Weekly Economic Review

1 August 2023

RBZ Interbank Rate

WEEK 21.07.23	WEEK 28.07.23
ZWL 4,537.49 per USD1	ZWL 4,517.14 Per USD1

Consumer Price Index

JUN	JUL
566.36	479.97

Blended Inflation

JUN M.OM.	JUL M.O.M.
74.5%	-15.3%
JUN Y.O.Y	**JUL Y.O.Y**
175.8%	101.3%

avg. Parallel Market Rate

WEEK 21.07.23	WEEK 28.07.23
ZWL 6500	ZWL 6000

Consumption Poverty Line

JUN	JUL
ZWL 91,172	ZWL99,545

Trade

	Exports	Imports
MAY	US654.2m	US850.9m
JUN	US641.3m	US726.4m

ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

Contents

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1. Summary

This week's issue of the Weekly Economic Review (WER) comments on Zimbabwe's reliance on blended inflation statistics, ballooning public debt & its impact on the economy and a brief analysis of the latest July 2023 external trade statistics. It also contains detailed articles covering inter alia Zimbabwe's Vision 2030, social spending, and a layman's perspective on women, youth and public debt discourse.

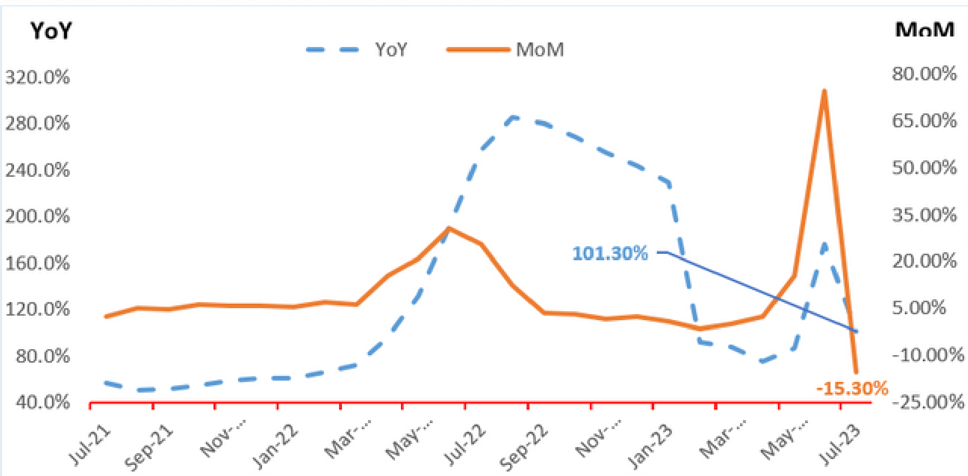
2. Weekly Economic Review and Analysis

2.1 ZimStat Must Ditch Blended Statistics

Through the Monetary Policy Statement (MPS) released in early February 2023, the Reserve Bank of Zimbabwe (RBZ) argued that ZWL inflation no longer reflects the true market dynamics as the bulk of banking sector deposits (64.2%) and market transactions (76.56%) were denominated in USD in 2022. The Bank advocated for the adoption of blended inflation which is based on the respective weights of currencies used in household transactions per period. As such, the stable USD has more weight in blended inflation figures than the highly fragile ZWL which accounted for a meagre 23.44% of formal transactions as per the available 2022 statistics.

ZimStat recently released the July 2023 inflation statistics which show the distortive impact of relying on blended inflation statistics and bring in questions about the sustainability of the prevailing stability of the ZWL. Annual inflation was reported at 101.3% from 175.8% reported in June 2023. This means that consumer purchasing power has declined by more than 100% over the last year ending July 2023. From a month-on-month (MoM) perspective, the blended statistics show that Zimbabwe has moved from hyperinflation in June 2023 to deflation (negative inflation) in July 2023 as MoM price growth plunged from 74.5% to -15.3%.

