2022

HALF-YEAR ECONOMIC REVIEW & OUTLOOK

JANUARY- JUNE

ZIMCODD

ZIMBABWE COALITION ON DEBT & DEVELOPMENT

Executive Summary

This first half-year (1HY22) economic review tracks the movements and performance of key economic indicators such as Gross Domestic Product (GDP), money supply, exchange rate, inflation, and public debt. The following were the key highlights for the 1HY22:

- *The war in Ukraine has compounded COVID-19 problems thereby magnifying the global economic slowdown. The global economy has entered what could become a protracted period of feeble growth and elevated inflation. This raises the likelihood of stagflation.*
- *Sub-Saharan Africa is projected to grow by 3.7% in 2022 as the commodity-dependent region is expected to benefit from elevated commodity prices particularly in the extractive sectors. However, rising inflation would erode the real value of incomes in many countries, subdue aggregate demand, widening inequalities and deepen poverty.*
- *Zim Treasury projected an output growth of about 5.5% for 2022. However, in the first half of 2022, the economy has experienced heavy headwinds as the local currency has lost its ground against the greenback with price inflation increasing by an average of 14.3% per month. The unstable domestic environment and the ongoing war in Ukraine risk subduing output growth.*
- *In the first half of 2022, price inflation maintained an upward trend that started in September 2021. The latest official statistics show price inflation mounting by 191.6% in the last 12 months through June 2022. In comparative terms, Zimbabwe's price inflation topped the regional average and independent estimates show that at 426%, it had the global highest inflation level in the first half of the year.*
- *The Jan-June 2022 period was brutal for the Zimbabwean dollar which experienced the greatest fall against the US dollar since its official re-introduction in 2019. It declined by over 70% (year-to-date terms) in both the parallel and official markets. The chief driver of ZWL depreciation has been the excessive ZWL liquidity growth driven by unsustainable govt (Government) spending, especially through quasi-fiscal activities.*
- *The broad money supply shows that ZWL liquidity has been increasing at an unsustainable and highly inflationary average rate of 158% YoY in the 5 months ending May 2022. More concisely, the broad money supply has mounted by 7 373% within 3 years to about ZWL971.54 billion in May 2022 from about ZWL13 billion in May 2019 -a period the economy registered its severe GDP decline since the dollarization period.*
- *Zimbabwe is experiencing a favourable current account -the value of exports and imports of both goods and services and international transfers of capital -since 2019. This is a result of a combination of factors including firming global commodity prices, weakening local currency, and rising diaspora remittances amid a tightening economy.*
- *Zimbabwe's total public and publicly guaranteed debt at ZWL1 863 861 (about US$17.26 billion) as of December 2021. This is an increase of 61% from US$10.7 billion recorded as of December 2020. Total PPG now constitutes 62.1% of GDP which is in line with the 70% threshold set out in the Public Debt Management Act.*

- *High international food prices and the continued depreciation of the local currency are contributing to below-average household purchasing power. As a result of poor harvest, it is estimated that about 60% of Zimbabweans face food insecurity in 2022.*

1. Introduction

Zimbabwe is facing a tightening macroeconomic environment as the local currency continues to depreciate and price inflation skyrocketing. This is plunging many citizens, especially low-income households into abject poverty as businesses can shift a part or all of the inflation burden to the final consumer. As such, prices of many basics are now out of touch with the majority of poor citizens who are earning in fragile local currency. With price inflation continuing to rage havoc and eroding values of salaries, citizens deserve to know the dynamics behind the persisting economic crisis. On one hand, the government absolves itself blaming the Russia-Ukraine war and human behavior. On the other hand, businesses are attributing the crisis to government deficiencies like forex allotment backlog on the auction market. Therefore, this half-year economic review seeks to answer this puzzle by analyzing the performance of key macroeconomic indicators. It will also proffer intext possible alternatives to clamp the persisting price madness in the economy.

2. Economic Outlook

2.1 Global Economic Performance and Outlook

The outbreak of war in Ukraine has compounded the COVID-19 problems thus magnifying the global economic slowdown. According to the World Bank, the global economy is entering what could become a protracted period of feeble growth and elevated inflation.[1] This raises the likelihood of stagflation- a threat to developing nations with limited resources to cushion their people and economies.

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)*

1. https://www.worldbank.org/en/news/press-release/2022/06/07/stagflation-risk-rises-amid-sharp-slowdown-in-growth-energy-markets

The war in Ukraine has deteriorated the cost-of-living crisis for millions of people worldwide while at the same time exerting massive economic damage by negatively affecting global energy, minerals, and food supply chains. This is pushing headline inflation higher than expected across many countries. Higher prices will lower real incomes, raise production costs, tighten financial conditions, and constrain macroeconomic policy, especially in food and energy-importing countries like Zimbabwe.

To avert the worst-case scenario, there is a need for global consensus to support those affected by war, speed up debt relief, and expand vaccinations in low-income nations. Also, governments must avoid distortionary policies such as price controls, export bans, and subsidies as this could exacerbate rising commodity prices. Amid higher inflation, weaker growth, tighter financial conditions, and limited fiscal policy space, governments will need to reprioritize spending toward targeted relief for vulnerable communities.

2.2 Regional Economic Performance & Outlook

Sub-Saharan Africa is projected to grow by 3.7% in 2022 as the commodity-dependent region is expected to benefit from elevated commodity prices, particularly in the extractive sectors.

