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CZI
CONFEDERATION OF ZIMBABWE INDUSTRIES
Enterprise Leadership Service

CZI INDUSTRIAL & ECONOMIC RESEARCH

We have a team of competent specialists who drive the research and advisory work that we do. We have the advantage of being at the intersection of business and policy giving us unparalled grasp of the business and policy ecosystem in Zimbabwe including the value chains and sectors.

CZI Industrial and Economic Research offers a wide range of products and services to help our members not only to navigate but also to shape the business environment in which they operate.

Business Regulatory Environment Accompaniment
We help members make the business and economic case for presentation to policy makers on issues affecting their business

Commissioned Business Surveys: We have a track record of conducting surveys and with our competent team, we can conduct commissioned surveys on behalf of business utilising our broad-based reach of Zimbabwean companies which gives us a comprehensive view of the market. We conduct research on economic and industry performance and trends providing analysis and insights that inform business decision making

Economic Analysis: Our economic analysis is the most widely quoted in Zimbabwe and is quoted by business, government, international institutions, academia and the media. We are a strong knowledge and research-focused organisation and generating insights and cutting-edge analysis that is relevant for business and policy decision making is one of our key areas of competency. Our analysis generates evidence for policy decision making and empowers the business leaders to interact with the policy environment and developments therein.

Corporate Economic Briefings: Our experts/analysts can deliver briefings to boards and senior management teams in support of ongoing business reviews or strategy sessions. We frequently host regional heads of multi-nationals that are operating in the country to present and discuss into the economic outlook for the economy as a whole and also implications for the sectors they operate in.

Private Sector Development and Business Environment Projects Implementation: We have expertise to implement policy projects at macro, sectoral and value chain levels.

1. ABOUT THIS REPORT

The CZI Business Environment Insights is published to capture policy, market, business and economic performance developments. It is a synthesis of emerging issues that shape the business environment, with detailed analysis of both secondary and primary data to provide frequent analysis of:

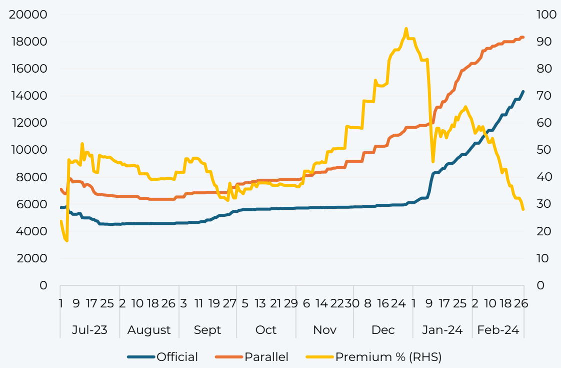
- Economic performance
- Policy impact
- Policy efficacy
- Market developments
- Business performance
- Business sentiments.

This provides a continuous policy and market feedback loop and frequent iterations that better and timeously inform policy and business.

2. EXCHANGE RATE DEVELOPMENTS

The exchange rate had remained relatively stable over the period July 2023 to October 2023. However, the end of the year became characterised by rapid deprecation of the parallel market exchange rate. The parallel market exchange rate in this case is defined as the rate that is quoted to business and individuals who want to buy the US$. The depreciation of the parallel market rate became more pronounced as the year 2024 started, resulting in the exchange rate depreciating by more than 68% between 31 December 2023 and 29 February 2024 (Figure 1). The official exchange rate remained largely stagnant between November and December 2023, resulting in a huge parallel market premium, which peaked at close to 60% by the end of the year.

Figure 1: The ZW$ continued to depreciate at both the official and parallel market

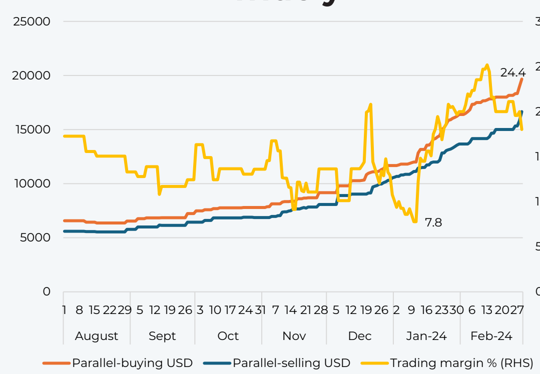


Source: RBZ and CZI estimates of parallel market rate

In 2024, the official exchange rate began to depreciate faster than the parallel market exchange rate, resulting in the narrowing of the parallel market premium to less than 30% by end of February 2024. The depreciation of the official exchange rate helped in ensuring a moderation of the parallel market depreciation, showing that convergence is indeed possible if the official exchange rate is not suppressed. A reduction in the parallel market premium implies that compliant businesses have a chance of getting access to US$ as the incentive to change into local currency before purchasing products is wiped off. Thus, the RBZ is encouraged to continue to allow the official exchange rate to be close to the market rate, especially since the parallel market rate did not respond by running away further as the official exchange rate played catch up.

