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A Reflection on Sustainability of Dollarization in Zimbabwe

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Abstract

It is widely acknowledged that hyperinflation in Zimbabwe led to the abandonment of the local currency and the subsequent adoption of the multicurrency regime. Although literature has articulated on the benefits and disadvantages of dollarization in Zimbabwe, this paper rather tends to focus on the sustainability of dollarization. This is motivated by the notion that in the midst of evolving signs of the limitations of dollarization, research has tended to prescribe alternatives to dollarization seemingly discounting that its implementation came with huge costs which cannot be easily overlooked. For this reason, this paper advocates that policymakers need to explicitly embrace dollarization and avoid abrupt abandonment of the monetary regime as previously done with the Zimbabwean dollar. Therefore the purpose of this paper is to provide an insight into the factors that need to be considered for the sustainability of dollarization since its adoption was aimed at economic recovery and stabilization. The method employed here entails the use of an evaluative research approach and the findings show that there are some factors that enable sustainability of dollarization that are not out of reach but rather require a comprehensive systematic framework of macroeconomic reform adjusted for a dollarized economy.

INTRODUCTION

It is highly acknowledged that the chief cause of the radical changes in Zimbabwe's monetary policy was a response to aggravated price instability. The country faced a decade of severe economic meltdown and had hyperinflation of over 231 million percent by July 2008. (CSO, 2008). According to rankings of the world's hyperinflation (Bernhole, 2003), Zimbabwe would come after Serbia which had 390 million percent, showing the severity of the country's crisis. This led to the abandonment of the local currency in March 2009 and the adoption of the multiple currency regime as a way of stabilizing the economy, improving business confidence and promoting economic growth. Whilst it is generally conceived that dollarization is an intervention aimed at supporting economies with poor economic policies, it may be asserted that the appreciation of the consequences of this suggested reality is somewhat lacking. Despite the abundance of theoretical and empirical evidence on advantages and disadvantages of dollarization, it may be suggested that the dollarization issue in Zimbabwe has not been meticulously tended to from a practical approach.

This paper acknowledges that although the issues of dollarization cannot be generalized, theoretical prescriptions and lessons from the experiences of other countries still remain indispensable. There is vast literature dwelling on dollarization and with particular reference to Zimbabwe some of the studies include: Hanke (2008), Kairiza (2009) ,Makochekanwa (2009), Chagonda (2010), Kramarenko et al (2010), Coomer and Gstraunthaler (2011), Noko

(2011) Makoto (2012), Mutengezanwa et al (2012), Pindiriri (2012), Richardson (2013), Sikwila (2013), Bonga and Dhoro (2014) and Bonga et al (2014). Some of the concepts arising from these studies converge at establishing the pros and cons of dollarization in Zimbabwe, the impact it has had on the economy thus far and others are more concerned with what is appropriate after dollarization. Makoto (2012) suggests the introduction of bond coins into circulation (this was implemented in December 2014 and March 2015) and Bonga et al (2014) provide an enquiry into the effects of such action. Nonetheless, their findings barely suffice to the provision of a resolution whether or not to pursue de-dollarization any further. Essentially, even after integrating some of the ideas from these independent works there lay a challenge in forming a systematic view towards a pragmatic approach to sustainable dollarization. This is based on the notion that the difficulty of reversing this process magnifies the need to consider dollarization in a much larger sphere than usual evaluations of isolated aspects of the economy. (Berg and Borensztein, 2000)

It is crucial to understand that the decision to move to dollarization is not only a monumental historical event but rather a difficult one as it requires resources, time, and even threatens government legitimacy. Sikwila (2013, pp 403) provides a list of 25 African countries with past and present experience of dollarization, however, there is insufficient empirical evidence of sustainability to learn from and thus making the dollarization experiment even more difficult. Furthermore, it would be preposterous to presume that monetary and fiscal authorities are assertively cognizant of what lies ahead and hence both policy makers and the society should be adequately knowledgeable about some of the ways in which sustainable dollarization may be achieved. However, this paper discerns the inadequacy of propagation of what should work to enable the sustainability of dollarization. By June 2010, Cabinet had tasked the Minister of Finance to develop a paper on the course a currency regime for Zimbabwe’s future. Notably, no conclusive emphatic conviction has been made to this call and considering the time that has lapsed, it may not be prejudicial to assert the existence of inadequacies of the possible alternatives. In other instances, sentiments from fiscal and monetary authorities reemphasize unwillingness to move from status quo and hence, this paper affirms the possibility of an “intellectual gap” between theory and actual practice of policies that government has instituted in a bid to sustain economic recovery. To this end, whilst it has been largely contended that the recent economic slowdown is a product of poor policies alone, emphasis should also consider the possibility of sucretization - early warning signs of the limitations of dollarization. Despite these setbacks, this paper concurs with Sikwila (2013) that Zimbabwe should not abandon the current regime without having fulfilled the motives that led to its adoption.

