ZIMBABWE BLUEPRINT INITIATIVE

Restoring the Foundation:

A Path to Monetary Stability for Zimbabwe

PAPER 2 OF THE BLUEPRINT SERIES | MONETARY REFORM

ABSTRACT

Zimbabwe has experienced six currency failures since 2000. Each shared a common cause: technically designed instruments undermined by fiscal dominance, political interference, and the absence of genuine institutional credibility. This paper argues that no currency solution can succeed until those preconditions are addressed — and that the right long-run destination is an independent central bank operating an inflation targeting framework within a managed, partially dollarised environment. The model is not hypothetical. Peru achieved it, recovering from inflation exceeding 7,600% to deliver average GDP growth of 6.5% and average inflation of 3.3% over the following two decades. This paper analyses all available currency options honestly, explains why Zimbabwe's experience rules out simple solutions, and sets out a phased path from the current fragile status quo to durable monetary stability.

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EXECUTIVE SUMMARY

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Zimbabwe's monetary history is one of the most instructive cautionary tales in modern economic history. Six currency reforms since 2000. Hyperinflation that reached 79.6 billion percent monthly at its peak in 2008.[1] A gold-backed currency — the ZiG — whose official exchange rate depreciated by approximately 94.7% against the US dollar (representing a 48.6% loss in its external purchasing power relative to the greenback) within ten months of its April 2024 launch.[2] Each failure has shared a common diagnosis: technically designed monetary instruments destroyed by fiscal dominance, political interference, and the absence of genuine institutional credibility.

This paper makes three core arguments. First, that the question Zimbabwe faces is not simply which currency to adopt, but how to build the institutional environment in which any currency can hold. Second, that an honest evaluation of all available options — full dollarisation, a currency board, a managed domestic currency, and an independent central bank with inflation targeting — points clearly to one long-run destination, while also explaining why shortcuts do not work. Third, that the path to that destination is navigable, sequenced, and has direct international precedent.

The international precedent that matters most is Peru. In 1990, Peru faced inflation exceeding 7,600% — a crisis structurally similar to Zimbabwe's in its causes, if not yet its full magnitude.[3] By 1993, Peru had granted genuine independence to its central bank and embarked on fiscal consolidation. By 2002, it had implemented a full inflation targeting framework — the first country in the world to do so successfully in the context of a partially dollarised economy.´ Over the following decade, GDP growth averaged 6.5% annually, inflation averaged 3.3%, and financial dollarisation fell from 77% of loans to 29% — not through compulsion, but through the gradual rebuilding of trust in the domestic currency.µ

That is the destination this paper proposes for Zimbabwe: a genuinely independent Reserve Bank of Zimbabwe operating an inflation targeting framework, within a managed dual-currency environment that acknowledges the reality of dollarisation as a starting point rather than fighting it. The journey from here to there requires a credible transitional anchor, fiscal discipline that is institutional rather than merely announced, sovereign debt restructuring, and the legislative and governance reforms that give the central bank independence in practice, not just on paper.

The argument is not that this is easy. It is that it is the only path that works.

SECTION 1

1. The Cost of Monetary Failure

To understand what Zimbabwe needs from a monetary reform, it is necessary first to understand — in human, technical, and political terms — what monetary failure has actually cost. The three dimensions are inseparable.

1.1 The Human Cost: Savings Destroyed, Trust Broken

The hyperinflation of 2007–2008 was not an abstraction. At its peak in November 2008, prices were doubling every 24.7 hours.[1] A teacher who deposited a year's salary on Monday could not buy a loaf of bread with it on Friday. Pension funds accumulated over lifetimes were rendered worthless in weeks. The formal banking system, which depends on the public's willingness to hold and save in domestic currency, effectively ceased to function.

The damage was not merely financial. It was psychological and institutional. Zimbabweans learned, viscerally and permanently, that their own currency could not be trusted as a store of value. That lesson has not faded. Fifteen years on, the majority of transactions in Zimbabwe's economy — including rents, school fees, medical bills, and large purchases — continue to be denominated in US dollars rather than any domestic currency.¶ The ZiG's failure to achieve meaningful adoption in Zimbabwe's informal sector, which accounts for approximately 80% of economic activity, is the most recent evidence of this enduring distrust.

> ***Trust in a currency is not restored by announcement. It is rebuilt through consistent, credible action over time — and it can take a decade.***

1.2 The Technical Failure: What Went Wrong Each Time

Monetary collapse is usually the final stage of fiscal collapse. Zimbabwe's six currency failures since 2000 share a common technical anatomy: in each case, the proximate cause was monetary financing of government expenditure. When government spending exceeds tax revenues and the gap cannot be financed through domestic or external borrowing, the easiest path — particularly for a government under political pressure — is to instruct the central bank to print money. The result is always inflation. When the practice is sustained, it becomes hyperinflation. This reframing matters: Zimbabwe's monetary crises were not primarily currency-design failures. They were state financing and institutional legitimacy failures that expressed themselves through the monetary system.

The ZiG's trajectory illustrates this with painful clarity. Introduced in April 2024 and initially stable, the currency came under acute pressure within months as the Reserve Bank of Zimbabwe provided advances to government to service Treasury debt obligations, expanding the monetary base and widening the gap between official and parallel exchange rates.· By 26 September 2024, the ZiG had lost 43% of its value in a single day on the official market, with the parallel rate diverging further still. The IMF's 2025 Article IV consultation noted a premium between official and parallel rates of approximately 30% even after emergency monetary tightening — a sign that market confidence in the currency remained structurally fragile.¸

This is fiscal dominance in its most recognisable form: the government's financing needs override the central bank's monetary policy objectives, regardless of what the law says. It has happened under every currency Zimbabwe has attempted. The solution is not a better-designed currency. It is the institutional architecture that prevents fiscal dominance from occurring.

1.3 The Political Economy: Why Bad Policy Persisted

The most uncomfortable question in Zimbabwe's monetary history is not how hyperinflation happened — that is well understood — but why it was allowed to continue for so long, and why subsequent reforms have repeatedly failed to hold.

