# WEEKLY REVIEW

## 5 JULY 2022

# Weekly Dashboard

## Forex Auction Weighted Rate

| Week | 21.06.22 | 28.06.2022 |
|---|---|---|
| Per USD1 | ZWL 352 0626 | ZWL 366 2687 |

## Consumer Price Index

| Month | May | June |
|---|---|---|
| | 6.662.17 | 8.707.35 |
| Blended | 174.03 | 205.39 |

## Inflation

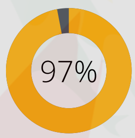
| Month | May | June |
|---|---|---|
| M.O.M. | 21.0% | 18% |
| Y.O.Y. | 131.7% | 191.6% |

## COVID-19 Cases

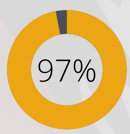
| Week | 26.06.22 | 04.07.22 |
|---|---|---|
| Positive | 255 383 | 255 755 |
| Recovered | 248 317 | 249 078 |
| Deaths | 5 549 | 5 558 |

## National Recovery Rate

26.06.22




04.07.22



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## 1. Mosi-oa-tunya Gold Coins

The introduction of gold coins as part of reform measures to address runaway inflation in Zimbabwe is a consequential yet insufficient measure to insulate the Zimbabwean economy from inflationary pressures. Reform measures can be judged according to the extent to which they enhance transparency, institutional credibility and predictability. Recently announced currency reform measures perform dismally on all three measures. They are significantly undermined by Zimbabwe's history of hyper-inflation, incessant political pressures on monetary authorities and the Reserve Bank of Zimbabwe's lack of institutional credibility.

The issuance of gold coins seems a noble idea, in that they crucially provide a dependable store of value. However, as the public cannot separate the gold coins issuance with the bond notes from 2016, questions arise as regards the utility of gold coins as a means of payment and unit of account within Zimbabwe's economy. If gold coins are to be successful, the government ought to be clear with the following:

- Why should the public hold certificates after purchasing the gold coins instead of having the actual gold coins?
- Is the gold certificate tradable or can it be used as medium of exchange? If so, how is the change of ownership captured as gold certificate transactions progress exponentially in the economy? Impliedly, trade will be on the certificates instead of the actual gold coins – creating a derivative likely to benefit the government as it might not have to mint coins but print the certificates.
- Do economic agents prefer gold to the USD?
- What rules surround the issuance, custody and trade of gold coins?
- Can individuals earn interest on gold coins?
- How does the issuance of gold coins resonate with export surrender and liquidation requirements for gold producers?

## 2. A brief history of currency reforms

The Government of Zimbabwe's history of monetary reforms in response to local economic challenges is marked by widespread inconsistencies and underwhelming results for sustained economic progress and social impact.

In 2008 inflation in Zimbabwe reached a record breaking 79600000000% signaled by the printing of the unprecedented Z$100 trillion dollar note. This hyperinflationary phase was partially ended by the cessation of the Zimbabwean dollar and the adoption of the USD as a currency. Following five years of relative economic stability bond coins annexed to a US$50 million AfreximBank facility were introduced in December 2014. And then in November of 2016, bond notes were introduced as 'Export Incentives.' This iteration of the local currency was pegged at 1:1 with the USD, famously known as 'Gedye Gedye.' An additional US$200 million AfreximBank facility was engaged to support the issuance of the bond notes. Although the bond notes and coins were purportedly not a currency, the fact that their value was equivalent to the USD meant that the government could gain from printing more bond notes and coins. In no time, non-exporters were now having the bond notes and coins as the USD became scarcer – Gresham's law (good money chases away bad money).

As the USD became scarcer, economic agents were prepared to pay more for every US$ they accessed, birthing the vibrant parallel market. Whereas officially the US$ was equal to the bond, the US$ wasn't available anymore in the formal sector and pricing strategies showed disparities between the US$ and the Bond (cash and or electronic payment). The negative exchange pass-through manifesting as calamitous inflation induced Harare to declare the Z$ as a sole currency (pegged at 1:1 to the US$) through SI 33 and 142 of 2019 – discounting the value of all US$ assets and liabilities at once. The SIs inflicted losses to pension savings, term deposits and other forms of savings held by the public – turning many into paupers. Furthermore, the same SIs failed to thwart the use of the USD in the economy as it continued to be the basis for pricing, especially in the informal sector.

