



# JHUMUNC

THE JOHNS HOPKINS MODEL UNITED NATIONS CONFERENCE

## INTERNATIONAL MONETARY FUND

*Chaired by Lexi Rothschild-Edwards*

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# The International Monetary Fund (IMF)

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Topic A: *Regulation of Cryptocurrencies*

Topic B: *Currency Crisis in Zimbabwe*

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## Committee Overview

The International Monetary Fund works to promote global economic growth and stability, through advising governments, providing financing to member nations struggling with the balance of payment concerns, and working in developing nations to bring about stability and mitigate poverty.<sup>1</sup> The IMF was conceived at the Bretton Woods Conference of 1944, in the aftermath of World War II and the breakdown in international economic cooperation that preceded it. In Bretton Woods, New Hampshire, representatives of 45 nations sought to establish a framework to foster strengthened monetary collaboration and avoid the disastrous policies that largely contributed to the Great Depression.<sup>2</sup> Throughout the 1930s, nations adopted protectionist policies and raised barriers to foreign trade in an attempt to strengthen domestic economies, which ultimately exacerbated the global downward spiral. Formally established by the Articles of Agreement in 1945, the new organization aimed to restructure the system of exchange rates and international payments, facilitating free trade and economic growth and discouraging nations from adopting restrictive policies of the Depression-era.

Today, the IMF is centric in the management of the global financial system,

from assisting nations with the domestic balance of payments struggles to addressing international financial crises. The wide breadth of activities of the IMF fall under the broad categories of surveillance, lending, capacity development, and the issuance of “Special Drawing Rights,” or SDRs, to supplement member countries’ currency reserves.<sup>3</sup> The IMF publishes periodic analyses of the current state of the global macroeconomy and financial markets in its *World Economic Outlook* and its *Global Financial Stability Report*, in addition to numerous other publications at the national and regional levels.

In recent years, the emergence of cryptocurrencies have disrupted the financial sector worldwide, and it falls to the IMF to assess the developing technology's impact on the global monetary system and financial markets more broadly. In Topic A, this committee will be discussing various elements of cryptocurrencies themselves and their impact on the currency system, with an emphasis on regulatory mechanisms that should be implemented in order to ensure economic and monetary stability. As the IMF, you will assess the current state of the sector and develop recommendations to regulate the technology and its related markets.

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<sup>1</sup> International Monetary Fund, *About the IMF*

<sup>2</sup> Ibid.

<sup>3</sup> International Monetary Fund, *Figures at a Glance*

Another crucial role of the IMF is to take action in times of financial crisis, and the current state of Zimbabwe highlights the urgency of monetary reform. For decades, government corruption and economic mismanagement have devastated the country, which has consequently experienced several periods of dramatic hyperinflation, as well as widespread poverty and unemployment. In Topic B, you will discuss potential solutions the IMF can adopt in order to strengthen the country's fragile currency system and alleviate the severe poverty the current regime has created.



## Topic A: *Regulation of Cryptocurrencies*

### Introduction

For our first topic, Regulation of Cryptocurrencies, this committee will assess the implications of cryptocurrencies on financial markets and the broader global economy and develop an appropriate international regulatory framework. As delegates, you will consider proposals in accordance with your respective country-specific positions, regardless of your own personal stances, and I encourage you to conduct research and prepare effectively to facilitate meaningful debate and resolutions in committee.

In the wake of the financial crisis of 2007-2008, Bitcoin emerged as an alternative to traditional currencies backed by a centralized monetary authority, such as the Federal Reserve and other central banks worldwide.<sup>4</sup> In the context of a deteriorating global financial system and growing backlash to perceived government complacency, a decentralized currency such as Bitcoin presented a politically independent monetary alternative with a finite supply, validated by a network of users and inherently constrained to the laws of supply and demand.

As Bitcoin expanded and “altcoins” such as Etheruem came to market, exchanges have emerged to facilitate the

trading of cryptocurrencies.<sup>5</sup> However, the growth of this new industry has created several challenges. The anonymity allowed by the use of crypto assets in transactions has contributed to the growth of digital black markets, and Bitcoin has attained a negative stigma surrounding its preferability in drug sales and other illicit activities on the so-called “dark web”.<sup>6</sup> Moreover, the market for Bitcoin has been largely characterized by volatility, and the rapid growth in demand for Bitcoins initially created serious problems for the fledgling exchanges that were then unable to keep up with the sheer scale of demand in its early years.<sup>7</sup>

Despite these risks and challenges, there is considerable potential for innovation and widespread application of cryptocurrency and related technologies. From small businesses to major publicly traded companies, many institutions are adopting blockchain technology, which has further stimulated greater investment and innovation in new startups. Additionally, Initial Coin Offerings, or ICOs, have emerged as a new mechanism for companies to raise capital through the issuance of their own currency – notably, Facebook recently announced its plans to launch its own

<sup>4</sup>Finley, Klint. “Satoshi Nakamoto Introduced Bitcoin 10 Years Ago. Everything – and Nothing – Has Changed”, (Condé Nast 2018).

<sup>5</sup>“Exchanges,” (Bitcoin Project, 2019).  
<https://bitcoin.org/en/exchanges>

<sup>6</sup> Foley et al. “Sex, drugs, and bitcoin: How much illegal activity is financed through cryptocurrencies?”, (University of Oxford, 2018).

