WEEKLY REVIEW

2 AUGUST 2022

Weekly Dashboard

Forex Auction Weighted Rate

Week	22.07.2022	29.07.2022
Per USD1	ZWL 413.4325	ZWL 443.8823

Consumer Price Index

Month	June	July
	8 707.35	10 932.83
Blended	205.39	238.43

Inflation

Month	June	July
M.O.M.	30.7%	25.6%
Y.O.Y.	191.6%	256.9%

COVID-19 Cases

Week	22.07.2022	29.07.2022
Positive	256 246	256 376
Recovered	250 160	250 296
Deaths	5 572	5 577

National Recovery Rate

22.07.22	29.07.22
98%	98%

ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

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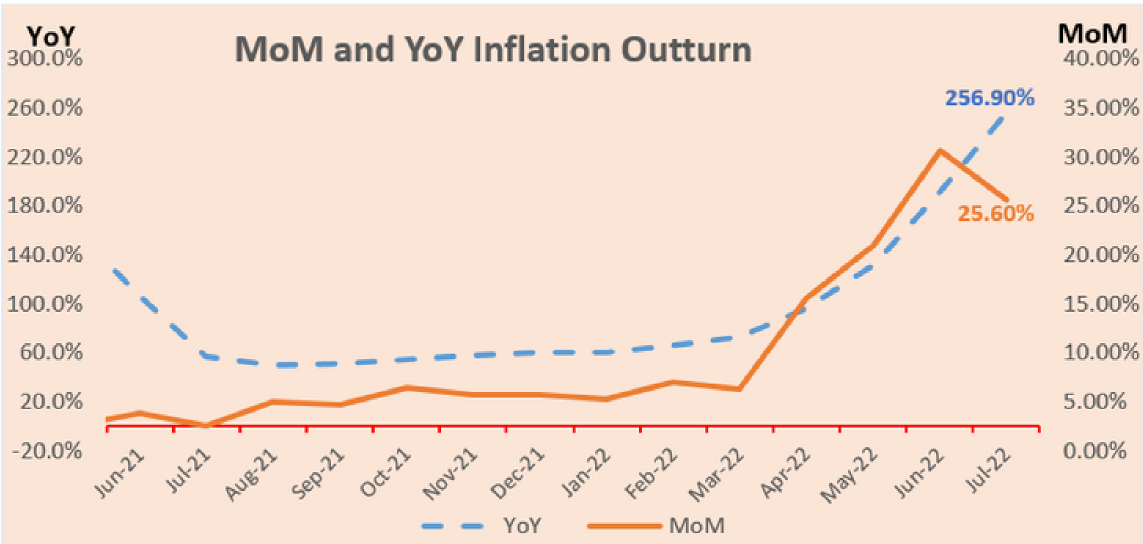
1. No end to the current economic quagmire in sight

Zimbabweans continue to be choked by rampant inflation causing severe wage erosion, especially for the majority who are earning in the fragile Zimbabwe dollar (ZWL). The latest statistics released by the Zimbabwe National Statistics Agency (ZimStat) show price inflation mounting by a whopping 256.9% in the last 12 months ending July 2022. In comparative terms, this is Zimbabwe's highest annual inflation outturn since February 2021 putting the country at the apex of the global price inflation ladder. From a month-on-month perspective, prices increased by 25.6% in July 2022 however shedding 5.1 percentage points from an increase of 30.7% recorded in the prior month. This inflation performance averaging 15.9% per month between the Jan-July period significantly outstrips the Reserve Bank of Zimbabwe (RBZ)'s projections of single-digit inflation below 5% throughout 2022.



Source: *ZimStat*

Buoyed by a 5.1% decline in July, the RBZ's Monetary Policy Committee (MPC) now expects the decline in monthly price inflation to continue in the outlook period premised on its tight monetary policy. This stance is shown by a relatively constant reserve money supply growth rate, that is, the base level of money supply in the economy comprising currency in circulation and commercial bank deposits at the RBZ. It is crucial to keep reserve money growth under check because it is injected directly, at the discretion of the Bank and its components largely function as a medium of exchange than a store of value.

