MONTHLY ECONOMIC REVIEW

SEPTEMBER 2022

Zimbabwe Coalition On Debt And Development

ZIMCODD

INVESTING IN PEOPLE FOR SOCIAL AND ECONOMIC JUSTICE

EXECUTIVE SUMMARY

This September 2022 Economic Review tracks, analyses and discusses the performance of key macroeconomic indicators such as national output, money supply, exchange rates, price inflation, and public debt as well as review the latest developments in some key sectors. It also provides a snapshot of the state of the external sector. These were the key findings for the month:

- As the Russia-Ukraine war intensifies, the threats of a global recession are increasingly becoming a reality due to severe disruptions to global trade and cooperation. Also, elevated global commodity prices, China's zero COVID-19 policy and surging energy prices in Europe are fueling global price inflation which could trigger a synchronized global slowdown.

- Commodity-dependent sub-Saharan Africa (SSA) is currently benefiting from the rising global commodity prices, particularly mineral commodities. However, food shortages in the region remain high, a situation increasing the risk of social unrest as it faces unbearable inflation and must start to repay its huge debt stock accumulated during the COVID-19 pandemic.

- Despite the recent disinflationary trend, downside risks continue to outweigh the upside in the medium to long-term period. Zimbabwe's potential economic activity and competitiveness are being suppressed by burgeoning public debt, regressive taxes, leakages and geopolitical risks. For price stability to be attained and sustained, structural reforms should be part of a package to restore the moral fabric of the economy- the institutional and regulatory framework.

- Annual price inflation in September 2022 as measured by the All-items Consumer Price Index (CPI) rose by 280.4% relative to 285% recorded in August 2022. Monthly price inflation slowed to 3.5% from 12.4% in August, a third consecutive month of disinflation which began last July.

- The local currency (ZWL) continued to plummet against the US dollar in the official market. It lost 12.1% of its value in the month to close at 621.89 ZWL/USD. In the parallel market, the local unit gained 7.1% of its value against the US dollar to close at an average of 700 ZWL/USD thus pushing parallel market premium within the conventional thresholds.

- The latest official statistics from ZimStat show Zimbabwe exporting merchandise totaling US$549.72 million in July 2022 against merchandise imports of US$729.63 million. This gives a trade deficit of -US$179.91 million, 15.2% below the previous month's deficit.

- Net collections in the second quarter by Zimbabwe Revenue Authority (ZIMRA) were ZWL316.81 billion, about 63.51% above the target. Cumulatively, ZWL490.74 billion was collected in the first half of 2022. The declining PMR and moderating inflation have brought enormous relief to Treasury which was forced to table a ZWL929 billion supplementary Budget.

- In September 2022, households and businesses were hit by severe electricity load shedding averaging 12 hours per day. This was caused by technical challenges at generation plants coupled with falling dam levels and import constraints. However, the power situation will likely to ease in Q4:22 as the new 300MW Hwange Unit 7 is expected to join the national grid.

1 INTRODUCTION

Generally, the primary objective of government policy is to maintain price stability in the economy and attain high employment of factors of production. After seven (7) months of skyrocketing inflation, Zimbabwe has started witnessing a significant moderation of price growth. The local currency which had shed more than 80% of its value in year-to-date terms has started to gain against the US dollar in the parallel market forcing prevailing market exchange rates to move toward convergence. It, however, remains to be seen if this will be sustained to bring relief to the poor and stimulate private sector investment amid lingering risks to the outlook. In light of these risks, this report analyses the performance of the economy in September 2022 and gives policy alternatives to solidify and sustain exchange rate and price stability.

2 ECONOMIC OUTLOOK

2.1 GLOBAL ECONOMIC PERFORMANCE & OUTLOOK

The global economic outlook remains gloomy and frightening as the Russia-Ukraine war intensifies. The annexation of parts of occupied Ukraine by Russia buttressed by the latter's large-scale military mobilization since World War 2 (WW2)[1] risks triggering increased sanctions and countersanctions which will severely disrupt global trade and cooperation.

Table 1: Global Economic Outlook Projections

	2020	2021	2022p	2023p
World	-3.1	6.1	3.2	2.9
Advanced	-4.5	5.2	2.5	1.4
Emerging Asia	-0.9	7.3	3.6	3.9
M. East & Central Asia	-2.8	5.7	4.8	3.5
Latin America & Caribbean	-6.9	6.8	3.0	2.0
Sub-Saharan Africa	-1.7	4.5	3.8	4.0

Source: *IMF World Economic Outlook (April 2022)*

Elevated global commodity prices, supply chain disruptions, and surging energy prices in Europe driving manufacturing costs are fuelling global price inflation. Consequently, major central banks like the US Federal Reserve have turned hawkish as they are significantly hiking their policy rates to tame out-of-control inflation. As such, these interest hikes coupled with China's zero COVID-19 policy, property woes, and slowing external demand could drag on global growth[2]. Furthermore, rising interest rates in advanced nations pose a risk of capital flight in the developing world.

