MONTHLY ECONOMIC REVIEW

SEPTEMBER 2023

ZIMCODD

Zimbabwe Coalition On Debt And Development

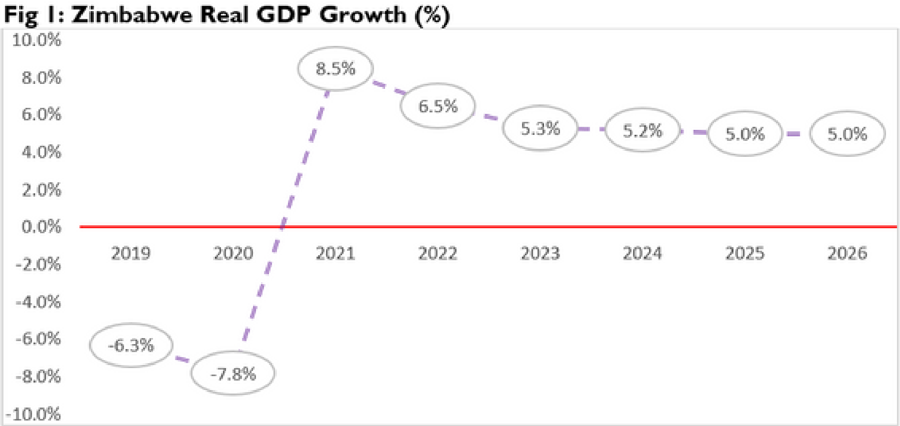
INVESTING IN PEOPLE FOR SOCIAL AND ECONOMIC JUSTICE

1. INTRODUCTION

The local currency (ZWL) and ZWL prices have been largely stable since the turn of the second half of the year (2HY23). But only after two consecutive months, the local unit has started to perform dismally against the US dollar in both official & alternative foreign exchange markets. These fluctuations pose a great threat to macroeconomic stability because they increase the cost of transacting in ZWLs thus fuelling currency substitution. This September Issue of the economic review, therefore, seeks to analyse the performance of key economic indicators to gauge the health of the economy.

2. MACROECONOMIC OUTLOOK RISKS

Fig I: Zimbabwe Real GDP Growth (%)



Source: *Ministry of Finance and Economic Development (MoFED)*

- The persistence of exchange rate and commodity price volatilities expected in the coming months will undermine economic activity by adversely affecting revenue collection, service delivery, and debt servicing costs.
- There are also lingering post-electoral risks posed by disputed electoral results. These risks[1] may exert a negative bearing on international relations & cooperation, foreign direct investment (FDI), official development assistance (ODA), and the ongoing high-level structured dialogues with creditors to address Zimbabwe's debt trap.
- In addition, even though electricity production has improved so far in the 2HY23 relative to 1HY23, hydro output is facing serious threats from dwindling dam water levels at a time when parts of the region are expected to receive normal to below-normal rainfall.
- Also, limited private sector energy investments, frequent breakdowns of aged thermal plants, servicing of loans contracted for public energy projects, and rising electricity debt owed to regional power pools will subdue electricity supply.
- More so, there is a high likelihood of expenditure risks emanating from elevated interest rates, structural budget rigidity, and limited fiscal space. Again, the latest projections of El Nino weather conditions will likely cause crop failure and increased food insecurity.
- Furthermore, negative spill over effects from deteriorating global geopolitical tensions may lead to increased global geo-economic fragmentation and global supply chain dislocations which can destabilize fertilizer, fuel & food prices.

