MONTHLY ECONOMIC REVIEW

OCTOBER 2023

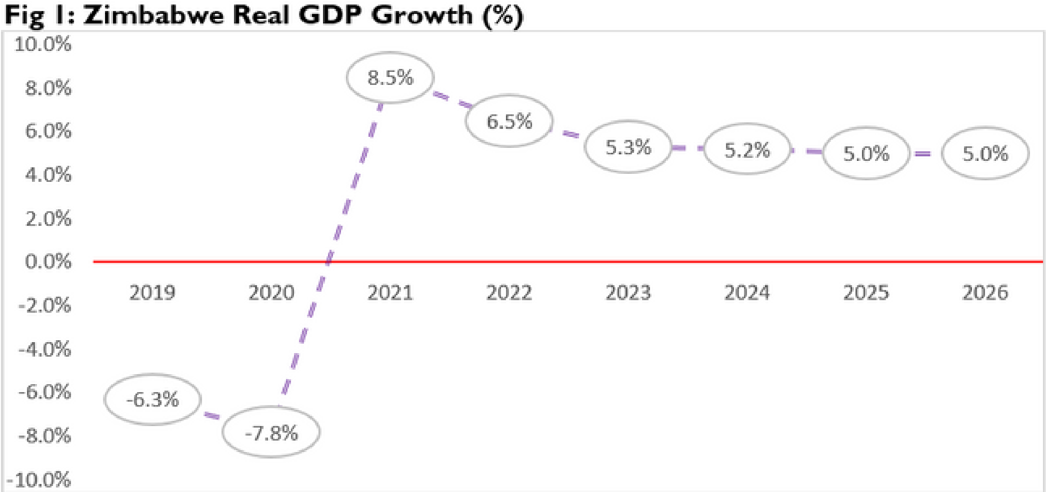
INVESTING IN PEOPLE FOR SOCIAL AND ECONOMIC JUSTICE

1. INTRODUCTION

Zimbabwe continues to experience a volatile macroeconomic environment characterized by currency volatility and price instability. The instability is exerting a massive toll on economic growth and national development. As such, the October 2023 Economic Review seeks to identify drivers of instability by tracking the performance of critical indicators and proffer some policy alternatives to address the same.

2. MACROECONOMIC OUTLOOK RISKS

Fig 1: Zimbabwe Real GDP Growth (%)



Source: *Ministry of Finance, Economic Development & Investment Promotion*

- The Ministry of Finance is now projecting the economy to grow by 5.3% in 2023, slightly down from 6.5% realized in 2022, a bullish revision primarily underpinned by a relatively better 2022/23 agricultural season, ongoing public infrastructure development projects, and expected sustained ZWL and price stability in the second half of 2023.
- However, as alluded to in last month's issue of this report, the outlook period has many lingering risks that could significantly derail economic growth and consumer welfare in the coming months.
- The re-emergence of exchange rate and commodity price volatilities from September 2023, after a brief hiatus in the July-August period, is expected to undermine economic activity by adversely affecting revenue collection, service delivery, and debt servicing.
- The likely El-Nino weather conditions (below-average rainfall) will significantly constrain the agriculture sector, thus risking plunging the nation into a humanitarian crisis and severe economic quagmire.
- The agricultural sector supplies more than 60% of industrial raw materials, provides income & employment for 60-70% of the population, and accounts for at least 15% of the national output (GDP).[1]
- Compounding the agricultural sector's challenges are elevated fertilizer prices fueled by rising global geopolitical tensions. High prices of fertilizers and other farm inputs like maize seeds will impoverish smallholder farmers.

