MONTHLY ECONOMIC REVIEW

APRIL 2023

Zimbabwe Coalition On Debt And Development
ZIMCODD

INVESTING IN PEOPLE FOR SOCIAL AND ECONOMIC JUSTICE

1. INTRODUCTION

Zimbabwean fiscal and monetary authorities continue to implement various economic policies to tame incessant Zimbabwe dollar (ZWL) depreciation and curb price inflation. For instance, the central bank invited applicants to subscribe to the issuance of gold-backed digital tokens, a noble idea seeking to take advantage of stable gold. The question however remains, "Are these policies the right prescription for Zimbabwe's ailing economy?" This April issue of the economic review, therefore, seeks to answer the posed question by tracking key economic indicators to unpack the root cause of currency and price instability experienced in April 2023. It also proffers possible viable policy alternatives authorities should consider in their quest to tame instability.

2. ECONOMIC OUTLOOK

Fig 2: Zimbabwe Real GDP Growth (%)

Source: *Ministry of Finance, IMF & World Bank*

- Treasury's 2023 GDP projection of 3.8% was premised on the assumption that the Treasury will maintain fiscal discipline, increased electricity production, better rainfall patterns, and stable exchange rate and prices to drive private investment, production & consumer aggregate demand.
- Fortunately, the nation has received normal rainfall patterns in many areas for the 2022/23 cropping season which is expected to greatly improve harvest and lower food inflation.
- Good rains have also greatly benefitted tobacco, Zimbabwe's top forex earner from Agric. As of 28 April 2023, cumulative auction floor sales volume was 11.82 million kilograms (US$33.98 million) while contractor trading has realized 122.37 million kgs (US$368.56 million).
- The nation is also benefitting from elevated global mineral commodity prices. ZimStat trade statistics show that minerals alone contributed about 81% to total export earnings in March 2023.
- Increased activity is also expected in the construction sector as the government undertakes various developmental projects such as road and dam construction.

- However, the balance of risks is tilted to the downside. ZWL decline and inflation are expected to exacerbate in a year coinciding with constitutionally scheduled harmonized elections. Already the gap between the official and parallel rates is exceeding 100% risking a total market rejection of ZWLs.
- Election years are generally associated with unsustainable fiscal spending and quasi-fiscal activities as well as other risks such as political violence and capture of key state institutions. This scares away investment and destabilizes the local currency and prices.
- Economic activity is also being weighed down by the precarious electricity situation bedevilling the economy as ZESA implements increased load-shedding hours to ration scarce electricity. This is causing falling throughput and rising production costs.
- Also, the Russia-Ukraine war and rising geopolitical tensions between China and USA are constraining global supply chains which in turn greatly affects net importers like Zimbabwe through elevated imported inflation.

3. MACROECONOMIC INDICATORS

The section briefly analyses the performance of selected key macroeconomic indicators to establish the direction being taken by the economy.

3.1 INFLATION

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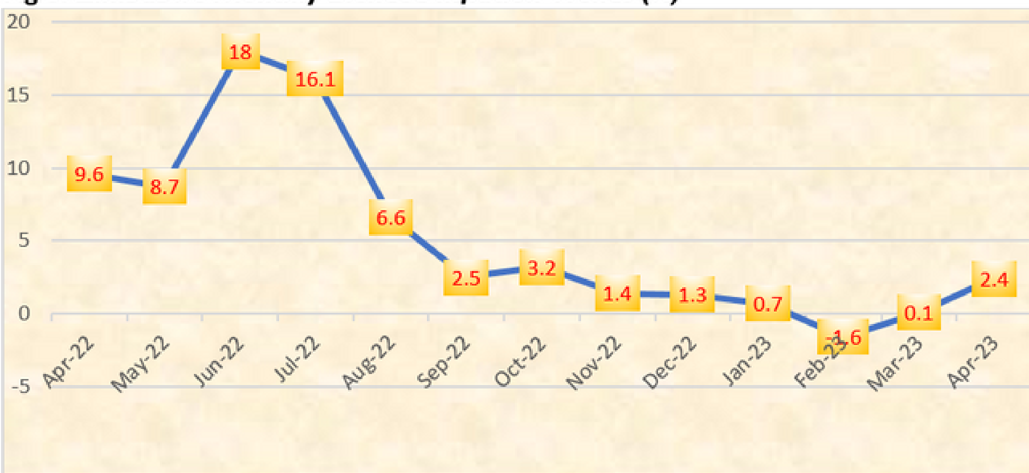
Fig 3: Zimbabwe Monthly Blended Inflation Trends (%)



