respondents which brought fear into their minds are presented in Figure 3. Topping the list of the major reasons for fear is the fact that majority of responses (89%) feared that the announcement is likely to result in more cash crisis and that there will be severe shortage of the US dollar on the local market. Given that most commodities, both consumables and durables currently being sold on the Zimbabwean market are imported from South Africa and other countries, 81% of responses feared that the announcement will result in acute shortage of these commodities as importers of such goods will find it difficult to import them due to shortage of US dollars on the local market. The third reason which conjured fear in the minds of economic agents was the belief that the announcement was simply a diplomatic way of bring back the Zimbabwe dollar (Zim$) through the back door. Associated with the Zim$ was the memories of the 2008 meltdown which was characterised by severe shortages of cash (both local currency and foreign currency), empty shelves in all supermarkets and bourgeoning foreign currency black (parallel) market, among others. All these problems brought stress and depression to the majority of Zimbabweans, and as such, any policy (like the announcement of Zimbabwe Bond Notes) which hints the return of this 2008 Armageddon brings even much fear to the general populace.

Figure 3: Major reasons for fear[7]



Source: Survey results
Key: GVT = government; Zim$ = Zimbabwean dollar.

Growth of and pervasiveness of foreign exchange black market, as well as the belief (perception) that the Reserve Bank of Zimbabwe (RBZ) (or government) was going to start printing money were two reasons which brought fear to 75% of the responses. Although it is common knowledge that black market for foreign currency continues to exist in Zimbabwe (for instance, common places for such activities in Harare as noted by Makochekanwa (2007) includes Roadport, The Gulf, and Eastgate, among others), respondents feared that this market will grow and flourish, and that the US dollar will become extinct within formal banks, but readily available on this market, but at very high rates. At the same time some respondent's feared that this announcement was just a diplomatic and tactful way for the Reserve Bank of Zimbabwe (RBZ) (or government) to get indirect support for it to start running the money printing machine at its Fidelity printing house, which is assumed to have been rusting since March 2009 given that the country has not been printing any note.

Other reasons include the fear of bank run (66% of responses) where depositors go in large numbers and withdraw all their money from their respective bank accounts, thereby bring chaos in the banking sector such as long queues and cash shortages. On the other hand, some

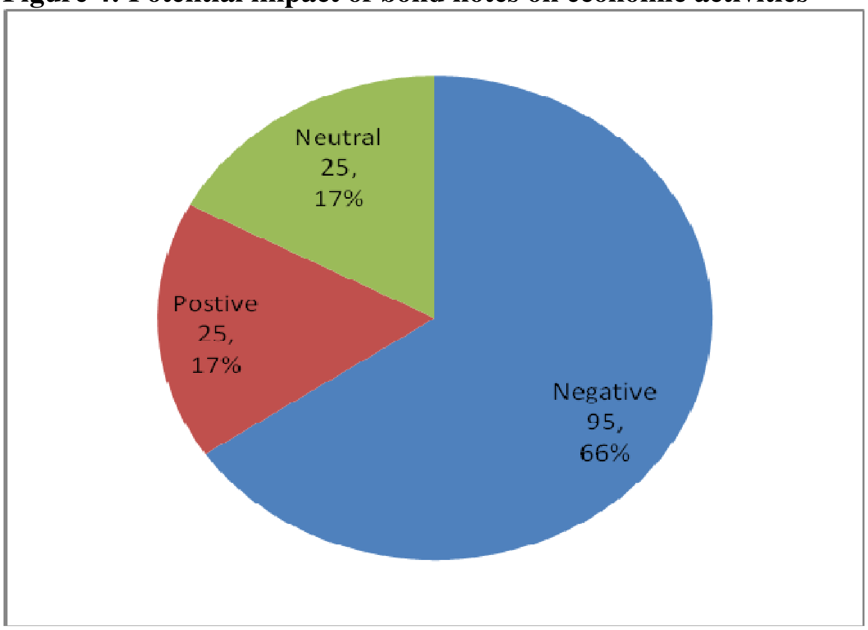
[7] The respondents were allowed to enumerate as many responses as possible, as such; the graph represents percentage of responses, and not respondents, and as such, the sum of the responses presented by percentages on the bar graphs exceeds 100%.