The answer lies in political incentives. Monetary financing of government is, in the short term, politically convenient. It allows a government to pay salaries, fund patronage networks, and service debts without the politically costly alternatives of raising taxes, cutting spending, or seeking external financing on terms that impose conditionality. The inflation that results is a hidden tax on savings and wages — one whose authorship is more diffuse and harder to attribute than an explicit tax increase.

It is worth naming explicitly who benefits from inflation and who bears its costs. Inflation benefits governments that finance deficits through monetary creation; politically connected borrowers whose debts are eroded in real terms; speculative actors who hold hard assets or foreign currency; and net debtors generally. Inflation harms wage earners whose salaries do not keep pace with prices; pensioners and savers whose accumulated wealth is destroyed; fixed-income households who cannot hedge; and small businesses whose working capital is eroded faster than they can reprice. In Zimbabwe, the distributional pattern has been consistent: monetary instability has transferred wealth from the productive majority to a connected minority, while making the case for reform politically harder because those who benefit have more resources to resist it. Understanding this redistribution mechanism is essential to understanding both why reform is necessary and why it is resisted.

Peru's experience is instructive here too. As the Bank for International Settlements noted at the BCRP's centenary conference: 'Even though Peru's original law of the central bank expressly prohibited direct lending to the government, the BCRP soon found itself under pressure to do just that.'[1] Peru's hyperinflation of the 1980s was not caused by a failure to understand monetary economics. It was caused by a political system in which the short-term costs of fiscal discipline were greater — to those in power — than the long-term costs of inflation. What changed in the 1990s was not the economic theory. It was the political settlement: a government that committed credibly to fiscal consolidation, and an institutional framework — genuine central bank independence — that made the previous pattern of monetary financing structurally harder to repeat.

Zimbabwe requires the same shift. It is fundamentally political, not merely technical. And it is achievable — but only if the political economy of reform is engaged honestly rather than assumed away.

SECTION 2

2. The Options: An Honest Evaluation

There are four serious options available to Zimbabwe on the currency question. Each has international precedent, genuine strengths, and real limitations. The purpose of this section is to evaluate them honestly — drawing explicitly on Zimbabwe's own experience — rather than to construct a straw man case for a predetermined conclusion.

2.1 Option A: Full Dollarisation

What it means

Full dollarisation means abandoning the domestic currency entirely and adopting a foreign currency — most likely the US dollar — as the sole legal tender. The domestic central bank loses its ability to conduct independent monetary policy.

The case for it

Dollarisation delivers price stability immediately and credibly. Zimbabwe demonstrated this between 2009 and 2013: following the adoption of the multi-currency system in January 2009, inflation fell from a monthly rate of 433% to single digits within two years.[10] It eliminates currency risk for investors and businesses, removes the mechanism for monetary financing of government, and provides an instant anchor for price expectations.

The case against it — and Zimbabwe's lived experience

Zimbabwe experienced dollarisation's structural weakness directly, and the observation is confirmed by the academic literature. When a country adopts the US dollar, its cost base is denominated in one of the world's strongest currencies while its trading partners — South Africa, Zambia, Malawi, Mozambique — retain weaker, more flexible currencies. The result, experienced clearly between 2009 and 2013, was that Zimbabwean-produced goods and services became uncompetitive on both domestic and regional markets. Zimbabwe became, in practical terms, a supermarket for cheaper imported goods rather than a productive economy generating exports.

The academic evidence supports this. Research on the 2009–2013 period found that the strength of the dollar reduced competitiveness of local products in the international market, meaning that foreign companies selling in Zimbabwe profited from higher USD prices while domestic producers could not compete.[11] Furthermore, dollarisation deprived the economy of monetary policy sovereignty — the RBZ could no longer use interest rates or money supply to respond to economic conditions — and Zimbabwe could only increase money supply through trade surpluses or capital inflows, neither of which it was generating in sufficient quantity.[12]

The deeper problem is structural: dollarisation is most sustainable in economies with substantial trade links to the anchor currency's country, or with large commodity export revenues denominated in that currency. Zimbabwe's primary trading relationships are regional — predominantly with South Africa — and its exports, while dollar-denominated in global commodity markets, do not generate the dollar liquidity needed to sustain a fully dollarised domestic economy. The liquidity crunch that emerged during the dollarisation period, compounded by Zimbabwe's debt arrears blocking access to international capital, was a direct consequence of this structural mismatch.

Full dollarisation is a useful emergency stabilisation tool. It is not a viable long-run monetary framework for an economy with Zimbabwe's structure and regional trading relationships.

2.2 Option B: Currency Board

What it means

A currency board issues domestic currency at a fixed exchange rate to a reserve currency — typically the US dollar, euro, or South African rand — and maintains 100% backing of the domestic monetary base in that reserve currency. The central bank cannot create money beyond what is backed by reserves. It cannot lend to government.

The case for it

The evidence for currency boards as stabilisation mechanisms is compelling. Bulgaria introduced a currency board in 1997 with inflation above 1,000%; within one year, inflation had fallen to 5%.[13] Hong Kong has operated a currency board since 1983, providing one of the world's most stable monetary environments and supporting its development as a global financial hub. Estonia used a currency board from 1992 as a bridge to Eurozone membership, and it is widely credited with underpinning that country's successful post-Soviet economic transformation.

For Zimbabwe, a currency board has specific attractions. It provides a credible, rule-bound commitment to price stability that would be harder for a government to override than a simple policy announcement. It preserves a domestic currency — maintaining the option to eventually graduate to full monetary independence — while imposing the fiscal discipline that dollarisation also imposes, through the back door. The anchor currency question matters: a peg to the South African rand, rather than the US dollar, would better reflect Zimbabwe's actual trade relationships and partially address the competitiveness problem that full USD dollarisation creates.

The case against it — and the critical condition

The currency board's great vulnerability is Argentina. Argentina operated a currency board from 1991, pegging the peso to the US dollar. It worked for a decade — but when external shocks hit and fiscal discipline broke down, the board became an obstacle to adjustment rather than a stabilisation mechanism. The peso-dollar peg collapsed catastrophically in 2001–2002, resulting in one of the largest sovereign debt defaults in history and severe social crisis.

