

Monthly Economic Review

February 2024



ZIMCODD

1. Introduction

The Zimbabwe Coalition on Debt and Development (ZIMCODO) seeks to review and analyze the performance of key economic indicators in February 2024. This analysis aims to gauge the health status of the general economy and proffer some policy alternatives. Various stakeholders, particularly the government, can use the identified recommendations in crafting policies that achieve stable, sustainable, and inclusive economic growth that leaves no one and no place behind.

2. Macroeconomic Outlook

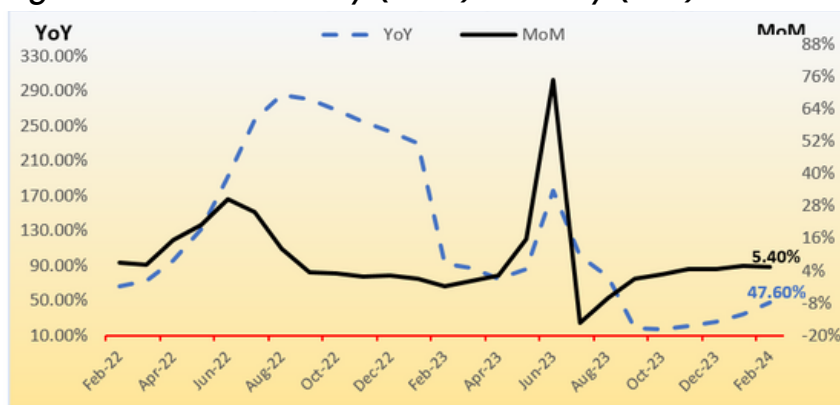
1. The Treasury is projecting a national output (GDP) growth rate of 3.5% in 2024, a downward revision from initial projections of 5.3%. Also, the World Bank is projecting the economy to grow by 3.5%, down from 4.5% estimated in 2023.
2. The critical underpinning assumptions for 2024 include constrained access to finance, unfavorable global mineral commodity prices, a sharp decline in agriculture production, and a squeeze on the Treasury.
3. Significant potential risks are threatening the achievement of moderate GDP growth in 2024. The considerable risks include, but are not limited to:
 - Fiscal pressures due to high public wage bills and the transfer of quasi-fiscal activities from the Reserve Bank of Zimbabwe (RBZ) to the Treasury.
 - External debt distress.
 - Public resource leakage – corruption and illicit financial flows.
 - Electricity shortages and high energy prices.
 - Climate change shocks – El Nino weather conditions.
 - Regressive tax policies in the 2024 national budget.
 - Rapid dollarization and deepening informality.
 - Prolonged global turmoil being driven by deteriorating global geopolitics.

3. Macroeconomic Indicators

The section briefly analyses the economy's performance in January 2024 by tracking selected vital macroeconomic indicators such as inflation, money supply, and the exchange rate.

3.1 Inflation

Fig 1: Zimbabwe Monthly (MoM) & Yearly (YoY) Inflation Trends (%)

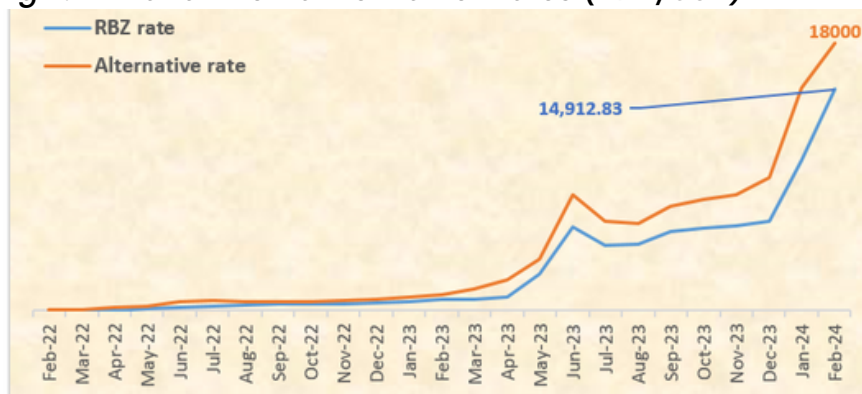


Source: Zimbabwe National Statistics Agency (ZimStat)