<sup>7</sup> Barker, Jonathan T. “Why Bitcoin Has a Volatile Value”, (Dotdash, 2019).

<https://www.investopedia.com/articles/investing/052014/why-bitcoins-value-so-volatile.asp>

cryptocurrency Libras, inciting a degree of government backlash.

As a committee, we will focus on the current state of cryptocurrencies through a regulatory perspective. It is our task to assess the costs and benefits of the various facets of cryptocurrencies, clearly define what in fact constitutes a currency, and establish a framework that promotes accountability while allowing innovation.

## Historical Background

A cryptocurrency is a digital asset, usually centered on blockchain and encryption technology, that can serve as a means of exchange for transactions. While the most widely known cryptocurrencies are Bitcoin and Ethereum, there are well over 1,000 others in existence, and new ones are created regularly.<sup>9</sup> Bitcoin, considered the first established cryptocurrency, was introduced in 2008 when a paper titled “Bitcoin – A Peer to Peer Electronic Cash System” was circulated online under the pseudonym Satoshi Nakamoto, and the software was made publicly available in 2009, in the aftermath of the financial crisis of 2008.<sup>10</sup> Bitcoin functions through a decentralized network of computers that record and monitor transactions using blockchain, a universal, public ledger for cryptocurrency activity that essentially serves as an independent party verifying the legitimacy of transactions.

In addition to the decentralized nature of Bitcoin, the currency is also characterized by its finite supply, and there can be no more than 21 million Bitcoin units in existence.<sup>11</sup> Given that the US dollar,

despite being the world’s reserve currency, is backed merely by fiat and the government is ostensibly free to print dollars unrestrictedly, many believe that the scarcity of Bitcoin presents a more stable reliable alternative, especially in times of inflation.

In its early years, Bitcoin was not traded – digital “coins” were mined from a finite supply, and the new currency lacked an assigned monetary value.<sup>12</sup> In 2010, the first Bitcoin transaction was made, valuing the new asset for the first time - 10,000 Bitcoins were exchanged for two pizzas; those coins would be worth over \$100 million today.<sup>13</sup>

As Bitcoin became more widespread and the idea of an encrypted, decentralized currency system gained traction, exchanges were developed to purchase and trade Bitcoins, and bullish investors contributed to the emergence of rival cryptocurrencies.<sup>14</sup> One of the earliest Bitcoin exchanges, Mt. Gox, was established in 2010, and for a time the exchange was the predominant exchange handling Bitcoin transactions, managing around 70-80% of the global trading volume.<sup>15</sup> As the world’s largest Bitcoin exchange, this allowed Mt. Gox disproportionate power to impact markets, enabling the exchange to unilaterally halt trading and making it a target for hackers. Suffering a fatal blow from hackers in 2014, Mt. Gox crashed and ultimately “lost” over 650,000 Bitcoins, with an estimated value of around \$450 million -- not only did this considerably destabilize Bitcoin market, but it drove the exchange to file for bankruptcy in April 2014.<sup>16</sup> Additionally, Ethereum

<sup>8</sup>Chappel, Bill. “Facebook Unveils Libra Cryptocurrency, Sets Launch For 2020”, (NPR 2019).

<sup>9</sup> Matthew Frankel, *How Many Cryptocurrencies Are There?* (The Motley Fool, 2018)

<sup>10</sup> Bernard Marr, *A Short History of Bitcoin and Crypto Currency Everyone Should Read* (Forbes, 2017)

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Jake Frankenfield, *Mt. Gox* (Investopedia, 2019)

<sup>16</sup> Ibid.



emerged in 2014, becoming Bitcoin's primary competitor.

Another major innovation brought on by cryptocurrency is the ICO, or "initial coin offering." Like a traditional initial public offering, or IPO, ICOs allow companies to raise capital from investors. It is important to emphasize that while an IPO involves the issuance of shares of a company through stock, an ICO does not offer investors ownership interest in a company. Rather, a company creates its own digital currency that investors can purchase, with the goal of driving high circulation and raising the value of the currency.<sup>17</sup> In the United States, there is very little regulation of ICOs, and virtually anyone has the ability to launch an ICO, making them an attractive option for startups. However, ICOs and cryptocurrencies generally are still highly risky and speculative, and this remains a concern of many investors.

Another major concern voiced by critics of cryptocurrencies is that widespread adoption of such a system would empower criminals and contribute to the proliferation of digital black markets. This is enabled by the degree of anonymity offered through the decentralized currency system. Bitcoin has often been linked to illicit transactions related to the online black market platform Silk Road, in addition to major money-laundering schemes. Founded in 2011, Silk Road initially facilitated a relatively small volume of "dark web" drug transactions, yet the site grew substantially, in part through the use of Bitcoin. However, the federal government eventually shut down the black market platform and arrested the site's founder, Ross William Ulbricht in 2013.<sup>18</sup> Furthermore, US officials

uncovered a multi-billion dollar money laundering scheme conducted through the use of Bitcoin.<sup>19</sup>

Bitcoin and cryptocurrency markets have also been widely marked by volatility. On December 17, 2017, Bitcoin reached its record high of nearly \$20,000, prompting many analysts to characterize the surge as a speculative bubble.<sup>20</sup> Less than a week later, BTC was trading below \$11,000 and continued to plummet throughout 2018. Since 2018, prices have continued to fluctuate, but have generally trended upward throughout the first half of 2019.



