# WEEKLY REVIEW

17 May 2022

## Weekly Dashboard

### Forex Auction Weighted Rate

| Week | 03.05.2022 | 10.05.2022 |
|---|---|---|
| Per USD1 | ZWL 165.9942 | ZWL 165.0000 |

### Consumer Price Index

| Month | March | April |
|---|---|---|
| | 4.766.10 | 5.507.11 |
| Blended | 146.06 | 160.13 |

### Inflation

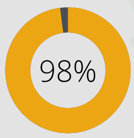
| Month | March | April |
|---|---|---|
| M.O.M. | 6.3% | 15.5% |
| Y.O.Y. | 72.7% | 96.4% |

### COVID-19 Cases

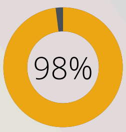
| Week | 09.05.22 | 16.05.22 |
|---|---|---|
| Positive | 248 536 | 249 431 |
| Recovered | 242 118 | 242 537 |
| Deaths | 5 479 | 5 484 |

### National Recovery Rate

09.05.22




16.05.22



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## 1. Index prices on Interbank rate – RBZ

The RBZ reportedly instructed businesses to observe the interbank rate in setting prices for goods and services and capitalize on the allowable 10% margin on the interbank rate (Exchange Control Circular Number 3 of 2022). Under the new rules, the market is supposed to get daily interbank rates from the website of the Reserve Bank of Zimbabwe. This directive comes after the pronouncement of the 'willing buyer-willing seller' arrangement and the unpopular dictate to ban all forms of lending across the economy as a measure to quell inflationary pressures. A closer scrutiny of the recent policy pronouncements points to over-policing of both the financial sector and the economy at large thereby fomenting confusion to the business community and the public at large. Currently, the exchange rate regime is supposedly controlled by the auction market thereby setting a weekly weighted USD/ZWL exchange rate. Running parallel to the auction market is the Interbank Market guided by the willing buyer willing seller principle where the ruling exchange rate is gazetted daily by the RBZ. Effectively, the state through the RBZ is allowing a two-pronged official exchange rate system to subsist concurrently thereby causing price distortions and policy discord in the operation of both the economy and the financial sector.

The resultant loss of confidence in state machinery designed to direct the economy has swayed economic agents not to take heed of statutory instruments, presidential pronouncements and RBZ directives regarding exchange rates and the pricing of merchandise. For a time immemorial, the monetary policy measures have failed to arrest the parallel market, stabilize the exchange rate, undo pricing distortions, bring confidence in the ZWL, and quell inflationary pressure and support savings and investment. On this backdrop, it is essential to discard a multi-pricing system in the foreign currency market and adopt a fair and widely acceptable open market system if stability of the forex market is to be achieved. Currently, the government is clinging to the failed auction market and is bringing in the interbank market which previously failed was discarded.

## 2. Progressive Taxation, Poverty, and Inequality: Making Taxes Work for Women

Since the inception of the Second Republic, the government has been implementing "austerity for prosperity" measures. This means that the government has been employing difficult economic measures to reduce public expenditure which the government contended was necessary for the growth of Zimbabwe's economy. Such measures include the 2% tax and high presumptive tax. Austerity measures, however, have consequences that do more harm to lower and medium income brackets. This, in turn, has far reaching consequences on women more than men. Women and girls are disproportionately affected by global economic and taxation systems. Although tax challenges differ from country to country, women tend to pay more taxes and benefit less from them as gender-biased and regressive tax systems continue to impede the realisation of socio-economic rights for women.

How tax is raised and spent matters more for women than men because women seek more services funded through taxes than men, and for the mere fact that women are generally disadvantaged compared to men. There are many ways in which tax can bring about positive change in women's lives. Globally, women perform the vast majority of unpaid care work – this includes caring for children, the elderly and the sick, fetching water and performing household chores. As a result, women have become overrepresented in poorly paid precarious work. Governments have the responsibility to end gender inequality and ensure that women rights are promoted, protected and fulfilled. One of the major strategies to ending gender inequality is to provide quality public services through progressive taxes that do not place an unfair burden on women.

