

# MONTHLY ECONOMIC REVIEW

**JUNE 2023**



**INVESTING IN PEOPLE FOR  
SOCIAL AND ECONOMIC JUSTICE**

## 1. INTRODUCTION

Zimbabwe experienced a significant increase in macroeconomic fluctuations in June 2023, with the local currency losing over 55% of its value in both foreign exchange markets. The increased instability is affecting many facets of the economy including, inter alia, financial reporting, asset valuation, contract negotiations, policy-making & regulation, and cost (production and living) estimation. This issue of the Monthly Economic Review therefore, tracks and analyses economic indicators to identify the root causes of the ongoing instability as well as proffer some policy alternatives to help bring durable economic stability.

## 2. ZIMBABWE ECONOMIC OUTLOOK

**Table 1: Zimbabwe Real GDP Growth (%)**

Industry	2019	2020	2021	2022
Agriculture	-10.4%	4.1%	17.5%	6.2%
Mining	-1.8%	0.2%	5.9%	10.5%
Manufacturing	-10.8%	-18.5%	1.2%	1.6%
Electricity supply	-26.7%	-6.3%	33.9%	3.5%
Water Supply	-5.5%	1.9%	12.7%	1.7%
Construction	-1.3%	4.9%	3.5%	2%
Wholesale & Retail Trade	-6.1%	-10.1%	8.1%	4.6%
Transportation & Food Service	-25.5%	-30.2%	8.5%	6.6%
Accommodation & Food Service	-6.3%	-61%	38.5%	23.7%
Information & Communication	-9.2%	8.9%	9.8%	14.1%
Finance & Insurance	-1.5%	11.9%	3%	15.6%
<b>GDP at Market Prices</b>	<b>-6.3%</b>	<b>-7.8%</b>	<b>8.5%</b>	<b>6.5%</b>

Source: ZimStat

- Through ZimStat the government has revised the 2022 national output (GDP) growth estimates upwards from 4% to 6.5%.
- 2022 GDP growth was largely driven by accommodation & food services (23.7%), finance & insurance (15.6%), information & communication (14.1%), mining (10.5%), transport & storage (6.6%), and agriculture (6.2%).
- The growth of the mining sector in 2022 is largely attributable to elevated global mineral commodity prices which were driven by the Russia-Ukraine war as the war increased global supply uncertainties as well as global inflation.
- The agriculture sector experienced a huge moderation from 17.5% realized in 2021 due to relatively low rainfall patterns received in the 2021/22 cropping season. The positive growth realized in 2022 is partly linked to overvalued domestic prices which are not in sync with both regional and international grain prices.
- The big tourism sector recovery was supported by the easing of COVID-19 restrictions; reflecting a successful domestic vaccination campaign and widespread vaccinations abroad.
- However, gross capital formation (outlays on additions to fixed assets plus net change in inventory) was very low due to high inflation which wreaked havoc in markets thereby affecting business predictability – and in turn subdued new business investment.
- Although the GDP registered positive growth in 2022, the growth lacked a human face.

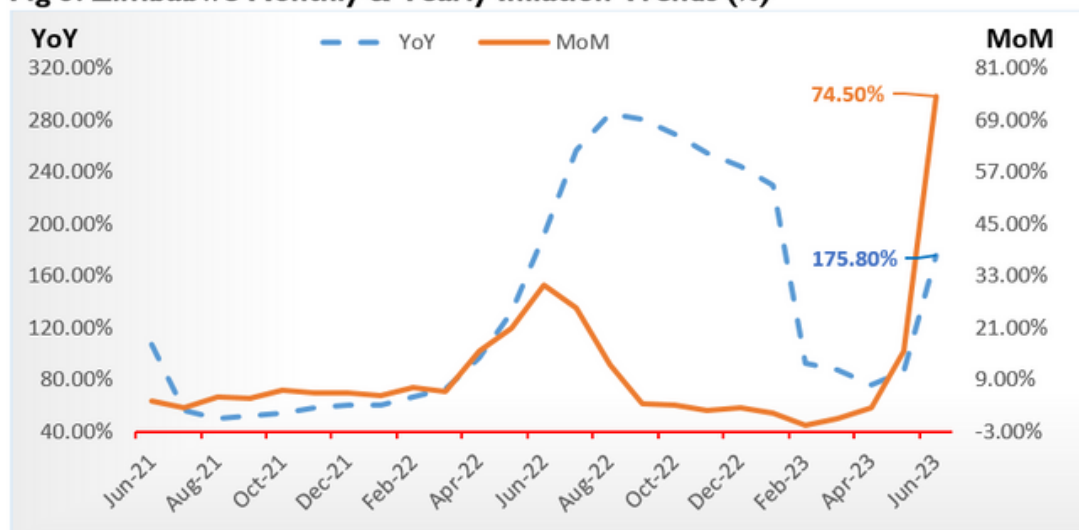
- In 2022, ZWL declines in the parallel market and annual prices inflation averaged 10.4% and 184.1% per month respectively. This reduced purchasing power thereby widening societal inequalities and trapping the many citizens into abject poverty.
- Again, ZWL and price volatility persisted in 1HY23 coupled with prolonged electricity load shedding, expensive fuel relative to the regional counterparts, and spillovers of the war in Ukraine. All these have greatly undermined economic activity in the real sector.
- Despite signs of ZWL stability witnessed toward the end of June, we still foresee a balance of risk on the outlook that is heavily tilted to the downside. The biggest risk is the upcoming election which is fuelling opportunistic political business cycles.

