WEEKLY REVIEW

7 February 2023

Weekly Dashboard

RBZ Interbank Rate

Week	17.12.2022	24.01.2023
Per USD1	732. 0036	779. 3101

Consumer Price Index

Month	December	January
	13 672.91	13 819.67

Inflation

Month	December	January
M.O.M.	2.4%	1.1%
Y.O.Y.	243.8%	229.8%

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1. Inflation slows in January 2023: A beacon of hope for ordinary citizens?

The latest statistics from Zimbabwe National Statistics Agency (ZimStat) show prices cooling off in January 2023. In annual terms (January 2022-January 2023), the inflation rate as measured by the all-items Consumer Price Index (CPI) came in at 229.8% relative to 60.61% recorded in January 2022. The January 2023 annual inflation outturn is 14 percentage points lower than the 243.8% realized in December 2022 and the lowest in seven (7) months. ZimStat statistics also showed that from a month-on-month perspective, the price inflation rate in January 2023 was 1.1% shedding 1.3 percentage points on the December 2022 rate of 2.4%.

ZimStat time series data shows that the monthly inflation rate for January 2023 is the lowest outturn since September 2018. In that September, it was recorded at 0.92% before it however jumped to 16.44% in the following month when austerity measures such as the 2% tax were introduced. After mounting by 14.31% on average in the first half of 2022 from 5.34% in January to 30.7% in June, the monthly inflation rate is falling ever since save for December. It decelerated to 25.6% in July and had now closed January 2023 at 1.1%. Buoyed by this increased moderation of price growth, authorities through the 2023 national budget statement are projecting monthly inflation to average 1-3%.

The late Milton Friedman who popularized the theory of monetarism posited that the antidote to price inflation was higher interest rates, which in turn reduces the money supply. Consequently, prices will fall as people would have less money to spend. In short, Friedman argued that inflation is always and everywhere a monetary phenomenon. As such, authorities should not rapidly increase the money supply as this is counterproductive by fuelling inflation. There is a wide consensus that the increase should be gradual to circumvent higher unemployment rates. Theoretically, this would help establish a Goldilocks economy -a period of stable economic growth where inflation remains low and the Reserve Bank of Zimbabwe (RBZ) does not feel the need to increase interest rates.

From the foregoing, one can conclude that the Zimbabwean experiences surely validate the monetary theory. This is because excessive money supply growth is the major culprit causing ZWL deterioration and a melting currency exerts a pass-through effect on inflation. For instance, RBZ statistics show a staggering reserve money supply growth of 170%, 113%, and 38% in 2019, 2020, and 2021 respectively.

During this 2019-2021 period, ZWL lost about 10.7% of its value on average per month. In response, both annual and monthly price inflation grew at an unsustainable rate averaging 339.3% and 11.6% per month respectively.

Again, annual inflation raged havoc in the first half of 2022 as it mounted from 60.61% in January to close June at 191.7% with month-on-month (MoM) inflation upscaling at an unsustainable average of 14.31% per month. According to its 2023 Monetary Policy Statement (MPS), the RBZ revealed that it is its increased financial tightening that helped cool down inflation in the second half. For instance, the Bank revealed that both local and foreign currency statutory reserves constituted 90% of total reserve money as of the end of December 2022. As such, since these statutory reserves are locked up in RBZ's vaults and therefore unavailable for on-lending by banks, their increase helped reduce the money supply in circulation. The MPS also indicated that excess bank reserves --ZWL balances at RBZ-- declined from around ZW$14 billion in 2021 to less than ZW$100 million by end-December 2022 thus signifying further tightening of liquidity conditions.

