Poverty Reduction Forum Trust

PRFT'S POSITION ON THE MONETARY POLICY REVIEW AND NEW FISCAL MEASURES

From A Pro- poor and Informal Sector Perspective

Introduction

The Governor of the Reserve Bank of Zimbabwe (RBZ), Doctor John Magudya and the Finance and Economic Development Minister, Mthuli Ncube made a joint statement during the Mid Term Monetary Policy (MPS) review held on second of October, 2018. Themed "**STRENGTHENING THE MULTI-CURRENCY SYSTEM FOR VALUE PRESERVATION & PRICE STABILITY"**, the Monetary Policy Statement highlighted a cocktail of measures that need to be implemented to "boast confidence and transparency in the foreign market". As part of the measures, the RBZ aims to strengthen the Multi-Currency System by introducing separate Foreign Currents Accounts (FCA) for Nostro and Real Time Gross Settlement (RTGS) funds. On the fiscal reform side, the Minister of Finance and Economic Developed proposed to introduce 2 percent on every dollar on all electronic transactions with effect from the 1st of October, 2018. The suggested policy changes sound very good in view of the "**Open for Business**" mantra of the new government. However, it is also important to note that the measures have short and long term negative implications on the poor and people working in the informal sector. This statement raises important concerns that PRFT have over the suggested policy changes.

Strengthening the Multi-Currency System by introducing separate FCA accounts for Nostro and RTGS Funds

The Reserve of Zimbabwe directed all banks to effectively operationalize the ring-fencing policy on Nostro foreign currency accounts by separating foreign currency accounts (FCAs) into two categories, namely Nostro FCAs and RTGS FCAs. The Reserve Bank of Zimbabwe (RBZ) went further to suggest that the relationship between the two categories of the FCAs shall continue to be at parity. This policy measure is expected to "encourage exports, retention of export earnings by exporters, diaspora remittances, banking of foreign currency into the Nostro FCAs and to eliminate the commingling or dilution effect of RTGS balances on Nostro foreign currency accounts" Our first observation is that, by introducing separate FCAs for Nostro and RTGs funds, the Reserve Bank of Zimbabwe indirectly makes a value distinction between the US dollars and the people's RTGs balances being held with banks and electronic money transfer companies. The Monetary Policy statement has also acknowledged indirectly that the Bond notes have depreciated on the black market and therefore maintaining a stance that the relationship between the two accounts shall continue to be at parity is very surprising. Our view is that the RBZ makes an attempt to fully recognize the US dollar, as a reserve currency and regard the US dollar valued RTGS as “money in local currency”. The RTGS have been basically transformed to a “local currency” since they are no longer at par with US dollars as previously claimed. The dent that this policy has on people’s savings is unbearable. Many people lost their local currency denominated money in 2009 when the government dollarized the economy and a repeat of the same will further plunge the general citizens into more abject poverty. Whilst it is very progressive for the monetary and fiscal authorities to realistic in terms addressing economic problems that the country face, it is also of great importance to safeguard the welfare of the poor who have suffered from similar policy reforms in the past.

Implications of the measures on vendors and flee market operators

It is public knowledge that our country is highly infomalised. A huge percentage of the population depends on informal activities such as vending and cross borders trading. Our recent study on cross borders and taxation revealed that more than 70% of cross borders and flee market operators are women and they will be affected disappropriately by the negative implications of the policy measures. Under such policy measures, cross boarders will still be paid in RTGS/bond notes despite the fact that they would have sought foreign currency from the black market to import their goods.

Implications of the measures on informal businesses engaged in import and export value chain

The policy statement is not clear on how the monetary authorities are going to cater for the needs of the informal sector business in the export value chain system. As it currently stands, the policy discriminates against local and informal small businesses owners, who would need to import raw materials and supply goods to companies that are regarded as exporters in the Monetary Policy Review Statement. Black market will continue to be the only source of foreign currency for the informal sector businesses. The situation will further curtail any possibility of small business growth and employment creation since they will be paid in local RTGS on the goods they supply locally to other big and formal companies.

