2022

ECONOMIC REVIEW

JULY

ZIMCODD

ZIMBABWE COALITION ON DEBT & DEVELOPMENT

Executive Summary

This July 2022 Economic Review tracks the movements and evaluates the performance of key indicators like national output, money supply, exchange rates, price inflation, public debt and balance of payments position as well as selected sectoral review. The following were the key highlights in July:

- *The global economic outlook remains gloomy and highly uncertain. A global economy that was still reeling from the COVID-19 pandemic is now being perturbed by the negative spillovers from the Russia-Ukraine war and associated sanctions and countersanctions impeding global trade and cooperation.*
- *Although benefiting from elevated commodity prices, rising inflation in Sub-Saharan Africa (SSA) is eroding the real value of household incomes and accelerating inequalities. This could trigger social unrest, insecurity and violence as unemployment among the youths is accelerating.*
- *Severe economic volatility in Zimbabwe is eroding wage value, constraining consumer spending power and affecting private sector investment. The situation is exacerbated by exogenous shocks coming from rising geopolitical tensions among nuclear superpowers. Consequently, the government now expects GDP to grow by 4.6% down from an initial projection of 5.5%.*
- *The monetary authority is struggling to fulfill its primary role of maintaining low levels of inflation. In the last 12 months ending July 2022, price inflation mounted significantly by 256.9%. Monthly, prices increased by 25.6% in July relative to 30.7% in the prior month.*
- *In July 2022, the ZWL maintained its first position of being the worst performing currency in the region as it has fallen by 16.4% in the WBWS interbank market. In year-to-date (YTD) terms, the ZWL is down by more than 75% against the United States dollar.*
- *Even though the reserve money supply is realizing a steady growth rate, the broad money supply is mounting at an accelerated pace. The latest statistics show the aggregate gaining by 269.62% YoY in June 2022 with the ZWL component growing at a mouth-watering rate of 172.77%.*
- *In the 1HY22, merchandise exports mounted by 33% to US$3.5 billion from US$2.6 billion achieved in the comparable period in 2021. This was spurred by increases in global prices of mineral commodities. In the same period, merchandise imports grew by 15% to US$3.7 billion due to rising global fertilizer, energy, and food prices.*
- *According to the 2022 Mid-term Fiscal Review, ZWL534.5 billion (55.2%) of the initial ZWL968.3 billion was utilized as of June 30, 2022. For the same period, revenue collections stood at ZWL506.6 billion resulting in a budget deficit of ZWL27.9 billion.*
- *Total public and publicly guaranteed (PPG) debt as of June 2022 comprised ZWL$1.3 trillion (US$3.5 billion) and US$13.2 billion in domestic and external debt, respectively. Of the total external debt, US$5.5 billion is owed to bilateral creditors, US$2.6 billion to multilateral creditors, and US$4.9 billion is RBZ external debt (including US$3.5 billion blocked funds).*
- *After months of frequent spikes in fuel pump prices largely due to the effects of the Russia-Ukraine war, ZERA revised pump prices downwards at least twice in July. This decline necessitated by falling global crude oil prices was quite unusual because historically Zimbabwe's fuel pump prices are generally sticky downwards.*

1. Introduction

The domestic economy is under siege of perpetual currency depreciation and rising price inflation. This is widening inequalities and deepening poverty as recently revealed by the World Bank.[1] The authorities have come up with various measures to restore stability such as the introduction of gold coins. Despite a series of fiscal and monetary policy measures, the economic environment continues to deteriorate forcing self-dollarization of the economy. For instance, some specific goods and services are now being sold exclusively in foreign currency, a clear contravention of existing exchange regulations. This is creating a classy system of the 'haves' (those with stable US dollars) and the 'have-nots' (those with fragile ZWL). Against this background, this July 2022 Monthly Economic Review examines the performance of the macroeconomy and proffer evidence-based policy alternatives to help bring sustained relief to businesses and consumers.

2. Economic Outlook

2.1 Global Economic Performance and Outlook

The outlook for 2022 remains gloomy and highly uncertain forcing forecasters to constantly downgrade their global output (GDP) projections. In July 2022, the International Monetary Fund (IMF) revised further downwards its 2022 global GDP to 3.2% from 3.6% that was projected in April 2022.[2] According to the IMF, the global economy which is still reeling from the COVID-19 pandemic is being perturbed by the negative spillovers from the Russia-Ukraine war and associated sanctions and countersanctions impeding global trade and cooperation.

Table 1: Global Economic Outlook Projections

	2020	2021	2022p	2023p
World	-3.1	6.1	3.2	2.9
Advanced	-4.5	5.2	2.5	1.4
Emerging Asia	-0.9	7.3	3.6	3.9
M. East & Central Asia	-2.8	5.7	4.8	3.5
Latin America & Caribbean	-6.9	6.8	3.0	2.0
Sub-Saharan Africa	-1.7	4.5	3.8	4.0

Source: *IMF World Economic Outlook (April 2022)*

1. https://humanitarianpost.co.zw/50-of-zimbos-living-in-extreme-poverty-world-bank/
2. https://mediacenter.imf.org/news/imf-july-2022-world-economic-outlook/s/

Resultantly, the global economic activity is slowing down entering what could become a protracted period of feeble growth and elevated inflation.[3] Inflation projections have been revised upwards to 6.6% in developed nations and 9.5% in developing nations. The skyrocketing inflation especially in the USA and the European Union (EU) is triggering major monetary and financial tightening which could induce debt distress in emerging and developing economies. Also, a worse than anticipated slowdown experienced in the world's manufacturing hub, China, amid COVID-19 outbreaks and strict lockdowns have a bearing on the global GDP. This raises the likelihood of stagflation a grave threat to developing nations with limited resources to cushion their people and economies.

2.2 Regional Economic Performance & Outlook

The growth projection for Sub-Saharan Africa remains unchanged from the initial April 2022 projections as the commodity-dependent region is expected to continue to benefit from elevated commodity prices, particularly in the extractive sectors.

