MONTHLY ECONOMIC REVIEW

JANUARY 2023

Zimbabwe Coalition On Debt And Development
ZIMCODD

INVESTING IN PEOPLE FOR SOCIAL AND ECONOMIC JUSTICE

EXECUTIVE SUMMARY

- This 2022 Annual Economic Review and Outlook reviews the performance of the general economy in 2022 and gives projections for the year ahead. The key features for the period were:
- Global Gross Domestic Product (GDP) growth is expected to slow down to 2.7% in 2023 due to mounting fears of a recession and high global inflation eroding real incomes, slowing consumer spending and business investment, subduing labor demand, and increasing unemployment.
- Sub-Saharan Africa (SSA) region GDP is expected to slow down to 3.3% in 2023 as the region will struggle to strike a delicate macroeconomic balance between controlling inflation and capping the base interest rate.
- In 2023, Zimbabwe's GDP is expected to grow by a modest 2% a slowdown largely emanating from rising global inflation, domestic energy challenges, and election risks.
- In 2022, monthly inflation mounted by a punitive average of 14.3% in the first half (1H22) before moderating in 2H22 to 8.2%. We expect prices to remain elevated in 2023 sustained by increased wasteful election-linked fiscal spending.
- In 2022, depreciation was fuelled by excessive ZWL liquidity, forex auction backlog, human behavior, and deliberate overvaluation of the official rate. With the Treasury set to finance a huge budget, we see depreciation pressures remaining elevated in 2023.
- ZWL liquidity remained highly elevated in 2022 with broad money (M3) surging by 373%. With projected massive fiscal spending, we expect an average M3 growth of about 150% in 2023.
- Cumulatively, Zimbabwe exported goods worth US$5.9 billion in the first 11 months of 2022 while importing about US$7.9 billion. For 2023, we see export growth moderating while imports are likely to remain high due to rising global prices of food, fuel, and fertilizers.
- Treasury spent about ZWL1.9 trillion in 2022. In 2023, it projected to spend ZWL4.5 trillion. With economic activity expected to slow down, it will be likely a mammoth task for ZIMRA to meet the revenue collection target of about ZWL$3.9 trillion ceteris paribus.
- Total debt stood at US$17.6 billion in September 2022, up from US$17.2 billion in December 2021. We expect debt to burgeon in 2023 driven by a large budget deficit and electioneering.
- Zimbabwe faced a precarious power situation in 2022 with prolonged electricity load shedding schedules. For 2023, we expect load shedding to persist in the first half though at a reduced pace
- Fuel prices have remained exorbitantly high in 2022 largely driven by the Russia-Ukraine war. In 1Q23, global crude oil prices are likely to remain elevated.
- In the 2021/22 season, the country realized erratic rainfall patterns but the 2022/23 season will likely experience normal patterns thus increasing prospects of a good harvest are likely to be high.

1. INTRODUCTION

Zimbabwe is experiencing an increasingly volatile macroeconomic environment. The local currency is on a freefall with prices of goods and services moving upwards, income inequality widening, and poverty and marginalization deepening. A tightening economy is fuelling a massive brain drain as citizens look out for greener pastures abroad. The rich natural resource endowment is not tallying with the poor economic performance manifestations this far. An attempt is also made to simplify economic technicalities to accommodate a wide audience including bureaucrats, lawmakers, civic organizations, business leaders, students, and the general citizenry.

1. ECONOMIC OUTLOOK

2.1 GLOBAL ECONOMIC PERFORMANCE AND OUTLOOK

The year 2022 witnessed various turbulences that greatly constrained global output (GDP) growth. As the world was greatly recovering from the negative impacts of the COVID-19 pandemic, another crisis emerged: the Russia-Ukraine war. This war which started in February 2022 continued throughout the year thus causing massive disruptions to global supply chains, international trade, and cooperation because of sanctions and countersanctions exchanges between Russia and the West.

Consequently, artificial shortages were created in the global market thereby causing a cost-of-living crisis through elevated global commodity, energy, and food prices. The quest to quench out-of-control inflation by major central banks led to increased financial tightening (rising interest rates) which in turn caused elevated capital flight and triggered widespread debt distress especially among emerging and developing nations as borrowing and debt servicing costs escalated.

Table 1: Global Economic Outlook Projections

	2020	2021	2022 Est.	2023 Projection.
World	-3.1	6.0	3.2	2.7
Advanced	-4.5	5.2	2.4	1.1
Emerging Asia	-0.9	7.2	4.4	4.9
M. East & Central Asia	-2.8	4.5	5.0	3.6
Latin America & Caribbean	-6.9	6.9	3.5	1.7
Sub-Saharan Africa	-1.7	4.7	3.6	3.7

Source: *IMF World Economic Outlook (October 2022), ZIMCODD*

Russian natural gas disruptions to the European Union (EU) in 2022 had significantly weighed down industrial production and subsequent high retail prices of natural gas had greatly subdued real household incomes. Also, surging COVID-19 cases in China and its resultant zero COVID-19 policy stance as well as property woes slowed growth in the world's second-largest economy. Due to the cumulative effect of the foregoing, global GDP is expected to have slowed to 3.2% in 2022 as shown in table 1.

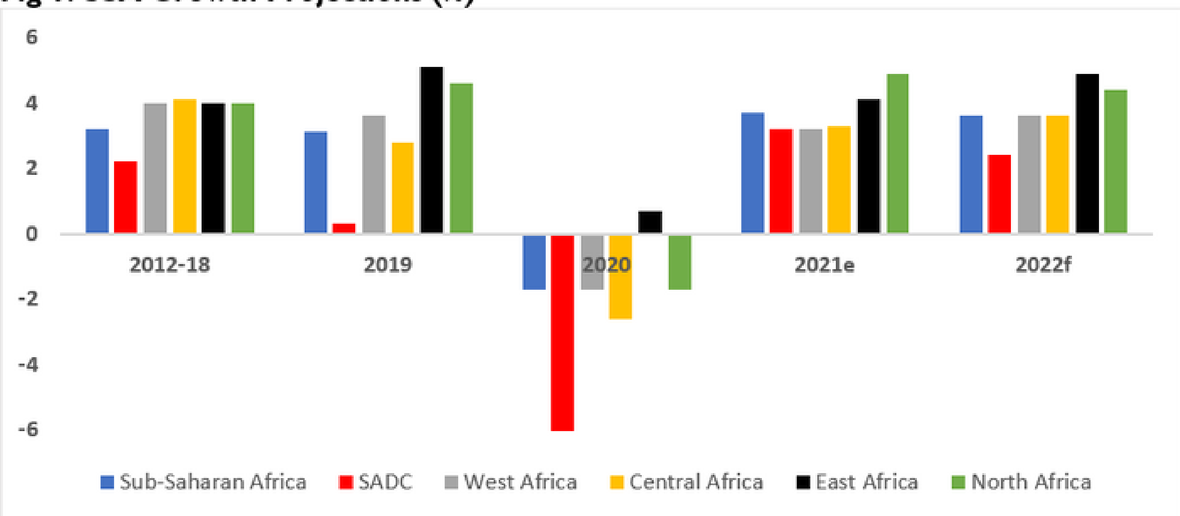
Global GDP Outlook

Global GDP growth is expected to slow down further to 2.7% in 2023 due to mounting fears of a recession in many high-income countries, particularly the US and Eurozone. High global inflation being fuelled by the unending Russia-Ukraine war will continue to erode real incomes. As such, the likely continuation of interest rate hikes by central banks to slow down price inflation will in turn slow consumer durables spending and business investment, subdue labor demand, and increase unemployment.[1] As job loss gathers momentum, there is a probability of tensions in policymaking between fiscal and monetary authorities thereby posing the risk of policy missteps that may exert grave implications on global growth. There is also a possibility of a trade war between the US and China as the former had already instituted rules prohibiting the sale of advanced semiconductor chips to Chinese customers.[2]

2.2 REGIONAL ECONOMIC PERFORMANCE & OUTLOOK

Economic growth in the African continent particularly the sub-Saharan Africa (SSA) region is essential for employment and wealth creation as well as the alleviation of abject poverty. The IMF estimates that the GDP of the region mounted by 3.6% in 2022 largely on account of favorable primary commodity prices. Most SSA members are net exporters of these commodities such as green energy-linked platinum group metals (PGMs), nickel, and lithium. The prices of these products escalated in the year largely driven by advanced nations' intensified fight against climate change and geopolitical fragmentation which is driving geoeconomic warfare as well as heightening the risk of multi-domain conflicts.

