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Antidote for De-dollarization: Lessons for Zimbabwe

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Abstract
When Zimbabwe abandoned its currency and adopted the multiple currency exchange rate system in 2009 which was anchored on the United States dollar, there was general consensus that dollarization was the only way the country could restore macroeconomic stability and grow the economy. Despite dollarization, the country has not been spared from major current account reversals, amplified output fluctuations in crucial economic sectors and increased volatility of key relative prices in the economy. In fact, economic growth and development has been on downward trend since dollarization. There are ample studies in empirical literature that demonstrate why countries dollarize yet few studies focus on how to de-dollarize and reintroduce own currency. The aim of this research was to review empirical studies on the cost and benefits of dollarization in emerging markets such as Zimbabwe and also to provide insights on de-dollarization strategies. The paper contributes to literature on strategies that developing countries can adopt to smoothen transition from a dollarized economy towards own currency. The paper recommends that prior to de-dollarization and adoption of own currency a number of intervening strategies need to be in place and these include; implementation of policies that strengthen macroeconomic stability through fiscal surpluses, introducing prudential measures to better reflect the risks of currency mismatches; developing a securities market with longer maturities in domestic currency; financial sector development and growth of export revenue.
Keywords: Antidote, Dollarization, Multicurrency, De-dollarization, Zimbabwe

1.0 Introduction and Background

In 2009, after abandoning its own currency Zimbabwe adopted a multicurrency regime that included US$, British Pound, Japanese Yen, South African Rand, Botswana Pula and the Euro. The basket of currencies was largely anchored on the United States dollar. The process of dollarization initially started as a chain of extemporaneous actions by individuals and corporates who were responding to the destruction of the acquisition power of the domestic currency. Prior to dollarization, unstable money demand and the expansion of monetary base induced hyperinflation which at last count peaked a world record of 231 million percent in 2007. The Zimbabwe dollar was rendered worthless and redenominated at least three times in order to manage the number of zeros. For instance, three zeros were removed in 2006 when inflation was 11.2 million percent. Thereafter, the Zimbabwe dollar was substantially run down against all regional currencies (Hanke & Kwok, 2009; Makuyana et al., 2011; Zimstat, 2009, 2012).

After abandoning the Zimbabwe dollar for more stable currencies, the country immediately restored macroeconomic stability and tamed the scourge of inflation. In addition, dollarization enabled the country to eliminate exchange rate risks, enhance financial intermediation and improved the country' attractiveness as an investment destination. The economy grew rapidly and budget surpluses were achieved for three consecutive years; 0.4 percent of GDP in 2009, 2 percent of GDP in 2010 and 0.2 percent in 2011. According to RBZ (2015), bank deposits rose from US$1.3 billion in December 2009 to US$4.4 billion in January 2014 and further growing to US$5.1 billion in 2015. Full dollarization also helped the country to achieve lowest inflation in the region, enhanced government policy credibility, and promoted foreign direct investment inflows. It also promoted fiscal discipline, a competitive financial system and economic integration with international markets (Gulde-Wolf et al, 2004; IMF, 2015). FDI net inflows grew from US$51 million in 2008 to US$387 million in 2011, attracted by the manufacturing sector, mining and financial services respectively. Increased investor confidence, reduction in political risk and macro-economic stability aided by multi-currency regime enabled Zimbabwe's private sector to regain marginal competitiveness in international trade between 2009 and 2013. GDP rose to 10.1% by end of 2012. (CZI, 2013). However, five years after dollarization and the dissolution of the government of national unity, the country slid again into a recession. Economic growth stalled to negative territory. Political instability, deflation and high unemployment heightened business uncertainty and weakened confidence about the country's future prospects. Budget deficit declined from a surplus of 0.2 percent of GDP in 2011 to 16.6 percent of GDP in 2016 caused by fiscal and monetary profligacy.

