MONTHLY ECONOMIC REVIEW

AUGUST 2023

Zimbabwe Coalition On Debt And Development

ZIMCODD

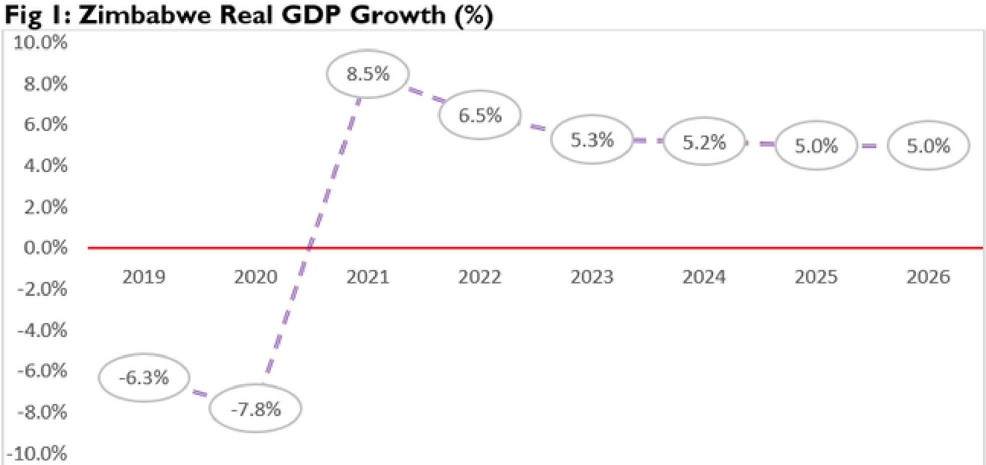
INVESTING IN PEOPLE FOR SOCIAL AND ECONOMIC JUSTICE

1. INTRODUCTION

Zimbabwe experienced currency and price stability for two (2) consecutive months in the second half of 2023 (2HY23). The stability came after a cocktail of economic stabilization measures instituted by authorities toward the end of 1HY23. While authorities expect this stability to continue to hold throughout the 2HY23, many risks are threatening the outlook. This Issue of the Monthly Economic Review (MER), therefore, tracks and analyses the performance of key economic indicators, identifies probable outlook risks, and proffers some policy alternatives that can help minimize the impact of these likely risks.

2. ZIMBABWE ECONOMIC OUTLOOK

Fig 1: Zimbabwe Real GDP Growth (%)



Source: *Ministry of Finance and Economic Development (MoFED)*

- The MoFED has revised upwards its 2023 national output (GDP) growth projections from the initial 3.8% to 5.3%. This projection is underpinned by the assumptions of stable ZWL, stable ZWL prices, and a sustainable budget deficit in the second half (2HY23).
- Also, Zimbabwe is benefiting from relatively higher global mineral commodity prices which are being powered by recurring supply uncertainties posed by the Russia-Ukraine war as well as a global seismic shift toward green energy.
- Furthermore, the nation has enjoyed a relatively better 2022/23 agricultural season. In addition, electricity production and supply so far in 2HY23 has significantly improved compared to 1HY23 due to additional output from two (2) new Hwange thermal units with 300MW installed capacity apiece.
- However, the balance of risks to the economic outlook remains largely tilted to the downside. A disputed election results in an illegitimate government that is too prone to serious international isolation and deep economic sanctions.
- Also, electoral contestations breed wide ethnic differences, politically motivated violence & conflict, partisanship, destruction of property, elevated white-collar corruption, poor service delivery, plunder of natural resources and capital flight among others.
- More so, for an agro-based economy like Zimbabwe, the latest projections of El Nino weather conditions (below-average rainfall and above-average temperatures) for the upcoming 2023/24 summer cropping season[1] will likely spell huge disaster – crop failure, high food prices, and food insecurity.