2.2 REGIONAL ECONOMIC PERFORMANCE & OUTLOOK

The sub-Saharan Africa (SSA) region is commodity dependent that is currently benefiting from rising global commodity prices. As such, the region is expected to grow at 3.6% in 2022.

1. https://www.msn.com/en-us/news/world/putin-e2-80-99s-mobilisation-and-the-potential-for-a-political-fallout/ar-AA12CnAA
2. https://pages.eiu.com/rs/753-RIQ-438/images/global-economic-outlook-q4.pdf

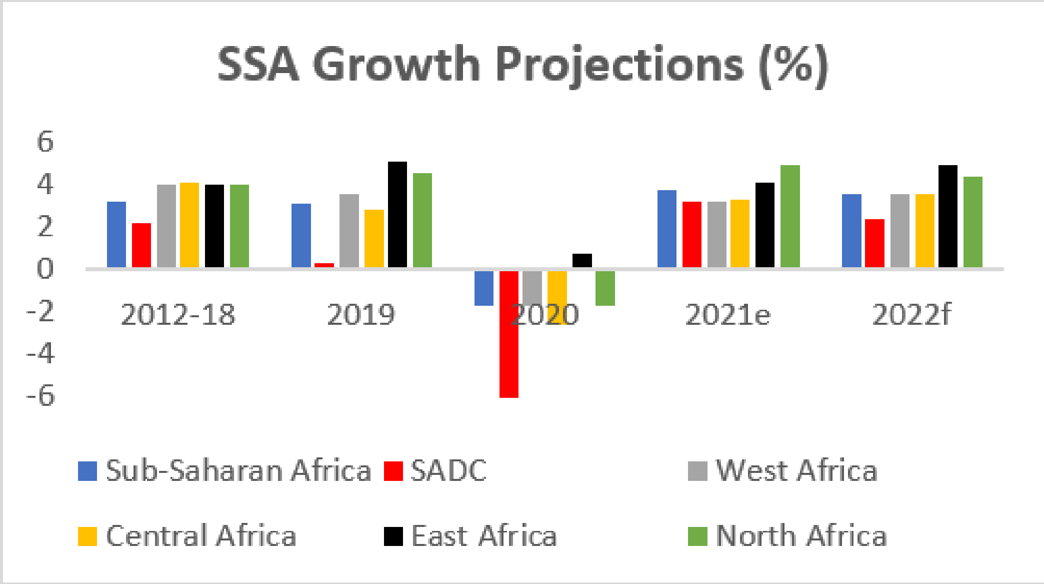

Fig 1: Sub-Saharan Africa Growth Projections
Source: *African Development Bank (AfDB)*

However, the balance of risks to the SSA outlook is tilted to the downside. The fears about global food shortages remain elevated as the fighting and blockade of Ukrainian ports by Russia are severely affecting the exportation of grains. Since these two countries account for a third of global wheat exports, the war will likely cause famine in net-importing countries in the SSA region. More so, disruptions to fertilizer supply from Russia, a major fertilizer exporter, will subdue agricultural activity. This situation is increasing the risk of social unrest in developing nations which are facing unbearable inflation and must start to repay their huge debt stock accumulated during the COVID-19 pandemic.

2.3 ZIMBABWE ECONOMIC OUTLOOK

Although the official and alternative exchange rates have started to move toward convergence and price inflation moderating, most of 2022 witnessed increased volatility. Massive ZWL depreciation and chronic price inflation had collapsed private savings, depleted real incomes, subdued aggregate consumer demand, widen income disparities, and plunged the majority into abject poverty.

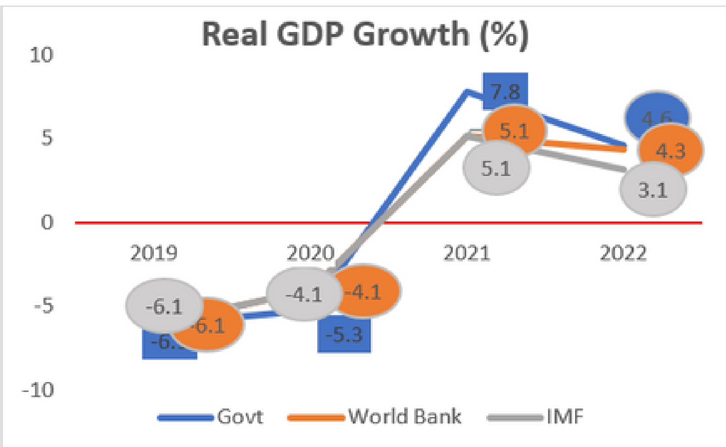

Fig 2: Zimbabwe Real GDP Growth (%)
Source: *Ministry of Finance, IMF & World Bank*

Also, the poor 2021/22 agriculture season exerted immense negative spill over effects on an agro-based economy. The sanctions and countersanctions from the Russia-Ukraine war triggered severe global supply shocks and fuelled global inflationary pressure mostly through energy and food prices. Cognizant of all these factors, the Treasury revised its 2022 growth forecast by 0.9 percentage points from 5.5% to 4.6%. Despite the recent disinflationary trend, we expect downside risks to continue outweighing the upside in the medium to long-term period. For instance, to date, there are no concrete steps taken by authorities like the implementation of economic reforms to address rising debt stock, regressive tax regime, and leakages of public resources. If Zimbabwe is to sustain ZWL and price stability, it is high time now for the government to embrace fiscal discipline, increase central bank independence, thwart impunity being enjoyed by corrupt connected elites, and address existing structural rigidities.