1. https://www.fao.org/zimbabwe/fao-in-zimbabwe/zimbabwe-at-a-glance/en/

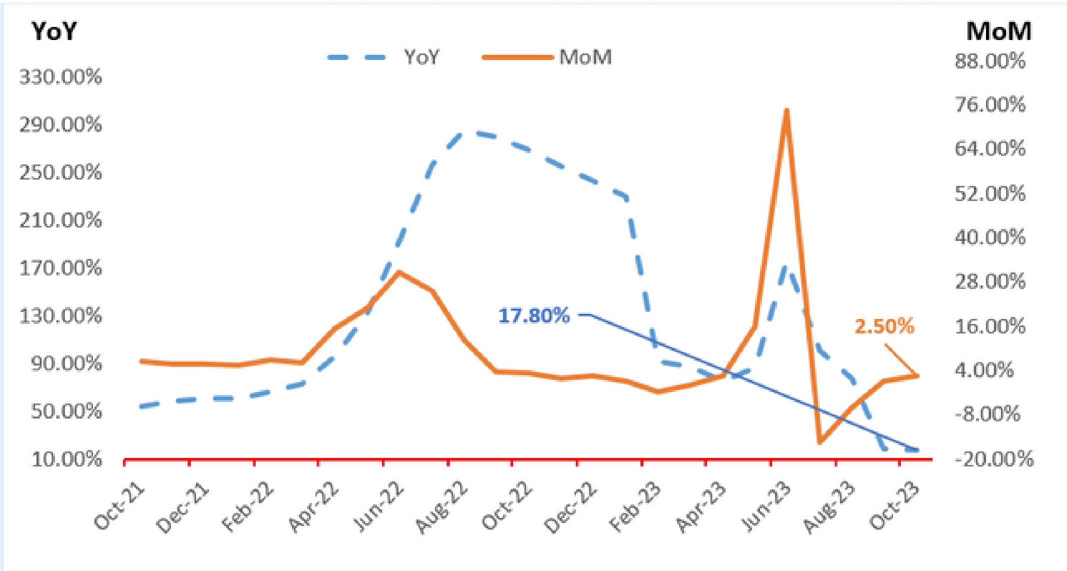
- Also, there are high chances of revenue losses posed by the ongoing rapid cash dollarization of the economy. A cash economy entrenches a hard-to-tax informal sector economy, collapses financial intermediation, and encourages underground dealings like drug proliferation and money laundering.
- As such, a burgeoning cash economy will significantly reduce the government's tax revenue collections to fund public service provision, infrastructure development, and servicing of existing public debts.
- In addition, domestic electricity shortages coupled with ongoing foreign currency shortages, elevated interest rates, and high fuel prices driven by deteriorating global geopolitical tensions will exert disrupting spillover effects on the entire economy.

3. MACROECONOMIC INDICATORS

The section briefly analyses the economy's performance in October 2023 by tracking selected vital macroeconomic indicators such as inflation and the exchange rate.