***Source:** ZimStat, ZIMCODD*

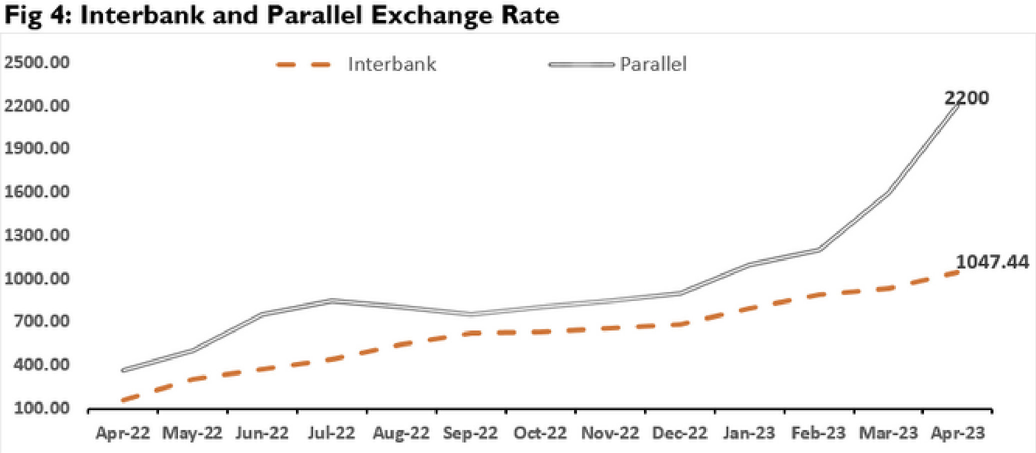
- April 2023 official inflation statistics show the annual blended (weighted average) consumer price index (CPI) decelerating by 12.4 percentage points to settle at 75.2% from 87.6% in March 2023.
- The weighted CPI measures the average price changes of goods and services in USD and ZWL terms. It became the official price index in February 2023 in line with rapid re-dollarization.

- The decline in annual blended inflation outturn is in sync with cooling US dollar (USD) inflation as local businesses offer discounts for USD sales, spillover effects from the Russia-Ukraine war moderate and base effects kick in.
- However, on a month-on-month (MoM) basis, the blended CPI realized its biggest jump since June 2022, gaining 2.3 percentage points on its March 2023 rate of 0.1% to settle at 2.4%.
- Elevated inflationary pressures particularly for ZWL transactions are largely emanating from the massive decline of the local currency against the US dollar in both markets (see next section).
- Largely due to forex liquidity challenges in official markets, companies are benchmarking their ZWL prices at or above the parallel rate to minimize exchange rate losses.
- Apart from the exchange rate pass-through to inflation, inflation is being fuelled by prolonged electricity load-shedding (rationing) schedules which are increasing business operating costs.
- The prevailing high inflationary environment is constraining aggregate consumer demand, suffocating ZWL (and fixed-income) earners, and trapping the majority of the population in a vicious circle of poverty.

3.2 EXCHANGE RATE

- In the month under review, the ZWL witnessed a rapid decline in both foreign exchange markets.
- The local unit realized its biggest decline in the official markets since Jan 2023 by shading 11.2% of its value against the USD to close April at ZWL/USD 1047.44.
- In the prior month, it lost 4.4% on the official rate to close at ZWL/USD 929.86. In year-to-date (YTD) terms, the ZWL has erased 34.7% in the first four (4) months of 2023.