The socio-economic crisis triggered by the COVID-19 pandemic has worsened the situation. It brings to the fore the urgency for structural changes to make taxes work for women. In order to promote sustainable economic growth and poverty reduction, development efforts must ensure that policy interventions in taxation systems do not negatively affect the intended outcomes in the area of gender equality. Under the Sustainable Development Goals (SDGs), agreed upon in 2015, the international community, Zimbabwe included, committed to eradicate poverty by 2030. The 17 SDGs include goals to achieve gender equality, provide for decent work and economic growth as well as reduce inequalities. These can be achieved through empowerment of all women and girls by providing women with equal rights to economic resources and to recognise and value unpaid care and domestic work through the provision of public services. To fund these essential public services, governments must raise revenue, and this is done through taxes. Tax is the largest and most sustainable way to generate income for many countries. The spending of tax revenue is a matter of human rights and gender equality as all citizens must pay their fair share and benefit equitably from taxes. Such taxes must be progressive, meaning that those who have more income should pay a higher proportion of their income in tax than those who earn less.

Zimbabwe is known to give away tax holidays to multi-national mining companies and large corporates, such as Huawei, and large mining companies while services that women need e.g., healthcare services, continue to struggle in terms of funding. Moreover, such corporates are notorious for tax avoidance and evasion. Instead, taxes can be collected from such large corporates and directed towards progressive realisation of women's rights. While government has taken steps towards eradicating gender inequalities through suspension of indirect taxes such as value added tax (VAT) and customs duty on the importation of sanitary wear for women, there is still a long way to go[1]. Bridging the inequality gap brought about by taxes requires a lot more. VAT, a form of indirect tax, can exert a gender bias due to women's different consumption patterns. Women tend to purchase more goods and seek services that promote health, education and nutrition compared to men.

This in turn means that women bear a larger VAT burden if the VAT system does not provide for exemptions, reduced rates or zero-rating. The same applies to ensuring a sufficiently high tax-free allowance for small entrepreneurs, most of which are women. More generally, because of women's lower income, a tax policy that solely focuses on increasing indirect taxes such as the VAT instead of also increasing direct taxes (income taxes) is likely to be more burdensome for women [2]. This applies to Zimbabwe's 2% tax, which places a heavier burden on women who have a lower income than men and form the larger part of Zimbabwe's informal economy. The role of indirect taxation in perpetuating gender inequalities should be interrogated as the most progressive taxes, being those on personal income and wealth, whose scale tips more towards men, are underused.

In order to raise more tax revenues for public services, and to do so in ways that promote women's rights rather than undermining them, government must:

- Maximise available public resources, notably tax revenues, to invest in gender responsive public services that will help to end gender inequality and fulfil all women's human rights.
- Establish gender-responsive budgeting to ensure tax revenue is collected and spent in a way which promotes gender equality and upholds the right of all women.
- Raise taxes in the most progressive way possible, with more emphasis on direct taxation of income and wealth.
- Ensure that companies are paying their fair share of tax including cutting back on tax incentives, curbing illicit financial flows and tax evasion by multinational corporations and wealthy elites [3].
- Carry out tax impact assessments to identify the direct and indirect effects of taxes by gender, paying particular attention to the impacts of both taxes and public spending on the poorest women [4].

1. https://www.zimra.co.zw/news/2076:suspension-of-duty-on-sanitary-wear-for-women-2
2. https://www.oecd.org/dac/gender-development/44896295.pdf
3. https://www.globaltaxjustice.org/en/latest/we-need-tax-justice-gender-equality-now
4. https://www.ohchr.org/Documents/Issues/Development/IEDebt/WomenAusterity/GlobalAllianceTaxJustice_1.pdf

## 3. Opinion Piece: Economic Woes, Policy Inconsistencies and Currency Fluctuations

The government's rushed policy measures to suspend back lending announced on the evening of March 7 2022 have started to backfire as was warned by many economic commentators. For instance, the suspension of bank lending has exposed the productive sector to negative shocks which could potentially derail economic activity, in a context of massive exchange rate depreciation, rampant price inflation, and increasing global energy and food prices triggered by the conflict in eastern Europe. The government is convinced that all necessary and sufficient fundamentals to anchor the Zimbabwe dollar (ZWL) are sound. These fundamentals include inter alia, rising industrial production and productivity, sustainable budget deficits, sustainable current account balance, tight monetary targeting, improved foreign currency reserves, and elevated forex generation.

