



Zimbabwe Economic Policy Analysis and Research Unit

Economic **Barometer**

VOLUME 22

SEPTEMBER 2020



Highlights of this Issue

This 22nd edition of the ZEPARU Economic Barometer, a flagship quarterly publication of the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) is intended to give an overview of the status of the Zimbabwe economy within the context of the global and regional economic developments at a given time. This edition was prepared to track performance of key economic indicators where data was available up to the end of the third quarter of 2020. The key highlights in this issue include the following:

Global and regional economic developments:

- All the economies across the world are projected to register negative growth rates in 2020 due to the COVID-19 pandemic with economies recovering in 2021. Emerging markets like Mexico, Brazil and Russia being the hardest hit with anticipated economic decline of -10.5%, -9.1% and -6.6% respectively in 2020.
- Growth in Sub-Saharan Africa is expected to fall from 3.1% in 2019 to -3.2% in 2020 with Nigeria and South Africa expected to recover from -5.4% to 2.6% and from -8.0% to 3.5% respectively from 2020 to 2021.
- Crude oil price fell by 34.5% from US\$61.76/barrel between January and September in 2019 to US\$40.46/barrel during same period in 2020.
- Decline in maize price by 8.5% from US\$171.16/metric tonne in the first nine months of 2019 to US\$156.64/metric tonne in the same period in 2020 brought relief on the import bill whereas firming of wheat and soya bean prices meant further strain on limited supplies of foreign currency.
- Gold and platinum are used as a safe haven during the COVID-19 pandemic. However, the use of platinum for investment and hedging is not as strong as gold as evidenced by a surge in the price of gold by 25.7% from an average of US\$1362.81/ounce in the first nine months of 2019 to US\$1713.36/ounce in the same period in 2020 whereas the price of platinum was fluctuating.
- Zimbabwe has the highest inflation rate in Africa at 761% in August 2020, a 24.5 percentage points decline from 785.6% recorded in May 2020. High inflation is explained by indexing of prices to the parallel market exchange rates. Measures introduced by the central bank such as the introduction of foreign currency auction system and restrictions on the operations of mobile money platforms slightly reduced inflation.
- Zimbabwe Stock Exchange (ZSE) industrial index was the best performing among selected regional stock exchanges having gained 368.7% since the beginning of the year, buoyed by high inflation and negative economic outlook which left the local bourse as the best alternative investment option.

Major Zimbabwe economic developments:

- Cumulative revenue collection for the first seven months of 2020 which amounted to ZWL\$45.922 billion, was about 14.3% above the target mainly driven by inflationary pressures and not expansion in the revenue base.
- Government expenditure exceeded total government revenue, resulting in a budget deficit of ZWL\$549.96 million (1.2% of total government revenue). This budgetary deficit was mainly financed by changes in government deposits from domestic sources.
- The Total Consumption Poverty Line for an average of five persons per household stood at ZWL\$17, 244.00 in August 2020 an increase of 10.7% compared to that of July 2020. This means an average household requires ZWL\$ 17,244 to purchase food and non-food items for them not to be deemed poor.
- Low savings and time deposits of ZWL\$4.01 billion constituted 4% of total money supply as at end of June 2020. This implies low savings-investment activity in the economy and lack of preference to saving-investing through the banking system due to inflation induced negative real interest rates.
- High growth of money supply by 575.9% from ZWL\$14.77 billion to ZWL\$99.82 billion over the period June 2019 to June 2020 with the bulk of the money supply stock in the form of

transferable deposits. About 61.6% of transferable deposits is in foreign currency accounts (FCAs) which shows high levels of dollarization in the economy.

- Excess reserves kept with the central bank implies that banks are not keen to lend, partly because of the COVID-19 pandemic which increases the chances of default and negative real interest rates.
- Decline in the volume and value of tobacco seasonal sales by 28% as at 30 September 2020 to 183.3 million kilogrammes compared to 254.5 million kilogrammes realised same period in 2019 due to a long dry spell and late rains, erratic supply of energy to the crop under irrigation, as well as COVID-19 lockdown restrictions. However, the average price increased to US\$2.50 from US\$2.03 during the same period. Expediting irrigation development programmes and adoption of green energy such as solar is critical to improve yields.
- The Global Compensation Agreement signed by the Government of Zimbabwe on 29 July 2020 to compensate the former white commercial farmers US\$3.5 billion is in compliance with Section 71 (2) of the Constitution of Zimbabwe which calls for need to respect property rights in order to rebuild investor confidence.
- Gold production for the first five months of the year registered a dip with about 9.78 tonnes produced in 2020, a 15.6% decline compared to about 11,57 tonnes produced same period in 2019. Platinum registered a 5% increase in production from about 5.9 tonnes in the first five months of 2019 to about 6.18 tonnes same period in 2020, due to increased production at Unki mine.
- Gold sector was facing problems even before the imposition of lockdown restrictions on 30 March 2020. In the outlook, platinum group metals' demand shocks caused by COVID-19 are likely to be considerable given strong recovery in China's platinum automotive demand and the fact that platinum is used as a safe haven together with gold.
- Noticeable improvement in imports of raw materials over the two-month period July and August 2020, in comparison to 2019 and even prior periods due to easy access to foreign currency on the auction market. Significant increase registered in rubber and related products and glass and plastic raw materials which increased by 35% and 20% respectively. This brings expectations of improved manufacturing sector output in 2020 hence the sustainability of the auction system is key in ensuring manufacturing sector revival is critical.
- Reopening of the tourism sector after five months of closure between April and August 2020 following the COVID-19 related lockdowns. The sector is one of the hardest hit by the COVID-19 lock downs and is projected to contract by -7.4% in 2020. A waiver of the value added tax payable by domestic tourists on accommodation and other tourism related services granted by the Government of Zimbabwe to stimulate growth of the sector. However, the sector still faces stiff competition from the digital economy that has seen introduction of substitutes such as online meetings.
- Improvement in trade balance due to increase in imports by about 3.8% to US\$2.54 billion in between January and August 2020 compared to pronounced decline in imports by 6.3% to US\$2.96 billion during the same period. This signifies a decline in resource outflows to finance excess of imports over exports although there is still over-reliance on the foreign markets for goods and services demonstrating the need for more efforts towards import substitution. Noticeable shock in April 2020 when the lockdown restrictions of COVID-19 was at its most strict level, with the shock dying down between May and June 2020.
- External debt stood at US\$8.094 billion as at end December 2019, of which about 73% of the debt is in arrears which shows that the country is in a debt trap. China, the dominant creditor under the Non-Paris Club constitutes about 28.1% of the total external debt (US\$1.395 billion) compared to Paris Club members such as Germany (19.1%), France (12.7%), Japan (8%), United Kingdom (7.6%), and United States of America (5.7%).
- Domestic debt increased by about 43.2% to ZWL\$12.89 billion in May 2020, from ZWL\$9 billion in December 2019 due to the adoption of the legacy obligations.

Special feature: The foreign exchange auction market developments and implications

- Noticeable gradual stabilisation of the ZWL\$/US\$ exchange rate following the introduction of the foreign exchange auction market. Exclusion of SMEs due to a high minimum amount requirement of US\$50,000 led to a second foreign currency auction for SMEs announced on the 4th of August 2020 with the first auction held on the 6th of August 2020.
- A total of US\$274.3 million has been allocated cumulatively through the auction system held on the 6th of October 2020, with about 3.4% allocated to SMEs. The auction rate has stabilised since the 22nd of September 2020 with the rate now obtaining at around US\$1/ZWL\$81. Sustainability of the auction system hinges on the ability of the RBZ to continue to take foreign currency from the exporters hence decentralisation of the auction system through gradual reduction of the central bank's role as the seller at the auction is critical. This reduces arbitrage opportunities that can be enjoyed by active participants at both the parallel market and the auction system.
- Continued premiums at the parallel market demonstrate that the price set by the participating firms may not be reflective of the actual supply and demand dynamics.
- The informal sector players only sell foreign currency to the parallel market due to higher returns at the parallel market.
- The use of dual pricing in a *de facto* dollarization make as buyers prefer using the US dollar.

1. Global and Regional Developments

1.1 World Economic Outlook

In response to the COVID 19 pandemic, most countries imposed stringent lockdown measures in the first half of 2020. This saw a slowdown in the economic activities globally. The International Monetary Fund (IMF) is projecting a deeper recession in 2020 and a slower recovery in 2021. In fact, the global output is projected to decline by -4.9% in 2020 followed by a partial recovery with growth projected at 5.4% in 2021. The 2021 gross domestic product (GDP) would be 6½ percentage points lower than in the pre-COVID-19 projections of January 2020. The global COVID-19 induced losses between 2019 and 2021 are projected to exceed US\$12 trillion from this crisis. An overview of the world economic outlook between 2019 and 2021 is provided in Table 1.

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

	Projections		
	2019	2020	2021
World Output	2.9	-4.9	5.4
Advanced Economies	1.7	-8.0	4.8
<i>United States</i>	2.3	-8.0	4.5
<i>Euro Area</i>	1.3	-10.2	6.0
Emerging Markets & Developing Economies	3.7	-3.0	5.9
<i>Middle East and Central Asia</i>	1.0	-4.7	3.3
<i>Sub Saharan Africa</i>	3.1	-3.2	3.4

Source: IMF World Economic Output (WEO) Update, June 2020

In the emerging markets, there is considerable diversity with some economies like Mexico, Brazil and Russia being the hardest hit with anticipated economic decline of 10.5%, -9.1% and -6.6% respectively in 2020. Growth in Sub-Saharan Africa is expected to fall from 3.1% in 2019 to -3.2% in 2020. In 2021, growth of big economies in this region like Nigeria and South Africa are expected to recover from -5.4% to 2.6% and from -8.0% to 3.5% respectively.

The IMF urged countries to protect the most vulnerable and find ways to support economic activity compatible with social distancing.

