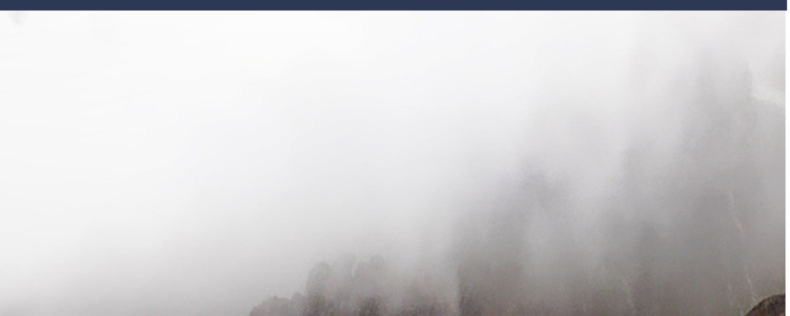
WEEKLY REVIEW

10 May 2022



Weekly Dashboard

Forex Auction Weighted Rate

Week	26.04.2022	03.05.2022
Per USD1	ZWL159.3482	ZWL 165.9942

Consumer Price Index

Month	March	April
	4.766.10	5.507.11
Blended	146.06	160.13

Inflation

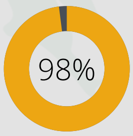
Month	March	April
M.O.M.	6.3%	15.5%
Y.O.Y.	72.7%	96.4%

COVID-19 Cases

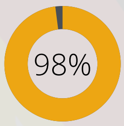
Week	02.04.22	09.05.22
Positive	247 935	248 536
Recovered	241 850	242 118
Deaths	5 470	5 479

National Recovery Rate

02.04.22



09.05.22



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1. A review of new government measures to stabilize the currency and inflation

Over the weekend, the President of Zimbabwe announced a raft of new measures put in place by the government to thwart the massive depreciation of the local currency experienced in recent weeks, particularly on the parallel foreign exchange market. According to the authorities, these new policy measures will help restore stability by building business and consumer confidence, strengthening demand for the Zimbabwe dollar (ZWL), preserving value for depositors, investors and fostering market discipline. The government posited that macroeconomic fundamentals are strong to anchor the local currency and that absent the recent global shocks caused by the conflict in eastern Europe (Russia-Ukraine war), the recent massive growth of domestic price inflation is highly attributed to the pass-through effects of the recent exchange rate depreciation of the local currency on the parallel market. Below is a brief review of some of the stated measures.

(i)Re-opening Public Transport
In the past 2 weeks, the public experienced transport mayhem as the Zimbabwe United Passenger Company (ZUPCO) failed to cope with the demand from the commuting public. This was attributed to the withdrawal of private players from the ZUPCO franchise protesting the hiring fees which were greatly eroded by ZWL depreciation. Also, an operation by Zimbabwe Republic Police (ZRP) against local private transport operators like kombis destabilized the situation.[1] This operation is based on the fact that ZUPCO was granted a monopoly by the government to provide public transport services despite its depleted bus fleet. The fleet is overwhelmed by passenger traffic since the government has largely relaxed COVID-19 restrictions and re-opened the economy. With few private players operating illegally and given the context of high fuel prices, commuters were left stranded and exploited. The recent change of policy position by the government on public transport, agreeing to re-open the sector to private players will bring great relief to the commuting majority public.

(ii)Compensating Depositors

The government will compensate individual depositors who were affected by exchange rate depreciation caused by the failed currency reforms and austerity measures of 2019. The government reported that the process has already begun starting with smaller accounts that had US$1 000 or less as of January 2019 and focusing later on those accounts which had amounts of up to US$100 000. The year 2019 witnessed massive value erosion as the local currency plunged by 85% in the parallel market. Inflation that closed in 2018 at 42.1% (year-on-year) went on to close December 2019 at 521%. This increased abject poverty as the public's US dollar deposits were all converted into fragile ZWL while salaries remained largely constant during the period. This deteriorated the public's confidence in both the ZWL and the banking sector. Therefore, by compensating for lost savings, the government seeks to recover the lost public confidence in the banking sector. However, it is very unlikely that the compensation will cover the bulk of lost savings. As such, this move may not positively influence the behavior of economic agents whom we generally assume to hold rational expectations.

