MAY 2022

MONTHLY ECONOMIC REVIEW

ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

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 May 2022:

- **The global economic activity is expected to decelerate from 6.1% realized a year earlier to 3.6% in 2022. The world is experiencing a second major crisis - a Russia-Ukraine war on top of a pandemic triggering a costly humanitarian crisis and massive global economic damage.**

- **The balance of risks to Zimbabwe's economic outlook is tilted to the downside. The nation is under siege by currency depreciation and skyrocketing prices, developments that increase both the cost of living and the cost of doing business.**

- **Zimbabwe is fast getting into a hyperinflationary mode as prices of basics have gone haywire. From a yearly perspective, prices increased by 131.7% in May 2022 relative to a growth of 94.6% realized in the prior month. Price inflation has again relapsed into triple-digit territory.**

- **In the month, the government shifted from the RBZ auction system to the Willing-Buyer Willing-Seller as the official reference rate. The ZWL continued with its losing streak against the US dollar falling by 8% on the interbank, 58% on the auction market, and 28% in the alternative markets.**

- **Preliminary statistics show base money growing by a commendable 0.7% in May 2022 relative to 5.8% in April 2022. Nevertheless, ZWL market liquidity remains high as the broad money supply continues to mount by more than 100% year on year.**

- **The value of merchandise exports rose by 5.3% in April 2022 to US$587.3 million while merchandise imports nosedived by 10.7% to US$637.2 million. This gives a relatively small trade deficit of -US$49.9 million in April 2022 relative to -US$156.2 million attained in March 2022.**

- **IMF is projecting Zimbabwe's consolidated debt to close the year at US$18.37 billion (69.5% of GDP) before reaching US$19.03 billion (68.1% of GDP) by 2023.**

- In May 2022, Zimbabwe Energy Regulatory Authority (ZERA) reviewed upwards the maximum pump prices of fuel. A liter of diesel was set at US$1.74 (ZWL499.56) from US$1.71 (ZWL283.87) while that of petrol was pegged at US$1.68 (ZWL481.02) from US$1.64 (ZWL271.85).

- Zimbabwe's 2021/22 staple maize harvest is expected at below-normal levels, limiting seasonal improvements and driving stressed outcomes in most deficit-producing regions. The latest government estimates indicate that 2022 output will be 43% less than in the previous year leaving a deficit of about 500 000 to be filled by imports.

- Official statistics show that in April 2022, Zimbabwe exported 2.96 tonnes of semi-manufactured gold valued at US$176.9 million relative to 2.2 tonnes valued at US$135.5 million exported in March 2022. Cumulatively, Zimbabwe has exported gold worth US$629 million in the first 4 months of 2022, 101% above US$313 million achieved for the same period in 2021.

1 INTRODUCTION

The continued depreciation of the Zimbabwe dollar and mounting price inflation is constraining the welfare of the majority poor. Generally, the poor have a high marginal propensity to consume when compared to their rich counterparts because they tend to spend most of their incomes on current consumption. With the earnings of most households remaining largely constant despite a protracted economic crisis at hand, the poor majority is stranded to satisfy current expenditure needs.

This leaves their future consumption demands unattended as they move into retirement years. Thus, households are being exposed to debt traps and entrenched in vicious circles of poverty. Therefore, this May Economic Review seeks to unpack the drivers of the persisting economic crisis and proffer policy alternatives to arrest the headwinds.

2 ECONOMIC OUTLOOK

2.1 GLOBAL ECONOMIC PERFORMANCE AND OUTLOOK

In 2020, global economic activity faced an unprecedented decline coming to a near halt as a result of the COVID-19 pandemic. Almost all nations were forced into hard lockdowns to curb the spread of the virus. A record discovery time of vaccines by advanced nations has helped economies to recover with global GDP jumping by 6.1%.

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)*

However, global economic activity has come under threat in 2022. It is expected to decelerate from 6.1% realized a year earlier to 3.6% in 2022. The world has experienced a second major crisis - a Russia-Ukraine war on top of a pandemic. This war has triggered a costly humanitarian crisis while at the same time exerting massive economic damage by negatively affecting global energy, minerals, and food supply chains. This is pushing headline inflation northwards across many countries. As such, the war has exposed countries to two (2) difficult policy trade-offs, that is, between tackling inflation and safeguarding the recovery and between supporting the vulnerable and rebuilding fiscal buffers.

2.2 REGIONAL ECONOMIC PERFORMANCE & OUTLOOK

The import-dependent Sub-Saharan Africa (SSA) economy is expected to experience grave repercussions from the war, especially through energy and food prices. In general, food constitutes a larger share of consumption in the developing world.

