Chapter 3: The Zimbabwean economy:
The current position and the way forward

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Introduction

Three separate and extreme crises currently top the long list of profound uncertainties already affecting Zimbabwe's business sectors and its people. Food scarcities are becoming more intense, fuel deliveries have fallen well below even the constrained consumption levels of recent months, and electricity load-shedding has become so frequent that the viability of many productive and service-sector businesses is now seriously at risk.

Government's decision to nationalise nearly all of the country's commercial farms has led to a sharp decline in export earnings as well as food production. The need to pay for substantial food imports has intensified the impact of reduced foreign earnings, while the policy choices in general have prompted foreign banks to withdraw credit lines and most aid donors to suspend their Zimbabwe operations.

Balance of payments support is not available because the IMF and World Bank disapprove of the government's policies and because Zimbabwe is in arrears with its repayment commitments to these bodies. The country is also in arrears in its payments to the suppliers of a variety of essential imports, among which the fuel and electricity suppliers are the more obvious. As these and other cuts have bitten deeper into business efficiency, creditors in other economic fields have felt the need to further reduce their exposure.

Thousands of exporting companies also face uncertainties, partly because their foreign customers are concerned about continuity of supply. Producers requiring allocations of foreign exchange for the imports needed to produce the exports await evidence that the Reserve Bank's share-out of scarce foreign currency earnings will be fair and sustainable.

All importers are fully aware that demand for foreign currency considerably exceeds the country's current earnings. Even before the power cuts, many were already unsure of their prospects of remaining in business. Now they are even more desperate for the political changes that are needed before a start can be made on restoring the economy.

Exchange control changes

Each importer is now required to apply for a foreign exchange allocation from the far-from-adequate current earnings, from which 50% has already been captured by government for its own use. The balance has to be shared between private sector companies and most of the parastatal organisations, all of which are paying Z$848 for each US dollar's worth of hard currency.

Under new exchange controls arrangements, the Reserve Bank's intention is that all flows of funds into the country will be channelled to the foreign exchange market via the Reserve Bank-controlled allocation process. The hope is that this will bring an end to the parallel market for foreign exchange. This might be almost achieved if the arrangements can ensure that only approved importers gain access to foreign exchange and that these allocations cannot be sold on to other importers.

However, funds that do not arise from the formal sector's exports of goods and services, but from cross-border trading, private transfers, payments for smuggled goods and other illegal deals such as sales of gold dust, are likely to keep the parallel market functioning. Demand in this market will be actively fuelled by hopeful importers who cannot get their applications for

hard currency approved, and by locals who sell assets and want to convert the Zimbabwe dollar proceeds into more stable foreign currencies at whatever rates they can get.

If official moves succeed in restricting the flows of foreign funds into the parallel market, worsening scarcity will drive the exchange rate further out than before. Although the volumes of hard currency traded might decline, the rates of exchange could easily rise into the Z$2 000 to Z$2 500 per US dollar range before long, and might be expected to pass Z$3 000-to-one by the end of the year.

These Reserve Bank changes are treating symptoms, not the main causes, which relate to the scarcity of foreign earnings and the loss of the country's access to credit. As a result, thousands of jobs still hang in the balance in the manufacturing and mining sectors. With the loss of nearly 300 000 jobs in commercial agriculture already and inflation accelerating at a very rapid rate, the commercial sector and service industries are feeling the effects of sharp declines in domestic buying power.

The apparent resilience of the commercial sector in recent months has been largely because of cross-border trading. Although the tendency appears to be on the decline, many shoppers are still spending Zimbabwe dollars bought extremely cheaply with hard currency brought in from neighbouring countries. The goods bought become unofficial exports usually for resale in their own countries, but the foreign "earnings" are a fraction of the true worth of the goods.

National Economic Revival Programme

To address these issues, government published its National Economic Revival Programme in March. This document is the result of discussions that were triggered by the threats posed to the business sector by the changes announced in the 14 November 2002 budget. Government rejected the initial submissions by business organisations, which had concentrated mainly on the inflexibility of the exchange rate policy statement in the budget, but this response did prompt wider-ranging discussions between government, the business organisations and labour movements.

In the three months that followed upon the Minister's budget speech, the talks resulted in the National Economic Revival Programme This incorporated the changed exchange rate policy already described.

Although the Reserve Bank will now pay Z$800 for every US dollar it receives, government has been able to avoid the use of the word "devaluation" by retaining for itself the right to buy US dollars from the Reserve Bank at Z$55 to one. No explanation is offered by the Reserve Bank on how it will provide for the loss of Z$745 it will incur on every dollar taken by the government. The loss that the Reserve Bank will incur for every US$10 million a month that government captures at this exchange rate will be Z$7,45 billion a month.

