Inflation and exchange rate developments: The re-valued currency after one month
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Despite the valiant efforts of optimists to endorse government's claims of changes for the better, following upon its decisions to drop ten zeros from the currency and issue real banknotes for the first time in years, the events of the first month have confirmed the views of the realists that nothing of importance has been achieved.

Through the month, all the scarcities that had been doing the damage remained firmly in place. These were made even more serious by government's enthusiasm for generating money to spend, while it completely lacked the ability to create goods on which to spend it. To make things worse, it kept in place the price controls that have prevented those who have that ability from getting back to work.

People's Shops, stocked with imported food that were paid for with money drawn from exporters' foreign currency accounts, and more recently with the larger off-take from exporters' foreign currency receipts, might be said to have helped the tiny percentage of the population that they served. However, in no sense have these been an answer to the country's problems. The population at large remains poorly supplied, the prices of many goods remain beyond the reach of most consumers and, as more people lose their formal–sector jobs, more are being forced to live by their wits, go hungry or emigrate.

Government determination to keep persuading the public that the rising prices are the fault of the business sector appears to be its main reason for keeping in place the price controls. However, it is the shrinkage of the value of the Zimbabwe dollar that has caused prices to rise and government's effort to claim the opposite is dishonest in the extreme. Scarcities have played their part, and all of these can also be linked to political policy choices, but government's decision to simply print the money that was formerly collected from taxpayers or borrowed from institutional lenders has become the more important cause of the problem.

2008 August		PARALLEL MARKET EXCHANGE RATE to US DOLLAR	
		Old dollars	Revalued
Aug 1	Friday	900 000 000 000	90
4	Monday	900 000 000 000	90
5	Tuesday	900 000 000 000	90
6	Wednesday	900 000 000 000	90
7	Thursday	900 000 000 000	90
8	Friday	900 000 000 000	90
13	Wednesday	1 200 000 000 000	120
14	Thursday	1 600 000 000 000	160
15	Friday	2 200 000 000 000	220
18	Monday	3 000 000 000 000	300
19	Tuesday	3 500 000 000 000	350
20	Wednesday	4 250 000 000 000	425
21	Thursday	5 000 000 000 000	500
22	Friday	7 500 000 000 000	750
25	Monday	10 000 000 000 000	1000
26	Tuesday	10 000 000 000 000	1000
27	Wednesday	10 000 000 000 000	1000
28	Thursday	16 000 000 000 000	1600
29	Friday	30 000 000 000 000	3000
		Percentage change	3 233

This table illustrates the combined and interwoven effects of scarcities and money-printing, and it shows that the parallel market-cost of a US dollar rose by more than 3 000% during August.

As these rates determine the retail selling prices of the goods that make it into the shops, it is these that are dictating the more immediate changes in the rate of inflation. However, the wide range of scarcities that are adding to the pace can usually be traced directly back to deliberately chosen policies that are still being defended and even reinforced, in spite of their disastrous consequences.

Government's belief that complete acceptance of its regulated official inter-bank exchange rate will help bring inflation under control amounts to no more than a shallow attempt to deny the existence of the distortions, imbalances and scarcities that its policies have caused. Other than its effect on the costs of imports for officials who have granted themselves privileges, the rate has no bearing on inflation. Despite official claims, the so-called willing buyer – willing seller market is very rarely permitted to sell to the private sector. In reality, it is not a market at all.

However, this suppressed inter-bank exchange rate is an accurate measure of the severe prejudice suffered by exporters when they are paid Zimbabwe dollars at the regulated rates for 45% of their export proceeds. As it amounts to a very punitive export tax, this mechanism for supplying cheap foreign exchange to government officials has badly affected production volumes as well as investment and business viability.

It has also impacted on prices, because those producers who have to trade part of what is left of their foreign earnings to meet their local costs try hard to limit the amount they have to sell by asking for a much more generous exchange rate. Without it, many could not survive, but the resulting rates add directly to the costs of imports.

Government's higher demands have therefore worsened the already severe scarcity of foreign exchange and driven its price even higher. Everybody is now feeling the knock-on effects; the costs of many goods can be seen to have increased sharply in US dollar terms and such costs are most resented when the imported goods in question used to be made locally.

