HYPERINFLATION IN ZIMBABWE

Previously known as Rhodesia, Zimbabwe was a British Colony. After years of conflict and civil war, power was transferred to the native Africans, and a legitimate state Zimbabwe was created. Zimbabwe is a landlocked country in southern Africa. The country gained independence from Britain on 18th April 1980. Zimbabwe was one of the richest and most developed countries on the African continent before the turn of the 21st century. Zimbabwe was uncharacteristically economically developed for a sub-Saharan country, in fact the most developed only behind South Africa. After independence the currency changed to Zimbabwe dollar from Rhodesian dollar at the par value.

Now, how did this once model African economy became a near failed state?

First discuss what hyperinflation actually is

HYPERINFLATION: Inflation state which is too much difficult to control or an inflation which is occurring at very high rate.

Characteristic conditions:

- General increase of price levels of goods and services at an exponential rate
- Money becomes almost worthless and pertaining to collapse
- Severe economic and social problems

Causes of hyperinflation

- Excessive or rapid increase in money supply
- Supply shocks often caused by natural calamities and wars.
- Rapid depreciation of currency due to other economic factors

SITUATION OF HYPERINFLATION IN ZIMBABWE

1. The Zimbabwean dollar imploded in 2009 after undergoing the second-worst bout of inflation in world history, after Hungary post-World War I.
2. The note with the most zeroes of any legal tender in all recorded history. The central bank of Zimbabwe issued $100,000,000,000,000 notes during the last days of hyperinflation in 2009.
3. In 2008, inflation spiralled out of control, reaching an annualized rate of 89.7 sextillion (or 89,700,000,000,000,000,000,000) percent.
4. The country's central bank could not even afford the paper on which to print its worthless trillion-dollar notes. The miserably low savings and incomes of the impoverished population were wiped out.
5. Shopkeepers would frequently double prices between the morning and afternoon, leaving worker's pay almost valueless by the end of the day.
6. In 1998, the inflation rate was 32 percent, a very high number for any country. Goes on increasing up to 11.2 million percentage points in 2008, practically costing more to print the money than the money is worth.
7. A hundred trillion-dollar note would not even able to cover a bus fare.
8. In 2008 At one point of time a loaf of bread, costed between Z$7,000 and Z$10,000. And Over 80% of the population were unemployed.