The rate at which holders of US$ can sell in the streets (that is the buying rate by street dealers) is also important to business, as this also determines the extent to which holders can be willing to buy with US$ instead of changing into ZW$ first to enjoy arbitrage gains. A comparison of the rate at which parallel market players buy and sell US$ shows that their margins are not constant and range between 7% and 25% (Figure 2). The fact that the parallel market is illegal with a lot of information asymmetry could explain why a foreign currency trader could make a trade margin of as high as 24%. However, this also reflects desperation on the holders of ZW$ who would be willing to offload the currency even at high exchange rates. It is also critical to note that when the parallel market premium is very low, the trade margins would also be very low as some holders would be prepared to offload at the official exchange rate.

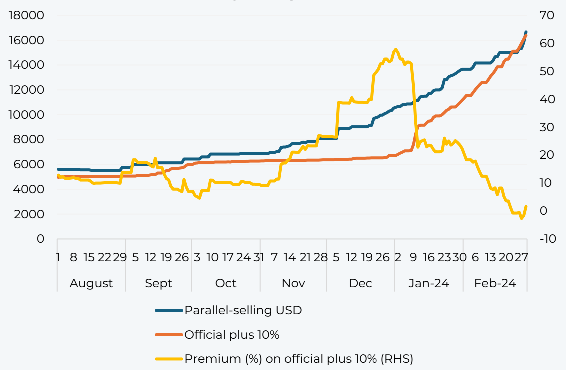
Figure 2: The trading margins by foreign currency traders fluctuates widely



Source: RBZ and CZI estimates of parallel market rate

Market sentiments show that access to foreign currency by the formal sector, especially the compliant retailers, improved significantly in February 2024. By looking at the trends, it is not difficult to understand why this happened. The rapid depreciation of the formal exchange rate and the subsequent reduction of the parallel market premium implied that the official exchange rate plus 10% allowable margin becomes very close to the street dealers' US$ buying rate. It would not make sense for anyone to change their US$ in the street to buy in shops as the shop will be offering a rate which is comparable to what the street buyers would offer for US$. A comparison of the trend shows that in February, the official exchange rate plus 10% margin was so close to the street buying rate, with some periods seeing the exchange rate used in formal shops being even better than what the street dealers would offer a holder of US$ (Figure 3). This also implies that allowing convergence is the best way to ensure that foreign currency flows into formal shops, where tax can also be collected in foreign currency.

Figure 3: The official exchange rate plus 10% now very close to the street buying rate



Source: RBZ and CZI estimates of parallel market rate

However, the permanent solution is ensuring exchange rate stability. Although money supply is one of the key variables explaining parallel market depreciation, the statistics from RBZ show that the domestic component of M3 was largely under control in November and December 2023 when there was a rapid depreciation of the exchange rate. Treasury has since stopped sharing with the public the quarterly fiscal outturns which used to be its tradition. However, the exchange rate depreciation is likely to be a result of liquidity injections from treasury. Treasury was sitting on some invoices and only started paying towards the end of the year to balance their books. This saw the recipients rushing to change into US$ to preserve value, resulting in the depreciation of the exchange rate, even though money supply was under control. Thus, liquidity management from treasury remains a critical issue in exchange rate management.

3. MANUFACTURING SECTOR PERFORMANCE

The year 2023 was characterised by ups and downs. It had a high inflation environment due to exchange rate depreciation, with the arithmetically blended inflation rate showing that the country was under hyperinflation in June 2023 when month on month inflation was 74.5%. However, there was economic stability from July 2023, which was sustained to October 2023. The foreign currency auction was still in place, which allowed the manufacturing sector formal access to foreign currency for the purchase of raw materials and capital goods.Domestic USD sales also provided manufacturers access to some of their foreign currency requirements to import raw materials and meet local foreign currency requirements. But under this environment, is it possible to make an inference on the possible impact of the economic environment on manufacturing sector performance?

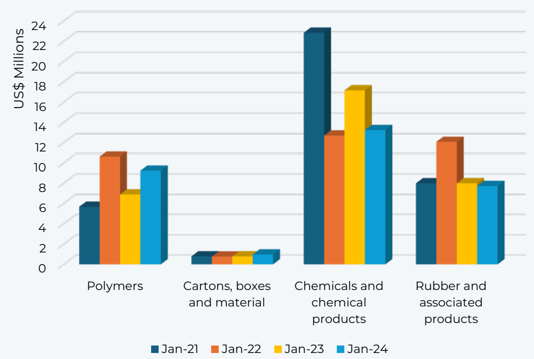
Insights from raw material import trends

The Zimbabwe manufacturing sector is heavily import dependent, especially with respect to some critical raw materials which are almost wholly imported given limited local production. These raw materials include the following:

- Polymers, used to make clothing made from synthetic fibers, polyethylene cups, fiberglass, nylon bearings, plastic bags, polymer-based paints, epoxy glue, polyurethane foam cushion, silicone heart valves, and Teflon-coated cookware
- Cartons, boxes and paper board used in packaging manufactured products
- Chemicals, which are used heavily in the manufacturing process
- Rubber and associated products, given that there is limited local production.

