Zimbabwe-A Crumbling Economy

THIS IS AN INTRODUCTION TO THE FOLLOWING ARTICLE

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Zimbabwe faces the worst economic crisis of its history. Its economic performance, -weak since 1997, deteriorated over the past two years, with real GDP contracting by 5.5% in 2000 and an estimated 7.5% in 2001. The outlook for 2002 remains dismal, with GDP forecast to contract by another 5.0%.

The nature, causes, and effects of this crisis are as varied as they are controversial. The economy confronts a dangerous mix of ballooning domestic and external debt, crippling foreign exchange shortages, poor weather conditions, negative real interest rates, and esca- lating inflation. Growing crime, the deleterious fast-track land reform, and rising wages, fuel prices, and raw material costs have all exacerbated the crisis.

Output in the real sector (agriculture, mining, and manufacturing) declined in 2001, leading to company closures and job losses. At least 25,000 jobs were lost in manufacturing in the first quarter of 2001. And recently imposed administrative measures to slash the prices of basic goods have raised fears of more company closures in manufacturing.

The government's strategy for reversing the economic decline centres on the Millennium Economic Recovery Programme (MERP). This programme, introduced in 2000, is aimed at stabilizing the economy by speeding land resettlement, reducing duties on all imported inputs, lowering production and capital costs, accelerating privatization to attract both local and foreign investment, rebuilding confidence in the economy, and providing effective and efficient infrastructure services.

The MERP has so far failed to turn the tide, however. This failure stems in large part from weak policy implementation and from policy inconsistencies between the Reserve Bank of Zimbabwe, which is in charge of monetary and inflation control, and the government, which is responsible for enhancing policy credibility and bringing spending under control. Monetary policy has been largely ineffective because of continued funding of the fiscal deficit and continued support for financially distressed banks. The broad money supply increased from around 60% of GDP to more than 68% between

December 2000 and March 2001 alone, fuelling the already high inflation, estimated at 112% in the month of December 2001 (EIU 2001). As a result, real interest rates turned negative, undermining the incentive to save.

In response to the turmoil in the financial sector, which culminated in the collapse of the United Merchant Bank, the government introduced reforms to strengthen bank supervision and prudential regulation and ensure commercial banks' adherence to monetary policy objectives. To arrest the runaway fiscal spending and enhance policy credibility, the government also attempted to restructure its fiscal operations in 2001/01. None of these objectives has been achieved, however. Fiscal policy has remained highly expansionary inconsistent with monetary policy. And failure to stimulate efficiency in the public sector through the restructuring or privatization of public enterprises and a reduction in the size, of the civil service--has made a sustainable fiscal position even more elusive.

Poor export performance, a thin interbank foreign exchange market, low foreing exchange reserves, and excessive import demand characterized the external sector in 2001. Rather than further opening the economy, however, the government has reversed some its steps towards liberalization-for example, by introducing exchange rate controls reintroducing import controls. Thus at the end of 2001 the country continued to confront isolationist policies, poor export performance, foreign exchange shortages, and exchange rate appreciation.

The government's social sector reforms centre on improving the living standards of poor. But poverty has become both deeper and more extensive. An estimated 76% of population lives below the poverty line today, compared with 61% in 1998 (Poverty Reduction Forum 2000). This high poverty rate stems mainly from the general deterioration in the economy, which has led to high unemployment and escalating prices for basic commodities. Moreover, social sector programmes, particularly in health and education have suffered because of the weak fiscal position and the emphasis on funding Zimbabwe’s participation in the war in the Democratic Republic of Congo.

Growing corruption and weak governance have undermined confidence in the economy The looting scandals at the National Oil Company of Zimbabwe (the country's main procurer of fuel)-now associated with the national fuel crisis-epitomize the large-scale corruption. Politically motivated intimidation and violence have led to mutual suspicion between the independent media and the public media and between the media and civil society.

This dismal situation suggests a gloomy outlook for Zimbabwe's economy in medium term. The economic decline is expected to continue, with the real sector contracting further in 2002 and the inflation rate expected to rise further above 100%. Domestic and external debt are also expected to rise, and external accounts to deteriorate.

The stage may be set for a major economic meltdown in 2002-03 if present trends continue, amid the reactions of the Zimbabwean political opposition and the international community to the outcomes of the March 2002 elections. Or perhaps the severity of the crisis may become a catalyst for long-awaited political and economic reform in Zimbabwe.

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