CZI
CONFEDERATION OF ZIMBABWE INDUSTRIES
Enterprise Leadership Service

CZI ANNUAL ECONOMIC & BUSINESS OUTLOOK 2024

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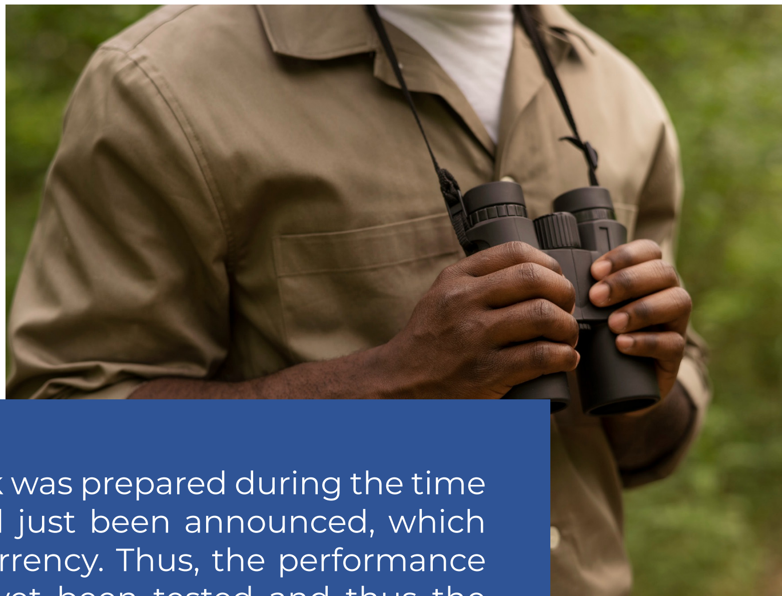
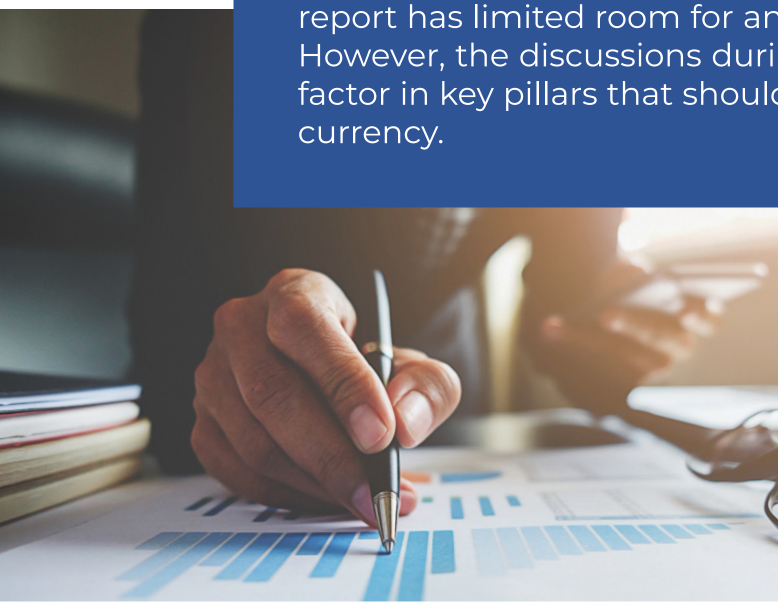
CONTENTS

About the Economic Outlook Report

The CZI Economic Outlook is an annual publication which follows after the hosting of a symposium on the economic outlook. The Annual Economic Outlook Symposium is intended to serve as an iteration of fiscal policy and monetary policy measures and how they are likely to impact the business operating environment during the rest of the year. The main purpose of the symposium is to give a platform for policy iterations, scenarios, projections and debate of the key variables in the local environment that would impact both business and economic prospects for the year. This is also contextualised within the regional and global outlook, especially through identification of the key risks and opportunities from the external environment which could also have an impact on the Zimbabwean economy. The CZI Economic Outlook report infuses the discussions during the symposium into the general economic developments to help shed light on the possible direction which the economy will likely take.



The CZI 2024 Economic Outlook was prepared during the time when the monetary policy had just been announced, which was characterised by a new currency. Thus, the performance of the new currency had not yet been tested and thus the report has limited room for analysis of currency development. However, the discussions during the symposium were able to factor in key pillars that should anchor the success of the new currency.



Acknowledgements

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a. Honourable C. Chiduwa, Chairman of the Parliamentary Portfolio Committee on Budget, Finance and Economic Development and Investment Promotion
b. Dr J. Mushayavanhu, Governor, Reserve Bank of Zimbabwe
c. Mr. W. L. Manungo, Deputy Chief Secretary, Office of the President and Cabinet and NECF Steering Committee Co-Chair
d. James Wadi, BancABC Group Economist and Member of CZI Macroeconomic Committee
e. Mrs. Linda Nielsen, CEO, Horticulture Development Council
f. Graeme Murdoch, Food Crops Contractors Chairman
g. Mr Victor Steenbergen, World Bank Senior Economist
h. Mr Jimmy Psillos, Chairperson, CZI Macroeconomic Committee
i. Mr Rufaro Zengeni, ZFN
j. Ms Latifa Kassim, Head of Treasury, Nedbank Zimbabwe and Member of CZI Macroeconomic Committee
k. Reneth Mano, CEO, Livestock and Meat Advisory Council and Member of Economists Round Table @CZI
l. Mrs. Linda Nielsen, CEO, Horticulture Development Council

1. Introduction

There were a lot of negative developments in 2023 that saw some not so favourable momentum being passed into 2024. After a period of relative stability leading to the 2023 general elections, the year ended with rapid exchange rate depreciation, which also had a bearing on local currency inflation as well as foreign currency access challenges. The foreign currency auction also saw business getting access to foreign currency, but backlogs started to characterise the disbursements as treasury had challenges in raising the necessary USD to pay from tax revenues, following the takeover of the responsibility from the central bank.