Nostro Stabilization Guarantee Facility (NSGF)

The RBZ indicated that it is finalizing discussions with the African Export-Import Bank (Afrexim bank) towards a US$500 million Nostro Stabilization Guarantee Facility (NSGF) to provide Nostro FCA holders with assurance that foreign currency shall be available when required by the account holders. However, it remains unclear the extent to which the credit facility is going to be extended to informal businesses which are presently contributing significantly to the poverty reduction and employment creation in the country. Already, the facility is a drop in an ocean considering the huge demand for foreign currency in the country. There is need for fiscal authorities to put more financial resources to support revival and growth of industries including informal industries.

Intermediate Tax and intermediate Money Transfer Tax

During the presentation of the 2018 Mid- Term Monetary Policy, the Minister of Finance announced a review of the Intermediate Money Transfer Tax from flat rate of 5 cents to 2 % on every dollar transacted. The Minister has since reviewed the Intermediate Money Transfer Tax Position. According to the latest position, the 2 cents per Dollar Transacted, will apply on transactions of $10 and above with an upper limit of $10 000. Our view is that the government's move to increase the tax rate from a flat rate of 5 cents to 2% on transactions value at $10 and above is a huge jump. The changes will put the poor in double jeopardy. Zimbabweans are already overtaxed and even the reviewed tax position will not bring reprieve to ordinary citizens. The implementation of the tax will negatively impact on the welfare of the people working both in the formal and informal sectors of the economy. The effects of the tax on the poor will not change even under the new Ministry's Position. More people have become depended on electronic money transfers for their daily transactions and the introduction of the tax will further erode away their disposable incomes. Furthermore, cost of living is likely to increase further as companies will pass the tax burden to the final consumers in form of higher prices.

Debt contraction by the Government

The 2018 Monetary Policy Statement disclosed that the country's debt has been increasing with Domestic Debt now at 9.5 Billion and External debt at 7.4 Billion. In his remarks during the presentation of the Monetary policy, the Finance and Economic Development minister acknowledged that the issuing of Treasury Bills contributed to the creation of fictitious money and fiscal imbalances challenges within the country. Our view is that such kind of openness is progressive but it is not sufficient enough to bring back public confidence. There is need for Fiscal authorities to engage the public and provide more explanation on how the money was used for.

Conclusion and Recommendations

We commend the RBZ's commitment to curb inflation and stabilize the foreign exchange crisis. It is a reality that prices have gone up by huge margins and the situation should be allowed to persist. The government should put in place a strategy to stem inflation and the cash crisis in a way that does not further marginalizes the poor. Specifically, we recommend the following to the Monetary and Fiscal Authorities;

- The Reserve Bank of Zimbabwe should urgently make a clear position on the two FCA accounts especially with regards to how they will protect people's RTGS balances from further depreciation

- The Fiscal authorities more accountable and transparent. It should explain to the public on how the huge public debt was incurred. We also urge the fiscal authorities to build confidence within the general public through improving management of public resources. The suggested measures are not adequate to stimulate people's confidence.

- Government has an opportunity to mobilize foreign currency that is currently circulating in the informal sector. More measures should be put in place to instill confidence before this money finds in way in the formal system. There is need for government to effectively consult and incorporate the views of the public and informal traders if more foreign currency is to be deposited into the formal banking system.

- We urge the Ministry of Finance and Economic Development to further review the Intermediated Money Transfer Tax position. Specifically, we recommend for an increase in the minimum amount that is subjected to the 2 percent tax from the current $10.

- There is need for monetary and fiscal authorities to come up with multi stakeholder consultations where they engage the citizens on an inclusive social and economic reform agenda. We recommend the revival of the Tripartite Negotiation Forum which is inclusive of all stakeholders including CSOs.