WEEKLY REVIEW

14 DECEMBER 2021

ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

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WEEKLY DASHBOARD

FOREX AUCTION WEIGHTED RATE

WEEK	(30.11.2021	30.11.2021
RATES PER US$1	ZWL105.6896	ZWL108. 6678

CONSUMER PRICE INDEX

MONTH	OCTOBER	NOVEMBER
	3,555.90	2,374.24
BLENDED	104.67	131.64

INFLATION:

MONTH	OCTOBER	NOVEMBER
M.O.M.	6.4%	5.76%
Y.O.Y.	54.49%	58.40%

COVID-19 CASES

WEEK	05.11.2021	12.12.2021
POSITIVE	139 046	172 012
RECOVERED	128 868	129 951
DEATHS	4 710	4 740

NATIONAL RECOVERY RATE

WEEK	(05.12.21)	(12.12. 21)
	96%	76%

ABOUT ZIMCODD

The Zimbabwe Coalition on Debt & Development (ZIMCODD) is a social & economic justice Coalition established in February 2000 to facilitate citizens involvement in pro-people public policy. ZIMCODD views indebtedness, the unfair global trabe regime & lack of democratic people-centred economic governance as the root cause of socio-economic crises in zimbabwe and the world at large

CONTENT

1. COVID–19 RESOURCE TRACKER

The COVID-19 Resource tracker is a ZIMCODD initiative to keep track of all resources pledged, received and expended by the Government of Zimbabwe in response to the COVID-19 pandemic from March 2020 to date. The aim of the COVID-19 Resources Tracker is to strengthen transparency and accountability by the government on COVID-19 resources while empowering citizens with information to hold the government to account for the allocation and utilisation of COVID-19 resources. The tracker is updated on a weekly basis.

CLICK DOWNLOAD TO GET THE FULL TRACKER

DOWNLOAD

2. DEBT WATCH: FINANCING THE BUDGET FINANCING GAP

On the 25th of November 2021, Finance Minister Hon. Prof. Mthuli Ncube presented the government's 2022 expenditure plan (national budget). The budget has a spending ceiling of ZW$927.3 billion with the main thrust on agriculture (12.8%), health care (12.2%), and primary and secondary education (12.8%). The bulk of the budget will be financed through internally generated revenue (ZW$850.77 billion) sources like taxes, fees and duty. However, most of these tax proposals are regressive and erode income for the poor thereby increasing extreme poverty and inequality. The budget financing gap will be covered through domestic borrowing -issuance of treasury bills and bonds. Because of persistent macroeconomic volatility, the domestic debt maturity profile is skewed towards short-term debt instruments. This is bad as it piles repayment pressure on the fiscus.

3. MPS AND GOVERNMENT ISSUE CONTRASTING POSITIONS ON RE–DOLLARIZATION

Indications by Members of Parliament during a post budget parliamentary engagement that government should consider officially re-dollarizing the economy are at odds with the Minister of Finance and Development's position against having the US dollar as the country's sole currency. In earlier pronouncement the Minister has termed dollarization as suicidal sighting concerns such as the risk of incurring huge foreign currency deficits, ceding the country's monetary policy autonomy to a hostile super-power, higher costs of production and reduced competitiveness of local industries.

Amidst concerns with the absence of clear policy on dollarization the reality is that the Zimbabwean economy runs on a multiple currency basket dominated by widespread use of the US Dollar or 'mayuwesi' in local parlance. The fact that most transactions including Civil Servants bonuses are in USD – indicates that the economy is pre-dominantly re-dollarizing. In this case, the economy without any government directive is effortlessly transacting in the USD. More recently large retailers such as OK stores have introduced a 50% discount on US$

dollar transactions to compensate for the official rate and offer customers a rate more aligned to prevailing market realities. School fees, rentals, groceries, medical bills, clothing, fuel, and many other government bills are payable in USD as the ZWL continues to plummet against the USD.

Minister's Mthuli rightly asserts that a realistic approach is required to mitigate price and exchange rate instability without harming prospects for long-term economic recovery. However, the failure of the Foreign Currency Auction System to address growing exchange rate disparities and a deeply entrenched 'black market' points to the need for better policy alternatives. Key amongst these alternatives are broader structural measures to restore macro-economic stability, reduce inflation and position the country for inclusive growth and productivity.

