

The Impact of The Zimbabwe Government's Fiscal Policy on The Destruction of The Country's Economy

Tonderai Kudzai¹

¹ Solusi University, Zimbabwe; tonderai_kud@hotmail.com

Received: 10/02/2023

Revised: 18/05/2023

Accepted: 31/05/2023

Abstract

This political economy study in international relations explains the impact of the government's fiscal policy on foreign loans to the IMF in 2020. The fiscal policy carried out by the Robert Mugabe government has negatively impacted Zimbabwe's economy. The land reform policy was carried out to forcibly take land belonging to white farmers and give it to supporters of Robert Mugabe's political party. The land reform policy reduced economic growth and experienced hyperinflation, and as a result, the IMF suspended aid for Zimbabwe's foreign loans. This study aims to explain the impact of land reform policies on IMF foreign loans in 2020 and describe their impact on the Zimbabwean economy. The object of this research is land reform policies in Zimbabwe. This qualitative research uses descriptive methods and collects data from books, journals, official publications, and relevant websites. This paper uses a behavioralist perspective and the theory of international economic cooperation by Anne Kruenger, Deepak Lal. The results showed that hyperinflation in Zimbabwe was terrible for society, and the IMF decided to make economic aid to Zimbabwe worse.

Keywords

Fiscal Policy; Poverty of Zimbabwe; Hyperinflation

Corresponding Author

Tonderai Kudzai

Solusi University, Zimbabwe; tonderai_kud@hotmail.com

1. INTRODUCTION

The impact of the Covid-19 pandemic, or the spread of the coronavirus, has had a reasonably broad impact on economic activities carried out by the community and economic actors, especially in the tourism and manufacturing sectors (Basiru Oyeniran Fatai, 2012). In Zimbabwe, the spread of this virus began in March 2020. Zimbabwe's economic conditions, which were previously chaotic, are now getting worse. Goods were scarce, and inflation in May was 785.6 percent, rendering Zimbabweans' incomes negligible. Zimbabwe is on the precipice of its worst crisis in a decade (Culache, O., & Obadã, 2014). Zimbabwe is a republic with a semi-presidential system of government, where the president is the head of state and head of government. Where the government holds executive power and legislative power is shared between the government and parliament. The International Monetary Fund (IMF) estimates



that Zimbabwe's economy will contract again by 10.4 percent this year, after last year's minus 12.8 percent. (Tjangco, et.al, 2021)

The central bank of Zimbabwe (RBZ) reintroduced the pseudo-currency Zimbabwe Dollar (ZWD) last June after deciding to no longer follow the U.S. dollar exchange rate as a reference four months earlier (Simou, 2014). RBZ unilaterally set US\$ 1 in 25 ZWD last March, but it did not sell, and the government decided to return to the auction system. Electronic money transfer services and transactions are prohibited because they devalue the currency even more (Alonso, 2020). The last time money transfer service providers and local capital markets were suspended for extended periods was in 2020 (Oyetunbi, 2021). That year, Zimbabwe's inflation reached 89.7 million sextillion percent (89,700,000,000,000,000,000) compared to the previous year. (Oyetunbi, 2021)

Robert Besseling, executive director of political consultancy EXX Africa, said that to mitigate the economic damage, private banking funds "will likely be hijacked to fund *bailouts* that mostly benefit businesses close to the ruling elite." (Hollander & Van Lill, 2019) RBZ Governor John Mangudya hopes that the US\$ 1 billion fund in local banks can stabilize Zimbabwe's currency (Oyetunbi, 2021). "The economic crash resulted from mismanagement of reintroducing local currencies after 10 years of dollarization, which led to *fraud* and embezzlement on a massive scale," said Besseling. (Makochekanwa, 2009)

Opposition activists blame President Emmerson Mnangagwa and his business cronies for the weakening economy for conducting illicit transactions abroad and procuring expensive goods and services (*markups*) (Chikuhwa, 2006). On June 26, the military, part of the Joint Operations Command (JOC), forced the government to shut down The privately run Zimbabwe Stock Exchange (Culache, O., & Obadã, 2014). Electronic money transfers were also closed, even though electronic transfers are the lifeblood of Zimbabwe's trade. (Gukurume, 2015)

The move was taken after the ZWD exchange rate against the dollar on the black market plunged past 100 versus the official rate of 57. The Zimbabwean government blamed the private sector for the crisis, in particular companies providing e-money and capital markets (Highfield, T., Harrington, S., Bruns, A., Tuk, W., Shim, D., Lee, S. J., ... Lin, 2016). The ruling ZANU-PF party is now embroiled in a dispute with insurance company Old Mutual for undermining the country's financial system (Highfield, T., Harrington, S., Bruns, A., Tuk, W., Shim, D., Lee, S. J., ... Lin, 2016). The company has its exchange rate, which several companies use to transact. Last May, RBZ began printing money in hopes of raising US\$720 million to build an industry record. This move made the local currency plummet, and inflation shot up. Without a stable and valuable currency, Zimbabwe cannot import (Huberfeld, 2020).



