CHAPTER 11

Economic Governance and the Economic Crisis in Zimbabwe

This issue relates to the Economic Governance and Management thematic area as a whole, although specific reference could be made to:

OBJECTIVE 1

Design and Implement Economic Policies for Sustainable Development

Question 1 *Describe the economic vision/policy of the country. What are the key challenges in realising this economic vision?*

Question 2 *What sectoral economic policies has your country developed and implemented to promote economic growth and sustainable development in the past 5-10 years and what has been their effectiveness?*

Question 5 *To what extent is your country affected by internal and external economic shocks?*

OBJECTIVE 6

Develop and Implement Trade and Investment Policies that Promote Economic Growth

Question 1 *To what extent are your country's investment policies facilitative of economic growth?*

Zimbabwe has been afflicted by long-standing economic crises and retardation for decades. This is a phenomenon that has affected all aspects of life, with consequences for the personal financial health of households, the viability of firms and the stability of the country as a whole.[378] In particular, post-2000 Zimbabwe has taken a dramatic turn from being regarded as a regional economic leader to being seen as an international pariah.[379]

An assessment of a country's economic governance should crucially include the macroeconomic dynamics around inflation, unemployment, balance of payment statistics, economic growth and development, as well as the microeconomic dynamics around ease of doing business.

Zimbabwe's Major Development Policies and Strategies since 1980

Post-independent Zimbabwe saw the promulgation of multiple impressive national development strategies, some of which, if pursued and implemented judiciously, might have resulted in notable prosperity for the country and its people.[380] Central to these policies was the need to respond to the ever-changing internal and external socio-politico-economic challenges afflicting the country. For background, academic analysts Gideon Zhou and Hardlife Zvoushe grouped the development strategies of the first 30 years of Zimbabwe's independence into three respective decades:[381]

- **First decade (1980–90):** Policy strategies had a nation-building imperative and thus were highly interventionist and welfarist.[382] During this time, the first Five-Year National Development Plan (1986–1990) was published.
- **Second decade (1990–2000):** There was a departure from the expansionary and interventionist ideology as policies were designed to respond to the impending economic crisis. Strategies like the ESAP and Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) were published.

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378 Bassam AlBassam, 'The relationship between governance and economic growth during times of crisis,' *European Journal of Sustainable Development* 2, no. 2 (2013) 1–18.

379 Gretchen Bauer and Scott Taylor, *Politics in Southern Africa: Transition and Transformation* (Boulder: Lynne Rienner Publishers, 2011).

380 Vusumuzi Sibanda and Ranganayi Makwata, *Zimbabwe Post Independence Economic Policies: A Critical Review* (Germany: Lambert Academic Publishing, 2018), 2.

381 Gideon Zhou and Zvoushe Hardlife, 'Public Policy Making in Zimbabwe: A Three Decade Perspective.', *International Journal of Humanities and Social Science* 2, no. 8 (2012): 212–222, http://www.ijhssnet.com/journals/Vol_2_No_8_Special_Issue_April_2012/26.pdf.

382 For example, the Growth with Equity Policy (1981) and Transitional National Development Plan (1982–1985).

- **Third decade (2000–2010):** A decade under great uncertainty and turmoil as the economy experienced its worst socio-politico-economic meltdown whose peak year was 2008.[383]

TABLE 10 ZIMBABWE'S ECONOMIC POLICIES SINCE 1980

	DATE	POLICY	PERIOD COVERED
First decade dynamics (interventionist, state-centric, welfarist etc.)	1-Feb-81	Growth with Equity (GWE)	1981
		Transitional National Development Plan (TNDP)	1982–1985
		First Five-Year National Dev Plan (FFYNDP)	1985–1990
Second decade policies	18-Jan-91	Economic Structural Development Programme (ESAP)	1991–1995
	20-Feb-98	Zimbabwe Programme for Economic and Social Transformation (ZIMPREST)	1996–2000
Third decade	29-Mar-00	Vision 2020 & Long Term Development Strategy	1997–2020
	1-Aug-01	Millennium Economic Recovery Programme (MERP)	2001–2002
	1-Feb-03	National Economic Revival Programme (NERP)	2003–2004
	1-Nov-04	Macro-Economic Policy Framework (MEPF)	2005–2006
	1-Apr-06	National Economic Development Priority Programme (NEDPP)	2006–2008
	30-Sep-07	Zimbabwe Economic Development Strategy (ZEDS)	2007–2011
Government of National Unity (GNU)	19-Mar-09	Short Term Emergency Recovery programme (STERP I)	2009
	23-Dec-09	Short Term Emergency Recovery programme (STERP II)	2010–2012
	1-Jul-11	Medium Term Plan (MTP)	2011–2015
Post-GNU (Mugabe)	1-Oct-13	Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET)	2013–2018
New Dispensation (Mnangagwa administration) (The road towards attaining vision 2030)		Transitional Stabilisation Programme (TSP)	2013–2018
		National Development Strategy 1	2021–2025

Source: Vusumuzi Sibanda and Ranganayi Makwata, *Zimbabwe Post Independence Economic Policies: A Critical Review* (Germany: Lambert Academic Publishing, 2018), 3

383 Godfrey Kanyenze and Timothy Kondo, *Beyond the Enclave: Towards a Pro-Poor and Inclusive Development Strategy for Zimbabwe* (Harare: Weaver Press, 2011).