The lesson is not that currency boards fail. It is that they fail when fiscal discipline is not maintained. A currency board with a government that continues to run large deficits and find creative ways to access central bank financing is not stable. For Zimbabwe, whose fiscal dominance problem is structural and persistent, a currency board without simultaneous fiscal reform and a genuine prohibition on monetary financing would be Argentina's story, not Bulgaria's.

This paper's assessment: a currency board can serve as a credible transitional bridge — but only within a reform package that includes binding fiscal rules, a legislated prohibition on central bank lending to government, and a realistic timeline for graduating to the long-run destination.

2.3 Option C: Managed Domestic Currency Without Reform

What it means

This is Zimbabwe's current default: a domestically-issued currency managed by the Reserve Bank of Zimbabwe, operating within a multi-currency environment alongside the US dollar, with the exchange rate determined through a combination of official and parallel markets.

The honest assessment

Six iterations since 2000. Six failures. The ZiG's 94% depreciation within ten months of launch is not an anomaly — it is the pattern. A managed domestic currency without genuine central bank independence, without binding fiscal rules, and without a credible prohibition on monetary financing of government will fail regardless of its technical design, its asset backing, or its name.

The persistence of a parallel market premium — 30% even after emergency rate tightening in late 2024¸ — is the market's verdict on the ZiG. It reflects rational behaviour by economic agents who have learned, through repeated experience, that Zimbabwe's governments do not maintain monetary discipline when it conflicts with fiscal convenience. That distrust is not irrational. It is historically justified.

A managed domestic currency is the right long-run destination — but only once the institutional preconditions are in place. Adopting it without those preconditions is not a monetary policy. It is a repetition of the same experiment, expecting a different result.

2.4 Option D: Independent Central Bank with Inflation Targeting

What it means

An independent central bank sets monetary policy — primarily through interest rates — with the explicit mandate of maintaining price stability, defined by a specific inflation target. The government sets the target; the central bank has operational independence to achieve it. Critically, the central bank is legally and institutionally prohibited from directly financing government deficits.

The Peru precedent — and why it matters for Zimbabwe

Peru in 1990 faced inflation exceeding 7,600% per annum — a hyperinflationary crisis driven by the same fiscal dominance mechanism that has destroyed Zimbabwe's currencies.[3] The structural parallel is striking: a resource-rich economy undermined not by lack of endowments but by a political system in which the central bank's legal independence was overridden by government financing pressures.

What changed in Peru was institutional, not merely technical. In 1993, the BCRP gained genuine independence through constitutional and legislative reform. The government committed to fiscal consolidation — not as an IMF condition, but as a domestic political settlement made credible by the trauma of hyperinflation. The combination worked: inflation fell from four digits to single digits over five years, and the improvement was durable.

But Peru's most distinctive contribution to monetary economics — and its most direct relevance to Zimbabwe — was what happened next. Rather than insisting on rapid de-dollarisation, the BCRP accepted the reality that Peruvian citizens and businesses had fled to the US dollar as a store of value, and that trust in the sol would have to be rebuilt gradually. In 2002, Peru became the first country in the world to implement a successful inflation targeting framework in a context of partial dollarisation, with 77% of loans denominated in US dollars at adoption.´ The BCRP managed a dual-currency economy with genuine skill: using interest rates to anchor inflation expectations, intervening in foreign exchange markets to smooth volatility, and using reserve requirements to gradually incentivise domestic currency credit without forcing de-dollarisation. Financial dollarisation fell from 82% of credit in the late 1990s to 29% by 2016 — through trust rebuilt over time, not through compulsion.µ

For Zimbabwe, this precedent is directly applicable. Zimbabweans have already dollarised their economy informally and partially — the US dollar dominates large transactions, savings, and business pricing. A reform strategy that acknowledges this reality, accepts partial dollarisation as the starting point, and focuses institutional energy on rebuilding trust in a domestic currency over time is more credible and more honest than one that pretends the dollar can be eliminated quickly.

An important analytical caveat is warranted here. Peru provides a structural analogy rather than a directly transferable blueprint. Several significant differences between Peru and Zimbabwe must be honestly acknowledged: Peru retained stronger institutional continuity through its crisis, never fully dismantling its bureaucratic and judicial capacity; Peru had better access to international capital markets and benefited from favourable commodity price cycles during its recovery period; and Peru's stabilisation occurred within a specific geopolitical context that facilitated international support. Zimbabwe's monetary trauma is in many respects deeper — six failures over 25 years, compared to Peru's one acute episode — and the degree of institutional distrust that has accumulated is correspondingly greater. What Peru demonstrates is not a model to copy mechanically, but a proof of concept: that a resource-rich economy with a history of hyperinflation and fiscal dominance can, through the right institutional architecture, achieve durable monetary stability and sustained growth. Zimbabwe's path will need to be adapted to its own political economy, its regional context, and the depth of the credibility deficit it must overcome.

Africa's own models

The Bank of England's 2025 analysis of inflation targeting in Africa identified five countries with formal inflation targeting regimes on the continent: Ghana, Kenya, Mauritius, South Africa, and Uganda.[1´] Each provides useful lessons for Zimbabwe. Ghana demonstrates both the potential and the vulnerability: formal IT adoption in 2007 reduced inflation significantly, but fiscal dominance — the Bank of Ghana financing government deficits of GHS 10 billion in 2019 and GHS 45 billion in 2022 — periodically undermined monetary credibility.[1µ] The Ghana lesson for Zimbabwe is that central bank independence in law is not enough: it must be independence in practice, with a zero-financing agreement between government and central bank that is institutionally enforced rather than politically negotiated.

SECTION 3

3. Comparing the Options

The following table summarises the four options against the criteria that matter most for Zimbabwe's specific circumstances.

