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HIGHLIGHTS

- Public pays for govt's fuel levy abuse
- CZI wants independent monitors for forex auctions
- Why suspending EcoCash is a bad idea: 5 key numbers
- Money supply up nearly Z$600m
- Nyabira solar plant targets 25MW output

MOTORISTS PAY THE PRICE FOR NOCZIM'S UNENDING DEBT

Zimbabwe's petrol and diesel prices went up by about 150% this week as the government once again moved to end a fuel subsidy that was compounding persistent shortages.

Before the latest price increase, the fuel price had gone below US$0.30 per litre, well below the regional average and creating arbitrage opportunities in the economy.

With the introduction of weekly foreign currency auctions and the end of a fixed exchange rate in place since March, fuel is now priced at the average auction rate, which was 57.3582 Zimbabwe dollars to the United States dollar after the inaugural auction.

ZIMBABWE COVID-19 STATISTICS FOR JUNE 26

PCR TESTS	RAPID TESTS	CONFIRMED CASES	DEATHS	RECOVERIES	NEW CASES
29 177	36 527	561	6	135	10

However, questions remain over Zimbabwe's fuel cost structure.

A breakdown of the fuel price released by the Zimbabwe Energy Regulatory Authority (Zera) this week shows a significant portion of the fuel price still goes towards paying debts contracted by NocZim nearly two decades ago.

The NocZim debt levy, introduced in 2003 to clear the now disbanded parastatal's subsidy-driven debt mostly owed to foreign fuel suppliers, is currently 5,7 US cents per litre of petrol (Z$3.27) and 1,3 US cents (Z$0.75) for every diesel per litre purchased.

Although information on the level of the remaining debt is elusive, it was reported to be US$158 million in 2010, with $93 million of that due to foreign suppliers, according to an August 2010 policy document prepared by the World Bank in close consultation with the government.

Zimra data shows that Zimbabwe imported 1,873 billion litres of petrol and 3,536 billion litres of diesel between 2013 and 2016, yielding about $173 million in levies paid into the Noczim debt clearance fund over the period.

This would be enough to clear the debt by 2016.

Elton Mangoma, who was Energy and Power Development Minister until June 2013, has said he believed the Noczim debt had long been paid off.

"By the time I left, there were just three creditors left and the figures were less than $200 million. The debt must have been extinguished a long time ago," Mangoma said in a 2017 interview. "The biggest creditor, we failed to track them. So we were simply accumulating the money. The creditor might have been bought off by another company and the debt must have been written off from the other side. But what I can categorically say is that the fund has been looted."

The Auditor General's 2015 audit found that the government used proceeds from the fund to finance its operations, beyond the redemption levy's specific purpose. From September 2014, the fund was making monthly payments of $2,7 million to pay off a $67 million loan for unspecified "government operations" without Treasury approval, the audit noted.

In June 2017, former finance minister Patrick Chinamasa revealed that part of the debt redemption fund has also been used to finance the command agriculture programme.

Figures contained in Chinamasa's July 2017 budget review showed that, by then, the NocZim debt still stood at $108,8 million, with $87,66 million of that being penalties and $21 million being arrears.

ALLOW INDEPENDENT OBSERVERS TO MONITOR FOREX AUCTIONS - CZI

The Confederation of Zimbabwe Industries (CZI) has called for independent monitoring of the new forex auction system, warning the government against repeating the mistakes of the 2004-5 version.

The central bank this week launched forex auctions to bring to an end a fixed exchange rate system in place since late March. Tuesday's auction yielded an average exchange rate of 57.3582 Zimbabwe dollars to the United States dollar, with US$10.3 million being made available, against bids amounting to US$11.4 million.

The CZI says while the auction system offers an opportunity to stabilise the local currency, which has been in free-fall since its reintroduction last year, the government needs to guarantee its success by allowing it to determine market rates.

"The auction system was tried in 2005-2005 and failed. We know why it failed, but will we learn from history and avoid the same mistakes?" the CZI said in a June 25 note.

