



THE WEEKEND READER

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

ZIMBABWE SLOWLY MOVING TOWARDS PRICE CONTROLS

On the 11th of July, the Ministry of Finance and Economic Development released a statement titled 'Violation of Exchange Control Directives and Government Policy' in which it named players in the pharmaceutical sector who were exhibiting 'destabilizing forward pricing and speculation' through the use of parallel market rates higher than the stated rate from the official willing-buyer willing-seller (WBWS) interbank rate. According to the Reserve Bank of Zimbabwe (RBZ) exchange regulations, corporates are only allowed a 10% margin above the official interbank rate when setting ZWL prices. For example, if the official rate is at ZWL/USD 5000, companies must not exceed ZWL/USD 5500 when valuing their stock in ZWLs. However, the continued fragility of the local currency has forced many companies to defy these regulations by engaging in forward pricing to cushion themselves from excessive exchange rate losses.

The government has since introduced a cocktail of economic stabilization measures including demanding 50% of companies' June 2023 Quarterly Payment Dates (QPDs) to be settled in ZWLs in order to promote the use of the local currency in the economy. Consequently, these measures have managed to mop excess ZWL liquidity that was prevailing in the market, a shift that has brought sanity to the markets. RBZ interbank statistics show the local unit gaining 8.5% between 6 July (ZWL/USD 5412.55) and 13 July (ZWL/USD 4988.26) while also gaining some of the lost value in the parallel markets during this period. Buoyed by the ZWL stability, the government is now coming against companies not benchmarking ZWL prices at the official rates. A total of 17 pharmacies were named in the statement, a number which is a mere tip of the iceberg when one looks at the businesses across sectors that are using a rate higher than the official rate. Following, it is our view that by naming and shaming these businesses, the government is treating the symptoms while ignoring the root cause of the ailment. This is because transacting business has all but rejected the local currency with some businesses only taking foreign currency.¹ As such, the focus should be on addressing the core causes rather than a few businesses.

Although the recently introduced measures to stabilize the economy and inflation have seemingly worked SD as alluded to earlier, the ZWLs have disappeared in the market. Buttressing the ZWL shortage is the fact that the Treasury is yet to pay its contractors undertaking ongoing infrastructure projects and has recently taken over the settlement of exporters' forex surrender requirements as well as all RBZ external debt obligations which it must fulfil lest the economy starts to experience damaging payment backlogs. Without considering spending pressure emanating from the upcoming elections, Treasury is expected to offer a salary increment for civil servants to avert devastating labor strikes while footing the bill for grain purchase from farmers during the ongoing 2023/24 marketing year.

1. <https://www.pindula.co.zw/2023/04/28/some-businesses-reject-zimbabwe-dollar/>

All these will likely increase ZWL liquidity in the economy which will likely force the ZWL to plummet again.

A standing challenge in the way that government regulates the economy is the inconsistency in the application of policy. While these businesses in the pharmaceutical sector are being hounded for high exchange rates and taking payments in the more secure USD, there are virtually no fuel stations trading in ZWL anymore. Public offices such as the Registrar General are taking USD for passport applications, telecommunications companies including the government-owned NetOne are also selling some products in USD. For certain reasons, they are left to operate without any recourse. Allegations stand that the fuel sector is allowed due to cronyism and the interest of the ruling political elite in the fuel cartels. If the law and policy are not applied fairly across the economy, the government cannot hope to retain control.



The issue of control itself presents another challenge as this regulation amounts to a gravitation toward price controls². Price controls however don't work because they push traders out of the market.

As such, there is a need to allow the price stabilizing effect caused by moderation of ZWL decline in the foreign exchange markets to cascade to prices with little interference from the "Visible Hand". A user on Twitter, @godrun, asks this question. The situation above represents a loss for the business as it's supposed to sell at a lower price than when it was procured.

While the government may institute measures that restrict prices, traders can't operate at a loss and will continue to follow prices that maintain their profitability. Otherwise, the economy will start to experience acute shortages like the one experienced during the build-up to the 2008 record hyperinflation as traders will be forced to withhold products from shop shelves. The core problem and elephant in the room that requires addressing is the lack of significant production in the nation due to the lack of implementation of meaningful political and socio-economic reforms to improve the social contract & international relations, enhance property rights, respect for human rights & freedoms, thwart existing pricing distortions and increase market competition & innovation. Our trade deficit remains high as most products being sold locally are imported in foreign currency and to then sell the same fragile ZWL presents a loss.

Recommendations

To address the fundamental challenges that fuel exchange rate variability between the official rate and the parallel market government should institute the below measures:

2. <https://www.iol.co.za/business-report/economy/zimbabwe-business-sector-worry-over-price-controls-after-cabinet-directive-338112a0-3e8f-4c09-8e33-dfbc513adf2b>

- **Put in place measures to maintain monetary and fiscal discipline which include curbing resource leakages, corruption & illicit financial flows (IFFs)**- Zimbabwe has the potential to value add resources it already has such as minerals, arable land, and a strong human capital base. This will increase the value of our currency, supported by exports.
- **Consistency in application of policy and law**- The use of the local ZWL as the currency of choice should be applied across the board. Allowing the fuel sector to operate in USD while restricting other sectors shows increased policy inconsistency.
- **Promote localization of economic development, investment, and growth in the spirit of devolution**- An import-based economy is vulnerable to external shocks as seen in the lingering effects on global supply chains caused by the Russia- Ukraine war for example.
- **Promote sustainable domestic resource mobilization**- Once the government can generate resources locally, production in our mainline economic sectors will rise, allowing local businesses to invest and also sell these products in the local currency.
- **Avoid Price controls**- As seen in past years (such as in 2008), regulating pricing by formal businesses causes products to disappear from shelves only to reappear in the informal sector.

THE 2023 SADC PEOPLE'S SUMMIT

The SADC People's Summit is a historic annual gathering of social movements and progressive groups from Southern Africa aimed at enhancing solidarity and collective action towards a just, peaceful, and prosperous region for all. It is usually held at the same time and in the same country as the annual SADC Heads of States and Government. This gives the people an important opportunity not only to lobby SADC leaders but also to raise popular awareness and political pressures for SADC leaders to consider the demands and recommendations of the poor and marginalised. This year's summit will be held in Angola from 16-18 August spearheaded by TSHOTA (the Angolan Alternative Mining Indaba), running under the theme **Justice– Meaningful Participation – Inclusion**. Focus areas for this year's summit are:

Climate Justice with a particular concern for climate change, just transition, forced migration, agrarian justice, anti-GMOs, water scarcity, climate financing, energy poverty and seed sovereignty.

Democracy, Human Rights and Governance with a particular concern about shrinking civic space, SADC Non-State Actors Engagement Mechanism, Human Rights Defenders, and solidarity with democratic struggles in DRC, Eswatini, Mozambique and Zimbabwe,

Economic justice with a particular concern with natural resource governance, regional debt crisis, tax justice, trade justice, economic partnership agreements, AfCFTA, illicit financial flows, extreme poverty, inequality, privatization and austerity measures.

Gender Justice with a particular concern on care income, gender-based violence, maternal mortality, feminisation of poverty, women and land, gender equality and inclusion of women and girls in decision making processes.

Youth inclusion and participation with a particular focus on, universal basic income grants, #FeesMustFall, academic freedom, taxation, right to education, SRHR, extreme inequality, and youth engagement in decision making.



Registration Form - <https://forms.gle/jJPPSFjALJ84Bxcb9>
 Register a session- <https://forms.gle/fD3ZbrEUGk5JtV7G8>



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