Although, the country showed some slight economic recovery at the onset of dollarization, literature foundations suggest the basis for sustainability of dollarization relates to the establishment and sustenance of significant changes in the functioning of an economy. It is expected that in the short-run dollarized economies experience some growth and improved price stability. However, the medium and long term would require the growth of productive activities to be channeled to the foreign sector because the domestic sector would still be facing the effects of depression from previous economic instability. Furthermore, speculative activities are discouraged with calls being made to advance towards productivity and efficiency to be able to be competitive in the foreign market. Nevertheless, Zimbabwe is currently compounded with a wide range of problems which have seriously threatened fiscal sustainability and overall economic performance. Some of the challenges include: business closure, relatively lower wages, unemployment, low foreign investment and liquidity shortages. These may be the result of the inadequacies in the management of the initial boom experienced just after the inception of dollarization.

It is important to note that prior to dollarization, Zimbabwe barely prepared for it by means of assembling the required base upon which the regime could be incorporated into the economy. Whilst it may be viewed as unrealistic to plan such a process in the midst of severe economic meltdown, some of the expected outcomes from bypassing the process are evident. In this regard, the major contribution setting this work apart from many others is that it acknowledges the no-existence of the best currency regime but rather emphasizes that the relevant resolution is to embrace the multicurrency regime as the most appropriate at this given time, given the constraints faced by the country.

Roubini (2001), Rojas-Suarez (2003) and Lupupa (2003) provide some theoretical and empirical foundation on issues pertinent to the examination of sustainability. Although some of the ground work is set from previous literature on Zimbabwe, this paper closely follows the approach in Rojas-Suarez (2003) guiding principles for a sustainable regime, Roubini (2001) and Lupupa (2003) to identify some of the factors constraining the sustainability of dollarization in Zimbabwe and to suggest possible directions for policy reform aimed at reducing or eliminating the limitations of dollarization. This is critical to avoid abrupt and unruly desertion of the multicurrency regime. As such this paper serves as a primary guide to policy makers and practitioners on sustaining dollarization. However, the modalities to the formulation of a systematic and comprehensive reform package are left for further research.

This paper is split into five sections: Section One presents the introduction; Section Two focuses on the characterization of sustainability of dollarization; Section Three discusses the methodology; Section Four focuses on the identification of some key macroeconomic indicators and key structural reforms that may be required for the sustainability of dollarization in Zimbabwe and Section Five provides the conclusion. .

2. CHARACTERIZATION OF SUSTAINABILITY OF DOLLARIZATION

This section dwells on describing some of the key institutional and operational issues pertaining to sustainability of dollarization. The issue under consideration is the assurance of dollarization to receive ample support from the public even after several years from its inception. This is expected if inflation declines, growth and employment increase reasonably, interest rates decline, wide availability of credit and longer term and the vitality of export activities. However, this necessitates the need for supplementary policies to guarantee success and the full exploitation of the virtuous reform circle. (Hausmann and Powell, 1999)

According to Berg and Borensztein (2000) the absence of historical experiences to draw lessons from poses greater difficulty in dealing with this issue. Moreover, the circumstances in which dollarized countries find themselves in are contextualized that what may work in one country may have adverse effects on another. For instance Panama has had some success with dollarization and has very close political, historical and economic ties with the United States; however this may not be apparent for any other dollarized country. Mazzaferro (2002) suggested that sustained cases of dollarization/euroisation highlight three essential characteristics which include; real integration through development of tourism, financial integration through offshore finances and large fiscal transfers from anchor countries. However, it is commended that caution should be exercised with regards to viewing the features as desirable for sustainable dollarization .In a study on Turkey, Metin-Ozcan and Us (2007) observe that the economy signaled dedollarization in 2001 with unfavourable macroeconomic conditions being evident and whilst the economy contained its inertia. However, by 2006 dedollarization had become defunct. Leaval et al (2003) investigated the impact of dollarization on the tourism industry in Ecuador and suggests that it did not follow through the predictions of theory and such concluded that it was better to get rid of it before it destroyed the economy. It is asserted that there were inadequacies fiscal sustainability, well-functioning labour markets, appropriate legislation, and the enforcement of laws. Therefore, dollarization in Ecuador could lead to a financial crisis similar to that of Argentina and would have to create a new currency and financial system. According to Leavall et al (2003) Ecuador was ill-suited for dollarization. These cases highlight the complexity of identifying factors that may be of practical significance in actually sustaining dollarization in different countries.