Price controls fully explain why such goods are no longer on offer from local suppliers. When permitted prices are held below the costs of production, the producers have to choose between exporting almost all they make or closing down. Either way, their decisions have considerably worsened local scarcities, but the survival of those producers who can capture export orders is also threatened by the Reserve Bank's excessive demands at increasingly absurd inter-bank exchange rates.

Price controls have caused the mix of already incompatible policies to make a very bad situation considerably worse. Many of the more severe scarcities can be traced back to the price blitz that was launched a little more than a year ago, but far from relaxing on these now, the authorities are enforcing them with additional threats and menaces.

Further local production cuts have been inevitable and have forced the population to import very much more. But these finished goods imports are now calling for rising quantities of the already scarce foreign exchange. The amounts needed are far greater than the sums that were previously spent to sustain local production of the same goods, but as the amounts needed cannot easily be found, the scarcity-driven price of the hard currency is rising ever faster.

For many products, the only imported requirements used to be packaging, machine spares and fuel. Local production not only reduced the need for foreign exchange, it created jobs, generated tax revenues and often earned export revenues. Now that the goods have to come from abroad, the jobs have moved outside the country. Foreign governments are receiving the taxes and Zimbabwe is left with far more serious foreign exchange shortages as well as shortages of just about everything else.

The cash scarcity is just one of them, but this one is more directly related to the rate of inflation than most of the others. When prices double, people need twice as much cash to pay the doubled amounts, assuming that the flow of goods onto the shelves remains steady. But going by the parallel market exchange rates, prices doubled more than five times during August. If the flow of goods had remained steady, it would have had to be met by a more than thirty-fold increase in the flow of cash. Government had no hope of increasing its supplies of new banknotes and coins that fast.

To make matters worse, the pace appears to be accelerating. In the second half of August, prices were approaching a doubling rate of twice a week, and the first movements in September suggest that the pace is gathering momentum. As the Reserve Bank cannot hope to continue using severe daily withdrawal-limit restrictions as a control measure, perhaps we should brace ourselves for the return of the $50 billion and $100 billion bearer-cheque notes.

Maybe we will even see the “re-monetisation at face value” of the long-discarded $1000 notes. Such possibilities might seem unlikely at present, but the as the costs of producing more of the current family of expensive bank-notes will soon exceed their face values, we should try to anticipate the search for cheaper options.

Plotting our way forward through these uncertainties has been difficult enough, but as we are no nearer the needed political changes, September seems likely to see the problems deepening. For many, this will mean less production and fewer sales. Falling incomes are bound to result from lower employment levels, so turnover levels will continue declining.

Food scarcities are almost certain to become more serious, but with food prices rising faster than others, larger percentages of the reduced spending levels will be on food. However, official attempts to ensure that sufficient quantities of food reach politically important destinations at acceptable prices could generate increasing levels of interference.

But everything has its limits. Neither we, nor government, should believe that the decline can continue indefinitely on each social, political or economic front, or that any of us has the patience or even the ability to tolerate deepening levels of deprivation. On a specific issue, how will school fees be paid next week?

Local analysts are losing count of the number of ways government policies have failed to measure up to the country’s most basic economic requirements. In trying to explain the policy choices made, perhaps the most severe difficulty comes from being forced to choose between two almost equally unpalatable conclusions: government is either making deliberate attempts to precipitate the failure of all businesses that are not in full compliance with its political philosophy, or government is guilty of unprecedented levels of collective stupidity.

Whether to be guilty of the first would make government automatically guilty of the second, or whether other options can be identified, it would certainly be true that if the course Zimbabwe has travelled in the past four months is kept to in the next four, the compounding effect will lead to impossible inflation and exchange rate numbers.

Since the adoption of the inter-bank market on May 2 2008, the parallel market exchange rate changes have averaged about 14% per day and this has carried the rate up ten-fold every eighteen to nineteen working days. If this trend is continued to the end of 2008, a US dollar will cost about Z$50 million. At the end of last year, before ten zeros were removed, the parallel rate was about Z$5 million. If we don't change course, we will get there again in November.

