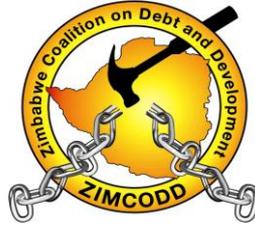


Zimbabwe Coalition on Debt and Development



A Response to the Foreign Currency Auction System- A social and Economic Justice Perspective

25 August 2020

On the 21st of August 2020, the Governor of the Reserve Bank of Zimbabwe, Dr. John Mangudya announced the Mid-Term Policy Statement (MPC) under the theme Fostering Price Stability. This comes at a time when the country is faced with multiple financial and economic challenges. The social and economic indicators are not pleasing at all while the macro-economic environment remains unstable. According to ZIMSTAT as of July 2020, year-on-year inflation stood at 837.53%. Poverty and unemployment levels remain high and about 70% of the population is in need of food aid.

While appreciating the improved transparency in the foreign currency allocation system which has for a long time been a cause for concern, ZIMCODD notes that the central bank could have been more realistic about progress towards currency and price stabilisation. Whilst the Governor stated that the Dutch foreign exchange auction system that was introduced on the 23rd of June 2020 has so far achieved its key objective of price stability and has greatly assisted in creating transparency in the management of foreign exchange and in price discovery of the market rate exchange rate. The reality on the ground does not reflect this, in fact Zimbabwe has a serious price instability problem. Most shops and businesses continue charging their goods and services using a rate that is even above the parallel market rates. Further, the Zimbabwe dollar continue on a free-fall. It has fallen from 1:57.35 at the first auction to 1:82.9 at the last one. Put together, this has resulted in most goods and services remaining beyond the reach of the majority of citizens whose salaries lag behind the price increases and the official exchange rate.

The Governor, also stated that the new currency is working to tame inflation. Again, this is not exactly factual as reflected by the July 2020 year-on- year inflation of 837.53% (ZIMSTAT) The hyperinflation which is mainly as a result of the depreciation of the Zimbabwe dollar has resulted in the erosion of disposable income pushing the majority of citizens to poverty.

The economic prospects of the country remain bleak as the livelihood challenges that most Zimbabweans are grappling with are showing no signs of ending. There is need for the monetary authorities to come up with measures to ensure that Zimbabwe's economic situation improves beyond exerting efforts in maintaining figures as low as possible. The sustainability of the auction system is also a key concern considering the heavy presence of the central bank in the bidding system in the end distorting true market dictates of the local currency's value in relation to the US dollar.

Foreign currency shortages continue to haunt the economy. From an economic justice point of view, the fact that not every individual can walk into a bank and apply for foreign currency and easily get it is clear indication that the forex market is till volatile and that the desirable has not yet been attained. The government must invest more in supporting the productive sector of the economy and Small to Medium Enterprises (SMEs) for increased output and foreign currency earnings. There cannot be any short cuts.

ZIMCODD urges the monetary authorities to come up with measures to stabilise and strengthen the rates so as to propel economic stabilisation.

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