### 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

**Fig 3: Zimbabwe Monthly & Yearly Inflation Trends (%)**



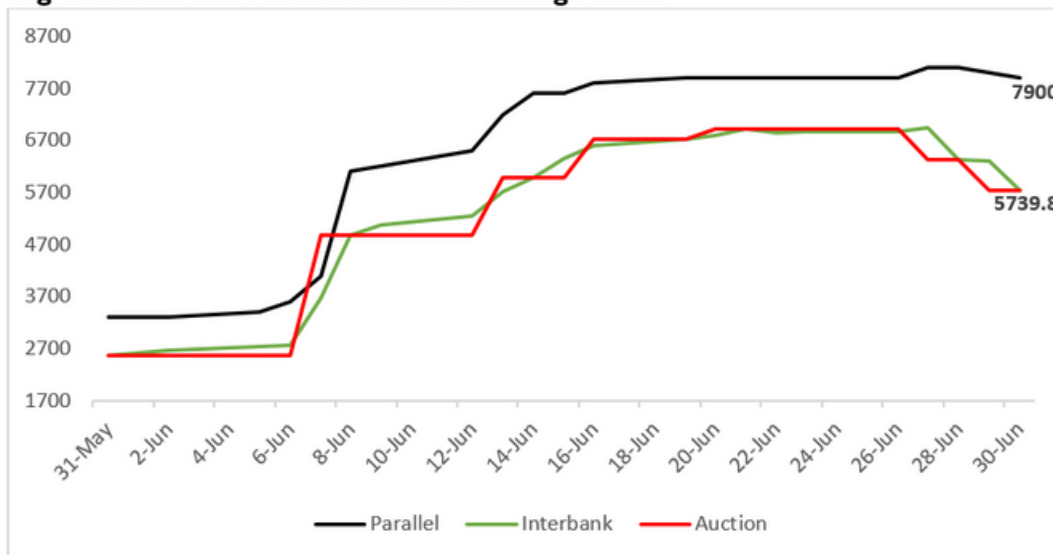
Source: ZimStat

- ZimStat officially adopted blended inflation in February 2023. It measures the combined price changes of goods and services in US dollars (USD) and Zimbabwe dollars (ZWL).
- Blended statistics show that prices mounted by 175.8% between June 2022 and June 2023, up from the 86.5% increase realized between May 2022 and May 2023.
- In monthly terms (May 2023-June 2023), blended general prices spiked by 74.5%, up from the 15.7% increase recorded in the previous period (April 2023-May 2023).
- June 2023 inflation outturn shows that Zimbabwe is in a hyperinflationary mode. This is a period of very high, accelerating and out-of-control general price increases in an economy, typically measured by a rate of more than 50% per month.
- Statistics show that on average general prices have increased by a staggering 124.6% and 15.4% in annual and monthly terms respectively in the first half of 2023 (1HY23).