Fig 4: Interbank and Parallel Exchange Rate

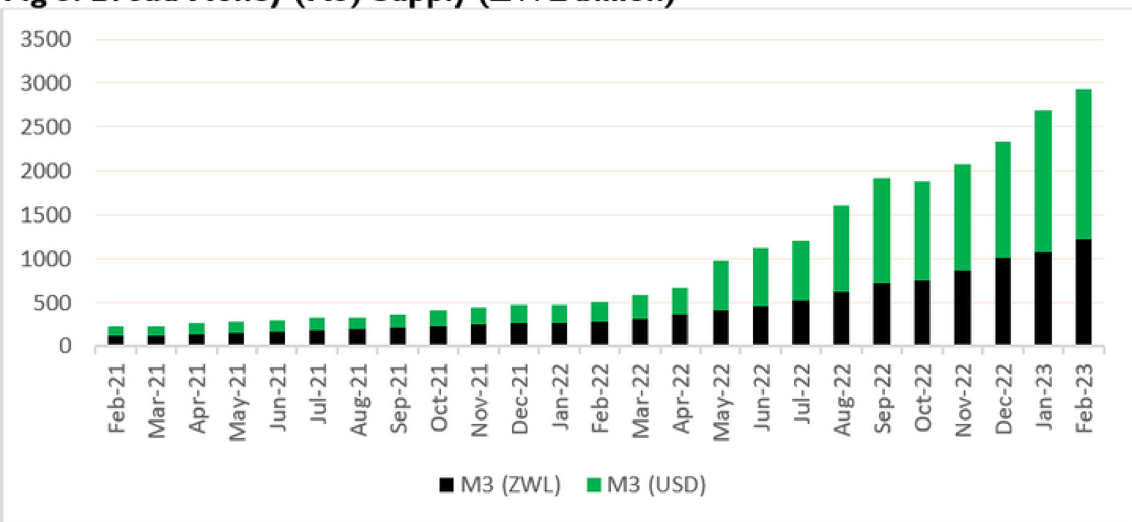


***Source:** RBZ, ZIMCODD*

- From the other side of the aisle (parallel markets), the ZWL saw its biggest decline in 11 months as it lost 27% of its average value in April 2023 to close trading at ZWL/USD 2200. Since the start of 2023, the ZWL has lost 59.1% against the USD in parallel markets.
- Consequently, the average parallel market premium[2] widened to over 110% in April 2023 from 72% in March. This is way above the conventional threshold of at most 20%.
- Parallel exchange rates are spiking in response to increased ZWL liquidity emanating from elevated RBZ quasi-fiscal operations and rising fiscal spending (see next section).
- Also fuelling ZWL decline are adverse ZWL inflation expectations, falling market confidence, and weak exchange rate management promoting exchange rate multiplicity. In turn, this creates an avenue for excessive rent-seeking.
- Multiple exchange rates also promote round-trip transactions - illegal ways to inflate revenues by swapping assets or shell transactions, usually on a no-profit basis through a mutual settlement or an agreement.

3.3 MONEY SUPPLY

Fig 5: Broad Money (M3) Supply (ZWL billion)



***Source:** RBZ*

- Since the re-introduction of the Zimbabwe dollar (ZWL) in 2019, the market is awash with ZWLs chasing too few goods thus causing price instability.
- Fig 5 shows that in February 2023 ZWL-denominated component of broad money (M3) spiked by 13.2% to reach ZWL1.21 trillion from January 2023 levels.
- Broad money (M3) is the total money supply which includes a wide scope for the definition of money – including both notes and coins, but also more illiquid forms of money – such as bank deposits, treasury bills, and gilts.
- In annual terms, this monetary aggregate registered a 334% growth from ZWL279.38 billion attained in February 2022. Disaggregating M3 into its ZWL and USD components removes the effect of exchange rate movements and helps gauge the extent to which local money is created.

2. Parallel market premium is the proportion by which the parallel market rate exceeds the official rate.

- As such, the foregoing staggering statistics are showing that authorities are injecting ZWL into the economy at an unsustainable rate which puts pressure on ZWL to depreciate and ZWL prices to skyrocket.
- Monetary aggregates for February 2023 succeeding months are expected to continue showing unsustainable ZWL liquidity growth which is sustaining high price inflation. Treasury is increasing recurrent expenditures, for instance, it recently doubled its salaries bill for civil servants.[3]
- Fiscal and monetary authorities are also facing pressure from the need to buy forex from tobacco farmers & other exporters, payments for ongoing infrastructure projects, and support to the Grain Marketing Board (GMB) for maize purchases ahead of the upcoming 2023/24 marketing season.

