Infrastructure Development Bank of Zimbabwe

April 2023

Monthly Economic Review Report

Economics, Strategy and Performance Monitoring Unit

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1 Introduction and Executive Summary

This report presents an overview of the Global Economy and Zimbabwe macroeconomic environment trends as of 26 April 2023.

In 2022, **Zimbabwe** economy grew by 4%[1], 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** increased by 2.3% percentage points in April 2023 to 2.36%. Year on Year (**YoY**) inflation decelerated from 87.6% in March 2023 to 75.2 % in April 2023. However, **inflation pressures remain,** emanating from increase in 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 March 2023, **lending interest rates** averaged 111.6% for individuals and 166.86% for corporates. Overall **External sector** performance improved in February 2023 compared to January 2023. Trade deficit decreased from US$ 171.5 million in January 2023 to US$161.2 million in February 2023.

The RBZ revised downwards the **overnight accommodation rate and Medium-Term Bank Accommodation rates** from 150% to 140% and from 75% to 70% respectively.

[1] MoFED – Monetary Policy Statement Feb 2023

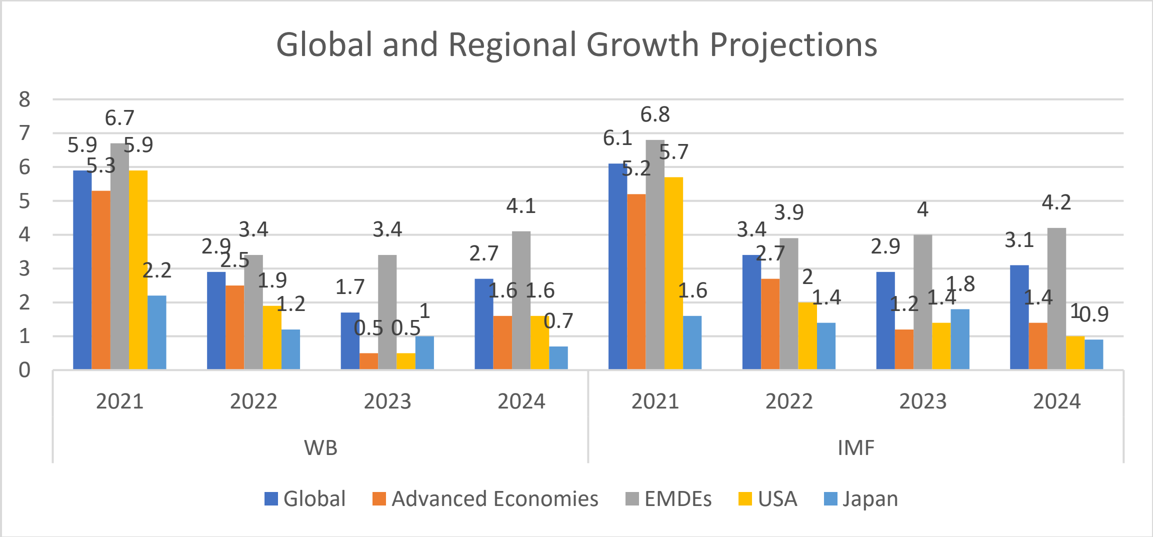
2 Overview of World Economy

2.1 Global Economic Growth Prospects

Global growth is estimated at 3.4% in 2022, a slowdown from 6.2% recorded in 2021. Global economy is expected to continue to slow down to 1.7% in 2023 and rise to 2.7% 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. Inflation risk remains elevated.

Advanced economies grew by 2.5% in 2022 from 5.3% in 2021 and are projected to further slowdown to 0.5% in 2023 and then rise to 1.6% in 2024. USA, EMDEs, and Japan economy grew by 1.9%; 3.4% and 1.2% respectively in 2022 and are projected to grow by 0.5%; 3.4% and 1% in 2023 according to the World Bank, see Figure 1

Figure 1: Global and Regional Growth Forecasts 2021 - 2024



Source: World Bank Jan 2023, IMF Jan 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 pandemic outbreaks.

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

i. Continued recovery in commodity prices – Crude oil prices rose and are expected to average US $92/bbl[2]. Furthermore, consumption is expected to increase by 1.7% in 2023.