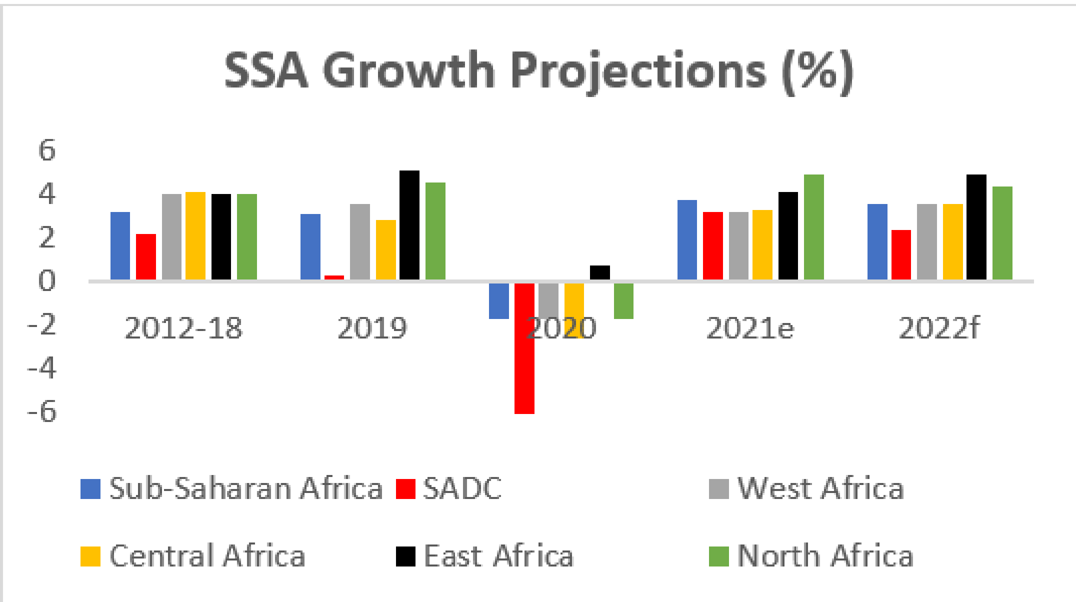

Fig I: Sub-Saharan Africa Growth Projections
Source: *African Development Bank (AfDB)*

However, the rising inflation would likely erode the real value of incomes in many countries, subdue aggregate demand, widening inequalities, and deepen poverty. The balance of risks to the region's outlook is tilted to the downside. For instance, a prolonged disruption to global trade in fertilizers and cereals as a result of the war in Eastern Europe would worsen the availability and affordability of staple food across the region.[2]

2. https://thedocs.worldbank.org/en/doc/18ad707266f7740bced755498ae0307a-0350012022/related/Global-Economic-Prospects-June-2022-Regional-Highlights-SSA.pdf

The rising living cost risks trigger social unrest, insecurity, and violence. The resurging COVID-19 pandemic would hit hard many SSA commodity exporters while accelerated policy tightening in advanced nations would raise borrowing costs and the risk of debt distress. Fiscal space, already constrained by high levels of public debt, could narrow further if spending pressures to curb the impact of rising food and fuel prices continue to build up.

2.3 Zimbabwe Economic Outlook

After two (2) years of double-digit GDP decline in 2019 and 2020, the economy is officially estimated to have rebounded in 2021 by 7.8%. In early 2022, the Treasury projected another recovery of about 5.5% on the assumption that the COVID-19 cases subside, the country receives normal rainfall patterns, a boost in domestic energy production, recovery of manufacturing, and rising global commodity prices, among others. From the monetary front, govt projected a stable ZWL exchange rate and price inflation.

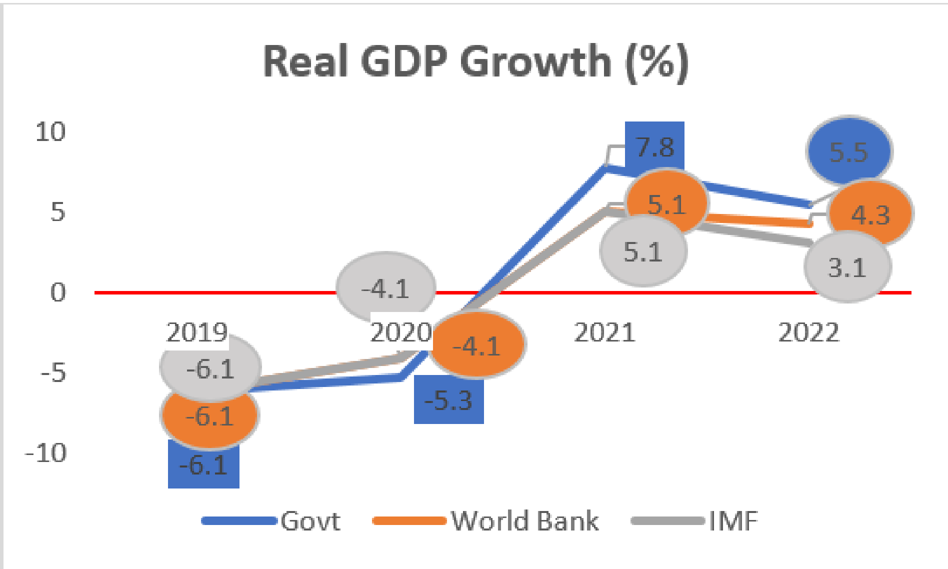

Fig 2: Zimbabwe Real GDP Growth (%)
Source: *Ministry of Finance, IMF & World Bank*

However, in the first half of 2022 (1HY22), the economy experienced heavy headwinds. The local currency lost 72% of its value against the greenback with price inflation increasing by an average of 14.3% per month. Inflation is a deeply regressive tax, impacting all citizens, especially low-income households as it erodes the real value of incomes and wealth. The nation also received erratic rainfall patterns affecting crop yield. From the energy front, despite notable improvements in electricity supply in the first quarter of the year (Q1:22), the situation worsened in Q2:22 as domestic production dwindled due to frequent breakdowns at aging thermal power stations and falling dam levels at the Kariba Dam -ZESA's sole hydropower plant. In the outlook, the macroeconomic environment is expected to continue tightening with a massively declining ZWL and skyrocketing price inflation.

From the domestic front, Treasury will likely continue to overspend its budgets as it tries to cushion the economy and its people from ravaging inflation while RBZ is struggling with exchange rate management thereby creating a fecund ground for flourishing parallel markets characterized by corruption and rent-seeking behaviors. There are also possibilities for policy slippages and the embrace of populism ahead of the 2023 watershed elections.