companies including SMEs, and sole traders (representing 60% of responses) feared that RBZ was going to raid their accounts, take their hard earned US dollars, and forcibly and involuntarily replace the money with Bond Notes. 57% of responses feared that the announcement will chase away existing and potential foreign investors as the operating environment becomes unbearable when compared to other regional countries with better operating environment.

Potential impact of Zimbabwe Bond Notes of economic activities

The responses with regards to the potential impact of Zimbabwe Bond Notes on business operations and economic activities are presented in Figure 4. A total of 95 respondents (which accounted for 66% of the total sample) indicated that the introduction of the Bond Notes will negatively impact on their business operations and/or economic activities. This clearly shows the Note is likely to bring detrimental effect to the economic activities in Zimbabwe despite assurance from RBZ that it will be a positive stimulus to, firstly, exports, and then through multiplier effect, secondly, to the rest of the economy.

Figure 4: Potential impact of bond notes on economic activities



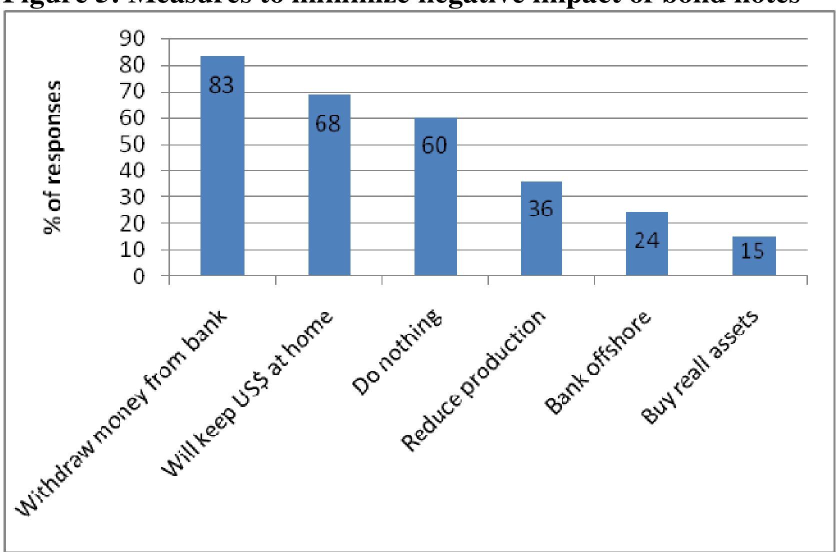
Source: Survey results

A quarter of respondents representing 17% of the sample (or 25 respondents) were neutral with regards to the impact of the introduction of the Bond Notes while the same number of respondents said the Bond will positively impact on their business operations and economic activities. Overall, the above responses shows that the introduction of Zimbabwe Bond Notes is likely to negatively affect economic activities and business operations in the country, thus requiring the authorities to re-think on this intended monetary policy action. One clear alternative option to Zimbabwe Bond Notes introduction which was suggested by majority of respondents is to just bring the US$200 million in hard currency and not Bond Notes!

Measures to minimize negative impact of bond notes

Given that the majority of respondents (66%) indicated that the introduction of the bond will negatively impact on their business operations and economics activities, a follow up question was asked with regards to what these economic agents were going to do to minimise these possible negative impacts. The various mitigating measures which the respondents indicated are depicted in Figure 5. Majority of respondents to this question (83%) said they were going to withdraw all the US dollars from their local (Zimbabwean) bank accounts. This measure, according to them was the best they could do given the various reasons for the fear alluded to above. Another segment of the respondents (68%) said they were going to keep all their US dollars (after they have withdrawn them from the bank or after cash sales etc) safely in their homes or even under the pillow. Surprising, 60% of the responses shows that some economic agents were not sure of what to do and as such, they said they were going to do nothing!