Option	Stops Inflation?	Preserves Competitiveness?	Restores Sovereignty?	Viable for Zimbabwe?
Full Dollarisation	Yes — immediately	No — kills export competitiveness	No — surrenders monetary policy	Emergency only
Currency Board	Yes — if fiscally backed	Partial — depends on anchor currency	Limited — rule-bound	Yes — as transition bridge
Managed Domestic Currency (status quo)	No — track record of failure	Yes — in theory	Yes — but misused	Only with reform
Independent CB + Inflation Targeting (Peru model)	Yes — durable	Yes — flexible exchange rate	Yes — full sovereignty	Yes — long-run destination

The conclusion is not that Options A, B, and C are without merit. Full dollarisation stopped hyperinflation in 2009 and may be a necessary emergency stabilisation tool in a future crisis. A currency board can serve as a credible transitional bridge. A managed domestic currency is the right long-run instrument — once the institutional foundations are in place. The question is sequencing: which options are appropriate at which phase of Zimbabwe's monetary journey.

SECTION 4

4. The Recommended Path: A Phased Monetary Reform

This blueprint proposes a phased approach that acknowledges current realities, provides a credible transitional anchor, and builds systematically toward the long-run destination. The phases are not rigid timelines — they are conditional on achieving the institutional milestones that unlock the next stage.

Phase One (Years 1–3): Stabilisation and Institutional Foundation

The immediate priority is not a new currency. It is the institutional architecture that makes any currency credible.

- Enact Reserve Bank of Zimbabwe Amendment Act establishing genuine operational independence: fixed-term appointments for the Governor and Monetary Policy Committee with parliamentary confirmation; explicit prohibition on RBZ financing of government expenditure; legislated inflation mandate with public accountability.
- Fiscal consolidation framework: binding rules capping the fiscal deficit as a percentage of GDP, with independent fiscal council oversight. The government's financing needs must not exceed what can be funded through legitimate tax revenues and domestic or external borrowing.
- Sovereign debt restructuring roadmap: Zimbabwe's arrears to the IMF, World Bank, and African Development Bank are a practical legal barrier to capital deployment at scale. A credible, time-bound arrears clearance programme — even one that takes several years — unlocks the financing pipeline. This is not optional. It is the key that opens the door to the investment Zimbabwe needs.
- Accept and formalise the current de facto dual-currency reality. Rather than fighting dollarisation, acknowledge it formally as a transitional arrangement. The US dollar and the ZiG operate in parallel; the ZiG's role is preserved and gradually rebuilt through demonstrated institutional credibility.

- Abolition of Mandatory Forex Surrender: To collapse the economic incentives driving the parallel market premium, Phase One mandates the immediate and absolute repeal of mandatory foreign currency surrender frameworks for all exporters. The Reserve Bank of Zimbabwe will shift from an allocative extraction model to a market-participant model, sourcing foreign currency reserves purely through open-market domestic interbank clearing and royalties naturally denominated in local currency. Forcing exporters to liquidate hard USD at the official rate while they can access better rates in the parallel market directly feeds arbitrage and sustains the very premium this phase targets for elimination.

Indicative Phase One milestones: RBZ Amendment Act enacted; fiscal deficit below 4% of GDP for two consecutive years; zero direct monetary financing of government for 24 consecutive months; arrears restructuring roadmap agreed with at least one major multilateral creditor; parallel market premium consistently below 15%.

Note on Currency Nomenclature and Brand Equity: Rebuilding monetary credibility requires separating the currency of the future from the failures of the past. The ZiG brand carries the psychological weight of rapid early depreciation and public distrust — a headwind that institutional reform alone cannot fully overcome if the instrument is associated in public memory with loss. Upon successful completion of Phase One's institutional milestones — including the 24-month zero-monetary-financing lock and demonstrated parallel market premium convergence — the formal transition to Phase Two may be accompanied by a controlled currency re-denomination and a new sovereign currency name. It must be emphasised, however, that this is symbolic rather than substantive: a new name without new institutions is worthless, and has been proven so repeatedly in Zimbabwe's own history. The currency rename is meaningful only because of the institutional architecture that stands behind it. Critics who dismiss the rebranding as cosmetic are correct that nomenclature alone changes nothing — but a clean symbolic break, timed to coincide with genuine institutional transformation, has psychological value in signalling to citizens and markets that a qualitatively different regime has begun. Peru's replacement of the inti with the nuevo sol in 1991 is the direct precedent: the name changed, but what mattered was the fiscal consolidation and central bank independence that the new name represented.

Phase Two (Years 3–8): Inflation Targeting Adoption and Credibility Building

Once the institutional foundation of Phase One is in place — and not before — Zimbabwe moves toward formal inflation targeting, following Peru's 2002 model adapted for Zimbabwe's circumstances. It is important to be precise about what this means: inflation targeting is not a framework that can be switched on overnight. It requires functioning monetary transmission mechanisms, a degree of financial market depth, anchored inflation expectations, and a domestic bond market capable of absorbing government financing needs. Zimbabwe currently lacks many of these prerequisites. Phase Two therefore does not deploy a fully operational inflation targeting regime from day one — it builds, systematically and conditionally, toward that destination. The early years of Phase Two are about acquiring the institutional capacity and market depth that inflation targeting requires; the framework becomes fully operational only as those prerequisites are demonstrably in place.

- RBZ adopts an explicit inflation target, jointly agreed with government but operationally owned by the central bank. Initial target: single-digit inflation within a defined band. The target is publicly announced, regularly reported against, and the Governor is accountable to parliament for deviations.

- Managed exchange rate flexibility: the ZiG is allowed to float within a managed band, with the RBZ intervening to smooth volatility but not to defend an unsustainable rate. This restores Zimbabwe's export competitiveness — the structural weakness that made full dollarisation unworkable — while maintaining price stability discipline.
- Reserve accumulation: the RBZ systematically builds foreign exchange reserves, targeting a minimum of three months of import cover as a buffer against external shocks. Reserve adequacy is the foundation of exchange rate credibility.
- Graduated de-dollarisation through incentives rather than compulsion: reserve requirements that make USD-denominated lending more expensive for banks, tax incentives for ZiG-denominated contracts, and government salary and procurement payments in ZiG to build domestic demand for the currency.

