COUNTRY REPORT

Konrad-Adenauer-Stiftung e.V.

ZIMBABWE

JOHN ROBERTSON

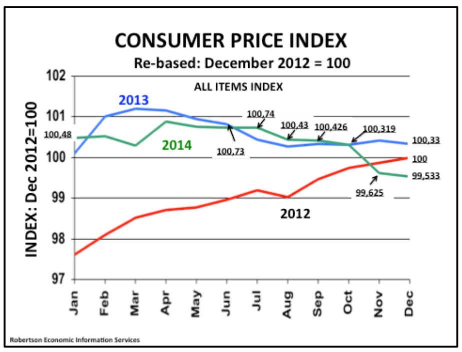
March 2015

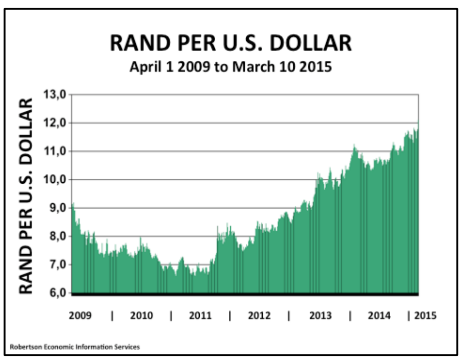
Links

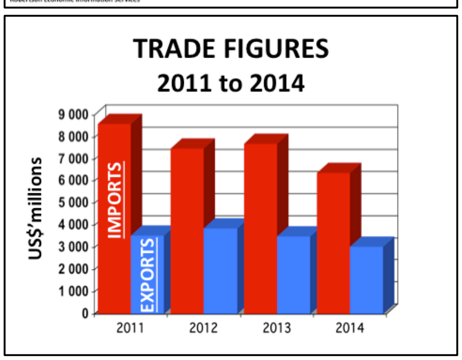
www.kas.de/Zimbabwe

Consumer Price Movements and US Dollar Values

Lower gold and platinum prices affected the Balance of Trade in 2014 and total export values decreased by 12,7%, from US$3,5 billion in 2013 to US$3 billion in 2014. The export figures were also affected by lower cotton production and a fall in tobacco prices.







The total import bill fell by 17%, from US$7,7 billion in 2013 to US$6,37 billion in 2014, despite Zimbabwe's continuing reliance on food imports. This reduced the deficit from US$4,2 billion in 2013 to US$3,3 billion in 2014.

Indications suggest that a fall in disposable income caused the decline in demand for consumer goods, and this belief is supported by reports from banks of an increase in non-performing loans. As a high proportion of these were to support commercial activities, evidence suggests that most of these loans would have been easily repaid if expected sales volumes and revenues had been realised.

Suggestions that buying power has fallen are further supported by the fierce competition between retailers, the effects of which carried price levels downwards for most of 2013 and 2014. The above graph shows that the Consumer Price Index at the end of 2014 was lower than at the end of 2013 and also lower than at the end of 2012.

As a large proportion of the population now depends upon remittances from relatives working abroad, the movements of the rand exchange rate against the US dollar has had a significant impact on disposable income in recent years. This exchange rate movement was less dramatic in 2014, as shown in this graph, but the weakening accelerated in the first months of 2015.

Konrad Adenauer Stiftung

Konrad-Adenauer-Stiftung e.V.

ZIMBABWE
JOHN ROBERTSON

March 2015

Links
www.kas.de/Zimbabwe

The reduced US dollar values of the rand amounts received by dependants and spent on US dollar-priced goods have impacted on spending patterns and taken many traders by surprise. However, reduced retail sales volumes were also caused by job losses that followed upon some company closures and defensive moves by other companies that chose to reduce wage payments by adopting shorter working weeks.

Many employers, including government, began to pay wages and salaries later than usual and some went several months into arrears. These caused significant reductions in buying power as well as changes in consumer behaviour. Many commentators have noted that none of these problems have yet shown signs of easing in 2015.

Zimbabwe's dependence on the use of the US dollar will continue until the country has some prospect of building up currency reserves. This will first require that exports exceed imports for some years, after first either settling outstanding debts or adopting a re-scheduled debt payments scheme that places the obligations within the country's means.

These are major steps, which will depend upon first investing enough money to rebuild productive capacity. To achieve that, Zimbabwe will have to adopt all the measures needed to restore confidence among the owners of the investment funds that will be needed, either as loans or as equity, to regenerate the output volumes from the productive sectors. To ensure the success of manufacturing, mining and agricultural investments, the services will also have to be recapitalized, in particular the banking, insurance, transport and construction sectors.