Implications for Zimbabwe

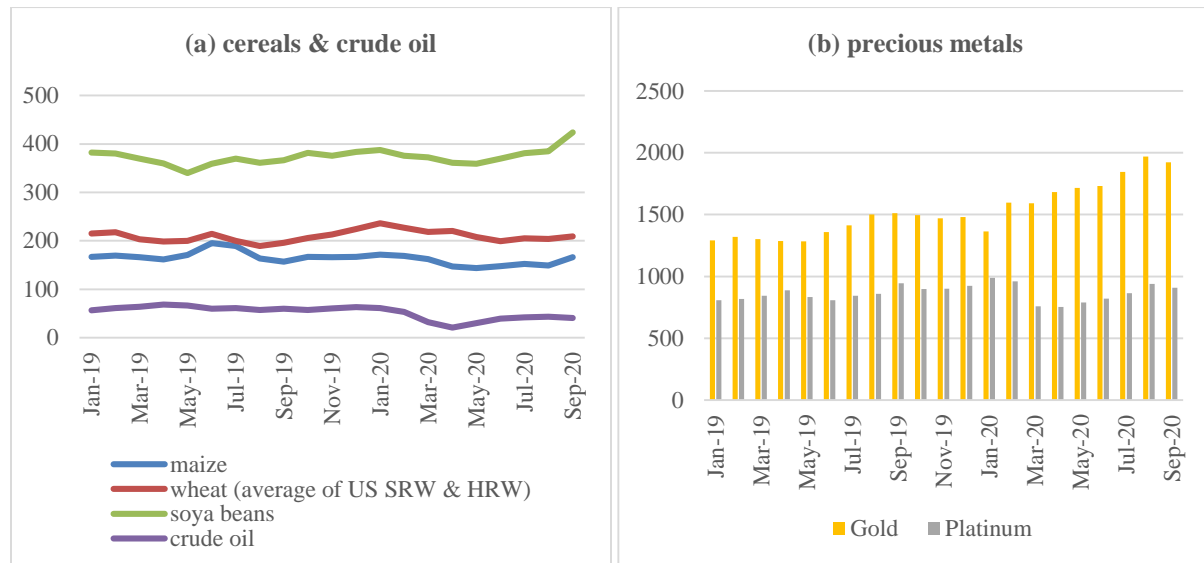
Government efforts through the rolling out of the ZW\$18 billion including post COVID-19 recovery strategies in key economic sectors such as agriculture and tourism require more resourcing and effectively implementation if Zimbabwe's economy is to emerge from the COVID-19 crisis and ride on the anticipated economic recovery in its trading partners markets in 2021.

1.2 International Commodity Prices

Crude oil was the most affected, with prices falling from February 2020 to September 2020 compared to the 2019. On average, crude oil price fell by 34.5% from US\$61.76/barrel in 2019 (January to September) to US\$40.46/barrel in 2020 (Figure 1a). This is not surprising as the COVID-19 induced lockdowns around the globe curtailed travel and production, hence suppressing demand for crude and its petroleum products. Maize price was also among the most affected, with price falling for seven months from February to August 2020 compared to the same period in 2019. The average decline in maize price was 8.5% from US\$171.16/metric tonne in the first nine

months of 2019 to US\$156.64/metric tonne in the same period in 2020. However, wheat and soya bean prices were resilient to the global economic slowdown induced by the COVID-19 pandemic. Wheat and soya beans are mainly used for human and animal consumption and demand has to continue despite a crisis. However, for maize, some of it is used for biofuel production and it is more likely that this is the channel that affected maize price.

Figure 1: Prices of cereals, crude oil and precious minerals, January 2019 - September 2020



Source: World Bank Pink Sheet, October 2020

As expected in economic downturns, gold price surged by 25.7% from an average of US\$1362.81/ounce in the first nine months of 2019 to US\$1713.36/ounce in the same period in 2020 (Figure 1b). The precious metal is a safe haven. However, platinum price fell in the months of March, April and May 2020 compared to 2019, but rose in the subsequent months up to August before falling again in September by 3.9% to US\$907.62/ounce from US\$944.70/ounce in the September 2019. The use of platinum for investment and hedging is not as strong as gold.

Over the period January to June 2020, Zimbabwe imported maize, wheat and soya beans worth US\$256.4 million. While the decline in maize price brought relief on the import bill, the firming of wheat and soya bean prices meant further strain on limited supplies of foreign currency. Investments towards improving productivity of these commodities will not only save foreign currency, but will also promote upstream industries such as animal feed processors.

1.3 Regional Stock Market Developments

A year to date analysis shows that in September 2020, the Zimbabwe Stock Exchange (ZSE) industrial index was the best performing among selected regional stock exchanges having gained 368.7% since the beginning of the year and 15% on a month on month basis. The performance of the Zimbabwe Stock Exchange was buoyed by high inflation which was recorded at 761% as at August 2020 and also the negative economic outlook which left the local bourse as the best alternative investment option. However, other regional indices were all in the red as majority of countries economic activities have been subdued by effects of COVID 19 containment measures (Table 2).

Table 2: Trend in selected Countries stock exchanges (January-September 2020)

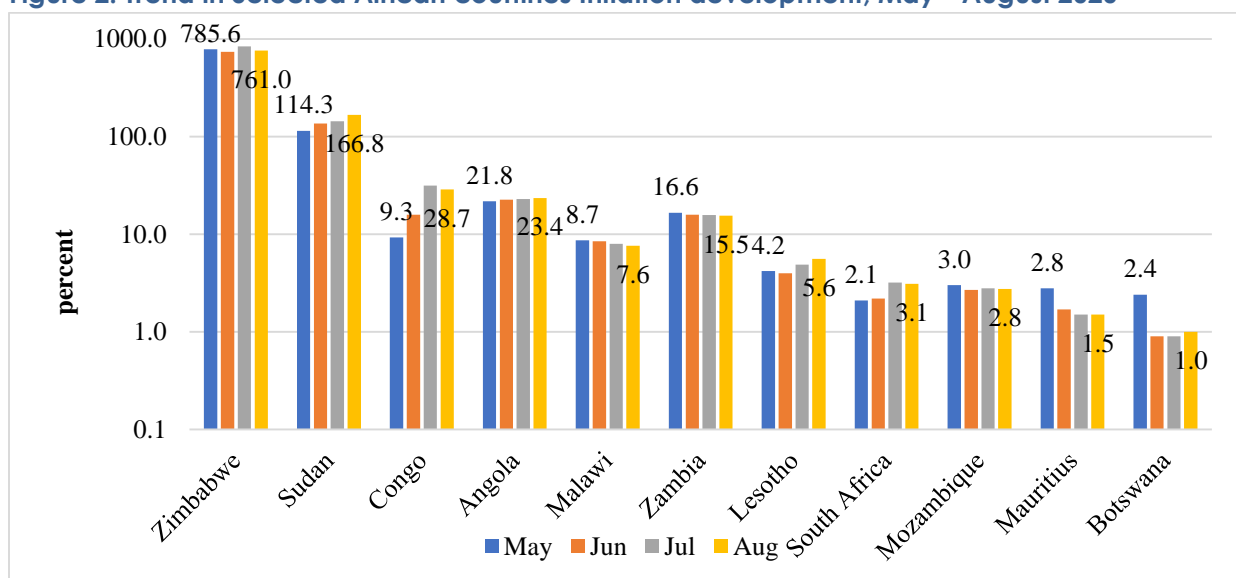
Country	Index	Jan	Mar	Jun	Aug	Sep	YTD (%)	m.o.m (%)
Zimbabwe	Industrial Index	1,112.3	1,512.5	5,870.4	4,533.8	5,213.3	368.7	15.0
Kenya	Nairobi All Share	162.1	131.9	137.7	139.7	140.1	-13.6	0.3
Botswana	BSE Foreign Company	1,551.4	1,551.4	1,551.2	1,550.0	1,547.3	-0.3	-0.2
Namibia	FTSE NSX Overall	1,239.9	900.3	1,055.0	1,053.1	1,049.8	-15.3	-0.3
Botswana	BSE Domestic Company	7,545.5	7,487.6	7,159.7	7,055.0	7,004.8	-7.2	-0.7
Zambia	LSE All Share	4,251.5	4,232.8	3,919.6	3,842.4	3,812.9	-10.3	-0.8
Tanzania	All Share	2,112.8	1,747.7	1,830.1	1,827.2	1,810.6	-14.3	-0.9
South Africa	FTSE	3,371.3	2,582.8	3,165.0	3,224.4	3,142.7	-6.8	-2.5
Mauritius	Semdex	2,212.6	1,571.0	1,662.6	1,577.7	1,507.8	-31.9	-4.4

Source: Investing.com

1.4 Regional Inflation Developments

Zimbabwe has the highest inflation rate in Africa at 761% in August 2020, a 24.5 percentage points decline from 785.6% recorded in May 2020, followed by Sudan, Congo and Angola at 166.8%, 28.7% and 23.4% respectively. On the other hand, Botswana, Mauritius and Mozambique recorded the lowest inflation rate in the region at 1%, 1.5% and 2.8% respectively (Figure 2).

Figure 2: Trend in Selected African countries Inflation development, May - August 2020



Source: Trading Economics

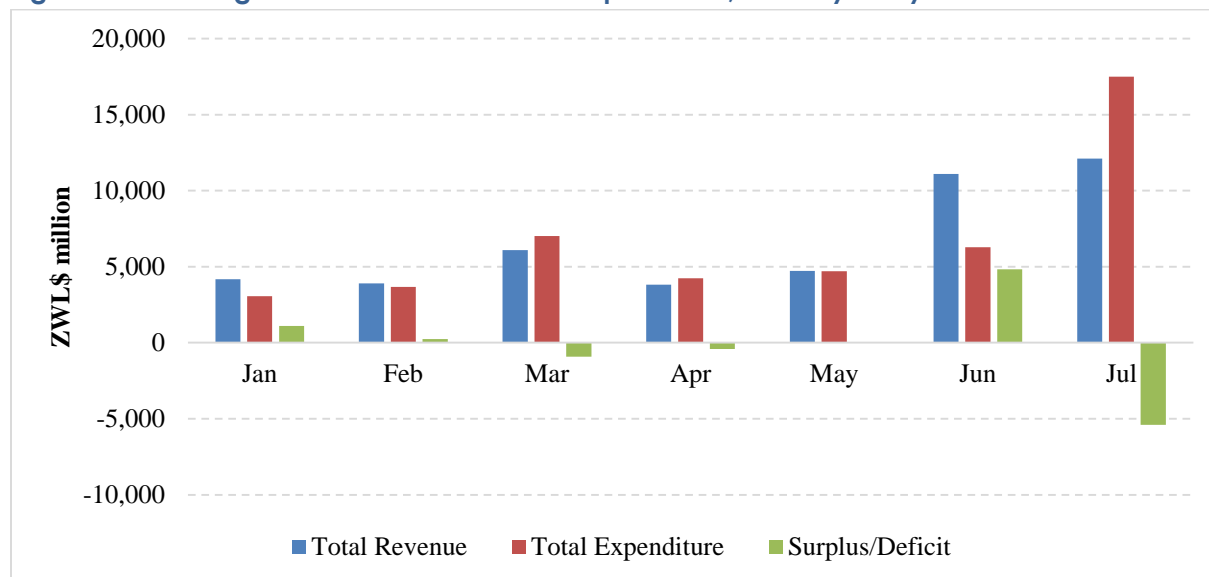
2. Major Zimbabwe Economic Trends

2.1 Fiscal Policy Developments

Revenue performance

Cumulative revenue collection for the first seven in 2020 amounted to ZWL\$45.922 billion a 14.3% positive variance from a target of ZWL\$40.18 billion. As at July 2020 taxes on profits and income accounted for 33.9% of total revenue collection followed by value added tax (VAT) and excise duty which accounted for 22.9% and 14.1% respectively. Revenue collections rose by 189.6% from ZWL\$4.18 billion in January 2020 to ZWL\$12.11 billion in July 2020 buoyed by inflationary pressures with year on year inflation rate rising from 540.16% in February 2020 to 761.02% in August 2020 (Figure 3). This is despite a slowdown in economic transactions owing to interventions to contain the COVID 19 pandemic.