Figure 1. Zimbabwe Currency 100 Billion Can only buy 3 eggs

Its people face a scarcity of food, fuel, and medical equipment during the Covid-19 pandemic, which has even paralyzed developed countries (Alonso, 2020). EXX Africa said, "Even in the best case scenario, Zimbabwe is once again facing hyperinflation that will destroy its economy, catastrophic famine and social instability that threatens to threaten neighboring countries, and the danger of military intervention to seize power again." (Simou, 2014)

Fiscal policy is one of the policies to control macroeconomic balance. Fiscal policy aims to influence the aggregate demand side of an economy in the short term. This policy can also affect the supply side, which is more long-term, by increasing the economy's capacity. In managing macroeconomic stability, fiscal policy will interact with monetary policy (Batten, et.al., 2020).

So far, Zimbabwe still applies majority rule even in its economic policies. Implementation of the majority rule, white people play a dominant role in the nation's economy (Huberfeld, 2020). With a population of about 1% of the entire population of Zimbabwe, whites hold about 70% of arable land, and 82% of this was purchased after Zimbabwe's independence. However, white farmers have no political power, seeing this Robert Mugabe has the opportunity to seize the lands of white farmers by imposing a land reform policy which means clearing the lands belonging to white farmers by force and distributing them to his political supporters who do not have skills and technology in managing the land and led to very sharp price increases in agricultural commodities such as corn and rice, and the collapse of the Zimbabwean economy. (Koot, et al., 2019)

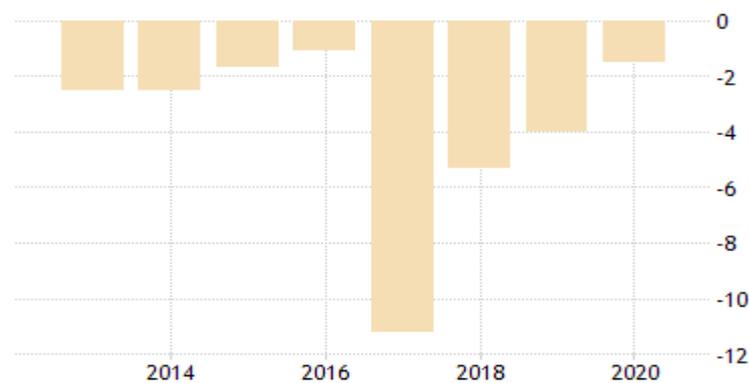


Figure 1. Graph of Zimbabwe's Economy Until 2020

Initially, Zimbabwe was a critical food exporter in the region. What happened next was a fall in productivity, an increase in the number of unemployed, and a very sharp increase in the inflation rate. The land reform policy significantly impacted Zimbabwe's decline because of its continued economic value, causing very high inflation, and finally, the biggest hyperinflation occurred in 2020. As a result, many international institutions, such as the IMF, withdrew their foreign loans to Zimbabwe. The IMF withdrew its aid to Zimbabwe as Zimbabwe experienced hyperinflation in 2020. Covid-19 and the drought pushed the economy back into recession, with inflation returning to triple digits. This is one result of the Fiscal Policy carried out by the Zimbabwean government. This research will discuss the impact of the government's fiscal policy on economic poverty in Zimbabwe.

2. METHODS

This research was conducted using research methods with qualitative methods. A qualitative approach is carried out to produce in-depth descriptions of observable speech, writing, and behavior of an individual, community group, and organization in a specific context that is studied from a whole, comprehensive, and holistic perspective (J. W Creswell, 2014). Qualitative research is a method of collecting and analyzing non-quantitative data to explore social relations and describe the reality experienced by responses (John W Creswell, 2012).

For this study, the researcher chose to use a descriptive research type, namely to explain an event whose operationalization revolves around data collection, data processing, and interpretation of data which is given rational meaning while still holding to the principles of logic so that holistic conclusions are formed. Data were obtained through literature studies by reading, analyzing, and analyzing various literature, whether in documents, journals, data publications from the Ministry of Finance, or official websites that publish information relevant to research. (Sinclair, 2003) While data analysis is done by reducing, classifying, and interpreting to conclusions.