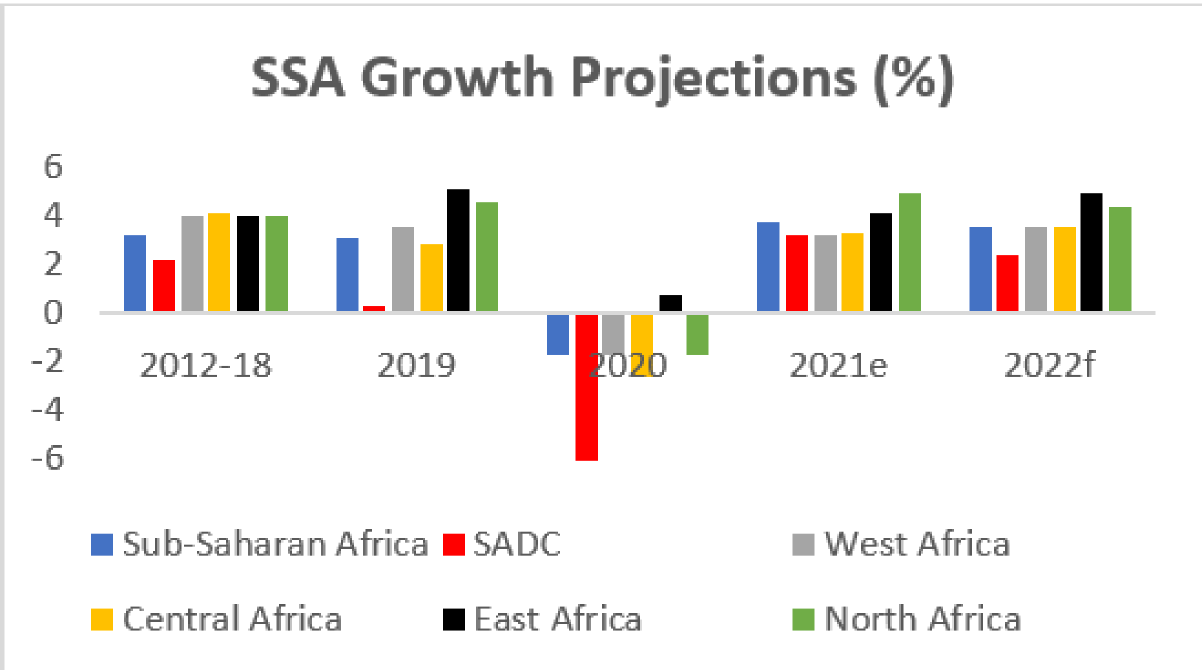

Fig I: Sub-Saharan Africa Growth Projections
Source: *African Development Bank (AfDB)*

However, the rising inflation would likely erode the real value of incomes in many countries, subdue aggregate demand and widen inequalities. This could trigger social unrest, insecurity and violence in the region which was already experiencing high youth unemployment. Also, accelerated monetary policy tightening in advanced nations would raise borrowing costs and the risk of debt default. At the same time, fiscal space could narrow further if spending pressures to curb the impact of rising food and fuel prices continue to build up. As such, avoiding the worst-case scenario requires a global consensus to support those being severely affected by war and speed up debt relief as well as expand vaccinations in low-income nations.

3. https://www.worldbank.org/en/news/press-release/2022/06/07/stagflation-risk-rises-amid-sharp-slowdown-in-growth-energy-markets

In addition, governments must avoid distortionary policies such as price controls and export bans while reprioritizing spending toward targeted relief for vulnerable communities.

2.3 Zimbabwe Economic Outlook

Initially, the government had projected the economy to grow by 5.5% in 2022. However, the changing external and domestic circumstances had tilted the assumptions anchoring the 2022 approved budget. This inevitably forced Treasury to downgrade its initial projections in the month under review by 0.9 percentage points to 4.6%.

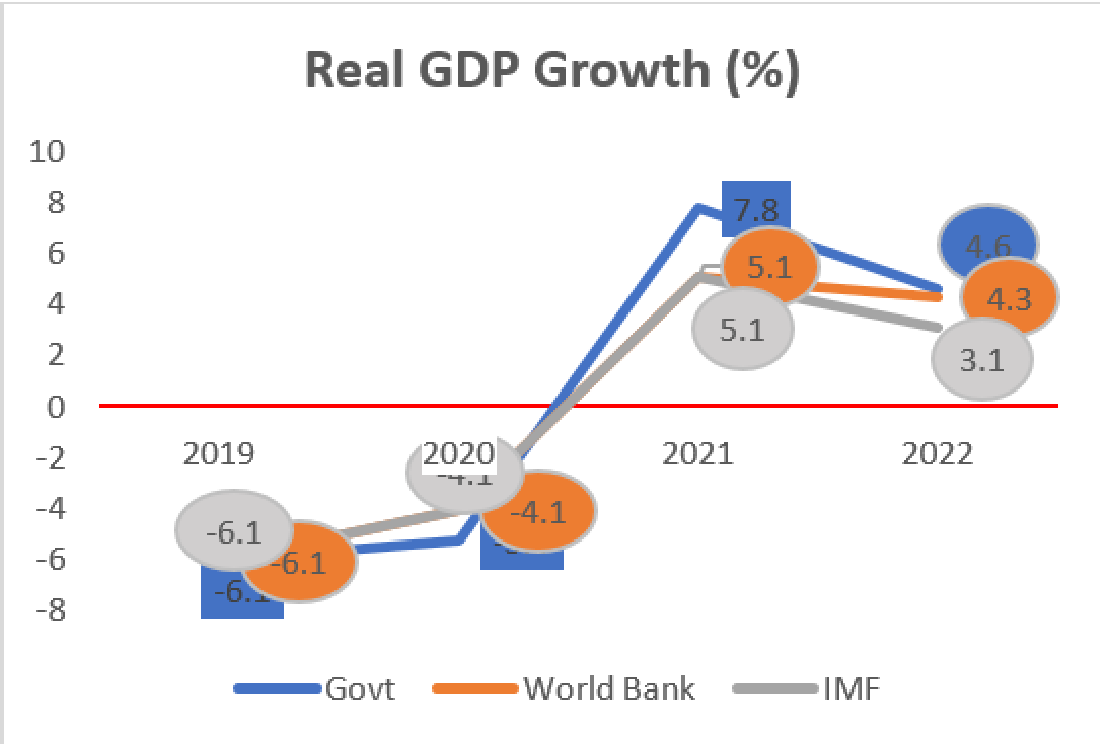

Fig 2: Zimbabwe Real GDP Growth (%)
Source: *Ministry of Finance, IMF & World Bank*

A December 2021 report by ZIMCODD analyzing the 2022 National Budget disputed Treasury's position that the macroeconomic fundamentals were sound and the economy would mount by 5.5%.[4] According to this report, little was offered in the 2022 budget to cushion an ailing economy that was already experiencing rampant ZWL exchange rate depreciation, skyrocketing price inflation and rising poverty levels. Seven (7) months into the year, the performance of socio-economic indicators had deteriorated significantly beyond the imaginations of the Treasury itself. Severe macroeconomic volatility is subduing real incomes, constraining consumer spending, and scaring private sector investment. The situation is exacerbated by exogenous shocks coming from rising geopolitical tensions driven by the Russia-Ukraine war.

