WEEKLY REVIEW

24 January 2023

Weekly Dashboard

RBZ Interbank Rate

Week	10.12.2022	17.01.2023
Per USD1	705 4164	732.0036

Consumer Price Index

Month	November	December
	13 349.42	13 672.91

Inflation

Month	November	December
M.O.M.	1.8%	2.4%
Y.O.Y.	254.96%	243.8%

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1. Embrace Politics Administration Dichotomy For Good Corporate Governance

The optimum efficiency of parastatals and state enterprises continues to be undermined by political fallouts and schisms within the ruling party.[1] Effective corporate governance at the National Social Security Service (NSSA) is in the doldrums and ramshackle. This can be evidenced by Acting President Constantino Chiwenga who used his political muscle to block public service minister Paul Mavima from making executive rotation on the position of the NSSA Acting Managing Director.[2] It's alleged that the blocking of this executive rotation might have been influenced by the vested interest of the executive in factional wrangles. NSSA is strategic in ZANU PF factional battles as it provides them with a haven of resources to loot through cheap funding and business deals for self-aggrandizement as well as opportunities to build war chests for their political battles. It is against this background that underscores the need for a vibrant Civil Society that constantly acts as a meta-governance system to make the government accountable for its decisions, actions and utilization of resources. In the same vein, a vibrant watchdog institution or institution is vital to ensure that there is a robust politics administration dichotomy. This is one of the most effective ways of ensuring that good corporate governance remains the nerve center of decision-making in state enterprises and parastatals.

2. Investing in Subsistence Farming For National Resilience And Optimum Transformation of Livelihoods

The economic performance of Zimbabwe largely depends on developments in its agricultural sector. Zimbabwe has 4, 130,000 hectares of arable land, with 25% being cultivated using manual draught power and animals.[3] In the first two decades after independence, Zimbabwe`s agriculture performance was optimal as it was at the apex of regional and continental food production. Zimbabwe`s massive agriculture production made her attain the bread basket status of Africa and the regional food security cluster position. However, following the chaotic Fast Track Land Reform Program (FTLRP) of 2000, agriculture production deteriorated as irrigation infrastructure was damaged due to the hostile takeover. The majority of the new landowners depended on rain rather than irrigation for their crops.

As the weather patterns change and droughts become more frequent, the country has failed to produce enough grain to meet domestic demand, culminating into food scarcity and donor dependence.

1. https://thenewshawks.com/nssa-zanu-pf-factional-battles-filter-through-state-controlled-enterprises/
2. https://thenewshawks.com/nssa-zanu-pf-factional-battles-filter-through-state-controlled-enterprises/
3. https://www.trade.gov/country-commercial-guides/zimbabwe-agricultural-sectors

Zimbabwe is largely dependent on food donations, particularly from the international support it receives from the World Food Programme (WFP). In 2021, the WFP supported 2.2 million beneficiaries with 55% being women and 45% being men. A total of 86, 462 metric tonnes were distributed with US$ 44.5 million used in cash transfers. However, as of December 2022, over 3.7 million Zimbabweans had registered for the government's social food assistance programme a 54% increase from December 2021. The government intends to assist 3.2 million people while the rest will be assisted by development partners. The scale and magnitude of the assistance point to food insecurity and the government's failure to provide sufficient food despite claims of a bumper harvest.[4]

The preceding submission shows national food insecurity which undermines the livelihoods of the masses. It is against this backdrop that, transparently investing in subsistence farming might be an effective alternative to ensure national food security and transformational livelihoods. Currently, 61% of the Zimbabwean population which translates to 9.2 million survive on subsistence farming, the majority of which struggle to buy inputs or to find a market for their produces. This is because the value chain and supply chains are dominated by big corporates and Politically Exposed Persons (PEPs) who exploit smallholder farmers. Therefore, investing in subsistence farming goes beyond supplying agriculture inputs to smallholder farmers but ensuring that their interests are also preserved in the supply and value chain. This is the only way investing in subsistence farming will culminate in livelihood transformation and also guarantee trade justice.

3. Youth Unemployment Leads to High Emigration

Youth unemployment in Zimbabwe remains high and many youths have resorted to the informal sector to sustain their livelihoods. The informal sector makes up the larger part of Zimbabwe's economy. It remains unregulated and this offers little to no protection by the law to workers in this sector. The true figures pertaining to Zimbabwe's informal sector remain largely unknown due to the failure in capturing the size of informal trade which is sustaining most families in Zimbabwe. In a 2020 report, the International Labour Organisation (ILO) revealed that 580 000 youth fled Zimbabwe for greener pastures.

