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HIGHLIGHTS

- How RBZ sabotaged the Zimdollar
- Brace for fuel price hike as RBZ lets go
- Can govt afford US dollar allowances?
- 5 things you need to know about the new forex auctions
- Zim cigar venture eyes smokers at home and abroad
- Health minister Moyo out on Z$50,000 bail

HOW RBZ SABOTAGED THE ZIMDOLLAR

Government has granted a US dollar allowance to workers and allowed shops to quote prices in USD. For many, this shows a government shifting into reverse after two years' worth of policy steps to end dollarisation.

Dollarisation sounds nice to many. They recall how it stalled hyperinflation and led into a period of relative stability. In reality, however, it was never going to be sustainable, and it stunted industry and had run its course.

Zimbabwe needs its own currency. However, the problem is nobody trusts the Reserve Bank of Zimbabwe (RBZ) and Treasury to be the ones to manage it. Looking at how clumsy authorities have been, since reintroducing the Zimdollar, it's easy to see why.

RBZ refuses to take any blame for the collapse of their Zimbabwe dollar plan.

"It (currency depreciation) was largely a result of behavioural and other non-monetary factors such as negative perceptions, adverse

ZIMBABWE COVID-19 STATISTICS FOR JUNE 19

PCR TESTS	RAPID TESTS	CONFIRMED CASES	DEATHS	RECOVERIES	NEW CASES
26 117	35 811	479	4	63	16

expectations and speculative tendencies of economic agents," RBZ said in a recent statement.

The reality is different.

Firstly, the RBZ printed too much money. According to the central bank's own data, there was a 307% growth in reserve money between June and December last year.

Overall money supply growth in the last half of 2019 can mostly be traced to three key steps. Firstly, July 2019, RBZ discounted Treasury Bills held by Sakunda. This released money that was equal to 1.5% of the country's GDP.

Secondly, RBZ kept providing forex to fuel importers at subsidised rates. Thirdly, a gold incentive given to miners was pumping at least Z$400 million into the economy every month. The incentive has now been dropped.

All this added to the general collapse in confidence in Zimbabwe's political leaders, undermining the currency.

A country does need its own currency. While the US dollar put brakes on hyperinflation in 2009, it damaged the capacity of industry to export and grow local production.

According to the IMF, the "decline in commodity prices starting in 2013 and a steady devaluation of the rand versus the US dollar put pressure on Zimbabwe's terms-of-trade" during dollarisation.

CZI data from that time shows capacity utilisation falling to 44% in 2012 and 39% a year later. It took a ban on some imports to save industries.

So, good sense says we do need our own currency. The problem is the people in charge of it.

Imara, one of the country's most influential asset managers, are not in any doubt about the fate of the Zimdollar.

"It is too late to rescue confidence in the ZWL in our view," Imara says in a recent note. "At some point full dollarisation will occur when confidence has collapsed completely. COVID-19 may well be the catalyst that brings this about."



BRACE FOR FUEL PRICE INCREASES AS RBZ LETS GO

The Reserve Bank of Zimbabwe will cease to subsidise fuel imports when the new foreign currency auction system takes off, Bloomberg reported this week.

Currently, the central bank issues letters of credit - which guarantee payment to overseas fuel suppliers - at the fixed exchange rate of 1:25, at a time when parallel market rates are approaching 1:100. This has created a huge arbitrage opportunity and compounded a lengthy fuel shortage. At the current parallel market exchange rate, Zimbabwe's fuel is priced at about US$0.30.

On June 4, RBZ governor John Mangudya told MPs that the central bank was negotiating for a US$250 million facility to guarantee fuel imports, after the previous facility expired mid-April, worsening an already dire fuel supply situation.

According to Bloomberg, oil importers will now have to bid for forex through an auction system which will be introduced on June 23, leaving fuel pricing largely to the vagaries of the market.

The new fuel pricing system might take effect up to two weeks from now, once the forex auctions take effect, the report says.

Zimbabwe imported fuel worth US$1.2 billion in 2019, according to the RBZ, but the country's levels of demand are distorted by its inefficient pricing system.

CAN ZIM AFFORD NEW USD ALLOWANCES?



