

Weekly Economic Review

22 August 2023

RBZ Interbank Rate

WEEK 11.08.23
WEEK 18.08.23

ZWL 4,555.75 per USD1
ZWL 4,573.77 Per USD1

Consumer Price Index

JUN 566.36
JUL 479.97

Blended Inflation

JUN M.O.M. 74.5%
JUL M.O.M. -15.3%

JUN Y.O.Y 175.8%
JUL Y.O.Y 101.3%

avg. Parallel Market Rate

WEEK 11.08.23
WEEK 18.08.23
ZWL 6,000
ZWL 5,950

Consumption Poverty Line

JUN ZWL91,172.6
JUL ZWL99,545

Trade

Exports Imports
MAY US654.2m US850.9m
JUN US641.3m US726.4m

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1. Summary

This week's issue of the Weekly Economic Review (WER) provides our readership with some snippets of the economic developments that occurred in July 2023 as they await the finalization and publication of the July 2023 Monthly Economic Review (MER). It also contains some detailed articles covering, inter alia, strengthening democracy, elections, and governance in Zimbabwe as well as fighting against the natural resource curse.

2. Weekly Economic Review and Analysis

Since January 2022, ZIMCODD has been publishing Monthly Economic Reviews (MERs) to help gauge the health of the general economy and its impact on the welfare of citizens as well as proffering policy alternatives to foster durable economic stability. As we finalize the July 2023 MER report, here is a summary of selected key developments in the month:

2.1 Inflation

In February 2023, ZimStat adopted blended CPI which measures the combined price changes of goods and services in both USD and ZWL with weights split by linking factors, that is, the proportions of estimated household expenditure in USD and ZWL. Annual price inflation came in at 101.3% in July down from 175.8% recorded in June 2023 – consumer purchasing power fell by more than 100% between the July 2022–July 2023 period.

In monthly terms, Zimbabwe has moved from hyperinflation in June 2023 to deflation (negative inflation) in July 2023 as price growth plunged from 74.5% to -15.3%. The significant deceleration of inflation is largely attributable to the ZWL stability experienced in the month. In July 2023, the ZWL gained about 27% in the official interbank market while sailing stable in the alternative markets, gaining almost 30% on average. Authorities have instituted a plethora of stabilization measures including finetuning the interbank market to improve ZWL price discovery, reducing RBZ quasi-fiscal activities (foreign currency surrender requirements and external debt servicing), and demanding 50% of quarterly corporate tax payments to be settled in ZWLs.

Although consumers have enjoyed some relief as price growth decelerated, the price level remains exorbitantly high and beyond the reach of many. An urban household of six (6) reportedly required a whopping ZWL2.6 million in July 2023 to be considered not poor, up 4% from the ZWL2.5 million that was estimated in June 2023. The salaries being paid to workers economy-wide are way below this poverty datum line (PDL). Be that as it may, the growth of ZWL prices is expected to continue to moderate in the coming months if ZWL liquidity positions remain tight.

However, the ZWL liquidity tightness must be optimal otherwise authorities will unintentionally fully dollarize the economy and crash the local unit of exchange. The Reserve Bank of Zimbabwe's (RBZ) 2023 mid-term Monetary Policy Statement has shown that the economy has rapidly dollarized in the last 12 months. As of June 2023, about 81% of the total money supply, about 88% of the total banking sector deposits, and about 94% of the total loan book were denominated in USD.

2.2 Exchange Rate

The ZWL closed July 2023 trading at ZWL/USD 4,516.80 in the Willing-Buyer Willing-Seller (WBWS) interbank market, gaining about 27.1% from ZWL/USD 5,739.80 as of the end of June 2023. In the alternative markets, the ZWL sailed largely stable. The local unit gained roughly 30% from an average of ZWL/USD 7,900 in June to ZWL/USD 6100 in July 2023. As alluded to earlier, the ZWL stability enjoyed in July 2023 largely emanated from drastic stabilization measures taken by authorities between early May 2023 and early June 2023.

For this ZWL stability to be durable, RBZ must stay on the course of tight monetary policy, buttressed by sound fiscal policies that ensure a sustainable spending path to suppress quasi-fiscal activities (money printing) and reduce borrowing pressures. So, there must be adequate political will to institute robust political and economic reforms. Without robust reforms, the nation will continue to experience vicious cycles of currency crises and hyperinflation as it has already witnessed three (3) episodes since 2019. A glance at economic history shows that for developing nations to enjoy rapid socio-economic transformation, they must embrace reforms. Reforms are vital as they make government more effective, provide equal opportunities to most citizens, foster stability, and unlock economic potential.