In a foreword to the document, written by Minister Herbert Murerwa, the revival programme is described as a policy thrust that will complement and run concurrently with measures announced in the budget proposals for 2003. All Zimbabweans are urged to "rally behind the programme and take advantage of the many business opportunities it offers". Unfortunately, with just four months of 2003 behind us, some of the ministries have already spent nearly all of the funds that were allocated for the full year, indicating that the 2003 budget was entirely unrealistic.

The Minister says that the document focuses on restoring conditions necessary for full agricultural production, the reversal of de-industrialisation, the increase in capacity utilisation in the manufacturing sector, the resuscitation of closed companies including mines, and the realisation of the full potential of tourism. He also expresses his expectation that the commitment of these social partners to the programme will be demonstrated, and he is counting on the "co-operation of all stakeholders to make sacrifices during this process".

The active phrases within each of the 21 sections that describe the productive and regulatory facets of the economy are phrases such as: Government is working towards… Government will introduce… Government is rationalising… Government will initiate… Government will review… Government will facilitate… Government is implementing… Government is promoting… Government is instituting… Government recognises… Government has set up… Government is pursuing… Government is exploring…

However, the text that follows these words almost always describes a plan to form a new committee, an intention to start or continue a dialogue, to commence a new study or survey, an intention to start a programme or to write new legislation.

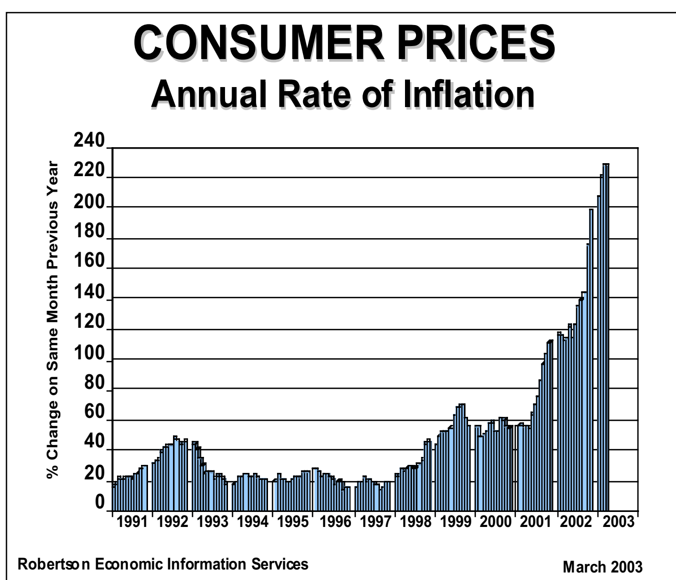
While most of the described initiatives are needed, the time horizon for any successful results rarely features in any usefully realistic form. Regrettably, the acknowledgement of need and an indication of willingness to act does not constitute a programme.

Inflation

The sudden acceleration in the decline of the Zimbabwe dollar parallel market exchange rate in the last quarter of 2002, which saw the dollar drop from Z$730 to one US dollar to Z$1500, and then to Z$1800 in the first week of November, seriously affected inflation. Together with increasing scarcities of basic household requirements, which were already forcing prices to rise more steeply from July, the exchange rate movements caused the month-on-month rates of increase in prices to rise by an average of 14,3% a month from August to December 2002. The year-on-year inflation recorded in November was 175,5%. This rose to 198,9% in December, to 208,1% in January 2003, to 220,9% in February and to 228% in March.

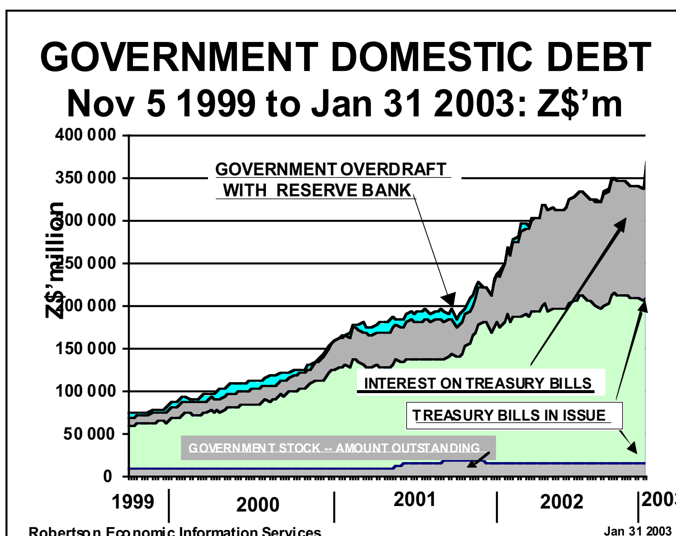
Production cost trends for the increasingly scarce agricultural inputs used by the manufacturing sector have become one of the more serious sources of inflation. While they cannot be readily separated from the prices of industrial materials in general, the difficulties caused by the dissolution of commercial farms have severely worsened the supply volumes of food and non-food inputs.

