Published on *Institute for War and Peace Reporting* (https://iwpr.net)

Dollarisation of Economy Raises Concerns

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Allowing hundreds of businesses to trade in foreign currency may curb inflation, but is likely to weaken monetary control.
A shopping square in downtown Harare is bustling with life, its tiny stalls stocked with everything imaginable.

One vendor sells meat and thick maize meal porridge; another packets of artificial hair extensions and washing powder, and another balloons.

A stall by the entrance catches my eye. Tendai Moyo, 27, the mother of two small children, is hawking an array of colourful beaded jewellery. There are bracelets, necklaces, belts and coin purses all handmade by the woman herself. I pick a red, green and yellow beaded bracelet.

“That will be 10 US dollars,” she said, matter-of-factly.

I insist that I can only pay in Zimbabwean currency, yet she is adamant that she will not accept it.

“The Zim dollar is now as good as toilet paper, my brother,” she said.

After haggling briefly, I manage to get the bracelet for 5 US dollars, and hand the woman a 50-dollar bill.

“That's too large. I don't have that much change, I have to ask someone else,” she said, before taking the crisp note, holding it up to the sunlight and inspecting it suspiciously.

The man from the next stall laughs. “Don't make a fuss. Do you really think it's a fake? Let me split that for you and just give the man his change.”

Eventually, the woman hands me my change, and I also hold the bills to the sky, sarcastically repeating her routine. We both laugh and close the sale.

Such transactions are now typical of daily purchases in Zimbabwe, where the economy is becoming highly dollarised. Although it is mainly illegal to sell goods for foreign currency, most people – from landlords, bus operators, taxi drivers and street vendors to cashiers in pubs and restaurants – will accept US dollars as payment.

And like the woman at the Gulf Shopping Square, most vendors prefer US currency to the rapidly weakening Zimbabwe dollar, which has been battered by skyrocketing hyperinflation estimated at 11.2 million per cent – the highest in the world.

Now the situation on the ground has been recognised by Zimbabwe's central bank.

A directive by the Reserve Bank of Zimbabwe, issued on September 9, has authorised some 1,200 retail and wholesale businesses to charge for their goods in US dollars, South African rands, and other hard currencies.

Reserve Bank governor Gideon Gono – who is known for dramatic policy innovations – has provoked controversy with the introduction of these so-called Foreign Exchange Licensed Warehouses and Shops, FOLIWARS.

Gono said the initiative – which is being introduced for an initial period of 18 months – was a response to a request from the country's hard-pressed business community. He emphasised that the Zimbabwe dollar was still the official currency, and that this did not mean the economy had been officially dollarised.

Luxon Zembe, president of the Zimbabwe National Chamber of Commerce, a private, non-profit making organisation, praised Gono’s “timely intervention”. He said the move would help in the purchase of raw materials and would make goods readily available.

“This will help business obtain hard currency revenue to hedge against losses in the rapidly weakening value of the Zimbabwe dollar,” he said. “It’s a good way of eliminating price distortions.”

However, not everybody welcomed the move.

Some have warned of a massive surge in the cost of basic products, as prices on the black market were pegged to US dollar prices.

Zimbabwe's unions, meanwhile, reacted cautiously to the news that some vendors would be allowed to deal in foreign currency.

Japhet Moyo, acting secretary general of the country’s largest labour federation Zimbabwe Congress of Trade Unions, said that if businesses are allowed to charge goods and services in foreign currency, then workers must also be paid in that, too.

He also noted that latest move was a signal that Zimbabwe's economic meltdown – which has seen prices treble weekly – is gathering pace.

Under the Gono initiative, applicants for a licence must outline their foreign-exchange needs, the goods they sell, their capacity to handle foreign exchange, their estimated weekly or monthly sale volumes and the ownership structure of their business.

Those retailers and wholesalers who meet the stringent requirements and are granted a license must then surrender 15 per cent of their foreign currency earnings to the reserve bank.

Some economists believe the central bank’s strategy is an ingenious way to fundraise foreign currency for the cash-strapped government. Others say it carries a tacit acknowledgement from the authorities that they have thus far failed to control the economy.

Past measures introduced by the government to curb inflation – such as ordering businesses to slash prices, and profligate printing of money by the central bank – have caused the value of the Zimbabwean dollar to plummet.

Businessman David Govere, who recently shed his stake in a string of bakeries he was running in order to protect himself against losses caused by price controls, said the move to allow some trading in foreign currency made sense.

“Price controls and printing of money are the main causes of inflation,” he said. “If we use [US] dollars, it means we won't need to print more of our own currency, so that's one way of controlling inflation.”

However, another economist who spoke under conditions of anonymity, warned against using the dollar for all transactions in the country.

“Full dollarisation has serious disadvantages,” he said.

“Since the legal tender is not the local currency any more, the reserve bank and policymakers have diminished roles and lesser monetary control.”

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Location: Zimbabwe
Focus: Zimbabwe Crisis Reports
