**ZIMBABWE TOBACCO ASSOCIATION STATEMENT ON RBZ FOREX RETENTION REDUCTION**

February 13, 2025

On February 6, 2025, the Governor of the Reserve Bank of Zimbabwe (RBZ) Dr John Mushayavanhu announced his Monetary Policy Statement for the first half of 2025.

As a tobacco growers' association, we express serious concern over the Reserve Bank of Zimbabwe's directive to reduce the foreign currency retention threshold for exporters, which includes by extension, tobacco growers from 75% to 70%. This is a further decrease in the retention from 85% in 2023 season

Latest statistics for the 2024/25 season reflect an increase of 11% in growers to 127,311 and though field assessments are ongoing, reflections are that there is a record crop potential of 300 million kg, with the strong likelihood of US dollar earnings on the floors reaching a record breaking USD 1 billion! This growth has largely come about from growers' confidence and improved returns for each US dollar invested. The reduction in the USD retention will strongly erode this confidence and see a slowdown in growth.

The tobacco growing industry operates within tight margins, with most inputs, including fertilisers, chemicals, coal, fuel, specialised equipment their repairs and maintenance, and living expenses being denominated in US dollars. Added to our cost of production are a myriad of government and industry levies and taxes, further reducing our global competitiveness. The reduction in forex retention means tobacco growers will have less hard currency to meet critical expenses, placing strain on operations, livelihoods and potentially affecting future growth in the sector.

The timing is particularly challenging as we approach the tobacco marketing season set to open on March 8, 2025. Growers who have already committed to production costs based on the previous retention rate now face additional pressure on their operating capital and recouping expenses.

Despite a comprehensive consultative meeting with the RBZ, where growers' representatives explicitly outlined the multifaceted challenges facing the tobacco sector, including a requirement of a 100% retention, these critical insights appear to have been overlooked in the final policy formulation. The impact of this decision extends far beyond immediate farmer concerns, potentially destabilising the entire tobacco value chain.

Moreover, the current policy compounds existing challenges in meeting increasingly stringent global compliance and sustainability requirements with certification, which international buyers, their customers and a growing number of trading blocs now demand. Compliance with global environmental, social and governance (ESG) standards requires substantial investment. These all come at cost to the grower.

Neither does the USD Denominated Deposit Facility (USDDDF) adequately address many of complex challenges. Converting critical forex to ZWG also undermines the sector's ability to invest in necessary technological and sustainable agricultural innovations, in particular climate proofing and diversification.

We call on the RBZ and policymakers:

1. To give special consideration to tobacco growers given the challenges outlined above and increase the percentage of the USD retention.
2. To allow the licenced tobacco merchants to trade any regulated foreign currency surrender portion within a margin, as per international standards, and not to be surrendered at the RBZ interbank rate.

We urge policymakers to engage with the sector to explore solutions that balance national foreign currency requirements and policy direction with the sustainability and viability of Zimbabwe's tobacco farming industry.

The tobacco farming industry remains committed to being a strategic foreign currency generator, employment creator and empowerment enabler for Zimbabwe and its people.

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