4. https://zimcodd.org/wp-content/uploads/2021/12/2022-National-Budget-Analysis-1-DECEMBER-2022.pdf

The war has added to Zimbabwe's inflation headache as it has disrupted global trade thereby largely impacting global energy and food prices, the country's top imports. Starting in May 2022 to date, the country is experiencing long hours of power outages. This has a huge negative bearing on winter wheat farmers, industrial production and household budgets as they look for alternative energy sources. Burgeoning farm input prices such as chemicals and fertilizers mean increased Treasury spending supporting the summer cropping season. There are also risks associated with election years such as the embrace of populism even if the fiscal space is largely limited. This will likely jeopardize the Treasury's financial standing thereby destabilizing the exchange rate and prices.

The foregoing show that for the outlook period, economic headwinds will continue gaining momentum. Even if a positive albeit low GDP growth is to be attained, it will be growth without a "human face". This is against the country's aspirations of attaining stable, inclusive and sustainable growth as outlined in its National Development Strategy 1 (NDS1). Therefore, there is a need to strengthen social safety nets to cushion vulnerable groups.

Corruption Watch

The rate of corruption maintains an upward trajectory in Zimbabwe, a development that is greatly stifling public service delivery and subduing economic growth and development as public funds are being abused, misused, embezzled, and diverted for private gain through tender-preneurship deals. In 2021, Zimbabwe's corruption rank by Transparency International (TI) was at 157/180 countries. This means that the country is one of the most corrupt nations as evidenced by frequent reports of corrupt behaviours. Below are the latest highlights:

- ***Honourable Justice Mayor Wadyajena Saga:*** *He was arrested by Zimbabwe Anti-Corruption Commission (ZACC) on allegations of fraud and money laundering amounting to US$ 5.8 million.[5] It is alleged that, in 2019, Hon. Wadyajena and COTTCO management formed a shelf company, raised an internal stores voucher for the supply of special high carbon bale ties. Nevertheless, to this day COTTCO has not received the purported imported bales as the money was used to buy 25 Freightliner from Giant Equipment LLC, USA and the Freightliner trucks are now registered under Mayor Logistics.*
- ***Pomona Deal:*** *The Harare City Council (HCC) entered into a US$400 million waste to energy deal with Geogenix BV, a Netherlands based company. According to this agreement, HCC will pay US$40 per tonne of waste, with an estimated daily delivery of 550 tonnes. However, the deal was reached without public consultation and without going through the correct public procurement processes.[6] It has not been subjected to any oversight by parliament and the processes to solidify the deal were expedited with undue and unaccountable pressure on Council officials by the Executive.*
- ***Fire tender Scandal:*** *The reign of July Moyo at the helm of the Ministry of Local Government has successfully derailed all intended outcomes as prescribe in the Devolution and Decentralisation Policy by making the local government an appendix of the central government. The directive by his Ministry that all Town Clerks, Town Secretaries and Chief Executive Officers will receive two Fire Tenders from Belarus on their devolution allocation was a reflection of the pseudo devolution and rampant corruption*

5. https://www.newsday.co.zw/2022/08/more-woes-for-embattled-wadyajena/
6. https://zimcodd.org/?smd_process_download=1&download_id=5623

- *The contract for supply of these fire tenders set price of each fire tender at more than US$400,000 despite the market price being US$60,000.*[7]
- *From the foregoing cases, it is quite clear that corruption is one of the key drivers of economic decline being witnessed in Zimbabwe since 1990s.*

31. Macroeconomic Indicators

The section analyses the performance of selected key macroeconomic indicators to establish the direction being taken by the economy.

3.1 Inflation

Since 2019 when the ZWL was introduced, the monetary authority is struggling to maintain low levels of inflation- its primary mandate. In the last 12 months ending July 2022, price inflation mounted by 256.9% while monthly, general prices increased by 25.6% in July.