By looking at the import trends for these products, it is possible to establish whether there is an increasing trend, which could also reflect increased manufacturing activity. By looking at the trends in the importation of polymers (Figure 4), it is encouraging that January 2024 trends show recovery as about US$9.2 million worth of polymers were imported in one month, which is well ahead of what was imported over the same month in 2023, even though this is still below the 2022 levels. The same trend is also apparent with respect to the importation of cartons, boxes and related material, where there is some sense of optimism based on importation of higher volumes of raw materials. However, lower volumes of chemicals were imported in January 2024 compared to the same period in 2023, with importation of rubber and associated products also registering a slight dip in 2024 compared to 2023.

Figure 4: Raw materials imported for January over four years show mixed expectations



Source: Constructed from ZIMSTAT statistics

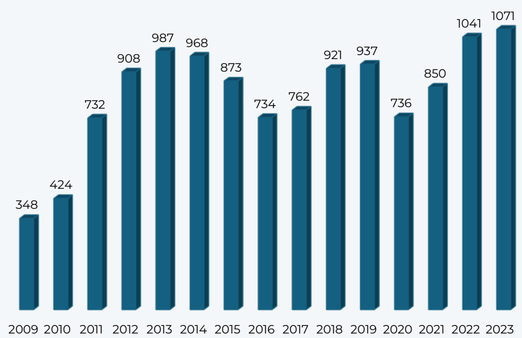
The trends generally reflect that the outlook for 2024 for the manufacturing sector is difficult to predict based on the trends in importation of raw materials for the first month of the year. Subsequent monthly trends could help reflect the situation better.

4. FUEL CONSUMPTION AND PRICING

4.1 Zimbabwe consumption of diesel on the rise

In 2023 Zimbabwe consumed about 1 billion litres of diesel, which is the highest since 2009 (Figure 5). The increase in diesel consumption can signal an increase in economic activities in the country. However, Zimbabwe has persistent electricity challenges which has led to long hours of load shedding. Thus, the drastic increase in diesel consumption can also be attributed to increased use of generators by companies to avert loadshedding. Due to the El Nino induced drought, Kariba dam water levels are very low, which will affect electricity generation. Diesel usage in the country is likely continue its upward trend, as the country resorts to the use of generators as an alternative source of power.

Figure 5: Diesel consumed in 2023 (million litres) highest ever recorded since 2009

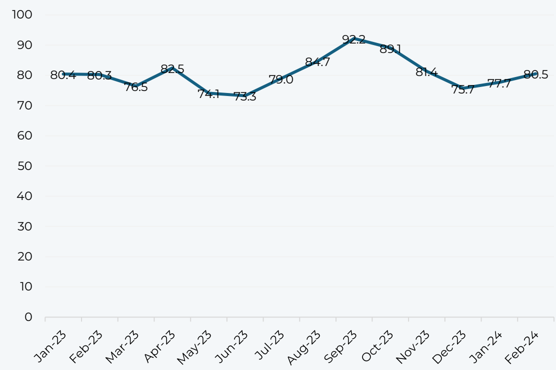


Source: Authors computation using ZERA data

4.2 Crude oil prices on an upward trend in 2024

International crude oil prices have a direct impact on diesel prices in Zimbabwe, given increased consumption levels. In the last quarter of 2023, crude oil prices were going down, having peaked at about US$92 per barrel in September 2023. However, in 2024 the crude oil prices are on an upward trend (Figure 6). In February 2024 crude oil prices increased by three percentage points compared to January 2024, implying that by end of February 2024, crude oil prices had surged by about 6.6% from the end of 2023 prices. With the increased consumption of diesel in Zimbabwe, an increase in crude oil prices will have a negative impact on the already high cost of production in Zimbabwe, unless treasury reduces excise tax on fuel proportionately. The combination of high usage of diesel generators should electricity supply continue to be erratic and inadequate, will not be a godd situation for manufacturers in the face of increasing international crude oil prices. Policy and business strategies will need to address mitigating this possible scenario.

Figure 6: Average crude oil prices (US$) per barrel shows an upward trend in 2024



Source: Authors computation using World Bank Pink sheet

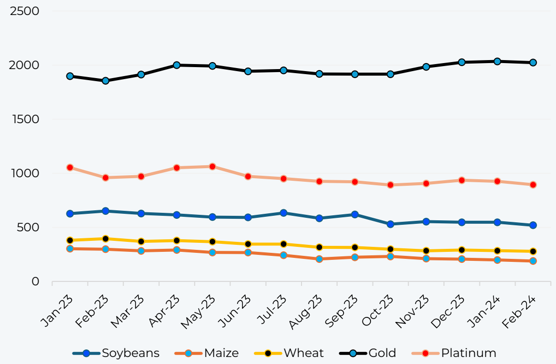
5. KEY COMMODITY PRICE MOVEMENTS

Zimbabwe is both a net exporter and a net importer of commodities in the international market. The price movements of some key commodities will play a pivotal role in shaping Zimbabwe's 2024 economic performance in the face of El Nino induced drought. Key commodities whose prices have a bearing on the Zimbabwe economy include the following:

- Gold
- Platinum
- Soyabeans
- Maize
- Wheat

A look at the price movements from January 2023 to February 2024 (Figure 7) shows that the international prices for platinum, soyabeans, maize and wheat where constantly decreasing since December 2023. However, gold prices increased in January 2024 and then decreased in February 2024.

