MONTHLY ECONOMIC REVIEW

JULY 2023

Zimbabwe Coalition On Debt And Development

ZIMCODD

INVESTING IN PEOPLE FOR SOCIAL AND ECONOMIC JUSTICE

1. INTRODUCTION

Zimbabwe experienced currency and price stability in July 2023 after a cocktail of economic stabilization measures was instituted by authorities between early May 2023 and early June 2023. In the July issue of the Monthly Economic Review, we track and analyze the performance of key economic indicators as well as a selected sectoral review to gauge if the stability experienced is going to be sustainable or not and proffer some policy alternatives that can help bring durable economic stability in Zimbabwe.

2. ZIMBABWE ECONOMIC OUTLOOK

Table 1: Zimbabwe Real GDP Growth (%)

Industry	2019	2020	2021	2022
Agriculture	-10.4%	4.1%	17.5%	6.2%
Mining	-1.8%	0.2%	5.9%	10.5%
Manufacturing	-10.8%	-18.5%	1.2%	1.6%
Electricity supply	-26.7%	-6.3%	33.9%	3.5%
Water Supply	-5.5%	1.9%	12.7%	1.7%
Construction	-1.3%	4.9%	3.5%	2%
Wholesale & Retail Trade	-6.1%	-10.1%	8.1%	4.6%
Transportation & Food Service	-25.5%	-30.2%	8.5%	6.6%
Accommodation & Food Service	-6.3%	-61%	38.5%	23.7%
Information & Communication	-9.2%	8.9%	9.8%	14.1%
Finance & Insurance	-1.5%	11.9%	3%	15.6%
GDP at Market Prices	**-6.3%**	**-7.8%**	**8.5%**	**6.5%**

Source: *Zimbabwe National Statistics Agency (ZimStat)*

- ZimStat estimates that national output (GDP) has grown by 6.5% in 2022. For 2023, Treasury is now projecting GDP to register a 5.3% growth, up from the initial projection of 3.8%.
- The revised 2023 growth rate is on account of strong performance in agriculture (9.7%), ICT (4.9%), accommodation & food services (20.5%), and improvements in electricity supply following synchronization & commercialization of 600MW Hwange Unit 7&8.
- Zimbabwe's GDP is benefiting from elevated global mineral commodity prices due to increased demand for green energy-supporting minerals, particularly in advanced nations as well as high prices from supply uncertainties posed by the Russia-Ukraine war.
- Also, for a rainfall-dependent Zimbabwe, the 2022/23 agriculture season benefited from good rainfall patterns experienced across many parts of the country as well as timely distribution of farm inputs under the Pfumvudza/Intwasa Scheme.
- However, the projected growth rates highlight the dangers of relying on GDP as a measure of economic growth & development (living standards). It might be true that GDP is growing but the majority of citizens and communities are being left behind.
- For instance, GDP mounted by 6.5% in 2022 at a time the local currency lost 13% of its monthly value against the USD while inflation has averaged a staggering 184%. In 1HY23, the ZWL lost more than 80%. This has plunged most citizens into extreme poverty.

