



THE WEEKEND READER

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

THE GOLD COIN: YET ANOTHER ARBITRAGE SCHEME OR SOLUTION FOR EASING LIVELIHOOD CHALLENGES?



The Mosi-oa-Tunya coin. Photo cred: Bloomberg

The Ministry of Finance and Economic Development has to date released two batches of the much anticipated Mosi-oa-Tunya gold coin. The gold coin has been introduced as a means of storing value since the serious depreciation of the local currency (ZWL) against the greenback (USD). The ZWL has lost over two thirds of its value this year alone, leading to inflation of 257% as of July 2022 and increased poverty levels. The idea of a gold coin as a store of value is noble and supported by a global precedent where it exists, for example the South African Krugerrand or the American Eagle Gold Bullion Coin. However, in Zimbabwe, the main challenge remains the trust deficit that exists in the public due to historical events of bank balances that eroded in the 2008 hyper inflationary economic crunch and loss of the 1ZWL: 1USD exchange rate (something the government promised would never occur). Following, there is widespread concern that the gold coin will not lessen the challenges that citizens are facing but only serve as a means of furthered corruption by the elite who have the reserves to buy it.

In the first week of its launch, banks are reported to have collected 1 billion Zimbabwean dollars and US\$400,000. As of Friday 29th of July 2022 1,500 gold coins had been sold.¹ Bankers Association of Zimbabwe reported that bulk sales were to corporate customers. This is encouraging because it may encourage investors to come to Zimbabwe if a feasible solution for protecting their investments exists while at the same time it means the poor are still unable to hedge their savings against value loss.

¹. <https://www.herald.co.zw/gold-coins-mop-up-1-billion-surplus-cash/>

Context

The black market was flourishing in the present inflationary environment as the demand for USD continued to rise. Foreign currency auction system was not meeting the USD demand which drove a lot of people to source the USD from the black market to retain value of their investments. This had created room for the public to heavily rely on the black market, one challenge that the coin is meant to curb. Furthermore, Zimbabwe is facing a severe economic crisis with salaries for the few employed and earning in the fragile ZWL continually losing value due to inflation. Price inflation increased for the last 12 months and reached 191.6% as of June 2022 at an average rate of 14.3% per month. Prices have been accelerating which affected many livelihoods, including the working poor earning in fragile local currency, people with disabilities, elderly, vulnerable and marginalized communities. As ZIMCODD, we are directly concerned with the welfare of these vulnerable groupings then who require deliberate government measures to alleviate their situation. The gold coin is such an effort which however fails to satisfy this objective as stated in the concerns below.

Of Concern

Cost

The Gold coin was introduced amongst a raft of other recent measures to curb inflation and ease the continued pressure on ZWL incomes and livelihoods of citizens. However, due to the pricing alone, (\$USD1 800) it becomes a preserve of the rich as annual salaries that majority civil servants are earning for example are unable to purchase even one single coin. Speaking at an Alpha Media Holdings debate on the coin, CEO of the Africa Roundtable, Kipson Gundani stated,

“The gold coins are coming in one ounce which costs over US\$1 700. An average Zimbabwean earns less than US\$200 per month, so for that particular person to be able to buy this coin, he or she needs to save for over nine months without eating anything. Clearly, the affordability when it comes to the poor comes into question.”

As a result, there is great outcry that the scheme is yet another channel for corruption and looting by the elite rather than a means of easing poverty. At present, 7.9 million Zimbabweans are reported to be living in extreme poverty.² This is nearly half the population who will then be excluded from this facility.

Lack of Information

There's been a lot of misinformation about the gold coin as information has not yet been widely circulated. The public has not been educated on its features and specifications. Different calculations are going around and this increases the confidence deficit that already plagues the coin. Government should demystify it.

2. <https://www.theguardian.com/global-development/2021/jun/21/half-of-zimbabweans-fell-into-extreme-poverty-during-covid>

An arbitrage opportunity

Zimbabwe has been operating with two significantly dispersed foreign currency exchange rates for the greenback and the local ZWL, i.e. the bank rate and the parallel market rate. The difference is so high that while the bank rate fixes the ZWL at 1: 458.3653, it sits at about 1: 800 on the parallel market. A running concern now is that the elite will have access to purchase the coin at bank rate and sell it off in Zimbabwe and abroad at the USD rate. As a result, they would have made a considerable profit in the difference between the bank rate and parallel rate. The arbitrage is explained here: <https://bit.ly/3oQacNz>

Recommendations

- **Raise public awareness of the gold coin-** The first port of call when addressing the present challenge should be demystifying the coin. There is a lack of sufficient information on what the coin represents and the modalities of procuring it. The coin was introduced just a few weeks after the public got to hear about it. As such, there is need to go on a far reaching information campaign through various channels.
- **Introduction of affordable gold coins-** At the current price of about USD\$1 800, the coin is inaccessible to the wider majority of citizens. As such, it is pertinent that a cheaper option is availed for those who seek to hedge their savings against inflation but are unable to afford the current cost.
- **Tightening fiscal policies-** Government should tighten their policies on gold coin sales to ensure that it's not used as a means of illicit financial flows. The coin should not be used as an arbitrage opportunity.
- **Transparency on sales-** Government should release adequate information on who has bought the coin, in what currency and how many are in the country or traded out. Such information will also go a long way in increasing confidence in the facility.