ZIMBABWE

MEASURES TO STABILISE THE EXCHANGE RATE AND MACRO ECONOMY

Introduction

The Government of Zimbabwe, through the implementation of the NDS1, has gone a long way on the economic reform agenda.

The Zimbabwean Economy remains on a firm growth path, with all key productive sectors registering positive growth.

After registering about 4% growth in GDP for 2022, we anticipate that Growth for 2023 will be significantly higher than the initial projection of 3.8%.

Food security has been assured, underwritten by a deliberate policy mix from Government and supported by two successive good rainy seasons.

On the back of the re-introduction of the Zimbabwe dollar, which brought about clarity to currency markets together with a number of advantages to the economy, together with a supportive policy framework, industrial capacity utilisation and productivity continue to grow, with about 70% of goods on the shelves now being locally produced.

In addition to this widely visible and tangible competitiveness of the local industry, which is evidenced by the notable growth in manufactured exports and observable import substitution effects, there is also notable growth recorded in the hard goods and intermediate goods manufacturing sectors.

The broader economy, including the mining sector, has particularly benefitted from having a significant realignment of domestic costs from the rebasing of wage costs in particular to the domestic currency.

We have seen an increase in unofficial (shadow) foreign exchange reserves as private holdings of foreign exchange which are available for use in both domestic and external trade transactions as reflected by healthy levels of foreign currency deposits in the banking sector.

Foreign currency receipts across all categories of inflows have increased by at least 100% compared to a few years ago and are at their highest levels in years, with total foreign currency receipts expected to top USD13billion this year.

However, despite all the underlying strong fundamentals, we have now seen a resurgence of macro-economic instability, with domestic inflation being driven primarily by the skewed preference for US Dollars as a savings currency. This has put enormous pressure on the exchange rate as the skewed preferences have continued to increase the velocity of the Zimbabwe dollar.

This phenomenon has seen a growing USD cash economy and it is estimated that a large portion of domestic transactions are now being conducted in foreign currency.

It is against this background and following wide consultations with the private sector and other stakeholders, that Government now announces the following policy measures:

1. 100% Retention of Domestic Foreign Currency Earnings.

In order to promote the banking of domestic sales foreign currency in the banking system, the Reserve Bank of Zimbabwe will with effect from 15 May 2023, exempt all proceeds from domestic sales in foreign currency from the 15% surrender requirement.

2. Adoption of All External Loans by Treasury.

All external loans to the Government will now be transferred from the Reserve Bank of Zimbabwe to Treasury.

3. Enhanced Foreign Exchange Auction System.

The Foreign Exchange Auction System will be further fine-tuned and will now auction a pre announced envelope, on a pure Dutch auction basis.

4. Lifting of All Restrictions on importation of Basic Goods.

In order to enhance the supply of basic goods to the public, all basic goods will no longer be subject to import licences, and will also come into the country free of import duties and taxes.

5. Supportive Interest Rate Environment

Domestic Interest rates remain a variable of focus and are one of the main tools available for monetary authorities to discourage speculative borrowing and to reduce the velocity of the Zimbabwe dollar and thus promote stability. Measures to restore real savings rates in the economy are therefore necessary.

The Reserve Bank of Zimbabwe, through its Monetary Policy Committee, shall continue to review the domestic interest rate framework to allow domestic currency savings interest rates to be above the perceived rate of expected devaluation for holding ZWL balances, to be attractive to savers.

In the short-term, Government needs to immediately cause short term interest rates of tenors up to 6 months to rise sharply, with longer term rates remaining low, to reflect future inflation expectations. This will squeeze out speculative demand for both ZWL and USD.

6. **Promotion of the Use of the Domestic Currency by Government Agencies.**

Government will endeavour to promote the growing and committed use of the local currency for domestic transactions by ensuring that levies and fees charged by its affiliated agencies and service providers, are to be paid for in local currency.

7. **Gold Coins and Gold Backed Digital Tokens.**

The Government of Zimbabwe is very pleased with the uptake of both the physical gold coins since they were introduced as well as the more recently issued Gold Backed Digital Tokens. Government, through the Reserve Bank of Zimbabwe shall continue to assure public confidence in both instruments by ensuring that at all times, the Gold Coins and Gold Backed Digital Tokens remain fully backed by physical gold reserves.

Conclusion

The Government of Zimbabwe remains committed to maintaining macro-economic stability and the elimination of harmful and destabilising arbitrage conditions that have pervaded the economy at the expense of the generality of citizens.

OFFICE OF THE MINISTER OF
FINANCE AND ECONOMIC
DEVELOPMENT

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Hon. Prof. Mthuli Ncube
MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT
11 May 2023