Monthly Economic Review

APRIL 2022

ZIMCODD

ZIMBABWE COALITION ON DEBT & DEVELOPMENT

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Executive Summary

This monthly economic review tracks the movements and performance of key economic indicators such as Gross Domestic Product (GDP), money supply, exchange rate, inflation, public debt & government accounts, and provides a brief overview of selected sectors of the economy. The following were the key highlights in April 2022:

- *The International Monetary Fund (IMF) revised its global Gross Domestic Product (GDP) forecast amid the ongoing Russia-Ukraine war, the impact of which contributed to downgrades for 143 economies this year. This is because the world has experienced a second major crisis - a war on top of a pandemic that risks eroding much of the progress made over the past two years.*
- *Zimbabwe will likely miss its 2022 GDP forecast of 5.5%. Since the beginning of the year, the country is faced with a deep economic crisis as the local currency is free-falling, particularly in the parallel forex exchange market, and inflation maintains a northward trajectory. If these are not tamed, coupled with the poor 2021/22 agricultural season and negative economic impacts from the Russia-Ukraine war, this will significantly subdue economic activity, increase poverty levels and widen inequality gaps.*
- *Zimbabwe's year-on-year inflation growth maintained an upward trajectory in April 2022 surging by a mouth-watering 96.4% relative to an increase of 72.7% that was registered in the prior month. This is the highest annual inflation outturn in 10 months. From a month-on-month (MoM) perspective, price inflation increased by 15.5% in April 2022, an increase of 9.2 percentage points from a 6.3% increase realized in March 2022. This is the highest monthly jump in 20 months.*
- *In April 2022, the local currency continued with a losing streak on both the official (auction) and alternative (parallel) markets. In the official market, ZWL lost 11.1% of its value against the USD to close at US$1: ZWL159.35 from US$1: ZWL142.42 end of March 2022. The local unit also slid by 31% in the alternative markets from an average rate of ZWL250 per US$1 in March 2022 to an average rate of ZWL360 end of April 2022.*
- *The latest statistics provided by RBZ show the broad money supply increasing by a staggering 151% (YoY) in March 2022 after recording 113.4% and 123.8% in Jan and Feb respectively. Even adjusted for exchange rate movements, the broad money supply growth rate remains above 50% which is unsustainable. This is also highly inflationary because there will be too much money in circulation in the economy chasing too few goods.*
- *The latest available trade statistics from ZimStat show that in January 2022, the value for exports was US$543.9 million, a decline of 8% from US$591.2 million recorded in December 2021. In the same vein, imports were recorded at US$632 million in January 2022 signifying a decline of 18% from US$771.2 achieved in the prior month. This means that in January 2022, Zimbabwe recorded a trade deficit of -US$88.1 million.*
- *After the conclusion of its Article IV Mission (Staff Monitored Program), the IMF concluded that Zimbabwe is still trapped in debt distress. The Fund projects Zimbabwe's consolidated debt to reach US$19.03 billion (63% of GDP) by 2023.*
- *According to the latest Food and Agriculture Organization (FAO) statistics, world food commodity prices jumped in March 2022 reaching their record high since 1990. The rising global food prices will likely jeopardize those countries like Zimbabwe that are already facing a faltering economy, a poor 2021/22 cropping season, and toxic politics.*

1. Introduction

Zimbabweans are facing a torrid time as the economic environment continues to tighten, shown by rising fuel pump prices, shortage of public transport, skyrocketing prices of basic goods and a massively deteriorating ZWL exchange rate against the US dollar. In this context, the Zimbabwe Coalition on Debt and Development (ZIMCODD)'s April 2022 economic review provides an analysis of the performance of the macroeconomy to give the public an appreciation of economic trends affecting their day-to-day lives and be able to hold responsible public officials accountable. The review highlights economic outlook (global, regional, and domestic), evaluates certain key economic indicators, provides a sectoral overview, and intext policy alternatives to identified problems.

