Infrastructure Development Bank of Zimbabwe

March 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 at the end 29 March 2023

Global economic growth:
2021- 6.2%
2022- 2.9%
2023- 2.7%
2024-2.7%

United states of America (USA) Economic Growth:

- 2021- 5.3%
- 2022- 2.5%
- 2023-0.5%

South Africa Economic Growth:

- 2021- 4.9%
- 2022- 1.9%
- 2023-1.4%
- 2024-1.8%

Zimbabwe Economic Growth:

- 2021- 8.5%
- 2022- 4%
- 2023- 3.8%
- 2024-4.8%

Overnight Accommodation Rate

- ✓ reduced from 200% to 150% per annum.

Medium-Term Bank Accommodation Rate

- ✓ reduced from 100% per annum to 75% per annum.

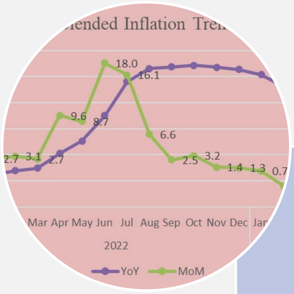
The total exports

- ✓ Increased by 1.89%
- ✓ Jan 2023 US$427.6 million
- ✓ February US$435.7 million

Total Imports

- ✓ decreased by 0.38%
- ✓ Jan 2023- US$599.1 million
- ✓ February 2023 – US$596.8 million.

The trade deficit decreased US$171.5 million in January 2023 to US$161.2 million.



Blended Inflation- 2023

Month	MoM	YoY
Jan	0.7	101.5
Feb	-1.6	92.3
Mar	0.1	87.6

External Debt *2022*	US$ Million *as at end of Sept*
DOD	7,733.00
Principal Arrears	2,700.00
Interest Arrears	1,556.00
Penalties	2,054.00
Total Arrears	6,310.00
Total Debt	**14,043.00**

Domestic Debt	ZWL Million
Total Debt	**2,235,896.00**
Government Securities	55,452.00
Treasury Bills	44,444.00
Treasury Bonds	11,008.00
C/ Former Farm Owners	2,176,623.00
Domestic Arrears	3,822.00

Lending Rates % **ZWL**

Date	Individual	Corporate
03-Feb-23	128.63	205.85
10-Feb-23	115.32	184.89
17-Feb-23	114.77	178.55
24-Feb-23	108.73	169.40

Date	Savings Deposits Rates	One Month	Three Month
03-Feb-23	32.09	82.06	85.03
10-Feb-23	34.00	82.17	82.44
17-Feb-23	38.38	75.00	75.92
24-Feb-23	37.75	79.11	77.06

2 Overview of World Economy

2.1 Global Economic Growth Prospects

Global growth is estimated at 2.9% in 2022, a slowdown from 5.9% recorded in 2021. The 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 economies grew by 1.9%; 3.4% and 1.2% respectively in 2022 and are projected to grow by 0.5%; 3.4% and 1.0% in 2023, see Figure 1.

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

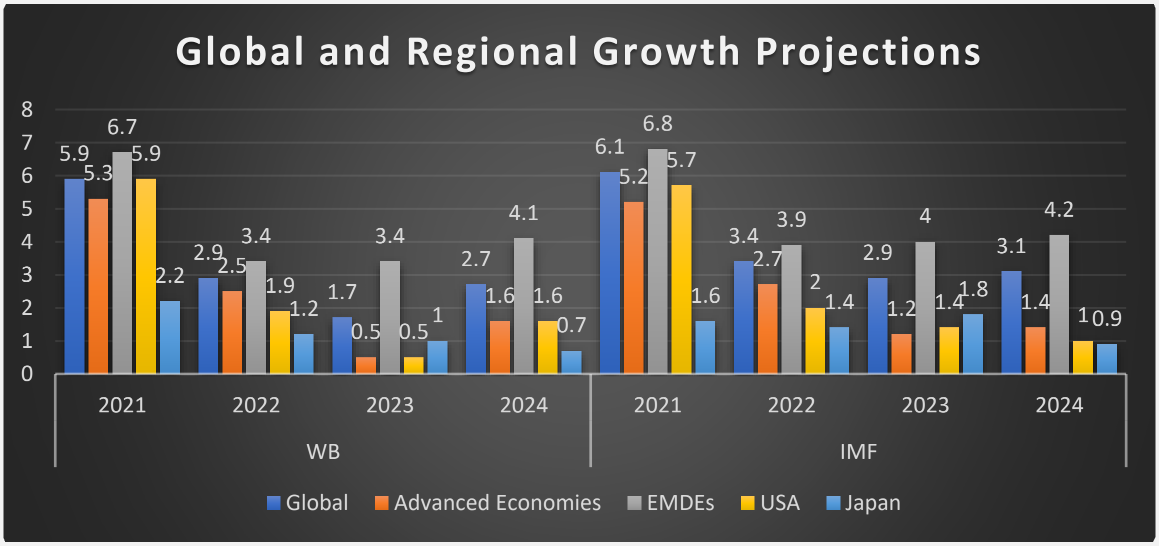
However, under best case, these will be offset by:

