Infrastructure Development Bank of Zimbabwe

MAWAZOBD

ZIMBABWE MACROECONOMIC DEVELOPMENTS Q3 2020

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1. Introduction

The COVID–19 pandemic has taken a toll on global economic growth. Global GDP is projected to decline by 4.4% in 2020. In tandem, the Sub Saharan Africa region is set to decline by 3.21%. The Zimbabwean economy is not spared as it is also projected to decline by 10.34% in 2020. However, the economy is showing encouraging signs as inflation has tapered and exchange rate has stabilised over the last two months. Government has managed to maintain fiscal discipline as the budget deficit is projected to end the year at 1.4% and employment costs are expected to be 42% of the revenue (Ministry of Finance and Economic Development). International commodity prices have remained depressed due to the COVID–19 pandemic with oil prices expected to average US $41.00 per barrel by year end and reaching US $43.8 in 2021.

2. World Economy

2.1 Overview of World Economy and Growth Prospects.

The COVID-19 pandemic has left a lot of scars in many economies leading to a global depression. The world economy is projected to decline by 4.4% in 2020 and rebound to 5.2% in 2021. The advanced economies are projected to decline by 5.8% in 2020 which is 2.3% higher than the previous forecast and firming to 3.1% in 2021. The Euro area is also expected to contract by 8.26% in 2020 and a 5.150% growth is projected in 2021. In emerging markets and developing economies, growth is projected to decline by 3.3% in 2020 and to grow by 6% in 2021. Growth prospects for China are much stronger than other countries in this group with growth projected at 1.9% in 2020 and 8.2% in 2021. The United States, Euro Area, and Sub Saharan Area are expected to decline by 4.3%; 8.3%; and 3.0% respectively, (see Table 1). The ensuing disruptions to trade, movement, cut down on investment by firms, decline in aggregate and cross-border supply chains has confined the world economy into recession.

The geopolitical tensions between the United States of America on one hand, and China and Russia on the other, is likely going to slowdown global trade. United States sanctions on China and Russia will disrupt global trade further slowing down the global growth.

Table 1: Overview of World Economic Outlook 2018 - 2021

				Year over Year %
				Projections
	2018	2019	2020	2021
World Output	**3.6**	**2.8**	**-4.4**	**5.2**
Advanced Economies	**2.2**	**1.7**	**-5.8**	**3.9**
United States	**2.9**	**2.2**	**-4.3**	**3.1**
Euro Area	**1.9**	**1.3**	**-8.3**	**5.2**
United Kingdom	**1.3**	**1.5**	**-9.8**	**5.9**
Emerging Market and Developing Economies	**4.5**	**3.7**	**-3.3**	**6**
China	**6.7**	**6.1**	**1.9**	**8.2**
India	**6.1**	**4.2**	**-10.3**	**8.8**
Sub-Saharan Africa	**3.2**	**3.2**	**3**	**3.1**
Nigeria	**1.9**	**2.2**	**-4.3**	**1.7**
South Africa	**0.8**	**0.2**	**-8.0**	**3.0**

Source: IMF (October 2020)

2.2 Sub Saharan Economic overview

Sub-Saharan Africa region recorded an estimated 3.09% growth in 2019 lower than the 2018 growth estimate of 3.23% and is expected to record a decline of 3.21% in 2020. Countries face political risks from xenophobia in South Africa, disputes between Rwanda and Uganda, Malawi and Zambia, tensions in Cameroon, instability in Democratic Republic of Congo, recurring insurgency in Mozambique, civil unrests in Nigeria emanating from protest against lockdowns and transitional pains in Angola as tension between the former President and the incumbent build. These tend to limit investments into Africa. Nigeria, Africa's largest economy, is expected to record decline of 4.3% in 2020 reflecting the continued constraints from foreign exchange restrictions, supply disruptions in the oil sector, and slow pace of reforms. However, the economy is expected to pick up by 1.7% in 2021. South African economy is expected to contract by 8%, Botswana 2%, and Zambia by 4.8%. On the brighter side, Tanzania and Rwanda are expected to register 1.9% and 2% respectively.

2.3 International Commodity Prices

The COVID-19 induced weak demand kept most commodity prices low in 2020. The worst affected were energy and metals.

The global shutdown has seen oil prices reaching record lows in April 2020 with some benchmarks trading in the negative and is expected to average US$41.00 per barrel in 2020. Monthly average crude oil prices declined by 42.5% during the period January 2020 to June 2020.

