Information Systems and Economics (2024)
Clausius Scientific Press, Canada

DOI: 10.23977/infse.2024.050425
ISSN 2523-6407 Vol. 5 Num. 4

Zimbabwe's inflation and its revelations

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Keywords: Zimbabwe, inflation, currency, revelation

Abstract: During the first decade of the 21st century, Zimbabwe experienced the worst hyperinflation in the history of the country. In February 2008, the Zimbabwean government announced that its monetary inflation rate was as high as 24411.03%, and prices had risen 240 times in a year. This article deeply analyzes the relevant historical data of Zimbabwe, explores the reasons behind its inflation, and summarizes the implications for today's economic development.

1. Introduction

In 2000 years, with the radical implementation of the Zimbabwean government's "Fast-track land reform" land reform, a large number of white farmers' land was forcibly allocated to black farmers without planting experience, which quickly aroused the dissatisfaction of white farmers. Instead of being unresolved, the problem of land disputes accumulated for a long time in the 20th century has caused Zimbabwe's agricultural production decline sharply. This bringing a great crisis to the country dominated by the agricultural economy. At the same time, long-term colonial rule has brought huge national debt to the Zimbabwean government. Zimbabwe's external debt was $3.843 billion in 2000, and has gradually risen since, surpassing $5 billion and $10 billion in 2007 and 2016 respectively. In addition, the economic blockade of the Zimbabwean government by the United States during this period, its national fiscal deficit soared. Zimbabwe's fiscal deficit was only $16 million in 2003, but it rose to $4 in 2004.3.7 billion US dollars. Zimbabwe's economic form is precarious under the circumstances of internal and external dangers.

In this economic environment, the Zimbabwean government chose to print a large number of domestic currencies in an attempt to survive the national economic crisis in this way. However, this move caused the Zimbabwean dollar to expand rapidly, and the currency depreciated rapidly in a short period of time. Its inflation rate increased year by year from 302.12% in 2005 to 1069% in 2006 and 24411% in 2007. During this period, the maximum face value of Zimbabwean banknotes also increased from 50 $ to 50 million $ and 50 billion $. Finally, on March 18, 2009, Zimbabwe's Finance Minister officially announced the suspension of the circulation of Zimbabwean coins, and the Zimbabwean government implemented a multi-currency policy, ending the serious currency inflation crisis in world history.[1]

2. Cause Analysis

2.1. External reason

On April 18, 1980, the Zimbabwean people established an independent Republic of Zimbabwe after overthrowing the white racist regime in Rhodesia under the leadership of Robert Gabriel. They got rid of the colonial rule of the British government and gained national independence. However, Britain's long-standing "decolonization" rule policy still makes the Zimbabwean government suffer, and the country still faces a very serious debt problem. From 1990 to 2002, the Zimbabwean government budget has always been negative, reaching -7.51% and -6.87% in 1992 and 1996 respectively, and the country's income did not make ends meet. At the same time, a large amount of wealth has always been in the hands of white farmers, resulting in the lack of practical interests of the native people of Zimbabwe and the economy has always been passive.

On the other hand, Zimbabwe's government debt accounted for 54.9% of GDP in 1990, and grew to 77.09% five years later, reaching 117.5% before the land reform in 2000. The data has already broken through the red line of developing countries and continues to grow. Zimbabwe's ability to repay debts is worrying, and the cost of borrowing and the yield of government bonds have also become a problem, aggravating the problem of fiscal deficit.[2]

2.2. Internal reasons

2.2.1. The radical land reform policy of the Zimbabwean government

Since Zimbabwe declared independence in 1980, the country has still inherited the dual land system of the colonial period. About 6,000 white farmers own 15.5 million acres of land; while about 700,000 local black farmers in Zimbabwe only own 16.4 million hectares of land. At the same time, white farmers occupy most of the land in high-yielding areas with abundant precipitation; while black local farmers occupy mostly arid and barren land.

The government aimed to address the unequal dual land system between white farmers and black farmers as quickly as possible and to fulfill the promises made to the people during the revolution. In July 2000, the Gabriel government introduced the policy of "Land resettlement: Fast-track land reform", officially starting the radical land reform system. The government first began to forcibly expropriate large white commercial farms. In the year after the beginning of the reform alone, the Gabriel government expropriated a total of 4,874 white farms with a total area of 9.23 million hectares. Subsequently, most of Zimbabwean landless farmers obtained land from the government by queuing up through the A1 land distribution system.[3]

This radical reform quickly had a great negative impact on the country. A large number of black farmers do not know how to produce independently and efficiently even if they are allocated land due to lack of land for a long time and lack of experience in crop cultivation. Since the reform in 2000, Zimbabwe's national crop yield has continued to decline sharply and reached its lowest value in 2006-2008. Among them, tobacco and corn, the country's main production crops, decreased by an amazing 72.2% and 65.8% respectively in 2007-2008.