However, a new monetary policy stance was adopted which has all the likelihood of ensuring that the 2024 economic outlook is divorced from the legacy of the 2023 economic environment. Thus, a number of questions as far as the economic outlook is concerned arise:

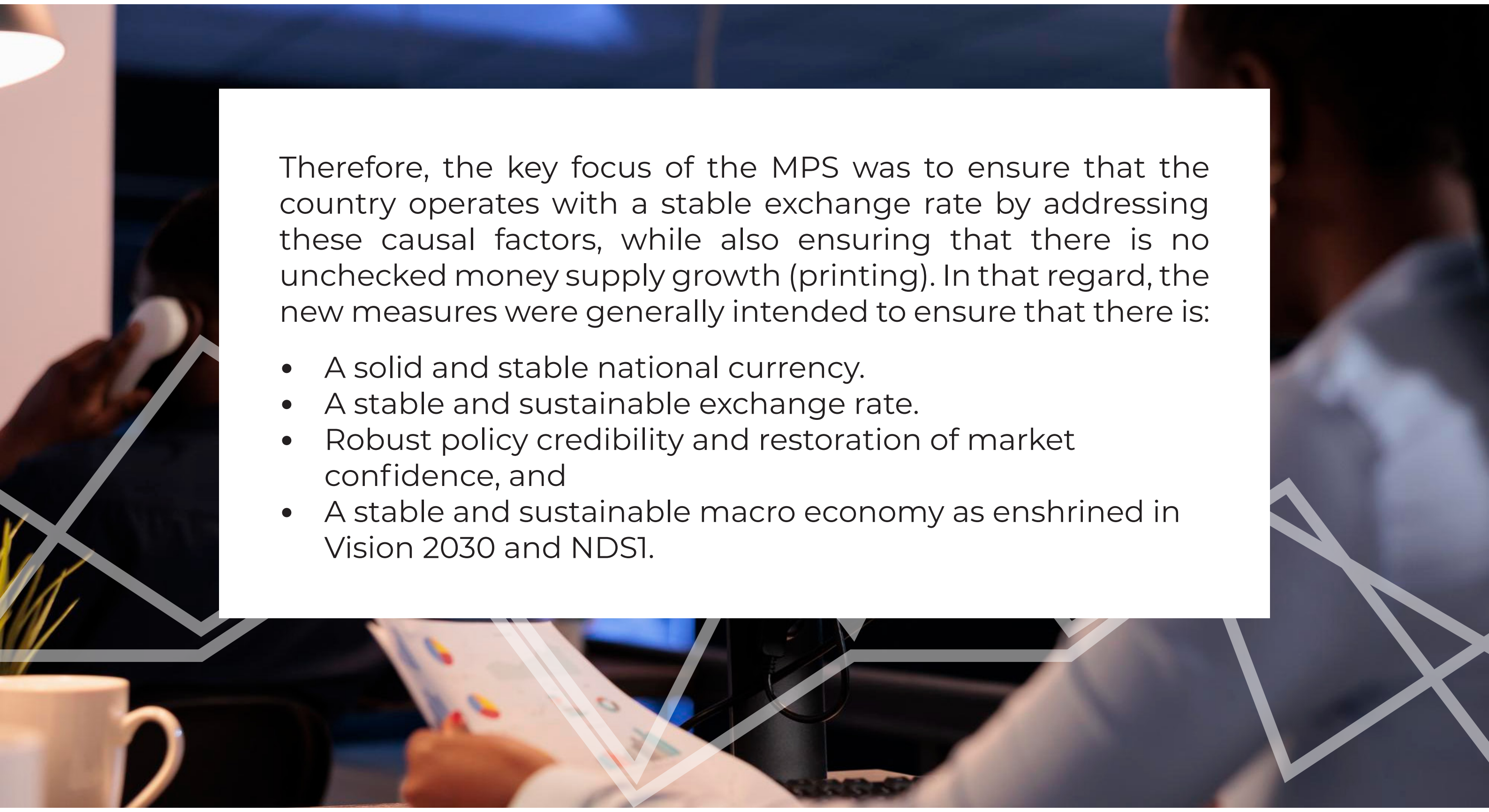
- Will the negative momentum that was registered towards the end of 2023 likely spill over into the rest of 2024?
- Are the developments in the region and across the globe reflecting some positives which could also filter through into the country's economic environment?
- What could be some of the fiscal and monetary policy implications on the economic prospects for growth and development?
- Will inflation and currency issues continue to be the main determinant factors in terms of stability as was the case in 2023?

The quest to provide some answers to these questions is generally the purpose of this CZI 2024 Economic Outlook report.