Based on the assumption that a vaccine will be discovered in 2021, a recovery in oil prices is projected. This will lift sub-Saharan economies that rely on oil for revenue. Oil prices are expected to reach an average of 43.8% per barrel in 2021 before settling at USD $48.00. For the Zimbabwean economy, as a net importer of oil, it will result in inflation pressures.

Among the metals, copper and zinc saw the largest drops, and are expected to drop by 13% in 2020. The slowdown in China and the global demand for metal weigh the prices down. During the period February and August 2020, precious metals and base metals prices have recovered by 18.2% as investors scrounge for safe havens. This recovery is expected to be carried into next year as economies recover from the global pandemic.

Disruptions to trade and distributions of agricultural inputs such as fertilizers and pesticides among others have affected the sectors yearly output. Agriculture was affected through shortages of fertilizer, pesticides, and labor. In some economies in the third world countries, there have been supply disruption of perishable products like milk, flowers, and vegetables to export markets leading to massive losses. On the outlook, agriculture commodity prices are expected to remain stable.

3. Zimbabwe Macroeconomic Developments.

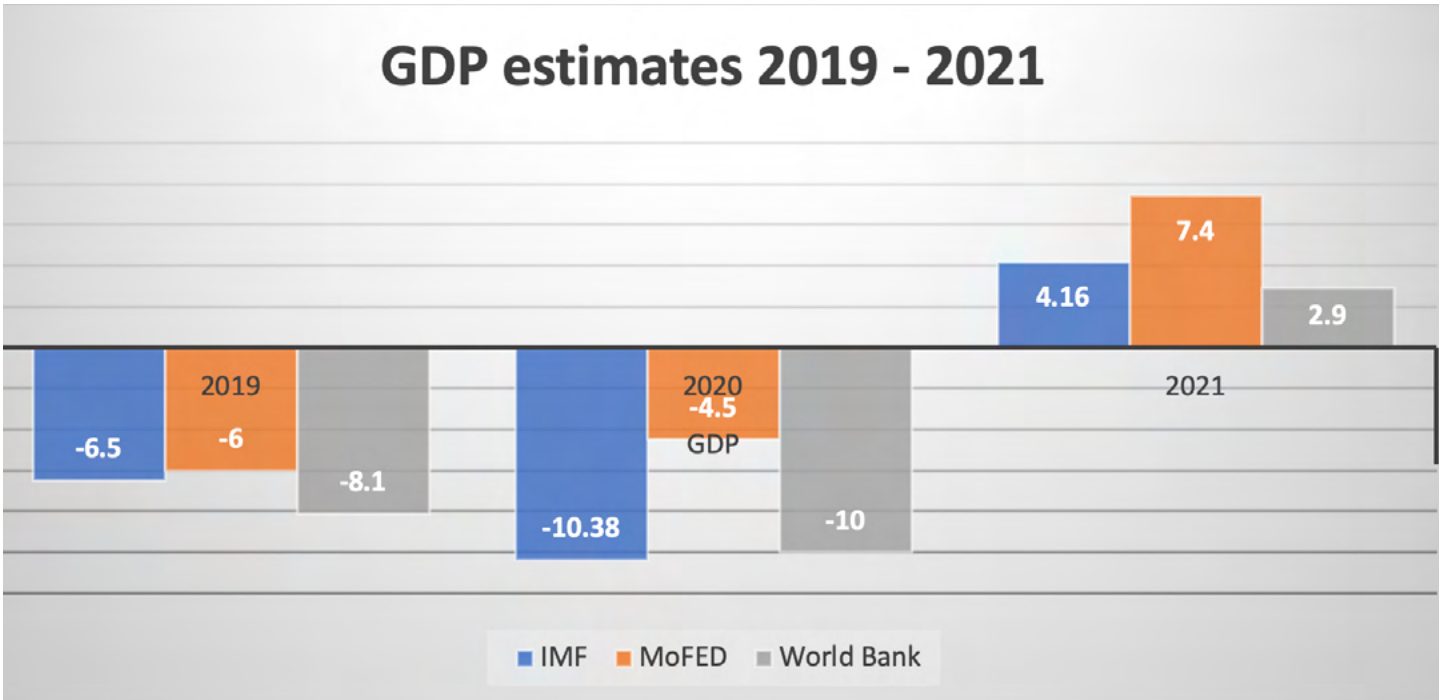
3.1 GDP Growth Prospects.