Zimbabwe MoM and YoY Inflation Trends



Source: *ZimStat*

The moderation of annual inflation is attributable to ZWL stability experienced in July 2023 relative to June 2023 after the enactment of various policy measures by fiscal & monetary authorities. In response to these actions, the trajectory of the ZWL has changed in a favourable direction. Since the start of July 2023 to date, the ZWL has regained at least 30% of its value against the USD on the official market while sailing stable on the parallel markets. However, authorities must ditch solely reporting blended inflation statistics as alluded to in the latest ZIMCODD Weekend Reader[1]. This is because blended inflation metrics paint a picture of a very stable macroeconomic environment since the near dominance of the USD in weighting the currency (ZWL & USD) contribution to inflation has a stabilizing effect on the final inflation outturn. In other words, this mask the actual inflation tax imposed on the poor majority who are largely earning in ZWLs.

The local currency is not dependable with the government recently admitting to this when it announced changes to the 100% ZWL remuneration system that was still existing in State-Owned Enterprises (SOEs) and parastatals. Ironically[2], despite the changes to official inflation reporting regulations and exchange rate chaos witnessed in the first half (1HY23), some SOEs were still paying workers 100% in ZWLs. The ZWL has lost more than 80% of its value against the USD in both markets in 1HY23. Given the obtaining realities in the market, for example, one cannot even envision a Zimbabwe in a deep deflation but the July 2023 blended inflation from ZimStat states otherwise. These inflation statistics show the growth of prices plunging deeply into the negative territory.

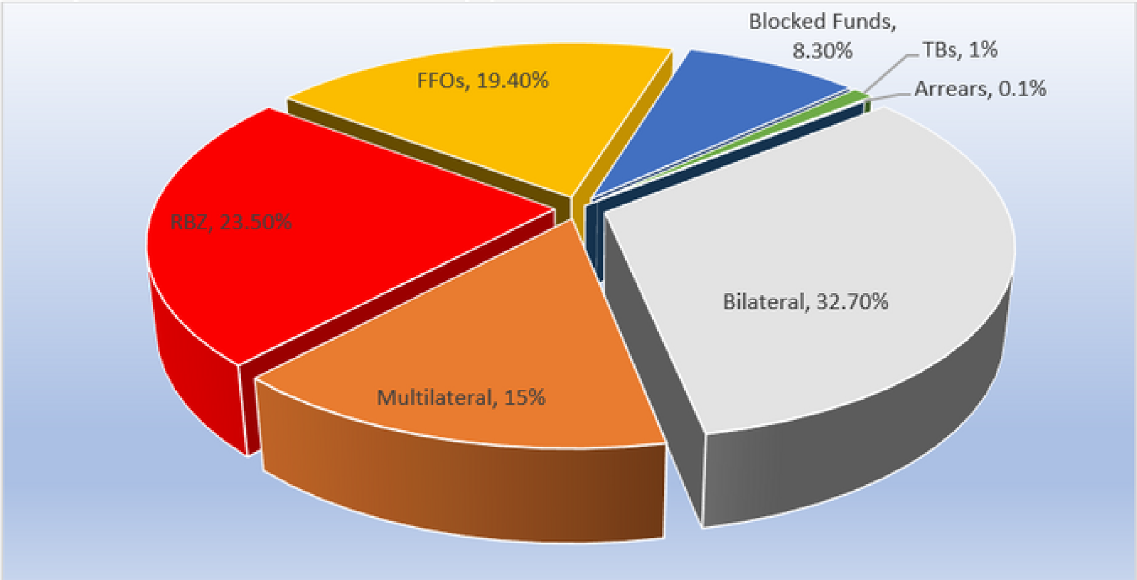
Despite the ongoing recovery of the ZWL in the interbank market, ZWL shelf prices remain exorbitantly high and are beyond the reach of many. The gap between the parallel market and official rates remains unacceptably high thereby maintaining lucrative avenues for excessive unproductive arbitrage & speculative tendencies in the economy. To expose the suffering of the common man, ZWL-only poverty statistics published by ZimStat show that the Total Consumption Poverty Line (an amount required to purchase both food & non-food items in order not to be deemed poor) for an average household of 6 rising by 9.2% to ZWL597,275.70 in July 2023. This obliterates public confidence in official statistics risking discrediting the government and its policies. In light of this, ZimStat must publicly disseminate separate USD and ZWL inflation statistics.