i. continued recovery in commodity prices – Crude oil prices rose expected to average US $92/bbl[1]. 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.

[1] World Bank Historical Data Sheet – October 2022

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 3.4[2]% 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.

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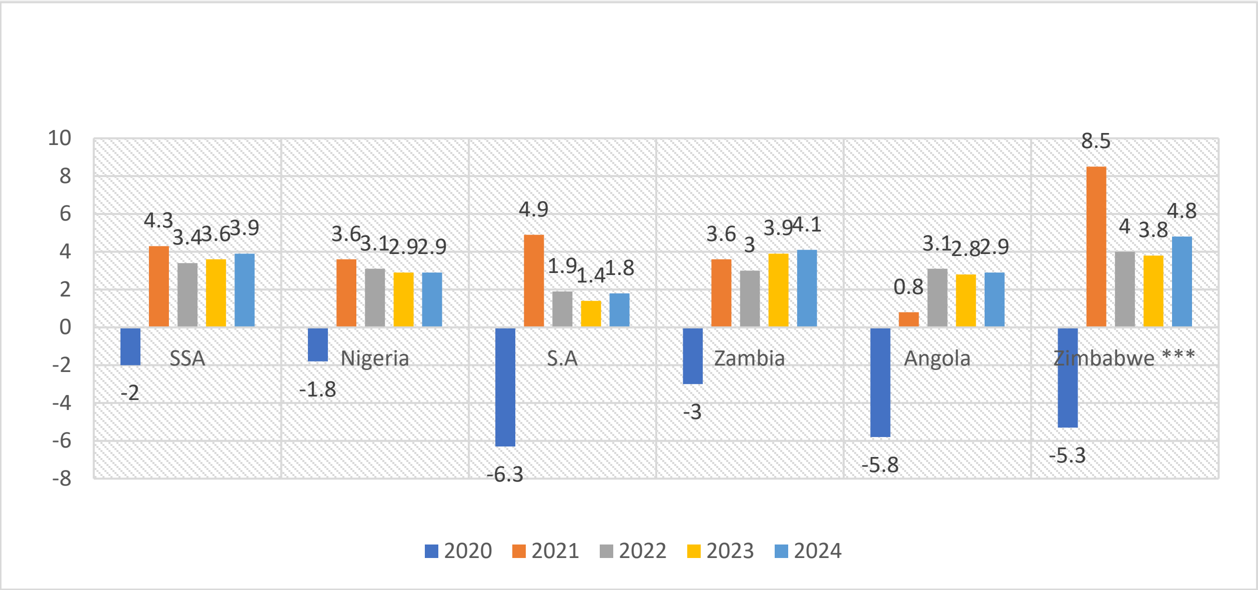
[2] World Bank, Jan 2023

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



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

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 pending general elections likely to be held in August 2023 and the USA sanctions on Zimbabwe through the ZEDRA Act are a major risk factor.

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 2.5[3]% from 2.6% in 2021 and it is expected to grow by 4% in 2025.