Figure 7: Commodities prices decreasing in 2024



Source: CZI computation from World bank pink sheet

5.1 Mixed performance in precious metal prices movements

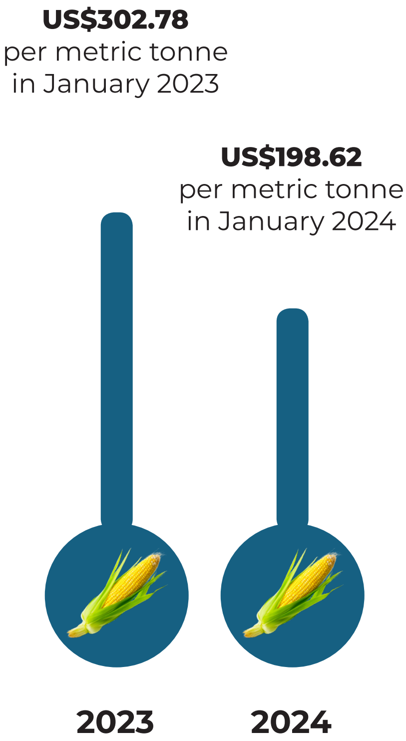
The movement of precious metals directly affects Zimbabwe's earnings. Gold alone generated US$1.8 billion in total export revenues in 2023 . The prospects for gold investors and producers in Zimbabwe are promising, as the international price of gold rose by 7% from US$1,897.71 per ounce in January 2023 to $2,034.04 in January 2024. The increment in the price of gold is attributed to the announcement of favourable macroeconomic indicators in the United States. This raised anticipation that the US Federal Reserve would begin to loosen its monetary policy stance in early 2024, resulting in enhanced gold's relative attractiveness as an alternative investment asset to US dollar-denominated instruments.

The outlook for Zimbabwe is positive as higher earnings are anticipated due to a sharp rise in gold production. Statistics from Fidelity Printers and Refineries show that gold production in the first two months of 2024 increased by 11.5% to a total of about $4.2 tonnes. There is an opportunity to increase production to leverage on this increasing gold prices.

The average price of platinum significantly fell by 12.6% to US$925.9 per ounce in January 2024 compared to January 2023, before further falling by about 11% in February 2024 compared to the same period in 2023 to US$849.2 per ounce. The sharp drop in the price of platinum is attributed to reduced demand from the automotive sector, which might be drawing down on its inventories. This has the potential to reduce the supply of foreign currency into the economy, which could also compound Zimbabwe's exchange rate woes.

5.2 The decrease in maize, wheat and soyabean prices good news in the face of El Nino

Zimbabwe is a net importer of maize hence a decrease in the international price of maize reduces the import bill of the country.



The price of maize massively decreased by 34% from US$302.78 per metric tonne in January 2023 to US$198.62 in January 2024. Downward trend continued into February 2024, as the price of US$189.1 per tonne represents a decrease of about 36.5% compared to the same period in 2023. Zimbabwe's 2024 imports for maize are likely to increase due to the El Nino induced drought since maize is a staple food for the country, and it is also a critical input in the animal feed industry. Thus, lower international price of maize helps enhance maize imports into the country without causing a strain on the import bill.

International wheat prices have a direct bearing on wheat value chain pricing in Zimbabwe. The picture looks good following a decrease in the price of wheat by 25% from US$380.36 per tonne in January 2023 to US$ 283.91, in January 2024 which further reduced to 278.5 in February 2024. February 2024 has the lowest wheat prices compared to the whole year of 2023. If the downward trend of wheat prices is sustained throughout 2024, prices of bread and confectionaries are likely to be stable because cheaper wheat imports will offset the local low production of wheat.

Zimbabwe's current demand for soyabean which is used for food, feed and other industrial needs, far outstrips supply and the gap between local production and the national demand is met by imports. Comparing the international price of soyabean in January 2023 and January 2024, shows a decrease of 12.6% to US$547.38. There was a further decline of soyabean price to US$519.8 in February 2024. This decrease could also help reduce price increase pressures for value added products by industry. ***Being net importes of the above commodities, it will be important for business and policy makers to align and ensure the low price windows are maximised as this will support price stability which is badly needed especially in a drought year like this.***

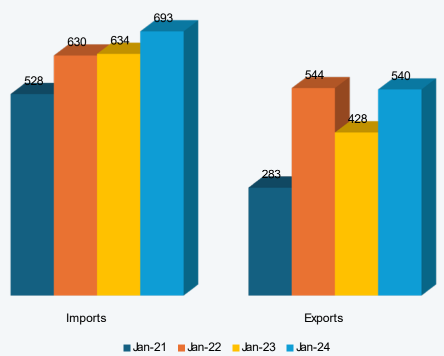
6. TRADE DEVELOPMENTS

6.1 January trends show an increase in both imports and exports in 2024

In January 2024, Zimbabwe exported goods worth about US$540 million, which was an increase of about 26% compared to January 2023 (Figure 8). This could reflect that the economy has enhanced its export potential in 2024, although the trend would become clearer as time progresses. During the same period, Zimbabwe imported goods worth about US$693 million in January 2024, which was an increase of about 9% compared to January 2023.

