ABSTRACT

This paper examines the impact of monetary and fiscal policies on economic activity in Zimbabwe by employing a modified St Louis equation for the period 1981:4 to 1998:3. The main objective is to determine the relative effectiveness of monetary and fiscal policies on the economic growth process in Zimbabwe using the new econometric techniques of time series, cointegration and error correction approach.

Secondary data was collected from various publications like, Government of Zimbabwe (1987) : Annual Economic Review of Zimbabwe, Central Statistical Office (1998) National Accounts 1985-97 and Reserve Bank of Zimbabwe (various issues) monthly and quarterly bulletins. Quarterly data was used to make a total of 68 observations. LIMDEP Version 6.0 and PC GIVE Version 8 packages were used for data analysis.

The regression results suggest that the monetary influence is relatively stronger and more predictable than fiscal policy in determining economic activity. These results suggest that monetary policy can be relied on as a successful macroeconomic stabilization tool in Zimbabwe. Fiscal policy should be streamlined as it is found to have an insignificant impact on economic activity in Zimbabwe.

The impulse dummies which are included in the model in order to reduce the impact of outliers in the scaled residuals were also found to be significant. These impulse dummies are for the period when Zimbabwe experienced severe drought and also a bumper harvest. Exports had an insignificant impact on economic activity.
The estimated equations are found to exhibit structural stability implying their usefulness for the purpose of forecasting and policy analysis. Money supply is found to be consistent with economic theory, having monetary base as the most important variable.

**KEY WORDS:** Monetary policy, Fiscal policy, Economic activity.


“AN ERROR CORRECTION APPROACH”.

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