Informal Foreign Currency Market Rate Coordination and Remittance Flows

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Abstract

An unintended consequence of remittance flows to economically troubled countries may be the exacerbation of parallel foreign currency market activities. Studying clandestine markets is often hobbled by a lack of data on informal market coordination mechanisms. This paper examines the impact of the sudden cessation of an informal foreign currency exchange reference rate in Zimbabwe on inward remittance flows and public attention to money transfer operators. While the reference rate existed, there was bi-directional feedback between black market currency rates and retail diaspora remittance flows, but not with the flows of non-governmental organizations (NGOs). The abolition of the informal reference rate did not stall retail diaspora remittance flows. NGO remittances reacted negatively to the ban, suggesting concerns with government policy. Online attention on money transfer operators increased after the reference rate's cessation suggesting remitters shifted to formal channels. Accordingly, remittance costs reduced significantly.

Keywords: remittance flows, parallel markets, transparency, exchange rates