2. Review of 2023 economic performance and the momentum that is being brought into 2024

The legacy of the 2023 macroeconomic environment is expected to play a role in shaping the 2024 economic outlook. However, the announcement of the 2024 National Budget as well as the April 2024 Monetary Policy Statement ushered in some measures which tried to break the general cycle of key macroeconomic variables. Notable is the fact that the monetary policy tried to usher in a structural shift in the monetary and payment system. On the 5th of April, the new Reserve Bank of Zimbabwe Governor, Dr John Mushayavanhu announced his maiden Monetary Policy Statement (MPS), through which the new structured currency was introduced. The structured currency, named the Zimbabwe Gold (ZiG) replaced the Zimbabwean dollar (ZWL) as the new currency. The Monetary Policy Statement also sought to address several issues which have been making stability difficult to achieve in the economy. As a result, the main focus was to try and address the currency issues. These are basically premised on currency and exchange rate instability, whose causes were identified in the MPS as:

- High demand for foreign currency as a store of value.
- Reduced confidence due to continued currency volatility in recent months, and the widening margin between the interbank and parallel market exchange rates.
- Reduced use of the local currency for domestic transactions, and
- Lack of certainty and predictability on the exchange rate front



Therefore, the key focus of the MPS was to ensure that the country operates with a stable exchange rate by addressing these causal factors, while also ensuring that there is no unchecked money supply growth (printing). In that regard, the new measures were generally intended to ensure that there is:

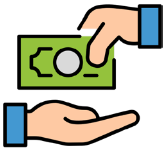
- A solid and stable national currency.
- A stable and sustainable exchange rate.
- Robust policy credibility and restoration of market confidence, and
- A stable and sustainable macro economy as enshrined in Vision 2030 and NDS1.

The influence of the legacy from the 2023 economic environment with respect to shaping up the 2024 economic environment thus has to be assessed with this structural monetary policy shift in mind. Critical attributes that matter in shaping up the macroeconomic environment include exchange rate stability, access to foreign currency, inflation, dollarization and general liquidity management by government.

a. **Exchange rate stability was a challenge in 2023:** There was a continual depreciation of the exchange rate on both the official and the parallel market. Both the growth in reserve money and the lack of confidence in the local currency by the market implied that any payments in local currency would result in a rush to convert to USD, hence continuous local currency depreciation. However, the official exchange rate depreciation lagged behind the parallel market depreciation, resulting in a widening of the exchange rate premium, with negative implications on incentives to generate foreign currency under a foreign currency surrender regime. Comparing December 2023 with the same period in 2022, the exchange rate premium increased by 38 percentage points from 36% in 2022 to 74% in December 2023. Foreign currency access from domestic sales was a challenge for the compliant retailers except for periods when the parallel market premium was very low.Thus, the extent to which monetary policy in 2024 is able to reign in exchange rate instability would be very instrumental in shaping up a positive economic outlook.

b. **Access to foreign currency though with backlogs:** The foreign currency auction was still operational in 2023 and given the suppressed exchange rate, this enabled manufacturing sector firms to get access to cheap foreign currency to purchase raw materials and import capital equipment. A total of about US$410.2 million was allotted in 2023 from the retail auction, with an addition of about US$464.9 million being allotted under the wholesale auction. However, despite promises to the contrary, the year ended with about US$80.9 million being owed to business through backlogs. This meant that a lot of capital became tied up as business lost the local currency equivalent which was never settled. However, since the backlog represents only about 20% of the total allotted, it is also expected that access to foreign currency through a sub-optimal exchange rate positively helped business that was able to access foreign currency through the auction.

Thus, in 2024 the economic outlook would be influenced by the ease to which business can access foreign currency through official channels.



c. **Liquidity management by government:** The tight liquidity conditions which government has been enforcing since the August 2022 measures were extended to 2023 to curtail the depreciation of the local currency. The delayed payment of contractors as well as the 'value for money' stance by Treasury slowed down demand for goods and services produced by the manufacturing sector. This was also at a time when the high interest rate regime of 200% was curtailing borrowing for productive purposes. If the monetary policy measures fail to reign in the parallel market premium, liquidity management will continue to be topical into 2024. The extent to which government would be reluctant to increase expenditure in local currency will also matter in the outlook, as tight liquidity management slows down economic growth.

d. **Inflation management had improved in 2023:** Comparing annual inflation in December 2023 with the same period in 2022 (using the new inflation methodology) shows that December 2023 annual inflation declined by 29.4 percentage points from 55.9% in December 2022. This shows an improvement in inflation management in 2023 compared to 2022. This is also confirmed by the average annual inflation of 29.8% for 2023, which is about 12.9 percentage points less than an average annual inflation of 42.7% for 2022. Thus, inflation management measures under the monetary policy statement are also expected to play a huge role in shaping up the 2024 economic outlook.

e. **Dollarisation becoming entrenched in the economy:** The Zimbabwe National Statistics Agency (ZIMSTAT), with technical and financial support from World Bank and UNICEF, 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. 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 USD and the South African Rand, increased from 74.7% which was the position when round 9 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 less than 10% of total transactions. Monetary policy largely targets the local currency. Thus, the 2024 economic outlook is also dependent on the extent to which the monetary policy measures will try to reverse this current dollarisation levels to make policy interventions more efficient.

3. Implications from global and regional economic outlook on Zimbabwe's 2024 prospects

3.1 Global and regional headwinds are growing, with implications for Zimbabwe

The global economy is expected to slow down in 2024, with the growth rate projected to decline from 2.6% in 2023 to 2.4% in 2024 (Table 1). The Sub-Saharan Africa regional economy is expected to maintain a positive growth trajectory, with the growth rate projected to increase from 2.9% in 2023 to 3.8% in 2024. Despite the anticipated slowdown in the global economy, the Sub-Saharan Africa economy is expected to grow at an accelerated rate.