The key element for achieving investment inflows and full commitments from investors in all these fields is to guarantee respect for their rights, particularly constitutional rights, civil rights and property rights. Most importantly, the definitions of these rights have to be internationally acceptable.

However, laws have been passed in Parliament that permit evictions from land, confiscations of assets and forced surrenders of shares. Zimbabwe's government continues to believe that because the laws were passed in Parliament, they have the right to demand that others accept such conduct to be legal. Until they change this belief, and repeal laws that are in conflict with natural justice and international standards, the politicians will ensure that the needed investment funds will remain beyond the country's reach.

Zimbabwe's currency was destroyed through hyperinflation. This happened very much as a result of government's disrespect for property rights, because this led directly to a decline in economic activity. Zimbabwe did not need the permission of the Federal Reserve Bank in the United States to make use of the US dollar in place of the Zimbabwe dollar, but it should have accepted the need to use the currency in a disciplined way that would help ensure it would retain its full value in domestic as well as international transactions.

Regrettably, the authorities did not accept this responsibility very well. The Reserve Bank of Zimbabwe's Governor has limited influence over most aspects of Monetary Policy, but his strenuous efforts to avoid trying to influence pricing policy have been misplaced.

In terms of one of the Reserve Bank's most important mandates, the Governor should endeavour to sustain the true value of the currencies in use and should impose his authority on anyone seen to be trying to destabilise or interfere with its domestic or international value.

Because no attempt was made to impose such disciplines, one of Zimbabwe's many problems today is that a US dollar buys less in Zimbabwe than it does almost anywhere else. As prices in Zimbabwe are higher than they should be, Zimbabwe has in effect devalued all US dollars spent in Zimbabwe.

Konrad-Adenauer-Stiftung e.V.

ZIMBABWE
JOHN ROBERTSON

March 2015

Links
www.kas.de/Zimbabwe

People can make US dollars in Zimbabwe, but if they spend them abroad, they will get more for their money almost anywhere they go.

However, any claim that the US dollar has been devalued breaks down when its use to pay for imports is considered. As most imports cost less than the cost of their local equivalents, the US dollars used in those transactions might be considered either correctly valued or overvalued.

However, it is the local prices that matter most because almost anything that Zimbabweans can make can be imported for less. Costs of production have been forced up partly because producers have become far less efficient and partly because, in its efforts to raise more revenue from a declining economy, government has imposed additional licence fees, registration fees, application fees, permit application fees, environmental management fees and levies connected with personnel development, rural electrification and AIDS.

Some businesses are targeted for separate treatment. For example, maize importers need to pay two separate registration fees, two inspection fees, a permit fee, port health charges, a customs clearance fee, a clearing agency fee and a fee for a National Biotechnology Food Permit. And those importers who want permits and licences in a hurry have to pay an urgency fee.

The fact that it costs more to make the goods here is the problem needing attention, but government has sought to fix it by putting higher duties on imports to make them more expensive. This treats only the symptoms. Consumers still have to pay more, so they still get less for their US dollars.

All these additional charges have to be recovered from consumers, so the US dollar prices paid are heavily influenced by government fees. The other big influence is wages, and the fees influence these too. The trades unions use their bargaining power to argue that their members deserve higher wages so that they can pay the higher prices, and these wages then impact on costs.

Zimbabwe's labour laws also add to the costs of doing business in Zimbabwe. Employers' rights to fire workers are seriously restricted and when permission is given, it is conditional upon generous retrenchment packages being paid.

These add to the costs of doing business and when they can get away with it, the employers will recover the additional provisions made by charging higher prices. When competition prevents these costs from being passed on, the profitability of the business is reduced and its ability to fund measures to improve production efficiency, or even maintain existing production machinery, becomes more restricted by reduced incomes.

Zimbabwe's more immediate challenge, therefore, is to bring down its local production costs, particularly wage levels, and increase the capital back-up needed by the workers to match or better the output levels per dollar paid in wages achieved in other countries.

The distortions in prices and costs dates back to events before Zimbabwe formally adopted the so-called multi-currency exchange regime. By that date, many businesses and individuals had already been illegally making use of the same currencies, but the illegality of the transactions generated conditions of considerable uncertainty, so the scarce and highly prized foreign currencies were traded at substantial premiums.

When official approval had to be given for the use of these currencies, mainly the US dollar, many people were in a position to ensure that their premiums were preserved. Many of the distortions were therefore carried through into salaries and pricing formulae and many of them are still in place.

The Reserve Bank has the mandate to protect the value of the currency and it needs to use its authority to do so.

Konrad Adenauer Stiftung

Konrad-Adenauer-Stiftung e.V.

