

AFRICA RISK CONSULTING

Zimbabwe Monthly Briefing February 2023

Zimbabwe Summary 14 February 2023

The Reserve Bank of Zimbabwe's (RBZ) Monetary Policy Committee announces a cut to the policy rate to 150% from 200% on 2 February. The rate cut comes as the annual inflation rate falls for the fifth straight month, from 243.8% in December to 229.8% in January, as the tight monetary policy adopted by the central bank continues to slow the increases in prices. The RBZ also indicates on 2 February that up to 70% of transactions in Zimbabwe are now done in US dollars as the tight monetary policy has curtailed the use of the local currency with transaction payments. United Kingdom-based Sabi Strategy Group surveys voters in January which shows that opposition leader, Nelson Chamisa is to defeat incumbent President Emmerson Mnangagwa (2019-present), obtaining an outright majority of votes in the elections scheduled for later this year. However, the result is based on the elections being free and fair, which is seen as an unlikely occurrence. Zimbabwe earns \$11.6 billion in foreign currency in 2022, the highest forex inflows ever received in the country. Exports earned \$7.4 billion in exports, while Zimbabweans abroad sent home \$1.65 billion, nine-fold higher than the \$185m the country attracted as Foreign Direct Investments (FDI) 2022.

Central bank cuts benchmark lending rate to 150% as inflation falls...

Reserve Bank of Zimbabwe's (RBZ) (central bank) Monetary Policy Committee announced on 2 February that it would cut lending rates by 50 percentage points to 150% in a bid to revive economic activity, which has been constrained by the tight monetary policy adopted for several months. The decision also came as inflation fell for a fifth straight month to 229.8% year-on-year in January, from 243.8% in December, a considerable drop from the August peak of 285%.¹

Reserve bank governor **John Mangudya** ordered a 12,000 basis points increase in the lending rate to 200% in June 2022 to control runaway inflation. The tighter monetary policy coupled with the introduction of the gold coins as an alternative store of value to the greenback has been credited with narrowing the parallel market exchange rate gap and the easing of annual and monthly inflation.

The Zimbabwean dollar has depreciated 15% against the **United States (US)** dollar this year to trade at Z\$801 on the official market and Z\$1,000 on the black market.² To halt its slide and prevent it from seeping into inflation, the central bank said it would focus on smoothening exchange-rate shocks through regular foreign currency sales to banks from the surrender portion of foreign-exchange receipts.

However, the tight monetary policy has posed the risk of constricting economic growth as it has curtailed not only consumption but production as well due to lower local currency-based investments. Mangudya says the reduction in the lending rate is not only to align it with the dissipating inflation rate but is also driven by the need to reduce the risk posed by the current high-interest rates on private sector borrowing in local currency and contracting economic growth.

¹ RBZ 2023 Monetary policy statement, 2 Feb 2023

² Moneyweb, 3 Feb 2023

Finance minister **Mthuli Ncube** announced in November a 4% economic growth rate for 2022, downgraded from the 4.6% he had projected in the mid-year budget while growth is forecast at 3.5% in 2023, largely premised on the anticipated increase in mining output supported by the favourable international commodity prices.³

Taking into consideration the forecast declining inflation for 2023, the central bank sees interest rates on local currency borrowings falling between 40- 60% by the end of December 2023. The bank also says it has no plans to withdraw the gold coins, credited with mopping Z\$22,2 billion (\$27.5m) from the market, in the short and medium term until such a time when stability starts to create a high appetite for business and consumers to hold domestic currency-denominated assets.

...as tight monetary policy drives the economy towards full dollarisation

RBZ indicated in its announcement on 2 February that an increased number of transactions are being carried out using the US dollar and not the Zimbabwean dollar, with about 70% of domestic expenditure now in US dollars while foreign currency deposits and loans now make up about 65% of total banking sector deposits.⁴ This indication by the central bank is in line with national statistics agency, **ZimStat's Rapid Poverty, Income, Consumption and Expenditure Surveys (Pices)** report released on 18 January, which found that 76.56% of all transactions are now in US dollars with many sectors, such as clothing and transport, almost completely dollarised.

Findings of the eighth round of ZimStat's Pices revealed that more than 78% of the transactions on food purchases were in US dollars or **South African** rand, while about 21% occurred in local currency.⁵ The results covered the period 20 July to 17 August 2022 and were compared to the results of the findings of the seventh round in June 2022, with collected data on prices and currency of transactions for key food items namely maize meal, cooking oil, rice, beef, and bread.

