

## **Dollarization and the Zimbabwe's Economy**

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**Abstract:** This paper examines the economic impact of the inception of the full dollarization<sup>1</sup> in Zimbabwe's economy after the effects of hyperinflation and an unprecedented depreciation of an exchange rate between 2000 and 2008. Dollarization is a generic word implying the use of any foreign currency as legal tender instead of the domestic currency. An analytical qualitative approach was adopted for this study. The analysis of the benefits and costs of dollarization to Zimbabwe's economy revealed how dollarization has impacted on the stabilization of Zimbabwe's economy. This article also highlights the fact that Zimbabwe is not the only country in Africa that has had to resort to adopting foreign currency as legal tender in an effort to remedy macroeconomic imbalances. To our knowledge, there is scant literature on dollarization in Africa and this is the reason why we have chosen to examine the impact of dollarization on Zimbabwe's economy. In addition, we add to Kurt Schuler's work (2005) by indicating the other African countries that had adopted dollarization over the years. Furthermore, the study offers support to recent literature that asserts that economic stabilization in these countries resulted from the impact of dollarization. The results of the study revealed that dollarization positively impacts on the country's economy. In particular, this study is important to policymakers in that it sheds some insight into the importance of a strong currency and stable exchange rate for the stabilization of economies that experienced hyperinflation.

**Keywords:** *Exchange rate; dollarization; hyperinflation; legal tender; sterilization*

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### **1. Introduction**

Zimbabwe has a population of approximately 13 million people (ZimStat)<sup>2</sup>, 2012) with 80 per cent living in the rural areas. At independence in 1980, the gross national income (GNI) per capita was US\$ 1080 and by 2012 it had dropped to a GNI per capita of US\$ 460 (UNIDO, 2011) which is less than half of the GNI that prevailed in 1980/81. Furthermore, for the sake of national pride, the country adopted the Zimbabwe dollar (ZW\$) as an official currency, replacing the Rhodesian dollar at parity. The Zimbabwe dollar at its inception had an exchange rate that was one Zimbabwe dollar to 1.47 US\$. However, by July 2008 its value had dropped to ZW\$10 billion to 0.33 US\$, fuelled by the substantial increase in money supply of ZW\$20.5 trillion (RBZ, 2006, 2008; ZimStat, 2008), and this led to an upsurge in inflation. By the end of 2008 most of Zimbabwe's business community stopped accepting the Zimbabwe dollar (Biti, 2013; Daily Telegraph, 2008). The caveat to Zimbabwe hyperinflation that led to the adoption of dollarization started in the year 2000. Between 2000 and 2008, Zimbabwe's economy experienced macroeconomic imbalances that saw a monthly inflation of 79.6 billion per cent (see, Hanke & Kwok, 2009) - a drop in gross domestic product of 40%, unemployment rate of over 80%, external payment arrears of US\$3.07 billion and high budget deficit of ZW\$1760 quadrillion (Biti, 2013; CSO, 2005). Obviously, with a government that was dependent on tax revenues, a decline in output spelt severe difficulty in managing expenditures. Subsequently, the government turned to the Reserve Bank of Zimbabwe for financing of its expenditures. As a result, monetizing the budget deficit further exerted pressure on prices leading to incessant depreciation in the real and nominal exchange rate (CSO, 2008, 2012; Makuyana et al., 2011, Sikwila, 2011). The impact of an exchange rate pass-through effect on prices further stimulated the hyperinflation in the period 2000 - 2008 (Gust et al., 2010; Neiman, 2010; Gust et al., 2009). After experiencing episodes of hyperinflation (Hanke & Kwok, 2009) - depreciation of the Zimbabwean dollar, shortage of foreign currency, exchange rate parallel market, failure of the banking system to provide domestic currency to both firms and individuals (2000 - 2008), it became apparent that authorities had failed to bring about economic stability in Zimbabwe (Makuyana, et al., 2011; Hanke & Kwok, 2009). In addition to economic imbalances, Zimbabwe experienced social and political instability in the period

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<sup>1</sup> Hereafter: Dollarization

<sup>2</sup> Zimbabwe National Statistics Agency (ZimStat)

under study. The conflict between the ruling party the Zimbabwe African National Union Patriotic Front (ZANU-PF) and the Movement for Democratic Change (MDC), as well as other small parties created further instability in Zimbabwe's economy.