According to the Governor of the Reserve Bank of Zimbabwe's positive assessment of economic realities, "companies are producing well and Bulawayo is no longer a ghost town. They are producing. In any case, the economy is overheating" [5]. This assessment of the economy performing so well that is overheats is questionable as is the authorities' assertion that over 75% of goods on shelves are being produced locally. Although government attributes current instability entirely to behavioural economics and the negative ripple effects of the Russia-Ukraine war particularly on global prices of energy and food, one can, however, demonstrate that the current crisis was triggered by the fiscal and monetary policy actions of the government.

From the fiscal front, economists revealed that even though the government has managed to lower the fiscal balance, the funding model being used to pay for government mega-deals and election focused programs like road construction and agricultural guarantees is unsustainable. The government is using short-term financing and escalating money supply growth of ZWL to finance public expenditure despite pre-existing conditions of heavy indebtedness, high currency depreciation and price inflation. For instance, about 35% (ZWL334 billion) of the 2022 national budget was set aside for construction work while about 12% (ZWL116 billion) is earmarked for the agriculture sector. This means that at least 45% of the 2022 budget is finding its way into the black market as government pays its contractors and farmers who in turn use all means available (legal and illegal) to convert the ZWL into stable US dollars. One should also be cognizant of the fact that due to corruption in the awarding of tenders; the contractors are overcharging the government for services rendered.

At the same, artificial buying prices for agricultural commodities like maize and wheat set above the market prices through the Grain Marketing Board continue to exert huge spending pressure on the Treasury.

5. https://www.theindependent.co.zw/2022/05/13/foreign-banks-troop-to-zim-forex-auction/

From the monetary policy front, the government is convinced that the tight monetary targeting framework (lower quarterly reserve money targets) coupled with high RBZ benchmark interest rate and statutory reserve requirement ratios being followed by the RBZ is sufficient to subdue exchange rate depreciation pressures. However, a review of statistics indicates that ZWL liquidity remains high as shown by the broad money supply growth rate which continues to hover above 100% year on year. As of March 2021, this variable grew by 151% after recording 113.4% and 123.8% growth in January and February respectively. It is the public's view that this growth rate is unsustainable as it exerts pressure on ZWL to depreciate thus fuelling price inflation. The RBZ is also at fault due to its policy inconsistency, particularly on the exchange rate management mechanism to be used for the ZWL price discovery process. The economy went through various mechanisms (free-floating interbank, managed floating interbank, fixed regime, auction market, and now willing-buyer willing-seller) in the last 4 years alone.

This dwarfs public trust in the monetary authority and decimates economic agents' confidence in the ZWL. The RBZ is also being used as a borrowing machine for the government thus further destabilizing markets, particularly the foreign exchange markets leading to growth-retarding price distortions. Although the government had allowed the payment of some duties and taxes in local currency to improve ZWL use and appeal, the unfading dominance of the greenback in the market signals a lack of confidence in the ZWL. It is the public's view that the State should be a strenuous protagonist of its local currency by collecting all taxes as well as conducting all of its domestic transactions in local currency. But recently the government introduced a 4% Intermediated Money Transfer Tax on all US dollar domestic transfers and a 2% levy on all US dollar cash withdrawals of at least US$1 000. Given that there are already numerous and too high regressive taxes in Zimbabwe, these new draconian taxes introduced under the semblance of increasing ZWL use are tantamount to a US dollar fishing expedition by authorities.

This is because these new taxes were immediately followed up by an announcement that 30% of grain deliveries made by farmers to GMB this year will be paid in forex. This USD component will be calculated at the willing-buyer willing-seller rate on the date of delivery. Again, in February 2022, the government introduced a US dollar portion of civil servants' salaries. All this is made under the guise of following the "dual economy" when in fact the government is merely admitting that the local currency is losing value hence the need for one to hold the US dollar as a value preservation strategy. As such, by chasing the greenback in the alternative markets, economic agents are just taking a leaf from the central government. In the end, it is the ZWL, a currency earned by the majority that will continue to deteriorate plunging citizens below the poverty datum line.

