THE WEEKEND READER

"Your Weekly Read on Debt, Development & Social & Economic Justice"

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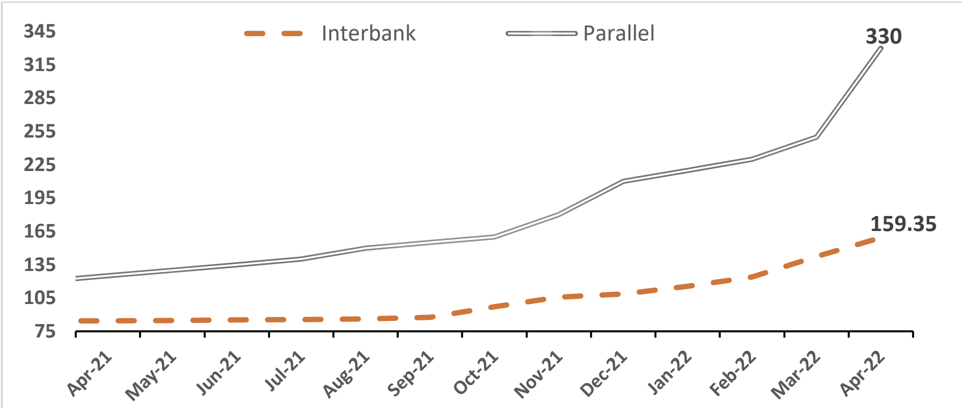
ZIMBABWE DOLLAR TUMBLES, INFLATION RAGES HAVOC

In recent weeks, Zimbabweans have witnessed an elevated massive decline of the Zimbabwe dollar (ZWL) particularly in the parallel market. Year to date, the local currency has shaved about 32% of its value on the official market. The latest weekly foreign currency (forex) auction results released by the Reserve Bank of Zimbabwe (RBZ) this week, 26 April 2022, show the ZWL plunging by 2.6% to settle at US$1: ZWL159.35. In the alternative (parallel) markets, the local unit is depreciating significantly with the US dollar now trading between the ZWL320-350 range.



***Source**: RBZ and ZIMCODD Research*

The average parallel market exchange premium which is the percentage difference between the official and alternative exchange rates is now hovering above 100% against the globally accepted threshold for currency stability of at most 20%. In short, this means that the US dollar is at least 100% more expensive in the parallel market than what it is costing in the official market. As a result of limited forex supply on the auction market against rising forex demand as shown by recurring forex allocation backlog, the expensive parallel market has become the sole supplier of forex demanded by the informal sector and the general public. The informal sector constitutes a greater proportion of the total economy with the International Monetary Fund (IMF) estimating Zimbabwe to be at least 60% informalized. Also, the increased forex demand in the parallel market is emanating from other formal businesses that are not easily accessing the official market coupled with the rising price inflation that is fuelling the chase for a strong greenback for value preservation.

In short, the parallel market rate has become a reference exchange rate for most transactions in the economy, the reason is whenever parallel rates plunge, prices of basics also skyrocket. This, coupled with the impact of the Russia-Ukraine war on global energy, mineral, and food prices is fuelling domestic price inflation as Zimbabwe is a net importer of energy (oil). During the week, the Zimbabwe Energy Regulatory Authority (ZERA) reviewed the maximum pump prices of fuel upwards with a litre of diesel now costing US$1.71, a 6.9% increase from US$1.60 set in March while that of petrol has increased by

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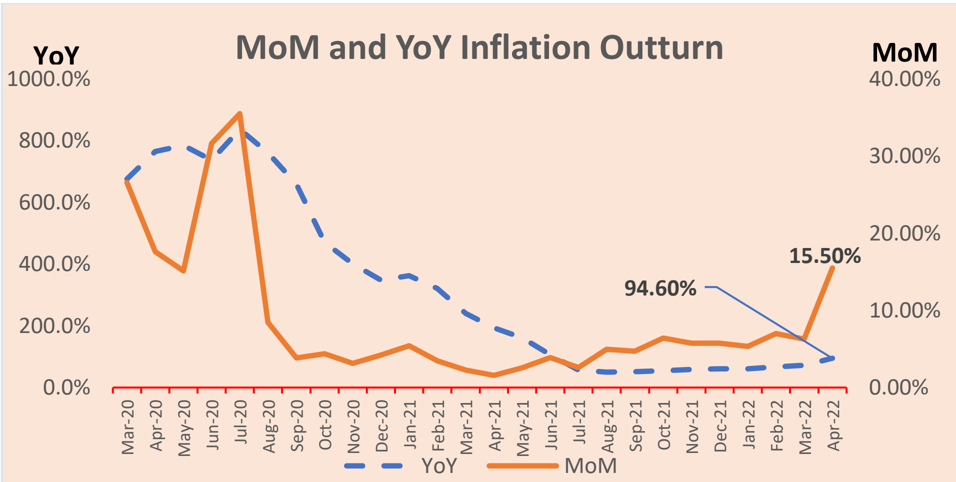
US$0.04 from US$1.59 to US$1.63. According to ZERA, the latest astronomical increase in fuel prices especially that of diesel was due to global oil prices which are trending northwards driven by the Russia-Ukraine war. Russia is a major player in the global oil export market accounting for about 30% of annual exports. Hence, the shunning of crude oil of Russian origin on the global market is creating acute artificial shortages, a disadvantage to net importers like Zimbabwe.

