DECLARATION

I, Jonah Mushayi, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the acknowledgements and references included in the body of the study, and that it has not been submitted in part or in full for any other degree to any other university.

Student Signature: ___________________________ Date ____________

Supervisor Signature: ___________________________ Date ____________.
DEDICATION

I dedicate this dissertation to my wife Rumbidzayi Mushayi and my two sons, Tawonga Mushayi and Ropafadzo Mushayi, who sacrificed so much of their special time in order to allow me to focus on completing this work. I appreciate their understanding and encouragement which provided me with the strength and motivation to move forward. I also pay tribute to my late father, Josiah Mukwaiwa Mushayi, and my surviving parent, Shuvai Mushayi, who continues to be my source of inspiration, derived from their motto ‘where there is will, there is a way’.
ACKNOWLEDGEMENTS

I am very grateful to my Supervisor, Professor Hawkins for the guidance and assistance he provided me leading to the production of this work. I also want to thank my Director Mr E. Hamandishe, and colleagues in the Fiscal Policy and Advisory Services Department of the Ministry of Finance, for their contribution in the identification of the topic and their desirability to forming part of the economic policy framework for sustainable economic development.
ABSTRACT

The Zimbabwean economy was officially dollarised in March 2009. The Finance Act of 2009 officially terminated the Zimbabwe dollar as an official transacting currency in Zimbabwe. However, prior to this official dollarisation, most of the transaction were already being conducted in foreign currencies. The adoption of dollarisation facilitated the restoration of macroeconomic stability, as evidenced through taming inflation, improvement in industry capacity utilisation and some improvement on social services, among many other positive strides.

Given some modicum of economic stability realised since 2009, this research therefore seeks to investigate whether the economy is now ready for the return of the local currency and to develop an appropriate de-dollarisation framework. The route to de-dollarisation being recommended requires that the government focuses on addressing the conditions precedence to de-dollarisation. These preconditions were identified as enhancing competiveness, institutional reforms, realignment of government expenditures, improving current account performance, central bank independence, political stability and resolving the country’s external debt position. An evaluation of the above indicators since 2009, indicate that sufficient progress to facilitate de-dollarisation has not yet been made. Once these are addressed, a market based approach entailing the reintroduction of the Zimbabwe dollar in parallel to the US dollar be adopted.
# CONTENTS

**DECLARATION** .................................................................................................................................................................................. ii

**DEDICATION** ................................................................................................................................................................................... iii

**ACKNOWLEDGEMENTS** ......................................................................................................................................................................... iv

**ABSTRACT** ......................................................................................................................................................................................... v

**LIST OF ABBREVIATIONS AND ACRONYMS** ............................................................................................ x

**LIST OF TABLES** ........................................................................................................................................................................ xi

**LIST OF FIGURES** ........................................................................................................................................................................ xii

  CHAPTER 1 .......................................................................................................................................................................................... 1
  1.0. **INTRODUCTION** ........................................................................................................................................................................ 1
  1.1. **INTRODUCTION TO THE STUDY** ................................................................................................................................. 1
  1.2. **BACKGROUND TO THE STUDY** ................................................................................................................................. 2
  1.3. **PROBLEM STATEMENT** ......................................................................................................................................................... 4
  1.4. **AIM OF THE STUDY** .............................................................................................................................................................. 5
  1.5. **RESEARCH OBJECTIVES** .................................................................................................................................................... 5
  1.6. **RESEARCH QUESTIONS** ....................................................................................................................................................... 5
  1.7. **RESEARCH PROPOSITION** ................................................................................................................................................ 6
  1.8. **JUSTIFICATION OF RESEARCH** ...................................................................................................................................... 7
  1.9. **SCOPE OF THE RESEARCH** ........................................................................................................................................... 8
  1.10. **ETHICAL CONSIDERATION** ........................................................................................................................................ 8
  1.11. **DISSERTATION STRUCTURE** ...................................................................................................................................... 8

  CHAPTER 2 ......................................................................................................................................................................................... 10
  2.0 **INTRODUCTION** .................................................................................................................................................................... 10
  2.1 **HISTORY OF DOLLARISATION** ........................................................................................................................................ 12
  2.2 **CAUSES OF DOLLARISATION** ........................................................................................................................................ 13
  2.2.1 Impact of Remittances on dollarisation .......................................................................................................................... 16
2.2.2 Small economies in a globalised world ................................................................. 16
2.3 BENEFITS OF DOLLARISATION ........................................................................ 17
2.4 COSTS OF DOLLARISATION .............................................................................. 19

CHAPTER 3 ...................................................................................................................... 28
RESEARCH METHODOLOGY ....................................................................................... 28
3.0 INTRODUCTION ........................................................................................................ 28
3.1 RESEARCH PHILOSOPHY ..................................................................................... 28
3.2 RESEARCH APPROACHES .................................................................................... 29
3.3 RESEARCH STRATEGIES ...................................................................................... 29
3.3.1 Survey .................................................................................................................. 29
3.4 POPULATION .......................................................................................................... 30
3.5 SAMPLING METHODS ........................................................................................... 30
3.6 UNIT OF DATA COLLECTION ................................................................................ 31
3.7 DATA SOURCES ...................................................................................................... 32
3.7.1 Primary Data ......................................................................................................... 32
3.7.1.1 Face to face interviews .................................................................................... 32
3.7.1.2 Self-Administered Questionnaires ................................................................. 33
3.7.1.3 Telephone interviews ..................................................................................... 33
3.7.2 Secondary Data .................................................................................................... 33
3.8 QUESTIONNAIRE DESIGN .................................................................................. 34
3.9 PRE-TESTING OF THE QUESTIONNAIRE ............................................................. 34
3.10 DATA ANALYSIS AND PRESENTATION ............................................................... 34
3.11 RESEARCH LIMITATIONS .................................................................................. 35
3.12 CHAPTER SUMMARY .......................................................................................... 36

CHAPTER 4 ...................................................................................................................... 37
RESEARCH FINDINGS AND DATA ANALYSIS ............................................................ 37
4.0 INTRODUCTION ........................................................................................................ 37
4.1 RESPONSE RATE .................................................................................................... 37
4.2 COMPETENCE OF RESPONDENTS ................................................................. 38
4.3 FINDINGS AND DATA ANALYSIS................................................................. 39
  4.3.2.1 Taming Inflation.................................................................................. 40
  4.3.2.2 Positive economic growth ..................................................................... 41
  4.3.2.3 Fiscal discipline.................................................................................. 42
  4.3.2.4 Convenience to the public..................................................................... 42
  4.3.3 Dollarisation Draw backs/shortcomings................................................... 42
    4.3.3.1 Shortage of small denominations ...................................................... 43
    4.3.3.2 Liquidity constraints......................................................................... 43
    4.3.3.3 High cost of borrowing...................................................................... 44
    4.3.3.4 Competitiveness................................................................................ 47
    4.3.3.5 Limited Policy Option......................................................................... 48
  4.3.4 Conditions Precedence to Dedollarisation............................................... 49
    4.3.4.1 Institutional reforms at the Central Bank............................................ 49
    4.3.4.2 High and consistent Growth in GDP................................................... 50
    4.3.4.3 Improvement in the current account position....................................... 51
    4.3.4.4 Improvement on the import cover...................................................... 53
    4.3.4.5 Realignment of government expenditures........................................... 53
    4.3.4.6 Central Bank Independence................................................................. 55
    4.3.4.7 Political stability................................................................................ 56
    4.3.4.8 Policy consistency and predictability.................................................. 56
    4.3.4.9 External Debt Resolution.................................................................... 57
    4.3.4.10 De-dollarisation as the immediate policy objective........................... 58
  4.4 TIME FRAME FOR DE-DOLLARISATION.................................................... 59
  4.5 APPROACHES TO DE-DOLLARISATION..................................................... 59
  4.6 APPROPRIATE CURRENCY REGIME: RANKING IN ORDER OF PRIORITY .... 61
  4.7 CHAPTER SUMMARY ............................................................................. 61
LIST OF ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCZ</td>
<td>Consumer Council of Zimbabwe</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>CZI</td>
<td>Confederation of Zimbabwe Industries</td>
</tr>
<tr>
<td>DiMAF</td>
<td>Distressed Industries and Marginalised Areas Fund</td>
</tr>
<tr>
<td>GAC</td>
<td>Government Apex Council</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>STERP II</td>
<td>Short Term Emergency Recovery Programme</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>ZCTU</td>
<td>Zimbabwe Congress of Trade Union</td>
</tr>
<tr>
<td>ZETREF</td>
<td>Zimbabwe Economic Trade Revival Facility</td>
</tr>
<tr>
<td>ZFTU</td>
<td>Zimbabwe Federation of Trade Union</td>
</tr>
<tr>
<td>ZIMSTATS</td>
<td>Zimbabwe National Statistical Agency</td>
</tr>
<tr>
<td>ZNCC</td>
<td>Zimbabwe National Chamber of Commerce</td>
</tr>
</tbody>
</table>
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Currencies used under Official Dollarisation</td>
<td>12</td>
</tr>
<tr>
<td>3.1</td>
<td>Category of Respondent</td>
<td>32</td>
</tr>
<tr>
<td>4.1</td>
<td>Economic growth: 2000-2013</td>
<td>42</td>
</tr>
<tr>
<td>4.2</td>
<td>Easiness of doing business Ranking</td>
<td>47</td>
</tr>
<tr>
<td>4.3:</td>
<td>Trade Balance (US$M)</td>
<td>52</td>
</tr>
</tbody>
</table>
### LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Response rate</td>
<td>39</td>
</tr>
<tr>
<td>4.2</td>
<td>Benefits of Dollarisation</td>
<td>40</td>
</tr>
<tr>
<td>4.3</td>
<td>Year on Year Inflation</td>
<td>41</td>
</tr>
<tr>
<td>4.4</td>
<td>Short Comings of Dollarisation</td>
<td>44</td>
</tr>
<tr>
<td>4.5</td>
<td>Comparison of US and Zimbabwe Interest Rates</td>
<td>46</td>
</tr>
<tr>
<td>4.6</td>
<td>Ease of Doing Business Ranking</td>
<td>48</td>
</tr>
<tr>
<td>4.7</td>
<td>Preconditions for De dollarization</td>
<td>50</td>
</tr>
<tr>
<td>4.8</td>
<td>Trade Balance</td>
<td>53</td>
</tr>
<tr>
<td>4.9</td>
<td>Exports Categories</td>
<td>54</td>
</tr>
<tr>
<td>4.10</td>
<td>The 2013 Expenditures</td>
<td>55</td>
</tr>
<tr>
<td>4.11</td>
<td>Zimbabwe Civil Servant Wage Bill Above SSA Average in 2011</td>
<td>56</td>
</tr>
<tr>
<td>4.12</td>
<td>Return of the Zimbabwean Dollar</td>
<td>59</td>
</tr>
<tr>
<td>4.13</td>
<td>Timeframe for De dollarization</td>
<td>60</td>
</tr>
<tr>
<td>4.14</td>
<td>Approaches to De dollarization</td>
<td>61</td>
</tr>
<tr>
<td>4.15</td>
<td>Appropriate Currency Regime: Ranking in order of priority</td>
<td>62</td>
</tr>
</tbody>
</table>
CHAPTER 1

1.0. INTRODUCTION

This chapter gives an introduction to the study on dollarisation and optimal de-dollarisation framework for Zimbabwe. It outlines the background to the study, the research problem, its aim and objectives, research questions, justification, scope, ethical considerations and limitations. The chapter also outlines the significance of this study to government, the business and labour and the entire population who have consistently speculated on the possible government actions, regarding the future currency regime for the country.