(ii)Reserve Money Growth

In April alone, the local currency lost 40% of its value against the greenback in the alternative markets and annual prices mounted by 96% with monthly inflation outturn reaching double-digit territory for the first time in 20 months. While the authorities attribute this to exogenous shocks and human behavior, a review of official statistics indicates that the government is also playing a significant role in triggering this instability since 2019. The ZWL market liquidity remains high as shown by the broad money supply growth rate hovering above 100% which, in the public's view, is unsustainable and highly inflationary as it is not consistent with the government's expected 2022 economic growth rate of 5.5%. As such, the policy moves by the government such as tying quarterly reserve money growth to zero percent buttressed by a high (80%) RBZ policy rate, high reserve requirement ratios, and increased open market operations will go a long way in reducing excess ZWL thus dampening depreciation pressures. Typically, the growth of the money supply in the economy should move in tandem with the growth of activity in the real sector.

(iii)Clearance of Auction Forex Backlog

The government has announced plans to clear the RBZ forex allotment backlog which is reportedly northwards of US$100 million by the end of May 2022. On one hand, it is the public's view that the clearing of this forex backlog, and stipulation of the RBZ to only allot available forex as well as to pay forex bidders within 14-days will help smoothen price discovery as it reduces pressure on the alternative markets. On the other hand, the failure to announce complementary measures to further refine the auction system to reflect true market dynamics will continue to stifle the price discovery process. For instance, the use of a fixed priority list means that taxpayers' money will only be available to a few importing companies and connected elites.

Also, the lack of transparency in the bidding process is scaring away other holders of forex, with RBZ remaining the sole supplier of forex thus yielding substantial power over the exchange rate. The statement was also not explicit on the sources of forex to settle the backlog, raising fears of debt accumulation. In the past, the government through the RBZ has borrowed loans of over US$1.4 billion from the Afrexim bank to support currency reforms and the importation of strategic commodities. The nation cannot afford to continue piling forex denominated external debt which is already unsustainable and in distress as shown by accumulating external arrears. As of September 2021, external debt amounted to US$13.2 billion (96.4% of total public and publicly guaranteed debt), with arrears alone constituting 49.8% (US$6.57 billion) of the total external debt. This unsustainable debt is subduing business activity as it constrains the countercyclical effects of fiscal policies and is affecting capital accumulation through heightened long-term interest rates, higher distortionary tax rates, and inflation. High indebtedness has also weakened the country's ability to respond to unforeseen contingencies like natural disasters, the COVID-19 pandemic, and worsening global geopolitical risks.

(v) Willing-Buyer Willing-Seller (WBWS)

It was also announced that the willing-buyer willing-seller (WBWS) foreign exchange system will continue as a benchmark for price discovery of the exchange rate and for the smooth operation of the auction system to provide the basis for orderly unification of the exchange rate in the long run. This, however, creates an economy with multiple exchange rates (auction, WBWS, and varying parallel rates for RTGS balances, EcoCash, and banknotes) leading to a multi-tier pricing system that increases transaction costs and breeding speculative activities. With the auction system maintained in its current form, it means that arbitrage opportunities will also continue -the buying of forex from low markets (auction) to sell it in high markets (parallel) for a riskless profit. As such, there is a need for authorities to completely dismantle one mechanism, either the auction or WBWS rate instead of using both. This is because of the realization that while it might be true that the exchange rate may unify in the long run, it is not clear how long is the long run as people are already suffering. According to the World Bank, nearly half of the population is swimming in extreme poverty due to this protracted economic crisis.

(vi) Tax Incentives for Using ZWL

To support the local currency, the government announced measures that will make it costlier for people to transact in foreign currency as authorities have pinpointed that forex is being demanded in the economy mostly for speculative activities. While this assertion is partly valid, it is worrisome to note that the move by the government has increased and also introduced some additional taxes that burden and choke the already overtaxed Zimbabweans. For example, the cash withdrawal levy of forex above US$1 000 had been reviewed upwards with immediate effect from US$0.05 per transaction to 2%.

Also, all domestic forex transfers now attract a 4% Intermediated Money Transfer Tax (IMTT) save for forex payments settled through the WBWS and the auction system. This exerts a disproportionately negative impact on the poor majority with small forex balances which can hardly move the exchange rate. Increasing the cash withdrawal levy also increases transacting costs thus reducing the real value of earnings mostly for those on the lower bound of the income distribution scale.

