

AFRICA UNIVERSITY  
(A United Methodist Related Institution)

AN EVALUATION OF THE EFFECTIVENESS OF THE FOREIGN  
EXCHANGE AUCTION MARKET IN ZIMBABWE

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER IN BUSINESS  
ADMINISTRATION IN THE COLLEGE OF BUSINESS, PEACE, LEADERSHIP  
AND GOVERNANCE

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## **Abstract**

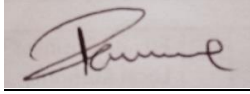
The dissertation evaluated the effectiveness of the Reserve Bank of Zimbabwe foreign exchange auction market. It also analysed the macroeconomic conditions prevailing in Zimbabwe in relation to foreign exchange auction market. The objective was to evaluate the ways that are being used by the Reserve Bank of Zimbabwe to manage the foreign exchange auction market. The research also aimed to identify and assess the exchange rate management systems that are being applied by the Reserve Bank of Zimbabwe to manage the foreign exchange market. The aim was to explore various ways that can be used by the Reserve Bank of Zimbabwe to increase foreign currency auction market efficiency. Literature review analysis showed that the same auction system failed in 2005 under the guidance of Dr Gideon Gono. It also indicated that the auction market of 2004 was mainly affected by lack of foreign currency supply, poor macroeconomic conditions and manipulation of rates by the authorities. The portfolio-based channel and the monetary model covered the theoretical framework on how foreign exchange markets operates and how the authorities can intervene to create foreign exchange stability. Findings indicated that the main challenge of the auction market is the lack of foreign currency supply and the manipulation of rates by the authorities. The difference between the official rate and the parallel market rate makes the auction market unfavourable for the sellers of foreign currency. Auction market rules and regulations which are not fair also affect other companies (priority-based allocation) to perform on the foreign exchange market. Results indicate that the major source of foreign currency on the auction is mandatory forex liquidations, borrowings and taxation receipts. Mandatory foreign currency liquidations neutralise overall company performances by reducing other company reserves whilst supporting low forex earning companies. The findings indicate that there are so many challenges that needs to be resolved by the Reserve Bank of Zimbabwe to promote formal trading in the foreign exchange market (willing buyer and willing seller). The foreign exchange auction platform is a key market in the economy that requires stability to promote efficient allocation of foreign currencies. Foreign exchange market supports the movement of goods into the country (imports) and out of the country (exports)., the foreign exchange auction market is not efficient as indicated by its failure to pay out allocated bids in time, participants limited to priority list, allocation of foreign currency that is not available instantly, continuous increase of exchange rates and lack of proper clear rules known to participants. Therefore, in a country like Zimbabwe where there are various currencies in circulation, it is crucial to ensure stability in the foreign exchange auction market to have overall economic stability.

**Keywords:** Auction Market; Exchange Rate; Interbank.

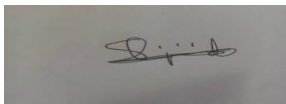
## Declaration

I declare that this dissertation is my original work except where sources have been cited and acknowledged. The work has never been submitted, nor will it ever be submitted to another university for the award of a degree.

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## **Dedication**

I dedicate this work to the Lord God. All that I have, all that I am and all that I do is because of His mercy and grace.

### **List of acronyms and abbreviations**

AUREC	Africa University Research Committee
CZI	Confederation of Zimbabwe Industries
IMF	International Monetary Fund
OMIR	Old Mutual Implied Rate
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Transfer Gross Settlement
SME	Small and Medium Enterprises
USD	United States Dollars
ZSE	Zimbabwe Stock Exchange

### **Definition of Key Terms**

<b>Auction Market</b>	It is a market where buyers and sellers compete in the market by entering bids simultaneously.
<b>Exchange Rate</b>	It is the value of one currency to another for the purposes of currency conversion.
<b>Export Liquidations</b>	The portion of foreign currency receipt mandatory converted to RTGS local currency.
<b>Foreign Currency</b>	Currencies that are used in other countries as a medium of exchange.
<b>Foreign exchange</b>	A system of dealing with currencies for other countries.
<b>Inflation</b>	The fall in value on the purchasing power of a currency or continuous increase in the level of prices.
<b>Interbank</b>	Rates for foreign currency by banks when they trade with each other.
<b>Monetary policy</b>	The control on the quantity of money in the economy and how money will be managed to support economic stability.
<b>Parallel Market</b>	The unofficial market for currencies



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## **CHAPTER 1                      INTRODUCTION**

### **1.1    Introduction**

Stable financial markets are required in any country to have growth and economic stabilization (Manu, 2011). The Zimbabwe financial market is characterized by high inflation rate, increasing exchange rates, low foreign direct investment, low gross domestic product and high interest rates (Muzulu, 2020). The stabilization of the financial markets in developing countries lead to stable economic growth and increases in the gross domestic product. The Zimbabwe stock exchange, the foreign exchange market, the capital market and the money markets need to be functional for an economy to realize growth. The foreign exchange market plays a key role in stabilizing the financial market especially in a multicurrency regime.

A place or platform where traders (buyers and sellers) sell currencies is called a foreign exchange market (Kimberly, 2019). The measurement of one-unit domestic currency against other country's currency is called an exchange rate. After the introduction of the Zimbabwe local currency in November 2016, the foreign exchange market has been very volatile from an exchange rate of USD1: ZWL1 in year 2016 to USD1: ZWL81.9 in year 2020. Given challenges in the foreign exchange market in Zimbabwe, it is critical to evaluate the effectiveness of the Zimbabwe foreign exchange auction market.

This research focuses on the evaluation of the Zimbabwe foreign exchange auction system to recommend ways of promoting exchange rate stabilization. The research also seeks to evaluate various ways that can be implemented by the Reserve Bank of Zimbabwe to stabilize the exchange rate. It also aims to identify the constraints associated with the current exchange rate management policies. The chapter involves the introduction, background of the foreign exchange auction market and exchange

rates, study objectives, statement of the problem, research questions, research assumptions, importance of the study, delimitation of the study, and limitations encountered in carrying this research.

## **1.2 Background of the Study**

According to Krumm (1985) many developing countries faced challenges in managing their foreign exchange market and experienced crises in the 1980s. This led to various modifications in exchange rate regimes by different countries in order to control the foreign exchange market. This also led to the introduction of the foreign exchange auction markets. According to Krumm foreign currency auction markets involves the Reserve Bank of Zimbabwe as the main player selling foreign currency through the bidding processes and also buying currencies using previous auction rates.

In 2004, the Reserve bank under Dr Gideon Gono attempted a Managed Foreign Exchange Auction Market, but the participants abandoned the system after attempts to manipulate the rate by the authorities (Gurira, 2020). In October 2005, the RBZ reintroduced the interbank system after experimenting with the foreign exchange auction market adopted in January 2004 (Makoshori, 2007). According to Makoshori (2007), the auction system had no much value as it was dumped by various exporters citing exchange rate manipulations and the auction did not allow the traders to breakeven. The exporters were also forced to sell 30% of their foreign currency receipts in the foreign exchange auction system at determined rates. The foreign currency market remained in trouble in 2007 and there was no sign of viability in exports and foreign currency receipts (Makoshori, 2007).

Speculation on the implications of exchange rates was a major concern in 2004. The World Vision (2004) reported that the suppression of the exchange rate against the



parallel market on the auction affected their operations as they required more foreign currency than budgeted to support their operations (OCHA Services, 2004).

During the financial crisis of 2008, various authorities in different countries controlled their foreign exchanges to avoid falling currencies and manage appreciation pressure to maintain competitive advantage (Werber & Wyplosz, 2013). According to Werber, most countries direct foreign exchange interventions have been limited to allow market forces to determine foreign exchange rates. Werber and Wyplosz (2013) also highlighted that market determined exchange rates can make economies more competitive.

In 2005 after 22 Months the Reserve bank of Zimbabwe abandoned the Auction market in a major shift and adopted the free-floating exchange rate after failing to increase foreign currency inflows (The Economist Intelligence Unit, 2005). According to the paper the Reserve bank of Zimbabwe also struggled to convince the authorities to adopt the market exchange rate system.

The Reserve Bank of Zimbabwe introduced bond notes in November 2016 at a 1:1 with the United States Dollar. In 2017, the value of bond notes started to go down against the United States dollar. The bond notes are not backed by any other form of production or earning asset, this started weakening bond notes and inflation started skyrocketing (Matanda, Dube, & Madzokere, 2018). The bond notes were introduced in a bid to solve the liquidity crises but ended up impacting the overall economic stability (exchange rates, interest rates, inflation and economic growth).

Given the above background the Reserve bank of Zimbabwe is now in a fix to resolve the increasing exchange rate, interest rates and inflation to secure economic stability. The Reserve Bank of Zimbabwe Reintroduced the foreign exchange auction system

on 23 June 2020 to control the supply of foreign currencies to key areas of the economy after the same system failed in 2005. The research therefore, focuses on the evaluation of the effectiveness of the Reserve Bank of Zimbabwe foreign exchange auction market in stabilizing exchange rates.

### **1.3 Statement of the Problem**

The IMF (2020) and the Confederation of Zimbabwe Industries (2020) raised serious and genuine concerns relating to the lack of exchange stability in the Zimbabwean financial market. The Reserve Bank of Zimbabwe was struggling to stabilize the exchange rate because of delays and missteps in foreign currency and monetary reforms and supporting importing companies. Prices increases, income distortions, inflation and business uncertainty are now a major challenge considering various exchange rates that are being used in the market (Schmidt, 2019). There is an indication of continuing foreign exchange rates instability and the parallel market keeps on thriving besides the introduction of the central auction market (Lourenco, 2020). Currency reforms by the Reserve Bank of Zimbabwe over the past decade have failed to contain the instability in local currency and stop the hyperinflation. Given this scenario, the question is what can be done to the formal foreign exchange market to secure foreign exchange stability, economic stabilization and foreign currency availability (Lourenco, 2020). This study seeks to evaluate the effectiveness of the foreign exchange auction market in Zimbabwe.

## **1.4 Research Objectives**

Objectives of the study are as follows;

- i. To evaluate the effectiveness of the foreign exchange auction market in stabilising the foreign exchange rate in Zimbabwe.
- ii. To analyse the macro-environment factors that influence foreign exchange challenges prevailing in Zimbabwe.
- iii. To explore strategies that can be applied by the Reserve Bank of Zimbabwe to manage the foreign exchange auction market.

## **1.5 Research Questions**

The study is set to answer the following research questions:

- i. To what extent has the auction system been effective in stabilising the foreign exchange rate in Zimbabwe?
- ii. Which macroeconomic factors affect the foreign exchange auction market in Zimbabwe?
- iii. Which strategies can be adopted by the Reserve Bank of Zimbabwe to manage the auction system?

## **1.6 Assumptions**

The foreign exchange market study covered the foreign exchange auction market, exchange rate regimes, allocations, auction market frequency, foreign exchange risk and pricing in an exchange market crisis market. The data received from the market and the authorities was assumed to be correct and reasonable for making conclusions.

## **1.7 Significance of the Study**

The research helps the Reserve Bank of Zimbabwe with recommendations to implement various techniques that can be used to stabilize the exchange rate in the

formal market. It will also help the Reserve Bank of Zimbabwe to understand its shortcomings and potential solutions to stabilize the Foreign Exchange Auction system. The stability of the foreign exchange market also means better operating environment for companies and the public.

The research will also help to advise all stakeholders on how to contribute to the stabilization of the foreign exchange market. The project will also help the banks and companies to appreciate the risk associated with managed foreign exchange mismanagement in a multicurrency environment.

Companies can also benefit on how to guard against pricing distortions to save themselves from losses and also fully understand how the auction system operates. Africa University can benefit from extended foreign exchange research to support academic and economic researches. The study also helps the researcher to understand and advise others on how the foreign exchange market can be dealt with in the local market.

## **1.8 Delimitation of the Study**

This research involves the study of the Zimbabwean foreign exchange auction market only. The scope of the study focused on the Reserve bank of Zimbabwe as the main controller of the foreign exchange market. The research was delimited to the Main auction (large corporations) and SME auction for small enterprises. The main participants of the two auction markets are the RBZ exchange control division (regulator/ controller), SMEs, large corporations and financial institutions that act on behalf of their organisations. The research covered macroeconomic factors affecting the foreign exchange market, the foreign exchange auction market analysis and

recommendations for improving the foreign currency market. These areas were analysed to reach reasonable conclusions at the end of the research.

### **1.9 Limitations of the Study**

- ❖ Access to information on the final allocation considerations (reasons for disqualification and priorities) are kept confidential by the Reserve Bank of Zimbabwe. This limits the researcher to access the actual facts being considered before allocating foreign currency to a corporate. The researcher attached an application letter endorsed by Africa University to persuade participants that data they release will be dealt with strict confidentiality and was for academic purposes only.
- ❖ Other corporates are not comfortable sharing their private information with researchers even if there is assurance on confidentiality. The researcher also used the results of the auction markets to get actual activity on foreign exchange.
- ❖ Time constraints also limited the researcher to cover areas outside Zimbabwe and effectively gather information over a wide period.
- ❖ Resources constraints also limited the scope of this research. Telephone interviews and internet-based interviews were done to manage costs.
- ❖ Access to participants also limited the number of actual responses from the respondents. The participants of the foreign exchange auction are members from the Reserve Bank Exchange Control Division, banks treasurers from financial institutions, finance managers or accountants from corporates and various trade dealers who are always difficult to get hold because of their busy schedules. Telephone interviews and questionnaires were used to gather information from the respondents.

- ❖ Covid 19 pandemic also limited the researcher ability to do face to face interviews and to do physical visits to various respondents. Google meet, telephone interviews and other techniques were used to gather information from respondents.
- ❖ Very few countries experienced exchange rate crisis in a multicurrency regime like Zimbabwe, with new currencies like bond notes. This limited literature review in the area of study. The researcher, however focused on experiences from developing countries and previous experiences of the same market.

## **CHAPTER 2**

## **REVIEW OF RELATED LITERATURE**

### **2.1 Introduction**

The importance of the foreign exchange market in creating a stable economic environment has generated a research interest in the management of the foreign exchange auction market. Effective foreign exchange management strategies are imperative in stabilizing prices, international trade, growth and overall economic growth. In Zimbabwe, the current foreign exchange market is comprised of various currencies all in the same market. Since the introduction of the bond notes in November 2016, the exchange started to move upwards against the bond notes. Therefore, there is need to come up with policies and foreign exchange regimes that promote exchange rate stability and economic growth. The chapter will cover literature view on, exchange rate regimes, exchange rate auctions, requirements of the foreign exchange auction market and other strategies that were used by various countries in stabilizing exchange rates with particular emphasis on developing countries.

According to Cambridge dictionary (2020) effectiveness means the quality to achieve what is wanted successfully. Effectiveness can also be defined as the something in producing expected or desired results (Lexico, 2020). Therefore, the effectiveness of the foreign exchange auction market refers to its ability to produce the desired results for different participants.

### **2.2 Theoretical Framework**

The portfolio balance channel and the monetary model are two theories that guide how exchange rates moves in an economy due to various factors. The portfolio-based channel is also known for preferring the concept of supply and demand to determine exchange rates. The theory explains how the change in a country conditions eventually affects the foreign exchange market. The framework also covers the monetary model

which is an extension of the portfolio-based channel model but mainly focusing on the use of money supply to manage the foreign exchange market.

### **2.2.1 The Portfolio Balance Channel**

According to Frankel (1984) the Portfolio Balance approach to flexible foreign exchange was pioneered in a small country framework. The model was developed by Branson 1977, 1981 and 1983 and investigated empirically by Branson et al, 1977 and 1979. Government securities and assets held by the public can be changed currency structures can be changed through open market interventions (Matsvairi, 2017). Under the Portfolio Balance approach assets are held in the portfolio but denominated in foreign currency and domestic currency. The approach is also called market system to determine prices in the foreign exchange market, the approach proposes that the financial market system that sets the demand for an asset in line with assets supplies, determines the price of a domestic currency (Min, 1993). In South Korea, the bank adopted a multicurrency approach exchange rate approach in 1980, the new approach enabled reflection of demand and incoming of foreign currency in the exchange market through adjustment parameters (Min, 1993). This made the asset market-based approach, a good model to manage the exchange rates in Korea.

The theory is based on the relationship between exchange rates and the price of and the relative price of bonds (CurrenciesFx.com, n.d.). This means that any changes in the conditions of a country will also lead to various demand of financial assets and bonds and affects exchange rates. The main advantage of the approach is that financial assets can quickly adjust to market news and economic conditions than tradeable goods (Frankel, 1984). The approach is based on certain assumptions:



- ❖ The purchasing power parity does not hold, this means that goods are priced differently in different countries.
- ❖ Interest rate parity does not hold, investors can get more return in other countries than other countries
- ❖ Money, domestic bonds and foreign bonds are only assets available for investment for households and corporates
- ❖ Bonds are not perfect substitutes
- ❖ It also assumes perfect capital movement without controls and no barriers to investment
- ❖ Fair transaction costs and reasonable activity in the capital market.

The purchase of foreign currency can increase in the amount of local bonds held by the public compared to foreign bonds; this can result in depreciation of local currency. According to Matsvai (2017) a change in the portfolio allocation of a big investor and lack of domestic versus foreign currency assets can cause price increases due to reallocation processes of the portfolio. The intervention of the regulator in the foreign exchange auction market through controlling the purchase of foreign currency and holding of financial assets can also lead to changes in exchange rates. In developed financial markets, minor changes in the scarcity of domestic and foreign financial assets can be reduced by interventions and can result in exchange rate changes. The examination of the foreign exchange transmission channels of Reserve Bank of Zimbabwe interventions for USA and Japan from 1999 to 2004 using daily data was done by Fatum (2015). Fatan also concluded that the portfolio balance approach works best via portfolio balance channel. The three following operations can be used to influence foreign exchange markets under the portfolio market approach (Pilbeam, 1998);

- ❖ Open Market Operation, under this strategy the Reserve Bank of Zimbabwe intervenes through adjusting the supply of money base for local bonds or vice versa.
- ❖ Foreign exchange operation (FXO), foreign bonds are preferred in exchange for domestic money. Domestic money supply is affected under this strategy and it's called non-sterilised interference in the foreign exchange auction market. This can be done to control the movement of exchange rate in a certain direction.
- ❖ Sterilised Foreign exchange Operations, this approach refers to the exchange of domestic financial assets without changing the base of domestic currency. This approach can use a contractionary or expansionary intervention to control money supply. An expansionary approach is when the Reserve Bank of Zimbabwe buys more foreign bonds with local money, the public will hold more money and less foreign bonds. In a contractionary approach the authorities can sell foreign bonds to the public and hold back domestic money supply to its original level or certain accepted level.

### **2.2.2 The Monetary Model**

This model asserts that exchange rates between countries can be indicated by relative prices of assets, where prices can swiftly adjust in organised markets (Zhang, 2007). The Purchasing Power Parity assumptions are the model base of the monetary model. According Umoru (2013) the determination of exchange rates also includes various copious models. The theories include the Monetarist Flex-Price Model, Sticky Price Model and the Mundell Flemming Model (MFM). The monetarist model indicates that the level of domestic currency supply determines exchange rates in the long run. It explains the correlation between the supply of domestic currency and exchange rates in the long run. The assumption under flexible-price model is that all prices are

flexible. The analytical focus is on the market equilibrium of the asset which is money. The other assumption is that the demand for money is constant and exchange rates are determined realistically with the two factors of demand and supply. This means that domestic money loss of value is determined by domestic currency supply in a free-floating exchange rate system. The movement of the exchange rates can however be determined by the availability of domestic money by the Reserve Bank of Zimbabwe compared to the supply of foreign money. According to Umoru (2013) the rise in the supply of money increases local prices levels for another country price level and rise in exchange rate was based on PPP theory hypothesis.

The Stick Price Model assumes that prices of goods are high in the short period and PPP holds after a long period because prices will gradually adjust relative to financial asset prices (Dornbusch, 1976). Exchange rates and interest rates are compensated in the long run in goods prices. Nominal and real changes in exchange rates in the long run PPP levels equilibrium are also allowed by the model. The theory also states that the price of traded goods moves in line with money supply whilst the price on non-traded goods follow disturbances to the current equilibrium. This causes less demand for money because the general price levels will move less than the money supply. An exchange rate can go above the equilibrium point before returning to its normal point. The non-traded goods will eliminate the excess money supply in the market. According to Umoru (2013) the sticky price model the domestic currency value may overshoot if the price of goods remains fixed for a short term after devaluing a currency. Frenkel (1984) also indicates that the currency can overshoot for three reasons; first, it can overshoot because of stock misinformation in the market. The rate can overshoot because of the sticky effect of the non-traded goods and instant changes of the traded goods asset market. Lastly, it can be caused by the lack of confidence and credibility

of the economic system especially after periods of high inflation and political instability.

Mundell Flemming Model states that non-traded goods are sticky and traded goods including the foreign exchange market are in equilibrium with money supply in the long run (Mankiw, 2007). The main assumption is, fixed price level, reaction of goods market and a free financial market. The model assumes the following assumptions; it considers free economy with free investment flow. Borrowing and lending of capital goods can be done without challenges or obstacles in the country. The other main assumption is that domestic interest rate is equal to international interest rates. The Reserve Bank of Zimbabwe can allow the exchange rates to fluctuate in according to changes in market variables. The conclusion is that, the behaviour of an economy is a result of the exchange rate system adopted (Mankiw, 2007). A country can adopt a free-floating exchange rate system, fixed exchange system or a managed exchange rate system.