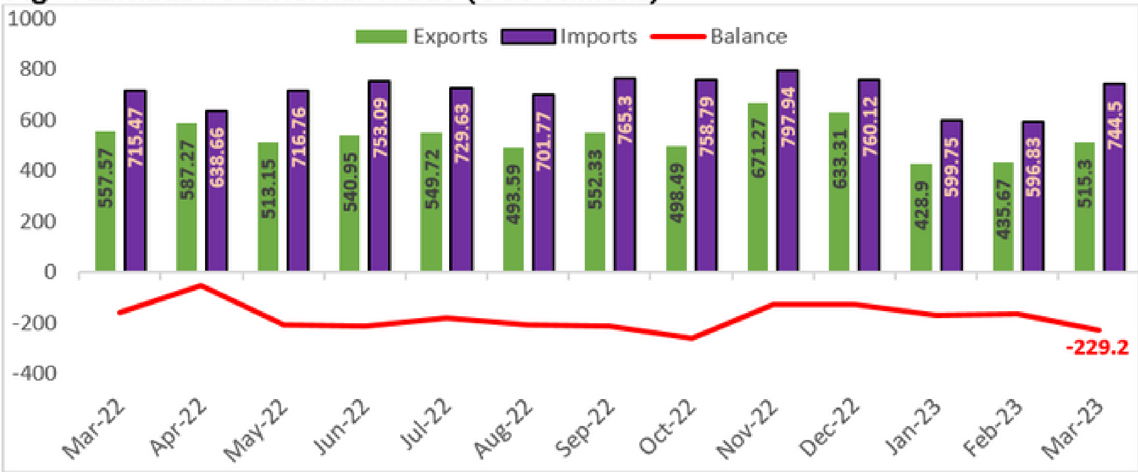
Monetary Highlights

- The monetary authority introduced digital gold tokens. Tokenization operates on the premise that the use of technology enables the conversion of real-life tangible assets into digital tokens representing them.
- The gold-backed digital tokens will be issued with effect from 8 May 2023. The tokens will be fully backed by physical gold held by RBZ and shall be introduced in two (2) phases;
- Phase 1: Gold-backed digital tokens (e-gold cards/wallets) will be issued for investment purposes
- Phase 2: Digital tokens will become tradable and capable of facilitating person-to-person (P2P) and person-to-business (P2B) transactions and settlements.
- The use of advanced technology guarantees transparency and efficiency of transactions and is even difficult to disrupt.
- It also ensures that all transactions are safely recorded as no documents can be falsified. This will circumvent risks like manipulation, hacking, and genuine human error.
- The tokenization initiative will also require frequent auditing of gold reserves in RBZ vaults by reputable and independent audit institutions.
- The success of these gold tokens will largely depend on the level of market confidence and trust in the RBZ, availability of infrastructure like internet, security, pending regulation as well as policies that will be instituted to curb illicit trading of precious yellow metal.
- For more on this, please visit the ZIMCODD Weekly Economic Review[4]

3. https://zimcodd.org/?smd_process_download=1&download_id=6417
4. https://zimcodd.org/?smd_process_download=1&download_id=6417

3.4 EXTERNAL TRADE

Fig 7: Zimbabwe External Trade (US$ Millions)



