Zimbabwe Economic Policy Analysis and Research Unit

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Highlights of this Issue

This is the 21st edition of the ZEPARU Economic Barometer, which is a flagship quarterly publication of the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) intended give an overview of the status of the Zimbabwe economy at a given time. This edition was prepared to reflect the economic situation as reflected by the position of key economic sectors in 2020. The key highlights in this issue include the following:

Global and regional economic developments:

- Due to the COVID-19 pandemic, it is expected that all economies across the world will register negative growth rates in 2020. This will negatively affect Zimbabwe given reduced demand for exports as well as reduced supplies of critical raw materials and well as consumables which the economy requires.
- With the exception of gold, Zimbabwe will also be negatively affected by the suppression of mineral prices, which would reduce export given the dominance of minerals in the export basket. The falling oil prices gave some fiscal space to government as it was able to raise taxes without significant impact on consumers
- Zimbabwe's inflation is now the highest in the region, hence disinflation policies should be the priority.

Major Zimbabwe economic developments:

- Cumulative revenue collection for the first quarter of 2020 amounted to ZWL$13.88 billion, which was about 149.47 percent above target. This was mainly due to inflationary pressures than expansion of fiscal space
- In the first quarter of 2016, government expenditure exceeded total government revenue, resulting in a budget deficit of US$159.81 million (19.775% of total government revenue). This budgetary deficit was mainly financed by loans and treasury bills from domestic sources.
- On the 4th of May the government unveiled a ZWL$18 billion COVID-19 economic recovery and stimulus package, which accounts for an estimated 9 percent of GDP. However given that the country is currently in a high inflationary environment, there is risk that the funds will be wiped out by inflation and may not be sufficient to stimulate economic recovery.
- The loan to deposit ratio for the banking sector, the liquidity ratio as well as the capital adequacy ratio show that Zimbabwe banks actually have the capacity to increase credit for economic expansion and growth.
- The Zimbabwe Stock Change is no longer a preferred investment haven by foreign investors as reflected by a decline in the volume

Important economic sectors:

- Government needs to incentivise tobacco farmers by increasing the foreign currency retention threshold. There is also need to strengthen current government efforts on climate change adaptation and agricultural financing to enhance food security
- Gold and platinum demand is expected to increase amid COVID-19 induced risk hence the need to boost production. Gold is considered as a safe haven whereas investment in precious metals like platinum is more lucrative due to the increase in the global risk.
- The COVID-19 pandemic induced difficulties in accessing imports implying that methods and mechanisms for import substitution should be the topical issue for manufacturers.
- The Post COVID 19 Tourism Recovery Strategy should address a number of issues including destination accessibility among others if tourism is to recover and become a key economic driver;
- Zimbabwe registered an improved balance of trade deficit as well as a current account surplus due to reduced imports, while exports remained subdued. This is not likely to be sustained.

- Zimbabwe continues to be in debt distress with a huge and unsustainable external debt of about US$10.545 billion as at September 2019 of which about 60.35% of the debt is in arrears. The public sector debt to GDP ratio including legacy debt and farmers' compensation is projected to be 101.6% in 2020, which is beyond the 70% debt threshold as espoused in the Public Debt Management Act and the Transitional Stabilisation Programme. The projected public debt is expected to be unsustainable even up to the year 2029 at 83.8% of GDP.

Special feature: Strengthening citizen engagement in budget process a priority for Government

- Zimbabwe has improved significantly in terms of transparency with respect to the budget process. The Open Budget Survey (OBS) 2019 report shows that Zimbabwe has an Open Budget Index of 49 (out of 100), having increased more than twofold from a score of 23 in 2017. The score of 49 is the highest ever score that Zimbabwe has attained since 2012, when Zimbabwe was first assessed. Zimbabwe's score is also third after South Africa and Namibia in the SADC region, well above the Sub Saharan Africa average score of 32 and above the global average score of 45.
- The OBS also shows that Zimbabwe has a score of 33 with respect to public participation and an average score of about 42 with respect to oversight. This underlines that more efforts should be channelled in enhancing public participation.
- Specifically, there is need to strengthen the structures and institutions for citizen engagement. This can best be done by building the capacity of residents associations on budgets and budget processes to enable them to mobilise the public to participate in budgeting;
- Treasury and parliament need to coordinate with residents association and use their structures in consultations to enhance their reach to citizens at the grassroots.

1. Global and Regional Developments

1.1 World Economic Outlook

All the economies across the world are expected to register negative growth rates due to the COVID-19 pandemic. This will have the impact of reducing external demand for Zimbabwe products, collapse of some commodity prices and reduce foreign direct investment inflows.

The COVID 19 pandemic is projected to severely impact on the global economic growth from 2.9 percent in 2019 to -3.0 percent in 2020 (Table 1). Countries have had to incur huge costs to protect human lives and allow health care systems to cope. Further, measures to contain the spread of the pandemic have required isolation, lockdowns, and widespread closures, thereby slowing economic growth across the globe. Global growth forecast is still characterised by uncertainties although the initial forecast for 2021 is a growth of 5.8 percent.

Table 1: Overview of the World Economic Outlook Projections (Percentages), 2019- 2021

		Projections	
	2019	**2020**	**2021**
World Output	2.9	**-3.0**	**5.8**
Advanced Economies	**1.7**	**-6.1**	**4.5**
United States	**2.3**	*-5.9*	*4.7*
Euro Area	*1.2*	*-7.5*	*4.7*
Emerging Markets & Developing Economies	**3.7**	**-1.0**	**6.6**
Middle East and Central Asia	*1.2*	*-2.8*	*4.0*
Sub Saharan Africa	*3.1*	*-1.6*	*4.1*

Source: IMF WEO Update, April 2020

In the emerging markets, there is considerable diversity with some economies like China and India being projected to record positive growth of 1.2 percent and 1.9 percent respectively while economies like Brazil and Russia are expected to decline by 5.3 percent and 5.5 percent respectively. Growth in Sub-Saharan Africa is expected to fall from 3.1 percent in 2019 to -1.6 percent in 2020. In 2021, growth of big economies in this region like Nigeria and South Africa are expected to recover from -3.4 percent to 2.4 percent and from -5.8 to 4 percent respectively.

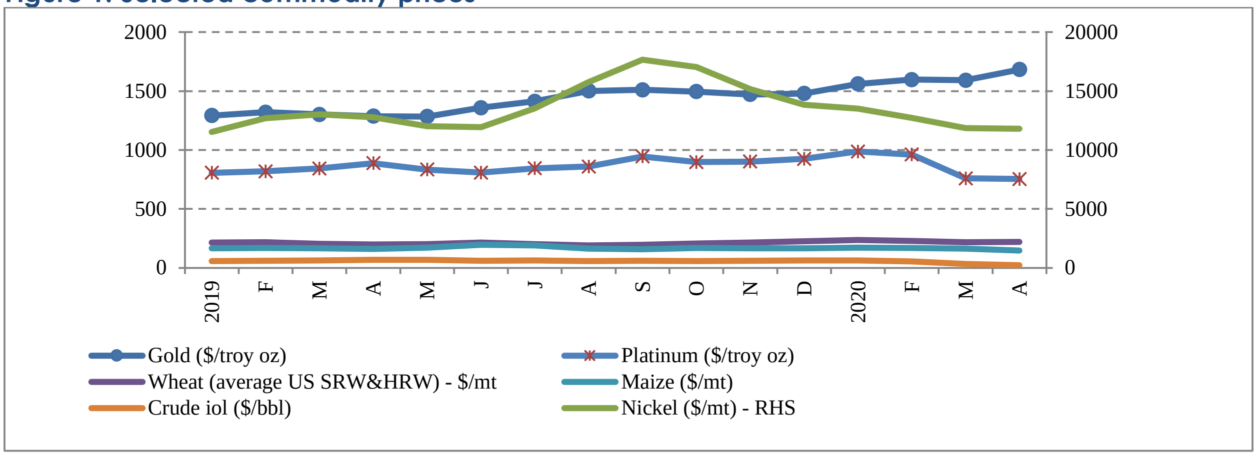
Unlike other 77 countries, Zimbabwe did not benefit from the G20 temporary suspension of debt payments/debt relief to enable response to COVID 19. Thus, the ZWL$18 billion set aside as a relief package from locally generated resources might not be enough in the face of debt distress. Further, plummeting of external demand and collapse of some commodity prices could result in declining export earnings for Zimbabwe, given an export basket that is largely composed of primary products. More so, decline in economic activities in Zimbabwe's major trading partners such as South Africa, has a knock down effect on the economy. As countries reprioritize and focus on recovering from COVID 19, there will be slim prospects for significant foreign direct investment flows into Zimbabwe given declines in global economic activity. This may also imply the need for the country to intensify its efforts of exploring internal options to mobilise funds for economic recovery and development.

