'Zim needs an independent central bank'

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ZIMBABWE must have an independent central bank to avert the risk of the country plunging into hyperinflation every 10 years as the current situation is a result of failure on government's part to wean off the Reserve Bank of Zimbabwe, the International Monetary Fund (IMF) has said.

IMF country representative Patrick Imam on Tuesday told a Zimbabwe multi-stakeholder debt conference in Harare that the failure by government to reform and have the right institutions in place after the hyperinflation period of 2009 has seen the spiralling of inflation.

"I have said this earlier, Zimbabwe needs an independent central bank. The deeper question is: why is it all the Latin American countries and some African countries which have been through hyperinflation reformed their institutions? The first thing you do after hyperinflation is to create an independent central bank. After the hyperinflationary period a decade ago Zimbabwe hasn't been able to put the right institutions in place. Institutional reform will help in ensuring there is no repeat of history. RBZ needs to be truly independent so as to make independent decisions," he said.

"On the issue of currency, its debasing fundamentally is the fiscal problem. The government is spending too much money and the central bank prints money to finance the deficits. The central bank is the mirror image of what the government does. On the issue of transparency, I say we don't need the civil society to monitor what the government does but parliament. Why is it that parliamentarians are failing to hold government accountable to issues of borrowing money and spending it?" he asked.

Imam said most countries that have been through hyperinflation have been able to separate economics and politics by creating the right institutions which Zimbabwe has not been able to.

While government is yet to admit this, economic analysts and various bodies have agreed that Zimbabwe's economic crisis has all the hallmarks of hyperinflation.

Government over the years has been in breach of the law as its borrowings from the RBZ exceeded 25% of the previous year's revenue.

The major role of the RBZ as stipulated in the Reserve Bank Act is formulation and implementation of monetary policy, directed at ensuring low and stable inflation levels.

In line with this, Imam said there is need for Zimbabwe to price foreign currency correctly saying as long as the pricing is not right, Zimbabwe will never have enough foreign exchange.

Reserve Bank of Zimbabwe building in Harare

"In Zimbabwe we price forex incorrectly. We export over US$500 million worth of goods but Malawi exports about US$400 million but there are no fuel shortages, access to pharmaceutical products challenges, and so on. The problem with Zimbabwe is not foreign exchange, it is that of pricing foreign exchange incorrectly. The foreign exchange is under-priced, for example subsidies to fuel and the result is that we never have enough foreign exchange as people will buy fuel and smuggle and sell it to other countries," he said

"So as long as we don't get the foreign exchange pricing right we will never have enough foreign exchange. The moment we get that right, the fuel lines will disappear. If we don't address the political issues related to currency reform which is to create an independent central bank which gives mandate, its very like likely that we will have a repeat of what we are seeing now in 10 -20 years' time. We need to really address the underlying fundamental issues of the economy and not just the symbolical issues."

The independence of the central bank is key to ensuring that government does not breach set limits. It entails government approaching the RBZ with a proposal regarding any financing needs and the apex bank making informed decisions, taking into consideration the current economic conditions and any other relevant information.

This implies that the RBZ would technically be in charge of regulating public debt and would therefore be in control of price levels. In such a system, monetary policy would be effective in ensuring price stability.

Meanwhile, Imam said Zimbabwe risked isolation if failed to simultaneously align economic and political reforms, especially in terms of the countries' laws to the constitution.

"We are not a political institution. We are more interested in the economic fundamentals of the economy but in the case of Zimbabwe you will realise that the country really needs to restructure its debts. International laws will not allow the country to get any funding from anyone if it owes another lender," Imam said.

"You will also need to know the Zimbabwe's debt is 75% in interest accruals while only 20% is the principal debt, meaning at one point say in the past 20 or so years the country neglected paying its debts. At the end of the day debts restructuring is a political decision. The debt has to be restructured.

"As long as we don't address our debt situation, we are a pariah state. There is lot of capital in the world but why should capital come to Zimbabwe if we are in arrears?"

The multi-stakeholder debt conference was part of efforts by the African Forum and Network on Debt and Development (Afrodad) together with Zimbabwe Coalition on Debt and Development (Zimcodd) to engage key stakeholders in coming up with lasting solutions to harness the current debt situation as well as preventing further accumulation of debt.

Govt urged to address chronic budget deficit

THE manufacturing sector has called for a cocktail of measures in the 2020 national budget to address the chronic budget deficit.

Finance minister Mthuli Ncube is expected to present the 2020 budget on November 4 amid a rapidly worsening economic implosion which his 2019 budget premised on "austerity for prosperity" has failed to address, especially in relation to the structural problems in the economy.

Last month, Treasury published a pre-budget strategy paper which the Confederation of Zimbabwe Industries (CZI) president Henry Ruzvidzo said is pointing in the right direction with regards the manufacturing sector, although it is vital to ensure implementation is taken seriously.

"Industry expects the budget to have strong measures that address the chronic budget deficit problem. We expect measures to stabilise the macro environment, particularly local currency devaluation. While the comments in the paper point in the right direction, the devil is in the detail of implementation and the discipline to maintain course. In our sector import substitution, export-led industrialisation and strengthening of value chains are important strategies for government to put us right back on track, "he said.

In the paper, Treasury said the budget seeks to restore production as well as increase capacity utilisation of the local industry under the pillars and strategies which include import substitution, export-led industrialisation, strengthening value chains, industrial parks and innovation hubs, research and development .

This comes at a time the central bank has announced the introduction in two weeks of new notes, which analysts say will further drive inflation, while accounting professionals have already declared that the country has now entered hyperinflation.

The sector has been hit hard by foreign currency shortages, which have left it battling with scarcity of raw materials, resulting in suppressed production and reliance on antiquated machinery which needs in excess of US$500 000 for retooling.

Due to myriad of challenges that are economic driven, the sectors' capacity utilisation is seen going down to 30% from the projected 40,8% as the sector is failing to cope, especially with currency related problems.

In this regard, Ruzvidzo said the sector was also looking forward to measures that will stimulate local production and consumption of local products while incentivising local investment and supporting the local content strategy.

"We are also expecting a budget that will address the tax burden on the productive sectors to stimulate production and a commitment to addressing the ease of doing business conditions," he said.

Recently industrialist Busisa Moyo said it was important for government to consider scrapping some taxes on the formal sector, especially the punitive 2% tax saying it had become one of the deterrents to production as the costs of business has increased substantially as a result.

During the multi-stakeholder public debt conference in Harare this week, Zimbabwe Coalition on Debt and Development (Zimcodd) socio-economic analyst Tafadzwa Chikumbu said the country was expecting seriousness on the part of government in terms of the way it crafts its budgets, saying over the decades there has not been anything new except for the figures and currency in circulation.

"If you take the 2001 national budget and the last budget, you will realise everything has remained the same except maybe for currency changes. Government has to be serious in terms of re-strategising its efforts for us to be really going somewhere and it starts with the budget itself," he said. — Staff Writer.

Finance minister Mthuli Ncube