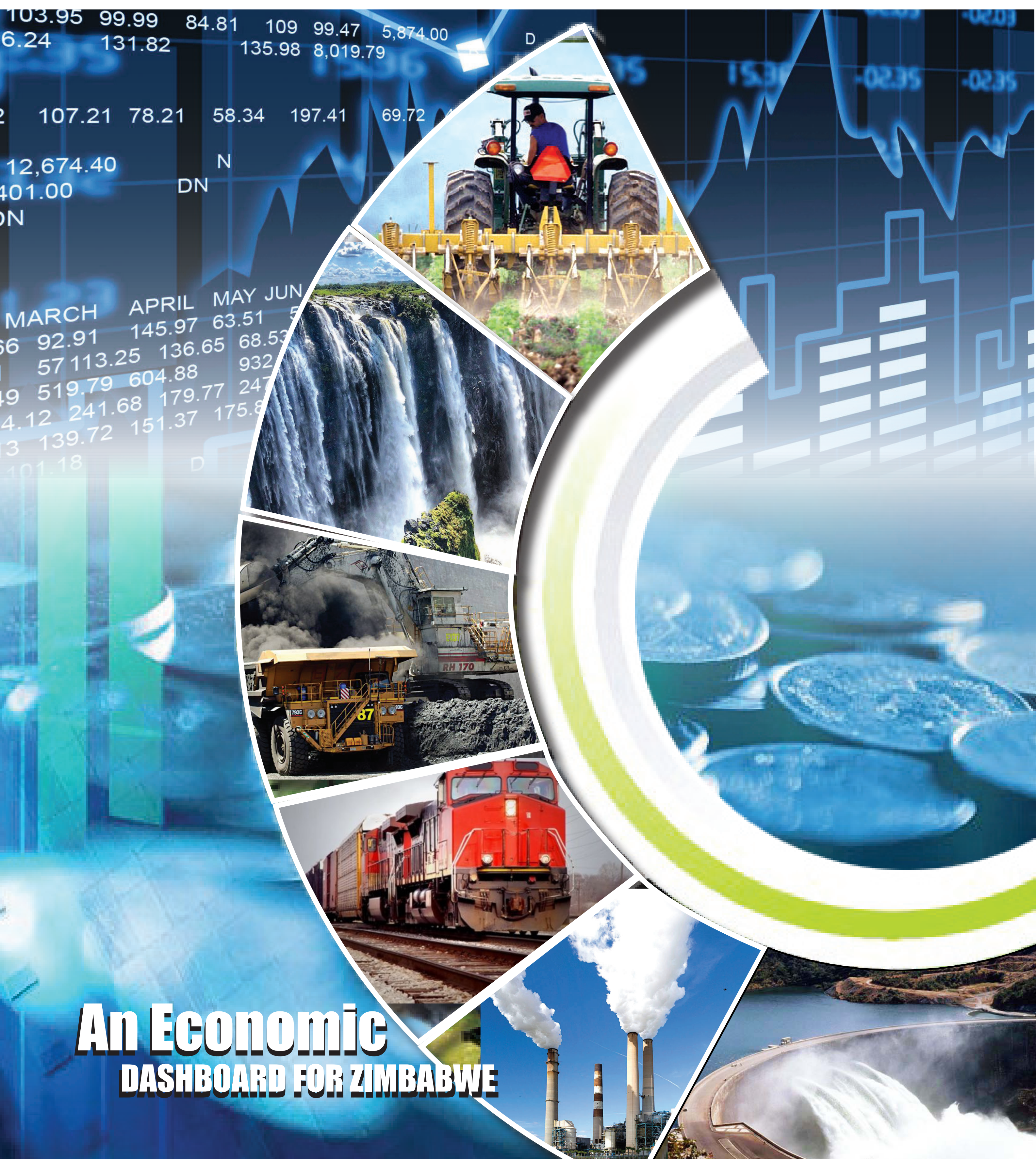
STATE OF THE ECONOMY Report

FIRST QUARTER 2020



Onion - Capricio

For both fresh and dry market

TYPE	Open pollinated		
MATURITY TYPE	Early short day		
MATURITY IN DAYS	190 - 200		
PLANT CHARACTERISTICS	Bulb:	Shape	Deep flat round
		Firmness	Moderate
		Exterior colour	Medium straw
		Interior colour	Cream white

DISEASE TOLERANCE *Pyrenochaeta terrestris*

Wheat - Peregrine

1. Variety - Peregrine
2. Maturity- very early 113days.
3. Very good standability, about 90cm height.
4. Very good disease package
5. High yielding - 7-9t/ha.
6. Protein content -11.2%7. Adaptibility - both high and low potential areas

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Faltering Zim economy emphasises need for research

AS PROMISED last year when the inaugural 'State of the Economy' Report was launched by the African Economic Development Strategies (AEDS) and the Daily News, the two organisations have collaborated on yet another key milestone.

AEDS and the Daily News have realised that timely and accurate economic research is vital for undertaking more sound economic policies for boosting a stable and non-inflationary growth and for coping with various risks under a dynamic and rapid integration of our economy. With that in mind, we have delivered the third State of the Economy Report, which we expect to steer the country's economy forward.

At the moment, Zimbabwe is facing its worst economic crisis in a decade mostly due to a lethal cocktail of macroeconomic instability, climate shocks and policy missteps. The southern African nation's economy is expected to have contracted by 7.5 percent in 2019, according to the World Bank, with extreme poverty rising to 34 percent, or 5.7 million people, and the country is facing its worst hunger crisis in a decade.

Inflation was running at more than 500 percent at the end of last year, the newly introduced Zimbabwean dollar has lost most of its value, and climate shocks have crippled Zimbabwe's agriculture and electricity generation, rendering more than half of the population food insecure. Faced with such a dire situation, it becomes imperative for policy makers, captains of industry, academics and entrepreneurs to greatly consider this report as it helps the country to come up with the right policies to address our old age challenges.

Zimbabwe has all the ingredients to be an upper middle-income economy by 2030, but perhaps what has been missing is the research needed to nudge policy-makers in the right direction and this report's objective is to close the gap.

Dakarai Mashava
Magazine Editor

"At the moment, Zimbabwe is facing its worst economic crisis in a decade mostly due to a lethal cocktail of macroeconomic instability, climate shocks and policy missteps. The southern African nation's economy is expected to have contracted by 7.5 percent in 2019, according to the World Bank, with extreme poverty rising to 34 percent, or 5.7 million people, and the country is facing its worst hunger crisis in a decade.

Economic outlook is gloomy

AS A Zimbabwe-grown management consulting firm, the African Economic Development Strategies (AEDS) is truly committed to providing practical economic advice and closing the information gap in the economy.

In keeping with this thrust, AEDS in conjunction with the Daily News, jointly produces The State of the Economy Report on a quarterly basis. The report is expected to provide new economic reporting in Zimbabwe by putting emphasis on discussions anchored on hard facts, rigour, objectiveness and pragmatism.

It is important to emphasise that The State of the Economy Report is informed by data and critical literature gleaned from reputable sources such as World Bank's World Development Indicators, World Bank's Ease of Doing Business reports, International Trade Centre, International Monetary Fund's World Economic Outlook reports, Africa Development Bank, World Economic Forum's Global competitiveness reports, United Nations Conference for Trade and Development investments report, etc.

Locally, researchers utilise data sourced from ministry of Finance and Economic Development, Reserve Bank of Zimbabwe, Zimbabwe National Statistics (ZIMSTAT), Consumer Council of Zimbabwe, etc.

Furthermore, primary data is gathered through key informant interviews with key stakeholders such key policy makers, the Consumer Council of Zimbabwe, captains of industries and development partners. Additionally, there are also focus group discussions with top economists and experts.

This issue — the first quarter 'State of the Economy Report' for this year-shows that the economic outlook is gloomy. This has been necessitated by excessive policy inconsistencies and various endogenous shocks emanating from the untimely introduction of the new currency, adjustment in the rates and levies without corresponding adjustment on salaries and liberalisation of exchange rates as well as fuel pricing.

Whilst some of the measures were necessary, for example, liberalisation of exchange rates and fuel pricing, there is no clear policy mechanism aimed at increasing supply of foreign exchange, which is key in stabilising the rates and eventually inflation.

We repeat here what we have said in the past- the introduction of the Zimbabwe dollar was done without the prior implementation of the necessary enabling conditions such as six months import cover (foreign currency reserves), that is, a minimum of US$3 billion, single digit inflation, fiscal consolidation and stable exchange rates.

It is important to emphasise that the reining in of the budget surplus that the minister of Finance and Economic Development, Mthuli Ncube continually lists as one of his crowning achievements should be accompanied by full fiscal consolidation since there is still a debt overhang.

Clearly, the finance minister will predictably run a budget deficit come end of the year due to the impact of the various subsidies on electricity, water and ZUPCO fares. It goes without saying that the hurried introduction of the Zim-dollar in the absence of minimum requirements will continue to haunt the country.