- Official statistics show that the economy continues to experience enormous inflationary pressures since the turn of the fourth quarter of 2023 (4Q23).
- Annual blended inflation mounted significantly from 17.8% realized in October 2023 to about 47.6%, reported by ZimStat in February 2024.
- This shows that as of February 2024, general blended prices were up by 47.6% from their February 2023 levels. On a month-on-month (MoM) basis, blended prices spiked by 5.4% in February 2024, building on the 6% increase realized in the previous month.
- Mounting inflationary pressures could be attributed to the ripple effects emanating from route-to-market reforms and tax-funded revenue mobilization strategies introduced by the Treasury for the 2024 fiscal year.
- Also, the perpetual and severe ZWL fluctuations are disrupting business predictability and the ability of economic agents to plan. This is fueling currency substitution (dollarization), thus escalating pressure on ZWL prices.
- With the poor spending their significant budget on basics like staple food, which is generally inelastic to price increases, the final consumer disproportionately absorbs the inflation tax.
- As the government, through Vision 2030, pursues a private-sector-led growth strategy, consumer spending power is critical. However, chronic inflation impoverishes the consumer, thus constraining inclusive national growth and development.

3.2 Exchange Rate

Fig 2: RBZ and Alternative Market Rates (ZWL/USD)



Source: Reserve Bank of Zimbabwe (RBZ), ZimRates

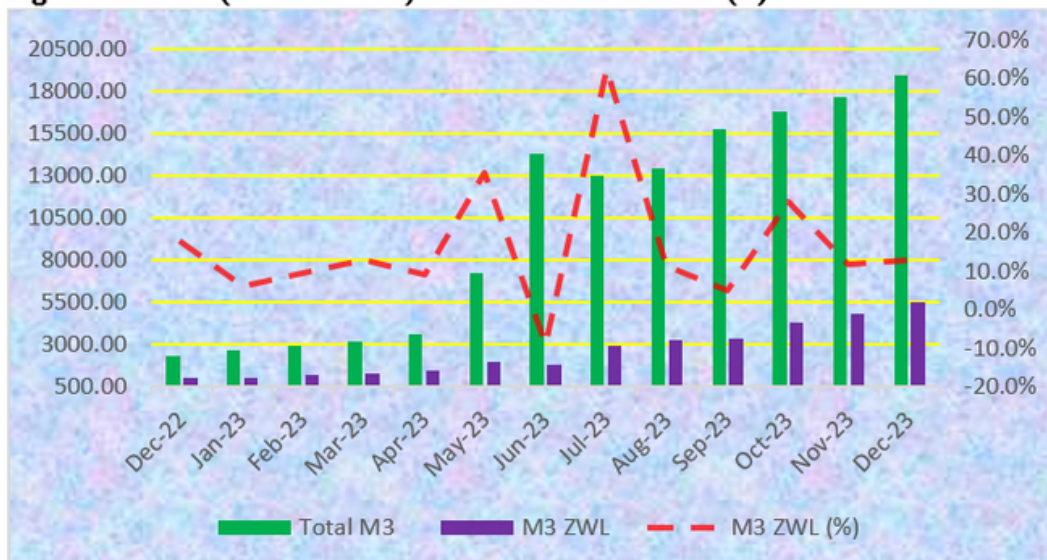
- A trend analysis shows that the ZWL continues on a downward trend. In February 2024, the local unit officially plunged by 31.9% against the USD to close at ZWL/USD 14,912.83.
- In January 2024, the local unit also officially erased 39.9%. In year-to-date (YTD) terms, the ZWL formally lost 59.1% of its value, nearly thrice the loss incurred for the same period in 2023.

- The average ZWL/USD rate offered in the alternative (parallel) markets in February 2024 also deteriorated by 16.7% to 18,000, after a 40% decline was realized in January 2024. In YTD terms, the ZWL was down 50% in the alternative markets.
- The steep ZWL decline in the first two (2) months of 2024 is likely attributable to increased fiscal spending in the fourth quarter (Q4) and low foreign currency generation due to slowing business activity generally associated with the first quarter (Q1).
- In addition, the unpredictability of the monetary policy environment coupled with rampant corruption and exchange rate multiplicity are sustaining excessive rent-seeking behaviors like speculation and arbitrage.
- Without concerted efforts to decimate the currency conundrum, perpetual ZWL decline in a high and regressive tax environment will continue to fuel business costs, subdue savings and investment, erode the real value of incomes, and widen inequalities.
- For instance, elevated ZWL depreciation in foreign exchange markets during the Jan-Feb 2024 period significantly reduced the real value of the 2024 national budget by at least 50%, threatening effective and efficient service delivery in areas like public health, education, and sanitation.

