Weekly Economic Review

4 October 2023

RBZ Interbank Rate

WEEK 22.08.23	WEEK 29.08.23
ZWL 5,170.81 per USD1	ZWL 5,466.75 Per USD1

P.P.G. Debt-Domestic

SEPT	AUG
$3.6 billion	$5.2 billion

Blended Inflation

SEPT M.O.M.	AUG M.OM.
1%	-1.3%
SEPT Y.O.Y	AUG Y.O.Y
18.4%	77.2%

avg. Parallel Market Rate

WEEK 22.08.23	WEEK 29.08.23
ZWL 6,800	ZWL 7,100

P.P.G. Debt-External

SEPT	DEC
$14 billion	$12.8 billion

External Trade

	Exports	Imports
JUN	$641.3m	$726.4m
JUL	$603 m	$783 m

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1. Summary

This week's issue of the Weekly Economic Review (WER) comments on the latest Zimbabwe investment rating, state of public accounts, 2024 macroeconomic outlook, and September 2023 inflation statistics. It also contains detailed articles covering the political economy behind the creation of the Mutapa Investment Fund, social service delivery, and gender equality in Zimbabwe.

2. Weekly Economic Review and Analysis

2.1 Zimbabwe Commands High Investment Risk

A report released by the Control Risk and Oxford Economics Africa showed that Zimbabwe`s investment risk was too high, with a 2% chance of safe returns[1]. This is despite the fact that for a long time the government has been claiming to be creating a safe haven for investments. As such, this report is an indictment on the government`s Transitional Stabilisation Policy (TSP) 2018-2020 as well as the ongoing National Development Strategy 1 (NDS1) (2021-2025) which seeks to bring socio-economic transformation in Zimbabwe. For example, the government`s post-implementation or summative evaluation of the TSP claimed that the ease of business had been improved, an arguably misleading success story that was used to establish the foundation of the NDS 1.

Thus, setting the NDS 1 for strategic failure as the intended objective has been automatically derailed. It is critical to note that, among the challenges deterring investors are corruption, lack of rule of law, patronage, deep state, currency distortions, policy inconsistencies, and disputed elections. The same challenges have also militated against effective engagement and re-engagement which has been the hallmark of the government`s foreign policy. Therefore, the public is of the view that embracing consistency in policymaking, implementation & evaluation coupled with strengthening oversight institutions are critical in enhancing good governance which is essential in improving investor confidence.

2.2 Exchange Rate

Official statistics from the Zimbabwe Revenue Authority (ZIMRA) show that with tax refunds totalling ZWL212.5 billion, half-year net revenue collection came in at ZWL4.43 trillion. Using 1HY23 average official exchange rate of US$1: ZWL1,996.64, this translates to about US$2.22 billion, about half of last decade's annual tax collection averaging between US$4-4.5 billion. The Treasury also spent about ZWL3.7 trillion (82% of the 2023 approved budget with an expenditure ceiling of ZWL4.5 trillion) during the same period.

1. https://insiderzim.com/uk-says-doing-business-in-zimbabwe-still-risky/#:~:text=The%20United%20Kingdom%20today%20said%20doing%20business%20in,high%20inflation%2C%20fragile%20property%20rights%2C%20and%20pervasive%20corruption

The significant nominal jump in both revenue collection and expenditures experienced in the first half (1HY23) largely emanated from massive ZWL depreciation. Statistics show that in the 1HY23 alone, the ZWL lost at least 80% of its value against the USD in both official and alternative foreign exchange markets thus largely fuelling inflation. For instance, the national statistics agency, ZimStat, estimated monthly blended inflation (weighted average of USD & ZWL) at 74.5% in June 2023, up from the January 2023 outturn of 1.1%. As inflation rises, the consumer spends more ZWLs on the same basket thereby increasing government tax collections while increasing the amount the government spends purchasing goods & services in the economy or awarding cost of living allowance to its employees. Consequently, the real value of the 2023 approved budget was significantly eroded.

For the second half (2HY23), the Treasury is now expecting a nominal expenditure ceiling of about ZWL21.9 trillion. The projected increase in nominal fiscal spending also largely reflects the impact of adverse exchange rate movements. However, the sustained price increases witnessed over the past several months have ballooned the ZWL cost of living. This may risk causing a slowdown in aggregate consumer demand and negatively affecting tax revenue heads such as value-added tax (VAT) on local sales which contributes roughly 15% per annum. At the same time, the economy is undergoing rapid cash dollarization. ZIMRA collected foreign currency to the tune of US$1.32 billion in 1HY23 which is roughly 60% of half-year total tax collections of about US$2.22 billion.