Fig 1: SSA Growth Projections (%)



Source: *African Development Bank (AfDB)*

It is imperative to note that the 2022 SSA GDP growth was initially projected above 4.2% had it not been for the synchronized slowdown in the region owing to the spillover effects of the Russia-Ukraine war, adverse weather shocks, increased vulnerability and insecurity, acute energy deficits, labor disputes, and currency instability.

1. https://your.fitchratings.com/rs/732-CKH-767/images/Fitch_Global_Economic_Outlook.pdf
2. https://asiatimes.com/2022/10/new-us-chip-ban-takes-tech-war-to-dire-next-level/

The war triggered chronic price inflation in a region notoriously known for high base inflation relative to other global regional blocs. This spurred market shortages of basics, subdued real incomes, and stretched budgets of poor households who constitute the majority of the population. Also, increased financial tightening to tame inflation weakened fiscal positions by increasing debt distress and threatening debt sustainability. Many SSA countries continue to feature debt-to-GDP ratios above 100%.

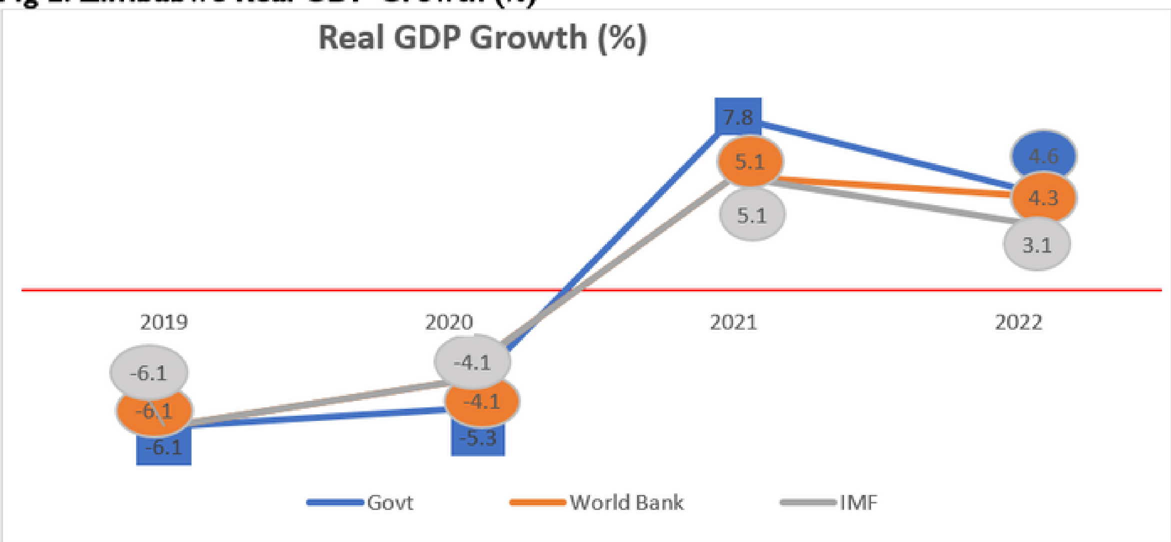
SSA GDP Outlook

ZIMCODD expects SSA GDP to slow down to 3.3% in 2023. Although this growth rate is above many G7 countries, the region will suffer a marked decrease in demand for its mineral commodities from overseas due to expected recession in some advanced economies. The region will also struggle to strike a delicate macroeconomic balance between controlling inflation and capping the base interest rate, with the former having peaked at an average of 9% in August 2022.[3] This worsens food insecurity and risks plunging the region into social instability amplified by other vulnerabilities such as high indebtedness, adverse weather conditions, electricity shortages, political instability, violence, and conflicts.

2.3 MONEY SUPPLY

Zimbabwe economy faced numerous internal and external headwinds in 2022. Concerning the former, the nation experienced corruption, fiscal indiscipline, massive deterioration of the local currency, chronic price inflation, lower disposable incomes, acute electricity shortages, exorbitant fuel prices, unsustainable public debt, poor public service delivery, crumbling infrastructure, and policy inconsistency among others. From the external front, the economy was exposed to adverse weather conditions, ripple effects of the Russia-Ukraine war, US Office of Foreign Asset Control (OFAC) sanctions, and general sense of isolation from the international community.

Fig 2: Zimbabwe Real GDP Growth (%)



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

3. https://www.imf.org/en/Blogs/Articles/2022/10/20/africas-inflation-among-regions-most-urgent-challenges/

The foregoing headwinds ballooned the cost of doing business, constrained business activity, subdued real incomes, and plunged the majority into a cost-of-living crisis. For instance, statistics from ZimStat, the main source of official statistics in Zimbabwe, shows a staggering 264.8% jump in total consumption poverty line (TCPL) per person between December 2021 (ZWL8 009) and December 2022 (ZWL29 219). This is in sync with a July 2022 World Bank report that established that about 40% of citizens were living in extreme poverty -less than US$1.90 per day[3]. Consequently, the Treasury was forced to cut its 2022 GDP projections twice from the initial 5.5% to 4.6% before a further downward revision to 4%.

Zimbabwe GDP Outlook

The Treasury statistics indicated that GDP growth would slow to 3.8% in 2023. The budget further expounds that growth will be supported by expected favourable rainfall patterns across the country, elevated global commodity prices, increased electricity production, a sustainable fiscal deficit of about 1.5% of GDP, a stable ZWL, and low monthly inflation averaging 1-3%.

After a granular analysis of the likely risks to the 2023 economic outlook, we are of the view that the government will probably miss its growth and price projections. The main risk to the outlook is posed by the upcoming harmonized elections likely to be conducted in July or August 2023. Past electoral experiences of civil unrest, political violence, police brutality, violation of human and property rights instil fear and a high-risk rating tag on the economy. The demands of the election year have also forced Treasury to table an unsustainable expansionary fiscal policy as evidenced by an approved budget with a staggering deficit of about ZWL575 billion which will be financed by borrowing and money printing. Hence, the injection of excessive ZWL liquidity through election-linked government spending such as state-provided agricultural subsidies will likely destabilize the exchange rate. Also, the highly regressive taxes proposed for 2023 by Treasury in a bid to improve the gravely limited fiscal space will increase transaction costs thus choking economic agents especially the poor and marginalized.

In addition, the nation is already under the grip of a crippling debt crisis yet the globe continues to experience increased financial tightening (rising interest rates) as major central banks seek to contain rampaging price inflation. This financial tightening will increase Zimbabwe's cost of accessing new borrowing lines as well as the cost of servicing its existing debts. Thus, it increases the risk of social unrest as social service delivery is crowded out amid unbearable inflation and high levels of inequality. If uncontrolled through a robust reform program and capacitation of oversight institutions, the various forms of prevailing structural rigidities - institutional, money wages, product price, production functions, etc- will continue to exert massive pricing distortions thus constraining business activity.

Also, power challenges will likely persist at least through the first half of 2023 (1HY23) despite the expected coming on board of two (2) new Hwange thermal units with a combined installed capacity of 600MW. We are of the view that 1HY23 electricity generation challenges will emanate from low live water storage at Kariba dam, fluctuating output from existing old thermal units, and domestic forex shortages as well as constrained regional production that will limit imports to supplement dwindling domestic production. More so, the lack of adequate national reserves exposes the ZWL to speculative attacks[1] and the nation to unforeseen adverse events like climate change-induced droughts, floods, and disease outbreaks. The indeterministic path of the COVID-19 pandemic as well as the prolonged Russia-Ukraine war will continue subduing international trade, cooperation, and conflict resolution.

Nevertheless, we expect an upside from the agriculture sector as most parts across the nation received normal rainfall patterns between October and December 2022, and the same is expected for Jan-March 2023 period. Although mineral prices are expected to be subdued in 2023 due to a likely waning global demand, the mining sector is expected to anchor economic activity. This sector is crucial as it contributes about 70%, on average, to annual export earnings and at least 15% to GDP. Apart from a moderation of global prices, unsustainable fiscal mining regimes will bedevil the sector as they facilitate revenue leakages at the expense of national development. Again, the government ban on the exportation of unprocessed lithium and other base metals without consultations with all stakeholders will likely generate mixed policy interpretations from potential investors. Therefore, taking into account both the upside and downside of 2023, we see GDP growing by a modest 3%.