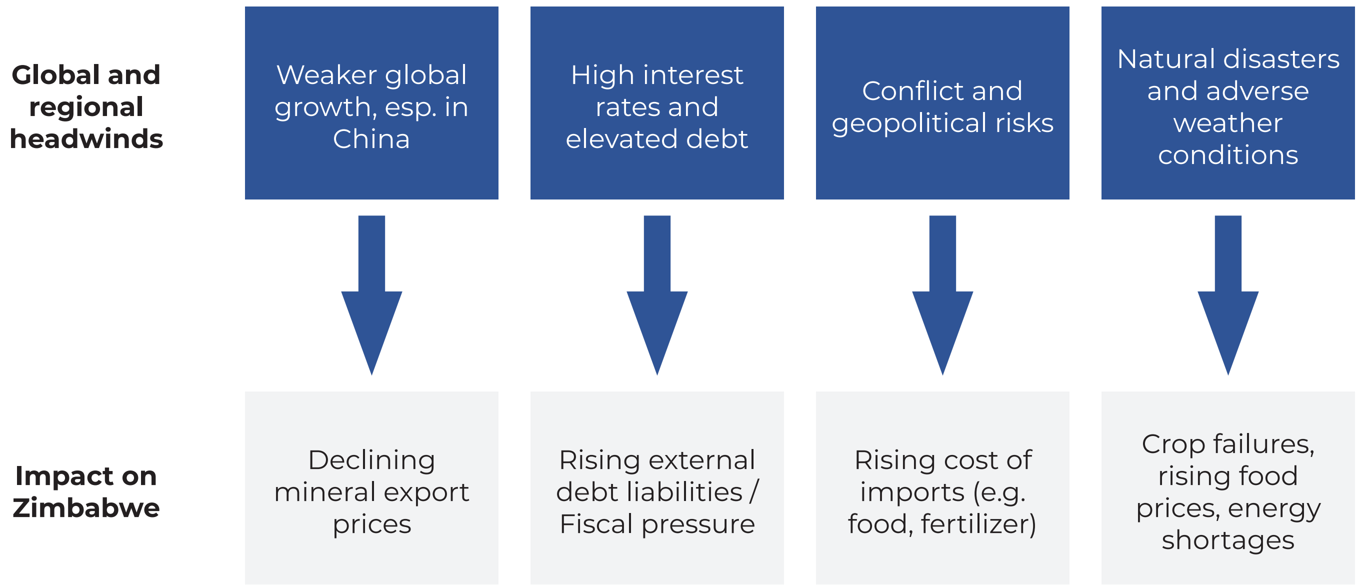
Table 1: The global economy is slowing down

	ACTUAL OR PRELIMINARY ESTIMATES		CURRENT PROJECTIONS AS OF DECEMBER 2023	
	2022	**2023e**	**2024f**	**2025f**
World	3	2.6	2.4	2.7
Advanced economies	2.5	1.5	1.2	1.6
United States	1.9	2.5	1.6	1.7
Euro area	3.4	0.4	0.7	1.6
Japan	1	1.8	0.9	0.8
Emerging Markets and Developing Economies	3.7	4	3.9	4
China	3	5.2	4.5	4.3
Sub-Saharan Africa	3.7	2.9	3.8	4.1
South Africa	1.9	0.7	1.3	1.5

Source: World Bank, Global Economic Prospects, January 2023

Zimbabwe is a small economy and is not insulated from global and regional turbulence (Figure 1). The weak global growth especially in China is being felt through declining mineral prices. Zimbabwe's major exports are minerals; thus, the country will be adversely affected by declining mineral prices. Adverse weather patterns and wars have resulted in increased prices of Zimbabwe's imports such as fertilizer and wheat.

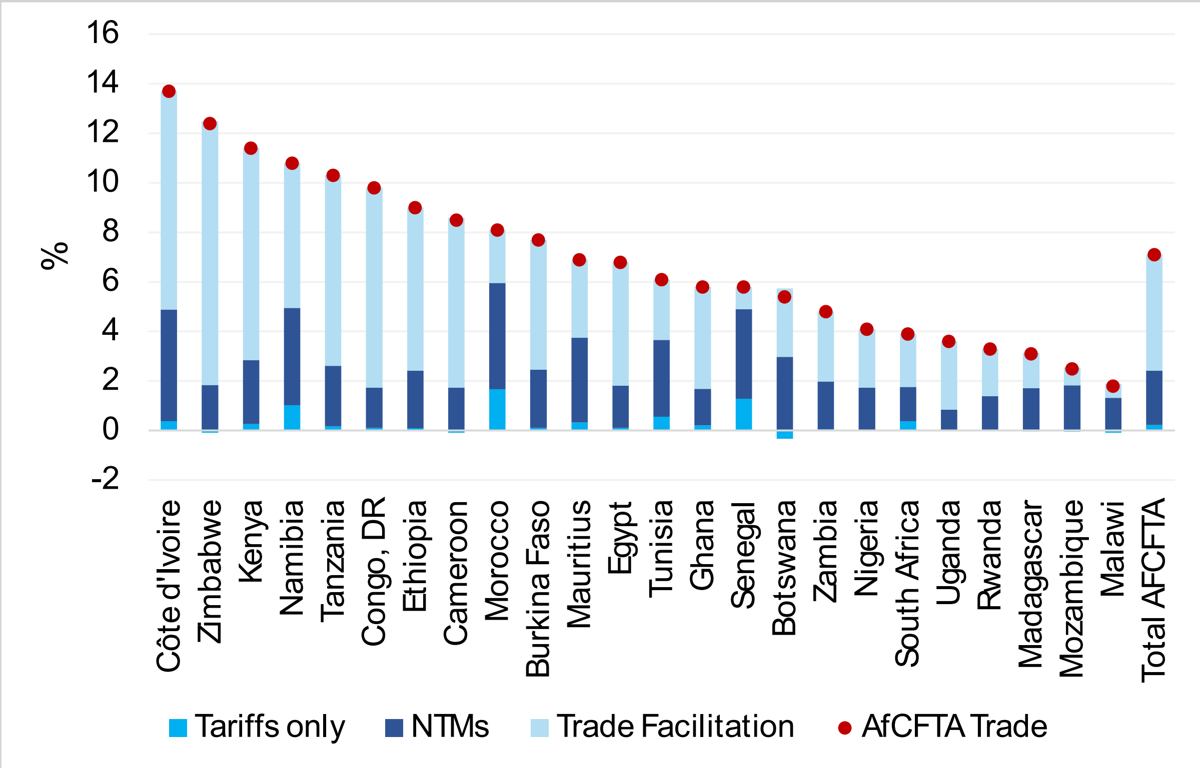
Figure 1: Zimbabwe is vulnerable to global and regional turbulence