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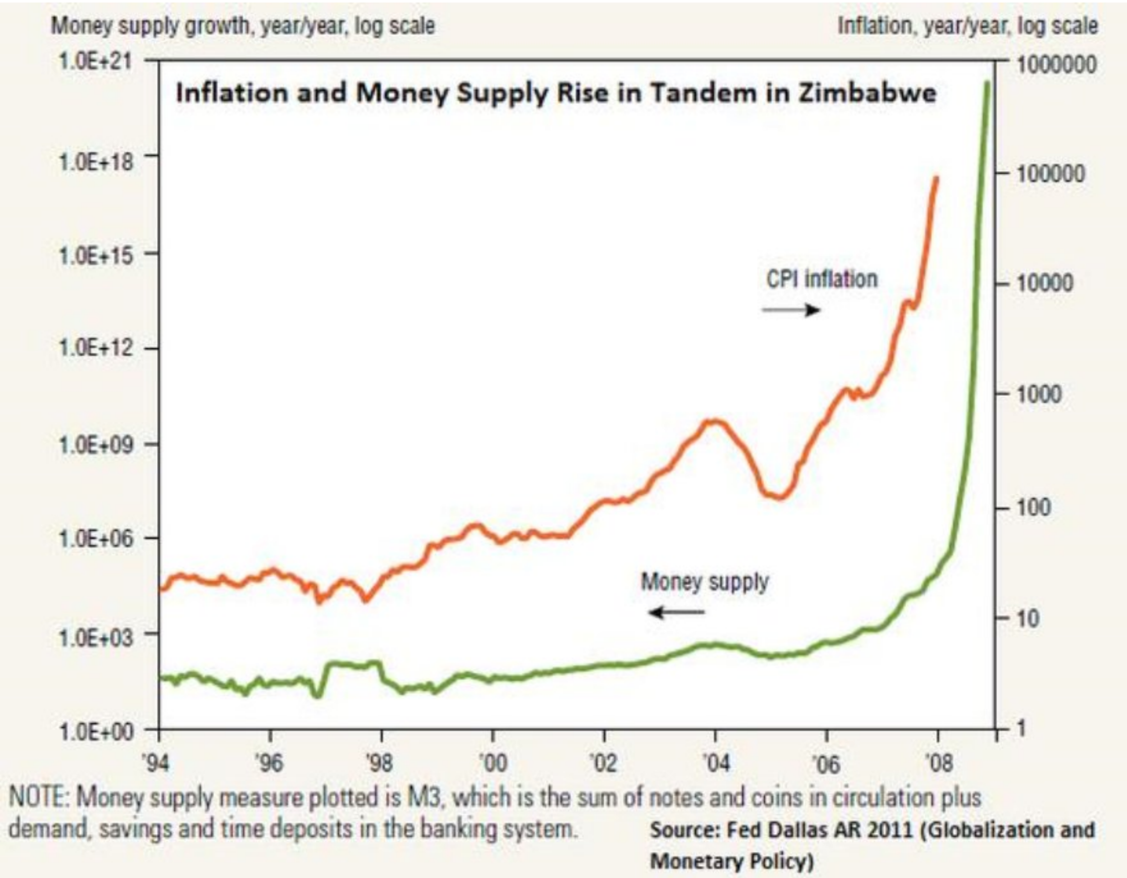

REASONS FOR HYPERINFLATION IN ZIMBABWE (1997-2008).

In Zimbabwe, the white minority, constituting 5 % of the population owned 80% of the lands, while the majority native Africans were left to scrape a living on the remaining, mostly un-arable, overcrowded common lands. Throughout the colonial history of Zimbabwe, and through the 80's and 90's, Zimbabwe has experienced large scale agricultural exports and relative economic success, once second only behind South Africa. During this period, most of the country's most productive farmland remained in white hands after independence. The commercial farming sector had been one of the main sources of Zimbabwe's economic wealth, making it a net exporter and employing over 400,000 workers. The event that set off this decade long crisis was a mismanaged policy by President Robert Mugabe.

1. Land reform program: One of the first policy actions was made by prime minister (later president) Mugabe was to re-distribute land. The government of President Robert Mugabe worked to shift ownership most of the farm lands were taken over by local people and other government officials who had only little knowledge about the agriculture and related activities.
   Impact of land reform program over the years.
   - The annual wheat production which was once stands at 300,000 tonnes in 1990 plummeted to 50,000 in 2007.

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- The tobacco industry, which was Zimbabwe's single largest generator of foreign exchange and accounted for almost a third of Zimbabwe's foreign exchange earnings in 2000, has almost completely collapsed.
- The crop that earned some US$600 million in 2000 generated less than US$125 million in 2007.
- Since the 1980s, once a net exporter of food had turned into net importer.

The move from this to the mismanagement and decentralization of the farming sector has led to the overall economic chaos. Because of the land reform policy, the fiscal mismanagement, of which an infrastructure for sound financial management was never created, has led to an unsustainable fiscal deficit, hyperinflation, and an extremely overvalued official exchange rate.

2. War funding: In late 1990s Mugabe authorized Zimbabwean troops to fight in the Second Congo War. In September 1998, even as economic conditions continued to worsen, the President sent 11,000 troops to the Democratic Republic of the Congo (DRC) to back the discredited leader, Laurent Kabila. Its involvement in the war drained much of its monetary reserves on the wake of 21st century. In fact, the Mugabe government was printing more money to help financing the war. Zimbabwe was under-reporting its war spending to the International Monetary Fund by perhaps $22 million a month.