1.1. INTRODUCTION TO THE STUDY

Zimbabwe officially adopted use of multiple currencies in February 2009. This policy position came in after a decade long sustained periods of unstable macroeconomic performance, spanning from 2000.

Although government officially adopted use of multiple currencies, the transacting public had already embraced the US dollar as the medium of exchange and unit of account, in response to hyperinflation environment.

The adoption of multiple currencies by government was provided through the Inclusive Government’s first economic blue print – ‘The Short Term Emergency Recovery Programme’ (STERP 1) launched in March 2009. Paragraph 331 of the document states that government, ‘....will permit use of multiple currencies for all business transactions, including stock exchange trading ...’. Paragraph 332 further states that ‘...all taxes are henceforth forth, to be paid in foreign currency’. This was subsequently effected into law through the Finance Act of 2009, which legally terminated the Zimbabwe dollar as an official transacting currency in Zimbabwe.
The adoption of the multicurrency brought positive quick turnaround to the Zimbabwean economy. Notable achievements, among others, were taming inflation from hyper levels of 231 million percent in July 2008, to single digit levels of less than 5%, average economic growth of 9.8% for the period 2009-2012, improved revenue collections from 16% to 37% of the gross domestic product and improvement in average capacity utilisation from under 10% to around 50%, among others (ZIMSTAT, Quarterly Digest of Statistics, 2012).

Notwithstanding the positive strides on the economic front, the adoption of the multicurrency was never meant to be permanent, but a temporary stop gap measure, necessary to restore macroeconomic stability. This position was reaffirmed by the Minister of Finance in his 2009 Mid-Year Fiscal Policy Review Statement, paragraph 305, states that ‘Review of use of multiple currencies will be undertaken once there is clear evidence of a strong economy characterised by a sound track record of policy consistency and implementation, a sustainable external position, and a strong financial sector, necessary to support and sustain the desired currency regime’.

The above propositions puts into context the thrust of this research, which is designed to provide the way forward on the use of multiple currencies, an issue, that had remained topical, since dollarisation in 2009. The main focus of this research will be to ascertain whether there is evidence of the existence of a strong economy to sustain the return of the domestic currency and recommend an optimal de-dollarisation framework.

1.2. BACKGROUND TO THE STUDY

The Zimbabwean economy experienced a decade long severe economic crisis since 2000. This unstable macroeconomic environment, according to Zimbabwe National Statistical Agency, was characterised by the following, among others:

- Sustained cumulative economic decline of over 40% of the domestic gross product between 2000 and 2008;
• High inflation which transcended to spiraled out of control to unprecedented levels of over 231 million percent by July 2008;
• An almost complete collapse in economic activity with severe capacity under-utilisation of below 10%;
• Subsequent shortage of basic commodities in the formal market;
• Price distortions and misalignments that were counterproductive and promoting speculative activities in both the foreign exchange and goods markets;
• Erosion of central government budget causing almost complete collapse in provision of public services particularly in health, education, water & sanitation;
• Shrinkage of the financial services sector;
• Low reserve position with gross national reserves of about US$6 million, enough to provide import cover of two days; and
• Unsustainable external debt including arrears of over US$5.2 billion.

The overall effect of the above translated into high formal unemployment, estimated at 80%, and consequently widening rift between the rich and the poor, with severe extreme income inequality.

Responding to the above, government officially adopted multiple currencies in 2009. The immediate benefits of the multiple currencies were the restoration of macroeconomic stability. This stability was characterised by positive economic growth averaging 9.8%, single digit inflation, increase in deposit base from US$500 million to about US$4 billion, increase in capacity utilisation from less than 10% in 2008 to current levels of about 48%, and some improvements in social delivery particularly in health, education and water (The 2012 National Budget Statement, Ministry of Finance).

Notwithstanding the above benefits, the debate on the merits and demerits of reintroducing the Zimbabwe dollar has continued unabated. This is mainly triggered by some shortcomings and challenges associated with the current use of multiple currencies which include shortage of smaller denominations, clarity on the ‘reference
currency’, and arbitrage opportunities arising from application of ‘sticky’ exchange rates, particularly between the rand and the US dollar, among others.

The key question that ought to be asked is that given the stability in the macroeconomic environment, is it an appropriate time to initiate a de-dollarisation process? As indicated in the Three Year Budget and Macroeconomic Framework (STERP II), the continued use of multiple currencies and the reintroduction of the local currency depend upon macro-economic fundamentals such as levels of savings, investment and economy performance, external position, strong financial sector, as well as policy consistency and implementation, among others. These are the major factors that facilitate the creation of confidence in the economy. Performance of these indicators will be evaluated in order to gauge the public confidence in the system. This will be critical given the fact dollarisation was brought through by market forces, and any de-dollarisation framework should take into account the source of dollarization (Savastano M., 2000).

Literature on countries that went through dollarisation particularly the Latin American countries reveals that once dollarisation is embraced, it becomes difficult to reverse it (Fergie, 2005). In this regard, has the Zimbabwean economy also fallen into the same trap, making the exit strategy difficult?

1.3. PROBLEM STATEMENT

It is now over four years since the economy was officially dollarised. There is generally some semblance of macroeconomic stability, as reflected through the performance of key economic indicators, alluded to above. The key question that ought to be asked is that given the prevailing economic stability, is it the appropriate time for the return of the domestic currency, if so how best should it be approached? Put differently, has the economy now achieved the necessary and sufficient conditions to facilitate the return of the domestic currency, or has the country become a victim of the dollarisation ‘hysteresis’ as with many other countries, that once dollarisation is introduced, it becomes almost impossible to reverse it?
1.4. AIM OF THE STUDY

The aim of the study is to identify and assess the performance of critical pre-conditions for de-dollarisation and develop an appropriate de-dollarisation framework.

1.5. RESEARCH OBJECTIVES

The objective of the research is to develop an optimal de-dollarisation framework. Such a framework should be sustainable and not counterproductive and retrogressive, but consolidates on the benefits already realised.

Specific objectives

1. To identify critical conditions precedence to de-dollarisation
2. To evaluate and assess the performance of the critical indicators since 2009
3. To develop an optimal de-dollarisation framework
4. To recommend the way forward

1.6. RESEARCH QUESTIONS

1. Has Zimbabwean economy fallen into dollarisation trap, making the exit strategy very difficult?

2. Is de-dollarisation the policy objective? If so how best could it be achieved?

3. When is it time to give up on dollarisation?

4. What are the approaches to the de-dollarisation framework?
1.7. RESEARCH PROPOSITION

Since the introduction of multiple currencies in 2009, the preconditions for de-dollarisation have been met to facilitate the return of the local currency.
1.8. JUSTIFICATION OF RESEARCH

Dollarisation of the economy has remained a topical issue since the adoption of multiple currencies. The Government position as articulated in the Mid Year Fiscal Review of 2009 alludes to the use of multiple currencies as a short term measure adopted to stabilise the economy, with the return of the desired currency to be considered after establishing a strong economic performance. The essence of the research is therefore to evaluate and assess the current state of the economy and be able to inform whether indeed there is evidence of a strong economy to justify the reintroduction of the local currency.

While a number of studies on the subject have been undertaken soon after dollarisation, these have largely focussed on the appropriate currency regime for Zimbabwe. The broad focus of these studies situated the currency discussion in the context of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) monetary unions. Notable recommendations were for Zimbabwe to become a member of the South African Customs Union (SACU) and adopt the rand as its currency.

No specific study has been conducted to evaluate economic performance since dollarisation in 2009, with a view of ascertaining whether the conditions precedence to de-dollarisation has been met. This research therefore escalates the currency debate to a higher level by situating it in the context of the domestic economic performance, taking stock of economic performance and identifying and assessing the performance of critical indicators. The objective would be to proffer the best policy prescription for the de-dollarisation framework that sustains and consolidates economic stability. The research is useful for government, labour and business that have remained anxious and speculative on the likely future course of action with regards to the use of multiple currencies.

The research is also being motivated by the fact that experiences of many other countries indicate that they continue to be stuck with dollarisation well after the
macroeconomic environment which initially triggered dollarisation, and namely, inflation has been addressed (Reinhart, 2003).

1.9. SCOPE OF THE RESEARCH

The research was conducted within the boundaries of Zimbabwe. The thrust was to have a broader representative of diverse groups that captures the entire population. This is because dollarisation entirely affects everyone, the rich and the poor and therefore everyone should be accorded an opportunity to express his or her views. In this respect, target groups were the business, labour, government, and consumers, as well as individuals with expert knowledge on the subject. The research relied to a greater extent on the input from the associations that represent various groups such as the Confederation of Zimbabwe Industries, Zimbabwe National Chamber of Commerce, Employers’ Confederation of Zimbabwe, among others. Their views were assumed to be representative of their members.

1.10. ETHICAL CONSIDERATION

The research was in line with ethical guidelines in that participation was voluntary and confidential. The employees were free to participate and their responses were kept confidential.

1.11. DISSERTATION STRUCTURE

The dissertation consists of five (5) chapters and each chapter shall start with an introduction and end with a summary.

Chapter 1 will give the background of the problem under study and research question and objectives. A detailed methodology and significance of the study shall be elaborated.
Chapter 2 reviews the works of other authorities, their theories and principles and understanding of the subject. The chapter will end with a summary of key issues under the review of the literature.

Chapter 3 will focus on review of the methodology and data collection. It will seek to justify the selection of the research philosophies, approaches, strategies and data collection method used.

Chapter 4 will produce an analysis of the research results and give the opinion of the researcher on subject under study.

Chapter 5 will outline the conclusion and recommendations derived from undertaking the research.
CHAPTER 2

LITERATURE REVIEW

2.0 INTRODUCTION

Balino (2003) defines dollarisation as the holding by the residents of one country assets or liabilities, denominated in another country’s currency. The term dollarisation does not apply to the use of the United States dollar, but generally to the use of any foreign currency as the national currency (Ize, & Yeyati., 2003).

Countries may unilaterally and officially declare the adoption of foreign currency, as legal tender. This official dollarisation gives recognition to the foreign currency as the legal tender, whilst the domestic currency ceases to exist. The economy becomes wholly transformed through currency substitution and asset substitution, as the foreign currency becomes the medium of exchange and store of value (Feigie, 2003).

Dollarisation can also be entrenched through unofficial means. Unofficial dollarisation, or de-facto dollarisation, is the use of foreign currency alongside the national currency, as a means of exchange for transaction purposes, when the former has not been accorded legal status (Alvarez & Garcia Herrero, 2007).

The underlying principle is that any country has some form of dollarisation in one way or another, as residents always hold to a certain degree some level of foreign currency in their portfolios. Accordingly, defacto dollarisation largely measures the extent and degree of the response of market forces to the economic policies at hand. The market will resist the local currency if it does not insulate or protect the value of their assets (Fernandez-Arias, 2005).
The continuation of dollarisation is to a large extent influenced by the behaviour of economic agents in response to macroeconomic mismanagement. Rationale economic agents always respond by taking appropriate positions in protecting erosion of the value of their assets, due to bad macroeconomic policies, manifesting mainly through hyper-inflation. If the market is imperfect and highly distorted, economic agents will have more of their assets and liabilities in foreign currency, and the opposite also true where markets are efficient. Efficiency of financial markets weakens informational or institutional frictions driving constraints (Mendoza, 2001).