Monetary approach base on the quantity theory of domestic currency supply and the demand for that currency in the market. The Reserve Bank of Zimbabwe controls the supply of domestic currency in an economy. Price levels or price fluctuations also determine the level of money supply required in an economy. The monetary approach takes into consideration three important relationships; the supply of local currency, the supply of foreign currency and the Purchasing Power Parity. The monetary approach simplifies the general economy as having money and goods only and defines money as the medium of exchange to buy domestic and foreign goods. The weakness of the monetary model is that it bases on too many assumptions and purchasing power parity should hold for the theory to be effective.

In my view, the two theories can be used to explain or support the movement or determinants of exchange rates in the global economy. The portfolio-based approach is an extension of the monetary approach and they all support each other in explaining variables that determine the movement foreign exchange in an economy. The portfolio-based approach guides on the market issues that influence the foreign exchange auction market and the monetary approach indicates how the Reserve Bank of Zimbabwe can intervene to stabilise the foreign exchange market.

### **2.2.3 Analysis of Exchange Rates**

The conversion of one currency into another country currency is called the exchange rate (CFI, 2015). Getting the exchange rate right is the key for economic growth and stability especially in developing countries (Frankel, 1992). Exchange rates are usually fluctuating because they are determined by supply and demand at any given period. According to (CFI) 2015, exchange rates can be affected by environmental conditions, political, economic situation, balance of payments and government economic policies. Political instability and general population psychology can also affect the exchange rate of any particular currency. Political conflicts and civil unrest can also weaken a country's currency. In general, the behaviour of the market participants, buyers, sellers, dealers and the general public can also influence the exchanges rates. Mahonye (2019) studied exchange rate impact on output and inflation, checking historical effects from 1998 to year 2006. The research focused on the implications of exchange rate fluctuations on output or gross domestic product and inflation. The relationship between exchange rates, domestic prices and the gross domestic product have been studied under different types of exchange rate regimes. Countries are now free to adopt exchange rate regimes that suit their economic conditions after the failure of the

Bretton woods in the 1970s. Ghosh and Ostry in 2009 studied how countries can choose exchange rate systems and how the regimes can affect their economies.

According to Ghosh and Ostry (2009), emerging countries opted a pegged exchange rate system in the 1990s, with their domestic currency pegged against the United States Dollar or any other strong currencies. Pegged exchange rates can have a negative impact when other variables like balance of payments, money supply are changing in an economy. Dealers and traders of goods can also face exchange rate losses if there are price changes and exchange rates remain fixed. Many emerging countries faced negative capital account movements (capital flight) in the 1990s because of the fixed exchange rate systems. Wickham (1985) in his conclusion highlighted that, countries with high inflation rates cannot maintain a fixed exchange rate regime and should at least pick flexible exchange rate system. Most emerging countries in the Asian market and Mexico also faced financial crisis because of pegged exchange rate systems (Kandil, 2004). Developing countries should try to select exchange rate regimes that are in line with their macroeconomic conditions. The main question raised in the choice of exchange rate systems by Wickham (1985) was whether developing countries can cope with a flexible exchange rates without some form of intervention. This means that authorities in developing countries are involved regularly in foreign exchange markets to control activities or to influence movement of exchange rates. Fluctuations of variables such as prices, balance of payments, money supply and capital account can require authorities to peg exchange rates to create stability in the short run. Floating exchange rates are considered clean in most cases because they are a result of the market clearing processes (law of demand and supply). Therefore, the current condition or structure of an economy can also help to determine the best suitable exchange rate regime suitable for that particular period.

The circumstances of the country involved, the classical optimum currency area and the time period determine the appropriate exchange rate regime (Rajkovic, 2019). There are various variables that determine the exchange rate regime that is suitable for an economy. The country balance of payments, political condition, behaviour of the public, currency reforms, monetary policies and fiscal policies are some of the factors that can affect the determination of an exchange rate systems. In developed countries where individuals cannot manipulate financial markets, exchange rates can be influenced by the law of supply and demand. The desire for foreign financial assets and the lack of confidence in the domestic currency can also influence movement of exchange rates and regimes. There are various exchange rate regimes that can be used with countries considering their current economic conditions.

Fixed exchange rate system is where value of a local currency (or one exchange rate) is fixed to another currency (Mankiw, 2007). To maintain Fixed Exchange Rate System the government needs to intervene in the market to influence the movement of exchange rates. The Reserve Bank of Zimbabwe can hold or sell financial assets periodically in a way to increase or decrease foreign currency supply to maintain a fixed rate. Exchange rate equilibrium value can be above or below the fixed exchange rate point depending on exchange rates positions. If the fixed rate is above the equilibrium point, it means that there was excess foreign currency in the market and if it's below the equilibrium point the government might need to sell its reserves to manage the rate from going up continuously. Fixed exchange regimes can be adopted by countries because they create certainty in the absence of speculation behaviour and it creates responsible behaviour from the government to sustain the regime, reduce inflationary behaviour, prevent depreciation of currency and promotes foreign investment if the fixed rate is feasible (Sloman, Norris, and Garrett, 2013). However.

Fixed exchange rate regime can encourage speculation, negatively impact economic growth, competitive environment bypassed and domestic objectives of economic growth sacrificed. Kovanen (1984) also indicated that nominal exchange rate stability in developing countries with pegged exchange rate regime has also caused balance of payments imbalances, price distortions, more parallel market activity and lack of competition. Lack of credible reserves of foreign currency are a major weakness being faced by the developing countries to maintain a fixed exchange rate system.

A free float or market-based system is an exchange rate approach determined by market forces desire and availability of foreign and domestic currency and there is no Reserve Bank of Zimbabwe intervention or government intervention (Begg, 1989). Free market exchange rates can result in free market economies.

Floating exchange rates carries the following advantages; respond to market shocks, policies are not constrained, correction of the deficits in imports and exports and help restore the competitive position of exporters. However, floating exchange rates can lead to market instability in countries with high inflation, high speculation and strain the government through excessive exchange rates that require some form of intervention.

Managed exchange rates can produce better results than rigidly pegged rates and dangerous monetary systems could be avoided through adjusting exchange rates to match regular changes (Giavazzi and Giovannini, 1989). The main challenge of Managed floating exchange rates is the need to revalue and devalue currencies which can also cause fluctuations and market distortions. A closer analysis indicates that a realistic long run exchange rate can be fixed but flexible to accommodate market fluctuations. According to Erhardt (1977) fluctuations can be corrected by managed



floating in a flexible exchange rate system, the strategy has a better chance of success under IMF supervision measures. The Reserve Bank of Zimbabwe can intervene in the market to create a balance in the current account position, reduce currency fluctuation risks (e.g., increase of exports demand or imports can be more expensive, promote economic growth through balancing exports and local consumption and managing government debt. Managing inflation demands and the capital account can also be another reason for the Reserve Bank of Zimbabwe to be involved in the financial markets. The main advantage of the managed exchange rate system is that the money supply can be managed to suit the needs of the economy or authorities. The Reserve Bank of Zimbabwe can use monetary measures in a managed system to maintain aggregate demand and ensure stability. However, the system can also create system challenges such as foreign exchange instability, affects the country's ability to create economic stability by controlling money supply and the increase of paper money can be inflationary sometimes.

### **2.3 Macro-environment factors that influence foreign exchange rate**

Foreign exchange auction market is defined as a system where the allocation of foreign exchange is done and concluded through the bidding processes (Krumm, 1985). According to (Canales-Kriljenko, 2011), foreign exchange auction market operates through matching the supply and demand of currencies. Where the markets are free, orders can be controlled by movements of rates (supply and demand theory). In countries where dealer markets are operating, currency imbalances can also be settled in open markets through taking net open foreign exchange positions outside the auction market. The following structural adjustments were also highlighted by Krum (1985) as considerations to be finalized before engaging in an auction system;

Prerequisites of the foreign exchange auction market are the basic rules and regulations required by the system to operate efficiently. Krum (1985) also suggested the following structural issues as part of foreign exchange auction preparation; Access and entry, types of transactions, number of participants, frequency, scope and size of the transactions and mechanics of exchange rate determination. All the above issues are supposed to be put in place before introducing the exchange auction system. Access and entry refer to participants that are able to enter the market and the actual requirements for a participant to enter the auction. The rules should also define the type of transactions to be supported by the auction market and scope and size of the transactions. The main conclusion from the study of Krum (1986) was that the auction markets require transparency, broad-based access to foreign currency and easy access to foreign exchange. Kovanen (1984) added that it is imperative for the organizer to set key rules with the participants, ensure credibility and adherence to the set bidding rules both by the organizer and the participants. All the above rules and the bidding preconditions should be set before introducing the auction market.

Most foreign exchange foreign markets in developing countries have not been successful in the early 1980s with most of them terminated soon after implementation. According to Kovanen (1984) the auction systems failed to raise foreign currency required to support the auction, most countries like Ghana, Nigeria, Sierra Leone, Jamaica and Zambia failed to ensure exchange rate stability due to failure by the authorities to follow fiscal and monetary measures that ensure exchange rate stability. In most cases, the currency market also absorbed parallel market activities into the official system which made the supply of foreign currency distorted, thereby affecting the public view of the auction markets. This indicates that the intervention of the Reserve Bank of Zimbabwe can also lead to lack of confidence in the market.

The foreign currency auction market was first introduced in Zimbabwe on 12 January 2004. The market targeted to strengthen the exchange rate, improve the allocation of foreign currency among various sectors and determining the exchange. Various measures such as road shows and published policy documents were put in place to create awareness on the operations of the auction market. The currency auction market collapsed in October 2005 after it failed to raise sufficient foreign currency to maintain the market and the rate kept on increasing. After this background it is crucial to evaluate the effectiveness of the current currency auction market given the positive remarks from the general market.

#### **2.4 The effectiveness of the foreign exchange auction market**

The effectiveness of the foreign exchange market can be measured or tested in different ways. The effectiveness measurement is a metric that assesses the ability of the system or organisation to meet the needs of a particular condition or objective (Agenor, 1992). The main aim is to seek if the Reserve Bank of Zimbabwe is taking all the necessary actions or steps to attain maximum efficiency in the foreign exchange market. Assessment of the results can be quantitative or qualitative, explanations or workings can be used to measure success or efficiency. Programme evaluation and using evaluation questions are ways that can be used to measure effectiveness (Wagle, 2019). This involves use of meso level and micro level questions such as; were the auction intended results achieved; were the interventions in the market went according to the bank's plan and was corrective action taken accordingly.

Effectiveness can also be checked through annual evaluations. Midterm evaluation or through post evaluation. This is a systematic, objective and impartial evaluation of the auction system. This can be done through assessing the program impact through the year. This helps to recognise weaknesses, strength, opportunities and the challenges

being faced. The foreign exchange auction market will be measured through evaluating and assessing some of the following elements; macro-economic factors affecting exchange rate stability, availability of foreign currency after introducing the auction system, analysis of non-monetary factors affecting the foreign exchange market, time being taken to payoff successful bidders, analysis of overall results (approved bids versus rejected, sectors being considered over overall sectors in the economy, sources of foreign currency supply in the auction system, ratio of approved applications against applied bids, fairness of other key factors such as pricing, rules and regulations, ways to manage the auction system, factors to improve the auction system and evaluation of the appropriate exchange rate regime system.

## **2.5 Relevance of the Theoretical framework to study**

Theories are designed to provide meaning, set standards, predict and understand phenomena and also extend and challenge existing knowledge within the limits of critical bounding assumptions. The monetary model and portfolio balance model theories mainly focuses on the factors that influence the foreign exchange market. The theories complement each other in explaining various variables that determine exchange rates and factors that influence the foreign exchange market. The portfolio-based channel guides the study on how the market factors affect the foreign exchange market on prices determination and how the public reacts to economic setups when it comes to foreign exchange risk.

The theory guides the study by indicating how the Reserve Bank of Zimbabwe can influence the foreign exchange auction market to stabilise the financial market such as through market operations, exchange control operation and sterilised foreign exchange auction operations. The portfolio-based approach measures guide the study how the foreign exchange market can be managed in various ways to stabilise the economy.

The monetary helps to define how the Reserve Bank of Zimbabwe can intervene in the auction market through managing the supply of domestic currency and foreign money.

The model is also relevant as it indicates how market variables such as interest rates and balance of payments compensates exchange rates movements under long periods.

Foreign exchange regimes help to understand how exchange rates are managed depending on specific country economic condition. The models of determining exchange rates enables the researcher to understand theoretical assumptions on how exchange rates are determined. The understanding will help the researcher on the actual variables to focus on during the research and to correctly link the variables with recommendations.

Theoretical analysis also covers previous researches from various researchers in the same area of study. These past researches enable the researcher to understand the conclusions reached and the factors or variables of study that shaped such conclusions. In this study the research also covered foreign exchange auctions experiences from different countries to understand how they handled the auction markets and use that as a guideline in analysing the Zimbabwe foreign exchange market. The existing board of knowledge allows the researcher critical evaluation of previous foreign exchange regimes and their determinants to support the development of new models in research. Questions of how and why exchange rates move in a certain direction can only be addressed effectively without generalizations through analysing previous conclusions and merge them with current observations to reach meaningful conclusions. In summary, the theoretical framework helps to explain the meaning, assumptions, nature and challenges in a phenomenon. The knowledge and theory appreciation gained will help to make informed and effective conclusions in the research.

## **2.6 Summary**

The chapter provided an in-depth review of literature on exchange rate regimes that are used in different economic contexts. The portfolio-based approach and the monetary model are the theories that guides the management of the exchange rates and the foreign exchanges markets. The monetary model is an extension of the portfolio-based model in the determination of exchange rates and how the foreign exchange market operates. Views on the concept of exchange rate regimes were reviewed from different perspectives with the view to uncover research gaps in knowledge and theory. Foreign exchange auction markets from countries such as Sierra Leone and Jamaica were also reviewed to gain an insight on how the foreign exchange market can be managed. The next chapter focuses on research methodology.

## **CHAPTER 3                      METHODOLOGY**

### **3.1    Introduction**

The chapter details the procedures and processes that were used by the researcher in collecting data for the project. It evaluates the various methods used in data collection, presentation and analysis on the assessment of the effectiveness of the auction market to stabilize the rate and economic activity. It covers key elements of the methodology, design, study population, study sample, raw data collection methods and a summary of the data presentation and analysis.

### **3.2    Research Design**

A descriptive design approach was applied in this study to evaluate the effectiveness of the Reserve Bank of Zimbabwe auction market. The researcher opted for descriptive methods obtain facts from the participants. Descriptive research design was effective to gain personal insights, explain different approaches, evaluate priorities and describe various strategies (Bougie & Sekaran, 2019). Interviews, focus group discussions, surveys and questionnaires were used to collect data. According to Dudovski (2007) descriptive research aims to provide light on current issues or problems through data collection and complete analysis. Matanda (2018) also used a descriptive method in his research, “the introduction of bond notes as an antidote to Zimbabwe liquidity crisis.

Through the application of a descriptive research design, quantitative methods were used to analyse results from the auction in the form of graphs, charts and tables (Schindler, 2022). Descriptive methods gave the opportunity to integrate quantitative and qualitative data. Data or information can be collected through descriptions and can be useful for picking variables & hypothetical constructs.

### **3.3 Population and Sampling**

The research population comprised of all the banks and companies trading on the foreign exchange auction market. It is composed of the Reserve Bank of Zimbabwe officials as the custodians of the auction system for allocating foreign exchange. There are 1632 companies benefited on the Main Foreign Exchange Auction and 2887 companies benefited on the SMEs Foreign Exchange Auction. Participants in the auction systems are identified based on the sector as categorised by the Reserve Bank of Zimbabwe.

The population of participants in the auction market for foreign exchange were drawn from sectors that include Manufacturing, Consumables, Services, Dividends, Retail and Distribution, Fuel, Electricity and Gas, Pharmaceuticals, Paper and Packaging and Agriculture. These sectors were recognised and categorised by the Reserve Bank of Zimbabwe as critical towards economic revival and hence are part of the priority listing for the allocation of foreign exchange through the auction system. There are 20 banks operating in Zimbabwe and participating on the auction market. All the companies went through their banks in participating in the foreign exchange auction market.

#### **3.3.1 Sampling**

For the quantitative part of the study, a sample comprised of fifty respondents was selected. This comprised five from the Reserve Bank of Zimbabwe, ten from the banking sector and thirty-five from the companies participating in the foreign exchange auction market. Stratified sampling was used to select the number of respondents from the importers or exporters participating on the foreign exchange



market. The researcher used stratified sampling picking five companies per sector (on both main and SME auction) prioritised because of the following reasons.

The researcher selected two foreign exchange inspectors, chief administrator and other foreign exchange auction administrators. In the banking industry, treasury, or exchange control key staff were also part of the respondents. A larger ratio sample was chosen from the banking sector because companies participating on the foreign exchange auction market process all their bids through the banking institutions. Companies' foreign exchange applications are done and processed by banks; this means that banking respondents are well versed in the overall outcomes of the auction market as they represent several companies on the platform. Random sampling was used to pick 10 banks from the 20 banks participating in the market. This enabled me to pick responses from institutions that I expected to get responses quicker.

For the qualitative part of the study, convenience technique sampling was used to select individuals that were interviewed from the Reserve Bank of Zimbabwe. Convenience sampling was suitable as it assisted the researcher to select key interviewees with the right information. There are very few staff members in RBZ foreign exchange control and five represent a reasonable number of the population.

The saturation points in qualitative research contributed on the determination of the sample size on the part of companies. The target was to get more information from the picked respondents. Early maturity levels in collecting qualitative data (no more new views coming) also limits the number of candidates that can be interviewed. The sample was limited to five per sector because banks represents the major summarised response from companies since they mainly work on behalf of trading corporates. The researcher took advantage of the Chartered accountants group link to get quicker

access random responses from companies participating. This group of Certified Chartered Accountants represents some of the finance managers or accountants or treasury participants from selected companies participating on the foreign exchange market. The auction market performance, sampling cost and time availability were also considered in sampling the questionnaires.

### **3.4 Data Collection Instruments**

Primary and secondary data sources were also used in collecting data from the market. Questionnaires, focus group discussions, google meet interviews and telephone interviews were used in obtaining data.

#### **3.4.1 Primary Data**

To gather more information on exchange rate risks and the methods that can be used by the Reserve Bank of Zimbabwe to successfully manage the foreign exchange market, the researcher used questionnaires and interviews to get different views.

#### **3.4.2 Questionnaires**

An online questionnaire with two sections consisting of close-ended questions and open-ended section was send to 45 respondents. The questionnaire was administered to foreign exchange dealers from banks, staff from the Reserve bank foreign exchange division and finance managers or accountants from the participating companies. The questionnaire was designed to yield specific information on the effectiveness of the auction market on exchange rate and ways that can be used to stabilize the economic environment. The main reason for using the online questioner was that its cheap to administer and because of covid-19 most companies were not allowing visitors on their premises. Evaluator bias was reduced through sending the same questions to all the

participants. Online questionnaires also make respondents comfortable especially when answering to sensitive questions. Open ended and close ended questionnaire was designed to accommodate both the participant and interviewer's views. An electronic questionnaire was developed through the Google forms platforms <https://surveyheart.com/form/6120f5d7cf59d81d1d98a02d>. Questionnaire Responses are shown in Table 3.1.

**Table 3.1: Questionnaire Responses by sector of the economy**

Sectors of the economy	Questionnaires sent	Responses received	Overall response rate
Manufacturing	5	5	100%
Consumables	5	4	80%
Services / Dividends	5	5	100%
Retail and Distribution	5	3	60%
Fuel, Electricity and Gas	5	3	60%
Pharmaceuticals	5	4	80%
Paper and Packaging	5	3	60%
Agriculture	5	3	60%
Other sectors	10		100%
<b>Total</b>	<b>45</b>	<b>35</b>	<b>77.8%</b>

A total of 45 representatives from the banking sector and the 8 identified sectors of the economy that are eligible to participate in the Reserve Bank of Zimbabwe foreign currency auction system and other sectors were selected to participate in the study. An overall response of 35 was garnered representing a 77.8% response rate. Responses from these participate are taken as representative of the opinions of the generality of participants at the auction system for foreign currency given that they are drawn from

sectors of the economy that are considered as being part of the Reserve Bank of Zimbabwe priority listing for the allocation of foreign currency.

### **3.4.3 Interview Guide**

Interview guides were used as a primary technique for gathering qualitative data from company representative who bid on the Reserve Bank of Zimbabwe auction market for foreign exchange. For researchers to gather quality data they must master interview skills and the topic one is studying. In-depth knowledge of the researcher also helps to get quality results, enough data and overall facts that cover the problem under study. Convenience sampling was used to select participants from the banks and the reserve bank of Zimbabwe because of the numbers involved and the type of information required. Telephone interviews were done with RBZ respondents, selected economists and company representatives.