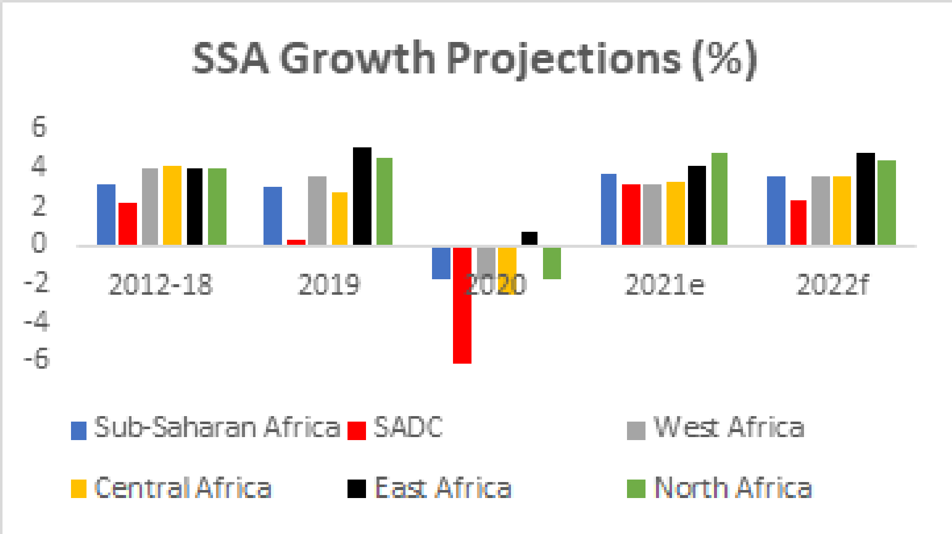

Fig 1: Sub-Saharan Africa Growth Projections
Source: *African Development Bank (AfDB)*

High prices of food will deteriorate consumer purchasing power, especially among low-income families thereby weighing on 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. The SSA region's outlook is also expected to be weighed down by social and political turmoil, most notably in West Africa. More so, of concern in the SSA region is the issue of ballooning public debt as it may cause capital flight which in turn exerts more pressure on their economies. The increase in mineral and oil prices has, however, lifted the growth prospects for the region's top exporters of these commodities like Nigeria. Overall, the SSA economy is expected to grow by 3.8% in 2022.

2.3 ZIMBABWE ECONOMIC OUTLOOK

While GDP is expected to remain in the positive territory in 2022, the already fragile Zimbabwean economy is being perturbed by both internal and external shocks that are constraining activity in the real sector.

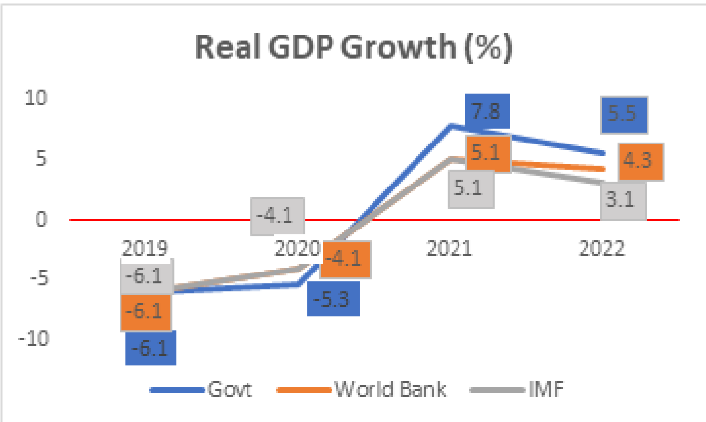

Fig 2: Zimbabwe Real GDP Growth (%)
Source: *Ministry of Finance, IMF & World Bank*

Internally, the country is facing massive exchange rate depreciation of its local currency and skyrocketing prices. This is causing significant wage erosion thereby plunging many households into a cost-of-living crisis characterized by poor standards of living. Consequently, consumer aggregate demand, the key component of GDP, will be reduced. Also, unstable prices are eroding business predictability hence will increase the cost of doing business, elevate inflation expectations, and render domestic companies uncompetitive. There is also the likelihood of policy slippages ahead of the 2023 watershed elections that could weigh down the economy.

From the external front, Zimbabwe is experiencing the ripple effects of the war in Ukraine. The war is causing supply chain bottlenecks and exerting maximum pressure on global food and energy (crude oil) prices, with Zimbabwe being a net importer of the latter. The pressure on food prices will also be fuelled by a poor 2021/22 domestic harvest, particularly of the staple maize as well as the rising cost of farm inputs such as fuel, fertilizers, and chemicals. Nevertheless, global commodity prices are expected to remain high for most of 2022. This will help Zimbabwe counter some of these negative economic impacts.