Winkler (2005) suggests that the bipolar view of sustainable exchange rate regimes and optimal theory of currency area allude to credibility of monetary commitment as being fundamental to sustain dollarization. Furthermore, it is suggested that there is need for an independent monetary policy as an adjustment mechanism in the emergence of systematic socks. However, Calvo and Reinhart (2001) criticizes the standard theory of optimal currency by asserting that in the light of recent global financial crises some other factors become more pertinent, for instance, the existence of partial dollarization, imperfect credibility and weak financial systems. In this regard, for small economies dollarization would be very attractive even in the face of loss of control of monetary policy. Moreover, the challenge of Lender of last resort would not necessarily be a major drawback as long as there could be access to foreign funds. According to Trejos (2003) the global trend towards openness makes it undesirable and unfeasible for small economies to maintain a central bank with currency independence. It is expected that as countries move into international trade, substantial volumes of money should start flowing. Schuler and Stein (2000) suggest that financial integration would then become critical. These differences are largely attributed to the dynamics of the global economy and hence theory predictions may require constant re-evaluation. However, it is vital to note that country experiences differ. Calvo (2002) highlights that although both Ecuador and El Salvador decided to dollarize, their motivations were different. In the former, there was economic and banking crisis although the conditions were fairly stable in the latter. After dollarization, Ecuador experienced exchange rate misalignment, deflation and problems concerning price risk of assets and liabilities in the financial sector. It is suggested that public sector and fiscal policy reforms could address these problems. Comparatively, both Ecuador and El Salvador saw improvements in banking sector performance and competitiveness although the magnitudes differed because enhanced competitiveness in El Salvador which had adhered to international accounting standards. Bradbury and Vernengo (2008) suggest that in Ecuador, the source of external funds was reliance on remittances however quizzed its influence on the potential of sustainable the sustenance of the economy. The situation was quite different from Argentina who had substantial international capital flows. Nonetheless, Quispe-Agnoli and Whisler (2003) suggest that the time frame was too little to make an assessment of sustainability of dollarization in these economies.

Starr (2001) focused on the political and economic variables believed to influence the variability of sustaining dollarization. The contribution of the work was premised on departing from the convention of pursuing a theoretical approach and focus on practical issues which would reflect on policy relevancy. Some of the suggested political factors include the presence of cushioning institutions where it is reiterated that society must be willing and able to contain the costs of adjustments. On the other hand, it is suggested that the degree of conflict in the society is crucial in order to minimize divisions and competing interest that poses threats to sustainability of dollarization. Finally, Starr (2001) alludes to the essence of government capacity as reflected by governments’ ability to induce society to absorb costs of adjustment and willingness of society losers to absorb the costs of adjustment as well. It is suggested that government capacity may thrive better in the face of strong political parties and well-functioning democracy. According to Nelms (2012), long-term sustainability of dollarization may also be threatened by extensive public investment and expansionary fiscal policy funded from loans from other countries.

Gruben et al (2003) asserts that prior to implementing dollarization certain requirements need to be satisfied to ensure long-term sustainability of the monetary regime. Similarly, Eichengreen (2002) identifies some pre-conditions for dollarization and suggests that debate surrounding the issue was centered on two views. In the first, it is affirmed that dollarization should take place upon the completion of complementary reforms and the other view asserts that dollarization would yield the necessary changes required for smooth operation of the new currency regime. In view of the first notion some of the basics involved labour market reform, fiscal reform, and financial sector reform. According to Jácome and Lönnberg (2010), trade reform is also essential. Gruben et al (2003) also alludes to the importance of a referendum in which the majority must agree to the implementation of dollarization. Although it may appear as a waste of time, bypassing it may lead to opposition by competing society interests citing the flows of dollarization as inadequacy of democracy and possibly threatening government. Based on the results of Mutengezanwa et al (2012) indications are that many people consider the multicurrency regime better than any option and hence abrupt changes to this situation may prompt lack of cooperation. Notably, Mutengezanwa et al (2012) show that from their sample 78% were against the return of the Zimbabwean dollar and hence conclude that the country is not ready. To this end, it reinforces the notions by Gruben et al (2003) and hence, this study affirms that this highlights the need to fully embrace dollarization and find ways of making it sustainable. According to Kairiza (2009) dedollarization should be an endogenous outcome of a policy of macroeconomic stabilization which this paper posits as being possible only if the multicurrency regime is sustained to bring about that condition. This is contradictory to those who have advocated for dedollarization (Makoto, 2012) in the country’s present environmental state. Kairiza (2009) concludes that dedollarization would only succeed in the face of market reforms.