3. Macroeconomic Indicators

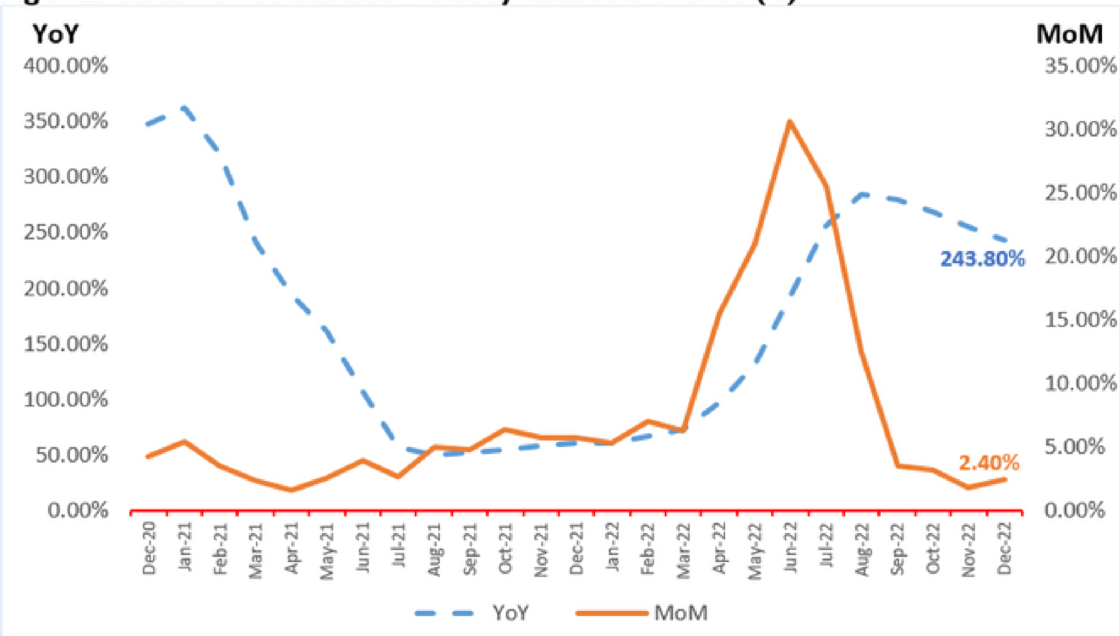
The section analyses the performance of selected key macroeconomic indicators in 2022 to help establish the likely direction to be taken by the economy months ahead.

3.1 Inflation

In 2022, Zimbabwe produced a mixed-price performance. In annual terms, prices were up 191.7% in June 2022 relative to 106.6% recorded for the same period in 2021. From a month-on-month perspective, prices mounted by a punitive average of 14.3% in the first half to close June at 30.7%, the highest monthly outturn since July 2020's outturn of 35.5%. A ZIMCODD report[5] established that driving prices unsustainably during this period were unsustainable fiscal spending, excessive ZWL decline, a poor 2021/22 agriculture season, mounting public debt, prolonged electricity load shedding hours, price distortions, and geopolitical tensions between Russia and the West.

5. https://zimcodd.org/storage/2022/11/August-2022-Economic-Review.pdf

Fig 3: Zimbabwe Annual and Monthly Inflation Trends (%)



Source: *ZimStat*

Although annual prices began to moderate in the second half, Zimbabwe closed December 2022 with the highest annual inflation globally, recorded at 243.8%. Be that as it may, increased moderation was experienced in monthly terms during this period as prices mounted by 8.2% on average to close 2HY22 at 2.4%. This disinflation trend largely came after a plethora of measures were implemented by authorities to restore macroeconomic stability. Some of these measures include inter-alia the embrace of a multicurrency regime, suspension of import duty on basics, finetuning of the willing-buyer willing-seller (WBWS) system, the opening of the public transport sector, the introduction of gold coins as a USD alternative for storing value, tight monetary policy stance[6] and introduction of a Value for Money Process to increase due diligence in public procurement processes.

Domestic Inflation Outlook

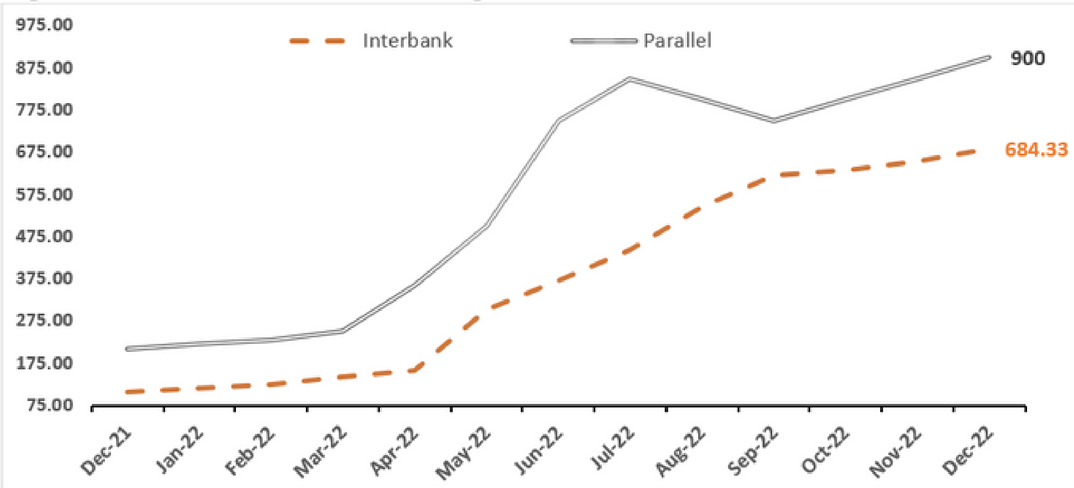
Prices are expected to remain elevated in 2023 sustained by increased wasteful election-linked fiscal spending which risks destabilizing the ZWL. The Treasury projects a staggering budget deficit of about ZWL575 billion to be financed by borrowing and money printing which is however highly inflationary. The taxman, ZIMRA, is expected to collect about ZWL3.9 trillion in 2023 despite high expectations of GDP slowdown emanating from the ripple effects of the Russia-Ukraine war, increased global financial tightening, electricity shortages, and high fuel prices, among others. From an outsider's perspective, this is a mere admission by authorities that inflation pressures will mount in 2023 -rising prices leads to rising nominal revenue collections by ZIMRA.

6. This include maintaining lower quarterly reserve money growth targets, keeping high statutory reserve requirements, and high RBZ benchmark policy rate.

3.2 Exchange rate

The local currency greatly lost steam in the first half of 2022 (1HY22). Official statistics show that the ZWL registered heavy losses of about 68.9% against the US dollar, sliding from ZWL/USD 115.42 in January to ZWL/USD 370.96 end of June. In the same vein, the local unit lost 70.7%[7] of its value in alternative markets to close 1HY22 at ZWL/USD 750 from ZWL/USD 220. A close analysis indicates that currency instability during this period was largely fuelled by excessive ZWL liquidity growth, huge auction market forex allocation backlog, and deliberate overvaluation of the official rate as well as the ensuing principle of rationality -speculative tendencies and arbitraging.

Fig 4: Interbank and Parallel Exchange Rate



Source: *RBZ, ZIMCODD*

However, ZWL performance particularly in the parallel market improved in the 2HY22 relative to the 1HY22. Statistics show that the ZWL gained 13% of its value in the parallel market between July (ZWL/USD 850) and September (ZWL/USD 750) before later nosediving by 16.7% to close December 2022 trading at ZWL/USD 900. Overall, the local unit declined by 5.6% against the USD in the alternative market in 2HY22.

A glance at official statistics, however, shows that ZWL deteriorated perpetually in the interbank market in 2HY22. The unit closed the period with a cumulative loss of 35.1% from ZWL/USD 443.88 in July to ZWL/USD 684.33. This was the case despite a whopping US$1.1 billion[8] having exchanged hands on the RBZ auction market while another US$218.8 million was also traded on the Willing-Buyer Willing-Seller (WBWS) interbank market. As per the RBZ statement of 10 January 2023, a cumulative US$3.7 billion was traded at the auction market since its introduction on 23 June 2020. Had the RBZ exchange rate management mechanism(s) been efficient and transparent, this amount should have helped to stabilize the freefalling local currency.