Figure 5: Measures to minimize negative impact of bond notes[8]



Source: Survey results

For those in production activities, 36% of responses indicated that they were going to reduce their production activities, while 24% of responses said they were going to circumvent the introduction of Zimbabwe Bond Notes by intensifying offshore banking. In summary, the above measures are all likely to be detrimental to the economy of Zimbabwe, and authorities (RBZ or government) need to plan accordingly.

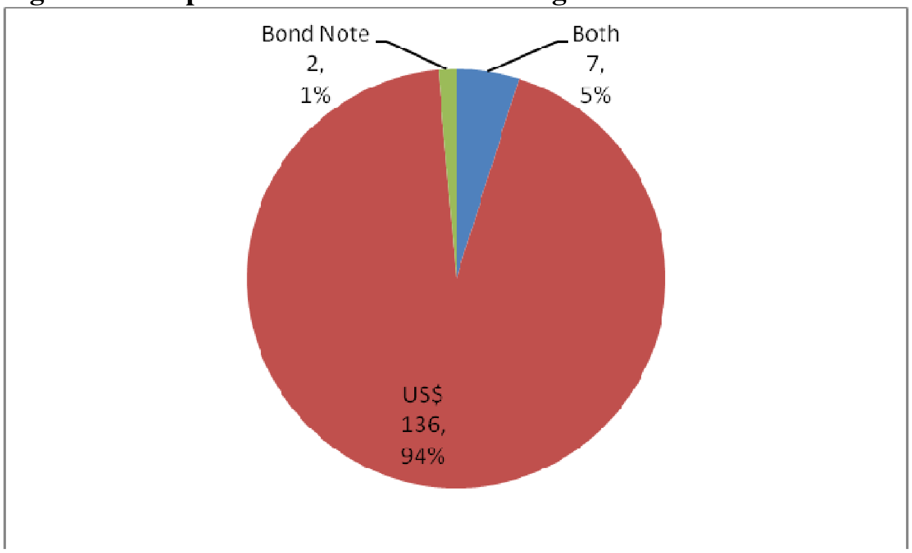
The medium of exchange to be demanded

The study of principles of macroeconomics says that economic agents demand money because of its function, among others as a medium of exchange. Thus, respondents were asked to indicate their preferred medium of exchange once faced with either US dollar or the Zimbabwe Bond Notes. Figure 6 provides the responses to the question. Clearly, majority of

[8] The respondents were allowed to enumerate as many responses as possible, as such; the graph represents percentage of responses, and not respondents, and as such, the sum of the responses presented by percentages on the bar graphs exceeds 100%.

respondents totalling 136 representing 94% of the sample said they will prefer and demand US dollars, while only two respondents (representing 1%) of the sample said they will demand the Bond Notes. A total of seven (representing 5% of respondents) said they will demand both US dollars and Bond Notes. Overall, the survey found that the majority of people in Zimbabwe will, if given a choice and not coerced, prefer and demand US dollars as their medium of exchange, and not the Bond Notes.

