

Weekly Economic Review

2 MAY 2023

RBZ Interbank Rate

WEEK	WEEK
25.04.2023	02.05.2023
ZWL 1010.95 per USD1	ZWL 1059.65 Per USD1

Consumer Price Index

MAR	APR
274.01	280.48

Blended Inflation

MAR M.O.M.	APR M.O.M.
0.1%	2.4%
MAR Y.O.Y	APR Y.O.Y
87.6%	75.2%

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17-19 MAY 2023

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1. Summary

This week’s review of economic events covers mounting inflationary pressures drowning the poor, widening trade deficit amid increased re-dollarization of the economy, the introduction of digital gold tokens by RBZ, and further clarification on why ZIMCODD views RBZ as selling precious yellow metal at a loss. It also contains three detailed articles for further reading which are focusing on food insecurity in Zimbabwe, harnessing the informal sector for an upper-middle-class economy, and climate change and social justice.

2. Weekly Economic Review and Analysis

2.1 Mounting Inflation Drowning the Poor

The latest April 2023 inflation statistics released by the Zimbabwe National Statistics Agency (ZimStat) show the weighted (blended) consumer price index (CPI) gaining 2.3 percentage points on March 2023 rate of 0.1%. The weighted CPI measures the average price changes of goods and services in USD and ZWL terms. It became the official price index in February 2023 in response to an economy gravitating toward full dollarization. With 70% of estimated household expenditure being conducted in US dollars, it means that the USD price index accounts for more weight in the combined price index. However, in annual terms (April 2022–April 2023), the blended inflation rate decelerated by 12.4 percentage points to settle at 75.2% from 87.6% in March 2023. The decline in annual blended inflation outturn is in sync with cooling global inflation emanating from the Russia–Ukraine war spillovers.

Zimbabwe Monthly Inflation Trend (%)



Source: ZimStat

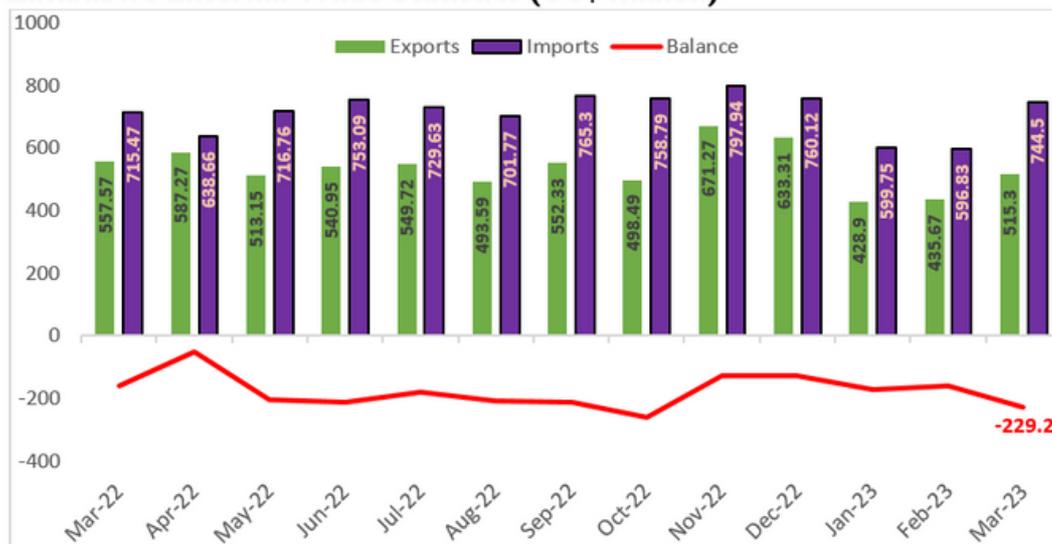
The increase in April blended inflation rate is the biggest monthly jump since June 2022. Elevated inflationary pressures particularly for ZWL transactions are emanating from the massive deterioration of the local currency against the US dollar in both markets. In April 2023, the ZWL lost about 11.2% (monthly terms) and 34.7% (year-to-date, YTD terms) of its value against the US dollar (USD) in the official willing buyer-willing seller (WBWS) interbank market. In alternative markets, the local unit of exchange suffered a severe decline as it erased 20% (monthly terms) and 55% (YTD terms) of its average value against the USD. Largely due to forex liquidity challenges in official markets, businesses are benchmarking their ZWL prices at or above the parallel rate whereas RBZ allows only for charging ZWL prices which are at most 10% above the official rate.

