

Weekly Economic Review

10 October 2023

RBZ Interbank Rate

WEEK
29.09.23

WEEK
6.10.23

ZWL 5,466.75
per USD1

ZWL 5592.96
Per USD1

P.P.G. Debt-Domestic

SEPT
\$3.6
billion

AUG
\$5.2
billion

Blended Inflation

SEPT M.O.M. 1%
AUG M.O.M. -1.3%

SEPT Y.O.Y 18.4%
AUG Y.O.Y 77.2%

avg. Parallel Market Rate

WEEK
29.09.23

WEEK
6.10.23

ZWL 6,900

ZWL 7,100

P.P.G. Debt-External

SEPT
\$14 billion

DEC
\$12.8 billion

External Trade

Exports
AUG \$649.9m
JUL \$603m

Imports
AUG \$819.89m
JUL \$783m

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1. Summary

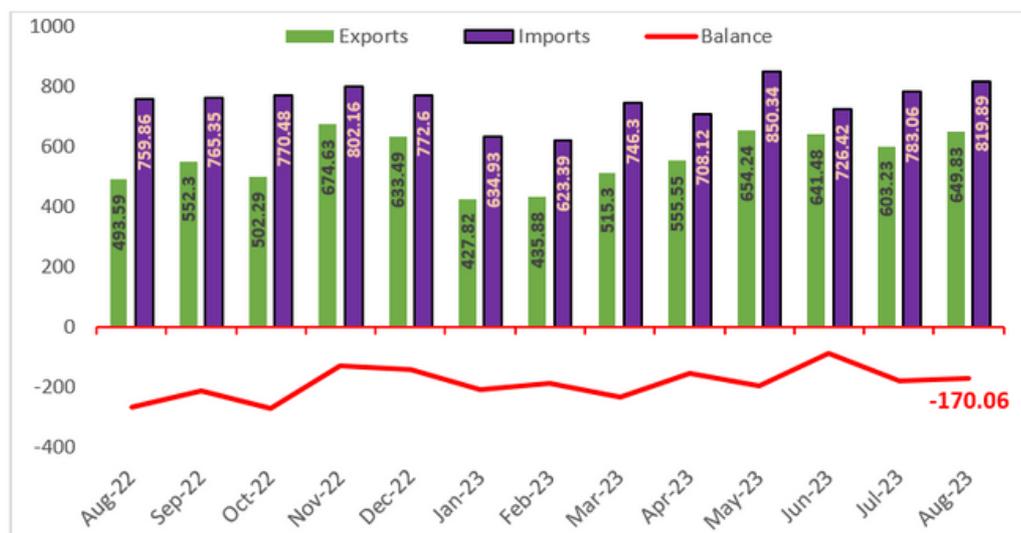
This week's issue of the Weekly Economic Review (WER) comments on Zimbabwe's latest external trade statistics, state of the public accounts, maximum fuel pump prices, and performance of the local currency. It also contains detailed articles covering the performance of the National Development Strategy and budget consultation guidelines.

2. Weekly Economic Review and Analysis

2.1 Zimbabwe External Trade Deficit Widens

In August 2023, Zimbabwe exported merchandise worth US\$649.83 million, up 7.7% from US\$603.23 million realized in July 2023. At the same time, merchandise imports came in at US\$819.89 million, up 4.7% from July outturn of US\$783.06 million. This means that Zimbabwe incurred a trade deficit (imports exceeding exports) to the tune of -US\$170.06 million, down from -US\$179.83 million in July 2023. Cumulatively, the nation incurred a trade deficit totaling US\$1.41 billion in the first eight (8) months of 2023. For the same period in 2022, the deficit was US\$1.33 billion.

Zimbabwe external Trade Statistics



Source: ZimStat

The persisting & widening trade deficit is a cause for concern under the current floating exchange rate regime because it is likely to exert enormous downward pressure on the ZWL as the nation has to find more foreign currency to bridge the ballooning gap. Helping to widen the trade deficit is the rapidly dollarizing economy. The huge exchange rate differentials make USD-priced Zimbabwean manufactured goods expensive in the eyes of foreigners while making foreign-produced goods cheap to Zimbabweans. Consequently, Zimbabwean companies are rendered uncompetitive as their factors of production are priced in USD against regional counterparts' prices which are in their relatively weak currencies. This leads to high production costs, low domestic production, unsustainable import bills, high unemployment, and low national pride.