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

The Zimbabwe National Statistics Agency (ZimStat) shows annual price inflation in September 2022 as measured by the All-items Consumer Price Index (CPI) mounting by 280.4% relative to 285% recorded in August 2022.

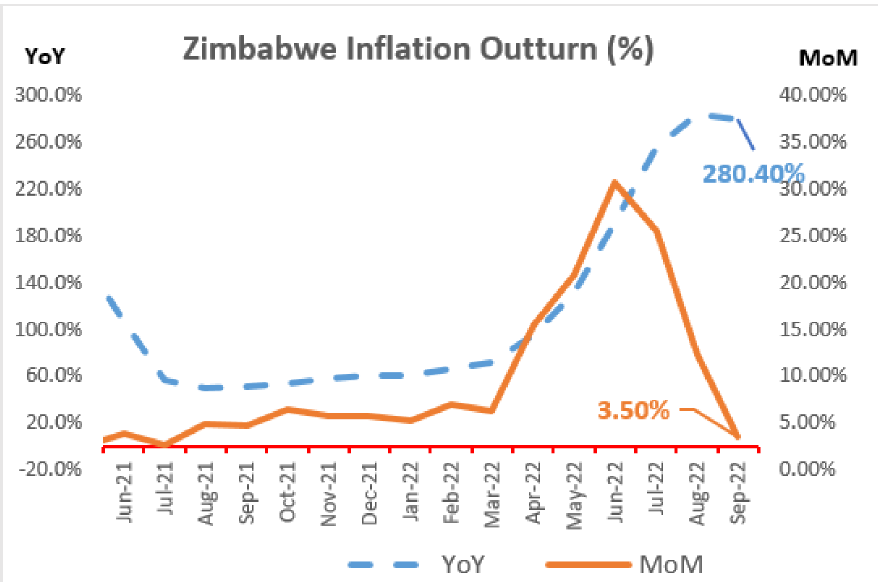

Fig 3: Zimbabwe Annual Inflation Trends (%)
Source: *ZimStat*

From a month-on-month perspective, prices increased by 3.5% in September 2022, down 8.9 percentage points from the August 2022 outturn of 12.4%. This marked the third consecutive month of a disinflation trend which began in July 2022 when monthly price growth moderated to 25.6% from 30.7% that was recorded in June 2022. Also, September 2022 witnessed a single-digit monthly inflation outturn for the first time since March 2022 when it was measured by ZimStat at 6.3%. In the August 2022 publication, we highlighted the drivers of the ongoing disinflation trend key among them being receding parallel market rates (PMR).[3]

Due to limited forex in official markets, parallel markets became the key source of forex for most businesses forcing them to benchmark their prices at least at the PMR. With PMR continuing to nosedive since the start of August 2022, the focus for authorities should be now directed toward sustaining this stability given prevailing risks to the price outlook. These risks include inter alia possibility of policy slippages ahead of the 2023 general elections, poor harvest in the previous farming season, and deteriorating global geopolitics fueled by the Russia-Ukraine war. Therefore, to sustain price stability, there is a need to boost market confidence through responsible fiscal spending like targeted productive subsidies and limited borrowing. Authorities should also fully implement structural reforms[4] to subdue existing pricing distortions hurting final consumers.

3.2 Exchange rate

In the month under review, the local currency (ZWL) continued to plummet against the US dollar in the official market. The unit slid by 12.1% to close at 621.89 ZWL/USD from 546.83 ZWL/USD end of August 2022. Since economic agents are allowed to price goods and services at the interbank rate plus a 10% markup, it means the official exchange rate was effectively at 684.07 ZWL/USD as of the end of September 2022.