Following these three phases, and also of importance in Zimbabwe's economic development trajectory, was the GNU era (2009–2013) and the post-GNU era, which can be divided into the Mugabe era (ZIMASSET, 2013–2018) and the Mnangagwa era (Transitional Stabilisation Programme (TSP), 2018–2020, National Development Strategy 1, 2021–2025). Table 10 indicates the various national economic development plans and strategies since 1980.

The Zimbabwe Agenda for Sustainable Socio-Economic Transformation, 2013–2018

ZIMASSET was an economic blueprint launched by the ZANU-PF government following its victory in the 2013 harmonised elections, marking the end of the GNU. It was based on four clusters of priorities:[384]

- food security and nutrition;
- social services and poverty eradication;
- infrastructure and utilities; and
- value addition and beneficiation.

Its overall aim was to ensure the attainment of 'sustainable development and social equity anchored on indigenisation, empowerment and employment creation which [would be] … largely propelled by the judicious exploitation of the country's abundant natural and human resources.'[385] These ambitious aspirations were never realised owing to a number of cross-cutting political and economic dynamics. University of Zimbabwe economist, Thabani Nyoni, attributed ZIMASSET's failure mainly to its status as a party manifesto rather than an all-inclusive and consultative development framework.[386] However, one of the major contributing factors to the failure of ZIMASSET was the intense factional squabbles in the ruling party around succession issues. These power struggles overshadowed policy implementation and service delivery, leading to the failure to meet policy targets.

384 Government of Zimbabwe, *Zimbabwe Agenda for Sustainable Socio-Economic Transformation* (Harare: Veritas, 2013), 9, http://www.veritaszim.net/sites/veritas_d/files/Zimbabwe%20Agenda%20for%20Sustainable%20Socio-Economic%20Transformation%20%28ZIM-ASSET%29%20Oct%202013%20to%20Dec%202018.pdf.

385 Sibanda and Makwata, "Zimbabwe Post Independence Economic Policies".

386 Thabani Nyoni, 'A Critical Diagnosis of the Success/Failure of Economic Policies in Zimbabwe During the Banana (1980–1987) and the Mugabe (1988–2017) Administrations: Learning the Hard Way,' *Dynamic Research Journals Journal of Business and Management* 1, no. 2 (2018): 27–33, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3133565.

Transitional Stabilisation Programme (2018–2020)

The TSP was introduced as an economic stabilisation tool to set the foundation for the two National Development Strategies (NDS 1 and NDS 2) aimed at attaining Vision 2030, of being an upper-middle income economy by 2030.[387] Central to this policy was the need to address the liquidity and currency crisis facing Zimbabwe and thus prevent degenerating into a repeat of the 2000–2008 downward spiral. Overall, the policy was aimed at stabilising the macro-economy and financial sector, introducing necessary reform measures, addressing infrastructure gaps and launching quick wins to stimulate economic growth.[388] However, according to one verdict, 'despite a brief government surplus and the introduction of a new currency aimed at curbing inflation, the economy almost got close to collapse, with fuel, food, and electricity shortages reminiscent of Zimbabwe's political and economic crisis in the mid- to late 2000s.'[389]

The deficiencies in the implementation of the TSP have been attributed to the lack of common ground between the technocratic Finance Minister Mthuli Ncube thinking that 'he is not moving fast enough and wants to fully implement radical reforms', and the more conservative Mnangagwa 'who thinks Mthuli is moving too fast.'[390] Thus, with the president having the upper hand, the policy reforms have not been and are not being implemented with the urgency they deserve, with consequent suboptimal results. The TSP missed its targets, in some cases by wide margins, as was the case with inflation and GDP growth rates. In 2019, the inflation target was 5%, but the year ended with 255% inflation. In 2020, the gap was even wider, from a target of 5% to a result of 623%.