Figure 6: The preferred medium of exchange to be demanded



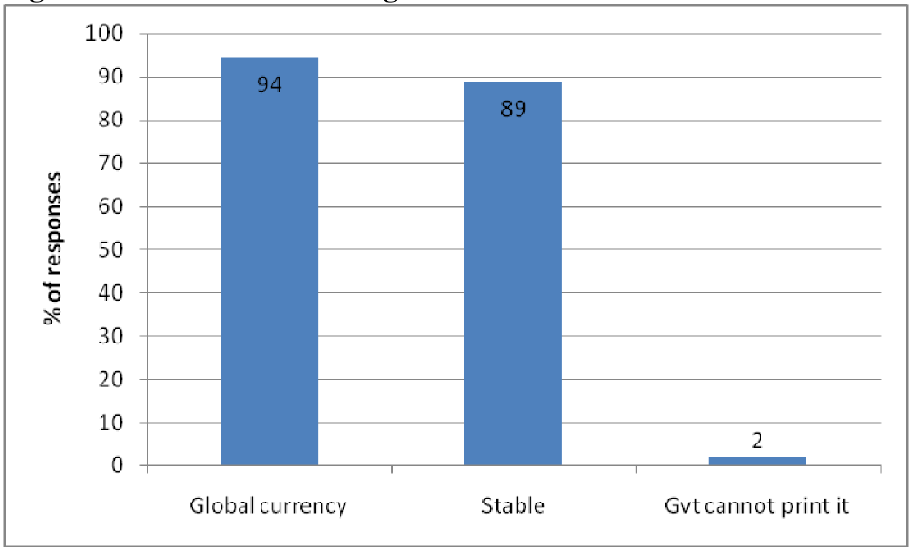
Source: Survey results

Reasons for choosing US dollars when compared to Bond Notes

Surveyed economic agents were asked some of the major reasons for their preference of the US dollar as their medium of exchange when compared to Zimbabwe Bond Notes (once they are introduced) and Figure 7 provides some of the reasons.

There were three major reasons which were enumerated by respondents. First, majority of responses (94%) said they preferred US dollar simply because it is currently the major international currency used in any global transaction. This ability to use the US dollar to transact across virtually all countries was a unique feature and characteristic which is only peculiar to the American dollar when compared not only to Bond Notes but also to all currencies under the face of the sun as of May 2016. In contrast, the Zimbabwe Bond Note will only be used in Zimbabwe! The second major reason pointed by 89% of the response was that the US dollar was considered as the most stable currency in the sense that it does not change its value (appreciate or depreciate) significantly over time.

Figure 7: Reasons for choosing US dollars instead of Bond Notes[9]

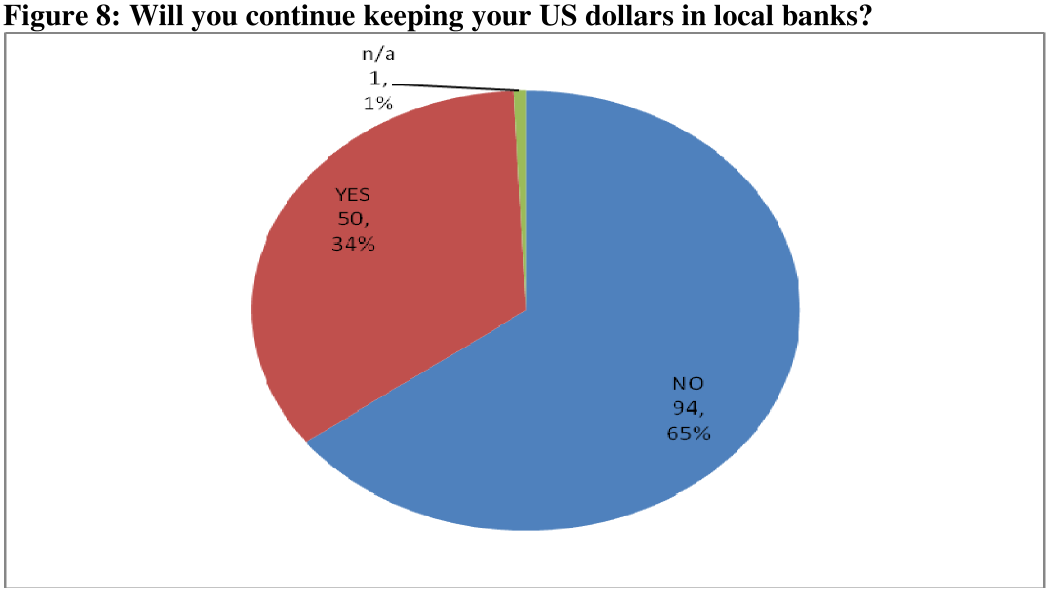


Source: Survey results

Extent to which economic agents will continue keeping US dollars in local banks

Respondents were asked whether they were going to continue keeping their US dollars in their respective Zimbabwe local bank accounts. Figure 8 shows that majority of respondents, 94 out of the sample 145 (or 65%) said no to the question, while 34% said yes to the question. Overall, this result indicates that the introduction of Bond Note will negatively affect banking culture of Zimbabweans as majority of them will not be banking their US dollars in any formal bank within Zimbabwe.