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

2.2 Sub Saharan Africa Overview

2.2.1 Sub Saharan Africa Growth Prospects

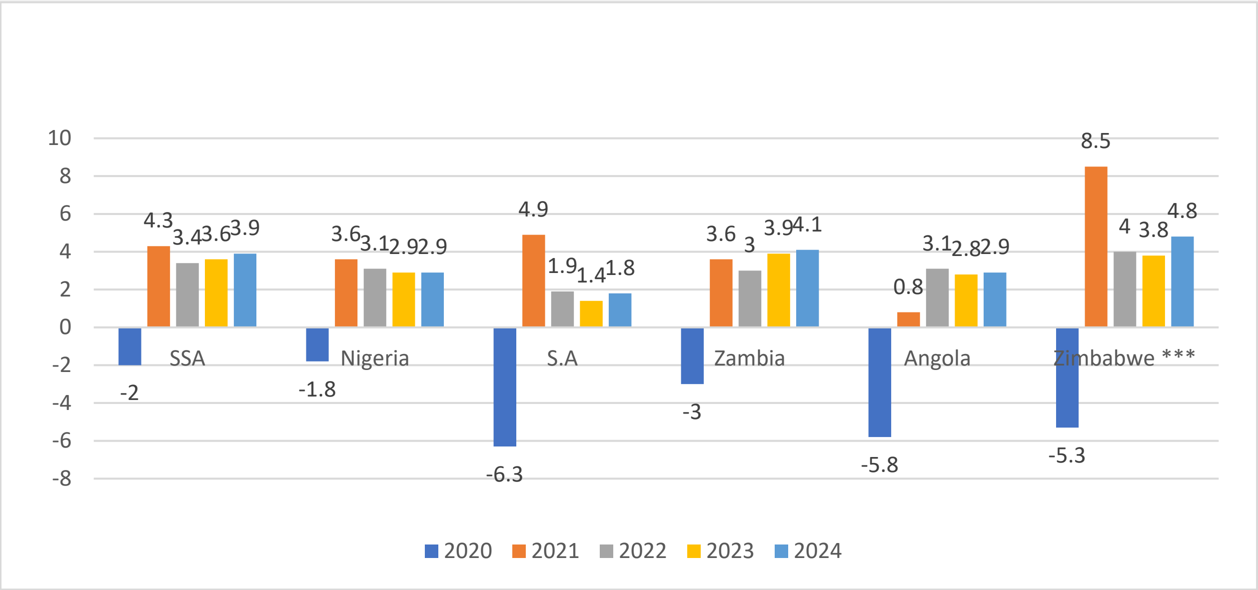
Growth in Sub-Saharan Africa (SSA) economy is estimated at 3.4[3]% in 2022, a slowdown from 4.3% in 2021. The region's growth continues to be affected by weakening external demand, high inflation, and tightening global financial conditions dampened regional activity. Furthermore, increasing food and 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 rising global interest rates, debt distress in some countries, inflation, and unforeseen climate extremes with the potential of exacerbating poverty.

[2] World Bank Historical Data Sheet – October 2022

[3] World Bank, Jan 2023

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.

Capacity utilisation in industry and commerce increased by 15,5% in 2022 to 63% from 45,5% in 2021, on the back of performance in information and communication technology, transportation and storage, and mining and quarrying, where capacity was above 75%[4]. However, power outages faced towards the end of 2022 up to the first quarter of 2023, continue to drag capacity utilization down. Additionally, the following factors were cited for low-capacity utilization: foreign currency challenges, obsolete equipment, low product demand, delayed payment by government, and corruption. The CZI report indicated that manufacturing sector capacity utilisation decreased from 56.3% in 2021 to 56.1% in 2022.

The current electricity challenges where production have at times reached below 500MW against a suppressed demand of more than 1800MW has potential to slow down economic growth in the country. As at 27 April 2023 power geneartion had reached 1116 MW.

Going forward, the country will grapple with repairing country risk perception following the much publicized alleged illicit gold dealings. Such reports will further worsen the country risk perception and lead to slow down in the international capital flows.

There are opportunities for the Bank to invest in inclusive resilient irrigation infrastructure to climate proof agriculture.