According to Roubini (2001) there are pre-conditions to be satisfied if a country is to achieve success of dollarization. Although the guide was desirable for countries considering the implementation of dollarization, this paper posits that some of the underlying concepts of success remain predominantly the same even. Lupupa (2003) examined long-term sustainability of dollarization as a policy decision and uses the pre-conditions of dollarization to shed light on examining sustainability. The paper focused on Ecuador and Bolivia who used different strategies to exchange rate and inflation management.

3. METHODOLOGY

This paper is largely influenced by the method laid out by Hofstee (2006; pp 126) and therefore employs an analytical qualitative approach which involve aspects of evaluative research. Reference is made to the different criterion used to assess sustainability of dollarization and data from monthly and annual publications from IMF, RBZ, World Bank, Zimstat and Ministry of Finance. Although a quantitative analysis could have been carried out, the time frame since the inception of the multicurrency regime to limited to provide data suitable for such an assessment. However, the method employed here seeks to reach a conclusion by reviewing the factors that need to be considered for the sustainability of dollarization in Zimbabwe. The evaluative approach taken here is adopted from a study done by Roubini (2001) and Lupupa (2003) as they provide a comprehensive identification of some factors upon which the analysis of this study is based on. The appraisal is combined with theoretical explanations describing why the selected factors should be of prime importance to Zimbabwe.

4. MACROECONOMIC INDICATORS AND IMPLICATIONS FOR STRUCTURAL REFORM

This section is devoted to the analysis of the performance of some macroeconomic indicators and subsequent structural reforms to be made where necessary.

4.1 Policy credibility and inflation experience

Policy credibility may be defined as the belief that responsible authorizes are able to execute policies in ways that will ultimately lead to the achievement of expected goals. The wavering of this belief is the advent of loss of policy credibility and can be measured some factors like: history inflation, exchange rate instability and the country's fiscal record. Lupupa (2003) suggests that dollarization itself represents the ability of a country to assume the credibility of monetary policy of countries with stable currencies and eliminates currency risk thereby reducing speculative activities. Fig. 1 shows that Zimbabwe has a strong history of monetary instability as indicated by the inflation rate of over 231 million percent by July 2008. On the basis of using inflation history as a criterion to assess policy credibility, there is solemn need for commitment to strict monetary rules to enable long–term policy credibility. Recent figures since the inception of dollarization show controlled inflation however, it is suggested that the country is operating in a near deflation environment as indicated in the country's national budget statement for 2015. Figure 2 shows the inflation profile for the period 2013-2014 (Ministry of Finance, 2015) and indicates a slowdown in inflation and subsequently the figures for April 2015, month-on-month inflation was at -0.89% and year-on-year inflation was at -2.65%. (ZimStat, 2015). Amid lack of consensus on what this means, others argue that there is disinflation, others assert it to be deflation and some have dismissed any potential threat by citing it as an indication of price correction. Chief among them are the responsible monetary authorities as alluded to by RBZ (2015). Nonetheless, according to literature on price stability, inflation is asserted to be better than deflation and thus if there exists a threat in reality, the sustainability of dollarization is largely at risk. This may thus require urgent inquiry to the existence of the risk of deflation in Zimbabwe. Experiences of deflation cases are significant in countries like Japan and global concerns have risen in the Eurozone but there is a very little background to work with if the case is assumed for dollarized countries. It is widely accepted that a healthy benchmark for inflation should be 2%. It implies that in order to regain credibility, monetary authorities should work against deflation although the common trend has been inflation control. Evidently, Zimbabwe has no experience with successfully dealing with deflation because there is no record of it in the greater part of the country's macroeconomic turbulence. This is likely to further constrain the success of dollarization if the threat of deflation becomes apparent in the near or far future.