The theory used in this study is the theory of foreign policy making by Lloyd Jensen. (Guetzkow & Jensen, 1966) This theory explains five foreign policy-making models: rational model/strategic model, decision-making, bureaucratic politics, adaptive model, and incremental model (additions). (Feldman & Khademian, 2008).

3. FINDINGS AND DISCUSSION

After Robert Mugabe succeeded in carrying out the Land Reform policy, many white farmers immigrated and left the country of Zimbabwe due to a lack of political power. As a result of the enactment of the Land Reform policy, Zimbabwe experienced some terrible impacts in the economic field because of the large amount of land that was not appropriately managed.

3.1. Declining National Currency (Zimbabwe Dollar)

After Covid-19 and the drought that hit southern Africa, perhaps the worst in this century, it hit Zimbabwe hard and was declared a national disaster. IMF assistance adds to the deepening difficulties. With the implementation of majority rule, white people play a dominant role in the nation's economy. With a population of about 1% of the entire population of Zimbabwe, whites hold about 70% of arable land, and 82% of this was purchased after Zimbabwe's independence. However, white people have no political power. Redistribution of land from whites reappeared as a political issue at the beginning of 2020. The latest issue in Zimbabwe is the change in the Zimbabwean currency which began in August 2020. The change lies in removing 3 zeros (thousands) in each nominal value, known as redenomination. Suppose there was money originally worth 85,000; then the new currency is worth 85. This change in currency is intended to help stop the inflation rate from getting out of control. Zimbabwean residents were given 21 days to exchange their money for the new currency until August 21, 2020.

3.2. The occurrence of hyperinflation in Zimbabwe

Zimbabwe is experiencing hyperinflation, which can be seen from the continuous increase in the prices of goods and services. This is in line with the concept of inflation. Another driving factor is the government's inability to pay the salaries of many Civil Servants (PNS). In addition, the government's savings are still low in particular because domestic sources of funds cannot finance all development. As the economy knows, Zimbabwe has been shrinking yearly for the last decade. This was due to President Robert Mugabe's takeover of agricultural land owned by white foreigners. This was due to Mugabe's land reform policies, which distributed land to his political supporters who did not own efficient land. Ultimately, this condition led to a sharp increase in food supply and prices for agricultural commodities, causing foreign exchange to shrink.

What happened next was a fall in productivity, an increase in the number of unemployed, and an increase in the inflation rate. Thus 2020, the country's economy will decline by 40%. The reason for this is President Mugabe's poor management of the economy. Political and social turmoil has convulsed Zimbabwe. What the Mugabe government has done to hold on to power is print money on a large scale. The money is used to pay civil servants, soldiers, and government spending salaries. The money supply grew uncontrollably and became the root of hyperinflation. Facing the problems that arose, Mugabe ordered the Zimbabwean central bank to continue printing money. The Central Bank of Zimbabwe is a ministry under its control. The governor of the Central Bank of Zimbabwe, Dr. Gideon Gono, complied with Mugabe's orders. With the money supply increasing many times over, inflation continues to climb. This economic downturn illustrates the collapse of the central pillar of the economy in agriculture. This happened following the rampant appropriation of agricultural fields by many white citizens. Mugabe claimed the land grabs that began in 2020 were for the welfare of poor black people. However, the reality is that most of the seized fields were handed over to Mugabe loyalists.

3.3. Termination of Loans by the IMF

After Zimbabwe experienced hyperinflation, several international organizations, including the IMF, stopped foreign loans to Zimbabwe. The IMF stopped funding aid to Zimbabwe because of a very sharp economic downturn. The IMF suspended providing technical assistance to Zimbabwe, which was terminated in 2020. Zimbabwe is a country that has foreign debts to friendly countries and international organizations. However, what is discussed in this thesis in international organizations, including; Paris Club, Non-Paris Club, IMF, AfDB, WB, EIB, and others (unspecified international organizations).

Meanwhile, the focus is more on the IMF. Zimbabwe's economy experienced a very sharp decline due to hyperinflation in 2020. In 2020, Mugabe finally agreed to share power with the opposition Movement for Democratic Change (MDC). The inflation rate in Zimbabwe experienced a slowdown in 2020. This occurred after the country no longer used the Zimbabwean dollar and replaced it with the South African currency (rand) and U.S. dollars. Zimbabwe opened up more and started negotiating with the IMF and other world funds for loans. Therefore, in 2020, the IMF lifted the suspension of providing technical assistance to Zimbabwe and assisting the country with advice on tax policy, payment systems, and banking supervision.

