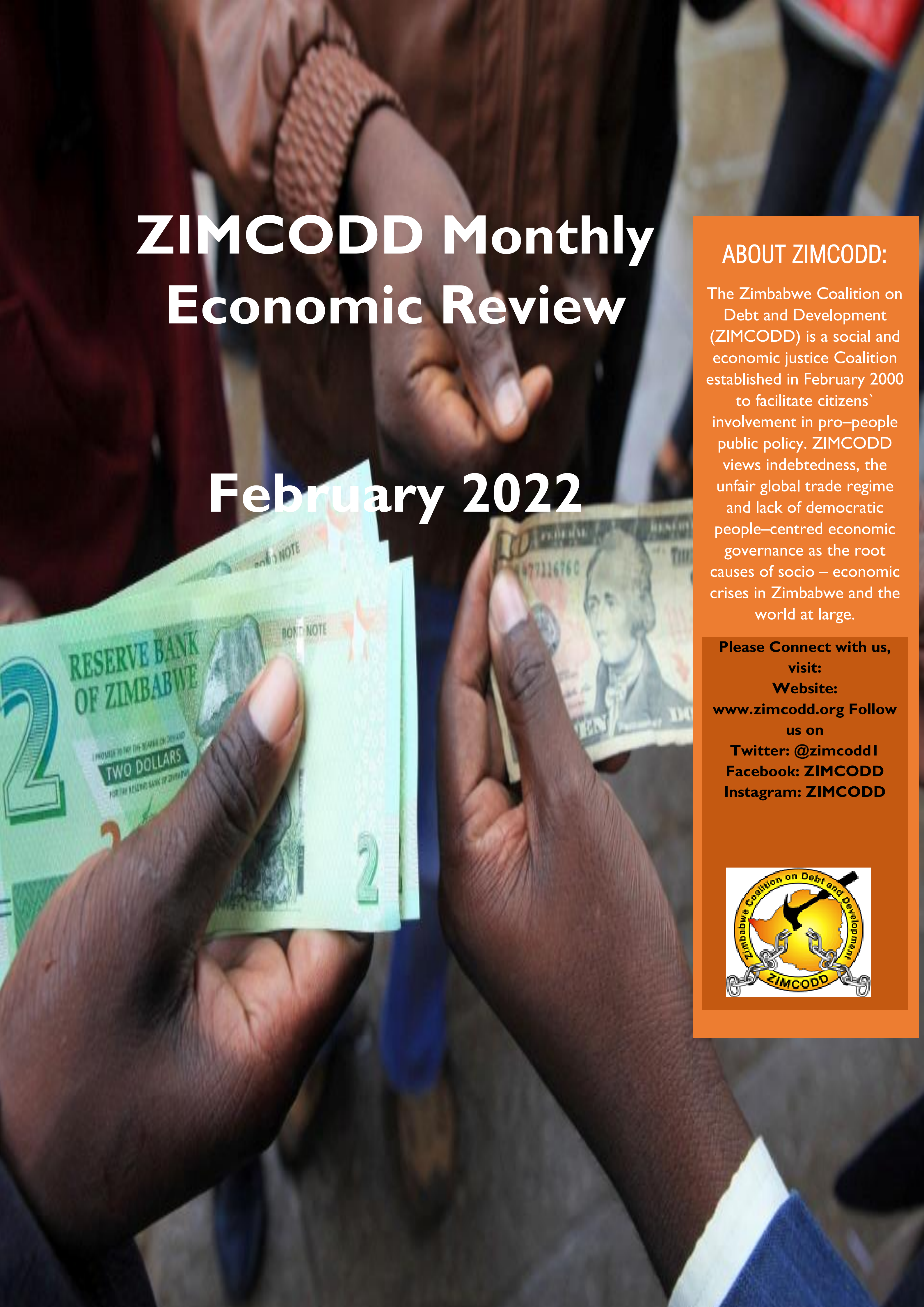

ZIMCODD Monthly Economic Review

February 2022

ABOUT ZIMCODD:

The Zimbabwe Coalition on Debt and Development (ZIMCODD) is a social and economic justice Coalition established in February 2000 to facilitate citizens` involvement in pro–people public policy. ZIMCODD views indebtedness, the unfair global trade regime and lack of democratic people–centred economic governance as the root causes of socio – economic crises in Zimbabwe and the world at large.