4.2 Reserve coverage of monetary base and capacity to run lender of last resort functions

Calvo (1999) argues against critics of dollarization that the function of lender of last resort is not only linked to the ability to print money. As long as there are alternatives to providing bank liquidity then it is possible to sustain dollarization. The view that is largely opposed by Calvo (1999) is quite evident in Zimbabwe as some have called for the return of the local currency based on the notion that the Reserve Bank of Zimbabwe is being limited.

According to Roubini (2001) it is essential that the foreign exchange reserves of a dollarized country should at least cover the monetary base or the currency in circulation unless there is provision to borrow the necessary reserves from private creditors. An extension to this would be to further require coverage of the central banks liabilities. However, rising foreign currency liabilities of the central bank may undermine the credibility of the dollarization. On the other hand, this criterion may be used to assess whether a central bank has the ability to provide the functions of lender of last resort. Alternative ways to achieve this function include: borrowing from the private sector or international financial institutions, alterations in the reserve requirement ratios may provide further liquidity to a banking system and seigniorage revenue-sharing arrangements.

By January 2008, the foreign assets were about 0.1% of monetary base (Hanke, 2008) and according to the World Bank Global Economic indicator (2015) show that the average foreign exchange reserves for the period March 2014 to February 2015 is about 484.41 and the net change is -0.39%.. In 2009, net foreign assets amounted to -$845 million and -$680 million in 2010. Projections from IMF (2012) show that net foreign assets were -$485 million in 2013 and -$401 million in 2014 and as such figures to 2017 indicate an increase in net foreign assets to -$151.

Nonetheless, monetary base figures for 2009 and 2010 were $125 million and $256 million respectively. In 2013, monetary base rose to $468 million, $553 million in 2014 and $802 million by 2017. According to Besada (2011) the amount of reserves after dollarization has been inadequate in terms of covering the country's monetary base and this trend still persists as explained by periodic reviews by the central bank. This largely compromises the ability to execute the function of lender of last resort.

According to Roubini (2001) solvency is critical for any central bank operating in a dollarized economy and becomes more essential if seigniorage is not shared with the anchor country. It is therefore suggested that the central bank solvency problem may be abated by making implicit seigniorage from non-remunerated reserve requirements of the banking system, explicit seigniorage revenue sharing with the anchor country used to recapitalize the central bank and any other or possible ways of recapitalization. This highlights the importance of the creation of a strong financial sector with a significant foreign bank presence as receiving countries can take advantage on the lender of last resort, liquidity access, supervision and regulation that its foreign banks receive from home bank authorities and head offices. However, it still remains essential to have the central bank operating if its functions are not offered by the central bank of the anchor country. (Roubini, 2001). Likewise, there is need for sound, competitive, well-supervised and well-regulated banking system to avoid fiscal costs and economic angst. In Zimbabwe government cannot afford to bear the fiscal costs to bail out the banking sector given the already limited lender of last resort resources.

4.3 State of public finances

The smaller is the budget deficit and the stock of public debt, the smaller is the risk that dollarization might fail. In fact, unsustainable fiscal conditions may eventually tempt policy makers to reverse dollarization and return to a domestic currency enabling printing presses so as to regain access to the inflation tax. Severe fiscal problems may also undermine the confidence of the public in the fiscal authorities and lead to a foreign debt-related financial crisis. Zhou (2012) acknowledges that debt distress is apparent in Zimbabwe and Mupunga and Le Roux (2014) suggest that issuing debt and increases its vulnerability of the country to further risk of debt distress. In such a critical time when sustainability of dollarization is at stake, there is need to review the chief causes of this persistent behaviour if serious reform is to be undertaken.