Parallel exchange rates are spiking in response to increased ZWL liquidity emanating from elevated RBZ quasi-fiscal operations and rising fiscal spending ahead of the 2023 harmonized elections. This, therefore, explains the rampant increase in ZWL prices witnessed in April 2023. Apart from the exchange rate pass-through to inflation, price inflation is also being fuelled by prolonged electricity load-shedding (rationing) schedules. Generally, electricity is a critical production enabler, its scarcity is an albatross to domestic production as it increases business operating costs. In addition, fragile global supply chains due to the Russia-Ukraine war are sustaining global inflation thereby disproportionately affecting net-importing nations like Zimbabwe through imported inflation -mainly high prices of food, fertilizers, and fuels. The prevailing high inflationary environment is widening societal inequalities and plunging the majority of the population into a vicious circle of poverty.

2.2 Rapid Re-dollarization Fuelling Trade Deficit

Zimbabwe merchandise exports grew by 18.2% to US\$515.3 million in March 2023 from US\$435.9 million achieved in February 2023, the latest ZimStat trade data have shown. The main exports for the month were semi-manufactured gold (27.3%), nickel ores & concentrates (22.7%), nickel mattes (13.9%), tobacco (7.9%), ferrochromium (7.5%), and unwrought platinum (4.7%). ZimStat trade data have also shown merchandise imports spiking by 19.8% from US\$621.4 million recorded in February 2023 to US\$744.5 million. The top imports were mineral fuels and fuel products (22.7%), machinery & mechanical appliances (12.2%), iron & steel (7.9%), vehicles (7.2%), and cereals (5.7%). More so, the statistics show that South Africa remains Zimbabwe's major trading partner accounting for 46.2% of the latter's exports and 37.6% of the latter's imports.

Zimbabwe External Trade Statistics (US\$ million)



Source: ZimStat

Overall, Zimbabwe incurred a trade deficit (imports exceeding exports) to the tune of US\$229.2 million in March 2023. In cumulative terms, Zimbabwe recorded a trade deficit of about US\$561.21 million in the first quarter of 2023 (1Q23) which is US\$121.65 million higher than the US\$439.56 million deficit recorded for the same period in 2022. The ballooning trade deficit is mainly influenced by the global supply chain dislocations and pricing distortions caused by rising global geopolitical tensions.

Also, the trade deficit is widening in line with a dollarizing economy. ZimStat survey established that about 78% of domestic transactions were conducted in USDs in 2022 up from 2021 levels. Generally, the use of strong USD as legal tender by small economies like Zimbabwe suffocates local industry as imports become relatively cheaper for locals while making exports relatively expensive for foreigners. If no bold de-dollarization policies are undertaken, the trade deficit will continue to balloon just as was the case during full dollarization (2009-2018) when it averaged US\$2.5 billion per year. For the last two years, the trade deficit has averaged US\$1.78 billion with -US\$1.54 billion realized in 2021 and -US\$2.02 billion attained in 2022.

2.3 Gold-backed Digital Tokens: Will this Clamp Economic Instability?

Reserve Bank of Zimbabwe (RBZ) introduced gold coins in July 2022 in an attempt to clamp incessant ZWL decline and haywire price inflation growth by reducing the domestic demand for the US dollars (USD) and mopping excess ZWLs in circulation. . In its 28 February 2023 statement, the Monetary Policy Committee (MPC) of the Reserve Bank of Zimbabwe (RBZ) resolved to expand value-preserving instruments, enhance divisibility and widen access and usage by the public by complementing issuance of physical gold coins with gold-backed digital products¹ (digital tokenization of gold coins).