3 MACROECONOMIC INDICATORS

3.1 INFLATION

The latest official statistics released show that Zimbabwe is fast getting into a hyperinflationary mode as prices of basics have gone haywire. From a yearly perspective, prices increased by 131.7% in May relative to a growth of 94.6% realized in the prior month. This means that on annual terms, price inflation has reached a triple-digit territory for the first time since June 2021.

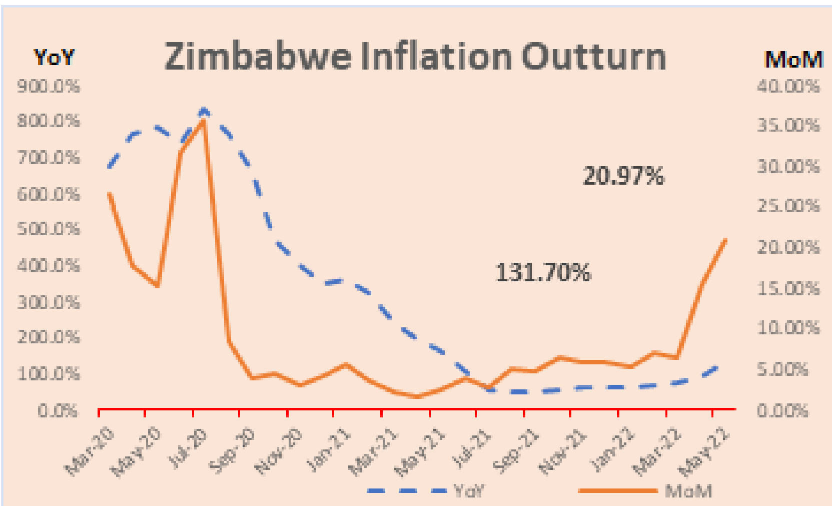

Fig 3: Zimbabwe Annual Inflation Trends (%)
Source: *ZimStat*

From a month-on-month perspective, prices of basics have surged by 21% in May 2022, making it a second month running of double-digit inflation in 2022, the highest monthly outturn since July 2020 when it was recorded at 35.5%. Granular analysis shows that the current inflation crisis started manifesting in 2019 driven by the Reserve Bank of Zimbabwe (RBZ)'s reckless liquidity and exchange rate management coupled with Treasury's fiscal indiscipline and short-term financing model for its major projects and programmes.

While authorities have announced plans to reign in on increased ZWL liquidity in the economy, the move has come too late as exogenous shocks batter the economy. The severe disruption of global food and energy supply chains caused by the Russia-Ukraine war and hard lockdowns from China's zero-COVID-19 tolerance are fuelling global inflation thus affecting net importers like Zimbabwe. This is compounded by the fact that Zimbabwe has experienced a poor 2021/22 Agric season.

Also, the public's expectation of the possibility of policy slippages ahead of the 2023 general elections is gradually becoming a self-fulfilling prophecy. In the month under review, govt announced plans to pay gratuities to over 160 000 war veterans, the strong campaign arm of the ruling party. If not carefully orchestrated, this stance will worsen the crisis just as was the case when govt did the same in 1997.[1] More so, rising prices of farm inputs (seeds, fertilizers, fuel, and chemicals) mean that Treasury is set to spend more resources supporting Command Agriculture and Presidential Input Scheme thereby destabilizing its finances.

3.2 EXCHANGE RATE

The local currency continues to depreciate significantly against the US dollar. In the month under review, the government announced the move from the RBZ auction system to the interbank system of the Willing-Buyer Willing-Seller model as the official reference rate in the economy.

1. https://thestandard.newsday.co.zw/2022/05/29/fresh-war-veterans-pay-outs-ill-advised/

