Infrastructure Development Bank of Zimbabwe

June 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 30 June 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. AfDB projected Zimbabwe economic growth at 3.2% in 2023.

Month on Month **(M-o-M) Inflation** increased by 58.72% percentage points in June 2023 to 75.46%. Year on Year (**YoY**) also increased by 89.21% percentage points to 175.75 in June from 8654% in May. **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 May 2023, **lending interest rates** averaged 108.07% for individuals and 167.48% for corporates. The minimum deposit rates on savings and time deposits were maintained at 30% and 50% per annum, respectively.

Overall **External sector** performance deteriorated by 28% with trade deficit increasing from US$153 million in April 2023 to US$197 million in May 2023. Exports increased from US$555.5 million in April to 654.2 million in May 2023 while imports increased from US$708.1 million to US$851 million respectively.

[1] MoFED – Monetary Policy Statement Feb 2023

2 Overview of World Economy

2.1 Global Economic Growth Prospects

Global economy grew by 2.9%[2] in 2022, a slowdown from 5.9% recorded in 2021. It is expected to continue to slow down to 2.1% in 2023, a 0.4% upward revision from the January forecast and rise to 2.4% 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 decline gradually from 8.8% in 2022 to 6.6% in 2023 as demand weakens and commodity prices weakens. Inflation risk remains elevated.

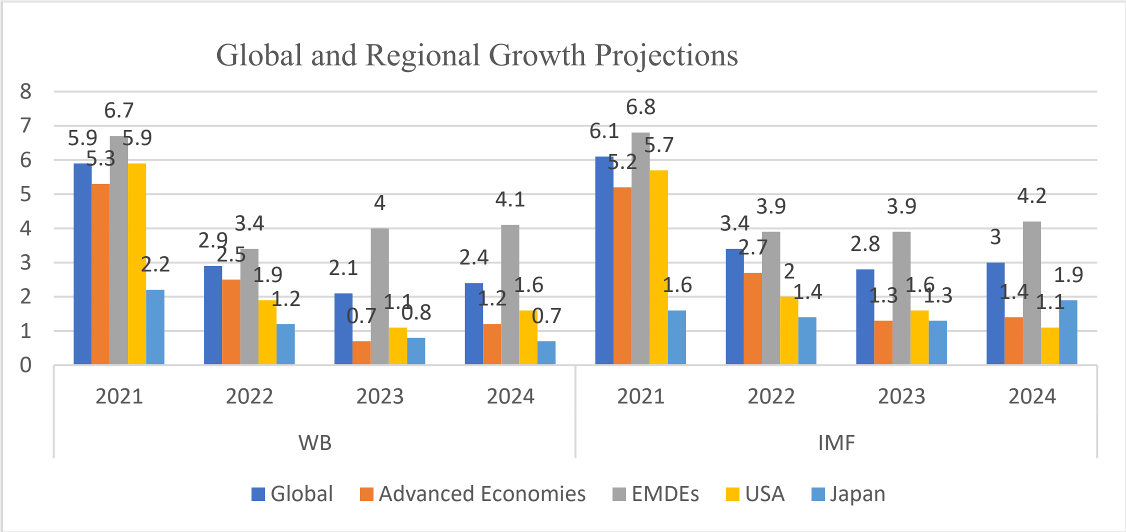
There was evidence of declining stress in global supply chain, shifting Chinese trade patterns, growth in the Japanese economy though inflation remains high and falling Russian oil revenue due to oil price cap.

Indicators measuring global supply chain stress have reached their lowest level in June 2023. This is attributed weakening global economy, reduction in demand, shifting in consumer patterns, from durable goods to services and improvement in supply chain efficiency which have led to thawing of inflation pressures in the United States of America.

Advanced economies grew by 2.5% in 2022 from 5.3% in 2021 and are projected to further slowdown to 0.7% in 2023 and then rise to 1.2% in 2024. USA, EMDEs, and Japan economy grew by 1.9%; 3.9% and 1.2% respectively in 2022 and are projected to grow by 1.1%; 4% and 0.8% in 2023 according to the World Bank, *see* Figure 1

[2] WEO, June 2023

Figure 1: Global and Regional Growth Forecasts 2021 - 2024



Source: World Bank June 2023, IMF April 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.