More so, the authorities should be alive to the fact that not all domestic forex transfers are being done to provide liquidity in the black markets as some of these forex transactions are done by businesses restocking, settling utility bills, or paying for key supplies like industrial inputs while some is by those households paying for critical services like health care. As such, this policy stance will likely trigger US dollar inflation which will again feed into ZWL inflation. Given the already elevated imported inflation as a result of severe global supply chain disruptions, a looming poor 2021/22 agricultural season, and possibilities of policy slippages ahead of the 2023 general elections, the policy measures exacerbate the suffering of poor citizens as businesses can pass the resultant inflation burden to the consumer especially on staple food with inelastic demand.

(vii) Suspension of Bank Lending

The government has suspended lending by banks until further notice to minimize the creation of broad money in the economy which it purports to be abused for exchange rate manipulation. At ZIMCODD, we believe that this policy stance needs a remake. In any economy, banks are crucial for economic growth and development as they primarily exist to reduce transaction costs through facilitating transactions between savers and borrowers -financial intermediation. Households need loans as capital to start new businesses, cover expenses from unforeseen contingencies or acquire properties while already existing businesses need loans to cover working capital problems or expand their operations. It is this credit creation that will increase private sector investment, employment of factors of production, and national output. The loans provided by domestic banks are also helping sustain key sectors of the economy like agriculture and this has triggered a gradual improvement in private sector participation in the production of cereals like wheat.

While many Zimbabwean banks have moved away from reliance on interest income since 2019, barring bank lending renders them useless as it destroys their core mandate. Suspending formal lending in the economy will also fuel informalization through the creation of informal credit markets. Despite informal credit markets being suitable for poor households and being fast to provide loans, the interest rate charged can be very high to an extent that it would largely increase borrowing costs by epic proportions. Furthermore, increased informalization of credit markets corrodes the effectiveness of government policies, especially monetary policy. This is because the presence of informal financial intermediation affects how interest rates react to monetary policy shocks.

Conclusion

While the foregoing government measures are intended to restore macroeconomic stability, granular analysis has shown that the majority of the announced measures will increase the cost of borrowing and the cost of living. As such, there is a need for concerted efforts through an inclusive stakeholder dialogue between the government, corporate world, civil society, political parties, church, and the general public to find lasting solutions to the ZWL and inflation crisis that is raging havoc in the economy. As it stands, economic agents have lost confidence in the Zimbabwe dollar. It is only through common consensus that solutions will be found to bring sanity to foreign exchange markets.

2. A Country of Paradoxes

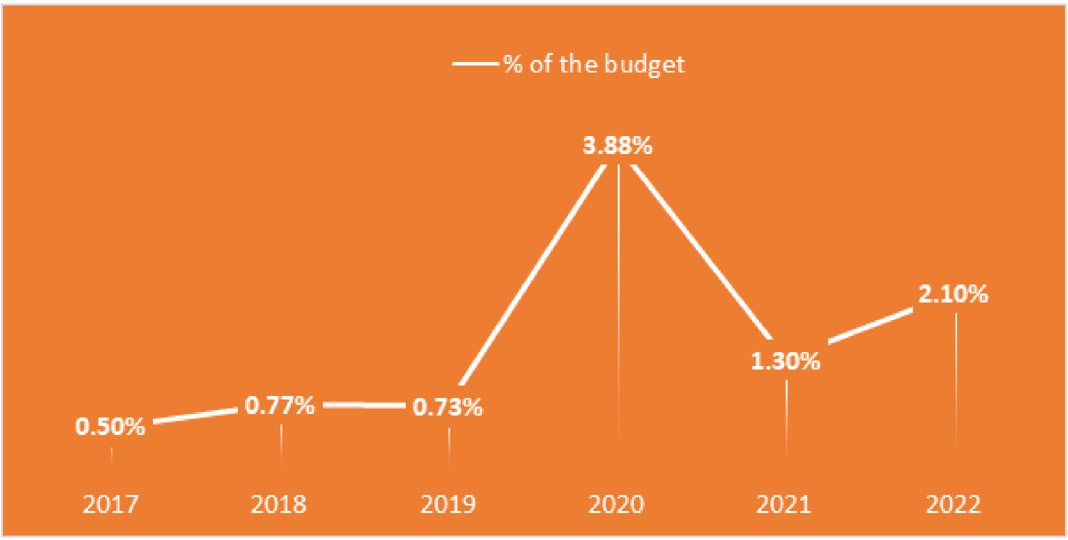
Zimbabwe is a land of many possibilities and rich in natural resources, but its people are among the poorest in the world. Zimbabwe is among the six of the seven countries globally, that reported more than half their population living below the national poverty line between 2007 and 2021[1]. Zimbabwe has a population of approximately 15 million inhabitants, with 54% under the age of 20 while 61% of children live in multidimensional poverty and a weak Human Development Index ranking of 150th out of 189 countries. This is ironic as she has vast deposits of minerals that range from coal, diamond, uranium, gas, lithium, gold, antimony, iron, steel, chrome, and platinum[2]. All these minerals if managed optimally have the capacity to turn around the fortunes of the country. The much-needed and expected 2023 mining vision will greatly benefit from good natural resource governance.