Zimbabwe's calamitous history of failed monetary policy response raises concerns about authorities' capacity to generate the ideas and political will to address the Zimbabwean economy's vulnerability to inflationary shocks and pressures such as the Ukraine war, global food and energy price volatility and rising interest rates on Zimbabwe's sovereign debt.

## 3. National Resilience Must Be The Nerve-Center of Vision 2030

National resilience entails a country`s capacity to bounce back from stress, pressure, or disturbance. It is the adaptive capacity of a country to recalibrate its growth trajectory after a disaster.

Lessons from the cyclone Eline of 2000, Cyclone Idai of 2019 and COVID-19 shows that Zimbabwe`s resilience capacity is wanting. For example, the Cyclone Eline of 2000 exposed organisational incapacity and anomalies within the organisational structure of the Department of the Civil Protection (DCP) as it failed to initiate rapid response and risk zoning prior the disaster. It`s disaster recovery, reconstruction and rehabilitation process exposes scintillating revelations of poor national resilience systems. As a result, approximately 2.7 million people were affected directly or in directly in the Southern and Eastern part of Zimbabwe, among them were vulnerable groups such as the youths, women, immigrants, tribal minority and Persons With Disability (PWD). The magnitude and scale of Cyclone Eline was described as “huge”, destroying many crops, homes, bridges and granaries with a total cost of US$ 3,160,799.00 leaving many homeless at the mercy of poverty.[1] According to World Food Programme Zimbabwe, approximately 4.6 million people were left vulnerable and in need of food assistance.[2]

In addition, in 2019 Zimbabwe was hit by cyclone Idai and according to UNICEF Zimbabwe Report 7[3] “as of 14 April, 334 people had been reported dead and over 257 people were reported missing due to the cyclone”, 270,000 people were affected, including 129,600 children. The scale and magnitude of Cyclone Idai is a testament to weak community and national resilience as the affected areas are the ones which were affected during cyclone Eline. Thus, Zimbabwe learnt nothing from the previous disasters.

Nevertheless, cyclones are not the only disasters that have undermined the establishment of national resilience systems. This is because, the effects of the COVID-19 pandemic ushered many Zimbabweans into misery and unhappiness as extreme poverty increased by 1.3 million in 2021 from 6.6 million recorded in 2020. Thus a total of 7.9 million are in extreme poverty, which is half of the entire population. A disaster which the government has failed to declare. Poverty resilient mechanisms which the government attempted to use through social protection systems are also wanting as the Harmonised Cash Transfers allocations are too meagre to bring about positive transformation. At the same time, the budgetary allocations for social protection continues to fail to meet the prescribed 4.5% Africa Social Policy. Partisan distribution of food aid from the department of social welfare also undermines the effectiveness of government interventions.[4]

1. https://www.preventionweb.net/files/1318_ZimbabweHFAprogressreport[1]pdf

2. World Food Programme Zimbabwe. Assessment of the Impact of Cyclone Eline (February 2000) on the Food” Agriculture and Natural Resource Sector in Zimbabwe

3. https://reliefweb.int/sites/reliefweb.int/files/resources/UNICEF%20Zimbabwe%20Cyclone%20Idai%20Humanitarian%20Situation%20Report%20%234.pdf

4. https://zimbabwe-today.com/zimbabwe-partisan-distribution-of-aid-threatening-social-cohesion-in-masvingo/

## 4. Humpty Dumpty Sat on a Wall, Humpty Dumpty Had a Great Fall: The case of the Zimbabwean Dollar

The government's interventions to control pricing and inflation have been futile, as inflation continues to spike and confidence in the Zimbabwean dollar plummets. As a result, Zimbabweans are beginning to draw parallels between what happened in 2008 and the current economic situation. Despite government's insistence that the country is not dollarizing, most businesses - from roadside vendors to government departments - have been demanding the US$ as payment for goods and services.

Notwithstanding desperate measures invoked to try and stabilise the economy through command-style policies, government's efforts to ensure sufficient confidence and trust in the local currency are bound to fail without resolute measures to restore confidence in the nation's monetary institutions. In as much as economic blueprints and policies are essential in laying out the goals and aspirations of the government, they are however not an end to social and economic challenges, as they fail to capture the reality on the ground and have not brought about the much-needed development and transformation.

