



THE WEEKEND READER

"Your Weekly Read on Debt, Development & Socio-Economic Justice"

LATEST RBZ DEBT ASSUMPTION: SOCIAL AND ECONOMIC JUSTICE REFLECTIONS

In recent weeks, the nation experienced massive deterioration of the Zimbabwe dollar (ZWL) in both official and alternative foreign exchange markets. As of June 15, the ZWL was valued at about 7600 per US\$1 in parallel markets, down 53% from 3600 end of May 2023. Again, in the official interbank market, the local unit was trading at 6351.56 per US\$1, a 59% decline from 2577.07 realized end of May 2023. As a result of this increased decline of the local currency, ZWL prices are now skyrocketing beyond the reach of many citizens.

In May 2023, the government announced a plethora of economic measures to stabilize prices and the local currency. As part of these measures, Treasury assumed all external debts owed by the Reserve Bank of Zimbabwe (RBZ) externally on 1 June 2023. Official statistics show RBZ external debt at US\$3.37 billion – about 24% of total external public and publicly guaranteed (PPG) debt which stands at US\$14.04 billion. Overall, Zimbabwe's total PPG debt is recorded at US\$17.6 billion as of end of September 2022. To operationalize the RBZ external debt assumption, the government enacted statutory instrument (SI) 108 of 2023 (SI 2023-108). This SI amends Section 7 of the RBZ Act [Chapter 22:15] by insertion of a provision that provides, in part, that

“the bank shall only borrow foreign currency on behalf of the State at the instance of the Minister, and not its own behalf”.

The assumption of RBZ external debt means that all existing payment obligations (loan interest and principal amount) are now being fulfilled by the taxpayers through the Treasury. This policy shift has an effect of cleaning up RBZ balance sheet to allow it to focus on its primary mandate of price, currency, and financial market stability. It also helps in reducing ZWL liquidity growth in the economy as the central bank was partly printing money to service its external obligations. More so, limiting State borrowing powers to the Treasury alone will greatly contribute toward debt sustainability. The Treasury will now be forced to prescribe and adhere to annual borrowing limits thus help promoting fiscal discipline.

However, assuming RBZ debt without a comprehensive and independent debt audit risks overburdening taxpayers with odious and illegitimate debts. The borrowing by RBZ in the past has been marred in controversy as debts such as the US\$200 million Agriculture Farm Mechanization have only benefited politically connected individuals. Some debts have been opaquely contracted and after being compelled by the Courts¹, Treasury has offered dubious uses of funds borrowed by the RBZ such as importation of “strategic” commodities.

¹<https://bulawayo24.com/index-id-news-sc-national-byo-195621.html>

Moreover, assuming RBZ public debt without Parliamentary approval raises concerns on the constitutionality of the action. Section 119 of the Constitution provides that all institutions and agencies of the State and government are accountable to parliament. Parliament must monitor and oversee expenditure by all state institutions in order to ensure that all revenue is accounted for, all expenditure has been properly incurred and any limits and conditions on appropriations have been observed. The Parliament interrogates all borrowing by Government to ensure value for money (VFM) and has a duty to ensure that government borrow for the financing of projects which do not impose excessive fiscal pressure on the budget.

Be that as it may, it is high time now Zimbabwe fully addresses its debt problem which is now crowding-out public service delivery, fuelling unsustainable resource extraction through collateralized borrowing, and heightening interest, tax, and inflation rates. Current efforts to address the debt conundrum include payment of token payments to debt owed to the Paris Club and publication of the annual statement of public debt and borrowing plans to improve on debt transparency. Also, the nation is conducting high level and inclusive debt forums which provide a dialogue platform to build confidence, consensus and trust.

Policy considerations:

- Setting a limit on public borrowing: The Minister of Finance and Economic Development must set a limit on public borrowing in accordance with the Constitution and the Public Debt Management Act as held by the High Court in a matter between ZIMCODD and The Minister of Finance and Economic Development.²
- Prescribing and Adherence to borrowing limits to contain debt accumulation.
- Post- disbursement monitoring: this reduces the risk of falling further into debt distress and the promotes the effective use of borrowed resources judiciously.
- Full disclosure of public borrowings and public debt: this increases oversight of public borrowings, ensuring transparency and accountability.
- Enhancing parliamentary oversight: this ensures transparency and accountability in public borrowings.
- Credit assessment: To reduce default risk, there is need for thorough credit assessment prior to the approval of borrowing to ensure performance of the contracted debt.
- Independence of RBZ: The RBZ must be allowed to operate as an independent institution in a manner that fosters national growth and development.
- Negotiating for favourable financing terms: It is imperative to identify sources of financing which offer favourable financing terms, to ensure that debt servicing costs are kept minimal. Improve on fiscal transparency: Regularize debt audits, devise transparent debt management strategy, fully involve Parliament, full disclosure of information, and implement recommendations from the Supreme Audit Institution

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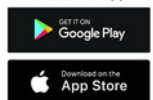
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