The high budget deficit reversed most of the gains initially achieved when the country dollarized. Some of challenges that manifested after dollarization include; a crunching illiquidity and cash crisis in the economy, growing inconsistencies of government policies, exacerbated exogenous supply and demand shocks, adverse changes in the terms of trade, dwindling domestic savings and lethargic domestic investment in productive capital by both private and public sector. The strength of the dollar arguably proved to be a deleterious factor in the growth of the economy. The dollar reduced cost competitiveness of domestic products and services both in the regional and international market. However, the paper argues that in the post-dollarization era, Zimbabwe did not ensure that short-term stability caused by dollarized economic regime developed into long-term economic growth and development.

We also argue that dollarization was a good strategy of restoring macroeconomic stability, however, the country did not also address structural fundamentals, policy and institutional weakness which were obtaining before dollarization. For instance, financial wastefulness of precious but difficult to get hard currencies led to cumulative high fiscal deficits amid declining export competitiveness. Hence, external debt overhang and increasing domestic debt arrears led to imbalances that became unsustainable when exports revenue started to decline rapidly. The aforementioned exogenous supply shocks plus the adoption of pseudo currency known as the bond notes in 2017 resulted in current liquidity and ongoing cash crisis. Since then, borrowing in foreign exchange has been generating high levels of liability dollarization in firms' balance sheets given the fact that foreign currency debt in most firms are not being properly hedged.

Money market liquidity had significantly tightened as bad money in the form of bond notes have chased out good money from the economy. Most economic fundamentals such as savings and investment remains inextricably tied to dollarization, yet, the dollar has since vanished in the formal economy and circulating only in the parallel market. Paradoxically, dollarization which rescued Zimbabwe from certain economic collapse is now inhibiting domestic investment, economic growth and development. Evidence provided in empirical literature demonstrate a number of benefits associated with that dollarization or adopting a multicurrency regime. These include lowering transaction costs related to trading goods and assets denominated in different currencies (Panizza et al, 2000). Dollarization has been reported to reduce business uncertainty and exchange rate volatility in trade and domestic investment (Lizano, 2000). Dollarization in most developing economies decreases transaction and informational costs associated with using domestic currency (Panizza et al, 2000). Dollarization causes higher international trade due to low fluctuations in interest rates and currency risk (Morandé and Schmidt-Hebbel, 2000). Dollarization lowers probability of external crisis and contagion and hence, contributes to accelerate the consolidation of the banking system. (Calvo, 1999a, b) Schuler, 1999).

However, despite such overwhelming evidence concerning the benefits of dollarizing the economy, the case of Zimbabwe has been discombobulating. In contrast, dollarization has ameliorated the "sudden stop problem" of foreign capital inflows that was common during much of the 2000s, and thus resulted in the ongoing financial market instability. In fact, the multicurrency regime has been failing to expand the menu of financial options such as portfolio investment, venture capital and FDI that are open to other emerging-markets that have dollarized. Most policy makers, industrialists and general populace are now questioning the rationale of maintaining a dollarized regime against the alternative of introducing own currency. Whilst it was easier to adopt the multicurrency regime in 2009, the challenge in most developing countries that dollarized is how to re-introduce the domestic currency after a long period of dollarization. For Zimbabwe, the challenge is even phenomenal given that the country has low foreign reserves and the economy is a deep quagmire. The paper aims to answer the following question: Are their exit options after adopting a multicurrency or dollarized regime? If the net benefits of de-dollarization could be significantly positive, what are the prerequisites that the economy should present, before abandoning a dollarized regime in order to maximize benefits of own currency? It is against this background and the questions that this paper reviews empirical literature and provides possible strategies to the policy makers, to industry leaders and generally populace on how the country can successful de-dollarize and introduce its own domestic currency.

The study is significant for a number of reasons. First, the empirical literature on dollarization and not de-dollarization has been mostly focused on Latin America and to some extent on some few transition economies. Only a few studies have been done focusing on African countries that dollarized. Currently, at least eight countries in Africa are operating under either a multicurrency regime or are dollarized. Due to challenges of maintaining a multicurrency regime in view of declining trade competitiveness a number of countries including Zimbabwe, could be exploring ways of re-introducing domestic currency by substituting the United States dollar or a multi-currency regime. However, not much literature is available to guide policy makers on de-dollarization.