The political and economic crisis led to the establishment of a Global Political Agreement (GPA) on the 15<sup>th</sup> of September 2008. The purpose of the GPA was that, political parties had to work together to resolve the economic imbalances and political crisis that had affected the country. A Government of National Unity (GNU) was finally established on the 11<sup>th</sup> of February 2009<sup>3</sup>. After the formation of the GNU, there was a shift in monetary policy and the Reserve Bank of Zimbabwe adopted a multi-currency system with the USD being the official currency. This was an attempt to try and gain policy credibility and to lower inflation. The GPA included the drafting of a new constitution that was adopted through a national referendum on the 16<sup>th</sup> of March 2013. After the acceptance of the constitution by the public, a general election would then be held and lead to the dissolving of the GNU and the GPA as the newly elected government would take up office. The GPA and dollarization ushered in social, political and economic stability in Zimbabwe (Mutambara, 2009). It is against this background that we examine the Zimbabwe exchange rate policy shift to dollarization. The study contributes to the new set of data on dollarization in Africa. Further, the study confirms that countries experiencing hyperinflation benefit from an anchor in the form of a relatively stable currency and exchange rate, which provides confidence to domestic markets and foreign investors, and subsequently, stimulates economic growth. Finally, the study adds to the dearth in literature on dollarization in Africa.

The management of the exchange rate has been a problem for Zimbabwean authorities in the period (2000 – 2008). However, dollarization is viewed by Zimbabwean authorities as depriving the country of its sovereignty and they believe that it should be abandoned. The country is also deprived of its monetary policy interventions in the economy and monetization of the domestic deficit. The purpose of this paper is to highlight the issues that led to dollarization and its impact on the overall economy. The objectives are twofold: first, to explain the economic consequences of using foreign currency as legal tender in Zimbabwe. Second, to demonstrate that Zimbabwe is not the only country in Africa that has adopted foreign currency as legal tender. The research questions are as follows: What led to dollarization in Zimbabwe? What are the advantages (benefits) and disadvantages (costs) of dollarization? What are the other African countries that have dollarized in the past and/or still use foreign currency as their legal tender? The rationale of this study is that it adds to the limited literature on dollarization in Africa and other less developed countries. In addition, it sheds more light on the problem of hyperinflation and the difficulty it creates in the management of exchange rate (Noko, 2011). The study also benefits policymakers in countries that experience episodes of macroeconomic imbalance and need to resort to dollarization for a remedy. The paper is divided into five parts: Section One gives the introduction, problem statement, objectives, and research questions; Section Two deals with literature review; Section Three discusses the methodology and data; Section Four presents the discussion and Section Five gives the concluding remarks and recommendation.

## 2. Literature Review

Several studies have been undertaken on dollarization in Latin America and emerging countries (Schuler, 2005; Moreno-Villalaz, 2005; Berrios, 2006; Quispe-Agnoli & Whisler, 2006), but very little work has been done in African countries. Yet, many countries in Africa have used foreign currencies as legal tender as indicated in Table 2. Most studies on dollarization report that countries that have adopted dollarization have completely lost their sovereignty and the use of monetary policy, but have gained stability in exchange rate and prices (Minda, 2005, Schuler, 2005). A study of hyperinflation in Zimbabwe (Hanke & Kwok, 2009), indicates generated inflation data using purchasing power parity (PPP) and shows that Zimbabwe is second to Hungary's in terms of the highest hyperinflation on record in the world. The high level of inflation has had adverse effects on Zimbabwe's exchange rate (Gust, Leduc & Vigfusson, 2010). Hanke & Kwok (2009) concluded that dollarization tamed the hyperinflation that prevailed in Zimbabwe's economy in the period 2000-2008. As previously mentioned, a country that adopts another country's currency forgoes the use of monetary policy (Burdekin, 2008), and thereby seigniorage from printing local currency, which was the case with Zimbabwe. However, an adoption of an orthodox

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<sup>3</sup> The mandate for the government of national unity is defined in Article 3(1)(a) of GPA: "to give priority to the restoration of economic stability and growth in Zimbabwe".(Ministry of Finance, (Biti , 2013:11), National budget statement.

currency boards allows a country to earn seigniorage revenue from the foreign currency (Burdekin, 2008, Hanke, 2002). Burdekin, in a study of Cook Island's use of currency bonds, asserts that for small economies dollarization is a better alternative to currency boards due to the large costs involved in the adjustment from the currency boards to own currency (Burdekin, 2008). According to a study by Quispe-Agnoli & Whisler (2006), the use of an official dollarization improved the banking system in Ecuador and El Salvador. In the case of Zimbabwe the banking system experienced bank liquidity problems (RBZ, 2013), largely owing to poor cash inflows from exports, foreign direct investment, portfolio inflows and lack of credit lines (RBZ, 2013).

