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Inflation Alert – Oct 2018

…annual inflation at a record high of 20.9% in Oct 2018…

…month on month inflation also rose notably to 16.4%…

…rise in operational challenges…

…radical uncertainty reduces power of forecasting…

Annual inflation rises to a multi-currency era record high in October 2018…

Indicator	Oct 2017	Sept 2018	Oct 2018
Annual	2.2%	5.4%	20.9%
Month-on-Month	1.5%	0.9%	16.4%

Source: ZimStat

- According to the ZimStat, the year-on-year *"y/y"* rate of inflation surged from 5.4% in Sept 2018 to 20.9% in Oct 2018, the highest level since dollarization in 2009.
- The *y/y* food and non-alcoholic beverages inflation rose from 7.9% to 26.8%, driven by increases in prices of bread & cereals, meat, oils and fats, vegetables and dairy products.
- The non-food inflation also rose from 4.2% to 18.1%, over the same period, underpinned by higher prices for clothing & footwear, furniture, transport and health (medical services and pharmaceuticals) categories.
- Meanwhile, the underlying m/m inflation rate also jumped from 0.9% to 16.4% between Sept 2018 and Oct 2018.

Implications

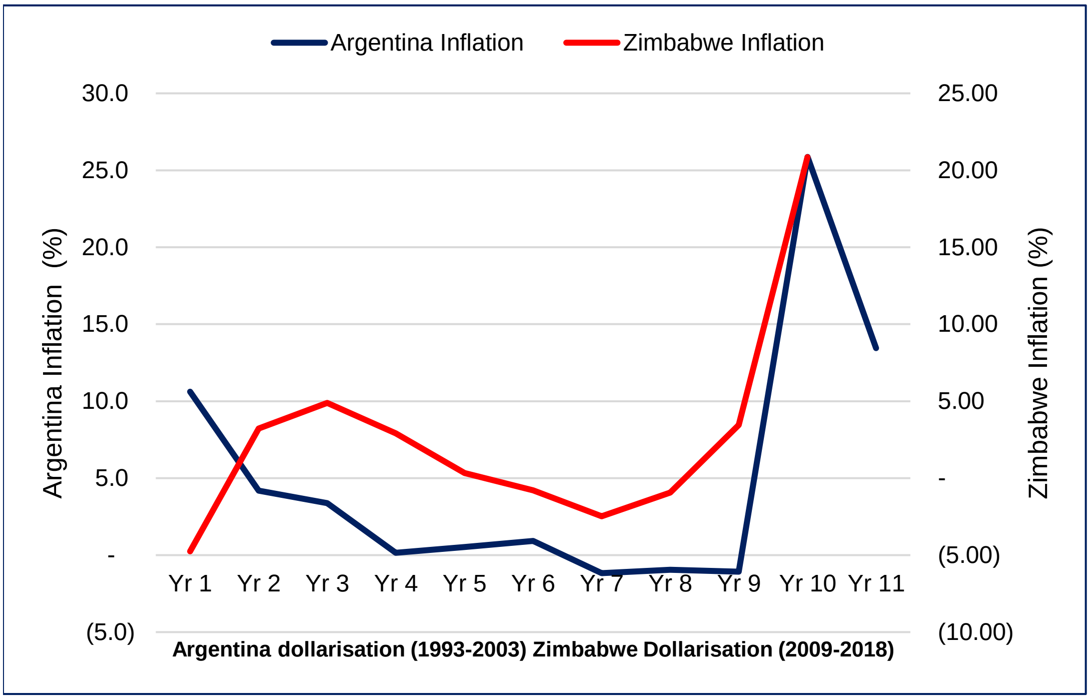
- Although the rise in the official rate of inflation is largely a catchup to reality, it continues to pause significant challenges to economic players, particularly through:
  - negative real returns on money market and other fixed term investments,
  - underinsurance and claims inflation in the insurance sector,
  - loss of value of non FX monetary savings/ assets, and,
  - uneconomic lending business, among others.
- However, despite these challenges, the rise in inflation may also positively impact the equities market as investors shift from the low-yielding money market to the stock market.

Outlook

Meanwhile, due to the protracted radical uncertainty, characterized with the use of administrative tools to stabilize the macroeconomic environment, mathematical models largely remain less useful in predicting the inflation outlook, hence the need to use opinion polls, reference forecasting and case studies, among other tools. As such, we outline on the next page a graph on the Argentine experience during its period of dollarization between 1990 and 2003. Admittedly, this does not give a clear indication of the Zim inflation outlook, but it generally assists in building scenarios.

…trend in annual inflation since dollarisation…

Graph 1: Comparison of Argentina & Zim Inflation Rates



As illustrated in the graph above, both countries enjoyed price stability soon after dollarizing, and experienced sharp price instability in the 9th year of dollarization. In Argentina, the rate of inflation rose to a high of c.40% at the peak of the currency and debt crisis, before receding sharply underpinned by intensive macroeconomic reforms and external support. The question therefore, becomes, what is next for Zimbabwe? By and large, the future direction of Zimbabwe's inflation rate depends on (1) the authorities' ability to build public confidence, trust and support in the ongoing reforms and, thus, eliminate adverse expectations and (2) the currency regime and the authorities' ability to stabilize the exchange rate going forward. It is, therefore, expected that the fiscal and monetary authorities will outline more measures to deal with these fundamental issues, as well as the aforementioned challenges such as negative real returns, in the forthcoming stabilization policies.

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