WEEKLY REVIEW

15 March 2023

Weekly Dashboard

RBZ Interbank Rate

Week	28.02.2023	07.03.2023
Per USD1	ZWL 892.6349	ZWL 907. 9236

Consumer Price Index

Month	January	February
	278.12	273.65

Inflation

Month	January	February
M.O.M.	1.1%	-1.6%
Y.O.Y.	229.8%	92.3%

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1. Zimbabwe now resorting to blended inflation statistics

Last week, Zimbabwe National Statistics Agency (ZimStat) initially postponed a scheduled online public meeting to disseminate monthly statistics – inflation, poverty, and external trade statistics - citing reasons beyond its control. However, it was later revealed that the delays in the publication were due to the official migration from Zimbabwe dollar (ZWL) inflation to blended inflation reporting. This was made through the promulgation of Statutory Instrument 27 of 2023 (SI 27-2023).[1] Blended inflation is a weighted average increase in general prices based on ZWL and the United States dollar (USD).

Through its 2023 Monetary Policy Statement (MPS), the Reserve Bank of Zimbabwe (RBZ) argued that standalone ZWL inflation was no[2] longer reflecting the true market dynamics as the bulk of banking sector deposits (64.2%) and market transactions (76.56%) were conducted in USDs in 2022. The RBZ then advocated for blended inflation which calculates inflation based on the respective weights of currencies used in household transactions per period. As such, the stable USD has more weight in blended inflation figures than the highly fragile ZWL. For authorities who have struggled to clamp currency volatility since 2019, resorting to blended figures will help portray macroeconomic stability in an electoral season. Generally, the success of a central bank is measured by the performance of local currency and market prices.

ZWL inflation statistics last released by ZimStat in January 2023 showed year-on-year (YoY) and month-on-month (MoM) inflation outturn for the month at 229.8% and 0.7% respectively. Since the reintroduction of the ZWL branded as RTGS dollar in February 2019, Zimbabwe had struggled with incessant price growth. Statistics show YoY and MoM inflation mounting unsustainably, averaging 304.09% and 11.33% per month between Feb 2019 and January 2023. In other words, Zimbabwe was experiencing hyperinflation during this period. However, the adoption of blended metrics now paints a better picture although misleading. ZimStat blended YoY inflation rate for February 2023 as measured by the all-items Consumer Price Index (CPI) plummeted to 92.3% while MoM inflation rate fell to -1.6%.

So, from a February 2023 MoM perspective, Zimbabwe technically entered a deflation period -inflation falling below 0% (a negative inflation rate). This clearly shows the dangers of relying on blended metrics. These metrics showing price stability in Zimbabwe are distorted from people's lived realities.

1. https://www.znn.co.zw/govt-adopts-blended-inflation-rate-based-on-usd-zim-dollar/
2. https://www.rbz.co.zw

Statistics are showing that the government is still largely earning in ZWLs and is also largely paying its civil servants, contractors, and suppliers of goods and services in ZWLs. Also, statistics are showing that in year-to-date (YTD) terms, the ZWL has erased more than 20% of its value against the USD in both alternative and official markets.

To reduce exchange rate losses, businesses are benchmarking their ZWL prices at or above the parallel market rates. Resultantly, ZWL prices upscale whenever the ZWL nosedives against the USD in the parallel market thereby significantly reducing the purchasing power of poor households largely earning in fragile ZWL. This alone clearly shows that the government cannot solely rely on blended inflation figures without increasing the USD salary component of civil servants.

For blended statistics to make economic sense, both the government and private sector companies must adjust the USD component of workers' salaries in proportion to USD usage in the economy as measured by ZimStat's classification of individual consumption according to purpose (COICOP). For instance, since COICOP shows that 76.56% of formal transactions are conducted in USDs, then at least 75% of a civil servant's monthly salary must be in USDs. This arrangement should be done after agreeing and pegging public workers' salaries in USDs say at US$540 per month.