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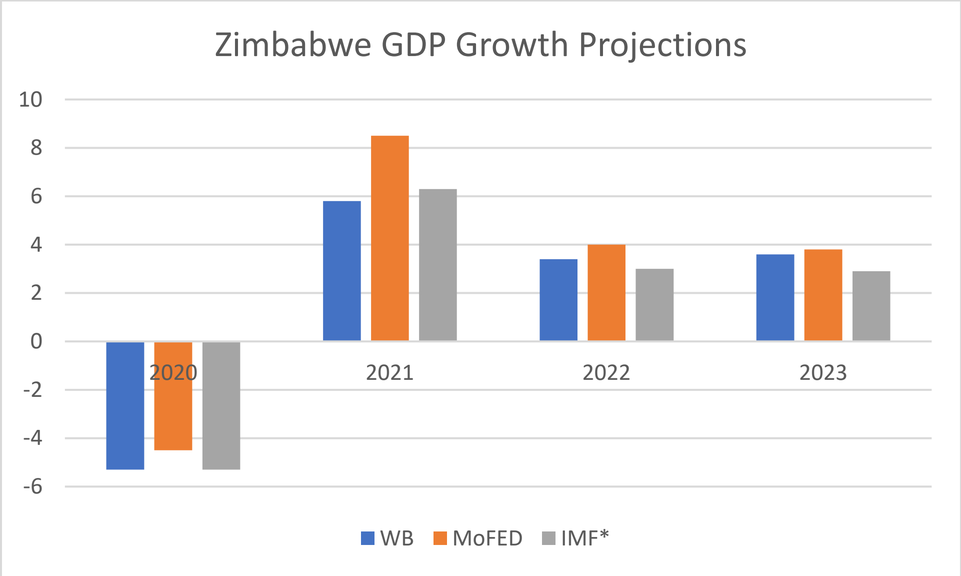
[4] 2022 ZNCC State of Industry and Commerce Survey

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
- inadequate infrastructure.

3.2 Government Revenue and Expenditure Developments

The Government revenue collections surpasses targets by 28.12% in Q4 2022 to reach ZWL$896 billion, see Figure 6. It represented a 470% increase from the same period the previous above the end of year annual inflation of 244%. The growth in revenue depicts the growing economy in real terms.

All other revenue heads outperformed their quarterly targets save for Corporate Tax and Other Direct Taxes. Major revenue contributors were Value added tax- 26%; Pay As You Earn- 19.2%; Corporate tax – 14.2%; and Excise Duty – 12.5%.

Government total expenditure in Q4 of 2022 was ZWL1.1 trillion, against total revenue of ZWL896 billion resulting in a budget deficit of 23%, see Table 1 and Figure 4. The total revenue for the year was ZWL2.1 trillion against expenditure of ZWL2.3 trillion resulting in a deficit of ZWL192 billion.

Table 1: Zimbabwe Expenditure Outrun 2022 (ZWL million).

	Q1 2022 Outrun	Q2 2022 Outrun	Q3 2022 Outrun	Q4 2022 Outrun	Q4 Target
Total Expenditure	192,431.60	341,224.50	657,380.10	1,058,163.60	880,429.60
Compensation of employees	52,703.50	80,229.30	184,554.10	302,744.80	303,385.50
Use of goods and services	31,435.60	64,339.40	132,348.30	178,071.90	162,029.90
Interest	1,333.90	2,153.40	1,316.50	3,355.80	6,215.50
Subsidies	4,331.60	6,500.00	7,221.30	28,588.60	10,468.90
Grants	20,078.40	52,827.00	118,801.40	188,439.20	124,487.40
Social Benefits	34,776.40	48,096.60	94,364.20	122,475.30	96,475.50
Other Expenses	725.50	861.40	578.30	1,610.90	657.40
Non- Financial and Financial Assets	47,046.80	86,217.50	118,196.00	193.10	176,709.40

Source 1: MoFED

Major expenditure heads were employee compensation – 37%, Goods and Services – 22%, and grants- 23%.

Figure 6: Zimbabwe Government Revenue Collections Q4, 2022

Source: ZimTreasury, March 2023

3.3 Stock Market

The ZSE is showing signs of recovery as market capitalisation increases from ZWL2.52 trillion in March 2023 to ZWL3.20 trillion by 25 April 2023. During the week under review, all indices gained except for the Small Cap which declined by 1.12%. The All Share. Top 10, Top 15, and Medium Cap indices gained by 2.34%: 2.43%: 2.20%: and 2.15% respectively.

