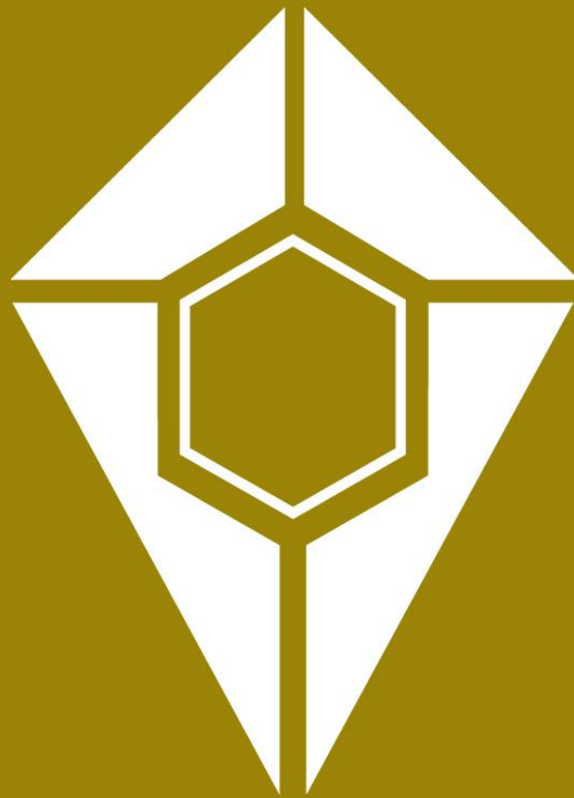




ECONOMIC REVIEW
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ECONOMICS,
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1 Introduction and Executive Summary

This report presents an overview of the Global Economy and Zimbabwe macroeconomic environment trends as at the end 24 February 2023

The Global was estimated at 3.4%¹ in 2022, from 6.2% recorded in 2021. Growth is expected to further slow down to 2.9% in 2023 and firm to 3.1% in 2024. **The USA** GDP slowed down to 2% in 2022, from 5.9% recorded in 2021 and is expected to further slow down to 1.4% in 2023. South Africa 2022 growth is estimated at 2.6% from 4.9% recorded in 2021 and is expected to slow down further to 1.2% and 1.3% in 2023 and 2024 respectively.

In 2022, **Zimbabwe** economy grew by 4%², from 8.5% in 2021 and is projected to grow by 3.8% in 2023 and 4.8% in 2024.

Month on Month (**M-o-M**) **Inflation** declined by 1.35 percentage points in January 2023 to 1.07% from 2.42% in December 2022. Year on Year (**YoY**) inflation decelerated from 243.67% in December 2022 to 229.83% in January 2023. However, **inflation pressures remain**, emanating from increase in international commodity prices; oil, gas, fertiliser, and crude cooking oil.

Consolidated public debt- The country's total Public and Publicly Guaranteed (PPG) debt is estimated at US\$14 billion for external debt (including blocked funds of US\$3.1 billion) as at end September 2022. Out of the total debt, 45% is in arrears. Domestic debt was ZWL\$2.2 trillion with 97.35% of the debt being compensation for former farm owners. *This has contributed to the country's high credit risk.*

In January 2023, **lending interest rates** averaged 128.74% for individuals and 233.15% for corporates. Overall **External sector** performance has Improved during Q4 of 2022 compared to Q3 of 2022. Trade deficit reduced to US\$126.67 million from US\$265.45³ million recorded in August 2022.

¹ IMF, January 2023

² RBZ – Monetary Policy Statement Feb 2023

³ ZIMSTATS – November 2022

The RBZ revised downwards the **overnight accommodation rate and Medium-Term Bank Accommodation rates** from 200% to 150% and from 100% to 75% respectively. Maximum amount for entities to purchase from banks bona fide foreign payments under willing buyer willing seller remained at US\$100 000 per week.

2 Overview of World Economy

2.1 Global Economic Growth Prospects

Global growth is estimated at 2.9% in 2022, a slowdown from 6.2% recorded in 2021. Global economy is expected to continue to slow down to 2.9% in 2023 and rise to 3.1% in 2024. Risks to growth include Russia- Ukraine war, cost of living crisis, tightening financial conditions and the resurgence COVID-19. Global inflation is expected to fall from 8.8% in 2022 to 6.6% in 2023.