1. https://www.zimbabwesituation.com/news/zim-faces-el-nino-threat/

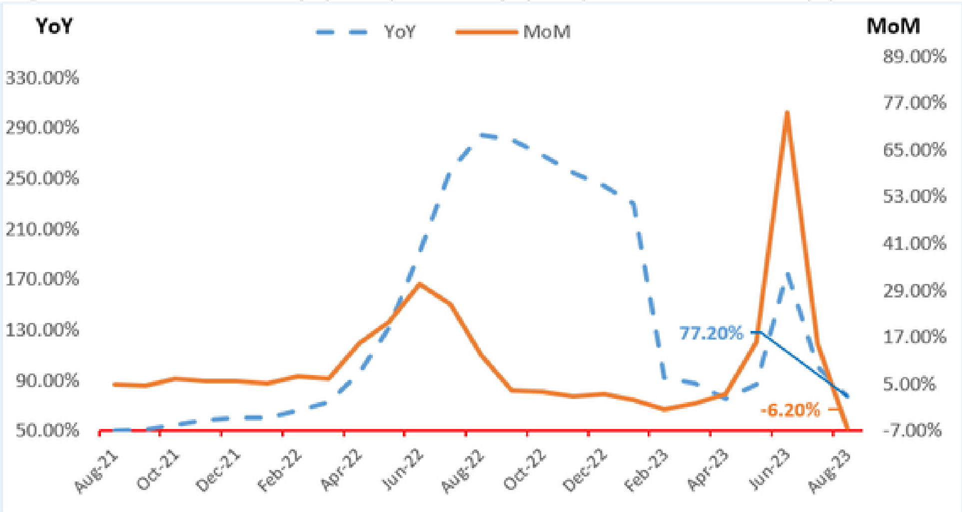
- Other risks to the 2HY23 macroeconomic outlook include debt distress, ZWL fragility, price volatility, fiscal expenditure risks, tax revenue risks, widening global geopolitical tensions and global trade wars.

3. MACROECONOMIC INDICATORS

The section briefly analyses the performance of selected key macroeconomic indicators to establish the direction being taken by the economy.

3.1 INFLATION

Fig 2: Zimbabwe Monthly (MoM) & Yearly (YoY) Inflation Trends (%)



Source: *ZimStat*

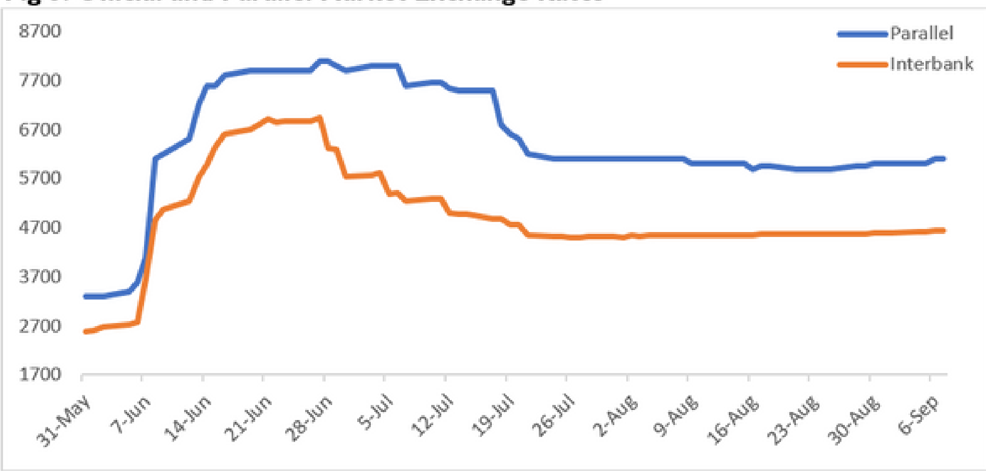
- ZimStat statistics show that year-on-year (YoY) blended inflation[2] mounted by 77.2% in August 2023, a significant moderation from 101.3% registered in July 2023.
- Although annual inflation has been trending downwards since the turn of the second half of 2023 (2HY23), it remains unacceptably high. The Aug 2023 outturn indicates that consumer purchasing power has fallen by a staggering 77.2% from Aug 2022 levels.
- From a month-on-month (MoM) perspective, price inflation accelerated by 9.1 percentage points to -6.2% in August 2023 from -15.3% realized in July 2023. This means that for two (2) consecutive months, Zimbabwe has experienced negative inflation (deflation).
- The moderation of price growth enjoyed so far in the 2HY23 is largely attributable to a relatively stable ZWL in both official and forex exchange markets. For instance, in the first two (2) months of the 2HY23, the ZWL officially gained 13% per month on average.
- If the stabilization measures instituted by authorities in 1HY23 are augmented by swift implementation of reform matrices (economic, governance & land tenure reforms) agreed between Zimbabwe and its creditors, the ongoing price stability will become durable.
- This will, however, require adequate political will lest the economy continues to rapidly gravitate toward full-scale dollarization. Already, as of the end of June 2023, 81% of the total money supply, 88% of the total deposits, and 94% of total loans were USD.