1.2 International Commodity Prices

Zimbabwe is likely to be negatively affected by the mineral price developments, as the increase in gold price was offset by a decrease in other mineral prices. The falling oil prices gave some fiscal space to government as it was able to raise taxes without significant impact on consumers

In the first four months of 2020 nickel and platinum, which are among the major minerals produced in Zimbabwe, were facing a declining trend in prices due to the economic crisis resulting from the Covid-19 global pandemic (Figure 1). However, gold price significantly increased by an average of 23.8 percent compared to the first four months of 2019, owing to increased demand from investors seeking a safe haven to hedge against the impact of Covid-19. This could imply that the net gains for the country in terms of commodity price changes are likely to be negative.

Figure 1: Selected commodity prices



Source: World Bank Pink Sheet, May 2020

Wheat price has remained resilient, increasing by an average of 8.2 percent in the first four months of 2020 relative to the same period in 2019, while maize price declined by an average of 2.2 percent. Zimbabwe is a net importer of wheat and hence will be negatively affected by the wheat price developments. Crude oil recorded the biggest drop in prices averaging 30.7 percent. This provided headroom for government to increase tax revenue from increased imports of petroleum products. In future, it would be important for government to encourage investments in storage infrastructure to take advantage of oil price swings and build-up reserves when prices are low. Buffer stocks will militate against the adverse effects of rises in global oil prices and supply side shocks. However, supply and trade disruptions arising due to Covid-19 present difficulties in fully taking advantage of rising prices of our main exports and declining prices of our main imports.

1.3 Regional Stock Market Developments

The Zimbabwe Stock Exchange performed exceptionally well compared to its peers in nominal terms. However, this is more of a reflection of the high inflationary environment than high returns compared to peers.

In the three months to March 2020, the Zimbabwe Stock Exchange indices exhibited exceptional performance compared to selected regional peers (see Table 2). Year to date performance of the Industrial and Mining indices rose by 108.9 percent and 36 percent respectively between the period January and March 2020. The strong performance of the Zimbabwe Stock Exchange was buoyed by inflationary pressures which have been undermining sound macroeconomic fundamentals. Other regional stock markets declined sharply in response to effects of the spread of the corona virus and measures taken by governments in response which resulted in slowdown in economic activities affecting stock markets around the world.

Table 2: Summary of selected regional stock market performance Jan-Mar 2020

	2020			Percentage Change	
	Jan	**Feb**	**Mar**	**YTD**	**MoM**
Zimbabwe Mining Index	344.92	826.73	720.47	108.9	(12.9)
Zimbabwe Industrial Index	1,112.27	1,564.98	1,512.46	36.0	(3.4)
Zambia LSE All Share	4,251.54	4,250.48	4,232.83	(0.4)	(0.4)
Nairobi All Share Index	162.09	148.6	1,31.92	(18.6)	(11.2)
South Africa JSE All Share	3,371.25	3,067.83	2,582.75	(23.4)	(15.8)
Mauritius Semdex	2,212.59	2,177.25	1,571.04	(29.0)	(27.8)
Namibia NSX	1,240	1,146.9	864.1	(30.3)	(24.7)

Source: Zimbabwe Stock Exchange & Investing.com

1.4 Regional Inflation Developments

Zimbabwe's inflation rate is the highest in the region, calling for prioritisation of disinflation measures

Zimbabwe continues to experience highest inflation rate in Africa. Headline inflation for March 2020 stood at 676.4 percent after gaining 136.2 percentage points from 540.2 percent recorded in February 2020. Prices in Zimbabwe continue to increase as most consumer goods are pegged in United States dollars and the volatility of parallel market exchange rate will likely see increased inflationary pressures. In the first quarter of 2020, Zimbabwe's inflation was the highest in Africa followed by Sudan at 81.6 percent and Angola at 19.62 percent. Angola's headline inflation which has been on a downward trend in the last quarter of 2019 increased in the first quarter of 2020, whilst Mauritius recorded the lowest inflation rates (see Table 3).

Table 3: Trend in regional inflation January – March 2020 (percent)

	2020		
	Jan	**Feb**	**Mar**
Zimbabwe		540.2	676.4
Sudan	64.28	71.4	81.6
Angola	17.95	18.74	19.62
Zambia	12.5	13.9	14
Malawi	11.1	11.0	9.8
Mauritius	2.0	2.2	2.9

Source: ZIMSTAT and Trading Economics

2. Major Zimbabwe Economic Trends

2.1 Fiscal Policy Developments

In the first quarter of 2020, cumulative revenue collection amounted to ZWL$13.88 billion, resulting in a variance of 149.47 percent above target and a growth of 613.6 percent from its performance in a comparable period in 2019. The growth in revenue was mainly induced by inflationary pressures than increase in compliance levels; expansion in the revenue base and improved efficiency in revenue collection. For example, significant increases were recorded in mining royalties', customs duty and PAYE by 1463.3 percent, 1062.4 percent and 880.3 percent respectively. There was also an increase in contributions to overall total tax revenue, with VAT, PAYE and corporate taxes accounting for 24.55 percent, 16.7 percent and 14.4 percent respectively of total tax revenue (Table 4).

Although government revenue performance was well above the target, this was mainly due to inflationary pressures than expansion of fiscal space

Table 4: Summary of Revenue head performance Q1 2019 and 2020

Revenue head	Q1 2019 Actual	Q1 2020 Target	Q1 2020 Actual	Variance (%)	Y.o.Y Change (%)	% Contribution Q1 2019	% Contribution Q1 2020
Individuals	235.91	1,607.2	2,312.7	43.89	880.3	12.1	16.7
Companies	242.08	1,289.0	1,995.7	54.82	724.4	12.4	14.4
Value Added Tax (VAT)	349.62	3,456.09	3,406.92	(5.39)	874.5	17.98	24.55
Customs Duty	91.26	1,033.6	1,060.7	4.13	1062.4	4.7	7.6
Excise Duty	565.65	2,610.9	2,304.7	2.62	307.4	29.1	16.6
Other Taxes	459.94	2,569.0	2,795.7	-11.73	507.8	23.7	20.1
Mining Royalties	*21.08*	*376.6*	*329.6*	8.78	1463.3	1.1	2.4
IMT Tax	*282.84*	*1,605.0*	*1,652.1*	-12.49	484.1	14.5	11.9
Net Non-Tax	42.94	3.8	9.4	2.94	(78.2)	2.2	0.1
Total Net Revenue	**1,944.46**	**12,566.7**	**13,876.4**	**149.47**	**613.6**	**100.0**	**100.0**

Source: Zimbabwe Revenue Authority

On the 4th of May the government announced a ZWL$18 billion COVID-19 Economic recovery and stimulus package which accounts for an estimated 9 percent of GDP. The aim of the stimulus package is to provide critical liquidity support to all productive sectors of the economy, protect employment through prevention and minimisation of COVID-19 induced layoffs and providing income support for all vulnerable groups and individuals. Support towards the agriculture sector is expected to take 33.7 percent of the stimulus package followed by a Working Capital Fund (16.8 percent) and food grants (13.3 percent).The government highlighted that financing for the stimulus package will be funds redirected from its 2020 budget by ensuring emphasis towards the productive sectors of the economic. However, given that the country is currently in a high inflationary environment, there is risk of value erosion of the funds if inflation is not contained and this may adversely affect the impact of the stimulus package on economic recovery. Securing of external funding will complement domestic resources to mitigate the adverse effects of COVID 19 on the economy. Furthermore, government needs to continue to deepen fiscal and monetary reforms to anchor macroeconomic stability and spur the growth of the economy.