Indicative Phase Two milestones: inflation within the target band for 12 consecutive months; parallel market premium below 5%; foreign reserves above three months import cover; ZiG share of domestic credit above 40%; Zimbabwe's sovereign credit rating upgraded by at least one major agency.

Phase Three (Years 8–20): Consolidation and Full Monetary Sovereignty

With monetary credibility established through consistent Phase Two performance, Zimbabwe consolidates its position as a fully functioning monetary economy with a domestic currency that citizens choose to hold because they trust it.

- Financial dollarisation continues to decline organically — not through regulation but through rational choice, as Zimbabweans find the ZiG a reliable store of value and medium of exchange.
- The RBZ graduates from active exchange rate management to a fully flexible, market-determined exchange rate with periodic intervention only to prevent disorderly market conditions.
- Long-term domestic bond market development: a functioning government bond market in ZiG enables deficit financing through market mechanisms rather than monetary creation, completes the institutional architecture of monetary sovereignty, and provides a yield curve that prices credit throughout the economy.
- Full integration with regional monetary frameworks: Zimbabwe's monetary credibility creates the option to engage meaningfully with SADC monetary integration discussions from a position of strength rather than dependence.

Indicative Phase Three milestones: inflation durably below 5%; financial dollarisation below 30%; ZiG-denominated domestic bond market with maturities beyond ten years; RBZ ranked among Africa's most credible monetary institutions in independent assessments.

SECTION 5

5. The Institutional Prerequisites: What Must Come First

This paper has argued throughout that the currency question is secondary to the institutional question. This section states those prerequisites explicitly. None of the phased reform above can succeed without them.

5.1 Genuine Central Bank Independence

The distinction between legal independence and practical independence is the most important lesson from both Peru's success and Zimbabwe's failures. Zimbabwe's Reserve Bank Act nominally restricts government borrowing from the RBZ — but those restrictions have been routinely overridden through statutory instruments, extraordinary measures, and informal pressure. The reform required is not a restatement of existing legal principles. It is a structural redesign that makes override genuinely difficult:

- Fixed, non-renewable terms for the Governor and Monetary Policy Committee members, with removal only through parliamentary supermajority on grounds of incapacity or proven misconduct
- A legally binding, publicly reported cap on net government borrowing from the RBZ — ideally zero for recurrent expenditure — with automatic stabilisers that trigger fiscal adjustment rather than monetary accommodation when the cap is breached
- Public inflation reports, Monetary Policy Committee minutes, and regular parliamentary accountability hearings — transparency as the enforcement mechanism
- Adequate RBZ capitalisation and operational budget independence, so the institution is not financially dependent on government goodwill

5.2 Fiscal Discipline as a Constitutional Commitment

Monetary stability is ultimately a fiscal problem. No central bank can maintain price stability indefinitely against a government that consistently runs deficits it cannot finance through legitimate means. The institutional solution is a fiscal rule — ideally embedded in legislation that requires supermajority to amend — that sets a ceiling on the structural fiscal deficit as a percentage of GDP, requires medium-term fiscal frameworks to be published and independently assessed, and establishes an independent fiscal council with the mandate and resources to provide credible public accountability.

Zimbabwe’s debt arrears are the most immediate manifestation of fiscal indiscipline. A credible arrears clearance roadmap is not separate from monetary reform — it is part of it. Until Zimbabwe’s relationships with international financial institutions are normalised, the financing options available to government will remain constrained in ways that create pressure on monetary policy. Resolving arrears removes that pressure and opens the investment pipeline.

Fiscal discipline requires not only spending restraint but revenue capacity. A government that cannot collect taxes efficiently will always face pressure to finance deficits through monetary creation, regardless of the rules framework surrounding its central bank. Zimbabwe’s informal economy — approximately 80% of economic activity — represents an enormous untapped tax base that contributes minimally to public revenues. Expanding that base through formalisation incentives, digitised tax administration, VAT enforcement modernisation, customs reform, and transparent mining royalty collection is therefore as important to monetary stability as any central bank independence measure. The detailed mechanisms for tax capacity building are addressed in Paper 4 of this series (Governance and Institutional Reform), but the principle deserves explicit statement here: strong monetary systems ultimately require strong fiscal extraction capacity, and neither can be fully achieved without the other.

It must be emphasised that during the transition, formalisation should prioritise ‘pull’ incentives rather than punitive extraction. Aggressive enforcement before monetary trust is established carries a significant flight risk: traders and informal businesses may simply abandon bank accounts entirely and retreat deeper into untraceable cash USD ecosystems, reducing the formal banking system’s deposit base precisely when it needs to grow. The effective sequencing is therefore to make formalisation attractive first — by unlocking formal commercial credit lines, providing legal property rights protection, and introducing simplified micro-tax thresholds that reduce compliance costs for small operators — and to build enforcement capacity only once the incentive to participate in the formal economy is clearly established. Formalisation driven by genuine economic benefit is durable. Formalisation driven by fear is not.

5.3 A Banking System That Intermediates Rather Than Speculates

Zimbabwe’s banking sector has adapted to monetary instability in ways that are rational for individual institutions but destructive for the economy as a whole: short-term maturities, USD-denominated assets, fee income rather than interest income, and limited credit extension to productive sectors. Monetary reform must be accompanied by banking sector reforms that shift these incentives:

- Recapitalisation requirements for commercial banks, with adequate capital buffers to absorb losses from a transition to ZiG-denominated lending

- Reserve requirements that gradually equalise the treatment of ZiG and USD deposits, reducing the structural advantage of USD intermediation
- Development finance institution expansion — a credible Zimbabwe Development Bank with a clear mandate, adequate capitalisation, and international partnerships — to fill the credit gap in agriculture, infrastructure, and productive investment that commercial banks currently cannot reach

Macroprudential Currency Firewalls: To prevent systemic financial sector distress during the multi-year dual-currency transition, the reform framework establishes two binding prudential rules for commercial bank balance sheets. First, strict currency matching: commercial banks are prohibited from maintaining unhedged structural open foreign exchange positions. The currency denomination of a bank's loan book must map to the currency profile of its underlying deposits — a bank holding USD deposits may only lend in USD, and a bank holding ZiG deposits may only lend in ZiG. This eliminates the balance sheet mismatch that has historically destabilised banking systems in dual-currency transitions. Second, hedged-borrower restriction: USD-denominated loans may only be extended to legally verified hedged borrowers — specifically, enterprises with documented, contractual foreign currency revenue streams such as active mineral exporters, established agricultural exporters, and businesses with long-term hard-currency offtake agreements. Non-exporting retailers, ordinary consumers, and domestic service businesses are thereby insulated from foreign exchange balance-sheet exposure, protecting the most economically vulnerable segments of the population from the currency risk that USD lending in a transitioning economy creates.