Authorities should not only use USD metrics when it is in their favor. ZimStat provided blended inflation to take advantage of the dominance of stable USD but provided poverty metrics entirely in ZWLs. The poverty metrics showed that an individual required about ZWL22 386 in February 2023 to be considered food secure and about ZWL29 563 to be considered above total consumption poverty which includes both food and non-food expenditure requirements. Using February 2023 overvalued official interbank rate of ZWL/USD 889.13, these poverty figures translate to about US$25.18 and US$33.25 per person respectively. These USD figures are highly contested because they are too low hence ZimStat elected to report poverty statistics entirely in ZWLs yet inflation metrics are blended.

In other cases, authorities are embracing the rapid re-dollarization of the economy despite the official position that Zimbabwe is pursuing de-dollarization. For instance, in a letter dated 26 February addressed to the Intensive Energy Users Group which includes miners[1], the finance minister directed companies to pay ZESA electricity tariffs 100% in hard currency. Also, the Treasury has permitted various government ministries, departments, and agencies (MDAs) and exempted other sectors to charge in foreign currency. As such, many critical goods and services such as fuel, healthcare, passports, vehicle licenses, and housing have been dollarized but the poor majority are earning in ZWLs. This shows that the government is lacking confidence in its currency which continues plummeting since its reintroduction in 2019.

2. Monetary authority is happy with prevailing partial dollarization

The monetary authority, the Reserve Bank of Zimbabwe (RBZ), has reversed course on de-dollarization. This confirms the existing economic body of knowledge showing that dollarization is nearly permanent and cannot be reversed overnight. In 2020, the RBZ (the Bank hereafter) confirmed that de-dollarization was on track emphasizing that it could take about five (5) years to fully de-dollarize the economy. The government mouthpiece, The Herald, published a story on 18 February 2020[3] showing that Zimbabwe was making progress towards enforcing the local currency as the sole legal tender. The story highlighted RBZ statistics revealing that the proportion of foreign currency (forex) deposits to the total money supply declined to 37% in 2019 while forex loans to total banking sector loans and advances fell to 22%. Buoyed by these metrics, the Bank announced that the country was on the right trajectory to de-dollarization. In May 2021, the government also introduced vast measures which include increases in tax on electronic USD transactions and cash withdrawals to stabilize and increase the use of local currency.

However, barely two (2) years after the February 2020 statement by the Bank and the May 2021 measures by the government, the economy has rapidly re-dollarized. For instance, the 2023 monetary policy statement[4] disclosed that about 64% of total banking sector deposits in 2022 were made up of forex accounts (FCAs). Also, ZimStat's classification of individual consumption according to the purpose (COICOP) survey undertaken in 2022 established that about 78% of transactions were conducted in forex. In addition, the Confederation of Zimbabwe Industries (CZI) surveys indicated that over 60% of local companies' forex was generated from domestic forex sales in 2022. All these metrics show that Zimbabwe is gravitating toward full dollarization.

Many sectors of the economy such as fuel, petroleum products, and housing are now exclusively dealing in forex. Private sector companies are charging exorbitant ZWL prices benchmarked at parallel market exchange rates and awarding discounts to USD sales as strategies to encourage USD transactions. Government ministries, departments, and agencies (MDAs) are also gradually dollarizing their services while Treasury is embracing more USD taxes. As all economic agents are chasing the stable USD, it is the local currency that disproportionately suffers as it gets dumped into the market. This explains why the ZWL exchange rate continues plunging. Last year, the local unit shaded 84.1% of its value against the USD in the official interbank market from ZWL/USD 108.67 in December 2021 to close December 2022 at ZWL/USD 684.33. Since the start of 2023 to date, the local unit has shaved about 25% of its value against the USD in official markets. The unending ZWL decline will continue fuelling the dollarization of the economy.

While authorities have displayed varying de-dollarization positions since the promulgation of SI 142 of 2019 which shows inconsistent policy-making, rapid re-dollarization being experienced in the economy was inevitable.