This generally implies that while the economy is doing well in terms of generating export revenue, most of it is then used to finance imports. However, since exports increased by such a higher rate while imports increased by a smaller margin, the monthly trade deficit shrunk by more than 26% in January 2024 compared to January 2023. This means the net drain on foreign currency to finance trade was lower in 2024 than in 2023. There is still need for more import substituting strategies to increase availability of locally produced goods.

Figure 8:The first month of the year trends reveal increasing imports (US$ millions)



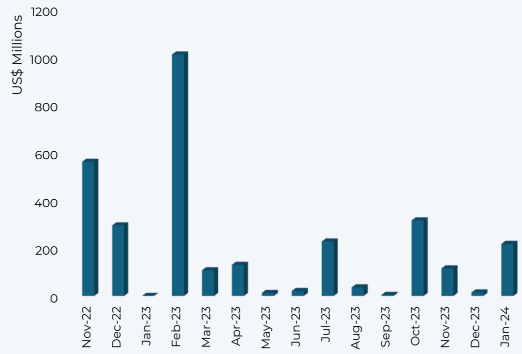
Source: ZIMSTAT

6.2 Are the effects of international conflicts now over for Zimbabwe?

There are two major wars ongoing at the international level: the Russia/Ukraine war and the Israel/Gaza war. War disturbs business as this means that firms need to explore alternative markets. The Russia/ Ukraine war has been going on since February 2022. The Israel/Gaza was on the other hand started in October 2023.

Zimbabwe imports about US$2.7 million worth of products from Israel each year, while exports to Israel are very negligible at less than US$1 million per year. While this is not very significant in terms of the overall import bill of the country (less than 0.5% of total import bill), this could have negative impact if it prevents the procurement of cheaper products by business for more expensive ones in alternative markets. Products imported from Israel include rubber, oil seeds, electrical machinery and equipment as well as boilers. A look at the trends since the war begun in October shows that there was an immediate reduction in imports from about US$560 million in November 2022 to only about US$115 million in November 2023, followed by an almost collapse of trade altogether in December 2023 compared to $295 million in 2022 (Figure 9). Although there was a recovery in January 2024, it was not sufficient to offset the reduction in imports from Israel over the previous two months. Thus, it is expected that firms that used to import from Israel had to look for alternative markets, which could have serious cost implications.

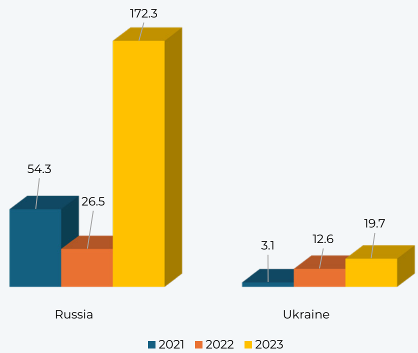
Figure 9: Zimbabwe's imports from Israel were affected by the war towards the end of 2023



Source: ZIMSTAT

Zimbabwe imports about US$34 million worth of products per year from the Russian Federation. Key products imported include fertiliser, cereals as well as aircrafts and associated parts. Zimbabwe also imports about US$8.3 million worth of products from Ukraine per year. Key products imported include cereals and fertiliser. A look at the import trends shows that while there was a significant disturbance in 2022, the impact has since worn off, as trade with Russia in 2023 was the highest ever recorded, while the same is also true with respect to Ukraine (Figure 10).

Figure 10: Zimbabwe's imports from Russia and Ukraine have recovered from war effect (US$ millions)



Source: ZIMSTAT

7. INSIGHTS FROM COMPETITION LANDSCAPE

Adverse Competition Practice

In response to the various economic challenges and opportunities, businesses always respond by trying to strategically position themselves in the market to adequately exploit such opportunities. However, the manner in which business strategically position itself tend to have an implication on the structure of the market and hence the manner in which firms compete against each other.

During the year 2023, tied selling and refusal to deal were some of the observed violations of the Competition Act, which the Competitition and Tarriff Commission have had to address. This generally reflects how desperate business can be to survive the economic conditions, which unfortunately can become costly in penalties.

Gleaning From Mergers And Aquisitions

Merger activity in 2023 saw a total purchase consideration of about US$201.5 million changing hands.

What Drove The Aquisitions

- About 56.2% of the transactions involved players in the manufacturing sector, although the wholesale and distribution sector (18.8%), the financial sector (12.5%) and the agriculture sector (12.5%) also recorded merger activity. The main motivations for the mergers reflect the difficulties that business is facing in trying to stay afloat in the challenging operating economic environment.