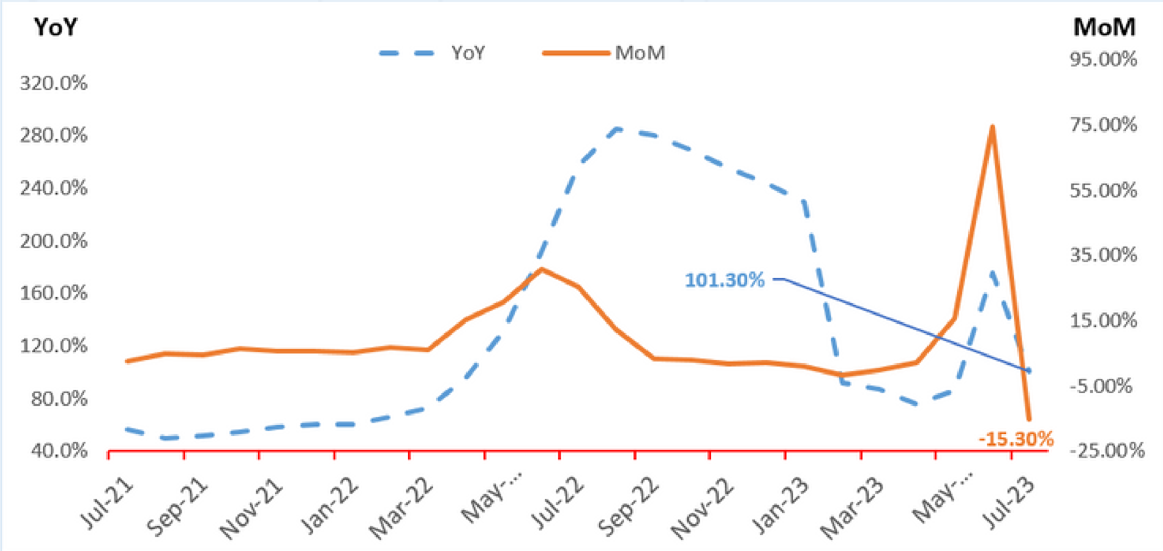
- As such, authorities must endeavor to achieve economic growth that is stable, inclusive, and sustainable. This will require adequate political will to institute robust reforms to improve fiscal and trade justice in Zimbabwe.

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 I: Zimbabwe Monthly & Yearly Inflation Trends (%)



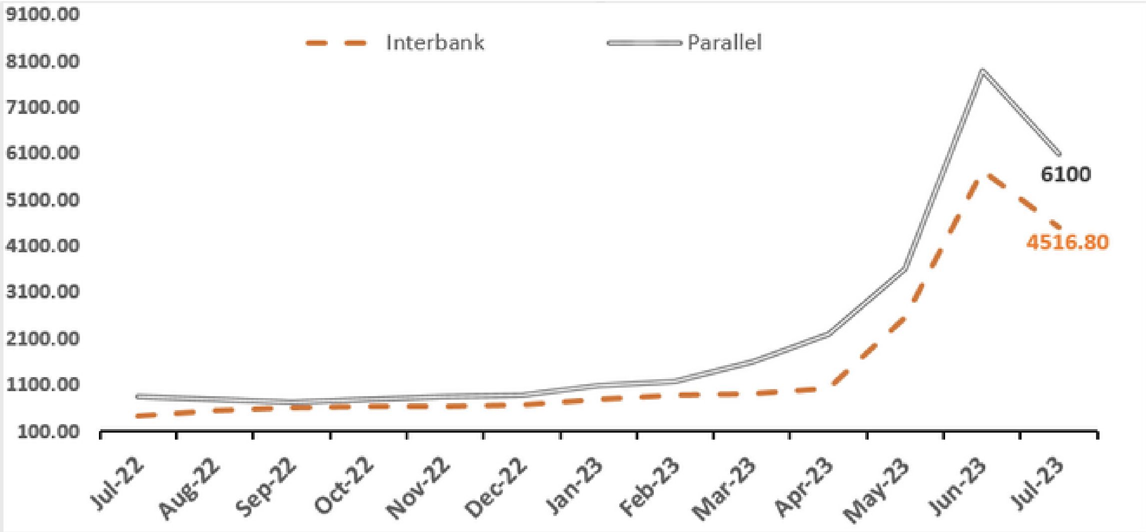
Source: *ZimStat*

- In February 2023, ZimStat adopted blended CPI which measures the combined price changes of goods and services in both the 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 at 101.3% in July down from 175.8% recorded in June 2023 – consumer purchasing power has fallen by more than 100% between July 2022-July 2023.
- 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 fine-tuning the interbank market to improve ZWL price discovery, reducing RBZ quasi-fiscal activities, 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 remained exorbitantly high and beyond the reach of many. A family of six (6) required a whopping ZWL2.6 million to be considered not poor, up 4% from ZWL2.5 million estimated in June 2023.

