



# THE WEEKEND READER

"Your Weekly Read on Debt, Development & Socio-Economic Justice"

## A DETERIORATING ZWL FURTHER WORSENS CITIZEN'S LIVELIHOODS

Amid the massive deterioration of the Zimbabwe dollar (ZWL), the Government of Zimbabwe (GoZ) announced an array of measures on the 7th of May 2022 to bring macroeconomic stability. At the time, US\$1 was trading for ZWL166 on the official market while going for about ZWL450 in the alternative markets. According to authorities, macroeconomic fundamentals are sound, the volatility of the exchange rate and prices is emanating from the negative multiplier effects of the Russia-Ukraine war and the rent-seeking behaviour of economic agents.

However, six (6) weeks later, the ZWL continues on a downward trend and prices of basics are skyrocketing. A look at the data shows that as of 23 June 2022, an individual needed about ZWL355.18 to buy US\$1 on the interbank market and about ZWL630 on the parallel market. This is a decline of 53.3% and 28.6% in the official and alternative markets respectively since the GoZ announced its stability measures. The perpetual decline of the ZWL has sent the prices of basics haywire. For instance, the price of a loaf of bread has ballooned to an extent that one now has to part with between ZWL620-650. The massive increase has forced the Reserve Bank of Zimbabwe (RBZ) to engage directly with the National Bakers Association of Zimbabwe (NBAZ) to reduce the price of bread in exchange for providing them access to the auction forex market<sup>1</sup>. This move is tantamount to price controls and is worrisome because price controls lead to acute shortages as goods disappear on shelves.

### Price controls devastating rural economy

24 Jul, 2007 — Price controls are having a ruinous effect on Zimbabwe's rural economy, according to small-scale farmers and civil society.



<https://www.nytimes.com> › africa

### Zimbabwe Price Controls Cause Chaos - The New York Times

*The move by the RBZ engaging with the Bakers Association is akin to price controls which have had devastating effects before.*

1. <https://www.africa-press.net/zimbabwe/all-news/rbz-bakers-will-review-the-price-of-bread-downwards>

While citizens may enjoy great relief from the latest action by RBZ, they continue to face a life-threatening cost-of-living crisis. The prices of other basics like cooking oil and maize meal are already beyond the reach of the majority earning in fragile ZWL. The market continues to dollarize and doing so very fast. Cognizant of this, the government is now also pegging its services like hospital consultation fees and toll fees in foreign currency. This is a form of cushion from ZWL exchange rate depreciation. Despite this, the paltry salaries being paid to civil servants remain constant and are being massively eroded by depreciation. For instance, with a 2L bottle of cooking oil going for ZWL2 600 in most shops, it means that a teacher's ZWL salary of about ZWL30 000 cannot buy 12 liters. This shows the depth of the current protracted crisis: If civil servants who resemble Zimbabwe's working class are living below the poverty datum line, what is the situation like say for an unemployed youth living in marginalized communities? Reports show rising cases of crime, substance abuse, early marriages, and unwanted pregnancies, a clear indication of a decaying economy.

Meanwhile, GoZ has offered its workers a 100% salary increment effective July 2022. Whereas the government continuously rebuffs the economic quandary, the 100% salary increment is a form of acceding to the economic turmoil facing the ordinary Zimbabwean. This magnitude of salary increment only suffices in a hyperinflationary environment where welfare is consistently eroded by uncontrollable inflation. Notwithstanding the 100% salary increment carrot offered to the civil servants; teachers, nurses, and doctors embarked on a strike on the 20th of June 2022. The rejection is rational because the ZWL increment is meaningless. After all, the ZWL continues to slide and critical goods and services like rentals, health care, and fuel are now sold exclusively in forex.

Furthermore, the government should be alive to the fact that the 100% increment was unbudgeted for in the 2022 budget. Where will these billions of dollars come from besides borrowing from the domestic market and money printing? Thus, the staggering salary review instituted will only exacerbate the current currency and price crisis as it leads to unsustainable money supply growth in the economy. Typically, the money supply should move in tandem with the rate of growth of activity in the real sector. This is key to averting a situation where there is too much money in circulation chasing too few (or the same) quantities of goods. Already, broad money is rising by more than 100% year on year, a rate which is unsustainable and highly inflationary. All this shows that the future of the ZWL is hanging on by a thread.

Therefore, the government should acknowledge the present crisis and address it as a matter of urgency. Government is advised to implement the measures below.

## Recommendations

- There is a need for government to expedite political and economic reforms to ensure that Treasury spends within its means. With these reforms, public corruption, public debt, and money supply will decline, subduing massive currency depreciation pressures. Stability is key as it does not only dampen speculative currency attacks but also brings business predictability that is needed to power economic growth and investment. Local currency volatility increases the cost of servicing external debt and in turn crowds out social service delivery, the gold bar, especially for the poor majority.
- Government should utilize the available Special Drawing Rights (SDR) facility provided by the International Monetary Fund (IMF) to cushion citizens in situations of vulnerability.