In June 2022, the MPC also hiked the RBZ's policy rate[1] from 80% to 200%, a rate it had resolved to maintain after its recent meeting conducted on the 29th of July 2022. Furthermore, the Bank introduced gold coins on the 25th of July 2022 to help stabilize the ZWL by offering investors a stable and lucrative alternative financial asset for storing value. According to the Bank, a total of 1 500 gold coins were released into the economy in the first week (25-29 July), with 85% of these coins having been bought in local currency and the balance of 15% in foreign currency. An additional 2 000 gold coins will be released into the market during this week (1-5 August).[2]

The actions by the monetary authority (RBZ) are being reinforced by government measures to deal with factors destabilizing the foreign exchange market, particularly by reviewing the basis and framework for payments to its suppliers of goods and services. Economic analysts have been calling for a change in the financing model of infrastructural projects from short-term (using cash) to long-term financing like utilizing bonds. These contractors who are forward pricing their services are offloading tons of ZWLs in the parallel market in search of a stable greenback thereby sending the ZWL exchange rate haywire. During writing of this piece, US$1 was trading at an average of ZWL850 in alternative markets against ZWL455 in the official market thus giving an average premium above 85%. In response to this, Treasury is now paying its contractors 50% in foreign currency and a staggered 50% ZWL balance to reduce US demand pressure being caused by the dumping of ZWL. The government has also suspended import duty on all basic commodities, is releasing some grains from its Strategic Reserve and facilitating the importation of staple maize to reduce mounting shortages in the market. To cushion civil servants from the jaws of chronic inflation, Treasury had recently proposed a ZWL929 billion Supplementary Budget with 53% of this total earmarked for employment costs.

But, be that as it may, ZWL depreciation and inflationary pressures are likely to remain elevated in the outlook period as the government is set to spend nearly ZWL2 trillion by end of December 2022. Generally, Treasury spending is high during the second half of the year mainly driven by support to the agriculture sector in the summer cropping season- subsidies to smallholder farmers under Pfumvudza/Intwasa. For this year, the government is targeting to support about 3.2 million households, up 39% from 2.3 million who participated in the previous season.[3] With a projected increase of Pfumvudza beneficiaries this year amid rising global prices of chemicals, fertilizers and other inputs as a result of the disruptions being caused by the Russia-Ukraine, Treasury should brace for unprecedented spending levels that risk disrupting its financial standing. Also, spending pressure will emanate from the need to increase cereal imports, particularly maize at least through the next harvest in 2023 as the nation has experienced a 43% decline in maize output in the 2021/22 cropping season due to erratic rainfall patterns.

1. This refers to the benchmark interest rate for bank deposits and loans directly determined by the central bank in order to reflect the direction and adjustment of monetary policy.

2. https://www.rbz.co.zw/documents/press/2022/August/Press-Statement---MPC-Resolutions---29-7-2022.pdf

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

The rising cost of borrowing driven by monetary policy tightening in advanced nations is exerting enormous pressure on developing nations like Zimbabwe as they are facing unsustainable debt levels which could trigger a default or severe crowding-out of public service delivery. There are also other risks such as rising global energy and food prices, the resurging COVID-19 pandemic and likely policy slippages, political violence and civil unrest ahead of the 2023 general elections. All of the foregoing have ripple effects on the ZWL exchange rate and headline price inflation.

