Exploration of Conditions Necessary for Successful De-Dollarisation in Zimbabwe

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Abstract

The study aimed to explore the conditions necessary for successful de-dollarisation in Zimbabwe. A mixed-method research design was employed, with exploratory research and case studies applied. A target population of policymakers, business leaders, financial sector experts, and the general public was identified for the research. The study was conducted in Harare, Zimbabwe, using a sample of 80 respondents. Data collection tools included questionnaires shared via Google Forms. The data was analysed in Statistical Package for the Social Sciences (SPSS) software, focusing on descriptive statistics, correlation, regression, and factor analysis. The study identified macroeconomic stability, supportive regulations, and a stable domestic currency as the most critical conditions for de-dollarisation. Public trust and confidence were identified as the most crucial challenge to be addressed for successful de-dollarisation. Domestic industry stimulation was identified as the biggest opportunity in the de-dollarisation process. The research therefore recommended that in addition to pursuing macroeconomic stabilisation programs, Zimbabwean Government and Monetary Authorities should strive to restore public trust and confidence in the de-dollarisation process and also enact supportive regulations, including those that boost demand for local currency.

Key words: *exchange rate policy, dollarisation, macroeconomic policies, hyperinflation, confidence*.

Introduction

De-dollarisation in Zimbabwe is a complex issue involving the introduction of a new local currency to replace foreign currencies as legal tender. The dollarisation process, which was introduced to stem out the country's hyperinflation in 2009, has significant implications for the socio-economic and political landscape. The Reserve Bank of Zimbabwe confirmed this in its 2009 Midyear Monetary Policy Statement, stating that the Zimbabwean dollar had lost its functions as a medium of exchange and store of value. However, Bonga et al. (2014) argue that dollarisation only brings stability in its initial stages and is not viable in the long term. They suggest that the long-term benefits of de-dollarisation through institutional elements can support economic

stability and growth. Emerging Market Economies (EMEs) are increasingly de-dollarising to regain control of their economies through monetary and fiscal policies and regain their sovereignty, which is embodied in their local currencies (Bonga et al, 2014).

Mecagni et al. (2015), postulates that deposit dollarisation remained stable in sub-Saharan Africa from 2001 to 2012, while loan dollarisation was stable in Latin America, the Caribbean, and sub-Saharan Africa. However, East Asia, the Pacific, Europe, and Central Asia experienced a decline in loans issued in foreign currency, leading to falling dollarisation or increased de-dollarisation. Changes in international power patterns and technology revolutions pose challenges to the US dollar's dominance established by the Bretton Woods system. Xiang (2022) argues that the de-dollarisation of the world economy is accelerating as non-US economies, led by China, are increasingly becoming the engine for world economic growth. Instabilities caused by the Russian-Ukraine war have also led to many countries seeking safer havens in other currencies apart from the US dollar.

In Zimbabwe, the government adopted a basket of foreign currencies in 2009, dominated by the US dollar, to stabilize the economy (RBZ, 2009). However, this dependence on the foreign currency has posed challenges such as limited access to cash, high transaction costs, and loss of monetary and fiscal policy autonomy and flexibility. Successful de-dollarisation requires careful planning and the creation of conditions that support the use of a local currency (Imam, 2022). Since the introduction of the multi-currency regime in 2009, Zimbabwe's monetary authorities, the Ministry of Finance and Economic Development, and the Reserve Bank of Zimbabwe (RBZ), have been working on currency reforms to combat inflation and tackle macroeconomic instability. However, the stability was short-lived, with annual inflation dropping to negative levels in February 2016 and rising to 4% by July 2018, primarily driven by food inflation. To regain control of monetary policy tools and national pride, Zimbabwe reintroduced the Zimbabwean dollar through Statutory Instrument (S.I) 142 of 24 June 2019, outlawing the use of foreign currency as legal tender in Zimbabwe, except the Zimbabwean Dollar.