2. Economic Outlook

2.1 Global Economic Performance & Outlook

The International Monetary Fund (IMF) downgraded its global Gross Domestic Product (GDP) forecast amid the ongoing Russia-Ukraine war, the impact of which contributed to downgrades for about 143 economies this year.

Table 1: Global Economic Outlook Projections

	2020	2021	2022p	2023p
World	-3.1	6.1	3.6	3.6
Advanced	-4.5	5.2	3.3	2.4
Emerging Asia	-0.9	7.3	5.4	5.6
M. East & Central Asia	-2.8	5.7	4.6	3.7
Latin America & Caribbean	-6.9	6.8	2.5	2.5
Sub-Saharan Africa	-1.7	4.5	3.8	4.0

Source: IMF World Economic Outlook (April 2022)

The world has experienced a second major crisis - a war on top of a pandemic that risks eroding much of the progress made over the past two years, climbing back from the COVID-19 pandemic. Before the Russia-Ukraine war, global GDP forecasts for 2022 were cut by 0.5 percentage points to 4.4% amid the Omicron surge, economies grappling with supply chain disruptions, higher inflation, record debt, and persistent uncertainty. Since then, the global outlook has significantly deteriorated as the war in Ukraine is negatively affecting global energy, minerals, and food supply chains thereby fuelling global inflation.

Also, the rising global inflation is forcing many central banks to tighten monetary policies thus contributing to rising nominal interest rates, especially in developed nations. This is contributing to financial market volatility and risk repricing. The world is also witnessing fiscal withdrawal as governments face rising borrowing costs as a result of high COVID-19 related spending and lower tax collections in 2020-21. Hence, nations must rebuild their buffers. As such, the global output growth is expected to slow to 3.6% in 2022 from an estimated 5.9% in 2021. This is 0.8% lower for 2022 than the initial January 2022 projections by the IMF.

2.2 Regional Economic Performance & Outlook

The Russia-Ukraine war which has significantly affected global food and energy prices will subdue growth in many Sub-Saharan Africa (SSA) countries like Zimbabwe. In general, food constitutes a larger share of consumption in the developing world. As such, high food prices will affect purchasing power, especially for the majority of low-income earners thereby subduing domestic aggregate consumer demand. The low vaccine status in SSA is also worrisome as almost all countries are yet to achieve herd immunity. The future path of the pandemic remains uncertain. More so, of concern in the SSA is the issue of ballooning public debt as it may cause capital flight thus exerting more pressure on their economies. The increase in mineral and oil prices, however, can uplift the growth prospects for the region's top exporters of these commodities. Overall, the SSA economy is expected to grow by 3.8% in 2022.

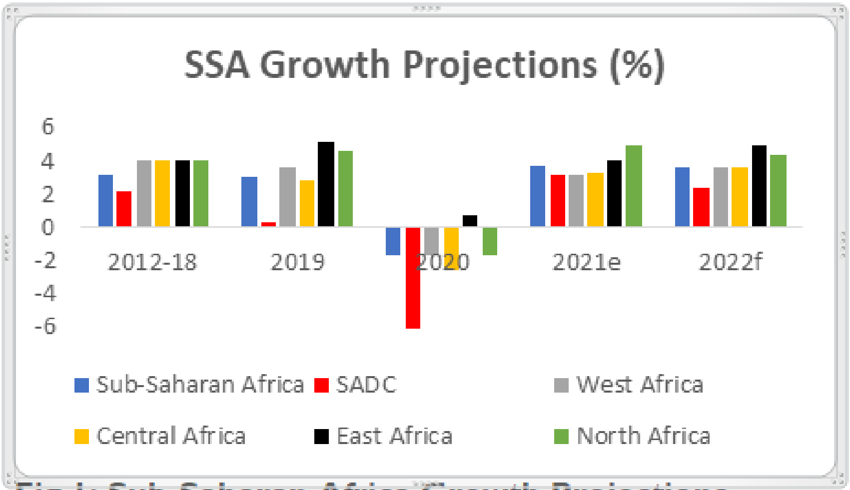


Fig 1: Sub-Saharan Africa Growth Projections
Source: *African Development Bank (AfDB)*

2.3 Zimbabwe Economic Outlook

According to government projections, the economy is expected to expand by 5.5% in 2022, a moderation of GDP growth from the 7.8% estimated for 2021 as shown in fig 2.

