MONTHLY ECONOMIC REVIEW

MAY 2023

Zimbabwe Coalition On Debt And Development
ZIMCODD

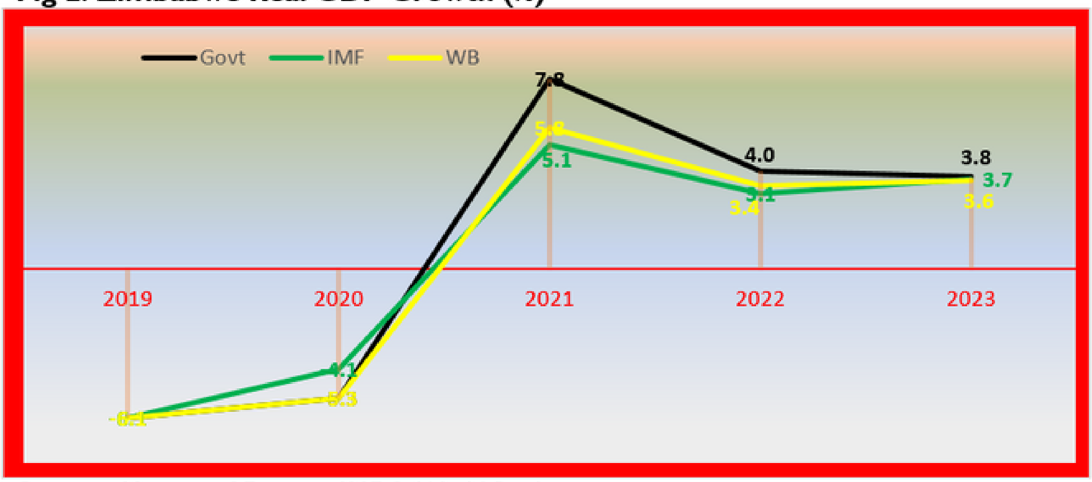
INVESTING IN PEOPLE FOR SOCIAL AND ECONOMIC JUSTICE

1. INTRODUCTION

The continued sharp decline of the Zimbabwe dollar (ZWL) and subsequent massive and frequent increases in prices of basics as harmonized elections draw near brings back bad memories of the 2008 record hyperinflation which wiped away people's savings and investments. This, coupled with a cocktail of measures announced by authorities almost weekly risks generating unpleasant market sentiment and panic that will fuel a second total collapse of the ZWL. Therefore, to establish the drivers and possible policy alternatives to arrest the ongoing economic volatility, the May 2023 economic review tracks key economic indicators as well as selected sectoral performance.

2. ZIMBABWE ECONOMIC OUTLOOK

Fig 2: Zimbabwe Real GDP Growth (%)



Source: *Ministry of Finance, IMF & World Bank*

- From the upside, Zimbabwe witnessed an improved 2022/23 agriculture season due to normal rainfall patterns received across many parts of the nation. The rains have improved vegetation for livestock grazing in rural areas.
- The increase in food availability will also help suppress USD food prices while the direction of ZWL food prices will largely depend on local currency performance.
- Zimbabwe is also benefiting from elevated global mineral commodity prices, largely driven by the war in Ukraine and the global seismic shift toward green energy particularly in advanced nations.
- However, on the downside, elevated ZWL depreciation and price inflation witnessed in the first five (5) months of 2023 wreaked havoc in the economy in a fashion mirroring the build-up to a brutal cost-of-living crisis of 2008.
- So far, the economy has also faced a big threat from prolonged electricity load-shedding at a time fuel pump prices pegged by ZERA remain significantly high relative to the regional average.
- This, coupled with increased resource leakages (corruption and illicit dealings), debt distress, and the spill-overs from the Russia-Ukraine war have ballooned the cost of doing business.

