RUSSIA-UKRAINE WAR: ECONOMIC IMPLICATIONS FOR ZIMBABWE
Introduction

After weeks of military build-up around its borders with Ukraine, Russia announced a special military operation (invasion) of Ukraine on the 24th of February 2022. According to Russia, Ukraine should remain neutral by not becoming a member of either the European Union (EU) or North Atlantic Treaty Organization (NATO), a military organization for western nations led by the United States of America (USA). In response to the invasion, the West is mounting severe economic sanctions on Russia some of which are indicated below.

- US and EU sanctions aimed at Russia’s oil refining sector. These sanctions ban the export of specific refining technologies, making it harder for Russia to modernize its oil refineries. The allies are currently contemplating banning the importation of Russian oil and natural gas. The US and UK have already announced that they are banning the importation of Russian oil.
- The US and its allies barred Russian banks from the Society for Worldwide Interbank Financial Telecommunications (SWIFT) system, a global messaging service that connects financial systems, as part of stricter measures to remove Russia from the international financial system.
- The countries also imposed restrictive measures that prevent the Russian Central Bank from deploying its international reserves in ways that undermine the impact of sanctions. The idea is to paralyze Russia’s central bank assets and freeze its transactions thereby making it impossible to liquidate its assets.
- The US also imposed wide restrictions on the export of semiconductors, telecommunication, encryption security, lasers, sensors, navigation, avionics, and maritime technologies to Russia. It also targeted military end-users, including the Russian defence ministry.
- The EU bloc banned the Russian state-owned television network Russia Today and news agency Sputnik.
- The EU also froze European assets of Russian President Vladimir Putin and his foreign minister Sergey Lavrov. The EU also froze assets of Putin’s close friends dubbed “Russian oligarchs”.

However, the Russia-Ukraine conflict coupled with economic sanctions on Russia has huge negative repercussions on the global economy as these 2 countries are major players in the food, energy, and mining sectors. Here are some of the key contributions made by Russia and Ukraine to global economic activity.

- Russia is the third-largest producer of petroleum after the United States of America (USA) and Saudi Arabia. Statistics from the US Energy Information Administration show that Russia exports nearly 5 million barrels of crude oil per day.
- J.P Morgan estimates show that Russia produces about 12% of the global oil and 17% of its natural gas demands. Russia alone supplies about 40% of Europe’s gas demands for heating and cooking.
- Russia and Ukraine account for about a third of global wheat exports.
- Russia produces about 12% of platinum and 40% of palladium used in global automotive catalytic converters.
- Russia produces about 3.9 metric tons of aluminium which constitutes 6% of the global aluminium supply. Together, Russia and Ukraine account for 10% of global steel exports.
- Russia and Ukraine are key exporters of C4F6 and neon gas. Estimates show that Ukraine alone produces about 25% of neon used in global semiconductor production.
- Russia supplies about half of Airbus’s titanium demand while providing nearly a third of the United States Boeing requirements.

The foregoing shows that, if prolonged, the Russia-Ukraine conflict poses greater risks to global peace and security, international trade, global travel, and global economic growth and development. This conflict will disproportionately affect net importing regions like Sub-Saharan Africa, particularly nations like Zimbabwe. Some of the likely impacts of this conflict on Zimbabwe are outlined below:
I. Fuel Pump Prices

Zimbabwe is mostly on the receiving end of the Russia-Ukraine conflict. As alluded to earlier, Russia is one of the top global producers of crude oil. After the Ukraine invasion, global prices of crude oil rose to 14-year highs driven by the sentiment that the conflict will cause a huge shortage of oil in the market. Since Zimbabwe does not mine petroleum, it is a net importer hence a price taker of the foregoing global oil prices. Consequently, domestic fuel prices go up in line with the global dynamics.¹ However, the rate at which prices have increased in Zimbabwe in response to the Russia-Ukraine conflict is punitive when compared to other countries in the region.

