Zimbabwe's Business Conditions

First Quarter, 2021

Robertson Economic Information Services

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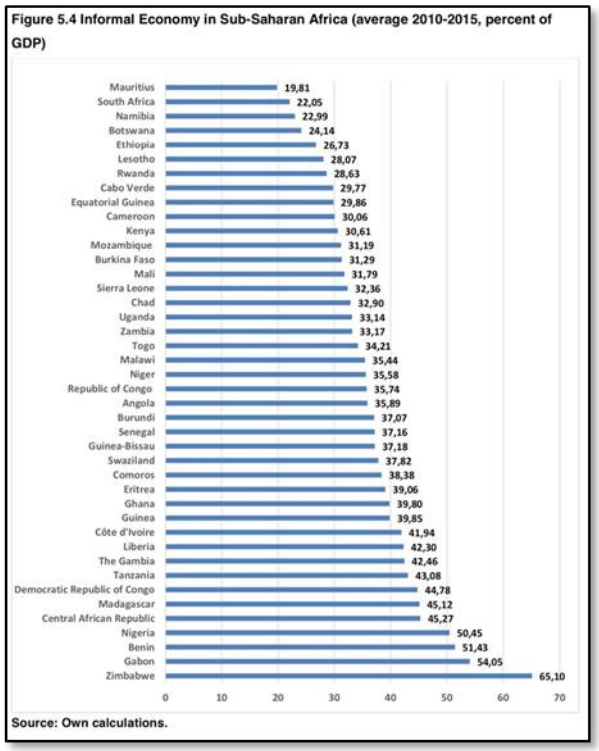
Zimbabwe's whole economy, particularly the effectiveness of its producers, the needs of its consumers and its abilities to generate the revenues needed to keep things going, were all facing difficulties before the outbreak of the Covid-19 pandemic. In the year since that happened, almost every country in the world has reacted badly to the infection, registering declines in Gross Domestic Product, in trade volumes and employment.

For reasons that have yet to become fully understood, the impact of the virus on Zimbabwe has been relatively minor. In many respects, problems of note have been repercussions of effects felt in countries beyond our borders. But, to Zimbabweans, the outbreak appears to have been accepted as just another problem. It has to be treated with respect, but we appear to have found ways of taking it in our stride.

The needed levels of compliance with restrictions on movements, as well as with sanitising and social-distancing requirements, appear to have met well enough. Within the country, the spread of the disease has been kept remarkably low and most of the new cases recorded in the January surge were tied to cross-border travellers.

However, another issue separates Zimbabwe from the more developed economies elsewhere: it is the size of the informal sector. In a recent study carried out by economists working for the International Monetary Fund and the Johannes Kepler University of Linz, the phrase Shadow Economy is used to describe this phenomenon. Their research considered the extent of these informal activities in 158 countries.*



The shadow economy, they say, includes all economic activities that its participants try to hide from official authorities. The reasons range from monetary, to regulatory, to institutional. Monetary reasons include avoiding paying taxes and all social security contributions; regulatory reasons, include avoiding bureaucratic controls and the burden of the regulatory framework, while institutional reasons include having to contend with corruption, the quality of political institutions and a weak Rule of Law.

The authors of this study found that all countries have some informal activity. To assess their importance, estimates were made of the contributions made to each separate country's Gross Domestic Product. Regionally, the lowest is an

average of 16,77% for East Asian countries, and the highest average is 35% for Sub-Saharan African countries. Zimbabwe's figure is the highest in Africa and highest of all the 158 countries included in the study. As shown in this chart of the findings for Sub-Saharan Africa countries, the figure for Zimbabwe is 65,1%.

As the population involved in the various informal activities makes up more than half the population of Zimbabwe, its earnings and purchasing power will also account for a large proportion of the country's retail trade. Suppliers working in the informal sector, particularly producers of foodstuffs, are also heavily involved, but formal as well as informal traders are competing for modest earnings yielded by money-earning schemes that have to remain small to avoid detection. The adjacent box, reproduced from the Shadow Economy study, describes the features common to all shadow economies.

