WEEKLY REVIEW

1 March 2023

Weekly Dashboard

RBZ Interbank Rate

Week	14.02.2023	22.02.2023
Per USD1	856. 8403	881. 7513

Consumer Price Index

Month	December	January
	13 672.91	13 819.67

Inflation

Month	December	January
M.O.M.	2.4%	1.1%
Y.O.Y.	243.8%	229.8%

CONTENTS

1. Zimbabwe structured debt dialogue is a step in the right direction

Last week, the Government of Zimbabwe (GoZ) held a high-level structured debt dialogue with its creditors and development partners. The dialogue was attended by the President of Zimbabwe, senior government officials, former Mozambique president Joaquim Chissano (as the facilitator), and African Development Bank (AfDB) president Dr. Akinwumi Adesina (as the debt champion) among others. This high-level debt dialogue demonstrates the GoZ's commitment to resolving the debt conundrum which is inflicting dire socio-economic effects.

The latest official statistics from the Public Debt Management Office (PDMO) highlighted that of the US$17.6 billion total public and publicly guaranteed (PPG) debt, about US$14 billion is owed to external creditors. This constitutes over 65% of the national output (GDP). While this debt level is consistent with the Public Debt Management Act which caps Zimbabwe's debt-to-GDP ratio at 70%, the current ratio is exceeding the 60% threshold set by the Southern Africa Development Community's (SADC) macroeconomic convergence targets. More so, the country is in debt distress- struggling to pay and restructuring is required - as shown by the rising arrears and penalties. These debt arrears and penalties are now constituting about 45% of total external debt with the bulk (62.6%) being owed to bilateral creditors as shown in the table below.

Zimbabwe Public Debt Profile (US$ millions and Percentages)

Type	Source	Creditor	Total Amount	% Share	Arrears& Penalties	% Share
External Debt	Bilateral	Paris Club	3552	25.3%	3437	54.5%
		Non-Paris Club	2200	15.7%	509	8.1%
	Multilateral	World Bank	1475	10.5%	1333	21.1%
		AfDB	671	4.8%	644	10.2%
		European Investment Bank	372	2.6%	361	5.7%
		Others	69	0.5%	26	0.4%
	RBZ	-	3370	24.0%	0	0
	Blocked Funds	Cash Payments	32	0.2%	0	0
		Treasury Bonds	1049	7.5%	0	0
		Other Creditors	1251	8.9%	0	0
		Total	**14041**	**100%**	**6310**	**100%**
Domestic	Govt Securities	Pvt Sector	89	2.42%	0	0
	T/Bills	Pvt Sector	71	1.93%	0	0
	T/Bonds	Pvt Sector	18	0.49%	0	0
	FFO	Pvt Sector	3500	95.0%	0	0
	Arrears	Pvt Sector	6	0.16%	6	100%
		Total	**3684**	**100%**	**6**	**100%**

Over the years, Zimbabwe has tried to resolve its unsustainable debt stock to no avail. Doomed past initiatives include the 2015 Lima Process, the 2012 Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADS), the 2010 Sustainable and Holistic Debt Strategy, and the 2001-2008 Domestic Debt Restructuring. However, this time, it is likely that the ongoing dialogue processes will bring positive results. The intuition behind this position is the inclusion of former Mozambique President, Joaquim Chissano, a statesman, seasoned politician and diplomat. This is crucial in cultivating political will to implement direly needed reforms. Adding clout to the process is the roping in of AfDB Chief, Dr. Adesina; an economist and banker; as Zimbabwe's debt champion. Dr. Adesina fully understands the demands of instituting economic and institutional reforms. Also, by virtue of being part of Zimbabwe's major creditors, the AfDB chief will be key in negotiating debt relief including the possibility of suspension of sanctions which is key in reducing Zimbabwe's investment risk premium thereby significantly improving capacity for debt servicing.

To provide full debt relief to Zimbabwe, creditors are demanding that authorities institute robust economic, governance and land tenure reforms. These reforms fit squarely into Zimbabwe's aspirations of durable macroeconomic stabilization through the restoration of market confidence in the Zimbabwe dollar (ZWL), thwarting of prevailing market pricing distortions, and strengthening of institutions that are regarded by development economists as the rules of the game. The land tenure reforms that seek to strengthen the protection of land rights including the settlement of a US$3.5 billion Global Compensation Deed to former farm owners will likely bring closure to the chaotic and bloodbath fast-tracked Land Reform Programme of the early 2000s. Thus, paving way for increased agricultural production and productivity through reduced reliance on state subsidies and increased farmers' access to finance.