3.3 Money Supply

- A central bank's primary role is to maintain the stability of prices, local currency, and the financial system. As such, the success of monetary policies is generally measured by the performance of prices and currency and the financial system's resilience.
- The central bank can use the money supply to maintain price stability by ensuring that the rate of growth of the stock of money in circulation in the system is in tandem with the growth rate of economic activity in the real sector.

Fig 3: Total M3 (ZWL billions) and M3 ZWL Growth (%)



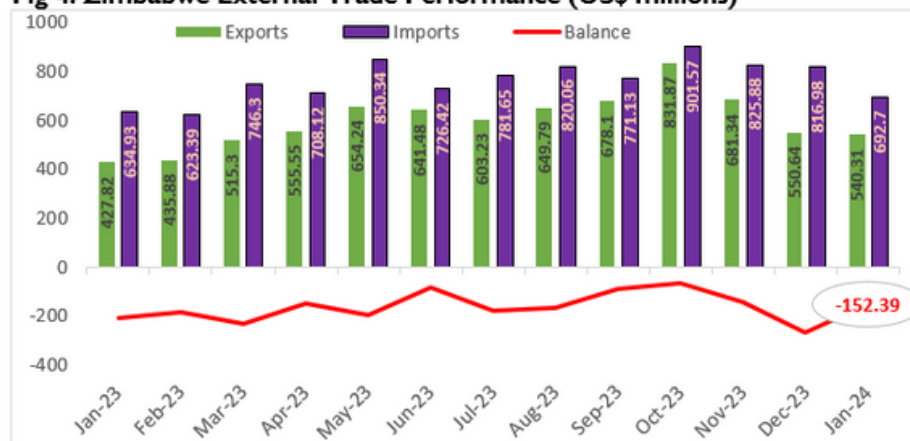
Source: Reserve Bank of Zimbabwe (RBZ)

- However, a close analysis of RBZ statistics shows that while the ZWL money supply (ZWL M3) constitutes a smaller portion of the broad money supply (Total M3), the growth rate of ZWL M3 remains highly unsustainable.
- Available official statistics, for instance, show that in 2023 alone, M3 ZWL grew at an alarming pace, averaging 16.4% per month. In annual terms, M3 ZWL grew by a staggering 446% from ZWL1.01 trillion in December 2022 to ZWL5.5 trillion in December 2023.
- This likely indicates money printing pressure fueled by elevated fiscal spending, notably support for public infrastructure spending, agricultural sector subsidies, and external debt servicing costs.
- Elevated fiscal spending pressure is evidenced by a considerable increase in commercial banks' Treasury Bills (TBs) holdings. In 2023, TBs—short-term government borrowing instruments—held by banks mounted by an alarming 21% per month on average.
- As such, failing to control the growth of the ZWLs at a time when the economy is rapidly self-dollarizing leads to more unwanted ZWL balances in circulation in the system, thereby exerting excessive pressure on ZWL to depreciate and ZWL prices to burgeon.

3.4 External Trade

- Latest official trade statistics show that Zimbabwe imported merchandise worth about US\$692.7 million in January 2024.
- The Jan 2024 outturn is 15.2% lower than US\$816.98 million worth of imports realized in December 2023. In a comparable period, imports were US\$634.93 million in January 2023, down 17.8% from US\$772.6 million in December 2022.
- Statistics also indicate that foreigners spent about US\$540.31 million acquiring goods and services from within the Zimbabwean borders, slightly down 1.9% from about US\$550.64 million in the previous month.
- On a YoY (Jan 2023–Jan 2024) basis, Zimbabwe’s imports spiked by 9.1% compared to 0.9% realized in the previous year (Jan 2022–Jan 2023), while for the same periods, exports recovered significantly by 26.3%, up from a slump of 21.3% in the prior year.

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



Source: ZimStat

- The major imports comprised mineral fuels, mineral oils, and their products (19.94%), machinery and mechanical appliances (11.82%), cereals (8.44%), vehicles (8.32%), electrical machinery and equipment (6.4%), and pharmaceutical products (4.36%).
- The expected persistence of volatile global crude oil prices due to rising geopolitical risks coupled with increased dollarization and negative impacts of El Nino weather conditions on agriculture, the mainstay of the economy, will sustain import growth.
- Data also show that the major exports in January 2024 were tobacco (24.47%), semi-manufactured gold (24.22%), nickel ores and concentrates (11.89%), nickel mattes (10.18%), ferrochromium (4.53%), and industrial diamonds (3.19%).
- The likely subdued global mineral commodity prices like platinum, one of Zimbabwe's top export revenue generators, throughout 2024 will remarkably jeopardize Zimbabwe's export receipts.