Figure 3: Trend in government revenue and expenditure, January - July 2020



Source: Ministry of Finance and Economic Development

Expenditure performance

Total government expenditure for the month of July 2020 stood at ZWL\$17.5 billion a 179% increase from ZWL\$6.28 billion recorded in August 2020 (Figure 3). The jump in expenditure in July was as a result on an increase in employment costs by 359.5% following government decision to pay its employees United States Dollar COVID-19 allowance for June and July 2020 within the same month. Total expenditure for the first seven in 2020 amounted to ZWL\$ 46.47 billion against a target of ZWL\$38.15 billion. Employment costs accounted for 35.99% of expenditure followed by expenditure on financial assets which accounted for 29.97% and expenditure on goods and services which accounted for 10.95%.

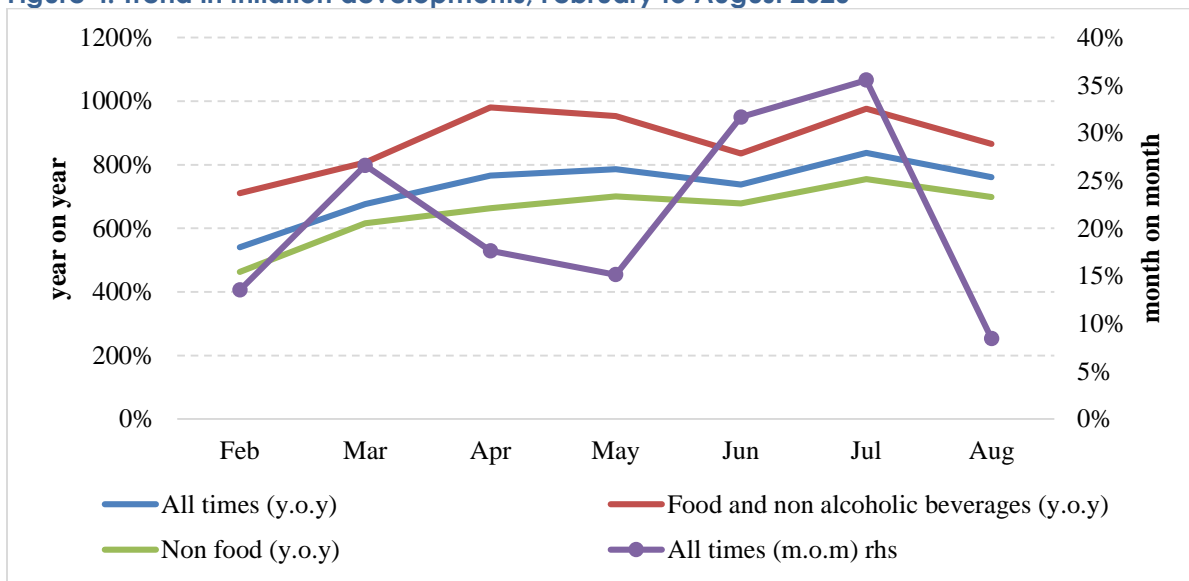
The resultant cumulative revenue performance to July 2020 of ZWL\$45.92 billion could not match total government expenditure requirements of ZWL\$46.47 billion resulting in a cumulative budget deficit of ZWL\$549.96 million. The deficit was financed primarily by domestic sources which include government deposits.

2.2 Inflation Developments

Year on Year inflation for the month of August 2020 stood at 761%, a 76.5 percentage point decline from 837.5% recorded in the month of July 2020 (Figure 4). The major driver of annual inflation has been the prices of non-food items which rose by 689.9% year on year in August 2020 from 755.3% in July 2020 and accounted for 480.12% of the weighted change in the consumer price index whilst the prices of food and non-alcoholic beverages rose by 868.5% year on year.

Month on month inflation shed 27.09 percentage points from 35.5% recorded in the month of July 2020 to 8.4% in August 2020. The decline in the month on month inflation has mainly been attributed to a stable exchange rate between the local currency and the United States dollar following measures introduced by the central bank which includes the introduction of foreign currency auction system and restrictions on the operations of mobile money platforms (Figure 4).

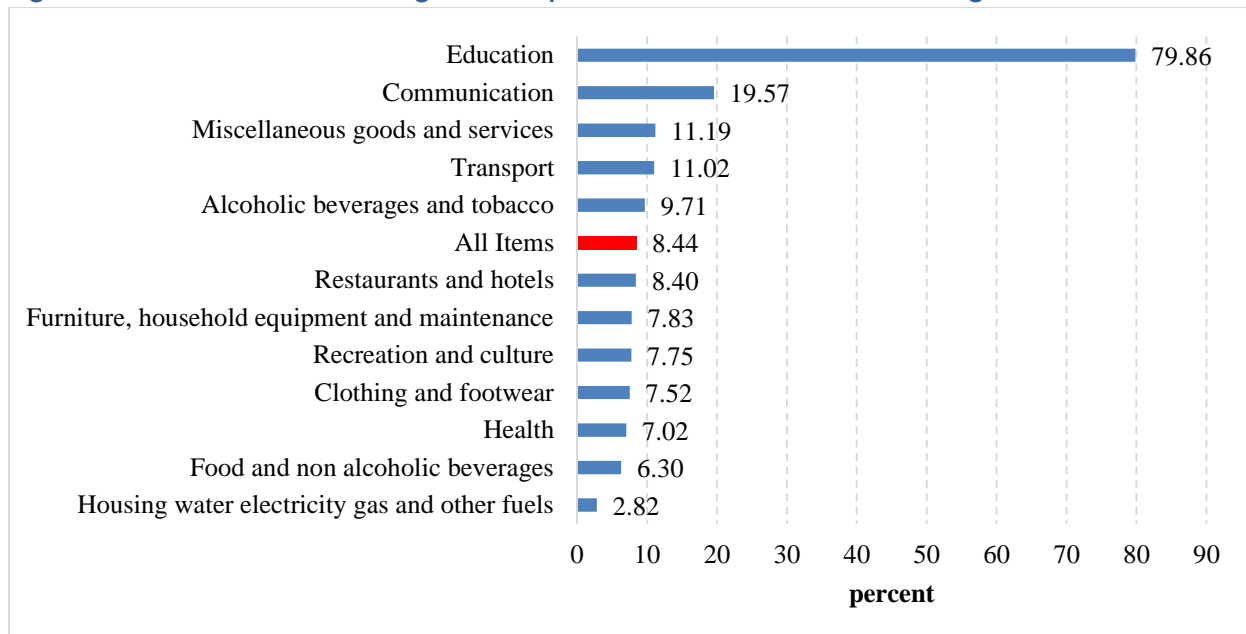
Figure 4: Trend in Inflation developments, February to August 2020



Source: Zimbabwe National Statistics Agency (ZIMSTAT)

Between the period July and August 2020, a number of consumer goods witnessed high increases above the average for all consumer goods. There were noticeable changes in the month on month prices of education, communication and transport which rose by 79.86%, 19.57% and 11.02% respectively. Health (7.02%), food and non-alcoholic beverages (6.30%), and housing, water, electricity, gas and other fuels (2.82%) had prices below the average for all items inflation (Figure 5).

Figure 5: Month on month Change in Components of Consumer Basket, August 2020



Source: ZIMSTAT

The Total Consumption Poverty Line (TCPL) for an average of five persons per household stood at ZWL\$17, 244.00 in August 2020 an increase of 10.7% compared to the July 2020 figure of ZWL\$15, 572.85. This means that an average household required ZWL\$ 17,244 to purchase both food and non-food items for them not to be deemed poor. However, the poverty datum lines varied across provinces with the Total Consumption Poverty Line for an average of five persons ranging from as high as ZWL\$18,890 in in Matabeleland North Province to as low as ZWL\$15,909.12 in Mashonaland Central Province (Table 3). The differences in Total Consumption Poverty Line are explained by differences in average prices in the provinces. The Total Consumption Poverty Line for one person stood at ZWL\$3,449.00, whilst the Food Poverty Line (FPL) for one person in August 2020 was ZWL\$1,442.00. The Food Poverty Line for an average of five persons per household stood at ZWL\$7, 211.00 in August 2020.

Table 3: Total Consumption Poverty Lines for 5 persons per month by Province, July and August 2020

	Jul (ZWL\$)	Aug (ZWL\$)	m.o.m change
Mat North	17,376.31	18,890.50	8.7%
Mat South	17,273.24	17,528.23	1.5%
Midlands	15,370.37	17,363.35	13.0%
Harare	15,863.25	17,336.97	9.3%
Mash East	13,747.80	17,305.83	25.9%
Mash West	15,859.01	17,257.77	8.8%
National Average	15,572.85	17,244.07	10.7%
Masvingo	15,820.86	17,232.73	8.9%
Manicaland	16,234.35	17,063.35	5.1%
Bulawayo	14,470.03	16,694.24	15.4%
Mash Central	14,145.85	15,909.12	12.5%

Source: ZIMSTAT

3. Banking and Financial Sector

3.1 Banking and monetary developments

Over the period June 2019 to June 2020 the stock of money in the economy grew by 575.9% from ZWL\$14.77 billion to ZWL\$99.82 billion (Table 4). The high growth in money supply is partly explained the high inflation levels during the period. In addition, the indexing of prices to the parallel market exchange rates also explained the high levels of inflation.

The bulk of the money supply stock was made up of transferable deposits of ZWL\$93.94, translating to 93.9% of the stock of money as at end of June 2020. Of these transferable deposits, 61.6% (ZWL\$57.7 billion) was in foreign currency accounts (FCAs). The levels of FCA deposits have grown by 1384.2% between June 2019 and June 2020, showing growing levels of dollarization of the economy. However, most of the growth is likely to be attributed to the depreciation of the Zimbabwe dollar.