The country's GDP has been projected to contract by 4.5% in 2020. The IMF projects the country's GDP will decline by 10.38%. The downside risks to the country's economic growth are; the COVID-19 pandemic, decreased capacity utilisation, infrastructure bottlenecks that include lack of adequate clean water, electricity, and poor transport infrastructure. The vulnerability of agricultural sector to climate change in the absence of appropriate irrigation infrastructure worsen the situation. Lack of foreign direct investment, increasing sovereign debt and perceived country risk are the other major drags to economic growth.

The economy is however expected to pick up in 2021 and a 7.4% growth is projected, (see Figure 1). Growth is going to be supported by the anticipated recovery from the Covid-19 pandemic and resumption of global economic activity; good agricultural season; improved revenue collection; sustainability of the foreign currency auction trading system and exchange rate stability; tourism and trade resumption; firming in international mineral prices and improvement in the current account balance.

The downside risks include the possibility of a COVID-19 second wave and natural disasters.

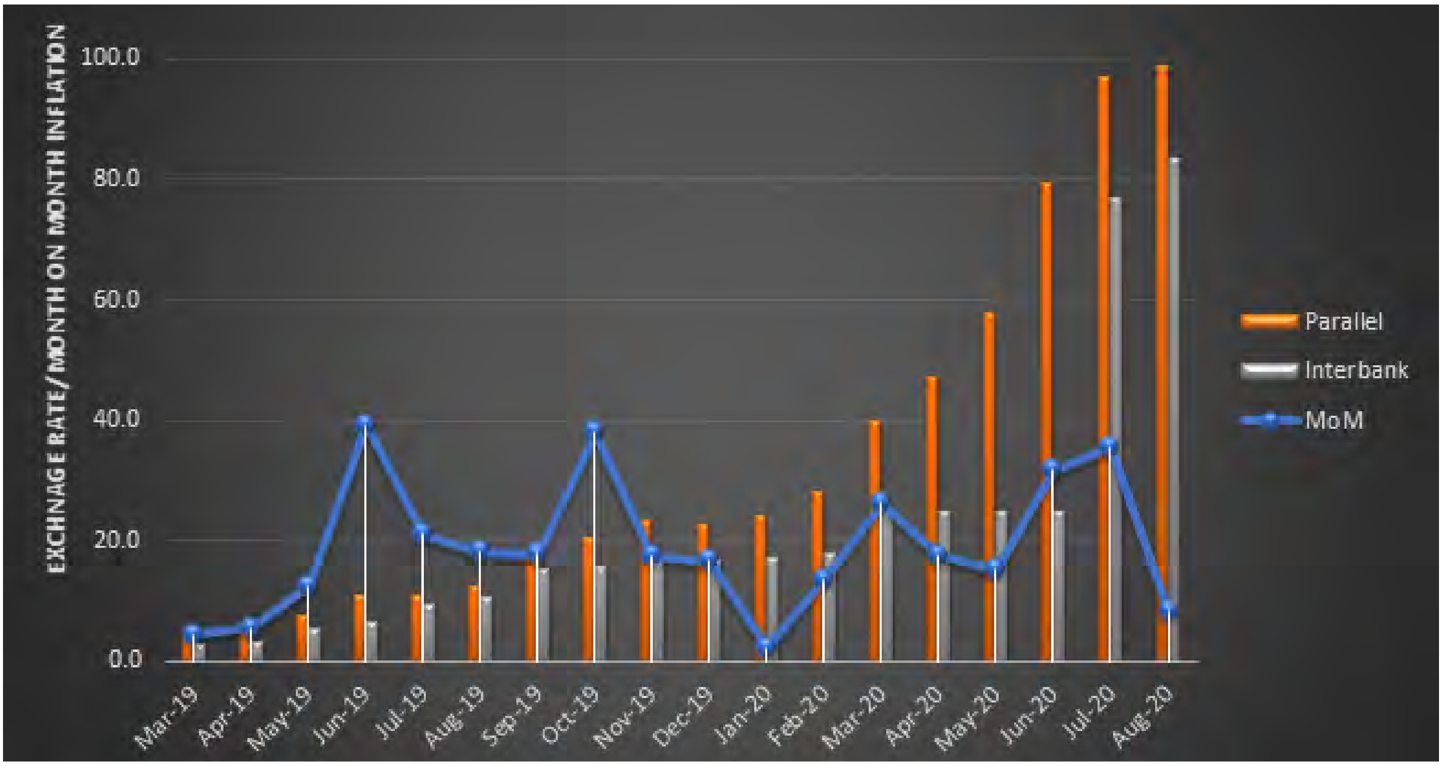
Figure 1: Zimbabwe Growth estimates 2019 - 2021



3.2 Inflation and Exchange Rates.

The foreign exchange trading auction system was introduced in July 2020 leading to a decline in Month on Month inflation from 35.5% in July to 3.8% in September 2020. Furthermore, the exchange rates stabilised over the same period, (see Figure 2). Inflation is expected to significantly slow down, with average annual inflation projected at 134%. The slowdown in inflation is attributable to exchange rate stability and curbing of money supply growth. The RBZ targets annual inflation of 50% and below 5% Month-on-Month inflation.