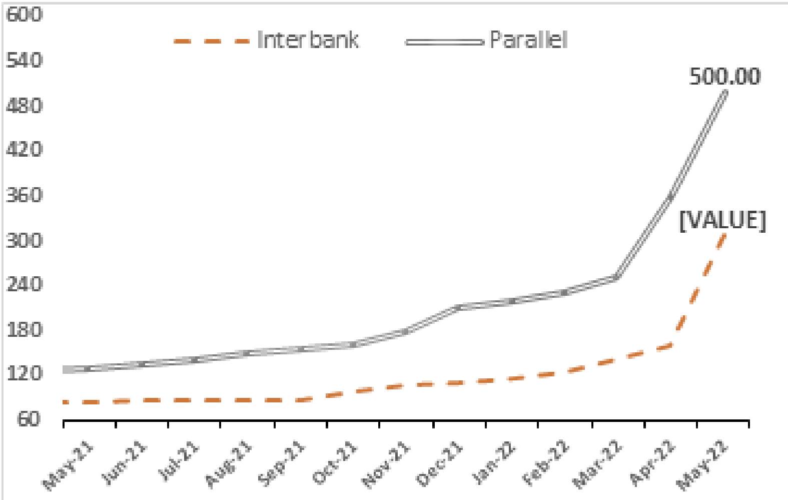

Fig 4: Auction and Parallel Exchange Rate
Source: *RBZ, ZIMCODD*

Given the small changes in the interbank rate thanks to caps on forex to be traded, the local unit slid by 8% between 10 May 2022 (US$1: ZWL277.03) and 31 May 2022 (US$1: ZWL301.49). However, the ZWL plummeted significantly by a cumulative 58% on the auction market in May alone to close above the interbank rate as shown in Figure 4. This sudden jump in the auction rate raised eyebrows as authorities had maintained the auction system despite a new WBWS model arguing that the two (2) official exchange rates will converge in the long run. In other words, the big jump in auction rate in the last three (3) weeks of May proved the public's view that the auction market was not market-driven. The RBZ was deliberately controlling the weighted average rate as it was auctioning currency it did not have to result in a months-long forex allotment backlog.

In the parallel market, the local currency plunged by 28% from an average of ZWL360 in April to an average of ZWL500 in May. The perpetual massive decline of ZWL against the US dollar in alternative markets is driving price inflation as businesses are benchmarking local prices to this rate as opposed to the official rate. As such, it will be a mammoth task for authorities to stabilize the exchange rate. Apart from high ZWL liquidity and weak exchange rate management mechanism in place, parallel markets are being driven by factors beyond RBZ's total control - behavioural economics. The market has started to reject local currency, a reminiscence of the build-up to the 2008 record hyperinflation.

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.

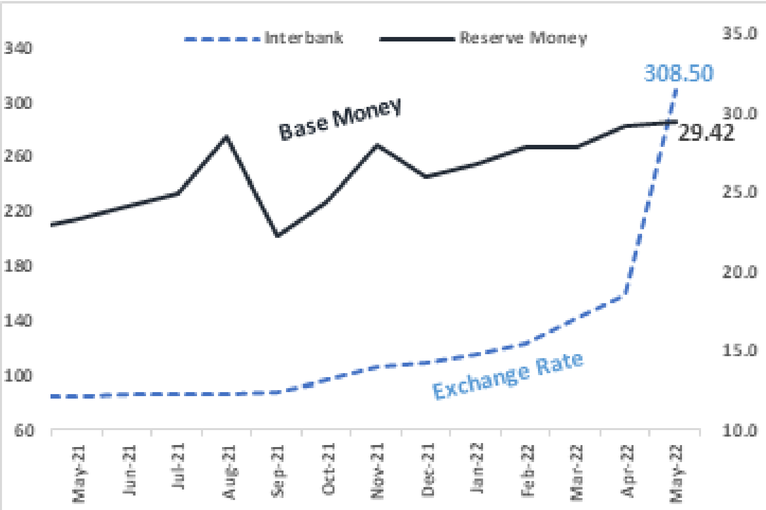

Fig 5: Base Money and Official Exchange Rate
Source: RBZ

Preliminary statistics show base (reserve) money growing by 0.7% in May 2022 relative to 5.8% in April 2022. In the first five (5) months of 2022, the monetary aggregate increased by an average rate of 3%. This is commendable because base money is the most price-sensitive component of the money supply as it is injected directly into the economy at the discretion of RBZ. Also, the components of the base money supply function more as a medium of exchange rather than a store of value.

Despite a tight control on base money, ZWL market liquidity remains high as the broad money supply continues to mount. This is the reason, though irrational, authorities had initially suspended bank lending on the 7th of May 2022. RBZ statistics show broad money rising by more than 100% year-on-year since Jan 2022; 113.4% in Jan, 123.8% in Feb, and 151.4% in March. Even if it is adjusted for exchange rate movements, broad money supply growth remains above 50% which is also unsustainable and highly inflationary. Therefore, authorities should continue to withdraw excess ZWL liquidity to ensure a money supply growth rate that is in tandem with the growth of economic activity in the real sector.

3.4 EXTERNAL TRADE

The latest trade statistics from ZimStat show the value of merchandise exports rising by 5.3% in April 2022 to reach US$587.3 million from US$557.6 million attained in the previous month. During the same period, merchandise imports nosedived by 10.7% from US$713.8 million in March 2022 to US$637.2 million. This gives a relatively small trade deficit of -US$49.9 million in April relative to -US$156.2 million attained in March.