4. CONCLUSION

Zimbabwe's economy experienced a very sharp decline due to hyperinflation in 2020. Zimbabwe experienced hyperinflation, which can be seen from the continuous increase in the general prices of goods and services. This is in line with the concept of inflation. Another driving factor is the

government's inability to pay the salaries of many Civil Servants (PNS). In addition, the government's savings are still low in particular because domestic sources of funds cannot finance all development. As the economy knows, Zimbabwe has been shrinking yearly for the last decade. After Zimbabwe experienced hyperinflation, several international organizations, including the IMF, stopped foreign loans to Zimbabwe. The IMF stopped funding aid to Zimbabwe because of a very sharp economic downturn. The IMF suspended providing technical assistance to Zimbabwe, which was terminated in 2020. Zimbabwe is a country that has foreign debts to friendly countries and international organizations. However, what is discussed in this thesis in international organizations, including; Paris Club, Non-Paris Club, IMF, AfDB, WB, EIB, and others (unspecified international organizations). Meanwhile, the focus is only on the IMF. Zimbabwe's economy experienced a very sharp decline due to hyperinflation in 2020.

REFERENCES

- Basiru Oyeniran Fatai. (2012). Zimbabwe Economic Fiscal Policy. *Journal of Sustainable Development in Africa*, 14(2), 25–40.
- Batten, S., Sowerbutts, R., & Tanaka, M. (2020). Climate change: Macroeconomic impact and implications for monetary policy. *Ecological, Societal, and Technological Risks and the Financial Sector*, 13-38.
- Chikuhwa, J. W. (2006). *Zimbabwe at the Crossroads*. AuthorHouse.
- Creswell, J. W. (2014). *Research Design: Qualitative, Quantitative and Mixed Methods Approaches* (4th ed.). Thousand Oaks. SAGE.
- Creswell, John W. (2012). *Planning, conducting, evaluating, quantitative and qualitative research* (Fourth Edition). *Educational Research*.
- Culache, O., & Obadă, D. R. (2014). Fiscal Policy In Global Crisis Economic. *Procedia - Social and Behavioral Sciences*, 261–268. <https://doi.org/10.1016/j.sbspro.2014.08.227>
- Feldman, M. S., & Khademian, A. M. (2008). The continuous process of policy formation. *Strategic environmental assessment for policies: an instrument for good governance. The World Bank, Washington, DC, USA*, 37-59.
- Guetzkow, H., & Jensen, L. (1966). Research activities on simulated international processes. *Background*, 9(4), 261-274.
- Gukurume, S. (2015). Livelihood resilience in a hyperinflationary environment: Experiences of people engaging in money-burning (kubhena mari) transactions in Harare, Zimbabwe. *Social Dynamics*, 41(2), 219-234.
- Highfield, T., Harrington, S., Bruns, A., Tuk, W., Shim, D., Lee, S. J., ... Lin, M.-C. (2016). Crisis Economic

- in Zimbabwe. *Information, Communication & Society*, 3, 299–318.
<https://doi.org/10.1177/1367877913505173>
- Hollander, H., & Van Lill, D. (2019). A Review of the South African Reserve Bank's Financial Stability Policies. *Stellenbosch University, Department of Economics Working Papers*, (11/2019).
- Huberfeld, N., Gordon, S. H., & Jones, D. K. (2020). Federalism complicates the response to the COVID-19 health and economic crisis: What can be done?. *Journal of health politics, policy and law*, 45(6), 951-965.
- Koot, S., Hitchcock, R., & Gressier, C. (2019). Belonging, indigeneity, land and nature in Southern Africa under neoliberal capitalism: an overview. *Journal of Southern African Studies*, 45(2), 341-355.
- Makochekanwa, A. (2009). Zimbabwe's Currency Crisis: Which currency to adopt in the aftermath of the multi-currency regime?.
- Náñez Alonso, S. L., Echarte Fernández, M. Á., Sanz Bas, D., & Kaczmarek, J. (2020). Reasons fostering or discouraging the implementation of central bank-backed digital currency: A review. *Economies*, 8(2), 41.
- Oyetunbi, O. (2021). *Political Crisis and The Politics of Religious Divisiveness in Nigeria s Fourth Republic*. 2, 173–196.
- Sinclair, R. (2003). Indigenous research in social work: The challenge of operationalizing worldview.
- Simou, E. (2014). Effects of the economic crisis on health and healthcare in Greece in the literature from 2009 to 2013: A systematic review. *Science Direct Healty Police Elsevier*, 2(3).
- Tanjangco, B., Cao, Y., Nadin, R., Borodyna, O., Calabrese, L., & Chen, Y. (2021). ODI Economic Pulse series China's outward investment and Covid-19: emerging trends for developing countries.