

AN ANALYSIS OF HYPERINFLATION IN ZIMBABWE

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ABSTRACT

This paper carries out an in depth analysis of the severe hyperinflation crisis in Zimbabwe: reasons for the onset of the crisis, present state of affairs in the country and finally, the road ahead. The major political and economic reasons leading to hyperinflation have been discussed: gradually growing fiscal deficit ascribed mainly to unbudgeted government expenditure, political unrest, participation in wars, and heedless land redistribution reforms. Further, we have examined the effect of hyperinflation on Zimbabwe's economic institutions and markets, conceived as a rapid increase in price levels of commodities and depreciation of local currency. As a result of hyperinflation, the society has encountered growing unemployment, increased emigration and decreased life expectancy. We hence analyze various policy and structural changes that have been made by the government and the merits and demerits of the latter. Considering the lackadaisical attitude of Reserve Bank of Zimbabwe and the ever growing black market, a complete change in the monetary system for Zimbabwe has been suggested. The benefits of dollarization and how it has enriched the economy, bringing about a large improvement in GDP and growing stability in prices has been discussed in detail. However, long term improvement can only be addressed by stringent policy changes directed at tackling flaws in the political and economic system like lack of infrastructure, corruption, black markets and much more.

KEYWORDS: Hyperinflation; Zimbabwe; Fiscal Deficit; Dollarization