- Some mergers were mainly motivated by the need to restructure, with firms seeing the need to change their structure by expanding through coming together with competitors in the same field. Some firms also found the going tough and sought strategic alliances to prevent themselves from going under. Access to capital was also a motivation which saw firms ceding shares to financial sector firms so as to get capitalized. Takura Ventures and Takura Capital acquired some shares in the manufacturing sector to help ensure that the firms remain afloat with access to capital. The Sovereign Wealth Fund Board (now Mutapa) also used the same strategy by acquiring an agriculture sector firm.

The involvement of South African firms in the merger activities shows that Zimbabwe is still an attractive destination for investment, especially from countries with significant trade relations with Zimbabwe. About 19% of the merger transaction involved South African firms, and these were all in the manufacturing sector.

8. REGULATORY ENVIRONMENT UPDATES

Regulations play a huge role in shaping the Zimbabwe business environment, as several statutory instruments are introduced in response to the unpredictable macroeconomic environment. In January and February some of the regulations passed include the following:

a. Statutory Instruments 3 and 4 of 2024 focusing on Chitungwiza Municipality

Statutory Instruments 3 focuses largely on regulating the manner in which advertising is conducted in Chitungwiza. Issues covered in the regulations include:

- Types of advertisements for which permission of the Chitungwiza Municipality council is required
- positions where advertisements are prohibited
- rules governing advertisements relating to local event or to election or referendum
- removal of advertisements
- nature, size and materials of advertisements
- Various offences relating to advertisements

Businesses and the public that do business in Chitungwiza that need to advertise should make themselves familiar with the regulations.

Statutory Instrument 4 of 2024 focuses on the environmental and natural resources conservation by-laws. The regulations specify requirements for conservation of natural resources areas, the need for environmental impact assessments and environmental rehabilitation works on abandonment of project. Such projects include collection or removal of gravel, stones, river sand and pit sand, and brick making.

b. Statutory Instrument 6 of 2024 (Control of Goods (Open General Import Licence) (Amendment) Notice)

The Ministry of Industry and Commerce introduced SI 6 of 2024 which ensured that products such as data and network cables, floor polish, batteries, candles and biscuits no longer require an import permit or licence. This is a huge blow to the local manufacturing firms involved in the manufacturing of these products as they have to be very innovative and reduce their production costs, at a time when the Zimbabwe operating environment is generally more costly compared to other regional markets, especially South Africa.

c. Statutory Instrument 10A of 2024 (Customs and Excise (Suspension) (Amendment) Regulations)

In May 2023 through S.I 80 of 2023 the government of Zimbabwe had removed duties on basic commodities. The removal of duty resulted in an influx of imported basic commodities at the expense of the local industries. The cost of doing business in Zimbabwe is high, thus, competing with regional companies on prices is unsustainable for local companies. Thus, SI 10A of 2024 reinstated duty on basic commodities (cooking oil, maize meal, milk, sugar, rice, flour, salt, bath soap, laundry soap, washing soap, washing powder, toothpaste and petroleum jelly) which brought reprieve to the local producers of these products. However, some companies had already suffered irreversible damage due to the removal of duties.

d. Statutory Instrument 16 of 2024 (Customs and Excise (Tariff) (Amendment) Notice)

SI 16 of 2024 introduced the levy of special surtax on beverages sugar content at a rate of US$0.001/g. In a case where beverages specified do not contain labels or where such labels do not specify the quantum of sugar content, such beverages shall be deemed to contain 100 grams of sugar per litre.

The special surtax on beverages sugar content had been included in the Finance Bill which was subsequently passed by parliament as US$0.02 per gram. It meant that all beverage manufactures were required to charge and collect the sugar levy and remit to ZIMRA starting from 1 January 2024.

Following fruitful engagement with the Ministry of Finance, government through the Ministry of Finance, Economic Development and Ivestment Promotion committed to;

- Review the sugar levy from US$0.02 per gram to US$0.001 per gram.
- Hold in abeyance the implementation of the levy until a new SI was gazetted reflecting the change in the sugar levy being charged.

Subsequent to this Statutory Instrument 16 0f 2024 was gazetted that captured the review of the sugar levy from US$0.02 per gram to US$0.001 per gram into law effective 9 February 2024. This meant that the period covering 1 January 2024 and 8 February remained uncovered by the SI. During this period, industry made a commitment to government to hold on to price increases as it was expected that the revisions would come into effect before the first payments became due. Thus, industry did not increase the prices of their beverages to provide for the tax collection over this period.

Zimra, has since approached beverage companies and informed them of their intention to collect US$0.02 per gram sugar content tax as this is as per law. The commitment that business made to government was on the understanding that the revised position would be effective 1 Jnauray 2024 as agreed in engagements with government. Therefore, the fact that they did not collect any sugar tax from consumers, which they could remit to ZIMRA, means that they have to meet these costs from their own finances. ZIMRA has indicated that the full wrath of the law will descend on companies for failure to remit.

e. Statutory Instrument 20 and 21 of 2024 on collective bargaining agreement

SI 20 of 2024 came up with the collective bargaining agreement for the agricultural industry, specifically for the timber sub sector that took effect on the 1st of July 2023. It sets the minimum monthly wages for the timber sector, and this has two components; a component fixed in the United States dollar (US$35) payable in the Zimbabwean dollar, and a further component payable in the United States dollar (US$80). This minimum wage component payable in Zimbabwean dollar shall be converted at the prevailing interbank rate prevailing on the 20th day of the month for which remuneration is due to the employees.