Source: *ZimStat*

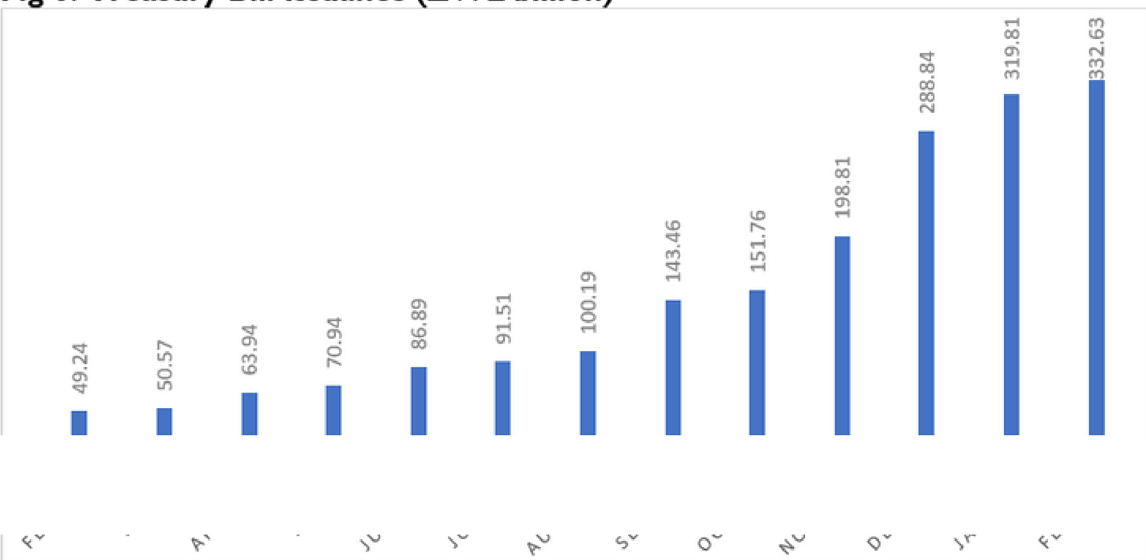
- Zimbabwe merchandise exports grew by 18.2% to US$515.3 million in March 2023 from US$435.9 million achieved in February 2023, ZimStat trade data have shown.
- The main exports for the month were semi-manufactured gold (27.3%), nickel ores & concentrates (22.7%), nickel mattes (13.9%), tobacco (7.9%), 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.
- 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 Jan-Mar 2023 period (1Q23) which is US$121.65 million higher than 1Q22.
- The ballooning trade deficit is mainly influenced by the global supply chain dislocations and pricing distortions caused by the Russia-Ukraine war. Also, the deficit is widening in line with a rapidly dollarizing economy.
- Generally, the use of strong USD as legal tender in small economies like Zimbabwe suffocates local industry as imports become relatively cheaper for locals while making exports relatively expensive for foreigners.

Public Debt

- Zimbabwe's borrowing pressure continues to mount largely due to the fast-approaching 2023 harmonized elections. As alluded to in the March issue of this publication, incumbent governments spend excessively during an election year in a bid to increase electoral chances.

- Also, fiscal spending pressure is emanating from a declining local currency and skyrocketing price inflation which is reducing the real value of budgeted public funds. In November 2022, the Treasury presented a ZWL4.5 trillion budget for 2023.
- At the time, the budget was equivalent to US$6.87 billion (official rate) versus a parallel rate value of US$5.29 billion. However, as of the end of April 2023, the budget's real value was reduced to US$4.2 billion at the official rate.
- As for parallel rate value, the 2023 budget has been reduced to US$2.05 billion in April. The real value is collapsing at a time spending pressures are mounting forcing Treasury to borrow.

Fig 8: Treasury Bill Issuance (ZWL billion)



Source: *RBZ*

- RBZ statistics show issued Treasury Bills (TBs) jumping by 4% in February 2023 to close the month at ZWL332.63 billion. On a year-on-year basis, these statistics show that the TBs issued in February 2023 are 576% higher than those which were issued in February 2022.
- Under the assumption of a stable exchange rate, Treasury expected to float a US$100 million bond and access a loan facility from Afreximbank to finance the ZWL575 billion budget gap.
- However, the perpetual ZWL decline amid pending elections will likely force Treasury to request additional funds through printing and borrowing. But, the former destabilize the exchange rate while the latter crowds out both private sector investment and public services.

4. Sectoral Review

4.1 Energy Sector

This section examines the performance of the energy sector in April 2023 with a key focus on the electricity and fuel sub-sectors.