3.5 Public Debt

- Official debt statistics reveal that total public and publicly guaranteed (PPG) debt was marginally up by 0.6%, in annual terms, to US\$17.7 billion as of the end of September 2023 from US\$17.6 billion as of the end of September 2022.
- Of the September 2023 total PPG debt stock, 72% (US\$12.7 billion) was contracted externally, while 28% (US\$5 billion) was contracted from the domestic market.
- Zimbabwe is trapped in external debt distress, where over 52% of external debt stock as of the end of September 2023 are interest and principal arrears and penalties. Between Dec 2022 and Sept 2023, non-payment of obligations led to penalties bill to the tune of US\$227.6 million.
- The subdued global mineral commodity prices greatly threaten Zimbabwe's ability to service external debts, risking more penalties in 2024. For instance, the 2023 public debt report shows that the Treasury borrowed about US\$400 million from Afreximbank in 2023.
- The Afreximbank loan is being repaid using 35% of Zimplats' export proceeds of platinum. However, global platinum prices remain low, leading to its paltry contribution to total export receipts, averaging 1.7% in the last 12 months.
- With 72% of total debt stock being owed externally, the increased volatility of the local currency, which has lost 50% of its value in the first two (2) months of 2024, poses a colossal exchange rate risk. More ZWLs are now required to service external debts.
- Hence, more resources will have to be available for debt servicing through the fiscus, resources that would otherwise be used to provide crucial public services, and a gold bar for low-income people, particularly in underserved and marginalized communities.

4. Sectoral Review

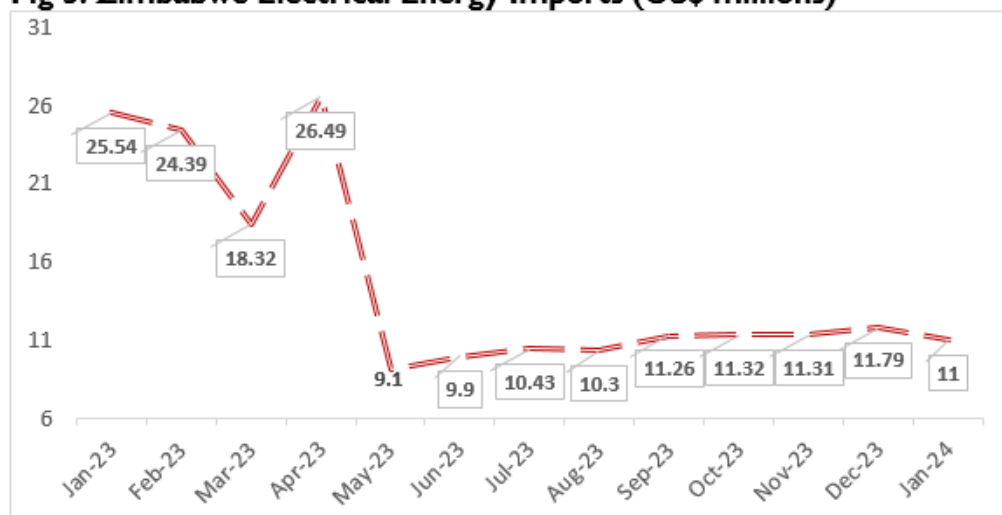
4.1 Energy Sector

This section examines the performance of the energy sector in February 2024 with a critical focus on the electricity and fuel sub-sectors.

4.1.1 Electricity

- The latest official statistics show that in Jan 2024, Zimbabwe imported electrical energy worth US\$11 million, down 6.7% from the US\$11.79 million recorded in Dec 2023.
- The slight decline in electricity imports could be attributable to increased domestic production, particularly thermal output, enjoyed in January 2024, which led to less frequent and short load-shedding schedules.
- However, the old Hwange thermal units (1-6) are costly to operate as most have exceeded their lifespan. Also, these thermal units are now unreliable as they frequently break down when the nation faces acute USD liquidity shortages to support the maintenance and overhaul of old thermal plants.

