Weekly economic bulletin
Crisis in Zimbabwe Coalition
August 17, 2007

1.0 Summary of Economic highlights

a) Government splashes 1 million in defence of price controls

At the time when the country's economy is on its knees due to the foreign currency crisis, the Zimbabwean government through the Reserve Bank of Zimbabwe (RBZ) splashed US$1 million on New African magazine, in a bid by the government to spruce its battered image[1].

The magazines are being distributed at the Zambian SADC heads of state and government meeting which will end today. Analysts have maintained that, this will increase the inflationary pressures on the already stressed economy.

The role of the government, the world over includes the effective allocation and distribution of scarce resources to serve the best interests of the citizenry. However, the state's actions are a clear indication that it has lost its mandate to serve the people of Zimbabwe, but rather, the state has been converted into a platform for personal appeasement and aggrandizement.

b) Reserve Bank of Zimbabwe (RBZ) and the Black Market

Information filtering from the Confederation of Zimbabwe Industry this week is that the Reserve Bank of Zimbabwe has been at the centre of fueling inflation through its extra legal activities of procuring foreign currency from the black market.

In the month of July 2007, the RBZ sourced US$ 100 million from the illegal market in its bid to procure and level electricity bills this led to the dollar crushing from USD 1 to USD70 000 to USD1 to ZWD 190 000 in two weeks, an unprecedented 61.11% depreciation of the domestic currency[2]. This triggered a spiral of price increases in the official market as the cost of the USD has a direct effect on the price of fuel in the official markets. The increase in the fuel price had a domino effect on the prices of the economic goods and services, which led to the increase virtually all prices.

Despite the glaring evidence on the causes of the hyper-inflationary environment, which the country is plunged into, the Zimbabwean government has the audacity to mislead the nation of the causes of such an environment. The government's scapegoat became the business community, which has been at the receiving end of the state's hatred messages, after the declared warfare on them.

It is therefore a misnomer for the government to criminalize the business community and accusing them of harboring regime change agenda through price hikes. It is actually the government to blame through its undisciplined government expenditure which has led to the current quagmire.

c) Government early signs of retreat

This week, the government of Zimbabwe 'reviewed' the price structure of basic commodities in a bid to stimulate the supply side of the economy. The supply had shrunk after the government ordered the business community to slash its prices by 50%.

On the 25th of June 2007, The Cabinet Taskforce on Price Monitoring and Stabilization headed by the Minister of Industry and International Trade, Obert Mpofu issued a 48 hour ultimatum to the business sectors merchandising basic commodities, to slash their prices to those gazetted by the taskforce. The price of Mazowe orange juice has been slashed from

[1] The Zimbabwe Independent 17 – 24 August 2007.
[2] Confederation of Zimbabwe Industries (2007)

ZWD 550 000 to Z$ 120 000. The price of Salt (2kg) has been reduced from Z$160 000 to Z$86 000. Colgate tooth paste is now fixed at Z$200 000 from Z$700 000 among others[3].

Below are the reviewed prices for the goods and services gazetted this week by The Cabinet Taskforce on Price Monitoring and Stabilization Committee:

Commodity	**Quantity**	**Retail Price**
Standard Bread	Loaf	30,000.00
Roller Meal	5kg	25,000.00
	10kg	50,000.00
	20kg	90,000.00
	50kg	220,000.00
Refined Meal	5kg	30,000.00
	10kg	55,000.00
	20kg	105,000.00
	50kg	260,000.00
Salt (Fine)	500g	25,000.00
	1kg	45,000.00
	2kg	90,000.00
	5kg	235,000.00
	50kg	2,300,000.00
Salt (Coarse)	500g	20,000.00
	1kg	40,000.00
	2kg	80,000.00
	5kg	200,000.00
	50kg	2,000,000.00
Yeast	125g	30,000.00
	1kg	255,000.00
Fresh Milk	500ml	27,180.00
Steri Milk	500ml	32,970.00[4]

However, the gazetted price regime will fail to address the distribution anomalies of basic commodities since they failed to address the fundamental of providing incentives to the producers. The prices are still far short below the costs of production hence the producers would rather sit back on their means of production rather than producing on a lose.

d) Bread Crisis set to hit Zimbabwe

This week, economic analysts who spoke to The Weekly Economic Bulletin team outlined that the country will produce the lowest white levels in the country's history. The country requires 400 000 tonnes each year to survive till the next season[5]. This season, the country is estimated to produce 78 000 tonnes for national consumption. The country will therefore incur 80.5% wheat deficit, if the government fails to import additional wheat, which it has shown recently, this will lead to demand pull inflation.

2.0 Introduction

In line with the shift by the government from the market mechanism pricing policy to price controls, we are going to make an analysis of the effects of price controls and the unfolding effects there of. We also propose solutions to the retrogressive policies.

