



Demystifying Insurance Part 30

Welcome to part Thirty 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 Zimbabwe Dollar in the medium to long term.

This last article in the Demystifying Insurance series explores one of the most relevant frequently asked questions in contemporary Zimbabwe: 'What would happen if the ZW\$ was reintroduced in the next five to ten years?'

In last week's article, we outlined Dr Gideon Gono's five preconditions for the successful reintroduction of the ZW\$:

- 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 double sure of the cover.)
- Rehabilitation of infrastructure, notably roads, water and sanitation, telecommunications and energy
- Restoration of confidence generally and banking sector stability in particular
- 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

These preconditions give us a more detailed platform for discussing the reintroduction of the ZW\$ in the medium to long term.

Adequate foreign exchange reserve buffer

In all earnestness, this precondition simply cannot be achieved in the short term, while government and stakeholders would have to work miracles to achieve this in the medium term.

This is against a background where our current imports are roughly two times as much as our exports. To achieve this, we'd need to reverse the current volumes of import (and maybe replace them with local products), stimulate the main drivers of the economy such as agriculture, mining and tourism to extraordinary levels, and curb unnecessary imports while providing food security from local production so that food imports are minimised.

It also requires that Lady Luck be on our side, and that we do not face natural disasters such as drought and floods.

While reintroducing the ZW\$ dollar to trade alongside other currencies (in the medium or long term) will have no implications to the major facets of the economy, a lot of hard work will be required to achieve the ideal export cover that will help sustain the local currency. This can only be achieved in the long term.

Rehabilitation of infrastructure

Infrastructure projects need to be viewed in the medium to long term, because there is no way that our infrastructure, water, sanitation, telecoms and energy can be revamped in less than ten years given their current state.

It is only logical, therefore, to argue that it would take at least a decade for this precondition to be met.

Restoration of confidence

This precondition requires that the market has to develop confidence in the economic system of this country and its banking system. Firstly confidence in the economy is built through clarity in government policies. Perhaps the Government of National Unity did not provide this clarity as different parties seemed to be pulling in different directions?

With one party leading the government we expect clarity on major policy issues, thereby bringing back the confidence. This clarity should clearly cascade to the operations of banks, creating an enabling environment that will allow banks to attract the necessary capital.

It took over a decade for confidence to be lost. It is more than likely it will take even longer to bring it back.

Alignment of legislation

With a new Constitution in place, there is obviously need to align the various pieces of legislation. New bills will be paraded before parliament and amendments will arise.

These bills of legislation will need to be aligned so that they bring back confidence and allow the economy to attract or generate capital so that ultimately the economy grows and is able to sustain the reintroduced currency.

If the economy grows, it will be able to sustain a currency. Obviously these legislation pieces will require time to come together. Only in the long term can these alignments be made.

Rehabilitation of relevant laws and administrative systems

Rehabilitation and modernisation of necessary infrastructure, laws and administrative systems is 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.

The reintroduction of a currency is a major event in a small economy like ours. There are plenty of administrative laws and systems that need to be in place first, to allow for the reintroduction of the currency.

In closing, it is heartening to note that on 23 September 2013 at a Zimbabwe Revenue Authority Taxpayer Appreciation Day, the Minister of Finance, Honourable Patrick Chinamasa, clarified government's multi-currency position by saying: 'In order to dispel any doubts on the market, I came back home to maintain the multi-currency regime. It will be with us, it will remain with us for an indefinite period'.

Maybe there is no need to worry about the return of the ZW\$ after all?