Savings and time deposits made up 4% (ZWL\$4.01 billion) of total money supply as at end of June 2020. This small share of savings and time deposits may mean a number of things. It may imply low savings-investment activity in the economy, a lack of preference to saving-investing through the banking system or limited knowledge, especially by households, about saving-investing products offered by banks.

Table 4: Selected banking and monetary indicators

	June 2019	June 2020	% change
Broad Money-M3 (ZWL\$ billion)	14.77	99.82	575.93
Securities excl. shares included in broad money (ZWL\$ billion)	0.17	0.86	402.84
Broad Money-M2(ZWL\$ billion)	14.6	98.96	577.97
Other deposits (billion)	1.43	4.02	181.18
Narrow Money-M1 (ZWL\$ billion)	13.17	94.94	621.03
Transferable deposits (billion)	12.7	93.73	638.28
<i>Of which Foreign Currency Accounts (ZWL\$ billion)</i>	<i>3.89</i>	<i>57.7</i>	<i>1384.18</i>
<i>As % of transferable deposits</i>	<i>30.62%</i>	<i>61.56%</i>	
Currency Outside Depository Corporations (ZWL\$ billion)	0.47	1021	156.38
Reserve Money (ZWL\$ billion)	3.28	12.65	285.47
<i>of which excess reserves</i>	<i>2.15</i>	<i>9.53</i>	<i>343.36</i>
<i>As % of reserve money</i>	<i>65.49</i>	<i>75.32</i>	
FCAs as a percentage of deposits in M3	27.20%	58.50%	115.07
Domestic credit (billion)	15.65	50.11	220.31
Commercial bank interest rates for individuals	9.15%	20.04%	119.02
Commercial bank interest rates for corporates	7.67%	17.38%	126.60
End period exchange rate (ZWL\$/US\$)	6.62	57.36	766.47

Source: Reserve Bank of Zimbabwe

Reserve money, the notes and coins and money that banks keep at the central bank, grew by 285.5% to ZWL\$12.7 billion over the period June 2019 to June 2020. In June 2020, more than three quarters (75.3%) of reserve money was in the form of excess reserves. Thus, banks were keeping their deposits with the central bank more than central bank reserve requirements. This implies that banks were not keen to lend, partly because of the covid-19 pandemic which increases the

chances of default. Interest rates have more than doubled for both individuals and corporates, but still very low compared to the inflation rate. This explains, in part, why banks may not be lending because in real terms they will not be making positive returns.

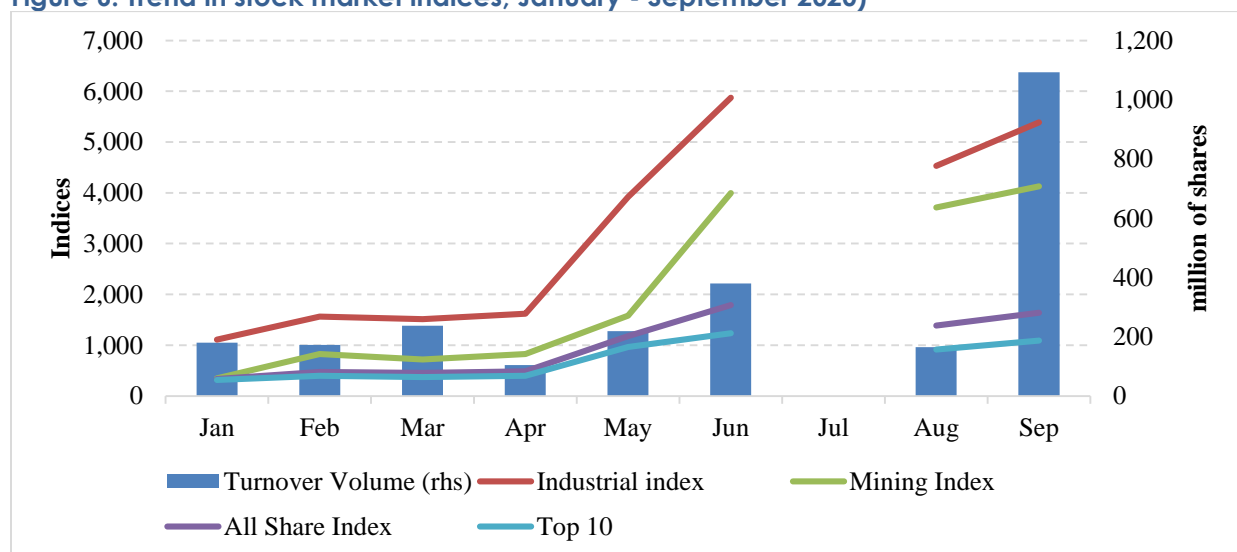
3.2 Local Stock Market Developments

In the third quarter of 2020, major indices such as the industrial, All Share and the Top 10 indices have been down 8.26%, 8.42% and 11.33% respectively whilst the mining index was the exception rising by 3.33% from their levels in June 2020. However, during the period under review the volume of shares traded increased by 187.66% (Figure 6). The continued deterioration of the economic outlook has resulted in changes in the valuation of stocks as inflationary pressures persist. However, the market indices grew at a slower rate than year on year inflation which stood at 761% at the end of August whilst the ZSE All Share index rose by 735% between August 2019 and August 2020.

The Zimbabwe Stock Exchange was briefly suspended following a ministerial directive on the 28th of July 2020 and trading resumed on the 3rd of August 2020. The suspension of trading was meant to allow for investigations into the dealings on the Zimbabwe Stock Exchange with some allegations that it was being used to fuel the parallel market exchange rate as well as violating exchange control regulations. Whilst trading on the Zimbabwe Stock Exchange resumed on the 3rd of August 2020, trading in the shares of dual listed firms namely Old Mutual, PPC and SeedCo remained suspended pending further engagement.

The Zimbabwe Stock Exchange also announced the granting of a licence to operate a securities exchange to its subsidiary, the Victoria Falls Stock Exchange Limited ("VFEX") under Statutory Instrument 196 of 2020. The Statutory Instrument provides that securities listed on Victoria Falls Stock Exchange shall be traded solely in United States Dollars (USD) or any other convertible currency. The bourse will be targeting foreign investors as well as global capital markets. Listing on Victoria Falls Stock Exchange will be in accordance with the listing rules as approved by the Securities and Exchange Commission of Zimbabwe (SECZ). The capital raised on Victoria Falls Stock Exchange may be held in an approved local or offshore account with an internationally recognised banking institution whilst resident Zimbabwean companies listed on the Zimbabwe Stock Exchange will be permitted to list up to 20% of their capital on Victoria Falls Stock Exchange whilst non-resident and non-ZSE listed entities will be permitted to list 100% of their capital.

Figure 6: Trend in stock market indices, January - September 2020



Source: Zimbabwe Stock Exchange (2020)

An analysis of stock market indicators shows that turnover value and volume grew by 1,421.3% and 508.6% respectively from January to September 2020 (Table 5). The increase in turnover value was largely necessitated by inflationary pressures within the economy. Due to a negative economic outlook, interest in investing in the local bourse by foreign investors declined as both value and volume of shares bought by foreigners declined by 69.3% and 40.2% respectively whilst the value and volume of shares sold by foreigners increased by 679.4% and 1,693.7% respectively. Market capitalisation which stood at ZWL\$206.50 billion at the end of September 2020 rose by 375.5% between January and September 2020 and 17.5% between August and September 2020 (Table 5).

Table 5: Summary of stock market developments, January – September 2020

	Jan	Aug	Sep	YTD (%)	MoM (%)
Turnover Value (ZWL\$ million)	305.1	1,027.3	4,640.9	1,421.3	351.7
Turnover Volume (million)	179.6	164.9	1,093.0	508.6	562.9
Value of Shares bought by foreigners (ZWL\$ million)	19.8	93.6	28.7	44.6	(69.3)
Value of Shares sold by foreigners (ZWL\$ million)	88.2	485.2	3,782.0	4,187.2	679.4
Volume of Shares bought by foreigners (million)	3.1	9.4	5.6	78.7	(40.2)
Volume of Shares sold by foreigners (million)	46.9	54.3	974.7	1,980.5	1,693.7
Market Capitalisation (ZWL\$ billion)	43.43	175.68	206.50	375.5	17.5

Source: Zimbabwe Stock Exchange (2020)

4. Important Economic Sectors

4.1. Agriculture

Tobacco

As at 30 September 2020, tobacco seasonal sales had reached 183.3 million kilogrammes sold at an average price of US\$2.50 as compared to 254.5 million kilogrammes sold at an average price of US\$2.03 over the same period in 2019 (Table 6). This represented a 28% decline in volumes as well as 11.16% decline in the value of sales.

Table 6: Summary Statistics for the 2019 Tobacco Selling Season as at 30 September 2020

SEASONAL	TSF	BTF	PTF	TOTAL AUCTION	TOTAL CONTRACT	TOTAL 2020	TOTAL 2019	% CHANGE
Mass sold (kg)	6,610,659	1,168,763	1,434,386	9,213,808	174,121,377	183,335,185	254,528,230	-27.97
Value (US\$)	18,907,920	3,043,412	3,835,169	25,786,502	432,720,225	458,506,727	516,084,723	-11.16
Average price US\$/kg	2.86	2.60	2.67	2.80	2.49	2.50	2.03	23.34

Source: Tobacco Industry and Marketing Board

Poor production season characterised by long dry spell and late rains, erratic supply of energy to the crop under irrigation, as well as COVID-19 lockdown restrictions are some of the reasons behind the decline in tobacco sales. This highlights the urgent need to expedite irrigation development programmes that are underway, to guarantee crop viability in the face of climate change. Further, increased investments in renewal energy sources such as solar, will offer lasting energy solution to the farmers.

Government makes steps towards a better agricultural financing model

On 29 July 2020, the Government of Zimbabwe signed a US\$3.5 billion Global Compensation Agreement with the former white commercial farmers that had lost their land 20 years ago. This is in compliance with Section 71 (2) of the Constitution of Zimbabwe which calls for need to respect property rights in order to build depleted investor confidence that has for a long time stifled the growth of the country. Zimbabwe had a poor ranking of 137 out of 141 countries on property rights in the 2019 Global Competitiveness Report but the signing of the agreement is expected to improve how the country is perceived by the investors. Further, it is anticipated to unlock more affordable development finance from the international markets given that this land issue has been one of the reasons for limited inflows investment capital. This positive move however, requires to be complemented by continued implementation of policies that enhance the overall business environment.