While the public commends government efforts to cushion vulnerable citizens from the massive ZWL depreciation and skyrocketing price inflation wreaking havoc in the economy amid a constrained fiscal space, the peace-meal approach to policy implementation is exacerbating the crisis at hand. Therefore, there is a need for adequate political will to strictly implement reforms to strengthen legal and institutional frameworks and entrench fiscal discipline. This will help subdue leakages in the economy which are largely emanating from white-collar corruption in public procurement and illicit financial flows such as gold smuggling. Also, as per creditors' demands, these reforms are the only way for cash-strapped Harare to unlock blocked access to cheap external financing and foreign direct investment which is key for economic development. More so, there is a need for increased central bank independence to allow RBZ to consistently follow prudent, market-based monetary policies as opposed to the current command exchange rate policies promoting rent-seeking behaviors in the markets.

2. Air Zimbabwe Needs Structural Reforms & Not Board Appointments

The state airline, Air Zimbabwe has been struggling for over two decades failing to provide optimum service delivery and covering some of the regional and international routes it used to service. In 1980, Air Zimbabwe was regarded as one of the best airlines in Africa competing on international routes. Currently, Air Zimbabwe services domestic routes such as Victoria Falls and Bulawayo and has been booted out of the international routes due to archaic and dilapidating airlines except for Johannesburg, Dar es Salaam and other regional destinations. It is rather worrying that for a country that has ambitions of attaining an upper middle-class economy by 2030 it does not have a single inter-continental airline.

Treating a wound with cough syrup is what the government is doing in its attempt to rejuvenate the struggling parastatal. Air Zimbabwe needs structural reforms and political will and not board appointments. In 2018, the state airline was put under the administration of Grant Thornton in terms of the Reconstruction of State-Indebted Insolvent Companies Act (Chapter 24:27) from the 4th of October to the 30th of June 2021. This was an attempt to redress the challenges that the parastatal was encountering.

3. https://www.newsday.co.zw/2022/07/govt-targets-35-000-boreholes-by-2025/

However, the appointment of six directors[4] does not show government sincerity as a state enterprise and parastatals directors have for long been accused of taking home hefty salaries and allowances. The 2014 salary gate and the recent NSSA scandal are clear case points to the rot in the public sector. Self-aggrandizement and rent-seeking are at the core of parastatal bosses' decision making all being facilitated by agent-principal theory. The rationale behind the appointment of six directors after the purchase of one 50-seater jet defies logic and glamourizes wholesome populistic appointments earmarked to advance the vested interest of individuals rather than national growth and development.

To this end, ZIMCODD recommends that the Ministry of Transport and the Office of President and Cabinet as the meta-governance institution must prioritize structural reforms within the airline rather than board appointments. This is premised on the idea that continuous board appointments without structural reforms boarders between utopianism and insincerity.

3. Protect and fulfil children's rights in the mining sector

The mining industry is the cornerstone of many countries' economies with the potential to foster growth and development, thereby increasing household incomes and improving child health care. Being rich in mineral resources is a valuable tool that can be used to promote economic growth and encourage the development of public facilities such as the construction of schools, libraries, hospitals and clinics. In recognizing that mining is an important developmental activity that contributes to households, offices, schools, and life in general, it is important to note its role in fostering the development and realization of socio-economic rights.

The mining sector is very important to the Zimbabwean economy, offering vast mineral wealth with immense value generation. However, this industry has been associated with negative impacts on the environment, health, and academic performance of local communities living close to mining operation sites. The mining sector if not properly regulated, can contribute to labour violations, exploitation of communities, ill-health of workers and people from surrounding communities, and destruction and/or degradation of the environment.[5] One such instance is the case of a mining claim which was pegged less than 50 meters away from Globe and Phoenix Primary School in Kwekwe. Mining sites should be at least 450 meters away from built-up areas, be it homesteads or schools due to the potential negative impacts mining activities have on buildings and individuals. In areas where mining activities have taken place too close to dwellings, people living in the area have had problems with their houses – cracking, as is the case with Globe and Phoenix Primary School. There have also been cases of dangerous sinkholes in some mining areas. The weakening of houses and the existence of sinkholes pose a danger to children, some of whom have drowned in sinkholes.