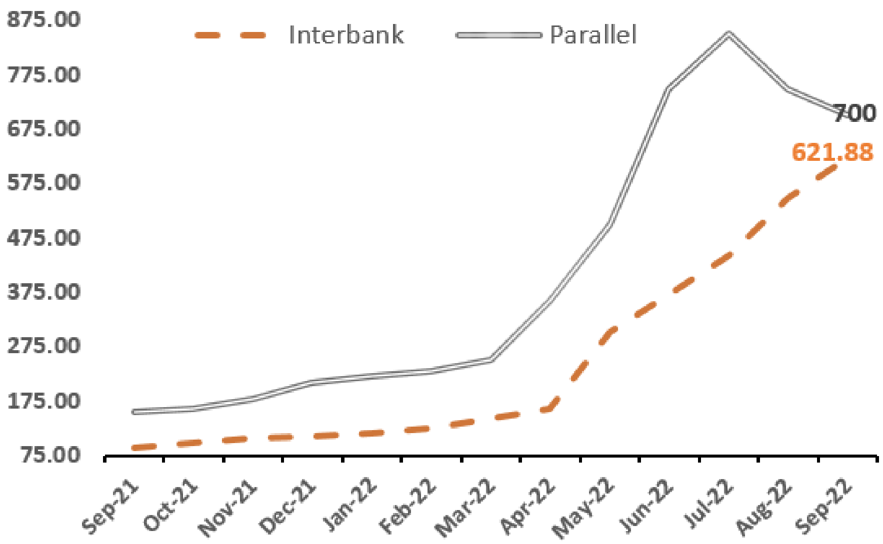

Fig 4: Auction and Parallel Exchange Rate
Source: *RBZ, ZIMCODD*

3. https://zimcodd.org/?smd_process_download=1&download_id=5821
4. Structural reforms are measures that change the fabric of the economy, the institutional & regulatory framework. They make labour markets adaptive, boost competition, encourage innovation, improve quality of public taxation systems, etc.

In the parallel market, the ZWL gained by 7.1% from an average of ZWL/USD 750 end of August 2022 to ZWL/USD 700 end of September 2022. This gives an average parallel market exchange premium, a percentage difference between official and average parallel rates, of about 13% which is now within the conventional thresholds of 0-20%. The move toward convergence of exchange rates will help concretize price stability as it will eliminate excessive speculation and arbitrage opportunities in alternative markets. Typically, price stability implies avoiding both prolonged inflation and deflation thus contributing to increased economic activity by improving the transparency of the price mechanism.

3.3 Money Supply

Preliminary statistics show quarterly reserve money supply growing by 16.8% to ZWL39.2 billion in Q3:22, 3.5 percentage points lower than a growth of 20.3% realized in Q2:22. Generally, economists consider reserve money as highly price sensitive hence its growth should be commensurate to the growth of activity in the real sector for currency stability to hold.

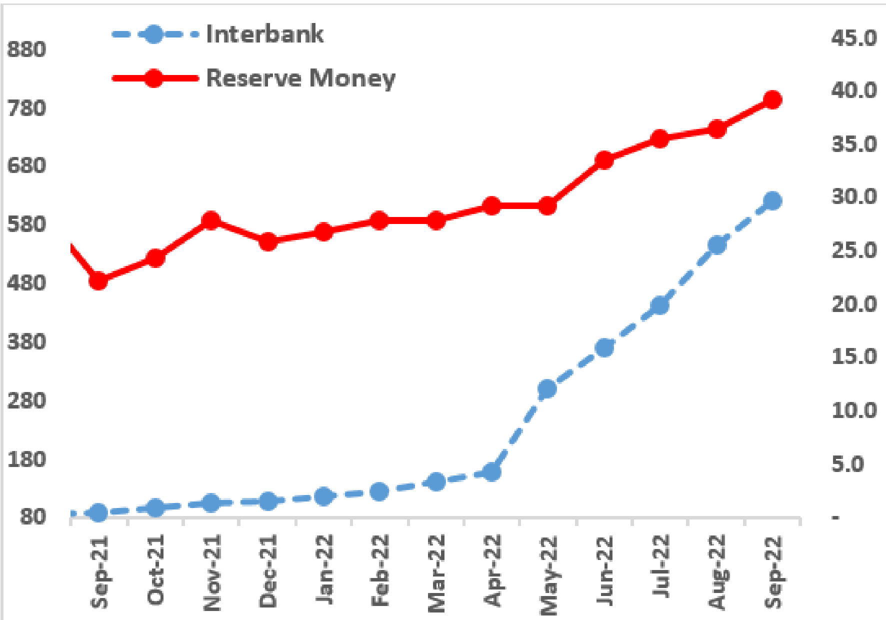

Fig 5: Base Money and Interbank Rate
Source: *RBZ*

In our view, the moderation of reserve money growth in Q3 buttressed by a world record benchmark policy rate of 200% (as well as the Treasury's introduction of the Value for Money Process to expedite due diligence in public procurement processes) helped to engineer PMR decline witnessed during this period. However, the reserve money growth rate remains way above the RBZ quarterly target of 0% thus showing lingering ZWL depreciation pressure likely emanating from elevated fiscal spending. As such, the government should hold its ground by keeping money supply growth under check to achieve and sustain exchange rate and price stability. This is possible through responsible resource governance and embracing economic reforms.

3.4 External Trade

The currently available statistics from ZimStat show Zimbabwe exporting merchandise totaling US$549.72 million in July 2022 against merchandise imports of US$729.63 million. This gives a trade deficit of -US$179.91 million, 15.2% below the previous month's deficit.