![Regional Fuel Comparisons](image-url)

**Fig 1: Regional Fuel Comparisons**  
*Source: globalpetrolprices.com*

However, even before the conflict, Zimbabwe had the highest fuel prices in the region. As such, one can conclude that the record increase in fuel price announced by the Zimbabwe Energy Regulatory Authority (ZERA), on the 9th of March 2022 is partly driven by a profiteering campaign by fuel businesses. This is highly possible in the sense that some of the top fuel importers in Zimbabwe also play a significant role in the fuel retailing industry.

If the deteriorating geopolitical risks between Russia and the West are prolonged, fuel prices may continue hovering above their pre-pandemic levels, forcing frequent upward reviews by ZERA. In a context of a forex-strapped government, the continued increase of global oil prices may present difficulties in importation thus sparking severe fuel shortages resembling the 2019 long winding fuel queues.

Nevertheless, on the 15th of March, the global crude oil prices slid to below US$100 per barrel, their lowest in 3 weeks. This came after Russia indicated that it would allow Iran nuclear deal to proceed, a move that will lead to increased output from Iran thus settling fears for shortages. Furthermore, the situation might be eased by the prospects of expansion of output by Organization of the Petroleum Exporting Countries (OPEC), a cartel for oil-producing nations. Increasing OPEC’s output will cover for the gap being created by sanctioning and shunning of Russian oil and gas by the world’s top importers.

¹ Prices were increased 2 times in under a week. On the 5th of March, a litre of petrol was increased from US$1.44 to US$1.51 before increased to US$1.67 within 4 days while that of diesel was reviewed from US$1.44 to US$1.51 before jumping to US$1.68.
Meanwhile, Zimbabwean authorities should cushion businesses and the public through the reduction of fuel taxes and levies. Currently, levies are constituting nearly 30% of the total pump price as highlighted in red in Table 1.

<table>
<thead>
<tr>
<th>Item</th>
<th>Petrol (EO)</th>
<th>Diesel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free on Board (FOB) Price</td>
<td>0.9336</td>
<td>0.9431</td>
</tr>
<tr>
<td>Pipeline</td>
<td>0.0789</td>
<td>0.0789</td>
</tr>
<tr>
<td>Financing cost</td>
<td>0.0100</td>
<td>0.0100</td>
</tr>
<tr>
<td><strong>Total Landing Cost</strong></td>
<td><strong>1.0225</strong></td>
<td><strong>1.0320</strong></td>
</tr>
<tr>
<td>Add Taxes and levies</td>
<td>0.447 (26.84% of Final Price)</td>
<td>0.447 (26.69% of Final Price)</td>
</tr>
<tr>
<td>Add Administration Costs</td>
<td>0.0210</td>
<td>0.0210</td>
</tr>
<tr>
<td><strong>Total Fuel Cost (Msasa)</strong></td>
<td><strong>1.491</strong></td>
<td><strong>1.491</strong></td>
</tr>
<tr>
<td>Add Blending Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethanol Cost</td>
<td>1.10</td>
<td></td>
</tr>
<tr>
<td>Add Distribution Costs</td>
<td>0.035</td>
<td>0.035</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td><strong>1.5255</strong></td>
<td><strong>1.5350</strong></td>
</tr>
<tr>
<td>Add Oil company margin</td>
<td>0.0650</td>
<td>0.0650</td>
</tr>
<tr>
<td><strong>Oil company proceeds</strong></td>
<td><strong>1.5905</strong></td>
<td><strong>1.6000</strong></td>
</tr>
<tr>
<td>Add Dealer margin</td>
<td>0.0750</td>
<td>0.0750</td>
</tr>
<tr>
<td><strong>Final Pump Price (litre)</strong></td>
<td><strong>1.6655</strong></td>
<td><strong>1.6750</strong></td>
</tr>
</tbody>
</table>

Source: ZERA

The government should also increase targeted subsidies to producers and service providers like public transport businesses. This will help in adjusting already overstretched consumer budgets to ensure a smooth consumption path. Furthermore, authorities should utilize the power of free market in determining true prices of commodities by liberalizing both the ethanol and fuel sector. These sectors are nearly closed, with significant barriers of entry for new players. This lack of competition in these sectors has a huge bearing on fuel pricing in Zimbabwe.