2.2 USD Now Contributes Big Share to Treasury Revenues

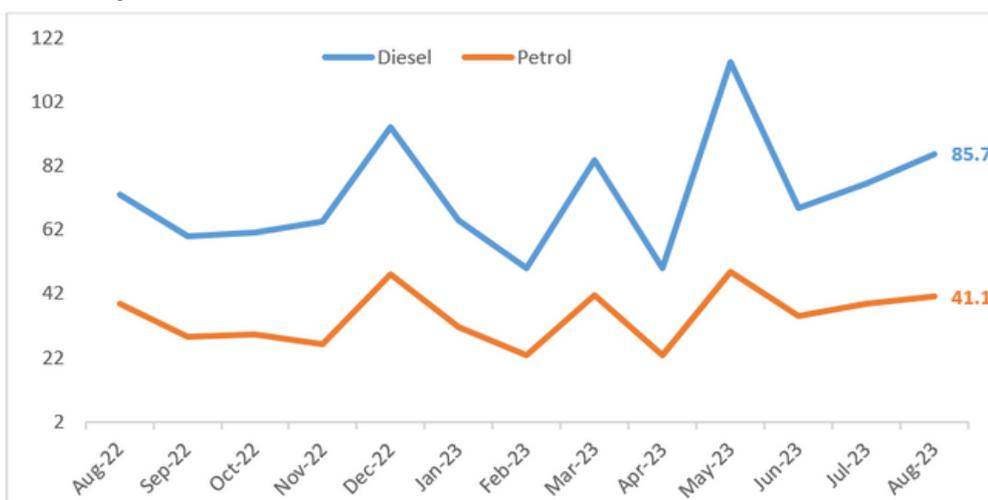
The economy is rapidly dollarizing, with the latest ZimStat survey establishing that about 80% of domestic transactions are now conducted in USD. This trend is now also being reflected in Treasury revenue collections which are now dominated by foreign currency. Latest statistics from the Zimbabwe Revenue Authority (ZIMRA) have shown that after factoring in tax refunds totaling ZWL212.5 billion, half-year (1HY23) total net revenue collection came in at ZWL4.43 trillion. Using the 1HY23 average official exchange rate of ZWL/USD 1,996.64, this 1HY23 revenue collection translates to about US\$2.22 billion. Of this amount, the actual USD collection was US\$1.32 billion which is almost 60% of the total collection.

While it is plausible that the stable USD is gradually constituting a lion's share of Treasury revenue collection, rising cash dollarization being experienced in the economy is posing serious 2024 budget risks. Cash dollarization is deepening the hard-to-tax informal sector economy while fuelling corruption, tax evasion, and other underground activities like smuggling, drug dealing & money laundering/ externalization. Other likely 2024 budget risks include the persistence of both commodity price volatility and exchange rate deterioration which may adversely affect revenue collection, service delivery, and debt servicing costs. As such, going forward authorities must adopt innovative strategies to increase revenue collection efficiency which is key in reducing the chances of unsustainable budget deficits amid rising economic dollarization.

2.3 Zimbabwe Fuel Imports Remain Elevated

The latest ZimStat data show that Zimbabwe imported diesel worth US\$85.7 million in August 2023, up 12.3% from US\$76.3 million in July 2023. In year-to-date (YTD) terms, diesel imports are up 17.1% in August 2023. In the same month, combined leaded & unleaded petrol imports were US\$41.1 million, up 5.4% from US\$39 million in July 2023. In YTD terms, petrol imports are up 5.9% from US\$38.8 million realized in August 2022.