3.1 INFLATION

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



Source: *Zimbabwe National Statistics Agency (ZimStat)*

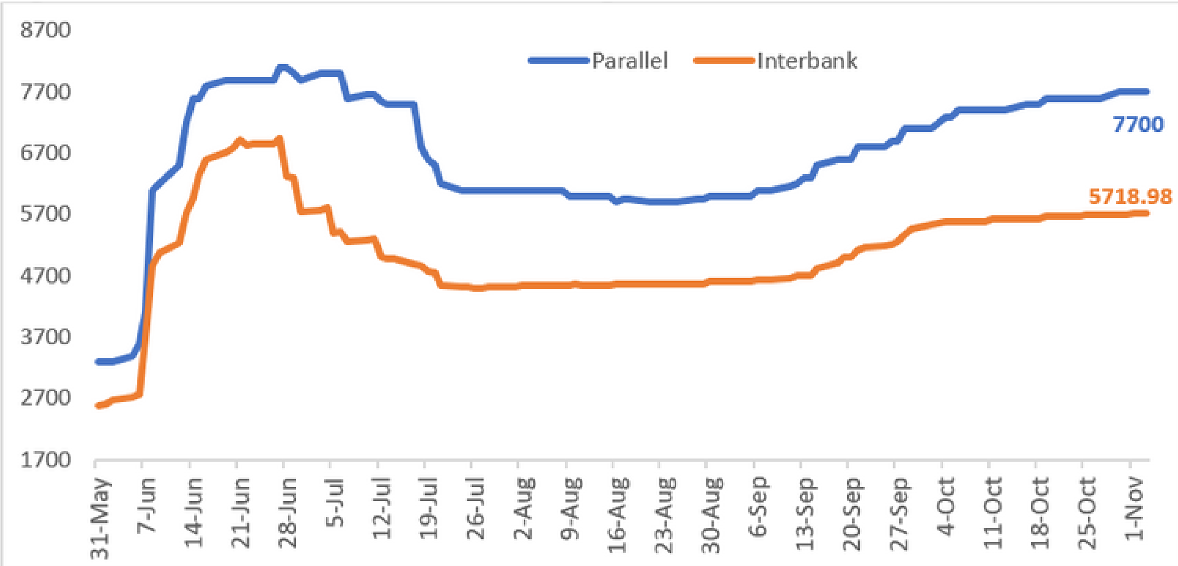
- ZimStat data show that in annual terms, blended[2] inflation outturn in October 2023, as measured by the all-items consumer price index (CPI), came in at 17.8%. The inflation outturn is slightly down from 18.4% in September 2023.
- The data further revealed that price inflation slightly increased from 1% in September 2023 to 2.5% on month-on-month terms. These statistics mean consumer purchasing power declined by 2.5% in October 2023.
- The major categories of the consumer basket driving headline inflation were Housing and Utilities (basket weight: 27/100), Food (basket weight: 31.3/100), and Transport (basket weight: 8.39/100). Statistics show prices mounting by 5%, 2.4%, and 2.8% respectively.
- Also, in October, the ZWL price of wheat and bread increased by 25%, maize meal and rice by 20% and 15%, respectively, and sugar and cooking oil rose by nearly 5%.[3]

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.
3. https://fews.net/southern-africa/zimbabwe/food-security-outlook/october-2023

- These ZWL inflationary pressures largely emanated from adverse ZWL movements, particularly in the parallel market, where the ZWL lost about 8% of its value against the US dollar.
- Despite the Reserve Bank of Zimbabwe (RBZ) exchange regulations allowing economic agents to charge a 10% margin above the interbank rates when setting ZWL prices, many formal businesses are still benchmarking their local prices above parallel rates.
- As such, adverse rate movements in the alternative markets compel companies to review ZWL prices upwards to minimize exchange rate losses. With the poor spending a significant budget on food which is highly inelastic to price changes, it means the bulk of inflation tax gets shifted to the final consumers who are already on miserly ZWL wages and salaries.
- In response to ZWL instability, the economy is rapidly dollarizing. Most formal retail supermarkets have noticeably started pegging prices in USD. Additionally, at the end of October, the government extended the multicurrency regime to December 2030, allowing for the continued use of the USD in the economy.

3.2 EXCHANGE RATE

Fig 3: Official and Parallel Market Exchange Rates



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

- In October 2023, the local unit lost 4.1% of its value in the official market to close at ZWL/USD 5,698.96 from ZWL/USD 5,466.75 at the end of September 2023. A glance at official statistics shows that in year-to-date (YTD) terms, the ZWL was down 88%.
- Also, in the parallel markets, the ZWL was down 7.8% to close the month under review at ZWL/USD 7,700 from ZWL/USD 7,100 in September 2023. In YTD terms, the ZWL erased 88.3% in October 2023.
- Fig 3 shows that after relative stability between July 2023 and Aug 2023, the market premium (percentage difference between official and parallel rates) started to burgeon from September 2023.

