Life Offices Association of Zimbabwe

Demystifying Insurance Part 19

Welcome to part Nineteen of Demystifying Insurance, a continuation of the Life Offices Association (LOA)'s ongoing National drive to make insurance easily understood by all. This week, we look at how hyperinflation affected Zimbabwe's citizens.

Cash shortages

During the hyperinflation period in Zimbabwe, the idea of leaving money in the bank was not palatable due to its rapid erosion. The money was initially withdrawn with the intention of purchasing a stable currency for future use.

However, it was quickly realised that once one had foreign currency, one could sell it at a higher price and purchase goods of a greater value. If the money was traded repeatedly and quickly enough, one could even purchase more foreign currency on subsequent cycles.

This whole process was given a Shona title of 'kupisa' [burning].

Cash rationing

As prices soared, so too did the need for more cash. The central bank set maximum daily withdrawal limits but many people could not withdraw all their money in one day and had to make several trips to the bank on consecutive days.

Huge winding queues and even elderly people sleeping in queues overnight were common sights. As cash shortages ensued, people resorted to electronic money transfers. Some individuals or firms started trading on the stock exchange, buying and selling shares at a higher price in the same way as 'burning'. This caused a massive 'bull run' on the stock exchange and a transfer of wealth from sellers to buyers.

The use of electronic transfers quickened the speed at which the dollar fell. Firstly the use of the Real Time Gross Settlement system meant that the sellers of foreign currency had to wait to get their proceeds. With the speed at which the value of such proceeds was falling, they were forced to charge a higher rate than for cash.

Secondly, and foremost, the speculative trading on the stock exchange meant a faster decline in value of the transfer proceeds. This helped to make cash more valuable and, as a result, there arose two exchange rates — the cash rate and the transfer rate.

Billions and trillions

The central bank was pressed to print more money and to change its denomination to notes of higher nominal value. However the rates at which new notes were printed and the massive increase in their face value began to render new cash denominations of no value.

Traders began to resist new trillion dollar denominations, preferring preceding denominations of billions. The consequence was the emergence of a third trading rate, so the exchange rate for US$ into ZW$ depended on whether it was a transfer, cash denominated in billions, or cash denominated in trillions.

Loss of life and limb

During this absurd period the central bank issued a directive restricting transfers and cash withdrawals. This was in an effort to stem hyperinflation and to ensure a fair distribution of available cash. Applications had to be made to the central bank for higher cash transactions.

The delay in the approval of some transactions, for reasons of verification, cost some people their lives or limbs as they could not be quickly attended to at hospitals. This has left scars in some peoples' lives up to today.

Family structures were also affected. The number of child-headed families increased either due to death of the parents, or parents relocating to other countries in search of greener pastures.

Influx of goods on the black market

A significant shortage of basic commodities also occurred as people developed a 'buy now' tendency. Hoarding of goods caused prices to rise sharply and, on the black market, items like maize meal could be found in small 500 gram packs, while cooking oil sold in containers of Vaseline for exorbitant prices.

Barter trading

By barter trading goods of similar worth, buyers and sellers did not have to worry about the loss of the value of money. For example, where inflationary conditions are not severe, the salesman, a farmer say, can sell his goods for money and then 'change' this money into fuel for his tractor.

But, during hyperinflation in Zimbabwe, by the time the farm produce was exchanged for cash, the price of fuel would have increased so much that the cash would have become worthless. The 'safer' option therefore was to barter, although one cow for four bags of maize won't strike many today as safe or fair!

Things fall apart

Health facilities deteriorated as authorities could not afford to maintain proper sanitary conditions or buy medical supplies. Hospital bills became exorbitant and the average Zimbabwean could not afford medication. The situation was worsened by a shortage of drugs and the brain-drain, as a significant number of medical staff left the country.

Outbreaks of diseases like cholera also surfaced due to unattended health hazards like burst sewer pipes and sewer inflow into water systems. A high rate of school dropouts also ensued, causing the education system to crumble. On the housing front, rentals became unaffordable and landlords began to demand payment in goods such as soap and maize meal.

Transport blues

Fuel shortages caused by lack of foreign currency brought public transport to a halt. When transport was available, the fare was usually unaffordable. Many people had to either cycle or walk to work. Private transport became a crucial alternative as it tended to be cheaper.

Thank for reading and be sure to join us next week when we examine the effect hyperinflation had on our financial services sector.

The Jupiter Drawing Room (Harare) J065019

The Life Offices Association of Zimbabwe

4 Josiah Tongogara Ave
Tel: +263 4 29 33 655-6 / 0712339305 / 0713033519