Zim forex trade halted as prices soar

Zimbabwe's central reserve bank temporarily halted foreign currency trade on the official market as concern intensified over escalating commodity prices.

By Dumisani Ndlela 19 Jun 2008

Foreign currency dealers said the RBZ ordered banks to stop trading in foreign currency on Wednesday, June 2008 but urged then to resume transacting hours later without giving reasons.

Market watchers said the RBZ had reacted to worries over the effect of the depreciating Zimbabwe dollar on prices.

Prices have skyrocketed drastically since a new exchange rate regime that allowed market forces to determine Zimbabwe dollar price on the official foreign currency market.

The price of bread, which is hardly available in shops because of wheat shortages, has more that quadrupled, with fuel costs, which have pushed up transport costs for all industrial and commercial businesses, tracking the official exchange rate.

“The NIPC (National Incomes and Pricing Commission) applies the official rate for purposes of determining pric for imported products and ZIMRA (Zimbabwe Revenue Authority) also uses the official exchange rate for duty purposes. The central bank might have reacted to concerns that this was the reason for the daily price increase on the market but might realised they would hurt confidence if they went ahead and imposed fresh controls on t foreign exchange market,” said a bank analyst who cannot be named for professional reasons.

The Zimbabwe dollar, which had been fixed at Z$30,000/US$, slumped to $160 million/US$ when it started trad under the new regime in early May. Since then it's sunk to $6.5bn/US$ in early morning trade on Thursday June 19, 2008.

President Mugabe, who will square up against MDC leader Morgan Tsvangirai on June 27, said the current wa of price increases was unrelated to increases in the cost of production, saying business was trying to undermin his government by unilaterally increasing prices “to inflict pain on the people” to stoke agitation against his regi

However, Callisto Jokonya, president of the Confederation of Zimbabwe Industries (CZI) accused Mugabe's government of printing money and therefore driving inflation and undermining the domestic currency.

“We need to act as a matter of extreme urgency to reduce money supply growth. If we continue with the current policy of injecting massive amounts of liquidity into the economy, we will continue to see a continuous depreciat of the local currency," Jokonya said, insisting, “This will make doing business more and more difficult and we wi reach a point where we risk the local currency becoming unusable.”

ABOUT DUMISANI NDLELA

Dumisani Ndlela is a Zimbabwean journalist specialising in business and financial reporting, with experience reporting on commodities, stock and financial markets, advertising, marketi and the media. He has previously reported from a number of regional countries as well as from the UK and Germany on commodities and regional integration. He can be contacted on dndlela@yahoo.co.uk.
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