3.2 Opportunities from Zimbabwe's regional and global trade

A study by the World Bank established that Zimbabwe is one of the biggest potential beneficiaries of AfCFTA with real income gains of more than 12% if the country effectively implements the AfCFTA provisions (Figure 2). If the country were to only open up tariffs and do nothing else in terms of trade facilitation and eliminating non-tariff barriers, the gains would be almost negligible. However, the most gains would emanate from trade facilitation, as this is the area where most constraints lie. This means that the main area of focus should be on trade facilitation, including the business environment as well as addressing trade barriers and ease of doing business. Thus, in the outlook the AfCFTA has the potential to bring minimal benefits unless this is also accompanied by significant strategies to facilitate trade and remove non-tariff measures.

Figure 2: Zimbabwe potentially the second-best beneficiary from the AfCFTA



Source: World Bank (2021
NTMs – Non-Tariff Measures

However, Zimbabwe is lagging behind in the implementation of AfCFTA. As at 31 March 2024 Zimbabwe had not yet submitted its revised tariff offer. Countries such as Ghana, and Tunisia have already started trading under the Guided Trade Initiative. The AfCFTA poses big opportunity for regional trade but there is need for an analysis to establish how best to ensure that the expected tariff, non-tariff barrier reform changes in Zimbabwe and across the region can positively affect Zimbabwe's comparative advantages.

3.3 Threats from the EU's Common Border Adjustment Mechanism (CBAM)

The European Union's CBAM entered into force on May 17, 2023, and has a transitional period to apply between 2023 and 2025. The CBAM aims to avoid trade-related carbon leakage. The main implication of this is that the import price for products affected would be based on embedded emission content of products to the EU, which affect the competitiveness of products to discourage their importation if they are deemed to possess high carbon leakage risks. The initial focus would be on six products:

- Cement,
- Iron and steel,
- Aluminium,
- Fertilizers,
- Electricity, and
- Hydrogen.

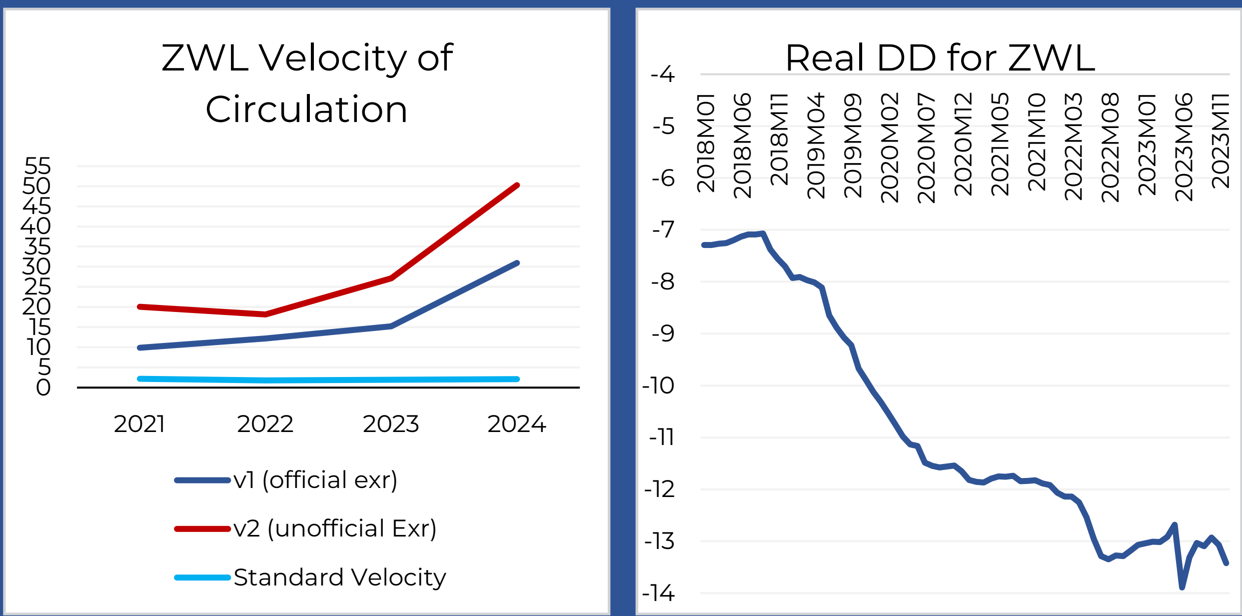
The risk for Zimbabwe emanates from the advent of steel exports, as the country is nearing the completion of its Manhize Iron and Steel Plant. There is a risk that the products would face barriers in entering the EU market, which could impose a limit in terms of market reach.