Second, sustaining dollarization or multicurrency regime pose momentous challenges to policymakers and the economy. For instance, in Zimbabwe dollarization has been constraining the capacity of the central bank to act as a lender of last resort and therefore, hampering banks' liquidity management strategies. Dollarization has also weakened the stability of the country's financial sector by amplifying the impact of exchange rate movements on banks' balance sheets. Dollarization has thus been increasing the risk of currency crisis by inducing potential systemic bank failures and a contagion effect across regional financial system. Dollarization is causing a significant contractionary effect on domestic investment and on the economy as a whole. Hence, the need to explore exit strategies from a dollarized economy towards domestic currency.

This study may also help policy makers to assess potential vulnerabilities that may emerge in the economy after de-dollarization such as exchange rate management regime to be adopted. The study may proffer knowledge new knowledge to fiscal authorities on strategies to counter the likely erosion of international competitiveness of domestic goods and services that may ensue after the introduction of own currency. Third, in Zimbabwe dollarization regime is complicating the implementation of investment and economic policies through various channels. For example, dollarization is likely to expose the balance sheets of the public sector, private enterprises, and households to exchange rate risks in the event that assets and liabilities in foreign currency are mismatched. Dollarization has also reduced the capacity of the government to use monetary policy, particularly the central bank's lender-of-last resort function to stabilize the domestic banking system. Savastano (1999) and Mendoza (2002) reported that the main disadvantage of full dollarization was the loss of seigniorage. In Zimbabwe, the loss of lender of last resort has drastically been affecting the central bank's response to financial system emergencies particularly cash crisis, liquidity and drought management. As also affirmed by Berg and Borensztein (2000) as well by Gale and Vives, (2002), dollarization weakens structural fiscal balance and flexibility by reducing the scope for seigniorage. In addition, the paper argues that a multicurrency regime such as obtaining in Zimbabwe reduces the ability of the government to issue medium- and long-term debt in domestic currency. This might intensify susceptibilities to endogenous shocks and thereby strengthening output fluctuations especially in the tradeable sector. The research is made up of five sections: section one is the introduction and explains the background of dollarisation problem in Zimbabwe. Section two covers literature review. Section three presents the methodological framework. Findings and discussions are on section four whilst section five is concerned with the conclusions and recommendation.

2.0 Literature Review

The term dollarization has been defined in various ways in many empirical studies. According to Havrylyshyn and Beddies (2003), dollarization is defined as a monetary regime under which a government adopts foreign currency, especially the United States dollar, as the predominant or exclusive legal tender dollar in both domestic and international monetary transactions. Forbes *et al* (2013) concur, dollarization is the adoption of the United States dollar as the legal tender and the official currency by the authorities of a country outside United States. In contrast, Baliño *et al* (1999) consider an economy to be dollarized if the ratio of foreign currency deposits to broad money exceeds 30 percent. Forbes *et al* (2013), Ortis (1983) and Alvarez-Plata and Garcia-Herrero 2007) also refer to the process of dollarization to refer to currency and asset substitution. However, Schuler (2005) closely link the concept of dollarization to a kind of fixed exchange rate system. Hila and Dean (2004) suggests that dollarization implies that a country abandons its own currency as its means of payment or exchange for all transaction purposes.

Dollarisation can also be equated to eurorisation (if using the Euro) or randification, (South African rand) which is the use of the same foreign currency such as the Euro or South African Rand in all trading assets and holding of assets within a region or country. Full or official dollarization happens when a country totally gives up its national currency and instead embraces the U.S. dollar as its official unit of currency. According to Makochekanwa (2007), there are three stages towards a dollarized economy which are; unofficial, semi-official and official stages. Official or full dollarisation occurs when a country makes a foreign currency (or currencies as in Zimbabwe) full legal tender and reduces its own currency, if any, to a subsidiary role and issued only in coins having small values. Generally, under such arrangement, there will be no risk of domestic currency, no currency risk, and therefore, no risk of currency crisis (Bogetic, 2000). However, Duncan (2003) concludes that full dollarization implies; higher real volatility, especially on output and investment, lower inflation volatility, higher fiscal deficit volatility, and higher output response to terms-of-trade shocks.