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Executive Summary

This monthly economic review tracks the movements and performance of key economic indicators such as Gross Domestic Product (GDP), money supply, exchange rate, inflation, public debt, and government accounts as well as providing a brief overview of selected sectors of the economy. The following were the key highlights in February 2022:

- *The worsening global geopolitics between Russia and the West (EU, US, and NATO) is posing damaging risks to global peace and security, trade, travel, and prices. If prolonged, this will severely subdue global economic activity.*
- *Treasury projected that the economy would grow by 5.5% in 2022. However, there are downside risks to the outlook which include inter alia erratic rainfall patterns affecting the 2021/22 cropping season; the likelihood of historical fiscal indiscipline associated with election years; elevated political violence; an unpredictable path of the COVID-19 pandemic, and worsening geopolitics between nuclear superpowers which may accelerate imported inflation for Zimbabwe, a net importer.*
- *Annual inflation as measured by the All-Items Consumer Price Index (CPI) surged by 66.6% in February 2022 relative to 60.6% recorded in the prior month. On a month-on-month basis, price inflation increased by 7% in February 2022, the biggest monthly outturn since August 2020. Driving inflation is the free-flowing Zimbabwe dollar (ZWL), structural rigidities, high borrowing cost, and COVID-19 induced supply chain disruptions.*
- *The Zimbabwe dollar continued with its losing streak, falling by a cumulative 7.11% in four (4) consecutive auction weeks conducted in February 2022. About US$148.71 million was allotted on the auction in the month. In the parallel market, the local unit slid by 8.9% to close the month at an average of ZWL230. The continued ZWL depreciation in the black market is contributing to price inflation as almost all ZWL prices are benchmarked at the US dollar parallel rate.*
- *RBZ statistics show that the broad money supply increased by a staggering annual rate of 132% in December 2021. This excessive money supply growth fuels currency depreciation hence causing inflation because generally the former is indirectly related to the exchange rate.*
- *Zimbabwe recorded an external trade deficit of -US$180.27 million in December 2021. Exports for the month came in at US$590.86 million while imports were US$ 771.13 million. For the full year, Zimbabwe incurred a trade deficit of -US$1.54 billion.*
- *Accounting for the assumption of an additional US$500 million RBZ legacy debt in January 2022, total public debt is now US$14.2 billion from US$13.7 billion recorded as of September 2021. RBZ debt alone constitutes over 30% of the total public and publicly guaranteed debt.*
- *Government and labour representatives agreed to a 20% hike of salaries for public workers, a continuation of US$75 COVID-19 allowance, and introduction of a US$100 salary as well as other fringe benefits like institutional housing and a fast-tracked rebate of duty on imported motor vehicles.*
- *Global oil price per barrel registered a massive increase in February 2022 fuelled by the rising geopolitical tensions. Russia is one of the major suppliers of oil in the global market. Hence, embargoes on its oil and gas are exerting an unprecedented global supply shock.*
- *About 2.868 tonnes of gold were delivered to FPR in Jan 2022 compared to 0.997 tonnes achieved in January 2021 with artisanal and small-scale miners contributing about 2.053 tonnes of this total. Zimbabwe exported gold valued at US$1.6 billion in 2021.*

1. Introduction

The Zimbabwe Coalition on Debt and Development (ZIMCODD) February 2022 economic review provides an independent analysis of the performance of the macroeconomy. An appreciation of monthly economic trends by all stakeholders including citizens is key in holding public officials accountable and helps economic agents in making their day-to-day economic decisions. As such, this review covers the February 2022 economic/GDP outlook (global, regional, and domestic), evaluates the performance of crucial economic indicators, provides a sectoral overview, and intext policy alternatives to identified problems.

2. Economic Outlook

2.1 Global Economic Performance and Outlook

Global output growth for 2021 is estimated at 5.9%. The drivers of this growth were discussed in the previous issue of the economic review.[1]

Table 1: Global Economic Outlook Projections

	2020	2021	2022	2023
World	-3.1	5.9	4.4	3.8
Advanced	-4.5	5	3.9	2.6
Emerging Asia	-0.9	7.2	5.9	5.8
M. East & Central Asia	-2.8	4.2	4.3	3.6
Latin America & Caribbean	-6.9	6.8	2.4	2.6
Sub-Saharan Africa	-1.7	4	3.7	4

Source: IMF World Economic Outlook (Jan 2022)

The worsening global geopolitics between Russia and the West (EU, US, and NATO) due to the invasion of Ukraine by the former poses a great risk to global peace and security, international trade, global travel, and global price inflation. If prolonged, this will subdue global economic activity.

2.2 Regional Economic Performance & Outlook

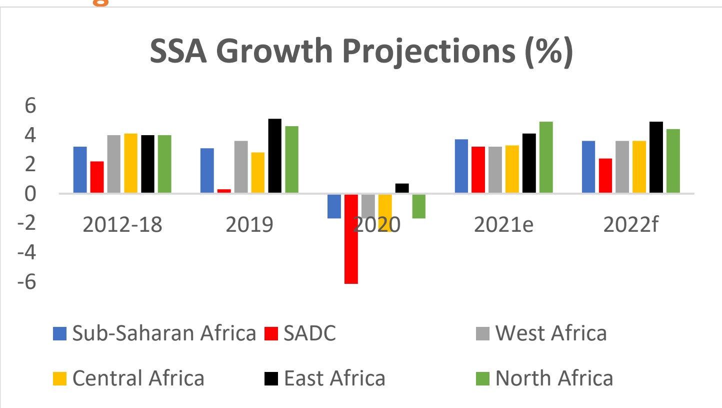

Fig 1: Sub-Saharan Africa Growth Projections
Source: African Development Bank (AfDB)

Sub-Saharan Africa (SSA) is projected to grow by 3.7% in 2021 buoyed by high oil and mineral commodity prices. However, because of its poor vaccination rate and commodity dependence, the outlook of the region largely hinges on the future path of the COVID-19 pandemic. Since Russia is a major global player in the oil and gas industry, the mounting Russia-West tensions will negatively impact many SSA countries which are net importers of energy. Further, the rising public debt in the SSA region is also a cause for economic concern as it may cause capital flight thus exerting more pressure on their economies. Therefore, governments in the SSA region should work towards diversifying their economies to spread risks. Also, import substitution is required to reduce the dependency of the region on imports.