4.4 External debt and financing requirements

According to Lupupa (2003), countries with large external debts and structural weaknesses in tax systems limit the scope of fiscal policy in dollarized economy. Notwithstanding the reduced usefulness of monetary policy, fiscal policy remains as major tool at the country's disposal. According to Roubini (2001), the stock of the external debt of a dollarizing country and its external debt servicing requirements will affect the success of dollarization. This factor becomes crucial amid the possibility of the emergence of financial crises associated with excessive external debt. However, if a country pragmatically pursues disciplined fiscal policies this may aid in reducing the severity of adverse effects that may undermine the success of dollarization. Nonetheless, as long as external debt accumulation is excessive and public debt poorly managed the prospect of financial crises looming is high. The issue of debt management is very crucial because of its limitations on access to development funds from international financial institutions. Chikova (2013) reflects on the debt management problem in Zimbabwe and attempts to shed light on why the country is failing to sustain its external debt stock despite having a constitutional framework to address the problem. In 2009, external debt was 118% of GDP and approximately US $10 billion by 2013 and considered highly unsustainable. (Ministry of Finance, 2013). On the other hand, Saungweme and Mufandaedza (2013) assert that the serious debt overhang in Zimbabwe emanates from the growth of external debt stock and lack of debt servicing. Government adopted the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS) in April 2011 and aimed at working on the removal of sanctions and clearance arrears, new financing and full debt relief; and securitization in pursuit of debt relief and development. Nonetheless, these efforts barely sufficed to reducing the country's debt. According to IMF (2013), by the end of 2012, external debt overhang was 88 % and attributed to subdued economic growth and placed limitations on acquisition of finance. Although government formulated a comprehensive macroeconomic reform agenda, the average of the external debt to GDP ratio computed from statistics in RBZ (2015) for the period 2009 to 2014 remained relatively high at 69.23%. Taking cognisance of these factors, it is evident that Zimbabwe's external debt and financing pose a huge challenge to the sustainability of the dollarization. Possible reforms would have to be well informed on why the country continues to suffer this predicament despite the substantial work and effort that has been directed to debt management. Only then can reform resolutions be formulated in accordance with the constraints faced.

4.5 Ability to effectively pursue counter-cyclical monetary policy

It is essential to determine whether monetary policy may be able provide counter-cyclical output stabilization in order to evaluate the possibility of dollarization undermining the ability to even output fluctuations. The determination of counter-cyclical monetary policy depends on factors like policy credibility and the extent of indexation of wages. From the discussion of policy credibility, the resolution lies in cross evaluation of monetary policy and fiscal policy to institute measures undermining price stability. Nevertheless, as alluded to by Lupupa (2003), the absence of an exchange rate policy leaves employment and output as potential stabilizers from external shocks. It raises concerns over the creation or extension of the ability of monetary policy to be able to influence output fluctuations as they in turn affect the ability to absorb external shock. This situation presents an ultimate paradox. In one hand, theory predicts that it is good for countries like Zimbabwe to be under dollarization due to lack of credibility of monetary policy. On the other hand, theory suggests that the need to pursue counter-cyclical monetary policy. In this regard, this paper advocates for a systematic framework that incorporates economy wide aspects of the benefits and limitations of dollarization in order to craft policy reform to balance the trade-offs.

4.6 Correlation with the US business cycle and Trade integration

Correlation depends on the magnitude of trade integration and similarities in production structures. According to RBZ (2009), the US dollar is predominantly used for transactions by both government and the private sector. However, Mundell (1961) prescribes that a precondition for dollarization is the existence of close trade links with an anchor country if the situation is to be sustainable in the long-run. Table 2 shows the distribution of Zimbabwe’s averages of exports and imports during 2000 to 2008. According to ZimStat (2015), exports to the US from Zimbabwe were at $9, 46million in 2009 and rose to $29, 16 million in 2010 and began to fall in 2011 to $16, 26 million by 2012. For the same period, in 2009, imports were $274, 98 million and rose to $744, 47 million in 2010 and declined in 2011 to $558, 08 million by 2012. Nonetheless, trade with the US is classified as being far from that of a major trading partner. During the period 2000-2008, average imports and exports between Zimbabwe and the US were 3% and 4% respectively. After the adoption of the multicurrency regime, Zimbabwe predominantly uses the US dollar for both public and private sector transactions although the South African Rand is termed the reference currency. Nonetheless, exports to the US constitute about 4, 5% of trade. South Africa was Zimbabwe’s major trading partner whilst trade with the US was below 5% for both components. After the inception of the multicurrency regime, South Africa still remains Zimbabwe’s major trading partner however, there is no evidence of significant improved trade integration with the US. The level of significance prescribed here is defined by levels of trade that would relate to theory predictions. Mundell (1961) and McKinnon (1963) assert that high integration of commodity trade tends to lead to natural correlations in the fluctuations of private sector activities and hence there would be no need for monetary policy independence. However, Zimbabwe’s business cycle is far from that of the US and Berg et al (2003) suggests that in the face of differences in the level of development, high integration is insufficient to bring the benefits to trade as postulated by theory. In principle it means that, the benefits of assuming the monetary policy of the US would be more apparent only if business cycles are correlated. And to get there, it requires that production structures should be relatively similar to the US and hence reform affecting production or private sector activities should seek to emulate this. McKinnon (1963) quizzes whether there would be need to try to make monetary policy effective in the face of asymmetric shocks and unsynchronized business cycles and hence suggests evaluating the effectiveness of other adjustment mechanisms and the level of economic integration. According to McKinnon (1963) and Mundell (1961), these instruments may include: wage flexibility, mobility of factors of production, fiscal and political integration with the anchor country, production diversity and openness to trade financial integration. Roubini (2003) suggests that the vulnerability to terms of trade is apparent if a country is small and a price taker in the foreign market for its export and import goods and as such the gains from dollarization are significant. However, although terms of trade shocks are suggested to be correlated to fiscal revenues this kind of fiscal adjustment vanished the moment Zimbabwe dollarized.