The latest inflation statistics released by the Zimbabwe National Statistics Agency (ZimStat) show that price inflation is now raging havoc. Inflation as measured by ZimStat's all-items Consumer Price Index (CPI) increased by a mouth-watering 96.4% year-on-year in April 2022 relative to an increase of 72.7% that was registered in the prior month, March 2022. This is the highest annual inflation outturn in 10 months, that is, since June 2021 when annual inflation was recorded at 106.64%.



***Source:** ZimStat*

From a month-on-month perspective, price inflation increased by 15.5% in April 2022, an increase of 9.2 percentage points from 6.3% recorded in the prior month. This April outturn plunges the monthly inflation rate into double-digit territory breaking a 20-month single-digit monthly inflation streak that started in August 2020.

With salaries for many Zimbabweans largely constant and largely dominated in depreciating ZWL, many households particularly the urban dwellers are suffering as prices of basic goods like bread and mealie meal are now beyond their reach. The rising price inflation has repercussions on children and youth's access to education. As the school calendar is scheduled to re-open next month, many children from underprivileged families may face difficulties in accessing education as schools are being forced to upscale their fees in line with exchange rate depreciation and elevated inflation. A report by ZIMCODD has shown that there is an increase in child vending due to the tightening economic environment.[1] This is a clear injustice and a violation of the constitution which is against child labour as well as guaranteeing every child the right to affordable and quality education.

[1] https://zimcodd.org/?smd_process_download=1&download_id=5464

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The recent increase in fuel prices has also caused mayhem, especially for the commuting public. The Zimbabwe United Passenger Company (ZUPCO) which has been given the sole mandate for all local public transportation by the government is failing to provide the service to citizens. Although the government has acquired a new fleet of buses in recent months, the fleet remains inadequate relative to the total commuting population. The bus ranks are characterized by long queues as people lose their resting time in these queues daily. Despite all this, the government through the Zimbabwe Republic Police (ZRP) has unleashed law enforcement officers targeting pirating kombis and small cars dubbed "mushikashikas" that were significantly covering the existing local public transport demand gap.[2] Consequently, transport cost has ballooned as there are no available affordable and time-conscious transport alternatives.

High and ever-rising Zimbabwe price inflation is also having huge implications on access to essential services like housing, water, sanitation, and health care among other services, especially for the poor majority as highlighted in ZIMCODD's February Situational Report[3] .This is mostly affecting pregnant women in rural areas who are failing to access direly needed maternal and childcare. The public health care infrastructure has dilapidated over the years while there are acute shortages of medical drugs, equipment, and professionals. This has left private health care thriving. However, private health care is out of touch for many Zimbabweans earning in fragile ZWL as these institutions have largely re-dollarized and payments in local currency are benchmarked at or above the parallel market rates.

The vulnerable groups and marginalized communities have been left exposed as the government is failing to provide enough social safety nets and subsidies for certain critical products. For instance, the Borgen Project found that due to the protracted economic crisis, 72% of menstruating schoolgirls are facing period poverty as they do not use sanitary pads because they cannot afford them.[4] As a result of the economic meltdown buttressed by the COVID-19 pandemic, poverty levels have risen sharply as nearly half of the population is reportedly swimming in extreme poverty. According to IMF, a third of the population is faced with food insecurity in 2022 as the country has experienced a poor 2021/22 cropping season due to erratic rainfall patterns received across the country.

In light of the foregoing, the government should address the current currency and inflation crisis before the situation deteriorates, poverty deepens, and inequalities widen. Some of these ways may include Reforming the auction system to efficiently discover the market-clearing price of the ZWL. For instance, increasing transparency in bidding and allotment processes will attract many buyers and sellers of forex. This, supported by prudent government policies that increase the use of ZWL in domestic transactions will create value for the local currency. The RBZ should reduce the increased money supply in the economy by abandoning quasi-fiscal operations (QFOs). The Treasury should broaden its tax base and spend within its limits. Also, strengthening institutions, legal frameworks, and public resource management systems to reduce leakages caused by public corruption and illicit financial flows

[2] https://www.africa-press.net/zimbabwe/all-news/police-launch-operation-targeting-mushikashika
[3] https://zimcodd.org/?smd_process_download=1&download_id=5386
[4] https://borgenproject.org/period-poverty-in-zimbabwe

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will help sustain the stability of ZWL. This is key because in 2021 the country received about US$9 billion as foreign exchange inflows, a record since 1980. However, the country is not enjoying exchange rate stability that generally emanates from increased forex balances, a clear indication of serious leakages in the economy. More so, there is a need to lower public debt which is now in distress and unsustainable. Unsustainable public debt affects capital accumulation by constraining countercyclical fiscal policies, heightening long-term interest rates, causing higher distortionary tax rates, and inflation.

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