4. https://www.sahrc.org.za/index.php/sahrc-media/opinion-pieces/item/364-effects-of-mining-on-children
5. https://www.theindependent.co.zw/2021/09/03/on-the-us961m-sdrs-allocation/

Due to the harmful impacts mining activities pose, pre- and post-mining processes must consider the potential impacts of a mining project on individuals, more so on groups such as children, not only as a vulnerable group but also as holders of constitutional rights in their own right. The potential adverse impacts on the child, both physically and psychologically, must not be overlooked or not adequately considered during community consultation, which should take place before mining activities are conducted in any given area. Children, because of their vulnerability, need utmost protection. It is therefore crucial that in mining activities the best interests of the child are upheld.

Owing to rising poverty in Zimbabwe, school children are now increasingly participating in artisanal gold mining activities. Unlicenced industries utilize child labour to carry out mining activities. In areas where mining activities are taking place and children are involved as a result of their proximity to mines some of the major issues that arise have to include sexual exploitation, children being unable to attend school, and environmental degradation that directly impacts children. Toxic water in some areas has destroyed aquatic life and resulted in the contamination of boreholes. There are increasing reports on children's ill health as some children suffer from skin irritation that is suspected to be related to acid mine drainage[6]. The soil is also polluted resulting in people not being able to grow crops and vegetables for sustenance.

Some of the challenges experienced, linger well after the post mining stage. Unrehabilitated mines pose a danger to children's security, and personal safety and lead to injuries and deaths as children fall into unmarked pits. Violent clashes among different groups of illegal miners as well as between law enforcement agents and the illegal unlicensed miners have resulted in or exposed children to the danger of injury and/or loss of life. In 2012, the United Nations International Children's Emergency Fund (UNICEF), together with the United Nations Global Compact and Save the Children, developed a set of principles to guide businesses in respecting and protecting the rights of children in their spheres of influence. These guidelines are known as the Children's Rights and Business Principles (the Principles)[7]. The Principles represent the internationally agreed upon standards for businesses with regard to children's rights and provide some important recommendations for all businesses.

In recognizing that children constitute the future of mining whether as the people at the coalface of mining, as managers, owners, and customers, thought must be given to the protection of this future generation by adhering to the standard set in the Principles, which include:

- Ensuring the protection and safety of children in all business activities and facilities,
- Respecting children's rights and supporting the human rights of children,
- Respecting and supporting children's rights in relation to the environment and land acquisition and use,
- Respecting and supporting children's rights in relation to the environment and land acquisition and use, and
- Reinforcing community and government efforts to protect and fulfill children's rights.

6. https://www.sahrc.org.za/index.php/sahrc-media/opinion-pieces/item/364-effects-of-mining-on-children

7. https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2Fhuman_rights%2FCRBP%2FChildrens_Rights_and_Business_Principles.pdf

4. Is the theme for the 2023 Budget Strategy Paper (BSP) feasible for Zimbabwe?

The Budget Strategy Paper (BSP) serves as an important instrument for encouraging debate on the impending budget aggregates and how they interact with the economy, thereby creating appropriate expectations for the budget itself (OECD, 2010). The BSP is a strategic paper in the annual budget preparatory process, which outlines the forthcoming proposed budget priorities (GoZ, 2022). The BSP is issued to enhance understanding among stakeholders of the broader macro-fiscal issues that will guide the prioritization of budget allocations. It is therefore meant to improve transparency in the preparation of the National Budget as it seeks to build consensus on specific issues to be addressed under the budget and forms the basis for discussions with stakeholders on proposed national priorities, policies, and strategies for the forthcoming financial year. Key issues in the BSP and its utility are centered on timeous production and distribution for increased public access to the document. To this end, ZIMCODD commends the government for timely publishing of the Pre-Budget Strategy Paper for two years in a row (29 July for 2021 and 28 July for 2022). The 2023 Budget Strategy Paper which was presented by the Minister of Finance and Economic Development and has already been adopted by the Cabinet is themed “Accelerating Economic Transformation”. This article makes some reflections on the 2023 budget theme.

