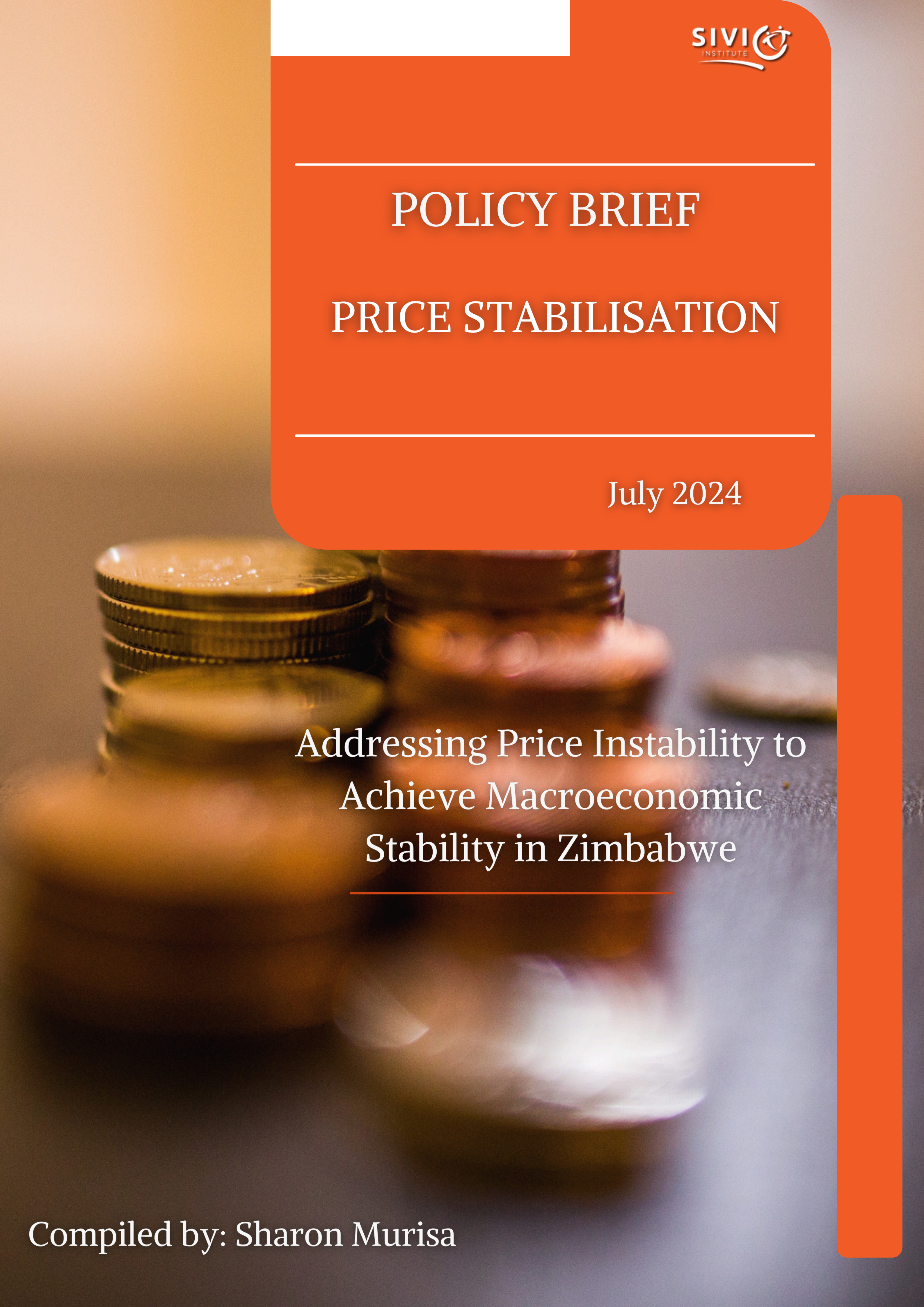

POLICY BRIEF

PRICE STABILISATION

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Addressing Price Instability to Achieve Macroeconomic Stability in Zimbabwe

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ADDRESSING PRICE INSTABILITY TO ACHIEVE MACROECONOMIC STABILITY IN ZIMBABWE

Zimbabwe has since the turn of the century faced a multifaceted crisis, characterised by price instability, driven by high inflation rates and exchange rate volatility. According to Jowah, (2023), in SIVIO Institute's Citizens' Perceptions and Expectations Survey report, price instability was the fourth highest concern for citizens. Livelihoods have been negatively affected by the continuous changes to prices of consumer goods. This policy brief outlines strategic recommendations to achieve macroeconomic stability by controlling inflation and ensuring steady price levels over time. These observations are made noting the repeated cycles of economic distress fuelled by a weak productive sector and poor monetary policies in the country and form part of citizen recommendations from the Policy Advocacy Lab process facilitated by SIVIO Institute between 2023 and 2024.

