



Facilitating an end to the Hyperinflation crisis in Zimbabwe



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Overview

Hyperinflation is an extreme form of inflation typically defined (following the classic benchmark used in much of the economics and policy literature) as a period in which prices rise by more than 50% per month, continuing until monthly inflation drops below that threshold and remains below it for an extended period. [1]

Zimbabwe is a famous case study because it went through one of the worst economic collapses in modern history. Between 2007 and 2008, the country's currency became practically worthless as prices doubled almost every day. This happened because the Central Bank was printing massive amounts of money to pay for government projects and debts that weren't in the official budget. At the same time, the environment for businesses became so difficult that companies stopped producing goods. This created a "perfect storm": as more money was printed, there was less and less to actually buy. It has led to 14% fall in real GDP in 2008 and a cumulative real GDP decline of about 40% during 2000–2007. [3]

A recurring theme across multilateral analyses is that Zimbabwe's hyperinflation was not simply "too many banknotes," but rather a breakdown of the fiscal–monetary boundary: when the state cannot (or will not) fund spending sustainably, it pressures the monetary authority to finance deficits and off-budget programs. In Zimbabwe's case, the Reserve Bank of Zimbabwe (RBZ) undertook large quasi-fiscal activities: an IMF report estimated them at US\$1.1 billion (about 36% of GDP) in 2008, including election-related expenses, transfers to parastatals, subsidized directed lending, and subsidized foreign-exchange allocation; the same report flags weak RBZ governance and accountability as an enabling condition. Because the bank lacked any independence or oversight, it kept printing money to cover these costs, which ultimately destroyed the value of the currency. [2]

Hyperinflation ended abruptly when the domestic unit largely ceased to function and the economy shifted toward foreign-currency pricing and settlement. The IMF describes the official adoption of hard currencies for transactions in early 2009 as recognizing the already "virtually complete dollarization" in practice, and characterizes official dollarization/multi-currency use as providing a strong nominal anchor and fiscal discipline. [2] But later instability illustrates that "ending hyperinflation once" is not the same as building a durable monetary constitution. An IMF report on the late-2010s explains that after 2014 authorities resumed monetary financing via domestic quasi-currency instruments (bank deposits and bond notes), fueling a parallel market



and confidence crises that culminated in major reforms in 2019—yet rapid money growth and a weak nominal anchor contributed to renewed high inflation. [7]

By May 2020, official statistics again showed extremely high inflation: Zimbabwe National Statistics Agency reported year-over-year CPI inflation of 785.55% and month-on-month inflation of 15.13% for May 2020. [8] (Importantly, this highlights a common confusion in public discourse: the “50% threshold” is typically a monthly criterion for hyperinflation, not a year-over-year threshold.) [1]

Definitions of important terms

Hyperinflation

A commonly used benchmark (in both academic and policy discussions) defines hyperinflation as beginning in the month when price increases exceed 50% and ending the month before monthly inflation falls below that threshold and stays below it for an extended period. [1]

Inflation and CPI Inflation

Inflation is the rate at which the general price level rises; CPI inflation measures price changes using a consumer basket index (focusing on the price changes of a specific basket of goods and services purchased by households).

Fiscal deficit

The shortfall when government expenditures exceed revenues (excluding borrowings) over a period. IMF analysis of Zimbabwe’s late-1990s to early-2000s macro dynamics links deficits to inflation pressures, noting that fiscal deficits were pushed higher by unbudgeted spending and defense outlays. [9]

Monetary financing

Financing government spending by creating money, for example through central bank overdrafts or central bank purchases of government securities. [7]

Quasi-fiscal activities (QFAs)

Operations by central banks, state-owned enterprises, or public financial institutions that act as government spending or taxation but occur outside the official budget.



Dollarization and multi-currency regime

“Dollarization” broadly refers to residents using a foreign currency for domestic transactions; “full/official dollarization” occurs when a foreign currency becomes official legal tender for most or all transactions. Zimbabwe’s transition in early 2009 recognized de facto dollarization via official adoption of hard currencies for transactions. [2]

Parallel market premium:

The price difference between official and unofficial exchange rates. The IMF explains that Zimbabwe’s growing parallel market premium for quasi-currencies created severe distortions and intensified pressures for reform.