The course changes needed are political, rather than economic. No economic measures could result in changes that could work fast enough to put the brakes on our downward plunge. But the political acceptance of the policies needed to restore confidence in the country's future could very much more quickly lead to the release of funding to overcome the wide-ranging scarcities.

As the Movement for Democratic Change has so far remained committed to the objective spelled out in its name, there is still hope that its determination will lead to success that will be followed by international support. In such an event, the forecast shown below would become a possibility as we make a start to the long process of restoring the country's lost productive capacity. If the efforts end in failure, the table overleaf will be the more likely course.

Month-end Figures, Actuals since January 2007,
Forecasts to December 2009.
Assumption: Rapid Money Supply Growth Continues,
but Conditional Balance of Payments Support is Received by end of 2008

Month-End		INFLATION Inflation Per Month	Consumer Price Index	Annual Inflation	Z$ Official Effective Rates US Dollar (month-end)	Parallel Market (approx) US Dollar (month-end)
2007	Jan	45,4	968 338,9	1 593,6	250	5 000
	Feb	37,8	1 334 521,7	1 729,9	250	6 000
	Mar	51,0	2 008 932,1	2 200,2	250	20 000
	Apr	100,7	4 032 629,9	3 713,9	15 000	38 000
	May	55,4	6 265 698,6	4 530,0	15 000	60 000
	Jun	86,2	11 666 730,9	7 251,0	15 000	140 000
	Jul	31,6	15 357 151,2	7 634,9	15 000	180 000
	Aug	11,8	17 171 312,8	6 592,8	15 000	300 000
	Sep	38,7	23 808 624,6	7 982,1	30 000	500 000
	Oct	135,6	56 095 500,4	14 839,7	270 000	1 500 000
	Nov	131,4	129 804 988,0	26 470,8	285 000	3 123 900
	Dec	240,1	441 490 130,8	66 212,3	322 500	6 000 000
2008	Jan	120,8	974 810 208,8	100 568,3	322 500	7 000 000
	Feb	125,9	2 202 096 261,7	164 910,2	322 500	30 000 000
	Mar	224,0	7 134 791 888,0	355 053,5	1 380 000	65 000 000
	Apr	314,1	29 545 173 208,3	732 552,7	1 380 000	235 000 000
	May	380,0	141 816 831 399,7	2 263 284,2	420 000 000	1 000 000 000
	Jun	839,0	1 331 660 046 843,3	11 414 066,2	11 382 000 000	50 000 000 000
	Jul	2000,0	27 964 860 983 709,2	182 096 570,8	70 000 000 000	900 000 000 000
	Aug	1000,0	307 613 470 820 801,0	1 791 438 180,8	35	3 500
	Sep	250,0	1 076 647 147 872 810,0	4 522 088 705,9	123	11 025
	Oct	900,0	10 766 471 478 728 100,0	19 193 110 573,9	1 225	17 150
	Nov	500,0	64 598 828 872 368 300,0	49 766 060 420,2	7 350	102 900
	Dec	100,0	129 197 657 744 737 000,0	29 263 996 698,4	14 700	205 800
2009	Jan	90,0	245 475 549 715 000 000,0	25 181 881 202,9	27 930	391 020
	Feb	85,0	454 129 766 972 749 000,0	20 622 611 856,8	51 671	671 717
	Mar	80,0	817 433 580 550 949 000,0	11 457 006 542,7	93 007	1 209 090
	Apr	75,0	1 430 508 765 964 160 000,0	4 841 767 981,3	162 762	2 115 907
	May	70,0	2 431 864 902 139 070 000,0	1 714 792 762,1	276 696	3 597 042
	Jun	65,0	4 012 577 088 529 470 000,0	301 321 329,4	456 548	4 565 476
	Jul	60,0	6 420 123 341 647 150 000,0	22 957 723,2	730 476	7 304 762
	Aug	57,0	10 079 593 646 386 000 000,0	3 276 607,5	1 146 848	11 468 476
	Sep	53,0	15 421 778 278 970 600 000,0	1 432 289,3	1 754 677	15 792 092
	Oct	47,0	22 670 014 070 086 800 000,0	210 461,2	2 579 375	20 635 000
	Nov	42,0	32 191 419 979 523 300 000,0	49 732,8	3 662 712	25 638 987
	Dec	40,0	45 067 987 971 332 600 000,0	34 783,0	5 127 797	35 894 582