It is, however, important to note that despite the existence of all these macroeconomic policies and development strategies, Zimbabwe's economy continued to be in turbulence over the past two years, with sporadic episodes of positive growth and development. This confirms Bassam AlBassam's argument that 'simply developing a government policy or development strategy is not an appropriate means to achieve economic growth, recovery and long-term economic development unless combined with effective implementation and an effective and efficient governing system.'[391] The dynamics in Zimbabwe's economy can be reflected in the overall statistics of inflation

387 Government of Zimbabwe, *Zimbabwe Transitional Stabilisation Programme 2018–2020* (Harare: Government of Zimbabwe, 2018), iii, https://zimbabwe.un.org/sites/default/files/2020-06/Transitional-Stabilisation-Programme-Final.pdf.

388 Government of Zimbabwe, *Zimbabwe Transitional Stabilisation Programme*, 6.

389 Noyes, "A New Zimbabwe", ix.

390 Noyes, "A New Zimbabwe", 22.

391 AlBassam, 'The relationship between governance', 1.

and real GDP growth rates over the course of the development plans as presented in Tables 11 and 12.

TABLE 11 COMPARISON OF INFLATION TARGETS VERSUS ACTUAL, 1980–2020

DEVELOPMENT STRATEGY		TNDP/1ST NDP 1980–1990	ESAP 1990–1995	ZIMPREST 1996–2000	MPF	NEDPP	STERP/MTP/ ZIMASSET 2018	TSP 2018	TSP 2019	TSP 2020
Inflation	Target	–	10%	9%	10%	250%	<9%	4%	5.0%	5.0%
	Actual	15%	22.6%	55.8%	1016%	122 million%	9%	10.61%	255.29%	622.78%

Source: Gibson Chigumira, Erinah Chipumho and Gamuchirai Chiwunze, *An assessment of the macroeconomic policy formulation and implementation processes in Zimbabwe* (Harare: Zimbabwe Economic Policy Analysis and Research Unit, 2018)

TABLE 12 REAL GDP GROWTH RATE TARGET VERSUS ACTUAL, 1980–2020

DEVELOPMENT STRATEGY		TNDP/1ST NDP 1980–1990	ESAP 1990–1995	ZIMPREST 1996–2000	MERP 2000–2002	STERP/MTP 2009–2013	ZIMASSET (2013–2018)	TSP 2018	TSP 2019	TSP 2020
Real GDP growth rate	Target	8%	5%	6%	2%	10%	7.3%	6.3%	9.0%	9.7%
	Actual	2.7%	0.5%	-4.8%	-19.9%	10%<	<7.3%	4 %	-6.5 %	-8%

Source: Gibson Chigumira, Erinah Chipumho and Gamuchirai Chiwunze, *An assessment of the macroeconomic policy formulation and implementation processes in Zimbabwe* (Harare: Zimbabwe Economic Policy Analysis and Research Unit, 2018)

Employment, Unemployment and Underemployment in Zimbabwe

Formal employment is at its lowest since independence, hovering at around 10-12%[392], resulting in a large subsistence informal economy driven by desperation, which now absorbs about 90% of the labour force. According to the World Bank, Zimbabwe now has

392 Zimbabwe's unemployment statistics have been a contentious issue over the years. There is usually a huge gap between the official statistics by the ILO and ZIMSTATS and the unofficial rates.

the second largest informal economy in the world, second only to Bolivia, at 61% and 62% respectively.[393] Since then, the informalisation has deepened and is near saturation point.

Another study notes that 'such levels of informalisation are profound considering that 5.7 million people were working in MSMEs (Medium, Small, and Micro Enterprises) in 2012; 2.8 million were business owners while 2.9 million were employees.'[394] The challenge of this shadow economy is described as follows:[395]

> The motive for production is subsistence (survivalist thrust), with so many workers eking out a living under precarious working conditions. The majority of informal economy workers are at the bottom of the economic and social ladder, working under precarious conditions. They typically suffer from a deficit of decent work, with their work being casual, 'unprotected', 'excluded', 'unregistered' or 'unrepresented'.

This was the case in the pre-COVID-19 era. As would be expected, the quality of work in the informal sector is not only degraded, the jobs are highly vulnerable to adverse shocks like the pandemic. For the greater part of 2020, many informal businesses in the country were still shut for lack of start-up finances, worsening the already dire livelihood situations. The informalisation of the economy is a response to the rapid de-industrialisation of the economy since the collapse of the agricultural sector after the chaotic and sometimes violent Fast Track Land Reform Programme (FTLRP), which started some 20 years ago but whose ripple effects are still heavily felt today.

With the proliferation of the informal sector in Zimbabwe, most unemployed people have stopped actively seeking employment opportunities and thus do not fit into the International Labour Organization's definition of unemployment.[396] However, pronouncements by various government actors over the years indicate there is a discrepancy between the official unemployment rate (see Tables 13 and 14) and the

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393 Leandro Medina and Friedrich Schneider, "Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?" (Working Paper 1817, International Monetary Fund, Washington, 2018), https://www.imf.org/en/Publications/WP/Issues/2018/01/25/Shadow-Economies-Around-the-World-What-Did-We-Learn-Over-the-Last-20-Years-45583.