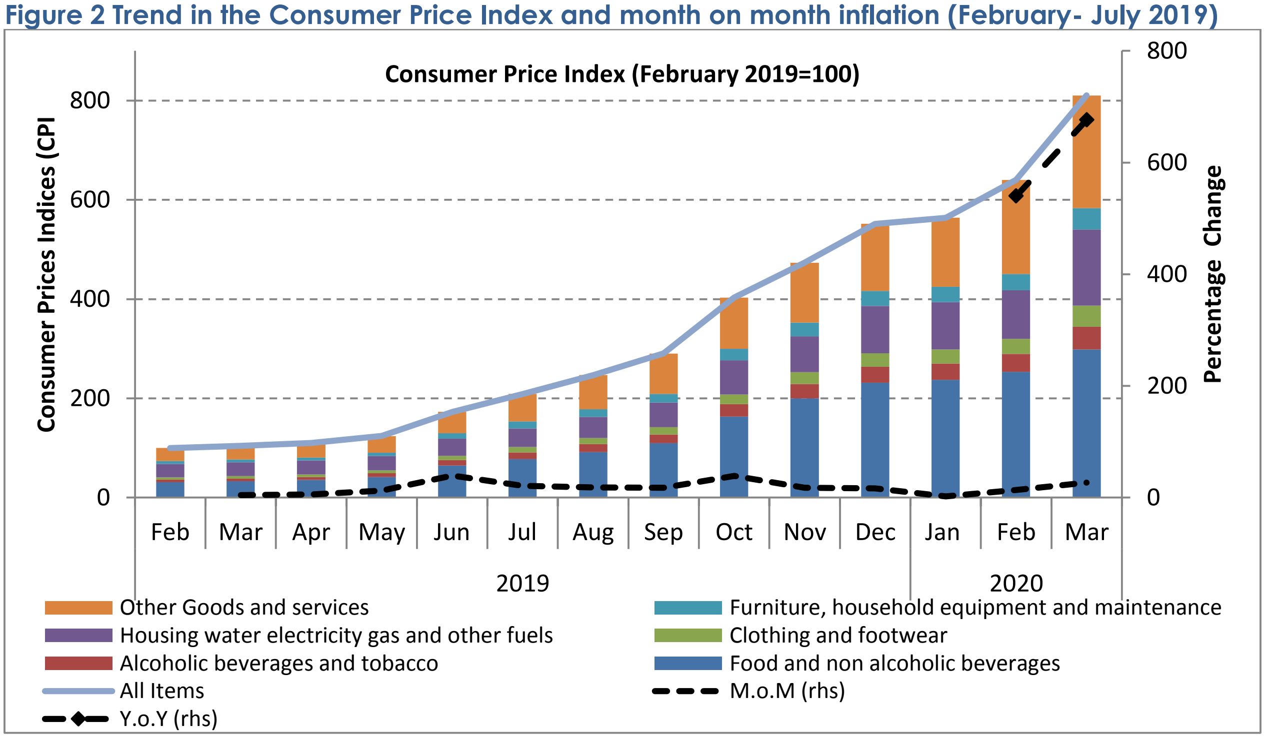
2.2 Inflation Developments

Inflation in Zimbabwe is mainly driven by food and non-alcoholic beverages on one hand and housing, water, electricity, gas & other fuels on the other. Inflation will be difficult to control as it is mainly tracking the USD/ZWL parallel market exchange which is usually used by most retailers in pricing their goods and services

The publication of official year on year inflation was resumed in February 2020 following the suspension of publication in February 2019. Thus headline year on year inflation for the month of March 2020 stood at 676.4 percent, a rise of 136.2 percentage point from 540.2 percent recorded in February 2020 (Figure 2).The increase in year on year inflation was mainly driven by changes in the prices of food & non-alcoholic beverages as well as housing, water, electricity, gas & other fuels which increased by 807.4 percent and 444.1 percent respectively and accounted for 252.7 percent and 122.7 percent of the change in annual headline inflation. The increase in food items have been a result of the deteriorating USD/ZWL parallel market exchange which is usually used by most retailers in pricing their goods and services. Thus, inflation rates are expected to continue with the upward momentum as parallel market exchange rates continues spike.

Month on month inflation for the month of March 2020 stood at 26.6 percent after gaining 13.07 percentage points from levels recorded in February 2020. Just like the changes in year on year inflation, the increase in month on month inflation was also driven by changes in the prices of food & non-alcoholic beverages and housing water, electricity, gas & other fuels.

Figure 2 Trend in the Consumer Price Index and month on month inflation (February- July 2019)



Source: Authors Calculations using data from Zimstat

3. Banking and Financial Sector

The loan to deposit ratio for the banking sector, the liquidity ratio as well as the capital adequacy ratio show that Zimbabwe banks actually have the capacity to increase credit for economic expansion and growth.

3.1 Banking sector

The lasted available banking sector statistics indicate that the sector has potential to play a key role in supporting the recovery of the corporate sector from the impact of COVID-19 (Table 5). At 38.82 percent against a benchmark of 70 percent, the loan-to-deposit ratio suggests that banks have room to increase credit for those companies that may need working capital. The banks also have adequate capital and liquidity buffers. The capital adequacy ratio is more than three times the regulatory requirement of 12 percent. The liquidity ratio (75.59 percent) is also high, more than double the regulatory requirement of 30 percent. Non-performing loans are also under check at 3.23 percent against a benchmark of 5 percent, although they might increase due to the economic slowdown from COVID-19.

Table 5: Selected banking sector indicators

Key Indicators	Benchmark	Value
Total Assets (Dec. 2019)	-	$53.72bn
Total Loans & Advances (Dec. 2019)		$10.29bn
Total Deposits (Dec. 2019)	-	$33.8bn
Capital Adequacy Ratio (Sept. 2019)	12%	41.24%
Loans to Deposits (Sept. 2019)	70%	30.44%
Non-Performing Loans (Sept. 2019)	5%	3.23%
Liquidity Ratio (Sept 2019)	30%	75.59%

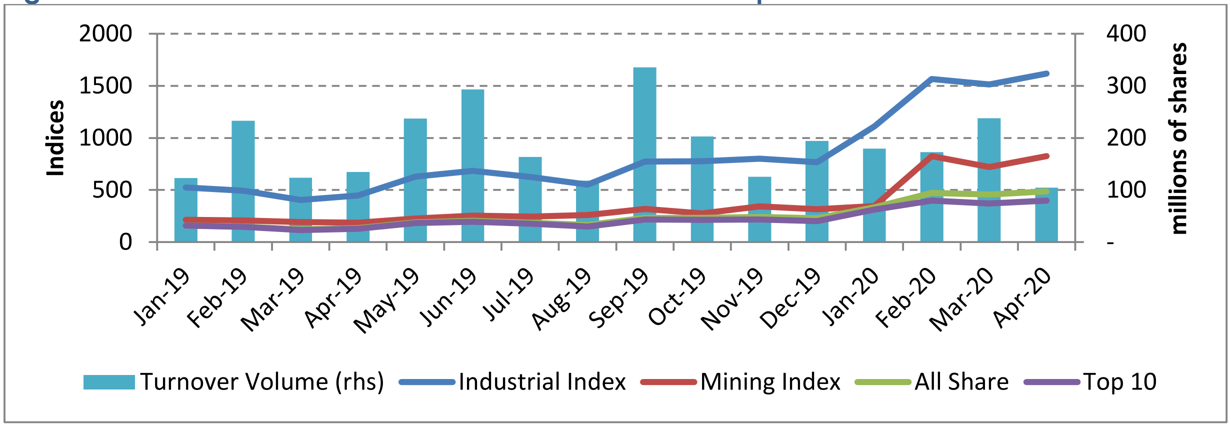
Source: Reserve Bank of Zimbabwe

3.2 Local Stock Market Developments

The Zimbabwe Stock Change is no longer a preferred investment haven by foreign investors as reflected by the decline in the volume and value of shares bought by foreigners.