Figure 2: Inflation and Exchange rate trends - March 2019 - September 2020



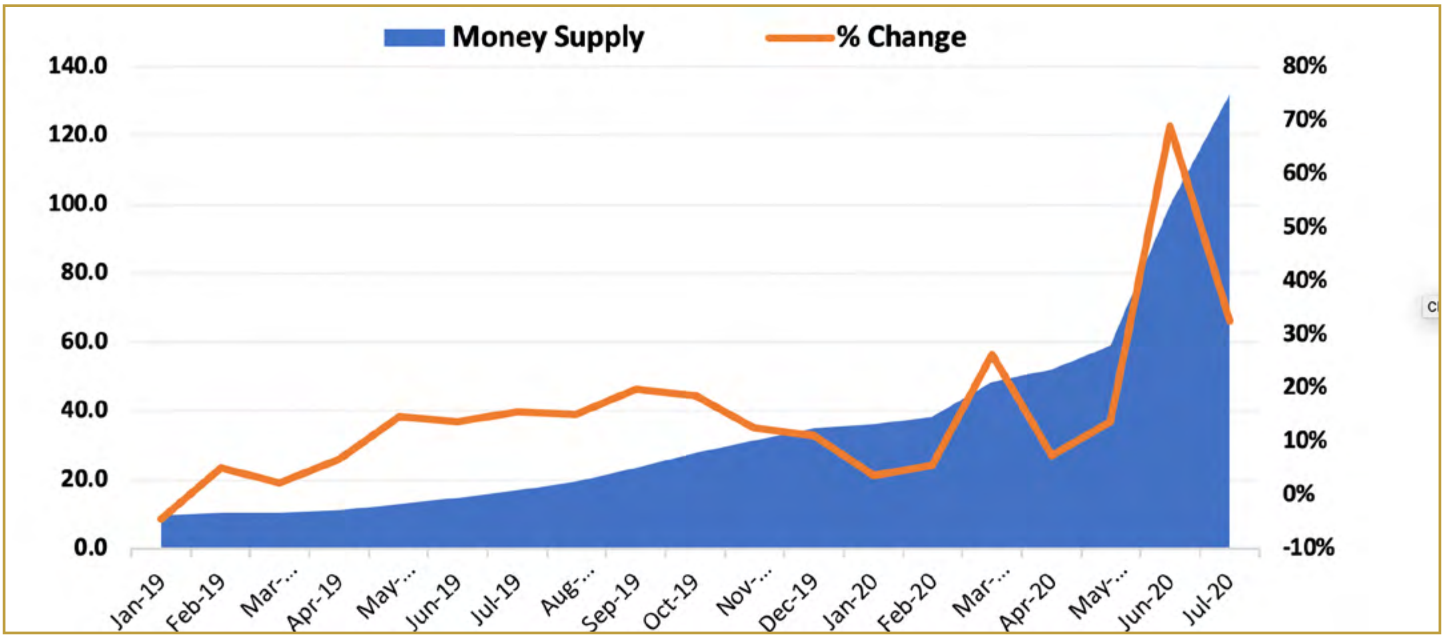
Source: Reserve Bank of Zimbabwe & ZIMSTAT 2020

3.3 Money Supply

Year-on-year money supply grew by 277% as at July 2020 to reach Z$ 132.2 billion from Z$ 35 billion in December 2019 and is the highest since dolarisation in 2019. Month-on-Month money supply for June increased by 69%. Money supply growth poses risks to currency stabilisation and curbing inflation. Local currency deposits together with currency in circulation registered a year-on year increases of 317.60% and 159.61% signalling increased demand for cash transactions in an inflationary environment.

Increasing money supply is a major contributing factor to inflation pressures in Zimbabwe. There has been a decline trend in base money over the months, from a peak of ZWL$ 16.7 billion as at 31 July 2020 to ZWL$ 11.4 billion as at 21 August 2020. This has managed to douse the inflation flames and stabilise the exchange rates. Base money is now starting to creep up reaching ZWL$ 15.4 billion as at 9 October 2020 threating the exchange rate stability and inflation.