3. https://www.herald.co.zw/de-dollarisation-on-track-rbz/
4. https://rbz.co.zw/documents/press/2023/February/MPS_February_2023.pdf

This is due to perpetual ZWL fragility and incessant ZWL price growth largely emanating from the prevailing fragile political environment, embrace of command economics, corruption, impunity, fiscal indiscipline, poor exchange rate management, weak oversight institutions, illicit financial flows, and poor social protection. As such, there is a need for increased political will to rebuke the status quo and implement necessary reforms to redress the aforementioned challenges.

3. Striking A Balance: Trade Justice And Sustainable Livelihoods In The Tobacco Sector

Zimbabwe is the largest grower of tobacco in Africa and the 6th largest grower in the world after Chinda, Brazil, India, United State of America and Indonesia.[5] The tobacco industry is valued at over US$ 1 billion with an ambitious growth anticipation of US$ 4 billion by 2025 thereby making it a US$ 5 billion industry.[6] China is Zimbabwe`s tobacco largest importer accounting for approximately 30% valued at US$ 400 million while United Arab Emirates imports 10% valued at US$ 30 million annually.[7] Approximately 5% of total exports are in the form of processed tobacco (cutrag), 75% as semi-processed (lamina) and 20% as processing by-products (stems, fines). This makes tobacco a cash crop contributing immensely to fiscal generation and Gross Domestic Product (GDP).

Tobacco is among the main exports in Zimbabwe accounting for approximately 23% of total exports.[8] This makes the Zimbabwean tobacco industry a major player in national fiscal generation. A trend analysis of tobacco exports shows that in 2017 tobacco contributed 11% of the total GDP. In 2018, there was a slight decline as tobacco accounted for 10% of the total export with China being the main export market purchasing approximately 54%.[9] However, Zimbabwe still produced 25% of African and 2.8% of global tobacco crop.[10] In 2021, 141 029 tons of tobacco valued at US$ 765.2 million were exported compared to 2022 (from January to November) were 127 635 tonnes were exported valued at US$ 723.9 million. In 2021 tobacco contributed 12.22% of the total export and 11.86% in 2022 (January to November). Thus tobacco generates approximately 30% of the country`s foreign currency annually. It is the nerve-centre of the Zimbabwean economy with over three million of the country`s sixteen million depending on it for their livelihoods.

Nevertheless, trade injustices in the sector has left small-scale farmers more vulnerable and trapped in debt contracted through contract farming. A scenario which has undermined tobacco farmer’s livelihoods. This is despite the fact that tobacco production has increased culminating in greater revenue inflows. The small-scale tobacco farmers continue to be underpaid and relegated in the supply and value chain. A rapid access survey conducted by ZIMCODD in Nyazura plots exposed the inequalities in the supply and value chain. Majority of small-scale farmers interviewed lamented how they are being underpaid, they noted that their tobacco is usually bought at US$ 2 or US$ 3 per Kg. Thus, the proceeds of tobacco exports are not cascading down to farmers.

5. http://www.fao.org/faostat/en/#rankings/countries_by_commodity
6. https://www.timb.co.zw/reports.html
7. https://www.timb.co.zw/reports.html
8. https://tradingeconomics.com/zimbabwe/exports
9. https://en.wikipedia.org/wiki/Tobacco_in_Zimbabwe#cite_note-xinhua2018-2
10. http://data.un.org/Data.aspx?d=FAO&f=itemCode%3a826

Another key informant stated that, drying the tobacco leaf is demanding and requires a lot of firewood, charcoal or coal to maintain the required drying temperature. Some of the informants argue that, some of our sells are not sufficient even to pay the debt we contract while growing the crop. The debt burden has been blamed on contract financing companies who are accused of colluding to overprice the inputs they provide to farmers thereby illicitly transfer wealth from small-scale farmers to themselves. A study carried out in 2020 found that, companies in contract farming were overpricing inputs by US$142 per[11] hectare. This had negative ramification on the small-scale farmers who are indirectly forced to depend on the companies supplying them with agriculture inputs thereby creating a vicious cycle of debt and dependency syndrome. To this end, there is need for urgent intervention by the government to reduce the inequalities in the tobacco sector and ensure that small-scale farmers are given better wages.

