



## Foreign Exchange Auction Trading System: Will it turn around Zimbabwe's Economic Fortunes

### Introduction

Foreign currency shortages have been singled out as one of the major challenges affecting industry and commerce in Zimbabwe. Zimbabwe's trading position as a net importer of goods and services worsens the situation. The impacts are evidenced by acute shortages of fuel, raw materials and imported electricity which rely entirely on the availability of the foreign currency. This has had negative implications on the growing balance of payment deficit, low capacity utilisation, hyperinflation, growing parallel foreign exchange market and market distortions. The foreign currency shortages are also associated with limited international financial support which further imposing immense pressure on the economy (Ministry of Finance and Economic Development, 2020). The socio-economic crisis resulting from the foreign currency shortages and inefficient foreign exchange market has also impacted on the lives of ordinary Zimbabweans who bear the brunt of negative growth estimated at -6.5% in 2019, rising unemployment and wage erosion, drawing the majority into poverty. When COVID-19 struck, there has been a sharp increase in the demand for foreign currency to procure necessary supplies and equipment to fight the pandemic. Zimbabwe still has an obligation to repay the longstanding debt burden to external creditors, putting additional pressure on the national fiscus and foreign currency in particular.

### Policy Inconsistency and Public Mistrust

The country is suffering from a huge and longstanding public mistrust owing fiscal and monetary policy inconsistencies. The Reserve Bank of Zimbabwe has been criticised by the International Monetary Fund (IMF) in its 2020 Report in which it pointed out uneven implementation of reforms, notably, delays in monetary reforms. The Bank has failed to restore confidence in the new Zimbabwean dollar. Monetary policies in Zimbabwe are characterised by inconsistencies and lack of harmonisation with the broader fiscal policy framework. Within a period of one year the bank has moved from free floating to fixed exchange rate and now the proposed auction trading system. The previous two have dismally failed to restore confidence in the official foreign exchange market. This has seen the parallel market thriving with retailers and wholesalers benchmarking their prices to the prevailing parallel market rates. This has sparked a hyperinflationary environment leading to loss of value and confidence in the local currency, increased cost of doing business, loss of competitiveness and investment flight.

### Is there any hope in the Auction Trading System?

Following the RBZ Press Statement of 8 June 2020 in which the Monetary Policy Committee advised that a formal market-based foreign exchange trading system will be put in place, the Bank disclosed its plans to fully implement the Foreign Exchange Auction Trading System with effect from 23 June 2020. The Auction System is replacing the fixed exchange rate system

which was introduced in March 2020. The fixed exchange rate system failed to restore confidence in the market due to its illusionary nature in which it was not in sync with reality as businesses pegged their prices on the parallel market exchange rate. Whilst the government insisted on the fixed exchange rate, foreign currency shortages worsened resulting in the unprecedented spike of the inflation rate to 785% as at May 2020. The high levels of inflation coupled with unrealistic exchange rate of USD 1: ZWL\$25 resulted in the market distortions which saw fuel being sold at less than the import value. This spelt out acute shortages of fuel with some service stations selling fuel in foreign currency.

The adoption of a Foreign Currency Auction System is, therefore expected to bring sanity in the foreign exchange market especially in ensuring transparency, accountability and efficiency in the trading of foreign currency in Zimbabwe. It is commendable that the monetary policy is now in sync with reality and that transparency and accountability are at the centre of the foreign exchange market in which Auction results will be released and published on the Auction day. However, the Bank did not disclose the nature of information that they are going to publicise. It is therefore in the best interest of Zimbabweans that the bank discloses the names of winning bidders, amounts involved and the intended use. This will go a long way in ensuring that the scarce foreign currency is put into good use. The bank promised to disqualify players found to be participating on the Auction for the sake of currency manipulation. In this regard, ZIMCODD strongly feels that disqualification is a necessary but not sufficient condition to discourage unscrupulous behaviours. Rather, the apex bank must put in place deterrent and punitive measure in place.

The auctioning trading system will only work when the central bank is sincere and allows the rate to be determined by the market forces. It is also commendable that the Central Bank will give preference to the import priority list. It is however, ZIMCODD's view that the bank should pay directly to the suppliers of raw materials and equipment to avoid manipulation and for easy of monitoring. Over and above the measures in place, the RBZ should always be on the lookout for the abuse of the facility.

ZIMCODD also has reservations with the minimum cap of US\$50 000 which ordinarily crowds out the informal sector from participating in the bidding process. It therefore creates an opportunity for third party transactions in which the informal sector will have to pass thru to access foreign currency. The premiums involved in engaging third parties will increase the cost of doing business for the informal sector. ZIMCODD is therefore appealing with the Central Bank to come up with a dual auction system with one that accommodates the informal sector. This will go a long way in their retooling especially after 3 months of total lockdown.

## **In the media...**

### **1. Stop it, ED told**

RESIDENTS associations and civil society organisations have ganged up to stop President Emmerson Mnangagwa government from rushing through a controversial constitutional amendment under the cover of COVID-19 lockdown, with public hearings for the Bill set to start today. [READ MORE](#)

### **2. 'Develop people-oriented economic policies'**

GOVERNMENT should craft economic policies using the bottom-up approach where citizens are involved in all stages, from formulation to implementation and review, so that public policy can be successful, a new survey report says. [READ MORE](#)

### **3. Harare City Council official commits suicide**

A Harare City Council employee based at Remembrance Drive offices in Mbare last Friday allegedly committed suicide under yet to be established circumstances. [READ MORE](#)

4. WIPSU and ZIMCODD interrogates the effectiveness of the accountability institutions in curbing COVID-19 related corruption. [Click here](#) for more

#### **Contact Details**

9 Bargate Road, Mount Pleasant, Harare

Email: [zimcodd@zimcodd.co.zw](mailto:zimcodd@zimcodd.co.zw)

Tel/Fax: +263-242-776830

Website: [www.zimcodd.org](http://www.zimcodd.org)

Facebook Page: Zimbabwe Coalition on Debt and Development

Twitter [@zimcoddI](#)