Zimbabwe: A Story of Hyperinflation in the 21st Century

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Hyperinflation does not have a precise definition, but a common rule-of-thumb is that it occurs when the rate of price inflation exceeds 50% per month. If this rate is compounded over a year, prices multiply by a factor about 130 in a year.[2] In short, it refers to a period of extremely high inflation. Hyperinflation also occurs when there is an excessive amount of money in the circulation. This, in turn, will diminish the worth of the currency, thus will increase the prices of goods and services. However, unlike Inflation, Hyperinflation is a very rare phenomenon but recently occurred in 2007 until 2009, Zimbabwe – which was used by Janet Koech of the Federal Reserve Bank of Dallas in its Globalization and Monetary Policy Institute 2011 Annual Report. It is still baffling that hyperinflation still occurred in the 21st century economy as nations should have learned from other countries that have previously experienced and suffered from its consequences such as Germany, Serbia, and Greece. Governments should be knowledgable of what should be advocated, promoted, and avoided for the government and its central bank in managing the economy to avoid hyperinflation.

Table 1 below shows that out of the 30 hyperinflation occurrences, 28 of them happened in the 20th century with Hungary not only as a repeater but also the country who experienced the highest recorded hyperinflation per month with 1.295 x 1016 in 1945 - 1946. This means that there were instances wherein prices of goods and services in Hungary had increased by

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[2] Taylor, Timothy. "Some Facts on Global Current Account Balances." Conversable Economist. January 1, 1970. http://conversableeconomist.blogspot.com/2012/03/hyperinflation-and-zimbabwe-example.html.

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12,950,000,000,000,000,000% per month. One can just imagine how difficult it was to have access to the most basic needs of a human being like food during those times.

Bouts of hyperinflation are mostly accompanied by rapidly increasing money supply needed to finance large fiscal deficits arising from war, revolution, the end of empires and the establishment of new states. This could be one of the reasons why the countries who experienced hyperinflationary episodes from the period 1920 – 1924 have one common denominator; that they are members of the two opposing alliances during World War 1: the Allies and the Central Powers (with Poland as exemption). Remember that World War 1 happened from 1914 – 1918 and after the said world event, one can assume that Germany, Austria, Soviet Union and Hungary needed to increase their respective money reserves after having participated in the First World War.

Table 01. Hyperinflation in History[3]

Country	Year(s)	Highest inflation per month (percent)
France	1789-96	143.26
Germany	1920-23	29,525.71
Austria	1921-22	124.27
Poland	1921-24	187.54
Soviet Union	1922-24	278.72
Hungary	1923-24	82.18
Greece	1942-45	11,288
Hungary	1945-46	1.295×10^{16}
Taiwan	1945-49	398.73
China	1947-49	4,208.73
Bolivia	1984-86	120.39
Nicaragua	1986-89	126.62
Peru	1988-90	114.12
Argentina	1989-90	196.6
Poland	1989-90	77.33
Brazil	1989-93	84.32
Yugoslavia	1990	58.82
Azerbaijan	1991-94	118.09

[3] Peter Berholz. *Monetary Regimes and Inflation: History, Economics and Political Relationship* (Northampton, MA: Edward Elgar Publishing Limited, 2003).

Congo (Zaire)	1991-94	225
Kyrgyzstan	1992	157
Serbia	1992-94	309,000,000
Ukraine	1992-94	249
Georgia	1993-94	196.72
Armenia	1993-94	438.04
Turkmenistan	1993-96	62.5
Belarus	1994	53.4
Kazakhstan	1994	57
Tajikistan	1995	78.1
Bulgaria	1997	242.7
Zimbabwe	2007-09	2,600.2*

**Based on the official recording of inflation by Zimbabwe's Central Statistics Office in July 2008, although estimates are much higher.*

CAUSES OF HYPERINFLATION IN ZIMBABWE – WHAT WENT WRONG?

Anyone can make accusations and point fingers at who or what caused this economic nightmare in Zimbabwe. However, the real cause is a mixture of Mother Nature, conversion of agricultural lands, Fiscal and Monetary policies formulated by the government and central bank, the country's high and ever increasing external/foreign debt, and finally corruption, through the creation of ghost employees in government offices.