2.3 Zimbabwe Economic Outlook

According to government estimates, the economy expanded by 7.8% in 2021. This year, the government expects growth to moderate to 5.5% as shown in figure 2.

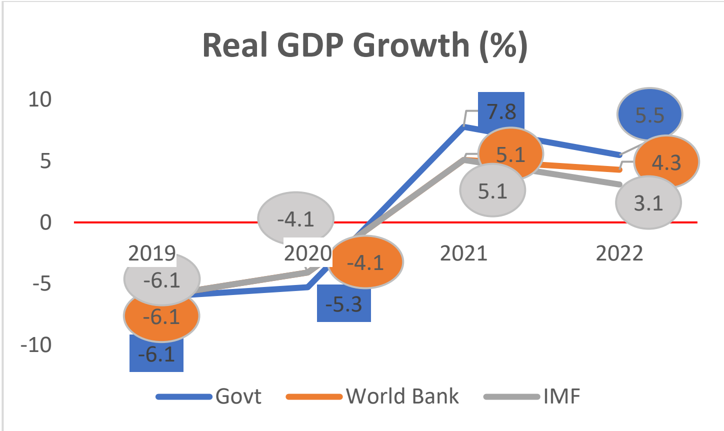

Fig 2: Zimbabwe Real GDP Growth (%)
Source: Ministry of Finance, IMF & World Bank

As highlighted in ZIMCODD's previous month's economic review, the balance of risk to the 2022 outlook is to the downside. The country is facing a prolonged election season, a period that is historically characterized by unsustainable government spending. This could worsen the already deteriorating ZWL exchange rate and skyrocketing price inflation. Also, elections are associated with political violence -case of recent violence at the Mbizo opposition by-election rally in Kwekwe that left 17 people injured and one dead.[2] This affects the mental health of citizens who are freely participating in democratic processes as granted by the Constitution, increases the investment risk premium, and subdue business activity.

Further, the country is likely heading towards a poor agricultural season due to prolonged dry spells which are causing crops to wilt. For instance, 30% of maize crop has been written off in Manicaland Province with 50% at temporary wilting point.[3] Zimbabwe is an agrarian economy with 70% of the population particularly the rural dwellers earning income from this sector. As such, many households

[1] dd.org/?smd_process_download=1&download_id=5326
[2] https://www.zimfocus.co.zw/index.php/2022/03/01/zhrc-laments-increase-in-political-intolerance-newsday/
[3] https://news.pindula.co.zw/2022/02/27/30-percent-of-maize-crop-written-off/

may end up in need of food assistance. On a global scale, the ongoing sanctions being mounted by the West against Russia, a top global energy player, are affecting energy prices and the global supply chains. If prolonged, this will also cause significant imported inflation for Zimbabwe because oil is the largest import for Zimbabwe.

Notwithstanding statistics showing that COVID-19 cases were on a declining trajectory in February, the future path of the pandemic is not deterministic. With 22.9% of the eligible population with at least one COVID-19 dose as of 28 February 2022[4], the government still falls short of its 60% herd immunity goal which was initially targeted to be achieved by December 2021. This is a worrisome development that exposes the country to stringent lockdowns if another wave is to hit the nation in the future. Zimbabwe is also facing devastating underlying conditions that are inhibiting economic activity. These include structural rigidities like price distortions, weak institutions, and high public corruption as evidenced by a drop of corruption perception index score to 23/100 in 2021 from 24/100 in 2020.[5]

3. Macroeconomic Indicators

The section analyses the performance of selected key macroeconomic indicators in February 2022. This helps to establish whether the economy is strong or not.

3.1 Inflation

The Zimbabwe National Statistics Agency (ZimStat) inflation statistics as measured by the All-Items Consumer Price Index (CPI) showed that on an annual basis, prices surged by 66.6% in February 2022 relative to 321.59% recorded in a comparable period in 2021. Although greatly lower than February 2021, the annual price inflation increase registered in the month under review is the biggest jump since June 2021.