Timeline of key events

Late 1990s to 2000

IMF analysis links a “large unbudgeted payment to war veterans” (1997), wage increases ahead of the 2000 parliamentary elections, and higher defense spending associated with involvement in the Democratic Republic of the Congo conflict to a budget deficit that reached nearly 18% of GDP by 2000, alongside rising money growth and inflation. [9]

Early 2000 onward

The U.S. enacted the Zimbabwe Democracy and Economic Recovery Act (ZDERA). The law’s findings cite economic mismanagement and the costly DRC deployment as contributing to Zimbabwe’s ineligibility for certain IMF/World Bank programs. [6]

2003-2004

High inflation intensified; the IMF’s 2005 analysis notes year-over-year consumer price inflation reaching a peak of 623% in January 2004 in the context of sharply expanding monetary aggregates and RBZ quasi-fiscal activity. [9]

2007–2008

Hyperinflation accelerated into a full breakdown of monetary function. A reconstruction study using the Cagan benchmark reports Zimbabwe first crossing the hyperinflation threshold in March 2007 and estimates the peak monthly inflation rate at about 79.6 billion percent in mid-November 2008. [3]



2008

The monetary–fiscal nexus worsened: the IMF estimates RBZ quasi-fiscal activities at US\$1.1 billion (36% of GDP) in 2008, conducted amid weak governance and accountability; the same assessment links hyperinflation and the deteriorating business climate to the economy’s estimated 14% real GDP decline in 2008 (on top of the 2000–07 cumulative decline) [2]

Early 2009

The government officially adopted hard currencies for transactions, recognizing de facto dollarization; the IMF describes this as providing a strong nominal anchor and contributing to price stabilization (including short-run U.S.-dollar CPI declines). [2]

2014–2016

The IMF reports a return to monetary financing after 2014 via quasi-currency instruments, with bond coins introduced in 2014 and bond notes later introduced in 2016. [7]

May 2020

ZIMSTAT reported year-over-year CPI inflation of 785.55% and month-on-month inflation of 15.13%, demonstrating the persistence of extremely high inflation even after prior regime shifts. [8]

April 2024

Authorities introduced a new gold-backed currency, ZiG (“Zimbabwe Gold”), described as another attempt to stabilize the monetary system after repeated currency failures since 2009. [15]

Early 2026

Zimbabwe agreed a new staff-monitored program with the IMF as part of re-engagement efforts and arrears clearance discussions; contemporaneous reporting indicated very low year-over-year inflation readings (in local-currency terms) and an emphasis by the central bank on maintaining restrictive policy to anchor inflation. [11]



Position of key nations

United States

The U.S. government's current stance is focused on supporting Zimbabwe's economic recovery while moving away from broad, country-wide sanctions. In 2024, the U.S. Treasury shifted its strategy: instead of treating the entire nation as a "national emergency," it now uses **Global Magnitsky** sanctions to specifically target individuals and networks involved in corruption or human rights abuses. The goal is to hold specific bad actors accountable without hurting the general population, though the U.S. still expects the Zimbabwean government to make real progress on anti-corruption and human rights reforms. [9]

The US will likely prioritize: (i) governance conditionality and transparency (SOEs, sovereign investment vehicles), (ii) credible "no monetary financing" and (iii) a monitored pathway (SMP → track record → arrears clearance) rather than immediate unconditional financing. [3]

United Kingdom

The UK combines (a) creditor interest in an orderly arrears-clearance process and (b) an institutional sanctions-and-compliance posture. The UK maintains a Zimbabwe sanctions regime under its EU Exit framework, providing compliance guidance and enforcement mechanisms. [12] It also has demonstrated willingness to use sanctions tools in corruption/illicit-finance contexts linked to Zimbabwean networks (e.g., coordinated sanctions actions referenced in major reporting on illicit gold trade networks) [24]

The UK's position is focused on ensuring Zimbabwe fixes its internal systems before receiving new financial support. Essentially, the UK will back funding only if the government first proves it can run a fair market and a transparent government. They also require a clear, step-by-step plan for how Zimbabwe will pay back its old, unpaid debts (known as arrears sequencing). Finally, the UK insists on strict rules to stop illegal money laundering, particularly in the mining industry (extractives), to ensure that the country's natural resources benefit the public rather than corrupt networks. [8]



Japan

Japan's posture is typically “development-first + risk-managed engagement” - supporting livelihoods, food security, and investment dialogue while expecting stability and predictability. Japan's Prime Minister's Office summary of the 2025 summit highlights Japanese food aid, agricultural infrastructure support, and encouragement of dialogue with Japanese companies. Japan-related cooperation materials and JICA documentation emphasize agriculture-focused programming and capacity building (bookkeeping/financial planning at community level), consistent with a stability-and-resilience framing.