However, the seemingly stabilized inflation started rising again, with all items annual inflation rising to levels above 200% in April 2021 and further to levels above 250% by July 2022 (RBZ, 2022). This suggests that de-dollarisation requires more reforms, supportive conditions, and

policies than simply changing the law. The Zimbabwean government has been attempting to adopt the Zimbabwean dollar as its primary currency, but the US dollar remains the primary medium of exchange. This has led to persistent shortages of US dollars and difficulties in domestic transactions, posing challenges for the country's economy and financial system regulation. Metu (2020), emphasized that the Zimbabwean government has also been complicit in perpetuating the use of the US dollar by charging and pegging certain duties and taxes in US dollars. The concept of de-dollarisation has gained traction as a possible solution to address these challenges. However, monetary authorities' efforts to de-dollarise have not been successful, with a multitude of Statutory Instruments (SIs) primarily responding to market conditions.

Therefore, this study aims to explore the conditions necessary for successful de-dollarisation in Zimbabwe, focusing on economic, political, and social factors that will shape this process. By examining the experiences of other countries that have undergone similar transitions, the research seeks to identify best practices and potential pitfalls in de-dollarisation efforts.

Literature Review

Theoretical Framework

Although Missaglia (2019) argues that there is little theoretical literature on dollarisation and hence de-dollarisation, Levy -Yeyati et al. (2021) submitted that literature on dollarisation primarily referred to the substitution of foreign currencies (informal dollarisation) and its influence on the management of monetary policy. The research uses two connected theories: Quantity Theory of Money (QTM) and Purchasing Power Parity Theory (PPPT) as the most relevant to the Zimbabwean situation.

The Quantity Theory of Money, proposed by Irving Fisher in 1911, is a key economic theory that explains the relationship between the quantity of money in an economy and the level of prices within that economy (Dauda et. al., 2013). It assumes full employment and no excess capacity, and any alteration in the money supply (M) would be accompanied by a proportional change in the price level (P). The theory highlights how changes in the quantity of money impact the purchasing power and perceived value of each monetary unit (Handa, 2009). Despite criticism, the QTM offers a strong explanation for hyperinflation and plummeting currency value in Zimbabwe before 2009. To maintain low inflation levels, central banks should maintain a low rate

of money growth, which helps mitigate the risk of excessive inflationary pressures and promotes price stability. The RBZ needed to reduce money supply and money supply growth, leading to low inflation, restore confidence in the local currency, and support de-dollarisation.

Voinea (2013) defined the Purchasing Power Parity Theory (PPPT) as a mathematical model that explains the impact of inflation on currencies and exchange rates. It suggests that identical goods should have the same price across different countries, based on the law of one price. This principle assumes that goods of comparable quality and denominated in the same currency are equivalent. However, the PPPT has some limitations, such as the assumption that exchange rates will quickly adjust to equalize the price of identical goods and that goods are freely traded between countries. Despite these, the PPPT is relevant to de-dollarisation, as it provides a framework for understanding how currency exchange rates can be adjusted to equalize the buying power of different currencies. Countries must manage their exchange rates to avoid large inflation swings and maintain currency competitiveness in international trade. Identifying factors leading to dollarisation can help reduce future episodes and facilitate a smooth transition.

Empirical Literature Review

The empirical literature on de-dollarisation has grown in recent years, as more countries have considered or attempted to de-dollarise. Mecagni et al. (2015) noted that although numerous countries have endeavoured to de-dollarise their economies, only a handful have achieved success in these endeavours. Israel, Poland, Bolivia, and Peru are noteworthy examples that demonstrated the comprehensive policy measures required for de-dollarisation. In sub-Saharan Africa, Angola and Sao Tome and Principe also offer relevant case studies in de-dollarisation. According to the IMF, only four out of 85 countries surveyed during 1980–2001 succeeded in de-dollarization. Of those, only two countries, Poland and Israel, appear to have had lasting reversals with minimal side effects. Mexico and Pakistan's de-dollarization is too early to determine its sustainability. In Poland and Israel, both countries embarked on a successful disinflation program initially built around a strong exchange rate anchor.

