WEEKLY REVIEW

1 November 2022

Weekly Dashboard

Forex Auction Weighted Rate

Week	25.10.2022	01.11.2022
Per USD1	ZWL 630.9359	ZWL 633. 7681

Consumer Price Index

Month	September	October
	12 713.12	13 113.95

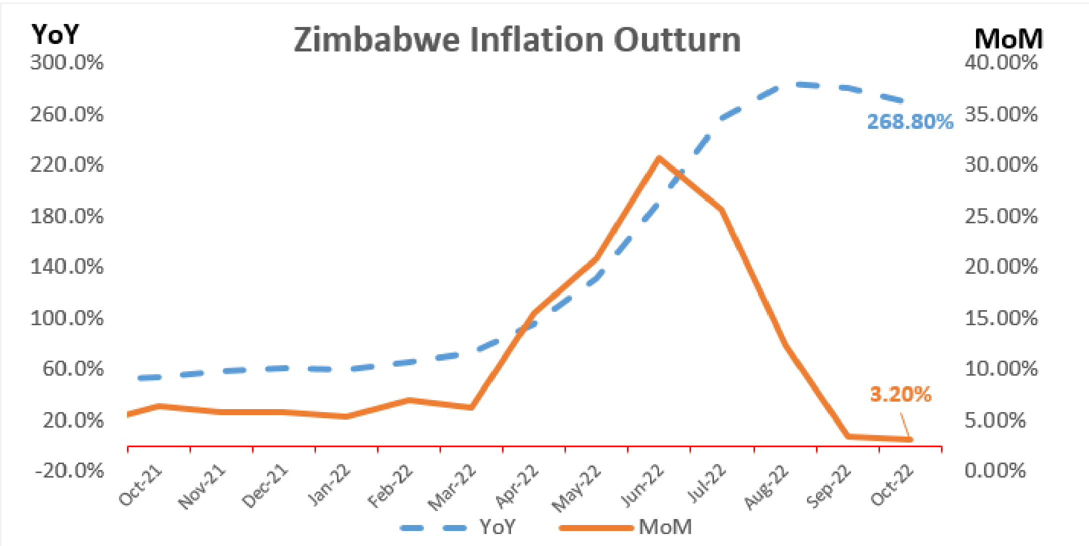
Inflation

Month	September	October
M.O.M.	3.5%	3.2%
Y.O.Y.	280.4%	268.8%

CONTENTS

1. Moderating price inflation: Will authorities sustain this?

Zimbabwe lapsed into hyperinflation twice during the last decade. As of November 2021, Zimbabwe was amongst the seven countries with three-year cumulative inflation rates exceeding 100%. However, after reaching an annual high of 285% last August, price inflation seems to have reversed course. The latest statistics released by the Zimbabwe National Statistics Agency (ZimStat) show the year-on-year (YoY) inflation rate for October 2022 as measured by the all-items Consumer Price Index (CPI) standing at 268.8%, down 11.6 percentage points from the September 2022 outturn of 280.4%. Available statistics also show a significant moderation of month-on-month (MoM) price inflation in the last two months (Sept-Oct 2022), recording an average growth of 3.35% relative to an average growth of 19% recorded in the preceding July-Aug period. Since July 2022, the growth in monthly prices is heading southwards shedding 0.3 percentage points in October 2022 to settle at 3.2% from 3.5% reported in September 2022.



The ongoing moderation of prices can be largely attributed to aggressive policy actions undertaken by fiscal and monetary authorities since May 2022. From the monetary front, the Reserve Bank of Zimbabwe (RBZ)introduced tight liquidity management measures to reverse ravaging price inflation. These measures included: setting the benchmark policy rate at 200% (a global record), maintaining high statutory reserve requirements and introducing gold coins. Additionally, the RBZ also deepened its interbank forex market by reducing the limits on forex amounts to be traded per week strictly on a willing-buyer willing seller (WBWS) basis.