(pic: CITE)

The government's US$75 allowance to civil servants and US$30 to pensioners, plus a 50% wage increase, is meant to provide relief to workers.

Unions, including striking health workers, have rejected the offer.

Still, can the government afford all this?

Finding out just how many workers are on the government's payroll is a strangely difficult task. But deductions from the Zimstat's 2019 labour force report suggest a headcount of around 430,000. The number of state pensioners is unclear, but the government appears set to spend as much as US$40 million per month on the US dollar allowances.

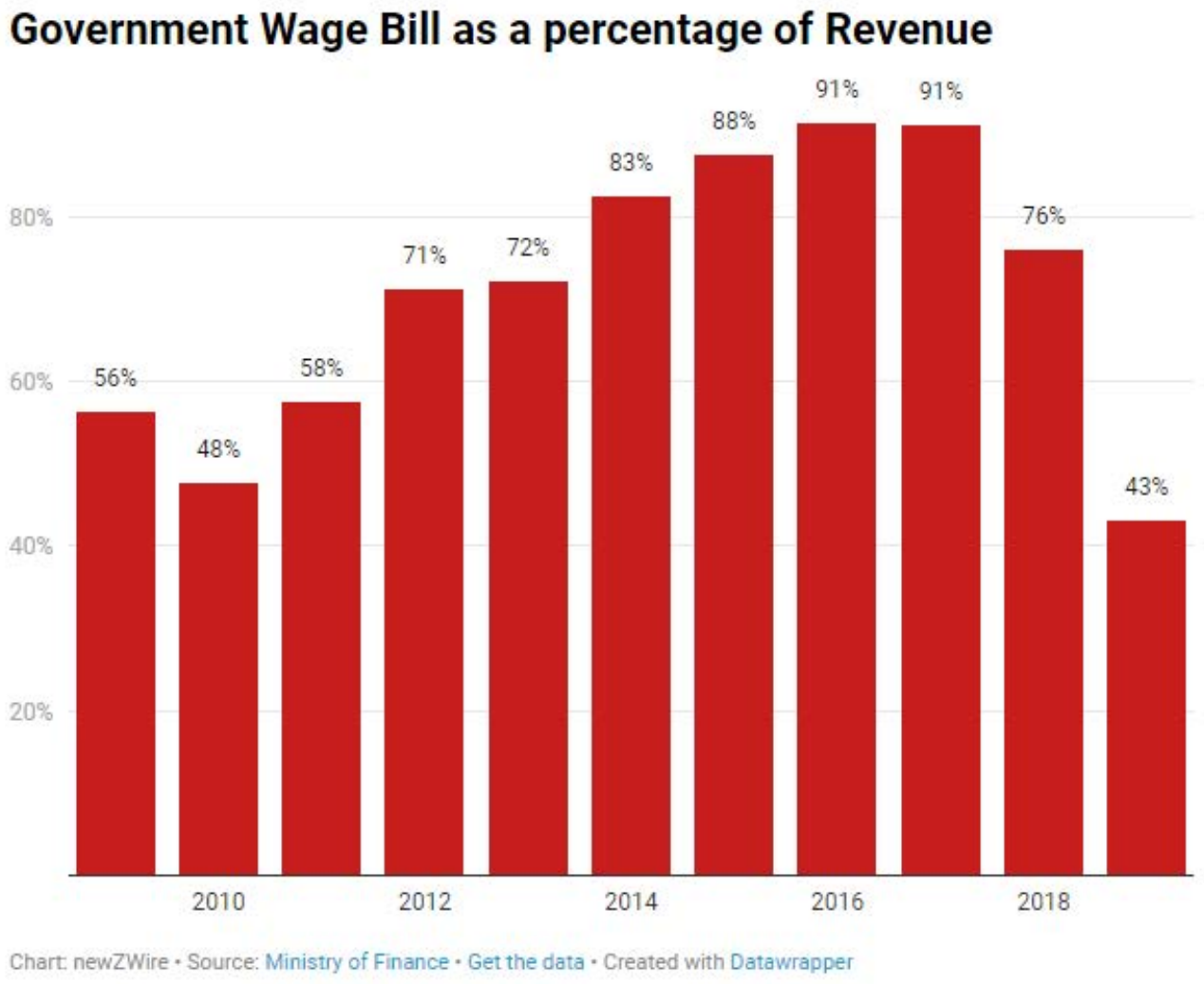
The 2020 budget is Z$63 billion. It has already been decimated by inflation, government's response to drought and the unexpected COVID-19 crisis.