2.2.2. Blindly solve employment and ignore the objective laws of the economy

Zimbabwe's land reform aims to give landless black farmers land and solve the problem of national unemployment; at this time, the country is also facing severe inflation. According to the important conclusion of Dutch economist Alban William Phillips, there is a negative correlation between unemployment and inflation. Therefore, this article will uses Phillips theory to analyze data and analyze the rationality of the Zimbabwean government's policies at that time.

Table 1: Unemployment rate and Rate of inflation

Year	Unemployment rate	Rate of inflation
2001	5.3 percent	55.87 percent
2002	5 percent	76.71 percent
2003	4.7 percent	140.06 percent
2004	4 percent	431.7 percent
2005	4.7 percent	282.38%
2006	4.8 percent	302.12 percent
2007	5.1 percent	1096.68%
2008	5.5 percent	24411.03%

From 2001 to 2008 in table 1, Zimbabwe was undergoing Fast-track land reform and faced the problem of super-inflation. We will analyze the data during this period. According to World Bank statistics, Zimbabwe's consumer price inflation rate in the years from 2001 to 2008 was 55.87%, 76.71%, 140.06%, 431.7%, 282.38%, 302.12%, 1096.68%, 244 respectively. 11.03%. During the same period, according to the statistics of the World Labor Organization, the annual national unemployment rate data was 5.3%, 5%, 4.7%, 4%, 4.7%, 4.8%, 5.1%, 5.5%.[4]

It can be seen that from 2001 to 2005, Zimbabwe's inflation rate and unemployment rate changed in reverse, which is in line with Phillips' theory. During this period, the inflation rate showed a vertical upward trend, rising by about 500% in four years, indicating that the important problem in its economy is high inflation. At this time, austerity policies should be adopted to curb inflation.But the government was in full swing in land reform, still focusing on solving the employment problem of black farmers and reducing the unemployment rate at the expense of inflation, so that the problem of high inflation has never been solved. Until 2006, the Zimbabwean government had no choice but to introduce a new monetary policy, hoping to solve the inflation problem through printed currency. And this policy caused Zimbabwe's economy to collapse completely, inflation rose rapidly, and the unemployment rate rose accordingly.

2.2.3. Monetary policy

As of 2006, under the dual pressure of foreign sanctions and domestic spending, Zimbabwean government faces a huge fiscal deficit and inflation. In order to solve the situation of internal and external problems, David Chapfika, Deputy Finance Minister of Zimbabwe, announced the launch of a new monetary reform in August 2006. The government issued the second set of Zimbabwean currency, with a maximum face value of 100 million $, and printed 60 trillion monies to pay for the arrears of the International Monetary Fund and domestic military expenses and other expenses.

Analyze the large number of printed currency by the Zimbabwean government according to the monetary quantity equation $M\times V=P\times Y$.According to the World Bank from 2000 to 2008, Zimbabwe’s purchasing power parity fell from $4,260 to $2,100 year by year, which shows that the purchasing power of the Zimbabwean dollar declined at that time; at the same time, the bank interest rate also rose from 38.51% to 203.38%. Although there were fluctuations during this period, the overall upward trend remained, the above two points can reflect that Zimbabwe's domestic currency is not easy to change hands. It can be seen that the increase in the quantity on the left side of the equation does not depend on the speed of currency circulation V, but on the increase in the amount of currency M caused by a large number of printed currencies. Zimbabwe's real GDP on the right side of the equation continues to decline, and commodity output Y does not show an increase. Eventually, it led to the rise of object P and the rise of inflation.

It can be seen that the Zimbabwean government's act of printing a large amount of money and levying inflation taxes eventually led to a complete collapse of the economy. During this period, the government has not raised funds by adjusting the income tax and sales tax rates, and has continuously increased the expenditure budget, which did not end the inflation crisis until the country's full use of foreign currencies in 2008.

3. Revelations

First, it is necessary to face up to the objective laws of economic development, comprehensively analyze the impact of various economic development factors, scientifically look at the problem of overheating development, and take effective prevention and control measures. We will eliminate the blind pursuit of construction and employment and maintain balanced economic development.

Second, formulate corresponding systems according to the different stages of the national economy. When inflation occurs, austerity monetary policies should be adopted such as reducing currency issuance and increasing interest rates, or issuing government debt, increasing income tax and sales tax, and reducing government expenditure to lower the price level. When there is a monetary tightening, printing money, lowering interest rates and other ways will increase the demand for goods and services, so that prices will return to normal.

Last, sound financial supervision should be established. In the new monetary policy, Zimbabwe publicly prohibits the domestic statistics of relevant financial data. At present, authoritative data only exists in world financial institutions. This undoubtedly issued an ulumtum to the fragile Zimbabwean economy. Therefore, a perfect financial regulatory agency should be established to ensure a transparent and honest information release mechanism, establish citizens' confidence in their own currency, and strengthen the creditworthiness of their own currency

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