394 Kanyenze and Kondo, "Beyond the Enclave"; Kanyenze, G; Chitambira, P and Tyson, J (2017), *The Outlook For The Zimbabwean Economy*, page 9, https://set.odi.org/wp-content/uploads/2017/08/SET-Outlook-for-Zimbabwe-Economy_Sep2017.pdf.

395 Kanyenze and Kondo, "Beyond the Enclave", ACTN RQD. Kanyenze, G; Chitambira, P and Tyson, J (2017), *The Outlook For The Zimbabwean Economy*, page 9, https://set.odi.org/wp-content/uploads/2017/08/SET-Outlook-for-Zimbabwe-Economy_Sep2017.pdf.

396 Unemployment is defined by the ILO as being without work, be available for work and actively be seeking work. See Malte Luebker, *Employment, unemployment and informality in Zimbabwe: Concepts and data for coherent policy-making*, Issues Paper No. 32 and Integration Working Paper No. 90, International Labour Organisation, p. 9, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_097760.pdf.

unofficial one. For example, in the 2013 ZIMASSET election manifesto, the unemployment rate was pegged at 60%, while the MDC placed it at 85% and the National Association for Non-Governmental Organisations placed it at 95% during the same period.[397]

TABLE 13 UNEMPLOYMENT RATES IN ZIMBABWE

2011	2012	2014	2019
10.7%	11.3%	11.3%	16.4%

Source: Zimbabwe National Statistics Agency, 'Statistics at a Glance', https://www.zimstat.co.zw/#1548426996692-f4ba746f-9035

TABLE 14 UNEMPLOYMENT RATES IN ZIMBABWE

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
5.37%	5.38%	5.40%	5.34%	5.30%	5.25%	5.17%	5.09%	4.95%	

Source: World Bank Data, 'Unemployment, total (% of total labor force) (modeled ILO estimate) – Zimbabwe', https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=ZW

TABLE 15 GDP IN ZIMBABWE

	2011	2012	2013	2014	2015	2016	2017	2018	2019
GDP ($ billions)	$14.10	$17.11	$19.09	$19.50	$19.96	$20.55	$22.04	$24.31	$21.44
Growth rate (%)	14.19%	16.67%	1.99%	2.38%	1.78%	0.76%	4.70%	4.83%	-8.10%

Source: World Bank Data, 'GDP (current US$) – Zimbabwe', https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=ZW

Other Major Policies that Shaped Zimbabwe's Political Economic Dynamics

The Fast-Track Land Reform Programme and the Indigenisation and Economic Empowerment Policy

The FTLRP and the Indigenisation and Economic Empowerment Act (IEEA) are some of the most controversial policies in post-independence Zimbabwe, drawing international

397 Sintha Chiumia, 'Is Zimbabwe's unemployment rate 4%, 60% or 95%? Why the data is unreliable,' *Africa Check*, October 1, 2014, https://africacheck.org/fact-checks/reports/zimbabwes-unemployment-rate-4-60-or-95-why-data-unreliable.

attention. In 2008, the Mugabe administration introduced the controversial IEEA that required foreign-owned companies to have at least 51% of shares owned by indigenous black Zimbabweans.[398] Ideally, these policies were meant to empower indigenous Zimbabweans and give them ownership and control of their natural resources.[399] However, due to the chaotic and politicised manner in which land had been previously allocated (in the FTLRP), the IEEA faced criticism as foreign investors viewed it as a policy designed to enrich the elite from the ruling party and other loyalists, in contrast to the assurances that it aimed to empower indigenous Zimbabweans.[400] Subsequently, these two policies turned Zimbabwe into one of the least favourable investment destinations in the region (see Table 16).

With an understanding of such dynamics, the Mnangagwa administration promised several swift economic reforms to revive Zimbabwe's battered economy. Amending the IEEA was among the top priorities.[401]

In March 2018, Mnangagwa's administration amended the IEEA, removing this restriction on all but platinum and diamonds, which the government said would remain because of their strategic importance.[402] Together with Mnangagwa's 'Zimbabwe is open for business' mantra, this led to a rise in foreign direct investment (FDI) inflows as the country received a total of above $700 million in FDI.[403] It is, however, important to note that the actual figure is far below the promised investment commitments of more than $20 billion in 2017 and 2018.[404]

TABLE 16 INVESTMENT INFLOWS (FDI) STATISTICS, 2011–2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
GDP ($ billions)	387.0	399.5	400.0	544.8	421.0	371.8	349.4	744.6	280.0

Source: World Bank Data, 'Foreign direct investment, net inflows (BoP, current US$) – Zimbabwe', https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=ZW

398 Noyes, "A New Zimbabwe", 20.

399 Noyes, "A New Zimbabwe".

400 Showers Mawowa, 'The Political Economy of Artisanal and Small-Scale Gold Mining in Central Zimbabwe,' *Journal of Southern African Studies* 39, no. 4 (2013): 921–936, https://www.tandfonline.com/doi/abs/10.1080/03057070.2013.858540.