- However, since the stable USD now dominates transactions, it exerts a stabilizing effect on the blended average thereby masking the actual ZWL inflation burden faced by economic agents particularly the poor majority who are largely earning in ZWLs.
- Be that as it may, largely fuelling inflation in 1HY23 was the massive decline of the ZWL against the USD driven by excessive liquidity growth.
- Due to USD liquidity challenges in the official markets and widening confidence deficit, corporates were benchmarking ZWL prices at or above parallel rates – forward pricing.
- In addition, adverse inflation expectations, structural rigidities, increased money velocity and some spillovers from the Russia-Ukraine war were exerting upward pressures on prices.

### 3.2 EXCHANGE RATE

**Fig 4: Official and Parallel Market Exchange Rates**



Source: RBZ, ZIMCODD

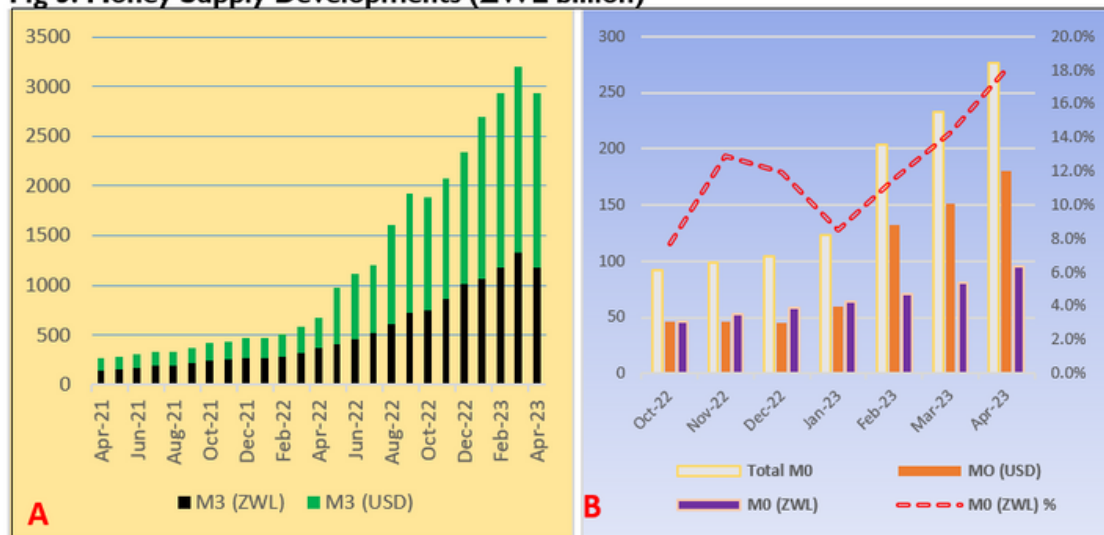
- ZWL massively plunged in the 1HY23. It erased 88.1% and 88.6% in the official and parallel markets respectively between the end of Dec 2022 and the end of June 2023.
- In a bid to arrest ZWL's fragility and restore sanity in the economy, authorities instituted a cocktail of policy measures between the 11th of May and the 6th of June.
- The economic measures include the promotion of the use of the ZWL, reducing QFOs undertaken by RBZ, fine-tuning the Dutch forex auction system, increasing interbank trading limits, and introducing a wholesale auction for banks.
- These economic measures managed to revolutionize the operational dynamics of the auction system and introduced a seismic shift toward a fully liberalized interbank market.
- Resultantly, ZWL's decline in the official market peaked at pace for most of June 2023 as it resembled an improved ZWL price discovery process.

1. When an economy is going through rising inflation, people tend to spend money at a faster rate increasing the velocity of circulation of money (total money use = money supply × velocity of circulation).

- Between May 31 and June 27, the ZWL fell by a staggering 62.9% on the willing-buyer willing-seller (WBWS) interbank market. For the same period in the alternative markets, the local unit erased 59.3% of its value.
- The economic measures managed to mop excess liquidity. Between June 7 and June 29, RBZ sold US\$57.27 million and US\$4.88 million to banks and importers thus mopping about ZWL348 billion and ZWL30.52 billion respectively.
- Another large chunk of ZWLs was also mopped through ZIMRA as Treasury directed companies to settle 50% of their June Quarterly Payment Dates (QPDs) in ZWLs.
- Consequently, the rate of ZWL decline started to subside. In the interbank market, the ZWL recouped some of its lost value, a first in months. It gained by an average of 6.7% during the 28-30 June period. Parallel market rates have also started to sail stable.
- If the government does not waver and adhere to monetary & fiscal discipline coupled with full implementation of reforms to increase market efficiency & innovation, curb corruption & impunity, eliminate illicit financial flows, restore the rule of law, and respect rights & freedoms, durable macroeconomic stability will be attained.