The situation will be compounded by existing structural rigidities, the deep-seated shortage of foreign exchange; negative effects of drought and low supply of electricity.

Given the above-mentioned, we expect the prevailing gloomy economic outlook-characterised by high inflation, continuous depreciation of exchange rate, company closures and shortages-to persist.

Dr. G. Mugano
Executive Director
Africa Economic Development Strategies

1.1 World economic outlook update

GLOBAL economic activities have been weakened significantly due to protracted trade tensions, high policy uncertainty and the increased social unrest. This is undermining progress towards eradicating poverty, raising living standards, and creating a sufficient number of decent jobs.

The slowdown in the world economy growth over the past year has been accompanied by a sharp slowdown in international trade flows and global manufacturing activity. Global growth slowed to 2.9 percent in 2019. A modest acceleration is expected going forward, with average world growth projected at 3.3 percent in 2020.

The projected increase in growth may be a result of, improved market sentiment due to tentative signs that manufacturing activity and global trade are bottoming out, a shift toward accommodative monetary policy by some economies, intermittent favorable news on US-China trade negotiations, diminished fears of a no-deal Brexit, and the economic ramifications of social unrest and geopolitical tensions remaining contained. The growth also relies on relatively healthy emerging market economies maintaining their robust performance.

Growth across Emerging Market and Developing Economies (EMDEs) (including India, Mexico, and South Africa) was weaker than expected in 2019 largely due to country-specific shocks weighing on domestic demand. The advanced economy group slowed broadly as anticipated and core consumer price inflation remained muted across advanced economies which further softened across most emerging market economies amid more subdued activity. In addition, weak demand lowered metals and energy prices.

The slow growth in 2019 is mainly caused by:

- Rising geopolitical tensions, notably between the United States and Iran
- Rising tariffs between the United States and its trading partners, notably China and rapid shifts in trade policies,
- Deteriorating business confidence dampening investment growth across most regions.
- Softening demand which negatively weighted down global commodity prices (crude oil and industrial metals)
- Intensifying social unrest in several countries
- Weather-related disasters (hurricanes in the Caribbean, to drought and bushfires in Australia, floods in eastern Africa, and drought in southern Africa).

There are prospects of positive growth as signs of stabilisation reinforced financial market sentiment as already reflected by central bank rate cuts. Markets appeared to have internalised the outlook for US monetary policy.

Furthermore, intermittent favourable news on US-China economic relations and diminished fears of a hard Brexit supported investors' risk appetite. Equities continued to advance favourably in the large advanced economies; core sovereign bond yields have been rising since September 2019; and portfolio flows to emerging market economies strengthened. Currency movements between September 2019 and early January 2020 reflected the general strengthening of risk sentiment and reduced trade tensions as the US dollar and the Japanese yen weakened by about two percent, while the Chinese renminbi gained about 1,5 percent.

The most notable movement across major currencies was the appreciation of the British pound (4 percent since September) on perceptions of reduced risks of a no-deal Brexit. Financial conditions thus remain broadly accommodative across advanced and emerging market economies.

> "There are prospects of positive growth as signs of stabilisation reinforced financial market sentiment as already reflected by central bank rate cuts. Markets appeared to have internalised the outlook for US monetary policy.

1.1 World economic outlook update

Advanced Economies

Growth of advanced economies is forecast to stabilise at 1.6 percent in 2020 based on January 2020 forecasting mostly due to downward revisions for the United States, euro area and the United Kingdom, and downgrades to other advanced economies in Asia, notably Hong Kong SAR following protests.

In the United States, growth is expected to moderate from 2.3 percent in 2019 to 2 percent in 2020. The moderation reflects a return to a neutral fiscal stance and anticipated waning support from further loosening of financial conditions.

Growth in the euro area is projected to pick up from 1.2 percent in 2019 to 1.3 percent in 2020 due to projected improvements in external demand which support the anticipated firming of growth.

In the United Kingdom, growth is expected to stabilise at 1.4 percent in 2020. The growth forecast assumes an orderly exit from the European Union at the end of January followed by a gradual transition to a new economic relationship. Japan's growth rate is projected to moderate from an estimated 1 percent in 2019 to 0.7 percent in 2020. Summarized global economic growth developments and prospects for selected regions and countries are provided in Table 1 below.

Table 1: Global and Regional Growth and Outlook (%)

World Output	3.2%	3.0%	2.9%	3.3%
Advanced Economies	1.7%	2.3%	1.7%	1.6%
US	1.6%	2.2%	2.3%	2.0%
Euro Area	1.9%	2.4%	1.2%	1.3%
Japan	0.6%	1.9%	1.0%	0.7%
Emerging Markets and Developing	3.7%	4.3%	3.7%	4.4%
China	6.7%	6.9%	6.1%	6.0%
India	7.1%	6.7%	4.8%	5.8%
Sub-Saharan Africa	1.3%	2.6%	3.3%	3.5%
South Africa	0.6%	1.3%	0.9%	1.1%
Zimbabwe*	0.6%	3.4%	-6.5%	3.0%
Latin America and the Caribbean	-1.5%	0.8%	1.6%	1.7%
Brazil	-3.3%	1.1%	0.0%	2.2%
Mexico	2.9%	2.1%	2.0%	1.0%
Argentina	-1.8%	2.9%	-2.5%	-1.2%

Source: World Bank: Global Economic Prospects (February 4, 2020 Update); Treasury, Reserve and Zimstat (2020)

Emerging Markets and Developing Economies (EMDEs)

EMDE growth is expected to increase to 4.4 percent in 2020. The growth profile for the group reflects a combination of projected recovery from deep downturns for stressed and underperforming emerging market economies and an ongoing structural slowdown in China.

Growth in emerging and developing Asia is forecast to inch up slightly from 5.6 percent in 2019 to 5.8 percent in 2020 due to slowed down domestic demand in India. India's growth is projected to improve to 5.8 percent in 2020 due to monetary and fiscal stimulus as well as subdued oil prices.

Growth in China is projected to slightly decline from an estimated 6.1 percent in 2019 to 6.0 percent in 2020 as a result of unresolved disputes on broader US-China economic relations as well as needed domestic financial regulatory strengthening.

Growth in emerging and developing Europe is expected to strengthen to around 2.5 percent in 2020 from 1.8 percent in 2019.

The improvement reflects continued robust growth in central and Eastern Europe, a pickup in activity in Russia, and ongoing recovery in Turkey as financing conditions turn less restrictive.

Latin America and the Caribbean

Economic growth in the region is projected to recover from an estimated 0.1 percent in 2019 to 1.6 percent in 2020 supported mainly by a pickup in private consumption.

"Growth in the euro area is projected to pick up from 1.2 percent in 2019 to 1.3 percent in 2020 due to projected improvements in external demand which support the anticipated firming of growth.

The growth is mainly from Brazil, owing to improved sentiment following the passage of pension reform and the fading of supply disruptions in the mining sector. Brazil is forecast to expand 2.2 percent, assuming fiscal reforms are quickly put in place and that a recovery of consumption and investment will outweigh cutbacks to government spending.

Mexico is expected to keep growth at 2 percent due to policy uncertainty and prospects of subdued investments. Argentina is forecast for decline in growth prospects to fall to 1.7 percent due to deep fiscal consolidation which will result in loss of employment and reduced consumption and investment.

Sub-Saharan Africa

Regional growth is expected to strengthen to 3.5 percent in 2020 from 3.3 percent in 2019. South Africa growth is expected to increase to 0.8 percent in 2020 from 0.4 percent in 2019. This is a constrained growth due structural constraints and deteriorating public finances, which are holding back business confidence and private investment.

The newly-projected Zimbabwe's growth rate by the World Bank is now 2.6 percent from a projected negative growth in 2019. The positive growth prospects are owing to the end of austerity measures. However, uncertainty in policy (monetary policy and fiscal policy reversals), economic reforms, and drought continue weighing the prospects of growth downwards.

1.1 International Commodity Prices

IT IS important to note that commodities markets and prices continue to influence global economic activities and country growth performances. Commodity price indexes fell in the third quarter of 2019, led by energy, which declined more than 8 percent mainly caused by trade tensions and weakness in global trade, manufacturing, and output. Crude oil prices averaged $60/bbl in 2019 and are expected to fall to $58/bbl in 2020. As of January 2020 energy commodity prices declined by 3.1 percent.

The decline is associated with heightened risks of a sharper expected global downturn, which is likely to further slowdown oil demand, therefore lower oil prices. Non-energy prices extended their gaining by 1.1 percent in January 2020 with agriculture up by 1.6 percent, metals and minerals being marginally higher. Precious metals jumped 5.4 percent, the largest increase among commodity groups.

The jump in precious metals prices is a positive development for Zimbabwe as the country relies on primary exports of both metals (gold, platinum, chrome) and agriculture commodities (mainly tobacco).

The recovery of metal and mineral prices will positively affect Zimbabwe's mining operations, mineral exports, export receipts, mineral tax revenues and employment. However, the country will lose from the average increase in price of cereals (maize, wheat) and oils (soyabeans) as the country continue experiencing long dry spells and droughts which negatively affects agriculture.