With official dollarisation, the foreign currency or currencies adopted will not only be a legal tender for use among private parties, but will also be used by the government. According to Borensztein and Berg (2000), the main feature of dollarisation is that once adopted, it will be permanent, or nearly permanent. Compared to currency board, full dollarisation will be relatively more difficult to reverse than doing away with or modifying a currency board. Hanke (2008) argued that a currency board could have been a better option rather full dollarization in the case of Zimbabwe. UNDP (2008) says there is no link between a country's monetary system and its economic performance. Partial or unofficial dollarization occurs when countries allow the use of foreign currency deposits in domestic banks (Reinhart et al, 2003) and individuals use the foreign currency to make local transactions and/or allocate their financial assets (Quispe-Agnoli 2002). Gulde-Wolf et al (2004) suggest that dollarization could undermine financial stability through risks associated with liability dollarization, that is, when the increase in local currency value of dollar liabilities exceeds the value of the borrower's income flow. Liability dollarization often leads to sudden stops, and to corporate and banking crises, as witnessed during the East Asian crisis of 1997. Dollarization is a factor of inflation differentials, exchange rate changes, interest rate spread, and credibility in macroeconomic policy and market structure imperfections (Savastano, 1996; Reinhart *et al.*, 2003).

There are many reasons why countries prefer dollarisation. For instance, Zimbabwe, Chile, Colombia, and Peru became dollarized following periods of macroeconomic turbulence and high inflation that encouraged the substitution of domestic currency with the U.S. dollar. Many Latin American economies in the 1970s and 1980s as well as many SSA countries for example, Democratic Republic of the Congo, Liberia, and Nigeria have become dollarized following periods of financial repression and the imposition of capital controls. Some countries for example, Ecuador and El Salvador adopted the dollar as legal tender in order to escape from a long history of monetary and financial disorder by importing the credibility of the U.S. monetary institutions (Levy-Yeyati and Arias, 2003). Minda (2005), Schuler (2005) and Berrios (2006) argue that in Ecuador dollarization was caused by economic and social instability. Recent studies in some emerging markets attribute dollarization to economic, political and social instability, among other things (Noko, 2011). However, Melvin (1988) argues that the root cause of dollarization is the relatively high growth in money supply. Chile's monetary reform on September 29, 1975, was a result of the high money supply growth of 125% between 1971 and 1975 (Melvin, 1988).

IMF (2015) aver that dollarization is a legacy of severe economic disruption, financial repression and capital controls. Due to underdeveloped financial markets domestic borrowers for example in Cambodia contracted debt in foreign currencies in response to the lack of domestic currency alternatives in incomplete financial markets (de Zamaróczy and Sa, 2003). Alesina & Barro (2001) examined the determinants of dollarization, and concluded that the growth in trade of goods and services, financial integration in regional blocks and globalization were strong factors that led countries to use foreign currencies as legal tender. Berrios (2006); Hanke & Kwok (2009); Schuler (2005) and Minda (2005), assert that the need for price stability has persuaded, for example, Argentina, Estonia, Bulgaria, Hong Kong and Lithuania to adopt currency boards. Edwards and Magendzo (2001) examined whether dollarized economies have had lower inflation rates, higher and faster GDP growth rates, and less macroeconomic instability, as measured by the volatility of GDP growth rates. Their findings suggest that whilst GDP per capita growth has not been statistically different in dollarized and in non-dollarized countries, however, macroeconomic instability has been significantly higher in dollarized than in non-dollarized economies. However, in Panama and Ecuador dollarization was reported to have had a positive effect (Berg et al 2003). Minda (2005) and Edwards and Magendzo (2006) observe that small countries with close trade or financial ties to the United States could favour official dollarization. This suggests that the rationale for dollarization lies mainly in availing of the monetary stability it provides. Dollarization is generally believed to lead to more stable exchange and interest rates, as well as lower transaction costs for international corporations doing business in Latin America (IMF, 2015). Dollarization will tend to result in lower interest rates, higher investment and faster growth (Dornbusch 2001). This encourages international investment and promotes economic growth and development.