The Zimbabwe Stock Exchange has been maintaining a constant upward trajectory since December 2019. The Industrial, Mining, All Share and the Top 10 indices rose by 111.03 percent, 161.05 percent, 112.36 percent and 95.96 percent respectively to 1617.24; 826.64; 488.6 and 397.18 points in April 2020. On the other hand the volume of shares traded declined in the period under review by 46.22 percent. However, the market indices grew at a slower rate than inflation; year on year inflation stood at 676.4 percent at the end of March whilst the Zimbabwe Stock Exchange All Share index rose by 275 percent between March 2019 and March 2020 (Figure 3). This underlines the fact that real returns were negative.

Figure 3: Trend in Stock Market Performance Jan-2019 to April-2020



Source: Authors Calculations using data from Zimbabwe Stock Exchange

The faltering economic performance has resulted in foreign investors losing interest to invest on the local bourse as both the volume and value of shares traded in the first quarter of 2020 by foreigners declined compared to comparable period in 2019. The volume of shares bought and sold by foreigners declined by 86.28 percent and 63.92 percent respectively, whilst the value of shares bought and sold by foreigners also declined by 67.03 percent and 15.66 percent respectively Market capitalisation which stood at ZWL$16.08 at the end of March 2019 rose to ZWL$ 58.61 billion in March 2020.

4. Important Economic Sectors

4.1. Agriculture

Government needs to incentivise tobacco farmers by increasing the foreign currency retention threshold. There is also need to strengthen current government efforts on climate change adaptation and agricultural financing to enhance food security

Tobacco

The 2020 tobacco marketing season was officially opened on 29 April 2020, a month later than what was experienced in the previous season. The delays were caused by the COVID 19 lock down. Low volumes of the crops are expected to the market in the face of late rains and long dry spells experienced during the cropping season, as well as erratic supply of energy to the crop under irrigation.

Movement restrictions and social distancing measures imposed by government changed the traditional tobacco marketing procedures. In order to avoid the spread of COVID-19, Government had to decentralise the auctioning of tobacco this year. This partially contributed to the 1269 percent increase in tobacco that had been sold on day 7 of the tobacco marketing compared to the same season last year (see Table 7). Poor seasonal start in 2019 was explained by low appetite on the part of farmers who were still warming up to the low prices that prevailed in the market. Moreso, farmers were still negotiating for a better forex retention threshold with the RBZ following the 30 percent forex retention proposed in the February 2019 Monetary Policy Statement.

Table 6: Flue Cured Tobacco Daily Sales Summary As At 8 May 2020 (Day7)

	2020 TOTAL	2019 TOTAL
Mass sold(kg)	6,162,938	450,076
Value(US$)	13,928,240	744,033
Avg.price US$/kg	2.26	1.65

Source: https://www.timb.co.zw/

A number of issues require immediate attention if tobacco farming is to continue generating foreign currency for the country and continue to serve as a source of livelihood for the majority of the smallholder tobacco farmers. Only 7,554 new growers had registered to grow tobacco in the 2019/2020 season as at 12 March 2020, an 82 percent decline from those that had done so over the same period in the 2018/19 season. The RBZ retention system that stipulates that tobacco farmers get 50 percent of their proceeds in local currency might have contributed. This component is received at a fixed rate of ZWL$25 to USD1.00, which is only half of the rate prevailing on the unofficial market and farmers feel short changed. Further, farmers experience delays in the processing of payments after selling their crop. Moreso, there are restrictions around tobacco transportation truck capacity that increase their cost of ferrying the crop to the market.

In the face of increasing costs of inputs and inability of farmers to reinvest on the farm, this may result in serious reduction in tobacco output in the forthcoming season. Further, seasonal variability, dilapidated irrigation equipment, incessant power cuts are other factors likely to militate against the crop's potential in generating foreign currency for Zimbabwe in the forthcoming season. Given the importance of tobacco crop on export earnings, employment creation and as a source of livelihood particularly for small holder farmers who are dominant players, this trend needs immediate attention. Better incentives can be extended to this crop for example, by increasing the foreign currency retention threshold from the current 50 percent. More so, thrust on irrigation development, ensuring reliable power supply and timely availability of inputs can alleviate some of the challenges tobacco farmers are facing.

Food security situation

Zimbabwe's food security status which has been compromised by recurring droughts; low crop productivity; prolonged poor macroeconomic conditions; low disposable household income is being further threatened by the adverse effects of COVID-19 pandemic. Famine Early Warning Systems Network highlights that this pandemic is coming at a time when Zimbabwe is facing one of its worst food security emergencies in history. Recurring droughts and floods in three consecutive agricultural seasons across much of the country have negatively affected crop and livestock production and other livelihood activities. In February 2020, Zimbabwe was reported to be the hardest hit country by proportion, with 5.8 million people facing severe levels of food insecurity across urban and rural areas compared to Zambia, Mozambique and Malawi with 2.3 million; 2 million and 1.9 million people affected respectively[1].

COVID 19 has impacts on both supply and demand for food. In Zimbabwe for example, disrupted movement of agricultural produce and food stuffs from the farms as well as reduced imports given the restricted movements and closures of the ports of entry affected food supply. As a result, food prices shot up as the market was characterised by shortages. Evidence reveals that the extent of the COVID 19 impacts on food demand will depend on numerous factors; including the depth

[1] https://reliefweb.int/report/zimbabwe/more-14-million-people-facing-acute-hunger-one-largest-food-crises-southern-africa.

and length of the pandemic, macroeconomic instability, the availability of savings and access to credit and safety net mechanisms. Given the prevailing poor macro-economic conditions in Zimbabwe and its inability to absorb external shocks; the generally low savings rate[2] and the weak access to affordable credit, the COVID impacts could be huge. As much as ZWL$2.4 billion (13.3 percent) is being allocated to social welfare and food grants for the vulnerable groups of the society. Targeting and quantum of the packages and their sustainability will need to be looked into given the food security risks

In response to minimising the impact of COVID 19 to the agricultural sector, the government allocated ZWL$6.1 billion translating to 33.9 percent of the total economic stimulus package. This is quite a generous share considering the impact the pandemic has posed to other sectors of the economy and its adding on the ZWL$2.4 billion earmarked for command wheat production. Its effectiveness however, lies on its accessibility; quantum; timely disbursement and utilisation; strategic targeting of the players in the agricultural value chains among other factors. Further, to ensure sustainable growth of the agricultural sector and its economic contribution, there is need to strengthen current government efforts on climate change adaptation and mitigation strategies as well as agricultural financing.

4.2. Mining sector developments

Demand for gold and platinum is expected to increase. Gold will increase since it is considered as a safe haven. Similarly, increased global risk induced by COVID-19 makes investment in precious metals like platinum more lucrative.

Despite the disruptions of some of the economic activities in the country due to the rolling lockdown, mining operations are exempted from the lockdown requirements and are classified as essential services although some mining companies were affected during the first phase of the lockdown. Moreover, there may be logistical challenges for minerals such as gold and platinum given that Zimbabwe relies on South African refineries. The Gold Development Initiative Fund being administered by Fidelity Printers and Refiners is still expected to boost gold production and deliveries amid fears of COVID-19 disruptions in the economy. As part of the gold mobilisation strategy, the Fidelity Printers and Refiners also introduced formalisation cards to ensure that gold is delivered through formal channels by artisanal and small scale miners. The State gold buying entity also engages in training of small-scale miners to equip them with the requisite knowledge to maximise their mining activities. A flexible package for women in mining is expected to be introduced for them to access the Gold Development Initiative Fund since most women have failed to access the fund due to lack of collateral.