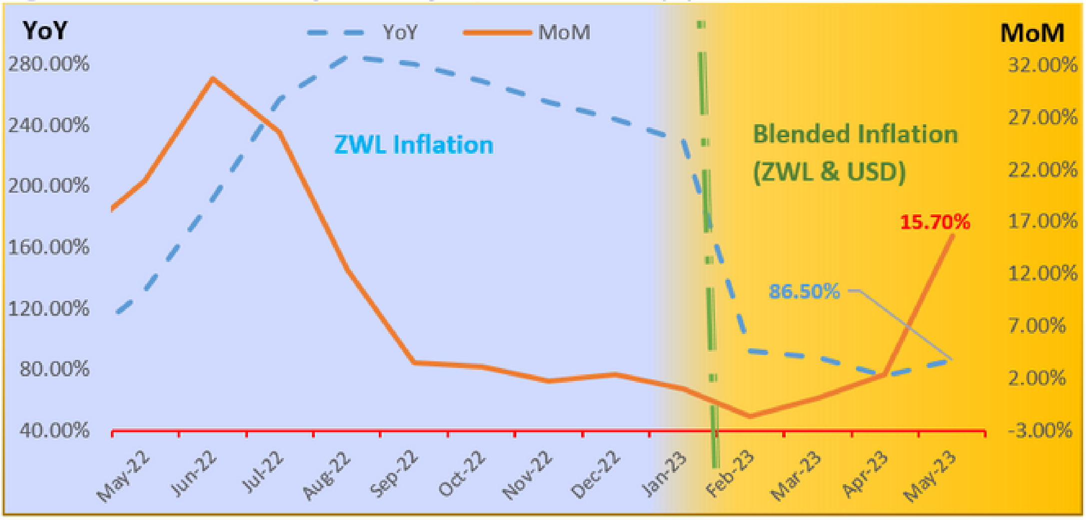
- If uncontrolled, these risks perturbing the economy will derail the government target of a 3.8% national output (GDP) growth. The 2023 GDP projections were made on the premise that the ZWL & price level will remain stable and the budget deficit sustainable in line with the NDS1.
- To date, authorities have proposed many policy responses to the ongoing economic volatility such as liberalizing the interbank market, increasing the RBZ benchmark policy rate, and increasing ZWL tax collection. If fully implemented, these measures will help contain inflation.
- Be that as it may, the electioneering pressures ahead of harmonized elections slated for August 2023 are expected to keep ZWL liquidity highly elevated. If this holds, ZWL depreciation and inflation will persist at least through the third quarter (3Q23).

3. MACROECONOMIC INDICATORS

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

3.1 INFLATION

Fig 3: Zimbabwe Monthly & Yearly Inflation Trends (%)



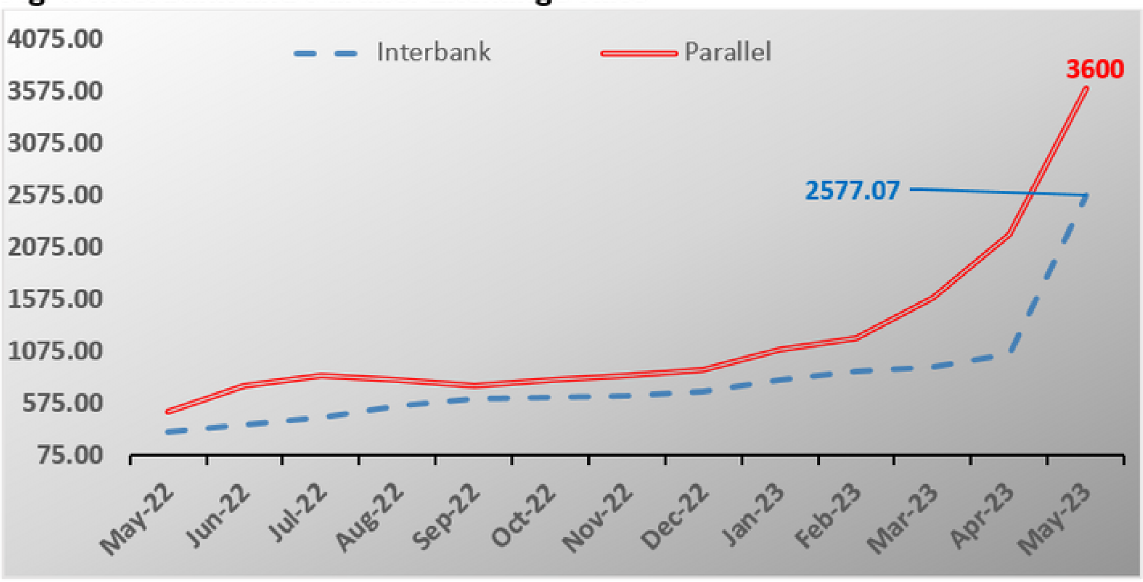
***Source:** ZimStat*

- Blended inflation statistics released by ZimStat show month-on-month (MoM) inflation mounting unsustainably in May 2023, gaining 13.3 percentage points on April 2023 rate of 2.4% to 15.7%.
- From a year-on-year (YoY) perspective, general blended prices in the economy increased by 86.5% in May 2023 relative to 75.6% recorded in April 2023.
- Although blended inflation spiked significantly in May 2023, it is not a true reflection of pricing dynamics. With the USD dominating in all domestic transactions, it means that the stable USD commands more weight relative to the volatile Zimbabwe dollar (ZWL).
- This exerts a stabilizing effect on the weighted average thus masking the actual inflation burden faced by economic agents particularly the poor majority who are largely earning in ZWLs.