The introduction of price controls in November and the imposition of a price freeze in December have brought the supply of a wide range of finished goods to local stores almost to a stop. Many producers have had no option but to offer their goods to regional or overseas markets to avoid the controls. However, manufacturing purely for export is a politically uncomfortable option while domestic scarcities are becoming more severe, and even that option might be closed to manufacturers if they are not permitted the use of the needed foreign exchange.



A crucial element affecting the survival prospects of companies will therefore be the allocation system used. Another basic requirement is that the Z$800 to one US dollar rate must be allowed to move in line with local inflation.

As an indication of the adjustment needed every month, the average monthly consumer prices increase in the six months to February 2003 was 13,3%. If this were added to the Z$800 in March, it would carry the rate to Z$906, and the same increase in April would take the rate to Z$1 027, and to Z$1 163 if repeated



in May. If government were to display its intention to make these adjustments regularly, planning for increased production for export markets would become more likely. Delays in adjusting the rate will encourage exporters to suspend shipments until an anticipated change takes place, but importers will bring forward the placement of new orders.

At this stage, the new Z$800 to one US dollar rate amounts to about the same figure as the "blend" rate exporters were able to realise when they converted 50% of their earnings at only Z$55 and the balance at Z$1 500 to the US dollar. Although this might be satisfactory now, the rate at which costs are increasing will soon make the figures unacceptable and the frequent adjustment of the rate for current inflation is therefore of fundamental importance.

Origins of current problems

Explanations for the current problems can be tracked on many separate paths, but most of their origins go back to the redistribution of land. The systematic annihilation of almost all commercial farming was the main cause of worsening shortages until the fourth quarter of 2001. Subsequent price increases for industrial materials were driven mainly by the growing scarcity of foreign exchange.

Falling tobacco and cotton output, the closure of some gold mines, the loss of the markets for beef and surplus dairy products, declining tourist inflows, falling manufacturing output and worsening fuel and electricity supplies have all affected foreign revenues. The rising premium on foreign exchange purchases and declining consumer goods supplies then became direct sources of yet more inflation.

However, the momentum behind these increases could not be countered by price controls, nor by the price freeze, mainly because the more deeply-seated sources of inflation have been the massive and recurring budget deficits. The accumulated debt has become so large that the process of funding the debt service has itself caused distortions. Interest rates have been lowered considerably to make the debt servicing costs more affordable to government. These low payments have caused such large losses in the savings funds that few people are now encouraged to save.

Government is now borrowing extensively from the Reserve Bank, a procedure that forces the Reserve Bank to print the additional funds needed. This is the most inflationary conduct of all, and it is made all the more serious because the money is being used for consumption purposes, not for investment.

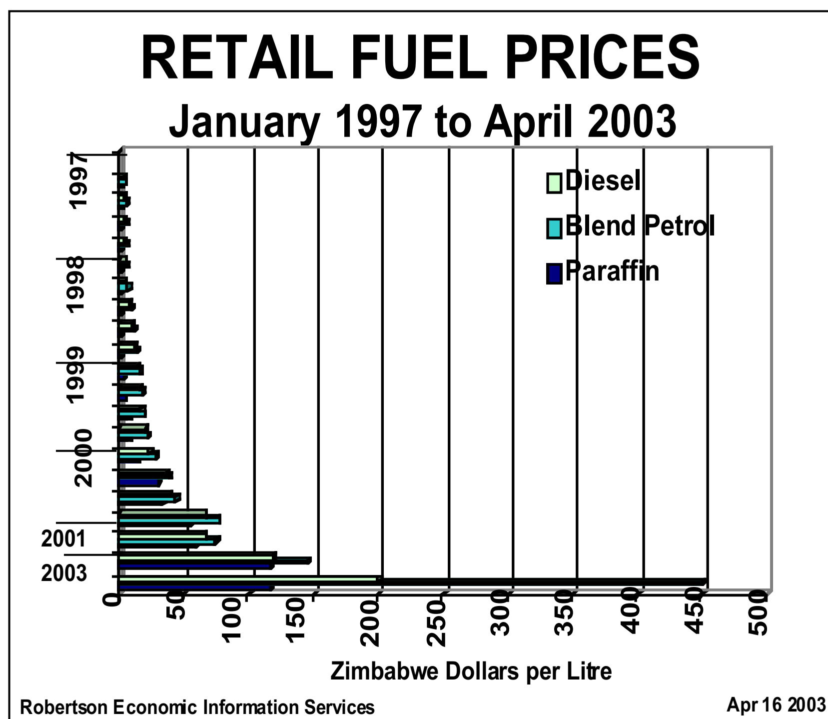
Suppliers and consumers initially appeared to be able to adjust to the inflationary pressures. One way or another most producers kept going, but when price controls turned into a price freeze, wide ranges of consumer goods started to disappear from the shops. The closure of semi-formal foreign currency traders and *bureau de change* further affected the supplies of all imported goods.