- Be that as it may, we expect the growth of ZWL prices to continue to moderate in the coming month if ZWL liquidity positions remain tight.

3.2 EXCHANGE RATE

Fig 2: Official and Parallel Market Exchange Rates



Source: *RBZ, ZIMCODD*

- ZWL closed July 2023 trading at ZWL/USD 4516.80 in the Willing-Buyer Willing-Seller (WBWS) interbank market, gaining about 27.1% from ZWL/USD 5739.80 end of June.
- In the alternative markets, the ZWL sailed stable. It gained about 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 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.
- As such, 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 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.

3.3 EXTERNAL TRADE

Fig 3: Zimbabwe External Trade Performance (US$ millions)

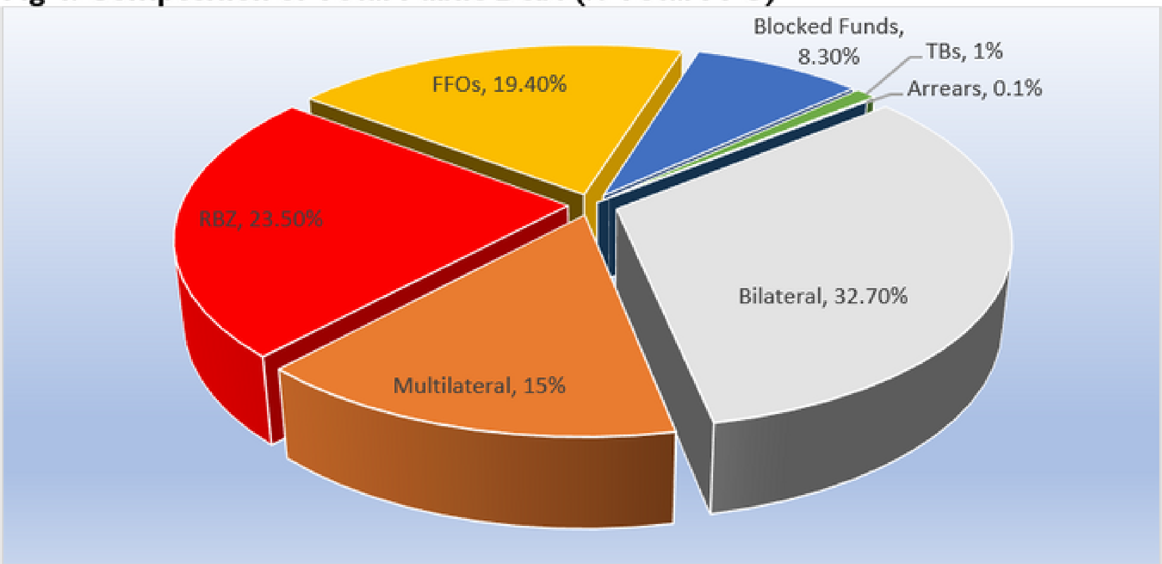
Source: *ZimStat*

- ZimStat data show that Zimbabwe imported merchandise worth US$726.4 million in June 2023, down 14.6% from US$851 million in May 2023. Merchandise exports for June 2023 came in at US$641.3 million which is lower than US$654.21 million realized in May.
- Cumulatively, Zimbabwe's merchandise exports in the first half of 2023 (1HY23) were US$3.23 billion (US$3.18 billion in 1HY22) while merchandise imports were US$4.29 billion (US$4.07 billion in 1HY22).
- Overall, the Jan-June 2023 period witnessed a staggering trade deficit of about -US$1.06 billion which is 19.1% higher than a deficit of about -US$0.89 billion realized for the same comparable period in 2022.
- The widening trade deficit in the 1HY23 is linked to relatively high global crude oil prices when Zimbabwe faced increased fuel demand due to prolonged electricity load shedding. Also, as alluded to in the June issue[1], the increased use of the USD in the economy is further fuelling the deficit.
- For the outlook period, we expect the suspension of import duty on basics, deepening dollarization, global interest rate uncertainties, oil production cuts by the global oil cartel (OPEC+), Russia-Ukraine war spill overs, fragility of the local currency, erratic domestic electricity generation, and chronic price inflation to worsen the external trade balance.
- Unsustainably high trade deficits harm developing nations like 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.