401 Noyes, "A New Zimbabwe".

402 Noyes, "A New Zimbabwe".

403 World Bank Data, 'Foreign direct investment, net inflows (BoP, current US$) - Zimbabwe', https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=ZW.

404 Victor Bhoroma, 'Achieving self-sufficiency in Zim power generation,' *Zimbabwe Independent*, May 24, 2019; Kudzanai Gerede, 'Govt Restructures Command Agriculture Financing Model,' *236chat.com*, September 19, 2019.

The environment in which Zimbabwean businesses operate is not an easy or stable one. This is illustrated by the country's score in international rankings.

TABLE 17 ZIMBABWE'S INTERNATIONAL RANKINGS

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Ease of Doing Business (World Bank)	171	173	170	171	155	161	159	155	140
	183	185	189	189	189	190	190	190	190
Global Competitiveness Index (World Economic Forum)	132	131	124	125	126	124	128	127	
	144	148	144	144	138	137	140	141	
Corruption Perception Index (Transparency International)	163	157	156	150	154	157	160	158	157
	176	177	175	168	176	180	180	180	180

Source: The World Bank, 'Doing Business in Zimbabwe', https://www.doingbusiness.org/en/data/exploreeconomies/zimbabwe; World Economic Forum, 'Zimbabwe', http://www3.weforum.org/docs/GCR2017-2018/03CountryProfiles/Standalone2-pagerprofiles/WEF_GCI_2017_2018_Profile_Zimbabwe.pdf; and Transparency International, 'Zimbabwe', https://www.transparency.org/en/countries/zimbabwe

TABLE 18 INSTITUTIONAL AND LEGISLATIVE FRAMEWORKS

YEARS IN OPERATION	LEGAL FRAMEWORKS	INSTITUTIONAL FRAMEWORKS
1995 – 2006	Zimbabwe Investment Centre Act (24:16) (1992, 1994) *repealed in 2006	Zimbabwe Investment Centre (ZIC) (1992)
	Export Processing Zones Act (14:07) (1995, 2001, 2005) *repealed in 2006	Export Processing Zones Authority (EPZA) (1995)
2007 – 2019	ZIA Act (Chapter 14:30) (2006, 2015) * repealed by ZIDA	ZIA (2006) One Stop Investment Services Centre (OSISC) (2010)
	Joint Ventures Act (Chapter 22:22) (2016) * repealed by ZIDA	Joint Ventures Unit (2016)
	SEZ Act (14:34) (2016) * repealed by ZIDA	ZIMSEZA OSISC
	Statutory Instrument (S.I.) 154 of 2018	ZIMSEZA
	General Notices 660 and 675 of 2018	ZIMSEZA
2019- present (proposed bill)	ZIDA Bill ZIDA Act (February 2020)	ZIDA (proposed)

Source: Compiled by author

Table 18 sets out Zimbabwe's changing economic legislative and institutional environment over the years.

Post-2018 Economic Developments

GDP Growth Rates

Economic growth in the post-2018 period has been significantly below the targeted figures. This can be attributed to various internal, external and environmental dynamics – including poor rainfall during the 2018/19 season, Cyclone Idai (2019), and the COVID-19 pandemic, among others. Table 19 presents the targets and statistics for GDP growth.

TABLE 19 GDP GROWTH RATES

	2018	2019	2020	2021
Target (TSP)	6.3%	9.0%	9.7%	11.5%
Target (National budget)	4.5%	3%	3.0% (2020 budget) -4.1% (2021 budget)	–
Actual	4 %	-6.5 %	-8%	–

Source: Government of Zimbabwe, *Zimbabwe Agenda for Sustainable Socio-Economic Transformation* (Harare: Veritas, 2013), xvi

Inflation

Zimbabwe's inflation rate has fluctuated widely in the last two decades. It rose to an astronomical official rate of 120 million% in July 2008, at which point the Zimstat abandoned the calculation of the inflation rate because it served no purpose at all and was computationally a nightmare. Zimbabwe's inflation galloped to 89.7 sextillion% by November 2008 whereby it became the second highest in recorded history, second only to Hungary in the 1940s.[405] The GNU disciplined the inflationary pressures and inflation actually went into negative territory until 2016 when it started its upward trajectory again, rising to over 800% by July 2020.