*BTC to USD, as of August 2019*

<sup>19</sup>Source: Business Insider

## Contemporary Conditions

In considering regulatory approaches to cryptocurrency, it is helpful to place the issue in the context of broader global economic trends and developments. In 2019, economic growth worldwide has slowed and global markets are facing heightened risks, further compounded by political uncertainty and escalating tensions among

<sup>17</sup> Benjamin Sherry, *What Is an ICO?* (Investopedia, 2019)

<sup>18</sup> James Ball, Charles Arthur, and Adam Gabbatt, *FBI claims largest Bitcoin seizure after arrest of alleged Silk Road founder* (The Guardian, 2013)

<sup>19</sup> David Adler, *Silk Road: The Dark Side of Cryptocurrency* (Fordham Journal of Corporate and Financial Law, 2018)

<sup>20</sup> David Morris, *Bitcoin Hits a New Record High, but Stops Short of \$20,000* (Fortune, 2017)

major economic powers, according to the World Bank.<sup>21</sup> Slowing global growth, the United States-China trade war, uncertainty surrounding Brexit, indicators from bond markets, and other factors have elevated risk in financial markets, driving investors to seek safe havens. Historically, gold has been a primary safe-haven asset, yet in recent months, Bitcoin prices have risen in bearish market conditions. For example, Bitcoin prices surged when the US labeled China a currency manipulator, despite an overall market selloff.<sup>22</sup> While some are increasingly considering cryptocurrency as a safe haven from broader macro threats, it is important to remember the inherent volatility and risk of these virtual currencies.

Despite this global outlook, there has been a massive growth in innovation in the financial technology space, commonly referred to as “fintech,” in recent years. Not only have optimistic investors poured money into countless fintech startups, but major financial institutions and corporations have begun to branch out their own operations in this sector. Most notably, Facebook recently announced plans to launch its own digital currency, Libra. Unlike other cryptocurrencies, Libra will be backed by asset reserves, and the new currency and infrastructure will be governed by the Libra Association, an organization founded by a Facebook subsidiary, along with 27 other companies and nonprofits across industries.<sup>23</sup> According to the Libra Association’s white paper, the new system aims to be a “low volatility cryptocurrency” that financially empowers billions of people worldwide --

21 The World Bank, *Global Outlook: Weak Momentum, Heightened Risks* (World Bank, 2019)

22 Matt Hougan, *Bitcoin vs. Gold: Is Bitcoin Really a New ‘Safe Haven’ Asset?* (Forbes, 2019)

23 Libra Association Members, *An Introduction to Libra: White Paper* (Libra Association, 2019)

24 Ibid.

over 1.7 billion adults are currently outside of the global financial system, despite access to mobile phones and internet.<sup>24</sup> Ultimately, Libra claims it will utilize technological innovation to drive financial inclusivity.

However, the proposed digital currency has incited a significant degree of political backlash, particularly within the United States and the European Union. US Congresswoman Maxine Waters, who chairs the House Financial Services Committee, directly told Facebook that it should halt developments on its Libra project, pointing to recent scandals, the lack of a cohesive regulatory framework, and cybersecurity concerns.<sup>25</sup> Additionally, Federal Reserve Chairman Jerome Powell has expressed serious concerns regarding issues of “money laundering, consumer protection, and financial stability.”<sup>26</sup> Additionally, the European Commission has reportedly launched an antitrust investigation into the new digital currency, according to Bloomberg.<sup>27</sup> European Union member states have expressed concerns about the initiative at the national level as well, with officials in countries like France and Germany criticizing Facebook’s plans. As this committee considers regulations of cryptocurrency technology, it will be important to consider both the importance of financial stability, while also taking into account the importance of private sector innovation.

## Past International Actions

As of 2019, individual countries have implemented their own legislation

25 Queenie Wong, *Facebook’s Libra cryptocurrency faces pushback from US lawmakers* (CNET, 2019)

26 Nathaniel Popper, Mike Isaac, and Jenna Smialek, *Fed Chair Raises ‘Serious Concerns’ About Facebook’s Cryptocurrency Project* (New York Times, 2019)

27 Lydia Beyoud and Aoife White, *Facebook’s Libra Currency Gets European Union Antitrust Scrutiny* (Bloomberg, 2019)

regulating cryptocurrencies to varying degrees, yet there is no international framework governing these currencies. In April 2019, the IMF and the World Bank jointly developed and launched a “quasi-cryptocurrency” called “Learning Coin,” as well as a private blockchain, in order to study crypto-assets and potential applications of the technology.<sup>28</sup> This token has no monetary value and is available exclusively within these institutions, with the goal of better-informing economists and regulators. Through this program, the IMF hopes to bridge the gap between the private sector and policymakers who seek to better understand the new technology with major implications for the international monetary system.

