RE: ANALYSIS OF ZIMBABWE'S NEW MEASURES TO STABILIZE THE ECONOMY AND CUSHION CIVIL SERVANTS

The Government of Zimbabwe (GoZ) has introduced a raft of measures set to redress the present economic turmoil, welfare of general Zimbabweans and more specifically Civil servants. These measures do not come in a void and have come at a time when the latest inflation statistics released by the Zimbabwe National Statistics Agency (ZimStat) show prices of basics increasing by 191% in the last 12 months through June 2022 compared to 131% in the prior month while the Minister of Finance & Economic Development insists that we are not in a crisis. The present economic quandary is primarily centered around the value of the Zimbabwean Dollar (ZWL) which continues to lose weight against the United States Dollar since its premature reintroduction despite a clear lack of strong macroeconomic fundamentals to anchor the currency. Following, there is need for specific measures to be taken to stabilize the economy and meaningfully cushion civil servants as recommended below.

Of Concern

To curb ZWL depreciation and inflation, the Treasury and the RBZ through its Monetary Policy Committee (MPC) have announced additional fiscal and monetary measures respectively to buttress the stability measures that were announced by the President on the 7th of May 2022. Below is an analysis of these.

MPC Measures

- **Benchmark Policy Rate:** In a bid to discourage borrowing for speculative purposes in the economy, the MPC has hiked RBZ's benchmark policy (interest) rate from a global high of 80% to another global record high of 200%. While an interest rate above the inflation rate is key to ensuring positive real interest rates in the economy, a policy rate of 200% will significantly increase the private sector's cost of borrowing. Consequently, the unit cost of production will burgeon forcing businesses to cut production, hike prices, and retrench workers. This shows that RBZ is now sacrificing economic growth for price stability, a move that will entrench poverty and further push the unemployed youths into substance abuse, crime, and early marriages, among other career-shattering activities. It is therefore the public's view that authorities should always strike a balance between these 2 policy trade-offs: reducing inflation and increasing employment of factors of production.

- **Deposit rate:** The MPC has also increased the minimum deposit rate for ZWL savings from 12.5% to 40% per year and the minimum rate for ZWL time deposits to 80% from 25% per annum. By increasing these ZWL interest rates, the MPC seeks to increase ZWL saving by increasing the opportunity cost of holding cash. However, these interest rates on deposits will not likely make ZWL savings appealing to the public as it lags the inflation rate. As such, a rational investor would withdraw all ZWLs and invest elsewhere in safe-haven assets that cushion against uncertainties like stocks and real estate.
- **Liquidation of Unutilized Retained Export Receipts:** The RBZ will liquidate 25% of all unutilized export receipts at the willing buyer willing seller (WBWS) exchange rate after 120 days from the date of receipt of export proceeds. According to the monetary authority, this policy stance will enhance the circulation of forex in the economy as well as support the WBWS forex market. It is however irrational for RBZ to force businesses to liquidate their remaining forex balances after ceding 40% to the government at an overvalued WBWS rate. Already, companies are complaining that these retention thresholds are not taking into account the costs incurred in generating exports. The move by RBZ will suffocate exporters while subsidizing importers disproportionately. Ironically, these importers are benchmarking their goods at or above parallel rates after receiving cheap forex on the auction market to import raw materials. Therefore, this policy stance will subdue exports while entrenching rent-seeking behaviour in the economy.
- **Introduction of Gold Coins as a Store of value:** The MPC has resolved to introduce gold coins to enable investors to store value. These coins will be minted by Fidelity Gold Refineries (FGR) and sold to the public through the banking channels. A gold coin is a coin that is made mostly or entirely of gold minted by the government and typically has a legal tender face value within the sovereign nation it is struck. It is the public's view that since these coins will be backed with gold, they will bring stability to the market. However, the success of gold coins is hinged on the trading modalities yet to be announced by authorities. While waiting for these, it is questionable if Zimbabwe is producing enough gold to set aside some to sell in the local market. The public is aware that Zimbabwe is using its gold to pay for collateralized loans like the over US$250 million fuel loan that was extended by Trafigura in 2019.[1]

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1. https://www.bing.com/search?q=government+paying+trafigura+using+gold&cvid=6e1cb1f1a1d143ca846582f283e6a3de&aqs=edge..2.69i57j0l8.14937j0j9&FORM=ANAB01&PC=HCTS

From this alone, it will be difficult for RBZ to sell some of its gold locally in local currency given the current acute shortages of foreign currency. There is also a lack of trust in RBZ. In 2014 when it introduced the bond coins, it claimed that there were backed by a US dollar loan from Afreximbank which later turned out to be misleading.