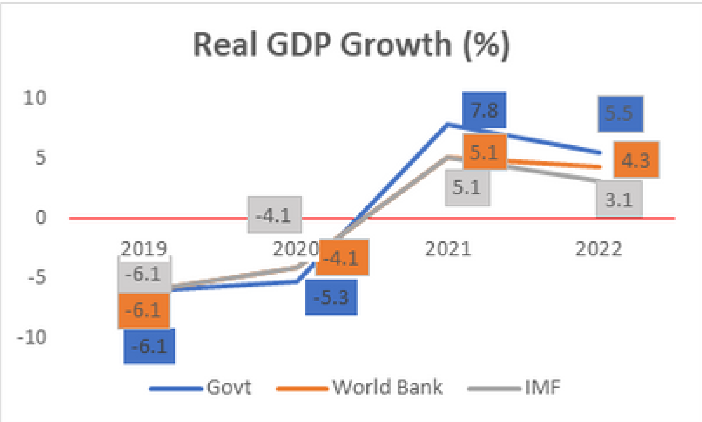


Fig 2: Zimbabwe Real GDP Growth (%)
Source: *Ministry of Finance, IMF & World Bank*

The country is facing a currency crisis as the local currency continues to tumble heavily, particularly in the parallel forex exchange market, a market that largely supplies forex demanded by the informal economy. The informal sector is estimated to constitute at least 60% of the entire economy. As the ZWL continues to nosedive against the greenback, inflation keeps trending northwards as businesses benchmark their local prices at the parallel market rates as opposed to the official rate.

Ironically, Zimbabwean authorities are reluctant to revamp the auction market system despite it failing dismally to discover the true market price of the ZWL. Furthermore, the market liquidity (broad money supply) growth rate remains unsustainable thus fuelling price inflation. Volatile exchange rate and high price inflation affect business predictability thereby subduing domestic investment while scaring away foreign investment, and lowering employment of factors of production, and national output. High prices also reduce consumer purchasing power causing consumption poverty and widening inequality gaps. As such, no matter how big the magnitude of GDP growth to be realized in 2022 will be, as long as inflation continues to skyrocket, it will remain a growth without a "human face" just as was the case in 2021.

Overall, the risks to Zimbabwe's 2022 outlook are tilted to the downside. The country is facing a poor 2021/22 cropping season. More so, the Russia-Ukraine conflict is exerting more pressure on the domestic economy by fuelling imported inflation -energy and food prices. There is also a possibility of policy slippages as the nation gears for the upcoming general elections to be held in 2023. Historically, during election years, the government's spending is usually very high and, in some instances, unsustainable. Nevertheless, global mineral prices are expected to remain high for most of 2022. This will likely help Zimbabwe, a commodity-dependent nation, to counter some negative economic impacts explained earlier.

3. Macroeconomic Indicators

The section analyses the performance of selected key macroeconomic indicators to establish the direction being taken by the economy.

3.1 Inflation

Official inflation statistics show that annual price inflation increased by a mouth-watering 96.4% in April 2022 relative to an increase of 72.7% that was registered in the prior month, March 2022. This is the highest annual inflation outturn in 10 months, that is, since June 2021 when it was recorded at 106.64%.