Nevertheless, the timing of the structured debt dialogues is worrisome and may likely constrain progress. It is generally difficult to garner full political will for robust implementation of reforms like political and electoral reforms from a government facing a re-election year. The quest to win an electoral vote, especially in its rural stronghold will likely force the ruling political administration to continue spending excessively and unsustainably. But, be that as it may, the initiation of these discussions is a move in the right direction which has the potential to bring a lasting solution to Zimbabwe's decades-long debt distress.

2. Opinion Piece: Re-dollarization is the Right Path Forward for Zimbabwe?

The Zimbabwean economy is rapidly re-dollarizing as supported by official statistics. Reserve Bank of Zimbabwe (RBZ) revealed that of the total banking sector deposits, 64.2% are foreign currency accounts (FCA) deposits.

The Zimbabwe National Statistics Agency's (ZimStat) estimates at the Classification of Individual Consumption by Purpose (COICOP) division show that in 2022, about 76.56% of transactions were done in US dollars (US$) with a balance of 23.44% in ZWL. The surveys by CZI, a manufacturing industry body, also established that on average domestic foreign currency sales contributed about 66% of private sector businesses' forex earnings. By taking into account the unbanked informal sector transacting largely in cash, it is clear that Zimbabwe is now back to being a multicurrency regime with the US$ at the epicenter. But is this good for the economy?

Generally, dollarization is two-handed and Zimbabwe should go through dollarization if it is to attain durable stability which is a prerequisite for a mono-currency regime. This piece seeks to explain the intuition behind this view by separating time horizons into the medium-term and the long-term.

#Medium-term Horizon

Arguably, Zimbabwe should embrace the dollarization of its economy in the short-to-medium term for the following reasons:

- **A Leaf from Economic History**

Generally, flexible and progressive policymaking should accommodate lessons from history. A review of previous dollarization reform cases shows that dollarization is nearly permanent. Economic history also shows that forced de-dollarization always backfires. In addition, history lessons show that successful de-dollarization can only be secured through the implementation of prudent market-driven policies and robust reforms. It is relatively easier to increase market uptake of government policy and reforms in a stable macroeconomic environment. So, the guaranteed price stability from dollarization makes it a de facto policy for the medium-term horizon. This gives room for dampening government policy lags -recognition, implementation, and impact lags.

- **We are all Dead in the Long-run**

Policymaking should not only be laser-focused on the economy neglecting the "human face". Official statistics show that the Zimbabwe dollar (ZWL) erased over 80% of its value against the US dollar in 2022. The pass-through effect of inflation is affecting business predictability and eroding the real value of disposable incomes and pensions. This is deepening poverty and widening societal inequalities. For instance, the World Bank estimates that over 40% of the total population was trapped in abject poverty in 2022. Poverty undermines human development as it fuels all forms of discrimination, drug abuse, early marriages, crime rates, and instability. In a recent development the government has elevated its war on drug use especially among unemployed youths who have found solace in substance abuse. This shows that there is a need to find a quick economic fix before the nation witnesses the derailment of the future aspiration of the youth. As I highlighted last week, dollarization brings instant exchange rate and price stability which can help attract private investment.

- **Quick Results**

Some economic commentators are arguing for other alternatives to dollarization like the adoption of a currency board system. This system comprises a fixed exchange rate, backing requirement, legal commitment, and unrestricted convertibility. It takes time to set up a currency board as it requires adequate political will. Just as the case with ongoing high-level structured public debt dialogues between the government and its creditors, a currency board also requires both commitment and uninterrupted implementation. More so, the currency board operating guidelines must be spelled in legislation, an independent and competent panel must be established, and foreign exchange reserves mobilized. All this may consume time thus aggravating economic injury. On the other hand, dollarization is quick as it does not always require a consensus among economic agents. Dollarization can be by a de facto market process without an official decree. This gives households and businesses an immediate cushion against exchange rate losses and clamps incessant price growth. So, while authorities are exploring long-term policy strategies, there must be an alternative for the short-to-medium term.

- **Investment Promotion**

While there are many initial conditions to be met to bolster FDI inflows such as stable politics, consistent policymaking, and respect for property rights, the use of a stronger widely accepted currency like the USD may partly attract foreign investors. It can also promote locals to increase their investments knowing that the use of foreign currency can greatly insulate them from some major endogenous shocks. More so, the adoption of the USD in the medium term could increase forex liquidity in the official markets thus helping kick-start industrial re-tooling and importation of critical industrial raw materials.