Foreign exchange constraints affecting fuel and electricity imports

Although fuel imports are supposed to be paid for from the foreign revenues captured from exporters by the Reserve Bank, the flow of money into government coffers has fallen short

of the amounts needed. As a result, the fuel shortages have worsened and are now having a crippling effect on already weakened productive and service sector companies as well as on the distribution of food.

Fuel prices had remained unchanged from September 2001 to February 2003, but during that period the consumer price index increased by about 325%. The need for very steep fuel price increases soon became overwhelming and the first took place in the last week of February. Its first impact on the index appeared in the March figures, but to a somewhat muted extent that suggests only officially approved transport tariffs were being recorded in the calculations.



On April 16 2003, fuel prices were increased again, this time by much bigger margins. In February, the petrol price had been increased by 95% and the diesel price by 80%, but these adjustments fell a long way short of the amounts needed to close the gap. In April, the increases were 210% for leaded petrol and 67,5% for diesel.

This results in petrol prices providing a cross-subsidy for the diesel price. Assuming reasonable volumes being made available, the diesel account would suffer a loss per day of Z$320 million, but the leaded and unleaded petrol prices would generate a daily profit of about Z$290 million a day. If these volumes were fully realised, they would indicate a government subsidy of Z$30 million a day.

These price increases can be expected to have a quicker and more profound affect on prices increases across the board than most of the current contributors to inflation, but further pressures are being generated by falling industrial efficiencies, and the cost consequences of power cuts. However, the manner in which the massive budget deficit is being financed remains the most serious cause.

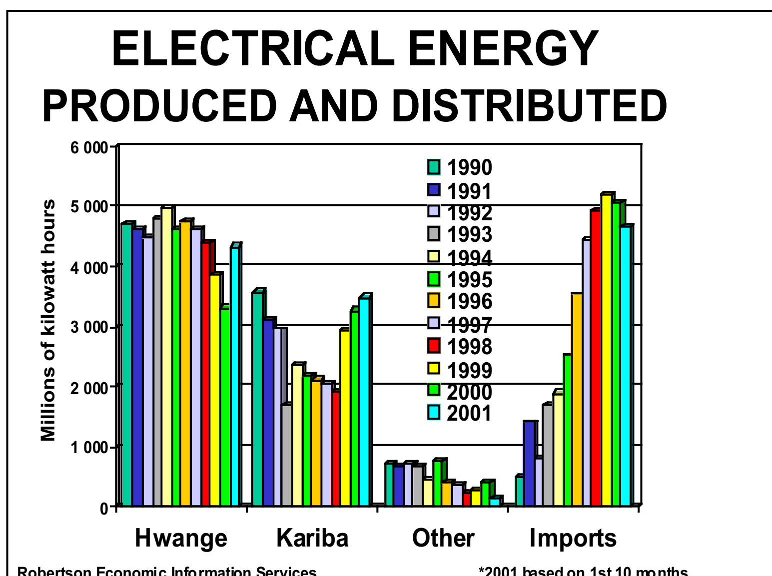
As Zimbabwe's payments for electricity imports are in arrears with South Africa, Mozambique and the Congo, and as coal supplies to the domestic thermal stations have been affected by problems on the railways as well as by breakdowns at Wankie Colliery, Zimbabwe's electricity generating capacity is now well below normal.

Government's decision to capture first 40% and now 50% of all export proceeds at the official exchange rate of Z$55 to US$1 to pay for fuel, electricity and certain other essentials was undermined by a concession to those who had raised foreign bank loans to fund their imports. Having made considerable efforts to encourage exporters, government accepted that they should be permitted to use their total export earnings to service such loans.