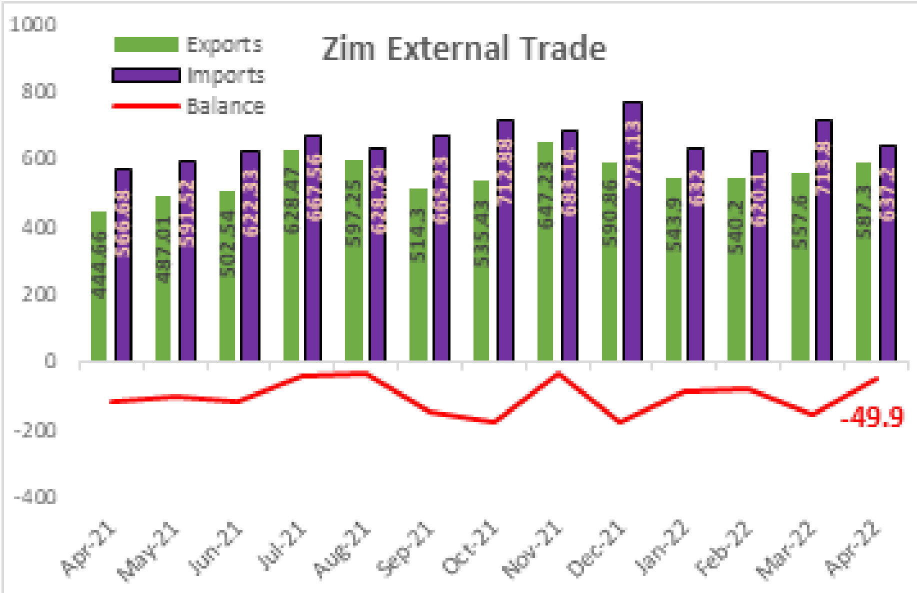

Fig 7: Zimbabwe External Trade Position (US$ Million)
Source: *ZimStat*

A close analysis of the data shows that semi-manufactured gold (30.1%), nickel mattes including platinum group metals (PGMs) (22.8%), nickel ores and concentrates (14.7%), tobacco (11.5%), and industrial diamonds (5%) were the top exports for the month. On the other hand, mineral fuels and oil products (13.1%), vehicles (8.3%), electrical machinery (4.9%), plastics (4.5%), and cereals (3.6%) were the top imports.

Zimbabwe is a commodity-dependent nation. It largely exports these commodities in their raw form. As such, the economy is highly susceptible to global fluctuations. Currently, the global value of minerals is rising thanks to mineral supply disruptions caused by the Russia-Ukraine war as well as COVID-19 disruptions in the world's largest commodity consumer, China, stoking fears of shortages. Since at least 70% of Zimbabwe's export earnings is coming from minerals, the nation is benefitting from the rising global prices. However, imports are also expected to remain elevated in 2022. The nation will be forced to import fuel and food at the foregoing record high global prices.

3.5 PUBLIC DEBT

The International Monetary Fund (IMF) is projecting Zimbabwe's consolidated debt to close the year at US$18.37 billion (69.5% of GDP) before reaching US$19.03 billion (68.1% of GDP) by 2023. The government is yet to finalize debt reconciliations and publicly avail the latest debt statistics. The available statistics provided in the 2022 Public Debt Statement show public and publicly guaranteed (PPG) debt at US$13.7 billion as of September 2021.

Table 2: Zimbabwe Public Debt (2019-2023)

	2019	2020	2021	2022	2023
Consolidated public debt	10.42	14.92	17.86	18.37	19.03
(%GDP)	93.2%	102.7%	66.3%	69.5%	68.1%
External debt	9.61	14.49	17.29	17.47	17.59
(%GDP)	86.0%	99.8%	64.2%	66.1%	62.9%
Of which: Arrears	6.41	10.02	12.72	12.91	13.10
(%GDP)	57.3%	69.0%	47.2%	48.9%	46.9%

Source: *IMF*[2]

Table 1 shows that of the projected total PPG debt, external arrears alone will constitute about US$12.9 billion (48.9% of GDP). This shows that the nation remains in debt distress. Many factors are fuelling public debt which includes inter alia debt guarantees, debt assumptions, debt condonations, collateralized borrowing (resource-backed loans), climate change, unsustainable tax incentives, and rigid development models. The ballooning debt has severe repercussions on the economy as it constrains countercyclical effects of fiscal policies, and affects capital accumulation through heightened long-term interest rates, high tax rates, and inflation.

Therefore, the public encourages the Zimbabwean authorities to advance economic reforms to help them establish a track record of sound policies and provide further impetus to their re-engagement efforts. The recent resumption of token payments and establishment of a debt resolution strategy is a welcome development as it shows authorities' commitment to re-engagement with external creditors. There is a need for further efforts to enhance debt management and transparency. This can be achieved through undertaking an independent public debt audit that will inform the scale and nature of the country's debts, which are often not transparently publicized.