Advanced economies grew by 2.7% in 2022 from 5.4% in 2021 and are projected to further slowdown to 1.2% in 2023 and then rise to 1.4% in 2024. USA, EMDEs, and Japan economies grew by 2%; 3.9% and 1.4% respectively in 2022 and are projected to grow by 1.4%; 1.8% and 4% in 2023.

Risks to the outlook include:

- i. the Ukraine – Russia war;
- ii. persistent inflation;
- iii. tightening on monetary policy conditions in many advanced economies to contain global inflation;
- iv. high debt levels; and
- v. occurrence of major natural disasters (Climate Change) and new COVID-19 variants

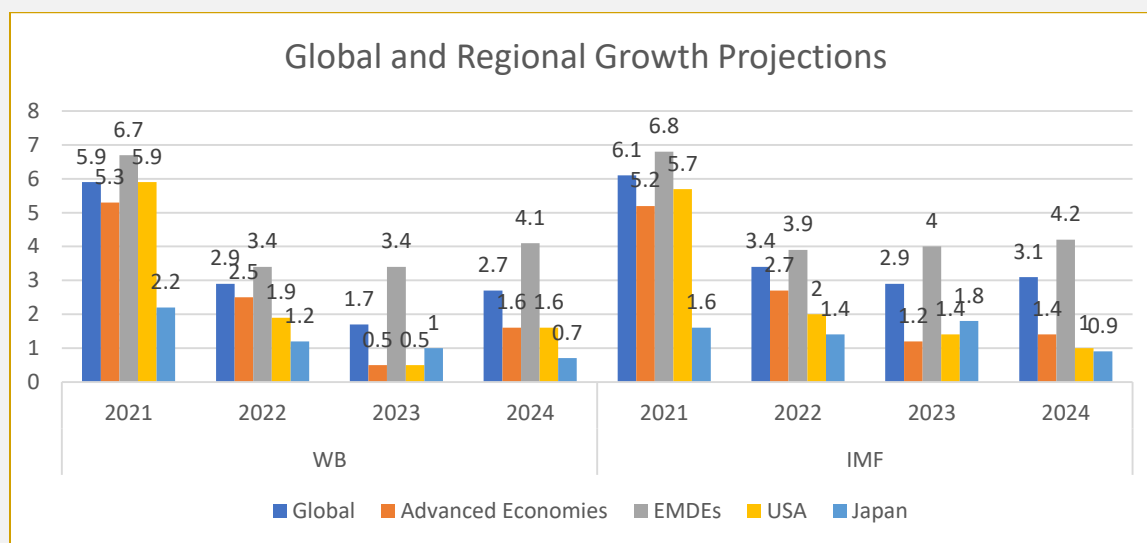
However, under best case, these will be offset by:

- i. continued recovery in commodity prices – Crude oil prices rose expected to average US \$92/bbl⁴. Furthermore, consumption is expected to increase by 1.7% in 2023.

⁴ World Bank Historical Data Sheet – October 2022

The rapid spread of COVID-19 in China led to China’s slowdown affecting global trade in 2022. However, recent re-opening of its borders has paved way for recovery. Trade is therefore expected to moderate in 2023.