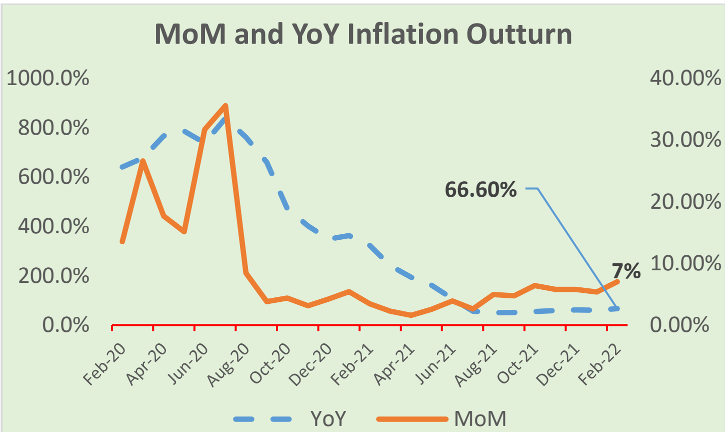

Fig 3: Zimbabwe Annual Inflation (%)
Source: ZimStat

From a month-on-month (MoM) perspective, that is, from January 2022 to February 2022, prices mounted by 1.7 percentage points to 7% from 5.3% that was realized between December 2021-January 2022. This February MoM inflation rate of 7% is the biggest monthly outturn since August 2020.

3.2 Exchange rate

In February 2022, four (4) auction trades were conducted by RBZ with the ZWL shedding a cumulative 7.11% of its value relative to 5.94% attained in January 2022. About US$148.71 million was allotted on the auction market in February 2022.

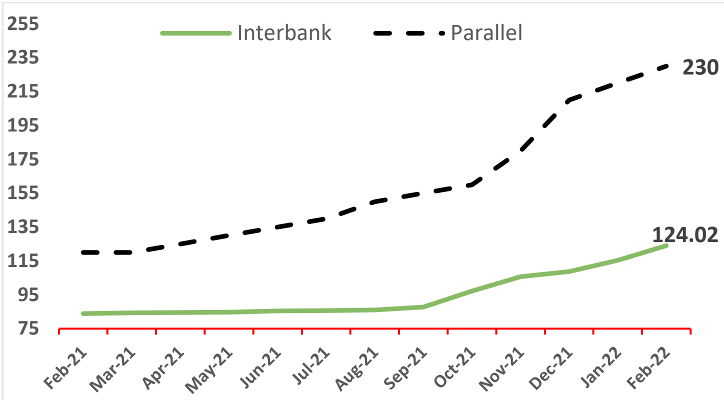

Fig 4: Official and Parallel Exchange Rate
Source: RBZ, ZIMCODD

In the parallel market, the local unit slid by 8.9% from an average of ZWL220 in January 2022 to ZWL230 by end of February 2022. Since almost all businesses are benchmarking local prices at the black-market rate, the continued decline of ZWL in the black market entails high inflation via the exchange rate pass-through effect. This continues to be one of the major drivers of inflation in Zimbabwe since 2019.

In its 2022 Monetary Policy analysis[6], ZIMCODD highlighted that there is a possibility of insider trading at the auction and the deliberate manipulation of the exchange rate by the RBZ since it is the sole supplier of forex on the auction market.

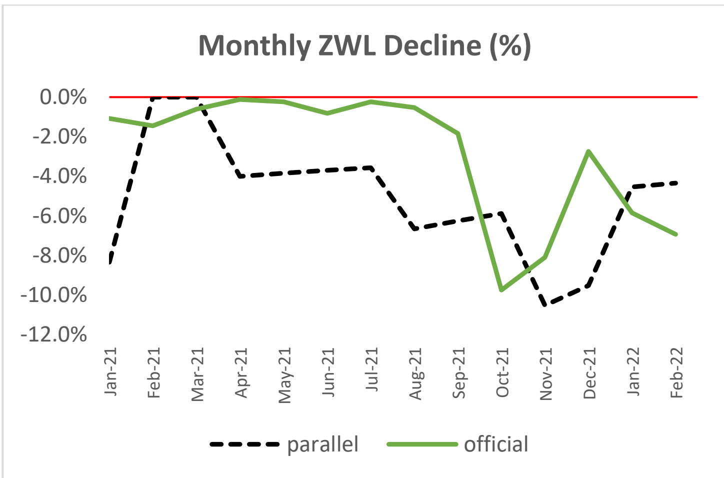

Fig 5: Monthly ZWL Depreciation (%)
Source: RBZ, ZIMCODD

[4]https://www.google.com/search?q=vaccination+rate+in+zim&oq=vaccination+rate+in+zim&aqs=chrome...69i57.4817j0j9&sourceid=chrome&ie=UTF-8

[5] https://www.tizim.org/2022/02/01/2021-corruption-perceptions-index-press-release/

[6]https://zimcodd.org/?smd_process_download=1&download_id=5280

Figure 5 shows the percentage decline of ZWL against the US dollar from January 2021 to February 2022. The visual indicates that when monthly ZWL declines at the official market were nearly constant as shown by a cumulative ZWL decline of 6.9% (Jan-Sept 2021), the currency slid heavily in the black market by a cumulative -36.4%. On realizing that inflation was spiralling out of control, it is evident from Figure 5 that the central bank loosened controls on the auction in October 2021. Consequently, ZWL fell by a massive -33.4% in the official market in only five (5) months, Oct 2021 to Feb 2022.