- The widening parallel market premiums partly reflect increased growth in money supply as the Treasury resumed making ZWL payments to its contractors & suppliers after a pause in the build-up to the August 2023 harmonized elections.[4]
- In addition, it is likely that the disputed August electoral result significantly fuelled negative market expectations, culminating in bearish sentiments toward the ZWL, contributing to increased local currency and asset substitution as economic agents diversify & protect their investment portfolios from expected currency devaluation risks.

3.3 MONETARY POLICY

- The Monetary Policy Committee (MPC) of the RBZ, which met on October 23, 2023, resolved to undertake some critical monetary policy changes.
- The monetary policy shifts came at a time of mounting global risks, such as falling global mineral commodity prices, elevated food & energy prices, high-interest rates, and rising geopolitical tensions.
- As a perennial net importer of goods & services, Zimbabwe is too susceptible and is disproportionately affected by global shocks.
- Thus, if unattended, the global risks will continue to increase the domestic cost of doing business, exert incessant Zimbabwe dollar (ZWL) depreciation pressures, fuel the cost-of-living crisis, widen societal inequalities, and plunge many households into abject poverty.
- These were the critical monetary policy changes announced by the MPC:
    1. The MPC reduced the benchmark policy rate from 150% to 130% annually.
    2. MPC standardized all foreign currency retentions on exports at 75% across all sectors of the economy and removed all special dispensations.
    3. MPC encouraged all financial institutions to scale up financial inclusion by opening more no-frills (low-cost) accounts.
    4. The MPC removed the 10% trading margin limit above the interbank rate.

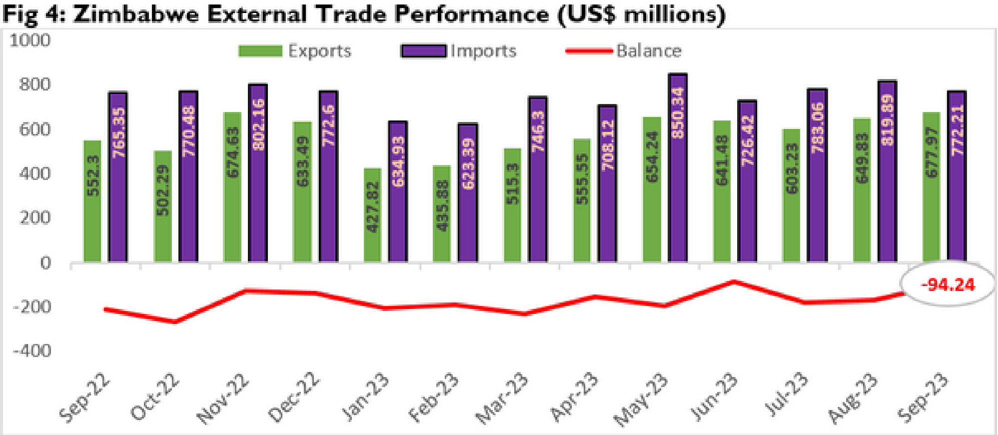
For a detailed analysis of these proposed policy measures, visit: https://zimcodd.org/wp-content/uploads/2023/10/The-Weekend-Reader-27-October-2023.pdf

3.4 External Trade

- ZimStat showed that in September 2023, Zimbabwe exported goods & services worth US$677.97 million, up 4.3% from US$649.83 in August 2023. Cumulatively, the Jan-Sept 2023 period exports totalled US$5.16 billion.
- The country imported goods & services worth US$772.21 million in the same month, down 5.8% from US$819.89 million realized in August 2023. Cumulatively, the Jan-Sept 2023 imports totalled US$6.66 billion.
- These statistics show that Zimbabwe incurred a trade balance of -US$94.24 million in September 2023, down from -US$170.06 million in August 2023. In cumulative terms, the trade balance was -US$1.5 billion for Jan-Sept 2023.