Shadow Economies in Theory…

Individuals are rational calculators who weigh up costs and benefits when considering breaking the law. Their decision to partially or completely participate in the shadow economy is a choice overshadowed by uncertainty, as it involves a trade-off between gains if their activities are not discovered and losses if they are discovered and penalised.

Shadow economic activities thus negatively depend on the probability of detection and potential fines, and positively on the opportunity costs of remaining formal. The opportunity costs are positively determined by the burden of taxation and high labour costs. Hence, the higher the tax burden and labour costs, the more incentives individuals have to avoid these costs by working in the shadow economy.

New assessments from statisticians who prepare Zimbabwe's Poverty Datum Line have revised their previous beliefs that about 40% of the disposable income of the poorer members of Zimbabwe's population is spent on food. Their latest surveys have shown that the percentage now spent on food varies from about 69% to 79%, depending on which region of the country is being considered. The following table shows the Zimbabwe National

Food Poverty Datum Lines per person per month. All Figure in Zimbabwe Dollars

	Bulawayo	Manicaland	Mash Central	Mash East	Mash West	Mat North	Mat South	Midlands	Masvingo	Harare	Zimbabwe	Percentage Change
2020												
Nov	3 330,37	3 476,05	3 627,53	3 117,53	3 106,32	3 362,17	2 830,31	3 242,72	3 414,55	3 072,21	3 279,41	
Dec	3 481,56	3 674,32	3 775,95	3 436,79	3 276,07	3 669,39	2 930,94	3 446,25	3 641,54	3 310,75	3 493,73	6,5
2021												
Jan	3 779,58	4 076,60	3 992,18	3 791,08	3 512,03	4 017,93	3 180,58	3 636,38	3 964,80	3 466,66	3 767,56	7,8

Total Consumption Poverty Lines per person per month

	Bulawayo	Manicaland	Mash Central	Mash East	Mash West	Mat North	Mat South	Midlands	Masvingo	Harare	Zimbabwe	Percentage Change
2020												
Nov	4 696,06	4 403,39	5 410,79	4 165,59	4 537,19	4 480,11	3 625,59	4 138,98	4 686,15	4 192,56	4 425,64	
Dec	5 127,15	4 764,31	5 404,45	4 734,91	4 751,65	4 894,46	4 102,39	4 392,91	4 738,12	4 865,20	4 670,04	5,5
2021												
Jan	5 503,14	5 224,21	5 649,98	5 123,77	5 042,76	5 294,84	4 378,91	4 620,69	5 093,94	5 079,68	4 987,35	6,8

Food Expenditures as a Percentage of Monthly totals:

2020	Bulawayo	Manicaland	Mash Central	Mash East	Mash West	Mat North	Mat South	Midlands	Masvingo	Harare	Zimbabwe	
Nov	70,9	78,9	67,0	74,8	68,5	75,0	78,1	78,3	72,9	73,3	74,1	
Dec	67,9	77,1	69,9	72,6	68,9	75,0	71,4	78,5	76,9	68,0	74,8	
2021												
Jan	68,7	78,0	70,7	74,0	69,6	75,9	72,6	78,7	77,8	68,2	75,5	

Statistics Agency minimum dollar purchases of basic food requirements, followed by the Total Consumption expenditures, needed per person per month. According to the published report, if an individual does not consume more than the Total Consumption Poverty Line figure, he or she is deemed to be poor.