To support these monetary actions, financial measures were introduced by Treasury through tightened trading rules on the Zimbabwe Stock Exchange (ZSE). Buttressing monetary policy, Treasury entrenched the multi-currency system into law to allay investor fears of an abrupt return to a mono-currency regime at a time the ZWL was sliding severely, mimicking the 2007/8 hyperinflation era. Also, the Treasury imposed a 6-month suspension of import duty on basic commodities to allow importation by those with free funds. The idea was to increase product supply in the market and subdue profiteering tendencies displayed by some local producers. Furthermore, fiscal authorities tweaked the financing model of government road and dam construction works (50% now paid in forex and the balance in ZWL following a staggered approach).

More importantly, the government seems to have found the wherewithal to take on the elephant in the room -corruption! This follows, reports in the media that the government suspended payments to many of its suppliers of goods and services after revelations that some suppliers were awarded public tenders without following due process. Consequently, the tenders were priced significantly above market prices thus exerting enormous pressure on budgeted public resources. Over-inflated pricing on ZWL tender contracts led to excessive ZWL liquidity in the market exerting massive downward pressure on the exchange rate. The ZWL lost at least 70% of its value against the US dollar during the Jan-July 2022 period making a supplementary budget inevitable to avert a total collapse of the public sector amid widening income gaps and rising poverty levels. To show the severity of budget contraction, in July 2022, the Treasury tabled an unprecedented ZWL929 billion Supplementary Budget constituting about 96% of the ZWL968.3 billion initial 2022 budget. In light of this, the Treasury was forced to establish a Value for Money Process to increase due diligence in procurement decisions. If well-capacitated, the process will help strengthen existing porous financial management systems.

The combined effect of these monetary and fiscal policies have helped to cool down ZWL depreciation pressures, particularly in the alternative markets. Between July 2022 and to date, the ZWL has regained about 18% of its value from an average of ZWL/USD 850 to ZWL/USD 700 in the parallel market. As a result of the massive depreciation of the local currency, businesses were left without options except to benchmark ZWL prices at or above black-market rates to reduce exposure to exchange rate risks. Now, with alternative exchange rates gradually moderating, shelf prices of goods are being subdued -a confirmation of exchange rate pass-through to inflation.

While the foregoing policies are highly commendable- the resultant price stability is fragile as there are various endogenous and exogenous adverse factors still stalking the economy in a context of heightened volatility. Chief among these endogenous factors are the existing structural rigidities causing market pricing distortions. There is too much interference by the ‘Visible Hand’ in the allocation of factors of production. With the nation grappling with high perceived corruption, the embrace of command economics by the government breeds market distortions and increases the risk of usury.

For instance, the Command Agriculture Scheme has blown at least US$3.5 billion since 2016 yet the agriculture sector continues to be rainfall-dependent amid existential threats posed by climate change and variability. The domestic economy is highly concentrated - less adaptive labour markets, low competition, lack of innovation, and public taxation systems of poor quality. Illicit financial flows (IFFs) are also causing massive resource leakages through tax evasion means such as smuggling of precious minerals, missing trader fraud, trade mis-invoicing, drug trafficking, and money laundering among others.

In the end, the existing structural imbalances are escalating high production costs thereby rendering local firms uncompetitive. If these are not resolved, Zimbabwe will remain a perennial net importer -a supermarket economy accustomed to chronic inflation and susceptible to frequent global fluctuations. More so, Zimbabwe is grappling with an unsustainable debt stock recorded at US$16.73 billion comprising of US$13.2 billion external debt and US$3.53 billion domestic debt. Generally, high indebtedness depresses private sector investment through heightened long-term interest, tax, and inflation rates. The country's investment risk premium is further worsened by de-risking correspondent foreign banks fleeing the Zimbabwean market en-masse due to its lack of creditworthiness caused by debt distress. Also, the rising debt service costs are crowding-out public service delivery, the gold bar for the poor majority particularly folks living in marginalized areas.