ZIMBABWE
JOHN ROBERTSON

March 2015

Links
www.kas.de/Zimbabwe

This it has to do by imposing discipline and by bringing the issues in need of change into sharper focus. Such efforts will generate much more helpful responses from the Ministry of Finance and all the other economic ministries. In particular, the Reserve Bank should be able to veto any ministerial decision that might have the effect of increasing the US dollar costs of buying anything or doing anything.

As an example, the Reserve Bank should come down heavily on any support for higher wages, if the proposals can be shown likely to affect Zimbabwe's prospects of competing against imports, or interfere with government's prospects of balancing the Budget.

Government wages require special attention. As a percentage of Gross Domestic Product, Zimbabwe's public sector wage bill is twice the size of the average for Africa. Again, the claims that the US dollar is not worth very much are translated into claims that twice as many are needed to pay for anything, but the real problem is that prices are too high.

Factory wages in Zimbabwe are about twice as high as those in countries with which Zimbabwean factories have to compete. This imbalance has forced many businesses to close, so most Zimbabwean technicians have had to seek employment in other countries. The skills shortage is another cost.

Zimbabwe is presently on the brink of a very disappointing maize harvesting season because the Reserve Bank did nothing to stop the Ministry of Agriculture from deciding that the maize price to local growers should be twice as much as the price paid to import it.

The Ministry of Agriculture tried to ban maize imports to force millers and stock-feed producers to buy the local growers' output after, it had first been sold to the marketing authority, the Grain Marketing Board. However, as the GMB did not have the cash to pay growers and certain people with political influence were able to get special import permits, the idea has collapsed.

However, the US$390 a tonne price is still the official price and the world maize price per tonne at the end of February was less than half that figure at US$173,7 per tonne.

If Zimbabwe wishes to continue using an international currency, its challenge in this regard is to respect the prices of internationally traded commodities and ensure that it chooses commodities for which its production methods and systems allow it to compete on world markets.

Zimbabwe could get away with price-manipulating decisions if the country had its own currency. But imposing an inappropriate idea would soon cause the currency to automatically depreciate and the devaluations would then make imports more expensive. Local producers might then see improvements in their chances of survival, provided subsidies could be met and imports were prohibited, but these restrictions would impose serious handicaps on the country's growth prospects.

Zimbabwe's officials might appear to be right in thinking that, by effectively devaluing the US dollars used to pay for maize, they will have improved inefficient maize growers' viability. However, they are forgetting that by promoting inefficient producers, they are adding further to local cost pressures and that the same US dollars are still retaining their value beyond Zimbabwe's borders. As a result, Zimbabwe's liquidity problems are being worsened by decisions to spend domestic earnings in foreign markets.

Zimbabwean came close to being able to import cheaper dairy, poultry and pork products from countries that feed these animals at much lower cost. However, many Zimbabweans who work in those sectors faced job cuts. Labour in particular might soon be paying a very high price for government's belief that they are free to manipulate the prices of internationally traded commodities.

Konrad-Adenauer-Stiftung e.V.

ZIMBABWE
JOHN ROBERTSON

March 2015

Links
www.kas.de/Zimbabwe

The fact that the country could previously produce most of its requirements was not an accident. It was the result of levels of commitment that were voluntarily made by talented business people who derived considerable encouragement from secure institutional business structures.

These structures were as ready to impose requirements as they were to ensure the delivery of rewards to those who met market standards. Support as well as discipline was forthcoming from successions of government officials, who were as eager to exercise their own talents for public administration as were the industrialists to take on the business challenges.

Zimbabwe's use of an international reserve currency does place its economy at risk, simply because it is now a developing country in which traders can earn hard currency. The means whereby the money can be earned and manipulated are less restricted than in other developing countries because exchange controls are less easily applied when everyone deals only in foreign exchange. Money laundering becomes easier, capital transfers are almost unrestricted and various scarcities and market distortions offer opportunities to those who can profit from the same scarcities and distortions.

Zimbabwe's major challenge today is to restore a functional economic system that will deserve investor support, permit the country to earn its way out of debt, generate a trade surplus and accumulate foreign reserves. Backed by these achievements, a new Zimbabwe currency would be worthy of respect.

John Robertson is a renown economic writer and analyst.

The opinions and views expressed in this article are the responsibility of the author. The Konrad-Adenauer-Stiftung does not necessarily subscribe to the opinions and views.

Konrad Adenauer Stiftung

Imprint

Konrad-Adenauer Stiftung
26 Sandringham Drive
Alexandra Park
P.O Box 4325
Harare/ Zimbabwe

Tel: +263 4 74 46 02 or
+263 4 74 45 53