"As we all know, the key success factors are - allow the auction to be a true auction and maintain ironclad fiscal and monetary discipline. Perhaps the most important thing is to ensure that indeed the highest bidder wins and this may be complemented by a small independent team of observers at each auction to validate the auction results."

Since last year, the authorities have tinkered with various foreign exchange systems after ending the Reserve Bank's centralised allocation system introduced in 2016. An interbank market established in February 2019 suffocated in the clutches of the central bank, while a managed float announced mid-March was replaced by a fixed exchange rate by the end of that month.

Zimbabwe's 23 June 2020 forex auction

Z$:USD BID RANGE	NUMBER OF BIDS	TOTAL USD BIDS
90-100	3	230,496
80-89	10	993,203
70-79	13	2,348,567
60-69	16	2,321,600
50-59	21	2,947,371
40-49	8	779,670
30-39	13	902,457
20-29	8	883,885
TOTAL	92	11,407,249

Table: newZWire • Source: RBZ • Get the data • Created with Datawrapper

5 NUMBERS THAT SHOW WHY SUSPENDING MOBILE MONEY IS A BAD IDEA

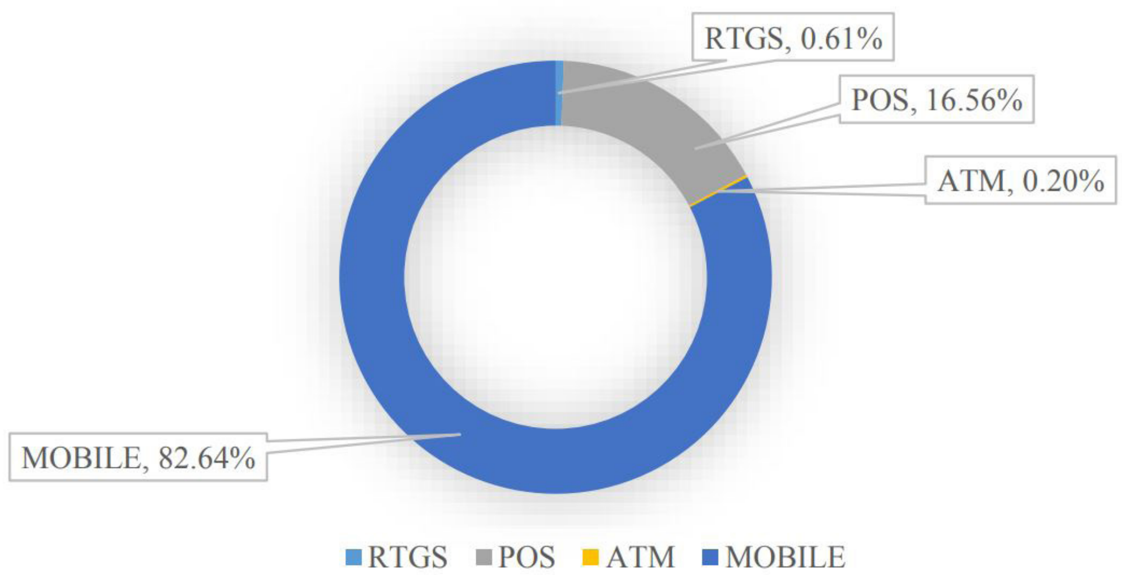
The Zimbabwe government has suspended all mobile money platforms and the stock exchange, blaming them for the collapse of the Zimbabwe dollar on the black market.

The Government claims it has “impeccable intelligence” linking mobile money and the Zimbabwe Stock Exchange (ZSE) to what it calls economic sabotage. EcoCash, in response, says it will remain open until it is given a legally binding instruction from RBZ.

EcoCash is accused of creating billions in extra money on its platform which isn’t backed by the corresponding bank balance, in violation of the law.

But government’s response to this is suicidal. Mobile money accounts for the bulk of the number of payments made in the economy.

Here are numbers that show why this is not a bright idea:



82.64% – This is the percentage of all payments in the country that go through mobile phones, according RBZ figures.