### **3.4.4 Secondary Data**

Information already available in publications, reports, articles, papers and journals are part of secondary data. This project secondary data includes Reserve Bank of Zimbabwe monetary policies, finance journals, internet articles, auction results, exchange control publications and exchange rate auction manuals. More emphasis was also given to auction results presented on the Reserve Bank of Zimbabwe foreign exchange website. The researcher mainly focused on RBZ publications, international organisations publications and well-respected organisations to ensure data reliability.

### **3.5 Data Collection Procedure**

The researcher began by collecting secondary data from the Reserve Bank of Zimbabwe website. Auction results and regulations were accessed from the RBZ website exchange control section. Permission was granted to use the information for academic purposes only. Permission to collect primary data was the second factor to consider in data collection. AU research endorsed letter was required to facilitate the collection of data from the banks, Reserve Bank of Zimbabwe, individuals and other respondents.

A questionnaire was used to gather quantitative data from respondents. On the other hand, qualitative data was collected using interviews, picking relevant information direct from secondary data and doing all necessary data recording protocols. All other factors like attending to field data, standardisation of questionnaires and considering ethical issues when collecting data was valued during the research.

### **3.6 Analysis and Organization of Data**

Different methods were used to obtain data and to analyse data received. Received data was presented in Chapter Four. Mixed approach was used to analyse data qualitatively and quantitatively. Information was presented in the form of graphs, tables, narrations and descriptions. Research objectives were used to organise data analysis and presentation. Data was arranged chronologically following research objectives and research questions. Analysis started on the first objective, followed by analysis of the macro-economic environment prevailing in Zimbabwe, exchange rate regime being used by the Reserve Bank of Zimbabwe, section C covering the effectiveness of the Zimbabwe auction system and last section D covering the responses concerning the

recommendations that can be used by the Reserve Bank of Zimbabwe to manage the auction system. Qualitative responses from the interview guide and questionnaire was presented following each question. Quantitative analysis was applied on auction results to pick overall foreign currency being required against what is being supplied. The researcher manipulated data to be collected from primary and secondary sources into simple financials models created for easy analysis and then present information in tables and graphs for possible trend analysis. These results form the basis on the evaluation of the effectiveness of the of the foreign exchange auction system. Conclusions were drawn and recommendations made.

### **3.7 Ethical Consideration**

The research instruments should be able to produce results that are consistent and suitable for the topic under study. Same results must be obtained even if the instruments are resending to the respondents. The researcher standardised the online questionnaire and interview questions to make sure that they are effective. Only reputable organisations were selected to ensure reliability and ethical issues. Credibility of the participants were also verified by the researcher before accommodating their contributions. Credibility involves checking if the respondent has an idea of the topic under discussion and also participates in that category. Closeness of the responses from the questionnaires were also scrutinised to ensure that conclusions can be drawn from such data. Responses comfortability was also checked to check if the respondents are answering in the pattern or there was information gap.

The research went through the Africa University Research Committee research committee before being approved. A supervised have been assigned to ensure that the standard and overall direction of the research is monitored to ensure compliance to

Africa University standard and general research writing rules. The research went through the Africa University Research Committee to be approved and for plagiarism check before the student is allowed to collect data from the respondents. Ethical considerations were observed by ensuring that research results were obtained formally and was used for academic purposes only.

### **3.8 Summary**

The chapter explained the way in which the study was conducted with respect to data collection, data measurement and data analysis. It encompasses the introduction, the methodology design, population and sampling, collection instruments, collection procedure, data organization, ethical consideration and key justifications for the research strategy. Fifty respondents were selected, thirty-five from participating companies, ten from the banks and five from the Reserve Bank of Zimbabwe. Stratified sampling was used in selecting company participants, random sampling to pick banks respondents and convenience to pick RBZ participants. Secondary information was mainly gathered from RBZ weekly allocations, publications and exchange control website information. Descriptive research design was opted and targeted participants in the foreign exchange auction market. Primary data collection focused on electronic questionnaire plus direct telephone interviews of participants. Secondary data collection covered RBZ publications on the auction information, exchange control auction information website and other various sources that covered the foreign exchange market in Zimbabwe. The next chapter presents and analyse the findings from the market.

## CHAPTER 4 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### 4.1 Introduction

The chapter showcase the data presentation, analysis, interpretation and discussions from descriptive statistics and thematic analysis perspective in line with a pragmatic research paradigm. The chapter begins with an outline of the questionnaire responses since the bulk of primary data was gathered from an electronic questionnaire. Interview transcripts and secondary data are also presented in the chapter to showcase a comprehensive outlook of the nature and effectiveness of the auction system in the allocation of foreign currency in Zimbabwe. Research results are discussed in relation to empirical findings.

### 4.2 Reliability Statistics

The Cronbach's Alpha Coefficient was used to test for internal consistency. The Cronbach's Alpha Coefficient values range from 0 to 1. A Cronbach's Alpha Coefficient statistic between 0 to 0.4 indicates a lower level of internal consistency, Cronbach's Alpha Coefficient statistics within the range of 0.5 to 0.6 show a moderate level of reliability. Values between 0.7 to 1 indicate higher levels of reliability (Sekaran & Bougie, 2016). Reliability statistics are shown in Table 4.2.

**Table 4.1: Reliability Statistics**

Cronbach's Alpha	N of Items
.722	41

As shown in Table 4.1, an overall Cronbach's Alpha Coefficient of .722 was statistically determined from 41 items tested through the use of the SPSS software package which represents a higher level of reliability. This indicates that respondents



were consistent in the manner in which they responded to questions on the questionnaire that serve to demonstrate a high level of internal consistency in research findings emanating from this study.

#### **4.3 Data Presentation and Analysis**

An electronic questionnaire was used to gather quantitative primary data from respondents across 7 identified sectors of the Zimbabwean economy that are recognized as legible to participate in the foreign currency auction system as they fall within the purview of the Reserve Bank of Zimbabwe priority listing. An interview guide was also used to gain more information on the current factors affecting the macroeconomic environment, performance of the foreign exchange market and ways that can be used to promote foreign exchange stability.

#### **4.4 Macroeconomic factors affecting foreign exchange rates**

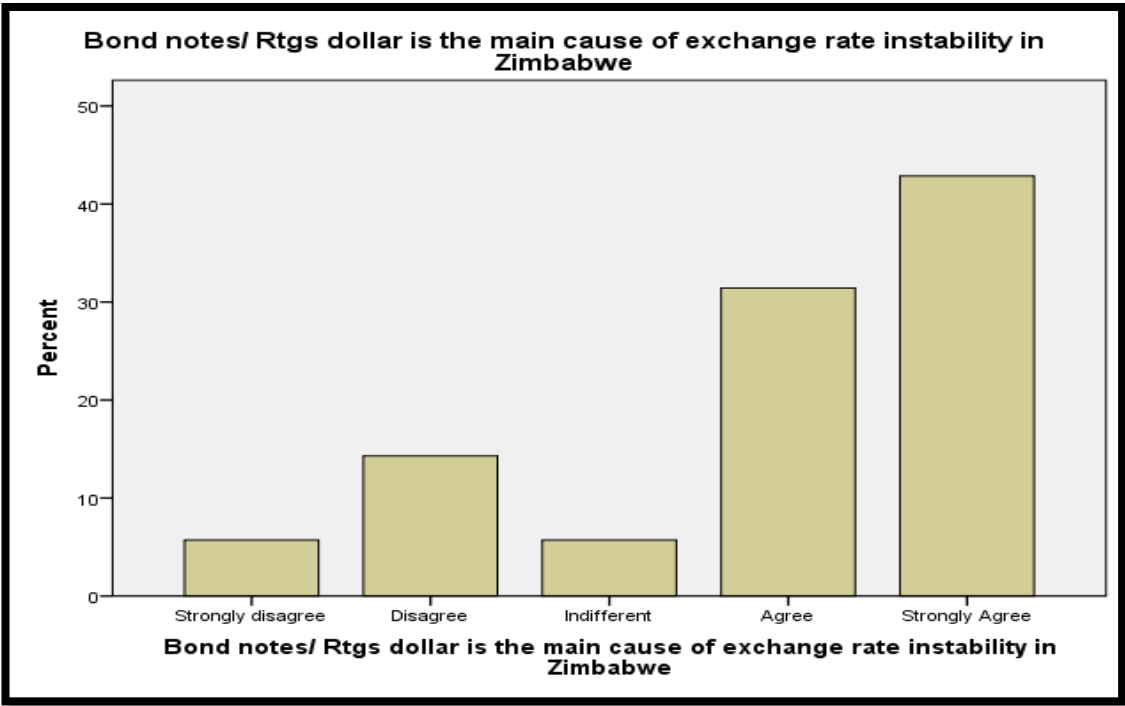
The foreign exchange foreign market is mainly determined by the macroeconomic factors prevailing in the country. Factors such as politics, monetary policy measures, Fiscal policy measures and public cooperation can directly affect the foreign exchange markets. Some of the main causes highlighted by respondents for the foreign exchange instability macroeconomic factors are as follows; introduction of the bond notes, printing of bond notes (money supply in cash and RTGS), political conflicts, lack of foreign direct investments, imbalance of payments, high fiscal expenditure and heavy economic debt.

Printing of bond notes increase money supply thereby affecting the foreign exchange market negatively. Other respondents also highlighted that the current government legitimacy issues also affect foreign direct investment and also pushes local investors to push real funds to other safe countries with investment opportunities. The economic

environment is also affected by balance of payments, Zimbabwe is importing more than its exports which lead to more foreign currency being paid out than being received. According to the world bank (Khuphe, 2021), stabilisation of prices through the use of rule based monetary system remain critical. Avoiding monetary financing & quasi fiscal activities, reducing subsidies and improving fiscal and debt transparency. Optimum use of public funds was also highlighted as a way to promote macroeconomic stability. The following responses show how current economic monetary measures and macro-economic challenges are affecting foreign exchange markets.

**4.4.1 Bond Notes and Exchange Rate instability**

Bonds notes were launched as surrogate currency in November 2016 at par with the USD. This proclamation of the foreign exchange rate is believed by 44% of respondents to be the genesis of foreign exchange distortions and instability that we are experiencing as an economy. Research results are shown in Figure 4.1.



**Figure 4.1: Bond Notes and Exchange Rate instability**

As depicted on Figure 4.1, most respondents were of the view that the launch of bond notes and the subsequent re-introduction of the Zimbabwean dollar under the guise of RTGS caused massive foreign exchange market distortions that eroded the confidence that the transacting public had in local currency. Bond notes and RTGS reignited the hyper inflationary environment that the Zimbabwean economy is facing at present. The artificial exchange rate between the Bond note and the USD goes against the dictates of the Portfolio Balance framework proposed by Frankel (1984).

#### 4.4.2 Lack of foreign currency and Parallel Market Activities

A higher proportion of respondents (77%) were of the opinion that the scarcity of foreign currency on the formal market contributes towards exchange rate contributes towards the sustenance of the parallel market. Research results are shown in Figure 4.2.

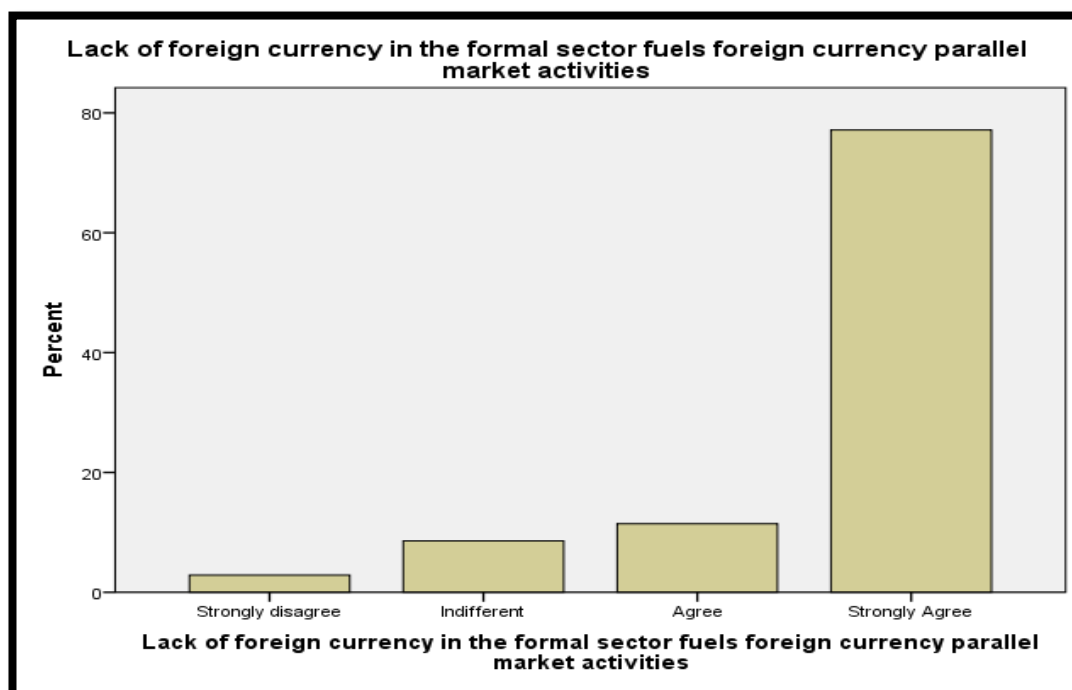
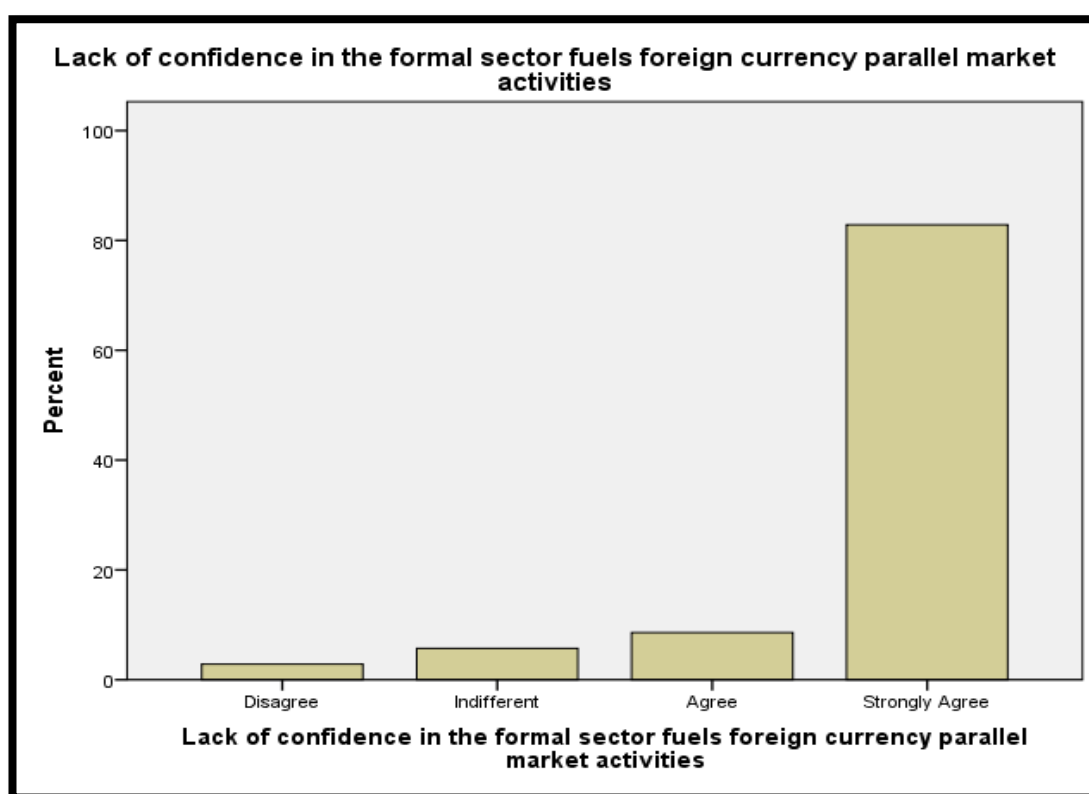


Figure 4.2: Lack of foreign currency and Parallel Market Activities

The formal market for foreign exchange in Zimbabwe is composed of the banking sector as well as bureau de change that are tasked with buying and selling of foreign currency. Due to foreign exchange rate distortions in the formal market, there is scarce allocation of foreign currency as compared to the parallel market.

#### **4.4.3 Lack of confidence in the formal market and Parallel Market Activities**

Most respondents (63%) strongly agreed that there is lack of confidence on the formal market that make people with free finds to seek the services of the parallel market as illustrated in Figure 4.3.



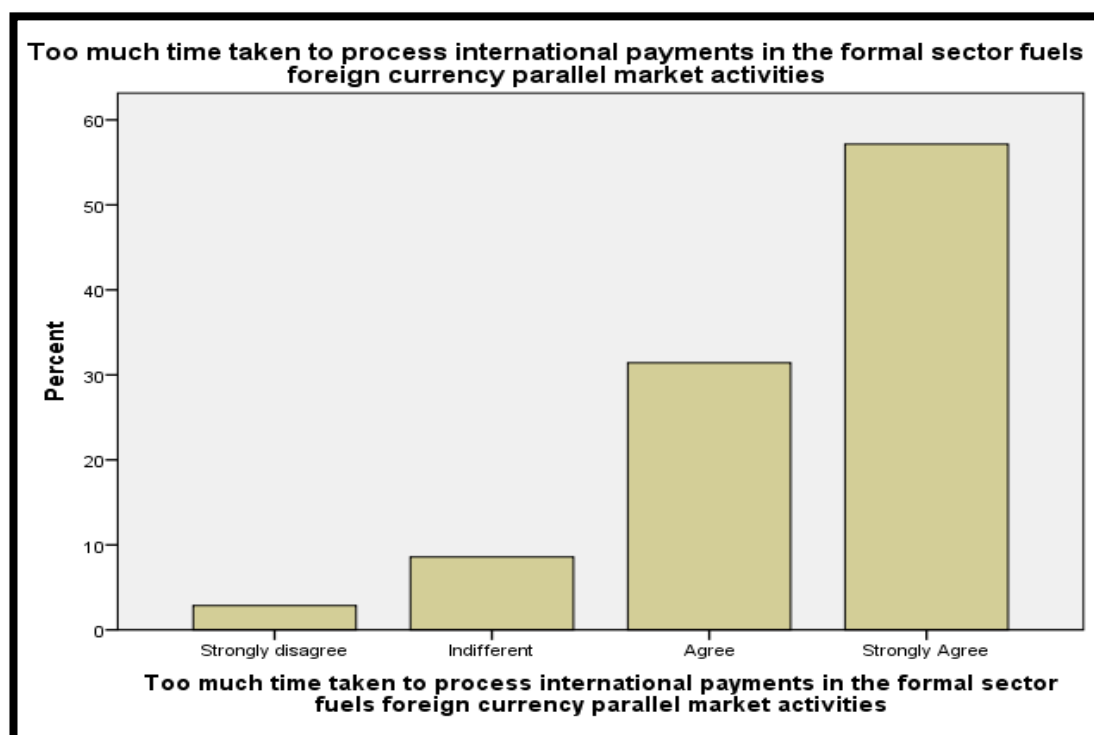
**Figure 4.3: Lack of confidence in the formal market and Parallel Market Activities**

The lack of confidence in the efficacy of the formal foreign exchange market stems from the uni-directional policy measures where agents only buy foreign currency and are unwilling to sell to the public. Setbacks that are being experienced in the issuance

of the USD\$50 facility to the general public gives credence to the lack of public confidence on the formal system in accessing foreign currency.

#### 4.4.4 Time to process international payments and parallel market activities

Most respondents (57%) strongly agreed that the longer time it takes to process international payments fuels parallel market activities as illustrated in Figure 4.4.



**Figure 4.4: Time to process international payments and Parallel Market Activities**

It is taking as much as 15 weeks for bidders to access allocated foreign currency instead of 2 working days. This longer lag time delays business operations and hobbles growth especially for small to medium sized businesses that have limited working capital. Owing to the challenges in the formal foreign exchange market, companies resort to the parallel market to meet their foreign currency requirements.

#### 4.4.5 Analysis of the Foreign Exchange Auction System Market

The foreign exchange foreign market has so many factors that affect the daily exchange rates and operations efficiency. The following are some of the components and variables that were analysed from the auction market.

### 4.5 Strategies to manage the foreign exchange auction market

#### 4.5.1 Exchange Rate Stability

Trends in the foreign exchange market are a result of secondary data that is publicly available and is showcased to show the progress and direction of the auction market towards the economic variables in Zimbabwe.