Another study similar to that by Burdekin (2008), with respect to a comparison of currency boards and dollarization, was presented by Selgin (2005). Selgin (2005) asserts that a country that goes through exchange rate instability could adopt either currency boards, in which the country maintained its currency, but exchanged it at a fixed exchange rate. Thus, it pegged its currency to a stronger foreign currency or adopted full dollarization, which was the case with Zimbabwe (RBZ, 2009). Selgin concluded that both dollarization and currency boards had the disadvantage of a transfer of wealth to the country whose currency was being used (Selgin, 2005). However, currency boards could also lead to the problem of devaluation of the domestic currency, while dollarization had an advantage of credibility. Furthermore, a country would earn seigniorage under currency boards, which is not the case with dollarization. Minda (2005) examined countries that adopted official dollarization, such as Panama (1904), Ecuador (2001), East Timor (2000) and El Salvador (2001) and concluded that the adoption of full dollarization was far from being a remedy for all economic crises. Minda (2005) asserts that the benefits from full dollarization were unclear as opposed to the forfeiture of monetary sovereignty and national pride (Minda, 2005: 313). Minda recommended a policy directed at economic regional financial integration supported by appropriate economic policies. Panama has dollarized for over 100 years and the use of US\$ created economic stability and confidence to would be investors (Moreno-Villalaz (2005). For small developing countries like Zimbabwe, dollarization was an ideal option that stabilized the economy, and integrated its financial system with that of the rest of the world (Moreno-Villalaz, 2005). The dollarization also prevented the hyperactive printing of money supply that the Reserve Bank of Zimbabwe had embarked on in the period that preceded dollarization (RBZ, 2006-2008; Raath, 2007; Linzmayer, 2012). Ecuador experienced problems of high inflation, increasing domestic and foreign debt and monetary imbalance in the period between 1998 and 2000 that led to the devaluation of the country's currency the *Sucre*, and thereby exerted instability on the exchange rate (Berrios, 2006). Therefore, the country resorted to full dollarization in an effort to stabilize its economy.<sup>4</sup> Like many other countries that have dollarized, this implies that the monetary authorities in Ecuador surrendered its money supply determination (Berrios, 2006). These developments in Ecuador support the assertion by Minda (2005) and Schuler (2005), that countries that dollarized passed through economic and social instability which was the case in Ecuador (Berrios, 2006).

Another monetary policy option besides dollarization used by the countries that faced macroeconomic imbalances and exchange rate instability was the currency boards (Hanke, 2002). Countries that took the currency boards route (for example, Estonia 1992, Bulgaria 1997, Bosnia & Herzegovina 1997, Lithuania 1994 and Argentina 1991 to stabilize their economies have not followed the orthodox currency boards principles, but implemented surrogate currency boards (Hanke, 2002), which in consequence, made it difficult to ascertain the impact of the orthodox currency boards policy. It was not clear why Zimbabwe's monetary authorities chose to adopt the multicurrency system anchored on the US\$ rather than the orthodox currency boards. A study by Melvin (1988) asserts that unofficial dollarization is a market monetary reform. The public and business community that lose confidence in the domestic currency substitute it for the relatively stable foreign currency, as store of value. Recent studies 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. For example, Argentina's monetary reform on June 1, 1983, had been preceded by a substantial growth in money supply of 85% per annum between 1979 and 1983. In addition, 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). In both countries, the reforms were demand-side monetary reforms, as opposed to the normal supply-side reforms, where government prints new money. 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

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<sup>4</sup> *ibid*

currencies as legal tender. They also supported studies by Berrios (2006); Hanke & Kwok (2009); Schuler (2005) and Minda (2005), that the need for price stability has persuaded, for example, Argentina, Estonia, Bulgaria, Hong Kong and Lithuania to adopt currency boards (Alesina & Barro, 2001). One of the costs of dollarization reported in recent studies was 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(s), yet, the client countries view dollarization as a loss in pride (Alesina & Barro, 2001).