1. https://zimcodd.org/?sdm_process_download=1&download_id=6516
2. https://zimpricecheck.com/tips-and-advice/everything-you-need-about-the-new-usd-salary-policy-for-civil-servants/

2.2 Zimbabwe's Debt Breaches US$18 Billion Mark

For durable macroeconomic stability to become a reality in Zimbabwe, authorities must prioritize resolving the debt crisis. This will enable the nation to mobilize domestic revenue resources, attract fairly negotiated Foreign Direct Investment (FDI) and reduce pressure on the fiscus. The latest 2022 Annual Public Debt Bulletin (APDB) shows that Zimbabwe's Public & Publicly Guaranteed (PPG) debt continues to balloon unsustainably. Total PPG debt surged by 2.4% between September 2022 (US$17.6 billion) and December 2022 (US$18.03 billion). In annual terms, total PPG debt increased by 4.8% from US$17.2 billion reported as of the end of December 2021.

Composition of Total PPG Debt (%)



Source: *Public Debt Management Office (PDMO)*

Of the total PPG debt, external debt constitutes 71.2% (US$12.8 billion) while domestic debt constitutes the balance of 28.8% (US$5.2 billion). The composition of this total PPG debt is as follows: 32.7% is owed to bilateral creditors, 23.5% is the Reserve Bank of Zimbabwe (RBZ) debt, 19.4% is compensation to Former Farm Owners (FFOs), 15% is multilateral debt, 8.3% are blocked funds/legacy debts, 1% are Treasury Bills/Bonds, and 0.1% are arrears to government service providers. About 45.9% (US$5.89 billion) of external PPG debt is bilateral debt comprising Paris Club debt (US$3.76 billion) & non-Paris Club debt (US$2.13 billion), 33.1% (US$4.24 billion) is debt contracted by the RBZ, and 21% (US$2.7 billion) is debt owed to multilateral creditors as follows: World Bank (US$1.55 billion), African Development Bank (US$0.69 billion), European Investment Bank (US$0.4 billion), and Others (US$0.064 billion). A large chunk of combined bilateral & multilateral debt (US$6.67 billion) is interest arrears (24.9%), principal arrears (42.8%), and penalties (32.3%).

Domestically, Zimbabwe owes US$5.2 billion. Of this amount, 67.3% (US$3.5 billion) is unsettled compensation to FFOs as per the 2020 Global Compensation Deed, 28.9% (US$1.5 billion) is blocked funds, 3.6% (US$0.19 billion) is treasury bills & bonds, and 0.2% (US$0.012 billion) are arrears to service providers. The massive increase (44%) in total domestic PPG debt between September 2022 (US$3.6 billion) and December 2022 (US$5.2 billion) is largely attributable to the reclassification of blocked funds as domestic debt following the assumption of these from the RBZ by the Treasury. The Treasury also concluded a USD-denominated domestic loan with a private company (Platinum Investment Managers (PIM) Nominees) to the tune of US$360.5 million for road construction and rehabilitation. For the whole of 2022, Treasury issued TBs totalling ZWL83.36 billion for budget financing with 55% issued through private placements while 45% were issued through auction system. More so, in 2022, Treasury managed to pay all maturing TBs & Bonds totalling ZWL36.47 billion comprised of principal (ZWL31.34 billion) and interest (ZWL5.10 billion). However, as of the end of 2022, about ZWL129 billion TBs & Bonds were outstanding, with a total interest bill of ZWL52 billion.