In the end, the authorities will respond by officialising what the market has already embraced, as in the case of Zimbabwe. When dollarisation was officially adopted through the Short Term Emergency Recovery programme (STERP 1) of 2009, over 90% of the economy’s transactions were already being conducted in foreign currency, notwithstanding that foreign currency transactions remained illegal (Ministry of Finance, 2009)

The role and strength of market forces also provides an important insight into the de-
dollarisation strategy. The critical questions, is that if dollarisation was assumed through market forces, what is the extent of the authorities’ influence in determining the de-dollarisation strategy. Savastano, (2000), argued that if dollarisation was brought through market forces, de-dollarisation must also be embraced through market forces.

Dollarisation assumes several forms, namely, financial dollarisation, real dollarisation and transactions dollarisation. Financial dollarisation is the substitution of local currency assets or liabilities for foreign currency assets or liabilities, while real dollarisation is the indexation of domestic transaction to the exchange rate. Transaction dollarisation or currency substitution means that the dollar is used as a means of payment in domestic transactions (Armas, Ize & Yeyati, 2006).

Keith, (2009) provided another form of dollarisation that is brought about through regional economic intergration. Examples included the South African Customs Union (SACU), where South Africa, Lesotho, Namibia and Swaziland use the rand as the
legal tender, alongside their national currencies. Similarly, the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA)’s roadmap towards a monetary union by 2018 can also be viewed as one way of promoting dollarisation.

2.1 HISTORY OF DOLLARISATION

Literature provides examples of countries that fully and officially dollarised their economies. These are as Panama, (1904), Ecuador (since 2000), and El Salvador, (since 2001) and Zimbabwe since 2009. (Erasmus, Leichter, & Menkulasi, 2009)

A scan through the literature provides that as of August 2005, the US dollar, the euro, the New Zealand dollar, the Swiss franc, the Indian rupee, the Australian dollar, are the main currencies used by other countries for official dollarization as indicated in the table below.

Table 2.1: Currencies used under Official Dollarisation

<table>
<thead>
<tr>
<th>COUNTRIES EXCLUSIVELY USING THE US DOLLAR</th>
<th>COUNTRIES USING THE US WITH OTHER CURRENCIES</th>
<th>COUNTRIES USING THE EURO</th>
<th>COUNTRIES USING THE AUSTRALIAN DOLLAR</th>
<th>COUNTRIES USING THE NEW ZEALAND DOLLAR</th>
<th>SOUTH AFRICA CUSTOMS UNION</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Virgin Islands</td>
<td>Cambodia (uses Cambodian Riel for many official transactions but most businesses deal exclusively in dollars)</td>
<td>Andorra (formerly French franc and Spanish peseta)</td>
<td>Kiribati (issues its own coins)</td>
<td>Cook Islands (issues its own coins and some notes)</td>
<td>Lesotho</td>
</tr>
<tr>
<td>Caribbean Netherlands (from 1 January 2011)</td>
<td>Lebanon (along with the Lebanese pound)</td>
<td>Kosovo</td>
<td>Nauru</td>
<td>Niue</td>
<td>Namibia</td>
</tr>
<tr>
<td>Country</td>
<td>Description</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Timor</td>
<td>(uses its own coins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liberia</td>
<td>(was fully dollarized until 1982; U.S. dollar still in common usage alongside Liberian dollar)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monaco</td>
<td>(formerly French franc; issues its own euro coins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuvalu</td>
<td>(issues its own coins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pitcairn Island</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swaziland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>(uses its own coins in addition to U.S. coins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>uses multicurrency, but the US dollar is the dominant currency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Montenegro</td>
<td>(formerly German mark and Yugoslav dinar)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kiribati</td>
<td>(issues its own coins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tokelau</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Salvador</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Marino</td>
<td>(formerly Italian lira; issues its own euro coins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nauru</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cook Islands</td>
<td>(issues its own coins and some notes)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marshall Islands</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vatican City</td>
<td>(formerly Italian lira)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuvalu</td>
<td>(issues its own coins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Niue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federated States of Micronesia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andorra</td>
<td>(formerly French franc and Spanish peseta)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kiribati</td>
<td>(issues its own coins)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s Own Compilation

### 2.2 CAUSES OF DOLLARISATION

Keith, (2009) argued that any country can adopt a currency regime of its choice, be it domestic currency, another country’s foreign currency, or a regional currency, depending on the policy objective the country wishes to pursue.

However, whatever the case maybe, there is unanimity among scholars on the causes of dollarisation, both official and unofficial (Savastano, 1996), as with many other scholars, concurred that dollarisation is a result of long lasting inflationary memories in economies with a track record of monetary mismanagement.
This was further elaborated by Bogetic, (1999), who asserted that the process of dollarisation is typically started by economic agents as a way of diversifying their portfolios under currency substitution. This becomes widespread in emerging economies experiencing hyperinflation, as the public sought insulation from the cost of holding domestic currency assets.

Alvarez & Herrero, (2007), observed the experiences of the most highly dollarised economies of Argentina, Bolivia, Uruguay and Vietnam and concluded that dollarisation drive in these countries was facilitated by economic instability triggered by levels of inflation. In those countries inflation reached hyperinflationary levels of around 300% during the 1990s and that is the period when dollarisation also gathered momentum.

The most recent example is Zimbabwe, owing to periods of macroeconomic instability and unsustainably hyperinflation reached 231 million percent in July 2008, and facilitated the abandonment of the domestic currency in place of multiple currencies.

Irvine Fisher’s quantity theory of money explains direct relationship between money supply and price level (Fisher, 1997). The equation

\[ M \cdot V = P \cdot Q; \]

where

\[ M = \text{Money Supply}, \ V = \text{Velocity of money}, \ P = \text{Price level}, \ Q = \text{Real Value (output)} \]

The increase in money supply (M), where V and Q are assumed constant, increases the price level. This phenomenon explains the origins of inflation for many countries, including Zimbabwe as attributable to increase in money supply through printing, and the realistic option to get out of the situation was to dollarize their economies.

Dollarisation, therefore becomes an appropriate choice for authorities to stop further economic haemorrhage and, was preceded by ‘private agent’s decision to stop using
the local currency’ in response to political and economic uncertainties’ (Kokenye, Levy, & Veyrume, 2010).

Economic agents target a mix of foreign and domestic assets and liabilities in their portfolios, to minimise the volatility of their portfolio. Dollarisation becomes dominant when generally the local currency performs its basic functions so poorly compared to other accessible currencies. These functions are the reserve value, means of payments and unit of account. Accordingly, residents are motivated to shun their own currency and denominate their contracts in foreign currency, which guarantees stability and ensures more stable purchasing power in terms of domestic consumption, and hence fostering financial dollarisation (Kokenye, Levy, & Veyrume, 2010).

A deduction from the above assertion is that dollarisation is influenced by the behaviour of economic agents, in response to the macroeconomic policies at hand. In particular, the management of the relationship between inflation, interest rates and exchange rates becomes critical, as it has a direct bearing on the value of portfolio holdings. This is underlined by the fact that substitution depends on risk and return considerations about domestic and foreign assets, as well as the regulatory framework, which may foster and influence investment decisions (Alvarez & Garcia Herrero, 2007).

The dollar is therefore preferred if the real exchange rate, which determines the volatility of real returns on dollar instrument is stable relative to the inflation rate, which determines the volatility of real returns on local currency denominated instruments (Mendoza, 2001). Rennback and Nozaki, (2006) in support, further provide that any symmetric exchange rate policy that resists nominal appreciation, while allowing for depreciation can facilitate dollarisation by providing a one way bet for preserving purchasing power by holding foreign currency deposits.

The Capital Asset Pricing Model has also been used to analyse the interaction between real dollarisation, the dollar denomination of price or wage contracts and financial dollarisation. If the foreign currency protects real incomes from shocks
better than the local currency, reflecting a pro-cyclical or erratic monetary policy and a strong correlation between domestic and international shocks, wages become dollar-denominated, raising the pass through and financial dollarisation (IZE & Pararado, 2005). Accordingly, monetary policy that fails to stabilise inflation or that closely targets the real exchange rate stimulates dollarisation. This explains the dollarisation hysteresis, which is the persistent of dollarisation after years of subdued inflation (Savastano, 1996).

2.2.1 Impact of Remittances on dollarisation

Remittances have the potential to wield significant influence in facilitating dollarisation. The role of remittances becomes even more pronounced due to prevalence of distortions and other foreign exchange restrictions in the economy. This promotes faster development of the parallel market economy, that has the potential to compete with the formal economy. Alvarez & Garcia Herrero, (2007) argued that remittances may therefore induce asset dollarisation in as far as they are kept in foreign currency as evidenced in Cambodia, Lao, Vietnam and recently Zimbabwe.

2.2.2 Small economies in a globalised world

Ize and levy Yeyati, (2003), argued that dollarisation could also be a result of the openness of the economy. They submitted that dollarization facilitate the opening of the economy to capital mobility. Capital flows under prudential regulations should promote financial intermediation, which facilitates and encourages the development of sound financial system, and hence the integration with the rest of the world (Berg and Borensztein 2000). Accordingly, countries that are more open to trade naturally should be more dollarised and dollarisation should increase with trade integration. Furthermore, countries with open capital accounts become increasingly exposed to world shocks, and therefore the benefits of an independent currency decline and dollarisation, both real and financial should increase (Carlos, 2003.). Therefore, the realisation of programmes under the SADC and COMESA Free Trade Area and
Customs Union are building blocks towards the attainment of Monetary Union, envisaged in 2018, and hence promote dollarisation.

2.3 BENEFITS OF DOLLARISATION

2.3.1 Economic Stability

Dollarisation facilitated restoration of macroeconomic stability for countries facing misaligned macroeconomic policies. The extent of the benefits of dollarisation were alluded to by (Kokenye, Levy, & Veyrume, 2010), who argued that internationally, no recent examples of a domestic currency being reintroduced after having been completely withdrawn from circulation and replaced by foreign currency, is a demonstration of the strong force of dollarisation.

Apart from guaranteeing low inflation through restraint on domestic money growth, dollarization could also promote financial deepening through increase in deposits in the financial system by individuals and corporate, as confidence improves. This lowers the transaction costs by eliminating currency converting costs (Armas & Levy Yeyati, 2006).

Furthermore, dollarisation, apart from reducing exchange rate risks, enhances investor confidence and boosts investment opportunities and provides scope for portfolio diversification of residents (Kokenye, Levy, & Veyrume, 2010). The main attraction of full dollarisation is the elimination of the risk of a sudden, sharp devaluation of the country’s exchange rate. This provides scope for dollarised countries to reduce the risk premium attached to its international borrowing, leveraging from higher level of confidence among international investors, and hence lower interest rate spreads on their international borrowing, reduced fiscal costs and more investment and growth.

Examples of Latin American countries namely, Ecuador, El Salvador, Cuba and Mexico, who took the lead in dollarizing their economies, succeeded in stabilising
their economies through dollarisation. In each case dollarisation facilitated lowering interest rates and eliminated devaluation risks, increased capital mobility, reduce inflation and promote greater financial intermediation and diversification (Calvo, Guillermo, & Carlos, 1992)

### 2.3.2 Regional Integration

Keith, (2009), argued that similar benefits also accrue to a regional grouping that embraces dollarisation by pegging to a currency with a strong central bank and an effective monetary policy. This provides credibility as the option to print money and generate domestic inflation no longer exists. If a regional currency is chosen as the foreign currency, it can lead to savings on transaction costs, stimulate trade and investment and support regional integration. However, the benefits of such a currency framework need re-evaluation given the current economic crisis unfolding in the Euro zone.