The upcoming 2023 general elections also pose enormous risks to the price outlook. Some of these risks include inter alia likely policy slippages, civil unrest, police brutality, abuse of human rights and political activists, and political violence. All these have a bearing on the credibility and predictability of policy-making as well as the sustainability of government financing thus threatening exchange rate, price, and overall business activity. The poor harvest realized in the previous agriculture season is also expected to continue exerting pressure on food prices at least through the next peak lean season (Jan-March 2023). Threats to the price outlook are further posed by elevated fiscal spending supporting the 2022/23 cropping season and fighting the COVID-19 pandemic. The impacts of the Russia-Ukraine war especially on energy and food prices cannot be overemphasized. Last but not least, the persisting long electricity load-shedding hours negatively impact industrial activity thus exerting a knock-on effect on price inflation.

To bring sustained price stability, authorities should keep fiscal spending under check and increase the independence of the central bank to boost the credibility and effectiveness of monetary policy tools. Zimbabwe should also embrace domestic resource mobilization (DRM) to reduce overreliance on borrowing which has led to an unsustainable debt profile. There is also a need for quick implementation of economic and structural reforms to improve the ease of doing business, increase competition & innovation, and fine-tune market pricing. More so, there is a need for increased political will to strengthen the regulatory and institutional frameworks to cultivate a culture of transparency and accountability by public officials critical to curb leakages of public resources.

2. Operational Challenges at Mupedzanhamo Continue to negatively impact livelihoods

Informal trading has been in existence since time immemorial. Zimbabwe faces a huge employment problem and as a result, it has the largest informal sector in the region and the third largest in the world with over 60,6% of its population being informally employed.[1] The informal sector operates outside the realm of official regulatory frameworks. Workers in the informal sector are not registered, regulated, or protected under labor legislation and social protection. This diminishes their ability to defend their fundamental rights and at the same time, exposes them to all sorts of vulnerability and abuses. In view of the deteriorating economic climate in Zimbabwe, informal trade is viewed as a viable activity that generates income, creates employment, and improves food security as well as living standards.

Mbare has the busiest informal hub in the country, yet the popular Mupedzanhamo market has been closed for a few weeks now. Traders have since been calling for the reopening of the flea market as their livelihoods have been gravely affected. While it is imperative to fully reopen the market, the operational challenges stemming from the ongoing disputes between the local authority, space barons, and vendors must be addressed as this is a recurring problem. Furthermore, the supporting infrastructure on the ground must be attended to. There is also a need for waste disposal systems, potable water, and functioning sewer systems in the area.

Informal traders have been experiencing a myriad of challenges in the whole chain of conducting their business. Prior to the closure of the current marketplace, the area initially designated for the flea market had been turned into a car wash/car park. Due to vendors being forced out of the marketplace, space barons took advantage of the situation and forced vendors to pay rentals for the free space outside the flea market walls using makeshift structures. The tension between the groups resulted in unrest as fights erupted in the marketplace. Currently, the marketplace remains closed. The flea market, which is usually densely populated is now manned by police with no vendors being allowed to sell. In trying to make ends meet and provide for their families, vendors have resorted to selling from undesignated sites, however, this results in constant clashes with police. Teargas is often used to disburse crowds and chaos ensues.

This is not the first time that Mupedzanhamo has been experiencing operational challenges. Over the years, there have been numerous challenges, including COVID-19 lockdown regulations resulting in the closure of the market. During this time, there were promises to give the flea market a facelift and repair the dilapidated infrastructure which needed constant repairs. It is imperative that local authorities invest in the refurbishment of the marketplace and provide contemporary, modern market structures. Over and above structural repair, there must be clear regulations governing the marketplace in order to ensure that it is not constantly shut down due to rising tensions between different groups. It is also important for Local Authorities to strengthen Council bylaws to secure informal traders' livelihoods and the marketplaces where they earn their living.