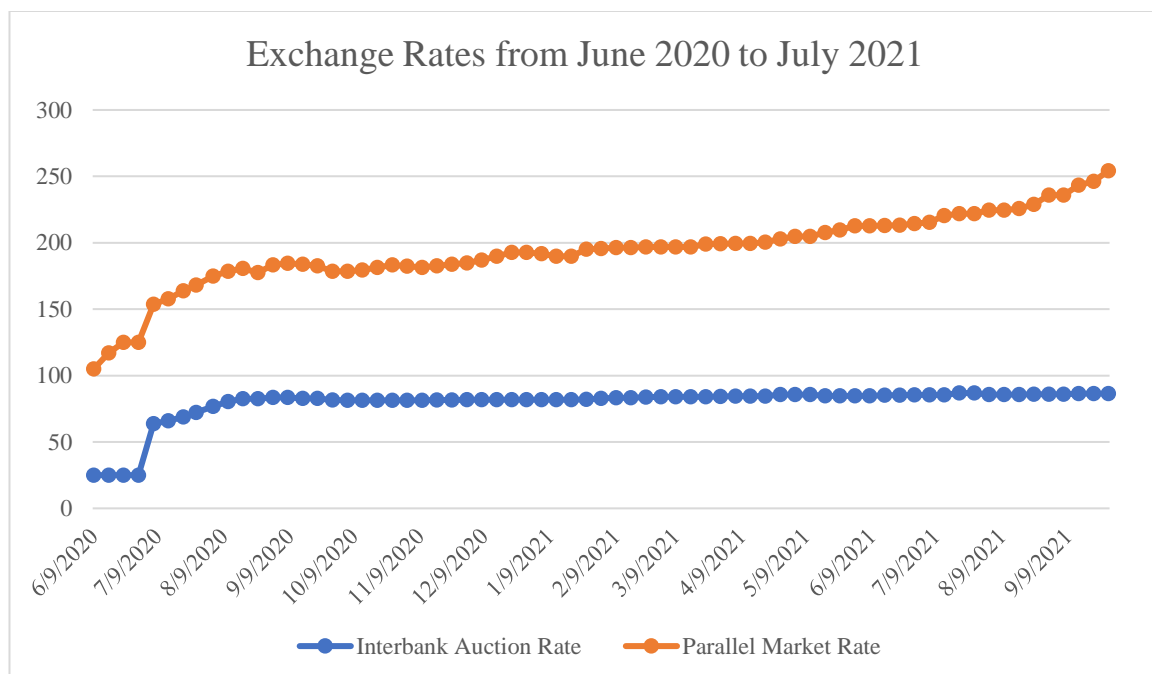
**Table 4.2: Trends on OMIR, Parallel market, interbank rate and inflection rate**

Date	OMIR	Inter-bank Rate	Parallel Rate	Inflation Rate
January 2020	39.65	17.35	25	2.25%
February 2020	45.62	17.95	31	13.52%
March 2020	62.29	25	38.5	26.59%
April 2020	59.47	25	50.5	17.64%
May 2020	121.63	25	71	15.13%
June 2020	122.22	57.35	100	31.66%
July 2020	122.22	76.76	97	35.53%
August 2020	-	83.3994	99	8.44%
September 2020	-	81.4965	97	3.83%
October 2020	-	81.39	101	4.37%
November 2020	-	81.82	103	3.15%
December 2020	-	81.79	111	4.22%

**Source:** Adapted from [www.marketwatch.co.zw](http://www.marketwatch.co.zw)

Trends as shown in Table 4.5 indicate that the parallel market rate was closely related to the Old Mutual Implied Rate which was always above the interbank rate. The abolishing of the interbank rate through following the introduction of the auction rate

in the suspension of old mutual from trading on this public stock exchange stabilized the exchange rate on the parallel market and also contributed towards a market decline in the inflation rate.

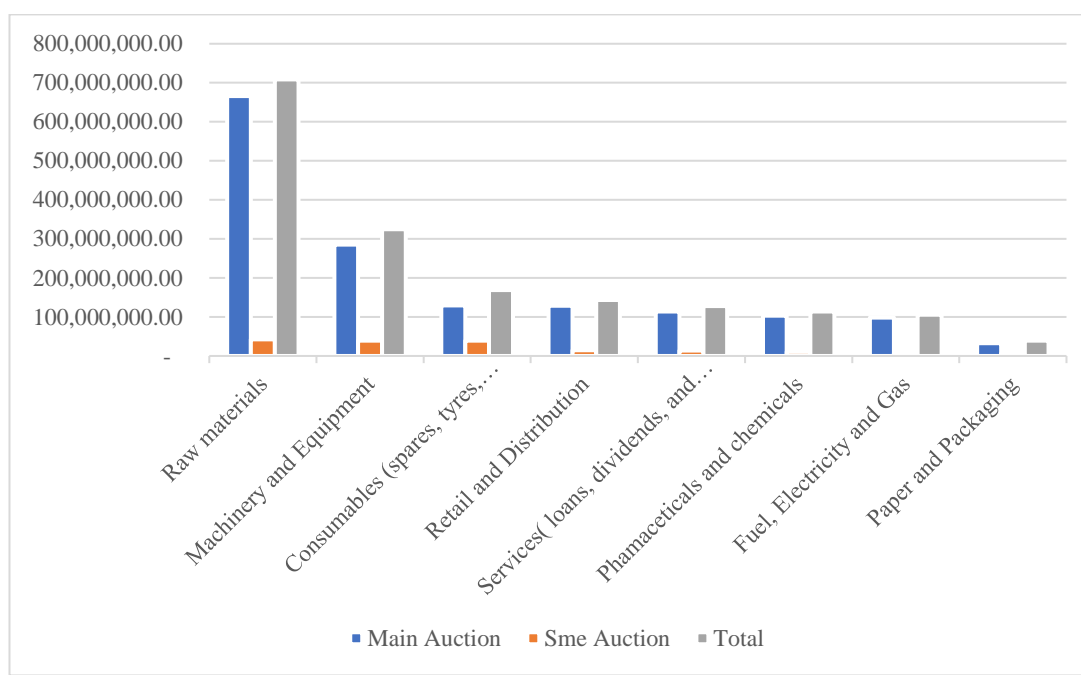


**Figure 4.5: Trends in exchange rates from June 2020 to July 2021**

**Source:** Adapted from [www.marketwatch.co.zw](http://www.marketwatch.co.zw)

Trends have shown in Figure 4.21 indicate that there has been an increase in the parallel rate driven by statutory instruments that way enforced to give effect to currency reforms. While the auction market determined foreign exchange, rate remained relatively stable between July 2020 to July 2021, the parallel market for an exchange rate has been on a gradual increase. At present the official exchange rate 93.08 against the United States dollar while the parallel market rate stands at between 180 to 200 to the USD. Differences between the auction markets for an exchange rate and the parallel market for an exchange rate save to show the mismatch that exists

between the two foreign exchange markets which demand for immediate interventions from the monetary authorities to bring sanity in the foreign exchange market.

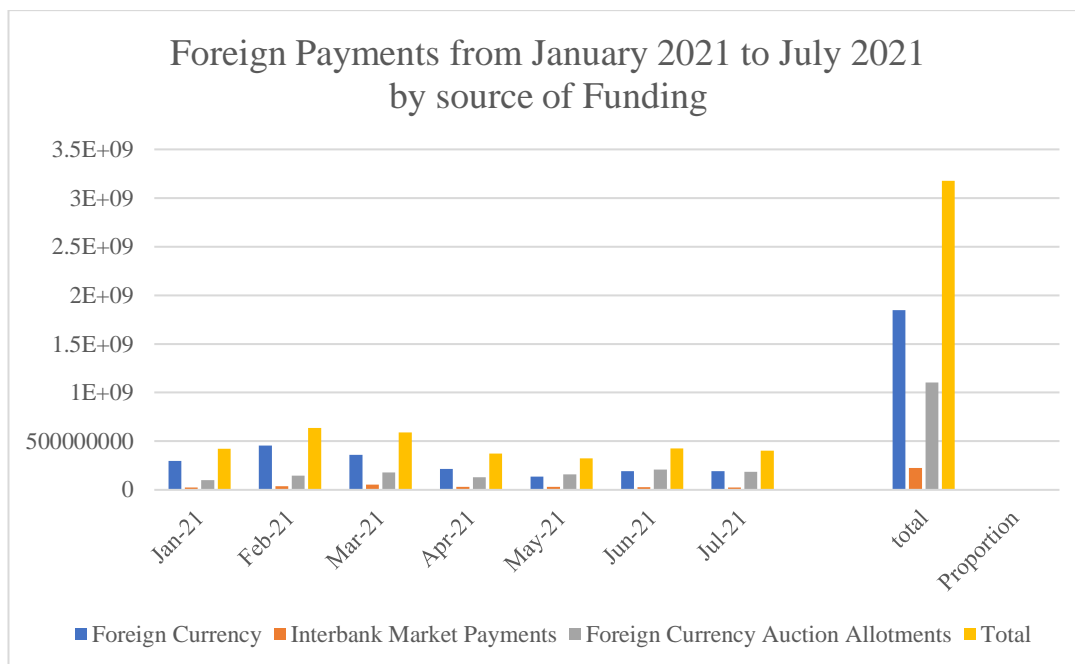


**Figure 4.6: Foreign Exchange Auction System Allotments by Purpose**

**Source:** Reserve Bank of Zimbabwe Publication (08 August 2021)

Trends in the allocation of foreign currency from the ocean system show that most fans are allocated in the main auction and a huge amount of those fans go towards the funding of raw materials followed by machinery and equipment. Secondary data from the Reserve Bank of Zimbabwe shows that activity and funding towards the SME auction is limited compared to the main auction.





**Figure 4.7: Foreign payments for the period January 2021 to July 2021**

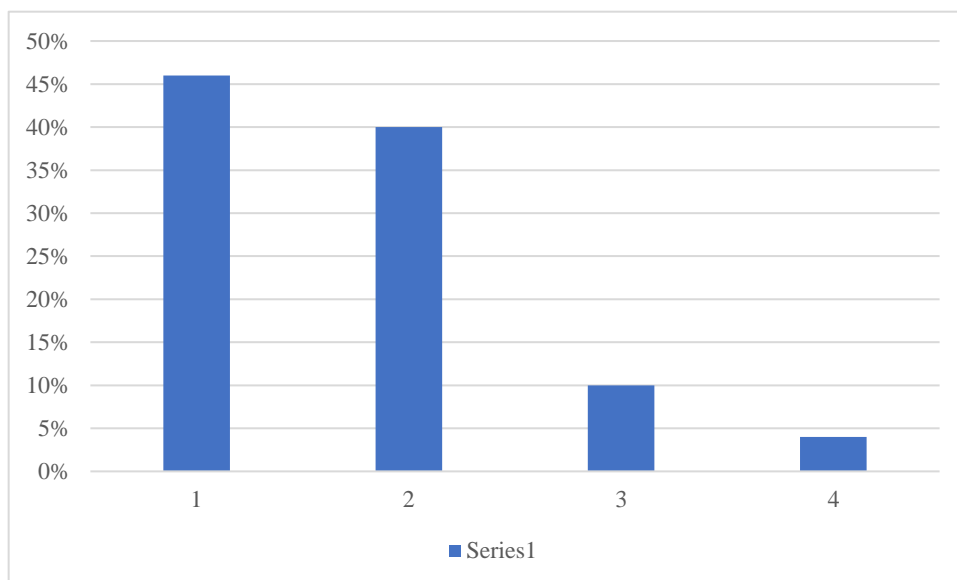
**Source:** Reserve Bank of Zimbabwe Publication (08 August 2021)

Statistics from the Reserve Bank of Zimbabwe show that funds allocated through the foreign currency auction system have contributed significantly towards foreign payments between January to July 2021, coming second to foreign currency free funds. These results indicate that despite the challenges that are faced by the auction system in the allocation of foreign currency, funds generated from the same are making significant contributions towards settling foreign payments for the period under review.

The notion of exchange rate stability was looked at from the perspective of the impact of the auction system, the reintroduction of the USD for settling local transactions, the effect of monetary controls and national lockdowns.

#### 4.5.2 The impact of the auction market on exchange rate stability

The introduction of the auction market for foreign exchange was believed to contribute towards the stability of the exchange rate. Results are shown in Figure 4.8.

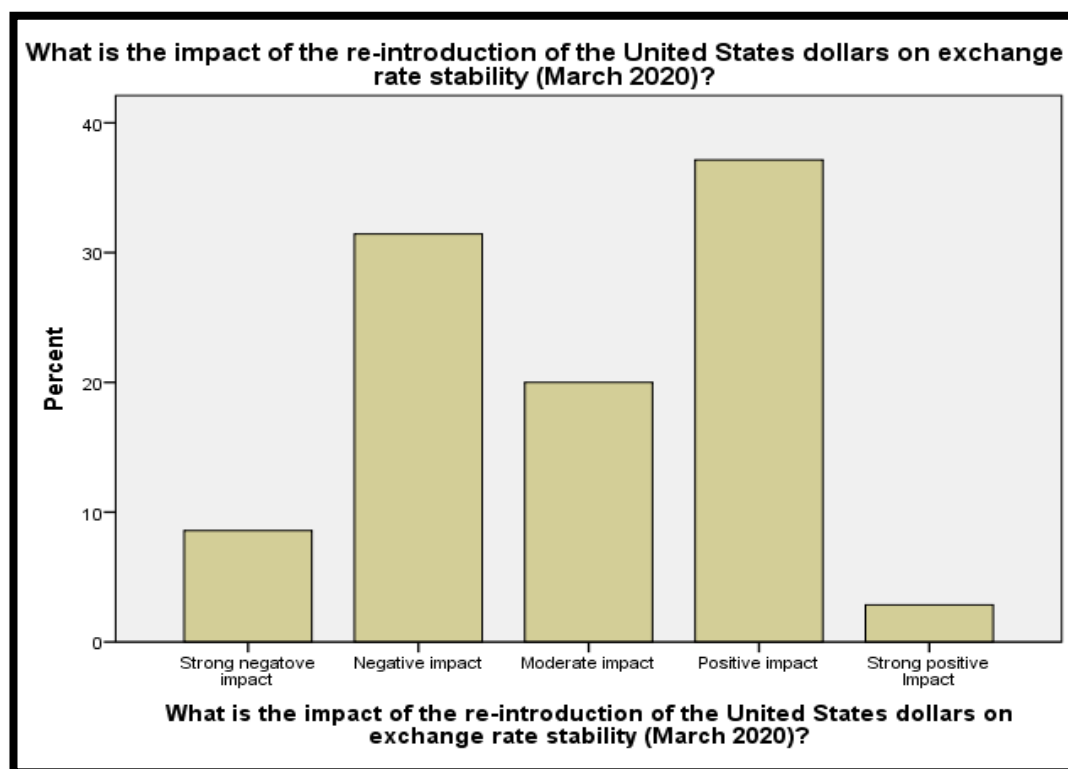


**Figure 4.8: The auction market on exchange rate stability**

Most respondents (45%) were of the opinion that the auction market had a negative impact on exchange rate stability. These views are attributed to the current disparity between the auction determined foreign exchange rate of ZW90.0792: US\$1 against the prevailing parallel market foreign exchange rate of ZW\$180: US\$1. The official rate is half the parallel market determined rate which is causing shortages of foreign currency on the auction market as characterised by the failure of the Reserve Bank of Zimbabwe in disbursing allocated foreign currency on time. The 4% of respondents who believed that the auction market contributed positively towards exchange rate stability might be basing their assertions on the situation that prevailed between June to December 2020 when there was stability in the parallel market foreign exchange market.

### 4.5.3 The impact of the re-introduction of USD on exchange rate stability

At the height of the Covid-19 pandemic in March 2020, the government of Zimbabwe re-introduced the USD for settling local transactions. The views of respondents on this policy initiative on exchange rate stability is illustrated in Figure 4.9.



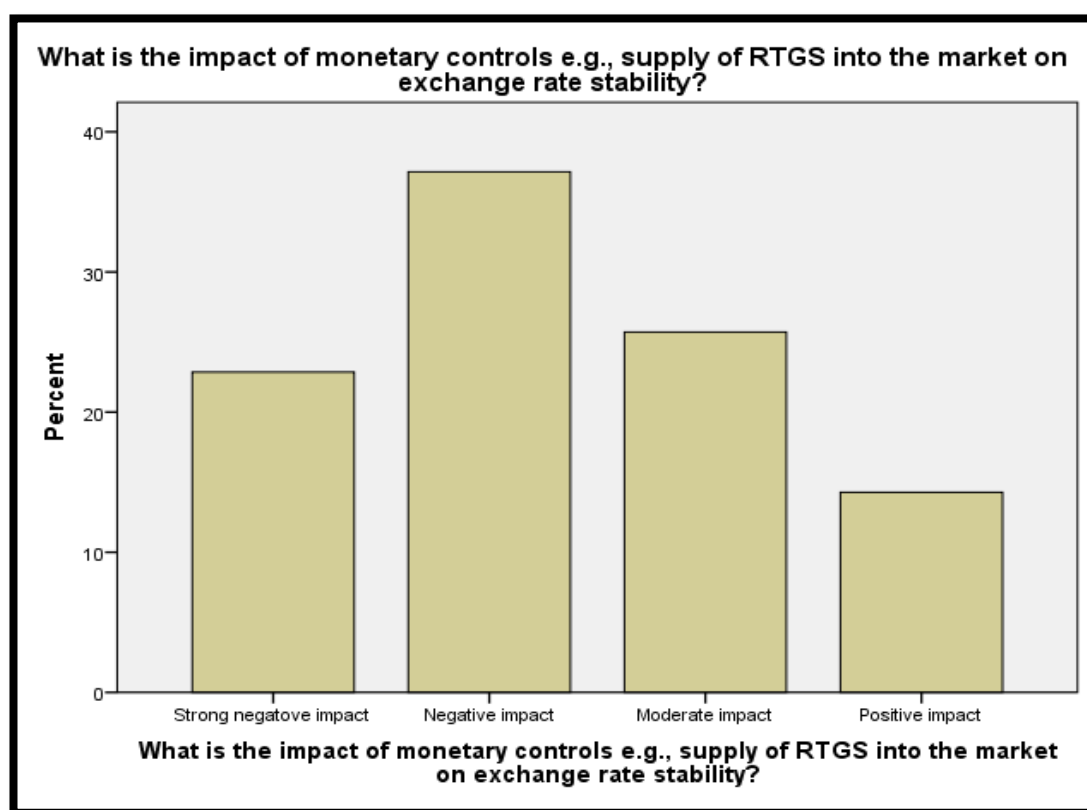
**Figure 4.9: The impact of re-introduction of USD on exchange rate stability**

Most respondents (37%) were of the opinion that the introduction of the United States dollar as a transactional currency in Zimbabwe stabilized the foreign exchange rate. However, a significant segment of respondents shared the opinions that this policy measure had a strong negative impact (9%) and negative impact (32%) on exchange rate stability. These views are attributed to the fact that the government as the main employer in the county is yet to remunerate its workforce using United States dollars which against a background of a quasi-dollarized economy that is contributing to an increase in demand for foreign exchange. Most products on the market are tagged in USD and massive discounts are offered to customers who settle their accounts in USD.

To a greater extent, allowing the use of USD for local transactions based on people with free funds and those who receive remittances has severely destabilised the foreign exchange rate.

#### **4.5.4 The impact of the Monetary controls on exchange rate stability**

The Reserve Bank of Zimbabwe is the custodian of the monetary policy. The views of respondents with respect to the impact of monetary controls on the exchange rate stability are illustrated in Figure 4.10.



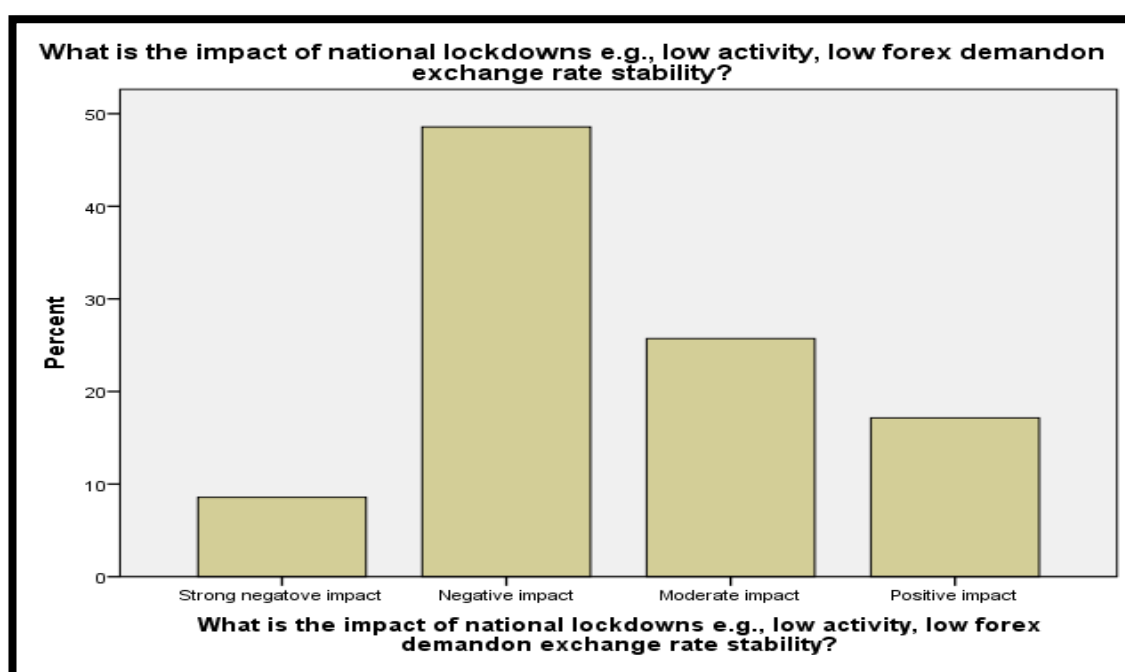
**Figure 4.10: The impact of Monetary controls on exchange rate stability**

Most respondents were of the opinion that monetary controls by the Reserve Bank of Zimbabwe had a negative impact on exchange rate stability (38%). These views might be attributed to the existing in discipline in the distribution of the RTGS and ZWL balances occasionally finds itself in the parallel foreign currency exchange market

causing disability in the foreign exchange rate. On the other hand, 14% of respondents were of the view that monetary controls had a positive impact on exchange rate stability. These views might be attributed to the current contractionary monetary policy where there's been a decline in the issuance of local currency on the market to contain increases in the foreign exchange rate and promote its stability.