Externally, Zimbabwe, a net importer is on the receiving end of imported inflation which is being driven by deteriorating geopolitical tensions and the resurging COVID-19 virus. Imported inflation has caused massive growth in energy and food prices. As such, the combination of these factors (domestic & external factors) will significantly disrupt business predictability and investment, reduce aggregate consumer demand, and trap many citizens in a vicious circle of poverty.

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

In the first half of 2022 (1HY22), price inflation maintained an upward trend that started in September 2021. The latest official statistics show price inflation mounting by 191.6% in the last 12 months through June 2022. From a month-on-month perspective, prices mounted by 30.7% in June 2022 completing an unsustainable average monthly growth of 14.31% in the 1HY22.

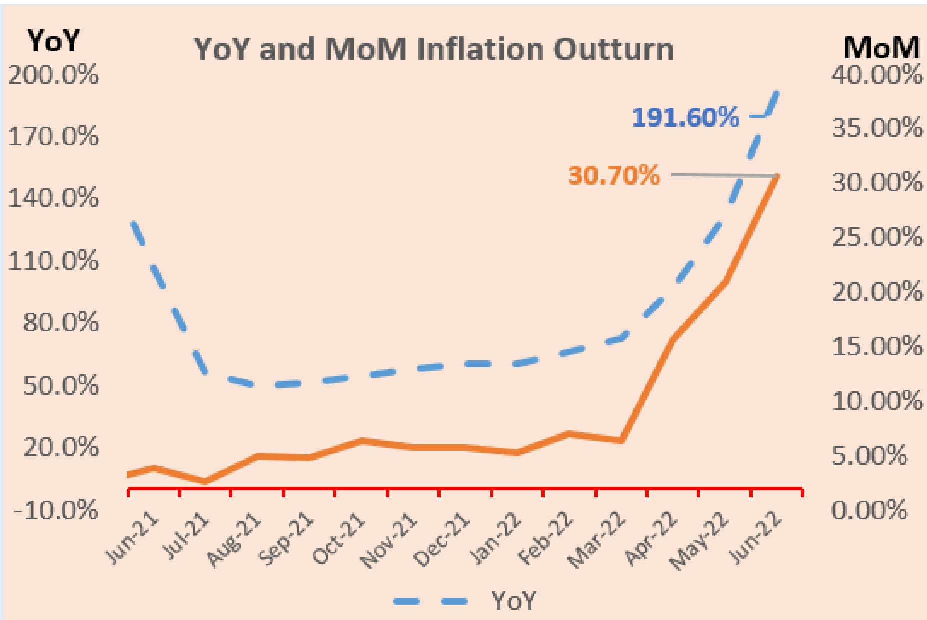

Fig 3: Zimbabwe Annual Inflation Trends (%)
Source: *ZimStat*

In comparative terms, Zimbabwe's price inflation topped the regional average. Statistics from independent and reputable global inflation experts like Prof. Steve Hanke of the John Hopkins University show that at 426% as of the end of June 2022, Zimbabwe has the highest inflation level globally.[3]

The skyrocketing inflation is plunging citizens into poverty with the World Bank estimating that about 40% of the total population has been trapped in extreme poverty - living on less than US$1.90 per day. Also, currency volatility is widening income inequalities as shown by the rising Gini coefficient in the last decade.[4] The ever-rising inflation forced the Reserve Bank of Zimbabwe (RBZ) through its Monetary Policy Committee (MPC) to adjust the annual inflation target upwards from the initial 25-35% to a maximum of 60%. However, with the 1HY22 price level already in the 3-digit territory, the RBZ annual target has become too elusive, and in need of significant upward revision.

To clamp chronic inflation, the government announced vast measures to stabilize the economy on the 7th of May 2022. These included inter-alia a ban on bank lending, a promise to clear RBZ forex auction backlog, the introduction of a willing-buyer willing-seller interbank market, and tax incentives.[5] The government further suspended duty on basic products and in June 2022, both the RBZ and Treasury announced additional measures which according to a ZIMCODD report have an insignificant impact on subduing ZWL depreciation and inflation largely emanating from excessive liquidity growth and fiscal indiscipline.[6] Furthermore, in the 2HY22, RBZ will issue gold coins to investors for storing value and clamping prices. The gold coins will be sold to the public in both USDs and ZWLs. Nevertheless, selling gold coins at the overvalued ZWL interbank rate (tantamount to selling gold at a discount) only entrenches rent-seeking behaviors in the economy rather than reducing the protracted currency crisis.[7]

In the outlook, price inflation remains elevated, showing no signs of slowing down. From the domestic front, price pressures will emanate from unsustainable ZWL supply as govt has doubled its budget by offering numerous incentives together with a 100% salary hike for all public workers. Government spending will also balloon as prices of farm inputs which are provided to farmers yearly under the Presidential Input Scheme and Command Agriculture have gone haywire. More so, existing adverse inflation expectations, likely policy slippages ahead of the 2023 general elections, and a poor 2021/22 harvest exerts massive price pressure. From the external front, the country is under siege of imported inflation which is being driven by the war in Ukraine. This war in Eastern Europe -with an uncertain ending as the West continues to support Ukraine against Russian aggression- is fuelling global food and energy prices. Also, global inflation is rising due to global supply disruptions being caused by the COVID-19 pandemic.

3. https://zwnews.com/zimbabwes-inflation-at-426-above-official-rate-hanke/
4. https://www.africa-press.net/zimbabwe/all-news/40-of-zimbabweans-living-in-extreme-poverty-world-bank
5. https://zimcodd.org/wp-content/uploads/2022/05/ZIMCODD-Weekly-Review-10.05.2022.pdf
6. https://zimcodd.org/wp-content/uploads/2022/06/ZIMCODD-Weekly-Review-29-June-2022.pdf
7. https://zimcodd.org/wp-content/uploads/2022/07/ZIMCODD-Weekly-Review-5-July-2022.pdf

3.2 Exchange Rate

The 1HY22 period was brutal for the Zimbabwean dollar which experienced the greatest fall since its official re-introduction in 2019. This forced RBZ to dumb forex auction determined exchange rate in May 2022 and adopted a Willing-Buyer Willing-Seller (WBWS) determined exchange rate through banks.