Berg and Borensztein (2000) aver that dollarization increases financial markets efficiency creating long-run instruments and allocating resources in better way than other exchange regimes. Goldfajn and Olivares (2000) argue that dollarization reduces the impact of external confidence shocks. Edwards (2001a, b) found that dollarized countries have not been spared from major current account reversals. Rojas-Suárez (1999) also argues that a cost of dollarization is the loss of the nominal exchange rate as an instrument to ameliorate terms-of-trade shocks. Panizza *et al* (2000) report that a multicurrency regime may reduce financial fragility by reducing volatility of key relative prices in the economy, and contributes to the development of banking system. Mendoza (2000) demonstrates that welfare gains from weakening of financial frictions and improved access to global capital markets due to dollarization. Enhanced credibility and reduced informational frictions could result in better access to international capital markets in terms of reduced liquidity coefficients and margin requirements (Mendoza, 2002).

According to Fischer (1996, 2001), the gross costs of dollarization are considerable. One of the costs of dollarization reported in recent studies is the loss of national pride (Hanke & Kwok, 2009; Noko, 2011). Alesina & Barro (2001) argued that surprisingly some countries that adopted foreign currency as legal tender also have readily accepted the use of foreign language, yet, the client countries view dollarization as a loss in pride. There are also many disadvantages to dollarization which include the loss of monetary policy and the decline of national identity (Katz 2000, Jameson, 2003). Dollarisation as a strategy is very high-risk and requires an open, highly competitive economy that will commit to rigorous fiscal policies (O'Brien, 2001). Moron and Winkelried (2005) find that inflation targeting policies are compromised in highly dollarized economies. High differentiation of the domestic interest rates from the rest of the world in favour of the domestic currency deposits may reduce dollar deposits but at the same time this may generate more foreign inflows and greater availability of dollar debt from abroad (Ize and Levy-Yeyati, 2003).

Minda (2005) asserts that the benefits from full dollarization were unclear as opposed to the forfeiture of monetary sovereignty and national pride. Dollarization implies the loss of seigniorage as a source of real income that is of revenue from the creation activities of the central bank. Chang and Velasco (2002) clearly showed that there is no assumption that dollarization in itself would reduce interest rates. Edwards and Magendzo (2001) analysed the relationship of full dollarization with a lower inflation and faster growth and concluded that inflation was significantly lower in dollarized economies, but that the rate of economic growth was higher in the non-dollarized economies. The lower growth rate is partly caused by the problem of adapting to external imbalances. For a country that does not have enough foreign reserves to buy up its domestic currency, the acquisition of initial stock could add indirect costs (Savastano, 1999; Mendoza, 2002; Berg and Borensztein, 2000). Klein (2012) has shown that there is no evidence that dollarization enhances the trade between non-industrial countries with the anchor country. Eichengreen (2001) also believes that there is no confirmation that dollarization like any other exchange rate regime is an important determinant of growth. Dornbush (2001) however, claims that dollarization implies lower interest rates, higher investment and faster growth. Although dollarization might increase real revenues or improve fiscal discipline and position, Edwards (2001) suggests that dollarization itself does not ensure fiscal solvency and prudence. One of the consequences of full dollarization is the opening of the economy to capital mobility. Given prudential regulations, these capital flows could promote financial intermediation, encouraging the development of a sound financial system and its integration with the rest of the world (Berg and Borensztein 2000).

