Zimbabwe's Multi-Currency Regime

By Tatenda S Zingoni

Dollarization is the process whereby a country takes on the use of another country's currency, in most cases the US dollar. The process is called dollarization even if the currency being used is the pula, rand, pound or any other currency. In the case of Zimbabwe, US dollars, SA rands, Botswana pula and British pounds are currently being used. The terminology of "multi-currency" regime is therefore used to refer to this prevailing currency position.

Following the period which in some circles has become known as the "lost decade," the wheels on the Zimbabwean economic wagon came off, leading to many fundamentals going out of synch. The official introduction of the multi-currency regime came about in the February 2009 Monetary Policy Statement, although a number of transactions were already being conducted using foreign currency. Prior to the official implementation of the use of these currencies, some businesses had been licensed to conduct their operations using foreign currencies.

A look at the mission statement of the Reserve Bank of Zimbabwe (RBZ) shows that the focus is on: maintaining financial stability, protecting the value of the domestic currency, and ensuring price level stability. As with other Central Banks, the RBZ at any one time can only choose to focus on two of the following: exchange rate, inflation or economic growth. Prior to the current multi-currency regime, Zimbabwe's Central Bank had thrown caution to the wind due to the hyperinflationary environment which prevailed. None of the three elements were being taken into consideration as policy certainty was not present.

The tool by which a Central Bank conducts its affairs is the monetary policy, wherein it manages the country's financial systems, controls the amount of money which is in circulation, controls the interest rates and impacts on price levels and, in some cases, has impact on the country's currency. In an environment of a fixed exchange rate regime, the Central Bank controls the rate of exchange with other country's currencies. A flexible or floating exchange rate regime is one where the rate of exchange of a country's currency is determined by the market forces of supply and demand.

The introduction of the multi-currency regime has led to a reconfiguration of the RBZ from the usual functioning of a Central Bank. Zimbabwe is currently using currencies for which it doesn't own a printing press, resulting in the RBZ not being able to have full control of the monetary policy. A Central Bank is meant to be in a position of *lender of last resort*, with banks in the economy being able to borrow from it. Only recently, as outlined in the 2010 Mid-Term Fiscal Review, was the Central Bank capacitated with "a modest seed fund" to resume its lender of last resort function.

A critical aim of the policy initiative outlined in the recent mid-year monetary policy statement is to release more resources for lending by the banking sector. It is targeted at substantially dampening interest rates. Currently the interest rates being levied are prohibitive and deemed counterproductive, as firms cannot get access to much needed funding to reignite operations.

Although the Central Bank might have lost most of its functionality compared to the period prior to the multi-currency regime, the multi-currency regime has arguably helped Zimbabwe to start emerging out of the woods. During the hyperinflationary period there was great uncertainty which acted as a major restraining factor for businesses. The hyperinflationary environment which had gripped the country has been eradicated, enabling companies and individuals to better coordinate planning of operations. ■

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