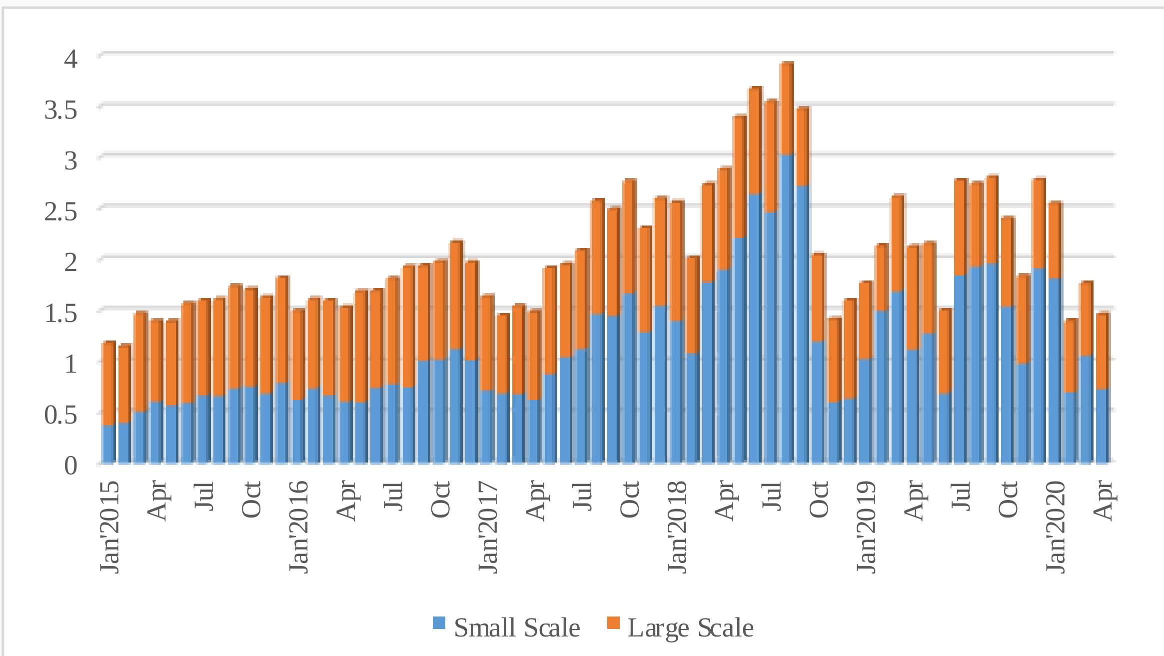
Moreover, from the ZWL$18 billion economic rescue package set aside for 2020, ZWL$1 billion will benefit distressed companies in the mining sector including the small scale miners to stimulate production. Part of the funding would be in foreign currency since the sector requires a lot of consumables which are obtained outside the country. The mining sector will also have access to

[2] Zimbabwe's average share of savings to GDP was -5.81percent between 2004 and 2017 compared to the Sub Saharan average of 21.56percent over the same period. Although a slight increase was registerd in 2018 at 9.10 percent , it remains way below the 35percent target set for that year under the SADC RISDP.

guaranteed fuel and electricity supply to avoid production disruptions. There are efforts to reopen closed gold mines by designating them as special economic zones.

Despite gold deliveries to Fidelity Printers and Refiners closing the year at a record high 33.3 tonnes in 2018, year 2019 resulted in a 16.9% decline in deliveries to about 27.7 tonnes. In 2019, small scale miners contributed about 63.2% of deliveries. A comparison between the first four months of 2018, 2019 and 2020 shows that gold deliveries has been falling from about 10.2 tonnes in 2018 to 8.65 tonnes and 7.18 tonnes in 2019 and 2020, respectively (Figure 4). This resulted in 15.2% decline in output in the first four months of the year between 2018 and 2019 and a further 17% decline in 2020. This is exacerbated by the fact that at the moment small scale miners are struggling to source critical consumables such as explosives during the COVID-19 induced lockdown. As at 12 May 2020, one of the confirmed COVID-19 cases was alleged to be a small scale miner.[3] This underlines the need for observing social distancing, strict screening and or testing as well as observing high levels of hygiene within the workplaces. Small scale miners need to be assisted to comply with the stipulated requirements to avoid the spread of COVID 19.

Figure 4: Gold deliveries, January 2015 – April 2020



Source: Fidelity Printers and refiners

The cash shortages at gold buying centres due to disruptions brought about by the COVID-19 lockdown may further induce smuggling of gold. The foreign currency retention policy currently requires gold mining players to surrender 45% of their foreign currency earned from the export of gold. This is replaced with the Zimbabwe dollar amount calculated using the ruling inter-bank rate currently pegged at US$1: ZWL$$25. With the parallel market exchange rate speculated to be around US$1: ZWL$60 as at 29 May 2020,[4] it means the gold miners forfeit more than half of their hard earned income, which may incite smuggling of gold to try and maximise their returns. Hence, plugging of gold leakages which are induced by the surrender requirements and addressing recent late cash payments may boost deliveries of gold at Fidelity Printers and Refiners.

[3] https://miningzimbabwe.com/chegutu-covid-19-case-36-is-a-small-scale-miner/, accessed 12 May 2020
[4] https://startupbiz.co.zw/black-market-forex-exchange-rates-today-29-may-2020/, accessed 29 May 2020

Gold prices are predicted to firm in 2020 as investors consider gold as a safe haven. In this regard it is imperative for Zimbabwe to boost gold production and curb smuggling of the precious mineral to boost export revenue. The outlook for platinum is also bright given the implementation of stricter emissions standards in China and India, and the associated higher metal loadings per vehicle, will partly offset the volume-related reduction in automotive platinum demand (World Platinum Investment Council (WPIC), 2020). The WPIC further predicts that platinum is expected to reflect a materially higher value over the next 18 months due to the COVID-19 pandemic as investors prefer to invest in physical assets and precious metals to guard against increased global risk.. In addition, China has already launched initiatives to promote broadly the awareness and ownership of platinum as an investment asset; hence the need to boost platinum production given the likely guaranteed demand for the precious metal.

4.3. Manufacturing

The COVID-19 pandemic induced difficulties in accessing imports imply that methods and mechanisms for import substitution should be the topical issue for manufacturers

The Zimbabwe manufacturing sector started 2020 on the backdrop of a number of challenges, which have seen the sector on a declining path. For example, the Confederation of Zimbabwe Industries (CZI) in 2019 reported that industry's capacity utilisation had declined by 11.8 percentage points to 36.4 percent in 2019. In 2020, CZI has already projected that capacity utilisation is likely to drop further to 27 percent due to a myriad of challenges facing the sector. A capacity utilisation of 27 percent would mean than more than two-thirds of the invested production capacities in industry would be lying idle. Producing at such low levels of capacity, away from the economies of scale advantage levels, also implies that the production costs per unit would be very high, which compromises overall manufacturing sector competitiveness.

The main focus of the manufacturing sector in 2020 would be in relation to the effects of the COVID-19 pandemic. This is a sector that was struggling before the pandemic, and survival opportunities can be slimmer under the COVID-19 pandemic. However, in addition to other challenges that affect viability, import competition has also been a threat towards manufacturing sector recovery. For example, the 2019 CZI Manufacturing Sector Survey report shows that about 60 percent of manufacturing sector firms have both domestic and foreign competition, while 10 percent are in competition with only foreign suppliers.

The COVID-19 pandemic has generally affected imports. Although the borders are still open for cargo movements, import supply elasticities have been affected globally due to the lockdown. In addition, a significant portion of import competition was satisfied by direct cross border movement of people to go and shop in foreign markets. Thus, the restrictions on cross border movements offer an opportunity for import substitution.

Import substitution for the manufacturing sector in Zimbabwe is generally difficult, as a significant portion of the product lines actually requires imports of raw materials. However, there are also a number of products where local value chains can be easily created for a lot of revenue to become localised. For example, in the two year period 2018 and 2019, data from the Zimbabwe Statistics Agency shows that Zimbabwe used about US$3.9 million just to import vegetable saps and other extracts derived from vegetable products. This means that there is scope for a local manufacturer to earn this much in revenue by simply focusing on extracting saps and extracts from vegetables and selling in the local market. Zimbabwe also imported over US$8.5 million worth of solid sugars, sugar syrups, artificial honey and caramel over the two year period. This is also a market that can be easily localised and all this revenue enjoyed locally. About US$36 million was used over the same period to purchase milk and milk products, at a time when the local dairy industry is still making strides to meet demand. Despite a huge forestry plantation in Zimbabwe, there was still about US$41 million that was used to import various wood and wood products, including plywood, fibreboard, pallets and packing cases over this period. It can't be surely difficult to target this ready market and produce these products using local value chains!