Russia has significantly boosted the sale of oil to China and India, which together now account for 80% of Russian oil sales as a response to Western sanctions and trade restrictions.

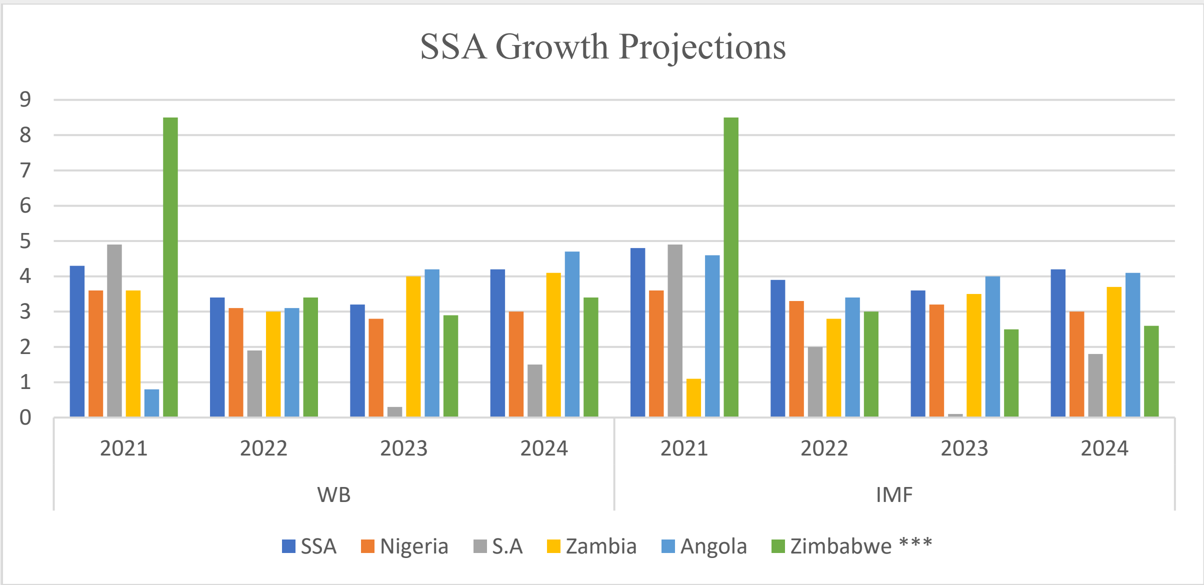
2.2 Sub Saharan Africa Growth Prospects

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. The Russian Ukraine conflict has pushed people into poverty as cost-of-living increases. In addition, the decline in non-energy commodity prices affected the region's exports in 2022.

[3] World Bank, Jan 2023

The region is expected to record a 3.2% growth in 2023, 0.4% downward revision from the January forecast. Nigeria, South Africa, and Zambia are expected to grow by 2.8%; 0.3%; and 4% in 2023 respectively. Risks to the outlook include rising global interest rates, debt distress in some countries, inflation, and unforeseen climate extremes.

Figure 2: Sub-Saharan Africa Growth 2021 - 2024



Source –IMF April 2023, World Bank, June 2023

Zimbabwe's economic growth prospects are pinned on 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.

There has been improvement to the electricity production though supply has remained erratic. Unit #7 of Hwange Power Plants was officially integrated into the national grid, adding 550MW and as at 27 June 2023 electricity production was:

- Harare: 12MW
- Kariba: 925MW
- Hwange: 550MW

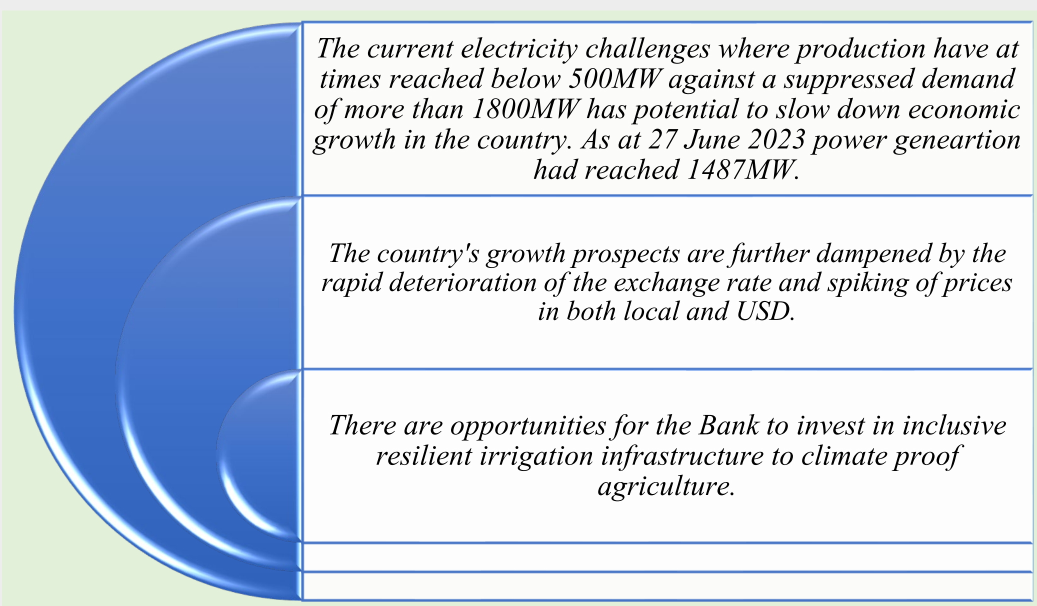
TOTAL: 1487MW

3 Zimbabwe Macroeconomic Developments

3.1 GDP Growth Update

In 2022, Zimbabwe GDP growth was 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%[4] 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 economy is under pressures from currency instability and high inflation.

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%[5]. 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.



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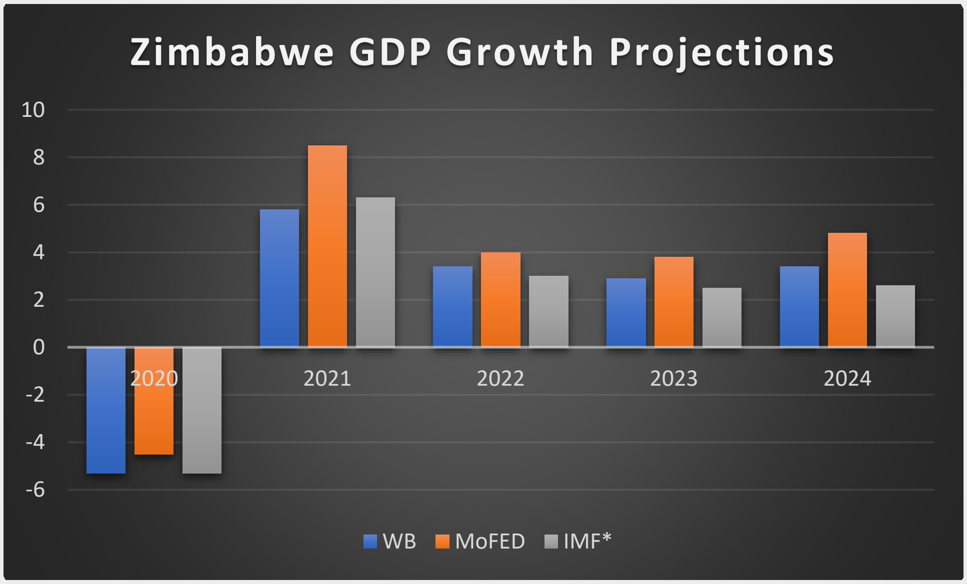
[4] MoFED, November 2022

[5] 2022 ZNCC State of Industry and Commerce Survey

Figure 3: Zimbabwe Real GDP Growth Estimates and Projections 2020 to 2024



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

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 surpass targets by 15.8% in Q1 2023 to reach ZWL1.06 trillion, see Figure 6. However, the figures on growth in revenue are mainly driven by inflation and currency depreciation.