4. Currency and exchange rate outlook and risks

At its launch, ZiG's initial exchange rate was about 13.56 per US$1, with the new currency backed by reserves, which include gold and other minerals as well as USD reserves. The exchange rate for the new currency will be determined by the interbank market thus, with the central bank only intervening through buying or selling of reserves to ensure that it is fully backed.

However, although the currency is new, the outlook for the new currency in 2024 cannot be divorced from the environment of the past. The new currency was introduced in an environment of high velocity of circulation as well as a negative real demand for the local currency (Figure 3), which can pose a threat to its stability if the momentum is carried forward.

Figure 3:The velocity of circulation is far much above the standard velocity

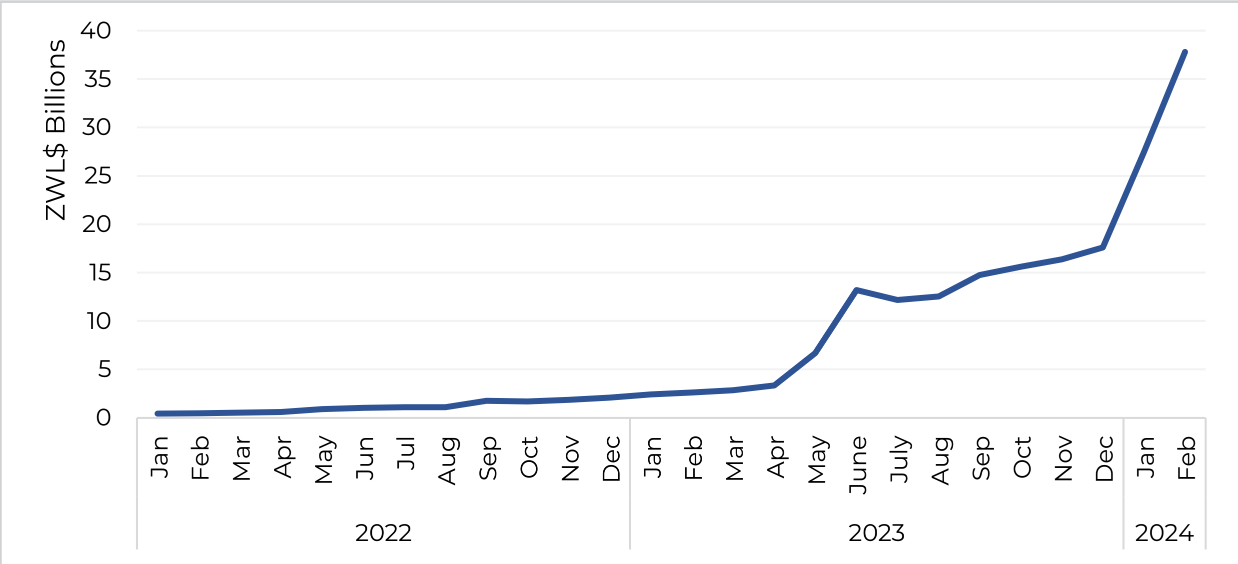


Source: CZI annual economic & business outlook

Additionally, for the new currency to have a chance in the economy, ZiG monetary base (M0) should grow annually by a single digit, and this will also go a long way in keeping inflation in check. In Zimbabwe, historically inflation is attributed to excessive monetary expansion, which dates back to 2007/08 when the country experienced hyperinflation. Therefore, there is need for the authorities to make adequate cash available for local demand, at the same time creating demand for ZiG which can be used to build reserves.

The notes and coins in circulation plus transferable deposits held by the depository corporations (M1) for the country surged by 1708% between the period December 2022 and February 2024 (Figure 4). This implies that the country has an enormous challenge as the rate of money growth is quite surprising. Therefore, for the new currency to succeed a lot needs to be done to instill confidence in the market.

Figure 4: M1 increased by more than 1000% between December 2022 and February 2024



Source: Reserve Bank of Zimbabwe

Currency sustainability and effectiveness is conditional on a number of key factors that include increasing demand for the new currency, and this can be pursued through demanding taxes in local currency as well as incentivizing ZiG transactions. The governor through the MPS highlighted that government will make it mandatory for companies to settle at least 50% of their tax obligations on Quarterly Payments Dates (QPDs) in ZiG.

Monetary policy communication through increased data dissemination is also another crucial factor in bringing about confidence in the ZiG. Publishing weekly reserve money updates, publishing all data in source currency, as well as weekly market & reserve bank forex purchases, sales and reserves will ensure that the central bank is willing and ready to walk the talk, and this will guarantee the success of the new currency among other measures.