405 Steve Hanke, 'R.I.P. Zimbabwe Dollar,' *Cato Institute*, no date, https://www.cato.org/zimbabwe.

Zimbabwe's post-2017 inflation rate took a dramatic turn from the negative figures of 2014–2016. In essence, owing to sustained currency weaknesses, particularly on the parallel market and a pending liquidity crunch, prices began to rise exponentially in the post-election period.[406]

Tables 20 and 21 present the year-on-year inflation statistics for the years 2011–2020, and Table 22 presents the month-on-month inflation for the period May 2020–April 2021.

TABLE 20 INFLATION RATES, PRE-NOVEMBER 2017 COUP, 2011–2017

	2011	2012	2013	2014	2015	2016	2017
GDP ($ billions)	3.48%	3.72%	1.63%	-0.21%	-2.41%	-1.57%	0.91%

Source: World Bank Data, 'Inflation, consumer prices (annual %) - Zimbabwe', https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=ZW

TABLE 21 INFLATION RATES, POST-NOVEMBER 2017 COUP, 2018–2021

	2018	2019	2020	2021
Target (TSP)	4.0%	5.0%	5.0%	5.0%
Target (MPS)	–	–	20%	–
Actual	10.61%	255.29 %	622.78 %	–

Source: Government of Zimbabwe, *Zimbabwe Agenda for Sustainable Socio-Economic Transformation* (Harare: Veritas, 2013), xvi

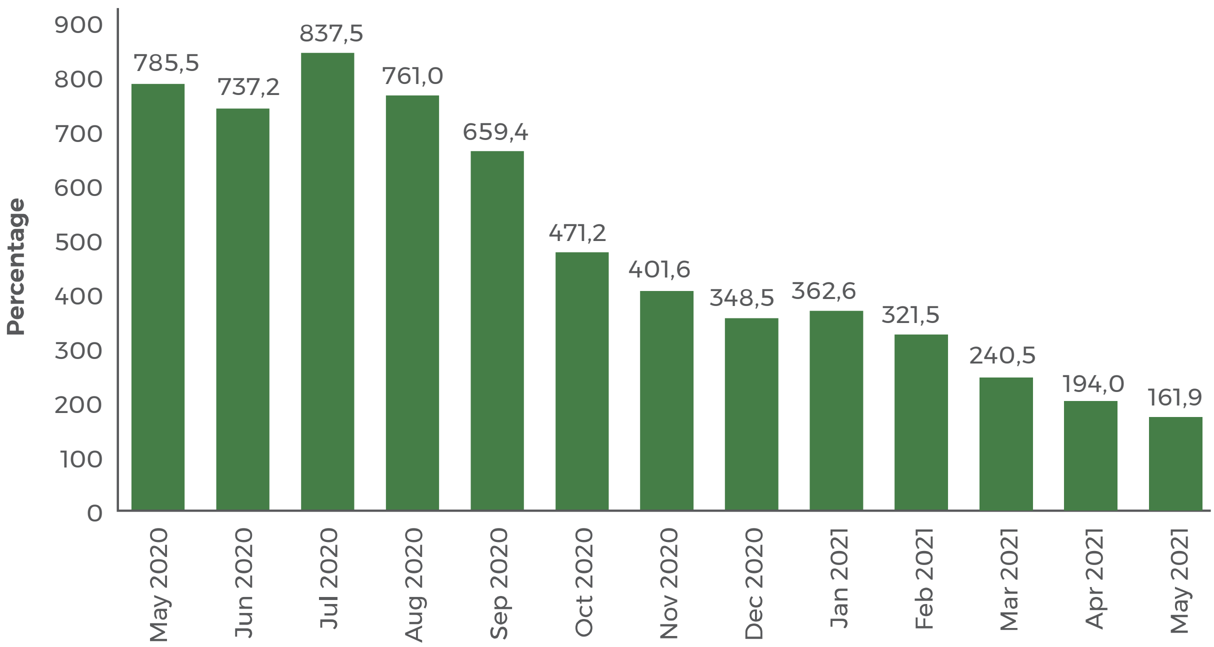
Monetary Policy Reforms (Currency Reforms and Exchange Rates)

One of the central issues that the Mnangagwa administration targeted after winning the 2018 elections was monetary policy reform. The specific focus was currency reforms and other financial sector stabilising mechanisms, to address the emerging financial sector problems.[407] Since 2016, there has been a resurgence of problems in the financial sector, specifically serious cash and foreign currency shortages. One of the contributing factors to this was the gradual and significant fall in the supply of the US dollar from

406 Nathan Hayes, 'Hyperinflation and distrust in Zimbabwe,' *London School of Economics* (blog), July 23, 2019, https://blogs.lse.ac.uk/africaatlse/2019/07/23/hyperinflation-zimbabwe/.