1. https://zimcodd.org/?sdm_process_download=1&download_id=6514

3.4 Public Sector Borrowing

Fig 4: Composition of Total Public Debt (% Total PPG)



Source: *Zimbabwe Public Debt Management Office (ZPDMO)*

- ZPDMO statistics indicate that total Public and Publicly Guaranteed (PPG) debt surged by 2.4% between September 2022 (US$17.6 billion) and December 2022 (US$18.03 billion).
- In annual terms, total PPG debt mounted by 4.8% from US$17.2 billion reported as of the end of December 2021. Of the total PPG debt, external debt constitutes 71.2% (US$12.8 billion) while domestic debt constitutes the balance of 28.8% (US$5.2 billion).
- This total PPG debt constitutes about 99.6% of the 2022 GDP which contravenes the provisions of the Public Debt Management (PDM) Act requiring a debt-to-GDP threshold of 70%.
- As such, this high ratio indicates that Zimbabwe is trapped in debt distress. Statistics show debt arrears and penalties constituting about 52.1% of total external PPG debt or 78% of combined bilateral and multilateral creditors estimated at US$8.59 billion.
- A huge debt stock has directly damaged Zimbabwe's capital inflows and led to a vicious debt cycle – the cycle of continuous borrowing, accumulation of payment burden, and eventual default.
- This debt cycle is also greatly affecting the government's flexibility to react to adverse events at a time the globe is experiencing seismic shifts in climatic conditions as natural disasters have become more frequent and severe.
- More so, unsustainable debt is greatly undermining social spending as public resources are being channelled toward debt servicing.

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 2: July 2023 Domestic Electricity Tariffs Changes (ZWL/kWh)

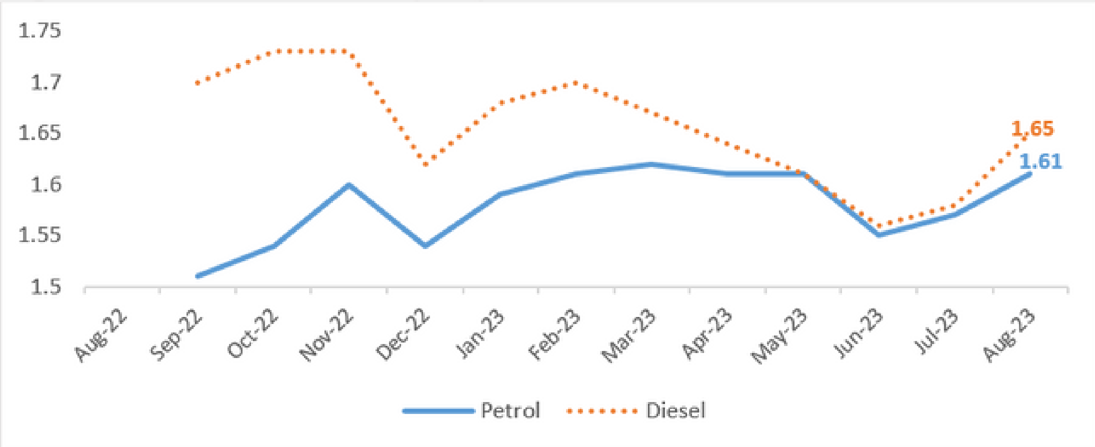
Units	Total Amount		Units	Total Amount	
	June	July		June	July
50	1,680	7,190	450	63,060	253,750
100	5,040	21,550	500	73,140	294,450
150	10,930	45,500	600	93,320	375,850
200	16,815	69,450	700	113,490	457,218
250	25,230	102,950	800	133,660	538,600
300	33,640	136,450	900	153,840	620,000
350	43,310	174,750	1000	174,000	701,450
400	52,970	213,050	-	-	-