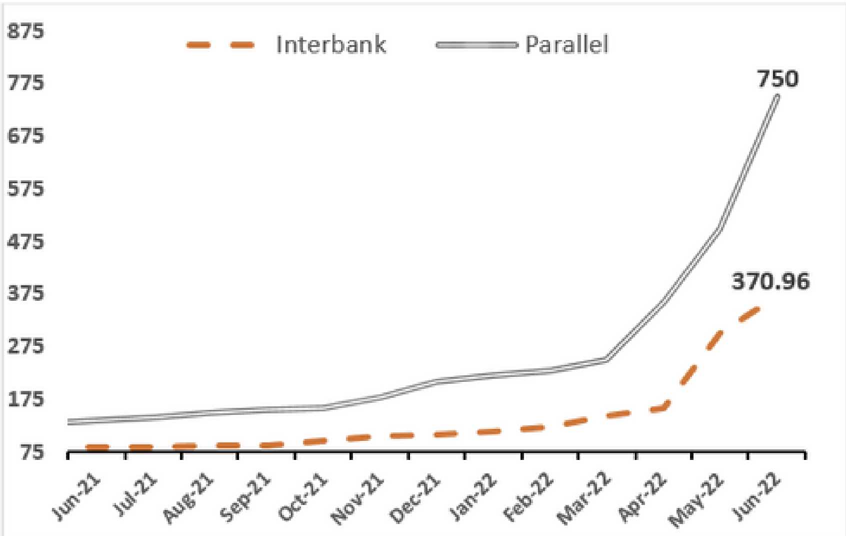

Fig 4: Auction and Parallel Exchange Rate
Source: *RBZ, ZIMCODD*

As of June 30, the ZWL is down against the US dollar by 72% in year-to-date (YTD) terms in both the official and alternative markets. In the official market, it slid from ZWL108.7 in January to ZWL370.96 while the parallel market rate (PMR) deteriorated to an average of ZWL750 from ZWL210 thus giving average parallel market exchange premia above 90%. This means that the greenback is at least 90% more expensive in alternative markets relative to the official market price. In Zimbabwe, the parallel market is the main source of forex for the informal economy -an economy constituting about 70% of Zimbabwe's total economic activity and employing at least 80% of citizens.[8]

A close look at statistics shows that the chief driver of ZWL depreciation in 1HY22 has been the excessive ZWL liquidity growth driven by unsustainable govt spending, especially through quasi-fiscal activities. For instance, broad money -an economy's money supply accounting for cash and other assets easily convertible into currency- mounted by a staggering 44.7% between April 2022 and May 2022.[9] Generally, for stability to hold, the money supply should move in tandem with real output growth. Since 2019, fiscal indiscipline has been at the center stage of the Treasury as was revealed by the ZWL$107 billion 2022 Financial Adjustments Bill (covering 2019 and 2020) Gazetted on the 10th of June 2022.[10]

8. https://www.chronicle.co.zw/informal-sector-employs-over-80-working-population-in-africa/
9. https://www.rbz.co.zw/documents/monthly_review/2022/Monthly-Economic-Review-May-2022.pdf
10. https://www.veritaszim.net/node/5707

Also, with the official market facing forex liquidity challenges as shown by the burgeoning weekly forex allocation backlog on the auction market which reached about US$300 million in the 1HY22, businesses were forced to source forex in the expensive alternative markets thereby exerting pressure on the ZWL to depreciate.[11] Also, because economic agents are rational, they need to find a stable store of value amid ZWL depreciation and increased demand for USD. Furthermore, the increased ZWL depreciation created room for speculative attacks -massive and sudden buying and selling of the local currency- against the ZWL.

In the outlook, the local currency is expected to continue falling against the greenback. This is premised on the view that the RBZ will maintain its fondness for commanding forex exchange markets thereby limiting the power of market forces to foster a true price discovery process. By keeping the failed forex auction market despite the embrace of a progressive WBWS system coupled with the introduction of gold coins to be sold at a discount (overvalued ZWL exchange rate), RBZ is merely promoting rent-seeking behaviours in the market which only distorts ZWL pricing. The increased govt spending to cushion the economy and citizens from the ravaging domestic currency crisis, the impact of burgeoning public debt, and the Russia-Ukraine war will further exert massive ZWL depreciation pressures.

Many economic analysts cast doubt on the future of the ZWL as retailers have started rejecting ZWLs for some specific products like sugar, milk, and cooking oil. This is reminiscent of the episodes that led to the collapse of the ZWL and the adoption of a multi-currency regime dominated by the USD as legal tender in 2009. Therefore, to avert economic history repeating itself and save economic agents from persisting and unbearable exchange losses, authorities should float the ZWL exchange rate, spend within its means, maintain policy consistency, and curb leakages from corruption and illicit financial flows among other initiatives.

While the ongoing self-dollarization risk plunging Zimbabwe into a supermarket economy and constraining the country's ability to use monetary policy leg as an economic management tool, it will limit RBZ's ability to inject new liquidity (ZWL) unchecked. Thus, ZWL money supply growth will subside thereby reducing depreciation pressures and restoring public confidence ceteris paribus. As such, the government should move along and increase its USD spending to cushion civil servants and the vulnerable.

3.3 Money Supply

The RBZ has exonerated itself from the protracted crisis experienced in the 1HY22. It blamed this crisis entirely on human behaviour and the ongoing Russia-Ukraine war. The RBZ's assertion is hinged on the realization that reserve money- the base level of money supply in the economy- has grown by a modest 4% in the first 6 months through June 2022. This is, however, slightly above the 5% that was realized in the comparable period in 2021.