All other revenue heads outperformed their quarterly targets save for Value Added Tax. Major revenue contributors were Value added tax- 26.3%; Pay As You Earn- 19.6%; Corporate tax – 10.9%; Excise Duty – 12.3%; and IMTT- 8.0%. However, that the major contributor to revenue has not met its target can be a source of worry to Government.

Government total expenditure in Q1 of 2023 was ZWL1.1 trillion, against total revenue of ZWL1.06 trillion resulting in a budget deficit of ZWL21.3 billion, see Table 1 and Figure 4. The total revenue for the quarter was ZWL1.06 trillion against expenditure of ZWL1.1 trillion resulting in a deficit of ZWL21.3 billion.

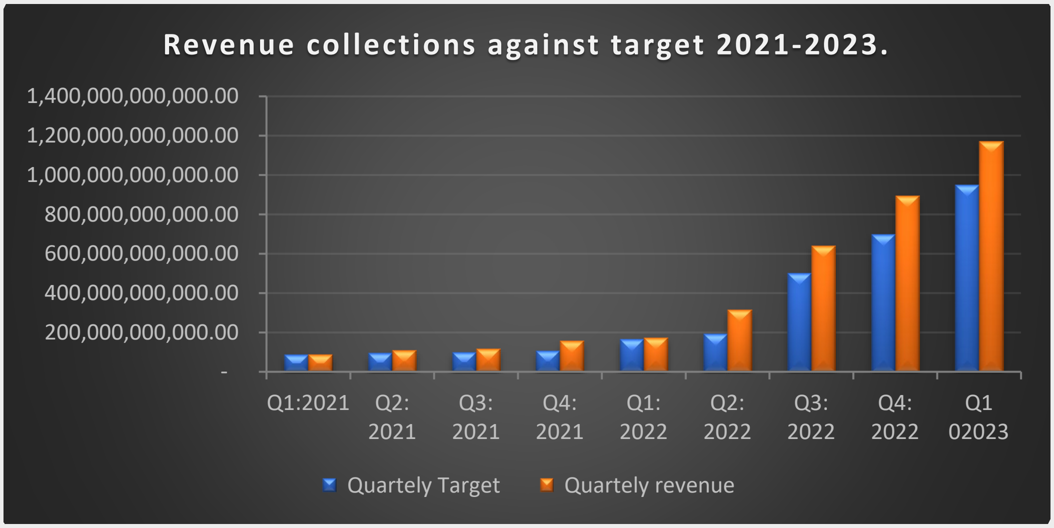
Table 1: Zimbabwe Expenditure Outrun 2022 (ZWL million).

	Q2 2022 Outrun	Q3 2022 Outrun	Q4 2022 Outrun	Q1 2023 Outrun	Q1 Target
Total Expenditure	341,224.50	657,380.10	1,058,163.60	1,078,114.2	935,779.1
Compensation of employees	80,229.30	184,554.10	302,744.80	324,149.6	305,660.6
Use of goods and services	64,339.40	132,348.30	178,071.90	198,606.7	193,756.5
Interest	2,153.40	1,316.50	3,355.80	14,795.7	6,307.1
Subsidies	6,500.00	7,221.30	28,588.60	10,315.2	10,612.0
Grants	52,827.00	118,801.40	188,439.20	199,696.3	149,933.9
Social Benefits	48,096.60	94,364.20	122,475.30	81,999.0	102,858.2
Other Expenses	861.40	578.30	1,610.90	4,495.0	-
Non- Financial and Financial Assets	86,217.50	118,196.00	193.10	244,056.7	166,650.8

Source 1: MoFED

Major expenditure heads were employee compensation – 30%, Goods and Services – 18%, Grants-19% and Non-Financial and Financial Assets – 22.6%.

