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Zimbabwe: 'Growth without reforms shortlived'

By: Bernard Mpofu - April 3, 2013

ZIMBABWE may take five more years to grow its economy to 1998 levels in the absence of economic reforms required to accelerate growth, as government continues to dither on freeing up the economy, a global think-tank has said.

In its research note titled Zimbabwe: Why is one of the world's least-free economies growing so fast? researcher Craig Richardson — in a paper presented to the United States-based Cato Institute — said the adoption of the multiple currency alone in 2009 is not enough to drive the economy in the long term.

Zimbabwe has on numerous occasions been rated as the least attractive economy in the world militating against the country's potential to outpace regional peers.

Currently estimated at $9 billion (although income per capita is still regarded as below 1998 levels), the economy which has been on a rebound since 2009 after enduring a decade-long contraction, recorded its first slow down last year.

According to the World Bank, Zimbabwe had a $6,4 billion economy at the start of the "lost decade" in 1998.

"Yet, while a stable currency is a key starting point for rebuilding an economy, it doesn't explain why in recent years Zimbabwe has grown faster than Hong Kong, a territory with a stable currency and the freest economy in the world," the report in part, reads.

"But the recent growth should be put into context. Ten years of economic contraction crushed Zimbabwe's economy, making it 36% poorer than it was in 1998. The sobering reality is that if current gross domestic product (GDP) growth continues at a fairly optimistic 6%, it will not be until 2018 that Zimbabwe finally reaches the former peak it hit in 1998."

Research has shown that, in general, countries with higher levels of GDP growth are associated with higher levels of economic freedom or movements in that direction. Zimbabwe, according to the report, is a curious outlier that requires further investigation.

Zimbabwe has in recent times become a case of a sleeping giant which lost its potential due to bad economic policies.

The Southern African country has been lowly ranked on the ease of doing business and this has in the past resulted in the economy collapsing to half of its former size between 2000 and 2008.

“In fact, although dollarisation stopped the country’s economic free fall, much of its growth since 2008 is based on three external factors that have artificially propped up the economy. First, since 2008 the Zimbabwean government’s expenditures have been rapidly expanding, with rising deficits that cannot be financed through government bonds or printing money. Indebtedness to foreign countries continues to rise as a result,” further reads the report.