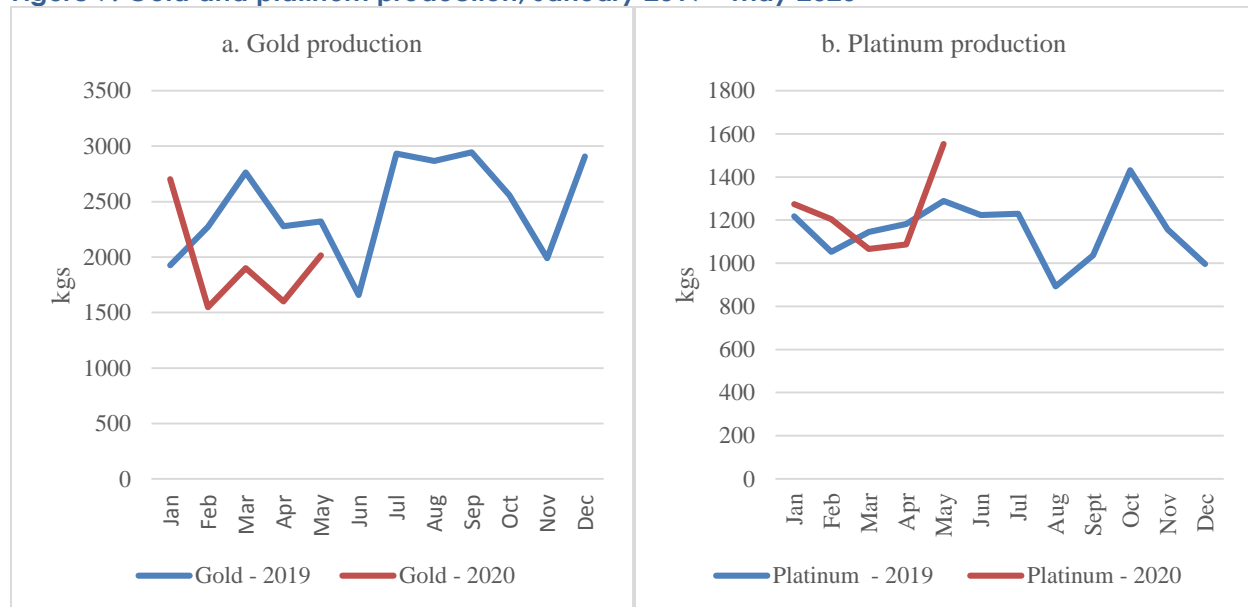
The government, in addition, restructured the agricultural financial facilities which will now be administered through financial institutions. Low repayment of loans in the old agriculture finance model has been one of the reasons why such interventions were not as effective as evidenced by failure to achieve food self-sufficiency. However, through the know-your-customer approach, the contracting and issuing of loans by banks is expected to be more effective and to promote agriculture growth. Government's role is now more inclined on policy support for example, through extension services to ensure that farmers are able to repay loans.

4.2. Mining sector developments

The mining sector contributes about 8% of gross domestic product (GDP) and is expected to be one of the sectors that anchor the economy under the first five-year National Development Strategy 2021-2025 as its contribution is expected to surpass that of agriculture which currently contributes about 9-10% to GDP. The mining sector contributes about 60% of foreign currency and has set a target of generating US\$12 billion revenues by 2023, a 344.4% increase from about US\$2.7 billion registered in 2017. The 2020 Mid-Term Budget and Economic Review has highlighted areas that need to be addressed to attain the set mining sector revenue target. Some of the issues highlighted include updating of the mining legislation, enhancing exploration and investment in mining, modernisation and computerisation of the mining title administration system (mining cadastre), improving transparency in the mining sector and establishing a viable fiscal regime. Moreover, beneficiation and value addition of minerals remains critical given that most of the exports are in raw or semi-processed form.

The COVID-19 has affected the performance of the economy and the mining sector is not spared due to import and export restrictions which affect the mining sector global value chain. Gold production for the first five months of the year registered a dip as about 9.78 tonnes were produced in 2020, a 15.6% decline compared to about 11.57 tonnes produced same period in 2019 (Figure 7a). The fact that gold production levels for February and March 2020 were below that of 2019 may show that the sector was facing some problems even before the imposition of lockdown restrictions on 30 March 2020. This shows the need for the gold sector to ramp up production to benefit from favourable international prices. Platinum on the other hand, registered a 5% increase in production from about 5.9 tonnes in the first five months of 2019 to about 6.18 tonnes same period in 2020 (Figure 7b). This was largely due to increased production at Unki mine. Platinum is projected to increase to about 14.169 tonnes by the end of 2020 benefitting from the favourable prices and the precious metal being regarded as a safe haven together with gold especially during the COVID-19 pandemic. The 2020 Mid-Term Budget and Economic Review has indicated that more resources will be availed on capacitating Minerals and Border Control Unit to monitor and curb mineral leakages to ensure that the country benefit from these finite natural resources.

Figure 7: Gold and platinum production, January 2019 – May 2020



Source: Government of Zimbabwe, 2020

Zimplats has reported that the development of Mupani mine which is a replacement for Rukodzi and Ngwarati mines, that deplete in fiscal year 2022 and 2024 respectively is progressing well and on schedule. Similarly, platinum group metals' demand shocks caused by COVID-19 are likely to be considerable according to 2020 Zimplats Integrated Annual Report. The roll back of Chinese lockdown measures towards the end of the first quarter also prompted a strong recovery in China's platinum automotive demand, aided by partial adoption of China 6 light duty and China VI heavy duty vehicle emission regulations.

4.3. Manufacturing

Since the first foreign currency auction started on the 30th of June 2020, there has been some expectations that the manufacturing sector would find it easier to operate due to ease access to foreign currency to purchase raw materials. Statistics released by the Reserve Bank of Zimbabwe (RBZ) shows that since the start of the first auction up to the end of September 2020, a total of US\$106.8 million was released to the manufacturing sector for the importation of raw materials, with about 2% of this amount being used by the small and medium enterprises (SMEs) sector. Generally, foreign currency sourced from the parallel market would be expensive, hence the expectation would be that reduced raw material imports would be witnessed compared to the situation when foreign currency is sourced from the official auction market. As a result, there is a general expectation that over the two months period in July and August, the amount of raw materials imported into the country would be higher than what was realised in 2019 when imports were largely financed from the parallel market.

The statistics from the RBZ do not disclose the nature or type of raw materials that were being purchased from the foreign currency acquired at the auction. As a result, it is difficult to compare the increase in raw material imports with precision and see whether the ease access to foreign currency has indeed helped increase raw material imports. However, raw materials can be randomly selected and their import patterns can be compared between the auction period and a similar period in 2019 when the auction was not yet established. Improved access to foreign currency would be expected to facilitate more raw materials imports over this period compared to 2019. Raw materials generally span across a number of products. Using the HS-2 digit level, it is possible to classify the following seven categories of products (Table 7) as raw materials:

Table 7: HS Codes for raw materials

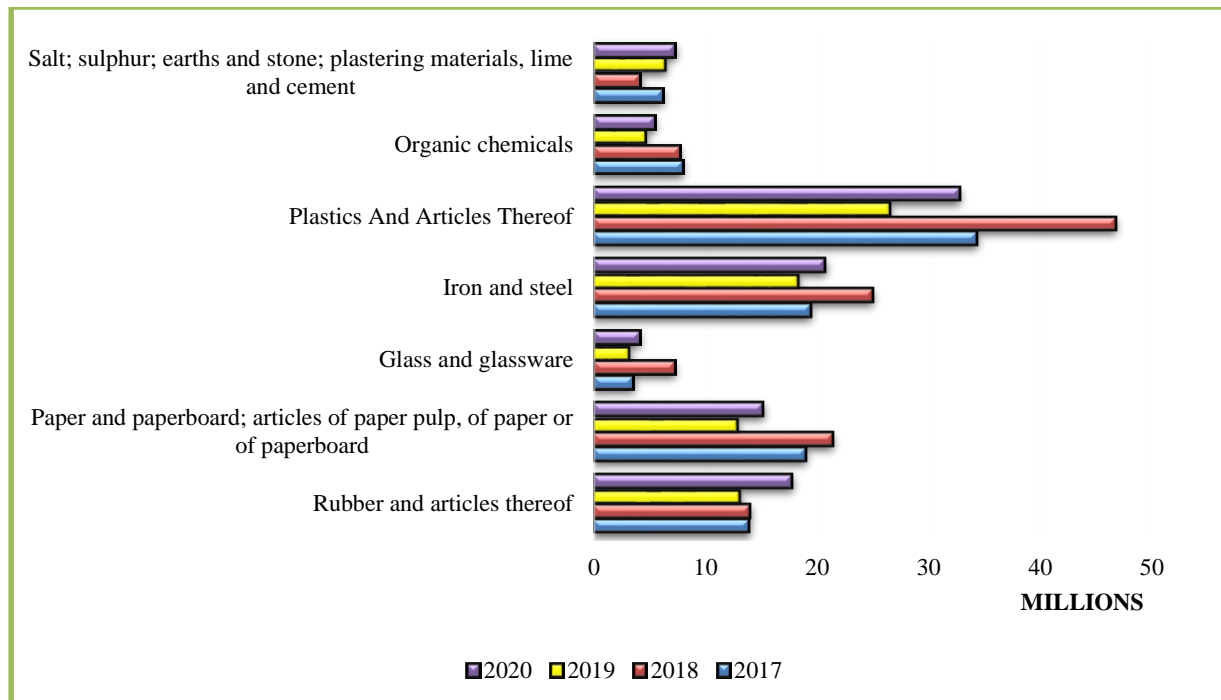
HS Code	Description
25	Salt; sulphur; earths and stone; plastering materials, lime and cement
29	Organic chemicals
39	Plastics and Articles Thereof
40	Rubber and articles thereof
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard
70	Glass and glassware
72	Iron and steel

Source: Authors' construction based on various sources¹

¹ For example, Viorel Nita, Cynthia Latunussa and Tamas Hamor (2018), 'Accounting for trade in raw materials: usability of the existing datasets and indicators: Preliminary analysis of the trade-related data and indicators

Using this broad classification, it is possible to assess whether there is any noticeable improvement in imports of these products over the two-month period July and August 2020, in comparison to 2019 and even prior periods. Such a comparison (Figure 8) shows that for all these products there is a noticeable increase in the imports values in 2020 compared to 2019. If raw materials usage can be used as a proxy for increased manufacturing sector activities, then there is a natural expectation that there will be more pronounced improvements in the manufacturing sector in 2020 compared to 2019. This expectation naturally rises given that there were pronounced slowdown in activities in 2019 as a result of the COVID-19 pandemic. An increase in the importation of raw materials during the period when there is a general slowdown in manufacturing also increases the expectations of improved manufacturing sector output in 2020. This implies that sustainability of the auction system is key in ensuring manufacturing sector revival.