Rose (2000) finds that two countries sharing the same currency trade more than they would with countries using different currencies. At the same time, however, a fully dollarized country becomes more vulnerable to real and financial shocks due to the restrictions that full dollarization imposes on policymakers. Quispe-Agnoli and Whisler (2006) indicate that the expected benefits of full dollarization include the elimination of exchange rate risk, contributing to the decline of the country risk premium and interest rates, as well as the reduction of the inflation rate and inflationary expectations. Some initial conditions could be relevant in the decision to implement official dollarization. Edwards and Magendzo (2003) argues that dollaralisation brings economic growth. Alesina and Barro (2001), argued that adopting another nation's currency eliminates the inflation-bias problem of discretionary monetary policy. They argue that countries that give up their currency will tend to grow faster than non- dollarized countries. This growth effect is supposed to take place through two channels: dollarization will mean lower interest rates, higher investment, and faster growth and, by eliminating exchange rate volatility, dollarization is supposed to encourage international trade and this, in turn, will result in faster growth. According to Eichengreen (2001) the evidence on the relationship between monetary regimes and growth is inconclusive, and does not support the claim that dollarization or any exchange rate regime, is an important determinant of growth. Hanke (2003) argues that for dollarization to be a suitable strategy the following conditions should exist; financial integration with international financial system, fiscal transparency and control, tax simplification, supermajority voting, deregulation and privatization. Jameson (2003b) indicates that although dollarization improved the economic performance of Ecuador, the fundamental structural economic problems like political instability and disappearance of independent monetary policy still remain.

Giovanni and Turtelboom (1994) surveyed the theoretical literature on dollarization, suggesting a classification based on money demand in a multicurrency environment and distinguishing cash-in-advance and transactions cost models. In the first group of models, the real return differential between domestic and foreign currencies determines the demand for domestic and foreign currencies. Currencies can circulate together if there are no legal restrictions affecting their use. Bogetic (2000) found that the higher the domestic inflation rate vis-à-vis foreign inflation, the higher the level of foreign currency holdings will be. Marshall (1987) and Poloz (1986) found that currency substitution may emerge when transaction costs are high that is, agents maintain foreign exchange as medium of exchange and store of value.

Experience in most countries that dollarized also shows that dollarization is often difficult to reverse. While the use of a foreign currency as a store of value or for domestic transactions has increased sharply in several countries over time, there are fewer cases in which this trend has been significantly reversed. While many countries have attempted to de-dollarize, only a few have succeeded in these efforts- Israel, Poland, Bolivia, and Peru. IMF (2015) notes that practices regarding the use of currencies for the settlement of transactions change slowly and only when there are significant benefits to be gained from switching currencies. Ize and Yeyati (1998) find that hysteresis can result from exchange-based stabilization measures, which are not well aligned with de-dollarization for example, reducing the volatility of the exchange rate below that of domestic prices. Kokenyne et al (2010) argue that maintaining trends in exchange rate can promote the persistence of dollarization, in some circumstances, by entrenching expectations of further depreciations. Kessy (2011) argues that one of the most notable effects of the financial sector liberalization in Tanzania has been the increased use of the U.S. dollar as store of value and a means of transactions by residents. The traditional view, on the other hand, is that in countries with a hard peg it is difficult to accommodate external shocks, including terms of trade and world interest rate disturbances (Baliño *et al.,* 1999). Frankel (1999) has argued that there is no unique recipe on exchange rate policy; while some countries will benefit from hard pegs, for other countries a floating regime will be more appropriate. Whilst most paper agree that dollarization is beneficial, there are challenges when a country such as Zimbabwe that has not benefited from dollarization decides to take a different route by reversing the process of dollarization. This becomes even more significant given the dearth of literature about de-dollarization strategies.

3.0 Methodology

A comprehensive literature review was used to draw discernments from theoretical and empirical literature and provided a framework of analysis for the study. This study was informed by studied that have been done in other countries that successfully de-dollarized or attempted to re-introduce own currency.