Opportunities and threats for ZiG in the financial sector

Normally banks are supposed to play a fluid intermediary role, that is taking money from depositors and lend to those who wish to borrow. Therefore, the perspective of the financial sector is that the introduced currency will change the status quo as the financial sector in the country has been dented. Financial sector operations are largely attributed to the stability as well as the sentiment around the financial sector. Therefore, the introduction of the new currency that is backed by gold and foreign currency reserves will likely provide some form of stability in terms of a stable exchange rate. However, there is still anxiety in the economy pertaining to the security of US$ balances in people's accounts. The fact that the MPS only focused on ZiG and left US$ balances unaffected went a long way in managing this anxiety. Financial inclusion and deepening, however, remains very important as it is difficult to encourage banking when there is not much confidence with the financial sector.

Complaints emanating from the MPS are around auction backlog where Non-Negotiable Certificate of Deposit (NNCD's) in ZiG will be provided for outstanding auction allotments. This has the potential to dent trust in the authorities, as clearing the outstanding allotments in USD and starting on a fresh slate would have gone a long way in signalling that the authorities have confidence in the value that ZiG will have. Settling in ZiG instead of USD which is owed could give the wrong signal that ZiG is valued less by the authorities.

It is also important for the financial sector to note that the currency is backed by known reserves. The currency is backed by reserves that will be audited on an annual basis. However, reporting on the reserves on an annual basis is quite long for confidence building that is needed for exchange rate stability. A shorter time period allows the market to have confidence in the currency.

However, the outlook remains positive with respect to exchange rate stability if there is policy consistency as well as synchronization between the monetary side and the fiscal side. For example, currently there is serious road construction, and the currency is likely to be influenced by such expenditures if the parallel market premium were to emerge.

5. Drought and its implications on the agriculture sector and the economy

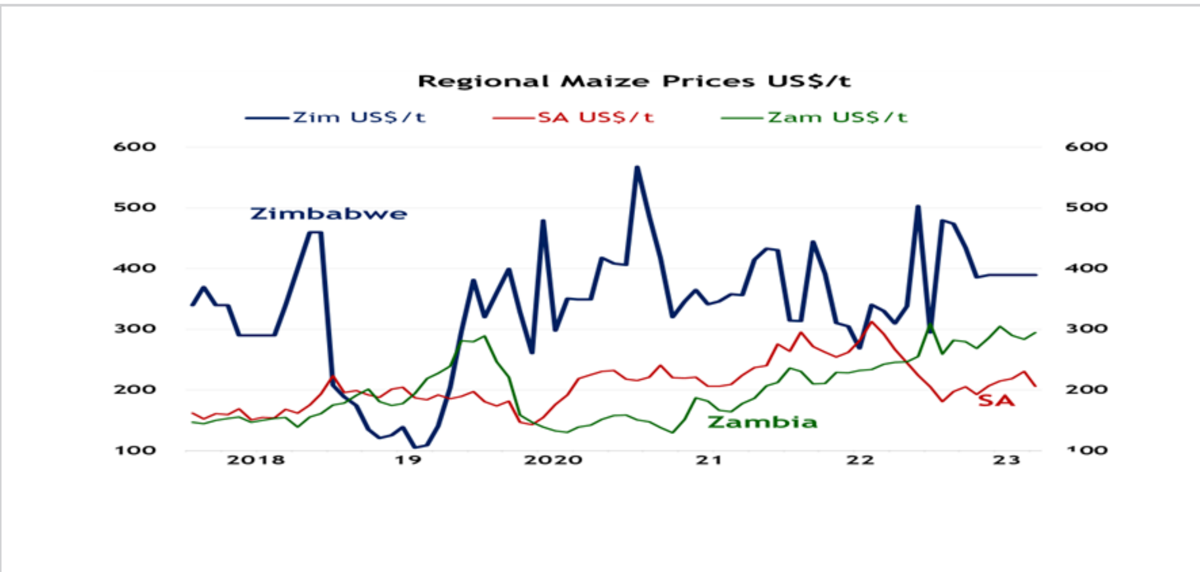
Under the 2024 National Budget, economic growth is expected to slow down to 3.5% in 2024, mainly owing to the impact of the El-Nino phenomenon that was being forecasted for the 2023/24 summer cropping season on agricultural output. The agriculture sector is projected to contract by 4.9% due to the below-normal rainfall pattern that occurred during the October 2023 to March 2024 farming season.

Climate change has increased the frequency and severity of natural disasters which has several risks and implications to the economy. It is anticipated that in 2024, the El Nino phenomenon will result in reduced agriculture production especially for maize which is expected to decrease by more than 100% in terms of output produced from 2298 metric tonnes that were produced in 2023 to 1100 metric tonnes in 2024. This will cause a bloated import bill. Over the period October 2023 to February 2024, the average monthly maize imports were US$35million, and this is likely to continue in the coming months.

The El Nino induced drought will also lead to reduced hydro power due to low water levels in Kariba Dam. This will result in high cost of production and decrease in capacity utilisation in the productive sectors, with potential ripple effects to the economy. The effects include high food insecurity and malnutrition caused by pressure on food prices as well as increasing energy import bill of the country.

Zimbabwe has high domestic maize price compared to other regional countries, which is a result of high costs structurers and inefficiencies (Figure 5). Local farmers will struggle to export into the region while millers would prefer to import maize under the current duty-free policy at the expense of local farmers. This makes it difficult for local farmers to become competitive.