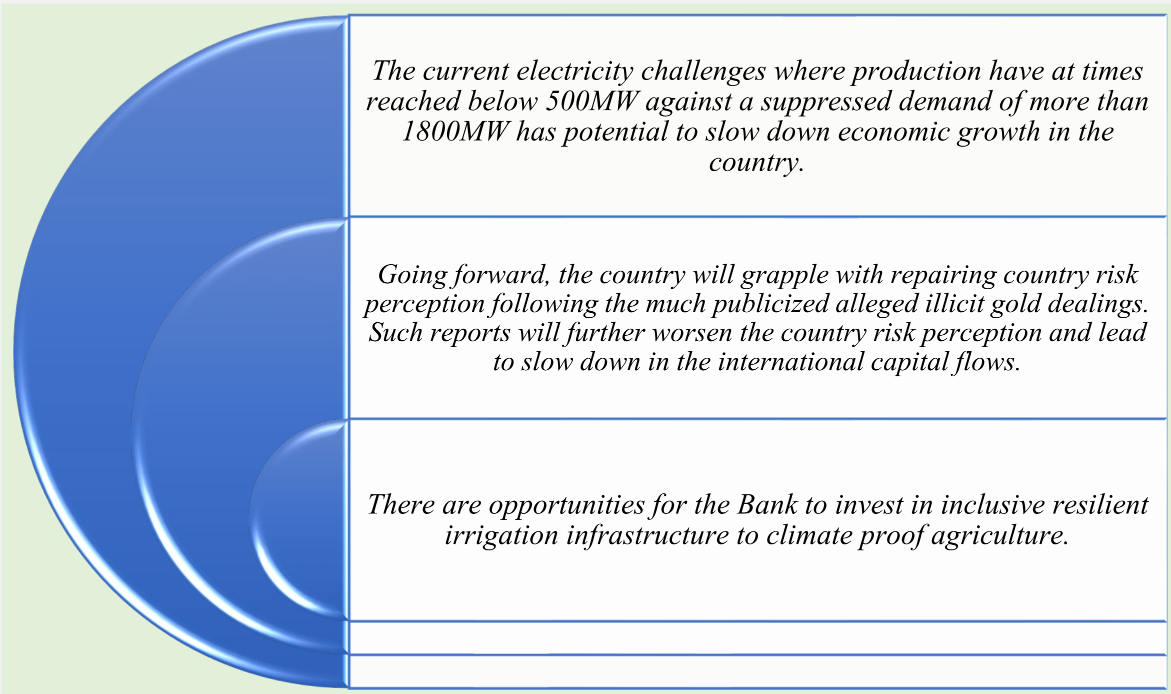


Figure 3: Zimbabwe Real GDP Growth Estimates and Projections 2020 to 2023.

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;
- increasing sovereign risk;
- resurgence of the pandemic; and
- inadequate infrastructure.

[3] MoFED, November 2022

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. The growth in revenue was largely attributed to inflation.

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 the need 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

Stock Market

Year to date, the Zimbabwe stock Exchange gained by 91.19% in nominal terms and 39% in real terms. The market remains one of the best performing bourses in Africa. On 30 March 2023, the All share index was at 37,962.05 from 28,033.96 on 24 February 2023 a gain of 35.4% in the Month of March. Attractive returns on the bourse are pulling investments to the market. In the face of inflation pressures it a viable alternative option. *Infrastructure investment as an asset class will be competing with the stock market.*

3.3 Inflation

Month on Month **(M-o-M) Inflation** was 0.1% in March 2023 after registering a decline of 1.6% in February 2023. Year on Year (**YoY**) inflation decelerated from 92.3% in February 2023 to 87.6% in March 2023. However, **downside risks to inflation are increasing.** Major contributors to inflation 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.

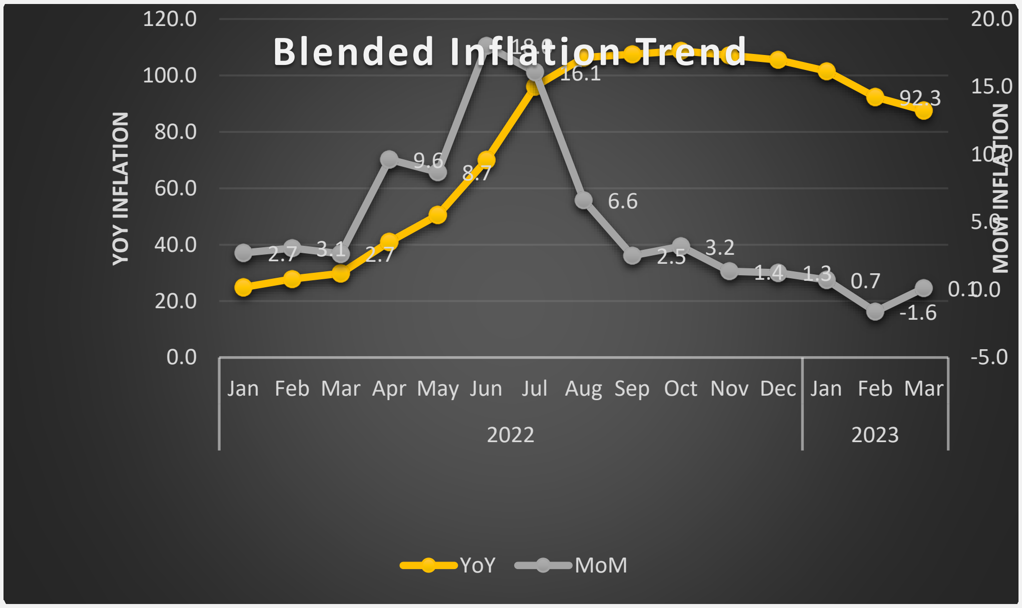
The Government is expected to maintain a tight monetary policy stance and continue with the issuance of gold coins to stem inflation pressures. The Government has targeted a blended inflation (MoM) figure of below 1.5% and YoY average in the range of 10-30%.

