THE WALL STREET JOURNAL. ONLINE

July 2, 2008

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Zimbabwe Can't Paper Over Its Million-Percent Inflation Anymore

Under Pressure, German Company Cuts Off Shipments of Blank Bank Notes to Mugabe

By MARCUS WALKER and ANDREW HIGGINS
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Robert Mugabe has kept his embattled regime in Zimbabwe afloat on a sea of paper money. Now, he'll have to try to do it without the paper.

The Munich-based company that has supplied Zimbabwe with the special blank sheets to print its increasingly worthless dollar caved in to pressure on Tuesday from the German government for it to stop doing business with the African ruler.


Robert Mugabe

Mr. Mugabe's regime relies on a steady supply of the paper -- fortified with watermarks and other antiforgery features -- to print the bank notes that allow it to pay the soldiers and other loyalists who enable him to stay in power. With an annual inflation rate estimated at well over 1 million percent, new notes with ever more zeros need to be printed every few weeks because the older ones lose their worth so quickly.

Giesecke & Devrient -- a secretive, family-owned Bavarian company that once made its money churning out worthless cash for the doomed Weimar Republic in the 1920s -- has been airlifting tons of blank notes to the Zimbabwean capital Harare. The company, which has been doing business with the African nation since before Mr. Mugabe took power in 1980, is one of the few sources in the world for the specialized paper that is so important in an age when computers and laser printers have made forgery easy.

Germany's foreign minister, Frank-Walter Steinmeier, phoned Karsten Ottenberg, Giesecke & Devrient's chief executive, Tuesday to complain about the deliveries, according to a German diplomat. On Friday, Germany's development minister denounced the company's dealings with Zimbabwe as "terrible" and sent a fax demanding that they stop.

Giesecke & Devrient said it would halt deliveries in response to the German government's objections, public opinion, and the worsening political situation in Zimbabwe. Neither the Reserve Bank of Zimbabwe, the country's central bank, nor the company would say how much the contract was worth.


Associated Press
Zimbabwe issued special bearer checks to deal with hyperinflation.

The firm tried to weather the storm. Producing bank notes is lucrative, particularly for countries like Zimbabwe that are ravaged by hyperinflation and need to issue new notes so often. Zimbabwe's central bank stopped posting inflation figures in January, when it stood at a relatively modest 100,580%. A loaf of bread costs 30 billion Zimbabwean dollars.

Gideon Gono, the governor of Zimbabwe's central bank, said in a phone interview that the cutoff in deliveries will create hassles but "there is no need to commit suicide...We are basically prepared for anything that comes our way." Inflation, he added, is a grave problem but Zimbabwe will "survive the onslaught."

The Munich money connection stirred outrage among opponents of Mr. Mugabe, who, after a one-candidate election last week, was sworn in for another five-year term Sunday.

The German supplier was "supporting the regime, and anyone who supports the regime is helping to suppress our people," says Elton Mangoma, treasurer for Zimbabwe's opposition party, the Movement for Democratic Change. He's now on the run from security forces, he says.

'Money Down the Drain'

Zimbabwe, he says, has been "pouring money down the drain" by paying Giesecke & Devrient to produce paper money that quickly loses any value. Mr. Mangoma uses a 10 million Zimbabwe dollar bank note, worth 0.0008 of a U.S. cent, as a bookmark because he doesn't "care if I lose it."

Zimbabwe now has a plethora of different bills, most of which have negligible value. An accountant by profession, the MDC treasurer Mr. Mangoma says billions are rarely used in his line of work anymore and have been replaced by quadrillions -- a million billion. "Our economy is too crazy to understand," says Mr. Mangoma.

The U.S. Federal Reserve keeps $100 bills in circulation for around 89 months, figuring that this is how long they can withstand ordinary wear and tear. Notes in Zimbabwe rarely last more than a few weeks because they lose their value so quickly. A 500,000 Zimbabwe dollar bill issued late last year is already out of circulation: It is worth just 0.00004 U.S. cents at the official exchange rate -- and much less on the black market.

Vending machines, which take coins, fell out of service in Zimbabwe years ago. A single soda would require the deposit of billions of coins. Imported from South Africa and in very short supply, a Coke sells on the black market for around 15 billion Zimbabwean dollars. Civil servants mostly get paid through direct deposits into bank accounts, which limit withdrawals to 25 billion Zimbabwe dollars a day.

In place of ordinary bank notes, Zimbabwe's central bank has taken to issuing bearer checks in recent years. These look much the same as bills and use the same German paper, but are valid for only a fixed period. The government last year tried another tack, imposing price controls on a range of basic goods. Supplies of goods dried up, and authorities relented.

Before Tuesday, Giesecke & Devrient, which produces bank notes for 100 countries around the world, said it took no view on Zimbabwe's economic or political woes. A company spokeswoman said the firm follows rules laid down by international bodies such as the United Nations and the European Union, and they haven't imposed trade sanctions on Zimbabwe.

"It is not our place to enter into political considerations in delivering bank notes," she said. On Tuesday, the company changed its tune under pressure from the government in Berlin. German Chancellor Angela Merkel has been vocally critical of Mr. Mugabe's regime, and the company's continued dealings were "sending the wrong signal," said a senior German official.

The company -- which printed tickets for Hitler's 1936 Olympics and did business with fascist Spain under General Francisco Franco -- has annual revenues of $2.45 billion. The largest printer of euros for the European central banks, Giesecke & Devrient makes bank-note paper at two factories, one in the Bavarian Alps, the other in the mountains of Saxony near the Czech border. But, fearful of protests, it won't say which plant produced the Zimbabwe paper.

Giesecke & Devrient's ties with Zimbabwe go way back. It supplied Ian Smith's white minority regime with bank notes and money-printing machines when the country unilaterally declared independence from Britain in 1965. Britain tried to stop the deliveries by suing Giesecke & Devrient in German courts, arguing unsuccessfully that since the world didn't recognize the Smith regime, the bank notes were forgeries.

White-minority rule ended, Rhodesia became Zimbabwe, Mr. Mugabe became its leader in 1980, and Giesecke & Devrient carried on selling to the central bank. In the late 1980s, Mr. Mugabe publicly praised the company for its loyalty to Zimbabwe, according to Klaus Bender, author of the book "Moneymakers: The Secret World of Banknote Printing."

"The business of printing bank notes is comparable only to the arms trade," Mr. Bender said in an interview. "It's discreet, highly political, and based on long-term relationships."

Giesecke & Devrient's decision to end its relationship with Zimbabwe raises a host of questions. The opposition MDC says that without German supplies to keep the printing presses rolling, the central bank, run by Mr. Gono, a stalwart ally of Mr. Mugabe, will have trouble pumping out money in ever greater volumes.

'Simple Equation'

Hyperinflation, says Steve H. Hanke, a professor of applied economics at Johns Hopkins University in Baltimore and an expert on the subject, "is a very simple equation" -- stop printing money and it stops. A bout of severe hyperinflation in Yugoslavia in the 1990s paused, he says, when the country's mint "just maxed out," and it couldn't print new money fast enough.

But, say Mr. Hanke and others, Zimbabwe will likely find another way to churn out fresh money even without special paper from Germany. He doubts much will change in Zimbabwe unless it gets rid of its central bank and adopts an entirely different monetary system.

Mr. Gono says he's "got a Plan B" to cope with the German paper deficit. It's secret, he says.

--Farai Mutsaka contributed to this article.

Write to Marcus Walker at marcus.walker@wsj.com[1] and Andrew Higgins at andrew.higgins@wsj.com[2]

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