1.2.1 Gold and Platinum

Precious metal prices have been on an upward trend in 2019 and trend has continued in 2020 as reflected by the January 2020 prices (Gold US$1561/ounce and Platinum US$987/ounce).

On annual basis gold prices have been on an upward trend from 2017 to 2019 from US$1258 to US$1392 per ounce respectively. However, platinum was going in the opposite direction, slowing down from 2017 to 2019 from US$948 to US$864 per ounce respectively. Month-on-month prices for gold have been on an upward tractor from US$1471per ounce in November 2019 to US$1561 per ounce in January 2020.

Implications for Zimbabwe

Firming of precious metals prices (gold and platinum) on a month to month basis is of major importance for both mining companies and the Government of Zimbabwe. Since the introduction of retention of foreign currency from exports, this will act as cushion to mining companies and will also increase government revenues. Even small scale miners (namely Makorokoza) will receive more from their mining efforts.

Figure 1(a): Annual average prices movements

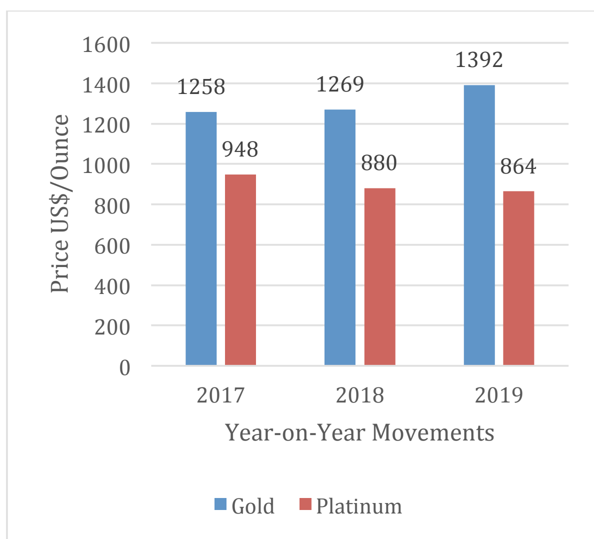


Figure 1(b): Month on month price movement

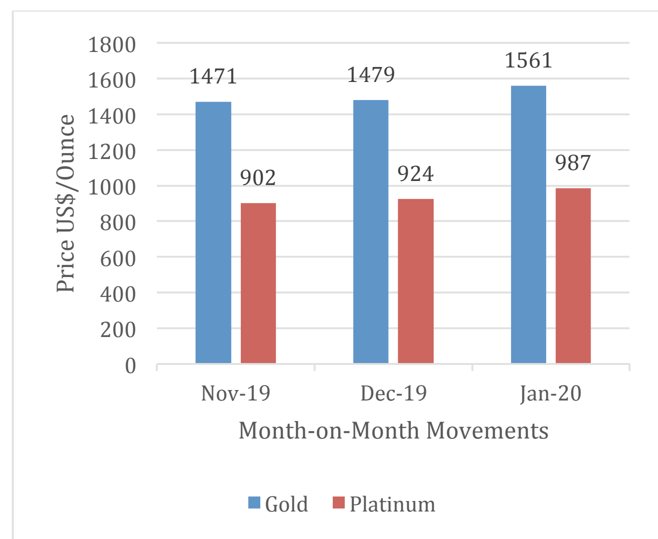


Figure 1: Gold and Platinum Prices

Source: World Bank Commodities Price Data (February 4, 2020)

1.1 International Commodity Prices

1.2.2 Oil

Oil prices are expected to be below $60/ bbl in 2020, as of January 2020 projections a slight decline from a projected $60/ bbl in 2019 and a sharp drop from their 2018 level of $68/bbl. The forecast has been revised down substantially by $7/bbl, primarily reflecting the weaker global economic outlook. Consumption in OECD countries is anticipated to remain flat, with declines expected in Japan and Europe.

Consumption is markedly slower than initially forecast by the EIA, IEA, and OPEC, and reflects a broad-based slowdown in global growth. Indicators of activity, such as industrial production, trade volumes, and business surveys, have deteriorated sharply this year.

Global sales of passenger vehicles, a major barometer of oil demand growth, have continued to fall, with particularly large declines in China.

Since these economies tend to have a larger income elasticity of demand for commodities than advanced economies, their slowdown has weighed disproportionately on energy demand.

Oil prices are expected to average US$58/barrel in 2020 as of January 2020 projections. This is a positive development to country such as Zimbabwe which is a net importer of oil.

Figure 2 (a): Average Year on Year Price of Crude Oil

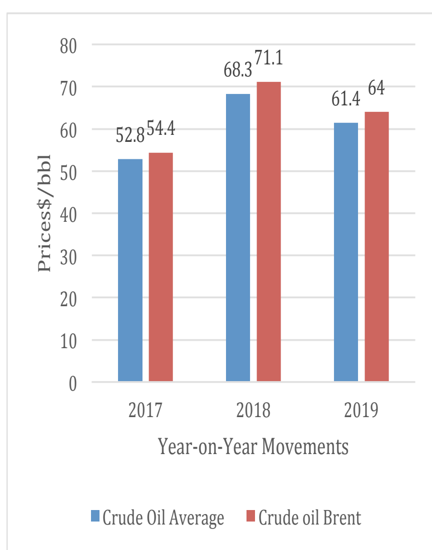


Figure 2(b): Month on month Prices

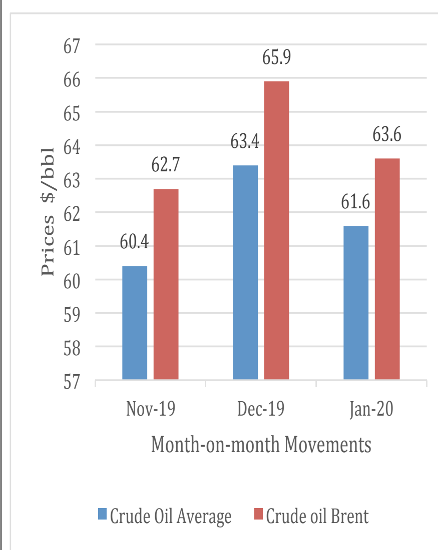


Figure 2: World Average Prices of Crude Oil

Source: World Bank Commodities Price Data (June 2019)

Implications for Zimbabwe

Oil price stability in international markets and supply stability are positive developments to Zimbabwe on both price stability and importation bill. However, Zimbabwe has its own challenges in terms of currency to sell the fuel at.

The Reserve Bank has instructed the Zimbabwe Energy Regulatory Authority to issue license to dealers to sell in foreign currency, which is likely to cause low supply by those selling in local currency as every dealer would prefer selling in foreign currency.

1.2.3 Agriculture Commodities

1.2.3 Agriculture Commodities

THE US Department of Agriculture's (USDA) latest assessment, global production of the three main grains —wheat, maize, and rice — is projected to increase by 0.6 percent this season (September 2019 to August 2020). The Grain Price Index is expected to remain fairly stable in 2020, following a projected 2 percent decline in 2019.

Oils and Meals prices are expected to decline 2 percent in 2020, following a projected plunge of more than 10 percent in the current year. Overall, grain and oilseed markets have been (and continue to be) well-supplied compared to recent history.

1.2.3.1 Maize

The projection for the 2019-20 global maize crop was revised sharply downward as of January 2020 due to weather-related lower plantings in the United States (the world's largest producer) and drought effects in most African countries especially sub-Saharan Africa.

Maize prices reflected an upward trend as of November 2019, from US$166.3 to US$171.8 in January 2020, reflecting an increased expenditure for Zimbabwe as is importing Maize to meet the national requirement.

1.2.3.2 Wheat

Wheat prices, which spiked temporarily in June 2019 in response to dry conditions in Australia, have moderated recently as supply prospects in the European Union, the United States, and much of Central Asia have been positive. Global production of wheat is expected to reach a record 765 mt this season, nearly 5 percent higher than last season's crop.

The soft red winter (SRW) wheat price increased from US$223.5 per metric tonne in November 2019 to US$248.0 per metric tonne in January 2020. Hard red winter (HRW) increased from US$203.2 per metric tonne in November 2019 to US$224.5 per metric tonne in January 2020. This reflects negative prospects for Zimbabwe as this is likely to push the prices of bakery commodities up.

1.2.3.3 Soyabean

Soyabean price increased from US$376 per metric tonne in November 2019 to US387 per metric tonne in January 2020. Global oilseed output for 2019-20 is expected to decline nearly 3 percent in response to a 5 percent drop in soybean production.

The drop is mainly due to reduction in the area allocated to the production of soybeans in the United States which has contracted by 15 percent during in the past two seasons.

The reduction in area under the crop is mainly in response to the tariff related reduction in imports by China but also due to the near-collapse of animal feed demand from East Asia, notably China, related to the spread of African swine fever.