In January 2021, the cost of Total Consumption goods per individual per month came to Z$4 987,35. Unfortunately, even though many of the goods that change

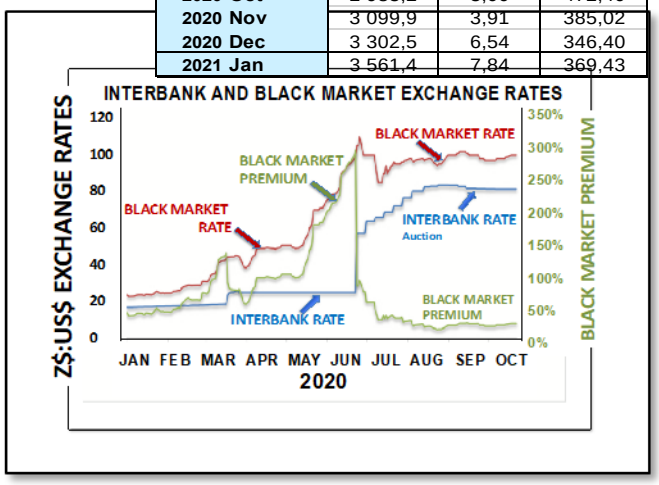
hands in the informal markets are produced by informal suppliers, retail store prices are used to compile the costs of the basket of goods that represent the typical consumption pattern of lower income people. Many informal transactions involve barter deals or other arrangements that would make pricing exercises very unreliable.

However, the Poverty Datum Line price increases for food registered in December and January are the same as those calculated for food in the Consumer Price Index, which are shown in this table. The table also illustrates the surges in food prices that occurred in most of the months from May 2019 to July 2020, with a brief respite in January and February 2020.

EXTRACT FROM CONSUMER PRICE INDEX: Food and Non-Alcoholic Beverages	INDEX: Food and Non-Alcoholic Beverages	Month-on-Month Percentage Change	Year-on-Year Percentage Change
2019 Jan	96,6	6,94	63,71
2019 Feb Rebased	**100,0**	3,56	69,84
2019 Mar	105,1	5,10	78,55
2019 Apr	113,3	7,85	92,52
2019 May	133,3	17,63	126,43
2019 Jun	206,7	55,07	251,94
2019 Jul	247,9	19,90	318,86
2019 Aug	293,9	18,55	393,48
2019 Sep	351,3	19,55	483,80
2019 Oct	521,2	48,35	620,98
2019 Nov	639,1	22,63	672,01
2019 Dec	739,8	15,75	719,27
2020 Jan	758,7	2,55	685,64
2020 Feb	810,3	6,81	710,30
2020 Mar	953,6	17,68	807,36
2020 Apr	1 224,1	28,37	980,03
2020 May	1 404,3	14,72	953,34
2020 Jun	1 934,3	37,73	835,56
2020 Jul	2 669,1	37,99	976,73
2020 Aug	2 837,3	6,30	865,48
2020 Sep	2 896,3	2,08	724,40
2020 Oct	2 983,2	3,00	472,40
2020 Nov	3 099,9	3,91	385,02
2020 Dec	3 302,5	6,54	346,40
2021 Jan	3 561,4	7,84	369,43

The year-on-year figures show a steady decline from 976,7% in July to 346,4% in December, and then a disappointing rise to 369,4% in January 2021. This increase was because of the large difference between the January month-on-month figures for 2020 and 2021. A fall in the annual inflation rate in January this year would have been possible only if the month-on-month figure for January 2021 had been lower than it was in January 2020.

More importantly, the surge in food prices was almost entirely the result of a rising black market exchange rate. This is shown in the following graph as the red line and it is seen to have moved from Z$30:US$1 in March 2020 to more than Z$100:US$1 in June 2020. The extent of this distortion is measured by the green line, which tracks the black market premium from April to June. These were months of sharply higher food and other import costs.



The introduction of the currency auction at the end of June brought about the fall shown in the black-market premium. The high costs of imports in the first weeks of June had to be recovered in July, so the CPI rose further, but after July, the lower premium resulted in falling monthly inflation rates, as shown in the table.