AN ENDURING CRISIS OF HYPERINFLATION

Since 2008, Zimbabwe has experienced significant inflationary pressures. As highlighted by the IMF in 2009, the economy has been marked by exchange rate instability, which has fuelled inflation rates to as high as 500 billion per cent in 2008. That hyperinflation phase ended when the country dollarized in 2009, (International Monetary Fund, 2009). The inflation rate has continued to fluctuate since then. Macrotrends (2024) shows that in 2020, the inflation rate was reported at 557.20%, which was a 301.9% increase from 2019. Statistics from Zimfacts (2021) show that in 2021, official year-on-year inflation for May 2021 was 161.9% and as of April 2024, the annual inflation rate was at 57.5%. While there has been a decrease in inflation rates, prices remain relatively high-, and the-income levels of most citizens have not increased at the same rate. In addition, prices of basic commodities continue to rise affecting the quality of life of citizens. In our 2023 – 2024 Policy Advocacy Lab on Price Stabilisation a wide range of concerns around how price instability affected participants and their communities were highlighted. The concerns raised on this problem could be clustered into four categories. Some of these concerns were,

1.Livelihoods and personal development

"It's difficult to budget the already limited funds,
Causes emotional stress, depend on hand to mouth budgets i.e. income mostly spent on food rather than other developments,
It reduces the purchasing power of my income,"

2.Shortage/lack of basic needs or commodities

"In extreme cases, unstable prices can even lead to food shortages and fuel rationing,

3.Uncertain/changing operating environment

*"Cost of living rises unexpectedly,
Consumer demand drops"*

4.Deterioration of social values

"High rate of social crimes such as theft, early marriages of the girl child as they try to run away from chronically vulnerable families and in some cases, families marry off their children to better families to get food."

TOO MUCH ACTION BUT LIMITED CHANGE

Over the years, the Government of Zimbabwe has implemented different actions with the aim to curb rapid price increases:

- **2007**- The Government of Zimbabwe introduced Statutory Instrument **142** of 2007- Control of Goods (Price Control) (Amendment Order) and issued a directive for prices to be cut by **50%** (Government of Zimbabwe, 2007). This was a measure to fight rising inflation however it caused tensions between the government and manufacturers. Relief Web (2007) reported, the price cuts resulted in prices somewhat stabilising, however there was an increase in food shortages.
- **2009** -The adoption of a multi-currency system whereby the Zimbabwean dollar was in circulation alongside various other currencies, with the United States Dollar (US$) and the South African Rand being the dominant currencies used by Zimbabwean citizens. Pilossof (2009), highlighted that the multicurrency system that had been introduced, brought certainty back to commercial transactions by dampening constant price fluctuations caused by hyperinflation.
- **2016**-The Government introduced the bond notes and coins, which were supposed to be equivalent to the US dollar, to make up for the dollar cash shortage, however, international settlements were off limits, and the notes were useful locally but not beyond Zimbabwean borders (Reserve Bank of Zimbabwe, 2016). Lack of trust in the currency made people sceptical and resulted in the black-market exchange rates skyrocketing through the roof. The bond notes lost value against the US dollar.
- **2019**-The Reserve Bank of Zimbabwe introduced the Real Time Gross Settlement (RTGS) Dollar, which was described as a new currency but only existed electronically (Reserve Bank of Zimbabwe, 2019). Since the introduction of the RTGS dollar currency, inflation soared resulting in prices of basic commodities increasing.
- **2020**- Introduction of weekly auction of foreign currency by the Reserve Bank to curb inflation which had driven the Zimbabwean dollar down to US$1 = Z$80 (Reserve Bank of Zimbabwe, 2020a). It however was shut down later in 2024.

- **2022**- Statutory Instrument 98 of 2022 was introduced which oversaw the suspension of import duty on basic commodities and removal of import licences on other commodities such as maize meal, cooking oil, laundry soap, black tea, to name a few (Government of Zimbabwe, 2022).
- **2024**-The Reserve Bank of Zimbabwe introduced the 2024 Monetary Policy which came with a new gold-backed currency, the Zimbabwe Gold, (ZiG), with an aim to mitigate currency instability and hyperinflation (Mushayavanhu, 2024). In all efforts, achieving macroeconomic stability still requires a comprehensive approach.

RECOMMENDED MEASURES FOR PRICE STABILISATION

1. Clear Monetary Policy Regulations and Confidence Building.

From 2019 to 2023, Zimbabwe's monetary policy experienced different approaches to managing exchange rates. These included methods such as free-floating, managed floating, fixed regimes, the Dutch Foreign Currency Auction System, and the Willing-Buyer Willing-Seller (WBWS) interbank market. The government should consider the implementation of a well-defined, effective, and inclusive monetary and fiscal policy, which includes clear regulations on monetary supply, interest rates, and credit availability. This should include implementing fiscal policy measures to address price instability. These measures need to be supported by prudent spending on the part of government and taxation policies that are pro-poor.

2. Free Access to Forex

The government must allow for the free access and trade of USD and other currencies understanding that our import demands remain high, and traders and citizens still need large sums of forex for trade. If access to forex remains restricted, it is a matter of time before inflation and speculation push the ZIG out of relevance.