The Labour Market Diagnostic Analysis Report indicated that the majority of emigrants mentioned a lack of employment opportunities as the number one motive for leaving the country. Most emigrants worked in the agricultural sector before their departure. South Africa was the leading destination chosen by emigrants, followed by Botswana. Unfortunately, due to their irregular status, most Zimbabwean emigrants occupy low-quality jobs characterized by the absence of employment contracts and social protection.

The findings indicated that increasing living standards and promoting economic and social development in Zimbabwe first requires improving employment opportunities.

4. https://www.newsday.co.zw/2021/09/zims-bumper-harvest-what-went-right-and-what-needs-to-be-done/#:~:text=ZIMBABWE%20has%20reported%20a%20bumper%20harvest%20of%20maize,production%20for%202021%20stands%20at%202%2C7%20million%20tonnes

Zimbabwe is plagued by a lack of economic opportunities emanating from a failure to adhere to the rule of law and the non-creation of a secure environment for domestic and foreign investment. Development requires an engaged citizenry that drives social, political, and economic reform through participation. The inclusion of women in political, economic, and social activities is instrumental for development and achieving gender equality, therefore, it is important to fast-track gender mainstreaming through youth and women affirmative action into positions of influence by advancing political representation.

The report observes that women and young workers are four times more likely to be inactive than men and adult workers respectively. Youth who enter the labor market may also face additional barriers to finding a job, partly due to a lack of work experience, difficulties signaling their skills to employers, fewer opportunities to access capital, and lower levels of social capital. Among the recommendations proffered were the development of formalization strategies and the development of policies in consultation with those that are affected to ensure policies deliver the intended result of creating an enabling business environment.

4. Falling Zimbabwe dollar: Where is the missing link?

In 2007/8, Zimbabwe experienced record hyperinflation in modern economic history for a country in peacetime. The local unit was officially dumped by authorities in 2009 after it suffered market rejection as economic agents started to favor transacting in foreign currency dominated by the South African rand and the US dollar -the advent of dollarization reform (2009-2018). After a decade, the government austerity measures and currency reforms of 2019 saw the re-branding of the ZWL, introduced through Statutory Instrument 33 (SI33) of 2019 as the Real Transfer Gross Settlement (RTGS) dollar comprising of all bond notes and coins in circulation, mobile money, and bank balances.

On the first day of trading in the official interbank market, the RTGS dollar was trading at ZWL/USD 2.50 before losing a staggering 62% of its value in only four (4) months to close June 2019 at ZWL/USD 6.60 (ZWL/USD 8.50 in alternative markets). The continued excessive decline of the ZWL forced the promulgation of SI142 by Treasury on 24 June 2019 thus officially introducing the Zimbabwe dollar as the sole legal tender for all domestic public and private transactions. It was however astonishing at the time that authorities forged ahead with forced de-dollarization despite the existence of a huge body of knowledge showing that successful de-dollarization only comes when undertaken as a process, not an overnight event.

Also, the deterioration of the currency was largely emanating not from the use of forex but from excessive ZWL liquidity growth in the market. For instance, the Reserve Bank of Zimbabwe (RBZ) statistics show high powered money supply popularly known as reserve money (M0) burgeoning by a mouth-watering 170% between December 2018 (ZWL3.3 billion) and December 2019 (ZWL8.8 billion).

High-powered money holds the topmost position in monetary policymaking and since it is mostly currency in circulation with economic agents, it decides the level of liquidity and price level in the economy. As such, the management of high-powered money is thus very important to manage the general price level. Consequently, ZWL depreciation heavily persisted with the unit losing an average of 63% in the official market before the[1] re-introduction of the fixed exchange rate regime in March 2020.

By June 2020, the perpetual decline of the ZWL in alternative markets influenced authorities to ditch a fixed regime in favor of the Dutch Forex Auction System. In its formative months, the auction system managed to bring sanity, particularly in the alternative markets with the ZWL gaining some ground in the third quarter of 2020 (Q3:20). Statistics show the ZWL reclaiming about 20% of lost value from an average of ZWL/USD 120 in July 2020 to ZWL/USD 100 in November 2020. The period also enjoyed a sustainable growth of money supply with reserve money growth registering a paltry 0.2% growth in Q3:20 relative to 8.5% and 33% in Q2:20 and Q1:20 respectively. However, the stability was fragile as the nation returned to increased depreciation pressures in Q4:20 partly in line with an unsustainable 47.4% jump in reserve money injected into the system.