3.4 Inflation

Month on Month **(M-o-M) Inflation** increased by 2.3 percentage points in April to reach 2.4%. Year on Year (**YoY**) inflation on the other hand decelerated by 12.4 percentage points from 87.6% in March 2023 to 75.2% in April 2023.

Major contributors to inflation in March 2023 were: Food & Non Alcoholic Beverages – 127.9%; Housing, Water, Electricity, Gas & Other Fuels- 105.7%; and Education 62.3%. Communication and the Health index increased by 37.8% and 49.6% respectively.

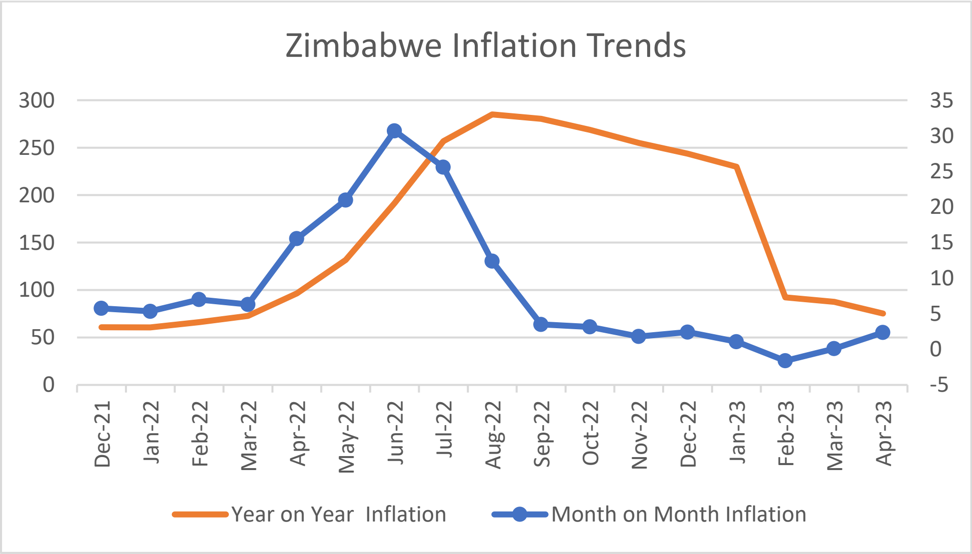
Inflation pressures continue to emanate from emanating from increase in commodity prices, oil, gas, fertiliser, and crude cooking oil.

While blended inflation figures are showing an improvement in the inflation outlook, the ZWL inflation is overshooting given rapid depreciation of the exchange rate on the parallel market. Government is expected to respond to the developments by further increasing the policy rate and tightening the monetary policy further.

Risk to the inflation outlook include:

i. rising oil prices.
ii. rising commodity prices; and
iii. parallel market exchange rate instability.

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



Source: ZimStats, March 2023

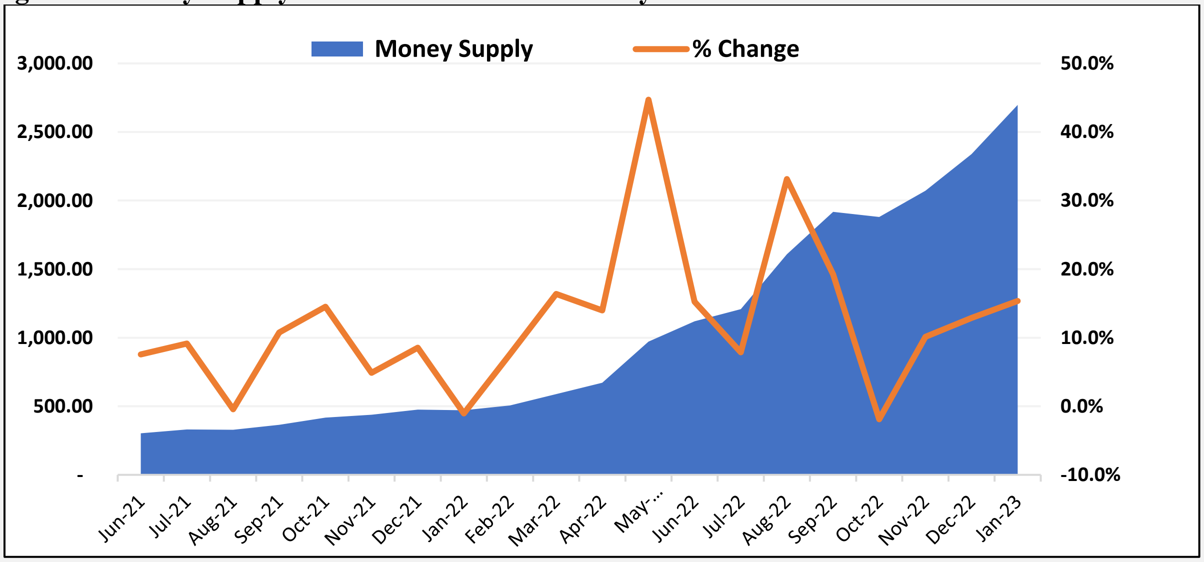
The Bank continues to operate under high inflation environment. The Bank will continue to rely on inflation hedging instruments to successfully mobilise for long term funding. Measures to safeguard erosion of budget during project implementation should be employed.