Catão and Terrones (2016) suggest that most Latin American countries had resorted to the use of the US dollar after their local currencies were debased of their primary functions by hyperinflation in the 1970s. The process of de-dollarisation is typically gradual and can be

observed through the sequential loss of functions performed by domestic currencies. Initially, domestic currencies may lose their medium of exchange function. However, they may still retain their unit of account function for smaller transactions. While domestic currency use decreases for some transactions, local currency transactions continue in most cases. This progression demonstrates the gradual shift away from foreign currencies for various transactions, with the coexistence of foreign and domestic currencies being a characteristic feature during the de-dollarisation process. By the early 1990s, the local currencies in those countries further lost their store of value function, thus prompting financial institutions to commence taking deposits, lending, and drafting financial contracts in two or more currencies (Catão & Terrones, 2016; Levy -Yeyati et al., 2021).

Although most emerging economies in Latin America had dollarised by the 1990s, Catão and Terrones (2016), submitted that this phenomenon started reversing in the early 2000s. The new trend showed that most of the countries were de-dollarising. While global factors have played a significant role in driving de-dollarisation efforts, the pace of this process has varied among different countries. This suggests that de-dollarisation requires careful consideration of country-specific factors such as macroeconomic and regulatory policy factors. Having made the foregoing observations and remarks, this research, thus, focuses on the empirical evidence from the few success stories of de-dollarisation.

Garcia-Escribano (2010) and Martín and Chávez (2012) identified three groups of factors that contributed to successful de-dollarisation. Macro-economic stability, prudential regulations and the development of domestic capital markets are crucial elements in the process of de-dollarisation. Garcia-Escribano's (2010) research emphasizes the significance of macroeconomic stability in driving de-dollarisation efforts. Factors such as inflation, exchange rate flexibility, and sovereign credit risk significantly impact de-dollarising countries. Countries like Peru and Bolivia used an inflation-targeting framework in 2002 to contain hyperinflation, while Israel used inflation targeting and a flexible exchange rate regime to stabilize their domestic currency. According to the African Development Bank (2006) countries like Angola and Poland also combated hyperinflation and combined it with exchange rate flexibility policies to restore confidence in their local currencies. De-dollarising countries also eliminated public debt, reducing sovereign credit risk. Israel reduced its fiscal deficit from 19% of GDP in 1985 to 10% in the late 1990s (Mecagni

et al., 2015). Peru pursued large fiscal surpluses and built reserves, resulting in public debt levels below 30% of GDP. Therefore, the reduction in hyperinflation, flexible exchange rate policies, and extermination of public debt significantly contribute to the de-dollarising countries' macroeconomic stability.

Prudential regulation is crucial for maintaining financial stability and preventing crises. It helps in de-dollarisation by reducing financial instability and promoting local currency use (Sosa & Garcia, 2010). Central banks in countries with high foreign currency borrowing and lending have implemented measures to reduce incentives, such as increasing reserve requirements targeting foreign currency and lowering those in domestic currency. In Peru, stringent liquidity requirements were imposed in favor of local currency, while in Israel, domestic reserve requirements earned higher rates, encouraging local currency transactions. Regulations were introduced to account for risks associated with foreign currency deposits, including stronger requirements for borrowers who do not generate income in foreign currency. In Sao Tome, de-dollarisation was primarily driven by prudential regulations, resulting in a decline in foreign currency loans and increased domestic currency-denominated deposits.

Peru's government had intentionally established its capital market to trade only in the local currency, the soles, through market-making programs and encouraging the issuance of private bonds in soles. This increased liquidity in the local currency and rejuvenated the capital market in domestic currency. The public sector began servicing its public debt with local currency bonds, leading to significant strides in de-dollarisation. The Peruvian government's efforts have contributed to the country's successful development of a debt market in domestic currency.