The effects of price blitz

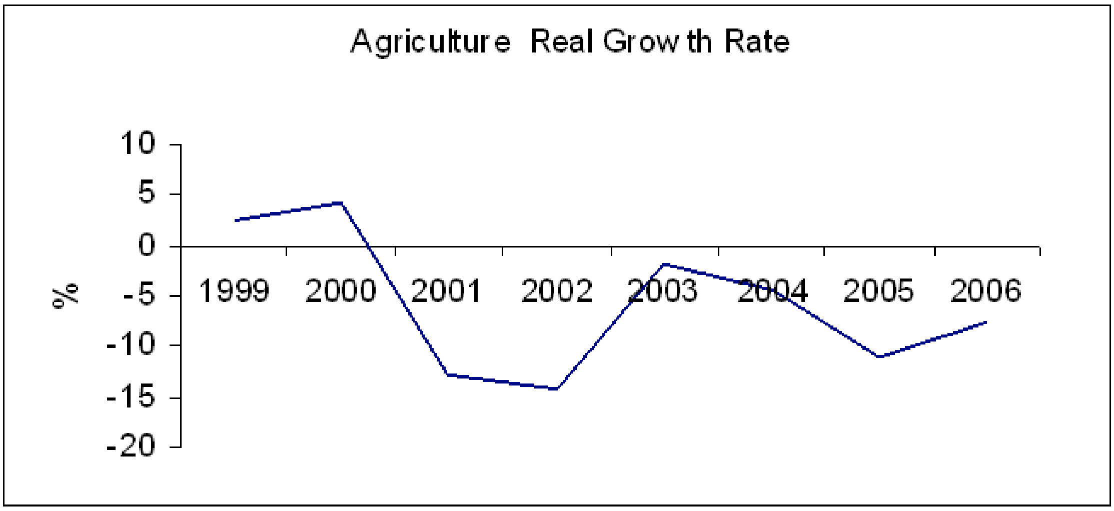
In functional economies, when the central authorities resort to price controls, the government would also stimulate subsidies to the affected industries to account for the profit loses which

[3] The Herald 27 June 2007
[4] The Herald 13 August 2007
[5] The Financial Mail 2007

they would incur and to cover their production costs. This will act as an incentive to the suppliers to keep on producing the controlled commodity to the market. All things being equal, the firms in the private sector operate under the profit retention objective.

Price controls hence forth are a cancer to a country like Zimbabwe which is not producing at its full capacity. The majority of companies are operating below 30% entailing that any form of interventionist approach will leaded to a supply deficit and access demand. This will lead to the formation of black markets. The move by the government is therefore a fertile ground for a goods and services flight from the official market to the parallel market where the suppliers will make reasonable returns on their investment.

The government's price controls are highly misplaced as it is targeting the end of the production processes. This implies that the inputs, the middlemen are not being controlled. The last person at the production process will have to stomach the high costs by the middlemen, whilst his products are subjected to price ceilings. It will not make economic sense for the producers to procure fuel from foreign markets at US$0.80 per litre which translates to Z$ 104 000 per litre as the cost of procurement. The organization will need to factor in the profit margin hypothetically of 15% which is ZWD$15 600 which sums up to ZWD 119 600 per litre. We have used the price of the black market since the majority of the firms are fetching the scarce commodity from the black market. In line with the facts at hand, the government of Zimbabwe gazetted ZWD$465 as the pump price of the commodity. If the supplier sells a litre of petrol he would have suffered a net loss of 199 135 per litter a marked 66.5% loss. It will become viable for the supplier to either stop the supply of the commodity or to opt for supplying it to the markets which are ready to pay for the price of ZWD119 600 which is the black market, where the arms of demand and supply will determine the price.



Andy Hodges, 2007

Zimbabwe as an agro-based economy, basing from the diagram above does not have the capacity to sustain price controls as is noted by the negative growth rate of the agricultural output. Price controls will prove to be self destructive in the long run as farmers will not have an incentive to keep on producing. The prices will not be determined by the invisible hand of supply and demand, but rather a directive from the government whose policies has not been predictable in the past decade. Hence there is automatically, a loss of investor confidence in the economy.

The multiplier effect will be of low production levels in the economy, which will lead to low GDP, resulting in the dwindle in economic growth. More companies will shut down, rendering the bulk of the workers jobless, the unemployment rate will increase from the current rate of 85%. The life standards of a general citizen will deteriorate. Hence there is nothing to celebrate for the temporary price freeze, since the government is just but treating the symptoms of the socio-political and economic cancer that is devouring the fiscals.

The government must open up the economic environment to promote investment and promote governance models which promote property rights.

It is only when the government promotes investment that prices can stabilise. Increase in investment will increase employment opportunities, which will relief the current strain on the national fiscus. Once there is economic growth, there will be price stability and improved service delivery.