2.3 Zimbabwe Facing Vicious Debt Cycle

Generally, countries borrow to smoothen their spending paths as well as raise funds to power economic growth and development. However, nations must maintain sustainable debt levels to avoid jeopardizing the stability of the economy. Public debt is considered to be sustainable if the government can meet all its current and future obligations without exceptional financial assistance or going into default. The debt-carrying capacity depends on various factors including, inter alia, quality of public institutions, debt management capacity & policies, and macroeconomic fundamentals.

Zimbabwe PPG Debt Indicators

Indicator	2019	2020	2021	2022
Total PPG debt-to-GDP	88	72.6	62.1	99.6
Total external PPG debt-to-GDP	47	71.2	48.3	70.9
Total domestic PPG debt-to-GDP (%)	41	14	13.8	28.7
Multilateral debt-to-total external PPG debt (%)	27	25	20	21
International Reserves (Months of Import Cover)	0.7	0.4	2.7	1.1
Debt Service-to-Revenue	1.52	0.46	1.2	2.1
Debt Service-to-Exports (%)	0.6	0.19	0.5	1.5

Source: *PDMO*

A public debt level that is unsustainable leads to debt distress, that is the inability to fulfil financial obligations and debt restructuring is required – a case for Zimbabwe. The 2022 debt statistics show that total public debt constitutes about 99.6% of 2022 national income (GDP) thereby contravening the provisions of both the Public Debt Management (PDM) Act requiring a debt-to-GDP threshold of 70% and SADC's macroeconomic convergence target of 60%.

A debt-to-GDP ratio shows a country's capacity to repay its debts. As such, Zimbabwe's high ratio indicates that public debt is growing faster than national income illuminating a very low capacity to meet financial obligations when they fall due. Zimbabwe is indeed trapped in debt distress as arrears and penalties continue to mount. Statistics show these constituting to about 52.1% of external PPG debt or 78% of combined bilateral and multilateral creditors estimated at US$8.59 billion.

The ballooning debt is a great cause for concern especially under the current context of rising global interest rates as major central banks are engaging in financial tightening to clamp elevated global price inflation. It is worrisome to note that 71.2% of total PPG debt is external debt which is denominated in global hard currencies: US dollar (64%), Euro (22%), Chinese yuan (6%), Japanese yen (4%), and British Pound sterling (3%). With a fragile local currency, the external debt profile shows that Zimbabwe is highly susceptible to exchange rate risks, that is, it requires more ZWLs to service external debts. Hence, more resources will have to be provided for in the National Budget, the resources which would otherwise be used to provide crucial public services like education and healthcare as well as rehabilitating crumbling economic & social infrastructure, particularly in rural underserved and marginalized communities.

The maturity profile of outstanding domestic PPG debt is also vexatious. Statistics show that about 90% of Treasury Bills & Bonds mature in less than two (2) years, posing a high refinancing risk. Debt refinancing risk refers to the possibility that a borrower will not be able to replace existing debt with new debt at a critical point. Factors that are beyond Treasury's control such as rising interest rates and a shrinking credit market will likely constrain its ability to refinance maturing TBs.

Furthermore, international reserves as measured by months of import cover are declining, from 2.7 months in 2021 to a paltry 1.1 months in 2022 (see table above). Import Cover (IC) measures the number of months of imports that can be covered with foreign exchange reserves available with the central bank. Ideally, an IC of about six (6) to ten (10) months is essential for the stability of a currency. It is an important indicator of a nation's external trade stability and its ability to meet import obligations. So, Zimbabwe's low IC illuminates her potential high vulnerability in managing import requirements or external shocks.

The incessant growth of external debt is worrisome as the country now has a low reserves-to-external debt ratio. This ratio shows how many dollars Zimbabwe has in reserves for every dollar of debt owed to external creditors.