### 3.3 MONEY SUPPLY

**Fig 5: Money Supply Developments (ZWL billion)**



- Historically, the major source of ZWL and price volatility is excessive liquidity (money supply) growth in the market largely emanating from monetary & fiscal indiscipline.
- For example, M3 and M0 grew at an unsustainable rate of 12.9% and 9.7% per month between 2019 and 2022. The massive increase in money supply during these 4 years was not supported by economic growth as real GDP averaged -1.13% (negative growth).
- This breeds distortionary exchange rate pass-throughs to inflation. As a result, YoY and MoM price inflation remained highly elevated in these 4 years, averaging 305.67% and 11.54% per month respectively.
- ZWL liquidity growth remained highly elevated in 1HY23 emanating from RBZ quasi-fiscal operations (QFOs), for instance, printing ZWLs to service external debt obligations and payments for forex ceded by exporters and tobacco farmers.

- Available statistics show the ZWL component of reserve money (M0) spiking by a staggering 63.5% between Dec 2022 (ZWL58.75 billion) and April 2023 (ZWL96.04 billion) while the ZWL component of broad money (M3) spiked by a staggering 31.3% between fourth quarter of 2022 (4Q22) & first quarter of 2023 (1Q23).
- Also, escalating ZWL liquidity was the rising spending pressures on Treasury as it increased the ZWL salary component for all civil servants by 100% in 1Q23, funding for ongoing infrastructure projects, and agricultural support (winter wheat farming & grain purchases from farmers) among other initiatives.
- ZIMCODD believes that this rate of liquidity growth was not commensurate with the rate of growth of economic activity in the real sector hence the reason authorities were forced to intervene on the 11th and 29th of May 2023 to mop up this excess liquidity.
- However, it remains to be seen if the stability witnessed toward the end of June 2023 is going to be sustained in the medium term given the many demands and risks facing the Treasury.
- Treasury spending is likely to overshoot beyond sustainable levels due to electioneering, settlement of forex ceded by exporters & RBZ external debt obligations it assumed. In addition, civil service salary increments are now long overdue, it is funding ongoing infrastructure projects and there is also the issue of support to the agriculture sector among others.

### 3.4 External Trade

**Table 2: External Trade Composition (May 2023)**

Top Exports		%	Top Imports		%
Semi-manufactured gold	24		Mineral fuels & oil products	23.3	
Nickel mattes	18.3		Machinery & mechanical appliances	15.8	
Tobacco	12.4		Vehicles	8.8	
Industrial diamonds	10.1		Electrical machinery & equipment	6.1	
Nickel ores & concentrates	8.8		Iron & steel	4.7	
Ferro-chromium	6.4		Cereals	4.6	
Other mineral substances	4.2		Plastics	3.5	
Coke & semi-coke of coal	2.7		Animal/vegetable fats & oils	3.1	
Chromium ores & concentrates	2		Fertilizers	2.4	