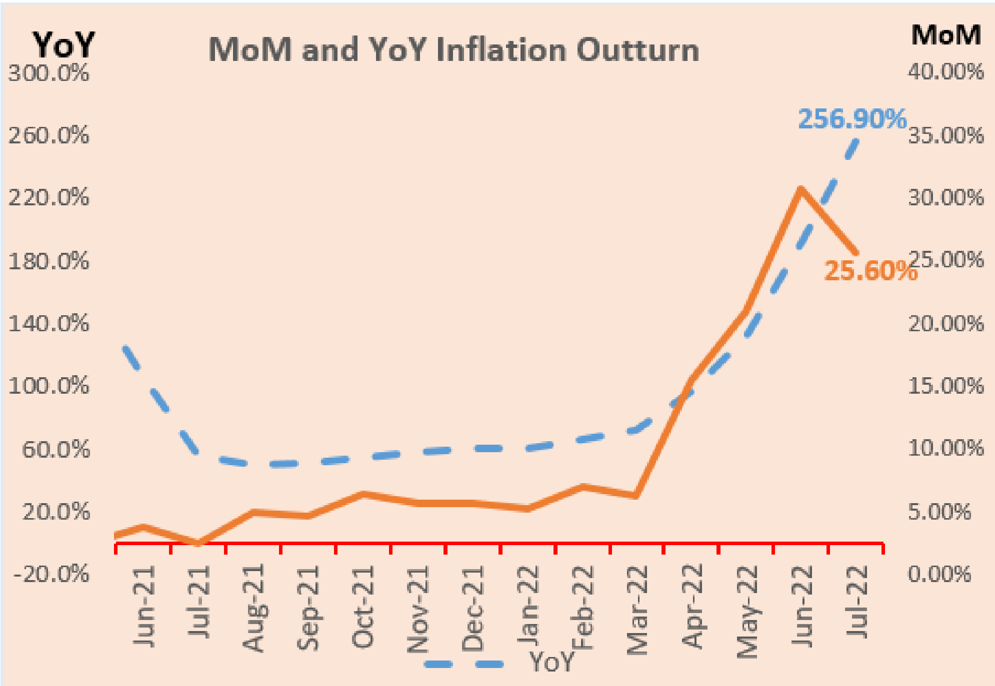

Fig 3: Zimbabwe Annual Inflation Trends (%)
Source: ZimStat

The authorities are attributing price instability largely to human (rent-seeking) behavior and the Russia-Ukraine war. Contrary to this government's position, it is our view that the authorities are the primary drivers of inflation. Granular analysis of statistics shows that the money supply, a monetary aggregate under the purview of RBZ, is growing at an unsustainable rate which destabilizes exchange rates. For instance, in May 2022 alone broad money grew at a staggering rate of 245% which is highly inflationary.[8] Typically, money supply growth should move in line with the rate of growth of economic activity in the real sector otherwise too much money in circulation will end up chasing too few (or the same quantity) of goods.

The government has put in place some measures to clamp price growth, and cushion citizens such as suspension of import duty on basic goods, the introduction of gold coins

7. https://allafrica.com/stories/202207010257.html
8. https://www.rbz.co.zw/documents/monthly_review/2022/Monthly-Economic-Review-May-2022.pdf

and a 100% salary increase for civil servants. However, as alluded to earlier, price inflation remains elevated in the outlook period. The government spending is expected to burgeon coupled with high imported inflation driven by global supply shocks from the Russia-Ukraine war. As such, we recommend the government increase the USD salary component for its workers to cushion them from excessive value erosion. Also, there is a need for prudent, market-driven policies to reduce existing market pricing distortions as well as leakages emanating from corruption and illicit financial flows. This is key for effective domestic resource mobilization and improvement of public service delivery -the gold bar for the poor majority.

3.2 Exchange Rate

In the month under review, the ZWL exchange rate continued with a downward trend in the official (Willing-Buyer Willing-Seller) interbank market. It declined by 16.4% from US$1: ZWL370.96 end of May to US$1: ZWL443.88 end of July 2022. In year-to-date (YTD) terms, the ZWL is down by at least 75% against the greenback. This positions it as the worst performing currency in the region, a position it had maintained since the beginning of the year.

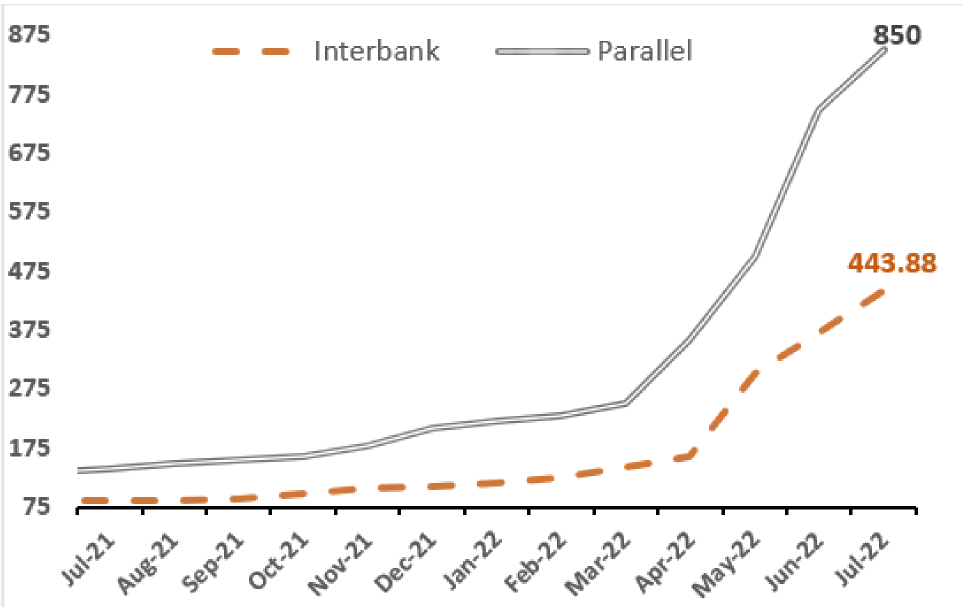

Fig 4: Auction and Parallel Exchange Rate
Source: *RBZ, ZIMCODD*

In the parallel market, the ZWL plunged by 12% from an average of US$1: 750 at the end of June to US$1: 850 by end of July. The depreciation pressure in the parallel market is being fuelled largely by excessive liquidity growth due to elevated fiscal spending. This, at a time the economy is experiencing deep shortages of foreign currency balances in the official channels coupled with the prevailing overvalued official exchange rate, is promoting gratuitous rent-seeking behaviours. Also, the reminiscences of the hyperinflationary period of 2008 are causing public panic and this explains the rejection of ZWL as a medium of exchange and store of value.

8. https://www.chronicle.co.zw/informal-sector-employs-over-80-working-population-in-africa/
9. https://www.rbz.co.zw/documents/monthly_review/2022/Monthly-Economic-Review-May-2022.pdf
10. https://www.veritaszim.net/node/5707

In a bid to curb ZWL depreciation, the RBZ introduced gold coins on the 25th of July 2022. In the first week (25-29th), 1 500 coins were sold with 85% of the purchase price realized in ZWLs. These gold coins will help to mop excess ZWL causing market instability, ceteris paribus. However, the selling of the precious metal at a discount (overvalued interbank rate) at a time govt spending is set to double in 2HY22 will likely undermine the desired impact which naturally comes from the use of gold as a currency. This is because high ZWL balances in circulation will allow corporates and elites to engage in massive arbitrage activities. It is, therefore, our view that to stabilize ZWL for a long period, authorities should clamp money supply growth and fully liberalize the exchange rate to reduce parallel market exchange premia.