4.1.1 Electricity

Fig 8: Zimbabwe Electrical Energy Imports (US$ million)

Source: *ZimStat*

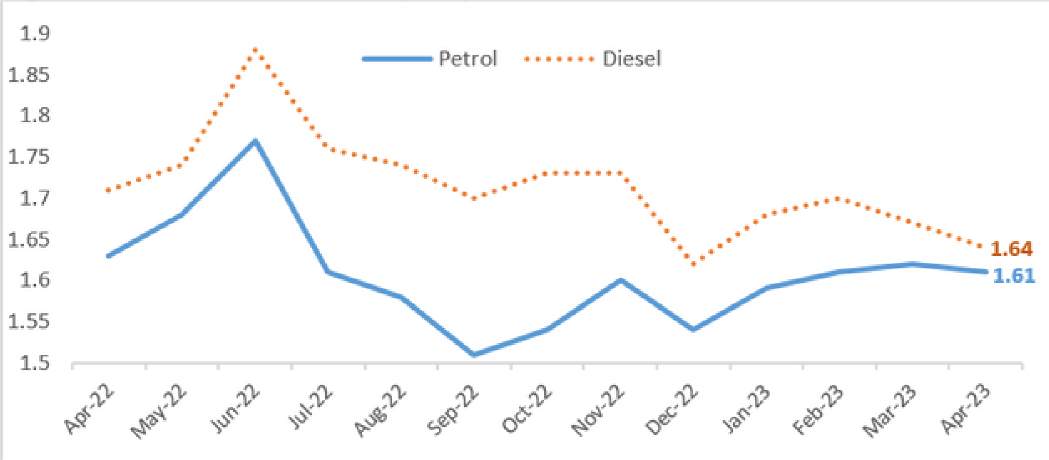
- In March 2023, Zimbabwe imported electricity worth US$18.32 million, down 24.9% from Feb 2023 level. The imports for the month are however up 58.9% on an annual basis highlighting the mounting energy crisis causing prolonged load-shedding (power rationing) schedules.
- Also showing the severity of the energy crisis is a 122.8% increase in electricity imports in the first quarter to US$68.25 million relative to US$30.63 million spent in the same quarter in 2022.
- The nation is facing electricity production headwinds such as antiquated thermal power stations which are now costly to operate.[5]
- Although rainfall in the Zambezi River basins has improved in the 2022/23 season relative to the 2021/22 season, Kariba Dam water levels remain critical. The Zambezi River Authority (ZRA) is now meeting regularly to monitor and review water allocation for hydropower generation.
- Imports have been augmenting the domestic deficit. However, statistics are showing electricity imports trending downwards since January 2023. This is likely attributed to forex constraints in the formal markets and shortages from import-source nations like South Africa.
- In the outlook, domestic electricity production will gradually improve as two (2) new thermal units with a combined installed capacity of 600MW are expected to fully join and supply the national grid in the third quarter of 2023 and Kariba Dam levels will improve as the rainy season concludes.

5. https://businesstimes.co.zw/bulawayo-power-station-faces-decommissioning/

- However, domestic electricity demand is also expected to jump, exceeding supply. This disequilibrium is caused by the upcoming winter season where electricity demand for heating purposes balloons. As such, we expect load shedding to continue throughout winter.

4.1.2 Fuel

Fig 9: Zimbabwe Fuel Prices (US$)