A huge external debt is problematic because it directly damages capital inflow and often leads to a vicious debt cycle – the cycle of continuous borrowing, accumulating payment burden, and eventual default. Defaults can cause a borrowing country to lose market access and suffer higher borrowing costs, in addition to harming growth and investment. This is exactly the case for Zimbabwe which has raised caution among her prospective lenders like IMF and AfDB who are now unwilling to extend concessionary lines of credit.

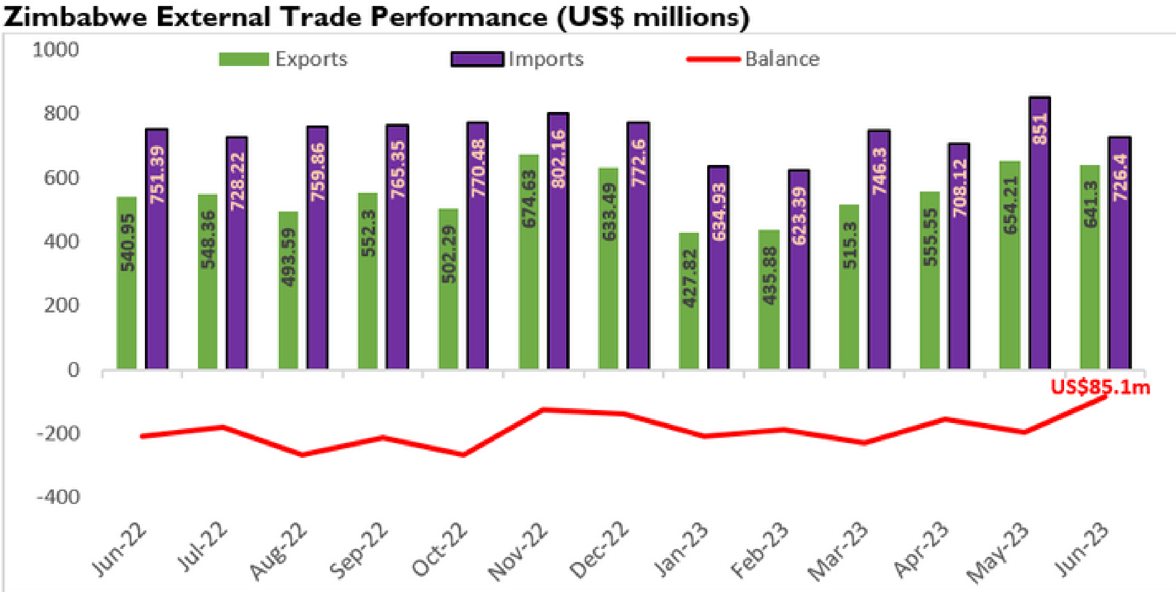
Consequently, the nation is now resorting to resource-backed loans (RBLs). These are loans provided to the government where repayment is either made directly in natural resources such as minerals or is guaranteed by a resource-related income stream. For instance, in 2022 Treasury revealed that Zimbabwe borrowed US$200 million from China in 2006 which loan was secured by 26 million ounces of platinum reserves in Selous.[3] These RBLs are exerting dire developmental impacts as they are fuelling unsustainable resource extraction leading to environmental degradation, air and water pollution, forced displacements, and farmer-miner & human-wildlife conflicts. They are also accrued in secrecy thereby increasing the chances of corruption.

The debt cycle is also greatly affecting the government's flexibility to react to adverse or unforeseen contingencies. This is happening at a time the world is experiencing seismic shifts in climatic conditions as natural disasters like El-Nino-induced droughts, floods, and cyclones are becoming more frequent and severe. These are having a huge toll on the Global South (developing) countries. As such, the ballooning debt is constraining Zimbabwe's capability to invest in climate change mitigation and adaptation initiatives to cushion vulnerable groups & communities and improve economic resilience.

