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HARARE INTERNATIONAL SCHOOL

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ZIMUN XI

The Cost of Innovation:

Navigating the Ethical Responsibilities of Technological Advancements and Societal Change for Inclusive, Sustainable Development in a Globalised World

Economic and Social Council

Developing economic frameworks to stabilise volatile currencies in Less Economically Developed Countries (LEDCs)

Committee: ECOSOC

Issue: Developing economic frameworks to stabilise volatile currencies in Less Economically Developed Countries (LEDCs)

Student Officer: Rufaro Benza

Position: Co-Chair

INTRODUCTION

Currency volatility is the frequency and size of a currency's value changes relative to other currencies. When there is a lot of volatility, the value of a currency might change rapidly and without warning, which can hurt the economy. Exchange rates are significantly influenced by an economy's strength or weakness, and these factors in turn have an effect on inflation, foreign investment, and international trade.

While too much volatility can cause economic instability, a weak currency can sometimes be beneficial by making exports more competitive. Governments, markets, and central banks can sometimes predict currency crises, but they are usually viewed as sudden shocks. Even if these crises are unintended, they have traditionally led to significant economic downturns in Latin America and Asia.

DEFINITION OF KEY TERMS

- **Currency Volatility** – The degree to which a currency's exchange rate fluctuates over time.
- **Exchange Rate** – The price of one currency in terms of another.
- **Currency Crisis** – A situation where a currency experiences a sudden and extreme devaluation.
- **Inflation** – The general increase in prices, reducing the purchasing power of money.
- **Foreign Exchange Reserves** – Holdings of foreign currencies maintained by a central bank to stabilize the national currency.
- **Dollarization** – The process where a country adopts a foreign currency (usually USD) for transactions instead of its own.

- **Purchasing Power Parity (PPP)** – The theory that exchange rates should adjust so that the same basket of goods costs the same in different countries.
- **Interest Rate Parity (IRP)** – A principle stating that the difference in interest rates between two countries will be reflected in the movement of their exchange rates.
- **Monetary Policy** – Economic policies implemented by a central bank to control money supply, interest rates, and inflation.

BACKGROUND ON THE ISSUE

Currency volatility affects inflation, trade, and investment flows, all of which can significantly affect economies. Particularly at risk are LEDCs due to their dependence on commodities exports, external debt loads, and weaker financial institutions.

Historically, currency crises in Asia and Latin America during the 1990s led to financial meltdowns, severe economic recessions, and a decline in investor confidence. Countries such as Argentina, Venezuela, and Zimbabwe have seen extreme currency fluctuations that have affected the purchasing power and economic stability of their citizens. Inflation, massive external debt, and limited foreign exchange reserves are the main causes of currency instability in many emerging and African nations today.

CURRENT CONTEXT

Currency instability is a serious problem in a number of emerging countries:

- Nigeria: Due to $85 million stuck in the nation due to exchange rate volatility, airlines like Emirates and Etihad withdrew. Global airlines have $812 million in stranded funds as a result of Nigeria's unstable currency rate, according to the International Air Transport Association.
- Zimbabwe: Because the value of the Zimbabwean dollar has dropped by more than 70% in 2024, traders are demanding that transactions be made in US dollars rather than the local currency.
- The currencies of South Africa, Kenya, Egypt, Ghana, Ethiopia, and Zambia have also experienced significant depreciations.

Due to weak currencies, some global corporations have left LEDCs. Unilever, for instance, left Zimbabwe, claiming that currency instability was the reason for their problems.

Impact of Currency Volatility on Economies:

- Trade imbalances: a strong currency reduces export competitiveness while lowering import prices, whereas a weak currency increases export competitiveness but raises import prices.

- Inflationary pressures: LEDCs that rely on USD-priced imports, such food and fuel, experience higher costs when their currencies weaken.

- Debt Burden: When a currency depreciates, it becomes more costly to repay debt that is valued in that currency.

- Decreased Foreign Direct Investment (FDI): Investors' unwillingness to place capital in unstable economies slows economic growth.

MAJOR COUNTRIES AND ORGANIZATION INVOLVED

- **International Monetary Fund -** LEDCs can get financial assistance and stabilisation programs from the International Monetary Fund (IMF). In order to make sure that nations are not having a lot of trouble stabilising their currencies, the IMF helps those who are in debt or have an excessive amount of imports and exports.
- **World Bank** - To maintain stable currency rates and limit inflation, the World Bank promotes economic reforms. In order to regulate exchange rates, central banks in LEDCs are responsible for establishing monetary policy. China's and the United States' economies influence international trade and currency trends, which in turn influence LEDC exchange rates.
- **Economic Blocs** - Regional economic blocs and the African Union should promote regional monetary cooperation in order to enhance currency stability.

TIMELINE OF KEY EVENTS

- **1990s – Currency Crises in Asia & Latin America:** This occured in Thailand when the exchange rate in July 1997 spread in Asia. This crisis resulted in changes in prices and loss of stability.

- **2008 – Zimbabwe Hyperinflation Crisis**: Inflation reached 89.7 sextillion percent, leading to the collapse of the Zimbabwean dollar, this was caused by excessive printing of money, which meant that prices increased. The government also had poor economic policies that led to the volatility of the currency.
- **2015 – Argentina's Peso Crisis:** The Argentine peso lost 50% of its value, forcing government intervention, this was due to quite a number of factors such as economic instability and it also led to the devaluation of the peso which caused a sharp increase in prices also known as inflation.
- **2019 – Venezuela's Currency Collapse:** The government introduced the Petro cryptocurrency to combat hyperinflation, the collapse was caused by failing of the fiscal policy which aims to increase aggregate demand, however if it fails like what happened in Venezuela it would have negative economic impacts on the economy such as currency volatility.
- **2022 – Ghana's Cedi Depreciation:** The currency lost 50% of its value, causing inflation to soar, this all started during the COVID 19 Pandemic when businesses start closing down. There was no a lack of financial markets. This led to an increase in prices of all goods including necessities such as water and Value Added Tax. (Tax).

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