#### 4.5.5 The impact of the National Lockdown on exchange rate stability

The Covid-19 inspired national lockdowns had a significant effect on exchange rate stability. Research results on this construct are illustrated in Figure 4.11.



**Figure 4.11: The impact of National Lockdown on exchange rate stability**

Most respondents (49%) were of the opinion that national lockdowns in a negative impact on exchange rate stability. These views might be attributed to an increase in the demand for United States dollars that had been permitted as a transitional currency. The periods of the national lockdowns resulted in supply chain shocks which contributed to inflationary pressures both in united dollar terms as well as in local Zimbabwean and dollar terms. The inability of the retail sector to acquire raw materials

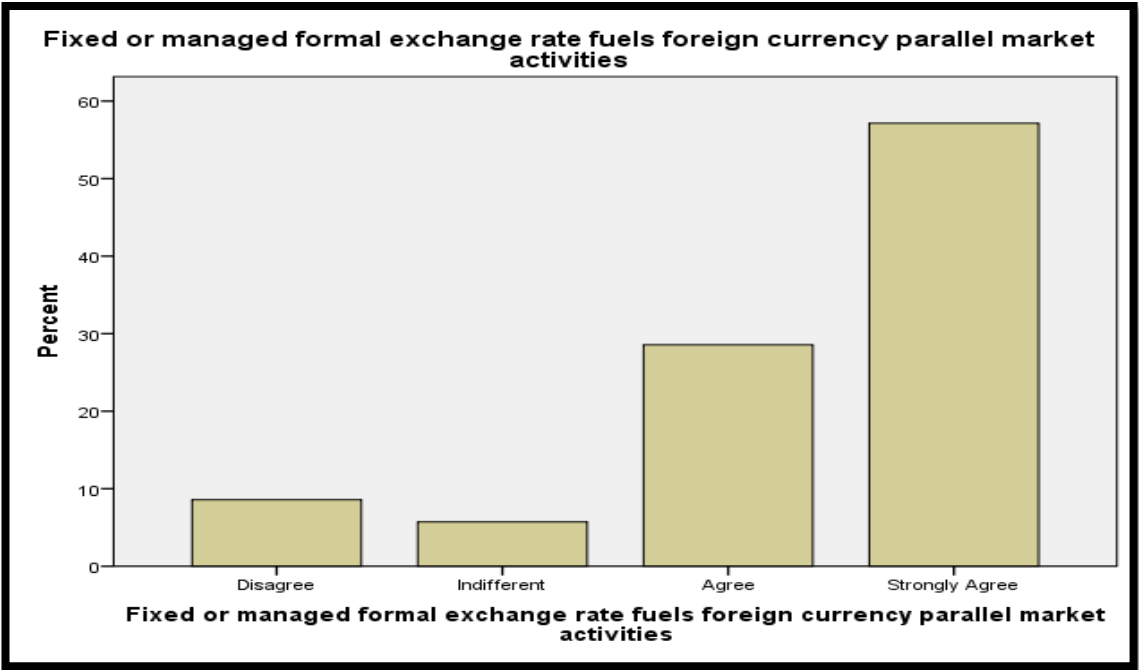
and stock for resale led to an exponential increase in the general price level which was reflected through shifts in the exchange rate. On the other end, 18% of respondent way of the opinion that national lockdowns had a positive impact on promoting exchange rate stability. These views might be attributed to the low level of economic activity that were experienced through during the period of national lockdowns which might have resulted in a reduced demand for United States dollars contributing to exchange rate stability.

**4.6 Exchange rate systems used to manage the foreign exchange auction market**

The parallel market is the alternative market for foreign exchange that is driven by the dictates of market forces in determining the prevailing exchange rate.

**4.6.1 Fixed exchange rate and Parallel market Activities**

Most respondents (56%) were of the opinion that a fixed or managed exchange rate contributes towards the sustenance of the parallel market. Research results are shown in Figure 4.12.



**Figure 4.12: Fixed exchange rate and parallel market**

The managed exchange rate that existed prior to the 7<sup>th</sup> of June 2020 when the auction system was relaunched significantly contributed towards an imbalance between the formal and parallel market foreign exchange rate. Prior to the delisting of Old Mutual from trading on the Zimbabwe Stock Exchange (ZSE), the parallel market rate was based on the Old Mutual Implied Rate (OMIR) that compared relative stock prices of Old Mutual shares on the ZSE and the Johannesburg Stock Exchange (JSE) as a reflection of the prevailing market based foreign exchange rate.

#### 4.6.2 Management of foreign currency exchange risk strategies

Respondents were asked to rate their views on a 5-point Likert Scale that measured the frequency of using foreign exchange risk management strategies. Table 4.3 highlights descriptive statistics showcasing the opinions of respondents.

**Table 4.3: Foreign exchange risk management strategy**

<b>Foreign exchange risk management strategy</b>	<b>Mean</b>	<b>Mean response</b>	<b>Std Dev</b>
How often does your company use matching?	4.37	<b>Quite often</b>	.738
How often does your company use invoice prepayment	3.96	<b>Quite often</b>	1.035
How often does your company use leading?	4.43	<b>Quite often</b>	.861
How often does your company use assets and liabilities management?	4.03	<b>Quite often</b>	.925
How often does your company use cashflow matching?	3.45	<b>Quite often</b>	.995
How often does your company change the billing currency	4.58	<b>Extremely often</b>	.643
How often does your company increase prices?	4.63	<b>Extremely often</b>	.623
How often does your company use debt restructuring?	4.53	<b>Extremely often</b>	.746

Foreign exchange risk strategies such as changing the billing currency, increasing prices and debt restructuring are used extremely often given that their means were above 4.5 on a scale of 1 to 5. Other strategies like matching, invoice prepayment, leading, cash flow matching, assets and liabilities management are used quite often to hedge against foreign exchange risk. Research results indicate that corporates are making pro-active measures to safeguard their business interest against losses attributed to foreign exchange risks by exploring available instruments.

#### 4.6.3 Appropriate foreign exchange rate system

Respondents were asked to rate their views on a 5-point Likert Scale that measured the appropriate foreign exchange system. Table 4.4 highlights descriptive statistics showcasing the opinions of respondents.

**Table 4.4: Appropriate foreign exchange rate system**

<b>Appropriate foreign exchange rate</b>	<b>Mean</b>	<b>Mean response</b>	<b>Std Dev</b>
A fixed exchange rate system is the most appropriate exchange rate regime to use in Zimbabwe considering the country's economic condition	1.23	<b>Strongly disagree</b>	.628
A free-floating exchange rate system is the most appropriate exchange rate regime to use in Zimbabwe considering the country's economic condition	4.62	<b>Strongly agree</b>	.734
A flexible exchange rate system is the most appropriate exchange rate regime to use in Zimbabwe considering the country's economic condition	3.56	<b>Agree</b>	.835
A managed exchange rate system is the most appropriate exchange rate regime to use in Zimbabwe considering the country's economic condition	2.03	<b>Disagree</b>	.642

Research results indicate a Mean of 4.62, Std Dev  $\pm$ .734 which indicates that respondents strongly agreed that a free-floating exchange rate system is the most



appropriate exchange rate regime to use in Zimbabwe considering the country's economic condition. Otherwise, respondents prefer a flexible exchange rate system is the most appropriate exchange rate regime to use in Zimbabwe considering the country's economic condition (Mean 3.56, Std Dev .835). Respondents strongly disagreed (Mean 1.23) and a disagree (Mean 2.03) that a fixed exchange rate and a managed exchange rate respectively are the most appropriate exchange rate regime to use in Zimbabwe considering the country's economic condition. According to the results a market-based approach is the preferred exchange rate system that can be used. Literature review also indicated that South Korea used the same approach when it adopted the multicurrency regime.

#### **4.6.4 Critical success factors for a foreign exchange auction system**

Key considerations expressed by respondents to consider before introducing an auction include inflation rate should be stable, production should be adequate enough to sustain the economy, good foreign and local investment levels and balance of payments level are some of the key factors to consider before introducing the auction market. Ensure that there are adequate sources of forex to the auction market. This means that there must be free trading between the market participants not only focusing on the priority list. Ensure the efficiency of system and building confidence through openness and corporates engagements. Other respondents also cited the RTGS money is not sustainable and the economy needs to be dollarized again. Others also cited that there should be Government support incentives to organizations that export instead of liquidating their sales.

Every auction market should have very strict and transparent rules to ensure compliance and accountability. Proper allocations of foreign currency and availability

of enough foreign currency to fund the auction system are also some of the key factors to consider. The respondents also highlighted that the Reserve Bank of Zimbabwe must consult with the industries when designing monetary policies to get cooperation at the end. There should be reliable sources of foreign currency and the Reserve Bank of Zimbabwe should efficiently monitor informal forex trading which is heavily bleeding the system.

Key insights distilled from the above transcripts are that the monitor authorities have to look at the level of economic performance with respect to the inflation rate, the government has to provide incentives for export organizations to ensure that there is a reliable source of foreign currency. The Reserve Bank of Zimbabwe has to monitor the informal trade of foreign currency on the parallel market.

#### **4.6.5 Factors to improve the effectiveness of the RBZ Auction system**

Options to improve the effectiveness of the auction system include fairness and transparency in foreign currency allocation. Ensure prompt payment of allocated funds and ensure that rates are determined by market forces. Accessibility of foreign currency to all players including SMEs and allocation time must be reduced. Efficient allocation of forex and unpegging of the exchange rate to reflect market reality.

Frequency of trading need to be increased disbursements of the allocated resources need to be done timeously, more foreign currency needs to be available for disbursements. Open to all to bid and not restrict and early settlement of bids won. A system that follows fixed rules and regulations that are clear to understand. Monitoring the appropriate use of accessed foreign currency. "Foreign currency should be allocated based on availability to reduce the backlogs being experienced. There is

need for more transparency on the allocation process. There is need for more suppliers of foreign currency” Aggressive monitoring of entities accessing funds from the Auction so that they don’t abuse it.

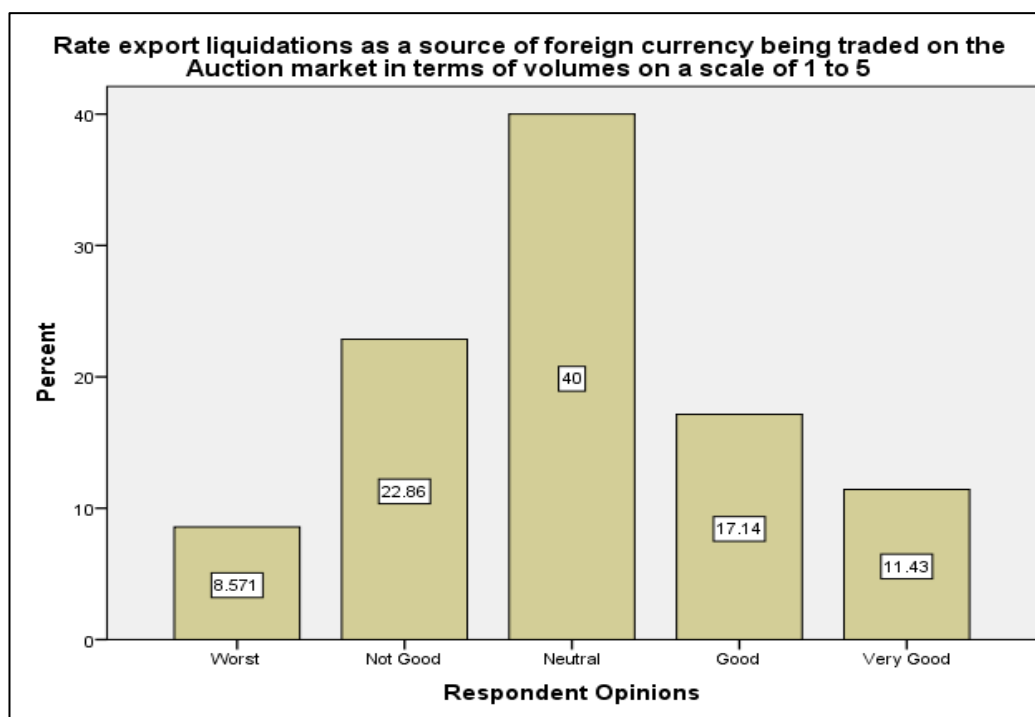
Key insights distilled from the above transcripts are that there must be fitness and transparency in the allocation of foreign currency. The Reserve Bank of Zimbabwe has to ensure that there is prompt payment of allocated funds to ensure that the foreign exchange rate is determined by market forces foreign the auction system must be accessible to all players including SMEs and allocation time must be reduced other respondents of the view that the auction system must be done more frequently than on a weekly basis and all beads must be open to all rather than restricting it to specified organisations as per priority list. It was also pointed out that there is need for aggressive monitoring of entities that receive funds from the auction system so that they do not abuse the funds.

## **4.2 The effectiveness of the foreign exchange auction system in Zimbabwe**

The research considered export liquidations, corporate sellers, individual sellers, bank deposits and other sources of foreign exchange that are traded on the auction system.

### **4.3.1 Export liquidations as a source of foreign currency on the Auction market**

Most respondents (40%) held indifferent opinions on the efficacy of export liquidations as a source of foreign exchange to the auction system. Research findings on this construct are illustrated in Figure 4.13.

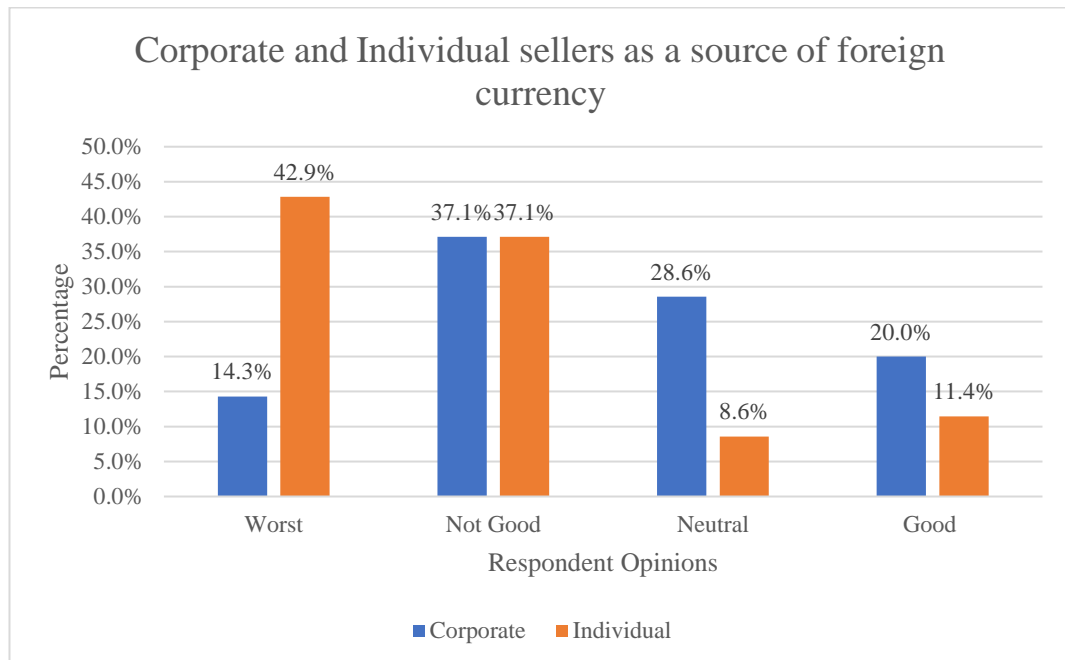


**Figure 4.13: Export liquidations as a source of foreign currency**

About 22.86% were of the view that export liquidations were not good and 8.571% believed that export liquidations are a worst source of foreign exchange for the auction system. A comparison of those who expressed positive opinions and those who cast negative opinions highlighted that respondents not in support of export liquidations were in the majority as opposed to those who did not support the use of export liquidations. Nevertheless, there was a normal distribution of responses on export liquidations as a source of foreign currency on the Reserve Bank of Zimbabwe given that the majority of respondents were neutral. Export liquidations are not good because there is no willing seller and willing buyer setup. For a system to be sustainable the seller must be willing to sell their foreign currency to the Reserve Bank of Zimbabwe or any other buyer.

#### 4.3.2 Corporate and Individual sellers as a source of foreign currency

Corporate and individual sellers were considered as a potential source of foreign exchange on the auction market as shown in Figure 4.14.



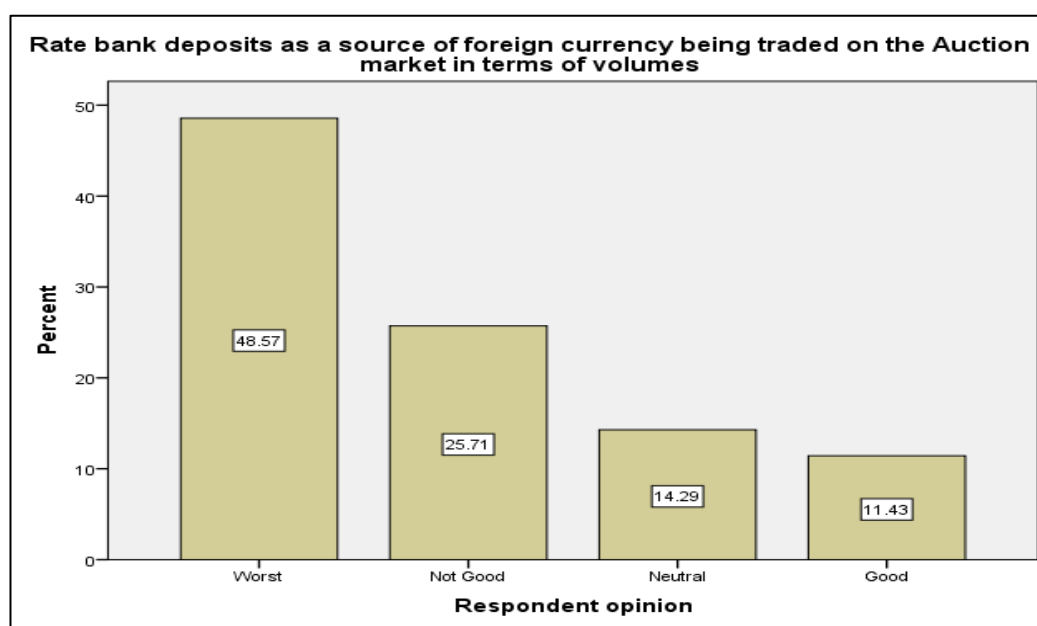
**Figure 4.14: Corporate and individual sellers as a source of foreign currency**

Most respondents who constituted 42.89% were of the opinion that individual sellers were the worst sellers of foreign exchange on the auction market. These views Cronbach's Alpha Coefficient be attributed to the differences that exist between the official auction market determined foreign exchange rate and the parallel market-based rate that offer a premium. As a result, individuals are enticed to trade their foreign exchange on the alternative market for foreign exchange. Both corporate and individual sellers were perceived as not good sources of foreign exchange on the auction market by 37.1% of respondents. Research results from the study suggest that a few corporates and individuals are actively contributing foreign exchange to the auction market.

Current research findings are in support of the views expressed from the works of Kirilenko who intimated that the auction market operates efficiently based on the matching principle that rely on the free movement of funds on the backdrop of the dictates of the market forces. The poor performance of corporate and individuals in the Reserve Bank of Zimbabwe Dutch foreign exchange auction system might suggest that the auction market does not clearly reflect the aspirations of sellers with respect to the market determined foreign exchange rate that considers the trajectory of other economic fundamentals. The foreign exchange cannot be effective without the willing participation of the corporates and individuals which makes it ineffective.

#### 4.3.3 Bank deposits as a source of foreign currency on the auction market

The study also checked on bank deposits as a source of foreign exchange for the auction market as illustrated in Figure 4.15.