3.5 Money Market Developments (Money Supply and Interest Rates)

Money Supply increased from ZWL2.7 trillion in January 2023 to ZWL2.9 trillion representing an 8.6% increase. Money supply comprised of foreign currency deposits, 59.92%; local currency deposits, 39.87%; and currency in circulation, 0.21%. Year on Year, broad money increased by 478.56%, up from 473.37% in January 2023, largely driven by exchange rate revaluation. The foreign currency component of broad money increased by 677.10%, while the local currency component increased by 318.67%.

The exchange rate depreciated by 616.93%, from ZW$124.02 per US$1 to ZW$889.13 per US$1, over the period February 2022 to February 2023. The ZWL currency continues depreciate against the USD, from 671.5 in December 2022 to 1021.2 in March 2023 on the willing buyer willing seller foreign exchange market while it depreciated to about ZWL2000 on the parallel exchange market by 25 April 2023 from an average of 1000 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 February 2023



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:

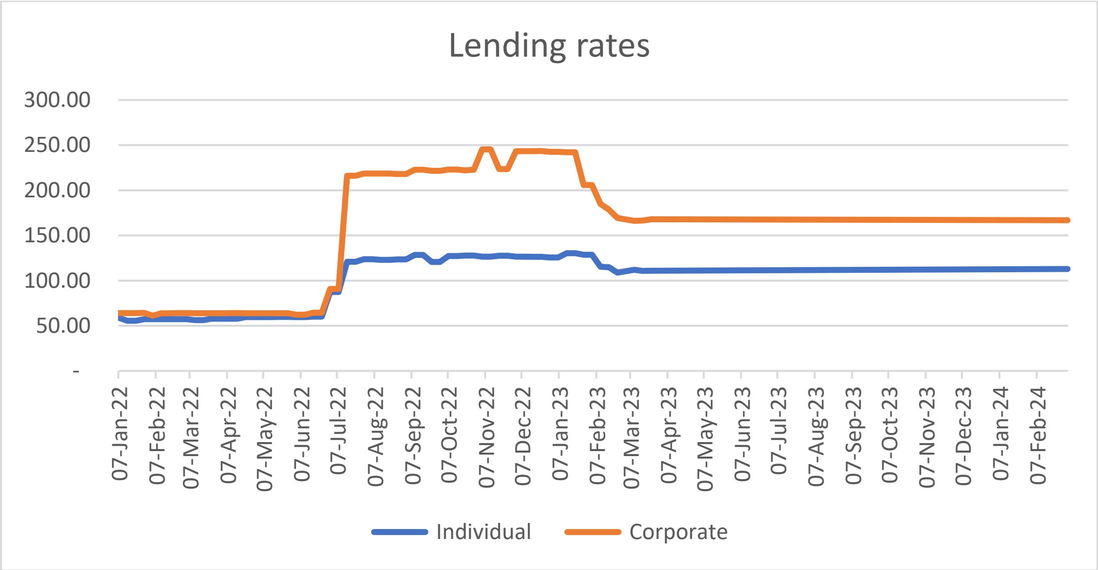
- Revise downwards the Bank Policy and Medium-Term Bank Accommodation (MBA) Facility Interest Rates from 150% and 75% to 140% and 70% respectively.
- Maintained the minimum deposit rates for ZWL savings and time deposits at 30% and 50% per annum, respectively;

Increasing inflation pressures might lead to financial disintermediation squeezing private sector credit. Interest rates are likely to continue going up and a tight liquidity environment is anticipated.