Figure 6: Zimbabwe Government Revenue Collections Q1, 2023



Source: ZimTreasury, May 2023

3.3 Stock Market

The ZSE is to showing signs of recovery as market capitalisation increases from ZWL3.20 trillion by 25 April 2023 to ZWL5,35 trillion by 12 May 2023. The number of trades during the week ended 12 May 2023, increased by 62.3% while all indices gained. The Top 10, Top 15, and All Share indices were amongst the top gainers that gained by 29.56%; 29.38% and 27.05% respectively.

Meikles, CBZ, CAFCA, Econet Zimbabwe are amongst the top performer in the with share prices of ZWL$1,098; ZWL 2,925.70; 1,535.4 and ZWL$899.51 respectively.

3.4 Inflation

Month on Month **(M-o-M)** and year-on-year (**Y-o-Y) Inflation** increased by 58.72% and 89.21% percentage points to reach 74.46% and 175.75% in June 2023 respectively.

Major contributors to inflation in May 2023 were: Food & Non-Alcoholic Beverages (255.6%); Housing, Water, Electricity, Gas & Other Fuels (169.1%); Health (157%); Alcoholic Beverages and Tobacco (134.7%) and Communication (119.5%). Non Food inflation index was 119.29%.

Inflation pressures continue to emanate from increase in money supply and exchange rate depreciation.

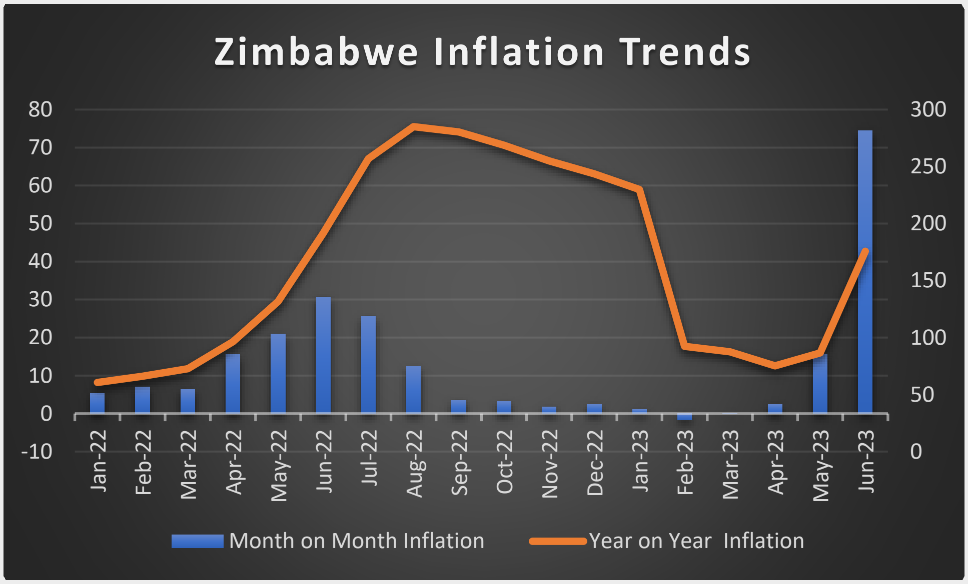
Inflation is overshooting as a result of rapid depreciation of the exchange rate. Government is expected to respond to the developments by further increasing the policy rate and tightening the monetary policy further.

Risk to the inflation outlook include:

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

Increasing costs of housing, electricity, gas and other fuels (102.6%), and health (65.4%) leads to creeping up of Bank's operating expenses.

Figure 6: Y-O-Y and M-O-M Inflation, January 2022 to June 2023.