3.3 Money Supply

As alluded to earlier, the money supply has been growing at an alarming pace since the reintroduction of ZWL in 2019. Although the reserve money supply is realizing a steady rate, the broad money supply is mounting at an accelerated pace. The latest statistics released in the 2022 Mid-term Monetary Policy Statement show the aggregate gaining by 269.62% (year-on-year) in June with the ZWL component growing by a staggering 172.77%.[9]

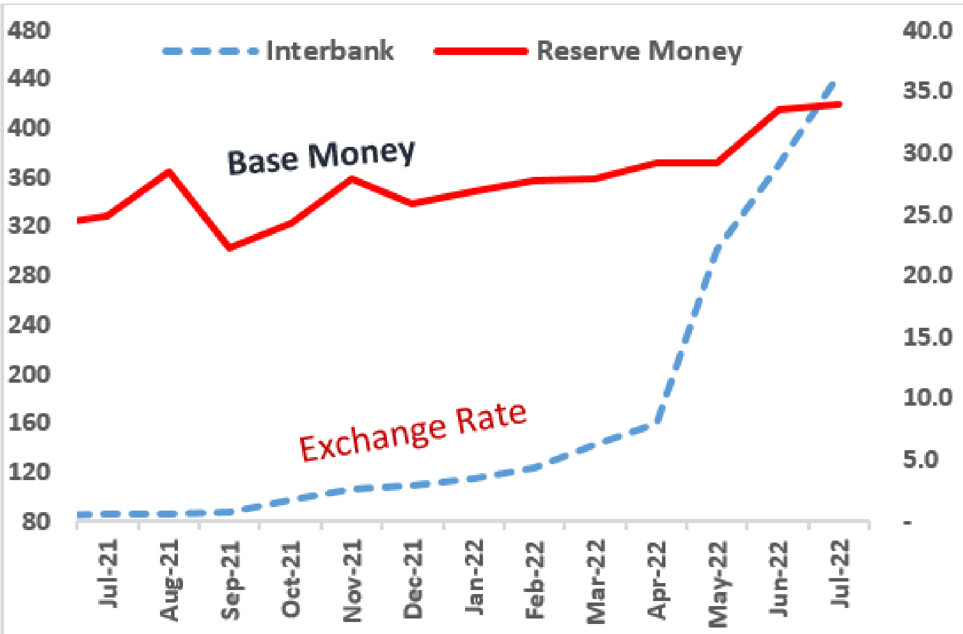

Fig 5: Base Money and Official Exchange Rate
Source: *RBZ*

Treasury has publicly admitted that line ministries, government departments and agencies (MDAs) are largely responsible for increased fiscal spending which is putting pressure on money supply, exchange rate and prices.[10] The public sector accounts for about 70% of transactions in the market. Hence, existing porous procurement and tendering processes where the government is being overcharged at or above parallel market rates are destabilizing the economy.

9. https://www.rbz.co.zw/documents/mps/2022/Monetary-Policy-Statement-August-2022-.pdf
10 http://www.newsdzezimbabwe.co.uk/2022/08/mnangagwa-threatens-guvamatanga.html?m=0

The authorities have since suspended processing payments to public procuring entities awaiting submission of reports of findings of the due diligence exercise on all running and future contracts with a special focus on pricing[11]. The Treasury has also established a Value for Money Unit (VMU) to review contracts before payments are processed. For this to succeed, there is a need for sustained political will to fight institutionalized white-collar corruption in the awarding of public tenders and procurement of goods and services. Furthermore, there is a dire need to increase central bank independence, abolish quasi-fiscal operations, and close Treasury's overdraft at RBZ. This ensures that the monetary authority freely performs its primary role of maintaining low levels of inflation and financial market stability.

3.4 Balance of Payments

The official statistics show that Zimbabwe registered a positive current surplus of US$387.1 million in the 1HY22. This is powered by rising export earnings, particularly from the extractive sector, a deteriorating currency, a burgeoning inflow of diaspora remittances, and development support.

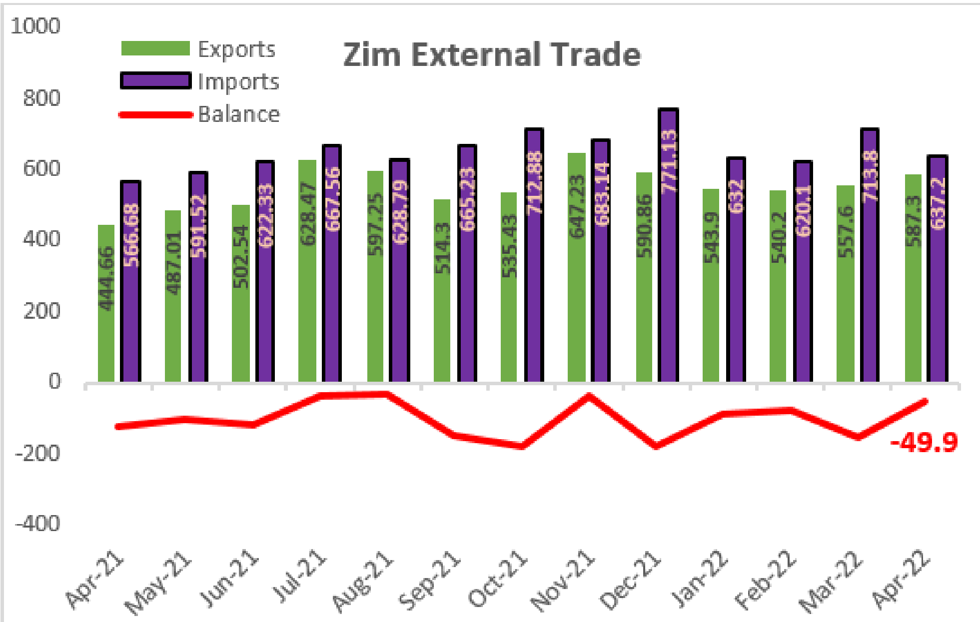

Fig 7: Zimbabwe External Trade Position (US$ Million)
Source: *ZimStat*

Treasury statistics show that in the 1HY22, merchandise exports mounted by 33% to US$3.5 billion from US$2.6 billion achieved in the comparable period in 2021. Merchandise exports were largely spurred by increases in mineral commodities which contributed 82.8% (US$2.899 billion) of total export earnings. In the same vein, merchandise imports grew by 15% from US$3.2 billion recorded in 1HY21 to US$3.7 billion in 1HY22. Rising global fertilizer, energy and food prices together with relatively increased importation of industrial raw materials and machinery-powered imports in the period under review. Overall, Zimbabwe witnessed a trade deficit of -US$0.2 billion in 1HY22.