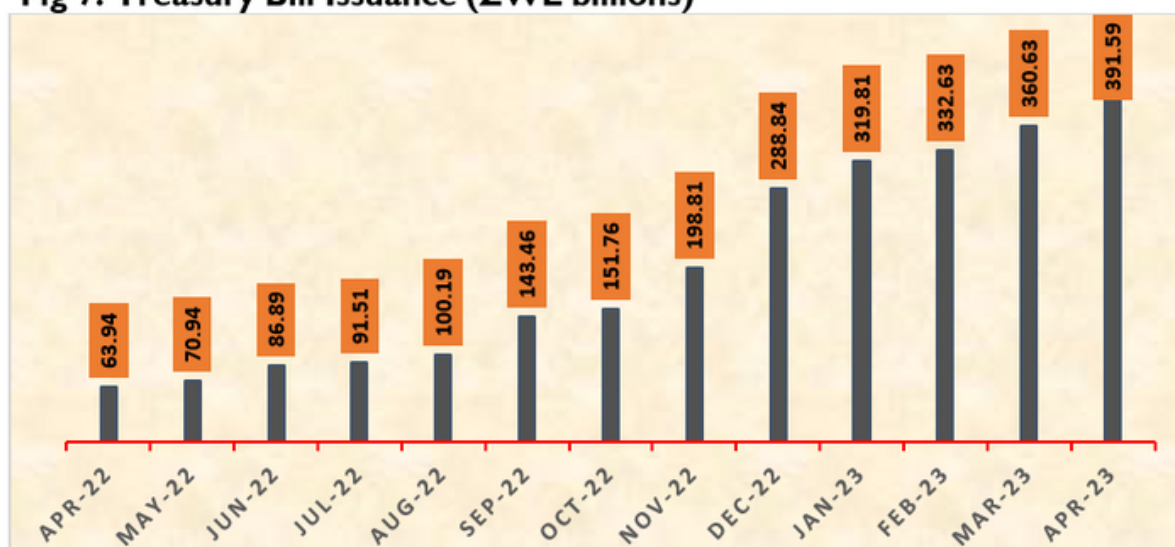
**Source:** ZimStat

- Zimbabwe imported merchandise worth US\$851 million in May 2023, up 20.2% from US\$708.12 million reported in April 2023. Top source nations were: S. Africa (37.7%), China (15.4%), Singapore (7.3%), Mozambique (6.3%), Bahamas (4.1%), and India (3.2%).
- Merchandise exports for the same month came in at US\$654.21 million, up from US\$555.55 million in April 2023. The top destinations were: S. Africa (37.3%), UAE (24%), China (11.2%), Mozambique (5.9%), Zambia (2.8%), and Belgium (1.5%).
- This gives May 2023 external trade deficit (imports exceeding exports) of -US\$196.8 million, up 29% from the April 2023 trade deficit of -US\$152.57 million.
- Cumulatively, Zim's exports for the first 5 months of 2023 totalled US\$2.59 billion (US\$2.65 billion for 2022) while imports were US\$3.56 billion (US\$3.32 billion for 2022).

- Overall, the Jan-May 2023 period witnessed a trade deficit of -US\$0.97 billion which is 42.6% higher than a deficit of -US\$0.68 billion achieved for the same period in 2022.
- The widening trade deficit in 1HY23 is linked to elevated global crude oil prices at a time Zimbabwe, a net oil importer & global oil price taker, was facing increased fuel demand due to prolonged electricity load shedding hours averaging 15 hours per day.
- The increased use of the USD in the economy is also fuelling the deficit as the stronger USD makes Zimbabwean-made goods expensive for regional counterparts using their weak currencies while making foreign-made products cheap for Zimbabweans.
- In the outlook, we expect the suspension of import duty on basics, deepening dollarization, threats of oil production cuts by OPEC+, fragile domestic electricity generation, Russia-Ukraine war spillovers, and chronic price inflation to worsen the external trade balance.

### 3.5 Public Sector Borrowing

**Fig 7: Treasury Bill Issuance (ZWL billions)**



**Source: RBZ**

- The approved 2023 national budget has an expenditure ceiling of ZWL4.5 trillion with a financing gap of ZWL575.5 billion that is expected to be covered through borrowing.
- To cover this spending gap, Treasury will utilize an external loan facility (US\$400 million), issue a domestic bond (US\$100 million), issue Treasury Bills (TBs) (ZWL82.8 billion), and changes in bank balances (ZWL10 billion).
- However, Treasury will likely borrow more in 2HY23 than was initially anticipated. It is facing enormous pressures due to severe ZWL and price instability experienced in 1HY23 which has significantly reduced the real value of the approved national budget.
- Domestically, the available statistics are showing a significant jump in Treasury borrowing. In monthly terms, issued TBs were up 9% in April 2023 to ZWL391.59 billion while in annual terms, they are up 512% from ZWL63.94 billion issued in April 2022.

- Externally, Treasury secured the US\$400 million external loan facility extended by the Abuja-based African Export-Import Bank (Afreximbank) in June 2023.
- While borrowing to finance the budget gap is inevitable, Treasury must ensure that new borrowing is carefully set to keep the level of public debt on a sustainable path lest it fails to meet all its obligations without exceptional financial assistance or going into default.