As of the end of December 2022, foreign currency deposits in the banking system accounted for 64.2% of total deposits, with the remainder being Zimbabwean dollar deposits. Transactional activities in the retail and wholesale sectors also point to the same structure of currency composition with a **Confederation of Zimbabwe Industry (CZI)** survey reporting that on average US dollar sales contribute 66% to foreign currency generation for businesses.

The tight monetary policy has been credited with the declining use of local currency and this has brought stability in inflation, but analysts say it has had the unintended consequences of driving the economy towards dollarisation at a faster pace.

The dominance of the use of the US dollar in the economy is seen as having robbed the central bank of control over monetary policy instruments required to control the pace and direction of economic growth including liquidity levels required to support the economy. In this context, the central bank is considering the adoption of a blended inflation rate which reflects the increased use of the US dollar in transactions in the economy.⁶

The bank argues that local currency inflation is no longer a true representative of the cost of living in Zimbabwe as the country is in a dual currency system where prices and household incomes are also in both the US dollar and local currency. Zimbabwe's inflation needs to be recalibrated to reflect the dual currency nature of incomes and prices in the economy to provide

³ 2023 National Budget Speech, 24 Nov 2023

⁴ Newswire, 4 Feb 2023

⁵ ZimStat, 18 Jan 2023

⁶ Monetary Policy Statement, 2 Feb 2023

a true reflection of the cost of living in the country and ZimStat should consider publishing the blended rate of inflation and the US dollar inflation rate for better policy guidance in the economy. While the local currency annual and monthly inflation rates for January stood at 229.8% and 1.1% respectively, the central bank says the blended inflation rates were much lower at 101.5% and 0.7% respectively.

Despite the heightened risks of global inflation, the central bank envisages low domestic inflation pressures with average blended month-on-month inflation of below 1.5% in 2023, with annual inflation expected to progressively decline to close the year in the range of 10-30%.

Poll points to opposition victory if 2023 vote free and fair...

United Kingdom-headquartered **Sabi Strategy Group** surveyed voters and found that opposition leader **Nelson Chamisa** is to defeat incumbent President **Emmerson Mnangagwa** (2017-present), with Chamisa scoring an outright majority of votes in the elections scheduled for this year. However, many voters expressed concern about whether the election would be free and fair.⁷

The survey, conducted in January, indicates that Chamisa, the leader of the **Citizens Coalition for Change (CCC)**, would garner 53% of ballots, while his party would get 52% in a separate parliamentary vote, and Mnangagwa and his ruling **Zimbabwe African National Union-Patriotic Front (ZANU-PF)** would both win 40% of the votes.

The survey was conducted in January this year using an in-depth 15-minute questionnaire answered over the phone with the results obtained through a nationally representative sample of 1,000 registered voters. The voters were weighted to national statistics on gender, age, and province with 52% saying they would vote for the CCC and 40% saying ZANU-PF. CCC was formed out of the **MDC Alliance** in January 2022 to clear up voter confusion over the use of the MDC name by a splinter party accused of being an ally to the ruling ZANU-PF. Approximately 42% of the survey respondents said they voted for ZANU-PF in 2018, with 40% saying they had voted for the CCC's predecessor MDC Alliance, suggesting a sea-change in voter sentiment as Zimbabwe's economic collapse accelerates under Mnangagwa.

However, a Chamisa victory is unlikely as the survey results were premised on the election being free and fair, but this will not happen as the political and electoral playing field remains deeply uneven and stacked in favour of ZANU-PF. Mnangagwa and his ruling ZANU-PF party have been accused of using state institutions to muzzle and oppress opposition members ahead of the 2023 general elections, in addition to accusations of using the law and security institutions against opponents, and the conflation of party and state resources to boost its position.

Remittances outweigh FDI as forex inflows reach record high

Zimbabwe earned \$11.6 billion in foreign currency in 2022, the highest forex inflows ever received in the country, as the country earned \$7.4 billion in exports, while Zimbabweans abroad sent home \$1.65 billion, much higher than the \$185m the country attracted as Foreign Direct Investments (FDI) in 2022.⁸

Diaspora remittances account for 16% of the foreign currency coming into Zimbabwe with exports being the biggest forex earner, accounting for 65% of the country's forex receipts. Minerals still make up the bulk of Zimbabwean exports, accounting for 75.8% or \$5.6 billion with gold sales doubling to \$2.4 billion while platinum earnings fell 23% to \$2.2 billion.