11. https://www.sundaymail.co.zw/rbz-to-clear-auction-backlog-by-month-end

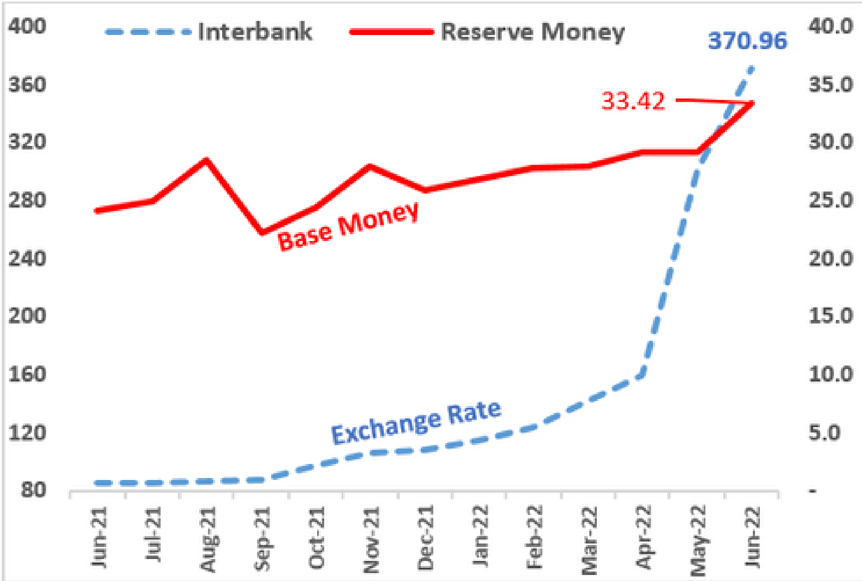

Fig 5: Base Money and Official Exchange Rate
Source: *RBZ*

However, a look at the broader definition of money supply (broad money) shows that ZWL liquidity has been increasing by an unsustainable and highly inflationary average rate of 158% YoY in the 5 months ending May 2022. More concisely, the broad money supply has mounted by 7 373% within 3 years to about ZWL971.54 billion in May 2022 from about ZWL13 billion in May 2019 -a period the economy registered its severe GDP decline since the dollarization period (2009-2018).

During these 3 years, the ZWL has lost a cumulative 372% of its value against the USD in the official market and 387% in the alternative markets. These statistics show that authorities are at the center stage of the current economic storm. The elevated broad money growth and its resultant negative impact on the ZWL exchange rate and price inflation forced govt to temporarily ban bank lending in May. To curtail speculative borrowing in the market, the RBZ also responded by increasing its benchmark policy rate to 200% from 80%. More so, in a quest for currency stability, the RBZ set a 0% quarterly reserve money growth target for the remaining quarters of 2022.

However, the rising cost of living which in turn calls for increased govt spending makes the monetary authority's targets illusory. It is therefore the public's view that to effectively reduce ZWL liquidity growth in the economy, Treasury should abolish quasi-fiscal operations (QFOs) and pursue fiscal consolidation. Furthermore, the govt should desist from reliance on the short-term financing model (hot money) for its long-term projects such as road construction and agriculture.

3.4 External Trade

Since 2019, Zimbabwe has experienced a favourable current account -the value of exports and imports of both goods and services and international transfers of capital. This is a result of a combination of factors including firming global commodity prices, weakening local currency, and rising diaspora remittances amid a tightening economy.

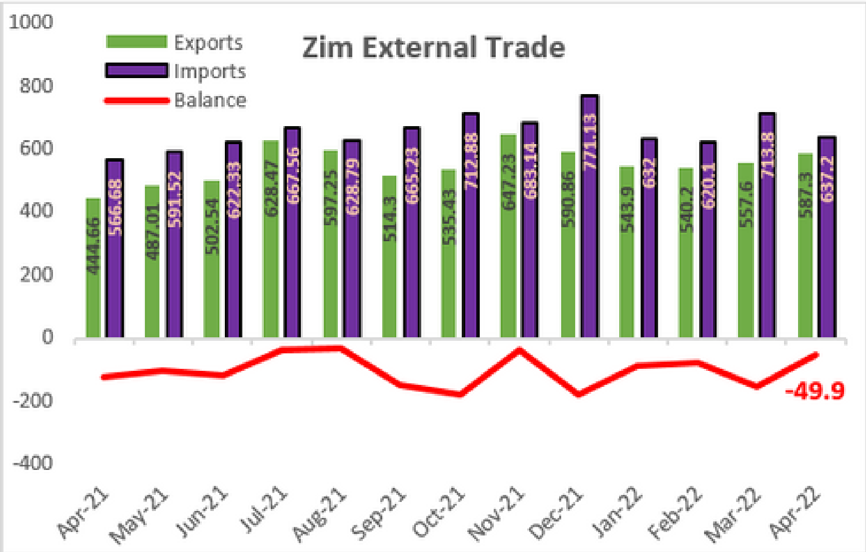

Fig 7: Zimbabwe External Trade Position (US$ Million)
Source: *ZimStat*

Concerning merchandise exports, Zimbabwe National Statistics Agency shows the country earned US$2.23 billion in the first four (4) months of 2022, 45.8% above the US$1.53 billion that was recorded in the same period in 2021. This came at the back of rising global mineral prices, Zimbabwe's top export revenue earner. As for merchandise imports, the country spent about US$2.6 billion on foreign-produced goods up 16.6% from US$2.23 billion spent for the same comparable period in 2021. Imports have been driven largely by rising prices of global oil fuels, the top import product for Zimbabwe. Also pushing imports in 1HY22 was the rising global prices of fertilizers, food, and energy.

Overall, the country recorded a trade deficit of -US$0.37 billion in the first 4 months of 2022. This is a favourable trade balance relative to a deficit of -US$0.7 billion incurred in the same period in 2021. For the outlook period, exports will likely nosedive as the global economy faces a risk of recession driven by the war in Ukraine, rising global inflation, and resurging COVID-19 virus. This has a bearing on the prices of minerals, Zimbabwe's key export. On the other hand, merchandise imports are expected to rise as Zimbabwe intensifies the importation of energy, fertilizers, and food to avert a humanitarian crisis. The decline in value of imports is expected, however, in fuels in line with the imminent global recession which will affect economic activity and travel.

