JANUARY 2020 BASIC NEEDS BASKET STATEMENT

Self -Re-dollarization of the Zimbabwe Economy widening inequality and Perpetuating Socio-Economic Injustices

The Zimbabwe economy has failed to find stability post the re-introduction of the local currency first through Statutory Instrument 33 of 2019 which brought RTGS$ in February 2019 and later with Statutory Instrument 142 of 2019 in June 2019 which declared the Zimbabwe dollar as the sole currency for legal tender purposes. The appetite for the United States Dollars (US$) remains high among informal and formal businesses alike. The government of Zimbabwe through the Ministry of Finance and Economic Development has marred the economic situation with policy inconsistencies such as the requirement for payment of some duties and taxes in foreign currency. There are also some sectors such as the tourism, petroleum, mining, Non-Governmental Organisations (NGOs) and embassies allowed to use foreign currencies for local transactions through Foreign Currency Accounts (FCAs).

The move towards market based prices for fuel and electricity tariffs has also put pressure on prices of goods and services. Following the sharp fuel increase from $1.32 to $3.31 (about 150% increase) for petrol in January 2019, fuel has continued to increase regularly with the price increasing to ZWL$19.55 for diesel and ZWL$18.28 on the 17th of January 2020. Electricity also increased sharply in October 2019 with the introduction of a new tier pricing system with cost per unit increasing as electricity usage rises.

The policy inconsistency in the foreign exchange market does not bring confidence in the market and as a result a number of business continue to charge for their goods and services in foreign currency even though it is illegal. A number of businesses, including some in the informal sector, such as food outlets, spare parts shops and fuel stations are openly accepting foreign currency, specifically the US$. Businesses that are still charging in Zimbabwe Dollars, both in the formal and informal sectors, are trying to keep up with the inflationary environment by pegging the prices of goods and services Zimbabwe dollar price at par with the USD using the black market index rate. All this is going on amid stagnant employee incomes which the government is refusing to peg against the interbank indexed rates.

The Zimbabwean currency markets went in a spin with the Interbank Market exchange rate for the ZWL$ against the USD$ falling from 1:2.5 in February 2019 to 17.1 in January 2020. However, the incomes of the majority citizenry remained stagnant during the same period.

The Poverty Reduction Forum Trust's basic needs basket shows that the cost of living of an ordinary Zimbabwean is on the upward rise, from ZWL$4758.64 in December 2019 to ZWL$6080.36 in January 2020. In this survey, PRFT established that there is an ever growing appetite for the USD, with some local grocery shops exclusively charging scarce goods and commodities such as mealie-meal in USDs. The survey also noted that landlords in surveyed residential areas across Harare are demanding rentals in USDs or RTGS equivalent to black market rates. The survey established that landlords in high density suburbs such as Hatcliffe, Mbare, Glenorah, and Mabvuku are charging rentals ranging between USD$10 and USD$15 per room while those in low density suburbs such as Newlands and Avondale are charging between USD$50 and USD$60 per room.

Citizen's Incomes reduced to Peanuts

Small scale informal traders who have economic activities that are not yielding income in USD$ and ordinary citizens, including civil servants, whose income are in ZWL$ are feeling the heat of negative effects of the re-dollarization. This has seen the massive growth of peri-urban areas which are offering an escape route from unattainable rentals in the urban areas. The BNB survey established that peri-urban areas such Hopelly and Ushewekunze offer the most affordable form of accommodation with rentals in those areas ranging from USD$3.00 to USD$5.00. Interviews with residents in these areas indicated that people in the area fled high cost of living conditions in the heart of the urban area with accommodation being the main driver. However, social service delivery provision conditions in these areas remain dire and unacceptable for the attainment of a dignified lifestyle.

Widening Income Inequality Gap

The re-dollarization process has also resulted in widening socio-economic inequality gap between those getting their incomes in USD$ and ZWL$. Households whose income is in ZWL$ continue to lose the value of their income due to inflation and continued weakening of the ZWL$ against other currencies such as the USD$ and South African Rands. These households' capacity to feed themselves has significantly deteriorated, exposing them to food insecurity and starvation. The economic inequality gap is also exacerbated by the fact that households getting their incomes in ZWL$, largely in electronic forms, still have to buy hard cash on the black market at a premium to access other services such as public transport. This is eating into the little incomes that these poor households are getting and continue to impoverish them into a vicious cycle of poverty.

PRFT is of the view that:

- The re-introduction of the Zimbabwe dollar was premature as it came before the necessary preconditions for a successful de-dollarization. In his maiden monetary policy statement in 2014 the RBZ Governor Mangudya, highlighted that the local currency would only be resuscitated when the country's foreign exchange reserves and domestic production levels are significant enough to sustain its rebirth. However, despite this the Government went on to reintroduce the domestic currency without any of the conditions being met and the results are showing with the worsening economy. Government of Zimbabwe through the Ministry of Finance and Economic development and RBZ did not put stringent measures in place to cultivate and sustain public confidence in the financial sector which has seen a thriving parallel market which is driving inflation to unprecedented levels. Policy inconsistencies and poor communication of policies further dented the public's confidence in the newly introduced currency.

- Failure by the Ministry of Finance and Economic Development to contain fiscal deficit and the failure by the RBZ to manage reserve money growth has led to the rising inflation and falling exchange rate. The failure, to stabilize the Zimbabwe dollar has worsened foreign currency shortages and opened doors for extortionist trading to dominate and control the market.

Policy Recommendations

In light of issues raised in this policy statement, PRFT opines the following recommendations;

- RBZ must allow the market to determine the Interbank rate to bridge the gap between the official and parallel foreign exchange rate. The current situation where exporters are subsidizing importers discourages exports and thus is not sustainable. The widening gap between the official and parallel exchange rate also creates arbitrage opportunities that fuels corruption.

- Ministry of Finance and Economic Development must contain the fiscal deficit including through eliminating subsidies such as the grain subsidies which are not reaching the intended beneficiaries.

- There is also need for the RBZ to reign in on money supply growth which is fueling inflation.

- Policy predictability is important with a clear financial and monetary policy framework which has the buy in of citizens. Meaningful citizen and stakeholders participation is important in that regard.

- While commending government efforts to minimize government expenditure, employee welfare should not be neglected. Given that the economy is dictated by the US$, Government should stride to review salaries of employees regularly against the official RBZ interbank rates. This will go a long way in ensuring that levels of household financial deprivations are reduced in the minute whilst taking long-term measures that will stabilise the economy.

- The Tripartite Negotiating Forum (TNF) is a good initiative which if decisions agreed on are implemented can help stabilize the economy. However, there is need for the TNF to be broad based and include as many stakeholders as possible.

- Economic and political reforms including addressing corruption must be expedited if the country is to attract the required Foreign Direct Investment (FDI).