In a way that will further plummet the ZWL and accelerate re-dollarization, the government has ordered Zimbabwe Revenue Authority (ZIMRA) to suspend import duty to allow those with free funds (forex) to import basic commodities like rice, maize meal, sugar and cooking oil.

Although this is a welcome development to cushion the public from rising inflation, the imported foodstuffs will be sold in US dollars yet the majority earn in the fragile ZWL. This also happened in 2019 when RBZ introduced the Direct Fuel Import (DFI) scheme. Consequent to this scheme, the ZWL fuel market became extinct and the sector has now fully dollarized -a big trouble, especially for the "Main Street". The suspension of import duty also exerts a strong productive sector (local industry) shock thus reducing Zimbabwe into a supermarket economy -dominated by buying and selling of goods. Furthermore, by allowing an influx of imports, authorities have exposed themselves that, unlike their grandiloquence, there are neither sound macroeconomic fundamentals in place nor an overheating in economy activity. In other words, the measures being proposed by the government to stabilize the currency and prices are self-defeating.

The foregoing discussion has shown that the government has resorted to a blame game when it is the one that is actually fuelling instability since the ill-advised reintroduction of the ZWL in early 2019. Failure to reform the economy and reverse strong structural rigidities which are causing massive price distortions is concerning. As are the massive resource leakages caused by elevated public corruption and illicit financial flows. Furthermore, the unresolved heavy indebtedness continues to constrain the countercyclical effects of fiscal policies and impedes domestic capital accumulation via heightened interest rates and distortionary taxes.

Therefore, to quench the current protracted economic crisis, the government should desist from blame game strategies and the reactionary implementation of half-baked policies which are generally short-lived. This is shown, for instance, by the suspension of bank lending in the measures announced by the President as banks were blamed for enabling speculative borrowing. However, the suspension could not last for 10-days as it has inflicted a great shock on the productive sector forcing authorities to backtrack. It is in the public interest for government to embrace of inclusive dialogue in the formulation and implementation of public policies. An inclusive process involving all market actors are vital to correct and balance-out individual biases of vested interest. This will surely lead to the adoption of forward thinking progressive policies owned by all economic stakeholders - the corporate world, academia, civil society, students, and the general public, among others.

## 4. Re-engagement and Ease of Doing Business off The Rail

The Zimbabwean government's ambition to re-engage with the west and promote the ease of doing business is off the rail. Evidence suggests that Harare's re-engagement drive has yielded to a fire-fighting approach at odds with its stated ambitions of achieving a middle-income society. The re-engagement drive is anchored on the reform thrust which became the gospel of the 2nd republic since its emergence in 2018. Like a preacher who practice what he or she does not preach, the 2nd republic has been found wanting on the reform thrust.

The reform promises have not been met with reform implementation thereby making the whole reform thrust a high sounding nothing. All the targets that the government had set for re-engagement in the National Development Strategy 1 (NDS1) have not been met as both image building and re-engagement processes have failed to meet intended targets. A glimpse of Zimbabwe`s performance in image building and re-engagement is presented hereunder.

## Image Building

| NDSI KRA | KRA Variables [7] | Indicator/Measurement | Baseline | 2021 NDSI Target | 2021 Actual Score |
|---|---|---|---|---|---|
| **Image building, International Engagement & Re-engagement** | Image building | Good Country Index | 100/153 | 98/153 | 111 |
| | | Country Brand Ranking Global Travel and Tourism | 120/189 | 116/189 | To be updated |
| | | Competitiveness Ranking | 114/140 | 113/140 | 127 |
| | | Global Happiness index | 146/191 | 136/191 | 148 |