Treasury Measures

- **Entrenching multi-currency system in law:** The government has entrenched the multicurrency regime into law, that is, US dollar use will remain legal tender in circulation together with the ZWL for the entire period of NDS1. According to the Treasury, this is key to boosting market confidence as it guarantees economic agents that the multi-currency system will remain in the foreseeable future thereby eliminating speculation and arbitrage. This will indeed dwarf recurring public fear that the government was going to ban US dollar use and convert all existing forex bank balances at the interbank just as was the case in 2019. However, a multi-currency system is feasible when the ZWL is stable. The status quo of ZWL depreciation is creating widening income inequalities and creating classy systems of the haves (those earning in stable US$) and the have-nots (those earning in the fragile ZWL). Therefore, the government should go further to address the root causes of ZWL depreciation which include among others fiscal indiscipline, excessive money supply growth, illicit financial flows, and rampant public corruption.
- **Entrenching interbank market exchange rate into law:** The government announced that the interbank market exchange rate is now determined by banks on a WBWS basis. Also, this WBWS rate is now the reference rate for all economic transactions in Zimbabwe with those found violating the law by discounting US$ prices will face criminal and civil penalties, suspension, or cancellation of business licenses. While ·this move is intended to bring market discipline, the current disparity between ZWL and USD in the parallel market renders the policy stance ineffective. Forcing economic agents to use the WBW rate which is currently overvalued is tantamount to price controls and results in an acute shortage of goods in formal channels. As such, the government should allow the market to discover the true price of ZWL without interference and revert to sustainable fiscal spending. This is the only key to the restoration of currency and price stability.

- **Fuel Sector:** Since the outbreak of the Russia-Ukraine war, global crude oil prices have gone haywire. This is largely affecting net-importers of fuel like Zimbabwe as they take global fuel prices as is. To cushion the general public and the economy, the government has now instituted a downward review of its fuel levies and will release fuel from the Strategic Fuel Reserve. This is commendable as it will bring needed relief. However, authorities can do more by liberalizing the ethanol sector which is currently under the control of a single supplier. There is also a need to allow the participation of many players in the fuel importing and retailing business. The current setup where few large fuel importers are also key players in the retailing sector contributes to pricing distortions.
- **Grain Sector:** Despite initially announcing that there are enough grains in Zimbabwe, the statement made by the finance minister now acknowledges that it is the shortage of maize meal and flour in the market that is pushing prices of commodities like bread beyond the reach of the poor majority. To curb price growth, the government will release to millers 20 000 metric tonnes (MT) of wheat and 27 000 MT of maize from its dwindling Grain Reserve for the next 3 months. The government will also help to facilitate the importation of grains from Malawi and Zambia. This release of grains from available reserves buttressed by imports is commendable as it will help reduce acute shortages and stiff price hikes of food for a country that experienced a poor 2021/22 agriculture season. However, to bring long-lasting solutions, the government should increase investments in climate-smart agricultural techniques like irrigation and short varieties. There is also a need to finalize the land audit to help identify underutilized multiple farms and redistribute them. To ensure efficient use of land, the government should implement the Use-It or Lose-It policy as well as address land tenure to make 99-year leases bankable.
- **Civil servants' salaries:** To cushion public workers in the executive, judiciary, and legislative branches of government, the Treasury has announced a 100% salary increment with effect from 1 July 2022. There are also other varying incentives announced like housing loan guarantee scheme, civil service housing loan scheme, civil servant access to duty-free importation of a single motor vehicle for personal use, transport allowances, and payment of school fees for up to 3 biological children among others.

While the 100% salary increment will provide some form of relief to public workers already earning paltry salaries, the hike is lagging behind the growth of price inflation. Since inflation is rising monthly as it tracks exchange rate depreciation, it is the public's view that government should increase the US dollar salary component to at least 50% just as is the case with government contractors in road construction and pay the ZWL balance at the closing interbank rate for every month. Increasing the US$ component will help to reduce ZWL liquidity in the market since the vast incentives offered to the civil service entail increased government spending.

Recommendations

Noting the effort to alleviate the challenges that citizens are facing, it is our position that government take deliberate effort to correct the problems of the day and consider the suggestions below:

- **Pegging Civil servants' salaries in USD:** GoZ should pay 50% of civil servant's salaries in USD & another 50% in ZWL at the interbank rate. The idea here is to cushion workers from perpetual ZWL exchange rate depreciation. This will also help stabilise the local currency as it reduces both government ZWL spending & USD demand from individuals.
- **Fiscal discipline:** Government should spend within its means/budgets. This entails abolishment of all quasi-fiscal operations (QFOs) by RBZ. It also means adhering to the contract of a budget that has been approved after consultation with citizens.
- **Addressing Corruption:** Graft and resource leakages continues to exert a weight on state resources while prejudicing citizens. Furthermore, it erodes the necessary trust between government and the people.
- Market driven exchange rate (free float): The Willing Buyer Willing Seller (WBWS) system through banks will help discover the true price of ZWL as long as RBZ does not interfere. As such, there is need to remove trading caps on this WBWS system.
- **Address public debt:** Latest statistics are showing burgeoning debt figures from US$10.7B as of Dec 2020 to US$17.15B as of Dec 2021. Of the total PPG, arrears alone constitute more than US$14B. This show that the nation is in debt distress. This burden will continue to exert pressure on citizen's livelihoods when repayment demands are made. Furthermore, unsustainable debt constrains the countercyclical effects of fiscal policies & affect economic growth through heightened interest rates, taxes & inflation. With low levels of debt, Zimbabwe will be able to provide social safety nets to the vulnerable.