

*Njabulo Nkomazana, Zachary Tambudzai**

AN ANALYSIS OF THE FOREIGN CURRENCY CRISIS IN ZIMBABWE (1997-2008)

Abstract: This study was undertaken to analyse the main causes of the prolonged foreign currency crisis in Zimbabwe. The paper begins with an analysis of the historical trends to the crisis and also explores its economic repercussions. Causes of the Zimbabwean currency crisis identified in the research include the rigidity of the exchange rate, political instability, failure of the financial system, lack of international balance of payments support, corruption, lack of manufactured exports and a significant decline in traditional exports. The adoption of a flexible exchange rate management system, value addition to exports, re-engagement of the international community and the general economic revival initiatives are some of the possible solutions to the current foreign currency turmoil.

Key words: Zimbabwe, foreign currencies, crisis

BACKGROUND OF THE STUDY

The Zimbabwean foreign currency crisis¹ surfaced in 1999, although its symptoms can be traced as far back as early 1997 when the Reserve Bank of Zimbabwe (RBZ)² pulled out of the Managed Float Exchange Rate Management System. Since then, the crisis has persisted unabated, transforming from†

* Lecturers in the Department of Economics at Midlands State University, in Zimbabwe. E-mail: nkomazanan@msu.ac.zw OR tambudzai@msu.ac.zw Midlands State University, P. Bag 9055, Gweru, Zimbabwe.

¹ In this paper, the phrase 'foreign currency crisis' refers to severe foreign currency shortages.

² The Reserve Bank of Zimbabwe is the country's Central Bank.