As such, the public's view is that the auction market should operate under the forces of demand and supply with little RBZ interference to reduce black-market premiums which were hovering above 88% as of February 2022. Without this, discovering the true ZWL price and curbing inflationary pressures will remain a mammoth task for authorities. Therefore, to stabilize the economy, it is prudent for authorities to either reform the current auction system and tame incessant money supply growth or adopt a re-dollarization policy.

3.3 Money Supply

The current inflation problem battering the economy since 2019 is linked to excessive money supply growth. Typically, the quantity of money stock should move in proportion with the quantity of output (GDP) to keep prices depressed.

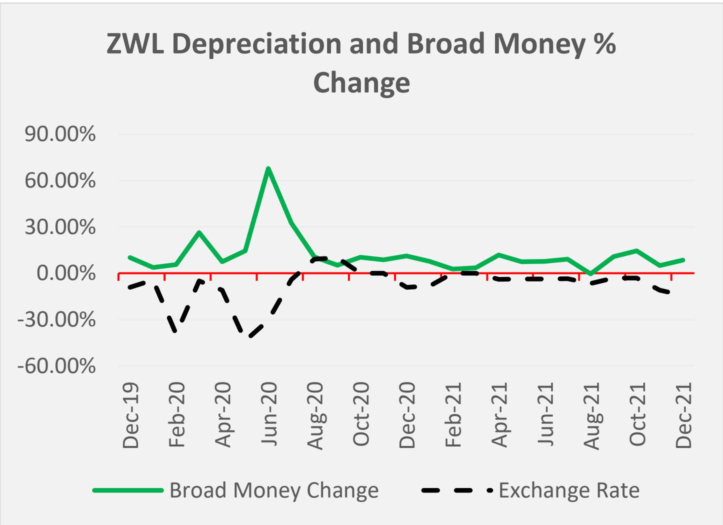

Fig 6: MoM Broad Money (%) and MoM ZWL Depreciation (Parallel Market).
Source: ZIMCODD Computations

Figure 4 illustrates the general negative relationship between money supply and the exchange rate. The parallel rate was used because it perfectly depicts the applied side of economics as Zimbabwean dollars that are being pumped into the system end up being traded for US dollars in the informal exchange markets. Latest RBZ statistics show broad money supply increasing by a staggering 132% in December 2021 after another 138% was realized in November 2021 (year-on-year). This fuels inflation as too much money ends up circulating in the economy chasing too few goods.

Monetary Policy Highlights:

- *Quarterly reserve money growth target reduced from 10% to 7.5% through June 2022.*
- *The Bank's policy rate was maintained at 60%.*
- *Reserve requirements for demand deposits and time deposits were maintained at 10% and 2.5% respectively.*
- *The auction market will be fine-tuned, to settle auction bid allotments within 2 weeks from the allotment day.*
- *RBZ will increase forex to fuel dealers designated by ZERA to sell fuel in local currency.*
- *Building forex reserves by setting aside 5% of forex available for the auction system.*
- *Increased limit on mobile banking transactions and cash withdrawal limit for the banking public from ZWL$2,000 to ZWL$5,000 per week.*
- *US$50 Facility now only for vulnerable members of society specifically pensioners, senior citizens, people with disability, and those in need of forex to pay medical bills.*
- *Export retention threshold for tobacco and cotton growers to be increased to 75%.*
- *Tourism and hospitality shall retain 100% of their forex earnings to allow them to recover from COVID-19.*

Read ZIMCODD analysis of the 2022 Monetary Policy on: https://zimcodd.org/?smd_process_download=1&download_id=5280

3.4 External Trade

The latest trade statistics released by ZimStat in the month under review, show that merchandise exports were US$590.86 million in December 2021 while merchandise imports were US$ 771.13 million. This gives a monthly trade deficit of -US$180.27 million.

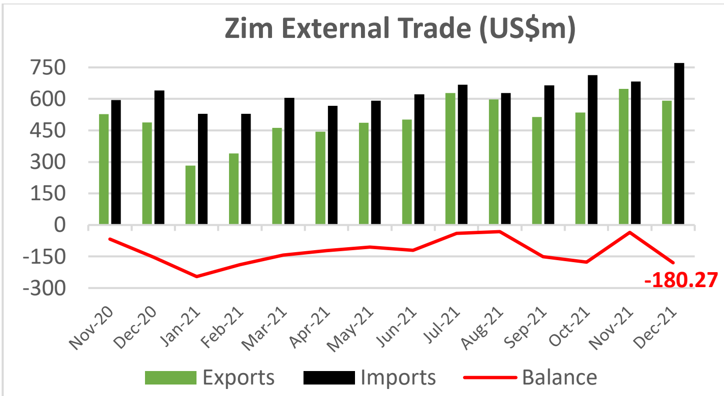

Fig 7: Zimbabwe External Trade Position (US$ Million)
Source: ZimStat

Cumulatively, Zimbabwe exported goods worth US$6.03 billion in 2021 and imported goods worth US$7.57 billion. This gives an annual trade deficit of -US$1.54 billion which is slightly above an annual deficit of -US$1.25 billion attained in 2020.