Figure 1: Global and Regional Growth Forecasts 2021 - 2024



Source: World Bank Jan 2023, IMF Jan 2023

2.2 Sub Saharan Africa Overview

2.2.1 Sub Saharan Africa Growth Prospects

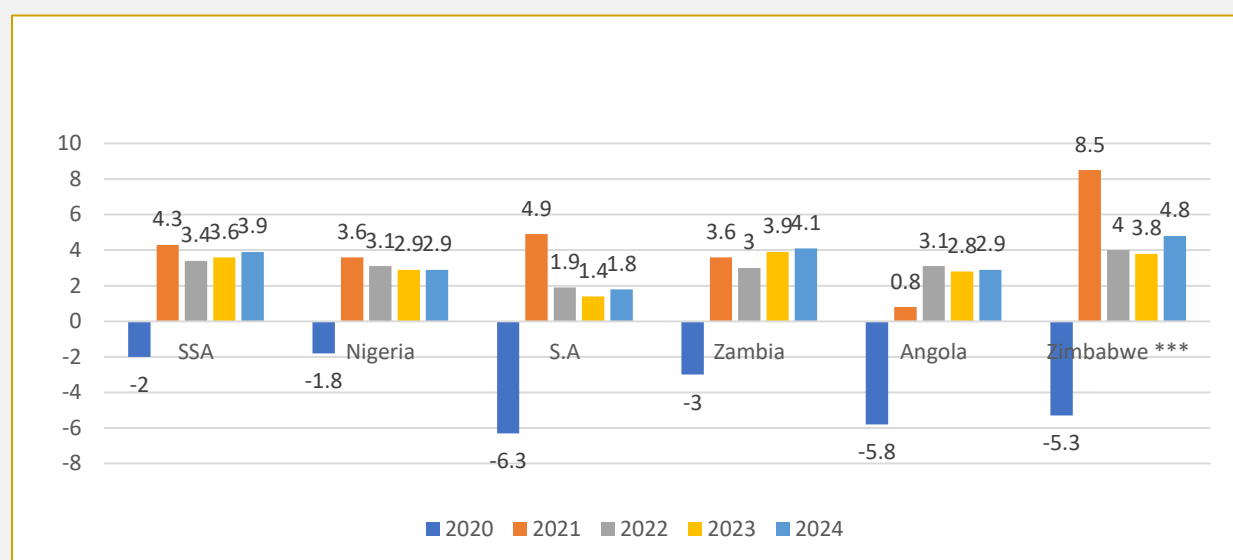
Growth in Sub-Saharan Africa (SSA) economy is estimated at 3.4⁵% in 2022, a slowdown from 4.3% in 2021. The region’s growth continues to be affected by weakening external demand, high inflation, and tightening global financial conditions dampened regional activity. Furthermore, increasing food and energy prices, resulting partly from the Russia – Ukraine war, pushed so many people into poverty as cost-of-living increases. In addition, the decline in non-energy commodity prices affected the region’s exports in 2022.

The region is expected to record a 3.6% growth in 2023. Nigeria, South Africa, and Zambia are expected to grow by 2.9%; 1.4%; and 3.9% in 2023 respectively. Risks to the outlook include

⁵ World Bank, Jan 2023

rising global interest rates, debt distress in some countries, inflation, and unforeseen climate extremes with the potential of exacerbating poverty.

Figure 2: Sub-Saharan Africa Growth Forecast 2020 - 2023



Source –World Bank June 2022, ***MoFED November 2022

Zimbabwe’s recovery is pinned on continued currency stability, good agricultural season, and firm commodity prices. The country continues to face infrastructure bottlenecks that include shortages of water, electricity, and poor road and rail networks.