1.2.3.4 Cotton

Cotton prices increased from US$1.65 per kilogram in November 2019 to US$1.74 per kilogram in January 2020. This is a favourable trend for Zimbabwe given that the country have put a lot of effort in the out-grower scheme of the crop in the current season.

1.2.3.5 Tobacco

Tobacco average prices were fluctuating above US$4 on a monthly basis. The prices fell to US$4.81 in November 2019 to US$4.75 in January 2020. These are high prices given that the local price was $2.65 for the 2018/19 season

Table 2: World Average Commodity Prices of Selected Agriculture Commodities

	Unit	Annual Price Averages			Month on Month Price Movements		
		2017	2018	2019	Nov 2019	Dec 2019	Jan 2020
Maize	$/mt	154.5	164.4	170.1	166.3	167.0	171.8
Wheat HRW	$/mt	174.2	209.9	201.7	203.2	210.9	224.5
Wheat SRW	$/mt	178.2	203.9	211.3	223.5	237.7	248.0
Soyabeans	$/mt	393	394	368	376	376	387
Cotton	$/kg	1.84	2.01	1.72	1.65	1.67	1.74
Tobacco*	$/kg	4.65	4.95	4.80	4.81	4.78	4.75

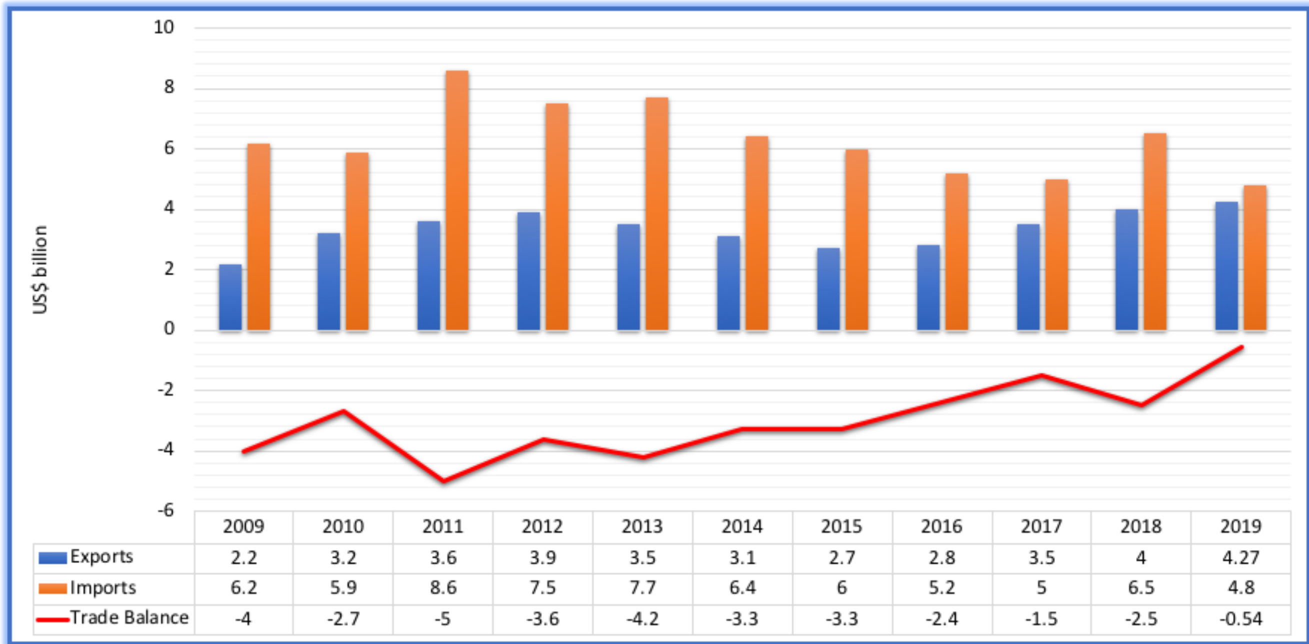
(US import prices converted from metric tonne of imports to price per kg for tobacco)*

Source: World Bank Commodities Price Data (June 2019)

Implications for Zimbabwe

Increase in price of Maize is likely to affect Zimbabwe negatively given that the country has to import maize to sustain supply local supplies. High average price trends for wheat is an unfavourable development as the country is a net importer of wheat. The pick-up of Soyabeans price is negative development for Zimbabwe, given that the country fell short of the annual production and relies heavily on imports. An increase in price of cotton is a favourable development for Zimbabwe as it is going to impact positively on the export receipts from the crop. Stable price movements on tobacco are encouraging for Zimbabwe as this will result in more revenue flows from tobacco which is the major agriculture export.

2.1 Current Account Performance



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Exports	2.2	3.2	3.6	3.9	3.5	3.1	2.7	2.8	3.5	4	4.27
Imports	6.2	5.9	8.6	7.5	7.7	6.4	6	5.2	5	6.5	4.8
Trade Balance	-4	-2.7	-5	-3.6	-4.2	-3.3	-3.3	-2.4	-1.5	-2.5	-0.54

Source: UN COMTRADE (2019) & ZIMSTAT

THE country's external sector position has largely remained under considerable pressure, due to excessive foreign currency demand against the foreign currency inflows. This pressure is manifested through persistent and large trade and current account deficits that the economy has been recording since 2009. While exports of goods and services have been on an upward trend, this has been offset by the increase in imports of goods and services on the back of domestic supply gaps and rising international oil prices.

2.1 Current Account Performance

Zimbabwe, for the last 11 years, that is since 2009, the country faced incessant trade deficits which has accumulated to $29.74 billion (see figure 2.1).

Zimbabwe, for the last eleven years, that is since 2009, the country faced incessant trade deficits which has accumulated to $29.74 billion (see figure 2.1).

In each and every year, Zimbabwe exports have roughly been about 50 percent of imports.

This is not an ideal situation considering the fact that the country must realise trade surplus which is a necessary and sufficient requirement for the stabilisation of currency under a dollarized environment.

Statistics from the International Trade Centre (ITC) show that the Southern African Development Community (SADC) is the major source of Zimbabwe imports with an import share of 79 percent of total imports.

In 2019, Zimbabwe's major imports include mineral fuels ($1.49 billion), machinery ($467.8 million), cereals ($519 million), motor vehicles ($340 million), electricals ($263 million), iron and steel ($213 million), pharmaceuticals ($201.6 million), plastics ($181 million), animal and vegetable fats ($154 million), soya bean crude oil ($103 million) and fertiliser ($104 million) (UN COMTRADE, 2018).

It is refreshing to note that exports surged in 2019 by 55 percent while imports plummeted by . This is a clear testimony that Zimbabwe can increase its export capacity ceteris paribus.

Of concern though is the fact that the bulk of the country's exports, that is, 87 percent, comprise among others gold, flue-cured tobacco, ferrochrome, nickel, chrome, and diamonds, which are primary exports.

The largest foreign currency earners were gold ($1,030 billion), followed by tobacco ($892 million), nickel mattes ($432 million), nickel ores and concentrates ($322 million), ferro-chromium ($207 million), chromium ores and concentrates ($81 million) for 2018 (UN COMTRADE, 2018).

The fall in imports, whilst showing narrowing in current account deficits to US$540 million from US$2.5 billion in 2018 cannot be celebrated since most of the product lines which suffered massive declines are raw materials required to spur production and drive exports. Our interactions with key stakeholders shows that fall in imports are largely caused by shortage of foreign currency.

Sadly, our trading statistics shows that there a number of lines which the country has been importing whose import values seem insignificant as single products but become very significant when combined. As shown in table 2.2, these products makes up $2.152 billion, that is, 41.7 percent of total imports which can be substituted.

Table 2.2: Zimbabwe major imports which can be substituted

What is apparent is that Zimbabwe, for a number of decades, has been importing these products consistently. Against this background, from a policy perspective, the country should consider the following policy measures:

(a) Implement an import substitution policy aimed at imports which can be locally produced, that is, agricultural produce (cereals, vegetables, mushroom, etc) and manufactured produce (such as pharmaceuticals, fertilisers, paper, tooth picks, pampers, chewing gums, etc) (see table 2.2);

(b) Related to import substitution strategy, there is need for a funded industrialisation strategy which targets the same specific imports identified in (a);

(c) Deliberate local content policy aimed at strengthening local value chains and operationalisation of value chain finance models through creation of an enabling environment for business to support backward and forward linkages;

In addressing challenges linked to low and narrow export base, the following measures are recommended:

(a) There is need for the country to build export capacity by investing into the traditional export lines which are largely concentrated in the agro-processing industries, horticulture and minerals. This requires investment into retooling and full utilisation of resources like land. Specifically in agriculture, Government should promote joint ventures with white commercial farmers and resettled farmers. In this regard, lessons can be drawn from the Agricultural and Rural Development Authority (ARDA);

(b) There is need for investment into factories with a view of promoting value addition and beneficiation with a view to changing the trajectory from exporting primary goods to processed and finished goods. This requires targeted investments campaigns for such specific projects which are aimed at our current export lines which are going out as raw. The current work on special economic zones should consider designation of specific zones which are aimed at value addition and beneficiation;

(c) There is need for the implementation of the National Export Strategy which was developed by the Ministry of Industry and Commerce with a view of ramping up exports to traditional and non -traditional markets.