- Apart from undermining living costs, blended figures also affect many other facets of the economy inter alia financial reporting, asset valuation, business contract negotiations, indexation, pay setting & wage negotiations, research & analysis, and estimation of production costs.
- ZWL price inflation estimates from independent sources like the John Hopkins University's Hanke Inflation Satellite measured ZWL inflation up at 717% in May showing a full-blown hyperinflationary mode risking the total market rejection of the ZWL.
- Already, many shops are rejecting or limiting ZWL transactions for certain products. The shops are also frequently increasing ZWL prices in a clear reminiscence of 2008 record hyperinflation.
- Fuelling ZWL prices in May 2023 was the massive ZWL decline against the USD largely due to unsustainable liquidity growth from RBZ quasi-fiscal operations and elevated Treasury spending.
- In addition, adverse inflation expectations, structural rigidities like corruption and perpetual load-shedding, spillovers from the Russia-Ukraine war, and increased money velocity are exerting upward pressure on prices.[1]

3.2 EXCHANGE RATE

Fig 4: Interbank and Parallel Exchange Rate



***Source:** RBZ, ZIMCODD*

- As alluded to earlier, the ZWL is on the verge of collapse and complete market rejection. The local currency plummeted significantly in both foreign exchange markets in the month under review.
- It erased nearly 40% in the parallel market in May 2023 from an average of ZWL/USD 2200 in April to ZWL/USD 3600 (range: 3200-4000). Year-to-date (YTD), the ZWL is down by a staggering 75% which is slightly lower than a 77% decline registered in the entire 2022.

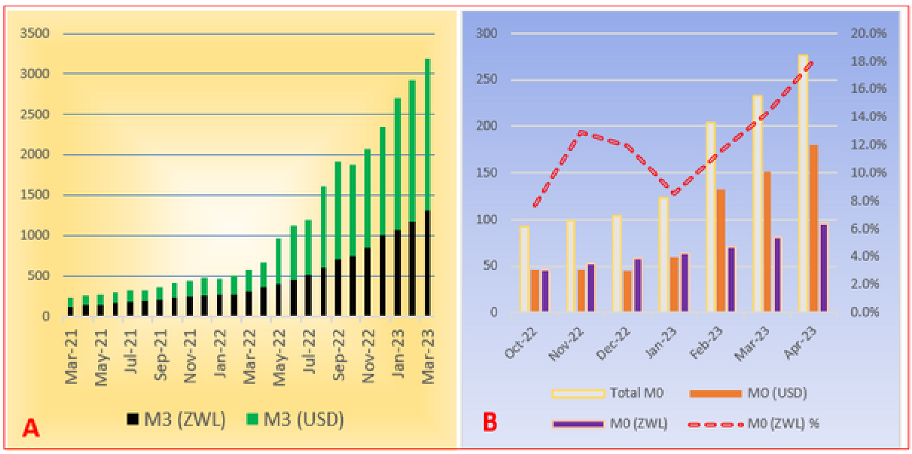
1. When an economy is going through rising inflation, people tend to spend money at a faster rate increasing the velocity of circulation of money (total money use = money supply × velocity of circulation).

- In the official interbank market, the ZWL lost 59% of its value to close May 2023 at ZWL/USD 2577.07 from ZWL/USD 1047.44 in April. Thus, giving a parallel market premium value of 40%.
- Granular analysis further shows that YTD the ZWL has erased 73% of its value in the interbank market – only 11 percentage points lower than an 84% decline witnessed in the whole of 2022.
- These numbers are highlighting that ZWL is struggling to perform store of value function. As such, economic agents are relentlessly substituting the ZWL – flight to safety to preserve earnings value.
- Largely driving incessant ZWL decline is the excess ZWL liquidity in the economy created by RBZ paying for forex ceded by tobacco farmers and exporters.[2]
- Treasury is also to blame as it is failing to curtail mounting fiscal spending pressures. It is funding ongoing infrastructure projects, supporting agriculture, cushioning civil servants, and resourcing ZEC to conduct the 2023 harmonized elections slated for the 23rd of August.
- Also, starting on the 1st of June 2023, Treasury will assume all RBZ foreign obligations and undertake payments for all forex ceded by exporters. All this contributes to excessive liquidity growth in the economy.

3.3 MONEY SUPPLY

- Generally, monetarists believe that inflation is always and everywhere a monetary phenomenon.
- This is because too much money in circulation in an economy creates an imbalance between aggregate demand and aggregate supply of goods & services. Thus, forcing prices to keep rising, the case being experienced in Zimbabwe.
- Fig 5 (Panel B) shows an excessive growth in the ZWL component of reserve money (M0). This monetary aggregate has been expanding at an unsustainable average of 12% per[3] month between October 2022 and April 2023.
- Generally, M0 holds the topmost position in monetary policy. Since it is injected at the discretion of a central bank and includes currency in circulation with the public, M0 decides the level of liquidity and price level in the economy.
- As such, the prudent management of M0 is thus very important to manage liquidity and inflation.

Fig 5: Money Supply Developments (ZWL billion)



2. Excess liquidity is when there is too much money in the banking system as a whole than is strictly required

3. Reserve money (M0) which is also known as base money or central bank money represents the base level for money supply. It comprises currency in circulation, banks deposits held at the RBZ and other deposits which include deposits from foreign central banks, multilateral institutions & financial institutions.