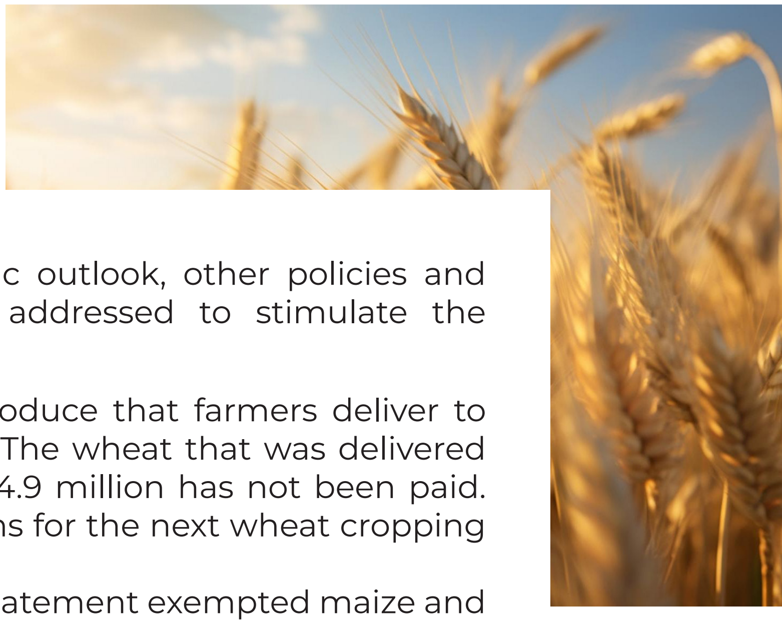
Figure 5: Zimbabwe has the highest average price of maize compared to Zambia and South Africa



Reliance on rain fed agriculture in an era where frequencies of El Nino weather patterns is rising is also not ideal. Zimbabwe needs to mitigate the impact of the El-Nino phenomenon as well as the rapid transition from an El Nino to la Nina situation which normally happens after two to three years but is expected to happen in the 2024 to 2025 cropping season.

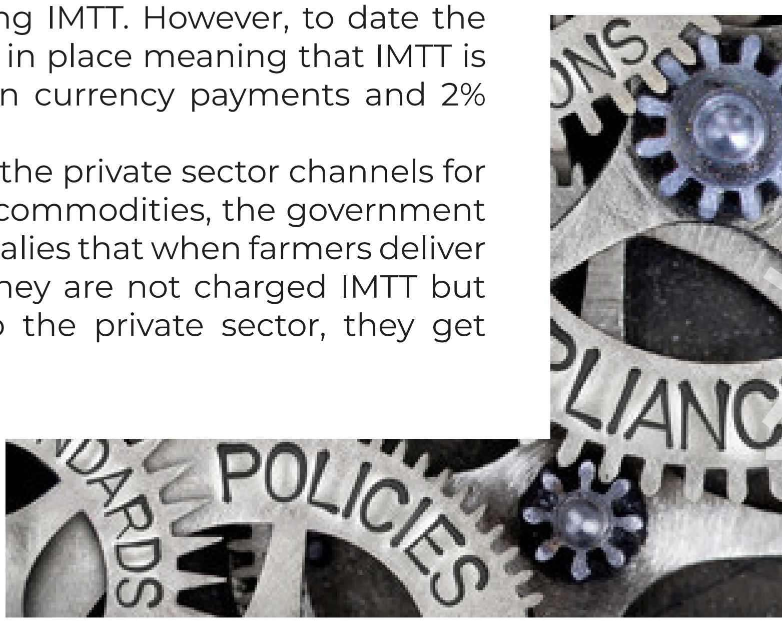
To improve the country's food security situation, early importation of grain needs to be done when prices are still low, while farmers are encouraged to maximise utilisation of available irrigable land for the production of the winter crops. However, for the long term, huge investments in irrigation and value chains are required, given regular occurrence of El Nino weather pattern.

The drought implications will put pressure on the government fiscus, at a time when low recovery rates for government loans in agriculture are deterring investors seeking to participate in the sector. The government can be relieved from this pressure if the private sector provides the short and medium-term financing to farmers. Secondly the commercial lending rates at banks need to be reduced to help farmers achieve competitiveness. For example, in South Africa and Zambia, commercial lending for agriculture is about 8% and 12% respectively.



To improve the 2024 economic outlook, other policies and measures that needs to be addressed to stimulate the agriculture sector include:

- Timely payments for the produce that farmers deliver to the Grain Marketing Board. The wheat that was delivered in 2023 amounting to US$34.9 million has not been paid. This disrupts the preparations for the next wheat cropping season.
- The 2024 National Budget Statement exempted maize and traditional grains from paying IMTT. However, to date the regulation has not been put in place meaning that IMTT is being charged 1% on foreign currency payments and 2% local currency payments.
- To encourage greater use of the private sector channels for the purchase of agriculture commodities, the government must remove the IMTT anomalies that when farmers deliver to Grain Marketing Board, they are not charged IMTT but when they deliver direct to the private sector, they get charged.



6. Conclusion: Prospects for 2024

The introduction of a new currency gives Zimbabwean economy a chance in turning a new leaf and achieve exchange rate and inflation stability, which would be a critical foundation for sustained economic growth. The new currency and a new RBZ Governor also offers an opportunity for the RBZ to avoid all the interventions that resulted in unintended consequences in the past, including suppressing the exchange rate as well as allowing money supply to increase. The commitment by the RBZ to a stable and sustainable exchange rate as well as a robust policy credibility with restoration of market confidence is welcome, as this remains the only way out of the undesirable developments of the past.