Investing in People for Social & Economic Justice

Analysis of the Monetary Policy Statement Presented on 20 February 2019

Background

The much awaited Monetary Policy Statement presented by the Reserve Bank Governor came amid speculations on the fate of the Bond Note and resolve to the foreign currency crisis characterised by acute shortages of fuel, medical drugs and equipment and low industrial capacity utilisation. The policy announced has been received with mixed feelings, with some quarters arguing that it will spell more harm than good to the already bleeding economy.

Currency Question

Much hype was on how the Monetary Policy was going to address the long standing currency question in the country. It is no surprise that the policy addressed the mythical 1:1 exchange rate between the Bond Note and United States Dollar (USD), which has been a major driver of income inequality and social discord in Zimbabwe. It is only worrying that the formal floating exchange rate is being introduced at a time when the country is heavily reliant on imports. With the high demand for foreign currency in securing fuel, electricity, medical necessities, cooking oil and water treatment chemicals, the exchange rate is likely to be inflationary. While the policy statement gives an assurance that mechanisms are in place to safeguard against inflation rate, the actual modalities and tools remain unclear. Worse still, the monetary policy statement is coming way after prices have risen to unprecedented levels. It will be a miracle for the monetary policy to influence the reduction of prices given that prices are sticky downwards. Whilst the Reserve Bank Governor is guarding against re-dollarisation of the economy, it is no doubt that the USD will remain the base currency for trading purposes in Zimbabwe because businesses are likely to prefer trading in a stable currency. As the country denominates all Bond Notes and Coins, mobile money and RTGS balances to RTGS dollars, the country's currency crisis remains unresolved. What this implies is that people and entities will have to return all the different balances they hold back to the bank to be redeemed in RTGS dollars. Since RGTS means Real Time Gross Settlement which is an electronic form of funds transfer where the transmission takes place on a real time basis, it implies that Bond Notes and Coins and mobile money payments will be suspended paving way for a new currency. Without safeguarding measures in place, people's RTGS balances, Bond Notes and Coins and mobile money will be eroded just like in the case of 2008.

The monetary policy further marginalises farmers by prescribing a lower foreign currency retention threshold of 30% for cotton and tobacco farmers, compared to 80% entitled to middle-men. This perpetuates economic inequality and undermines farmers' social and economic rights. ZIMCODD strongly believes that farmers should benefit most along the value chain.

ZIMCODD is concerned that arbitrage tendencies and practices will persist as basic commodities continue to receive foreign currency at the rate of 1:1 via the opaque Reserve Bank foreign currency allocation system.

ZIMCODD notes with regret that the central bank has secured lines of credit to underpin the new monetary policy position, without disclosing the terms and conditions of the loans.

Against this background, citizens' social and economic rights are under threat. The free market approach to the currency crisis will further expose and impoverish vulnerable citizens already wallowing in poverty from wage erosion caused by exchange rate fluctuations.

Recommendations

- The monetary authorities should address the root cause of the economic imbalances bedeviling the country and not the symptoms. This requires a holistic approach that addresses deficiencies in both the fiscal and monetary spectrums.
- There is need for a simultaneous adjustment of the fiscal policy framework towards strengthening manufacturing sector capacity utilization.
- The monetary policy will perpetuate and widen the trust deficit already existing between citizens and the monetary authorities, that has led to the current poor banking culture. Therefore there is need for monetary policy consistency to restore confidence in the country's financial system.
- It would have been prudent for the monetary authorities to introduce a standalone and credible Zimbabwean currency which will address the liquidity challenges once and for all.

ZIMCODD Contact Details

5 Orkney Road, Eastlea, Harare

Email: zimcodd@zimcodd.co.zw

Tel/Fax: +263-242-776830

Website: www.zimcodd.org

Facebook: Zimbabwe Coalition on Debt and Development

Facebook Account: ZimcoddZimcodd

Twitter @ zimcodd1