- Fig 5 (Panel A) also shows an unsustainable growth of the ZWL component of the broad/total money supply in the economy (M3). This aggregate spiked by 12.9% in March 2023 to ZWL1.32 trillion after registering another high growth rate (9.7%) in Feb 2023.
- As we alluded to in the April issue[4], these statistics are showing excessive creation and injection of ZWLs which in turn exerts pressure on the ZWL to depreciate and ZWL prices to skyrocket.
- In the outlook, if authorities fully implement some of its recent progressive policy proposals like sterilization of excess liquidity, promotion of ZWL use, and exchange rate liberalization, the ongoing currency crisis will likely moderate thus helping contain galloping inflation.
- However, the pending harmonized elections are also expected to fuel opportunistic political business cycles – volatile changes in fiscal spending and taxation - which will worsen the already fragile macroeconomic environment.

3.4 Economic Stabilization Measures

Since 2022, authorities have devised a cocktail of measures to stabilize the economy. The major measures announced since the start of 2023 to the first week of June include:

- Promotion of the use of the ZWL
- Suspension of import duty on basics
- Gold coins, gold-backed digital tokens, and gold traceability system
- Assumption of RBZ external loans by the Treasury
- Sterilization of excess liquidity & tightening of monetary policy
- Treasury took over the collection and payment of 25% forex ceded to RBZ by exporters
- Finetuning the RBZ auction market
- Liberalization of the official interbank market by RBZ's Monetary Policy Committee
- Additional taxes: 1% tax on foreign payments, 4% tax on domestic foreign currency transactions, 2% USD cash withdrawal levy, etc.

Some of these measures are arguably bold and if fully implemented could help clamp ongoing massive ZWL exchange rate depreciation and skyrocketing ZWL prices.

Nevertheless, the bypassing of Parliament in the assumption of RBZ debt makes the process unconstitutional. Further, the lack of a comprehensive debt audit before the assumption of these debts risks taking over odious and illegitimate debts by already overburdened taxpayers.

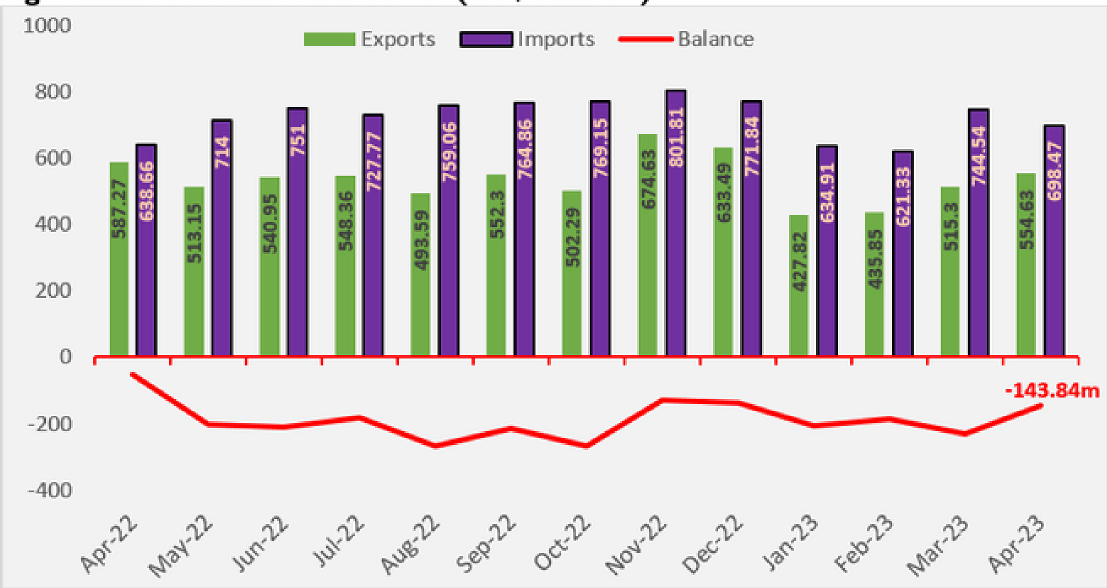
More so, it remains to be seen if Treasury will be able to pay for forex surrendered by exporters without incurring huge payment backlogs or jeopardizing its financial books and raising taxes on poor citizens.

