Zimbabwe Farmers Union

Analysis of the 2024 Monetary Policy Statement.

Rationale for the unilateral introduction of gold-backed currencies

A gold backed currency (or some other commodity) has the advantage that the value of money would apparently be free from manipulation by the government. The aim is to "de-politicise" money. The argument in favour of doing so is that in the long-run governments will always abuse the right to create money at will. Historical experience suggests that this is indeed the case. Hayek therefore called for "protecting money from politics".[1]

Bordo and Rockoff referred to the gold standard as a "good housekeeping seal of approval", suggesting that governments will be bound to pursue prudent policies. Proponents of the gold standard expect more fiscal discipline, as governments will no longer be able to monetise debt.[2] Proponents of a return to a gold standard therefore argue that it will help to instil greater investor confidence in the currency, restore macroeconomic stability and stop capital outflows.[3]

Gold backed monetary policy could help to increase the credibility of a country's monetary policy, as they diminish room for discretionary policy in nearly the same way as currency boards do. Moreover, if the central bank's credibility is low, steadily building up (gold) reserves may help to restore confidence in the currency and improve the central bank's credibility over time.[4]

What are the disadvantages? The main argument against such a rigid anchor is that a strict rule prevents monetary policy from responding to the needs of the domestic economy. The mismatch problem between the constraints of the anchor and the needs of the economy can take three forms: (i) loss of monetary independence, (ii) loss of automatic adjustment to export shocks and (iii) extraneous volatility.[5] A collapse of the gold price in terms of dollars would be less favourable: it would not only lead to a depreciation of the gold-backed domestic currency against the dollar but could also have strong inflationary effects through imported inflation.

Frankel raises an important point, namely that in principle it should not matter whether currency reserve holdings are in dollars or gold, but "there may be something

[1] F.A. v. Hayek: Choice in Currency – A Way to Stop Inflation, The In- stitute of Economic Affairs, London 1976, p. 16. 155

[2] M.D. Bordo, H. Rockoff: The Gold Standard as a "Good House-keeping Seal of Approval", in: Journal of Economic History, Vol. 56, No.2, 1996, pp. 389-428. As L.H. White, op. cit.,

[3] For a survey of the pros and cons of a gold standard, see A. Belke, T. P o l l e i t : Monetary Economics in Globalised Financial Markets, Berlin 2010, Springer, pp. 16ff.

[4] A. Reynolds: Monetary Reform in Russia – The Case for Gold, in: Cato Journal, Vol. 12, No. 3, 1993, p. 66

[5] J.A. F r a n k e l : Should Gold-Exporters Peg Their Currencies to Gold?, Research Study No. 29, World Gold Council, London 2002; J.A. F r a n k e l : A Proposed Monetary Regime for Small Commodity- Exporters: Peg the Export Price ("PEP"), in: International Finance, Vol.6, No. 1, 2003, pp. 61-88; and A.J. Schwartz: A Commodity Standard for Russia?, in: Cato Journal, Vol. 12, No. 3, 1993, pp. 683- 686.

‘empowering’ in the public mind of a gold-producing country to back its currency by gold”.[6]

Addressing the Zimbabwean Farmer’s pain points

ZWL Loan Agreements

For farmers with current loan agreements with banks there is need to redraft the contract and adjust them to be in line with the new monetary policy in terms of conversion from ZWL to ZiG, interest rates and arrangement fees.

Payment for Goods and Services

- Is fuel going to continue being paid sorely in USD? If not will we not go back the era of fuel shortages and long fuel queues.
- Will farmers with ZiG balances be able to access foreign currency for importing key agricultural inputs and spare parts. In the wake of the abolished forex auction system, what is the replacement mechanism? Will they be able to buy USD from bureau-de-changes or through their banks?

Trust and confidence in the banking sector.

There have been several attempts to stem hyperinflation and stabilise the economy including the introduction of RTGS, ZWL backed by US$200 million Afrexim bank loan facility ZIG coins and Foreign currency auction system. These policy measures failed to reign in the Zimbabwean dollar and stabilise the economy. These policy failure have eroded the banking public’s confidence in the banking sector. It is also not clear how the new policy address opportunity for arbitrage behaviour.

Bank Charges

Banks have since moved away from their core business of making money through interest earned on loans to a completely different model based on charging exorbitant bank charges. This has contributed to erosion of confidence in the banking sector. It has dampened efforts aimed at increased financial inclusion. The monetary policy, compels banks not to charge monthly bank maintenance or service charges for individual bank accounts with a conservative daily balance of US$100 and below or its equivalent in ZiG for a period of up to 30 days. This statement falls short of addressing the challenge of bank charges and service fees. It is a temporary measure, indicating that the central bank is aware of the problem but not keen to provide a lasting solution to it.

Parallel Forex market

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[6] J.A. Frankel: Should Gold-Exporters Peg ..., op. cit., p. 14.

One of the major challenge the farmers were facing is the existence of a parallel exchange platform caused mainly by unavailability of alternative channels to access USDs, seeking a store of value in a stable currency and excess liquidity arising from government's creation of bank balances to pay its service providers. As long as there is shortage in the supply of USD from the formal channels, a black market will always exist to meet the excess demand. It will fill-in the gap and provide the alternative market where members of the transacting public are willing to access the foreign currency at a premium.

25% surrender from Export proceeds

Farmers in the export sector have suffered loss of value due to the 25% surrender requirement. If there was exchange rate stability, farmers would be indifferent whether they are paid in US$ or local currency. The volatile exchange rate and the significant difference between the official and real "parallel market" rate caused farmers to lose value on the 25% forex retention. The policy statement will maintain the 25% surrender from export proceeds. The results of this policy are yet to be seen. If history is to repeat itself, and this policy fails like its predecessors then exporters will continue to lose value as explained, thereby militating against improved production and productivity.