Japan is likely to prioritize social-buffered stabilization (avoid backsliding from social unrest), implementation capacity, and the arrears-clearance pathway that enables longer-term investment and development finance. [5]

China

China's official strategy is built on the principle of non-interference, meaning they believe Zimbabwe should handle its own internal affairs without pressure from other countries. In their view, the Western sanctions on Zimbabwe are "illegal" and a violation of the country's sovereignty. [11] Instead of demanding political reforms, China focuses on "practical cooperation," pouring investment into massive projects like mining, energy, and infrastructure. Their goal is to help Zimbabwe upgrade its industries and "value chains" such as processing raw minerals into finished goods locally while framing their partnership as a way to support Zimbabwe's right to develop on its own terms. China's official-side commentary also calls for lifting “illegal sanctions” and argues that sanctions harm sovereignty and development rights, while stating China will work with partners to support Zimbabwe's development. [9]

China will likely prioritize sanctions-relief discourse, growth projects, and reforms that stabilize the FX environment and protect investment predictability—while being more resistant to politicized conditionality framed as internal governance intervention. [10]



South Africa

South Africa's diplomatic approach focuses on international law and the belief that no single country should impose its own penalties on another. In 2025, South Africa's Department of International Relations and Cooperation (DIRCO) confirmed this by calling for the end of "unilateral sanctions" against Zimbabwe. They argue that these types of sanctions—which are issued by specific nations like the U.S. or UK rather than the United Nations—should be lifted because they bypass the global, multilateral system. Essentially, South Africa views these sanctions as an unfair hurdle to Zimbabwe's stability and prefers handling such issues through collective, international agreements. [20] South Africa has a deep, practical interest in Zimbabwe's stability because what happens in Zimbabwe physically spills over its borders. Historically, when Zimbabwe's economy collapses, South Africa feels the impact through increased migration, disrupted trade, and complicated "under-the-table" payment systems. Because the two countries are so closely linked, there have been serious discussions about Zimbabwe officially using the South African Rand as its main currency. This idea is based on the "optimal currency area" theory, which suggests that because their economies are already so integrated, sharing a currency would reduce risk and make doing business much easier for both nations. [1]

Suggested solutions

To prevent hyperinflation from returning, Zimbabwe must move beyond simple promises and make it physically impossible for the government to print money to cover its debts. The IMF's 2026 strategy focuses on "plugging the leaks" by enforcing strict cash controls and using a Treasury Single Account, which ensures the government only spends what it actually has. A major part of this reform is setting a "zero limit" on the Central Bank's ability to give the government emergency cash (overdrafts), as these "hidden" debts are usually what trigger a fresh wave of inflation. Both the IMF and the World Bank argue that when the government stops using the bank as a private ATM and starts publishing transparent monthly reports, the currency's value stabilizes. This stability actually helps the government in the long run by making tax collection more predictable, which provides enough "fiscal space" to fund essential services and makes the tough reforms easier for the public to support. [8]



Stopping hyperinflation isn't just about printing less money; it is about rebuilding public trust. For a currency like the new ZiG to work, people must believe the government won't force the Central Bank to print money to pay its bills or manipulate exchange rates for political favors. The IMF's 2026 plan emphasizes that Zimbabwe needs a transparent, single market for foreign currency where prices are set by supply and demand, rather than secret government rules. Historically, when the government tried to control who got US Dollars at "cheap" rates (discretionary allocation), it only fueled the black market and caused prices to skyrocket. To make the new currency "anchor" believable, the government is currently keeping interest rates high (around 35%) and must commit to publishing monthly reports on its reserves and spending. Ultimately, the goal is to make people want to hold the local currency because it is stable and easy to trade, rather than forcing them to use it through laws, which almost always leads to people fleeing back to the informal market. [9]

Instead of trying to fix everything at once with a single "grand bargain," the best path for Zimbabwe between 2026 and 2030 is a step-by-step sequence of "credibility tests" to prove that old, bad habits won't return. This process starts in 2026 with strict controls on government cash and ends in 2029 with final talks on clearing the country's massive debts. This timeline is carefully designed to balance the different interests of global powers: the US, UK, and Japan focus on transparency and government accountability; China and South Africa push for the removal of sanctions and respect for Zimbabwe's sovereignty; and Japan specifically highlights the importance of food security and social stability. To succeed, the government must avoid the temptation to print money during droughts or economic shocks and instead focus on protecting the poorest citizens through programs like the Zimbabwe Social Registry. Ultimately, if Zimbabwe can keep its budget transparent and its currency markets fair, it can turn this hard-earned stability into the private investment and jobs needed to prevent another collapse. [10]



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