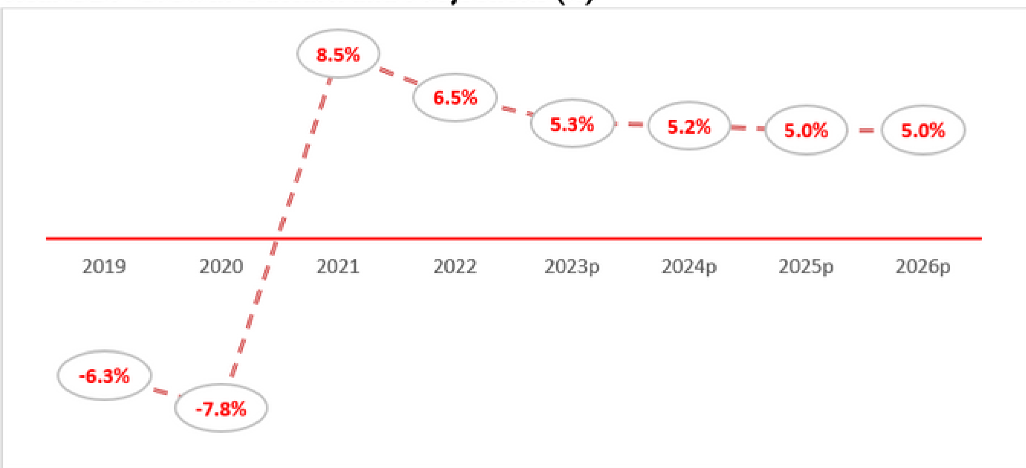
While it is plausible that the stable USD is now constituting a lion's share of treasury revenue collection, increasing cash dollarization currently experienced in the economy poses serious budget risks. It deepens the hard-to-tax informal business sector and fuels underground activities like smuggling, fraud, drug dealing & money laundering thereby significantly reducing tax compliance. As such, going forward authorities must adopt innovative strategies to increase revenue collection efficiency which is key in reducing the chances of unsustainable budget deficits.

2.3 The 2024 Macroeconomic Outlook

The Treasury has revised upwards the 2023 GDP growth projection from 3.8% anticipated initially to 5.3%. It posits that this economic growth is supported by a relatively better 2022/23 agriculture season, continuation of ongoing infrastructure projects, and relatively favorable global mineral commodity prices estimated to close above their pre-pandemic (COVID-19) levels. Global mineral prices are supported by sustained supply uncertainties posed by the Russia-Ukraine war and a global seismic shift toward green energy.

Furthermore, so far in the 2HY23 the nation is enjoying improved domestic electricity production relative to 1HY23. If sustained, the moderation of ZWL depreciation witnessed so far in 2HY23 can exert positive economic spillovers. These spillovers include curtailing currency depreciation-induced income inequalities, boosting consumer demand, increasing market confidence, encouraging savings & investment, and maintaining international competitiveness.

Real GDP Growth Outturn and Projections (%)



Source: *Ministry of Finance & Investment Promotion*

However, Zimbabwe is facing numerous risks that may undermine economic activity. These risks include the likely persistence of exchange rate and commodity price volatilities which will adversely affect revenue collection, service delivery, and debt servicing costs. There are also revenue risks posed by reduced tax compliance, rampant corruption & impunity, and rising economic dollarization which breeds informality & tax evasion.

More so, there are lingering post-electoral risks being posed by the August 2023 disputed election results. These post-electoral risks include among others deep societal polarization, politically motivated violence & conflict, disruptive partisanship, elevated white-collar corruption in government, poor service delivery, plunder of natural resources, and capital flight. In the end, these may exert a negative bearing on international relations & cooperation, foreign direct investment (FDI), official development assistance (ODA), and the ongoing Adessina-Chissano-headed high-level structured dialogues with creditors.

In addition, even though electricity production has improved so far in the 2HY23 as alluded to earlier, hydro output from Kariba Dam is facing serious threats from dwindling dam water levels.

Also, there are limited investments in the energy sector from the private sector and frequent breakdowns of aged Hwange thermal plants (Units 1-6) are increasing thermal production costs thereby constraining thermal output. The debt owed to regional foreign electricity suppliers is rising which may end up affecting Zim's capacity to import electricity to augment output produced locally. If this holds, minimal power rationing schedules being currently experienced across the nation will likely worsen and cripple economic activity.