4.7 Non-sticky wages, degree of labour migration and flexibility of labour markets

Mundell (1961) alludes to the necessity making adjustments in areas where monetary policy and exchange rate policies are restricted by dollarization. Reference is made to the use of non-sticky wages, control of labour migration and flexibility of labour markets as possible adjustment instruments to influence output and employment. According to Lupupa (2003), dollarized economies can correct imbalances from external shocks not by using exchange rates or monetary policy but through adjustments in employment and output. As such nominal sticky wages, high labour migration and labour immobility would cause reductions in employment and output. Although it may be presumed as a loss in welfare, the suggestion to reduce wages in instances of fiscal stress emphasize the notions postulated before that, sometimes for dollarization to work, society must be willing and able to bear the costs of necessary adjustments because in as much as pros exist ,so do cons. These suggested areas to be considered in place of monetary and exchange rate policies pave way to possible areas of reform that may be undertaken in view of their possible effect on the economy as a systematic system.

4.8 Political factors

Sustained dollarization needs substantial public support and it is generally conceived that there is reduced risk of political influences in a dollarized economy. According to Mutengezanwa (2012) there is acknowledgement that dollarization came with significant improvements in the economy of Zimbabwe. The findings of the paper showed that 78 % of the interviewees were not ready for the introduction of Zimbabwean dollar. This provides some rough popularity or preference of dollarization over the use of the local currency and thus illuminating the importance of public acceptance. In the same vein, the Zimbabwean dollar is associated with economic turmoil whilst dollarization is perceived to be the liberator of such economic difficulties. In this regard, failing to sustain the dollarization experiment may lead to abrupt abandonment of the multi-currency regime in the same manner in which the sovereign local currency was abandoned. However, such decisions have political, social and economic consequences. For instance, from a political view, this may be regarded as rewarding opposition with ammunition that may be grossly taken advantage of in swaying public perception and hence public support. This heightens the need to sustain dollarization as it is also pertinent to long term political sustainability.

5. Conclusion

Zimbabwe adopted the multicurrency regime following severe economic hardships imposed by a hyperinflationary environment. As predicted by theory, the country experienced an initial boom in economic activity, however the inadequacies in the current environment threatens the sustainability of dollarization. Notably, the country abruptly dollarized without satisfying the basic conditions as prescribed by literature and this paper asserts that what has commonly been criticised as poor economic policy may at large be sucretization. This implies that although economic activity may be sound, the environment of dollarization may abate the usefulness of the policies. This paper highlights that they is need to embrace dollarization and make it work rather than opt out when difficulties are faced. This may have dire economic, political and social problems. The availability of options to sustain the dollarization experiment provides hope for policy making to focus on making the situation work rather than constantly seeking alterations in the advent of facing limitation. The paper recommends the adoption of an economy wide framework which views dollarization as the new environment in which various economic facets work in and as such, isolated analysis of policies within such an environment may tend to be rancorous than a systematic view. Nonetheless, further research may probe into the redesign or evaluation of current policies regarding their suitability towards sustainable dollarization.