2.4 External Trade

The latest ZimStat data shows that Zimbabwe imported merchandise worth US$726.4 million in June 2023, down 14.6% from US$851 million in May 2023. Top imports were industrial goods (32.0%), capital goods (22.7%), and fuels & lubricants (17.7%). Merchandise exports for June 2023 came in at US$641.3 million which is lower than US$654.21 million realized in May 2023. Gold topped exports contributing US$194 million followed by nickel mattes (US$110 million), tobacco (US$57 million), nickel ores & concentrates (US$51 million), and ferrochrome (US$28 million). This gives an external trade deficit (imports exceeding exports) totalling US$85.1 million in June 2023, down 56.8% from the May 2023 deficit of US$196.8 million.

3. https://zimbabweobserver.com.au/2022/08/zimbabwe-pays-china-us52-billion-for-a-us200-million-loan/



Source: *ZimStat*

Cumulatively, Zimbabwe's exports in the first half of 2023 (1HY23) totalled US$3.23 billion (US$3.18 billion in 2022) while imports were US$4.29 billion (US$4.07 billion in 2022). Overall, the January-June 2023 period witnessed a staggering trade deficit of about -US$1.06 billion which is 19.1% higher than a deficit of about -US$0.89 billion realized for the same comparable period in 2022. As alluded to in ZIMCODD June Economic Review[4], the widening trade deficit in the first half of 2023 (1HY23) is linked to relatively high global crude oil prices at a time Zimbabwe (a net oil importer and oil price taker) was facing increased fuel demand due to prolonged electricity load shedding hours.

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 Zimbabwe a dumping site for cheap foreign-made products. In the outlook, ZIMCODD expects the recent suspension of import duty on basics, deepening dollarization, global interest rate uncertainties, threats of oil production cuts by the global oil cartel (OPEC+), Russia-Ukraine war spillovers, fragility of the local currency, erratic domestic electricity generation, and chronic price inflation to worsen the external trade balance. Unsustainably high trade deficits harm developing nations like Zimbabwe as more imports lead to deflation, increase the fiscal deficit and collapse local manufacturing leading to the shipment of jobs overseas.

4. https://zimcodd.org/?sdm_process_download=1&download_id=6514

3. Articles for Further Reading

3.1 Towards Attainment of Vision 2030: Zimbabwe's Path to Economic Transformation

Zimbabwe's Vision 2030 represents a transformative economic development plan aimed at turning the nation into a middle-income country by the year 2030. Adopted when President Mnangagwa came into power in 2018, the Vision seeks to grow the country into an upper middle-income economy by 2030. The Zimbabwean government has laid out ambitious goals and strategies to achieve this vision. One of the primary pillars of Zimbabwe's Vision 2030 is the implementation of economic reforms to create a conducive environment for investment and business growth. To this end, the government initiated various policy changes to ease regulations, streamline bureaucracy, and attract foreign investment. The introduction of Special Economic Zones (SEZs) was a notable step in this direction, providing incentives for companies to establish operations in designated areas. These reforms have shown promise in encouraging economic diversification and boosting investment prospects.

In pursuit of Vision 2030, Zimbabwe recognized the significance of robust infrastructure to support economic growth. Meagre efforts have been made to upgrade transportation networks, expand energy capacity, improve access to clean water, and enhance telecommunications. Investment in infrastructure has the potential to attract more investors, promote regional connectivity, and create job opportunities. However, the pace of infrastructure development has been constrained by funding limitations and resource management challenges including corruption. Agriculture and mining are two key sectors that significantly contribute to Zimbabwe's economy, albeit marred by corruption and illicit financial flows. Initiatives such as the Command Agriculture Program have aimed at improving food security and increasing agricultural productivity. In mining, measures have been taken in an attempt to enhance transparency and attract investment in this resource-rich sector. While some progress has been made, challenges related to climate change, land reform and sustainability persist.