3. Economic Mismanagement: One of the major drivers of inflation has been fiscal mismanagement over the past 10 years. According to IMF reports, the budget deficit, including grants, stood at 10.0 percent of estimated GDP in 2006. This figure is over triple the figure of 3.0 percent of GDP achieved in 1998. In the 2008 budget announced on 29 November 2007, the forecast budget deficit was approximately 11 per cent of expected GDP of Z$16 quadrillion. According to IMF estimates, government expenditure had reached 53.5 per cent of GDP in 2006 – more than double the expected value of 24.7 percent. And moreover Zimbabwe's Reserve Bank is state owned and the Governor had been ordered by Mugabe (on an ongoing basis over the years since 2000) to print amounts of currency that grow the money supply at a rate well over Zimbabwe's inflation rate.

The overall result of all this severely mismanaged causes was a food crisis, and a battering for the economy as foreign exchange earnings slumped - both from farming and from tourism, amid violence surrounding the land reform program.

EFFECTS OF HYPERINFLATION IN ZIMBABWE

- The currency (Zimbabwe dollar) was heavily depreciated and this cause severe economic problems.
- The effect of currency under valuation is such that they had to print money with denominations in trillions. In 2008, the annual inflation rate was 11.2 million percentage points, practically costing more to print the money than the money is worth.

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- Population Displacement: Hundreds of thousands of people were uprooted at the height of the crisis, either fleeing to neighbouring countries or displaced within Zimbabwe.
- Severe food crisis: Millions of Zimbabweans had experienced a huge scarcity of food and most of them were surviving on just one meal a day and this is worsened by the droughts of mid 2000s.
- Life expectancy dropped: Life expectancy of people dropped and it has one of the lowest life expectancy in the world and a large proportion of the people were depending upon food aid.
- The GDP growth rate of 2008 was -12.6 percent, more than doubling from the year before. Per Capita GDP remains one of the lowest, at U.S. $200, and an unemployment rate of 80 percent.
- There is no room to invest in infrastructure or financial institutions. Zimbabwe has over 5 billion dollars in external debt and imports over 2 billion dollars of commodities, while only having a little over 6 million dollars in actual revenue.
- 1 U.S. Dollar is worth 30,000 Zimbabwe Dollars in 2008.

POST HYPERINFLATION ERA

In August of 2007, a BBC article summarized the situation perfectly when they said "The seizure of white farms was [what] opened and thus began the long slide into today's economic crisis".

Despite attempts to control inflation by legislation, and three redenomination's (in 2006, 2008 and 2009), use of the Zimbabwean dollar as an official currency was effectively abandoned on 12 April 2009. In 2009 the government scrapped the currency, leaving US dollars and South African rand as the main notes and coins in circulation. To this day, Zimbabwe still has no currency of its own, although the government last year offered to swap old deposit accounts into US dollars, giving savers $5 for each 175 quadrillion (175,000,000,000,000,000) Zimbabwean dollars.

At the peak of the crisis the government mostly depended upon the aid from other nations and international agencies. Foreign aid is hard to give as it is certain to end up in the wrong hands. But with current political reform it may be possible to invest into an intelligible financial system and in infrastructure where resources can be used as they were in the past and foreign investment can increase. Also, the IMF and World Bank, and other foreign lenders will be likely to lend money if the new economic infrastructure would be established as planned.

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Zimbabwe's decision to scrap the local currency in 2009 helped end hyperinflation as it cut off the government's ability to print money to pay debts. At the same time, it eroded manufacturer's competitiveness by making it cheaper to import everything from food to clothing rather than produce them in a country suffering from a lack of cash, power shortages and high costs. With Zimbabwe adopting the U.S. dollar and currencies such as the South African rand as legal tender, authorities have no ability to boost money supply in the economy.