4.0 Discussion

4.01 Antidote for abandoning dollarization or multicurrency regime

There are various options or strategies that can be used to exit dollarization or a multicurrency regime. Reversing dollarization is often a difficult and painful process especially for developing countries and hence, the need to come up with a cocktail of prescriptions that may be either be used singularly, or can be combined, or can be used as a group. The paper discuses some of the strategies below.

4.02 Strengthening macroeconomic stability

Most developing countries that include Zimbabwe are ensconced in deep macroeconomic instability characterised by huge fiscal deficits, low foreign direct investment inflows, economic mismanagement and weak monetary controls by central banks. Hence, before any de-dollarization could take off, a cocktail strategy that involves; lowering public debt, building fiscal surpluses, inflation targeting, boosting international reserves and growing exports base should be implemented in order to stabilise the economy first. Monetary authorities may need to adopt contemporary monetary and fiscal policies such as making prudent changes in the monetary base multiplier accompanied by rapid building of well-developed markets for overnight loans among financial intermediaries. This enable domestic financial systems to not only achieve an economically efficient allocation of available savings but also to contribute to the stability of the financial and banking system. In addition, monetary authorities must be able to define and determine potential origins of the dominant shocks to the economy.

The determination of such shocks is essential before policy makers can choose between monetary and interest rate targeting. Hence, a stable financial and banking system that eases the transition process from dollarization towards domestic currency is therefore a major precursor for stable macro-environment. One of the major challenges facing many developing countries that abandoned their own currency is maintaining a stable price and low inflation level in the economy. Contemporary empirical literature of monetary policy in both developing and developed economies often refer to inflation or price targeting as the major goal of monetary policy. However, the paper argues that since money is neutral in the long run, that is, once-for-all changes in the money supply do not affect the real value of variables such as consumption, employment, real wages, and real interest rate in the economy. Hence neutrality of money implies central banks in most developing countries cannot change the level and path of full-employment output. More importantly they should not try to do so since such an endeavour will only produce higher inflation. Rather, monetary authorities should attempt to target stable prices levels and lower rates of inflation in order to reduce the inevitable risks of consummating long term financial contracts in unstable business environment. The paper also posits that this strategy promotes the formulation and realisation of optimal domestic savings and investment policies which consequently increase output and employment. In unstable macroeconomic environment, high inflation rates and distortions in price levels deter economic growth after de-dollarization by potentially introducing uncertainty in domestic investment and economic trajectory.

4.03 Introducing prudential measures to better reflect the risks of currency mismatches;

Prudential measures include among other things, achieving higher reserve requirements on foreign currency deposits, lower interest rates and higher provisioning requirements on foreign currency loans. Whilst the neo-classical theory posits a positive relationship between lower interest rates and lower domestic savings, we suggest that interest rates in many developing economies such as Zimbabwe represent the cost of investment. This suggest that investment is the increase in the capital stock of the economy, an essential ingredient for the growth of the economy's output capacity. Hence, the paper argues that before re-introduction of domestic currency, interest rates should be lowered, implying higher investment in productive capital and therefore higher growth rates for the economy. Hence, it can be argued that low rates of interest imply higher investment and therefore higher growth rates for the economy. Nevertheless, we suggest that interest rates should be adjusted to the rate of inflation in order for firms to obtain positive real rate of return. Other prudent measures that should be adopted before de-dollarization include; monetary and fiscal policies that promote centralised securitisation of movable assets, relaxation of hypothecation conditions, promotion of lending by insurance firms, improvement in crowd and equity funding, and development of mezzanine and venture capital. Whilst these are common in developed economies, there is a need to suitably adjust them to smoothen the transition to domestic currency by dollarized economies.

4.04 Developing a securities market with longer maturities in domestic currency.
There is also a need to deepen domestic bond markets for future local currency bonds. This might begin with government bonds before moving gradually to bonds with longer maturities. The issuance of local currency treasury bills soon after dollarization, which are seen as a high yield and safe investment, also help to reduce the share of dollar deposits within the financial systems. In addition, financial innovations such as the introduction of hedging instruments and indexed local currency bonds reduces the need to use foreign currencies to hedge against currency or inflation risk.

