

In cent pa to 0.8 per cent

[Economics](#), [Budget](#)



In the 1980s, Zimbabwe started out as the bread basket of Sub-Saharan Africa, with the populist leader Robert Mugabe at its helm. Fast forward 30 years into the future, and the country that once had promising prospects is now wrapped in economic and political turmoil. When Mugabe came to power in the newly independent Zimbabwe of 1980, he launched health and education focused programmes and policies, all in line with the marxist-leninist ideology he believed in. Soon, however, following a fall in commodity export prices brought on by drought and world recession, his government decided to shift economic policies and implemented the Economic Structural Adjustment Program (ESAP) that allowed for an open economy.

The policy failed, performance indicators showed that the economy's growth rate dropped from 4.3 per cent pa to 0.8 per cent pa when the new policies were implemented. Subsequently, a slew of other policies were rolled out to aid ESAP, but the budget deficit continued to grow and foreign currency reserves took a hit.

Far from stimulating the economy, structural reforms like these deepened the economic crisis, forcing Mugabe into even more desperate measures. These included unbudgeted payouts to war veterans, which was further compounded by Zimbabwe's military foray into the Democratic Republic of Congo in 1998 to support the Kabila dynasty. This was only the first in a series of policy failures. Mismanagement in the farming sector was a big contributor towards the downfall of Zimbabwe : the Fast Track Land Reform Programme enacted by the Mugabe regime made it possible for the government to acquire all land owned by white landlords and redistribute it among black Zimbabweans. As a result, about 4000 white land owners were

evicted from their lands, following which there was a food shortage and exports of tobacco, the nation's biggest foreign-currency earner fell. This, followed by two bad harvests and little rain led to the country's worst famine in 60 years.

In the midst of chronic shortages of basic commodities, the Central Bank sped up its money printing to finance imports. The result was rampant inflation. Unemployment soared, public services shut down and the economy shrank by 18 per cent by the end of 2008. Furthermore, in 2009 Mugabe signed the Indigenization and Economic Empowerment Act into law, which placed 51 per cent of companies into the hands of Black Zimbabweans. This kept prospective investors from investing in Zimbabwe. At the peak of the crisis in 2008, prices were doubling every 24 hrs and monthly inflation peaked at 7.9 billion per cent in 2008. The government abandoned its own currency in 2009, due to hyperinflation, and adopted the US Dollar.

Although there were initial gains to the economy from this transition, with no local currency money supply became entirely dependent on inflows of dollars, giving authorities no control over the monetary policy. Over four decades, an amalgamation of bad policy decisions, corruption and dictatorial rule dealt the death blow to the Zimbabwean economy. At present, inflation in Zimbabwe is over 14per cent, and the budget deficit is 12per cent of gross domestic product.

In spite of export subsidies of \$175 million, the trade deficit exceeds 10per cent of GDP. In a desperate measure to introduce liquidity, the government

introduced “ bond notes” in 2016. These were theoretically backed by hard currency but have quickly deteriorated in value.

About 3 million Zimbabweans live in extreme poverty, and a quarter of its population have fled the country. It is not difficult to conclude, that Zimbabwe is in some deep shit. Following a coup d'état and house arrest, Mugabe finally relented under immense pressure and resigned as President in November last year, ending a dictatorial regime that lasted 37 years. This was welcomed by the public. With Mugabe now successfully impeached, and Mnangagwa taking over, the civilians in Zimbabwe are all enthralled. But economists watch with apprehension even as Mnangagwa prepares to settle into his new role.

His job is not without obstacles, they say. As the successor of a vastly despised dictator, his primary objective would be to bring the derailed train that is the Zimbabwean economy back on track. What can he do? He can begin with bringing in hard currency. This is necessary to get any sort of recovery kick-started. Potential sources include the IMF and China, which might be a likely benefactor because in some circles, Mnangagwa is seen as Zimbabwe's Deng Xiaoping, the Chinese leader who instigated a degree of market liberalization. Secondly, it should help to discard the damaging policies that caused havoc in the first place and root out corruption from within the bureaucracy. Analysts are skeptical of Mnangagwa's action on corruption, as he himself was broiled in several corruption cases while Mugabe was in power.

Thirdly, the government should focus on creating conditions to reduce unemployment and incentivise the diaspora to return to the country. Formal jobs are rare in Zimbabwe, and unemployment currently runs at 90per cent. The government needs to take action on this, and soon. Lastly, it should create its own currency. Since 2009, Zimbabwe has had to abandon its currency owing to the hyperinflation.

In the longer term, Zimbabwe needs to have its own currency. The jury is still out on whether or not Mnangagwa will be able to bring out the policy reforms necessary for Zimbabwe to emerge from the brink of collapse. The people of Zimbabwe are hopeful; economists, however, stand by a traditional Zimbabwean proverb: ' we will be grateful to flowers, only if they have borne fruits.'