Risk to the inflation outlook include:

i. rising oil prices;
ii. increased government expenditure;
iii. decline in agricultural output;
iv. rising international commodity prices; and
v. parallel market exchange rate instability.

Housing, electricity, gas and other fuels (105.7%), and health (49.6%) leads to creeping up of Bank's operating expenses.

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



Source: ZimStats, March 2023

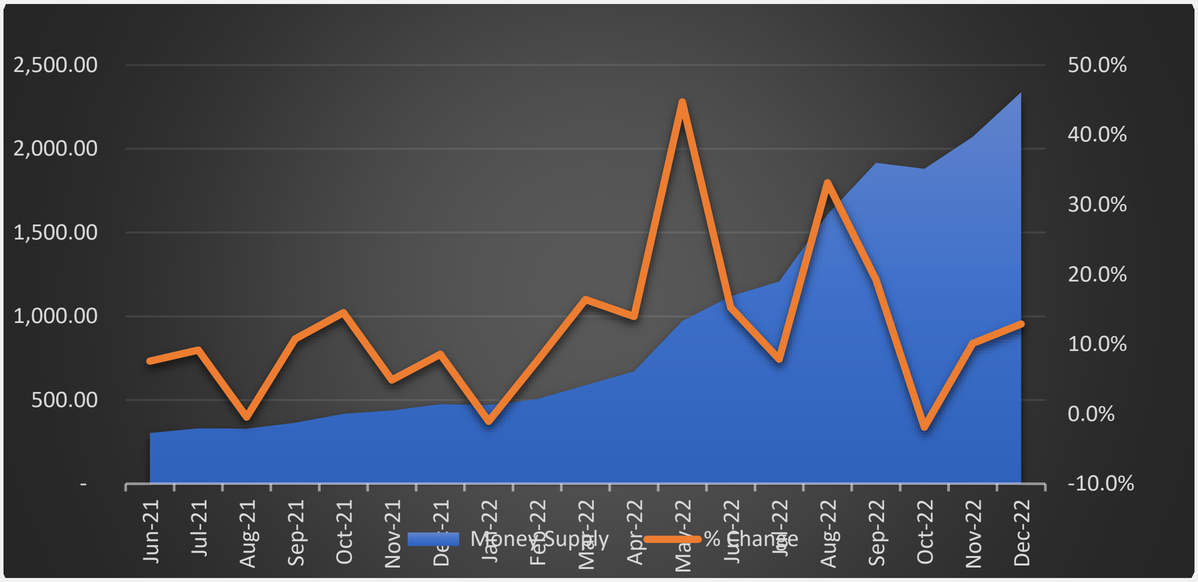
The Bank continues to operate under high inflation environment. The Bank will rely on inflation hedging instruments to successfully mobilise for long term funding. Measures to safeguard erosion of budget during project implementation should be employed.

3.4 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 ZWL98.86billion in November 2022 to ZWL 104.04 billion by December 2022. *Money supply continue to be the source of the country's inflation pressures.*

The ZWL currency moved from 1US$: ZWL671.5 in December 2022 to ZWL 929.86 as at 31 March 2023 on the interbank market it depreciated to an average of ZWL1600 on the parallel exchange market by 31 March 2023 from an average of ZWL1000 in December 2022. The Central Bank is expected to 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