Source: ZimStats, June 2023

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

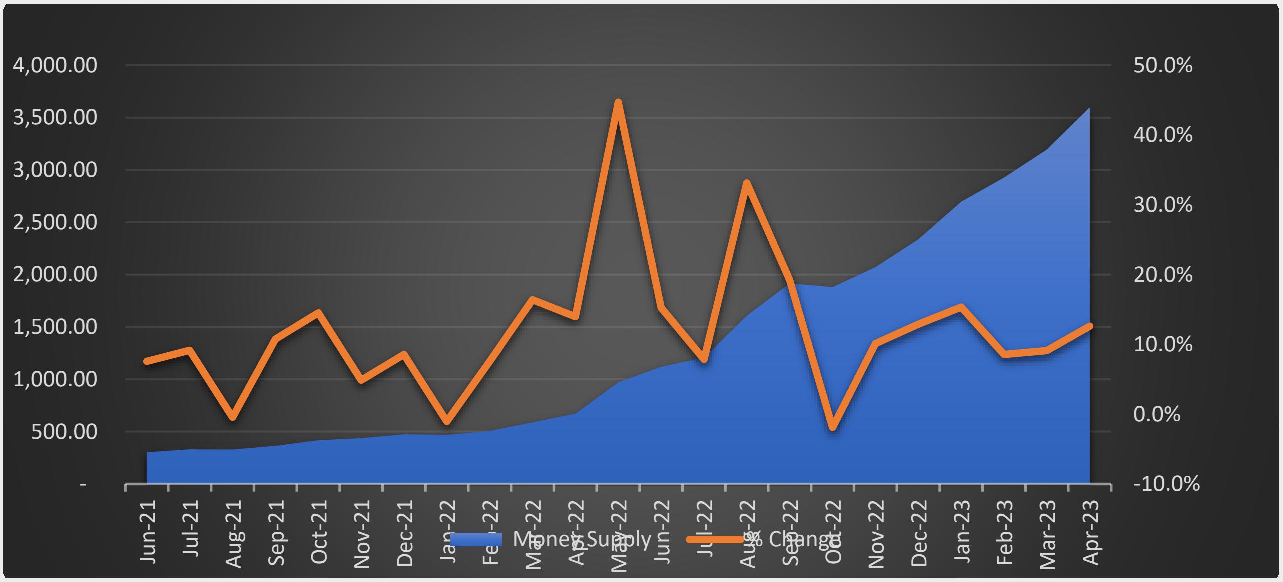
3.5 Money Market Developments (Money Supply and Interest Rates)

Money Supply increased from ZWL 2.7 trillion in January 2023 to ZWL3.6 trillion in April 2023, representing an 33% increase. Money supply comprised of foreign currency deposits, 59.7%; local currency deposits, 40.09%; and currency in circulation, 0.20%. Year on Year, broad money increased by 436.01%, a slowdown from 442.41% in March 2023, largely driven by exchange rate revaluation. The foreign currency component of broad money increased by 579.22% attributed mainly to valuation changes related to exchange depreciation.

During the period January to June 2023, the exchange rate depreciated by 575% and 698% on the parallel and interbank exchange rate markets respectively from ZW$871 and ZWL$1200 per US$1 to ZW$8100 and ZWL$6949 respectively.

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 April 2023



Source: Reserve Bank of Zimbabwe, May 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:

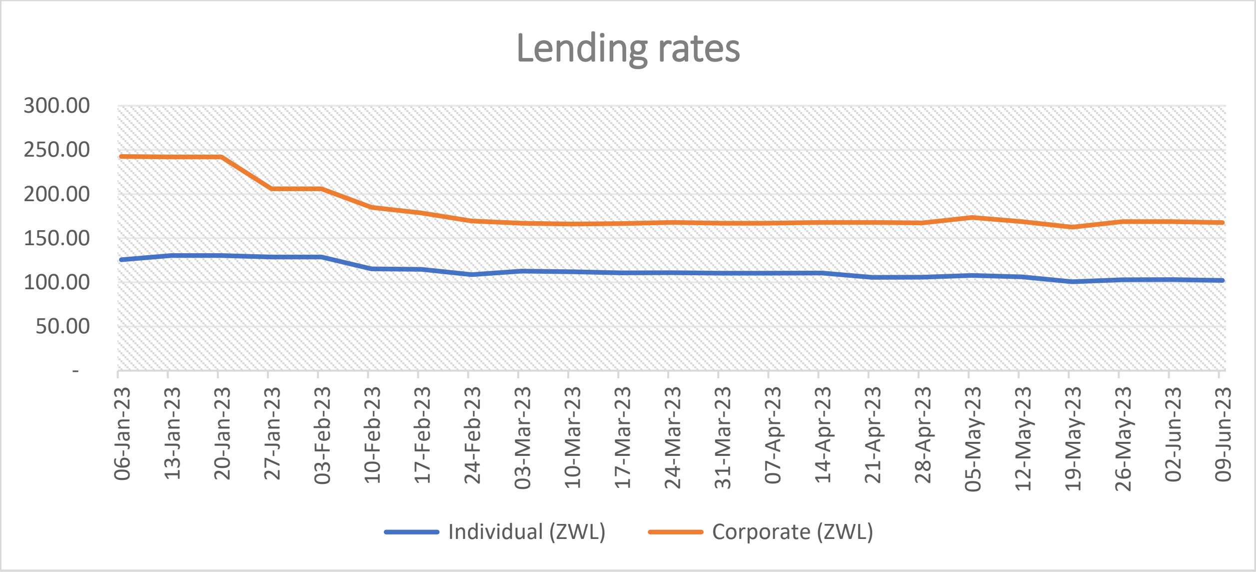
- Increased the Bank Policy and Medium-Term Bank Accommodation (MBA) Facility Interest Rates from 140% and 70% to 150% and 75%respectively.
- Maintained the minimum deposit rates for ZWL savings and time deposits at 30% and 50% per annum, respectively.
- Increase statutory reserve requirement on local currency demand and call deposits from 10% to 15%, while maintaining savings and time deposit requirements at 5%.

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.

During the month of May, ZWL lending rates averaged 104%.4 and 168.31% to individuals and corporates respectively while USD lending rates averaged 13.03% and 14.47% to individuals and corporates respectively.

Interest rates are highly likely to continue increasing due to inflation pressures and tight liquidity position. Banks will adopt 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) due to changes in policy environment.