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

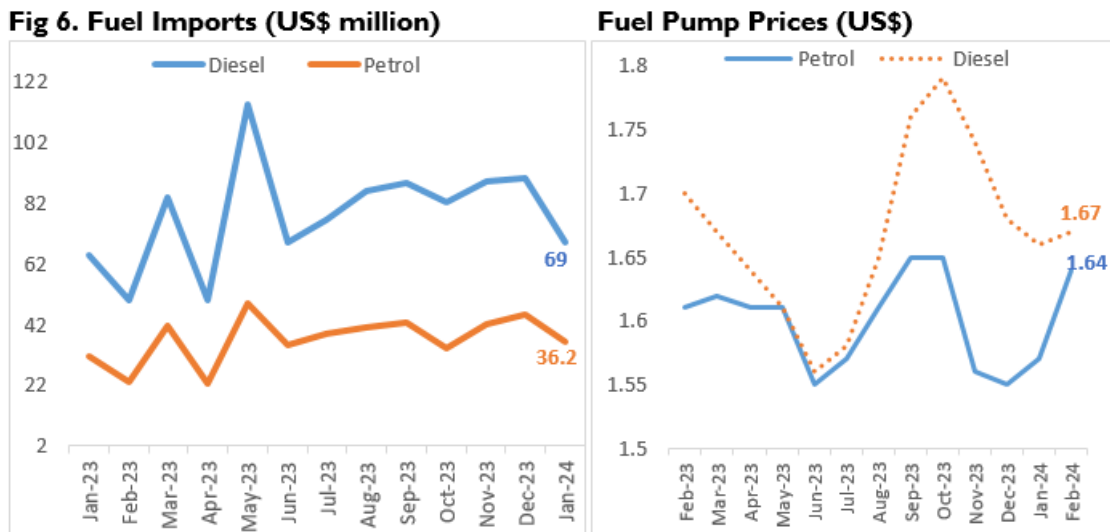


Source: ZimStat

- The massive depreciation of the local currency (ZWL) is causing the Zimbabwe Electricity Transmission and Distribution Company (ZETDC) to frequently review ZWL tariffs, leading to sharp increases in ZWL electricity tariffs.
- For instance, between 25 Jan 2024 and 29 February 2024¹, the price of 50 units/ kWh increased by 60% from ZWL40,000 to ZWL64,000.
- With an average household of six (4) requiring roughly 300 units per month in February 2024, this household needed about ZWL753,000 for electricity alone, far exceeding the average salary for lowly-paid workers.
- The perpetual ZWL decline is crowding out low-income families from using modern energy sources. Their reliance on fossil fuels like wood increases deforestation, thus worsening the climate change crisis.

1. <https://ignitemedia.co.zw/v/14/local-news/article/6232/ZESA-Electricity-Tariffs-Effective-29-February-2024>

4.1.2 Fuel



Source: ZimStat and Zimbabwe Energy Regulatory Authority (ZERA)

- The latest ZimStat data show that in January 2024, Zimbabwe imported diesel worth US\$69 million, down 23.6% from US\$90.3 million in December 2023. For the same month in 2023, diesel imports were down 31.1% from US\$94.1 million in December 2022.
- Similarly, the nation imported petrol worth US\$36.2 million in January 2024, down 20.1% from US\$45.4 million in December 2023. For the comparable month in 2023, petrol imports were down 34.6% from US\$48.2 million in December 2022.
- The decline in fuel imports in January 2024 could be attributed to low business activity generally associated with the first quarter. For instance, the mining sector, which consumes roughly 30% of total fuel, grapples with the flooding of mining shafts in Q1.
- In February 2024, ZERA reviewed fuel pump prices. A liter of diesel fell from US\$1.66 in January 2024 to US\$1.64, while that of petrol went up to US\$1.64 from US\$1.57 in January 2024.
- The increase in petrol prices in February 2024 could be linked to a reduction in the ethanol blending ratio to E5 (5% ethanol) from E20 (20% ethanol) in January 2024.
- Although domestic ethanol prices are relatively high primarily due to limited competition, petrol blending increases the capacity to absorb global crude oil price shocks in addition to conserving natural resources by recycling waste and replacing fossil fuels.

3.3 Agriculture

- A historically dry February 2024 has² resulted in severe water stress for crops across most parts of the country. The 2024 harvest is expected to be poor, impacting household food access through the post-harvest period.