2. Blended inflation measures the combined price changes of goods and services in both the USD and ZWL with weights split by the proportions of estimated household expenditure in USD and ZWL.

- Generally, dollarization greatly stabilizes market prices. However, there are many medium to long-term costs than benefits attached to full dollarization by a small, developing and open economy like Zimbabwe.

3.2 EXCHANGE RATE

Fig 3: Official and Parallel Market Exchange Rates



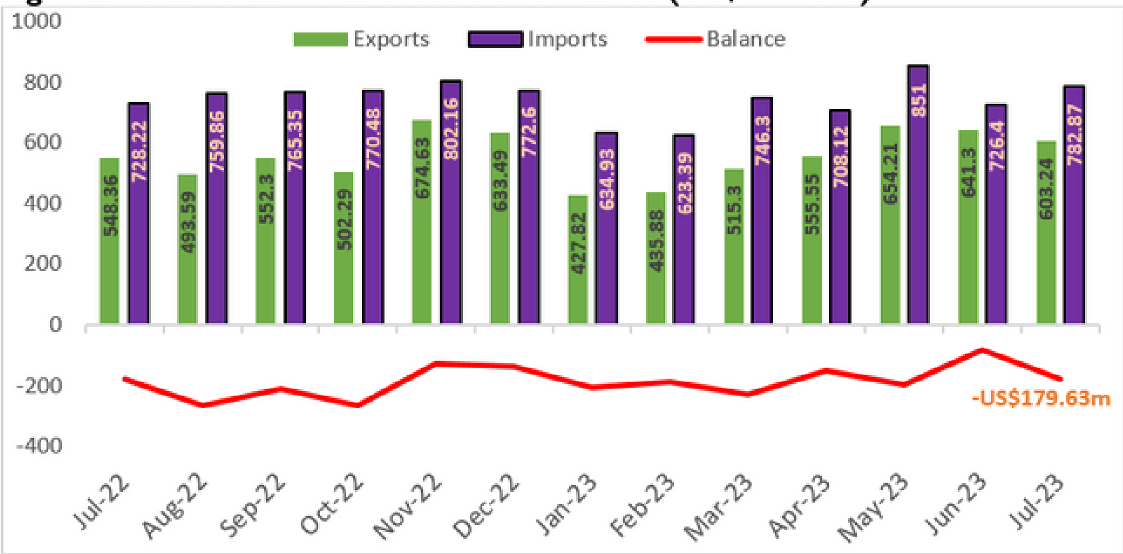
Source: *RBZ, ZimRates*

- Figure 2 shows that the ZWL sailed largely stable in both markets in August 2023.
- In the official interbank market, the local unit slightly lost 2% to close at ZWL/USD 4,608.11 from ZWL/USD 4,516.8 end of July 2023. In the alternative (parallel) market, the local unit slightly gained 1.7% to close at an average of about ZWL/USD 6,000.
- As a result, the average foreign exchange premium[3] plummeted to 30% as of the end Aug 2023 from 35% as of the end of July 2023. This decline is highly commendable given that mid July 2023 the parallel market premium was at 50%.
- The premiums are trending toward a conventional threshold. There is a consensus among Monetarists that the premium should not exceed 20% for currency stability to hold.
- Helping contain depreciation during this period is a decline in ZWL liquidity as authorities introduced various policy measures to mop excess ZWLs in the economy such as gold instruments, wholesale forex auction market for banks, and corporate tax in ZWLs.
- The actual RBZ statistics show ZWL-denominated total money supply plummeting by 9% in June 2023 to close at ZWL1.9 trillion while preliminary statistics for July are pointing to another significant decline in ZWL liquidity.
- In the outlook, however, ZWL depreciation pressures are expected to remain elevated as fiscal spending is generally high in the second half of the year which coincides with support for the main summer Agric cropping season and payment of the 13th cheque.
- Again, increased socio-economic uncertainties posed by Zimbabwe's disputed election together with negative spillovers from deteriorating global geopolitics and unsustainable public debt will likely exert pressure on economic agents to offload ZWL thus destabilizing its value.