7. Parallel market rates are usually given as a range e.g., ZWL800-1000. As such, all parallel market depreciation figures stated in this report are based on an average rate.

8. https://rbz.co.zw/documents/press/2023/January/Press_Statement__Foreign_Currency_Allotments_for_Jan_-_Dec_2022.pdf

Exchange Rate Outlook

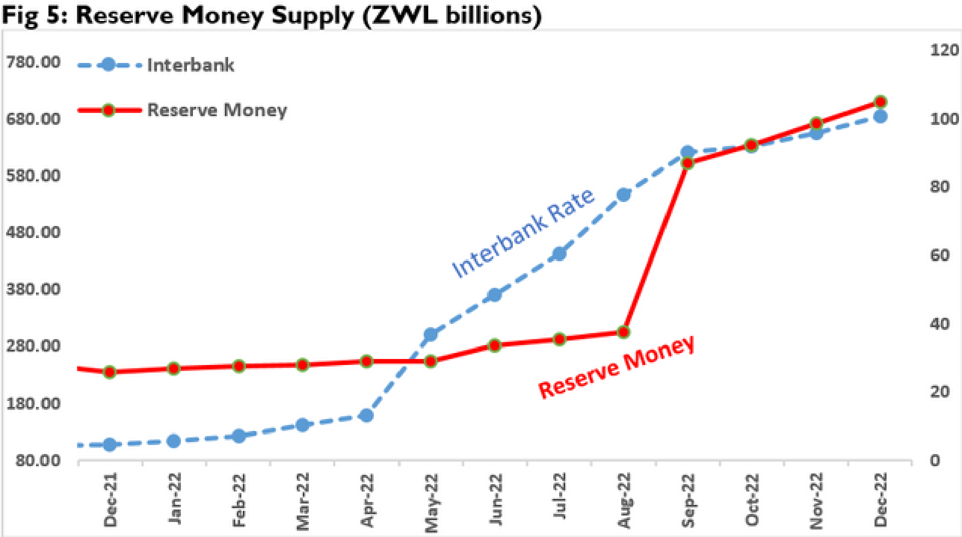
Since it was reintroduced in 2019, the ZWL has struggled to stand its ground against the USD. Largely, statistics link this dismal performance to excessive ZWL liquidity growth (see money supply section). For example, elevated fiscal spending in Q4:22 disturbed parallel market rates which were relatively stable in Q3:22 thereby forcing ZWL to shed an average of 11.1% of its value. With the Treasury set to finance a huge budget jump of 136.8% from 2022 levels and election-linked corruption likely to escalate, depreciation pressures will remain elevated in 2023. While we expect RBZ to pursue tight monetary targeting like a 0-5% quarterly reserve money growth, it will eventually succumb to political pressure -money printing to support government projects which will be used for shoring up incumbent standing ahead of the polls. As such, the ZWL is projected to breach ZWL/USD 2000 mark at least in the first half.

3.3 Money Supply

Since 2019, excessive liquidity growth has been the major driver of currency volatility in Zimbabwe. For instance, RBZ statistics show high powered money supply popularly known as reserve money (M0) spiking by mouth-watering 170%, 113%, and 38% in 2019, 2020, and 2021 respectively. M0 holds the topmost position in monetary policymaking and since it is mostly currency in circulation, it greatly decides the level of liquidity and price level in the economy.

Between the 2019-2021 period, ZWL lost 10.7% of its value on average per month. In response, both annual and monthly price inflation mounted at an unsustainable rate averaging 339.3% and 11.6% per month respectively. In 2022, ZWL liquidity remained highly elevated with reserve money supply spiking by about 305% to close December at over ZWL100 billion from ZWL25.94 billion recorded in Dec 2021. This aggregate, however, includes statutory reserve requirements denominated in foreign currency. The massive ZWL depreciation experienced in the year, therefore, influenced the nominal value of reserve money. The resultant base effect would then lead to biased estimates of monetary aggregates.

Fig 5: Reserve Money Supply (ZWL billions)



Source: *RBZ*

Be that as it may, controlling this absurdity by excluding the impact of forex balances, preliminary statistics show that reserve money grew by 97% in 2022. This remains an unsustainable growth rate as it translates to an average quarter-on-quarter average growth of about 24.3%. Overall, RBZ statistics show that broad money (total money supply in the economy) in nominal terms surged by a staggering 373% in the last 12 months ending November 2022 and by 19 816% between February 2019 (ZWL10.4 billion) and November 2022 (ZWL2.1 trillion).

Money Supply Outlook

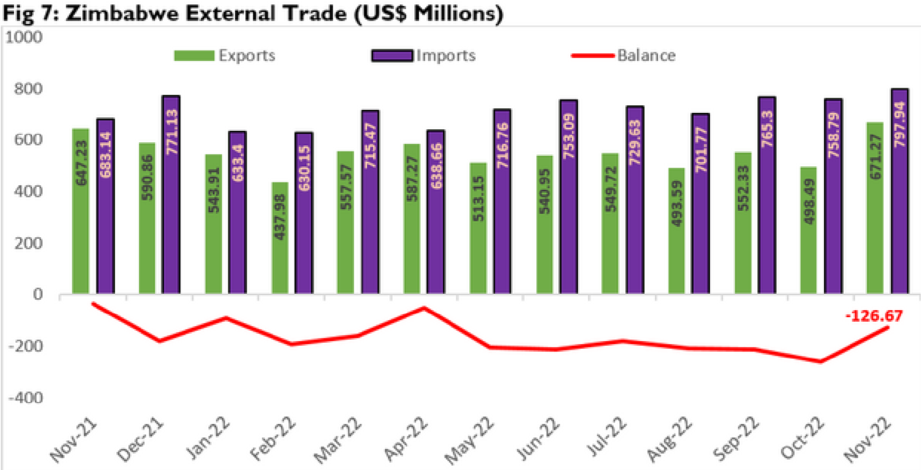
It can be deduced from the foregoing that the ZWL volatility is largely emanating from excessive money supply growth. There is a consensus among monetarists that the growth of money supply should be in tandem with the growth of activity in the real sector to dampen depreciation and price pressures. With projected massive election-linked spending which is generally wasteful due to minimal oversight, we project average M0 and M3 growth of about 30% and 150% respectively in 2023. We shall continue monthly monitoring and tracking of these aggregates to constantly update the market.

3.4 External Trade

The latest ZimStat external trade statistics[9] show Zimbabwe's merchandise exports for November 2022 at US$671.3 million, up 34.7% from US$498.5 million recorded in the prior month. In the same vein, merchandise imports came in at US$797.9 million, 5.2% above the US$758.8 million achieved in October 2022. Resultantly, the trade deficit totaled -US$126.6 million, an improvement from a deficit of -US$260.3 million attained in October 2022.

Cumulatively, the first 11 months of 2022 realized exports valued at US$5.9 billion, 9.3% above US$5.4 billion achieved in the same period in 2021. As for imports, the first 11 months of 2022 witnessed merchandise imports of about US$7.9 billion, an uptick from US$6.8 billion recorded in 2021. Consequently, the cumulative deficit for the Jan-Nov 2022 period was US$1.96 billion, a deterioration from the US$1.32 billion deficit for the same period in 2021.

Fig 7: Zimbabwe External Trade (US$ Millions)



Source: *ZimStat*

9. https://www.zimstat.co.zw/wp-content/uploads/2022/12/Trade_Summary_with_BEC_November_2022.xls

Granular analysis of disaggregated data shows that the main exports between Jan-Nov 2022 were semi-manufactured gold (31%), nickel mattes (18%), nickel ores and concentrates (17%), tobacco (12%), ferrochromium (6%), and platinum unwrought (3%). For this period, South Africa was the top destination for Zimbabwe's exports accounting for about 41.3% followed by United Arab Emirates (33%), China (8.9%), Mozambique (3.1%), and Belgium (2.97%). The data also show that at 18.17%, mineral fuels, and mineral oils & their products were top imports followed by boilers, machinery & mechanical appliances (13.96%), vehicles (8.26%), fertilizers (5.3%), electrical machinery & equipment (5.2%), and cereals (3.46%). The bulk of imports came from South Africa (41.03%) followed by China (13.6%), Singapore (13.13%), and Mozambique (3.7%).

