



1. INTRODUCTION AND BACKGROUND.

1.1 The past few days have witnessed a renewed interest in and discussion of the RBZ \$1.1 billion debt through forums such as the Parliamentary Portfolio on Budget and Finance, the Bankers Association and the media in general.

1.2 So distorted are the facts behind the Bank's debt profile that in some quarters, the belief is that RBZ and my management team spent US\$1,1 billion either buying tractors and scotch carts (mechanization program) or simply went on a debt contracting spree and blew-away the money in support of non-existent programs or at the worst, the whole amount is a Gono debt which he must find a way to repay. One newspaper editorial headline could not have driven home better the misconception about this whole issue than by screaming "**Gono must pay**" and went on a frolic of its own.

1.3 The following write-up is aimed at reminding the Nation how difficult the last 10 years have been and somehow shed a bit of light into the RBZ debt issue.

2. MINISTERIAL AUTHORITY TO INCUR DEBT, NEGOTIATE FOREIGN LINES AND OTHER FORMS OF CREDIT TO FINANCE GOVERNMENT PROGRAMS.

2.1 Upon assumption of duty as Governor on December 1, 2003 and realizing the mountain of challenges that lay ahead in the area of forex availability to meet the Government requirements, it became an imperative that over and above the erratic export-surrender levels that the RBZ on behalf of Government imposed on exporters, additional foreign currency had to be mobilized from various sources.

2.2 To succeed in this resource mobilization exercise and in the interest of good corporate governance, institutional memory and proper agent/master-relationship between RBZ and Government as represented by the Ministry of Finance, we at RBZ asked for specific letters authorizing us to mobilize forex resources for Government, with limits being placed by Government in relation to how far and

how much the Ministry of Finance wanted RBZ to mobilize on its behalf. This we insisted upon in order to avoid the kind of irrational debate we are currently having as a Nation.

2.3 MINISTRY OF FINANCE LETTERS TO RBZ...

For completeness, I list below the various letters that were written by the Ministry of Finance giving the Reserve Bank authority to borrow over the past 5 years.

DATE OF LETTER	WRITTEN BY	AUTHORISED BY AND COPIED TO	BORROWING LIMIT IMPOSED BY MIN OF FINANCE	AUTHORISED BORROWING PERIOD
4 June, 2004	Mr W. L. Manungo, Secretary for Finance	Hon. Dr. H.M. Murerwa Acting Min of Finance	US\$750 mil	1 July 2004 – 30 June 2005
6 July, 2005	Mr. W. L. Manungo, Secretary for Finance	Hon. Dr. H.M. Murerwa, then Minister of Finance	US\$750 mil	1 July, 2005 – 30 June, 2006
18 July, 2006	Mr. W. L. Manungo, Secretary for Finance	Hon. Dr. H.M. Murerwa Minister of Finance	US\$750 mil	1 July'06 – 30 June'06
14 Sept, 2007	Mr. W. L. Manungo Secretary for Finance	Hon. Sen. Dr. S. C. Mumbengegwi. Minister of Finance	US\$1,5 bil	1 July'07 – 30 June'08
18 August, 2008	Mr. W. L. Manungo Secretary for Finance	Hon. Sen. Dr. S. C. Mumbengegwi. Minister of Finance	US\$1.5 bil	1 July'08 – 30 June'09. <i>(The debt we owe is US\$1.1 billion)</i>

2.3 It is hoped that this factual revelation puts this matter to rest so that our combined efforts are directed towards more productive issues, rather than needless negativity.

2.4 It is also recommended that without any further delays, the Hon Minister of Finance be advised to acknowledge and take-over these Government debts from RBZ books and work out amicable repayment plans with creditors.

3. RECONCILIATION OF RBZ \$1,1 BILLION DEBT

3.1 Debts owed to Other Central Banks as at 30/6/10

(a)	South African Reserve Bank (<i>contracted and rolled over since 1979</i>)	US\$10,0mil
(b)	Bank Negara – Malaysian Central Bank (<i>Contracted June 1991 – Sept 2000</i>)	US\$49,8mil
(c)	Reserve Bank of Malawi: Grain Importation Facility (<i>Contracted 2006/7</i>)	<u>US\$20,4mil</u>
	Total Amounts to Sister Central Banks	<u>US\$80,2mil</u>