Kokenyne et al. (2010) suggest that greater exchange rate flexibility can deter foreign currency deposits, as they face exchange rate risk. Market players adapt to this by developing hedging instruments to manage risk over time. To reduce exposure to exchange rate risk, market players may increase the proportion of assets and liabilities denominated in the local currency, aiding de-dollarisation. Countries facing hyperinflation often use the exchange rate as a nominal anchor to control inflation, restoring economic stability.

Liu and Papa (2022) and Kokenyne et al., (2010) concur that unbiased taxation may also encourage de-dollarisation. They propose that taxes should be levied equally between foreign

currency and domestic currency financial transactions, such that no one prefers foreign currency over local currency. Financial liberalization, where banks are free to determine interest rates, increases the chances that domestic real interest rates are positive, which in turn helps promote the use of the local currency, thus promoting de-dollarisation (Alvarez-Plata and García-Herrero (2007).

To aid de-dollarisation, the central government must transact in local currency as much as possible. Raising taxes in local currency and public payments for wages, goods, and services in local currency can support an increase in the demand for the local currency as observed in Angola. Both the Africa Development Bank (2006) and Kokenyne et al. (2010) concur that to support de-dollarisation, the domestic payments system should provide terms that are at least as favourable as those for foreign currency payments.

Conceptual Framework

Figure 1. below gives a visual overview of the interactions between the relevant variables and attendant concepts to assist in conceptualising the study.
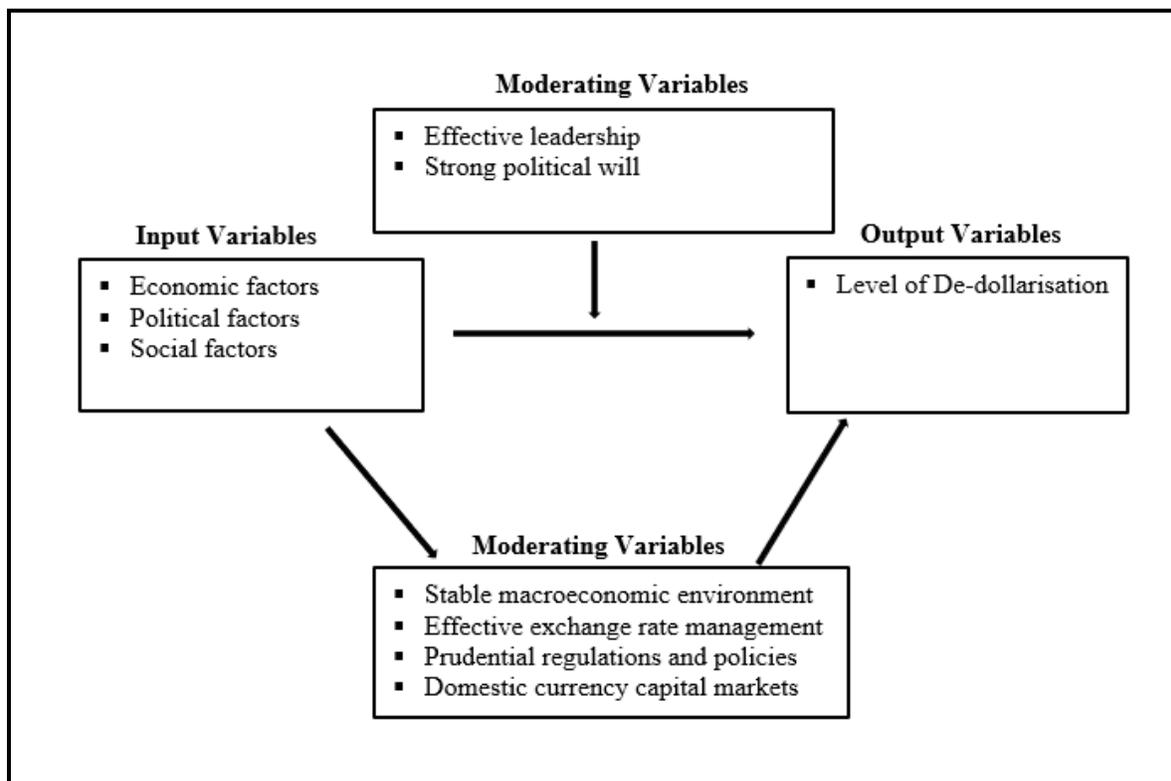
Figure 1: *Conceptual framework*