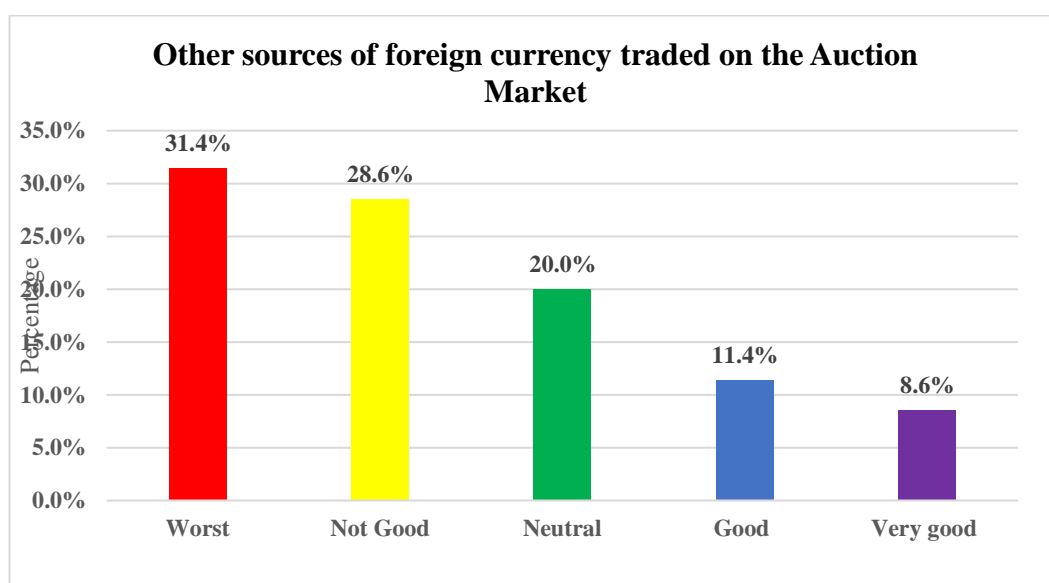
**Figure 4.15: Bank deposits as a source of foreign currency traded**

Most respondents (48.57%) indicated that bank deposits are the worst source of foreign currency for the auction system, 25.71% were of the perception that bank deposits are not good. While 14.29% held a neutral position. Some bids on the Reserve Bank of

Zimbabwe auction sys are rejected on account of poorly funded NOSTRO accounts. These views might explain the negative perceptions with regards to the efficacy of bank deposits as a reliable source of foreign exchange on the auction market. Lack of confidence in the financial systems can also affect the effectiveness of the auction market. Poor bank deposits also mean that less funds in the formal system to promote the foreign exchange market. The resistance indirectly indicates how the participants are not willing to trade in the financial formal system.

#### 4.3.4 Other sources of foreign currency traded on the auction market

The study also focused on other sources of foreign exchange for the auction market as illustrated in Figure 4.16.



**Figure 4.16: Other sources of foreign currency traded on the auction market**

8.6% of the respondents indicated that they are other good sources of foreign currency that can fund the auction market. 60% of the respondents indicated that there are no other good sources of foreign currency sources that can support the auction system. The results on the availability of foreign currency indicates that the auction system cannot be sustainable if there are no effective sources of foreign currency. As long the

Reserve Bank of Zimbabwe is using mandatory liquidations and borrowings to support the auction the market, the auction market will not survive in the long run.

#### 4.3.5 Foreign exchange auction system and the availability of foreign exchange

The majority of respondents (48.57%) disagree with the assertion that foreign exchange auction system has contributed towards an increase the availability of foreign currency. These views were attributed to 48% of respondents which implies that the auction system is not effective in ensuring regularly availability foreign currency. The auction system managed to stabilise the foreign exchange rate during its formative years in June 2020, however challenges in the disbursement of funds allocated in the auction system has resulted in an exponential rise in the parallel exchange rates on the market.

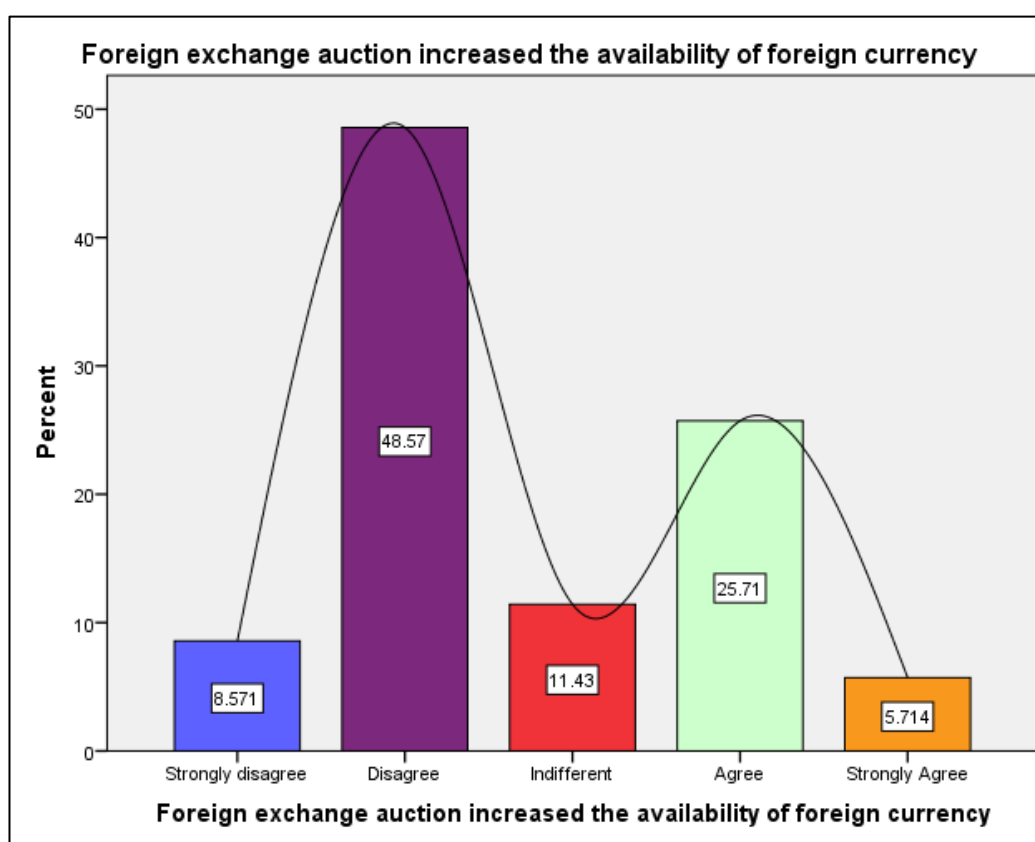


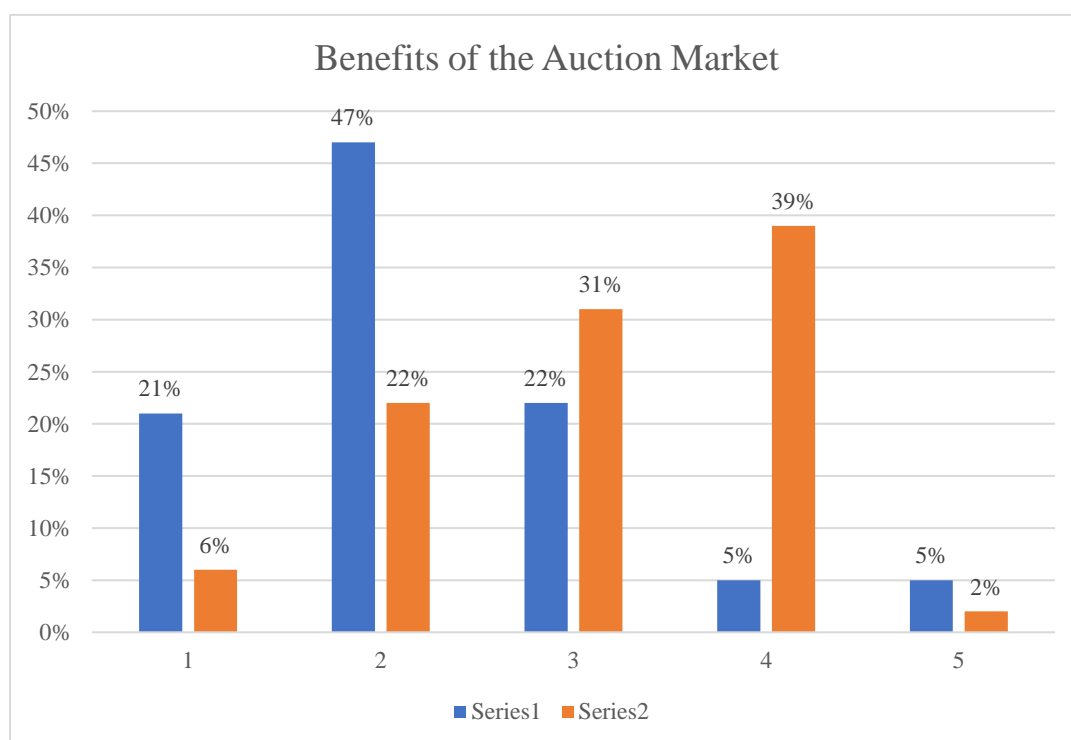
Figure 4.17: Foreign exchange auction increase the availability of foreign currency



On the overall, the foreign currency position in the Zimbabwean economy has not improved tremendously as a result of the use of the auction system in the allocation of foreign currency. The auction market only formulates a platform for buying and selling of currencies. The result indicate that supply of foreign currency never changed because of the auction. Other respondents commented that the auction market only helped to channel foreign currency towards the priority list but affected negatively on the other activities which are not on the auction priority list. The main challenge in the foreign exchange market is supply, if there is no change in the supply of foreign currency in the market the foreign auction is considered not effective.

#### 4.3.6 The benefits and satisfaction with the Auction system

The benefits of the auction market were looked at from the perspective of proper allocation of foreign currency as well as the ability to increase the supply of foreign currency on the market. Research results on this construct are illustrate Figure 4.18.

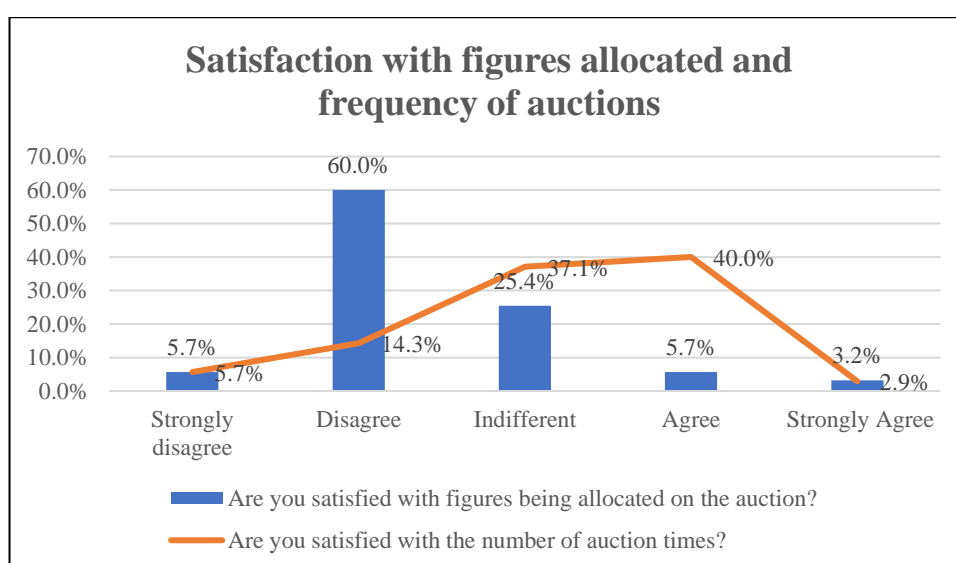


**Figure 4.18: The benefits of an Auction Market**

Research results indicate that the majority of respondents (47%) agreed that the use of the auction market was associated with proper allocation of foreign currency on the basis of the priorities list stipulated by the resistance of Zimbabwe. With respect to the role of the auction market in increasing the supply of foreign currency, most respondents (39%) disagreed with this line of thought. The auction market is not directly related to an increase in the supply of foreign currency on the market. Its primary role is to provide foreign exchange to importers for the acquisition of raw materials and pass on the benefits of affordable prices to customers who buy using the local currency. Therefore, the auction market has not resulted in a significant increase in the supply of foreign currency accessible by the public.

#### 4.3.7 Satisfaction with figures allocated and frequency of auctions

Respondents were asked to indicate their level of satisfaction with the performance of the auction market in terms of amount allocated, the number of auction times, reasons for disqualification and the time lag between allocation and disbursement of foreign currency. Respondents expressed their views with respect to with figures allocated and frequency of auctions as reflected in Figure 4.19.



**Figure 4.19: Satisfaction with figures allocated and frequency of auctions**

Most respondents who made up 60% appear to be dissatisfied with the figures that are allocated on the auction system. These views are attributed to the rationalisation system applied by the Reserve Bank of Zimbabwe in the allocation of foreign currency. Respondents who are satisfied with the amounts they are allocated through the ocean system are most likely organizations under the priority list who are guaranteed of foreign currency allocations on each trading week. On the other end, 40% of respondents are satisfied with the frequency of auction times which are conducted on each Tuesday of every week. There is also a segment of respondents who expressed dissatisfaction with the number of auction times they expected the auction system to be undertaken more frequently than on a weekly basis. The auction is considered not effective if the participants are not satisfied with the amounts they are being allocated from the auction. If a company is allocated 30% of their application effectively the received funds will not cover expected foreign currency needs. Effectiveness of the foreign exchange auction can be shown by the ratio of participants being satisfied with the allotments.

#### **4.3.8 Satisfaction with reasons for disqualifications**

Participation on the auction market for foreign exchange is associated with stipulated terms and conditions that have to be made otherwise leaders are disqualified. Some of the stimulated requirements are that participants in the auction system must provide goods and services that are classified as being part of the priority list and they must have bank accounts that are adequately funded. Research results are shown in Figure 4.20.



**Figure 4.20: Satisfaction with reasons for disqualification**

Most respondents (33%) indicated that they are satisfied with reasons that are put forward for disqualifying bids on the auction system. Bids are disqualified when they are not eligible in terms of the priority list, when there are inadequate funds in the Foreign Currency Accounts (FCA), when they have outstanding Bills of entry and overdue CDIs. The fact that there are other respondents who are not satisfied with reasons for disqualification implies that there is need to widen the scope of products that are eligible for inclusion a part of the priority listing on the auction market. If indifferent, disagree and strongly disagree respondents are added the result is more than 50% which also highlights that the participants are not in agreement with the reasons for disqualifications.

#### **4.3.9 Satisfaction with pay-off time**

Participation on the auction market for foreign exchange is associated with stipulated terms and conditions that have to be made otherwise leaders are disqualified. Results are shown in Figure 4.13.

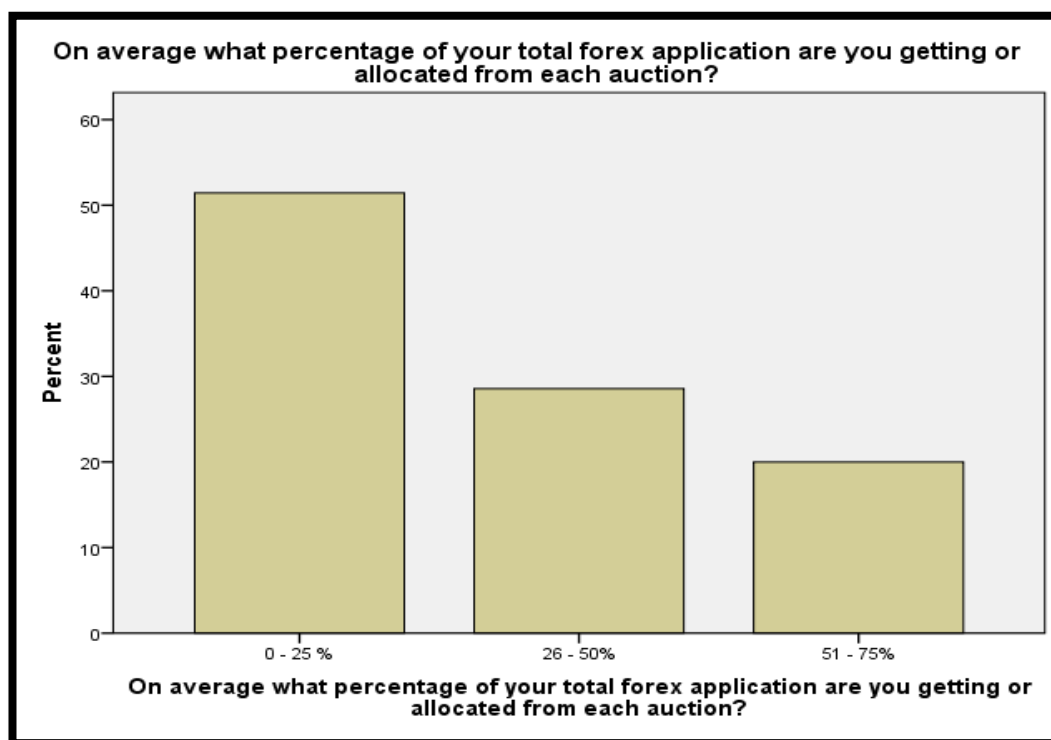


**Figure 4.21: Satisfaction with payoff time**

Most respondents (45%) were dissatisfied with the payoff time for funds allocated through the auction system. The auction system has a longer lag time between allocation of foreign currency and its eventual disbursement. It is taking as much as 15 weeks for bidders to access allocated foreign currency instead of 2 working days. This longer lag time delays business operations and hobbles growth especially for small to medium sized businesses that have limited working capital. Current research results are in support of the views of Kovanen (1994) who intimated that the auction systems failed to raise the foreign currency required to support the auction, most countries like Ghana, Nigeria, Sierra Leone, Jamaica and Zambia failed to ensure exchange rate stability due to failure by the authorities to follow fiscal and monetary measures that ensure exchange rate stability. Long payoff times forces companies to go for the parallel market in order to maintain production. Longer payoffs indicate failure by the auction market to pay bids in time thereby affecting business cycles.

#### 4.3.10 Proportion of foreign currency from auction market

Fifty-percent of respondents indicated that they accessed up to 25% of their foreign currency requirements from the auction market. Research results are shown in Figure 4.22.



**Figure 4.22: Proportion of foreign currency from auction market**

Twenty-eight percent indicated that they accessed up to 50% from the auction market, while twenty percent got up to 75% from the auction market. The realisation that none amongst the respondents got their foreign currency requirements fully met by the auction market might suggest that the Dutch auction system is inefficient to satisfy the foreign currency requirement is the market. These findings resonate with those expressed by Kovanen (1994) who intimated that the auction systems occasionally fail to raise adequate foreign currency required to support sustained operation of the auction. Most respondents highlighted that they are only getting 25% to 50% of their forex requirements. Actual amount allocated against funds requested also indicates

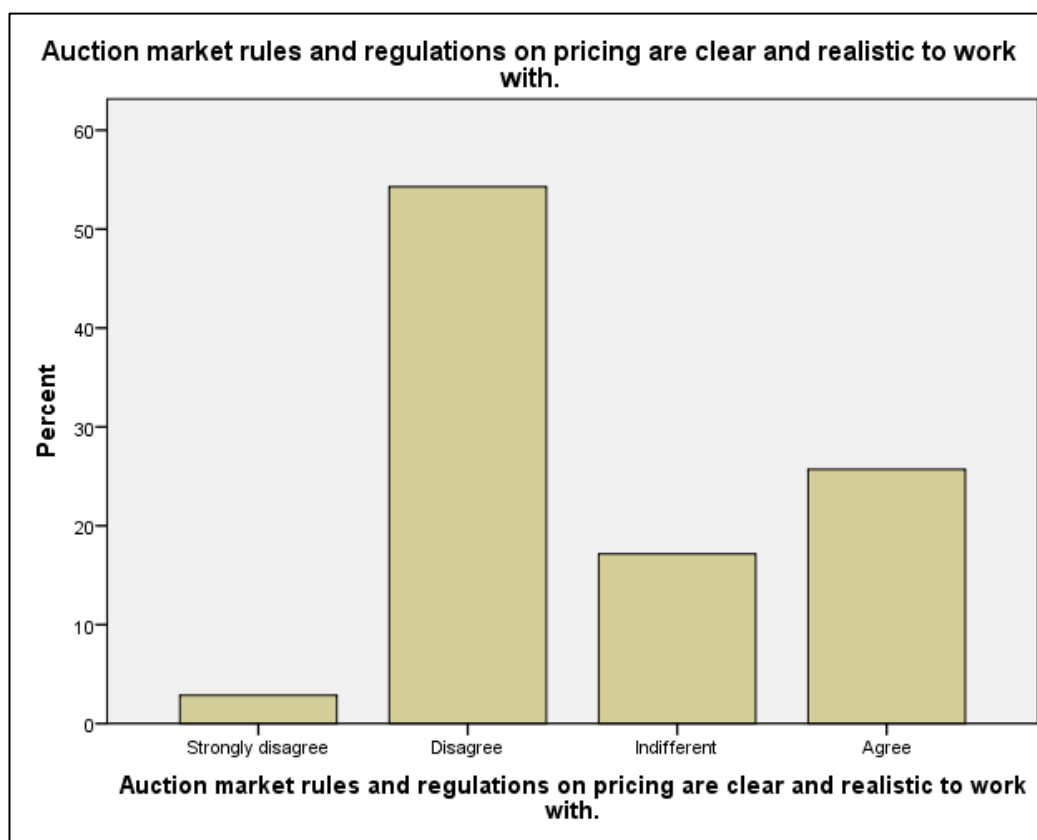
how effective the system. Failure by the Reserve Bank of Zimbabwe to indicate the amount requested against the amount allocated also indicates that the Reserve Bank of Zimbabwe is not willing to share their demand coverage ratio.

#### **4.3.11 Auction market rules and regulations**

This section focuses on the efficacy of auction market rules and regulations with respect to pricing clarity and realistic pricing, allocation, entry requirements and mandatory liquidations.

#### **4.3.12 Foreign exchange auction rules and regulations on pricing**

A price in a foreign exchange auction system is arrived yet as a result of the bidding process. This section focuses on whether rules and regulations with respect to pricing are clear and realistic to work with. Research results are illustrated figure 4.23.