Source: *ZERA, ZIMCODD*

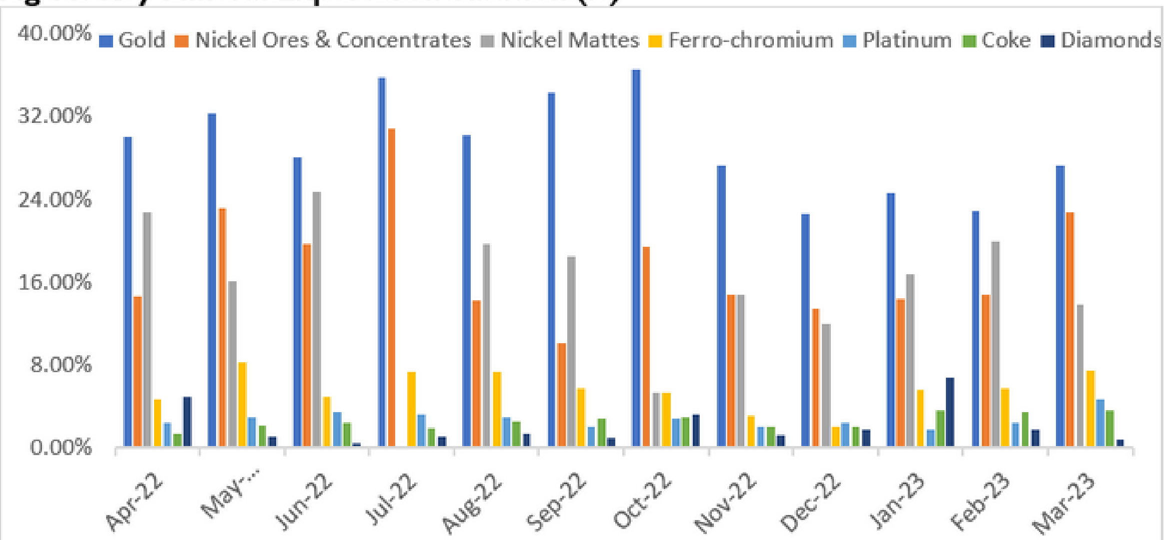
- Effective March 2023, Zimbabwe Energy Regulatory Authority (ZERA) reverted to monthly fuel pump price updates. Since May 2022, ZERA has been giving weekly price updates to manage increased global crude oil price volatility caused by the Russia-Ukraine war.
- In April 2023, ZERA reduced the price ceiling of a liter of petrol by one (1) US cent to US$1.61 from US$1.62 in March 2023 while that of diesel was lowered by three (3) US cents to settle at US$1.64 from US$1.67 pegged in the prior month.
- The decline in fuel pump prices during the period was necessitated by subdued global crude oil prices. Zimbabwe imports 100% of its fuel demand hence a price taker of prevailing global prices.
- Oil demand in developed nations has underwhelmed, slowed by warmer weather and sluggish industrial activity. For instance, the Organization of Economic Cooperation and Development's (OECD) annualized oil demand fell by 390 000 barrels per day in the first quarter of 2023 (1Q23).
- Also, recovering Russian exports helped contain the fragility of global crude oil prices. Russian oil exports in March soared to their highest since April 2020 driven by surging product flows that returned to levels last seen before Russia invaded Ukraine.
- However, surprise oil supply cuts announced on 2 April by OPEC+, a global cartel of oil-producing nations, risk aggravating an expected oil supply deficit in the second half (2H23) and boosting oil prices at a time of heightened economic uncertainty.
- Consumers currently under siege from inflation will suffer even more from higher prices, especially in emerging and developing economies like Zimbabwe.

4.3 Agriculture

- The start of the 2023 harvests in April is[6] expected to greatly improve food access and dietary diversity across Zimbabwe. The government is expecting a record maize harvest of 3 million tonnes from 1.9 million hectares planted by farmers in the 2022/23 season.
- GMB has temporarily reduced acceptable grain moisture content from 12.5% to 13.5% to help ensure a quick transition to winter wheat production. Official statistics show that the government is targeting 85 000ha of wheat this winter up from 80 000ha in the same period in 2022.
- However, anticipated below-average harvests due to poorly distributed rainfall in deficit-producing areas will likely result in some households depleting their food stocks earlier, plunging them into crisis food security outcomes.
- Market supplies of staple grains are still below average as the harvest begins. Also, market demand for staple grains is low as some households begin consuming cereals from their harvests.
- In most markets, staple grain prices in USD have remained unchanged. Significant seasonal price drops are expected to begin in May 2023 as harvesting becomes widespread.
- Analysis shows that household access to income from agricultural labor in April was lower than normal, particularly in areas where the prolonged dry spells have impacted crop production.
- As such, some poor households have started engaging in typical off-farm activities such as brick moulding, crafting, and other self-employment activities to earn additional income.