The conceptual framework is built around three key concepts which are: (1) drivers of dollarisation (input variables), (2) conditions for successful de-dollarisation (moderating factors), and (3) outcomes of de-dollarisation (output variable). The drivers of dollarisation are the input variables, which include economic, political, and social factors. These drivers influence the level of dollarisation in the economy, which is the output to the process of de-dollarisation. Economic factors include high inflation, currency instability, and financial sector fragility. Political factors include weak institutions, corruption, and general political instability. Social factors include a lack of trust in the domestic currency and monetary authorities and a preference for holding dollars.

The moderating variables are the conditions for successful de-dollarisation, which include a stable macroeconomic environment, effective exchange rate management, comprehensive policies and prudential regulations that promote financial sector development and use of domestic currency, and establishment of local currency capital markets. Implementation of these moderating conditions requires effective leadership and strong political will for successful de-dollarisation. The output of the process is the level of de-dollarisation achieved, which can have both positive and negative outcomes for the economy and financial sector as observed in Latin American countries (Garcia-Escribano, 2010; Martín & Chávez, 2012). Positive outcomes include improved macroeconomic stability, increased monetary policy independence, and a stronger financial sector. Negative outcomes include short-term economic disruptions and potential risks to financial stability.

Methodology

The study used the pragmatism research philosophy, providing practical solutions for the Zimbabwean government's success in de-dollarisation. The study used an exploratory research design and case studies to draw lessons from limited literature. The research targets a diverse population, including policymakers, financial sector experts, business leaders, and the general public, providing valid insights into the effects of different policy actions. From the target population, a sample size of eighty (80) respondents was calculated using Raosoft® for statistical analysis (*Sample Size Calculator by Raosoft, Inc.*, n.d.). A stratified random sampling technique was used to select the participants for the study, with each target group in the population

representing a stratum. Stratified sampling has been advocated as one of the appropriate techniques to use in a mixed method research (Dawadi et al., 2021; Teddlie & Yu, 2007). In this research therefore, to reach the sample size of 80, twenty (20) participants were drawn from each of the four strata using simple random sampling or systematic sampling within each stratum. This often improves the representativeness of the sample by reducing sampling error (Dawadi et al., 2021; Igwenagu, 2016; Teddlie & Yu, 2007). This sampling technique is appropriate for selecting a representative sample of participants from different sectors of the economy. This can help to ensure that the study captures a diverse range of perspectives and experiences related to dollarisation and de-dollarisation.

Data collection methods included surveys, interviews, and focus groups, conducted face-to-face and virtually. SPSS was used to analyse quantitative data from questionnaires, while physical inspection of qualitative data was conducted for open-ended questions. Validity and reliability tests were conducted to ensure quality. The study adhered to high ethical standards, including informed consent, confidentiality, and anonymity. A non-disclosure agreement was distributed to protect participants' rights.

Presentation and Discussion of Results

The demographic information of the respondents was analyzed, with a focus on gender, age, level of education, profession, and years of work experience. The study found that 66% of participants were males, while 34% were females. The research had an equal number of participants from four distinct groups: policymakers, business leaders, financial experts, and the general populace. However, a 66% male representation indicates that the field of study is still heavily dominated by males. The age profiles were grouped into the ranges of 18-30, 31-40, 41-50, and over 50 to look for patterns or differences in their understanding of de-dollarisation, its benefits, challenges, and risks. The 18-30 age group was more risk-tolerant and optimistic about de-dollarisation, while older respondents (over 50) were more reserved or concerned due to past experiences with currency issues from 2008.