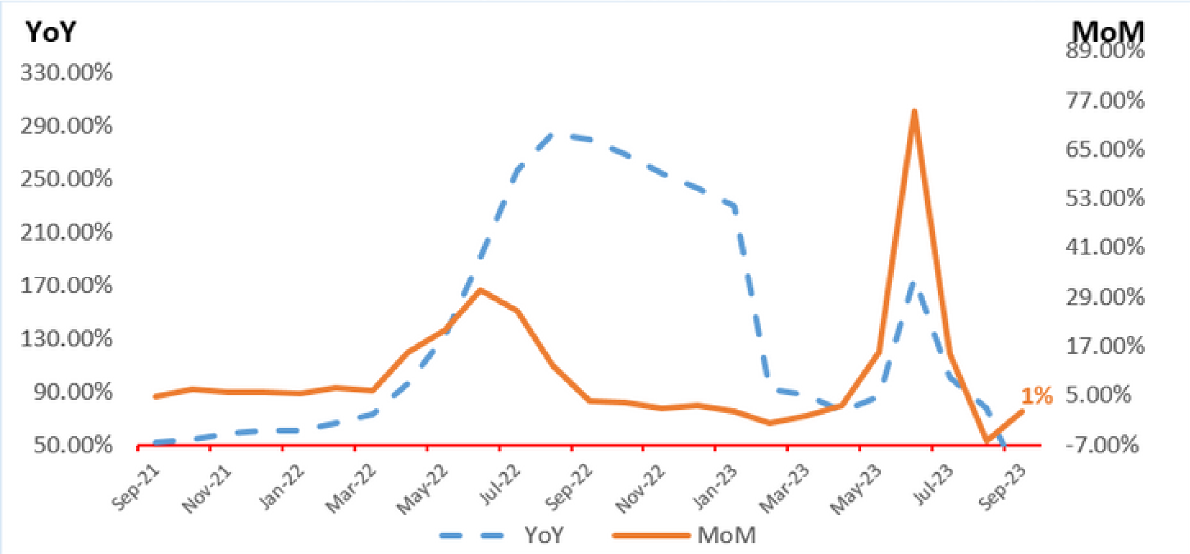
1. Post-electoral risks include deep societal polarization, politically motivated violence, disruptive partisanship, high corruption, poor service delivery, plunder of natural resources, and capital flight.

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 2: Zimbabwe Monthly (MoM) & Yearly (YoY) Inflation Trends (%)



Source: *Zimbabwe National Statistics Agency (ZimStat)*

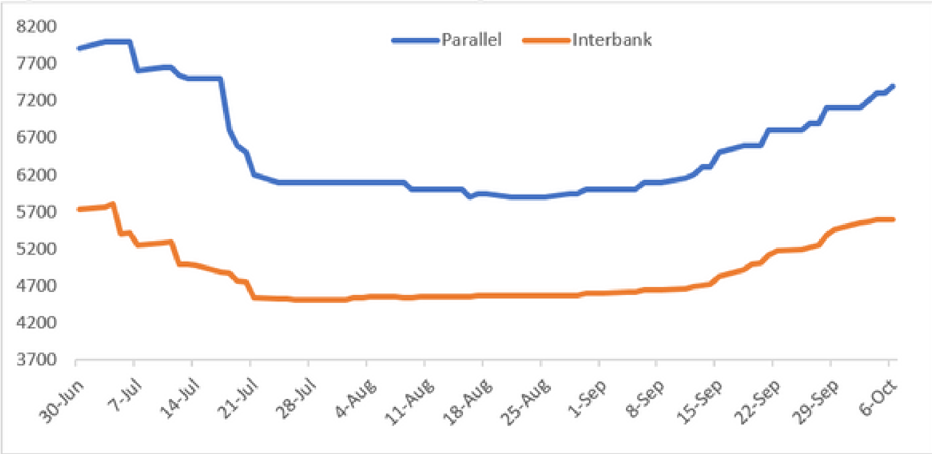
- According to the national statistics agency, ZimStat, annual inflation spiked by 18.4% in September 2023. This means that consumer purchasing power has declined by 18.4% between Sept 2022 and Sept 2023. In August 2023, annual prices mounted by 77.2%.
- From a month-on-month (MoM) perspective (Aug 2023-Sept 2023), prices, as measured by the all-items consumer price index (CPI), rose to 1% after witnessing two (2) consecutive months of negative growth in August 2023 (-6.2%) and July 2023 (-15.3%).
- Treasury directed ZimStat to publish blended inflation statistics in February 2023. In September 2023, ZimStat changed its inflation calculation methodology again, shifting from arithmetic aggregation of indices to geometric aggregation.
- This largely explains the significant decline in annual inflation experienced in the month under review. The new methodology provides a price index that follows a higher weight instead of a higher magnitude.
- ZimStat's latest consumer spending survey found that 80% of transactions in the economy occur in USD whilst the remainder (20%) is in ZWLs. However, blended figures give a misleading picture because not all consumers are largely earning in USD, a stable currency.
- For the outlook period, ZWL inflationary pressures are expected to remain highly elevated as the local unit remains fragile. Market confidence in the ZWL is plummeting due to high public corruption and a lack of trust in the government & its institutions.

