



**NATIONAL COMPETITIVENESS COMMISSION**

**Enhancing Zimbabwe's Global Competitiveness**

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

**27 MAY 2022**

# ANALYSIS OF MAY INFLATION AND EXCHANGE RATE DEVELOPMENTS AND THEIR IMPACT ON COMPETITIVENESS

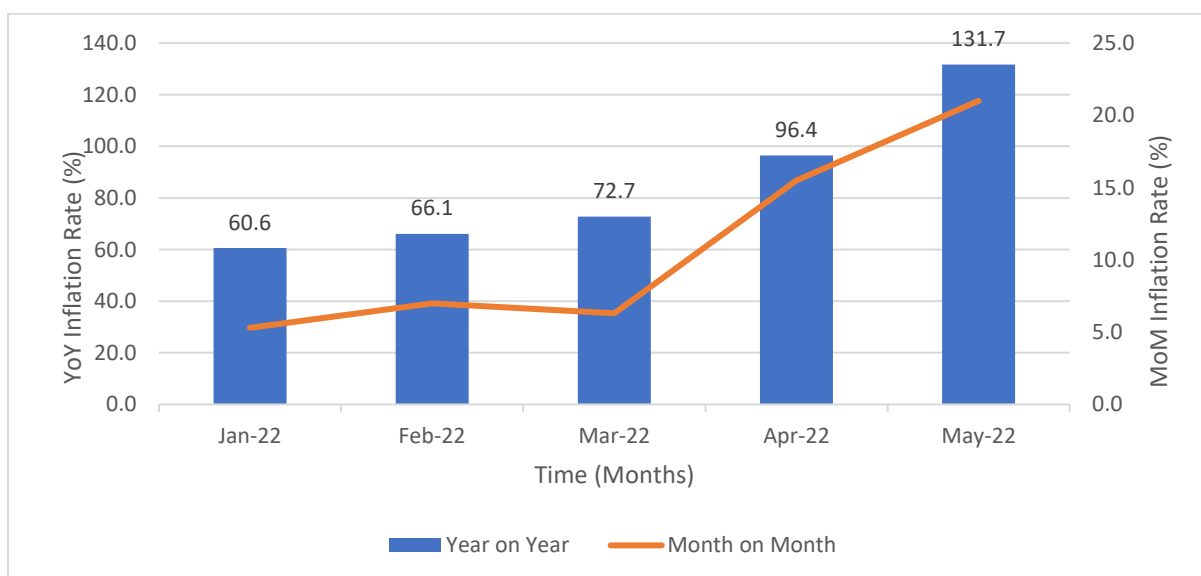
## 1.0 Introduction

- 1.1 The economy's competitiveness continues to face further deterioration due to macroeconomic challenges attributed to high inflation pressures and depreciation of the local currency both on the official and parallel markets.
- 1.2 The yearly inflation has continued to maintain an upward trend, rising from 96.4% in April 2022 to 131.75 in May 2022.

## 2.0 Inflation Developments

- 2.1 The month-on-month inflation gained 5.5% in May 2022 to reach the 21%-point mark. The food and non-alcoholic beverages inflation contributed to this increase by gaining 7.5points from April 2022 to close the month at 26% and the non-food inflation rate gaining 3.6% to close at 16.9%.
- 2.2 Year-on-year inflation rate has been on a skyrocketing trajectory since the beginning of the second quarter of 2022, rising from 60.6% in January 2022 to 131.7% in May 2022 as shown in Figure 1.

**Figure 1: Inflation Developments, January - May 2022**



Source: Zimstats

- 2.3 A major contributor to May's inflation is the adoption of the willing buyer willing seller (WBWS) exchange rate for transactions and tax purposes from the previously used auction rate