HS Code	Product Description	$ Million
'10	Cereals	519
'30	Pharmaceutical products	202
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	155
'72	Iron and steel	213
'31	Fertilisers	95
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	81
'23	Residues and waste from the food industries; prepared animal fodder	76
'40	Rubber and articles thereof	67
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	60
'28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	47
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	45
'11	Products of the milling industry; malt; starches; inulin; wheat gluten	41
'21	Miscellaneous edible preparations	38
'99	Commodities not elsewhere specified	35
'19	Preparations of cereals, flour, starch or milk; pastrycooks' products	30
'22	Beverages, spirits and vinegar	30
'29	Organic chemicals	30
'12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	25
'17	Sugars and sugar confectionery	22
'03	Fish and crustaceans, molluscs and other aquatic invertebrates	21
'36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	20
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	20
'96	Miscellaneous manufactured articles	20
'20	Preparations of vegetables, fruit, nuts or other parts of plants	20
'82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	18
'76	Aluminium and articles thereof	18
'70	Glass and glassware	17
'44	Wood and articles of wood; wood charcoal	17
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	17
'55	Man-made staple fibres	16
'24	Tobacco and manufactured tobacco substitutes	15
'07	Edible vegetables and certain roots and tubers	14
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	14
'64	Footwear, gaiters and the like; parts of such articles	13
'08	Edible fruit and nuts; peel of citrus fruit or melons	10
'83	Miscellaneous articles of base metal	10
'49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	10
'68	Articles of stone, plaster, cement, asbestos, mica or similar materials	10
'35	Albuminoidal substances; modified starches; glues; enzymes	9
'61	Articles of apparel and clothing accessories, knitted or crocheted	8
'02	Meat and edible meat offal	7
'62	Articles of apparel and clothing accessories, not knitted or crocheted	6
'01	Live animals	5
'09	Coffee, tea, maté and spices	5
'52	Cotton	2
	Total	**2,152**
		41.47 %

2.2 Foreign Currency Receipts

Table 2.3: Global Foreign Currency Receipts (USD million)

Type of Receipt		Week 52 2019	% Change	Week 52 2018	Week 52 2017	% Change
Export proceeds		3,897.18	-11.27%	4,391.98	3,556.2	23.5%
International Remittances	Diaspora	635.43	2.61%	619.25	695.3	-10.94%
	NGOs	521.16	-8.61%	570.26	682.5	-16.45%
Loan Proceeds		1,717.37	11.63%	1,538.53	533.5	188.38%
Income Receipts		62.63	-0.9%	63.18	57.0	10.84%
Foreign Investments		54.27	120.79%	24.58	25.4	-3.2%
Total		**6,888.04**	**-4.4%**	**7,207.78**	**5,549.9**	**29.87%**

Source: Exchange Control Records and Bank Supervision Application System (BSA)

As noted by the Reserve Bank of Zimbabwe (2019), the Global Foreign Currency receipts for the period January – December 2018 amounted to US$6.3 billion compared to US$5.5 billion received during the same period in 2017, representing a 13.9 percent increase in foreign currency supply. The table 2.3 shows Global foreign currency receipts by source.

Export proceeds contributed 68 percent of the total global receipts for the 52 weeks of 2018, while international money transfers accounted for about 17 percent. Export proceeds have continued to be the major source of liquidity for the country.

International Remittances declined by 2.8 percent from US$1.89 billion received in 2018 to US$1.56 billion received in 2019. Of the US$1.59 billion, diaspora remittances contributed US$635.43 million, an increase of 2.61 percent as compared to US$619 million received in 2018 (Reserve Bank of Zimbabwe, 2020). The Reserve Bank of Zimbabwe noted that the decline of diaspora remittances is mainly attributed to the preference to send in-kind, remittances by the diaspora, and the interception of remittances in South Africa by cross border traders. This has been a major contributor considering that South Africa contributes about 34 percent of the total Diaspora remittances.

Zimbabwe should work towards improving efficient use of foreign currency. The country should endeavour to allocate foreign currency towards critical areas as opposed to product lines which can be produced locally such as agriculture and manufacturing produce (see table 2.2).

2.5 Macroeconomic Developments

This sections discusses developments in key macroeconomic fundamentals such as inflation, exchange rate, money supply, gross domestic product, budget deficit and foreign direct investments.

Foreign Direct investments

Over the years, Zimbabwe lagged behind with respect to attracting foreign direct investments as compared to its regional peers. Statistics shows that Zimbabwe for the last 10 years the country failed to exceed US$500 million mark in terms of FDIs while countries like South Africa, Mozambique and Zambia exceeded US$9 billion, US$6 billion and US$2 billion, respectively (UNCTAD, 2019).

However, it is worthy to note that the country has seen its foreign direct investments inflows doubling to US$745 million in 2018 from US$345 million in 2017.

This positive jump came on the back positive signals from the new dispensation. Sadly, contrary the hipped promises, the political environment deteriorated under the new government leading to slump in foreign direct investments in 2019 to US$259 million (Reserve Bank of Zimbabwe, 2020)

In order to improve foreign direct investment inflows, government must address the following impediments identified by the World bank:

(a) Red tape and corruption;

(b) Excessive administrative and registration requirement;

(c) Tax burden;

(d) Weak institution;

(e) Political instability;

(f) Economic instability; and

(g) Lack of policy clarity, policy reversals and policy inconsistency

“Over the years, Zimbabwe lagged behind with respect to attracting foreign direct investments as compared to its regional peers. Statistics shows that Zimbabwe for the last 10 years the country failed to exceed US$500 million mark in terms of FDIs while countries like South Africa, Mozambique and Zambia exceeded US$9 billion, US$6 billion and US$2 billion, respectively (UNCTAD, 2019).

1. Inflation developments

Inflation Developments

THE annual headline inflation shot from 56.9 percent in January 2019 to 523 percent in December 2019. The price hikes which were largely defined due to excessive speculative behaviour, soaring exchange rates, that is both from the interbank market and black market.

From a policy making perspective, policy makers largely contributed to inflation dynamics through policy inconsistency and knee jack policy reactions which directly fed into inflationary pressures (see Box 1).

Monetary Developments

As noted by the Reserve Bank of Zimbabwe (2020), broad money supply between December 2018 and December 2019 rose by 250 percent, that is, from Z$10 billion to Z$35 billion. This is contrary to the 10 percent money supply targets set by the Central Bank. The growth in broad money supply reflected increases in negotiable certificates of deposits (NCDs), 316.46 percent; transferable deposits, 302. 32 percent; currency in circulation, 80.46 percent; and time deposits, 25.12 percent (Reserve Bank of Zimbabwe, 2020).

Ironically, the monetary policy committee in its November 2019 meeting noted with concern the excessive money supply generated by fiscal activities which in itself is a clear testimony of the interference in the day to day running of the RBZ.

From technical viewpoint, the current 2020 budget statement shows estimated expenditure of Z$63 billion against broad money supply of Z$20 billion at the time of its presentation in November 2019. Undoubtedly, it doesn't make economic sense for the budget to be more than the broad money supply. Past trends has shown that money supply is always above national budget estimates. Based on the foregoing, it is expected that money supply will jump to Z$100 billion as it catch up with the national budget requirements. Already, as noted by the RBZ, money supply growth shot by Z$15 billion in the last two months of 2019 (that is, from Z$20 billion in October 2019 to Z$35 billion in December 2019).

Box 1: Selected Piecemeal Policies

Zimbabwe's policy making environmental in recent months have been largely characterized by piecemeal policy approach where the following policy pronouncements were made:

(a) On October 1, 2018, the fiscal and monetary policies authorities announced fiscal and monetary policy measures which saw treasury imposing the 2% tax on intermediated money transfer while the Central Bank separated the RTGS and nostro accounts. By separating the RTGS and nostro accounts it was clear admission by monetary authorities that the RTGS was no longer at par with the USD. As a result, the market reacted angrily to this announcement. The parallel market rate shot from around 80% to 700% inside a week. By the same token, the 2% tax, together with exchange rate pressures drove inflation on an upward trajectory;

(b) On October 5, 2018, Government launched the Transitional Stabilisation Programme. Inasmuch as it is a comprehensive policy which covers a wide array of the reform agenda, it had one specific aspect of currency reform which gave the clearest sign to actors that the 1:1 rate of RTGS and USD was on its way out. Businesses who read the TSP well, being rationale economic agents whose behavior is shaped by information at hand, bought foreign exchange to preserve value thereby pushing the exchange rate up;

(c) On November 22, 2018, the Minister of Finance and Economic Development announced the 2019 National Budget Statement which buttressed the 2% tax and added other inflation inducing tax measures which included payment of duty in foreign currency for selected manufactured and agricultural produce as well as motor vehicles. In addition, he made announcements to the effect that business was required to pay tax in the currency of trade. These measures continued to exert pressure on inflation;

(d) On January 12, 2019, Government raised the price of fuel by 150%, that is, partial liberalisation of the fuel sector. Again, this, in as much as was necessary at that point in time, added pressure on inflation considering the contribution of fuel in the economy;

(e) On February 20, 2019, in line with the TSP pronouncement of currency reforms, Central Bank disbanded the 1:1 exchange rate, that is, liberalised the foreign exchange market. Again, in as much as it was long overdue, the move led to cost push inflation through imported inflation as the cost of imports shot up on the back of exchange rate spike.