11. https://www.theindependent.co.zw/2022/08/12/treasury-turns-guns-on-ministries/

With all metrics increasingly showing that the global economy is drifting toward a recession, we maintain our June position that exports will likely nosedive in 2HY22. The expected slowdown of global economic activity will reduce demand for mineral commodities, Zimbabwe's key generator of export revenues. Hence, this will subdue their prices.[12] However, diaspora remittances and development support are expected to increase as Zimbabweans working abroad and well-wishers send more money to help their families/relatives and vulnerable groups respectively. Assuming a best-case scenario of no recession occurring, merchandise imports are expected to remain high due to elevated prices of crude oil, fertilizers, and food. Zimbabwe is a net importer of these products.

Government Accounts

At the beginning of 2022, the government projected to undertake expenditures totalling ZWL968.3 billion comprising recurrent spending of ZWL$633.6 billion and a capital budget of ZWL$334.7 billion. About 87.9% (ZWL850.8 billion) of these expenditures were projected to be financed by government revenue collections while the balance of ZWL41.4 billion (12.1%) was to be financed through borrowing from the private sector. According to the 2022 Fiscal Review, ZWL534.5 billion (55.2%) of the total budget was utilized as of June 30, 2022. For the same period, revenue collections stood at ZWL506.6 billion which is equivalent to 52.3% of the initial approved budget. Consequently, the Treasury incurred a budget deficit of ZWL27.9 billion in the 1HY22.

With the ZWL continuing to fall and prices rising, the approved budget was rendered insignificant thereby forcing authorities to table a supplementary budget before the National Assembly. On the 28th of July, the Minister of Finance and Economic Development, Prof. Mthuli Ncube, requested additional spending of ZWL929 billion translating to 95.9% of the initial budget. A supplementary of this magnitude clearly shows that the domestic economy is deteriorating at the speed of lightning. This is because conventionally supplementary budgets range between 10-15% of the initial approved budget.

Of the ZWL929 billion, 53% goes toward the compensation of civil servants who were awarded a 100% salary rise starting in July 2022. However, this salary hike is already lagging inflation which was measured at 256.9% as of July 2022. Thus, there is now enormous pressure on Treasury to increase salaries to above the poverty datum line. Also, a paltry ZWL97.8 billion (10.5%) of the additional spending is earmarked for social protection despite 60% of the population estimated to be swimming in extreme poverty.

3.5 Public Debt

Zimbabwe is facing an unsustainable debt. According to Treasury statistics,[13] public and publicly guaranteed debt comprised ZWL$1.3 trillion (US$3.5 billion) and US$13.2 billion in domestic and external debt respectively as of June 2022.

12 Assuming a best-case scenario, exports are projected to rise as worsening geopolitics will increase uncertainty around global supply thus supporting global mineral prices.

13 http://www.zimtreasury.gov.zw

Of the total domestic debt, 97.6% is owed as compensation to former farmer-owners, 1% were both Treasury Bills and Bonds while 0.3% were domestic arrears. As for external debt, preliminary statistics show that about US$5.5 billion is owed to bilateral creditors, US$2.6 billion to multilateral creditors, and US$4.9 billion is RBZ external debt (including blocked funds of US$3.5 billion).

Independent estimates show that the country is shouldering an external debt burden exceeding US$22 billion which significantly varies with the reported official figure of USD13.2 billion. It is difficult for ZIMCODD to go by official statistics which are very conservative. This is because Zimbabwe is yet to undertake an independent debt audit to ascertain the exact quantum of legitimate debt stock. As a result of this lack of debt transparency, some external debts are not disclosed or are underreported as they are being contracted without parliamentary approval.

Be that as it may, it is commendable to note that the government has developed an Arrears Clearance, Debt Relief, and Restructuring (ACDRR) Strategy aimed at restoring debt sustainability. Currently, the country is struggling to repay its creditors with 48.7% (US$6.4 billion) of external debt in arrears and the nation has resorted to payment of token payments -a mere acknowledgment of the existing debt.

Due to high debt levels, Zimbabwe is restricted in accessing low-cost external financing which is key in augmenting domestic resources to attain desired sustained growth trajectory. To address the debt conundrum, the nation will hold a Debt Forum this year to engage all its creditors and other stakeholders. It is however our view that before this forum, authorities should undertake an independent debt audit to ascertain the exact quantum of legitimate debts. Furthermore, the success of the ACDRR Strategy depends on progress around the implementation of economic reforms to instil fiscal discipline in government and reduce existing pricing distortions which are inhibiting business growth and exposing citizens to chronic inflation.

4 Sectoral Review

4.1 Energy Sector

Energy is one of the most critical industrial production enablers, its scarcity is an albatross to the national output growth of a country. As such, countries should invest wisely by diversifying their energy mix and attain energy self-sufficiency.

4.1.1 Electricity Sector

In the month under review, the nation experienced prolonged load-shedding schedules. As alluded to in the last issue of this series, Zimbabwe is over-relying on the aged thermal plants which are breaking down frequently and are now uneconomical to operate.

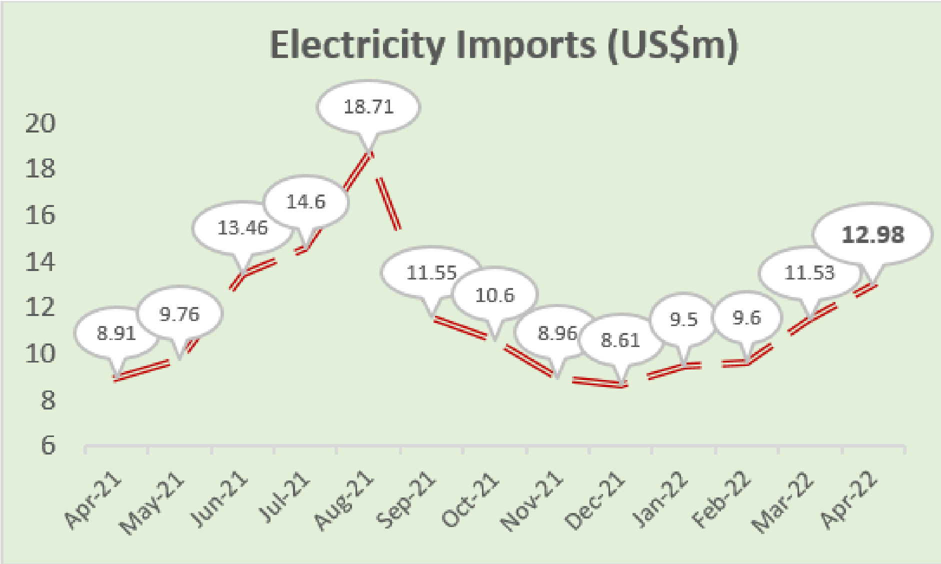

Fig 8: Zimbabwe Electricity Imports (US$M)
Source: *ZimStat*

Adding to electricity woes is the dwindling dam water levels at the gigantic Kariba Dam, the nation's sole hydroelectric power plant. The low domestic production is putting pressure on import bills as shown in figure 8. This is crowding out the importation of other crucial imports such as industrial raw materials, advanced technologies which resonate well with the 21st century's Fourth Industrial Revolution, medical drugs and state-of-the-art medical equipment which are in short supply, especially in rural public health institutions. All this is possible if the government seriously focuses on eradicating rampant white-collar corruption which is redirecting public funds meant for supporting economic growth and development into individual wallets of elites and politically connected.

