ZNCC

ZIMBABWE NATIONAL CHAMBER OF COMMERCE

THE VOICE OF BUSINESS

Submissions

to the

Ministry of Finance and Economic Development

and the

Reserve Bank of Zimbabwe

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PREAMBLE

The Chamber, its Executive Council and broad membership commend the Government, through the Office of the President, for responding to a bloodbath currently taking place in the Zimbabwean economy. This is refreshing to note that the man occupying the highest office in the land is hands on. However, the downside is having the head of state announcing such measures sending a clear signal that politicians are directly involved in economic policymaking, notably monetary policy measures (where a greater degree of central bank independence is required), and in the process rendering the Reserve Bank of Zimbabwe as an arm of political decision making. This comes as a result of Government's slow reaction to economic chaos which triggers such confrontational approach and in the process, resulting in unintended consequences, that is, worsening the economic turmoil. The perennial existence of arbitrage opportunities will continue threatening economic stability, and to solve it, we need to avoid legislating against it bu rather address its primary drivers. This can be achieved through both market liberalization as well as improving policy quality and policy response to any emerging threats.

Following the President of Zimbabwe, H. E. Dr. Emerson D. Mnangagwa's, announcements on the 7th of May 2022, the Chamber takes this opportunity to analyse the newly announced measures earmarked to restore confidence and curb market indiscipline.

POLICY ANNOUNCEMENT	IMPLICATIONS
Government is convinced that the recent exchange rate movements are being driven by negative sentiments by economic agents as opposed to economic fundamentals (Paragraph 8)	The Government's financing model for on-going programmes and developmental projects has been the major driver of the rapid depreciation in the local currency. Government is using short-term financing mechanisms to finance the Emergency Road Rehabilitation Programme, Construction of Dams and funding critical programmes like Census and bi-elections. The Zimbabwean dollar being paid by Government to the contractors is ending up chasing the greenback on the parallel market as they seek to preserve value. There is a hive of activity on the parallel market. Government is currently the major holder of Zimbabwean dollar deposits and lack of strategic disbursements of those funds into the market has been catastrophic. The Government has ignored this reality. Therefore, the conclusion from the Government that negative economic sentiments not fundamentals are driving the economy is partially incorrect. The fundamentals such as money supply and foreign exchange management are misaligned and those are actually driving negative sentiments not blaming the adverse expectations.
Restoration of Lost Value on Bank Deposits (Paragraph 13)	In recent years, we have realized that the economy has been in currency cycles and these cycles have become vicious. The back and forth has eroded the economic agents' savings, pension schemes, medical aid schemes and insurance covers. Planning for the future has become a nightmare for businesses and economic agents are surrounded by an uncertain and unpredictable future. These issues are fundamental for business growth. The compensation of the losses of value on banking deposits to individuals is a welcome measure but it will not be enough to gain back the trust that has been lost and the credibility of Government's policies. Companies would also need to be compensated for value loss; not only

	individuals and the debt burden to the Government would be unbearable. Taxpayers are being made to pay for ad hoc Government policies.
Clearance of Foreign Auction Backlog (Paragraph 17)	The SMEs auction should be suspended and only have one auction market to serve all with a liberal approach. The forex auction system currently in place is mainly serving as a foreign currency allocation mechanism through the priority list which is depriving other market players' access to the price discovery platform. In the current setup, facilitating the participation of the majority of businesses on the auction is expected to enhance ownership and buy-in from all economic agents. The players within the Telecommunications sector are seeking acknowledgement from the Bank to the reality that internet is wholly imported and therefore, giving them more access to foreign currency on the auction system (in the current setup) is required. We also strongly urge the Bank to engage privately all errant business players who are abusing exchange control regulations in liaison with the Chamber to instil market discipline and inspire confidence. The exchange control regulations are viewed as misaligned and there is a need for high level engagements to reach common ground among all stakeholders. What the business community is concerned about is not the quantum of the rate of exchange, but stability in the exchange rate.
Continuation of the Dual Currency System (Paragraph 19)	Between 2014 and 2017, the local transactions were largely based in the United States dollars with the Rand and the Pula supplementing. During this period, there was a serious shortage to the extent that the Reserve Bank of Zimbabwe introduced Bond Notes which were deemed to be backed by an equivalent amount of US dollars to aid in solving liquidity crisis and as an export incentive. This was evidenced by long-winding bank queues and depositors failing to withdraw their money from the commercial banks. Thus, in line with the 2022 Monetary Policy Statement and in the current macroeconomic sphere, there is insufficient foreign currency liquidity to support full dollarization in Zimbabwe on one hand. From the Chamber's perspective, fast paced de-dollarization is not ideal given the prevailing volatile exchange situation and wayward inflation rate on the other hand. We therefore, commend the Government's stance to continue with the dual currency system.
Collection of Revenue in Foreign Currency to Continue (Paragraph 20)	There is a complete loss of faith in local currency, and economic agents are desperately getting rid of their Zimbabwean dollar the very moment they earn it. We reiterate the continued enhancement of the confidence building measures for the local currency. The insistence to have duties and taxes be paid in foreign currency is testimony to the fact that the Government itself, the sole issuer of Zimbabwean currency notes and coins, does not have faith in local currency as well. The Government should not impose policies on the people; the masses can just choose to ignore them. Thus, there must be a social contract between policymakers and the implementers through truthful social and formal dialogue before they are effected.
Commitment to a Market Determined Exchange	The re-introduction of the Interbank Foreign Exchange Market entails that we now have three prices for the local currency as determined on the Foreign