The foregoing highlights from the 2023 MPS confirm our view that the Russia-Ukraine war was not the significant driver of exchange rate and price volatility in Zimbabwe. Massive depreciation of the ZWL since its re-introduction in 2019 and subsequent accelerated price growth is highly linked to the increased money supply. To curb these volatilities, the public has been calling for tight monetary targeting to attain sustainable ZWL liquidity growth in the system. These are the actions the Bank confirms to have taken in order to arrest price instability in the 2HY22. As such, this is enough evidence to support the notion that RBZ should always maintain sustainable levels of ZWL liquidity in order to help achieve a Goldilocks economy. As a footnote, sustainable liquidity growth is the one that keeps parallel market exchange rate premia within conventional threshold levels of between 0-20%. In simple terms, money supply growth in the economy should move in tandem with the rate of growth of economic activity in the real sector.

Nevertheless, as we highlighted in the 2023 economic outlook it remains our view that 2023 is going to be a challenging year for monetary policymakers. The desired Goldilocks economy only comes when fiscal and monetary policies are complementary. This year, Treasury is expected to experience an unsustainable budget overrun due to the upcoming harmonized elections. Election seasons are highly distortionary as political pressures increase the possibility of fiscal policy slippages and reversals. Studies have shown that incumbent governments facing re-election tend to display dovish spending tendencies as political goals are prioritized at the expense of the long-term health of the general economy and the welfare of citizens.

More so, Zimbabwe will likely continue to face prolonged load-shedding hours at least through 1HY23 as we expect the usable water level in Kariba Dam to remain significantly low relative to the same period in 2021.

Also, perennial forex shortages in official markets will constrain production because forex is direly needed for repairs at existing old thermal stations which are frequently breaking down. As such, power shortages at a time prices of electricity substitutes like fuel are expected to remain elevated will balloon industrial production costs and subdue activity in the real sector thereby worsening the already high cost of living. Also, as the West now starts considering supplying Ukraine with heavy and advanced weapons, the Russia-Ukraine war will likely shift to a whole new level with serious global risk. The disruptions to supply chains induced by this war and ensuing global inflation exert disproportionate impacts on developing nations like Zimbabwe which are perennial net importers. In addition, there is a possibility of a severe trade war between the US and China as the former had already instituted rules prohibiting the sale of advanced semiconductor chips to Chinese customers.

The 2023 environment poses a monetary policy-making dilemma as the need for a contractionary stance to cool inflationary pressures may be overshadowed by the expansionary fiscal stance driven by election-linked spending. Cognizant of this, it is likely going to be a daunting task for RBZ to keep the average monthly inflation rate at 1.5%. Therefore, there is a need to analyze the 2023 MPS to establish if the policy actions proposed are adequate to boost ZWL appeal and arrest macroeconomic instability.

!!! Watch out for ZIMCODD Analysis of the 2023 Monetary Policy Statement

2. A Gloomy Future For Zimbabwe

The future of any nation is preserved by the youth and younger generations. The youths are the leaders of tomorrow, thus their behavior must always be under check to ensure that the future of the country is not compromised. While there is a need to keep a check on the youth, the government has a primary responsibility of ensuring that, a conducive environment for youths to flourish and jobs are created. A condition and atmosphere which is completely absent in Zimbabwe due to exclusive policies, weak government, weak social safety nets corruption, economies of affection, impunity and poor public finance management. At the same time, the socio-economic challenges have not spared the youth. Zimbabwe has a youth unemployment rate of more than 86%. The majority of the youths survive on vending and child labor is rife. Most younger people opt to leave in search of greener pastures as they can no longer bear the social and economic challenges. Nurse aid and cruise ship jobs have become havens for a few Zimbabwean youths.

Nevertheless, majority of the youth have resorted to drugs because of depression due to socio-economic challenges. According to the Zimbabwe National Drug MasterPlan (2021-2025), many youths see drugs as a sanctuary to the social and economic challenges they are encountering. The Zimbabwe National Drug MasterPlan states that, alcohol and drug abuse have undermined human capital development and they account for over 70% of mental health problems in the country.

At the same time, the World Health Organisation`s report titled Mental Health Among Young People in African Region states that, Zimbabwe has the highest number of 15 to 19-year-olds in Africa who engage in heavy “episodic drinking”, at 70.7% among males and 55.5%[1] among females. Some of the life-destroying and even lethal drugs stated in the report include, mbanje (marijuana), crystal methamphetamine (also known as, “mutoriro”, “dombo”, or “guka”), also ganja cakes, BronCleer cough syrup (bronco), and illicit alcohol popularly called “musombodhiya”.