3.2. Debts owed to External Financial Institutions/ Suppliers/Corporates/Governments.

(a)	Regional and Continental Banks and Corporates who provided roll-over Facilities for Grain, Fertilizer and Oil importations (<i>Prior to 2003 \$55,1mil</i>)	US\$122,2mil
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(b)	Equatorial Guinea – Fuel Importation Facility. (Contracted 2006/7)	US\$220,8mil
(c)	Eximbank China – Farm Implements	}
(d)	South Korea – Farm Implements (Contracted 2006/7)	
(e)	Other Government Authorized and Contracted suppliers of grain, seed and fertilizers. (Contracted 2005 – 7)	<u>US\$171,2mil</u>
		<u>US\$561,6mil</u>

3.3 DEBTS OWED TO LOCAL FINANCIAL INSTITUTIONS

(a)	Financial Institutions Corporate (Private Sector) FCA Deposits. (Contracted 1996 – 2003 \$295,2mil)	US\$359,8mil
(b)	Local Banks Statutory Reserves (2007/8)	<u>US\$ 79,9mil</u>
		US\$439,7mil

3.4	GRANT TOTAL AMOUNT RBZ OWES TO THE CREDITORS AS VERIFIED BY EXTERNAL AUDITORS AND IMF AS AT 30 JUNE, 2010	<u>US\$1 082,5mil</u>
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3.5 SOME EXTRA-ORDINARY DEBTS/EVENTS FINANCED BY RBZ IN THE NATIONAL INTEREST USING ABOVE EXTRA-ORDINARY SOURCES OF FUNDING

(a)	March/June, 2008 Harmonized Elections for which re-imburement is outstanding from Government.	US\$88,2mil
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(b)	Payment to IMF to prevent Zimbabwe from expulsion from the 184 member grouping with dire consequences: RBZ is still to receive re-imburement from Government so it can, in turn, repay its own creditors.	US\$220,9mil.
(c)	Payment to World Bank and African Development Bank in service of Government Loans contracted in 1980s/90s for which it (RBZ) is yet to receive reimbursement from Government so that it (RBZ) in turn can repay its debts.	\$5,0mil
(d)	Payment to Government of Botswana for vet, medicines and special parcel of oil received from Botswana in 2001/2.	US\$6,1mil
(e)	2008 ZINWA/Government Cholera-war	US\$6,5mil
(f)	Tel-One ING Debt by Court-Order and covering voice, data, internet and DAMA whose shut-down could have led to an economic blackout with business grinding to a halt due paralysis of telecoms in Zimbabwe serve for terrestrial links to the region only.	US\$13,0mil

(g)	Eximbank – USA: Debt paid in May 2007 under a "legal-gun-point" in the form of action and demands by USA District Court, Southern District of New York, (USA Department of Justice) for outstanding loans contracted by Ministry of Finance in 1997 and 1999. Amount is still to be reimbursed to RBZ so that in turn it can pay its own creditors.	US\$44,7mil
(h)	Cars Supplied to Government Ministries for which government is yet to pay RBZ for those vehicles being used by the Ministries/Ministers/Senior officials/Parliamentary and Senate Committees.	US\$42,4mil
(i)	GMB-seed, Grain and Fertilizer Imports paid for in forex.	US\$610,2mil
(j)	ZESA debts arrears and power importation payments.	US\$100,4mil
(k)	Air Zimbabwe, Support	US\$206,7mil
(l)	Extra-ordinary Government support financings	US\$ 55,9mil
(m)	Farm Mechanization Debtors	<u>US\$198,0mil</u>
	Total Owed to RBZ by Government (\$1,4 billion and farmers \$198million)	<u>US\$1 598,0mil</u>

5. Please note that all above figures have been verified and audit confirmations and documentation in support of each and every figure mentioned are available.

6. **SINGLE-ENTRY BOOK-KEEPING...**

6.1 It will be observed from the above exposé that any discussion of RBZ debt (the creditors side) which does not include discussion of the debtors side is like single-entry book-keeping in accounting... it is unbalanced and results in uninformed conclusions, especially with some editors that are bent on portraying the RBZ in negative light each time they come across RBZ or Gono – as was the case with one screaming editorial headline in the Newsday of Thursday, 27 October, 2011 that ran “**Gono must repay**” as if the RBZ debt on the creditors side was personal.

6.2 Also, discussions todate about the RBZ debt by those in the know has ignored debate about how much Government, through Ministry of Finance, owes RBZ completely. At best, in debates about RBZ debt, the discussion of RBZ debtors has only centred around Farm Mechanization debtors who owe RBZ about US\$198,0mil which is 12.4% of RBZ’s debtors, while ignoring 87,6% of the debts owed to the Bank by Government.