3.5 Public Debt

Zimbabwe is struggling with rising public debt. The latest statistics released by the Public Debt Management Office (PDMO) show Zimbabwe's total public and publicly guaranteed debt (PPG) at ZWL1.9 trillion (about US$17.26 billion using an exchange rate of US$1: ZWL108) as of December 2021.[12] This was an increase in public debt of 61% from US$10.7 billion recorded as of December 2020. Although being slightly above the Southern African Development Community (SADC)'s 60% macroeconomic convergence threshold, Zimbabwe's latest 2021 total PPG constitutes 62.1% of GDP which is in line with the 70% threshold set out in the Public Debt Management Act. Table 2 shows IMF's projections of Zimbabwe's public debt.

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*

The PDMO's statistics indicated that of the total PPG, external arrears amounted to ZWL1.5 trillion (about US$13.43 billion at US$1: ZWL108). This is about 78% of total PPG with arrears alone constituting US$6.6 billion showing that the country is in debt distress - struggling to pay off its debt and a debt restructuring is needed. External debt increased by US$3.53 billion from the 2020 level -an amount resembling assumed RBZ legacy debts (blocked funds) owed to foreign suppliers for goods and services provided during 2019's fixed exchange rate regime. Domestic debt totalled US$3.82 billion which includes US$3.5 billion in compensation to former farm owners who were affected by the fast-tracked Land Reform Programme of the early 2000s.

Noting the calamitous effects of unsustainable public debt on the economy and the welfare of ordinary Zimbabweans, the Ministry of Finance and Economic Development (MoFED) developed and shared its Arrears Clearance, Debt Relief, and Restructuring Strategy. The strategy has proposed 2 options; joining the Heavily Indebted Poor Country (HIPC) Initiative and or undertaking a non-HIPC Initiative route involving debt restructuring and arrears clearance via bridge financing and own resources.

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

While the HIPC route is the only option that will provide Zimbabwe with maximum debt relief given the status quo of debt distress and rising abject poverty, the continued lack of progress in the implementation of economic reforms as required by creditors acts as a stumbling block. Also, Zimbabwe's poor human and property rights record, disrespect for the rule of law, and rampant corruption make it difficult for her to access full debt relief from all of its creditors. Furthermore, it is difficult for creditors to forgive Zimbabwe its debt as most of the accumulated debt was not used for intended purposes with the large chunk having benefitted the rich and connected few. Given her natural resource endowment, one can argue that Zimbabwe is too rich to be considered a poor country.

While the latest statistics from the International Budget Partnership (IBP) show Zimbabwe as the third most transparent African country in budget processes,[14] more should be done to clamp ballooning public debt which is not transparently contracted. This is driven by fiscal indiscipline as line ministries continue to overspend their annual budget votes. Treasury is seeking condonation for about ZWL107 billion over expenditures for 2019 and 2020 even though it had initially announced a series of budget surpluses for the same period. Also, public debt is being driven by unending govt guarantees and commitments on behalf of local authorities. For instance, it has taken over the US$400 million Pomona deal of converting waste to energy which was initially signed between Harare City Council and Geoginix BV, a Netherlands-based private company.[15] From this deal, the govt will fork out at least US$22 000 per day, an amount that can greatly improve public service delivery and collapsing infrastructure. It is appalling to note that the deal failed to follow the procurement process as required by the Public Procurement and Disposal of Public Assets Act.

4. Sectoral View

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.

4.1.1 Electricity Sector

Zimbabwe continues to experience fragile domestic electricity production and supply largely due to its over-reliance on the aged thermal plants which are now uneconomical to operate.

14. https://www.herald.co.zw/zim-ranks-high-on-budget-transparency/
15. https://www.zimbabwesituation.com/news/govt-in-pomona-deal-climbdown/

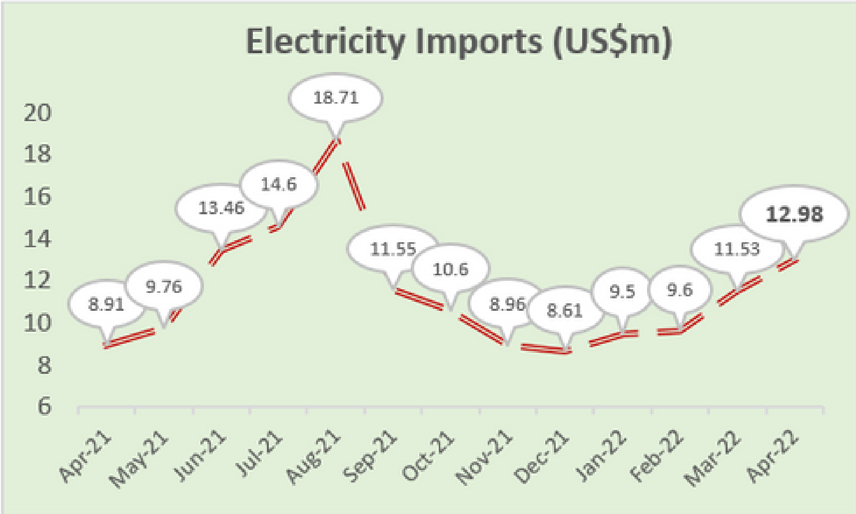

Fig 8: Zimbabwe Electricity Imports (US$M)
Source: *ZimStat*

In June 2022, many places across the country experienced increased load shedding schedules as some thermal power plants went off the grid and required repairs. The problem has been compounded by the fact that ZESA bills most of its clients in deteriorating local currency yet the domestic production deficit has to be covered by imports (US$) from regional counterparts. Also, the power utility requires forex to import repairs such as turbines and generators. This is crippling ZESA's operational viability as electricity tariffs being charged are not in sync with operating costs.

The deteriorating situation has forced the govt to allow ZESA to collect 35% of electricity bills for all exporters in foreign currency for 6 months with an option to extend for another 6 months.[16] This is the same arrangement that was pursued in 2019 during the height of 18-hour load shedding schedules. Electricity supply is however expected to improve in the last quarter of the year as the Hwange Thermal Unit 7 with the potential of 300MW comes on board. Another 300MW unit, Hwange Unit 8 is expected to join the national grid in the first quarter of 2023. While this is commendable in the quest for energy self-sufficiency, Harare should diversify its grid by increasing investment in the renewables like solar which is less costly to produce and plays a crucial role in the fight against the existential threat from climate change and climate variability.