2. Blended inflation measures the combined price changes of goods and services in both the USD and ZWL with weights split by the proportions of estimated household expenditure in USD and ZWL.

- Also, recurring domestic electricity shortages at a time global crude oil prices remain elevated increase energy costs, slow industrial activity, and threaten the stability of prices.

3.2 EXCHANGE RATE

Fig 3: Official and Parallel Market Exchange Rates



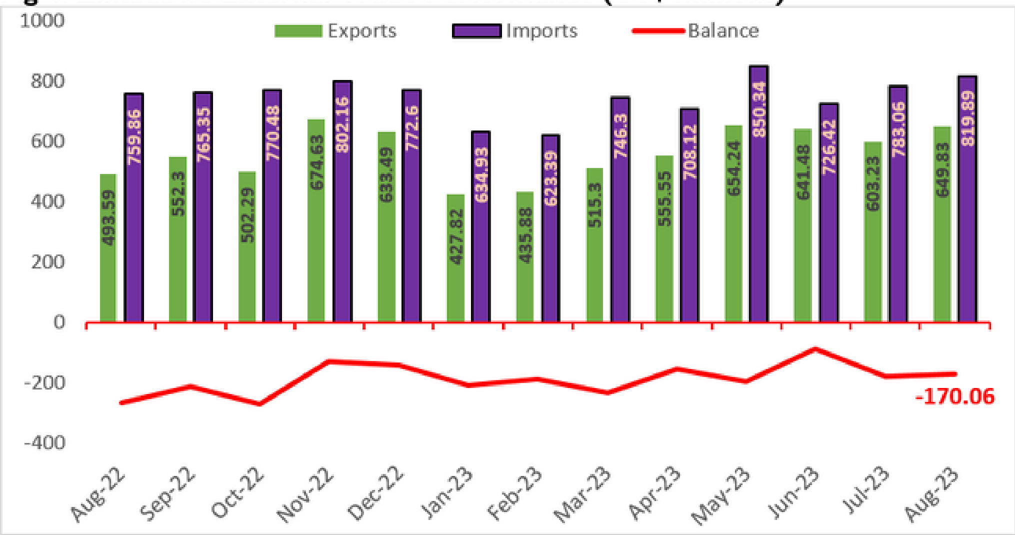
Source: *Reserve Bank of Zimbabwe (RBZ), ZimRates*

- 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 decline particularly in alternative markets, the parallel market exchange premia are now widening.
- 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 dump the local unit in the street chasing value (USD).
- Also, ZWL depreciation pressures are being driven by human behavior such as negative perceptions fuelled by disputed August 2023 harmonized elections as well as excessive unproductive rent-seeking powered by prevailing multiple exchange rates.[3]
- For instance, in addition to different exchange rates for RTGS balances, cash balances (bond notes), and mobile money balances, the RBZ recently introduced gold-backed digital tokens (ZiG).
- The ZiG is an additional payment method for settling local transactions (buying and selling of goods & services. These digital tokens (gold e-wallets) have their own exchange rate which is derived from the prevailing international price of gold.
- 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, and weak global geopolitics.