**Types of exchange rates and Zimbabwe's exchange rate management:** Studies on exchange rate clearly explain the difference between fixed and pegged exchange rates. The fixed exchange rate was said to be firmly related to monetary base. An increase in foreign currency automatically increases the monetary base, while a decrease led to a decline in the monetary base. On the other hand, the pegged exchange rate was weakly linked to the monetary base. An increase in foreign exchange under pegged rate led to an increase/decrease or unchanged monetary base, depending on the monetary authorities' discretionary policy (Schuler, 2005). However, the bipolar exchange rate as presented by the fixed exchange rate and fully flexible exchange rate in the extreme of the spectrum involved no sterilization (Schuler, 2005). Sterilization implies that in the event of inbound foreign reserves build-up that could lead to an appreciation of domestic currency, the central bank neutralizes the changes in high powered money using open market operations, whereby domestic bonds are sold to maintain the monetary base at required levels in the economy (Schuler, 2005). In the fixed exchange rate, the monetary base adjusts whenever there is an increase/decrease in foreign reserves, while in the full flexible exchange rate; the exchange rate adjusts to affect the monetary base and the purchasing power. The Zimbabwe government employed and managed exchange rate with exchange controls in the period 2000-2008. The monetary authorities intervened actively in the market whenever disturbances occurred in the economy (Makuyana et al., 2011). Notwithstanding the active intervention, the authorities were unable to stabilize the exchange rate; the Zimbabwe dollar was substantially run down against all trade partners' currencies, leading to dollarization (Hanke & Kwok, 2009; Makuyana et al., 2011; Zimstat, 2009, 2012).

### 3. Methodology

The method used in this paper is an analytical qualitative approach. We compared economic outcomes before and after dollarization; it is abandonment of the Zimbabwe dollar as legal tender in favour of the foreign currency. We use the annual data for the period between 2008 and 2012, however, we note that no meaningful data was reported by Zimbabwean authorities during the crisis, particularly in the period 2005 to 2007 (Hanke & Kwok (2009), but after dollarization (2009) the data was readily available. All the data collected is in the United States dollar. The annual data for real sectors (Agriculture, Mining and quarrying, Manufacturing, electricity and water, construction, finance and insurance, real estate, hotel and restaurants, transport and communication) covering the period 2008-2012 was obtained from the Central Statistics Office (CSO, 2010); ZimStats, (2013) and Ministry of Finance (2010, 2013). The real growth rates for all sectors were computed for the period 2008 to 2012. In addition, data extracts from Kurt Schuler (2005, 121-123) were used, and we have added Angola and Zimbabwe as new countries that have dollarized in Africa and are not shown in Schuler's Table (2005).

### 4. Discussion

**The After-Effects of Dollarization:** The use of foreign currencies as an official medium of transaction was often embarked on during adverse episodes in economic, social and political environment (Minda, 2005; Edwards, 1995; Agnoli & Whisler, 2006). It is not unreasonable to assert that this was the case with Zimbabwe 2000-2008 (Richardson, 2005). In spite of a prior economic, social and political unrest, the dollarization managed to stabilize Zimbabwe's wider economy (Table 1). After the introduction of the United States dollar as an official currency in Zimbabwe (April 2009), the consumer price index was substantially brought down leading to an inflation rate that remained within single digits between 2010 and 2012: (3.1%, 3.5%, and 3.7%<sup>5</sup> respectively) (ZimStat, 2013). The downward movement of prices from monthly inflation of 433.40% in May 2008-to 2.5% by May 2010<sup>6</sup> clearly highlights the positive effect of dollarization of the Southern African country. In addition, dollarization meant that the threat of unprecedented devaluation and speculative attacks in Zimbabwe were minimal (Selgin, 2005: 141-144).

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<sup>5</sup> See, the budget of 2011 in the Herald, 26 November, 2010

<sup>6</sup> Central Statistics Office (2010) Zimbabwe Government, Budget 2011

An additional, benefit to the use of the US\$ was the reduced transaction cost incurred, whenever, the country carried out business transaction with the United States (Mundell, 1961).