3 Zimbabwe Macroeconomic Developments

3.1 GDP Growth Update

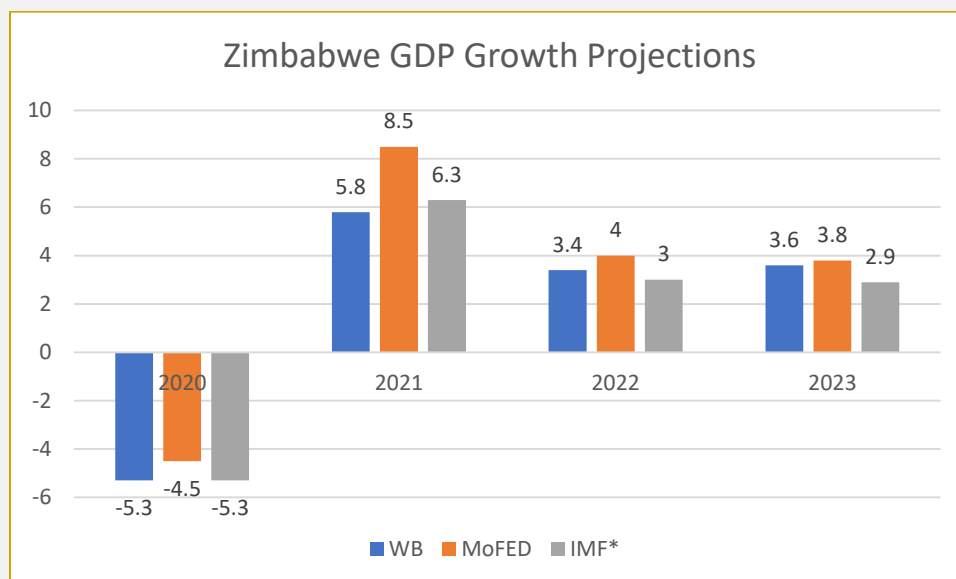
Zimbabwe GDP growth in 2022 is estimated at 4% supported by growth in mining and quarrying sectors, wholesale and retail trade, accommodation and food service industry, electricity production and construction services. In 2023, GDP growth is projected at 3.8% supported by recovery of the agricultural sector and supportive international commodity prices. Downside risks to growth include infrastructure bottlenecks (poor roads, inadequate electricity, and water supply),

supply chain disruptions, spike in energy prices and uncertainty brought by the Russia-Ukraine conflict.

The manufacturing sector capacity utilization increased from 47% in 2021 to 66% by December 2022. However, in 2022, increased production cost associated with the rise in import prices of raw materials and shortage of electricity have resulted in the growth slowdown of the sector to 2.5⁶% from 2.6% in 2021 and it is expected to grow by 4% in 2025.

A consistent policy environment, macroeconomic stability and enabling infrastructure are a prerequisite for increased capacity utilization.

Figure 3: Zimbabwe Real GDP Growth Estimates and Projections 2020 to 2023.



Source: WB Jan 2023; MoFED November 2022, IMF October 2022

The economy continues to face the following headwinds:

- constrained consumer demand;
- foreign currency shortages;
- declining international capital flows (FDI, remittances, and portfolio investments);
- high inflation;
- resurgence of the pandemic; and

⁶ MoFED, November 2022

- inadequate infrastructure.

Zimbabwe is laying firm foundation for growth through focus on a massive road rehabilitation program, power generation projects and irrigation development.

3.2 Government Revenue and Expenditure Developments

Revenue collections during Q4 of 2022 was ZWL892.1 billion against a target of 665.5 billion representing a 468% and 59.5% nominal and real growth respectively in collections compared to the same period last year.

All revenue heads registered growth in both nominal and real terms and performed target except for companies and mining royalties that missed their targets. Major revenue contributors were Individuals (18.88%), Excise Duty (14.16%), VAT L/Sales (14.11%), Companies (13.92%), and VAT on imports (12.06%).

Government total expenditure as at Q3 of 2022 was ZWL1,160 trillion, against total revenue of ZWL1,191 trillion resulting in a budget deficit of ZWL30 billion. The major expenditure heads were employee compensation, Goods and Services, Social Benefits and Non-Financial Assets. The Government continues to face expenditure pressures due to the need to adjust civil servants' salaries, provide safety nets to vulnerable groups considering natural disasters, and to mitigate the negative impact of pandemics. Government expenditure pressures are a threat to fiscal sustainability in the short term.

Figure 4: Zimbabwe Government Revenue Collection Q4 2022.



Source: ZIMRA, December 2022

3.3 Inflation

Month on Month (M-o-M) **Inflation** declined by 1.35 percentage points in January 2023 to 1.07% from 2.42% in December 2022. Year on Year (YoY) inflation decelerated from 243.67% in December 2022 to 229.83% in January 2023. However, **inflation pressures remain**. Major inflation drivers for the month were Housing, water, electricity and gas (274.4%), Food and Non Alcoholic beverages (263%), Transport (228%), Medical aid (175.2%).

Inflation pressures continue to emanate from increase in international commodity prices; oil, gas, fertiliser, and crude cooking oil.