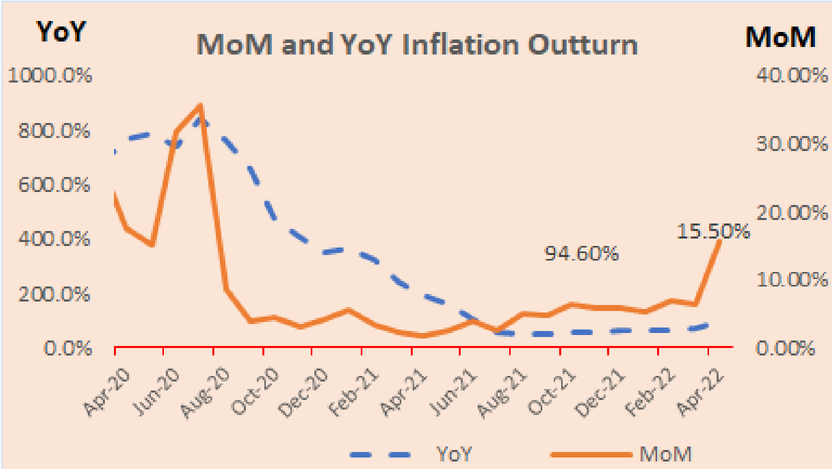


Fig 3: Zimbabwe Annual Inflation Trends (%)
Source: ZimStat

From a month-on-month perspective, price inflation increased by 15.5% in April 2022, an increase of 9.2 percentage points from 6.3% recorded in the prior month. This April outturn plunged the monthly inflation rate into double-digit territory breaking a 20-month single-digit monthly inflation streak that started in August 2020.

With salaries for many Zimbabweans largely constant and largely denominated in the sliding ZWL, many households are suffering as prices of basic goods are now beyond their reach. Poverty levels have risen sharply as nearly half of the population is reportedly choked by extreme poverty. According to IMF, a third of the population is faced with food insecurity in 2022. The primary driver of price inflation since 2019 is increased market liquidity that is having a bearing on currency stability. This, coupled with an inefficient exchange rate management mechanism and the impacts of the Russia-Ukraine war will continue to cause prices to run amok. As such, RBZ should refine the current auction system so that it reflects the true market dynamics while curbing liquidity growth emanating from quasi-fiscal operations (QFOs).

3.2 Exchange Rate

In the month under review, ZWL continued with a losing streak on both the official and alternative markets. Four (4) auction trades were conducted in April 2022 with the ZWL losing a cumulative 11.1% of its value against the USD to close the month at US$1: ZWL159.35 from US$1: ZWL142.42 end of March 2022. Cumulatively, the ZWL has lost 37.76% of its value on the official market in the first 4 months of 2022.

The local unit also slid by 31% in the alternative markets from an average rate of ZWL250 per US$1 in March 2022 to an average rate of ZWL360 end of April 2022 (as of the end of April, the price of US$1 was ranging at between ZWL360-400). This is the biggest monthly decline in the parallel market since May 2020 when the ZWL fell by 44%. The massive ZWL depreciation in the alternative markets pushes the parallel market exchange rate premia, that is, the percentage difference between official and parallel market exchange rate, to over 120% which exceeds the widely accepted global threshold of at most 20% for currency stability to hold.