407 Government of Zimbabwe, *Zimbabwe Agenda for Sustainable Socio-Economic Transformation* (Harare: Veritas, 2013), 32.

FIGURE 16 MONTHLY INFLATION RATES FROM MAY 2020 TO MAY 2021



Source: Trading Economics, 'Zimbabwe Inflation Rate', https://tradingeconomics.com/zimbabwe/inflation-cpi

2011-2016.[408] While the Mugabe administration introduced bond notes (a surrogate currency pegged at par with the US dollar) in November 2016, the problems persisted, leading in turn to more radical moves.[409]

True to Gresham's law that 'bad money drives away good money',[410] the introduction of bond notes further worsened the currency crisis as it led to the continued dwindling of foreign currency in the formal system. It also led to multi-tier pricing and parallel pricing of goods in different currencies as there was general consensus on the differences in intrinsic value between the US dollar and the bond notes, despite the purported par value.

408 Ephraim Matanda, Hlupeko Dube and Nyasha Madzokere, '"Blessing or Curse"? Introduction of Bond Notes as an Antidote to Zimbabwe's Liquidity Crises,' *Journal of Modern Accounting and Auditing* 14, no. 5 (2018): 252–264, https://www.researchgate.net/publication/328282255_Blessing_or_Curse_Introduction_of_Bond_Notes_as_an_Antidote_to_Zimbabwe's_Liquidity_Crises.

409 Matanda, Dube and Madzokere, 'Blessing or Curse', 253.

410 'Gresham's Law'. *Investopedia*, undated, https://www.investopedia.com/terms/g/greshams-law.asp.

In the February 2019 Monetary Policy Statement, the governor of the RBZ – the country's central bank – acknowledged that in the last part of 2018 the economy had taken a negative trajectory, with inflation doubling from 21% in October 2018 to about 43% in December 2018.[411] As a result, various measures were introduced, key among which were: the establishment of the inter-bank foreign exchange market to formalise the selling and buying of US dollars by banks and *bureaux de change*; the separation of the RTGS Foreign Currency Accounts (FCAs) and Nostro FCAs; and the banning of the multiple currency system through SI 142 in June 2019.[412] It should be noted that these initiatives had various positive impacts, for example, the narrowing of the current account deficit which had peaked at $2.7 billion in 2011 to around $1.7 billion in 2018 and turning it into a surplus of $311.2 million in 2019, and the containment of money supply growth through mopping up excess liquidity and reduction of central bank financing of government deficits.[413] However, there were other negative developments in 2019 owing to the various reforms, for example, annual inflation escalated from about 5.39% in September 2018 to 175.5% in June 2019.[414]

In a bid to stabilise and liberalise the foreign exchange rate, the government introduced the foreign exchange auction system on 23 June 2020.[415] In addition, the 'exclusion of SMEs [small and medium enterprises] due to a high minimum amount requirement of US$50,000 led to a second foreign currency auction for SMEs announced on 4 August 2020 with the first auction held on 6 August 2020.'[416] Encouragingly, there has been significant gradual stabilisation of the ZWL/USD exchange rate since the introduction of the auction system. For example, on 22 September 2020 the rate was around 1:81 against the US dollar and as of 11 May 2021, the rate was at 1:84.52.[417] This indicates considerable stability as compared to the skyrocketing rate after the initial currency reforms in 2019. However, 'the continued premiums at the parallel market demonstrate that the price set by the participating firms may not be reflective of the actual supply and demand dynamics.'[418] For example, while the official auction system rate was at 1:84.52 on 11 May

411 Reserve Bank of Zimbabwe, *Monetary Policy Statement* (Harare: Reserve Bank of Zimbabwe, 2019), 32, https://rbz.co.zw/documents/mps/mpsfeb2019.pdf.

412 Reserve Bank of Zimbabwe, *Monetary Policy Statement 2019*, 2.

413 Reserve Bank of Zimbabwe, *Monetary Policy Statement* (Harare: Reserve Bank of Zimbabwe, 2020), 25, https://www.rbz.co.zw/documents/mps/Monetary-Policy-Statement-17-February-2020.pdf.

414 Reserve Bank of Zimbabwe, *Monetary Policy Statement 2019*, 35.

415 Reserve Bank of Zimbabwe, *Monetary Policy Statement* (Harare: Reserve Bank of Zimbabwe, 2021), 5, https://rbz.co.zw/documents/press/2021/February/Monetary-Policy-Statement-18-February-2021.pdf.