3. **Exchange rate multiplicity increase exploitation of the poor majority and fuels round-trip transactions in the economy.**

3.3 EXTERNAL TRADE

Fig 4: Zimbabwe External Trade Performance (US$ millions)



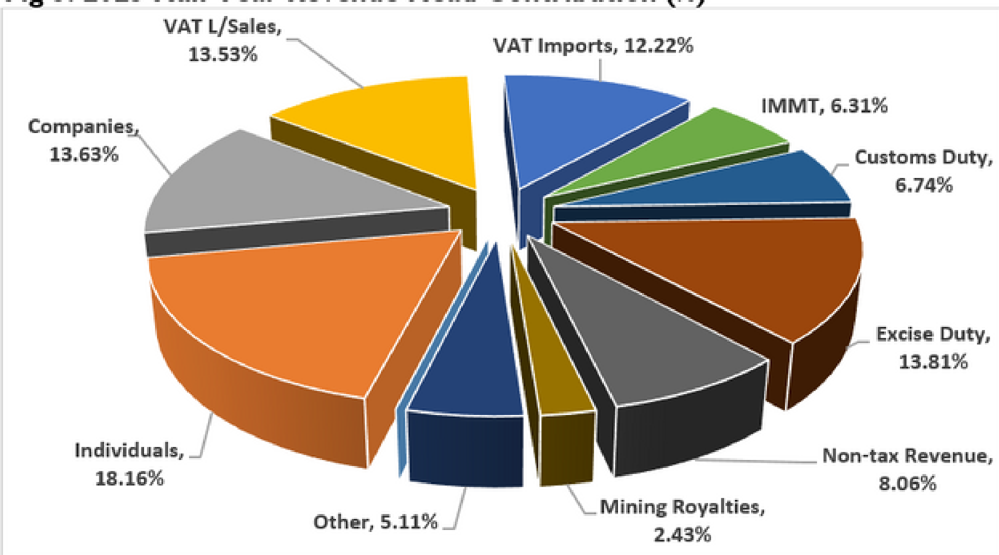
Source: *ZimStat*

- 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 totalling 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.
- The persisting and 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 forex 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: high production costs, low domestic production and output, unsustainable import bills, high unemployment, and low national pride.
- In the outlook, the trade deficit is likely going to continue burgeoning due to rising global crude oil prices, persisting electricity shortages, projected climatic shocks, deepening dollarization, and ever-rising global geopolitical tensions & geo-economic fragmentation.

3.4 Public Sector Accounts

- 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 totalling ZWL212.5 billion, half-year (1HY23) total net revenue collection came in at ZWL4.43 trillion.

Fig 5: 2023 Half Year Revenue Head Contribution (%)



Source: *Zimbabwe Revenue Authority (ZIMRA)*

- 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 and 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.