There are also ready local markets which can still be captured with more planning, even though the raw materials are not readily available. For example, Zimbabweans like to eat pasta, especially spaghetti, macaroni, noodles and lasagne to such an extent that suppliers had to source about US$17 million worth of the products in foreign markets in 2018 and 2019. In addition, challenges of pests and insects are so real that suppliers spent close to a quarter of a billion (US$ 210.1 million) in importing these products over the two year period. This means that it is time to begin exploring the scope of localising these products, to ensure that all value chain benefits are contained within Zimbabwe.

Given that COVID-19 poses a lot of viability challenges for the manufacturing sector, methods and mechanisms for import substitution should be the topical issue. Government has already provided for a COVID-19 stimulus package, which includes a working capital fund for industry of ZWL$2.5 billion which can be tapped into in diversifying and expanding manufacturing product lines. Restrictions on imported products caused by COVID-19 provides opportunities to boost production of local brands and close the gap caused by difficulties to source foreign products.

4.4. Tourism Sector Developments

The Post COVID 19 Tourism Recovery Strategy should address a number of issues if tourism is to recover and become a key economic driver

The impacts of COVID 19, a global pandemic are far reaching for the tourism sector in particular in terms of arrivals, room occupancy jobs and the economy of Zimbabwe at large. The COVID 19 pandemic has changed the way the tourism industry operates. It has in some instance resulted in zero room occupancy. The series of country lock downs have grounded the sector to a halt. Despite the fact that the sector had continued on a positive trajectory as evidenced by tourist arrivals that grew from 1.8 million in 2013 to 2.5 million in 2018 and recorded an excess of USD1 billion in 2018, this trend has been reversed. Zimbabwe is expecting up to 80 percent fall in tourist arrivals in 2020 translating into between US$ 0.5 billion to US$1.5 billion in tourism receipts. Performance is back to 1980 levels, hence the need for making huge strides for the sector to bounce back. The new set-up is characterised by decline in aviation operations owing to travel restrictions; closure of ports of entry. The majority of Zimbabwe's major source markets have been hardest hit by COVID 19.

Its recovery therefore is of paramount importance given the critical role the sector plays as an engine for economic growth for the country. The Government of Zimbabwe allocated ZWL 500 million (0.3 percent of the total stimulus package) as a loan guarantee for industry players who need financial support from financial institutions to ensure recovery. While this is in line with UNWTO recommendations that calls for political and financial support to the COVID 19 hard hit tourism sector; financial institutions seem to prefer issuance of financial instruments such as treasury bills for them to unveil funds to the tourism players.

The tourism sector is one of the pillars anchoring economic growth and job creation. In this regard the sector may need further support beyond what has already been provided for in the stimulus package. Expediting the release of modalities to access the funds will facilitate quick recovery of the sector. Learning from the past experience of tourism support packages, accessibility requirements need to be relaxed in order to ensure full utilisation of the package.

Zimbabwe is crafting a Post COVID 19 Tourism Recovery Strategy. This is being done in order to unlock financial resources from local and the international community for the recovery of the tourism value chain; re-establish the regional and international connectivity; save jobs; reassure confidence in the market among others.

There are a number of issues that the Strategy needs to address if tourism sector is recover and turn around the fortunes of the economy. Some of these are outlined hereunder.

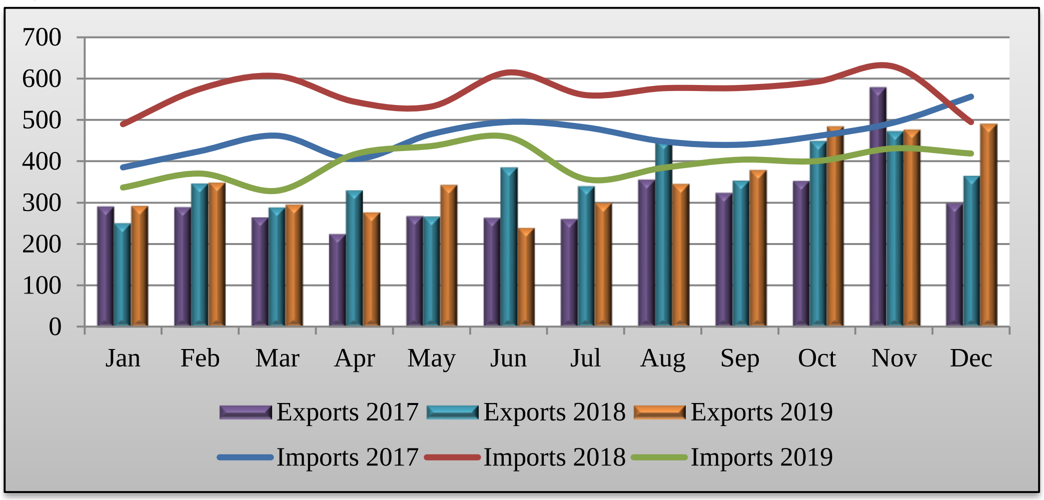
- *Destination accessibility*. Accessibility from one tourist attraction to another, both by air and by road needs to be improved. For example, there are no flights that connect Kariba; Hwange; Masvingo with the rest of the country. There is need invest in infrastructure to improve connectivity and navigability of tourist destinations as well as improving fuel supplies to facilitate easy excursion around the beautiful sceneries in Zimbabwe. Further, at the international level, some airlines have already announced resumption of flights hence the need for the tourism value chain players to maintain COVID 19 hygienic and safety standards.
- *Domestic tourism as a low hanging fruit.* Although this option had been neglected for a long time in Zimbabwe; domestic tourism is going to be an early revenue source for some time until the travel restrictions have been full lifted. This notwithstanding, challenges linked to low disposable income for the majority of the locals needs to be factored in when crafting this recovery strategy. Leveraging on diaspora remittances becomes of paramount importance in the growth of domestic tourism.
- *Ease of doing business*. High costs and impediments in operating along the tourism value chain requires immediate attention if the sector is to recover early. These are linked to exorbitant licensing fees for operators; and multiplicity of regulation. The Transitional Stabilisation Programme highlights that the operators in the sector are required to apply for separate multiple licences to operate such as municipal licence fees varying across Local Authorities, Zimbabwe Musicians Rights Association licences, radio licences, TV licences, etc., that way increasing the cost of doing business in the sector. The licensing regime needs to be synchronised with the stance of improving the ease of doing business through the elimination unnecessary transaction costs.
- *Stepping up of digital marketing and product innovation* are increasingly becoming important in the new normal. The country has to aggressively market its tourist attractions and allay any possible fears in the potential tourists with regards to its capacity and readiness to implementing World Health Organisation (WHO) stipulated requirements for responding to COVID 19. Further, destination marketing must not be limited to just the traditionally known ones. COVID 19 related restrictions to conferencing implies that hotels need to create new streams of income through digital platforms to live stream events and restrict numbers at the facilities. Another issue linked to the tourism product is quality. The players need to enhance the product quality in order to resist the increasing regional and international competition.

5. External Sector

> *Zimbabwe registered an improved balance of trade deficit as well as a current account surplus due to reduced imports, while exports remained subdued. This is not likely to be sustained going forward.*

Statistics from the Reserve Bank of Zimbabwe (RBZ) show that in 2019, total exports for Zimbabwe stood at about US$4.3 billion, having only registered a very insignificant decrease of about 0.6 percent compared to same period in 2018. On the other hand, total imports were about US$4.7 billion, having plummeted by about 30 percent compared to the same period in 2018. Given that exports remained stable while imports fell significantly, the balance of trade deficit improved by more than 80 percent to about US$476 thousand. A graphical representation of the monthly trends since 2017 (Figure 5 confirms that although imports had increased in 2018 compared to 2017, their decline in 2019 left them lower than even the 2017 levels.