The continued decline in m-o-m is attributable to tight monetary policy stance and the introduction of gold coins as alternative value preservation instrument. In the outlook, inflation is expected to decline to between (10-30) % y-o-y. The introduction of the Victoria Falls Stock Exchange has also slowed down activity on the Zimbabwe Stock Exchange which impact on market liquidity.

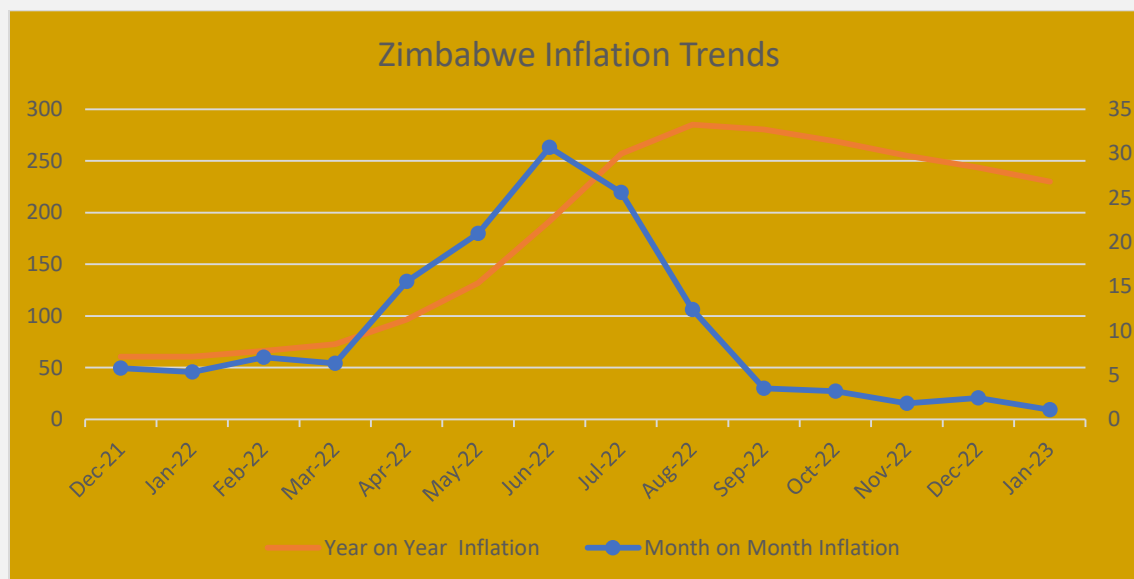
Risk to the inflation outlook include:

- i. rising oil prices;

- ii. decline in agricultural output;
- iii. rising international commodity prices; and
- iv. parallel market exchange rate instability.

Increasing costs of electricity (436%), insurance (218.4%) and medical aid (175.2%) leads to creeping up of business operating expenses. The improved inflation outlook enhances the Bank’s resource mobilisation initiatives.

Figure 6: Y-O-Y and M-O-M Inflation, December 2021 to January 2023.