More so, there is a high likelihood of expenditure risks emanating from elevated interest rates, structural budget rigidity, and limited fiscal space. Again, for an agro-based economy that is too dependent on rainfall like Zimbabwe, the latest projections of El Nino weather conditions (normal-to-below-normal rainfall patterns) for the upcoming 2023/24 summer cropping season will likely spell disaster – crop failure, high food prices, and increased food insecurity. As such, there are high chances of above-average fiscal spending in the 2HY23 and beyond as the government will be compelled to cushion the economy and citizens from likely drought conditions. Typically, elevated fiscal spending increases ZWL liquidity thus threatening the stability of the ZWL and ZWL market prices. Last but not least, negative spillover effects emanating from deteriorating geopolitical tensions which are being fueled by the unending Russia-Ukraine war may lead to increased geoeconomic fragmentation, higher input prices, and global supply chain dislocation.

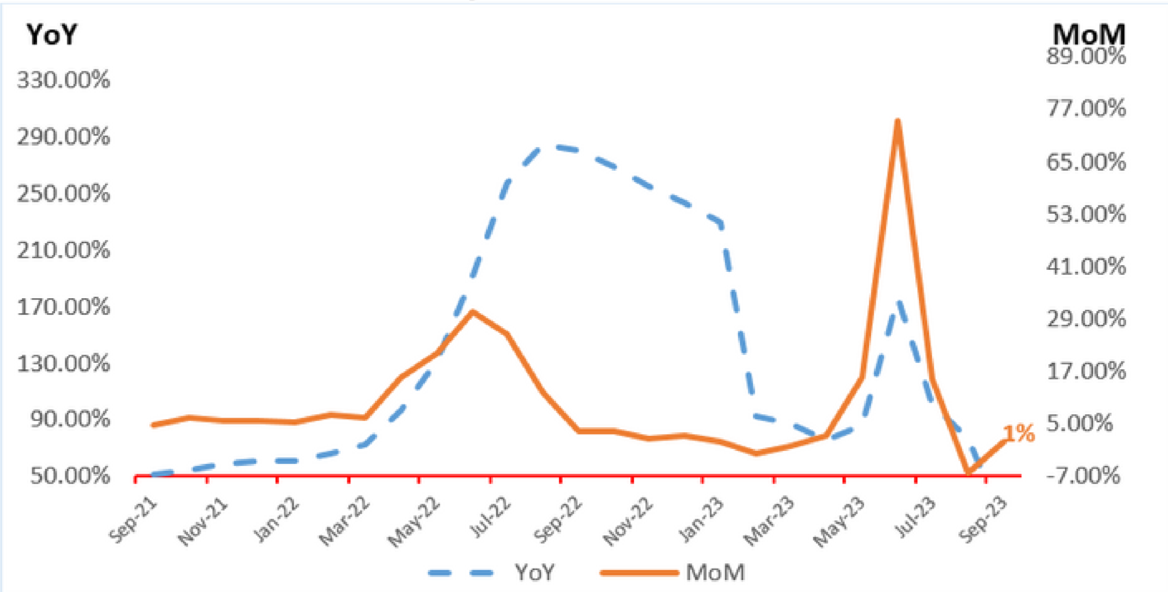
As such, the mitigation of 2024 budget risks will require political dispute resolution, strengthening of existing legal & regulatory frameworks, capacitation of all oversight & accountability institutions to curb leakages, increased domestic resource mobilization (DRM), diversification of the economy (value addition & beneficiation), provision of quality, affordable & accessible public services, strengthening of social safety nets, engagement & re-engagement with the global community, and implementation of robust reforms to strengthen democracy, improve government efficiency, and subdue pricing distortions prevailing in the market.

2.4 Blended Inflation Statistics Are Masking ZWL Inflation Tax

In the week under review, the Zimbabwe National Statistics Agency (ZimStat), released September 2023 inflation statistics. These statistics show that from a year-on-year perspective (Sept 2022-Sept 2023), prices increased by 18.4%, a great moderation from 77.8% realized in the previous period (Aug 2022-Aug 2023). From a month-on-month perspective, prices slightly increased by 1% in September (Aug 2023-Sept 2023), up from -1.3% (deflation) realized in August (July 2023-Aug 2023).