Figure 5: Imports and exports trends for Zimbabwe, 2017-2019



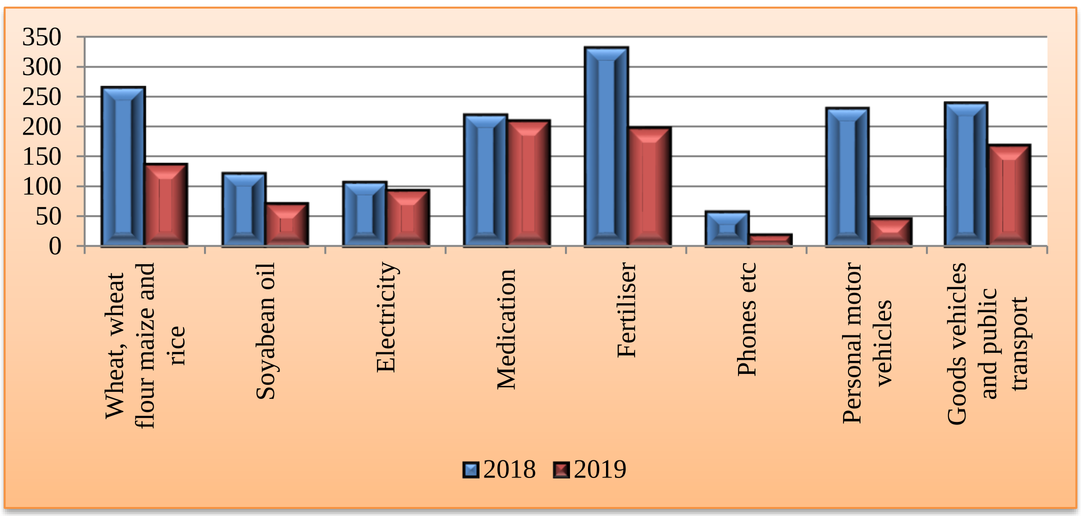
Source: Authors' construction using RBZ data

In general, a country's balance of trade shows the difference between its production and its absorption capacity. It shows whether domestic production is sufficient to meet the overall demand for consumption and investment goods. Thus, despite the significant improvement, Zimbabwe is still characterised by an absorption level that exceeds its production capacity. Thus, if imports were to remain constant, exports have to increase by about 11 percent for production to fully cover absorption capacity. Alternatively, imports have to decline further by 10 percent if exports were to remain constant for the country to have a balanced trade position.

However, a further decline in imports can affect the production capacity of the economy, given that there is greater reliance on imports for raw materials as well as plant and equipment. Thus, understanding the main drivers of the decline in imports in 2019 would be instrumental in giving an idea concerning the sustainability of further declines in imports. This also arises within the context where Zimbabwe recorded a current account surplus for the first time in decades. Preliminary figures released by the International Monetary Fund (IMF) in their 2019 Article IV Consultation Report shows that Zimbabwe's current account was about US$155 million in surplus in 2019. The current account balance, which is also the savings-investment gap, is a critical determinant of the country's position with respect to the rest of the world in terms of whether it is a net creditor or borrower. A positive value reflects a net creditor status, but this mainly arose due to the subdued imports in 2019. This may not be sustainable going forward. In 2020 the current account balance is expected to be negative.

A few selected products can be used to demonstrate the main factors behind the fall in imports (Figure 6). There are some products that can be considered critical, including fuel, medication, fertiliser and goods vehicles, for which the local capacity is almost non-existent. However, the amount of fertiliser imported in 2019 is almost half of what was imported in 2018. The importation of medication fell by about 5 percent while the importation of goods and public vehicles fell by about 30 percent.

Figure 6: Importation of select products in 2018 and 2019 (US$ millions)



Source: Authors' construction using ZIMSTAT dataset

Electricity imports also fell by about 13 percent in 2019, despite the increased load shedding registered over the period. The decrease largely underlines foreign currency challenges. It can also be shown that the importation of fuel (not shown in the graph) fell by about 21 percent in 2019 compared to 2018. This is despite fuel being a critical product, especially at a time when it was used as a substitute to load shedding. In 2019, imports of wheat and wheat flour fell by close to half from a value of US$107.8 million that had been recorded in 2018. Maize importation declined by about 32 percent, while the importation of rice declined by about 55 percent. The import demand for these food products is not expected to fall further as the local supplies remain subdued. Thus, the pressure for increased imports remains.

The largest decrease was registered in personal vehicle imports, which dropped by almost 80 percent, due to foreign currency challenges. In 2018, personal vehicle importation constituted about 4 percent of total imports at about US$231.2 million. In 2019, this fell to only about 1 percent. Together with phones, the continued importation of these products at a time when there are a lot of other similar products that have been imported before but are still in shops and car sales is wastage of the scare foreign currency.

The positive current account balance and the improved balance of trade deficit position are mainly a result of foreign currency challenges. Even critical products with no viable options in the local economy also registered a tumble in imports. If access to foreign currency were to improve, then a surge in imports would be expected. Thus, it is unlikely that this momentum will be sustained going forward.

6. Debt developments

Zimbabwe is in debt distress with a public sector debt to GDP ratio projected to be 101.6% in 2020, which is beyond the 70% debt threshold as espoused in the Public Debt Management Act and the Transitional Stabilisation Programme

Zimbabwe is still in debt distress which is likely to be worsened by the impact of COVID-19. Zimbabwe has a huge and unsustainable external debt of about US$10.545 billion as at September 2019 of which about 60.35% of the debt is in arrears (Zimbabwe Aid and Debt Management Office (ZADMO), 2020). The existence of arrears shows that the country is struggling to clear the debt, and the cost of acquiring new debt becomes exorbitant due to poor credit ratings for the country. In 2019, the Zimbabwean authorities undertook additional loans through concessional borrowing for critical infrastructure projects and also commercial loans that are securitized by future mineral exports (International Monetary Fund (IMF), 2020). These commercial loans were meant to support the new Zimbabwe dollar and facilitate the importation of essential goods (fuel, maize and pharmaceuticals). Further, white farmers' compensation estimated at US$2.4-10 billion (10-45% of gross domestic product (GDP)) (IMF, 2020), will further worsen the country's indebtedness. The composition of external debt shows that as at September 2019, the bulk of the debt is owed to multilateral creditors (39%), followed by the Paris Club (32%), Non-Paris Club (20%) and private creditors (9%). At the moment there is no progress on clearing longstanding external arrears (IMF, 2020), despite very little debt payments which amounted to about US$1.1 billion between 2012 and 2019 (Reserve Bank of Zimbabwe, 2019).

Domestic debt fell sharply from US$ 9.363 billion in 2018 to ZWL$8.868 billion in December 2019 (ZADMO), 2020), which translates to about US$528.69 million, using the interbank rate of ZWL$16.7734: US$1 which prevailed as at 31 December 2019. The reduction in domestic debt was due to debt repayments and also the loss of real value of the domestic debt due to the loss of value of the Zimbabwe dollar reintroduced in June 2019. The real value of the domestic debt continues to decline due to a further depreciation of the Zimbabwe dollar to the current rate of US$1: ZWL$25 as of 26 March 2020. This can affect the development of the domestic financial markets since at the moment long term debt is not attractive.