4. INFLATIONARY PRESSURES AFFECT WORKING ZIMBABWEANS AND POOR HOUSEHOLDS THE MOST

Zimbabwe's currency issue has far-reaching social and economic impacts on working Zimbabweans and poor households with many dependents as a cost-of-living crisis continues to increase extreme poverty and inequality. Thus, a lasting solution must be prioritized to quell the despondency in the economy. The ZWL value erosion has impoverished workers, worsened the plight of the vulnerable and set the economy on a regressive path. Low rates of savings in ZWL indicate low levels of market confidence in the currency as it does not store value as expected. Low savings rates imply that money creation is stifled, investment constricted hence leading to suppressed economic growth.

A national currency is not only for transactional value but it is a sign of confidence in the economy. But even the Zimbabwean government has found pragmatic reason to charge for some of public services in USD – a clear indication of the need for clear policy direction and consistency in resolving the currency position and mitigating against adverse policy impacts on vulnerable groups. Likewise, most businesses in the predominantly informalised economy charge for goods and service in USD despite Statutory Instruments (Sis) directing business to charge in the ZWL. This applies even for critical health emergencies, rentals and other vital goods and services whose dollarisation without clear guidance and consumer protection mechanisms creates risks of exploitation and excessive profiteering. The uncertainty around the currency makes the Zimbabwean economy less attractive for Foreign Direct Investment (FDI) compared to regional counterparts. Thus, green investment in agro-processing, mineral beneficiation and industrialization central to government's vision of achieving a middle-income society may not be forthcoming.

The failure of currency reforms to achieve the intended effects is not only about the poor framing of policies but the weak transmission mechanism as the greater part of the economy is informal. Accordingly, government ought to accommodate the informal sector in its policies if the monetary and the fiscal policies are to be effective.

5. INSTITUTIONALIZED CORRUPTION UNDERMINES PUBLIC SERVICE DELIVERY.

The recent remarks by, the Zimbabwe Anti-Corruption Commission (ZACC) that the Zimbabwe Republic Police (ZRP), Zimbabwe Revenue Authority (ZIMRA) and Vehicle Inspection Department (VID) are the most corrupt institutions in the country is not only shocking but ironic. The irony is that whilst ZACC knows the most corrupt institutions in the country and relatively few arrests and even fewer prosecutions have been made to that effect. The failure by ZACC to make significant arrests of high-profile public figures in those institutions attest either to institutionalized corruption or the incapacitation of the country`s independent oversight institutions.

A huge price is levied upon citizens for ZACC's failure to undertake its constitutional mandate to curb corruption. Citizens have to endure poor service delivery from the very public institutions that ZACC confirms are operating under corrupt and corruptible conditions. According to the ZACC Chairperson, corrupt officers from the three institutions would go home with at least US$ 200 per day earned from under dealings and malfeasance practices.

Zimbabwe was ranked 157 out of 180 countries on corruption index attesting to the level of corruption. Impunity and institutionalized disregard for the rule of law have created a fecund ground for corruption to proliferate at the expense of citizens who are heavily reliant on public services. Catch and release of public officials implicated in public sector corruption cases has become a bargaining chip for political brokerage between and amongst the economic and political elite.

ZACC should stop glorifying corrupt institutions and outline urgent measures both to deter and punish systemic corruption and rentier economies in the public sector.

6. MPC SHOULD NOT BE SATISFIED BY THE CURRENT STATUS QUO.

In the week under review, the Monetary Policy Committee (MPC) of the Reserve Bank of Zimbabwe (RBZ) conducted its last meeting of the year. The MPC's main mission is that of fixing the benchmark policy (interest) rate to restrain price growth within a particular targeted range. The MPC is usually headed by the governor of the central bank, in the Zimbabwe case, it's under the leadership of Dr. J. Mangudya. Also, it is critical to note that controlling inflation is the primary goal of central banks with economic growth and high employment becoming secondary goals. In other words, the level of inflation is a proxy for measuring the success of any monetary authority.

Despite the prices of many basic goods and services remaining out of reach for the majority poor, the Committee is satisfied with the current performance of the economy. Along with the Treasury, the MPC projects that national output (GDP) will mount 7.8%, and inflation ends between 58% and 60% in 2021. "The Committee noted with satisfaction that the previous monetary policy decisions had helped to stabilize the exchange rate and domestic prices. It was expected that month-on-month inflation would continue declining to low and sustainable levels in the outlook period. It was also expected that annual inflation would end the year 2021 at between 58% and 60% and less than 20% in 2022" reads part of the Committee's meeting statement.