To this end, it is critical for the government to note that, there is a positive correlation between exclusionary policies, social and economic challenges and drug abuse. Thus, if Zimbabwe is to attain vision 2030 and a prosperous upper-middle class economy measures to redress social and economic challenges must be put in place. Inclusive policies, job creation and drug curbing must be at the core of governments projects. This is the only way the future of Zimbabwe can be secured against drug abuse which undermines human capital development.

3. Social and Economic Inclusion in Health Financing

Although the health sector has been undoubtedly crippled by the pandemic. Other existing challenges include those arising from economic performance, socio-economic inequality, and the burden of non-communicable diseases, infectious diseases, and health emergencies due to climate change. Data indicates that government spending on primary health care as an indication of domestic pro-poor spending on local-level health systems and pro-poor population health interventions is very low in Zimbabwe.[2] Thousands of households have faced difficulties with rising food prices and falling incomes during and after the pandemic and this has led to them falling out of health services. Zimbabwe has had many policies formulated in an effort to move towards Universal Health Coverage and ensure that all citizens have access to quality health services that they need without suffering financial hardship. This, however, has not been the case. Universal Health Coverage refers to healthcare whereby all people receive the health services they need without suffering financial hardship when paying for them.[3] The full spectrum of essential, quality health services should be covered including health promotion, prevention and treatment, rehabilitation, and palliative care.

There has been a continued decline in healthcare services, even before the pandemic, this has had dire social and economic implications. Zimbabwe's health system has been consistently financed by a mixture of funding sources. The major domestic funding sources include those from the central government through budget allocation, sub-national government (local authorities), households, non-governmental organizations (NGOs), and private companies.

1. https://www.youtube.com/redirect?q=https%3A%2F%2Fwww.who.int%2Finitiatives%2Fwho-special-initiative-for-mental-health
2. https://equinetafrica.org/sites/default/files/uploads/documents/EQ%20Diss124%20Health%20fin%20%20and%20COVID%20%20Jan2022.pdf
3. https://documents1.worldbank.org/curated/en/840661563174110288/pdf/Zimbabwe-National-Health-Financing-Policy-Resourcing-Pathway-to-Universal-Health-Coverage-2016-Equity-and-Quality-in-Health-Leaving-No-One-Behind.pdf

Presently, the public health sector is heavily reliant on funding from NGOs as the government struggles to ensure that medication is available at various public health facilities. Studies have shown that women have higher medical care service utilization and higher associated charges than men. Women in low and middle-income countries such as Zimbabwe, do not have equal access to resources, such as education, employment, or healthcare compared to men.[4] In making budget allocations, the government must ensure that the budget is gender responsive and addresses the needs of women and the greater burden of care work that is placed on women in society. The nature and level of healthcare financing is a critical elements of health systems development including how resources are mobilized, pooled, and spent, and services purchased.

While there are many measures and features of health financing, ZIMCODD has identified the following as key issues for equity in health financing:

- The extent to which government prioritises health in its domestic budget spending must be in accordance with Zimbabwe's commitment to the Abuja Declaration which committed them to allocating 15% of domestic government spending to health. In the 2023 National Budget, the health sector was allocated 10.5% of the budget, a fall from 14.9% in the previous.
- The level of financial protection provided must ensure that health costs do not present as catastrophic or impoverishing expenditures especially towards women.
- Policies targeted at the health sector must employ gender mainstreaming strategies to respond more effectively to the needs of men, women, boys and girls.
- Budget allocations towards the healthcare sector must be gender responsive.
- The extent of government spending on primary healthcare must encompass pro-poor local level health systems and more pro-poor population health interventions in delivering services used by most lower income households.

4. https://pubmed.ncbi.nlm.nih.gov/10718692/