

1.0 Summary of Economic highlights

a) Zimbabwe dollar collapses on the parallel market

This week the Zimbabwe dollar continued to weaken against major currencies in the market. The Zimbabwe dollar slumbered from ZWD 190 000 for USD 1 to ZWD 230 000 to USD1. The exchange rate crashed by a marked 17.39%.

Analysts maintain that the parallel market will continue to flourish, as it is offering incentives to suppliers to produce more for the parallel market. The weakening of the dollar on the market will increase inflationary pressures on the already suffocating economy.

The Weekly Economic Bulletin team predicts that the Zimbabwe dollar will continue to weaken against major currencies as firms and household continue procuring the scare commodity from the grey markets for import and export operational activities.

b) Inflation galore

The Central Statistics Office was this week forced to disclose the year-to-year monthly inflation levels, which the institution has been suppressing for more than two months. The Zimbabwean inflation level is officially pegged at 7 634.8%. Zimbabwe's inflation level is the highest in the world. The inflation level lapped from 7 251.1% in June 2007[1].

The diagram on the inflation regime in the country is shown below:

Zimbabwe's inflation rates since Independence

Year	Rate	Year	Rate	Year	Rate	Year	Rate	Year	Rate	Year	Rate
1980	7%	1981	14%	1982	15%	1983	19%	1984	10%	1985	10%
1986	15%	1987	10%	1988	8%	1989	14%	1990	17%	1991	48%
1992	40%	1993	20%	1994	25%	1995	28%	1996	16%	1997	20%
1998	48%	1999	58%	2000	56%	2001	132%	2002	139%	2003	385%
2004	624%	2005	586%	2006	1281%	2007	3714% [2]				

The official inflation rate is highly distorted as it factors in the pricing regime, which has been controlled by the state for the past two months. Analysts maintain that in real terms, the inflation rate is pegged well over 18 000%. The Central Statistic Office has been considering the basket of controlled commodities rather than factoring in the broader and across the board prices mechanisms.

The government has a mandate as the central authority of managing the economy through effective and consistent policies, which match international standards of public policy management. Hence forth, issues of well defined fiscal and monetary policy milestones must be formulated, properly implemented and evaluated.

There must be a policy marriage between the two. This is meant to curb the expansionary model currently pursued by the government. The fiscal policy and the monetary policy are contradictory to each other, yet they are supposed to be the points of economic convergence. The current fiscal policy regime has failed to hold as noted by the budget deficits experienced for the past eight years of economic recession. On the other hand, the Reserve bank declared inflation as state's enemy number one.

This has led to a policy compulsion, where huge chunks of the budget are allocated to the military, state intelligence and unplanned state expenditure. Such activities will entail that the issues of direct investment becomes opportunity cost, which will lead to reduced levels of production and ultimately high levels of employment and inflation.

Irrespective of the state's mantra of curbing inflation, which is a technical domain of the central bank, the government's ability to clip the vicious circle of inflation has been limited due to the failed marriage between the fiscal policy and the monetary policy. The fiscal policy continues to be characterised by a high expenditure bill hence the state's continued effort in printing excessive money (M3) without gold representation.

The central bank's ability to deal with inflation has also been undermined by the central bank being subordinated by political interests, specifically the Executive. This has brought in politically motivated policies on how the institution should operate. In the process the bank has become literary an office of a Prime Minister making political decisions rather than technical decisions on inflation, exchange and interest rates. In the process, the Reserve Bank has become instrumental in fuelling inflation rather than curbing it.

This has been frequently noted through the central authority's sourcing foreign currency on the black market, becoming the main player determining how the parallel market rate will be priced.

The central bank has failed to employ the international standard employed in every economy, great or small, namely interest rates in either stimulating or reducing consumption. In so doing, the central bank can stimulate foreign, direct investment or reduce household consumption by increasing interest rates as an incentive of promoting investment.

In 2005 the Reserve Bank Governor, Dr. Gideon Gono was quoted in the New African magazine commenting on inflation, "...because those of us who know the debilitating effects of inflation know that unless you deal with it, you will still be in difficulties. But it's not for the Governor to judge, let the world judge for itself. At the start of the Turnaround Programme in the late 2003, we had an inflation level of 623%, right now we are at 123%, 15 months after we started. You give me any country in the world that has been able to accelerate its process of turnaround, I will pack my bags. Inflation, yes we are on course to defeat it!"[3]

Along the way, the central bank's model of 'defeating' the cancerous inflation has gathered rust. As in the words of the Governor himself, he must pack bags, since he has failed to execute his mandate of keeping inflation levels beyond the 623% margin by then. Currently inflation is pegged at 7634.8%, the highest level in the world.

Locating the role of the Reserve Bank

- * Implementing the Monetary Policy[4]
- * Surveillance of financial markets[5]
- * Regulation and production of notes and coins
- * Bank supervision[6]
- * Lender of last resort[7]

The government is therefore abusing the central bank by bequeathing it with excessive powers to perform quasi fiscal policy activities, literary declaring the institution as a parallel Ministry of Finance.

The centre no longer holds, as inflation goes on a rampage whilst the responsible authorities are concentrating on broader economic activities instead of focusing on its narrow and technical domain as highlighted in the above functions of the central bank.

The Coalition, therefore, holds that the state must limit government expenditure to the budgets and separate the fiscal and monetary policy enforcement mechanisms. There must be a clear cut policy on dealing with the vicious circle of inflation.

Notes

[1] The Financial Gazette 23 – 29 August 2007

[2] Wikipedia

[3] "New African, Special Report, June 2005

[4] It entails the control of money supply and interest rates to promote economic stability

[5] The main functions of the department are to perform domestic as well as international banking and treasury services, to manage the gold and foreign exchange services, to implement the Reserve Bank's interest rates policy

[6] The Reserve Bank is responsible for bank regulation and supervision in Zimbabwe

[7] In addition to other functions it is also responsible for accepting deposits from banking institutions which maintain current accounts with the bank