Year to date, lending rates averaged 119.07% and 194.9% to individuals and corporates respectively from an average of 126.85% and 234.18% in Q4:2022. The inflation adjusted interest rates will help to curb speculative borrowing and hedge against financial losses due to inflation.

Interest rates are highly likely to continue increasing due to inflation pressures and tight liquidity position. Banks will continue with their conservative stance, thus reducing the loan to deposit ratios in sync with tight liquidity and high inflation environment. There is a high risk of Non-Performing Loans (NPL).

Figure 8: Lending Rates January 2022 – March 2023

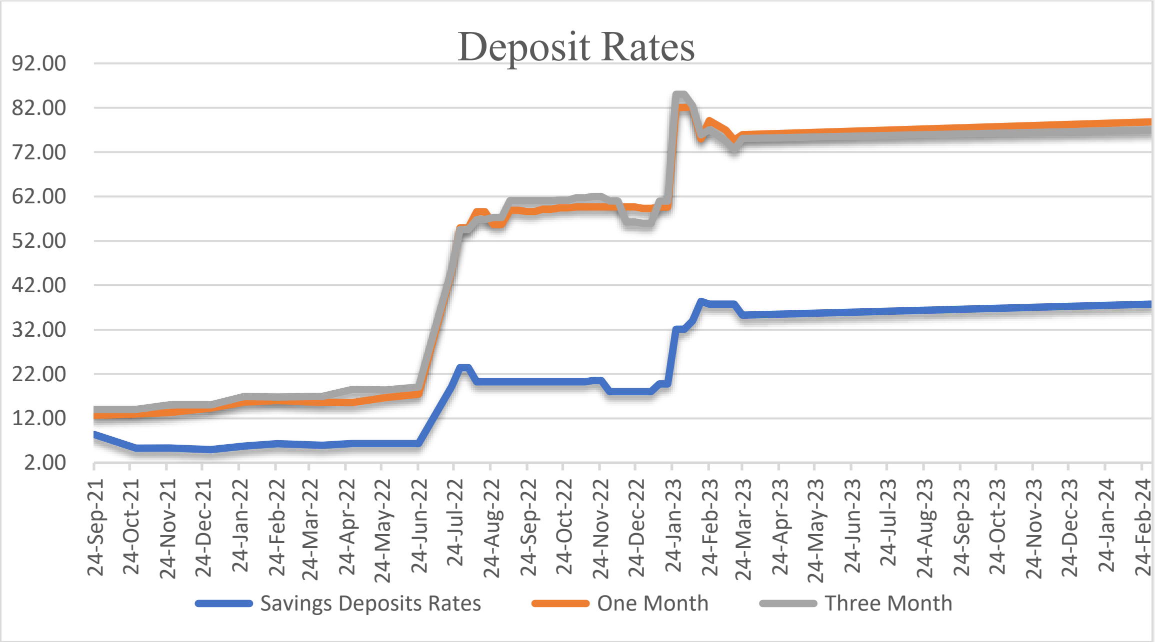


Source: Reserve Bank of Zimbabwe, Weekly Economic Reports March 2023

Over the same period, deposits rates averaged 31.7%; 73.78%; and 73.54% for savings, one-month and three-month respectively.

Increase in deposits rates implies an increase in cost of funds and squeezes the interest margin. 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 March 2023