Hundreds of abandoned buildings, workshops and factories line the potholed roads in Harare's industrial areas, evidence of Zimbabwe's economic slide. The situation is even worse in Bulawayo, the second-largest city, where production has been hobbled by water shortages. More than 80 businesses shut across the country last year and just 39 percent of the country's manufacturing capacity is being used.

The economy's nascent recovery that followed which grew on average 9.2 percent a year between 2009 and 2013. Investors have been loath to enter Zimbabwe since Mugabe, 91, won the 2013 election, pushing ahead with plans to force foreign-owned businesses to cede majority stakes to black Zimbabweans.

Local production costs are too high, so there is no way of competing with the imports. There is no way of being optimistic about the downward spiral ending any time soon. The United Nations estimates that more than 70 percent of the population of 14 million live on less than $2 a day. Remittances from Zimbabweans living abroad reached an estimated $837 million in 2014, exceeding humanitarian assistance of $735 million.

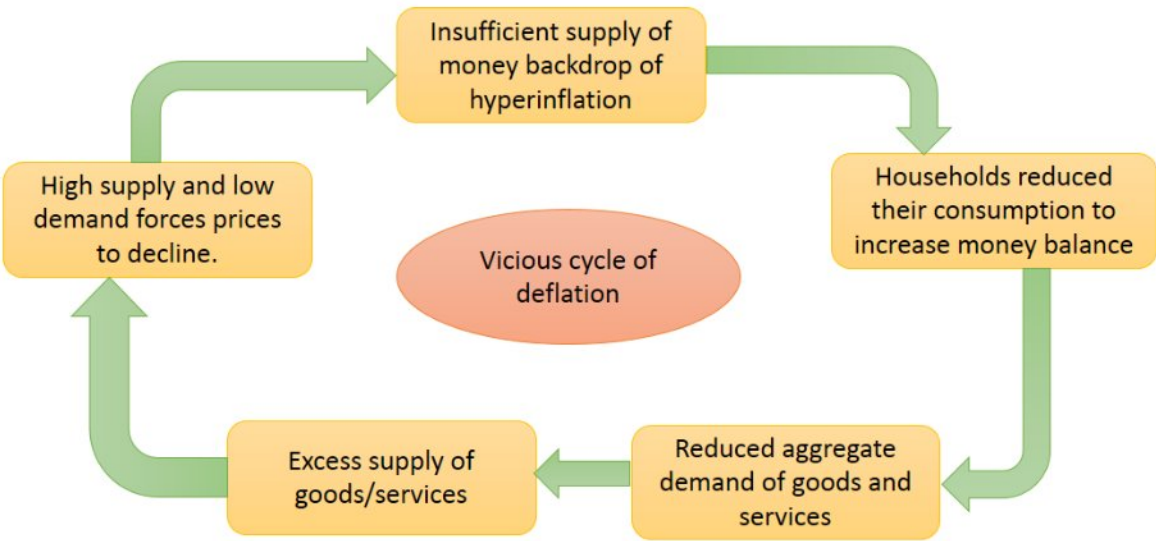
CURRENT STATE OF DEFLATION:

Deflation - Deflation comes with its own problems. It discourages consumers from spending as they anticipate prices will fall further, while declining margins reduces the incentive for businesses to invest and hire workers. That, in turn, limits wage increases, curbs tax receipts and worsens corporate and government debt burdens. Deflation fuelled the Great Depression of the 1930's and several decades of almost no economic growth in Japan.

Types of deflation

- Price deflation – The economic state in which due to improvements in productivity.
- Monetary deflation - The economic state in results from deficient supply of money. Because of declines in production output.

Price deflation is termed good because it is associated with increases in output. In contrast, monetary deflation is associated with declines in output and thus it is deemed harmful. The form of deflation saddling the Zimbabwean economy is monetary deflation. The Zimbabwean economy is currently experiencing a deflation which begun in February 2014 when a month-on-month inflation rate of -0.49%.



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