The significant moderation of inflation in the month under review largely emanated from a change in the methodology of calculating blended inflation.[2] ZimStat has now shifted from using arithmetic aggregation of indices to geometric aggregation on the pretext that the former methodology follows an index with a higher magnitude, instead of the one with the higher weight. In its latest consumer spending survey, the statistics agency found that 80% of transactions in the economy occur in USD whilst the remainder (20%) is in ZWLs.

Zimbabwe Annual and Monthly Inflation Trends



Source: *ZimStat*

However, regardless of what methodology is followed in calculating blended inflation, it remains the public's view that combining ZWL & USD prices gives a misleading picture. The USD is a stable currency thus it exerts a stabilizing effect on the overall weighted average (blended inflation) thereby masking the actual cost of living incurred particularly by households earning in ZWLs. A glance at Reserve Bank of Zimbabwe (RBZ) statistics shows that since the turn of September 2023, the ZWL has shaved at least 15% of its value against the USD in both the official and alternative markets. The perpetual ZWL fragility is helping sustain incessant ZWL inflationary pressures thus forcing ZWL prices to stabilize at higher levels beyond the reach of many. This occurs at a time when the balance of risks to the economic outlook is expected to remain tilted to the downside. As highlighted earlier, the outlook period will likely experience increased debt distress, post-electoral risks, climatic shocks, high fuel prices, electricity shortages, and deteriorating global geopolitical tensions, among other risks.

2. Blended inflation is a weighted rate of inflation bringing together both the ZWL denominated transactions & USD denominated transactions.

To cushion the economy and vulnerable groups, fiscal spending will balloon thus increasing ZWL liquidity in the economy. In turn, this will likely further destabilize the ZWL exchange rate, fuel ZWL inflation, widen societal inequalities, and deepen poverty in the coming months. To date, over 50% of the population is estimated to be entrenched in abject poverty. Despite this growing concern, the use of blended inflation statistics by ZimStat will largely mask the actual inflation tax borne by ZWL earners and further erode market trust in the government & its institutions. It is the public's conviction that to hold the monetary authority (RBZ) accountable, ZWL inflation must be measured separately and shared widely with all stakeholders. Generally, the success of a central bank is measured by the performance of the local currency and the level of inflation. Blended figures largely include the USD, a currency which the RBZ has no significant control over.

3. Articles for Further Reading

3.1 The Hallmark of The Second Republic: Deep-State Politics and Economies of Affection

Public policy is the continuation of politics by other means. Public policy is not immune to politics neither directly nor indirectly. Thus, for the past 30 days, the government has been enacting policies that fit squarely under deep-state politics and economies of affection. Policies that emanate from this dimension are largely informed by the vested interests of individuals who have the power and ability to capture the state under the guise of development and indigenization.

A perfect example of such a policy that promotes individual interest rather than national interest is Statutory Instrument 156 of 2023, a legislation that changes the name of the Sovereign Wealth Fund (SWF) to Mutapa Investment Fund (MIF). While efforts are already underway to sanitize this, more questions than answers have been boggling the minds of citizens, academia, and even some policymakers. The intention of the renaming of the SWF to MIF is far from a national development and growth initiative and closer to personal wealth accumulation and abuse of public funds. This is so because the renaming itself has the potent of undermining prudent public resources management by ceding more power to individuals connected to the highest echelons of power. In establishing this fact, it is imperative that one examine the definition of the two, SWF and MIF.

SWF denotes a "state-owned investment fund" that invests in financial securities such as bonds, stocks, real estate, gold, and various businesses. The funds from the SWF come from surplus, excess cash flows, state-owned natural resources, and bank reserves that may accumulate from budgeting excesses to mention but a few.

The primary objective of the SWF is to generate capital, revive state-owned enterprises, and stabilize the economy.[3] While the acceptable investments in each SWF differ from country to country, the government retains full control and autonomy of the fund and remains transparent and accountable to the citizens. At the same time, MIF is derived from the term Investment Fund, a term that is used to describe a pool of resources generated by multiple investors to purchase securities collectively while maintaining ownership and control of their shares.[4] Thus, in a way an attempt to usurp public funds for self-enrichment.