Some countries in the region faced the same predicament but they experienced reduced negative impact relative to Zimbabwe because they have high per capita electricity production. This explains why Zimbabwe usually suffers disproportionately from synchronized regional and global shocks. In the case of electricity production, increased utilization of national installed capacity gives authorities a spacious room to manoeuvre to minimize the grave impacts of deep power rations on business activity and consumer consumption.

Nevertheless, the nation is expecting to commission Hwange Unit 7, a production unit with a potential capacity of 300MW, in the last quarter of 2022. Another production unit, Unit 8, with the same output as Unit 7 is expected to join the national grid in the first half of 2023. Although they are being constructed at an inflated cost financed through debt, these new two (2) coal power plants will significantly reduce the domestic electricity production deficit. This in turn will save Zimbabwe millions of direly needed forex which is currently in short supply, reducing the cost of production as well as subduing pressure on already constrained household budgets.

4.1.1 Fuel

After months of frequent spikes in fuel pump prices largely due to the effects of the Russia-Ukraine war which started in February 2022, Zimbabwe Energy Regulatory Authority (ZERA) revised pump prices downwards at least twice in July 2022. This decline was quite unusual because Zimbabwe's fuel pump prices are generally sticky downwards irrespective of global oil price developments favouring net importers.

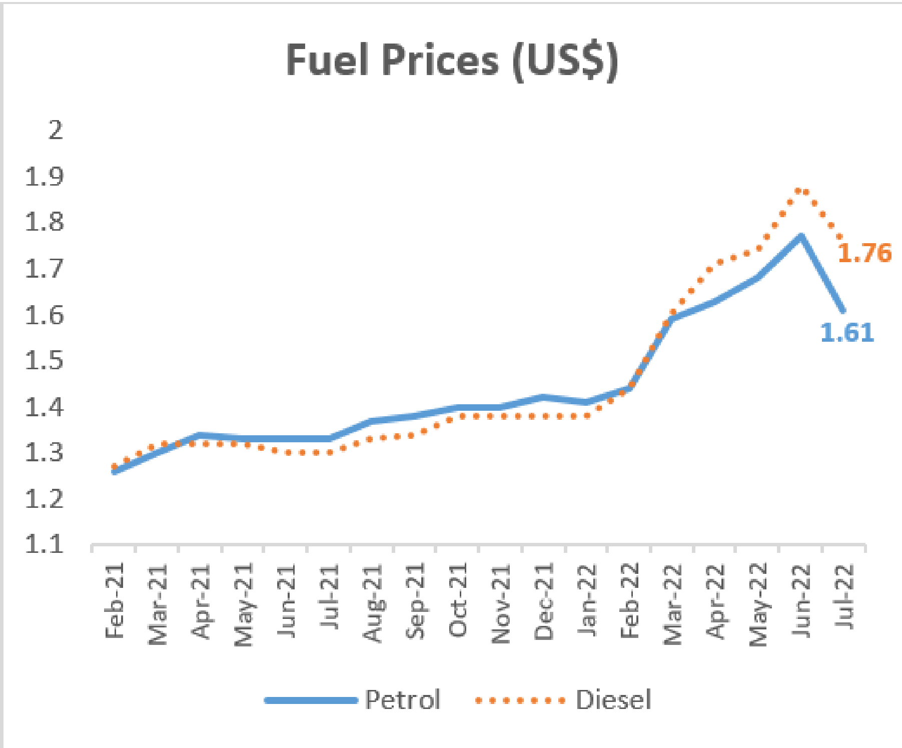

Fig 9: Zimbabwe Fuel Prices (US$)
Source: *ZERA*

The global crude oil prices scaled down for most of July as demand nosedived. The oil demand has been declining because of the high prices and a stronger US$. Since oil is generally priced in US dollars, a stronger dollar makes oil more expensive to holders of other currencies[14]. The investors were worried that the rising interest rate hikes would slow down economic activity as central banks particularly those in advanced countries got aggressive in fighting record-breaking price inflation spikes.

For the outlook, the fears of global recession have intensified, which could hurt global oil demand. In addition, extended sanctions against Russian oil exports have increased uncertainty about supply from the world's second-largest oil producer. There are also growing downside risks as a result of the growth outlook and the ongoing uncertainty around strict Chinese COVID restrictions. With so many factors pulling oil prices in different directions, it remains to be seen if oil prices will continue with a downward trend experienced in July or not.

14 https://www.reuters.com/business/energy/us-gasoline-prices-are-finally-falling-why-2022-07-14/

4.2 Agriculture

Farmers are currently preparing for the 2022/23 summer cropping season after a disappointing outcome in the previous season with government provisional estimates showing a 40% decline in staple maize output. This poses risks of serious food insecurity and malnutrition, especially in the deficit-producing regions. The situation is compounded by ZWL depreciation and rising inflation which has sent domestic food prices haywire.