1. https://www.rbz.co.zw/documents/press/2023/March_/Press_Statement_-_MPC_Resolutions_-_29_March_2023.pdf

Tokenization operates on the premise that the use of technology such as distributed ledger technology (blockchains) enables the conversion of real-life tangible assets such as gold into digital tokens representing them. These can be further split into fractions, meaning that everyone can own a part of the asset they are keen on without possessing a large financial capital.

Pursuant to the MPC resolution of 28 February 2023, the RBZ announced on the 28th of April 2023 that the gold-backed digital tokens will be issued with effect from 8 May 2023.² These tokens will be fully backed by physical gold held by RBZ and shall be introduced in two (2) phases; Phase 1 where gold-backed digital tokens (e-gold cards/wallets) will be issued for investment purposes and Phase 2 where digital tokens will become tradable and capable of facilitating person-to-person (P2P) and person-to-business (P2B) transactions and settlements. Generally, gold is considered a safe haven investment³ during downturns and financial crises because of its long history of use as a store of value. Helping it achieve this status are its properties: malleability, portability, aesthetic appeal, virtual indestructibility, universal acceptance, liquidity, and rarity.

Hypothetically, the use of gold-backed digital tokens is expected to deepen Zimbabwe's shallow financial markets, slow ongoing rapid economic re-dollarization, and strengthen the ZWL. The RBZ must use advanced technologies such as distributed ledger technology which provides full transparency, efficiency of transaction, and are difficult to disrupt. Technology also ensures that all transactions are safely recorded as no documents can be falsified since all data is immutable – it cannot be modified by any person. The use of traditional database systems which are centralized is highly prone to manipulation, and human error, and may be hacked. More so, digital gold tokens will succeed if RBZ embraces auditing of gold reserves (backing the digital tokens) in its vaults by reputable and independent institutions as well as guard against leakages from corruption and theft.

However, in reality, the use of gold or its variants will likely fail to ameliorate the fragility of the local currency and resultant chronic inflation. This is mainly due to dwindling market confidence and trust in government which consistently exhibits policy inconsistencies and a lack of transparency and accountability. Also, there is a limited political will to fully implement direly needed economic and structural reforms to strengthen institutional & regulatory framework, curb leakages, improve social fairness & inclusion, thwart fiscal indiscipline & impunity, and eliminate prevailing excessive pricing distortions inhibiting market competition and innovation. All these factors, if unaddressed, will militate against the attainment of durable stability in Zimbabwe.

2. https://www.rbz.co.zw/documents/press/2023/April/Press_Statement_-_Issuance_of_Gold-backed_Digital_Tokens_1.pdf

3. It offers diversification to investor's portfolio to help it withstand volatility or short-term swings in asset prices

2.4 Is RBZ Selling Gold Coins at A Loss?

Last week, in this weekly report, we opined that RBZ is selling gold coins at a loss due to a widening gap between official willing buyer willing seller interbank and parallel rate. The authorities have viewed this as a misconception arguing that the USDs used by RBZ to buy gold are sourced from export surrender funds at the interbank rate, not the parallel rate. However, we still maintain our position because the export surrender funds are taxpayers' money and taxpayers must enjoy the value for their money. There is a consensus among economists that rising parallel market premiums promote excessive arbitrage activities. As such, the huge riskless profits enjoyed by few buyers of cheap RBZ gold coins sold at overvalued official rate are equal to the losses made by the taxpayer, particularly exporters. This is the reason authorities are trying to craft various policies seeking to attain exchange rate convergence to eliminate rent-seeking behaviors and promote fair trading practices. It is also clear that RBZ is buying gold at competitive prices using USDs. But the amount it receives from selling minted gold coins is inadequate to recoup the USDs used to buy gold for coin minting. For gold coins to meet their intended objectives, authorities must fully liberalize the WBWS interbank market to expedite ZWL price discovery; maintain fiscal discipline; embrace fiscal transparency & accountability; adhere to constitutionalism; and implement other market-oriented policies and reforms to boost market confidence.