3. Parallel premium is the percentage difference between official and parallel exchange rates.

3.3 EXTERNAL TRADE

Fig 4: Zimbabwe External Trade Performance (US$ millions)



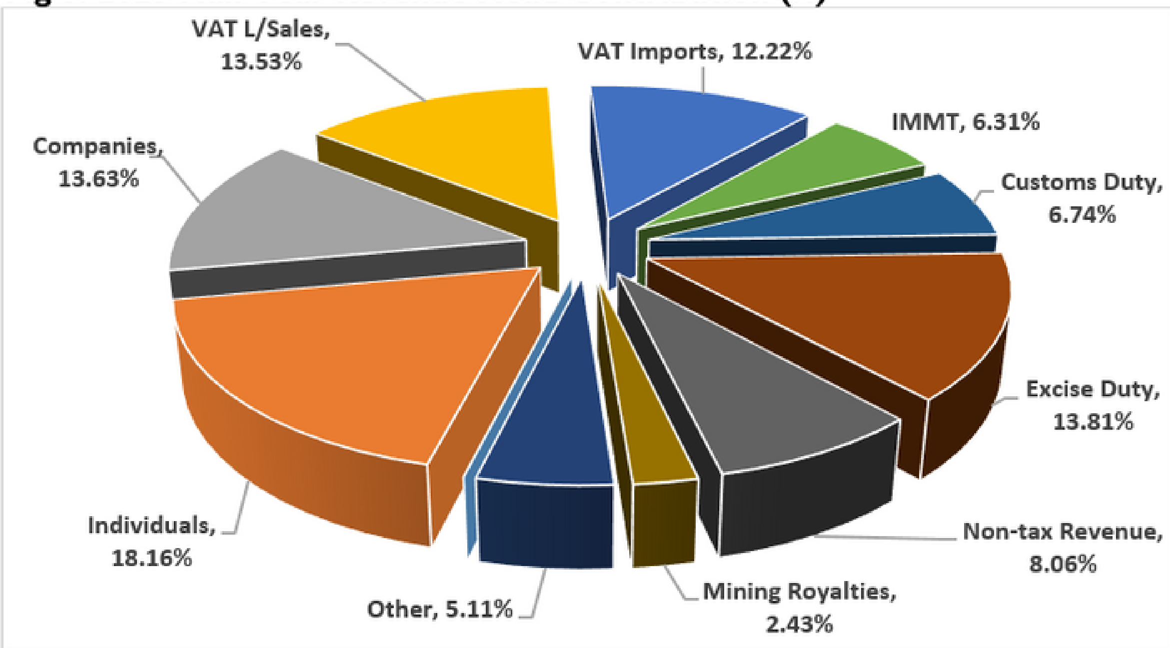
Source: *ZimStat*

- Latest trade statistics show that Zimbabwe incurred a trade deficit (merchandise imports exceeding merchandise exports) of US$179.63 million in July 2023.
- The trade deficit is up 111.1% from US$85.1 million realized in June 2023. Cumulatively, Zimbabwe incurred a deficit totalling US$1.24 billion in the first 7 months of 2023. This is 15.9% higher than a US$1.07 billion deficit incurred for the same period in 2022.
- On the one hand, imports are burgeoning. July 2023 imports were up 7.8% to US$782.87 million from June 2023 outturn of US$726.4 million. On the other hand, exports were depressed in July. They came in at US$603.24 million, plunging by 5.9% from US$641.3 million realized in June 2023.
- Largely fuelling the trade deficit is the mounting global crude oil prices. Zimbabwe is a net importer of fuel and hence is a global price taker. Despite high prices, domestic fuel demand is expected to remain elevated.[1]
- This is due to recurring electricity load-shedding schedules. Fuel is a key industrial input and a substitute for electricity particularly for the corporate world. Also, a rapidly self-dollarizing economy is contributing to a widening trade deficit.
- For the outlook period, the deficit is projected to cross the US$2 billion mark powered by elevated global fuel, fertilizer & food prices, deepening dollarization, subdued global mineral prices, persisting load-shedding, trade wars, and Russia-Ukraine war spillovers.
- As alluded to in the July 2023 Issue, an unsustainably high trade deficit will harm Zimbabwe as more imports lead to deflation, increase the fiscal deficit, and collapse local manufacturing leading to the shipment of jobs overseas and national output (GDP) contraction.