Figure 8: Will you continue keeping your US dollars in local banks?



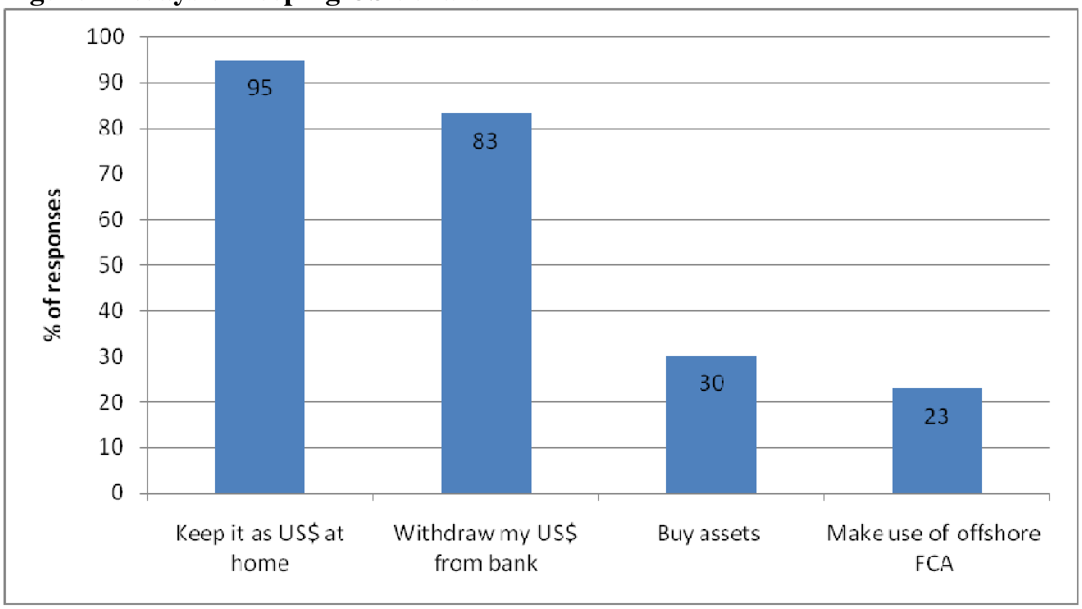
Source: Survey results

[9] The respondents were allowed to enumerate as many responses as possible, as such; the graph represents percentage of responses, and not respondents, and as such, the sum of the responses presented by percentages on the bar graphs exceeds 100%.

What economic agents will do with their US dollars which are not banked?

With the results from the above sub-section showing that the majority of respondents were not going to bank their US dollars for safe keeping or speculative purpose in formal local banks, a follow up question was asked as to what they will do with their US dollars or where they were going to keep them once the money is in their local bank accounts or once they have received cash from the various sources. From Figure 9, 95% of the responses said they will keep the money safely at their homes while 83% o responses said once the US dollars are deposited into their account, whether as salaries, exports receipts etc, they will immediately withdraw the money from the bank. Some respondents said they will safely keep the US dollars by converting them into assets while other said they will bank the US dollars in their foreign currency accounts (FCAs) outside Zimbabwe. The overall picture is that, Zimbabwe Bond Notes (the bad money) will chase away the US dollar (the good money) from the formal banking system in Zimbabwe.