416 Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU), "Economic Barometer" (Volume 22, ZEPARU, Harare, 2020), 4, http://www.zeparu.co.zw/sites/default/files/2020-10/Barometer%20Volume%2022%20September%202020.WEB_.pdf.

417 ZEPARU, "Economic Barometer", 4.

418 ZEPARU, "Economic Barometer", 4.

2021, the parallel/black market rate was ranging between 1:100 and 1:125, indicating a discrepancy between the official and the parallel market rates. By and large though, it is important to appreciate the current partial stabilisation of the foreign exchange rate through the auction system since it has managed to ensure considerable stability in the parallel market exchange rate.

Nonetheless, these monetary policy reforms have been characterised by inconsistencies and reversals.[419] This is an indication of the dilemma between radical reforming and political expediency. In 2016, when the bond notes were introduced, the government promised that it would not expropriate people's US dollar deposits and also promised a 1:1 parity for bond notes to the US dollar.[420] However, the decision was overturned in February 2019 through the introduction of the Inter-Bank Foreign Exchange market to formalise the selling and buying US dollars by banks and *bureaux de change*.[421] In addition, various inconsistencies have also been observed in the de-dollarisation process. Despite earlier promises in February 2019 that the de-dollarisation process would not be hastily implemented, the government went on to make the RTGS dollar its sole legal tender through SI 142 in June 2019. This banned the use of foreign currency for local transactions, except for a few exceptional circumstances.[422] Despite the strict stance that was announced through this SI, there have since been amendments and changes governing the use of foreign currency as legal tender, creating inconsistencies and confusion. For example, in July 2019, mining companies and hotels were granted an exemption from the foreign currency ban to pay for energy.[423] In addition, there have been various exemptions and to date, the US dollar is now being accepted as legal tender signifying the return of the multi-currency system. Then, in March 2020, less than a year after Zimbabwe outlawed the use of foreign currencies in local transactions, the country's central bank granted permission to citizens to pay for goods and services in US dollars, ostensibly as part of measures to mitigate against COVID-19.[424]

419 See: Owen Gagare, 'Mthuli Ncube's dramatic new currency flip-flops,' *The Independent*, June 30, 2019, https://www.theindependent.co.zw/2019/06/30/mthuli-ncubes-dramatic-new-currency-flip-flops/.

420 Juniours Marire, 'Rethinking currency reforms in Zim,' *The Independent*, April 30, 2020, https://www.theindependent.co.zw/2020/04/30/rethinking-currency-reforms-in-zim/.

421 Marire, "Rethinking currency reforms".

422 ZEPARU, "Economic Barometer", 4.

423 Hayes, "Hyperinflation and distrust in Zimbabwe".

424 See: Anthony Sguazzin, 'Ban on dollar lifted as Covid-19 plunges Zimbabwe into crisis,' *BusinessLive*, April 20, 2020, https://www.businesslive.co.za/bd/world/africa/2020-04-20-ban-on-dollar-lifted-as-covid-19-plunges-zimbabwe-into-crisis/.

RECOMMENDATIONS

To aid in Zimbabwe's economic recovery it is necessary that the government:

- desist from taking unilateral actions on critical economic policy issues without adequate and sincere consultations with the stakeholders, which could be done within the institutional parameters of the Zimbabwe Economic Consultative Forum, a platform for organisations to interact and facilitate relationships among policy (state), business, labour, academia, scientists and civil society;
- not resort to using SIs in economic and other policies, a practice which is being criticised as a deliberate strategy to bypass Parliamentary scrutiny and instead, all critical policy measures should be discussed and approved in the legislative bod;
- establish policy consistency in respect of currency to help build confidence between formal systems, the transacting public, local and foreign investors; government needs to rebuild confidence in Nostro accounts and increase foreign currency coming through formal channels by maintaining steady conversion rates;
- strengthen institutions such as banks that promote credibility and stability in the financial sector;
- build public confidence in the use of Zimbabwe's own currency – government's actions in this respect will be dependent on (i) an increase in revenue collection, (ii) increased productivity (iii) job creation to broaden the tax base;
- establish credibility in monetary and fiscal policy – government should research and consult extensively on the implications of new policies prior to their official enactment;
- put forward a credible framework to reduce inflation, which needs to be brought below 10% for de-dollarization;
- ensure exchange rate stability and predictability, which implies:
  - » liberalisation of the exchange market – government should move away from managing the exchange rate;
  - » An auction system that does not act as a platform for primary forex distribution but rather price discovery; and
- End all quasi-fiscal activities by the Central Bank as stipulated in the NDS1, since such activities fuel money supply growth, unsustainable growth in inflation and unintended effects on the exchange rate.