1. Medina, L., & Schneider, F. (2018). Shadow economies around the world: what did we learn over the last 20 years?

3. The disproportionate impact of resource leakages on the poor and the vulnerable groups

A robust social service sector is essential to address the underlying causes of poverty, inequality, deprivation, and vulnerability in Zimbabwe. These factors have been exacerbated by the impacts of climate change and COVID-19. In this context, the State's ability to respect, protect and fulfil human rights depends on both the availability of state resources and the effectiveness of institutions charged with the provision of public services. It is, however, one thing to mobilize resources and another to effectively deliver public services. Though guaranteed by the constitution of Zimbabwe and other legal frameworks, the needs, aspirations, and rights of marginalized groups particularly women, children, people with disabilities and the elderly are not being respected in practice at the point of policy implementation.

Section 30 of the Constitution of Zimbabwe mandates the government to "take all practical measures within the limits of the resources available to it, to provide social security and social care to those who are in need".

Despite the existence of specific fund accounts to cushion the poor and marginalized groups such as the Disabled persons Fund, National Rehabilitation Welfare Fund, Child Welfare Fund, and Basic Assistance Module (BEAM), the excessive abuse and misuse of public resources have compromised the realization of social and economic rights of beneficiaries of these fund accounts. The findings of the Auditor General's reports year in and year out have revealed serious resource leakages and a betrayal of ordinary citizens by government institutions and individuals that are entrusted with the safeguarding of public funds and property as clearly outlined in Section 308 of the Constitution. On the other hand, the national budgets of Zimbabwe since the coming of the new dispensation for Zimbabwe are largely characterized by a myriad of challenges emanating from a very narrow fiscal space, poor maintenance of accounting records, diversion of funds to non-intended purposes, paying for goods not delivered, underutilization of funds, improper accounting of asset records as well as overstating and understating of revenues and expenditures.

The far-reaching consequences of such abuse compromise the ability of the state to realize both national development goals and the broader Sustainable Development Goals which the country committed to at the global level in 2015. In this regard, there is a need for fiscal policy reforms toward safeguarding public resources amid gross misconduct and abuse of the same by government ministries, local authorities, and state-owned enterprises. Below are some of the recommendations to the government:

- There is a need for Government to accommodate strong citizen movements capable of demanding transparency and accountability as well as facilitating citizen participation in public finance management.

- Mechanisms and frameworks must be put in place to enhance the collaborative work of the office of the Auditor General and the Zimbabwe Anti-Corruption Commission. This would further increase the scope of the Auditor-General's work in terms of following up on actions taken on institutions and individuals who would have abused resources.
- There is need for an Act of Parliament to protect Fund Accounts, especially those that are meant for supporting vulnerable groups such as children, the elderly, and people with disability as well as beneficiaries of the National Drought Fund and the National Rehabilitation Centres Welfare Fund.
- The Ministry of Finance and Economic Development should come up with a comprehensive programme for strengthening institutional capacities in state-owned enterprises, local authorities, and government Ministries including tailor-made pieces of training on revenue management, contract management, financial reporting, and procurement.

4. Resourcing Options to Finance National Budgets – 2023 and beyond

Zimbabwean people are pinning their hopes on the 2023 budget to reduce poverty, inequalities, and ballooning debt burden and to redress the COVID-19 aftermath.
The people also hope that the budget will introduce sustainable measures to insulate the ZWL from further erosion, enhance people's buying power by protecting their hard earnings from inflation, ensure stability on the macroeconomic front, and stimulate the financial inclusion of the majority poor who rely on the informal economy for survival.

The budget formulation process for the 2023 national budget is again coming at a time when the country is grappling with the effects of the climate change crisis and the COVID-19 pandemic across many sectors such as education, social protection, employment, ability to earn, and access healthcare. At the same time social service delivery continues to plunge while astronomic public debt draws resources away from public service commitments into debt repayments. Most of the poor thus remain vulnerable and without access to safety nets despite budget provisions for social protection programmes due to delayed implementation.