A significant number of exporters took advantage of the arrangement, cutting the total paid over to the Reserve Bank. The fall in total export revenues further compounded the problem. Between them, these inroads into the transfers reduced the foreign funding available to

government for fuel and electricity payments. Supply arrangements on credit terms made with Libya, Kuwait and South Africa for fuels and with South Africa, Mozambique and the Congo for electricity each fell into difficulties because of failures to meet payment commitments.

As the graph below illustrates, dependence on imported electricity has trended upwards in the past decade and production from Zimbabwe's own power facilities has declined. The improvements seen in the years from 1999 to 2001 have been lost as a result of technical problems that require substantial foreign exchange to overcome and which have been beyond the available resources during the past year. Electricity generation statistics for 2002 have not yet been released for publication.



The foreign exchange flow needed to pay cash in advance for continuing fuel consignments and electrical power drawn from neighbouring countries has proved particularly difficult to sustain. Zimbabwe is now functioning on such a hand-to-mouth basis that the slow-down experienced in the normal repatriation of funds in payment for exports has badly upset normal payment flows.

This slow-down happened as a result of government's decision to tighten its control over foreign earnings. While hoping that the November exchange control policies would be amended, exporters took the full time allowed to bring in their sales proceeds. With its credit and reserves exhausted, government's ability to pay cash for new fuel deliveries was undermined by the resulting payment delays.

The possibility of new changes in the arrangements for importing and distributing fuel is already having severe price implications that will reach into the costing of every product and service in the country. In place of the original six fuel companies, government has now licensed some 26 companies.

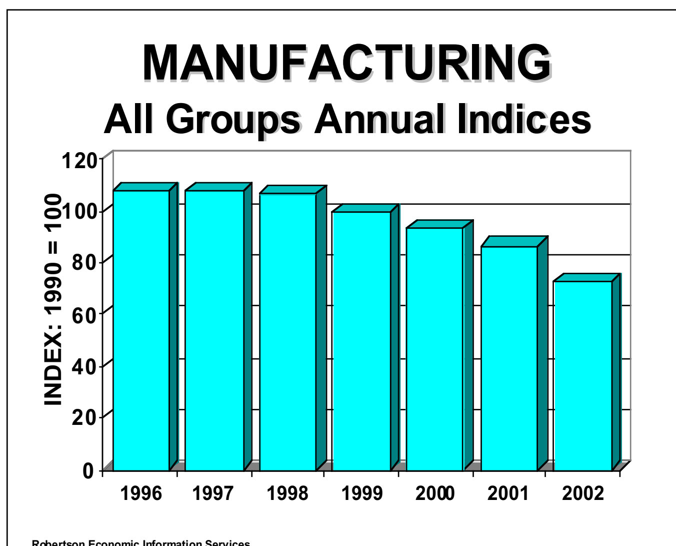
This has been done as part of government's effort to indigenise the industry, but little thought appears to have been given to viability problems that must surface when supply volumes return to normal and the modest profitability levels are diluted by the larger number of players.

Meanwhile, the new indigenous fuel companies are being given preferential access to whatever fuel is imported. As most of the installed distribution capacity is still the property of the multinational companies, moves have already started to bring about changes of ownership of individual service stations to speed the process of indigenisation in the industry.

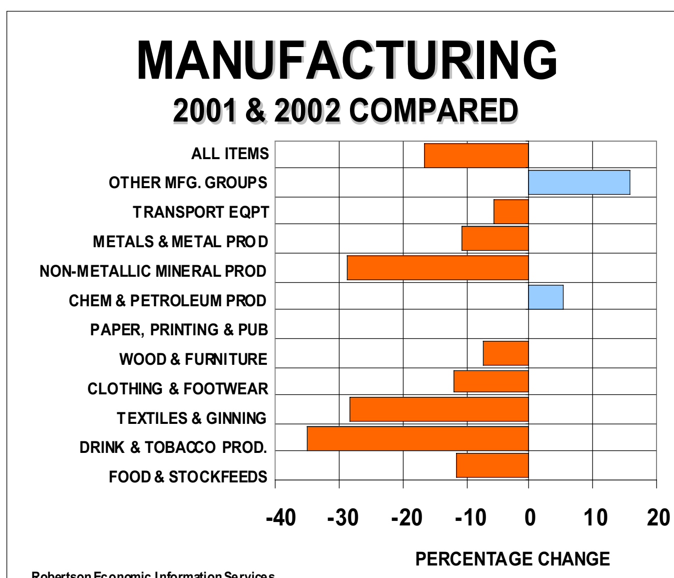
However, about 90% of existing service stations have contractual obligations to source fuel from one of the six multinational suppliers, Shell, Caltex, Total, BP, Engen or Mobil, so the financial and legal arrangements are certain to present additional problems.

