The Poverty Reduction Forum Trust's position paper

Interrogating the Ministry of Finance and Economic Development's recent announcement of the Introduction of the Zimbabwean Dollar and RBZ's new Exchange Control Regulations

A Poverty and Social - Economic Justice's Perspective

2 July, 2019

Introduction

On Monday 24 June 2019, the government of Zimbabwe through the Ministry of Finance and Economic Development gazetted a statutory instrument that introduced a new local currency (ZWL$) and scrapped the multi -currency system. Through the Statutory Instrument 142 of 2019, the newly introduced Zimbabwean Dollar will be the sole legal tender for all local transactions. The announcement of the introduction of the Zimbabwean Dollar came alongside new monetary policy measures which are meant to buttress and strengthen the new local unit of account. All these measures are coming at a time when poverty has increased and standards of living for the general citizens have drastically dropped due to increases in the prices of goods and services in the country. Whilst the new measures sound very progressive, there are critical issues that we believe could undermine the potential of the new policy framework to contribute towards sustainable economic growth and human development in the country. This position paper raises concerns that PRFT thinks are too costly to ignore.

The introduction of the Zimbabwean Dollar

PRFT strongly believe that having our own currency as a country is a good idea. A country with its own currency stands an opportunity to drive endogenous growth and development through restoration of the central bank's powers to control exchange rates, inflation and unemployment. However, it is the ensuing enabling environment that we are concerned about. The current social and economic environment is not conducive for the sustainability of the introduced measures to stabilise the currency and there are a number of pointers to that. Low levels of production in the country presents a key risk to the stabilisation of the new currency. Our analysis of the challenges presenting risks to the new currency goes beyond the country's production capacity. Whilst we believe that production is an economic fundamental that should be prioritized for the country to make positive impact on currency reforms, there are other basic fundamentals that should be taken into consideration. Currently there is a general lack of trust and confidence on government policies which can be attributed to the exclusion of people in policy formulation and implementation. The generality of Zimbabweans woke up to the announcement of the SI 241/2019 without any consultations having been made by the government. Broad- based consultations in policy formulation is key for good economic governance of the country and achievement of sustainable development. At the moment there is no national cohesion on the national development policies that are directing the economy and citizens have mistrust on new policies that the government is pronouncing.

Mopping up Excess RTGs liquidity to strengthen intermarket exchange rate

The RBZ through the Exchange Control Directive (RU102/2019, June 2019) indicated that it will mop up 1.2 Billion RTGs by end of the week. The new Exchange Control Directive instructed banks to transfer to the Reserve Bank the RTGS$ that they are holding as counterpart funds for the foreign currency historical or legacy debt that Government, through the Reserve Bank, is assuming at the rate of 1: 1 between the RTGS$ and the US$. Our understanding is that the $1.2 billion are balances in RTGS$ held by banks due to foreign creditors and investors among others. These amounts have accumulated over a 3-year period from 2017 and they could not be remitted owing to hard currency challenges. On introducing the RTGS$ and a partial float exchange rate in February, the Central Bank promised to settle all foreign dues incurred during dollarization at 1:1 rate. This means banks will now have to transfer the amounts in RTGS$ whereas RBZ will settle them to external creditors at 1:1 in USD. Whilst the RBZ's move to pay back the debt it owes to these banks on 1.1 basis has a potential to mop up excess liquidity in the market resulting in strengthening the RTGS$ on the forex market, there are two issues that the organisation is concerned with. Firstly, it is evident that the government will need to borrow money in USD $ from somewhere to finance this debt. The position will increase domestic debt for the country and this will subsequently affect growth and development potential of the country. This debt contraction is even more painful given that the debt will be paid in foreign currency. High levels of debt has always been an obstacle to poverty alleviation and sustainable development in Zimbabwe as it is the poor people who will always pay it through taxes. Secondly, the new Exchange Control Directive does not provide an indication as to whether the RBZ is going to provide a cushion on the US valued money that depositors and pensioners lost following the abandonment of the 1:1 USD$ parity with Bond Note. We would have expected a position from government on the issue now that we have adopted a local currency. The deterioration of the RTGS currency against the USD$ made cost of living unbearable for ordinary citizens. Citizens have been failing to afford basic goods and services as prices continued to be adjusted against the black market exchange rates. Life has become unbearable for the pensioners as their monthly pay out is no longer affording them anything given the high levels of inflation currently obtaining in the country. These measures are coming at a point when the government and pensions funds companies are still to compensate the money that the pensioners lost in 2009 when the economy was dollarized. The results of the commission of Inquiry[1] undertaken in 2015 recommended government and pensions funds companies to compensate pensions money lost through converting pension values from Zimbabwean Dollar to USD $. However, no action has been undertaken since the commission of inquiry

[1] Access Smith Commission of Inquiry into the Conversion of Insurance and Pension Values from Zimbabwe Dollar to US Dollar on http://www.veritaszim.net/node/2403

recommendations were signed off by the former president. Lack of a clear position with regards this issues gives an impression that the government is not sensitive to the plight of citizens and this will have a negative impact on restoring people's confidence in the currency and other government policies.

Increasing the supply of forex on the interbank by ensuring that at least 50% of the surrender portion of foreign currency is sold to the interbank market

A commitment to increase the supply of forex and removal of administrative issues that prohibits market forces to allocate resources is very commendable. The availability of forex on the intermarket rate will determine sustainability and stability of the newly introduced currency. However, our major concern is that the government has a track record of failing to own up to its commitments. This emanates from the fact that the government is also a participant in the interbank rate. This situation forces government to manipulate the intermarket rates in its favour whenever it wants to meet its forex demands.

NGOs' Foreign Currency Accounts (FCA)

The instrument makes it clear that NGO's funds are protected and this was expected since these are free funds. According to the new RBZ's Exchange Control Directive (RU102/2019), the operation of Nostro FCAs shall remain in place for the purposes of receiving offshore funds and to facilitate foreign payments. The regulation further says that in cases where the holder of such an account intends to settle domestic transactions, they shall be required to liquidate their foreign currency account balances to the interbank on a willing seller willing buyer basis. Whilst the government's position on the operation of NGO's FCA accounts came through as was expected, it is the general lack of confidence in the government's sincerity given that in 2008 NGOs' accounts were ambushed and many lost their foreign currency. Indications on the ground already show that NGOs cannot easily access their organizational foreign currency despite the seemingly positive protection of their funds. NGOs have to apply to access their organizational funds and provide justification for requesting the funds. This impacts negatively on their programming as the decisions to approve the applications takes no less than a couple of days.

Conclusion and Recommendations

PRFT feels that there is really a necessity for government to undertake currency reforms, Our view is that the currency reforms should have been undertaken after making broad based consultations with all key stakeholders especially under the Tripartite Negotiating Forum. We believe that this was a necessary step for the country as it would have then informed the implementation of the currency reform in a way that does not further perpetuate vicious cycles of poverty and exclusion.

Our recommendations are;

- The Government should speed up strengthening and operationalisation of interbank rate so that NGOs' funds are not lost within this new currency regime

- There is also need to put mechanisms to compensate the depositors and pensioners funds lost when the government introduced the bond notes
- We urge the government to own up to its commitments and operationalise the Tripartite Negotiating Forum. The SI 142 of 2019 should be subjected to TNF deliberations which gives an opportunity for all social groups to interrogate it and submit their views.
- The government should priorities bottom up approaches to policymaking and industrialisation so that poor people are not further marginalised in development processes.