2. **Flight and Freight Disruptions**

The Russia-Ukraine conflict and the subsequent rising of fuel prices may result in severe flight and freight disruptions. This stifles industrial activity leading to damaging shortages of key supplies. While oil prices are showing signs of slowing down, the volatility is expected to continue until the conflict is resolved. As such, the possibility of severe supply chain disruptions poses risks to the 2022 economic outlook. The International Monetary Fund (IMF) has already indicated that it will be downgrading its global growth projections due to the crisis. Projections will remain positive but constricted. In 2022, the Government of Zimbabwe (GoZ) is projecting national output (Gross Domestic Product) to expand by 5.5%, a projection that is also expected to be missed due to rising geopolitical risks and trade wars.

When the USA and China began a trade war in 2018, the global economy experienced a synchronized slowdown. Given the interlinkages between various sectors of the economy, supply chain disruptions cause shortages that are highly inflationary. In addition, the disruptions may delay the completion of critical national projects like road construction under the Emergency Road Rehabilitation Programme (ERRP2) and the Hwange 7 and 8 thermal power expansion funded by
borrowed loans from China. Almost all supplies for projects funded by Chinese loans are sourced from China even if the supplies are locally available.

3. Cost of production

Fuel is a key input that facilitates industrial production. It is used in the transportation of raw materials from suppliers to production plants. Fuel is also used as an input in the production process and is a substitute for electricity during times of power rationing (load shedding) by Zimbabwe Energy Supply Authority (ZESA). High fuel prices are experienced at a time Zimbabwe is in the midst of high inflation and rising long-term interest rates which is affecting the cost of borrowing. All this will render domestic firms uncompetitive thus making foreign-produced goods cheaper than locally produced goods which has seen Zimbabwe becoming a perennial importer since the turn of the new millennium. A high-cost business environment scares away potential investors thus affecting the employment of factors of production like labour.

4. Cost of living

Zimbabwe has been struggling with rampant inflation since 2019 when the Zimbabwe dollar was hurriedly re-introduced alongside austerity measures which increased poverty. The country is a net importer of goods and services hence domestic prices have a huge foreign cost component making it highly prone to global fluctuations. As such, the rising global food and energy prices are resulting in imported inflation. As an example, Zimbabwe imports its wheat from Russia and Ukraine with the latter accounting for the bulk of Zimbabwe’s wheat imports. Statistics also show that Ukraine is the 4\textsuperscript{th} largest exporter of maize accounting for about 17\% of global maize exports. It also accounts for about 30\% of the global output of sunflower seeds used for producing cooking oil.

The war has significantly affected shipments to the global market. Meanwhile, Ukraine has already banned the exportation of wheat, oats, and other staple food to manage reserves as it faces a severe humanitarian crisis.\textsuperscript{2} This is a huge blow to Zimbabwe which, according to the Grain Millers Association (GMAZ), should import at least 155 000 tons of wheat this year to meet domestic demand. Consequently, the landing price of wheat surged to US$675 from US$475 per ton. In response, GMAZ hiked the price of grains with a ton of bread flour going up by nearly 15\% to ZWL136 544 from ZWL119 000 while that of maize surged to ZWL50 000 from ZWL43 000 per ton. To be precise, the maize meal retail price of a 10kg bag of Roller Meal jumped 15\% to ZWL1 099 from ZWL955. This shows that citizens should brace for more increases in basic food prices of goods like mealie meals, bread, and cooking oil emanating from the Russia-Ukraine war. According to ZimStats in an All-Items Consumer Basket, food alone constitutes about 30\% of the total weight of the consumer basket.