4.05 Financial Sector Development.
Before dollarization can be done it is important that that the financial sector as measured by M2/GDP ratios develops quickly than most sectors of the economy. As the financial sector develops rapidly and more financial products are offered in which domestic currency savings can be invested, dollarization naturally declines. Financial sector development is assumed to capture not only the diversity of investment products that are available but also a more stable macroeconomic environment. In essence, it also implies that financial policies must able to contain the build-up of systemic vulnerabilities of the economy and also to reduce pro-cyclical intra-sector feedback that originate mainly from the agricultural sector, which could further destabilise the financial and banking sector.

4.06 Access to foreign exchange finance.
A priori, de facto access to foreign exchange has an ambiguous impact on deposit dollarization. The ability to keep money overseas is expected to reduce domestic deposit dollarization. However, at the same time, banks can mobilize resources in foreign exchange, thus increasing their appetite for passing on the exchange rate risk while making use of (potentially cheaper) foreign funding. In many countries that have dollarized that include Zimbabwe, both capital and financial markets are poorly developed and informationally inefficient, and hence, their incapability to access international credit markets and mobilise robust foreign direct inflows. This suggests that prior to dollarization it is incumbent upon policy makers to ensure that country risks that emerge from perceptions of political instability be reduced so as to enhance access to external credit by local firms and other economic agents.

4.07 Fiscal devaluation
In order to enhance the country’s international competitiveness which have been eroded by dollarized environment, the paper suggests that preceding dollarization Zimbabwe should devalue the bond note value by a percentage which matches the exchange rate obtaining in the black market, a process called fiscal devaluation. Fiscal devaluation enables policy makers to use the tax system in order to mimic a nominal devaluation of the exchange rate. This can be done by increasing taxation rates on imports of goods and services whilst at the same time reducing tax rates on exports. It is expected that fiscal devaluation will change the relative prices of domestic and foreign goods. However, for this process to be effective we suggest also the fiscal devaluation be accompanied by monetary restraint particularly on minimising seignorage of low denomination bond notes and coins. In addition, fiscal devaluation may need to be accompanied by domestic debt restructuring in order to attract more foreign aid and loans. Furthermore, after de-dollarization, the country should allow interest rates to be determined in the open and competitive markets for loanable funds in order to promote the efficient and effective allocation of domestic savings to different investment options and hence increase in the growth of the economy.

4.08 Making the central bank more independent
In most developing countries central banks are subjugated to central government and hence, the resultant loss in control by the central bank over monetary policy, inflation and over aggregate demand in the economy. The appetite to increase seignorage is more alluring particularly after abandoning of the dollarized regime. This may so in the context of Zimbabwe which have been experiencing cash shortages. Due to non-independence, central banks are forced to finance government deficits by increasing the monetary base and hence, allocative efficiency suffers and private investment are crowded-out. This is likely to contribute to even lower economic growth after dollarization.

5.0 CONCLUSIONS
In 2009 when Zimbabwe adopted a full multi-currency regime which was anchored on the United States dollar, the country managed to restore macro-economic stability through elimination of hyperinflation. Economic growth rose to about 13 percent amid increase in foreign direct investment inflows. However, a few years down, the gains of dollarization was reversed. The economy has been in sustained downward trend leading to firm closures and employee redundancies. Many economic agents are now questioning the logic of maintaining a

dollarized regime given the fact much of the dollar has since vanished from the formal sector. Indeed many people both in rural and urban areas who cannot access the dollar are beginning to clamour for the introduction of the domestic currency which can be printed in the event of increasing demand. The aim of the paper is therefore to proffer some recommendation on what strategies the country can adopt in order to exit the multicurrency regime and successful introduce its own currency. The paper recommends strategies such as growth exports revenue, restoring macro-economic stability, financial sector development as some of the strategies that must precede de-dollarization.

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