3.5 Government Accounts

The latest available statistics show that in 2021, Zimbabwe Revenue Authority (ZIMRA)'s net revenue collections were ZWL469.21 billion.

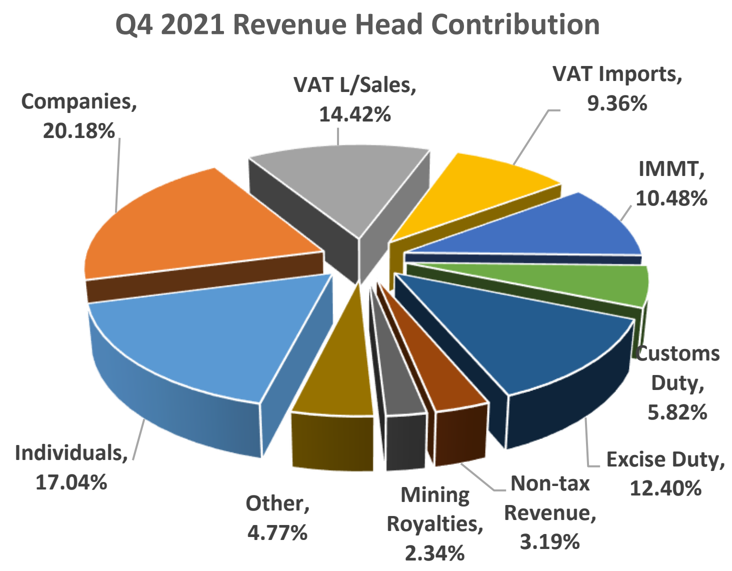

Fig 8: ZIMRA Revenue Head Contribution
Source: ZIMRA Quarterly Revenue Performance Report

Nevertheless, the surpluses announced by the government since 2019 were realized largely because wages and salaries for public servants were largely sticky upwards. For instance, last year a teacher was earning a monthly average salary of ZWL30,000 while the PDL for an average household of 6 closed the year at over ZWL50,000. Due to months of negotiations, the government agreed in the month under review to cushion civil servants although the cushion still falls below the general price levels.

Highlights:

- *Civil servants were awarded a 20% hike on gross emoluments backdated to January 2021.*
- *Continuation of payment of US$75 COVID-19 allowance payable in hard cash.*
- *Introduction of a US$100 salary to be paid in hard currency across the board.*
- *The state will introduce a housing loan scheme for civil servants & institutional accommodation for teachers.*
- *Payment of school fees for every teaching family up to 3 biological children capped at ZWL20,000 per child per term.*
- *Rebate of duty on motor vehicles imported by civil servants*
- *In January 2022, IPEC paid US$100 to pensioners who were earning US$1000. IPEC got US$400,000 from the dividend declared by Kuvimba Mining House.*
- *In total, Treasury invested US$75 million in Kuvimba so that it compensates pensioners who were affected by currency reforms.*

3.6 Public Debt

In January 2022, the government assumed fresh RBZ legacy debt totalling US$3.8 billion. This is the amount the RBZ agreed to pay as opposed to over US$6 billion being claimed by 855 companies the Bank failed to help repatriate money abroad due to 2019 forex shortages.

Public debt highlights:

- *As of September 2021, public & publicly guaranteed (PPG) debt was recorded at US$13.7 billion*
- *Of this total debt, external debt constitutes US$13.2 billion while domestic debt takes US$532 million.*
- *This public debt constitutes about 85% of GDP, way above the 70% threshold in the Public Debt Management Act.*
- *Accounting for the January 2022 assumption of RBZ debt, total public debt will expand to US$14.2 billion.*
- *RBZ debt alone totalling US$5.4 billion now constitutes over 30% of total debt stock.*

Generally, a debt-GDP ratio shows a country's capacity to repay its debts, with a rising ratio indicating that debt is growing faster than national income. As such, the ballooning Zimbabwe debt is a cause for concern, especially under the context of the COVID-19 pandemic, fragile domestic election season, worsening global geopolitics between nuclear superpowers, and a mounting global inflation wave.

Therefore, there is a need to undertake an independent public debt audit that will inform the scale and nature of the country's debts, which are often not transparently publicized. An audit will also become a building block to popularise discussion about the legitimacy of certain debts and whether they should be repaid. Further, Zimbabwe needs to revamp its public debt management -a process of establishing and executing a 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 - interest rate risk, currency risk as well other risks.

4. Sectoral Review

4.1 Energy Sector

The country is facing energy shortages and the cost of energy remains high.

4.1.1 Electricity Sector

Zimbabwe continued with frequent electricity load shedding in February because of the country's overreliance on Kariba South Hydropower Station. Most thermal power stations have outlived their lifespans hence are experiencing breakdowns making them uneconomical to operate.