The trends shown in the graph to October continued through the final quarter of 2020, but pressures on availability of foreign exchange to place on the currency auction started to impact upon the interbank rate in January. The mounting supply–demand imbalance prompted the Reserve Bank to increase the percentage of foreign earnings that has to be surrendered by exporters from 30% to 40%, which caused the Interbank rate to weaken slightly and the black market rate to rise.

Between March and September 2020, Foreign Currency Accounts in the commercial banks rose from US$836 million to US$1130 million and since June 2020 the foreign exchange deposits have exceeded the local currency deposits. As the banks have to follow demanding procedures to lend funds deposited in FCAs to the business sector, in September only 22,6% of the funds on deposit had been lent to corporate borrowers and most of these loans will have been in the local currency.

With funding difficulties expected to result from the January changes, the Reserve Bank conceded the need to permit exporters to retain the balance of their foreign receipts in Foreign Currency Accounts for as long as necessary. Previously, they were required to release unused amounts to the Reserve Bank after 60 days. This change will further increase the proportion of the Money Supply held as FCA deposits.

TRADE US$'millions	Imports	Exports	Trade Balance
Jan 2017	385,0	292,0	-93,0
Feb	424,4	290,3	-134,1
Mar	461,8	265,7	-196,1
Apr	405,5	225,6	-179,9
May	465,6	268,6	-197,0
Jun	495,1	264,5	-230,6
Jul	481,9	261,9	-220,0
Aug	448,2	356,4	-91,8
Sep	440,0	324,8	-115,2
Oct	460,8	352,8	-108,0
Nov	493,7	577,7	84,0
Dec	556,3	299,8	-256,5
Jan 2018	489,7	251,2	-238,5
Feb	574,9	346,3	-228,6
Mar	605,8	288,6	-317,2
Apr	544,1	329,6	-214,5
May	532,4	267,2	-265,2
Jun	614,6	384,6	-230,0
Jul	560,0	340,3	-219,7
Aug	576,5	449,3	-127,2
Sep	577,1	353,4	-223,7
Oct	592,3	448,6	-143,7
Nov	628,7	471,7	-157,0
Dec	494,7	364,8	-129,9
Jan 2019	336,8	292,6	-44,2
Feb	370,5	348,4	-22,1
Mar	329,0	295,9	-33,1
Apr	416,7	277,0	-139,7
May	467,6	261,3	-206,3
Jun	339,8	221,9	-117,9
Jul	357,1	299,5	-57,6
Aug	384,5	345,5	-39,0
Sep	404,0	378,4	-25,6
Oct	401,1	483,3	82,2
Nov	431,2	475,2	44,0
Dec	418,8	489,1	70,3
Jan 2020	383,5	397,7	14,2
Feb	455,3	365,5	-89,8
Mar	450,5	272,1	-178,4
Apr	225,0	200,5	-24,5
May	361,1	298,7	-62,4
Jun	405,6	330,0	-75,6
Jul	345,8	286,4	-59,4
Aug	385,4	389,3	3,9
Sep	441,4	398,8	-42,6
Oct	490,2	439,4	-50,8
Nov	509,7	528,9	19,2
Dec	527,2	488,3	-38,9

Until recently, large deficits in the Balance of Trade and the Balance of Payments sustained such severe shortages of foreign exchange that anyone who had access to it could take advantage of the shortage by selling it at black market rates. Now, reduced imports and higher revenues for exports are said to be reducing the deficits, but as trade statistics are released, the evidence indicates the need to rely on Diaspora remittances and other transfers to close the gap in the Current Account of the Balance of Payments. The adjacent table shows that trade surpluses were achieved in only seven of the 48 months to December 2020. Since the beginning of 2017, the difference between the values of exports and imports adds up to a negative US$5 307 million. It would appear that suppliers who do not get paid find themselves reclassified as lenders who are owed payments on Capital Account.