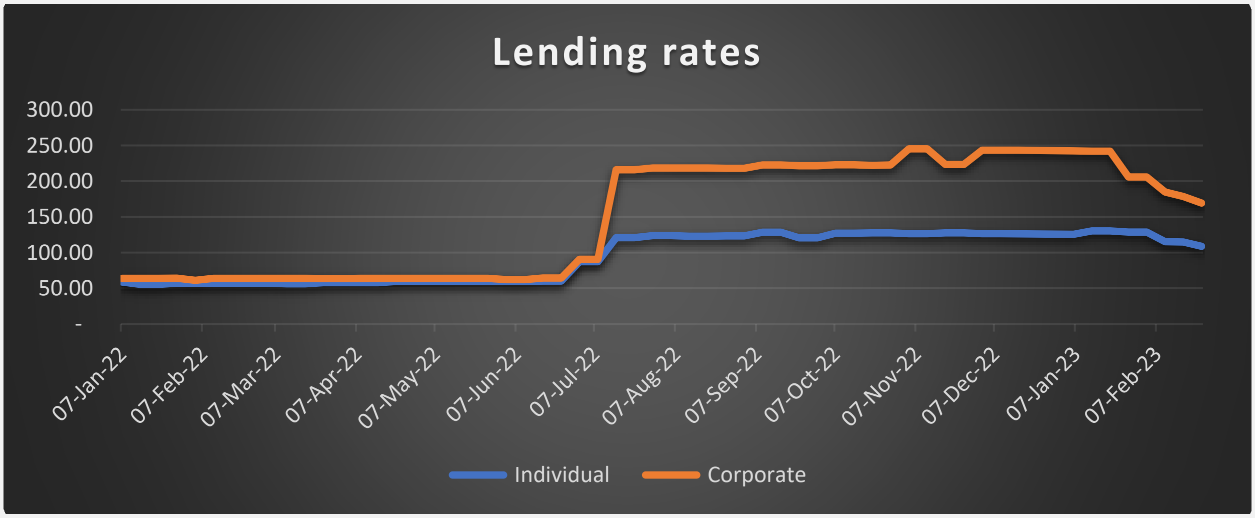
As the RBZ continues with the tight monetary policy stance to anchor exchange rate stability and inflation. In February 2023, MPC took the following decision which remained up to the end of March 2023:

- 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;

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 116.86% and 184.67% to individuals and corporates respectively from an average of 128.74% and 233.15% in February. *Given recent inflation developments rates are likely to continue going up. High interest rates are going to lead to financial disintermediation and my eventually lead to increase in non-performing loans.*

Figure 8: Lending Rates January 2022 – February 2023

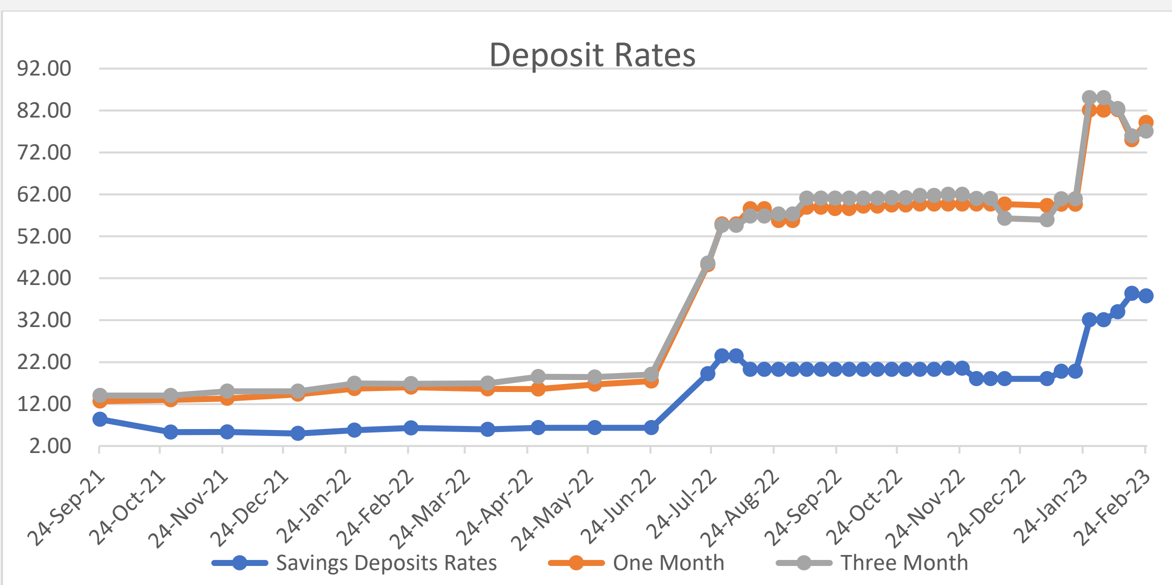


Source: Reserve Bank of Zimbabwe, Weekly Economic Reports February 2023

In tandem, in February 2023, deposits rates also increased to average 35.56%, 79.11%, and 77.06% 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 taking refuge in gold coins, the foreign currency denominated Victoria Falls Stock Exchange (VFEX) and foreign currency.