3.4 Public Sector Accounts

- Latest statistics from ZIMRA show nominal net revenue collections for the first half (1HY23) were ZWL4.43 trillion, translating to nominal and real growth of 801.58% and 1.63% respectively.
- Foreign currency revenue collections amounted to US$1.32 billion against a target of US$1.37 billion, leading to a negative variance of 3.72%. Positive growth was registered in all revenue heads in nominal terms.

Fig 5: 2023 Half Year Revenue Head Contribution (%)



Source: *Zimbabwe Revenue Authority (ZIMRA)*

- ZIMRA's 1HY23 revenue collection outturn is 34.4% higher than the revenue collection projected in the 2023 approved budget. Treasury initially expected revenue collection of ZWL3.9 trillion for 2023 thus incurring a budget balance of ZWL575.5 billion.
- Also, the Treasury statistics showed that remuneration of public workers, infrastructure projects, and operational costs in the 1HY23 consumed a combined ZWL3.7 trillion to give a budget surplus of about ZWL600 billion in the 1HY23.
- This 1HY23 expenditure bill constitutes about 82.2% of the initially projected 2023 approved budget expenditure ceiling, leaving only about 17.8% to cover the 2HY23.
- 1HY23 excessive ZWL depreciation and exorbitantly high market prices significantly reduced the real value of the 2023 approved budget. Consequently, the Treasury is now expecting to spend about ZWL25.6 trillion (469% higher than the initial projection of ZWL4.5 trillion) by the end of 2023.
- In light of the foregoing, the Treasury must ask Parliament for a Supplementary Budget. Failure to do so will result in a parliamentary condonation thus inhibiting efficient & effective PFM – lack of budget transparency & accountability.
- This is because, by law, the Treasury must seek authority from Parliament before it spends excess revenues or exceeds the approved expenditure ceiling.

4. Sectoral Review

4.1 Energy Sector

This section examines the performance of the energy sector in July 2023 with a key focus on the electricity and fuel sub-sectors.

4.1.1 Electricity

Table 1: September 2023 Domestic Electricity Tariffs Changes (ZWL/kWh)

CONSUMPTION BAND			Charge per kWh		Charge per kWh	
			Aug	Aug (6% REA)	Sept	Sept (6% REA)
First 50	0-50kWh	50kWh	135.71	143.78	137.71	146.50
Next 50	51-100kWh	50kWh	271.03	287.16	275.80	293.40
Next 100	101-200kWh	100kWh	451.71	478.59	458.94	488.23
Next 100	201-300kWh	100kWh	632.4	670.09	641.57	682.52
Next 100	301-400kWh	100kWh	722.74	765.82	734.37	781.24
Above 400	-	-	767.91	813.68	781.14	831.00