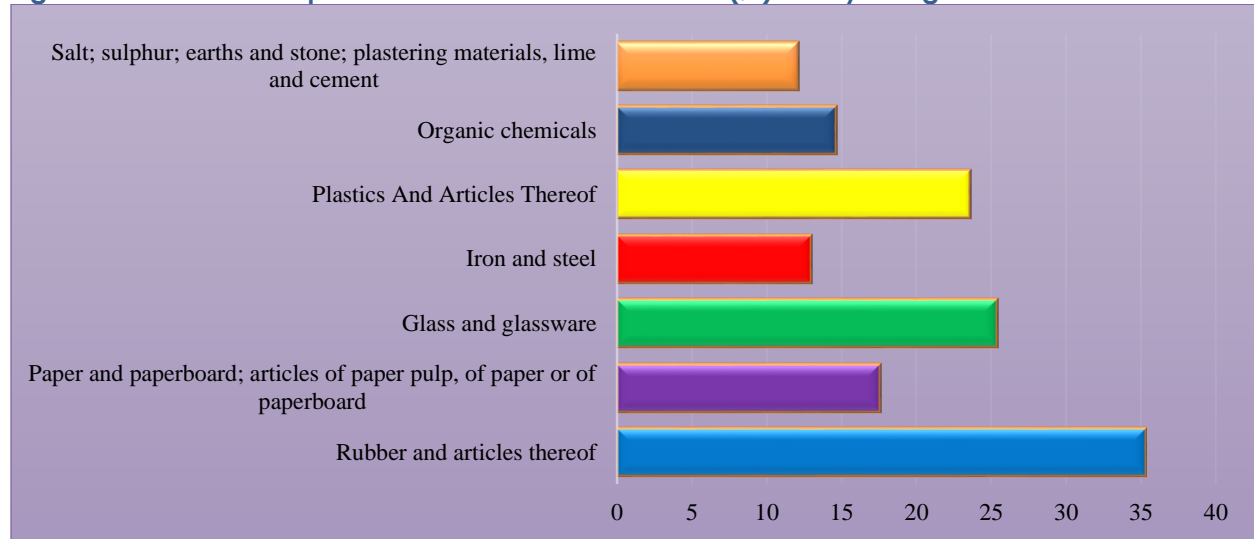
Figure 8: Importation of select raw materials for manufacturing, July-August 2017-2020, Zimbabwe



Source: Authors' construction using ZIMSTAT data

A look at the specific products shows that there was a noticeable significant jump in rubber and related products, which increased by about 35% in 2020 compared to 2019 (Figure 9). It can also be confirmed that the amount of imports for these products also exceed the levels recorded in 2017 and 2019 by about 27%. An increase of more than 20% in raw material importation was also noticeable for glass and plastic raw materials. This general increase in the raw material importation underlines the importance of ensuring that there is easy access to foreign currency as a strategy towards manufacturing sector viability.

Figure 9: Increase in importation of select raw materials (%) in July - August 2020



Source: Authors' construction using ZIMSTAT data

4.4. Tourism Sector Developments

Zimbabwe reopened its tourism sector after five months (between April and August 2020) of closure following the COVID -19 related lockdowns. This sector was one of the hardest hit by the COVID-19 lock downs. Some of the impacts include restricted travel, business revenues losses, thousands of job losses along the sector's value chain, salary cuts and delays. Resultantly, the Government projected that the sector will contract by -7.4% in 2020.

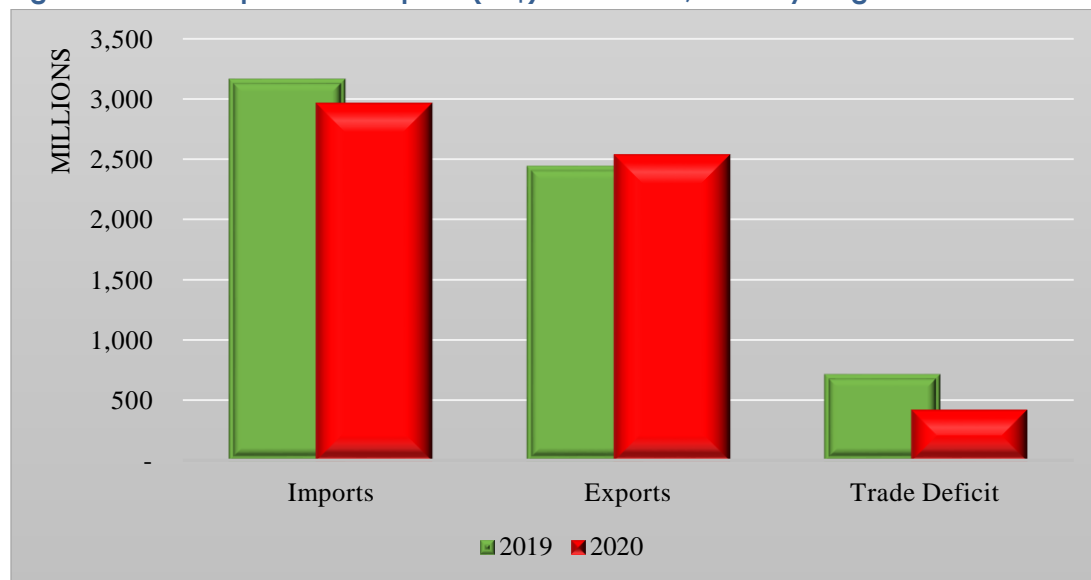
For the foreseeable future, the recovery of the sector will lie in domestic tourism. In addition to receiving an allocation ZWL\$500 million (0.3% of the ZWL\$18 billion stimulus package) as a loan guarantee for industry players, the government further approved a waiver of the value added tax payable by domestic tourists on accommodation and other tourism related services.

Increased uptake of tourism products will rely on the players' capacity to adhere to COVID-19 health and safety regulations, as well as their capacity to beat the competition from the digital economy that has seen introduction of substitutes such as online meetings. Further, effective funding and implementation of the National Tourism Recovery and Growth Strategy (launched on 6 August 2020) envisages to unlock the fortunes of the tourism sector. The Strategy targets to achieve a US\$ 5 billion tourism sector by 2025.

5. External Sector

Statistics from the ZIMSTAT shows that between the period January to August 2020, Zimbabwe imported goods and services worth about US\$2.96 billion (Figure 10). This represented a decrease of about 6.3% compared to the same period in 2019. Over the same period, Zimbabwe exported goods worth about US\$2.54 billion in 2020, which represents an increase of about 3.8% compared to the same period in 2019. Given that there was a noticeable decline in imports, at a time when exports registered an increase, the trade deficit improved to about US\$427.2 million in 2020, from a level of US\$719.9 million in 2019. An improvement in the trade balance is positive news for the Zimbabwe economy, as this implies that the rate of resource outflows to finance excess of imports over exports has declined. However, there is still over-reliance on the foreign markets for goods and services, since the trade deficit is still significant, demonstrating the need for more efforts towards import substitution.

Figure 10: Total imports and exports (US\$)-Zimbabwe, January-August 2019 and 2020

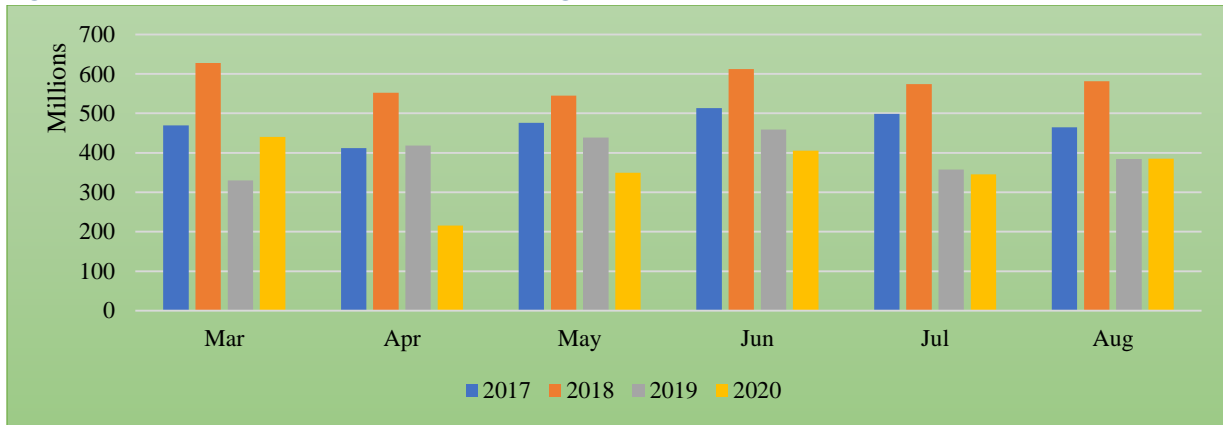


Source: Authors' construction using ZIMSTAT data

The period under review also include the period when the COVID-19 induced lockdown also took effect. Exports are affected by reduced global demand as well as the broken supply chains as restrictions are imposed on free movement of goods and people. Imports are also affected as lockdown measures in the international markets also limit availability of products, while the closure of borders also limits inflows into the country. Thus, it is also possible to assess whether the COVID-19 pandemic has greatly affected the country's ability to import and export, especially in comparison to previous periods when there were no restrictions.

The lockdown in Zimbabwe was imposed in late March 2020. A look at the imports trends between 2017 and 2020 over the period March to August would be expected to reflect the extent to which the import capacity was affected by the lockdown (Figure 11). It is quite apparent from Figure 11 - that there was a shock in April 2020 when the lockdown was at its most strict level, but the shock was dying down between May and June, such that by July 2020, the effect of the pandemic on imports was no longer visible.