2. <https://fews.net/southern-africa/zimbabwe>

- Grain market supplies are expected to be below normal across the country throughout the outlook period. Low market supply and high demand will keep grain prices higher than the five-year average, with the seasonal decline in prices in the harvest and post-harvest periods unlikely to occur.
- A higher-than-normal national cereal deficit will lead to above-normal grain imports throughout the outlook period. South Africa will likely continue to be the primary source of maize imports.
- Water and pasture conditions are expected to be poor, especially in typically low rainfall areas following cumulatively below-average rainfall that has limited pasture regeneration through the rainy season.
- Poor livestock body conditions, particularly for cattle, will likely lead to higher-than-normal livestock deaths in the dry season as the limited pastures deplete and high prices limit access to supplementary feeds.
- Poor water availability and access are also expected to negatively impact household engagement in casual labor, vegetable production and sales, and other livelihood and coping activities.
- The high and likely continued increase in exchange rates will likely keep ZWL prices well above normal, with price rises also likely in USD as the high production and transportation costs are passed onto the consumer.
- The government, donors, humanitarian partners, and other key stakeholders should prepare for high food assistance needs throughout 2024. Given an anticipated earlier-than-normal start of the 2024/25 lean season, humanitarian assistance will likely need to be further scaled up in late 2024 and early 2025.

4.3 Mining

- Global mineral commodity prices remain subdued. The price decline is attributed to slowing economic activity in major economies, which has dampened demand amid continued supply recoveries for some base metals.
- Metal demand growth slowed to 0.6 percent in 3Q23 (quarter-on-quarter) as global manufacturing activity remained subdued. Monetary tightening in advanced economies weighed on consumer demand for metal-intensive durable goods.
- A modest recovery in global metals supply also weighed on prices in 2023. Metal output increased in the first three quarters of 2023 (YoY) following production disruptions in 2022.
- Subdued mineral prices significantly affect Zimbabwe, a mineral-dependent nation, with minerals contributing at least 70% of average monthly exports. In Jan 2024, minerals contributed 65.5%, down from 71% in December 2023 and 80.5% in Jan 2023.
- In the outlook, metal prices are expected to fall 5% in 2024 after declining by nearly 10% in 2023 (YoY) before they are projected to stabilize in 2025.³

3. <https://blogs.worldbank.org/en/opendata/metal-prices-ease-softening-demand>

- However, the global mineral price outlook is subject to various risks. The primary downside risk is a sharper slowdown in activity among advanced economies and China, which could further weaken metal demand in 2024.
- Trade restrictions and other policy actions, such as sanctions on Russia, could tighten the metal supply and increase prices. An escalation of the ongoing conflict in the Middle East could lead to substantial disruptions in energy markets, increasing production costs for energy-intensive metals.
- Other short-term risks include environmental concerns, labor disputes, adverse weather conditions, or technical problems that can disrupt mining operations and adversely affect the supply of metals in several regions.

5. Conclusion

The poor performance of key macroeconomic indicators in February 2024 shows that attaining a durably stable macroeconomic environment will become increasingly elusive. The economy faces numerous risks, including, among others, debt distress, fiscal and monetary indiscipline, excessive leakages of public resources (corruption and illicit dealings), rapid dollarization of the economy, deepening informality, and supply-side shocks (load-shedding, high energy prices, and El Nino weather conditions).

6. Policy Recommendations

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

Reform Agenda

Adequate political will is needed to implement robust and inclusive reforms to curb corruption, reduce government waste, increase central bank independence, promote sustainable enterprises, and reduce poverty and societal inequalities.

Policy Consistency

To date, authorities have announced various policy measures to tame instability. These policies must be fully implemented while maintaining consistency in several interrelated ways: internal, vertical, and horizontal consistency.

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.

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.
- Strengthening of value chains, particularly agriculture and mining value chains.
- Fiscal decentralization reforms.

Optimal ZWL Liquidity

The Liquidity Management Committee (LMC) must have increased operational autonomy to establish an optimal level of ZWL liquidity, which is critical to stabilizing the monetary base and containing 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.

Renewable Energy Transition

Not only is renewable energy good for climate change, but it is also cheap to produce compared to other non-renewable sources like thermal energy. This is key in reducing both the cost of doing business and the cost of living.

Public Service Delivery

Treasury must prioritize the provision of crucial public services to improve the welfare of people experiencing poverty. Stable growth is achieved when all economic agents – poor and rich alike – equally participate in the economy.

7. Disclaimer

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