If prolonged, the war in Ukraine will derail its agricultural activities thus causing long-term global corn and wheat shortages as the war-torn country accounts for 17\% and 12\% of global exports respectively. Furthermore, the flight and freight disruptions from the Russia-West trade war may also pose a severe long-term impact on the performance of Zimbabwe’s agriculture sector. Zimbabwe imports the bulk of its fertilizer components from Russia. As such, even if the 2022/23 cropping season receives normal rainfall patterns, the yield may be affected due to fertilizer shortages and the ensuing exorbitant shelf price beyond the reach of many poor smallholder farmers. The increased pump price of fuel also entails high transportation costs for the commuting poor

\textsuperscript{2} https://time.com/6156160/ukraine-bans-wheat-exports
public, high distribution costs of goods and high cost of production as fuel is one of the key industrial production enablers.

One should recall that apart from these external factors, many internal risks are expected to keep domestic price inflation high in 2022. These include but are not limited to a long election season which is historically associated with unsustainable fiscal spending, the likelihood of political violence which increases Zimbabwe’s investment risk profile, low vaccination rates against the COVID-19 virus, and a poor 2021/22 agricultural season due to erratic rainfall patterns. Consequently, the current global wave of inflation which is being fuelled by the Russia-Ukraine conflict will exacerbate the price level that was already out of reach before the Russia-Ukraine war. Therefore, citizens should expect a perpetual surge in the cost of living in 2022. As such, consumers should guard against wasteful expenditures and save money to ensure smooth consumption patterns.

5. Communication and Technology Services Interruption

Telecommunication companies are forced to use fuel generators to avoid network interruptions during times of power outages which have become a common phenomenon in Zimbabwe for the past 3 years. These companies also rely on foreign supplies to ensure uninterrupted service delivery, yet they are largely charging their services in fragile Zimbabwe dollar. It is therefore inevitable for telecoms to hike their broadband data tariffs in line with fuel cost and currency depreciation, a move that negatively affects internet penetration. Internet penetration is very crucial especially in public finance management (PFM) as it reduces the gap between duty bearers and rights holders through increased flow of information. Hence, rising data costs make it difficult for citizens to hold public officials accountable. Furthermore, the burgeoning cost of accessing the internet and possible service interruption pose red flags on the accessibility of other key social and economic services like e-commerce, online banking, mobile money transfers, virtual learning and teleworking citizens and institutions had become accustomed to amid the COVID-19 pandemic. Internet access is also crucial if Zimbabwe is to remain relevant in the Fourth Industrial Revolution of technological innovation which has increased globalization.

6. Currency Crisis

A trade war between Russia and the West, if prolonged, may become widespread and trigger a global currency/financial crisis. The last global financial crisis was experienced in 2007/8 and it triggered a great recession of the global economy. When this great recession struck, Zimbabwe was already facing high inflation levels. Thus, the global recession fuelled the collapse of the domestic economy as the country record of hyperinflation for a nation in peacetime. Unfortunately, the current conflict and trade war among nuclear superpowers coincides with a period Zimbabwe is also experiencing high price inflation. Latest statistics from ZimStats show that annual price inflation increased by 66.1% in February 2022, the highest annual outturn in the SADC region. From a month-on-month perspective, prices increased by 7% in February, their highest since August 2020. The growth rate of general prices is expected to heighten as the effects of Russia-Ukraine conflicts kick in.

The foregoing shows that the economy is highly fragile and susceptible to global fluctuations. Zimbabwe is a perennial net importer thus cementing its position as a "supermarket" economy as opposed to a manufacturing (productive) economy. To cushion the economy from the immediate impacts of the looming financial crisis, authorities should start to build gold and or forex reserves. At 0.3%, the country’s current debt-to-forex reserve ratio is the lowest in the region meaning that Zimbabwe is setting aside a few dollars that it would need for future transactions like debt
repayments. Reserves are critical assets that give authorities enough room to manoeuvre in economic management during times of uncertainty. For the long-term, authorities should mull prudent, market-driven policies that attract investment and substitute imports.

