Life Offices Association of Zimbabwe

Demystifying Insurance Part 29

Welcome to part Twenty Nine of Demystifying Insurance, a continuation of the Life Offices Association (LOA)'s ongoing National drive to make insurance easily understood by all. Today, we explore the return of the Zimbabwe Dollar.

'What happens if the Zimbabwe dollar is reintroduced?' — it's the question on everyone's lips — and the subject of this week's article.

In order to best answer this question, we have made a number of assumptions and projections about the environment into which the national currency can be introduced. Accordingly, we are also going to assume that there are three types of environments into which the ZW$ might be introduced, as follows:

- Short term environment: with the intention to assist in the financing of government expenditure
- Medium term environment: with the intention to allow it to run alongside existing currencies
- Long term environment: when market fundamentals are stable enough to sustain its value

Over the next few weeks, we'll look at arguments for and against the reintroduction of the ZW$ in the short, medium and long term.

Immediate introduction of the ZW$
To put this issue into perspective, we need to define the word currency. Currency is money in any form when in actual use or in circulation, which is a medium of exchange and its most common usage is paper money. A more general definition of currency is anything that is used in any circumstances as a medium of exchange.

The strength of a currency depends on the total value of a country's wealth, including human, financial and natural resources.

The currency of Zimbabwe will depend on the value and level of its exports of goods and services, the level of foreign currency inflows, including foreign direct investments making up or building the level of the country's net domestic and foreign assets.

The question is, if the ZW$ was introduced today, what would happen against a background where our imports are generally twice as much as exports (at the end of April 2013, imports were US$2.62 billion against exports of US$1.02 billion.)

Still under sanctions
This situation is further exacerbated by the current external debt of over US$10 billion hanging over our heads. Foreign direct investments are a paltry figure and, until recently, tourism has not been vibrant at all. The country is still under sanctions from Western nations and cannot borrow or get relief from international lenders such as the IMF.

Agriculture is still struggling hence the importation of various foods. The manufacturing sector is under heavy pressure and faces great competition, especially from cheaper imports from South Africa. There is no credit in the country to assist manufacturers to prop-up their businesses.

While one line of thought believes that Zimbabwe has the capacity to mobilise resources to meet these funding requirements, another believes that domestic resources alone are insufficient to meet both the investments needs and the country's prevailing liquidity constraints.

The argument being put forward is that, in the face of such challenges, it will be premature to ask for an immediate reintroduction of the ZW$. This is also against a background in which the current stability of the economy can be attributed to the multi-currency regime.

So will the immediate reintroduction of the ZW$ bring back the nightmares of the 2008 hyperinflation environment?

This remains a question of conjecture. To quote the Reserve Bank of Zimbabwe Governor Dr Gideon Gono (11 July 2013): 'Essentially, it is every country's desire to have its own currency in order to avail potent policy options to policy makers, and Zimbabwe is no exception in this case.'

Dr. Gono outlined five key conditions, including attainment of sustained macroeconomic stability and re-orienting the economy on a firm recovery trajectory, before the local currency bounces back. These key conditions are:

- The accumulation of adequate foreign exchange reserve buffers to the SADC regional target of at least 3 months of import cover. (The President would want this threshold to be even doubled to be sure of the cover)
- The rehabilitation of infrastructure, notably roads, water and sanitation, telecommunications and energy
- The restoration of confidence generally and banking sector stability
- The alignment of various pieces of legislation so that they complement each other
- Rehabilitation and modernisation of necessary infrastructure, laws and administrative systems needed to successfully carry out the reintroduction assignment, together with appropriate pre-education and consultations with all those who need to be consulted internally and externally

Do you, as a Zimbabwe citizen, still subscribe to the idea of an immediate reintroduction of the Zimbabwe dollar?

To find out more, don't miss next week's article, where we look at reintroducing the Zimbabwe dollar in the medium to long term.

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