A skilled and educated workforce is crucial to achieving sustainable economic growth. It is thus crucial to invest in the education sector and promote skills development programs. Commitment to improving access to quality education and vocational training shows promise in producing a competent workforce. There is a need for continuous improvement in the education system and this remains a critical challenge. Political stability and good governance are fundamental prerequisites for economic growth. Transparent and accountable governance can enhance investor confidence and attract foreign direct investment.

However, the nation has faced ongoing challenges related to political polarization and corruption, which have hindered progress toward Vision 2030. Voting for competent leaders therefore remains crucial for Zimbabwe to achieve its Vision 2030. Competent leaders can effectively implement policies, promote economic growth and address social issues aligning with the long-term goals of Vision 2030. They can foster transparency, accountability and good governance leading to a more stable and prosperous future for the country. By exercising their right to vote wisely, Zimbabweans can contribute to shaping their nation's trajectory towards a better and brighter future.

3.2 Social Spending Should Capture the Reality on the Ground

Social spending must no longer be rhetoric. It must capture the reality on the ground to sufficiently cushion the marginalized and vulnerable clusters of society. Zimbabwe purports to be following the residual welfare model that seeks to uplift the disadvantaged and give them equal opportunities. Ironically, Zimbabwe`s social spending fits squarely in this cluster of social spending while in reality, it has successfully failed to make changes with regards to poverty and inequality. This is because institutionally, Zimbabwe has put in place all measures needed to have optimum social spending and social protection systems. This can be evidenced by the Basic Education Assistance Module (BEAM), Harmonized Social Cash Transfer (HCT), Drought Mitigation (DM), Health Assistance Programme (HA), Child Protection (CP), Support of The Elderly (STE), and Persons with Disabilities (PWD) and other social projects intentionally target the underprivileged.

Nonetheless, there has been a deliberate funding gap as public resources are distributed under the political expedience matrix. A system where political and vested interest takes precedence over national interest. This can be reinforced by a meagre allocation of ZWL 50.4 billion (US$76.9 million) which was earmarked for social protection for the year 2023. An insignificant amount to cushion the vulnerable and marginalized citizens. The allocation does not in anyway make positive strides in addressing inequalities in the country and this undermines national human security. For more information on the state of social protection and human security in Zimbabwe read our June Policy Digest which gives a comprehensive analysis and viable policy alternatives that can be adopted to enhance social protection and human security in Zimbabwe.

3.3 A Layman's Perspective on Women, Youth and Debt.

As of December 2022, Zimbabwe's Public and Publicly guaranteed debt (PPG) stood at US$ 18.03 billion a jump from US$17.6 in September of the same year, according to the latest Annual Debt Bulletin. Debt experts have for long said the country was in debt distress which simply means that the country cannot meet its financial obligations in the future.

The issue of debt is a painstaking subject, particularly for the poor majority who do not know enough about it to care or follow the conversation on it. Furthermore, debt repayments are problematic since it usually means an increase in taxes and a cutdown on spending on social services. For a country like Zimbabwe with a regressive tax system and a patriarchal society, this spells trouble for youths, persons with disabilities and women.

Debt and Service Delivery.

Any amount borrowed from external institutions like the International Monetary Fund (IMF), the World Bank and the Paris Club which Zimbabwe owes comes with conditionalities. This is the lenders' way of ensuring that their money will be repaid. The repayment process becomes difficult when a country defaults from its payment obligations on the debt it has accrued as is the case with Zimbabwe which failed to service its debt for nearly two decades. When Finance and Economic Development Minister Mthuli Ncube took over the reins at the Treasury, he began repayment efforts to the country's lenders. This process of repayment so the introduction of "austerity for prosperity" measures which many citizens can attribute to the start of hyperinflation and subsequent suffering in their homes.