Furthermore, Balino, Beneti and Borensztein, (1999), alluded that the ultimate assets substitution may be a natural consequence of opening the economy and financial market liberalisation. In this way, dollarisation accelerates the country’s economic integration with the rest of the world, by insulating it against increasing shocks which the domestic economy may be exposed to and will require dollarisation, and hence require hedging and lead to some level of dollarisation. This in turn enhances closer integration with international markets and the development of domestic financial markets.

Kokenye, Levy, & Veyrume, (2010), however, argued that there is an optimal level of dollarisation that depends mainly on structural factors, such as the economy’s size, openness, the degree of financial integration and market development.

It is, therefore, quite evident that dollarisation has facilitated quick restoration of macroeconomic stability for those countries facing a hyperinflationary environment. The case for Zimbabwe where inflation was tamed from 231 million percent in 2008, to single digit level in 2009, demonstrate the effectiveness of dollarisation.
Dollarisation therefore, provides the necessary insulation against erosion of portfolio holdings by residents. The perpetuation of dollarisation well after macroeconomic stability has been established demonstrates the strength and public confidence on the dollarisation environment.

2.4 COSTS OF DOLLARISATION

Notwithstanding the overwhelming benefits of dollarisation, the general consensus is that the benefits of dollarisation are short term, and not sustainable for long term economy growth. The various restrictions imposed under dollarisation led many countries to start pursuing dedollarisation strategies (Feigie, 2003). Some of the limitations on dollarisation are articulated below.

2.4.1 Reduced effectiveness of monetary policy

Among the many costs associated with dollarisation, economies suffer from loss of effective control over monetary policy. The extent of the effect varies depending on the level of dollarisation in the economy. While partial dollarisation weakens the effectiveness of monetary policy, as the small domestic currency component of the monetary base makes it difficult to control monetary growth, this role is completely eliminated under full dollarisation, as in the case of Zimbabwe. The money supply is not controlled by the domestic monetary authorities, but rather by the behaviour of agents holding foreign and domestic denominated assets (Alvarez & Garcia Herrero, 2007).

Kararach, Kadenge, & Guvheya, (2010), argued that the complementary role of fiscal and monetary policy is, therefore, undermined and hence the strength of macroeconomic policy will not provide the much needed impetus for sustained economic growth. Dollarisation therefore, leaves government with no monetary policies to intervene in the productive sectors and the expansion and contraction of the economy will depend to a large extent on foreign currency injections, which in some cases as in Zimbabwe, is not sufficient to support accelerated economic
growth. The outcome of ineffective monetary policy is that dollarisation frustrates inflation targeting and attainment of inflation objective.

However, Reinhart, Rogoff, and Savastano, (2003) in a study of 85 dollarized countries found no clear evidence to support that monetary policy is ineffective in dollarized environment. They argued that dollarisation does not increase the instability of the velocity measures of monetary aggregates, therefore concluded that monetary policy remains effective in controlling inflation. Peru, was provided as an example which adopted inflation targeting under highly dollarized environment. Instead, they further argued that dollarisation might increase the loyalty of money demand, due to reduced costs of switching from domestic to foreign currency holdings in order to avoid the effects of inflation.

2.4.2 Loss of Seigniorage

Bogetic, (1999), identified loss of seigniorage as one of the biggest costs of dollarisation. Seigniorage can be defined as the difference between the face value of the money issued by Central Bank and the relatively low production costs. Feigie, (2003) argued that given the costs of printing money and any remuneration of bank reserves by the monetary authorities, the high level of dollarization divest this flow of revenue from the domestic economy to the USA.

Accordingly, seigniorage revenue will not be available in dollarised economies depending on the type of dollarisation in place. This is further worsened by fact that the US government does not share its seigniorage revenue from the countries that use the United States dollar, implicitly implying that countries pay some seigniorage to the issuers of the other currencies (Kokenye, Levy, & Veyrume, 2010).

However, there is need to be cautious when interpreting the loss of seigniorage. Chang (2000) argued that in cases where policy credibility has been a problem, interpreting seigniorage loss becomes delicate. This is in view of the fact that in countries where dollarization has increased, credibility of policies has been an issue. Under such circumstances, dollarization could have been associated with an
increase in social welfare, which could have otherwise not have been realised if
dollarisation had not taken place.

2.4.3 Lack of competitiveness

Lack of competitiveness of domestic goods against foreign goods is one of the
negative consequences of dollarisation. In the short run, the exchange rate level
under dollarised economies and the main trading partners affects real exchange
rate. If the domestic inflation rate is high, a fixed exchange rate might appreciate the
real exchange rate, as the real exchange rate is always flexible. An appreciated real
exchange rate affects the competitiveness of exports, leading on many occasions to
current account deficits.

Without dollarisation monetary policy could respond to external economic shocks
through adjustments to the exchange rate, this will no longer be possible under
dollarisation and may harm the economy as exports fail to compete with products
from trading partners (Keith, 2009). Accordingly, the absence of an effective
exchange rate policy undermines the authority’s capacity to respond to exogenous
shocks to facilitate adjustment through the real economy.

Related to competitiveness is the cyclicality of international capital flows. Negative
external shocks tend to increase the leverage ratio of financially dollarised countries
as both income flows and assets decline against debt service. Given the pro-
cyclicality of the capacity to pay, capital flows also behave pro-cyclically demanding
higher returns in bad times and ultimately reverting once the impact of higher funding
costs on the probability default leads to rationing. In turn, capital flow pro-cyclicality
amplifies the real impact of the shocks, conspiring against the possibility of
conducting countercyclical (monetary and fiscal) policies, and by increasing the
volatility of returns on financial assets, inhibiting the deepening of long term markets.
(Frazer & Lawley, 2000)

By contrast in a country without financial dollarisation, the adjustment to a more
depreciated equilibrium real effective exchange rate comes through normal
depreciation of a flexible exchange rate, which typically improves the capacity to pay, partially offsetting the effect of economic slowdown (Calvo & Reinhart, 2002).

2.4.4 Lender of last Resort

The lender of last resort is a necessary function of any central bank to smoothen transactions where the market happens to experience shortfalls. Under dollarisation, the central bank is incapacitated to perform the lender of last resort function. This may result in a severe liquidity crunch in the economy, and constrain the activities of the local financial system.

Yeyati, (2003) provides that most dollarised economies have tried to deal with liquidity issues through imposing high reserve requirements. In Bolivia and Peru reserve requirement of 10%, and 20%, respectively were set. In Zimbabwe the liquidity ratio requirement for all the financial institutions are set at 30% of total deposits Monetary Policy Statement 2010, RBZ). These measures are meant to overcome the liquidity constraints arising from dollarisation, also reflecting on the capacity of the central bank to deal with such issues, when the need arises.

This is particularly worrisome in the event of bank runs arising from imperfect market information. If a bank experiences a run, it will not be able to sustain the liquidity shortfall as unlimited funding cannot be provided in foreign currency. This may lead to panic by foreign currency holders.

Savastano, (1996) argued the liquidity crunch may restraint the capacity by borrowers to service their debts, and trigger corporate and banking crises, exacerbate sudden stops, cause output volatility, and ultimately result in a costly self-fulfilling macroeconomic crisis. Once this situation unfolds, it may trigger persistent deposit withdrawals that could not be accommodated due to limited holdings of liquid foreign assets.

The high level of non-performing loans in Zimbabwe’s financial sector is a worrisome development that continued to undermine confidence. Nonperforming loans for some
banks are as high as 30%, against the internationally recommended level of 6% Monetary Policy Statement 2012, RBZ). This coupled with the absence of the lender of last resort is a huge concern to the sustainability of debtors’ credit.

2.4.5 National Payment System

Dollarisation has scope of reducing the efficiency of national payments system. This arises from the fact that foreign bank notes are not always adapted to local business needs, particularly with regards to small denomination and coins as in the case of Zimbabwe. In addition the monetary authorities of dollarised countries cannot control the quality of banknotes in circulation.

In order to obviate this challenge, monetary authorities in Ecuador, swapped 5 million one dollar bill of US with golden dollar coins to offset the rapid deterioration of paper currency, which tends to last 6-8 months, compared to 18 months in the USA. By contrast the coins last between 25-30 years (Duma, 2011).

2.4.6 Deeper entrenched dollarisation

However, in some cases dollarisation may be so entrenched that any attempt to reduce it may induce massive disintermediation, with a cost for the real economy that exceeds its long run benefits in terms of greater financial resilience.

2.4.7 Summary

The analysis provides costs associated with dollarisation. These costs have led countries to contemplate on the desirability and sustainability of staying in a dollarisation environment, and hence facilitated the de-dollarisation process, once macroeconomic stability was re-established (Guispe-Agoli, 2002).
2.5 APPROACHES TO DE-DOLLARISATION

Galindo and Leiderman (2005) argued that most countries after adopting dollarisation, discovered that dollarisation is not an appropriate currency framework, and hence begin a de-dollarisation process, aimed at reinforcing the dominance of the local currency.

However, the outcome of such a process has proved complicated to implement and produced mixed outcomes, as few countries have been able to achieve it successfully. Galindo and Leiderman, (2005). The extent of the difficulty of de-dollarisation is demonstrated through the persistence of dollarisation well after macroeconomic stability has been re-established and conditions precedent resolved. Kokenye, Levy, & Veyrume, (2010), attributed this protracted nature to the behaviour of economic agents who remain reluctant to switch back to using the local currency, owing to a number of reasons that include lack of confidence in the local currency.

Factors that can foster de-dollarisation ranges from pursuance of market based measures that provide incentives to reverse currency substitution to measures of forced de-dollarisation that prohibit or strictly limit the use of foreign currency.

2.5.1 Market Driven De-dollarisation

The market based approach to de-dollarisation entailed the existence of both foreign and local currency (Ize & Yeyati, 2005). The thrust under this approach is premised on a gradual, yet sustained decline in financial dollarisation, aimed at both credit and deposit de-dollarisation.

Credit de-dollarisation is facilitated through the development of the capital market in local currency. This is achieved through the issuance of long term public bonds in domestic currency. Successful experiences are drawn from Bolivia, Peru and Uruguay who actively developed public debt market in domestic currency by issuing public bonds in domestic currency with maturities exceeding 10 years (Galindo and Leiderman, 2005).
Savastano, M., (2000) argued that if dollarisation was a result of market forces, de-dollarisation must also be market based through a gradual approach. Furthermore, de-dollarisation should also reflect the prevailing type of dollarisation in place (Yeyati, 2003).

Israel, Poland, Chile, and Egypt pursued a market-driven de-dollarization that was gradual and successful (Quispe-Agoli, M., 2002). In these countries there was no direct policy attempt to de-dollarize the economy rapidly. Rather, de-dollarisation was a consequence of policies aimed at lowering inflation and deepening financial markets. Markets for local-currency-denominated bonds were created, and differential remuneration rates on reserve requirements on foreign currency and local currency deposits introduced. The differential rates were designed in such a way as to discourage the public use of the foreign currency. These measures were coupled with active bank supervision to ensure that banks had fully covered their foreign currency positions.

At the same time, to hedge against exchange rate risk, foreign currency loans were largely directed to sectors that earned foreign exchange. Israel and Chile also used indexation successfully to promote the use of the local currency to hedge against inflation and exchange rate uncertainty. Poland and Egypt offered very high interest rates on local currency deposits, after the financial sector was liberalized. By 2007, the ratio of foreign currency deposits to broad money in Chile, Egypt and Poland was 5.7, 0.2 and 2.8 percent respectively, compared with 26 percent in Israel. Israel is the only country that recorded a permanent decline in the share of foreign currency deposit from 50% of total deposits in the 1980s to 15% in 2004 (Erasmus, Leichter, & Menkulasi, 2009).