Source: ZimStats, Jan 2023

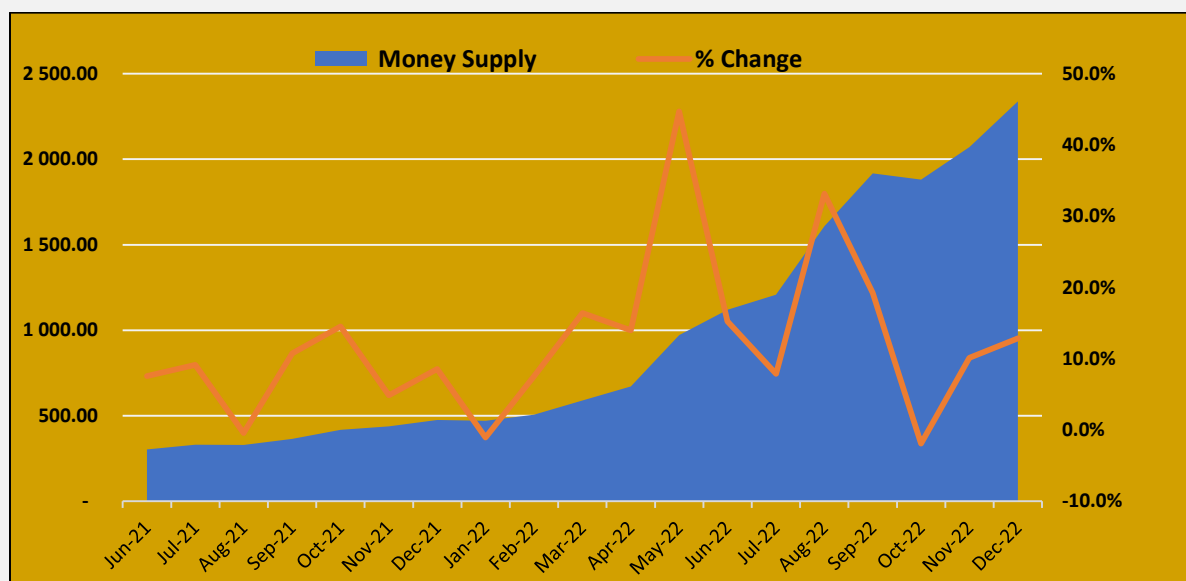
The operating environment presents challenges that include: creeping up of costs (administrative and operations costs, erosion of project budget and brings uncertainty in planning.

3.4 Money Market Developments (Money Supply and Interest Rates)

In December 2022, money supply increased by 12.3% to ZWL2,338 trillion from ZWL2.071 trillion in November 2022, representing a 397% increase from the January 2022 stock of ZWL470.4. Reserve money also increased by 5.24% from ZWL98.86 billion in November 2022 to ZWL 104.04 billion by December 2022.

The ZWL currency continues depreciate against the US, from ZWL671.5 in December 2022 to ZWL886.0 in February 2023 on the willing buyer willing seller foreign exchange market while it depreciated to an average of ZWL1200 on the parallel exchange market by February 2023 from an average of ZWL1000 in December 2022. The Central Bank will continue to pursue the tight monetary policy stance to bring stability in the market and restore the ZWL value.

Figure 7: Money Supply from June 2021 to December 2022



Source: Reserve Bank of Zimbabwe, January 2023

As the RBZ continues with the tight monetary policy stance to anchor exchange rate stability and inflation. MPC decided to revise the policy stance as follows:

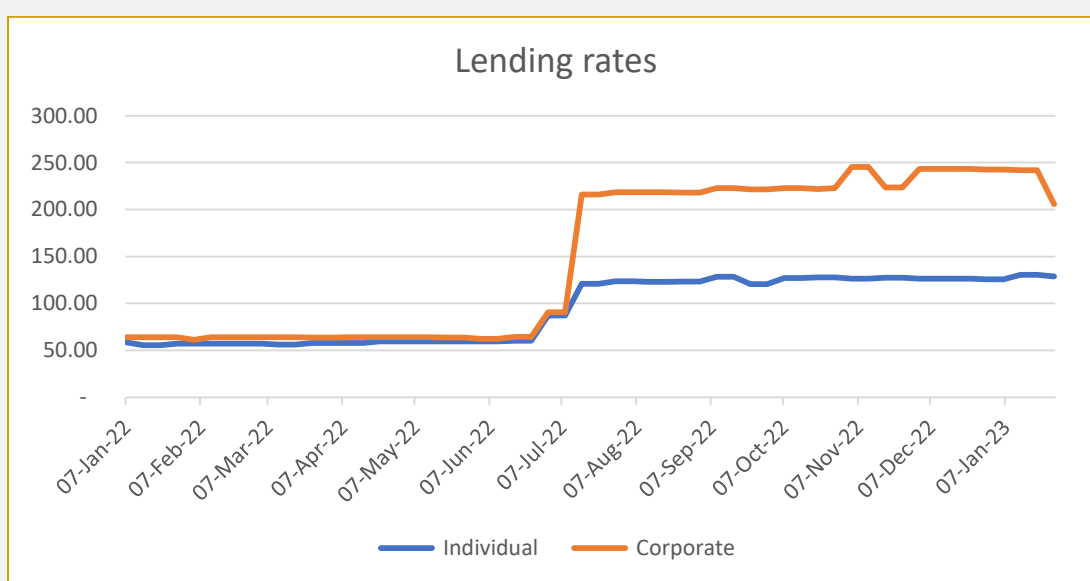
- Revise downwards the Bank Policy and Medium-Term Bank Accommodation (MBA) Facility Interest Rates from 200% and 100% to 150% and 75% respectively.
- Revise downwards the minimum deposit rates for ZWL savings and time deposits from 40% and 80% per annum to 30% and 50% per annum, respectively;