Zimbabwe has been regarded as a haven of human capital development in Africa with a population embedded with different skills and expertise. For many developed nations, Zimbabwe is viewed as a fountain of nurses and doctors. Zimbabwean health personnel has kept the health sector of nations such as the United Kingdom, Australia, South Africa, and New Zealand going. Nonetheless, the Zimbabwean government has successfully failed to tap into the same human capital as the health sector is ramshackle. Although the reason why the health sector is wanting is not solely because of human capital but also infrastructure gaps, Zimbabwe in 2021 alone lost approximately 2200 health personnel. The health sector is not the only sector that has registered a brain drain; engineers, technicians, and teachers have also sought greener pastures.

The country`s Domestic Resource Mobilisation (DRM) is wanting yet foreign-owned mining companies or those owned by Politically Exposed Persons (PEPs) are given unjustified tax holidays. Zimbabwe has been engaged in several opaque-mega mining deals in which she gives 5-year tax holidays to mining companies. A more controversial and recent example is that of Great Dyke Investment (Russian owned) and Landela which is allegedly owned by Tagwirei a close ally of the president and member of the Presidential Advisory Committee[3].

In addition, the platinum royalties were deflated from 10% to 2, 5% to ensure fairness and equity among the platinum producers. Before this arrangement was made, ordinary platinum leaseholders like Mimosa were paying 10% royalties while special leaseholders – Zimplats and Unki were paying 2, 5%. The reason for the August 2019 deadline for the review of platinum royalties was that the stabilization agreement between the government and Zimplats was set to expire in that period, hence an opportunity for the government to increase royalties without renegotiating its way out of the stabilization clause. Nevertheless, it is imperative to note that this is happening during the tenure of Minister Chitando who was a former Managing Director of Mimosa. Economies of affection undermine revenue generation in Zimbabwe. At the moment, platinum royalty rates are half the rate of the gold sector and marginally higher than base metals by 0, 5%. Regrettably, the Treasury continues to renege on its promise to review platinum royalties thereby undermining DRM which is vital for infrastructure development. Additionally, the delays in the amendment of the Mines and Minerals Act are stalling further streams of revenue.

Moreover, Zimbabwe has been losing the fight against Illicit Financial Flows (IFFs). According to the Minister of Home Affairs, Hon Kazembe, Zimbabwe is losing US$100 million each month through gold smuggling[1]. Annually, this figure adds up to US$ 1.2 billion, a figure more or less equal to Zimbabwe`s total gold export earnings; US$964 million and US$1.3 billion in 2019 and 2018 respectively. The impact of IFFs has been felt mostly by the marginalized and vulnerable citizens and communities as it increases the cost of living at the same time undermining social spending. Zimbabwe`s social spending is below the agreed 4.5% of the African Social Policy. Since 2017 Zimbabwean social spending has never reached 4%. The figure below shows Zimbabwe's social spending.



Source: Compiled by ZIMCODD from the 2017-2022 National Budgets

The ramifications of weak social spending have imposed an unbearable cost of living on the Zimbabwean population as extreme poverty rose by 1.3 million from 6.6 million in 2019 to 7.9 million in 2021.

A rapid assessment of child vending in Harare shows that approximately 20 children join the streets every day as beggars and vendors. A clear testament to the dysfunctionality of child protection systems in Zimbabwe. According to the 2021 Zimbabwe Annual Report by UNICEF child poverty has increased tremendously in Zimbabwe. The report states that 1/3 of women aged 20-24 years married before the age of 18, 35% of children between the age of 5-17 are experiencing child labor, 13% are working under hazardous conditions and over 51% of children are not registered at birth. All in all, it is ironic that Zimbabwe has all the resources and capacity needed to attain national development and growth but seems to be deliberately making the wrong choices. This is mainly due to a lack of political will coupled with economies of affection and rent-seeking. Thus there is a need to prioritize the welfare of the citizens.