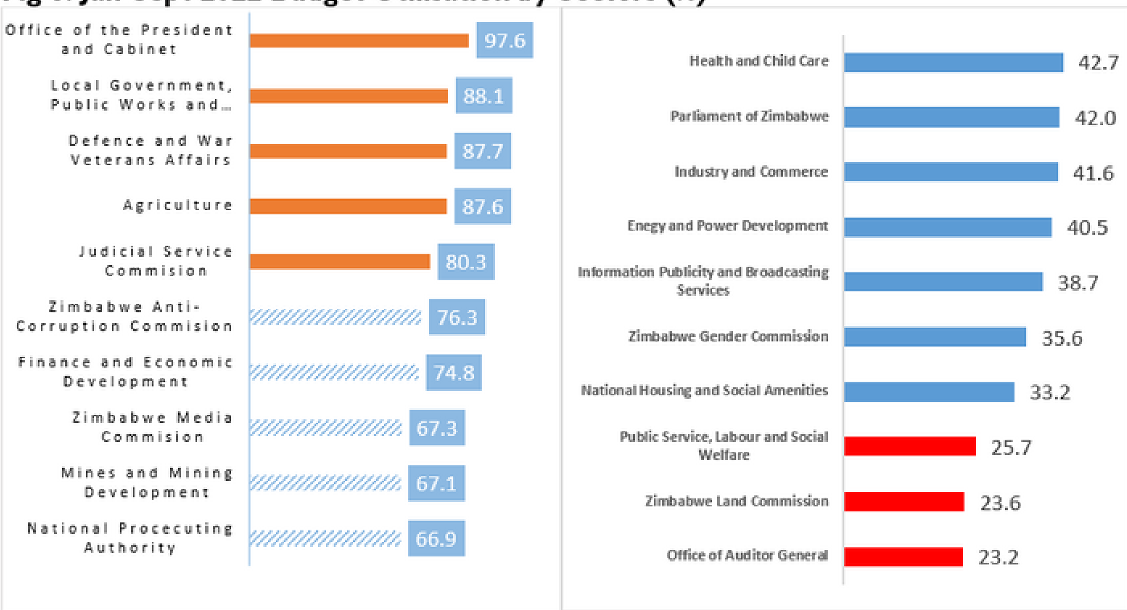
Trade Outlook

Although we expect merchandise exports to remain high in 2023 compared to pre-Ukraine war levels, the increasing chances of a global slowdown led by advanced nations will likely exert downward pressure on both global mineral demand and prices. Also, global commodity prices are expected to moderate as nations continue finding ways to circumvent the supply chain disruptions associated with the unending Ukraine war. Since over 70% of Zimbabwe's exports come from minerals, a slight deceleration in export growth is therefore expected in 2023. As for imports, we expect them to remain high and increase in line with high global prices of food, fuel, and fertilizers. Also, low water levels at Kariba Dam and constrained production at old thermal power plants will mean increased imports of electrical energy at least through 1HY23.

3.5 Government Accounts and Public Service Delivery

The Treasury presented an initial 2022 budget with an expenditure ceiling of about ZWL968.3 billion -about ZWL850.7 billion funded by revenue collections and a target deficit of about ZWL76.5 billion. As ZWL depreciation mounted significantly in the 1HY22, forward pricing tendencies by government suppliers of goods and services overwhelmed the budget forcing the Treasury to table a supplementary budget of about ZWL929 billion in July. This pushed total spending for the 2022 fiscal year to ZWL1.9 trillion comprising ZWL1.74 trillion in revenues and a deficit of ZWL157.5 billion financed largely through domestic borrowing. In terms of budget utilization between Jan-Sept 2022, ZIMRA had collected about ZWL1.2 trillion against a target of ZWL$890.5 billion while cumulative expenditures stood at ZWL1.19 trillion against a target of ZWL1.02 trillion.

Fig 8: Jan-Sept 2022 Budget Utilisation by Sectors (%)



Source: *ZIMCODD Research Compilations from the 2023 National Budget*

Of all fiscal spending centers, the left plane in figure 8 shows those with the highest budget utilization while the right plane highlights those with the lowest budget utilization as of September 2022. A close analysis exposes poor public service delivery in Zimbabwe. For instance, in the middle of a global health pandemic as well as faced with massively deteriorating healthcare infrastructure, the health ministry managed to utilize a paltry 42.7% of its budget. In 2022, the nation experienced prolonged load-shedding hours averaging 15 hours per day but the energy ministry only utilized about 41% of its budget votes. Zimbabwe is facing a housing backlog of about 2 million units[10] yet the ministry of housing had spent a meagre 33.2% of its budget share.

Also, the World Food Programme[11] reported that about 63% of Zimbabwe's 15.6 million population is living below the poverty line while 27% of children have stunted growth. Despite this, it is perplexing to note that the social welfare ministry had spent only 25.7% of its total 2022 budget allocation. More so, over the years the Office of the Auditor-General (OAG) had unmasked massive abuse, misuse, embezzlement, and diversion of public funds for private gain by public officials. Given the importance of this office in strengthening public financial management, one cannot expect it to have the lowest budget utilization rate as shown in figure 8.

Budget Outlook

Treasury is projecting to spend about ZWL4.5 trillion in 2023, up 136.8% (nominal terms) from 2022 levels. With economic activity expected to slow down, it will be a mammoth task for ZIMRA to meet the Treasury revenue target of about ZWL$3.9 trillion ceteris paribus. As such, we expect public borrowing in the private sector to surge significantly in 2023 buttressed by the increased creation of new money by the RBZ. In light of this view, the resultant severe destabilization of ZWL and general prices will translate into increased nominal revenue collections.

10. https://www.newsday.co.zw/local-news/article/200003624/housing-backlog-shoots-to-2m
11. https://www.wfp.org/countries/zimbabwe

In the end, revenue targets might be met but at the expense of citizens and the economy -high regressive taxes, high cost of doing business, cost-of-living crisis, widening societal inequalities, and deepening poverty.

3.6 Public Debt

According to the latest statistics released in the public debt statement which accompanied the 2023 budget, Zimbabwe's total Public and Publicly Guaranteed (PPG) debt (external and domestic) including RBZ debt stood at ZWL$10.97 trillion (US$17.6 billion) at end of September 2022 up from ZWL1.9 trillion (US$17.2 billion) recorded as of December 2021. Of this total, external PPG debt accounts for about 79.6% (US$14 billion) including blocked funds at 13.2% (US$2.3 billion) and domestic debt representing the balance at 20% (US$3.6 billion). At 97%, the US$3.5 billion (ZWL$2.18 trillion) compensation to be paid to Former Farm Owners (FFOs) represents a significant share of the total domestic debt.

Table 2: Total Public and Public Guaranteed Debt Stock end Sept 2022 (ZWL millions)

	DOD	Principal Arrears	Interest Arrears	Penalties	Total Arrears & Penalties	TOTAL
Total Public Debt	**7,040,436**	**1,682,886**	**967,681**	**1,277,164**	**3,927,731**	**10,968,167**
1. External Debt (inc blocked funds)	**4,808,361**	**1,679,065**	**967,681**	**1,277,164**	**3,923,909**	**8,732,270**
a. Bilateral Creditors	**1,123,583**	**989,267**	**313,134**	**1,151,604**	**2,454,006**	**3,577,589**
Paris Club	72,107	779,642	267,126	1,090,394	2,137,162	2,209,269
Non-Paris Club	1,051,477	209,625	46,008	61,211	316,844	1,368,320
b. Multilateral Creditors	**138,895**	**689,798**	**654,547**	**125,559**	**1,469,903**	**1,608,798**
World Bank	88,213	425,741	403,367	-	829,108	917,321
African Development Bank	16,893	168,527	231,724	-	400,251	417,144
European Investment Bank	6,643	83,887	15,116	125,559	224,562	231,205
Others	27,145	11,643	4,340	-	15,983	43,128
c. RBZ Debt	**2,095,766**	**-**	**-**	**-**	**-**	**2,095,766**
2. Blocked Funds	**1,450,116**	**-**	**-**	**-**	**-**	**1,450,116**
Cash Payments	20,191	-	-	-	-	20,191
Treasury Bonds	652,141	-	-	-	-	652,141
Other Creditors	777,784	-	-	-	-	777,784
3. Domestic Debt	**2,232,075**	**3,822**	**0**	**0**	**3,822**	**2,235,896**
Government Securities	55,452	-	-	-	-	55,452
Treasury Bills	44,444	-	-	-	-	44,444
Treasury Bonds	11,008	-	-	-	-	11,008
Compensation of Former Farm Owners	2,176,623	-	-	-	-	2,176,623
Domestic Arrears	-	3,822	-	-	3,822	3,822

