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ZIMBABWE'S CURRENCY ADJUSTMENT AND INFLATION

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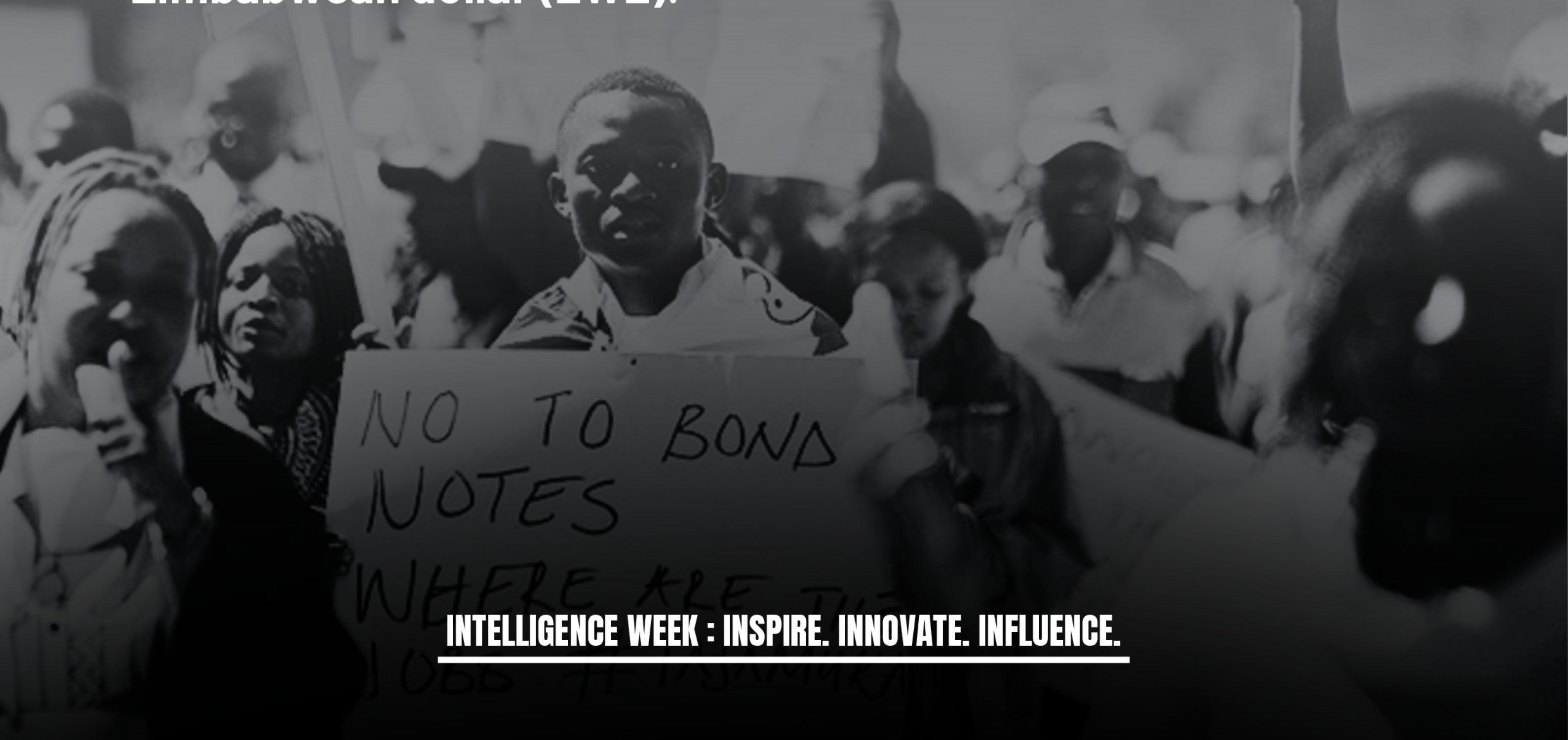
Executive Summary

The **Reserve Bank of Zimbabwe (RBZ)** has recently adjusted the **Zimbabwe Gold (ZiG)** exchange rate against the US dollar by **42.55%**. To match market realities, they have set the new rate at ZiG 243,902 per US dollar. This is the **first official recalibration of the exchange rate** since ZiG's introduction in April 2024. This reconciliation is made to stabilize the local currency and combat **high inflation**, which has plagued the country for decades. The report recommends that the Government of Zimbabwe must prioritize strengthening monetary policies as well as engaging in diplomatic efforts with international financial institutions to sustain the economy.