4. https://zimcodd.org/?sdm_process_download=1&download_id=6589

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



Source: *ZimStat*

- ZIMCODD expects the trade balance to reach -US$2 billion by year-end due to the ongoing softening of global mineral prices primarily because of weak global demand & improved supplies. Yet, mineral commodities account for at least 70% of Zimbabwe's annual export receipts.
- The rapid dollarization of the economy is also fuelling imports. At the same time, it renders local firms uncompetitive since factors of production will be largely priced in USD against regional counterparts' prices, which are in their relatively weak currencies.

3.5 External Public Debt

Table 1: Zimbabwe External Debt End September 2023 (US$ millions)

Key[5]	DOD	PRA	IRA	PEN	Total
External PPG 1+2+3	**5,547.69**	**2,925**	**1,668.29**	**2,377.64**	**12,518.61**
1. Bilateral Creditors	**1,565.02**	**1,751.19**	**551.73**	**2,141.30**	**6,009.23**
Paris Club	81.71	1,337.18	459.49	2,032.90	3,911.28
Non-Paris Club	1,483.31	414.01	92.24	108.40	2,097.95
2.Multilateral Creditors	**596.19**	**1,173.81**	**1,116.56**	**236.34**	**3,122.90**
World Bank	114.06	719.99	708.99	-	1,543.04
African Development Bank	25.61	276.96	378.60	-	681.17
European InvestmentBank	9.65	142.75	23.00	236.34	411.73
Afreximbank	400.00	-	-	-	400.00
Others	46.88	34.12	5.97	-	86.97
3. RBZ Liabilities	**3,386.48**	**-**	**-**	**-**	**3,386.48**
Assumed by Treasury	1,817.00				1,817.00
Other RBZ Liabilities	1,569.48				1,569.48

Source: *Zimbabwe Public Debt Management Office*

- The latest statistics show that as of the end of September 2023, external public and publicly guaranteed (PPG) debt, including RBZ debt, stood at US$12.5 billion. The latest domestic debt statistics are not yet publicly available. As of December 2022, domestic debt was reported at US$5.2 billion.[6]

5. Key: DOD is Disbursed Outstanding Debt; PRA is Principal Arrears; IRA is Interest Arrears; PEN is Penalties

6. http://www.zimtreasury.gov.zw/wp-content/uploads/2023/07/ZPDMO-2022-Annual-Public-Debt-Bulletin-ZIMTREASURY_compressed-1.pdf

- Of the total RBZ debt of US$3.4 billion, the Treasury is currently undertaking reconciliation and validation processes to assume about US$1.8 billion (52.9%).
- The assumption of a part of RBZ's external debt by the Treasury cleans up the RBZ's balance sheet to allow it to focus on its primary mandate of stabilizing prices, local currency, and financial markets.[7]
- The RBZ debt assumption was also motivated by the need to curb unsustainable ZWL liquidity growth that partly emanated from money printing by RBZ to fund the purchase of foreign currency in the market to service its external obligations.
- In 2022, the government formulated an Arrears Clearance, Debt Relief, and Restructuring Strategy to resolve the debt crisis, outlining its position and options for addressing the debt distress situation.
- It has also resumed token payments[8] to its creditors. Between March 2021 and September 2023, the Treasury has made token payments of US$113 million and US$12.8 million to multilateral and bilateral creditors, respectively.
- In addition, it established a Structured Dialogue Platform (SDP) with all its creditors and development partners to institutionalize structured dialogue on economic, governance, and land tenure reforms to underpin the process.
- However, the public believes that the success of all these initiatives to address the debt crisis will depend on how much the government implements the abovementioned reforms.