2.3 Fuel

The Zimbabwe Electricity Regulatory Authority (ZERA) reverted from weekly to monthly fuel pump price reviews in February 2023. The latest price adjustment is effective 8th of August 2023. These prices will remain effective until 4 September 2023 and they are based on the M-1 pricing mechanism. M-1 refers to the month before the current month, which in this case, would be July 2023. The M-1 price is determined by many factors such as global crude oil prices, transportation costs, port charges, insurance costs, and taxes, among others. The price of a liter of petrol was increased by 2.5% from US\$1.57 in July 2023 to US\$1.61 in August 2023.

Zimbabwe is blending petrol with ethanol and the ratio is currently at E20 (20% ethanol) from E15 (15% ethanol) in May 2023. Barring reservations about the price and quality of domestically produced ethanol, blending petrol promotes environmental sustainability and reduces reliance on fossil fuels which lowers

the import bill, subdues carbon emissions, and contributes toward energy independence.

The price of a liter of diesel was increased by 4.4% from US\$1.58 in July 2023 to US\$1.65 in August 2023. In year-to-date (YTD) terms, diesel is up 1.9% from US\$1.62 a liter in December 2022. In ZWL terms, the price for a liter of petrol has gone down to ZWL\$7,300.72 from ZWL\$9,113.66 in July 2023 while that of diesel was decreased from ZWL\$9,200.03 to ZWL\$7,492.63. The ZWL fuel market is however now non-existent, for the general public as the market has dollarized.

2.4 Electricity

The fact that the government is forced to repay or assume guaranteed private-sector after the default by the loan beneficiaries like Command Agriculture The Zimbabwe Electricity Supply Authority (ZESA) increased domestic electricity tariffs on 31 July 2023. A close analysis of data from ZESA shows that the Agric sector is receiving heavily subsidized tariffs at ZWL329.48/kWh while other commercial users are billed at ZWL767/kWh. Although electricity tariffs were increased in July 2023, granular analysis of regional data shows that Zimbabwe has one of the lowest tariffs in the Southern Africa Development Community (SADC) region. At the official rate of ZWL/USD 4,516.80 in July 2023, domestic users were paying US\$0.03/kWh which is far much lower than regional counterparts like Namibia (US\$0.17/kWh), Swaziland (US\$0.10/kWh), Malawi (US\$0.09/kWh), and S/Africa (US\$0.08/kWh).

To promote the use of ZWL in the economy as well as protect poor households largely earning in ZWL from ongoing rapid economic dollarization, authorities have directed ZESA to bill all non-exporters 100% in local currency. Notably, electricity supply has improved across the country in the month. Domestic generation by Zimbabwe Power Company (ZPC) has improved significantly due to the successful synchronization of Hwange Units 7 & 8 with a combined installed capacity of 600MW into the national grid.

2.5 Policy Alternatives

There is a need for increased political will to allow strict implementation of well-thought and inclusive reforms (governance, economic, structural, etc) to protect the vulnerable, reduce waste in government and curb market pricing distortions. It is high time there is an increase in RBZ independence. This is key to enabling the RBZ to make monetary policies that are not dictated by political considerations in order to give monetary policy credibility which is key in reducing inflationary expectations. The economy must also be diversified; that is, shifting away from a single income source (primary commodities) toward multiple sources from a growing range of sectors and markets to manage volatility & provide a more stable path for equitable growth and development.

Raw materials particularly from mining and agriculture must be value-added to improve the balance of payments, generate more foreign currency earnings, create jobs, increase tax base, grow downstream industries, and develop infrastructure. The Ministry of Agriculture must embrace climate-smart agriculture (CSA). CSA is an integrated approach to managing landscapes (cropland, livestock, forests, and fisheries) that address the interlinked challenges of food security and accelerating climate change. CSA will help increase productivity, enhance resilience and reduce emissions.

More so, authorities must make better use of and maximize existing natural resources rather than relying on borrowing. This will allow the Government to fund its own developmental goals, finance gender-responsive public services, and reduce economic, social and gender inequalities. In other words, domestic resource mobilization (DRM) will provide a long-term path to sustainable development finance.

3. Articles for Further Reading

3.1 Strengthening Democracy, Elections, and Governance in Zimbabwe: A Focus on the African Charter

Democracy, elections, and effective governance are essential pillars that underpin the growth, stability, and prosperity of any nation. In Zimbabwe; a country with a complex election history; these principles hold great significance. By examining the ideals outlined in the African Charter on Democracy, Elections, and Governance, Zimbabwe can chart a path toward a more inclusive, transparent and accountable political landscape. The African Charter on Democracy and Elections was adopted by the African Union in 2007 to promote democratic values, uphold human rights, and ensure the rule of law across the continent. This charter emphasizes the importance of credible and transparent elections, the protection of civil liberties, and the establishment of effective institutions to foster good governance.