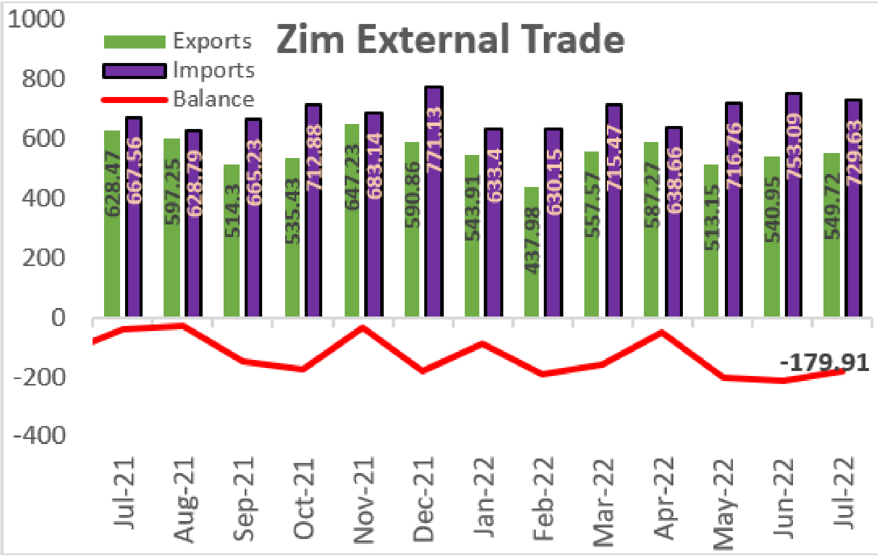

Fig 7: Zimbabwe External Trade Position (US$ Million)
Source: *ZimStat*

Due to its structural design of primary commodity dependence, the extractive sector remains Zimbabwe's major contributor to export revenues with gold accounting for the large chunk (36%) of revenues realized in July 2022. In the same vein, because of its lack of proven petroleum reserves, mineral fuels and mineral oil products (19.2%) topped imports for the month under review. Cumulatively, the nation incurred a trade deficit of -US$1.09 billion in the first seven (7) months of 2022 as exports came in at US$3.73 billion against imports of US$4.82 billion.

Government Accounts

Generally, the size of a government is determined by its sources of revenues which are predominantly tax collections. If revenue collections largely lag spending needs, an unsustainable deficit would be incurred which severely destabilizes the macroeconomy.

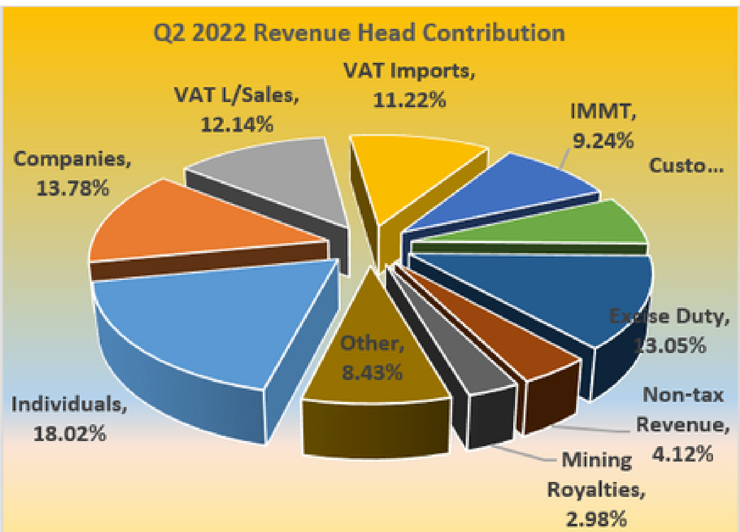

Fig 8: Zim Q2 Revenue Contribution by Tax Head
Source: *ZIMRA*

The latest statistics show net revenue collections by Zimbabwe Revenue Authority (ZIMRA) in the second quarter of 2022 (Q2:22) at ZWL316.81 billion, about 63.51% above the Treasury target. In Q1:22, ZIMRA net collections stood at ZWL173.93 billion to give a half-year total of ZWL490.74 billion (51% of 2022 initial expenditure ceiling of ZWL968.3 billion) way above the official target. However, massive ZWL depreciation and rampant price inflation for most of 2022 forced authorities to table a ZWL929 billion supplementary budget. In addition to this supplementary, the Treasury is on record requesting Parliament for permission to spend ZWL851 billion more to meet its 2022 spending needs.[5] This indicates that elevated fiscal spending pressure which is partly emanating from high public corruption is the major threat to sustained economic stability. For instance, the government was being charged US$30 and US$9 000 for a 2kg pack of chicken and a laptop respectively[6]. Therefore, for tax revenues to bring real socio-economic transformation, there should be increased political will by the Executive to curb corruption.