4. Sectoral Review

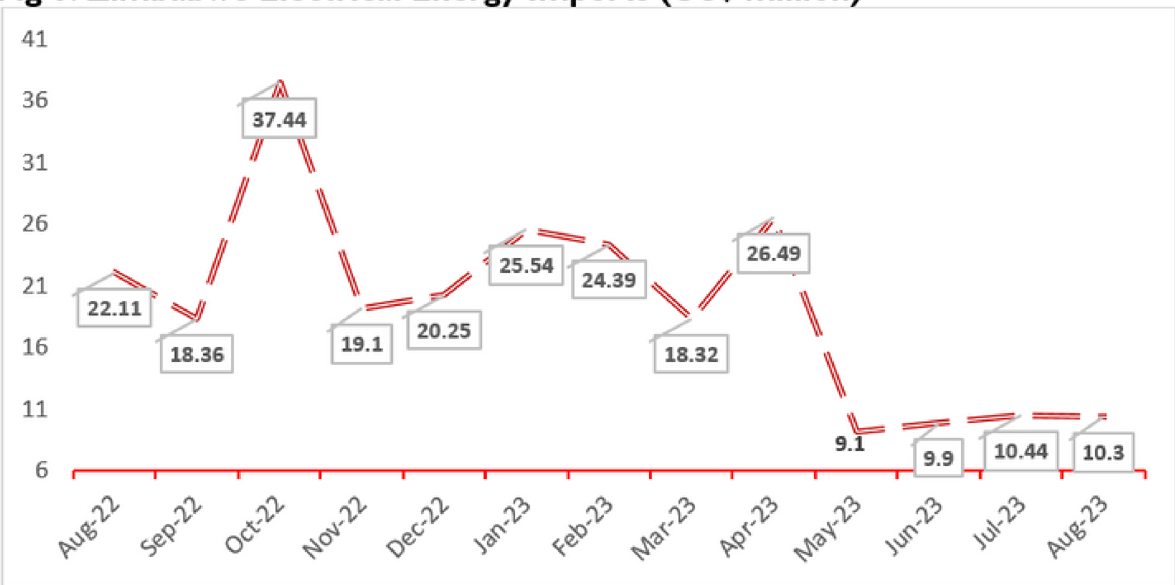
4.1 Energy Sector

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

4.1.1 Electricity

- According to the latest ZimStat statistics, Zimbabwe imported electrical energy worth US$10.3 million in August 2023, a slight decline from US$10.4 million in July 2023.
- Cumulatively, the nation spent US$134.5 million on electrical energy imports in the first eight (8) months of 2023, about 23.2% higher than US$109.2 million spent in the same period in 2022.

Fig 6: Zimbabwe Electrical Energy Imports (US$ million)

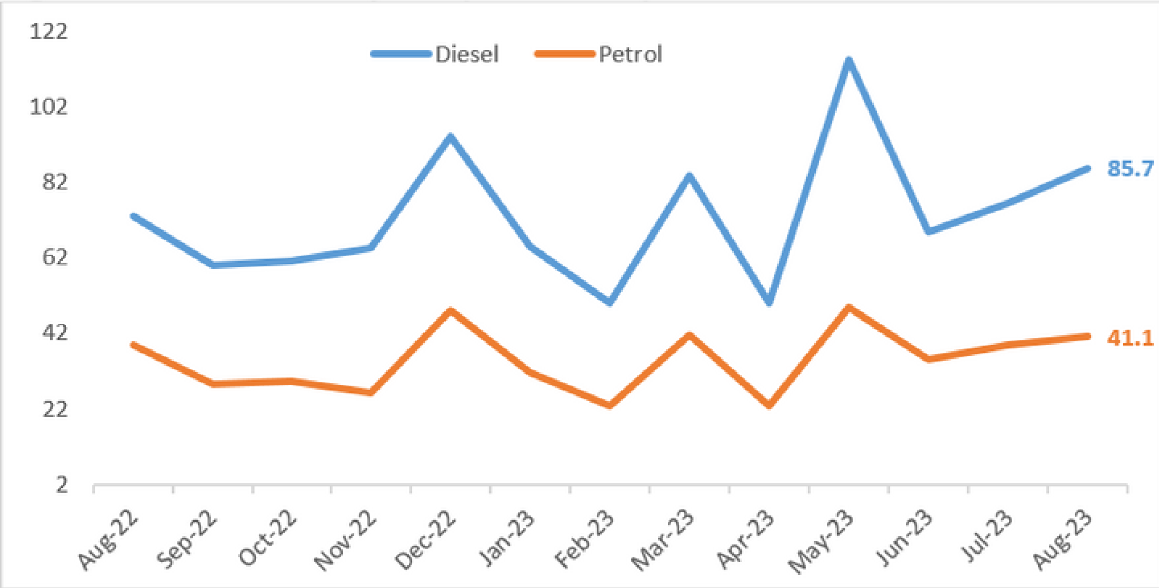


***Source:** ZimStat*

- The big jump in electricity imports so far in 2023 is linked to prolonged electricity load-shedding schedules experienced in the first half of the year (1HY23) largely powered by low Kariba dam levels and frequent breakdown of aging thermal production plants.
- In the second half (2HY23), electricity supply has relatively improved owing to the completion and commissioning of two (2) new US$1.5 billion Hwange thermal plants with a combined installed capacity of 600MW.
- However, in September 2023 electricity load-shedding peaked pace across the country, an occurrence that is expected to hold in the coming months due to increased technical challenges associated with the operation of aged thermal units (Hwange Unit 1-6) coupled with rising electricity debt owed to the regional power pool.
- Also, Kariba live-water levels are falling fast at a time when many parts of the SADC region are expected to receive normal to below-normal in the 2023/24 season. This will significantly subdue production at the nation's sole publicly-owned hydro plant.

4.1.2 Fuel

Fig 6: Zimbabwe Fuel Imports (US$ million)



Source: *ZimStat*

- 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.
- 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. Zimbabwe'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 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, subdued 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, maintenance of production curbs by OPEC+, and improving global economic sentiment as inflation shows signs of cooling off in advanced economies.