## 4. Sectoral Review

### 4.1 Energy Sector

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

#### 4.1.1 Electricity

- ZESA hiked electricity tariffs by more than 145% early June 2023 in line with poor ZWL performance as it had lost 59.4% in the official interbank market in May 2023. In May, ZESA hiked tariffs by more than 22% as the ZWL had lost by 59.4% in the prior month.
- While these hikes were inevitable as ZESA had to charge economic tariffs for it to at least break even, the deep tariff hikes have exerted enormous shocks on household budgets as salaries have remained largely constant despite raging price inflation.

**Table 3: June 2023 Electricity Tariffs Changes (ZWL/kWh)**

CONSUMPTION BAND			Charge per kWh		Total Amount		Monthly Change
			May	June	May	June	
<b>First 50</b>	0-50kWh	50kWh	30.50	75.08	1525	3754	+2229
<b>Next 50</b>	51-100kWh	50kWh	61.20	150	3060	7500	+4440
<b>Next 100</b>	101-200kWh	100kWh	107.4	263.73	10740	26373	+15633
<b>Next 100</b>	201-300kWh	100kWh	152.9	376.5	15290	37650	+22360
<b>Next 100</b>	301-400kWh	100kWh	175.64	432.4	17564	43240	+25676
<b>Above 400</b>			183.6	451.6	-	-	-

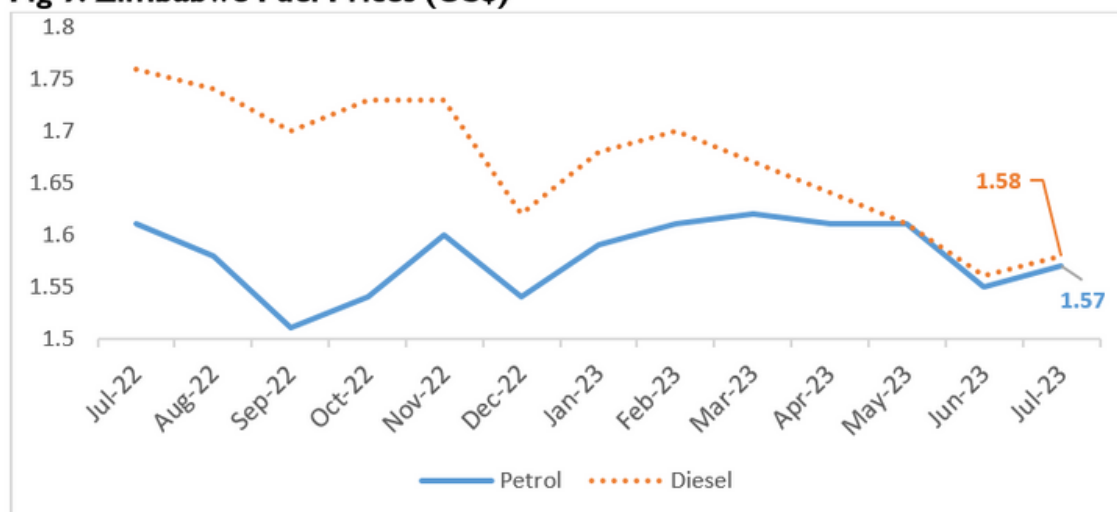
*Source: Zimbabwe Electricity Supply Authority (ZESA)*

- In June 2023, the ZWL also lost 55.1% of its value on the interbank market. However, we do not expect a tariff hike in July 2023 as the rate of ZWL depreciation in parallel markets has started to show signs of slowing down while gaining in the official market.
- Again, a pause in electricity tariff hike in July is likely to be experienced since domestic generation by ZPC has significantly improved as Hwange Units 7 & 8; with a combined installed capacity of 600MW; have joined the national grid.
- Output from the 1050MW Kariba South Hydro plant has improved significantly after production was affected in early 2023 by critically low "live water" dam levels.
- The improved domestic generation has largely dwarfed both load-shedding hours and electricity import bills. For example, the latest May 2023 statistics from ZimStat show imports down 65.5% in May 2023 to settle at US\$9.1 million.