Extracted from the 2022 Public Debt Statement **Sept interbank rate 621.88*

An analysis of the 2022 public debt statement by ZIMCODD shows that the astronomical 477% debt spike in ZWL terms between December 2021 and September 2022 mainly represents a heavy decline in the local currency. During this period, the ZWL lost about 82.5% of its value against the US$ from $108.67 ZWL/USD in December 2021 to 621.88 ZWL/USD in September 2022. However, in US$ terms, the total PPG debt registered a marginal increase of about 2.3% (US$0.4 billion) between December 2021 and September 2022, owing to new disbursements for ongoing projects and RBZ borrowing, as well as the continuous accumulation of arrears and penalties.

Furthermore, analysis establishes that at ZWL10.97 trillion as of September 2022, total PPG constitutes 104% of the estimated 2022 GDP of ZWL10.55 trillion. This shows that Zimbabwe is a highly indebted country with a debt-to-GDP ratio exceeding the 70% threshold stipulated in the Public Debt Management Act as well as the 60% threshold agreed by member countries under the Southern African Development Community's (SADC) macroeconomic convergence targets.

High indebtedness is undermining social spending as huge resources are channeled toward debt servicing as evidenced by the ZWL248.6 billion projected to cover debt-related payments in 2023 versus a paltry ZWL50.4 billion awarded to the social welfare ministry for the provision of social safety nets.[12] Also, unsustainable debt has led to debt distress, that is, struggling to fulfill financial obligations when they fall due and debt restructuring is required. This is causing Zimbabwe to lose market access and suffer higher borrowing costs, in addition to harming growth and investment. As the country now lacks credit standing, the Treasury is now over-relying on high regressive taxes and risky resource-backed loans (RBLs) which cripple domestic resource mobilization.

Debt Outlook

Public debt will jump significantly in 2023 as Treasury faces the daunting task of financing a ZWL575.5 billion budget gap which includes about ZWL248.6 billion net loan repayments. The deficit will be covered by the issuance of a domestic bond (US$100 million), treasury bills (ZWL82.8 billion), and an expected external loan facility (US$400 million). Ahead of the 2023 harmonized elections, the Treasury is also expected to gobble millions of US$ as grants to lawmakers and cabinet ministers together with their deputies as well as the security sector bosses.[13] Likely, these grants were not budgeted for and hence have debt ramifications. While Zimbabwe is progressing well in terms of engagements (high-level structured debt dialogues) with its creditors for arrears clearance, debt relief, and restructuring strategy,[14] there is a high chance that the risks attached to the upcoming general elections will derail the plans.

4. Sectoral Review

4.1 Energy Sector

It remains our view that energy is one of the most critical industrial production enablers and also helps in improving the living standards of citizens. As such, nations should continue diversifying their energy mix to increase energy security and attain energy self-sufficiency.

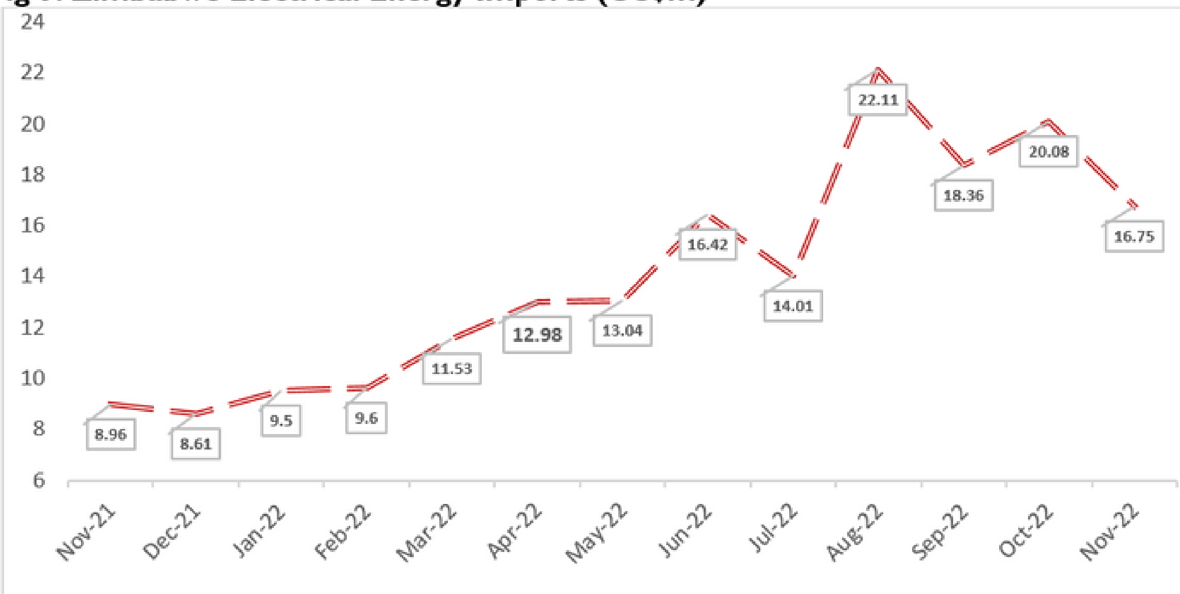
4.1.1 Electricity Sector

In 2022, Zimbabwe faced a precarious power situation with many areas across the country experiencing prolonged electricity load shedding averaging 12 hours per day. The Zimbabwe Power Company (ZPC), a subsidiary of state-owned ZESA Holdings, faced production constraints at its thermal power plants most of which have outlived their lifespan.

12. https://zimcodd.org/?smd_process_download=1&download_id=6177
13. https://www.thezimbabwemail.com/zimbabwe/senior-cio-bosses-given-us350-000-cash-windfall/
14. https://www.zimbabwesituation.com/news/consultations-begin-on-zims-debt-clearance/

Typically, a thermal power plant is designed to operate for 25-30 years before it is decommissioned or needs resuscitation. But due to a shortage of foreign currency and uneconomic tariffs, ZESA is failing to fully resuscitate its plants like Munyati thermal which was built between 1946 and 1957, 23 years before the attainment of independence in 1980. As such, these plants are now uneconomic to operate as they frequently break down. Also, ZPC electricity production was affected by low usable water levels at Kariba Dam.

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



***Source:** ZimStat, ZIMCODD Research*

Latest ZimStat statistics show electrical energy imports plunging by 16.6% to US$16.8 million in November 2022 from US$20.1 million in the prior month. The decline which was due to forex constraints occurred at a time ZESA was ordered to stop production at its Kariba hydropower plant by the Zambezi River Authority (ZRA) which controls the dam.[15]

Table 3: 2022 Electricity Tariffs Changes (ZWL/kWh)

CONSUMPTION BAND			Charge per kWh		Total Amount (ZWL)		
			Oct	Sept	Oct	Sept	Change
First 50	0-50kWh	50kWh	18.24	15.00	912.00	750.00	+162.00
Next 50	51-100kWh	50kWh	36.57	30.04	1 828.50	1 502.00	+326.50
Next 100	101-200kWh	100kWh	64.07	52.64	6 407.00	5 264.00	+1 143
Next 100	201-300kWh	100kWh	91.47	75.15	9 147.00	7 515.00	+1 632
Next 100	301-400kWh	100kWh	105.12	86.49	10 512.00	8 649.00	+1 863
Above 400			109.70	90.14			

***Source:** ZESA*

15. https://news.pindula.co.zw/2022/12/02/zimbabwe-paying-price-for-sub-economic-electricity-tariffs-says-former-zesa-official/

This created an acute electricity deficit leading to increased power rationing which greatly affected poor households as well as inhibited industrial activity. Figure 9, however, shows an upward trend of electrical energy imports, spiking by 86.9% between November 2021 (US$8.96 million) and November 2022 (US$16.75 million). To boost its net collections to improve cost recovery (business viability) after months of retreating ZWL against the USD, the power utility increased its monthly tariffs as shown in table 3.