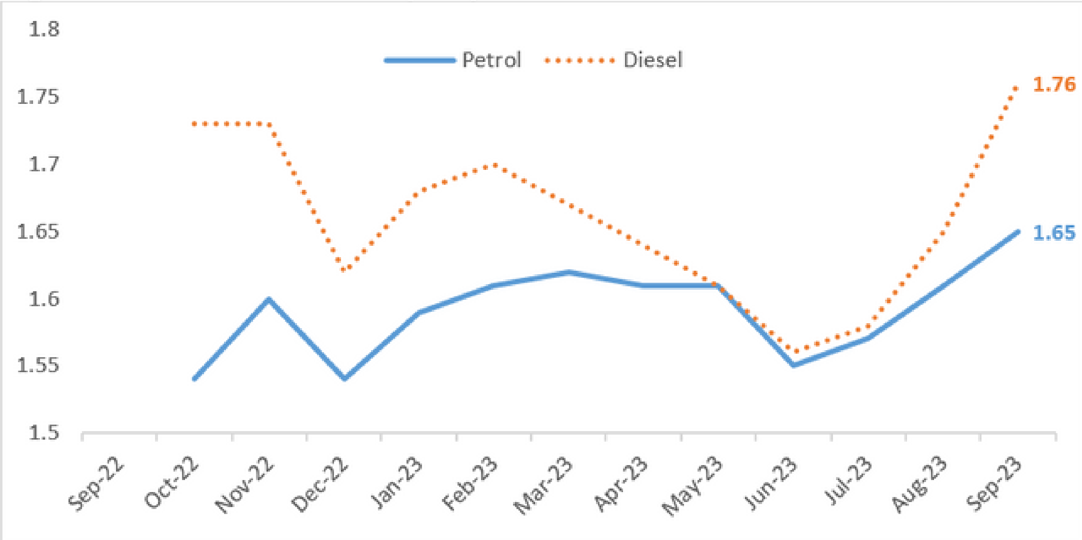
Source: *Zimbabwe Electricity Supply Authority (ZESA)* *** *REA Rural Electrification Levy*

- The latest electricity tariffs in Table 2 came into effect on 1 September 2023. The monthly tariffs on the right are estimates when a 6% rural electrification levy is included.
- According to Treasury regulations, only exporters such as miners are billed in foreign currency while domestic & other users are billed in local currency.
- Each month, electricity users are entitled to a discounted 400 units of electricity costing about ZWL217,200 regardless of the date of the new month. ZESA has ditched the use of flat tariffs in favour of the stepped-up tariff.
- This means that the first few units bought are cheaper. For instance, in Sept 2023, the first 50 units including REA cost ZWL146.50 per unit while the next 51-100 units are charged a rate of ZWL293.40.
- Stepped-up tariffs help to ensure that the poor majority can afford electricity while ensuring that those using more electricity pay more.
- Domestic electricity production & supply have improved in the 2HY23 compared to 1HY23 when load-shedding stretched for more than 12 hours per day on average. The improvement is attributed to new thermal units with an installed capacity of 600MW.
- However, hydro output from Kariba Dam is facing serious threats from dwindling dam water levels. Also, this is expected to deteriorate in the coming months due to El-Nino weather conditions (above-average temperatures) projected for the SADC region.
- If this holds, minimal power rationing schedules being currently experienced across the nation will likely worsen and cripple economic activity unless there are significant incentives to mobilize private investments into the energy sector.

4.1.2 Fuel

- ZERA has published new price caps effective 7 September 2023. These caps are based on the M-1 pricing mechanism[4] and they will be effective up to 4 October 2023.
- The price of a litre of petrol was capped at US$1.65 which is up 2.5% from US$1.61 in Aug 2023. This is the highest price since June 2022 when it was capped at US$1.77. As for diesel, a litre was raised by 6.7% to US$1.76, the highest level since July 2022.

Fig 6: Zimbabwe Fuel Prices (US$)



Source: *Zimbabwe Energy Regulatory Authority (ZERA)*

- In ZWL terms, the price for a litre of petrol has increased to ZWL7,648.14 in Sept 2023 from ZWL7,300.72 while that of diesel was increased from ZWL7,492.63 in Aug 2023 to ZWL8,160.44. However, the ZWL fuel market for the public is now non-existent.
- Largely driving domestic fuel prices since June 2023 are the rising global crude oil prices, reflecting market tightening. Zimbabwe is a net fuel importer. As such, it is subjected to prevailing high global crude oil prices as well as elevated shipping costs.
- Deepening OPEC+ supply cuts have collided with improved macroeconomic sentiment and all-time high world oil demand. In the outlook, market balances are set to tighten further as Saudi Arabia and Russia extend supply cuts at least through September.
- But be that as it may, Zimbabwe's fuel pump prices are exorbitant, the second highest in the SADC region. This is largely attributable to expensive locally produced ethanol, high fuel taxes & levies, subdued market competition, lack of adequate infrastructure, limited public investment in exploration, and vested interests.

4. M-1 refers to the month before the current month, which in this case, would be Aug 2023. The M-1 price is determined by many factors (global crude oil prices, transport, port charges, insurance costs, taxes, etc.)