Government has reported that the country made a Balance of Payments surplus in 2020, but a proper build-up of foreign reserve can start only when foreign debts have been settled. According to the most recent official data, Zimbabwe owes US$14,3 billion to external creditors, so many years of Balance of Payments surpluses will be needed to remove the threat of debt-related exchange rate instability. However, if the country were to sustain a steady economic growth rate and remove challenges caused by the inflationary effects of black-market currency dealings, confidence generated by strengthening evidence of recovery would be enough to stabilise the exchange rate, even before the debts are repaid.

As investment inflows would be needed to achieve that level of growth, confidence might be seen as the missing component that is keeping the black market in place. Unfortunately, the emergence of a Zimbabwe dollar that is stable enough to earn respect is being undermined by a belief that a black-market rate is needed to accommodate the distortions still affecting the overall monetary environment.

But black market rates are factored into import and other costs, generating the inflationary pressures and uncertainties that are badly affecting confidence.

Unfortunately, the negative feedback from this circular argument is keeping the market distortions in place. The black market is directly responsible for damaging the local currency's function as a store of value. But it exists only because some people can profit from it. Their unearned income is drawn from the rest of us in the form of higher prices, and a largely dysfunctional banking sector is one of its consequences.

What is needed now is exactly what Zimbabwe used to have – a fully functional relationship between the Reserve Bank, the commercial banks and the commercial banks' clients, all of which depended upon well run banks and the stability and acceptability of a sound local currency. In all the years when the local currency was trusted, the commercial banks automatically channelled all their exporting clients' foreign receipts to the Reserve Bank, which, at a known exchange rate, would automatically exchange these foreign exchange sums for local currency of exactly the same value.

Then, anyone with commitments to meet in foreign currency would, at the same exchange rate, place requests with their commercial banks to use their local currency deposits to buy from the Reserve Bank the foreign currency they needed. Exchange controls permitting, the system worked and the economy was kept afloat. The Reserve Bank did what is implied in its name: it held and managed our foreign reserves.

Today, Zimbabwe's economy might appear to have been kept afloat by the informal, or shadow economy, which certainly has sustained millions of people. And the needed balance in our Balance of Payments has been rescued by inflows of savings from more millions of Zimbabweans, the ones who are working abroad. Government has expressed gratitude and admiration for the contributions from these groups, each made up of resourceful people who deserve our admiration. But these are all people who were displaced by policies that left them with no option but to live by their wits in the informal sector, or take their skills and enthusiasm to countries where employment opportunities are still to be found.

Very few people in the informal sector would not jump at the chance of a formal sector job that offered proper training, a career path, personal development prospects and a payslip at the end of each month. In 1980, one person in every seven in the country's total population had a formal sector job, which works out at almost one in every household. Today, only one person in every 17 has a formal sector job, a figure calculated after leaving out the three million or so who are working abroad.

The Diaspora needs another mention: valuable as their remittances might be to Zimbabwe, they are making far bigger contributions to the GDP of the countries where they live and work, most of them using skills they acquired in Zimbabwe. They should be working here. Far from feeling proud of the informal sector and the Diaspora, Zimbabweans should consider them both to be evidence of serious policy failures.

The list of targets Zimbabwe should try to meet is not very long, but recovery would be assured if we met them. We have only to adopt policies that would restore the investor confidence needed to rebuild our agricultural and manufacturing base, thereby restoring self-sufficiency in food production and in the wide range of consumer goods that can be manufactured here. We could then use the new access

to African markets to extend our ranges of exports, and restore the full range of banking services that once gave this sector its enormous leverage. Taking these essential steps would restore confidence, increase employment and generate purchasing power, tax revenues and savings, all of which would fund or encourage yet more investment.

Other positive trends would then become evident. Increased construction activity, improving social services, accelerating work on electricity and water supplies and a rapidly recovering capacity in each of the municipal engineering departments to work effectively to maintenance programmes. All these targets are within reach, but perhaps the commitment to actually reach them will surface only when government feels bound to take seriously the actively expressed will of the population.

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