For an in-depth analysis of these economic measures, kindly visit the ZIMCODD website: https://zimcodd.org/?sdm_process_download=1&download_id=6461

4. https://zimcodd.org/?sdm_process_download=1&download_id=6433

3.4 External Trade

Fig 7: Zimbabwe External Trade (US$ Millions)

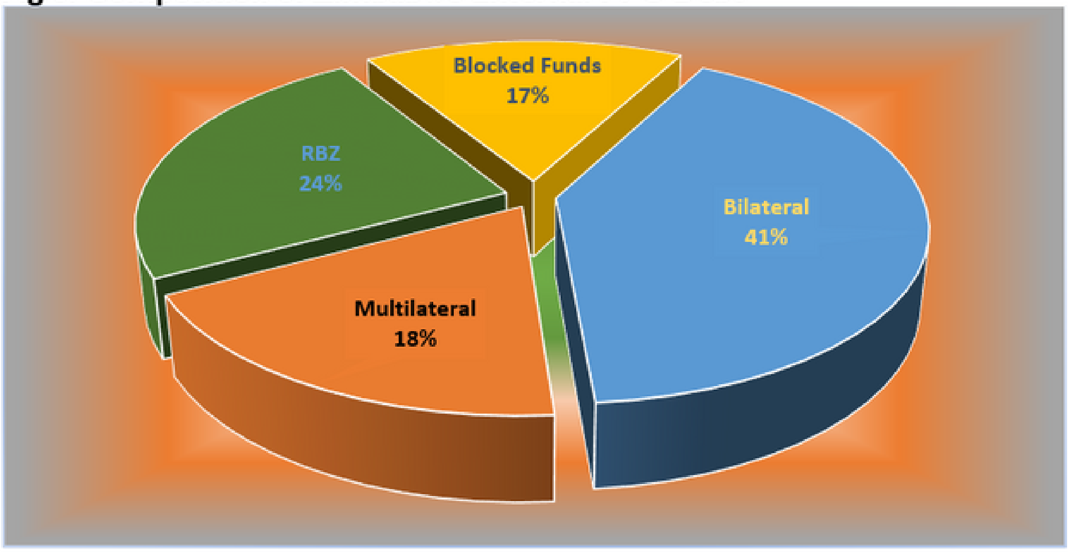


Source: *ZimStat*

- The latest ZimStat trade data show that Zimbabwe spent about US$698.47 million on foreign-produced goods and services (imports) in April 2023 which is down 6.2% from US$744.54 million realized in the preceding month.
- Major April imports: machinery (16.7%), mineral fuels & oil products (16.6%), vehicles (8.4%), iron & steel (8.5%), electricals (6.2%), cereals (5.4%), and chemicals (3.8%). South Africa was the top import source (36.7%) followed by China (22%), Singapore (5.7%), and Mozambique (3.7%).
- The data also show that Zimbabwe's merchandise exports in April were US$554.63 million, up 7.6% from US$515.3 million in March 2023. Top export destinations include South Africa (34%), UAE (27.8%), China (21.2%), Mozambique (8.5%), and Zambia (2%).
- This means that Zimbabwe incurred a trade deficit to the tune of -US$143.84 million in April 2023 which is 179.9% above the April 2022 deficit of US$51.39 million.
- Overall, the cumulative deficit for the first 4 months of 2023 stood at -US$765.65 million which is 56% higher than a deficit of -US$490.95 million incurred for the same period in 2022.
- Driving Zimbabwe's import value so far is the elevated global prices due to the Russia-Ukraine war, the threat of oil production cuts by OPEC+, prolonged electricity load-shedding constraining domestic production, hyperinflation, and increased use of the strong US dollar.

3.5 Public Debt

Fig 8: Composition of Zimbabwe External PPG Debt



Source: *Public Debt Management Office*

- On the 29th of May 2023, Treasury announced that it will help clear RBZ's balance sheet by assuming all external loans accrued by RBZ on behalf of the Government.
- The Bank has been reportedly borrowing to fund foreign currency requirements for strategic imports such as fuel, electricity, water chemicals, medicines, cooking oil, and wheat.
- As of the end of September 2022, Zimbabwe's public and publicly guaranteed (PPG) external debt stood at US$14.04 billion. Of this total, RBZ's external debt alone constitutes about 24% (US$3.4 billion).
- By assuming the RBZ debt, Treasury has taken over all monthly interest payment obligations which were previously the responsibility of RBZ to service its debts.
- This, coupled with Treasury taking over RBZ's role of collecting and paying for forex surrendered by exporters has an effect of ballooning fiscal spending unsustainably and risks crowding out public service delivery as well as the introduction of additional regressive taxes.
- It is, however, commendable that the government has now limited state borrowing powers only to the Treasury as required by the Constitution as well as the Public Debt Management Act. This will go a long way in ensuring debt sustainability.
- The March 2023 High Court order,[5] also calls on Treasury to improve on debt transparency by coming up with a debt contraction law which must compel it to seek Parliament approval before issuing guarantees and contracting any debt on behalf of the public.