IMF Managing Director Christine Lagarde has warned that cryptocurrencies are likely to act as major disruptors in the banking sector and while acknowledging the potential benefits of innovation, regulations should be put in place to ensure systemic stability. In an interview with CNBC in April 2019, she stated that “distributed ledger technology, whether you call it crypto, assets, currencies, or whatever...is clearly shaking the system,” and that such dramatic changes in the financial industry must be coupled with regulation.<sup>29</sup>

Despite a lack of international standards, numerous major countries and regional bodies have taken measures to enact their own. China has enacted strict regulations on cryptocurrency technology, going as far as to ban the use of initial coin offerings (ICOs) as financing strategies for

businesses in 2017.<sup>30</sup> Chinese central bankers and regulators assert that they do not recognize virtual currencies, and banks and other financial institutions are prohibited from dealing in virtual currencies.<sup>31</sup> The European Union has also considered various means of regulating cryptocurrency. In 2018, the European Commission brought virtual currencies and exchange platforms under the regulatory umbrella of the Anti-Money Laundering Directive.<sup>32</sup> European Central Bank (ECB) President Mario Draghi warned that digital currencies present a unique risk to the financial system due to high volatility and widespread speculative trading. Additionally, the ECB and the Bank of Japan launched a joint research project in order to study the potential uses of blockchain technology in developing financial market infrastructures.<sup>33</sup> Cryptocurrency regulation in the US and varies at both the state and the national level. While laws differ from across states, there are inconsistencies across the federal level, as well. For example, while the Securities and Exchange Commission (SEC) classifies digital assets as securities, the Commodity Futures Trading Commission (CFTC) classes them as commodities, thus allowing publicly-traded cryptocurrency derivatives.<sup>34</sup> However, given the recent debates surrounding Facebook’s high profile initiative to launch its own cryptocurrency, Libra, Congress has indicated it hopes to pursue a more streamlined and consistent regulatory approach.

<sup>28</sup> IMF and World Bank Launch 'Learning Coin' to Explore Cryptocurrency (Nasdaq, 2019)

<sup>29</sup> Elizabeth Schulze, Cryptocurrencies are ‘clearly shaking the system,’ IMF’s Lagarde says (CNBC, 2019)

<sup>30</sup> Regulation of Cryptocurrency Around the World (The Law Library of Congress Global Legal Research Center, 2018)

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> BOJ/ECB Joint Research Project on Distributed Ledger Technology, (ECB & BOJ, 2017)

<sup>34</sup> Shiraz Jagati, *Crypto Regulation Outlook in 2019 - what is the Global Scenario?* (Cointelegraph, 2019)



## Questions a Resolution Must Address

*1. Should international standards be implemented in order to regulate cryptocurrency markets and transactions?*

Currently, no international institution has established a uniform framework governing cryptocurrency technology or markets. As a committee, you will discuss what standards and regulations should be implemented at the international level, as well as what should be handled by individual member states.

*2. How should Initial Coin Offerings be regulated?*

Even within countries, there are contradicting classifications of ICOs within the regulatory system. Consistency and clarity are essential in developing effective regulations and standards. Research and discuss the various characteristics of ICOs, and consider how to classify them as a committee.

*3. Should major corporations, like Facebook, have the ability to launch their own cryptocurrencies? What is the basis for your position?*

Many countries and regional bodies have voiced their opposition to Facebook's plan to launch a new independently-governed digital currency, Libra. Consider the proposal and similar initiatives from an antitrust standpoint, assess the potential implications on financial markets, and consider the benefits presented by such a system as you develop your proposals.

*4. Does regulation of cryptocurrency technology impede private sector innovation?*

As you go about developing your resolutions, keep in mind that innovation in the private sector will be impacted by regulations. As a committee, you will be tasked with striking a balance between maintaining systemic stability and allowing businesses to innovate and contribute to economic growth.

*5. Can cryptocurrency be used to promote financial inclusion across the global population?*

Proponents of Libra contend that digital currency can have transformative impacts on global financial inclusion by bringing billions of people into the financial system through tech. Evaluate these claims, and keep in mind that promoting economic empowerment is a major mission of the IMF.

## Bloc Positions

### ▪ *The West*

Within most of Europe and North America, nations have allowed the development of cryptocurrency markets. However, no comprehensive regulations have been enacted at the national level in these countries. Despite critical statements from lawmakers and regulators, no meaningful action has been taken to restrict the regular use of cryptocurrency. In some countries, digital currencies are classified as a commodity, allowing them to be taxed and regulated as such, but this is inconsistent across and even within nations, as evident in the US, where the SEC and CFTC have contradictory classifications. However, companies in these regions are investing considerably in blockchain technology and considering the wide-ranging applications of this technology across sectors, from health care to national defense.

### ▪ *Asia*

Asian countries have regulated cryptocurrencies to varying degrees. While China has banned cryptocurrencies, as discussed above, Japan and South Korea have incorporated cryptocurrencies under the umbrella of existing financial regulations. Additionally, India has not taken any measures to regulate digital currencies.