#Long-term Horizon

As alluded to earlier, economic history shows that dollarization is nearly permanent. To escape this vicious trap, de-dollarization must be viewed as a process, not an event. This piece, therefore, submits that Zimbabwe will need more time and policy actions to run a mono-currency regime, that is, use the ZWL as sole legal tender. This is because USD is costly in the long term as briefly articulated hereunder.

- Loss of Autonomy

The perpetual use of USD is tantamount to the loss of the monetary policymaking arm of the government. This policy arm helps the government in the management of currency exchange rates and inflation as well as ensuring financial market stability. As such, losing this policy arm will constrain the government's ability to promote local production and create decent jobs for citizens. Also, by using US monetary policy, the Zimbabwe government will lose seigniorage revenues it can accrue from the minting of coins and printing of banknotes. This revenue help governments worldwide fund national security, public services, and other development programs.

Furthermore, dollarization is unsustainable in the long term because it largely constrains authorities' ability to respond to bank crises. Today's world of rapid technological changes, climatic changes, and rising geopolitical tensions makes financial markets more vulnerable to shocks than ever before. So, to be able to effectively deal with such crises like liquidity crunch, authorities must be able to print money as needed. In short, dollarization cripples the lender-of-last-resort function of the RBZ.

- **Size of the Economy**

Zimbabwe is a small developing nation in sub-Saharan Africa while the United States is the world's largest economy. Largely because of US economic dominance in global economic affairs, its stable currency faces a high global demand. Therefore, it will be unsustainable for Zimbabwe to use the USD indefinitely as this renders it uncompetitive. A stronger USD makes Zimbabwean-made goods expensive for regional counterparts using their weak currencies while making foreign-made products cheap in the eyes of Zimbabweans. In the end, this may balloon the trade deficit leading to the closure of domestic factories and associated job losses.

- **Thwart National Pride**

Having a functional currency and competent industries with the ability to fulfil domestic demand can be a source of national pride. This helps in boosting social cohesion thus increasing public participation and policy ownership. However, using the USD for the long term may expose domestic firms to excessive foreign competition, dumping of foreign goods, and hostile takeovers. The crowding-out of domestic firms and over-dependence on foreign companies present a great national security risk.

- **Cash Economy**

Since the RBZ will not be able to print USDs, adopting dollarization without formal approval from the issuing country can lead to severe economic consequences. This type of dollarization will be largely based on a cash economy -exchanging of real dollars in the market. However, a cash economy renders monetary policies ineffective, leads to change shortages, and promotes tax evasion, money laundering and other illicit transactions. All these forms of externalization may result in acute forex shortages in the official markets and the creation of local USDs in the banking sector. These local USDs become the basis for multiple exchange rates in the economy which could in turn incentivize excessive speculation and arbitrage.

Conclusion

The ongoing re-dollarization of the economy was inevitable. The authorities initially followed a forced de-dollarization path despite a clear lack of durable macroeconomic stability. This pushed the USD to the epicentre again thereby concretizing the idea that dollarization is nearly permanent. So, to break this nearly permanent cycle, authorities should pursue long-term market-driven policies and reforms that ensure the sustainability of a mono-currency regime.

3. Enhanced HIV Awareness Campaign Needed Urgently if Zimbabwe is to End the Aids Scourge By 2025

An enhanced HIV awareness campaign is now urgent as approximately 72 000 children are living with HIV. The National Prevention of Mother-to-Child transmission (PMTCT) and Paediatric HIV Care and Treatment Coordinator in the Ministry of Health and Child Care Dr. Angela Mashavi confirmed the statistics.[1] About 72 088 children below the age of 19 are living with HIV yet only 52 390 are on anti-retroviral treatment. This means that only 73% of children are on treatment presenting a negative variance of 27%. Although those on treatment are many this stands as a challenge in ending HIV and Aids by 2025.

The negative variance in the statistics of those living with HIV and on treatment might be due to weak HIV awareness campaign. HIV awareness campaign must also pay attention to prevention methods. This is because, annually, there are at least 5 000 new infections among the youth.[2] A situation that greatly undermines national human capital development. Below is the broader state of HIV in Zimbabwe and why urgent intervention is required.

- 1.3 million people living with HIV [3]
- 1.2 million on antiretroviral treatment [4]
- 100 thousand people not on antiretroviral treatment
- Mother-to-child-transmission is at 8%, a rate which is significantly high if Zimbabwe is to end HIV by 2025.
- 11.6% adult HIV prevalence
- 20 000 AIDS-related deaths
- Only 26% of the population has access to HIV-prevention programs [5]

A review of the above statistics is worrying as there is still greater work to be done if Zimbabwe is to realise the end HIV goal by 2025.