5. https://www.newsday.co.zw/thestandard/local-news/article/200009341/high-court-calls-mthuli-to-order-over-public-debt

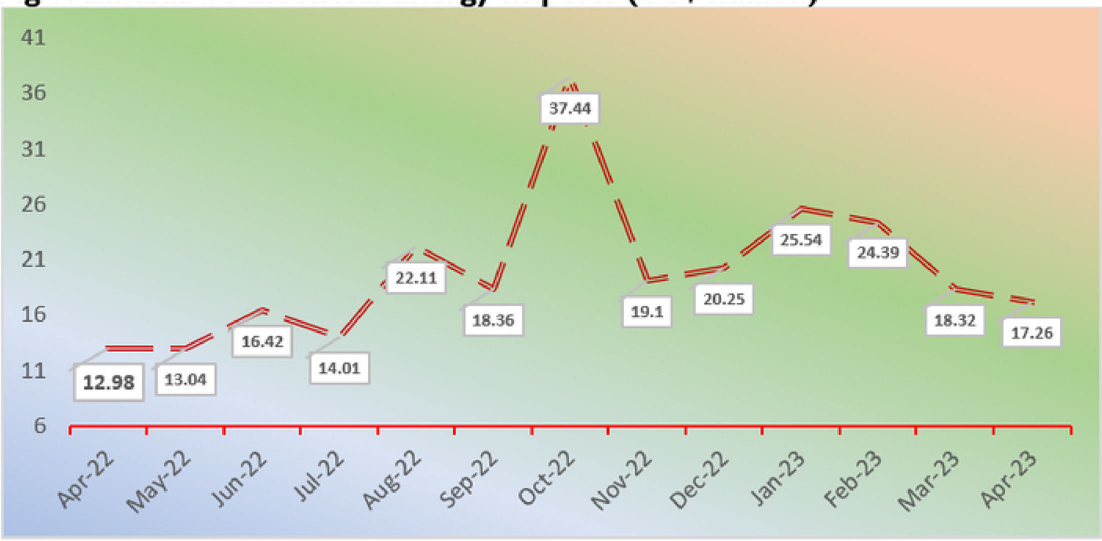
4. Sectoral Review

4.1 Energy Sector

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

4.1.1 Electricity

Fig 9: Zimbabwe Electrical Energy Imports (US$ million)



Source: *ZimStat*

- Since the January peak of US$25.54 million, electrical energy imports are on a downward trend.
- The latest statistics show that Zimbabwe imported electrical energy worth US$17.26 million in April 2023, which is 5.8% lower than the US$18.32 million imported in March 2023.
- Cumulatively, Zimbabwe has spent US$85.5 million on electrical energy imports in the first four (4) months of 2023, which is 96% higher than US$43.6 million in the same period in 2022.
- This highlights the precarious electricity situation experienced in 1HY23 due to frequent breakdowns at ZPC's aged thermal power plants, critically low Kariba dam levels, and forex liquidity challenges in official markets to either acquire repairs or cover the deficit with imports.
- However, electricity supply is expected to improve in the third quarter (3Q23) as Hwange Unit 7 has been successfully synchronized with the national grid in May 2023 while Unit 8 is currently undergoing test runs. These two (2) units have a combined 600MW installed capacity.
- As such, daily electricity load-shedding hours are expected to fall significantly at least after the winter season. In winter, increased electricity demand for household heating purposes and irrigation by wheat farmers overwhelms already subdued domestic electricity generation.
- Meanwhile, Table 1 shows that economic agents particularly poor households are being choked by frequent jumps in electricity tariffs.
- But be that as it may, the power utility is acting rationally in order to be able to at least break-even given the ongoing massive ZWL decline in both official and alternative markets.[6]

6. A point at which the money a company makes from the sale of goods or services is equal to the money it has spent, so that there is neither nor profit

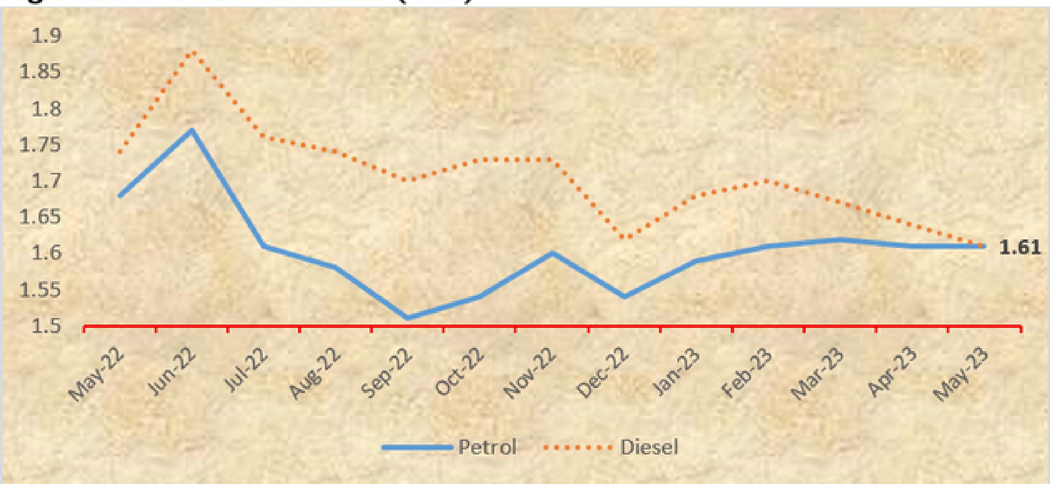
Table 1: 2023 Electricity Tariffs Changes (ZWL/kWh)