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SECTION 5B

5b. The Social Consequences of Stabilisation

Every serious reader of monetary reform history understands a difficult truth that this paper must address directly: stabilisation programmes impose genuine, often severe, short-term social pain before their long-term benefits emerge. Tight liquidity raises the cost of credit. Fiscal consolidation requires spending restraint. Higher interest rates slow growth in the near term. Subsidy reductions raise consumer prices. These are not theoretical risks — they are the documented experience of every stabilisation programme from Peru to Bulgaria to Ghana. In Zimbabwe's case, ESAP's failure in the 1990s was driven partly by the absence of any social protection framework: the pain was borne entirely by the most vulnerable, generating the political backlash that ultimately destroyed the programme. This blueprint will not repeat that error. A monetary reform without social protection is not just incomplete — it is self-defeating, because the political coalition it destroys is the one that reform needs to survive.

Who Bears the Cost of Stabilisation

The distributional consequences of monetary stabilisation are predictable. In the early phases, real wages often fall as price adjustments occur faster than wage renegotiations. Public sector employment contracts as fiscal consolidation reduces the wage bill. Credit becomes more expensive as interest rates rise to defend the exchange rate and anchor inflation expectations. Import prices rise if the exchange rate adjusts. Government subsidies on fuel, utilities, and food are reduced to close the fiscal deficit. The households most exposed to these effects are those with no savings buffer, no access to hard currency, and no ability to hedge: wage earners in the formal sector, informal traders, smallholder farmers, pensioners, and the urban poor. These are also, not coincidentally, the constituencies whose political support reform most needs.

The Social Protection Framework

This blueprint therefore insists that monetary reform be accompanied by an explicit social protection programme, funded and designed in parallel with the fiscal consolidation measures. This is not a contradiction: targeted social protection spending can be accommodated within a credible fiscal consolidation framework by redirecting resources from untargeted subsidies and patronage expenditure toward direct support for the most vulnerable. The key components:

- Targeted cash transfer programme: a direct monthly transfer to the bottom two income quintiles, delivered through mobile money platforms to minimise leakage.

Modelled on successful African programmes including Kenya's Hunger Safety Net and Zambia's Social Cash Transfer — both of which demonstrated that even at low income levels, direct cash transfers are the most efficient form of poverty protection during adjustment periods.

- Food security protection: strategic grain reserve maintenance and targeted food voucher programmes for the most vulnerable households during the transition period, preventing the food price spikes that historically generate the most acute political backlash against stabilisation programmes.
- Pension protection: a legislated minimum pension floor denominated in real terms, with automatic adjustment mechanisms that protect pensioners from the purchasing power erosion that has destroyed retirement savings multiple times in Zimbabwe's recent history.
- Public works employment: an expanded public works programme — infrastructure maintenance, irrigation rehabilitation, school and clinic construction — that provides employment and income support during the period of private sector credit tightening, while simultaneously building the infrastructure that the broader blueprint requires.
- Healthcare protection: ring-fenced healthcare expenditure that is explicitly protected from fiscal consolidation cuts, ensuring that the most vulnerable households do not face deteriorating public health services precisely when their other economic conditions are most difficult. The 39% decline in healthcare expenditure during ESAP is a cautionary tale that this blueprint explicitly commits not to repeat.
- Temporary wage support for formal sector workers: a time-limited supplementary wage support mechanism for the lowest-paid formal sector workers during the adjustment period, preventing the real wage collapses that historically generate strike action and political instability during stabilisation programmes.

The social protection framework is not charity. It is political economy. Stabilisation programmes that protect their most vulnerable citizens build the broad-based public support that makes reform durable. Those that do not generate the backlash that destroys it. Zimbabwe cannot afford another failed reform attempt.

SECTION 5C

5c. Financial Stability During the Transition

A monetary transition of the scale Zimbabwe requires creates specific and predictable risks to the banking system. These are not hypothetical: monetary transitions across comparable economies have produced deposit flight, liquidity freezes, non-performing loan spikes, and bank insolvencies. Zimbabwe's banking sector, already operating in a fragile dual-currency environment with limited capital buffers, is particularly vulnerable. Acknowledging these risks honestly — and designing the institutional response in advance — is the difference between a managed transition and a financial crisis.

Anticipated Banking System Risks

During Phase One and early Phase Two, the following risks require active management:

- Deposit flight: as monetary reform begins and exchange rate uncertainty persists, depositors may withdraw local currency deposits and convert to USD or informal holdings. This reduces the banking system's funding base and constrains credit availability precisely when the productive economy needs credit most.
- Liquidity freezes: if the RBZ tightens monetary policy to defend the exchange rate or reduce inflation, banks may face acute short-term liquidity pressure, particularly those with mismatched maturity profiles between short-term deposits and longer-term loans.
- Non-performing loan spikes: higher interest rates during stabilisation increase debt service costs for borrowers, driving up non-performing loan ratios and potentially threatening bank capital adequacy.
- Foreign exchange mismatches: banks with USD liabilities and ZiG assets — or vice versa — face balance sheet losses if exchange rate adjustment is sharp, which is precisely why the macroprudential currency firewalls described in Section 5.3 are a precondition rather than an afterthought.