### ▪ *Latin America*

Cryptocurrency regulation is considerably varied throughout Latin America, as well. Bolivia has banned digital currencies and

exchanges entirely, and Ecuador has banned all cryptocurrencies except a government-issued token.<sup>35</sup> However, cryptocurrencies are commonly used in countries such as Brazil, Mexico, Chile, Argentina, and Venezuela. In Mexico, exchanges are regulated under existing anti-money laundering laws, which have been amended and extended to account for the new technology. Interestingly, the Venezuelan government attempted to launch a cryptocurrency backed by the nation's oil reserves, as the country's existing currency system is experiencing rampant hyperinflation and economic deterioration. However, the token has not functioned as a currency and the proposal was met with substantial international backlash, including a ban on American use of the digital currency.<sup>36</sup>

### ▪ *The Middle East and Africa*

Many Middle Eastern and African countries have warned against the use of cryptocurrencies, and some have enacted bans and restrictions. Algeria, Iran, Iraq, and others have banned cryptocurrency transactions and exchanges to varying degrees. Other countries such as Saudi Arabia have warned against cryptocurrency trading and transactions but have not implemented comprehensive bans. Overall, many of these nations are skeptical of digital currencies, yet have not developed regulations governing their usage.

<sup>35</sup> *Cryptocurrency Regulations in Latin America* (Comply Advantage: Knowledgebase)

<sup>36</sup> Alexandra Witts, *Donald Trump bans American use of Venezuelan cryptocurrency in latest sanctions against Maduro's government* (The Independent, 2018)

## Conclusion

Cryptocurrency and blockchain technology are becoming an increasingly disruptive force in financial markets, and there is a striking lack of uniformity of regulations at both the national and international levels. Often, the regulatory process fails to keep up with rapidly changing technology. However, given the globalized and highly connected nature of the financial system, developing comprehensive, consistent international standards is crucial.

As you, the delegates, continue with your research you will undoubtedly find positions on cryptocurrency policy. Use your country's policies and laws, past statements and reports issued by the IMF and other international institutions, and credible news and data sources to craft your position papers and resolutions in committee. With the proper research, I am fully confident that as a group we will be able to have a substantial and engaging debate over one of today's most dynamic issues at the intersection of finance, technology, and global affairs.



## Topic B:

### *Currency Crisis in Zimbabwe*

## Introduction

For our second topic, we will discuss the currency crisis in Zimbabwe. As a committee, you will consider the causes of the country's prolonged economic crisis and develop policy recommendations to address the crisis. It is your task to develop and assess proposals that are consistent with your respective country-specific perspectives, regardless of your own personal stances.

Once one of Africa's promising economies, government mismanagement of the economy resulted in nearly two decades of economic decline and one of the world's most severe episodes of hyperinflation. In 2018, Zimbabwe was ranked 159 out of 190 in the World Bank's Doing Business index<sup>37</sup> and 124 out of 137 in the World Economic Forum's Global Competitiveness Index.<sup>38</sup> According to the World Bank, extreme poverty has risen from approximately 29% in 2018 to 34% in 2019, driven by a contracting economic and substantial price increases.<sup>39</sup> A decade after Zimbabwe's devastating period of hyperinflation in 2008-2009, Zimbabwe's inflation rate began to increase considerably in 2018, driven by widespread economic mismanagement, including the monetization of substantial fiscal deficits.<sup>40</sup>

Zimbabwe's economic state is further exacerbated by the regime's lack of international support. However, it is up to you as a committee to develop creative solutions the IMF can adopt to effectively reform Zimbabwe's policies and institutions to stabilize its economy and alleviate widespread poverty.

## Historical Background

Understanding the history of Zimbabwe is crucial in understanding its current currency crisis. The 1800s marked the beginning of British colonialism in Africa, with the Berlin Conference (1885) establishing European countries' power particular regions of Africa.<sup>41</sup> At the time, Zimbabwe was under the rule of the Ndebele Kingdom, with King Lobengula in power.<sup>42</sup> When the British began arriving in Lobengula's territory, he approved many franchises to the British in exchange for the abundance of resources and wealth they brought with them.<sup>43</sup> An important franchise to note is one that was given to Cecil John Rhodes. This franchise gave him exclusive rights to exploit the majority of the lands east of Lobengula's territory for minerals, which eventually formed the British South African Company in 1889.<sup>44</sup> Many years of political turmoil between the

37 "Doing Business 2019," World Bank Group, <http://www.doingbusiness.org/> (accessed November 10, 2019)

38 Ibid.

39 "The World Bank in Zimbabwe," World Bank Group, <https://www.worldbank.org/en/country/zimbabwe/overview> (accessed October 21, 2019)

40 Ibid.

41 "Zimbabwe," South African History Online, <https://www.sahistory.org.za/place/zimbabwe>. (accessed November 10, 2019)

42 Ibid

43 Ibid

44 Ibid

British and the Ndebele people passed, and King Lobengula died of an illness in 1894.

Following his death, the Ndebele Kingdom lost most of its power and resistance against the British, as the King was seen as “an essential aspect of Ndebele identity.”<sup>45</sup> The British, at this point, had complete power over the region and named it “Rhodesia”, after Cecil John Rhodes. The region was governed by Rhodes’ franchise, the British South African Country. Zimbabwe’s independence from the British began with the Chimerunga wars, which were battles fought between the British and natives of the land in hope for liberation from the oppression from the British.<sup>46</sup> Rhodes’ government was overthrown and renamed Zimbabwe in 1980.

