# PRESS STATEMENT

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## AN ANALYSIS OF THE NEW GOVERNMENT MEASURES TO TAME ECONOMIC INSTABILITY

The macro-economic distortions being experienced in Zimbabwe manifest through high cost of living which impacts most Zimbabweans below the poverty datum line. For the past five years, the country has been struggling to stabilize the value of the local currency against the dominant United States dollar. What the majority views as a currency crisis is at the center of the macro-economic deterioration, devaluation of the Zimbabwean dollar and high inflation in the country. In the past, the Ministry of Finance and Economic Development together with the Reserve Bank of Zimbabwe (RBZ) have proposed a multiplicity of policy pronouncements, some of which did not yield the expected results. In fact, the situation worsened. The recent statement released by the Treasury singles out various macro-economic challenges and proposes possible recommendations that deserve critical analysis and citizen input to ensure inclusivity and coherence of policy.

### Promotion of Use of ZWL

The government will ensure that levies and fees charged by its affiliated agencies and service providers are paid in ZWLs. This is a good policy direction that was long overdue as it helps propel demand for the ZWL. As ZWL demand increases in the economy, its value will appreciate thus subduing the effects of exchange rate pass through to inflation. It however remains to be seen if the government will surely promote its currency this time around. This is because it is not the first time it has promised to increase its tax collection in ZWLs. For instance, measures to restore stability announced in May 2022 included the "promotion of use of ZWL' which is yet to materialize as many government agencies and departments have exhibited increased appetite for USDs. As such, the renewal of this policy stance is highly commendable and must be buttressed by introducing higher denomination banknotes. This will increase transaction convenience in the economy which may in turn help to boost market confidence in the ZWL.

### 100% Retention of Domestic Foreign Currency Sales

The RBZ will exempt all proceeds from domestic sales in foreign currency from the 15% surrender requirement. This is another positive move by authorities that will help reduce excess ZWL liquidity in the economy as well as minimize massive exchange rate losses faced by businesses as the gap between official and alternative rates continue to widen. As cost of doing business decline, price pressures will likely subside. However, these forex surrender requirements must also be scrapped for exporting businesses inorder to help reduce their operating costs and encourage more exports. There is also a need to cushion workers particularly civil servants as well as pensioners by increasing USD component of their earnings. This will provide them with a stable store of value thereby reducing widening income inequalities.

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**Removal of Import Restrictions**

All basic goods will no longer be subject to import licenses and imported duty free. This measure seeks to increase supply of basics in the economy which will exert downward pressure on prices. However, this measure will not fully cushion consumers especially those earning in fragile ZWLs as these duty free imports will be largely sold in foreign currency. As such, this policy stance will poses a grave threat on the survival of the ZWL, local manufacturing, and employment. It will also reduce government revenue collection from import duties and taxes at a time Treasury is facing mounting spending pressures emanating from the pending 2023 harmonized elections. In the end, crucial public services such as healthcare and education will be crowded out thus plunging the majority into abject poverty.

**Treasury Adoption of All External Loans**

All external loans to government will be transferred from the Reserve Bank of Zimbabwe (RBZ) to the Treasury. The official statistics show RBZ external debt at US$3.4 billion as at the end of September 2022. This RBZ debt has reportedly been used for the importation of strategic commodities, including fuel, fertilizers, cooking oil and critical raw materials. However, history shows that the RBZ has been at the center stage of opaque borrowing in Zimbabwe, with most of its debts ending up being assumed by the taxpayers through the Treasury. While the decision to clean RBZ balance sheet is welcome as it will help the Bank achieve its price and financial stability objectives, this has been reduced into a recurring event which is exerting devastating impacts on the economy and citizens by pushing debt stock into unsustainable territory. To arrest this, authorities must therefore ensure that going forward all public debt is contracted by Treasury in a transparent and accountable manner, that is, it must involve the Parliament.

**Enhanced Auction System**

The Reserve Bank of Zimbabwe (RBZ) foreign exchange auction system will be fine-tuned by auctioning a pre-announced envelop on a pure Dutch auction basis. The policy stance seeks to expedite ZWL price discovery process to ensure the convergence of the auction and interbank exchange rates. This will go a long way in curbing the prevailing multiple exchange rates in the economy which are only promoting excessive rent seeking and round-trip transactions. However, authorities have been fine-tuning the auction system since its introduction in June 2020 but no meaningful improvements have been noted to date. With the economy now rapidly re-dollarizing and companies meeting most of their forex demands from domestic sales, it is high time authorities disband the auction system where they are selling US dollars at a loss. The funds earmarked for auction market must then be re-distributed and allocated to other developmental uses such as provision of public services.

**Gold coins and digital Tokens**

The government will continue to assure the public confidence in gold coins and digital gold tokens by ensuring that at all times, these instruments are fully backed by physical gold reserves. While the adoption of gold is a noble idea which will increase investment instruments and provide an alternative asset for storing value, the public questions the wisdom of selling precious yellow metal at a discount amid rising economic instability. The bulk of gold coins & digital tokens are being sold largely in ZWLs at an overvalued official interbank rate. The wide disparity between parallel and official rate is promoting excessive arbitrage activities. This is only benefitting the rich and connected few who have unrestricted access to these gold instruments. As such, selling gold in ZWLs must be stopped until a true market price of the ZWL is discovered. For now, Zimbabwe must concentrate on building reserves (gold/forex) which are direly needed to protect the local currency against speculative attacks, support during balance of payment imbalances, and use during unforeseen contingencies like El Nino induced droughts.

**Proposed Way Forward**

- The Minister's measures are not fully addressing the root cause of ZWL and price instability which is bedeviling the economy since 2019.
- A granular analysis shows that it is excessive ZWL supply caused by mounting fiscal spending that is largely destabilizing the ZWL and prices of basic goods. The Government must spend within its revenue confines to avoid demand pull inflation.
- Authorities must fully liberalize the ZWL exchange rate, foster fiscal discipline, tighten monetary policy, curb public corruption, and provide quality & affordable public services if Zimbabwe is to attain durable stability. The RBZ must not continue to allocate forex, as it has consistently failed since June 24 2020.
- All public debt management processes must be managed through Parliament. Beneficiaries of Government schemes must pay for their services, and not offload private debt to the fiscus.
- These measures must be further buttressed by full implementation of sustainable and inclusive economic policies & political reforms. Public confidence in the economy is influenced by freedom and policy certainty.
- Civil servants must be fairly compensated so as to protect them from inflationary shocks.
- The suspension of import duties on basic goods must be a very short term measure as Government develop mechanisms to support the #BuyZimbabwe and import substitution initiatives.

This combo of measures, if honestly implemented, will help tame existing market pricing distortions and promote market efficiency, competition, and innovation.