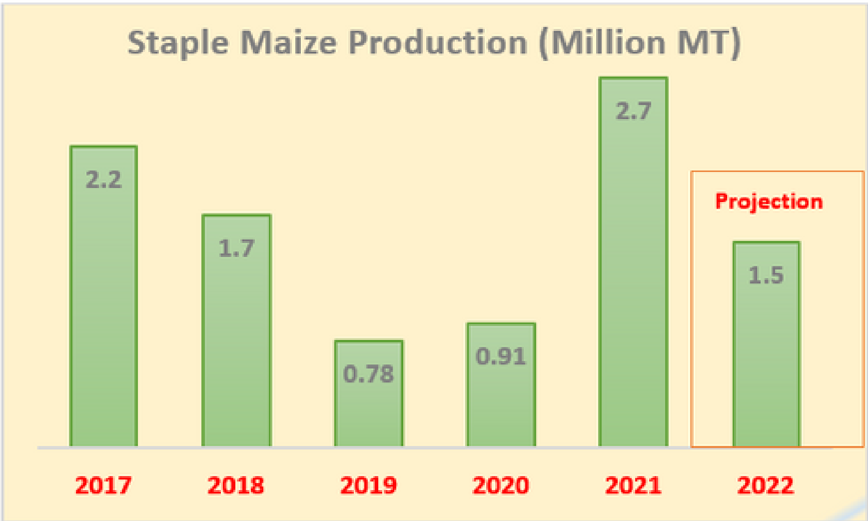

Fig 11: Maize Production (Metric Tonnes)
Source: *Ministry of Agriculture*

The upcoming cropping season is also in danger as prices of farm inputs (chemicals, fertilizers, fuel) have jumped significantly driven largely by deteriorating global geopolitics among nuclear-powered superpowers. Fortunately, the government has announced that it will increase the number of beneficiaries of the state-funded Pfumvudza scheme to 3.5 million households from the 2.3 million who participated earlier.[15] However, since the nation is now in a full-blown election mode these inputs will likely be distributed largely based on a wasteful partisan basis.

Also, given the high market prices of farm inputs, the set target of Pfumvudza eligible households is too ambitious because it will emerge as costly for authorities if they remain aggressively committed to resolving the current currency and price instability. The Ministry of Agriculture is therefore recommended to ensure a fair distribution of state-funded farm inputs across the country. There is also a need to increase food aid to help vulnerable citizens in marginalized areas facing malnutrition. For the long term, prioritization of investments in technology and climate-smart agricultural techniques is imperative for policymakers.

4.3 Mining Sector

The mining sector is witnessing an increase in earnings thanks to rising global mineral commodity demand and prices. A portion of global mineral demand is emanating from a seismic shift toward green energy in most developed nations and a mounting pressure on central banks to increase gold reserves to support their embattled currencies.

15 https://www.herald.co.zw/pfumvudza-targets-35-million-households/

Mineral prices are also being supported by rising uncertainties around the future path of the COVID-19 pandemic as well as the increased uncertainty around the Russia-Ukraine war on global supply and distribution chains. Taking advantage of high prices, miners are significantly increasing their production capacity. For instance, the gold output is heading toward record annual output in decades, ceteris paribus.

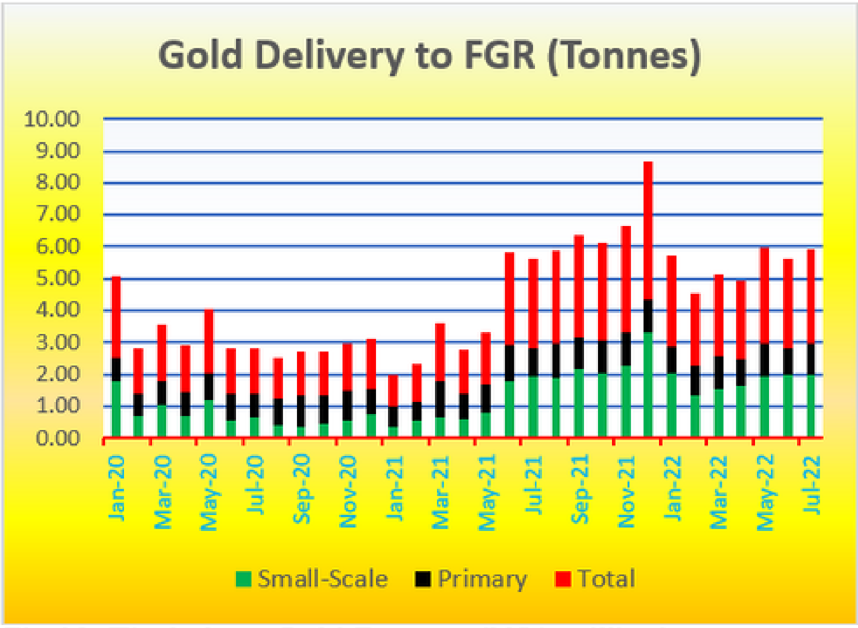

Fig 12: Zimbabwe Gold Exports (US$ million)
Source: *ZimStat*

Figure 12 shows the rising production and delivery of gold to Fidelity Gold Refinery (FGR). In the first seven (7) months of 2022, FGR received a total of 18.94 tonnes with small-scale and artisanal miners' contributing about 12.47 tonnes (65.8%) of the total gold deliveries. When compared to the same period last year, FGR received 12.78 tonnes of gold with small-scale miners contributing 52.8% of the total. These statistics show that small-scale gold producers play a crucial role in Zimbabwe's quest for a US$12 billion mining sector.

As such, there is a need to increase financial and technical assistance to artisanal and small-scale miners[17] The imminent rolling out of the electronic cadastre system is highly commended as it will help reduce mining conflicts by eliminating double allocation of mining claims. The system also helps to track underutilized mining claims held only for speculative purposes. More so, there is a need to upgrade and strengthen security systems at all ports of entry to reduce the smuggling of precious minerals. Zimbabwe is reportedly losing at least US$1.2 billion through the smuggling of gold alone. Furthermore, to greatly benefit from abundant mineral resources, Zimbabwe should improve its mineral value chains. This is key as it increases forex earnings from exports and also reduces the exportation of employment.

Conclusion

The month of July witnessed a perpetual decline of the local currency. Resultantly, prices of basics mounted beyond the reach of many citizens especially those earning in ZWL as corporates continue to charge punitive ZWL prices benchmarked at or above parallel market rates. The policy actions being taken by the government are failing to bring economic stability because they are not addressing the root causes of the crisis -economic agents' lack of confidence and trust in policymakers. It is, therefore, ZIMCODD's position that to regain lost confidence authorities should:

- Maintain policy consistency.
- Ensure policy predictability by consulting stakeholders and sharing all market information.
- Institute market-driven and inclusive economic policies.
- Implement institutional reforms and transformation.
- Address ballooning debt.
- Curb corruption by arresting and prosecuting high profile cases.
- Clamp illicit financial flows like gold smuggling.

5. Disclaimer

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