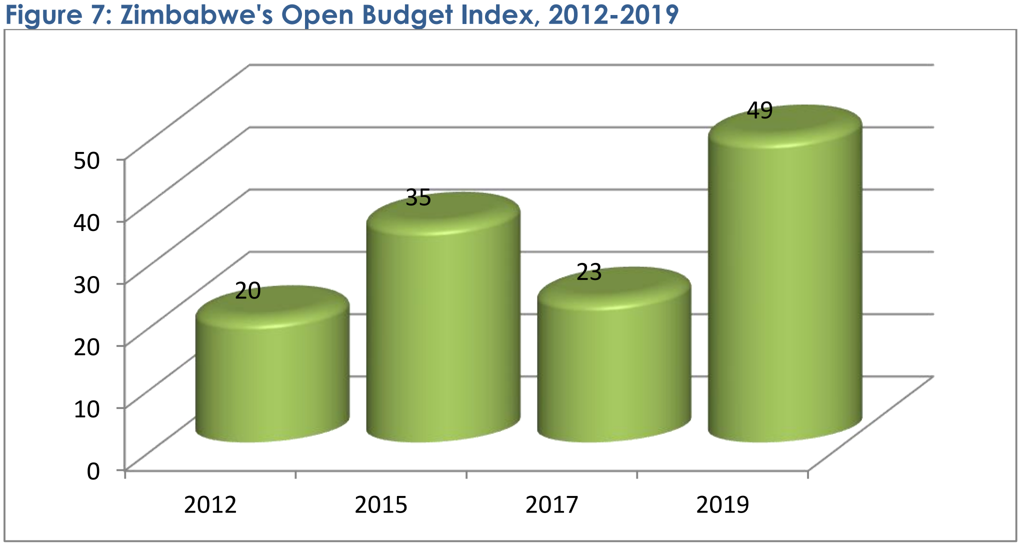
The public and publicly guaranteed external debt to GDP ratio for 2019 was 47.6% and is projected to increase to 51.5% in 2020 (IMF, 2020). This debt position does not take into account the legacy debts incurred by the Reserve Bank of Zimbabwe through compensation of some stakeholders for losses incurred following the currency conversion estimated at about US$1.2 billion and farmers' compensation. The public sector debt to GDP ratio including legacy debt and farmers' compensation jumps from about 51.8% estimated for 2019 to a projection of about 101.6% in 2020, which is beyond the 70% debt threshold as espoused in the Public Debt Management Act (chapter 22:21) and the Transitional Stabilisation Programme (October 2018 – December 2020). The debt is projected to remain high and unsustainable even up to the year 2029 at 83.8% of GDP. Without taking into account legacy debt and farmers' compensation, it appears as if the debt falls within the threshold and therefore the debt position is sustainable. The consolidation of debt statistics is therefore critical to ensure that the Government publishes the correct debt position including legacy debts and farmers' compensation. The current global pandemic on COVID-19 may further affect the country' ability to clear the long overdue external debt arrears due to disruptions caused by the rolling lockdowns and import and export restrictions as countries try to fight the spread of the disease.

7. SPECIAL FEATURE: STRENGTHENING CITIZEN ENGAGEMENT IN BUDGET PROCESS A PRIORITY FOR GOVERNMENT

In March 2020, the International Budget Partnership released the Open Budget Survey (OBS) 2019 report. The OBS assesses the budgeting process in different countries across the globe, with particular focus on transparency, public participation and oversight. Transparency focuses on the extent to which governments release useful budget information to the public in a timely and comprehensive manner. Public participation focuses on the extent to which citizens are empowered to use budget information to contribute to deliberations on budget information. Oversight focuses on the extent to which legislatures and auditors check on the executive to ensure that budgets are implemented in line with their objectives.

The report has already been well received by Government, after showing that Zimbabwe has an Open Budget Index of 49 (out of 100). However, despite the score falling in the 'limited transparency' category, the score of 49 is an achievement from two perspectives. First, this is the highest ever score that Zimbabwe has attained since 2012, when Zimbabwe was first assessed (Figure 7). It also comes on the backdrop of a significant fall that had been recorded in the 2017 score of 23, down from 35 in 2015. Thus, under the new government, transparency has generally improved, as evidenced by a score which has increased more than twofold.

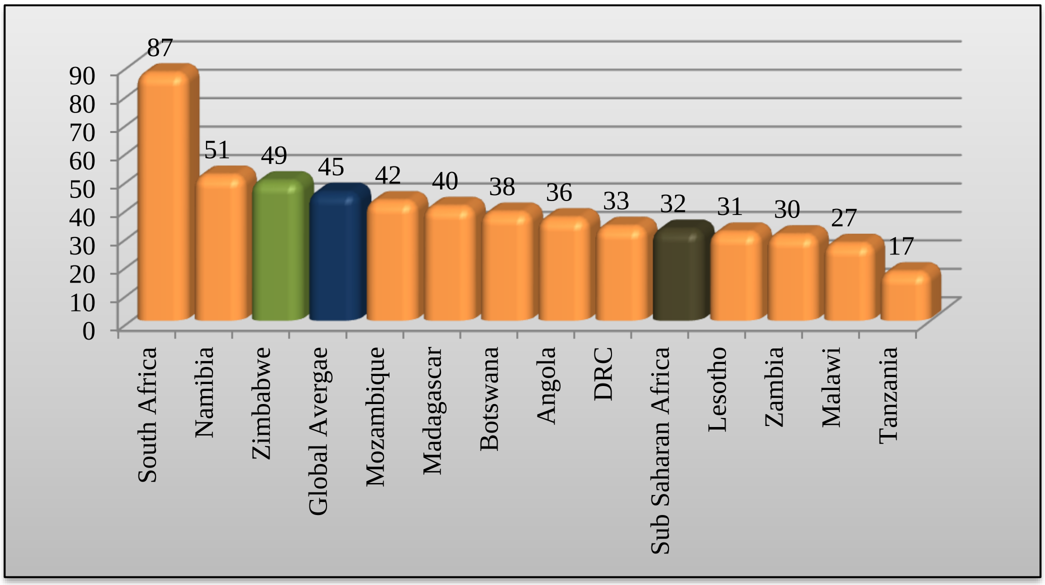
Figure 7: Zimbabwe's Open Budget Index, 2012-2019



Source: Authors' construction using IBP 2019 survey report

Second, the score of 49 is also good relative to the performance of other countries in the world. For example, Zimbabwe's score is third after South Africa and Namibia in the SADC region, well above the Sub Saharan Africa average score of 32 and above the global average score of 45 (Figure 8). Thus, Zimbabwe is generally doing well in comparison with its peers, which is quite commendable.

Figure 8: Zimbabwe's OBI score relative to select SADC countries, global and regional averages



Source: Authors' construction using IBP 2019 survey report

However, as already mentioned, there are three areas of importance within the context of open budget. The 2019 scores for Zimbabwe show that the country has a score of 33 with respect to public participation and an average score of about 42 with respect to oversight[5]. Thus, the main area where the country is lagging behind is with respect to public participation.

The low level of citizen participation is well articulated in a recent publication by the Zimbabwe Coalition on Debt and Development (ZIMCODD)[6]. It shows that during the pre-budget consultations, only 1.7 percent of the citizens would have had access to the pre-budget strategy paper, which is published by the Ministry of Finance and Economic Development to facilitate consultations. Citizens generally feel that the document is too technical for the ordinary person to understand, calling for a less technical and simplified citizen version of the document.

There is also little to no awareness about the budget processes, as only 3.8 percent of the citizens have knowledge of the budget presentation period. About 57.3 percent of the citizens have never participated in pre-budget consultations, with about 56.1 percent believing that their contributions during the pre- budget consultations sessions will never be adopted even if they decide to participate. Although there are regular performance reports by treasury on budget implementation, only about 25.8 percent of citizens have access to such budgetary performance reports. There is generally a lack of interest in searching for budget implementation or fiscal performance reports. This is also true with respect to audit reports, as 2.4 percent of citizens have access to the Auditor General's report.

Thus, efforts in enhancing public participation should be more confined in strengthening structures and institutions for citizen engagement. There is need to build the capacity of residents associations on budgets and budget processes to enable them to mainstream public participation in budgeting into their programme areas. The Ministry of Finance would then use residents associations and their structures in dissemination of the Budget Strategy Paper and in

[5] Oversight is measured with respect to three levels, namely by Legislature and Supreme Audit Institution, where Zimbabwe has a score of 41; by legislature (score of 36); and by a Supreme Audit Institution (a score of 50).

[6] ZIMCODD (2020), Open Budget Survey, at website http://zimcodd.org/?smd_process_download=1&download_id=2666

consultations to enhance access to citizens. Similarly, the Parliamentary Portfolio Committee responsible for conducting budget hearings should work with existing structures within residents associations in conducting public hearings on the national budget. They should also ensure that the hearings for the national budget are held in venues that are more accessible to the public, rather than hotels and other venues in the central business district.

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Research Team: Gibson Chigumira; Cornelius Dube; Erinah Chipumho; Evengelista Mudzonga; Gamuchirai Chiwunze; and Wellington Matsika

55 Mull Road, Belvedere, Harare, Zimbabwe. Tel +263 4 778423/ 785926
E-mail: administration@zeparu.co.zw Web: www.zeparu.co.zw

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