Absolute Power

Statutory Instrument 156 of 2023 gives the President absolute power to appoint the Chief Executive Officer, the Chief Investment Officer as well as the eight members of the MIF Board. Prior to the amendment, the Minister was responsible for appointing the eight board members. Thus, the new amendments cede too much power to the President even though the SI 156 of 2023 stipulates that the appointments are done in consultation with the Finance Minister. Nonetheless, the diction used in the SI 156-2023 is clear that the President only consults and is not bound by the minister's recommendations. At the same time, vested interests, economies of affection, and party-state conflation automatically make the consultation a rubber stamp. Utilizing the power dynamic matrix analysis, it is crystal clear that the one who appoints the minister has the power to remove the appointee. Therefore, whether in consultation or not, the minister cannot afford to disappoint the one who has appointed him/her.

Usurping of Parliamentary Oversight

In addition, SI 156 of 2023 usurped the oversight role of Parliament in a bid to entrench opaqueness in the operations of the MIF. The Parliament functions as an ombudsman and oversight institution that scrutinizes government utilization of public resources to deter malfeasance and underground dealings. It also works as an institution that furnishes the public with the granular details of government expenditures and policies. Therefore, SI 156 of the 2023 amendments is not only creating a conduit pipe of looting but also engraining plutocracy and oligarchy. This is because SI 156 of 2023 mandates the MIF to table its quarterly financial reports to the Minister and President and not Parliament. A move that puts a veil on Parliament with respect to the optimum utilization of resources by the MIF.

Enhanced Opaqueness

All employees and members of the MIF are to be bound by the Official Secrecy Act (Chapter 11:09). This is facilitated by an amendment of Section 28 that seeks to ensure that the preservation of secrecy is guaranteed. The amendment reads,

3. https://www.bing.com/search?q=sovereign+wealth+fund+meaning&qs=SS&pq=sovereign+wealth+fund&sk=SS1&sc=6-21&cvid=05DFA68163794FA88E2178D55286D4EF&FORM=QBRE&sp=2&ghc=1&lq=0&showconv=1
4. https://www.bing.com/search?q=sovereign+wealth+fund+meaning&qs=SS&pq=sovereign+wealth+fund&sk=SS1&sc=6-21&cvid=05DFA68163794FA88E2178D55286D4EF&FORM=QBRE&sp=2&ghc=1&lq=0&showconv=1

"Except for the performance of his or her duties or the exercise of his or her functions or when lawfully required to do so by any court under the provisions of any law, no member of the Fund or employee or agent of the Fund shall disclose to any person any information relating to the affairs of the Board or Fund or any person which he or she has acquired in the performance of his or her duties or the exercise of his or her functions."

Possible Money Laundering and Externalisation

SI 156 of 2023 gives absolute powers to the MIF to free, unrestricted, and externalization of foreign currency. A scenario that raises a lot of questions with respect to money laundering given the fact that the paper trail of the MIF cannot be disclosed to the public. In addition, given Zimbabwe`s history of externalization of funds and looting it is rather worrying that this facility might be greatly abused. Thus, it is for the enrichment of the few rather than the whole country.

Connecting The Dots

Whilst the public was still engulfed with the debates about SI 156 of 2023, the government pulled another shocking move through General Notice 1546 of 2023, which exempted all the entities that are under the MIF from being put under the spotlight of the Public Procurement and Disposal of Public Assets Act (Chapter 22:23). These entities include ZUPCO, Kuvimba, Cold Storage Commission, NRZ, NetOne, Defold Mine, Telecel, Power Tel, Hwange Colliery, Cottco, Zimbabwe Power Company, Petrotrade, Powertel, Allied Timbers, Air Zimbabwe and Industrial Development Corporation. Therefore, this deliberate move by the government is meant to ensure that all the operations of the MIF remain unknown to the public thereby creating a fecund environment for large-scale looting.

3.2 A New Dawn for Gimboki Residents.

Gimboki is a new community that was established because of the rapid urbanization in Mutare and the increase in rural-urban migration brought on by economic challenges. Since the community's establishment, service delivery has been a major challenge that people face. With a population of around 30,000 in 2021, with no school, hospital or even a police station to service the community; the establishment has lacked essential services. Children would walk a distance of more than 5km to access schools in other communities such as Dangamvura and Hobhouse.

However there have been some improvements recently with some effort to address the situation. The city of Mutare has finished the construction of ECD blocks at Gimboki Primary School to improve the quality of life for residents and children in the community. Gimboki Primary is the seventh City of Mutare-run school that the local authority has opened in Mutare.