2.5.2 Forced dedollarisation

Kokenye, Levy, & Veyrume, (2010) argued that measures that frequently failed included the mandatory conversion of foreign currency deposit into domestic currency.
Mexico and Pakistan forced conversion of dollar deposit in 1982 and 1998 respectively. The conversion was done at an undervalued exchange rate below the prevailing market exchange rate, the result was capital flight and dwindling of private sector bank credit (Reinhart, Rogoff, and Savastano, 2003). Similarly, Lao, P.D.R. forced the use of the local currency through a decree in 1997. This was followed by a depreciation of the local currency against the US dollar, thus further eroding public confidence, which had started to slowly built (Menon, 2008).

Furthermore, in the first half of the 1980s, Bolivia and Peru implemented measures to rapidly de-dollarise the banking system by forcing conversions of foreign currency deposits to local currency. These efforts, undertaken while inflation was high, were followed by an abrupt depreciation of the local currency, resulting in capital flight and financial disintermediation. Continued macroeconomic instability that subsequently followed led to a reversal of policies, which lifted the restriction on foreign currency deposits and led to rapid re-dollarization.

2.6 SUMMARY

Dollarisation is not easily reversed, even after the underlying causes have been removed. Empirically, this hysteresis has been explained by the expected volatility of the local currency exchange rate and a perceived lack of policy credibility. Baliño, Bennett, & Borensztein, (1999), noted that reversing dollarisation may be difficult because changes in practices regarding the settlement of transactions may be a slow process that depends on institutional changes and takes place only when there are significant benefits to be gained by switching currencies.

Evidence suggests that successful de-dollarisation is usually the outcome of a persistent process of disinflation and stabilization, rather than a main policy objective. Institutional changes that bolster the credibility of sustainable macroeconomic policies, such as an independent central bank with a clear mandate to stabilize prices, can also promote confidence in the domestic currency and thus reduce dollarisation.
Kararacha, Kadenge, & Guvheya, (2010), further alluded that monetary and fiscal policy and central bank reforms are pre-requisites for successful de-dollarisation, among other factors such as socio-economic convergence, establishment of social safety nets, financial sector reforms, re-engagement with development partners, structural reforms and strong leadership and political commitment are the critical conditions necessary for an economy to change its currency regime from dollarisation without falling back to earlier conditions that prompted the status quo.
CHAPTER 3

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter presents the overall strategy used in carrying out the research. It outlines the methodology used in pursuit of solutions to the research objectives and specific research questions being investigated. In this regard, detailed description of research philosophy, research instruments, sampling techniques, sources of data and questionnaire distribution, among others are expounded, including data processing, analysis and its presentation. The qualitative approach was the preferred method of study. The descriptive nature of the research study requires use of surveys and fact finding enquiries, which are best, explained through the qualitative approach to data analysis (Smith, 1995). The objective of the research study is to come up with an optimal de-dollarisation framework for Zimbabwe, following the adoption of multiple currencies in 2009.

3.1 RESEARCH PHILOSOPHY

The research philosophy underpinning this study follows the realism philosophy. This philosophy concentrates in the reality and beliefs that already exists in the environment. There are two approaches associated with realism, namely direct and indirect realism (Brick, 1984).

Through this approach, the development of an appropriate de-dollarisation framework, which is a human behaviour phenomenon, is facilitated. In this regard, the realism philosophy espouses the thinking of the human mind and behaviour through the attributes and traits relating to what an individual feels, sees, hears, as well as a critique to their experiences with the use of multiple currencies.
3.2 RESEARCH APPROACHES

Consistent with the qualitative approach to the problem being investigated, the deductive approach is the strategy adopted. Deductive approach is concerned with obtaining or deriving recommendations from general to specific (Jankowicz, 2000). The deductive approach allows for questionnaire administering and conduct of in-depth interviews, which enables the researcher to observe subjective assessment of attitudes, opinions and behaviour enabling the researcher to draw insights and impressions. This bottom up approach has the potential to draw powerful inferences leading to specific conclusions.

3.3 RESEARCH STRATEGIES

The strategy adopted on this research was a survey. The choice of these research strategy were guided by the research objectives, specific research questions, and the amount of time at the disposal of the researcher, resources available and the philosophical underpinning of the researcher.

3.3.1 Survey

The study of this nature, which is a human behaviour phenomenon, is best explained through survey study. Survey studies allow data to be collected in large amounts, through use of questionnaires that are administered to sample. The data can be standardised, which allows easy comparison. Surveys enables the researcher to assume an overriding control over the research process and facilitates the collection of data about practices, situations or views at one point in time, from which inferences and specific conclusion can be drawn. Through surveys, answers relating to ‘who, what, how much and how many’ question that are common with the descriptive and exploratory studies of this nature are explored.
3.4 POPULATION

The population of the research study encompasses the entire population of Zimbabwe estimated at 13 million people (ZIMSTATS, 2013). This becomes the target population and the main focus of the study. The decision to consider the whole population is informed by the fact that the existence of the multiple currency regimes affected every individual in the country, and hence their common, binding characteristic or trait relating to business operations and individual transactions is what the researcher sought to discover.

Given the size of the population, and in order to get the representative responses, the researcher classified the target population into four categories, namely the business, labour, consumers, and government. These four classifications becomes the target population from which the sample was drawn, and which the researcher desires to generalise. This classification was necessary as it enable to go deeper into the experiences of each category, which will inform inferences and recommendations to the problem being investigated.

3.5 SAMPLING METHODS

Jankowicz (2000) defined sampling as the deliberate selection of a number of people who are to provide data from which conclusions about some larger group, population, could be drawn. Consistent with this definition, a sampling frame was then drawn from the categories of labour, business, government, consumers, from which 20 respondents from each category was chosen.

Stratified random sampling was the sampling techniques used which combines elements of probabilistic and non-probabilistic techniques. This stratification was necessary to ensure that the researcher obtains a representative sample that corresponds to the entire population. Therefore, four strata or clusters of business, consumers, labour, and government was formulated, where each stratum is homogenous in character.
Simple random selection was then applied in each stratum, to select the 20 respondents. The strategy was to first select the apex association and then systematically apply simple random sampling to all the other remaining elements. In some cases, purposeful sampling was also considered particularly in view of the need to get respondents who are familiar with the subject being investigated. The outcome of such a process is indicated in the table 3.1 below:

**Table 3.1: Category of Respondent**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of respondent in each category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government</td>
<td>20</td>
</tr>
<tr>
<td>2. Business</td>
<td>20</td>
</tr>
<tr>
<td>3. Consumers</td>
<td>20</td>
</tr>
<tr>
<td>4. Labour</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Owner's Own Compilation

The categories described above are represented by their various associations. Most notable examples include the Consumer Council of Zimbabwe (CCZ), Zimbabwe National Chamber of Commerce (ZNCC), Confederation of Zimbabwe Industries (CZI) and Zimbabwe Congress of Trade Union (ZCTU), Zimbabwe Federation of Trade Union (ZFTU), and Government Apex Council (GAC), among others. The critical assumption being made is that the views of these associations reflect the views of their members. With this approach and assumption, the sample size is a true representative of the population.

## 3.6 UNIT OF DATA COLLECTION

The unit of data collection targeted Chief Executives of apex associations/and or their Presidents, economists and ordinary individuals. The strategy was to get an overview of the experiences across the different categories, a process that facilitated comparison across the population divide.
3.7 DATA SOURCES

The research study relied on both the primary and secondary data sources in order to come up with a valuable and meaningful conclusion.

3.7.1 Primary Data

Primary data is data that is collected specifically for the purpose of responding to the research problem. Primary data is current, useful and relevant for the study and it is free of interpretation and does not represent an official position or opinion (Frazer & Lawley, 2000). Information of this nature is best collected through communication, involving questioning people and recording their responses for analysis. This approach makes the research more objective and directly associate with the people’s feelings in as far the use of multiple currencies is concerned.

Methods of data collection under the communication approach include face to face interviews, self-administered questionnaires and telephone interviews, and these are elaborated below:

3.7.1.1 Face to face interviews

The researcher relied substantively on information obtained through face to face interviews. This provided a useful source of information through in-depth interviews. Face to face interviews provided more scope for the researcher to probe more on the respondents and also allows recording of other verbal and non-communication responses that were depicted during the course of the interviews.

Cognisant of the time constraints and cost implications associated with this approach, the researcher prioritised face to face interviews with the apex associations, and in this regard, all the associations were interviewed. This priority
was accorded against the assumption that the views of the associations represented the views of their members. Face to face interviews were therefore conducted with not less than 60% of the responses in each category.

3.7.1.2 Self-Administered Questionnaires

It became evident that the researcher will not be able cover all the respondents through the preferred face to face interviews. This was in cognisant of the time constraints on the part of the researcher as well as the busy schedules of the targeted responses, who in most cases are also professionals and business people. It was therefore appropriate and convenient for the researcher to rely on self-administered questionnaires. Questionnaires were subsequently dropped to those respondents domiciled in Harare and were given approximately five days to complete. For those respondents outside Harare, an electronic copy of the questionnaire was provided under the same conditions. Altogether self-administered questionnaires accounted for 30% of the respondents.

3.7.1.3 Telephone interviews

Telephone interviews were also convenient data collection techniques, particularly for those respondents outside Harare. This approach was useful in ensuring a geographical balance as it targeted respondents in the areas of Gweru, Mutare, Masvingo and Bulawayo and other small towns. The timeous response was the biggest advantage, notwithstanding the huge costs on telephone calls. Each interview lasted for about 45 minutes.

3.7.2 Secondary Data

Secondary data is interpretation of data that exists from previous work or publications relevant to the problem at hand, but not obtained specifically for the purposes of the current study (Frazer & Lawley, 2000).
Secondary data used for the purpose of this research were country experiences that went through the same process being investigated. Various countries both successful and unsuccessful on the de-dollarization were therefore referred to in the analysis.

3.8 QUESTIONNAIRE DESIGN

Questionnaires were used to obtain primary data. Majority of the questions were open ended questions. This was a deliberate strategy not to limit the respondents, given the nature of the survey study. Open questions provide no restrictions on the content. In this regard, about 12 questions were carefully crafted with the objective of tapping into the experiences of people with regards to their perception on de-dollarisation.

3.9 PRE-TESTING OF THE QUESTIONNAIRE

Pilot survey was conducted for the categories of government and consumer respondents. Consumers at Dema growth point in Chitungwiza were interviewed, whilst the Ministries of Finance and Economic Planning covered government category. The pilot survey was very useful in refocusing the questionnaire, adjustments of the targeted audiences. Benefitting from this process, questions were revised and simplified to eliminate some of the repetitions inherent.

3.10 DATA ANALYSIS AND PRESENTATION

The data analysis and presentation process took the following steps:

i. Qualitative data collected was coded and similar responses were grouped into different categories.

ii. Coded data were captured into an SPSS software package.
iii. The data cleaning process involved the removal of outliers or extreme and influential values, which could have distorted the findings. Such cases were a result of errors on the part of respondents.

iv. Some qualitative responses that could not be coded were analyzed as they were.

v. On secondary data, content analysis was used. These were compared to the survey results and were able to measure the success or failures of the different de-dollarisation approaches.