However, it is worrisome to note that this MPC inflation target of between 58-60% is a further revision from the between 52%-58% that was initially communicated by the same Bank and the 2022 national budget as well. This revision comes after the ZimStat November inflation statistics show that prices have surged by 58.4% on annual terms. Initially, through the

February 2021 Monetary Policy Statement, the Bank was expecting inflation to close around 10% by December, a level many analysts described attainable only after the implementation of sustained reforms.

The failure by authorities to dampen persistent inflation pressures is a cause for concern. Recently, the Bank attributed the jump in prices solely to human behaviour, particularly speculative activities. However, authorities themselves share the blame for the growth in prices. Since the beginning of the year, the money supply has been rising thanks to heightened fiscal spending especially in agriculture support. The Bank was also running huge forex backlogs on the weekly auction market. This forex backlog came at a time the demand for forex had increased thanks to elevated economic re-opening from COVID-19 induced economic lockdowns. Consequently, foreign currency demand on the parallel market surged causing the exchange rate to overshoot. At some point, around October, the parallel premiums crossed the 100% mark. All this exerted pressure on prices leading to a wave of inflation and increased dollarization. This increased dollarization has a huge toll on the majority of formally employed Zimbabwean citizens who earn in a fragile local currency.

There is a need for a concerted effort by both the RBZ and Treasury, via complementary monetary and fiscal policies, to stabilize prices for a sustained period. In aid of this, the MPC decided to maintain the RBZ policy rate at 60% as well as to maintain statutory (required) reserve ratio on demand (call) deposits at 10% and savings and time deposits at 2.5%. Further, quarterly reserve money, which is the base level of the money supply, will be kept at 10% from Q4:2021 through Q2:2022.

Further, the Bank should expedite critical reforms to increase the efficiency and transparency of the Auction Market system, as this will be key in reducing parallel premiums. Again, Treasury should consider increased cost of living adjustments (COLA) to boost the value of local currency salaries that have been decimated by exchange rate depreciation and rising inflation. Targeted spending to subsidize mass transit and agriculture as well as other social services such as harmonized cash transfers, public education, water, and health care will help cushion vulnerable groups such as people with disabilities, orphans, elderly and unemployed youths, and women. At the same time these increased government expenditures in public goods and services will stimulate liquidity and productivity in the informal sectors and household economies.

7. OMICRON VARIANT COULD TRIGGER NEW LOCKDOWNS

The 2022 National Budget projects a 5.5% GDP growth in 2022 anchored on the main assumption that the COVID-19 infection, hospitalization, and death rates will recede in part due to ongoing vaccination campaigns. From this end, Zimbabwe is considered as one of the countries running a successful vaccination campaign in the African continent. According to Prof. Mthuli Ncube, the government has spent about US$204 million purchasing 17 million vaccines and syringes to date. As of December 12, about 2,976,972 people have received their second jab (fully vaccinated) while 3,956,020 have received their first dose (partial vaccination). The partially vaccinated translates to about 25% of approximately 16 million total population. Authorities are targeting to achieve 60% herd immunity by December 31, a target that will need a miracle to achieve in the remaining 17 days of 2021.

The slow vaccination pace is a cause for concern given the risks being posed by the Omicron variant. Of the 8,682 COVID-19 tests done on the 12th of December, the positivity rate was recorded at 24.6%. Towards late November 2021, the World Health Organization (WHO) classified the omicron variant as a variant of concern (VOC). Scientists believe that it spreads more easily than the previous variants. The latest daily statistics from the Ministry of Health show that the 7-day rolling average for new cases has significantly jumped to over 4,000 infections. The continued spike in infections risks throwing the countries into lockdowns as some such as UK, USA, and Rwanda have already started to implement stringent travel restrictions.

In 2020, the global economy experienced its largest drop in economic activity (GDP) since the Great Depression as the pandemic severely disrupted global supply chains. Domestically, the pandemic worsened pre-existing underlying conditions of exchange rate depreciation, inflation, unemployment, and poverty as the economy experienced a double-digit drop-in output. Zimbabwe, which has a highly informalized system suffers the most from stringent lockdowns. The national coffers (reserves) are nearly dry and this inhibits the country from providing strong social safety nets to the vulnerable groups.

Nevertheless, there is a lot of hope as the current vaccines are expected to offer protection against severe infection, hospitalization, and death though breakthrough infections in fully vaccinated individuals are likely to occur. Cognizant of this, the government should scale up its vaccination campaign to ensure that herd immunity is attained quickly. Also, booster shots will be needed to boost waning immunity from those who have already been vaccinated. Citizens are encouraged to follow WHO and government health guidelines such as mask-wearing, hand washing, and social distancing. Where possible, businesses should embrace digitalization and normalize online operations.

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