7. Mining

The Russia-Ukraine war may affect or delay the completion of the Second Republic’s mining mega deals which are being spearheaded by Russians in Zimbabwe such as the development of Great Dyke Investments (GDI)’s US$3 billion platinum mine. The GDI is set to become the largest platinum miner in Zimbabwe overtaking Zimplats. The conflict and ensuing economic sanctions against the Russian government and its citizens pose a major blow to the country’s 2023 Mining Vision which seeks to attain a US$12 billion mining sector by end of 2023. In the long term, this could also derail Zimbabwe’s Vision 2030 of becoming an Upper-Middle-Income Country by end of the year 2030.

Nevertheless, the mining sector in Zimbabwe will emerge as the winner of the ongoing war between Russia and Ukraine. By virtue of being a major mineral producer, sanctioning of Russia’s minerals creates an acute global shortage as demand will outweigh supply thereby forcing mineral commodity prices to overshoot. Zimbabwe is a commodity-dependent country, with minerals accounting for more than 60% of its 2021 export receipts which totalled US$6.13 billion. The country witnessed a 55% jump in gold delivery to official channels in 2021 to 29.63 tons from 19.05 tons realized in the preceding year. Furthermore, RBZ statistics for the first 2 months of 2022 (Jan-Feb) show gold deliveries mounting 36.4% to 5.13 tons from 2.17 tons realized for the comparable period in 2021.

![Monthly Gold Deliveries](image)

**Fig 2: Monthly Gold Deliveries to FGR (Jan 2020- Feb 2022)**

**Source:** Reserve Bank of Zimbabwe (RBZ)

Gold is a safe-haven asset, that is, the demand and price of the yellow metal rise during the time of uncertainty, a characteristic it got from its long history of use as a currency and a store of value. Since 2020, high gold prices were supported by the uncertainty around the path of the COVID-19 pandemic. Fast forward to 2022, the global gold price is expected to remain high as investors rebalance their investment portfolios towards safe-haven assets amid economic and geopolitical uncertainty brought by the invasion of Ukraine by Russia. Other green energy-linked minerals like nickel, lithium, and Platinum Group Metals (PGMs) comprising platinum, palladium, rhodium, ruthenium, osmium, and gold (6Es) will also benefit from the Russia-Ukraine conflict. The conflict will push nations towards energy independence through increased adoption of green energy like electric cars. Before the conflict, most advanced nations who are also top polluters have pledged to attain carbon neutrality by 2050 at the October 2021 UN COP26 summit held in Glasgow, Scotland.
Furthermore, the removal of Russia from all US dollar transactions and freezing of its US dollar-denominated reserves have alerted Russia and other countries to move away from their over-reliance on the US dollar as the main reserve asset. The USA and its allies have shown that building reserves denominated in another country’s currency can render those reserves useless by a “stroke of a pen”. This has seen gold demand and price rising to their record highs as the central bank of Russia began purchasing gold ending its 2-year pause. While it is still early to ascertain the impact of this on the US dollar, this exposes small countries like Zimbabwe which are failing to manage and stabilize their own currency. It is high time authorities undertake required political, economic, and structural reforms to ensure the stability of the Zimbabwe dollar.

For the country to enjoy the rising global mineral prices, particularly of gold, a safe haven and traditional top forex earner for Zimbabwe, authorities should take bold and progressive actions which include among others;

- Decriminalization of artisanal mining. The output of artisanal miners will help boost export performance, forex earnings, employment, and protection of the environment as miners get easy access to mining titles and legal production channels. Granular analysis of RBZ statistics shows that despite the criminalization of artisanal mining, the Artisanal and Small-scale Mining (ASM) sector is the largest contributor to annual gold deliveries to Fidelity Gold Refiners. In 2021, the ASM sector accounted for 62% of 29.63 tons achieved for the entire year with primary producers accounting for the remainder. Statistics also show that for the first 2 months of 2022, the ASM sector is accounting for 64% of total deliveries to FGR as shown in figure 3.