3. Articles for Further Reading

3.1 Food Insecurity Plagues Zimbabwe

Zimbabwe's economy remains largely an agricultural economy as people derive their livelihood from agriculture and other related rural economic activities. Agricultural activities provide employment and income for 60–70 percent of the population, supplies 60 percent of the raw materials required by the industrial sector and contributes 40 percent of total export earnings. Agriculture contributes approximately 17 percent to Zimbabwe's GDP⁴. As the main source of livelihood for most of the population, the performance of agriculture is a key determinant of rural livelihood resilience and poverty levels. At least 63 percent of the population live in extreme poverty and 27 percent of children have stunted growth – many impacted by the effects of climatic shocks, protracted economic instability and global stressors.⁵

Zimbabwe has experienced several economic and environmental shocks that have contributed to high food insecurity and malnutrition. These drivers, which are increasing in frequency and intensity, include conflicts, climate variability and extremes, and economic slowdowns and downturns – all exacerbated by

4. <https://reliefweb.int/report/zimbabwe/zimbabwe-food-security-outlook-february-september-2022>

5. <https://www.wfp.org/countries/zimbabwe>

8. <https://www.bloomberg.com/news/articles/2023-04-13/zimbabwe-will-hold-deeper-talks-with-rich-nations-over-debt#xj4y7vzkg>

the underlying causes of poverty and very high and persistent levels of inequality. The World Food Programme has reported that Zimbabwe has been added to the list of countries with hunger hotspots as food insecurity is expected to worsen over the next six months. Contributing factors include erratic rainfall season resulting in a significant drop in expected maize production (which declined by 43% in 2022 compared to the previous year and communal farmers yields have shrunk by half), combined with the effects of persistently high inflation.⁶ These factors are expected to stress the food security situation in the upcoming months, in both rural and urban areas, with vulnerable communities being unable to afford basic foods and other primary needs.

Low-productivity agricultural practices and lack of access to markets are also contributing to the food security crisis affecting the vast majority of rural Zimbabweans, whose livelihoods depend on rain-fed agricultural production. Livestock production is also an important component of food security in Zimbabwe as rural livelihoods depend on the provision of meat, milk, eggs, hides & skins, draught power, and manure for food security or production thereof. Livestock also acts as strategic household investment and are an important safety net in the event of shocks. Widespread poverty, HIV/AIDS, limited employment opportunities, liquidity challenges, recurrent climate-induced shocks and economic instability all contribute to limiting adequate access to food. For those in urban areas, hyperinflation, lack of purchasing power and the pricing of basic commodities solely in United States dollars have contributed to food insecurity.

The hunger crisis affects vulnerable and marginalized people the most, as they have limited capacity to absorb additional shocks. This includes persons with disabilities as well as women and girls who, despite the key role they play in food production and preparation, often eat the least during times of acute food insecurity, and are at higher risk of experiencing gender-based violence and various forms of exploitation and abuse.⁷ In order to alleviate food shortages and achieve Sustainable Development Goal (SDG) 2 on ending hunger, the following must be considered:

- There must be inclusive dialogue to address the causes of food insecurity.
- Policy measures to be implemented thereafter must protect the poor and vulnerable people's ability to access food and livelihoods.
- Adequate funding must be lent towards responding to the short, medium, and long-term impacts of the food security crisis.⁸

6. <https://www.wfp.org/countries/zimbabwe>

7. <https://reliefweb.int/report/world/we-need-solutions-now-address-global-food-insecurity-and-prevent-future-food-crises>

8. <https://reliefweb.int/report/world/we-need-solutions-now-address-global-food-insecurity-and-prevent-future-food-crises>

3.2 Harnessing the Informal Sector for An Upper-Middle-Class Economy

Zimbabwe is ranked 2nd in the world with respect to the informal sector following Afghanistan which is ranked 1st.² Although there is debate surrounding the exact statistics that the Zimbabwean informal economy accounts for, what is certain is that the informal economy is over 60%.¹⁰ In 2016 it was alleged that the informal sector had 5.7 million actors. A figure that might have greatly increased. A trend analysis of the history of Zimbabwe shows that the Zimbabwean informal economy has always been active even prior-independence.¹¹