4 SECTORAL REVIEW

4.1 ENERGY SECTOR

Energy is one of the most critical industrial production enablers, its scarcity is an albatross to the national output of a country. As such, countries should invest wisely to ensure energy self-sufficiency.

2. https://www.imf.org/en/News/Articles/2022/03/24/pr2288-zimbabwe-imf-executive-board-concludes-2022-article-iv-consultation

4.1.1 ELECTRICITY SECTOR

In May 2022, most parts of the country experienced mild load-shedding schedules thanks to improved electrical energy importation from the regional pool that are augmenting fragile domestic production. Latest statistics show that as of April 2022, electricity imports were US$12.98 million, up 45.7% year on year (Apr 2021-Apr 2022) and up 50.8% in year-to-date terms (Dec 2021-Apr 2022).

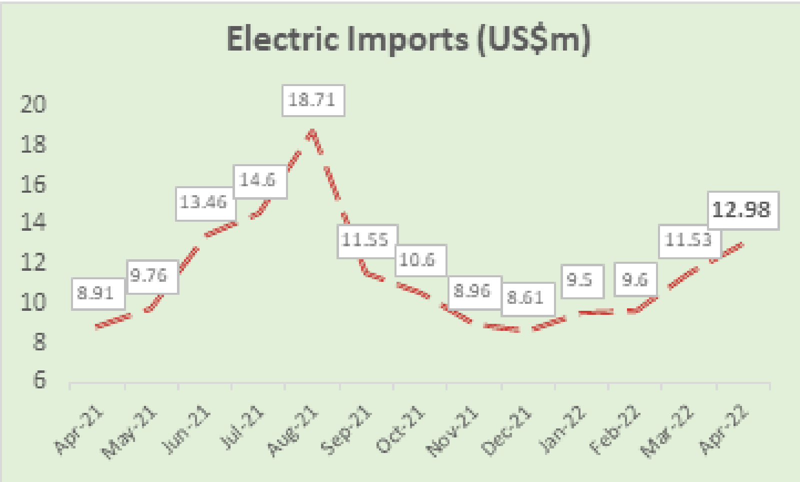

Fig 8: Zimbabwe Electricity Imports (US$m)
Source: *ZimStat*

Domestic electrical energy production is expected to jump significantly in the last quarter of the year as one of the major ongoing national projects is nearing completion. The government received a US$1.5 billion loan facility from China to expand the Hwange Thermal Power. The latest updates indicate that the project is now over 84% complete with the first unit, Unit 7, expected to be commissioned in November 2022 while the second unit, Unit 8, is scheduled for February 2023. These units are 300MW apiece.

This, coupled with other small solar power projects across the country will significantly improve Zimbabwe's energy profile in the region. However, the electricity situation remains precarious as some of the nation's thermal stations have outlived their lifespans while Kariba Dam's water levels are dwindling significantly. The gigantic Kariba Hydro Power is the ZPC's sole hydro power plant constituting 48.6% (1050MW) of national grid's total installed capacity. It is, therefore, our view that authorities should attract more investment in the renewable energy sector which is less costly to produce and plays a crucial role in the fight against climate change.

4.1.2 Fuel

The Zimbabwe Energy Regulatory Authority (ZERA) reviewed maximum pump prices of fuel twice in the month under review. A litre of diesel was set at US$1.74 (ZWL499.56) from US$1.71 (ZWL283.87) while that of petrol was pegged at US$1.68 (ZWL481.02) from US$1.64 (ZWL271.85).