Table 1 below shows annual statistics of sector growth rates before dollarization (2008) and after dollarization (2009-2012).As Table 1 illustrates, following the adoption of foreign currency as a medium of exchange, the real gross domestic product (RGDP) growth rate averaged about 8.1% per annum between 2009 and 2012. The year on year RGDP growth rates increased from a-14.8% in 2008 to 5.7% by 2009. The positive growth rate in RGDP continued in the following year 2010, which saw a RGDP growth rate of 8.1%. In addition, a positive growth rate of 9.3% and 9.4% was reported for the2011/2012periods. Moreover, these results support studies that have shown that high inflation is harmful to economic growth (Fisher, 1993b; Bruno & Easterly, 1998; Bogetic, 2000). We note from Table 1, that all other real sectors experienced positive average growth rates per annum in the period between 2009 and 2012. This was an advantage to Zimbabwe's economy, brought about by a change in the monetary policy. In addition, the country achieved economic, social and political stability. The consumer goods that were in short supply between 2000 –2008 periods were readily available following the introduction of the United States dollar. Turning to individual sectors, the manufacturing and mining and quarrying sectors contributed immensely in RGDP growth rates, among others. The manufacturing growth rates increased from -17.1% in 2008 to 10.2% by the end of 2009, and it recorded a positive figure of 6% in 2012. As can be seen from Table 1, the mining and quarrying sector growth rates increased from -33.4% in 2008 to8.5% by2009, and thereafter continued to record positive growth rates in the periods between 2010 and 2012.As previously mentioned, Zimbabwe is an agricultural based economy, with 80% of the population based in the rural areas as small holder farmers; and it was for these reasons, that the agricultural sector was important for food security.

However, by 2008 the sector had declined to a low of -13.3% and this adversely affected food security (Table1).Despite the poor climatic conditions such as the droughts often experienced in Zimbabwe, the agricultural sector registered an average real growth rate of 17% per annum between 2009 and 2012.In the period between 2009 and 2011 the sector recorded positive growth rates of 14.9% (2009); 13.9% (2010) and 7.4% (2011).By the end of 2012, the sector had recorded an impressive 11.6% (Table 1). The other sectors, at the same time, also continued to record positive growth rates, and by 2012 the growth rates were as follows: electricity& water 4%; construction 1.5%; finance & insurance 23%; real estate 1.5%; hotel & restaurants 13.7% and transport & communication 6% (Table 1). These positive growth rates in the real sectors could be attributed to the public acceptance of and business confidence in the use of the US\$, and expected stable exchange rate policy compared to that of the 2000 – 2008 period. Although it might be argued that following full dollarization, the country lost the control of its monetary policy (Berrios, 2006), the stable exchange rate, lack of monetization of the budget deficit (Fisher, 1982) and absence of black-markets, immensely compensates for the disadvantages of dollarization (Table 1).In fact, Bogetic (2000) examines the use of dollarization in panama and other countries in the Western Hemisphere, and reports that the cost of dollarization is minimal, particularly, with worldwide regional integration efforts. The growing trend in regional economic blocks relatively reduces the cost of national sovereignty (Bogetic, 2000).

**Table 1: Annual Real Gross Domestic Product (RGDP) by Sector Growth Rates**

<b>RGDP by Sector (%)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Average*</b>
RGDP	-14.8	5.7	8.1	9.3	9.4	8.1
Agriculture	-13.3	14.9	33.9	7.4	11.6	17
Mining & Quarrying	-33.4	8.5	47	25.8	15.9	24.3
Manufacturing	-17.1	10.2	2.7	3.5	6.0	5.6
Electricity & Water	-13.6	1.9	1.5	12.4	4.9	5.2
Construction	-8.5	2.1	1.5	1.0	1.5	1.5
Finance & Insurance	-27.9	4.5	0.5	24.0	23.0	13
Real Estate	-36.4	2.0	0.9	1.0	1.5	1.4
Hotels & Restaurants	2.8	6.5	0.5	10.3	13.7	7.8
Transport & Commu'n	5.4	2.2	0.1	5.5	6.0	3.5

Source: Central Statistics Office, National Budget Statement Ministry of Finance (2010, 2012)

\*Average growth rates between 2009 and 2012

In the case of Zimbabwe, it could be argued that a relatively strong stable currency and exchange rate was the anchor of economic growth and stability indicated in Table1. It was widely accepted in relevant

literature that the disadvantages (costs) of dollarization included the giving up of the monetary policy and, lost seigniorage by the country resulting from using foreign currencies as legal tender (Selgin, 2005: 144-145). The Zimbabwe government obtained substantial revenues from seigniorage before dollarization. However, on *De jure* dollarization the Reserve Bank of Zimbabwe forfeited its role as lender of last resort, and thereby the ability to print money. The country depended on foreign countries for notes and coins, thereby creating constraints for the public, and firms (Selgin, 2005: 144; Hanke, 2002). The lack of small foreign currency denomination led to the use of coins from Botswana, South Africa, and United States as equivalent in order to conduct transactions by members of the public and firms, and this tacit arrangement further created uncertainties with respect to parity. At political level dollarization implied giving up sovereignty and pride which is the basis of national identity and culture in that the ZW\$ contained momentous national symbols (Mundell, 1961).

