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Should Zimdollar be brought back?

by: Eric Bloch

LESS than six months have elapsed since Zimbabwe opted to have a multi-currency-based economy, and only six weeks have passed since the Zimbabwean dollar was formally demonetised.

However, it is very much more than two years (if not even longer) since Zimbabwe unofficially focused upon foreign currencies as the main medium of exchange, with the unlawful — but virulently active — alternative markets.

These ranged from "parallel" markets operating within the financial, commercial, industrial and other economic sectors, to the trading by the "mapositori" in the back streets, bus termini, beer halls, shebeens, and the like.

As hyperinflation soared, the contempt of the populace, and of all elements of economic society, for Zimbabwean currency became ever greater.

Concurrently, scarcity of essential commodities consistently intensified, for those without access to foreign currencies, or reluctant to operate within the alternative currency markets were unable to source imported and other goods for business consumption or sale.

This further fuelled the hyperinflation, notwithstanding commendable efforts by the Reserve Bank to alleviate the hardship by licensing some enterprises to operate in foreign exchange (a compromise solution when government was rigidly opposed to any acknowledgement, actual or implied, of the worthlessness of the Zimbabwean dollar).

The multi-currency basket approach pursued in early 2009 immediately became known as "dollarisation", for the US dollar was assumed as the basket's foundation, although operating in conjunction with the South African rand, Botswana pula, British pound and the euro.

Economic changes were almost immediate, with most scarcities being replaced by surpluses, and that being the principal trigger to falls in prices.

As against inflation estimated by Professor Steve H Hanke of the Johns Hopkins University and the Cato Institute, at 79,6 billion per cent in November, 2008 (month-on-month), Zimbabwe had 3,17% deflation in February 2009 and 3,07% deflation in March 2009, further deflation in the next following two months, and inflation of only 0.6% in July 2009.

However, almost from the inception of dollarisation, and notwithstanding the approbation of many for what was clearly an overdue but constructive action by the authorities, motivated by the Reserve Bank, there were many who voiced displeasure and opposition to the currency measures, and called for the restoration of the Zimbabwean dollar as the country's currency base.

These ranged from those in the political hierarchy, perceiving the measures as an abdication of "sovereignty" (being supreme, unmitigated authority and power), although in probability some of them also found that the measures almost brought to a halt their profiteering in their business operations, founded upon alternative market currency trafficking, or upon exploitation of the market scarcities circumstances.

Alongside their demands for reversion to the Zimbabwean dollar, there were many others who did likewise.

Led by those who held resources of those currencies which had been rendered valueless by the currency redenomination, despite the fact that even before the adoption of the multi-currency basket, these Zimbabwean dollars had very minimal spending power.

That was very rapidly forgotten, as poverty abdicated recollection of the almost wholly withered worth of those dollars. Concurrently, many others objected to the operation of a multiplicity of currencies, some insisting that Zimbabwe should be exclusively linked to the US dollar, and others pressing for exclusive adoption of the South African rand as Zimbabwe's sole currency.

These divergent views had total disregard for the negative economic consequences of an environment of uncertainty and validity due to the recurrent vehement, divergent demands for change, and similarly ignored that such an environment was not conducive to the attraction of much-needed investment necessary for the stimulation and entrenchment of economic recovery.

They also effectively dismissed that from the onset of the adoption of the multi-currency basket, government and the Reserve Bank were repeatedly outspoken that, when opportune, Zimbabwe would revert to its own currency, save if at a distant future date a stable and sound currency was introduced for the entire region.

Instead, ever more vociferously, there has been a cacophony of calls for immediate restoration of the Zimbabwean dollar.

This has grown to such an extent that it motivated Minister of Finance, Tendai Biti, to state only a month ago that if a premature return to the Zimbabwe dollar would be imposed, he would resign. He made it very clear that such action precipitously taken would have catastrophic negative economic repercussions.

Nevertheless, readers' letters in the media, parliamentarians and others, persist in the demands for an immediate, or at least very rapid, return of the Zimbabwean dollar.

As pressure and debate for the return of the Zimbabwean dollar grow, to no small extent catalysed by such demands by the president and others in high authority, Parliament began to focus increasingly on the issue, and one of its committees received evidence from the Reserve Bank Governor, Dr Gideon Gono, during which he advocated restoration of the Zimbabwean dollar.

However it was significant that he did not suggest that it be immediate, and he did not assign a time period for such action.

He did say that it should be fully conceptualised, evaluated and strategised, and implemented as expeditiously as possible.

Nevertheless, the media, and most of the populace in general, and commerce and industry in particular, took it for granted as almost immediately forthcoming.

They ignored that, as recently as July 30, in the 2009 mid-year Monetary Policy Statement, the Governor Gono said: "There are no calendar time limits favouring or barring the return of the Zimbabwean dollar and, as monetary authorities, we will continue to carefully gauge the overall performance of the economy to inform us on the appropriate decisions or courses of action to take".

He also emphasised in a subsequent statement, that "the reintroduction of the Zimbabwean dollar is feasible to the extent this is anchored on underlying real assets or actual production on the ground", and that it be fully understood that it was absolutely unacceptable that resumption of the Zimbabwean dollar be to enable "A blind return to the money printing press", or to send to the market a message: "To hell with other currencies, here are new Zimbabwe dollars."

He said that, instead, there must be a "guarded reintroduction of the Zimbabwe dollar, where such new currency will be fully backed by credible, tangible and locally available assets, such as gold, diamonds or platinum, among several possibilities.

In addition, he stated that reintroduction of local currency would require huge investment in the mining sector, further fiscal consolidation, trade and capital account liberalisation, as also of the foreign currency market strengthening of institutional credibility, and rebuilding of high foreign exchange reserves.

Reading between the lines, therefore, it is blatantly clear that reintroduction of the Zimbabwean dollar is not envisaged as an immediate action, but one to be properly prepared for, and then effected when the time is right.

In other words, very prudently and correctly, the intent appears to be to "hurry slowly", to ensure that the Zimdollar does return, but only when for the good of all.

Eric Bloch is a columnist for the Zimbabwe Independent

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