Back in 2008, the move to dollarize the Zimbabwean economy was advantageous in terms of curbing inflation and bringing stability and sanity into the monetary system. Although the introduction of the multi-currency system eased inflation and restored sanity in the economy, it came with its challenges. In particular, the introduction of the multi-currency system led to a worsening of living conditions, weak economic growth and overpricing of goods. Businesses began to round off prices and alternatively giving vouchers, chewing gum or sweets as change. As a result of shortage of change, the Reserve Bank of Zimbabwe introduced bond coins, a surrogate currency to be used as change in domestic transactions. This was a move intended to cure the shortage of change in the country. The bond coins went into circulation on the 18th of December 2014 with $10 million worth of coins being rolled out in denominations of 1c, 5c, 10c, and 25c. The RBZ's intention in releasing these coins was to relax the small change problem and rectify the pricing mechanism where prices were being rounded up to a dollar resulting in consumers paying for unintended goods in compensation for change.

The bank's rationale was that the bond notes would benefit both retailers and consumers as well as eliminating the burden placed on people in the informal sector to access inaccessible change. The public was assured that the coins were being rolled out purely as a strategy to cure the shortage of change in small denominations. However, in February 2019, the government dropped a peg that kept the Zimbabwe currency at parity with the U.S. dollar. In June, it was rechristened the Zimbabwe dollar and the rate between the two currencies has been increasing leading to the fall in value of the Zimbabwe dollar.

Historically, the main influencers of currency substitution were economic instability and financial failure. Many markets, much like Zimbabwe, experience hyperinflation over a period of time before moving to dollarization. Evidence has suggested that very few economies have managed to de-dollarise. Without developed capital markets and plagued by high inflation, the need to integrate asset substitution into daily operations is established. The reasoning then becomes; foreign currency, being the stronger more stable currency, is required to provide insurance. However, once dollarization is encapsulated in an economic model, it is, without a doubt, inconceivable to revert to a local currency without a complete paradigm shift in the country's economic arena and its drivers.

Good governance based on rule of law, human rights and freedoms, accountability, transparency, responsiveness, equity and inclusivity, efficiency and full participation of the people in socio-economic development, is the bedrock for a new democracy and development, however, Zimbabwe is currently crippled by poor public finance management and limited recourse to external financing due to heavy indebtedness. In order to achieve Vision 2030, the country will need to rely heavily on reallocating domestic resources for optimal public usage, mobilizing humanitarian support to prevent increasing fragility and leveraging private financing where possible to stimulate growth. So far, this has not been the case and given the current trajectory, Vision 2030 seems more like an over ambitious goal and another one of government's empty promises.

## 5. Gold coins do not address the root causes of the crisis

Zimbabwe is facing a tightening macroeconomic environment characterized by rampant depreciation of the local currency and skyrocketing inflation. As a result of this mounting crisis, the Monetary Policy Committee (MPC) of the Reserve Bank of Zimbabwe (RBZ) introduced gold coins dubbed 'Mosi-Oa-Tunya Gold Coin' to help investors preserve the value of their investments. The gold coins will be minted by Fidelity Gold Refineries (FGR) and will be traded in both the domestic and international markets through the RBZ, its subsidiaries, and banks starting from the 25th of July 2022. The coins will be sold to investors both in US dollars and Zimbabwe dollars (ZWL).

According to a statement by the RBZ Governor,[5] these coins will weigh one (1) troy ounce and carry a purity of 22 carats (about 4.4 grams) of gold, adorned with serial numbers, and upon purchase, the buyer shall take physical possession of the coin and be issued with a Bearer Ownership Certificate. As for the trading modalities, the coin will have liquid asset status (capable of being easily converted to cash), will be tradable locally and internationally and its pricing will depend on the foregoing international prices of gold together with the cost of producing gold.

On face value, the introduction of gold coins will provide investors with alternative means of storing value. Before it collapsed in the 1970s, the global monetary system depended on the gold standard where values of currencies were fixed to the price of gold. This allowed central banks to effectively control inflation as the system could not allow them to print money excessively without increasing the quantum of gold backing it. Generally, gold is described as a safe haven asset during uncertainties like geopolitical tensions, natural disasters, and galloping price inflation. This is because gold is a scarce resource, has the highest Stock to Flow Ratio of all commodities, and also enjoys a long history of use as a store of value and transactional currency.