Government has not said how it will raise the forex to fund the allowances, but given past experiences, old problems loom large.

When the country dollarised in February 2009, the government paid all its employees US$100 allowances across the board. In July 2009, the baseline government wage increased to US$150, rising to an average basic wage of US$204 in January 2010.

By January 2014, the least paid government worker was earning US$375, with at least 80 cents from every dollar collected by the state going towards the wage bill. This figure peaked in 2016 and 2017, when the government spent 91% of its revenue on wages.

Put differently, the government wage bill increased from 6.4% of GDP in 2009 to a staggering 21% in 2014.



A difference between 2009 and now is that, then, donors picked up part of the age bill. Between 2009 and 2011, a consortium of donors paid US$70 million to the 18,700 health staff. The programme ended in 2014.

Yet, this wasn't enough to counter the big spending. Government's propensity to spend beyond its means resulted in a widening budget deficit which was funded through borrowings and money printing. The rest is history, which could now be repeated if past urges are not checked this time around.



5 THINGS YOU NEED TO KNOW ABOUT NEW "FOREX AUCTION SYSTEM"

The Reserve Bank of Zimbabwe has announced a new forex auction system, saying it will bring "transparency and efficiency" to currency trade.

An auction platform is not new; Zimbabwe introduced a Managed Foreign Exchange Auction System in January 2004. It was abandoned within a year, after the market realised RBZ was keen to control the rate, which resulted in losses for exporters.

Will the new auction system be any different?

In simple terms, here are five key things you need to know.

#1: How it works;

Say we have a company, Tags Ltd. It needs US$50 000 to import machinery. Their bank goes into the electronic auction system. It tells the market; "we need US$50 000. If you have it, we will pay you this much Zimdollars for your US dollars". Tags is the bidder.

Then you have another company, say Agro Ltd. It has US$50 000. The company looks for the best price. So there are bids for that US$50 000. The winning bidder is the one that pays the best price. At the end of the day, an average of successful bids is worked out. This gives us the week's exchange rate.

#2: The minimum bid is US$50 000 per auction. This, really, leaves out ordinary folks from the system

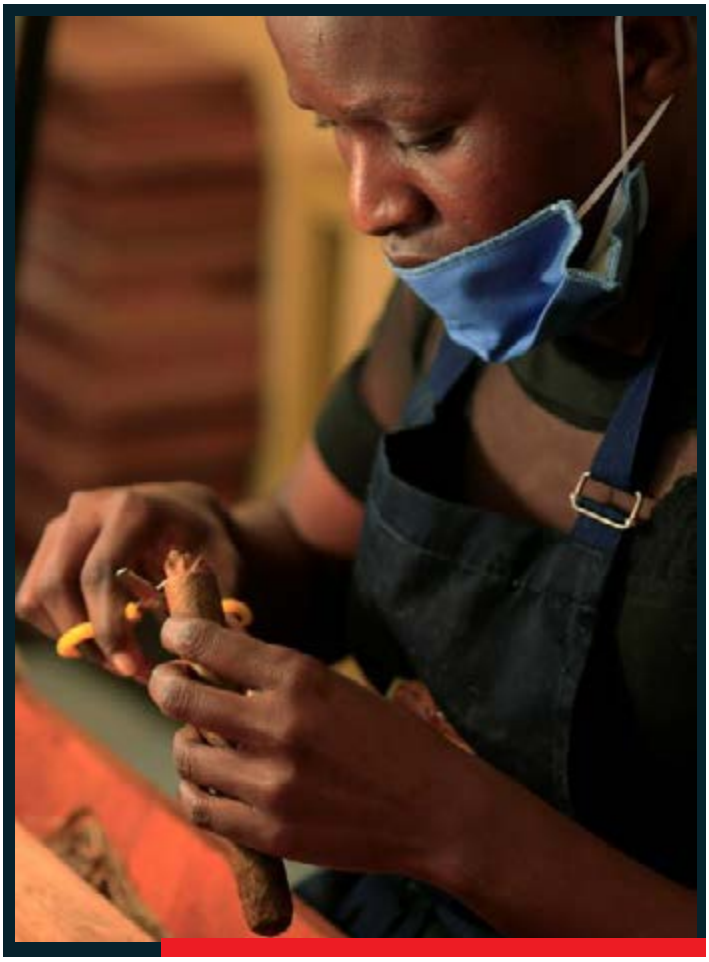
#3: The exchange rate is no longer fixed at 25. It's now decided by the auction rate

