BIZCOMMUNITY

Zim contends with strong rand to avoid food shortage

By Dumisani Ndlela

16 Jul 2010

To control or not to control food imports from South Africa has become the single major headache for the Zimbabwe government, now facing spiralling inflation after a disinflationary period in 2009.

Much of it had been largely technical: After dollarisation of the economy last year, prices went down, forcing inflation to single digits after years of hyperinflation that saw inflation levels hitting 500 000 000 000% officially.

Now, inflation under the dollarised environment has started creeping up again, causing discomfort within the inclusive government. In May, inflation accelerated to 6.1% year-on-year from 4.8% in April. Finance Minister Tendai Biti said it had gone up in June.

Strong SA currency

Much of the inflation is from food and other basic commodities, and because there are high levels of imports from South Africa, rising inflation levels have been associated with the strengthening of the South African rand against the US dollar.

Industry's solution has been to bring back customs duty on basic commodities which was suspended to avoid shortages due to low production levels in the agriculture and manufacturing sectors. Revenue foregone as a result of implementing this relief measure amounted to US$36 million during the period January to April 2010.

Duty would punish consumers

But Biti says duty on basic commodity imports from South Africa would punish consumers, and trigger social unrest, a higher political cost than lost revenue from charging the duty.

The suspension of duty on basic commodities, he said during a budget presentation on Wednesday, 14 July 2010, had resulted in the improved supply of goods and stabilisation of prices.

"There is, however, need to enhance capacity utilisation of companies that manufacture basic commodities and also address consumer welfare," said Biti.

Duty suspension retained

So, the suspension has been retained, but only four product ranges failed to escape the tax net: Margarine, now to attract duty of 15%, and washing powder, petroleum jelly, bath soap with duty of 10% and beauty or make-up preparations for the care the skin at 15%.

To avoid a backlash from industry, Biti has suspended customs duty on raw materials and capital goods to help boost capacity.

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, marketing 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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