Fuel import statistics



Source: ZimStat

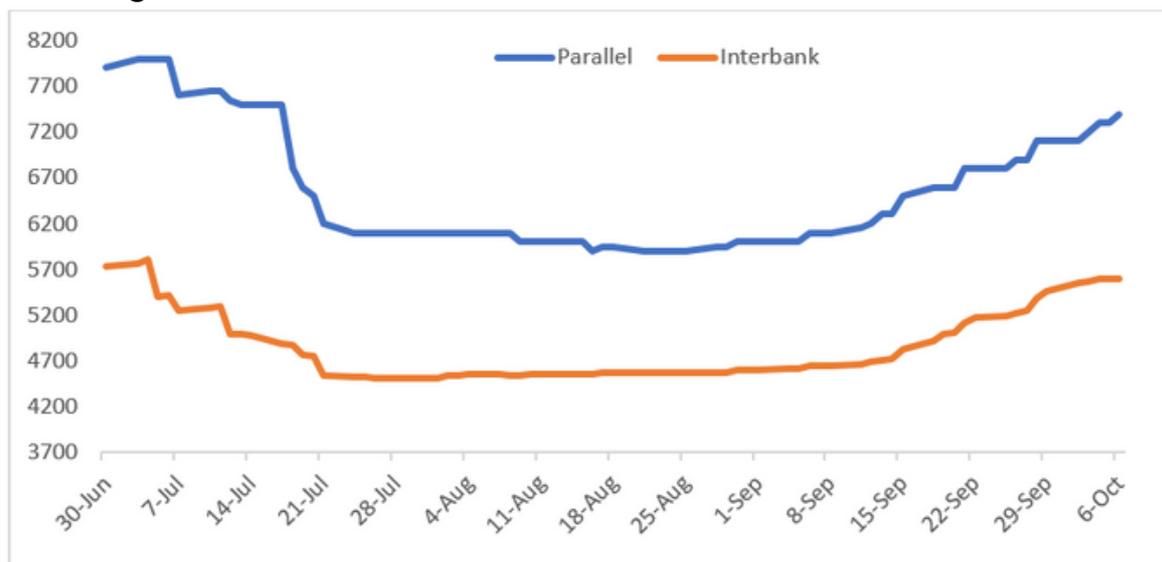
The value of Zimbabwe’s fuel imports is increasing due to rising global crude oil prices largely powered by production cuts led by Saudi Arabia, the global top crude oil producer & exporter. Zim’s fuel demand is also a bit elevated due to recurring electricity shortages. In line with rising global prices, ZERA has increased the price cap of a liter of diesel to US\$1.79 in October 2023 from US\$1.76 in September 2023 while maintaining that of the petrol blend (E20) at US\$1.65.

But be that as it may, Zimbabwe’s fuel pump prices remain too high relative to the SADC regional average. This is attributable to the prevailing monopoly ethanol market, high fuel taxes & levies, subdued market competition, lack of adequate fuel infrastructure, and vested interests. In the outlook, fuel imports are seen rising due to global supply uncertainties posed by instability in the Middle East/Israel, maintenance of production curbs by OPEC+, and improving global economic sentiment as inflation shows signs of cooling off in advanced economies.

2.4 The ZWL Plunged Significantly in September 2023

In September 2023, the Zimbabwe dollar (ZWL) erased 15.7% of its value against the USD to close the month at US\$1: ZWL5,466.75. This was a significant monthly decline relative to August 2023 when the local unit slightly lost 1.9% to close at US\$1: ZWL4,608.11. In the alternative markets, the ZWL lost at least 15% of its value to close the month at an average of ZWL/USD 7,100 from ZWL/USD 6,000. As a result of mounting ZWL depreciation pressure particularly in alternative markets, the parallel market exchange premia are now widening.

Exchange rate



Source: RBZ

The rising ZWL depreciation pressures experienced since the turn of September 2023 are emanating from the resumption of ZWL payments to government contractors and other service providers who in turn are dumping the local unit in the street chasing value (USD). Also, ZWL depreciation pressure is being driven by human behavior such as negative perceptions fuelled by disputed elections and excessive rent-seeking powered by multiple exchange rates prevailing in the economy. For instance, in addition to prevailing different exchange rates for RTGS balances, cash balances (bond notes), and mobile money balances, the RBZ recently introduced gold-backed digital tokens (ZiG) as another method of settling local transactions. These gold tokens have a separate exchange rate as they track the international price of gold. (For more on Zimbabwe Gold-backed Tokens (ZiG), kindly visit our website: https://zimcodd.org/?sdm_process_download=1&download_id=6584)

The ZWL depreciation pressure is expected to remain elevated in the coming months as fiscal spending balloons to cushion the economy & citizens from projected climatic shocks, domestic shocks (energy shortages), public debt distress, deteriorating global geopolitics, and rising global geoeconomic fragmentation.