The Financial Stability Framework

- Emergency liquidity facility: the RBZ establishes a pre-committed emergency liquidity facility for solvent but illiquid banks, with collateral requirements that ensure it is used for genuine liquidity support rather than solvency bail-outs. The facility's existence reduces the probability of bank runs by providing a credible backstop.
- Deposit insurance credibility: Zimbabwe's Deposit Protection Corporation requires recapitalisation and credibility restoration before the transition begins. Depositors

who trust that their savings are protected up to a meaningful threshold are less likely to withdraw them pre-emptively. The insurance fund must be genuinely funded, not merely nominal.

- Bank resolution framework: a pre-established, legally clear framework for resolving insolvent banks — including provisions for bail-in of shareholders and subordinated creditors before any public support is deployed — reduces moral hazard and provides a credible mechanism for handling bank failures without systemic contagion.
- Lender-of-last-resort clarity: the RBZ’s role as lender of last resort must be clearly defined in law: available to solvent banks facing liquidity stress, at a penalty rate, against adequate collateral, for a time-limited period. This prevents both the over-use that creates moral hazard and the under-use that allows liquidity crises to become solvency crises.
- Contingency capital controls: while this blueprint does not advocate capital controls as a permanent feature — they reduce investment and distort allocation — a clearly defined, time-limited framework for emergency capital flow management provides an additional tool if external pressures during the transition become destabilising. The framework should be pre-legislated, subject to parliamentary oversight, and automatically sunset after a defined period.

SECTION 5D

5d. Why Future Rules Will Be Binding: Enforcement Mechanisms

The most penetrating question any serious reader of this blueprint will ask is this: Zimbabwe already possesses laws that prohibit monetary financing of government, mandate fiscal discipline, and protect central bank independence. Those laws have been routinely bypassed through statutory instruments, informal pressure, and institutional capture. What makes the next set of rules any different?

This is not a rhetorical question. It deserves a direct answer. The difference between rules that hold and rules that don't is not primarily the quality of the legal drafting. It is the enforcement architecture: the combination of domestic and international mechanisms that raise the cost of violation high enough that the political calculus shifts. This section names those mechanisms explicitly.

International Anchors

- IMF programme conditionality: an active IMF programme — whether a Staff-Monitored Programme, Poverty Reduction and Growth Trust arrangement, or Extended Credit Facility — creates external accountability that domestic political pressure cannot easily override. Programme reviews require demonstrated compliance with fiscal and monetary commitments. Violation means programme suspension, which means loss of IMF financing and the signal to all other international financiers that the reform programme has broken down. The cost is high enough to deter casual violation.
- External reserve custodianship: a portion of Zimbabwe's foreign exchange reserves held in custody at the Bank for International Settlements, the IMF, or a credible international institution — rather than solely at the RBZ — creates a structural barrier to reserve drawdown for political purposes. The custodian releases funds only against specified triggers, not at government discretion.
- International treaty commitments: bilateral investment treaties, SADC monetary integration commitments, and African Continental Free Trade Area obligations create international legal obligations around exchange rate management, capital account treatment, and monetary policy that are harder to override unilaterally than domestic legislation.

Domestic Structural Enforcement

- Automatic fiscal stabilisers: legislation that triggers automatic spending reductions or revenue measures when the fiscal deficit exceeds specified thresholds, removing the requirement for a discretionary political decision at the moment when political pressure to breach the rule is highest. The mechanism fires automatically; overriding it requires an explicit parliamentary vote rather than a quiet administrative decision.
- Independent fiscal council: a statutory body with genuine independence, adequate resources, and a public mandate to assess fiscal policy against the rules framework. The council's reports are public, parliamentary, and binding in the sense that government must formally respond to council findings. Transparency is the enforcement mechanism — deviation from the rules becomes publicly visible and politically costly rather than administratively invisible.
- Parliamentary transparency obligations: quarterly reporting by both the RBZ Governor and the Finance Minister to a parliamentary committee with genuine oversight authority — not a rubber-stamp committee, but one with the legislative power to initiate inquiry and the public platform to make non-compliance visible.
- Civil society and diaspora monitoring: this blueprint's existence as a public document, and the platform being built around it, creates a monitoring constituency that does not depend on formal institutional authority. Zimbabweans at home and in the diaspora who understand what the reform programme requires can identify deviation, articulate it publicly, and build the political pressure that formal enforcement mechanisms sometimes cannot. Transparency empowers citizens as enforcers.

None of these mechanisms is individually sufficient. Their value is cumulative and mutually reinforcing: IMF conditionality creates external accountability; independent institutions create domestic accountability; parliamentary oversight creates political accountability; and public transparency creates citizen accountability. When all four operate together, the cost of violating the rules framework becomes high enough that the political settlement in favour of compliance becomes self-sustaining. That is the architecture that Peru built in the 1990s. It is the architecture this blueprint proposes for Zimbabwe.

SECTION 7

7. Why This Time Can Be Different

The sceptical reader — rightly sceptical, given the history — will ask what has changed to make this reform path any more likely to succeed than the previous six attempts. The answer has three parts.

First, the institutional learning is deeper. Zimbabwe's technocratic and professional community — in the RBZ, in the Treasury, in academia, and in the diaspora — understands with painful clarity what has gone wrong and why. The ZiG's failure followed a now-familiar script that is widely recognised. The argument that monetary instruments alone can deliver stability, without institutional reform, has been empirically disproven so many times that it is becoming politically harder to maintain.

Second, the external environment creates specific leverage. Zimbabwe’s debt arrears, while a constraint on capital access, are also a negotiating asset: their clearance, and the reopening of multilateral financing channels, is a sufficiently large prize that it creates genuine incentive for the domestic political settlement that monetary reform requires. The IMF, World Bank, and African Development Bank are not passive observers — they are potential partners in a reform programme whose conditionality, if accepted genuinely rather than performed, provides exactly the external anchor that domestic reform coalitions need.