Other productive sectors

Provisional figures for the final quarter of 2002 show that manufacturing output for the whole year declined by 16,4% compared to the volume produced in 2001. As the graph illustrates, manufacturing output has fallen every year since government announced its intention to nationalise commercial farming land in 1997. The decline can be seen to have accelerated and the cumulative effect has been to reduce manufacturing output by 32,8% since 1997. In the 2002 year, the worst affected industries were non-metallic product industries and textiles, both of which declined by about 28%, and the drink and tobacco products industry, which saw output fall by 35%. In 2002, two industrial sectors, textiles and transport equipment manufacturers, were producing less than half the volumes produced in 1990.



In the adjacent graph, the 2002 figures are compared to those for 2001, and the volumes produced are seen to have improved in only two of the 12 categories. Chemical and petroleum products showed a 5,2% increase, rising from an index of 75,2 for 2001 to 79,1 for 2002, both measured against a base of 1990 = 100.



The other manufactured goods group, which shows an increase of 15,8%, comprises a range of products that together amount to less than one percent of total output. The increased local output reflects the recapture of market share by local producers after increases in the costs of importing these goods.

For the mining sector, output figures for 2002 show that compared to output volumes in 2001, increases were recorded for 13 minerals and decreases were recorded for 17 minerals See table below). Production ceased for two minerals, ferro-silicon and low-carbon ferrochrome, but two new minerals were included on the list for the first time, iridium and rhuthenium. These are among the platinum-group minerals now being extracted from the concentrates being refined in South Africa for the two Zimbabwean platinum mines. Significant percentage increases are evident in the table for the more important of these minerals, platinum, palladium and rhodium.

A decision by Anglo American Corporation to go ahead with the development of a third platinum mine will help Zimbabwe to become a more significant producer of these minerals.

METAL AND MINERAL PRODUCTION: 2001 and 2002			
	2001	2002	% Change
Asbestos \t	136 327	167 954	23
Black Granite \t	385 532	408 550	6
Chrome \t	780 150	749 339	-4
Coal \t	4 064 497	3 721 112	-8
Cobalt \t	95	87	-9
Copper \t	2 057	2 502	22
Feldspar \t	1 055	591	-44
Ferrosilicon \t	16 848	0	-100
Fireclay \t	3 404	3 789	11
Flourspar \t	0	250	-
Gold \kg	18 050	15 469	-14
Graphite \t	11 837	9 912	-16
High Carbon Ferrochrome \t	243 534	258 164	6
Iridium \kg	0	84	-
Iron Ore \t	360 862	271 812	-25
Iron Pyrite \t	88 156	87 592	-1
Kyanite \t	9 682	5 657	-42
Limestone \t	3 798 956	3 168 903	-17
Lithium minerals \t	36 103	33 172	-8
Low Carbon Ferrochrome \t	6 307	0	-100
Magnesite \t	2 439	2 366	-3
Nickel \t	8 145	8 092	-1
Paladium \kg	371	1 943	424
Phosphate \t	87 880	107 854	23
Platinum \kg	519	2 306	344
Quartz rough \t	28 162	6 790	-76
Rhodium \kg	42	218	418
Rhuthenium \kg	0	178	-
Silica \t	14 544	15 548	7
Silver \kg	3 344	1 711	-49
Slate \t	435	13 213	2 937
Talc \t	1 272	911	-28
Tantalite \t	30	480	1 514
Vermiculite\ t	11 632	23 803	105

Food crisis

The prospects of early political change could be driven by the rapidly evolving food crisis. Government's current policies can offer no immediate relief, and as this becomes more apparent, more of the population will realise that government has little prospect of arresting their slide into deeper poverty. As a high proportion of the urbanised people working in the private sector will experience this, the levels of their opposition to government policies might be expected to increase steeply.

Some will be protected by virtue of their involvement with food processing or distribution, but the viability of companies in the productive and service sectors generally is likely to decline appreciably. Mining and public sector employees are likely to be best protected from these uncertainties. Foreign earnings from mineral exports have been better sustained than from other export sectors and will become increasingly important to government, and salary payments to public servants will remain one of government's priorities.

In the wake of fall in other private sector activities, government tax revenues will decline. However, its commitment to help the several hundred thousand new farmers survive and to

dampen down the prospects of social unrest will force it to accept very much higher expenditure outflows than it can sustain. Falls in subsidies and other transfers seem inevitable at some point, but before that point is reached, government will be very likely to be resort to Reserve Bank loans to close the gaps. This amounts to printing money to solve the problem, but this solution inevitably leads to accelerated inflation and further pressure on exchange and interest rates.

