



## **September 2021 BNB Statement**

### **Spiralling Parallel Exchange Rates Increasing Cost of Living Burden on People Living in Poverty**

#### **Introduction**

The surging parallel market rates continues to plunge more and more people into the depths of extreme poverty. The Government of Zimbabwe introduced the Foreign Exchange Auction system on 23 June 2020 in a bid to improve the availability of foreign currency to businesses as well as stabilise the Zimbabwean dollar. Despite the Foreign Exchange Auction system helping to reduce annual inflation which peaked at 837.5% in July 2020 to 321.6% in February 2021 and 51.55% in September 2021, it has not been able to arrest the run-away parallel exchange rates. The current interbank exchange rate (as of 19 October 2021) stands at USD\$:93.08 whilst the parallel exchange rate is trading between US\$:160 and US\$:175. The increasing parallel exchange rates are exerting further inflationary pressure to the economy. According to the Zimbabwe National Statistics Agency (Zimstat), month on month inflation has been on a steady increase from 2.56% in July 2021 to 4.18% in August and 4.73% in September 2021.

#### **Pricing of Goods and Services**

Goods and services continue to be priced against the parallel exchange rate by both formal and informal businesses. This is happening despite government promulgating Statutory Instrument 127 in May 2021, which effectively bars and penalises the pricing of goods and services above the official auction rates. Weak enforcement of the policy has resulted in businesses continuing to operate using parallel exchange rates. The foreign currency remains scarce with very few, large corporates benefiting from the auction system and still indexing their products against parallel exchange rates. The auction system created arbitrage opportunities for large corporates. The widening gap between the official and parallel market and the backlog of foreign currency allocations by the Reserve Bank of Zimbabwe (RBZ) points to an overvalued domestic currency, leading to allocative inefficiencies in the economy.

#### **Workers' Welfare**

Workers have been at the receiving end of government's policy inconsistency. Through Statutory Instrument 85 of 2020, the government introduced the dual pricing system where goods and services could be paid for using both the local and foreign currency at the official rate of the day. Progressively, the economy re-dollarised since the promulgation of SI 85/2020. Despite all goods and services in the country being predominantly priced in foreign currency,

little has been done to ensure that workers from both private and civil service are remunerated in foreign currency. Instead, their incomes in local currency are continuously eroded by inflation in light of most goods and services either being charged in foreign currency or indexed against the parallel market. The government needs to urgently improve workers' welfare by ensuring that their incomes are above the poverty datum line (PDL) which currently stands at ZWL\$ 39,922.00.

The Poverty Reduction Forum Trust's Basic Needs Basket Survey of September 2021 established raising cost of living. The average cost of living in Harare for a family of 5 people was estimated to be ZWL\$ 63,713.39 for the month of September 2021. Below is the localised cost of living as estimated by the PRFT's BNB survey in September 2021.

### Localised Cost of Living in Harare

Location	Estimated Basic Needs Basket Cost (ZWL\$)
Hellensvale	\$90,140.41
Hopelly	\$40,179.00
Hatcliffe	\$58,752.00
Glenorah	\$52,856.33
Epworth	\$46,452.00
Ushewekunze	\$49,267.00
Newlands	\$88,288.74
Mbare	\$53,415.43
Mabvuku	\$53,131.18
Waterfalls	\$97,111.00

Source: PRFT BNB data September 2021

The survey revealed that both retail and informal grocery shops prices of goods are indexed against the black market rates. For instance, the average cost for a 2litre cooking oil bottle was ZWL\$ 558,99 (about USD\$ 6,21 using interbank rate; and USD\$ 3,49 using parallel market rate). This makes basic commodities unaffordable by most people especially those already living in poverty with limited disposable incomes, thus depriving them of a quality standard of life and good nutrition for their health.

### Recommendations

1. Government's macro-economic policy inconsistency highlighted by SI 85/2020 and SI 127/2021 have brought distortions in the market. The Government, through the Ministry of Finance and Economic Development, must create consistent macro-economic policies that limits arbitrage opportunities, build public confidence and stabilise the local currency
2. Government policy implementation must be strengthened at all levels and ensure that enforcement of policy is done impartially
3. The government must urgently improve workers' welfare by ensuring that their incomes are pegged above the poverty datum line (PDL) in order to cushion them from the effects of the re-dollarised economy.

*For more information about Poverty Reduction Forum Trust (PRFT) and the Basic Needs Basket Initiative contact us on Number 59, Mendel Road , Avondale, Harare; Tel: +263 242 307472; Email: [info@prftzim.org](mailto:info@prftzim.org); Website: [www.prftzim.org](http://www.prftzim.org)*