Rate (Paragraph 21)	Exchange Auction System, the Interbank Forex Market and the Parallel Foreign Exchange Market. Surprisingly, the commodity being sold is one, and also produced by one Central Bank. It's also a fallacy to anticipate that the Interbank Rate and Auction Rate will converge overtime (Paragraph 22) since the auction has been the loophole for arbitrage opportunities. There are two options to consider here; either liberalize the main auction or adopt the interbank market completely as we graduate towards a willing-buyer willing-seller model.
Reviewing the Willing-Buyer Willing-Seller Limit (Paragraph 24)	To be specific, what this policy measure has done is to lessen the number of times one has to go to the bank to reach US$10,000 per week and increased the weekly withdrawal limit by US$3,000, from US$7,000 to US$10,000. Literally speaking, the withdrawal limit was at US$6,000 per week while withdrawing US$1,000 per day for 6 days as commercial banks do not open on Sundays.
Quarterly Reserve Money Growth now at 0% from 5% per quarter (Paragraph 30)	This entails that the Government has left no room at all for even a slight growth in reserve money supply, a huge statement with regards to controlling money supply growth. The Reserve Bank has been commendable on reserve money management. However, the narrow money is still growing at unprecedented levels making the RTGS readily available, rapidly depreciate and become even weaker. We acknowledge that the global practice is to focus on reserve money which the Bank has total control on but, the Zimbabwean situation requires a broader approach. The Bank is encouraged to give broad money the same attention that is given to reserve money. The policy announcement by the Central Government rather than the Reserve Bank of Zimbabwe is a clear indication of the lack of central bank independence. It remains to be answered whether the Board of the RBZ was consulted or not given that they recently resolved to maintain the reserve money growth rate at 5% for the quarter ending June 2022 on 29 April 2022, barely a week before this announcement.
Domestic Foreign Currency Transfers to attract an IMTT of 4% (Paragraph 32 (ii))	Individual households and firms are now forced to transact mainly in local currency because the 4% is huge add-up to the cost of doing business, eating up into savings and profits. This symbolizes a fast-paced de-dollarization taking place. Any move towards full-scale de-dollarization is ill-timed. The punitive tax regime in Zimbabwe is the major cause of the high level of informality in the economy. Zimbabwe's among the top five informal economies in Africa alongside Benin, Gabon, Central African Republic and Nigeria.
Foreign Currency Withdrawal Levy (Paragraph 34)	This policy measure clearly signifies that the Government is currently seized with revenue collection as opposed to creating an enabling environment for business to bloom. The assumption that any foreign currency that is withdrawn from the banks is traded on the parallel market is superficial. The upward review from US$0.05 to 2% (to at least US$20) is unjustified for transaction above US$1,000. However, given the policy measure, there also should be a maximum value for which the 2% is applicable, of which after that limit; a flat fee would be applied. The levy will discourage banking, increase the cost of doing business and the

	move is a denial to the reality that our economy has become so informalized that such policy stance will be ineffective. The money outside the banking system will earn more premium, promoting black market trading.
Settlement of Foreign Currency Tax Obligations in Local Currency at ZIMRA (Willing-Buyer Willing-Seller) Rate (Paragraph 36)	This denotes a public confession by the Government that the auction system rate should not be considered when pricing goods and services. What it entails is that businesses should consider prices from a true price discovery process.
Suspension of Lending by Banks (Paragraph 40)	A question is being asked if this is an effective measure to restore market confidence, preserve value and ensure macroeconomic stability. Surely, this is not an ideal measure to control the growth in broad money supply. There are other measures such as moral suasion that can be arranged between the RBZ and commercial banks. By Government ordering suspension of lending, it has done the following: • Dented our rank of doing business since availability of credit is one of the key pillars. The Zimbabwe's regulatory and supervisory system on the financial sector has resulted in the betrayal of the fiduciary responsibilities and loss of public confidence. Zimbabwe was ranked number 67 globally with a score of 65 in the 2019 Ease of Doing Business Report under the *getting credit* pillar. In short, the performance of Zimbabwe is poor when compared to most countries. • The move to close accounts is a vote of no confidence on resolutions the general public have been receiving from the Monetary Policy Committee (the interest rate policy is certainly ineffective - it can't tame inflation) The Government has suspended banking but banks remain intact. This legitimizes a parallel banking system with usurious interest rates and no investor would be attracted to such an economy where lending can be suspended overnight. This is a step back in the "*Zimbabwe is open for business*" mantra. There is a possibility that policy coordination between the Apex Banks and financial service sector players appears non-existent. If the central bank was satisfied that KYC was being fully observed by banks then, there could not be a reason to suspend lending by banks – already such a seemingly strained relationship is a cause for concern.

Conclusion

We urge the Government of Zimbabwe to critically review these measures and seriously consider the submissions that have been put through from the business community. Quite a number of quality measures that need to be done to move this economy forward are well-documented and are known within the public domain yet the Government is choosing to ignore such genuine advice. In conclusion, the establishment of a social contract and adherence to it between the policymakers and all interested stakeholders need not be emphasized.

May God Bless Zimbabwe!