![Fig 3: Gold Deliveries by Miners to FGR](source:RBZ)

*2022 covers Jan & Feb

- The government should quickly formalize the ASM sector to ensure that the sector receives enough support from the government. Zimbabwe is experiencing a rising cost of borrowing as a result of skyrocketing inflation. As such accessing state-of-the-art machinery and equipment is a cumbersome task for ASM players as they lack adequate collateral security to be able to borrow from financial intermediaries.

- The government has been announcing that it has adopted the “use it or lose it” policy on mining claims. This is crucial to ensure that people do not hold mining claims for speculative purposes. ZIMCODD, therefore, calls authorities to fairly implement this policy to ensure that the policy is not abused for political “gamesmanship”. The policy will appetize the holders of mining claims to put them to use thus increasing gold output.
• To ensure that mining communities in particular and Zimbabweans in general benefit from mining activities, the government should ringfence part of the forex it is collecting from export retention thresholds for public service delivery. Drawing down ringfenced funds to distribute as fiscal transfers will go a long way in developing marginalized communities dotted across the nation.
• Since 2019, Treasury through the National Budget has announced plans to adopt an electronic mining cadastre system. However, to date, the system is not yet functional nationally. Despite lacking topographical details, a cadastre system is key as it offers ready means of exact account and documentation of specific pieces of land. The system also acts as an unbroken record of rights over land. Consequently, adopting a cadastre system will reduce mining conflicts regarding ownership of mining claims and rights.

8. Engagement and Re-engagement

The current administration has based its foreign policy on engagement and re-engagement with the world, particularly the West where relations have been damaged by the fast-tracked Land Reform Programme of the early 2000s, debt default, and abuse of human rights. The country is currently under debt distress and is seeking debt relief so that it will be able to access concessionary lending from international financial institutions like the World Bank and IMF. However, the close diplomatic and economic relations between Russia and Zimbabwe may render engagement and re-engagement drive with the West futile.

9. Public Debt

In 2020, many countries were forced to borrow heavily as their fiscal coffers were obliterated by the novel COVID-19 pandemic. In the same vein, if the Russia-Ukraine war is prolonged, many countries like Zimbabwe without adequate reserves will be forced to borrow to cover the spending gaps. Businesses will need to be cushioned from skyrocketing cost of production largely fuelled by supply disruptions while citizens’ pockets especially the vulnerable like people with disabilities, orphans, and the elderly will need to be cushioned from rising energy and food prices. To do so, the government will need to reduce some levies and taxes such as fuel levies and taxes constituting nearly 30% of the final fuel pump price in Zimbabwe.

A high tax environment shows the government’s over-reliance on taxation to finance its budget. As such, reducing some taxes will create a huge spending gap forcing the country to borrow abroad. Unfortunately, the country cannot access concessionary lending because of its high debt arrears. Resultantly, the government will continue with risky collateralized borrowing from countries like China. Therefore, if the conflict and the tightening of global supply chains and prices continue unabated, the government will be forced to borrow. Unfortunately, public debt is already unsustainable as statistics from the Treasury show public and publicly guaranteed debt at US$14.2 billion which is over 85% of national output.

Conclusion

The foregoing shows that the Zimbabwean economy is highly fragile and susceptible to global fluctuations. The country is a net importer of almost everything, making it a “supermarket” economy. As such, there is a need to reconfigure the economy to move away from import dependence. This can be done through import substitution schemes like provision of domestic production incentives, buy local initiatives, structural reforms, strengthening of institutions, and curbing of institutionalized public corruption. the government must also cushion the general public, particularly the vulnerable like the commuting public. This can be done through the provision of targeted subsidies like increasing bus fleet and fuel allocation to ZUPCO as well as farm inputs to smallholder farmers among other subsidies.
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