4. Sectoral Review

4.1 Energy Sector

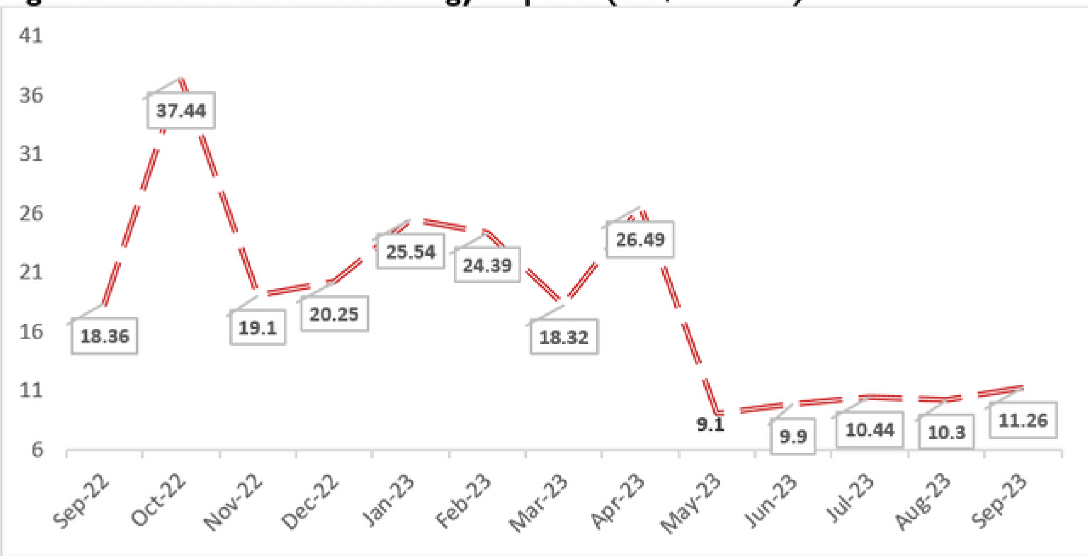
This section examines the performance of the energy sector in October 2023 with a critical focus on the electricity and fuel sub-sectors.

4.1.1 Electricity

- The latest ZimStats data show Zimbabwe importing electrical energy worth US$11.26 million in September 2023, up 9.8% from US$10.3 million in August 2023.
- This paltry increase justifies the prolonged load-shedding hours experienced since the turn of September 2023. The power utility, ZESA, which charges suboptimal tariffs, faces foreign currency shortages to import electricity from the region.
- Also, electricity production is affected by over-reliance on old thermal plants, which frequently break down due to lack of maintenance. Consequently, operational costs are spiking at a time when formal markets are facing acute foreign currency shortages.
- In addition, adverse climatic conditions over the years have significantly reduced live-water levels at the nation's sole Kariba Dam hydropower plant. The crisis will exacerbate in the coming months as the region battles likely drought conditions.

7. https://zimcodd.org/wp-content/uploads/2023/06/The-Weekend-Reader-17-June-2023.pdf
8. A short-term debt remedy that can be used to help debtors when they are struggling to repay their debts and cannot fully make their monthly payments.

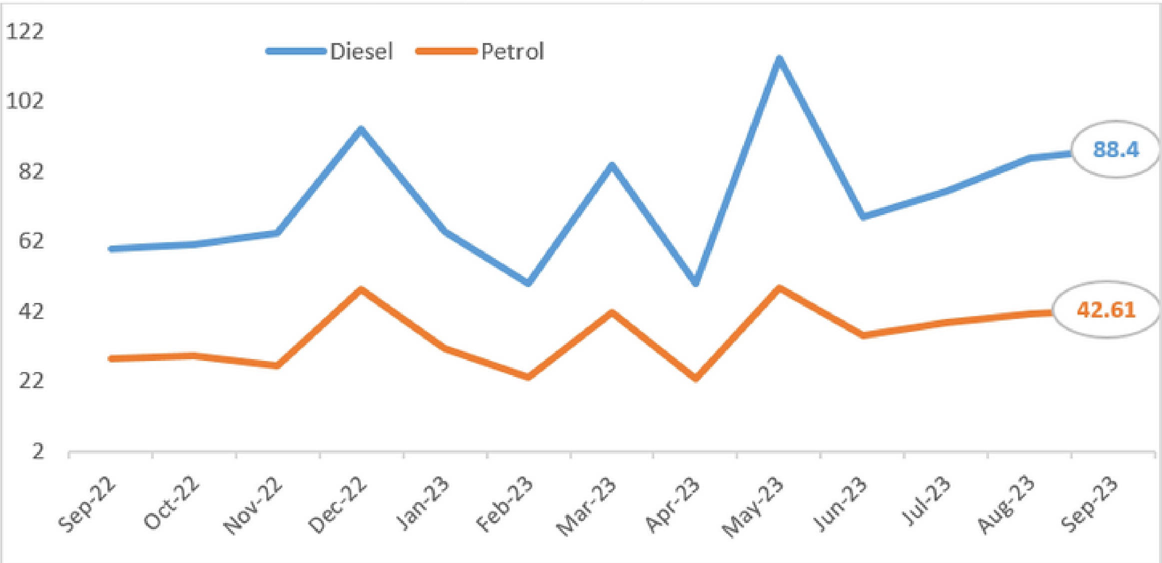
Fig 5: Zimbabwe Electrical Energy Imports (US$ millions)