Increasing inflation pressures might lead to financial disintermediation squeezing private sector credit. Interest rates are likely to come down in future given the RBZ policy rates announcements. However, upward risks remain due to inflation pressures.

Lending rates averaged 128.74% and 233.15% to individuals and corporates respectively from an average of 58.17% and 63.7% in January. The inflation adjusted interest rates will help to curb speculative borrowing and hedge against financial losses due to inflation.

Interest rates are likely to come off due to adjustments on the policy rates however pressure remain due to inflation pressures and tight liquidity position. Banks are likely going to soften their stance and increased lending will be witnessed. Increase in NPLs risk remain due to high interest rates.

Figure 8: Lending Rates January 2022 – January 2023

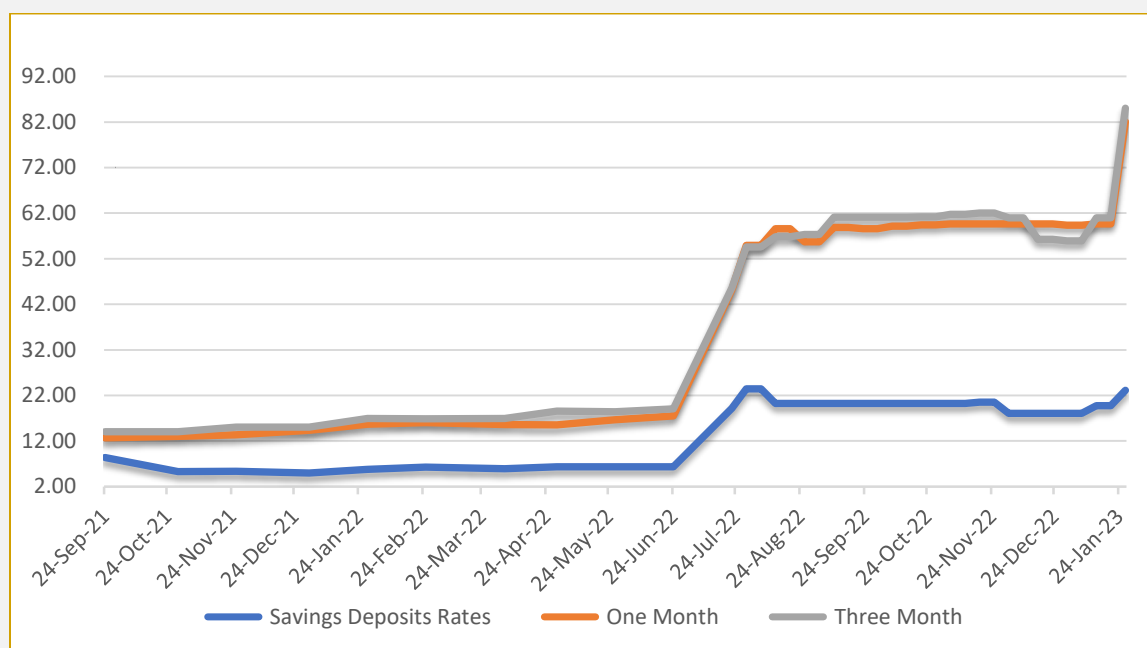


Source: Reserve Bank of Zimbabwe, Weekly Economic Reports January 2023

Over the same period, deposits rates averaged 20.17%, 65.15%, and 65.71% for savings, one-month and three-month respectively.

Deposit mobilisation will be at premium as investors taking refuge in gold coins, the foreign currency denominated Victoria Falls Stock Exchange (VFEX) and foreign currency.