The 2024 registration process for ECD to Grade 2 classes has begun and it is being done at Chirovakamwe Primary School. Most children in the Gimboki community were failing to access early childhood learning hence delaying the start of their educational career as they could not travel many kilometres to access education from other neighbouring communities.

The finished classrooms (4) will at least accommodate 500 students from the community hence young learners no longer have to go to Dora and Dangamvura to access education. The completion of Gimboki Primary School has become an indication of an improved relations between duty holders and rights holders in Mutare. Zimbabwe Coalition on Debt and Development has played a pivotal role in bridging the gap by providing platforms such as Constituency Indabas as well as providing budget literacy training for residents to ensure effective and active participation in local and national budget formulation processes.

The recently completed Gimboki Primary School in Mutare.

Active citizen participation has emerged as a key principle in ensuring that decision-making processes are open and accountable and reflect the community's needs and aspirations. When citizens actively participate in local development, it fosters a sense of ownership and empowerment within the community. This sense of ownership encourages citizens to actively shape their future so to render them a voice in maters that affect them.

3.3 What Gender Equality could look like in Zimbabwe.

The constitution of Zimbabwe in Chapter 17 (a) guarantees the right of every citizen to live in an inclusive society. It reads: "The State must promote the full participation of women in all spheres of Zimbabwean society on the basis of equality with men…" In the National Development Strategy 1 (NDSI) (2021-2025), the government also commits to inclusion by mainstreaming gender equality in executing this blueprint.

Furthermore, Zimbabwe has ratified various international conventions on inclusion chief amongst them being the 1979 Committee on the Elimination of Discrimination Against Women and Girls which emphasizes the need for a just and equal society. But many decades later, the country continues to fall flat on efforts to ensure an inclusive society where females are allowed to freely exist and thrive. But what does equality look like?

The August elections were a good reality check, particularly for the anti-feminist groups who believe that women have already achieved equality with men in all spheres of life. Statistics will prove that since the adoption of the women's quota system, there has been a large decrease in the number of women directly elected to Parliament, with only 11% of this year's candidate list being females[i]. The women's quota system is a good example of another solution made without the full participation of the direct victims of the problem wanting to be addressed. There have been reports of sextortion on the basis of women wanting to be added to their parties' list for the women's quota[ii]. This is one of the realities that the quota has created for women, a system where their voices are taken away from them and their fate is in the hands of men, leaving them vulnerable to any abuse and disempowerment along the way.

Rwanda's women's quota system is structured in a way that allows women to equally campaign and be directly elected by citizens through the voting system. Again, this is done on a strictly 50/50 basis where constituency seats are shared equally between female and male candidates, and each is allowed to freely contest. For instance, in a province like Bulawayo with twelve (12) constituencies, six would automatically be for female candidates and the other for males. This is what true equality in political and leadership spheres should look like.

The majority of the country's employed population is in the informal economy. Research shows that the largest group in this sector are women constituting about 88%. While women perform roles of being financial providers, because of the patriarchal nature of our society, are also expected to perform traditional duties. Traditional duties include giving birth, giving primary care to the family, and doing house chores. This leaves them with little or no time to participate in decision-making platforms or governance issues. For example, in Bulawayo on election day, some women had to choose whether to keep queueing for ballot papers or go back home to look for water. Women should not have to choose between these two. If males equally bear the burden of house chores and primary care, it will give women an equal opportunity to effectively participate in conversations shaping communities. This is what equality looks like in societal terms.

i. https://www.aljazeera.com/features/2023/8/22/another-zimbabwe-election-cycle-reveals-decline-of-women-in-politics#:~:text=In%20the%20National%20Assembly%2C%20there,from%2014%20percent%20in%202018
ii. https://kubatana.net/2021/03/27/male-politicians-using-quota-system-to-abuse-women/

In women's workplaces, equality could look like local authorities building market spaces that not only protect women from harsh weather elements and provide them with dignity but also ensure the marketplaces are children-friendly. Women should be able to take their babies to work knowing that baby-changing and lactating areas are available. They should also be able to do this knowing that there are nearby parks where their children can safely play or that their market stalls are big enough to allow their children to move and play around. In the natural resource sector, equality could mean, the reduction of land and mining licenses and an end to sextortion and other forms of violence.

Gender equality in all spheres of society ensures that everyone in a community has equal access to opportunities for self-growth therefore every person is able to effectively contribute to the development of the community. The most developed countries in the world know this secret, so why can we not follow suit?