4.1.2 Fuel

Zimbabwe is notoriously known for fuel prices higher than the regional average. The fuel sector which was fully dollarized in 2019 after the introduction of the Direct Fuel Import (DFI) scheme by RBZ is characterized by a few large importing businesses that are also major participants in the fuel retailing businesses and an ethanol sector that is dominated by a single producer.

16. https://www.herald.co.zw/zesa-to-bill-exporters-in-foreign-currency/

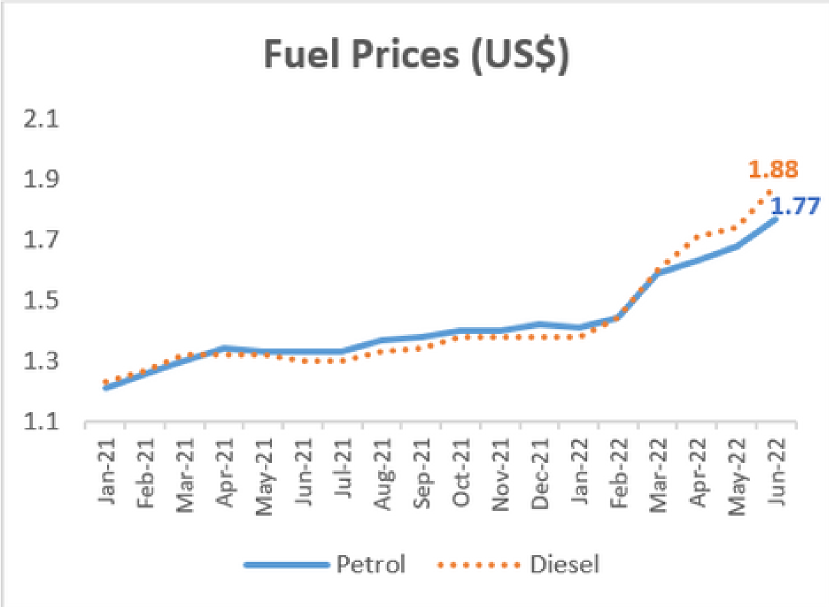

Fig 9: Zimbabwe Fuel Prices (US$)
Source: *ZERA*

With an imperfect domestic fuel market structure, the Russia-Ukraine war has provided an opportunity for fuel dealers to profiteer from rising global crude oil prices at the expense of ordinary citizens. Statistics show that since the war started, domestic petrol pump prices have increased by a cumulative 23% between the Feb-June 2022 period against a cumulative growth of 18% between Jan-Dec 2021. For diesel, pump prices mounted by 32% (Feb-June 2022) relative to 13% (Jan-Dec 2021).

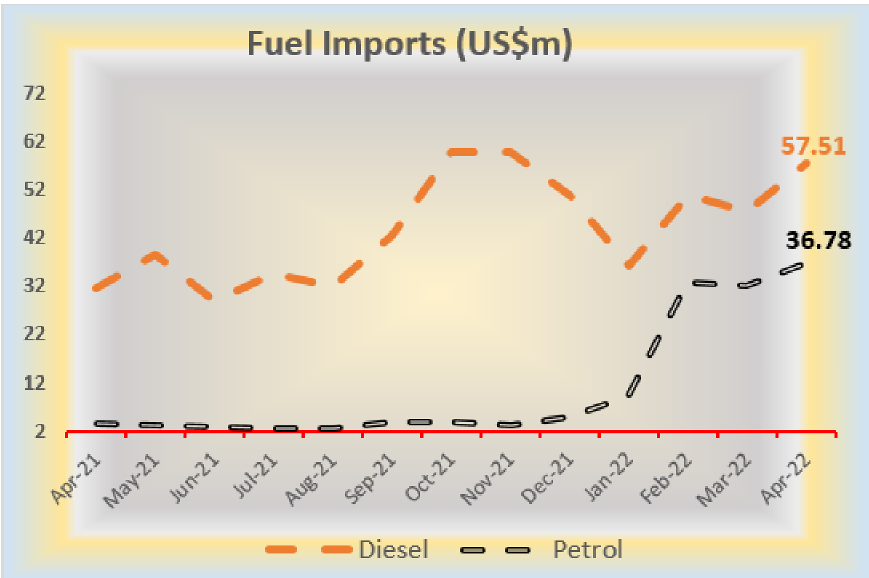

Fig 10: Fuel Imports (US$M)
Source: *ZimStat*

For the outlook period, conflicting supply and demand factors have increased uncertainty on the oil price forecast. The fears of global recession have intensified, which could hurt oil demand. Already high oil prices and a stronger US dollar, partly due to the Federal Reserve's aggressive move to hike rates, could risk demand contraction in large oil-importing countries. In addition, extended sanctions against Russian oil exports have increased uncertainty about supply from the world's second-largest oil producer behind Saudi Arabia. The US, which is struggling to lower high domestic fuel prices, may also take steps that could affect the global oil market, such as a proposed curb on US oil exports. With so many factors pulling oil prices in different directions, it remains to be seen if oil prices will pause or continue with their rally in the 2HY22.

4.2 Agriculture

The country faced a poor 2021/22 agricultural season due to El-Nino-induced drought. This has affected crop yield and projections indicate that staple maize output has declined by 40% to 1.5 million MT against a national requirement of about 2.2 million MT for both livestock and human consumption.