CONSUMPTION BAND			Charge per kWh		Total Amount		Monthly Change
			April	May	April	May	
First 50	0-50kWh	50kWh	24.94	30.50	1247	1525	+278
Next 50	51-100kWh	50kWh	50.00	61.20	2500	3060	+560
Next 100	101-200kWh	100kWh	87.60	107.4	8760	10740	+1980
Next 100	201-300kWh	100kWh	125.06	152.9	12506	15290	+2784
Next 100	301-400kWh	100kWh	143.78	175.64	14378	17564	+3186
Above 400			501	183.6	-	-	-

Source: *Zimbabwe Electricity Supply Authority (ZESA)*

4.1.2 Fuel

Fig 9: Zimbabwe Fuel Prices (US$)



Source: *ZERA, ZIMCODD*

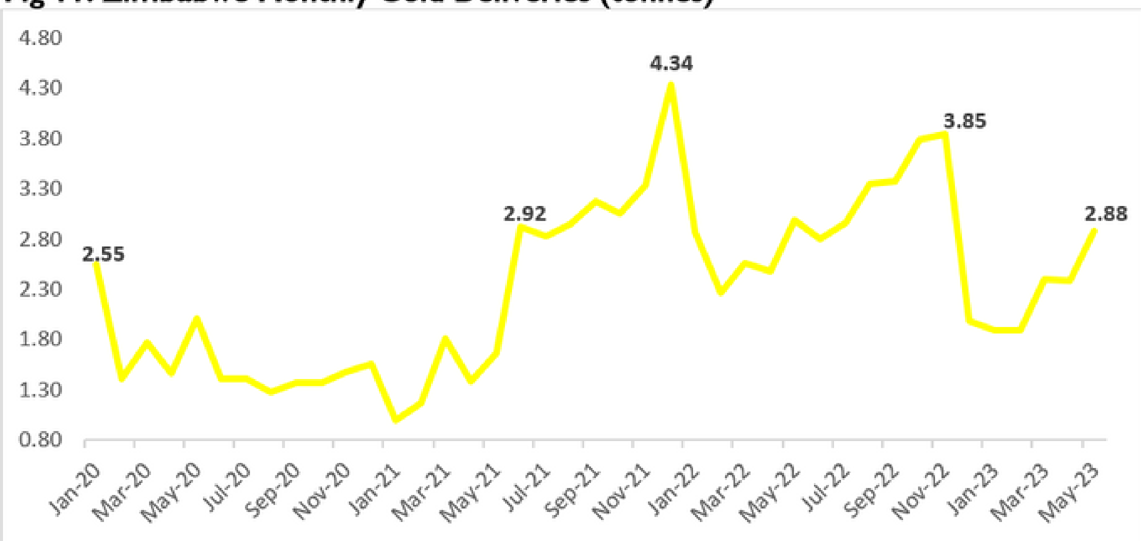
- In May 2023, Zimbabwe Energy Regulatory Authority (ZERA) reduced the price of a litre of diesel by 1.8% to US$1.61 from US$1.64 while maintaining that of petrol at US$1.61.
- ZERA further announced a review for June 2023. In June, the maximum pump price for a litre of petrol will be US$1.56 while that of diesel will be US$1.55.
- Domestic fuel prices are trending downwards since their all-time highs in June 2022. A litre of petrol and diesel is down by US$0.22 and US$0.32 respectively between June 2022-June 2023.
- This trend is linked to global crude oil price developments since Zimbabwe is a net oil importer hence a price taker of global prices. The global oil prices have been retreating as concerns over the health of the global economy and oil demand prospects depressed market sentiment.
- Oil prices were also pressured lower by muted industrial activity and higher interest rates, which, combined have led to recessionary scenarios gaining traction and worries of a downward shift in oil demand growth.
- In the outlook, a drop in OPEC production and increasing oil demand in China and India will lead to relatively moderate price increases in the 2HY23.