4.2 Agriculture

- Zimbabwe is currently experiencing minimal acute food insecurity outcomes (IPC Phase 1)[5] in surplus-producing regions as households access food from their 2023 harvested stocks and have access to typical income-earning opportunities, along with crop sales.
- However, in the deficit-producing areas, widespread stressed outcomes (IPC Phase 2)[6] remain present in the post-harvest period due to limited own-produced food stocks and as the high cost of living constrains household purchasing power.
- In some extreme deficit-production areas, household food stocks from the 2023 harvest are gradually depleting, and households are likely to begin engaging in coping strategies indicative of crisis outcomes (IPC Phase 3)[7] in August and September, earlier than normal.
- The stability of exchange rates in August 2023 supported the moderation of ZWL prices for goods & services. However, the ZWL cost of living remains high for most poor rural & urban households following sustained increases over the past several months.
- Most poor households engaged in casual labor and petty trade are operating and earning in USD, cushioning households from the high ZWL cost of living, and continue to purchase goods from the informal markets, which retail in USD and continue to be relatively cheaper than the main formal retail shops.
- In deficit-producing areas, poor households are expected to increase their engagement in off-farm activities such as the production & sale of vegetables, and artisanal mining to earn income, with the earlier-than-normal start of the lean season in September and October.
- Climate forecasts suggest increasing confidence in a strong El Niño by late 2023. El Niño typically leads to delayed and cumulatively below-average rainfall in Zimbabwe.
- Irregular rainfall will most likely negatively impact the planted area, in turn, limiting the availability of agricultural labor opportunities and household access to income in late 2023 and early 2024.
- Livestock conditions are also likely to decline as pasture and water diminish, especially in semi-arid areas. Close monitoring of rainfall totals and distribution will be required to assess the severity of adverse impacts on cropping conditions for the 2024 harvest.

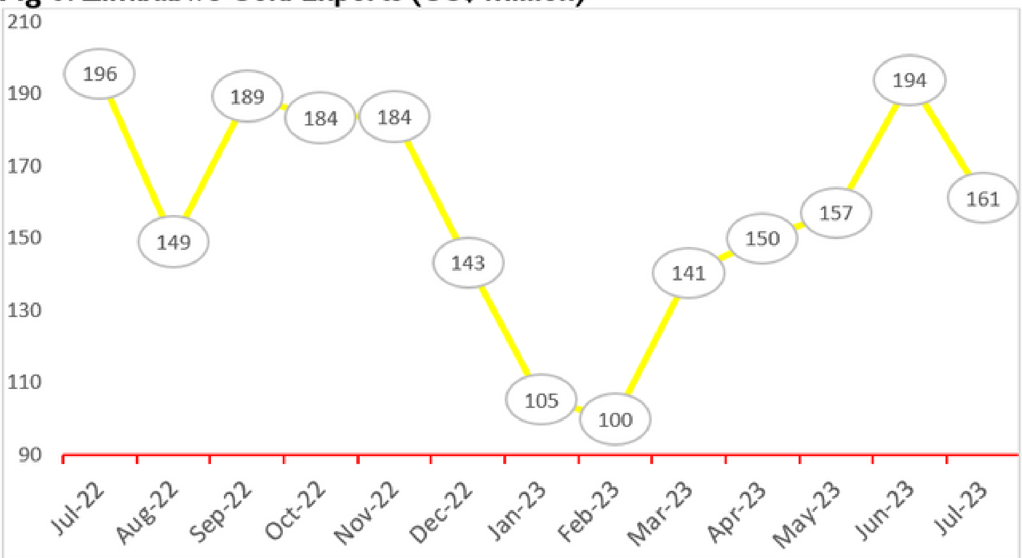
5. Integrated Food Security Phase Classification (IPC) Phase 1 means more than 80% of households can meet basic food needs.

6. IPC Phase 2 is when food consumption is reduced but minimally adequate for at least 20% of households.

7. IPC Phase 3 is when at least 20% of households have significant food consumption gaps or are marginally able to meet minimum food needs.