⁷ Bloomberg, 8 Feb 2023

⁸ Monetary Policy Statement, 2 Feb 2023

Agricultural exports increased from \$784.7m in 2021 to \$1,2 billion in 2022, led by a bigger tobacco crop.

Of the total diaspora remittances, 40% come from South Africa followed by the UK (25%).

WorldRemit, one of the world's widely used remittance platforms, said in June 2022 it had transferred £170m (\$206m) to Zimbabwe between January and May placing the country among WorldRemit's top three markets in **Africa**, at par with **Kenya** in second place, behind **Nigeria**.⁹

Millions of Zimbabweans live outside the country, having fled the country's two decades of political and economic crises. Despite the diaspora community being the bedrock of foreign exchange earnings for the country, they are still not allowed to participate in general elections from where they live.

On the back of the resilient remittance inflows, coupled with strong export performance due to favourable commodity prices for key exports, Zimbabwe recorded a surplus current account balance estimated at \$305m in 2022 marking the fourth consecutive year of current account surplus since 2019.

Planner

March **Harare (Zimbabwe)** Monetary Policy Committee(MPC) decision

30 Jun 2023 **(South Africa)** Expiry of special residence permits for Zimbabweans living in South Africa;

July/August 2023 **(Zimbabwe)** General elections

Chronology

12 Feb 2023 **Harare (Zimbabwe)** *Pindula*. Zimbabwean workers building the \$1 billion steel plant for the **Chinese-owned Dinson Iron & Steel Company** claim they are being exploited as they are forced to work in inhumane conditions and are not given off days;

10 Feb 2023 **Harare (Zimbabwe)** *Herald*. Government secures \$360m funding facility for the rehabilitation and upgrade of the 354km **Harare-Kanyemba** Road which is expected to shorten the distance for **DRC** and **Tanzania**-bound traffic by 400km;

9 Feb 2023 **Cape Town (South Africa)** *Reuters*. **Lithium**-rich African countries, including **Zimbabwe** and **Namibia**, are trying to develop processing and refining industries to capture more of the profits of global demand for battery materials as the auto industry shifts towards **electric vehicles (EVs)**;

8 Feb 2023 **Harare (Zimbabwe)** *Reuters*. Deputy energy minister **Magna Mudyiwa** says a new 300-megawatt unit at its new coal-fired power plant in **Hwange** will be operational providing relief to millions of citizens rocked by frequent power outages in recent months;

8 Feb 2023 **Harare (Zimbabwe)** *Herald*. Zimbabwe and **Equatorial Guinea** sign eight bilateral trade agreements in areas of tourism, mining and agriculture during President **Emmerson Mnangagwa's** visit to Equatorial Guinea;

7 Feb 2023 **Harare (Zimbabwe)** *Newswire*. Shut out from global debt markets due to debt arrears, Zimbabwe is testing the local market's appetite to invest in infrastructure projects

⁹ Newswire, 2 Feb 2023

with **Exodus and Company's** planned \$42m bond, meant to raise part of the \$360m needed for a 354km road to the **Kanyemba border**;

6 Feb 2023 **Harare (Zimbabwe)** *New Zimbabwe*. **United Kingdom**-based mining and resource development company **Vast Resources** hails President **Emmerson Mnangagwa's** administration for its commitment to resolving legacy issues at a time when the miner's share price has gone up, following the successful resolution of the firm's trapped diamonds saga which has dragged on since 2009;

4 Feb 2023 **Harare (Zimbabwe)** *Pindula*. Brokerage firms and economists predict the Zimbabwe dollar will close the year trading at between \$2,000 and \$3,200 against the US dollar, however, monetary authorities are of the view that the local currency is likely to close the year trading at around \$1,500;

4 Feb 2023 **Harare (Zimbabwe)** *Sunday Mail*. Zimbabwe is poised to record its largest-ever maize harvest this year, with preliminary assessments indicating that production could hit three million tonnes.;