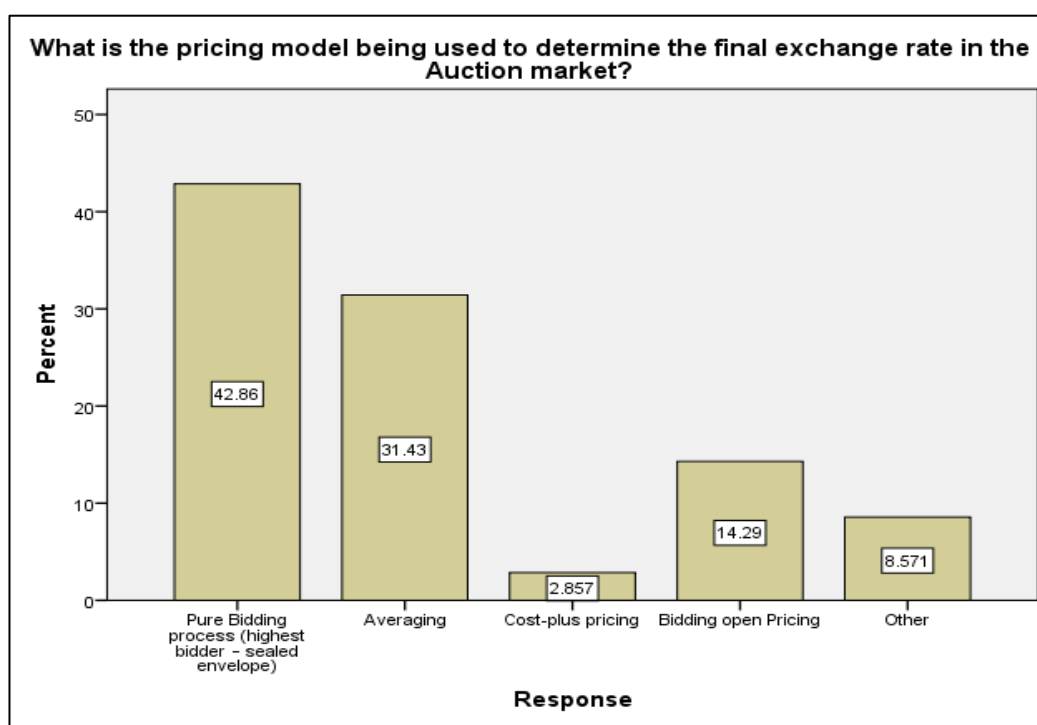


**Figure 4.23: Foreign exchange auction rules and regulations on pricing**

The majority of responding is made up 55% where of the opinion that auction market rules and regulations are not clear and realistic to work with. These views are attributed to the conditions attached to the participation of corporates and small medium enterprises within the foreign currency auction system of Zimbabwe operates on the basis of priority listing in the allocation and displacement of scarce foreign currency access to the auction system. Therefore, companies that do not fall within the purview of the priority list of services and products more often have their bids rejected in the auction system which might be a source of disgruntlement.

#### 4.3.13 Pricing model used in the foreign exchange auction market

The majority of respondents (42.86%) demonstrated an understanding of the pricing model in the foreign exchange auction market by identifying pure bidding and 32.43% identified averaging as the two most prominent pricing models. Research results are shown in Figure 4.24.



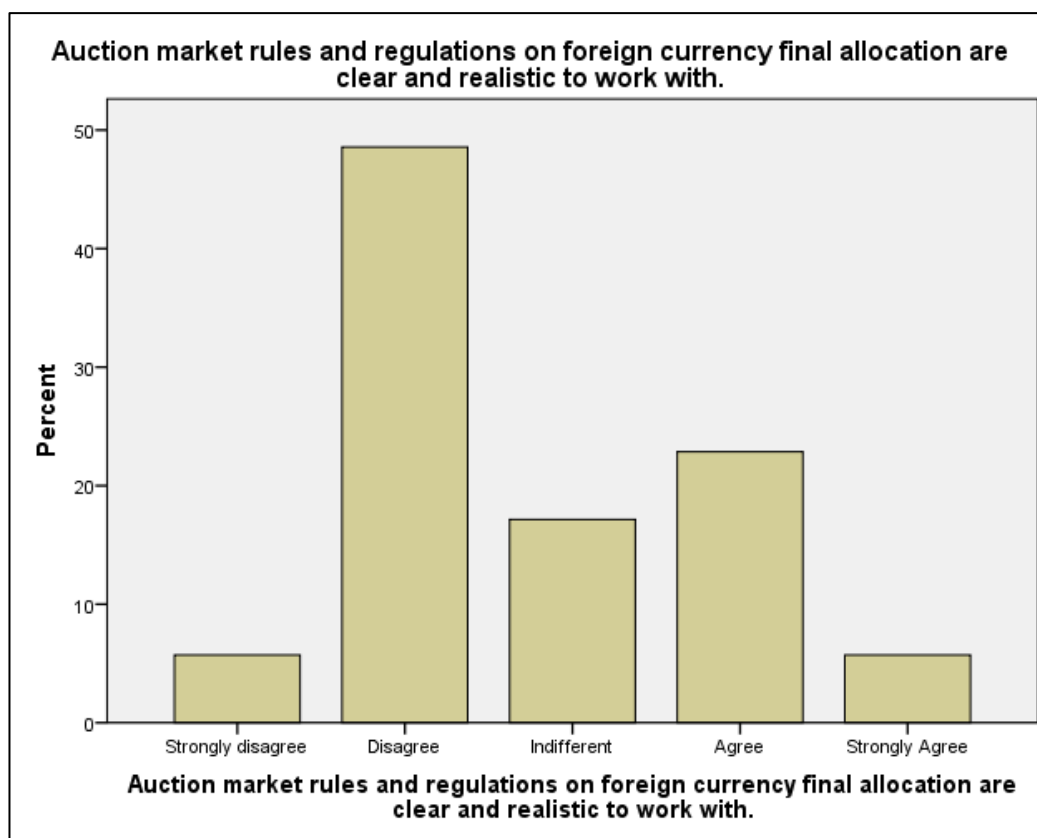
**Figure 4.24: Pricing model used in the foreign exchange auction market**



The determination of the foreign exchange rate through the auction system is an interplay of pure bidding and averaging of bids to arrive at the weekly trading price. The bidding process determined foreign exchange rate is valid for a 7-day period from each Tuesday when bids are received. The auction foreign exchange rate has a relative stability compared to the volatility that surrounds the parallel market determined foreign currency exchange rate. Despite the relative stability of the Reserve Bank of Zimbabwe foreign currency exchange rate, its operations are not sustainable since most economic activity in the country are dictated by the prevailing parallel market rate. Existing literature indicates that the auction systems failed to raise the foreign currency required to support the auction, most countries like Ghana, Nigeria, Sierra Leone, Jamaica and Zambia failed to ensure exchange rate stability due to failure by the authorities to follow fiscal and monetary measures that ensure exchange rate stability (Kovanen, 1994). The difference on the exchange rate between the parallel market and the auction market shows that the pricing mechanism of the auction is not effective. In a market-based approach the parallel rate and the auction will be the same. Other respondents indicated that the auction rate is manipulated by the authorities to control inflation. The pricing is not effective because there are more foreign currency buyers than foreign currency sellers.

#### **4.3.14 Foreign exchange auction rules and regulations on final allocation**

The final allocation of foreign exchange from the auction system is done on the basis of the priority lists of the Reserve of Zimbabwe. Research results on the clarity and realistic nature of the final allocation is illustrated in figure 4.25.

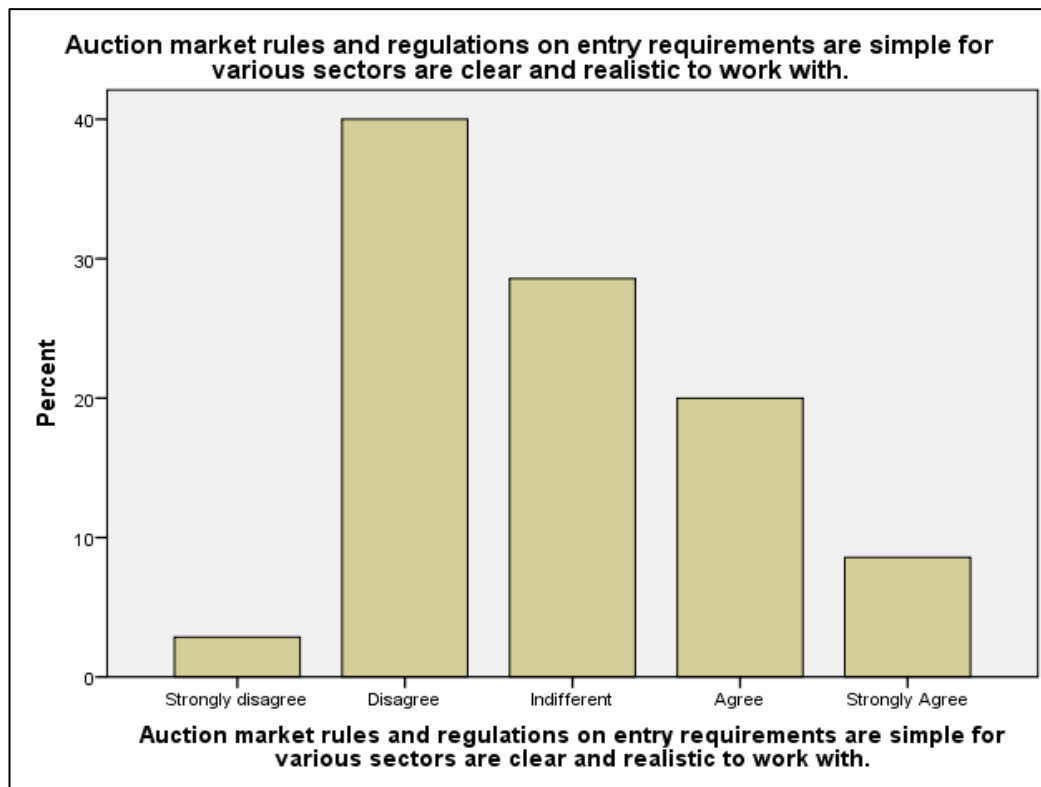


**Figure 4.25: Foreign exchange auction rules and regulations on final allocation**

The final allocation of foreign currency on that basis of a priority listing has been a major setback of the auction system. These views are attributed to 48% of respondents who disagree that rules and regulations on final allocation are clear and realistic. Respondents who agreed that rules and regulations on final allocation are clear and realistic were mainly in the manufacturing, retail and distribution, consumables, pharmaceuticals, fuel, electricity and gas that fall within the priority listing.

#### **4.3.15 Foreign exchange auction rules and regulations on entry requirements**

Majority of respondents (40%) disagreed that auction rules and regulations on entry requirements are clear and realistic to work with. Research results on the clarity and realistic nature of entry requirements are illustrated Figure 4.26.

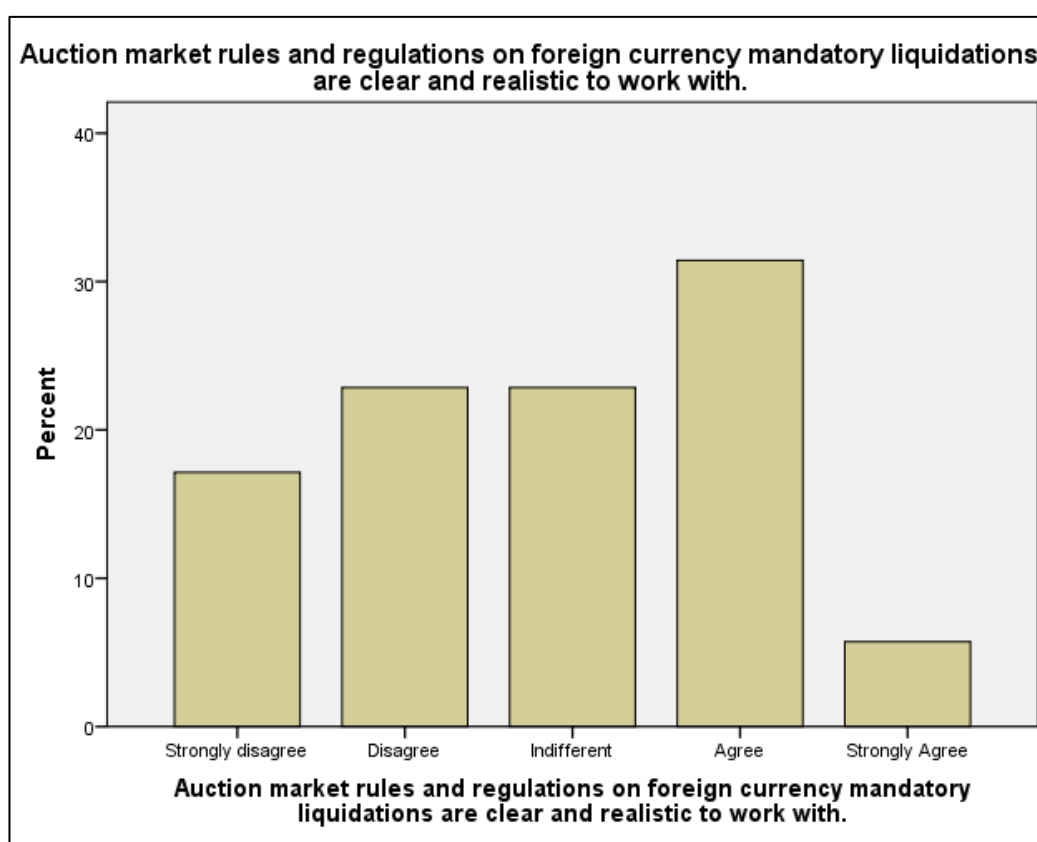


**Figure 4.26: Foreign exchange auction rules and regulations on entry requirements**

A significant segment of respondents was indifferent (28%) with respect to this construct. While other respondents agreed that auction rules and regulations on entry requirements are clear and realistic to work with. Divided opinions on the role of entry requirements into the auction system for foreign currency are reflective of the diversity of perceptions towards the efficacy and eligibility of firms in different sectors of the economy to participate in the formal bidding process. The RBZ auction system is open to all legitimate and legally registered companies and small to medium enterprises whose scope of businesses fall within the purview of the priority listing from the auction system. These findings corroborate existing literature from the works of Krum (1985) which identify access and entry as one of the key variables that promote participation in an auction system.

#### 4.3.16 Mandatory liquidations

There was a divided attention on the construct of mandatory liquidations in the auction system though 32% agreed that they were clear and realistic to work with. The scrapping of the 60-day mandatory liquidations period for exporters by the Reserve Bank of Zimbabwe as from the 7<sup>th</sup> of January 2021 might be attributed to the positive sentiments from respondents. Research results on the clarity and realistic nature of mandatory liquidations are illustrated Figure 4.27.



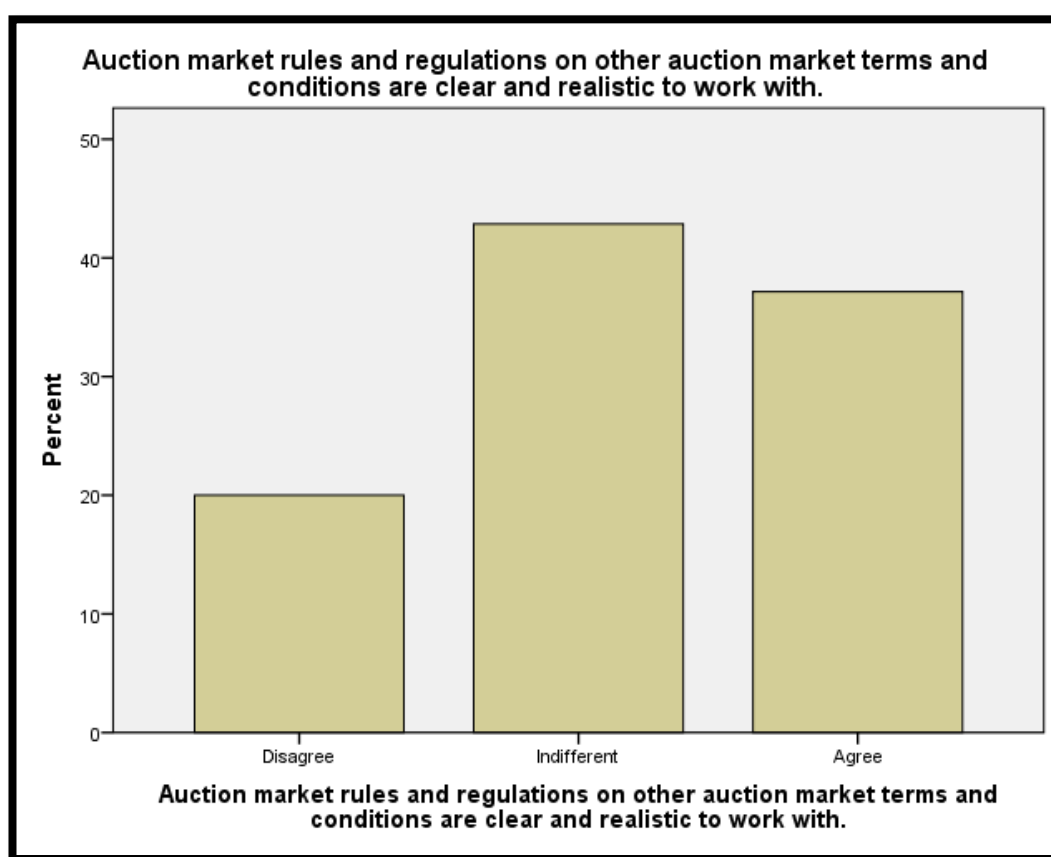
**Figure 4.27: Foreign exchange auction regulations: mandatory liquidation**

Respondents who disagreed that rules and regulations on mandatory liquidations are clear and realistic are most exporters who had previously kept their export earnings beyond 60 days. Current research findings on mandatory liquidations underscore key insights established from a research by Kovanen who stressed that it is imperative for

the regulator to set key rules with the participants to ensure credibility and adherence to the set bidding rules both by the regulator and the participants.

#### **4.3.17 Foreign exchange auction rules and regulations on terms and conditions**

Most respondents were indifferent (44%) with respect to their awareness of the terms and conditions of bidding on the auction system. Research results on the clarity and realistic of the auction system's terms and conditions are illustrated Figure 4.28.



**Figure 4.28: Foreign exchange auction regulations: terms and conditions**

This indifference might be attributed to the lack of clarity and realism to the rules and regulations of the auction system given that on each particular week of bidding, some bids are rejected on the basis of the failure to meet the minimum acceptable terms and conditions as prescribed by the Reserve Bank of Zimbabwe. Exchange rate systems used by the RBZ to manage the auction. Wickham (1985) in his conclusion highlighted

that countries with high inflation rates cannot maintain a fixed exchange rate system and should at least adopt a flexible exchange rate system.

#### **4.4 Discussion and Interpretation**

The effectiveness of the foreign exchange auction market is mainly being negatively affected by lack of foreign currency, poor rules and regulations, unfair pricing, inflation, weaker local currency and negative balance of payments. Krum in 1985 indicated the prerequisites of the foreign exchange market are fair rules and regulations, adequate information on access and entry, scope and size of transactions and proper mechanisms of exchange rate determination. One of the key issues which is critical is the supply of foreign currency into the market. The price mechanism is not conducive enough to promote effectiveness because of the difference between the formal rate and the market rate. The formal rate is approximately ZWL97.1/dollar against the parallel market which is now at ZWL185 per dollar. In 1980 after South Korea adopted multicurrency, the market-based approach became a very good model for managing the foreign exchange market. This means that the RBZ must allow the forces of supply and demand to determine pricing in the auction. The auction is failing because the Reserve Bank of Zimbabwe is taking to 15 weeks to payoff approved bids. Another key issue to consider is to ensure that the playing ground rules and regulations are set by both the participants and the regulator. Kovanen (1984) also added that credibility of the organiser and adherence to auction rules must be recognised to build system trust. Changes in policies every time makes the participants sceptical of dealing with the Reserve Bank of Zimbabwe.

The macroeconomic factors of a country also determine the best suitable exchange rate regime to adopt. Zimbabwe is under hyperinflation, negative balance of payments, political disputes, economic sanctions and very high interest rates. The introduction of

the bond notes and RTGS dollar also impacted exchange rates in a negative way. Multicurrency environment requires a market-based approach to exchange rates as adopted by South Korea in 1980. However, some view that the Reserve Bank of Zimbabwe can also manage a certain portion of the foreign exchange market to protect key economic areas. According to the portfolio-based channel the Reserve Bank of Zimbabwe can also play a part in a market-based exchange rate determination market through open market operations and foreign exchange operations. The government through the Reserve Bank of Zimbabwe can also try to change the macroeconomic conditions of the country to manage exchange rates e.g. the bond notes can be removed or money supply can be controlled. Other respondents also indicated too much money supply by the Reserve Bank of Zimbabwe as the reason for increases in exchange rates. The failing macroeconomic conditions are also impacting the supply of foreign currency negatively in the auction market. The monetary approach also guides the authorities on how to manage macroeconomic factors to get favourable exchange rates.