Figure 9: Ways of keeping US dollars[10]



Source: Survey results

Possible advantages and disadvantages of Bond Notes to economic activities

Table 1 shows the various responses from the interviewed stakeholders with regards to the potential advantages and disadvantages of Zimbabwe Bond Notes on business operations and economic activities in Zimbabwe. Out of a total of the 145 sample, 82 respondents managed to answer the question and enumerated a number of possible advantages. Majority of the respondents (91% of the 82 economic agents who answered the question) said that Bond Notes will ease the current cash shortages which the country has experienced since April 2016. On the other hand, 20% of the respondents said the Bond Notes will have the

[10] The respondents were allowed to enumerate as many responses as possible, as such; the graph represents percentage of responses, and not respondents, and as such, the sum of the responses presented by percentages on the bar graphs exceeds 100%.

advantage of that they will improve business transactions, while 4% said the Notes cannot be externalized.

Table 1: Advantages and disadvantages of Bond Notes to economic activities

Advantages	**Freq**	**% of respondents**	**Disadvantages**	**Freq**	**% of respondents**
Eases cash shortages	75	91	Not convertible/international	75	57
Gvt can print own money	1	1	Discourage investors	16	12
Encourages use of plastic money	1	1	Discourages imports	45	34
Cannot be externalized	3	4	Erodes confidence in financial system	25	19
Improve bus' transactions	16	20	Inflation	37	28
			Promotes black market	21	16
Total	**82**	**100**	**Total**	**132**	**100**

Source: Survey results

Key: Freq=frequency; Gvt = government; bus'=business

On the disadvantages side, 132 out of the 145 sample respondents answered the question. 57% of interviewees from this group said that the major disadvantage of Zimbabwe Bond Note is that it will not be convertible and as such it will not be of use when it comes to international transactions. Related to the inconvertibility of the Bond Note, 34% of respondents said the other disadvantage will be that the Note will not be used for importation. This to them, becomes a major huddle given that Zimbabwe heavily depends on imports to satisfy the local demand for a plethora of both goods (e.g., fuel, medicine, machinery etc) and services (e.g., electricity). One of the fears which gripped some economic agents following the announcement of the coming of the Bond Notes was that the Reserve Bank of Zimbabwe (RBZ) (or government) is likely to start printing money. This envisioned printing of money was in turn construed by 28% of respondents to unavoidably result in inflation within the economy, and hence a serious disadvantage. The other disadvantages include banking sector confidence erosion and discouragement of investment in Zimbabwe by both domestic and foreign investors.

Potential impact of bond notes introduction on economic variables

Respondents were asked to indicate their views with regards to the potential impact of the introduction o Zimbabwe Bond Notes on five economic variables and/or activities namely (i) exports, (ii) manufacturing activities, (iii) inflation), (iv) investment, and (v) bank deposits. Table 2 provides the views of the respondents. Majority of respondents (73%) indicated that the introduction of Bond Notes will have a negative impact on exports results in decline in exportation; while 81% of interviewed economic agents said the same Bond Notes will cause manufacturing activities decline. Most economic agents (87% of the sample) foresee a decline in investment activities following the introduction of the Bond Notes while an equally high number of respondents (80%) envision a decline in deposit banking activities due to the same Bond Note introduction. With regards to inflation, 86% of respondents forecast an increase in inflation as a result of Bond Notes introduction.

Table 2: Percentage responses on potential impact of Bond Notes on economic variables

Impact	Exports	Manufacturing	Inflation	Investment	Banking (Deposits)
Decrease	73	81	12	87	80
Increase	24	17	86	12	20
No change	0.7	0.7	2.2	0.0	0.0
Don't know	0.7	0.7	0.0	0.0	0.0
NA	0.7	0.7	0.7	0.7	0.7
Total	**100**	**100**	**100**	**100**	**100**