3.5 Public Debt

The public debt, officially recorded at US$16.78 billion as of June 2022, is now unsustainable as evidenced by ballooning external arrears which are nearly 50% of US$13.2 billion total external debt. As we highlighted last month, various factors are driving debt which includes inter alia weak institutions, fiscal indiscipline, government debt guarantees and assumptions of the same, unsustainable tax incentives, climate change and collateralized borrowing. Recently, the Treasury indicated that it will float a diaspora bond carrying a 9% annual coupon thus further fuelling debt and crowding out public service delivery.

We also expect the debt situation to deteriorate further as the global fight against out-of-control inflation through hiking of interest rates is exerting pressure on both the cost of borrowing and servicing existing debts. Unsustainable public debt affects the poor the most through heightened long-term domestic interest, tax and inflation rates. It also depletes national reserves which are key in building economic resilience during times of uncertainties like the Russia-Ukraine war. Therefore, to arrest burgeoning debt and put the economy on a sustained inclusive and equitable growth trajectory, it is high time now for authorities to:

- Uphold constitutionalism,
- Undertake an independent debt audit to ascertain exact legitimate debt stock and regularize debt auditing,
- A clear debt management strategy so that public financing needs and payment obligations are met at the lowest possible cost and consistent with a prudent degree of risk,
- Strengthen oversight mechanisms informing debt and PFM processes on loan contraction, uses, and repayments,
- Swift implementation of reforms: legal, institutional, structural, and public sector reforms among others.

5. www.zimfocus.co.zw/mthuli-ncube-blows-supp-budget-bulawayo24-news/
6. https://www.news24.com/fin24/economy/r530-for-2kg-chicken-r160-000-for-a-laptop-zim-govt-balks-at-tender-prices-20220920

4 Sectoral Review

4.1 Energy Sector

Energy is one of the most critical industrial production enablers and helps in improving the living standards of citizens. As such, countries should invest wisely by diversifying their energy mix and attaining energy self-sufficiency.

4.1 .1 Electricity Sector

In the month under review, the nation experienced severe electricity load shedding averaging 12 hours per day, particularly in residential areas. This level of power outages was last witnessed in 2019 during the height of acute foreign currency shortages amid repeated breakdowns of thermal plants, a back-to-back drought causing dam levels to plummet, austerity measures, and abrupt re-introduction of the ZWL.

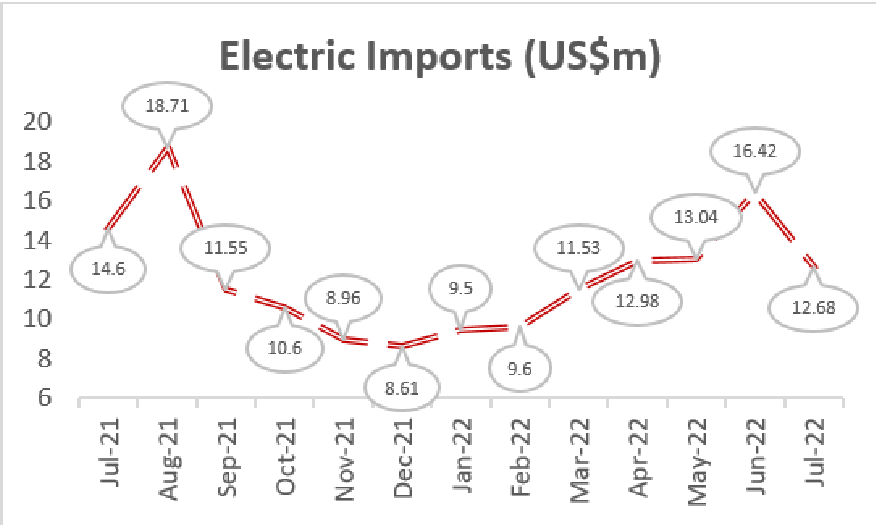

Fig 8: Zimbabwe Electricity Imports (US$m)
Source: *ZimStat*

Again, the increased load-shedding hours in September 2022 are attributable to technical challenges at thermal power generation plants coupled with falling dam levels and import constraints. Most of Zimbabwe's thermal power plants like the Munyati Thermal Power plant built between 1946 and 1957 have outlived their lifespan and are becoming too uneconomic to operate due to high repairs and maintenance costs.

The dwindling dam levels are subduing production at the 1 050MW Kariba Hydropower Plant (KHP) which is designed to utilize between 475.5-488.5 meters of dam water level. Early in the month, the dam levels were measured at 478.59 meters, about 21.58% of usable storage. However, as we alluded to in the August 2022 publication, the power situation will likely ease as the new 300MW Hwange Unit 7 which is reported at 97% complete[7] is expected to join the national grid in the fourth quarter of 2022 all else constant.