Table 2: Electricity Generation (Feb 24, 2022)

Power Station	Installed Capacity	Actual Generation
Harare Thermal	50MW*	0 MW
Bulawayo Thermal	90 MW*	0 MW
Munyati Thermal	50 MW*	0 MW
Hwange Thermal	920 MW	404 MW

Kariba Hydro	1050MW	881 MW
Total	**2160MW**	**1285 MW**

Source: ZPC

Table 2 shows that as of 24 Feb 2022, ZPC produced 1 285 MW of electricity against an average national demand of 1 735MW giving a huge power deficit of 450 MW. Therefore, to close the gap and attain electricity self-sufficiency at a low cost, ZIMCODD implores the government to invest massively in renewable energies like solar energy. Also, a diversified energy mix is now more crucial than ever due to risks being posed by changing climatic conditions.

Highlights:

- *Zimbabwe imported electricity worth US$139.92 million in 2021, a -9.1% decline from US$153.93 million spent on electricity imports in 2020.*
- *ZESA estimates that Hwange 7&8 project is now 82% complete and expected to join the national grid from July, ceteris paribus.*
- *Zimplats was granted a license to generate 185 MW from solar to provide itself with energy security.*
- *Old Mutual Zimbabwe explores the renewable energy sector, with US$12.4 million already invested.*
- *Rural Electrification Fund targets to finish 370 projects by year-end to improve power availability in rural areas.*

4.1.2 Fuel

Since Zimbabwe is a net importer of petroleum products, domestic pricing is largely influenced by the dynamics in the global crude oil market.

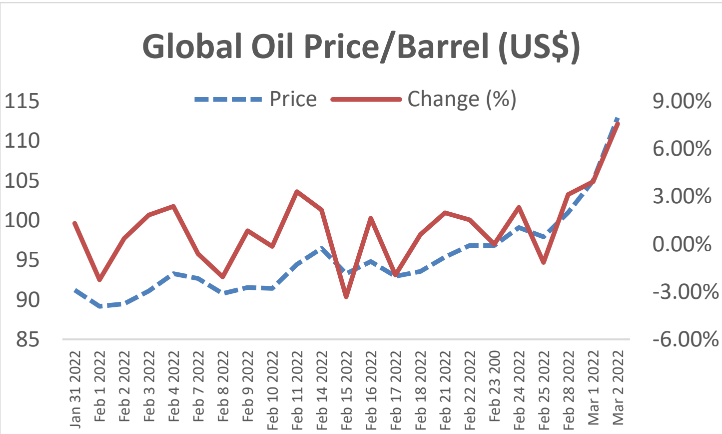

Fig 9: Global Oil Price/Barrel changes in Feb 2022

Source: Investing.com

Figure 6 shows a massive increase in global oil price per barrel in February 2022 fuelled by the Russia-Ukraine conflict. As alluded to earlier, Russia is a major supplier in the global oil market, and embargos on its oil and gas exerts an unprecedented global supply shock. These current developments forced ZERA to review domestic pump prices on the 5th of March. The maximum pump price of a litre of diesel and that of petrol were both capped at US$1.51 from US$1.44. The foregoing will likely trigger increases in shelf prices of goods since fuel is a key product that facilitates the transportation of industrial supplies, distribution of goods, mass transit, and industrial production, especially during ZESA's load shedding hours.

Therefore, the government should cushion economic agents by reducing fuel levies like import and excise duty. Ceteris paribus, the government can also institute targeted fuel subsidies to support producers and the commuting public.

Highlights:

- *Data processing by Invictus from Muzarabani oil & gas exploration found signs of hydrocarbons confirming potential natural gas & crude oil deposits.*
- *Invictus expects to sink 2 wells by June 2022 to determine the quality and quantity of deposits found in the area.*
- *Unfortunately, Treasury increased fuel levy by 85.11% and 52.63% on diesel & petrol respectively with effect from 1 Feb 2020 and for 30 days.*
- *Russia's invasion of Ukraine means that fears around the supply of crude oil will remain front.*

4.2 Agriculture

Last year, the country experienced a bumper harvest, the second biggest since 1980. About 2.7 million tonnes of staple maize were harvested against the national requirement of about 2.2 million tonnes for both human and livestock consumption. However, the erratic rainfall patterns experienced between Oct-Dec 2021 and the prolonged dry spell experienced since mid-January 2022 pose a great risk to the 2021/22 cropping season. Therefore, acute food shortages will be expected in deficit-producing regions. This has a bearing on food prices, poverty, and poverty prevalence.