3. Articles for Further Reading

3.1 National Development Strategy (NDS) 1 Off the Rails

On the 16th of October 2020, the Government of Zimbabwe through the Ministry of Finance and Economic Development (MoFED) launched the National Development Strategy 1 (NDS1). The NDS 1 was expected to charter the course of the economy for the next five years, 2021–2025, and set a footing for the NDS 2 which will shape the socio-economic trajectory from 2026–2030 in alignment with Vision 2030's aspiration theme, "Towards a Prosperous and Empowered Upper Middle- Income Society by 2030." Although the government is already claiming the successes of the NDS1, the situation on the ground proves otherwise making the assertion by the government unfounded.

The NDS 1 was built on fourteen priority areas which are:

- Economic Growth And Stability of National Development
- Food And Nutrition Security
- Moving The Economy Up The Value Chains
- Transport, Infrastructure And Utilities
- Digital Economy
- Housing Delivery
- Human Capital Development And Innovation
- Health And Well-being
- Image Building, Engagement And Re-engagement
- Devolution And Decentralisation
- Youths, Sports And Culture
- Social Protection
- Governance
- Environmental Protection, Climate Resilience, and Natural Resource Management

However, an examination of the set priority areas versus the stated Key Result Area (KRA) targets at the end of the NDS1 document shows that the government has successfully failed to attain the intended results. The economy continues to shrink coupled with conflicting and confusing monetary policies. Health and well-being are still wanting with the public health sector in ramshackle thereby undermining human capital development and innovation. Food nutrition and security have proven to be unattainable as evidenced by the findings of the National Vulnerability Assessment Analysis (NVAA), Zimbabwe Vulnerability Assessment Committee (ZimVac), and the Regional Vulnerability Assessment Analysis. Approximately, 3.8 million rural population and 1.8 urban population are said to be food insecure.

The economy is yet to move up the value chains as trade injustices and monopolies continue to proliferate in various sectors of the economy. The tobacco, sugar cane, and mining sectors are case points. Optimum housing delivery remains a wish for the general populace except for cabinet ministers, deputies, judges, security service chiefs, and permanent secretaries. At the same, the youth and women continue to be relegated in governance and are only given positions through women and youth quotas as tokenism. A deliberate negation of social protection services has also been witnessed in the past three years of NDS1 implementation through underfunding. Devolution and decentralization are constantly under threat.

Therefore, taking into consideration the above, the assertion that NDS1 is a success does not hold water. The claims show that the government has learned nothing from policy successes that do not fulfill intended goals and objectives. The NDS1, just like the Zimbabwe Program For Economic And Social Transformation (ZIMPREST), National Economic Revival Program (NERP), Millenium Economic Recovery Program (MERP), Short Term Economic Recovery Programme (STERP), Zimbabwe Agenda For Sustainable Socio-economic Transformation (ZIMASSET) and Transitional Stabilisation Programme (TSP) has failed to capture the reality on the ground. It remains a good economic blueprint that has not been optimally implemented.

The claim that the NDS1 was a success is detrimental to Vision 2030, national growth, and development as it sets a wrong footing for the emergence of NDS2. Thus, creating a false foundation that is not watertight to inform the formulation of the NDS2. A policy disaster of the century.

3.2 Budget Consultation Guidelines for Sustainable, Inclusive, and Gender-Mainstreamed Budgeting in Zimbabwe

Budgets are powerful tools for shaping the development trajectory of a nation. They play a crucial role in addressing the unique needs and challenges faced by different communities. Ensuring that budgets are sustainable, inclusive, and gender-responsive is essential for promoting equitable development and social progress. The point below outlines budget consultation guidelines for communities and highlights key considerations for local councils and Members of Parliament (MPs) to create budgets that advance sustainability, gender mainstreaming, and inclusivity.

Community Budget Consultation Guidelines

- **Identify Priorities and Needs:** The first step for communities is to identify their most pressing priorities and needs. Communities must have a clear understanding of what they require for sustainable development.
- **Quantify Budget Asks:** To make budget requests more actionable, communities should quantify their financial needs. Provide a detailed breakdown of how the requested funds will be allocated to specific projects or initiatives. Clarity in financial requests enhances transparency.
- **Link to Sustainable Development Goals (SDGs):** Sustainable development is a global imperative, and communities should demonstrate how their proposed projects align with the SDGs. Emphasize the long-term impact and sustainability of these projects to garner support.
- **Gender Analysis:** Budget requests should address the specific needs and concerns of women, men, girls, and boys. Highlighting the gender dimension is vital for gender mainstreaming.
- **Inclusivity:** Ensure that marginalized groups, such as persons with disabilities, youth, and vulnerable populations, are considered in budget requests. Highlight how inclusivity is woven into the proposed projects and their benefits.
- **Community Engagement:** It is essential to demonstrate community support and engagement in the proposals. Gather signatures, endorsements, or letters of support from community members to validate the budget requests.