After elections in February 1980, Robert Mugabe was elected the first official leader of Zimbabwe, holding the position of Prime Minister.<sup>47</sup> Initially, Zimbabwe had healthy economic growth. However, two back-to-back droughts in the span of five years negatively impacted Zimbabwe’s economic growth due to the large contribution agriculture makes to its GDP.<sup>48</sup> This, in addition to a world recession that was occurring at the time, forced policymakers to develop the Economic Structural Adjustment Program (ESAP). This included many goals such as reducing the budget deficit and inflation as well as increasing GDP by five percent.<sup>49</sup> Its overall aim was to liberalize the economy of Zimbabwe. The ESAP program was a

failure, with a GDP growth rate of only .8 percent.<sup>50</sup> This is due to the negative impact that ESAP had on the manufacturing industry, as it was not prepared for foreign competition at the time. Zimbabwe’s government failed to regulate ESAP program spending; they did not finance the program properly. Instead of taxing citizens, loans were taken out from local banks.

In an effort to boost the economy following ESAP’s failure, the government developed the Zimbabwe Program for Economic and Social Transformation (ZIMPREST). This program was short-lived, lasting from 1996-2000, and its failure opened the doors to the increase of budget deficits and drops in currency value.<sup>51</sup>

There are some important events that occurred throughout the end of the 1990s that had a cumulatively large impact on the economy of Zimbabwe. The first was the crash of the stock market in November of 1997.<sup>52</sup> This was followed by strikes that consisted mostly of war veterans who demanded economic assistance after their service. The government was then forced to pay a gratuity and monthly pension to these veterans. These were expenses the government did not leave room for in their budget, and as such, they had to begin the process of monetization (i.e. printing out more money in order to carry out these payments).<sup>53</sup>

In the following year Zimbabwe once again made payments that they had not left room for in their budget. However, these

45 Ibid.

46 Chidochashe L. Munangagwa, “*The Economic Decline of Zimbabwe - Gettysburg College*,” *The Gettysburg Economic Review*. <http://cupola.gettysburg.edu/cgi/viewcontent.cgi?article=1021&context=ger>

(accessed October 12, 2019)

47 “Zimbabwe,” *South African History Online*, <https://www.sahistory.org.za/place/zimbabwe>.

(accessed November 10, 2019)

48 Ibid.

49 Ibid.

50 Ibid.

51 “Zimbabwe,” *South African History Online*, <https://www.sahistory.org.za/place/zimbabwe>. (accessed November 10, 2019)

52 Ibid.

53 “Hyperinflation in Zimbabwe,” *Federal Reserve Bank of Dallas* <https://www.dallasfed.org/~media/documents/institute/annual/2011/annual11b.pdf>

(accessed November 10, 2019)



particular payments are not to be overlooked, as they are believed to have been the start of Zimbabwe's drastic economic decline. Zimbabwe had involved itself in a war in the Democratic Republic of Congo in 1998.<sup>54</sup> Economists estimate that a total of about 6 billion Zimbabwean dollars were spent due to Zimbabwe's involvement in this war.<sup>55</sup> In addition to this, they had high amounts of debt that they owed to the International Monetary Fund. These debts continue to this day, with the IMF no longer lending money to Zimbabwe due to arrears.<sup>56</sup>

Another important past policy was the Land Reform Program. In the 1990s, much of Zimbabwe's land was distributed amongst white farmers. This was backed by the Lancaster Agreement, which was a contract signed during Zimbabwe's independence from the British to ensure that white farmers would not lose their land under the Zimbabwean rule. This contract only lasted for ten years, and after it ended, government officials began to redistribute land amongst themselves and loyalists.<sup>57</sup> President Mugabe began a land reform program, named the "Fast Track" program, that attempted to redistribute land to the black Zimbabwean majority as fast as possible.<sup>58</sup> The speed in which this occurred actually negatively impacted the economy, as it decreased agricultural production. In

addition to this, white farmers left their farms to citizens that did not carry the skillset to be able to farm. which also decreased agricultural production.<sup>59</sup> The budget deficit increased by about 15% by the year 2000, taking up 24.1% of the GDP.<sup>60</sup>

## Contemporary Conditions

The economic instability in Zimbabwe has nonetheless continued. As seen in Figure 1, In November 2008, Zimbabwe's year-over-year inflation rate reached a whopping 89,700,000,000,000,000,000,000%, which is 89.7 sextillion percent.<sup>61</sup> However, the regime continues to blame the current economic state of Zimbabwe on Western powers due to sanctions they have placed on Zimbabwe.<sup>62</sup> Major organizations such as the World Bank, International Monetary Fund, and African Development Bank contribute little to no economic assistance to Zimbabwe, which further deteriorated Zimbabwe's economic situation. The Zimbabwean dollar was officially eliminated on April 12, 2009.<sup>63</sup> The country now uses various different currencies such as the US dollar, Euro, British pound, South African rand, and Botswana Rand.<sup>64</sup> In early 2019, the Reserve Bank of Zimbabwe- the official bank of Zimbabwe- announced a new currency. The Real-Time Gross Settlement (RTGS) dollar or "Zimdollar" is

54 Chidochashe L. Munangagwa, "The Economic Decline of Zimbabwe - Gettysburg College," The Gettysburg Economic Review.  
<http://cupola.gettysburg.edu/cgi/viewcontent.cgi?article=1021&context=ger>  
 (accessed October 12, 2019)  
 55 Ibid  
 56 "The World Bank in Zimbabwe," World Bank,  
<https://www.worldbank.org/en/country/zimbabwe/overview#2>.  
 (accessed October 13, 2019).  
 57 Chidochashe L. Munangagwa, "The Economic Decline of Zimbabwe - Gettysburg College," The Gettysburg Economic Review.