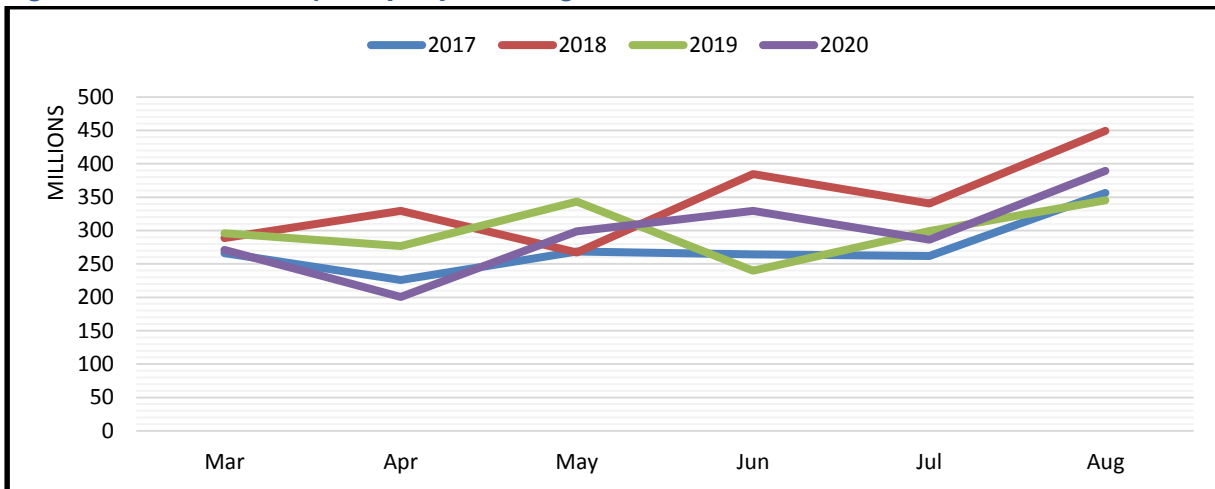
Figure 11: Zimbabwe imports (US\$), Jan-Aug 2011-2020



Source: Authors' construction using ZIMSTAT data

With respect to exports, the shock was also at its worst in April 2020, but by May, exports had already recovered to exceed the 2017 and 2018 levels (Figure 12). By June 2020, exports were above the levels recorded in 2019, which means that the nature of the main products exported in Zimbabwe are not very sensitive to lockdowns. This is understandable, given that it is mainly unprocessed mining products which constitute the bulk of the Zimbabwe's exports. Thus, the effects of the pandemic are expected to be felt more on the imports than the exports, which also explains why the period January to August 2020 saw imports decreasing but not exports.

Figure 12: Zimbabwe exports (US\$), Jan-Aug 2011-2020



Source: Authors' construction using ZIMSTAT data

6. Debt developments

Zimbabwe has been in debt distress since year 2000. Zimbabwe's total Public and Publicly Guaranteed external debt stood at US\$8.094 billion as at end December 2019. The bulk of the debt is in arrears (about 73% of external debt) which shows that the country is in a debt trap. Bilateral creditors are owed about 68% of the external debt (US\$5.48 billion) with the balance being owed to multilateral creditors. The Paris Club creditors accounted for almost two thirds (about 61.8%) of the bilateral creditors' debt whereas the Non-Paris Club and the RBZ assumed debt constitutes about 28.9% and 9.4% respectively. According to 2018 Annual Debt Bulletin released by the Ministry of Finance and Economic Development in March 2020, China is the dominant creditor under the Non Paris Club constituting about 28.1% of the total external debt (US\$1.395 billion), a figure which is above credit owed to Paris Club members such as Germany (19.1%), France (12.7%), Japan (8%), United Kingdom (7.6%), and United States of America (5.7%). Over the years, Zimbabwe has only managed to pay token payments of about US\$1.1 billion between 2012 and 2019 which shows very limited capacity to repay the debt. The external debt overhang continues to affect the country risk which reduces the prospects of attracting concessionary financing at a time when industry needs to retool. The current COVID-19 global pandemic may further affect the country's 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. The country's limited fiscal space worsens the prospects of repaying the debt hence the need for re-engagement with the international community.

Domestic debt stood at ZWL\$12.89 billion as at 31 May 2020, a 43.2% increase from ZWL\$9 billion which obtained as at 31 December 2019 due to the adoption of the legacy obligations. The domestic debt includes about the Zimbabwe Asset Management Corporation (Private) Limited (ZAMCO) ZWL\$1.1 billion which was acquired as non-performing loans from banks in order to clean up their balance sheets. In terms of the domestic debt repayments, the Government of Zimbabwe is up to date although the issue of high inflation and depreciation of the Zimbabwe dollar against the United States has played a key role in reducing the real value of the domestic debt.

7. Special Feature: The foreign exchange auction market developments and implications

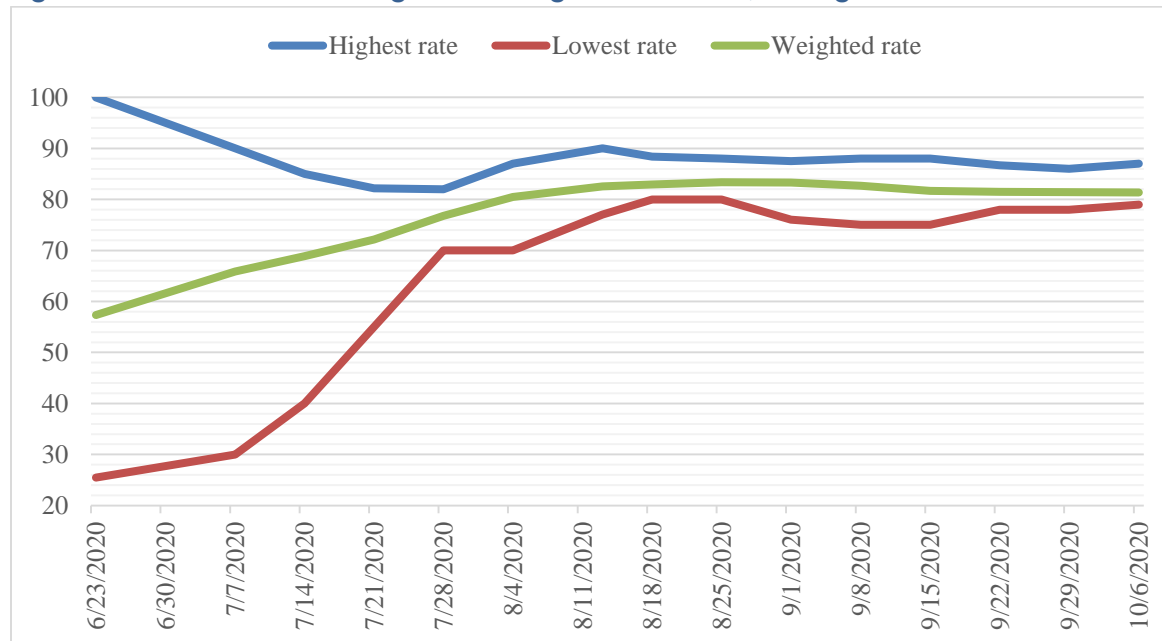
The introduction of the foreign exchange auction system in Zimbabwe can be traced to the Reserve Bank of Zimbabwe's Monetary Policy Committee meeting on the 22nd of May, 2020, which resolved that a formal market-based system of foreign exchange trading be put in place. In addition to ensuring transparency in foreign currency exchange, it was also envisaged that the electronic foreign exchange trading system would also result in its compulsory usage by the bureaux de change. On the 17th of June, 2020, the RBZ gave the details regarding the operation modalities and guidelines for the auction, while also indicating a date for the first auction as the 23rd of June 2020. Since the first auction was held on the 23rd of June 2020, there have been a lot of developments and discussion issues, also characterised by gradual market confidence on the system, such that by the 6th of October 2020, there was already a noticeable gradual stabilisation of the rate. Following widespread concerns on the exclusion of the SMEs from influencing the exchange rate developments due to a high minimum amount of US\$50,000, a second foreign currency auctions for SMEs was also announced on the 4th of August 2020. The first auction for SMEs was held on the 6th of August 2020. Cumulatively to the auction held on the 6th of October 2020, a total of US\$274.3 million has been allocated through the auction system, with about 3.4% of this having been allocated to the SMEs. There have been a number of issues which can be flagged out based on the various statistics, which the RBZ has been regularly releasing for the

market. This special feature seeks to describe the developments at the foreign exchange market as well as what the developments imply in terms of exchange rate stability as well as sustainability.

The weighted average auction exchange rate influencing factors

Based on the allotments, a weighted average rate is calculated, which is deemed to be the prevailing market exchange rate for the rest of the week. There are basically about two main influencing factors which determine the exchange rate, with both factors being mutually reinforcing. First, the highest and lowest bid rates would determine the position of the average. If there are more bidders that are bidding high compared to those that are bidding low, then the weighted rate would be closer to the highest bid than the lowest bid. The opposite is equally true; if there are more bidding low compared to those that are bidding high, then the weighted average rate would be closer to the lowest bid than the highest one. Already, there are some market concerns that there could be some firms that would deliberately bid low so as to bring the rate down, acting in the interest of the RBZ. While this cannot be comprehensively proven, the expectation is generally that there would only be some few firms that could be bidding low in contrast to the general market sentiments, as represented by the other firms. In this case, then the weighted average would be closer to the highest bidders than the isolated lowest bidders. A graphical illustration of the exchange rate movements at the auction, together with the highest and lowest bids is shown in Figure 13. If it is the lowest bidders that have more influence in the final outcome, then the weighted rate would be closer to the lowest bid than the highest, while the opposite is equally true if the highest bidders have a larger say. If the highest and lowest bidders have the same influencing power, then the weighted rate curve would generally be seen to be symmetrical between the two graphs.