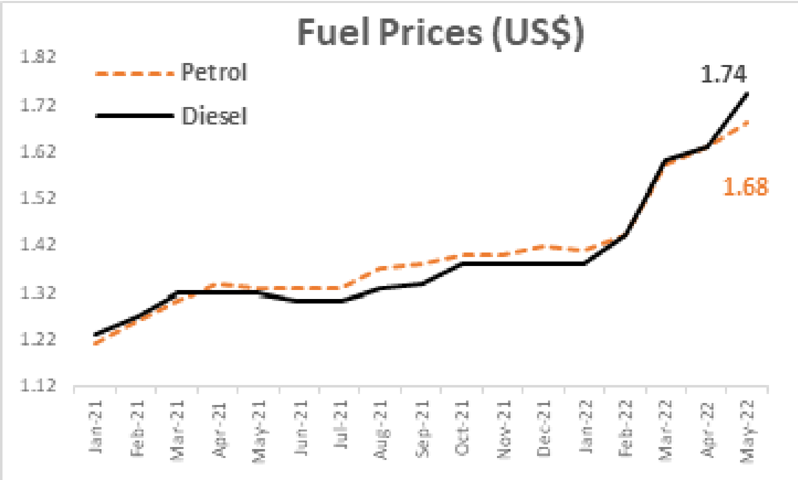

Fig 9: Zimbabwe Fuel Prices (US$)
Source: *ZERA*

The entire fuel sector has fully dollarized and publication of ZWL fuel prices by ZERA is now just a ceremonial procedure. Between February 2022 and May 2022, Zimbabwe witnessed a sharp increase in fuel prices as ZERA reviewed prices more frequently than it did in 2021. This was in tandem with rising global crude oil prices emanating from the impacts of the war in Ukraine, Western sanctions on Russia, and global supply bottlenecks. Due to a lack of proven petroleum reserves, Zimbabwe is a net importer of fuels forcing the nation to take prevailing global crude oil price as is. As such, the nation has witnessed a significant jump in value of fuel imports as shown in Figure 10.

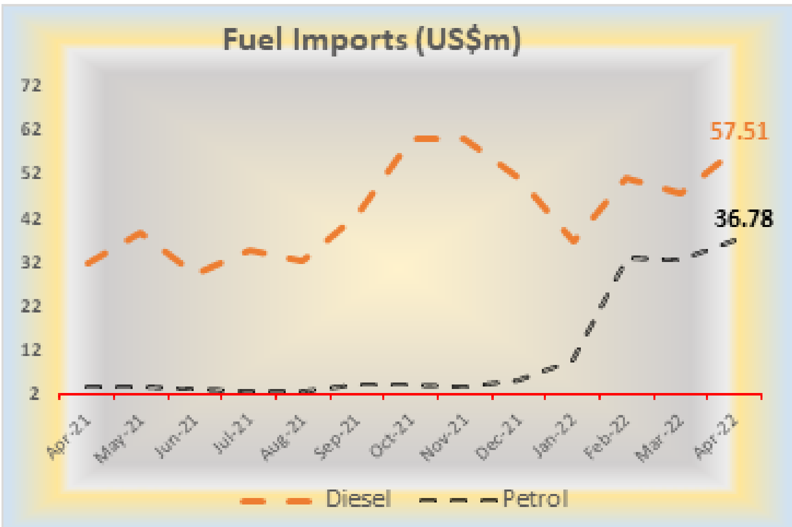

Fig 10: Fuel Imports (US$m)
Source: *ZimStat*

However, the magnitude of fuel price increases in Zimbabwe is out of sync with the developments in other countries in the region. This shows that the exorbitantly rising prices also includes a profiteering component from fuel businesses.[3] The sector is characterized by a few large fuel importers who also play a significant role in fuel retailing.

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

This inhibits competition leading only to abnormal profits for businesses to the detriment of the consumer. Also, despite increasing the ethanol blending ratio to 15% in May 2022, the price of petrol rose as opposed to the pronouncement from govt that the move would suppress petrol prices. The increase is likely attributed to the high prices of domestic ethanol as imports are discouraged. Therefore, to cushion the economy, the government should reduce fuel taxes and levies. Also, there is a need to open up the fuel and ethanol sectors to many players to ensure adequate supply and curbing of pricing distortions.

4.2 AGRICULTURE

Zimbabwe is an agrarian economy, with more than 70% of its population especially the rural dwellers eking a living in this sector. However, the sector is rainfall dependent with only less than 10% of its arable land under irrigation. As such, the country is highly susceptible to frequent droughts a situation being exacerbated by climate change. After the nation received a bumper harvest in the 2020/21 season, the 2021/22 harvest is expected at below-normal levels, limiting seasonal improvements and driving stressed outcomes in most deficit-producing regions.