3. The silent by-election

On Saturday 7 May 2022, by-elections were held in specific areas around the country. These areas include Chitungwiza, Makoni, Mutare, and Kariba. By-elections in Zimbabwe have always had a low voter turnout and this time around, it was no different. Many people were not aware of the scheduled by-elections. The vacancies in the constituencies came about as a result of recalls that were made shortly after the much-anticipated March 26 by-elections. The newly formed Citizens Coalition for Change (CCC) won 7 out of the 8 contested seats.

Zimbabwe's election history is marked by violence, arrests, intimidation, and election rigging which undermines democracy by substituting freedom of choice with coercion and by deterring participation. Although these by-elections were not given the same attention as the March 26 by-elections, there were reports of violence at some polling stations including Chitungwiza. ZIMCODD conducted a rapid survey and from the evidence gathered Zimbabweans have become more politically detached since the 2018 elections, turning their focus on economic survival in the unpredictable economic climate. Zimbabweans have lost confidence in elections as a mechanism for bringing leadership change at both national and local levels. Some citizens remained hopeful for change and indicated that they believed that civic participation in elections is pivotal to the quality of a country's governance and can greatly advance the country's long-term democratic development.

While the country heads towards the 2023 presidential elections, there has been a nationwide voter registration blitz being carried out. As of 5 May 2022, a total of 109 405 people had registered to vote since the commencement of the voter registration blitz. 59 904 male voters and 49 501 female voters. Women in Zimbabwe continue to be underrepresented in politics and decision-making structures. For that reason, women must be encouraged to vote and contest elections as candidates. While voting should be based on the most qualified candidate, equality of representation is essential for a functioning and effective democracy.

Representation is at the core basis of democracy and from the statistics, it is clear that Zimbabwe has a long way to go when it comes to women's representation in local and national government. Women must be fairly represented as they make up the larger part of Zimbabwe’s population.

Strengthening electoral management through capacitation of electoral management bodies such as the Zimbabwe Electoral Commission and election observation by independent bodies reduces the chances of voter apathy, increases participation, and contributes to free and fair non-violent elections. ZIMCODD continues to reiterate that elections and other political processes are pivotal to the quality of a country’s governance and can either greatly advance or set back a country’s long-term democratic development. It is therefore important to prioritize independent, accredited election observation that provides technical leadership and support on elections, political processes, and democratic political transitions. While elected officials have great power, in a functional democracy, the people have the collective power to hold the government and elected officials accountable for the decisions they make as they represent us in whatever issues they tackle. Our civic duty does not end at the ballot box. Regardless of who we voted for, as citizens, we must continue to make our voices heard by holding elected officials to account and pressing on issues that are important to us.

4. Government stops Bank lending

The President through the National Announcement dated the 7th of May 2022 suspended all forms of bank lending as part of new measures meant to ‘restore confidence, preserve value and restore macroeconomic stability.’ On the 9th of May 2022, the RBZ further clarified the President’s statement by confirming that ‘no new credit facilities should be issued as the suspension covers new loans, undrawn portions of agreed facilities, overdrafts and any forms of borrowing instruments, by whatever name they are called.’ The suspension relates to banking institutions, building societies, development finance institutions, deposit-taking, and credit-only microfinance institutions. Empirical evidence from 11 countries in East Asia and Latin America on the impact of sudden stops on bank lending shows an associated 10%-15% reduction in GDP.

This is based on the ‘lifeblood’ role of banking in an economy as lending supports the importation of raw materials required to support eh manufacturing sector, smoothening the spending of households with respect to foodstuffs and other needs such as school fees and the funding of health care. Bank lending also supports working capital for most corporates including the payment of salaries by bridging corporate liquidity gaps. Whereas the said measures are meant to cripple the money supply by nipping the money creation role of the banking sector, thereby arresting inflation; government should have equally considered the effect of such a measure on an ailing economy whose social sphere is fragile and depends on bank loans given the meagre salaries earned by most Zimbabwean.

Bank lending also supports new start-ups and the government's decree affects the participation of small enterprises in the economy, especially those that depend on the small loans offered by the banking sector. Besides the contribution of speculative borrowing to galloping inflation, addressing the other inflation triggers such as the unabated printing of money could go a long way in quelling inflationary pressures in the economy. The recent directive goes against the earlier MPC move to promote savings in the economy as banks are now supposed to pay interest on deposits without having to generate interest income from lending activities. The 'no lending' directive also forces most microfinance institutions into extinction as their roles are no longer part of the financial structure of the economy. A revisit of the suspension of bank lending will reverse the impending tragic damage to the brittle economy.