Figure 13: Evolution of the weighted average auction rate, the highest and lowest bid levels



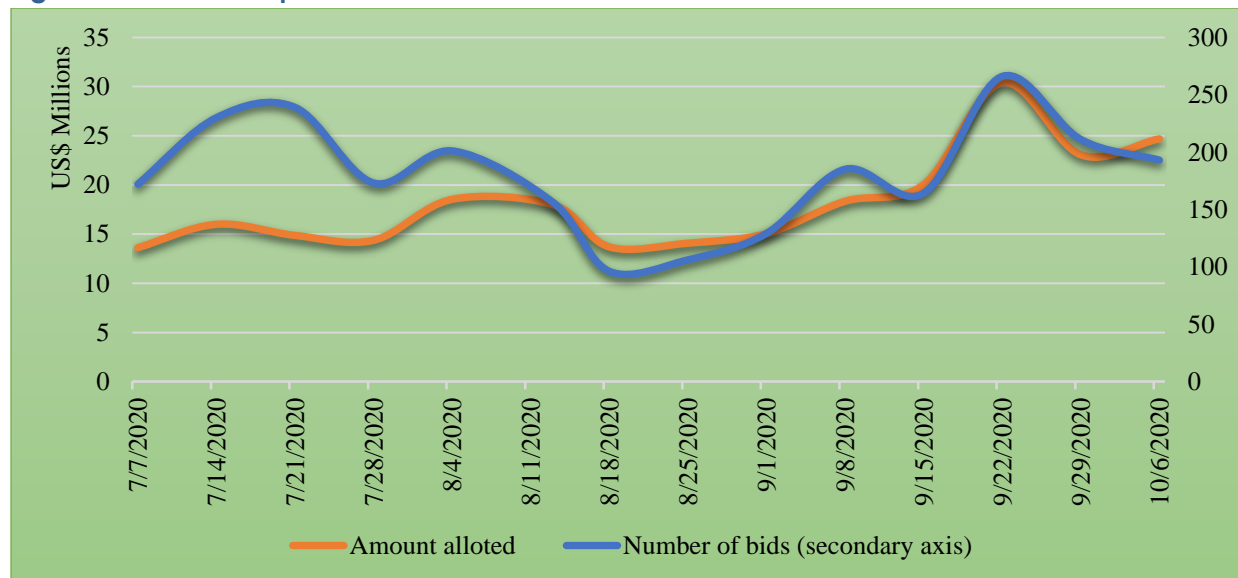
Source: Authors' construction using auction statistics

From Figure 13, on the overall, it is noticeable that both the low bidders and the high bidders are generally equally effective in influencing the trend, although there are some weeks where the influence is more pronounced to either party. For example, between 18 and 25 August, those that were bidding low had a more influence on the exchange rate than those bidding higher. However, between the 1st and the 15th of September, the high bidders had a large influence.

Towards the last periods in the graph, it is also apparent that those bidding closer to 79 played a larger influencing role. In the overall, both the firms that are bidding low and those that are bidding high have been able to influence the emerging path of the exchange rate. This appears to discount the existence of some few isolated firms whose main interest is to pull down the rate. By looking at the gradient of the weighted rate, it is quite apparent that the auction rate has stabilised since the 22nd of September, 2020. This shows that a stable rate is now obtaining, at around 81.

Besides the bids, the second influencing factor is the amount required by the player. If those firm that are bidding high also correspond to those that are taking the largest share of the foreign currency available, then the weighted rate would also tend to be closer to the highest bidders. While there is no way of knowing what each firm was bidding, if the number of bidders at the main auction has no similarities with the amount allotted, then it would mean that the participating firms are so disproportionate in terms of their overall requirements, which would see those buying more having a more pronounced influencing role. One way of checking this is a graphical exposition of the number of bids and the mount allotted. There should be a similarity in the trends if all the participating players are equally effective. This is shown in Figure 14. It is quite apparent that since the 15th of September, there was an almost similar pattern between the amount allotted and the number of bidders. The correlation coefficient is also a high positive of about 60%. This would mean that the participating firms have comparable levels of influence, such that individually they cannot influence market outcomes; an expected trait in a market determined exchange platform.

Figure 14: Relationship between the number of bidders and the amount



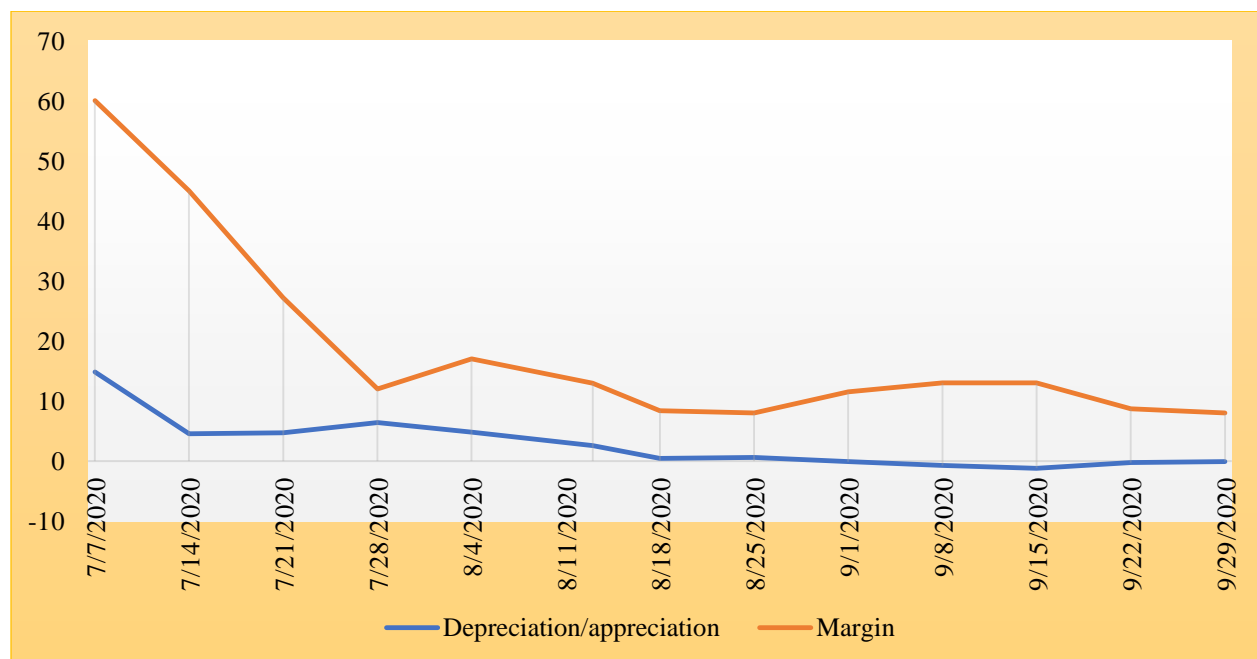
Source: Authors' construction using auction statistics

This, therefore, means that in general the auction market is exhibiting the expected dynamics for a market determined system. While there is still a strong hand of the RBZ (as will be discussed shortly), the participating players all have influence in the direction of the exchange rate.

Role of the bidding spread in affecting currency fluctuations

The general expectation is that the rate will become more stable if there is a convergence in terms of opinions on the real market value of the local currency. There is some evidence that a higher spread between the highest bidder and the lowest bidder tend to move the exchange rate from a stable path. This can be shown graphically (Figure 15). It is quite apparent that during the early days of the auction when the margin (highest bid minus lowest bid) was high, the local currency was depreciating.² For example, when the margin was above 50, the exchange rate was depreciating by more than 10% per week. While the margin has narrowed heavily compared to what it was before, the margin also appeared to also have plateaued rather than being totally eliminated. Since the players are all from the same market, it is hoped that there is a common interpretation of market signals to ensure that there are no significant divergences between highest and lowest bids going forward. However, a constant margin also appears to have created some stability in the exchange rate, especially since there is a modest appreciation of the local currency towards the end of the review period.

Figure 15: Movements in the value of the local currency



Source: Authors' construction using auction statistics

Sustainability of the auction system

Given that there is some demonstrable level of confidence on the auction system, the critical issue is sustaining the momentum. Currency stability might be more important than the actual exchange rate level; there are some sentiments that the Zimbabwe currency should appreciate to around 50 or 70 so that the economy would be deemed to be stronger. However, the continued high premiums in the parallel market demonstrate that there is still some constituency that does not believe that this price set by the participating firms is reflective of the actual supply and demand dynamics when they are also included in the mix. The auction market has played a huge role in serving as a foreign exchange market, based on an increase in the number of private players as well as the amount of foreign exchange that they are getting from the system. However,

² Note that if the graph is showing a positive value, it is a depreciation of the local currency and an appreciation is only when the graph is showing negative values

by design, the system is also intended to serve as a price discovery system. The price discovery role is key to sustainability of the system. The recent decision to order the liquidation of 20% of foreign currency in individual foreign currency accounts, as well as 30% of exporters proceeds using the auction rate should ideally not be expected to create any unfavourable feelings. The reasons why such sentiments arise is mainly because there is an alternative market which has higher rates, which create the impression that the official exchange rate is overvalued. There are also a number of market players who do not have bank accounts but would still want to participate, given their active role in the informal economy. Such a constituency can only sell to the parallel market because the bureau de changes would not be deemed attractive enough due to the existence of higher returns at the parallel market.

Thus, while the auction exchange rate has stabilised, this is mainly due to the active role of the RBZ, which is serving as the mobiliser of foreign currency, including to the extent of making exchange rate losses after buying the foreign currency at the prevailing rate and selling low to the lowest bidders. This means that the sustainability of the system as currently structured only hinges on the capacity of the RBZ to continue to mobilise foreign currency from the exporters. There is also a perception a gradual moving out of the RBZ will ensure that the outcome would be strictly 'market' determined. If shocks happen to exports, there would still be some trading of foreign currency generated through other methods. In line with this perception the RBZ can, options, implications and methods of decentralising the auction system. In this regard the role that RBZ is playing can be played by the banks based on the instructions from their clients. In this approach the foreign currency will not be purchased by the RBZ, but by the firms facilitated by banks to directly buy and sell from each other. The envisaged advantage of such a system is that it protects the exchange rate from rapid shocks from its equilibrium state, while also reducing arbitrage opportunities that can be enjoyed by active participants at both the parallel market and the auction system. In addition, this may increase confidence among market participants and non-participants as the extent of the exchange being market determined exchange improves while the RBZ plays its regulatory function to weed out malpractices.

The pricing regimes in goods market also need to be looked at to eliminate induced distortions in exchange rates. The prevailing dual pricing (in foreign and local currency) at a time when there are so many exchange rates results in *de facto* dollarization. Some shops are pricing their products higher in local currency by using the parallel market determined exchange rate, thus forcing buyers to opt to pay in US dollars instead of local currency. The implied parallel market rates are also not uniform among the different suppliers of goods. There is need for a requirement for firms to display their exchange rates to avoid entrenching distortion of exchange rates and undermining the market rate set through the auction system. A more market-oriented price discovery system reduces risks by ensuring that the mechanics of price discovery are comparable at both the official and alternative markets.

ACKNOWLEDGEMENTS

This review was prepared by the research staff of the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU). ZEPARU greatly acknowledges Government Ministries and Institutions which provided data and information used in this report. These institutions include the Ministry of Finance and Economic Development; the Reserve Bank of Zimbabwe (RBZ); the Zimbabwe Stock Exchange (ZSE); Agriculture and Extension Services (Agritex); the Tobacco Marketing Board (TIMB), and the Zimbabwe Statistical Agency (ZIMSTAT).

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Citation

This publication is cited as:

ZEPARU (2020), "The ZEPARU Economic Barometer, Volume 22", Zimbabwe Economic Policy Analysis and Research Unit, Harare, 2020.