#4: The money for the market is coming from exports, and any facilities arranged by RBZ

#5: The auction is held once a week, every Tuesday. Bidders place their bids by 9AM.

The bidding platform uses the Reuters Foreign Currency Auction System, linked to the export payments and exchange control platforms. The system is also used in Angola, Egypt, Uganda and Ghana.

A concern is whether the market will be supplied enough to be sustainable. There is also worry that the government uses a lower exchange rate, which could open yet another arbitrage loophole.



READY TO ROLL: ZIM CIGAR VENTURE EYES SMOKERS AT HOME AND ABROAD

Zimbabwe is known for its tobacco leaf exports. Now a new company is adding value by making cigars for export.

Mosi-Oa-Tunya is the first firm to make cigars in the country. The company plans to take on established players while developing a culture of cigar smoking at home.

After living and working in the United States for 15 years, Shep Mafundikwa returned home last year to set up Mosi-Oa-Tunya.

Since March, an all-women staff has been undergoing on-the-job training in the art of rolling cigars by hand, with each worker producing 256 cigars a day.

“We have solid interest right now from Romania and from Vietnam and we have inquiries from Dubai,” Mafundikwa told Reuters at the company’s factory in Harare.

“We have people waiting, customers waiting to have the cigars in hand,” he said, adding that exports would start once restrictions caused by the coronavirus outbreak are eased.

Zimbabwe is famed for its tobacco, which is exported mainly to China and Europe and is used as a flavouring by global cigarette makers. For Mafundikwa, that was the starting point.

“You know Zimbabwe is well known for its high quality tobacco, so that gave me an idea to manufacture cigars.”

Mafundikwa has recruited Elias Lopez as head of production and training. The 52-year-old from Dominican Republic has worked for cigar makers Arturo Fuente and Davidoff.

Mafundikwa wants to develop a cigar market locally by making affordable brands, although economic conditions present an additional challenge: inflation is rampant and unemployment has topped 80%. - Reuters



Health minister Obadiah Moyo being led into court by detectives. June 20, 2020/Pindula News

HEALTH MINISTER MOYO OUT ON Z$50,000 BAIL

Zimbabwe's health minister Obadiah Moyo was on Saturday charged with abuse of office involving the award of US$60 million contracts to supply medical drugs and equipment.

A Harare magistrate ordered Moyo to pay 50,000 Zimbabwe dollars (US$2,000 at the official exchange rate) as bail. Prosecutors did not oppose bail and the minister is due back in court on July 31.

Moyo was arrested on Friday for his dealings with Drax International LLC and Drax Consult SAGL, companies which prosecutors say were awarded contracts worth US$60 million by the health ministry without a competitive tender process. Zimbabwe's intelligence services, which conducted due diligence on the two firms, produced adverse reports which Moyo disregarded, according to the state's charge sheet.

The contracts have since been cancelled by President Emmerson Mnangagwa's government.

Moyo becomes the second minister in Mnangagwa's cabinet to be arrested and charged with corruption. Last July, former tourism minister Prisca Mupfumira was arraigned for corruption charges which prosecutors said involved US$95 million in her previous role as labour minister overseeing a US$1 billion state pension fund.

Mupfumira was subsequently dropped from Mnangagwa's government.

Mnangagwa, who took over from the long-ruling Robert Mugabe in 2017 after a coup, is facing mounting pressure over a deepening economic crisis and allegations of high-level corruption. The economic revival Mnangagwa promised after taking over from his mentor Mugabe has not materialised and critics accuse him of failing to make good promises to fight corruption.

Although some senior officials, including former ministers, have been arrested, prosecutors are yet to land a high-profile conviction.