



my mind that the people of Zimbabwe would be better served by realism and pragmatism than by more years of nationalist rhetoric and mismanagement.

The formal opposition, the MDC,

The backdrop to this political battle is an economy which is in dire straits, driven by a mixture of external factors and self-inflicted harm. The country's adoption of the US dollar has stabilised the economy, but at a cost. The relative strength of the dollar against neighbouring commodity-dependent currencies is damaging competitiveness and reducing the value of remittances. The country has been hit by the fall in global commodity prices, and a drought aggravated by a severe El Niño event has badly affected agricultural output and power generation, and has precipitated a severe humanitarian crisis.

Sadly this has also been compounded by self-inflicted harm. The climate for business remains poor due to high political risk and an inadequate and selective approach to property rights. Concerns over indigenisation policy remain high and are driving away FDI. The country continues to suffer from the effects of a bloated public sector and parastatals and from what I was told corruption and opportunistic looting of private and public sector resources continues to be an issue. The most immediate danger is that the supply of cash dollars is drying up and there is a danger of banking failure and a liquidity crisis with consequent impact on the functioning of the whole economy.

As you can see it will be exceedingly difficult to pull the country around given the state of the economy and external environment. However, I came away encouraged that the reformers are credible and making reasonable progress in meeting the IMF's reform agenda. There are several policy priorities which are necessary, though probably not sufficient, for recovery. From my conversations I took these to include: progress on reforming the indigenisation policy; a system of secure land tenure that allows farms to be used as collateral against loans; shrinking the public sector and reforming the parastatals; and greater transparency in the natural resource sector. As ever the reformers will need some – but certainly not unconditional – encouragement, and debt restructuring will probably need to be accompanied by an injection of additional liquidity to keep the economy moving. However, that should only be contemplated as support for economic realism and improved governance.