<http://cupola.gettysburg.edu/cgi/viewcontent.cgi?article=1021&context=ger>  
 (accessed October 12, 2019)  
 58 Ibid.  
 59 Ibid.  
 60 Ibid  
 61 Steve H. Hanke and Alex K. F. Kwok, *On the Measurement of Zimbabwe's Hyperinflation* (CATO, n.d), 353-364,  
<https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2009/5/cj29n2-8.pdf>.  
 62 Ibid  
 63 "Zimbabwe Dollar," OANDA,  
<https://www.1oanda.com/currency/iso-currency-codes/ZWD>  
 (accessed October 11, 2019)  
 64 Ibid

now the official currency of Zimbabwe. The introduction of the new currency made it illegal to use foreign currency in Zimbabwe, which has been difficult for citizens of Zimbabwe.<sup>65</sup>

Widespread protests over the currency crisis and the subsequent crackdown suggests that the political environment in Zimbabwe will remain highly volatile.<sup>66</sup> Moreover, a major condition for potential IMF-financed deals is likely the clearance of arrears owed by the government to its multilateral creditors, yet given poor relations with Western institutions, this is unlikely to occur.<sup>67</sup> Given the economic contraction and rapid inflation, monetary policy plays a crucial role in Zimbabwe's economic outlook.

TABLE 1  
ZIMBABWE'S HYPERINFLATION

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

NOTES: The Reserve Bank of Zimbabwe reported inflation rates for March 2007–July 2008. The authors calculated rates for August 2008–14 November 2008. SOURCES: Reserve Bank of Zimbabwe (2008a) and authors' calculations.

Figure 1: Zimbabwe's hyperinflation rates<sup>68</sup>

65 Simon Allison, "Why No One's Buying the New Zimbabwean Dollar," *The M&G Online*, <https://mg.co.za/article/2019-06-24-why-no-ones-buying-the-new-zimbabwean-dollar> (accessed October 12, 2019)

66 "Zimbabwe: Briefing Sheet." *The Economist Intelligence Unit*, <https://country.eiu.com/article.aspx?articleid=1318525915&Country=Zimbabwe&topic=Summary&subtopic=Briefing+sheet> (accessed October 21, 2019)

67 Ibid.

## Past International Actions

The 2017 coup of the Mugabe government led to an extremely short-lived optimism that the economic climate of Zimbabwe may change. While the stance of the new government was to improve the economic downward spiral, it has worsened.

The government of Zimbabwe requested, in December of 2017, the "support of many international groups including the African Development Bank, United Nations, World Bank Group (WBG), and other partners to assess the scale and scope of challenges and needs in Zimbabwe."<sup>69</sup> The Zimbabwean international public debt was already 14.5 billion USD, an increase of 3.236 billion USD since the previous fiscal year.<sup>70</sup> The arrears on the WBG and the African Development Bank loans totaled nearly two billion in 2019, prompting the planning of debt talks at the beginning of 2020.

The "World Economic Forum on Africa in Cape Town, said Zimbabwe would 'cast the net wide', from G7 countries to banks, to secure the bridging loans it would need to pay off those arrears," despite previous contrary statements made by world powers and G7 powers in regard to assisting Zimbabwe in its current economic crisis.<sup>71</sup>

On August 2 of 2018, many international observer missions released joint statements, including the EU, AU, SADC and the Commonwealth, that expressed "grave concern about post-

68 Steve H. Hanke and Erik Bostrom, "Zimbabwe Hyperinflates Again: The 58th Episode of Hyperinflation in History," <http://sites.krieger.jhu.edu/iae/files/2018/07/Zimbabwe-Hyperinflates-Again-Hanke-Bostrom-.pdf> (accessed November 10, 2019)

69 *Zimbabwe; Events of 2018* (Human Rights Watch, 2019)

70 *The World Bank in Zimbabwe* (The World Bank, 2018)

71 *Zimbabwe plans talks on foreign debt arrears in early 2020: Finance Minister* (REUTERS, 2019)

election violence... [and] denounced the excessive use of force to quell protests and urged the police and army to exercise restraint," additionally leading The United States' President, Donald Trump, to sign the Zimbabwe Democracy and Economic Recovery Act into law, reinstating the economic sanctions against the new Zimbabwean government, the Mnangagwa administration.

Sibusiso B. Moyo, Zimbabwe's Minister of Foreign Affairs and International Trade, released a statement on August 21<sup>st</sup>, 2019, claiming that the current sanctions against Zimbabwe are a major factor inhibiting the country's potential development. He claimed that "lifting the Mugabe-era U.S. economic sanctions that prevent full international engagement would remedy [their problems]." He continued by stating that Zimbabwe has assets beneficial to the world economy including "rich mineral resources and land, a highly educated workforce, and solid infrastructure."<sup>72</sup>

The IMF is currently working in close conjunction with the government of Zimbabwe in a joint attempt to improve the economic conditions through its Staff Monitored Program. The IMF lead an article IV consultation in Harare from the fifth to the 19<sup>th</sup> of September in 2019. The topics analyzed during the consultation included recent economic developments, short and medium-term economic outlooks and improving the transparency of the current government with both the people of Zimbabwe and the international community.<sup>73</sup>

After the IMF consultation, it was released that the inflation in the country reached nearly 300 percent year-over-year in August and the exchange rate of the ZWL depreciated from 1:1 with the USD to 1:16.5.<sup>74</sup> The continued effort on behalf of the IMF to improve the economic conditions is planned to continue from October 14<sup>th</sup> to the 20<sup>th</sup> at the annual IMF and World Bank meetings.

