



NATIONAL COMPETITIVENESS COMMISSION

Enhancing Zimbabwe's Global Competitiveness

**ANALYSIS OF APRIL INFLATION AND EXCHANGE RATE DEVELOPMENTS
AND THE IMPACT ON COMPETITIVENESS**

13 MAY 2022

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1.0 Introduction

1.1 The country's macroeconomic environment is still threatened by the continuous devaluation of the Zimbabwean dollar and skyrocketing inflation. Concerted efforts are still needed to maintain the gains from the introduction of the auction system in June 2020.

2.0 Inflation Developments

2.1 The month-on-month inflation gained 9.2% to reach the 15.5% mark. This is attributed to the food and non-alcoholic beverages inflation, which gained 12.5 % points in March to reach 18.5% and the non-food inflation rate gained 6.8% to reach 13.3%.

2.2 Year-on-year inflation rate also gained momentum northwards to hit the 96.4% mark in the same month. These developments in inflation erode certainty in planning and discourage investment in the country hence negatively impacting the country's competitiveness.

3.0 Exchange Rate Developments

3.1 The Central Bank, through the Monetary Policy Committee (MPC) resolutions of 1 April 2022, further liberalized the foreign exchange market by allowing banks to set their own exchange rates using the willing-buyer willing-seller concept for transactions of up to US\$1000. This strategy came as a way of unlocking free funds from individuals and corporates to improve the supply of the USD in the market and ease pressure from the auction.

3.2 At inception, on 8 April 2022, the interbank rate was ZWL240:1USD against an auction rate of 1USD:ZWL143 and a parallel market rate of USD1:ZWL350. The ZWL further depreciated to USD1:ZWL159. 35, 253 and to 400 on the auction, interbank and parallel markets, respectively by 29th April.

3.3 Loss of confidence in the local currency is attributed to the continuous depreciation of the ZWL. Depreciation has short-term benefits to competitiveness as exports become cheaper, however to the detriment of Zimbabwean exporters.

4.0 Conclusion

4.1 Given the pass-through effect of exchange rate to inflation through indexation of prices and that local inflation is merely a symptom of local currency depreciation, the Commission is of the view

that more effort should be exerted towards exchange rate stabilization and confidence building in order to improve competitiveness.

National Competitiveness Commission

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