7. https://www.chronicle.co.zw/completion-of-hwange-unit-7-a-milestone-achievement/

4.1 .2 Fuel

Effective September 28, the Zimbabwe Energy Regulatory Authority (ZERA) reduced the maximum pump price of a litre of petrol by 4.4% from US$1.58 to US$1.51. As for diesel, the energy regulator reduced the price of a litre by 2.3% to US$1.7 from US$1.74.

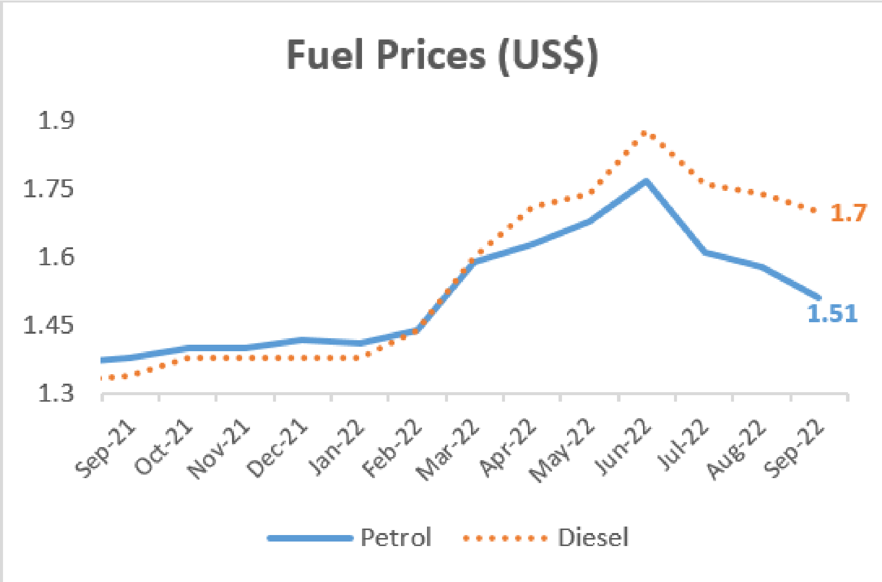

Fig 9: Zimbabwe Fuel Prices (US$)
Source: *ZERA*

The relief to domestic motorists emanated from the continued decline in global crude oil prices in the month largely weighed down by Chinese COVID-19 lockdowns, intensification of the Russia-Ukraine war, strong US dollar, and persistent leading economic indicators anticipation of a loss of growth momentum in the Organization for Economic Cooperation (OECD) among other factors. Here at home, the government maintained a 20% (E20) blending of petrol with ethanol to suppress the import bill. However, global crude oil prices are expected to recover significantly as the world's powerful oil producers are reportedly considering a one (1) million barrels per day production cut.[8] This will be their largest output cut since the start of the coronavirus pandemic in October 2022.

4.2 Agriculture

The planting of 2023 cereal crops will begin in October 2022 and harvest is expected in early April 2023. Authorities are targeting 2 million hectares to produce 3 million tonnes of maize, 380 000 hectares to produce 304 000 tonnes of sorghum while 250 000ha are set to be put under pearl millet to produce 150 000 tonnes.[9] This year, from a hectarage of 78 000, the government is expecting a bumper winter wheat harvest of 380 000 tonnes against a national annual requirement of about 360 000 tonnes. The nation has been a perennial wheat importer since 2000.

8. https://www.cnbc.com/2022/10/03/opec-oil-prices-could-soon-return-to-100-a-barrel-analysts-say.html

