

Zimbabwe announces new measures to aid ailing local currency

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Zimbabwe's treasury has announced measures to encourage the use of the local dollar as opposed to the US dollar, in a bid to boost the local unit and tame rising consumer inflation.



Source: Reuters.

The measures include a directive that all government departments collect fees in the local currency, the introduction of a 1% tax on all foreign payments and that all customs duty be payable in local currency, with the exception of designated or luxury goods and where an importer opts to pay in foreign currency.

The treasury will also assume all foreign-currency debts from the Reserve Bank of Zimbabwe, finance minister Mthuli Ncube said in a statement dated Monday, 29 May.

"Government shall create a debt-redemption fund to service other external liabilities in line with the arrears clearance program. These will be funded through new levies and other resource mobilisation initiatives," Ncube said.

Zimbabwe legalised the use of foreign currencies in domestic transactions in 2020, less than a year after abandoning dollarisation. Economists estimate that 80% of the local economy is dollarised.

"The assumption of the external obligations by treasury and the implementation of non-inflationary financing of the liabilities, coupled by sourcing of additional resources, will go a long way in reducing money-supply growth and its impact on exchange-rate depreciation and price increases," Ncube's statement said.

But some economists doubted the new measures would help the Zimbabwe dollar, which has weakened by about 70% since the beginning of this year, with the gap between the official and exchange rates continuing to widen.

"They are doing this to preserve the value of the Zimdollar. Is this going to work? I say no. This is akin to using toothpaste when you have lost your teeth," economics professor Gift Mugano said.

"It will be a miracle for us to be able to reverse the crash of the Zimdollar and ensure stability."

Mugano also criticised what he termed the government's plan to "raid" foreign-currency accounts of exporters, after Ncube said that "all export proceeds that remain unutilised after 90 days will be liquidated onto the interbank market".

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