Professions of the respondents, such as economists, policymakers, and financial professionals, had different viewpoints on de-dollarisation. Knowing the professions of the respondents would help understand the basis of their acceptance or skepticism towards de-

dollarisation. The study analyzed the years of experience of respondents in their respective fields, with 62.1% having less than 5 years of experience. However, most respondents were not policy makers or business owners during the hyper inflationary era of 2008, resulting in a lack of professional appreciation for the pitfalls of a weak local currency. The highest education attainment was found to be 55.2 percent with a bachelor's degree and 31% with a postgraduate degree. This indicates that respondents with higher education levels had a better understanding of the effects of de-dollarisation on inflation, currency rate stability, and trade dynamics.

On reliability tests, the Cronbach's Alpha coefficient of 0.652 indicated that the questionnaires were reliable instruments. Furthermore, the mean scores for each question item ranged between 3.27 and 4.86, which was expected given the wide range of questions to a variety of respondents. The Item-Total Statistics further probed whether the questions were measuring the same concept by analyzing how the scale means and Cronbach's Alpha coefficient moved if the respective question was removed from the questionnaire.

A correlation analysis was done in order to test the strength of the relationship between de-dollarisation and macro-economic stability. The parameters for macro-economic stability for the study included but not limited to interest rates, inflation, exchange rates and unemployment rates. A correlation coefficient of -0.615** between de-dollarisation and macroeconomic stability indicates a strong negative relationship between the two variables. Higher levels of de-dollarisation are associated with lower levels of macroeconomic stability in Zimbabwe. De-dollarisation can impact indicators of macroeconomic stability, such as inflation, unemployment, GDP growth, interest rates, and exchange rates. The results from the study are consistent with findings by Catão and Terrones (2016) who observed that de-dollarisation in Peru led to massive macro-financial instability characterised by high inflation and high unemployment. Mendoza and Terrones (2014) also observe that de-dollarisation in Chile was characterized by "credit booms" which drove up interest rates as government struggled to grapple runaway inflation rates. The switch to the Zimbabwean dollar led to high demand for the US dollar, causing exchange rate fluctuations.

A regression analysis was used for to measure challenges and opportunities associated, with with predictors being Financial Sector Stability, Public Trust and Acceptance, Salaries and

Price Adjustments, Economic Stability, Domestic Industry Stimulation. The R value of 0.795 suggests a strong relationship between the variables related to the challenges and opportunities associated with transitioning to a non-dollarised economy in Zimbabwe. For example, the more stable the financial sector, the more the economy can easily be de-dollarised. The R square value of 0.631 suggests that approximately 63.1% of the variance in the dependent variable (challenges and opportunities) can be explained by the independent variables (related factors). The ANOVA results (Table 1) shows a significant difference in challenges and opportunities in Zimbabwe's transition from a dollarised to a non-dollarised economy across different groups. The p value of 0.004 indicates these differences are unlikely to have occurred by chance alone, possibly due to demographics, economic sectors, or other relevant variables.

Table 1: *ANOVA*

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	45.032	5	9.006	5.482	.004b
Residual	26.286	16	1.643		
Total	71.318	21			

a. Dependent Variable: Challenges and opportunities associated with de-dollarisation

b. Predictors: (Constant), Financial sector stability, public trust and acceptance, Salaries and Price adjustments, Economic stability, Domestic industry stimulation

Table 2 below presents the regressions coefficients on the challenges and opportunities associated with dedolarization.

Table 2: *Regression Coefficients*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.593	1.285		.461	.651
Economic stability	-.379	.178	-.355	-2.125	.050

Public trust and acceptance	.974	.262	.626	3.711	.002
Salaries and Price adjustments	.358	.158	.351	2.269	.037
Domestic industry stimulation	-.673	.244	-.548	-2.753	.014
Financial sector stability	.328	.210	.299	1.561	.138

a. Dependent Variable: Challenges and opportunities associated with de-dollarisation

The study identifies economic stability as a significant challenge in Zimbabwe's de-dollarisation process, with a coefficient of -0.379 and a significance level of 0.050. Public trust and acceptance are also considered significant challenges, with a coefficient of 0.974 and a significance level of 0.002. The choice of de-dollarisation should have gone through a referendum, allowing the public to choose their best solution.