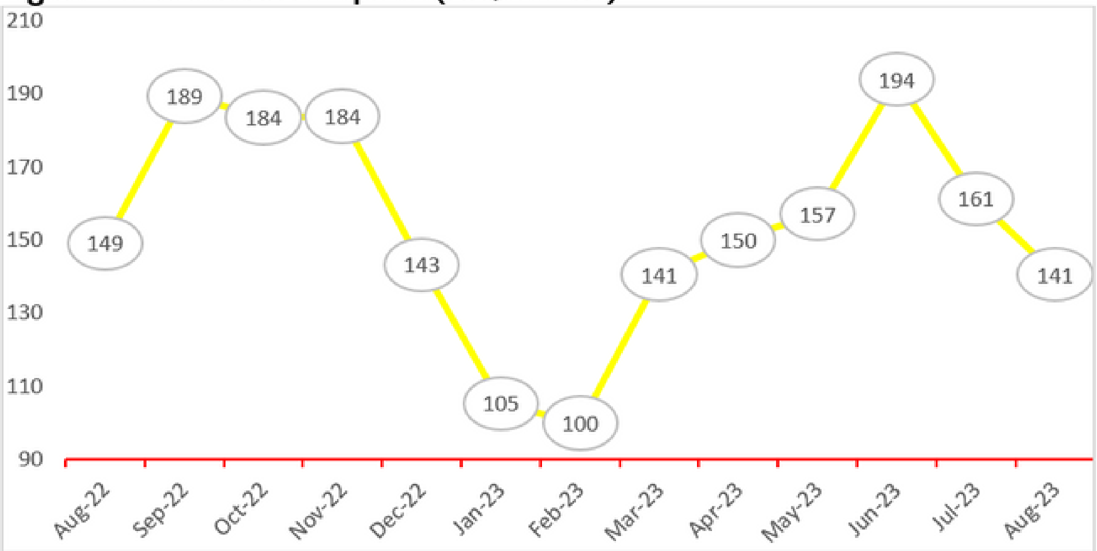
4.2 Agriculture

- According to FEWSNET,[4] surplus-producing regions are expected to maintain minimal (IPC Phase 1) acute food insecurity outcomes through January 2024 as they continue to access food from their 2023 harvested stocks and income from crop sales.
- However, in deficit-producing regions, stressed (IPC Phase 2) outcomes are expected to be present as declining own-produced food stocks allow households to meet their food needs, but limited access to income and high non-food prices limit purchasing power.
- Recently, the government announced crop & livestock mitigatory measures in preparation for the expected cumulatively below-average 2023/24 rainy season and likely below-average 2024 harvest.
- In September, the government authorized a duty-free maize import policy for private companies to boost national stocks for the current and upcoming marketing seasons. Also, in early October 2023, the Treasury suspended duty on fertilizer imported by approved & regulated importers through Statutory Instrument 166 of 2023.
- Some farmers have started land preparation for the upcoming agricultural season, with irrigated tobacco planting having started in early September. As the 2023/24 agricultural season begins, poor households will likely have limited access to crop inputs sold on the market due to high prices.
- However, the government has reported input assistance targeting plans and modalities for the 2023/24 season tailored to the different agro-climatic zones across Zimbabwe.
- ZWL prices for some basic food products increased around 20% by the end of September compared to August, following about 15% increases in the parallel and official market exchange rates.
- However, USD and ZAR prices in the informal markets remain stable, and these markets are the main source of goods for most households. However, staple grain prices are expected to increase seasonally as demand increases through the lean season, especially in deficit-producing areas.
- The lack of grain in some of these areas and the increase in cereal grain prices are expected to increase poor households' reliance on maize meal. Maize meal prices are generally stable and retail for around 0.45 to 0.60 USD per kilogram, comparable to last year's prices.