Figure 8: Lending Rates January 2023 – June 2023

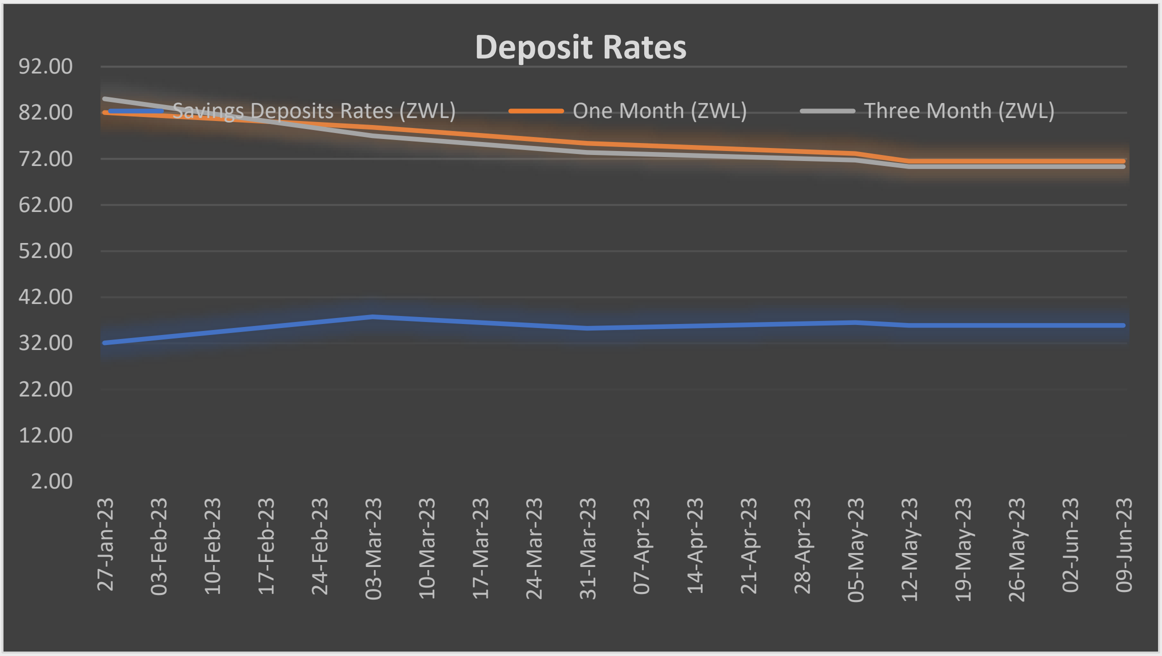


Source: Reserve Bank of Zimbabwe, Weekly Economic Reports March 2023

Over the same period, deposits rates for ZWL averaged 36.04%; 71.92%; and 70.68% for savings, one-month and three-month respectively while USD deposits averages 1.69%; 4.4%; and 4.93% for savings, one-month and three-month respectively.

Increase in deposits rates implies an increase in cost of funds to the Bank and squeezes the interest margin. Deposit mobilisation will be at premium as investors take refuge in gold coins, the foreign currency denominated Victoria Falls Stock Exchange (VFEX) and foreign currency.

Figure 9: Deposit Rates, January 2023 to June 2023



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

The current inflationary environment can lead to financial disintermediation and requires the Bank to continue with capital preservation strategies.

3.6 External Trade

Total exports increased from US$427.6 million in January 2023 to US$654.2 million in May2023. The trade deficit increased from 153 million in April 2023 to US$197 million in May 2023.

Figure 10: Zimbabwe Current Account Developments January 2020 – May 2023.

Source: ZIMSTAT, May 2023

Zimbabwe's main exports are dominated by mineral and mineral product: semi-manufactured gold (incl. gold plated with platinum)- 24%; nickel ores and concentrates - 8.8% (include PGMs); nickel mattes – 18.3% and tobacco - 12.4% - see Table 2.

Zimbabwe main imports are mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes- 23.3%; boilers, machinery and mechanical appliances; parts thereof- 15.8%; electrical machinery and equipment – 6.1%;vehicles 8.8%; and cereals – 4.6% see Table 2.

Table 2: Summary of External Trade for May 2023

Zimbabwe's Major Exports in May 2023 (%)		Zimbabwe's Major Imports in May 2023 (%)	
Semi-manufactured gold	**24.0**	Mineral fuels and mineral oil	**23.3**
Nickel ores and concentrates	**8.8**	Machinery & mechanical	**15.8**
Nickel Mattes	**18.3**	Electrical machinery & equipment	**6.1**
Tobacco	**12.4**	Cereals	**4.6**
Ferrochromium	**6.4**	Plastics	**3.5**
Coke and semi-coke of coal	**2.7**	Animal/Vegetable fats and oils	**3.1**
Platinum unwrought	**1.7**	Miscellaneous chemical products	**2.4**
Industrial Diamonds	**10.1**	Fertilizers	**2.4**
Chromium ores and concentrates	**2.0**	Vehicles	**8.8**
Sugars	**1.5**	Iron and Steel and articles of iron	**4.7**

Source 2: ZIMStats, April 2023.

Zimbabwe main export destinations are: South Africa- 37.3%, China- 11.2%, United Arab Emirates – 24%, Mozambique- 5.9% and Zambia- 2.8%. Zimbabwe main import partners are South Africa and China.

4 Conclusion

The Russian – Ukraine conflict will reshape global supply chain and trade impacting on the global usage of the dollar in the long term. The shifting of focus of the Chinese economy marks the beginning of decreasing dependency on the global north. The country continues to face inflation pressures emanating from currency instability. Anticipated growth in the region, particularly South Africa, will support Zimbabwe growth through remittances and increased demand for exports. Going into elections, rapid changes to stabilize the currency are This will affect all USD contracts as they may, as before, converted into domestic currency at the official exchange rate.

The country will continue to have a heavy dependence on domestic resources to finance development in light of tightening 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. The exchange rate instability remains a key risk. Inflation pressures are on the rise. 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.