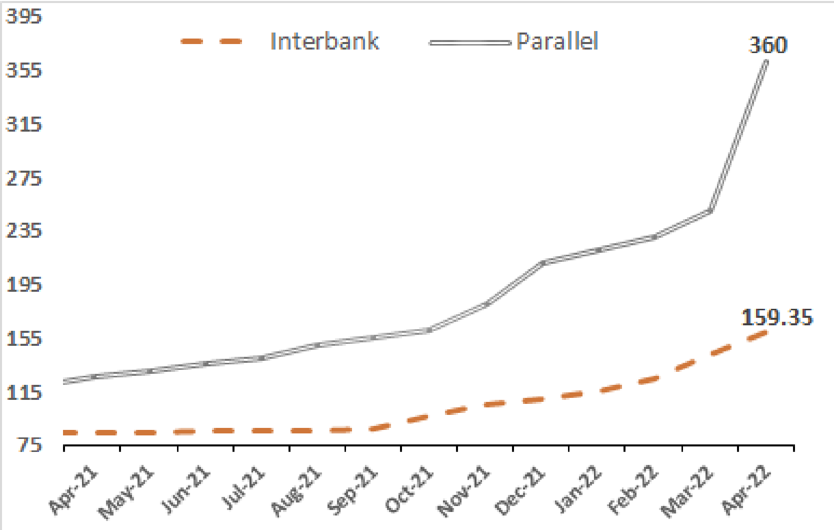


Fig 4: Official and Parallel Exchange Rate
Source: RBZ, ZIMCODD

The foregoing means that US$1 is now at least 120% more expensive in the black market than the price being offered in the official market. This alone creates excessive forex demand in the official market and therefore explains the burgeoning forex allocation backlog at the RBZ auction. With businesses benchmarking ZWL prices to the parallel rate as alluded to earlier, the plummeting ZWL means that Zimbabweans will continue to face elevated shelf prices of basics. Apart from high market liquidity and inefficient auction system, ZWL depreciation is also being fuelled by the increased chase of the US dollar by economic agents for value preservation as raging inflation mimics the public's experiences with the 2008 hyperinflation where they lost almost all of their savings.

3.3 Money Supply

Since 2019, elevated money supply growth has been at the core of exchange rate depreciation and inflation struggles faced by Zimbabwe. Figure 4 illustrates the general negative relationship between the money supply as measured by broad money and the exchange rate (month-on-month changes).

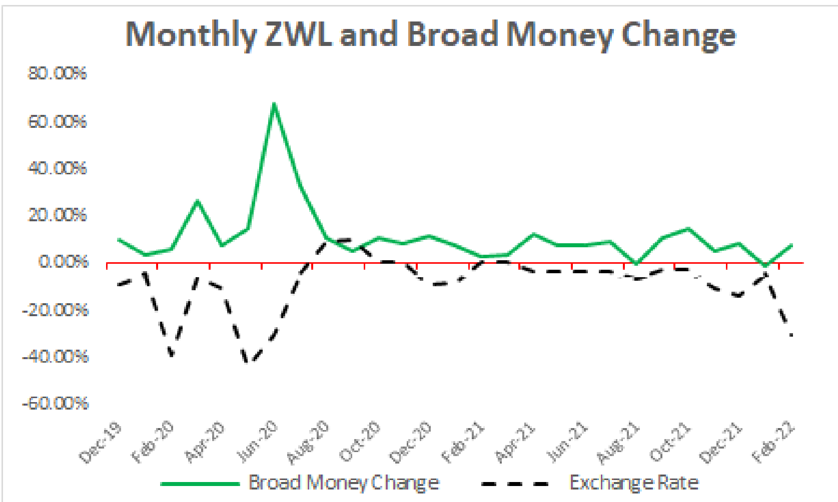


Fig 5: MoM depreciation and Broad Money change
Source: *ZIMCODD Compilations*

In a statement following its 29 April 2022 meeting focusing on macroeconomic and financial developments and their impacts on the economy, the Monetary Policy Committee (MPC) of RBZ was satisfied with the annual growth of the broad money supply which was declining as of March 2022. However, a close review of statistics indicates that this aggregate is rising by more than 100% since Jan 2022; 113.4% in Jan, 123.8% in Feb, and 151% in March. Even adjusted for exchange rate movements, the growth rate remains above 50% which is also unsustainable and highly inflationary. Typically, money supply growth should move in tandem with the growth of economic activity in the real sector. Otherwise, there will be too much money in circulation chasing the same quantity (or too few) of goods.

Key Highlights

·RBZ's MPC met on 29 April 2022 and resolved to:

1. *Maintaining the Bank Policy Rate at 80% and the MBA Facility Interest Rate at 50%;*
2. *Maintaining minimum deposit rates for ZWL savings & time deposits at 12.5% & 25% per annum, respectively;*
3. *Maintaining the quarterly reserve money growth target at 5% for the quarter ending June 2022; and*
4. *Maintaining forex payment transactions limit on the willing-buyer willing-seller forex trading arrangement for banks and bureaux de change at US$1 000.*

3.4 External Trade

The latest available trade statistics from ZimStat show that in January 2022, the value for exports was US$543.9 million, a decline of 8% from US$591.2 million recorded in December 2021. In the same vein, imports were recorded at US$632 million in January 2022 signifying a decline of 18% from US$771.2 achieved in the prior month. This means that in January 2022, Zimbabwe recorded a trade deficit (exports minus imports) of -US$88.1 million. In December 2021, the trade balance was recorded at -US$179.9 million.