The theme, “Accelerating Economic Transformation” raises more questions than answers to the plight of the Zimbabwean people who continue to pin their hopes for social and economic transformation on the fiscal policies this nation adopts. Citizens are questioning the feasibility of this theme given the tightening economy which continues to be weighed down by run-away inflation and unstable exchange rate. As illustrated in the BSP, the 2023 budget will mark the mid-point in the implementation of the NDS1 which should allow stakeholders to review progress while giving impetus to the country’s vision of an Upper Middle-Income Economy by 2030. However, in as much as the theme is ideal for the journey toward vision 2030, is it attainable given the status quo?

Economic transformation can be conceptualized from a position of moving the economy from its current nomenclature or classification to a new classification. It is concerning that the Zimbabwean economy, since time immemorial, has been more of a stone-age economy that is agro-based yet agriculture is at the lowest level of economic development. Based on this argument, economic transformation should see a shift from stone-age economic activities to modern economic activities, and is Zimbabwe ready for such transformation? A review of budgets in the new dispensation and beyond shows no movement or willingness to shift from subsistence agriculture and transform into a service-based industry or cyber-based economy. Traces of this shift are visible through the prioritization of Infrastructure, ICT, and the Digital Economy, however, with little budgetary allocations to back such a commitment. There is a need to move towards a low-cost economy with high returns, i.e. modernized service-based and internet-driven economy.

Economic transformation also refers to a situation whereby there is a shifting of wealth from one group of the population or from one spatial area to the other. Again, there is nothing in the budget strategy paper that shows that there is going to be a significant shifting of wealth from the rich to the poor, for example. There are no measures put in place to ensure that the majority will lift themselves out of poverty and enter a certain level of society such as the lower middle-class or upper middle class as per vision 2030. The BSP has nothing in the budget that promotes or facilitates such transformation. If the budget is truly transformative, it should be supporting the movement of wealth say from the urban populace to the rural populace, from the rich affluent suburbs to the poor high-density suburbs in terms of infrastructural development, asset transformation, reformation, and asset accumulation taking place in the poor areas of the country in a bid to lift people out of poverty and transform their livelihoods and consequently the economy. What citizens have rather seen for 2022 was the introduction of Mosi-oa-Tunya Gold coins which are meant to make the rich richer, simply aimed at creating huge gaps for looting and manipulation of the economy since the gold is not being sold for its proper value. The concept was good however, the gold coins are only meant to benefit the wrong beneficiaries. Instead, there should be gold coins aimed at the poor which are subsidized by the government. Against this background, there is neither acceleration nor transformation of the economy going forward.

On the other hand, the talk about accelerating economic transformation seems rather misplaced or rushed as the country is experiencing a tightening macro-economy. Currently, Zimbabwe has the highest inflation in the world, industrial capacity is at its weakest, and manufacturing performance is also weak. Zimbabwe has also been grappling with a declining human development index of 0.571 for 2020, a compressed economy with a huge fiscal deficit, a debt crisis (estimated at around US$17.2 billion), and a high poverty prevalence rate. Therefore, in real terms, the economy is not even growing, so to talk about accelerating transformation is not realistic or out of sync with reality. There is rather a need to stabilize and strengthen economic fundamentals to transform the economy before talking about accelerating it.

Zimbabwe, therefore, needs the right leaders and right thinkers in decision-making positions. This calls for a political will and deliberate stance to reform the economy coupled with a mindset shift towards real economic transformation. While devolution was meant to transform the economy and increase the breadth of local government functions, true devolution has failed to take off as it is being implemented against a backdrop of failed public institutions which have failed to abide by the best practices in Public Finance Management as captured in the Auditor General’s reports. Therefore, a hybrid approach of establishing stability and strengthening economic fundamentals should be adopted while taking baby steps toward true economic transformation after which the country can start the conversation around accelerating economic transformation.