## 4.1.2 Fuel

**Fig 9: Zimbabwe Fuel Prices (US\$)**



**Source:** ZERA

- In June 2023, Zimbabwe Energy Regulatory Authority (ZERA) reduced the price of a litre of diesel by 3.1% from US\$1.61 in May 2023 to US\$1.56 while that of petrol was reduced by 3.7% to US\$1.56 from US\$1.61 in May 2023.
- Although ZERA also hiked ZWL fuel prices in June 2023, reporting of ZWL prices is now an official ritual meant to conform with a dual currency regime. The ZWL fuel market for the public is now non-existent since RBZ dollarized the fuel market in 2HY19.
- The domestic fuel prices fell in 1HY23 due to retreating global oil prices as concerns over the health of the global economy (higher interest rates) & oil demand prospects (muted industrial activity) depressed the overall market sentiment.
- On the 5th of July 2023, ZERA reviewed fuel prices per litre upwards to US\$1.57 (petrol) and US\$1.58 (diesel). The regulator said the price increase was due to the blended prices inflation rates which have been slowly increasing in both foreign and local currency.
- In year-to-date terms (YTD), petrol price is up 0.6% per litre while that of diesel is down 2.5% per litre. In annual terms, petrol price is down 11.3% per litre from a peak of US\$1.77 in June 2022 while that of diesel is down 16% from a peak of US\$1.88 in June 2022.
- Despite Saudi Arabia's recent decision to slash its output and a pledge by other OPEC+ members to extend a policy of supply restraint into next year, global oil prices are expected to fall in 2HY23 largely due to weak demand in China and a glut of supply from sanctioned countries, including Russia.
- The disappointing economic data from China has dampened the global demand outlook. The weaknesses in China's property market could also put a multi-year growth drag on the world's second-largest economy.

### 4.1.3 Agriculture

**Table 4: 2022 Agriculture Performance**

<b>Sub-industry</b>	<b>Contribution</b>
Crop production; horticulture	80.5%
Livestock Production	14.6%
Hunting	0.2%
Forestry and logging	2.9%
Fishing and aquaculture	1.8%
<b>Total</b>	<b>100%</b>

Source: ZimStat

- The latest ZimStat statistics show that the agricultural sector grew by 6.2% in 2022, down from 17.5% in 2021. In terms of value-added, the sector was ranked third at 12% just after wholesale & retail trade (18.7%) and mining (13.2%).
- Table 3 shows that the sector's growth in 2022 was largely driven by crop production which accounted for 80.5% of value added. The crops that recorded significant growth were wheat (11.3%), maize (6%), and soya beans (15.5%).
- For 2023, Zimbabwe expects to harvest 2.3 million tonnes of the staple maize, a 58% jump from 2022 driven by favourable rains. The annual cereal requirement is about 1.9 tonnes for human consumption and 450,000 tonnes for livestock, leaving a surplus.
- Zimbabwe also expects to harvest about 280,996 tonnes of drought-resistant grains such as sorghum and millet, a 45% increase on the previous season, as the country seeks to limit the impact of climate change on household food security.
- Zimbabwe is considering exporting surplus wheat from this year's anticipated harvest of 420 000 tonnes, well above the country's requirements of 360 000 tonnes a year. Last year, a record harvest of over 375 000 tonnes was achieved from 80 000 hectares.
- Authorities are reportedly working with crucial stakeholders like ZESA and ZINWA to ensure an uninterrupted power supply and adequate water to support irrigation.
- The 2023 harvests have improved food availability & access and are driving widespread minimal food insecurity outcomes in surplus-producing regions. However, for deficit-producing regions, own-produced stocks will be short-lived due to low production.
- Generally, urban areas are expected to face stressed food outcomes as high prices limit poor households' purchasing power to meet their non-food needs. A sharp ZWL decline increasingly placed ZWL prices of goods & services beyond the reach of the poor.