In addition, tobacco trade injustice is also facilitated by trade mis invoicing and colluding of export firms to charge a specified export price. The foreign currency retention policy and capital controls by the Zimbabwean government serve as strong incentives for exporters to find ways of keeping as much foreign currency out of the country as possible.[12] A research conducted in 2020 established that, there is clear evidence of coordinated trade mis invoicing in the exports of chrome, platinum tobacco in Zimbabwe.[13] Trade mis invoicing is harder to detect and track when all exporters collude to ensure that regulators do not pick up on the difference between the declared export price and the actual price received from the export market.

To exemplify trade mis invoicing, China reported to the UN's Comtrade[14] that it imported 55 million kgs of tobacco from Zimbabwe in 2019 at an average price of US$9.06 per kg[15] with a total cost of US$ 498.3 million. In contrary, in the same year Zimbabwe reported that, it only exported 4.8 million kgs to China at an average price of US$ 7.46 with a total price of US$ 35.8 million[16] and exported 141 million kgs to South Africa at an average price of US$5.34 per kg valued at US$ 752.9 million. This exposes under-pricing of exports, whereby the tobacco, which is being directly exported to China at market price of US$ 9.06 per kg is purported to be exported to a South African middleman who receives the payment from China, retains a significant amount in South Africa, and remits a smaller amount to Zimbabwe at US$ 5.34 kg as the export price. Thus, undermining national revenue generation which is essential in national building. It also project the scale and magnitude of inequality in the tobacco value and supply chain. The small-scale farmer who is responsible for growing and maintaining the tobacco crop is less paid and left impoverished with a vicious cycle of debt from contract farming system.

11. Mutambara, J., and K. Mujeyi. 2020. "Enhancing competitiveness of Zimbabwe's cotton production under contract farming." African Journal of Science, Technology, Innovation and Development.

12. Data from the UN COMTRADE dataset

13. Mutambara, J., and K. Mujeyi. 2020. "Enhancing competitiveness of Zimbabwe's cotton production under contract farming." African Journal of Science, Technology, Innovation and Development.

14. https://comtrade.un.org/

15. Data from the UN COMTRADE dataset

16. Mavrick Citizens. 2021. Report on Cartel Power Dynamics in Zimbabwe

A key informant from Macheke in Hanwa ward 14 stated that, “we have been farming tobacco for more than 20 years here, yet we have nothing to show for it. The unfortunate part is that we know nothing except growing tobacco it is the source of our livelihoods”. This shows that, the tobacco small-scale farmers in Hanwa have no alternative source of livelihood, they rely on tobacco yet the payments are not sufficient to transform their livelihoods. This is not because the tobacco industry in Zimbabwe is not generating the much needed revenue to pay the small-scale farmers well but because the vested interest of tobacco cartels is taking precedence. According to one of the most respected political philosopher, Thomas Hobbes, human being by nature are greedy brutish and nasty. Thus, establishing strong deterring mechanisms is imperative to curb the trade injustice in the Zimbabwean tobacco industry.

Therefore, given the above scenario, it is with no doubt that the plight and agony of small-scale tobacco farmers is being authored by trade injustices. To that end, there is need for the government through the Tobacco Industry and Marketing Board (TIMB) to ensure that, tobacco farmers whether small-scale or large-scale are financially include in the value and supply chain so as to promote trade justice. TIMB must carry out verification processes of tobacco export invoices so as to plug out mis-invoicing. This will enable TIMB to advocate for better tobacco pricing that accounts for the needs and aspiration of farmers. The sustainability of the livelihoods of small-scale farmers must be at the core of tobacco production.