3.11 RESEARCH LIMITATIONS

The main limitation encountered in undertaking the research was the fact that the research was conducted during the time which coincided with the electoral calendar. Most of the interviews were conducted during the month of July, which was also the month in which harmonised elections were scheduled to take place. Respondents initially associated the event with an electoral process and therefore affected the quality of the responses.

In order to obviate the negative consequences of such a development, the researcher took time to explain fully the essence and purpose of the research. He assured the respondents that their views will be kept confidential and that their honest opinion will assist policy makers in formulating an appropriate policy strategy for this topical issue, which the government has been ceased with since 2009.

Added to the above constraints was the limited time allocated for this project which required divergence of views across different people. However, in order to remain within the time frame allocated for this project, the researcher relied on other data collection techniques, such as telephone interviews, as well as use of internet technology, which ensured that responses were obtained timeously. These strategies guaranteed the overall success of the project.
3.12 CHAPTER SUMMARY

This chapter elaborated on the methodology used to obtain answer to the research objectives and the specific research questions being investigated. It provided key elements relating to the research design, methods and techniques used. It describes the population being studied, the constructing of the sample, and the corresponding targeted audience. The ultimate objective of this methodology puts into context the validity of the research study. Limitations to the research were uncovered, and these did not pose any serious threat to the conduct of the research. This chapter therefore put into perspective and set the stage for data analysis which is the subject of the next chapter.
CHAPTER 4

RESEARCH FINDINGS AND DATA ANALYSIS

4.0 INTRODUCTION

This chapter presents the analysis and findings of the survey results. Results will be presented in form of charts and tables for clarity and easy of comparisons. The use of secondary data in form of performance of key economic indicators and country experiences will be extensively used to validate the survey results.

In the analysis of the results, reference to the research objectives and specific research questions, will be made. The research objective is to develop an optimal de-dollarisation framework for Zimbabwe. In pursuit of this objective, the identification of conditions precedence to de-dollarisation, and an assessment of their performance since 2009, will be critical in order to inform a sustainable de-dollarisation framework for Zimbabwe. Guided by these objectives, the chapter will conclude by summarising the survey results, and set the stage for specific recommendations, a subject that will be elaborated extensively in the next chapter.

4.1 RESPONSE RATE

The average response rate of 95%, across all the categories of business, labour, consumers, and government was achieved. This is depicted in figure 4.1 below:
The non-response rate from a small section of the business, labour and consumers as indicated above, did not have any impact on the overall survey results. The realised 95% response rate is overwhelming and therefore, sufficient to draw conclusions and specific recommendations. A higher response rate in most cases guarantees more accurate survey results (Aday 1996).

**4.2 COMPETENCE OF RESPONDENTS**

Respondents across all the clusters of business, labour, consumers and government demonstrated competency and sufficient knowledge to the questions presented to them. This was expected, particularly taking into account how the sample was designed and also that the use of multiple currencies, is a topical issue in the country at the moment affecting everyone in their daily lives.

The diversity of the respondents from government, labour, business and consumers enabled expression of different opinions, which when collaborated and integrated together, are capable of producing specific and appropriate outcomes necessary for determining the way forward in the treatment and use of multiple currencies in Zimbabwe.
Overall, the competence levels depicted by the respondents were satisfactory to such an extent that respondents’ opinion and views could be relied upon in drawing recommendations and conclusions to the problem being investigated.

4.3 FINDINGS AND DATA ANALYSIS

4.3.1 Benefits of dollarisation

The introduction of the multiple currencies was a welcome development. This was overwhelmingly expressed across government, business, labour and consumers. The most commonly cited benefits were taming inflation, positive economic growth, fiscal discipline, and convenience to the transacting public. The outcome of these expressions across the different clusters is indicated in the bar chart below:

**Figure 4.2: Benefits of Dollarisation**

![Bar chart showing benefits of dollarisation](image)

Source: Primary data
4.3.2.1 Taming Inflation

All respondents singled out taming inflation as the immediate benefit of dollarisation. This is in view of the fact that inflation was effectively put under control, from hyperinflation level of 231 million percent in July 2008 to single digit level since 2009. This was attributed to the inability by government to print money, which hitherto was the biggest driver of inflation. The inflation trend under the multiple currency regime since 2009, is indicated below:

Figure 4.3: Year on Year Inflation

![Year on Year Inflation Graph](image)

Source: ZIMSTATS

The same benefit is also associated with many countries that adopted dollarisation. Chile, Colombia and Peru, dollarised their economies in response to widespread macroeconomic instability characterised by of high inflation. This resulted in the substitution of the domestic currency for the US dollars (Galindo and Leiderman, 2005). Similarly, Bolivia, Argentina and Ecuador dollarised from a background of deep economic and political crisis (Berg and Borensztein, 2000).

However, different scenario exists for few isolated countries adopted dollarisation from a position of strong economic performance. In Cambodia dollarisation was embraced against strong economic performance characterised by economic growth
of 9.8%, single digit inflation, budget deficit of less than 3% in the 1990s. El Salvador dollarised its economy as a way of enhancing policy credibility and encouraging foreign direct investment (Quispe-Agnoli, 2002). On the other hand, Panama adopted full dollarisation in 1904, in response to political and historical reasons, following attainment of independence from Colombia in 1904.

Notwithstanding, the above, majority of countries embraced dollarisation in response to macroeconomic instability characterised by spiralling inflation.

4.3.2.2 Positive economic growth

Positive economic growth was also cited as a benefit of the use of multiple currencies. This is supported by the economic growth which averaged 7.5%, since 2009. This was a complete turnaround, from the cumulative economic decline of over 40% of gross domestic product, recorded between 2000 and 2008, under the Zimbabwean dollar era.

The table below provides trend of economic performance since 2000. As indicated, the situation was reversed completely in 2009, following the introduction of multiple currencies.

Table 4.1 Annual Economic Growth 2000-2014

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate(%)</td>
<td>-40</td>
<td>5.4</td>
<td>9.6</td>
<td>10.6</td>
<td>4.4</td>
<td>3.4</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: ZIMSTAT

The same trend applies to dollarized economies which experienced positive economic growth as a result of dollarization of the economies. Examples included, amongst others, Argentina, Mexico, Uruguay, Ecuador and Vietnam (Yeyati, 2003).
4.3.2.3 Fiscal discipline

Most respondents also alluded to the fact that the introduction of multiple currencies instilled fiscal discipline. Prior to the introduction of the multiple currencies, government experienced huge budget deficits, which were financed through inflationary money printing. With the introduction of the multiple currencies, the capacity of the government to print money was curtailed and as such the government introduced a cash budget, ‘*entailing eating what we kill*’ (Ministry of Finance, 2009).

However, dollarisation does not always result in fiscal discipline. Duma, (2011), argued that dollarisation promotes, but does not guarantee fiscal discipline. Cambodia experienced high fiscal deficit under dollarisation arising from external financing of the budget deficit.

4.3.2.4 Convenience to the public

Convenience to the transacting public was also a positive benefit of dollarisation identified by 85% of the respondents. This facilitated business planning from the short term to long term horizon, and thus guaranteeing some minimum predictability.

4.3.3 Dollarisation Drawbacks/shortcomings

Notwithstanding the benefits of dollarisation, the adoption of multiple currencies has also its shortcomings. These were cited as the shortage of small denominations, liquidity constraints, high costs of borrowing and limited policy options. The survey results on this aspect are presented below:
4.3.3.1 Shortage of small denominations

The shortage of small denominations featured prominently during the survey. Respondents submitted that this was inconveniencing and short-changed the transacting public. The respondents were therefore of the view that there is need for government to intervene by way of introducing small denominations to smoothen the transactions.

4.3.3.2 Liquidity constraints

The adoption of multiple currencies resulted in severe liquidity crunch in the economy. This has been overwhelmingly expressed by all categories of business, labour, consumers and government. This development is reflected through lack of effective aggregate demand, a situation that is also constraining growth.

The liquidity situation has also significantly affected government operations with the use of cash budgeting reflecting lack of fiscal space. Prior to the introduction of multiple currencies, government could easily issue market based instruments to
raise resources in support of economic activities. This option, although feasible, remains a challenge in light of the prevailing liquidity situation in the country.

The extent of the liquidity situation was evidenced in 2011, when government issued Treasury Bills with the intention of raising US$50 million. Only US$9.8 million was raised albeit from a very narrow base, as only few banks subscribed, reflecting the severity of the tight liquidity situation in the economy (Ministry of Finance, 2012)

Under normal circumstances and relating to the example of many dollarised economies, monetary expansion in the country whose currency is in use, would normally result in economic booms in other countries (Kim, 2001), including dollarised economies (Goux and Cordahi, 2007). Cambodia experienced increased foreign currency inflows following the federal monetary expansion in the United States in 1996. This was facilitated by close real economic linkages between Cambodia and USA, under which 60% of the Cambodia garments are imported to the US, (Quispe-Agnoli, 2002).

4.3.3.3 High cost of borrowing

Linked to the liquidity crunch is the high cost of borrowing reflected through both consumer and productive lending. Respondents expressed their concern on the prevailing high interest rate regime prevailing in the economy, a situation that is crowding out productive lending. This is reflected through obtaining lending rates of as high as 30% in some cases, compared to the US LIBOR rate of less than 1%.

The indicator of country risk is the interest rate spread between domestic interest rates and that of the US treasury bills (Menon, 2008). As indicated below, the huge disparities between the interest rate in the United States and that of Zimbabwe shows the high country risk premium, which is translated into high domestic interest rate lending. This comparison is provided below:
The same trend also prevailed in Cambodia during the dollarisation period in 1990s and 2000s (de Zamarocy & Sopanha, 2002), attributed the high interest rate in Cambodia to the high country risk, including the high cost of banking, including legal uncertainty, litigation costs and defaults rates and low financial intermediation.

The high county risk for Zimbabwe is also attributed to the country’s poor ratings on the global competitive indicators such as easy of doing business, which the country continues to score lowly.

In 2013, Zimbabwe slipped from 170 to 172 out of 185 economies in terms of the easiness of doing business. This indicates that the investment climate in the country is continuously deteriorating, thereby adversely affecting foreign capital inflows.
### Table 4.2: Easiness of doing business Ranking

<table>
<thead>
<tr>
<th>Topic</th>
<th>DB 2013 Rank</th>
<th>DB 2012 Rank</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>143</td>
<td>145</td>
<td>2</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>170</td>
<td>169</td>
<td>-1</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>157</td>
<td>165</td>
<td>8</td>
</tr>
<tr>
<td>Registering Property</td>
<td>85</td>
<td>84</td>
<td>-1</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>129</td>
<td>127</td>
<td>-2</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>128</td>
<td>124</td>
<td>-4</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>134</td>
<td>127</td>
<td>-7</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>167</td>
<td>172</td>
<td>5</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>111</td>
<td>112</td>
<td>1</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>169</td>
<td>155</td>
<td>-14</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund

In the SADC region, the country is ranked the least conducive investment destination together with Angola (172) and this ranking is above the Sub-Sahara Africa regional average of 140 (World Economic Outlook Report; 2013).
In summary, the experience in Zimbabwe and Cambodia is also consistent with the findings by Powel and Sturzenegeger (2000), who argued that the abolishment of currency risk is offset by an increased default risk premium and interest rates levels that stay significantly higher than in the United States.