The conditions these difficulties would create could become so severe that a change of leadership within the ruling party or even a change of government would become less remote possibilities. As Zimbabwe's refugee problems become a threat serious enough to destabilise the region, the pressures might mount from regional governments to bring about policy changes.

International bodies that are still trying to influence events in Zimbabwe might then be expected to drive these changes more deeply into economic structures to restore acceptable business relationships. Occasionally, Zimbabwe makes it back onto the agendas of other countries and organisations. Proposals have been made for further sanctions against Zimbabwe and the Assistant Secretary of State for African Affairs in the US government recently said that Robert Mugabe was no longer recognised as the legitimate head of state.

Some of the most important public statements in the early weeks of September made at the World Summit on Sustainable Development showed that polarisation was becoming more pronounced. The statements reflecting concern over policy choices in Zimbabwe drew hostile responses that also firmed-up the intransigence of the official ZANU PF position.

While most farmers are known to have surrendered their farms and many others who had not been served the necessary papers have also been forced to abandon their properties, most have held onto their title deeds. They are doing this in the hope that their rights will be upheld eventually and their property will be restored to them.

They believe that these hopes will be supported by the virtually certain failure of next year's agricultural harvests as well and by the fact that basic policy changes will be needed to bring about the recovery of productive capacity. The return of investor confidence and the reduction of the potential threat that Zimbabwe poses to the stability of the region will also depend upon the same policy changes.

If they were started immediately, a sequence of successful measures would prevent the loss of much that is now on the brink of collapsing. However, a realistic assessment is that government will not believe it has taken a wrong turning before the predicted failure takes place. Even if the current leadership is displaced before that event, it will take with it a strong belief that it would have succeeded.

Financial considerations

The prospects that lie ahead of Zimbabwe could be termed dire in the extreme, and it is these that might form the cutting edge of any drive for change. In essence:

- The exchange rate misalignment and the efforts to force compliance with policy directives are threatening the survival of most businesses.
- The interest rate misalignment is stripping the country of its savings base. The capital confiscation in progress, with negative interest rates of the order of 90%, will soon impact directly on government's prospects of funding its budget deficits. To overcome the problem, government will print substantial quantities of money.
- Inflation rates could then slide completely out of control. Only a few more steps on the current path could result in inflation soaring to more than 1000%.
- Commitments made by government to subsidise the seed and fertiliser inputs, the tillage, training and extension services for resettled farmers are completely beyond its

resources. Without collateral, the farmers will be unable to source their own funding from financial institutions unless loans are backed by acceptable guarantees.

- Funds with which to pay for imported food and other requirements are not forthcoming from Zimbabwe's shrinking foreign earnings. As yet, very little has been offered as foreign loans or grants.
- Fuel supplies are being released from bond at rates that fall short of consumption levels. Although the stocks in storage are adequate, they can be released only as the suppliers are paid for delivering them. With no foreign reserves to draw on, fuel payments can be made only on receipt of export proceeds or after Noczim has bought foreign exchange on the parallel market.
- Retail fuel suppliers are now on a hand-to-mouth basis that is prohibiting rational planning and the efficient use of skills and other resources.
- Imports of food are taking place at a daily rate that falls short of minimum consumption levels. Complete stock-outs of food are becoming more frequent occurrences and very little is being done to prevent the situation from getting worse.
- The - as yet - unplanted crops for harvesting in 2003 are already threatened by inadequate supplies of fertiliser and fuel.
- The absence of early land preparation, the breakdown of measures to prevent the spread of insect pests, crop and cattle diseases, and the disturbed weather patterns are additional hazards.
- Unless Zimbabwe enjoys a considerable amount of good luck in the coming growing season, millions of people will require food aid and welfare payments through to the May 2005 harvests. Additional funding assistance will be needed by at least a million children if they are to be kept at school.
- The flows of cash payments that have characterised government's conduct during the election and land resettlement phases seems certain to be cut back drastically in the light of falling tax revenues, rising commitments and inability to access aid in the form of money.

These events, plus the expected job losses in industry, commerce and the service sectors appear very likely to cut disposable incomes and discretionary spending for about two years, unless government accedes to international pressures for change.

In its international trade and financial dealings, Zimbabwe has struggled to maintain inflows of essential goods and services. Technically, a country that has a deficit on the current account of its balance of payments would expect to see corresponding or balancing movements on its capital account. This would be usually through a reduction of foreign reserves or an increase in new foreign borrowings. But with no reserves to draw upon and no access to new loans, Zimbabwe reached the end of 2001 with deficits on its current account as well as on its capital account.