4. https://fews.net/southern-africa/zimbabwe/key-message-update/september-2023

4.3 Gold Sector

Fig 6: Zimbabwe Gold Exports (US$ million)



Source: *ZimStat*

- This year the mining sector is under immense pressure from the threat of weakening global prices as prices of key minerals have declined significantly. For instance, lithium is down 69%, diamond (-60%), palladium (-41%), rhodium (-74%), and nickel (-8%).
- As for gold, the yellow metal lost 3.7% in September 2023. The decline was largely the result of higher opportunity costs caused by extensive run-on bond yields alongside a stronger dollar as well as a large drop in the Chinese local gold price premium.
- The available official trade data show that Zimbabwe exported gold worth US$141 million, down 12.8% from US$161 million exported in July 2023. Cumulatively, the nation earned about US$1.15 billion in the first eight (8) months of 2023, down 10.9% from US$1.29 billion earned for the same period in 2022.
- The decline in gold export earnings is partly attributable to a decline in official gold deliveries. Cumulative deliveries of gold came in at 22.4 tonnes between Jan-Sept 2023 which lag behind 25.6 tonnes realized for the same period in 2022.
- This decline in gold deliveries is attributed to side marketing, smuggling, incessant rains experienced in the first quarter (1Q23) which affected small-scale and artisanal miners, and rising mining cost structure propped up by high electricity tariffs.
- Outlook: Gold is likely to face continued turbulence as bond yields continue to move higher alongside a still buoyant US economy. However, a material down trend is unlikely as price support remains from fragile equities, rising recession risk, inflation volatility, and continued central banks' interest in gold.

5. Conclusion

September 2023 witnessed a resumption of increased ZWL depreciation which threatens the stability of ZWLs and the welfare of citizens, particularly the poor majority. Apart from the ZWL decline, the economy is facing numerous risks including projected climatic shocks, recurring electricity shortages, rising fuel prices, commodity price volatility, debt distress, and rising global geopolitical tensions. These headwinds may derail economic activity by increasing the cost of industrial production, fuelling inflation tax, reducing disposable incomes, subduing aggregate consumer demand, widening societal inequalities, and deepening poverty

6.Policy Recommendations

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

Reform Agenda

There is a need for adequate political will to implement robust and inclusive reforms to curb corruption, reduce waste in government, promote sustainable enterprises, and reduce poverty and societal inequalities.

Debt Management Strategy

There is a need for a clear public debt management strategy to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost and consistent with a prudent degree of risk.

Climate-smart Agriculture (CSA)

CSA is an integrated approach to managing landscapes (cropland, livestock, forests, and fisheries) that addresses the interlinked challenges of food security and accelerating climate change to increase productivity, enhance resilience, and reduce emissions.

Optimal ZWL Liquidity Level

The Liquidity Management Committee (LMC) must be capacitated and increased autonomy to establish an optimal level of ZWL liquidity in circulation in the economy. This will stabilize the monetary base and contain frequent ZWL fluctuations.

Mineral Traceability

Zimbabwe needs adequate infrastructure to support advanced technologies which are key in ensuring gold production tracking and monitoring to minimize chances of gold leakages and illicit trading.

Value Addition and Beneficiation

All raw materials particularly from mining and agriculture must be value-added to improve the balance of payments position, create employment, increase tax base, grow downstream industries, develop infrastructure, and fuel national output (GDP) growth.

Political Dispute Resolution

There is an urgent need to establish a dialogue platform bringing all political players together to resolve the political impasse that was caused by the disputed August 2023 elections.

Independent Power Producers (IPP)

There is a need for lucrative incentives such as power purchase guarantees and cost recovery pricing to lure more investors and increase output from IPPs.

Accruals Accounting

Treasury must adopt accruals accounting which is crucial in informing all fiscal and budgetary decision-making to avoid misallocation of resources, increase financial resilience, reduce financial risk, and increase transparency and accountability.

Public Service Delivery

Treasury must prioritize crucial public services such as healthcare, education, housing, water, and sanitation to improve the welfare of the poor. Also, the Treasury must pay a living wage to all civil servants.

Address Fuel Cost

Treasury must reduce taxes and levies on fuel imports, expand fuel infrastructure like pipelines, reform existing pricing regulations, and open the fuel sector (ethanol production, fuel importation, fuel retailing, etc.) to increase market competition & innovation.

7. Disclaimer

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