Background:

Historical Context:

Zimbabwe's monetary policy and currency history are marked by significant volatility and **drastic shifts,** largely reflective of its broader economic and political challenges. Since **2008, Zimbabwe's hyperinflation** has reached astronomical heights, primarily due to the excessive printing of banknotes. However, the **RBZ** pinned the blame for the ongoing crisis on the **sanctions imposed by the US, IMF, and the EU**. Additionally, **corruption and a lack of confidence** in the currency from investors were also key factors. The soaring inflation led to severe unemployment, the collapse of the banking system, and mass emigration. Earlier, **President Mnangagwa** talked about Zimbabwe having an independent currency. Later, on April 8, 2024, Zimbabwe launched **Zimbabwe Gold (ZiG),** as the nation's sixth currency in 25 years. As the currency is backed by gold and foreign reserves, it is a viable alternative to the **volatile Zimbabwean dollar (ZWL)**.



Current Developments:

To tackle currency instability and inflation, the RBZ injected US$64 million into the interbank market, raised interest rates to 35%, and implemented monetary tightening measures. This includes increasing reserve requirements for banks, reducing foreign currency allowances, and further tightening monetary policy.

Geopolitical Context:

The sanctions imposed on Zimbabwe by the US, EU, and IMF froze the nation's credit lines at international financial institutions, limiting foreign investment and credit, fueling hyperinflation, and destabilizing key sectors like agriculture and mining. The reasons advanced by the U.S. and the EU for imposing sanctions against Zimbabwe were to establish democratic principles, institutionalize real democracy, enhance the political emancipation of the people of Zimbabwe, improve human rights, and restore the rule of law (Ogbonna, 2015). Today, with sanctions lifted, Zimbabwe will have access to international financial systems, the revival of credit lines for the government, and potentially attract foreign investment with support from the US and EU in an effort to stabilize the economy. However, recovery will depend on internal reforms and global re-engagement efforts.

Strategic Analysis:

Economic Impact:

The launch of a new currency will likely boost economic growth. However, a major concern for the Zimbabwean government will be gaining the trust of investors and the public. The recent 42.55% recalibration of the Zimbabwe Gold (ZiG) exchange rate against the US dollar is a significant shift in the nation's monetary policy. The setting of the new rate at ZiG 243,902 per US dollar will likely aid in aligning the currency with current market realities and stabilize the economy. Recovery is still a long way off, and living standards won't be immediately impacted. Stabilizing the currency and the economy will likely increase investment and economic activity, improving the overall economic environment and potentially reducing inflation.
However, long-term success is dependent on the further strengthening of monetary policies as well as international support to secure investment from global markets.

Security Implications:

The readjustment, just months after the introduction of a new currency, brings forward severe security implications.
It can directly influence national security by increasing social unrest, rising crime rates, and heightening tensions between various political and ethnic factions. if the currency reforms fail to combat hyperinflation, rising public dissatisfaction may intensify, leading to nationwide protests. Such civil unrest could further strain the government's resources, creating a substantial challenge for law enforcement and security forces' ability to maintain law and order. A higher cost of living can make individuals more susceptible to political manipulation, radicalization, or involvement in criminal activities, including smuggling, fraud, and corruption. This can lead to the expansion of the black market as citizens seek alternative means for earning and survival.

Social and Political Impact:

Zimbabwe has been tackling hyperinflation for decades now. The failure of past monetary policies, leading to a further decrease in living standards, has eroded the public's faith.
Therefore, any potential failure of the new ZiG strategy could lead to political instability and fuel power struggles between the parties. Regional security can be impacted as economic instability can increase migration, leading to cross-border tensions.

Strategic Recommendations

Diplomatic Recommendations:

The lifting of sanctions might improve the economic relationship between Zimbabwe and major Western powers. This could result in direct investment in sectors with growth potential and possibly technical assistance in financial regulation and monetary stabilization.

Economic Recommendations:

The Reserve Bank of Zimbabwe must prioritize the management of money supply and restrict the excess printing of banknotes. Another step should be to address corruption, improve governance, attract investment, and stimulate growth in critical sectors like agriculture and mining.

Security Recommendations:

Improved Law Enforcement: Work on improving the abilities of law enforcement to maintain order and control in times of unrest. This would help manage political unrest and ensure public safety.

Economic Stability Measures: Implement comprehensive monetary policies that focus on job creation and curbing inflation.

Early Warning Systems: Develop a system to monitor social and political indicators to identify early signs of unrest. This can allow the government to address the issue at its inception.

Policy Recommendations:

The government must strengthen its ability to implement inclusive economic policies, ensure transparency, and maintain strict monetary controls.

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Conclusion:

The adjustment of **ZiG's exchange rate** is a significant step by the **RBZ** to curtail inflation and stabilize the economy. However, without **international support and internal structural reforms**, recovery would be a distant dream. The government of Zimbabwe must focus on strengthening monetary policies as well as engaging in diplomatic efforts with international financial institutions to sustain the economy.

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