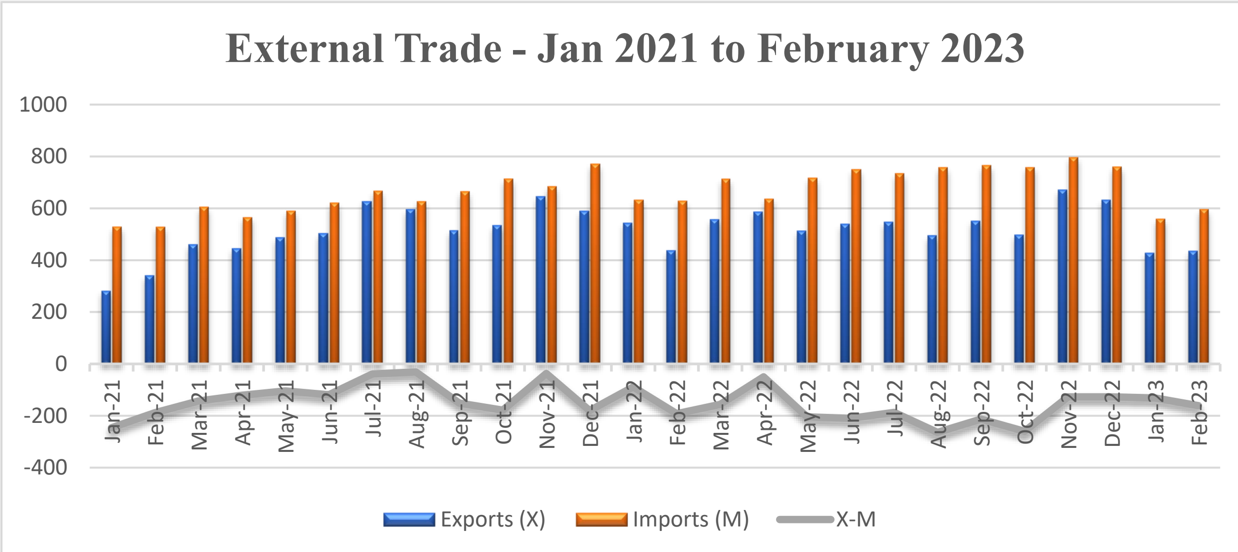
Source: Reserve Bank of Zimbabwe, Weekly Economic Reports, March 2023

The current inflationary environment can lead to financial disintermediation and put pressure on value preservation.

3.6 External Trade

Total exports increased from US$427.6 million in January 2023 to US$435.7 million in February 2023. The trade deficit has however decreased from US$171.5 million in January 2023 to US$162 million in February 2023.

Figure 10: Zimbabwe Current Account Developments.



Source: ZIMSTAT, February 2023

Zimbabwe's main exports are dominated by mineral and mineral product: semi-manufactured gold (incl. gold plated with platinum)- 22.9%; and nickel mattes (include PGMs)- see Table 2.

Zimbabwe main imports are mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes- 19.4%; boilers, machinery and mechanical appliances; parts thereof- 16.3%; petroleum oils nes- 9.8%; vehicles others than railway or tramway rolling-stock, and parts and accessories thereof- 8.7% and fertilisers - 6.6%, see Table 2.

Table 2: Summary of External Trade for February 2023

Zimbabwe's Major Exports in February 2023 (%)			Zimbabwe's Major Imports in February 2023 (%)		
	Semi-manufactured gold	22.9		Mineral fuels and mineral oil	19.4
	Nickel mattes	19.9		Machinery & mechanical appliances	16.3
	Nickel ores & concentrates	14.8		Vehicles	8.7
	Tobacco	13.4		Fertilizers	6.6
	Ferro-chromium	5.7		Electrical machinery & equipment	6.2
	Other mineral substances	5.5		Iron and steel and articles of iron	5.7
	Coke and semi-coke of coal	3.5		Cereals	4.7
	Platinum unwrought	2.5		Plastics	3.5

Zimbabwe's Major Exports in February 2023 (%)				Zimbabwe's Major Imports in February 2023 (%)		
	Industrial Diamonds	**1.8**			Animal/Vegetable fats and oils	**3.4**
	Chromium ores and concentrates	**1.7**			Miscellaneous chemical products	**2.7**

Source 2: ZIMStats, April 2023.

Zimbabwe main export destinations are: South Africa, China, Mozambique and Zambia. Zimbabwe main import partners are South Africa and China.

4 Conclusion

The Ukraine-Russia War has had huge negative impact on global economic activity. The knock-on effects include supply chains disruptions and increase in prices. 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 geopolitical tensions also have led to speculative attack on the USD as a reserve currency which might result in depreciation of the US$.

The country will continue to have a heavy dependence on domestic resources to finance development in light of 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 on the increase. Government expenditure is under pressure from the need to adjust civil servants' salaries in line with inflation developments and funding the upcoming harmonized elections. As interest rates continue to increase, the Bank is facing an increase in the cost of funds and decline in interest margin.

The country's trade figures are a good sign of a growing economy and positive prospects for the future. However, overreliance on primary commodity exports increases the country vulnerability to international commodity price cycles.