4.4 Mining Sector

Fig 11: Key Mineral Export Contribution (%)



Source: *ZimStat, ZIMCODD*

6. https://fews.net/southern-africa/zimbabwe

- ZimStat trade data show that the mining sector contributes a lion's share to Zim's export receipts.
- Fig 11 indicates that between April 2022 and March 2023, seven (7) key mineral commodities accounted for 75.6% of total export receipts on average.
- The average contribution was as follows: gold (29.3%), nickel ores (17.7%), nickel mattes including PGMs (15.4%), ferrochromium (5.65%), unwrought platinum (2.8%), coke (2.61%), and industrial diamonds (2%).
- However, the nation is not fully benefiting from its mineral resources as 95% are exported without being processed. These will fetch lower global prices and selling raw minerals is tantamount to shipping jobs from the mineral value chain abroad.
- Also, the mining sector is affected by excessive illicit trade such as smuggling, trade misinvoicing, and transfer pricing by multinational companies. For instance, the government estimates that it is losing about US$1.2 billion per year through gold smuggling alone.
- This is economic sabotage as smugglers do not pay taxes on their goods. It creates a threat to development financing by crowding out legitimate economic activity, limiting the accumulation of reserves, and depriving the government of revenue for investment in vital public services.
- Illicit trading of minerals is also increasing the costs of achieving Sustainable Development Goals (SDGs) - the inability to provide essential services such as healthcare, education, and infrastructure development.
- Last but not least, the illicit trading of minerals is facilitating informality and is risking the overexploitation of vulnerable groups such as young women and girls. This is also fuelling environmental degradation and underdevelopment of mining communities – a resource curse.

5. Conclusion

The April 2023 economic review has shown that the blame for ZWL year-to-date lies squarely with the government through its central bank. The rate at which the RBZ is injecting money into the economy is far exceeding the rate of growth of economic activity in the real sector. The money printing pressure is coming from rising fiscal spending – cushioning civil servants, and supporting buying of agricultural produce, and infrastructure projects. Also, by selling forex (at the auction market) and gold coins in fragile ZWLs at an overvalued official interbank rate, authorities are making huge losses as they are encouraging distortionary arbitrage activities.

6. Policy Recommendations

As alluded to in the previous issue of this publication, ZIMCODD continues to call for the following policy alternatives to bring durable stability to Zimbabwe's economy:

- **Fiscal discipline**

There is a need for tight control of Treasury spending to reduce excessive ZWL liquidity growth which destabilizes the exchange rate and fuel price inflation.

- **Strengthen Governance & Public Financial Management (PFM)**

To manage public resources effectively and efficiently, authorities need strong governance and a robust PFM system so that the use of resources is tracked, and that resources are appropriately allocated against public policy objectives.

- **Financial Tightening**

RBZ must truly pursue a tight monetary stance like hiking its benchmark policy rate to discourage speculative borrowing.

- **Liberalize the Interbank Market**

The willing-buyer willing-seller (WBWS) interbank market must be completely liberalized to fast-track ZWL price discovery through the operation of forces of demand and supply.

- **Disband the Auction Market**

RBZ must disband the forex auction system which is now promoting multiple exchange rates. A multiple exchange rate system distorts the economy, resulting in resource misallocation. It also leads to economic rents for factors of production which can in turn open up doors of corruption.

- **Introduce Higher-denomination Banknotes**

To increase transacting convenience which is key in building market confidence, RBZ must introduce higher denomination banknotes. In doing this, banks must exchange their electronic balances for RBZ banknotes to neutralize the impact of the transaction on money supply.

- **Gold Coins**

The monetary authority must stop selling gold coins at an overvalued interbank rate as this is opening an avenue for excessive speculation and arbitrage widening inequalities.

- **Gold Tokens**

There is a need to adopt advanced technologies like blockchains which guarantee transparency and efficiency of transactions and are even difficult to disrupt. It also ensures that all transactions are safely recorded thus eliminating manipulation, hacking, and human error risks.

- **Tax policy**

Treasury must collect more taxes and duties in ZWLs to increase the demand for the local unit. This will help to prop up its value against the US dollar.

- **De-dollarization Policies**

Authorities must start to implement prudent market-driven and inclusive economic policies and reforms to thwart pricing distortions and increase competition and disruptive innovation.

- **Capacity building**

Oversight and accountability institutions such as Parliament, OAG, NPA, and ZACC must be capacitated and given maximum autonomy to discharge their mandates.

- **Public borrowing**

Cheap alternatives to debt accumulation such as domestic resource mobilization (DRM) must be pursued while debt audits must be carried out regularly. The nation must also develop and stick to a clear debt management strategy to ensure that spending needs are met at the lowest possible cost.

7. Disclaimer

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