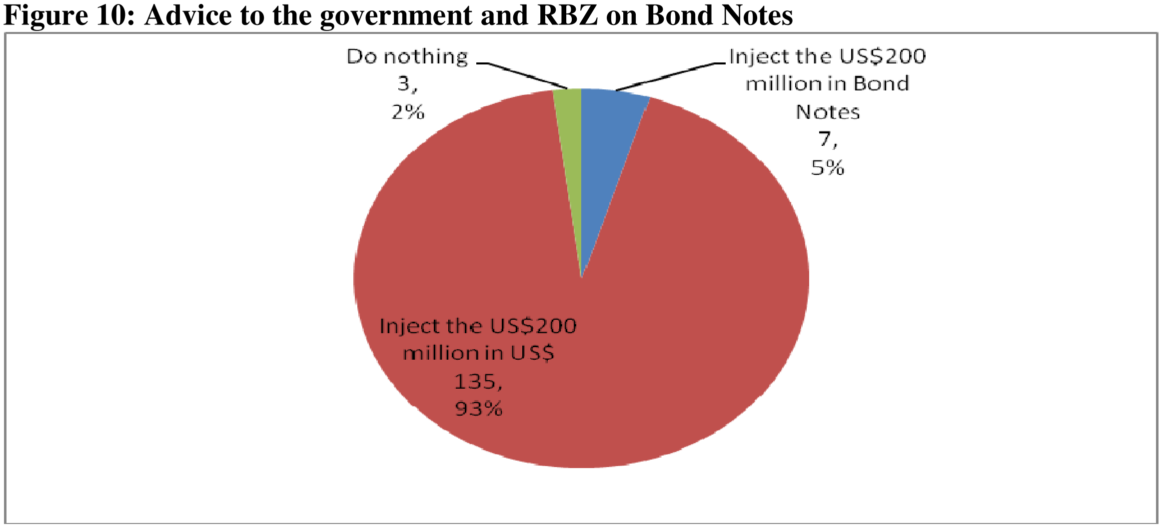
Source: Survey results

The overall picture emerging from Table 2 is that the introduction of Zimbabwe Bond Notes will have a negative and severe impact on the economic activities of Zimbabwe as represented by declines in exports, manufacturing activities, investment and deposit banking, and an increase in inflation. These forecasted negative impacts require the relevant authorities, i.e., the government and/or Reserve Bank of Zimbabwe (RBZ) to reconsider this impending monetary policy measure.

Advice to the Reserve Bank of Zimbabwe (RBZ)/government on Zimbabwe Bond Notes

Given that economic agents have a right to also contribute to national policies which affect their wellbeing; respondents were asked to provide advice to RBZ (or government) with regards to the announcement of the forthcoming Zimbabwe Bond Notes. Figure 10 provides the responses. Majority of respondents amounting to 135 out of the 145 interviewees (representing 93% of the sample) said that if the authorities are determined to continue and implement the policy contrary to the views by the general business community and ordinary Zimbabwean citizens, then the best they can do is to inject the US$200 million into the economy as United States of America dollars (US$). This route, according to the respondents will be the second best option as it wills easy the current cash shortages facing the country, though temporarily in the short run. The long run solution to the cash shortage will be determined by serious resumption of production and manufacturing activities, and accompanying increase in exports.

Figure 10: Advice to the government and RBZ on Bond Notes



Source: Survey results

Seven respondents (representing 5% of the sample) said that the RBZ/government should introduce the US$200 million in Bond Notes; three respondents (2%) advised the RBZ/government to do nothing, that is, maintain the status quo! In summary, the clear advice for the RBZ/government from the stakeholders interviewed is that the best option the authorities can do is to inject the US$200 million into the economy as United States of America dollars (US$).