SI 21 of 2014 focuses on the collective bargaining agreement for the agricultural sector, specifically tea and coffee. As per the agreement, the minimum monthly wages for the timber sector have two components; a component fixed in the United States dollar (US$40) payable in the Zimbabwean dollar, and a further component payable in the United States dollar (US$31). The minimum wages in the Tea and Coffee subsector came into effect on the 1st of August 2023.

9. KEY DEVELOPMENTS IN THE ECONOMY OVER THE MONTH

The monetary policy statement which is supposed to be announced at the beginning of the year has not yet been announced. This policy vacuum has created an environment of currency uncertainty among economic actors. The statements made by the head of state and the Minister of Finance in reference to monetary policy direction may be feeding speculation or providing the market with some directional indications. The commitment to a dual currency until 2030 remains in place.

9.1 Dollarisation becoming entrenched in the economy

The Zimbabwe National Statistics Agency (ZIMSTAT) has been conducting regular high-frequency telephone survey of households to produce the Rapid Poverty Income Consumption and Expenditure Survey (PICES). On the 8th of February 2024 they released the findings of the 10th round of the survey, which was conducted in August 2023. One of the issues covered by the report is the level of dollarisation of the Zimbabwe economy. ***At the national level, the level of dollarisation, defined to include the use of the US$ and the South African Rand, increased from 74.7% which was the position when the 9th round was conducted, to 89.6%.***

Dollarisation is higher in the rural areas as compared to urban areas. For example, dollarisation in the rural areas was 93.4% whereas that of the urban areas was 84.6%. The high levels of dollarisation make it difficult for monetary policy to be effective, as it will only affect about 10% of total transactions. Monetary policy largely targets the local currency. It is likely that the forthcoming monetary policy statement will try to reverse the current dollarisation levels.

A further look at dollarisation with respect to products shows that dollarisation levels are quite high with respect to basic commodities. The top three products that are highly dollarized are rice (92.2%), cooking oil (91.2%) and maize meal (90.9%). This means that the government needs to put in place some social safety nets to make sure that such products can be purchased using the local currency, as this is still part of the salary mix for low income earners.

The President E.D Mnangagwa mentioned that the country will soon have a 'structured currency' to ensure stability during his speech on the 6th of February 2024. Although the intention was to give confidence that the currency could be better managed, there was panic in the market, with many seeking to understand what a structured currency is. ***The Minister of Finance added some clarification, pointing out that this currency will be some sort of currency board type of system where the growth of the domestic liquidity is constrained by the value of the asset that is backing the currency.***

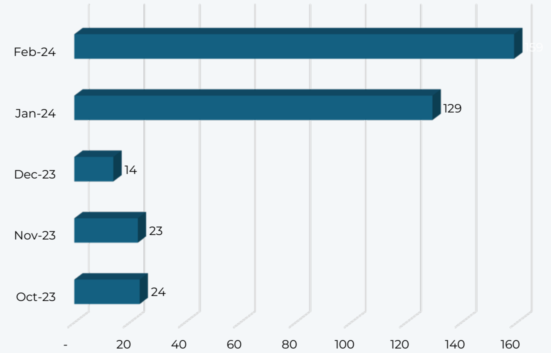
Thus, the market is anxiously waiting for the 2024 Monetary Policy Statement, which is expected to outline the modalities through which the currency reforms will be implemented.

9.2 Gold-backed digital tokens (ZiG) as an alternative to the ailing ZWL$

Zimbabwe is in a multi-currency regime and the demand of US$ as a store of value has been on the rise as a result of continued depreciation of the local currency. In July 2022 the Reserve Bank of Zimbabwe (RBZ) introduced physical gold coins as an alternative store of value to the US$ in the economy. In trying to expand options, RBZ introduced the gold backed digital tokens, known as ZiG, in May 2023. With effect from 5 October 2023, ZiG was announced as a means of payment for domestic transactions.

The market was generally sceptical about ZiG during the early stages of its introduction, but is now warming up to ZiG, as reflected by the rise in the quantity of gold purchased (Figure 11). Gold purchased increased by 562% from only about 24kg in October 2023 to 159kg in February 2024. This is a significant amount considering that this is a form of saving. It is not clear if the speculation that ZiG could be the 'structured currency' hinted by the President might have played a role in increasing this demand.

Figure 11: The quantities of gold purchased through ZiG are on the rise



Author's computations using RBZ data

9.3 Government of Zimbabwe's request for a staff monitored program

International Monetary Fund (IMF) team visited Harare from January 31 to February 14, 2024, to discuss the authorities' request for a Staff Monitored Program (SMP) and commence 2024 Article IV Consultation. Policies to restore macroeconomic stability were at the core of IMF discussions. In this respect, the IMF called for the transfer of the RBZ's quasi-fiscal operations to Treasury and addressing other sources of fiscal pressures. In addition, the IMF also called for liberalizing the foreign exchange market and establishing an effective framework for exchange rate and monetary policies.