At the recent Pre-budget seminar, Finance Minister, Hon Mthuli Ncube, rejected line ministries' 2023 budget bids of $9 trillion, saying that the proposed figures were three times what is available. The Finance Minister added that the government will not go beyond $3.4trillion which is approximately 17% of the country's GDP, which is what the economy can support as detailed in the 2023 budget strategy paper. This reflects badly on the capacity of the government to meet the needs of the different ministries and ultimately, the needs and aspirations of the people. There is, therefore, a need for the country to explore resourcing mobilization options to enhance the capacity of the government to catapult its people from poverty and to direct the country on an economic recovery and sustainable development path.

Budget Adequacy

The Government of Zimbabwe launched its first five-year Medium-Term Plan, the National Development Strategy (NDS) 1: 2021-2025 under the theme "Towards a Prosperous & Empowered Upper Middle-Income Society by 2030". Guided by this strategy, the 2021 National Budget, under the theme "Building Resilience and Sustainable Economic Recovery", marked the first fiscal and economic policy statement to implement the NDS1. This Budget focused on strategic priorities for economic recovery and growth, stressing the importance of building resilience against various shocks. The follow-up 2022 National Budget was implemented under the theme of "Reinforcing Sustainable Economic Recovery and Resilience." However, these two budgets have further widened inequalities between rich and poor Zimbabweans and have done little to eradicate poverty particularly amongst women, people with disabilities, young people and the rural populace. This is because the budgets have been grossly inadequate as evidenced by the 2022 supplementary budgets and the government's social spending has been on a downward trend. For instance, whilst there has been commendable progress on the health front, the budget allocations are still below the Abuja Declaration target of 15%. In the education sector, the country is struggling to allocate 20% of the National Budget to basic education as required by the Dakar Declaration of 2000.

According to the Social Policy for Africa (2008), 4.8% of the country's GDP should be allocated towards social protection programmes but the country has not met this target. In the 2023 budget, some of the cuts include the Public Service ministry's $657 billion bid was reduced to $87 billion, and the Higher and Tertiary Education ministry's proposal of $176 billion which was downsized to $99.4 billion.

While the country is struggling to meet public health, demands exacerbated by COVID-19, the Government of Zimbabwe continues to award tax incentives in the mining sector, and this is weighing down domestic resource mobilization efforts. Commendably, the Government's policy framework is alive to the negative impacts that tax incentives have on domestic resource mobilization. The government must therefore seek a balancing act on reforming its tax incentives policy whilst attracting Foreign Direct Investments to reduce tax expenditures foregone.

What are resourcing options for Zimbabwe?

- Zimbabwe currently does not have a formally adopted Administrative Manual to guide the management of the Intergovernmental Fiscal Transfers and this has resulted in limited disbursements and utilization of Devolution Resources by local tiers of government. It is, therefore, critical that Government develops the guidelines and ensures local tiers are well-capacitated to implement transformative local programmes.
- The country should prioritize the implementation of the Debt Clearance Strategy to unlock access to concessional external financing more so given the increasing financing needs being required to recover from the COVID-19 pandemic in the medium to long term.

- The government must take concrete steps to curb gold smuggling which is currently draining the fiscus. Gold smuggling among other Illicit Financial Flows (IFFs) avenues continues to stifle the government's capacity to allocate adequate revenue to social services.
- Whilst the National Development Strategy (NDS)1 and the US$12 billion Mining Economy seeks to turn around the fortunes of the country anchoring it on mining, the country is still operating without a mining cadastre system. The computerized mining cadastre system provides opportunities for addressing mine ownership disputes, and loss of potential revenue from mining claims as awarding, administration, and security of mining titles especially in the ASM sector will be enhanced. Only then should the government be able to maximize the opportunity to systematically tax the ASM sector which has been contributing more than Large Scale Miners in terms of gold deliveries to Fidelity Printers and Refiners.