4.2 Agriculture

- The 2023 harvest is ongoing for large-scale farmers and households in the resettlement areas but is largely complete across the rest of the country. As of the end of May, Grain Marketing Board (GMB) received about 5 000 tonnes of maize and expects to build a 1.5 million tonne reserve.
- GMB is buying a tonne of maize from farmers at US$335 per tonne (US$200 paid in foreign currency plus US$135 in ZWLs at the interbank rate of every Tuesday) while selling to millers at US$368 (US$200 in forex plus US$168 in ZWLs at every Tuesday's interbank rate).
- The ongoing harvest is improving household food access and increasing market supplies of staple grains, particularly maize, in most markets. Relatedly, maize prices in USDs are declining, especially in typical surplus-producing areas.
- However, maize prices in ZWL continue to increase, driven by the depreciation of the ZWL in the parallel market. In typical surplus-producing areas, some households have started earning income from selling food and cash crops.
- Across the country, rural households are increasing their engagement in various casual labour opportunities, self-employment, and petty trade to earn additional income following the end of the harvest. [7]
- Winter wheat production is ongoing. As of the end of May, farmers have planted 81 000 hectares out of the targeted 90 000ha distributed as follows: Midlands (9423ha), Masvingo (2218ha), Mash Central (14887ha), Mash East (12728), Mash West (27714ha), and Manicaland (8803ha).
- Zimbabwe is moving toward wheat self-sufficiency with 2023 wheat production projected to surpass the 375 000 tonnes realized in 2022. The annual wheat requirement is about 360 000 tonnes.

4.3 Gold Sector

Fig 11: Zimbabwe Monthly Gold Deliveries (tonnes)



Source: *Fidelity Gold Refinery (FGR)*

7. https://reliefweb.int/report/zimbabwe/zimbabwe-key-message-update-further-depreciation-zwl-negatively-impacts-household-purchasing-power-may-2023

- In May 2023, gold producers delivered about 2.88 tonnes to FGR which is up 21% from about 2.38 tonnes delivered in April 2023. This is the highest outturn in year-to-date terms.
- The improvement in gold production is attributable to the end of the rainy season and de-watering measures that have improved accessibility to the mines by small-scale miners who traditionally contribute the bulk of the yellow metal.
- The incessant rains received in the first quarter of 2023 (1Q23) affected miners. Generally, when compared to large-scale miners, small-scale gold miners lack advanced mining equipment and machinery to de-water shafts making it difficult for them to operate.
- Even though production peaked in May, cumulatively, miners delivered 11.44 tonnes of gold in the first five (5) months of 2023 which is 15.1% lower than the 13.17 tonnes delivered for the same period in 2022.
- Of this cumulative total of gold deliveries, small-scale miners accounted for 61.2% (7 tonnes) while contributing 64.5% (8.5 tonnes) for the corresponding period in 2022.
- In May, Treasury announced the introduction of a gold traceability system. Traceability measures help in curbing criminality as information such as the exact source of gold, holder of gold buying license, and amount of taxes paid on gold exports can be collected and analyzed.

5. Conclusion

The ZWL is on the verge of collapse and total rejection in the market as it is massively depreciating against the USD. It was established that largely exerting pressure on the exchange rate is the unsustainable liquidity growth being created by both the Treasury and RBZ. Other factors include weak exchange rate management, increased money velocity, adverse expectations, and excessive rent-seeking behaviours. If fully implemented, the stabilization measures announced by the Treasury on the 11th and 29th of May have the potential to clamp ongoing ZWL and price instability.

6. Policy Recommendations

After tracking and analysing the performance of key economic indicators as well as key sectors of the economy in May 2023, ZIMCODD proffers the following recommendations to help bring durable economic stability:

- **Fiscal Discipline**

All spending by the government must be sustainable and budgeted for. Also, if there are any spending variances, Treasury must first seek spending approval from Parliament.

- **Abolish Quasi-fiscal Operations (QFOs)**

Discontinue all quasi-fiscal operations (QFOs) and tighten monetary policy stances like hiking its policy rate in line with prevailing inflation to discourage speculative borrowing.

- **Invest in Value for Money Audits**

The VFM audits must be conducted for all procurement tenders awarded by the Government before any payment is made to the contractor or supplier of goods and or services.

- **Liberalise the Exchange Rate**

The official willing-buyer willing-seller (WBWS) interbank market must be fully liberalized while the auction market disbanded to promote a uniform market exchange rate.

- **Introduce Higher-denomination Banknotes**

Given prevailing galloping inflation, higher denomination banknotes are now long overdue. These will help increase the public's transacting convenience which is key in building market confidence.

- **Embrace Accruals Accounting**

Adopt accruals accounting to get a completer and more accurate picture of the financial position of the government. This will inform fiscal and budgetary decision-making to avoid misallocation, increase financial resilience, reduce financial risks, and increase transparency.

- **Entrench Domestic Resource Mobilization & Good Governance**

Ensure that the resource extraction and sale process is open, accountable, fair, and equitable and that mineral revenues are appropriately collected and distributed to support key national priorities.

- **Prioritise Public Service Delivery**

Treasury must prioritize crucial public services such as healthcare, education, housing, water, and sanitation to improve the welfare of the poor.

- **Institute Economic Policy Reform**

The Treasury must swiftly institute market-driven and inclusive structural and economic reforms & policies to increase domestic production, market competition, and innovation.

- **Strengthen the Capacity of Accountability Institutions**

Oversight and accountability institutions such as Parliament, Office of the Auditor General, and the Zimbabwe Anti-Corruption Commission must be capacitated and given maximum autonomy to discharge their mandates.

7. Disclaimer

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