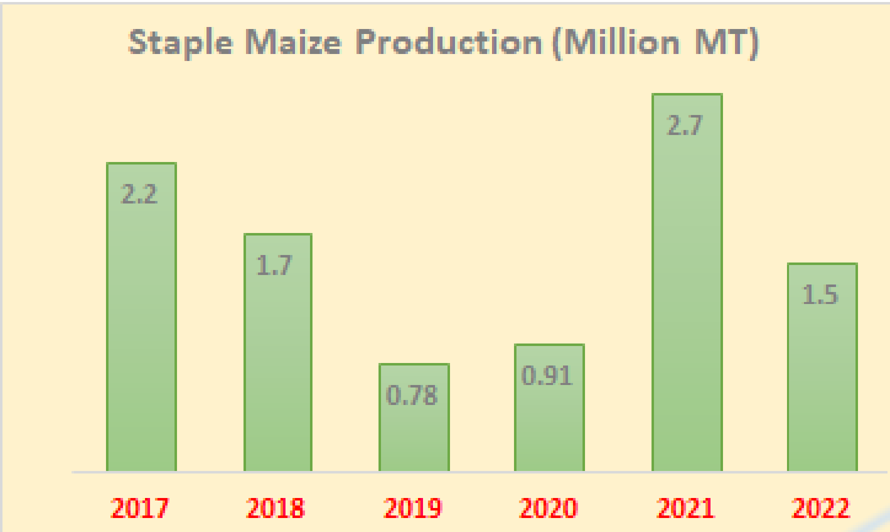

Fig 11: Maize Production (Metric Tonnes)
Source: *Ministry of Agriculture*

It is estimated that Zimbabwe requires about 2.2 million metric tonnes per year for both human and livestock consumption. The latest government estimates indicate that this year's maize output will be 43% less than in the previous year. With a carryover from 2021 estimated at 300,000MT, the nation is facing staple maize deficit of about 400 000MT to be filled by imports. But, with food prices rising globally, the need to import food will add significant pressure on the ZWL exchange rate and headline inflation. Also, pressure is emanating from farmers who are reluctant to deliver maize to the GMB over delayed payments and low prices.

The govt has reportedly unleashed security forces to force maize deliveries to GMB under the guise of curbing side marketing[4] and has also introduced a 30% payment in forex. Nevertheless, it is commendable that the govt has given green light to the Grain Millers Association of Zimbabwe (GMAZ) to import staple maize from Zambia and Malawi. The government has also suspended import duty on basic commodities like maize meal and wheat to increase food availability. With a tightening macroeconomy, it is estimated that a third of the population will face food insecurity in 2022.

Therefore, govt should throw away the Private Voluntary Organizations (PVO) Bill which if passed will likely lead to a massive exodus of development partners (donors). Donor funding is sustaining lives and livelihoods in rural and urban areas alike by providing food to the needy. In the medium-term, government should invest in climate smart agriculture like irrigation, cloud seeding, short seed varieties, and promotion of drought-resistant crops. More so, the land audit must be finalized to identify individuals with multiple or idle farms. These should be reallocated and government must fully implement the Use-It or Lose-It policy to increase farm productivity. Furthermore, land tenure should be addressed to allow 99-year leases to be bankable as this will unlock credit lines to farmers from banks.

4.3 GOLD SECTOR

The latest statistics from ZimStat show that in April 2022, Zimbabwe exported 2.96 tonnes of semi-manufactured gold valued at US$176.9 million relative to 2.2 tonnes valued at US$135.5 million in the prior month.

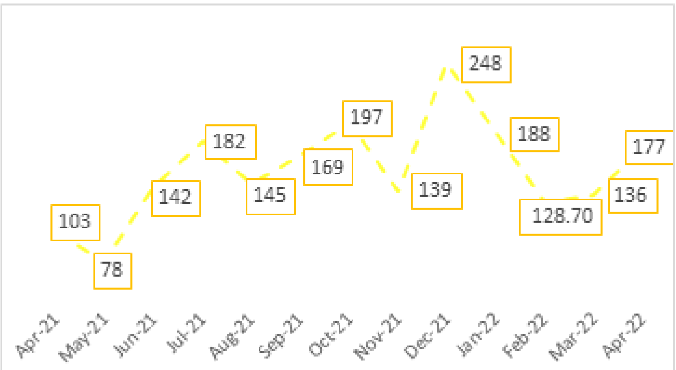

Fig 12: Zimbabwe Gold Exports (US$ million)
Source: *ZimStat*

Cumulatively, Zimbabwe has exported gold worth US$629 million in the first 4 months of 2022, 101% above US$313 million achieved for the same period in 2021. In our view, the little prospect of a quick end to Russia's invasion of Ukraine contributing to a surge in global inflation is supporting the global price of the yellow metal. This is the case because generally, in periods marked by economic uncertainty and increased volatility, gold proves to be a reliable source of diversification and wealth preservation.

4. https://www.timeslive.co.za/news/africa/2022-05-30-zimbabwe-security-forces-to-confiscate- maize-stocks-from-farmers/

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As such, we expect gold output to continue to rise in 2022 buoyed by these high global prices. However, Fidelity Gold Refiners (FGR) should offer competitive prices to ensure increased gold deliveries to official points thus reducing side marketing and smuggling. At ZIMCODD, we are also convinced that increasing government support to artisanal and small-scale mining (ASM) sector will significantly boost gold output. Despite the existing hurdles like lack of mining technologies, the ASM sector is contributing a larger portion of gold delivered to FGR per month. This is not only good for the national purse but will be also a great stride toward socio-economic justice in Zimbabwe as the majority employed in the ASM sector are young people and women.

5. DISCLAIMER

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