## International Engagement and Re-engagement

| *NDSI KRA* | *KRA Variables[8]* | *Indicator/Measurement* | *Baseline* | *2021 NDSI Target* | *2021 Actual Score* |
|---|---|---|---|---|---|
| *Image building, International Engagement and Re-engagement* | International engagement & re-engagement | Country Risk Index | Grade CCC High Risk | Grade CC Medium Risk | Grade E. The highest-risk political and economic situation |
| | | Removal of Sanctions | 30% | 100% | Failed dismally sanctions have been renewed twice since 2020 |
| | | Competitiveness Ranking | 114/140 | 113/140 | 127 |

Zimbabwe`s re-engagement thrust orbits around national and institutional reforms which also promote the ease of doing business. There is a correlation between image management, re-engagement and the ease of doing business. For example, threats by the government to constrain the space for Civil Society strongly signal to donors and development partners, its intentions to proceed on a path of authoritarianism, despotism and totalitarianism. This Private Voluntary Organisations (PVO) Bill attests to the attempts by the government to shrink the civic space. Constraints on the existence of a free and robust Civil Society will likely intensify the lack of rule of law and broader weakening of democratic safeguards generally viewed as derailments to the ease of doing business and re-engagement which thrive on shared norms and standards.

This situation is worsened by policy inconsistences emanating from the vested interest of those close to the highest echelons power. For example, policy U-turns without necessary engagements starting with the Interbank rate, fixed rate, Auction Market System and now the Willing Buyer Willing Seller coupled with the controversial non-lending stance are emblematic of Zimbabwe’s declining democratic conditions. These U-turns affect corporates optimal planning which is integral in business investment, thus, making Zimbabwe a high-risk investment destination.

## 5. Zimbabwe must re-orient its Priorities

Reports by Zimlive that Zimbabwe is in talks with Indonesia to buy arms during Vice President Chiwenga's visit, raise concerns about the Government's priorities at a time when Zimbabweans are suffering from unprecedented price hikes and a cost-of-living crisis [6]. Vice President Chiwenga is reported to have travelled to Indonesia for a water summit and will spend a week exploring areas of possible cooperation in the development of public health, health services, and the pharmaceutical industry. While, these are critical sectors that need urgent attention due to infrastructural gaps, reports about purchasing arms overshadow all the good efforts embedded in the trip. Misery and unhappiness is currently at the core of most households in Zimbabwe due to the unbearable cost of living.

Approximately 7.9 million Zimbabweans are living in extreme poverty, with 20 children joining chid vending in Harare every day. This has led to the proliferation of Child marriage, which remains high with 34% of girls under the age 18 married, while 5% of girls under the age of 15 are married [7]. The challenge of child marriage is not limited to the girl child only as approximately 2% of boys marry under the age of 18. UNICEF 2021 Zimbabwe Annual Report propounded that, Zimbabwe has weak child protection systems that have successfully-failed to ensure the safety and well-being of children. UNICEF reported that, "4.8 million Zimbabwean children live in poverty and 1.6 million children live in extreme poverty" [8].

The situation is further exacerbated by the fact that, the health sector is in a dire situation at a time when other parts of the world, South Africa included are strengthening health systems in anticipation of a fifth wave of COVID-19. Rather than strengthening emergency management, the government`s decision to purchase arms shows that Zimbabwe has learned nothing and forgotten nothing during the first and second wave of the COVID-19 pandemic. The decision to purchase arms is farfetched, as Zimbabwe currently is experiencing negative peace which is the absence of war or any physical violence. Thus, government`s efforts should more rather, pursue positive peace aimed at achieving favourable living conditions for all citizens through the urgent steps to reverse the unbearable cost of living through ramped up social spending that meets the prescribed 4.5% of the national budget according to the African Social Policy as well as effective child protection system that promotes optimal human capital development.

6. https://www.zimlive.com/2022/05/16/zimbabwe-in-talks-with-indonesia-to-buy-arms-during-chiwenga-visit/
7. UNICEF Data Updated February 2021
8. https://borgenproject.org/child-poverty-in-zimbabwe/#:~:text=The%20State%20of%20Child%20Poverty%20in%20Zimbabwe%20Zimbabwe,as%20children%20account%20for%2048%25%20of%20the%20population