(f) On May 20, 2019, Government fully liberalised the fuel sector by allowing fuel dealers to access foreign exchange from the interbank market instead of the 1:1 rate which was sustained for the fuel sector regardless of the fact that the 1:1 rate was disbanded. Whilst this move was extremely necessary as it was both distorting and creating rent seeking behavior. However, as noted, this move saw fuel prices rising thereby putting pressure in inflation.

(g) On 24 June 2019 Government disbanded the multiple currency regime and introduced the Zimbabwe dollar much to the shock of stakeholders.

Source: Author's own observations

Exchange Rate Developments

In February 2019, Reserve Bank of Zimbabwe liberalised the exchange rate, that is, dumping the 1:1 rate. Contrary to claims by the Central Bank that the exchange rate will stabilise around 1:3 on the back of strong foreign currency reserves and containment of money supply, the rate ran amok and is currently hovering around 1:18 and 1:35 for interbank and black market, respectively.

The major driver of the rate is surge in money supply against a backdrop of dwindling foreign currency supply due to excessive abuse and corruption. In order to stabilise the rate, Reserve Bank of Zimbabwe must reduce money supply growth and close in all the leakages in foreign currency which are largely emanating from pervasive subsidies and distortions. To illustrate the challenge of subsidy on fuel nexus its availability and foreign currency abuse, the following question arises:

Why would a rational economic agent continue to sell fuel at Z$ garages at a price equivalent to US$0.60 when one can divert the same fuel to DFIs garages which are selling at a price ranging from US$1.20 – US$1.40 and earn more than 100 percent profit?

Budget deficits

Contrary to claims by the Ministry of Finance and Economic Development that Government is running budget surplus, the International Monetary Fund, in support of our consistent claims on budget deficit argues that Government of Zimbabwe is running pervasive budget deficits (see the quote below and IMF report on Zimbabwe)

Outlook

Based on the foregoing, the following shapes the outlook:

The country's inflation dynamics is expected to maintain an upward trend coming on the back of:

(a) Exchange rate spiral caused by increase in money supply. Our estimates are that the rate is expected to hit 1:80 by June 2020 unless if the economy dollarise sooner than June 2020;

(b) Excessive wages and salary demand which are coming on the back of the need to compensate wage erosion;

(c) Increase in the cost of utilises

These combined forces will force the economy to dollarise.

3.1 Assessing the latest Monetary Policy Statement

By Victor Bhoroma

THE Reserve Bank of Zimbabwe (RBZ) delivered its first monetary policy statement for 2020 (On 17 of February 2020) with an impetus on stabilizing prices and the exchange rate. The central bank delivered the policy with an acute sense that its policies have been at the heart of the nation's economic decline and erosion of income for citizens and the corporate sector alike.

The local economy has lost significant value due the ban on multiple currencies and subsequent introduction of the mono currency in June 2019.

Official inflation figures for January show Year-on-Year (Y-O-Y) inflation soaring above 473 percent, while independent analysts point that inflation is around 620 percent. The Zimbabwean dollar has lost 92 percent of its value with the Interbank market currently trading at 1US$ to Z$17.85 while the parallel market is trading at 1US$ to Z$35. Prices for goods and services continue to surge with the movements on the parallel market showing the level of disconnect between official figures and market trend.

Confidence in the economy continues to decline with Foreign Direct Investment (FDI) inflows plummeting from US$717 million in 2018 to US$259 million in 2019, while portfolio investments (Purchases of local financial securities and equities) plunged from US$54.7 million to US$3.7 million.

In 2019, Reserve Money (Currency in circulation plus deposits held by the central bank) jumped from Z$3 billion to Z$8.8 billion driven by export retention financing and funding for various subsidies such as fuel, wheat, electricity, maize, cooking oil among others.

Despite claims of fiscal surpluses by the treasury and purported restriction of revenue mobilisation to issuance of Treasury Bills (TBs) worth not more than Z$1 billion, the central bank printing machine continued to work overnight to bankroll government subsidies.

The trend on export retention financing and subsidies is expected to continue beyond 2020 as authorities continue to disregard free market forces that

“ In 2019, Reserve Money (Currency in circulation plus deposits held by the central bank) jumped from Z$3 billion to Z$8.8 billion driven by export retention financing and funding for various subsidies such as fuel, wheat, electricity, maize, cooking oil among others. Despite claims of fiscal surpluses by the treasury and purported restriction of revenue mobilisation to issuance of Treasury Bills (TBs) worth not more than Z$1 billion, the central bank printing machine continued to work overnight to bankroll government subsidies.

are fundamental to the recalibration of the economy. As a move to guarantee productive borrowing in the economy, the central left interest rates unchanged at 35 percent despite pressure from lenders to hike the overnight rate in line with inflation.

Productive lending in the economy has gone down to unproductive levels as measured by the loan-to-deposit ratio of below 37 percent as of December 2019.

The low interest rates in an inflationary environment will further reduce lending appetite for local banks and financial institutions especially to the local industry which is hamstrung by a decline in earnings. To its credit, the bank is increasing the Medium-term Bank Accommodation (MBA) window to Z$1.5 billion (from Z$800 million) so as to support productive sector lending.

On money supply, the apex bank announced that it is going to use various monetary instruments such as Bonds and TBs to stabilise exchange rates through mopping up excess liquidity in the market. This is critical considering the fact that 50 percent of the total bank deposits of Z$34.98 billion are owned by 200 entities.

This state of affairs leaves the local exchange rates very susceptible to upsurges if a few of these entities decide to use their disposable funds on the open market. The bank also announced that it

RBZ governor John Mangudya

will induce more notes into the economy gradually to increase on the Z$1.1 billion currently in circulation. Zimbabwe has been grappling with cash shortages for the past 5 years with banks currently limiting cash withdrawals to Z$300 per week (US$15) despite the high inflation levels that render the amount insufficient for use by ordinary citizens who find groceries cheaper to buy through cash from cash and carry retailers.

The bank intends to introduce higher denominated notes to match optimal proportions of 10 percent of broad money supply, however the market hopes that the bank will adhere to its earlier plans of exchanging electronic balances for notes so as to manage inflation.

In line with stabilizing the financial sector, the bank announced US Dollar indexed capital requirements that compel all foreign banks and large commercial banks to have capital of US$30 million by December 31, 2020. Commercial Banks, Merchant Banks, Building Societies, Development Banks, Finance & Discount Houses; Micro-Finance Banks and Credit only micro-finance institutions should have US$25 million, US$5 million and US$25 000 respectively.

The indexing in US Dollar clearly shows direct contradiction to the central bank's assurances that inflation is under control and that the de-dollarisation strategy is on track.

The bank simply had no confidence in setting the minimal capital requirements for banks in local currency, just as much as local retailers and other market agents display the same behaviour.

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3.1 Assessing the latest Monetary Policy Statement

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On de-dollarisation, the bank continues to exhibit denial (possibly outright deceit) on events on the ground that led the government through Zimbabwe Revenue Authority (Zimra) to demand taxes in foreign currency from producers who are selling in foreign currency. The central bank points that Zimbabwean dollar transactions reached Z$460 billion while foreign currency (FCA) deposits went down to 37 percent (US$785 million).

The central bank is ignoring the fact that trading in foreign currency is prohibited by the law as such most transactions in foreign currency are not disclosed for tax evasion purposes and to deliberately pay statutory taxes in a weaker local currency when they fall due.

Further, the Zimbabwean dollar has astronomically lost velocity because of high inflation, which closed the year at 521 percent. Simply put, the local unit is a transacting currency which every rational economic agent disposes of before it loses value while the US Dollar is preserved and used for asset preservation. This explains why the central bank itself could not set minimum capital requirements in a local currency because it does not preserve value.

Foreign currency in the formal and informal market is not being banked and the government has limited means to track these transactions especially in the sprawling informal market where de-dollarisation never really happened. The fact of the matter is that Zimbabwe is partially dollarised and those trading in local currency (even at cross rated prices) are simply doing it out of fear of government retribution.

The government has started licensing various petroleum companies that intend to sell fuel in foreign currency as a way to alleviate the persistent shortages. The petroleum companies join a host of other producers who were exempted as far back as June 2019. The monetary policy was silent on measures to improve liquidity on the interbank market despite the foreign currency shortages that are grinding local production to a halt.