3 Feb 2023 **Harare (Zimbabwe)** *Zimbabwe Independent*. **Zimtrade** data indicates a trade deficit of \$1,96 billion for the period between January and November 2022, which is an increase from the \$1,4 billion recorded during the same period in 2021;

3 Feb 2023 **Harare (Zimbabwe)** *Zimbabwe Independent*. **HETHIMEX**, a **Belgian** corporation, has given embattled **National Railways of Zimbabwe (NRZ)** 30 days to pay its \$9,6m debt, stemming from a 2003 deal allowing the parastatal to purchase parts for general motor locomotives using a revolving credit facility, or face legal action;

1 Feb 2023 **Harare (Zimbabwe)** *Herald*. President **Emmerson Mnangagwa** receives his **Belarusian** counterpart, **Aleksandr Lukashenko**, signing eight bilateral agreements in the areas of education, agriculture and economic cooperation;

30 Jan 2023 **Harare (Zimbabwe)** *Zimeye*. Health ministry announces a rise in new **Covid-19** cases with a total of 123 new cases recorded on 27 January, bringing the number of active cases to 1,212;

30 Jan 2023 **Harare (Zimbabwe)** *Xinhua*. **Chinese** embassy in Zimbabwe says trade between the two surged 29.2 % year-on-year to a record high of \$2.43 billion in 2022, with Zimbabwe exporting \$1.3 billion worth of goods to China, and importing \$1.13 billion worth of goods from China;

29 Jan 2023 **Harare (Zimbabwe)** *The Zimbabwean Mail*. Finance and economic development permanent secretary **George Guvamatanga** says the parallel market exchange rate should not be used as a reference for pricing in the economy as it constitutes only a small fraction of cumulative trade volumes;

29 Jan 2023 **Harare (Zimbabwe)** *Sunday Mail*. **Reserve Bank of Zimbabwe (RBZ)**'s Financial Intelligence Unit (FIU) blacklists six contractors that were doing business with the government for trading on the black market, while bank accounts of five leading wholesalers have been frozen for manipulating prices of goods and services;

28 Jan 2023 **Harare (Zimbabwe)** *Pindula*. **UCT Refugee Rights Unit** and the **Centre for European Policy Studies** organise an event attended by several **South African** lobby groups to discuss the April court bid to oppose the South African government's decision to scrap the **Zimbabwean Exemption Permit**;

25 Jan 2023 **Harare (Zimbabwe)** *The Standard*. Economists predict increased inflationary pressures emanating from election-induced government spending on top of existing elevated inflation;

25 Jan 2023 **Harare (Zimbabwe)** *Newsday*. Public Service, labour and social welfare says the state has de-registered 291 private voluntary organisations (PVOs), a move civil society organisations describe as meant to instil fear and close the democratic space ahead of this year's polls;

25 Jan 2023 **Harare (Zimbabwe)** *Newsday*. Government shuts down **Redwing Gold Mine**, owned by **Scott Sakupwanya**, a ruling **Zanu-PF** member and ally of President **Emmerson Mnangagwa**, over increased number of fatalities at the mine;

20 Jan **Harare (Zimbabwe)** *Newsday*. The proposed takeover of **Standard Chartered Bank Zimbabwe** gains momentum after five prospective investors including local and regional entities submitted their bids;

19 Jan 2023 **Harare (Zimbabwe)** *Zimbabwean Mail*. Former white commercial farmers, whose land was acquired under the land reform programme, are reportedly worried about a "longer" period that the compensation process may take after the government announced new payment terms in December;

15 Jan 2023 **Harare (Zimbabwe)** *Sunday Mail*. **African Development Bank (AfDB)** president Dr **Akinwumi Adesina** and former **Mozambican** President **Joachim Chissano** will lead consultations on Zimbabwe's arrears clearance and debt relief process;

13 Jan 2023 **Harare (Zimbabwe)** *Zimbabwe Independent*. Government controversially grants military-owned arms manufacturer, **Zimbabwe Defence Industries (ZDI)** a special permit to export raw lithium by the government;

11 Jan 2023 **Harare (Zimbabwe)** *New Zimbabwe*. State-owned **Kuvimba Mining House** is banking on its mining proceeds to revive the defunct steelmaker, **Ziscosteel** which used to be a leading steel manufacturer but has been idle for over a decade, with its demise attributed to the pressures of Zimbabwe's shattered economy, gross mismanagement and corruption;

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