Figure 3: Money Supply January 2019 - July 2020



Source: Reserve Bank of Zimbabwe; 2020

3.4 Interest Rates

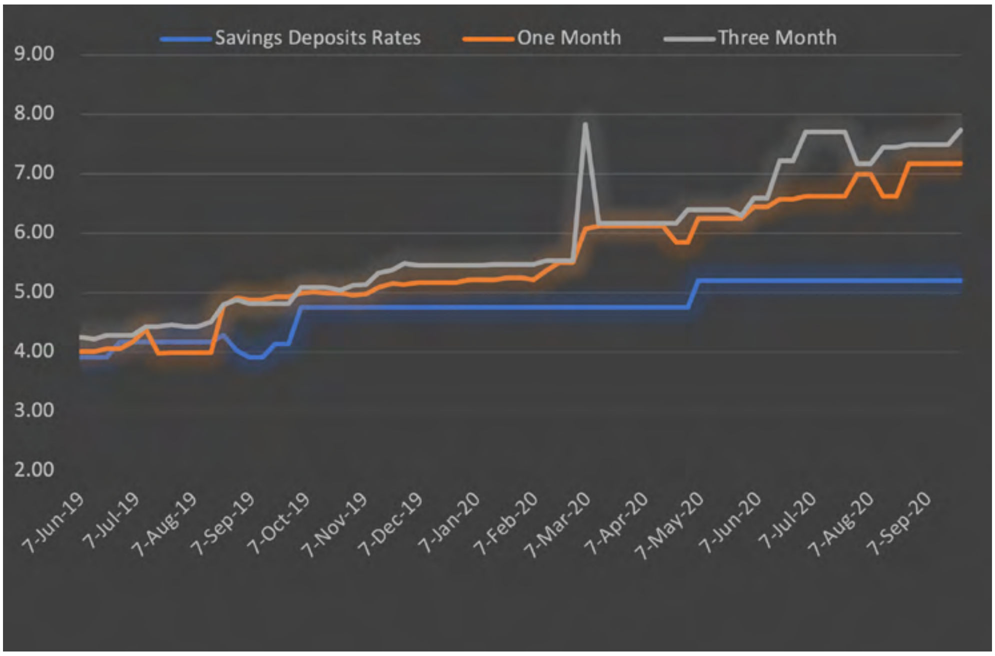
Lending interest rates to individuals and corporates averaged 43.04% and 48.96% respectively in September 2020 (see Figure 4). Considering inflation levels, interest rates are likely to continue going up. The overnight accommodation rate has been maintained at 35% and lending to the productive sector at 25%.

Figure 4: Lending Rates June 2019 – September 2020

Source: Reserve Bank of Zimbabwe, Weekly Economic Highlights 2019-2020

Savings Deposits rates remained stable and they averaged 5.19 % in September 2020 same as August 2020. Over the same period, one-month deposits averaged 7.17% while three-months deposits were around 7.73% as shown in **Figure 5.**

Figure 5: Deposit Rates, June 2019 to September 2020



Source: Reserve Bank of Zimbabwe, Various Weekly Reports

3.5 Public Debt

Consolidated public debt- Total Public and Publicly Guaranteed (PPG) external debt stood at US$8.094 billion as at October 2020 (MoFED) of which 73% is in arrears. This worsens the country's credit risk. Government had accumulated surplus of up to ZWL$ 15 billion by end of August giving hope to a narrowing public debt. However, the COVID-19 pandemic will put pressure on government resources. In the absence of support from international financial institutions and donors, the authorities will remain dependent on domestic capital markets to finance fiscal stimulus packages further crowding out private sector.

4. Conclusion

Inflation is expected to significantly slow down, with average annual inflation optimistically projected at 134% in 2021 from an average of 720% in 2020 (Ministry of Finance, Oct 2020). Contributing to the slowdown in inflation is sustained exchange rate stability as well as controlling money supply growth.

Zimbabwe, like any other country was negatively impacted by COVID-19 pandemic, however prospects for future growth are very bright due to government's desire to create a stable macroeconomic environment through adopting prudent fiscal policies and implementation of a sustainable exchange rate management system.

The optimistic view on the country growth prospects is based on:
- anticipated recovery from COVID-19 pandemic and resumption of global economic activity;
- recovery in international commodity prices;
- good agricultural season;
- improved government revenue collection;
- sustainability of the foreign currency trading auction system and exchange rate stability; and
- tourism and trade resumption.

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