Austerity measures mean that the government cuts down on social spending for services as the government redirects revenue towards servicing debt and arrears and this negatively impacts service delivery across the country immensely. For the year 2023 Zimbabwe's social protection was allocated a minor 1.2% of the National Budget against an international standard of 4.5%. In the same budget, the Local Government Ministry was allocated 2.1% of the budget which has had dire effects on service delivery across the country. Cutting back on social service spending disadvantages the poor as one would argue that it is the poor that need the government to provide social services in the form of health, education, water, and sanitation since they cannot afford to access these services through private institutions.

In 2023, the allocation for the public health sector was at 10%. This meagre allocation has brought a sick industry to its deathbed as public hospitals have become deathtraps and private institutions are reserved for the elites. It is in public hospitals where seven babies were lost in one night due to power cuts,[5] where women deliver under candlelight and patients are being made to bring water and food from their homes since the hospitals cannot provide these essentials. In this traditionally patriarchal society where primary care is the women's duty as she takes care of a sick baby or partner, they must bear the brunt of a faltering public health system. It is again women and girls who have the responsibility of cooking so when faced with 17 hours of load-shedding.

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5. https://www.aljazeera.com/features/2019/11/5/in-zimbabwe-power-outages-force-women-to-deliver-by-candlelight

The government cannot easily access electricity imports from neighbouring governments because it owes them US$102.9 million in unpaid electricity imports as of the end of December 2022 therefore it is women and girls who suffer most. They must spend hours of productive time looking for firewood and spend more time cooking as well.

Electricity is also used to pump water so long periods of load shedding, have a bearing on the water situation too. Women are then forced to spend more hours in queues at water access points and walk long distances to access boreholes and other water sources. These process of having to access water outside the confines of their homes leaves women vulnerable to sexual abuse for favours. It also means women spend more time performing domestic chores leaving little or no time for them to take part in decision-making platforms. This dials down on efforts to achieve gender equality.

According to a study by the Zimbabwe Coalition on Debt and Development (ZIMCODD), 4 million children need Basic Education Assistance Module (BEAM) as they cannot afford to pay for their education. Recent years have also seen a rise in #FeesMustFall campaigns by tertiary students as they cannot afford their education. A report by World Remit 2022 Cost of School ranked Zimbabwe's education as one of the most expensive noting that the price of education was six times more than the average income for a family. Despite these developments that are negatively impacting the education sector, the government of Zimbabwe only set aside 14.02% of its 2023 budget towards education. This limits the sector's ability to be accessible to the poor as it cannot provide student grants and loans. This has serious negative effects on the human developmental aspirations on not only the young people but on the girl child as well who is often given no other option but to drop out of school when economic conditions become harder to bear for poor families.

Debt and Taxes

Taxes are useful in the redistribution of wealth from the rich and rich communities to their poorer counterparts but in Zimbabwe, they continue to choke the poor. They are an important part of any country as they create strong security nets and ensure inclusive service delivery by widening a country's revenue base. The increase in taxes can be attributed to the debt crisis in Zimbabwe as Treasury had to look for more ways to expand the country's revenue base to put more money into meeting obligations to pay our ever-ballooning debt. For Zimbabweans, the introduction of austerity measures also meant the increase of Intermediated Money Transfer Tax (IMTT) from US$0.05 per transaction to 2%. It greatly affected most informal traders as at the time their business depended on the Ecocash (mobile money platform) for transactions because of the shortages of cash in the economy.

This was yet another burden to an already overtaxed population, as Zimbabweans continue to sink into more poverty. A report by ZimStat shows that over 70% of Zimbabweans live in extreme poverty.

The austerity measures have led to cuts across all sectors including football in Zimbabwe. The country was recently allowed to host local football matches after a ban by the international football association, FIFA. The ban was necessitated by the unsafe, dismal and poorly managed football facilities in the country as the government continued to cut down on social spending, limiting resources available to maintain current and build sporting amenities. For the youths who depend on the local league for jobs as players, referees and linesmen this meant months of no income. This also affected the income of informal traders of which 88% are women and a majority of youths who use football matches as a platform to sell their wares and sustain their livelihoods.