Salaries and price adjustments are identified as key challenges, with a coefficient of 0.358 and a significance level of 0.037. Domestic industry stimulation is seen as a key opportunity, with a negative coefficient. Financial sector stability is perceived as a key opportunity, with a coefficient of 0.328 and a significance level of 0.138. Maintaining stability in the financial sector is important for a successful de-dollarisation process. Players in the financial sector, particularly the central bank, can help by implementing de-dollarising policies properly, providing incentives to financial sectors who adhere to new policies, and monitoring and adjusting debt rates when necessary. Thus, public trust and acceptance pose the greatest challenge in Zimbabwe's de-dollarisation process, largely due to a historical precedent where people were skeptical of the local currency's efficacy.

To establish key conditions necessary for successful de-dollarisation in Zimbabwe, factor analysis was used in order to ascertain the most important conditions. The variables included macroeconomic stability, supportive regulations, stable domestic currency, local-currency denominated financial products, trust and confidence in the new currency, low and stable inflation, and effective policy communication. First, a KMO and Bartlett's test was done to measure adequacy and sphericity. The KMO measure is suitable for factor analysis, with a significant difference from zero, indicating sufficient correlation among variables. This supports the validity

of factor analysis in identifying key conditions for successful de-dollarisation in Zimbabwe. To assess the strength and quality of each condition, Eigenvalues were extracted for each identified key condition. Adewumi, (2019) posits that, "Eigenvalues represent magnitude, or importance". Factors with Eigenvalues close to one are considered strong, while those close to zero are weak. Table 3 shows Eigen values for macroeconomic stability, supportive regulations, stable domestic currency, local-currency denominated financial products, trust and confidence in the new currency, low and stable inflation, and effective policy communication.

Table 3: *Total Variance Explained*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.718	53.113	53.113	3.718	53.113	53.113	2.993	42.757	42.757
2	1.005	14.353	67.466	1.005	14.353	67.466	1.730	24.710	67.466
3	.829	11.838	79.304						
4	.711	10.154	89.458						
5	.350	5.002	94.461						
6	.248	3.540	98.000						
7	.140	2.000	100.000						

Extraction Method: Principal Component Analysis.

The study focused on the key conditions for successful de-dollarisation in Zimbabwe, with macroeconomic stability being the strongest condition. This stability is influenced by factors such as stable exchange rates, favourable balance of payments, and interest rates. Supportive regulations are also crucial, with an Eigenvalue of 1.005 indicating that they play a pivotal role in the process. Stable domestic currency is moderately important for successful de-dollarisation, with an Eigenvalue of 0.829 suggesting that maintaining a stable domestic currency is relevant but not significant. Local-currency denominated financial products are moderately important, with an Eigenvalue of 0.711 suggesting that the availability of these products is somewhat important. Trust and confidence in the new currency is weak, with an Eigenvalue of 0.350 suggesting that building trust and confidence is somewhat essential for successful de-dollarisation. Low and stable inflation is relatively smaller, with an Eigenvalue of 0.248 suggesting that maintaining low and stable

inflation is somewhat relevant in the de-dollarisation process. However, this low Eigenvalue does not corroborate empirical evidence and case studies, which show that low inflation is one of the fundamental precedents for de-dollarisation. Effective policy communication is a weak condition, with an Eigenvalue of 0.140.

To analyse the variance in each key condition, communalities are used, which are the R-square values of the conditions' components. The Table 4 below shows the communalities for each key condition for de-dollarisation.