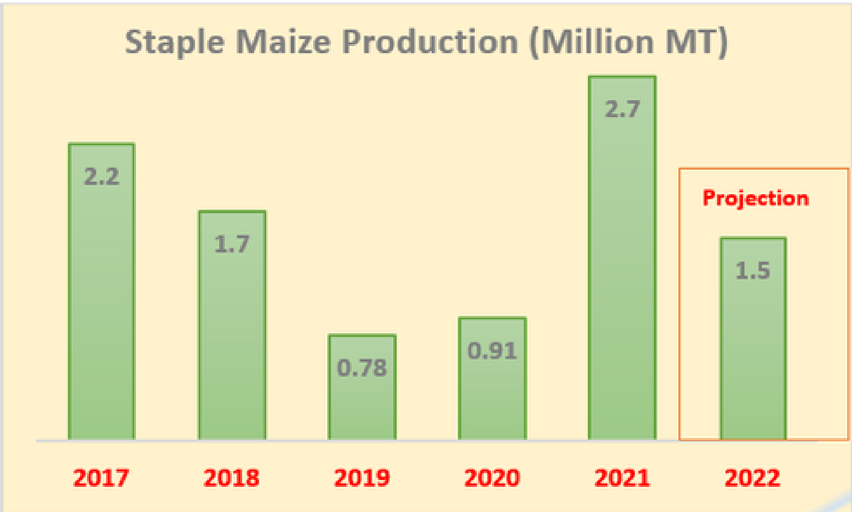

Fig 11: Maize Production (Metric Tonnes)
Source: *Ministry of Agriculture*

As a result of poor harvest, it is estimated that about 60% of Zimbabweans face food insecurity in 2022.[17] Macroeconomic instability, marked by spiking parallel market foreign currency exchange rates, will likely remain a prime driver of rapidly increasing headline inflation throughout the outlook period. High international food prices and the continued depreciation of the local currency are contributing to below-average household purchasing power. The release of grains from Strategic Reserves and lifting of import duties on prioritized basic food and non-food commodities in response to emerging shortages by govt will cushion some household groups, but access for poorer households will likely remain constrained.

17 https://www.newsday.co.zw/2022/04/whats-fuelling-zims-food-insecurity/

For most households, typical livelihood strategies will likely remain constrained, and income will remain below average. The rising global prices of fertilizers and other chemicals will have a huge bearing on the 2022/23 cropping season as it will force many poor households to use uncertified seeds. The govt budget is likely going to be overstretched as many expenditure centers will require upward reviews. Consequently, the deteriorating domestic economy and rising global inflation pose a great risk to the forthcoming farming season.

4.3 Gold Sector

For years dating back to pre-independent Zimbabwe, gold has maintained its position as a traditional foreign currency earner for Zimbabwe. Statistics from ZimStat show that in 2021 alone, gold contributed about US$1.6 billion in export revenue, that is, 27% of total export receipts recorded in 2021.

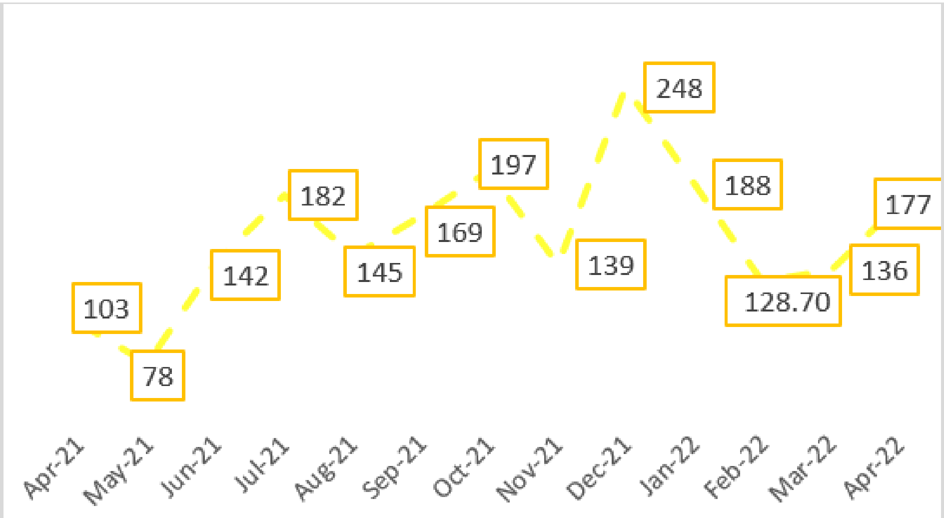

Fig 12: Zimbabwe Gold Exports (US$ million)
***Source:** ZimStat*

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. Statistics show gold deliveries to Fidelity Gold Refineries (FGR) ballooning in 2022 driven by firming global prices. This is because the little prospect of a quick end to Russia's invasion of Ukraine is contributing to a surge in global inflation thereby supporting the global price of the yellow metal. Generally, during periods marked by economic uncertainty and increased volatility, gold proves to be a reliable source of diversification and wealth preservation.

Gold deliveries are also being powered by improved FGR pricing. In 2020, the country witnessed a decline in gold delivery to official points partly due to poor payment by FPR amid a currency crisis. The offered domestic prices were way below the foregoing global prices thus contributing to the smuggling of the yellow metal. 2021 saw FGR competitively increasing its US dollar payments for gold delivered and reducing the time lag between delivery of the yellow metal and the payment for the delivery. This is helping to reduce the propensity of gold smuggling thus increasing deliveries to official points of sale.

17 https://www.newsday.co.zw/2022/04/whats-fuelling-zims-food-insecurity/

In its quest to increase gold deliveries, the RBZ introduced a 5% gold incentive to those miners delivering at least 20kgs of gold. Also, the Bank introduced an incremental of 2 percentage points for each ton of gold delivered to FGR. In May 2021, fiscal authorities also announced the Incremental Export Incentive Scheme[18] where beneficiaries would retain 80% of forex earned on incremental exports while exporters including gold miners that will enlist on the Victoria Falls Stock Exchange (VFEX) or are located in Special Economic Zones (SEZ) will retain 100% of their foreign currency earnings. As for gold miners, FGR will help large-scale miners to sell their incremental gold output abroad to buyers they so wish.

As such, we expect gold output to continue to rise significantly in 2022 buoyed by the high global prices. However, the govt should increase financial support for the artisanal and small-scale mining (ASM) sector. Despite the existing hurdles like lack of mining technologies, the ASM sector is contributing a larger portion of gold delivered to FGR per month.

5. Disclaimer

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18. https://www.newzimbabwe.com/mthuli-ncube-dangles-lucrative-mining-incentives-for-investors/?msclkid=418ccd4ca8e711ecb4b8d1c594090584