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Zimbabwe bids “good bye” to its own currency!

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If you happen to participate in a million dollar TV Quiz show, be sure to have a team mate from Zimbabwe.

“How many zeros does a quadrillion have?”

Your team mate knows the answer: 15 zeros.

One US dollar will get him 35 quadrillion Zimbabwe dollars.

In figures, One US$ = ZIM$ 35,000,000,000,000,000.

The mind-boggling exchange rate as of last week is the result of two-decade long economic mismanagement. That coincides with the reign of the world's most durable ruler of all time since 1987.

Reserve Bank of Zimbabwe (RBZ) announced last week that the currency of the country would be phased out by September, when it will be replaced by US dollar.

The transition has restrictions.

The 35 Zimbabwe quadrillion US dollar rate is applicable only to those citizens with accounts having more than 175 quadrillion. Those who have less money will see their money fetch less American dollars. To make it clear: 175 quadrillion Zimbabwe dollars will get five US dollars. On the other hand, 100 trillion Zim dollars will get only US 40 cents.

The origin of troubles

Zimbabwe (population of 14 million), a landlocked country in southern Africa, has abundant land resources, producing cotton, tobacco and minerals, notably platinum and gold, besides copper, nickel, tin and other numerous metallic ores. Aside from immense foreign exchange earning potential from exports of platinum, gold, cotton and tobacco, it has impressive tourist attractions. They include the famous Victoria Falls on the Zambezi River and diverse wildlife, all within well organized parks, reserves and safari areas.

The per capita income of the country is around US$ 600.

It all started with implementation of radical policy of land distribution in late 1990s and 2000s. Government seized farm lands of foreigners which led to disruption in farming activities. Chronic shortages of basic commodities ensued, following the fall in agricultural production.
Tax revenues declined. The government had to depend on central bank to fund government expenditures. The RBZ had no other way except resorting to print money, year after year, for financing government budget deficits. Prices of all goods, domestic and imported, went crazy during the ten years: 2000 to 2009.

Hyperinflation years: 2000-2009

It was estimated in 2008 the monthly inflation rate was 7.9 billon percent! No wonder, the authorities gave up calculating the rate of inflation subsequently. The hyperinflation of Zimbabwe has now become as famous as the hyperinflation in Germany of the 1920s in the last century.

Students have two episodes of hyperinflation to study.

In both episodes, new currency notes had to be printed from time to time. Germany issued the highest denomination note: 100,000,000,000,000 (100 trillion) marks. Wages and salaries had to be paid not once or twice a month; several times a day.

Zimbabwe also issued the highest note: 100 trillion Zim dollars.

Wisdom finally prevailed in 2009, as the Unity Government was put in place to restore economic order. It introduced multi-currency system along with local currency. It preferred conducting transactions in US dollars or South African rand. Multi-currency system, however, created problems for retailers. They had no small change of American dimes, quarters or pennies, when they accepted US dollars. They had to give out pens, candies and chewing gum or even condoms.

Dollarization

Conducting transactions in US dollars and replacing domestic currency by US dollar, known as dollarization is not new. It is well known for bringing in monetary discipline. Ecuador introduced it a few years ago. RBZ cannot add to money supply, as American dollars cannot be printed at will as Zim dollar. US currency has to be earned through exports of goods and services, including tourism or through borrowing from international funding agencies. Under dollarization, politicians know their hands are tied.

Dollarization also promotes business confidence as transaction costs are reduced. Foreign investors have nothing to worry about exchange rate volatility.

The Unity Government which implemented reforms during 2009-2012 ended with the re-election of President Mugabe in 2013. Signs of mismanagement had developed since then.
Zimbabwe wants loans from international agencies, including IMF and World Bank, which will also bolster its American dollar reserves. The IMF insists on Zimbabwe settling its outstanding external debt of US$ 10 billion.

The March 2015 Mission from IMF to the country said debt-ridden Zimbabwe should restore confidence in its own financial institutions, improve investment climate, and balance its budget by cutting down government salary expenditures, which alone consume 92 percent of its revenue. Above all, the Mission wanted Zimbabwe to clear past debts.

Students, who are pursuing studies on economic governance, now have an excellent case study material: the economy of Zimbabwe.