<sup>72</sup> *Economic Isolation in Hindering Zimbabwe's Transformation* (FP Johns Hopkins University, 2019)

<sup>73</sup> *IMF Staff Concludes Visit for the Article IV Consultation and Discussions on the First Review of the Staff-Monitored Program to Zimbabwe* (International Monetary Fund, 2019)

<sup>74</sup> *Ibid.*

## Questions a Resolution Must Address

### *1. How can the IMF effectively implement programs in Zimbabwe?*

Given the regime's hostility toward outside influence and the lack of strong international support, consider ways that this committee can incentivize the regime to collaborate in order to stabilize its economy through IMF partnerships.

### *2. Should international aid be increased to Zimbabwe, despite the regime's policies of suppression?*

Currently, the EU, AU, SADC and the Commonwealth have been strongly opposed to the actions taken by the Zimbabwean government and, subsequently, much of the foreign aid has been from the IMF, WBG, and the African Development Bank.

### *3. Should the Mugabe-era economic sanctions be lifted?*

The United States has many economic sanctions in place against Zimbabwe. The current government of Zimbabwe, however, claims that allowing the sanctions to be lifted would greatly benefit both the country of Zimbabwe and the international community. The current overt use of the military police in Zimbabwe may also be a reason for both lifting or increasing sanctions.

### *4. How should Zimbabwe address the rapid devaluation of its currency?*

The citizens of Zimbabwe are all too familiar with what hyperinflation can do to an economy and with inflation reaching 300 percent year-over-year in August, the UN estimates 8.5 million people to be food insecure as they cannot afford, on average, more than one meal. What solutions have been used in previous instances of hyperinflation to effectively address the crisis?

### *5. What measures can be implemented to increase resiliency against future currency crises in Zimbabwe?*

While short-term remedies to the financial crisis may stabilize the currency, Zimbabwe's financial policy and institutions require deeper reform. How can the country's financial system be restructured to prevent future currency crises?

## Bloc Positions

### ▪ *The West*

Within most of Europe and North America, there is an expressed concern for the current workings of the Zimbabwean government in terms of the containment of demonstrations by citizens. This has caused joint opposition by many groups throughout Europe, America and international communities throughout these regions. Additionally, the United States implemented major sanctions against the country in response to many of the government's actions. Despite this, the government of Zimbabwe claims that they are out of date and should be repealed due to the fact that they are the same sanctions that were implemented during the previous government of Zimbabwe as well.

### ▪ *Asia*

Asian countries have been relatively anonymous throughout Zimbabwe's economic crisis. Despite this, Zimbabwe is a prime subject for China's trillion-dollar worldwide expansion plan in which it builds massive shipping and transportation hubs throughout the world in exchange for an extended lease of the newly built ports. Zimbabwe, in doing this, may benefit from increased trade from China and other countries and may view it as a means to prompt the United States to remove its sanctions.

### ▪ *Latin America*

The Latin American stance on the Zimbabwean economic crisis has been relatively minimal due to the fact that many of the countries in this region are experiencing many of the same fundamental issues that Zimbabwe is, but they may use Zimbabwe as a model to promote the bettering of their own economies through different methods. A recent currency crisis in Venezuela prompted them to launch a cryptocurrency backed by the country's oil reserves. A similar question arises within Zimbabwe. As the currency of the country continues to devalue, there is the possibility of creating a cryptocurrency as backed the government-boasted natural reserves. Additionally, if the United States and other countries were to lift sanctions and these natural resources were exploited, the compounded effects of these different complex parts of the economic crisis and their accompanying solutions would have to be evaluated.

### ▪ *The Middle East and Africa*

The stance taken by Africa in this economic issue has been complex. This is due to the fact that the African Development Bank released a joint statement with many other influential world powers condemning the presence of excessive police force, and at the same time, Zimbabwe has over two billion USD in arrears that need to be paid to the African Development Bank. The talks that take place in 2020 over the arrears and how they will be handled will be highly influential in the fate of Zimbabwe's economy and subsequently the wellbeing of its people.



## Conclusion

Given the current state of affairs of Zimbabwe's economy, its future outlook appears bleak. Protests against the regime's policies are compounding the instability within the country, and extreme poverty and economic stagnation are projected to persist. Any efforts at implementing reform will face obstacles presented by the simultaneous political and economic volatility pervading the country.

As you continue with your research, examine historical cases of hyperinflation

and analyze the advantages and disadvantages of policies that have been effective and the characteristics of the economies in which those methods were implemented. Use your country's policies and laws, past statements and reports issued by the IMF and other international institutions, and credible news and data sources to craft your position papers and resolutions in committee. With thorough research, I am fully confident that as a group we will be able to create innovative policies to address one of the world's most severe economic crises.

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