**Dollarization in Africa:** Table 2 below indicates 25 African countries that have dollarized in the past and the present. In the Southern African Development Community (SADC) countries, these include Angola, Botswana, Lesotho, Namibia, Swaziland, Seychelles and Zimbabwe. As previously mentioned, in most cases countries that have adopted foreign exchange as an official legal tender had a background of economic, social and political disturbances that led to instability and poor economic growth. Some countries used foreign currencies due to colonization or adopted the currency from their former colonizers. An extract and improvement of Kurt Schuler's table (2005: 121-123) in which countries that adopted dollarization in the past are shown in Table 2. Schuler's Table indicates non-African and African countries that have dollarized (Schuler, 2005). In Table 2 below, we extracted African countries from Kurt Schuler's Table (2005:121-123) and added new comers like Zimbabwe and Angola that are currently using the United States dollar. Although dollarization creates a better cushion, and contains external economic shocks (Moreno-Villalaz, 2005), the costs involved are likely to force governments to be cautious on spending and employ prudent fiscal policies.

**Table 2: Selected 25 African Countries That Adopted Dollarization**

Country	Year	Country	Year
Angola	Present	Namibia	1906-1914; 1962-1993
Botswana	1950-1976	Nigeria	1891-1913
Cameron	1910-1916	Seychelles	1903-1919
Egypt	1856-1898	Sierra Leone	1898-1913
Eritrea	1900-1952; 1962-1993	Somalia	1920-1950
Gambia	1902-1913	Swaziland	1921-1974
Ghana	1896-1913	Tanzania	1893-1907; 1916-1920
Kenya	1896-1898	Togo	1904-1914
Lesotho	1921-1980	Tunisia	1973-1904
Liberia	1880s-1985	Uganda	1906-1920
Libya	1912-1943	Western Sahara	1930-Present
Madagascar	1886-1926	Zimbabwe	2009-Present
Morocco	1800s-1969	-	-

Source: Extract from Kurt Schuler (2005: 121-123), and new countries added by researcher

During the periods of high inflation such as that in Zimbabwe (2000-2008), governments benefited from central banks in that the budget deficit was monetized through the printing of money (Moreno-Villalaz, 2005). Finally, although the exchange rate was not the only factor that led to hyperinflation and a decline in output, it certainly immensely contributed in destabilizing the economic activity in Zimbabwe. The challenge faced by Zimbabwe and other Sub-Saharan African countries is the need to implement prudential exchange rate policies in order to avoid the costs brought about by dollarization. This challenge provides a great area for further research on exchange rate and dollarization.

## 5. Conclusion

This study examined the impact of dollarization on Zimbabwe's economy. The country went through an economic crisis in the period 2000 - 2008. The macroeconomic imbalance and decline in output experienced by Zimbabwe's economy was so severe that monthly inflation soared to 79.6 billion per cent by the end of 2008. To deal with hyperinflation, the Zimbabwe government introduced the multicurrency system in February 2009 with the U.S. dollar being the official currency instead of ZW\$. The benefits thereafter were significant; all sectors in the economy experienced an improvement with real gross

domestic product increasing from a negative 14.8% in 2008 to a positive 5.7% by the end of 2009. Stability in price level was achieved and inflation dropped to single digits. The study offers support to recent findings by Noko (2011), Hanke and Kwok, (2009), and Berrios, (2006) that asserts that dollarization leads to macroeconomic stability. Zimbabwe's adoption of dollarization followed other African countries that used foreign currency as a medium of exchange. The result of the study indicates that a stable and predictable exchange rate policy and appropriate management of monetary policy leads to macroeconomic stability and economic growth. The lesson we learnt in the case of Zimbabwe's economic crisis was that a stable exchange rate and currency benefits countries that experienced hyperinflation. For Zimbabwe to maintain a buoyant economic growth in the short to medium term, we recommend that the dollarization policy should not be abandoned before it achieves the objectives for which it was adopted. Should the country, however, opt for de-dollarization; this would open up an area for further research.

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