Source: *Zimbabwe Electricity Supply Authority (ZESA)*

- ZESA increased domestic electricity tariffs on 31 July 2023 as shown in Table 2. A close analysis of data from ZESA shows that the Agriculture 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 when salaries for the working class particularly public servants remained largely stagnant, the data shows that Zimbabwe has the lowest tariff in the Southern Africa Development Community (SADC) region.
- At the official rate of ZWL/USD 4,516.80 in July, domestic users are 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$0.80/kWh).
- To promote the use of ZWL in the economy as well as protect poor households from ongoing rapid dollarization, authorities have directed ZESA to bill all non-exporters 100% in local currency.
- Electricity supply has improved across the country. Domestic generation by Zimbabwe Power Company (ZPC) has improved significantly due to the successful synchronization of Hwange Unit 7&8 with a combined installed capacity of 600MW into the national grid.

4.1.2 Fuel

Fig 5: Zimbabwe Fuel Prices (US$)



***Source:** Zimbabwe Energy Regulatory Authority (ZERA)*

- 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 June 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.
- Although motorists have reservations about the quality of domestic 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 also 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 while that of diesel was decreased from ZWL$9,200.03 to ZWL$7,492.63. The ZWL fuel market, however, for the public is now non-existent.

4.2 Agriculture

Table 3: 2022/23 Agriculture Performance

Sub-industry	Contribution
Crop production; horticulture	80.5%
Livestock Production	14.6%
Hunting	0.2%
Forestry and logging	2.9%
Fishing and aquaculture	1.8%
Total	**100%**

Source: ZimStat

- The 2022/23 agricultural season has performed impressively, with the growth in maize output up 58% to 2,298,281 metric tonnes (MT) from 1,453,031 MT produced in the 2021/2022 season. Zimbabwe's annual cereal requirement is estimated at 1.9 million MT for human consumption and about 450,000 MT for livestock.
- Again, traditional grain production is estimated at 280,966 MT, 45% up from 194,100 MT produced in the 2021/2022 season. Other grains are as follows:
  1. Sorghum production is estimated at 191,125 MT, which is 32% higher than 144,633 MT obtained in the 2021/2022 season.
  2. Pearl millet production is estimated at 71,221 MT, which is 61% more than the 44,143 MT produced in 2021/2022.
  3. Finger millet production is estimated at 18,610 MT, which is a 250% increase from 5,321 MT produced in the 2021/2022 season.
- This performance is attributable to good rainfall patterns received in many parts of the country. Zim is a rainfall-dependent nation with about 5% of arable land under irrigation. Zim now targets to put 350,000ha under irrigation by 2025 from the current 193,000ha.
- However, this year Zimbabwe and other SADC nations are expected to experience the El Niño weather phenomenon[2] which will cause below-average rainfall and above-average temperatures leading to heatwaves and will likely persist until February 2024.[3]
- These forecasts would affect the region's planting seasons, increasing the possibility of hardened drought conditions and affecting the country's crop production, livestock, and food security.
- In 2015-16, an El Niño-driven drought affected most of Zimbabwe. Below-average rainfall led to crop failure, increased food prices, and heightened levels of food insecurity.