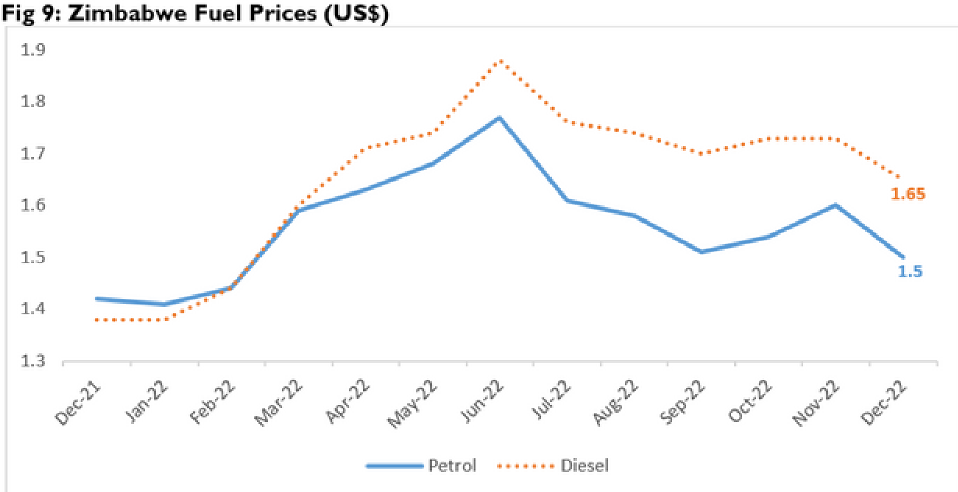
Electricity Outlook

The 600 megawatts (MW) Hwange Thermal Expansion Project is expected to improve the power situation upon completion and commissioning in 2023. The first piece, Unit 7, with 300MW installed capacity is undergoing test runs and is expected to join the national grid early Q1:23[16] while Unit 8 is expected to come on board later in the year. Also, the government is expediting other solar projects as well as working on a framework to encourage production by independent power producers (IPPs). Be that as it may, we expect load shedding to persist throughout 1HY23 though at a reduced pace. This projection is informed by low usable water at Kariba and limited forex to revamp old thermal plants and support importation from the regional power pool.

4.1.2 Fuel

Fuel prices have remained exorbitantly high in 2022 largely driven by the Russia-Ukraine war. The war disrupted global supply chains thereby leading to artificial shortages as sanctions against Russia reduced demand for its oil. This was the case even though Russia accounts for a third of global crude oil exports.

Fig 9: Zimbabwe Fuel Prices (US$)



Source: *ZERA*

Since Zimbabwe does not mine petroleum, it is a net importer of fuel hence a price taker of prevailing global prices. Also, even before the war and its subsequent impacts, fuel prices in Zimbabwe were higher than the regional average[17] largely because of existing structural rigidities in the fuel market -a monopolized ethanol market, high government fuel levies, and highly concentrated fuel importation and retailing business.

16. https://energycentral.com/news/power-challenges-set-ease-hwange-unit-7-soon-add-300mw-grid

17. https://zimcodd.org/?smd_process_download=1&download_id=5398

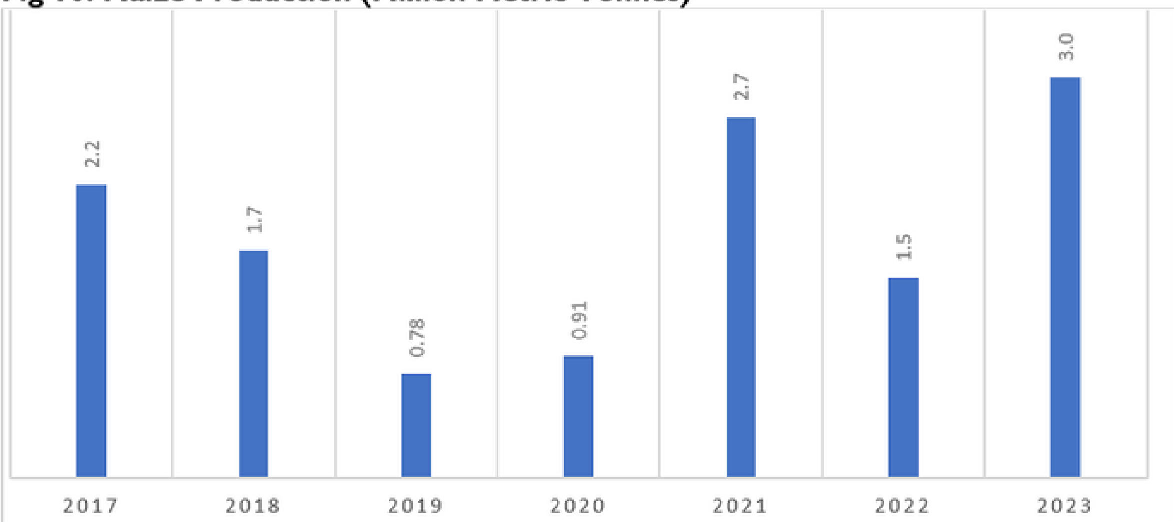
Fuel Price Outlook

In 2022, petrol pump prices averaged US$1.57 per liter, up 18.05% from US$1.33 in 2021. In the same vein, diesel prices per liter averaged US$1.67 in 2022, 26.5% above the US$1.32 realized in 2021. In 1Q23, global crude oil prices are likely to remain elevated due to the expected rebound of China and the upcoming EU ban on seaborne imports of petroleum products from Russia.[18] However, prices will likely stay relatively flat in 2Q23 and then decline later in the year. Implied builds in global petroleum inventories (when there is more petroleum production than consumption) will drive these declines in crude oil prices. Domestically, Invictus Energy is seized with oil exploration in Muzarabani and there are high prospects that could make the country an oil producer. To date, the company has confirmed strong indications for oil and gas reserves pending fluid samples.[19]

4.2 Agriculture

In the 2021/22 season, the country realized erratic rainfall patterns which affected cereal production. As a result, about 1.5 million metric tonnes (MT) of staple maize were harvested against a national requirement of about 2.2 million for both human and livestock consumption. The domestic food deficit coupled with limited imports and the ripple effects of the Russia-Ukraine war largely contributed to Zimbabwe having the highest food inflation in the world estimated at 353%.[20]

Fig 10: Maize Production (Million Metric Tonnes)



Source: *Ministry of Agriculture*

According to World Food Programme (WFP), an estimated 3.8 million people are projected to face acute food insecurity during the upcoming peak lean season (Jan–March 2023) - a deterioration of 29.8% compared to the last year 2022.[21] The WFP further expounds that the figure will likely rise further, due to the abrupt decrease in the value of the national currency and persistent macroeconomic challenges.

18. https://www.eia.gov/todayinenergy/detail.php?id=55159
19. https://www.sundaymail.co.zw/oil-gas-reserves-found-in-zim
20. http://www.zimbabwesituation.com/news/zim-food-inflation-tops-world-wb/
21. https://docs.wfp.org/api/documents/WFP0000142656/download/?_ga=2.170441190.739883562.1674960424-1186535427.1674960424

With forecasts of normal-to-above-normal rainfall patterns for the 2022/23 cropping season, widespread rains persisted in December 2022. The government is targeting 1.94 million hectares of maize, 380 000ha of sorghum, and 250 000ha of pearl millet respectively. According to the agriculture ministry, by mid-December 2022 farmers have already planted about 466 000 hectares of maize almost double the area planted in mid-December 2021.[22] Also, the government reported that all major crops have significantly higher cropped areas relative to the same period in 2021. The government continued with the distribution of inputs to farmers leading to increased casual labor opportunities. In January 2023, the government announced pre-planting producer prices for strategic commodities as follows: maize (US$335/MT), traditional grains (US$335/MT), soybean (US$597.59/MT), sunflower (US$687.23/MT), and cotton (US$0.40/kg grade D and US$0.46 grade A).[23]

Agriculture Outlook

If rainfall patterns proceed as per the national seasonal outlook with temporal and geographical distribution of the rains and equitable access to inputs, prospects of a good harvest are likely to be high. The government is projecting a record harvest of 3 million tonnes, the highest since independence.[24] Also, lucrative pre-planting producer prices will likely influence farmers' planting intentions assuming they will be largely paid in forex. Additionally, the rains have improved water and pasture conditions across the nation, and further improvements are expected in line with favorable weather forecasts. However, poor access to farm inputs such as pesticides, fuel, and fertilizers on the market is expected to increase production costs for private players including poor households, and negatively impact some farmers' production potential and crop quality.