Figure 9: Deposit Rates, September 2021 to January 2023



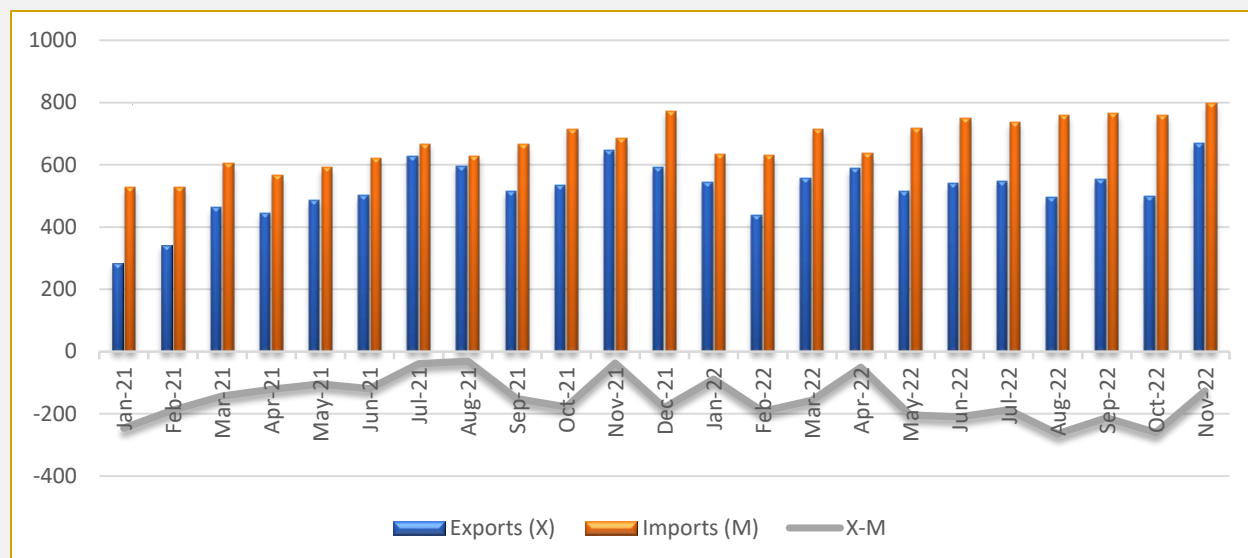
Source: Reserve Bank of Zimbabwe, Weekly Economic Reports, January 2023

The high inflation continues to put pressure on interest rates. Negative interest rates may attract equity investments into infrastructure assets for value preservation.

3.5 External Trade

Overall External sector performance has Improved in 2022. Trade deficit has reduced to US\$94 million December 2022. In November 2022, the trade deficit was US\$127 million. Manufactured exports increased from US\$ 383 million to US\$ 404 million. Zimbabwe’s main exports are tobacco (23 percent of total exports) and nickel (20 percent). Others include diamonds, platinum, ferrochrome, and gold. Zimbabwe main export partners are: South Africa, China, Congo and Botswana. Zimbabwe main imports are motor vehicles and machinery, fuel and foodstuffs. Zimbabwe main import partners are South Africa and China.

Figure 10: Zimbabwe Current Account Developments.



Source: ZIMSTAT, December 2022

4 Conclusion

The Ukraine-Russia war negatively impact global economic activity, resulting in supply chains disruptions and increase in prices. As such, the war has become a major drawback for future global growth. The country can take advantage of the increasing international commodity prices to stimulate mining sector growth. However, for the country to fully benefit, attended infrastructure is required, rail/ road, energy, and water. The country will continue to have a heavy dependence on domestic resources to finance development considering the tightening of global financial conditions and limited access to international financing. This will further tighten the liquidity situation given the conservative fiscal policy and tight monetary policy stance. Anticipated growth in the region, particularly South Africa, will support Zimbabwe growth through remittances and increased demand for exports. The exchange rate instability remains a key risk. Inflation pressures are thawing but the risk remains elevated. Government expenditure is under pressure from the need to adjust civil servants' salaries in line with inflation developments and funding the upcoming harmonized elections.