Following the attainment of independence in 1980, the Zimbabwean government failed to create a developmental model that enhances and sustains development in the informal sector and rural areas as in the case of South Korea and Singapore.¹² A policy development error that undermined employment creation and economic growth. The policy error became more visible in the early 1990s with the Economic Structural Adjustment Programme (ESAP) 1990–95 becoming a case point. This is because ESAP led to the layoff of many workers from the private and public sectors.¹³

The Fast Track Land Reform Program (FTLRP) also edified the growth of the informal sector. After the farm evasion, many people who had their livelihoods depending on agriculture were left jobless. The invasion of farms was worsened by the closure of industries during the emergency new millennium which saw Zimbabwe's relations with the West deteriorate. A watershed event, stimulated by geopolitics and internal governance epidemics led to the mass exodus of Zimbabweans into other countries while those who remain sought for survival in the informal economy. It is imperative to note that, the majority of those who went to diaspora in search of greener pastures were men. The reason being that, the cultural configuration of the Zimbabwe regard men as breadwinners and women as caregivers who are supposed to be at home looking after everyone.¹⁴ A major dynamic that later influenced the gender structural configuration of the informal economy.

In 2018, the government through the Minister of Finance and Economic Development announced its ambitions to tax the informal sector recognising it as a major player in national development. An ambition that was not well received by actors in the informal sector due to the unfair taxation burden. The informal sector is governed by a myriad of tax regimes that militates against optimum growth of the same. Some of these tax regimes include but not limited to the following:

9. <https://www.worldeconomics.com/Informal-Economy/>

10. www.herald.co.zw/small-business-are-a-big-deal

11. Mutizwa, B. 2021 The Shadow Pandemic: Examining the Impact of COVID-19 on Zimbabwean Informal Sector in Chiredzi District. *International Journal of Humanities, Management and Social Sciences*, 4 (1):1-10

12. A. Adams, S. J. De Silva, and S. Razmara, "Improving skills development in the informal sector: strategies for sub-Saharan Africa. Washington DC: World Bank, 2013

13. A. Chilunjika, and B. Mutizwa, "Exploring factors militating against the performance of parastatals in Zimbabwe: the case of the national railways of Zimbabwe from 2008 to 2016", *Journal of Public Administration and Development Alternatives (JPADA)*, vol. 4, no. 2, pp. 41- 60, 2019.

14. [1] International Centre for Tax and Development, "Expensive to be a Female Trader: The Reality of Taxation of Flea Market Traders in Zimbabwe," 2019

- The 2% Money Transfer Tax
- The 30% Withholding Tax
- Presumptive Tax which
 - Hairdressing salon operators US\$10.00 per chair per month.
 - Informal traders 10% of Rental Cross border trader 10% of the value for duty purposes (VDP)
 - Operators of restaurants or bottle-stores US\$70 per month
 - Cottage industry operators US\$70 per month
- Local Authority User Fees
- Storage Fees

While it is critical to tax the informal sector, to enhance Domestic Resources Mobilisation, the above proposed and currently utilised methods choke the growth of the same sector. Thus there is need to ensure that, a just and inclusive model is developed. One that rationalise Zimbabwe`s development aspirations and comprehends the difficulties and challenges being experienced by the informal sector actors.

For Zimbabwe to attain an upper-middle class economy by 2030, there is a need for the government to consider taxing the informal economy in a justice, inclusive and progressive manner in its soon-to-be-developed “Formalisation Strategy”¹⁵. The “Formalisation Strategy” should prioritize the following:

- Embracing the informal economy as the new normal
- Rationalise informal economy tax regimes to ensure that, they become progressive, inclusive and just.
- Allocate at least 40% of government procurement tenders to informal traders.
- Allocate at least 10% of the total budget to informal traders.
- Enhancing agriculture value chains to optimally share equitably the profits generates from cotton, tobacco, sugar cane to mention but a few.
- To create private or public sector led collaborations with informal actors.
- Prioritise youths and women in development of policies.
- Eliminate corrupt tendencies in resource allocation such as; partisan distribution of resources, favouritisms, embezzlement of funds to mention but a few.