4.3 Mining Sector

Table 4: 2022 Mining Sector GDP Contribution

Category	Contribution
Mining of coal & lignite	5.2%
Mining of metal ores	78.1%
Other mining & quarrying	8.6%
Mining services	8.1%
Total	**100%**

Source: *ZimStat*

- The mining sector is Zimbabwe's top export revenue generator, contributing about 70% on average per annum in the last decade. The sector grew by 10.5% in 2022, up from 5.9% realized in 2021.
- Latest June 2023 statistics from ZimStat show gold topping export generation, contributing US$194 million followed by nickel mattes (US$110 million), tobacco (US$57m), nickel ores & concentrates (US$51m), and ferrochrome (US$28 million).

2. This is a natural climate pattern occurring every few years when the Pacific Ocean warms up.

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

- As we highlighted in the June issue, global prices of many mineral commodities have largely benefited from the supply uncertainties posed by the Russia-Ukraine war and increasing resource nationalism.
- Also, minerals and metals used in clean energy technologies like platinum, lithium, nickel & rare earths are witnessing increased global demand due to the ongoing seismic shift toward green energy led by advanced nations.
- However, Zimbabwe is not fully benefiting from its mineral resource base as 95% of mineral exports are unprocessed. This is tantamount to exporting jobs overseas and raw minerals fetch low global prices (selling precious minerals for a song).
- Also, because of her high indebtedness, Zimbabwe is contracting resource-backed loans (RBLs). These RBLs are leading to unsustainable resource extraction.
- In addition, the existing archaic mining legislation has many loopholes leading to a weak regulatory framework, politicization of mining decision-making, inadequate due diligence procedures, and poor trading, marketing & traceability of minerals among others.

5. Conclusion

July 2023 witnessed increased ZWL and price stability as the government instituted a cocktail of policy measures to tame severe instability experienced in May and June 2023. However, these policy measures must be buttressed by the swift implementation of political and economic reforms otherwise they won't be sustainable. The reforms are crucial in building national consensus, strengthening democracy & civic engagement, improving government efficiency, fostering stability, and increasing market competition and innovation.

6.Policy Recommendations

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

Political Will

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.

RBZ Independence

The RBZ must be able to make monetary policies that are not dictated by political considerations. This gives monetary policy credibility which is key in reducing inflationary expectations.

Diversify the Economy

The economy must be shifted away from a single income source toward multiple sources from a growing range of sectors and markets. This helps to manage volatility and provide a more stable path for equitable growth and development.
(GDP).

Value Addition and Beneficiation

All 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, develop infrastructure, and grow national output (GDP).

Climate-smart Agriculture

Zimbabwe must embrace climate-smart agriculture (CSA) which is an integrated approach to managing landscapes (cropland, livestock, forests, and fisheries) that addresses the interlinked challenges of food security and accelerating climate change. So, CSA will help increase productivity, enhance resilience, and reduce emissions.

Domestic Resource Mobilization (DRM)

Zimbabwe must make better use of and maximize existing natural resources rather than relying on borrowing. This will allow it to fund its own development goals, finance gender-responsive public services, and reduce economic, social, and gender inequalities. DRM will provide a long-term path to sustainable development finance.

Stakeholder Engagement

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 policy ownership.

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, Treasury must increase the USD salary component for civil servants and adopt indexation of the ZWL salary component to the interbank to cushion workers from adverse exchange rate movements.

Public Borrowing

Cheap alternatives to debt accumulation such as domestic resource mobilization (DRM) must be pursued while debt audits must be carried out regularly. The nation must also develop and stick to a clear debt management strategy to ensure that spending needs are met at the lowest possible cost.

Capacity building

Oversight and accountability institutions such as Parliament, OAG, and ZACC must be capacitated and given maximum autonomy to discharge their mandates.

7. Disclaimer

All information, data, and analysis provided in this May 2023 Economic Review are for informational purposes only. ZIMCODD makes no representations as to the completeness, accuracy, usefulness, timeliness, suitability, and validity, of any information provided herein. ZIMCODD will not be liable for any errors, omissions, losses, injuries, or damages arising from its use. All the information is provided on an “as is” basis without any warranties of any kind whatsoever, express or implied, and confers no rights.