Payments arrears of almost one billion US dollars had been accumulated in 2001 and this position worsened to US$1,3 billion by November 2002. Zimbabwe now appears to be a good investment option only to the most opportunistic of speculators, who will concentrate on quick commercial returns and completely ignore productive investment opportunities.

While Zimbabwe has very few options on what to do next and what the country can do without help, the best official efforts will not be taken seriously until government adopts acceptable policies. Because the current difficulties stem from self-inflicted handicaps, the needed commitments to restore the country's growth prospects have to come from within and have to be political rather than economic. However, our very high inflation rate, our artificial and seriously overvalued exchange rate as well as our extremely negative interest rates need immediate attention.

If it announced its intentions to change the policies that have proved unworkable, government might begin to permit Zimbabwe to be taken seriously again. However, the same policy mix was restated and defended by the President in various speeches in the past few months.

They have since been further reinforced in the course of many attacks on the British government, the EU and the Commonwealth.

The work needed to help the country become an attractive investment destination again has therefore yet to start. While that start continues to be delayed, the country will find it increasingly difficult to maintain its existing infrastructure, and the accelerating outflow of skills will further undermine the country's prospects of a quick recovery.

Recovery prospects

If Zimbabwe were to be persuaded to return to a more viable economic structure, or if revised policies were adopted after a change in leadership, the specific issues that would demand immediate attention would be:

- The restoration of property rights and the market for agricultural land.
- The generation of title deeds for those resettlement farmers prepared to pay for land.
- Through the generation of title and transferability, the removal of the resettlement farmers' effective isolation from the financial institutions.
- The negotiation of substantial budget support and balance of payments support in the form of long-term loans from the IMF and World Bank.
- The negotiation of a domestic debt refinancing package to enable the nation's savings to be repaid to the financial institutions.
- The adoption of economic policies that would encourage the return of foreign investors and would persuade international lenders that the country is, once again, a good credit risk.
- The negotiation of substantial credit lines from international banks and supplier credit from suppliers of essential industrial materials.
- The overhaul of Zimbabwe's exchange rate and monetary policies with the object of placing the exchange rate and interest rates back under the influence of market forces.

Under the current circumstance within the country, Zimbabwe could be placed back onto a recovery and growth path fairly quickly. However, if the needed steps are not taken within a matter of a few weeks, the prospects of reasonable crops in 2004 will fade and the loss of skills, together with the rapid escalation of debt, will plunge the country into much more severe levels of poverty. From this, an eventual escape will be a much slower and longer process.

No reaction to the deep-seated consequences of its own disastrous policies can be expected from the current government, so no moves are expected from them to actually undo the damage done. The adoption of well-chosen policies that would help the country to qualify for a rescue package and eventually restore export volumes, but do not address investor requirements, might at best stabilise the exchange rate.

However, much bolder and more dramatic measures would be needed for a faster turn-around, such as an extensive revision of official policies and the restoration of property rights. Such measures would restore investor confidence and put in place to place the country back onto a recovery path.

Very stiff conditions would be imposed upon Zimbabwe before it could be considered for any form of rescue package. Among these would be the acceptance of a more predictable exchange rate policy, a move towards positive real interest rates, the more careful management of domestic debt and a further doubling of fuel prices. By being granted the needed balance of payments support, the rate of inflation could be brought under better control and importers of industrial and commercial inputs would see costs stabilising.

If given the lead by the IMF, the various other international financial institutions could help Zimbabwe to quickly overcome its acute shortage of foreign exchange and recover its ability

to earn good export revenues. The scale of immediate needs leaves the country with little option but to urgently re-qualify itself for help by meeting in full and unequivocally the demands imposed by those prepared to help.

Without help from abroad, Zimbabwe could perhaps rebuild its export revenue earnings over several decades. However, in no circumstances could it be claimed that the population is able to wait that long. The 2003 crops have proved to be too small to be of consequence and the lives of too many people hang in the balance. Zimbabwe is also becoming a serious threat to the stability of the whole Southern African region. Changes to the current policy mix are essential and urgent.

As the needed changes would have to include a return to the rule of law based upon acceptable property rights, they would necessarily have to include a reversal of provisions in the land reform programme that made land free and distributable by political patronage. It might appear that, politically, the ruling party could never meet such a steep demand. But the initial economic impacts of fuel at six times its price in January this year is expected to be equally threatening to political stability. This challenge will be just the first of many.

Far-reaching government choices will have to be made, and restoring market value -- and therefore collateral value -- to land will be among the more important if respectable production volumes are to be achieved. Any administration that has serious intentions of rebuilding food self-sufficiency and investor confidence will have to fully accept this fact.