Drought with Land Conversion in Zimbabwe

Geographically, Zimbabwe is located in the southern part of the African continent which is known for its dry and hot weather conditions. This is why one of the culprits was the long periods of droughts which is the last thing needed by a country who is dependent on its agricultural products for local consumption and a source for national income from its export. The said natural phenomena and the conversion of large agricultural lands into commercial use in 2000 and 2001 both resulted to the fall in the productivity of the agricultural sector. The result of the said land conversion was felt until 2008 when tobacco, the country's major foreign-exchange crop (export product) fell 64% between 2000 and 2008. [4] Another agricultural crop that

[4] Janet Koech and Mark Wynne. "Diversification and Specialization of U.S. States." *Federal Reserve Bank of Dallas, Globalization and Monetary Policy Institute Working Papers* 284 (2016). https://doi.org/10.24149/gwp284.

suffered from the mentioned causes was maize (corn); its production also fell by 50 percent in the same period and since this is the national staple, (like rice for the Philippines), local consumers suffered from shortages with sky rocketing prices that led to widespread hunger and poverty during those times.

The Role of the Zimbabwe Government and its Central Bank

In 1980, the external debt of the Zimbabwe was only 11 percent of its GDP. However, the government continuously borrowed money until its debt reached up to 119 percent of its GDP in 2009.[5] This means that the foreign debt accumulated by Zimbabwe in 2009 to sustain its government spending was more than 100% its national income. This means for example, the GDP of Zimbabwe in 2009 was worth $ 1 Billion, its outstanding debt in 2009 is $ 1.19 Billion. These government expenditures, however, were for ghost projects that did not produce additional jobs, and goods and services that could have been added to the country's Gross Domestic Product (GDP). Furthermore, billions of dollars of ghost projects plus uncontrollable borrowings are never a good recipe for the economy. Unfortunately for Zimbabwe, these two ingredients were present before and even during the hyperinflation periods. When foreign creditors started to ignore the country, its central bank tried to supply the government's expenditures by printing more money which led to the devaluation of its currency and tremendously increased the prices of commodity goods and services. Because of the worsening economic problems, Zimbabweans started migrating to neighboring countries until 2010 and according to the World Bank records, the total number of Zimbabweans exited the country reached 1.25 Million or 9.9 percent of the country's population. The high level of migration became both the result and another cause for the country's downfall. Since the population level decreased due to people leaving, and businesses were closing shops (that of course led to more unemployment), the tax collection agency faced with fewer people and no income to be taxed, and finally no money to remit to government for any expenditure.

[5] "Zimbabwe GDP - Gross Domestic Product 2009." 2017. Countryeconomy.com. October 20, 2017. https://countryeconomy.com/gdp/zimbabwe?year=2009.

EFFECTS OF HYPERINFLATION IN ZIMBABWE – BILLIONAIRES WHO CANNOT BUY ANYTHING

We have learned earlier that during inflation, prices of commodity goods and services increase while there is a decrease in the currency's value and purchasing power. During hyperinflation in Zimbabwe, however, prices increased at least a thousand times *per month* that even though one has a billion worth of currency in his possession, it cannot even buy him a day's worth of needed food. There was even a joke in Zimbabwe that when you use a toilet, use the Zimbabwean dollar rather than a tissue paper because only the latter actually has worth that would be wasted if you use it instead. Not only did the price of finished goods sky rocketed in Zimbabwe during its hyperinflationary episode but even the price of raw materials. This resulted to the crash of the productivity level of all its sector which, in turn, created widespread shortages of even the most basic commodities resulting to a great increase in price levels. The government tried to intervene by forcing the vendors to decrease their prices that exceeded the ceilings set by the government. This led to the creation of a black market where people can buy their products and services while merchants can sell their goods at a negotiable price. Without goods to sell, business establishments faced bankruptcy, the years 2007 to 2009 have left the labor force without a job, not enough value of money and goods to consume. It basically halted the whole economy.[6]

MONEY AND INFLATION: HOW ARE THEY NOW?

On February 3, 2009, the Reserve Bank of Zimbabwe introduced the fourth Zimbabwean dollar, with 12 zeros removed from old bills, making 1 trillion old dollars equal to one new dollar. However, loss of confidence quickly led to the abandonment of the Zimbabwean dollar in favor of foreign currencies, primarily the U.S. dollar and the South African rand. The Global Finance Magazine has released data on the 23 poorest countries in the world, where 19 of which are located in Africa. Based on data from the IMF, the magazine ranked the world's countries according to their GDP per capita and determined the poorest and richest ones. Following the Democratic Republic of Congo as the poorest among the countries is Zimbabwe, where in 2013 people earned $589.25 on average.[7] Recently, the historic trillion Zimbabwean dollar bill has become a famous commodity. This historical keepsake is a stark

[6] Koech and Wynne, "Diversification and Specialization of U.S. States,"

[7] Tasch, Barbara. 2015. "The 23 Poorest Countries in the World." *Business Insider*. *Business Insider*. July 13, 2015. http://www.businessinsider.com/the-23-poorest-countries-in-the-world-2015-7.

reminder of what happens to a currency when inflation and fiscal balances go unchecked.

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