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Appendix 1: Tables

Table 1: Zimbabwe's Hyperinflation 2007-2008

Date	Month-on-month inflation (%)	Year-on-year inflation (%)
March 2007	50.54	2,200.20
April 2007	100.70	3,713.90
May 2007	55.40	4,530.00
June 2007	86.20	7,251.10
July 2007	31.60	7,634.80
August 2007	11.80	6,592.80
September 2007	38.70	7,982.10
October 2007	135.62	14,840.65
November 2007	131.42	26,470.78
December 2007	240.06	66,212.30
January 2008	120.83	100,580.16
February 2008	125.86	164,900.29
March 2008	281.29	417,823.13
April 2008	212.54	650,599.00
May 2008	433.40	2,233,713.43
June 2008	839.30	11,268,758.90
July 2008	2,600.24	231,150,888.87
August 2008	3,190.00	9,690,000,000.00
September 2008	12,400.00	471,000,000,000.00
October 2008	690,000,000.00	3,840,000,000,000,000,000.00
November 2008	79,600,000,000.00	89,700,000,000,000,000,000,000.00

Source: Hanke and Kwok (2009)

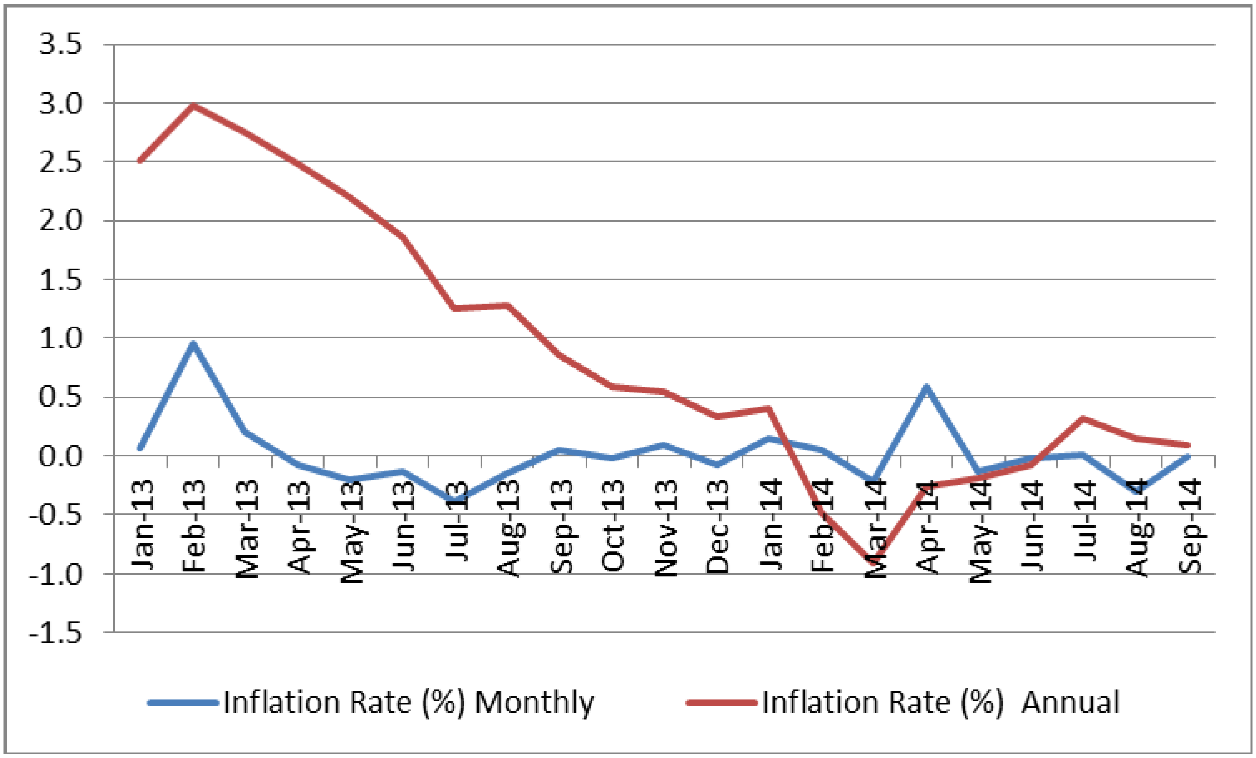
Table 2: Distribution of Zimbabwe's exports and import averages (2000-2008)

	Exports (%)	Imports (%)
Rest of the World	13	16
European Union	20	9
Rest of Africa	17	21
APEC (excluding US)	22	7
United States of America	4	3
South Africa	24	44

Source: Direction of Trade Statistics

Appendix 2: Figures

Figure 2: Inflation profile 2013-2014



Source: Ministry of Finance (2015)