Zimbabwe bank chief cuts money supply to fight inflation

AFP

by Fanuel Jongwe

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Zimbabwe's central bank chief Gideon Gono has unveiled a battery of belt-tightening measures which include slashing the money supply and state spending to put the brakes on four-digit inflation.

Gono rejected economists' pleas to devalue the currency to hike foreign exchange inflows, saying it was no panacea.

The Zimbabwe dollar is trading at 250 against the greenback on the official market while fetching up to 4,200 on the black market.

"The urgency of the need to reduce inflation impels that 2007 be the year for unprecedented fiscal and monetary policy restraint," Gono said in a monetary policy statement.

"To this end, the Reserve Bank will reduce broad money supply growth from the current levels of over 1,000 percent to between 415 and 500 percent by December 2007 and subsequently to under 65 percent by December 2008."

Gono bemoaned tensions between political rivals in the economically ravaged country and urged Zimbabweans to join hands to fight inflation, which stood at 1,281 percent in December.

Zimbabwe is in the seventh year of economic recession marked by four-digit inflation and acute shortages of basic commodities. At least 80 percent of the population live below the poverty threshold.

He warned that if no bold correctives were taken "the inflation dragon will swallow our economy".

"We currently observe latent political tensions in as much as there are economic and social tensions arising from the economic hardships the people are experiencing across the board," Gono said.

"Such disunity and distrust between us does not augur well for an economy seeking to turn around and take off."

Gono urged cuts in government expenditure which he said was a major cause for skyrocketing inflation.

"Continued fiscal budget overruns, particularly when induced by recurrent expenditure, are a fundamental distortion in the economy with tentacles that infringe on monetary targets and hence weaken the inflation-fighting momentum," he said.

"We therefore call upon all line (government) ministries to radically rationalise their recurrent expenditure profiles in a manner that ensures achievement of healthy fiscal budget outruns."

Analysts voiced disappointment at Gono's remedies.

"It's very disappointing," independent analyst John Robertson told AFP.

"He has chosen to ignore the fact that the local currency is overvalued and it is affecting the cost of importing raw materials and equipment to revive industry.

Economist Antony Hawkins considered that all Gono had said was old hat.

"Gono has been saying the same thing about the social contract for many years and it has almost been impossible to get an agreement between government, labour and business together."

"A social contract in isolation will not change anything. We need a change of policies and real answers to the factors that are driving inflation."

Gono called on the government to withdraw subsidies including a scheme under which the government was setting the price of a litre of petrol or diesel for public transporters at a rate nearly 10 times lower than the price of bottled water.

He also queried a scheme under which the government bought a tonne of the national staple cornmeal from farmers at 52,500 dollars (210 US dollars / 162 euros) a tonne and sold it to milling companies at 600 Zimbabwe dollars a tonne.

In May last year the government unveiled a blueprint to revive the moribund economy in nine months by luring international tourists, reducing inflation, increasing exports and improving foreign earnings.

The central bank also slashed three zeros from its currency and introduced new denominations in measures meant to snuff out the flourishing foreign exchange black market, but they have not had much impact.