As election day is nigh, it is important to observe the principles enlisted in this article in order to ensure free and fair elections. While many processes leading up to the elections have been marred by violence, intimidation, weaponization of the law and alleged judicial capture it remains imperative that the people of Zimbabwe exercise their right to vote on 23rd August 2023. Zimbabwe's pre- and post-election period has a history of violence, arrests, intimidation and election rigging which undermines democracy by substituting freedom of choice with coercion and by deterring participation. Some journalists and media houses have highlighted the weaknesses of the electoral management body, Zimbabwe Electoral Commission (ZEC), including failure by ZEC to afford sufficient time for inspection of the voter's roll, which has contributed to the lack of confidence in the electoral process.

Strengthening electoral management bodies through election observation by other independent bodies reduces the chances of voter apathy, increases participation and contributes to free and fair non-violent elections, however, this too has been stifled as various aspiring observers have been turned away from observing elections, including Chris Maroleng, the CEO of Good Governance Africa, who was deported from Zimbabwe.

Elections and other political processes are pivotal to the quality of a country's governance and can either greatly advance or set back a country's long-term democratic development. In this vein the following principles found in the African Charter on Democracy and Elections are important to uphold:

Inclusive Democracy: A cornerstone of the Charter is the promotion of inclusive democracy. This means that the rights of all citizens, regardless of their background, should be respected, and their voices should be heard. Zimbabwe can work toward inclusivity by fostering an environment where political parties and civil society engage in constructive dialogue and where marginalized groups have a seat at the decision-making table.

Transparent and Credible Elections: Transparent and credible elections are pivotal to the legitimacy of any government. Zimbabwe should strive to ensure that its electoral processes are fair, free from manipulation, and conducted in an atmosphere of transparency. The Charter highlights the need for impartial electoral commissions, reliable voter registers, and the participation of international observers to uphold the integrity of elections.

Rule of Law and Human Rights: Upholding the rule of law and protecting human rights are critical aspects of a thriving democracy. Zimbabwe must prioritize the independence of the judiciary, guarantee freedom of expression, assembly, and association, and ensure the safety of journalists and activists. By doing so, the country can build an environment where citizens feel secure in expressing their views and participating in the political process.

Effective Governance: The Charter emphasizes the importance of accountable and effective governance. Zimbabwe should strengthen its institutions, promote transparency in the management of public resources, and combat corruption. By creating a culture of good governance, the country can foster economic development and better respond to the needs of its citizens.

Civil Society Engagement: An active and empowered civil society plays a crucial role in holding governments accountable. Zimbabwe should foster an environment where civil society organizations can operate freely, engaging in constructive dialogue and advocating for citizens' rights. This partnership between the government and civil society can help shape policies that address the needs of the people.

It is clear from the above that Zimbabwe still has a long way to go in ensuring free and fair elections. As elections are not a single event on a specified date but rather several processes leading up to a determined election date. It is important to align these processes with the principles outlined in the African Charter on Democracy and Elections. Democracy, elections, and governance are interlinked components that, when nurtured, can lead to a prosperous and harmonious nation. Zimbabwe can still transform its political landscape by fostering inclusive democracy, transparent elections, respect for human rights, effective governance, and civil society engagement. Through a commitment to these principles, Zimbabwe can reinforce its democratic foundations and pave the way for sustainable development and social progress.

3.2 Tragic Mining Disaster Strikes Penhalonga

The Penhalonga community has experienced considerable suffering and pain because of the mining activities happening around Mutare River. Two miners are feared dead after a mine shaft caved in on them on Wednesday as they conducted gold mining along Mutare River in Penhalonga. It is important that one considers the incident's broader implications as search operations for the missing miners are underway. Given that not only are there shafts along the river but these shafts also run under the Mutare–Penhalonga road, the incident has also caused communities to worry about their own personal safety since it is the only road which connects Mutare and Penhalonga. Fears of a possible collapse under the Mutare–Penhalonga road are mounting as mining activities in the area continue to go unchecked.

Mining activities along the Mutare River were once prohibited by the government in 2013. The current mining operations are allegedly being led by individuals with strong political connections. The fact that mining is being permitted next to households and along a river is proof that politically connected individuals are single handedly making decisions that affect the entire community. Also considering that mining involves the use of hazardous chemicals like cyanide and mercury, the destruction of the Mutare River as a result of mining operations has an impact on the quality of life of Penhalonga residents.¹

1. <https://www.zimbabwesituation.com/news/2-illegal-miners-feared-dead-as-mine-collapses/>



The above pictures show the mining site along the Mutare River where two people are said to have died and their bodies are not yet recovered.