Fast forward to 2022, currency instability remained a challenge for Zimbabwe with ZWL losing about 84.1% of its value against the USD from ZWL/USD 108.67 in December 2021 to ZWL/USD 684.33 in December 2022. Consequently, price inflation spiked, in annual terms, during the same period from 60.7% to 243.8%. Granular analysis shows that apart from the unsustainable monetary aggregates, price inflation in 2022 also emanated from the poor 2021/22 cropping season and the ripple effects of the Russia-Ukraine war. A 2022 World Bank report shows that at 353%, Zimbabwe had the highest food inflation globally. Also, the Bank estimated that about 40% of Zimbabweans were living in extreme poverty in 2022 as disposable incomes were decimated by ravaging inflation and income disparities magnified by a tattering currency.

After a brief moderation of ZWL decline in the parallel markets and inflation growth between July-October 2022, the trend reversed course starting in November 2022 likely because of elevated government spending associated with fourth quarter bonus payments and agriculture support as well as increased general demand. The local unit slid from ZWL/USD 800 in October to close December at ZWL/USD 900. In the same vein, monthly prices upscaled by 0.6 percentage points to close 2022 at 2.4% from 1.8% recorded in November. With so many risks to the 2023 economic outlook such as a high perceived corruption, general election, unpredictable path of the COVID-19 pandemic, and unending Russia-Ukraine war, Zimbabwe will likely continue being trapped in vicious cycles of currency and price volatilities.

From the foregoing, one can conclude that Zimbabwe’s economic decay and entrenchment of citizens into poverty is largely emanating from poor economic management.

This reasoning is informed by the fact that the country continues to experience increased forex generation. For instance, in 2021, Zimbabwe recorded its highest-ever foreign currency receipts of US$9.7 billion, up by 53.5% from the 2020 outturn but ZWL was down in both official and alternative markets. Generally, forex generation is regarded as crucial in aiding currency management and building economic resilience. Therefore, to put the ZWL and prices on a stable path authorities should consider:

- **Foster fiscal discipline:** Unsustainable government spending leads to increased domestic borrowing which in turn crowds-out private sector investment and growth. All else constant, a flourishing private sector is key to employment creation, infrastructure development, output growth, and wealth creation. Also, monetization of unsustainable fiscal deficits poses real risks -potentially high inflation and encroachment on central-bank independence.
- **RBZ independence:** Several empirical studies have established that the more independent (ability to make monetary policies that are not dictated by political considerations) a central bank is, the lower the inflation it allows without injuring growth and employment goals. Also, a target and operationally independent RBZ will have more credibility which is essential in reducing inflationary expectations.
- **Increase Official Use of ZWL:** In recent months, the government has increasingly shown a lack of trust in its currency as many public services have been dollarized. Yet, the government is the single largest consumer in the market. A policy shift requiring most local payments in ZWL will propel demand and use of the ZWL in the market as well as increase market confidence in the local currency.
- **Agriculture sector:** Generally, the Agric sector is the backbone of the Zimbabwean economy as it provides employment and income for 60-70% of the population and supplies about 60% of industrial raw materials. Also, food and beverages alone constitute about 30.1% of the all-items consumer basket. As such, the current financing model over-relying on state support requires a complete revamp to ensure that citizens take farming as a business and reduce dependence on the state. This will promote climate-smart agriculture.
- **Domestic Resource Mobilization (DRM):** Given her rich natural resource base, DRM will be one of the best ways of reducing Zimbabwe’s overdependence volatile aid and risky resource-backed loans (RBLs). It also promotes sustainable development as government funds its own development goals, finance gender-responsive public services, and reduce economic, social, and gender inequalities.
- **Economic and Structural Reforms:** The government should swiftly implement these reforms to improve competition and market price discovery. The existing public institutions require reconfiguration in terms of the quality of personnel, operational procedures, and methodologies. There is also a need to improve the quality of public taxation systems to encourage innovation and address the challenges of the poor population in the welfare state. More so, with reforms, fiscal authorities will be able to tighten public finance management systems to curb leakages from corruption and illicit transactions.

- **Policy Consultations:** An inclusive multi-stakeholder dialogue is crucial in reviving the broken social contract between government and citizens. It helps to avoid the top-down approach to policymaking to increase ownership.