ZIMBABWE

PRESS STATEMENT

ADDITIONAL MEASURES TO STABILISE THE EXCHANGE RATE AND CONTROL INFLATION

BACKGROUND

The Government of Zimbabwe has recently taken significant steps to stabilise the exchange rate as announced through the Presidential Policy Statement and other policy measures. The impact of these measures have signalled to the market, Government's total commitment to enhancing the country's foreign exchange management systems.

However, additional measures to further strengthen these systems, based on the following well established economic facts relating to the country are required:

a. The key drivers of exchange rate instability in any economy are fiscal deficits and the money creation by the monetary authorities. These two policy variables have for a long while now been brought fully under control.
b. In addition, the current account has moved from a deficit to surplus position. The trade balance has ceased to put pressure on the exchange rate.
c. The economy is generating substantial foreign exchange which is adequate to fund imports and other external payments.
d. The confidence deficit amongst economic agents as a result of past hyper inflation experiences has resulted in rational demand for US Dollars as a store of value. This is reflected not only in the increasing holdings of foreign currency balances in the banking system. These balances however do not efficiently circulate in the economy due to structural issues in the banking sector.

e. The lack of confidence and high inflation expectations have incentivised economic agents to engage parallel market bench-marking of prices; and a skewed preference for US Dollars for commercial transactions, and forward exchange rate pricing, thus creating a vicious cycle of increasing prices which is self-fulfilling, and is generating higher month to month levels of inflation as well as fuelling adverse inflation expectations. The proof of this lies in recent econometric studies done by the University of Zimbabwe, which indicate that inflation is not being caused by the normal real economic variables but by behavioural variables such as confidence, adverse inflation expectations, etc.
f. The skewed preference for US Dollars in the economy has also resulted in a larger than normal demand for foreign exchange to support domestic transactions as opposed to foreign exchange being predominantly used to fund external transactions.

ADDITONAL POLICY MEASURES TO BUILD FURTHER CONFIDENCE IN THE MULTICURRENCY SYSTEM

Based on the above economic facts, the Ministry of Finance has put in place the following measures to build further confidence.

1. **Entrenching the multi-currency system in law:**

   Government has clearly stated its intention of maintaining a multi-currency system based on dual use of the US dollar and the Zimbabwe dollar. However, the market lacks confidence that the Multi Currency system is here to stay for the foreseeable future. To eliminate speculation and arbitrage based on this issue, the Government has decided to embed the multi-currency system and the continued use of the US dollar into law for a period of 5 years.

2. **Entrenching the inter-bank market exchange rate in law:**

   The interbank market exchange rate is now being determined by banks on a willing buyer-willing seller basis. The utilisation in all economic transactions of this formal rate is now made mandatory by law. While economic agents are free to price their goods in US dollars or Zimbabwe dollars, and there are no price controls, the equivalence of US dollar prices and Zimbabwe dollar prices for a commodity should be strictly based on the current interbank exchange rate as determined by the Willing Buyer Willing Seller rate. No discounting of prices for payments made in US dollars shall be allowed and the law provides for strict criminal and civil penalties including US dollar-based fines, suspension or cancellation of business/trading licences for offenders. Amongst other penalties.

MEASURES TO STABILISE THE PRICE OF FUEL, MAIZE MEAL AND BREAD IN THE MARKET

Interventions in the Fuel Sector

Over the past few months following significant pressure on global fuel prices due to the tensions in Eastern Europe, Government has been intervening in the fuel sector in order to stabilise fuel prices.

The actions have included: -

- Downward review of Government Fuel Levies
- Release of Fuel from the Strategic Fuel Reserve

This week, Government completely removed the Levy on Diesel i.e. brought it to Zero Cents, and significantly dropped the levy on Petrol. This action prevented the price of fuel from breaching the USD2.00 per litre mark.

Interventions in the Grain Sector

Government has noted that there is a looming shortage of maize meal and flour in the market which has resulted in the sharp increase of the price of bread and mealie meal to levels which the ordinary citizens cannot afford.

Whilst the levels of our Strategic Grain Reserve are relatively below ideal levels, there is, nevertheless, urgent need for Government to intervene to bring stability in the price and supply of maize meal and bread flour in the economy.

The following is, therefore, being proposed to provide interim relief to millers:

Wheat

- Government should release 20 000MT per month to millers for the next three months beginning in July 2022 at the import parity price calculated at the prevailing interbank rate.

- Millers have indicated that they will in turn import 70 000MT of wheat over the same period. The wheat will be sold at an import parity price of USD680 converted into local currency equivalent at the ruling exchange rate.

- Therefore, the price of wheat to millers will be ZWL239 360.

Maize

- An immediate release of the 7 000MT outstanding maize allocations to millers which had already been paid for but could not be allocated due to technical issues.

- Over and above this, millers have indicated that they have 25 000MT of maize which has already been paid for and are ready to make a swap arrangement with Government, in this regard, Government will release the equivalent quantity of maize from the Strategic Reserve in July 2022 against the impending delivery of the purchased maize.

- Thereafter, a further release of 27 000MT of maize from the Strategic Grain Reserve to millers at a price of ZWL75 000 plus the US$90 at the prevailing interbank rate.

- The selling price of maize to millers will, therefore, be at ZWL$106 680.

Further Recommendations

- It has been noted with concern that millers have always put the burden on Government to replenish their grain stocks. Whilst we appreciate the importance of ensuring food security to the nation, millers should be encouraged to source their own grain stocks whenever possible.

- Given the envisaged shortfall of both maize and wheat during the current season, the Government will expedite the importation of maize available in Malawi and Zambia, while wheat will be sourced from cheaper source markets.

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.

Hon. Prof. Mthuli Ncube

MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT
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