Life Offices Association of Zimbabwe

Demystifying Insurance Part 21

Welcome to part Twenty One of Demystifying Insurance, a continuation of the Life Offices Association (LOA)'s ongoing National drive to make insurance easily understood by all. In today's article, we contrast Zimbabwe's hyperinflation experience with that of three different European countries.

Regular readers of this series will be familiar with Weimar Germany, Hungary and Yugoslavia and their individual experiences of hyperinflation. In today's article, we compare these three countries to Zimbabwe and discover some of hyperinflation's universal truths.

Uncovering the causes

Political issues are at the centre of the causes of hyperinflation in all examples of European countries that we looked at in earlier articles. Zimbabwe is no exception.

In the case of Germany, it was her political expansionary policy that led to World War One (WWI). After the end of the war, there were political repercussions for Germany's role in starting the war. Some of the political repercussions were that, after WWI, Germany was forced, through the Treaty of Versailles, to pay reparations to France. This had serious repercussions on the Germany economy.

Divisions and reparations

In Yugoslavia, it was the political upheavals caused by divisions along ethnic lines that then precipitated the 1992-1995 atrocities perpetrated by the Bosnian Serb forces against the Muslim Bosniaks in eastern Bosnia. For Hungary, It was its role in World War Two (WWII) that led to the signing of the Armistice Agreement which required Hungary to pay reparations to the Soviet Union and to allow Soviet forces to occupy Hungary after the war, and to supply these forces from its own resources.

Repercussions

Zimbabwe has a similar story. In the late nineties, Zimbabwe was struck by very serious droughts in the middle of a land reform programme, which placed inordinate pressure on the economy at a time when Zimbabwe was also committed to a domestic compensation drive as well as fighting a war in the Democratic Republic of Congo.

Printers' paradise

Another common cause in all countries was printing of money without any corresponding increase in economic activity — a situation where there was too much money chasing after too few goods. It also led to a rapidly declining exchange rate of the countries' currencies against other major currencies and a significantly rising cost of imports.

Unprecedented sanctions

Zimbabwe can however be differentiated from the other countries in that an unprecedented level of sanctions from the major players in the global economy were imposed on its government. This had the devastating effect of isolating Zimbabwe from the global village and drying up any aid to the country.

Exposing the effects

Apart from similarity in causes, it can also be noticed that there were similar effects of hyperinflation in all the countries. For instance, in all cases, hyperinflation severely eroded the value of money and there was a rapid transfer of wealth from lenders to borrowers. Hungary was the worst hit. At one point, it is said the total currency in circulation in Hungary had a total value of one-thousandth of the US dollar at that time.

All countries also experienced high levels of unemployment as their economies shrank. Zimbabwe, like Germany and other countries, needed to continue issuing notes of a higher denomination to try and keep up with hyperinflation.

Droughts and disruptions

All countries relied on imported goods as the domestic economies crumbled and companies shut their doors. In the other countries besides Zimbabwe, people dwelling in cities also relied on their relatives, who were either communal or commercial farmers in the countryside, to supply them with food.

This was limited in Zimbabwe due to unforgiving and untimely droughts and the disruption of farming during the land redistribution exercise.

Responses

In almost all countries, the governments tried to either remove zeros or introduce new currencies together with price controls to try and curtail the galloping inflation they were faced with.

In Germany, a new gold-backed currency was introduced. It remained stable and stabilised the economy and hyperinflation was effectively dealt with. In Yugoslavia, it was the break-up of the country into different states that ultimately led to political and economic stability of the new countries and effectively tamed hyperinflation.

Recovery and stability

In Hungary, significant economic policy adjustments steered by the government led to economic recovery and stability. Hungary's adoption of free-market elements into its socialist command economy led to a relatively high standard of living for its citizens and a more liberalised economy.

In Zimbabwe, most of the measures adopted earlier on were temporary measures that were overtaken by rampant inflation, as they did not address the underlying economic fundamentals that needed attention.

It was the introduction of a multi-currency economy in the year 2009 and the 'death' of the Zimbabwean dollar, together with the formation of the Government of National Unity, that together brought back economic stability.

Conclusion

Overall, the causes and effects of hyperinflation were similar in all countries discussed today. The key to avoiding hyperinflation seems to be maintaining good international relations and having disciplined economic governance.

Join us next week we look at the stages the former Zimbabwe currency passed through before it was eventually abandoned on 12 April 2009.

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