Since regulatory authorities like EMA and the Ministry of Mines are accused of being intimidated by powerful individuals, many have been questioning whether the mine is using necessary mining and security precautions. A situation that contributed to several deaths and lawlessness in mining communities. Residents in Penhalonga are psychologically impacted by the frequent fatalities, which raises questions about the legitimacy and accountability of the mining operations. Additionally, there is a continuous need to involve the community in important decision-making processes for the greater benefit and in this case, even the local leadership were not even aware of the people responsible for the mine.

The tragedy's effects on society and the environment call for rapid attention and action. There is a need to ensure that mining operations run in a safer and more sustainable manner by addressing the gaps in regulation, accountability, and community engagement. Mining gold along a river can present several challenges to both people and infrastructure. Here are some of the key challenges:

- **Environmental Impact:** Gold mining along rivers may have a negative impact on the natural environment. The natural flow of water can be hampered by excavating riverbeds and banks, which can result in erosion, sedimentation, and changes in the river's path. It may affect aquatic ecosystems, destroy habitats, and influence the quality of water downstream.
- **Water Pollution:** To extract gold from ore, gold mining frequently uses chemicals such as mercury and cyanide. These pollutants have the potential to poison rivers and water supplies, endangering aquatic life and possibly harming the health of communities downriver.

- **Land Degradation:** Mining activities can cause land degradation, especially when large-scale excavation and vegetation removal are involved. The extraction of gold can result in deforestation, soil erosion, and alteration of natural landscapes, impacting the local ecology and biodiversity.

3.3 Development in the Extractive Industry Must Show Itself in the Community Where Extractives Are Located

Africa which is home to many less developed and developing countries, according to the United Nations (UN) estimates holds more than 30% of global mineral reserves, including 5% of naturally occurring lithium ore reserves. Lithium is a crucial component in the production of lithium-ion batteries, which power many modern devices, electric vehicles, and renewable energy systems and for this reason it has been on demand globally. The total demand for lithium worldwide amounted to 292,000 metric tons of lithium carbonate equivalent and it is forecast that by 2030 this quantity will increase to approximately 2.5 million metric tons². The global lithium market size was valued at \$37.8 billion in 2022 & is projected to grow from \$22.2 billion in 2023 to \$89.9 billion by 2030.

Zimbabwe is home to Africa's largest³ lithium reserves, which are also the fifth largest lithium reserves in the world. Last year Zimbabwe introduced export bans on raw lithium ore and as a result companies have been constructing lithium processing plants. For example, Bikita Mine has constructed two (2) new lithium processing plants and Prospect Lithium Zimbabwe has constructed one (1). The Bikita Mine now has the annual capacity to produce about 480, 000 tons of petalite and 300,000 tons of chemical grade spodumene concentrate. Prospect Lithium Zimbabwe's processing plant will process 4.5 million metric tons of hard rock lithium into concentrate for export per year.

Natural resources are supposed to benefit everyone in the communities from where they are being extracted from and be a source of revenue that develops the public service delivery for everyone. This has, however, not been the case in Zimbabwe with specific reference to Goromonzi district. Goromonzi lacks in development in terms of hospitals, schools and roads. The whole of Goromonzi has one clinic that is Chinyika Clinic which is providing poor services to its people. It is disturbing to note that despite the natural resource in the area Chinyikia does not have an ambulance and a basic equipment such as a blood pressure machine.

2. <https://www.statista.com/statistics/1220158/global-lithium-demand-volume-by-application/>

3. <https://www.interregional.com/en/mineral-wars/>

According to the residents of Goromonzi, the sphygmomanometer and glucose meter they had is no longer working because it does not have batteries and the clinic does not have money to buy new batteries. The district of Goromonzi also has poor roads that need repairs and new construction also needs to take place considering that mining companies as they are transporting their minerals from the area. For example, the 24-kilometer stretch of road from the Mutare road turn off is the one that is mostly used by many mining trucks when transporting their mineral ore. The residents are complaining about the high levels of dust pollution that comes from the roads being used by these trucks. This is a growing concern as the dust might cause serious health issues which the poorly equipped Chinyika clinic will not be able to handle. In addition, the residents are arguing that Goromonzi needs a new primary school because the existing schools are failing to accommodate all the children in Goromonzi. Mining activities in the area are not commensurate with the low development pace happening in Goromonzi.

The extractive industry in Goromonzi has developed as Prospect Lithium Zimbabwe has constructed one lithium processing plant. According to the company, the plant began initial processing in April 2023 and since then they have exported close to 30,000 tons of lithium. The question on residents' minds is how this development is going to benefit the people of Goromonzi and if the residents are going to get their fair share of benefits from the company's development considering the global lithium market. In conclusion Goromonzi needs to benefit from the resources being mined in the district; mining companies cannot continue to take lithium while they fail to give back to the community.