Source: *ZimStat*

4.1.2 Fuel

Fig 6: Zimbabwe Fuel Imports (US$ million)



Source: *ZimStat*

- Latest external trade data show that Zimbabwe imported petrol worth US$42.61 million in Sept 2023, up 3.7% from US$41.1 million in Aug 2023. Free funds[9] contributed a nadir of 0.2%, and leaded petrol constituted 99.5%.
- In the same month, Zimbabwe imported diesel worth US$88.4 million, up 3.2% from US$85.7 million in August 2023.
- The import jump likely reflects increased domestic consumption due to prolonged electricity rationing schedules. In most industrial cases, electricity and Fuel are perfect substitute goods.

9. SI109-1996: Free funds mean money which is lawfully held outside Zimbabwe by a Zimbabwean resident and which was acquired by him otherwise than as the proceeds of any trade, business or other gainful occupation or activity carried on by him in Zimbabwe.

- Also, the increase in fuel imports likely emanates from increased capacity utilization (CU) in the mining sector (refer to mining section). The mining sector is estimated to consume at least 30% of the country's total fuel.
- The energy regulator, ZERA, revised the fuel price caps downward, effective November 5, 2023. It reduced the price of a litre of petrol by 5.5% to US$1.56 and the price of a litre of diesel by 2.8% to US$1.74.[10]
- The stabilization of global oil prices likely necessitated the downward revision after a sharp escalation in geopolitical risk in the Middle East, a region accounting for more than one-third of the world's seaborne oil trade, has markets on edge.
- The surprise attack by Hamas on Israel on October 7 spurred traders to price in a US$3-4 per barrel risk premium. However, global prices have since stabilized.[11]
- While there has been no direct impact on physical supply, markets will likely remain tentative as the crisis unfolds. ZIMCODD will continue to monitor the global oil market closely.

4.2 Agriculture

- In October, land preparation for the 2023/24 agricultural season started in rural, peri-urban, and urban areas, with households clearing land, digging conservation agriculture (pfumvudza/intwasa) basins, and hand ploughing.
- However, the engagement rate and the area of land prepared were still relatively low as some farmers waited for an effective start of the rainy season and in anticipation of El Niño-induced above-average temperatures and below-average rainfall.[12]
- The 2023 winter wheat harvest has begun in most areas, with the Ministry of Agriculture estimating production at about 415,000 metric tonnes (MT) of wheat and 15,000 MT of barley. This anticipated wheat harvest would be 10% higher than last year and a consecutive record harvest.
- Crop inputs, mainly seeds and fertilizers, are available on the market, but purchases are still meagre ahead of the planting period, as most farmers cannot afford the high prices. In early October, the government suspended the duty on fertilizer imports to reduce prices and enhance affordability to farmers.
- However, the planting of irrigated tobacco started on time in early September, with about 15,000 hectares reportedly planted by October 18, almost 8% higher than the same time last year.
- Livestock disease incidences remain high across the country, with the cost of veterinary care too prohibitive for most communal and resettlement area farmers. However, the Ministry of Agriculture has reported a decline in tick-borne diseases, indicating a 40-50% reduction in cattle deaths due to January Diseases in 2021 and 2022, respectively.
- Additionally, human-wildlife conflicts and livestock deaths remain common in some communities bordering wildlife areas such as national parks, conservancies, forests, and hilly and mountainous areas.
- Most households increasingly operate in USD, especially in the informal sector. Poor households are now increasingly depending on informal sector retailers and open markets who price their goods cheaper and almost exclusively in USD.