4.3 Gold Sector

Fig 6: Zimbabwe Gold Exports (US$ million)



Source: *ZimStat*

- ZimStat data show that Zimbabwe exported gold worth US$1.01 billion in the first 7 months of 2023, down 12.9% from US$1.14 billion earned in the same period in 2022.
- The nation experienced a 19.4% drop in official gold deliveries in the first quarter (1Q23) to 6.2 tonnes from 7.69 tonnes realized in 1Q22.
- Official gold deliveries from small-scale producers plunged by 25.7% from 4.95t in 1Q22 to 3.68t in 1Q23 while output from large-scale producers fell by 8.7% to 2.51t in 1Q23 from 2.75% in 1Q22.
- Relative to 1Q22, gold deliveries in 1Q23 had been largely affected by incessant rains, particularly for small-scale & artisanal miners. Generally, when compared to large-scale miners, small-scale gold miners lack advanced mining equipment and machinery to de-water shafts making it difficult for them to operate.
- However, the decline in output moderated in the second quarter (2Q23) as the rainy season concluded and de-watering measures have improved accessibility to the mines by small-scale miners who traditionally contribute the bulk of the yellow metal.
- For the remainder of the year, gold production is expected to increase, largely powered by new domestic investments and elevated global gold prices.
- The growing economic uncertainty in the world's second largest economy, China, and the threat of stagflation in Europe as well as negative spillovers from the Russia-Ukraine war is helping to support safe-haven demand in gold.
- However, Zimbabwe is not largely benefitting from its gold as significant quantities are being smuggled out of the country annually. The government estimates that the nation is losing gold revenues worth US$100 million per month to gold smugglers.
- As such, authorities must put gold traceability systems in place to help curb criminality as information such as the exact source of gold, holder of gold buying license, and amount of taxes paid on gold exports can be collected and analyzed.

5. Conclusion

In August 2023, the local currency (ZWL) was largely stable. This contributed to significant moderation of price growth and brought enormous relief to poor households largely earning in ZWLs. However, elevated fiscal spending in the 2HY23, debt distress, rising electricity tariffs, expected climatic shocks, and exorbitant fuel pump prices coupled with uncertainties posed by a disputed electoral result and the Russia-Ukraine war are expected to destabilize the macroeconomic environment in the coming months.

6.Policy Recommendations

These are policy alternatives we propose to help bring and sustain durable macroeconomic stability in Zimbabwe:

Political Dispute Resolution

There is an urgent need to establish a dialogue platform led by an external mediator bringing all political players together to resolve the current political impasse being fuelled by disputed August 2023 electoral results.

Reform Agenda

There is a need for adequate political will to implement robust and inclusive reforms (economic, structural, legal, institutional, political, etc.) to curb corruption, reduce waste in government, promote sustainable enterprises, and reduce poverty & societal inequalities.

Debt Management Strategy

Authorities must revamp the existing public debt management strategy. This will ensure that the government's financing needs and its payment obligations are met at the lowest possible cost and consistent with a prudent degree of risk.

Optimal ZWL Liquidity Level

The monetary authority must establish an optimal level of ZWL liquidity in circulation in the economy. This is key in stabilizing the monetary base and containing frequent ZWL fluctuations causing elevated & disrupting ZWL inflationary pressures.

Accruals Accounting

Treasury must adopt accruals accounting which is crucial in informing all fiscal and budgetary decision-making to avoid misallocation of resources, increase financial resilience, reduce financial risk, and increase transparency & accountability.

Value Addition and Beneficiation

All raw materials particularly from mining and agriculture must be value-added to improve the balance of payments position, create employment, increase tax base, grow downstream industries, develop infrastructure, and fuel national output (GDP) growth.

Climate-smart Agriculture (CSA)

Zimbabwe must embrace CSA, an integrated approach to managing landscapes (cropland, livestock, forests, and fisheries) that addresses the interlinked challenges of food security and accelerating climate change. This helps to increase productivity, enhance resilience, and reduce emissions.

Public Service Delivery

Treasury must prioritize crucial public services such as healthcare, education, housing, water, and sanitation to improve the welfare of the poor. Also, the Treasury must pay a living wage to all civil servants.

Address Fuel Cost

Treasury must reduce taxes & levies on fuel imports, expand fuel infrastructure like pipelines, reform existing pricing regulations, and open the fuel sector (ethanol production, fuel importation, fuel retailing, etc.) to increase market competition & innovation.

7. Disclaimer

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