Third, the cost of inaction is compounding. Every year of monetary instability is another year of capital flight, brain drain, informal sector entrenchment, and foregone investment. The opportunity cost is now large enough, and visible enough, that the constituency for serious reform — in business, in civil society, in the diaspora, and among reform-minded figures within government — is wider than at any previous point.

> ***The blueprint is clear. The precedent exists. The question is whether the political will can be built and sustained. That is ultimately a question for Zimbabweans to answer.***

TECHNICAL ANNEX

Technical Annex: Mechanisms and Implementation Details

This annex provides additional technical detail for specialist readers on the key institutional mechanisms discussed in the main paper. It is supplementary to the main argument and does not need to be read to understand the paper's conclusions.

A. How a Currency Board Works — and What Zimbabwe Would Need

A currency board is a monetary institution that issues domestic currency at a fixed exchange rate to a reserve currency, maintaining 100% or greater backing of the domestic monetary base in that reserve currency. Unlike a conventional central bank, a currency board has no discretionary monetary policy: it cannot set interest rates, and it cannot create money beyond what is backed by reserves. Its only function is to exchange domestic currency for the reserve currency, and vice versa, on demand.

For Zimbabwe to operate a credible currency board, the following conditions would need to be met:

Currency Board Requirements for Zimbabwe
Sufficient foreign exchange reserves to back 100% of the domestic monetary base — estimated to require a minimum of $500m–$800m in initial reserve capitalisation
Choice of anchor currency: South African rand (better reflects trade relationships) or US dollar (greater global credibility) — each with different competitiveness implications
Legislative establishment: currency board law that is constitutionally entrenched and requires supermajority to amend
Absolute prohibition on government borrowing from the currency board, with no exceptions
Fiscal rule that prevents government deficits from generating pressure on reserves
Clear exit pathway: pre-agreed conditions under which Zimbabwe graduates to inflation targeting

B. Inflation Targeting Framework Design

An inflation targeting framework requires five core institutional elements, each of which must be designed carefully for Zimbabwe's specific circumstances:

1. Mandate clarity: The RBZ's primary mandate is price stability, defined by a specific inflation target. Secondary objectives (financial stability, employment support) are subordinate and may only be pursued when consistent with the primary mandate.

2. Target setting: The inflation target is jointly agreed between the RBZ and the Ministry of Finance, published in the Government Gazette, and reviewed no more than every three years. For Zimbabwe, an initial target of 5–8% with a ±2% band is appropriate, tightening toward 3–5% as credibility is established.
3. Operational independence: The RBZ sets the policy interest rate at regular Monetary Policy Committee meetings, based on its inflation forecast model. Government may express views but may not direct the decision.
4. Accountability framework: The Governor reports to parliament quarterly on inflation performance. Where inflation deviates from the target band, a formal explanation letter is required and publicly published. This transparency is the enforcement mechanism.
5. Zero-financing agreement: A legally binding agreement between the RBZ and the Treasury prohibiting net direct financing of government expenditure — Ghana's experience demonstrates that this must be a legal constraint, not a policy commitment that can be reversed under pressure.

C. Sovereign Debt Restructuring: The Sequencing Issue

Zimbabwe's external debt arrears to multilateral creditors are a structural obstacle to the monetary reform programme, for a reason that is often underappreciated: they prevent the RBZ from accessing the IMF's lender-of-last-resort facilities and technical assistance programmes that would support the transition, and they prevent commercial banks and development finance institutions from providing the reserve-building financing that underpins Phase One.

The sequencing challenge is that arrears clearance typically requires both a financing package (to make the payment) and a reform programme (to justify the financing). Zimbabwe has attempted arrears clearance programmes before — the Lima Process from 2015 onwards established a re-engagement framework — without achieving final resolution. The critical lesson is that creditor confidence requires a domestic reform programme that is genuine rather than performed: the fiscal consolidation, central bank independence, and governance reforms in this blueprint are preconditions for arrears clearance as much as they are standalone desiderata.

A realistic arrears clearance pathway might involve: preliminary IMF Staff-Monitored Programme to demonstrate reform commitment; bridge financing from bilateral creditors or diaspora bond issuance to fund initial multilateral payments; Paris Club debt restructuring for bilateral sovereign debt; and, upon IMF programme approval, World Bank and AfDB arrears clearance enabling resumption of normal financing relationships. This is a multi-year process — but each step unlocks the next, and the end state materially transforms Zimbabwe's fiscal and monetary options.

D. Reserve Adequacy: What Zimbabwe Needs and How to Build It

Foreign exchange reserve adequacy is the practical foundation of exchange rate credibility. The IMF's standard metric for adequacy is three months of import cover. Zimbabwe's current reserve position remains critically low relative to this benchmark — a fact the IMF's 2025 Article IV consultation highlighted as a significant vulnerability.¸

Reserve Building Mechanisms Available to Zimbabwe
Gold export revenues: Zimbabwe's gold exports are the primary source of foreign currency — a portion should be mandatorily retained in RBZ reserves rather than repatriated
Diaspora remittance formalisation: approximately $2 billion annually flows through informal channels; formalisation through competitive exchange rates and banking incentives retains a portion in the formal system
Diaspora bond issuance (offshore escrow structure): to overcome Zimbabwe's sovereign credibility deficit, diaspora bonds are structured via an offshore escrow framework rather than as uncollateralised sovereign debt. Principal and coupon payments are legally secured by a dedicated, ring-fenced stream of physical gold and platinum export royalties, deposited directly into an independent offshore trust account managed by a major multilateral custodian such as Afreximbank or an equivalent international trustee. This transforms the risk profile from a government promise to a commodity cashflow-secured instrument, making it credibly marketable to diaspora investors at scale. Target: $500m–$1bn within 3–5 years of programme launch
IMF emergency facilities: upon programme activation, the IMF's Poverty Reduction and Growth Trust and Resilience and Sustainability Facility provide reserve-building financing
African Development Bank and World Bank budget support: contingent on arrears clearance and reform programme, provides direct balance of payments support
Foreign direct investment: improved governance and monetary stability will itself generate reserve-accumulating FDI inflows — the virtuous cycle of reform

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