3.3 Climate Change and Social Justice

The livelihoods, health, and general well-being of communities in Zimbabwe are being significantly impacted by climate change. Rising temperatures, changing rainfall patterns, and increased frequency of extreme weather events, such as floods and droughts, are leading to reduced agricultural productivity, water scarcity, and food insecurity.

15. <https://www.herald.co.zw/informal-sector-to-get-more-govt-attention/>

In addition, climate change is exacerbating existing social inequalities, particularly affecting vulnerable groups such as women, children, and the elderly. Efforts to address climate change can be designed to promote social justice and equity by considering the needs and perspectives of the most vulnerable communities.

Additionally, by including communities that are affected in decision-making processes, efforts to address climate change can be created to promote social justice and equity. This may entail giving local populations a voice in the planning and execution of adaptation and mitigation strategies for climate change, as well as providing them with the knowledge and tools they need to engage effectively. Initiatives that prioritize the development of renewable energy sources, for instance, can give populations without access to electricity clean energy while also lowering greenhouse gas emissions. These programs can be created to guarantee that everyone, even those in poverty, has access to and can afford them.

Overall, addressing climate change in a way that promotes social justice and equity requires a comprehensive approach that considers the complex interplay of social, economic, and environmental factors. By prioritizing the needs of the most vulnerable communities and involving them in decision-making processes, we can work towards a more just and sustainable future for all. It is against this background that we ought to examine factors that can be considered in addressing climate change in a way that promotes social justice.

The following are factors that can be considered to address climate change in a way that promotes social and economic justice in Zimbabwe:

Transition to renewable energy: Transitioning away from fossil fuels to renewable energy sources like wind and solar power can create new job opportunities and reduce air pollution that disproportionately affects low-income communities. Renewable energy is critical in the advancement of economic development, through improving energy security and access and mitigating climate change. Sustainable development is achieved using sustainable energy and by ensuring access to affordable, reliable, sustainable, and modern energy. Just like most developing countries, Zimbabwe faces an energy supply deficit. The country has heavily relied on fossil-based fuels and this form of energy is unsustainable in the face of climate change.

Green Infrastructure: Investing in green infrastructure like parks, green roofs, and urban forests, we can enhance air quality and lower urban heat islands while simultaneously reducing the effects of climate change. Green infrastructure can benefit communities by strengthening linkages between neighbours, fostering partnerships, and promoting active lives on a local level.

This is generally accomplished by creating more enticing green places for gathering, mingling, and exercising in communities.

Green Jobs: The creation of green jobs through modernizing our agricultural activities will assist to ensure that the advantages of tackling climate change are shared evenly across society. The objective is to establish an economy in which everyone may contribute to the development of more prosperous communities. In a green economy / Agricultural-based economy, wealth should enable all citizens to meet their basic needs in terms of money, people, society, health, and the environment.

Energy efficiency: Energy bills for homes and businesses can be reduced by increasing the energy efficiency of buildings and equipment, which can be especially advantageous for low-income populations. The purpose of energy management and energy efficiency programs is to lower site-level energy usage through both technological advancements and a shift in people's attitudes toward sustainability. These actions aid in lowering carbon emissions at the facility or from nearby industries. Additionally, switching from fossil fuels to cleaner energy sources can have a positive effect on sustainable initiatives and, if done strategically, the bottom line.

Climate Education and Outreach: Building resilience in vulnerable communities and advancing social justice can both be achieved by offering education and outreach initiatives that address the effects of climate change and encourage sustainable lifestyles. People who are educated are more likely to adopt new attitudes and behaviors, as well as make more informed decisions. Students can learn about the effects of global warming and how to adapt to climate change in the classroom. Everyone benefits from education, but it especially inspires young people to act.

Environmental Justice Policies: Policies that deal with environmental challenges must prioritize vulnerable groups' needs so that the advantages of climate action are distributed fairly. As a fundamental human right, environmental justice is significant. Everyone is given some degree of agency over the choices that have an impact on their lives. Many individuals become victims of other people's intentions and aspirations when there is no environmental justice.