The interbank market is inefficient and most producers are failing to access foreign currency on the interbank market, leaving them at the mercy of the parallel market dealers. The central bank was also widely expected to review the unsustainable foreign currency retention thresholds so as to curb smuggling of gold and other precious commodities out of the country.

This too was not addressed to the dismay of local manufacturers, miners and tobacco farmers who account for the bulk of the country's foreign earnings. Economic output is thus forecasted to decline further, just as the industry capacity utilisation is predicted to fall below 27 percent in 2020.

Overall, uncertainty reigns supreme in the market and confidence is at an all-time low. The monetary policy did little to fully address current challenges such as high inflation levels and currency instability, three tier pricing, cash shortages, low import cover, foreign currency retention bottlenecks and the subsequent low levels of liquidity on the interbank market.

However, there is comfort for holders of free funds and foreign currency account deposits as they will continue to trade freely on the local market. Quasi fiscal activities such as incentives for Gold producers and import subsidies for various commodities will continue to put pressure on the central bank to print more money.

Similarly fiscal pressures from treasury to fund government consumption and finance the budget deficit through issuing TBs will continue to exert more pressure on the bank. The targeted 50 percent inflation rate remains a pie in the sky as long as export retentions are financed through money printing, while the productive sector is getting less than 10 percent of their foreign currency needs on the interbank market.

Demand for foreign currency on the parallel market remains very high, hence inflation is anticipated to remain higher than 400 percent. High inflation is providing fertile grounds for rapid re-dollarisation.

“Simply put, the local unit is a transacting currency which every rational economic agent disposes of before it loses value while the US Dollar is preserved and used for asset preservation. This explains why the central bank itself could not set minimum capital requirements in a local currency because it does not preserve value.

3.2 Review of the 2020 National Budget Statement

By Gift Mugano

IN 2018, Government, under the banner of the New Dispensation, came up with ambitious targets aimed at setting the economy under a recovery path through austerity measures and implementation of reforms under the Transitional Stabilisation Programme.

In his 2019 budget statement, the Minister of Finance and Economic Development anchored his budget on the following assumptions:

• A balanced budget powered by austerity measures;

• Containment of inflation with inflation expectations to be 5 percent by December 2019;

• Growth rate of 3.1 percent

Notwithstanding the hype made around the successes on the budget performance, the country missed all the set targets as observed below:

• The country missed the 3.1 percent growth target and plunged into economic recession as the economy contracted by 8.5 percent;

• Inflation closed the year at 523 percent which is contrary to the 5 percent target;

• Increase in money supply by 250 percent;

• Runaway exchange rate and price volatility

• The country witnessed a number moving budget (see table 3.1)

Important observations for the readers from table 3.1 are as follows:

(a) If one pays a closer look at the 2018 and 2019 budget estimates one can easily see that the budget statement failed from the beginning for the simple reason that there is no way one can expect the expenditure estimates of 2018, that is Z$8.161 billion to be identical to 2019 original expenditure estimates of Z$8.164 billion in an inflationary environment;

(b) As observed in (a), Government couldn't stay within the initially set budget of Z$8.164 billion but went on to present a supplementary budget of Z$10.5 billion in July 2019 and eventually closed the year with a budget expenditure of Z$26.2 billion but still claim that treasury is running budget surpluses.

(c) As expected, in September 2019, ministry of Finance and Economic Development presented a budget strategy paper (BSP) which set the framework for the succeeding budget statement. As presented in table 3.1, the expected revenue and expenditure in 2020 were Z$24.8 billion and Z$28.5 billion, respectively.

Table Budget Strategy Paper Estimates Nexus 2020 Budget Statement Actual Estimates

Budget Strategy Paper Sept 2019	2020 Budget Statement 14 Nov 2019
Growth target of 4.6%	Growth target of 3%
Month on month inflation of 2.3%	Month on month inflation of 2%
Expected Expenditure $28.5 billion	Expected expenditure $63 billion
Expected Revenue $24.8 billion	Expected Revenue $58.6 billion
Budget deficit of 1.8% of GDP	Budget deficit of 1.5% of GDP
Nominal GDP $209 billion (from current ($130 billion)	Nominal GDP $340 billion
Agric sector growth est 10.8%	Agric sector growth est 5%

Source: Ministry of Finance and Economic Development

Ironically, when the 2020 budget was presented on 14 November 2019, that is, barely 1.5 months after the presentation of the BSP, the minister of Finance and Economic Development revised upwards his initial revenue and expenditure estimates to Z$58.6 billion and Z$63 billion, respectively.

The fundamental challenge which arises from this is that if the minister of Finance changed both revenue and expenditure estimates by that magnitude what guarantee is there that the country will maintain a budget estimate of Z$63 billion for the next 12 months? Judging by observations made in (b), it is apparent that the country will have massive supplementary budgets in 2020.

Table 3.2 shows further stylised facts about the 2020 national budget and how it feed into the general macroeconomic environment. The final test on the 2020 Budget can be on its assumptions which are presented below:

(a) Improved rainfall season which should enhance agriculture production –this observation was not correct. Furthermore, the agricultural sector is in danger due to the incapacitation of the farmer on the back of the high cost of going back to the farm and capital erosion which happened as soon as the farmer got paid;

(b) Electricity generation with trickle-down effects to all other sectors – electricity generation is a medium to long term goal so we don't expect to see improvement in electricity generation in 2020 hence this assumption will not help the country in meeting its targets. However, if government had placed emphasis on electricity imports it will make sense;

Key observations which arises here are as follows:

(a) Real growth rate is 3 percent but nominal GDP is growing 162 percent can only be as a result of inflation;

(b) Revenue is expected to be $58.6 billion from $21 billion in 2019, i.e., 179 percent;

(c) The expected month on month inflation of 2 percent by year end is put in question;

(d) The variation in the actual 2020 budget proposals from the prebudget strategy paper put into question the accurateness of the proposed figures – there are high chances that these figures can be changed again.

(c) Recovery in aggregate demand – there is no sign that demand will recover especially when one looks at the ugly exchange rate and inflation figures which are eroding income which is the major determinant of demand considering that poverty datum line (PDL) is now Z$4000;

(d) Improved foreign currency availability – the foreign currency can only improve if we export. The current monetary policy framework which is characterised by interests spikes and manipulation of exchange rate will neither favour production which is the minimum priori requirement to generate exports through import substitution and exports.

(e) Improved macro-fiscal stability and business confidence – macroeconomic stability is not an overnight event. A stable environment requires us to stabilise exchange rate, then inflation and lead to growth – this is a long walk to freedom which requires credible policies. Confidence is built over time by walking the talk which is not happening – reference on policy inconsistency from 1 October 2018 to date.

Table 3.1: Budget Revenue and Expenditures

Description	2018	2019	2019 Sup	2019 (est)	BSP	2020 Budget
Revenue	5.296	6.598	14.060	21.0	24.8	58.6
Expenditure	8.161	8.164	18.620	26.2	28.5	63.0

Source: Ministry of Finance and Economic Development

3.2 The IMF view on Zimbabwe

ON FEBRUARY 24, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Zimbabwe (see the extract of the report in the succeeding section).

Zimbabwe is experiencing an economic and humanitarian crisis. Macroeconomic stability remains a challenge: the economy contracted sharply in 2019, amplified by climate shocks that have crippled agriculture and electricity generation; the newly introduced ZWL$ has lost most of its value; inflation is very high; and international reserves are very low.

The climate shocks have magnified the social impacts of the fiscal retrenchment, leaving more than half of the population food insecure. With another poor harvest expected, growth in 2020 is projected at near zero, with food shortages continuing.

The government that came to office following the 2018 elections adopted an agenda focused on macro stabilisation and reforms.

This was supported by a Staff Monitored Programme from the IMF, adopted in May 2019, but is now off-track as policy implementation has been mixed. Notable reforms include a significant fiscal consolidation that has helped reduce the monetary financing of the deficit, the introduction of the new domestic currency in February 2019, the creation of an interbank FX market, and the restructuring of the command agriculture financing model to a public-private partnership with commercial banks. However, uneven implementation of reforms, notably delays and missteps in FX and monetary reforms, have failed to restore confidence in the new currency.

Re-engagement with the international community continues to face delays. The Zimbabwean government has yet to define the modalities and financing to clear arrears to the World Bank and other multilateral institutions, and to undertake reforms that would facilitate resolution of arrears with bilateral creditors. This continues to constrain Zimbabwe's access to external official support.

As a result, the authorities face a difficult balance of pursuing tight monetary policy to reduce very high inflation and prudent fiscal policy to address the macroeconomic imbalances and build confidence in the currency, while averting a crisis.

While the 2020 budget includes a significant increase in social spending, it is likely insufficient to meet the pressing social needs. Absent a scaling up of donor support, the risks of a deep humanitarian crisis are high.

“Notable reforms include a significant fiscal consolidation that has helped reduce the monetary financing of the deficit, the introduction of the new domestic currency in February 2019, the creation of an interbank FX market, and the restructuring of the command agriculture financing model to a public-private partnership with commercial banks. However, uneven implementation of reforms, notably delays and missteps in FX and monetary reforms, have failed to restore confidence in the new currency.