The major takeaways highlighted by the IMF after the conclusion of their visit include the following:

- Zimbabwe's economy continues to show resilience in the face of currency instability and high inflation. GDP growth is estimated at 5.3% in 2023 on the back of an expansion in agriculture and mining. Remittances and foreign currency inflows in the highly dollarized domestic trade and services are boosting the economy.
- In 2024 growth is expected to decelerate to 3.25% due to lower commodity prices and drought. These factors are also expected to reduce foreign currency inflows, but remittances will likely remain strong, and the current account is projected to remain in surplus.
- The formal sector is heavy burdened by exchange rate restrictions, which is promoting informality, which erodes the tax base and undermines longer-term growth prospects.
- Risks remain skewed to the downside, and the outlook will crucially depend on progress toward macroeconomic stabilization and transformational structural reforms.

In this respect, the IMF made some key recommendations, which include:

- Urging government to service the obligations created by previous quasi-fiscal operations in a non-inflationary manner.
- Urging the government to do away with the 10% allowable trading margin for pricing domestic transactions and all other exchange rate distortions and introducing a market determined exchange rate in Zimbabwe.

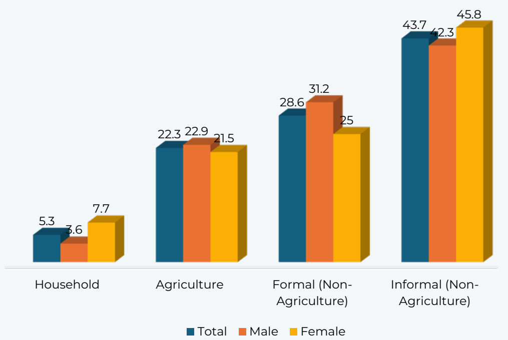
- Edging government to carry out structural reforms aimed at improving the business climate, strengthening economic governance and reducing corruption vulnerabilities.
- Continuing with reengagement efforts on the debt overhang through the Structured Dialogue Platform. This is key for attaining debt sustainability and gaining access to concessional external financing.

9.4 Most of the working population are informally employed.

The Zimbabwe National Statistics Agency (ZIMSTAT) presented the 2023 Fourth Quarter Labor Force survey results on 19 February 2024. The results show that employment increased by 1.6% from the fourth quarter of 2022 to about 3.2 million in the fourth quarter of 2023. About 86.8% of all employed persons in Zimbabwe were informally employed, at a time when the informal (non-agriculture) sector employs only 43.7% of all employed people. This means that a significant proportion of those working in the formal sector are also informally employed. This is a worrisome phenomenon since it reflects on the quality of employment in the country.

The informal sector (non-agriculture) employs 43.7% of all employed people, with the formal (non-agriculture) accounting for about 28.6% of the employed population. The rest are in households and agriculture sectors (Figure 12).

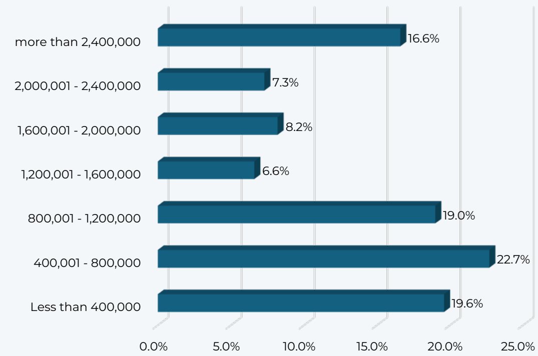
Figure 12: Distribution of Employed Population by Sector and Sex, 4th Quarter 2023



Source: ZIMSTAT

An assessment of how those that are employed are being remunerated shows that about 42.3% of the employed population was earning Z$800,000 and below in the fourth quarter of 2023. Using the average official exchange rate for the three months from October to December 2023 (US$1: ZWL$5764), this amounts to less than US$140. Thus, although most of the working population are considered to be employed either in the formal or informal sector, they are being paid low wages. This also hinders economic development as the buying power of consumers is constrained.

Figure 13 :Distribution of Employed Persons by Income Band in ZWL, 4th Quarter 2023



Source: ZIMSTAT

The expanded unemployment rates reflects that about 58.7% of the youth (15 to 24 years) are unemployed. A staggering 48.5% of youth are not in education, employment, or training, hence almost 50% of the youth are just idle. This is worrisome, as this could be the source of drug and other youth delinquency problems.

10. CONCLUSION

The measures announced in the 2024National Budget started taking effect in earnest in the month of February after the conclusion of a round of negotaiations between government and business. In the absence of new measures to enhance exchange rate stability, the Z$ has been consistently losing value in January and February 2024. Business is now awaiting the measures which government will adopt to stem the foreign currency depreciation. Exchange rate instability remains the main stumbling block towards the smooth operations of business.

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