Considerations for Local Councils and MPs

- **Transparency:** Local councils and MPs should maintain transparency throughout the budget consultation process. Share information about the budget process, timelines, and opportunities for community input.
- **Gender-Mainstreaming:** Integrate gender perspectives into the budgeting process. Ensure that women's and men's needs and priorities are equally considered and that gender disparities are addressed.

- **Inclusivity:** Prioritize budget allocations that address the needs of marginalized groups and vulnerable populations. Their participation in decision-making and access to resources should be promoted.
- **Sustainability:** Evaluate budget requests based on their long-term sustainability and environmental impact. Investments that align with Zimbabwe's development goals (NDS1) and promote sustainability (SDGs) should be given priority.
- **Budget Justification:** Request detailed justifications for budget asks, including expected outcomes, timelines, and how they contribute to the well-being of the community. A robust rationale ensures efficient resource allocation.
- **Monitoring and Evaluation:** Establish mechanisms for monitoring and evaluating the implementation of budget allocations. This ensures accountability and enables adjustments based on performance.
- **Public Feedback:** Provide opportunities for public feedback and consultation on the proposed budget allocations before final approval. Engaging with communities helps build trust and ensures their needs are considered.
- **Capacity Building:** Invest in capacity building for local councils and MPs to enhance their understanding of sustainability, gender mainstreaming, and inclusivity in budgeting. This empowers them to make informed decisions.
- **Review and Adapt:** Regularly review and adapt budget guidelines and processes to reflect changing community needs and evolving national priorities. Flexibility is key to effective budgeting.

The budgeting process should be inclusive, sustainable, and responsive to gender disparities. The strategies outlined here provide a guide for communities to present their budget asks and for local councils and MPs to consider these requests thoughtfully. By adhering to these principles, Zimbabwe can move closer to achieving equitable development and improving the quality of life for all its citizens. Budgets that prioritize sustainability, gender mainstreaming, and inclusivity can be a powerful catalyst for positive change in the nation.

3.3 Seeds of Change: Hobhouse Poly Clinic Now at Window Level

The need for a polyclinic had long been recognized by the residents of Hobhouse. Over the years, limited healthcare facilities have strained the community, leaving them vulnerable in times of medical emergencies. Hobhouse is a high-density suburb in Mutare and it was built around 2000. A four-bedroom house was converted into a clinic after a resident leased his house to assist the community with a healthcare facility. Mutare City Council has been paying \$300 as rent per month.

The Polyclinic will also include a maternity ward, eliminating the need for expecting mothers to go to Victoria Chitepo, Sakubva Polyclinic, or St. Joseph hospitals for prenatal and postnatal services. Most of Mutare residents are hopeful that this will soon be a thing of the past because the Hobhouse Polyclinic is now on window level and will soon offer medical services and there will be no need for people to travel long distances for health services. Residents of Hobhouse have been affected by poor service delivery, unemployment, hopelessness, and a constant state of despair. The fact that most of the projects are being funded by ratepayers' money the move has increased openness and accountability in the use of public funds.



A. Current Hobhouse Clinic

B. Hobhouse Poly Clinic under construction

The Mutare city council was previously petitioned by residents to construct a polyclinic in the Hobhouse community. Residents and duty-bearers have discussed the issue on several platforms. A proper clinic is currently being built, and ZIMCODD's Constituency Indabas marked a turning point that sparked a sense of urgency in Mutare City Council in terms of responding to the needs and aspirations of residents.

It's important to involve residents, organizations, and stakeholders from the beginning to ensure their active participation and ownership of the development process. By valuing their input and involving them in decision-making, it creates a sense of community ownership and fosters sustainable development. In a nutshell the situation in Hobhouse, Mutare has been a sad reality of the continuously declining social services in the city. The construction of Hobhouse Clinic is a facelift of the community which is going to change the narrative of the community.