9. https://masvingomirror.com/govt-targets-3-million-tonnes-of-maize/

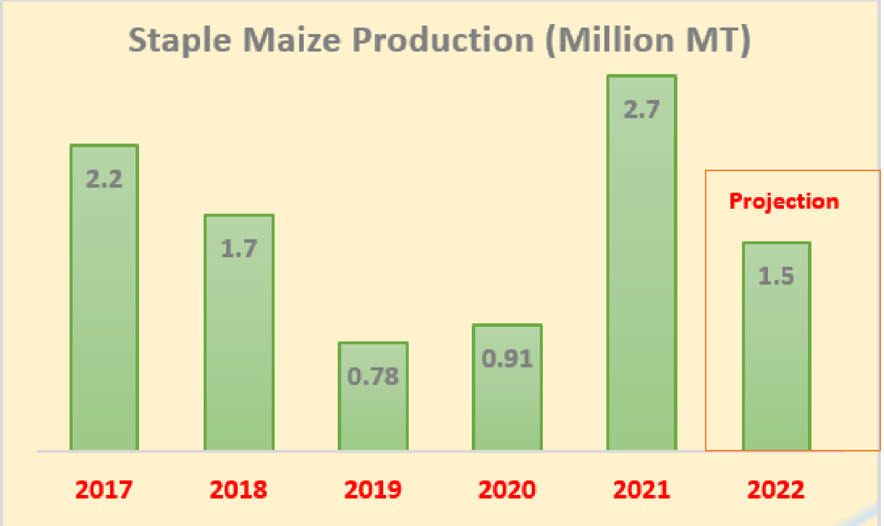

Fig 11: Maize Production (Metric Tonnes)
Source: *Ministry of Agriculture*

Early weather forecasts show that the country will receive normal-to-above-normal rainfall for the upcoming cereal cropping season thus boosting production prospects.[10] However, as we alluded to in our August 2022 report, high prices of agricultural inputs such as fertilizers and fuel are expected to increase production costs, with a likely adverse impact on farmers' planting intentions and yields. As such, fiscal spending on agriculture will burgeon aggravated by the rejection of loan applications from farmers failing to repay contracted loans under the government-guaranteed CBZ Agro-Yield scheme.[11] Also, due to the poor harvest realized in 2022, import requirements in the 2022/23 marketing year are estimated to increase. About 3.8 million people are projected to face acute food insecurity during the next peak lean season (January–March 2023).

4.3 Mining Sector

The mining sector remains Zimbabwe's main source of foreign currency receipts contributing about 70% to total earnings in 2021. In 2022, most mineral commodity prices have largely benefited from global supply uncertainties caused by global trade restrictions and rising inflation fuelled by the Russia-Ukraine war.

10. https://reliefweb.int/report/zimbabwe/giews-country-brief-zimbabwe-03-october-2022
11. https://iniafrica.com/index.php/2022/09/30/zimbabwe-cbz-agro-yield-has-burnt-its-fingers-by-banking-of-goz-guarantees/

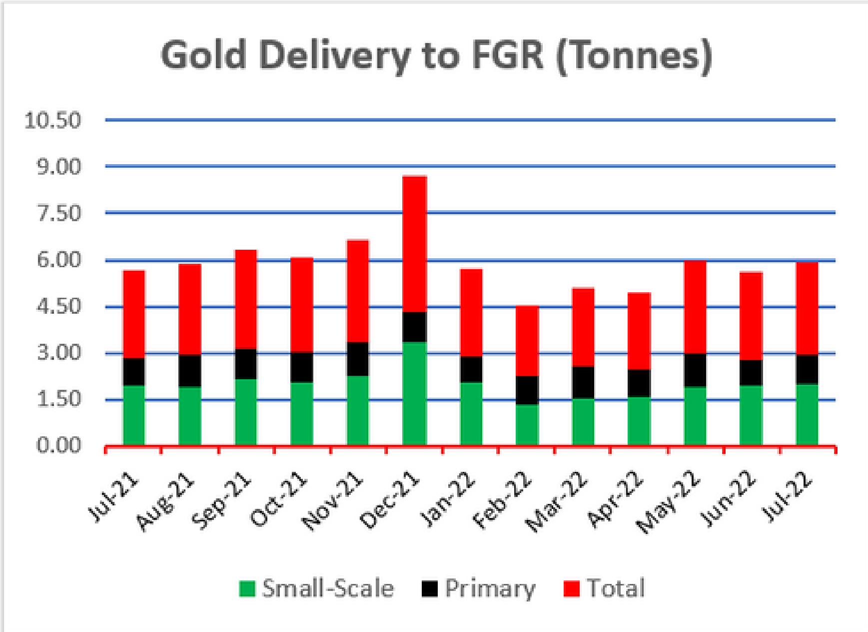

Fig 12: Zimbabwe Gold Exports (US$ million)
Source: *ZimStat*

In a bid to build physical reserves of mineral commodities, the government is mulling a measure to allow miners to deliver 50% of royalties as minerals and the remaining 50% as cash balances.[12] According to Treasury, this will serve as a source of trust in a country given that minerals carry no credit or counterparty risks. We also view the Treasury's proposal as being a noble idea given the lessons drawn recently from the sanctioning of Russia over the use of its US dollar reserves. This is because foreign exchange reserves are claims against foreign banks and authorities, which can be blocked at any time for political reasons. However, given the high perceived corruption in Zimbabwe, there is a great need to capacitate and empower accountability institutions to guard against the looting of these mineral reserves.

4.4 Conclusion

September 2022 witnessed an increased moderation of price growth driven by easing parallel market exchange rates which have receded by 7% after another 13% decline in August 2022. Granular analysis of various economic indicators has however shown that exchange rate and ZWL depreciation pressures continue to linger in the economy posing great risks to the outlook. These risks include among others, rampant public corruption, rising public debt, elevated fiscal spending supporting agriculture season & importation of food, likely policy slippages ahead of the 2023 general elections, and worsening global geopolitics driven by the war in Ukraine. As such, to avert derailment of the ongoing disinflation momentum, authorities should maintain fiscal discipline, continue with a tight monetary policy, intensify domestic resource mobilization as opposed to borrowing, and swiftly implement structural reforms to thwart existing pricing distortions as well as reform tax regime to increase the competitiveness of domestic manufacturing firms.

12. https://www.africa-press.net/zimbabwe/all-news/govt-wants-miners-to-pay-royalties-in-diamonds-gold-platinum

5. Disclaimer

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