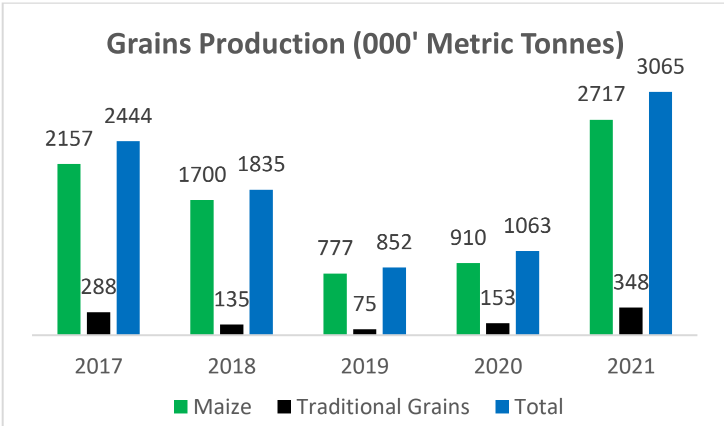

Fig 10: 2021 Zimbabwe Grains Production

Source: Ministry of Agriculture

Highlights:

- *30% of crops in Manicaland have been written off because of prolonged dry spells while 50% of crops were reportedly on a temporary wilting state.*
- *In response to extended dryness nationwide, the government has now lifted the maize and wheat import bans.*

- *According to Fews.net[7], most typical livelihood strategies are expected at below normal levels mainly due to the pending poor agricultural season*
- *GMB increased maize prices to millers by 16% from ZWL43,000 a tonne to ZWL50,000.*
- *Zimbabwe donated 800 tonnes of maize and 200 tonnes of white sorghum to Mozambique to help internally dispersed people.*
- *Govt is undertaking the third and final land audit which aims to repossess all underutilized and multiple farm ownership.*

4.3 Mining Sector

The mining sector is a key sector for Zimbabwe as it contributes about 60% to annual export receipts and at least 14% to GDP. The gold sub-sector also provides direct employment and income for artisanal miners who are predominantly youth.

Figure 11 shows exponential growth in the value of gold exports. Gold is a safe haven asset during the time of uncertainty, a characteristic it derives from its long history of use as a currency and a store of value. At US$1.6 billion, gold exports constituted 27% of total exports in 2021. The value of other minerals like nickel and Platinum Group Metals (PGMs) also fetched high global prices in 2021 thanks to increased global business activity from a severe COVID-19 induced recession experienced in 2020.

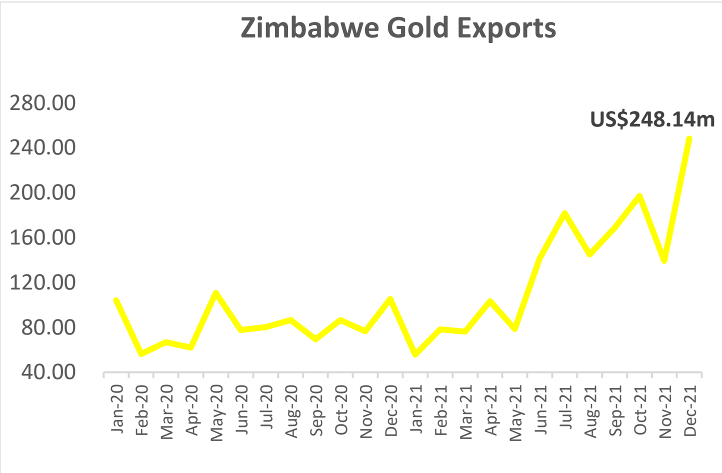

Fig 11: Zimbabwe Gold Exports (Jan 2020-Dec 2021)
Source: ZimStat

Despite high earnings from minerals, revenue flows to the Treasury remain insignificant due to elevated corruption by public officials. The mining sector is under siege of illicit financial flows like the smuggling of gold. For example, the government estimates that it is losing about US$100 million worth of gold per month to smugglers.[8] The mining host communities like Mutoko and Chiadzwa have nothing to show from granite and diamond mining respectively besides poor infrastructure, degraded environment, polluted air and water sources as well as forced relocations to pave way for unsustainable mining activities. As such, there is a need for government to expedite the rolling out of the electronic mining cadastre system and the Mines and Minerals Amendment Bill which seeks to pluck leakages and increase transparency in mining.

Highlights:

- *74% stake of Bikita Minerals in Masvingo Province would be acquired by a Chinese giant for US$180 million.*
- *This follows another acquisition of Prospect Resources lithium mine for US$422 million by Chinese Huayou in Dec 2021.*
- *Gold deliveries to FPR in Jan 2022 were 2.868t, nearly 3-fold the 0.997t achieved in the comparable month in 2021.*
- *Small-scale miners were the largest contributors delivering 2.053 tonnes to FPR.*
- *Zimplats is investing US$521 million to expand smelter capacity, a key milestone in local PGM beneficiation.*
- *The first platinum matte is scheduled for January 2024 while the commissioning of the acid plant is set for August 2024.*
- *Russia-Ukraine war and ensuing sanctions send mineral commodities to a rally due to fears of severe supply shortages.*

5. Disclaimer

All information, data, and analysis provided in this February 2022 Economic Review are for informational purposes only. ZIMCODD makes no representations as to the completeness, accuracy, usefulness, timeliness, suitability, and validity, of any information provided herein. ZIMCODD will not be liable for any errors, omissions, or any losses, injuries, or damages arising from its use. All the information is provided on an "as is" basis without any warranties of any kind whatsoever, express or implied, and confers no rights.

[7] https://fews.net/southern-africa/zimbabwe

[8] https://www.chronicle.co.zw/us100-million-gold-smuggled-out-of-zimbabwe/