Conclusions and policy recommendations

Conclusions

The study analysed the reactions and perceptions of Zimbabwean economic agents following the announcement of the impending introduction Zimbabwe Bond Notes. The analysis was done through primary data collection in which a structured questionnaire was administered to 145 economic agents within the first seven days after the announcement. According to the survey, 28% (41 out of 145) of the respondents were small to medium enterprises (SMEs), while individual consumers, and service providers were the two economic agent groups with the second highest respondents where each had a frequency of 37 respondents accounting for 26% (each) of the total sample. Respondents from informal business were 15 and accounted for 10% of the total surveyed sample. The following are the major findings:

i. Majority of the surveyed Zimbabwean economic agents, totalling 109 representing 75% of the sample, said they were frightened by the announcement.

ii. The Major reasons for the fear and panic of Zimbabwe Bond Notes introduction includes the perception that there will be: (i) acute shortage of the US dollar (more cash crisis), (ii) shortages of basic commodities, (iii) the coming back of Zimbabwean dollar through the back door, (iv) growth of black (parallel) market for foreign currency, (vi) money printing by RBZ/government, (vii) inflation, (viii) bank run, (ix) raiding of company (individual) accounts by RBZ/government, and (x) shunning of Zimbabwe by foreign investors, among others.

iii. A total of 95 respondents (which accounted for 66% of the total sample) indicated that the introduction of Zimbabwe Bond Notes will negatively impact on their business operations and/or economic activities.

iv. To minimise the possible negative impacts of Zimbabwe Bond Notes on their economic activities, economic agents were going to (i) withdraw all the US dollars from their local (Zimbabwean) bank accounts, (ii) keep all their US dollars (after they have withdrawn them from the bank or after cash sales etc) safely in their homes or even under the pillow and (iii) do nothing!

v. Given free choice and without any coercion to choose between US dollars and Zimbabwe Bond Notes as the medium of exchange, majority of respondents totalling 136 and representing 94% of the sample said they will prefer and demand US dollars, while only two respondents (representing 1% of the sample) said they will demand the Bond Notes. A total of seven (representing 5% of respondents) said they will demand both US dollars and Bond Notes.

vi. There were three major reasons which were enumerated by respondents for their preference of US dollars over Zimbabwe Bond Notes. The respondents said that the US dollar is: (i) the major international currency used in any global transaction, (ii) stable and one can budget even for the long term.

vii. 94 out of the sample 145 (or 65%) said they were not going to continue keeping the US dollar in local banks, while 34% said they will continue banking in local banks.

viii. The respondents who said they were not going to keep their money in local banks, they said they will (i) immediately withdraw the money from the bank, (ii) keep the money safely at their homes, (iii) buy real assets like houses (iv) bank the US dollars in their foreign currency accounts (FCAs) outside Zimbabwe.

ix. The major advantages of the introduction Zimbabwe Bond Notes into the economy includes (i) easing of case shortages, (ii) RBZ/government can print own money, (iii) encourages use of plastic money, (iv) cannot be externalized and (v) easing business transactions.

x. The major disadvantages of introducing Zimbabwe Bond Notes into the economy includes the perception that they will (i) not be convertible, (ii) discourage imports, (iii) discourage investments, (iv) be inflationary, (v) erode confidence in the financial system, (vi) promote black (parallel) market in foreign currency.

xi. The introduction of Zimbabwe Bond Notes will have a negative and severe impact on the economic activities of Zimbabwe as represented by predicted declines in exports, manufacturing activities, investment and deposit banking; and an increase in inflation.

xii. Majority of respondents amounting to 135 out of the 145 interviewees (representing 93% of the sample) said that if the authorities are determined to continue and implement this policy contrary to the views by the general business community and ordinary Zimbabwean citizens, then the best they can do is to inject the US$200 million into the economy as United States of America dollars (US$).

Policy recommendations

Taking into account the major findings summarized above, the Reserve Bank of Zimbabwe (RBZ)/government should inject the US$200 million into the economy as United States of America dollars (US$), and avoid injecting the money as Zimbabwe Bond Notes. Injecting the US$200 million into the economy as United States of America dollars (US$), according to the respondents will be the second best option as it will easy the current cash shortages facing the country, though temporarily in the short run. The long run solution to the cash shortage will be determined by serious resumption of production and manufacturing activities, and accompanying exports.

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