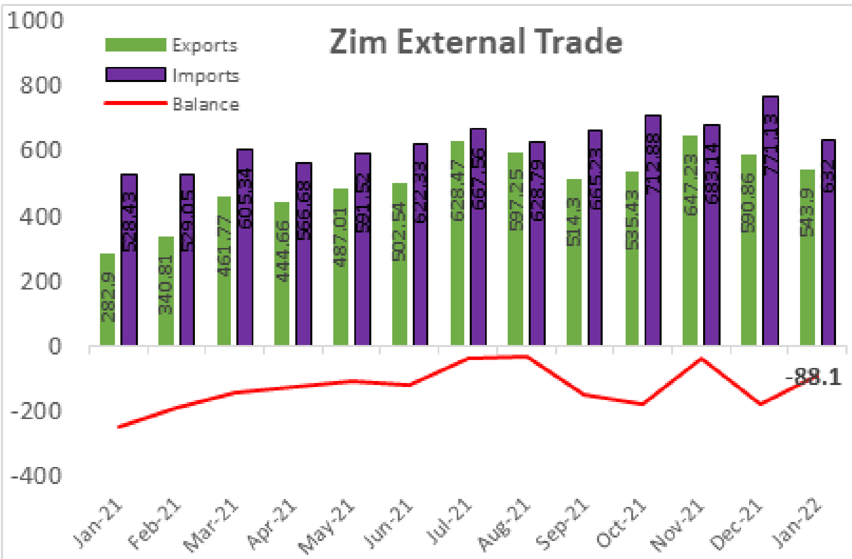


Fig 7: Zimbabwe External Trade Position (US$ Million)

Source: ZimStat

A close analysis of the data shows that semi-manufactured gold (34.6%), tobacco (21.6%), nickel mattes (14%), and nickel ores and concentrates (10.7%) were the top exports. The value of exports is relatively high as minerals particularly gold benefit from the uncertainties around the rising global geopolitical risks and the future path of the COVID-19 pandemic. On the other hand, mineral fuels (15.1%), fertilizers (11.8%), machinery (10.2%), and pharmaceuticals (8.9%) were the top imports. Also, the value of imports is rising due to elevated global energy (crude oil), fertilizers, and food prices -the traditional top Zimbabwean imports.

3.5 IMF SDRs Drawdowns

The government through the Ministry of Finance disclosed the progress on the drawdowns and uses of Special Drawing Rights (SDRs) that were received from IMF in August 2021. As an active IMF member, Zimbabwe received SDRs to the tune of US$961 million to hope to cushion the economy from the unprecedented impacts of the COVID-19 pandemic.

Table 1: SDRs Drawdown and Utilization

Date	Amount	Use
7 Oct 2021	US$35.6 million	Health • Vaccines • Syringes • Ambulances
	US$16.95million	Agriculture
	US$17.7million	Transport
9 Dec 2021	US$70 million	Reserves and currency stabilization
Jan 2022	US$35million	Health
	US$10million	Education
	US$30million	Export revolving fund
	US$20million	Irrigation equipment
	US$30million	Industry Retooling – Agro-processing, cotton value chains, etc.
	US$20million	Infrastructure -road construction

Source: *Ministry of Finance and Economic Development*

The Treasury highlighted that the SDR funds will be used to support social interventions such as vulnerable groups, education, and health. More so, the funds will be used to support the productive sector, that is, industry, agriculture, and mining. The government also revealed that some funds will be earmarked for infrastructure (roads and housing), supporting the local currency, and Contingent Fund.