Figure 9: Deposit Rates, September 2021 to February 2023



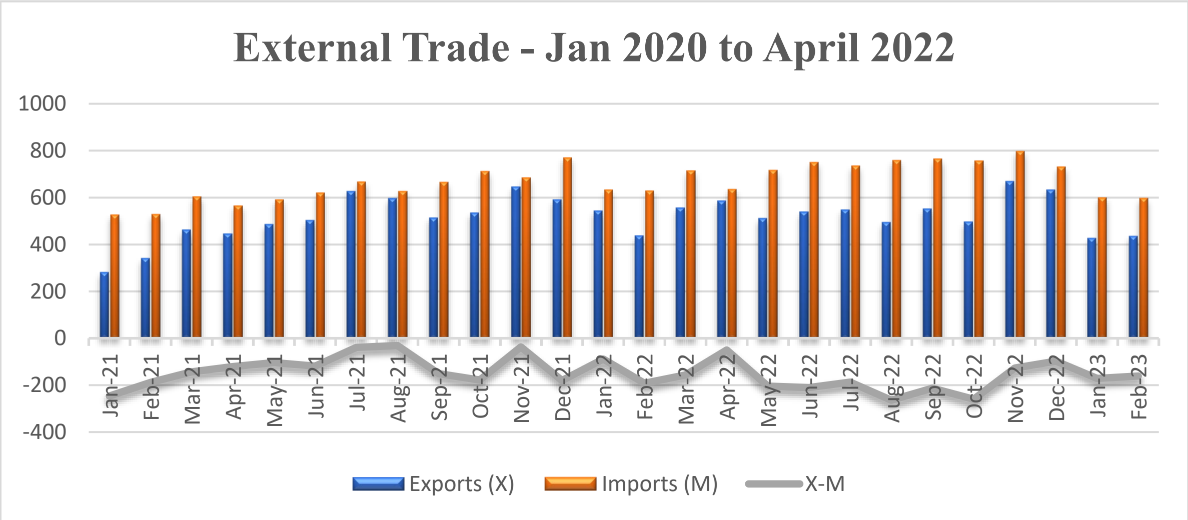
Source: Reserve Bank of Zimbabwe, Weekly Economic Reports, February 2023

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 February 2023. Total exports increased from US$427.6 million in January 2023 to US$435.7 million in February 2023. The trade deficit has reduced form US$172 million in January 2023 to US$162 million in February 2023. Zimbabwe's main exports are: semi-manufactured gold (incl. gold plated with platinum)- 22.9%; nickel mattes (include PGMs)- 19.9%; tobacco, partly or wholly stemmed/stripped- 13.4%; ferro-chromium, containing by weight >4% carbon- 5.7%, other mineral substances, nes- 5.5%; coke and semi-coke of coal, of lignite or of peat; retort carbon – 3.5%; and coke and semi-coke of coal, of lignite or of peat; retort carbon- 2.5%. Zimbabwe main export partners are: South Africa, China, Mozambique and Zambia. 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%. Zimbabwe main import partners are South Africa and China. *The figures presented continue to give a good sign of a growing economy and positive prospects for the future. However overreliance on primary commodity exports increases the country vulnerability to commodity price cycles.*

Figure 10: Zimbabwe Current Account Developments.



Source: ZIMSTAT, March 2023

4 Conclusion

The risks to global growth are increasing and this is added to recent developments in the US and Canada financial markets. The search for an alternative reserve currency becomes more pronounced and may trigger global financial instability. The country's trade figures are showing improved foreign currency flows and a more positive economic outlook. The global financial markets remain tight and domestic resource mobilization for development remains the most viable option. This will further tighten the liquidity situation given the conservative fiscal policy and tight monetary policy stance. Growth in South Africa, United Arab Emirates and China will support the growth of Zimbabwean exports. The exchange rate instability and the difference between the official exchange rate and parallel market rate are key risks going forward. Inflation pressures are thawing but the risk remains elevated. As highlighted previous, government expenditure will likely go up given the recent salary adjustments to civil servants. High interest rates pose risk of increased NPL for the Bank. The country continue to present opportunities in the infrastructure sectors for investment by the Bank.