4.3.3.4 Competitiveness

The low level of industry capacity utilisation, currently estimated at around 40%, (CZI; 2012) reflects the lack of competitiveness of the economy. This lack of competitiveness is due to a number of factors that militates against realisation of the industry’s full potential. These relates to use of obsolete and antiquated machinery, unreliable provision of key enablers such as power and water, high cost of borrowing which is short term, lack of purchasing power and absence of aggregate demand. A combination of all these factors have resulted in the capacity utilisation remaining stagnant at lower levels, with the gap being fulfilled by imports.
Respondents therefore urged the government to take a holistic approach in ensuring that these constraints are addressed as they are adding to the costs of doing business. This will require focussing on the supply side and diversifying the economy through value addition among others, measures. Furthermore, accelerated disbursements under the Industrial Revival Fund facilities of DiMAF and ZETREF will facilitate retooling of the industry. This will accelerate the attainment of the desired 80% capacity utilisation, which is recommended before the return of the local currency. This will also facilitate the readjustment of the current account position to sustainable levels and hence support the reintroduction of the local currency.

### 4.3.3.5 Limited Policy Option

Respondents particularly in the category of government, business identified lack of effective monetary policy as one of the drawback of dollarisation. Dollarisation rendered monetary and exchange rate policies ineffective, entailing that only fiscal instrument remain active. The concern was therefore the weakening of the effectiveness of the complementary role of fiscal and monetary policies for sustaining robust economic growth.

This challenge was also common for many of the dollarised economies, and the ineffectiveness of monetary policy was the reason why many countries who dollarised their economies, quickly wanted to revert back to the use of local currency. Examples include Mexico and Pakistan in 1982 and 1998 respectively (Kokenye, A, 2010).

In conclusion, the identified drawbacks above, does not suggest that the multicurrency was not a welcome development, but that these are the shortcomings synonymous in any multiple currency environment. However, notwithstanding the drawbacks, and in terms of the costs and benefits of multiple currencies, respondents attributed the introduction of the multicurrency as a welcome development.
4.3.4 Conditions Precedence to Dedollarisation

The common cited conditions necessary to facilitate the reintroduction of the multiple currency were industrial competitiveness, institutional reforms, central bank independence, sustainable current account position, high and sustained economic growth, external debt resolution, realignment of government expenditures and political stability. These rankings are summarised in the bar graph below:

**Figure 4.7: Preconditions for Dedollarization**

![Preconditions for Dedollarization](image)

Source: Primary Data

4.3.4.1 Institutional reforms at the Central Bank

Institutional reforms at the Reserve Bank were cited as important in order to restore confidence. Weak institutions undermine policy credibility as they create doubt about enforceability of contracts, thereby inducing residents to hold foreign currency as security (Renmark and Niozaki, 2006). The survival of any currency is a human behaviour phenomenon, which is largely influenced by the level of confidence in the
monetary authorities. This will be necessary for defending the currency against any speculative attacks.

Most of the responses noted that the institutional reforms should focus on the need to uphold good corporate governance, central bank independence and the strengthening of the regulatory and supervision role of the Reserve Bank.

Respondents though noted progress on the reforms that were undertaken by government since 2009. These reforms included amendments to the Reserve Bank Act, the appointment of the new RBZ Board, among others. However, respondents were unanimous on the need for further reforms necessary for the restoration of confidence. The most cited example was the inability of the central bank to perform its function as the banker of government and failure to de-monetise the Zimbabwe dollar balances undermines confidence and credibility of the Reserve Bank of Zimbabwe.

4.3.4.2 High and consistent Growth in GDP

High and sustained economic growth was identified as an important precondition that should precede the reintroduction of the Zimbabwean dollar. Sustained economic growth is associated in most cases with the appreciation and strengthening of the domestic currency.

The above observation is also consistent with the experiences of many dollarised economies, who introduced their domestic currency supported by a track record of sustained economic growth. Israel, Poland, Chile, and Egypt successfully de-dollarised their economies accompanied by strong economic growth.

However, the economic trajectory for Zimbabwe resembles a dual enclave economy, which is undiversified and driven by two sectors of agriculture and mining. This commodity led growth is susceptible to external shocks such as drought, global
demand and movement in the international prices. Since 2009, cumulative growth in agriculture and mining were over 70% and 100%, respectively, (ZIMSTATS, 2013)

4.3.4.3 Improvement in the current account position

The country's current account position was cited as an important indicator for the return of the domestic currency and its survival thereof. The current account position explains the real effective exchange rate position of the country. Many respondents particularly those in government and business identified the need to improve the current account position of the country, through enhancing exports and restricting imports.

Consistent with the above observation, the country’s current account position has remained unsustainably high, since 2009, at more than 20% of the gross domestic product, against the SADC macroeconomic benchmark of 9% of gross domestic product. This trade balance since 2009 is indicated in the table below.

Table 4.3: Trade Balance (US$M)

<table>
<thead>
<tr>
<th>Year</th>
<th>TRADE BAL f.o.b</th>
<th>Exports f.o.b</th>
<th>Imports f.o.b</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-1599.8</td>
<td>-1844.4</td>
<td>-3065.9</td>
</tr>
<tr>
<td>2010</td>
<td>1613.3</td>
<td>3317.5</td>
<td>4496.1</td>
</tr>
<tr>
<td>2011</td>
<td>3213.1</td>
<td>5161.8</td>
<td>7562.0</td>
</tr>
</tbody>
</table>

Source: RBZ, 2012
Introducing the domestic currency under the above circumstances could result in rapid depreciation of the local currency, as importers scramble for the limited foreign currency to fulfil their import requirements.

In order to improve the current account position of the country, most respondents highlighted the need to focus on value addition and diversifying the export base which is currently dominated by the export of primary products, dominated by mining, which accounts for over 60% of exports. This should be complemented by restricting the importation of non-essential commodities, which is having a significant impact on the country’s balance of payment.
4.3.4.4 Improvement on the import cover

Linked to the current account position is the need to improve import cover, which relates to the amount of foreign currency reserves relative to imports requirement of a country. Currently the country’s import cover amount to only 0.5 month of import cover, which is significantly lower compared to the SADC macroeconomic convergence threshold of not less than 3 month of import cover.

4.3.4.5 Realignment of government expenditures

Most respondents bemoaned the structure and quality of government expenditures and described it as not sustainable for long term economic growth. Reference was made to the levels of government expenditure and in particular to the proportionate share of capital and recurrent expenditures. They argued that the high recurrent expenditures by government makes the budget anti-developmental and introducing the domestic currency under such a framework will mount to inflationary pressures that could be difficult to resist. Given the high appetite for recurrent expenditures,
there is high likelihood that recourse to inflationary money printing will be unavoidable, given the past trends. This unsustainable expenditure trends indicated in the table and pie chart below:

**Table 4.4: Expenditure Performance (US$ millions): 2009 - 2012**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent Expenditures</td>
<td>804.0</td>
<td>1 603.3</td>
<td>2 500.8</td>
<td>3 218.4</td>
</tr>
<tr>
<td>Of which Employment Costs</td>
<td>409.3</td>
<td>758.4</td>
<td>1 269.1</td>
<td>1 771.4</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>45.2</td>
<td>415.3</td>
<td>353.2</td>
<td>302.0</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>920.9</td>
<td>2 171.6</td>
<td>2 895.8</td>
<td>3 609.2</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

**Figure 4.10: The 2013 Expenditures**

Source: Ministry of Finance
Respondents therefore urged government to ensure that it realigns the restructure of its expenditures, transforming it into developmental, which is key for economic growth and hence, necessary for sustaining the reintroduction of the domestic currency.

The high current expenditures are a result of high employment costs which accounts for 90% of the recurrent expenditures. The international best practice indicates that the wage bill should be restricted to around 7% of the country’s gross domestic product. The position for Zimbabwe is the highest in the sub-Saharan Africa at 16% of GDP in 2011, as indicated below.

**Figure 4.11: Zimbabwe Civil Servant Wage Bill Above SSA Average in 2011**

<table>
<thead>
<tr>
<th>Zimbabwe: Civil Servant Wage Bill Well Above SSA Average in 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in percent of GDP)</td>
</tr>
<tr>
<td>Average: 7.3</td>
</tr>
</tbody>
</table>

Source: IMF, 2012

### 4.3.4.6 Central Bank Independence

Central bank independence was also cited as a necessary precondition for limiting government interference on the operations of the Reserve Bank. Respondents recalled the quasi-fiscal operations by the Reserve Bank as having been necessitated by the need to accommodate unbudgeted government expenditures,
which were inflationary. The record high inflation recorded for Zimbabwe; against massive quasi fiscal activities by the central bank between 2004 and 2007 reflect the severity of the situation.

In Bolivia central bank transfers to the development bank became the biggest source of monetary expansion, financing of the public sector, while in Peru lack of external financing resulted in central bank being the biggest major funding vehicle (Galindo, A & Leiderman, 2005). In this regard, the independence of the central bank was therefore advocated as a solution to resist pressure from the government.

However, experience shows that most countries that de-dollarised, did that without necessarily creating independent Central Banks. Strong supervisory responsibility and non-inflationary financing of the budget deficit was a common feature as in the case of Israel (Galindo, & Leiderman, 2005).

4.3.4.7 Political stability

Respondents across the divide emphasised the need for political stability. Political stability was cited as a critical requirement for the sustenance of the domestic currency. They submitted that if a country does not enjoy political stability, undesirable consequences such as externalisation of foreign currency, including other speculative activities become dominant, and this put pressure on the balance of payment and hence an attack on the currency.

4.3.4.8 Policy consistency and predictability

Policy consistent and predictability was also cited as fundamental to the reintroduction of the domestic currency. The absence of policy consistency and predictability, give rise to speculative activities. Reference was made to the discourse that was dominant within the Inclusive Government on key policy aspects were cited as major cause for concern. Key among these were the indigenisation
and economic empowerment programmes as well as alleged lack of accountability and transparency on the diamond revenues.

The preconditions identified above were prioritised as necessary to facilitate the reintroduction of the Zimbabwean dollar. The assessment of their performance since 2009, demonstrates that these conditions require further improvements in order to sustain the reintroduction of the local currency. With this assessment, it may be concluded at this stage that the country is not yet ready for de-dollarisation as the performance of these indicators require further improvement to facilitate the return of the local currency.

4.3.4.9 External Debt Resolution

Respondents across the board and in particular government and the business were concerned with the country high level of indebtedness. They alluded to the fact that the country’s debt overhang has reached unsustainable levels and is crowding out the country from fully benefitting international financing provided through international financial institutions such as the World Bank, the IMF and the African Development Bank. This situation is also contributing to the liquidity crisis the country is experiencing under dollarisation.

The country’s external debt and arrears currently being validated by the ministry of Finance is estimated at 118% of the country’s gross domestic product. At this level the country’s external debt is unsustainable. Any debt level that is over 60% of the country’s gross domestic product, is classified as unsustainable (IMF, 2013). In this regard, the respondents urged government to spearhead the implementation of the debt resolution framework underway, leading to the clearance of the country’s external arrears. This will be critical in unlocking new financing from the international financial markets.
4.3.4.10  De-dollarisation as the immediate policy objective

From the survey results, 98% of the responses concurred that the reintroduction of the Zimbabwean dollar should not be the immediate policy agenda by government, with only 2% in support, as indicated in the pie chart below:

Figure 4.12: Return of the Zimbabwean Dollar

![Pie chart showing 98% no and 2% yes for immediate return of the Zimbabwean dollar. Source: Primary Data.]

This outcome is also consistent with the assessment of the conditions precedent to de-dollarisation, with evidence supporting that the economy remains fragile. Accordingly, the country has not yet been caught in dollarisation hysteresis, as the conditions for de-dollarisation are not yet fulfilled.