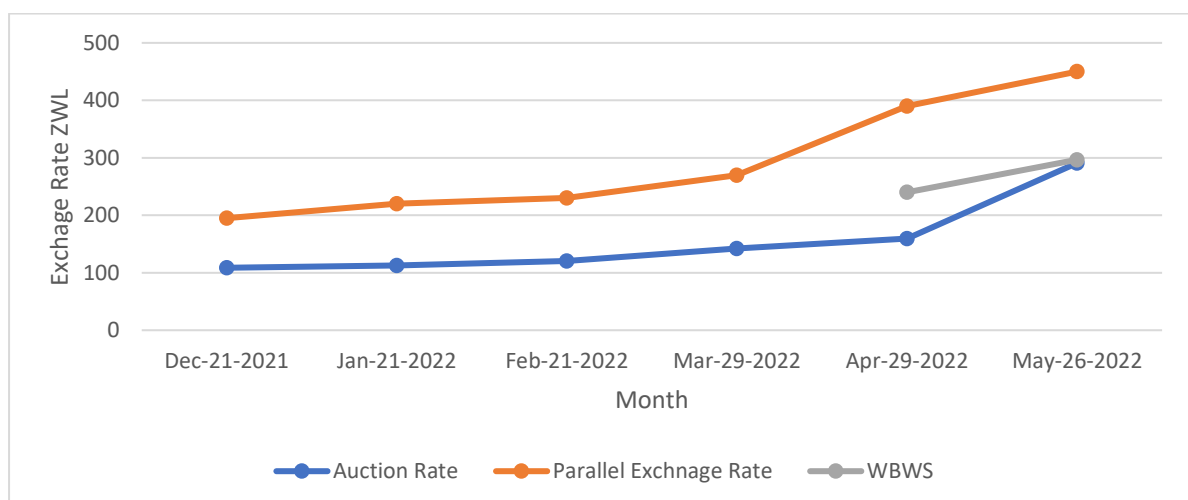
beginning 9 May 2022, resulting in the local currency depreciating by 67.5% from USD1:ZWL165 to USD1:ZWL277.

- 2.4 This increased costs to business and was reflected through a general increase in prices of goods and services in the economy.
- 2.5 Furthermore, the impact of geopolitical conflicts, especially the Ukraine and Russia conflict cannot be exonerated from the current spate of price hikes as this is also contributing to supply chain disruptions resulting in high imported input costs.
- 2.6 To hedge against the threats of price distortions from continuous depreciation of the ZWL, businesses withheld stocks leading to disappearance of basic commodities from the shops.
- 2.7 Resultantly, Government opened borders and scrapped duty on some selected basic commodities to avert shortages. This creates a vicious cycle as local industries are prematurely exposed to foreign competition.

### 3.0 Exchange Rate Developments

- 3.1 The liberalization of the foreign exchange market through the Monetary Policy Committee (MPC) resolutions of 1 April 2022, by allowing banks to set their own exchange rates using the willing-buyer willing-seller concept was a welcome move towards unlocking free funds from individuals and companies.
- 3.2 This witnessed the adoption of the WBWS exchange rate as the official exchange rate for transactions and tax purposes. However, this further depreciated the local currency as shown in Figure 2.

**Figure 2: Exchange Rate Developments, January - May 2022**



Source: Reserve Bank of Zimbabwe and NCC Compilation

- 3.3 Extreme depreciation was witnessed in the month of May since January 2022. This is mainly due to the Government's decision to move away from the auction-rate to the liberalized WBWS exchange rate. This led to a 67.5% depreciation of the ZWL as alluded above.
- 3.4 The continuous depreciation of the local currency due to lack of confidence, has short-term benefits to competitiveness as exports become cheaper. However, imports become very expensive and given that Zimbabwe is a net importer of both inputs and finished goods. To this end imported inflation is becoming the country's biggest challenge, hence negatively impacting both domestic and international competitiveness.

#### **4.0 Conclusion**

- 4.1 Indexation of prices in foreign currency continuously pushes the local prices higher due to depreciation of the local currency. Therefore, inflation is merely a symptom of local currency depreciation at the parallel market.
- 4.2 To this end, the National Competitiveness Commission (NCC) is of the view that more effort should be continuously exerted towards the stabilization of the local currency and building public confidence in order to improve competitiveness and continued use of dual currency in the short term. Support of the local currency requires enhanced production in order to substitute imports.

**National Competitiveness Commission**

**27 May 2022**