Month-end Figures, Actuals since January 2007, Forecasts to December 2009. Assumption: Rapid Money Supply Growth Continues, and No Assistance is Received due to Unacceptable Policy Mix					
		INFLATION			
Month-End		Inflation Per Month	Annual Inflation	Z$ Official Effective Rates US Dollar (month-end)	Parallel Market (approx) US Dollar (month-end)
2007	Jan	45,4	1 593,6	250	5 000
	Feb	37,8	1 729,9	250	6 000
	Mar	51,0	2 200,2	250	20 000
	Apr	100,7	3 713,9	15 000	38 000
	May	55,4	4 530,0	15 000	60 000
	Jun	86,2	7 251,0	15 000	140 000
	Jul	31,6	7 634,9	15 000	180 000
	Aug	11,8	6 592,8	15 000	300 000
	Sep	38,7	7 982,1	30 000	500 000
	Oct	135,6	14 839,7	270 000	1 500 000
	Nov	131,4	26 470,8	285 000	3 123 900
	Dec	240,1	66 212,3	322 500	6 000 000
2008	Jan	120,8	100 568,3	322 500	7 000 000
	Feb	125,9	164 910,2	322 500	30 000 000
	Mar	224,0	355 053,5	1 380 000	65 000 000
	Apr	314,1	732 552,7	1 380 000	235 000 000
	May	380,0	2 263 284,2	420 000 000	1 000 000 000
	Jun	839,0	11 414 066,2	11 382 000 000	50 000 000 000
	Jul	2000,0	182 096 570,8	70 000 000 000	900 000 000 000
	Aug	1200,0	2 117 154 231,9	35	3 500
	Sep	1650,0	26 721 433 753,0	613	55 125
	Oct	1700,0	204 144 904 341,1	11 025	154 350
	Nov	1700,0	1 587 989 749 225,8	198 450	2 778 300
	Dec	1700,0	8 404 087 807 721,6	3 572 100	50 009 400
2009	Jan	1600,0	64 705 386 201 424,9	60 725 700	850 159 800
	Feb	1500,0	458 294 014 707 469,0	971 611 200	12 630 945 600
	Mar	1400,0	2 121 731 549 571 980,0	14 574 168 000	189 464 184 000
	Apr	1200,0	6 660 833 166 973 340,0	189 464 184 000	2 463 034 392 000
	May	1000,0	15 264 409 340 980 700,0	2 084 106 024 000	27 093 378 312 000
	Jun	900,0	16 256 026 987 199 900,0	20 841 060 240 000	208 410 602 400 000
	Jul	800,0	6 966 868 708 799 900,0	187 569 542 160 000	1 875 695 421 600 000
	Aug	700,0	4 287 303 820 799 900,0	1 500 556 337 280 000	15 005 563 372 800 000
	Sep	600,0	1 714 921 528 319 900,0	10 503 894 360 960 000	94 535 049 248 640 000
	Oct	500,0	571 640 509 439 900,0	63 023 366 165 760 000	504 186 929 326 080 000
	Nov	500,0	190 546 836 479 900,0	378 140 196 994 560 000	2 646 981 378 961 920 000
	Dec	500,0	63 515 612 159 900,0	2 268 841 181 967 360 000	15 881 888 273 771 500 000

In this table, the assumption is made that the policies and consequential inflation and scarcities will continue to follow the course that has been established over the past four months. As the numbers become so impossibly high, it has to be assumed that measures might be adopted to impose disciplines and penalties on the business sector, but as these would be unlikely to make any difference to the supply of anything, the underlying inflationary pressures would follow the trends illustrated.

Hopefully, the progressions in this table will offer compelling reasons why policy changes must be adopted. As it is, Zimbabwe is coming close to breaking world records for hyperinflation and for clinging to unworkable policies. From these progressions, we can see that the compounding effects of bad policies are very rapidly delivering us to a place we should not want to visit.