Table 4: *Communalities*

	Initial	Extraction
Macroeconomic stability	1.000	.828
Supportive regulations	1.000	.808
Stable domestic currency	1.000	.691
Local-currency denominated financial products	1.000	.626
Trust and Confidence in the new currency	1.000	.682
Low and stable inflation	1.000	.739
Effective policy communication	1.000	.348

The "Extraction" column represents magnitude of the strength of the association. Geert van den Berg (2019) postulated that variables with communalities that are lower than 0.40 do not contribute much to measuring the phenomenon under study, suggesting that effective policy communication is the only weak variable possibly due to the proliferation of the internet and better access to information by the public.

Conclusions and Recommendations

The research aimed to explore the conditions necessary for a successful de-dollarisation process in Zimbabwe. The specific objectives included ascertaining the relationship between de-dollarisation and macro-economic stability, analyzing the challenges and opportunities associated with transitioning from a dollarised to a non-dollarized economy, and identifying key conditions necessary for successful de-dollarisation in Zimbabwe. The study demonstrates that macroeconomic stability, supportive regulations, stable domestic currency, local-currency

denominated financial products, trust and confidence in the new currency, and low and stable inflation are essential conditions for successful de-dollarisation in Zimbabwe. Macroeconomic stability appears to be the most influential factor, followed by supportive regulations and stable domestic currency. A lack of trust and acceptance among the public regarding the benefits, effectiveness, and potential risks associated with de-dollarisation, also featured as a important factor.

The de-dollarisation process presents a significant challenge to monetary authorities, but it also presents opportunities for industry stimulation. Public trust and acceptance are crucial for successful de-dollarisation, as low levels can lead to catastrophic failure. Building trust and confidence requires effective communication strategies, transparency, and engagement with the public. Public perception challenges may stem from fears of currency devaluation, uncertainty about the new currency's stability, or skepticism about the government's ability to manage the transition effectively. Addressing these challenges requires a multifaceted approach in addressing the root causes of public concerns, providing reassurance through policy communication, policy consistency, and implementing measures to stabilize and strengthen the new currency.

The following is a summary of key recommendations that the Government and Monetary Authorities may consider:

(i)   Address the challenges related to public trust and acceptance by implementing effective communication strategies. Engage with the public, provide transparent information about the benefits of de-dollarisation, and address concerns and misconceptions to build confidence in the new currency and the overall de-dollarisation process.

(ii)   Prioritise measures to maintain macroeconomic stability, including controlling inflation, managing fiscal deficits, exchange rates, and interest rates, and implementing sound monetary policies. Stable economic conditions provide a solid foundation for successful de-dollarisation and promote confidence in the local currency.

(iii)   Establish clear and supportive regulations that provide guidance and clarity for businesses, financial institutions, and the general public during the de-dollarisation process. Both government and monetary authorities must address issues such as

exchange rate mechanisms, banking regulations, and legal frameworks to support the use of the local currency and ensure a smooth transition.

(iv)   Enhance policy communication efforts to ensure that objectives, progress, and changes related to de-dollarisation are effectively communicated to all stakeholders. They should also regularly engage with businesses, financial institutions, and the public through clear and transparent communication channels to manage expectations, address concerns, and maintain support for the de-dollarisation process.

(v)   There is also a need to strengthen the institutional framework to support de-dollarisation efforts and maintain macroeconomic stability. This includes ensuring the independence and effectiveness of monetary and fiscal authorities, enhancing financial sector regulation and supervision, and promoting transparency and accountability in economic governance.

A sectoral analysis could be conducted in future to explore the impacts of de-dollarisation on different sectors, such as agriculture, manufacturing, mining, or services. This analysis could provide insights into the specific challenges and opportunities faced by each sector, enabling the identification of sector-specific challenges, opportunities, and policy considerations. By examining performance, vulnerabilities, supply chains, trade dynamics, employment patterns, and policy interventions within each sector, policymakers can formulate targeted strategies to support sectoral resilience and promote overall macroeconomic stability

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