3.2.1 Executive Board Assessment

Executive Directors noted with concern that Zimbabwe is facing an economic and humanitarian crisis exacerbated by policy missteps and climate related shocks. These would require difficult policy choices from the authorities and support from the international community. Directors urged the authorities to make a concerted effort to ensure economic and social stability through the adoption of coordinated fiscal, monetary and foreign exchange policies, alongside with efforts to address food insecurity and serious governance challenges. They emphasised the importance of reengagement with the international community to support efforts to achieve economic sustainability and address the humanitarian crisis.

Notwithstanding efforts in 2019 to tighten the fiscal stance and contain quasi fiscal operations by the central bank, Directors noted that pervasive deficits remain and could be exacerbated by the need to respond to the humanitarian crisis.

Directors called for non essential spending cuts, including decisive reforms to agricultural support programs, to allow for social spending needs. They underscored the importance of public financial management and enhanced domestic revenue mobilisation efforts.

Directors stressed that eliminating deficit monetisation would not only be crucial for fiscal sustainability, but it would also serve as a precondition for the stabilisation of hyper inflation and the preservation of the external value of the currency.

Directors noted that Zimbabwe remains in debt distress, with large external arrears to official creditors, and encouraged the authorities to give impetus to reengagement efforts and debt management and transparency. In particular, they cautioned against continued recourse to collateralised external borrowing on commercial terms as this may potentially complicate any future arrears clearance operation. Directors underscored the need to establish credibility in the new currency. They encouraged the authorities to press forward with the establishment of a functional foreign exchange market and to remove distortions that could lead to rent seeking behaviour in the economy.

Directors agreed that given low reserves and hyper inflation, limited credibility, and a lack of access to traditional forms of external financing, a monetary targeting regime is appropriate to conduct monetary policy. Enhancing central bank independence and transparency, including by timely publication of monetary statistics, would be important.

Directors welcomed the progress on financial innovation, supervision and inclusiveness indicators. They noted, however, the need for continued vigilance to ensure financial stability. They encouraged the authorities to conduct asset quality reviews of the banking sector, develop a new framework for managing weak banks, and increase the effectiveness of the AML/CFT framework, including by effectively implementing FAFT standards.

Directors stressed the need to address governance and corruption challenges, entrenched vested interests, and enforcement of the rule of law to improve the business climate and support private sector led inclusive growth. Such efforts would be instrumental to advance reengagement efforts with the international community and mobilise the needed support.

They noted with regret that the Staff Monitored Program was off track and underscored the importance of continued engagement between the Fund and the authorities, including through technical assistance, policy advice and other innovative ways, to help immediately stabilise the economy and address the humanitarian crisis.

The Economy has re-dollarised

By Gift Mugano

GOVERNMENT in June 2019 hurriedly introduced the Zimbabwe dollar before the necessary conditions were met and as such without any shadow of doubt it is obvious that the currency was going to collapse. For the readers interest, the minimum requirements for the introduction of the Zimbabwe dollar are as follows:

Fiscal consolidation, according to Organization for Economic Cooperation and Development (OECD), fiscal consolidation is defined as concrete policies aimed at reducing budget deficits and debt accumulation. In our case, the national debt is in the region of around US$9 billion whilst domestic debt is $8.8 billion. From debt perspective, we haven't moved any inch. With respect to budget deficits, yes there have been significant progress made by Government in restoring fiscal discipline.

However, in as much as the minister of Finance and Economic Development has reported budget surpluses, our view is that this is not a true reflection of the state of affairs of the fiscal position since subsidies which are either implied or expressed, for example, electricity, water, transport and various government rates which include tuition fees at tertiary institutions have not been accommodated in the budget to the extent that if full consolidation is taken into account the so – called budget surplus may be wiped out.

Single digit inflation, at the time when the Zimbabwe dollar was introduced, inflation levels on an annual basis stood at 176 percent and it has already exceeded 500 percent. Going forward, there is no indication that inflation pressures will retreat downs considering the fact that the country inflation is largely exchange rate induced as well as cost push.

The cost push pressures are expected to come from demand on wages and salaries, taxes and fuel costs and the recently adjusted fees and rates. With respect to the exchange rate spiral, in the absence of sustainable supply of foreign exchange, there is no guarantee exchange rate will stabilise

One - year import cover, at the very minimum, the country must have an import cover of six months to one year. In our case, we should have foreign exchange of US$3 billion and US$6 billion for six months and 12 months, respectively. The current state of affairs shows that the country is less than one month import cover which is not enough to back the country.

Stable exchange rate, the exchange rate as witnessed has continued to depreciate on the back of mismatches between demand and supply of foreign currency (see (c) and (b)).

The introduction of the Zimbabwean dollar as expected fueled the volatile economic environment is characterized by chronic inflation which has exceeded 500 percent, exchange rate spikes, rampant increases in prices, wage erosion and company closures.

The situation is worsened by supply side constraints in the areas of critical utilities such as electricity, water and viability challenges in the telecommunication sector which are caused by sub optimal prices when they are expected to service creditors bills in US dollars.

Since this is a technical matter, in building the argument why the US dollar is coming back in 2020, let me to refer readers International Accounting Standard 29. The International Accounting Standard 29 define the following as characteristics of a country in a hyperinflation:

(a) The general population prefers to keep its wealth in non – monetary assets or in a relatively stable currency. Amounts of local currency held are immediately invested to maintain purchasing power;

(b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

(c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period even if the period is short; and

(d) Interest rates, wages and prices are linked to price index

This extract from the International Accounting Standard 29 clearly articulates our situation. Zimbabweans are exclusively applying all the four characteristics outlined by the International Accounting Standard 29. There is no doubt that we are in hyperinflation. Any sober economist will agree with me that once the economy enters hyperinflation it is very difficult, if not impossible to come back to single inflation. There is only one way, that is, dollarisation.

“In as much as the minister of Finance and Economic Development has reported budget surpluses, our view is that this is not a true reflection of the state of affairs of the fiscal position since subsidies which are either implied or expressed, for example, electricity, water, transport and various government rates which include tuition fees at tertiary institutions have not been accommodated in the budget to the extent that if full consolidation is taken into account the so – called budget surplus may be wiped out.

What top economists said

Brains Muchemwa

IN LIGHT of the prevailing high inflation and foreign currency shortages, fiscal prudence and aggressive mopping of excess liquidity by the RBZ should be the priority policy issues to anchor the currency stability and achieve price stability.

The RBZ would need to consider more costless interventions to drain the market liquidity swamp. And, raising the reserve requirements for banks to around 8 percent will be able to achieve that.

On the other hand, the government more than anyone, should demonstrate faith in the new currency by outlawing the charging of customs duty in foreign currency by Zimra on certain imported goods.

The continued charging of customs duty in foreign currency exposes the lack of government trust in its own currency and that is a fundamental deficiency in building consensus around acceptability of the new currency.

Dr Nyasha Kaseke:

The Governor formally dollarised the economy by allowing other service station to sell in US$. It is not surprising to see commuter omnibus operators charging bus fares in US$ because they will be getting fuel from those dealers selling in foreign currency. Given the fact the economy is more than 80 percent informal and the informal sector have been using US$ and indexing all prices in US$, the market forces will dollarise the economy.

We understand that the economy have achieved a Trade Account surplus of US$14 million as said by the minister of Finance, Mthuli Ncube, the surplus is difficult to see as the economy is now facing critical shortage of fuel.

It is difficult to see how the economy is going to have a stimulus as aggregate demand has gone down, all the positive developments will not last as the economy is not growing. It is difficult to attract domestic investment as the domestic investors will need foreign currency to do business.

I cannot see how the economy is going to create more jobs if demand is contracting. I agree that inflation dropped in December 2019 and January 2020, but it is expected to accelerate as the black market exchange rate start to widen its gap with the bank rate.

Dr Gift Mugano:

The key functions of money among others are store of value and medium of exchange. The challenge we have today is that our local currency can't play the role of store of value. It therefore follows that the public, as observed, refuses such currency as a medium of exchange for the simple reasons that economic agents and households have no confidence in it. This is a very basic reason why people are rejecting our local currency. And, as it is being rejected, it is being substituted by the United States dollar which is dollarisation.

The irony is that amongst key players who are rejecting the currency is government itself as witnessed through permissions granted for the trading of goods and services in foreign currency in the fuel sector, passports, electricity and fast food industries.

What is clear is that the use of the United States dollar as a medium of exchange has become a norm and as such the moral side of it is that in as much as the law is clear that everyone should use the local currency for transaction, the relevance of such laws are questioned on basis of relevance.

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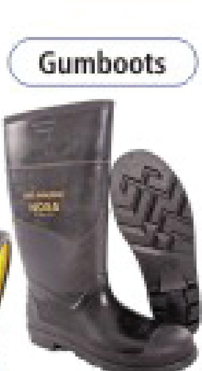

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