## 4.1.4 Mining Sector

**Table 5: 2022 Mining Sector GDP Contribution**

Category	Contribution
Mining of coal & lignite	5.2%
Mining of metal ores	78.1%
Other mining & quarrying	8.6%
Mining services	8.1%
<b>Total</b>	<b>100%</b>

**Source:** ZimStat

- The latest ZimStat statistics show that the mining sector grew by 10.5% in 2022, up from 5.9% in 2021. In terms of value-added, the sector was ranked second at 13.2% just after wholesale & retail trade (18.7%).
- This growth was driven by the mining of metal ores which accounted for 78.1% of mining value added. These include gold (18%), platinum group of minerals (PGMs) (10%), and lithium (236%).
- Minerals remain the top export receipt generator, with seven (7) key minerals contributing about 72% in May 2023 alone as follows: gold (24%), nickel mattes (18.3%), diamonds (10.1%), nickel ores (8.8%), ferrochromium (6.4%), coke (2.7%), and platinum (1.4%).
- In the first five (5) months of 2023, these 7 key minerals have contributed an average of 71.2% to total exports. This translates to about US\$1.87 billion of the US\$2.59 billion reported by ZimStat for the Jan-May 2023 period.
- Global prices of many mineral commodities are largely benefiting from the supply uncertainties posed by the Russia-Ukraine war and increasing resource nationalism.
- Also, minerals and metals used in clean energy technologies like PGMs, lithium, nickel & rare earths are witnessing increased global demand due to the ongoing seismic shift toward green energy particularly in advanced nations.
- However, Zimbabweans are not fully benefiting from these mineral resources due to increased natural resource misgovernance caused by:
  1. Gaps in anti-corruption legal and judicial systems (weak regulatory & institutional framework, archaic mining legislation, lack of implementation of existing laws).
  2. Discretionary powers and high politicization of mining decision-making.
  3. Inadequacy and discrepancies in corporate due diligence procedures.
  4. Opacity in beneficial ownership.
  5. Poor mineral trade and marketing.
  6. Lack of due diligence and traceability of minerals.
  7. Porous ports of entry.

## 5. Conclusion

The 1HY23 witnessed increased macroeconomic volatility. The local unit tumbled by 88.1% and 88.6% in the official and alternative markets respectively. Consequently, inflation wreaked havoc plunging Zimbabwe into hyperinflation as prices mounted by 74.5% in June alone. The increased ZWL liquidity build-up since the start of 2023 emanating from QFOs by RBZ and elevated fiscal spending was the major driver of ZWL deterioration. However, the measures instituted to tame instability seem to be working as the exchange rate decline has moderated end of June to early July. It remains to be seen if authorities will be able to maintain policy consistency by adhering to monetary & fiscal discipline as the nation gears for 2023 harmonized elections slated for August 2023.

## 6. Policy Recommendations

These are policy alternatives we propose to help bring and sustain durable macroeconomic stability in Zimbabwe:

- **Policy Consistency**

To date, authorities have announced various policy measures to tame instability. There is a need now to fully implement these policies while maintaining consistency in several interrelated ways: internal consistency, vertical consistency, and horizontal consistency.

- **Reform Agenda**

The structured dialogue platform has identified 3 key reform areas Zimbabwe must fully commit to get debt relief and achieve sustained economic growth & development:

- **Economic**– establish a market-determined exchange rate, end all quasi-fiscal operations (QFOs) by RBZ, tighten monetary policy, pursue sound fiscal management, and improve government revenue collection, expenditure management & public service delivery.
- **Governance**– enhance justice delivery, implement electoral reforms, increase public sector transparency & accountability, strengthen anti-corruption mechanisms, and enhance security, safety & respect of all freedoms.
- **Land tenure**- ensure the transferability & bankability of tenure systems, access to finance, undertaking land audits, etc.

- **Domestic Resource Mobilization (DRM)**

Zimbabwe must make better use of and maximize on existing natural resources rather than rely on borrowing. This will allow it to fund its own development goals, finance gender-responsive public services, and reduce economic, social, and gender inequalities. DRM will provide a long-term path to sustainable development finance:

- Formalization of the informal sector
- Tax reforms, for example, integrating ICT into the tax systems
- Strengthening of Public Financial Management (PFM) systems
- Fiscal decentralization reforms

- **Accruals Accounting**

Adopt accruals accounting to get a more complete and more accurate picture of the financial position of the government. This will inform fiscal and budgetary decision-making to avoid misallocation, increase financial resilience, reduce financial risks and increase transparency.

- **Public Service Delivery**

Treasury must prioritize crucial public services such as healthcare, education, housing, water and sanitation to improve the welfare of the poor. Treasury must also increase the USD salary component for civil servants and adopt indexation of the ZWL salary component to the interbank to cushion workers from adverse exchange rate movements.

- **Capacity building**

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

## 7. Disclaimer

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