3.6 Public Debt

After the conclusion of its Article IV Mission (Staff Monitored Program), the IMF concluded that Zimbabwe is still trapped in debt distress. The Fund projects Zimbabwe's consolidated debt to reach US$19.03 billion (63% of GDP) by 2023. The official government statistics show that as of September 2021, Public and Publicly Guaranteed (PPG) debt stood at US$13.7 billion comprising US$13.2 billion in external debt and US$500 million in domestic debt. Of the total PPG, external arrears constitute about US$6.6 billion.

Therefore, there is a need to undertake an independent public debt audit that will inform the scale and nature of the country's debts, which are often not transparently publicized. An audit will also become a building block to popularise discussion about the legitimacy of certain debts and whether they should be repaid. Furthermore, Zimbabwe should adhere to existing legal frameworks like the Public Debt Management Act which stipulates that public debt should not exceed 70% of GDP.

Key Highlights

- ***Govt is reportedly owing Trafigura Group about US$225.6 million for fuel supplies dating back to 2016.[1]***
- ***Govt will pay the debts using proceeds from minerals resources, nickel, and gold.***

1 https://www.thezimbabwean.co/2022/05/trafigura-seeks-control-of-zimbabwes-metals-for-unpaid-debts/

- ***Govt will pay Trafigura about US$6 million per month and Trafigura will retain 40% of payments made to nickel and gold mines in collection accounts.***
- ***Trafigura will have the right of first refusal to buy and the right to approve buyers of these metals.***
- ***All the payments will not be subjected to tax, and transaction documents will not be lodged with any authority in Zimbabwe.***

4.0 Sectoral Review

4.1 Energy Sector

Since its independence, Zimbabwe has faced perennial shortages of energy while the cost of fuel particularly remains high, above the regional average.

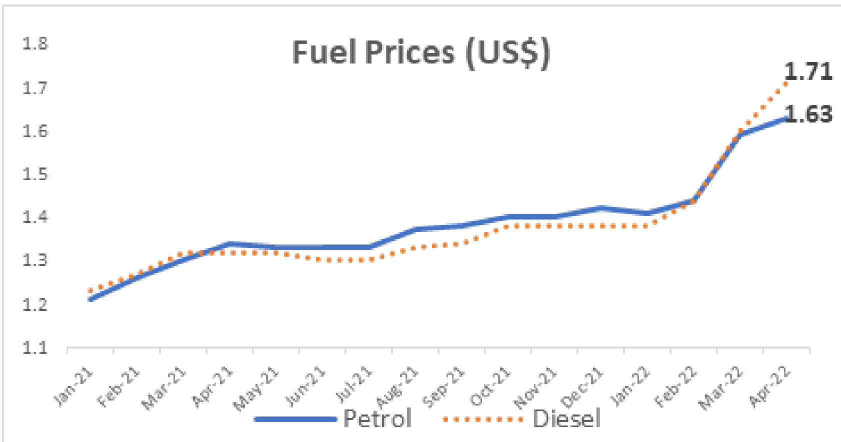
4.1.1 Electricity Sector

In the month under review, the electricity supply situation in many areas has improved significantly relative to the early start of the year. This was evidenced by the reduction of power rationing schedules likely owing to improved domestic production and the gradual embrace of solar energy by some households and corporates. The government is making some commendable strides toward the long-term energy self-sufficiency goal. For instance, it was reported that the US$1.5 billion Hwange Thermal Power Plant expansion project which will add 600 MW to the national grid is 84% complete. There are also several solar projects which are ongoing with the potential to add significant electrical energy to the national grid.

However, the electricity situation remains precarious as some of the nation's thermal stations have outlived their lifespans. Typically, a thermal power plant has a lifespan of 30 years yet some of Zimbabwe's plants were commissioned before the attainment of independence, 42 years ago. These plants are now uneconomic to operate as they experience frequent breakdowns. The Kariba Dam levels which were recorded at 25.4% full in April are also a cause for concern given that the Kariba Hydro Station is one of the nation's only 2 major power stations. As such, Zimbabwe should invest heavily into other green/renewable energy to diversify its energy mix and attain energy self-sufficiency in line with Vision 2030.