Should mobile money be suspended, the bulk of the economy will not be able transact. Without cash, most rely on mobile money for business, wages, and daily personal transactions such as bill payments – including for electricity – and shopping.

98.31% – That’s EcoCash’s share of mobile money transactions

7,673,201 – That’s the total number of mobile money accounts in the country, according to regulator POTRAZ.

29,515,622 – That’s the number of mobile money transactions per week

Z$12,193,008,455 – this is the amount of money used to buy airtime, pay bills and buy goods using mobile money in the first three months of this year. A further Z$7.1 billion was handled on cash-in and cash-out transactions.

Government has been looking for a scapegoat for the currency crisis. On Wednesday, President Emmerson Mnangagwa raged at unnamed “wolves in sheep clothing”.

RBZ PUSHES MONEY SUPPLY UP NEARLY Z$600M IN ONE WEEK

While authorities are blaming "saboteurs" for driving up inflation and weakening the currency, latest RBZ data is pointing elsewhere – to RBZ itself.

According to central bank's latest report on money supply, reserve money – the amount of currency in circulation plus deposits with central bank – went up nearly Z$600 million in the week from June 12 to June 19, to reach Z$13.9 billion.

The rise in reserve money over that week was made up of an increases of Z$417.71 million in RTGS balances, Z$63.94 million in new currency issued and other deposits worth Z$86.21 million.

"Partially offsetting these increases was a decline of Z$617.53 million in required reserves, as a result of the Monetary Policy Committee (MPC)'s decision to reduce the required reserve ratio (RRR) from 4.5% to 2.5%, in order to promote bank lending to the economy," the RBZ report says.

Currency in circulation – the notes and coins issued by RBZ – stood at Z$1.6 billion over that period.

In February, RBZ governor Mangudya's monetary policy statement showed that reserve money went up from Z$3.3 billion at the end of 2018 to Z$8.8 billion in December 2019.

Zimbabwe's annual inflation surged to 785.55% in May from 765.57% in April.

Inflation has accelerated after money supply grew in the last half of 2019, largely as a result of State subsidies and Treasury Bill discounts.

The MPC has warned that the 2020 National Budget and other RBZ activities have "a potential expansionary impact on money supply, which limits the scope for tightening of monetary policy as required under the Bank's disinflation programme."

NYABIRA SOLAR PLANT TARGETS 25MW OUTPUT IN 2021

Renewable energy firm Centragrid, which became only the second Zimbabwean company to feed solar energy into the national grid last year, plans to upgrade its Nyabira plant to 25MW by October 2021.

The plant, built by China's Sinohydro 35 kilometres west of Harare, has started sending 2.5MW – its current output – into the grid.

"The next phase that we're now going into is to expand this from 2.5MW to 25MW, using the exact same design that you see here," Centragrid founder Victor Utedzi said at the Nyabira plant this week.

"We are pushing so that within the next two to three months we should start construction, and once we start, it's just nine months, then we're done."

Utedzi says Centragrid will spend US$30 million, raised locally and offshore, to bring the plant to 25MW capacity.

"To date, we have fed more than 2.1 gigawatt hours of electricity into the national grid. That's a lot of electricity for a lot of homes," Utedzi said.

"What it actually means is that in your homes, at your children's school, your church, crèche, factory, wherever, clinics, a part of that electricity that comes from the national grid is actually coming from this power plant."

London-listed PGI Group's Nyangani Renewable Energy was the first independent power producer to feed solar power into the national grid, when its 2.5MW Mutoko plant went live in January 2018.

As at December 2019, solar plants accounted for 40 of the 74 independent power projects licenced by the Zimbabwe Energy Regulatory Authority, with potential to generate 1,191MW.

While Utedzi praised Zimbabwe's licencing conditions, he is concerned that Zimbabwe's forex shortages might dampen interest in the sector.

"One drawback is that most of the equipment that goes into a plant like this we've got to import. Even if we finance with local money, there's still need for a mechanism to convert that money into US dollars and not just converting, but at market rates, so that you can purchase goods outside," he said.