3. Ensure that ZiG is Tradeable.

The Government must ensure that the ZIG is tradeable (as any other currency is) at local banks and exchanges without the need for intervention by the Reserve Bank through an effective forex market removing the need for speculation and use of a parallel market.

4. Utilise Data on Prices, Market Trends, And Social Vulnerabilities.

Government should use data on prices, market trends, and social vulnerabilities as a basis for making informed policy decisions. These decisions should be targeted and avoid applying blanket measures.

By tailoring interventions based on specific information especially information on the most poor and vulnerable, the government can address issues more effectively and efficiently to ensure inclusive pricing.

5. Fair Market Competition.

Enforcement of fair market competition regulations and the prevention of monopolistic practices within the next three years. This can be done through collaboration with local businesses whereby the government works closely with local businesses to ensure compliance with fair competition rules and foster partnerships and dialogue to promote a level playing field. To attain fair competition, the government can set up monitoring mechanisms in place so that fair pricing practices may be followed. Government can also implement consumer education programs so that citizens are aware of fair pricing practices which will promote transparency in pricing and prevent price manipulation. By taking these actions, the government can create a more competitive and equitable market environment that benefits both businesses and consumers.

6. Promote Local Manufacturing And Processing Industries.

The recommendation is to encourage the growth and development of local manufacturing and processing sectors and support businesses that produce goods within the country, thereby reducing reliance on imports as outlined in the Zimbabwe National Industrial Development Policy (2019 to 2023). ***It is recommended that as the policy is being reviewed for 2024 it be aligned to increased spending in the national budget for the Ministry of Industry and Commerce, growing proportions for funding to support small-scale agriculture, manufacturing, technology and other productive sectors in order to reduce dependence on imported goods and stabilise prices.***

These should have mechanisms for monitoring and evaluation of expected outputs in collaboration with the private sector. This will provide targeted assistance to small-scale farmers and manufacturers and strengthen their capacity to contribute to the economy by improving productivity and competitiveness. Strengthening local industries, in turn, has multiple benefits, including economic resilience and job creation. Promotion of local industry reduces the country's reliance on agriculture and mining, therefore promoting the development of a more diverse economic base. Single commodity reliance makes the economy vulnerable to fluctuations in commodity prices and weather conditions. Encouraging the growth of other industries, such as manufacturing, technology, and services, can help reduce the country's dependence on a single sector and improve economic stability.

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STAKEHOLDER RECOMMENDATIONS

These recommendations aim to create a collaborative effort among all stakeholders to achieve a stable pricing environment in Zimbabwe. Each group has a role to play in ensuring the economy is balanced and prices are kept under control.

Stakeholder	Recommended Action
Ministry of Industry and Commerce	• Promote domestic manufacturing sector, introduce subsidies on selected products, support agriculture, enact manufacturing friendly policies
Ministry of Finance, Economic Development and Investment Promotion Reserve Bank of Zimbabwe (RBZ)	• Work closely with the Central Bank to establish a well-defined monetary policy with a broader economic framework. • Oversee government spending through the national budget. By controlling government spending, this can help manage inflationary pressures. • Addressing market distortions through competition advocacy and consumer protection policies. • Increase allocation and support for new businesses in targeted areas of growth.
The Competition and Tariff Commission (CTC)	• Promote fair competition, which helps prevent price gouging and fosters a more stable pricing environment.
Zimbabwe Revenue Authority (ZRA)	• Ensure transparent and fair tax collection to avoid market distortions. • Monitor imports and exports to prevent smuggling and illegal trade that can affect prices.

CONCLUSION

By adopting these policy recommendations, Zimbabwe can move towards macroeconomic stability, ensuring that price levels remain relatively steady whilst fostering an environment conducive to economic growth and development in the long term. While a new monetary policy was introduced in April 2024 to bring economic stability, government needs to work on important factors that will bring trust and develop the political and economic will to ensure that cycles of inflation and economic downturns are not repeated.

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SIVIO INSTITUTE

ABOUT SIVIO INSTITUTE

SIVIO Institute (SI) is an independent organisation focused on ensuring that citizens are at the centre of processes of socio-economic and policy change. It aims to contribute towards Africa's inclusive socio-economic transformation. It is borne out of a desire to enhance agency as a stimulus/catalyst for inclusive political and socio-economic transformation.

SIVIO's work entails multi-disciplinary, cutting-edge policy research, nurturing citizens' agency to be part of the change they want, and working with communities to mobilise their assets to resolve some of the immediate problems they face. SIVIO Institute has three centres/programs of work focused on:
(i) Civic Engagement
(ii) Philanthropy and Communities
(ii) Economic Development and Livelihoods.

In the process SI addresses the following problems:

- Inadequate performance of existing political and economic system
- Increasing poverty and inequality
- Limited coherence of policies across sectors
- Ineffectual participation in public processes by non-state actors
- Increased dependence on external resources and limited leveraging of local resources