6.3 If Government was to repay RBZ US\$1,4billion that it owes the apex Bank tomorrow, the Bank would in turn be able to pay its \$1,1billion debt to creditors and still remain with US\$300 million for its capitalization, lender of last resort operations, day to day needs and then focus on its core mandate!

7. RECLASSIFICATION OF RBZ DEBT (CREDITORS AND DEBTORS...)

Understandably, it has not been known by most stakeholders that the law of succession has meant that the current RBZ Administration has had to shoulder responsibility for not only pre-independence carry over debts but those contracted by Ministry of Finance on behalf of Government and the people of Zimbabwe in the 1980s, in the 1990s and the first three years of the new century without seeking to posture or cleanse ourselves of those legitimate obligations amounting to over \$400 million or about 40% in total.

Also, prior to now, **it was not public knowledge that** of the \$1,1billion debt so much talked about, as verified, is classified and categorized as follows:

CREDITORS SIDE...

• Central Bank Lines of Credit	US\$80,2mil	(7,4%)
• Non resident Sovereign debt	US\$452,6mil	(41,8%)
• Non residents institutional debt	US\$110,0mil	(10,2%)
• Domestic Debt (Banks/Deposits)	<u>US\$439,7mil</u>	<u>(40,6%)</u>
	<u>US\$1 082,5mil</u>	<u>(100%)</u>

DEBTOR'S SIDE...

On the Debtors side, the breakdown and categorization of what Government owes RBZ is as follows:

• Debt incurred in honour of Constitutional Obligations (Elections) and approved by Parliament in the 2008 National Budget but paid for by RBZ.	\$88,2mil	(5,5%)
• Debt incurred meeting Zimbabwe's Loan Repayment Obligations of Loans approved by Parliament.	\$289,7mil	(18,1%)
• Debt incurred Feeding the Zimbabwean Population, GMB Grain, Seed, Fertilizers	\$610,2mil	(38,2%)

• Debt incurred “powering industry and lighting the country” (ZESA)	\$100,4mil	(6,3%)
• Debt incurred supporting Air Zimbabwe, Saving Lives (Cholera)	\$213,2mil	(13,3%)
• Debt in respect of Government cars etc	\$98,3mil	(6,2%)
• Debt in respect of mechanization (Farmers Obligations)	<u>\$198,0mil</u>	<u>(12,4%)</u>
	<u>\$1 598,0mil</u>	<u>(100%)</u>

SOME HISTORICAL FACTS WHICH SOME PEOPLE HAVE EITHER FORGOTTEN OR CONVENIENTLY IGNORE...

8. GENESIS OF THE SURRENDER REQUIREMENTS

Beginning early 2000, when the Balance of Payments (BoP) position of the country started to markedly deteriorate, foreign exchange inflows to the Government began to also decline.

This unfavourable trend was further worsened by the explicit imposition of sanctions against Zimbabwe which led to most multilateral and bilateral lines of credit being suspended.

Against this background, Government through the Reserve Bank was left with no choice but to rely on export earnings to raise foreign exchange revenue.

It is key and important to realize and recall that throughout the 1980's Government used to take **all forex earnings** from exporters and a regime of Import Licences was in place, with forex allocations by a committee comprising RBZ/Ministry of Industry, Commerce/Trade and Technology (then), and the Ministry of Finance.

This arrangement was done away with when ESAP was introduced in the early 1990's until the re-introduction towards the turn of the century of same restrictions but under the name EXPORT SURRENDER REQUIREMENTS.

Primarily, proceeds from these surrender requirements covered the following outlays:

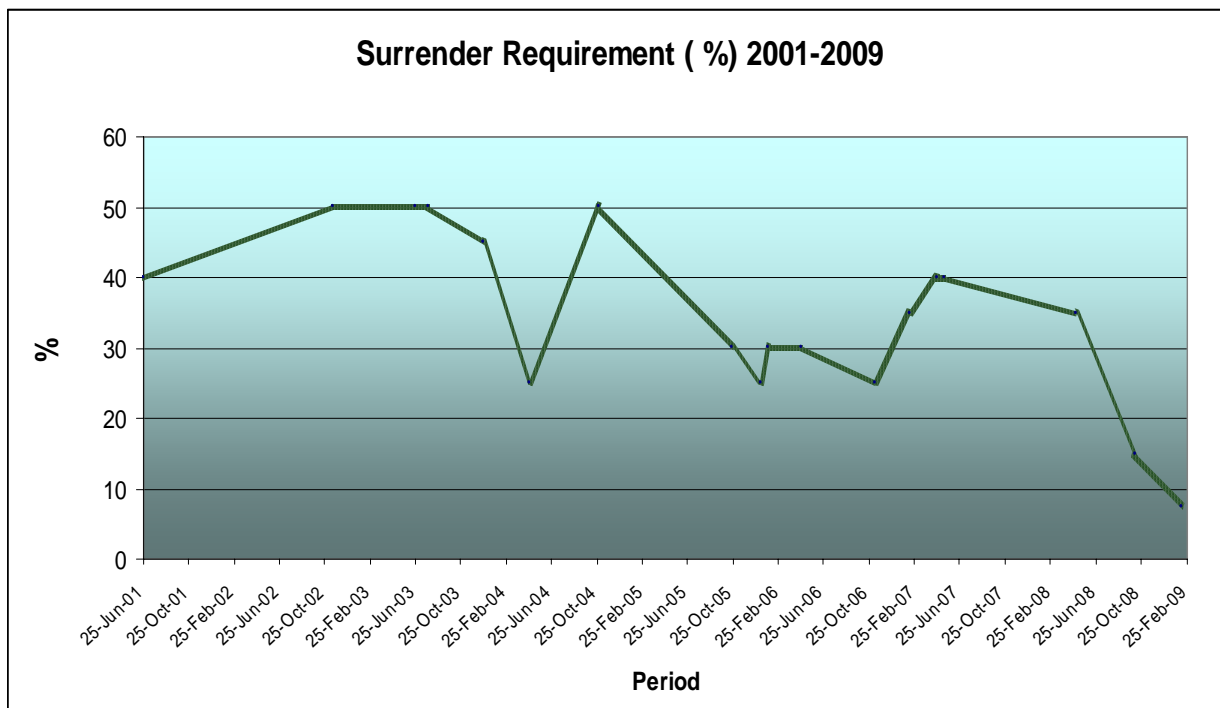
Servicing of Government debts, including the lifeline facilities on fuel, grain, fertilizers, agricultural equipment and other trade facilities;

Payment for critical Government requirements including medical drugs, Embassy payments, water treatment

chemicals and direct importation of strategic inputs among other essential payments; and

To act as a source for **contingent fall-back** reserves for the Government;

The Chart below illustrates the **progressive reductions** with the approval of Government, through the Ministry of Finance, implemented over the period 2004 – 2009 as part of our support to exporters and at the same time, reducing available forex to Government/RBZ hence resorting to extra-ordinary sources and authorized borrowings



The above graph shows how a progressive reduction regime had been calibrated to avoid the debt “**crunch**” we find ourselves in today.

9. THE NEW ECONOMIC MEASURES OF MARCH, 2009.

9.1 The new economic measures introduced by Government in March, 2009 saw the sudden and abrupt abolition of any inflows of funds into the RBZ coffers by way of **export surrender proportions, gold proceeds retentions as well as the use of the Zimbabwe dollar as a medium of exchange.**

9.2 This move, while intended to **revive the economy and therefore most welcome**, brought with it, **unintended consequences** which are the subject of this debt debate and RBZ debt crunch.

10. THE IMPLICATIONS OF REVOCATION OF SURRENDER REQUIREMENTS.

10.1 The direct implication of the new economic measures was that immediately after implementation, Government through the Reserve Bank failed to service all the standby facilities and creditors that had been giving support to the country at its greatest hour of financial vulnerability.

10.2 All the affected facilities were used for:

- (a) Grain importation;
- (b) Fuel importation;
- (c) Electricity importation;
- (d) Embassy payments;
- (e) Importation of medical drugs and hospital equipment and
- (f) Payments to various Government Ministries, Parastatals and Local Authorities, among other already referred to obligations.

11. That is the historical aspect of this tricky situation we find ourselves in and the purpose of the narration is NOT to apportion blame anyone. To the contrary, I believe that a firm grasp of the history of anything equips whoever wishes to engage in its discussion with a better appreciation of the range of options available or that could be available.

12. Furthermore, it is **neither** the intention or wish of this Governor or the RBZ Board, Management and Staff to recommend the re-introduction of surrender requirements against exporters nor any other form of implicit taxation to solve this debt issue because the debt challenge for this

country is bigger and greater than just the RBZ debt resolution framework. A holistic approach will have to be adopted sooner or later.

13. May stakeholders be guided accordingly in their discussion of the topical issue of RBZ debt as well as its resolution framework.

DR. G. GONO
GOVERNOR
31 October, 2011