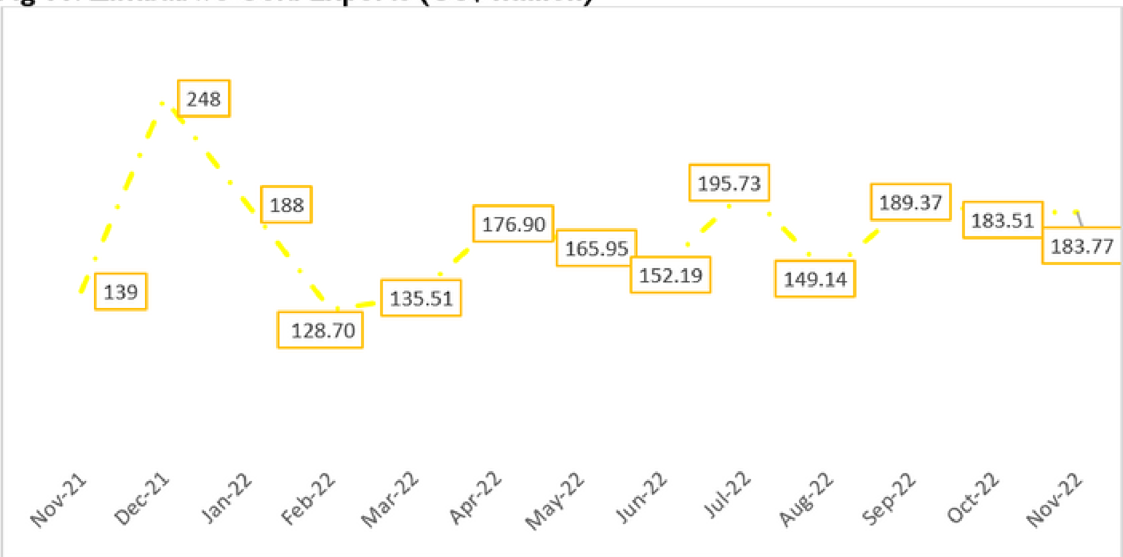
4.3 Mining Sector

The mining sector is a forex cash cow for Zimbabwe, contributing about 70% to export receipts annually. In 2022, the sector largely benefited from the Russia-Ukraine war. The supply chain disruptions caused by the war -Russia is a major producer and exporter of certain key minerals like platinum- created artificial shortages in the global market thereby exerting upward pressures on global mineral prices. Also helping mineral prices in 2022 is the seismic shift, particularly by advanced nations from fossil fuels to green energy like nickel and lithium-linked electric vehicles (EVs).

Consequent to high global mineral prices, Zimbabwe experienced an uptick in mineral production as new mines were opened while the capacity of the existing ones was expanded. For example, the nation realized a record-high gold output of about 35.38 tonnes in 2022 with small-scale and artisanal miners contributing about 65% of the total.[25] The latest ZimStat statistics also show that Zimbabwe's traditional top forex generator, gold, generated about US$1.85 billion in the first 11 months of 2022. This helps explain the burgeoning annual foreign currency generation. The initial estimates show that Zimbabwe received a record US$11.6 billion in 2022 up nearly 20% from 2021 outturn of US$9.7 billion. Of this total, exports and other receipts accounted for about US$10 billion with a balance of US$1.6 billion coming from remittances.

22. https://fews.net/southern-africa/zimbabwe/key-message-update/december-2022
23. https://www.zimeye.net/2023/01/09/maize-producer-prices-up-to-a-whooping-us335/
24. https://www.chronicle.co.zw/maize-planting-hectarage-jumps-263pc/
25. https://www.zimeye.net/2023/01/27/zim-targets-40-tonnes-of-gold/

Fig 11: Zimbabwe Gold Exports (US$ million)



Source: *ZimStat, ZIMCODD Research*

Mining Sector Outlook

We expect the mining sector to remain the top forex earner for Zimbabwe in 2023 even though we also expect global mineral prices to be weighed down by a likely global slowdown. The tightening macroeconomy will push more marginalized groups like youths and women into small-scale and artisanal mining thereby increasing the output of minerals such as gold, chrome, and lithium. As such, the government should intensify the formalization of the ASM sector to increase financial and technical support. Also, the expected full roll-out of the electronic cadastre system in 2023 will improve the management of mining claims hence positively influencing mining activities. The lithium rush which started in 2021 will maintain momentum as new lithium mines are under development

4. Conclusion

2022 was a challenging year for ordinary citizens as prices remained highly elevated as the local currency plummeted against the US dollar. The situation was exacerbated by the Russia-Ukraine war which disrupted global supply and trade chains hence largely affecting global food, fertilizer, and energy (fuel) prices. As such, a tightening macroeconomy plunged the majority into abject poverty and widened income inequalities between the rich and poor households. In 2023, the status quo is expected to hold. The balance of risks to the outlook is tilted to the downside. The risks include among others unsustainable debt, fiscal indiscipline, the possibilities of violence and policy slippages in an election year, the high cost of farm inputs, a resurgence of the COVID-19 pandemic, and high global inflation fuelled by the war in Ukraine. However, on the upside, the nation is expected to receive normal rainfall patterns and increased production in the extractive sector as prices are likely to remain high above the pre-Ukraine war levels despite fears of a global slowdown. Overall, a modest GDP growth of 2% is expected in 2023.

4.5 Policy Recommendations

In light of the foregoing developments, ZIMCODD proposes that authorities consider the following policy recommendations:

- **Political Will**

There is need for increased political will to allow strict implementation of well-thought economic and structural reforms to reduce waste in government and curb market pricing distortions.

- **Fostering Fiscal Discipline**

Treasury must spend within its means to reduce borrowing which in turn crowds out public services and private sector investment and growth.

- **RBZ Independence**

The is need to increase RBZ independence. The more independent RBZ is, the lower the inflation it allows without injuring growth and employment goals.

- **Interbank Market**

The interbank market must be completely liberalized to allow forces of demand and supply to determine the true price of the ZWL.

- **Financial Tightening**

RBZ must continue pursuing tight monetary stance like hiking its policy rate to discourage speculative borrowing and fully utilize OMO tools to mop excess ZWLs.

- **Increase Official Use of ZWL**

There is a need for a policy shift requiring most local payments in ZWLs to propel demand and use of the ZWL.

- **Agriculture Financing**

The current financing model over-relying on state support requires a complete revamp to ensure that citizens take farming as a business and reduce dependence on the state.

- **Domestic Resource Mobilization (DRM):**

There is a need to increase DRM inorder to reduce overdependence on borrowing and volatile aid and promote sustainable growth & development as government raises and spends own funds for gender-responsive public services and reduce inequalities.

- **Adopt EITI Standards**

Adopting Extractive Industries Transparency Initiative (EITI) will promote transparency and accountability in the mining sector through the disclosure of government and mining companies' data.

- **Economic and Structural Reforms**

The government should swiftly implement these reforms to improve market competition and market price discovery.

- **Policy Consultations**

An inclusive multi-stakeholder dialogue is crucial in reviving the broken social contract between government and citizens. It helps to avoid the top-down approach to policymaking to increase ownership.

- **Industrial Policy (IP)**

There is a need for an adaptive IP that advances value chains and product beneficiation. Such an IP will also elevate coordination between the industry and government agencies.

- **Debt audit**

Undertake an independent public debt audit that will inform the scale and nature of the country's debts, which are often not transparently publicized.

- **Strengthen Legal and Regulatory Framework**

Sound legal and regulatory frameworks will promote transparent, predictable, and non-discriminatory processes. The legal and regulatory framework matrix category covers broad issues related to the laws, regulations, and policies passed by governments.

5. Disclaimer

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