4. Mines and Minerals Bill

This week parliament is conducting public hearings on the Mines and Minerals Bill. Early last year, the president rejected the bill stating that it was not in alignment with the constitution. However, the provisions which were not in alignment with the constitution were not specified. Some of the key provisions in the bill are highlighted below:

Cadastre system

The Bill makes provision for a cadastre system. A cadastre system is a comprehensive electronic record management and keeping process that accounts for all mining rights and titles. The cadastre is headed by the cadastre registrar who is the Permanent Secretary of Mines.

1. https://thevoiceonlinenews.com/technology/science/health/72k-children-living-with-hiv-govt/
2. https://thevoiceonlinenews.com/technology/science/health/72k-children-living-with-hiv-govt/
3. https://www.beintheknow.org/understanding-hiv-epidemic/data/glance-hiv-zimbabwe
4. https://www.beintheknow.org/understanding-hiv-epidemic/data/glance-hiv-zimbabwe
5. https://www.unicef.org/zimbabwe/hivaids

The system will allow the government to track and examine the utilisation of all mining claims, it will complement the ‘use it or lose it policy’. Thus, the cadastre system will compliment section 194 of the Zimbabwean Constitution which seeks to promote a culture of good public administration by ensuring transparency and accountability through providing the list of all those who would have been allocated mines. The profiling of all beneficiaries will infuse compliance to operational standards by title holders. It will also be expedient in preventing double allocations, a principle of infusing good corporate governance.

The cadastre system further notes that mining corporates are obligated to be registered with the Zimbabwe Stock Exchange (ZSE), a positive stride with respect to transparency and accountability. It will also help in curtailing illicit financial flows as proceeds from the mining will be accounted to local development. Nevertheless, the cadastre clause overlooks the principle of good governance which calls for separation of powers which is essential in conflict management. The Permanent Secretary of Mines is the chairperson of the Mining Affair Board (MAB) as well as the registrar of the mining cadastre. Thus, wielding a lot of power in the hands of an individual. It is this clause, that is against the principles of good public administration and also the Public Entities Corporate Governance Act [Chapter 10:31]. Therefore, the section must be aligned with good governance principles. However, this must note take years as other sections of the bill are in alignment with the constitution.

Use it or Lose it Policy

This policy is crafted to ensure the comprehensive utilisation of all resources. It is also meant to ensure that the beneficiaries of mining claims have the capacity to undertake mining operations that will in return benefit that nation. As it will stop mining claim holders from prejudicing the country by purposively holding mineral claims for speculative purpose. Thus, holders of mining claims will be forced to undertake mining operations and this will increase resource production and add extensively to revenue generation. The Bill also prescribes that, after every six months claim holders must submit their works plans to the Mineral Affairs Board for review. A critical step towards monitoring, transparency and accountability in the financial sector. This is in alignment with Money Laundering and Proceeds of Crime Act [Chap. 9:24].

Curbing mineral leakages

Positive strides to curb mineral leakages are also prescribed in the Bill which states that, “an exclusive prospecting licence shall not entitle the prospector to remove or dispose any mineral except for purpose of having it assayed or for determining its nature and must get permission to do so from the Cadastre Registrar”. This will ensure transparency in mining operations. As allegations of mining operations taking place under the guise of exploration have been reported in Zimbabwe.

Mineral beneficiation and value addition

According to the Bill, the Minister shall initiate or prescribe incentives to promote beneficiation in the country. Value addition and beneficiation is vital in the governance and development structure of the country. It allows the country to tap into vast revenue and potential that is embedded in value addition. The establishment of robust value addition and beneficiation system will culminate in the positive transmutation of the national GDP and job creation. Therefore, establishing value chains and beneficiation mechanism will enable Zimbabwe to create jobs and improve conditions for mining-host communities.

Mineral Affairs Board (MAB)

The amendment of the Mining Affairs Board (MAB) is another provision of the Bill. Board re-constitution was long overdue as positions such as under-secretary and deputy secretary were no longer in existence. The land reform programme also resulted in the mushrooming of a myriad of farming associations which challenges the dominance of the Commercial Farmers Union which had a seat on the Board. Re-forming the Board is a positive stride given its vital mandate in promoting good governance through oversight in the issuance and management of mining titles. However, the major drawback of this clause is the bill is silent on the quorum. It does not have provisions that specifies on the required quorum, it only states that the quorum shall be fixed before the board meeting by the board.