However, majority of the respondents agreed that the re-introduction of the Zimbabwean dollar should be the immediate policy agenda of government to the extent that it enables government to remain focussed on addressing the preconditions to sustain the de-dollarisation framework. In this regard, the reintroduction of the Zimbabwe dollar should be process driven, dependant to a large extent on the progress made in addressing these preconditions.
4.4 TIME FRAME FOR DE-DOLLARISATION

Most respondents agreed to the fact that it was not possible to prescribe a time frame to a process driven programme, and as such alluded that the time frame will depend to a large extent on the progress in addressing the preconditions.

However, guided by the pace of economic reforms since 2009 and the state of current economic performance, a minimum period of 3 years was indicative, provided the government remains focussed in addressing the preconditions identified.

Figure 4.13: Timeframe for De dollarization

![Timeframe for De dollarisation](chart.png)

Source: Primary Source

4.5 APPROACHES TO DE-DOLLARISATION

The dominant position recommended by the respondents was to embrace the market based approach to de-dollarisation as opposed to forced de-dollarisation. This market approach was supported by 93% of the respondents, as indicated below:
The market approach entails introducing the local currency in parallel to the US dollar, a process that could start with the introduction of coins and other small denominations, escalating it to higher levels as confidence improves.

The market based approach was successfully implemented in Israel, Poland, Chile and Egypt among others. These countries implemented supportive policies that included creating markets for local currency denominated bonds and active bank supervision to ensure that banks fully cover their foreign currency loan positions. In the case of Israel and Chile, indexation was also successfully applied to promote local currencies (Leiderman & Galindo, 2005).

On the other hand, forced de-dollarization is associated with failed experiences. As already observed in the case of Mexico, Pakistan and P.D.R., respectively (Menon, 2003).

In conclusion, the result of the survey supported by the literature prioritises market based approach to the reintroduction of the local currency.
4.6  APPROPRIATE CURRENCY REGIME: RANKING IN ORDER OF PRIORITY

Figure 4.15: Appropriate Currency Regime: Ranking in order of priority

Source: Primary Data

When the respondents were asked to rank on a scale from 1 to 6, their preferred currency regime, staying dollarised received the strongest preference, followed by pegging to the rand, with the reintroduction of the Zimbabwean dollar, ranked third. This result is consistent with the survey results of not recommending de-dollarisation as the immediate policy objective of government, and hence necessary to address the preconditions first.

4.7  CHAPTER SUMMARY

The results of the survey are consistent with many of the findings that have been elaborated in the literature review and it also addresses the research objective and specific research questions raised in this study. The deduction is made from the analysis of the results support the fact that the country is not yet ready to reintroduce the Zimbabwean dollar. This is supported by the levels and performance of critical indicators identified, which require further attention to sustain the return of the Zimbabwean dollar. Specific recommendations are contained in the next chapter.
CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter provides recommendations and conclusion of the research study. In doing so, it provides answers to the specific research objectives and questions being raised. The recommendations and conclusions were drawn from the findings of the survey results elaborated in chapter four and the experiences of various countries that went through the de-dollarisation process.

5.1 CONCLUSION

The optimal de-dollarisation framework for Zimbabwe requires that government focuses first on addressing the preconditions necessary to facilitate the reintroduction of the local currency. Once significant progress in addressing these preconditions has been made, a market based gradual de-dollarisation framework should be adopted. This is the conclusion to the overall objective of the research study, which is to develop an optimal de-dollarisation framework for Zimbabwe. This conclusion is a built up to the specific research objectives which are outlined below.

5.1.1 Identification of conditions precedence to de-dollarisation

Central to the successful reintroduction of the local currency hinges upon the progress is addressing the preconditions necessary for de-dollarisation. These preconditions are sustainable economic growth, institutional reforms, central bank independence, current account position, industry competitiveness, external debt resolution, realignment of government expenditures, and political stability.
5.1.2 An assessment of the performance of the conditions

An assessment of the overall performance of the above critical conditions, since the introduction of the multiple currencies in 2009, reveals that these have not yet reached sufficient and necessary levels required to sustain the return of the local currency. Accordingly, a holistic approach in addressing these deficiencies will be central in facilitating and sustaining the return of the local currency. In particular, improving the economy’s competitiveness will require addressing the productive and supply side of the economy. This should result in improvement in industry capacity utilisation, a situation that will improve the current account position of the country and hence reduces the country’s overreliance on imports, which puts pressure on the limited foreign currency.

Furthermore, reducing the country’s risk premium will require improving the country rankings on indicators under the ease of doing business. These together with other conditions such as institutional reforms, central bank independence and political stability will provide the much needed confidence that is critical for the survival of the local currency.

5.1.3 The Optimal de-dollarisation framework

When the country has achieved sufficient progress on the identified pre-conditions for de-dollarisation, government should be able to reintroduce the local currency. The framework of such a process favours a market based approach, as opposed to forced de-dollarisation. A market based approach entails the introduction of the local currency in parallel to the United States dollar. Under this framework, the local currency will be allowed to compete with the US dollar on equal basis. As public confidence improves, informed by the progress made in addressing the preconditions, the local currency will gradually and eventually assume its role and dominance in the national economy, as the medium of exchange and store of value.
Consolidating and deepening macroeconomic stability through broad based liberalisation measures will be essential. (Quispe-Agnoli, 2002), argued that there is no silver bullet in encouraging the use of the local currency over foreign currency, a combination of supportive and market oriented policies are needed.

Literature associate countries that successfully de-dollarised as having followed the gradual market based approach. These countries included Israel, Poland, Chile, and Egypt, among many others (Leiderman, Galindo, 2005). They further alluded that supportive policies undertaken included the development of the domestic market for local currency, such as treasury bond markets and indexation as implemented in Israel and Chile.

On the other hand, forced de-dollarisation should not be advocated as it has potential to lead to severe macroeconomic costs as happened in Mexico and Pakistan in 1982 and 1998, respectively, (Reinhart, Rogoff, and Savastano, 2003).

5.2 TESTING FOR THE RESEARCH PROPOSITION

The research proposition being investigated is whether the country has achieved sufficient macro-economic stability to warrant the reintroduction of the local currency. Informed by the research findings, and taking stock of the progress made since 2009 to date, the country is not yet ready for the return of the local currency. This proposition was supported by 98% of the respondents who agreed that the conditions are not yet conducive for de-dollarisation to take place. Consistent with this, the Zimbabwean economy has therefore not been caught up in a dollarisation hysteresis where the dollarisation reversal becomes difficult (Savastano,1996).
5.3 RECOMMENDATIONS

The following are the main recommendations of the research study:

1. De-dollarisation should not be the immediate policy agenda for government. Instead the government preoccupation should be to address the conditions precedence to de-dollarisation to facilitate the return of the local currency.

2. The time frame for such a programme is process driven, dependent on the progress the country makes. However, taking stock of the progress to date, a minimum period of 3 years is indicative.

3. Once significant and sufficient progress has been made on the critical conditions, a gradual market based approach is recommended, as opposed to forced de-dollarisation.

4. Such a market based approach entails introducing the local currency in parallel to the US dollar, supported by consolidations of macroeconomic stability and deepening of broad based liberalisation measures. This includes creating a market for local currency denominated bonds and indexation, among other measures.

5.4 AREAS FOR FURTHER RESEARCH

De-dollarisation is a sensitive subject and a process driven exercise and therefore, not a once off survey study. In this regard, it would be appropriate to undertake a similar exercise at an appropriate time in future to evaluate the progress on the performance of conditions precedence before reintroducing the local currency. As put forward by (Rasmus, Leicher, and Menkulasi, 2009), establishing the credibility of macroeconomic policy is essential and it takes time. The objective of such a study will therefore be to ensure that all the critical conditions including public confidence satisfies the reintroduction of the local currency.
REFERENCES

35. International Monetary Fund (2013), World Economic Outlook
46. Leiderman, L., & Galindo, A. (2005). Living with dollarisation and the route to de-
dollarisation. Inter-American Development Bank, Tel Aviv University.
47. Medium Term Plan (2011-2015). Harare: Ministry of Economic Planning and
investment Promotion.
Lacks Credibility and Financial Markets are Imperfect. Money, Credit and Banking.
Lacks Credibility and Financial Markets are Imperfect. Money, Credit and Banking.
independent brief.
Review.
and Default Risk'. Business School.
55. Quispe-Agnoli, & Myriam. (2001). Dollarisation: 'Will the Quick Fix pay Off in the
Long Run'. EconSouth.
Convertibility'. EconSouth.
Research.
NBER.
Estates Informas Sector programme.
Congress.


Zimstat (2013) Poverty Income Consumption and Expenditure Survey 2011/12
Appendix 1: Cover Letter to the Questionnaire

Dear Respondent

The researcher (Jonah Mushayi) is an MBA student at the University of Zimbabwe and is undertaking a study as a partial fulfilment of the MBA requirements. The research topic is: DOLLARISATION AND OPTIMAL DEDOLLARISATION FRAMEWORK FOR ZIMBABWE. Your assistance in completing the questionnaire during your precious time is greatly appreciated. The estimated time to complete the questionnaire is ten minutes.

For any queries do not hesitate to contact J.Mushayi at jonahmushayi@gmail.com.

The researcher shall also treat with utmost confidentiality any company information got during the study. The overall results of the study shall be used purely for academic purposes.

Please tick box under or next to where optimal answers are provided, and give explanatory answers where optional answers are not provided.

Thank you
Appendix 2: Questionnaire

SECTION A

Name (Optional) ............................................................... ..............................................................

Gender ............................................................................. ..............................................................

Marital Status ...................................................................... ..............................................................

Company/organisation (Optional) .............................................................. ..............................................................

Nature of Business ...................................................................... ..............................................................

Physical Address ...................................................................... ..............................................................

SECTION B

1. It is now over four years since the country adopted multiple currencies. What has been your experience with the use of the multiple currencies in the country?
..........................................................................................................................................................................
..........................................................................................................................................................................
..........................................................................................................................................................................
.............................................................................................................................................................................
2. In your own view, do you think the multiple currencies have served the nation well? Give reasons?

Benefits

................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................

Drawbacks

................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................

3. What are the associated challenges if any being experienced with the multiple currencies and how best could they be addressed?

................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................

................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ........
4. What do you think are the specific preconditions that should precede the reintroduction of the Zimbabwe dollar?

5. In your opinion, are there any specific criteria (such as the often cited level of capacity utilisation in manufacturing) that should be met before de-dollarisation?
6. Given the current economic performance, should the reintroduction of the Zimbabwe dollar be the immediate policy objective of Government? Give reasons?

................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................

7. If your answer in NO to above, what is the appropriate timing for the reintroduction of the Zimbabwe dollar?

................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................

8. In your view, how best should the reintroduction of the Zimbabwe dollar be approached, without destabilising the macroeconomic environment?

................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
................................................... ................................................... ......................
9. Please rank the following (first - preferred option and last-least desirable) potential options for de-dollarisation for Zimbabwe.
   a) stay dollarised but drop other currencies (Rand, Euro etc)
   b) Peg to the rand
   c) await the (eventual) introduction of a common currency for SADC
   d) peg to the Chinese RMB
   e) Re-introduced the Zimbabwe dollar
   f) Peg to the Euro

10. Do you think that a viable option would be to retain the multi-currency regime(and/or the US dollar), but reintroduce the Zimbabwe dollar and let it circulate alongside currencies as legal tender in the hope that eventually public confidence in the local currency will be restored?
11. What are the specific recommendations with regards to the reintroduction of the Zimbabwe dollar?

End of the Questionnaire and thank you so much for your time