At the time the study was conducted the Reserve bank of Zimbabwe was using a managed exchange rate system in the auction system. A bid with limits was categorised as a managed exchange rate system. The main challenge of the managed exchange system was the need for constant revaluing or devaluing the domestic currency to match current economic conditions. The exchange system was not flexible to accommodate shocks in the economy. That was supported by the difference between the market exchange rate and the foreign exchange auction rate. However, the Reserve Bank of Zimbabwe intervened through various ways such as managing the capital account, managing money supply and inflation. The market-based approach can make the foreign exchange auction viable through permitting pure forces of supply and demand to take place. The Reserve Bank of Zimbabwe can also participate in the

auction market as a player but also implementing various strategies to stabilise the market.

The foreign exchange auction market was not efficient as highlighted by the time being taken to settle bids, the percentage of funds applied being allocated and the limited prioritised areas being supplied. The auction market of 2005 also faced the same challenge were the Reserve Bank of Zimbabwe failed to secure foreign currency for the auction market due to exchange rate manipulations. Most respondents indicated that a market-based exchange can change the system to be a better one. Mandatory liquidations and borrowing to finance the auction market are not sustainable in the long run. The participants should both supply and buy foreign currency in the auction market. Most companies are only buying forex from the auction but are not contributing any forex to the pot which is not sustainable. In my view, the current system is not an auction system but a platform to allocate available foreign currency. If the rules of the Dutch auction system are not met through pure bidding process with the highest bidder being given the first priority. In conclusion, there is no difference between the current auction market and that of 2005 by Dr Gideon Gono. Both the current and previous auction market lack the supply of foreign currency and a market-based exchange rate determination mechanism which are key factors for a successful auction market.

#### **4.5 Summary**

The outgoing chapter presented, analysed and discussed the data that was collected from respondents who represented corporate that participate in the reserve Bank of Zimbabwe auction markets for the allocation of foreign currency. Descriptive analysis was undertaken to outline the situation that is being faced by companies that are participating in the auction system for the allocation of foreign currency. Quantitative



and qualitative perspectives of corporate representatives were highlighted to help us in understanding the intricacies that take place in the auction system. Reference was given to secondary data sources that contain existing information with respect to various trends in the auction market as they impact on the general level economic performance the next chapter provides the summary, conclusions and recommendations on the basis of research findings that were reviewed in this chapter.

## **CHAPTER 5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

The chapter presents the key conclusions and recommendations based on the research objectives established in the introductory chapter and the research results that were presented in the previous chapter

### **5.2 Discussion**

The research was inspired by currency reforms that have taken place since the launch of the Bond note as a surrogate currency of the USD in November 2016. Ever since, there have been distortions in the Zimbabwean foreign exchange market that contributed towards capital flight given that the Bond note was pegged at par with the USD. The subsequent devaluation of the Zimbabwean dollar (RTGS) against the reference currency (USD) recreated a mismatch between the formal and the parallel market exchange rate. The Reserve Bank of Zimbabwe introduced several exchange rates reforms to bring sanity in the foreign exchange rate market. Some of the reforms included the introduction of the bank rates, the devaluation of the department dollar against the American dollar as well as the introduction of the auction system which forms the basis of the study. The research was based on three objectives that were meant to analyse the macro-environment prevailing in Zimbabwe, to identify and assess the exchange rate systems that are being used by the Reserve Bank of Zimbabwe to manage the foreign exchange auction market and to explore the various ways that can be used by the Reserve Bank of Zimbabwe to manage the foreign exchange auction market to increase efficiency. On the basis of these objectives, a detailed review of literature was conducted which primarily focused on the application of different exchange rate regimes under different economic conditions and the influence that

those exchange rate heads on the level of economic performance. The research methodology was descriptive in nature as it included both the quantitative and qualitative aspects that way positioned to provide an in-depth review of the effect that the auction market for foreign exchange has on the level of economic performance. Research population was composed of all Zimbabwean firms in industry and commerce. The unit of analysis was made up of firms that are listed as potential participants in the bidding process within the auction system. Respondents were drawn from a diversity of industries like pharmaceuticals, retail, manufacturing, paper and packaging, agriculture as well as small to medium enterprises. Key insights emerging from the research are outlined in the conclusions.

### **5.3 Conclusions**

The findings of the research analysed on each objective.

#### **5.3.1 Mechanisms to increase efficiency of the Auction market**

The research established that it is incumbent upon the Reserve Bank of Zimbabwe to reduce the allocation time of funds from the auction system. At present it takes up to 15 weeks for funds to be disbursed to approved bids. Whereas it is supposed to take only two days. Mechanisms have to be put in place to ensure that there is a reduction in the time lag to enhance the efficiency of the auction market.

The research established that companies managed to meet up to 25% of their foreign currency requirement from the auction system. The realization that none amongst the respondents got their foreign currency requirements fully met by the auction market suggest that the Dutch auction system is inefficient to satisfy the foreign currency requirements from the business sector.

### **5.3.2 The macro-environment prevailing in Zimbabwe**

The research found out that the prevailing economic environment in Zimbabwe is unfavourable for business operations. There is scarcity of foreign exchange in the former market which is created a rent seeking behaviour in the parallel markets for foreign exchange. At present, the parallel market exchange rate is double that of the auction market exchange rate which serves to show the extent of mismatch in the two exchange rates. This scenario has led to most firms in the country tagging their prices based on the United States dollar against a backdrop of a civil service that is still being paid in RTGS currency. This mismatch has contributed towards an increase in demand for foreign currency from the parallel market in order to settle the day to day transactions that are denominated in United States dollars.

The long lag time between the allocation and disbursement of funds to winning bids has resulted in companies resorting to the parallel market to satisfy their foreign currency requirements. This has led to a pricing scenario where companies are tagging their prices on the basis of the parallel market exchange rate. Respondents strongly agreed that a free-floating exchange rate system is the most appropriate exchange rate regime to use in Zimbabwe considering the country's economic condition.

The prevailing microeconomic environment in Zimbabwe has led to companies to implement foreign exchange rate risk management strategies that include changing the billing currency, increasing prices and debt restructuring. These measures have been implemented as a proactive mechanism to protect the business interests in light of a dynamic foreign exchange market which from the perspective of auction market is construed with funding mechanisms whilst on the parallel markets days in unsustainable increase in the rate which might affect the viability of businesses.

### **5.3.3 Exchange rate systems used by the RBZ to manage the auction market**

The research found out that the RBZ has a system of rules and regulations that stipulates the terms and conditions for successful bidding on the auction market. These systems stipulate that bids are disqualified when they are not eligible in terms of the priority list, when there are inadequate funds in the Foreign Currency Accounts (FCA), when they have outstanding Bills of entry and overdue CDIs. Considering that is a significant segment of the business sector is made up of small to medium enterprises, the reserve Bank of Zimbabwe allowed SMEs to take part in the building process within the auction system.

## **5.4 Recommendations**

The research was inspired by currency reforms that have taken place over that past 5 years since the launch of the RTGS dollar or the bond note.

### **5.4.1 The Foreign exchange Auction Market**

It is advisable for the Reserve bank of Zimbabwe to close the auction market and adopt the following recommendations to achieve better results. The regulator can adopt the market-based approach on the determination of exchange rates. That will allow free trade between the sellers and buyers of foreign currency. The lack of competitive foreign currency buying rates in the auction market also lead to poor supply of foreign currency in the market.

The Reserve Bank of Zimbabwe must disburse funds within 24 hours from the time of bid allocation. Some bids are being paid after fifteen weeks from the date of allocation which is not sustainable in maintaining business operations. The foreign currency

allocation ratio should also be increased to more than 70% or 100% to allow efficiency on participating companies business.

Proper auction rules must be followed such as allocation must start with the highest bidder, disqualification reasons must be communicated, rules must be published, amounts available should be known before the auction starts, bids quantification, auction market notifications, partial allocation of bids and price change intervals must be clear. When averaging is used, the system will not be an auction but a way of allocating available auction funds. The Reserve Bank of Zimbabwe must avoid manipulation of the proper auction rules to gather confidence from the participants. If all the rules are clear and a market-based price determination is used, foreign currency will be available in the auction market.

Free participation from all that require foreign currency to operate. All companies are expected to buy foreign currency from the auction system to support their businesses or activities. Lack of support to those companies not on the priority list also lead to indirect promotion of the parallel market activities. Free participation will allow all the companies to get their foreign currency requirements formally from the auction. Free participation must be complemented by free market exchange rate determination to ensure adequate supply of currencies in the auction market.

The supply of foreign currency into the auction through mandatory liquidations should be stopped to promote willing buyer willing seller concept. Mandatory liquidations impact negatively foreign currency earners whilst supporting non-foreign currency earners. A market rate should be used to gain foreign currency from exporters or foreign currency earners. Mandatory liquidations are not adequate and reliable to sustain the auction market in the long run.

The central should avoid selling foreign currency that is not readily available. This will allow corporates to have other options to fulfil their business operations. Selling available foreign currency can also help the Reserve Bank of Zimbabwe to reduce pressure on unpaid bids through matching allocations and exact foreign currency available.

Monitoring the appropriate use of foreign currency allocated can also help the country to get the best outcome from the little reserves available. The aim will be to get the best results from the available foreign currency given the lack of capacity to finance all priorities. The RBZ can also allow two markets to exist in Zimbabwe; the auction market and the market-based approach to exchange rates. The auction market will help to maintain decent prices on public goods and services, the market-based approach will cover luxury goods and those who are ready to trade at market prices. The auction market can only be efficient if there are multiple exchange rate regimes in the market (Krumm, 1985).

#### **5.4.2 The macro-environment prevailing in Zimbabwe**

The corporate sector is to implement proactive foreign exchange market risk management strategies that ensure the sustainability of business operations despite the existence of shocks in the foreign exchange market both from the auction market and the parallel market.

It is necessary to lobby the Reserve Bank of Zimbabwe to abolish the auction market as it is proven to be ineffective in allocating funds given the longer leg time of up to 15 weeks between the allocation and displacement of funds to winning bidders. The macroeconomic environment is being negatively impacted by inflation, political instability, balance of payments instability and lower production levels. Poor macro-

economic conditions can negatively impact the auction market. The bond note was highlighted as the major cause of foreign exchange market instability. Allowing the bond notes to freely trade with other currencies or removing it as the local currency can also bring stability in the market. The government also need to create special grants for exporters to create a balance between imports and exports. Export promotion measures can promote movement of foreign currency into the auction market. The foreign exchange market requires a stable political environment and a good currency that is well accepted by the citizens. The RBZ must also control money supply to ensure that the auction market rate remain stable. Too much money supply can destabilise both the formal market and the parallel market. The Ministry of Finance can also play a role through monitoring the fiscal space to promote feasible budgets between RTGS dollar and United States dollar.

#### **5.4.3 Exchange rate systems used by the RBZ to manage the auction market**

The Zimbabwe foreign exchange market needs a system on the auctions that is supported by good policies to protect the public from financial losses. The auction market should benefit every sector and player in the market and be accessible by anyone who has a legitimate need for foreign currency. It is essential to consider the level of economic performance and the standard of living of people to introduce a foreign currency system that benefit the people.

The provision of export support systems projects the scope of exporters in the generation of the required foreign exchange that was traded on the auction market. Improvements in transparency and fairness in the accounting of local resources such as mineral resources can go a long way in enhancing the availability of foreign exchange in the economy. At present reports suggest that there are a lot of leakages



when it comes to the sales of gold and diamonds from Zimbabwe which represents a leakage in the circular flow of foreign currency which could contribute significantly towards but racing this efficacy of the auction markets.

The RBZ should use a market-based approach in managing the foreign exchange auction market. The law of supply and demand should determine the exchange rate and other key factors in the market. The current managed exchange rate system limits the supply of foreign currency into the system because of the suppressed exchange rates. A market-based approach can be accepted by more participants because all results will be market based. The Central can also have the chance to influence exchange rates in a market-based system through open market operations, foreign market operations, and sterilised foreign market interventions. Money supply can also be used expansionary or contractionary to indirectly influence rates in a free-floating exchange rate system. Other countries such as South Korea also used market-based approach in a multicurrency environment and their foreign exchange market performed very well.

## **5.5 Areas of further Research**

The research was specifically focused on the efficacy of the auction system in the allocation of foreign currency by the Reserve Bank in Zimbabwe. This Zimbabwean economy has undergone a number of currency reforms that distorted the actual foreign currency exchange rate. A similar study you can be at undertaken in a more stable economic setting that has not undergoing a plethora of currency reforms to find out if results can be compared to those that have been generated from this study.

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## APPENDICES

### APPENDIX 1: Questionnaire



*“Investing in Africa’s future”*

**COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE  
(CBPLG)**

### INSTITUTIONS QUESTIONNAIRES

#### Section A

1. Which industry sector is your organisation?

Industry Sector	Tick Appropriate
Manufacturing	
Consumables (spares, tyres, electricals)	
Services / dividends	
Retail and Distribution	
Fuel, Electricity and Gas	
Pharmaceuticals	
Paper and Packaging	

2. Are you familiar with exchange rate regimes and the determinants of exchange rates?

Strongly disagree	Moderately Disagree	Indifferent	Moderately Agree	Strongly Agree

3. What is the pricing model being used to determine the final exchange rate in the Auction market? Tick the appropriate pricing model being used or

<b>PRICING MODELS</b>	<b>Tick Appropriate</b>
Pure Bidding process (highest bidder – sealed envelope)	
Averaging	
Cost-plus pricing	
Bidding open outcry	
Market based pricing	
Value based pricing	

Other specify.....

4. What is the main source of foreign currency being traded on the Auction market?  
Rank in terms of volumes? (With 1 being the highest and 5 the lowest)

<b>Foreign Currency Sources</b>	<b>Tick Appropriate</b>
Export Liquidations	
Corporate Sellers	
Individual Sellers	
Bank Deposits	
Other Sources	

Other Specify

.....

5. What is the likely impact of introducing an auction market on the supply of foreign currency? Tick where appropriate

<b>Impact of Foreign Exchange Auction on Availability of Foreign Currency</b>					
	SD	D	IN	A	SA
Increased	1	2	3	4	5
Decreased	1	2	3	4	5
No Impact	1	2	3	4	5

6. To what extent do you agree that the auction market rules and regulations are clear and realistic to work with?

<b>Auction Rules and Regulations</b>					
	SD	D	IN	A	SA
Pricing	1	2	3	4	5
Foreign Currency Final allocation	1	2	3	4	5
Entry Requirements are simple for various sectors	1	2	3	4	5
Foreign currency mandatory liquidations	1	2	3	4	5
Other auction market terms and conditions	1	2	3	4	5

7. To what extent has the following factors been able to bring exchange rate stability in Zimbabwe? (Rank from 1-5 in order of impact) ;(KEY: 1-Highest Impact factor; 2-

<b>Impact on Exchange Rate Stability</b>					
<b>FACTOR</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The Auction Market					
Dollarization – Reintroduction					
Monetary Controls e.g., supply of RTGS into the Market					
National Lockdown e.g., low activity, low forex demand					
Other factors					

High, 3-Moderate, 4-Low, 5-lowest impact factor).



Specify other factors

.....

.....

8. Foreign exchange auctions are said to have the following benefits; (to what extent do you agree?)

Foreign exchange Auction Benefits					
Benefit	SD	D	IN	A	SA
Proper allocation of foreign currency (supply and Demand)	1	2	3	4	5
Transparency and efficiency	1	2	3	4	5
Represents effective demand	1	2	3	4	5
Increased supply of foreign currency	1	2	3	4	5
	1	2	3	4	5

9. To what extent do you agree that the foreign currency requirements of the Zimbabwe Industry is being satisfied by the auction market?

Satisfaction of Foreign Currency Requirements in the Auction					
	S D	D	IN	A	S A
Are you satisfied with figures being allocated on the Auction	1	2	3	4	5
Are you satisfied with the Number of Auction times	1	2	3	4	5
	1	2	3	4	5
Reasons For disqualification	1	2	3	4	5
Time to payoff allocated foreign currency	1	2	3	4	5

10. On average what percentage of your total forex application are you getting or allocated from each auction?

(0-25%) ☐ (26-50%) ☐ (51-75%) ☐ (76-100%) ☐

## Section B

11. To what extent does the introduction of bond notes affect exchange rates in Zimbabwe?

Impact of Bond notes on Exchange Rates					
	SD	D	IN	A	SA
Bond notes/ Rtgs dollar is the main cause of exchange rate instability in Zimbabwe	1	2	3	4	5

12. The following factors are said to be fuelling the parallel market exchange rate? (To what extent do you agree)

Factors Fuelling Foreign Currency Parallel Market Activities					
	SD	D	IN	A	SA
Fixed or Managed formal exchange rate	1	2	3	4	5
Lack of foreign currency in the formal sector	1	2	3	4	5
Lack of confidence in the formal sector	1	2	3	4	5
Too much time taken to process International payments in the formal sector	1	2	3	4	5

Specify other factors

.....

### Section C

13. What kind of internal hedging instruments or techniques is your company using for hedging?

Technique or Instrument	Often	Someti mes	Never
Leading and Lagging			
Cashflow matching or netting			

Restructuring			
Prepayment			
Increasing Prices			
Asset Liability Management			
Changing Billing Currency			
Other Specify			

14. The following are the exchange rate regimes that can be used in Zimbabwe? (Tick the one you think is the most appropriate considering the country economic conditions and justify your answer in the space provided?)

Foreign Exchange Rate Regimes	Tick One Box
Fixed Exchange Rate System	
Free Floating Exchange rate System	
Flexible Exchange Rate System	
Managed Exchange Rate system	
Other	

Other specify

.....  
.....

#### Section D

15. What are your recommendations on the best exchange rate regime that suits the Zimbabwean economic conditions?

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.....  
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16. What do you think are the most critical factors to consider before introducing a foreign exchange auction system?

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17. What factors do you think need to be addressed to improve the effectiveness of the Auction system?

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## **APPENDIX 2: Interview Guide**

### **Section A Reserve Bank of Zimbabwe**

1. In general, kindly explain how the foreign exchange auction system works?
2. What measures are in place to ensure that the system is protected from manipulation?
3. Do you believe that this system is sustainable given that it once failed in 2005?
4. What is the difference between the Auction system of 2005 and the current auction system?
5. What does the Reserve Bank of Zimbabwe think is the true value of the Zimbabwe dollar against the US dollar?
6. What are the current determinants of the exchange rate in Zimbabwe?
7. What strategies are being used by the reserve bank of Zimbabwe to contain the exchange rate?
8. How does the RBZ plan to preserve the value of the local currency at a time when we are not generating enough foreign currency?
9. What is your overall assessment of the Foreign Exchange Auction System?
10. What are the areas of recommendation for improving the current Auction system being used by the Reserve Bank of Zimbabwe?

### **Section B Industry**

1. What are the macro-economic factors affecting Zimbabwean businesses?
2. What are the most key economic challenges affecting exchange rates in Zimbabwe?
3. What ratio of your foreign currency requirements are you getting from the Auction market?
4. Do you have other sources to source foreign currency besides the Auction market?

5. Is your company exporting or importing goods? If exporting, are you comfortable with the current foreign currency liquidation ratios?
6. What can be done to stabilize exchange rates in Zimbabwe?
7. What is your overall assessment of the Foreign Exchange Auction System?
8. What are the areas of recommendation for improving the current Auction system being used by the Reserve Bank of Zimbabwe?

## APPENDIX 3: AUREC Letter



### AFRICA UNIVERSITY RESEARCH ETHICS COMMITTEE (AUREC)

P.O. Box 1320 Mutare, Zimbabwe, Off Nyanga Road, Old Mutare-Tel (+263 20) 60075/60026/61611 Fax (+263 20) 61785 website: www.africau.edu

Ref: AU1923/21

3 March, 2021

Tapiwa Dzirove  
C/O CBPLG  
Africa University  
Box 1320  
Mutare

RE: **AN EVALUATION OF THE EFFECTIVENESS OF THE FOREIGN  
EXCHANGE AUCTION MARKET IN ZIMBABWE**

Thank you for the above titled proposal that you submitted to the Africa University Research Ethics Committee for review. Please be advised that AUREC has reviewed and approved your application to conduct the above research.

The approval is based on the following.

- a) Research proposal
- b) Data collection instruments
- c) Informed consent guide
- **APPROVAL NUMBER** AUREC1923/21  
This number should be used on all correspondences, consent forms, and appropriate documents.
- **AUREC MEETING DATE** NA
- **APPROVAL DATE** March 3, 2021
- **EXPIRATION DATE** March 3, 2022
- **TYPE OF MEETING** Expedited  
After the expiration date this research may only continue upon renewal. For purposes of renewal, a progress report on a standard AUREC form should be submitted a month before expiration date.
- **SERIOUS ADVERSE EVENTS** All serious problems having to do with subject safety must be reported to AUREC within 3 working days on standard AUREC form.
- **MODIFICATIONS** Prior AUREC approval is required before implementing any changes in the proposal (including changes in the consent documents)
- **TERMINATION OF STUDY** Upon termination of the study a report has to be submitted to AUREC.



Yours Faithfully

MARY CHINZOU – A/AUREC ADMINISTRATOR FOR CHAIRPERSON, AFRICA  
UNIVERSITY RESEARCH ETHICS COMMITTEE