However, the market remains sceptical about RBZ's plans for gold coins. Economic agents lack trust in the central bank because of its policy inconsistencies -a history of reneging on its prior announcements. In 2014, RBZ introduced bond coins which were purportedly backed by a US$200 million loan extended by AfreximBank.[6] The government's appetite to spend beyond its means triggered the depreciation of bond coins and notes which became de facto local currency. Many economic analysts described the introduction of bond coins and notes in 2014 as a scheme by the RBZ to mop US dollars that were in circulation in the market to fund the government's annual budgets which were characterized by record deficits. This is what precipitated the introduction of the local currency in February 2019 as the economy was left with nominal electronic US dollars (RTGS balances) thereby causing an acute shortage of foreign currency. Official statistics show the central bank accumulating legacy debts to the tune of US$3.8 billion as it failed to facilitate forex transactions owed to foreign suppliers by about 855 local firms.

5. https://www.rbz.co.zw/index.php/publications-notices/notices/press-release/1193-introduction-of-gold-coins

6. https://www.zimbabwesituation.com/news/yamamoto-bond-notes-coins-whatever/

From the domestic front, the cash-strapped government was forced to monetize the fiscal deficits it incurred between 2016 and 2018 when it introduced the corruption-infested Command Agriculture program. To this day, the country is still struggling with exchange rate depreciation and high inflation caused by the lack of fiscal discipline.

The Zimbabwe is facing weak institutional and legal frameworks to curb forex leakages emanating from public corruption and illicit financial flows such as gold smuggling. The government estimates that it is losing about US$100 million in gold revenues per month through smuggling.[7] The side marketing and smuggling of gold are aided by FGR's long history of paying gold prices that are not in sync with global market dynamics. Currently, the RBZ is facing forex shortages and has minimal if not non-existent gold reserves in its vaults to enable it to sell gold locally. Due to burgeoning public debt and resultant inability to borrow on concessional terms from international financial institutions (IFIs) such as the World Bank, Zimbabwe is forward selling its minerals and also engaged in collateralized borrowing (resource-backed loans) to fund some of its developmental programs and projects. Recently, Bloomberg revealed that the country is paying Trafigura's US$225 million fuel loan contracted in 2019 using revenues from nickel and gold mines owned under Kuvimba Mining House.[8]

More importantly, FGR is just a gold middleman without its own gold mines. The proposed selling of gold in ZWL will undermine the productivity of gold miners who are already choked by the 40% forex retention thresholds. These retention thresholds are set to rise to 65% as those companies which would fail to utilize forex proceeds[5] within 120 days face a mandatory liquidation of 25% of those remaining forex balances. The Bank will likely use overvalued official exchange rate and start to issue US dollars Treasury Bills (TBs) to finance gold purchases. The created debt will likely end up on the shoulders of poor citizens through the usual tactics of RBZ debt assumptions. Zimbabwe is in debt distress, with public and publicly guaranteed debt (PPG) now recorded at over US$17 billion as of December 2021. To date public and publicly guaranteed debt has increased by more than 50% from the US$10.7 billion that was recorded in 2020. High indebtedness constrains countercyclical effects of government policies and affects economic activity and investment through elevated long-term interest rates, heightened tax rates, currency volatility, and high price inflation.

Currently, US$1 is trading for about ZWL750 in the parallel market against the official rate of about ZWL378. This gives parallel market exchange premia – i.e., the percentage difference between official and alternative rates - above 90% against a global threshold of at most 20%. So, just like the continued maintenance of the failing forex auction system, selling the new gold coins in ZWL surely entrenches rent-seeking behaviour which only benefits the rich and connected few at the expense of the majority poor. ZWL is depreciating at an alarming pace and inflation is raging havoc. The latest official statistics released show that prices increased by a staggering 191% in the last 12 months ending June 2022.

8. https://www.theindependent.co.zw/2022/06/24/world-bank-warns-zim-against-mortgaging-mineral-resources/

As such, the gold coins are unaffordable to most citizens, particularly public workers who are earning paltry salaries. Therefore, it is clear that the gold coins will not address ZWL depreciation and price inflation but are only a way to increase the wealth of the rich. The only viable solution to stabilize the ZWL is to print less of it and back it with fiscal discipline, low levels of public corruption, and strict implementation of economic reforms to subdue existing structural rigidities causing pricing distortions in the markets. Also, it would be better if Treasury spends the forex it is collecting on paying living wages, and strengthen social safety nets as part of measures to increase aggregate demand and locally generated economic growth.



6. https://www.theguardian.com/global-development/2021/jun/21/half-of-zimbabweans-fell-into-extreme-poverty-during-covid
7. https://www.theindependent.co.zw/2022/06/24/nrz-looting-unearthed/
8. https://www.thezimbabwean.co/2009/03/nrz-looting-unearthed/