4.1.2 Fuel

In the month under review, Zimbabwe Energy Regulatory Authority (ZERA) increased the maximum pump prices of fuel. A liter of diesel was reviewed to US$1.71, a 6.9% increase from US$1.60 set in March while that of petrol has increased by US$0.04 from US$1.59 to US$1.63. Also, the government re-introduced petrol blending with ethanol with a ratio set at E10 (10% ethanol and 90% petrol).



The Russia-Ukraine conflict is greatly affecting global crude prices because Russia is the third-largest producer of crude oil in the world, accounting for about 30% of global crude oil exports. However, the Zimbabwean situation is peculiar when compared to its regional peers as the increases in fuel prices are not commensurate or reflective of global oil price dynamics. Even before the war, domestic fuel prices were the highest in the SADC region [2]. Therefore, the government should reduce the exorbitant fuel taxes and levies and open up the fuel and ethanol sectors to many players to ensure adequate supply and efficient pricing.

4.2 Agriculture

The Russia-Ukraine war has significantly affected the global prices of food like maize, wheat, and vegetable oils. Russia and Ukraine, combined, account for about 30% and 20% of global wheat and maize exports respectively. The war has severely disrupted exports with the closure of ports. According to the latest Food and Agriculture Organization (FAO) food index, world food commodity prices significantly jumped in March 2022 to reach their record high since 1990.[1] This index tracks monthly changes in the global prices of a basket of commonly traded food commodities. It is, therefore, our view that the rising global food prices will jeopardize those countries like Zimbabwe that are already facing an economic crisis and a looming poor 2021/22 cropping season. As such, there is a need for authorities to put in place strong safety nets to cushion the vulnerable and marginalized groups.

4.3 Gold Sector

The latest available statistics from ZimStat show that in January 2022 alone, gold exports racked in forex to the tune of US$188.26 million. The little prospect of a quick end to Russia's invasion of Ukraine is contributing to a surge in global inflation thus supporting the global price of the yellow metal.

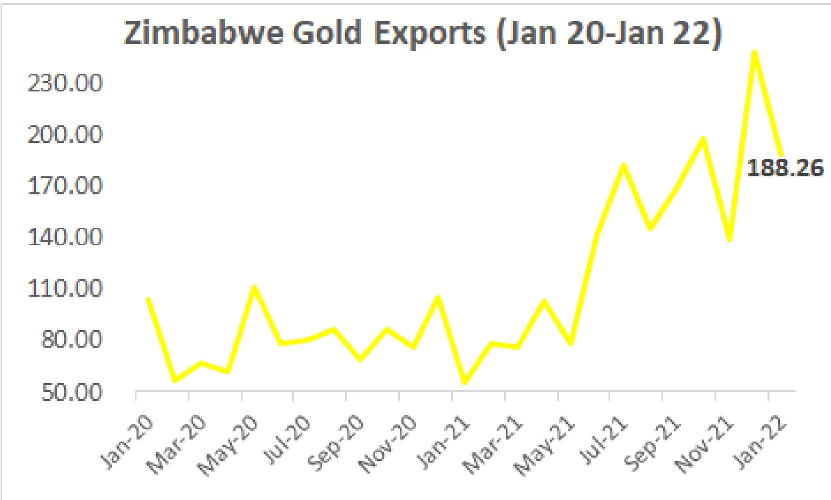


Fig 11: Zimbabwe Gold Exports (US$ million)
Source: *ZimStat*

According to the World Gold Council (WGC), global gold demand rose for the second consecutive quarter in the first quarter of 2022, ending 8% higher at US$1,942 per ounce – its best quarterly performance since the second quarter of 2020.[1] This was the case because generally, in periods marked by economic uncertainty and increased volatility, gold prove to be a reliable source of diversification and wealth preservation. As such, gold-rich nations like Zimbabwe should leverage high global gold prices to resuscitate their ailing economy by curbing rampant illicit financial flows like gold smuggling.

2 https://zimcodd.org/?smd_process_download=1&download_id=5398

5. Disclaimer

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