10. https://www.zimbabwesituation.com/news/zera-has-reduced-prices-of-fuel-both-diesel-and-blend/
11. https://www.iea.org/reports/oil-market-report-october-2023
12. https://fews.net/southern-africa/zimbabwe/food-security-outlook/october-2023

4.3 Mining Industry Outlook

- The latest State of Mining Industry Survey Report (SMISR)[13] established that the balance of risks to the 2024 mining outlook is tilted mainly to the downside.
- Notable variables weighing down investor confidence in 2024 include a softening commodity price outlook, a gloomy investment environment, inadequate foreign exchange, and infrastructure bottlenecks.
- Also, the report established that the profitability of mining projects will decline in 2024, largely weighed down by subdued commodity prices and high-cost structure.
- Access to foreign currency situation will remain challenging in 2024. In 2023, the amount of forex available to the mining sector has declined by about 30% due to falling mineral earnings and rapid cash dollarization of the economy.
- Average mining capacity utilization will likely reach 90% in 2024, up from 84% in 2022, driven by gold, ferrochrome, and coal. Also, formal employment in the sector will likely jump to 157,000 in 2024 from 53,500 in 2023.
- While the SMISR projects mining companies to ramp up production to compensate for expected revenue losses due to low prices, the increase in production will be more than offset by a disproportionate price decline.
- The cost of production in the sector will likely increase by 10%, fuelled by electricity tariff increase, high cost of funding, and high taxes, including RBZ foreign currency surrender requirements. In addition, power supply will likely remain fragile due to increasing demand.
- Furthermore, the mining policy and legislative environment will likely remain challenging in 2024, driven by frequent policy reversals & unresolved legislative and policy matters.
- Given a risky mining outlook, the onus is upon the government through the 2024 national budget to increase mining value addition and beneficiation. On average, the sector contributes 70% to export receipts annually.
- So, value addition & beneficiation will significantly reduce Zimbabwe's susceptibility to frequent fluctuations in global prices of primary commodities. Value addition will also go a long way in increasing domestic resource mobilization to counter revenue losses.

5. Conclusion

October 2023 experienced increasing inflationary pressures emanating from the depreciation of the local currency. Price instability will likely worsen in the outlook period, primarily driven by constant electricity shortages, exorbitant fuel prices, and increased fiscal spending pressure to cushion the economy and vulnerable groups & communities from the expected hardened drought weather conditions. Also, softening global mineral prices will likely significantly reduce export earnings, reducing the availability of foreign exchange in the economy.

13. https://www.chronicle.co.zw/major-production-growth-projected-for-mining-industry-in-2024/

6.Policy Recommendations

The following are proposed policy alternatives that can help authorities durably stabilize the macroeconomic environment:

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.

Debt Management Strategy

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

Domestic Resource Mobilization (DRM)

Zimbabwe must better use and maximize existing natural resources rather than relying on borrowing. DRM provides 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

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 & societal inequalities.

Optimal ZWL Liquidity Level

The RBZ’s Liquidity Management Committee (LMC) must have maximum autonomy to establish an optimal level of ZWL liquidity in circulation in the economy. The optimal liquidity level will help stabilize the monetary base and contain frequent ZWL fluctuations.

Address Fuel Cost

Treasury must reduce taxes & 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.